Voting policy

2023 voting report for general meetings

ircantec

La retraite complémentaire publique

Fiscal year 2023

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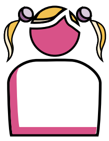
As part of the responsible investor approach defined in its SRI Charter, Ircantec implements an active voting rights policy at general meetings of companies whose securities it holds in the form of equity.

Why?

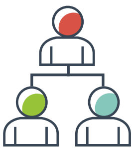
Being an active shareholder is a way to encourage companies to be more transparent but also to encourage them to adopt better governance and more effectively consider the social and environmental impacts. Under its Voting Policy adopted in 2013 and regularly updated based on new priorities, Ircantec has decided to make specific commitments on certain subjects:



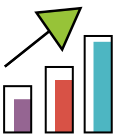
The independence and rate of women in Boards of Directors

Support for the EET[1]

Company climate strategies



Socially acceptable compensation of executive officers



Transparency of financial statements and fiscal responsibility

A responsible dividend policy

[1] *Energy and ecological transition.*

How?

The exercise of voting rights associated with the securities held by Ircantec is assured by the asset management companies in accordance with Ircantec's Voting Policy and Voting Rules, for all equity stocks held in the portfolio.

Ircantec also specifically monitors 30 companies in its portfolio. Each resolution proposed at these general meetings is individually monitored to ensure that the voting rules are uniformly and consistently applied. Therefore, in addition to the latter, Ircantec assumes a unique and definitive position on each resolution, based on the recommendations of the Caisse des Dépôts management service, with support from a specialized consultancy. The asset management companies then vote on each resolution in accordance with this position.

Initially, the companies subject to this enhanced monitoring were the top thirty in the portfolio in terms of market value. In 2018, with a view to better integrating aspects of the energy and ecological transition, this list was updated to include the twenty largest stakes held by Ircantec, the five largest emitters of CO_2 and the five largest holders of stranded assets[2]. Since 2022, further changes have been made to reflect the Scheme's new climate policy[3].

To respond to the climate emergency, Ircantec strengthened its engagement to ensure its reserves are on a trajectory compatible with a 1.5°C scenario as defined by the Paris Agreement. Amongst others, these decisions imply stricter exclusions on the operation and development of thermal coal-related activities[4] or non-conventional activities (shale gas and oil, oil sands, extra-heavy oil, etc.).

The list now includes the main stakes in financial institutions involved in controversial practices such as thermal coal or non-conventional energies without a credible exit plan. An engagement will also be formed with these financial institutions. Note that these securities are intended to replace stranded assets that have progressively disappeared from Ircantec portfolios following the implementation of the new climate policy.

Furthermore, to remain consistent with these new engagements, Ircantec will expect the following from companies whose stock it owns:

- The adoption of a strategy to achieve a 1.5°C global warming scenario with validation by a scientific body such as Science Based Targets, or to align with an annual decarbonization trajectory of greenhouse gas emissions of 7% on average (in terms of intensity);
- The implementation of quantitative targets for reducing CO_2 emissions for all Scopes for companies in high climate-impact sectors[5];

[2] *Assets whose value is depreciated, for example by environmental restrictions.*

[3] *https://www.ircantec.retraites.fr/sites/default/files/Annexe_ISR-PoltClimat%2823%29_0.pdf.*

[4] *These exclusions will not be applied to companies presenting a credible exit plan from coal by 2030 for the whole world.*

[5] *Sectors with high climate impact are defined using the NACE classification, which is recommended for the Paris Aligned Benchmark (PAB).*

- The definition of intermediate targets (short, medium and long term) to ensure a sufficient reduction in greenhouse gas emissions in order to comply with the 1.5°C global warming scenarios;
- For companies involved in the mining, production and use of coal, the implementation of a plan to exit coal before 2030, alongside a conversion plan for activities and employees (just transition).

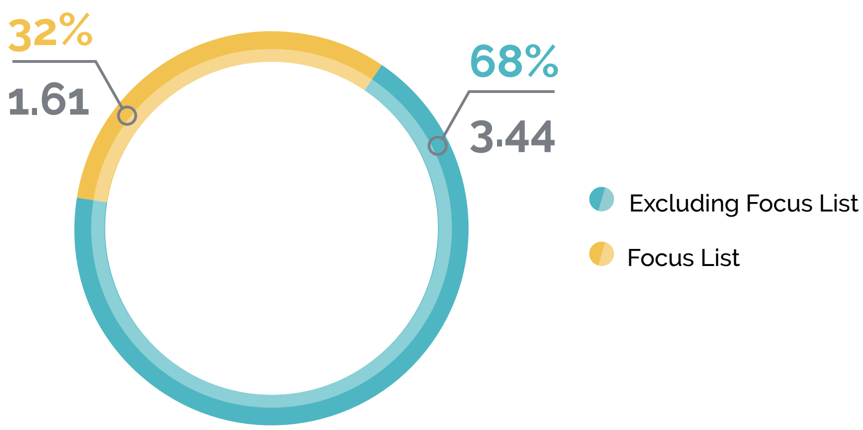
Ircantec will also ensure the establishment of regular voting on the implementation of the climate strategy and the regular publication of a climate strategy update, in accordance with the recommendations of the Task Force on Climate-Related Disclosure (TCFD).

Note that this year, in addition to the 30 initial stocks, the Scheme has analyzed the Engie Group based on its commitment to Engie under the Climate Action 100+ initiative.

Figures in brief

The voting rights attached to securities held by Ircantec in company equity represent €5.05 billion at December 31, 2022. This includes €1.61 billion outstanding for companies on the Focus List (representing 32% of the Equity portfolio).

Voting rights in € billion

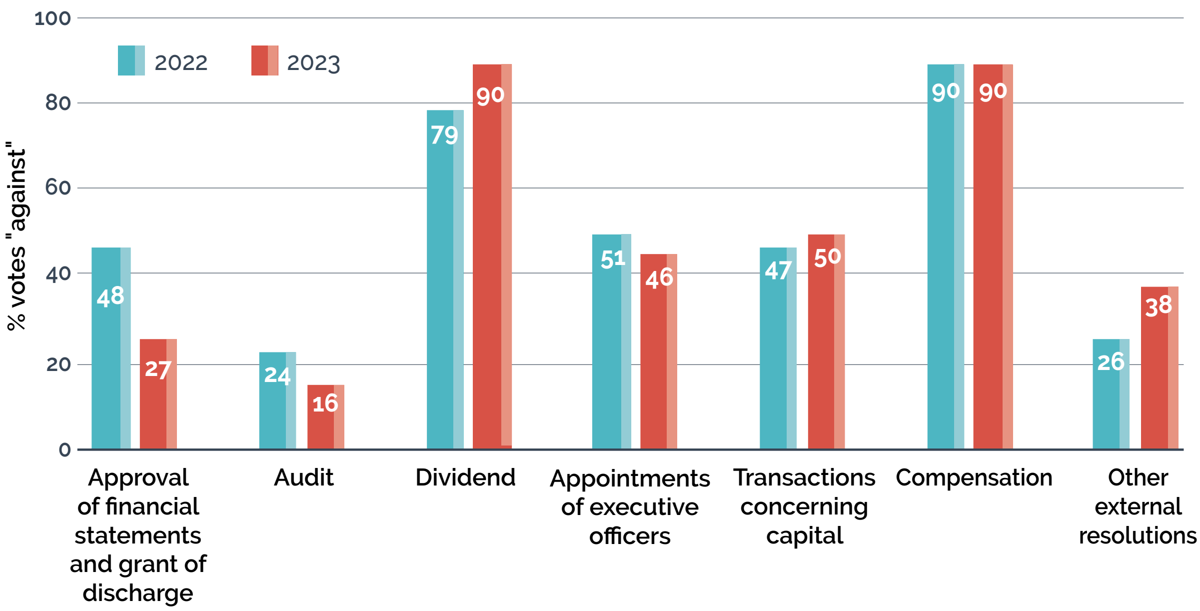


2023 report

Principal trends across all "Equity" securities in the portfolio

- The number of resolutions submitted to vote rose in relation to the previous year (15,995 in 2023 compared to 14,657 in 2022). This can be explained primarily by changes of mandates within Ircantec reserves.
- A slightly higher global opposition rate (rising from 42.86% in 2022 to 46.25% in 2023), mostly due to new funds with a higher opposition rate.
- Downward trend in terms of the companies on the Focus List (55% in 2022 against 51% in 2023, with 676 resolutions put to the vote). One reason amongst others is the higher number of favorable votes on resolutions concerning the approval of financial statements and grant of discharge.

Focus List: changes in opposition rate according to category of resolution



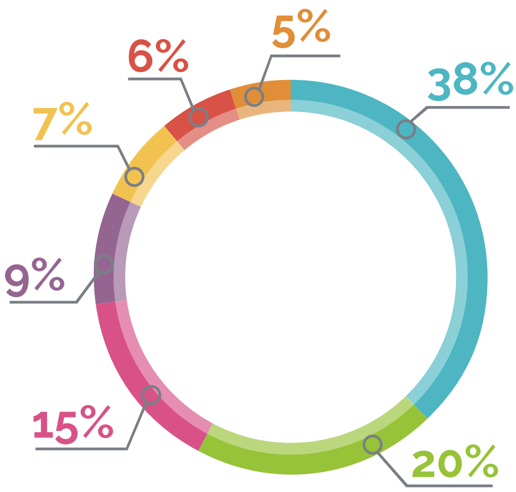
Focus List: reasons for opposition

"Executive officer compensation": opposition rate of 90%

Ircantec aims to promote the equitable distribution of value created within a company to all its stakeholders (shareholders, employees and management).

Reasons for opposition concerning executive officer compensation

- Executive compensation above the socially acceptable maximum*
- Variable portion of compensation considered too high or too discretionary
- Lack of transparency of financial statements and questioning about degree of fiscal responsibility
- Dividends and share buybacks considered too high "socially"
- Post-employment benefits considered incompatible with social cohesion within the company
- Lack of ESG criteria used to determine the level of long term compensation
- EET support policy considered to lack ambition



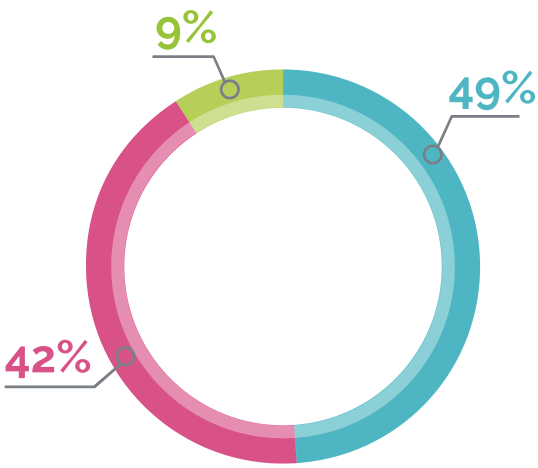
** For companies with a head office in a country that imposes a minimum wage, Ircantec considers that the "socially acceptable maximum" of the executive officer's total annual compensation must not exceed 50 times this minimum wage. For countries with a head office in a country where local law does not impose a minimum wage, the ratio between the total annual compensation of the executive officer and the median annual compensation of company employees must not exceed 25 times.*

"Dividend distribution": opposition rate of 90%

Ircantec aims to promote earnings allocation policies that attempt to ensure a sustained balance between investment capacity, employee compensation and shareholder returns.

Reasons for opposition concerning resolutions on dividends

- Social cohesion check* negative
- Distribution above 50% of net earnings
- Other (dividend not covered by Free Cash Flow, loss-making exercise, debt check, etc.)



** Social cohesion check: in this case it is considered that the change in dividend over the past three years diverges significantly from changes in average employee compensation.*

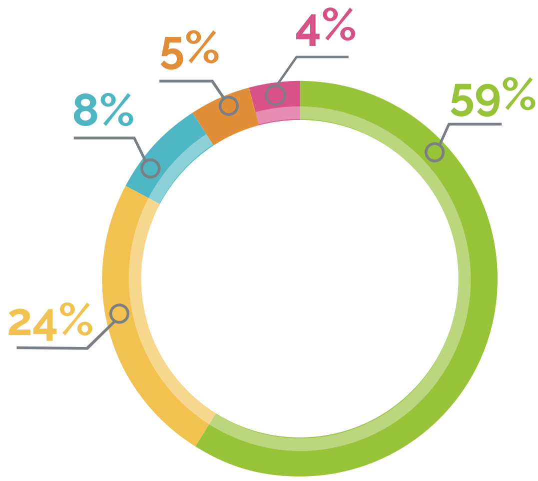
Note that Ircantec abstained on several of these resolutions last year, but not this year. This can be explained by the increased opposition in relation to the previous year (up from 79% to 90%).

"Director appointments": opposition rate of 46%

The board of directors is a strategic body for a company. Ircantec is therefore very attentive to a balanced composition, the expected characteristics of its members, and its operation.

Reasons for opposition to appointments

- Number of women members of Board of Directors too low
- Excessive accumulation of director mandates or dual functions as Chairman / Chief Executive Officer
- Level of revenue independence too low
- Number of board members considered too high
- Failure to execute following presentation of an unconvincing EET strategy



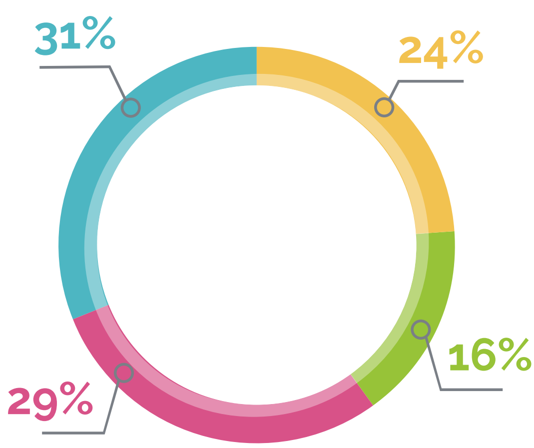
"Approval of financial statements" (company financial statements, consolidated statements and grant of discharge): opposition rate 27%

The lack of transparency of financial statements is penalized if certain technical information is not published or if the information provided does not comply with the reference corporate governance code.

Reasons for opposition against resolutions on the approval of company and consolidated financial statements

- EET support check
- Inclusion of grant of discharge not mandatory
- Financial reporting considered incomplete*
- Tax optimization considered excessive

** Companies from the financial sector, mining and e-commerce must provide financial statements for each country where they operate.*

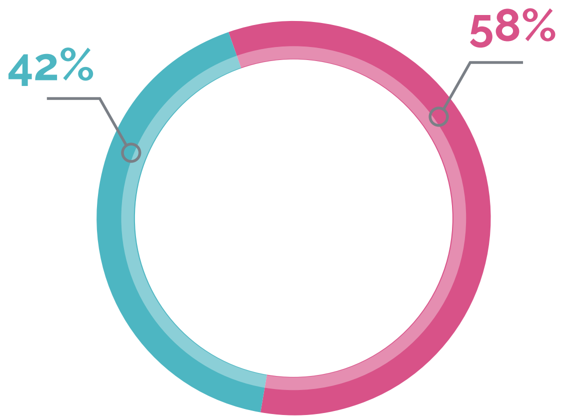


The lower opposition in relation to 2022 is justified by votes on resolutions relating to the grant of discharge for German companies. Indeed, although German companies generally ask the shareholders to ratify the decisions of the management board on a global basis, at the request of a shareholder at the general meeting or following a decision taken by the supervisory board prior to a meeting, it may be decided to **enable shareholders to vote on the ratification of each member separately**. Thus, for these companies in 2023, voting on the ratification of the management board was done for each individual member and not on a global basis as in 2022. Therefore, this year, the Scheme has voted favorably overall for these resolutions (discharge being mandatory in Germany), which mechanically generated an increase in favorable votes in relation to last year.

"Capital transactions": opposition rate of 50%

Reasons for opposition to resolutions concerning capital transactions

- Opposition to direct and indirect compensation of shareholders considered excessive in terms of company social cohesion
- Conditions of capital transactions considered non-compliant in relation to minority shareholder rights*



* *For example, Ircantec opposes resolutions that authorize an excessive downgrade risk, or which allow a capital increase for over 10% of the capital value without preferential subscription rights.*

"Support for the Energy and Ecological Transition (EET)"

One of the priorities of Ircantec's investment strategy is to invest in a carbon-neutral economy. This is why, prior to the round of general meetings, the Scheme conducts an analysis of the EET strategy of several portfolio companies that are considered critical. This year, this preliminary analysis was carried out on 13 companies. Of the 13 companies analyzed, the EET strategy was assessed favorably for five companies, while the strategies of five others were found to be under-developed (three "neutral" judgments were also issued).

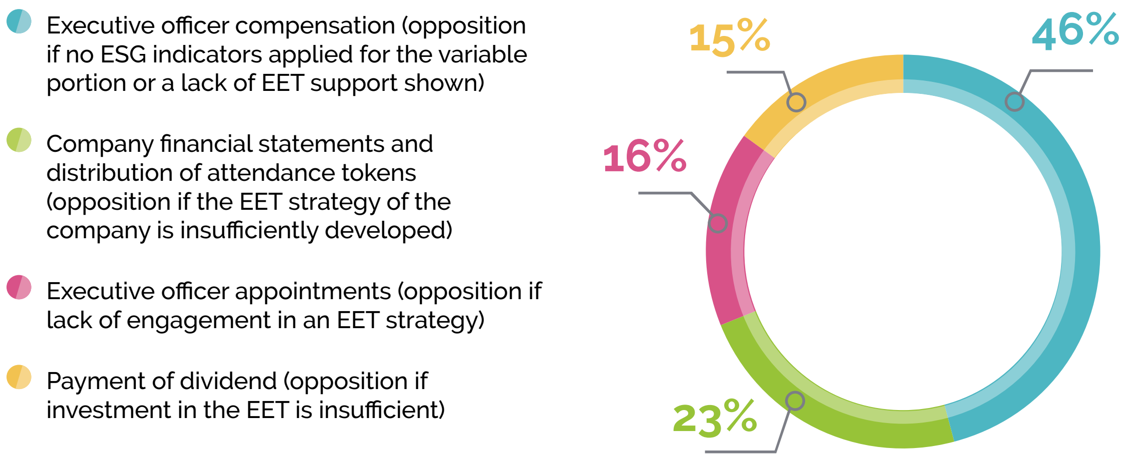
For the French financial companies where Ircantec opposed their EET strategy, a letter has been sent specifying to each of them the reasons why EET strategy was not considered to be sufficiently convincing. A lack of ambition concerning the exclusion thresholds applicable to fossil energies, a lack of engagement or strict criteria on excluding the financing of new projects associated with oil and gas, the use of restricted definitions of non-conventional hydrocarbons, are some of the points leading the Scheme to issue a negative opinion. The purpose of this approach is above all to inform companies on the assumption that it may be useful to them in their current and future efforts on these issues.

Furthermore, since 2016, a mechanism dedicated to assessing company climate strategies systematically incorporates this aspect in the exercise of voting rights. This assessment of support to the EET impacts four categories of resolutions which may be subject to an opposing vote if one or more components of the EET strategy are considered unsatisfactory: approval of financial statements, dividend distribution, executive officer compensation and the re-election of executive officers (vote "against" the re-election of the Chairman of the Board and/or the Chief Executive Officer if the global EET strategy and its deployment are not satisfactory).

In 2023, the contribution of companies to the EET was assessed via 182 resolutions. Ircantec voted against 22 of them:

- Resolutions to approve the financial statements were opposed if the EET strategy was observed to be insufficiently engaging;
- Dividend payment resolutions were opposed if investment in the EET and in R&D was considered insufficient;
- Resolutions concerning executive officer compensation were opposed where the structuring of the variable portion did not involve ESG and in particular environmental criteria;
- Resolutions concerning the re-election of executive officers were opposed where the EET strategy was assessed as insufficient during the previous mandate.

Reasons for opposition related to the EET



This year, three resolutions were opposed only on the basis of a lack of strategy relating to the energy and ecological transition: they concerned the approval of financial statements of companies in the financial sector. The absence of intermediate targets and quantitative objectives to reduce CO_2 emissions have led the Scheme to adopt this stance.

Moreover, within the Focus List, several resolutions concerned climate topics. In particular, the question arose of voting on the "*Say on Climate*" in two companies on the Focus List. For example, Ircantec voted in favor of Schneider Electric's climate strategy. The introduction of a "Net Zero Emissions" objective across its value chain by 2050, the deployment of intermediate targets or their validation by the SBTi, were elements that enabled the Scheme to adopt a favorable opinion of the strategy. Note that the strategy was approved by 97% of shareholders. Concerning the Engie group, Ircantec:

- took part in filing a shareholder resolution to enable the organization of a "*Say on Climate*" every year (compared to every three years currently), with a series of climate indicators. The resolution was approved by 24.38% of shareholders but did not achieve the 66% required to adopt the resolution.
- took part in a project to add an item to the general meeting agenda, which aims to modify the articles of incorporation of the company to give management the possibility of organizing a vote on its climate plan.

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Ircantec channel

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