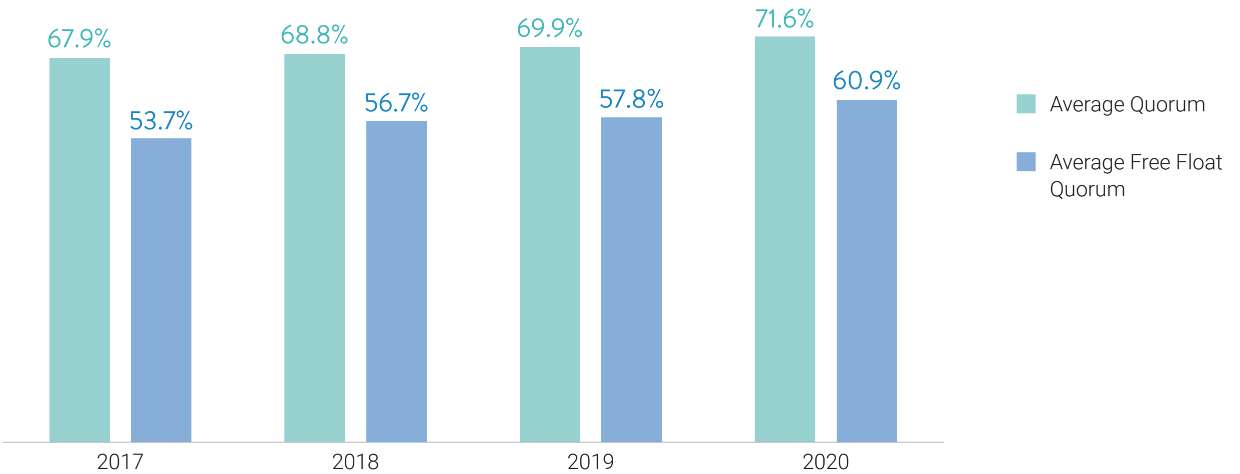
FRANCE

QUORUM

The long-term tendency of increasing quorum was confirmed by the 2020 season. However, this was not the case for all companies. The most impacted sectors (such as aeronautic, automotive and real estate) had lower quorums while the safer companies increased their quorums.

This is due to a switch to safer companies by index funds and major asset managers, which vote most of their investments. On the other hand, smaller investors, which have more appetite for risk, tend to vote only their major holdings.

QUORUM EVOLUTION (CAC40 and NEXT20*)

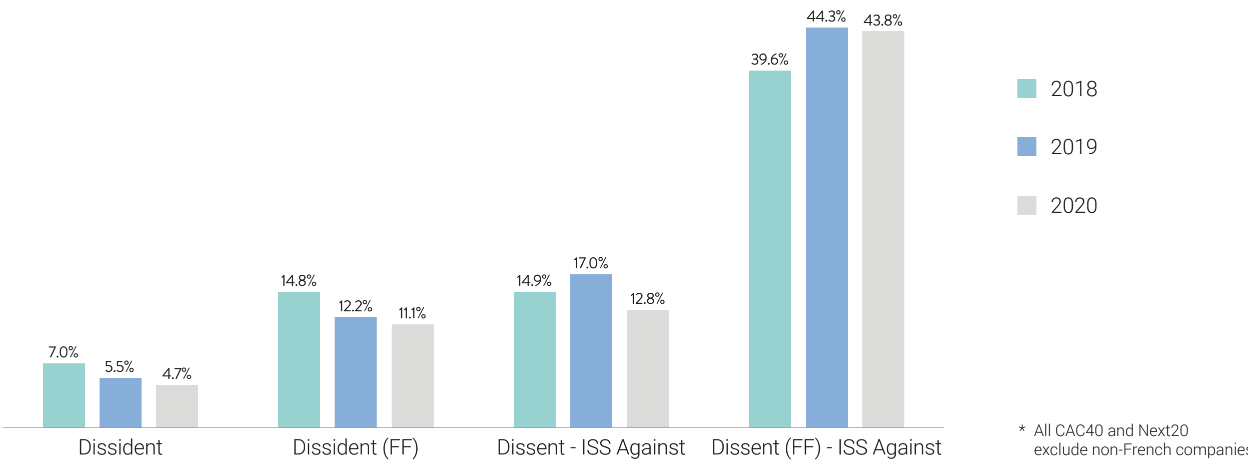


BOARD

On 141 resolutions, only 16 received a negative recommendation from ISS (down from 41 in 2018 and 19 in 2018). 11 of these 16 resolutions were at Credit Agricole, Hermes and LVMH AGMs for a lack of independancy of their Board.

In addition, we noted that Mr. Sébastien Bazin of Accor was the only Chairman and CEO to be reelected in 2020, received **13%** contestation overall and **33.9%** contestation from the free float.

DIRECTORS ELECTION WITHIN THE CAC 40*

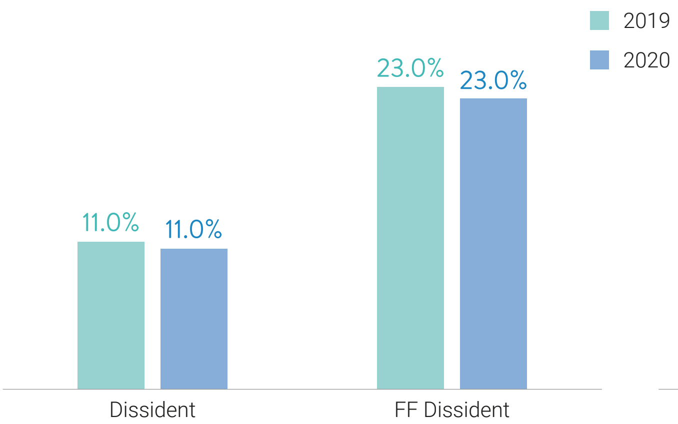


* All CAC40 and Next20 exclude non-French companies

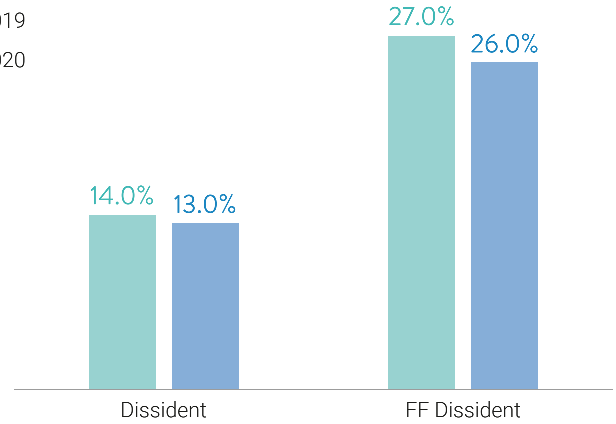
REMUNERATION

The level of support increased slightly from 2019 in consideration of a reduction in the negative recommendations from the Proxy Advisors.

REMUNERATION POLICY (EX-ANTE)



SAY ON PAY (EX-POST)



On the 36 French companies of the CAC 40 which had their AGM in 2020, 7 received more than **50%** of dissent from the free float for their Remuneration policy (ex-ante) and 10 for the Say on Pay (ex-post). All of these companies have a controling shareholder and are more reluctant to align remuneration structure with market expectations.

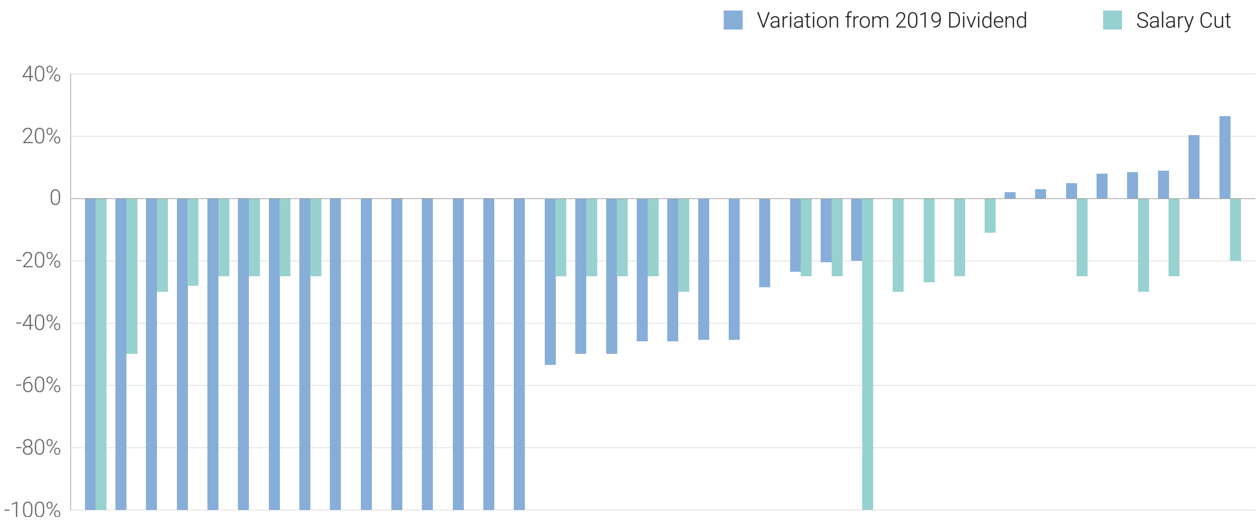
However, the Say on Pay of Olivier Baudincourt, who left Sanofi on August 31st failed with only **42%** of support. The pension scheme granted was the main reason for this negative vote in addition to a lack of disclosure of the level of achievement of each criteria.

Remuneration is still a high concern for investors. We note that only 7 of 36 ex-ante resolutions and 8 of 36 ex-post resolutions received favourable recommendations from ISS without flagging a concern.

Investors pointed out:

- The number of shares granted which could be an opportunity of increasing the long-term remuneration
- A lack of disclosure of remuneration structure and insufficient level of information of performance condition achievement
- Discretionary power of the board
- Pension scheme
  (presence requirement or detail of the contribution)
- Severance agreement (risk of pay for failure)
- Lack of correlation between pay and performance, and concerns regarding the challenging features of performance criteria
- The choice of non-financial KPIs or incentive plans is appreciated by the financial community, as long as they reflect the strategic priorities of the company and are adequately balanced with financial criteria.

DIVIDEND AND CUT SALARY



On March 29, 2020 the AFEP Medef (top 110 French companies) recommended its members to cut their dividend by **20%** compared to the previous year and to cut the remuneration of the executives directors by **25%** during the time of partial unemployment. The French government also recommended to moderate dividends and remuneration during the Covid-19 crisis. This has been followed by media and French investors which were not in favour of any dividend increase. Therefore, some companies, such L'Oreal reduced both dividend and remuneration although they did not receive any help from the French state and did not use the partial unemployment option. Regarding the cut in remuneration, the period and the universe differs for each company.
According to public data:

- Atos cut the fixed salary for two months
- Michelin cut the variable remuneration of 2019
- URW cut fixed + variable remuneration during unemployment period
- Peugeot reduced long term remuneration
- Hermes cancelled the increase planned for 2020

Those communications have been made during the AGM season. We expect companies to give more details on the exact period and universe for their 2021 AGM. Investors, Proxy Advisors and French Government will analyse these efforts considering the result of the companies, Covid-19 impact on activity and use of partial unemployment.

PAY RATIO

The SRD II Directive introduces a link between executive compensation and employee compensation. The PACTE Law amended the French Commercial Code to introduce several new requirements, including:

- a comparison between executive compensation, presented on an individual basis, and the mean compensation of employees.
- a comparison between executive compensation, and the median compensation of employees in the company.

Although few investors have a maximum remuneration cap in their policy, they did not comment on these ratios. However, they will look at the development through the year. These ratios are also not very relevant as the universe of employees is very different from the holding of worldwide employees through French employees (as recommended by Afep-Medef). In 2019 disparities within the CAC40 + Next20 were significant from 20 (29 median compensation) to 268 (320 median) and the average pay equity ratio was 57.1 (77.5 median).

AGMs 2020: INVESTOR INSIGHTS Q&A

Benoit Humeau,
SRI Analyst
La Banque Postale Asset Management

The past AGM season was the first one where the SRDII has been applied. Do you consider that the companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?

SRDII is a very positive step, which will hopefully improve engagement and corporate governance. Substantial efforts have already been made by companies over the last years to increase transparency, mainly on remuneration and board composition. There is an intensification of dialogue with companies. However, we regret that there are still some oddities, such as the lack of disclosure of voting results in Sweden and Denmark.

We also expect a lot from SRDII regarding the voting chain. It is unfortunately still hard to know if our votes are recorded at the General Meeting. But everybody seems to be aware of this aberration, and we are confident that custodians in particular will play a positive role and be more transparent about this issue.

Concerning LBPAM, SRDII has been a serious driver for strengthening our engagement processes and improving our communication about it.

Do you have specific views on what "good" non-financial performance criteria look like and how they should affect executive remuneration? (e.g., quantifiable, in line with company reporting, STI vs LTI/multiplier/malus)

Executive remuneration should be based on diverse criteria that reflect the performance of companies, financial and non-financial, short-term and long-term. It is especially important for companies which face high environmental and social risks. For example, we cannot understand the absence of carbon-related criteria for carbon-intensive companies (energy, utilities, materials, automakers). We trust directors to select the most relevant non-financial criteria, and we barely challenge their selection yet.

However, we ask them to introduce E&S criteria for short-term bonus and for long-term plans, and to give them a significant weight. Below a weighting of 20%, it raises questions as to whether sustainability is really considered as something important by the board of directors and by the company. Moreover, as well as financial criteria, we recommend companies to mix both internal and external indicators. Finally, it seems essential that these non-financial indicators are audited by an independent third-party.

The analysis of investor voting behavior and voting recommendations of proxy advisors do not seem to show different significant trends in the 2020 season. Do you expect Board should address the consequences of the Covid-19 pandemic (if so, what are you looking for in particular) and do you think it will have an impact on the next year's AGMs (i.e in 2021 might include decisions showing the appropriateness of executive pay in relation to the overall economic and social situation)?

The moderation of executive remuneration was already a key voting principle for LBPAM before the pandemic. We defined a reference cap of 240 times the national median salary. Why 240 times? Because there are around 240 working days per year, and this cap means we think executive remuneration becomes unreasonable when a CEO can earn in one day more than a "standard employee" can in one year in the same country.

The Covid-19 pandemic reinforces the need for moderation. Investors cannot ignore what happens in our societies – the increase in unemployment, the rise of inequalities. Executive remuneration bears an important symbolic weight in this context.

It is good news that many executives accepted a reduction of their remuneration in 2020. It will be interesting to see how this further develops in 2021. We can expect that boards will make use of their discretionary power to adjust remuneration, given the fact that initial quantitative criteria are often not relevant anymore. We will have to make sure that this discretion is clearly explained.

More generally, we expect directors to spend more time on social issues which affect their business, and be receptive to investor concerns about it. Many companies implemented very serious measures to protect their employees' health during the pandemic; we hope this trend will continue.

Decision on capital distribution, including dividends as well as share buybacks by companies that may face liquidity difficulties, was under great scrutiny in the last season. Do you think that capital allocation decisions should be made in a long-term strategic context, reflecting the company's own financial position, operating performance and business model?
Which circumstances may allow companies greater flexibility from your point of view?

It is up to the management board and the directors to assess the fair amount of the dividend, based on the company's own financial position and on its operating performance. It should also take into account the visibility they have over their company's activity.

LBPAM wrote to more than 80 companies in the beginning of April 2020, to let them know that, as long-term shareholders, we would accept and even encourage a decrease in capital distribution in the context of high uncertainties.

This position is driven by two reasons. First, as responsible investors, we feel that we must contribute to the common effort, similarly to other economic players (employees, suppliers, governments). Second, we are convinced that limiting cash return to shareholders on the short-term will have positive impacts in the long-term and that it will help us to overcome the crisis by preserving companies' resources.

For example, the payment of a dividend seemed relevant for companies having some visibility over their business, like retailers or the digital industry. In other sectors, however, we voted against a substantial number of dividend and share buyback resolutions based on this principle.