



# Responsible Investment Policy

Axiom Alternative Investments

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# 1 - INTRODUCTION

Axiom AI is an investment management company recognized as a specialist in financial institutions (banks and insurance companies) managing more than 2 billion euros on behalf of its clients. Conscious of the relevance that sound financial institutions have for the real economy, since its inception in 2009, Axiom has integrated the analysis of social and governance controversies in its investment decisions. In 2016 Axiom AI formalized its commitment towards Environmental, Social and Governance (ESG) integration by joining the Principles for Responsible Investment. This document explains Axiom AI's approach to incorporating ESG considerations within the organization's activities.

## 2 - GOVERNANCE

Axiom AI's governance structure enables the smooth implementation of our Responsible Investment (RI) approach. Two main bodies are responsible for its implementation:

### 2.1 Management committee

This committee defines the RI strategy and ensures it is consistently and effectively rolled out. It defines and allocates resources for its rollout and implementation. It approves strategic ESG projects, sets priorities and makes the main governance decisions. The committee meets weekly to discuss overall business activities, including ESG. It is comprised of seven senior management staff: the Chief Investment Officer, The Chief Operations Officer, the Head of Research, 3 heads of Business Development and the manager of our first ESG fund.

### 2.2 ESG committee

This committee oversees the implementation of our responsible investment approach. The committee equally decides on new issuers to include in the exclusion list, for which exclusion rationale is not governed by the sectoral exclusion policies. In addition, the ESG committee ensures ESG training needs of staff are met and ensures compliance with regulatory standards. It is composed of the Head of Research, one head of Business Development, the ESG manager and the manager of our first ESG fund. The members of the committee are encouraged to propose ways in which the ESG integration process can be improved. The committee meets every month and conducts an annual stock take of the RI approach application.

To ensure visibility of current ESG projects and share relevant information concerning the application of our RI approach, the ESG Manager participates in the weekly portfolio management and the sales team calls.

## 3 - RESPONSIBLE INVESTMENT APPROACH

As an asset manager specialized in the financial sector, Axiom seeks to promote the transition to a socially just and low-carbon economy while seeking superior risk-adjusted returns. We are cognizant that the European banking sector plays a key role for the achievement of such a transition as it finances more than 70% of the EU economy<sup>1</sup>. In addition, we acknowledge that empirical research has established a link between firm performance and ESG performance. All this coupled with our focus on subordinated financial debt has led to the development of an ESG approach tailor-made for financial institutions which seeks to minimize both the ESG risks that can affect issuers' financial performance as well as the negative impact that financial institutions may have in the economy, the society and the environment.

Our approach combines best available information sourced from a range of third party sources (e.g. ESG data providers, NGOs, proxy voting providers) and proprietary sector expertise. It is comprised of the following tools:

1. ESG controversies database
2. Sectoral and Thematic policies
3. Axiom's Climate Readiness Score
4. Stewardship

The management of all our long funds except for the ETF integrates at least one of these tools. Below we describe the tools in detail.

### 3.1 ESG Controversies

The nature of the Environmental and Social controversies the financial sector is exposed to varies considerably compared to other sectors in the real economy. These controversies are rarely related to the direct impact of a financial institution's business on the environment and society but rather to the indirect impact through their lending and investment activities as well as their stakeholders (e.g. counterparties, clients). By extension the negative impact of these controversies on a financial institutions' capital has been to a large extent manageable. In the case of Governance controversies, while the nature of most controversies can be similar to other sectors (e.g. ethical issues), the impact of these is wider, as not only it can be existential for the issuer but also have knock-on effects in the economy and the society. This is notably due to financial institutions' role to safeguard capital, finance the economy and contribute to financial stability. Based on these, we believe the controversies financial institutions are most exposed to are:

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<sup>1</sup> <https://www.ecb.europa.eu/pub/pdf/fie/financialintegrationineurope201105en.pdf>



**Governance**



**Social**



**Environmental**

company culture and how it can lead to abnormal levels of risk taking

consumer protection and the adequacy of the products designed and sold by the financial institution

public scrutiny due to involvement in the financing, investment, underwriting, or reinsurance of projects or companies that are deemed to have a negative environmental impact

compliance with an increasingly large set of complex regulations, especially, but not only, in the field of anti-money laundering

public scrutiny of clients and business partners with unethical background

public scrutiny due to failure to meet environmental or climate targets

public scrutiny due to involvement in the financing, investment, underwriting, or reinsurance of projects or companies that are deemed to have a negative social impact

These controversies and others are monitored regularly depending on their severity. The monitoring of the controversies is done through an in-house database. This monitoring allows us to identify risks but also opportunities (i.e. in the case the market overestimates the risk). Each item in the database includes a record date, a factual description of the news, linked companies, a comment on the impact of the controversy, an estimate of the financial risk associated, a classification on the type of controversy and its degree of severity. Portfolio managers can use filters to have an updated view on the situation or the past history of the controversy. To learn more about our controversies screening you can consult our [summary note](#).

Controversies that are considered to be severe either for the company, the society or the environment can lead to an exclusion from our funds. Our Sustainable Financial Institutions funds range applies a stringent set of social and governance controversies exclusions.

## 3.2 Sectoral and Thematic policies handbook

Less than 7% of Axiom's investments are in sectors of the real economy. To avoid making investments in products or business practices we deem detrimental to society and incompatible with our investment beliefs, we have developed sectoral policies. These policies set the criteria used to build our general exclusions list as well as more stringent criteria applicable to our Sustainable Financial Institutions funds range.

The sectoral policies build on policies established by recognized responsible investors and the requirements of the Belgian *Towards Sustainability* label. Businesses with activities in the following fields are concerned:

1. Adult entertainment production, operation and distribution
2. Alcohol brewing, distilling and trading
3. Cannabis
4. Coal power and mining
5. Controversial Weapons
6. Conventional and unconventional oil & gas production
7. Gambling establishments, equipment and products and services for gambling operations.
8. Tobacco production

In addition, we exclude companies with controversial behaviour that have violated the United Nations Global Compact principles of human rights, labour, environment and corruption.

Our thematic policies describe our beliefs and approach to key cross-sectoral environmental topics such as biodiversity and water use, governance topics such as taxation, and social topics such as oppressive regimes and death penalty.

The [handbook](#) equally lays out our approach on sovereign bonds and forward contracts. It specifies the criteria used to define the countries and forward instruments we cannot invest in.

The general exclusions list arising from these policies is applicable to all our long funds except for the ETF. Our Sustainable Financial Institutions Funds range follows a stricter set of sectoral policies.

### 3.3 Axiom's Climate Readiness Score

Axiom AI developed its [Climate Readiness Score \(ACRS\)](#) to achieve an in-depth understanding of financial institutions' climate performance. The need for a proprietary methodology emerged from the identification of a market gap. Indeed, although progress has been made in the identification and analysis of best-practices on climate integration by financial institutions, this analysis remains superficial and not comprehensive enough.

The ACRS uses both quantitative and qualitative analysis to assess financial institutions' climate performance based on three pillars:

 <b><u>Corporate engagement</u></b>	 <b><u>Climate risks and opportunities management</u></b>	 <b><u>Contribution to the low-carbon transition</u></b>
<p>To identify the level of priority given to climate change by a company by looking at its:</p>	<p>To assess the issuers approach to climate-related risk and opportunities by looking at its:</p>	<p>To understand the contribution the issuer is seeking to make to the energy transition through:</p>
<p><b>Governance:</b> the involvement of different governance bodies in the development, implementation and monitoring of their climate policy, strategy and/or commitments, as well as the incentives created to enable continuous improvement</p>	<p><b>Management:</b> the degree of integration of climate-related risks and opportunities in their risk management framework, the use of the risks assessments in their investment /financing policies or processes, and the use of a carbon price as a risk management tool</p>	<p><b>Green share:</b> the quantity and quality of assets reported by the issuer that are classified as "green" and the robustness of the criteria used for such classification. For banks, Axiom uses its own method to quantify their green share</p>
<p><b>Strategy:</b> the quality and ambition of the climate targets or commitments set, it's degree of ambition and how these are formalized within the company's strategy</p>	<p><b>Sectoral policies:</b> the stringency of the policies put in place to either limit investments /lending to companies operating in high carbon sectors or to companies that can have an important impact on biodiversity</p>	<p><b>Portfolio alignment:</b> the quality and coverage of the methodology used to estimate the (mis-) alignment of the issuer's portfolio to the Paris Agreement temperature goals. For banks, uses its own method to estimate the temperature of their corporate loan book</p>
<p><b>Transparency:</b> the degree and quality of data disclosed, as well as their compliance with recognized reporting frameworks (e.g. TCFD, CDP)</p>	<p><b>Exposure:</b> the quality and scope of the issuer's assessment of climate-related risks and their transparency on methodologies used. For banks, Axiom uses its own method to quantify physical and transition risk exposure</p>	<p><b>Client engagement:</b> the offer of products and solutions proposed to clients on climate change as well as the issuer's efforts and incentives created to raise awareness on the value added of such products</p>

The indicators used to analyse these three pillars change between banks and investors whenever relevant in order to capture sub-sector specificities.

The ACRS can be used by all portfolio managers and funds. It is at the heart of our [climate policy](#). In addition, our Sustainable Financial Institutions funds range uses the ACRS to define minimum performance thresholds for issuer selection. More information on the thresholds can be found in our Thematic and Sectoral policies handbook.

## 3.4 Stewardship

We believe effective and proactive stewardship is key for achieving a more sustainable society. Through our stewardship efforts we seek to promote the long-term success of companies in the benefit of our clients. In order to translate our beliefs into reality we devote resources mainly in the form of bilateral dialogue and proxy voting, but as well in the context of collaborative initiatives.

### 3.4.1 Engagement

We consider engagement as a change process where investors seek to improve investee companies' practices. Our expertise on financial institutions and in the debt market has led to engagement on Social and Governance topics due to the financial sector's high exposure to these risks. Over the past ten years, it is estimated that banks have paid at least US\$450 billion in fines, settlement, litigations, etc., directly linked to general misconduct<sup>2</sup>. These considerations have always been at the heart of our investment decision making. Our engagements on environmental topics are however rather recent but yet increasing as a result of both, the market's need to improve their integration of climate-related issues and the development of internal tools that enable a higher quality of the engagement.

There are different catalysts that drive our engagement actions, these include:

- The need for more information to fully understand ESG issues we have identified;
- To encourage companies to improve their ESG disclosure practices;
- In the case of controversies, to have better visibility on their impact and mitigation measures put in the place;
- To present and discuss the outcomes of internal assessments; and
- To promote the development, implementation and continuous improvement of ESG targets.

Engagement priorities are determined based on our observation of global market developments and emerging ESG practices. On an annual basis, Axiom conducts between 90 and 120 dialogues with top management and/or the investor relations department of potential and existing issuers. This includes roadshows and one-on-one meetings to which we are invited as well as several round tables and other events.

With our Sustainable Financial Institutions funds range, we will engage at least once a year with all issuers on the above topics, with a focus on climate change. Engagement can be in the form of yearly questionnaires sent to firms, bilateral meetings and letters to management.

The results and progress on the engagement actions are communicated in the ESG committee as well as the weekly portfolio managers meeting to feed into investment decision-making. When the results of our engagement are not satisfactory, we may divest or exclude the company from our funds.

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<sup>2</sup> Source : Axiom's controversy database



### **3.4.2 Voting**

Axiom AI believes that voting is an important part of the investment process. Above all, voting is an opportunity to signal our beliefs and to encourage companies to improve their practices.

In the case of resolutions dealing with Environmental, Social and Governance aspects, these are rigorously analysed by the research team to ensure that the vote is consistent with our beliefs. The team uses the ISS Proxy Exchange platform to send its voting instructions.

Pursuant to Article 314-100 of the AMF general regulation, Axiom Alternative Investments has established a [voting policy](#) setting the conditions for the exercise of voting rights attached to the securities held by UCITS under its management.

Our engagement and voting policy apply to all our assets under management. Our range of funds invested in equities is limited to two funds managing less than 2% of our total assets.