

ANNUAL REPORT 2017

Today and tomorrow,

experience
at our clients' service

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 at our clients' service

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Covéa Group at a glance

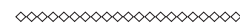
A mutual insurance group, Covéa is a major player in the insurance sector in France, has a presence on key markets, and is the market leader in property and liability insurance. Covéa encompasses MAAF, MMA and GMF; three powerful brands, each with their own evolution and market positioning but with shared values. United within Covéa, MAAF, MMA and GMF maintain their own identities, individual features and policyholder clientele. The pensions company APGIS and SMI, the inter-professional mutual insurance company specialising in health insurance are members of Covéa Group too. The Group also has approximately ten subsidiaries that specialise in insurance, finance and/or services, including Covéa Finance.

Covéa's strength is founded on a global model that represents all components of insurance; a diverse client base, an extensive

product range, multiple distribution methods, a wide breadth of business lines and a significant international presence (in the United Kingdom, Italy, Spain, Luxembourg, Canada and the United States).

In an increasingly stringent economic and regulatory climate and a fast-changing society, its size, structural soundness and risk awareness allows Covéa to innovate and adapt, to ensure that it meets the needs of its policyholders and clients in the most effective way.

The Group encourages its talented employees and uses technological tools to work towards a shared goal: to ensure that every client and policyholder - whether an individual, a business customer or a large company - has the best insurance experience, with a supportive and understanding partner.



+ 26,000

EMPLOYEES IN FRANCE
AND ABROAD*

11.5

MILLION
POLICYHOLDERS*

*At 31/12/2017.

10th LARGEST FRENCH FUND MANAGEMENT COMPANY*	€97.9 BILLION IN ASSETS UNDER MANAGEMENT**	42 MUTUAL FUNDS**	155 EMPLOYEES**
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* Source: AFG at 31/12/2016.
** At 31/12/2017.

Covéa Finance is the portfolio management company of Covéa, a group that combines the MAAF, MMA and GMF brands. Independent in its decisions, Covéa targets long-term performance.



Through the work of its integrated research teams, the company enjoys recognised analytical abilities that enable it to anticipate changes in its environment. Its corporate philosophy puts risk management at the heart of its employees' activities, which each putting their expertise and know-how to work to provide quality insurance services.

Awards

LE REVENU TROPHY 2017

Gold trophy
in the Best Range category
for Diversified Funds
over 3 years



Bronze trophy
in the Best Fund category
for International Equities over 10 years
- Covéa Actions Investissement





THE WORLD THROUGH THE EYES OF **GHISLAINE BAILLY**

“Europe’s return to the world economic scene is reflected in certain indices which are at their highest levels for over twenty years.”



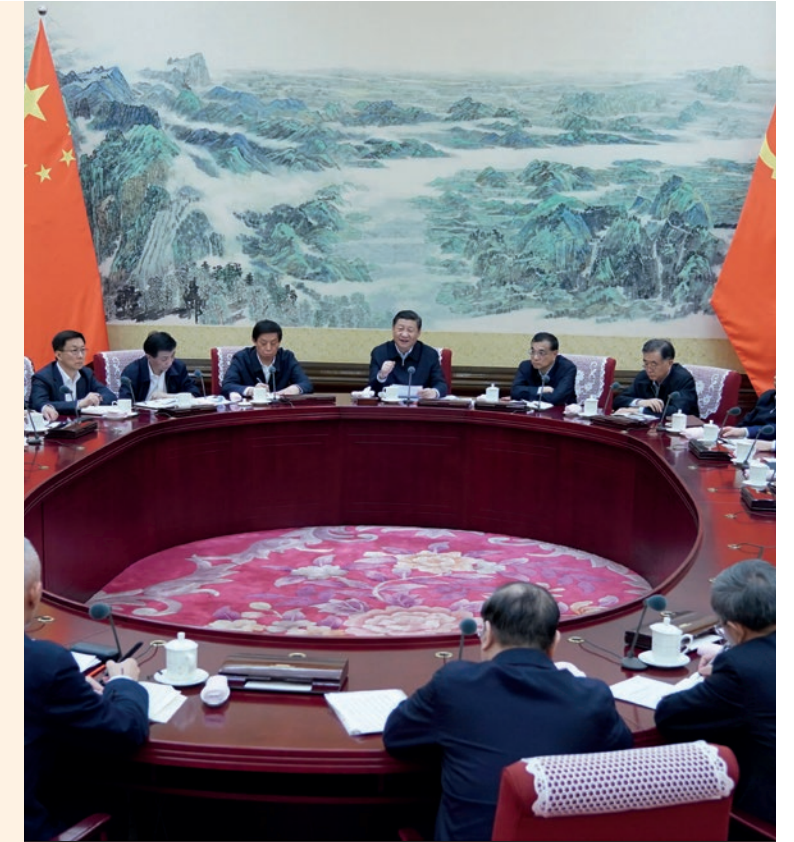
— Divided Republicans in the United States

On three occasions in 2017, the Republicans failed to repeal Obamacare reforming the US healthcare system, despite this being one of their promises for the past seven years. The party remains split between the moderates, who want to keep part of the initiative, and the conservatives, who are keen to reduce the government’s involvement. Divisions were also felt throughout the year in terms of budgetary issues, between those who want to reduce deficits and those seeking a more lax fiscal policy. A further major split within the party concerns the liberal partisans, historically supported by the party, and advocates of a policy more focused on the strategic interests of the country, represented by Donald Trump. —

— National Congress of the Communist Party of China

At the National Congress of the Communist Party of China, Xi Jinping was re-elected as General Secretary of the Party.

His position as a strong leader, on a par with Mao Zedong and Deng Xiaoping, has been further cemented with the enshrining into the party constitution of his own self-titled ideology and the confirmation of his lifetime presidency. For the first time in thirty years, the Congress also changed its position as to what it considers its main challenge, namely the unbalanced development of the country, at a time when the Chinese have asserted their hopes for a better quality of life. The change not only acknowledges the risks facing China, but is also a commitment to addressing them. —



— Resurgence of the euro

The year 2017 saw the significant strengthening of the euro against all other currencies, after falling at the beginning of the year to its lowest level against the dollar since 2003. This was due to several factors: Europe’s diminishing political risks thanks to favourable poll results in the Netherlands and France, but also improved cyclical conditions within the eurozone, which contributed to a reduction in the risk of a deflationary spiral in the area. As such, despite the ongoing significant long-term rate spread between the United States and the eurozone, the euro appreciated by more than 14% over the course of 2017 and has risen by 3.6% since the beginning of this year. This return by Europe to the global economic scene is reflected in the levels of certain indices (which are currently higher than they’ve been for the past twenty years), in continued growth acceleration at 2.6%, robust activity in the industry and a continuously high trade surplus. —





THE WORLD THROUGH THE EYES OF **GHISLAINE BAILLY**

— Growing tension on the international stage

Tensions between nations concerned with migratory flows, sluggish economic growth and Brexit all fuelled fears in Europe in 2016 and contributed to a rise in political protest movements. In this context, 2017 was off to a messy start from a geopolitical point of view, with important elections taking place in France, the Netherlands and Germany. Stateside in 2016 saw the surprise election of a so-called “populist” candidate, Donald Trump, who for many was an obvious symbol of the calling into question of elitism and globalisation. The threat to multilateralism, the withdrawal from the Paris Agreement on climate change and negotiations on the Trans-Pacific Partnership, the proposed wall between Mexico and the US and even the recognition of Jerusalem as the capital of Israel have all given rise to new uncertainties. Also, the dispute concerning the Iran nuclear deal and the tensions between the United States and North Korea have caused the threat of nuclear action to resurface. As worrisome as these conditions are, they did not test the resistance of the financial markets this year. —



“The international climate, although worrisome, has not tested the resistance of the financial markets.”



— Financial markets are more than just resisting

The resistance of the financial markets and the lack of a rebound in volatility constituted one of the great paradoxes of 2017. There was no shortage of grounds for tension, however, considering for instance the judicial wrangling of certain members of the entourage of the US president, the missile crisis in Korea and the high-risk elections in the eurozone. And yet 2017 will remain a good year. Why? Firstly, because the economic climate remained positive and the financial markets reflected an episode of synchronised world growth that was not followed by inflationary pressures. Secondly, because companies listed on the major international indices confirmed this economic recovery in their accounts, with profits increasing almost 23% in the eurozone. Also of note were the exceptional contribution of Internet and technology stocks and the rebound in raw materials. —

“In spite of increased competition and an uncertain financial environment, our responsiveness and independence have once again enabled us to make appropriate choices in 2017.”



**INTERVIEW WITH
GHISLAINE BAILLY**

CHAIRWOMAN OF COVÉA
FINANCE AND DIRECTOR
OF FUND MANAGEMENT

In many ways, 2017 reshuffled the deck on the international scene, in terms of both politics and economics. This new hand did not stop Covéa Finance from achieving significant performance gains while continuing to work internally on key projects for the future.

The year 2017 was full of surprises. Some led to uncertainty, while others inspired hope following the difficulties experienced since the crisis in 2008. This year also saw a number of dangers rise to the surface. Beyond the European borders, the renewed risk of nuclear war and the Republican discord in the United States were also causes for concern. In Europe, the difficulties experienced by Germany in forming a new government and the risk to the Italian banking system also highlighted our need for vigilance.

THREE KEYS TO UNDERSTANDING 2017

The appreciation of the euro against all currencies, and the dollar in particular, is the first key. The European currency was bolstered by the continuous improvement in the economic climate and the diminishing political risk with polls confirming the downfall of several extremist parties. The year 2017 was also characterised by Europe's grand return to the global economic race, despite specific barriers including the difficult negotiation of the conditions for the United Kingdom's exit from the European Union. The second key is the United States' overperformance on the other traditional financial markets. The American market was notably driven by the performance of the technology sector

which is now heavily weighted in the S&P 500 index. The third and final key is the strong resistance of the financial markets to unsettling events occurring practically worldwide over the year. The markets have shown themselves able to look toward the future and focus on strengthening activity across all economies. This reality is reflected in the macroeconomic data observed by Covéa Finance's Economic Studies Managers and is manifested as growth in business revenue and profits, and stronger world trade. However, accelerated activity remains unbalanced across the various zones and countries, as demonstrated by the constant questions surrounding the growth and security of the Chinese financial system.

**UNCERTAINTIES
THAT CAST NO SHADOW**

The year 2017 accentuated the turning points observed in 2016 at the time of the election of the new US President who confirmed a calling into question of globalisation and questioned its benefits for the progress of humankind. In practice, this challenge does not lack substance: one striking example is the silencing of concepts like border economies (e.g. Vietnam-China). Furthermore, regionalised trade flows were established, while the USA will henceforth argue loudly against multilateralism and its rules, calling into question the merit of institutions such as the International Monetary Fund (IMF) and the World Trade Organization (WTO). In spite of this, economic recovery is well underway in developed countries, and in the United States in particular hence, an upturn, although fragile, in wealth transfer effects between net importing countries and net exporting countries, and between raw materials producer countries and raw materials consumer countries. Driven by a fresh sense of hope, all financial markets ended the year on a high, in a still favourable monetary context, thanks to the central banks that have not yet normalised their monetary policy, as US rate rises remained limited and contagion to other areas was →

→ contained. The economic acceleration and the upswing in raw materials prices were not echoed in the price indices, despite relatively low unemployment rates in a number of countries. Contained inflation remains a symptom of the structural difficulties currently faced by the world as a whole. Excessive public and private debt, job insecurity, a workforce inadequately skilled to meet requirements, low-wage jobs replacing high-wage jobs, etc. These are all factors that endanger the sustainability of current growth.

CHALLENGES FACED BY COVÉA FINANCE IN 2017

Challenge n° 1: Orchestrating the development of Covéa Finance.

In this context, one of our major challenges lied in the orchestration of Covéa Finance's development, focusing on our range of mutual funds and investing in sales and communication, without impacting the quality of the fund management services we provide for the Covéa Group. This challenge was met head-on, with well-balanced portfolio performance in 2017. In an increasingly competitive context and a financial environment populated by political and economic uncertainties, this success is largely due to the hard work and responsiveness of our fund management teams. Favouring equity investments was a daring move, especially in the US and Europe, two areas suffering from alarming discourse. However, the gamble paid off and those who chose not to take this direction now regret their decisions.

Challenge n° 2: Staying the course on major projects.

Another significant challenge was the adaptation of Covéa Finance's ESG policy to a tougher regulatory framework, culminating in the publication of its first ESG report. Major company projects, such as the transformation of the information system, standardised reporting and the overhaul of the AMF (*Autorité des marchés financiers*) accreditation package were completed within the prescribed timeframes, without hampering our development path or financial performance.

Challenge n° 3: Supporting company growth.

The Covéa Finance teams continued to grow in size thanks to an updated and enhanced human resources policy. The policy covers everything from the recruitment process to the entire span of employee careers and is a testament to the vitality of the company. As part of its commercial development, Covéa Finance enlisted the help of an expert who is now responsible for the dedicated team. Lastly, the company participated in the Patrimonia

“Generating performance in a controlled risk framework will be challenging with so many unknowns.”

trade show in Lyon, for the third consecutive year, where it met with industry professionals and independent wealth management advisors.

OUTLOOK FOR 2018

The year 2018 promises to be a complicated one because the core business of Covéa Finance is financial management. Generating performance in a controlled risk framework will be challenging with so many unknowns, including in particular the change in long-term interest rates and price index trends. These uncertainties will test the resistance of the markets and the global economy, while political risk will continue to exist. For this reason, Covéa Finance will direct its focus on consolidating more diversified investment opportunities, both in terms of asset classes and geographically speaking. Given this unpredictable climate, Covéa Finance has set itself three main areas on which to focus.

Regulation and ESG: opportunities to be combined.

First of all, address regulatory requirements and the commitments made as part of our ESG policy. With one major challenge: to combine a method of fund management that is tailored to a hyper-mobile world and which has been proven over time, with the ESG approach, without jeopardising the performance quality of the funds managed. At the same time, possess the ability to communicate effectively about our ESG choices. The environment (E) is often seen as the priority component of ESG. However, governance (G) is vital as it is the main lever that we have as an investor, on behalf of our clients, to be able to act indirectly on social (S) and environmental (E) issues.

Adapt fund management to a wider range of investments.

The second major focus for Covéa Finance is to tailor our fund management approach to our new investment universe, which has become increasingly broad over the past few months. Standardised reporting, modernised risk control, recruitment of new skills, a working group to focus on portfolio construction, development of ancillary tools to help with decision-making in a highly mobile world and in ever-changing financial markets: multiple levers available to us through which to address this challenge.

Continue our development efforts.

Lastly, Covéa Finance must intensify its development without reducing the quality of service provided to its clients and Covéa Group shareholders, and without impacting its financial structure, while undertaking the implementation of new regulations. In this context, cost control and the generation of additional revenue are imperative if we are to stabilise the cost-to-income ratio on a competitive level. ■

“I would like to thank all of the Covéa Finance teams for the energy they have put into serving our clients and our objectives - this energy has been fuelling us for the past ten years.”

THREE-YEAR OBJECTIVES 2017-2019

BE A DRIVER OF SUSTAINABLE GROWTH

Covéa Finance is careful to plan its development with one eye firmly on profitability. One approach is to tap into additional revenue linked to investments with measurable profitability and controlled costs. Our 2017 results are a testament to the appropriateness of this objective. The mandates generated an additional €1.7 billion for us in 2017, while the Covéa Life networks collected €285 million on our funds.

CAPITALISE ON TEAMWORK

Covéa Finance is committed to playing a team game, which goes beyond the simple notion of teamwork. The team game involves understanding what my role is within the team, what is expected of me, what I need to do when I'm handed the ball and who I need to pass it to. Cross-functionality is the backbone of the team game: the pooling of expertise benefits us on a daily basis, and in new ways, helping us to work on the foundations of our fund management and adapt it to a changing world. Changes in market practices and in the markets themselves, increasingly intense competition and rising costs associated with regulation are key factors that have a major impact on our targets, in terms of the cost-to-income ratio, assets under management and the profitability of our own funds.

“An exceptional year for the financial markets”



INTERVIEW WITH LUCILE LOQUÈS Director of International Equities | **HÉLÈNE DYÉ** Deputy Director of Fund Management and Director of Fixed Income, Research and Trading | **FRANCIS JAISSON** Director of European Equities, Multi-management and Sales |

Multi-management and Sales. At last in Europe we can maintain strong growth in the cyclical and especially technology sectors; only 'telecommunications' and 'energy' stocks have seen disappointing results.

ON THE FOREIGN EXCHANGE MARKET,

the euro forged ahead, recording impressive rises against the other currencies. "Once the sense of worry had lifted in Europe, following the election of Emmanuel Macron in France, we witnessed a 'euro rally' which lasted the rest of the year. This dynamic was also fuelled by doubts surrounding the American government's ability to pass reforms and the good news coming from European economies as stated above", says Lucile Loquès, Director of International Equities. In emerging countries such as Brazil, political uncertainty did not hamper market growth. "This was also a year of rising raw materials prices, with a recovery in oil and other products such as copper. This is positive news for producer countries, who have once again been able to benefit from wealth transfers", she adds. Another key factor of note is that, although the Fed raised its rates three times during 2017, there was no significant effect on the markets due to the growth achieved and the tax measures taken by the Trump administration at the end of the year, which helped reinforce this trend.

IN THIS CONTEXT, COVÉA FINANCE ONCE AGAIN DEMONSTRATED ITS FORWARD-PLANNING AND AGILITY.

"In light of the political uncertainty linked to the build-up to the presidential elections in France, we carried out capital gains programmes at the beginning of the year and until the first round in April 2017. Between the two rounds, we chose to reinvest a portion of the amounts sold since the beginning of the year on a 'benchmark basket', and on a selection of 'Core' and 'Opportunity' stocks. At the end of June 2017, →

In a context more uncertain than ever before, 2017 saw the financial markets rising, the euro racing to the head of the pack and rates remaining exceptionally low. Uncertain conditions under which Covéa Finance was able to maintain its focus, thanks to its agile teams.

2017 will be a significant year for the financial markets. "Growth acceleration, lack of inflation and accommodating central banks were the main highlights", says Hélène Dyé, Deputy Director of Fund Management and Director of Fixed Income, Research and Trading. But 2017 was also characterised by a paradox: omnipresent political risk and historically low levels of volatility, a combination extremely favourable to equity investments, but not devoid of risk.

WITH REGARD TO THE STOCK MARKETS, THE YEAR WAS PUNCTUATED BY A NUMBER OF POLITICAL DEADLINES:

in core eurozone countries with crucial elections in France and Germany, but also in the rest of the Europe, notably with the Catalan independence referendum and the Brexit negotiations; elsewhere in the world, the 19th Congress of the Communist Party of China and, during the final quarter, the American tax reform. This year also saw the US Federal Reserve (Fed) continue on its path to policy normalisation, whereas its peers in the eurozone and the United Kingdom. "We have observed near-constant index growth across all of the major stock markets. This increase has been encouraged by buyer flows, notably through index funds and ETFs, but also by the growth in earnings of listed companies", explains Francis Jaisson, Director of European Equities,

→ the decline in the market enabled us to reach our intervention point, set at 5,100 points on the CAC 40, which constituted our last major movement of the year”, explains Francis Jaisson. During the second half of the year, Covéa Finance opted to focus on specific securities and also profited from the volatility of the financial sector to return to the banking sector via a ‘benchmark basket’ (see below*), while remaining opportunistic in relation to price changes and the various intervention points on the banking sector index. “On the other markets, and in Japan in particular, we have prioritised a selective purchasing strategy (see page 30). However, the majority of our investments remained concentrated in Europe”, adds Lucile Loquès.

WITH REGARD TO RATES, 2017 was once again an unpredictable year. The strong increase in rates recorded at the beginning of the year did not last, presenting an opportunity that was not to be missed, as demonstrated by Covéa Finance which had by mid-February and over a period of three days, completed fifty percent of its purchases for the year. “Rates have been on a continual decline since then, and a downward trend in yields has taken hold. At the end of the year, given that there was an error in the contextual interpretation of the market, and that

* **“BENCHMARK BASKETS”**: AGILE FUND MANAGEMENT

A “benchmark basket” is a selection of stocks that replicates, using sampling, the performance of the benchmark index. A technique increasingly used by the European Equities team to cultivate agility and responsiveness.

“Speculative bubbles are created by three phenomena: hyperliquidity, globalisation and technological innovation.”

HÉLÈNE DYÉ

our scenario was one of rising rates, we decided to draw our profits by selling a number of securities”, explains Héléne Dyé. She also added: “By prioritising the equity markets, our activity on the fixed income markets was ultimately very minimal, having chosen to focus on the under-sensitivity of portfolios compared with the benchmark indices, by selling and profiting from low points. Our investments are essentially related to the sovereign debt of core countries – France and Germany in particular.”

IN THIS UNPRECEDENTED CONTEXT, A NUMBER OF PREVIOUSLY FORMED “BUBBLES” CONTINUED TO GROW, irrespective of asset types. “These bubbles are the result of three phenomena. Firstly, hyperliquidity. Central bank policy has made money almost free, a necessary evil to avoid a major crisis, but this has consequently given the global money supply a dangerous boost. Secondly, globalisation and its by-product, in other words the

connection between capital, raw materials and employment. In the majority of sectors, capital comes from western countries, raw materials from Africa or the Middle East, and manufacturing takes place in Asia, resulting in the large-scale transfer of wealth and historic upheavals. Thirdly, the acceleration of technological innovation, with notably the phenomenon of digitalisation. This has created, over a very short period of time, new giant companies in dominant positions striving to overcome fiscal constraints and impose their own standards”, explains Héléne Dyé.

HAVING BEEN DEALT THIS NEW HAND, confronted with the brutal changes caused by the disruptive arrival of these new iconoclasts, businesses need to be able to adapt, not just in terms of their development models, but also their strategic positioning. “For Covéa Finance, this means leveraging these uncertainties to act with agility on sectoral baskets or stock themes, but also strengthening our core portfolios and proving ourselves strategic on shorter-term packages. All whilst negotiating the moody

“One of our great strengths is knowing how to take advantage of uncertainties in the markets to act with agility on sectoral baskets.”

FRANCIS JAISON

“Now more than ever, we must remain attentive; we must interpret, understand and find the best stock.”

LUCILE LOQUÈS

markets set to persist throughout 2018. We must therefore demonstrate ourselves as selective, flexible and reactive”, says Francis Jaisson. The company’s fund management teams also entered 2018 with a feeling of certainty, that the synchronisation which until then had characterised global growth would inevitably, and in the near future, also affect monetary policy. “It is not necessarily a question of risk, it could even become an opportunity, if we stay alert to episodes of volatility that may be created by a convergence of monetary policies. Now more than ever, we must remain attentive; we must interpret, understand and find the best stock. It is up to us to plan for the future, by seeking out promising stock and taking advantage of these movements”, adds Lucile Loquès. In a world where the tides have turned and where market behaviour, after several years, continues to thwart analyst predictions, the strength of Covéa Finance lies more than ever in its independent research and in its collaborative approach to investment decisions. ■



**INTERVIEW WITH
SOPHIE BEUVADEN**

MANAGING DIRECTOR
OF INVESTMENTS, CONTROLS
AND RISKS OF THE COVÉA GROUP*

Thanks to Covéa Finance's prudent fund management strategy, the Covéa Group can afford a certain peace of mind, even if a number of swords of Damocles continue to hang over the heads of the financial markets. A look back at a year of contrasts.

WHAT ARE YOUR THOUGHTS ON 2017?

- S. B.** The recovery scenario is well underway, having started in the United States, before spreading to Europe and the rest of the world. This is very good news indeed. It means that we can now reasonably hope that this renewed growth will lead to a reduction in the gap that continued to widen in 2017 between asset values and the real economy. Since Covéa has, for several years, been one of the few insurance sector players that has invested relatively heavily in equities, we have been able to take full advantage of the rise in the markets with, as a result, a number of capital gains to sustain our returns, while maintaining a thick buffer of unrealised gains. This strategy has allowed us to offset the erosion of our bond portfolio which is under strain.

DO ANY KEY MOMENTS STAND OUT FOR THE YEAR?

- S. B.** Not really, no, but I would say that this in itself is noteworthy. None of the risks identified came to pass, such as those related to Chinese debt, instability in the Near and Middle East, the controversial stances of President Trump, etc. That said, all of these potential "bombs" still exist, as does the threat of public and private sector agents falling into significant debt. However, I have noticed that optimism is making a comeback, despite still-abundant strong concerns regarding the financial markets. If we compare the current situation to 2006-2007, players of the world economy can now clearly identify multiplying risks and warning messages, enabling them to better prepare for a potential market collapse.

* Investments Division since 1 January 2018.

HOW DID COVÉA FINANCE BEHAVE IN THIS CONTEXT?

- S. B.** Once again, the company was able to achieve good results, despite a depressed bond market. Paradoxically, during high times, Covéa Finance appears to perform less well than its competitors, because its priority is not to obtain returns at any price. We keep a cool head and resist the temptation to turn towards risk assets. This approach is made possible through long-term fund management, for the good of the Group.

2017 SAW SOME CHANGES TO THE OPERATIONAL GOVERNANCE OF THE COVÉA GROUP. CAN YOU TELL US A LITTLE BIT ABOUT THESE?

- S. B.** Yes, the Group has restructured its operational governance. A number of executive officers had chosen to move to new positions or to take early retirement, and Covéa took advantage of these developments to make some changes of its own. On 1 January 2018, the Investments, Controls and Risks Division became the Investments Division, under the leadership of Laurent Tollié (see opposite), with whom I will be spending the next few months sharing knowledge. Risk Control is now a separate division which reports directly to the Chairman. Lastly, Management Control has been moved to within the Accounting Division. This has no major impact on Covéa Finance, except for the fact that I am passing the mantle of Chair of the Supervisory Board to Laurent Tollié. For my part, I am now Special Advisor to the Chairman of the Group.

WHAT WORDS WOULD YOU USE TO DESCRIBE 2018?

- S. B.** I would just choose one: calm. We will continue to apply our core principles in our work with Covéa Finance, to generate sufficient capital gains to maintain our rates of return, taking advantage of market rises and falls. The historic construction of our portfolio and our fund management methods mean that we can remain calm today, even in the event of a stock market crash. ■

—
“Covéa Finance’s ability to keep a cool head, even during market euphoria, is the key to sustainability for an insurer like Covéa.”



Laurent Tollié
New Managing Director
of Investments for the Covéa Group

On 1 January 2018, Laurent Tollié took over from Sophie Beuven on all matters relating to the Covéa Group's investment policy.

This appointment is the culmination of a career of more than twenty-five years at the Group which he entered in 1990 and that led him from the Group's Technical department to the position of Chief Executive Officer of GMF Assurance Division. Suffice to say that the new Managing Director of Investments has in-depth knowledge of not only Covéa, but of the world of insurance. *"I intend to continue the great work of Sophie Beuven, keeping a focus at all times on the fact that finance must remain at the service of insurance. This is what sets Covéa Finance and our approach to fund management apart from other players. My career has enabled me to acquire the sensitivity required for our sector of activity. In terms of action, this signifies for me continuity, security of performance and forward planning, the latter being higher than ever on the agenda in this environment which remains full of uncertainties",* states Laurent Tollié.



Francis JAISSON
Director of European Equities, Multi-management and Sales

Franck IBALOT
Director of Risk Control, Operations and Information Systems

Hélène DYÉ
Deputy Director of Fund Management and Director of Fixed Income, Research and Trading

Yannick TATIBOUËT
Director of Strategic Intelligence and External Relations

Ghislaine BAILLY
Chairwoman and Director of Fund Management

Lucile LOQUÈS
Director of International Equities

Ludovic JACQUIER
Director of the General Secretariat and Compliance and Internal Control Officer

Updated governance bodies

During 2017, Covéa Finance rewrote its remuneration policy and rules of procedure. It also carried out a number of audits. The company prepared itself to work within the new structure of the Covéa Group.

REMUNERATION COMMITTEE: REGULATORY CHANGES, TAKE TWO

With the introduction of the UCITS 5 Directive, Covéa Finance had to once again update its remuneration policy in 2017. In order to comply with this Directive, it is now mandatory that companies obtain formal accreditation from the AMF, which may contest their policy, issue recommendations and even perform checks at any time. Another significant change introduced by the Directive is the classification of employees according to three groups: executive officers, "risk takers" and other fund management employees. For each of these groups, the company must define the criteria upon which its remuneration is based, specifying fixed, variable and value-sharing components (employee profit-sharing).

“Risk takers’ are subject to specific treatment as part of the new remuneration policy published in 2017, notably resulting in enhanced governance with rules on the granting of variable remuneration.”

“Risk takers”, meaning employees who make fund management decisions, are therefore subject to specific treatment in the new remuneration policy. The plan is for enhanced governance with rules on the granting of variable remuneration, but also more regulated management of changes in remuneration. *“The new rules* →

SUPERVISORY BOARD* At 31/12/2017

Chairwoman |
Sophie BEUVADEN

Vice-Chairs |
MAAF Vie
MMA IARD

Members of the Board

Assistance Protection Juridique |
Olivier LE BORGNE
GMF Assurances | Laurent TOLLIÉ
GMF Vie | Anne KACHELHOFFER
MAAF Assurances |
Stéphane DUROULE
MAAF Assurances SA |
Béatrice SAVOURÉ
MAAF Vie | Édouard VIELLEFOND
MMA IARD | Hervé FRAPSAUCE
MMA Vie | Geoffroy BROSSIER
MMA Vie AM | Éric LECUYER

* The composition of the Supervisory Board changed on 16/01/2018.

REMUNERATION COMMITTEE** At 31/12/2017

Michel GOUGNARD
(Chairman)
Sophie BEUVADEN
Joaquim PINHEIRO
Ghislaine BAILLY

** The composition of the Remuneration Committee changed on 16/01/2018.

→ aim to offer better transparency in terms of how variable remuneration is calculated, both from a qualitative and a quantitative point of view. This has led us to establish qualitative criteria for monitoring the contribution of these 'risk takers' to overall performance, enabling the justification, or otherwise, of a variable component", explains Ludovic Jacquier, member of the Executive Committee, Director of the General Secretariat and Compliance and Internal Control Officer. The Remuneration Committee has also seen changes in its operating methods with the arrival of independent members from Covéa Finance and coming from the Covéa Group. It nevertheless continues to report to the Covéa Finance Supervisory Board. "The spirit of the law is therefore fully respected, as it covers the conditions for granting additional remuneration components in compliance with the interest of our UCITS investors", adds Ludovic Jacquier. With regard to the transparency obligation, this has also been reinforced by the directive which states that the remuneration policy must not only be attached to the company's annual report, but also to the annual report of each mutual fund.

BODIES UPDATED IN LINE WITH THE RESTRUCTURING OF THE COVÉA GROUP

The Covéa Group Executive Committee was recently reconstituted, and the structure of the Group was reassessed. For Covéa Finance, this has, inter alia, resulted in the diversification of its representatives at Group level, the former Investments, Controls and Risks Division (DGICR) respectively becoming the Investments Division (Covéa Finance supervisory division), the Finance Division and the Risk Control Division. Leading the first is Laurent Tollié who took up this post on 1 January 2018, before being officially appointed Chairman of the Covéa Finance Supervisory Board, replacing Sophie Beuvaden who has moved on to another position. "In order to raise our new members' awareness of the specific working environment and the regulatory constraints applicable to Covéa Finance, we have scheduled a number of discussion sessions with them on such topics", explains Ludovic Jacquier. It should be noted that under this

new configuration, Laurent Tollié has also become a member of the aforementioned Remuneration Committee.

COVÉA FINANCE RULES OF PROCEDURE GET A MAKEOVER

Almost fourteen years after they were originally drafted, the Covéa Finance rules of procedure have been rewritten. The objective was to incorporate new elements and to address expectations expressed by staff representatives, the CHSCT, and those employees who in 2015 contributed to the updating of the mandatory DUERP (Occupational Risk Assessment Document). "There had been requests to clarify the rules governing company employees, to ensure that everyone is treated equally. We took this opportunity to include in the 2017 version changes that have enabled us to take a strong stance on

"The drafting of the 2017 rules of procedure has enabled us to take a strong stance on a number of topics including sexist behaviour, sexual and moral harassment and the prevention of corruption."

"None of these audits had the sole purpose of bringing us into compliance, but rather sought to identify and manage areas for improvement."

a number of topics including sexist behaviour, sexual and moral harassment, the prevention of corruption, etc.", says Ludovic Jacquier, before adding: "The drafting of the new rules of procedure was carried out in collaboration with the staff representatives. It notably gave rise to the rewriting of the prevention, warning and sanctions process, including the provisions set out by the Sapin II Law in relation to conflicts of interest and suspected corruption." The revision of the rules of procedure was then translated into an awareness-raising and training initiative rolled out to all team leaders.

AUDIT: IDENTIFYING AREAS FOR IMPROVEMENT

As part of the system for monitoring and governing the activity of Covéa Finance, three audits were carried out in 2017, "in accordance with an audit designed on the systematic mapping of our business lines and our value chain, but also based on the level of risk inherent in each of our business lines", comments Ludovic Jacquier. The first audit, which focused on Mutual Fund Reporting, falls under the company's three-year objectives, to develop the external sales of its mutual funds. Its aim was to ensure irreproachability and security in relation to the product reporting and communication system, and as such focus on productivity and compliance, as well as reliability, responsiveness and comprehensive reporting. The goal is to be able to increase volumes without causing disruption. "This audit, which we could describe as preventive, has been positive in its conclusions and means we can remain confident

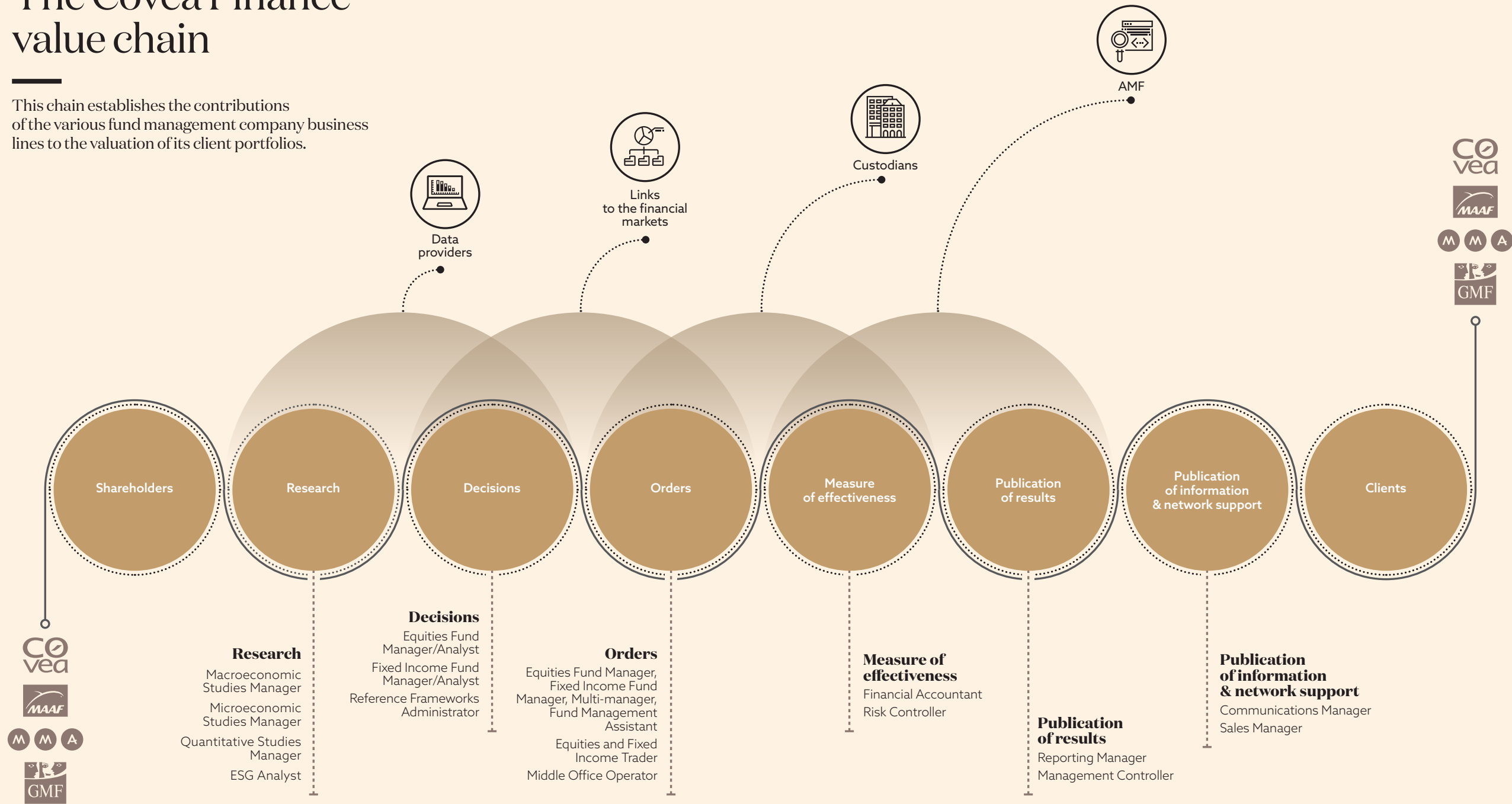
in our ability to develop our range of mutual funds without causing risk to the communication and reporting process", confirms Ludovic Jacquier. The second audit, focused on Multi-management, followed a more traditional compliance checking process. And finally, the third audit, which looked at the use of market data, was carried out at the request of the Fund Management and Risk Control teams and led to the creation of a market data engineer position (see page 45). "None of these audits had the sole purpose of bringing us into compliance, but rather sought to identify and manage areas for improvement", highlights Ludovic Jacquier.

COVÉA FINANCE STEPS BACK FROM ITS DIRECT MANAGEMENT OF THE EMPLOYEE MUTUAL FUND (FCPE)

Covéa Finance's governance model is described in its accreditation package which was updated and filed with the AMF at the end of 2017. "In this updated version, we confirmed that Covéa Finance would no longer be directly managing the employee mutual fund, in accordance with a decision made by the Group. In fact, Covéa has chosen to assign each of its employees with a common social status and offer them a standard employee savings scheme. For Covéa Finance, this represented a relatively small volume and was therefore transferred to a large employee savings company", explains Ludovic Jacquier. For Group employees who still wish to take advantage of the financial management expertise of Covéa Finance, the company has set up with this institution a range of products invested in the funds it manages. ■

The Covéa Finance value chain

This chain establishes the contributions of the various fund management company business lines to the valuation of its client portfolios.



Executive Committee | Strategic Intelligence | Legal Manager | Financial Lawyer | Human Resources Manager | IT Project Manager | IT Integration Manager | Procedures Manager

Documentary Administration Manager | Management Assistant | Facilities Manager | System Administrator | Internal Controller | Internal Auditor

Diversified and
relevant,
a range
that *stands*
apart

To meet new investor expectations and maintain good results in an uncertain environment, Covéa Finance has launched a review of its entire range of funds.



Francis Jaisson,
Director
of European
Equities,
Multi-management
and Sales

Already promoted to one of Covéa Finance's three-year objectives, sales results affect every party involved in the company's value chain. The sales team was further strengthened in 2017 with the arrival of a dedicated Head of department.

WHY IS THE COMMERCIAL DEVELOPMENT OF COVÉA FINANCE A MAJOR CHALLENGE?

F. J. Very simply, because it already constitutes one of the company's three-year objectives. This means that it requires the commitment of every person involved in the company's value chain. It is also a challenge because this development must be carried out while preserving the established drive for excellence associated with our portfolio management. The commercial development of Covéa Finance is integrated within a strategy of sustainable growth and openness towards external clients, which must be applied while enhancing the support provided to the Group's Life networks. Lastly, and structurally speaking, it falls within the context of an exacerbated competitive environment and, from an economic perspective, within a time of historically low interest rates.

CAN YOU TELL US ABOUT THE INTRODUCTION OF A HEAD OF THE SALES AND MULTI-MANAGEMENT DEPARTMENT IN 2017?

F. J. The creation of this Head of department position represents

“We must have the ability to offer long-term high-performance products that stand out from aggressive competition.”

the strengthening of resources deployed to achieve our targets in terms of asset development. The twofold aspect of the position, sales and fund management, reflects our desire to keep the act of selling and the management of the funds together under one umbrella. The Head of department is responsible for the team that manages the multi-management products and the risk-profiled and flexible funds, many of which are already offered and subscribed by the Life networks. We expect this person to strengthen the sales presence within the Group's networks through the introduction of an institutional sales approach to the entire range of funds.

WHAT IS COVÉA FINANCE'S COMMERCIAL STRATEGY?

F. J. Our commercial strategy consists of developing our inflow by continuing to support the various

Group networks, each with their respective characteristics, while cultivating structured action with new institutional investors. In both cases, this means having the ability to offer long-term high-performance products that stand out from aggressive competition. Covéa Finance is positioning itself as a leading player in Europe. The fact that it is part of a solid group and has long-standing experience are advantages that will guarantee our success in this challenge.

2017 SAW THE CREATION OF COVÉA FINANCE'S SALES POLICY. CAN YOU SUM THIS UP FOR US IN A FEW WORDS?

F. J. The creation of Covéa Finance's sales policy has resulted in market segmentation and the prioritisation of potential clients, according to their needs and to our financial management offering through our range of funds. As such, we have established priority target markets on which will be concentrating our efforts and resources, with inflow goals set by institutional sector. We have ambitious targets in terms of external prospectation which will come into play following the continuation and improvement of the Group's support.

WHAT IS THE LATEST UPDATE ON INTERNATIONAL SALES?

F. J. Having taken steps to passport funds to be sold abroad, in Italy in particular, and forging relations with the Bipiemme Vita Division, we would like to expand our range of general asset funds with them. Following this, we would like to propose the integration of our mutual funds within their multi-unit products. ■



Yannick Tatibouët,
Director of Strategic Intelligence and External Relations

ESG continues to be rolled out

The ESG initiative went from strength to strength during 2017 at Covéa Finance, with the publication of the first “Article 173” report and the launch of a process to integrate the initiative within portfolio management.



— In terms of ESG (Environmental, Social Governance), Covéa Finance clearly has a different approach to that of other market players; it has not restricted its scope of application to the simple creation of SRI (Socially Responsible Investment) funds, but rather takes a holistic approach associated to fund management. “Although, today, the emphasis is generally placed on the Environmental aspect, we believe that this is only one of the three components of ESG, and that the Governance aspect remains the most important driver for action, as it is through General Meeting votes that companies can make key decisions for their futures”, states Yannick Tatibouët, Director of Strategic Intelligence and External Relations, before going on to say: “It makes sense to us to incorporate non-financial criteria as this enables better control of the risks inherent in the portfolios and gives a 360-degree view of the business, going beyond stock market, economic and accounting criteria.”

FIRST MAJOR HIGHLIGHT OF 2017 - THE PUBLICATION OF THE 2016 ESG REPORT The first Covéa Finance ESG Report was published at the end of June, at the same time as the Covéa

Group report, of which it forms an important part. This document is in response to Article 173-VI of the Energy Transition Law, which establishes an obligation to publicly report on non-financial elements of the investment decision-making process. The ESG report describes the economic model of Covéa Finance, covering its general approach and its key principles, namely finance at the service of insurance, for a parent company that is both its shareholder and its client. In 2018, the AMF will review the content of the ESG reports published in respect of the 2016 and 2017 financial years with a view to extracting best practices and issuing recommendations.

The year 2017 therefore saw the more formal integration of ESG criteria within Covéa Finance’s fund management process, by way of a company-wide project entitled ‘ESG Rewrite’ (see opposite). “The idea is to provide the fund managers with an additional viewpoint, which will now be systematically incorporated into their approach. We have also been working on opportunities that may arise from the Energy Transition Law”, adds Yannick Tatibouët. In fact, multiple businesses are today taking up such challenges and turning

“The year 2017 therefore saw the more formal integration of ESG criteria within Covéa Finance’s fund management, by way of a company-wide project entitled ‘ESG Rewrite’”.

towards environment-related activities; hence the need to initiate dialogue on these non-financial topics with not only their executive officers, but also with their shareholders. To this end, in 2017, Covéa Finance launched an unprecedented initiative. It wrote a letter to the chairmen of the main businesses of which it is a shareholder, asking for their view of the world, broadly speaking. “This initiative took them by surprise, but we believe that it will lead to constructive shareholder dialogue, which we will take very seriously”, explains Yannick Tatibouët. At the same time, Covéa Finance has continued to play an active role in the market-related work of two professional bodies, the AFG (French Asset Management Association) and the FFA (French Federation of Insurance), as part of their working groups (ESG Climate Reporting and ESG Climate Guidelines, respectively). The company also attended events organised by Paris Europlace, of which it became a member in 2017, participated in Global Climate Change Week 2017 and in particular, Climate Finance Day in December.

A STRONGER TEAM Covéa Finance’s ESG team has been given structure and is now comprised of two Governance and ESG Analysts, who work alongside Yannick Tatibouët. “In 2017, we worked together to structure our approach and incorporate ESG criteria into our information system. We have our own tool, developed entirely by Covéa Finance, to be used by us and by the fund managers with whom we work closely”, comments Yannick Tatibouët.

Lastly, to encourage communication on the ESG work carried out, the team has published, since the second half of the year and at regular intervals, an ESG Letter intended for employees working in fund management, sales and communication. Several issues have already appeared with, as a bonus, an interpretation of non-financial and fund analysis news. This publication is expected to be distributed on a wider basis, and externally, during 2018. ■



“Fund management has stimulated the consideration of ESG criteria.”

Valérie Maillard,
European Equities Mandate Fund Manager

What does your work with the ESG team entail?

V.M. In 2017, I was involved in the “ESG Rewrite” project. As part of this project, we worked with the ESG team to identify the criteria used by Covéa Finance and I reported regularly to my colleagues in European Equities on the progress of our working group.

What concrete changes have been made?

V.M. The communication between European Equities and the ESG team is now much more significant and our ESG criteria are now better integrated into our investment process. The ESG team creates ‘company’ files focused on the core values that make up the basis for our investments. These analyses are based on 18 criteria, of which half are related to corporate governance. Some criteria, for instance the appropriateness of the dividend policy to the financial structure of the company, or financial communication transparency, are assessed by the fund managers. A quality ESG report is key to approving the ‘core’ status of our investments.

And in the future?

V.M. As part of the follow-up on our investments, changes in shareholder dialogue and the voting policy will become development priorities for the integration of ESG within equities fund management.



“Covéa Actions Japon: capitalising on ‘world champions’ and the long term.”

Kévin Net,
Deputy Asia Equities Fund Manager

Over the past ten years, the Covéa Actions Japon fund has been affected by three major events; the 2008 financial crisis, the Fukushima nuclear disaster in 2011 and the coming into power of Shinzo Abe, the Japanese Prime Minister, who in early 2013 launched his stimulus and structural reform package known as “Abenomics”. Since then, the management strategy for this fund has evolved and we have concentrated on Japanese stocks that we consider to be “world champions”. In other words, companies that are leaders in their own fields and whose market shares are increasing. In order to select the right companies, we study their positions in relation to their competitors, their current and potential market shares, their R&D investment, new products and services they are launching, the number of patents filed each year, etc. Our investment plan therefore looks at the long-term, in companies that can prove themselves to be adaptable. In 2017, we notably investigated Japanese companies working on three future markets: electric vehicles, connected devices and industrial robots.

Range of funds



Fixed Income and Monetary Funds

UCITS

Europe

Covéa Moyen Terme
Covéa Obligations
Covéa Euro Souverain
Covéa Euro Spread

International

Covéa Haut Rendement
Covéa Oblig Inter

Combined Convertible

Covéa Obligations Convertibles

Short-term Money Market

Covéa Sécurité

Equity and Combined Funds

UCITS

France

Covéa Actions France
Covéa Perspectives Entreprises

Eurozone countries

Covéa Actions Croissance
Covéa Actions Euro

Countries of the European Union

Covéa Actions Europe
Covéa Actions Rendement
Covéa Actions Europe Opportunités

International

Covéa Actions Europe hors Euro
Covéa Actions Investissement
Covéa Actions Monde

Asia

Covéa Actions Japon
Covéa Actions Asie

Americas

Covéa Actions Amérique
Covéa Actions Amérique Mid Cap

Combined

Covéa Patrimoine
Covéa Sélectif

AIF

Sustainable Development/SRI

Covéa Actions Solidaires

Combined

Covéa Ultra Flexible

Multi-management Funds

UCITS

Countries of the European Union

Covéa Multi Europe
Covéa Multi Immobilier

International

Covéa Multi Small Cap Europe
Covéa Multi Monde

Combined profiled

Covéa Profil Équilibre
Covéa Profil Dynamique

International Equities Profiled

Covéa Profil Offensif

AIF

International

Covéa Multi Haut Rendement

Emerging Countries

Covéa Multi Émergents

Combined

Covéa Multi Absolute Return



“Covéa Perspectives Entreprises: French small and mid-caps”

Hugo Mas,
European Equities Mutual Fund Manager

The Covéa Perspectives Entreprises fund is known for investing only in companies with a market capitalisation of less than €5 billion. This asset class is proving very popular and has seen its performance rise by over 60% in three years, more than double that of the CAC 40. It is composed of companies that specialise in niche markets, benefit from dynamic growth and are seeing their profitability increase. It is also a valuable breeding ground for merger-acquisition transactions. Covéa Perspectives Entreprises trades on the appeal of French small and mid-caps. The fund is also designed for Covéa Finance mandates wishing to invest in a diversified portfolio of midcap companies and the Life networks, through unit-linked investments. In 2017, it performed strongly (+19%), under the combined effects of numerous factors including a buoyant macroeconomic climate in the eurozone, offering a boost to domestic and innovation companies, coupled with renewed confidence inspired by the French presidential election.



A
growing
reputation
supported
by *digital*
advances

As business becomes increasingly digitised and digitalised, companies are able to save time, increase reliability and become more efficient. At Covéa Finance, all business lines work on these issues.

“Digitising content means thinking sustainably and responsibly.”

Spotlight on the Covéa Finance content digitisation project with its two leaders: Véronique Gervais, Head of Assistantships, Marketing and Communication department, and Christophe Miot, Head of the Procedures and Document Management team. A necessary process of adjustment to equip the company with an Electronic Document Management System (EDMS), in line with the increasingly widespread digitalisation of its industry.

WHY HAS CONTENT DIGITISATION BECOME SO VITAL?

V. G. Managing the digitisation of content falls directly under the company's goal to “Be a driver for sustainable growth”, which aims to bring us into line with the process of digitisation and the digitalisation movement. However, the current EDMS at Covéa Finance is not very scalable and no longer meets our needs. Data is still entered manually, and the decision was therefore made to replace the system with a more effective tool which will enable us to improve the organisation and classification of our document management, avoiding unwanted duplication and overcrowded storage areas.

WHAT ARE THE MAIN CHALLENGES OF THIS PROJECT?

C. M. Although the priority is to control the flow of content, we also need to comply with legal archiving requirements, improve data confidentiality, facilitate file sharing while ensuring better traceability of multiple successive versions



Christophe Miot,
Head of
the Procedures
and Document
Management
team



Véronique Gervais,
Head of
Assistantships,
Marketing and
Communication
department

of documents, and optimise the integration of all of our content, from simple invoices to committee meeting minutes. With this in mind, we began to ponder a number of simple and structure-related questions such as how do we effectively safeguard the various types of content? In what format? Through what medium? How will my colleagues easily find this content? Given that, at the end of 2017, the company had produced approximately 3 million documents, the size of the project is enormous.

WHAT DIFFERENCE WILL THE NEW DIGITISED WORKING METHODS MAKE?

V. G. The new tool will mean we can create collaborative working spaces and incorporate electronic approval to increase productivity. If we take the electronic signature book as an example: there is no longer any need for heavy paper folders and no need to physically see the person to ask them to sign important documents! This also save time, both in terms of looking for the person and archiving the file. The new organisation will also naturally create a reduction in our environmental footprint and therefore better cost control.

HOW WILL YOU BE WORKING TO IMPLEMENT THIS PROJECT?

C. M. This project is part of a long-term process and will be implemented over the next three years. In 2017, an important study was carried out involving all of the company teams to discuss the reorganisation of our storage area. This will continue throughout 2018. We need to ensure the continuity of what is already in place, while we switch over to the new methods. This in itself is a major challenge! The project is broken down into six areas of work and the entire value chain will be involved in the discussions. Two topics are on the agenda for early 2018: *Archiving and life cycle* and *Processes and collaborative working*. Others will follow in September. The final solution is due to be rolled out in 2020. ■

3 million

THE NUMBER OF DOCUMENTS PRODUCED BY THE COMPANY AND AFFECTED BY THE PROJECT, WHETHER THEY HAVE BEEN CREATED IN WORD OR EXCEL, ARE IMAGE OR VIDEO FILES, HTML DOCUMENTS OR ANY OTHER DOCUMENT TYPE.



Guillaume Gilmant,
Head of Human Resources team

Valérie Sandra,
Deputy Mutual Fund Legal Manager

Digitised processes save time

The automation of processes within the company, whether relating to corporate, HR or regulatory data, ensures that information is shared and stored more securely, while allowing teams to save precious time.



Digitisation also has a significant impact on the Human Resources function, on a number of levels. "In 2017, we finished work on the digitisation of the DSN (employee payroll and social security reporting statement) which has substantially streamlined the declaration process from employer to contribution organisations. This development will enable us to smoothly implement other future regulatory transitions relating to staff and payroll administration, including the tax deduction at source which comes into effect on January 2019. It should be noted that, in 2019, every employee will be able to access their own digital payslips", says Guillaume Gilmant, Head of Human Resources team. Another project already successfully completed is the introduction of a recruitment software. "We receive an average of 5,000 CVs every year and it was important that their processing become at least partly automated, so that we can dedicate our time to more value-added tasks. The feedback on the tool is already very positive, both from those using it and from prospective candidates", concludes Guillaume Gilmant.

AUTOMATED DOCUMENTS The ever-changing regulatory environment has also led Covéa Finance to set up

a tool that produces regulatory documents automatically. "Although the production of KIIDs (Key Investor Information Documents) has been automated since 2015 using special software, the use of this tool was expanded during the second half of 2017, for prospectuses. We want to use this solution for the next annual update of regulatory documents in February 2018. The ultimate purpose of this tool is to manage, archive and ensure the optimum security of bulk amendments to mutual funds in our range and to contribute to the automated external distribution of regulatory documents", explains Valérie Sandra, Deputy Mutual Fund Legal Manager. Furthermore, under the new PRIIPs regulation which has applied to insurers since 1st January 2018, the latter must issue their customers with a pre-contractual Key Information Document. "We have used the same tool to automate the collection and flow of information required by insurers and other institutional clients in relation to our activity", adds Valérie Sandra. This solution has also enabled the establishment of a link with the data required under MiFID II by pooling the data common to both PRIIPs (EPT file) and MiFID II (EMT file). ■



The increasing digitalisation of marketing and communication

Covéa Finance's marketing and communications are growing their digital fibre, in perfect keeping with the company's strategic digitalisation objectives. The focus is on three main fundamental concerns: social media, company intranet and the website.



As part of the Covéa Finance digital strategy introduced in 2015, the company opened two social media accounts in 2017; the first on Twitter and the second on LinkedIn. The goal is to better respond to the new habits of Covéa Finance's target audiences, to develop the company's online presence and to give itself a voice on social media. The Twitter® feed is updated three times a day with links to content published on the Covéa Finance website. The LinkedIn profile, with almost 900 followers already, posts weekly updates on our expertise and analysis, as well as details of exciting events involving the company, such as Patrimonia.

NEW AND IMPROVED INTRANET AND WEBSITE Since 2017, the company intranet has been undergoing a makeover, in line with one of the company's three-year objectives. The current intranet, created in 2011, was in need of a graphic and editorial update. To this end, the Marketing & Communication team have adopted a collaborative approach involving all employees. Firstly, staff members were asked to

complete a survey, the results of which indicated that they would like to see more opportunities for interactivity. Preliminary work on the redesign then began, in close collaboration with the internal communication representatives of each unit, who will also be called upon during the test phases for the new intranet. The intranet needs to be scalable, able to meet the future needs of the company, offer easy access to information and promote interaction. This work will continue during 2018, as will the redesign of the website, on which work recently began. Originally published in 2014, the current website no longer meets the needs of Covéa Finance or its customers. The new version, due to be launched in 2018, should better respond to the strategic challenges of the commercial development of the company, as defined in its three-year objectives. ■

* [@CoveaFinance](https://twitter.com/CoveaFinance)

Evolving business lines to ensure sustainable *performance*

Regulations, technological changes, risk management: Covéa Finance put wheels in motion to tackle the challenges associated with its growth.

The high number of regulatory reforms currently affecting financial companies, including fund management companies, impact every team in the company. Interview with Nadia Ben Salah, Head of the Legal team.

WHY IS REGULATION A MAJOR CHALLENGE FOR COVÉA FINANCE AND ALL ASSET MANAGEMENT COMPANIES TODAY?

N. B. S. Over the past few years, a high number of regulatory reforms have come into force, based on two main components. The first component is "post-financial crises of 2008 and 2011", under the auspices of the European Commission, with enhanced transparency measures (reporting to regulators and to the market, investor information) and coordination/harmonisation between the various EU member states. The second component relates to the Capital Markets Union (the work of which is not yet complete) which strives to strengthen the stability and competitiveness of European financial centres, facilitate the funding of the economy through small and mid-cap companies and remove obstacles in the way of the cross-border distribution of funds. In addition to these European changes are a number of French initiatives including the Sapin II Law, the Energy Transition Law and the FROG initiative which were introduced in response to the COP21 commitments and in anticipation of Brexit. Given the substantial volume of measures coming into force in early 2018 (MiFID II, PRIIPs, Benchmark), Covéa Finance has set up dedicated projects to cover these developments with, in preparation, active regulatory monitoring work carried out with on-site working groups and, once the project is in place, cross-functional management and implementation with the various teams. The goal is twofold: to ensure the compliance of the company and to facilitate the development of its business.

WHAT IS THE LATEST NEWS ON THE UCITS 5 DIRECTIVE?

N. B. S. In accordance with this Directive, which governs the remuneration of fund managers and increases the responsibility of custodians, we updated our custodian agreements in 2017. At the same time, we began work on the introduction of "SLA" service agreements.

WHAT IMPACT DID THE EMIR REGULATION HAVE IN 2017?

N. B. S. You may recall that the aim of this regulation, adopted in July 2012, is to protect the security of derivatives



Nadia Ben Salah,
Head of
the Legal team

"Covéa Finance is calling upon its strengths to address regulatory challenges."

transactions. It was the subject of considerable work in 2017. In fact, this year saw the entry into force of the variation margin obligation, under which all credit support annexes of our framework agreements on forward financial instruments had to be updated. At the same time, we have been actively following the review of the EMIR regulation by European bodies, so as to support any measures that may reduce the constraints upon Covéa Finance.

HOW IS THE APPLICATION OF THE SAPIN II LAW GOING?

N. B. S. In 2017, a number of orders were published in relation to this Law of December 2016 which covers the fight against corruption, the simplification of the legal framework for debt issues, the introduction of corporate governance reports and the recognition of "blockchain" shared electronic exchange systems. These developments required active monitoring by Covéa Finance and the implementation of specific measures to combat corruption, such as updating our rules of procedure and our internal alert procedures, as well as corporate governance reports.

WHAT WORK IS BEING DONE IN RELATION TO THE MONEY MARKET FUND REGULATION?

N. B. S. The Money Market Fund Regulation, which has been in the pipeline for several years, was finally adopted in June 2017. Its goal is to create a European framework for European money market funds, which will be subject to a standardised set of constraints in terms of portfolio composition, liquid assets and transparency. The impacts of this regulation, applicable with effect from July 2018, are being assessed as part of a cross-functional project, managed by the Legal unit together with the Fund Management, Reporting, Risk Control and Information Systems teams.

WHAT DOES THE GDPR (GENERAL DATA PROTECTION REGULATION) MEAN FOR COVÉA FINANCE?

N. B. S. The new European framework for the protection of personal data will come into force on 25 May 2018. It enables the European Union to adapt to new digital realities by strengthening the protection of and access to personal data and limiting the use and transfer thereof, particularly to countries outside of the EU. This new regulation is also the subject of a cross-functional project within Covéa Finance, led by the Legal unit. The objective is to map and secure personal data on a company-wide scale.

WHAT WAS YOUR ROLE IN THE 2017 UPDATE TO THE COVÉA FINANCE ACCREDITATION PACKAGE?

N. B. S. The Covéa Finance accreditation package has been the subject of numerous extension works over the past ten years. To take into account the considerable number of regulatory and organisational changes affecting the transfer of the management of the employee savings fund, the outsourcing of its IT production and the evolution of its sales policy, Covéa Finance has had to perform a complete overhaul of its accreditation package, including each of its specialist activity programmes. This work, coordinated and led by the Legal unit, was carried out with the support of various business lines (Risk Control, Internal Control, Fund Management, Trading and Quantitative Research teams, Sales, Marketing and Communication), so as to present an accurate description of the current organisational processes, in compliance with regulatory requirements, but also to plan for the development actions set out in its three-year objectives. ■



Olivier Brion
and his team
Head of
the Trading
department

MiFID II redefines the terms of execution and research

The entry into force of MiFID II on 3 January 2018 was the subject of intense preparatory works at Covéa Finance during 2017, including the complete rewrite of the counterparty selection and execution policy and the implementation of product governance measures.



— In order to guarantee market transparency and improve the reduction of conflicts of interest, the revised MiFID I (originally published in 2004), known as MiFID II, sets out measures relating to the governance and sale of financial products, customer protection, market operations, and the payment for and invoicing of financial research. Generally speaking, it is a set of rules that govern all market infrastructures and investment services, including fund management under mandates. Some of these are concrete new rules such as the obligation to separate research services from execution services, which by their very nature can be sources of conflicts of interest. “With the entry into force of this Directive, initially planned for 3 January 2017 but later postponed to 3 January 2018, a line of accountability is set, defining more clearly the notions of producer and distributor”, explains Nadia Ben Salah, Head of the Legal team.

MiFID II: STRUCTURAL WORK Of the work underway at Covéa Finance to ensure compliance with MiFID II, certain projects led by the Legal unit were launched in the first quarter of 2017. The first project, which covered financial research, looked at the introduction of selection criteria and a restrictive list of service providers (see below). The second project, dedicated to market transparency, gave rise to a review of the counterparty selection and execution policy, so as to meet the new criteria set out by the Directive. The entry into force of MiFID II also constituted a turning point in terms of documentation, requiring an essential update to execution agreements and policies across all market players, especially vis-a-vis Covéa Finance’s broker partners.

Another key project, focused on distribution, enabled Covéa Finance to identify all of its sales flows while working on the European MiFID Template (EMT) which is now mandatory for all producers wishing to sell mutual funds. At the heart

of this work, and alongside the legal managers, were the Trading Table, Fund Management, Sales, Internal Control and Information Systems teams.

This programme will continue full steam ahead in 2018 with the production of automated flows for the EMT, as well as the ongoing roll-out of research contracts and the creation of tools to evaluate financial research.

REWRITING OF THE COUNTERPARTY SELECTION AND EXECUTION POLICY Covéa Finance already had a service provider selection and execution policy in place, with a dedicated working group and annual reviews. The introduction of MiFID II, however, meant that this policy needed to be revised, regardless of whether it related to the selection of counterparties for execution or for research purposes. A referencing committee was thus established, tasked with selecting service providers based on the quality requirements of Covéa Finance, yet distinguishing between those that perform execution services and those that provide research. A first test was carried out mid-2017 to assess the effectiveness

of the criteria applied and to finalise the company’s policy. “Today, the assessment of ‘execution’ counterparties is performed by the Trading team using purely quantitative criteria; an approach that has been made possible through the automation of processes and the rigorous tracking of orders, meaning that we now have access to reliable statistics”, explains Olivier Brion, Head of the Trading department.

Another change in 2017 pertained to the selection committee which will now only meet once annually, so as to be able to objectively evaluate counterparty services. That said, to guarantee responsiveness in the event of failure by a service provider, monthly intermediary committees, with special powers, can be established by the Trading, Legal, Middle Office and Internal Control units. This method of operation means that the necessary measures can be quickly put into place if the service of a counterparty deteriorate, but also ensures that a common thread, of sorts, is carried through, month to month, on certain topics, something that is not possible with just one meeting per year. ■



Execution and research: controlling consumption and evaluating service provider quality

Romain Crocicchia, European Equities Mandates Fund Management Assistant & **Mathieu Delarue**, Fixed Income Trader

With effect from 3 January 2018, MiFID II requires that fund management companies separate the evaluation of execution and research services into two independent and distinct processes.

The Fixed Income and Equities Trading teams have therefore developed an automated file that draws its information from a database that is continuously updated with execution feedback of our counterparties, on all products handled by the trading table. “The analysis of statistical data allows us to evaluate all of our counterparties, to assess their execution quality and to keep an up-to-date list of intermediaries that fully meet the expectations of

Covéa Finance and its clients”, says Mathieu Delarue, Fixed Income Trader, before adding: “An annual meeting brings together all of the relevant departments to evaluate each product and instrument type, respecting the specifics of each market.” Covéa Finance now bases its execution-related counterparty evaluations exclusively on quantitative criteria. To this end, a transaction cost analysis tool has been introduced on fixed income products. The same tool was already implemented for equities in 2013. Furthermore, electronic ordering has also been introduced, with the installation of a second platform for rates and a platform for foreign currency,

granting the trading table access to reliable and useful statistics through analysis tools.

Brokerage services are now therefore separate from research services, the latter being paid for by Covéa Finance itself. As a result of this change, management has started meeting with all counterparties to negotiate an annual budget with each of them. “One new tool developed in 2017 will allow us to better evaluate, manage and annually renegotiate how we use external research services”, explains Romain Crocicchia, European Equities Mandates Fund Management Assistant. The use of external research is therefore very

closely monitored; at any time during the year, it is possible to know how it is being used. During the fourth quarter, an annual committee takes stock of the situation with the required objectivity. “We look at the types of services we use, how they perform, and their quality. An overall summary is published at this time, which then serves as the basis for our discussions. The committee rules upon and proposes changes that need to be made, if any, for the following year, including in relation to new research counterparties (withdrawal, change in service)”, concludes Romain Crocicchia.

Ongoing optimisation of our control processes



In terms of internal control and risk control, Covéa Finance once again upgraded its procedures, its teams and its skills in 2017, to address the growth in the business and increasingly strict regulatory constraints.

— GUARANTEEING EFFECTIVE FIRST-LEVEL

INTERNAL CONTROLS Similarly to any asset management company, Covéa Finance must establish and maintain appropriate internal control mechanisms designed to guarantee that all decisions and procedures, at all levels of the business, are compliant. The internal control system therefore comprises a set of methods, behaviours and actions tailored to the specific characteristics of Covéa Finance, so as to ensure the proper management of its risks. In order to optimise effectiveness, the company is currently working on a project to reorganise the first and second-level internal control system.

As part of this project in 2017, Internal Control worked with three other units to identify the first-level controls that

they were using, analysed them and, where appropriate, created new ones. This initiative raised employee awareness of the need for formal control points, by listing them in a table and establishing specific procedures for each point. They also looked objectively at their practices and the organisation of these first-level controls within the unit. This work, which began in other units in 2016, is deeply structural as it encourages employees to change their point of view and question often empirical control methods.

Meanwhile, and based on these regular, constructive exchanges with the other units, Internal Control has developed a control matrix that can be used by anyone, which states the name of the control, its description, the frequency at which it should be carried out, and the way in which it is

“Internal Control ensures the compliance of decisions and procedures at all levels of the business.”

recorded (exchange of emails, Excel document, or other). This initiative will continue in 2018 across other units, such that all first-level controls will be mapped and their effectiveness can be ensured.

— INCREASING RISK CONTROL ACTIVITY AND

VISIBILITY The role of Covéa Finance’s Risk Control team, which is completely separate from the fund management team, is to identify, assess and analyse the financial risks inherent in all portfolios under management including market risk, counterparty risk, liquidity risk, valuation risk, etc. To this end, it regularly produces follow-up indicators and ensures that the portfolio risk profiles are complied with. The team also acts as a whistleblower to management and the fund managers, notably via risk committees and periodic reports.

Since 2017, Risk Control has reported directly to the Chairwoman of Covéa Finance, enhancing its visibility and further establishing its importance in the company’s value chain. Involved in a number of cross-functional projects (PRIIPs, ESG, valuation policy, remuneration policy, updating of the AMF accreditation package, etc.), the team has grown in size and now comprises three studies managers, who work directly under the Director of Risk Control. One final item of note is the drafting of a new Risk Control policy which was a defining moment of the year. This policy involves work and discussions that will see the activity and visibility of the Risk Control unit grow significantly both during and after 2018.

— FINANCIAL DATA ENGINEERING: A NEW EXPERTISE

In 2017, Covéa Finance acquired new expertise in the form of a Financial Data Engineer. The objective is to respond to the challenges represented, on the one hand, by the increasing costs of market data and, on the other hand, the growing legal restrictions governing the use of such data. As is the

case within the majority of industry players, a huge amount of financial data passes through the Covéa Finance information systems or is communicated in reports. As a result, costs are incurred through the use of this data, as is a financial risk linked to potential non-compliance with contractual obligations between the company and its various suppliers.

In this context, Covéa Finance deemed it necessary to source internal expertise that would enable it to control these costs and comply with rules on the use of data. The new engineer will be the main contact for all employees and external parties for matters relating to financial data. His role is to draft a data governance policy that notably defines the concepts of internal and external data at Covéa Finance, as well as rules for the use, storage and distribution of this data. He will also oversee the relevance of existing and/or requested data within Covéa Finance in accordance with changing needs. Lastly, he will work with the Information Systems teams to optimise the flow of financial data and storage procedures, so as to control associated risks and costs. ■

“Covéa Finance now has the expertise to ensure costs are controlled and that rules governing the use of financial data are complied with.”



Lat-Dior Seck,
Head of
the Information
System
department

Transforming the information system: a successful transition

By outsourcing its IT production to an external service provider in 2017, Covéa Finance has begun a new chapter in the transformation of its information system. The objective is to meet asset management industry requirements so as to better tackle future challenges.



— In 2017, Covéa Finance continued to work on improving its information system, a project launched at the end of 2014 with an audit of IT production and further pursued in 2016 by a Supervisory Board decision to outsource IT work to a service provider. Conducted in parallel at the Group level since 2015, work has been done to research potential outsourcers and select the right party. *“Covéa Finance has continued to implement its plan launched in 2016, with the aim of tailoring the outsourcing service to the asset management business, taking into account its specific requirements and constraints, which are not necessarily the same as those of*

the Covéa Group”, explained Lat-Dior Seck, Head of the Information System department. This project was implemented during 2017.

FIVE TRANSITION TASKS This major project was one of the key challenges of last year for Covéa Finance. *“The original deadline for the transfer of our information system to the selected outsourcer was June 2017, however this was later postponed to November 2017 to ensure that the changeover was fully secure and free from any major risk to the Covéa Finance information system”*, says Lat-Dior Seck. The work was broken down into five tasks: the overall management of the project, the transformation (moving the servers hosted by Covéa DGTSI* to the service provider’s data centre), the transition itself (i.e. operation of the information system by the outsourcer), office migrations and, lastly, change management, with awareness-raising initiatives rolled out to Covéa Finance users, explaining the new terms of the client/supplier relationship with the service provider.

OUTSOURCING FULLY TAILORED TO COVÉA FINANCE’S BUSINESS *“We have, over the course of this process, identified, analysed and documented the information system. Connection work was then carried out to link the Covéa Finance sites in Paris and Chartres to the service provider’s data centre. This was logically followed by the migration of workstations and servers”*, added Lat-Dior Seck. He continued: *“Next the outsourcer spent three months observing the production performed by the DGTSI. The roles were then reversed and the DGTSI passed orders to the service provider, while remaining available to provide assistance. This last phase ended in early February 2018, after a probationary period, meaning that the service provider now has full and complete responsibility for the Covéa Finance information system.”* A definitive transition that will enable Covéa Finance to start 2018 with an outsourcing arrangement that is fully tailored to its specific asset management business. ■

*DGTSI: Direction Générale Technologie & Système d’Information, the Covéa Group IT Division.

“The completion of the outsourcing process in 2017 means that Covéa Finance has an outsourcing arrangement that is fully tailored to its specific asset management business.”

Project management: a key issue for Covéa Finance

The growth of Covéa Finance necessarily entails the management of numerous projects, whether they relate to regulatory, organisational or strategic matters. Hence the decision to develop its project management, which has become a skill in its own right.



Just like other asset management companies, Covéa Finance handles many regulatory, organisational and strategic projects, the success of which have a major impact on the business. The harmonisation of project management methodologies is a prerequisite to success and thus, indirectly, to sustain the growth of the company and the compliance of its practices with the numerous new regulations.

FACED WITH INCREASING PROJECT NUMBERS, Covéa Finance began in 2017 to increase employee training in this area. Three target audiences were identified: sponsors, project leaders and contributors. Each of these audiences was given specific training, provided through the Internal university, to ensure that all employees understand what is expected of them in accordance with the role assigned to them for a particular project. ■



Damien Colomel,
Sales Manager

“Project management is a skill in itself.”

D. C. In 2017, I led a project entitled “Clientèle and Distribution” which formed part of the Covéa Finance MiFID II implementation project. I quickly learned that improvisation is not an option when managing a project, given the complexity of certain topics and how much is at stake for the company. I therefore attended a two-day training course in 2017, run by the Internal university, at which I learned lots of solutions and best practices to apply to ensure the smooth progress of the project, such as what to do to overcome obstacles? How can we effectively support project contributors to allow them to successfully balance their role within the project and their day-to-day work? What to do when the direction of the project changes or another change occurs? There are so many important issues for a project manager to consider, and this training gave me the skills I needed. ■



Nabil Bitam,
Head of Reference Framework team

“The training provided took into account the role of each individual.”

N. B. The establishment of an internal and standardised project management model was a major step forward for Covéa Finance in 2017. Adapted for the various manager and contributor roles, the training provided took into account the contribution of each individual. Personally, I am required to join projects when they concern the Reference framework, ESG and/or data quality. I now know exactly what the project manager expects from me and what contributions I can make. This training promoted the standardisation of practices, process agility and, as a result, increased the effectiveness of project management. As such, we have collectively acquired a certain level of expertise which we can now use to either lead a project in its entirety or contribute to a project with efficiency. ■

Leveraging experience

Recruitment, internal mobility and training: in each of these areas, Covéa Finance plays a long-term game, in line with its fund management philosophy. The goal is to foster loyalty among employees and enhance their employability.

“What does the Covéa Finance Internal university offer?”

Our Internal university allows individuals to follow careers that are consistent with changes in the business and their own personal changes. It also allows for the pooling of training requests so that sessions can be offered to greater numbers of people for the same budget. It stands out, inter alia, thanks to its personalised training sessions which are tailored to the culture and philosophy of Covéa Finance. In 2017, we produced a formal training catalogue. The catalogue covers all training offered by the Internal university, whether “tailor-made” or ‘standard’, on themes as varied as business, management, regulation, project management, etc. We also created a catalogue of diploma and certificate-based training listed by profession, a tool used by the GPEC* to offer training to employees who have changed career or wish to explore internal mobility options. The objective is to ensure staff employability and offer them better support. As such, we organised over 3,500 hours of training in 2017. ■

Sandra Boumendil,
Training Manager
within Human Resources



Pascal Held,
Head of the Securities Chain department

The Internal university offers a range of training options to support employees. The discovery tour for new recruits enables them to quickly learn the roles and responsibilities of each unit within the company. It also contributes to increased cross-functionality, the sharing of information on the processing of financial income and the accounting thereof. Furthermore, the training offered on project management and general management can be of major benefit to every person’s day-to-day work.

* GPEC: Gestion prévisionnelle de l’emploi et des compétences. Jobs and skills forecast management.

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**PEOPLE RECRUITED 2017,
OF WHICH 80% PERMANENT CONTRACTS**

“What is Covéa Finance’s recruitment philosophy?”



Kenn Gagnon,
Asia Equities Fund Management Assistant

I applied on an Internet portal that displays job vacancies in the financial sector. My recruitment was split into four phases: a personality test, a first interview with HR, a series of technical tests consistent with the duties of a fund management assistant, and lastly, an operational interview with my future managers. The feedback from Covéa Finance on the progress of my recruitment was clear and fast.

Our recruitment practice is closely linked to our fund management philosophy. It is based on long-term investment and collective decision-making. Our main objective is to carefully match the men and women we recruit to the responsibilities that will be entrusted to them. Firstly, we are keen to promote diversity, which we believe is a key driver of performance. This year, of 37 new recruits, 30 came from universities or other schools. Next, we take care to treat all applications equally, assessing them objectively and systematically through technical tests designed by each business. Moreover, we place particular importance on the “candidate experience”, notably by ensuring that our recruitment process is fully transparent. Lastly, I must point out that recruitment is, above all, based on interpersonal exchanges which, for the process to be “win-win”, must offer each candidate the best conditions under which to be able to clearly express their full potential. ■

Fabrice Tosello-Bancal,
HR-GPEC Manager



“How do you organise internal mobility at Covéa Finance?”



Vincent Thouzet,
Management Controller

After seven years working in Back-Office, I wanted to learn a new role. I saw an opportunity in Management Control published on the intranet and decided to apply, considering that a skill shared between the two professions is accounting. I was given support throughout the process through a number of interviews. And in particular, I appreciated being offered an immersion day to experience the new role.

All vacancies are posted on our intranet site to enable employees to gain an insider view of our many opportunities. From the first induction session, Covéa Finance strives to promote exchanges between its units to foster understanding of each role. Biannual employee performance reviews are also an opportunity for in-depth discussions and our managers are specifically trained to listen to employees’ ambitions for mobility. In 2017, we organised a seminar that brought together all support functions and members of the Executive Committee to talk about this topic. Lastly, we created a catalogue of diploma-based training designed for our employees who wish to change the direction of their career. No door is ever closed, and we support our staff in their career choices. ■

Guillaume Gilmant,
Head of Human Resources team





Fund
Management
methods
tailored to a fragile
*economic
environment*

Remaining agile and attentive, developing specific fund management tools and ensuring we have internal access to independent research; just some of the keys to Covéa Finance's success.

“We have established a formal and standardised method for building mutual fund equity portfolios.”

Developing sustainable methods for the construction of mutual fund equity portfolios: such were the goals of the project carried out in 2017.

WHAT WAS THE ROLE OF THE WORKING GROUP?

T. B. The role of the team, comprised of several Equities Fund Managers, was to formalise a standardised methodology for the construction of mutual fund equity portfolios at Covéa Finance. We worked cross-functionally, throughout 2017, to take into account the specifics of each department, while respecting Covéa Finance’s fund management principles.

FOR WHAT PURPOSE?

J.-A. N. This shared method, approved at the end of the year, now constitutes the “modus operandi” shared by all of the company’s Equities Fund Managers. It is a key element in the implementation of the fund management process. From a sales point of view, presenting a range of funds and their performance is important, but being able to explain the process used to build the contributing portfolio is just as important!

HOW DOES THIS APPROACH SUBSCRIBE TO THE COMPANY’S THREE-YEAR OBJECTIVES?

T. B. This project falls under the “Sustainable Development” and “Capitalise on Collectivity” objectives. In fact, a unified approach to portfolio construction must protect the long-term future of the investment process, and therefore the performance of the mutual funds managed.

J.-A. N. This work was the result of shared thinking across all teams, and as a result is consistent with requirements and will be easily adopted by all. This collective approach will continue in 2018 under the guidance of a new team, whose focus will be to research the tools required to ensure the best implementation of this methodology. ■



Jacques-André Nadal,
Head of European
Equities department

Thibault Bertrand,
World Equities
Fund Manager

“Our new assessment tool will further boost the independence of Covéa Finance.”

Our in-house evaluation of companies with maturities of less than one year addresses the requirement to become compliant with regulation and constitutes an asset in terms of maximising investment volumes with these companies. Work was carried out in this area by the Fixed Income Mutual Fund team in 2017.

WHAT DID THIS PROJECT CARRIED ENTAIL?

M. B. It related to the introduction of a calculation tool that allows us to assess the short-term credit risk of a “non-financial business” issuer. The objective is to establish a hierarchy of issuers based on their risk typology. The assessment relies on both quantitative and qualitative criteria to categorise the issuers. It is used in conjunction with the financial analysis already performed by Covéa Finance for each company.

WHO WAS INVOLVED IN THE PROJECT?

A. G. To create this tool, the Fixed Income Fund Management team worked directly with the Microeconomic Research team. The expertise of the latter was invaluable when looking at the financial statements of these companies, but also in identifying the most relevant ratios to use when performing short-term assessments. Furthermore, this cross-functional project was conducted in direct

collaboration with the Reference Framework, Reporting, Risk Control and Middle Office units.

WHAT IS THE ADDED VALUE OF A TOOL SUCH AS THIS ONE?

A. G. Having an in-house evaluation tool like this one means that Covéa Finance can itself assess the risk associated with each issuer. This internally-determined viewpoint awards greater independence to our decisions, in line with the three-year objective to adapt our fund management.

M. B. The tool is doubly useful as it will also be consistent with the new regulation imposed upon monetary funds in 2018. ■



Maxime Bony,
Assistant Fixed Income
Mutual Fund Manager

Arnaud Grimoult,
Fixed Income Mutual
Fund Manager

Increased activity in the Research department

By strengthening its Research department, Covéa Finance is equipping itself with the means to respond to both regulatory requirements and to its strategic goals, in complete independence.



Sylvaine Rodrigues,
Head of the Research department

— One of the key attributes of Covéa Finance is that it has internal research teams to help the company anticipate changes in its environment. This autonomous Research department is made up of three analysis units (macroeconomic, microeconomic and quantitative) and meets daily with the fund managers. It also has a presence in many cross-functional working groups, such as the Raw Materials Committee and the Banking group. *“The role of the Research department is to act as a decision-making tool for the fund managers, all of whom at Covéa Finance wear both ‘fund manager’ and ‘analyst’ hats. Through this set-up, the research teams are there to provide the latter with additional information that is likely to make a difference to their decisions, and to help them in their fund management choices”*, says Sylvaine Rodrigues, Head of

the Research department. But when Covéa Finance made the decision, over ten years ago, to create its own research unit, its plan was also to have resources that fully complement its profile as a long-term investor backed by an insurance company. *“We wanted independent research, truly tailored to the needs of our fund managers and our clients. Covéa Finance is an investor with strong convictions, that works by prioritising in-depth knowledge of the files. The work carried out by the Research teams is done so exclusively for the Covéa Finance fund managers, with the exception of macroeconomic studies which we publish and make available on our website”*, adds Sylvaine Rodrigues.

A STRONGER DEPARTMENT, CLOSELY TAILORED TO FUND MANAGERS’ NEEDS In order to further maximise its strength, the Research department underwent some changes during 2017. *“Under the new directives, fund management companies need to be well-structured and start working on better addressing the new regulatory requirements, but also on enhancing their internal resources. MiFID II in particular has a major focus on research and its financing: in order to bring ourselves into compliance, we have chosen to lend more weight to our Research department”*, comments Sylvaine Rodrigues. To meet the numerous challenges it faces, both in terms of economics and regulation, the company has therefore decided to strengthen the links between its various research teams and give this department a more cross-functional role, better tailored to the needs of its fund managers. The objective is to better support Covéa Finance in its development strategy, but also to better anticipate the ever-growing expectations of the regulatory authorities. *“By pooling the skills of the three research teams, we are preparing ourselves to better contribute to the strategic objectives of the fund management company, notably in terms of sales and inflow, while turning new regulatory requirements into assets and strengths to ensure our future development”*, clarifies Sylvaine Rodrigues.

TOOLS AND METHODOLOGY UNIQUE TO COVÉA FINANCE The Covéa Finance Research department is today comprised of fifteen people who work day-in, day-out to assist the Equities, Fixed Income and Multi-management fund managers in their decision-making, representing a ratio of approximately one person for every two fund managers. The team practices fundamental long-term financial analysis, using Covéa Finance’s own tools and methodology which have been

“Our Research department provides services tailored to the Covéa Finance profile, i.e. a long-term investor backed by an insurance company.”

tailored to its specific profile as a long-term investor. It also has invaluable economic analysis skills that support our investments and the preparatory discussions for our Economic & Financial Outlooks (EFO): the work of the Macroeconomic team covers the eurozone, Western Europe, Eastern Europe, Asia and the Americas. Lastly, the department also has experts experienced in financial mathematics and quantitative analysis who play a key role in risk monitoring and investment valuations. *“The Research teams are keen to assist the fund managers in their investment decisions, and can offer them an independent point of view, both in terms of risks and opportunities. With the growth of the department in 2017, our fund management company has ensured that it has the resources it needs to continue to progress”*, continues Sylvaine Rodrigues. ■

Stronger together

More than any other fund management company, Covéa Finance cultivates a collective strength. This is evidenced by two cross-functional working groups that bring together fund management and research employees.



Raw Materials Committee: a prospective role

Created in July 2015 in the context of severe tension surrounding oil prices, the Covéa Finance Raw Materials Committee has since become a permanent body. Originally focused on oil, its work has evolved during 2017 to encompass other raw materials, including copper. *"This Committee is a good example of the company's cross-functionality; its eight members come from different Fund Management and Research teams"*, says David Martins Pereira, Microeconomic Studies Manager.

INTERPRETING AND UNDERSTANDING THE ECONOMIC CLIMATE

Approximately every six weeks, the Committee looks at the prices of the main raw materials, so as to understand recent price movements with the help of core elements, while taking into account the economic factors that can affect these markets. Beyond these analyses, the committee also carries out structural studies to which each member contributes according to their skills and expertise. *"The committee meetings are an opportunity for us to discuss the latest news on raw materials, but also to identify topics that may require further research. Current examples of such topics include electric vehicles and the change in oil well production in the USA"*, adds Laurent Inglebert, European Equities Mandate Fund Manager. Furthermore, because oil and other raw materials are identified as key variables, along with the dollar, in our Economic & Financial Outlooks, this Committee is tasked with delivering the prospective work used to establish a central scenario, applied by the macroeconomic research team when looking at raw material-dependent economies. It also acts as our expert body on the behaviour of these variables.

For example, the Equities Fund Management team used the conclusions and updates of the study on oil carried out by the Raw Materials Committee in 2017 to determine the best entry and exit points for oil-related stock. ■



David Martins Pereira, Microeconomic Studies Manager, and Laurent Inglebert, European Equities Mandate Fund Manager



Vincent Haderer, Head of the Americas and World Equities department

Pauline Brunaud, European Equities Mandate Fund Manager

Banking group: forward-planning and responsiveness

The Banking group was established in 2010 by the Covéa Finance Executive Committee. *"The complexity of this sector and its importance in terms of economic development have, from the outset, required the mobilisation of the business expertise of the various departments. As such, the committee is made up of members of the company's Equities and Fixed Income Fund Management teams, as well as employees from the Macroeconomic Research and Competitive Intelligence unit"*, explains Pauline Brunaud, European Equities Mandate Fund Manager.

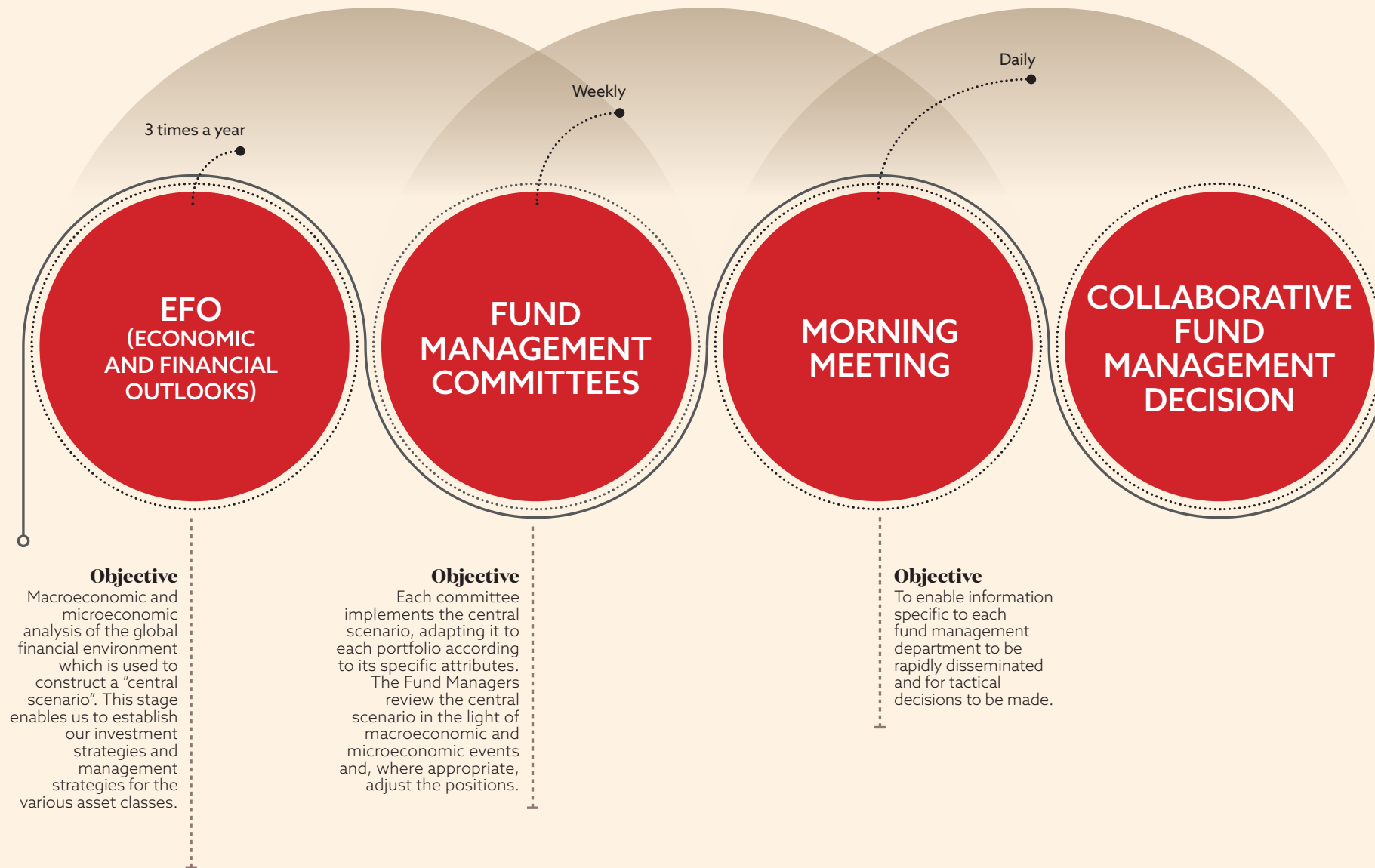
EXTENSIVE KNOWLEDGE OF THE MARKET

The Banking group has multiple duties: to understand the sector in its entirety, including any challenges and shortages it needs to address, and to identify and analyse the risks it faces and their potential impact on the economy. *"The group performs recurring tasks that analyse changes to the central banks' balance sheet, the current supply and demand of credit in key countries and the performance of the main global banks. In addition, it carries out more specific work to expand our knowledge on certain subjects, but also structural projects to interpret changes in banking models worldwide"*, explains Vincent Haderer, Head of the Americas and World Equities department.

"The Banking group's monitoring of certain specific sector indicators and the regulatory framework enables us to confirm certain macroeconomic trends and reinforce our selection of stock. For example, a solid and well-capitalised banking sector promotes growth. Conversely, poorly managed credit quality and high levels of bad debt can hinder growth; it is for this reason that the Banking group carried out a study in 2017 on this very topic in relation to the Italian banking sector", advises Pauline Brunaud.

All of this work feeds directly into Covéa Finance's Economic & Financial Outlooks, through the analysis of transmission channels between the financial world and the real economy. This in-depth knowledge of the sector allows the fund managers to be selective, given the significant levels of banking exposure in the portfolios, and to anticipate threats and opportunities so as to remain proactive. ■

The investment process



THE COVÉA FINANCE INVESTMENT PROCESS raises cooperation to the status of a fundamental principle at all decision-making levels. The objective is to preserve the capital entrusted to the company by its clients by protecting it from monetary erosion and by demanding compensation for the risk taken. To achieve this, Covéa Finance encourages teamwork and has a scalable information system, dedicated to the fund managers. Finally, the company relies on its four major assets: its methodology, its employees, its clients and its systems. Its fund management philosophy is built around a long-term vision, based on fundamentals that give meaning to the economy and strategic direction to its investments. Its expertise, based on the maximisation of internal added value, is to propose and implement asset allocation which is expressed through the Economic and Financial Outlooks (EFO) process. ■

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