



ASSET  
MANAGEMENT

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# Engagement Policy

April 2022

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# “Socially responsible and committed”

At La Banque Postale Asset Management (LBP AM and its subsidiary TFSA), we are convinced that financial markets can be a lever for sustainable development:

- On the one hand, by directing investments towards companies that offer solutions to long-term issues and that follow responsible practices with regard to their employees, suppliers, customers and all their stakeholders - this is the driving force behind our SRI fund offering;
- On the other hand, based on dialogue with company managers and providing encouragement to adopt best practices in non-financial matters - this is the concept of engagement which is central to all our investments.

The purpose of this policy is to describe our engagement activity and explain why and how LBP AM/TFSA engages with companies. Through such dialogue, we seek to assume the role of active investors through involvement with the companies that we decide to financially support through our investment decisions.

Engagement has strong links with financial and non-financial analysis. It feeds into our analysis and so strengthens our investment decisions. This document, therefore, also describes how we monitor the strategy and the financial and non-financial performances of the companies in the portfolio.

Engagement also seeks to “support” companies constructively in their journey towards sustainable development. We are convinced that, alongside other stakeholders, (employees themselves, trade unions, civil society, NGOs, etc.) responsible investors can contribute to changing corporate practices to better promote the consideration of environmental, social and governance issues. Our SRI philosophy, known as GREaT, based on four pillars - responsible **G**overnance, sustainable management of human and natural **R**esources, **E**nergy and economic transition, and development of **T**erritories - shapes our engagement actions with companies towards areas that, in our view, we can legitimately discuss and act upon.

Finally, we are committed to reporting engagement activities to our clients in an annual engagement report.

## Emmanuelle Mourey

Chair of the Management Board, La Banque Postale Asset Management (LBP AM)

## Vincent Cornet

Managing Director, Tocqueville Finance SA (TFSA)

In accordance with the legal and regulatory provisions set out in Article R.533-16, Book V of the French Monetary and Financial Code, La Banque Postale Asset Management (LBP AM) and Tocqueville Finance SA (TFSA) have drawn up an engagement policy that sets out, in particular, the scope and procedure for shareholder engagement and for voting at shareholders' general meetings, as well as the criteria used to approve or reject proposed resolutions. The principles of this policy apply independently to each of the LBP AM group's two management companies. TFSA has delegated the implementation of the voting policy on behalf of its funds to LBP AM. LBP AM and TFSA's policy is applied identically to all the funds within their scopes.

## 1 Monitoring strategy, financial and non-financial performance, risks, capital structure, social and environmental impact and corporate governance

At LBP AM/TFSA, we combine fundamental financial and non-financial analysis to build responsible portfolios. The LBP AM Research Department coordinates the work of specialists: strategists, analyst-managers, financial and non-financial analysts and quantitative analysts.

Please refer to section “**1.3. Integration of non-financial issues into analysis**” of the report required under the Energy Transition Law, published by LBP AM/TFSA on its [website](#).

## 2 Dialogue with investee companies

### Objectives

The main objective sought by LBP AM/TFSA from dialogue with companies is to **better understand their strategy** and to **strengthen the financial and non-financial analysis carried out by LBP AM/TFSA’s teams**.

The objective of the dialogue may also be to **encourage companies to better take account of non-financial risks and to develop responsible practices that are part of a long-term strategy - this is the concept of engagement**.

The aim is not to interfere in a company’s strategy or seek a seat on the board but rather, as an external stakeholder, to encourage companies to continually improve their practices so that they commit to sustainable practices.

Each interaction with a company must give rise to operational conclusions, i.e. conclusions that are useful to managers in their portfolio management and monitoring.

### Processes

With €60.5 billion under management as at 31 December 2021, the LBP AM group (LBP AM/TFSA) is a significant investor in the financial markets. LBP AM/TFSA is regularly asked by companies, or their agents, to attend meetings with executives, or investor relations teams. LBP AM and TFSA’s management teams also arrange such meetings with companies, and this approach is becoming increasingly systematic for portfolio companies.

LBP AM and TFSA may join other investors and stakeholders in carrying out **collective engagement initiatives**. The aim is to then develop a theme with companies or regulators, at national or European level.

**LBP AM and TFSA’s approach to commitment is long-term.** LBP AM and TFSA seek to assess changes in companies’ practices over time, bearing in mind that the progress seen may have different motivations (regulatory pressures, internal demand, mobilisation of civil society, investor engagement, etc.). Monitoring is carried out more specifically on targeted dialogue actions, following controversies or on priority themes for LBP AM/TFSA.

**LBP AM and TFSA may gradually use the following additional tools** when the dialogue is unsuccessful, and the changes expected of companies are not made:

- Sending letters, as the written format often has more impact than an oral discussion,
- Lowering their SRI rating,
- Objecting to significant resolutions at the AGM, such as the approval of financial statements or the election of the chairman of the board,
- Submission of a resolution at the AGM,
- Surveillance of the company, corresponding to a ban on making new investments,
- Divestment, when the engagement results in failure: no satisfactory corrective actions carried out, limited openness to dialogue, etc.

## Coordination with the exclusion policy

The LBP AM/TFSA Exclusion Committee validates the exclusion policies of LBP AM/TFSA, approves any amendments and ensures that the policies are implemented. The LBP AM/TFSA engagement policy works in tandem with its exclusion policy.

### **Engagement and exclusion: examples of coordination**

- **Coal exclusion policy:** LBP AM/TFSA's investments in the mining and power generation sectors are limited to companies that have announced a controlled exit from coal, and which are aligned with the Paris Agreement. This policy is based on engaging with companies that have committed to eliminating thermal coal from their operations to ensure that they achieve these objectives by 2030 in OECD countries, and by 2040 in other countries. If this engagement is not conclusive, the issuer is excluded.
- **Deforestation policy:** LBP AM/TFSA seeks to identify its exposure to deforestation caused by the use of the main relevant commodities: palm oil, soya, livestock and foods of animal origin, rubber, wood and cocoa. In order to align with the French National Strategy to Combat Imported Deforestation (SNDI) adopted by the Ministry of Ecological Transition, LBP AM/TFSA therefore engages with companies that produce, trade, resell or process these raw materials and asks them to set a target of zero deforestation, degradation and conversion by 2025, publicly report figures to indicate their progress, and implement the planning and resources required to achieve this objective. Manufacturers and processors are also encouraged to implement good supplier listing practices that enable them to monitor the supply chain more closely. The scope of engagement is reviewed annually. Companies are excluded if they do not comply with these engagements or have no strategy or no reasonable process to detect, mitigate and respond to the risk of deforestation, degradation and conversion and associated human rights violations.

## Topics

**LBP AM/TFSA's engagement initiatives are structured around the four pillars of our GREaT methodology.**

### **2.1 Responsible governance**

The aim is to improve corporate governance practices through **exercising voting rights and engaging in dialogue in connection with general meetings.**

The exercise of voting rights is an opportunity for LBP AM/TFSA to engage in dialogue with companies on governance practices, ahead of AGMs. These discussions may be initiated by companies that wish to place resolutions on the agenda, or by LBP AM/TFSA where they have specific questions about the resolutions. Guided by the LBP AM/TFSA voting policies (see section 3 below), these discussions aim to improve the review of resolutions by enabling companies to provide additional information and/or by encouraging them to adopt best governance practices, while explaining the reasons for our objections.

LBP AM/TFSA engages with 25 to 40 companies in this way each year.

## 2.2 Sustainable resource management

The aim is to contribute to a better consideration of human and natural resources by companies. The protection of human rights is a key focus of our approach.

**Partnership with FIDH (International Federation for Human Rights) to promote human rights in connection with the LBP AM SRI Human Rights fund:** LBP AM has been working with this NGO, an expert in human rights, since 2001 to engage in dialogue with companies involved in human rights controversies. Its expertise means that it is able to identify good practices, but also controversies, which may provide grounds for contacting the companies in question to discuss and request the implementation of corrective measures. LBP AM relays FIDH's actions to companies.

- **Deforestation policy: LBP AM/TFSA seeks to identify and manage its exposure to deforestation**

LBP AM/TFSA's engagement policy prioritises the analysis of the deforestation risks of industries exposed to the use of the main relevant commodities: palm oil, soya, livestock and foods of animal origin, rubber, wood and cocoa. In order to align with the French National Strategy to Combat Imported Deforestation (SNDI) adopted by the Ministry of Ecological Transition, LBP AM/TFSA therefore engages with companies that produce, trade, resell or process these raw materials and asks them to set a target of zero deforestation, degradation and conversion by 2025, publicly report figures to indicate their progress, and implement the planning and resources required to achieve this objective. Manufacturers and processors are also encouraged to implement good supplier listing practices that enable them to monitor the supply chain more closely. The scope of engagement is reviewed annually.

## 2.3 Energy and economic transition

The objective is to encourage companies to align their strategy and activities with the economic decarbonisation trajectory required to achieve the objectives of the Paris Agreement. This dialogue can take the following forms in particular:

- **Coal policy: dialogue with coal producers and coal users to clarify their exit time frame**

Under LBP AM/TFSA's thermal coal exclusion policy, companies are selected based on their commitment to eliminate thermal coal from their activities in accordance with scientific recommendations. Our analysis is based on the IPCC recommendation that power producers and mining companies must eliminate thermal coal from their operations by 2030 (for OECD countries), or by 2040 (for other countries). These are then classified into three categories:

- Hold: the company has formally committed to exit coal in line with scientific recommendations
- Engage: the company has formally committed to exit coal but not in line with scientific recommendations
- Divest: the company has not formally committed to exit coal

By engaging with companies, we want to encourage them to align their commitment to exit coal with scientific recommendations. As part of our initial contact, we seek to identify possible obstacles to reducing the exit time frame and ways of removing such obstacles. Then, within six months of the initial contact, we review our engagement. If the company appears to be able to align its time frame with that of the IPCC, we hold our positions. Otherwise, we consider divestment.

- **Identification of “solution businesses”: site visits**

Through these visits, we seek to gain a better understanding of the issues facing companies, in order to enrich our investment choices with companies that provide solutions to the challenges of the energy and economic transition.

## 2.4 Regional development

Our approach in this area seeks to promote more uniform development of the regions. To that end, LBP AM/TFSA encourages companies to contribute to local communities and adapt their products and services to fragile or vulnerable populations, who remain, at times, outside traditional economic channels.

- **Access to healthcare**

Access to healthcare is a decisive factor in the opening up of the regions. LBP AM/TFSA has joined external initiatives in order to pool its efforts with other investors and expert networks.

**Access-to-Medicine** is a foundation that publishes every two years rankings of major pharmaceutical companies, based on their policies for promoting access to medicines for people in low and middle-income countries. Since 2008, the approach followed has enabled healthcare access programmes to be put in place in poor countries: appropriate pricing, cooperation with generics manufacturers, etc. The rankings are taken into account in the GREaT rating methodology and therefore affect the SRI scores of pharmaceutical companies. LBP AM/TFSA uses the findings of the study in its discussions with companies in the industry.

## 3 Exercise of voting and other rights attached to shares

A shareholder is entitled to participate in general meetings (AGMs) organised by the companies that have issued the shares. LBP AM/TFSA considers that exercising these voting rights is an essential act of management. LBP AM/TFSA has adopted a voting policy that sets out the voting scope and procedure for general meetings as well as the criteria used to analyse the proposed resolutions.

This policy applies to LBP AM and to its subsidiary TFSA. It is implemented by LBP AM and applied in the same way to all funds (mutual funds and SICAVs) open to the public, as well as to dedicated funds and mandates where the client has asked for it to be applied.

This policy is based on the GREaT philosophy. It promotes the implementation of best practices in terms of corporate governance and business ethics and encourages the consideration of environmental and social issues by companies.

The voting criteria also take account of the recommendations on corporate governance issued by the Association Française de la Gestion Financière (AFG) and the corporate governance code drawn up jointly by the AFEP and the MEDEF.

### 3.1 General principles

LBP AM/TFSA believes that transparent communication with shareholders is the basis of good corporate governance. Therefore, to encourage this practice, LBP AM/TFSA votes against any resolution where the information provided does not provide a fair and accurate idea of the decision to be taken pursuant to the principles set out in its voting policy.

LBP AM/TFSA opposes resolutions with multiple options: resolutions should only ask questions that require a single answer. If, however, LBP AM/TFSA is in favour of all the questions asked in a multiple resolution, then it will vote in favour.



LBP AM/TFSA has defined voting principles that apply to all companies for which it exercises its voting rights. However, LBP AM/TFSA takes into account the characteristics of each company before voting. Certain voting criteria have been adapted for small- and mid-cap companies.

LBP AM/TFSA may support resolutions that are not approved by the current board where those resolutions are in line with the principles upheld in its SRI philosophy, i.e. an improvement in ESG (environmental, social or governance) practices within the company, including by assisting in adding them to the agenda.

Voting is an opportunity for LBP AM/TFSA to engage in dialogue with the companies in which it has invested on behalf of the funds it manages, even where it does not exercise significant influence over the management of those companies.

LBP AM/TFSA may therefore disclose its voting intentions prior to general meetings, but only once its initial voting intentions have been recorded in an IT system. Depending on the content of discussions with the company, the initial voting strategy may change. Such changes, as well as the reasons for them, are listed in an internal document.

## **3.2 Approval of financial statements and appropriation of income**

The annual financial statements enable stakeholders to monitor changes in the financial statements and to understand the strategic directions taken by companies.

LBP AM/TFSA encourages companies to provide high-quality, comprehensive and transparent information in order to win the trust of investors.

### **3.2.1 Approval of financial statements and the distribution of dividends**

LBP AM/TFSA votes for resolutions in this area, unless:

- A member of the executive team is a member of the audit committee,
- The company's auditors have qualified their report, or their report has not been made public.

The distribution of profits - and shareholder remuneration - should not be carried out at the expense of the company's financial strength, the investment it needs to grow over the long term and the remuneration of all stakeholders.

LBP AM/TFSA votes for the payment of dividends in the form of shares, provided the discount is less than 10% and shareholders are able to opt for payment in cash.

### **3.2.2 Release from liability (or discharge)**

LBP AM/TFSA, in principle, approves requests to release board members and executive officers from liability.

LBP AM/TFSA may, however, object to such requests when it wishes to express its disagreement with the management of the company or its governance practices.

The existence of major environmental or social controversies for which the company has not provided a convincing response may also cause LBP AM/TFSA to object to such a discharge. In these cases, the reason for its objection is made known to the companies. LBP AM/TFSA may also object to the appointment of one or more board members if they are identified as being responsible for the controversies.

## **3.3 Capital increases and reductions**

The greatest transparency is expected in relation to the conditions and reasons for proposed resolutions to increase share capital, in particular where they provide for the waiver of preferential subscription rights.

### 3.3.1 Capital increases

LBP AM/TFSA agrees to capital increases subject to certain conditions:

- They do not run for an excessive period (5 years maximum);
- They are not carried out via the issue of preference shares;
- They are limited in aggregate to 50% of the existing share capital, and moreover comply with the thresholds set out below:

Subject to preferential subscription rights	Not subject to preferential subscription rights
FOR an increase of up to 50% of the existing share capital, with this cap potentially being raised in countries that apply different market standards or for small and mid-caps	Precautions are necessary to the extent that shareholders' stakes will be diluted. FOR an increase of up to 10% of share capital, with this cap potentially being raised for small and mid-caps FOR an increase of up to 20% of share capital where the interests of existing shareholders are protected thanks to compliance with a priority period of a minimum of 5 days. AGAINST private placements, a capital increase procedure that seems particularly unfavourable to the interests of shareholders

#### Exceptions

- LBP AM/TFSA may support transactions that do not comply with the above principles, where justified by the company for specific situations and where their future implementation is clearly stated and reasonable.
- Capital increases during a takeover bid period may in certain cases be considered to be a means of negotiating an improved bid, which is in the interests of shareholders. LBP AM/TFSA will only approve this type of transaction if the shareholders are aware of the conditions of the offer and depending on the intentions of the company that made the bid.

### 3.3.2 Share buybacks

Share buybacks can improve liquidity in the market, or implement incentive plans without diluting existing shareholdings. LBP AM/TFSA considers that share buybacks should meet certain conditions:

- The authorisation should be capped at 10% of share capital, other than in certain exceptional cases.
- Treasury shares held by the company are limited to 10% of share capital.
- The authorisation period is limited to 18 months, except in countries where a longer period is commonly accepted.
- Buyback programmes may not be used as an anti-takeover mechanism.

Furthermore, the aim of the buyback should not be to cancel shares if the company's financial situation does not permit such action (e.g. limited cash, significant debt), or if such a transaction risks altering its ability to create value over the long term.

### 3.3.3 Mergers and acquisitions

LBP AM/TFSA will vote on mergers and acquisitions on a case-by-case basis based on their strategic and financial benefit and the consequences of the transaction on environmental, social and governance issues.

In order to strengthen shareholders' rights, LBP AM/TFSA considers that significant and/or strategic asset acquisitions or disposals should be voted on by shareholders.

## 3.4 Appointments to the board of directors or supervisory board

The balance of power is one of the fundamental principles of good governance.

LBP AM/TFSA encourages companies to carry out appropriate and independent checks and balances to ensure effective management controls and create favourable conditions for long-term performance.

### 3.4.1 Separation of powers

There are two principal governance models: a two-tier structure (with a supervisory board and a management board) where management and supervisory functions are necessarily separate, and a one-tier structure (with a board of directors) where the functions of chairman of the board and chief executive officer may or may not be separate.

LBP AM/TFSA does not support one governance model over the other but seeks to ensure a balance of power. In the event that management and supervisory functions are combined, LBP AM/TFSA is particularly vigilant to the guarantees provided to shareholders to prevent the solitary exercise of power and to ensure that the board is a forum for debate and effective oversight: a proportion of independent members in line with our expectations (at least 33% or 50% depending on the company), committees in line with our expectations in terms of independence (at least 50% or 66% depending on the committees), appointment of an independent senior director or vice-chairman, organisation of executive sessions (meetings without the presence of the managers), etc.

Given the specific nature of the banking sector, LBP AM/TFSA systematically votes against the election of a Chairman-CEO in that sector.

In the event that the functions are separated, it is recommended that the former manager of a company is not appointed its non-executive chairman, or at least for a transitional period limited to two years.

### 3.4.2 Boards of directors and supervisory boards

Liable to shareholders, the board must be an active, independent and competent body.

#### Reasonable size of board

In order to ensure good conditions for discussions, LBP AM/TFSA votes against resolutions that propose to reduce the size of the board to fewer than five members or increase the size to more than 15 members. Where the board is already large (more than 16 members), LBP AM/TFSA is liable to vote against new appointments if a commitment to reduce the size of the board has not been made.

#### Appointment of board members

- Quality of information

It is important that shareholders have the information they require to assess each board member's candidacy (experience, principal activities, independence, reasons for the proposed appointment).

Shareholders must be able to express their views on appointments and renewals individually. However, LBP AM/TFSA will vote in favour of a group of candidates where it considers that each proposed candidate meets the criteria set out elsewhere in the policy.

- Terms of office

LBP AM/TFSA is in favour of terms of office with a maximum of four years, so that shareholders can regularly vote on the composition of the board.

LBP AM/TFSA recommends the same practices as large caps, but will only vote against terms of office at small and medium-sized companies when they exceed 5 years.

- Availability

LBP AM/TFSA seeks to ensure that board members are sufficiently available to prepare for and participate in board and committee meetings. Thus, LBP AM/TFSA is not in favour of appointing candidates with too many other current roles at listed companies or other groups. The limits are as follows:

- 4 offices with “ordinary” roles
- 3 offices where the candidate chairs a board or an audit committee, due to the significant level of involvement required by such roles
- 2 offices when the candidate has an executive role at a listed company.

By limiting offices to a reasonable number, opportunities to become board members are open to a greater diversity of profiles and individuals.

LBP AM/TFSA also takes into account of the attendance of board members at the time of their re-election, and may object if their rate of participation at meetings was less than 75% during the previous term of office.

LBP AM/TFSA encourages boards to include, in their assessment of the availability of potential candidates, offices as non-voting directors and offices held at unlisted companies.

- Conduct

LBP AM/TFSA may object to the election of candidates who have failed to carry out the duties associated with their roles on boards or committees.

In the event that a resolution is rejected or robustly challenged, LBP AM/TFSA expects an appropriate response from the board. If it appears that shareholders’ views are being ignored, LBP AM/TFSA may vote against the re-election of certain board members.

## **Independence of boards of directors and supervisory boards**

LBP AM/TFSA promotes the appointment of independent members.

- Independence criteria

To qualify as independent, a director or member of the supervisory board must not be subject to a potential conflict of interest. Therefore, they must not:

- Be, or have been in the last five years, an employee or executive officer of the company or a company in its group;
- Be an employee or executive officer of a major shareholder of the company or of a company in its group;
- Have a personal relationship (family, business relationship) with any of the company’s significant managers or shareholders;
- Be an employee or executive officer of a significant and habitual commercial, banking or financial partner of the company or of a company in its group (e.g. customer, supplier, banker, creditor);
- Have been the company’s auditor over the course of the previous five years;
- Have been a member of the company’s board of directors or supervisory board for more than twelve years;
- Be appointed as a government representative;
- Hold or have held a political position in the last five years.

Board members should not receive remuneration for services provided to the company or its subsidiaries, in order to avoid conflicts of interest.

- Proportion of independent members

LBP AM/TFSA considers that at least 33% of board members should be independent for controlled companies, and at least 50% for non-controlled companies. (A company is considered to be controlled where a shareholder or group of shareholders hold(s) at least 50% of its share capital or voting rights).

The rate of independence is calculated by reference to the members of the Board who are elected by shareholders, excluding the representatives of employee-shareholders.

By way of exception, LBP AM/TFSA considers that at least 33% of board should be independent for small- and mid-caps.

- Specific rule for the slate voting system (specific to Italy)

Under the "voto di lista" (slate voting) system, at least two lists of candidates for the board are put to a vote, one presented by majority shareholders and the other by minority shareholders. In order to promote independence and insofar as all proposed candidates meet the other criteria (conduct, availability, etc.), LBP AM/TFSA votes in favour of the list produced by the minority shareholders.

- Cross-holdings

LBP AM/TFSA is not in favour of members being appointed on a reciprocal basis to the boards of two companies (unless an exception can be justified on strategic grounds), due to the obvious conflict of interest.

### **Diversity on boards of directors and supervisory boards**

To enhance the quality of discussions and allow a variety of opinions to be expressed, LBP AM/TFSA encourages diversity in the composition of boards (experience, nationalities, gender balance, representation of employees and civil society, etc.). LBP AM/TFSA therefore votes against the election or re-election of a candidate if the candidate is a man and the percentage of women on the board is less than 40%, or vice versa.

In addition, LBP AM/TFSA votes against the election or re-election of a candidate who is 70 years of age or older, if one third of board members or more is over the age of 70.

### **Members representing employees**

LBP AM/TFSA is in favour of employee representatives or employee shareholders joining the board. If several candidates are put forward for a single position, LBP AM/TFSA favours the person who best represents the company's employees, where this can be demonstrated by detailed information. Otherwise, LBP AM/TFSA will vote in favour of all candidates.

### **Non-voting members**

Non-voting members sit on the board in the same way as ordinary members, but are unable to vote on resolutions. For LBP AM/TFSA, the appointment of non-voting board members may create confusion and disrupt the operations of the board. Their presence must therefore remain exceptional or temporary.

### **Specific characteristics taken into account**

LBP AM/TFSA takes into account a company's specific characteristics (size, composition of the shareholder base, whether or not it is a family company) when applying election voting principles. For example, the appointment of a candidate may be supported if he/she has a particularly strong case for sitting on the board (e.g. director, member of the founding family, reference shareholder, etc.) within acceptable limits relating to the need for the board to be independent.

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### 3.4.3 Specialist committees

LBP AM/TFSA recommends that companies establish audit, remuneration and appointment committees, whose roles must be defined in the rules of procedure.

These committees must be chaired by an independent member. At least 50% of the members of the remuneration and appointments committees and at least 66% of the members of the audit committee must be independent. LBP AM/TFSA votes against the appointment of a non-independent candidate if these levels of independence are not achieved, and does not favour the presence of executives on these committees.

LBP AM/TFSA also votes against the chairman of the remuneration committee if the executive remuneration policy does not comply with the principles set by LBP AM/TFSA.

Since CSR (Corporate Social Responsibility) issues are becoming strategic in nature, LBP AM/TFSA is in favour of such issues being addressed at the highest level through the presence of specific experts, the holding of specific CSR meetings or the establishment of a dedicated CSR committee.

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## 3.5 Remuneration of officers and directors

**The executive remuneration policy must be transparent, balanced, linked to the creation of long-term financial and non-financial value and respectful of social cohesion.**

**LBP AM/TFSA reviews the proposals put forward by the board of directors or supervisory board relating to the approval of the remuneration report on a case-by-case basis. In general, LBP AM/TFSA votes against any deviation from the principles set out below.**

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### 3.5.1 Transparency

The remuneration policy provides ex ante transparency on the remuneration structure (fixed and short-term/long-term variable remuneration), the chosen performance criteria (which must be enforceable), their respective weightings and scales and the identified peer group. The remuneration report provides ex-post information on the link between the performance achieved, the value created for all stakeholders and the remuneration received.

Where applicable, the components of exceptional remuneration must be explained in detail.

Small and mid-caps do not necessarily have the same resources as large caps in formalising their remuneration policy. For such companies, LBP AM/TFSA considers that the following information should be provided:

- Ex ante, the cap on annual bonuses and the short- and long-term variable remuneration criteria,
- Ex post, figures for the various components of remuneration.

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### 3.5.2 Balance

LBP AM/TFSA recommends that the remuneration structure be balanced between the fixed and variable components, and between the short and long term (at least 3 years).

LBP AM/TFSA recommends paying a fixed component in line with the practices of the country and the company's sector. Decisions to increase the fixed component must be justified and take into account the automatic upward impact on other components of remuneration.

The variable component should not represent an excessive percentage of total remuneration, given the complexity of measuring performance in broad terms (choice of metrics, setting of targets, rigour of measurement, etc.).

Short-term bonus should not represent an opportunity to obtain remuneration in excess of the remuneration associated with long-term variable components.

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### **3.5.3 Social cohesion**

The remuneration structure must enable competent executives to be recruited, but also be respectful of social cohesion. To that end, LBP AM/TFSA encourages companies to publish a pay ratio that compares changes in the remuneration of executives with changes in the remuneration of employees.

LBP AM/TFSA pays particular attention to the total amount of remuneration. LBP AM/TFSA may object when this amount exceeds:

- For large caps, 240 times the median salary of the country in which the company is resident (this cap is intended to prevent an executive from earning in one day the amount an employee earns in a year, on the basis that there are approximately 240 working days per year).
- For small and mid-caps, 50 times the median salary of the country in which the company is resident (this cap is intended to prevent an executive from earning in one week the amount an employee earns in a year).

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### **3.5.4 Link with the creation of long-term financial and non-financial value**

Performance criteria should be linked to the long-term strategy of the business, and objectives should reflect actual progress by the business and in comparison to its peers. Pay scales must be sufficiently demanding to avoid any possibility of remuneration in the event of underperformance.

LBP AM/TFSA encourages companies to adopt a variety of criteria: financial, operational and non-financial.

LBP AM/TFSA recommends that non-financial criteria be used to assess executives' performance and determine their short- and long-term variable remuneration. These criteria may be specific to each company, depending on its specific characteristics and its business sector. For example, energy transition-related indicators are required in sectors that emit significant volumes of greenhouse gases. LBP AM/TFSA considers that the extra-financial criteria used should be transparent and relevant in view of the ESG challenges faced by the companies.

LBP AM/TFSA objects to significant increases in the remuneration of executives when a significant restructuring is in progress or has been carried out during the previous year. Efforts must be shared between all stakeholders, and the board must avoid sending contradictory messages that could damage the working climate and employee motivation.

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### **3.5.5 Other commitments made by companies to executives**

#### **Severance pay**

The departure of an executive officer at his/her own initiative must not result in them receiving compensation.

LBP AM/TFSA considers that the amount of severance pay should, inter alia, reflect directors' length of service and the contribution they make to the company during their term of office.

No compensation should be paid if the executive's remuneration during his/her term exceeds the socially acceptable limit set by LBP AM/TFSA (240 or 50 times the national median salary). In such circumstances, it should be considered that the executive's remuneration already factors in the risk of the executive being removed from office at any time.

## **Non-compete compensation**

LBP AM/TFSA considers that non-compete clauses should be specific (period, functions and entities covered, etc.). The company must explain the benefit provided by this clause to its business activities.

The amount of the potential compensation should be consistent with the length of the non-compete obligation.

Non-compete compensation should not be paid if the executive claims his/her pension rights or is over 65.

## **Rules common to severance pay and non-compete compensation**

In all cases, the compensation must not exceed twice the executive's annual remuneration (fixed and variable).

## **Supplementary pensions**

The establishment of a supplementary pension is an understandable way of attracting and retaining executives, where it reflects current practice in a business sector and provided that it is strictly supervised.

LBP AM/TFSA review this type of agreement based on the following criteria: the executive's length of service, whether the executive is working for the company at the time of retirement, that growth in the potential benefits is reasonable, a cap on the annuity paid to beneficiaries, the requirement that a group that is significantly larger than just the managers are potentially beneficiaries, and the setting of a reference period comprising a number of years that is representative of the average remuneration received by beneficiaries over their entire term of office.

LBP AM/TFSA assesses the appropriateness of the estimated annual annuity by comparing it with the average remuneration (fixed and variable) over the last three years. LBP AM/TFSA has not set a strict limit, but refers, in internal discussions, to the recommendations of Proxinvest (or equivalent recommendations for non-European countries).

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### **3.5.6 Remuneration of non-executive members**

The remuneration paid to board members for carrying out their duties must be consistent with current practices in the country and in the business sector. It must reflect the duties carried out by each member, as well as their attendance at meetings. Significant changes must be explained.

LBP AM/TFSA considers that details of the individual attendance rates at board meetings should be provided in the annual report.

LBP AM/TFSA considers that the remuneration of non-executive members should not depend on the performance of the companies, because this may have an impact on the independence of judgement expected of them.

## **3.6 Long-term remuneration plans (bonus shares, stock options)**

Companies should submit resolutions that are separate from the resolutions for traditional capital increases in respect of plans for employees and/or company officers. LBP AM/TFSA reviews this type of resolution against the principles set out below.



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### 3.6.1 Common provisions

All ongoing plans must not exceed the cap of 10% of share capital.

LBP AM/TFSA considers that the resolution should clearly state who will benefit from the plans to be voted on, as well as the maximum proportion of the overall amount that may be allocated to executive officers. Ideally, LBP AM/TFSA is in favour of separating resolutions that relate to company officers from those that relate to employees.

LBP AM/TFSA recommends that companies state the potential number of beneficiaries under the plan. LBP AM/TFSA reviews the plan more closely where eligibility for the plan is restricted; i.e. where only a small percentage of the workforce is eligible for the plan, LBP AM/TFSA expects companies to follow best practices in terms of transparency and performance conditions.

LBP AM/TFSA considers that, regardless of compliance with performance conditions, awards should be able to be cancelled in the event of serious ethical breaches or reputational damage.

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### 3.6.2 Allocation of bonus shares and stock options

LBP AM/TFSA votes favourably on resolutions approving the award of shares or stock options to employees and executives if:

- Such awards are based on objective, demanding and relevant performance criteria assessed over at least three years;
- The initial conditions are unable to be subsequently altered, unless a detailed explanation is provided;
- The award is not excessively concentrated among certain beneficiaries;
- Awards that have not definitively vested are cancelled in the event that the person in question leaves the company, unless the departure is forced and subject to compliance with the performance conditions (in such circumstances, a pro rata reduction in the number of instruments is necessary);
- The discount is zero for options.

In order to encourage better consideration of long-term issues, LBP AM/TFSA welcomes plans for executives that are structured over at least 5 years, applicable to both the period for assessing performance conditions and the lock-up period.

The above criteria do not apply to awards that benefit all employees.

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### 3.6.3 Employee shareholding plan

LBP AM/TFSA supports the growth of employee share ownership.

LBP AM/TFSA recommends that companies do not intervene in the governance of employee investment funds (FCPEs). Employee-shareholder representatives on the supervisory board of employee investment funds (FCPEs) must be able to vote independently on resolutions at AGMs.

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## 3.7 Amendments to the articles of association

LBP AM/TFSA supports long-term ownership, which is a source of stability and a driver of growth for companies. LBP AM/TFSA therefore supports the granting of additional rights to long-term shareholders through the payment of an increased dividend or the award of double voting rights. Shareholders who hold their shares in bearer and registered form should be treated equally.

LBP AM/TFSA objects to the tightening of the conditions on which decisions are made by shareholders at general meetings (e.g. requiring a qualified majority to amend the articles of association, approve a merger, remove a director from office, etc.).

LBP AM/TFSA may object to a reduction in the shareholding thresholds at which shareholders must notify the company if the company is not transparent about crossings of thresholds.

LBP AM/TFSA objects to the relocation of a company's registered office to a state with less stringent governance and tax requirements, if the company does not provide valid justification for it.

LBP AM/TFSA objects to changes in the age limits for joining the board, where such changes are clearly made for a specific person and thus raise questions about the board's operations (succession management, permanence of the principles set out in the articles of association, etc.).

### 3.8 Related-party agreements

**A related-party agreement binds the company with a stakeholder who has significant influence (director, member of the board of directors or supervisory board, a significant shareholder). Due to the conflict of interest that naturally exists, related-party agreements are subject to enhanced controls, in particular a vote by shareholders.**

LBP AM/TFSA votes on a case-by-case basis, based on the persons in question, the content and reason for the transactions, as well as the information provided by the board to explain the appropriateness of the agreement.

LBP AM/TFSA votes against any resolution where there is insufficient information provided on the relevant agreements.

LBP AM/TFSA also votes against any resolution where any of the agreements covered by the resolution conflicts with any other voting principles (e.g. regarding executives' severance pay).

LBP AM/TFSA considers that the agreements should have a limited term and be reviewed periodically by the board and the shareholders. LBP AM/TFSA recommends that the most important agreements be the subject of separate resolutions, so that shareholders can vote on a case-by-case basis.

LBP AM/TFSA only votes on new or renewed agreements. Agreements that were approved in the past should be voted on again where they have had an impact on the year to which the AGM relates. LBP AM/TFSA does not comment on agreements that have already been approved by shareholders where they have not had any impact, but may make its concerns known to the companies as part of pre-AGM discussions.

### 3.9 Statutory auditors

**The statutory auditors are responsible for verifying the accuracy and fairness of the annual financial statements, in the interests of the shareholders.**

**LBP AM/TFSA encourages companies to prevent conflicts of interest when appointing statutory auditors by regularly rotating auditors and refraining from engaging them to carry out non-audit activities.**

Resolutions in this area are generally accepted, other than in certain exceptional cases.

LBP AM/TFSA votes against resolutions if the statutory auditors have also carried out non-audit services for the company in question, and if the fees they have received for such services exceed 25% of their fees received in each of the previous two financial years. Where available, the company should provide detailed information on the nature of the services.

LBP AM/TFSA is in favour of a regular rotation of auditors. LBP AM/TFSA objects to their appointment if the same firm has audited the financial statements for more than eighteen years (corresponding to three six-year mandates for French companies).

LBP AM/TFSA votes against the appointment or reappointment of alternate statutory auditors where they are connected to the principal statutory auditors.

### 3.10 Climate resolutions

**An increasing number of companies are adopting energy transition and ecological strategies with linked objectives. These plans may be the subject of a “say-on-climate” advisory vote by shareholders.**

LBP AM/TFSA supports the introduction of proper voting on companies' environmental strategies and associated objectives, as well as a report detailing the implementation of that strategy. LBP AM/TFSA particularly encourages listed companies whose activities emit significant quantities of greenhouse gases to submit such resolutions to a shareholder vote.

LBP AM/TFSA analyses “say-on-climate” resolutions on a case-by-case basis. This analysis takes account of the characteristics of the plan being voted on, the level of ambition of the plan and its transparency, particularly in light of best practices in the sector or those of companies facing similar challenges.

LBP AM/TFSA encourages companies to develop and vote on a detailed, precise strategy based, as far as possible, on market frameworks (climate or sectoral scenarios, third-party methodologies for evaluating strategies), with a view to contributing to the global target of carbon neutrality by 2050. LBP AM/TFSA expects this strategy to have short-, medium- and long-term targets for reducing scope 1 and 2 greenhouse gas emissions and the most significant scope 3 categories of emissions. LBP AM/TFSA encourages companies to adopt trajectories compatible with the 1.5° goal under the Paris agreements, for a significant proportion of their activities. This strategy must follow the Avoid, Reduce, Offset sequence and be coordinated and consistent with the Group's overall strategy. LBP AM/TFSA recommends that objectives linked to the company's climate strategy be included in executive remuneration.

LBP AM/TFSA reserves the right to vote against resolutions that do not contain these elements.

### 3.11 Resolutions concerning environmental and social issues

In relation to social or environmental proposals made by shareholders, LBP AM/TFSA votes on a case-by-case basis, based on its “SRI Philosophy” and in view of:

- the importance and relevance of the issues raised for the business sector in which the company operates;
- the impact of the proposal on the financial position of the company and its ability to create value over the long term;
- the measures already put in place by the company to address the issue raised.

With regard to resolutions relating to the climate, LBP AM/TFSA applies the principles set out in section I. and reserves the right to participate itself in submitting the resolution.

### 3.12 Donations

LBP AM/TFSA votes in favour of charitable donations (associations or foundations). In order to avoid the risk of conflicts of interest, LBP AM/TFSA objects to authorisations to make political, religious or ideological donations.

#### 4 Cooperation with other investors

As a management company that seeks to promote SRI, LBP AM/TFSA has been engaging with the financial community on SRI and the energy transition for more than 20 years. We want to be involved in progress in academic research, social improvements and the climate.

<b>Commitments</b>	<b>Nature of commitment</b>	<b>Objective</b>	<b>Date LBP AM/TFSA signed up</b>
Carbon Disclosure Project ( <b>CDP</b> )	Support for a collective initiative	The CDP encourages greater levels of disclosure about the environmental impact of investors, businesses and government. Climetrics award for three LBP AM/TFSA equity funds in 2019, 2020, 2021 and 2022.	<b>2003</b>
Participation in the creation and financing of the <b>FDIR Chair</b>	Support for academic research	The FDIR Chair aims to promote collaboration between asset management professionals and researchers whose work contributes to the international influence of the Paris market on this key topic. LBP AM/TFSA has chaired the Chair since 2016.	<b>2008</b>
Principles for Responsible Investment ( <b>PRIs</b> )	Membership of a market organisation	The PRIs were launched by the United Nations in 2006. They represent a voluntary commitment addressed to the financial sector to encourage investors to broadly incorporate ESG issues into the management of their portfolios. René Kassis (Head of Real Assets at LBP AM/TFSA) is a member of the PRI Infrastructure Advisory Committee established in 2017 which aims to support and advise infrastructure investors on the implementation of robust responsible investment strategies.	<b>2009</b>
Forum pour l'investissement responsable ( <b>FIR</b> )	Membership of a market organisation	The FIR was established in 2001 to promote SRI and to ensure that more investments take account of social cohesion and sustainable development issues. LBP AM/TFSA joined the FIR in 2014. Helena Charrier (Head of SRI Solutions at LBP AM/TFSA) and Nicholas Vantreesse (CSR Officer at La Banque Postale) were elected to the FIR board in June 2019. Helena is one of the two vice-chairs. LBP AM/TFSA members participate in FIR working groups.	<b>2014</b>
PRI Montreal Carbon Pledge	Support for a collective initiative	Investors and asset management companies, including LBP AM/TFSA, are committed to measuring and publicising the carbon footprint of their portfolios each year, particularly in the Report on energy transition.	<b>2015</b>

Institutional Investors Group on Climate Change ( <b>IIGCC</b> )	Membership of a market organisation	The IIGCC is an investor organisation on climate change issues, whose members collaborate on developing market guides and engagement initiatives. LBP AM/TFSA members participate in consultations and working groups.	<b>2015</b>
University of Cambridge Institute for Sustainability Leadership ( <b>CISL</b> )	Support for academic research	A group of investors dedicated to advancing practices and promoting investments in the field of responsible investment.  This is a voluntary initiative, led by its members, coordinated by the Investor Leaders Group teams and with the support of researchers at the University of Cambridge.	<b>2018</b>
Tobacco-Free Finance Pledge	Support for a collective initiative	Launched in 2018, this is the first international treaty aimed at reducing the impact of tobacco on the global economy by reducing the links between the financial sector and the tobacco sector. The signatories to this initiative are committed to a very strict policy of excluding tobacco from their investments.	<b>2018</b>
<b>TCFD</b> (Task Force on Climate-related Financial Disclosure) Investor Statement	Support for a collective initiative	The TCFD makes recommendations on the climate-related information that companies should share to help investors make the right financial decisions. LBP AM/TFSA is committed to communicating and reporting climate risks in line with TCFD standards by 2020.	<b>2018</b>
Finance for Tomorrow	Membership of a market organisation	Finance for Tomorrow is a Paris Europlace initiative that seeks to promote sustainable finance in France and internationally. The objective is to redirect financial flows towards a low-carbon, inclusive economy, in line with the Paris Agreement and the Sustainable Development Goals.  LBP AM/TFSA is a member of the Policy Commission and the Impact, Just Transition and Biodiversity working groups.  René Kassis (Head of Real Estate Assets at LBP AM/TFSA) was elected in 2020 to sit on the new Finance for Tomorrow initiative for the 2020-2022 term of office.	<b>2018</b>
Farm Animal Investment Risk & Return ( <b>FAIRR</b> )	Support for a collective initiative	The FAIRR international investor network encourages food manufacturers to improve their animal welfare and nutrition practices. The network carries out several targeted engagement actions, for example encouraging the reduced use of antibiotics in livestock farming or combating deforestation caused by agriculture. LBP AM/TFSA members participate in FAIRR consultations and commitments.	<b>2018</b>

Access-to-Medicine Foundation	Support for a collective initiative	Founded in 2004 and based in the Netherlands, the Access-to-Medicine Foundation is an international network of investors that aims to encourage the pharmaceutical industry to increase access to medicines for people in low-income countries. Every two years, it publishes a list of the twenty largest laboratories in the field.	<b>2018</b>
The Green Bond Principles (GBPs)	Support for a collective initiative	The objective of the green bond market is to strengthen the essential role of bond markets in financing sustainable development projects. By setting guidelines that advocate transparency, disclosure and reporting, the GBPs contribute to the integrity of the green bond market. LBP AM/TFSA participates in GBP consultations on changes in market standards.	<b>2019</b>
The Social Bond Principles (SBPs)	Support for a collective initiative	The objective of the social bond market is to strengthen the essential role of bond markets in financing projects that address global social challenges. SBPs contribute to the integrity of the social bond market through the application of guidelines that advocate transparency, disclosure and reporting.	<b>2019</b>
2-infra challenge	Participation in a working group	Carbone 4 is the leading independent consulting firm that specialises in low-carbon strategies and adapting to climate change. In 2018, Carbone 4 launched a “2-infra challenge”, a new market method that will measure the alignment of infrastructures with a two-degree trajectory and the associated climate risks. LBP AM/TFSA supports this initiative.	<b>2019</b>
Association Française de Gestion (AFG)	Membership of a market organisation	Emmanuelle Mourey (Chair of the Management Board, LBP AM/TFSA) has been a member of the Strategy Committee since December 2019.  LBP AM/TFSA is a member of the Responsible Investment (RI) and Corporate Governance committees. Other LBP AM/TFSA employees also participate on other AFG Committees.	<b>2019</b>
Eco-Label - European label	Participation in a working group	LBP AM/TFSA is a member of the Eco-label stakeholder group.  Established in 1992, the European Ecolabel is the only official European eco-label that can be used in all member countries of the European Union. In France, the Ministry of the Environment entrusted support for the French policy on the deployment of the European Ecolabel to ADEME and issuance of the label to AFNOR Certification.	<b>2019</b>
Climate Action 100+	Support for a collective initiative	Launched in December 2017 at the One Planet Summit, the Climate Action 100+ initiative aims to persuade and influence the global economy's major greenhouse gas emitters over the next five years. By signing this charter, LBP AM/TFSA has undertaken to promote the energy transition through the investments made by its funds.	<b>2020</b>

PRI-CERES initiative for sustainable forests	Support for a collective initiative	Jointly coordinated by the PRI and the US organisation Ceres since 2018, this initiative brings together international investors who wish to contribute to tackling deforestation, mainly linked to cattle rearing and soya cultivation in the Amazon.	<b>2020</b>
30% Club France	Support for a collective initiative	The 30% Club France Investor Group was founded in November 2020 to promote gender diversity on the boards of the SBF 120. The target is for at least 30% of senior management teams to be female by 2025.	<b>2020</b>

## 5 Communication with relevant stakeholders

Corporate Social Responsibility (CSR) is at the heart of LBP AM/TFSA's identity. As a member of the La Banque Postale group, we are a responsible company, attentive to sound governance, mindful of the needs of our employees and involved in our regions.

For more information, please refer to section “**3.4. Internal commitment: our CSR policy**” in the report required under the Energy Transition Law, published on the LBP AM [website](#) and the TFSA [website](#).



## 6 Prevention and management of actual or potential conflicts of interest

A document entitled "[Conflict of Interest Policy](#)" is available on the LBP AM website, which describes the system in place to identify, prevent and manage conflicts of interest that arise between, on the one hand, LBP AM/TFSA, persons under its authority or acting on its behalf or any other person directly or indirectly linked by a control relationship and, on the other hand, its clients, or between two clients, in connection with the provision of an investment service or related service or a combination of such services.

More details are provided below on voting activity at AGMs.

### Management of conflicts of interest in exercising voting rights

The potential conflict of interest associated with the exercise of voting rights arises from the potential pressure on LBP AM/TFSA not to vote in the interests of shareholders/unitholders as defined in the voting policy.

LBP AM/TFSA has identified two potential situations that could give rise to potential pressures:

- Companies with which LBP AM/TFSA, its shareholders or its employees have specific connections such as commercial and influential links (so-called "sensitive" companies)
- Companies in respect of which LBP AM/TFSA votes (whether or not they have sensitive links with LBP AM/TFSA) and which ask for our voting intentions before AGMs are held.

In order to prevent such potential conflicts of interest, LBP AM/TFSA has put in place the following system within the more general framework of LBP AM/TFSA's policy on managing conflicts of interest:

- Compliance with the guidelines and principles defined in this policy when exercising voting rights guarantees the independence of LBP AM/TFSA's decision-making process: in the event that LBP AM/TFSA decides not to vote in accordance with its policy, it systematically informs LBP AM/TFSA's Compliance and Internal Control Department (DCCI). The DCCI issues an opinion to the Management Board, which will resolve the matter.
- Voting intentions are not communicated to companies or their representatives until they have been inputted into and crystallised in an IT system. Voting intentions are not communicated to any person other than the company or its agent.

In view of its relationships with AEGON, CAISSE DES DEPOTS, CNP ASSURANCES, MALAKOFF-HUMANIS and OSTRUM ASSET MANAGEMENT, LBP AM/TFSA has decided not to:

- participate at the general meetings of AEGON and CNP ASSURANCES,
- vote on resolutions concerning the acceptance of appointments of officers of AEGON, CAISSE DES DEPOTS, CNP ASSURANCES, MALAKOFF-HUMANIS and OSTRUM ASSET MANAGEMENT and to the management bodies of companies other than AEGON, CAISSE DES DEPOTS, CNP ASSURANCES, MALAKOFF-HUMANIS and OSTRUM.

LBP AM/TFSA also abstains from voting on the potential appointments of officers of LA POSTE, LA BANQUE POSTALE and LBP AM/TFSA to the governing bodies of listed companies.

With a view to detecting potential conflicts of interest, the voting team must report any problematic cases and any exceptions to the voting policy to the DCCI.

When a conflict of interest is escalated to the Compliance and Internal Control Department, the latter reports it to the Management Board: together, they establish appropriate measures to manage and limit the risk of a conflict of interest to the stage of a potential conflict of interest.

## 7 Guidelines for LBP AM's commitment to gender diversity and workplace equality

Banque Postale Asset Management affirms its commitment to gender diversity and equality through its policy of promoting workplace equality.

The Human Resources Department collates and manages key gender-related metrics (salary gap, promotion, pay rises, board and committee representation, key positions, etc.) to ensure that progress is being made towards the goal of fair representation of women in the workforce and in key positions.

The commitments made by the business to workplace equality include:

- never discriminate when hiring,
- continue efforts to reduce the gender pay gap,
- fair recognition, promotion and training at all levels and functions in the organisation.
- support the leadership development of young female managers through coaching or mentoring.

In 2022, the workplace gender equality score is 88 points out of 100, putting LBP AM/TFSA above the national average (in a very male-dominated industry).

In respect of all forms of discrimination (age, ethnic origin, religious belief, gender, etc.), La Banque Postale Asset Management pays attention to ensuring consistency between its SRI practices in social matters and its in-house goal of diversity.

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