

Engagement Policy



LA FRANÇAISE
INVESTING TOGETHER

ENGAGEMENT POLICY

Active ownership is a key component of La Française approach to responsible investing¹. As such we have implemented a specific [voting policy](#) and we report on an on-going basis on [our votes](#) at General Meetings. Engaging with companies in active dialogues, joining shareholder coalitions and pushing a specific agenda forward is also part of our responsibilities and closely linked to our voting activities.

Engagement is one of the tools of active ownership. It can be done through initiating dialogues with companies where we are invested or in which we may consider investing, with a strong focus on environmental, social or governance themes. Engagement can be done individually or collaboratively. The latter typically involves several investors joining forces to carry their message and questions to a company or to a number of companies facing the same industry-specific challenges or to policy makers, governments, regulators, etc.

We are therefore involved in 3 types of engagements:

- Direct engagement with company management to drive positive change in our portfolio companies
- Collaborative Engagement with companies and other investors to join forces, share insights and build best practices across the market
- Public Policy Engagements to influence high level actions

While we are normally a minority investor there is certain action we can take to influence the changes we wish to see implemented. In that respect we support collaborative action while selectively using our capacity to enter into individual dialogues with companies where we think our thorough analysis can make a difference.

I. RESOURCES

Individual engagements are conducted by all our analysts and portfolio managers with portfolio companies. Meetings and exchanges with companies are documented, tracked using an excel tool and shared on our internal research management platform (Bloomberg). We can therefore ensure effective follow-ups and assess progress against targets.

Collaborative engagements can be company specific by nature or they can include a broader set of companies if the engagement is targeted at a sector or investment theme. Therefore, they may include companies that are not currently held in our portfolios. Collaborative engagement is overseen by a dedicated staff, ensuring the follow-up and coherence of our choices. The ESG analysts at La Française Sustainable Investment Research are representing La Française Group at the specific collaborative engagement initiatives selected by the Group.

¹ Transparency code for the sustainable funds of La Française Asset Management are available on the respective funds page on our website

II. ENGAGEMENT PROCESS

Key Steps

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

1. Select and prioritise engagements
2. Set objectives for our engagements
3. Conduct the engagement and report outcomes
4. Escalate when appropriate if engagement target does not deliver set objectives

Escalation process

Setting an escalation process is key to ensure the credibility of an engagement and to be transparent with the issuers identified. Escalation is needed when the asks are not being considered, when there is no or poor dialogue with issuers. It requires an ability to follow up and, in this perspective, we have created an internal tool to track all of our engagements, their objectives, timelines and progress, share the results or absence of results and decide actions to be taken.

At La Francaise, we view escalation as a process which depends on each engagement, its specific objectives and timeline, keeping various possible steps in mind :

1. Reinforced dialogue – possibly with Board Level representatives
2. Open letter/ Public post about engagement
3. AGM voting, questions
4. Co-filing of a resolution
5. No further investment/underweighting
6. Divestment with reinvestment hurdle

All of these steps do not have to be taken for each of our engagements but are part of a toolkit we have at our disposal. For most of the engagements, we will enforce step 1, for critically failed engagements we may go all the way to divestment. In any case, steps 2 to 6 have to be discussed and agreed by the members of the Stewardship Committee.

III. SELECTION

Our process for selecting and prioritising engagements includes:

- Engaging with companies in which we have a major position or where we have a significant interest for one (or more) of our funds (both equity and credit)
- Engaging with companies where we have substantial concerns
- Ensuring, to the best of our ability, an expected holding period of 2-3 years so that engagement can take place while holding the position

We aim to set objectives for our engagement activities and look for specific outcomes, define milestones at the beginning of an engagement program and establish timelines associated with these milestones.

Conducting the engagement will usually include the following actions: i. Contact company in writing ii. Meet management to explain engagement case iii. Listen, assess response and follow-up iv. Monitor action v. Escalate if appropriate and close.

IV. ENGAGEMENT THEMES

We have set four themes for engagement that are aligned with our investment strategies and with issues we deem as crucial for the long-term viability of the companies we invest in:

- 1) Climate Change
- 2) Social Capital
- 3) Natural Capital
- 4) Governance & Disclosures

La Française Group has developed a Carbon Impact strategy with thematic funds across equity, credit, sovereign and cross asset, whose objectives are to invest in companies that are part of the transition to a low carbon economy in support of a 1.5°C global warming target. Based on this strategy, climate change is one of the priorities within our engagements.

Transition to a decarbonised economy will only be possible if this transition is inclusive with social aspects taken into account. That is why we think it is essential that the S of the ESG factors, i.e. the social one, should be further developed. Social capital is therefore our second engagement priority, initially insisting on the urgent need to improve companies' disclosure and transparency on this subject. As part of this theme, we are addressing human capital disclosures, gender diversity, health and well-being of employees, human rights and public health topics through our individual and collaborative engagements.

More than half of the world's economic output – US\$44tn of economic value generation (WEF) – is moderately or highly dependent on nature. Abundant biodiversity is necessary for many components of life, including the provision of food, energy, water and health. With global biodiversity in decline, we, as investors, need to reconsider traditional economics and start to factor in the burgeoning concept of natural capital, in our investment processes and strategies.

Governance & disclosure are the foundations of sound management for companies. They need to have a proper governance to make sure an adequate strategy is discussed and implemented and that adequate controls are in place. Disclosures of E, S and G data are essential as it objectivize and pave the way for discussions, setting targets, monitoring progress and undertaking corrective actions.

Eventually, we will include the disclosure of PAI (Principle Adverse Impacts) by companies as an underlying discussion for all financed companies.

V. INDIVIDUAL ENGAGEMENT

We are engaging individually with companies on ESG issues as well as related aspects of strategy, capital allocation, M&A and finance. Our analysts and portfolio managers aim to establish a constructive dialogue with listed and non-listed companies. We concentrate those dialogues on selected issues where we need clarification for our analysis or on issues that we deem essential for the company's strategy and business model and for which we lack clarity or guidance.

Those topics vary not only from one sector to the other, but also from one company to another. Through these discussions we can assess whether a subject is on the company's agenda

and we can make sure the company understands that we assess this material aspect (like training opportunities for employees) as crucial for long-term success. Through these exchanges we provide feedback to companies on their disclosure and indicate best practices observed in the sector. In any case, we put an emphasis on asking detailed questions as a result of a thorough analysis.

We believe that individual engagements can take different forms – in-person meetings, online calls and during conferences.

When the subject is new or not mature enough for companies, we concentrate our efforts on understanding a company's status quo and its strategic objectives. For our thematic focus, we use our thematic assessments based on TCFD framework to form the basis of our engagements – for example emissions, climate strategy, biodiversity strategy, water footprint, SDGs or human capital issues.

In addition to such thematic issues, we pursue engagement when we have significant concerns about a company's ESG quality or behaviour – such as following a controversy or a press article. We also assess potential violations of the UN Global Compact.

Answers to our questions are documented in our internal research management platform - Bloomberg. Once a year, we summarise our engagement activities in a report. This allows us to review engagement milestones and to assess how far companies have already changed towards achieving the engagement objective.

In case such milestones are not met we consider escalation. If the engagement objective is not met despite our escalation action this is documented as an unsuccessful case. In certain circumstances this can ultimately lead to a managed divestment.

We are engaging companies not only for our equity funds but also for our credit funds. From experience we know that as a credit manager we can have a constructive dialogue with the issuers held in the portfolios and that we can have an influence through debt financing, too. Our experience also shows that when companies are about to issue debt and in a roadshow phase, they are quite often open to dialogue on a diversity of issues.

VI. COLLABORATIVE ENGAGEMENT

La Française is active as part of collaborative engagement initiatives. The Group joined a number of engagement cases through the « Collaboration Platform » of the PRI or other investor coalition (e.g. Climate Action 100+, ShareAction or others, please see the [engagement report](#) for more information) with a focus on the four themes defined as our priorities.

We foster agility to be able to join forces with other investors when we think the subject is an important matter, aligned with our priorities so that we are able to react swiftly when need be. In that respect we are open to work with like-minded investors on selected collaborative engagements.

VII. POLICY & ADVOCACY

We believe we can be active through advocacy and are active members of dedicated organizations in that perspective.

Our main policy contributions are made as part of our membership at AFG and FIR in France. In Germany, we participate in working groups organised by the BVI, and influence international policy as active PRI members.

Other contributions are made by joining collaborative action geared towards regulators or policy makers to make a change happen: e.g., supporting the UN Plastic Pollution Treaty or signing a letter to encourage Finance Ministers to be ambitious ahead of crucial negotiations on Natural Capital at COP15 in Dec 2022.

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