

PHITRUST ACTIVE INVESTORS FRANCE

ENGAGEMENT REPORT 2019



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PHITRUST

Invest to act

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EDITORIAL

Active long-term shareholders!

An engaged and constructive investor, Phitrust has once again this year demonstrated the importance of the dialogue the management company has held with the managers of large companies for almost 20 years.

During the Grand Prize ceremony of the 2019 General Meeting held as part of the Paris Europlace International Financial Forum, for the first time the jury awarded the Special Prize not to an issuer but to a group of investors led by Comgest and Phitrust (with Baillie Gifford, Edmond de Rothschild AM, Fidelity International, GuardCap AM and Sycomore AM). Their achievement: helping resolve the governance crisis resulting from the EssilorLuxottica merger process, a crisis that erupted publicly in March 2019.

- Even though, as minority shareholder, the possibilities of changing the ESG (environmental, social and governance) practices of the companies are limited, and the threat of leaving the investment by selling its shares has no impact, Phitrust's influence is real and concrete. It is underpinned by four specific and differentiating levers: (1) dialoguing systematically and constructively with chairpersons or managing directors directly, (2) filing resolutions and asking questions in writing before general meetings, (3) relying on the media to warn investors and the general public, (4) being physically present at all general meetings of CAC 40 companies and voting systematically. **Phitrust is the only management company on the Paris financial markets to have filed 45 resolutions at CAC 40 company general meetings.**
- As an independent, responsible and long-term shareholder, Phitrust questions managers about their strategic governance, which naturally includes environmental and social issues. The quality of a company's governance proves to be the determining factor for guaranteeing that the interests of all stakeholders are taken into consideration in the long term, and therefore guaranteeing sustainable and equitable growth. **Due to a wide range of actions, unique expertise in shareholder engagement in France and the management of a portfolio of CAC 40 company securities based on their responses to the engagement campaigns, Phitrust has taken its place as a leading player on the Paris financial market and one of the most influential funds despite still too low prices. Engaged for a long-term transformation, and not short-term activism!**
- By amending the Civil Code, the Pacte law has provided a framework for an underlying tendency. A true transformation process is underway. Transformation which will only be successful if it keeps away from elements of automated language, at the risk of dropping from "green washing" to "mission washing". Shareholders, who have understood that a change in strategy is essential, are ready to make this shift.

Independence, demonstrated know-how, unique track record. For almost 20 years, Phitrust has been working constructively with CAC 40 companies on the major strategic governance issues. The dialogue we are undertaking enables progress to be made on multiple subjects, including environmental and social matters. Let us hope that parliament will focus on enabling shareholders to make themselves heard, in order to move our companies forward, so that they can meet the challenges of our world!

Olivier de Guerre
Chairman

Denis Branche
Deputy Managing Director

SHAREHOLDER ENGAGEMENT

Growing requirements

From year to year, governance issues and ESG matters as a whole are becoming central for most investors; this is in particular demonstrated at the general meetings tackling ESG matters, covering not only issues of Board member remuneration, board organisation but also, increasingly, social and environmental issues. Shareholders now assert their rights and no longer hesitate to take the floor before the management team concerning strategic challenges, particularly at times of major controversy. It is also a sign that shareholders are becoming aware of their driving role in ensuring that listed companies consider issues linked to climate change, the energy transition and employment and societal matters.

"Shareholder engagement is the means of influencing a company's strategic governance to influence decisions and environmental and social practices", Denis Branche

Why analyse companies from a strategic governance perspective?

Defined by the General Meeting of Shareholders, governance distributes powers between the various players in a company, to its directors, management and other stakeholders actively or passively involved (e.g. shareholders, employees, suppliers, clients, government). The key words are transparency, control, responsibility, balance and equitable distribution of value.

The main subjects concern decision-making methods, the power of executive managers, the appointment and remuneration of directors and board members, preparation of strategy and in particular the incorporation of environmental and social issues, performance management, and compliance with statutory, accounting, fiscal or the company's own regulations. Since the Pacte law, defining the company's mission or raison d'être has also been included.

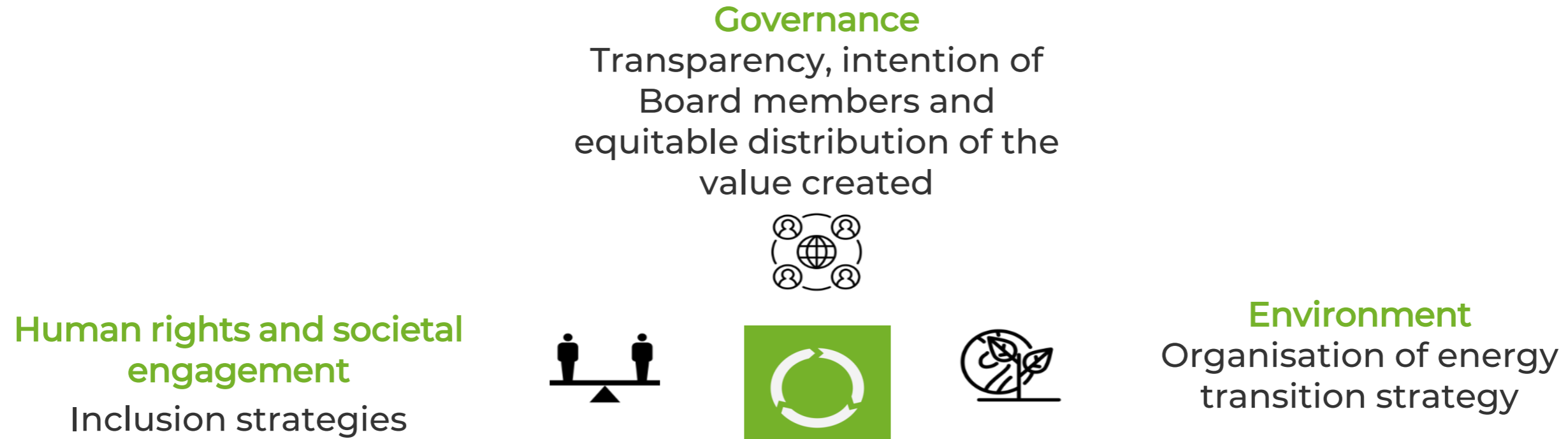
➔ **Balanced governance, respecting the interests of each stakeholder, is a guarantee of the long-term success of a company and the confidence it inspires. It is what motivates our actions.**

UNIVERSE OF COMPANIES

Main engagement themes

Sicav Phitrust Active Investors France is invested in all CAC 40 company securities. We act directly with Boards: chairpersons or managing directors. The objective is to ensure that the voice of minority shareholders is heard and influence company management in terms of independence and board composition, remuneration and the environmental and social policies falling under the strategic governance of any company. The over- and under-weightings reflect our analysis of these subjects, considering that good governance should have a long-term positive impact on the stock market valuation.

2019, governance again at the summit



Subjects concerning the environment and social or societal matters are in fact dependent on the organisation and implementation of governance in the sense that they are always organised according to the decisions made by the lead manager and the board.

For Phitrust and the shareholders of Sicav Phitrust Active Investors France, several very concrete, public and rather symbolic actions of engagement marked the 2018/2019 season.

The main themes brought up at the GMs were:

- Remuneration of Board members (Carrefour),
- The composition and balance of the Board of Directors and the separation of management powers (EssilorLuxottica),
- The liability of directors and statutory auditors (Renault),
- The separation of management power duties and multiple mandates (Vivendi)



SHAREHOLDER ENGAGEMENT

Voting orientations



THE RIGHTS OF SHAREHOLDERS AT GENERAL MEETINGS

Encouraging shareholder democracy through observance of the principle "one share - one vote". Elimination of double voting rights, which only favour shareholders wishing to take control of the company.

THE BOARD OF DIRECTORS OR SUPERVISORY BOARD

Separation of powers, independence of the board and its committees and observance of the right of minority shareholders. Work carried out on the company's mission/raison d'être.

REMUNERATION, BOARD MEMBER AND EMPLOYEE ENTITLEMENT TO CAPITAL

Transparency and equity for all remuneration paid to Board members and employees.

ALLOCATION OF PROFIT OR LOSS AND USE OF EQUITY CAPITAL

Reasonable management of equity capital following and medium- to long-term approach.

VARIATION OF CAPITAL

The integrity of financial statements and information. Liability of statutory auditors. The capital transactions proposed to shareholders must be justified and balanced.

ENVIRONMENTAL IMPACT

The importance of a strategy taking into consideration climate change and global warming. Support for Science Based Targets initiative to set specific scientific objectives to reduce greenhouse gases.

SOCIAL IMPACT

The need to have high quality social practices with employees, and oversight of practices of all stakeholders. Implementation of vigilance plan. Respect for human rights and diversity. Prevention of risks of modern slavery.

BUSINESS ETHICS

Ethical charter, audit procedure and effective engagement against corruption. Managing and protecting whistleblowers internally and externally. Auditing and managing practices in the supply chain.



SHAREHOLDER ENGAGEMENT

Assessment of actions undertaken 2018/2019




In 2018/2019,

Letters were sent to the chairpersons of each CAC 40 company; in total 180 questions were asked.

More specifically, the dialogue continued with 32 of the 40 companies (including 18 meetings with Boards and/or conference calls, and 14 written responses from the Chairpersons of Boards of Directors or Supervisory Boards).

Additionally, four series of written questions were sent to four companies before their general meetings (Carrefour, EssilorLuxottica, Renault, Vivendi). The responses to these written questions were published on the website of the companies in question, or in the minutes of the General Meeting.

In total, 204 questions were asked on a range of varied themes such as the separation of powers, Board member remuneration, capital protection mechanisms (double voting rights, Breton warrants, capital increases during takeover bid period), taxation, business ethics and corruption, the Science Based Targets (SBTi) environmental initiative following the campaign led by Phitrust on this matter, and social inclusion and the company's vigilance plan.



Voting at General Meetings

We were present at the General Meetings of 33 companies, and for the six foreign companies on the CAC 40 (or those holding their GM outside the Greater Paris area) we voted remotely, for a total of 866 resolutions (excluding Pernod-Ricard which will hold its General Meeting in November 2019).

We voted in opposition for 36% of the resolutions (i.e. 309 resolutions), particularly on the issues of Board member remuneration, capital increases during takeover bid periods and the appointment of certain directors (against multiple mandates in particular).

We filed five shareholder resolutions asking to separate management duties at EssilorLuxottica and to appoint two independent directors, and to end the mandates of two directors at Renault (Patrick Thomas) and at Vivendi (Yannick Bolloré).

GENERAL MEETINGS 2019

Presence and key events

CAC 40 company	Phitrust Presence 2019 GM	Comments / Key Events
Accor	Yes	Renewal of mandate of Nicolas Sarkozy as director. Monitoring of subject of double voting rights.
Air Liquide	Yes	(Complex) monitoring of Science Based Targets initiative.
Airbus Group	No	Company governed by foreign law. Dutch law limits shareholder campaigns. Controversial departure of Chief Executive, Tom Enders, in the context of a large fine connected to corruption cases.
ArcelorMittal	No	Company governed by foreign law. Difficult to conduct shareholder engagement campaigns (control shareholder).
Atos	Yes	Renewal of mandate of Thierry Breton as CEO. Resolution approved proposing the "raison d'être" of ATOS in the company's articles of association.
AXA	Yes	Validation of strategy towards insurance leaving financial activity.
BNP Paribas	Yes	Special attention paid to climate issues.
Bouygues	Yes	Speech on return to "one share-one vote" principle, and on the capital protection mechanisms (capital increase in takeover bid period and Breton warrants).
CapGemini	Yes	
Carrefour	Yes	Written questions about governance of the company and remuneration of Board members in a complicated employment context within the scope of the new strategic plan of the CEO, Alexandre Bompard.
Crédit Agricole	No	
Danone	Yes	Renewal of mandate of CEO, Emmanuel Faber. Launch of the "one employee, one vote" strategy (each employee holds a share).
Dassault Systemes	Yes	First GM since Dassault Systèmes entered the CAC 40 index in 2018. NB: resolutions voted by raising hands ... in a technology company.
Engie	Yes	First GM with the new Chairman of the Board of Directors, Jean-Pierre Clamadieu. Multiple questions about the shareholdings of Engie directors compared to the amount of their directors' fees.
EssilorLuxottica	Yes	Filing and registration of the two resolutions filed by Phitrust, Comgest and five professional investors for the appointment of Wendy Lane and Jesper Brandgaard. Entrance of Laurent Vacherot, CEO of Essilor with Board of Directors.
Hermes Int,	Yes	First GM since Hermès entered the CAC 40 index in 2018.
Kering	Yes	Controversy surrounding the remuneration of the Board members and KMUs (Kering Monetary Units).
Legrand	Yes	Presentation of the new roadmap of the Managing Director, Benoît Coquart.
L'Oréal	Yes	Departure of a director, Axel Dumas, manager of Hermès following the launch of a cosmetics branch at the luxury leather goods company.
LVMH	Yes	Renewal of mandate of Bernard Arnault as CEO.
Michelin	No	Departure of Jean-Dominique Senard.

GENERAL MEETINGS 2019

Presence and key events

CAC 40 company	Phitrust Presence 2019 GM	Comments / Key Events
Orange SA	Yes	In the context of the France Telecom process, Stéphane Richard presented everything implemented since his arrival at Orange to improve the working environment.
Pernod-Ricard	Yes	<i>MG in November 2019</i>
Peugeot SA	Yes	Presentation of measures introduced in order to incorporate Opel-Vauxhall. Vote on anti-takeover bid measures despite current invested capital structure. Centenary of Peugeot-Citroën group.
Publicis Group	Yes	
Renault	Yes	First GM of Jean-Dominique Senard as Chairperson of Board of Directors of Renault and Thierry Bolloré as Managing Director. Phitrust asked several written questions about governance following the arrest of Carlos Ghosn in November 2018, particularly concerning the liability of directors and statutory auditors. Also questions about the merger "between equals" with FCA, which failed just before the GM.
Safran	Yes	
Saint-Gobain	Yes	Appointment of a Deputy Managing Director, Benoît Bazin, since 1 January 2019.
Sanofi	Yes	
Schneider Electric	Yes	Multiple questions concerning the fiscal residence and remuneration of the CEO, Jean-Pascal Tricoire, who is resident in Hong Kong.
Société Générale	Yes	Renewal of the mandate of Frédéric Oudéa at a "lively" GM. No replacement for F. Oudéa in sight.
Sodexo	Yes	Presentation of the strategy by the Managing Director, Denis Machuel, following the retirement of his predecessor, Michel Landel.
STMicroelectronics	No	Company governed by foreign law. Dutch law limits shareholder campaigns.
TechnipFMC	No	Company governed by foreign law. Difficult to conduct shareholder engagement campaigns. Controversial departure of Executive Director, Thierry Pilenko, after merger with American FMC and payment of his departure package (€16.1m).
Total	Yes	
Unibail-Rodamco	Yes	Presentation of the incorporation of Westfield following the merger in 2018.
Valeo	Yes	Renewal of mandate of CEO, Jacques Aschenbroich.
Veolia	Yes	
Vinci	Yes	
Vivendi	Yes	A resolution filed by Phitrust calling for the end of the mandate of the Supervisory Board member Yannick Bolloré (he is also Chairperson of the Supervisory Board), also CEO of the Havas group, subsidiary of Vivendi.

POINTS OF GOVERNANCE

Supervisory Board and Board of Directors: what are the differences?

SEPARATION OF POWERS

The separation of management powers for a company corresponds to a **principle of good governance**. **Operational management should be separated from its oversight**. If everyone recognises the merits of effectiveness and reactivity of a combined power structure, the monistic regime of Chief Executive Officer in itself brings the **risk of complete power with no counter-power**.

Responsible for general management, **the CEO has immediate power** over the company and its employees but also control of the information essential for directors and above all the conduct of the Board, for which it sets the agenda, speaking times and reporting. As chairperson, **they thus chair and direct the discussions of the board** which appoints and remunerates them and which has **power of revocation**. In other words, the controller is the controllee and in the event of successive management errors the implicit risk may be significant.

Various corporate governance codes, in particular the code of the Association Française de la Gestion (AFG) and the UK Corporate Governance Code, recommend **separation of these two responsibilities in order to ensure a balance of powers**. Conversely, the AFEP-MEDEF code on corporate governance, drawn up by French issuing companies, does not state a preference for the separation of duties.

ROLE OF THE BOARDS

A Supervisory Board oversees the management by the Board of Directors which carries out the verifications and audits it deems necessary. Prior agreement from the Supervisory Board may be required for important decisions: strategic partnerships, capital increases, financing, share purchases, acquisitions, option or share plans, dividends, amendments to articles of association.

This separation of duties **prevents situations of conflict of interest**. Conversely, the powers of a Managing Director who is also Chairperson of the Board of Directors are disproportionate: in this situation the prerogatives of a **lead director** with status not recognised in French law are insufficient, especially as this position and these prerogatives are rarely laid down in the articles of association.

SPECIFIC CASE

Several members of supervisory boards have informed us that the discussions within a supervisory board are much freer than in board of directors structures with a Chief Executive Officer.

Thus, the dual structure requested by two resolutions filed by Phitrust in **2013 and 2014** would, for example, guarantee to the shareholders of **Renault** a significant reduction in the risks of conflict of interest or failings in the oversight of Boards and the smooth running of the company.

Additionally, in a board of directors structure, the appointment committee selects and presents director candidates to the CEO who chooses them in the end, but does not present them to the Managing Director in the case of separation of management duties.



POINTS OF GOVERNANCE

What is the role of the lead director?



ROLE OF LEAD DIRECTOR

According to the AFEP-MEDEF corporate governance code for listed companies (article 3.2), companies with a Board of Directors have the choice between separating and combining the duties of Chairperson and Managing Director. The law does not give preference to any arrangement, and gives the board of directors the power to choose between the two modalities for general management. The board is responsible for making a decision and explaining this decision.

The board can appoint a lead director from among the independent directors, particularly when combined duties has been chosen. In the case of separation of the duties of chairperson and managing director, the tasks entrusted to the Chairperson of the Board in addition to those entrusted by the law, where applicable, shall be described.

When the board decides to entrust specific tasks to a director, particularly as lead director, concerning governance or relations with shareholders, these tasks and the resources and prerogatives they have are described in the internal regulations (article 4.4 of the same code).

However, as the powers of the lead director are set forth in the **Internal Regulations of the Board of Directors**, their prerogatives are not always stated in the **company's articles of association**. Moreover, the lead director does not always have the possibility of convening the Board of Directors, but only if the Chairperson is unable to do so. In a company with a Board of Directors, said board has the legal power to decide to separate or combine the duties of Chairperson and Managing Director.

TASKS OF THE LEAD DIRECTOR

One of the tasks of the lead director should be communication with shareholders and the markets. Shareholders' relations with the Board of Directors, particular on matters of corporate governance, can be entrusted to the Chairperson of the Board of Directors or, where applicable, to the lead director. Said director reports to the Board of Directors on this task.

POINTS OF GOVERNANCE

CAC 40 Companies	Independent directors	Separation of duties CEO/MD	Presence of a lead director	Comments
Accor	46%	No	Yes	Double voting rights.
Air Liquide	67%	No	Yes	
Airbus Group	67%	Yes		Dutch company
ArcelorMittal	56%	No	Yes	Luxembourg company
Atos	50%	No	Yes	
AXA	71%	Yes	Yes	Double voting rights
BNP Paribas	36%	Yes		
Bouygues	27%	No		Double voting rights. Breton warrants.
CapGemini	46%	No	Yes	
Carrefour	42%	No	Yes	Double voting rights
Crédit Agricole	29%	Yes		
Danone	50%	No	Yes	Double voting rights.
Dassault Systemes	31%	Yes		Double voting rights
Engie	37%	Yes		Double voting rights
EssilorLuxottica	46%	No		Double voting rights eliminated in 2018
Hermes Int,	31%	Yes		Joint stock company. Double voting rights
Kering	55%	No		Double voting rights
Legrand	78%	No	Yes	
L'Oréal	40%	No	Yes	Double voting rights
LVMH	40%	No		Double voting rights
Michelin	78%	Yes		Joint stock company. Double voting rights
Orange SA	40%	No	Yes	Double voting rights
Pernod-Ricard	29%	No	Yes	Double voting rights
PSA Group	36%	Yes	Yes	Supervisory Board. Double voting rights. Breton warrants.
Publicis Group	42%	Yes		Supervisory Board. Double voting rights
Renault	47%	Yes (since January 2019)	Yes	Double voting rights
Safran	41%	Yes		Double voting rights
Saint-Gobain	57%	No	Yes	Double voting rights
Sanofi	63%	Yes		Double voting rights
Schneider Electric	69%	No	Yes	Double voting rights
Société Générale	79%	Yes		Double voting rights
Sodexo	29%	Yes		Double voting rights
STMicroelectronics	67%	Yes		Supervisory Board. Dutch company.
TechnipFMC	43%	No	Yes	Double voting rights
Total	75%	No	Yes	Double voting rights
Unibail-Rodamco	91%	Yes	Yes	Supervisory Board.
Valeo	85%	No	Yes	Double voting rights
Veolia	53%	No	Yes	Double voting rights
Vinci	53%	No	Yes	
Vivendi	42%	No	Yes	Supervisory Board. Double voting rights

MAIN RESOLUTIONS

Long-term actions

Filing resolutions, used as the last recourse following discussions with companies and their employees, allows Phitrust to question shareholders about the subjects identified. A resolution, even if not always voted in, is a means for shareholders to express their disagreement with the decisions made by companies' Boards of Directors. Phitrust is one of the few institutional investors to prepare, create and file resolutions on a regular basis.

SCIENCE BASED TARGETS



2018..... AND AFTERWARDS

Phitrust sent written questions to the Boards of Directors of 31 companies on the CAC 40 index for the 2018 General Meetings, concerning their participation in the "Science Based Targets" initiative.

As a responsible investor, Phitrust considers that it is essential for listed companies to contribute to the undertakings made within the scope of the Paris Agreement signed in 2015 following COP21, by committing to defining objectives for reducing greenhouse gas emissions which are ambitious, significant, consistent with their activity and at least aligned with the "2 degrees" trajectory recognised as essential by the international community.

The "SBTi" initiative is an international collaboration launched, following the Paris Climate Agreement of 12 December 2015, by the World Wildlife Fund (WWF), the UN Global Compact, the World Resources Institute (WRI) and the CDP (ex Carbon Disclosure Project). It aims to implement scientific control of the greenhouse gas reduction scenario of a company, depending on its business lines, in connection with the Paris Agreement objectives of limiting global warming to 2°C.

In France in 2018, four CAC 40 companies were involved in this initiative, having defined "Targets Set" (objectives approved by SBT, and commitment to reduce their emissions – scopes 1 to 3 – with quantifiable data). 13 other companies signed up to SBT ("Committed Companies"). Concerning financial institutions (banks and insurance companies), the SBT initiative itself indicates that it is not prepared for these validations (the protocol is not yet defined and the footprint is not significant); Phitrust asked these institutions specific questions.

→ Phitrust believes that these questions from shareholders encourage Boards of Directors of listed companies to become more aware of the importance of the climate issue and that the SBTi initiative will incentivise them to engage objectively, by being subject to scientific oversight, on the pathway laid out by the major agreements on climate.

MAIN RESOLUTIONS



CONSTITUTION OF THE NEW GROUP AND ITS GOVERNANCE

Since the January 2017 announcement of the merger "between equals" between the ophthalmologic lens manufacturer Essilor International and the glasses company Luxottica, Phitrust warned the Boards and shareholders against what we considered an operation that would lead to taking control without premium to minority shareholders by the family-owned holding company Delfin, and by the not very balance governance of the new entity (with the Board of Directors composed equally with eight directors appointed by Essilor International including the Deputy Chair and Deputy Managing Director (H. Sagnières) and the eight others appointing by Luxottica including the CEO, lead shareholder and the MD of Luxottica (F. Milleri) present in the Board while his alter-ego of Essilor (L. Vacherot) was not).

These approaches are expressed not only by direct contact with the Boards, but also by a series of written questions and speeches at the General Meetings of Essilor in 2017 and April 2018, then by a resolution filed at the November 2018 GM of the new entity EssilorLuxottica.

Phitrust's objective is to clarify and better balance the governance of the new company of French-Italian origin (with Luxembourg lead shareholder), leading it to present an original resolution with a so-called "three-sided" effect: it called for the separation of management duties, as they were concentrated in favour of the CEO, Leonardo Del Vecchio, 83 years and owner, via his Luxembourg holding company Delfin, of 31% of voting rights post-merger. The articles of association set the age limit for the positions of Chairperson and Managing Director at 95 years. French law requires that companies set an age limit for board members in their articles of association. Moreover, as French law entrusts only the board with the capacity to separate management duties within a company with board of directors, this resolution could not directly request the separation of these duties.

Our draft resolution therefore asked that the age limit applicable to the Managing Director be reduced to 75 years. This presented several advantages: in view of the age of the Chairman, Leonardo Del Vecchio, he was required to entrust the general management to a third party; this rebalanced the powers in the Board and prevented the blockages we were expecting.

→ While our resolution has not met the capital invested threshold (0.8%) necessary to be included on the agenda of the Meeting (9 professional shareholders representing 0.32% of the capital invested however co-filed it), the success of this draft and our interventions was to require the CEO of EssilorLuxottica to specify to the meeting of shareholders that there were plans to recruit a Managing Director from outside the group before 2020.

MAIN RESOLUTIONS



ENGAGEMENT DECISIONS

By making this choice not to engage, most investors also chose to let a governance crisis development: it broke out in broad daylight in March 2019, with the CEO attacking the Deputy Chairperson for breach of the merger agreements and requesting arbitration from the CCI. The Deputy Chairperson responded by filing a complaint against certain directors blocking the running of the Board of Directors. This dispute immediately led the share price to drop to €95.50, that is, -22% since the merger (€122.50).

In response to this terrible situation which risked endangering the merger operation, **Phitrust decided to propose to the May 2019 Shareholders' Meeting a vote to appoint two independent directors. This unprecedented operation for a CAC 40 company was carried out in liaison with Comgest and five other professional shareholders (Baillie Gifford, Edmond de Rothschild AM, Fidelity, Guardcap, Sycomore).** Two resolutions were put forward to elect to the Board the American Wendy Lane (in particular, director of Tyco at the time of its governance crisis) and the Norwegian Jesper Brandgaard (former Financial Director of Novo Nordisk).

Before the GM, the first positive effect of these resolutions was to contribute to the parties finding provisional common ground so that the merger could move forward. On 13 May, EssilorLuxottica stated that the two co-managers, Leonardo Del Vecchio and Hubert Sagnières, delegated to Francesco Milleri and Laurent Vacherot the responsibility of implementing the strategy and the group integration process. Within the scope of this "peace agreement", there were also plans to end all judicial proceedings, including the application for arbitration filed by Delfin, holding company of Leonardo Del Vecchio, which were the reason for us to file the resolutions.

Highlighting the need for a more independent and balanced Board of Directors, the co-filers decided to maintain the two resolutions which were not adopted by the meeting on 16 May 2019. Conversely, with a participation rate of 75%, the scores obtained by our resolutions were positive signs: 43.7% for Wendy Lane (A) and 35% for Jesper Brandgaard (B).

Valoptec, holding company of former employees and retirees of Essilor (4.3% of voting rights; 5.73% at this meeting) initially supported both our resolutions and presented Peter Montagnon (deceased shortly after the meeting) as another independent director, then incomprehensibly did a U-turn and announced before the GM it would vote against our resolutions: they prevented the election of Wendy Lane. By breaking down the Delfin (32% of capital, i.e. 42.7% of voting rights) and Valoptec (5.73%) votes, it was observed that the resolution garnered almost 90% of minority votes. The election of Jesper Brandgaard was negatively affected by the unfounded decision of the American ISS *proxy advisor* who had recommended voting solely against this candidate.

MAIN RESOLUTIONS



WHICH CONCLUSIONS?

Following the Meeting of 16 May 2019, and even though our two candidates were not elected, the **tangible results of these draft resolutions** for the group's governance were:

- The acute governance crisis was stopped (end of arbitration procedure before CCI initiated by Delfin, withdrawal of the claim filed by Hubert Sagnières, Deputy Chairperson-Deputy Managing Director, against the Italian directors, etc.),
- Laurent Vacherot, CEO of Essilor International, was appointed to the Board of Directors of EssilorLuxottica, re-establishing the balance with Francesco Milleri, CEO of Luxottica, already director.
- The integration process was able to continue in a more peaceful climate.

Nevertheless it cannot be considered that this governance crisis is definitively closed: until the CEO has been chosen, potential for blockage of the Board of Directors remains, with the weighting of the holding company Delfin, governance of which is at the very least opaque, implicit.

Nevertheless several questions remain:

- How will the Board operate after the 2021 GM, when the merger agreement has ended and Delfin's control guaranteed?
- Is the personal strategy of Francesco Milleri, MD of Luxottica, whose behaviour is difficult to understand, to take control of Delfin (its directors are going to change)?
- What decisions has Leonardo Del Vecchio made for his succession?
- How can such remuneration amounts paid to the two corporate officers be justified (€10.4m per person)?

What lessons about governance can we draw from this affair?

- So-called merger "between equals" operations are never in fact such; in the long term they mean one party taking control over or dominating the other.
 - Minorities are often harmed in these operations carried out without a takeover bid being made, a bid which also has the merit of requiring that the attacker state its strategic vision of the group with its new perimeter.
 - Merging companies with significant floating capital and without lead shareholder (Essilor) with a company with a family-owned lead shareholder (Luxottica) in fact poses a control problem.
 - The French and Italian governance approaches are very different, particularly in terms of appointment of directors (list voting in Italy compared to individual appointment) and therefore the perception of independence of the members of the Board of Directors.
- It would be beneficial for all players and necessary for the future of the company for independent directors to be appointed in 2020, as maladjusted governance could be prelude to a further eruption...

MAIN RESOLUTIONS



CONTINUED ENGAGEMENT IN A DIFFERENT CONTEXT

Since 2009, Sicav Phitrust Active Investors, in liaison with several other minority shareholders, intervened publicly with the Board of Directors to alert to the weaknesses of the company's governance structure, emphasising in particular:

- the lack of transparency for the remuneration of Carlos Ghosn, CEO from 2009 to 2018,
- the too strong concentration of management of the Renault-Nissan ensemble in a single person,
- the absence of positions or persons providing counter-power,
- the imbalance caused by the 2015 renegotiation of the stabilisation agreements (RAMA) of the Renault-Nissan Alliance depriving Renault of some of its director rights at Nissan.

LIABILITY OF DIRECTORS

Like all the minority shareholders, we took note of the failings of the Board of Directors on all the subjects mentioned above and in particular the 54% rejection of Carlos Ghosn's remuneration in the "Say on pay" vote at the 2016 General Meeting. Despite this vote, the Renault Board of Directors nevertheless immediately maintained the remuneration level of the CEO (€7.2m).

In 2016 the Remuneration Committee was chaired by Patrick Thomas. Appointed director in 2014, then renewed in 2018 until 2022, he is now leaving his position as chair of the Remuneration Committee. He has been a member of the Renault Board of Directors since 2014; in this capacity, he chaired the Remuneration Committee and was a member of the Audit, Risks and Ethics and Appointments and Governance Committees. In 2018, he only held 100 Renault shares (€8,388 based on the price as at 15/06/2018) while the amount of his directors' fees rose for the year 2018 alone to €75,766.

SEPARATION OF MANAGEMENT DUTIES

Without prejudging the judicial outcome of the "Ghosn case" which began on 19 November 2018, it appears certain that the Board of Directors showed the former CEO that it was not capable of ensuring the lead board member accept a sovereign decision by the shareholders. Since we reported the poor organisation of governance, some historical directors (Marc Ladreit de Lacharrière, Dominique de la Garanderie, Alain Belda) had already left the Board in previous years, making way for new directors in 2017 and 2018.

After the arrest of Carlos Ghosn, in November 2018 the Board of Directors decided to appoint a new Chairperson, Jean-Dominique Senard, and separate the duties of Chairperson of the Board of Directors and Managing Director. At the 2019 GM, Annette Winkler, Managing Director of Smart, was elected as director. Three directors left the board: Carlos Ghosn, Philippe Lagayette (lead director) and Cherie Blair. Two directors representing the shareholder government, two directors elected at Nissan's proposal, two directors representing the employees and one director representing the shareholder employees continued to sit.

MAIN RESOLUTIONS



UNRESOLVED GOVERNANCE QUESTIONS

Although he has just left his position as Chair of the Remuneration Committee, Patrick Thomas, who was also a member of the Board's two other specialised committees, did not perform his duties with sufficient diligence, providing an overly timid response to the shareholders' challenge in particular in 2016. The remuneration of Carlos Ghosn remained high even though he received other remuneration at Nissan and the objectives underlying the performance conditions were not sufficiently demanding, triggering an annual bonus even though the three performance criteria set by the Remuneration Committee had dropped (ROE, operational margin, free cash-flow). Patrick Thomas thereby partly bears the responsibility for the poor exercise of governance at Renault during his term as director.

Having to assume their liabilities, the directors formerly present in the Renault Board of Directors had to leave the Board so that it could tackle the company's and the Renault-Nissan Alliance's current issues in a new way.

This is why **we suggested including on the agenda of the Renault General Meeting of 12 June 2019 a draft resolution requesting the early termination of the mandate of Mr Patrick Thomas as member of the Board of Directors.**

Followed only by three professional investors representing with our Sicav 0.3% of the capital investors, we did not manage to have this resolution included on the agenda of the Meeting.

Additionally, we had personally met Jean-Dominique Senard twice before the General Meeting: this allowed us to cover a certain number of subjects in our intervention at the General Meeting concerning the liabilities of directors and statutory auditors.

The episode of the aborted merger with FCA, about which we had stated our reservations in view of our position as minority shareholders, certainly brought up multiple questions including:

- the changes to the capital relationship with Nissan,
- the race to reach critical mass in view of the fact that it is no longer manufacturers who have innovative technologies (e.g. Google with autonomous driving).
- recomposition of the capital invested with a lead shareholder (14%) and double voting rights.

Questions illustrating the complexity faced by the automotive sector in both its industrial processes (propulsion types) and in its alliances; this means that shareholders can be mobilised on projects that are clear in terms of strategy and favourable to maximising the value of their participation.

MAIN RESOLUTIONS



CRITICABLE GOVERNANCE AND IGNORING MINORITIES

Since 2015 in particular (with our resolution on maintaining the simple voting right which had received 51% of votes), Phitrust has emphasised the unsatisfactory organisation of the company's governance and the manoeuvres of the Bolloré group to take control of Vivendi without respecting the investment made by the minority shareholders, a tactic which gave rise to a reminder from the European Commission in a text on mergers.

The organisation of Vivendi's governance is not satisfactory; it is functioning today “the wrong way round” and does not respond to the logic of separation of powers, approved by the shareholders at the 2005 General Meeting with the creation of a Supervisory Board and a Board of Directors. In fact, in a dual governance structure with Supervisory Board and Board of Directors, the role of major shareholders is to sit on the Supervisory Board and the role of operational directors is to be members of the Board of Directors. Vivendi practices exactly the opposite. We had already flagged this point in an interview with Vincent Bolloré in 2017.

Since his departure as Chairperson of the Supervisory Board in 2018, the Supervisory Board of Vivendi has been chaired by Yannick Bolloré, even though he has also held the position of CEO of Havas, subsidiary of Vivendi. Yannick Bolloré therefore has responsibility for “supervising” Vivendi's Board to which he himself has to report as director of one of the company's largest subsidiaries.

Furthermore, two Bolloré Group directors, Gilles Alix and Cédric de Bailliencourt, are sitting as members of Vivendi's Board, without any key experience in Vivendi's business. It seems problematic for Vivendi's Supervisory Board to control representatives of its main shareholder...

MAIN RESOLUTIONS



"IMBALANCED" GOVERNANCE

After unsuccessful dialogue on this subject, **Phitrust filed a resolution aimed at ending early the mandate of the Supervisory Board member Mr Yannick Bolloré, who is also CEO of the subsidiary Havas.**

Adopting this resolution should provide clarification on the company's governance.

Our resolution was not included on the 2019 GM agenda as it was only supported by five professional shareholders representing 0.2% of the capital invested.

In addition to this draft resolution, Phitrust asked written questions about the organisation of governance and about the plan for share buyback on 25% of Vivendi's capital invested which would enable the Bolloré group to pass the threshold of 30% without launching a public bid; this manoeuvre echoes an identical operation carried out when Vivendi took control of Havas in July 2017, using with the agreement of the AMF an option to be exempt from the launch of a compulsory public bid under a "passive crossing of threshold".

However, there is not much chance of Vivendi's governance changing, as it is in fact controlled by the family-owned group of Vincent Bolloré.

The minorities' position can therefore only be one position, ruling out the campaigns not approved by the Boards, and thereby reduced to that of waiting for positive results provided by the strategy conducted.

→ In a company which has come under the de facto control of the Bolloré group (more than 26% of voting rights), it appears necessary to implement balanced governance giving way to the minority shareholders and readjust the decision-making and control powers.

MAIN RESOLUTIONS



BAD HABITS ARE NOT LOST

Our written questions are almost identical to those we asked to the 2018 General Meeting:

- Governance overly concentrated in the minds of a single man,
- Lead director (Philippe Houzé - Galeries Lafayette, and Moulin family) not independent because representing the main shareholder,
- Very high remuneration level of main manager, Alexandre Bompard, in view of the group's employment situation (in process of "reconfiguration").

We added to these questions those of the Science Based Targets initiative (environment) and others on the working conditions at subcontractors.

What was observed at Carrefour is that these long-term habits of high remuneration for board members (in a group where the average remuneration is low) and concentration of powers do not happen when the board members are renewed.

Finally, we could wonder what is the role of minorities, except the group of the three main shareholders holding together (pact?) 36% of voting rights: Moulin family (15.3%), Arnault Group (8.4%) and Peninsula (A. Diniz): 12%.

ENGAGEMENT ASSESSMENT 2019

CONCLUSIONS

2018/2019, an active year for Phitrust which continues its task of dialogue and public engagement with issuers: five resolutions filed, two of them voted in*!

- While the subjects have varied little, they highlight the absolute necessity for shareholders to mobilise before general meetings so that they are not surprised by decisions which can be made to their detriment.
- Presenting independent directors was a novelty for Phitrust, an unusual task for minorities. Many bodies in the financial market objected, without mentioning the board members themselves who always have a low level of acceptance of recommendations and campaigns from their shareholders.

With over 20 years of expertise, once again this year the Phitrust and Sicav Phitrust Active Investors France reinforced their image as recognised shareholders for their long-term action and their belligerence in putting forward the subjects referred to them.

Phitrust confirmed its role as whistleblower, for the general public (continuing to raise their awareness via the media), and especially for Sicav investors, who can thus participate in the reflections and benefit from the shared feedback within its Board of Directors.

* This "quantitative" result only however illustrates part of the impact (or alpha) of these shareholder engagement campaigns on the running of the companies in question, and therefore on their stock market valuation. Sicav PAI France is a tool for shareholder engagement making it possible to question board members potentially have leverage on the strategic governance of all CAC 40 companies and therefore their environmental and social practices. All CAC 40 companies are therefore present in the portfolio. The over- and under-weightings, reflecting our analysis of their governance and their responsibility on ESG subjects, are not significant. Because the Sicav is also a financial product used for long-term investment on the French equity market with a relatively limited risk for this asset class. The management is in fact based on a quantitative methodology with the objective of offering performance close to that of the CAC 40 index dividends reinvested with more limited volatility (as shown by the volatility data or max drawdown, theoretical maximum loss between the highest fund entry point and lowest exit).

OUR WORK

45 resolutions filed since 2004

Year	Number of resolutions filed	Themes of resolutions filed
2004	2	<ul style="list-style-type: none"> ▪ Pernod Ricard: Reduction of period for obtaining double voting rights ▪ Schneider Electric: Elimination of articles of association clause limiting voting rights
2005	6	<ul style="list-style-type: none"> ▪ Alcatel Lucent: Elimination of articles of association clause limiting voting rights ▪ Lafarge: Elimination of articles of association clause limiting voting rights ▪ Schneider Electric: Elimination of articles of association clause limiting voting rights ▪ Société Générale: Elimination of articles of association clause limiting voting rights ▪ Total: Elimination of articles of association clause limiting voting rights ▪ Vivendi: Elimination of articles of association clause limiting voting rights
2006	6	<ul style="list-style-type: none"> ▪ Alcatel Lucent: Elimination of articles of association clause limiting voting rights ▪ Lafarge: Elimination of articles of association clause limiting voting rights ▪ Pernod Ricard: Elimination of articles of association clause limiting voting rights ▪ Société Générale: Elimination of articles of association clause limiting voting rights ▪ Schneider Electric: Elimination of articles of association clause limiting voting rights ▪ Total: Elimination of articles of association clause limiting voting rights
2007	6	<ul style="list-style-type: none"> ▪ Alcatel Lucent: Elimination of articles of association clause limiting voting rights ▪ Lafarge: Elimination of articles of association clause limiting voting rights ▪ Danone: Elimination of articles of association clause limiting voting rights ▪ Société Générale: Elimination of articles of association clause limiting voting rights ▪ Schneider Electric: Elimination of articles of association clause limiting voting rights ▪ Total: Elimination of articles of association clause limiting voting rights <p>Several proposals were adopted and implemented by the companies following our campaigns (creation of specialised committees, leveling of statement of passing threshold, etc.)</p>
2008	3	<ul style="list-style-type: none"> ▪ Alcatel Lucent: Elimination of articles of association clause limiting voting rights and control of remuneration according to the net profit or loss and dividends paid ▪ Saint Gobain: Elimination of double voting rights ▪ Société Générale: Separation of management duties <p>Resolutions voted in by 55% at Total and Lafarge, and adopted by 71% at Alcatel-Lucent</p>
2009	3	<ul style="list-style-type: none"> ▪ Total: Elimination of variable remuneration for Chairperson ▪ Cap Gemini: Elimination of variable remuneration for Chairperson ▪ Sanofi: Elimination of variable remuneration for Chairperson
2010	1	<ul style="list-style-type: none"> ▪ Société Générale: Statutory separation of duties
2011	3	<p>Resolution refused by Total and two resolutions not achieving the necessary capital invested</p> <ul style="list-style-type: none"> ▪ Renault: Request for publication in Renault's management report of the information about the remuneration of corporate officers for any consolidated company (Nissan) ▪ Société Générale: Separation of positions of Chairperson of the Board of Directors and Managing Director ▪ Total: Amendment of articles of association to obtain the information in the management report on the exploitation of oil sands
2012	1	<ul style="list-style-type: none"> ▪ Société Générale: Modification of company's governance structure to Supervisory Board and Board of Directors
2013	3	<ul style="list-style-type: none"> ▪ Carrefour: Modification of company's governance structure to Supervisory Board and Board of Directors ▪ Société Générale: Modification of company's governance structure to Supervisory Board and Board of Directors ▪ Renault: Modification of company's governance structure to Supervisory Board and Board of Directors
2014	2	<ul style="list-style-type: none"> ▪ Société Générale: Modification of company's governance structure to Supervisory Board and Board of Directors ▪ Renault: Modification of company's governance structure to Supervisory Board and Board of Directors
2015	1	<ul style="list-style-type: none"> ▪ Orange: Maintenance of simple voting right (companies with simple voting rights before Florange Law). ▪ Vivendi: Maintenance of simple voting right (companies with simple voting rights before Florange Law).
2016	1	<ul style="list-style-type: none"> ▪ Total: Publication of annual report on strategy in terms of energy transition
2017	2	<ul style="list-style-type: none"> ▪ Accor: Adoption of simple voting right to prevent control being taken without premium by a lead shareholder.
2018	2	<ul style="list-style-type: none"> ▪ Renault: Request for early end of mandate of director of Patrick Thomas. ▪ Essilor Luxottica: Filing of resolution requesting the modification of the age limit in the Articles of Association from 95 to 75 years old for the Chief Executive Officer in order to separate the functions of Chairman of the Board of Directors and Managing Director.
2019	3	<ul style="list-style-type: none"> ▪ Essilor Luxottica: Two resolutions are filed to appoint two independent directors to the Board of Directors ▪ Vivendi: Resolution requesting to bring an end before term of Mr Yannick Bolloré's mandate as member of the Supervisory Board. Inverted governance: he is CEO of the operational subsidiary Havas and Chairperson of the Supervisory Board.

ENGAGEMENT
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APPENDICES



SHAREHOLDER ENGAGEMENT

SICAV Phitrust Active Investors France

FINANCIAL STRATEGY OF THE SICAV

The management of Sicav Phitrust Active Investors France is called "expanded index-based management" (CAC 40). It is essentially invested in shares within the composition of the CAC 40 index. The portfolio is exclusively composed of shares in European companies listed in Paris. The purpose of the SICAV is to replicate the index by purchasing securities in similar proportions and with continued monitoring of the modifications to the composition of the benchmark index. Its objective is to respect a maximum annual *tracking error* of 4% between the variation of its liquid value and the CAC 40 index dividends reinvested.

The portfolio is composed of at least 90% of shares from the Eurozone. The SICAV therefore applies its methodology of quantitative management for processing non-financial information respecting an annual tracking error equal to the maximum at 4% or 20% of the volatility of the CAC 40 index. This information is processed in three stages:

- consideration of the main governance events of CAC 40 index companies,
- quantification and analysis of the impact of these governance events,
- a strategic allocation which leads to the over-/under-weighting of each security in the Sicav and the selection of an optimal portfolio.

NON-FINANCIAL STRATEGY OF THE SICAV

Studies demonstrated that in the long term governance progress leads to **better valuation of the companies**. Conversely, malfunctioning in the governance of major European companies had a significant negative effect on their stock market valuation. The SICAV therefore seeks to **identify the governance progress** and campaigns that may be conducted towards the companies in the portfolio to **improve their governance** and in the long term their stock market valuation.

The SICAV has defined its own governance benchmark framework based in particular on the principles upheld by the major institutional investors and most benchmarks published. A **Technical Committee** bringing together the manager and the voting advisory company Proxinvest proposed to the Board of Directors of the Sicav the **governance improvement campaigns** that may be implemented with the portfolio companies. The Board of Directors of the Sicav decides on these campaigns, in order to maintain constructive and sustainable dialogue with the boards of these companies.

The management aims to **overweight companies meeting the best global governance standards** and which are reactive to their shareholders' campaigns. Conversely, companies of which the **governance does not make positive progress** and which are not reactive to the Sicav's campaigns are **underweighted** in the portfolio.

→ The SICAV offers the same performance as a reinvested dividend tracker (very limited "manager" risk)

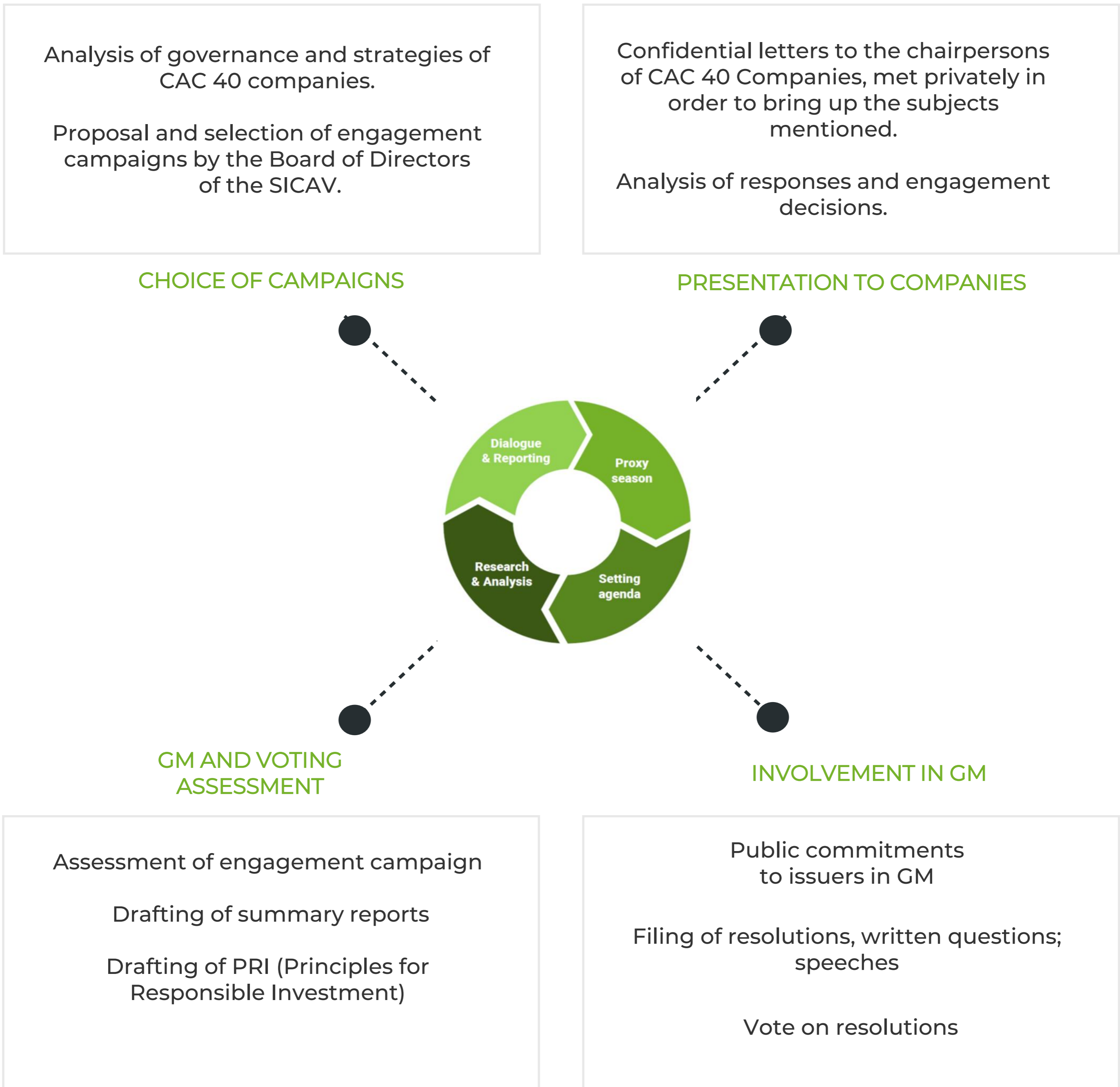
→ The SICAV participates and votes at the General Meetings of CAC 40 companies

→ The SICAV overweights companies with good governance thanks to its engagement methodology, unique on the French market today



STAGES / DECISION

The stages of the shareholder engagement cycle



SHAREHOLDER ENGAGEMENT

Engagement campaigns of the SICAV since 2003



2,416

Private ESG campaigns: letters, meetings, dialogue with management and boards of directors of CAC 40 companies



40

Public campaigns (oral and written questions in General Meeting)



45

External resolutions filed since 2003 including 2 voted in having modified the articles of association of listed companies



> 50%

Acceptance rate of Phitrust resolutions (Alcatel, Accor, Vivendi)
Support of major institutional investors on an international scale



15

Years of constructive dialogue and engagement with the board members of European listed companies

A WIDE RANGE OF SHAREHOLDER ENGAGEMENT TOOLS

- **Private initiatives** (letters, interviews, dialogue, private information reports)
- **Public initiatives** (investor meetings, press relations, resolution filings)
- **Individual or collaborative approaches:** Co-filing of resolutions, PRI collaborative platform...
- **Establishment of targeted trusts** (contract between SGP Phitrust and the signatory on the engagement strategy)

BOARD OF DIRECTORS

- Olivier de Guerre, Chairman
- Dominique Biedermann, Ethos
- Hubert Rodarie, SMA BTP
- Ircantec, represented by Luc Prayssac
- Pierre Dinon
- Agnès Blazy, CM-CIC

TECHNICAL COMMITTEE

- Loïc Dessaint, Proxinvest
- Jehanne Leroy, Proxinvest
- Denis Branche, Phitrust
- Julien Lefebvre, Phitrust
- Paul Marouzé, Phitrust



THE TEAM

The Phitrust Active Investors France team



Olivier de Guerre, Chairman

Olivier de Guerre has extensive experience in asset management, particularly in Indosuez and Crédit Suisse. Considering that investors have real responsibility through their investments, he created Phitrust in 2003 in order to offer products for investing in European listed equity, aiming for regular performance while focusing on strategies that propose improving strategic governance of companies and their ESG practices.

Founded Phitrust in 2003



Denis Branche, Deputy Managing Director

Denis Branche was responsible for international financing at Coface and in the Abn Amro Group. He then became financial analyst at Abn Amro and Crédit Lyonnais Securities Europe.

He founded SGP Branics in 1998, which would become Phitrust.



Julien Lefebvre, Quantitative Analyst and Manager

Master's in Finance (major quantitative finance) at Imperial College in London and Bachelor's in Mathematics (Paris VI). He joined Phitrust in July 2018, after an internship as a financial engineer at La Française Investment Solutions (LFIS).



Paul Marouzé, ESG Analyst

Bachelor's in Economics and Political Science from Concordia University (Montreal). After his studies in Canada and an internship in Medellin, Colombia, he obtained a master's in social entrepreneurship in Madrid. He did an internship in the ISR department at Natixis in Paris, and joined Phitrust in January 2017 as ESG analyst.



Isabelle Guenard-Malaussène, Consultant

ESG Development and Analysis

Experience: Equity manager Europe, impact investment



Stéphanie de Beaumont, Communication Director

15 years of experience as an investor relations and financial communication consultant - Essilor, then Edmond de Rothschild (France)

Development Director of Prophil, then Head of Philanthropy at the Apprentis d'Auteuil Foundation



OUR NETWORK

Partners



COMMITMENT PARTNERS

PROXINVEST / ECGS (Expert Corporate Governance Service)
ETHOS
ICGN (International Corporate Governance Network)
PRI (Principles For Responsible Investment)



THOSE WHO HAVE SUPPORTED US IN FILING RESOLUTIONS

In these public campaigns we were supported by multiple French professional investors, whether institutional or "asset managers". Additionally, several Anglo-Saxon, even Australian and Continental European pension funds or asset managers supported us. For reasons that are easy to understand, we cannot mention all of them in this publication.

It should be noted that investors who purchased shares in Sicav Phitrust Active Investors are de facto involved when we file resolutions, but confidentially, without having to reveal themselves publicly.



INSTITUTIONAL PARTNERS

AF2i
FIR (Forum pour l'Investissement Responsable)
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