

# QUARTERLY SRI REPORT

## Echiquier Major SRI Growth Europe

31 December 2018



LA FINANCIERE DE L'ECHIQUIER



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SRI: Socially Responsible Investment  
ESG: Environmental, Social and Governance

## 1. OUR SRI APPROACH

Since 2008, La Financière de l'Echiquier has been a signatory to the Principles for Responsible Investment developed by the United Nations (UN PRI), a concrete expression of its commitment to responsible finance.

La Financière de l'Echiquier applies a conviction-driven stock-picking management approach based on an in-depth knowledge of the companies. We are convinced that analysis of Environmental, Social and Governance (ESG) criteria leads to better risk measurement and accordingly we integrate this approach in our analysis of all portfolio companies. This analysis seems to us all the more fundamental when dealing with growth stocks. We consider that growth stocks need to integrate these non-financial issues into their strategy to sustainably establish their competitive advantage and to embed their development. Accordingly, Echiquier Major SRI Growth Europe, which invests in major leading European stocks, fully integrates ESG criteria to its investment policy.

Echiquier Major SRI Growth Europe excludes any investment in companies deriving more than 10% of its sales from the following sectors: weapons, tobacco and production of fossil fuel. It also excludes, in line with the Ottawa (1997) and Oslo (2008) conventions, any direct investment in companies that manufacture, store or transfer cluster bombs and anti-personnel landmines (with no minimum level of sales). In addition, on a normative basis, companies guilty of violating one or more of the 10 United Nations Global Compact principles are also excluded from the fund.

### Our SRI commitment translates into practice as:

- Regular meetings with investee companies.
- ESG criteria included in the preparation of the investment case.
- Systematic exercise of voting rights for all the fund's investee companies.
- Ratings and reports from meetings recorded in our data base for follow-up.
- Risk measurement reflected by the ESG rating awarded to each company. Ratings are decided by the SRI team of La Financière de l'Echiquier. We do not use ratings from external non-financial rating agencies.
- Commitment of the whole Echiquier Major SRI Growth Europe portfolio management team, which plays an active part in SRI meetings and rating companies.
- Implementation of our progress process, in which we sit down with companies to identify realistic and measurable areas for improvement, which we follow up over time.
  
- **Coverage:** 31 December 2018 the coverage of the watchlist, i.e., the proportion of securities having an ESG rating, is **67%** by number of issuers and **87%** by market capitalisation.
- **Selectivity:** 31 December 2018, **31%** of Echiquier Major SRI Growth Europe's rated companies in the watchlist are excluded from its investible watchlist because of an ESG rating of less than **6.0/10** (rating required for the fund to invest) or are involved in the excluded sectors (see above). This percentage is calculated on number of issuers.
- For comparison and information purposes, 31 December 2018, **39%** of the rated companies in our data base have an ESG rating strictly below 6.0/10 which is the minimum rating to be eligible for Echiquier Major SRI Growth Europe.

La Financière de l'Echiquier has expertise in assessing the governance of companies in its portfolio and has applied a formal ESG analysis scorecard for years. Company reviews feed into an ESG rating out of 10, based on the following criteria:

- **Governance:** Quality of management team, CEO's credibility in the industry and managerial capacity, independence of directors, complementarity of functions, independence of committees, separation of

roles of Chairman and CEO, respect for minority shareholders, transparency and availability of financial communications and quality of risk management.

- **Environment:** Implementation of an environmental management system, compliance with current and future regulations, management by precisely defined and dated milestones, certification of sites, ecodesign and life-cycle analysis of products, results presented over the long term with a focus on new trends, policy on supplier management and product impacts.
- **Social:** policy for employee retention and career management, training policy, quality of employee dialogue, health and safety at work, monitoring of any restructuring, supplier monitoring, respect for human rights and product impacts.

On respect for human rights the SICAV has adopted the United Nations Global Compact as its benchmark, 2 of whose 10 principles directly relate to respect for human rights.

- **ESG controversies.** Since 2017, our ESG analysis methodology has included a controversy penalty when calculating ESG ratings, which can knock up to 2 points (granularity of 0.5) off the 10-point ESG rating. Formalising our treatment of controversy allows us to more directly sanction companies which, in our view, deserve to have their ESG rating reduced following one or more significant controversies. Previously, these controversies were reflected in the environmental, social or governance ratings based on the nature of the controversy in question.

Details of the review methodology and weightings of each criteria are given below.

Further details are available in our Transparency Code under “Documents to download”:  
<https://www.lfde.com/en/the-company/responsible-investment//>

OVERALL SRI SCORE	INDUSTRY	SERVICES
<b>GOVERNANCE SCORE</b>	<b>62.5%</b>	<b>62.5%</b>
Management team quality	50%	50%
Checks and balances	17%	17%
Respect of minority shareholders	16%	16%
Non-financial risk assessment	17%	17%
<b>OUR RESPONSIBILITY</b>	<b>37.5%</b>	<b>37.5%</b>
• <b>ENVIRONMENTAL SCORE</b>	<b>50%</b>	<b>34%</b>
Policies & actions	33%	33%
Results	33%	33%
Supply chain monitoring	17%	17%
Product environmental impact	17%	17%
• <b>SOCIAL SCORE</b>	<b>50%</b>	<b>66%</b>
Employee loyalty and development	34%	34%
Employee protection	33%	33%
Supply chain monitoring	11%	11%
Product social impact	11%	11%
Relations with civil society	11%	11%
<b>CONTROVERSY RATING</b>	<b>max. - 20%</b>	<b>max. - 20%</b>

Our analyses draw on multiple sources:

- **Systematic meetings with the management** of companies and follow-up meetings every two years
- **Reviewing the company's public documents** prior to each meeting (annual reports, sustainable development reports, etc.)
- **Consulting NGO or broker reports** on specific SRI subjects, as well as press articles
- **On-site visits and meetings with various field managers** (HR, quality, environmental managers, chief legal officer, etc.)
- **Membership of expert networks** to enhance our knowledge about specific issues (Gerson Lehrman Group and Third Bridge)
- **Our subscription to OFG Recherche on governance**, which provides us with additional insight about the quality of boards of directors of the French companies we invest in.
- **Our subscription to Capital IQ** to provide access, *inter alia*, to information about corporate governance
- **The environmental data platform of the Carbon Disclosure Project (CDP)**
- **The UN Global Compact database**
- **The subscription to Trucost's Eboard platform** for carbon footprint assessment
- **The subscription to the ESG research service of MSCI ESG Research** for the monitoring of controversies

Our voting policy:

La Financière de l'Echiquier publishes its voting policy and its annual report on its voting record at <https://www.lfde.com/en/the-company/responsible-investment//> Our voting policy was last updated in January 2018. Basically, La Financière de l'Echiquier votes systematically at AGMs for all companies invested by the Echiquier Major SRI Growth Europe fund. An internal procedure informs portfolio managers of all draft resolutions proposed to the general meetings of companies in their funds.

## 2. SRI MEETINGS DURING THE QUARTER

Meetings, site visits and ratings of watchlist companies during the quarter:

	In portfolio as of 31/12/2018	ESG score	Changes in rating
CAPGEMINI	X	7.8	↑
CHR. HANSEN	-	7.2	First rating
L'OREAL	X	8.0	=
LVMH	X	6.5	↓
NOVO NORDISK	X	7.1	↓
PRYSMIAN	X	7.7	↑
UNILEVER	X	7.1	↓

Source: La Financière de l'Echiquier, data as at

### 3. ECHIQUIER MAJOR SRI GROWTH EUROPE ESG PROFILE

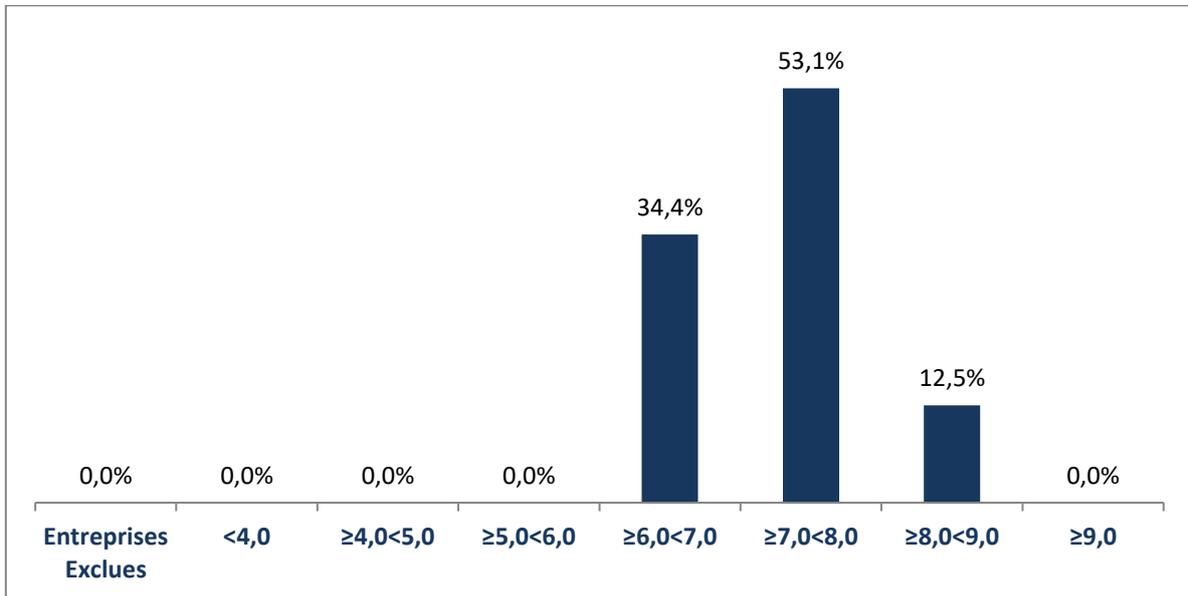
	Portfolio as of 31/12/2018
Number of stocks	32
Percentage of stocks with ESG ratings	100%

	Average rating As of 31/12/2018	Average rating As of 31/12/2017
<b>Governance</b>	<b>7.4/10</b>	<b>7.4/10</b>
including Management team skills	7.7/10	8.1/10
<b>Environment</b>	<b>7.0/10</b>	<b>7.0/10</b>
<b>Social</b>	<b>7.3/10</b>	<b>6.9/10</b>
<b>ESG score</b>	<b>7.3/10</b>	<b>7.2/10</b>
<b>Weighted ESG rating</b>	<b>7.2/10</b>	<b>7.2/10</b>

Source: La Financière de l'Echiquier

## 4. ECHIQUIER MAJOR SRI GROWTH EUROPE VS. ITS RATED WATCHLIST

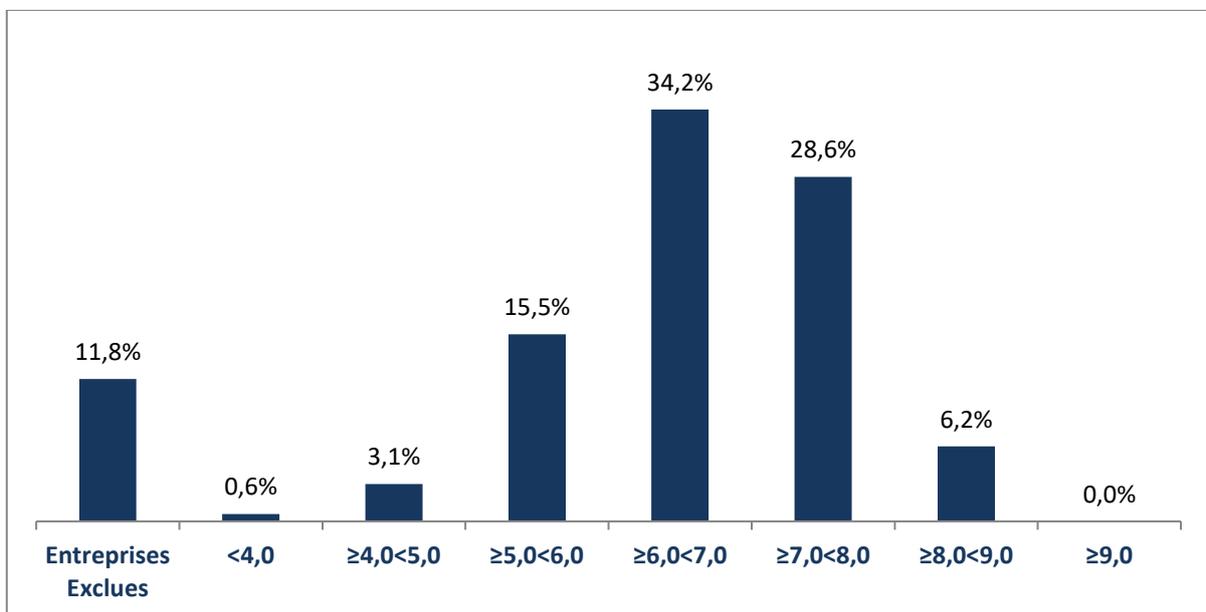
Breakdown of ESG ratings in the Echiquier Major SRI Growth Europe portfolio (% as number of issuers):



Source: La Financière de l'Echiquier, data

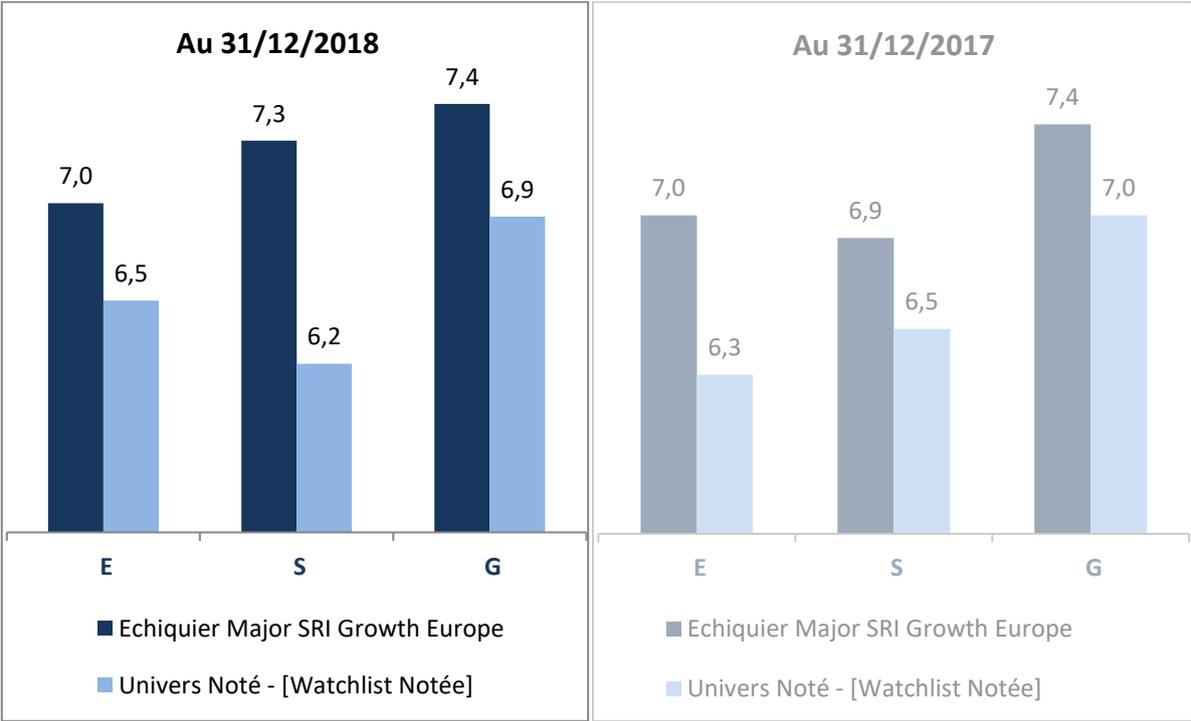
Breakdown of ESG ratings in the Echiquier Major SRI Growth Europe rated watchlist

(% as number of issuers):



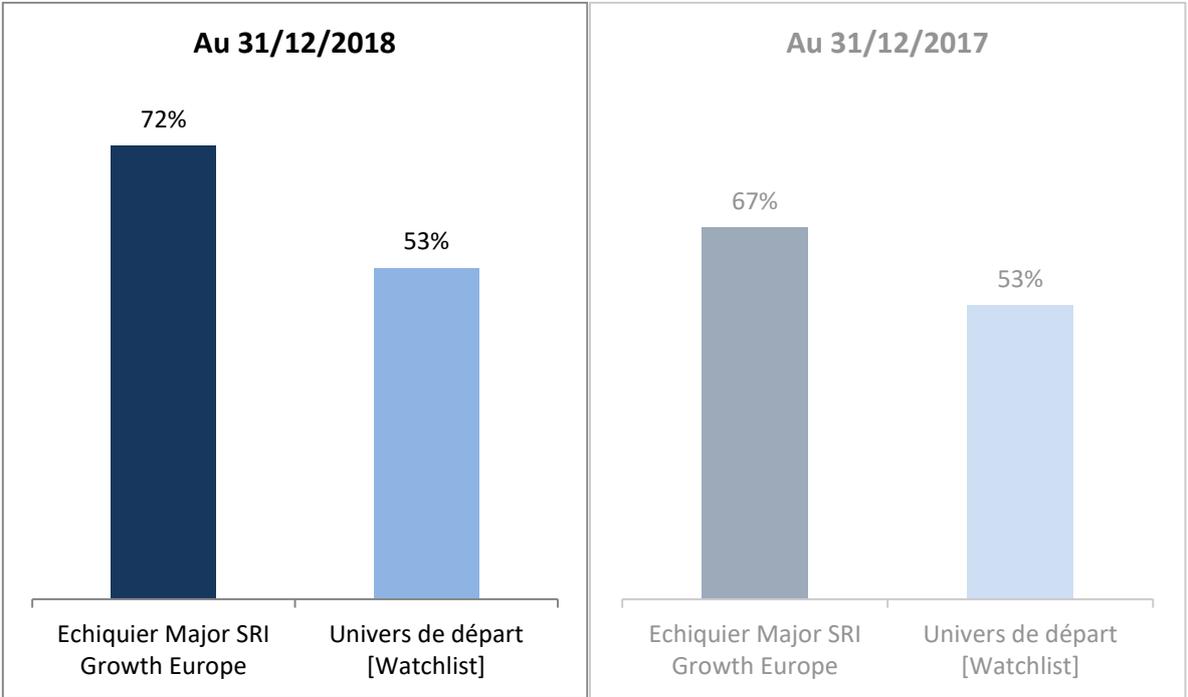
Source: La Financière de l'Echiquier, data

**Average Environmental, Social and Governance ratings of Echiquier Major SRI Growth Europe vs. rated watchlist:**



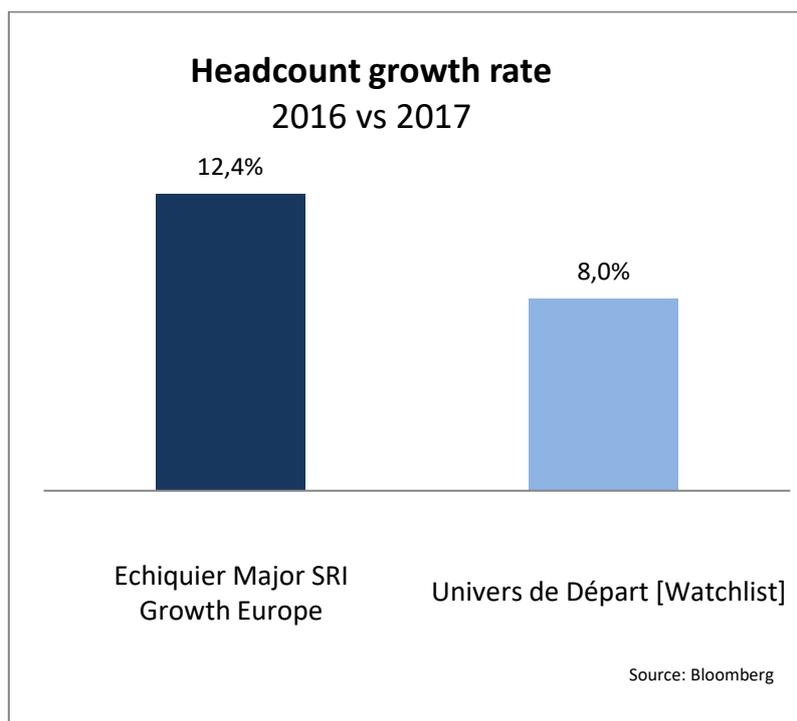
Source: La Financière de l'Echiquier

**Echiquier Major SRI Growth Europe vs. watchlist regarding respect for human rights, based on percentage of signatories to the UN Global Compact (% as number of issuers):**



Source: La Financière de l'Echiquier, UN Global Compact Participant Search

### Echiquier Major SRI Growth Europe vs. watchlist on growth of headcount:



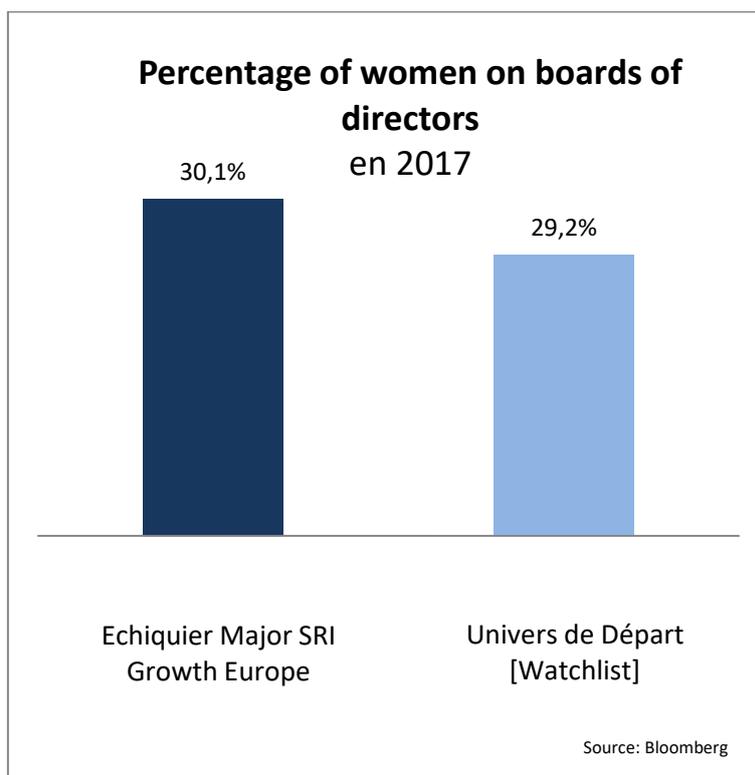
Between 2016 and 2017, companies in the portfolio of Echiquier Major SRI Growth Europe increased their number of employees by an average of **12.4%** vs. **8.0%** for the watchlist.

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#### Methodological rating:

- Data and Scope:
  - We measured the change in headcount of the last two financial years (2016 and 2017) using Bloomberg.
  - The only data used are those published by the companies and available on Bloomberg, updated at 31/12/2018. It covers all the companies' employees (including changes in scope: acquisitions, disposals, etc.).
  - In accordance with the label's guidelines, these indicators only apply to a single year (no comparison is possible on the change over the last three years) as this is the first time this indicator has been published by the fund.
- Calculation method: The method used to calculate the increase in employees is as follows:  
$$[(\text{Headcount year } N / \text{Headcount year } N-1) / \text{Headcount year } N-1]$$
- Coverage: In this indicator, Bloomberg covers **100%** of the Echiquier Major SRI Growth Europe portfolio and **97.1%** of the watchlist.
- We found no difficulty in measuring this impact.

Echiquier Major SRI Growth Europe vs. watchlist on women's representation on the Board:



In 2017, companies included in the Echiquier Major SRI Growth Europe portfolio had on average **30.1%** of women on their Boards and those of the watchlist **29.2%**.

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Methodological rating:

- Data and Scope:
  - We have measured the percentage of women on boards of directors or supervisory boards in 2017 using Bloomberg.
  - The only data used are those published by the companies and available on Bloomberg, updated at 31/12/2018.
  - The scope chosen is all members of boards of directors and supervisory boards, not including censors (non-voting directors).
  - In accordance with the label's guidelines, these indicators only apply to a single year (no comparison is possible on the change over the last three years) as this is the first time this indicator has been published by the fund.
- Calculation method: The calculation method used is as follows:  
(*Number of women on Board / Total number of Board members*)
- Coverage: In this indicator, Bloomberg covers **100%** of the Echiquier Major SRI Growth Europe portfolio and **94.6%** of the watchlist.
- We found no difficulty in measuring this impact.

## 5. VOTING RECORD FOR THE QUARTER

No AGMs related to securities in the portfolio were held during the quarter.

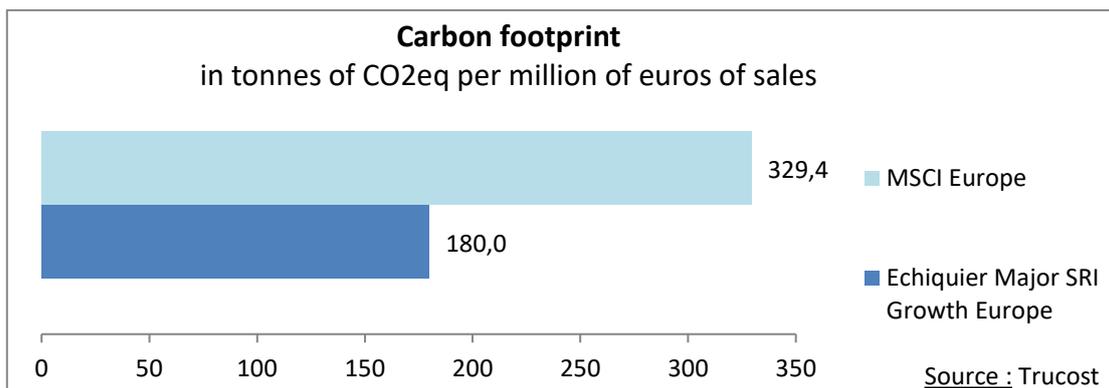
## 6. ECHIQUIER MAJOR SRI GROWTH EUROPE CARBON FOOTPRINTS

We use the Eboard application provided by Trucost to calculate carbon footprints. We commissioned this service provider due to the breadth of its analysis universe, which gives us high coverage ratios and boosts the accuracy of information obtained. The resulting coverage of Echiquier Major SRI Growth Europe's portfolio is **100%**.

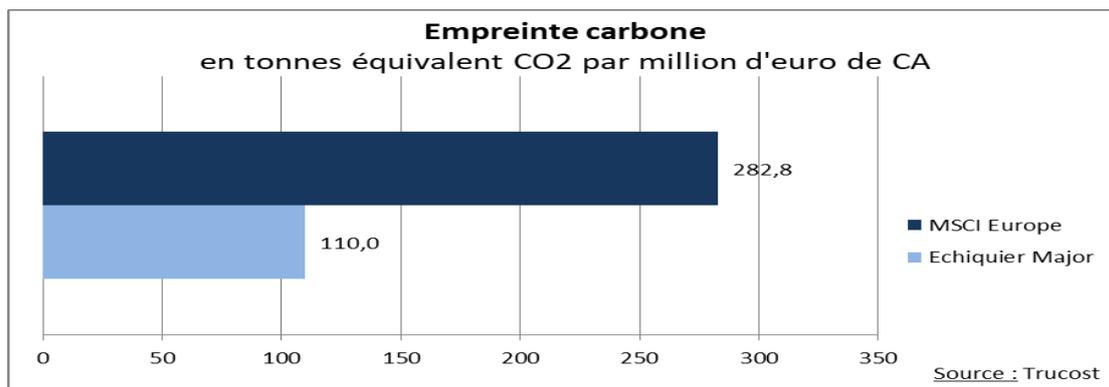
The carbon footprint quantifies greenhouse gas emissions “embedded” in the portfolios as tonnes of CO2 equivalent (tCO2eq). Comparing greenhouse gas emissions with each company's sales gives a carbon intensity measure, allowing for inter-company comparisons, irrespective of size. The methodology developed by Trucost takes account of direct (scope 1) and indirect (tier 1 suppliers) emissions. Direct emissions are those generated by the company's own activity (including fleets of company vehicles), its productive activities and the resulting waste. Indirect emissions (tier 1 suppliers) notably include emissions from electricity purchases, business travel, transport and logistics. The contribution of each position to the portfolio's overall carbon footprint is based on the percentage of capital held. The fund's carbon footprint is the sum of these individual contributions, standardised by the percentage of revenue held. We chose this indicator as it is a “mature” metric, commonly used to gauge transition risk (portfolios' exposure to the risk of a global rise in the price of CO2).

### (1) Carbon footprint in tonnes of CO2eq per million euros of sales:

The Echiquier Major SRI Growth Europe portfolio is **1.8 times less** carbon intensive than its benchmark index by the percentage of sales method.



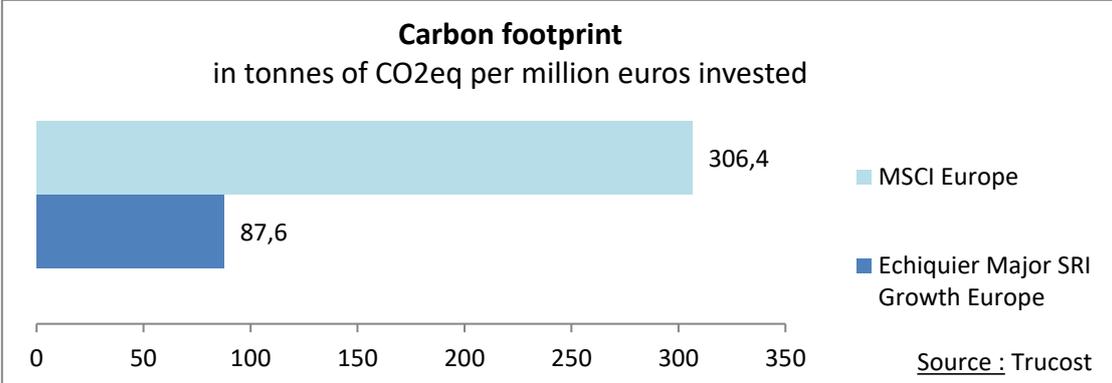
Data at 31/12/2018



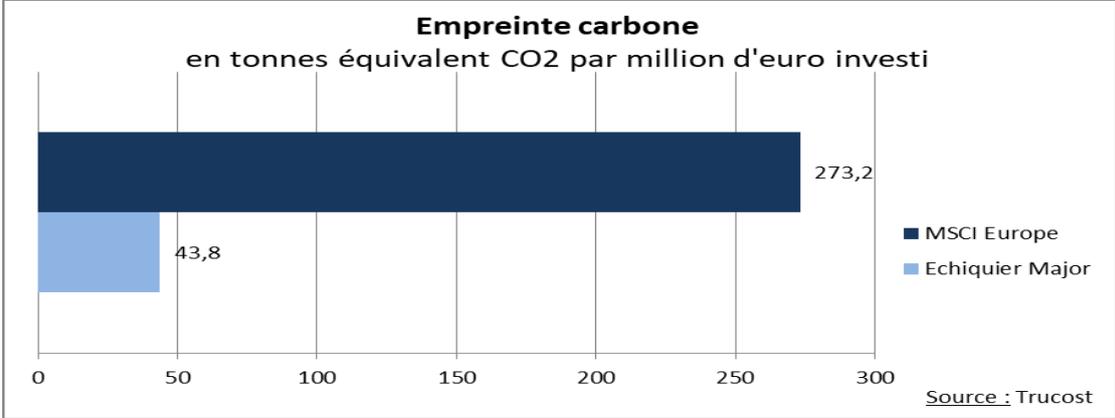
Data at 31/12/2017

(2) **Carbon footprint in tonnes of CO2eq per million euros invested:**

The Echiquier Major SRI Growth Europe fund is **3 times less** carbon intensive than its benchmark index when the footprint is measured by millions of euros invested in the Fund.



Data at 31/12/2018



Data at 31/12/2017

## 7. ESG FOCUS ON INVESTEE COMPANIES

# L'OREAL

Another meeting this quarter with L'Oréal, which, in recent years, has differentiated itself from its peers thanks largely to its management's long-term vision, as a result of a stable family shareholder structure. This has allowed the group to free itself from the zero-based budgeting in vogue across the sector and to outperform its rivals on growth. Nestlé's possible exit (holding currently 23% of shares) should not jeopardize the group or its governance. There have been several changes to the Executive Committee since our 2016 interview: departure of CFO and increasing importance of Nicolas Hieronimus' role. We considered it as a preparation for the succession to Jean-Paul Agon, whose term of office ends in 2022 when he turns 65. Nicolas Hieronimus is clearly lined up as heir. Environmental policy remains very sound despite high risks in the supply chain (palm oil, mica). The group's policy is to stay in countries at risk (India and Malaysia) and try to transform and regulate the interior ecosystem so as not to deny local populations an important source of regular income. The group is however very clear-eyed on the risk of its suppliers violating some of the rules in their code of conduct. The lack of communication on employee satisfactions slightly reduces the social score. The proliferation of applications providing greater transparency on the composition of products is another risk to L'Oréal. We like the development of a mass market organic range (Garnier Bio et La Provençale), an aspect we had queried in 2016.

# Capgemini

We met Capgemini for the second time and it had managed to improve its already excellent ESG ranking. The standout news this year is the successful preparation for succession to Paul Hermelin, current Chairman and CEO and a major factor in the group's success. Two deputy-CEOs were appointed, one of whom will be appointed as CEO by 2020. Each covers a complementary part of the business, which alleviates the competitiveness of their roles. Succession plans were also implemented at Board level with the appointment of a Vice-Chairman. Despite the appointment this quarter of an independent American female board member specialising in digital and marketing, the Board remains very "French" with few industry skills, but is overwhelmingly independent. In terms of HR, Capgemini scores highly. Its brand as an employer is well-recognised, the group has no difficulty in recruiting and invests heavily in its talent. We note however that turnover is above 20% and rising. This reflects recent tensions in the market and a record of offshoring to India, which now makes up more than 50% of its headcount. A healthier rate would be around 18%, as its competitor Accenture has identified. We will therefore be keeping a close eye on this indicator which has the potential to act as a drag on growth.

## 8. FUND CHARACTERISTICS

General characteristics	
Legal form	French law FCP
Investment management company	LA FINANCIERE DE L'ECHIQUIER
Benchmark index	MSCI Europe NR
Investment horizon	> 5 years
Subscription commissions	3% max (not retained by fund)
Redemption commission	-
NAV frequency & currency	Daily (euro)
Cut-off	12.00 midday
Delivery	+ 2 working days
Custodian & valuation agent	BPSS - SGSS

Units	Characteristics				
	ISIN Code	Distributable sums allocation	Denomination currency	Investors concerned	Minimal subscription amount
A Unit	FR0010321828	Net income: Accumulation Realized net gains: Accumulation	Euro	All investors	None
G Unit	FR0010581728	Net income: Accumulation Realized net gains: Accumulation	Euro	dedicated to marketing by financial intermediaries (1)	None
I Unit	FR0011188275	Net income: Accumulation Realized net gains: Accumulation	Euro	Intended essentially for institutional investors	Initial subscription: minimum 1,000,000 (2)
J unit	FR0013392404	Net income: Accumulation Realized net gains: Accumulation	Euro	Intended essentially for institutional investors	Initial subscription: minimum 1,000,000 (2)

- (1) Subscription of this unit class is limited to investors subscribing through intermediaries providing an independent advisory service or discretionary investment management (including the management company within the limits of the offer Echiquier Club Sélection) or distributors who :
- Are subject to national law forbidding any inducements to distributors (i.e the United Kingdom and the Netherlands)
- Or
- Provide investment services and activities as defined by the MiFID II directive:
  - And for which they are exclusively remunerated by their clients

- (2) With the exception of the management company, which may acquire a single unit on its own or on behalf of.

Fees charged to the investor, deducted upon subscription and redemption	Basis	Rate
Subscription fee not retained by the fund	Net asset value × number of units	Maximum 3%
Subscription fee retained by the fund	None	None
Redemption fee not retained by the fund	Net asset value × number of units	None
Redemption fee retained by the fund	None	None

Fees charged to the fund		Basis	Rate	
1	Financial management fees	Net assets	A units	Maximum 2,392% incl. taxes
			G units	Maximum 1,35% incl. taxes
	I units		Maximum 1 % incl. taxes	
	J units		Maximum 0,75% incl. taxes	
2	Maximum indirect fees (management fees and commissions)	Net assets	(*)	
3	Transaction commissions	Deducted on each transaction	Maximum 0,40% incl. taxes for equities	
4	Outperformance commission	Net assets	A, G and I units	None
			J units	15% on the difference positive between the fund performance (net of management fees) and the benchmark performance

(\*) The fund may invest up to 10% in fund units or shares whose maximum management fees are 2.392%. For further information please contact the management society.

Fund management contributions due according to article L. 621-5-3 d), 3°,II of the Financial and Monetary Code are charged to the fund.

When the Fund outperforms the benchmark, the variable share will represent a maximum of 15%, including taxes, of this difference. Variable management fees are paid annually at the close of financial year.

The reference period for the calculation of the outperformance commission is the financial year.

The performance is calculated through a comparison of the change in the Fund's assets with the change beyond that of the benchmark and of the assets of a reference fund showing the same variations in subscriptions and redemptions as the actual fund.

This document is not of a contractual nature. It cannot be passed on to third parties except with the prior consent of Financière de l'Echiquier. The information it contains are taken from the best sources we have and does not constitute investment advice. The above-mentioned stocks are given by way of example. Neither their presence in the managed portfolios nor their performance is guaranteed.

The fund is mostly invested in equities and/or bonds. It carries a risk of capital loss. Management is discretionary. There is a risk that the fund may not at all times be invested in the best-performing securities.

For further information on the fund, features, fees and risks please consult the prospectus, available at [www.lfde.com](http://www.lfde.com). Ongoing charges are updated annually and are available in the fund's KIID.



LA FINANCIERE DE L'ECHIQUIER

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S.A. WITH SHARE CAPITAL OF €10,000,000 - SIREN 352 045 454 PARIS TRADE REGISTER  
LICENSED INVESTMENT MANAGEMENT COMPANY ACCREDITED BY THE AMF WITH NO. 91 004