METROPOLE Gestion®
RESPONSIBLE VALUE INVESTMENT

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Climate issues central to general meetings

The recently completed period of annual general meetings was an opportunity for all shareholders of listed companies to exchange with management and to use their votes in order to exercise their influence on the governance of companies. For METROPOLE Gestion, the exercise of voting rights is at the heart of our ESG commitment policy. As a company committed to responsible management since 2008, the consideration and respect of ESG criteria by companies is of fundamental importance to us. More specifically, we encourage them to accelerate the transformations linked to climate issues, that have now become urgent.

Amongst the resolutions on which shareholders are asked to vote, that traditionally deal with governance issues, extra-financial issues and the environment in particular are now taking centre stage. We are therefore pleased to note that several companies that we sensitized during individual discussions on the inclusion of extra-financial criteria in the remuneration of their executives submitted resolutions on which their shareholders were asked to vote during this year's general meetings. This was notably the case for the German companies **Covestro** and **HeidelbergCement**. The German chemical company Covestro had previously not included extra-financial criteria in the remuneration of its executives. During its annual general meeting in April 2021, the company had the shareholders vote on a new remuneration policy that makes the long-term incentive plan for executives dependent on a reduction of the company's CO2 emissions. The cement group HeidelbergCement, during its general meeting in May 2021, also called for a vote on a new mechanism that makes the payment of the variable compensation of its executives conditional on attainment of the company's CO2 reduction targets. In the oil sector, which is particularly exposed to climate issues, we supported for the second consecutive year the resolution initiated by shareholders participating in the "Follow This" organisation at the **Royal Dutch Shell** general meeting to have the company set and publish CO2 emission reduction targets in line with the Paris Agreement on Scopes 1 to 3. Under pressure from shareholders and grassroots organisations, Royal Dutch Shell unveiled new short-term targets to lend credibility to and accelerate its trajectory towards carbon neutrality by 2050[1]. On its own initiative, the **TotalEnergies** group also submitted its action plan for attaining its carbon neutrality objective to a shareholder vote for the first time.

Despite this, the issues related to energy and environmental transition are still insufficiently represented in the resolutions on which shareholders are asked to vote. As such, our commitment to the climate is expressed through numerous initiatives. As a signatory of the Carbon Disclosure Project (CDP), METROPOLE Gestion has been associated with the "Non-Disclosure Campaign" since 2019. This collective engagement campaign targets companies that do not respond to information requests from the CDP, with the aim of improving the transparency of the information provided by companies with regard to climate change. In this regard, the CDP questionnaires follow the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These contributions of information to the CDP are essential for a comprehensive and consistent measurement of the impact of corporate activity on climate change, and for a better understanding of the efficiency of the mitigation measures undertaken by companies. We have also joined the CDP Science Based Targets (SBT) campaign, based on the same principle of involving investors in the efforts to call on the targeted companies to adopt scientifically validated objectives for reducing their CO2 emissions. This new campaign enables us to further encourage companies in a different way to decarbonize their operations and align with the 2°C trajectory of the Paris Climate Agreement. This year, several companies targeted by us responded favourably: Finland's **Metso** published the information requested under the Non-Disclosure Campaign, **BMW** and **Valeo** had their CO2 reduction targets validated by the SBTi. We also joined the Climate Action 100+ organisation in 2020 for a collective dialogue with HeidelbergCement. The cement sector is very exposed to the issue of CO2 emissions. As one of the world leaders in this industry, HeidelbergCement has a fundamental role to play in the decarbonization of the economy, both by reducing its own emissions and by setting new standards within its sector. As such, as a socially responsible investor, it is our responsibility to engage with the company so as to encourage it to continue its efforts, that are already bearing fruit. The company has just announced the construction in Sweden of the world's first zero-carbon cement plant using large-scale carbon capture technologies[2]. Finally, we also have a thematic commitment, which this year is dedicated to financing the energy transition. This is one of the main levers for supporting companies as they adopt better environmental practices. In this way, we are encouraging the banks in our portfolios to actively contribute to the objectives of the Paris Climate Agreement through dialogue. Banks have an essential role to play in the fight against climate change by means of the orientation of their loan portfolios, their financing activities and their investment solutions.

The health crisis confronting us all will be remembered for its unprecedented nature and the magnitude of its repercussions. This period also marks a turning point in the awareness of all stakeholders with regard to the environmental challenges facing our development models. Indeed, although it is not attributable to global warming, the nature of this crisis has highlighted the need to accelerate the transformation efforts around climate issues already initiated in recent years. However, as attested by the many strategic announcements, companies are seizing on these issues and accelerating their transformation efforts in order to overcome the crisis and even emerge stronger. The coming years will bring to light the companies that have been able to convert these changes into opportunities. As such, as a Responsible Value investor, we intend to continue our commitment in all of its forms with issuers so as to encourage them to adopt best practices and to accompany them in this transition, which sometimes represents a true strategic revolution.

1) Source : Royal Dutch Shell, 11 February 2021 press release
2) Source : HeidelbergCement, 2 June 2021 press release

SRI certification extended to the entire METROPOLE Gestion Responsible Value range

METROPOLE Sélection - METROPOLE Avenir Europe - METROPOLE Euro SRI

A COMPREHENSIVE AND INTEGRATED MANAGEMENT PROCESS

RESPONSIBLE VALUE INVESTING

Pre-selection
Evaluation
Catalysts
Managing positions

Pre-selection

Reduction of the investment universe in line with 3 successive criteria:

- Elimination of companies falling within the scope of our exclusion policy.
- Elimination of companies with the lowest ratings under the Best-in-Class/Best Efforts ESG rating produced using our proprietary methodology or which have been the subject of a major controversy.
- Selection of securities that are discounted vis-à-vis their industrial value by using for each sector the same valuation criteria as used for the sector's companies recorded in our proprietary database of past transactions.

Evaluation

Calculation of industrial value, analysis of the balance sheet strength, consideration of extra-financial controversies followed by meeting with management.

- A 360° analysis of the company taking into account three aspects: extra-financial analysis, financial analysis, balance sheet analysis.
- Meeting with management regarding these 3 aspects.
- Choosing an appropriate valuation ratio for each type of business.
- Evaluation of ESG risks and opportunities.

Identification of catalysts

Anticipation of changes in market status for the security selected , likely to reduce any undervaluation relative to their industrial value.

- Identifying financial or extra-financial catalysts, new controversies or changes in extra-financial ratings

Entry

Entry based on a collegial decision and weighting of each security according to its discount and catalysts.

- Portfolio with stocks discounted against their industrial value, with strong balance sheet and ESG qualities.
- Concentrated portfolios with 30 to 40 stocks.

Exit

Strict sell discipline.

- When the valuation target is reached.
- When identified catalysts do not materialise.
- In the event of a sharp downgrade in extra-financial ratings.
- In the event of significant controversy.

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For additional information, please contact either the financial services provider (contact information provided above) or METROPOLE Gestion, at the following address: metropoleg@metropolegestion.fr.

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