

2021 Voting Policy Report

La Française Asset Management

The quality of governance is one of the most important criterion in an investment decision process because it influences everything else: financial stability, the value of the brand and the dynamism of the company. When dealing with companies and states, the notion of governance is an indicator which is directly linked to value creation.

La Française Asset Management ("LFAM") places great emphasis on the implementation of high standards of corporate governance in the companies in which the managed funds invest. Indeed, these standards are protecting its customers' interests, contributing to the creation of shareholder value and delivering a higher standard of integrity in terms of financial market transactions.

Finally, as the French Investment Managers Association, AFG, reminds us: "Managing well also means voting well".

All of the reports, transparency codes, exclusion policy, engagement policy, sustainable investment charter, methodological reports and indicators of the La Française Group are available [here](#).

I. LFAM's internal organisation with regard to its voting policy

LFAM's voting policy and its implementation are placed under the control of a Governance Committee (referred to as the "Committee").

The Committee is made up of an LFAM contact equity manager, an LFAM contact management assistant, an LF SAM¹ contact equity manager, a compliance and internal control representative (RCCI), a representative from the legal department, a representative of the Group's research and expertise centre, La Française Sustainable Investment Research ("SIR"), and the head of the sustainable investment strategy of the La Française Group.

Definition of the voting policy / conflicts of interest
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¹ LF SAM: La Française Systematic Asset Management

The Committee sets out the voting policy for all UCITs and mandates managed by LFAM and LF SAM. The Committee meets once a year in order to review the voting policy and modify it, where necessary, and to examine any conflict of interests.

This policy is based on the analysis of the standard resolutions submitted to the AGMs (Annual General Meetings) of the companies in which the UCITs and the mandates of LFAM and LF SAM hold securities. It sets out the principles applied by LFAM and LF SAM when exercising voting rights and refers to existing best practices both nationally and internationally.

The Committee has adopted the ISS *Sustainability Policy* that best corresponds to its approach as a responsible investor and to its commitments as a signatory of the PRI. However, the Committee feels it is essential that it can speak its mind on certain issues. In 2017, LFAM adopted a specific *Custom Policy* which supplemented the ISS *Sustainability Policy*. This policy is reviewed every year and also applies to LF SAM for the 2021 voting season onwards .

The update of the specific voting policy for the 2022 voting season is outlined in chapter IV of this document.

Analysis and implementation

Voting decisions are made in accordance with this voting policy. The Committee delegates to the managers of UCITs and mandates (i) the analysis of the resolutions submitted to the AGMs of the companies in which they hold securities and (ii) the final voting decision. LFAM's portfolio managers worked closely with *La Française Sustainable Investment Research (SIR)*, the research and expertise centre on the Group's ESG (Environment, Social and Governance) and strategic matters, during the analysis of resolutions related to ESG factors and, in particular, with regard to the proposed voting resolutions from shareholders. The managers were thus able to express their point of view and possibly vote differently from the recommendation made by ISS.

Casting votes

LFAM has formalised a voting policy for AGMs based on the electronic voting tool *Proxy Voting* from ISS (*Institutional Shareholders Services*). This tool makes it possible to exercise rights in all companies whose securities are held by UCITs or under mandates.

Transparency

This document sets out the voting policy of LFAM and LF SAM

The specific voting policy (*Custom Policy*) is available on [our website](#).

The *ISS Sustainability Policy* is available (in English) on [their website](#).

The details of LFAM's voting over the past three years is available on our [website](#).

II. The exercise of voting rights at LFAM

LFAM considers that the actual exercise of voting rights helps to better protect the interests of UCIT unitholders and delegated mandates.

LFAM exercises, as far as possible, its rights in all companies whose securities are held in UCITs and within the framework of mandates with an objective of voting at 100% of AGMs (Annual General Meetings). To this end, the management company has set up powers of attorney (POAs²), which are necessary in order to exercise its voting rights in certain foreign jurisdictions. To date, LFAM has set up POAs on:

- Sweden
- Switzerland
- Belgium
- Denmark (early 2017)
- Brazil

In the majority of cases, votes are cast remotely via the *Proxy Voting* tool in compliance with the selected voting policy. For French companies, the manager, in addition to voting via the tool, fills out a *Proxy Cardform* and sends it to the custodian so that the votes cast are recorded at Company level. Within the LFAM team, a management assistant is specifically in charge of voting at AGMs. This work is performed in conjunction with *La Française SIR*. It is based on the analyses of the resolutions carried out by ISS and manages, where applicable, the alerts which may lead to a vote being cast that is different from the ISS recommendation.

III. Management of conflicts of interest

The conflict of interest management policy of the La Française Group's is a key part of its ethical strategy and is available [here](#).

More specifically, in terms of governance, LFAM exercises voting rights exclusively in the best interests of the holders and in compliance with its fiduciary responsibility and the principles set out in Section V.

A procedure aimed at preventing, detecting and managing conflict of interests with regard to the exercise of voting rights has been put in place: each potential conflict of interest is examined by the Governance Committee so as not to affect the free exercise of voting rights. After discussion within this Committee and following a decision provided by the RCCI, the Committee issues a final opinion on the policy to be adopted, which it transmits to those responsible for exercising voting rights within LFAM.

² See Glossary on page 11

In addition, any employee who is aware of a potential conflict of interest situation must inform the RCCI.

There are generally three types of conflict of interest situations that may arise for LFAM:

- The company subject to voting is a major client of La Française
- The director of a company held by the group is himself an important client of La Française
- The director of a company held by the group is associated in one way or another with La Française

In 2021, La Française Asset Management did not identify any conflict of interest that could affect the free exercise of voting rights at AGMs of companies whose shares are held in UCIs or under mandates.

IV. Report and outlook

The figures and highlights of the 2021 voting season for LFAM

In 2021, LFAM and LF SAM voted at 98.8% of AGMs and on 98.9% of resolutions presented (423 companies out of the 428 held in the portfolio), which is very close to our objective of 100% voting at GMs.

Overall, the percentage of resolutions, whether from management or shareholders, on which LFAM/LF SAM voted against the management recommendation stood at 31%, which is much higher compared to the figure for 2020 (25%). More precisely, among the resolutions presented by the shareholders, admittedly few in proportion, this percentage of votes against the management amounted to 60%. Finally, at 346 GMs – i.e. more than 80% of meetings – LFAM/LF SAM voted at least once against one of the resolutions.

To be more precise, the resolutions presented by the management and for which LFAM/LF SAM voted against the recommendations of the management relate to the re-election of directors (53%), capital transactions (18% of cases) and remuneration (19%).

The resolutions presented by the shareholders and for which LFAM/LF SAM voted against the management recommendations mainly relate, apart from the resolutions classified as "others" – mainly relating to donations to political parties, lobbying or diversity which represented 36% of the votes-, to the election/re-election of executives (32%), followed by the E & S resolutions either relating to environmental or social matters (15%) which is in line with our specific voting policy.

For more information, the details of LFAM or LF SAM's voting over the past years are available on our [website](#).



March 2022

During the 2021 voting season, LFAM and LF SAM did not feel they had been unable to respect the principles set out in its “voting policy” document.

The main trends observed in 2021 and the latest news for 2022

2021 main trends in Europe³

2021 will have seen the emergence of 'say-on-climate', these advisory votes relating to the environmental objectives and climate strategy of companies. If in 2020 they had been solely driven by shareholders resolutions, in 2021 thirteen European companies proposed their 'say-on-climate' resolutions. Mostly companies from carbon-intensive sectors and based in the United Kingdom, France, Spain or Switzerland. The approval rate for these resolutions was massive, with a very low rate of votes against, around 4.9% on average except for 2 companies in the oil sector where it nevertheless reached 15-20% rejection.

Diversity on Boards of Directors was another important element of the ESG resolutions voted on in 2021. As such, Greece raised the minimum threshold of women on Boards to 25% from July 2021 and the Portugal at 33% since January 2020. Germany, for its part, after having boosted diversity in the Board, had been the first to tackle diversity in top management.

Finally, compensation remains at the heart of many of the resolutions presented to Board meetings. The COVID-19 effect continued to be felt on compensation, but no real trend emerging linked to a specific market or sector. Policies were very different company by company, some lowering their fixed remuneration or reducing or waiving the variable part when others have taken the opportunity to increase the variable remuneration without any real associated criteria attracting dissatisfaction during the 'say-in-climate' votes. The fully effective implementation of SRD-II since September 2020 has not resulted in increased transparency in terms of remuneration (except marginally in the Netherlands, Italy and Sweden) and in this respect Eastern European countries remain laggards.

Finally SRD-II, which was supposed to encourage increased participation in general meetings (many of which were virtual again in 2021 due to the pandemic) did not have the expected effect here either: the average participation rate in general meetings fell from 70.9% to 70.5%, a disappointing figure. The average rate of votes against resolutions supported by management was 8.9% in 2021, with no significant difference with 2020 (8.5%).

Upcoming in 2022

In Europe, 'say-on-climate' resolutions will be the focus of all attention in 2022: many coalitions or NGOs are calling for vigilance and minimum requirements for the content of the resolutions proposed for this consultative vote.

Diversity should remain a topical issue and in the United Kingdom, beyond gender diversity in the Boards, the question of ethnic diversity should be increasingly raised in connection with the Parker Review dating from 2017 but setting targets for 2021.

³ Source: ISS 2021 European Voting Results Report and 2021 Proxy Review

The evolution of the LFAM and LF SAM voting policy in 2022

La Française Group is actively involved in the fight against climate change and has developed expertise and knowledge that it wishes to make available to its clients. Thus, over the past five years, the Group has set up and been leading a club for reflection and discussion between investors on the issue of a low-carbon transition. The Group is also a member of the pilot group within SBT (Science Based Targets) of investors working on the implementation for the financial sector of “scientific” emission reduction targets adapted to this sector. The Group believes that it is its duty to offer investment solutions in order to actively contribute to the fight against climate change and energy transition. With this in mind, La Française created a range of funds dedicated to this issue six years ago: the Carbon Impact range.

Since 2017, LFAM has implemented a specific *Custom Voting Policy* which matches its commitments, particularly with regard to climate. This policy pays particular attention to environmental, social and governance issues. This policy is updated every year. At present, it covers five themes and shall apply to the 2022 voting season:

1. Climate (E): vote against the approval of the accounts of companies, regardless of their sector, not responding to the CDP questionnaire (ex Carbon Disclosure Project); vote against the approval of the accounts of companies in the energy sectors which do not commit to setting up a “SBT - Science Based Target” CO2 reduction objective.
2. Diversity (S): vote against the election or re-election of male members of the Board of Directors if at the end of this vote the Board is not made up of at least 40% of women.
3. Independence of the Board of Directors: votes against the election of non-independent members to the various committees, if:
 - a. at the end of the vote, the audit committee is not composed of 100% independent members.
 - b. at the end of the vote, the remuneration committee is not composed of at least 50% independent members.
 - c. at the end of the vote, the appointment committee is not composed of at least 50% independent members.
4. Overboarding (G): vote against the election or re-election of members of the Board of Directors if they hold more than four mandates at the end of re-election.
5. Remuneration (G): vote against the report or the remuneration policy if there is no clear and transparent policy regarding the holding of shares by the CEO.

Based on the 2021 season, we are maintaining the requirements we had set up and paying particular attention to all climate-related resolutions based on our proprietary analysis according to the LCT Low Carbon Trajectory, a model developed by La Française SIR, our proprietary ESG-climate research center.

V. The principles

In connection with the analysis of Governance as practised by La *Française SIR* and in compliance with Principle #2 of the PRI (being active investors and integrating ESG issues into shareholder policies and practices), LFAM bases its policy around four main principles:

- Responsibility of the Board of Directors
- Remuneration
- Transparency – or accurate and timely financial and extra-financial reporting
- Shareholders' rights

The issues relating to the specific voting policy described in Chapter IV of this report shall be added to these principles.

Finally, LFAM is particularly attentive to external resolutions, in particular those of an environmental or social nature.

Board of Directors

Independence

- Vote against the resolutions grouping together the approval of several members.
- Vote against the election or re-election of a non-independent member (except CEO), if:
 - Less than half (excluding employee representatives) of members elected by shareholders are not independent.
 - Less than a third of all members are not independent.

In the case of companies owned by a majority shareholder (50%+1)

- Vote against the election or re-election of non-independent members, if this results in a board independence rate which is lower than the percentage of capital held by minority shareholders, with a minimum independence rate of 30% regardless of the share of minority interests in the capital.

Combination of the functions of General Management and Chairperson

- Vote against the accumulation of the mandates of General Management and Chairperson.
 - but flexibility is granted in specific cases where this accumulation is transitory (less than 2 years) and in exceptional circumstances. In this case, we expect the company to commit to certain levels of control of the board (strong independence of the board and its committees, etc.)
- Vote against the election or re-election of a former General Manager as Chairman of the Board

Excessive number of mandates

- Vote against directors who sit on too many boards

One seat per board member



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- In cases where a board member holds more than one seat on a board as a natural person and representative of a legal entity, vote against the seat of representative of the legal entity and for that of a natural person.

Composition of committees

- Vote against the election of members of the company's management to audit and remuneration committees. If a company does not have an audit or compensation committee, the entire board is deemed to represent the committees.
- Vote against the election of censors to the Board of Directors

Discharge of the Board of Directors and General Management

- Vote to discharge the Board of Directors and General Management except in the event of reliable information on major controversies that the Board is not fulfilling its fiduciary duties.

Remuneration

The principles to which LFAM is bound in terms of remuneration of corporate officers:

- Clear and comprehensive information with regard to remuneration
- An appropriate remuneration structure with a focus on creating long-term value for shareholders
- Avoid provisions that result in "rewarding failure"
- An independent and effective remuneration committee
- Avoid unjustified remuneration for directors

Remuneration of executives

Take into consideration the ISS *Pay-for-Performance* evaluation criteria

- Positioning vis-à-vis peers:
 - ✓ Degree of alignment between the "Annualised Total Return to Shareholders" and the ranking of the CEO's total remuneration with his peers (measured over three years)
 - ✓ Total remuneration of the Chief Executive Officer vs median of comparable peers
- Degree of alignment between the change in terms of the CEO's total remuneration and that of the "Annualised Total Return to Shareholders", over the past five years.

Remuneration of non-executive directors:

- Vote against undue remuneration of non-executive directors and, where applicable, vote for their remuneration in cash

Remuneration policy in company shares

- The potential volume of the company's share-based remuneration plans must not exceed 10% of the share capital.

- All companies that have signed the AFEP-MEDEF code must make the entire variable portion of remuneration conditional on performance criteria. The other companies must ensure that at least part of the variable remuneration is subject to performance criteria.

Financial and extra-financial transparency

Financial results and auditors report

- Vote in favour of company accounts and auditors except when there are concerns about the accounts presented or the audit procedures used or if the company does not respond to requests to publish material that should be public.

Appointment of auditors and approval of their remuneration

- Vote for the re-election of auditors and authorise the Board to set the remuneration of the auditors except:
 - In the event of serious doubts over the accounts
 - When the auditors have had links in the past with the company that may cast doubt on their actual independence
 - In the event of a lack of transparency on the behalf of the auditors or any unexplained change
 - For companies with diversified capital, if the remuneration of auditors for other services exceeds 100% of the remuneration received as an accounting auditor (or any other threshold established locally)

Breakdown of the result

- Vote for unless the dividend distribution is repeatedly below 30% without a convincing explanation or the proportion of dividend distributed seems too high in view of the company's finances
- Vote for the payment of a dividend in shares unless the proposal does not also provide for the possibility of payment in cash

Threshold-crossing declaration – shareholding

Vote against the proposals aiming to lower the threshold for declaring the crossing of thresholds for the holding of shares below 5%, except in the event of specific and pertinent reasons

Shareholders' rights

Capital structure

- Vote for resolutions aimed at maintaining or transforming the capital structure into “one share, one vote”.
- Vote against the creation or maintenance of a double structure or the creation of new shares with multiple voting rights.

Florange Law



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For French companies which:

- Did not have a provision allowing double voting rights before the law came into force on 29 March 2014
- **and** which currently do not have a provision prohibiting double voting rights and which do not have a resolution submitted (by management or shareholders) to a vote of shareholders prohibiting double voting rights.

Vote against on a case-by-case basis:

- The re-election of directors or of the supervisory board; or
- Approval of the discharge given to the directors; or
- If neither of the two previous cases seems appropriate, vote against the approval of the accounts and the annual report

Dividend

Vote against resolutions without a cash option unless the management of the company demonstrates that such an option is harmful to the interests of the shareholders.

Shareholding thresholds

Voting against the resolutions aiming at increasing the shareholding declaration to less than 5% of the capital unless there are specific reasons for this change.

Anti-takeover mechanisms

Vote against all proposals to put in place anti-takeover measures except where they are worded in such a way as to give shareholders the last word on any proposal or offer.

Mergers and acquisitions

Case-by-case vote on M&A transactions taking into account the following factors:

- Valuation
- Rationale for the strategy
- Conflicts of interest
- Governance of the new entity
- Impact on stakeholders

External resolutions and resolutions of a social and environmental nature
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In general, LFAM looks favourably on environmental and social resolutions that create value for stakeholders and shareholders. The reading of these proposals is based in particular on the review of the following elements:

- Is the proposal formulated well and reasonable?
- Will its adoption have a positive (or negative) impact on enterprise value in the short or long term?
- What are other companies in the sector doing in this area?

GLOSSARY

PRI Principles for Responsible Investment: The PRI is an initiative launched by investors (20 investors from 12 countries, including the FRR in France) in partnership with the UNEP Financial Initiative (UNEP FI) and the UN Global Compact. Built around six Principles, the PRI's mission is to participate in the creation of a sustainable financial system. To date, they bring together more than 3,000 signatories (institutional investors and management companies) from around 50 countries and manage \$103 trillion in assets.

La Française SIR: *La Française Sustainable Investment Research*, the La Française Group's research and expertise centre for ESG and climate factors.

ISS: *Institutional Shareholder Services*. ISS is a consulting firm specialising in voting policies and the exercise of voting rights for investors.

POA: *Power of Attorney* or delegation of power. It is necessary in order to be able to exercise voting rights in certain countries.

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