

LA FRANÇAISE ENGAGEMENT POLICY



LA FRANÇAISE
investing together



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. As such we have defined our first engagement policy in 2019 which we now review during the yearly engagement committee held in Q4 of each year. If updates have been decided, then we reflect them in a new version of the policy. We have reported since our first engagement policy was set up on what has been done during the past 12 months in our 'engagement report'.

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 a number of investors joining forces to carry their message and questions to a company or to a number of companies facing the same industry-specific challenges.

While we are normally a small 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.

Resources

Individual engagements are conducted by all of our analysts and portfolio managers with portfolio companies. Meetings and exchanges with companies are documented, traced and shared through our front-office tool. We can therefore ensure effective follow-ups and assess progress against targets.

Collaborative engagements can be company specific in 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.

Engagement Process

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

1. Follow a process for selecting and prioritising engagements
2. Set objectives for our engagements
3. Conduct the engagement and report outcomes
4. Escalate if engagement target does not deliver set objective

We therefore have set up a process for selecting and prioritising engagements whereby:

- We engage with companies in which we have a major stock or debt position
- We engage with companies where we have significant concerns

¹ Transparency code for the equity expertise of La Française Asset Management is available [here](#), and for the credit expertise [there](#)

- We ensure 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 programme 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.

Escalating will include the following steps: i. Going public with engagement ii. AGM voting, questions, filing resolutions, talking to peers iii. Watchlist, i.e. no further investment/underweighting iv. Divestment with reinvestment hurdle.

Engagement themes

We have set themes for engagement that are aligned with our investment strategies, mainly around climate change and human capital but also around access to key data points.

La Française Group has developed a Carbon Impact strategy with thematic funds across equity and credit, whose objectives are to invest in companies that are part of the transition to a low carbon economy in support of a 2°C global warming target. Based on this strategy, climate change is the priority within our engagements.

Transition to a decarbonised economy will only be possible if this transition is inclusive and that social aspects are 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. Human capital is therefore our second engagement priority, initially insisting on the urgent need to improve companies' disclosure and transparency on this subject.

These priorities were defined in 2019 when we published our first engagement policy. They have been reviewed and confirmed for 2021 by the 'engagement committee' composed of representatives from equity, credit, ESG research and sustainable investment teams.

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 conduct what we believe is a constructive dialogue with listed and non-listed companies (approx. 300 companies met -virtual and in-person in 2020). We concentrate those dialogues on selected issues where we need clarification for our analysis or that we deem essential for the company's strategy and business model and for which we lack clarity or guidance. Those issues vary not only from one sector to the other, but also from company to company. 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 an issue (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 should take different forms. We focus on the two themes prioritised for La Française, i.e. climate change and human capital.

- 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. That is notably the case for issues concerning human capital.
- For climate change we make the following distinction:
 - Low-emitting sectors: through our Carbon Impact Analysis we have a standardised methodology for all companies and can use it as a starting point to find out the missing points and concentrate on them during engagement.
 - For high-emitting sectors we have set up a specific assessment within our Low Carbon Trajectory methodology whereby our analysts conduct a deeper assessment of the climate change strategy and emissions pathway and list questions to enter into a dialogue. These interactions are conducted by the analyst or the portfolio manager.

In addition to such thematic issues, we pursue engagement when we have significant concerns about a company's ESG quality or behaviour. For the latter, we assess potential violations of the UN Global Compact.

Answers to our questions are documented in our front office tool. 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 as part of our Carbon Impact strategy 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 credit exposure, 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.

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 with a focus on both themes defined as our priorities: climate change and human capital.

In addition, we are active participants of Climate Action 100+, CDP's engagement initiatives and the Workforce Disclosure Initiative.

We aim to be agile and to be able to join forces with other investors when we think the subject is an important matter and aligned with our priorities and are prepared 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.

Policy & Advocacy

We believe we can be active through advocacy and are active members of dedicated organisations 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.

Furthermore, we influence policy as PRI members and investment committee member of the UNEP FI. For example, we conducted a case study of the EU Taxonomy as part of the PRI's Practitioner Group during 2020. These case studies help regulators to fine-tune their final draft regulation based on the experience of over 40 investment managers and asset owners that worked to implement the EU Taxonomy on a voluntary basis in anticipation of the upcoming European regulation.

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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