



ENGAGEMENT REPORT

FY 2022

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Introduction

ESG in 2022

On the macro front, 2022 has been an unusual year with the return of strong inflation linked to the recovery of post covid activity and the energy **shock amplified** by the **geo political crisis** triggered by the Ukrainian War. This shock revealed the structural weaknesses of the European energy system, reviving fears of de industrialization on an old continent scale. Europe will need to redouble its efforts to establish a cleaner and more stable energy system. In the short term, it is highly likely that states will use fossil fuels (coal and gas) to secure the network. This should de facto lead to increased greenhouse gas emissions and pollution. In the long term, governments will need to 'plan' an industrial policy that can accelerate the deployment of renewable and carbon free energies.

On the environmental and climate **front**, 2022 witnessed a series of record sad events (heat, droughts, floods, repeated climatic disasters, etc.), causing significant damage, both human and material. These repeated disasters demonstrate the materialization of physical climate risk with damage of more than 115 billion dollars, according to the latest estimates of Swiss Re, compared to 81 billion euros over the last ten years. A **year full of international negotiations** with COP 27 **on climate** in Sharm el Sheikh, Egypt, then COP 15 **on biodiversity** with the Kunming Montréal agreement, described as a historic agreement. **The first**, described for its lack of ambition, has nevertheless made significant progress on the issue of North South financing with the creation of the Pertes et Dommages Fund, which has been requested by emerging countries for some 30 years. **The second has four main aims**: protecting the planet, involving financial players and businesses, combating pollution and doubling global financing in order to protect nature. The text represents a positive step forward on the inclusion of biodiversity by the private sector and investors. COP 15 will have highlighted the central role of biodiversity since nature protection remains a very effective means of combating climate change. Note that the *World Economic Forum* estimates that biodiversity related ecosystem services would account for about half of the world's GDP, or about US \$ 44,000 billion. It is also necessary to underline the important role of these COPs in the international arena, as they maintain multilateralism and cooperation between countries.

Finally, 2022 saw the acceleration of regulatory deployments of European texts in connection with the European Commission's Action Plan on Sustainable Finance. This is part of the **regulations that will impact the financial industry** with the implementation of Level 2 of the Sustainable Finance Disclosure Regulation *SFDR*. On the other hand, those **that will impact companies** such as the *Corporate Sustainability Reporting Directive (CSRD)* in order to harmonise corporate reporting within the EU.

Commitments made in 2022

Types of commitments

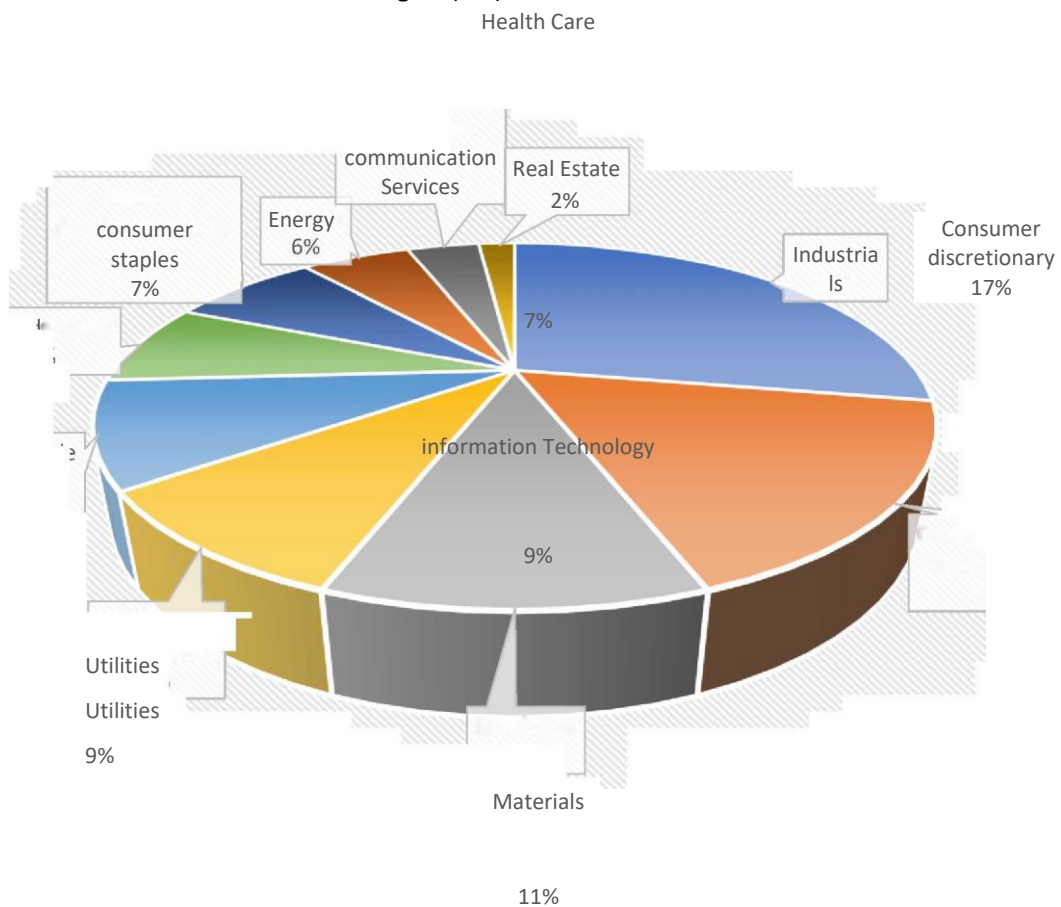
PALATINE Asset Management also reinforced its commitment during 2022, with some 50 companies held in the portfolio contacted, as detailed below by type of engagement, sector, themes and themes.

Of the fifty six ESG commitments made over the years 2022, fifty companies were targeted. 18% of commitments were made live (one on one) at forums or following requests for interviews on specific themes. The remaining 82% is commitments made at group meetings.

Types of commitments	Total number of ESG commitments	%
Group meetings	46	82%
One on one	10	18%
Total commitment	56	100%

Sector breakdown of companies involved

As regards the sector breakdown of the companies committed, the 5 main sectors represent 74% of the commitments with: Industry (28%), discretionary consumption (17%), materials (11%), utilities/utilities and information technologies (9%)

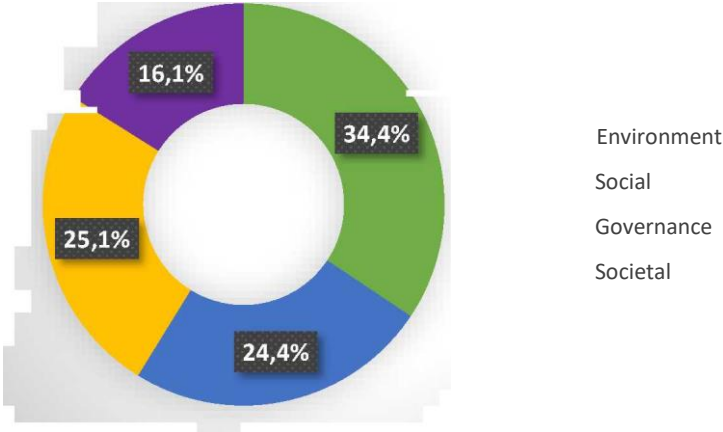


Key Commitment Themes:

The ESG commitments have been grouped into four themes: 'Environment (34%),' 'Social (24%),' 'Governance (25%)' and 'Social (16%)' (ESGS), to which some 60 themes relate in connection with our fundamental analysis model.

The commitment themes for 2022 are shown below.

Commitment Themes



Commitment Themes

Out of the 60 themes of our fundamental model, fifty themes emerged in the 2022 commitments with three environmental themes and a societal theme in the first four occurrences.

Note that the following ten themes represent slightly less than half of the themes discussed (46.42%) with companies.

The 10 main themes addressed in 2022

GHG Emissions - Scopes 1, 2 and 3	
Environmental Strategy &...	
Value Chain	
SBTi/Trajectoire 2° C/CDP	
Remuneration, transparency and ESG	4.0%
Diversity	
CSR Strategy	4.0%
Health/Safety	
Biodiversity	
Geopolitical context	3.3%

We continued to monitor **our environmental and climate commitments**, with priority given to scope 3, environmental strategy and impacts inherent to the business model, trajectory Climate and target validation through the Science based Target Initiative. The focus has also been on biodiversity, its consideration by companies with a focus on intensive sectors to better understand risk and its inclusion in our investments.

Regarding the **social** aspect, the two main themes that emerge are Diversity as well as Health and Safety in the

workplace including turnover, absenteeism and accidentology including fatalities. These two themes are followed by training and human resources policy, quality of listening, employee satisfaction and diversity within teams. 2022 was also marked by rising tensions and social conflicts over inflation claims that led us to strengthen our commitments to these aspects of Human Capital.

Regarding governance, the main themes addressed focused on compensation, transparency and the inclusion of ESG criteria in compensation, the deployment of the CSR/Sustainable Development Strategy and the geopolitical context. Given the magnitude of this shock, we considered that geopolitical events should be integrated into the decision making chain of companies with a focus on those with Russian operations due to Western sanctions. We wanted to engage companies directly in order to better understand the nature and potential impacts of such sanctions. In this context, we used the Celi list of enterprises established by the University of Yale.

Regarding **the societal aspect** that encompasses themes such as corporate mission/raison d'être, SDGs, the impact and access of goods and services, and local communities and philanthropy, **it is the value chain that emerges in the main themes addressed.** The year 2021 had been characterised by the traffic congestion of value chains inherited from the cessation of savings during the pandemic period. In addition, certain industries (aluminium, glass, chemicals...) are highly sensitive to energy prices and are dependent on gas supplies, which amounted to almost 40% from Russia. In addition, several sub themes have been grouped in the 'value chain' theme, such as energy supply but also strategic metals, so called critical for the transition (copper, nickel, cobalt, manganese...), the integration of ESG/CSR criteria in audits and evaluations, responsible purchases or supplier engagement.

Details of commitments by fund

Methodology

Regarding the methodology for calculating the commitment rate over the year, it was calculated a year on year between 01/01/2022 and 31/12/2022 in order to avoid errors related to the exit of a security during the year. The weight of the company in the portfolio is calculated according to the number of days the issuer holds, which allows to obtain the weight of the 'smooth' company over a year and the number of issuers held over the year.

This methodology was used for calculating the weight of issuers committed as part of our collaborative commitments with the WDI, which is explained at the end of the report.

We retained the number of single issuers committed in order not to have any methodology bias and double counting. Indeed, some companies were engaged twice during the year because of unexpected events or clarifications requested on a particular theme.

Equity Fund Commitment Summary

Portfolio commitment rates reach almost 50% in terms of the weight of issuers held respectively in the labelled large cap funds. Notably, the significant increase in commitment on most funds, from 35 companies met in 2021 to 56 in 2022 (+60%), linked to the strengthening of the ESG team.

Fund	% of issuers committed in 2022	% of issuers committed in 2021	Δ Change (%)	Unique issuers engaged in 2022	Unique issuers engaged in 2021	Δ Change (%)
PALATINE PLANETE (ISR)	55.36%	32.41%	71%	19	10	90%
PALATINE EUROPE SUSTAINABLE EMPLOYMENT (ISR)	49.35%	28.24%	75%	18	9	100%
PALATINE CORPORATES FAMILIALES (ISR)	45.74%	22.79%	101%	22	14	57%
CONSERVATIVE EMPLOI DURABLE (ISR)	49.68%	28.13%	77%	22	11	100%
PALATINE FRANCE EMPLOYMENT	50.25%	24.68%	104%	22	13	69%
PALATINE FRANCE MID CAP	29.50%	10.81%	173%	12	5	140%

PALATINE FRANCE SMALL CAP (Label Relance)	12.46%	11.74%	6%	4	3	33%
Total engineer issuers				56	35	60%

Commitments are almost doubling for more than half of the funds in terms of number of issuers committed. The *Palatine Planète* fund has the highest level of commitment in terms of its issuers, reaching 55.4%.

The fund *Palatine France Sustainable Employment* posted the best performance in terms of the issuers involved in the fund, followed by *Palatine Entreprises Familiales* and *Conservative Sustainable Employment*. The latter and *Palatine Entreprises Familiales* posted the best performances in terms of issuers committed to the portfolio.

Regarding the funds not labeled, the Palatine France Mid Cap fund experienced the biggest increase in the weight of issuers and in terms of issuers committed. The Palatine France Small Cap fund saw the smallest increase with only one additional issuer committed year on year.

Fund	Number of single issuers committed	Total number of issuers committed
PALATINE PLANETE	19	23
PALATINE EUROPE SUSTAINABLE EMPLOYMENT	18	23
PALATINE FAMILY OWNED COMPANIES	22	24
CONSERVATIVE, SUSTAINABLE EMPLOYMENT	22	27
PALATINE FRANCE SUSTAINABLE EMPLOYMENT	22	27
PALATINE FRANCE MID CAP	12	13
Palatine France Small Cap	4	4

Fund themes

Below is the breakdown of the commitment themes addressed by the funds :

Fund	Environment	Social	Governance	Societal
PALATINE PLANETE	78%	65%	74%	61%
PALATINE EUROPE SUSTAINABLE EMPLOYMENT	78%	70%	70%	70%
PALATINE FAMILY OWNED COMPANIES	88%	79%	79%	71%
CONSERVATIVE, SUSTAINABLE EMPLOYMENT	78%	74%	74%	63%
PALATINE FRANCE SUSTAINABLE EMPLOYMENT	78%	78%	74%	67%
PALATINE FRANCE MID CAP	85%	85%	77%	77%
Palatine France Small Cap	75%	25%	100%	50%

In line with the results reported in the company breakdown, the environment was the main theme addressed for almost all funds except Palatine France Small Cap, where governance was discussed with 100% of the companies met

Example of Fund Engagement

PALATINE Planète:

Commitment by a company in the industrial sector that specialises in electrical cables and equipment and in electrification, with more than half of the sales (54%) made in the latter. It should be noted that electrification is one of the key environmental issues for the energy transition, thematic of the Palatine Planète fund.

We continued our dialogue on the strategy published at a Capital Market Day in 2021, with the announcement that certain carbon intensive activities (four) would leave and the refocusing on

Electrification by 2024 that is both on track. Elsewhere, the geopolitical issue was discussed with the company



as it has several factories in Ukraine that continue to operate as the area was spared by the bombing. In addition, these plants are part of one of the segments concerned by the sale of the businesses mentioned. Note that an eco laundering component has been added to business ethics and compliance training.

Societal issues have been discussed at length, in particular on securing the supply of copper, which is critical for cable manufacturing, with supplier diversification and long term contract terms (five years). The CSR audits and third party ratings (EcoVadis) aspect of the 300 strategic suppliers were discussed, of which approximately 30 are audited each year. The department's responsible procurement training was deployed to enhance vigilance.

The environmental aspect has been addressed from the perspective of sustainability, life cycle analysis and product recyclability as well as limits (technology, material availability and quality) on recyclability. The angle of GHG emissions and carbon intensity was covered in order to verify the relevance of the objectives and the seriousness of the approach.

The social aspect has made it possible to better understand the origin of high turnover, although it has been down in recent years, mainly linked to one of the activities with a strong use of agency workers as well as the corrective actions deployed.

Despite the very significant carbon footprint of scope 3 inherent in its business sector, we reiterate our very positive opinion on the value due to the good progress of the objectives and the timetable for exiting carbon activities. Furthermore, the validation of the climate path by the Science based Targets Initiative (SBTi) and the targets for reducing GHG emissions in absolute terms on the three scope give us confidence in the robustness of the environmental strategy. The company is very well positioned to facilitate and accelerate the energy transition, making it a prime value for the fund.

PALATINE Europe Sustainable Employment:

During the beginning of September, we initiated discussions with a French healthcare/pharmaceutical company present in the portfolio. A controversy arose at the end of August over an indigestion drug sold for about 40 years on prescription and over the counter by several pharmaceutical companies. The product was removed from the market in 2019/2020 due to concerns about carcinogenic impurities called NDMA.

The company surprised us and was surprised by the market reaction - the market fearing the financial implications of such a lawsuit - as the case was already known and, in its view, closed and no new developments were made in August. During the discussion, the company reminded us of the facts and its positioning. The drug was found in its portfolio via a molecule exchange with another laboratory during an acquisition, and studies by the US Food and Drug Administration on the drug concluded that it would not cause cancer. The reminder produced was the source of the case and allowed some lawyers to refer to the case with 2500 cases involved. The company had also launched tests to corroborate the various studies.

The company was therefore very confident in its defense, as no scientific evidence could be provided by the complainants and the cases of cancer related to the drug had gone from 22 to 5 today. This confidence proved to be fair since at the end of December 2022, the US judge rejected the 5000 complaints filed against the two pharmaceutical companies that were trying to establish the causal link between the taking of the drug and various cancers. We had maintained our position in the portfolio given our analysis of the materiality of the controversy and the commitment achieved.

In addition, the issuer has a mature CSR strategy and integrated into its overall strategy, broken down into several themes covering the main risks and material issues of the sector. A product access component is available with 30 essential drugs selected in forty countries around the world. Emphasis is also placed on R & D for disadvantaged populations, especially in tropical diseases. The climate strategy is robust with a carbon neutral objective on the three SBTi validated scope, and is also visible in terms of products, particularly waste with the creation of a clean tool for passing projects/products under the scope of life cycle analysis. The social aspect is broken down through the diversity and inclusion approach, including in top management in order to seek parity. Volunteering and skills sponsorships programmes were deployed, and the introduction of CSR was included in the development curriculum of top leaders.

PALATINE Entreprises Familiales:

Family owned group in the consumer staples sector, which wants to put the consumer and sustainable development at the heart of its business. The group has an ambitious strategy with targets and indicators that are regularly updated.

With regard to governance, the separation of the functions of Chairman and Chief Executive Officer was mentioned and is not planned. In view of the group's family shareholding, we consider that this dissociation is not necessary as long as counterpowers are present on the Board in order to offset the powers of the CEO (presence of an independent referent director), which is the case in the company with a good independence rate of 58%. Moreover, diversity is good as the Council reaches parity. We reiterate our positive appreciation on governance policy. However, the company told us to make progress on diversity of nationalities (10% of different nationalities in the top 500 of managers).

On the environment, the reduction of packaging and the elimination of single use plastic in its packages were discussed, reaching its objectives in 2021 compared to 2025 initially expected. However, substantive work remains in geographical areas where recycling is not yet rolled out by local authorities. We were able to question the commitments concerning biodiversity. The company highlights the completion of the mapping of terroirs and the assessment of the risks associated with each of its terroirs as well as the support of 73% of its 'direct subsidiaries' (compared to 54% in 2021) have a program on biodiversity. In addition, the company has deployed certifications to promote 'sustainable farming practices' and regenerative agriculture; the challenge is significant as 48% of scope 3 issues come from agricultural raw materials.

The value chain has been approached from the perspective of supplier ESG/CSR assessment and engagement. The group also ensures the capacity of its strategic suppliers to demonstrate their resilience to climate change, which we have appreciated. The social aspect could only be addressed very quickly on the satisfaction and commitment of employees, a major subject for the company. The latest figures provided by the company are good (participation rate of 86% for a commitment of 70%).

The meticulous monitoring of the CSR strategy and objectives reinforces our stock picking in the Family Business portfolio.

Conservateur Emploi Durable:

The commitment chosen for this fund is an industrial company specialised in electrical equipment. During the year, we attended its Capital Market Day (CMD) dedicated to ESG for its new 2022/2024 roadmap, commit the company via e mail and then live about the exposure of certain activities to Russia, as well as on the social aspect as part of the fund theme. It should be noted that the company has very little exposure to controversies.

Regarding the CMD, the company has a solid climate road map with medium (2030) and long term (2050) objectives, with intermediaries validated by the SBTi. However, the commitments relate only to scope 1 and 2 and part of scope 3 with carbon compensation on a quality criterion from 2022. The company believes this is a gesture to show commitment both internally and externally, but does not want to extend the compensation beyond 2030, while committing to neutralise and reduce the rest. With regard to eco design, the approach focuses on product transparency and environmental impacts, resulting in a very good coverage rate of 70% for product portfolios on life cycle analyzes (ISO 14025 certified). Noted that scope 4 has been discussed with the company but is not yet defined in international standards (carbon balance or GHG Protocol).

In the geopolitical context, the rich, direct dialogue helped to better understand the company's position as it generates 2% of its revenues in Russia (1.9%) and Ukraine (0.1%) for about 1300 employees. The cessation of all deliveries to Group entities and investments in Russia were carried out with the priority to find a solution for the Ukrainian teams, some 20 people. Accommodation solutions, advance payments for salaries and family support were offered by the company in addition to its participation through the provision of certain products to equip gym facilities or accommodations, for example. The company reiterated its strict adherence to US and EU sanctions and prepared various scenarios. The worst case scenario occurred with a total exit from activities at the beginning of 2023 with the recent announcement of the total exit and the sale of its activities. The company has been very transparent and has listened very carefully to our questions and returns.

On the social aspect, diversity is part of one of the four main axes of the 2022/2024 roadmap including among

suppliers via the five pillars of the GEEIS label certification carried out by Bureau Veritas. It should be noted that the company has been committed to these themes since 2017, with a program to overcome health related issues, particularly social coverage, maternity leave, etc., for its employees in some countries where they are absent. Coverage was 97% of employees worldwide. In addition, employee shareholding amounts to around 4% of capital and employee satisfaction is regularly tested with a commitment of 80% for a campaign addressed to all employees. These various aspects have allowed us to develop social policy. In addition, the company is a major provider of employment in France and actively participates in the dynamism of the territories.

The transparency, responsiveness and quality of the dialogue we have had with the company during the year supports our emphasis on maintaining value in our stock selection. Furthermore, the maturity of the company's environmental, social, societal and governance policies support our view on the positive ESG rating assigned to it.

PALATINE France Sustainable Employment:

French family owned luxury company which generates around 70% of its revenue from the leather goods/sellery business and the sale of clothing and accessories. It should be noted that the company is a major employment supplier in France, with 78% of the production carried out in France, a key theme of the fund. It has a strong vertical integration model that allows it to maintain long term relationships with its suppliers and stakeholders.

The social aspect was discussed in the light of recent tensions that took place in a workshop of a direct competitor. The company has already doubled all wages in 2022 to meet inflation targets. The company has detailed the various packages offered to employees through free share plans (1.06% share ownership) and generous profit sharing and participation schemes. Regarding the attraction and retention of talent, the average seniority is 9 years for an employee, which reflects a strong feeling of belonging to their company. Diversity is also good, with 60% of women in managerial positions resulting in a score of 90/100 on the index of equality between men and women.

The direct commitment has clarified the company's position on several strands, namely the environmental part with greenhouse gas emissions - scope 3, which currently have only an intensity reduction target, compared to scope 1 and 2, which have an absolute reduction target. The company confirmed its commitment at the forthcoming publication of reduction targets in absolute terms for scope 3. In addition, these objectives have been validated by the SBTi on the three scope, which accredit the process independently.

On the societal side, the focus has been on SDGs and philanthropy. The contribution on SDGs seems to us to be undetailed and too vague, however, a new methodology is being realized and a much clearer reporting with targeted contributions will be published. In addition, the foundation is very active with an increasing budget for the next five years and targets topics related to its activities.

These elements allowed us to better understand the quality of the CSR approach as well as the improvement of the company on communication and transparency. Moreover, as the employment aspect in France accounts for the bulk of the fund, the commitments made reinforce our positive view on value.

PALATINE France Mid cap:

Discussion with a health care company twice in direct contact with the news and highlights of 2022. In fact, this sector was widely described during the year, despite the good ESG ratings assigned by the extra financial rating agencies, revealing many dysfunctions in the latter. During the plenary session with the company's management, it reaffirmed its commitments, the demand for a stricter regulatory framework and the company's desire to support the dependence of older persons with the deep conviction of serving the public interest as the primary mission more than profitability.

At our second small group meeting with the Finance Director and the Director of Human Resources, we were able to discuss more at length the controversial aspect (complaints against him, issues of abuse and social relations). This dialogue has enabled us to better understand the facts charged, the seriousness of the treatment of these charges and to better appreciate their materiality.

Second, we discussed at length governance issues and more specifically the five pillars and 15 main objectives

of the CSR strategy. We were able to question the progress of the objectives and key performance indicators as well as the future orientations of the new roadmap. In addition, the very good progress made by the quality certification of services (ISO 9001 certification) in 2021 and 2022 reaffirms us in the seriousness of the company's approach.

On the societal aspect, we returned to the project in 2023, namely the change in the status of the company as a 'Company on Mission' which, according to the management, was long planned and is in line with the CSR strategy; the 'responsible purchasing' aspect was discussed from the audit perspective and used by an external third party.

Regarding the social aspect, the reduction of turnover and absenteeism against a backdrop of work difficulty was discussed. The company refocuses on these issues as they inevitably unsettle the entire organization. The company focuses on proximity and management quality and corporate culture to reduce these figures. Attracting and retaining talent, increasing wages and social relations were addressed.

Finally, on the environmental aspect, about which the company seems to be slightly behind, we addressed the issues of the footprint of buildings, support by an external third party in the approach, the future validation of the reduction objectives by an external third party (SBTi) and the overall rating of the CDP.

This dialogue confirmed our positive opinion on the value and the choice to maintain the player in the portfolio while maintaining a high level of vigilance on the sector. We have also been offered a site visit.

Palatine France Small Cap

Commitment and monitoring of a consumer discretionary company on its overall progress in terms of both CSR/ESG policy and the pursuit of previous objectives. Due to divergent ratings from two external rating agencies, this issuer's rigorous monitoring and engagement allows us to better assess its rating.

Regarding governance, a new CSR officer was appointed during the year in connection with the previous announcements made during our previous commitment. The aim is to have a short decision making chain on sustainable development and strategy within management bodies. Significant work has also been done to improve the diversity of governing bodies, which are expected to reach gender parity by 2023. The independence of the Board of Directors will also improve to 50%, above the recommendations of Middle Next code. The company will shortly present its reporting according to the recommended framework of the Task-Force on Climate related Financial Disclosure (TCFD).

With regard to the environmental aspect, we believe that the objective of carbon neutrality by 2040 is credible, with the aim of measuring and reducing it as a matter of priority. All issues are located in scope 3 (99%), mainly related to business travel and warehouses. The validation of the objectives with the SBTi is planned for next year in order to renew the carbon balance. The problem lies in the value chain with purchases of goods and services because some have not quantified their emissions. However, the suppliers welcome the discussions rather favourably. Regarding biodiversity, the company is committed to a regenerative agriculture approach with its farmers with the objective of quantifying CO2 emissions and biodiversity by ensuring the sustainability of farms.

On the social aspect, the main progress lies in the writing of the employer's charter with the emphasis on family, kindness and non discriminatory values. Attention has been focused on the quality of life at work with the recent move of the head office, which is expected to generate environmental and social added value. Regarding human capital training, training hours per employee rose to 17 hours of training per employee, slightly below our threshold of 20 hours per employee. On the employees' earnings association, 100% of employees are eligible for performance shares, but employee share ownership seems poorly developed (0.9% of the capital). However, the creation of an individual shareholding committee and the next appointment of two employee representatives on the Board of Directors show that management has taken these issues into account.

The good observance of the calendar of announcements, the progress of the CSR strategy and the significant increase recorded in all ESG aspects allow us to reiterate our favourable opinion on the value and its maintenance in the Palatine France Small Cap fund.

Commitment to Fixed Income and Absolute Return strategies

The ESG engagement and integration approach for fixed income funds, although very similar to the equity asset class, is by its nature not identical, particularly due to the characteristics specific to the monetary category. The links between ESG factors and the potential for investment return are more limited since the shorter the maturity the less long term ESG considerations are relevant from a financial perspective. The integration of ESG factors remains highly relevant as financial risk factors such as reputational, reputational or controversy risk that can have a significant impact on the price of debt securities or even cash.

Despite a more limited de facto shareholder engagement, we continue to engage with issuers on a rich basis to clarify certain ESG policies or objectives built on the same principles as equities.

Example of engagement:

Telecom provider met in our office on the financial and ESG aspects.

As the ESG analysis performed by one of the rating agencies is quite old, we decided to engage the company following the publication of results by the company. We talked about the more hardware related to the industry and the company.

On the environmental side, the impact of infrastructure was discussed in terms of the energy consumption of data centers on which the company has an average PUE below the French average with one. The latest data center, which is fairly intensive in terms of energy consumption, will be upgraded to bring down said consumption for an amount of fifteen million euros. In addition, a plan of sobriety, including the reduction of consumption of boutiques is being rolled out. Regarding circular economy and waste generation, the company presents itself as the most advanced telecommunications operator in the field, but has not certified its approach to life cycle analysis and does not report the share of its products covered, which does not allow us to judge the relevance of it. The materials and components used in the products are studied to be as durable as possible and to facilitate product repair and recyclability. However, total waste production is not reported, the company must make progress on the transparency and reporting of its indicators.

On the social aspect, the age pyramid is very unbalanced, but justified by the structure of the company, according to the investor relationship team, which rents a horizontal organization with a rather low level of management strata. We look at this criterion in our analysis because it allows a short decision chain that is conducive to innovation- typically 3 or 4 hierarchies between CEO and employees. The issue of wages was also discussed, with the company proposing lower wages than the sector. Nevertheless, the initial strategy was to offer low fixed wages supplemented by variable wages, this system of variable compensation being paid into action blocked over 2 years. An employee share ownership plan was carried out in 2021 (participation of 5000 employees) for 0.2% of the capital, which seems to us to be low. Regarding the aspect of workforce growth and reorganizations, we maintain our vigilance pending progress on the restructuring policy which seems insufficient to us.

On the governance aspect, we asked for clarification on a controversy directly involving one of the executive directors a few years ago and who was appointed as a lobbyist and in charge of representing interests. In addition, executive compensation does not include ESG criteria; it is primarily linked to financial performance. In addition, we believe the compensation structure is opaque, as 40% of executive's fixed wages are paid by the company, and 60% of executive compensation is taken at the holding company level.

With regard to the societal aspect, a supplier review was carried out via the French partner Ecovadis, which covers nearly 1/3 of the suppliers, i.e. 81 per 2.3 billion euros of the 7.8 billion euros of the purchase item. As for tax practices, we maintain a prudent opinion due to the lack of transparency and the presence of legal structures allowing the increase of cash flows in holding companies to pay dividends and certain executive committee member remunerations seem to us at risk.

In conclusion, despite the progress made in terms of transparency and addressing the most material ESG issues, we continue to monitor the stock and await the progress mentioned.

Controversies and Watch

We also engaged companies on some latent risks that may have arisen over the year as severe or major criticality controversies. The 2022 examples reminded investors of the need to monitor these risks and to engage closely with companies.

Examples of exclusion and supervision of stocks following commitments for Equity, Fixed Income and Absolute Return strategies:

Equities:

Exclusion of a stock from the energy sector at the end of October at the beginning of November following several controversies.

The company was affected by geopolitical tensions and the Russia Ukraine conflict due to its presence in the country. Serious allegations of human rights had been made following an NGO investigation. In addition, some development projects deemed to be extremely risky for the environment and biodiversity, as well as inconclusive explanations from the company, did not allow us to maintain a positive opinion on the stock. Risks related to human rights, business ethics and image risks appeared too important to maintain value. The decision to exclude it from our stock selection has been taken with the actual exit of the relevant portfolios.

Absolute Return and Rates

We have placed under surveillance a value in the agri food sector that is indirectly cited as a supplier to a distributor because of allegations that the company is supplying soybean through deforestation to a US supplier.

The engagement of the company via email and then live on one over this perceived significant controversy has de facto impacted the company's ESG rating in our model. However, the engagement enabled a better understanding of the company's positioning, response and remedial actions.

This commitment has reassured us about the seriousness with which the company addresses these issues and removed the main reluctance about our investment restrictions for Absolute Return and Rate strategies, while continuing to monitor the company.

Of particular note was the margin of progress on the environmental aspect (climate, biodiversity, certifications and labels) and the social aspect (transparency, better presentation of the KPIs) in which future developments seem positive to us.

Collaborative engagement

In 2022, Palatine AM has reinforced its collaborative commitment through its membership of the *Workforce Disclosure Initiative (WDI)*, an emanation of *Share Action* a joint venture created in 2005 by one of the largest UK pension funds (USS) and the *People & Planet Network (UK Student Group)*.

Today Share Action has expanded to include not only pension funds, but also asset managers, insurers and banks. Share share share share provides in depth research and works with institutional investors on shareholder engagement on key themes such as climate change, employee equality and healthcare.

WDI is a platform supported by 140 institutional investors for corporate labour reporting covering both direct transactions and supply chains.

It covers ten areas of labour management: Governance, risk assessment, contractual status and remuneration,

gender diversity, stability, training, well being and labour rights. The WDI applies to all business sectors and covers all geographical regions.

The initiative has generated new information from 118 of the largest listed companies. In its first three years of existence, WDI has significantly improved corporate reporting on Human Capital.

The 2022 report is available on the WDI website.

In 2022, we added twenty issuers to the 1009 list that were proposed by investors to the WDI. A total of 167 (16.55%) responded to the survey, while 126 (12.5%) refused to respond. 117 (11.60%) were approached by the WDI team with a bespoke commitment but did not reply and 53 (5.3%) were directly engaged with the WDI team or a signatory investor.

For our funds, we have provided the following table with the breakdown of the companies committed and their corresponding weight for the year in the fund. Unsurprisingly, large caps and employment oriented funds are over represented.

The breakdown by fund and commitment rate for 2022 below.

Fund	WDI engagement rate	Number of companies involved
PALATINE PLANETE	27.97%	8.00
PALATINE EUROPE SUSTAINABLE EMPLOYMENT	40.31%	11.00
PALATINE FAMILY OWNED COMPANIES	24.35%	11.00
CONSERVATIVE, SUSTAINABLE EMPLOYMENT	44.81%	11.00
PALATINE FRANCE SUSTAINABLE EMPLOYMENT	48.03%	12.00
PALATINE FRANCE MID CAP	0.00%	-
Palatine France Small Cap	0.00%	-