

# **VOTING POLICY**

**General Meetings of listed companies**

**COVÉA FINANCE**

This document presents the conditions under which we exercise the voting rights attached to the units held and/or acquired by Covéa Finance within the framework of its undertakings for collective investment (UCI) and individual management under mandate business.

Excluded from the scope of application of this policy are company shares held directly by the entities of the Covéa Group having put a financial management mandate in place with Covéa Finance and thus considered "strategic".

Through this voting policy we are looking to ensure compliance with good corporate governance practices and thus to promote for our clients the long-term valuation of their investments.

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

We perform our functions completely independent of issuers and in the sole interests of our clients.

The Covéa Finance voting policy undergoes an annual revision. Within the framework of the preparation and updating of its voting policy, Covéa Finance relies in particular on the annual recommendations of the AFG and of the Afep-Medef in terms of corporate governance, by adapting them to the specificities of its corporate model.

## **I THEMES OF THE VOTING POLICY**

The objective of this Covéa Finance voting policy is to contribute to the improvement of governance practices in the companies in which Covéa Finance decides to invest and thus to contribute to defending as best as possible the long-term interests of the beneficiaries which Covéa Finance represents.

The guiding principle of the voting policy is to align the interests of all stakeholders.

The voting policy is built around six themes which combine the main categories of resolutions. The voting strategy is materialised by points of analysis on each of the six themes, allowing Covéa Finance to take a position on the governance when exercising voting rights.

### **I Boards and Managing Bodies**

The boards are responsible to all shareholders and must act in the interests and on behalf of all shareholders. They exercise the competencies devolved upon them by law to act in all circumstances in the corporate interest of the company.

To assure this responsibility as best as possible, good governance requires a balance of powers and competencies within the boards and managing bodies.

**Before deciding on a resolution pertaining to the boards and managing bodies, Covéa Finance, with the help of its service providers, considers the following points:**

- the clarity and the continuity of information concerning the works of the board assessed by:
  - - the report of the Chairman informing the shareholders on the number of board meetings, the elements of assessment of the attendance rate of its members, its method of organisation, a detailed curriculum vitae for current board members and the members presented at shareholder voting;
    - the requirement for rules of procedure of the board mentioning the principles of organisation and ethics;

- the means made available to the members of the board: communication of any information appropriate for exercising their mandates ahead of their meetings;
- the separation or not of functions of management and of control (Chairman of the Board and Chief Executive Officer or Chairman & CEO);
- the amount of the annual directors fees (indexed or not to the participation in board meetings);
- the experience of board members with regard to the operating of the Company;
- the diversity of experiences within the board;
- the attendance rate of the members at board meetings in case of renewals of terms of office;
- the duration of the terms of office; Covéa Finance is favourable to a maximum term of office of 4 years;
- the proportion of the directors or of the members of the supervisory board aged over 70;
- the list of terms of office, with a general rule of a maximum of 5 terms of office in total (including the term of office in the company concerned) for the non-executive director candidates and specific case-by-case rules for other types of candidates;
- the number of shares which must be held under the Articles of Association 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 favourable to a better representation of women on boards;
- the presence of salaried employees on boards; Covéa Finance is favourable to the presence of salaried employees on boards;
- the existence of interlocking directorates: Covéa Finance is not favourable to this except in the case of strategic alliance for a stated economic project.

Covéa Finance checks that the Company complies with the following principles in the appointment of its members of the Board of Directors or of the Supervisory Board:

- a third of the directors or members of the supervisory board is independent, i.e. free of commitment to the company. Thus, the independent director or member of the supervisory board must not:
  - be a salaried employee or a corporate officer of the company or of a company of its group and must not have been one in the last five years,
  - be a salaried employee or a corporate officer of a reference shareholder of the company or of a company of its group,

- be a salaried employee or corporate officer of a significant and habitual, commercial, banking or financial partner, of the company or of companies of its group,
- have been an auditor of the company in the last five years,
- have been a member of the Board of Directors or of the Supervisory Board for more than twelve years.

The management company is favourable to the remuneration of board members by directors' fees whose amount and updating must be consistent with the capacity of the Company.

### **Specialised committees**

Covéa Finance adheres to the recommendations of the AFG recommending the existence of three committees (a higher number of committees may lead to a dilution and confusion of the works of the directors) with the freedom to convene and hear the employees of the company and with an operating and attribution charter for each of them, included in the rules of procedure of the Board of Directors and of the Supervisory Board.

The Board of Directors and the Supervisory Board must provide shareholders with all appropriate clarifications concerning these committees, the frequency of their meetings and must report on their activity.

#### **1. Audit Committee**

A third of its members must be free of any conflict of interest. The committee must include a member who is an accounting and finance expert, excluding people performing general management functions or salaried employee in the Company.

Its functions must include the control of the accounting and financial information, risk analysis and internal audit supervision, monitoring of the legal control of the accounts and examination of external audit works.

#### **2. Selection Committee**

It must be composed of at least three members of the Board of Directors or of the Supervisory Board, with a third of the members having to be free of any conflict of interest.

The committee is responsible for making proposals in view of the search for and appointment of members of the Board and of corporate officers, the planning of its renewal.

#### **3. Remuneration Committee**

The chairman of the Remuneration Committee and the majority of its members must be free of any conflict of interest. The committee may not include persons performing the functions of managing director or salaried employees.

It must participate in the preparation of a mechanism encompassing all types of remuneration (fixed, variable, options, allocations of free shares, severance pay, retirement). In particular, it examines the remuneration of the corporate officers and of the Executive Committee

## **II Remuneration of executive company representatives<sup>1</sup>**

The remuneration policy must be adapted to the strategy and context of the Company. It must be incorporated in an objective of performance of the Company over the medium and long term. The remuneration must be determined in line with the corporate interests of the Company and the interests of shareholders.

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

**Before deciding on a resolution pertaining to remuneration, Covéa Finance, with the help of its service providers, considers the following points:**

- the transparency of the information on the amounts and on all the forms and bases of calculation of the individual, direct or indirect, immediate or deferred remunerations of executive company officers; this information must be detailed in the resolutions, be reported in the annual report in a summary table of remunerations and allow for comparison of the current remuneration plans with those of the last two financial years. The information on the criteria, which make it possible to determine the variable remuneration, must be precise (with details on the minimum, maximum and target remuneration depending on the achievement of objectives).

- the consistency of the remuneration of the executive company representative with the corporate interest of the company: the opportunities for revising the remuneration will be analysed in the light of the existence of current major restructuring plans;

- the structural equilibrium between the fixed and variable elements of the remuneration; Covéa Finance is in favour of a proportionate amount;

- the structural equilibrium between the short term and medium term variable elements; Covéa Finance is in favour of a structure that is in line with the medium and long term objectives;

- the putting in place or not of an approval mechanism of the remuneration plans by the shareholders ('say or pay');

- the performance criteria associated with the variable annual remunerations and with the remuneration plans must be demanding, explicit and lasting - these criteria must be both quantifiable and qualitative; the inclusion of extra-financial criteria is recommended; the criteria comparing the group's performance to those of competitors are positively assessed;

- the putting in place or not of a mechanism of return clauses for variable remunerations paid when it would appear on a later date, that they were partially allocated based on incorrect financial information;

- the long term remuneration allocation mechanisms of executive company officers; particularly the points for consideration on the following methods:

- Free shares

The management company would like the company to provide to its shareholders in its annual report accurate data concerning all conditions having led to the granting of free shares in the last three financial years (performance criteria, % allocation).

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<sup>1</sup>Chief Executive Officer, Managing Directors, Chairman of the Board

The resolutions designed to authorise the allocation of free shares must incorporate and specify in detail the explicit performance criteria based on which those shares will be allocated so that the shareholder can assess their dilutive potential.

These criteria may be mentioned in the resolution or in the documents made available to shareholders in view of the general meeting.

The management company favours separating the resolutions concerning allocations to corporate officers and to salaried employees and to communicating the maximum amount of free shares allocated to each corporate officer.

The free shares must be allocated under a condition of performance over the long term (at least 3 years) and it would be desirable for the holding period to be 2 years.

- Allocation of share subscription options, share warrants or share purchase options

The management company is vigilant about the number and the conditions in which the share subscription options, share warrants or share purchase options are allocated to board members. In particular, they should not include a discount and the initial conditions of the issue must not be able to be amended.

The option plans must specify the methods of allocation of these options. A mechanism must be able to assure compliance with the rules of ethics and in particular:

- the cancellation of the subscription options or warrants in case of leaving the company,
- the absence of possibility of modification *a posteriori* of the initial option allocation conditions,
- an option allocation frequency over the year,
- the possibility of exercising options staggered over several years and conditional upon the achievement of objectives,
- an allocation subject to the achievement of performance conditions over the long term.

These allocation plans should distinguish allocations made to corporate officers from those made to salaried employees.

Options must be allocated under a condition of performance over the long term (at least 3 years) and it would be desirable for the holding period to be 2 years.

- Limitations to the allocation of share subscription options or share purchase options and free shares

The total amount of the current plans totalling the subscription options and free shares should not exceed 10% of the capital (this cap could be revised upwards for small caps).

The total number of beneficiaries of share subscription or share purchase options and of free shares in addition to the number of director beneficiaries should be mentioned in the company's annual report.

- the complementary retirement mechanisms particularly the mechanisms with defined services, which should include conditions as to years of service (5 years minimum), amount, presenteeism, base and reference period.

- severance pay: it is desirable that the leaving of an executive company officer on his or her own initiative does not entail payment of severance pay.

Any compensation related to departure, which may be paid to any director, should not exceed an amount corresponding to twice the annual, fixed and variable, remuneration (subscription options and other types of remuneration are excluded). If the presence of a director is less than two years, the amount of the compensation should be fixed *pro rata* of the duration of presence.

Covéa Finance is favourable to agreements relating to remuneration, compensation or other benefits which may be owed to an executive company officer upon termination or change of his or her functions, being the object of separate resolutions.

- sign-on bonuses: they may be accepted in the event it compensates for the potential loss of income caused by the newcomer leaving his or her former functions.

### **III Rights of shareholders**

The Covéa Finance voting strategy on this matter is based on the defence of equal treatment of shareholders, particularly through the mechanism of proportionality of voting rights and the principle of "one share, one vote" and on the reward of long term shareholder behaviour.

Consequently, Covéa Finance does not favour practices and/or amendments of the Articles of Association concerning the splitting of shares, double voting rights, priority dividends and shares without voting rights.

Covéa Finance favours the practice and/or the introduction of grossed-up dividends in order to promote the long holding of shares and would like an identical treatment of shareholders, whether they hold bearer or registered shares.

The management company is vigilant to the protection of shareholder rights. Each resolution or decision entailing an amendment of the Articles of Association will be examined on a case-by-case basis.

### **IV Approval of the financial statements and of management**

Covéa Finance takes a position when exercising voting rights on the transparency of the company on the business and on the financial situation and on access to sufficient information, particularly the policies and the practices on certain environmental and social stakes.

Before deciding on a resolution pertaining to the approval of financial statements and of the management, Covéa Finance, with the help of its service providers, considers the following points:

- information on companies must be available within time-limits allowing Covéa Finance to analyse these issues ahead of time (at least 21 days before the general meeting).

- information should be sincere and consistent, with a detailed strategic position, particularly on the company's medium and long-term strategic orientation, the company's environmental and social policy, the risk management and identification policy, the indebtedness policy and dividend distribution policy;

- resolutions presented for shareholder voting which must be accompanied by information which makes it possible to clarify the voting decision and to specify its stakes, and the reasons for and the consequences of the resolutions proposed must be explained, particularly those which concern the appointment and the replacement of members of the boards and the authorisations concerning financial transactions.

- requests for discharge; which shall be analysed in the light of the regulations of the country where the registered office is based;

- appointment of auditors; Covéa Finance is attentive to the limitation of conflict of interest situations concerning the intervention of auditors. Thus, the following must be respected: the

correct application of the principles of rotation resulting from European laws, the restriction of fees not linked to the mission of auditing the financial statements, the appointment of alternate auditors not associated with the firms of the statutory auditors.

- the statutory agreements; Covéa Finance exercises particular vigilance over the resolutions concerning statutory agreements. The good practice consisting of providing one resolution per agreement.

Information must be clearly detailed and, mindful of better legibility must be the object of separate resolutions, particularly when these are agreements concerning executive company officers and family holding companies.

Statutory agreements<sup>2</sup>: These are direct or indirect agreements between a company and its CEO, one of its managing directors or one of its directors or one of its shareholders holding more than 5% of the voting rights which do not concern routine transactions entered into under normal conditions. It should be noted that routine transactions are those which are carried out by the company within the framework of its ordinary business and concerning acts of disposal determined under sufficiently normal conditions to the extent that they resemble habitual transactions.

Scope of Application

Sale, lease, provision of services, licence concession, loan, extraordinary remuneration allocated to directors for missions, etc.

- blocked votes: Covéa Finance is opposed to the practice consisting of grouping together in the same resolution several decisions, of the same nature, which should be submitted separately for the vote of the meeting and concerning, for example, the renewal of several directors or relating to remuneration or benefits in kind in favour of directors.

## V Financial structure

The Covéa Finance voting strategy is based on compliance with the principle of reasonable management of own equity in the long term and on respect of long term shareholders.

Thus, Covéa Finance exercises particular vigilance with regard to share transactions and the dividend policy used by the companies of its voting scope:

- the dividend distribution policy must be adapted to the company's growth potential, taking into consideration the amount of the dividend in relation to the cash flow available for the shareholder, the change in the distribution ratio and the amount of the investments;

- share buyback and capital reduction transactions: these transactions will be analysed in the light of the company's indebtedness situation;

- anti-public takeover bid: it is not desirable that a general meeting can give in advance the authorisation to use during a public takeover bid subsequently launched, mechanisms such as share buyback or the issue of share subscription warrants. Covéa Finance considers that the holding of a general meeting taking place during the public takeover bid period must allow shareholders to decide on a case-by-case basis by having elements of assessment on resolutions authorising, during a public takeover bid period, the buyback of shares, or the granting of share subscription warrants.

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



However, on a case-by-case basis, resolutions which provide for a cap may be accepted, with the purchase price not being able to exceed more than 20% of the average stock exchange price over the three months prior to the takeover bid.

- capital increases with or without preferential subscription right:

The Covéa Finance voting strategy relies on respect of the preferential subscription right of shareholders at the time of capital increases. Thus, Covéa Finance will be vigilant regarding the methods of dilutive requests for delegation of competences cancelling the subscription right of shareholders, in terms of discount and of percentage of the capital requested. In particular Covéa Finance is opposed to:

- capital increases without preferential subscription right and without mandatory period of priority which potentially cumulated would represent more than 10% of the capital and which, submitted for the vote of the meeting, would not be formally explained and justified;
- capital increases without preferential subscription right and with mandatory period of priority of a minimum of 5 days which, potentially cumulated, would represent more than 20% of the capital and which, submitted for the vote, would not be formally explained and justified;
- concerning capital increases with preferential right, Covéa Finance is opposed to authorisations which, potentially cumulated, would represent more than 50% of the capital and which, submitted for the vote of the meeting, would not be formally explained and justified.

Covéa Finance does not favour capital increases by private investment, save justification of particular situations formally explained by the company.

## **VI Governance of environmental and social stakes**

Covéa Finance wishes to have access to clear and sufficient information on the policies and practices of the company on certain environmental and social stakes in order to better understand the risks and the opportunities which such stakes may constitute for the company. Covéa Finance may support a resolution presented by a shareholder or a group of shareholders which, under conditions of clarity and of details, would allow for increasing transparency on the environmental and social stakes related to the business of the company.

## **II - EXERCISE OF THE VOTING RIGHT**

We exercise the voting right of our clients:

- through an electronic platform (since 2 June 2008) and by correspondence for France; this is the rule
- by an actual participation in the meetings; this is the exception

The coordination of the votes, the examination and the analysis of the resolutions are implemented based on a collegial organisation by the teams of governance analysts which decide on the votes, in accordance with the principles provided in this document<sup>3</sup>.

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

## **Filing and archiving of information**

Our service provider enables us to respond to the requirement of traceability imposed by the AMF regulation. Thus, for each general meeting at which we vote, the following information is available:

- the number of shares held by undertaking for collective investment and by mandate on the date of the general meeting,
- the nature of the vote exercised by the CEO (direct, by correspondence, telematic);
- the response to the vote (for, against, abstention; it is always an abstention in case of resolution presented at a meeting);
- the reasons for these votes when this is an abstention or a vote against.

This information is available for our principals, shareholders, unit holders or undertakings for collective investment investors following their request at the registered office of Covéa Finance.

## **III- PRINCIPLES TO WHICH COVÉA FINANCE REFERS IN ORDER TO DETERMINE THE CASES IN WHICH THE VOTING RIGHT WILL BE EXERCISED**

### **Scope of the vote in general meetings 2017**

For the financial year 2017, we decided to vote in the meetings of our twenty largest positions accumulated in companies of the European Union, in the portfolios of our undertakings for collective investment and mandates inclusive at 31 December 2016 unless these securities were sold on the date of the general meeting.

We only take account of bearer securities.

We strive to exercise our voting right in the European listed companies which we support in a long-term approach.

### **Nature of management of the undertaking for collective investment**

Covéa Finance practises a collegial management of selection of securities from a macroeconomic and sector-based analysis. The nature of its management has no impact on the exercise of its voting right.

### **Use of securities loans**

Covéa Finance may potentially use securities loans.

### **Procedures designed to detect, prevent and manage situations of conflicts of interest**

The belonging of the portfolio management company to an unlisted group and the absence of business focused on issuers, are factors which limit the management company's exposure to the risk of conflict of interest.

Covéa Finance refrains from voting at general meetings of companies, mainly listed property companies, of which the entities of the Covéa Group hold a fraction of the capital they consider strategic.

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

Should a situation of conflict of interest be identified, the management company will report this in its annual report on the exercise of the voting right.

### **Specific case of the SRI range**

Covéa Finance particularly reserves the possibility, for its Socially Responsible Investment fund (Covéa Actions Solidaires), to examine any resolution, either brought by the Board of Directors or by a group of shareholders, which aims to improve the transparency, the governance, the management of stakeholders (employees, environment, etc.), or which seems to it to be in line with the SRI principles which govern this fund.

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