AXA Investment Managers Disclosure Statement - Operating Principles for Impact Management

30 April 2023

AXA Investment Managers is a founding Signatory to the Operating Principles for Impact Management (the Principles). This Disclosure Statement covers the activities of the AXA Impact Investing Strategy and the funds managed by the strategy, namely: AXA Impact Fund I, AXA Impact Fund II, the AXA Impact Fund – Climate & Biodiversity, the AXA IM Prime Impact Fund and any future funds launched by the Strategy (Covered Assets). This Statement is an affirmation of our support for the Principles and our intention to use the Principles as a framework to guide the design and implementation of our impact management systems.

The total Assets under Management in alignment with the Principles is US$1.46 billion as at 31 March 2023[1].

Marco Morelli
Executive Chairman
AXA Investment Managers

[1] The stated AUM is the sum of capital committed by our clients and includes disbursed and undisbursed capital commitments.

Introduction

AXA Investment Managers (AXA IM) is an active, long-term, global, multi-asset investor. We work with our clients today to provide the solutions they need to help build a better tomorrow for their investments, while creating a positive change for the world in which we all live. We believe finance has a vital role to play when it comes to supporting social equality and ensuring the environment can sustain us now and into the future. These beliefs are core to our identity, embedded in what we do and how we serve our clients.

These beliefs led us to establish the AXA Impact Investing Strategy in 2012, applying our institutional investing expertise to help generate positive outcomes for people and the planet, in addition to meeting the financial returns objectives of our clients. The AXA Impact Investing Strategy was established with the intention of being a differentiated strategy where success is defined on two axes – financial and impact. It provides a means for our clients to extend their Responsible Investment strategy beyond the management of relevant environmental, social and governance (ESG) issues and to explicitly invest in solutions addressing specific and clearly defined societal challenges.

Our impact management system has evolved over time, taking account of best practice and the industry norms and standards that have evolved since we established our strategy. This disclosure statement reflects current practice and improvements we have made to our impact management system.

Principle 1:

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

- Our strategy defines impact investing as a disciplined investment approach with the clear aim of generating identifiable, positive, intentional and measurable, social or environmental benefits and outcomes that address the needs of an identified beneficiary group and/or address societal challenges. At the same time, the strategy should deliver market-rate financial returns. Our strategy is deliberately designed to align deeply with this traditional definition of impact investing.

- We invest in a broad range of impact themes that deliver on our clients' impact objectives. Our guiding impact thesis is to address the needs and aspirations of underserved people globally while protecting the natural environment in which communities are based and where they earn their livelihoods. Our strategic impact objectives for each fund are clearly defined, translated into identified impact themes which guide and influence the identity of our funds and all related activities necessary to deliver on the impact mandate.

- We deploy capital through alternative assets – private equity, venture capital, private debt, real assets and project finance – which provides us the flexibility and access to the deepest and most diversified investment opportunity sets in different markets to generate impact outcomes at scale.

- Using a private market approach, we identify specific challenges and invest capital directly towards the development of a credible solution, measuring the success of the intervention. We believe this investment approach allows us to be more targeted in our investment, and direct investment capital to regions with under-developed capital markets or to new solutions that are not sufficiently addressed using public market solutions.

- We establish a logic model to map out the steps necessary to create tangible impacts relative to the mission of our respective funds. This mapping is carried out at the early stages of our process, prior to investments – it is a critical step in ensuring that we are intentional about the impact we seek and avoid impact dilution over the life of our fund. This logic model is used to review the social or environmental challenge and prospective solutions, and assess the relevance, directness, depth and scale of proposed investments relative to the impact we are seeking.

- We invest in solutions which align with targeted SDGs at significant depth rather than just at a thematic level and monitor the relevance of our contributions to reducing the development gaps identified by the SDGs. We report on the impact performance and contributions of our investments relative to the SDGs.

- Our investments contribute solutions to 12 of the 17 SDGs while supporting progress towards other SDGs that are not directly translatable into investment inputs.

Principle 2:

Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- We establish a clear pre-investment impact identity for each of our funds which is based on the established mission and objectives of the fund. This impact identity guides portfolio construction, the selection of underlying investments for each fund and the management of expected impact and financial performance at a portfolio level.

- Prior to the deployment of capital, we set fund level financial and impact objectives. This enables us to build a balanced portfolio that takes account of asset class, market characteristics, returns profiles, investment characteristics, risks and all the necessary inputs that guide investment selection.

- We also establish fund level impact metrics and collect and track impact indicators for underlying investments to assess and manage performance at a portfolio level. Our investees are required to provide this information on a quarterly basis.

- We assess the impact performance of our funds on a quarterly basis, examining the extent to which investments are generating social and environmental impacts in line with pre-determined objectives over three critical stages – capital allocation, investment period and outcomes. Investments that have positive momentum through the input, output and outcome stages, demonstrating positive tangible effects for the beneficiary group or identified societal challenges, are rated highly under our system.

- Our Investment Committee monitors overall portfolio and strategy performance regularly at our quarterly review meeting, and as necessary throughout the year. The output of the portfolio impact rating is reviewed alongside financial performance and used to inform portfolio engagement and design. For example, this has led to greater allocation to particular impact themes which meet our dual impact and financial returns objectives, influenced geographical allocation, and funding gaps where our capital can make a material difference.

- Staff working on the impact strategy are rewarded for delivering the impact and financial performance of our funds, and for achieving the overall objectives of the AXA Impact Investing Strategy.

- ESG objectives and targets are integrated into the compensation scheme for all investment platform heads.

Principle 3:

Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[2] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

- The AXA Impact Investing Strategy contributes private capital to businesses and projects that can be shown to provide positive impact benefits to underserved people and the planet. In many cases, investee businesses face challenges in accessing capital to execute their business plans.
- We play an important role in the ecosystem. Our decisions to allocate capital help demonstrate the commercial opportunity in impact-focused businesses: first-time fund managers; businesses and fund managers in developing countries; and businesses and fund managers targeting significant, underserved societal challenges.
- We also aim to be a long-term provider of capital, aiding our investees by providing additional capital through funding rounds, as a co-investment resource for our General Partners (GPs) and creating long-term partnerships with credible managers to advise on impact-focused mandates.
- In addition to capital, we provide access to the knowledge and resources of the broader AXA IM and AXA Group on issues and sectors that are aligned with our intellectual and business capital.
- One of our core contributions is to develop impact managers who can align with the requirements of institutional investor capital. Our Operational Due Diligence team work with impact managers to develop processes, policies and standards that are aligned with the requirements of institutional investors. This contribution is important to build credible managers and assist them in attracting institutional capital to impact investing at scale.

[2] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/ market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

Principle 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[3] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[4] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[5] and follow best practice.[6]

- We assess the expected impact of our investment as a core part of our investment process. The alignment of a prospective investment with the relevant impact objectives of a fund is a gateway criterion against which all investments are assessed.

- We have evolved our process for assessing the impact of each investment over time. Following the introduction of the Impact Management Project (IMP), we have established an assessment framework for prospective investments using the IMP's Five Dimensions of Impact as part of our due diligence process to ascertain the expected impact contribution of each investment. Post investment, we continue to monitor the impact performance of each investment relative to the IMP framework.

- We take account of the Global Impact Investing Network's (GIIN) Navigating Impact Project, IRIS+, Harmonised Indicators for Private Sector Operations (HIPSO) and the Joint Impact Indictors (JII) to confirm strategic goals, the expected contributions of each investment and the impact metrics and key performance indicators relevant to different themes.

- Our objective is that each investment clearly states the impact metrics and key performance indicators (KPIs) against which impact performance will be assessed. We work with our investees to agree relevant and credible impact metrics and indicators against which regular reporting will be provided. We reinforce this objective by including reporting terms in side letters and other investment documents, through our active participation in investor governance bodies and through our engagement with investees.

- We also influence our investees to go beyond impact metrics and indicators by establishing impact performance targets. This is still a relatively nascent practice, particularly for fund investments, but we believe it is a necessary discipline to underpin the credibility of impact investments. For our advisory mandates, we have agreed impact performance targets that will form the basis of fund manager compensation in addition to financial performance targets.

[3] Focus shall be on the material social and environmental impacts resulting from the investment. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[4] Adapted from the Impact Management Project (www.impactmanagementproject.com).
[5] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
[6] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

Principle 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[7] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[8] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- All investments must respect AXA IM's Responsible Investment Policies. These include: Controversial Weapons Policy, Climate Risk Policy, Palm Oil Policy and Soft Commodities Policy and ESG Standards Policy – Sustainability Policies and Reports | AXA IM Corporate (axa-im.com)

- We also take account of ESG best practice standards and norms including the IFC Performance Standards on Environmental and Social Sustainability (IFC Performance Standards); World Bank Group Environmental, Health and Safety Guidelines; OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights; the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work; and the International Bill of Human Rights.

- We identify ESG issues of relevance to underlying businesses and investment strategies and, as part of the due diligence process, ensure that there are appropriate strategies and resources to manage and mitigate those issues. For fund investments, we expect our GPs to manage relevant ESG risks and we monitor the GP's execution of this responsibility as part of our regular quarterly review of investments.

- For our direct investments, we incorporate agreed ESG Action Plans in term sheets and other legal documents and establish timelines to execute relevant ESG Action Plans. We monitor and review progress relative to steps required under the Action Plans as part of our quarterly review of investments and more frequently as necessary.

- If during our monitoring process we identify ESG concerns that have not been appropriately managed or addressed, and our engagement has been unsuccessful, our corrective actions will depend on the nature of the investment.

[7] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[8] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

Principle 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[9] The Manager shall also seek to use the results framework to capture investment outcomes. [10]

- We document expected financial returns and impact returns, qualitative and quantitative, of each investment in the Investment Committee Memos as part of our due diligence on prospective investments. This may be subject to further refinement following investment but serve as a concrete signpost relative to which impact performance can be evaluated.

- We work with our investees to agree impact metrics and KPIs that form a credible basis for monitoring the impact performance of investments. We rely on a range of resources including research from credible organisations, IRIS+, the UN SDGs to establish metrics and indicators.

- We establish a clear expectation for our investments to provide information on financial and impact performance and the type of information and the frequency of reporting is reflected in investment documents. For investments made through funds or advisers, the fund manager is responsible for collating information from businesses and projects and providing this information to us in the agreed format on a regular basis. For direct investments, we agree on reporting format, information and frequency directly with investees and reflect these requirements in investment documents.

- We negotiate membership or participation on investor-led governance committees e.g. LPACs and Boards, as an important tool to monitor both the impact and financial performance of our investments. In addition, we conduct ad hoc meetings with and visits to underlying companies and projects to assess and monitor the level and quality of impact being generated.

- The performance of investments are reviewed following the regular reporting cycle and at specially constituted meetings of our Investment Committee. Where we have concerns about the performance – financial or impact – of an investment, our preference is to engage actively with investees.

- The range of options to deal with investments that cause concern would be determined by the nature of the investment, and whether we are direct or indirect investors. While early divestment is an option available for more liquid investments such as microfinance, this is an option that may not be readily available for other types of investments. In addition, for investments in funds our options would be influenced by the GP and other Limited Partners.

[9] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unfore¬seen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.

[10] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Principle 7:

Conduct exits considering the effect on sustained impact.

When conducting an exit,[11] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

- We provide a range of capital; directly to enterprises in the form of equity or debt or indirectly through funds. Our influence over exit decisions is correlated with the type of capital and mode of investments.
- For investments made in funds, the GP leads on exit discussions and our focus is on selecting and influencing GPs to take account of impact considerations when investing and conducting exits.
- For direct investments, our discipline starts with our selection process and we consider impact dilution risk as the business scales or changes ownership as part of our due diligence process. Our key exit discipline is to invest in business models that are supported by and benefit from providing solutions to a defined underserved beneficiary group or environmental challenge over the long term; and where impact considerations will support the rationale for acquisition by a purchaser.
- Ultimately, exits will be determined taking account of a range of factors including: impact considerations, investment type, other investors, whether direct or fund investments; level of holdings; fund term; and fiduciary duty to our clients.

[11] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

Principle 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- Our strategy was established to provide funding to investments that generate intentional, measurable and positive social and environmental benefits, in addition to financial returns. A review of the impact performance of investments at an investment, portfolio and strategy level is a critical aspect of how value is created for our investors and beneficiaries.

- We have evolved and improved our practice over time and now require all investments, direct and funds, to establish relevant impact targets both qualitative and quantitative, to allow for a more structured evaluation of impact performance. This is in addition to financial returns expectations that are established at the time of investments.

- We document expected financial returns and impact returns, qualitative and quantitative, of each investment in the Investment Committee Memos as part of our due diligence on prospective investments. This may be subject to further refinement following investment but serve as a concrete signpost relative to which impact performance can be evaluated during and post the tenure of our investment.

- The impact performance of investments is reviewed regularly on a proactive basis, reactively in line with reporting cycles or after engagement with investee companies as members of investor governance committees.

- We have developed the AXA IMpact Hub, a modular, tech-based solution to manage, monitor, evaluate and report on investment impact. This solution enhances our stewardship of investments and the impact performance of the strategy overall.

- The insights from our review process inform the effectiveness and use of our impact investing capital. Insights from the review process have been used to define and refine our investment strategy, impact objectives and themes, investment partners, investment returns expectations, operational due diligence, risk appetite, geographical priorities, target beneficiaries and as a critical input to define and establish impact targets for future investments.

Principle 9:

Publicly disclose alignment with the Principles and provide regular independent verification[12] of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Note affirms the alignment of the impact management systems of AXA IM's Impact Investing Strategy with the Operating Principles for Impact Management and will be updated annually.

Our impact management system was reviewed and verified independently of the management company by EY & Associés in April 2023. The independent report on our impact management system is available at [Impact Investing | AXA IM Alts (axa-im.com)]

Independent verification of our impact management systems will be conducted on a regular basis no later than at three-year intervals, or earlier if there is a significant change to our impact management systems.

Information on the current independent verifier is as follows:

Name and Address:	EY & Associés Tour First, TSA 14 444 92 037 La Defence Cedex, France.
Qualifications:	EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.
Most Recent Review:	28 April 2023

[12] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

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