Group La Française

Website: www.la-francaise.com

STEWARDSHIP REPORT 2023

LA FRANÇAISE

INVESTING TOGETHER

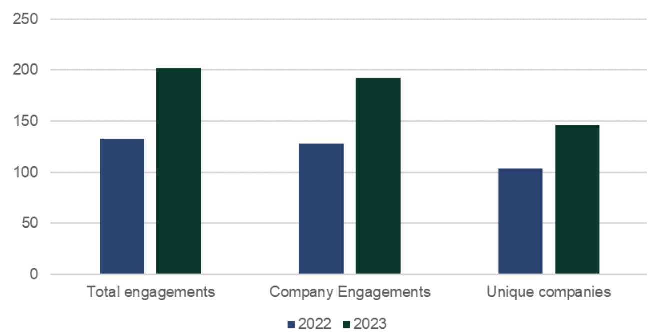
Introduction

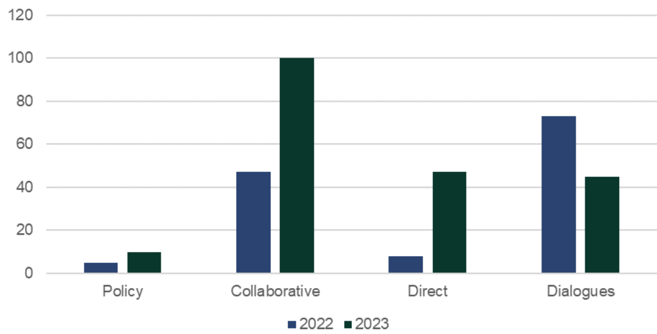
The preamble to the PRI (Principles of Responsible Investment) starts with - as institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. As a sustainability-focused asset manager and a partner to our clients and to our investee companies, we strive to be active owners – stewards – to the long-term goal of creating a resilient, sustainable future for ourselves and for others.

Active ownership or Stewardship is built on the foundations of a) active management and b) responsible investing. It explicitly prioritises the seeking of sustainable outcomes from our holdings over process and activity; and shared economic, societal, and environmental goals and effort over narrow financial interests. Stewardship is one of the key pillars of our sustainable investment approach at Groupe La Française. We believe that it is our responsibility to act as partners of our investee companies to induce change and have a positive impact on the society and on our portfolios, both financially and otherwise.

Our Sustainable Investment Research (SIR) team is at the heart of this approach and is responsible for implementing our active ownership principles through voting, engagements, controversy monitoring and exclusions. It has been a busy year as we have increased our stewardship capacity in line with our strategic focus on active ownership and the increasing interest from our stakeholders.

During 2023, we had **202 engagements including around 190 company engagements and dialogues**, with **146 unique companies,** spread across all geographies, sectors and themes. This is up around 1.5 times on all fronts. We also supported, co-signed, and engaged on around 10 policy level engagements, on plastics, water, labour rights, board independence and a suite of other topics.





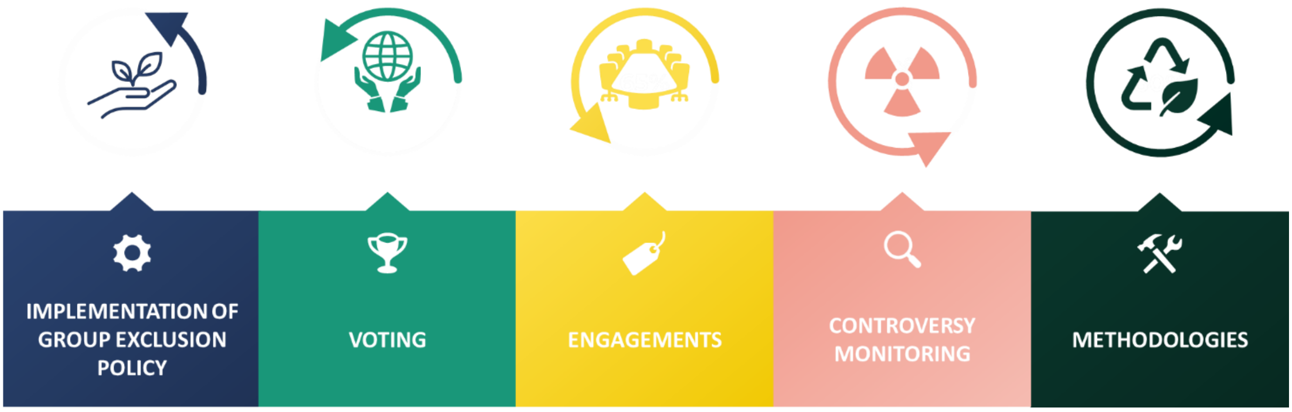
On voting front, we strengthened our presence as an active owner, through heightened involvement of our SIR team in voting recommendation especially for our top holdings and on Say-on-Climate resolutions. We continue to drive our stewardship portfolio towards an increasingly aligned philosophy on all fronts, powered by the Stewardship Committee.

Stewardship Committee

All stewardship activities of La Française Asset Management (LFAM) and La Française Systematic Asset Management (LFSAM) are placed under the control of a Stewardship Committee. The Committee was created by decision of the Sustainable Investment Executive Committee in June 2021. It is a cross-functional information and decision-making body for the group's framework policies and methodological choices and covers the LFAM and LF SAM management companies.

The Committee meets at least every quarter with representatives across the business – ESG Analysts, Portfolio Managers, CIO, Internal Control, and SI data teams. Any pending matters are resolved through ad-hoc calls and email exchanges between the quarterly meetings. The meetings are chaired by the Head of Stewardship and overseen by our Group Head of Sustainability, Head of Sustainable Investments, and our Chief Investment Officer. All decisions are taken as a consensus, and in case of disagreement, the permanent members (as listed above) have a veto power. In 2023, the Committee met 5 times.

The Stewardship Committee oversees all decisions, policy developments and activities related to the following five categories of the listed assets business.

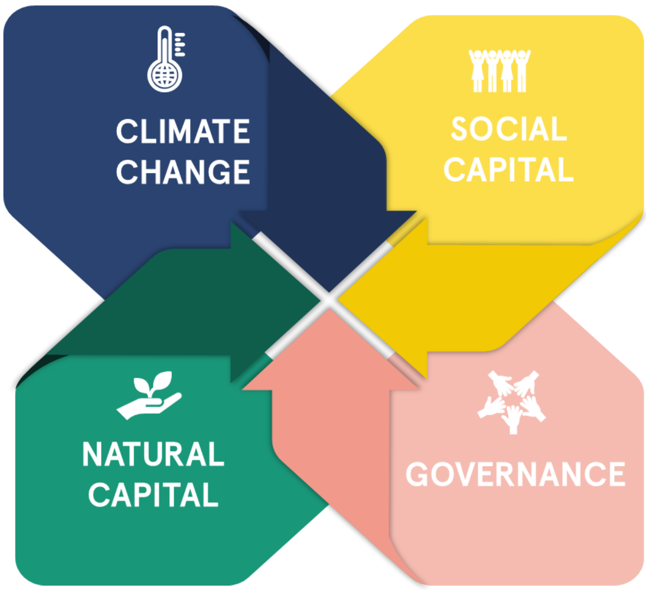


The financial sector faces increasing scrutiny about how it addresses climate change, nature loss and global societal challenges. Our Group Exclusion Policy[1] sets clear red lines and send a strong message to companies on what we consider unsustainable activities, but we also rely on our other stewardship tools (voting and engagements) to push investee companies to address key ESG risks and implement best practice. In this report, we cover three parts of our Stewardship perimeter - activities related to Voting, Engagements and Controversy Monitoring through 2023.

[1] https://www.la-francaise.com/fileadmin/docs/Actualites_reglementaires/XX3630_-_Politique_d_exclusions-EN.pdf

Thematic Approach

A thematic approach to all our Stewardship activities ensures alignment and focusses our efforts on issues most material to our portfolios and our sustainable investment priorities. All our Stewardship activities (as covered by the Stewardship Committee) are organized under four thematic pillars as described below - Climate Change, Natural Capital, Social Capital, and Governance.



2023 was a pivotal year for us as we focussed our stewardship activities on these pillars. We directed our efforts towards mitigating environmental impact and promoting resilience in the face of climate challenges. Simultaneously, our attention turned to the preservation and enhancement of Natural Capital, recognizing the intrinsic value of biodiversity and ecosystems. We remained deeply committed to nurturing Social Capital, acknowledging the profound significance of inclusive communities and equitable opportunities. Our steadfast commitment to Governance underscored our dedication to transparency, accountability, and ethical leadership.

We have also contributed extensively to these themes displaying thought leadership through our research publications, opinion pieces, press articles, webinars and conferences that covered many different topics. Most of these can be found on the Publications page of our website.[2]

The following pages provide insights into how our stewardship strategy and activities have and continue to align with our thematic priorities.

[2] https://www.la-francaise.com/en/who-we-are/our-expertise/sustainable-investment/sustainable-documentation/

Climate Change

2023 was a year of headlines on Climate Change – and not encouraging ones. The year etched its name in record books as the first-year global warming surpassed the critical threshold of a 1.5°C temperature increase over 12 months since pre-industrial times, making it the hottest year on record since 1850[3]. In addition, the Intergovernmental Panel on Climate Change (IPCC) finalised the Synthesis Report for the 6th Assessment Report, underscoring once more that the likelihood of abrupt and irreversible changes increases with higher global warming levels. It also wasn't carbon credits' finest year, with the publication of the now-infamous report revealing that 90% of rainforest carbon offsets by the biggest certifier were worthless[4]. Lastly, the outcome of the highly anticipated UN climate change conference COP28, held in November in Dubai, was a mix of disappointment and modest progress (*read our paper on the matter here*).

In the aftermath of these news, the role of financial institutions has never been more crucial. The influence of the finance industry over global capital allocation provides it with a unique opportunity to accelerate the transition towards a low-carbon economy. Acknowledge this imperative, we have more than ever scaled up our stewardship initiatives to steer our portfolios in line with our decarbonisation ambitions. Indeed, we engaged with ***c.50*** companies on this topic directly and collaboratively, voted on ***12*** Say on Climate (either management- or shareholder-led) resolutions, all of this alongside the continuous implementation of our Group Exclusion Policy[5].

Our current Group Exclusion policy has special emphasis on the climate front, prohibiting us at Group level from investing in mining groups which derive more than 20% of their income from coal and in electric utilities which derive more than 20% of their revenue or production from coal. We do not invest in any companies with plans to open new mines of coal-fired plants. In line with this, we are also committed to implementing a complete phase-out of our exposure to coal by 2030 for EU and OECD companies and by 2040 for emerging countries. Our Exclusion Policy is even more stringent with regard to our Carbon Impact fund range, for which the turnover and energy production thresholds drop to 10%. Across these funds, we are committed to a full coal exposure withdrawal by 2025.

Our Net Zero by 2050 approach is embedded in our Net Zero Asset Manager Initiative (NZAMi) commitment, which is reviewed on an annual basis[6]. It currently covers 81% of LFAM assets (open-ended funds) and follows the CDP-WWF methodology. Companies which do not disclose sufficient

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[3] Climate change indicators reached record levels in 2023: WMO
[4] Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows | Carbon offsetting | The Guardian
[5] XX3630_-_Politique_d_exclusions-EN.pdf (la-Française.com)
[6] Signatories – The Net Zero Asset Managers initiative

information about their climate ambition are currently assigned a 3.2°C default temperature and our commitment encompasses a financed scopes 1+2 and a financed scopes 1+2+3 target.

In 2024, La Française Group will ramp up its engagements with companies on climate issues, championing sustainability strategies. We're committed to advocating for impactful public policies, particularly through collaboration with the Institutional Investors Group on Climate Change (IIGCC). Furthermore, we'll meticulously refine our voting strategies, aligning them with even greater precision to advance climate stewardship.

Natural Capital

When it comes to our approach on Natural Capital, LFAM acknowledges the interconnectedness of Nature and Climate and all our analysis, voting and engagement efforts take environment-as-a-whole approach. Nevertheless, over the last 2 years, there have been significant developments in the market and at our firm on nature and biodiversity topics. End of 2022 saw the adoption of the Kunming-Montreal Global Biodiversity Framework and in September 2023, TNFD released its first set of recommendations[7] for financial institutions and companies on how to address the nature crisis. In December 2023, LFAM had released its first Natural Capital publication consolidating our first works on the theme. The paper can be found on our website[8]. We incorporate circular economy, water, ecosystem services and species biodiversity under one umbrella of Natural Capital.

During 2023, we were involved in multiple collaborative engagements on the theme. Prior to the final publication, LFAM provided feedback on the beta frameworks of the TNFD recommendations twice on version 0.3 and 0.4 as a part of a sub-group of investors within the Impact Assessment Working Group of the Finance for Biodiversity foundation. We participated in multiple policy level engagements on plastics (we became an Advisory member to the Policy Working Group of the Business Coalition for Global Plastics Treaty[9]), committed to Nature Action 100 (NA100) as the first group of investors sending letters to 100 target companies and engaged with several companies in the food and consumer industry on plastics & packaging in an engagement initiative led by VBDO. In terms of voting, 2023 was the first year we decided to vote against all companies with a critical materiality status on Water and Forests according to CDP's analysis yet did not respond to the CDP questionnaire on the two topics.

During 2024, we will continue our efforts on this theme. We have started our focussed engagements with NA100 on 3 companies, will continue our work on waste in the animal protein industry with FAIRR (check our last engagement report), and reevaluate our focus on companies

[7] https://tnfd.global/recommendations-of-the-tnfd/
[8] https://www.la-francaise.com/en/who-we-are/news/detail/natural-capital-publication/
[9] https://www.businessforplasticstreaty.org/

with VBDO[10]. On a system level, we will continue to provide valuable inputs to moving the market to a nature positive future through our existing partnerships and new. In February this year, we have joined the Technical Advisory Group for Nature Action 100. We are also exploring to extend our nature and biodiversity considerations to stricter and more comprehensive voting criteria and/or implementing some KPIs on nature/biodiversity related issues in our exclusion policies. We will update publicly on these in due course.

Social Capital

Social sustainability is a critical pillar for global economic growth and achieving sustainable development but faces mounting pressures that could hinder progress in addressing shared challenges like biodiversity loss and climate change. Throughout 2023, we expanded our approach on social capital to address common social challenges like diversity & inclusion, human rights, workforce, and public health, navigating a year marked by significant controversies on labour rights and other workforce and social issues globally.

During 2023, we aimed to promote sustainable practices on various social issues through dialogues, collaborative and direct engagements and influenced public policy developments on human rights and human capital issues with IAHR (Investor Alliance for Human Rights), FIR (Forum pour l'Investissement Responsable), WDI (Workforce Disclosure Initiative) and others. We championed inclusivity in the workplace through initiatives like the 30% Investors Club and reflected our commitment through informed voting decisions. Our custom policy votes against male directors (except CEO) if the Board has less than 40% women. We were also supporters of an investor-led coalition focusing on managing mental health implications on consumers with technology companies. We actively participated in ShareAction-led Long-term Investors in People's Health (LIPH) initiative aimed at improving public health through engagements with foods manufacturers and retailers. We have been active member in PRI Advance, leading on 1 and supporting 2 company engagements on human rights issues in the renewable and mining supply chain. We touched upon several topic this year including Indigenous peoples' rights and diversity & inclusion in supply chain.

In 2024, we are continuing our work on the social capital pillar through our collaborative and direct engagements. We have joined the Labor Rights Investor Network[11] to better understand and contribute to the development of investors' understanding of common labour rights issues, developments, regulations, and controversies along with collaboratively push the needle. We have also increased the scope of our involvement at PRI Advance and 30% Investor Club by joining various working groups. With LIPH, after a year of intense yet unsatisfactory management meetings with

[10] https://www.vbdo.nl/en/
[11] https://www.workerscapital.org/labour-rights-investor-network/

Nestle on their healthier products portfolio targets, we have co-filed a shareholder resolution during their 2024 AGM. Our aim is to push the company management to set quantitative targets on growing the healthier part of their portfolio as a percentage, to skew their offerings towards the healthier side. We will also continue our engagement campaign with WDI and our company engagements with 30% Investor Club and PRI Advance.

Governance

Corporate Governance not only plays a crucial role in the companies' financial stability, but also in facilitating the effective integration of sustainability factors. This is well illustrated by several initiatives covering the three themes previously mentioned (e.g., TCFD for climate, TNFD for nature, OECD Due Diligence Guidance for Responsible Business Conduct for human capital) as they emphasize the importance for boards and management teams to oversee and drive the progress on those topics.

In 2023, Corporate Governance was largely addressed by sustainability reporting standards such as the Corporate Sustainability Reporting Directive (CSRD), and the International Financial Reporting Standards (IFRS) S1[12] and S2[13] requiring increased transparency related to entities' Corporate Governance practices. During the year, the UK also launched a review process of its Corporate Governance Code, and the OECD updated G20/OECD Principles of Corporate Governance to optimize guidance and best practices regarding company oversight, ethical behaviour, and responsible decision-making. To reinforce Corporate Governance at our investee level, we used several tools such as proxy voting, direct engagement, or collaborative engagement. Indeed, in our Voting policy, we have explicit voting guidelines covering topics such as board member independence, board member diversity, attendance, or remuneration.

Part of our engagement efforts on governance with companies has been focussed on getting them to improve on disclosures on topics that we care about – e.g. we have been participating in the CDP Non-disclosure campaign and the SBTi campaign (asking companies to have a science-based target on climate) for the past several years. We are also actively participating to the 30% Club's actions to enhance diversity at board and management level. This year we also collaborated with another investor on the issue of independence on Japanese boards, sending a letter to the regulators to take action. On other fronts, we worked with organisations like FIR, Finance for Biodiversity Foundation and IIGCC to influence and change market practices through public policy engagements and contributing to practitioners' guides.

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[12] ISSB-2023-A – Issued IFRS Standards
[13] ISSB-2023-A – Issued IFRS Standards

Bond issuers and Private companies

Bond investors are becoming increasingly aware of the links between ESG performance and investment returns, and how engagements can reduce risks and help capture opportunities. At LFAM, we have recognized this from the very beginning, with our first climate-change themed corporate credit fund being launched in 2019. Over the last 5 years, we have engaged with our holding companies in both our equity and credit portfolios equally.

Carbon-intensive business models, labour disputes and fraud can impact the credit risk of issuers through the issuers' cash flows, operating costs, leverage, regulatory oversight and/or reputation. While a default is usually a worst-case scenario, we also engage:

- to gain better issuer disclosure relating to ESG factors
- to influence how an issuer addresses specific ESG risks or value creation opportunities
- to maximize the positive ESG outcomes from our investments

During 2023, with IIGCC, we joined the Bondholder Stewardship Working Group, contributing to a guide for bondholders to effectively engage with companies in their bond portfolios. The guide has been published[14] and will be updated during 2024, with feedback and more details on toolkit – we discuss this in the section on 'Industry Associations' in this document.

The above factors are even more important in the case of High Yield, Emerging Markets and Private company issuers, where disclosures are scarce, and culture/regulations are inadequate to address best practices. Dialogues and direct engagements have proven particularly helpful for us to fill these gaps. In 2023, we engaged (directly or collaboratively) with 26 companies which are either High Yield issuers, Private or from Emerging Markets. 12 of these are Unlisted/Private, and 10 from Emerging markets in Asia and Europe. More than 20% (10 out of 47) of all our direct company engagements through letters in 2023 were targeted at these issuers. We also supported (named as investor signatory) an engagement campaign by the WDI (Workforce Disclosure Initiative) sending letters to 300 Indian companies, asking them to report to WDI questionnaire.

In 2024, we aim to expand our activities through more collaborative engagements, and through direct engagement letters and dialogues with Private/High Yield companies in our portfolios. We have also joined CDP on its Green Finance Accelerator program[15], through which we intend to target private and high yield issuers in our portfolios to ask them to disclose on key SFDR/Taxonomy KPIs during 2024.

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[14] https://www.iigcc.org/resources/net-zero-bondholder-stewardship-guidance
[15] https://cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/149/original/CDP_Green_Finance_Accelerator_Factsheet.pdf

Voting

As equity shareholders, we recognize the profound impact that effective proxy voting can have on the long-term performance and sustainability outcomes of companies in which we invest. Since 2017, LFAM has implemented a specific voting policy[16], aligned with its sustainability-related commitments. Updated annually, the policy was last revised at the end of 2023. For the 2023 voting season, it addressed 5 subjects applicable :

Climate	Vote against the approval of company accounts if the company: - Does not respond to the CDP questionnaire on Climate Change, Water and Forests where the sector has critical materiality to the relevant topic - Does not commit to implementing a Science-based emissions reduction target SBTi (excluding oil & gas sector) - is in carbon-intensive sectors and do not submit 'say on climate' resolutions
Diversity	Vote against the election or re-election of male members of the Board of Directors if, following this vote, the Board does not have at least 40% female representation
Independence of the Board of Directors	Vote against the election of non-independent members to various committees if: - The audit committee is not composed of 100% independent members - The remuneration committee is not composed of at least 50% independent members - The nomination committee is not composed of at least 50% independent members
Management of Board of Directors mandates	- Vote against the election or re-election of members holding more than 4 mandates after re-election - Vote against the re-election of members if the attendance rate at Board meetings is less than 75%
Remuneration	Vote against the report or remuneration policy if: - There is no clear and transparent policy regarding CEO shareholding - Variable remuneration does not include performance indicators related to environmental, social, or governance factors - The 'pay ratio', the ratio between the highest and median salary, is not disclosed by the company

These elements of voting are aligned with our thematic pillars as they address key aspects of each: climate change mitigation under the climate change pillar and the promotion of diversity and inclusivity under the human capital pillar, and governance under remuneration, mandates, and independence sections. While the Natural Capital pillar is not directly addressed by these specific voting elements (because of the lack of available data at this stage), we aim to fill this gap with our controversy monitoring and engagements.

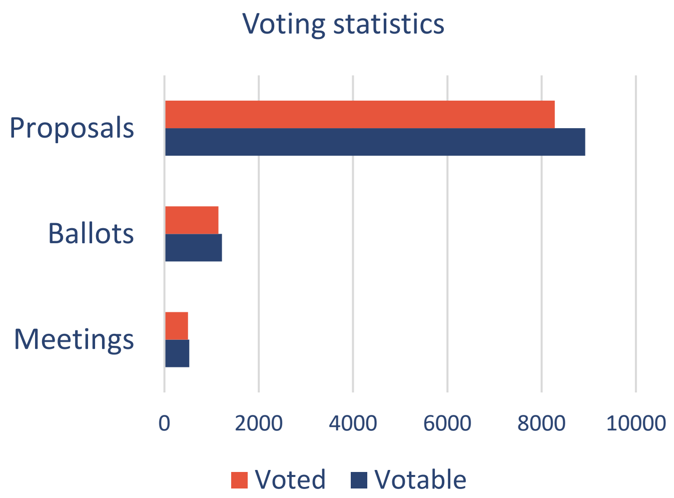
[16] **https://www.la-francaise.com/fileadmin/docs/Actualites_reglementaires/EN/Voting_Policy_EN.pdf**

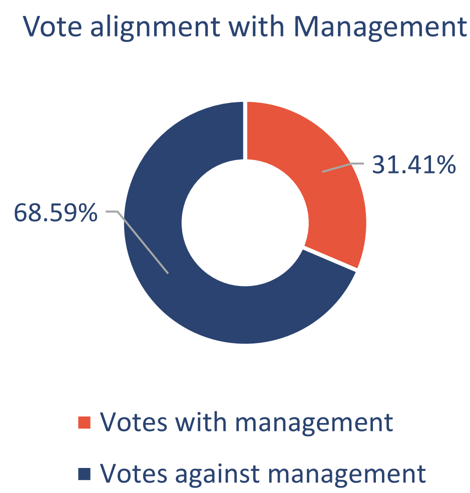
Voting Update 2023

During 2023, LFAM participated in 95.3% of General Meetings and voting on 93.8% of resolutions. Some highlights and trends in our approach to various resolutions are listed below:

- 31.4% of resolutions were voted against management recommendations, a slight increase from 2022 – among shareholder resolutions, this percentage rose to 55%.
- La Française opposed management recommendations in 62% of cases concerning director re-election: 16% on capital operations, 15% on remuneration, and 0.2% on environmental matters.
- Shareholder resolutions opposed were mainly focused on social issues (over 40%), environmental resolutions (26%), director election/re-election (18%), and remuneration (6%).
- LFAM also voted for 12 Say on Climate resolutions in 2023. The sectors of the companies varied with companies from the food industry, the oil and gas or the financial sectors.
- LFAM opposed 50% of management-led Say-On-Climate resolutions, motivated by a perceived lack of corporate ambition and/or consistency. We voted in favor of the two shareholder-led climate resolutions the discussions of which we were involved in.

Further details are available in our Voting Report 2023. [17]





[17] https://www.la-francaise.com/en/regulatory-information/exercise-of-the-voting-rights/

Top 10

Throughout 2023, we exercised our voting rights across a diverse portfolio of companies, guided by our custom voting policy. Our voting efforts have been directed towards aligning company actions while addressing critical environmental, social, and governance issues. We undertook a comprehensive approach to exercising our voting rights across a diverse portfolio of companies.

In 2023, we introduced a new practice of thoroughly examining the AGM proposals of our Top 10 equity positions across all portfolios. This proactive approach has empowered us to effectively align our proxy voting recommendations with our wider ESG assessment of companies.

While our proxy voting provider applies our voting policy during annual general meetings, it's essential for asset managers to conduct closer examination of these resolutions. By delving deeper into the details of AGM resolutions, we gain a better understanding of their implications, risks, and alignment with our client objectives. This closer analysis also enables the asset manager to engage directly with company stakeholder, actively influence corporate behaviour, and mitigate potential risks, ultimately enhancing the quality of its stewardship and investment management practices.

Among the 10 AGMs' resolutions that underwent analysis, LVMH's AGM agenda was an interesting one. In total, the company had 30 proposals that we could vote on, and we followed ISS recommendations on all except one – Item 28. We wanted to authorize up to 1% of issued capital for use in stock option plans, contrary to ISS recommendation, as we consider this use of capital not related to the opposition of the limited independence on the Board, and its related influence on the executive remuneration. The use of issued capital for stock option plans is used not only for the executive board, but across the company management.

We also paid special attention to shareholder proposals that were put forward on these top names and used our own analysis to vote for or against these. In the case of Apple, for example, we supported the shareholder proposal for greater transparency on their involvement in China, not because of political considerations between US and China, but because the technology value chain can be traced back to human rights abuses in certain regions in the country, and as socially responsible investors, we would be interested to learn more about the companies' activities in the region and their efforts to mitigate associated risks.

In 2024, we are poised to build upon the foundation laid in 2023, expanding our efforts to encompass voting rights across 25 companies. Our commitment to responsible investing remains steadfast as we continue to navigate the complex landscape of corporate governance, guided by our unwavering dedication to ESG principles.

Say on Climate

In recent years, a growing number of companies have submitted their climate transition plans on the AGM agenda as a management resolution, commonly known as the Say-on-Climate resolution. At LFAM, we pay special attention to this type of resolution. We believe it is vital that corporate climate targets be based on science and use our internal assessment of climate strategy based on TCFD recommendations to power our voting decision. As the scientific consensus on this subject change rapidly, it is important that these climate objectives can change accordingly. We, therefore, believe that an annual vote on these resolutions should be put forward, ensuring the possibility of regular exchanges between the company and its shareholders in line with latest developments. We have been co-signing an annual letter (for 2022 and 2023) by FIR asking all French companies to have an annual management Say-on-Climate resolution on their agenda.

We analyse a management Say on Climate resolution on two criteria:

- One on the company's climate strategy and as it is relevant for its sector; and
- the implementation of this strategy and whether we identify any material roadblocks.

During 2023, we voted on 12 Say-on-Climate resolutions, voting for 6 and against 6. An example of a Say-on-Climate resolution we supported in 2023 was that of **Schneider Electric's**. The company sought shareholder advisory approval for its climate transition action plan as described in the 2022 URD (universal registration document). Among other items, the firm's climate plan includes SBTi-approved targets for 2030 across all scopes of emissions (2021 baseline) and a commitment to reach Net Zero across its value chain by 2050, which implies a 90% reduction of absolute scope 1, 2 and 3 GHG emissions and offsetting residual emissions. It is particularly important to LFAM that Schneider Electric includes scope 3 emissions considerations in its commitment, as this represents over 99% of its carbon footprint. We were also satisfied with the detailed climate strategy *governance*, which is overseen by both the Board and the Human Resources & Corporate Social Responsibility Committee. LFAM was therefore satisfied by the comprehensiveness of Schneider Electric's proposed climate strategy, and we voted in favour of the strategy.

On the other hand, we voted against the say-on-climate proposal of **Westpac Banking Corp**. The vote was needed for the approval of its Climate Change Position Statement and Action Plan. While it seemed, that the firm used SBTi models to calibrate some of its targets, there was no public commitment to get an external verification to support the alignment of targets with science-based scenarios. The bank only provided high level statements on the alignment of its targets with science, and we found those to be somewhat inconsistent with its financings. In addition, while the bank covers key elements in its exclusion policy, it was still exposed to important lock-in risks: its financing of O&G expansion plans is ongoing and the bank justified this position by stating that it "will continue to provide corporate lending and bond facilitation where the customer has a credible transition plan in place by 30 September 2025", meaning it may keep financing O&G companies without any credible transition plan until then.

Looking Ahead

We have updated our voting policy for 2024, which has become more ambitious. The detailed policy can be found on our website <link> but we wanted to highlight a few elements here:

1) We have increased our scope for fundamental analysis of all resolutions from top 10 to top 25 holdings across all our equity portfolios, by exposure
2) Five of these names come from the Small and Mid-cap portfolio in which we hold a high portion of the company's market capitalization - we expect to have a better understanding and hence, impact on these names given our higher voting power.
3) We have increased the list of high-emitting sectors, from which we demand a management Say-on-climate resolution, to the following:
    - Oil & Gas
    - Electric Utilities
    - Automobiles manufacturers
    - Airlines
    - Shipping
    - Cement
    - Diversified Mining
    - Steel
    - Aluminium
    - Pulp and Paper

4) We have added a criterion on executive remuneration, wherein we vote against remuneration report if there is no ESG linked KPIs in the remuneration, as per ISS research.
5) Lastly, we have decided to vote against re-election of Board Members if their attendance of Board meetings for the last 12 months was below 75%

Engagement

Engagement is one of the most important tools of Stewardship at La Française. Through initiating dialogue with companies where we are invested, we can encourage improving ESG practices, sustainability outcomes or public disclosure. We prioritise engagement to alternative strategies – such as divestment – which can leave us with no stake and no potential to help drive responsible corporate practices. Having said that, our exclusion policy does address the most controversial sectors, like controversial weapons, tobacco, unconventional Oil & Gas, coal, etc. through group wide investment restrictions.

Engagement can be done individually or collaboratively. The latter typically involves several investors joining forces to carry our message and questions to one or more companies facing the same industry-specific challenges. We pursue these mostly through our industry associations and memberships with initiatives like Climate Action 100+, WDI, etc. or on an ad-hoc basis with other investors. Engagement can also be carried out to target non-issuer stakeholders, such as policy makers or standard setters to influence top-down change (Public Policy Engagements) and can influence system-wide changes on a sector, government, or supra-national level.

The below figure summarizes our collaborative engagements and industry associations by theme:

Engagement

We support collaborative actions extensively, while selectively using our capacity to enter individual dialogues with companies where we think our thorough analysis can have influence. In this respect, we pursue shareholder dialogues to fill our analytical gaps, while we also approach companies to achieve specific objectives through formalized letters to company management, followed up by calls, meetings, and other means of communications.

Process and key Steps:

We have defined four key steps for our engagement strategy to be successful:

- Select and prioritize engagements, as per our themes.
- Set objectives for our engagements.
- Conduct the engagement and report on outcomes.
- Escalate when appropriate if the engagement target does not deliver on the set objectives.

These steps are iterative in most cases and the SIR team will decide on the next steps as needed and depending on the outcomes of our interactions. As for timeline, we review all engagements annually with a target of documenting outcomes in 3 years, from the date of starting an engagement.

Escalation:

Setting up an escalation process is key to ensure the credibility of an engagement and is transparent to the issuers identified. Escalation will depend on each engagement, its specific objectives and timeline, keeping the following steps in mind:

- Collaborate with other investors, through our existing associations, or form new ones
- Reinforced dialogue – preferably with Board Level representatives
- Open letter/ Public post about engagement
- AGM voting, questions
- Co-filing of a resolution
- No further investment/underweighting
- Divestment with reinvestment hurdle

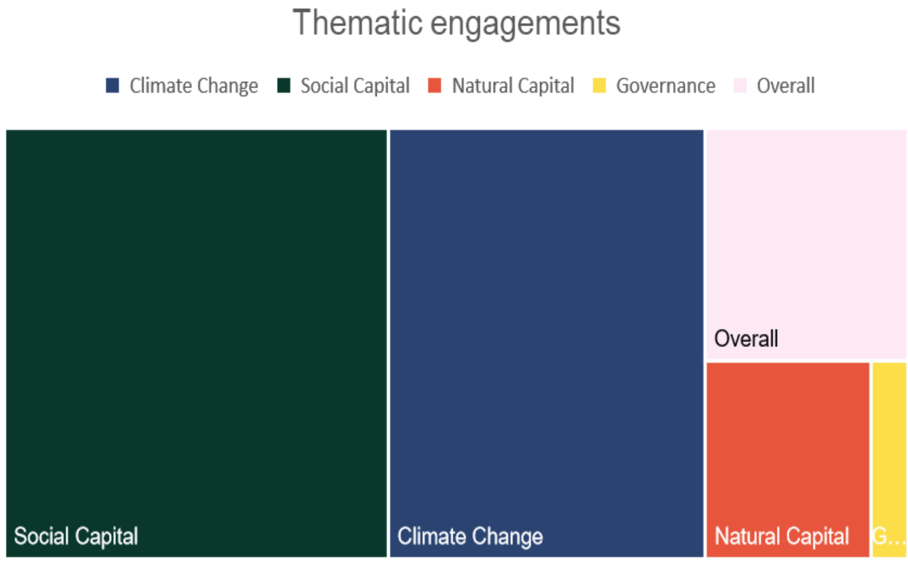
More details can be found in our engagement policy here[18].

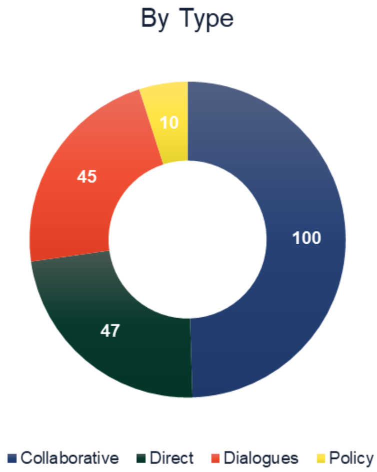
In the following sections, we highlight our Industry Associations, Public Policy engagements, collaborative and direct company engagements and dialogues.

[18] **https://www.la-francaise.com/fileadmin/docs/Actualites_reglementaires/EN/Engagement_Policy_EN.pdf**

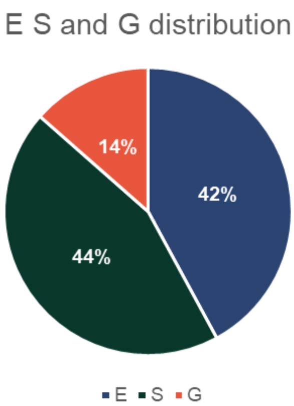
Engagement - Highlights 2023

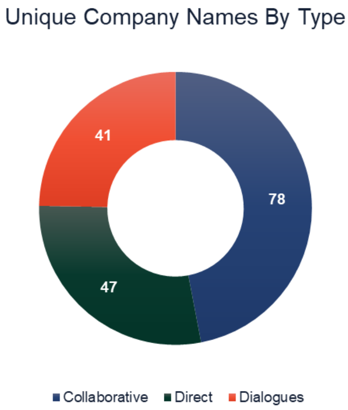
Overall Engagements – Policy, Company Engagements and Dialogues

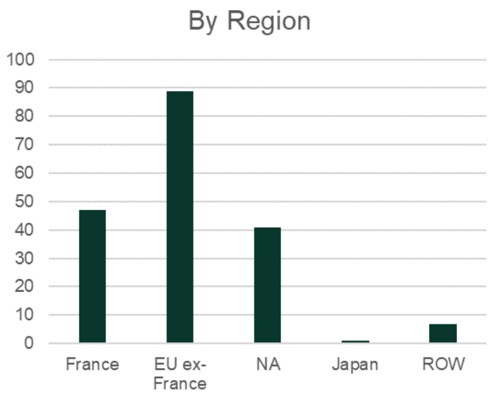




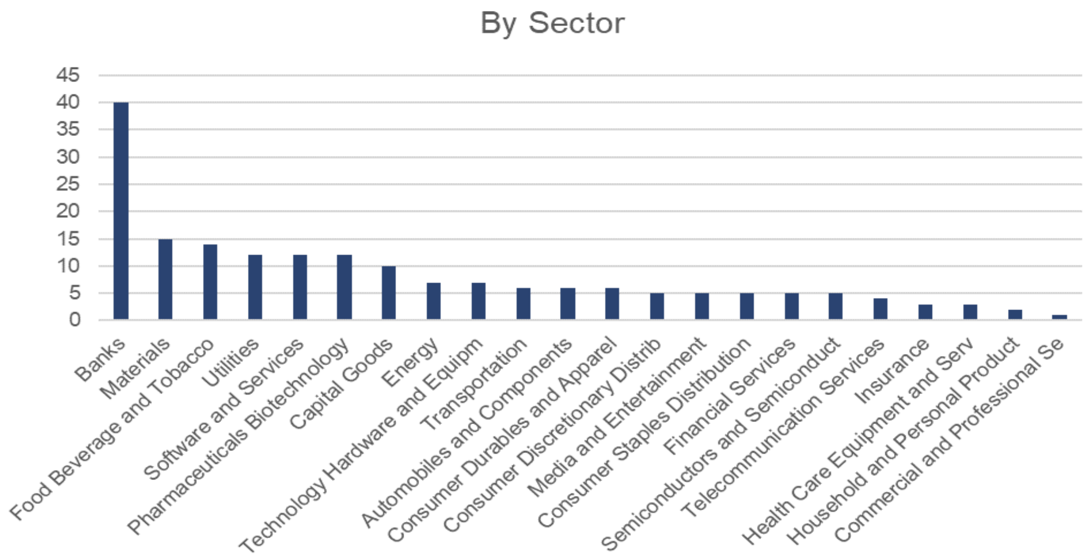
Company Engagements – Direct & Collaborative Engagements and Dialogues







Engagement - Highlights 2023



Company Engagements – Fund Level details

Fund	No. of companies engaged with	% by weight engaged with	**% by number engaged with**
La Française Green Tech Europe	10	29%	22%
La Française LUX - Inflection Point Carbon Impact Global	10	23%	19%
La Française LUX - Inflection Point Carbon Impact Euro	14	32%	30%
La Française Actions Euro Capital Humain	24	46%	46%
La Française Rendement Global 2028	7	7%	5%
La Française Credit Innovation	8	11%	7%
La Française Carbon Impact Floating Rates	39	19%	40%
La Française Carbon Impact 2026	51	29%	34%
La Française Obligations Carbon Impact	28	17%	21%
La Française Sub Debt	22	14%	16%
La Française Global Coco	35	20%	32%
Duguay Trouin	25	12%	37%
Conti Placements	12	17%	34%

Industry Associations

Industry associations can have significant influence on corporate and policy-level sustainability strategy and engagements. Their vast memberships span actors across industries and regions, and they offer in-depth understanding of industry-specific trends.

Over the years, LFAM and Groupe La Francaise have lent their support to industry initiatives from Forum pour l'Investissement Responsable (FIR) – French SIF, to UKSIF, Principles for Responsible Investment (PRI), CDP (ex-Carbon Disclosure Project), Finance for Biodiversity Foundation, and others. In 2023, we joined the Institutional Investors Group on Climate Change (IIGCC) to enhance our presence on climate initiatives.

Organisation	Year Joined	Principle Mission
FIR – French SIF	2007	Support the adoption of ESG in France
PRI	2010	Support the adoption of ESG criteria investment
CDP	2013	Need for common data and transparency
TCFD	2017	Support the adoption of TCFD recommendations
Green and Social Bond Principles	2017	Support the principles by investing in green and sustainability-linked bonds
UNEP FI	2017	Share experience of sustainable finance among leading asset managers
FFS – Italian SIF	2017	Support the adoption of ESG in Italy
AFG – Comité IR	2017	Reflect on Responsible Investment among the AM profession
UKSIF – British SIF	2020	Support the adoption of ESG in the UK
Finance for Biodiversity Foundation	2022	Exchange best practices on biodiversity-related frameworks and disclosures among financial institutions
TNFD Forum for France	2022	Support the development of the TNFD framework
IIGCC	2023	Investor coalition for accelerating work on engagement, policy, voting, etc. on climate change
Business Coalition for Plastics Treaty	2023	LFAM joined the coalition as an Advisor to the Policy Working Group
Global Commission on Mining	2023	LFAM is a "Commission Investor Supporter", meaning we will be consulted on Commission outcomes
WDI Advisory Group	2023	The Advisory Group recommends and takes an active role in designing the initiative's workflow and ambition
Labor Rights Investor Network	2023	Knowledge sharing between private sector – investors – and researchers/NGOs on labour rights issues
FIR – Groupe de Travail on Social Taxonomy	2023	LFAM has joined the working group, and we are active members of the three subgroups - communities, end users and employees
NA100 - Technical Advisory Group	2024	LFAM is an investor member of the TAG to contribute to the development of the NA100 strategy and allow investors to effectively engage with the companies

We highlight our work with two key organizations in the next pages – IIGCC and Finance for Biodiversity foundation.

IIGCC

In 2023, we joined IIGCC, one of the key organisations bringing the entire finance community together in the fight against Climate Change. During 2023, we joined two working groups with IIGCC – the Bondholder Stewardship Working Group and the Proxy Voting Advisory Working Group.

The Bondholder Stewardship Group is an investor coalition set up to provide guidance on practices for climate-related disclosure, stewardship and engagement, and new financing structures for corporate bonds. Comprising of 9 core member investors representing £2.66 (approx. 3.1€) trillion AUM and a mixture of asset owners and asset managers, this working group aims to support investors to use their influence as bondholders to meet their clients' and their own climate objectives by working with companies to address the risks and opportunities associated with climate change and facilitate the transition to net zero.

As a result, in June 2023 the IIGCC published the Net Zero Bondholder Stewardship Guidance[19]: this marks a major step towards seizing the opportunity for corporate bondholders to progress real-world emissions reductions. Specifically, the guidance provides:

- Six practical steps for bondholders via a Toolkit that covers debt-specific approaches to effective stewardship across the life of the bond and beyond.
- Guidance on stewardship across different forms of corporate debt, including investment grade, high yield, labelled bonds, private companies (issuing public bonds), securitized issuances and emerging markets.
- Guidance on stewardship across the debt ecosystem, including banks, credit ratings agencies, index providers, industry bodies and regulators.

In 2024, the working group will continue to improve the guidance with member feedback and contributions.

LFAM is also a member of the IIGCC's Proxy Advisor Working Group, the objective of which is to provide insights and feedback to IIGCC outputs as they relate to proxy stewardship. In 2023, the group sent its first public letter[20] to Institutional Shareholder Services (ISS) calling for it to provide clients with a specialty net zero policy and further integrate climate into its proxy voting recommendations on a more robust and consistent basis. It also marked the inclusion of climate-related director accountability and Climate Action 100+ (CA100+) integration into the benchmark policies of ISS and Glass Lewis. While there has unfortunately not been progress on a Net Zero Specialty Policy for 2024, the group's work had led to the publication of the IIGCC Net Zero Voting

[19] Net Zero Bondholder Stewardship Guidance (iigcc.org)
[20] Proxy Advisor 2023 Letter - For Sign On (1).pdf (hubspotusercontent-eu1.net)

Guidance[21]. It aims to support asset owners and asset managers in the development of their own net zero voting policies and practices, and outlines three core principles underpinning the concept of net zero voting:

- Voting aligns with the investor's own net zero objectives and targets;
- Voting communicates net zero expectations;
- Voting supports net zero stewardship, engagement, and investment approaches.

Members have encouraged the IIGCC to prioritise custom/specialty policies over benchmark improvements in 2024. The IIGCC will continue to monitor relevant regulation and will submit consultation responses where appropriate. Further engagement with proxy voting providers and NGOs (to understand research on voting) is expected.

In 2024, we also aim to join the Net Zero Engagement Initiative (NZEI), launched in 2023 by the IIGCC. This will allow La Française AM to build on and extend the reach of its engagement: indeed, the NZEI includes – among others – many companies that are heavy users of fossil fuels, contributing to demand for its products. The NZEI will offer us a platform that supports understanding of alignment and ongoing engagement with a wider list of companies, and one that can scale as the list of target companies grows.

Finance for Biodiversity Foundation

2023 was a busy year for us with Finance for Biodiversity foundation. We are currently active members of 3 working groups with the foundation – Impact Assessment, Target Setting and Engagement. During 2023, we contributed on several publications and public policy engagements.

Through the first 9 months of the year, we were members of the subgroup within the Impact Assessment Working Group that provided feedback to the beta versions of the TNFD framework, ahead of its first final release on 18th September 2023. Our feedback was one of over 2000 feedback received by TNFD, but we believe it was one of the few that represented the perspective of a wide group of financial institutions. We also led the subgroup with other asset owners, managers, and banks on 'Unlocking the Biodiversity-Climate Nexus'[22] which presents recommendations on how to deal with the biodiversity and climate nexus through case studies on most common topics that fall in the nexus. We discuss the key synergies and trade-offs that exist between biodiversity and climate solutions and provides financial institutions with both specific and high-level recommendations on how to deal with the nexus. The guide was released on 10th

[21] IIGCC publishes Net Zero Voting Guidance
[22] https://www.financeforbiodiversity.org/publications/unlocking-the-biodiversity-climate-nexus/

October 2023 ahead of the European Business and Nature Summit[23], which we attended and participated in.

We are also members of the Engagement Working Group since 2023. During the year, we joined a sub-group that is creating a series of “Sectoral Investor Engagement Briefs on Nature” for the financial sector. The purpose of this unique series is to support investors in their engagement practices with companies on nature-related issues, notably with a series of questions that can serve as a starting point to build relationships between investors and the companies that they are engaging with on nature. The guide will be released publicly later this year and covers 10 high-impact sectors and industries, identified by a multi-tool pilot analysis, done by the foundation during 2023.

With the Target Setting Working Group that was convened in late 2022, we are active members of the subgroup that has been working on Nature Target Setting Framework[24] for asset owners and asset managers. The conceptual framework aims to help and support financial institutions to start setting targets on nature, which is one of the five pledge commitments that financial institutions are required to adhere as part of the Foundation. The first beta version of the framework was released in November 2023, and proposes four types of nature targets for asset managers and asset owners - Initiation Targets to be achieved by 2026 (or earlier) and Sectoral, Engagement and Portfolio coverage targets to be achieved by 20230 (or earlier). Pledge signatories are recommended to set at least one of the above target types before the 31st of December 2024, to be reported in the 2025 disclosures (with 2024 data). During 2024, we aim to release updates to this framework, especially more guidance on Sectoral, Engagement and portfolio coverage targets.

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[23] https://green-business.ec.europa.eu/business-and-biodiversity/european-business-nature-summit-2023_en
[24] https://www.financeforbiodiversity.org/publications/nature_target-setting_framework_for_asset_managers_and_asset_owners/

Public Policy Engagements

Public policy critically affects the ability of long-term investors to generate sustainable returns and create value. Public policy also affects the sustainability and stability of financial markets, as well as social, environmental, and economic systems. Policy engagement by investors is therefore a natural and necessary extension of our stewardship responsibilities and fiduciary duties to the interests of beneficiaries.

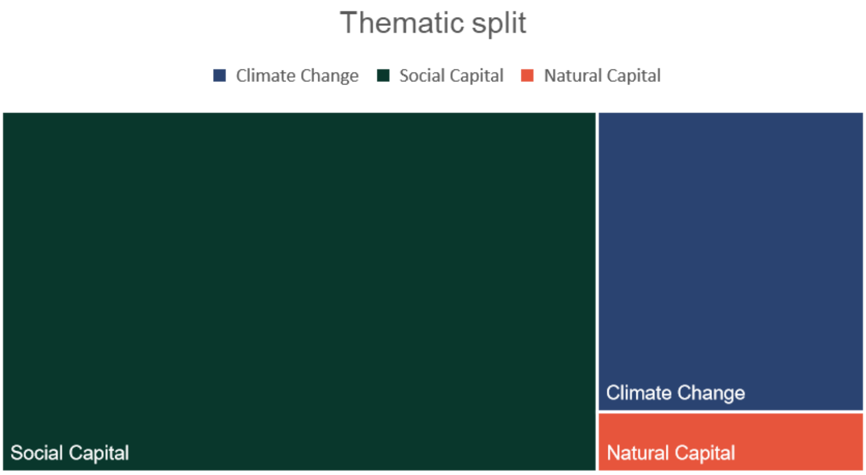
The group has been involved in promoting system-level changes through our engagements with policymakers, standard setters, and industry regulators in line with our sustainability philosophy. We list all our policy engagements during 2023 below.

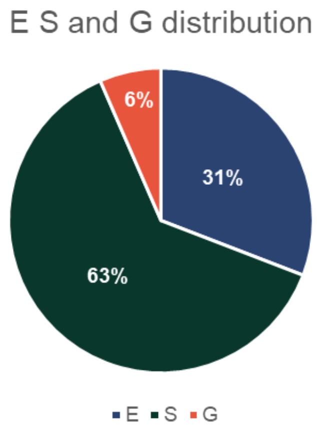
Topic	Target Party	Collaboration with
Co-signed an open letter to the EU Commission and the EU Parliament charged with the development of the EU's Proposed Forced Labord Product Ban, a legislative proposal to prohibit products made with forced labour from entering the EU market.	EU	FIR, IAHR
Co-signed an open letter to governments ahead of the 2023 UN Water Conference to accelerate implementation and improve impact towards achieving SDG 6.	UN	CDP
Co-signed the updated tribune on Say-on-Climate by FIR (French SIF) urging companies to include relevant information in their management resolutions and legislators in France to institutionalise a new form of these resolutions.	French Companies, French legislators	FIR
Co-signed an open letter supporting the alignment of the CSDDD with the international standards on sustainability due diligence such as the UNGPs and the updated OECD Guidelines for Multinational Enterprises.	EU	FIR, FIDH
Co-signatory of a letter sent to members of the European Commission calling on the EU institutions to take vigorous action in the future Packaging and Packaging Waste Regulation (PPWR).	EU	VBDO
Co-signed an open letter with other financial institutions sent to governments requesting mandatory disclosure of plastics by companies to be included in the global plastics treaty	Intergovernmental Negotiating Committee (INC) for the Plastics Treaty	CDP
Co-signed an open letter to call on the ISSB to embark on research projects on human rights and human rights and human capital concurrently, as a priority.	IFRS	WDI
LFAM co-signed a letter addressed to Japanese regulators (METI, FSA and JPX group) to advocate for greater board independence & diversity on Japanese boardrooms.	Japanese regulators	Dalton Investments
Calls for ISS to provide clients w/ a specialty net zero policy + integrate climate into its proxy voting recommendations on a more consistent basis	ISS	IIGCC
As Advisor to the Policy Working Group with the Business Coalition for the Global Plastics Treaty, LFAM contributed through feedback on treaty recommendations put forth by the coalition	UN/INC for the Plastics Treaty	Business Coalition for the Plastics Treaty

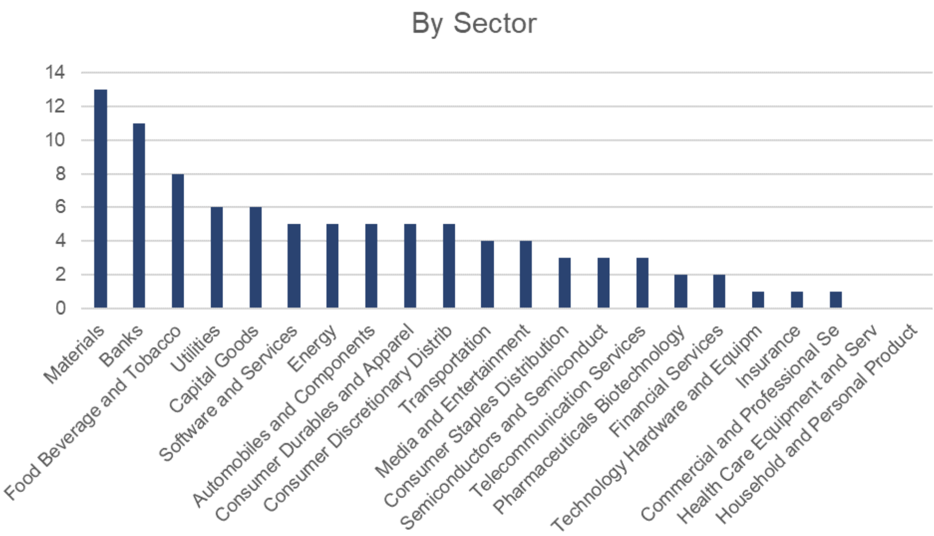
Collaborative Engagements

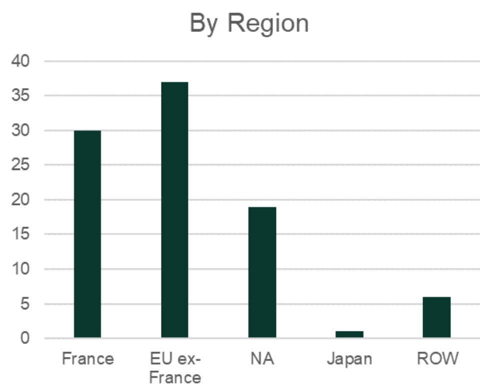
Collaborative engagement is a cooperative approach that brings together diverse stakeholders to address complex challenges. It emphasizes inclusive decision-making, leveraging the unique perspectives and resources of all involved. By fostering open dialogue and mutual respect, collaborative engagement enables stakeholders to work together synergistically towards shared goals, transcending boundaries and unlocking new opportunities for positive impact.

Overall, we had 100 collaborative engagements (including campaigns) during 2023, 93 individually with 78 unique companies. Below is a snapshot of our collaborative engagements during the year. As can be seen, Social Capital topics predominated our engagement activities in 2023, because of our multiple company engagements with WDI (Workforce Disclosure Initiative), LIPH (Long Term Investors in People's Health) and 30% Investor Club.









In 2023, we joined several new collaborative engagements, and continued to increase our activities with our existent ones. We highlight a few notable activities from the year below.

Collaborative Engagements

Engagement Campaigns

Overall, in 2023, we had 93 individual company collaborative engagements, and participated in 8 wider engagement campaigns directed at companies. We supported the CDP Non-Disclosure Campaign (CDP NDC) for the 4th consecutive year and the Science Based Targets Campaign (CDP SBTi) for the 3rd time. This was the first year we co-signed all 1600+ letters sent by CDP to companies with high criticality on Climate, Water and/or Forests to respond to their questionnaire. We highlight the major campaigns and open letters we supported in 2023 in the table below.

Target	Industry	Collaboration with	Action taken	Topic	Theme
36 companies	Food, Beverages, and Retail	VBDO	Co-signed Letter	Plastics	Natural Capital
100 companies	Multi-sector	Nature Action 100	Co-signed Letter	Biodiversity	Natural Capital
1600+ companies	Multi-sector	CDP NDC	Co-signed Letter	Climate Disclosures	Climate Change
2000+ companies	Multi-sector	CDP SBTi Campaign	Co-signed Letter	Climate Strategy	Climate Change
50 companies	Chemicals	IIHC	Co-signed Letter	Hazardous chemicals	Natural Capital
30 companies	Multi-Sector	WDI	Sent individual letters	Workforce Disclosures	Social Capital
300 Indian companies	Multi-sector	WDI	Named in the letter	Workforce disclosures	Social Capital
Open Letter	Chemicals	IIGCC	Signed Open Letter	Net Zero strategy	Climate Change

We led the engagement with the CDP Non-Disclosure on 2 names – D'Ieteren Group and Charter Communications. While we were successful on one, with D'Ieteren Group responding to the CDP questionnaire on Climate Change for the first time, Charter Communications communicated to us their intention to wait for SEC rules to be announced.

We will continue our participation in the engagement campaigns during 2024.

ShareAction – Banks (Decarbonization)

In 2023, we participated in five collaborative engagements on decarbonisation in the Banking sector with ShareAction: Barclays, BNP Paribas, Credit Agricole, Deutsche Bank, and Société Générale.

Prior to the 2023 AGM season, we co-signed a letter requesting all these banks to strengthen their exclusion lists and cease direct financing new oil & gas fields by the end of 2023 at the latest[25]. Out

[25] ShareAction | Major investors insist Europe's top banks clean up...

of the five banks, four have announced, either in 2023 or 2024, updates to their fossil fuel exclusion policy to incorporate (amongst other elements) the exclusion of financial services provided to new oil & gas fields. While Deutsche Bank has yet to update its policies, and while there may still be gaps in the policies of the others, these engagement actions have helped to intensify scrutiny towards the financing of new oil & gas fields and can be considered successful.

In 2024, we continue to engage in active discussions with the banks along with ShareAction regarding the climate strategies of major European Banks. We aim to cover various topics such as their exclusion policies, transition plans, sustainable finance targets and facilitated emissions.

Chemicals - IIHC (PFAS) and ShareAction (Decarbonization)

During 2023, we joined the Investor Initiative on Hazardous Chemicals (IIHC), an initiative led by ChemSec. Alongside c.50 global institutional investors, the initiative calls on the chemical industry to be more transparent and to produce chemicals in a more virtuous way, particularly persistent products, also known as "forever chemicals" (PFAS).

The initiative targets over 50 companies recognized as having the largest chemical footprint according to ChemSec's methodology (ChemScore). In 2023, the initiative engaged with 16 companies and aims to increase this number in 2024. LFAM co-signed the letters sent to the 50 companies concerned, asking them to commit to meeting the initiative's key demands[26]:

- Increase transparency on the share of revenues and production volume of products that are or contain hazardous chemicals
- Publish a time-bound phase-out plan of products that are, or contain, persistent chemicals
- Develop safer alternatives for hazardous chemicals

We also actively engaged on two companies (out of original 50) during 2023 - Sika and AkzoNobel. We met with both companies, along with other investors. Our discussion with AkzoNobel was a particularly positive one. The company assured us of its awareness of this issue and shared its efforts towards resolution. They were already facing significant challenges related to the sale of products containing numerous hazardous chemicals, including PFAS. Hence, a significant portion of their new product lineup comprises sustainable alternatives, underscoring their dedication to reduce its exposure to hazardous chemicals. Additionally, AkzoNobel's investment in research and development reflects positively on its commitment. Looking ahead, the forthcoming implementation of CSRD in 2024, for which AkzoNobel is preparing, will facilitate enhanced monitoring of the company's progress.

Given the significant carbon intensity inherent in the chemical sector, decarbonization emerges as a pivotal strategy in combating climate change. Through collaboration with ShareAction, we actively

[26] **IIHC-investor-letter_Excerpt.pdf (chemsec.org)**

engaged with five companies in 2023—Air Liquide, BASF, Covestro, Lanxess, and LyondellBasell—urging them to establish credible decarbonization plans. We will continue to support in 2024 the collaborative engagement with the IIHC and ShareAction and will resume dialogue with the companies concerned.

30% Investor Club – Cross-sector (Gender Diversity)

LFAM became a member of the 30% Investor Club in 2022, to strengthen our commitment to gender diversity and inclusion in our stewardship efforts. The club aims to promote better gender diversity within the SBF 120's executive management teams. Throughout the year, we actively engaged with 15 companies, supporting other investors on 12 and led engagements on 3 companies, out of which Orange was the one successful and particularly noteworthy. During our call, Orange showcased its dedication to addressing the gender pay gap and advancing diversity, equity, and inclusion initiatives:

- **Gender pay gap:** Orange aims to achieve a 0% gender pay gap in like-for-life situations by 2025. They employ a standardized methodology for calculating and addressing the pay gap, which has been consistently applied across all countries since 2018. Notably, the pay gap for France is currently very low, below 1%
- **Diversity, Equity, and Inclusion**: Orange has implemented a range of initiatives to promote gender equality, combat discrimination, and support work-life balance. These efforts include the establishment of a strategic committee on gender equality, which oversees key performance indicators and monitors progress towards gender diversity goals. Orange also focuses on increasing representation in technical and digital roles
- **Transparency and communication**: Orange emphasizes transparency and open communication in addressing DEI issues. They have robust communication strategies to share information about DEI initiatives and progress with internal and external stakeholders.

Overall, Orange exemplifies a strong commitment to fostering inclusivity and advancing gender diversity and equality in the workplace. Recognised in the annual report of the 30% Investor Club[27], Orange's efforts serve as a testament to its dedication.

Research consistently shows companies with diverse leadership teams tend to be more innovative, make better decisions, and achieve stronger financial performance. Therefore, our support for initiatives like the 30% Investor Club extends beyond mere advocacy; it's a strategic investment in the long-term success and sustainability of the companies in which we invest.

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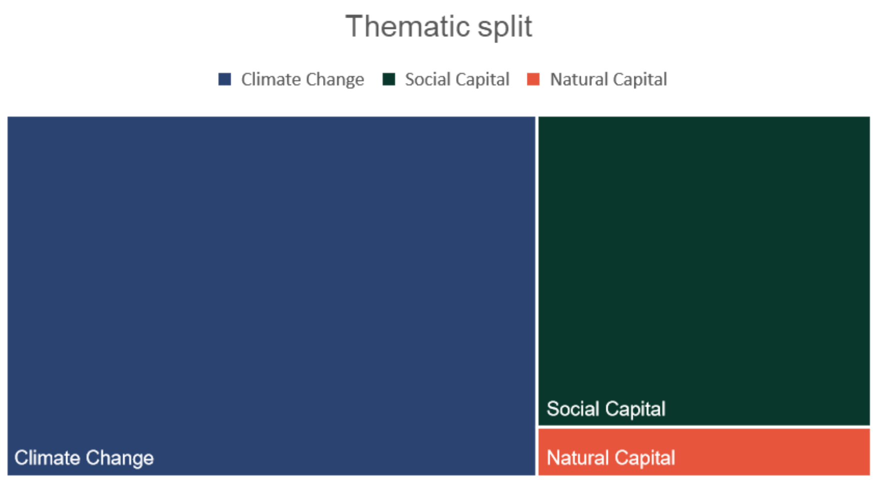
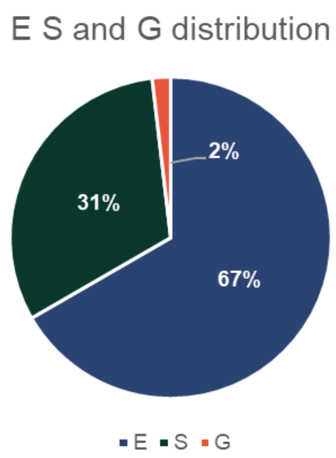
[27] **30% Club France Investor Group – 2023 Annual Report: https://30percentclub.org/wp-content/uploads/2024/03/30-Club-Annual-Report-2023-1.pdf**

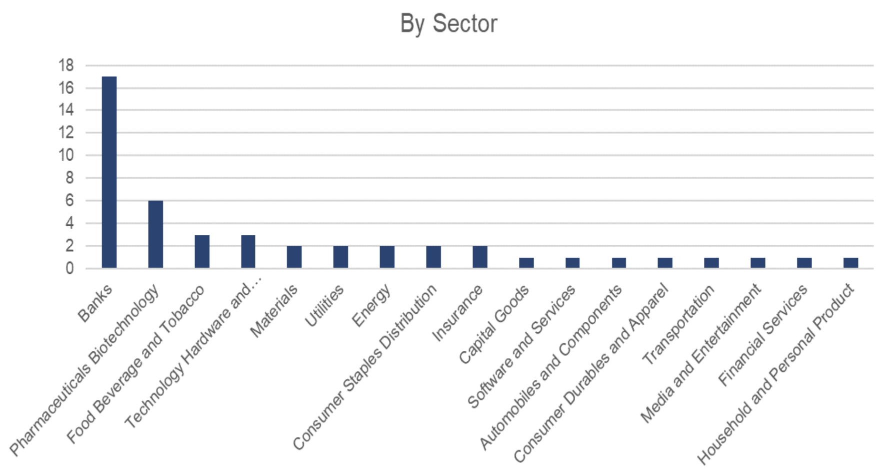
Direct Engagements

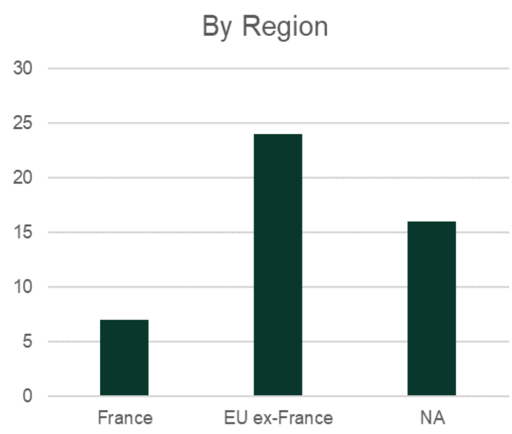
In addition to our collaborative engagements, the SIR team conducts direct engagement with companies. This type of engagement allows our analysts to play an active role in influencing companies to embrace sustainable practices, addressing ESG issues. The engagement can go through various means of communication. After a thorough ESG assessment, the SIR team first sends a letter to the companies to express their concerns. Following this, the SIR team takes the lead in conducting engagement meetings that are structured with clear objectives and attainable goals, aiming to promote optimal practices regarding material ESG Issues.

In 2023, we sent letter to 47 companies. Most of the letters focussed on Climate change topics, but social capital was also common. Below is snapshot of all direct engagements we had in 2023.

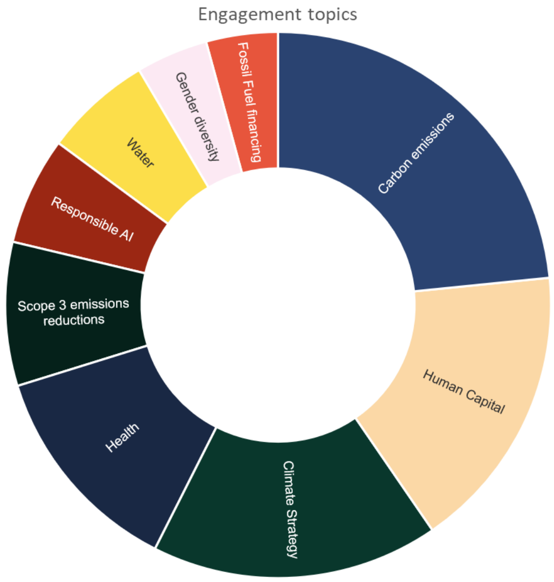








Our topics of engagement through letters were varied even within the themes. We engaged on gender diversity, health, responsible AI on social side, or carbon emissions, water, fossil fuel financing, etc. on the environmental front.



Banks were one of the most common sectors of engagement through the letters (see charts above), many of which were focussed on their fossil fuel financing commitment and strategy. We highlight one such engagement below.

Canadian Banks – Oil Sands Financing

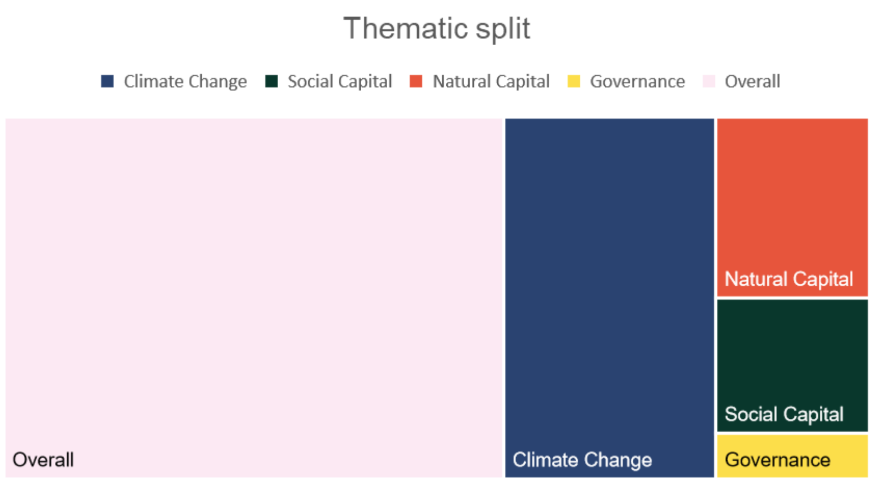
In 2023, our analysis of the top 5 Canadian Banks concluded that they have a relatively high exposure to the fossil fuel industry, particularly to tar sands oil. As a result, we decided to engage with these Banks sending letters to those we were exposed to, explicitly asking them to strengthen their exclusion policies to cease financing Fossil Fuel Expansion and Tar Sands Oil both at the project and corporate levels. While we have not observed any updates of their exclusion policies in response to our request, this engagement work enabled us to initiate a dialogue with some of them, enhancing our understanding of their climate strategies and obtain key information to compare their performance.

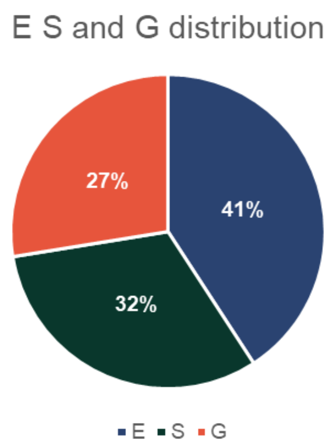
In 2024, our conclusion was reinforced by external research highlighting that the top 5 Canadian Banks had increased their fossil fuel financing exposure from an average of 15.5% in 2020 to 18.4% in 2022 (vs. 6.1% for leading US banks and 8.7% for European banks across the same period)[28]. Consequently, we continue to engage with these banks, with follow-up calls already planned to reiterate our requests. In case we find it necessary, we might escalate using relevant tools.

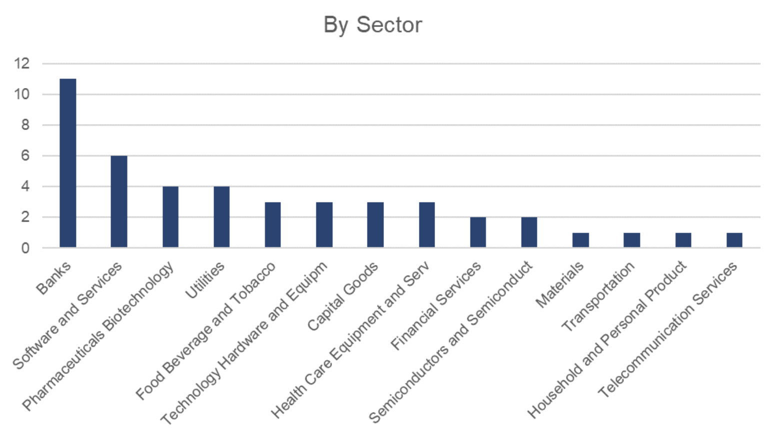
[28] InfluenceMap Canada's Big Five Banks: Heading to Net Zero?

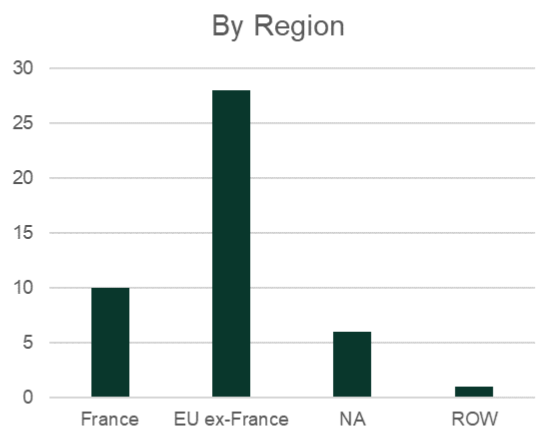
Dialogues

Shareholder Dialogues are an important element of our overall sustainability strategy. We engage in dialogues through one-on-one meetings organized individually by/for us, or as part of small group meetings during broker analyst conferences for companies of interest. These meetings provide a good opportunity for us to gather data and information related to company's strategy and build a conviction on our assessment of the company's profile. During 2023, we had 45 meetings overall, 29 online and 16 in person – mainly during broker analyst conferences in London and in Paris. Topics discussed varied from the company's climate plans and emissions strategy to human rights issues in supply chain to governance issues relating to controversies and beyond. Below is snapshot of all dialogues we had in 2023.









Dialogues

We highlight here a couple of dialogues that were conducted during 2023 which showcase how meetings can help us ascertain and enhance our company assessments.

Array Technologies

Throughout 2023, we engaged in constructive dialogue with Array Technologies, a leading manufacturer of solar tracking systems. Amidst the implementation of the Uyghur Forced Labor Preventive Act in the United States, we engaged in extensive discussions with the company to explore the potential ramifications on their intricate supply chains. This dialogue was crucial as it allowed us to gain valuable insights into Array Technologies' proactive measures and strategies to ensure mitigation of any adverse impacts on their operations, because of the inherent human rights violations and non-compliance with the new legislation, thereby.

Additionally, our conversations delved into various aspects of the company's supply chain management practices, project progression updates, safety records, and efforts towards fostering diversity and inclusion within their organisation. These discussions proved to be enlightening and beneficial, providing us with a comprehensive understanding of the company's commitment to ethical sourcing, operational excellence, and social responsibility aligned closely with our sustainability objectives of La Française Asset Management.

Median Technologies

In July 2023, we scheduled an individual meeting with Median Technologies, a software provider in the health industry, to gain deeper insight into the company's sustainability strategy and performance. We were pleased to discover that the company is engaging in positive initiatives from an ESG perspective, although without proper disclosure as the company may not be aware of what should be disclosed. Additionally, the company has formed an internal working group to better assess ESG risks and has committed to including an extra-financial section in their 2024 annual report.

Through engaging dialogue with Median Technologies, we assist them in identifying material matters relevant to both the company and our expectations as investors. Furthermore, we share knowledge of industry best practices and existing frameworks that companies can draw inspiration from. These conversations not only enable us to better assess companies but also help companies to understand their strengths and weaknesses from a sustainability standpoint.

Looking Ahead

In 2024, engagement will remain a top priority on our sustainable investment's roadmap. More specifically, we will aim to:

1. Improve the level of quality in our discussions and processes as we seek to improve the chances of seeing engagement succeed. This will require the continued collaboration with investment teams and analysts as key partners in the process, as we continue to integrate ESG and upskill the teams.
2. Work with other asset owner clients collaboratively to achieve better results from our direct engagements, using it as an escalation method. In an ever-more complex world, it is our belief that collective action remains an effective way to facilitate action and we will continue to play a significant role in collaborative initiatives.
3. Improve oversight of the engagement process - maintaining a more advanced internal repository of our engagement (and voting) activities and establishing clearer procedures to follow, escalate and evaluate initiatives effectively.
4. Continue to pursue public policy efforts, on sustainable finance topics, and act with industry associations to do that, such as the IIGCC, PRI and FIR. We believe system-wide changes are essential to help accelerate an orderly transition to a more sustainable world.

Overall, we intend to continue to accelerate our efforts on engagements both direct and collaborative. The start of the year has already been very busy. In terms of collaborative engagements, we are renewing existing commitments, like with ShareAction, PRI Advance, WDI, CDP, 30% Investor Club and IIHC, and have joined new initiatives in late 2023 or early 2024. Most notably, to expand on our Natural Capital theme, we have joined the Nature Action 100 and are engaging with 3 companies alongside a group of other esteemed investors. We have joined the Technical Advisory Group for Nature Action 100, wherein we are contributing to the development of the engagement group's strategy and trajectory. We have also joined the recently-convened a Pesticides Working Group with ShareAction, wherein we will engage with companies in the pesticides value chain.

On Climate Change side, we are in the process of joining the Net Zero Engagement Group at IIGCC to expand on our company engagements on climate topics and to use the group as an escalation platform for some of our direct engagements in 2023. On social front, we joined the Labor Rights Investor Network, which is a knowledge sharing platform for labour rights cases and topics between industry unions, NGOs, and investors. We have also joined a Working Group on Indigenous People's rights with PRI Advance.

Controversy Monitoring

Controversy monitoring is an important part of our screening mechanism and sustainable investment methodology. Every company studied by the ESG analysts undergoes a red flag check from company press, third party research and internet search. Additionally, we have a group level controversy monitoring process based on Norms-Based Research (NBR) Scores provided by our research provider (ISS ESG). We systematically exclude all companies that have a very severe rating from ISS (NBR = 10) and put all companies with severe rating (NBR scores 7 to 9) under watchlist, unless otherwise approved during the Stewardship Committee meetings. Any names to be taken off our controversy-based exclusion lists must be unanimously approved by the Committee members.

During 2023, we discussed several cases discussed during our Stewardship Committee and portfolio decisions were influenced by the outcomes. We highlight here two cases from our controversy updates that occurred in 2023.

Starbucks

The American coffee maker has faced labour authorities' scrutiny for impeding union activities in its U.S. stores. Despite over 50 Administrative Law Judges decisions to the National Labor Relations Board, citing dismissals, threats, and selective policy enforcement, efforts to uphold union rights remain uncertain. While a company assessment found no 'anti-union playbook', gaps in implementing commitments were noted. Workers United has criticised the lack of progress in practical steps for collective bargaining. Given these concerns, we have ceased investing in Starbucks. Hence, the name was part of our controversy-based exclusion list since Q1 2023.

Nevertheless, we continue to monitor the case. Our participation with Labor Rights Investor Network has allowed us to be updated on the company's progress. In February 2024, Starbucks and Workers United have agreed to establish a framework for organising and collective bargaining, potentially resolving multiple legal disputes. Starbucks will extend benefits to workers at unionized stores as a goodwill gesture. We continue to follow the updates and if there are significant changes, the case will be presented to the Stewardship Committee for reconsideration.

Teleperformance

On 10 November 2022, Teleperformance shares fell by 34%, due to allegations of union-busting, traumatic working conditions, and low pay announced by the Colombian Ministry of Labour. We had a meeting with Teleperformance leadership in December 2022 that revealed some dissatisfaction with their handling of the situation. Hence, after a decision by the Stewardship Committee in early 2023, the company has been excluded from all our credit and equity portfolios.

Controversy Monitoring

During 2023, the company has made notable progress by successfully signing global agreement with UNI Global trade union, and national-level agreements in countries like Colombia, Jamaica, and Romania, impacting over 50,000 workers. These efforts have helped avert further controversies related to labor rights violations. Acknowledging the challenges inherent in operating in regions with high social and governance risks, Teleperformance remains dedicated to fostering ongoing dialogue with UNI Global and other stakeholders. Looking ahead to 2024, Teleperformance aims to further bolster its dedication to fair labor practices through both individual and collaborative engagements, ensuring the well-being and rights of its global workforce. These are encouraging steps, and we keep Teleperformance on our watchlist for reconsideration.

Glossary of Terms

PRI – Principles of Responsible Investment

IIGCC – Institutional Investors Group on Climate Change

FIR – Forum pour l'Investissement Responsable

UKSIF – UK Sustainable Investment and Finance Association

WDI – Workforce Disclosure Initiative

TNFD – Taskforce on Nature-Related Financial Disclosures

LIPH – Long-term Investors in People's Health

NZAMi - Net Zero Asset Manager Initiative

OECD - Organisation for Economic Co-operation and Development

WWF – World Wildlife Fund

VBDO – Vereniging van Beleggers voor Duurzame Ontwikkeling (Dutch Association of Investors for Sustainable Development)

TCFD - Task Force on Climate-related Financial Disclosures

CSRD - Corporate Sustainability Reporting Directive (CSRD)

CSDDD - Corporate Sustainability Due Diligence Directive

IFRS - International Financial Reporting Standards

ISSB - International Sustainability Standards Board

SBTi - Science Based Targets initiative

SFDR - Sustainable Finance Disclosure Regulation

INC - Intergovernmental Negotiating Committee

UNGPs - United Nations Guiding Principles on Business and Human Rights

Disclaimer

The asset management firms in the La Française Group that manage funds have signed the Transparency Code. They have done their utmost to provide accurate, up-to-date, and appropriate information in clear and comprehensible language, to assist investors in gaining a better understanding of how ESG criteria are reflected in their fund investment policies. They take sole responsibility for this information.

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