



EDMOND  
DE ROTHSCHILD

---

---

# ESGS\* ENGAGEMENT POLICY FOR THE EDMOND DE ROTHSCHILD TRICOLORE RENDEMENT FUND

---

SEPTEMBER 2015

\* Environment-Social-Governance-Stakeholders

---

**EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)**  
47, rue du Faubourg Saint-Honoré  
75401 Paris Cedex 08 – France  
T. +33 1 40 17 25 25 – F. +33 1 40 17 24 42

[www.edram.fr](http://www.edram.fr)

S.A. à Directoire et Conseil de Surveillance au capital de 11.033.769 euros  
Numéro d'agrément AMF GP 04000015 – 332 652 536 R.C.S. Paris



Launched in 1998, the Edmond de Rothschild Tricolore Rendement fund principally invests in French stocks exhibiting attractive valuations and the potential for delivering superior returns.

In order to deliver long-term capital growth while generating low volatility, the fund efficiently combines two investment styles:

- A “Yield” approach, with a focus on dividend growth – a guarantee of their sustainability in time
- And a “Value” approach – the aim of which is to manage cyclical risk by investing in undervalued, turnaround stories and in quality stocks within industrial and financial cyclicals.

On April 10<sup>th</sup> 2012, the fund’s investment universe was extended to include the euro zone (max. 25% of net assets) in order to improve diversification without making any changes to the investment strategy.

In keeping with the fund’s wealth preservation approach and focus on risk/return, an **SRI Engagement approach** was introduced late 2009.

Consistent with Edmond de Rothschild Asset Management (France)’s SRI analysis and investment philosophy, this particular SRI approach is complementary to the firm’s existing voting rights at shareholder meetings. It consists in **engaging a positive, constructive, and medium to long term dialogue with companies owned by the portfolio over specific ESGS issues in order to encourage them to improve business practices**. If the dialogue is unsuccessful, it can lead (as a last resort) to Edmond de Rothschild Asset Management (France) submitting a resolution at shareholder meetings, or to the portfolio selling the stocks of a company which has made no effort to improve its practices. **The dialogue process is closely monitored and documented** (*Annual ESGS Engagement Report for Edmond de Rothschild Tricolore Rendement, internal reports,*).

The SRI Analysis team carries out a **full ESGS screening** of the portfolio in order to identify, with the fund managers, the companies which will be engaged with as a matter of priority. These are notably companies with low ESGS ratings which may carry long-term investment risk.



## 1. OBJECTIVES OF THE ENGAGEMENT POLICY

The Engagement Policy implemented by Edmond de Rothschild Asset Management (France) for the Edmond de Rothschild Tricolore Rendement fund has a two-fold objective:

1. **To encourage companies to make effective progress and communicate on ESGS issues** (Environment, Social, Governance, Stakeholders) that have been clearly identified by Edmond de Rothschild Asset Management (France), **with the view to improving their practices, their transparency and their understanding of ESGS challenges.**
2. **To upgrade the investment process applied to Edmond de Rothschild Tricolore Rendement** by incorporating ESGS criteria into our financial analysis, and **using ESGS Engagement as a lever to increase awareness and improve practices, but also to add value to the stock** – in keeping with the fund's investment style and objectives.

The prudent investment style that characterises Edmond de Rothschild Tricolore Rendement aims to deliver long-term capital appreciation and low volatility. In seeking to optimise the risk-return combination of the portfolio, the fund managers aim to protect the capital by anticipating potential ESGS-related risks that have not been factored in by the market and that if materialized, could have a negative impact on stock market performance. The process also requires identifying ESGS issues that the market is already well aware of, that are having a negative impact on the valuation of a given company, and that if improved upon – driven by Edmond de Rothschild Asset Management (France)'s Engagement policy - could deliver potential upside.

Furthermore, the portfolio's low turnover (a residual of its wealth preservation approach), the extended investment horizon (approx. 5 years), the large size of the fund, the stability of the investment team and portfolio managers' dialogue with company executives enable Edmond de Rothschild Asset Management (France) to initiate a constructive dialogue process and to establish the fund's Engagement policy in the long-term.

**Edmond de Rothschild Tricolore Rendement therefore plays a key role as the first channel for Edmond de Rothschild Asset Management (France)'s ESGS Engagement policy, vis-à-vis companies, investors, but also the general public- since the fund has a strong reputation on the market.**



## 2. COMPANIES THE FUND WILL ENGAGE WITH AS A PRIORITY

Following a favorable strategic and financial analysis, companies that feature in the portfolio of Edmond de Rothschild Tricolore Rendement or are potential candidates for the buy-list, are subjected to a proprietary screening process developed by Edmond de Rothschild Asset Management (France)'s SRI Analysis team. This screening covers the four ESGS pillars, with weights varying according to the sector, market capitalisation, and type of capital.

Once the SRI analysis has been conducted on the portfolio, the fund's investment teams will receive alerts for any stock rated lower than the minimum threshold of A<sup>SRI</sup>. Consequently, our **Engagement policy will be initiated as a priority with companies that are given low SRI ratings (under A<sup>SRI</sup>), with those that have bad ratings in one or more ESGS pillars, or with companies that may potentially be exposed to ESGS controversies.**

Our Engagement with these companies is driven by the investment team's decision to maintain, strengthen or introduce stocks into the portfolio of Edmond de Rothschild Tricolore Rendement by encouraging them to improve their ESGS practices and their respective ratings.

The investment team is also informed of the breakdown of ratings by ESGS criteria and of any changes (up or down) for each stock in the portfolio, and of any sensitive information, in order to initiate a pro-active Engagement policy with companies that are being downgraded on one or more pillars.

The combined work of SRI fund managers and analysts, based on financial and extra-financial convictions that draw upon the research and ESGS dialogue initiated with companies, is a key factor for the portfolio managers as they make their investment decisions for the fund.



### 3. PEOPLE RESPONSIBLE FOR ENGAGEMENT ON BEHALF OF THE FUND

The Engagement policy is conducted by **the portfolio managers of Edmond de Rothschild Tricolore Rendement and by the SRI analysis team.**

**This policy is reviewed by the Engagement and Voting Committee** which includes the Chairman of the Board, the Chief Investment Officer for Long-Only Strategies, the SRI research team, the portfolio manager of Edmond de Rothschild Tricolore Rendement and Edmond de Rothschild Asset Management (France)'s Chief Compliance Officer.

**This Engagement and Voting Committee coordinates:**

- **The different stages of Edmond de Rothschild Asset Management (France)'s voting rights, in compliance with the firm's official voting policy:** its members coordinate the correct execution of votes with proxy-voting companies, monitor any resolutions that Edmond de Rothschild Asset Management (France) may vote against, approve the voting report and update the voting policy on an annual basis.
- **The organisation of the ESGS Engagement policy:** approving the Engagement Policy and any updates, informing the companies that feature in the portfolio or that are due to enter Edmond de Rothschild Tricolore Rendement on the fund's Voting and Engagement policy, discussing the ESGS ratings of portfolio companies and their revisions, issuing warnings in the event of a downgrade affecting one of a stock's ESGS pillars, identifying priority companies for engagement, identifying key ESGS issues to be addressed with the target company, launching action plans, approving minutes relating to Engagement initiatives as well as the Annual ESGS Engagement Report.

In addition, to give further weight to the Engagement policy and to take into account the complexity of some of the ESGS issues we may have to address on behalf of Edmond de Rothschild Tricolore Rendement, Edmond de Rothschild Asset Management (France) may rely on insights from outside experts. This input enables the dialogue to be as documented as possible and ensures the arguments put forward are enforceable.



## 4. ENGAGEMENT METHODOLOGY EMPLOYED

Unlike activism, Edmond de Rothschild Asset Management (France) prefers to engage in a **constructive dialogue and apply a proactive voting policy**.

Edmond de Rothschild Asset Management (France) promotes **dialogue at all levels of the company** (Executive management, Strategic and Financial Directors, Sustainable Development Directors, HR, Investor Relations), and where necessary, requests **ad hoc meetings with operational team members** in order to pursue some of the issues in more depth.

Edmond de Rothschild Asset Management (France) may help with the launch of **communications incentives** such as the signature of the United Nations Global Compact.

Edmond de Rothschild Asset Management (France) is also experienced in practicing corporate dialogue in the context of **shareholder meeting votes**.

Our 2015 Voting Policy covers voting principles in the area of corporate governance, but also on Social, Environmental or Stakeholder issues ; these are all consistent with our SRI analysis.

Edmond de Rothschild Asset Management (France) therefore acts prior to the Shareholder meetings by:

- Proactively sending out the firm's Voting Policy and Engagement Policy to all portfolio companies, explaining Edmond de Rothschild Asset Management (France)'s approach as a responsible shareholder and inviting companies to engage with our fund managers on ESGS issues. Our objective here is to send out the Voting Policy on a systematic basis to all companies held in the portfolio and potentially expressing our disagreement on a number of resolutions prior to the shareholder meetings, if necessary.
- Contacting Edmond de Rothschild Tricolore Rendement portfolio heavyweights prior to the Shareholder meetings in the event of a negative vote or an abstention on resolutions suggested by the company's management.
- Responding to companies' requests to inform them of the portfolio managers' voting intentions prior to the shareholder meeting, particularly in the event of negative votes or abstentions.
- Conducting regular meetings with company management in order to exchange views on strategic, financial and extra-financial issues: these meetings are an ideal venue for the portfolio managers to bring up shareholder meeting resolutions and support the company as it improves its practices.



Finally, Edmond de Rothschild Asset Management's Voting and Engagement Committee keeps a close watch of on-going shareholder coalitions and assesses whether it would be relevant for the firm to join **Collaborative Engagement initiatives**.

## 5. MONITORING THE EFFICIENCY OF ENGAGEMENT INITIATIVES

Edmond de Rothschild Asset Management (France) ensures that a constructive dialogue is established with the target company, and that this company is receptive to tackling the ESG challenge(s) that have been identified.

Furthermore, Edmond de Rothschild Asset Management (France) ensures it has the means and resources needed to monitor its Engagement initiatives:

- For each company, the investment team identifies ESG issues in sufficient detail to enable regular progress reports;
- We set a target horizon that is long enough to allow companies to make the necessary changes;
- We have set up a coordination and monitoring body dedicated to Engagement initiatives: the "Voting and Engagement Committee";
- We communicate regularly with the companies and the general public (*Annual ESG Engagement Report for Edmond de Rothschild Tricolore Rendement*), and the "2014 Annual Voting Report").

## 6. MEASURES TAKEN IF ENGAGEMENT IS UNSUCCESSFUL

In the event of Engagement being unsuccessful, Edmond de Rothschild Asset Management (France) may **submit resolutions to the Shareholder Meeting, or join shareholder coalitions**.

**If a company shows no tangible improvement on a given ESG issue, the stock's weighting within the portfolio of Edmond de Rothschild Tricolore Rendement may be reduced, or the position even sold.** The investment team of Edmond de Rothschild Tricolore Rendement has regularly had to reduce the weight of a stock in the portfolio - for instance due to uncertainties over the management's ability to conduct a restructuring plan - or has removed a stock due to persistent risks on the Group's reputation and/or investor appeal.



These extreme outcomes will only be considered as a last resort, and following Edmond de Rothschild Asset Management (France)'s unsuccessful prompting of the company concerned. We believe in establishing a constructive and positive process over the long-term.

## 7. COMMUNICATION ON ENGAGEMENT INITIATIVES

The Edmond de Rothschild Tricolore Rendement fund launches Engagement initiatives every year. These are described in the fund's Annual ESGS Engagement Report and in the global summary of the Annual Voting report. Both documents are available in the SRI Expertise pages of our website <http://www.edram.fr>.

The **Annual ESGS Engagement Report for Edmond de Rothschild Tricolore Rendement<sup>1</sup>** can include the following information for each new company concerned:

- Reasons for Engagement: company profile and targeted ESGS issue(s) identified as particularly material and discriminatory on one or more ESGS pillars;
- Expected improvements;
- Priority lever(s) for improvement(s);
- Time frame given for improvements;
- Analytics upon which we base our engagement;
- Engagement methodology employed (dialogue, voting policy, etc.);
- Response and tangible results delivered by the company;
- Any changes in the weight of the company within the portfolio of Edmond de Rothschild Tricolore Rendement.

This report also provides summary updates on Engagement initiatives that are still on-going with other companies.

Furthermore, Edmond de Rothschild Asset Management (France) shall ensure that external communication on our engagement actions does not upset the relations of trust we have with the companies and that dialogue and progress can be sustained over the long-term.

---

<sup>1</sup> Please note that in order to comply with our responsibilities as asset managers and to preserve the efficiency of on-going ESGS initiatives currently taking place with companies featuring in the portfolio of Edmond de Rothschild Tricolore Rendement, the information disclosed in this report may not reveal the name of the company concerned.



Main investment risks: risk of capital loss, equity risk, credit risk, interest rate risk, currency risk.

The above list is not exhaustive.

According to the risk/return scale (from 1 to 7), the fund is ranked category 6 - or high risk/return profile - which reflects its potential 110% exposure to equity markets.

**Disclaimer:**

Published on 01/09/2015. Non-binding document. This document is for information only. The data, comments and analysis in this bulletin reflect the opinion of Edmond de Rothschild Asset Management (France) and its affiliates with respect to the markets and their trends, their regulation and tax treatment, on the basis of its own expertise, economic analysis and information currently known to it. However, they shall not under any circumstances be construed as comprising any sort of undertaking or guarantee whatsoever on the part of Edmond de Rothschild Asset Management (France).

Potential investors should consult their service provider or advisor and exercise their own judgement independently of Edmond de Rothschild Asset Management (France) on the risks inherent to each investment and its suitability to their own personal and financial circumstances. To this end, investors must acquaint themselves with the key investor information document (KIID) or fund prospectus that is provided before any subscription and available at [www.edram.fr](http://www.edram.fr) or on request from the head office of Edmond de Rothschild Asset Management (France).

Edmond de Rothschild Asset Management (France), 47, rue du Faubourg Saint-Honoré – 75401 Paris Cedex 08. Société anonyme governed by an executive board and a supervisory board with capital of 11 033 769 euros. AMF registration: GP 04000015. 332.652.536 R.C.S. Paris.