

RIANNUAL
REVIEW
2014

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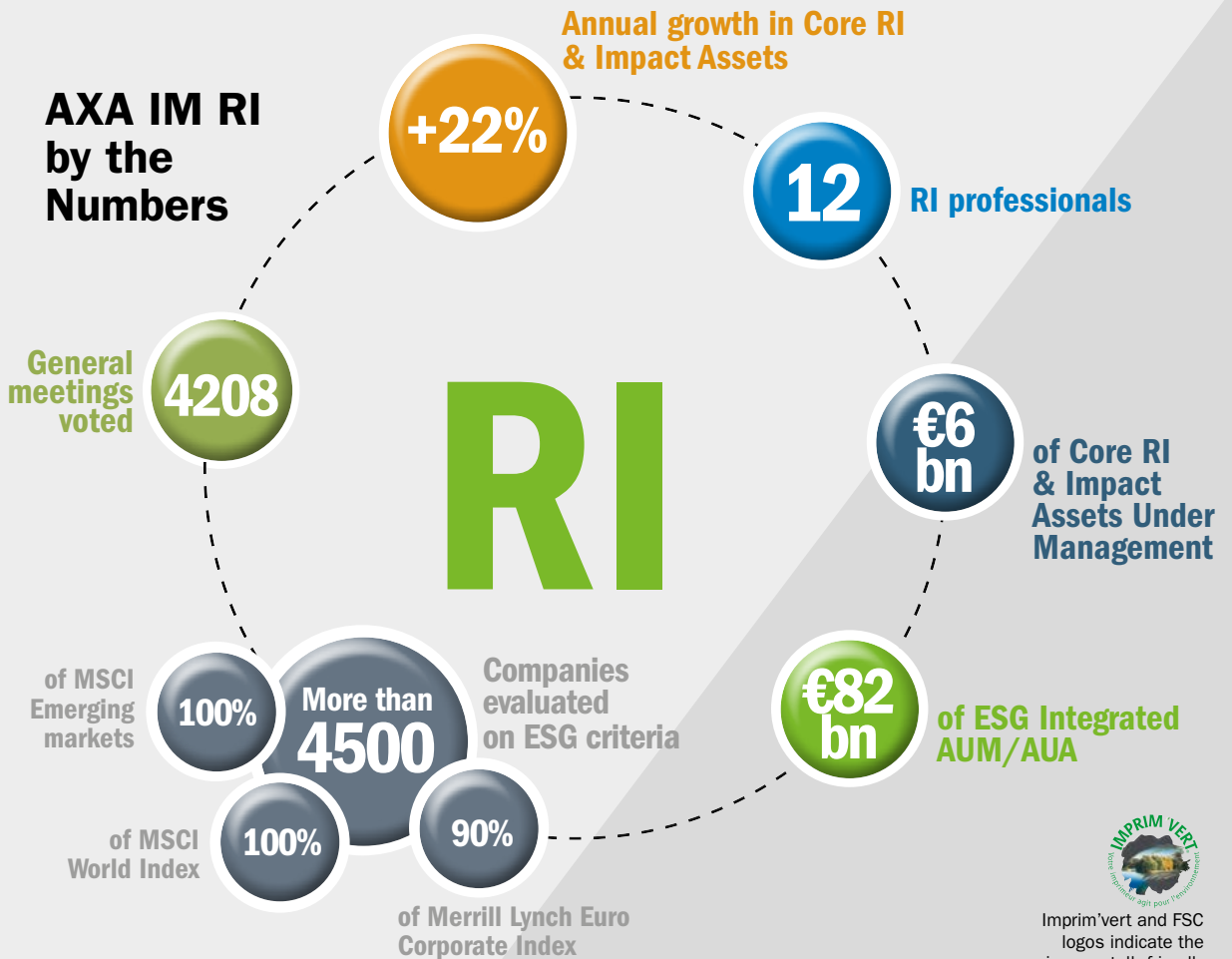
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redefining / investment solutions

OUR MISSION TRANSFORM INVESTING

We believe that RI can help deliver superior risk-adjusted returns for our clients. That is why we embed global Environmental, Social and Governance (ESG) research across all asset classes and provide investors the opportunity to select the level of ESG integration that best fits their needs and objectives. It is how we redefine investment solutions.



AXA IM is one of the few asset managers that receives an external verification for its core ESG processes, from Deloitte.

Source: AXA IM as at 31.12.14



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2014 IN REVIEW

The bull market continued through 2014, poised to mark 6 years since the panic of 2008. Nevertheless, investors continue to be increasingly anxious about the overall health of the investment markets in light of ongoing world events.

Financial markets have also increasingly taken notice of ESG issues since 2008; the mainstreaming of ESG factors within the asset management profession is becoming a long term trend that will continue regardless of the end point of the current bull market. In line with this trajectory, investors increasingly called upon AXA Investment Managers' Responsible Investment (RI) team to monitor and assess ESG risks in their portfolios across asset classes over the course of the past year.

A quick review of AXA IM RI team's most important activities this past year reveals the growing visibility of ESG integration and the value it can create for investors. To cite a few key achievements:

- On the equity side, our research from 2013 on how a smart beta approach could be combined with an ESG strategy bore fruit in 2014 as AXA IM became the first asset manager in Australia to launch a locally domiciled ESG Global SmartBeta equity pooled fund. Findex, Australia's largest independent dealer group, is the seed investor and current AUM are at A\$70mln and the fund is performing 5% ahead of its benchmark after 6 months*.
- Fixed income is finally receiving much more interest in how ESG can be properly integrated into the spectrum of potential strategies that this asset class offers. For AXA IM, we won an important European mandate to combine high yield debt with ESG criteria. This represents the first known strategy in the market that provides a top-down and bottom-up approach integrating ESG factors within the high yield market.
- AXA IM has become a market leader in impact investing with the creation of a dedicated team that combines alternative asset management expertise, operational due diligence and impact assessment in its approach. The current programme, at EUR 200 million, represents one of the largest institutional investor impact funds in the market. This first fund has focused on delivering competitive financial returns while demonstrating social impacts in the financial inclusion, health and education sectors.

Our expanded offer is generating notice among investors outside of the traditional home market where AXA IM is most known. For example, a leading German pension fund selected AXA IM for a significant European mixed asset mandate that explicitly takes ESG factors into account. Another illustration was the broadening of our RI services offering with a Dutch pension fund client through the addition of ESG engagement activities.

These successes have fortified our resolve to fully support investors in their pursuit of ESG and financial goals. Over the course of 2015, we will leverage AXA IM's broad offering across asset classes to further build out our offer in order to provide investors the level of ESG integration that best fits their needs and objectives.

* Source: AXA IM as at 31.12.14, gross of fees.
Past performance is not a guide to future performance

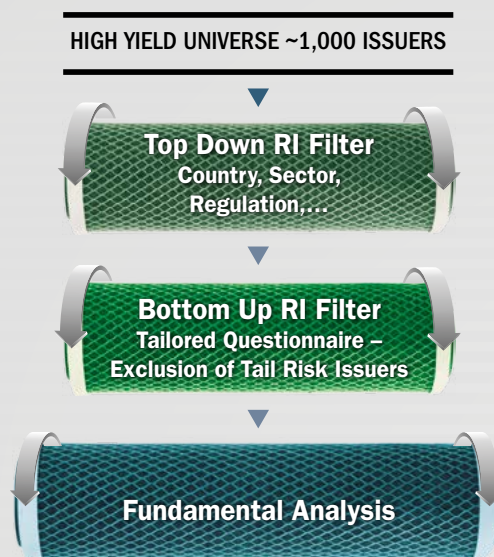


Matt Christensen
Global Head of Responsible Investment

NOTABLE CLIENT DEVELOPMENTS 2014

ESG CREDIT HIGH YIELD MANDATE

Following an RFP launched in April 2014, the ERAFP (a French public-service pension body) awarded AXA IM with a mandate for an actively managed ESG Credit High Yield portfolio. This is a first and large (up to €400 million) mandate integrating ESG into a High Yield fund; the fund must comply with the client's own ESG system. This represents the first known strategy in the market that provides a top-down and bottom-up approach to delivering on ESG factors within the high yield market.



ESG GLOBAL SMART BETA EQUITY MANDATE

In 2014 AXA IM became the first asset manager in Australia to launch a locally domiciled **ESG Global Smart Beta** equity pooled fund. Findex, Australia's largest independent dealer group, is the seed investor and current AUM are at A\$70 million and the fund is performing 5% ahead of its benchmark after 6 months*.

ESG MULTI-ASSET MANDATE

A leading German pension fund selected AXA IM for a significant European mixed asset mandate that explicitly takes ESG factors into account.



AXA IM ACWI Smart Beta Equity Fund

* Source: AXA IM as at 31.12.14, gross of fees. Past performance is not a guide to future performance

INVESTMENT INNOVATIONS 2014

ESG CREDIT HIGH YIELD SCORING PROCESS

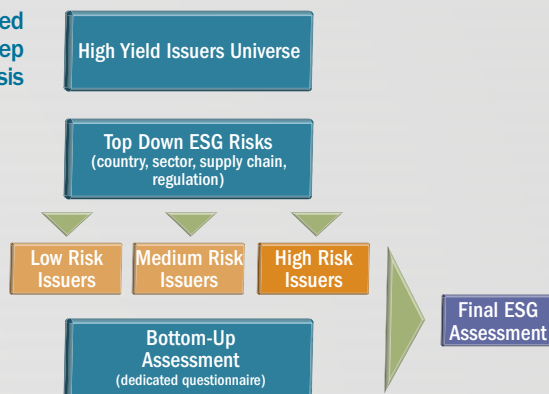
Our ESG Credit High Yield scoring process is based on our proprietary ESG Framework with a two-step combination of Top Down and Bottom Up analysis leading to a final ESG assessment of issuers:

Top Down – Main ESG Risks

- Country
- Sector
- Supply chain
- Regulation

Bottom Up – Issuer Specific

- Tailored due diligence questionnaire for riskiest issuers



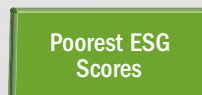
ESG TAIL RISKS METHODOLOGY

We believe that identifying an avoiding ESG Tail Risk is fundamental to sustainable, long-term investment success. In order to identify an ESG Tail Risk Short List, we have developed our own methodology.

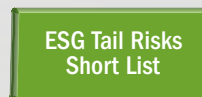
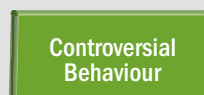
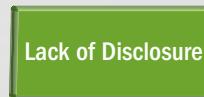
Our ESG Tail Risk Methodology starts with an ESG scoring based on our proprietary six-pillar ESG Framework (see page 8), then three other filters are applied on the poorest ESG scores. Poorest ESG score companies that also fail on the three additional filters represent the ESG Tail Risk Short List.

- Negative Impacts - Carbon, Water, Board Structure,...
- Lack of Disclosure – Transparency Issues
- Controversies – Breaches to the UN Global Compact principles

ESG scoring



Three additional filters

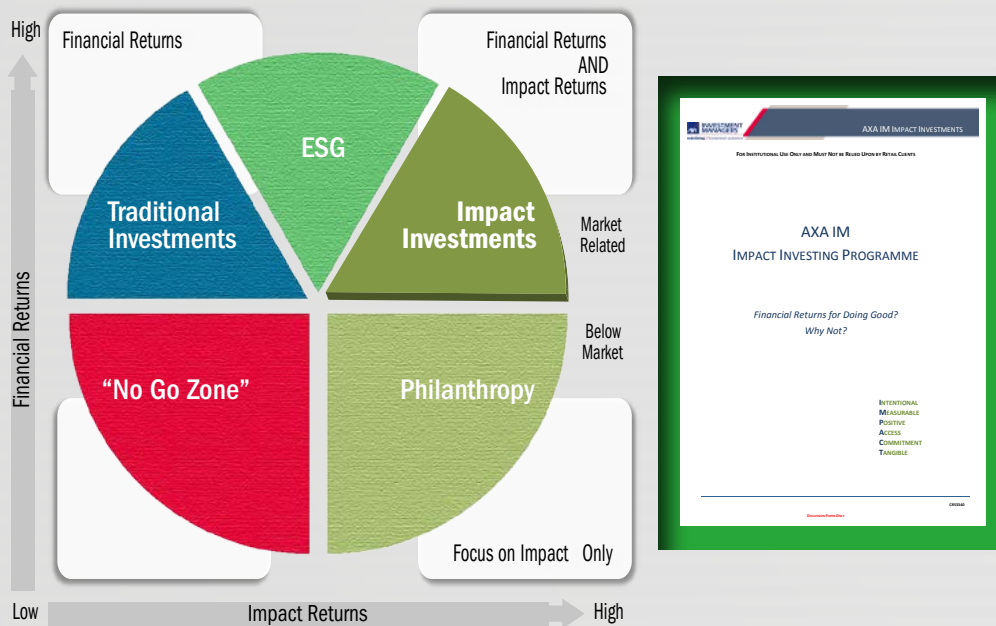


INVESTMENT INNOVATIONS 2014

IMPACT INVESTING

AXA IM completed the deployment of EUR 200M through its first Impact Programme.

AXA IM has established itself as a leading asset manager in Impact Investing with a dedicated Impact Team that combines the specifically relevant skill sets required to invest in this fast growing field.



Impact investing focuses on financing businesses and projects that are designed to demonstrate intentional, positive and measurable impacts on society while simultaneously delivering financial market returns. As the social impact is fully embedded into the business model, there should not be an inherent trade-off between impact returns and financial returns.

Impact investing harnesses the power of capital towards solving 'real issues' facing society; it is about steering the power of clients' productive capital towards 'greater utility'.

INTENTIONAL
MEASURABLE
POSITIVE
ACCESS
COMMITMENT
TANGIBLE

THOUGHT LEADERSHIP



IMPACT INVESTING IN PRACTICE

The Impact market is rapidly growing and broadening in terms of sectors and geographies as well as in terms of instruments issued to finance impact businesses. From the demand side, the value proposition of earning financial returns while solving important human issues is a most compelling one.

Current and future generations are motivated to utilise the power of their wealth with the double objective of social returns while expecting financial returns as well; institutional investors are adapting to the changing aspirations of their stakeholders.

In practice, impact investing carries its own specific challenges. The 'double bottom line' also implies 'double risk' of not achieving either the financial returns or the impact returns, or even failing at both. There are other challenges such as dealing with small start-up projects, managing scalability of investments, lack of well-established track records, and minimising 'mission drift'.

Impact Investing in Practice

We believe that a diversified, multi-manager/project, multi-sector and multi-region approach is an excellent solution to address these issues. Effective implementation of this solution requires the combination of relevant expertise in the three specific areas of Investment Due Diligence, RI and Impact Due Diligence as well as Structural and Operational Risks Due Diligence; these combined skill sets can ensure that the above aspects are adequately assessed prior to investment and also monitored after investments are made.

Examples of Compelling Impact Themes & Measuring Metrics		
Financial Inclusion	Health	Agro & Food
# of women receiving banking services	Child mortality reduction	Increase in food self-sufficiency
# of underserved accessing finance	Disease reduction	Increase in permanent employees vs seasonal workers
# of low income workers insured	# of low income receiving treatment	Increase in eco-intensive farming productivity
Environment & Biodiversity	Livelihood & Entrepreneur Support	Education
Reduction in emissions/deforestation	Business & job creation + Scalability & efficiencies	# of low income accessing education
Preservation of biodiversity	Increase in household income	Low income graduation rates
% of restored land in the ecosystem	Access to markets/information/IT & mobile services	# of women receiving education

EXPANDED RESEARCH OFFER AXA IM PROPRIETARY ESG PLATFORM

RI SEARCH[®]

Our proprietary platform provides portfolio managers with ESG scores for each security, enabling managers to take ESG risks into account in their investment decision-making process. Recent additions include expanded coverage as well as detailed voting information at portfolio level.

With a view to continuously improve this proprietary tool we have been complementing it with ESG qualitative input. This approach enables us to provide enriched analysis, key risk priorities and ESG recommendations.



AXA IM ESG FRAMEWORK

Our proprietary ESG Framework has been developed and refined in 2014 across 6 key dimensions. With this framework oriented around risks and opportunities, we deliver concrete analysis that combines our ESG fundamental convictions with our ESG quantitative capabilities. Accordingly, our RI Search[®] platform has also been adapted to highlight these 6 dimensions.



NEW RI POLICIES 2014

Upon reflection and in line with our commitment to promoting Responsible Investment, AXA IM updated its Controversial Weapons policy and approved two additional RI policies in 2014 concerning Soft Commodity derivatives and Palm Oil. For more information you can also refer to the [AXA IM RI Policy](#).

UPDATE OF WEAPONS POLICY

AXA IM set up a specific **weapons policy** to exclude controversial arms such as anti-personnel landmines and cluster bombs in 2008. In 2014, this policy was extended to also exclude chemical and biological arms and to prevent the proliferation of nuclear weapons.

SOFT COMMODITY DERIVATIVES

Although the debate has not been settled about whether financial markets' use of food commodity derivatives artificially inflates food prices, the issue was of sufficient concern for AXA IM to take a formal position. Therefore, AXA IM approved a **policy** to not invest in derivatives and ETFs based on food ('soft') commodities or enter into speculative transactions that may contribute to price inflation in basic agriculture or marine commodities (e.g. wheat, rice, meat, soy, sugar, dairy, fish, corn). Furthermore, AXA IM will not take delivery of any food commodities.



PALM OIL



The palm oil industry poses unique environmental and social challenges including biodiversity, unsustainable land use as well as labour and human rights issues.

Palm oil producers are not systematically excluded. The objective of our **palm oil policy** is rather to avoid investing in companies which do not commit to responsible and sustainable palm oil production. The sector is analysed according to relevant ESG issues such as violation of human rights and illegal land acquisitions.

Companies which are seriously in breach of the UN Global Compact principles or of the Roundtable on Sustainable Palm Oil principles are excluded.

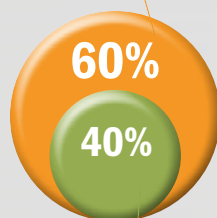
ACTIVE STEWARDSHIP VOTING / ENGAGEMENT

Our Stewardship activities expanded to a global voting perimeter covering 4208 Annual General Meetings. Equally as important, our engagement activities focused on key themes where objectives to improve company performance were defined and outcomes were achieved. For more information you can also refer to the [AXA IM Annual Stewardship Report](#) and to the [AXA IM Corporate Governance and Voting Policy](#).

VOTING

4208 General Meetings voted in 2014

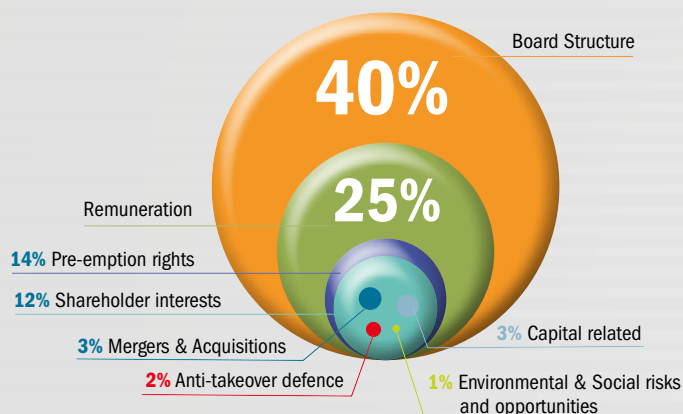
2513 General Meetings voted with management



1695 General Meetings with at least one vote against or abstention

Source: AXA IM as at 31/12/2014

Rationale for Votes Against/Abstentions



ENGAGEMENT

Over the course of 2014, we engaged with 56 companies on a broad range of issues.

EXAMPLES

COMPANY	COUNTRY	ISSUES
Siemens	Germany	Company strategy & performance, Board composition, Board diversity, Remuneration, Environmental impacts
Iberdrola	Spain	Board diversity, Corporate governance, Remuneration
Standard Chartered	UK	Company strategy & performance, Remuneration
Unicredit	Italy	Remuneration
Glencore	UK	Health & safety, Corporate governance, Board oversight of E&S risks
Hon Hai/Foxconn	Taiwan	Company strategy & performance, Social impacts
Barclays	UK	Remuneration, Corporate governance
ENI	Italy	Board diversity, Board oversight of E&S risks
Red Eléctrica	Spain	Board composition, Board diversity, Board oversight of E&S risks, Environmental impacts, Social impacts
Sports Direct	UK	Board composition, Remuneration

FROM 2014 TO 2015



IN 2015

For a teaser of the exciting initiatives the AXA IM RI team is focused on delivering in 2015, below are a few samples of the work we are currently undertaking. Recently, AXA IM completed an ESG integration methodology for equity and fixed income asset classes. In 2015, Real Estate will be added to the number of asset classes where AXA IM has a proven methodology to help its clients better integrate ESG criteria. This should be tested and ready for use with clients by the end of the year.

By the Summer 2015, AXA IM will have a credit ESG Smart Beta approach that complements the

existing equity product. This approach is targeted to provide both yield as well as improved ESG attributes for investors hungry for a widening of ESG products in fixed income.

There is no doubt that 2015 is an important year for the evolution and professionalisation of carbon measurement for the asset management profession. In preparation for the United Nations- led COP 21 meeting in Paris in December, AXA IM has embarked on a significant project to research carbon impacts at industrial sector level and joined leading initiatives to push the industry towards an improved means to measure Scope 3 carbon emissions.

Responsible Investment AXA Investment Managers

Our Mission

Transform investing

We believe that RI can help deliver superior risk-adjusted returns for our clients. That is why we embed global ESG research across all asset classes and provide investors the opportunity to select the level of ESG integration that best fits their needs and objectives. It is how we redefine investment solutions.

Our Differentiation

Core RI & Impact funds

- Thematic strategies driven by proprietary ESG research
- Third-party label awarded to our RI funds
- Quality assurance through external audit

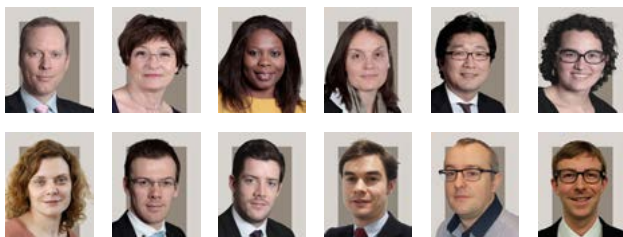
ESG embedded into AXA IM's mainstream funds

- ESG scoring at portfolio and security level
- Portfolio management with the integration of ESG research
- Active stewardship through engagement and voting over all client shareholdings

Tailored RI solutions

- Customised mandates specific to client ESG factors
- Engagement overlay services
- Reporting and control, including carbon and ESG footprint analysis

RI Search[®] Our proprietary ESG platform



Our Team

The RI team is composed of **12 professionals with 14 years experience on average** in both ESG and traditional financial analysis.

We use **RI Search[®]**, AXA IM's proprietary ESG platform, to integrate fundamental qualitative and quantitative ESG research into our investment decisions.

As at December 2014

www.axa-im.com/ri

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