

Principles for Responsible Investment 2009 Implementation Reporting

The Principles for Responsible Investment

The United Nations Environmental Program and the Global Compact suggested at the end of 2004 that some important investors, pension funds, insurers and institutional investors from various continents should collaborate on the creation of principles for responsibility. The « *Principles for Responsible Investment* » (PRI) were adopted in 2006 as a result. Caisse des Dépôts, main financial sponsor of this initiative, has been a member of the experts panel and investors' group which elaborated the PRI.

Signatories commit to abide by six key principles:

- 1) We will incorporate ESG issues into investment analysis and decision-making processes.
- 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest
- 4) We will promote acceptance and implementation of the Principles within the investment industry.
- 5) We will work together to enhance our effectiveness in implementing the Principles.
- 6) We will each report on our activities and progress towards implementing the Principles.

By committing to these principles, each signatory has engaged into a work-in-progress implementation process. Caisse des Dépôts' experience and its culture as a long-term financial player in the service of the country make it particularly sensitive to society's key issues. It is thus striving to act consistently with its engagements.

* **Global Compact:** A United Nation initiative in which signatories commit to respect 10 principles related to human rights, labour rights, environmental preservation and fight against corruption.

Caisse des Dépôts' 2009 PRI implementation

« Acting for the long term interests of its beneficiaries »

According to the Principles, « as institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. Due to this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. »

The *Loi de Modernisation de l'Economie* promulgated in 2008 defines Caisse des Dépôts as a Long Term Investor in the service of the public interest and the nation's economic development. In working to meet its social objectives Caisse des Dépôts is dedicated to fulfill the country's fundamental needs by financing its economy. Social, environmental and governance issues are naturally part of its concerns as an investor. Caisse des Dépôts is the main French long term investor and one of the most significant at the European level.

A public financial institution, its portfolio of financial assets is above all a testimony of financial robustness but it also enables it to finance projects in the general interest consistent with its social objectives.

For its investment policies, the choice has been made to take into account those principles for its entire portfolio and not only to limit their integration to investments in dedicated funds.

Investment policies

Caisse des Dépôts' Investment policies, drafted in December 2008 and since validated by its Supervisory Board (*Commission de Surveillance*), mention this commitment and refer explicitly to the Principles for Responsible Investment. The general outline of those policies, which applies to all its assets, thus states that: « *Caisse des Dépôts is a long term investor: it analyzes the profitability of its portfolio over a long term horizon (...). This horizon induces Caisse des Dépôts (...) to behave as a socially responsible investor. Signatory of the UN PRI, Caisse des Dépôts takes into account environmental, social and governance issues as appropriate for each investment class.* »

Different investment classes

Caisse des Dépôts encompasses various asset management bodies, all of which apply differentiated policies. In addition to its proprietary investments, made along the lines of its doctrine as a long-term investor, it also undertakes investments in the general interest, primarily targeted towards SMEs (through its subsidiary CDC Entreprises and the *Fonds Stratégique d'Investissement*) and territorial development (real estate, transportation infrastructure, digital infrastructure, renewable energy production, etc.). In addition, it also manages the Savings Funds (*Fonds d'Epargne*), which centralize the major part of regulated savings funds and are dedicated to funding social housing and infrastructure projects. Each of these entities implements the PRI according to its specificities.

Principle 1. We will incorporate ESG issues into investment analysis and decision-making processes

Henceforth, Caisse des Dépôts' responsible investment reflexion and/or practices encompass all the asset classes it deals with : listed equity, but also debt markets, private equity, infrastructures, real-estate, forestry and, for several years running, carbon assets.

Taking into account the low turnover of assets in its portfolio, Caisse des Dépôts deems, as a basic component of its risk management practices, that its analyses must go beyond purely financial criteria. Environmental, social and governance (ESG) risk and return factors are indeed extra-financial indicators that can have a financial impact over the long term. For Caisse des Dépôts, the goal of secure long term return is therefore coupled with the objective of consistency between the general interest served by Caisse des Dépôts and its portfolios impact.

Caisse des Dépôts strives to implement the Principles for Responsible Investment in the most suitable way for each of its asset classes. It therefore decided at the end of 2009 that its strategic monitoring of financial investments would include, from late 2010 on, a global indicator reflecting the level of implementation of those responsible investment practices.

General Section

In this framework, numerous steps have been initiated and developed since 2006 in the General Section (*Section Générale*) for the management of proprietary investments.

For **listed equity** portfolios (internal management), the process is characterized by the integration of environmental, social and corporate governance factors by fund managers into their analysis of portfolio assets. In particular, ESG criteria are integrated into **asset scoring since 2009**. When introduced in 2006, this approach was limited to a portion of the portfolio. It has since been generalized and **nowadays forms a part of fund manager objectives**. Teams have developed their own internal ESG analysis capacities, notably through companies' publications, brokers' research, extra-financial ratings agencies, as well as one-on-one discussions with companies. They consult with brokers on their handling of ESG information and this service is subject to specific remuneration. Caisse des Dépôts maintains a continuous and thorough dialogue with portfolio companies, all year long and during the preparation of the AGM. All companies producing, stockpiling, or trading anti-personnel landmines and cluster-bombs are excluded from investment portfolios, consistent with the Ottawa Convention and Oslo Treaty. Tobacco companies are subject to a similar exclusion.

In **fixed income portfolios** (internal management), for both General Section and Saving Funds, all portfolios include exclusively OECD investment-grade products. For securities other than those issued by States, the Risk and Internal Control Department (*Direction des Risques et du Contrôle interne*) includes extra-financial factors in its counterparty risk analysis. It refers not only to extra-financial ratings but also to its own analysis, notably in terms of the strategic and financial issues related to ESG factors on an individual or sector basis.

For **non listed equity**, as a part of its due diligence process before investing into a fund, Caisse des Dépôts asks private equity fund managers to fill out a questionnaire on the integration of E, S, and G issues, at the level of both the asset management company and the fund's assets. A void answer or a rating inferior to 3/10 renders the fund ineligible from now on. It is also recommended in a side letter signed by the funds that they commit to integrating ESG issues in their due diligence and that they provide a yearly ESG reporting

and a specific reporting after disinvestment (the reporting framework is being created in 2010).

For **real estate assets**, internal steps have been taken since 2006 to define how environmental and social factors could be integrated into new constructions and the management of existing buildings directly owned by Caisse des Dépôts. Those processes are partly based on the work of the UNEP FI Property Working Group, co-chaired by Caisse des Dépôts. An energy and CO₂ footprint on the real estate portfolio finalized in 2009 has enabled a better understanding of the quality of the assets owned in respect with climate issues. Results have been used to guide the preparation of 2010 capex budgets. Caisse des Dépôts has made a €140M investment into a new commercial real estate development with an ambitious low-consumption energy target (*BBC* – less than 50kWh/m²/year). This building, which should be completed in December 2010, will be used as a pilot project and the lessons learned will be shared internally. The experience has already successfully contributed to furthering the understanding of sustainability by everyone involved in the project. Caisse des Dépôts is also participating in the heavy refurbishment of another commercial property erected in 1930, a particularly ambitious project as it also aims at attaining the *BBC* standard.

Lastly, the entire forestry management of Caisse des Dépôts is handed by its subsidiary the Société Forestière, which has formalized principles of Sustainable Forestry management (*Gestion forestière durable* or "*GFD*"). The company also leads a continuous study on the improvement of internal sustainable forestry management practices, which led to the publication of a Sustainable Forestry Management Guide, approved by France Nature Environnement (an umbrella federation of French environmental organizations). Société Forestière's Sustainable Forestry management obtained the ISO 9001 certification in 2003, and the forests it manages on the behalf of Caisse des Dépôts have received the French eco-label « PEFC » (<http://www.pefc-france.org>). Beyond the certification of its assets, Caisse des Dépôts is supporting Société Forestière's research on changes in forestry practices currently needed to integrate climate change impacts and a careful management of water resources.

Saving Funds

Saving Funds (*Fonds d'Epargne*) centralized at the Caisse des Dépôts are managed independently from its own proprietary portfolios. Fund managers and analysts working in the Saving Funds Department have at their disposal extra-financial analysis provided by an agency. This information on the impact of social, environmental and corporate governance factors on the risks and opportunities of listed equity is enhancing the analysis on portfolio companies and is a first step into the integration of those social and environmental criteria into management.

Furthermore, Caisse des Dépôts has **also rated the listed equities in the Savings Funds' portfolio** based on this information.

Private Equity

CDC Entreprises, an asset-management subsidiary responsible for the equity financing of French SMEs, acts in coherence with public policies and the general interest. It mostly invests indirectly in funds or in local, national and technological private-equity companies. It is primarily active on capital venture and seed capital markets where available (private) capital is insufficient. Its investments aim at creating leverage to stimulate private investment, thus helping to reduce market imperfections.

CDC Entreprises strives to raise awareness on principles of investor responsibility amongst private-equity fund managers, and imposes mandatory training in this field on all managers requesting its investment.

CDC Entreprises reminds funds managers of its approach to responsible investment, and for every aspect (money laundering, ethical principles, ESG integration) a clause is inserted in the fund's legal documentation. In some cases, the GP and CDC Entreprises reach a preliminary agreement on the implementation of ESG criteria integration. If funds are invested in a country or region with inadequate levels of regulation, special mention is made with respect to child labor, environmental protection, and bioethical principles.

CDC Entreprises also manages **FSI France Investissement**, a financing structure for high potential SMEs through public and private capital. A program to accompany investee companies has been launched in 2008, named « France Investissement-Le Club ». It includes a « sustainable development » component; with services offered to the companies in order to help them better integrate ESG issues. Among those services, a program built with Carbon Hub provides participating SMEs with a collaborative platform offering simple and operational tools enabling them to monitor and reduce their CO₂ emissions.

CDC Entreprises has also innovated in the field of private-equity environmental responsibility in France in 2005, with a €30M investment in DEMETER, the first European private equity fund in favor of eco-industries. The fund was developed in 2006, after other initiatives in dedicated funds in the energy and environment sectors such as Emertec Energie Environnement in 2003 (€15.5M), or DEMETER 2 (€32M) in December 2009.

Qualium Investissement (previously CDC Capital Investissement) is Caisse des Dépôts' investment subsidiary in capital transmission and capital development, competing with other private actors. This asset management company invests mostly in non-listed equity in French companies. Qualium Investissement currently holds 19 stakes (including 16 where it holds a controlling interest). In 2009 it was one of the first French asset-management teams to have launched an ESG diagnosis of its portfolio. An independent specialized consultancy was responsible for this assignment; with the aim of enabling Qualium integrate key ESG issues in the management of its holdings and in its investment policies.

Regional development

Caisse des Dépôts allocated €460M in 2008 and €520M in 2009 to **investments dedicated to regional development, in a general interest perspective.**

The 2009 year for the *Direction du Développement Territorial et du Réseau (DDTR)* is characterized by a high level of activity in a context of economic and financial crisis.

► **Development of general interest investment projects.** Projects in housing, shopping centers, logistic buildings, leisure infrastructure, hospitals and clinics have often been delivered through public private partnerships in urban regeneration areas, in a context of few potential co-investors.

► **Answering SMEs' financial needs.** DDTR implemented an SME support program in collaboration with Oséo, with significant ties to the activities of the Fonds Stratégique d'Investissement.

In this framework, investment decisions take into account the needs of emerging sectors or high growth sectors (universities, renewable energy, patents, SMEs). Specific sectorial investment principles, derived from a set of investment doctrines, guide the selection process

for projects within each sector. Those principles have been distributed to all of the regional branches of Caisse des Dépôts at the end of 2008.

In order to ensure the implementation of those principles, **a process to assign a rating to projects reflecting their level of conformity with general interest and sustainable development doctrines was instituted in 2009**. It enables project teams to evaluate each investment or financing project from both the supply and demand sides on the basis of six criteria directly taken from DDTR's set of investment doctrines:

“Legitimacy of the demand” axis:

- existence of a public demand, whether national or local
- need to stimulate a sector which is insufficiently covered by the market
- need for an independent, trustworthy third party

“Performance of the offer” axis:

- efficiency and sustainability of the solutions proposed
- stimulating impact on the private sector
- market neutrality and non-distorsion

For its general interest investments, Caisse des Dépôts also specifically invests in environmentally-friendly sectors and in sectors that contribute to mitigating climate change.

Renewable Energies

Caisse des Dépôts has invested in the development of renewable energy production in accompaniment of public policy. These equity and semi-equity investments principally target wind power, biomass, geothermic, hydropower, solar PV and biofuels. It also invests in local electricity distribution companies to accompany local governments in the liberalisation of energy markets.

Commitments in the renewable energy production sector reached €38.8M in 2009 (mostly in investments), which enables the Caisse des Dépôts to contribute to generating **433MW** in energy production capacity. 107MW are already connected to the electric grid while the rest is still in construction.

Carbon Assets

As a response to climate change, Caisse des Dépôts group decided in late 2009 to turn **CDC Climat**, at the time a department involved in climate change economy, into a dedicated subsidiary. It is structured around three main activities:

- Carbon market infrastructures (GHG registries, carbon markets, services),
- Investments (in carbon funds and companies investing in carbon assets),
- Research on economic and financial tools for climate change mitigation (presented in the Section on Principle 5).

CDC Climat strives to work on projects that integrate, beyond their intrinsic environmental quality, some criteria enabling to assess social conditions.

- Through their « Infrastructure » activities, CDC Climat actively participates in consolidating carbon markets by offering services to support actors in the management of their carbon accounts. CDC Climat proposes a range of technological solutions that enhance the security, stability, transparency and perennity of carbon markets, thus **contributing to the reduction of greenhouse gas emissions**.
- The « Investment » activity illustrates the way CDC Climat acts to integrate ESG criteria in its investment decisions. CDC Climat has **currently €56.7M in assets invested in various carbon funds**: namely in the European Carbon Fund (€25M),

the Fonds Post 2012 (€25M), and the Fonds Capital Carbon Maroc (€6.7M). On several occasions CDC Climat has used its position in the investment boards of these funds to defend the CDC Group's strategic interests by opposing investments in industrial projects of questionable environmental quality.

Since December 2009, new activities are being set up with the following medium term goals:

- to maximize the environmental impact by investing in projects of proven environmental quality (notably excluding projects with high industrial gases). By purchasing carbon credits generated from CDM and Joint Implementation projects, CDC Climat contributes to the reduction of greenhouse gas emissions. Its investments, direct or through carbon funds, thus aim to mitigate the emissions of some 25MtC per year as early as 2013.

- to become the signature French investor in carbon funds and thus drive investment by other long-term investors in carbon funds in regions which are yet to make full use of the possibilities that the flexibility mechanisms (CDM and JI) offer.

→ As well as setting up a line of direct investments (€50M), CDC Climat also aims to promote and manage four thematic funds with a total of €470M under management in 2014 (including €155M from CDC Climat).

Since 2009, CDC Climat has been working on creating an asset management company whose investment policy will incorporate strict ESG criteria and thus be consistent with that of Caisse des Dépôts. Indeed, this is the means by which CDC Climat aims to provide an answer to the intrinsic weakness of French asset managers by working to ensure that the investment decisions are perfectly aligned with the strategic interests of long-term investors.

Furthermore, the **Caisse des Dépôts has voluntarily compensated its carbon emissions since 2006** by buying carbon credits equivalent to its emissions and destroying them. Those credits will be used to finance climate change mitigation projects.

Principle 2. We will be active owners and incorporate ESG issues into our ownership policies and practices

Caisse des Dépôts is an active shareholder. It has formed an **Advisory Corporate Governance Committee** (*Comité consultatif*), which assists in all corporate governance issues in the companies where it is a shareholder. The Committee has established an **AGM Voting Policy** and a **Guide for Administrators** for Caisse des Dépôts' representatives on supervisory boards.

The **AGM Voting Policy** sets out a number of rules which should be applied when voting on resolutions at AGMs, especially when relating to the number of board members, their independence, the term length, the creation and composition of special committees, the disclosure of executive pay, the communication of financial information, the distinction between the roles of the chairman and the CEO, and so forth. In practice, all the resolutions are analyzed by a specialized department. Voting recommendations proposed by the portfolio managers are approved by the heads before the vote takes place the AGM or is performed by correspondence. The entire range of companies in Caisse des Dépôts' portfolio are subject to the exercise of its voting rights. Caisse des Dépôts has previously voted against resolutions which were not consistent with its voting policy. As resolutions currently do not often address social and environmental issues, negatives votes have mainly been related to governance issues. The Voting Policy was updated after the 2009 year in order to take into account changes in case law, and the request for companies to comply with the AFEP-MEDEF code dating from October 2008.

Caisse des Dépôts is an influential institutional investor, particularly for French companies. Indeed, when it informs companies that it disapproves of a resolution presented in the AGM, the former are obliged to take this into account. In the past three years, a positive evolution has been noted on some governance issues where other investors express their disapproval or cast a negative vote.

Furthermore, Caisse des Dépôts **encourages and stimulates its subsidiaries to adopt and refine their sustainable development policies**. It assists them on the basis of the internal expertise developed in its Sustainability Department, in particular in respect to responsible investment practices (for financial subsidiaries), sustainable buildings and the fight against climate change. CNP, our insurance subsidiary for persons, itself an important financial investor, has developed its own responsible investment strategy. As a listed company, it provides the related reporting on these matters.

The Long Term Investors' Club

In order to stimulate long term investment internationally, especially important given the context of the financial crisis, **Caisse des Dépôts has created the Long Term Investors' Club** chaired by Mr. Augustin de Romanet, the CEO of Caisse des Depots. The Club currently brings together ten financial institutions with \$3 trillion worth of assets from all the world's key economic areas. It has established a Charter that defines common principles and values. Created in order to foster exchange in best practices and the emergence of a common identity between long term investors, it also aims to offer services dedicated to this new special kind of financial actor.

In this framework, a number of multilateral investment initiatives have been created in the past few months, including:

- **Marguerite the 2020 fund for energy, climate change and infrastructure, dedicated to funding exemplary infrastructure projects in the EU** (at least 40% in renewable energy production),
- **InfraMed**, the most important infrastructure fund in the Middle East/North Africa region, supports **equity investments in urban, energy and transportation infrastructure projects that comply with sustainable development**, especially in the social dimension (responding to the basic needs of populations)

Principle 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest

Caisse des Dépôts **holds in-depth discussions with large French companies** in which it is a significant shareholder through frequent one-on-one meetings with these companies' management. These meetings provide an opportunity for fund managers to question management on environmental and social issues. The latter have shown themselves to be quite responsive to managers' requests for precise answers.

- When they meet company management, Caisse des Dépôts' fund managers systematically discuss environmental issues, whether it is on general sector issues or on specific company challenges.
- Corporate governance and social issues are also part of the discussions, and are more spontaneously raised by companies.

Caisse des Dépôts gathers information on foreign (non-French) companies with the help of brokers and CSR rating agencies. The availability and accuracy of this information already forms part of the selection criteria for brokers.

As indicated previously, specific processes are being launched for private equity funds, with a questionnaire being sent up to all funds before any investment decision. Since the beginning of 2009, any rating below 3/10 is grounds for a negative response.

Caisse des Dépôts is a signatory to the **Carbon Disclosure Project** since 2004.

As for its subsidiaries, Caisse des Dépôts asks them to report on the implementation of their sustainable development policies, and later uses it for its own CSR reporting. Furthermore, listed subsidiaries have their own CSR reporting obligations.

Principle 4. We will promote acceptance and implementation of the Principles within the investment industry

Caisse des Dépôts **played a key role in 2006 for the launch of the PRI and since then to increase public awareness in the European investment community.** It has organized numerous meetings with French institutional investors. Its members have intervened on several occasions for the PRI in working groups, seminars and in the media.

Caisse des Dépôts also encourages and contributes to work on responsible investment initiatives with asset management companies and investors in the Group (CNP Assurances, CDC Entreprises, Qualium Investissement, etc.). It regularly exchanges best practices with the Fonds de Réserve des Retraites (FRR) and the Régime Additionnel de la Fonction Publique (ERAFP), both PRI signatories.

Caisse des Dépôts' participation in the PRI Steering Committee on Private Equity highlights the flagship role it plays. Its contributions led to the publication of "Responsible Investment in Private Equity: A Guide for Limited Partners" in July 2009, and following its translation into French helped to spread these principles both in the Caisse des Dépôts Group and more broadly in the financial industry. This guide gives investors indications and best practices on how to set up an ESG strategy in the selection and monitoring of their investments.

Furthermore, Caisse des Dépôts is member of various organizations, such as Eurosif, the ORSE and its Finance Club, and of the working group on the SRI Charter of Paris Europlace, which strive to promote responsible investment and push other financial institutions and public authorities in this direction. Caisse des Dépôts is also very active in the fight against climate change: its works cover the entire scope of the financial sector's responsibility and it participates to numerous related projects, both French and international.

Last but not least, Caisse des Dépôts finances Novethic, which is both **a research center and a media expert on SRI, CSR and sustainable development** and more broadly on the integration of environmental, social and corporate governance issues by actors in the economic and financial worlds. Caisse des Dépôts' support enables it to play **a leading role in promoting SRI in France** through various tools: publishing studies to describe and analyze this market, organizing events to raise awareness on SRI in the financial sector, and by providing a database on available SRI funds in France. **In 2009, Novethic launched the first SRI label**, already obtained by a hundred funds, on the basis of criteria certifying that an exhaustive ESG analysis is conducted and a high level of transparency achieved in their investment process. Furthermore, the novethic.fr website, viewed by more than 150 000

visitors every month, diffuses high-quality information and analysis on various issues relating to sustainable development contributing to raise awareness amongst a wide range of actors.

Principe 5. We will work together to enhance our effectiveness in implementing the Principles

Deeply committed to the PRI from their inception, Caisse des Dépôts has been involved for many years in the **United Nations Environment Program Finance Initiative (UNEP-FI)**, in order to promote collective thinking on new environmental and social issues and produce various related analyses and reports.

Caisse des Dépôts, alongside Prudential, co-chairs **the UNEP-FI Property Working Group**, which works with other key investors interested by “responsible property investment” and environmental and social issues in financial real-estate management. In this working group, Caisse des Dépôts established a partnership with the PRI, seeking to apply them to real-estate assets. This partnership led to the publication of guidelines for investors, a document which has been presented in the annual PRI event in 2008. Caisse des Dépôts also contributed to the creation of various toolkits which help investors structure their responsible property investment strategy. In 2009, Caisse des Dépôts participated to the creation of equivalent principles to be applied to private equity, and has committed to support a similar process for infrastructures. The goal is to team-up PRI signatories and non-signatories in order to develop tools that enable the implementation of the PRI in this asset class.

Furthermore, CDC Climat has strongly contributed to raise awareness on the issues of CO₂ emissions and the economics of climate change through its research department. **CDC Climat Recherche**, beyond its numerous publications and contribution to academic articles, offers public expertise (experts, presentations, participation in institution-level working groups, co-organization of four conferences at the Paris-Dauphine University etc.) and important support to academic research. In particular, CDC Climat is a partner of the Research Program on the Economics of Climate Change (*Programme de recherche en économie du climat -PREC*) of the Finance and Sustainable Development Institute of the Paris-Dauphine University and the Ecole Polytechnique, sponsored by Caisse des Dépôts. The head of CDC Climat Recherche was also the vice-chairman of the JI Supervisory Committee in 2009.

The Institut CDC pour la Recherche is also supporting academic research in order to kick-start projects in research teams that will feed strategic thinking at the Caisse des Dépôts, and contribute to public debate by communicating the results of those studies. One of the key research areas is long term investment, explored through research partnerships such as one involving Michel Aglietta, the Toulouse School of Economics and the Collège de France.

Caisse des Dépôts’ teams are also active within the Group, where various departments, subsidiaries, as well as the FRR and the ERAFP are brought together in several working groups created in order to foster the application of the PRI in specific asset classes.

Principe 6. We will each report on our activities and progress towards implementing the Principles.

Caisse des Dépôts publishes a CSR report which is integrated into its Annual Report. This document defines responsibility issues at stake for each of its activities and the actions it has taken to address them, particularly as a financial investor. This document, available on its website, constitutes its formal reporting on the implementation of the PRI. It supplements the 2008 Annual Report also available on the website.