



LA FINANCIÈRE  
DE L'ÉCHIQUIER

## Voting and engagement policy

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La Financière de l'Échiquier

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# I. SHAREHOLDER ENGAGEMENT

As a responsible investor, shareholder engagement is an integral part of our business and has been central to our relationship with companies since 2013. Through engagement and dialogue, LFDE seeks to make a positive contribution to their governance and to their environmental and social practices.

## A. The engagement process

Helping to improve the practices of companies and our stakeholders is a long-term process. To ensure the most effective shareholder engagement, we have organised our efforts to make the greatest possible contribution within the scope of our means. As with the exercise of its voting rights, LFDE has **decentralised** its engagement process. All fund managers and analysts are responsible for engaging with the companies whose financial and ESG performance they monitor. They are **responsible for the engagement relationship for all of LFDE's holdings** in that company. We are convinced that the long-term monitoring of companies and the in-depth knowledge thus gained are essential to understanding their challenges and to assessing their progress.

LFDE engages with investee companies in two distinct ways:

- Through **individual engagement**
- Through **collaborative engagements**.

All information gained from our individual and collaborative engagement actions is shared with our asset management team via our Phoenix database, internal meetings and various information channels.

Since 2018, our annual report on the exercise of voting rights also provides an overview of our engagement actions, while providing concrete examples. Our voting and engagement policy is available on our website in the “Responsible Investment” section, on the [“To find out more”](#) page, under the “LFDE Documents – Voting Rights and Engagement” heading.

## B. Individual engagement with companies

LFDE engages individually with companies throughout the life of its investment, mainly by determining areas of improvement, formally defining these areas and presenting them to management.

LFDE conducts its individual engagement approach as follows:

- **For SRI-labelled equity funds:** When an ESG analysis is completed, the fund manager or analyst who follows the company determines a certain number of **areas of improvement**. These areas of improvement are the environmental (including climate change), social and governance practices of the company which LFDE would like to see improve. We want the goals we share with the company to be **realistic, measurable and auditable**. These areas of improvement are **formalised in writing** and **sent to the company**.

During the follow-up meeting, which takes place on average every two years, we assess with management the progress achieved relative to the objectives set (i.e. the areas of improvement achieved, partially achieved or not achieved), and together redefine new areas of improvement. In addition to this formal biennial review, for our Impact funds in particular we make it a point to monitor their areas of improvement more frequently.

- **For SRI-labelled bond and diversified funds and ESG-integration funds:** Unlike SRI-labelled equity funds, engagement with companies is **strongly recommended but not systematic**. Areas of improvement are systematically defined by the relevant fund manager or analyst when each ESG review is completed.

These areas of improvement are also formalised in writing but are not systematically sent to the company. They are, however frequently discussed during **periodic meetings with management teams**, since ESG issues are increasingly discussed with investee companies.

In the following cases, companies are usually informed of their areas of improvement:

- **LFDE holds a substantial stake in the company** and the company is geographically proximate.
- **Unlisted** companies
- Companies with an **ESG rating below 6,0/10**
- Companies **rated B by ratings companies**
- **The ESG issues identified are material**: During the ESG review, if one or more areas of improvement involve ESG issues that are particularly important to the company, the company will be informed of these areas of improvement.
- **Consultation with stakeholders**: It is not uncommon for fund managers and analysts to interact with other stakeholders in the company. If certain common concerns on material issues emerge, then it is important that we as shareholders discuss these concerns with the company's management.
- **Post-AGM engagement**: When engagement at the annual general meeting has already been made on issues that were identified as 'areas of improvement' during the ESG review, it is not uncommon for these issues to be discussed with the company to emphasise their importance.

In its effort to continuously improve its responsible investment approach, LFED aims to strengthen its individual engagement practices and systematically inform companies of their areas of improvement and thus manage all of its funds in a consistent manner. To this end, the RI Research team monitors the percentage of areas of improvement that are sent to companies out of the total number determined each year.

### C. Shareholder engagement at shareholder meetings

Voting at shareholder meetings often provides an opportunity to meet with company management. The resolutions voted on at shareholder meetings are central to the company's operation and development. It is therefore important that LFDE is able to engage with management at this time.

- This engagement may take place **before the meeting**, when we wish to talk with management to gain a better understanding of the reasoning behind a specific proposed resolution and inform them of what responsible investors expect in terms of best practice in formulating resolutions.
- This engagement may also occur **after the meeting**, to discuss why we voted "against" the management team's recommendation on a proposed resolution. This enables us to confirm the importance of good governance practices we expect.

### D. Other forms of individual engagement

Although its engagement actions are mainly intended for companies, LFDE also engages with other stakeholders, such as regulatory authorities and ESG data providers, because we believe that all stakeholders in our ecosystem have a role to play in the development of responsible finance.

- **Engagement with companies (and their stakeholders) on a more discretionary basis**
  - In-depth discussions with companies on specific points that fall outside the scope of the areas of improvement or with external consultants at the company's request
  - Training provided to corporate CSR officers and other financial market participants
  - Submitting written or oral questions at shareholder meetings

- **Engagement with stakeholders in the responsible investment ecosystem**
  - Engagement with ESG data providers (e.g. Trucost, MSCI ESG Research and ISS) to help them improve the quality of the services and data they provide and develop their analytical methodologies and services.
- **Engagement with public authorities on sustainability issues**
  - Responding to consultations prior to the issuance of new regulations, participating in sustainability working groups and advocacy activities (e.g. European Taxonomy, revision of the SRI label specifications, EFRAG consultation on social standards in the context of CSRD, revision of MiFID2 on ESG preferences and the concept of sustainable investment...).
- **Engagement with other fund management companies on their approach to responsible investment**
  - In-depth discussions with fund management companies on their SRI approach when selecting funds for our Allocation strategy, using our “LFDE SRI maturity” methodology
  - Exchanging ideas on areas of improvement.

## E. Collaborative engagement

In addition to its individual engagement with companies, in 2019 LFDE strengthened its collaborative engagement efforts with other investors.

This approach, which is complementary to individual engagement, enables LFDE to:

- Engage on issues that are difficult to address individually
- Target several companies in the same sector simultaneously
- Make its voice heard with companies with which individual engagement would not be effective (see the escalation procedure described in section V.2)
- Engage with companies excluded from its investment universe to support them in their transition (e.g. thermal coal companies).
- We select the collaborative engagement initiatives in which we wish to participate in accordance with our responsible investor policy and approach. The collaborative engagements in which LFDE participates are described in its Transparency Code, which is available in the "Responsible Investment" section, on the [“To find out more”](#) page, under the “LFDE documents – Approach and Methodologies” heading.

## F. Prioritisation of engagement

Engaging with companies is a long-term and time-consuming process. To optimise its effectiveness, LFDE prioritises the allocation of its resources on a case-by-case basis and in accordance with the following criteria:

- **Geographic region and proximity:** LFDE is a long-term investor that has historically - and still today - been mainly exposed to European companies. This proximity with European issuers of securities plays a key role in our engagement decisions, since it ensures a higher probability of success. We therefore favour engagement with European companies which offer this proximity.
- The **materiality of ESG events** that require an urgent need for progress on ESG issues, such as controversies, climate transition plan, violations of international standards, etc.
- The **size of the investment in the company**
- **Alignment with our responsible investor commitments** (see section IV.C for more information)
- The **most carbon-intensive companies**.

## G. Insider information

LFDE may, in some exceptional cases, obtain insider information in the course of its engagement process. In such cases, Internal Control staff will implement market abuse controls to minimise this risk.

## II. THE ENGAGEMENT POLICY

### A. Engagement principles and objectives

The objectives of LFDE's individual and collaborative engagement efforts are to:

- **Get companies to adopt best practices** in terms of their governance, compliance with international standards, and responsibility towards their employees, society and the environment, including the fight against climate change and the loss of biodiversity.
- Encourage companies to be **more transparent**, to enable us to gain a better understanding of their governance and CSR strategy.
- Help companies **improve the measurement of their impacts**.

In its effort to establish a quality shareholder engagement relationship, LFDE strives to comply with the following best practices:

- **Define objectives that are measurable, verifiable and time-bound** (with intermediate and final deadlines) to enable more accurate monitoring of performance and ensure that the impact of our engagement is as measurable as possible.
- Monitor, whenever possible, **the progress that companies have made toward their objectives**. If we feel that the company's trajectory is insufficient in some areas, we will re-engage with the company on these issues.

### B. The main engagement themes

The engagement of LFDE's fund management team focuses above all on the issues that are most important for each company. It is therefore difficult to draw up an exhaustive list of our engagement themes. In addition to the issues listed in the section dealing with our voting policy guidelines, we engage with companies in the following areas:

#### Governance:

- Transparency of the company's governance and internal procedures
- Chief executive succession planning
- Executive compensation
- Composition of governance bodies (proportion of independent members, gender and ethnic diversity, director profiles, etc.)
- Checks and balances
- Respect for minority shareholders
- Evaluation of ESG risks.

#### Environment:

- Environmental roadmap objectives and their milestones
- Transparency (disclosure of environmental performance, supplier audit findings, information on the supply chain, etc.)

- Alignment of environmental targets with best practice and industry standards, such as the Science Based Targets.

#### Social:

- Transparency (disclosure of HR performance indicators: employee turnover rate, occupational accidents, satisfaction surveys, etc...),
- Transparency on all value chain and protection of employees and contractors (safety, social protection, freedom of association, etc.)
- Employee loyalty and support (additional training efforts, reduction of the turnover rate, etc.),
- Responsible management of corporate restructuring.

#### Controversies and Compliance with International Standards:

- The handling of environmental, social and governance controversies
- Human rights violations
- Forced labour and child labour
- Money laundering and corruption.

## C. Specific themes

In its approach to shareholder engagement, LFDE pays particular attention to issues related to its broader policies and commitments, and to those which must be addressed by its SRI-labelled funds.

- **Climate Strategy**

LFDE has strengthened its commitment to fight climate change and to meet the objectives of the Paris Agreement in early 2021, by publishing its Climate Strategy, which contains a policy to regulate the financing of thermal coal. Engagement with companies is a key component of this strategy.

A specific engagement procedure has been defined for the companies in the **thermal coal industry**, to support them in their total withdrawal from thermal coal activities by 2030. In addition to this, companies that are considered to play an important role in the environmental transition are also subject to an enhanced engagement procedure, this is particularly the case for the most carbon-intensive companies, including those exposed to unconventional and controversial fossil fuels for which we have a dedicated exclusion policy. In both of these cases, our engagement will be based on a **detailed analysis using our proprietary "Climate Maturity" methodology**.

LFDE's Climate Strategy and Coal Policy are available on our website in the "Responsible Investment" section, on the ["To find out more"](#) page, under the "LFDE Documents - Approach and Methodologies" heading.

In 2021, LFDE also implemented a new type of engagement in the form of a **multi-stakeholder seminar** for clients, companies, partner organisations and employees, with the objective of sharing information and best practices and discussing impact-related topics in conferences and workshops.

- **Signing of the Finance for Biodiversity Pledge**

In December 2020, LFDE joined the Finance for Biodiversity Foundation initiative, the objective of which is to get financial institutions to promote **biodiversity**. This initiative enables LFDE to focus on biodiversity issues, for which there is a specific engagement process for companies that are particularly exposed to and dependent on biodiversity.

- **The French government's SRI label**

The French SRI label requires certified funds to outperform their benchmark on at least **two ESG performance indicators**, to ensure that these issues are taken into account in investment decisions and that fund managers are committed to improving the profile of their portfolios in respect of these indicators.

LFDE has selected a climate indicator: **Weighted Average Carbon Intensity**. We will therefore be particularly vigilant about the carbon footprint of companies, an SRI theme that will also be at the core of our engagement efforts. The second ESG performance indicator is the global controversy score of data provider MSCI.

- **Impact Doctrine**

Engagement is a **key component of additionality**, which is an essential criterion of impact funds. Additionality is an investor's direct and specific action or contribution which enables an investee company or a financed project to increase its net positive impact. This is why LFDE is strengthening its engagement with companies on **their impacts and the measurement of these impacts**. To encourage these actions, the **variable remuneration** of the managers of LFDE's impact funds is partly **directly linked to the success of impact-related commitments**, the achievement of which is measured over a three-year period.

### III. ESCALATION PROCEDURE

Despite our engagement efforts, some companies may not make a constructive effort to progress in an area which our fund management team considers to be critical. In such cases, LFDE will observe the escalation procedure described below.

The escalation procedure sets forth the various engagement actions which fund managers and analysts may undertake, and which go so far as divestment if unsuccessful.

LFDE's escalation procedure:

#### 1. Identifying engagement themes and establishing a dialogue.

Fund managers and analysts begin by initiating **an active dialogue** with the company's management and **providing areas of improvement** on the SRI themes on which the company is expected to make progress over the short or medium term. This dialogue may occur during **dedicated ESG meetings**, and also before shareholder meetings (**Pre-AGM**), during (**in AGM**) or afterwards (**Post AGM**). During this initial phase, fund managers and analysts define measurable objectives that will be used to assess the company's progress. These areas of improvement are monitored over an extended period and are the subject of numerous interactions between our investee companies and LFDE fund management teams.

#### 2. Escalation

If the company is reluctant to change its practices on the most critical issues, the fund manager or analyst can insist on the importance of these issues by adopting a more "activist" approach. However, LFDE's objective is to be constructive and co-operate closely with the company **by maintaining an open dialogue** to preserve the relationship of trust that has always characterised LFDE's approach to shareholder engagement.

For this purpose, LFDE may implement any or all of the measures listed below:

- Undertake a **collaborative engagement** with other like-minded investors
- Contact **the lead director or a member of the board of directors** to express its expectations
- **Publication of open letters** to the Board of Directors
- **Vote against the reappointment of a director** who is responsible for the particular issue (e.g. a member of the audit or risk committee)
- **Vote against the company's annual financial reports.**



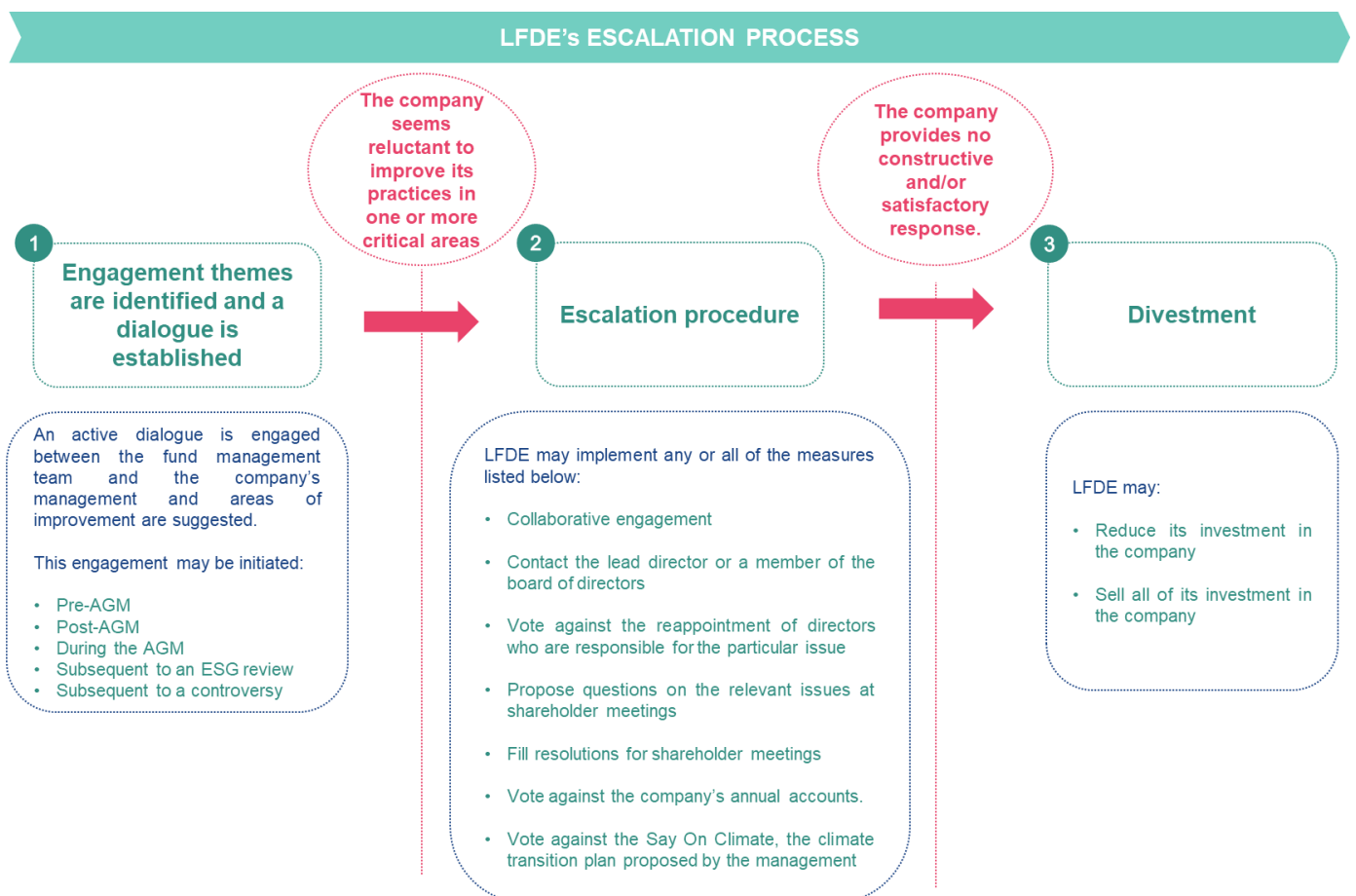
- Propose **questions** on our engagement themes at shareholder meetings
- Propose **resolutions** at shareholder meetings
- Filling and/or participating in the **filling of shareholders' resolutions at the AGM**. LFDE undertakes to participate in external climate resolution filings and/or to support them by voting if :
  - The company has been the subject of an inconclusive bilateral engagement,
  - And, the company is on the list of the 166 most polluting companies in the world, as identified by the Climate Action 100+,
  - And the company does not have a Say on Climate that meets the required criteria outlined in the LFDE voting policy.

### 3. Divestment

If the escalation measures fail to bring about a positive change in the company's practices and we consider that we have not obtained a **constructive and satisfactory response**, as a responsible investor we may **partially or even completely divest our investment in the company**, in the best interests of our clients.

Companies will be informed of this to raise their awareness of the importance of engagement with their investors.

Furthermore, LFDE does not exclude the possibility of continuing its engagement actions after divestment, which may, for example, be the case when the company is involved in a controversy.





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