

# ENGAGEMENT AND VOTING POLICY

LYXOR INTERNATIONAL ASSET MANAGEMENT

Fiscal year 2021

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## INTRODUCTION

LYXOR International Asset Management SAS (hereafter referred to as “LYXOR”) is a fully owned subsidiary of Societe Generale Group. This document outlines how LYXOR, on behalf of its clients, exercises its role as an **engaged and responsible shareholder**.

Convinced of the environmental, social and governance challenges, LYXOR has defined – as an extension of its approach as a responsible investor and in line with its adherence to the United Nations Principles for Responsible Investment (PRI) – a **shareholder engagement policy** attached to the securities held by the CISs (AIFs and UCITS) which it manages.

This policy is reflected in two complementary areas: an **engagement policy** and a **voting policy**, thereby fulfilling the fiduciary obligations to LYXOR’s clients.

The engagement policy outlines how LYXOR interacts with holding companies. This policy presents the various engagement campaigns carried out by LYXOR and the main related themes.

The voting policy lists the main principles of corporate governance to which the asset management company adheres and the way in which its principles are applied when exercising LYXOR’s voting rights at general meetings. General meetings of shareholders cover a wide range of topics, this document therefore establishes LYXOR’s voting principles on key issues (not all issues of voting can be known in advance).

This policy takes into account in particular the Recommendations on Corporate Governance of the French Asset Management Association (AFG), as well as the provisions of article R533-16 of the French Monetary and Financial Code.

The shareholder engagement policy is annually reviewed to consider regulatory changes, changes in corporate governance codes and market practices that may have occurred throughout the year. The policy is validated by an internal governance committee and has been developed in the context of LYXOR’s policy for socially responsible investments.

### **Integration of sustainability risks by the Management Company in its investment decision-making processes relies namely on practices described in this policy.**



“Sustainability Risk” means an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investments made by the relevant fund. Sustainability Risks can either represent a risk on their own or have an impact on other risks and may contribute significantly to such risks, such as (but not limited to) market risks, operational risks, liquidity risks or counterparty risks. Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain, incomplete, estimated, out of date and/or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

Sustainability risk is linked but not limited to climate-related events resulting from climate change (a.k.a Physical Risks) or to the society’s response to climate change (a.k.a Transition Risks), which may result in unanticipated losses that could affect the relevant [Sub-Fund]’s investments and financial condition. Social events (e.g. inequality, inclusiveness, labour relations, investment in human capital, accident prevention, changing customer behaviour, etc.) or governance shortcomings (e.g. recurrent significant breach of international agreements, bribery issues, products quality and safety, selling practices, etc.) may also translate into Sustainability Risks.

Through its voting and engagement policy, the management company deploy main governance principles to which LYXOR adheres as well as the different engagement themes initiated in order to reduce or mitigate the sustainability risks.

## I. GENERAL INFORMATION

### 1. INTERNAL GOVERNANCE COMMITTEE

An internal governance committee at LYXOR validates and oversees the implementation of the engagement and voting policy. This committee is composed of the following members:

- Secretary General
- Chief Investment Officers (CIO)
- Head of Private Wealth Investments
- Head of Legal Affairs
- Head of Compliance and Internal Control (RCCI)
- Head of Sustainable and Responsible Investments
- Sustainable and Responsible Investments Analyst

The Committee intervenes in particular on the following points:

- Validation of changes in voting policy content
- Change of the voting' scope
- Validation of the engagement policy
- Potentials conflict of interest

### 2. A TEAM DEDICATED TO IMPLEMENTING THE ENGAGEMENT AND VOTING POLICY

LYXOR has a dedicated SRI team based in Paris, which is in charge of the development and application of the SRI policy, thus including the implementation of the engagement and voting policy.

### 3. MONITORING OF STRATEGY, FINANCIAL AND NON-FINANCIAL PERFORMANCE, RISKS, CAPITAL STRUCTURE, SOCIAL AND ENVIRONMENTAL IMPACT AND CORPORATE COVERNANCE

The explicit inclusion of **ESG risks and opportunities** in traditional financial analysis and investment decisions must be based on a **systematic process** and **appropriate research sources**. The integration process focuses on the **potential impact of ESG issues** on the company's financial statements (positive and negative), which can have an impact on the investment decision.

LYXOR also uses a variety of external information sources in order to cover the various SRI/ESG specificities:

- LYXOR uses ESG research from **MSCI** as an ESG database in order to integrate these stakes and to assess its funds;
- LYXOR uses ESG research from **Trucost** as an Environmental & Climate database in order to integrate these stakes and to assess its funds;
- LYXOR uses the services of a proxy voting advisor (**ISS**) for corporate governance research (as part of LYXOR's voting policy);
- LYXOR uses the services of **Sustainalytics** to support LYXOR in its thematic engagement campaigns;

- LYXOR uses the services of **VIGEO-EIRIS** in order to develop its ESG analysis and assessment methodology applied to unlisted SMIDs assets;
- Index providers, index advisors (**CBI, Equileap, Solactive, MSCI, RobecoSAM...**);
- In the global context of the Societe Generale Group Environmental and Social Policies, LYXOR used the Defense List produced by the Group, based on **ISS-Ethix** data to identify companies considered in violation of its Defense policy;
- In the global context of the Societe Generale Group Environmental and Social Policies, LYXOR used the Global Compact List produced by the Group, based on **Sustainalytics** data to identify companies that are associated with serious and repeated breaches of criteria, standards and/or mandatory requirements relating to controversial sectors and products.

Each partnership was rigorously selected.

#### 4. CONFLICT OF INTEREST

The guidelines of our engagement and voting policy are designed to act in the best interests of our clients. However, LYXOR may face conflict of interest situations in the implementation of its engagement and voting policy, such as:

- Commercial relations may exist with a company for which LYXOR will exercise its role as an engaged and responsible shareholder through its engagement policy and/or voting policy;
- Exercise of voting rights at Societe Generale Group' general meetings.

In order to prevent these potential conflict of interest situations, principles and measures have been defined:

- The SRI team in charge of applying the engagement and voting policy is independent of the commercial teams.
- The engagement and voting policy is validated by an internal governance committee (see above).
- As for all our assets under management, the general rule for cases in which there may be a risk of conflict of interest is to vote in accordance with the voting policy.
- In exceptional cases where a conflict of interest does not permit the application of the voting policy, the following process will apply: (i) analysis and presentation to the governance committee, (ii) decision by the Head of Compliance, (iii) as a last resort, if necessary, the decision will rest with the Chairman of LYXOR.

## II. ENGAGEMENT POLICY

Convinced that a company's performance is not based solely on its financial performance, LYXOR now expects companies in which it invests to take into account, and be transparent, on the extra-financial issues they face.

The consideration of these environmental, social, societal and governance issues is beneficial to the long-term performance of companies and therefore in the long-term interest of investors.

In order to promote best practices in this area, LYXOR has thus defined an engagement policy that is structured around three axes:

### 1. AN ENGAGEMENT RELATED TO CORPORATE GOVERNANCE

As a representative of the CIS that it manages, LYXOR undertakes to exercise the voting rights attached to the shares held by these CIS in order to promote best corporate governance practices (cf. Part III. Voting policy). In order to do this, LYXOR will use its influence before general meetings to initiate a **constructive dialogue** with the companies and **enrich the analytical work** done internally by LYXOR. Outside the general meeting period, LYXOR promotes regular dialogue with companies on corporate governance issues such as changes in the composition of the Board and its committees, succession plans, the role and functions of the Lead Independent Director, changes in the remuneration policy, etc.

### 2. AN ENGAGEMENT RELATED TO ENVIRONMENTAL, SOCIAL AND/OR GOVERNANCE ISSUES

The consideration of environmental, social and/or governance issues is at the heart of LYXOR's responsible investor strategy. Discussing with companies to understand how they are managing extra-financial risks and how they are taking advantage of related opportunities is critical. LYXOR therefore considers that it is the responsibility of the Board of Directors/Supervisory Board of invested companies to supervise the definition of the company's non-financial and climate risks and opportunities, as well as the strategy implemented by management with regards to this risk/opportunity analysis. The objective of LYXOR on this type of engagement is to work with companies to encourage **them to improve their Corporate Social Responsibility (CSR) practices**.

### 3. AN ENGAGEMENT RELATED TO CLIMATE

International politics really took hold of the subject at COP 21 by adopting **the Paris Agreement (2015)**, which made it possible to frame the climate change ambitions at the international level: to **maintain the increase in global temperature well below 2°C, and further efforts to limit this increase to 1.5°C by 2100**. Once the framework is defined, it is necessary that each one at his level seizes the subject and makes the practices evolve.

LYXOR has therefore decided to focus its engagement campaigns on the issue of climate change, representing one of the major challenges of the 21<sup>st</sup> century. The choice of climate change as a major thematic engagement campaign is in line with LYXOR's socially responsible investment policy and its climate policy.

To date, LYXOR has conducted four thematic climate engagement campaigns:

### 3.1 CLIMATE ACTION 100+

In 2018, LYXOR joined the **Climate Action 100+**, an international initiative led by investors to engage systemically with important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

Through this initiative, LYXOR aims to obtain commitments from the Boards of Directors or Supervisory Boards and/or key executives in order to:

1. **Implement a strong governance framework** that clearly articulates the Board's responsibility and oversight for climate risks;
2. Take action **to reduce greenhouse gas emissions across the value chain**, in line with the Paris Agreement's goal of limiting global average temperature increase to well below 2°C above pre-industrial levels and to move, as far as possible, to a 1.5°C trajectory. This implies the ambition to achieve the goal of carbon neutrality (net zero emissions) by 2050;
3. **Improve reporting in accordance with the final recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)** and the Global Investor Coalition on Climate Change (if applicable) to enable investors to assess the robustness of corporate strategies against a range of climate scenarios, including well below 2°C, and to improve investment decision-making.

In 2021, LYXOR supports seven companies through the Climate Action 100+ initiative, towards a better consideration of their climate issues, whether in terms of their governance, their strategy or their ambition towards the climate.

### 3.2 PLASTICS AND THE CIRCULAR ECONOMY

The European Commission<sup>1</sup> has adopted a new action plan for the circular economy - one of the main blocks of the European "Green Deal", Europe's new agenda for sustainable growth. In this action plan, the European Commission predicts that plastic consumption should double within the next 20 years. But for now, 40% of the plastic is only used once<sup>2</sup>. It is therefore essential for all stakeholders (companies, suppliers, investors, regulatory bodies, etc.) to think about a sustainable integration of plastic in a circular economy.

It is in this dynamic that in 2020, **LYXOR joined a collaborative engagement campaign on the theme of plastic and the circular economy**<sup>3</sup>. The objective is to understand with key players what the stakes of plastic are and how to integrate the associated risks throughout the value chain.

**Three sectors** (packaging and consumer goods, electronics and automotive) have thus been identified as having an essential impact on this theme. Among these sectors, LYXOR, in collaboration with the other investors active in this campaign, has selected some **twenty companies** with a direct or indirect impact on this topic in order to engage in dialogue.

Throughout this initial three-year engagement campaign, LYXOR and the various stakeholders are addressing key issues, such as life-cycle analysis, which is crucial in establishing a circular economy, or the quality of recycled materials and the confidence in the material, one of the main challenges to increase the use of recycled plastics.

<sup>1</sup> [https://ec.europa.eu/environment/circular-economy/index\\_en.htm](https://ec.europa.eu/environment/circular-economy/index_en.htm)

<sup>2</sup> <http://www.nationalgeographic.co.uk/10-shocking-facts-about-plastic>

<sup>3</sup> Engagement campaign coordinated by Sustainalytics

## Engagement and voting policy

The campaign's engagement strategy is based on the **Ellen MacArthur Foundation's** initiative to accelerate the transition towards a circular economy. The foundation aims to promote a new plastics economy, and recommends three primary steps for companies and other stakeholders:

1. Decouple from fossil feedstocks;
2. Create an effective after-use economy;
3. Reduce leakages.

These steps are in line with the concept of a circular economy.

To measure the progress of the campaign, each is evaluated according to 6 KPIs:

- **Governance and reporting**, in order to evaluate integration of circular economy principles into strategy, Board-level consideration of this issue and the quality of public reporting;
- **Risk and impact assessment**, in order to verify identification of plastic use intensive parts of the value chain and implementation of measures to address risks and impacts;
- **Input in the production and utility during use**, this will look at the extent to which companies use virgin plastic products during production processes and the longevity of a company's plastics material during the use phase;
- **Recycling practices and after-use**, in order to assess whether the company discloses an operational framework to facilitate recycling or whether it sets quantified targets in terms of recycling;
- **Innovation**, this reflects how far the company invests in innovation (through R&D or otherwise) aimed at reducing the lifecycle impacts of its operations.
- **Stakeholder cooperation**, to see if the company contributes to better governance of plastic waste at the local, regional and/or international level, with consumers, suppliers, etc.

In addition to assessing the commitment of companies, LYXOR explores practical issues regarding the establishment of a circular economy and exchanges on best market practices in order to find sustainable and accessible solutions for all stakeholders.

Through this engagement campaign around plastic and the circular economy, LYXOR contributes to three of the seventeen Sustainable Development Goals defined by the United Nations:





### 3.3 LOCALIZED WATER MANAGEMENT

According to the United Nations<sup>4</sup>, water scarcity affects more than 40% of the world's population and is expected to continue to increase with climate change. Apart from the impacts most associated with water – droughts, floods, extreme weather events and rising sea levels – it is inherently connected to various other key challenges including climate change, food security, involuntary migration, or biodiversity, etc. Reaching far beyond Sustainable Development Goal 6, dedicated to access clean water and sanitation, water is paramount for the achievement of most other SDGs.

It is for these reasons that the UN General Assembly launched the Water Action Decade (2018-2028) initiative to mobilize action that will help transform our water management. Aware of the growing challenge of this resource, **LYXOR launched a collaborative thematic engagement campaign on water management in 2020<sup>5</sup>**.

**Three sectors** (food and beverages, the fashion industry and the mining industry) were thus identified as having a major impact on this theme. Among these sectors, LYXOR, in collaboration with the other investors active in this campaign, has selected some **twenty companies** with a direct or indirect impact on this topic in order to engage in dialogue.

This engagement campaign places emphasis on local water management, which is why two basins that are highly exposed to climate risks and essential for many actors have been chosen as case studies. Tiete and Vaal were selected as the two focus river basins for this engagement. The companies selected for this campaign are exposed to activities in these two basins.

Most companies are aware of the importance of water management issues but do not make them a priority. The objective of this campaign is to remedy this phenomenon so that all companies can integrate these issues throughout their value chain. The starting point for good management of water-related issues is to properly map the risks and associated impacts that fall under the direct and indirect control of companies.

In order to measure the progress of the campaign, each is evaluated according to 6 KPIs:

- **Water governance**, to assess a company's commitment to water management and consider the environmental/water management system, as well as attention for water challenges in the value chain;
- **Water risk and opportunity management**, to focus on risk assessments, physical climate risk scenario analysis, water-related business opportunities and engagement with suppliers;
- **Water quantity**, to explore a company's approach to monitoring its water withdrawals and consumption as well as to improving its water efficiency;
- **Water quality**, the quality-related aspects analyzed focus on the companies' efforts to manage water pollution and restore ecosystems where appropriate;
- **Integrated water resources management**, to evaluate each company's acknowledgement of the need and its involvement in basin-level collaboration to manage water impacts and risks collectively and to assess any company measures in connection to the human right to safe drinking water and sanitation;
- **Public water management**, to evaluate a company's efforts in the specific river basin to monitor the availability of local water supply, maintenance and investment into water infrastructure and local enforcement of regulations, and to inform itself about local water crisis management procedures.

<sup>4</sup> <https://www.un.org/sustainabledevelopment/fr/water-and-sanitation/>

<sup>5</sup> Engagement campaign coordinated by Sustainalytics

In addition to assessing companies' practices, the idea is to mobilize them more on this topic, in other words, to ensure that companies' approach to water risk assessment and management:

1. Proactively and effectively contributes to long-term business continuity;
2. Is environmentally sustainable;
3. Respects the development needs of the countries concerned.

Through this engagement campaign around localized water management, LYXOR contributes to 4 of the 17 Sustainable Development Goals:



### 3.4 RESPONSIBLE CLEANTECH

Technological advances, the evolution of economic forces and the climate emergency are disrupting the daily lives of many industries and billions of people. LYXOR believes that clean technologies can play an important role in the transition to a low-carbon economy. The sector has already experienced strong growth in recent years. For example, renewable energy capacity is expected to increase by 50% over the next five years, thanks to solar photovoltaic (PV) and onshore wind technology<sup>6</sup>. This dynamic attracts significant investments, especially in the transport sector with the expansion of the production of vehicle batteries<sup>7</sup> for example with the aim of electrifying transport.

The growing demand for these products poses new environmental, social and governance challenges, including the recycling of products such as wind turbine blades or vehicle batteries, which have received far less attention than the upside benefits of these technologies. It is advantageous to integrate these issues and promote circular business models for recovering materials when products reach the end of their life cycle.

It is in this context that **LYXOR initiated in 2020 a thematic campaign on clean and responsible technologies**<sup>8</sup>. The objective of this engagement campaign is to implement a holistic approach to assess and manage ESG risks associated with the development of this type of technology.

**Three sectors** (companies that manufacture wind turbines, solar photovoltaic panels and electric vehicles and/or vehicle batteries) were then identified as having a major impact on this theme. Among these sectors, LYXOR, in collaboration with the other investors active in this campaign, has selected some **twenty companies** with a direct or indirect impact on this topic in order to engage in dialogue.

To measure the progress of the campaign, each is evaluated according to 5 KPIs:

- **Governance**, to assess the company's commitment the strategy for environmentally and socially sustainable production and sourcing and verify whether the company has a robust risk management system that explicitly addresses environmental and social risks;
- **Operational risk management**, to ensure that the company has implemented policies and objectives to integrate environmental and social risks;
- **Supply chain management**, to verify that the company proactively identifies and assesses environmental and social supply chain risks;

<sup>6</sup> <https://www.iea.org/reports/renewables-2019>

<sup>7</sup> <https://www.iea.org/reports/global-ev-outlook-2020>

<sup>8</sup> Engagement campaign coordinated by Sustainalytics

## Engagement and voting policy

- **Circularity**, to assess the company's lifecycle approach from design to product recovery to minimize adverse environmental impacts;
- **Stakeholder engagement**, to ensure that the company actively collaborates with authorities and other stakeholders to promote sustainable production, deployment and/or recycling.

In addition to assessing companies' practices, this campaign aims to identify potential points of vigilance and improvement and work together in the search for sustainable solutions.

More specifically, this thematic engagement aims to:

1. Apply a life-cycle approach to clean technology products;
2. Catalyze more sustainable production of some of the most popular cleantech solutions;
3. Explore ways to more effectively address environmental and social risks in production and supply chain.

Through this engagement campaign around localized water management, LYXOR contributes to four of the seventeen Sustainable Development Goals:



## 4. IMPLEMENTATION OF THE ENGAGEMENT POLICY

### 4.1 GENERALITIES

To carry out the various engagement campaigns mentioned above, LYXOR can: (i) organize one-on-one meetings with management, Board members, Investor Relations, sustainable development teams or any person within the company who can provide answers to the issue; (ii) partner with other management companies to gain greater leverage with targeted companies; (iii) join working groups or initiatives specializing in certain areas.

The engagement policy described above applies to both the equity holdings of the LYXOR funds, as well as their fixed income holdings.

In addition, for funds communicating in a central way on the consideration of non-financial criteria<sup>9</sup>, the link between the fund's non-financial objectives and the commitment undertaken by LYXOR is described in the fund's annual report, available on the website: [www.lyxor.com](http://www.lyxor.com)

### 4.2 ESCALATION PROCEDURE

LYXOR considers the engagement with issuers to be constructive when discussions are based on a relationship of trust. As such, LYXOR favours the confidentiality of exchanges. However, it may be that some exchanges do not lead to positive developments quickly enough on the part of the companies targeted by a LYXOR engagement campaign. Following a precise analysis of the situation, LYXOR may use an escalation procedure which could take the form of one or more of the following axes:

<sup>9</sup> Within the meaning of Recommendation DOC-2020-03 of the French Financial Market Authority (AMF)

- Collaborative engagement
- Negative votes in general meetings
- Letter addressed to the Company's Board of Directors or Supervisory Board
- Public position statement
- Submitting a resolution at the general meeting
- Supervision of the company
- Absence of new investments in the company
- Divestment

The activation of this escalation procedure may vary depending on the investment vehicles and/or the engagement campaign and/or the concerned company.

### 4.3 DIALOGUE WITH STAKEHOLDERS

As part of its engagement policy and/or exercise of voting rights, LYXOR, or the service providers hired by LYXOR, may, in the interest of its unit holder clients, exchange with different stakeholders of the companies in which our funds are invested. LYXOR may for example, discuss with employee shareholders' representatives when they are directly involved in a resolution submitted to the agenda of a general meeting.

Moreover, LYXOR participates in discussions conducted at national and European level, within professional associations via working groups dedicated to Responsible Investment, allowing to exchange and share with different stakeholders. LYXOR is a member of the following committees/initiatives:

- AFG – Commission Finance Durable
- AFG – Responsible Investment
- AFG – Corporate Governance
- Efama
- UNPRI

In the context of regulatory consultations, LYXOR may work jointly with the Public Affairs department of the Societe Generale Group in addition to the various groups mentioned above.

Finally, LYXOR may also, in certain cases, work in collaboration with the Corporate Social Responsibility team of the Societe Generale Group, particularly in the context of meetings with various NGOs.



### III. VOTING POLICY

#### 1. IMPLEMENTATION OF THE VOTING POLICY

##### 1.1 VOTING PROCESS

Internally, the coordination of votes (analysis and decision) is ensured by the dedicated SRI team, which carries out a detailed analysis of the governance of companies for which LYXOR will exercise its voting rights. The draft resolutions are analysed in the light of LYXOR's voting principles (see below).

Moreover, LYXOR uses the services of an external provider to support it. This proxy advisor establishes analysis and provides voting recommendations according to LYXOR's voting guidelines. LYXOR relies on these recommendations but decides on the basis of its own voting policy and retains the final decision. After conducting a market survey of the different providers, LYXOR currently uses the services of ISS (Institutional Shareholder Services).

Where electronic vote is possible, voting is cast through a Proxy Exchange Platform on which LYXOR inputs its voting instructions. In exceptional cases where electronic voting is not possible, voting forms are filled out according to LYXOR's voting policy and sent to the relevant issuers by post.

The formalization of voting decisions takes into account international corporate governance standards as well as the regulations and corporate governance codes in force in the various countries.

##### 1.2 VOTING SCOPE

In 2021, the voting scope is the following:

- French, Luxembourgish and German mutual funds (Fonds Communs de Placement – FCP) and SICAV<sup>10</sup>;
- Securities of issuers domiciled in **Europe**: in order to prevent excessive costs inherent in the voting process, LYXOR participates in general meetings when the consolidated holding represents more than 0.10% of the company's capital;
- Securities of issuers domiciled in the **United States**: LYXOR will exercise its right to vote on its largest consolidated holdings;
- Equity securities of issuers domiciled in **Japan**: LYXOR will exercise its right to vote on its largest consolidated holdings;

Securities included in dedicated client mandates may be added to the above scope during 2021.

**The voting principles presented below are applicable to general meetings held from January 1<sup>st</sup>, 2021.**

<sup>10</sup> Except the vehicles using a method of synthetic replication which are designed to track a financial exposure through a performance swap. Therefore, the returns of the vehicles do not depend on the return on the shares held by these funds. All dividends and profits are swapped with a market counterparty.

### 1.3 VOTING RESTRICTIONS

The following are the key cases which are excluded from LYXOR's voting process:

- Voting at general meetings of companies that require blocking of securities;
- Voting at general meetings of companies whose shares are listed on markets involving excessive formalities or administrative costs;
- Voting on loyalty shares;
- Voting in countries for which custodians used by LYXOR do not offer proxy voting services (this custodian is not selected by LYXOR).

## 2. LYXOR'S VOTING PRINCIPLES

In the long term, good corporate governance must result in an improvement in the company's performance. To do this, shareholder engagement is essential (see Part II: Engagement policy). By exercising its voting rights, LYXOR can contribute to improve the economic and financial performance of the companies in which it invests on behalf of its clients, with the aim of encouraging the adoption of best practices and mitigate the risk of business failure.

The key areas of good corporate governance in the context of LYXOR's voting policy are the following:

- **Protection of the long-term interests and rights of shareholders**, supporting the “one share, one vote” principle, where shareholders have voting rights in direct proportion to their economic interest in a company;
- **Independence and diversity of boards of directors** to avoid conflicts of interests and to foster optimal effectiveness and efficiency;
- **Balance of the financial structure** of the company allowing it both to have the essential conditions to deploy its strategy while preserving the shareholder's position;
- **Fair and transparent executives' remuneration policy** in line with the performance of the company;
- **Quality and integrity of financial information** and related communication to shareholders;
- **Integration of corporate environmental and social responsibility** in the company's operations for the benefit of the company, its shareholders and other stakeholders.

The following chapters address governance issues included in the most frequent proposals presented for shareholder's vote. LYXOR's general voting principles on these resolutions reflect commonly accepted best global corporate governance practices. In cases where resolutions fall outside of the areas covered in the voting policy, a case by case analysis will be made.

These principles guide voting directions but do not automatically lead to negative votes. Voting decisions are based on quantitative and/or qualitative analyses, while taking into account the specificities of each company, such as the size, the geographical area, the shareholder structure, the sector, etc....

In general, LYXOR reserves the right to derogate from the principles set out below if the situation is deemed to be contrary to the interests of its clients. In this case, these situations will be set out in the annual report on the exercise of the voting rights (see Part IV - Reporting).

### 2.1. ONE SHARE, ONE VOTE

LYXOR adheres to the principle of “one share – one vote”. A dual-class structure can allow a group of shareholders with voting power not corresponding to their ownership level and entrench management against shareholder pressure for change. LYXOR considers that each share of common stock should

have one vote and companies not abiding by this principle should periodically assess the efficacy of such a structure and provide shareholders with a rationale for maintaining it.

## 2.2. BOARD OF DIRECTORS (OU SUPERVISORY BOARD)

The Board of Directors or Supervisory Board (the Board) is the most powerful governing body of a company and should not pursue individual shareholders' separate interests but act in the interests of all the company's different shareholders. All actions taken by the Board are expected to be governed by the principles of transparency, accountability, effectiveness and availability.

The primary objective of the Board is to provide independent oversight and evaluation of management and to monitor the performance of the business in a way that promotes long-term sustainable growth of the company, while ensuring that appropriate risk management systems and controls are in place.

The following are the key principles regarding LYXOR's voting directions on resolutions concerning the Boards and the Governing Body.

**Board diversity:** LYXOR recognizes the importance of Board diversity in a company's success, as a diverse Board can bring a range of perspectives to address strategic challenges. When considering an individual's potential contribution to the Board, factors such as cultural and geographical background, gender, age, education, skills (etc.) should be taken into consideration. Resolutions on proposed new Board' members should be accompanied with a biography and information on the experience and qualities that the candidate would bring to the board.

Concerning the proportion of women on Boards, LYXOR analyses the compliance with national regulations in force, as well as the practices of good local governance, and the evolution of the Board's feminization over the previous years. LYXOR also applies criteria based on geographic areas, including:

- In Europe, LYXOR has set a target of 40% women on the Board in companies located on the European continent (including the UK);
- In the US, LYXOR expects companies to have at least 25% women on the Board;

In these two geographical areas, LYXOR could oppose the renewal of the Chairman or members of the Nominating Committee if this objective is not achieved.

- In Japan, LYXOR requires at least one woman on the Board. If a company does not meet this threshold, LYXOR may object to the renewal of all Board members.

**Board' members' independence:** LYXOR recommends that the Board include a majority of independent members and will generally vote in favour of increasing the proportion of independent members. In some cases, such as where there is a majority shareholder or where the Board is required to include a certain proportion of employee representatives, such as in France or in Germany, a lower share of independent members could be accepted.

Recommendations on optimal Board independence level are informed by local corporate governance codes and international best practices. For example, a majority of independent members is an established practice in markets such as the UK and the USA. In Japan, on the other hand, the level of independence required depends on the legal structure of the company, but on average the presence of two outsiders is recommended.

In any case, LYXOR expects companies to disclose the information necessary for shareholders to determine whether Board' members qualify as independents.

**Board size:** LYXOR considers that a Board should have no fewer than 4 and no more than 18 members. The Board should be large enough to maintain the needed expertise and independence, and small enough to function efficiently.

**Separation of powers:** Separation of the functions of Chairman and CEO is one of the fundamental principles of good corporate governance and can be expressed in different ways. In countries that have adopted a two-tier board structure such as Germany, the Netherlands, Finland and China, companies have two separate boards: a Management Board consisting of executive directors responsible for the day-to-day management of the company and a Supervisory Board comprising only non-executive members responsible for monitoring the management function.

A separation of powers mitigates the risk of an over-concentration of power in the hands of one person. The Board's ability to exercise judgment independently of management can be weakened if one person fills both the roles of Chairman and CEO.

LYXOR is in favour of the principle of separation of the functions of Chairman of the Board and CEO. A combined Chairman/CEO role may, nevertheless, be accepted given certain conditions, such as a high overall Board independence level and a Lead Independent Director.

Market practice will also be taken into consideration. In the US, for instance, it is fairly common for companies to have a combined Chairman/CEO, but counterbalancing mechanisms such as a high proportion of independent directors and the presence of a Lead Independent Director are equally common.

**Board committees:** LYXOR recommends that the Board delegate key oversight functions to the following three committees: audit committee, nomination committee and remuneration committee. The roles of these committees should be clearly defined and communicated to shareholders. Since Board committees carry out crucial functions, it is important for them to be sufficiently independent from management. Ideally, more than half of the members should be independent. Chairperson of the audit and remuneration committees should also be independent. However, LYXOR will follow the provisions prescribed in local law or best practice governance codes when they are stricter.

LYXOR expects the nominations committee to implement a robust succession plan, particularly in the event of a departure or accident of executive leaders.

**Term of office:** The term for Board members should not exceed 4 years. LYXOR will generally vote against proposals to extend mandate's terms.

**Bundling of elections:** Resolutions should not include items that could be presented separately to the shareholders. Shareholders should be able to vote on the election of each of the proposed directors and not on a list of candidates. The Board may use a bundled proposal to maintain the current composition of the Council. However, LYXOR acknowledges that bundling election proposals is still the prevalent practice in some parts of the world, for example in Italy. In these countries, LYXOR will not necessarily vote against the proposed candidates simply because they are presented in the form of a so-called "bundled" vote, but strongly encourages companies to abandon this practice.

**Multiple directorships:** LYXOR is not in favour of Board members holding an excessive number of board appointments, as Board members should be able to commit an appropriate amount of time to exercise their duties. Although it is important for Board members to broaden their skills and knowledge, they should be mindful of the time commitment required for Board and committee matters on multiple boards, and therefore, the risk of not being sufficiently involved in the long-term development of each company. LYXOR may vote against the election of a director if he holds an excessive number of mandates. As a general rule:

- Executive Board members are expected not to hold other executive or chairmanship positions. They may however hold up to two other non-executive directorships in listed companies.
- Non-executive chairmen are expected not to hold executive positions elsewhere or more than one other chairmanship position. They may however hold up to two other non-executive directorships in listed companies.
- Non-executive Board members who do not hold executive or chairmanship positions in listed companies may hold up to four other non-executive directorships in listed companies.

LYXOR will also follow the provisions prescribed in local best practice governance codes on this matter, when they are stricter.



**Responsibility of the Board on ESG and Climate issues:** LYXOR considers that it is the Board's responsibility to oversee the definition of the company's extra-financial and climate risks and opportunities, as well as the strategy implemented by management with regard to this risk/opportunity analysis.

Thus, LYXOR may oppose the discharge of the Board but also the renewal of the mandate of certain Board members (members of the audit committee and/or the CSR committee or equivalent) in the event of:

- Environmental controversies;
- No disclosure of CO2 emissions (scopes 1, 2 and 3)<sup>11</sup>.

In addition, LYXOR may vote against the renewal of the Chairman of the Board in the following cases:

- Lack of support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and public disclosure with these recommendations<sup>11</sup>;
- Environmental controversies;
- No disclosure of CO2 emissions (scopes 1, 2 and 3)<sup>11</sup>.

## 2.3. REMUNERATION AND BENEFITS

Remuneration policies should be designed in such a way that will attract, retain and appropriately incentivize directors with the skills required to run a company successfully in the long term. Transparency regarding remuneration is essential for shareholders to judge whether potential compensation is fair, sufficiently demanding and aligned with their interests.

**Executives' compensation related proposals:** Remuneration policies should be linked to the company's strategy and the amounts granted should reflect the company's performance. LYXOR votes on executives' compensation-related items on a case-by-case basis, while taking into account global corporate governance best practice. In particular, LYXOR believes that a board of directors should abide by the following general principles:

- Provide shareholders with clear and comprehensive disclosure and justification of chosen remuneration structures and levels in a timely manner;
- Maintain appropriate pay-for-performance alignment with an emphasis on long-term shareholder value;
- Include extra-financial criteria in line with the company's sustainable strategy;
- Avoid arrangements that risk "pay for failure";
- Maintain an independent and effective compensation committee.

Executives' compensation should always include a long-term variable component with performance conditions. This performance should be measured over a long-term period (at least 3 years). Criteria used in long term incentive plans (LTIP) should be disclosed, detailed, stringent enough and additional to short-term variable remuneration.

For companies which belong to the sectors which are the most sensitive to climate considerations, LYXOR expects specific criteria to be included in the definition of the variable remuneration of the main executives. Thus, in the absence of criteria on ESG and/or Climate issues, LYXOR may oppose the resolutions on executive compensation<sup>12</sup>.

<sup>11</sup> Applicable to companies in the most climate sensitive sectors (automobiles, chemicals, construction materials, food beverage and forestry, industrials, mining and metals, oil and gas, transportation, utilities and power producers)

<sup>12</sup> Applicable to companies in the most climate sensitive sectors (automobiles, chemicals, construction materials, food beverage and forestry, industrials, mining and metals, oil and gas, transportation, utilities and power producers)

In order to assess executives' compensation policy, LYXOR has defined its own compensation grid which analyses around twenty criteria in order to be consistent while taking into account specificities such as the company's size, its shareholding and its geographical zone.

**Executive equity based compensation:** Executive equity incentive schemes should always be subject to clear and stringent performance conditions measured over an extensive period of time (at least 3 years). Basic dilution under such plans should remain reasonable. Stock-options plans not be issued at a discount nor repriced. For larger companies, shares and stock options reserved under the plans should not be excessive.

**Non-executives Board members' compensation related proposals:** As far as non-executive Board members are concerned, their compensation should be consistent with their responsibilities and the time they devote on executing board and committees' duties, without compromising their ability to act independently of the management.

**Severance pay agreements:** LYXOR supports severance pay agreements (including non-compete agreement) that are not of an excessive amount (two years of compensation maximum) and that contain performance conditions. Performance conditions should be quantifiable and stringent enough. Such packages should not be given when the executive is not senior enough with the company or if the executive retires. Severance pay agreements should not reward failure. The vesting of shares and/or stock-options should not be accelerated in case of the executive' departure.

**Pension schemes agreements:** LYXOR supports pension schemes agreements to executives who are senior enough within the company. Such plans should be granted for a large scale of executives, not only the CEO. Payment should avoid the risk to pay for failure.

**Employee share purchase plans and saving-related share schemes for the company personnel/employees:** LYXOR supports share purchase plans and saving-related share schemes for all employees as they help to align employees' interests with those of shareholders. As opposed to plans for executives, moderately discounted stock-options are acceptable. Dilution under such plans should always remain reasonable.

## 2.4. CAPITAL STRUCTURE

LYXOR supports a company's entitlement to issue shares in order to raise capital, but directors should not be given unlimited discretion. Capital raising should be limited to what is necessary to maintain business operations and not lead to excessive dilution or cash-calls for existing shareholders.

Pre-emptive right is a fundamental shareholder right and when companies issue new shares, they should generally offer first these shares to existing shareholders. It is recognized though, that companies should also be granted some flexibility to issue shares without pre-emptive rights to address their financial needs.

**General capital issuances with pre-emptive rights:** LYXOR supports capital issuance with pre-emptive rights to a maximum of 50% over currently issued capital as long as the share issuance authorities' periods are clearly disclosed and in line with market-specific practices or recommended guidelines. However, LYXOR will also align its position with stricter local best practices on this matter, where relevant.

**General capital issuances without pre-emptive rights:** LYXOR supports capital issuance without pre-emptive rights to a maximum of 10% (or lower if provided in the local market's best practices recommendations).

LYXOR will examine specific issuances, with or without pre-emptive rights, on a case-by-case basis and on an aggregate way. With respect to shares buyback programs, LYXOR will ensure that there are limited in terms of amount and duration and used in the best interests of the company.

## 2.5. INTEGRITY OF FINANCIAL INFORMATION

Shareholders have the right to accurate, concise, non-misleading and transparent accounts in order to be able to assess the financial standing of the company and take informed voting decisions.

The financial information should be accompanied with contextual information explaining key changes between reporting periods. Reporting to shareholders should include information on risks and uncertainty facing the company and elements that contribute to long term value creation.

**Financial statements / auditor reports:** LYXOR emphasizes the importance of good quality financial reporting and encourages companies to adhere to the highest international standards regarding disclosure of information to the market. LYXOR generally votes for the approval of financial statements and auditors reports as well as the appointment of auditors (and auditors' fees), unless particular concerns have been raised as to the independence of the auditors, the integrity of the information provided, or the level of non-audit related fees paid. Moreover, LYXOR estimates that beyond 15 years of seniority, statutory auditors may no longer exercise their functions independently. As such, LYXOR may object to the renewal of their mandate.

**Related-party transactions / regulated agreements (specificity of the French market):** Related party transactions will be closely monitored, especially when executives / directors of the company are involved in such transactions. The nature of the convention, its pricing process, among other important points, will be analyzed. The statutory auditors' special report on regulated agreements will be examined on a case-by-case basis by checking that transactions are concluded in the shareholders' interests.

**Allocation of income and dividend:** LYXOR generally votes for approval of the allocation of income and distribution of dividends, unless the dividend pay-out ratio is unusually low or excessive given the company's financial situation and the company has not provided a suitable explanation.

**Modification of the accounting period:** LYXOR generally votes in favour of resolutions to change the company fiscal term, unless the company's motivation for the change is to postpone its annual general meeting.

**Changes to articles of association:** Company's articles of association are a key element of corporate governance and consequently of considerable interest to investors. Proposals to amend a company's articles of association are often made in response to changes in the rules, laws, or regulations affecting the company, such as changes in stock exchange listing rules. Most of these changes may relate to technical or administrative matters, however, they should be carefully considered because they could have a significant effect on corporate governance. LYXOR votes on amendments to the articles of association on a case by case basis.

## 2.6. EXTERNAL SHAREHOLDER RESOLUTIONS ON SOCIAL OR ENVIRONMENTAL ISSUES

The Board of Directors or Supervisory Board should be able to determine the environmental and social impact of the company's operations and identify the potential business and reputational risks, while ensuring that appropriate controls and procedures are in place to manage them. LYXOR will generally vote in favour of social and environmental proposals that seek to promote good corporate citizenship, while enhancing long-term shareholder and stakeholder value. In determining votes on shareholder social and environmental proposals, the following factors could be considered:

- If the issues presented are more appropriately dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;

## Engagement and voting policy

- Whether the proposal's request is unduly burdensome (scope, timeframe or cost) or overly prescriptive;
- The company's approach compared with any industry standard practices to address the issue(s) raised by the proposal;
- If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources;
- If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Regarding climate-related resolutions, LYXOR will generally vote in favour of:

- Resolutions aiming to improve the information provided by the company on the financial, physical or regulatory risks related to climate change, its operations and investments, or how the company identifies, measures and manages these risks;
- Resolutions whose purpose is to obtain corporate GHG emissions targets from the company's activities and/or products.

Given the diversity of external resolutions proposed in the United States, LYXOR will generally vote in favor of external resolutions aimed at improving the transparency of the issuer, whether on its lobbying activities, political party financing, but also on its human rights procedures.

### 2.7. MISCELLANEOUS

**Mergers and Acquisitions:** Voting decisions on resolutions concerning mergers and acquisitions are taken on a case by case basis, considering the following factors:

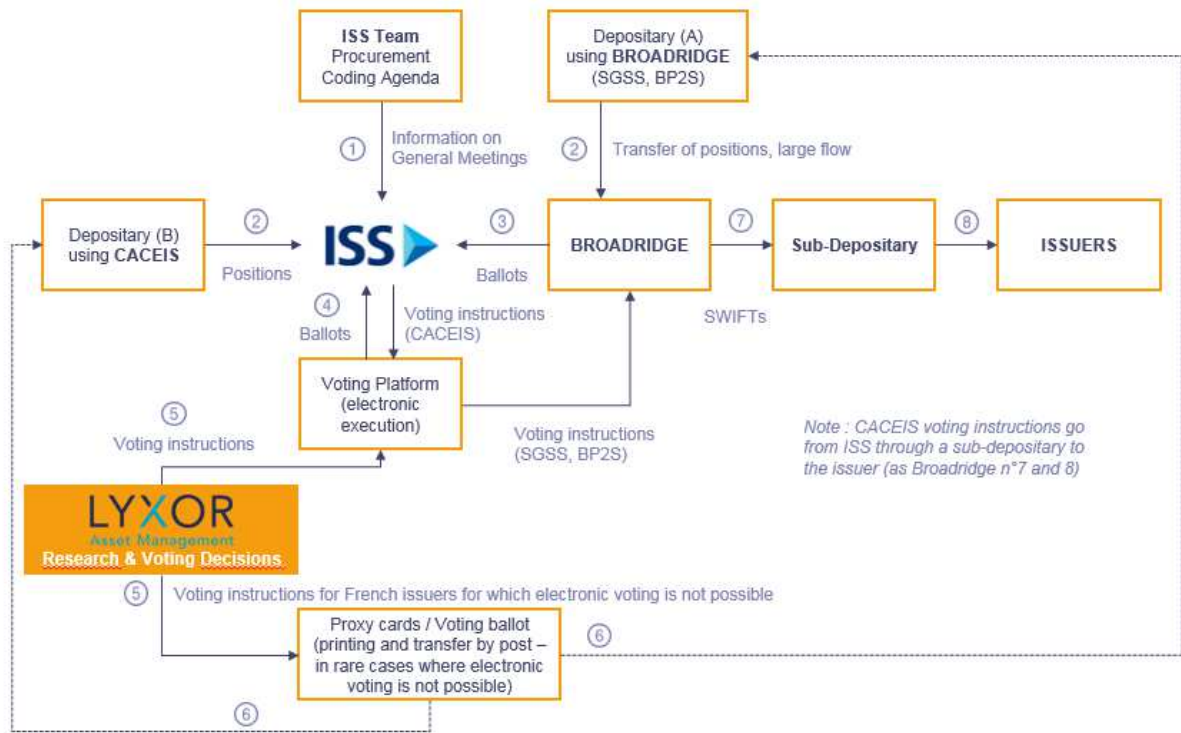
- Valuation – Is the value to be received by the target shareholders reasonable?
- Market reaction – How has the market responded to the proposed deal?
- Strategic rationale – Does the deal make sense strategically? From where is the value derived?
- Conflicts of interest – Are insiders benefitting from the transaction disproportionately and inappropriately as compared to non-insider stakeholders?
- Governance – Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction?

**Anti-takeover mechanisms:** LYXOR generally votes against anti-takeover proposals, unless they are structured in a way that they give shareholders the ultimate decision on any proposal or offer.

*Note that LYXOR's voting policy can deviate depending of the market and/or local best practices and disclosure levels.*



### 3. LYXOR VOTING PROCESS



### 4. POLICY ON SECURITIES LENDING

LYXOR does not use securities lending on shares for which voting rights are exercised.

## IV. REPORTING

In order to provide its clients with the greatest transparency and to meet legal obligations, LYXOR publishes every year on its website a report presenting the results of its voting and engagement policy.

This report, usually available in the first quarter of the calendar year, is divided into two parts:

### 1. ENGAGEMENT POLICY

This chapter presents the number of companies with which LYXOR has exchanged during the past year, the geographical distribution of these companies and the distribution of the different engagement campaigns carried out. The various topics addressed, the developments identified and where available, the impact that these exchanges may have had on LYXOR's vote, will be described.

### 2. VOTING POLICY

This chapter includes the details of the voting decisions of the past general meeting season including, among others:

- Number of companies and of general meetings on which resolutions were voted during the voting period;
- The proportion of general meetings on which LYXOR voted compared to the total number of general meetings included in LYXOR's voting scope;
- The proportion of general meetings on which LYXOR voted compared to the total number of general meetings for which LYXOR holds voting rights;
- Share of votes that were cast against recommendation of the company's management;
- Cases where the principles of LYXOR's voting policy were not followed;
- Cases of conflicts of interests that came up during the voting period.

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# LYXOR

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