

## Voting policy

### General meetings of listed companies



This document presents the conditions under which we exercise the voting rights attached to securities held and/or acquired by Covéa Finance under the collective management (UCI) and individual management activities under mandate.

The scope of this policy does not apply to securities of companies directly held by Covéa Group entities that have set up a financial management mandate with Covéa Finance and that are considered "strategic" in this respect.

Through our voting policy, we seek to enforce good corporate governance practices and thereby enhance the value of our clients' investments over the long-term.

This voting policy is part of Covéa Finance's approach to take into account the environmental, social and governance (ESG) criteria in managing its assets. This implies that the present voting policy is consistent with the ESG and commitment policies developed by Covéa Finance.

We perform our duties independently of issuers and in the exclusive interest of our clients.

The Covéa Finance voting policy is subject to an annual review. As part of the elaboration and evolution of its voting policy, Covéa Finance relies in particular on the annual AFG and Afep-Medef recommendations in terms of corporate governance, adapting them to the specificities of its business model.

## **I. Voting Policy Aspects**

The objective of this Covéa Finance voting policy is to contribute to the improvement of corporate governance practices in the companies in which Covéa Finance decides to invest and thus help to best defend the long-term interest of the beneficiaries Covéa Finance represents. The guiding principle of the voting policy is the alignment of interest of all stakeholders.

The voting policy is developed around six aspects that bring together the main categories of resolutions. The voting strategy is materialised by analysis points on each of the six aspects, enabling Covéa Finance to take a position on governance when exercising voting rights.

### **A. Boards and governing bodies**

The boards are accountable to all shareholders and must act in the interest and on behalf of all shareholders. They exercise the powers conferred upon them by law to act in all circumstances in the interest of the company. In order to best assume this responsibility, good governance must result in a balance of powers and competences within boards and governing bodies.

Before deciding on a resolution concerning the boards and governing bodies, Covéa Finance, with the help of its service providers, shall consider the following points:

- the clarity and continuity of information concerning the work of the board, assessed through:
  - the report of the chairman informing the shareholders of the number of board meetings, the elements of assessment of the attendance of its members, its method of organisation, a detailed curriculum vitae for the members of the current board and the members submitted to shareholder vote,
  - the existence of internal rules of the board mentioning the principles of organisation and ethics,
- the means available to the members of the board: communication of any information useful for the exercise of their mandates before their meetings;
- whether management and control functions are disassociated (Chairman of the Board and Chief Executive Officer separately or Chairman and CEO);

- the amount of the annual attendance fees (indexed or not based on board meeting attendance)., Covéa Finance is in favour of the remuneration of the board members by attendance fees, which amount and evolution must be consistent with company capacity;
- the experience of board members in the running of the company;
- the diversity of experience within the board;
- the attendance rate of members at board meetings in the case of reappointments;
- the duration of the mandates: Covéa Finance is in favour of a maximum term of 4 years;
- the proportion of directors or members of the Supervisory Board over the age of 70;
- the list of mandates, with a general rule of not more than a total of 5 mandates (including the mandate in the relevant company) for non-executive candidates, and case-specific rules for other candidate profiles;
- the number of shares to be held by a director or a member of the Supervisory Board and the number of shares actually held;
- the absence of discrimination: Covéa Finance is particularly in favour of a better representation of women on boards;
- the presence of employees on boards: Covéa Finance is in favour of the presence of employees on boards;
- the existence of crossed management relationships: Covéa Finance is not in favour of these, except in the case of a strategic alliance in a declared economic project.

Covéa Finance verifies that the company observes the following principles in the appointment of its members of the Board of Directors or Supervisory Board:

- One-third of the directors or members of the Supervisory Board are independent, that is to say, free of commitment vis-à-vis the Company. Thus, the director or the member of the independent Supervisory Board must not:

- be an employee, executive corporate officer of the company or a company in its group, or have held any such post in the last five years,
- be an employee or executive corporate officer of a reference shareholder of the company, or of a company in its group,
- be an employee or executive corporate officer of a significant and usual business, banking or financial partner of the company or of its group companies,
- have been an auditor of the company during the previous five years,
  
- have been a member of the Board of Directors or the Supervisory Board for more than twelve years.

## 1. Specialised Committees

Covéa Finance adheres to the AFG recommendations on the existence of three committees (a larger number of committees being likely to lead to a dilution and confusion of the directors' work) with the freedom to convene and audit employees of the company and with an operating and allocation charter for each of them, included in the internal regulations of the Board of Directors or the Supervisory Board.

The Board of Directors or the Supervisory Board must provide shareholders with any relevant information concerning these committees, the frequency of their meetings and reporting on their activities.

## 2. Audit Committee

One-third of its members must hold no interest in the company. The committee must include a member who is an expert in accounting and finance, with the exception of those who hold executive or salaried positions in the Company.

The Audit Committee shall serve to control accounting and financial information, conduct risk analysis, supervise internal control, monitor the statutory audit and review the work of the external audit.

### 3. Selection Committee

It must be composed of at least three members of the Board of Directors or the Supervisory Board, while one-third of the members must not hold any interest in the company.

The committee is responsible for making proposals for research, appointing board members and corporate officers, and planning its renewal.

### 4. Compensation Committee

The Chairman of the Compensation Committee and the majority of its members must not hold an interest in the company. The committee may not include persons performing the duties of managing director or employee.

It must participate in the development of a system encompassing remuneration of all types (fixed, variable, options, free share allocation, severance pay, retirement). It reviews the remuneration of corporate officers and the executive committee.

## **B. Remuneration of Executive Corporate Officers <sup>1</sup>**

The remuneration policy must be adapted to the strategy and the context of the company. It must be in line with a company performance target over the medium and long term. Remuneration must be determined in accordance with the principle of alignment of interests of the stakeholders.

The determination of remuneration must be exhaustive, the rules must be stable and transparent and the performance criteria applied must be explicit and sustainable.

**Before adopting a compensation resolution, Covéa Finance, with the help of its service providers, shall consider the following points:**

- the transparency of the information on the sums and on all forms and bases for the calculation of individual direct or indirect remuneration, immediate or deferred, of executive corporate officers. This information should be detailed in the resolutions, disclosed in the annual report in the form of a summary remuneration table, and enable to compare current compensation schemes with those for the two previous years.

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<sup>1</sup> Managing Director, Deputy Managing Director, Chairman of the Board

The information on the criteria for determining variable compensation must be accurate (with details of the minimum, maximum and target remuneration based on target achievement);

- the alignment of the compensation of the executive corporate officer with the interest of the company: the opportunities for changes in remuneration will be analysed in the light of the existence of major restructuring plans in progress;
- the structural balance between fixed and variable elements of remuneration, Covéa Finance being in favour of an adequate order of magnitude;
- the structural balance between the short-term and medium-long-term variable elements; Covéa Finance is in favour of a structure aligned with medium and long-term targets;
- the establishment or not of a mechanism for the approval of compensation schemes by shareholders ('say on pay');
- the performance criteria associated with variable annual compensation and compensation schemes must be demanding, explicit and sustainable; they can be both quantitative and qualitative: the inclusion of extra-financial criteria is recommended; the criteria comparing the performance of the group to those of the competitors are positively appreciated;
- the establishment or not of a mechanism for variable remuneration restitution clauses when it is determined, at a later date, that they have been partially allocated on the basis of incorrect financial information;
- long-term compensation mechanisms for executive corporate officers, with special focus on the following bases:
  - Bonus shares
    - Covéa Finance would like the Company to provide its shareholders with precise data in its annual report on all conditions that led to the granting of bonus shares over the last three fiscal years (performance criteria, allocation %).
    - Resolutions intended to authorise the allocation of bonus shares must include and specify in detail the explicit performance criteria on the basis of which said shares will be allocated to enable shareholder assessment of their potentially dilutive effect.

- These criteria may be mentioned in the resolution or in the documents made available to shareholders for the general meeting.
  - Covéa Finance is in favour of having the resolutions relative to corporate officers and employees allocations separated and the disclosure of the maximum portion of bonus shares allocated to each corporate officer.
  - The allocation of bonus shares must operate under long-term performance conditions (at least 3 years) and they should be held over 2 years.
- Allocation of share subscription, warrants or share purchase options
    - Covéa Finance is vigilant as to the number and conditions under which share subscription, warrants or share purchase options are granted to the members of management. In particular, they should not be discounted and the initial conditions of the issue should not be subject to change.
    - The option plans must specify the terms and conditions for granting these options. There must be a mechanism in place to ensure the respect of the rules of ethics and in particular:
      - the termination of options or warrants on leaving the company,
      - the impossibility to modify the initial conditions for the grant of options retroactively,
      - allocation of options at regular intervals over the year,
      - that options may be exercised over several years and conditioned to the achievement of targets,
      - an allocation subject to the fulfilment of performance conditions over a long period.

These allocation plans should distinguish options granted to corporate officers from those granted to employees.

The allocation of options must operate under long-term performance conditions (at least 3 years), and they should be held over 2 years.

- Limitations on the granting of share subscription, share purchase options and bonus shares
  - The total amount of outstanding plans aggregating the share subscription options and bonus shares should not exceed 10% of the capital (this threshold may be increased for small caps).

- The total number of beneficiaries of share subscription or purchase options and bonus shares, as well as the number of executive beneficiaries should be mentioned in the company's annual report.
- supplementary retirement schemes, in particular defined-benefit plans, which should include seniority conditions (minimum 5 years), amount, presenteeism, base and reference period conditions;
- severance pay: the departure of an executive corporate officer on their own initiative should not entail the payment of severance pay.
  - Any severance pay bonus that may be payable to any executive officer should not exceed an amount equal to twice the fixed and variable annual compensation (subscription options and other types of remuneration are excluded). If the executive officer has held office for less than two years, the amount of compensation should be fixed in proportion to the time of service.
  - Covéa Finance is in favour of establishing agreements relating to remuneration, allowances or benefits that may be due to an executive corporate officer upon termination or change of office by way of separate resolutions.
- welcome bonuses: they may be accepted if they compensate for the potential loss of income caused by the newcomer leaving their previous duties.

### **C. Shareholder Rights**

Covéa Finance's voting strategy in this area is based on the defence of fair treatment of shareholders, in particular through the proportionality mechanism of voting rights and the principle of "one share, one vote" and the reward of long-term shareholder behaviour.

Covéa Finance is therefore not in favour of practices and/or amendments to the Articles relating to the break-up of shares, double voting rights, priority dividends and non-voting shares.

Covéa Finance is in favour of the practice and/or the introduction of grossed-up dividends in order to promote the long-term holding of shares and recommends the same treatment of shareholders, be they bearer or registered.



Covéa Finance is vigilant with regard to preservation of shareholder rights. Each resolution or decision resulting in an amendment to the Articles shall be reviewed on a case-by-case basis.

## **D. Approval of Accounts and Management**

When exercising voting rights, Covéa Finance takes a position regarding the transparency of company operations and its financial situation, and on access to sufficient information, and in particular on policies and practices related to certain environmental and social matters.

Before deciding on a resolution concerning the approval of accounts and management, Covéa Finance, with the help of its service providers, shall consider the following points:

- Company information must be available within a time frame allowing Covéa Finance to analyse these matters in advance (at least 21 days before the general meeting);
- the information should be true and consistent, with a detailed strategic position, including medium and long-term strategic direction of the company, the company's environmental and social policy, its risk identification and management policy, debt policy and dividend distribution policy;
- the resolutions put to the vote of the shareholders, which should be accompanied by information contributing to the voting decision and specifying the issues at stake, as well as explaining the reasons for and the consequences of the proposed resolutions, in particular those concerning the appointment and renewal of board members and authorisations for financial transactions;
- requests for discharge; these shall be reviewed according to the regulations of the country where the head office is located;
- the appointment of the auditors; Covéa Finance aims at limiting situations of potential conflict of interest concerning the duties of the statutory auditors. Thus, the following aspects must be observed;
  - the correct application of the rotation principles according to the entities concerned and according to the local rules
  - the restriction of fees unrelated to account certification, the appointment of alternate auditors not associated with the lead audit firms,

- regulated agreements; Covéa Finance closely scrutinises resolutions relating to regulated agreements.
  - Good practice consists in preparing one resolution per agreement;
  - The information must be clearly detailed and, for the sake of clarity, it must figure on separate resolutions, particularly in the case of agreements concerning executive corporate officers and family holding companies;

Regulated agreements<sup>2</sup>: These are direct or indirect agreements between a company and its managing director, one of its delegated managing directors or one of its managers, or one of its shareholders holding over 5% of voting rights, which do not relate to usual operations conducted under normal conditions. It is recalled that usual operations are those conducted by the company as part of its ordinary business and involving acts of disposal ordered under conditions deemed sufficiently normal to be assimilated to ordinary operations.

Scope of application

Sale, lease, provision of services, licensing, loan, exceptional remuneration granted to directors for assignments, etc.

- block voting: Covéa Finance opposes the practice of consolidating into a single resolution several decisions of the same nature which should, however, be submitted separately to the vote of the meeting (for example, resolutions relating to the renewal of several directors or to remuneration or benefits in kind for the directors).

## **E. Financial Structure**

Covéa Finance's voting strategy is based on the respect of the principle of sound long-term capital management and the respect of long-term shareholders.

Covéa Finance therefore closely scrutinises securities transactions and the dividend policy applied by companies within its voting scope:

- the dividend policy must be appropriate to the growth potential of the company, taking into account the amount of the dividend in relation to

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<sup>2</sup> Articles L225-38 to L225-43 of the French Commercial Code

the cash flow available to the shareholder, changes in the payout ratio and investment amounts;

- share repurchase and capital reduction transactions: these transactions shall be reviewed based on the company's debt situation;
- anti-takeover mechanisms: a general meeting should not be empowered to authorise in advance the use, during a public offer issued at a later date, of such mechanisms as the buyback of shares or the issue of warrants. Covéa Finance considers that the holding of a general meeting during the public offer period must allow shareholders to decide on a case-by-case basis, and provide them with the necessary elements for the assessment of resolutions authorising, during a public offer period, the buyback of shares or the granting of warrants. However, resolutions providing for a threshold may be accepted on a case-by-case basis, with the purchase price not to exceed by more than 20% the average share price over the three months preceding the offer.
- capital increases with or without preferential subscription rights. Covéa Finance's voting strategy is based on the respect of shareholders' preferential subscription rights during capital increases. Also, Covéa Finance shall closely scrutinise the terms of dilutive requests for delegation of powers eliminating the subscription rights of the shareholders, in terms of discount and percentage of capital requested. In particular Covéa Finance opposes:
  - capital increases without preferential subscription rights and without a mandatory priority period which, potentially aggregated, would represent more than 10% of the capital and which, submitted to the vote of the meeting, would not be formally explained and justified,
  - capital increases without preferential subscription rights and with a minimum mandatory priority period of 5 days which, potentially aggregated, would represent more than 20% of the capital and which, submitted to the vote, would not be formally explained and justified,
  - concerning capital increases with preferential rights, Covéa Finance opposes authorisations which, potentially aggregated, represent more than 50% of the capital and which, submitted to the vote of the meeting, would not be formally explained and justified.



Covéa Finance is not in favour of capital increases by private placement, except where justified in special situations formally explained by the company.

## **F. Environmental and Social Governance**

Covéa Finance wishes to have access to clear and sufficient information on the company's policies and practices regarding certain environmental and social matters in order to better understand the risks and opportunities that these issues may represent for the company.

Covéa Finance may support a resolution submitted by a shareholder or a group of shareholders, which, provided they are clear and detailed, would improve transparency on environmental and social matters related to the Company's business.

## **II. EXERCISE OF THE RIGHT TO VOTE**

We exercise the right to vote of our customers:

- via an electronic platform (since 2 June 2008) and by correspondence for France; it is the rule
- by effective attendance at meetings; it is the exception

The coordination of votes, the instruction and review of the resolutions are implemented on the basis of a collegial organisation by the teams of governance analysts who decide on votes, respecting the principles stated herein.<sup>3</sup>

### **Information classification and archiving**

Our provider allows us to meet the requirement of traceability imposed by the AMF regulation. So, for every general meeting we vote for, the following information is available:

- the number of shares held by mutual funds and by mandate at the date of the general meeting,
- the nature of the vote exercised by the manager (direct, by correspondence, telematic);
- the answer to the vote (for, against, abstention, it is always an abstention in case of resolution submitted during a session);

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<sup>3</sup> Voting resolutions not covered by our voting policy will be considered on a case-by-case basis.



- the reasons for these votes in the case of an abstention or a negative vote.

This information is available to our principals, shareholders, unitholders or investors in mutual funds at their request at Covéa Finance's head office.

### **III. PRINCIPLES COVÉA FINANCE REFERS TO IN DETERMINING THE CASES IN WHICH THE RIGHT TO VOTE WILL BE EXERCISED**

#### **A. Voting Scope in 2018 General Meetings**

For fiscal year 2018, we have decided to vote at the meetings of our thirty largest accumulated positions of European Union companies, in the portfolios of our mutual funds and mandates for the year ended December 31, 2017, unless these securities were transferred on the date of the general meeting.

We only consider securities that do not require a lock-up at the depository on exercising the voting.

We also strive to exercise our voting rights in the listed European and US companies that we support in a long-term process.

#### **B. Nature of Management of the Mutual Fund**

Covéa Finance practices a collegiate management of security selection based on a macroeconomic and sectorial analysis. The nature of its management has no influence on the exercise of its voting rights.

#### **C. Use of Securities Lending**

Covéa Finance may eventually use securities lending. *In order to be able to exercise the voting rights attached to securities lent at the time of general meetings, Covéa Finance will ensure that they can be recalled at any time.*

#### **D. Procedures to identify, prevent and manage conflict of interest situations**

The portfolio management company being part of an unlisted group and the absence of issuer-oriented activity are factors that limit the management company's exposure to the risk of a conflict of interest. Covéa Finance abstains from voting at the general meetings of companies, mainly listed



property companies, in which Covéa Group entities hold a share of the capital they consider strategic.

Covéa Finance may only assist Covéa Group entities in the implementation of administrative formalities for the exercise of voting rights attached to securities held outside the scope of management mandates, in accordance with their specific instructions.

In the event that a conflict of interest situation is identified, the management company indicates this in its annual report on the exercise of the voting right.

### **E. Special case of the SRI range**

In particular, Covéa Finance reserves the right for its Socially Responsible Investment Fund – SRI or ISR, for its French acronym, (Covéa Actions Solidaires) to consider any resolution, either by the Board of Directors or by a group of shareholders, aimed at improving transparency, governance, management of stakeholders (employees, environment, etc.), or which may not seem to be in line with the SRI principles that govern this fund.