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# ANNUAL ESG\* ENGAGEMENT REPORT FOR EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT (C) / (D)

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31 December 2015

EURO EQUITY FUND – HIGH-YIELDING STOCKS  
SRI DIALOGUE / ENGAGEMENT APPROACH

MORNINGSTAR



\*Environment-Social-Governance

PEA eligible: tax treatment depends on the individual situation of each client and may change over time.

Rating as of 31/12/2015 within the French Large Cap Equity category: any reference to this fund's ranking is no guide to future returns for the fund and/or portfolio manager.

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## NOTE ON THE SRI ENGAGEMENT PROCESS APPLIED TO EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT

### ▶ WHAT IS SOCIALLY RESPONSIBLE INVESTMENT (SRI)?

- Socially Responsible Investment (SRI) encompasses all investment approaches that take into account Environmental, Social and Governance criteria (ESG) in their day-to-day management.

### ▶ INVESTMENT POLICY

Launched in 1998, the Edmond de Rothschild Tricolore Rendement fund principally invests in French stocks whose valuation characteristics offer the potential for superior returns.

In order to deliver long-term capital appreciation with low volatility, the fund efficiently combines:

- A Yield approach – with a focus on growing dividends, a guarantee of their sustainability.
- A Value approach – the fund attempts to control cyclical risk by investing in undervalued restructuring companies and quality stocks within the industrial and financial cyclical universe.

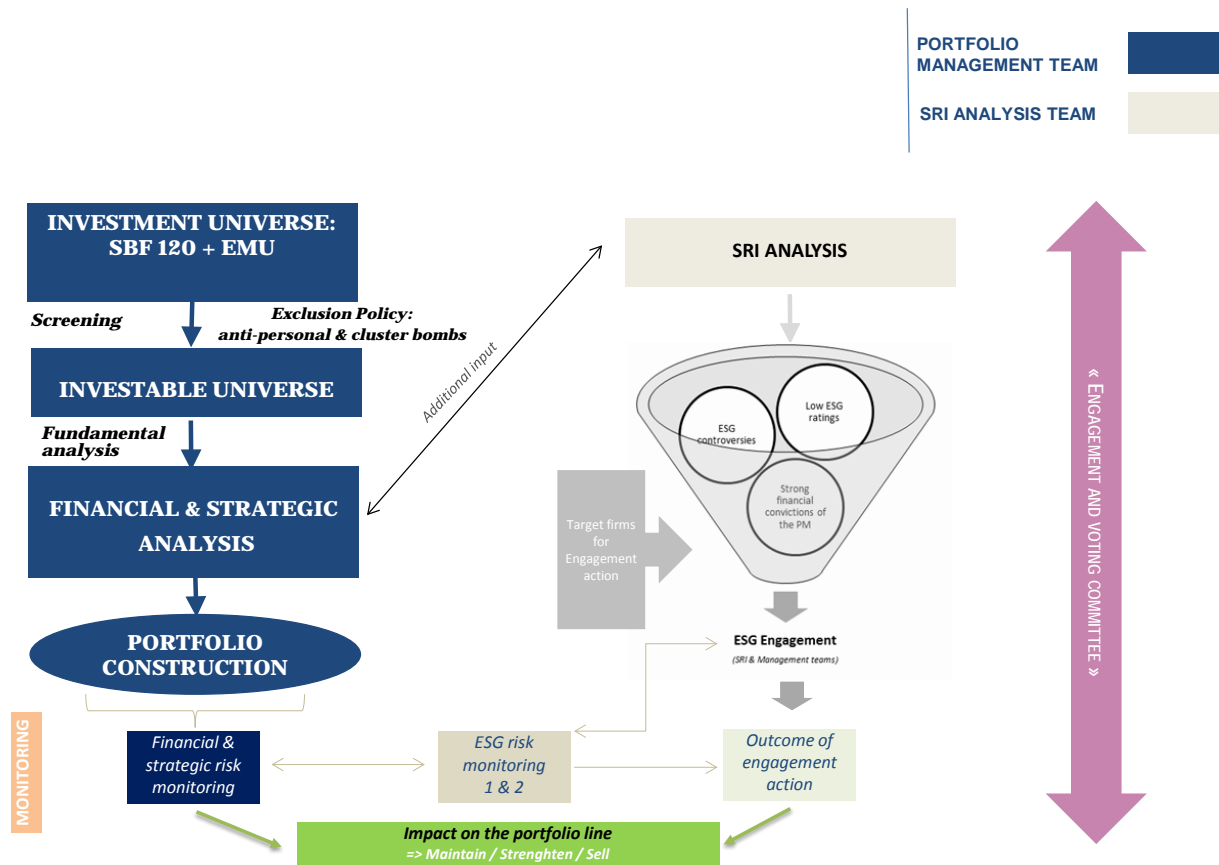
From April 10<sup>th</sup> 2012, the investment universe was widened to include the Eurozone (maximum 25% of net assets) in order to improve diversification without making changes to the investment strategy.

### ▶ OVERVIEW OF THE ESG ENGAGEMENT METHODOLOGY APPLIED

- In keeping with the fund's wealth preservation approach and focus on risk/return, an SRI Engagement approach was introduced late 2009.
- Consistent with Edmond de Rothschild Asset Management (France)'s SRI analysis and investment philosophy, this particular SRI approach feeds into its proprietary ESG analysis process and is complementary to the firm's existing voting rights at shareholder meetings.
- In its most active form, namely comprehensive engagement, it consists in engaging a positive, constructive, and medium- to long-term dialogue with companies owned by the portfolio over specific ESG issues in order to encourage them to improve business practices. If the dialogue is unsuccessful, it can lead (as a last resort) to Edmond de Rothschild Asset Management submitting a resolution at shareholder meetings, or to the portfolio selling the stocks of a company which has made no effort to improve its practices.
- Before launching our Engagement procedures with the companies, the SRI Analysis team carries out a full ESG evaluation of the portfolio in order to identify, with the fund managers, the companies that will be engaged with as a matter of priority. These are the companies with low ESG ratings which may carry long-term investment risk.
- In this respect, the inclusion of ESG analysis is also viewed as a key element, helping to identify risks that have not been priced in by the market, or issues that are known by the market and that may change under the pressure of engagement.



## INVESTMENT AND ESG ENGAGEMENT PROCESS APPLIED TO EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT



## DOCUMENTS AVAILABLE ON EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)'S WEBSITE

Edmond de Rothschild Asset Management (France) has offered a dedicated “Socially Responsible Investment Expertise”<sup>1</sup> section on the firm’s website since 2009. A number of documents can be viewed or downloaded that directly relate to the Edmond de Rothschild Tricolore Rendement fund. In addition to the Annual Report on ESG Engagement, the following publications can be downloaded:

- The 2016 Voting Policy and the 2015 Annual report on the Exercise of Voting Rights for Edmond de Rothschild Asset Management (France)
- Edmond de Rothschild Tricolore Rendement’s Engagement Policy
- Edmond de Rothschild Tricolore Rendement’s ISR AFG-FIR-Eurosif Transparency Code
- Marketing publication of Edmond de Rothschild Tricolore Rendement
- The 2016 RI Transparency Report of Edmond de Rothschild Asset Management (France) – Direct Listed Equity Active Ownership module

<sup>1</sup> <http://www.edmond-de-rothschild.com/site/France/en/asset-management/our-expertise/socially-responsible-investment>



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## ESG ANALYSIS AND PORTFOLIO ASSESSMENT EXTRA-FINANCIAL REPORTING

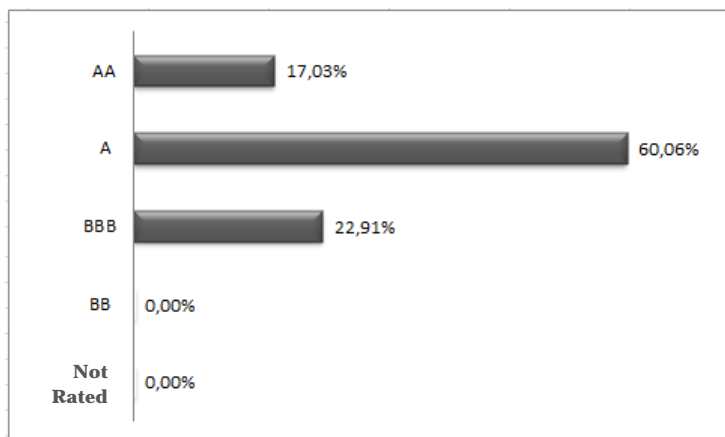
### ▶ EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)'S SRI RATING METHODOLOGY AND RULES FOR LAUNCHING AN ENGAGEMENT PROCEDURE

- In order to determine whether the companies that feature in the portfolio of Edmond de Rothschild Tricolore Rendement embody the different characteristics of a responsible and sustainable business as defined by Edmond de Rothschild Asset Management (France), the SRI research team carries out an ESG-S analysis of the portfolio in order to award each portfolio stock an SRI rating. Since late 2015, the investment team responsible for Edmond de Rothschild Tricolore Rendement has direct access to the ESG ratings within its own in-house issuers' database: the team may consult ESG analysis and scoring produced by the in-house SRI team and, may identify any stock falling below an A rating.
- The Engagement policy is initiated as a matter of priority with companies that are badly rated (ratings that are strictly under A<sup>SRI</sup> or lower than average on one criterion despite being above A<sup>SRI</sup> on an accrued basis), that are potentially exposed to ESG-S controversies, or that feature among the fund managers' strongest financial convictions on extremely specific ESG issues.
- Engagement on these stocks is driven by the investment team's desire to maintain, strengthen or introduce companies into the portfolio of Edmond de Rothschild Tricolore Rendement by encouraging them to improve their ESG-S practices and upgrade their ESG pillar ratings.
- Finally, the SRI team regularly communicates with the investment team regarding the breakdown and the change in ratings within each ESG pillar for every single company held by the portfolio. This enables the fund managers to proactively initiate Engagement with companies that have seen their ratings fall on one or more ESG pillars.
- The weights given to the different extra-financial criteria in this table vary from one sector to the other; however the final rating is absolute and not relative to the performances within the industry. Each stock is given a proprietary SRI rating by Edmond de Rothschild Asset Management (France). This rating is determined by the fund managers following in-depth fundamental analysis, supplemented by a meeting with corporate management. The team also relies on quantitative or estimated qualitative data sourced from companies, extra-financial rating agencies, brokers, etc.
- Each stock is given a rating on a scale of 7 ranging from CCC to AAA. Ratings are revised on a dynamic basis.



## EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT - KEY PORTFOLIO CHARACTERISTICS: SRI RATINGS, COMPOSITION AND ESG COMMENTS AS OF 31<sup>ST</sup> DECEMBER 2015

### Breakdown of the portfolio of Edmond de Rothschild Tricolore Rendement by SRI rating



Source: Edmond de Rothschild Asset Management (France)  
The in-house ESG rating of a stock is on a scale of 7 ranging from CCC to AAA

### Top portfolio positions as of 31/12/2015

Top 5 positions	% net assets
SANOFI-AVENTIS S.A.	8.2
THALES	6.3
TELECOM ITALIA	5.4
VIVENDI SA	4.3
TOTAL S.A.	3.9
<b>TOTAL</b>	<b>28.1%</b>

### Carbon footprint\*

Carbon Footprint (tons eq. CO2/M€ invested)	Fund		Index	
	24/11/15	450,20	24/11/15	429,30

Our carbon measures rely on the data supplied by the companies and updated annually (annual report, Carbon Disclosure Project) or estimated by third-party data providers (Bloomberg).

We then produce several indicators calculated as follows:

Carbon Footprint (in tonnes of CO2 equivalent per million euros invested): It measures the volume of greenhouse gas (GHG) emissions for which the portfolio is responsible in proportion to its capital share. If an investor holds 1% of a company's market capitalisation, they are responsible for 1% of that company's emissions (in tonnes of CO2 equivalent).

Company Share = (price\*number of shares held) / Market capitalisation

Absolute Carbon Footprint =  $\sum(\text{Company Share}(i) * \text{Company Emissions}(i))$

Carbon Footprint = Absolute Carbon Footprint / Fund Net Assets

Carbon emissions include Scope 1 + Scope 2:

Scope 1 emissions: direct emissions of greenhouse gases (fuels, refrigerant fluids, fuel for vehicles owned)

Scope 2 emissions: indirect emissions (electricity, steam purchase)

### THE 6 HOLDINGS WITH THE BEST ESG RATING

#### WITHIN EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT'S PORTFOLIO

	ESG SCORE**	RATING ESG**	ENVIRONMENT SCORE**	SOCIAL SCORE**	GOVERNANCE SCORE**	STAKEHOLDERS SCORE**
Atos	13,3	AA	13,6	12,1	15,8	12,4
AXA SA	13,7	AA	15,3	13,1	13,8	12,9
Cap Gemini SA	14	AA	11,7	15	14,2	14
Cie Gale des établissements Michelin	13,6	AA	14,7	13,4	15,8	14
Nokia OYJ	13,6	AA	15	11,5	16,2	11,7
ST Microelectronics	13,6	AA	13,9	12,4	13,3	14,6


\*\* The issuers of shares benefit from scores on a scale of 1 to 20 on each E, S and G pillar, as well as a global ESG rating. This ESG rating is on a scale of 7 ranging from CCC to AAA.



Edmond de Rothschild Tricolore Rendement's portfolio composition and ESG comments

COMPANY NAME	SECTOR	ESG RATING * <small>Exclusion of Arms</small>	ESG COMMENT
<b>AIR France - KLM</b>	<b>Transportation</b>	A →	<p>Targets for reducing the environmental footprint are consistent with the sector. Measures taken to reduce fuel consumption and optimise fleet.</p> <p>Developments in the use of biofuel at KLM.</p> <p>Need to reduce workforce via restructuring measures.</p> <p>Dialogue with employee representative bodies.</p> <p>Commitment to limit the number of redundancies where possible.</p> <p>The weight of the French state is increasingly felt on the Board of Directors. Nevertheless, minority shareholder rights are being respected.</p>
<b>AIRBUS GROUP</b>	<b>Capital goods</b>	A →	<p>Energy efficiency has become a major economic issue in the civil aviation sector in general and for Airbus in particular.</p> <p>Airbus Group seems to make this a priority, as evidenced by the emphasis placed on the energy efficiency of new generation airliners: A380, A350, A320neo.</p> <p>The issue of product security is very well understood and addressed within the group despite the recent woes of the A400M.</p> <p>The subject of workplace health and safety is very poorly addressed by the group, with a dearth of information on the strategy adopted and the results achieved.</p> <p>Governance is difficult given the presence of three countries in the capital.</p> <p>Note a lack of gender diversity on the Board: only one woman since 2013.</p> <p>Improvement concerning the independence of supervisory committees.</p> <p>Controversies in 2013 on Lagardère Group's exit from the group's capital.</p>
<b>ALCATEL - LUCENT</b>	<b>Information technology</b>	A →	<p>Alcatel Lucent has initiated a vast restructuring programme that began in 2011. Restructuring issues are being addressed by the group. Solutions are being considered that can limit the impact of any measures taken.</p> <p>However, there is some social protest in response to the recurring redundancy plans.</p> <p>The group is attentive to the satisfaction of its clients. The most recent survey shows Alcatel-Lucent to be in a strong position relative to its main competitors.</p> <p>Highly documented lifecycle analysis approach.</p> <p>Focus on products with positive energy impact. Strong involvement in R&amp;D.</p> <p>Independent Board and strong background diversity.</p> <p>Satisfactory audit and risk control policy.</p>
<b>ALLIANZ</b>	<b>Insurance</b>	AA →	<p>SRI portfolios: 6% of AUM. Allianz SE, PIMCO and Allianz GI are PRI signatories; Allianz is a signatory of the PSI.</p> <p>Development of "green solutions" that encourage virtuous corporate behaviour but account for a small part of the company's sales.</p> <p>Climate research: Allianz Climate Solutions has been offering climate-based research to subsidiaries and external clients since 2007.</p> <p>Allianz Re has created a model that simulates flooding in India and has a climate team responsible for developing products that address extreme weather-related risks and that helps include climate risk in standard non-life insurance services.</p> <p>Focus on diversity and on talent management, but no information on the existence of restructuring or on how it may be managed.</p> <p>Some strengths: women able to access senior management roles, senior workers valued for their skills. Strong brand value and rising client satisfaction.</p> <p>Governance model is satisfactory despite poor diversity on the Board and a lack of transparency on compensation.</p>
<b>ALSTOM</b>	<b>Capital goods</b>	BBB ↓	<p>Alstom has ambitious environmental goals that it seems to be meeting. Its innovations and transport solutions make it a major player in the energy transition.</p> <p>The group has posted good results in terms of Health &amp; Safety.</p> <p>The number of accidents has fallen sharply, as well as the number of serious accidents, for both employees and subcontractors.</p> <p>Little visibility on governance with a highly involved French state. Agreements between the government and Bouygues, double voting rights, absence of separation of powers and to complete the picture, a highly opaque compensation system.</p> <p>Business ethics is the group's weak point.</p>



ANF	Real estate	A ↗	<p>ANF has initiated a three-year plan with many environmental objectives. The analysis is rendered more complex by differences in maturity (2018 and 2020) and especially in scope (offices, offices + key assets, property portfolio, etc.), but one should commend the various initiatives taken in terms of certifications, biodiversity, clean sites, etc.</p> <p>With 44 employees, social dialogue appears to be fluid, issues are limited. Ongoing responsible purchasing policy, the group recently signed the Global Compact but is still weak concerning responsible purchasing and site management.</p> <p>Reasonable level of independence for a controlled company, separate roles, diversity on Supervisory Committee and Executive Board. However, compensation could be better framed (exceptional compensation, performance conditions are too short term, etc.). The group also allows itself to intervene on its shares during a public offer and provides for double voting rights.</p>
ATOS	IT Services	AA →	<p>Efforts are made to retain talents. Policy of well-being at work and employees are increasingly allowed to work from home.</p> <p>The company is successfully addressing client satisfaction. Launch in 2012 of a programme for managing the satisfaction of strategic clients. Overall client satisfaction came in at 7.6 and 7.07 in 2013 (scores on a scale of 0 to 9). Germany and the UK are up compared to 2011.</p> <p>Partnership with SAP and Siemens.</p> <p>Sustainable Development is integrated to the group's service offer. Identification of critical challenges going forward (Cloud Computing, Social Networks...) which are addressed by the company's product offer.</p> <p>Independent Board of Directors and committees.</p> <p>Minority shareholders' rights are respected. It is unfortunate that the functions of CEO and Managing Director are not distinct.</p>
AXA SA	Insurance	AA →	<p>ESG criteria gradually included within investment mandates, across all asset classes and geographies.</p> <p>Axa IM and Alliance Bernstein are signatories of the UN-PRI.</p> <p>Digitalisation of the operational model.</p> <p>Efforts made in the identification of emerging market risks =&gt; construction of an emerging market risk radar.</p> <p>Insurance and investment solutions that foster environmentally responsible behaviour: preferential car insurance for low emission cars, home insurance that encourages energy efficiency.</p> <p>The group has set up a system for managing social dialogue covering approx. 80% of the workforce and is cited as an example by trade unions.</p> <p>Regular satisfaction surveys, commitment towards transparent relations and responsible marketing. A number of measures designed to encourage responsible behaviour on the client side (cleaner vehicles, building insulation, funding for renewable energy projects)...</p> <p>Independent Board of Directors. Minority shareholder rights are respected.</p>
BNP 	Banks	A	<p>High quality Social and Environmental Responsibility approach.</p> <p>CSR policy represented at the level of the Executive Committee.</p> <p>Effort to reduce its environmental footprint with a decrease in air travel, improved building energy efficiency, decrease in paper consumption.</p> <p>The social aspect is the group's strong point with a policy based on dialogue and protection, as well as on employee training.</p> <p>The age pyramid is well controlled. The number of female managers is increasing steadily, but women are poorly represented on the Executive Committee.</p> <p>Governance is of good quality: independence of the Board, equal treatment of shareholders.</p> <p>A significant litigation between the group and the US administration on financial transactions with embargoed countries resulted in a fine of close to \$10 billion. The new President seems determined to strengthen internal control measures.</p>






<b>BOUYGUES</b>	<b>Construction, Civil engineering</b>	<b>BBB</b> →	<p>Development of High Energy Efficiency or positive energy buildings but no data is available to measure the deployment of these offers.</p> <p>Various software solutions are available for the measurement of carbon footprints (buildings, roads etc.).</p> <p>Most emissions produced by Colas and Bouygues Construction. Little data published on other environmental variables.</p> <p>Incident rate is lower but only concerns employees. Compliance and training programme in place.</p> <p>Controlled company (employees own 24% of the capital, SCDM 21%), Board and committees are not independent, minority shareholders' interests are not respected.</p>
<b>CAP GEMINI</b>	<b>IT services</b>	<b>AA</b> →	<p>Cap Gemini is creating jobs across its global operations, in net terms.</p> <p>Dynamic recruitment in low-wage countries (India, Morocco) supports the company's Rightshore strategy.</p> <p>Departure rate is slightly down. Focus on employee training.</p> <p>Client satisfaction rate is rising.</p> <p>Several services and solutions designed to reduce clients' carbon footprint: software, digitalisation of work stations...</p> <p>Deployment of smart meters and optimised management of energy supply.</p> <p>Quality corporate governance.</p> <p>We deplore the combined roles of CEO and Managing Director.</p> <p>Minority shareholder rights are respected.</p>
<b>CARREFOUR</b>	<b>Food distribution</b>	<b>BBB</b> →	<p>Heightened controls on the supply chain, both in terms of quality &amp; traceability and human rights &amp; labour conditions.</p> <p>Nevertheless new fire incidents were reported at the group's textile supplier in Bangladesh at the end of 2013 and the company was under criticism for failing to contribute to the compensation fund for the victims of the Rana Plaza.</p> <p>Large range of organic, "Origins and Quality" and "Tradition" products. Focus on certified supply chains and priority given to local sourcing (70% of products on average).</p> <p>On the social front, the number of training hours remains low and the attention given to employee well-being is limited. Health and Safety preventative measures tend to be ineffective, as demonstrated by the higher frequency and severity of accidents and rising absenteeism. The independence of the Board and of committees remains very low and the diversity among members remains limited.</p>
<b>CGG</b>	<b>Energy</b>	<b>A</b> →	<p>The quality of information on key environmental issues has deteriorated. However the carbon intensity per employee is on a downward trend.</p> <p>The safety of employees and contractors appears to be a priority for the group which conducts an efficient management policy. However, despite these efforts, the incident rate is up.</p> <p>Third-party certification of the system used to fight corruption. Ethical Code in place. No controversies in this area.</p> <p>Focus on research and on retaining qualified personnel.</p> <p>Plans to cut over 10% of the workforce, including the implementation, will be watched closely.</p> <p>Good quality governance on paper. Questions over the quality of management following disappointing earnings.</p>
<b>COFACE</b>	<b>Financial services</b>	<b>A</b> 	<p>Environmental and social aspects are included in the criteria required by Coface to cover all credit insurance projects of over €10 million or located in sensitive areas, or for investment insurance projects. No details on the projects turned down are provided, however. Nevertheless, it would appear that Coface no longer covers any coal projects without CCS decided after November 2014. On this point, Coface does not seem to be the decision-maker, however.</p> <p>Social data only concern France (24% of workforce), which gives a partial vision of HR management. But there is evidence of a willingness to train employees, set up ownership schemes, etc.</p> <p>Good governance for a controlled company (Natixis 41%) with 4 independent members out of 10, but independent, well diversified committees. The company has asked to revert to the principle of one share, one vote.</p>




<p><b>CREDIT AGRICOLE</b></p>	<p><b>Banks</b></p>	<p><b>A</b> →</p>	<p>Management of SRI funds via Amundi, large SRI-dedicated teams, ESG criteria built into all types of management, 8.4% of assets under SRI management, sector policy implemented, promotion of eco-friendly real estate. One of the first banks to sign up to the Equator Principles in 2003, which now apply to all of the loans and financing provided by the group. Signing of an agreement on forward-looking career and skills management. Data still too limited to the French scope. Governance in the market average. Strong representation of Regional Banks on the Board. Presence of 3 employee representatives. Mostly independent committees. Issues between the Chairman and CEO are now a thing of the past. Affirmation of the 'one share, one vote' principle.</p>
<p><b>DASSAULT AVIATION</b></p>	<p><b>Capital goods</b></p>	<p><b>BBB</b> →</p>	<p>Energy efficiency is also a major issue in the sector of business aviation, where jet operating costs are becoming a decisive parameter. Dassault Aviation appears to have fully appreciated this issue as demonstrated by its latest aircraft, the Falcon 8X, which is 30% more fuel-efficient than its rivals. Product security is Dassault's strong point, whether for the military jewel in its crown, the Rafale, or for its Falcon jets. In its communication, Dassault Aviation appears intent on addressing the issue of workplace safety. The group has a very strong corporate culture, salary and incentive policies are very generous and there are real possibilities of career advancement, illustrated perfectly by the fact that Chairman and CEO Eric Trappier joined the group as an engineer at 24 years old. Governance is the group's weak point. The fact that the capital is controlled by the Dassault family does not dispense the group from having independent committees. The feminisation of committees is still a distant mirage.</p>
<p><b>EIFFAGE</b></p>	<p><b>Capital goods</b></p>	<p><b>BBB</b> →</p>	<p>Offer includes environment-friendly buildings, sustainable cities and software solutions designed to calculate carbon footprints etc. However it is difficult to measure the impact of these eco-friendly solutions on sales and to compare the results with other sectors. Employee accidents rates are down however the rate among contractors is very high. Safety certifications are insufficient. Ethical code and Whistleblowing. The Board lacks independence. Functions are combined but minority shareholder rights are respected.</p>
<p><b>ENGIE</b></p>	<p><b>Utilities</b></p>	<p><b>BBB</b></p>	<p>Fairly high emissions despite the highly gas-oriented mix: renewable energy, excluding hydro power, only represents 4% of installed capacity. Development of renewable energy (target +50% over the period 2009 to 2015) but also of coal. The accident rate for employees is low and declining, but high for subcontractors and temporary workers, safety management appearing to focus mainly on employees. Health problems of local communities due to pollution, accidents, etc. Good improvement in female representation on the Board, but it remains non-independent, respect for 'one share, one vote' principle but share providing certain specific rights to the French State.</p>
<p><b>GROUPE FNAC</b></p>	<p><b>Specialist distribution</b></p>	<p><b>A</b></p>	<p>The Group's local anchoring and its role as a purveyor of culture to the general public are strengths on which it wants to capitalise. It organises many local cultural activities - concerts, book signings, etc. - and solidarity initiatives - clearance sales, top-up donations on checkout, etc. The franchise format to be developed in 2014-2015 is set to strengthen these assets. The group is also interested in exploring the new emerging models of collaborative economy. The group is attempting to protect the social climate in a context of massive restructuring (8.7% reduction in staff). Efforts in terms of training remain significant (notably with the REVER programme aimed at improving the client's shopping experience) and laid-off employees are provided with adequate support. Apart from the turnover, which is rising, social KPIs (absenteeism, frequency and severity of accidents), are improving. On the other hand, talent attraction and retention is an area neglected by the group (especially at times of wage moderation), when changes in the sector would require stronger focus on this point.</p>





<p><b>ING Groep</b></p>	<p><b>Banks</b></p>	<p><b>A</b> →</p>	<p>The group is currently finishing paying back the capital injected by the Dutch state following the 2008 crisis. ING's reputation has been affected by a number of controversies involving market manipulation (currencies, interest rates) and project financing in Laos. ING is an active signatory of the Equator Principles. It is also present in SRI management. Microfinance activity in India. Policy of giving underprivileged people access to financial services. ING is engaged in a comprehensive restructuring programme, affecting several thousand employees. The group claims it applies a policy respectful of local labour law. The terms of compensation are reportedly more generous than the local average. Good-quality governance complying with the Dutch Code of Governance. Independent Board and committees.</p>
<p><b>METRO AG</b></p>	<p><b>Specialist distribution</b></p>	<p><b>BBB</b> →</p>	<p>The range of responsibly sourced products (organic, fair trade, local, certified...) remains marginal as demonstrated by its very low percentage in the group's sales. Social and environmental audits are based on the Business Social Compliance Initiative model, however Metro does not communicate on the percentage of suppliers that were assessed. This prevents us from measuring the group's degree of engagement. As far as food traceability is concerned, innovative projects pave the way for more transparency and controls. Personnel turnover is high at group level and the percentage of employees benefiting from industry-wide agreements is low. The Board and committees are independent. High governance standards are applied.</p>
<p><b>MICHELIN</b></p>	<p><b>Automobile and components</b></p>	<p><b>AA</b> →</p>	<p>High quality R&amp;D. Michelin has always been a driving force for innovation. Lifecycle analysis completed, launch of new low environmental footprint product ranges, re-treading for HGV tires. Engine research integral to the wheels. Applies precautionary principle= systematic recall of any defective tire series. Action in favour of road safety. Discloses energy performance, adherence and noise levels. Strong brand name. Efforts deployed to minimise the impact of restructuring and to keep redundancies as low as possible. Simplification and greater transparency over the limited partnership with share capital structure (SCA). High quality communication with stakeholders.</p>
<p><b>NEXANS</b></p>	<p><b>Capital goods</b></p>	<p><b>A</b> →</p>	<p>Puts forward innovations designed to improve energy efficiency (smart grids, superconductivity...).</p> <p>Lacks quantitative targets and results are mixed on environmental issues. Efforts made on certification, supported by regular audits.</p> <p>Improvement in indicators for accident frequency and severity rates. Formal efforts discredited by two controversies over large-scale anti-competitive practices.</p> <p>Improved governance on paper, including better independence ratios at Board and Committee levels.</p> <p>The changes made to governance met the expectations of a proportion of the market.</p>
<p><b>NOKIA</b></p> 	<p><b>Telecommunications</b></p>	<p><b>AA</b></p>	<p>The disposal of the mobile telephony business to Microsoft partly explains the lack of visibility concerning a number of extra-financial parameters. Good level of information on the security of the products and services provided by the group. Lack of reference to client satisfaction surveys. Responsible approach to supplier and subcontractor relations, with assessments and audits. Controversy on working conditions of subcontractors' employees in Asia and on lack of control over conflict minerals. Slight deterioration in Corporate Governance, which still remains at a satisfactory level.</p>



<p><b>ORANGE</b></p> 	<p><b>Telecommunications</b></p>	<p><b>A</b></p>	<p>Orange seems to see the narrowing of the digital divide as a lever to conquer the African continent: solar radio station projects, community phones, support to digital start-ups and developers in Africa. All of this feeds the digital ecosystem of these regions and therefore develops the market for Orange.</p> <p>Many voluntary departure plans (6,000 full-time equivalents) as part of trade-union agreements. France enjoys a privileged status insofar as the group committed to hiring 4,400 permanent employees over the period 2013-2015. Social indicators are stable, but no one has forgotten the wave of suicides in the first quarter of 2014.</p> <p>The Board and committees lack independence, no separation of the Chairman and CEO functions. The government appoints three of the fifteen Board members.</p> <p>Compared with the market, however, the group has broadly feminised its Board and Executive Committee.</p> <p>Only one member is a foreign national, although the Group is continuing to expand internationally.</p>
<p><b>PEUGEOT</b></p>	<p><b>Automobile</b></p>	<p><b>A</b> →</p>	<p>Many developments in the field of hybrid engines (petrol, diesel). Focus on innovation to reach European Community CO2 emission standards by 2020.</p> <p>The defect rate after 3 months in service has been falling continuously over the past 5 years. However the group has offered no clear explanation of the policy in place for recalling defective vehicles.</p> <p>New Social Contract signed with trade unions in 2013 when assembly sites were closed in France (Aulnay, Rennes). Measures were implemented to reduce the impacts. Most employees concerned were reassigned.</p> <p>Radical change in governance in 2014, when the French state and the Chinese manufacturer Dong Feng acquired stakes in the capital. The Peugeot family still owns 14% of the capital.</p> <p>The Supervisory Board and various committees still lack independence. Double voting rights are still in place.</p>
<p><b>PUBLICIS</b></p>	<p><b>Media</b></p>	<p><b>BBB</b> →</p>	<p>The firm refuses to produce campaigns for political parties, sects or any other ideology-based organisation for propaganda purposes. The group has also adopted a resolution that forbids the use of greenwashing in advertising. Staff surveys have shown that employees are proud to belong to the group and are satisfied with their daily work.</p> <p>The €100 m fine that was imposed on the firm's subsidiary MSL Group for discrimination does tarnish the group's gender equality image.</p> <p>The board's independence rate is too low at 21.4%. No independent committee and the compensation granted to Maurice Levy remains questionable.</p>
<p><b>RENAULT</b></p>	<p><b>Automobile</b></p>	<p><b>A</b> →</p>	<p>Renault technology plan: innovative designs, combustion and eco<sup>2</sup> vehicles, on-board comfort and safety, new services, affordable costs.</p> <p>Target is to fall below 100g CO2 per km by 2016 thanks to electric vehicles.</p> <p>The management of vehicle recall campaigns is not described in enough detail. ISO 9001 certification for the French sales business and for the retail network.</p> <p>Training initiatives to support road safety.</p> <p>The competitiveness agreement signed in France in 2013 aims at adjusting staff numbers without having to rely on redundancies or voluntary redundancy plans.</p> <p>Agreement with the trade unions on adjusting the workforce without conducting job protection plans or voluntary redundancies, through the non-replacement of people leaving the company (7500 jobs by 2016).</p> <p>The structure of the Board of Directors and the audit systems are of high quality. Recurring issue over the compensation of Carlos Ghosn. Executive functions are not dissociated which makes the succession policy for the incumbent CEO unclear.</p> <p>Recent carbon footprint assessment conducted for the group.</p> <p>Drive to reduce the number of IT servers.</p> <p>Positive diversity policy (balanced M/F ratio). Focus on the importance of motivating staff.</p> <p>Governance lacks independence at committee level and does not respect minority shareholder rights.</p> <p>Efforts made to protect client personal data.</p>



<p><b>SANOFI</b></p>	<p><b>Pharmaceuticals</b></p>	<p>A →</p>	<p>Satisfactory product quality and security procedures, training, many audits of plants, ingredient suppliers and of other contractors and subcontractors. Sanofi appears as one of the leaders in the fight against drug counterfeiting, which is a risk for the industry and a danger to consumers. Supervised, transparent, audited tests. Strengthened marketing practices, particularly in the US (simulations of medical visits, assessments). The group focuses on water pollution and CO2 emissions (especially those related to the sales teams' vehicle fleet). There does not appear to be a centralised, certified environmental management system. But Sanofi is a leader in research on active ingredients' impact on the environment, notably in water. Governance is declining, despite a diverse, independent board, separate roles but recent controversy on golden hellos and parachutes and chief executive succession planning.</p>
<p><b>SOLOCAL</b></p>	<p><b>Media</b></p>	<p>A →</p>	<p>A strong focus on training to support the group's transition towards digitalisation. A shift towards a more flexible and creative corporate culture (work from home, collective Eureka innovation programme) could contribute to the renewal of the company. However, the rise in absenteeism at a time when the Pages Jaunes group is restructuring does raise some questions. All content is subject to extremely strict control procedures, particularly in terms of personal data security and the quality of information published by the listed businesses. Diversity is a key issue for the group. However the company is failing to "lead from the top" and the Board has few female members. Governance has improved in quality and independence at Board and Committee level is better. We can only deplore the double voting rights enjoyed by the main shareholder, Mediannuaire Holding.</p>
<p><b>SOPRA</b></p>	<p><b>IT services</b></p>	<p>BBB </p>	<p>Works with clients on large number of so-called smart offers (smart home, smart city), improvement of energy performance, etc. Good training programme, focus on diversity (gender, disability, seniors). programmes to attract young graduates. Governance is the group's main weakness, with little independence for a non-controlled society, double voting rights, opaque compensation system, etc.</p>
<p><b>ST MICROELECTRONICS</b></p>	<p><b>Semi-conductors and equipment for semi-conductors</b></p>	<p>AA →</p>	<p>A few questions have arisen over the social climate which has deteriorated slightly over the past few years in the wake of several reorganisation plans. Voluntary turnover has risen (over 15%). Health and Safety issues are well managed and the incident frequency and severity rates have improved. Client satisfaction is up and the number of complaints has dropped. Sites are ISO 9001 certified. Compliance with REACH and RoHS regulation. Evaluation and audits on suppliers and sub-contractors, particularly in Asia. Specific attention given to the sourcing of some of the minerals, certification on conflict minerals. Independence of the Board of Directors has improved. Senior management and directors are highly qualified. Strong diversity. However the CEO, as the only member of the Managing Board, continues to concentrate all executive power.</p>
<p><b>TECHNICOLOR</b> </p>	<p><b>Audio-visual and entertainment</b></p>	<p>A</p>	<p>Unfortunately, limited communication on product impact, notably the use of LCA, compliance with Energy Star standards, or energy-saving solutions that the group could offer. Social management focuses on senior talent management and diversity. Lack of information on management of temporary workers and restructuring. Despite a lack of independence of the board, governance is good with gender diversity and several nationalities represented on the board and Executive Committee, good transparency on remuneration, and a resolution calling for the respect of the 'one share, one vote' principle.</p>



<b>TELECOM ITALIA SpA</b>	<b>Telecommunications</b>	<b>A</b> →	<p>The restructuring plan for the Italian branches has paid off and the social climate seems to be more peaceful.</p> <p>The group is continuing to develop in Brazil.</p> <p>Client satisfaction is monitored regularly and precisely. The group uses various indicators and considers client satisfaction as an important element of the variable remuneration component for the employees and top executives concerned.</p> <p>Several programmes for the development of M2M (Machine To Machine) and the IoT (Internet of Things) but given the lack of quantified data, it's difficult to conclude whether this is anecdotal or strategic.</p> <p>The Group has made great progress in recent years in terms of Board and committee independence.</p>
<b>THALES</b>	<b>Capital goods</b>	<b>A</b> →	<p>Encouraging environmental results in previous years but the Group has set itself quantified objectives.</p> <p>The main environmental issues Thalès will have to tackle are replacing solvents and processing hazardous waste.</p> <p>Good forward-looking employment and career management, calmer social dialogue despite some industrial action over wages.</p> <p>Governance is the group's weak point. The fact that the French state and Dassault Aviation control the capital does not dispense Thalès from having independent committees.</p> <p>The controversy over Mr. Levy's messy succession is never-ending.</p>
<b>TOTAL</b>	<b>Energy</b>	<b>A</b> →	<p>Commitment to a 50% reduction in gas flaring by 2014.</p> <p>Greenhouse gas emissions have dropped relative to the production.</p> <p>Active operations in capture and sequestration of CO2.</p> <p>Progress made on Safety following the numerous accidents that have affected the group and the oil sector as a whole (AZF, Macondo...).</p> <p>Efforts made to reduce technological risks and offer training initiatives.</p> <p>The company suffered from the accident of March 2012 on the Elgin platform, but the accident was well managed (no workers wounded and limited pollution).</p> <p>Total is active in the extraction of oil sands and wishes to be present on the shale gas segment.</p> <p>The group has improved communication and transparency on these issues.</p> <p>Has withdrawn from exploration in pack-ice areas for the time being.</p>
<b>VIVENDI</b>	<b>Telecom services</b>	<b>AA</b> →	<p>Data protection is an issue on which no vulnerabilities were found, and less important now that the group has pulled out of the telecoms business.</p> <p>Adequate handling of social issues.</p> <p>Inadequate forward-looking career management strategy.</p> <p>Governance deteriorated following Vincent Bolloré's acquisition of an equity stake.</p> <p>Controversy over Executive Board's handling of an external resolution supported by Edmond de Rothschild Asset Management (France).</p>

\* ESG ratings produced in-house by Edmond de Rothschild Asset Management (France)  
Source: Edmond de Rothschild Asset Management (France) – Date as of au 31/12/2015



## REPORT ON THE FUND'S ENGAGEMENT PROCEDURES

In 2015, through the leadership of Edmond de Rothschild Tricolore Rendement fund's portfolio managers, Edmond de Rothschild Asset Management (France) initiated three comprehensive individual engagements related to corporate governance matters with companies (Vivendi, Sanofi, CGG). It also conducted 67 simple individual engagements:

- 9 on resolutions that were submitted for voting at the 2015 shareholder meetings (e.g. with Air France, CGG, Crédit Agricole, Peugeot, Total, Sopra Steria),
- 19 preparing shareholders' meetings in the context of the "Loi Florange",
- 39 through one-to-one SRI meetings with the top management of portfolio companies, not only for data collection or research purposes but also in order to discuss one or several specific ESG issues.

In addition, Edmond de Rothschild Asset Management (France) supported one collaborative engagement related to an environmental issue.



Simple individual Dialogue- Engagement actions	Comprehensive individual Dialogue- Engagement actions	Collaborative Dialogue- Engagement actions
67	3	1
Relevant ESG pillars: Mix of environmental, social, and governance topics	Relevant ESG pillar: Governance	Relevant ESG pillar: Environmental

### ▶ SIMPLE FINANCIAL AND ESG DIALOGUE

- Rather than activism, Edmond de Rothschild Asset Management (France) prefers to engage in a constructive dialogue and apply a proactive voting policy.
- The investment process of Edmond de Rothschild Tricolore Rendement was enhanced at the end of 2009 with the addition of an SRI Engagement approach. Following this, the fund managers initiated a first stage to promote dialogue and to raise company awareness, with the view to developing working partnerships upon which the Engagement policy can be based. This explains why Edmond de Rothschild Tricolore Rendement has chosen not to disclose the name of the companies currently undergoing a procedure, as we wish to foster an atmosphere of trust that is conducive to the integration of good ESG practices.
























#### Meetings with the companies: Financial and ESG dialogue

- The portfolio managers of Edmond de Rothschild Tricolore Rendement promote dialogue at all levels of the company (Executive management, Strategic and Financial Directors, Sustainable Development Directors, HR, Investor Relations), and where necessary, request ad hoc meetings with operational team members in order to pursue some of the issues in more depth. In 2015, the portfolio managers carried out 87 meetings with the top management of the companies, against 59 in 2014. Of these 87 meetings, half were initiated directly through one-to-one meetings by the portfolio managers of the fund Edmond de

Rothschild Tricolore Rendement , the other half were held with a limited group of people .















All the meetings held in 2015 with senior executives from the companies are listed in the table below:













DATE	COMPANIES	SECTOR	COMPANY'S SENIOR EXECUTIVES	HELD IN PORTFOLIO AS OF 31/12/2015
14/01/2015	AXA 	Insurance	Head of AXA France	X
06/02/2015	Vinci 	Building Materials & Construction	CEO	
06/02/2015	Sanofi 	Pharma	President, Global R&D	X
10/02/2015	Alcatel Lucent 	IT Hardware	CFO	X
11/02/2015	Solocal 	Media	CEO	X
13/02/2015	Renault 	Automotive	CEO	X
16/02/2015	Renault 	Automotive	CFO	X
16/02/2015	Sanofi 	Pharma	Chairman	X
17/02/2015	Nexans 	Capital goods	CFO	X
18/02/2015	Technip 	Oil & Gas	CEO	
19/02/2015	Coface 	Insurance	CEO	X
19/02/2015	Atos 	IT Services	CFO	X
20/02/2015	Cap Gemini 	IT Services	CEO	X
20/02/2015	Total 	Oil & Gas	Head of strategy	X
25/02/2015	Vallourec 	Steel & Mining	CEO	
26/02/2015	Veolia 	Utilities	CEO	
26/02/2015	Metro 	Retail	CFO	X
27/02/2015	Engie 	Utilities	CFO	X
03/03/2015	Thalès 	Aerospace & Defence	CEO	X
04/03/2015	Vivendi 	Media	CEO	X
06/03/2015	CNP 	Insurance	CFO	
06/03/2015	Air France 	Airlines	CEO	X
06/03/2015	Carrefour 	Food retail	CFO	X
























10/04/2015	Ahold 	Food retail	CEO	
10/04/2015	Eiffage 	Building Materials & Construction	CEO	X
11/04/2015	CGG 	Oil & Gas	CEO	X
12/04/2015	Italcementi 	Building Materials & Construction	CFO	
13/04/2015	Crédit Agricole 	Banks	CFO	X
17/04/2015	Publicis 	Media	CEO	X
20/04/2015	Orange 	Telecoms	CFO	X
20/04/2015	Technicolor 	IT Hardware	CEO	X
26/04/2015	Bouygues Telecom 	Telecoms	CFO	
06/05/2015	Coface 	Insurance	CEO	X
07/05/2015	BNP Paribas 	Banks	CEO	X
12/05/2015	Natixis 	Banks	CEO	
19/05/2015	Alstom 	Capital Goods	CEO	X
05/06/2015	Thalès 	Aerospace & Defence	Sustainable development	X
01/07/2015	Deutsche Annington 	Real Estate	CEO	
01/07/2015	Orange 	Telecoms	CEO	X
22/07/2015	GTT 	Oil & Gas	CEO	
24/07/2015	ST Microelectronics 	IT Hardware	CEO	X
29/07/2015	Peugeot 	Automotive	CFO	X
29/07/2015	Atos 	IT Services	CFO	X
30/07/2015	Cap Gemini 	IT Services	CEO	X
28/08/2015	Crédit Agricole 	Banks	CFO	X



31/08/2015	Vinci 	Building Materials & Construction	CEO	
01/09/2015	Eiffage 	Building Materials & Construction	CEO	X
02/09/2015	Engie 	Utilities	CEO	X
02/09/2015	Technicolor 	IT Hardware	CEO	X
04/09/2015	Vivendi 	Media	CEO	X
07/09/2015	Carrefour 	Food retail	CFO	X
07/09/2015	Eutelsat 	Telecoms	CEO	
07/09/2015	Thalès 	Aerospace & Defence	CEO	X
09/09/2015	Nokia 	IT Hardware	CFO	X
10/09/2015	BNP Paribas 	Banks	CEO	X
10/09/2015	Renault 	Automotive	IR	X
14/09/2015	Cap Gemini 	IT Services	IR	X
15/09/2015	CGG 	Oil & Gas	CEO	X
18/09/2015	Air France 	Airlines	CEO	X
19/09/2015	Elis 	Business services	CEO	X
25/09/2015	Total 	Oil & Gas	CEO	X
01/10/2015	CGG 	Oil & Gas	IR	X
06/10/2015	AXA 	Insurance	CFO	X
08/10/2015	Ipsos 	Media	CEO	
09/10/2015	M6 	Media	CFO	
21/10/2015	Faurecia 	Automotive	CFO	
21/10/2015	Technicolor 	IT Hardware	CEO	X
23/10/2015	Publicis 	Media	CEO	X
30/10/2015	ST Microelectronics 	IT Hardware	COO	X



02/11/2015	Saint Gobain 	Building Materials & Construction	CFO	
03/11/2015	Orange 	Telecoms	CFO	X
04/11/2015	Atos 	IT Services	CEO	X
05/11/2015	BNP Paribas 	Banks	CEO	X
05/11/2015	CGG 	Oil & Gas	CEO	X
05/11/2015	Solocal 	Media	CEO	X
06/11/2015	Sanofi 	Pharma	CEO	X
06/11/2015	Natixis 	Banks	CEO	
10/11/2015	Telecom Italia 	Telecoms	CEO	X
10/11/2015	Nexity 	Real Estate	CFO	
12/10/2015	Nexans 	Capital goods	CFO	X
13/11/2015	Sanofi 	Pharma	CEO	X
16/11/2015	CGG 	Oil & Gas	IR	X
17/11/2015	Saft 	Capital goods	CEO	
18/11/2015	Nokia 	IT Hardware	CFO	X
19/11/2015	Casino 	Food retail	CFO	
07/12/2015	Sanofi 	Pharma	CEO	X
14/12/2015	Darty 	Retail	CEO	
19/09/2015	Elis 	Business services	CEO	

Source: Edmond de Rothschild Asset Management (France) – Data at 31/12/2015



- In addition, 39 specific extra-financial interviews on a various mix of ESG matters were held by the SRI team in 2015 with individuals who are specialised in the environmental or social pillars, or with the sustainable development directors of the groups targeted or held in the fund. On questions of governance, the fund managers contact the directors or investor relations managers. These meetings and the data collected allow us to fine-tune our opinion on the companies' ESG performance and are built into our in-house ESG scoring model.



#### LIST OF THE 39 EXTRA-FINANCIAL MEETINGS CONDUCTED IN 2015

Air France	Sopra Steria	Worldline	Vestas
CGG	AB InBev	Henkel	Roche
Crédit Agricole	Intesa San Paolo	Legrand	Novo Nordisk
AB Inbev	Valeo	Orange	Shell
Philips	Unibail Rodamco	Daimler	Safran
Heineken NV	Neste Oyj	Telefonica	Deutsche Bank
Ahold	Air Liquide	Arcelor Mittal	
Unibail Rodamco	Korian	Gemalto	
Peugeot	Vestas	Michelin	
Total	Novozymes	Essilor	
SCA	Stora Enso	Thalès	

### Dialogue held prior to shareholders' meetings

- Edmond de Rothschild Asset Management (France) has a long-standing experience in practicing corporate dialogue in the context of shareholder meeting votes.  
Our 2016<sup>2</sup> Voting Policy covers voting principles in matters of corporate governance, but also on Social, Environmental or Stakeholder issues; these are all consistent with our SRI analysis.
- Edmond de Rothschild Asset Management (France) therefore acts prior to the Shareholder meetings by:
  - Proactively sending out the firm's Voting Policy and Engagement Policy to all portfolio companies, explaining Edmond de Rothschild Asset Management (France)'s approach as a responsible shareholder and inviting companies to engage with our fund managers on ESG issues. Our objective here is to send out the Voting Policy on a systematic basis to all companies held in the portfolio and potentially expressing our disagreement on a number of resolutions prior to the shareholder meetings, if necessary.
  - Contacting Edmond de Rothschild Tricolore Rendement portfolio heavyweights prior to the shareholder meetings in the event of a negative vote or an abstention on resolutions suggested by the company's management.
  - Collaborating with the companies by responding to their requests to inform them of the portfolio managers' voting intentions prior to the shareholder meeting, particularly in the event of negative votes or abstentions.
  - Conducting regular meetings with company management in order to exchange views on strategic, financial and extra-financial issues: these meetings are an ideal venue for the portfolio managers to bring up shareholder meeting resolutions and support the company as it improves its practices.

<sup>2</sup> <http://www.edmond-de-rothschild.com/site/France/en/asset-management/our-expertise/socially-responsible-investment>



- In preparation of the 2015 Shareholder Meetings, Edmond de Rothschild Asset Management (France) sent its proprietary voting policy to 16 companies held by the Edmond de Rothschild Tricolore Rendement fund. To prepare the 2016 session, 40 companies held in the fund portfolio received our Voting policy.
- Furthermore, in keeping with its voting principles and as part of its shareholder engagement policy, Edmond de Rothschild Asset Management (France) stood up to the so-called Florange Bill to promote the principle 'one share, one vote': to this end, the fund managers of Edmond de Rothschild Tricolore Rendement and the SRI team met with 19 companies to prepare their Annual General Meetings (AGM).



#### FLORANGE BILL AND SIMPLE DIALOGUE-ENGAGEMENT PRE-AGM

The new provisions introduced by the French law of 29 March 2014, or "Loi Florange", aimed at recapturing the real economy, alter the rights of minority shareholders by the systematic application of double voting rights for shares that have been registered for at least two years (article L.225-123 of the French Code of commerce). As an independent management company, Edmond de Rothschild Asset Management (France) has always been favourable to the equal treatment of shareholders and therefore to the one share/one vote principle. The voting policy of Edmond de Rothschild Asset Management (France) is explicitly against double voting rights, following the recommendations of the French Asset Management Association (AFG). A form letter was therefore sent on 13 January 2015 to the Chairmen of around twenty companies whose shares are held by some of the funds managed by Edmond de Rothschild Asset Management (France), encouraging them to include on the agenda of their 2015 General Meeting a proposal to amend the company's articles of association to return to the 'one share, one vote' principle.

- Finally, the fund managers conducted interviews with nine companies before the General Meetings, noting that they were increasingly willing to explain the resolutions submitted to the shareholders' vote and to understand the principles of their minority shareholders' voting policies, or even discuss the relevance of their application on a case-by-case basis. Among these companies, we can cite Air France, CGG SA, Crédit Agricole, Peugeot, Sopra Steria and Total, with which we held interviews between February and April 2015 in preparation of the General Meetings.

These meetings generally concern the renewal of directorships - as Edmond de Rothschild Asset Management (France)'s voting policy requires a given proportion of independent members at the Board of Directors, which can vary according to the company's shareholder structure. Furthermore, the dilution ceilings set by the fund managers in the firm's voting policy often lead to votes against resolutions requesting authorisation for an increase in capital. Practices are changing at a remarkable rate, and we have noted a considerable reduction in the number of negative votes on these matters, as companies have had to comply with the higher standards of governance demanded by an increasing number of investors. Ahead of the Coppel-Zimmermann bill to be passed, the percentage of female directors also rose very swiftly.

Examples of this constructive dialogue can be found below in these sample meetings held in 2015:

#### **CGG SA**

Our fund managers met representatives of CGG SA ahead of the AGM on May 29 2015. There were no problems with the approval of the annual accounts and the re-election of 4 board directors, Jean-Georges Malcor, CEO since 2010, Robert Semmens (a non-independent director who has been in the company for more than 12 years) and 2 independent directors, Gilberte Lombard and Hilde Myrberg.

We also discussed:

- co-opting Jean Yves Gilet (Bpifrance) who was appointed in 2014 to replace Mr Brunck,
- share buybacks - increases of capital (50% with a preferential subscription right, 10% without, suspended if a bid is launched),
- related party agreements,
- golden parachutes for Mr Malcor and 2 deputy managing directors
- Say on Pay
- the possibility of bonus shares being awarded under the Macron Law's final provisions. In all cases, shares will all have to be held for at least 3 years.



Few resolutions clashed with the voting policy at Edmond de Rothschild Asset Management (France), apart from remuneration where the weight of qualitative considerations is still high (33% for executives, up to 50% elsewhere). In addition, it was not clear that remuneration was totally linked to performance.

## **TOTAL**

Total asked our fund managers to assess proposed resolutions ahead of the AGM on May 29 2015.

One resolution asked for approval for the company to buy and sell up to 10% of its own shares. Total confirmed that any share buybacks could not occur during a bid period so Edmond de Rothschild Asset Management (France) backed the resolution.

There followed an in-depth review of board members. The re-election of independent directors like Patrick Artus and Anne-Marie Idrac complied with the voting policy at Edmond de Rothschild Asset Management (France). Madame Idrac's decision to relinquish a directorship at Mediobanca complies with our internal voting policy as she already holds 4 directorships. Her professionalism and capacity were not an issue.

The 8th resolution covered Patrick Pouyanné's appointment as director for 3 years. Patrick Pouyanné was due to become Total's Chairman and managing director on December 18 2015, replacing Thierry Desmarest who had reached the 70-year age limit. Combining both posts is not the best corporate governance but at that date the board after the AGM comprised 6 independent directors (50%) with 6 non-independent directors including an employee representative and a representative of employee shareholders. This allowed us to back Patrick Pouyanné's appointment even if Edmond de Rothschild Asset Management (France) prefers separating these roles.

Our fund managers also broached resolutions on Say on Pay and severance payments. Patrick Pouyanné's annual salary is in part fixed but also has a variable contribution that depends on economic criteria (ROE, EPS and net profits), operating cost cuts, HSE indicators and his personal contribution. His variable compensation is capped at 185% of his fixed salary and he was to be entitled to performance-linked bonus shares in July. Severance benefits are capped at 2 years and are subject to performance criteria like ROE, ROACE and production growth.

Subsequently, the employee shareholders' mutual fund tabled an external resolution but this was not discussed as it was not on the agenda

## **Support to shareholder coalitions and to resolution tabling**

- In 2015, in keeping with its engagement to fight global warming, Edmond de Rothschild Asset Management (France) joined a coalition of around sixty global investors representing nearly \$2,000 billion in assets under management. This coalition sent a letter to the Security Exchange Commission (SEC) asking oil and gas companies to provide information on their capital expenditure in a context of rising costs, on carbon-intensive exploration projects, as well as on the impact of a possible reduction in demand for oil products by 2020.



## RECENT ENGAGEMENT INITIATIVES WITHIN THE FUND AND COMPREHENSIVE ESG DIALOGUE

### New ESG Dialogue – Engagement initiatives in 2015

In 2015, Edmond de Rothschild Asset Management (France) initiated three comprehensive individual engagements related to corporate governance matters with the companies Sanofi, Vivendi and CGG.

#### SANOFI

SECTOR: PHARMACEUTICALS

ACTIVITY: PHARMACEUTICALS, HUMAN VACCINES, ANIMAL HEALTH

SRI RATING: A

PILLAR CONCERNED: GOVERNANCE

#### **Context, grounds for engagement and priority expectations**

On 29 October 2014, Sanofi CEO Chris Viehbacher was evicted by the Group's Board of Directors, a decision that could have destabilised the group when all eyes were on it with the new product launches and major decisions expected concerning capital allocation. Edmond de Rothschild Asset Management (France) had a favourable opinion of Chris Viehbacher's restructuring work since his arrival in the group end-2008, which enabled Sanofi to level off its valuation discount, and therefore initiated an engagement process on the theme of governance in early 2015 in order to:

- clarify the process and reasons for Chris Viehbacher's departure
- better understand the issues resulting from this eviction, and more generally relations between General Management and the Board of Directors
- ensure that the shareholders' interest had been properly taken into account in the Board's decision

#### **Engagement methods employed**

On 16 February 2015, Edmond de Rothschild Asset Management (France) requested a face-to-face meeting with Serge Weinberg, Chairman of the Board of Directors of Sanofi.

In addition, the fund managers of Edmond de Rothschild Tricolore Rendement met the new Chief Executive Officer, Olivier Brandicourt, several times between November and December 2015.

#### **Company's responses**

During the meeting with Serge Weinberg, the fund managers learned that Chris Viehbacher's eviction had been on the cards for some time, but things accelerated as a result of two main events:

- first, it seems that Chris Viehbacher had initiated a project called "Phoenix" concerning the disposal of a mature product portfolio, while denying its existence to the Board of Directors;
- second, apparently Chris Viehbacher sent a letter<sup>3</sup> to the Board of Directors publicising his disagreements with the Board and seeking the support of a number of Sanofi shareholders and this precipitated the Board's decision, taken unanimously, to end his mandate.

The Chairman of the Board of Directors also added that:

- The Board of Directors had also considered Sanofi's stock market underperformance relative to an index of peers in the pharmaceutical sector when taking its decision.

<sup>3</sup>In a letter written in English, sent on 4 September to Sanofi's directors and transferred to *Les Echos* in the week he was ousted, Chris Viehbacher referred to "rumours" that Serge Weinberg was seeking a successor and listed five negative impacts that would result from his replacement, warning the directors of "the consequences of such a decision for the shareholders and other stakeholders, especially the senior executives" (Source: <http://www.challenges.fr/entreprise/20141029.CHA9551/autopsie-du-suicide-de-viehbacher-a-sanofi.html>).



- At operational level, Sanofi posted a sub-par performance in three quarters out of four in 2013. The Board also blamed Chris Viehbacher for his mismanagement of the Lantus diabetes franchise in the United States, especially the excessive price increases in recent years despite the Board's repeated warnings.
- Sanofi's financial communications was also deemed too aggressive at times, especially when it released its earnings for the first half of 2014 and Sanofi's management raised the annual guidance just when it was starting talks with the US payers (Pharmacy Benefit Managers, or PBM).
- At a more strategic level, the Board of Directors blamed Chris Viehbacher for his lack of initiative. For instance, Sanofi's business development team had not submitted any large-scale transactions to the Board of Directors since Genzyme in 2010. The Board of Directors had to insist for Sanofi to take part in the sale process of Merck's OTC drugs division. This lack of strategic initiatives by Sanofi's management was seen as all the more damaging in that the Group had to take important capital allocation decisions given its strong cash flow generation and the low interest rate environment, propitious for debt-financed transactions.
- Serge Weinberg confirmed the appointment of a new Chief Executive Officer before the end of the first quarter of 2015 (note: Olivier Brandicourt was officially appointed on 2 April 2015). He acknowledged that the Board of Directors was working on a seamless succession plan, and that its composition was to evolve towards more international profiles and with greater expertise in the pharmaceutical sector. Asked about his vision of the relationship between the CEO and the Board of Directors, he replied that the only boss is the Chief Executive Officer, that there cannot be "two men at the helm". He would not hesitate to terminate the Chief Executive Officer's mandate should the latter pose a threat to the Group's long-term sustainability.

#### **Edmond de Rothschild Tricolore Rendement's position in the following months**

The meeting with Serge Weinberg was successful and constructive, Olivier Brandicourt took over competently as CEO and communicated well with the fund managers at the meetings on 6 and 13 November and 7 December 2015. Edmond de Rothschild Asset Management (France) therefore estimated that Sanofi's responses were satisfactory enough to maintain a positive opinion on the company. As a result, the engagement action was closed at the end of 2015.

At 31/12/2015, the significant position in Sanofi held in the portfolio of the Edmond de Rothschild Tricolore Rendement fund was maintained at 8.2%.





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**VIVENDI**

**SECTOR: TELECOMMUNICATION SERVICES**

**ACTIVITIES: MEDIA AND CONTENT**

**SRI RATING: AA**

**PILLAR CONCERNED: GOVERNANCE**

**Context and grounds for engagement**

As part of its shareholder engagement policy, Edmond de Rothschild Asset Management (France) is fighting the new provisions introduced by the French law of 29 March 2014, or “Loi Florange”, aimed at recapturing the real economy, which alter the rights of minority shareholders by the systematic application of double voting rights for shares that have been registered for at least two years (article L.225-123 of the French Code of commerce). In order to promote the ‘one share, one vote’ principle to which it is attached and which is recommended by the AFG<sup>4</sup>, Edmond de Rothschild Asset Management (France) took action in the form of a simple dialogue with 19 companies<sup>5</sup> held in the portfolio of Edmond de Rothschild Tricolore Rendement, including Vivendi. For the latter, the fund managers decided to conduct an in-depth engagement action given its significant weight within the portfolio.

**Expectations and priority lever for improvement**

Through this engagement action, Edmond de Rothschild Asset Management (France) expects Vivendi to revert to the ‘one share, one vote’ principle by changing its articles of association, with due regard to the rights of minority shareholders.

**Engagement methods employed and results**

In order to have the best chances of success, Edmond de Rothschild Asset Management (France) conducted this engagement action with the support of PhiTrust<sup>6</sup> to ask for a resolution to revert to the ‘one share, one vote’ principle to be placed on the agenda of the General Meeting of 17 April 2015.

2,100,000 shares held by the Edmond de Rothschild Tricolore Rendement fund therefore voted for this draft resolution, for which nine shareholders (including three non-French) voted, representing 26.54 million shares (or 1.96% of the capital). The resolution was therefore placed on the agenda of the General Meeting of 17 April 2015, but unfortunately failed to receive the two-thirds majority required for adoption.

**Edmond de Rothschild Tricolore Rendement’s position in the coming months**

The engagement action on the specific issue of double voting rights was closed, but active dialogue with Vivendi’s management is being pursued.

The portfolio’s position in Vivendi has been maintained and remains significant (4.3% at 31/12/2015).

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<sup>4</sup> Association Française de Gestion

<sup>5</sup> See description on page 21 of the report

<sup>6</sup> www.phitrust.com



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CGG

SECTOR: ENERGY

ACTIVITIES: GEOSCIENCE

SRI RATING: A

PILLAR CONCERNED: GOVERNANCE

### Context and grounds for engagement

In 2015, CGG, a company specialising in seismic processing, suffered a very abrupt decline when oil companies started to cut investments due to the fall in oil prices. Concerns about the company heightened when CGG Chief Executive Jean-Georges Malcor turned down the bid from its rival Technip at the end of 2014: the oil engineering group offered €1.5 billion in cash for the geoscience equipment supplier to create “a world leader in oil services”. The offer was turned down by CGG Veritas’ Board, citing “industrial reasons, as they estimated that “the conditions were not met to respond to an unsolicited bid” compared to “a financial raid, with no operational synergies”.

### Expectations and priority levers for improvement

Edmond de Rothschild Asset Management (France) decided to initiate an engagement action with CGG Group, notably in order to:

- better understand the management team’s reasons for turning down Technip’s bid.
- ensure that all measures would be taken to lower operational costs and to protect the CGG group from any liquidity problem.

### Engagement methods employed, responses from the company and results

In this context, the fund managers of Edmond de Rothschild Tricolore Rendement met CGG’s management several times in 2015:

- Interview with Thierry Le Roux, former operational head of CGG, on 11 February 2015,
- Interview with head of investor relations on 18 February 2015, prior to the General Meeting of Shareholders,
- Meeting with CEO Jean-Georges Malcor on 11 March and 15 September 2015,
- Interview with the head of investor relations on 1 October and 16 December,
- Meeting with the CEO and the CFO on 5 November 2015.

These exchanges led the company’s management to vote in favour of a drastic new drastic restructuring plan, reducing the ship fleet to five vessels and resulting in further job cuts concerning 930 employees worldwide, of which 310 in France. It is worth noting that in two years, the workforce will have been reduced by more than 30% and even by 40% compared with end-2012.

### Edmond de Rothschild Tricolore Rendement’s position in the coming months

The engagement action of Edmond de Rothschild Asset Management (France) ended with the announcement of the restructuring plan and a capital increase to which the Edmond de Rothschild Tricolore Rendement fund subscribed. However, given the stock’s fragility in 2015, we decided to keep up a very active dialogue with the management team. The exchanges notably addressed the impact of and social support related to reorganisation resulting from successive restructuring plans over the period 2013-2016. Even though we kept CGG in the portfolio, its weight decreased markedly due to the drop in the share price: the position in CGG represented 0.5% of the portfolio at 31/12/2015.



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## Follow-up of Dialogue-Engagement actions initiated in 2014

### NEXANS

SECTOR: CAPITAL GOODS

ACTIVITY: CABLES AND CABLING SYSTEMS

SRI RATING: A

PILLAR CONCERNED: GOVERNANCE

#### **Background<sup>7</sup>**

In 2014, Edmond de Rothschild Asset Management (France) initiated an engagement action with Nexans on the Governance pillar following a series of profit warnings resulting directly from an inappropriate strategy and failed governance, causing an underlying risk for the company's valuation.

Our engagement action concerned the strengthening of the checks and balances and of shareholder stability. We asked for the activation of several levers which appeared conducive to a correction of the situation:

- separation of the functions of Chairman and Chief Executive Officer,
- appointment of a new Chairman of the Board of Directors,
- rebalancing of the powers of Invexans, one of Nexans' two main shareholders.

Edmond de Rothschild Asset Management (France) sent two letters, which went unheeded, to Invexans and BPI, Nexans' two main shareholders. In addition, we supported the resolution tabled by Amber Capital Investment Management at the AGM of 15 May 2014, suggesting an early termination of the Chief Executive Officer's mandate as a director and a de facto separation of the functions of Chairman and Chief Executive Officer. The resolution was rejected, having gathered only 35.2% of voting rights.

Before the General Meeting, however, the Board of Directors finally agreed to the separation of functions, appointing Frédéric Vincent as Chairman and Arnaud Poupart-Lafarge, who joined Nexans in 2013, as Chief Operating Officer, in charge notably of the restructuring plans.

#### **Recent developments and conclusions**

As mentioned in the previous engagement report, their interview with Arnaud Poupart-Lafarge left the fund managers of Edmond de Rothschild Tricolore Rendement with a positive impression, due mainly to his responses on Nexans group's operational and governance issues.

- In terms of governance, Arnaud Poupart-Lafarge was able to lift the suspicions of interference concerning one of Nexans' major shareholders, Chilean group Quinenco. He also justified Frédéric Vincent staying on as Chairman of the Board of Directors, underscoring his extensive experience within the group, which could prove useful as part of the restructuring.
- Operationally, we felt that Arnaud Poupart-Lafarge was very rational and transparent on the need to restructure Nexans, particularly given the economic weakness and excess capacity in many markets served by the group.

At the end of 2014, Edmond de Rothschild Asset Management (France) had decided to maintain the engagement action pending the first results of the restructuring measures taken by Arnaud Poupart-Lafarge. On 17 February 2015, we asked to see Arnaud Poupart-Lafarge again to follow up on our 2014 exchanges. At the end of 2015, Edmond de Rothschild Asset Management decided to close the engagement action, feeling confident about the stock thanks to the satisfactory restructuring work conducted by Arnaud Poupart-Lafarge, with encouraging first results.

At 31/12/2015, Edmond de Rothschild Tricolore Rendement's position in Nexans was revalued compared to end-2014, representing 1.9% of the portfolio.

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<sup>7</sup> This action was described in the Annual Engagement Report of Edmond de Rothschild Tricolore Rendement dated 31 December 2014



## FUND CHARACTERISTICS

Information on the fund	
Name	Edmond de Rothschild Tricolore Rendement
Fund inception date	04/12/1998
Legal form	French OPCVM (mutual fund)
AMF Classification	Eurozone equities
Benchmark index	SBF 120 (NR)
Recommended investment horizon	Over five years
Frequency of NAV calculation	Daily
Subscription/redemption deadline	Every day of calculation of the net asset value before 12.30 p.m. for the NAV of the day and calculated the next business day (Paris time)
Custodian	Edmond de Rothschild (France)
Valuation agent	CACEIS Fund Administration
Performance fee*	15% per year of the outperformance compared with the benchmark index, SBF 120 net dividends reinvested
Decimalisation	One thousandth of a share
Subscription fee	3% maximum
Redemption fee	None

Share class information	C share	D share
ISIN code	FR0010588343	FR0010588350
Bloomberg ticker	TRICREC FP Equity	TRICREC FP Equity
Net asset value at 31/12/2015	EUR 334,29	EUR 227,91
Currency	EUR	EUR
Currency hedge	-	-
Allocation of income	Accumulation	Distribution
Max. management fee	2.00%	2.00%
Performance fee*	15.00%	15.00%
Subscribers concerned	All subscribers	All subscribers
Minimum subscription	1 share	1 share
Date of inception	04/12/1998	08/10/1999
Synthetic risk return indicator (on a scale of 1 to 7, 1 representing the minimum level of risk and 7 the maximum level of risk)	6	6

\* Modalities for the application of the performance fee:

Performance fees will be paid to the Management Company as follows:

Benchmark index: SBF 120 (expressed in Euro for euro-denominated shares, in US Dollar for US Dollar-denominated shares), net dividends reinvested.

The performance fee is calculated by comparing the UCITS' performance with that of the benchmark index.

If the UCITS outperforms the benchmark index, a provision of 15% net of taxes is applied to the outperformance.

The reference periods end on the day of the last net asset value calculation in January.

If over a given reference period, the fund's performance calculated with coupons reinvested turns out to be negative, or lower than or equal to that of the benchmark index, the reference period will be extended until the day of the last net asset value calculation in January of the following year.

This performance fee is paid annually after the last net asset value calculation of the reference period. Should the fund's performance be negative, the fee will not be paid and the reference period will be extended until the day of the last net asset value calculation in January of the following year.

Performance fees will be provisioned at each calculation of the net asset value.

No performance fee will be paid if the UCITS' performance is lower than that of its benchmark index since the last time that a performance fee was paid.

In the case of an underperformance, the provision for the performance fee is readjusted by reversals of provisions limited to the amount of previous contributions. In the case of a redemption of shares, the proportion of the performance fee corresponding to the redeemed shares is definitively paid to the management company.



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## DISCLAIMER

Written on 30/09/2016. This document is non-binding and its content is exclusively for information purpose.

### **Main investment risks**

This UCITS is rated in category 6, in line with the type of securities and geographic regions detailed under the heading "Objectives and investment policy", as well as the currency of the unit.

- **Capital risk:** The UCITS does not guarantee or protect the capital invested, so investors may not recover the full amount of their initial capital invested even if they retain the units for the recommended investment period
- **Equity risk:** The value of a share may vary as a result of factors related to the issuing entity but also as a result of external, political or economic factors. Fluctuations in the equity and convertible bond markets, whose performance is partly correlated with that of the underlying equities, may lead to substantial variations in net assets, which could have a negative impact on the net asset value performance of the UCITS.
- **Interest rate risk:** Exposure to interest rate products (debt securities and money market instruments) makes the UCITS sensitive to interest rate fluctuations. Interest rate risk might result in a fall in the value of the security and, therefore, the NAV of the UCITS in the event of a change in the yield curve.
- **Credit risk:** The main risk is that of default by the issuer, involving either the non-payment of interest and/or the non-repayment of capital. Credit risk is also linked to the downgrading of an issuer. Unitholders are reminded that the net asset value of the UCITS is likely to drop if a total loss is recorded on a transaction following default by a counterparty. The inclusion of private corporate debt in the portfolio, whether directly or through UCIs, exposes the UCITS to the effects of variations in credit quality.
- **Currency risk:** The capital may be exposed to currency risk when the securities or investments of which it is composed are denominated in a currency other than that of the UCITS. Currency risk corresponds to the risk of a fall in the exchange rate for the listing currency of financial instruments in the portfolio against the UCITS' reference currency, the euro, which may lead to a fall in the net asset value

The data, comments and analysis in this document reflect the opinion of Edmond de Rothschild Asset Management (France) and its affiliates with respect to the markets, their trends, regulation and tax issues, on the basis of its own expertise, economic analysis and information currently known to it. However, they shall not under any circumstances be construed as comprising any sort of undertaking or guarantee whatsoever on the part of Edmond de Rothschild Asset Management (France).

All potential investors must take prior measures and specialist advice in order to analyse the risks and establish his or her own opinion independent of Edmond de Rothschild Asset Management (France) in order to determine the relevance of such an investment to his or her own financial situation. To this end, any investor shall read the key investor information document (KIID) delivered before any investment is made. Such a document is available online at [www.edram.fr](http://www.edram.fr) tab Fund Center or upon request for free to the registered office of Edmond de Rothschild Asset Management (France).

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No fund may be offered to a person if proscribed by the law of their country of origin or any other country with respect to that person or the product concerned.

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The fund may not directly or indirectly receive subscriptions from the People's Republic of China.

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