



CSR Policy

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METROPOLE Gestion

**July 2019**

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## **1. Introduction: what is CSR and what are its goals?**

### **1.1 Definition**

According to the ISO 26000 standard, Corporate Social Responsibility is defined as the company's responsibility for the impact of its decisions and activities on society and the environment, resulting in transparent and ethical behaviour that:

- contributes to sustainable development, including health and well-being in society
- takes stakeholder expectations into account
- complies with the law and is compatible with international standards
- is incorporated throughout the organization and implemented in its business relations.

In order to set the limits of the scope of the CSR policy, identify the relevant areas of action and set priorities, the company has for example to cover the following topics (non-exhaustive list): the governance of the organization, respect for human rights, relations and work conditions, environment, fair practices, diversity, and equal opportunities in recruitment, relations with providers and suppliers, etc.

For an asset management company, these issues have to be addressed with regard to both the company itself and the companies in which it invests.

### **1.2 Objective of our CSR policy**

The METROPOLE Gestion CSR policy aims to address the various aspects of sustainable development, which creates value and is useful to society in the long term.

It presents the measures adopted at company level as well as our Responsible Value investment policy, which encourages companies and issuers of securities in our portfolio to make improvements over time on the three main extra-financial themes: Environment / Social / Governance (ESG).

In fact, as a company committed to Responsible Value management and a pioneer of ESG since 2008, METROPOLE Gestion attaches great importance to consideration of and compliance with ESG criteria by issuers and companies. We are convinced that the levers for sustainable development lie first and foremost in our day-to-day role as investors.

## 2. Our sustainable development goals

METROPOLE Gestion endorses and supports the 17 United Nations Sustainable Development Goals:



**As a private actor and entrepreneurial company, we have interpreted these goals at the level of our organization by focusing on the themes we can act on or make an effective contribution to on a daily basis:**

- 3. Good health and well-being at work
- 5. Gender equality
- 7. Affordable and clean energy
- 8. Decent work and economic growth
- 10. Reduced inequalities
- 12. Responsible consumption and production
- 13. Measures to combat climate change

**In our business as an investor, all the United Nations Sustainable Development Goals have been incorporated into our ESG framework, which has 150 indicators** *(please refer to Chapter 6 for more details about the architecture and methodological basis of the reference framework).*

### 3. METROPOLE Gestion: sustainable development on a daily basis

METROPOLE Gestion includes environmental, social and governance issues at **all levels of its organization on a daily basis**.

#### 3.1 Encouragement to respect the environment

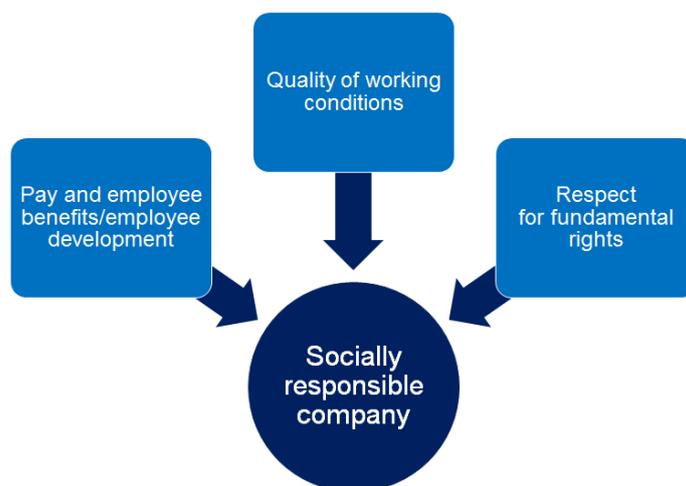
The implementation of best practices within the company to protect the environment has resulted in:

- **Energy and paper savings** (30% decrease in paper consumption since 2008, progressive introduction of electronic versions of meeting media internally and externally).
- **Systematic recycling** (paper, plastic, ink cartridges, batteries, coffee capsules, etc.).
- **Inclusion of social and environmental criteria in supplier specifications** (use of PEFC certified paper, electricity fully offset in production from renewable resources, etc.)
- **Compensation of CO<sub>2</sub> emissions related to travel**. The agency in charge of booking air tickets is instructed to pay or make a donation to offset travel-related emissions whenever this option is offered by the airlines. This offset donation finances sustainable development projects. A review of the actions and our contribution is carried out annually with the agency.

Furthermore, in 2018, METROPOLE Gestion conducted its first carbon assessment, in order to identify areas for improvement, and reduce both its CO<sub>2</sub> emissions and its impact on the environment and the climate.

#### 3.2 Social indicators

METROPOLE Gestion has an HR dashboard that includes social indicators, which are closely monitored by the General Management and Human Resources. It is based on 3 pillars:



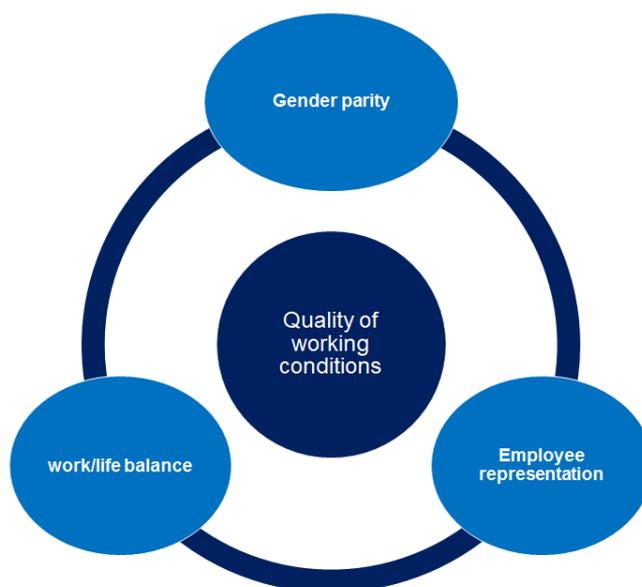
These indicators focus on:

- **The quality of work conditions:** comfort and ergonomics in the working environment, work / life balance, monitoring key HR indicators (turnover rate, number of workplace accidents, sickness absenteeism, job creation).

- **Compensation and benefits, as well as employee development:** profit-sharing agreements, employee share ownership plan, social protection with high-quality healthcare cost cover, contribution to funding training, social and cultural works through the works council.
- **Responsible employment:** the General Management and Human Resources attach particular importance to respecting 2 fundamental principles during the recruitment process: equal opportunities (equivalent level of skills and experience) and non-discrimination. Whatever the department and the position concerned, the recruitment process includes at least one interview with the systematic presence of the Human Resources Manager and a validation interview with the presence of at least two members of the General Management, which guarantees these 2 principles are respected. In addition, METROPOLE Gestion is committed to creating sustainable jobs and gives priority to recruiting for permanent positions (in 2017, 15 new people were hired, 13 of whom were on permanent contracts).

### 3.3 Respect for human rights

METROPOLE Gestion attaches particular importance to and constantly monitors respect for human rights.



In concrete terms, the measures adopted by the company relate to:

- **Respect for gender equality** (50% of managers are women).
- **The establishment of a works council**, although the company has fewer than 50 employees.
- Establishment of a **charter for all employees governing the right to disconnect and work / life balance**.

As a representative of the General Management, Human Resources ensures human rights within the company are respected on a daily basis.

### **3.4 METROPOLE Gestion societal actor: a citizen in its own right**

The company has been sensitive to its role as a societal actor since it was first set up. Hence at a very early stage METROPOLE Gestion undertook the following actions:

- **Support for the "METROPOLE Solidarité" association** set up in 2005 to finance actions in the fields of culture, the dissemination of knowledge and economic knowledge, and youth.
- **Cultural patronage:** METROPOLE Gestion is currently a patron of the Musée du Louvre and Réunion des Musées Nationaux-Grand Palais endowment fund. It has also been a patron of the Musée des Confluences in Lyon and the Musée du Quai Branly.
- **Founding member of and funding for the "Value and CSR" research chair** at Université Clermont Auvergne: academic collaboration with Université Clermont Auvergne provides a long-term answer to the issue of the societal responsibility of business and value creation. In 2012, it was reinforced by the launch of the "Value and Corporate Social Responsibility" research chair, of which METROPOLE Gestion is a founding partner alongside Michelin, Caisse d'Épargne d'Auvergne and Limousin, and Maif. The main goal is to link market value and socially responsible corporate behaviour.

## **4. METROPOLE Gestion: an ESG actor since 2008**

METROPOLE Gestion has been initiating ESG actions for over 10 years.

### **4.1 Consideration of ESG criteria in the extra-financial analysis of companies**

In 2008, METROPOLE Gestion was already taking ESG criteria into consideration in the extra-financial analysis of companies and subscribed to MSCI's social and environmental rating services (formerly Innovest).

Since subscribing to external rating services does not offer a sufficient source of data, in partnership with the Université Clermont Auvergne, METROPOLE Gestion has developed its own extra-financial rating framework, thereby confirming its desire to be independent of the major ESG rating agencies.

### **4.2 Launch of the METROPOLE Value SRI fund in 2008**

In addition, in 2008 METROPOLE Gestion launched the METROPOLE Value SRI fund (on 09/07/2008), thereby becoming one of the first independent asset management companies to launch an SRI fund in France.

This fund, holding the SRI Label, takes ESG criteria into account in the investment policy and is managed exclusively on the basis of our SRI methodology.

### **4.3 METROPOLE Gestion: signatory to the UNPRI in 2009**

In 2009, METROPOLE Gestion became a signatory to the UNPRI, which concretely translates as an undertaking to apply the following principles:

1. We will consider ESG issues in investment analysis and decision-making processes.
2. We will be active investors and will consider ESG issues in our shareholder policies and practices.
3. We will ask the entities in which we invest to publish appropriate information on ESG issues.
4. We will promote acceptance and application of the Principles among asset management stakeholders.
5. We will work together to increase our effectiveness in applying the Principles.
6. We will report individually on our activities and our progress in implementing the Principles.

In order to ensure the proper application of these principles, METROPOLE Gestion occasionally produces questionnaires and evaluation reports via the UNPRI platform.

#### **4.4 Other global initiatives**

In 2018, METROPOLE Gestion reinforced its commitment towards responsible investment by becoming signatory to the CDP and to the Montréal Pledge.

### **5. Engagement policy**

METROPOLE Gestion has put an engagement policy in place to encourage companies to improve on ESG issues.

Our engagement is carried out:

- **By exercising the voting rights** attached to securities held in the portfolio as part of a voting policy published on our website.
- **By direct dialogue with issuers** as a means of identifying ESG risks and changing the strategy of the companies analysed.

#### **5.1 The form of our engagement**

METROPOLE Gestion works with the companies in which it invests when it identifies ESG risks or opportunities for improvement.

In concrete terms, this engagement can take three forms: individual engagement, thematic engagement and / or collective engagement.

**Individual engagement** covers the actions carried out directly by METROPOLE Gestion through dialogue with companies and exercising voting rights on ESG resolutions.

**Thematic engagement** is the result of reflection, carried out and reviewed each year internally, on very specific topics (for example reducing carbon emissions, water consumption, waste recycling, etc.).

**Collective engagement** is realized collectively / together through groups or associations of investors, in order to increase influence on companies. METROPOLE Gestion reserves the right to participate in collective actions concerning ESG matters whenever it deems it necessary in the interest of investors and stakeholders. METROPOLE Gestion, which has been a signatory to the UNPRI since 2009, may also support the engagement initiatives proposed by investors via the UNPRI Clearing House platform.

## 5.2 Implementation

**METROPOLE Gestion implements its engagement by exercising voting rights on ESG matters in accordance with its voting policy.**

METROPOLE Gestion has set up an organization that coordinates all the information needed to exercise the voting rights attached to the securities held by the portfolios for which it exercises voting rights.

As a matter of principle, METROPOLE Gestion favourably addresses any resolutions relating to ESG issues that are put to the vote.

Whenever it deems it necessary, METROPOLE Gestion reserves the right to ask questions of companies, reject resolutions or support external resolutions.

We also conduct engagement actions prior to shareholder meetings in order to address or even influence the content of resolutions to be put on the agenda to ensure it is in line with the interests of minority shareholders and is in accordance with our governance principles.

During its weekly management committee meetings, METROPOLE Gestion discusses issues relating to exercising voting rights and in particular considers ESG topics. In this context, in the event of significant controversy, proven ESG risk, absence or insufficient significant improvement within the company being examined, the management team may decide to reduce or liquidate its position.

**METROPOLE Gestion implements its engagement through dialogue with companies during interviews with CSR and company managers.**

As part of its management process, METROPOLE Gestion conducts more than 460 company visits a year. Companies held in portfolios are seen on average 3 to 4 times a year. ESG discussions are held at least once a year.

Dialogue provides a good understanding of ESG issues at the company level, and the opportunity to look in greater detail at the identified risks, pinpoint unidentified risks during the rating process and develop the company's strategy.

As part of this dialogue, METROPOLE Gestion encourages companies to be transparent about ESG issues, for example by publishing their ESG strategy, policies and results.

For further details, our engagement policy and engagement report are accessible via our website.

## 6. Our ESG analysis procedure

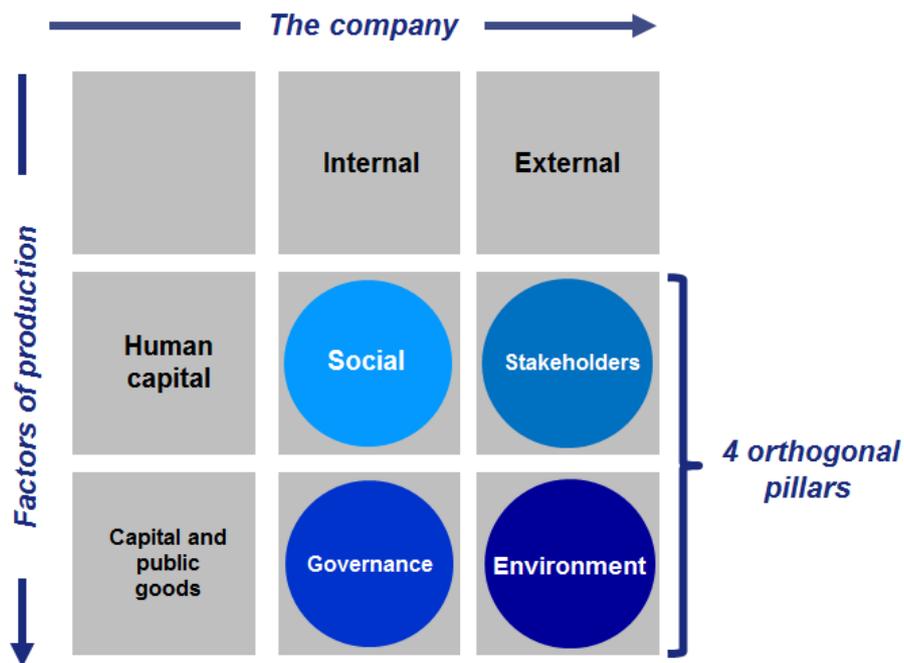
The funds METROPOLE Gestion manages are subject to a 360 degree corporate analysis procedure that considers three aspects: extra-financial analysis, financial analysis, and balance-sheet analysis.

Our analysis procedure is based on a multi-sector, Best-in-class / Best effort approach that encourages companies to improve on the three major non-financial ESG themes.

It is based on a solid methodological foundation built in the framework of our academic collaboration with Université Clermont Auvergne.

### 6.1 The reference framework

The reference framework provides the architecture for the rating system. It is organized into 4 orthogonal pillars:



The grid is based on two axes: Internal - External / Human Capital – Capital and public goods that define four pillars:

These 4 pillars are equally weighted. They are then broken down into sub-pillars that are exhaustively analysed:

**Environment: measuring the impact of the company's activities on the ecosystem.**

- Impact of the production process on emissions
- Impact of the production process on resource consumption
- Impact of products

**Social: measuring the impact of the company's activities on its human resources.**

- Human rights
- Quality of working conditions (hardship, health and safety at work, etc.)
- Employee development and precariousness (compensation, training and advancement, etc.)

**Governance: measuring the quality of relations between management, shareholders and board of directors.**

- Shareholder protection, CSR approach
- Effectiveness of the board of directors
- Effectiveness of the executive

**Stakeholders: measuring the quality of relations with contractual and external stakeholders**

- Customers
- Suppliers
- Government and public authorities
- Civil society

**6.2 Quantitative Analysis: measurements and data aggregation**

We use the Eikon database (Refinitiv, formerly Thomson Reuters), one of the largest extra-financial databases (5,000 companies worldwide) with stable data over time, which combines official corporate data (annual reports, sustainable development reports) and controversies originating from news agencies.

On the basis of this data, we build 150 indicators that measure each element in the reference framework, giving priority to the results in comparison with the resources employed (weighting 75% - 25%).

Our method for analysing ESG criteria aims to select European companies that are above the average for companies in their sector ("Best-in-class" approach) or that have a high expectations of developing on these issues ("Best effort" approach).

The "Best-in-class" rating scale ranges from AAA + CCC-, while the "Best Effort" rating scale ranges from 5 to 1 stars.

**6.2.1 Construction of Best-in-class ratings:**

The measurements provided by the Eikon database are aggregated in accordance with our reference framework.

The results obtained for each indicator are used to establish a ranking for the company in its sector and are standardized to determine a score of 0 to 100%.

These scores are then aggregated to give a score to each of the equally weighted environment, social, governance and stakeholder pillars.

The results obtained for each pillar are again aggregated and normalized to establish overall scores of 0 to 100%.

These overall scores are divided into several groups rated AAA + to CCC-.

### **6.2.2 Construction of Best Effort ratings:**

An issuer's overall rating is associated with a Best Effort rating. This is calculated on the basis of the change in the overall score over the previous 3 years, with progressive coefficients (the last year has a coefficient of 3). Companies in each sector are ranked and divided into 5 groups ranging from 1 to 5 stars (5 being the highest Best Effort rating).

### **6.2.3 Revision of ratings:**

Our research process has been designed to be stable over time. Ratings are revised annually.

## **6.3 Qualitative analysis**

The quantitative rating is verified and completed by the qualitative analysis. It is based on the following elements:

- **Consideration of current controversies**

All the controversies relating to stocks held in the portfolio are fed back and monitored weekly.

On new companies studied, controversies are analysed over the last three years in addition to the quantitative score.

- **Analysis of specific sector risks**

We also pay close attention to identifying specific ESG risks. We include these risks in our analysis for all companies in the same sector.

- **Dialogue with the companies**

The dialogue with companies is through interviews with CSR managers and company managers (at least once a year for portfolio companies), which provide the opportunity to look in greater detail at the identified risks, pinpoint unidentified risks during the rating process and develop the company's strategy.

## **7. Responsible Value investment policy**

METROPOLE Gestion adopts a Socially Responsible Investment (SRI) approach for the management of the METROPOLE Euro SRI fund.

Our SRI approach is in line with our value management process: breaking free of short-termism to generate outperformance.

### **7.1 A comprehensive integrated management process**

**Our Responsible Value management process** is a comprehensive integrated process.

The management process can be portrayed as follows:

### Pre-selection

Selection of undervalued stocks compared to their industrial value within a stock picking framework

- Filter of the European universe using for each business type the same valuation metrics as corporations do in their relevant sector. These metrics are referenced in our proprietary database of past mergers and acquisitions transactions.
- Filter of the resulting universe according to our proprietary Best-in-class / Best effort ESG rating taking into account our exclusion policy.

### Valuation

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.

### 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.

For the METROPOLE Euro SRI sub-fund, additional selectivity constraints are in place with regard to ESG:

- Companies rated above or equal to BBB- (Investment grade) may be selected with no Best effort condition
- Companies rated below or equal to BB+ may be selected subject to a minimum +++ Best effort rating
- Companies rated in the CCC bucket are ruled out
- The portfolio's overall ESG rating must be higher than the reference universe's overall ESG rating, minus 20% of the lowest rated securities.

## 7.2 Exclusion policy

METROPOLE Gestion endorses and supports all of the United Nations Sustainable Development Goals.

METROPOLE Gestion takes into account all of the United Nations Sustainable Development Goals in its investment activities. Some of these goals are directly reflected in our sector exclusion policy.

This sector exclusion policy, which is inseparable from METROPOLE Gestion's ESG commitments, focuses on the principles of respect for people and the environment. It aims to exclude the following sectors from the managed portfolios investment universe:

1. **controversial weapons;**
2. **coal production and consumption;**
3. **tobacco production;** and
4. **pornography.**

Therefore METROPOLE Gestion excludes any companies directly or indirectly linked to the financing of controversial weapons, as provided for by international conventions (namely Oslo and Ottawa). Are also excluded mining companies that generate more than 30% of their revenue through coal production, energy-producing companies more than 30% of whose production comes from coal, companies linked to tobacco production and companies linked to pornography.

The lists of companies concerned are defined by the Portfolio management team, and the Compliance and Permanent Control department ensures compliance with these exclusions. The exclusions are valid for all asset classes (equities, bonds and derivatives-related exposures).

The exclusion of controversial weapons applies to all portfolios (open-end funds, management delegations and mandates) and the other sector exclusions apply to the METROPOLE Funds SICAV.

Our exclusion policy is available on our website.

## **8. Transparency for investors**

We attach particular importance to presenting the results of our CSR approach and all our ESG actions to investors.

Throughout the year, we provide investors with the following documents, available on request and / or freely accessible via our website.

### **8.1 Regulatory documents**

The regulatory documents below are available directly on our website:

- KIID and fund prospectuses
- Articles of Association of the funds
- Fund monthly reports (including carbon footprint of funds).
- Half and full year reports
- Voting policy
- Annual report on exercising voting rights

### **8.2 ESG / SRI documents**

The documents and reports below give information about our SRI approach:

- SRI newsletter (3 times a year)
- AFG / FIR / EUROSIF transparency code which METROPOLE Gestion has been a member of since 2010
- CSR policy
- Engagement policy
- Engagement report
- Exclusion policy
- Policy for considering ESG criteria in the risk management and control policy