PART OF BNP PARIBAS GROUP

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Responsible Investing
AXA IM Tobacco Policy

The incidence of long term non-communicable diseases (NCDs), including cancer, cardiovascular diseases, chronic respiratory illnesses and diabetes, is sharply rising, and these diseases are currently responsible for most deaths worldwide. Along with physical inactivity, unhealthy diet and the harmful use of alcohol, tobacco consumption is one of the major causes of long term NCDs[1].

As a responsible investor, at AXA Investment Managers ("AXA IM") we avoid investing in companies involved in the production of tobacco. The negative impact of tobacco is well documented and as a result many investors are divesting from the sector.

According to the World Health Organization (WHO), it kills 8 million people per year, and circa 15% of these deaths are the result of passive smoking[2]. The damage to health from tobacco products is more costly to society than that caused by alcohol or unhealthy diets, and, unlike the former, from a health perspective, there is no safe level of exposure to tobacco These costs largely outweigh the revenues generated by taxes on the sale of cigarettes, and governments globally are beginning to act.

In 2005 the World Health Assembly adopted the WHO Framework Convention on Tobacco Control (FCTC), one of the most successful global treaties in history, with more than 180 signing countries accounting for more than 90% of the world's population. This convention led to broad changes in tobacco control measures, and guidelines have been published providing recommendations to implement the Convention's principles, such as the recommendation related to article 5.3 of the Convention inviting the parties to limit interactions with the tobacco industry. The organization calls the tobacco epidemic "one of the biggest public health threats the world has ever faced". Given the ongoing and indeed growing pressure the industry faces, we believe that ultimately the regulatory and profitability risks regarding tobacco companies remain under-represented.

Moreover, WHO observed that the industry is in conflict with United Nations' principles due to the fact that it uses child labor to produce tobacco. In 2018, the head of the secretariat of the WHO FCTC, referring to International Labor Organization (ILO) estimates, stated that about 1.3 million children a year were working in tobacco fields in 2011. The numbers are rising with a shift in tobacco growing from some of the better-off countries to some of the poorer. Even though it declined between 2000

[1] Source: Noncommunicable diseases (who.int)

[2] Source: Tobacco (who.int)

and 2013 in some countries, it is still widespread in other countries such as Brazil, Indonesia, the USA and other countries as Argentina, India and Malawi[3].

The policy applies to companies cultivating tobacco, manufacturing tobacco products and includes manufacture of cigarettes, cigars, tobacco for pipes and snuff, smokeless tobacco products and e-liquid / complete e-cigarettes as well as companies that distribute their own label tobacco products.

Excluded Companies

Sector / Area	Exclusion criteria	Approach to affiliates	Sources, qualitative review process and frequency of update
Tobacco	Companies that derive >0% of their revenues from the production of tobacco products	Affiliates[4] of excluded companies may also be excluded in particular if they act as a securities issuance entity for or act in a similar sector as the related excluded company.	We rely on an external data provider to prepare an initial list of issuers in scope. The exclusion list is then reviewed qualitatively and discussed within our responsible investment (RI) governance committees on a regular basis and updated on a yearly basis, unless a specific event requires an intermediate revision[5] or a delay in the publication of data requires to postpone the update. These exclusion criteria are applied to existing and future investments. AXA IM may initiate qualitative adjustments to these exclusion rules based on an analysis demonstrating the relevance of such adjustments (*i.e.*, in that case that the company does not generate anymore any revenue from tobacco production). Moreover, based on quantitative data, a parent company which is involved through a subsidiary may be exempted, if tobacco-related revenues are immaterial for the group (i.e., <1% of the total group's revenues). In such case, the involved subsidiary will be banned.

Source: AXA IM, based on Sustainalytics.

Those exclusion criteria are consistent with the criteria defined in the Delegated Regulation (EU) 2020/1818 as regards minimum standards for EU Climate Transition Benchmarks (CTB) and EU Paris Aligned Benchmarks (PAB), in Article 12(1)(b)): exclusion of companies involved in the cultivation and production of tobacco.

Scope

Financial instruments

The policy applies to all single-name financial instruments issued by the excluded companies or offering exposure to identified companies.

Portfolios

The policy applies in principle to all portfolios under AXA IM's management, unless the client has given different instructions for its mandate or the fund has been exempted for legal or risk management reasons[6].

The policy does not apply to:

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[3] Source: Child Labour in Tobacco Growing - unfairtobacco

[4] For the purpose of this policy, the term "affiliate" shall mean any entity, individual, firm or corporation, directly or indirectly, through one or more intermediaries, controlling or controlled by excluded companies.

[5] Examples given: major newsflow. The list is not systematically updated following corporate actions.

[6] In some specific cases, funds can be exempted due to deviation with investment objectives, under a framework overseen by AXA IM Global Risk Committee. Exemptions can only be granted on a fund-by-fund basis (no expertise wide exemption will be given) and no exemption can be granted for funds named with sustainability-related terms (e.g., "Sustainable", "Green"). Under this framework, a specific approach has been set for one AXA IM Select Indonesia's mutual fund.

- Funds of funds composed of funds which are not under the management of AXA IM. Nevertheless, due diligence processes are implemented when selecting external funds to look at their RI credentials and assess if they apply similar or equivalent exclusion criteria on the targeted activities[7];
- Passive strategies (index funds and exchange-traded funds – ETFs)[8];
- Funds of hedge funds;
- Tenants in real estate portfolios.

The policy applies to direct product investments, overall with no look-through except when local laws or regulations require to do so.

Entities

This policy applies to AXA IM and all its affiliates worldwide, to joint ventures where AXA IM's stake is above 50%, and to funds for which the management is delegated to one of our joint ventures.

Implementation

This policy is implemented on a best-effort basis, taking into account local regulation and the best interests of both the client and the fund's objective. If the application of this standard dictates divestments, portfolio managers shall disinvest as soon as possible on a best-effort basis taking into account the technical implementation timing and the portfolio impacts based on market conditions, liquidity and portfolio construction constraints. In practice, some targeted instruments could remain in the funds or mandates for a period if deemed in the best interest of their clients and provided that it is compliant with the applicable Laws; however, those holdings cannot be increased[9]. For certain alternative products such as Collateralized Loan Obligations ("CLOs"), Mutual Securitization Funds ("FCT" in French), closed-ended alternative funds and other alternative products, if the divestment is considered impossible, such holdings in portfolio could be kept until maturity following an internal validation process.

The exclusion list is prepared using information from an external data provider, and although a qualitative review is performed, AXA IM is therefore not responsible for the accuracy of this data.

The implementation of this policy is subject to compliance with asset management local laws or regulations; therefore, some specific alternative implementation mechanisms of this policy may be put in place locally. In the EU, the implementation of this policy is part of the compliance with SFDR requirements as it constitutes AXA IM's approach to consider sustainable investments for the 'Do No Significantly Harm' (DNSH) criteria (*i.e.*, applicable to Article 8 and Article 9 funds). Thus, if the application of this standard dictates divestments, portfolio managers shall disinvest for their product to be classified Article 8 or Article 9 under SFDR, following the abovementioned implementation process. In the UK, the implementation of this policy is part of the compliance with the Sustainable Disclosure Requirements (SDR) and investment labels regime set by the Financial Conduct Authority (FCA).

Additional constraints on tobacco

AXA IM manages a range of open funds which apply additional constraints on tobacco, as they have been awarded sustainability-related labels. For funds awarded with the Label ISR or the Towards Sustainability Label, we apply additional exclusions on tobacco product or distribution, as detailed in AXA IM Sustainable Labels policy, available on AXA IM website: Sustainability Policies and Reports | AXA IM Corporate

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[7] In the case of the secondary acquisition of external private asset portfolios, grandfathering may apply.

[8] A portion of AXA IM's passive strategies replicate ESG or climate indices and therefore also apply filters on the tobacco industry. In particular, AXA IM manages a range of passive PAB ETFs, which adhered to the criteria defined in the Delegated Regulation (EU) 2020/1818 as regards minimum standards for EU CTBs and EU PABs, in Article 12(1)(b)), and also exclude companies involved in the cultivation and production of tobacco.

[9] Such tolerance could be applied, for example in relation to strategies with accounting objectives (e.g., 'buy & maintain' strategies), or for concentrated strategies with appropriate validation from oversight functions.