



VOTING POLICY

La Financière de l'Echiquier

January 2018



LA FINANCIERE DE L'ECHIQUIER

Signatory of:
 **PRI** Principles for Responsible Investment

Signatory of:
 **PRI Montréal PLEDGE**
Principles for Responsible Investment

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La Financière de l’Echiquier, a French fund management company specialising in equities, holds shares in listed companies through investments that it makes on behalf of third parties.

As a result, and in accordance with applicable regulations – article 314-100 of the “Autorité des Marchés Financiers (AMF) General Regulation – Financière de l’Echiquier, a portfolio management company authorised by the AMF under number GP 91004, hereby presents its “Voting Policy for Shareholders’ General Meetings”.

1. ORGANISATION OF THE EXERCISE OF VOTING RIGHTS

The management company has a team of buy side analysts and fund managers who prepare and analyse resolutions put forward by the management of listed companies in which the management company's funds are invested.

The final vote cast on the basis shown below is made by the fund manager(s) concerned for the stock covered by the shareholders' general meeting or by the analyst responsible for the stock and who has analysed the resolutions.

La Financière de l'Echiquier's Socially Responsible Investment (SRI) team provides input for the analysis of resolutions. For this, we favor an internal approach. Using the services of the provider ISS allows us to refine our resolution analyses and thus to support the fund management team in its voting activity.

From 2018, fund managers vote directly on the voting platform of ISS. The Collective Investment support team is in charge, as a last resort, to check that the votes have been well instructed and validated.

2. PRINCIPLES ESTABLISHING CASES IN WHICH THE MANAGEMENT COMPANY DOES NOT EXERCISE VOTING RIGHTS

Voting rights are exercised in respect of French, European and international equities. However, La Financière de l'Echiquier has laid down the following voting principles:

- The voting scope includes all La Financière de l'Echiquier's funds except for quantitative funds (Echiquier Smart Analytics Europe, Echiquier Global Allocation, Echiquier QME, Echiquier QME Global, Echiquier Prime, Echiquier Prime Patrimoine, Echiquier Global Opportunités...) and OBAFRICA funds (Africa Picking Fund especially). As at 31/12/2017, funds out of scope represent 3% of the total assets under management.
- Voting rights will always be exercised if the management company, through the funds that it manages, holds more than 1% of a company's capital or voting rights. Originally 2%, this threshold was lowered to 1% on 1 May 2012. This reflects La Financière de l'Echiquier's determination to constantly enhance its voting policy.

La Financière de l'Echiquier chose this threshold for two main reasons:

- It feels that below this level the management company does not hold a significant, influential share of the voting rights.
- And with regard to the practices of the listed companies that the management company has been able to observe, La Financière de l'Echiquier believes that this threshold is consistent with the one that many listed companies have officially adopted to have an in-depth knowledge of their shareholders.

From 2018, as part of our ESG integration reinforcement project, La Financière de l'Echiquier set as an objective to vote on all equities in the scope set previously. We are implementing our best efforts to reach this 100% objective.

In the specific case of SRI funds awarded the French government SRI Label¹, we vote systematically regardless of the percentage holding.

¹ French State SRI Label is awarded to Socially Responsible Investment funds whose management systematically takes environmental, social and governance (ESG) criteria into account. It reflects the impact of ESG analysis on portfolio composition. For more information please visit www.lelabelisr.fr.

3. PRINCIPLES OF THE VOTING POLICY

La Financière de l'Echiquier is an asset management company focusing on *stock picking*. This approach consists in implementing a rigorous stock selection process that includes face-to-face meetings with the companies in which the funds invest.

Each investment case is then subject to in-depth analysis using an in-house rating system. Buy and sell prices are then set for the stocks selected, on the basis of a medium-term valuation.

The cases selected have thus undergone a highly selective, quality-based process. This method, which involves setting a buy price and a sell price, identifies investments with strong upside potential.

La Financière de l'Echiquier's fund managers invest in listed securities only when they have every confidence in the companies' management teams and agree with the strategy they have adopted. The management company invests in companies that create shareholder value. So although there may be no obvious reason why it should oppose the management at a shareholders' general meeting, La Financière de l'Echiquier will carefully study all proposals, especially those that could harm the interests of the company or minority shareholders.

From the outset, La Financière de l'Echiquier has attached great importance to knowing and understanding the companies in which it invests. Small and medium-sized enterprises in particular often have to overcome different governance problems to large multinationals, where there is generally a separation between reference shareholder, operational leadership and risk management. We are adapting the principles of our voting policy, as described below, to the different situations encountered and are committed to exercising our voting rights intelligently. Analysing the governance of a company is also part of the investment process and is done by the analysts and fund managers.

▪ Organisation and functioning of governance

Governance structure

La Financière de l'Echiquier has no obvious preference for a one-tier (board of directors) or two-tier (executive board and supervisory board) structure. Changes are studied on a case-by-case basis if a company changes from one structure to another.

Separation of powers

La Financière de l'Echiquier favours the separation of executory and supervisory powers. Where the positions of chairman and chief executive officer are held by the same person, it is important that the board checks for the presence of sufficiently independent and effective checks and balances to ensure proper oversight of executive powers. The appointment of an independent lead director, whose duties should be clearly identified in the company's articles of association, could allow this position to be filled in a way that supports the Chairman and Chief Executive Officer in his work. Tasks could include the possibility of adding items to the agenda, convening meetings of the independent directors and carrying out an appraisal of the Chairman..

Size of the board of directors

La Financière de has noted that to be able to work in an efficient, optimal manner, a group often has 5 to 15 members. This size is also considered as an ideal size for the board of directors board as far as La Financière de l'Echiquier is concerned.

Composition of the board and appointment of directors

La Financière de l'Echiquier attaches great importance to the appointment of directors and renewal of their terms, analysing candidates' CVs closely. A good balance and mix of experience, skills and diversity (nationality, gender, age) on the board should make the supervisory body more effective.

So that shareholders can regularly approve the composition of the board, La Financière de l'Echiquier would like to be able to give an opinion on each member's reappointment in a separate resolution at least once every four years.

La Financière de l'Echiquier also takes into account directors' availability and attendance and expects any rates of attendance lower than 75% to be justified.

Beyond the attention paid to directors' skill sets and the complementary nature of their profiles, La Financière de l'Echiquier attaches great importance to the proportion of independent directors on the board being at least one third when there is a controlling interest in the company. In the case of a company where there is no controlling interest, La Financière de l'Echiquier expects to see a majority of independent directors on the board.

For many companies, establishing specialised committees may prove extremely useful. To tackle certain issues in an in-depth manner, these committees are responsible for the audit, appointments and remuneration processes, as well as strategy and social responsibility (CSR). La Financière de l'Echiquier pays particularly close attention to the presence of executive directors on audit and remuneration committees, and encourages audit committees to be made up of independent directors only.

Lastly, La Financière de l'Echiquier prefers that non-voting members do not sit on the board unless their presence is temporary (e.g. ahead of their election at the next shareholders' general meeting) and can be justified by the company.

▪ Rights of minority shareholders

Compliance with the « one share = one vote » principle

To respect the fundamental principle of shareholder democracy, La Financière de l'Echiquier wants voting rights to be proportionate to the economic interest held in a company, and for the companies in which it invests to amend their articles of association to maintain the principle of "one share = one vote". La Financière de l'Echiquier is not in favour of limiting voting rights or having more than one share class with different voting rights or having preference shares that carry higher voting rights than ordinary shares.

Protective measures when a takeover bid is made

La Financière de l'Echiquier opposes measures that could see a takeover bid fail unless they have first been authorised by the shareholders in a vote at a meeting held during the bid period. La Financière de l'Echiquier will therefore speak out against any anti-takeover measures such as share buybacks or stock warrants that would not be suspended pending shareholder approval in the event that a takeover bid is received.

Change of legal structure

A company's legal structure can have a considerable influence on the rights of minority shareholders. Out of principle, La Financière de l'Echiquier opposes the switch to a "société en commandite par actions" (general partnership limited by shares) in which minority shareholders delegate nearly all of their powers to a general partner.

Remuneration policy

The introduction of "say on pay" in France has led La Financière de l'Echiquier to place even more emphasis on transparency and the quality of the criteria and targets on which executives' pay is based. If executives' pay does not appear to tally with the company's long-term performance, La Financière de l'Echiquier will try to open discussions with the company before a shareholders' general meeting so that it can decide how to vote.

La Financière de l'Echiquier attaches particular importance to the clarity of remuneration plans, the transparency of and reasons for past awards, the relevance of performance targets and criteria, and respect for the main rules of governance as set out in national and regional governance codes

As part of its dialogue with issuers, La Financière de l'Echiquier will also encourage companies to run employee profit-sharing schemes.

- **Changes to the financial structure**

Capital increases with pre-emptive subscription rights

La Financière de l'Echiquier will vote in favour of capital increases with pre-emptive subscription rights as long as they do not account for more than 50% of the capital.

Capital increases without pre-emptive subscription rights

Out of principle, La Financière de l'Echiquier is not in favour of capital increases without pre-emptive subscription rights (and without a mandatory priority period) or private placements that have not been discussed with shareholders beforehand.

Share buybacks

La Financière de l'Echiquier will vote in favour of a plan to buy back up to 10% of the capital (15% in the United Kingdom, Ireland and in South Africa, countries in which it is commonly accepted to set up share buybacks up to 15% of the capital) if the company's treasury stock does not already exceed 10% (15% in the above-mentioned countries). However, as stipulated above, La Financière de l'Echiquier will continue to vote against any share buyback that could be made during a takeover bid period or if it could threaten the company's ability to continue as a going concern.

- **Other**

Approval of accounts

La Financière de l'Echiquier approves financial accounts when the auditors' report is included in the management report and no reservations have been issued.

Related-party transactions

It is important for the independent third party to be able to offer shareholders justification of transactions that could present conflicts of interests, clearly explaining the benefits to the company and the related financial conditions. Past agreements that remain valid must appear in the auditors' report and be approved by shareholders. La Financière de l'Echiquier could vote against the auditors' report on related-party transactions if there is a lack of information needed to judge the justification for the transactions presented or if some go against the interests of minority shareholders.

Appointment, rotation and remuneration of auditors

In line with European directive 2014/56/EU amending directive 2006/43/EC on statutory auditing of annual financial statements and consolidated accounts, as well as regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities, which entered into force in June 2014, the auditing company used must be changed at least once every 10 years or 24 years in case of co-statutory auditor.

La Financière de l'Echiquier would also like auditors to be primarily remunerated for auditing. If fees received for non-auditing services were to exceed 70% of the fees received for auditing or if the company does not publish the breakdown of these fees, Financière de l'Echiquier may vote against the approval of this remuneration. The 70% ratio excludes outstanding fees (IPOs, structuring acquisitions...).

Changes of the articles of association

Resolutions leading to changes in the articles of association are analysed on a case-by-case basis.

Shareholders' resolutions

Resolutions put on the agenda by shareholders other than the management are analysed on a case-by-case basis.

Accordingly, in specific cases of defending minority shareholders, who are indirectly the unitholders of La Financière de l'Echiquier's investment funds, the management company reserves the right to vote against such resolutions or to abstain.

4. ENVIRONMENTAL AND SOCIAL RESOLUTIONS

As a UN PRI (Principles for Responsible Investment) signatory, La Financière de l'Echiquier considers that exercising voting rights gives the opportunity to encourage companies to respect governance, environment and social best practices. Our voting orientations therefore spur the companies to take into account extra-financial considerations. Convinced that taking into account these environmental, social and governance criteria lead to better risk assessment, we have decided to integrate this approach to our voting policy for our entire voting scope. For resolutions related to by social and environmental aspects, particular attention will be payed to their analysis, this, in the interests of our unitholders and the fundamental ESG principles.

5. METHOD OF EXERCISING VOTING RIGHTS

La Financière de l'Echiquier prefers postal voting but, depending on circumstances, reserves the right to vote by attending shareholders' general meetings or authorising the Chairman of the company to vote on its behalf. Exceptionally, it may also appoint a proxy.

6. CONFLICTS OF INTERESTS

Generally speaking, La Financière de l'Echiquier organises and lays down strict rules for its managers, employees and directors to minimise and, if necessary, handle risks of conflicts of interests

Indeed:

- La Financière de l'Echiquier is a wholly independent asset management company, owned by its management and employees: it has no reliance on any multi-business financial institution that could be the source of conflicts of interests.
- The company's staff are all subject to strict rules of ethics on personal financial market transactions. Each year, staff declare securities accounts held with a third party in their name or over which they have power of attorney. They may invest only in UCITS and/or in the form of discretionary management mandates where La Financière de l'Echiquier invests the capital solely in UCITS. The Head of Compliance and Internal Control checks all investments afterwards.
- La Financière de l'Echiquier pays close attention to risks of conflicts of interests arising from any corporate offices held by the company's independent directors. These situations are subject to specific checks, carried out independently of operational teams, to handle any conflicts of interests that could stop voting rights from being exercised freely.

La Financière de l'Echiquier may update this document at any time. It is available on line (<http://int.lfde.com/en/the-company/responsible-investment/>) or on request from:

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