

Sustainability in Equity Proprietary Investments = work in progress ...

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Caisse
des Dépôts

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Outline

- 1. Caisse des Dépôts (CDC) :
a French Public Financial Institution since 1816**
- 2. Equity proprietary investments**
 - a. Fund Management style of the listed equity portfolio
 - b. Framework of Responsible Investment approach
- 3. Environment & Social**
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- 6. Achievements so far**
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CDC : French Public Financial Institution since 1816

Resources

- Total assets: € 221 billion

Uses

- Public project financing:
 - Urban development
 - Infrastructure
 - Social housing
- Corporate long term financing:
 - Private equity
 - **Listed equity**

“Elan 2020”: a Strategic Plan to implement the Group’s missions focusing on :

- Housing
- Universities
- Small and medium sized companies
- **Sustainability & Environment**

⇒ *Responsible Investment is core of CDC’s global strategy*
CDC is a PRI signatory



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Equity Proprietary Investments

At the crossroads between resources & missions

Fund management style of the listed equity portfolio

- € 20bn under management
- Staffing: 6 fund managers, sector specialised
- Investment style: bottom up, stock-picking, very long term
- European large caps

Framework of Responsible Investment /ESG approach

- Launched five years ago
- ESG criteria applied throughout the portfolio by every fund manager
 - ⇒ *No dedicated ESG portfolio*
 - ⇒ *No dedicated ESG analyst*
- Long term view, positive approach: company dialogue, no exclusion
- Preferred direct communication with company managements
- No assessment of Responsible Investment performance..... yet!



Environment & Social

Environment

Social

- Check list
- Broad reliance on external sources for highly publicised topics
- Discretionary selection of specific topics by fund managers

- Quantitative analysis more appropriate for specific sectors and topics than others

- Data easier to collect and value
- Analysis beyond quantitative approach

⇒ *A pragmatic approach, adding value over time*



Governance (1)

- Five year experience: analysis and active voting
- The whole portfolio is covered,
with a specific involvement regarding French companies
- Strict voting procedure:
 - ◆ Internal voting guide
 - ◆ Voting committee involves other departments
(Legal, Risk Control, Corp. Governance Services)
 - ◆ Upon companies' request, preliminary meeting on sensitive issues
 - ◆ Voting intentions disclosed to companies
 - ◆ Pragmatic approach based on case by case analysis
 - ◆ Actual attendance to French companies' AGMs



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Governance (2)

- Capacity to make companies amend resolutions
- Extension of CDC's French governance criteria to foreign companies
- Experience with foreign companies to feed analysis of French practices

⇒ *Specific issues :*

*employee shareholding
management compensation
stock options
poison pills
capital raising*



Information sourcing & limits

Sources

- Companies : access to top management + Resp. Investment team, general disclosure
- Extra-financial research providers
- Brokers : sell-side analysts + Resp. Investment teams
- Dedicated websites
- Proxies : as support only

Limits

- Bias of company releases
- Youth of Resp. Investment teams
 - ◆ building experience
 - ◆ refining critical analysis
- Difficulty to analyse quantitative data
- Scope /quantity of information :
 - ◆ need to select
 - ◆ need to harmonise

⇒ *Direct due diligence on Governance*

⇒ *Reliance on MD & A diligence on Environment & Social*



Achievements so far

- **Rating** of CDC's equity proprietary portfolio by an extra-financial research provider
- **Promotion** of Responsible Investment approach with brokers: specific fee allocation for Responsible Investment services
- **Qualitative** approach: appropriate focus selected case by case, flexible basis
- **Quantitative** approach whenever realistic
- Specific **analysis document** for every company held in portfolio
- **Dialogue** with company to source information as well as to promote CDC's sustainability focus
- Rising **credibility and impact** of CDC's approach : Environment, Social, Governance
 - ⇒ ***CDC's access to top management + weight in capital are key to impact improvement of company behaviour and policy***



Constraints & opportunities

Constraints

Opportunities

Sector-specialized fund managers

- A few themes per sector
- Less scope for global overview

- Appropriation of ESG approach and responsibility managed across portfolio

ESG issues are some of the many themes covered by the fund managers

- Demanding for a non specialist :
 - ♦ Tools
 - ♦ Valuation
 - ♦ Time allocation

- Make companies perceive sustainability as an integrated part of our investment process, not just a filter
- Gradual but solid implementation

Different approach between French & foreign stocks

- Influence capacity more limited on non French companies

- Capitalize on CDC's French experience



The way forward & concluding remarks

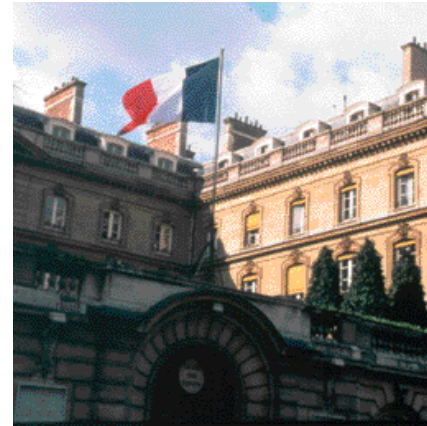
The way forward

- Determine sustainability impact
 - ♦ On valuation work
 - ♦ On market performance of portfolio
- Over term, alpha generation by Responsible Investment is linked to developing competence of equity markets in the field of ESG

To sum up: a double Responsible Investment approach

- Data collection and rigorous analysis of sustainability impact on company business and valuation
- Combined with “soft activism” towards companies held in portfolio

⇒ *Legitimacy of double approach based on CDC's own long term view : historical actor in France, PRI signatory*



Thank you for your attention

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