

# Voting Policy

## General Meetings of Listed Companies

This document presents the conditions under which we exercise the voting rights conferred by the securities held and/or acquired by Covéa Finance as part of collective investment scheme management (CIS) and discretionary individual management activities.

The securities of companies directly owned by Covéa Group entities that have set up a financial management mandate with Covéa Finance and which are considered "strategic" in this respect are not included in the scope of this policy.

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

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

We perform our duties in complete independence of issuers and in the interest of our clients.

The Covéa Finance voting policy is subject to an annual review. In determining and developing its voting policy, Covéa Finance relies in particular on the annual recommendations of the AFG (French Asset Management Association) and the AFEP-MEDEF (French Association of Private Companies/National Council of French Employers) where corporate governance is concerned, adapting them to the specific features of its business model.

## **I. EXERCISING VOTING RIGHTS**

### **A. Organisation of the company allowing it to exercise its voting rights**

We exercise our clients' voting rights:

- via an electronic platform (since 2 June 2008) and by postal vote for France; this is the rule
- by active participation in meetings; this is the exception.

Based on collaborative management, ESG analysts review the resolutions submitted to the vote and propose voting instructions in accordance with the principles set out in this document<sup>1</sup>. These proposals are subject to validation by Covéa Finance's Director of Strategic Intelligence and External Relations. ESG analysts support voting through the aforementioned electronic platform, and inform the management teams of this process.

## **B. Classification and archiving of information**

Our provider allows us to meet the traceability requirement imposed by the AMF regulation. Therefore, for every general meeting in which we cast a vote, the following information is available:

- the number of shares held by a collective investment scheme and under discretionary management at the date of the general meeting;
- the nature of the vote cast by the ESG analyst (in person, by postal vote, telematics);
- the vote cast (for, against, abstention; resolutions submitted during the meeting always amount to an abstention);
- the reasons for these votes in the case of an abstention or a vote against.

This information is available to our principals, shareholders, unit-holders or investors in collective investment schemes following their request at Covéa Finance's head offices.

## **II. PRINCIPLES TO WHICH COVÉA FINANCE REFERS IN DETERMINING CASES IN WHICH VOTING RIGHTS WILL BE EXERCISED**

### **A. Scope of voting in 2019 general meetings**

For the 2019 fiscal year, we have decided to vote at the meetings of our thirty largest aggregate positions of companies in the European Union which are in the portfolios of our collective investment schemes and discretionary management activities as of 31 December 2018, unless these securities were transferred on the date of the general meeting.

We only consider securities that do not require a lock-up at the custodian's location when votes are cast.

---

<sup>1</sup> Voting resolutions not covered by our voting policy will be considered on a case-by-case basis.

We also strive to exercise our voting rights in listed European companies that we support as part of a long-term approach, and in which we have holding levels above 1.5% when we formalise our voting scope on 31 December 2018.

Voting at General Meetings in the United States is suspended due to legal and administrative complexities.

## **B. Nature of collective investment scheme management**

Covéa Finance collaboratively manages its choice of securities based on a macroeconomic, microeconomic and sectoral analysis. The nature of its management has no influence on the exercise of its voting rights.

## **C. Use of securities lending**

Covéa Finance may potentially use securities lending. *In order to exercise the voting rights conferred by securities lent during general meetings, Covéa Finance will ensure that it can recall them at any time.*

## **D. Special case of themed and SRI funds**

For its theme and SRI funds, Covéa Finance reserves the specific right to examine any resolution, either by the Board of Directors or by a group of shareholders, aimed at improving transparency, governance, stakeholder management (employees, environment, etc.), or which it considers not to be in line with the ESG principles governing such funds.

## **III. PRINCIPLES TO WHICH COVÉA FINANCE REFERS WHEN VOTING RIGHTS ARE EXERCISED**

The objective of this Covéa Finance voting policy is to contribute to the improvement of corporate governance practices in the companies in which Covéa Finance decides to invest and thus help to better defend the long-term interest of the beneficiaries represented by Covéa Finance. The guiding principle of the voting policy is the harmonisation of all stakeholders' interests.

The voting policy is organised around six themes that cover the main categories of resolutions. The voting strategy is implemented by strands of

analysis on each of the six themes, enabling Covéa Finance to express its views on governance when exercising voting rights.

## **A. Councils and governing bodies**

The boards are accountable to all shareholders and must act in the interest and on behalf of all shareholders. They exercise the powers assigned to them by law to act in all circumstances in the company's interest.

In order to meet this responsibility more effectively, good governance must result in a balance of powers and responsibilities within governing boards and bodies.

Before voting on a resolution concerning the boards and governing bodies, Covéa Finance considers the following points with the help of its provider:

- the clarity and consistency of information concerning the board's work, which are assessed by:
  - the Chairman's report informing shareholders of the number of board meetings, the elements used to assess its members' involvement, the way it is organised, a detailed curriculum vitae for members of the current board and members presented to the shareholders' vote;
  - whether the board abides by internal rules mentioning organisational and ethical principles;
- the resources available to board members: communication of any information useful in performing their duties in advance of their meetings;
- whether management and control functions are separated (Chairman of the Board and General Director or President and Chief Executive Officer);
- the amount of annual attendance fees (indexed or non-indexed to attendance at board meetings). Covéa Finance favours the remuneration of board members by attendance fees; their amount and any changes thereto must be consistent with the company's abilities;
- the board members' experience in running the company;
- the diversity of experiences within the board;
- the attendance rate of members at board meetings for reappointments;
- the terms of office: Covéa Finance favours a maximum term of 4 years;

- the proportion of directors or members of the Supervisory Board over the age of 70;
- the list of offices, with a general rule of not more than 5 offices in total (including the office in the relevant company) for non-executive director applicants and case-specific rules for other applicant profiles;
- the number of shares to be held by a director or a member of the supervisory board and the number of shares actually held;
- non-discrimination: Covéa Finance particularly favours better representation of women on the boards;
- whether employees are on the boards: Covéa Finance prefers for employees to be present on the boards;
- whether there are interlocking directors: Covéa Finance does not favour these except in case of a strategic alliance under a declared economic project.

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

- one-third of the directors or members of the supervisory board are independent, that is to say, free of any commitment vis-à-vis the Company. Therefore, the independent director or member of the Supervisory Board shall not:
  - be an employee, executive director of the company or any of its affiliates, nor have held any such post in the last five years;
  - be an employee or executive director of a reference shareholder of the company or any of its affiliates;
  - be an employee or executive director of a significant and regular business, banking or financial partner of the company or any of its affiliates,
  - have been an auditor of the company during the previous five years;
  - have been a member of the Board of Directors or the Supervisory Board for over twelve years.

## 1. Specialist committees

Covéa Finance follows the recommendations of the AFG suggesting that there be three committees (a larger number of committees may dilute and lead to confusion in the directors' work) with the freedom to convene and audit employees of the company and with an operational and assignment charter for each of them; this is included in the internal regulations of the Board of Directors or the Supervisory Board.

The board of directors or the supervisory board must provide shareholders with any relevant information concerning these committees and the frequency with which they meet, while also reporting on their activities.

## 2. Audit Committee

One third of its members must be free of any interest. The Committee must include a member who is an expert in accounting and finance, with the exception of those who hold executive or salaried positions within the Company.

Its functions must include the control of accounting and financial information, risk analysis and supervision of internal control, monitoring of statutory audits of annual accounts and a review of external audit activities.

## 3. Selection Committee

It must be composed of at least three members of the Board of Directors or the Supervisory Board; one-third of the members must be free of any interest.

The committee is responsible for making proposals to search for and appoint Board members and executive directors as well as to plan for its renewal.

## 4. Remuneration Committee

The Chairman of the Remuneration Committee and the majority of its members must be free of any interest. The committee may not include persons performing the duties of General Director or an employee.

It must participate in the development of a system encompassing remuneration of all kinds (fixed, variable, options, allocation of bonus shares, severance pay, retirement). It reviews the remuneration of executive directors and the Executive Committee.

## **B. Remuneration of executive directors<sup>2</sup>**

The remuneration policy must be consistent with the company's strategy and context. It must be in line with the company's performance objectives over the medium and long term. Remuneration must be determined in accordance with the principle of harmonisation of stakeholder interests.

The determination of remuneration must be comprehensive, the rules must be stable and transparent and the performance criteria used must be explicit and long-lasting.

### **Before voting on a resolution concerning remuneration, Covéa Finance considers the following aspects with the help of its providers:**

- the transparency of the information on the amounts and on all forms and bases for calculating individual remuneration, whether direct or indirect, immediate or deferred, of executive directors. This information should be detailed in the resolutions, reported in the annual report in a summarised remuneration table and make it possible to compare current remuneration plans with those from the previous two years. The information on the criteria for determining variable remuneration must be accurate (with details of the minimum, maximum and target remuneration depending on whether objectives are achieved);
- the consistency of the executive director's remuneration with the company's interests: opportunities for changes in remuneration will be analysed in light of whether any major restructuring plans are in progress;
- the structural balance between fixed and variable elements of remuneration; Covéa Finance favours a proportionate order of magnitude;
- the structural balance between short-term and medium-long-term variable elements; Covéa Finance favours a structure aligned with medium and long-term objectives;
- whether or not a mechanism is in place for the approval of shareholder remuneration plans ('say on pay');

---

<sup>2</sup>General Director, Deputy General Managers, Chairman of the Board



- the performance criteria associated with variable annual remuneration and remuneration plans must be demanding, explicit and long-lasting; they can be both quantitative and qualitative: the inclusion of non-financial criteria is recommended; criteria comparing the group's performance to that of competitors are appreciated;
- whether or not a mechanism is in place to provide for the reimbursement of variable remuneration when, at a later date, it appears that it was partially awarded on the basis of incorrect financial information;
- long-term remuneration mechanisms for executive directors; with particular focus on the following procedures:
  - Bonus shares
    - Covéa Finance would like the Company to use its annual report to provide its shareholders with accurate data on all of the conditions that led to the granting of bonus shares over the last three fiscal years (performance criteria, allocation %).
    - Resolutions intended to authorise the allocation of bonus shares must include and specify in detail the explicit performance criteria on the basis of which such shares will be allocated so that the shareholder may assess their dilutive potential.
    - These criteria may be mentioned in the resolution or in documents provided to shareholders in preparation for the general meeting.
    - Covéa Finance would prefer for the resolutions concerning the corporate officers and employees to be separate and for the maximum share of bonus shares allocated to each executive director to be disclosed.
    - Bonus shares must be granted under a long-term performance condition (at least 3 years) and it would be desirable for them to be held over 2 years.
  - Allocation of subscription options, warrants or share purchase warrants
    - Covéa Finance closely monitors the number of subscription options, warrants or share purchase warrants and the conditions under which they are granted to members of management. In particular, they should not be subject to

discounts and the initial conditions of issue should not be subject to change.

- The option plans must specify the terms and conditions for granting these options. A system must make it possible to ensure compliance with the rules of ethics and, in particular, ensure:
  - that options or warrants are void after an individual leaves the company;
  - that there is no possibility of subsequently changing the initial conditions for the granting of options;
  - that options are granted at intervals throughout the year;
  - that there is a possibility of granting options over several years, which is contingent upon achieving objectives;
  - that allocations are made subject to the achievement of performance conditions over a long period of time.

These allocation plans should distinguish between the powers granted to executive directors and those granted to employees.

Options must be granted under a long-term performance condition (at least 3 years) and it would be desirable for them to be held over 2 years.

- Limitations on the granting of subscription options, stock options or bonus shares
  - The total amount of outstanding plans encompassing subscription options and bonus shares should not exceed 10% of the capital (this ceiling could be increased for small capitalisations).
  - The total number of beneficiaries of share subscription or purchase options and bonus shares as well as the number of executive beneficiaries should be mentioned in the company's annual report.
- voluntary top-up pension schemes, in particular defined-benefit plans, which should include requirements as to seniority (minimum 5 years), amount, presenteeism, reference base and period;
- severance pay: it is desirable for an executive director's departure on their own initiative not to result in the provision of severance pay.

- Any severance pay bonus that may be payable to any executive director should not exceed an amount equal to twice the fixed and variable annual remuneration (excluding subscription options and other types of remuneration). If the director has been in the company for less than two years, the amount of compensation should be determined in proportion to their length of service.
  - The payment of a non-competition payment should be excluded for retirements.
  - Covéa Finance would prefer for agreements relating to remuneration, allowances or benefits that may be due to an executive director upon leaving the company or changing positions, to be subject to separate resolutions.
- welcome bonuses: they may be accepted if they compensate for the potential loss of income caused by a newcomer leaving their previous position.

### **C. Shareholder rights**

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

Covéa Finance therefore opposes any practices and/or amendments to the Articles of Association relating to the division of shares, double voting rights, preferred dividends and non-voting shares.

Covéa Finance favours the practice and/or the introduction of increased dividends in order to promote the long-term holding of shares and wishes for shareholders to be treated equally, whether they hold bearer or registered shares.

Covéa Finance defends the preservation of shareholder rights. Each resolution or decision resulting in a change to the Articles of Association will be reviewed on a case-by-case basis.

### **D. Approval of annual accounts and management**

When voting rights are exercised, Covéa Finance adopts a position on the company's transparency, on its activity and financial position, and on access

to sufficient information, in particular on policies and practices relating to certain environmental and social issues.

Before voting on a resolution concerning the approval of the annual accounts and management, Covéa Finance considers the following aspects with the help of its providers:

- information disclosed to companies must be available with sufficient time for Covéa Finance to analyse these matters in advance (at least 21 days before the general meeting).
- the information must be true and consistent, with a detailed strategic position, in particular, on the company's medium and long-term strategic direction, the company's environmental and social policy, its policy for identifying and managing risks, and its debt and dividend distribution policy;
- the resolutions put to the shareholders' vote, which must be accompanied by information providing clarification on the voting decision and related issues, as well as explaining the reasons for and the consequences of the proposed resolutions, in particular those concerning the appointment and renewal of board members and authorisations for financial transactions;
- requests for final discharge, which will be analysed according to the regulations of the country where the head office is located;
- the appointment of statutory auditors; Covéa Finance strives to limit situations of potential conflict of interest concerning the intervention of statutory auditors. Therefore, the following must be observed:
  - the correct application of the rotation principles according to the entities concerned and according to local regulations;
  - the restriction of fees not related to the assignment of certifying the annual accounts;
- regulated agreements; Covéa Finance focuses in particular on resolutions relating to regulated agreements.
  - The good practice of providing for a resolution by agreement;
  - The information must be clearly detailed and, for the sake of clarity, must be subject to separate resolutions, particularly in the case of agreements concerning executive directors and family holding companies;

Regulated agreements<sup>3</sup>: These are direct or indirect agreements between a company and its managing director, one of its deputy managing directors or one of its directors or one of its shareholders holding more than 5% of voting rights which are not related to day-to-day operations performed under normal conditions. It should be noted that ordinary operations are those which are carried out by the company as part of its ordinary activity and concern actions of disposition performed under sufficiently normal conditions to represent normal operations.

#### Scope of application

Sales, leases, provision of services, licensing, loans, exceptional remuneration awarded to directors for assignments, etc.

- blocked votes: Covéa Finance opposes the practice of consolidating several similar decisions in a single resolution. These should be submitted separately to a vote at the meeting (for example, resolutions relating to the renewal of several directors or to remuneration or benefits in kind granted to the directors).

## **E. Financial structure**

Covéa Finance's voting strategy is based on the observance of the principle of sound long-term capital management and respect for long-term shareholders. Covéa Finance thus focuses in particular on securities transactions and the dividend policy implemented by companies within its voting scope:

- the dividend distribution policy must be in line with the company's growth potential, taking into account the amount of the dividend in relation to the free cash flow available to the shareholder, the changes in the distribution ratio and the amount of investments;
- share repurchase and capital reduction transactions: these transactions will be analysed in light of the company's debt situation;
- anti-takeover mechanisms: it is not desirable for a general meeting to grant prior authorisation to use, during a subsequent public offering, such mechanisms as the repurchase of shares or the issue of warrants. Covéa Finance believes that general meetings during public offering periods must allow shareholders to discuss resolutions authorising the

---

<sup>3</sup> Articles L225-38 to L225-43 of the French Commercial Code

repurchase of shares or the issue of stock warrants during a public offering period, on a case-by-case basis, having been provided with the relevant information.

However, resolutions providing for a cap may be accepted on a case-by-case basis, with the purchase price not exceeding the average share price by more than 20% over the three months preceding the offering.

- capital increases with or without preferential subscription rights. Covéa Finance's voting strategy is based on respect for shareholders' preferential subscription rights during capital increases. Further, Covéa Finance will closely examine the terms of dilutive requests for the delegation of powers eliminating shareholders' subscription rights, in terms of discounts and percentage of capital requested. In particular, Covéa Finance is opposed to:
  - capital increases without preferential subscription rights and without a mandatory priority period which, if they were potentially cumulative, would represent more than 10% of the capital and which, when submitted to a vote at the meeting, are not formally explained and justified;
  - capital increases without preferential subscription rights and with a mandatory priority period of a minimum of 5 days which, if they were potentially cumulative, would represent more than 20% of the capital and which, when submitted to a vote at the meeting, are not formally explained and justified;
  - concerning capital increases with preferential rights, Covéa Finance is opposed to authorisations which, if they were potentially cumulative, would represent more than 50% of the capital and which, when submitted to a vote at the meeting, are not formally explained and justified;

Covéa Finance is not in favour of capital increases by way of a private placement, except where specific situations are justified and formally explained by the company.

## **F. Governance of environmental and social issues**

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

Covéa Finance may support a resolution presented by a shareholder or a group of shareholders which, with sufficient clarity and detail, would increase

transparency on environmental and social issues related to the Company's business.

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

Voting rights are exercised independently, in accordance with the principles defined by Covéa Finance in its policy relating to the management of conflicts of interest.

The fact that the portfolio management company belongs to an unlisted group and the lack of issuer-oriented activity are factors that limit the management company's exposure to conflict of interest risk. Covéa Finance abstains from voting at general meetings of companies, mainly listed real estate companies, whose Covéa Group entities hold a fraction of the capital they consider strategic.

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

If a conflict of interest situation is identified, the management company will indicate this in its annual report on the exercise of voting rights.