

Shareholder Engagement Policy

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Covéa Finance is subject to the French Monetary and Financial Code, of which Article L. 533-22 was supplemented following transposition of the Shareholder Rights Directive¹. This directive came into force via implementing decree no. 2019-1235 published in November 2019.

Under the regulations, all eligible entities (asset management companies) are required to document and publish a shareholder engagement policy and to issue an annual report on implementation of the policy.

The policy must define "*how the company integrates its role as a shareholder within its investment strategy*". It is notably based on the following existing elements:

- The ESG policy
- The exclusion policy

(Note: the voting policy and engagement policy relating to ESG as investor have been withdrawn and merged with the new shareholder engagement policy issued in June 2020)

I Description of the Covéa Finance shareholder engagement policy

Under Article R 533-16 §1 of the Monetary and Financial Code², the shareholder engagement policy must include six elements:

a) Monitoring of strategy, financial and non-financial performance, risks, capital structure and the social, environmental and governance impact of the company:

- Covéa Finance publishes an ESG policy which describes how companies take non-financial performance into account by balancing the three pillars of Environmental (environmental impact), Social (social impact) and Governance (corporate governance). The policy is available online at <https://www.covea-finance.com/our-reports-and-politics>
- When analysing private issuers, Covéa Finance considers the corporate strategy, financial and non-financial performance, financial and non-financial risks and capital structure, in addition to all the stock market and accounting parameters of listed and unlisted companies when making investment decisions. This process takes the form of in-depth analysis conducted internally by the management and research teams. The cross-referencing of financial and non-financial data provides a

¹ Directive 2007-36, as amended by Directive 2017-828

² Itself pursuant to Article L 533-22

more comprehensive overview of companies' fundamentals and of the inherent risks of the portfolios.

- During the implementation of its investment process, Covéa Finance undertakes to:
 - Conduct a self-assessment at least once a year, covering the following factors:
 - The alignment and consistency of the principles of the Covéa group CSR policy with the ESG criteria applied to investments;
 - The internal rating of Covéa Finance as an AMC using its own AMC multi-management selection matrix;
 - Publish the carbon footprint of its portfolios in line with the internal schedule, which is subject to regular review;
 - Apply a process of continuous improvement regarding the integration of ESG within its investment process by combining qualitative and quantitative analysis.

b) Dialogue with the companies held in the portfolios:

- Covéa Finance has structured its shareholder dialogue approach around the following elements:
 - Definition: the basis of corporate dialogue and policy implementation promoting the integration of ESG criteria in the investment process;
 - Objectives: establishing shareholder dialogue as the main channel and driver of influence in order to promote the best ESG practices within the companies and to provide a better assessment of the non-financial risks and performance of a company or asset portfolio;
 - Multiple forms: meetings (face-to-face or remotely) with companies at their request in order to analyse resolutions put before general meeting, or at the request of Covéa Finance – questionnaires provide the base material and framework for assessing ESG risks and performance;
 - Prioritisation rules: the companies with which the ESG analysts hold dialogue when the opportunity presents itself are in the first instance those considered to form the **core portfolio**³, those

³ The core portfolio is composed of companies selected by asset managers for their sustainable growth potential and resistance to the economic cycle. These securities construct a buffer of unrealised capital appreciation in order

falling within the scope of our **voting policy**, notably in order to ensure alignment between the scope of shareholder dialogue and the voting policy, in addition to our **exclusion policy** due to their exposure to coal. These are supplemented by further prioritisation factors, such as holdings in SRI or environmental funds.

A specific point concerning companies with exposure to coal: during shareholder dialogue with such companies, and especially those covered by our exclusion policy, Covéa Finance verifies the responsible nature of selling business activities related to coal, favouring closure rather than disposal.

c) **Exercise of voting rights and other rights attached to shares:**

- The following elements present the conditions under which we exercise the voting rights attached to shares held and/or acquired by Covéa Finance during the course of its collective investment activities (UCITS) and discretionary management mandates.
- Outside the scope of exercising voting rights are the securities of companies held directly by entities of the Covéa group which have signed a financial management mandate with Covéa Finance and are considered to be strategic in this regard.
- By exercising voting rights, we are seeking to ensure compliance with good practices of corporate governance and therefore to promote long-term investment value for our clients.
- The exercise of voting rights forms part of the Covéa Finance approach to incorporate environmental, social and governance (ESG) criteria within its asset management activities.
- We perform our functions in complete independence of the issuers and in our clients' interests.

The following elements underpin our exercise of voting rights and are reviewed annually. When defining and developing the conditions, Covéa Finance notably exploits the annual corporate governance recommendations issued by the AFG and Afep-Medef, adapting them to the specific features of its business model.

1. Exercise of voting rights

- Organisation of the company for the exercise of voting rights

We exercise the voting rights of our clients:

- Via an electronic platform (since 2 June 2008) and via post for

to absorb market shocks. By definition, core portfolio securities are intended to remain in the portfolio over the longer term.

France – general rule;

- Via attendance at general meeting – in exceptional circumstances.

Based on a collaborative organisational structure, the ESG analysts assess the resolutions to be put to the vote and propose voting instructions in line with the principles set out in this document⁴. These proposals are validated by the Director of Strategic Watch and External Relations, and by all Research departments including ESG – the director's representative. The ESG analysts cast the vote via the aforementioned electronic platform and notify the asset management teams.

- Filing and archiving of information

Our service provider enables us to meet the traceability requirements specified in the General Regulations of the AMF. The following information is therefore available for every general meeting at which we cast our vote:

- The number of shares held by the collective investment undertaking and under the discretionary management mandate on the date of the general meeting;
- The nature of the vote cast by the ESG analyst (direct, postal or electronic);
- The direction of the vote (for, against or abstention – systematically abstention for all new resolutions put forward at the meeting);
- The reasons for the vote if an abstention or vote against.

On request of our principles, shareholders, unitholders and UCI investors, this information is made available at Covéa Finance head office.

2. Principles applied by Covéa Finance to determine when voting rights will be exercised

- Scope of votes to be exercised at general meetings in 2021

For 2021, we have decided to vote at the general meetings of our 30 largest cumulative equity positions held in EU companies, UCI portfolios and discretionary management mandates as at 31 December 2020, assuming the securities have not been sold by the date of the general meeting.

We also make every effort to exercise our voting rights in the listed

⁴ Resolutions not covered by our voting policy are examined on a case-by-case basis.

European companies we invest in under a long-term approach in which we hold a stake of more than 1.5% when defining the voting scope as at 31 December 2020.

Lastly, we make every effort to exercise our voting rights in core portfolio companies.

We only consider securities not needing to be frozen by the custodian when casting the vote.

Voting at general meetings in the US has been suspended due to the legal and administrative complexities.

- Nature of UCI management

Covéa Finance's approach is one of collaborative management when selecting securities, based on macro-economic, micro-economic and sectoral analysis. The nature of its management approach does not affect the exercise of its voting rights. Asset Management and Research personnel may be consulted for certain transformational resolutions (e.g. significant acquisition or disposal, change of legal form, etc.) and for resolutions on shareholder remuneration (dividends and share buybacks).

- Use of securities lending

Covéa Finance may exploit securities lending. In order to be able to exercise the voting rights attached to loaned securities at the time of general meeting, Covéa Finance ensures that they may be recalled at all times.

- Special case of resolutions relating to ESG:

Covéa Finance notably ensures that it is able to examine any resolution, whether put forward by the board of directors or by a group of shareholders, designed to improve transparency, governance or stakeholder relations (employees, environment, etc.), or which appears to conflict with the ESG principles of Covéa Finance.

3. Principles applied by Covéa Finance when exercising voting rights

The objective of Covéa Finance is to contribute to improve the governance practices of companies it decides to invest in, and

thereby to maximise the defence of the long-term interests of the beneficiaries represented by Covéa Finance. The principles applied by Covéa Finance target the alignment of all stakeholders' interests.

The principles have been established around the six themes set out below covering the main categories of resolutions:

- Management boards and bodies
- Corporate officers' compensation
- Shareholders' rights
- Approval of financial statements and management
- Financial structure
- Governance of environmental and social issues

The voting strategy is formed by analysing each of these 6 themes, enabling Covéa Finance to adopt its position on governance when exercising voting rights.

- Management boards and bodies

The boards are responsible to all shareholders and must act in the interests and on behalf of all shareholders. They carry out the functions devolved to them in law in order to act in the company's interests in all circumstances. In order to meet this responsibility, good governance must include an adequate balancing of powers and competencies between the management boards and bodies.

Before deciding on any resolution covering management boards and bodies, Covéa Finance considers the following matters with the support of its service provider:

- The clarity and continuity of the information about the work of the board, assessed via:
 - The chairperson's report informing the shareholders of the number of board meetings, attendance by board members, the organisational structure of the board, a detailed CV for all board members in office and the members put before shareholder vote;
 - The existence of rules of procedure stating the organisational and ethical principles;
 - The resources made available to board members: communication of all information required to perform their functions before meetings are held;
 - The separation or otherwise of the functions of management and control (a Chair of the Board and CEO, or a single

Chair/CEO);

- The amount of compensation for directors' functions (whether or not related to their participation in board meetings). Covéa Finance is in favour of compensation for board members in an amount that must at all times be consistent with the company's financial capacity;
- The experience of board members with regard to the company's operations;
- The diversity of experience within the board;
- Members' attendance rate at board meetings when renewing terms of office;
- Length of term of office: Covéa Finance is in favour of a maximum 4-year term of office;
- The proportion of directors or supervisory board members over 70 years of age;
- A list of directorships, with the general rule of a maximum of 5 (including the directorship at the company in question) for non-executive candidates and specific rules for other candidate profiles on a case-by-case basis;
- The number of shares to be held under the articles of association by a board member or member of the supervisory board, and the number of shares actually held;
- Absence of discrimination: Covéa Finance is notably in favour of greater representation of women on boards of directors;
- Employee representation of the board: Covéa Finance is notably in favour of employee representation on the board;
- The existence of interlocking directorships: Covéa Finance is not in favour of such situations, unless in the context of a strategic alliance within a declared economic project.

Covéa Finance verifies that the company complies with the following principles when appointing members to the board of directors or supervisory board:

- The proportion of independent directors must always be above

50% for widely-held "non-controlled"⁵ companies. The proportion of independent directors must always be above 33% for controlled companies. The directors represent the employee shareholders, and the directors representing employees are not taken into account when calculating these percentages and state representatives (for France, includes bodies such as BPI, CDC, APE, etc.). No independent director or supervisory board member may therefore:

- Be an employee, a corporate officer of the company or of a company of its group, nor have occupied any such post during the preceding five years;
- Be an employee or corporate officer of a reference shareholder of the company or of a company of its group;
- Be an employee or corporate officer of a significant, regular, commercial, banking or financial partner of the company or of a company of its group;
- Have been an auditor of the company within the five preceding years;
- Have been a director or supervisory board member for more than ten years;
- Have close family ties with a corporate officer.

- Special committees

Covéa Finance complies with the recommendation of the AFG concerning the creation of 3 committees (a higher number may lead to dilution and confusion of directors' work) assigned the freedom to summon and hear employees of the company, each committee with its own objectives and powers specified in the rules of procedure of the board of directors or supervisory board. The board of directors or supervisory board must provide shareholders with all relevant information about these committees, including the frequency of their meetings and issue a report on their activities.

- **Audit Committee**

Two-thirds of its members must be independent. The committee must include an expert in accounting and finance, to the exclusion of anyone performing an executive or salaried role within the company.

Its functions are to verify accounting and financial information, analyse risks, supervise internal control,

⁵ A company is deemed to be "controlled" if a shareholder directly or indirectly holds more than 50% of the share capital.

perform legal oversight of the accounts and examine the work of external audit.

- **Appointments Committee**

It must be composed of at least three members of the board of directors or supervisory board, and a majority of its members must be independent.

The committee is responsible for making proposals regarding the identification and nomination of board members and corporate officers, including the scheduling of renewals.

- **Compensation Committee**

The chair of the Compensation Committee and the majority of its members must be free of vested interests. The committee may not include persons exercising general management functions.

It must participate in the preparation of a system covering compensation of all kinds (fixed, variable, options, free shares, severance pay and pension benefits). It notably examines the compensation of corporate officers and executive committee members.

- Compensation of corporate officers⁶

The compensation policy must be adapted to the company's strategy and context. It must reflect the medium and long-term performance objectives of the company. Compensation must be established in line with the principle of aligning stakeholders' interests.

Compensation must be defined in all its aspects, the rules must be stable and transparent and the performance criteria used must be clear and sustainable.

Before deciding on any resolution covering compensation, Covéa Finance considers the following matters with the support of its service providers:

- The transparency of the information about amounts and of

⁶ CEO, COOs and Chair of the Board

all mechanisms and bases for calculating corporate officers' individual compensation, whether direct or indirect, immediate or deferred. The information must be detailed in the resolutions, be covered in the annual report in a summary compensation table and enable current compensation plans to be compared with those from previous years. The information on criteria used to calculate variable compensation must be precise (with details of minimum, maximum and target compensation in line with the attainment of objectives);

- The consistency of executive directors' compensation with the company's interests: the ability for compensation to evolve will be analysed in light of the existence of major ongoing reorganisation plans;
- The equilibrium between fixed and variable elements: Covéa Finance is in favour of proportionate orders of magnitude;
- The equilibrium between short-term and short to medium-term variable elements: Covéa Finance is in favour of a mechanism aligned with medium and long-term objectives;
- The implementation or otherwise of a mechanism for compensation plans to be approved by shareholders ("say on pay"), which is supported by Covéa Finance;
- The performance criteria associated with variable annual compensation and compensation plans must be demanding, clear and sustainable, and may at the same time be both quantitative and qualitative: it is recommended to include non-financial criteria. Criteria comparing the performance of the group with that of its competitors is encouraged;
- The implementation or otherwise of mechanisms for the return of variable compensation paid, should it subsequently transpire that it has been partly paid on the basis of erroneous financial information;
- Mechanisms for the awarding of executive directors' long-term compensation, notably covering the following points:

→ Free shares

- Covéa Finance wishes companies to provide shareholders in its annual report with precise data on all conditions leading to the allotment of free shares during the three preceding financial years (performance criteria and allotment percentage).
- Resolutions for the approval of free share allotments must include detailed and explicit performance criteria which will be used to allot the shares, to enable shareholders to assess the dilutive effect.
- These criteria may be stated in the resolution or in the

documents made available to shareholders for the general meeting.

- Covéa Finance supports the separation of resolutions concerning allotments for corporate officers and employees, with a statement of the maximum share of free actions to be allotted to each corporate officer.
- The allotment of free shares must take place under long-term performance conditions (at least 3 years) and preferably for a holding period of at least 2 years.

→ Allotment of share options, warrants or purchases

- Covéa Finance pays great attention to the number and conditions under which share options, warrants and purchases are allotted to executive managers. They must notably not include any discount and the initial issue conditions may not be modified.
- Option plans must specify the terms of allotment. A mechanism must ensure compliance with rules of ethics, notably:
 - The cancellation of options or warrants on departure from the company;
 - The inability to subsequently modify the initial option allotment conditions;
 - Annual option allotment period;
 - The ability to exercise options over multiple years subject to achieving objectives;
 - Allotment subject to long-term performance conditions.

Such allotment plans must distinguish between allotments to corporate officers and those to employees.

The allotment of options must take place under long-term performance conditions (at least 3 years) and preferably for a holding period of at least 2 years.

→ Limits on subscription or purchases options and free share allotments

- The total amount of plans at any given time covering options and free shares may not exceed 10% of share capital (this ceiling may be revised upwards for small caps).
- The total number of beneficiaries of share purchase or subscription options and free share allotments and the number of executive beneficiaries must be stated in the company's annual report.

→ Supplementary pension schemes, notably defined benefit

schemes, which must include conditions relating to length of service (at least 5 years), amount, attendance calculation base and reference period;

- Severance pay: it is desirable for the departure of an executive director at their own initiative not to give rise to any severance pay.
 - Any severance benefit that may be paid to any executive may not exceed twice their annual fixed and variable compensation (excluding options and other forms of compensation). If the executive has been in office for less than two years, the amount of severance pay must be in proportion to the period of service.
 - There should be no payment of any non-competition benefit on retirement.
 - Covéa Finance supports agreements on compensation and benefits that may be due to an executive director on cessation or change of functions being covered by separate resolutions.
- Golden hellos: acceptable where they compensate any loss of income caused by the new arrival leaving their previous role.

- Shareholders' rights

The strategy of Covéa Finance in this area is based on defending the equal treatment of shareholders, notably via the proportionality of voting rights and the principle of "one share, one vote".

Covéa Finance therefore does not support practices and/or modifications of articles of association dividing share ownership rights or creating double voting rights, preferred dividends or shares without voting rights. Covéa Finance pays particular attention to preserving shareholders' rights. Every resolution or decision modifying the articles of association is examined on a case-by-case basis.

- Approval of financial statements and management

Covéa Finance takes a stand when exercising voting rights on the transparency of the company with regard to its financial situation and access to adequate information, notably in terms of the policies and practices covering certain environmental and social issues. Before deciding on any resolution covering approval of the financial

statements and management activities, Covéa Finance considers the following matters with the support of its service providers:

- The company's information must be made available in good time, enabling Covéa Finance to conduct prior analysis (at least 21 days before the general meeting).
- The information must be truthful and coherent and include a detailed strategic positioning, notably with regard to medium and long-term strategic direction, environmental and social policy, risk assessment and management policy, indebtedness policy and dividend distribution policy;
- The resolutions put to shareholder vote must be accompanied by information enabling an informed decision to be taken in light of the issues, including the explicit background and consequences of the resolutions, especially for those covering the appointment and renewal of board members and authorisations for financial transactions;
- Requests to discharge executives from their responsibilities are analysed in light of the regulations of the country in which the registered office is located;
- Appointment of auditors: Covéa Finance is careful to minimise potential situations of conflict of interest concerning the activities of statutory auditors. The following rules must therefore be respected:
 - Effective application of the rotation principle depending on the entities in question and local rules;
 - Restricted payment of fees not related to certification of the financial statements.
- Regulated agreements: Covéa Finance pays careful attention to resolutions on regulated agreements.
 - Good practice consists of drafting a single resolution per agreement;
 - The information must be clear and detailed, be prepared for maximum readability and be covered by separate resolutions, especially in respect of agreements involving executive directors and family offices;
- Combined resolutions: Covéa Finance is opposed to the practice of combining multiple decisions of the same nature within a single resolution, which should be put separately to shareholder vote (e.g. resolutions covering the renewal of multiple directors, or executive compensation or benefits in kind).

Regulated agreements⁷: These are direct or indirect agreements between a company and its chief executive officer, any of its chief operating officers, any of its directors or any of its shareholders holding over 5% of the voting rights, and which do not relate to day-to-day operations concluded under normal market conditions. It should be noted that day-to-day operations are those conducted by the company during its normal course of business involving activities approved under sufficiently standard conditions so as to correspond with normal operations.

Scope

Sale, lease, services, granting of licences, loans, exceptional compensation awarded to directors for specific assignments, etc.

▪ Financial structure

The strategy of Covéa Finance is based on compliance with the principle of balanced management of shareholder equity and respect for shareholders' interests over the long term.

Covéa Finance therefore pays particular attention to securities transactions and the dividend policy pursued by companies within the scope of its voting policy:

- The dividend distribution policy must be adapted to the company's growth potential, with due consideration given to the amount of the dividend with regard to cash flows available to the shareholder, changes to the distribution ration and investment amounts;
- Share buybacks and capital reductions: such operations will be analysed in light of the company's debt position;
- Anti-takeover measures: it is not desirable for general meeting to be able to provide advance authorisation for the use of mechanisms such as share buybacks or the issuance of share warrants during the course of an IPO launched at a later date. Covéa Finance considers that a general meeting should be held during the public offer period to enable shareholders to make decisions on a case-by-case basis, in the possession of adequate information on resolutions authorising share buybacks or share warrants during such periods. However, resolutions may be accepted on a case-by-case basis. In all cases, the offer must strictly specify a maximum purchase price level of 20% of the average stock market price during the preceding 3 months;
- Capital increase with or without preferential subscription

⁷ Article L225-38 to L225-43 of the Commercial Code

right. The voting strategy of Covéa Finance is based on respecting shareholders' preferential subscription rights during capital increases. Covéa Finance will also pay particular attention to the terms of authorisation requests removing shareholders' subscription rights in terms of discount and percentage of capital requested. Covéa Finance is notably opposed to:

- Capital increases without preferential subscription rights or any mandatory preference period which, cumulatively, may potentially correspond to more than 10% of share capital and are not formally explained and justified when submitted to the vote at general meeting;
- Capital increases without preferential subscription rights but with a mandatory preference period of at least 5 days which, cumulatively, may potentially correspond to more than 20% of share capital and are not formally explained and justified when submitted to the vote at general meeting;
- Regarding capital increases with preferential subscription rights, Covéa Finance is opposed to authorisations which, cumulatively, may potentially correspond to more than 50% of share capital and are not formally explained and justified when submitted to the vote at general meeting;

Covéa Finance does not support capital increases via private placement, unless justified by exceptional circumstances formally explained by the company.

- Governance of environmental and social issues

Covéa Finance wishes to have access to clear and adequate information on the policies and practices of the company concerning certain environmental and social issues in order to maximise its understanding of the risks and opportunities such issues may represent for the company.

Covéa Finance may support a resolution submitted by a shareholder or group of shareholders which, subject to providing adequate clarity and details, would result in increasing the transparency of the environmental and social issues relating to the company's activities.

d) **Cooperation with other shareholders:**

- Covéa Finance is not currently part of any shareholders coalition as we believe it to be more pertinent to continue to promote shareholder

engagement on an individual basis via shareholder dialogue.

- However, Covéa Finance may participate in campaigns conducted by the CDP (formerly the Carbon Disclosure Project) alongside other investors and directly ask companies in this regard to answer questionnaires on Climate, Water and Forests. It may therefore encourage them to show greater transparency.

e) **Communication with stakeholders:**

- Covéa Finance undertakes to maintain an adequate level of communication with its client-shareholder, Covéa, in the following 3 areas:
 - The slogan of Covéa Finance is "Finance in the service of insurance" and has constructed its business model with comprehensive consideration given to the characteristics and requirements of its client-shareholder, Covéa;
 - Covéa Finance takes all necessary steps to ensure that Covéa is able at all times to meet its financial commitments vis-à-vis its clients and members;
 - Covéa Finance undertakes to comply with the investment policy of Covéa, which states that ESG criteria must be given due consideration when making discretionary management investments.
- Covéa Finance undertakes to guarantee a satisfactory level of communication with the companies it finances with debt or capital, exploiting 2 main channels:
 - Covéa Finance undertakes to maintain dialogue with companies within the scope of its voting policy requesting shareholder dialogue prior to general meetings and, outside the period of shareholder engagement, to adopt a constructive approach to shareholder dialogue, with notable regard to its largest positions, private issuers in which Covéa Finance holds a large stake, private issuers of SRI funds (Covéa Flexible ISR and Covéa Actions Solidaires) and the range of predominantly environmental funds (Covéa Aeris, Covéa Aqua, Covéa Solis and Covéa Terra).
 - Covéa Finance undertakes to ask companies with which it has initiated shareholder dialogue to make progress in terms of ESG and the quality, comparability and transparency of the CSR data they publish.
- Covéa Finance responds positively to requests and holds dialogue with stakeholders, such as industry associations and NGOs. However, such dialogue is neither systematic nor binding.

f) **Prevention and management of conflicts of interest with regard to engagement:**

- Regarding the exercise of voting rights:
 - Voting rights are exercised in complete independence, in compliance with the principles defined by Covéa Finance in its policy on managing conflicts of interest.
 - The asset management company's membership of an unlisted group and the lack of activities focussing on issuers are factors that limit its exposure to the risks of conflicts of interest. Covéa Finance does not vote at general meetings of companies, mainly listed real estate companies, in which entities of the Covéa group hold a stake they consider to be strategic.
 - Covéa Finance may only assist entities of the Covéa group in completing the administrative formalities required to exercise the voting rights attached to securities outside the scope of discretionary management mandates and in line with their specific instructions.
 - If a conflict of interest is identified, it is highlighted by the management company in its annual report on the exercise of voting rights.

Regarding the operations of Covéa Finance, please refer to the policy on preventing and managing conflicts of interest and the code of ethics, both of which are available at <https://www.covea-finance.com/our-reports-and-politics>

II Shareholder engagement policy: dissemination and reporting

- This shareholder engagement policy is published on the Covéa Finance website and is covered in the same manner as other policies in the annual ESG Report.
- A report on the implementation of the shareholder engagement policy is presented annually and made available vis the ESG Report, published on the Covéa Finance website.