

## Voting policy

### Voting policy - La Française Asset Management

Some of the ingredients of good corporate governance are clear: a balance of powers, dedication to the common good of all shareholders (network governance) and concern for human dignity within the company's sphere of influence. That said, good corporate governance in general remains as hard to assess and quantify as good governance of the state. It relies on concepts such as corporate culture, the ability to put across a shared vision or to execute a strategy in the same way as governance in the political sphere relies on social trust. At bottom, both types of governance are concerned with the creation of a motivating myth. Hard to define it may be, but governance remains the critical factor in any investment process; without it, everything falls apart: financial metrics, market value, the dynamism of the company. At state level, governance is an indicator directly related to wealth creation.

La Française Asset Management ("LFAM") is particularly sensitive to the implementation of high standards of corporate governance at the companies our funds invest in. It is these standards that safeguard the interests of clients, support the creation of shareholder value and help enhance the integrity of financial market transactions.

And as the AFG (French Asset Management Association) points out "Good management means good voting".

#### **I. Voting policy: organisational structure**

LFAM's voting policy and its implementation are controlled by a Governance Committee (the "Committee").

The Committee comprises the CEO, a representative equities investment manager, and representatives of the Risk, Compliance and Internal Control, Product Legal and SRI (socially responsible investment) departments.

The Committee sets voting policy for all funds managed by LFAM. The policy allows us to analyse typical resolutions put to the AGMs of companies in which LFAM funds hold shares. It defines the principles that LFAM applies in exercising its voting rights based on best practice in France and internationally.

## Voting policy

Voting decisions are taken in accordance with the voting policy approved by La Française Inflection Point. The Committee delegates to fund managers (i) analysis of the resolutions submitted to the AGMs of investee companies and (ii) the final say on how to vote.

The Committee meets once a year to review the voting policy, amend it where necessary and consider any conflicts of interest.

The voting policy adopted by LFAM is based on the ISS (Institutional Shareholders Services) Sustainability Policy and is implemented by this service provider. The ISS Sustainability policy can be found at: <https://www.issgovernance.com/file/policy/2017-sustainability-international-voting-guidelines.pdf>

## II. Exercise of voting rights at LFAM

LFAM considers that the real exercise of voting rights helps to better safeguard the interests of fund unitholders.

LFAM exercises its rights, wherever possible, in all companies whose shares are held either in fund portfolios or under investment mandates and aims to vote at 100% of AGMs. To this end, the asset management firm has set up a number of powers of attorney which are needed to vote in certain foreign jurisdictions. Currently, LFAM has granted powers of attorney in:

- Sweden
- Switzerland
- Belgium
- Denmark (since the start of 2017)

LFAM has formalised its policy for voting at AGMs using ISS's electronic voting package "Proxy Voting". This package means we can vote at all companies whose shares we hold either in funds or under mandate. Since partnering with Inflection Point Capital Management ("IPCM"), LFAM has reviewed its voting policy to match our SAI™ investment approach. Following discussions with ISS, we adopted the Sustainability Policy which seemed to best fit our SAI™ process and our commitments as a signatory of PRI (principles for responsible investment).

However, it also seemed to us essential that we should remain free to express views on certain sensitive and potentially contentious issues. We have therefore created a system of alerts that refer certain predefined types of resolution to IPCM for an opinion. This means that in certain circumstances we can vote differently from the recommendation given by ISS. Alerts typically relate, for instance, to resolutions on remuneration or M&A or those proposed by shareholders.

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This voting policy was applied for the first time at AGMs held in 2015 and again during the 2016 AGM season.

In most cases, votes are cast online using whatever software is available in accordance with the voting policy. For French companies, the investment manager also fills in a Proxy Card which is sent to the depositary so that votes cast are recorded by the Company. These forms are available on the ISS platform.

A deputy manager in the La Française team has specific responsibility for voting at AGMs. He works in consultation with an investment manager and an IPCM analyst, drawing on analyses of resolutions by ISS. He also receives, as do the IPCM manager and analyst, the alerts that we issue.

The IPCM analyst and, where applicable the investment manager, check on receiving an alert whether the ISS analysis of the resolution is compliant. If not, after discussion with the IPCM Head of Research, he contacts the deputy manager to send a different voting instruction to that recommended by ISS.

### **III. Managing conflicts of interest**

La Française group's policy on managing conflicts of interest is a key element in the La Française code of conduct and can be found at: [http://www.lafrancaise-am.com/fileadmin/docs/corporate/Politique\\_gestion\\_conflits\\_interets\\_Groupe.pdf](http://www.lafrancaise-am.com/fileadmin/docs/corporate/Politique_gestion_conflits_interets_Groupe.pdf)

As regards governance, LFAM exercises its voting rights solely in the best interest of unitholders and in compliance with its fiduciary responsibility and the principles we have outlined above and which are explained in detail in part IV.

We have put in place a procedure to prevent, identify and manage conflicts of interest in the exercise of voting rights. Any potential conflict of interest is examined by the Governance Committee to make sure it does not affect the free exercise of voting rights. After deliberation in the Committee, taking account of a reasoned opinion by the Head of Compliance and Internal Control, the Committee issues a final opinion on the voting policy to adopt which it notifies to all those responsible for voting in the Group.

Also, any employee who becomes aware of a potential conflict of interest must notify the RCCI.

The conflicts of interest LFAM may encounter are generally of three types:

- The investee company affected by the vote is a major client of La Française
- The director of an investee company is personally a major client of La Française
- The director of an investee company is in some way related to La Française

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In 2016, La Française Asset Management identified no conflicts of interest that might influence the free exercise of voting rights at AGMs of companies whose shares were held in fund portfolios.

### IV. Principles

LFAM's policy, which draws on the analysis of governance as practised by our partner Inflection Point Capital Management, the PRIs to which LFAM is signatory and complies with Principle no. 2, is structured around 4 main principles:

- Responsibility of the Board of Directors
- Remuneration
- Transparency, i.e. true, fair and timely reporting, both financial and non-financial
- Shareholders' rights

Finally, we pay special attention to external resolutions, particularly those with environmental or social implications.

#### **Board of Directors**

##### Independence

- Vote against resolutions that bundle together the appointment of more than one board member.
- Vote against the appointment or reappointment of a non-independent member (other than the CEO) if:
  - Less than 50% (excluding the employee representative) of directors elected by shareholders are not independent.
  - Less than one third of all board members are not independent.

In companies owned by a single majority shareholder (50% + 1)

- Vote against the appointment or reappointment of non-independent members if this reduces the independent representation on the board to below the percentage of capital held by non-controlling shareholders, with minimum representation for independent directors of 30%, whatever the share of capital held by non-controlling shareholders.

##### Combining the roles of Chairman and CEO

- Vote against the combination of the roles of CEO and Chairman.
  - but some discretion is allowed in specific cases where such a combination is short term (less than 2 years) and where exceptional circumstances prevail. In such cases

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we expect the company to give guarantees as to the control of the board (high level of independence on the board and its committees, etc.)

- Vote against the appointment or reappointment of a former CEO as Chairman of the Board

### **Excessive number of directorships**

- Vote against corporate officers who sit on too many boards

### **One seat per director**

- Where a director has one seat on a board individually and another as representative of a legal entity, vote against their appointment as representative and for their appointment as an individual.

### **Composition of committees**

- Vote against the appointment of members of the company's management to the audit and remuneration committees. If a company has no audit or remuneration committee, we take the view that the full board is fulfilling the role of the committee and we therefore oppose the appointment of any representative of company management (including the CEO).
- Vote against the election of *censeurs* (directors with an advisory role) to the board of directors

### **Discharge of the Board of Directors and General Management**

- Vote to discharge the Board of Directors and General Management of any liability arising from their stewardship of the company except where there are reliable grounds, based on strong evidence, that the board has failed in its fiduciary duties.

## Remuneration

Our guiding principles for the remuneration of corporate officers are as follows:

- Clear and complete information on remuneration
- An appropriate remuneration structure emphasising the creation of shareholder value over the long term
- No provisions that result in "rewards for failure"
- An independent and effective remuneration committee
- No unjustified remuneration for directors

### **Remuneration of management**

Consideration of ISS pay-for-performance criteria

- Remuneration compared to peers:

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- ✓ Alignment between “total shareholder return” and the ranking of CEO’s total remuneration versus his/her peers (measured over 3 years)
- ✓ Total remuneration of the CEO versus median remuneration of comparable peers
  
- Alignment between the change in total remuneration of the CEO and "Total shareholder return" over the last 5 years.

### **Remuneration of non-executive directors:**

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

### **Policy on share-based payments**

- Potential payments under plans for remuneration in company shares must not exceed 10% of the share capital
- All companies signed up to the Afep-Medef code must make the whole amount of variable remuneration conditional on performance criteria. Other companies must make sure that at least part of variable remuneration is conditional on performance criteria.

## **Financial and non-financial transparency**

### **Financial results and auditors’ report**

- Vote to approve the company’s financial statements and auditors unless there are concerns about the financial statements presented or the audit procedures applied or if the company fails to respond to requests to disclose items that should be in the public sphere.

### **Appointment of auditors and approval of their remuneration**

- Vote to reappoint auditors and to authorise the board of directors to set auditors’ remuneration unless:
  - there are serious concerns about the financial statements
  - the auditors have prior links with the company which might raise doubts as to their genuine independence
  - there is a lack of transparency about the name of the auditors or an unexplained change of auditor
  - in companies with widely dispersed ownership, the remuneration of auditors for other services exceeds 100% of their remuneration for audit services (or any other locally set threshold)

### **Payment of dividends**

- Vote for, unless the dividend payout is repeatedly less than 30% with no convincing explanation or the payout seems too high given the company's financial position
- Vote to allow payment of a scrip dividend provided the proposal also allows shareholders to take their dividend in cash

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### Declarations of threshold breaches – share ownership

Vote against any proposals to reduce the threshold for notification of share-ownership below 5% unless there are specific convincing reasons

## Rights of shareholders

### Shareholder structure

Vote for resolutions that continue or introduce a “one share one vote” system. Vote against creating or introducing double-vote systems or creating new shares with multiple voting rights.

### Florange law

For French companies which:

- had no provisions for double voting rights before the law was promulgated on 29 March 2014
- **AND** which currently have no rules forbidding double voting rights and no resolution, submitted by either management or shareholders, putting a ban on double voting rights to the vote of shareholders.

In these case we may, on a case by case basis, vote against:

- the reappointment of directors or members of the supervisory board; or
- the discharge of directors’ liabilities; or
- if none of the above steps seems appropriate, vote against the approval of the financial statements and the annual report

### Dividends

Vote against resolutions with no cash option except where the company management can show that such an option would harm the interests of shareholders.

### Shareholding thresholds

Vote against resolutions that seek to reduce the threshold for notifying shareholdings to below 5% of share capital unless there are specific reasons otherwise.

### Anti-takeover measures

Vote against all proposals to put in place anti-takeover measures except where these are drafted in terms that give shareholders the final say on any bid or offer.

### Mergers and acquisitions

Vote on a case by case basis on mergers and acquisitions taking into account the following considerations:

- Value
- Wisdom of the strategy
- Conflicts of interest



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- Governance of the new entity
- Impact on stakeholders

### External resolutions and social and environmental resolutions

In general, we look with favour on social and environmental resolutions that permit the creation of value for stakeholders and shareholders. When assessing such proposals the following points should be considered:

- Is the proposal well drafted and reasonable?
- Would its approval have a positive (or negative) impact on the company's value in the short or long term?
- What are other sector companies doing about the issue?

## V. Statistics and outlook

### 2016 figures and highlights of the year

**In 2016, LFAM voted at 93% of AGMs on 90% of resolutions presented.** It is difficult to achieve a 100% voting record as some countries require powers of attorney to be put in place in order to vote. These may be costly and when we only hold a minimal stake in companies listed in such a country we have not arranged a power of attorney. This was the case in 2016 for both Norway and Denmark.

LFAM voted **against 21.5%** of resolutions. These resolutions particularly related to management taking minority stakes, capital increases or decreases that diluted existing shareholders' rights and the remuneration or reappointment of corporate officers.

### 2017

In France, the big issues for 2017 will be:

1. Implementation of the Copé-Zimmerman law requiring 40% representation of women on boards
2. Phasing in of the Sapin II law, first requiring a vote on remuneration which, already obligatory, becomes binding and then in 2018 requiring an obligatory and binding vote on the remuneration report.



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### Changes in LFAM's voting policy in 2017

La Française is deeply involved in the fight against climate change and has developed an expertise and knowledge in this field which it makes available to its clients. For nearly two years now we have been running a forum where investors can reflect on and discuss decarbonisation. We also published a White Paper on carbon risk and a number of other papers for our clients helping explain the language of climate change and the current state of play. Finally, between 2015 and 2016, in cooperation with our partner IPCM, we held a dozen invitation-only dinners for investors to discuss climate change. We believe it is our duty to offer investment solutions that allow investors to take part in the fight against climate change and support the energy transition. It is in this spirit that LFAM set up 2 years ago a fund dedicated to this theme: LFIP Zero Carbon.

Today, La Française is acting to align its voting policy with its climate commitments. We are therefore going to propose to the next Governance Committee to apply a specific climate-related measure at 2018 AGMs called to approve the 2017 financial statements: to vote against the appointment of directors of companies who have not responded to the CDP questionnaire<sup>1</sup>, where they form part of one of the four heaviest greenhouse gas emitting sectors: Oil and Gas, Raw Materials, Local Authority Services, Industrials<sup>2</sup>. We consider that this measure will send a message about the transparency required for a climate strategy, particularly in high-impact industries.

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<sup>1</sup> CDP (formerly Carbon Disclosure Project) : <https://www.cdp.net/fr>

<sup>2</sup> These 4 sectors alone make up 25% of the share capital of the MSCI ACWI index and are responsible for 90% of its carbon footprint

### GLOSSARY

**SAI™** : *Stratégie Avancée d'Investissement* (advanced investment strategy). An innovative method for selecting stocks that combines financial criteria and strategic research: as well as the traditional ESG (environmental, social and governance) criteria we include a company's ability to innovate and react. We analyse Megatrends as a source of contextualisation for company strategy and cross-reference these data with financial analysis.

**IPC**: Inflection Point Capital Management, a research, analysis and consulting firm specialising in non-financial criteria and a partner of La Française

**LFIP**: La Française Inflection Point. LFIP is an asset management firm dedicated to equities. It is the result of a partnership between LFAM and the non-financial research house, Inflection Point Capital Management (IPCM).

**ISS**: Institutional Shareholder Services. ISS is a consultancy specialising in voting policies and investors' exercise of voting rights.

**POA**: Power of Attorney i.e. a delegation of powers. It is required to exercise voting rights in some countries.