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

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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

4. Governance

5. Information sourcing & limits

6. Achievements so far

7. Constraints & opportunities

8. The way forward & concluding remarks
“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
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**

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<tr>
<th>Environment</th>
<th>Social</th>
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<tr>
<td>• Check list</td>
<td>• Data easier to collect and value</td>
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<td>• Broad reliance on external sources for highly publicised topics</td>
<td>• Analysis beyond quantitative approach</td>
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<td>• Discretionary selection of specific topics by fund managers</td>
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- Quantitative analysis more appropriate for specific sectors and topics than others

⇒ **A pragmatic approach, adding value over time**
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
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

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

Opportunities

- Appropriation of ESG approach and responsibility managed across portfolio

Sector-specialized fund managers

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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