Engagement Report 2020

METROPOLE Gestion

1. Purpose of the engagement report

As a company committed to Responsible Value Investing and an ESG pioneer since 2008, we attach great importance to companies taking ESG criteria into account. We firmly believe that engaging with companies promotes long-term value creation and is of benefit to all stakeholders (shareholders, employees, clients, suppliers, etc.).

Value creation is all the more significant and enduring when it offers capital providers a fair return and contributes to social utility. With this in mind, we engage with the companies in which we invest and encourage them to improve their extra-financial practices.

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

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

Individual engagement involves initiatives broached directly by METROPOLE Gestion through ongoing dialogue with companies, dealing with controversies according to our procedure whenever events occur that might have a significant impact on companies and their stakeholders, and using our voting rights on ESG-related resolutions.

Thematic engagement, resulting from careful consideration carried out in-house and reviewed annually, on clearly defined themes.

Collective engagement is pursued jointly through investor groups or associations, with a view to increasing their influence over companies. METROPOLE Gestion reserves the option to take part in collective initiatives regarding ESG issues whenever it deems such action necessary, in the interests of investors and stakeholders.

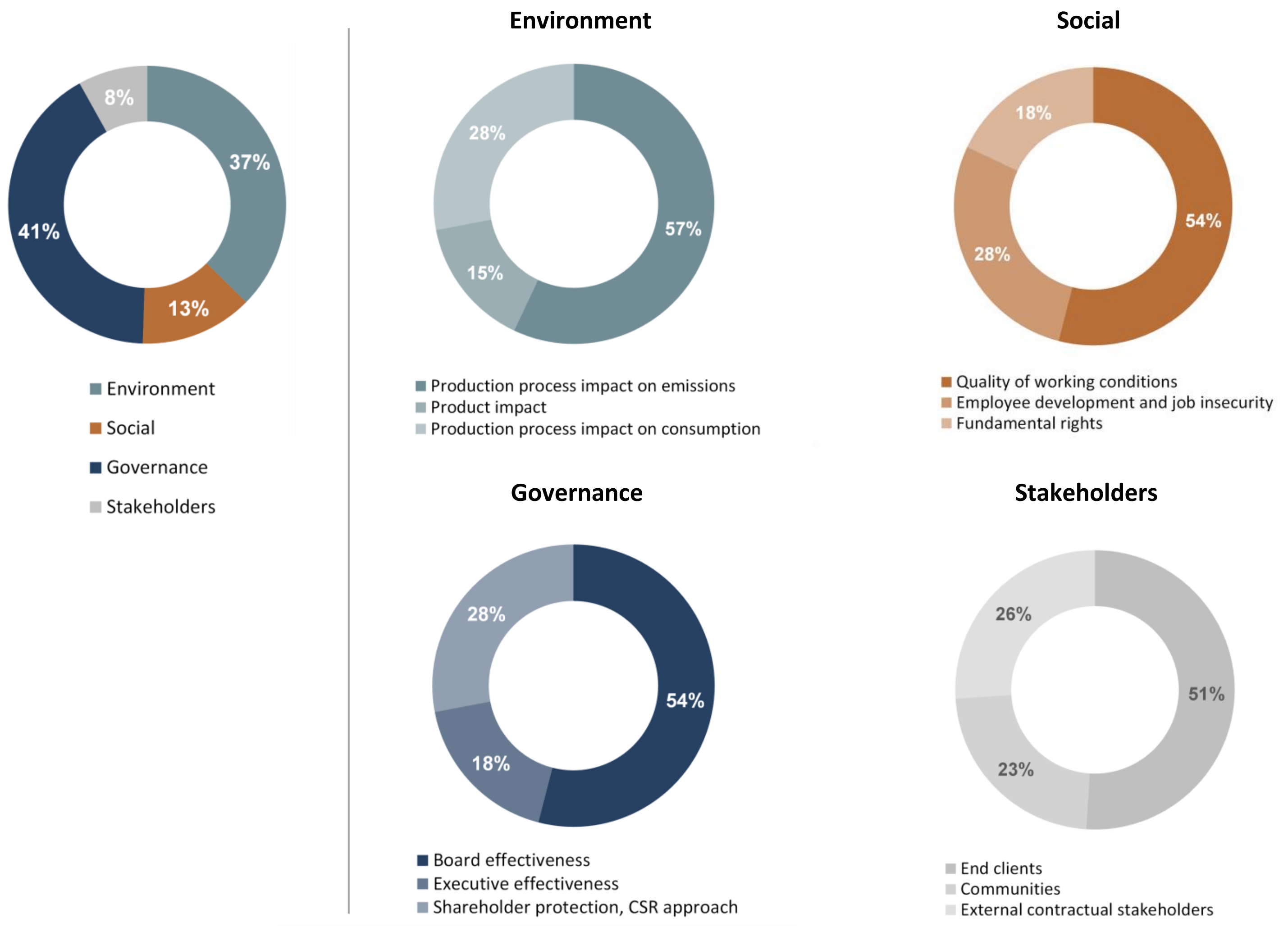
The purpose of this report is to present our interactions with the companies over the course of 2020 on our four pillars of extra-financial analysis: Environment, Social, Governance and Stakeholders.

2. Individual engagement

2.1 Dialogue with the companies

2.1.1 Our engagement in figures

Over the course of 2020, we conducted approximately 450 company interviews. We focus our ESG interviews on the issues specific to each company and to each business sector. We direct our questions primarily towards any weak points in the company, identified by means of our proprietary ESG rating model. In 2020, the issues discussed with companies were distributed as follows, by pillar and sub-pillar:



Governance and Environment related issues dominated our discussions with the companies in 2020.

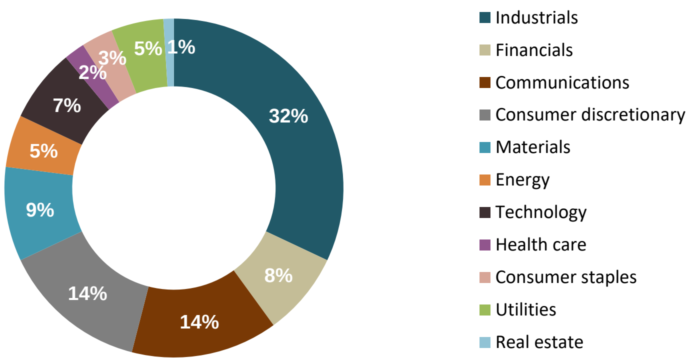
Governance features as one of the most discussed issues during our meetings with the companies. Firstly because it covers every aspect of the organisation of corporate management and as such constitutes a prerequisite. Secondly, it is the pillar for which we have the largest number of measurement possibilities as it is subject to the highest level of regulation and also features among the most popular questions submitted to shareholder vote at general meetings. Lastly, because governance is subject to national regulations, it sheds light on specific local factors that need to be addressed with issuers. Examples include the significant level of employee representation on German Boards of Directors, or the practice common in Sweden of different classes of share entitling holders to different voting rights.

The issue of the Environment unsurprisingly took centre stage during our meetings, for two main reasons. Firstly, questions relating to energy transition and climate risks are highly likely to constitute the main issue over the coming decade. On this point, it is noteworthy that the pandemic crisis has added momentum to the movement already under way in recent years and has definitively placed climate issues at the heart of corporate strategies. Elsewhere, our thematic engagement for 2020, which is set out in detail in section 3 of this report, focused on bringing corporate financial disclosures into compliance with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures), to which we have been signatories since 2019.

The Social pillar, which is also strictly regulated in Western countries, is rarely subject to breaches and gives rise to fewer discussions. Dialogue is initiated, however, when controversy emerges surrounding working conditions and, especially, when fundamental rights are not being respected. We double down on such matters during our meetings with the industrial companies held in the portfolio operating in many regions of the world with less comprehensive protection of workers' rights, or with industrial companies, which are much more exposed to security risks.

Lastly, the Stakeholder pillar, which covers all the relations between the company, its customers, suppliers, public authorities and wider civil society concerns issues that are frequently external to the company, which they may struggle to tackle. We engage systematically in dialogue with companies, however, should a controversy emerge, as was the case with Rio Tinto or Saint-Gobain in 2020.

By sector, our interviews were distributed as follows:

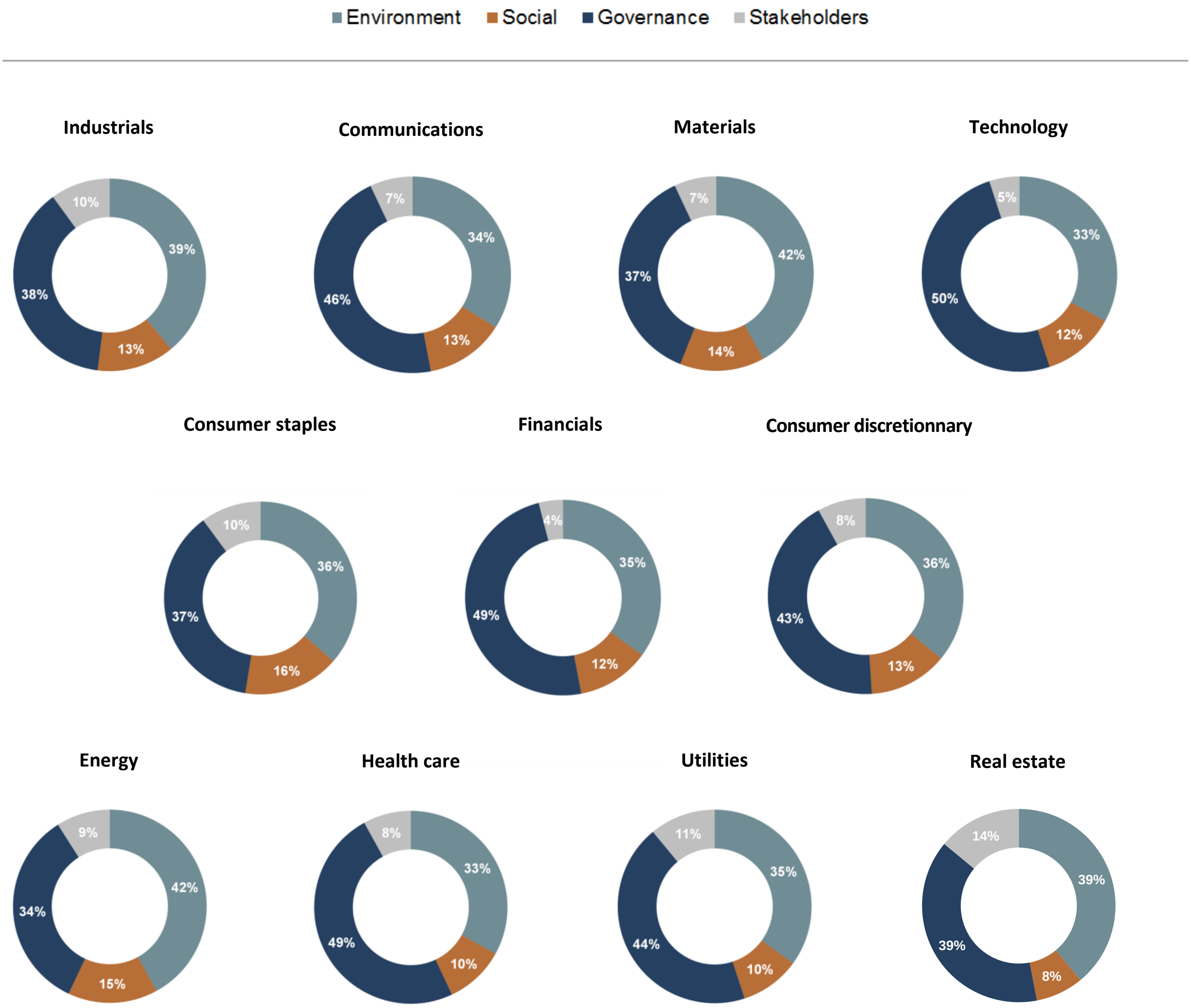


Within each sector (see figures below), the breakdown of issues by pillar generally follows the same trend, although with differences by sector.

Unsurprisingly, it can be seen that discussions focussed on the Environment and issues relating to energy transition for those companies in the energy sector with high greenhouse gas emissions. 2020 marked a clear turning-point in how these companies address environmental issues.

Questions of Governance naturally had greater resonance for service companies. The sectors that prompted the most discussions on these issues were IT services, the financial sector but also health, a sector which, by its very nature, has higher exposure to controversy.

Lastly, the Social pillar played a bigger part in our dialogue with companies in the consumer staples sector. The food retailing sector, with its intensive employment of relatively unskilled labour, is exposed to a variety of issues in this area.



2.1.2 Impact of dialogue with the companies

In accordance with our ESG approach, our dialogue with the companies enables us to discuss and influence the companies' activities in the areas of the Environment, Social, Governance and Stakeholders. For each pillar, we therefore raised with companies the most relevant elements of our engagement approach.

Governance forms the bedrock of all implementation policies within a given company. Through dedicated quantitative and qualitative means, the company is able to establish the credibility and effectiveness of such policies, both internally and externally. The CSR policy is no exception to this rule. Its impact is therefore all the greater when responsibility is shared by senior management and involves wider functions in a targeted manner. The unprecedented pandemic crisis confronting the world in 2020 served to accelerate awareness of the importance of ESG issues and projected them into the very heart of corporate strategies. Almost every strategic plan announced over the course of the year placed financial and extra-financial targets on an equal footing. To an even greater extent than in previous years, these targets were made the responsibility of executive or non-executive corporate officers.

The change was naturally reflected in the growing proportion of companies that make extra-financial criteria an element of executive pay. Publicis, for example, which had informed us it was working on this issue in the previous financial year, implemented its mechanism in 2020. In the wake of our dialogue with companies, we note with satisfaction that similar practices are increasingly spreading to small-cap companies, despite their more limited resources. Spanish rail equipment manufacturer CAF, for example, introduced extra-financial criteria as an element in the variable remuneration of its senior executives.

We maintain dialogue with companies that have not yet implemented such measures or only imperfectly. We have noted, for example, the difficulties encountered by certain small-cap companies, especially when it comes to establishing such mechanisms. Austrian building materials group Wienerberger, for example, put to its shareholders a remuneration policy proposing the introduction of extra-financial criteria, but which left too large a discretionary component, leading us to vote against the policy. In our subsequent dialogue, the company informed us that it had defined its objectives in more detail and would be presenting them early in 2021.

At the same time, the inclusion of ESG issues at the heart of corporate strategies requires companies' operational teams to buy into these policies in order to implement them effectively. While dedicated CSR teams still exist, working alongside operational divisions to structure the deployment of CSR policies, these policies are now only rarely confined to a dedicated team. We see this as an encouraging change, attesting to the important role that ESG has come to play in corporate strategy.

Environment was, without a doubt, the pillar that experienced the most significant impacts in 2020 of the ongoing dialogue we have maintained with companies over a number of years. The advances that have been made also bear out our approach, one that advocates dialogue with companies wielding a significant environmental footprint rather than flying in the face of industrial and environmental realities by systematically excluding them.

2020 thus saw most of Europe's Oil & Gas groups embark on an historic shift in direction with the adoption of energy transition strategies. BP, Royal Dutch Shell, Total and Repsol all announced their determination to reach carbon neutrality by no later than 2050. Each of the groups gave details of the resources deployed to arrive at their target and the milestones against which they would be measuring their performances along the way to the distant deadline. In our view, while all the oil groups are pursuing the same ultimate goal and are basing their estimates on those of the IEA (International Energy Agency), their strategies differ as a result of their different business portfolios and resources. So while one of the salient points of BP's strategy involves reducing its production of fossil fuel energy by 40% by 2030, Total is instead focusing its strategy primarily on an ambitious plan for investing in renewable energy made possible by its greater financial margin for manoeuvre.

While our dialogue with these companies has gradually brought them to acknowledge the risks associated with climate change and energy transition, it also now enables them to identify the resulting opportunities. This latter aspect is fundamental in that it offers companies alternative growth prospects and explains why the Oil & Gas groups are now in a position to adopt such strategies.

Finally, in illustration of our remarks on governance, these companies are employing structural measures to establish the credibility of their strategies. Firstly, most have backed up these strategies by reorganising divisions in a manner consistent with their targets. Secondly, as in the case of Royal Dutch Shell, which cut its dividend for the first time since the Second World War, they have freed up the financial resources needed to put their strategies into execution.

We will return in greater detail to our collective engagement with oil groups Total and Royal Dutch Shell in section 2.2 on engagement through voting and in section 4 on collective engagement.

In addition to the Oil & Gas sector, other companies with significant CO2 emissions adopted ambitious targets over the past year, among them ArcelorMittal, with whom we discussed the issue on a number of occasions. The steelmaker, which introduced carbon neutrality targets for its European activities in 2019, has revised its targets upwards and is now aiming for carbon neutrality across all its activities by 2050. German cement group HeidelbergCement, in an industry known for its high CO2 emissions, has adopted targets in line with the Paris Climate Agreement and validated by the SBTi (Science-Based Target initiative). The company plans to reduce its carbon intensity by 30% by 2025 and to reach carbon neutrality by 2050 at the latest. In common with the oil & gas groups, these companies have underpinned their new targets with details of the levers that will be operated to achieve them.

In the industrial sector, we are delighted to report, Dutch lighting specialist Signify, a regular participant in dialogue, achieved carbon neutrality in 2020. The company succeeded in reducing its emissions by 70% from 2010 levels through systematic recourse to renewable energy in its production process, by reorganising its logistics chain around lower-carbon supply chains and by adopting policies to limit business travel. The company also invested in renewable energy projects as a means of offsetting its residual emissions. So far, the carbon neutrality achieved covers scopes 1 and 2 and part of scope 3. As part of our dialogue, Signify has provided us with details of how it intends to continue its efforts, particularly as regards scope 3.

We will, of course, be pursuing our dialogue with all of the above companies. The advances they have made are crucial steps, but must nevertheless be pursued and, in some cases, expanded upon.

In terms of the Social pillar, we stress two fundamental factors in the responsible approach: safety and the abolition of all forms of discrimination.

Regarding safety, we are observing a trend among companies to reduce accident rates, one example being Sandvik, which has shown constant improvements in this area, with an accident rate that has fallen steadily over the past 10 years. Some companies provide training or improve their production processes to ensure the safety of their workforce. The trend in such improvements is rarely linear, however, reflecting not only the random nature inherent in accidents but also the varying degrees of attention paid to the issues, which may sometimes be taken for granted. Our dialogue therefore encourages issuers to remain vigilant and continue to make safety a priority. As a result of our dialogue, Continental has turned around its workplace accident frequency rates, which had worsened over recent years. Better still, the group has reported no work-related deaths in the past two years.

Regarding discrimination, we encourage the companies to promote equality of opportunity and gender parity, especially as regards women's access to managerial positions. Women still fill only 25% of management positions on average, whether it be in large-cap or small-cap firms. The figures differ widely, however, from one sector of activity to another. Industry is a sector that has traditionally struggled to attract women, meaning that the proportion of women in management roles in this sector is generally around 15%. Industrial companies are attempting to overcome this obstacle by introducing active recruitment and promotion policies, and by offering partnerships and training programmes from undergraduate level and upwards as a means of raising women's awareness of the opportunities on offer. Outstanding examples here are Finnish paper manufacturer Stora Enso or French cable manufacturer Nexans, both with 24% of their managerial positions held by women. The cultural changes needed for progress across all of these sectors can only happen gradually, however, and will take time. In the service sector, in contrast, the proportion of women in managerial positions is often in excess of 40%. The media sector takes the palm, however; among the media companies in our portfolio, parity is all but achieved, with 47.5% of women managers.

Stakeholders are playing an increasingly important role for companies, in that they can have a significant impact on a company's activities. We systematically discuss with companies the risks, opportunities and means they deploy to tackle issues relating to their value chain, in order to evaluate the degree of their control over externalities.

Any controversy arising from the poor practices of a supplier generally spills over onto the company itself, which means it is vital to involve the entire supply chain in adopting good practices. Companies like Carrefour or Signify work with their suppliers, and sometimes even with their competitors, on reducing the quantities of product packaging. In the same vein, more and more companies have decided to call on the services of Ecovadis, a specialist in the evaluation of social and environmental practices of global supply chains.

Companies must also be proactive in extending the scope of their good practices. ArcelorMittal, for example, has successfully reduced accident frequency rates among its subcontractors. And as every industry is now going digital, customer data protection has become a crucial issue that companies must be capable of mastering, as Capgemini has demonstrated.

2.1.3 Dialogue around controversies

We can include under the term "controversy" all allegations or disputes that affect companies, all types of events that impact their reputation or legal security and events generated within the company or affecting stakeholders or the environment.

As investors are bombarded with a permanent flow of information, and in order not to succumb to unproven claims, for many years now our approach has consisted of scrupulously analysing every controversy and producing a detailed assessment.

Each week the fund management team analyses the alerts generated by our internal system. Based on Eikon, this system identifies all media articles reporting potential controversies involving the portfolio securities. The alerts are presented during the weekly fund management committee meeting then analysed by the management teams, which assesses their pertinence according to our internal analysis matrix and decides on whatever action may be required.

The following are types of controversy considered to be major (non-exhaustive list):

- Collusion.
- Health or environmental scandal.
- Breaches of human rights.
- Corruption scandals.

Controversies with a high or very high risk systematically lead to discussions being held with the company. Controversies are reviewed during subsequent meetings covering ESG issues.

In 2020, we analysed 148 alerts within our portfolios. 98% of these proved to be of only minor importance, and only two of them were classified as controversies.

The two companies concerned by these controversies were Rio Tinto and Saint-Gobain.

- **Rio Tinto** : In May 2020, as part of the expansion of its iron ore mining operations in the state of Western Australia, the company destroyed two Aboriginal heritage sits in the Jukaan Gorge dating back 46,000 years. Rio Tinto had received authorisation for the expansion in 2013 but major archaeological discoveries had subsequently been made. The destruction of these ancestral sites caused deep distress to local Aboriginal communities, which accused the mining group of ignoring warnings issued prior to the destruction of the sites. The incident had massive repercussions, not only in Australia but also overseas. An Australian parliamentary committee was set up to inquire into the incident. Under pressure, particularly from some of its shareholders, on 11 September 2020 the group announced the resignation of CEO Jean-Sébastien Jacques, effective as soon as a successor could be found or by 31 March 2021 at the latest. Chris Salisbury, CEO of the Iron Ore division was also scheduled to leave the company on 31 December 2020, along with Simone Niven, Group Executive, Corporate Relations. These announcements were accompanied by an apology from the company, which acknowledged its mistake, offered its apologies and vowed that the mistake would never be repeated. Analysis of the controversy identified the risk to the company as middling in severity, prompting us to put the company on a watch list and finally to close out our position in September 2020.

- **Saint-Gobain** : The Saint-Gobain group was involved in a controversy relating to the Grenfell Tower blaze in London in 2017 that cost many lives. The high-rise residential block caught fire in June 2017, causing the death of 72 residents. The Phase I report of the inquiry, published in October 2019, concluded that the external cladding made from insulating material supplied by three companies, Arconic, Kingspan and Celotex (a Saint-Gobain subsidiary acquired in September 2012) was the primary cause of the fire spreading so rapidly. Celotex supplied the bulk of the insulating foam used in the external panels.

  An article published in the Financial Times on 20 December 2020 referred to deliberate intent to mislead on the part of Celotex, which had allegedly manipulated fire safety tests of the product implicated in the fire (RS5000 foam). When we contacted Saint-Gobain on 21 December, we were told that the company had not been directly involved in the renovation work on the tower, and the products involved, which were supplied by a distributor, had been used contrary to the product specification guide. The internal inquiry launched by Saint-Gobain nevertheless identified instances of negligence at Celotex. A member of the marketing staff who sold the product, contrary to the information contained in the specification guide, was fired. Celotex's management was also reorganised and its internal control teams reinforced. Saint-Gobain said it had cooperated with the inquiry in full transparency from the outset, and press releases issued by Celotex had been available on its website since November 2017. Lastly, as a precautionary measure, Saint-Gobain had suspended sales of the product in the month following the fire. The product in question represented less than 1% of Celotex revenue, which in turn accounts for less than 0.2% of group revenue. A parliamentary inquiry is currently under way and will probably be followed by legal proceedings, whether criminal or civil, the financial implications of which cannot be measured at this point in time. Saint-Gobain has not recognised any provisions in respect of the incident. In the wake of this discussion, our assessment of the controversy identifies a low level of risk, as Saint-Gobain's liability in this case appears to be limited. The group has also demonstrated responsibility and transparency and has deployed the resources necessary to ensure that a tragedy of this kind is never repeated. Lastly, the overall quality of the products designed by Saint-Gobain has not been called into question.

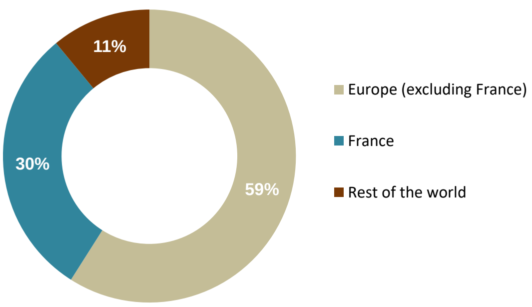
2.2 Engagement through voting

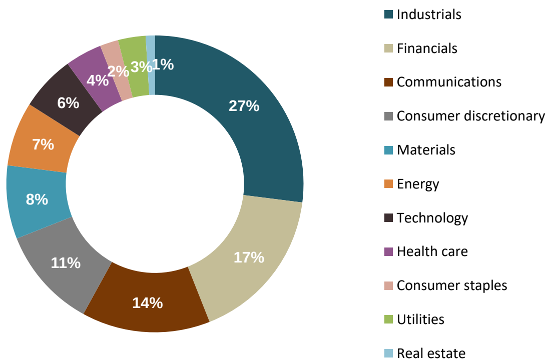
2.2.1 Our votes in 2020

Our individual engagement is also conducted through our voting process applied to the companies' general meetings. METROPOLE Gestion considers that the actual exercise of voting rights represents an essential element of the relationship between a company and its shareholders. METROPOLE Gestion therefore exercises its voting rights for all companies whose securities are held in the portfolios, in accordance with the voting policy. As a signatory of UNPRI (UN Principles for Responsible Investment), we ensure that our vote is cast in compliance with environmental, social and governance criteria as set out in the Code of Transparency and CSR Policy (Corporate Social Responsibility) implemented by METROPOLE Gestion, available on our website.

In 2020, the management company exercised its voting rights at **136** general meetings out of **138**, a participation rate of 98.5%.

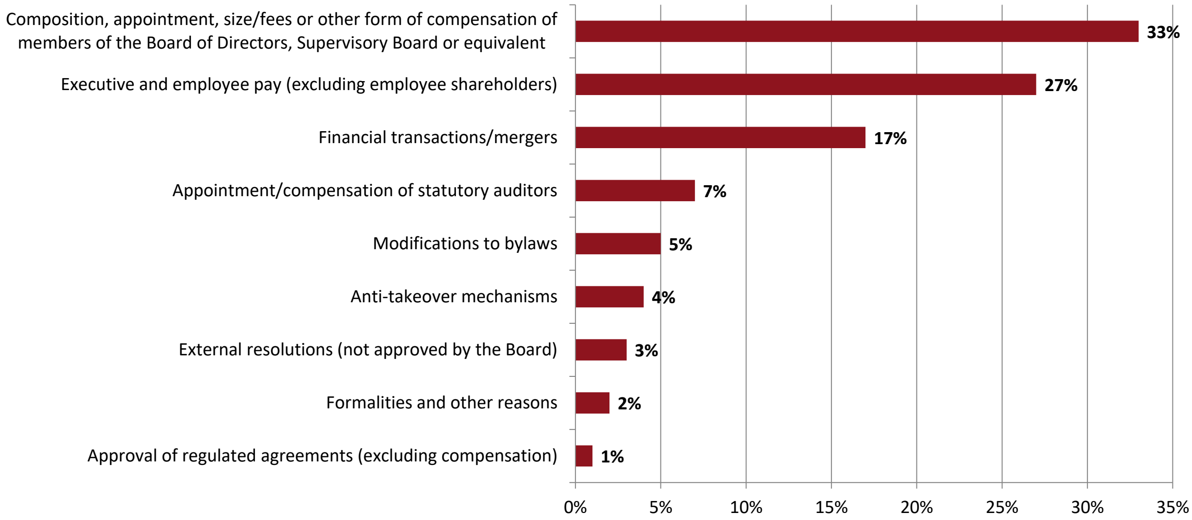
The general meetings we attended break down as follow:





Our engagement with the companies requires us to contest resolutions submitted to shareholder vote where we believe they do not meet best practice or do not appear to favour the interests of our clients. On behalf of the managed UCITS and AIFs during 2020, METROPOLE Gestion voted against 241 different resolutions (11% of total resolution votes) at 100 general meetings, i.e. 73.5% of the general meetings we attended.

These votes against break down into the following areas:



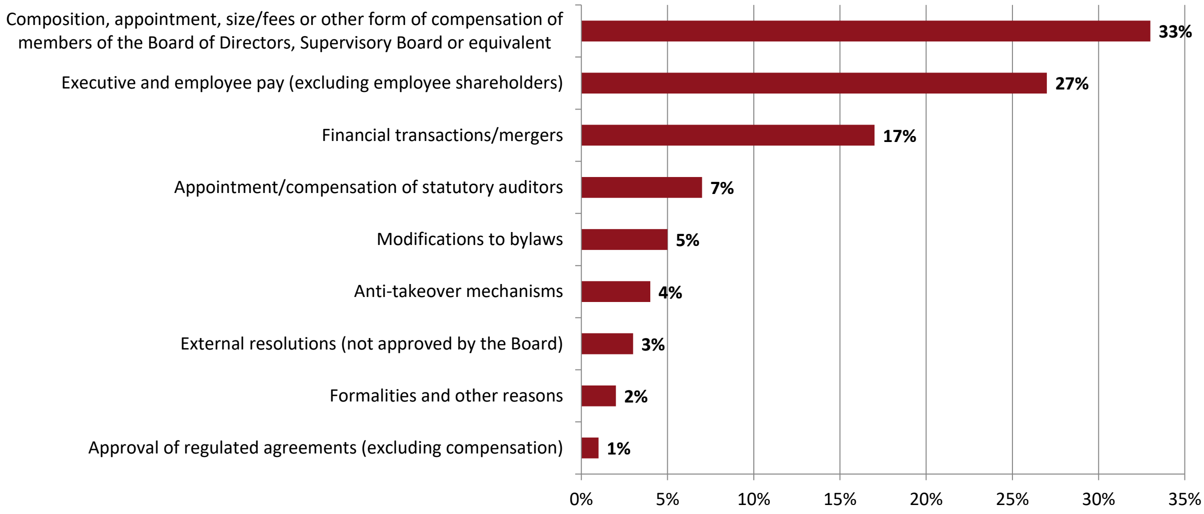
Resolutions relating to the terms of office and appointment of members of the board of directors, supervisory board or equivalent accounted for the large part (33%) of our votes against. The terms of office of board members, proposed reappointment of board members with low attendance records and the diversity or level of independence of certain members are the main reasons for voting against.

Resolutions relating to compensation accounted for the large part of our votes against in 2019 and remained a major factor in votes cast against in 2020, at 27%. We notably continue to deplore the lack of transparency relating to the details of variable compensation allocation criteria (bonuses and long-term incentive schemes) and the amount of compensation paid on termination of the contract.

Resolutions relating to financial transactions or mergers made up the third main motive (17%) for votes cast against in 2020. Many of these resolutions allowed for the possibility of significant capital increases without seeking prior shareholder approval. In other instances, the source of our objections lay in a lack of transparency on possible recourse to certain financing instruments.

In terms of ESG pillars, it should be noted that most resolutions submitted to shareholder vote continue to relate to questions of governance. In 2020, no less than 98.8% of resolutions put to the vote related to this pillar. A stable figure compared to 2019. Among the main issues submitted to the vote can therefore be found the composition of the board of directors (36% of resolutions), executive pay (15%), approval of the accounts and allocation of earnings (12%) and M&A transactions (9%).

Thematic breakdown of resolutions voted on:



Among the external resolutions voted on in 2020, two related to questions of energy and ecological transition. One was supported and submitted by METROPOLE Gestion, in conjunction with a group of investors, to the General Shareholders' Meeting of Total. The resolution called upon the French oil & gas group to align its objectives with those of the Paris Climate Agreement by setting out an action plan with milestones to set targets for reductions in absolute value, over the medium and the long term, of the group's direct or indirect greenhouse gas emissions relating to the production, processing and purchase of energy products (Scope 1 and 2), and to customers' use of end-use products sold (Scope 3). The second resolution was tabled at the AGM of Royal Dutch Shell, and with comparable aims: to set targets for reductions in CO_2 emissions by presenting a detailed strategy for their achievement. We supported this resolution, which was not approved by the oil group's Board.

As Energy and Ecological Transition issues were once again under-represented among the resolutions put to shareholder vote, we also address these issues as part of our three-part engagement policy.

- Individual engagement with companies (through dialogue and exercising voting rights on ESG resolutions).
- Thematic engagement (on the topic of climate change in 2019 and 2020).
- Collective engagement: In 2020, METROPOLE Gestion has joined the « Non-Disclosure Campaign » aimed at improving information transparency relating to climate change provided by companies but also the « CDP SBT campaign », a campaign asking companies to commit to fight climate change by setting science-based targets through the Science Based Targets initiative's (SBTi).

A dedicated report on the exercise of voting rights and shareholder dialogue is available on our website.

2.2.2 Dialogue ahead of General Meetings

As our approach is designed to improve the practices employed by the companies, we also conduct engagement activities before general meetings to cover, and even influence, the content of the agenda items. We make every effort to ensure that it is in line with the interests of minority shareholders and complies with our principles of governance.

Among our most noteworthy encounters this year were our discussions with two UK companies, Pearson and Easyjet, which reached two radically opposite conclusions: in one instance we voted in support of management and in the other against.

- At the instigation of one of its founders, Sir Stelios Haji-Ioannou, **easyJet** convened an Extraordinary General Meeting. Contesting management strategy on investment in the airline's fleet, Sir Stelios invited shareholders to vote on the dismissal of four directors, including the CEO, CFO and Chairman, with a view to rescinding the airline's contract with Airbus. At a time of unparalleled crisis in the airline industry, we held discussions with the company to gain a better understanding of the terms of the contract in question and its potential risks for the group's financial health. On the strength of these discussions, we felt that the contract did not jeopardise easyJet's capacity for weathering the crisis, given that it contained a number of clauses allowing the airline to adjust the scale of its orders. We took the view that management had implemented sound investment management that currently offers the group the margin for manoeuvre needed to execute its strategy, even in an unprecedented crisis. As a result, we supported management and voted against all the resolutions tabled by Sir Stelios.

- **Pearson**, a leading publisher of higher education textbooks, appointed a new US-based CEO with effect from October 2020. Prior to his arrival, the Board invited shareholders to vote on an amendment to the remuneration policy approved in April 2020, in order to match the levels of pay awards prevailing in the US media sector. The proposal nonetheless encountered a number of obstacles. The sums in question were particularly high by European standards, and the award criteria lacked transparency. Lastly, the presentation of the resolution made the new appointee's arrival conditional on the pay package being approved. After taking note of the company's arguments in favour of its proposal, we decided to oppose the proposed pay award.

3. Thematic engagement

3.1 Presentation of the theme chosen for 2020

The management team selected as its theme for 2020 "incorporating Task Force on Climate-related Financial Disclosures (TCFD) recommendations into corporate climate reporting".

Signed in 2015, the Paris Climate Agreement breathed fresh life into the fight against climate change. Numerous initiatives therefore emerged or gained momentum designed to deal with the actual and transitional risks, in addition to the opportunities presented by climate change and energy transition. Although by no means the only issue, CO2 emission reduction is a central issue with the target specified in the Paris agreement of limiting global warming by 2050 to a maximum of 2°C compared to the pre-industrial era. The consequences of the agreement have led to new regulations encouraging companies along this path. This especially applies to the European Union, which in 2019 announced its objective of carbon neutrality by 2050.

As a responsible investor, we also contribute to the attainment of this objective through our process of engagement with our companies. We also hold dialogue with issuers regarding their strategies in this area in order to address climate risks and grasp any opportunities that energy transition might have to offer. This analysis relies on access to reliable and uniform information on which to base evaluations and comparisons of corporate performances. As a signatory to the TCFD, we see its recommendations on the reporting of climate risk and energy transition issues as constituting an analytical framework in the process of becoming a standard. These recommendations have therefore been adopted as one of the requirements of CDP reporting and will be mandatory for large-cap companies in the UK with effect from 2021.

We therefore focused our thematic engagement on companies in our portfolios that do not as yet follow these recommendations, with the aim of encouraging them to do so and also to gain a better understanding of the systems they are introducing.

3.2 Summary of our interviews

Our analysis reveals that 35% of the companies included in our portfolios in 2020 feature on the list of TCFD signatories and issue specific climate-related reporting in accordance with TCFD recommendations. While this may seem to be still a relatively small proportion, it is nevertheless worth noting that most of the other companies respond, either partially or fully, to CDP questionnaires which themselves incorporate the TCFD recommendations. Many of these companies actually supply links or correspondence tables from their reporting to all or part of the information of interest. It was therefore possible to establish that 75% of the companies in our portfolios follow TCFD recommendations at least partially, while 25% do not.

Among the reasons companies cite for not doing so, one is the considerable additional workload involved, given that climate-related reporting is extremely comprehensive and requires considerable resources to be devoted to it. This objection is reflected in the fact that 88% of the companies that fail to follow the recommendations in any way are small-caps. Another argument frequently advanced by issuers is the fact that only certain parts of this reporting are pertinent to their situation, depending on their business activity, and there is no requirement to respond in full. While this argument holds true for certain marginal aspects of the reporting, we do not find it wholly convincing given that its scale is wide-ranging enough to cover most types of business activity.

Finally, we note that many companies express an intention to start working towards compliance or to comply more fully in the years ahead.

We therefore questioned those companies that do not as yet fully integrate TCFD recommendations about their approach to assessing the risks and opportunities associated with climate risk and with energy transition.

Their analysis of climate risk reveals that they perceive more risks associated with the transition to a low-carbon economy than they do physical risks:

- The main risk companies emphasise is regulatory risk and its implications for raw materials costs and CO2 costs in particular. It is industrial companies, above all, that highlight this risk, cited by names such as construction group Bouygues, aerospace components manufacturer Meggitt, auto equipment maker Autoliv, medical equipment manufacturer Gerresheimer and more.
  Our dialogue with Swedish steel company SSAB is interesting in this respect, given that the company enjoys low production costs within its sector, even when high CO2 prices are

included. The group says it is not particularly worried about regulatory changes in the sector.

- The second biggest risk mentioned by companies is a change in demand from their customers and the risk of not being able to provide the right kind of products. Auto equipment maker Brembo or cable manufacturer Nexans both mentioned the risk of no longer being able to provide the technological responses their customers expect. In the service sector, Spanish testing, inspection and certification firm Applus, with its heavy exposure to the oil & gas sector, stressed that customer demand could change significantly as oil firms redirect their activities.
- Lastly, companies mentioned the emergence of physical risks associated with certain regions. Infrastructure operators, for example, were at risk of damage to their networks, as in the case of Autogrill or REN, with increased incidences of cyclones, fires, etc. Aerospace equipment manufacturers Safran and Meggitt, in common with Austrian firm Andritz, also identified climate hazards as significant risks threatening their sites. Such risks may also be more indirect and affect non-industrial firms through phenomena such as supply chain disruptions (Fnac Darty), or a sudden halt in customer demand due to extreme climate events (Accor), or the worsening situation of customers (Bureau Veritas, banks).

To contend with such risks, it emerged that 57% of the companies concerned had introduced a climate risk management policy and 33% had established 2°C scenarios to project the potential consequences of climate change and energy transition for their business activities.

While the risks are thus established and, indeed, acknowledged by most of the companies not issuing TCFD reporting, the same companies also identify opportunities to be grasped as part of energy transition. These opportunities are for the most part the reverse side of the risks described above. Groups involved in construction or infrastructure management highlight significant needs in terms of energy efficiency, smart networks, connection to new energy sources, etc. Almost all companies, without exception, realise that energy transition represents a significant potential reservoir of increased productivity and cost reductions.

Companies in the industrial sector also emphasise the opportunities for differentiation and for redistribution of market share between players by developing new technologies better tailored to customer needs. Such developments will nonetheless require significant investment capacity from which to finance simultaneously business operations, innovation and the capital requirements associated with energy transition. It is for this reason that the oil & gas groups are currently playing the leading roles in energy transition. Once their soul-searching is done and the risks and opportunities associated with their activities acknowledged, these groups possess unrivalled capacity to invest in energy transition.

4. Collective engagement

As a signatory of the Carbon Disclosure Project, METROPOLE Gestion has joined the Non-Disclosure Campaign, a collective engagement campaign targeting companies failing to respond to information requests from the CDP. This form of engagement aims to improve transparency of information, notably relating to climate change data communicated by companies by following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Such contributions of information to the CDP are vital for measuring companies' impact on climate change in a complete and uniform manner and for assessing the effectiveness of the mitigation measures taken by companies.

Our 2019 campaign targeted 17 companies as co-signatories on the three CDP themes: climate change, forests and water security. We noted that six of them (35%) responded positively to our request over the course of 2020 by completing the CDP questionnaires on the target themes. Although we would naturally hope to convince still more issuers of the merits of our requests, a positive response rate of 35% nevertheless indicates the already significant impact of our engagement alongside other investors.

In 2020, we took this collective engagement a step further by acting as Lead Investor in the requests we issued. This positioning gives a higher profile to our engagement with issuers and gives us greater influence over corporate environmental policies. Many investors have supported us in our engagement and backed our approach as co-signatories. Our targets this year were the 10 companies listed below, all of which operate in sectors exposed to significant environmental issues. Our requests covered all three of the required CDP sections, Climate change, Forests and Water security.

Company	Business sector
Andritz	Industrials
Bouygues	Industrials
Eni	Energy
Forterra	Materials
IMI	Industrials
Metso	Industrials
Repsol	Energy
Sandvik	Industrials
Total	Energy
Vopak	Energy

The 2020 campaign will bear fruit over the course of 2021, but we have already received replies from Eni and IMI, both of which have agreed to reply in 2021 to the CDP questionnaire on the aspects we had targeted.

As part of the CDP, we have also joined the CDP's Science Based Targets initiative (SBTi) campaign, based on the same principle of a group of investors joining forces to invite selected companies to adopt scientifically approved CO_2 emissions reduction targets. This latest campaign enables us to encourage more companies, by different means, to reduce the carbon footprint of their activities and align with the Paris Climate Agreement 2°C trajectory.

At the Total AGM in May, we decided to support a resolution coordinated by Meeschaert AM and a group of investors, calling on Total to align its activities with the objectives of the Paris Climate Agreement by introducing an action plan with milestones to set targets for reductions in absolute value, over the medium and the long term, of the group's direct or indirect greenhouse gas emissions relating to the production, processing and purchase of energy products (Scope 1 and 2), and to customers' use of end-use products sold (Scope 3).

Over the course of 2020 we also joined Climate Action 100+ group in order to engage in collective dialogue with HeidelbergCement. The cement sector is heavily exposed to issues of CO_2 emissions. As one of the world leaders in the industry, HeidelbergCement has a fundamental role to play in moving towards a low-carbon economy, both by setting an example in reducing its own emissions and by exercising its power to establish new standards within the sector. This being the case, it is our responsibility as a socially responsible investor to engage with the company and encourage it to improve its practices. Although we already engage individually with the company, our collective engagement as part of an institution as widely known as Climate Action 100+ gives us still greater leverage. The company has undertaken to achieve carbon neutrality by 2050 at the latest, and has also set intermediate milestones along the way. We will be pursuing this collective dialogue to encourage the group to step up its efforts in the years ahead.

5. Conclusion

2020 will go down as a bleak year in human history as a result of the unparalleled pandemic crisis that brought the entire planet to a halt and plunged many economies into recessions of historic proportions. And yet 2020 also marks a turning point in the growing awareness amongst all stakeholders of the environmental issues our development models must now contend with. Although the current health crisis cannot be laid at the door of global warming, its very nature highlights the need to accelerate the pace of the transformations already initiated in recent years in response to climate issues. It is clear from the number of strategic announcements addressing this challenge that companies are indeed getting to grips with these issues and speeding up the pace of their transformation to enable them to weather the crisis and even emerge the stronger for it. It is noteworthy that most companies have not curtailed their investment in energy transition, even in a year of extremely tight financial constraints.

As prospects of recovery begin to emerge, even though no one can as yet discern clearly either its pace or scale in view of the persistent uncertainties around the pandemic, the years ahead will reveal the companies that successfully converted these changes into opportunities. For this reason, as a Responsible Value investor, we intend to pursue our engagement with issuers, in all its forms, to encourage them to adopt best practices and support them in a transition that may, at times, amount to a full-scale strategic revolution.

While environmental aspects currently occupy the foreground by virtue of their sheer urgency, the current crisis also highlights the importance of the other ESG pillars. We cannot afford to overlook them, because other transformations are already at work. The technological disruption affecting every sector of the economy, the changes in society, the instability of global geopolitical and economic balances are also creating problems in terms of social relations, governance or the relations between stakeholders. Our role as a Responsible Value investor is to engage with companies on all of these fronts so as to arrive at the best possible analysis of the risks and opportunities they face, and to make responsible investment decisions.

In 2021, we will pay particular attention to the theme of financing energy transition and ESG issues, one of the most effective levers in encouraging companies towards better practices.

DISCLAIMER

This document is issued by METROPOLE Gestion.

It is intended for information purposes only and therefore has no contractual value. Under no circumstances does it constitute any form of investment advice, recommendation to enter into a transaction or invitation to subscribe. METROPOLE Gestion reserves the right to modify the information presented herein at any time and without prior notice.

METROPOLE Gestion accepts no liability for any investment or divestment decision taken on the basis of information appearing in this document.

This document has not been reviewed by any regulatory authority. The figures, comments and opinions expressed in this document are the result of analyses made by METROPOLE Gestion at a given moment in time and are no indicator of future performance.

This information derives from or is based upon sources considered reliable by METROPOLE Gestion. Under no circumstances, however, does METROPOLE Gestion guarantee its accuracy or exhaustiveness.

Any reproduction or use of all or part of the contents of this document without the authorisation of METROPOLE Gestion is strictly prohibited

METROPOLE Gestion 9, rue des Filles Saint-Thomas 75002 Paris – A French société anonyme (limited company) with share capital of 1,200,000 euros.

An asset management company approved by the AMF under the number 02 026 – RCS Paris registration number 442 661 195 - Tel: 01 58 71 17 00