

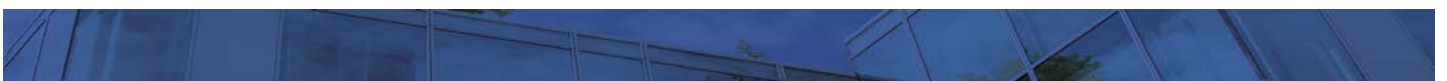
# RESPONSIBLE INVESTMENT (RI) POLICY

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2018



**LA FRANÇAISE**  
investing together



La Française Group's Responsible Investment (RI) Policy details the Group's practices in terms of integration of environmental, social and governance (ESG) factors in its asset management business.

The policy is structured into four chapters: investment concept and approach, application by asset class, implementation in the investment processes and Group level monitoring of RI policy.

## CHAPTER 1: INVESTMENT CONCEPT AND APPROACH

La Française Group is convinced that ESG factors significantly influence the financial performance of investments - both in terms of profitability and risk - and that this correlation is becoming stronger. This conviction is supported by the increasing number of academic papers. It is no longer appropriate to dissociate financial performance and sustainability. Responsible behaviour and sustainable finance are becoming synonymous with flexibility, responsiveness, innovation and therefore performance and profitability. Indeed, the question is not why integrate ESG factors into the investment processes, but why not?

La Française Group believes that climate change is a pivotal component of future economic growth and social stability. Tomorrow's society will be based on a low-carbon economy. As such, the time has come for investment decisions to take into account climate considerations. The risks and opportunities associated with climate change are likely to affect all business activities and the financial performance of investments. A growing number of scientific studies showcase the emergence of a carbon factor influencing financial markets.

Traditional methodology applied in Socially Responsible Investment (SRI) is the exclusion of non-compliant assets based on ethical considerations. La Française Group applies such methodology to reflect internationally accepted standards like the UN Global Compact, but not only. La Française goes beyond exclusions. In its investment process, the group weighs ESG and financial factors equally. This is a positive approach that allows the exclusion of the lowest performing assets in terms of their sustainability profile.

In practice, La Française Group has developed a proprietary approach to facilitate RI, called Strategically Aware Investing (SAI). The SAI methodology stems from a partnership established in 2014 with a research company that today has become *Inflection Point by La Française*<sup>1</sup>. The SAI approach associates financial, strategic and ESG factors, all equally weighted.

### 1.1. Contribution of the strategic analysis

The world is governed by a series of profound changes affecting financial markets. The main global trends considered as key investment decision factors, include:

- Demography: aging populations, public health challenges and the need for better productivity in agriculture,
- Economy: the rise of emerging countries, increasing income inequality and urbanisation,
- Environment: energy issues, climate change and the scarcity of natural resources,
- Society: the increasing involvement of stakeholders, data growth and the search for information and the growing impact of social media.

The increasing complexity of social, political, and technological systems contributes to periods of major disruption and sudden volatility. In-depth strategic analysis is necessary to unravel these effects and their impacts on assets. The Group's approach to responsible investment is designed to respond to this new environment by integrating strategic factors into traditional ESG and financial analyses. These new factors

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<sup>1</sup> Presentation in the appendix

include a company's capacity to adapt and its ability to implement innovation. For example, a company's propensity to innovate reflects vision and can provide insight as to investment potential.

## 1.2. Integration of factors

The integration of financial, ESG and strategic factors in the investment process is carried out on a non-hierarchical basis taking into account their respective timeframes and the potential interactions.

## 1.3. Asset coverage

RI is central to La Française Group's asset management expertise and is applied to all asset classes: securities, real estate, private debt, private equity and investment solutions.

## CHAPTER 2: APPLICATION BY ASSET CLASS

RI originally focussed on equities. Within that asset class our approach consists of identifying and investing in sustainable companies with high performance potential: those that are considered as sustainable today and will continue to be so in the future and those companies that are on the fast track to becoming sustainable. RI seeks to consistently generate higher risk-adjusted returns insofar as:

- It makes it possible to select the best performing companies in operational and financial terms, and the most resilient thanks to their human and organisational capital,
- It increases the probability of identifying inflection points that a traditional financial analysis might not reveal,
- It makes it possible to better identify the risks attached to the implementation of a company's strategy, by considering the ability of managers to take into account major economic, societal and environmental challenges.

La Française's approach is inherently dynamic and flexible. It is based on a best-in-progress philosophy, which can take the form of best-in-class if there is a requirement to follow an index. It can operate in combination with exclusion criteria if necessary; for example, La Française Group systematically excludes companies exposed to controversial weapons. It can be used as a framework for thematic investments like "carbon neutral" or "sustainable employment", thus allowing the implementation of an impact investing strategy. It can also be the source of factor-based management styles.

La Française as a group has adopted an active ownership policy, which aims to create value within portfolio companies. This active ownership policy is expressed through direct or collaborative engagements with companies and through a customised voting policy. La Française Group's responsible voting policy is based on the Sustainability Policy of Institutional Shareholder Services (ISS), but also includes specific requirements on selected environmental, social and governance issues.

Responsible Investment permeates the other asset classes managed by La Française Group. The translation to private or public corporate debt is relatively straightforward since the approach is suitable for both listed and unlisted companies. On the other hand, it must be adapted for sovereign or quasi-sovereign debt, while keeping the same philosophy. Some ESG factors are more important than others depending on the asset classes considered: governance is for example is a particularly relevant factor in listed equities.

La Française Group has historically been very active in real estate and as such has adopted a responsible real estate investment philosophy. In the case of real estate, the asset is analysed through financial factors related to the structure of the lease, the positioning of rents in relation to the market, the quality of tenants, but also strategic factors such as the potential for value creation through renovation or restructuring, the adaptability of the building to new uses, or the potential results achieved through increased flexibility of rental conditions. Buildings, in terms of design, use and operating costs, are analysed from an environmental and social perspective.

## CHAPTER 3: IMPLEMENTATION IN THE INVESTMENT PROCESS

SAI<sup>2</sup>, La Française's proprietary approach to RI, is formalised in the five-factor model developed by *Inflection Point by La Française* for investments in equities and corporate debt. An assessment of the five factors is achieved by collecting reference data and then analysing and scoring a set of criteria. These five factors cover:

- Environment: dependence on raw materials, carbon emissions management, energy efficiency, pollution, water and waste management, etc.
- Human capital: rights of employees, staff turnover, training and acquisition of knowledge, etc.
- Organisational capital: corporate governance, relationships with, suppliers, customers and national and local authorities, etc.
- Innovation: culture and promotion of innovation, emphasis placed on R&D, product development, etc.
- Adaptability: management structures, information management, strategic agility, public relations, etc.

A common SAI methodology is applied across all asset classes. Nevertheless, asset class specific factors are taken into account. In the case of equities:

Step One: Companies that may be subject to exclusion are identified through the application of ESG criteria and the group's exclusion policy. A watch list of securities with the lowest ESG scores in one of the E, S or G criteria is established.

Step Two: Portfolio managers and analysts first apply a positive-screening approach to the investment universe. Secondly, the team carries out a fundamental analysis of the companies involving ESG, strategic and financial factors. Thirdly, portfolio construction involves adjustments to minimise the tracking error or to respect a thematic or factor based strategy.

Risk management plays a key role in the investment process: performing financial risk analysis, monitoring carbon budgets and tracking performance attribution.

## CHAPTER 4: GROUP LEVEL MONITORING OF RI POLICY

The RI investment approach is managed by an RI Committee that meets quarterly and includes all La Française Group's business units, members of the sustainable investing research team and representatives of the marketing, communications, compliance and distribution departments. The committee offers the opportunity to exchange information and identify best practices among the different business units. It also enables participants to discuss the terms of implementation specific to each asset class as well as possible methodological advances, conceptual progress and academic research conducted in the field of RI.

La Française Group publishes a transparency code and adheres to initiatives or coalitions of investors promoting ESG integration in order to work within the financial community to increase the effectiveness of their implementation. The Group is a signatory to the United Nations Principles for Responsible Investment.

Monitoring compliance with the group's RI approach and respecting the codes to which La Française Group is committed is an essential element of the investment process. First and second level controls are in place to ensure this.

Market information is also a key element of the process. La Française Group communicates publicly on its responsible investment approach; in its annual report as required by article 173 of the 2015 Energy Transition Act and in client reporting, a policy and voting report and in exclusion policy and transparency codes; all available on its website.

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<sup>2</sup> *Strategically Aware Investing*

## **Appendix – Presentation of *Inflection Point by La Française***

Inflection Point by La Française is La Française Group's research and centre of expertise for ESG and strategic factors. The ESG team is active in various initiatives and coalitions promoting responsible finance such as the PRI, UNEP FI Investment Committee and IIGCC.

In 2013, La Française signed a partnership with what was then IPCM, which resulted in a joint venture in 2014 and finally the takeover in 2017. Inflection Point by La Française is managed by Roland Rott, PhD, CFA, who has extensive experience in asset management and ESG research. He leads a group of six analysts specialising in ESG issues and is based in London.

Inflection Point by La Française was created under the name IPCM by a number of leading experts in responsible finance, including the founder of Innovest Strategic Value Investors, which was acquired by RiskMetrics / MSCI. These experts include Dr Matthew Kiernan, former adviser to the United Nations Secretary-General at the Rio de Janeiro Earth Summit in 1992, Paul Clements-Hunt, former head of the United Nations Environment Programme Finance Initiative (UNEP FI) and Donald MacDonald, former Chairman of the Institutional Investors Group on Climate Change (IIGCC) and of the UN Principles for Responsible Investment (UN PRI).

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