

# Engagement Report

2021



**LA FRANÇAISE**  
investing together



## Table of Contents

<b>Initiatives historically supported and joined in 2021</b> .....	3
Initiatives historically supported .....	3
Initiatives joined in 2021 .....	5
<b>Company Specific Engagements</b> .....	6
Volkswagen (Direct Engagement) .....	6
Barclays (ShareAction).....	6
Grünenthal (Direct engagement) .....	6
Bayer (Pooled engagement with ISS) .....	7
<b>Collaborative Engagements</b> .....	8
<b>ClimateAction100+</b> .....	8
Volkswagen :.....	8
Walmart :.....	8
<b>WDI</b> .....	9
<b>CDP Non-Disclosure Campaign</b> .....	9
<b>Plans for 2022</b> .....	10

## Introduction

Active ownership is a key component of La Française being a sustainable investor. As such we have implemented an active and dedicated voting policy<sup>1</sup> and report on an on-going basis on our votes<sup>2</sup> at General Meetings. Engaging with companies in active dialogues, joining shareholder coalitions and pushing forward a specific agenda through stewardship activities are also part of our sustainable investing strategy. This document reports on what has been done in relation with our engagement policy<sup>3</sup>, which we have reviewed for 2022. Overall, we had a dialogue with **17 distinct companies** through direct engagement or in collaboration with other organizations and/or investor groups over the course of 2021.

## Initiatives historically supported and joined in 2021

La Française has been a longtime supporter of key initiatives in the sustainable investment field and is analyzing on an on-going basis what actions to take in the light of its engagement policy.

### Initiatives historically supported

With a more than 10-year commitment to sustainable investment, La Française has a longstanding record as an active investor in France and internationally. La Française is open and transparent about its commitment to sustainable investment and supports initiatives we believe are aligned with our policy. To share and reflect on our experience we are members or signatories of the following initiatives, coalitions, and groups mentioned in Table 1 below.

*Table 1: Initiatives in which La Française holds membership*

Organization	Year Joined	Principle Mission
<b>International</b>		
<b>PRI</b>	2010	Support the adoption of ESG criteria investment
<b>CDP</b>	2013	Need for common data and transparency
<b>UNEP FI</b>	2017	Share experience of sustainable finance among leading asset managers
<b>WDI</b>	2017	Encouraging better disclosures from companies on human capital aspects
<b>ShareAction</b>	2019	Joining the call for better data and transparency
<b>Climate Action 100+</b>	2017	Engaging with companies for climate change related topics
<b>National</b>		
<b>FIR – French SIF</b>	2007	Support the adoption of ESG in France
<b>FFS – Italian SIF</b>	2017	Support the adoption of ESG in Italy
<b>UKSIF – British SIF</b>	2020	Support the adoption of ESG in the UK
<b>AFG – Comité IR</b>	2017	Reflect on Responsible Investment among the AM profession

<sup>1</sup> [La Française Voting Policy](#)

<sup>2</sup> [Exercise of the Voting Rights](#)

<sup>3</sup> [La Française Engagement Policy](#)

Over the last decade, we have also supported various multilateral groups and organizations in developing and improving methodologies, implementation of new rules, and creating more awareness on activities related to sustainable investing. A summary of these can be found in the table below.

Table 2: Initiatives where La Française provides support

Initiatives	Year Joined	Principle Mission
<b>Global Statement on Investor Obligations and Duties (UNEP FI and Generation Foundation)</b>	2016	Support the evolution of what is fiduciary duty
<b>PRI collaborative engagement water risks in agricultural supply chains</b>	2015-2020	Support specific action on water risks
<b>PRI Statement on ESG in Credit Ratings</b>	2016	Support the inclusion of ESG in credit rating assessments
<b>Green Bonds Principles</b>	2017	Support Green Bonds principles shared among the profession
<b>G20 Energy Efficiency Investor Statement (PRI, UNEP FI, Ceres)</b>	2017	Support Energy Efficiency as a key factor for fighting climate change
<b>Support to TCFD recommendations</b>	2017	Support the implementation of TCFD recommendations by companies worldwide
<b>UNEP FI Pilot group on the implementation of TCFD recommendations</b>	2018-2019	Test how to best implement TCFD recommendations among investors
<b>Global Investor Statement to Governments on Climate Change (CDP, Ceres, PRI, IIGCC, UNEP FI)</b>	2018	Bring climate change awareness at government level
<b>Open letter to Index Providers on Controversial Weapons</b>	2018	Push for a wide implementation and use of controversial weapons free indices
<b>Integrated Reporting (IIRC)</b>	2018	Support for IR as a route to better understanding of performance
<b>Transition Pathway Initiative (TPI)</b>	2019	Committing to using the TPI tool and its findings to inform our investment research and engagement.
<b>Science-Based Targets Initiative (SBTi)</b>	2019-2020	Part of working group to develop guidance for institutional investors; participated in testing of the methodology
<b>PRI EU Taxonomy Practitioners Group - Case Study</b>	2020	Tested the implementation of the EU Taxonomy for sustainable activities <sup>4</sup>

<sup>4</sup> [Testing the Taxonomy: Insights from the PRI Taxonomy Practitioners Group](#)

## Initiatives joined in 2021

### **Net Zero Asset Managers Initiative (NZAMI)**

La Francaise Group signed up to NZAMi in June 2021. We will report our first group-wide emissions reduction target in 2022 in line with the requirement to reach net zero GHG emissions by 2050.

### **Plastic Pollutions Treaty (WWF, Ellen MacArthur Foundation, PRI)**

In June 2021, PRI opened a collaboration with Ellen MacArthur Foundation, WWF and BCG on ‘The Business Case for a UN Treaty on Plastic Pollution’. Over 50 companies from across the plastics value chain had already joined the manifesto (first created in October 2020) and PRI had opened it for financial institutions to join the same.

In a joint report, *The Business Case for a UN Treaty on Plastic Pollution*<sup>5</sup>, WWF, the Ellen MacArthur Foundation and Boston Consulting Group concluded that despite a doubling of voluntary initiatives and national regulations over the last five years, plastic waste continues to leak into the environment at alarming rates – with more than 11 million tons of plastic flowing into our oceans each year. There is an urgent need to amplify current efforts through a more coordinated and ambitious approach.

We joined the call in August 2021, being a part of the first cohort of financial institutions to support the cause. We supported the campaign by participating in information sessions, using our social media to share the initiative, etc. On 2<sup>nd</sup> of March 2022, during the UN Environment Assembly in Nairobi, the UN Members from 175 nations agreed to develop a global treaty to end plastic pollution. An International Negotiating Committee (INC) will be convened during the second half of 2022, with the ambition of developing a legally binding treaty by the end of 2024.

We are proud to have joined the call early in the campaign and we will continue to contribute in the best way we can.

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<sup>5</sup> [The Business Case for a UN Treaty on Plastic Pollution](#)

## Company Specific Engagements

We engage in both direct and collaborative dialogues with companies on ESG topics, especially concerning climate change and human capital related issues. Following on from our work in 2020, this year we continued to expand our coverage of companies in high-emitting sectors, for which we assess their alignment with climate benchmarks that are consistent with the objectives of the Paris Agreement.

We also expanded our engagements across different sectors and encouraged companies to accelerate their carbon reduction efforts to become Paris-aligned. Some prominent initiatives are outlined below:

### Volkswagen (Direct Engagement)

We initially engaged with VW (Volkswagen) as they stopped reporting fleet emissions outside Europe. This made it difficult for La Française, and other asset managers to compare VW's global fleet emissions trajectory versus other automotive manufacturers. The goal of the engagement was to encourage them to restart reporting of fleet emissions for the main markets where the group face carbon regulations: USA, China, South America. After just one month, we managed to get VW to agree to provide CO2 data for China & North America. South America was excluded as the market did not have critical mass for VW, and each country has very different requirements. It must be noted that the success of this engagement was partially down to other investors expressing similar grievances, such that VW could no longer ignore investor requests.

### Barclays (ShareAction)

La Française signed a letter from the NGO ShareAction sent to the then-CEO of Barclays on the topic of its energy policy. Whilst the letter acknowledged the progress that the bank has made in recent years, particularly with regards to setting emissions reduction targets, it nonetheless expressed concerns over the bank's exposure to fossil fuel assets – namely coal and oil sands. The purpose of the engagement was to call on the bank to tighten its restrictions for providing financial support to these industries, and to commit to a time-bound plan to phase it out.

The tone and ask of the letter aligned with our internal assessment of the bank and the objectives of our Carbon Impact strategies, and so we were proud to put our name to the campaign. As far as we are aware, Barclays has not issued a formal public response, but we continue to monitor progress and any new developments, and remain in contact with ShareAction, with the possibility of supporting future engagements.

### Grünenthal (Direct engagement)

Grünenthal is a private healthcare company making painkillers, including opioids for medicinal use. Its annual report 2020 was hardly 35 pages long and it did not have a separate Sustainability Report. Disclosure-wise, it was found lacking on all fronts, including climate change.

To address our concerns, we formalized our expectation in relationship to climate change and presented these expectations to the company through a signed letter sent in July 2021. The letter was addressed to the CEO, Mr. Baertschi, requesting action on 5 main areas:

- Adding climate change strategy to its EHS policy and disclosing the amended policy on its website.
- Responding to the annual CDP Climate Change questionnaire for the first time in 2022.

- Disclose Scope 1 and 2 emissions, energy consumption and use of renewables on a group level in its next annual report
- Measure and report on Scope 3 emissions, no later than end of 2022.
- Set a science-based target on carbon emissions, by 2023.

The company responded in August 2021, saying that it was working on updating and enhancing its external sustainability reporting and will take our suggestions into account. The company has, since then, improved their website quite significantly adding planet/environment as a separate pillar of its overall sustainability strategy. However, the Environmental plan is still rudimentary and does not include any tangible covenants we had suggested in the letter. We intend to follow-up with the company at the one-year mark of our letter to reiterate our expectations.

### Bayer (Pooled engagement with ISS)

Bayer was in our restricted list due to an NBR (Norm-Based Research) score of 10 by ISS for an ongoing controversy (for decades) regarding one of its pesticides (neonicotinoids) and its harmful effects on pollinators (bees). In April 2021, we participated in a pooled engagement call organized by ISS with Bayer top management on this case. Prior to the call, Bayer issued a report on the topic titled 'Neonicotinoids insecticides @ Bayer: Systematic risk mitigation and portfolio evolution towards minimized risk for the environment'.

During the call, Bayer discussed several measures it had undertaken towards the remediation of the effects of its neonicotinoids products. Some of these were:

- Bayer has announced several measures to avoid the dust formation from treated seeds and its transfer to environment - Heubach test, Baystep technology, fluency agent, deflectors, etc.
- For spray applications, Bayer is doing label revisions and use reductions and follows FAO guidelines on Good Labelling practices. Bayer also advocates for globally harmonized system (GHS) for labelling and classification of chemicals.
- In the last 10 years, Bayer reported engaging in more than 50 research collaborations globally to promote bee health and pollinator safety.
- Bayer has launched some bio-insecticides (Flipper) and bio-fungicides over the past years with enhanced safety profiles for beneficial insects.

In our view, although the neonicotinoids issue had been the reason for ISS to flag Bayer as high risk for a long time, impacts of chemicals on environment and biodiversity is not limited to bees/pollinators. Bayer's efforts towards broader environmental risk management are to be considered in more depth including emissions, pollution and biodiversity loss. Nevertheless, we recognized the firm's efforts towards mitigating the relevant concerns on this case by better training/education of farmers, investing in alternative products, appropriate labeling and certifications, and engagement with the wider public, investor and scientific community on the topic as important steps in the right direction.

Overall, based on the enhanced engagement and definite steps towards mitigating the issue, ISS reduced the severity rating on the issue (to 7). As a result, during the subsequent Stewardship Committee meeting, it was decided to remove Bayer from our restricted list.

## Collaborative Engagements

We are active participants in collaborative engagement initiatives. Our engagement strategy is in line with our thematic focus on climate change and human capital. Along with enhancing our relationships with ClimateAction100+ and CDP, we were active with WDI (Workforce Disclosure Initiative) in 2021.

These are described in detail below.

### Climate Action 100+

#### Volkswagen :

Mid-2021 we joined the engagement group for Volkswagen, following our successful engagement on the fleet emissions. The group is led by Hermes investment and BMO Asset Management, and La Française AM is supporting the group's effort by helping with climate-related matters.

Soon after we joined we signed a collective letter the supervisory board of Volkswagen to highlight our expectations for Paris aligned accounts<sup>6</sup>. To meet these expectations, Volkswagen should make five disclosures in their annual report:

- An affirmation that the goals of the Paris Agreement have been considered in drawing up the accounts.
- Adjustments to critical assumptions and estimates: An explanation for how critical accounting judgments are consistent with achieving net zero carbon emissions by 2050. If directors choose not to use Paris-aligned assumptions, they should explain why in the Notes to the accounts.
- Sensitivity analysis: Results of sensitivity analysis linked to variations in these judgements or estimates. If directors choose not to use Paris-aligned assumptions in their core accounts, they should provide details in the Notes to the Financial Statements on how Paris-aligned assumptions would impact the reported financial statements.
- Dividend resilience: Implications for dividend paying capacity of Paris-alignment (e.g., threshold assumptions that would trigger cuts to dividends). This is particularly important where companies have not used Paris-aligned assumptions in their core accounts.
- Consistency: Confirmation of consistency between narrative reporting on climate risks and the accounting assumptions, or an explanation for any divergence.

More recently we have started a parallel engagement on the lobbying issue following the disclosure of the Climate Action 100+ Net-Zero Company Benchmark where Volkswagen could improve its score on indicator 7 "Climate policy engagement". We have encouraged Volkswagen to align its disclosure with the requirements of this indicator by the end of 2023.

#### Walmart :

Towards the end of 2021, we also joined the engagement group for Walmart. The group is led by investors from Hermes EOS and Breckinridge Capital Investors and has been engaging with Walmart for a number of years.

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<sup>6</sup> <https://www.iigcc.org/resource/investor-expectations-for-paris-aligned-accounts/>



At the time of joining, the agenda for engagement was motivated by the gaps identified by the CA100+ Net-Zero Corporate Benchmark assessment carried out mid-2021. Despite considerable improvements in recent years, this study highlighted four main areas for improvement where the CA100+ group are calling for accelerated action. These include tackling its supply chain emissions – specifically how to handle laggard suppliers – and demonstrating capital expenditure alignment with climate targets.

We look forward to playing a more active role in this engagement group in 2022.

## WDI

The Workforce Disclosure Initiative (WDI) aims to improve corporate transparency and accountability on workforce issues. As a member of the WDI, we joined the collaborative efforts in encouraging companies to take part in the 2021 survey. Of the two hundred target companies identified by the WDI, we first filtered by country, on the basis that our name carries most clout with French companies, and from there selected those which were part of our Human Capital fund. On that basis, we engaged with **LVMH, Kering, BNP Paribas, Saint Gobain** and **Accor**, with positive outcomes in all five cases.

## CDP Non-Disclosure Campaign

CDP runs three capital-markets orientated campaigns – Climate Change, Water and Forests. Each campaign plays a key role in either engaging with companies on enhanced environmental disclosure or driving adoption of best-practice initiatives for the transition to a low-carbon and nature-positive economy. According to CDP, the 2021 NDC (Non-Disclosure Campaign) saw a 56% rise in the number of financial institutions signing up to the campaign compared to 2020, leading to a total of 168 FIs representing over US\$17 trillion AUM. This year the campaign targeted 1317 distinct companies representing over US\$29 trillion in market capitalization and over 4.9 billion tCO<sub>2</sub>e in combined scope 1 & 2 emissions. The disclosure rate for companies targeted by participants rose from 21% in last year's campaign to 25% this year.

CDP provides the financial sector with the most comprehensive collection of self-reported corporate environmental data in the world, in a uniform and comparable manner, and one that is fully aligned with the Task Force on Climate-Related Financial Disclosures (TCFD). We increasingly view CDP reporting as a minimum requirement for any company demonstrating its commitment to measuring and managing its climate-related impact.

We participated in the CDP Non-Disclosure Campaign for the third consecutive year in 2021, calling on high-impact companies to use the CDP questionnaires to report information on climate change. In this capacity, **we acted as Lead Investors for the engagement with HelloFresh and supported an additional six engagements with companies** that were of particular interest to us from a carbon impact perspective (**Broadcom Inc, BYD, SPIE, Amazon, Facebook** and **Prosus**).

With regards to **HelloFresh**, we sent a letter directly to the CEO outlining the reasons for our support of the CDP information request and highlighting the importance of disclosure. On this occasion we did not hear back, and though we had planned to follow up, prevailing market conditions led to the sale of our equity stake in HelloFresh, which prevented us from continuing our engagement.

We remain committed to the CDP engagement campaign and will continue to encourage investee companies to report in 2022 – as part of the formal Non-Disclosure Campaign, and/or directly as part of our ongoing interactions with company management and investor relations.

## Plans for 2022

Going forward into 2022, we plan to continue strengthening our collaborations, especially with CDP, PRI and WDI, and expand our company engagements and collaborative initiatives. We believe that commitment to long-term engagements enhances value creation, and we aim to support our investment teams through our efforts. We will, hence, continue to strengthen our stewardship and engagement efforts throughout 2022.

### **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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