

## Responsible investment chart

# Fonds de Compensation (FDC) FDC SICAV Obligations Monde - Actif 2



**AXA Investment Managers (AXA IM) has implemented a disciplined, repeatable and consistent global fixed income investment process that allows to incorporate ESG dimensions at every step. Our responsible investment approach for FDC's sub-fund FDC SICAV Obligations Monde - Actif 2 is deployed on three pillars according to FDC's exclusion policy and AXA IM responsible investment beliefs:**

- 1. Negative screening:** Removing ESG "tail risk" from the eligible investment universe, based on both FDC's exclusion list and AXA IM's responsible investment exclusion policy. We identify and exclude any issuer flagged as an "extreme" ESG risk.
- 2. ESG integration:** Optimizing the ESG corporate score by selecting high quality issuers based on our proprietary ESG framework.
- 3. Impact:** Investing in the growing green, social and sustainable bond markets whenever opportunities are identified.

## Pillar 1: Negative screening

To define the eligible investment universe, the portfolio construction process integrates ESG factors by excluding the riskier issuers based on ESG violations and controversial sector identification. All the exclusions required by the FDC will be integrated and completed with AXA IM's exclusions policy, as detailed below:

- **Controversial weapons:** companies that use, store, trade controversial weapons (anti-personel landmine, cluster bombs, depleted uranium) or their components.
- **Palm Oil:** companies that have not committed to achieve Roundtable on Sustainable Palm Oil (RSPO) certification or any other palm oil initiative. Companies that are involved in bad practices ( unresolved land rights conflicts, illegal logging, illegal operations, no social and environment impact assessments, no prior consulting stakeholders before operating)
- **United Nations Global Compact principles (UNGC):** companies that have severe breaches of any of the ten UNGC principles.

### Human rights

- Businesses should support and respect the protection of internationally proclaimed human rights; and
- make sure that they are not complicit in human rights abuses.

### Labour

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- the effective abolition of child labour; and
- the elimination of discrimination in respect of employment and occupation.

### Environment

- Businesses should support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

- Businesses should work against corruption in all its forms, including extortion and bribery.

- **Climate risk:** companies with strong revenue generation from coal mining or energy production, also taking into account coal investment plans, annual coal production, tar sand production and transportation.
- **Defense sector:** companies with strong revenue exposure to military contracting.
- **Low ESG rated issuers:** companies with low ranking ESG scores based on our proprietary framework.

## Pillar 2: ESG integration focusing on corporates

To integrate ESG criteria, we optimize the ESG corporate score of the portfolio relative to the corporate component of FDC's benchmark while targeting a robust financial performance.

The RI team has created a quantitative base with ESG scores for corporate issuers. These ESG scores are the result of an aggregation process of ESG data from various ESG rating agencies and providers that we run through our

proprietary framework to form our own score and views. Companies are assessed on how they are positioned to handle both short and long term ESG risks as well as opportunities. As such, portfolio managers taking decisions to address and minimise ESG issues are likely to be more competitive relative to their peers in the long term. This type of analysis is very different depending on each company and the industry it operates in, and therefore results in placing companies on a sliding scale in order of preference, rather than creating a simple binary choice. Used in conjunction with financial analysis, it aims to create a clearer, longer term picture of a company's future prospects.

### **Pillar 3: Impact Investing**

To complete ESG integration and add an impact dimension, we may consider green and social investments through the full fixed income spectrum including sovereign, government related and corporate issuers. We view impact investing as the generation of identifiable, intentional and measurable environmental and/or social benefits that address today's challenges, while simultaneously delivering financial market returns.

Portfolio managers invest opportunistically in green and social bonds complying with our Responsible Investment (RI) team's proprietary judgmental framework which filters out names which are not contributing to the low carbon economy and do not have social impact, respectively. This framework also considers the ESG quality of the issuer, project types, use of proceeds and environmental or social impact.

### **Governance**

On a monthly basis AXA IM's RI team meets with portfolio managers in order to ensure that RI commitments and ambitions are respected. These meetings are also the occasion to empower them with ESG and impact knowledge. This is achieved by:

- Tracking the level of impact of all portfolios managed with a similar approach.
- Monitoring ESG performance for all issuers.
- Assessing related ESG indicators, such as allegations, CO2 emissions, health and safety accidents.

In addition, the RI team interacts regularly with portfolio managers regarding issuers, new issues, sectors or key themes that impact securities in the portfolio. These meetings ensure that our investment strategies are in line with FDC's requirements as well as AXA IM's ESG approach.