anaxis

Securing our future

Anaxis Asset Management

THE CARBON INTENSITY OF OUR PORTFOLIOS

30 June 2020

1. Introduction

This report on the year to 30 June 2020 seeks to summarise the intensity of greenhouse gas emissions linked to the business activities of the companies in our portfolios. We have calculated the intensity of each of our six bond funds under management. The figures published in this report provide a simple, concrete overview of our commitment to fostering the transition to a sustainable economy, with a particular focus on our contribution to the fight against climate change, the acidification of the oceans and the disruption of ecosystems.

This fight affects not only the natural world, but human societies too. We face greater risks as a direct result of global warming, including receding coastlines, storms, droughts, human migration, lower agricultural yields and the depletion of fish stocks.

Reducing greenhouse gas emissions is essential if we are to mitigate global warming and prevent harmful consequences for people and planet alike. If it seems as though progress has been made, this is an illusion. All of the hard work has yet to be done.

As a function of global GDP, the carbon intensity of human activities fell by 1.6% in 2018 according to a study entitled *The Low Carbon Economy Index 2019* by PricewaterhouseCoopers. This pace is comparable to that seen in recent years. However, given GDP growth, volumes of greenhouse gas emissions rose by 2% that year in absolute terms. IPCC figures suggest that the carbon intensity of the global economy must fall by 7.5% (rather than 1.6%) per year in order to achieve the Paris Agreement target, which seeks to limit global warming to 2°C by the end of the century. Our efforts would need to deliver an annual decrease of 11.3% to limit global warming to 1.5°C.

If we consider energy-related emissions alone, estimates[1] show little change between 2018 and 2019, when the level was 33 Gt CO_2e. The contribution of coal fell by 200 Mt and emissions were tempered by milder weather and weaker economic growth.

According to a UN report,[2] temperatures have already risen by 1.1°C and existing commitments mean that we are currently on course for likely warming of 3.2°C by the end of the century. Studies show that we must aim to reach 25 Gt CO_2e by 2030. The trend at present indicates a figure of 56 Gt CO_2e, which is more than double, even when we account for the reduction policies already in place. China alone emitted 13.7 Gt CO_2e in 2018 of a record total[3] of 55.3 Gt CO_2e. The countries and regions that have committed to achieving carbon neutrality in the long term (through varying measures) only represent 15% of global greenhouse gas emissions.

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[1] Source: International Energy Agency, www.iea.org.

[2] *Emissions Gap Report 2019, Global progress report on climate action*, UNEP, 26 November 2019, https://www.unenvironment.org/interactive/emissions-gap-report/2019/. Emissions measured in billions of tonnes of CO_2 equivalent.

[3] This total includes the impact of deforestation, which is not included in the Chinese figure owing to a lack of reliable data.

Having taken stock of these issues, Anaxis has chosen to tackle greenhouse gas emissions head-on. As such, we have decided not to adopt the best-in-class approach, which involves picking out the best performers in each economic sector and therefore investing in whichever oil companies are judged to be the most virtuous.

Our approach entails excluding from our portfolios the economic sectors responsible for the most pollution in terms of greenhouse gas emissions. This primarily rules out coal mining, the oil industry and power generation using fossil fuels. We do not judge such companies. Our economies are still highly dependent on these sectors and it would be hypocrisy of the highest order to criticise them for meeting our collective demand. Moreover, certain businesses are engaged in genuine, intense efforts to develop alternatives or reduce the environmental impact of their operations.

We simply feel that our clients' money should be used to finance other priorities. The portfolios we manage are testament to the strength of this conviction.

2. Methodology

Scope

We use three different scopes to calculate greenhouse gas emissions. These scopes are used by the companies to report their annual emissions.

Scope 1	Direct emissions from sources held or controlled by the company.
Scope 2	Direct emissions linked to the energy consumption (electricity, heat, steam) required to manufacture the products or provide the services offered by the company.
Scope 3	**Upstream** Emissions resulting from the manufacture of purchased goods and raw materials. **Downstream** Emissions resulting from the use of the products by clients.

Volumes

Several different greenhouse gases must be taken into account for their environmental impact. The main gas emissions we measure are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Other gases resulting from industrial processes, such as halogenated hydrocarbons, can also have a significant greenhouse effect. However, it is estimated that carbon dioxide and methane are responsible for 74% and 17%, respectively, of the climate impact of gas emissions linked to human activity.

We aggregate various types of gas emission by converting the volumes into their CO_2 equivalent. To that end, we consider the greenhouse effect caused by the gas in question. Methane, for example, has a greenhouse effect 25 times as powerful as that of CO_2. As such, the volumes of methane released into the atmosphere are multiplied by 25 before they are added to CO_2 emissions. The results are expressed in tonnes of CO_2 equivalent (t CO_2e).

Intensities

Annual emissions are expressed as a function of each company's turnover. This ratio, referred to as "CO_2 intensity", indicates the volume of gas emitted into the atmosphere resulting in EUR 1 million of sales.

Certain sectors are more intensive than others. For example, Anaxis estimates that the telecoms sector's carbon intensity for scopes 1 & 2 is 37 t CO_2e/€m whereas the figure for airlines is 1,032 t CO_2e/€m. These are sector-wide estimates. Actual figures may vary widely from one company to the next.

Another way to measure CO_2 intensity is to express each company's annual emissions as a function of its stock market capitalisation (rather than as a function of its turnover). Intensity can then be interpreted as the volume of greenhouse gases associated with an investment of EUR 1 million in the company. This approach is relatively intuitive for equity investors, but it is harder to apply to bonds. It is entirely dependent on the company's financial strategy. It is possible to overcome this issue by using the company's value, which we define as its market capitalisation + debt + available cash. The company's value is a better reflection of its economic reality in that it demonstrates how much money is actually invested in its activities.

Given that few bond issuers publish their greenhouse gas emissions, the method whereby emissions are expressed as a function of the company's value is harder to implement. This is because we have to estimate missing data using figures published by companies with comparable business activities. It is possible to base our reasoning on carbon intensity to turnover ratios if we accept the following assumptions: these companies have similar products, their manufacturing processes are similar, their sources of energy are similar and their retail prices are similar. However, carbon intensity to company value ratios can be more variable because they depend on the share price, which in turn is a function of growth, profits, etc. We still have the option of estimating the carbon intensity to turnover ratio, using the assumptions above, then using this figure to calculate the carbon intensity to company value ratio, but these operations introduce further sources of errors. For example, the time periods used may not match and there may be differences in the consolidation scope or method for the activities in question. We have therefore chosen the first definition of greenhouse gas intensity.

Data sources

Where possible, we use data reported by the companies themselves. These figures are typically published on an annual basis. We have chosen to compile this report as at 30 June in order to have the most comprehensive and recent data possible, in light of publication timeframes and the time required to collect and process the information.

Unfortunately, a substantial proportion of corporate bond issuers, not all of which are listed companies, do not provide information on their greenhouse gas emissions. In such cases, we have analysed the company's business sector and used the sector's median intensity, calculated using the data available for companies in the MSCI World index.

This index comprises around 1,600 small and mid-cap listed companies. These companies are from the top 23 developed countries and represent around 85% of the public float on each market. The total market capitalisation of the index stood at USD 46.648 trillion on 31 August 2020. The United States accounted for 66.73% of this figure. This index does not represent our investment universe. We simply use it as a reference in order to calculate the CO_2 intensity of developed countries' stock market economies, which allows us to limit the effects of companies' financial strategies (in particular the use of debt in the form of bank loans or bond issues).

Intensities are more relevant than volumes because it would be reasonable to assume that emissions levels for companies within the same sector are linked to the size of the company. However, there may be distortions linked to a company's size, turnover, national standards and individual performance. The sector-based classification used represents a compromise between the need to categorise companies' business activities as precisely as possible and the need to have enough examples within each sector. Ultimately, we divided the companies among 69 business sectors.

Where figures had not been reported by the company, we felt that it was preferable to use medians rather than means. Medians are less sensitive to extreme values and errors. The median figure splits the companies in the sector into two equal groups: those that published lower figures and those that published higher figures.

When figures were available for 2018 but not for 2019, we used the 2018 figures without assuming progress of any kind or a downward trend in individual emissions.

Availability of data

We obtained emissions figures for scopes 1 & 2 for 75% of the companies that make up the MSCI World index. This percentage accounts for each company's weighting in the index. If we consider the composition of the portfolios under management, these percentages range from 22% to 34%, as shown in the following table:

Percentage of portfolios invested in bonds issued by groups that publish data on their greenhouse gas emissions

	Scope 1	Scope 2
• *Anaxis Short Duration*	27%	27%
• *Anaxis Income Advantage*	23%	23%
• *US Bond Opportunity 2021*	33%	32%
• *European Bond Opportunity 2022*	23%	22%
• *EM Bond Opp. 2024*	34%	33%
• *Diversified Bond Opportunity 2025*	25%	25%

3. Anaxis Short Duration

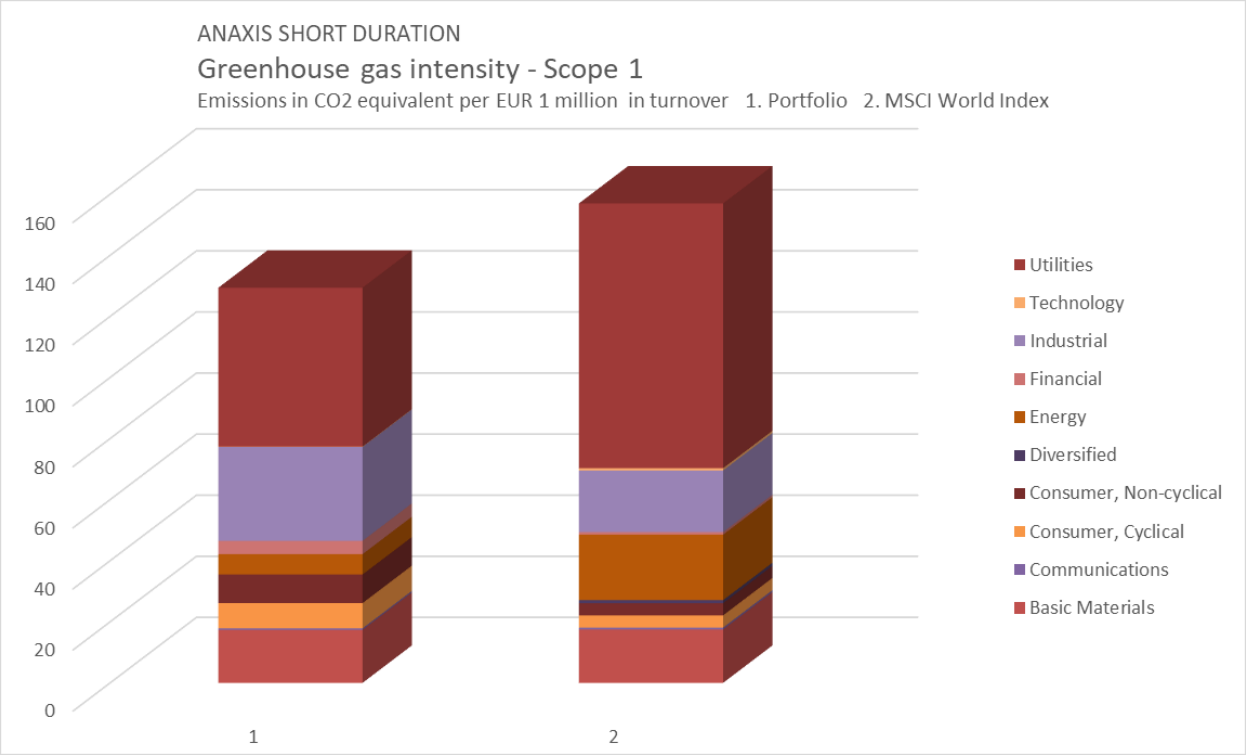
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	129	**18% lower**
Scope 2	34	**9% lower**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	4.8%	17.3	13.4%	7.4	21.4%
Communications	15.2%	0.5	0.4%	4.7	13.6%
Consumer cyclicals	19.0%	8.3	6.4%	3.9	11.4%
Consumer non-cyclicals	30.8%	9.4	7.2%	6.9	20.2%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	2.2%	6.6	5.1%	0.4	1.1%
Financials	3.2%	4.4	3.4%	1.7	4.9%
Industrials	11.3%	30.8	23.8%	5.9	17.1%
Technology	4.6%	0.1	0.1%	0.4	1.0%
Infrastructure	4.4%	52.0	40.2%	3.2	9.3%
TOTAL	**95.4%**	**129.4**	**100%**	**34.3**	**100%**


ANAXIS SHORT DURATION
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
160
140
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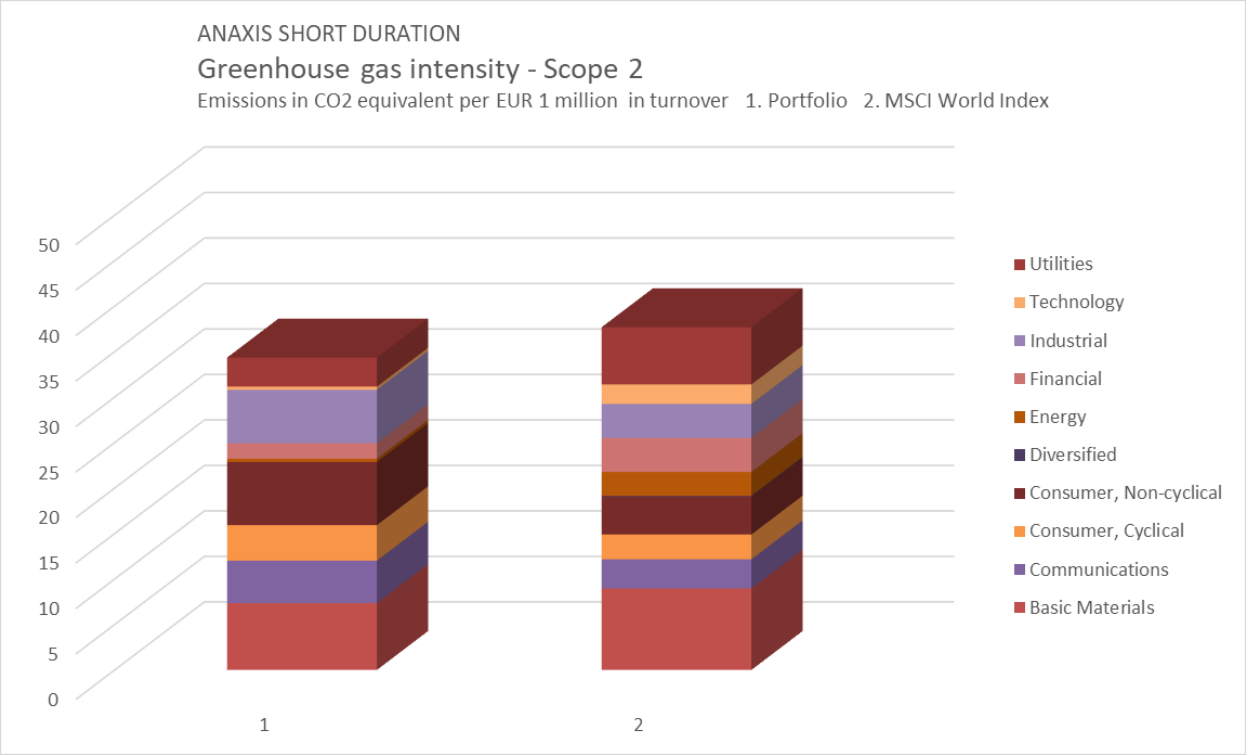
Utilities
Technology
Industrial
Financial
Energy
Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials


ANAXIS SHORT DURATION
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
50
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Utilities
Technology
Industrial
Financial
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Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

4. Anaxis Income Advantage

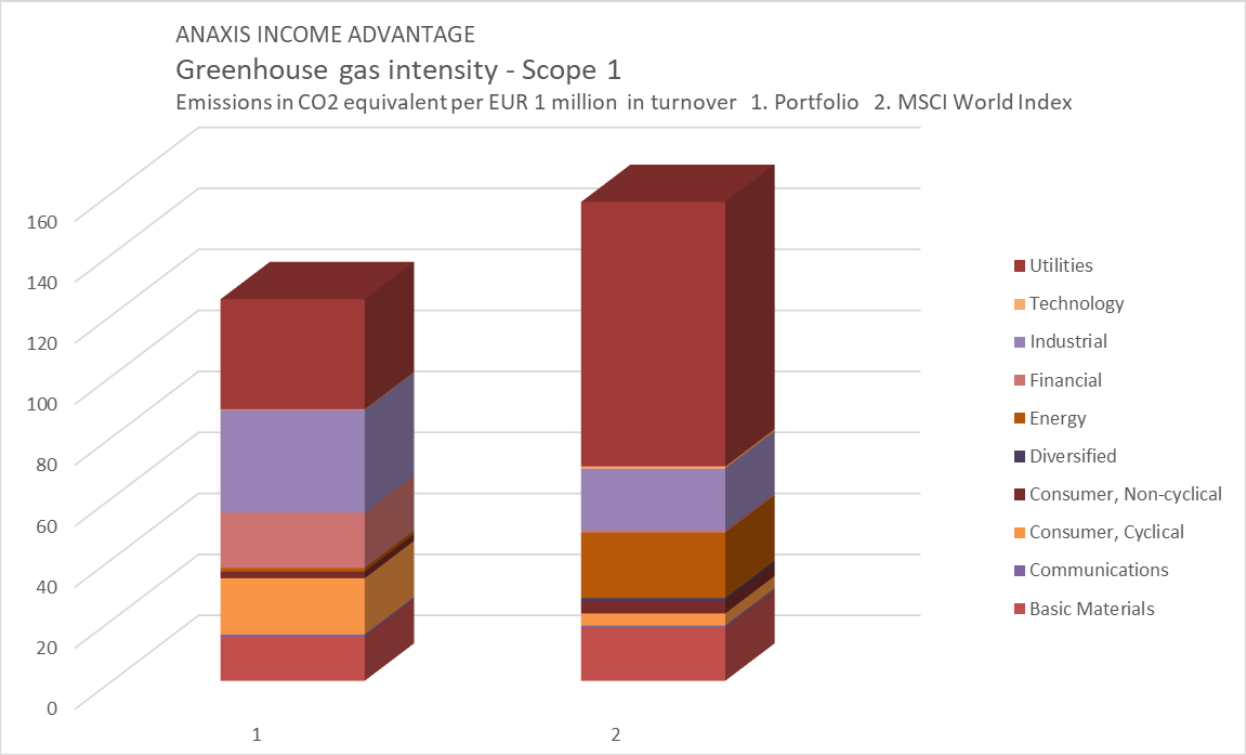
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	125	**20% lower**
Scope 2	30	**21% lower**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	2.1%	14.5	11.6%	3.5	11.9%
Communications	18.7%	0.7	0.5%	4.6	15.7%
Consumer cyclicals	26.0%	18.5	14.8%	7.4	25.1%
Consumer non-cyclicals	21.2%	2.2	1.7%	2.9	9.7%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.6%	1.2	1.0%	0.6	2.1%
Financials	13.7%	18.1	14.5%	6.3	21.3%
Industrials	8.1%	33.7	27.0%	2.8	9.5%
Technology	4.3%	0.2	0.1%	0.3	1.1%
Infrastructure	3.9%	36.1	28.9%	1.1	3.6%
TOTAL	**99.8%**	**125.1**	**100%**	**29.6**	**100%**


ANAXIS INCOME ADVANTAGE
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
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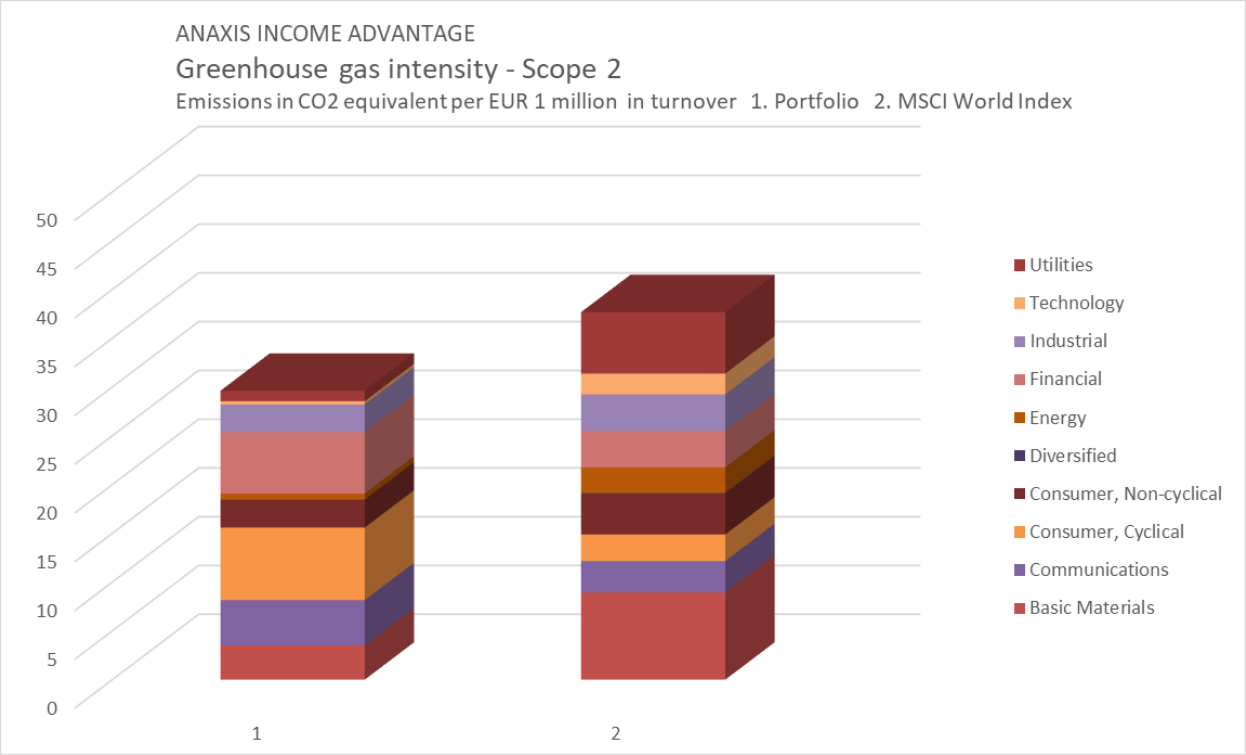
Consumer, Cyclical
Communications
Basic Materials


ANAXIS INCOME ADVANTAGE
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
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Utilities
Technology
Industrial
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Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

5. US Bond Opp. 2021

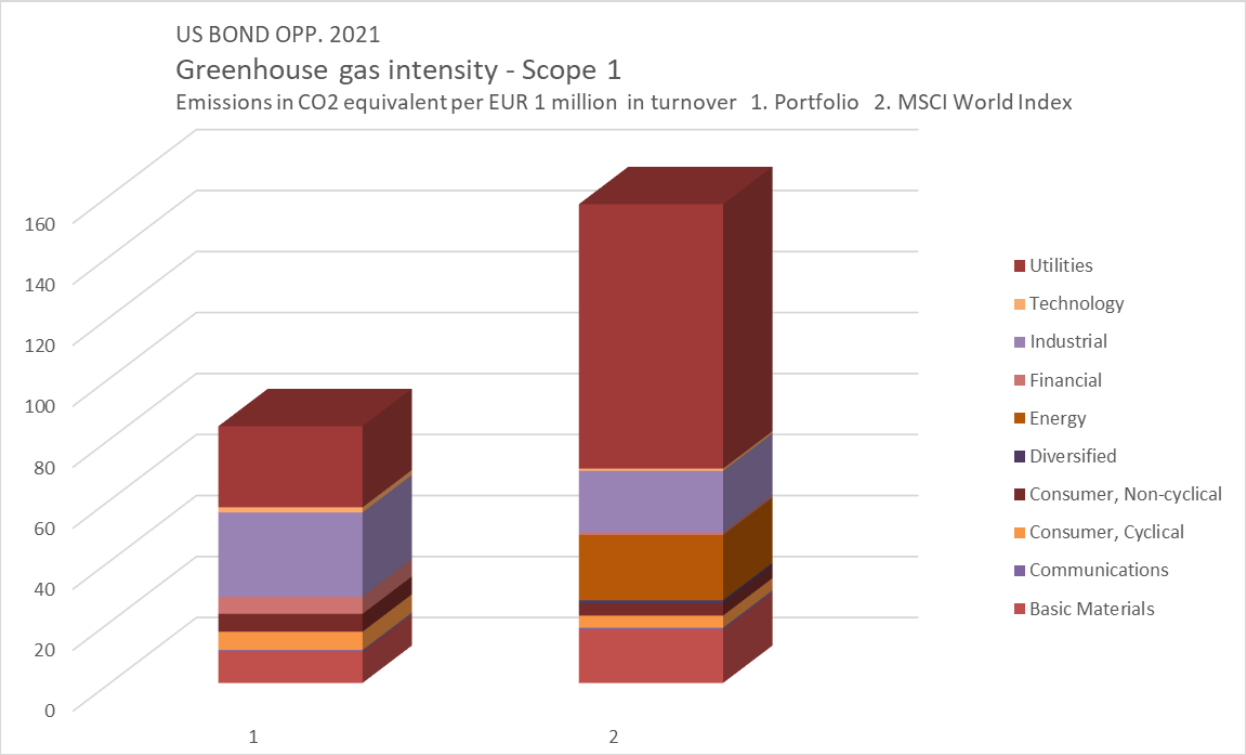
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	84	**46% lower**
Scope 2	32	**15% lower**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	2.0%	10.3	12.2%	3.4	10.7%
Communications	15.8%	0.5	0.6%	4.1	12.8%
Consumer cyclicals	25.2%	6.0	7.1%	8.4	26.3%
Consumer non-cyclicals	30.5%	5.8	6.9%	6.8	21.1%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.0%	0.0	0.0%	0.0	0.1%
Financials	3.2%	5.7	6.7%	1.5	4.6%
Industrials	12.6%	27.6	32.8%	4.8	14.9%
Technology	6.3%	1.7	2.0%	2.3	7.0%
Infrastructure	1.4%	26.6	31.6%	0.8	2.4%
TOTAL	**98.0%**	**84.2**	**100%**	**31.9**	**100%**


US BOND OPP. 2021
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
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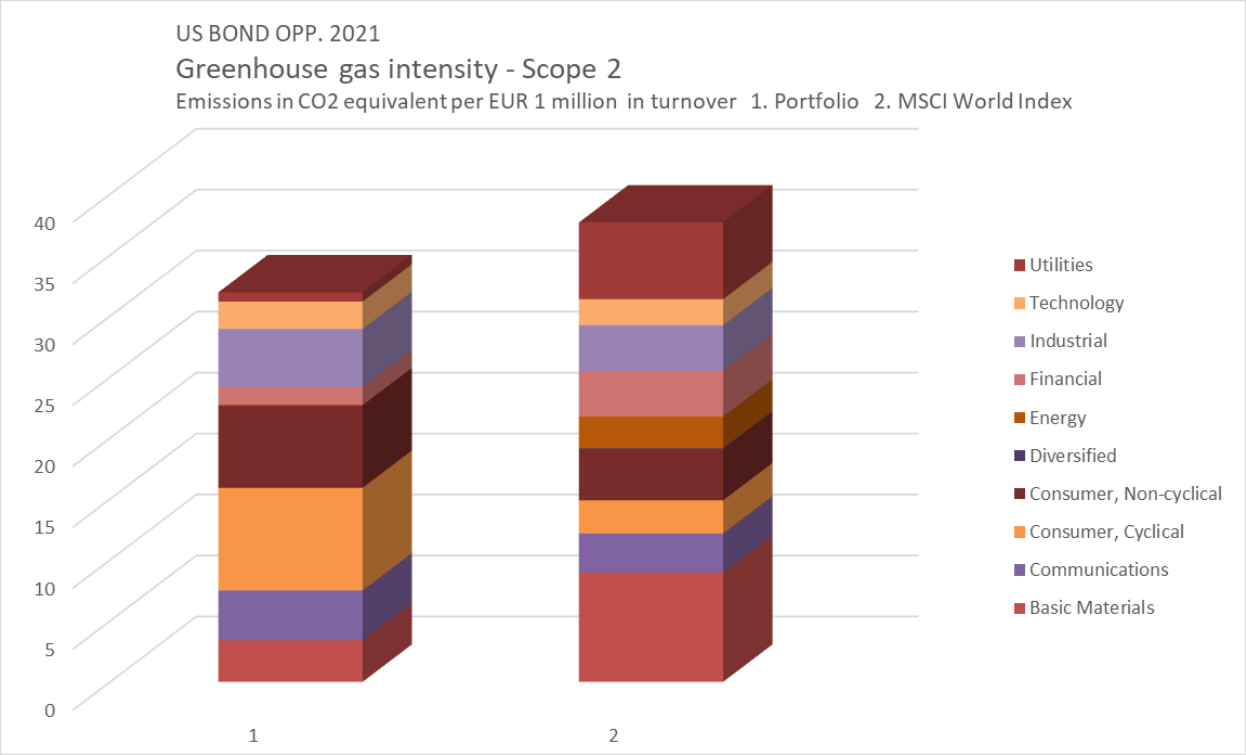
Communications
Basic Materials


US BOND OPP. 2021
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
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Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

6. European Bond Opp. 2022

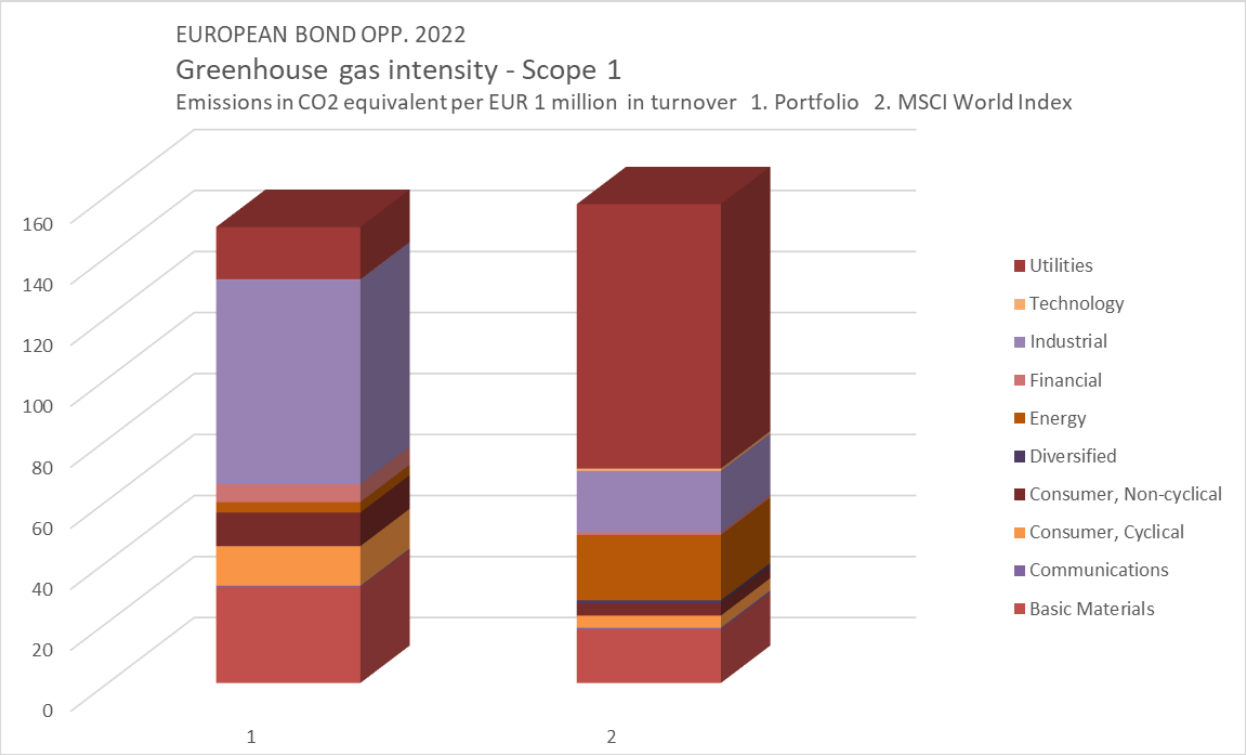
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	150	**5% lower**
Scope 2	38	**2% higher**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	5.8%	31.6	21.1%	9.6	25.0%
Communications	12.7%	0.3	0.2%	2.6	6.7%
Consumer cyclicals	23.6%	13.0	8.7%	5.0	13.0%
Consumer non-cyclicals	32.0%	11.0	7.4%	7.6	19.9%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.5%	3.4	2.3%	0.2	0.6%
Financials	2.9%	5.9	4.0%	1.6	4.2%
Industrials	13.5%	67.0	44.8%	9.8	25.5%
Technology	3.9%	0.1	0.0%	0.3	0.8%
Infrastructure	1.8%	17.2	11.5%	1.6	4.2%
TOTAL	**97.7%**	**149.5**	**100%**	**38.3**	**100%**


EUROPEAN BOND OPP. 2022
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
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Consumer, Non-cyclical
Consumer, Cyclical
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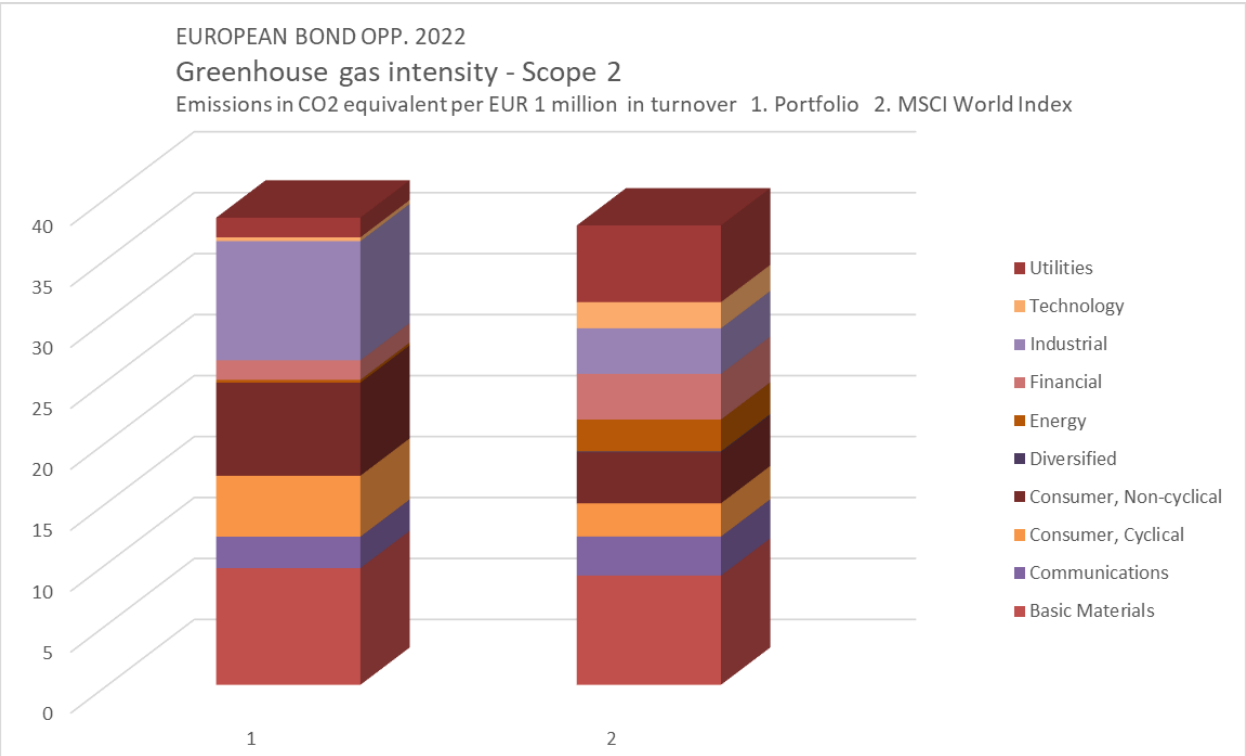
EUROPEAN BOND OPP. 2022
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
40
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Utilities
Technology
Industrial
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Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

7. EM Bond Opp. 2024

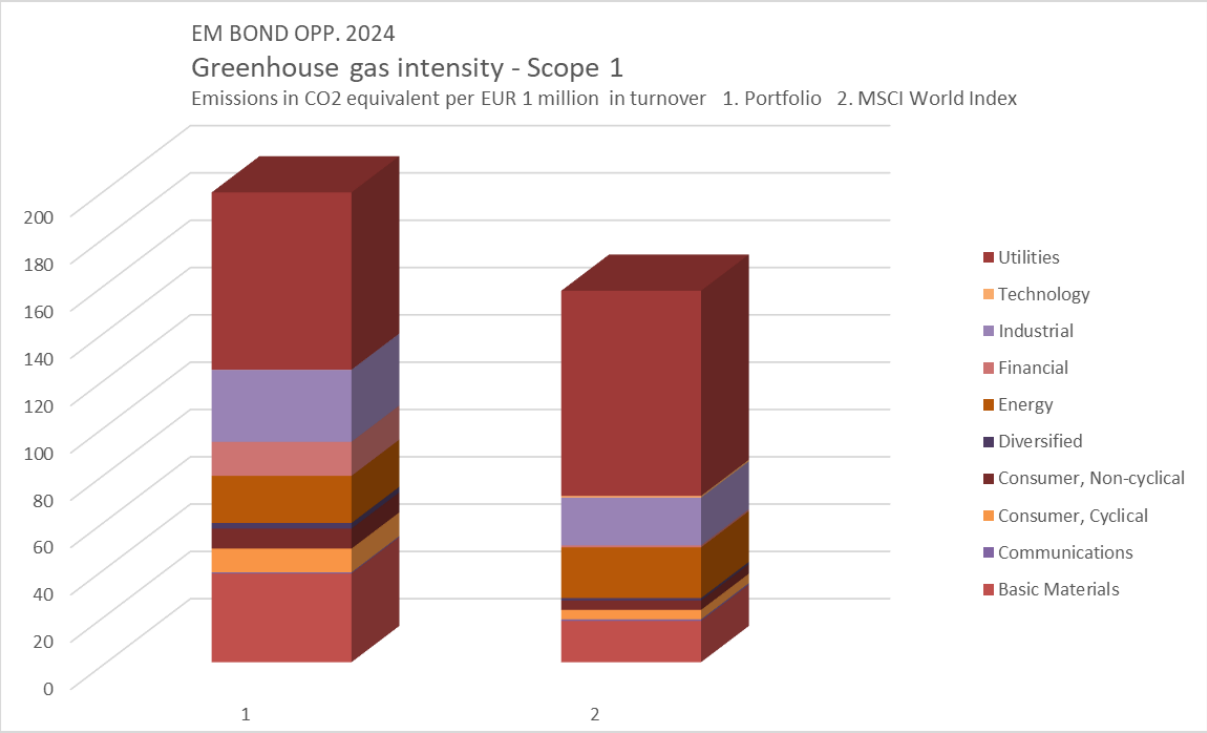
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	198	**26% higher**
Scope 2	53	**41% higher**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	8.9%	37.5	18.9%	22.7	42.7%
Communications	15.2%	0.5	0.2%	4.5	8.4%
Consumer cyclicals	12.3%	10.0	5.1%	5.2	9.7%
Consumer non-cyclicals	30.0%	8.5	4.3%	9.4	17.6%
Diversified	1.4%	2.4	1.2%	1.5	2.7%
Energy	4.6%	19.9	10.0%	2.1	4.0%
Financials	1.1%	14.4	7.3%	2.2	4.1%
Industrials	11.0%	30.4	15.3%	2.2	4.1%
Technology	2.8%	0.0	0.0%	0.3	0.5%
Infrastructure	5.6%	74.9	37.7%	3.3	6.2%
TOTAL	**92.8%**	**198.6**	**100%**	**53.1**	**100%**


EM BOND OPP. 2024
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
200
180
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Utilities
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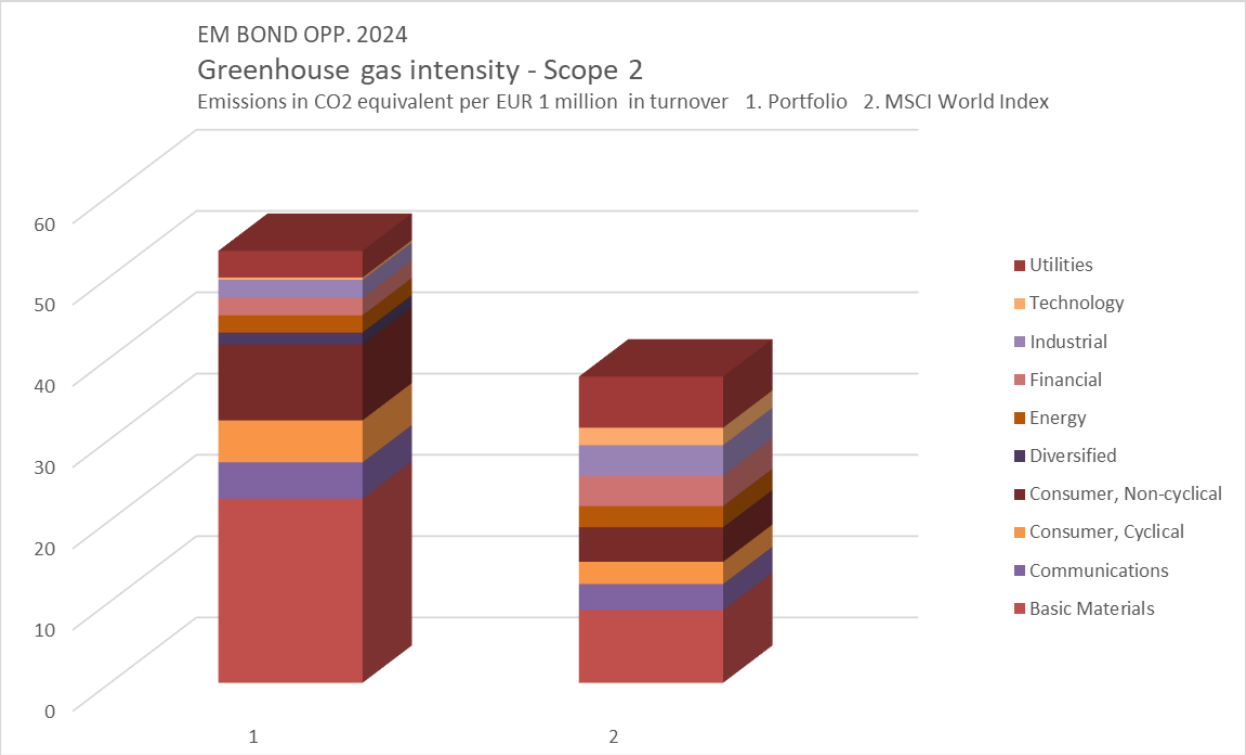
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials


EM BOND OPP. 2024
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
60
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Utilities
Technology
Industrial
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Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

8. Diversified Bond Opp. 2025

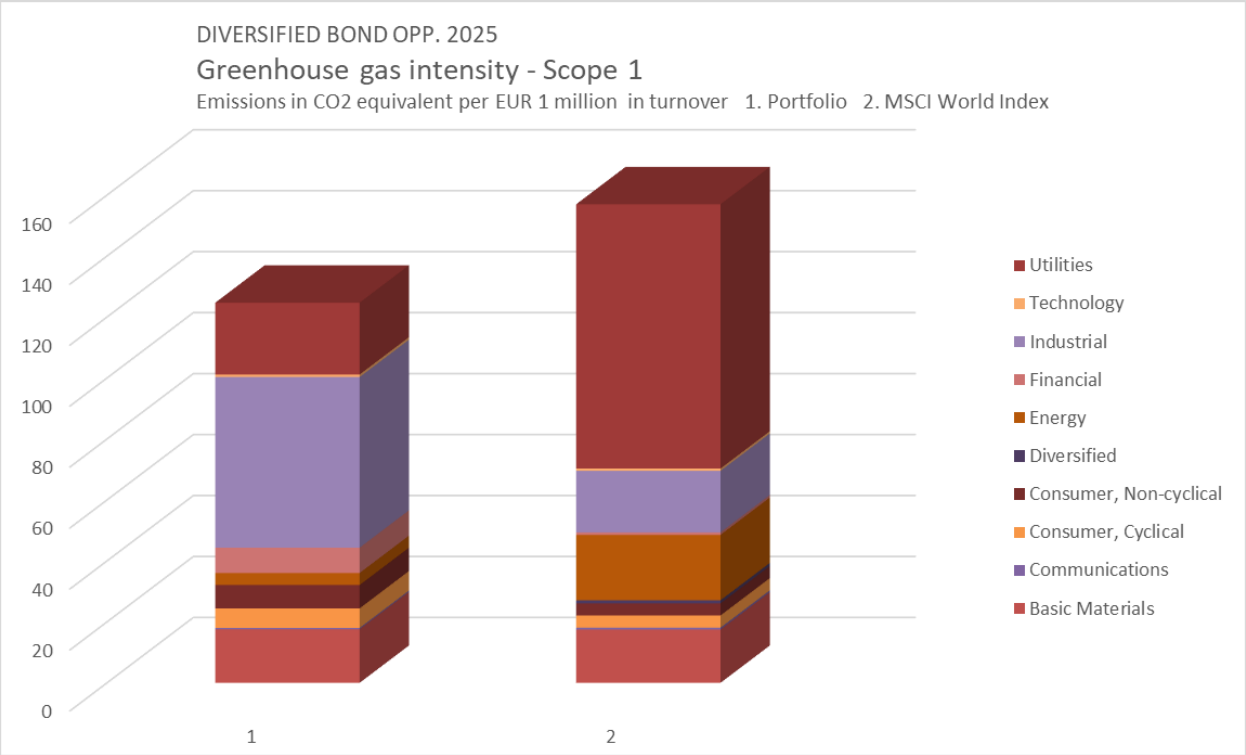
Greenhouse gas intensity of the portfolio

in tonnes of CO_2 equivalent per EUR 1 million in turnover

and divergence from the average intensity of the MSCI World index representing developed markets

Scope 1	125	**21% lower**
Scope 2	34	**10% lower**

		Contribution to portfolio intensity			
		Scope 1		Scope 2	
Sector	**Allocation**	in t CO_2e	in %	in t CO_2e	in %
Basic materials	4.3%	17.6	14.1%	6.1	17.8%
Communications	15.3%	0.5	0.4%	3.4	10.1%
Consumer cyclicals	20.3%	6.4	5.1%	4.3	12.7%
Consumer non-cyclicals	34.8%	7.7	6.1%	6.3	18.6%
Diversified	0.0%	0.0	0.0%	0.0	0.0%
Energy	1.9%	3.9	3.2%	0.2	0.5%
Financials	2.7%	8.3	6.7%	1.6	4.6%
Industrials	11.9%	56.0	44.9%	10.4	30.4%
Technology	3.3%	0.8	0.7%	1.1	3.3%
Infrastructure	1.3%	23.6	18.9%	0.7	2.0%
TOTAL	**95.6%**	**124.7**	**100%**	**34.1**	**100%**


DIVERSIFIED BOND OPP. 2025
Greenhouse gas intensity - Scope 1
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
160
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Utilities
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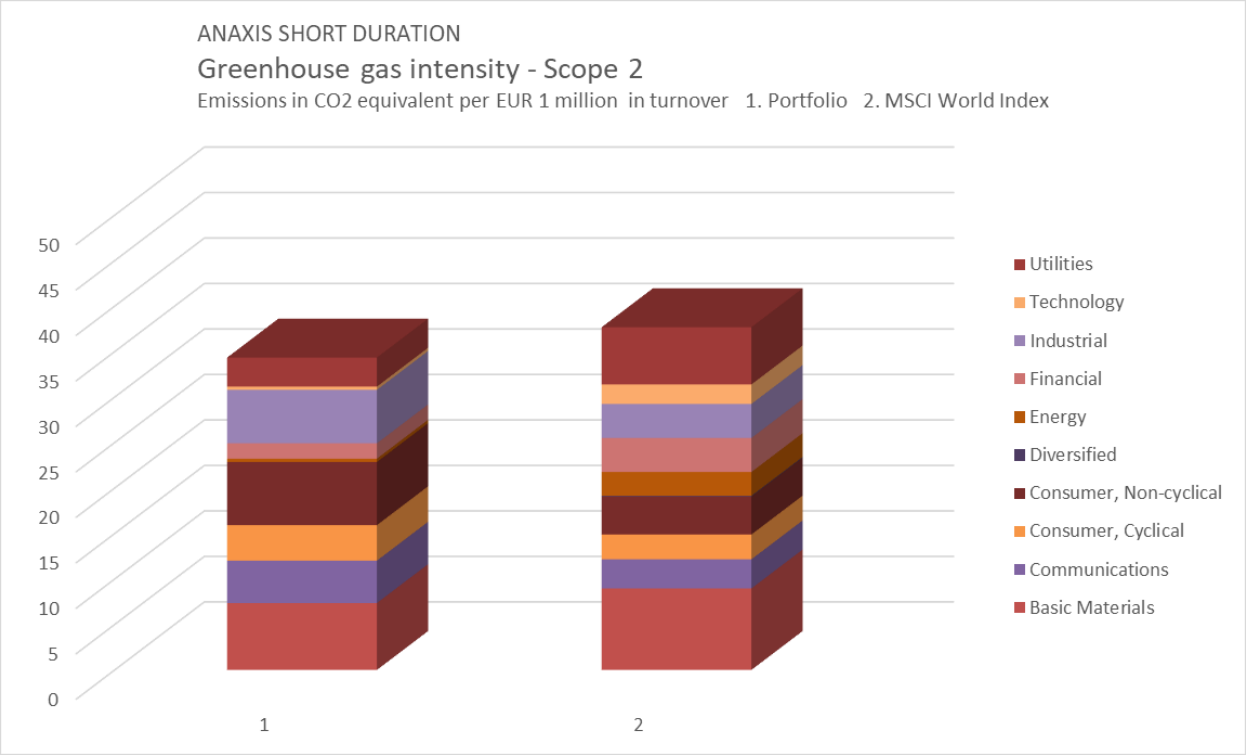
Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials


ANAXIS SHORT DURATION
Greenhouse gas intensity - Scope 2
Emissions in CO2 equivalent per EUR 1 million in turnover 1. Portfolio 2. MSCI World Index
50
45
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Utilities
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Industrial
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Energy
Diversified
Consumer, Non-cyclical
Consumer, Cyclical
Communications
Basic Materials

9. Trajectory

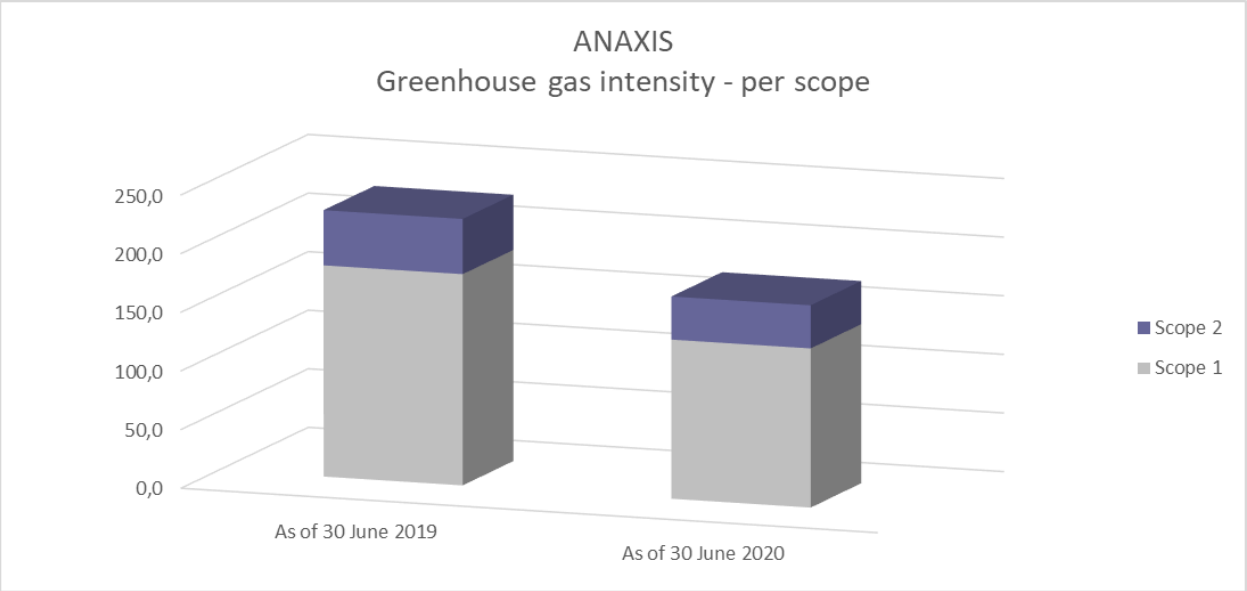
The management policy adopted by Anaxis has allowed us to significantly reduce the greenhouse gas emissions linked to the portfolio's bond investments. Deciding to exclude particularly polluting business sectors took us much of the way towards this goal.

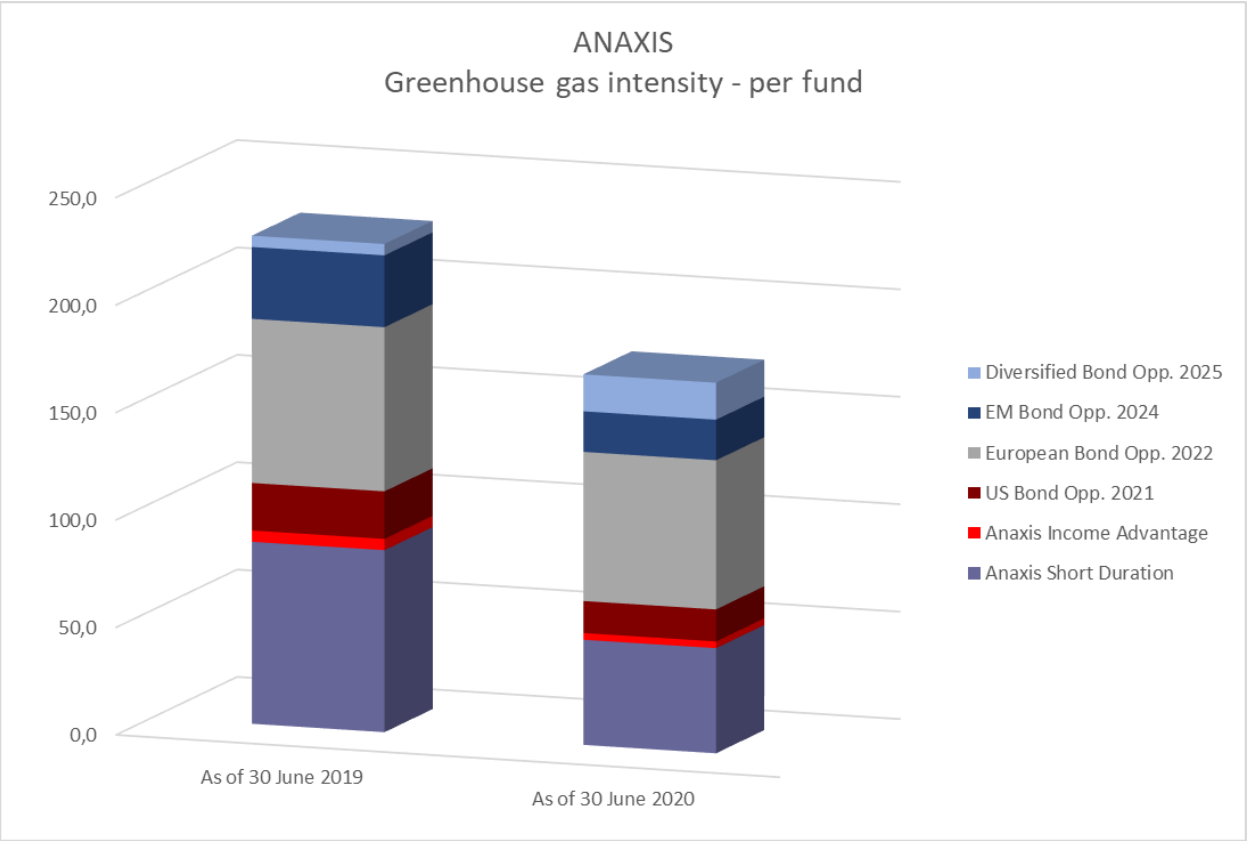
The table below offers a product-by-product summary of the divergence between the CO_2 intensity (scopes 1 & 2) of the activities financed by Anaxis and the carbon intensity of the stock market economies of major developed countries.

We have also indicated the variation in the intensity of these direct emissions over a 12-month period. Viewed collectively, and weighted as per their AUM, the estimated CO_2 intensity of the bond funds managed by Anaxis has fallen significantly in the past year, having dropped from 227.5 to 172.4 t CO_2e/€m. This corresponds to a decrease in carbon intensity of 24%.

	Divergence from the MSCI World (scope 1 & 2)	Variation in portfolio intensity compared with 2018
Anaxis Short Duration	-16%	-45%
Anaxis Income Advantage	-21%	+7%
US Bond Opp. 2021	-40%	-16%
European Bond Opp. 2022	-4%	-3%
EM Bond Opp. 2024[4]	+29%	-31%
Diversified Bond Opp. 2025	-18%	+6%

[4] The investment horizon (initially 31/12/2020) and certain management parameters were amended in March 2020.


ANAXIS
Greenhouse gas intensity - per scope
250,0
200,0
150,0
100,0
50,0
0,0
As of 30 June 2019
As of 30 June 2020
Scope 2
Scope 1


ANAXIS
Greenhouse gas intensity - per fund
250,0
200,0
150,0
100,0
50,0
0,0
As of 30 June 2019
As of 30 June 2020
Diversified Bond Opp. 2025
EM Bond Opp. 2024
European Bond Opp. 2022
US Bond Opp. 2021
Anaxis Income Advantage
Anaxis Short Duration

10. Commitments

Anaxis is committed to the process of reducing the carbon intensity of its portfolios, in line with the spirit of the Paris Agreement. Specifically, Anaxis supports the work of the Institutional Investors Group on Climate Change (IIGCC), including its initiative aimed at ensuring that investment portfolios are carbon neutral by 2050 (Paris Aligned Investment Initiative).

This horizon is considerably longer than those of our investors, so we have set ourselves a trajectory that entails reducing the carbon intensity of our bond portfolios by 7.5% per year between 2018 and 2028. This figure is in line with the IPCC recommendations referred to in the introduction.

To achieve these goals and successfully transition to a carbon-neutral economy as regards greenhouse gases (zero net emissions), companies must build a carbon strategy into their development plan and be in a position to demonstrate their progress by publishing precise figures. That's why Anaxis is a member of the Task Force on Climate-related Financial Disclosures (TFCD) and a supporter of the Carbon Disclosure Project. Our aim is to take collective action to ensure that companies release specific and transparent data on climate-related issues.

Reducing greenhouse gas emissions is a core aspect of Anaxis' responsible investment strategy. We also aim to contribute to the fight against pollution and in favour of preserving ecosystems and improving the health of human populations. Lastly, Anaxis is a signatory to the United Nations Principles for Responsible Investment and is committed to taking into account all essential ethical questions related to its asset management activities.

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