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INVESTMENT
POLICY
2020

**The world is changing.
We must act now; it's time to take a stand.
As a responsible and engaged investor, we
believe that these major changes offer
opportunities to re-imagine the future and to
use the act of saving as a means to benefit
everyone.
Invest in your future.**

IN TRO DUC TION



La Française Group's Sustainable Investment (SI) Policy details the Group's practices in terms of integration of environmental, social and governance (ESG) factors in its investment businesses.

The policy is structured into three chapters:

Investment
philosophy

Application
by asset class

Implementation
in the investment
processes



INVESTMENT PHILOSOPHY

La Française Group is convinced that only a sustainable investment can be a long-term profitable investment. Therefore, our purpose can be summarised as follow:

1. Vision: The world is going through a period of uncertainty marked by ecological, social and, more recently, health crises. This uncertainty renders the drivers of past performance partially obsolete;

2. Mission: To help establish the foundations for new benchmarks and generate new performance drivers that must have a positive impact on both profitability and their social and environmental effects;

3. Commitment: To implement our ability to innovate in order to create value and make savings a genuine act of commitment both individually, through the profitability of the investment, and collectively, through its social and environmental impact;

4. Message: To change the way we look at the world, altering our viewpoint to effect change.

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La Française Group **notes** that ESG factors influence the financial performance of investment assets both in terms of profitability and risk, and that this influence is growing. What was once merely an intuition is progressively being backed up by our work and by increasing numbers of academic studies. The antagonism between economic/financial performance and sustainability and social responsibility is no longer acceptable. Responsible behaviour and sustainable finance are becoming synonymous with flexibility, responsiveness, innovation and therefore performance and profitability. Indeed, the question is not why integrate ESG factors into the investment processes, but why not?

The Group is convinced in particular that **climate change** is a key issue that will shape our future in both economic and social terms, and that we urgently need to move towards a low-carbon economy. Thus, the climate has become a key factor in investment decisions. The risks and opportunities associated with climate change, be they the transition or physical risks, are likely to affect all activities in all sectors and regions as well as the financial performance of all asset classes. Not only is there no incompatibility between climate performance and financial performance; an increasing number of scientific studies show the emergence of a carbon factor which is influencing financial markets. Biodiversity, like other environmental issues, is influenced by the climate.

La Française Group has developed a **proprietary version of Sustainable Investment (SI)**. This approach, originally intended for equities, is now associated with all asset classes, including corporate lending and sovereign debt, but also real estate – an essential activity of La Française Group.

It combines financial, strategic and ESG factors in no pre-set order of precedence, and it takes account of their interactions and the different timescales involved. These interactions determine the formation and recurrence of the financial flows generated by the different assets. The systematic and shared analysis of all these elements enables the model to gain further insights and to evolve so that it benefits from

experience. It involves identifying and investing in responsible assets which have a high performance potential: i.e. those that currently meet these requirements and have the capacity to do so in future too, and those that have the potential to do so.

We actively foster progress, and the idea of transition is at the heart of our approach. Our research is in fact becoming increasingly able to anticipate changes which will affect assets, and we give it more weight than we would to a simple assessment of current measures. This is also why **the exclusion** of economic sectors (apart from very specific cases) does not seem to make sense to us insofar as the links and interconnections between excluded sectors and included sectors can be strong.

The necessary transition justifies the use of **strategic analysis** in order to anticipate changes in assets. Our responsible investment approach is designed to respond to this new environment by incorporating into financial and ESG analysis elements of strategic analysis, such as the capacity for innovation and adaptation. These capacities are in fact essential, and they provide us with a unique selling point because they provide a dynamic and forward-looking view of investments.

The group has invested in the development of **an internal ESG and climate risk research group based in London since 2014**. It is responsible for ESG methodologies and for calculations of ESG scores as well as impact measurements, and in particular for our work on the climate. It is involved in the joint determination of strategic factors together with the asset managers. Its expertise is disseminated throughout all of the Group's management centres. It works in collaboration with the responsible research centre which is incorporated into our real estate activities.

The Group is naturally involved in the various initiatives and alliances campaigning for responsible finance, such as the *PRI* or the *UNEP FI Investment Committee*.



APPLICATION BY ASSET CLASS

Whatever the asset class concerned, the transition which is at the heart of our approach leads us to favour the best-in-progress approach (or the best-in-class approach if the need to monitor an index requires it).

It can be combined with **exclusion** criteria when necessary. La Française Group systematically applies certain exclusions which are detailed in our exclusion policy. We apply the exclusion of non-compliant assets in the same way that assets without financial prospects (decreasing profitability and/or high climate risk) are also excluded.

RI originally focussed on equities. Within that asset class our approach consists of identifying and investing in sustainable companies with high performance potential: those that are considered as sustainable today and will continue to be so in the future and those companies that are on the fast track to becoming sustainable.

RI seeks to consistently generate higher risk-adjusted returns insofar as: It makes it possible to select the best performing companies in operational and financial terms, and the most resilient thanks to their human and organisational capital. It increases the probability of identifying inflection points that a traditional financial analysis might not reveal. It makes it possible to better identify the risks attached to the implementation of a company's strategy, by considering the ability of managers to take into account major economic, societal and environmental challenges;

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This approach is coupled with a policy of active engagement for La Française Group – acting alone or through collaborative initiatives – with the aim of increasing the consideration that is given to ESG factors within portfolios. This responsible shareholder practice is expressed through a **voting policy** and an **engagement policy** as well as annual reports that reflect our practices.

In 2017, La Française Group adopted a **responsible custom voting policy** which complements the *sustainability policy of Institutional Shareholder Services* whose online voting platform we use. Our custom policy supplements that policy with specific positions on environmental, social and governance issues. The sustainability policy is a responsible voting policy based on the principles set out in the Principles for Responsible Investment, to which La Française Group has been a signatory since 2010.

Sustainable Investment is the determining factor in relation to **all the securities** that are managed by La Française Group. The approach is translated directly from equities to **corporate bonds** irrespective of whether the companies are listed or not.

It has been adapted for **sovereign bonds** that are issued by States, government agencies or supranational bodies, while retaining the same philosophy.

Historically, La Française Group has been very active in the **real estate market**, and it has now shifted its focus towards sustainable real estate in line with its own responsible investment philosophy, which it has adapted to this asset class while retaining its general principles. Real estate comprises the physical structure of towns and cities, and it's the very essence of urban society. It can either be part of the problem or part of the solution. In order to generate a useful and sustainable level of performance, La Française has developed a roadmap that places social and environmental drivers at the heart of its strategy. The Group has explicitly chosen to focus on three key areas:

- 1. Reducing its greenhouse gas emissions** by promoting extensive use of renewable forms of energy and limiting its energy consumption in anticipation of the obligations that will be linked to the "Décret Tertiaire" (French energy conservation law relating to certain categories of tertiary sector buildings)
- 2. The re-greening of towns and cities** in order to offset through biodiversity and natural ecosystems the changes that are linked to the ever-increasing physical impact of human activities
- 3. Making towns and cities more inclusive** in line with the "Vivre Ensemble" ("Living Together") concept which is the only acceptable plan of action for a democratic society

While the Sustainable Investment Charter covers all asset classes, it applies specifically and strictly to a selection of investment products and mandates.



IMPLEMENTATION IN THE SUSTAINABLE INVESTMENT PROCESS

A multi-layer governance structure is in place to ensure robust oversight of our sustainable investment strategy. The Chairman of the Group and the Board of Directors are directly and closely involved in the responsible approach in terms of sustainable investment and the policies relating to the activities of La Française Group. A Head of Sustainable Investment, member of the Group Executive Committee, is responsible for the implementation and integration of responsible investment practices across all asset management teams. He chairs our dedicated Sustainable Investment COMEX, an executive-level committee which meets once a month and includes members of the Group's Executive Board. The committee is responsible for developing the group's responsible investment strategy, disseminating it across the business and sharing updates from different teams including research, investment, risk, reporting, communication. This COMEX enables and ensures direct involvement of the Executive Board. Additionally, he leads a secondary Sustainable Investment Committee which meets every two months with the aim of sharing information and best practices, and discussing issues affecting different business lines.

The committee has representation from support functions, such as compliance, human resources, marketing, communication, legal, etc. as well as partners and affiliates, and has helped to integrate sustainability into our everyday business and raise awareness across the group of the challenges this entails.

La Française Group publishes a transparency code for its equity funds, and one for its bond funds. It is involved in initiatives or investor alliances which promote the use of ESG factors. Moreover, it works within the financial community to increase the efficiency of their implementation.

An integral part of the investment process involves monitoring compliance with the standards of our approach to SI and compliance with the codes to which La Française Group has signed up. First- and second-level controls are in place for checking compliance.

Client and market information are also key elements of the process. La Française Group takes particular care to communicate its sustainable investment strategy, specifically via the annual report which is a requirement of the 2015 Loi sur la Transition Énergétique (Energy Transition Act) and via reports to its investor clients, as well as via its voting policy and voting report, a commitment policy and report, an exclusion policy, codes of transparency, and impact reports, all of which are available on its website www.la-francaise.com/en/.

IMPLEMENTATION

DISCLAIMER

The management companies of La Française Group which are in charge of the management of funds and are signatories of the Transparency Code have done their utmost to provide accurate, appropriate and up-to-date information in clear and understandable language, in particular so as to give investors and savers a better understanding of how ESG issues are taken into account within the funds' investment policies. They are solely responsible for providing this information.

The information contained in this document does not under any circumstances constitute an offer or invitation to invest, nor does it constitute investment advice or a recommendation concerning specific investments. The information, opinions and figures are considered to be well-founded and accurate on the date when they were drawn up, and they reflect the opinions of La Française Group. This information has no contractual value and is subject to change. Please note, past performance is no guarantee of future results and it is not constant over time.

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La Française Group
Public limited company with an Executive
Board and a Supervisory Board with a share
capital of €78,836,320
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