



# Sustainability in banking: an investor perspective

Bernard Icard  
Caisse des Dépôts \_ Proprietary Equity Investments  
*Milan, April 1st 2014*



Caisse des Dépôts et Consignations and its subsidiaries constitute a group at the service of the public interest and of the country's economic development. [...] Caisse des Dépôts et Consignations is a long-term investor.

*Article L. 518-2 of the French Monetary and Financial Code*



1

## Caisse des Dépôts fulfills public interest missions

- Manages funds held in regulated savings accounts to finance general interest projects, notably social housing,
- Manages public and semi-public pension schemes,
- Acts as public banker to the judicial and social security systems,
- Invests in regional and local development alongside local authorities,
- Acts as a long-term investor in the French economy.

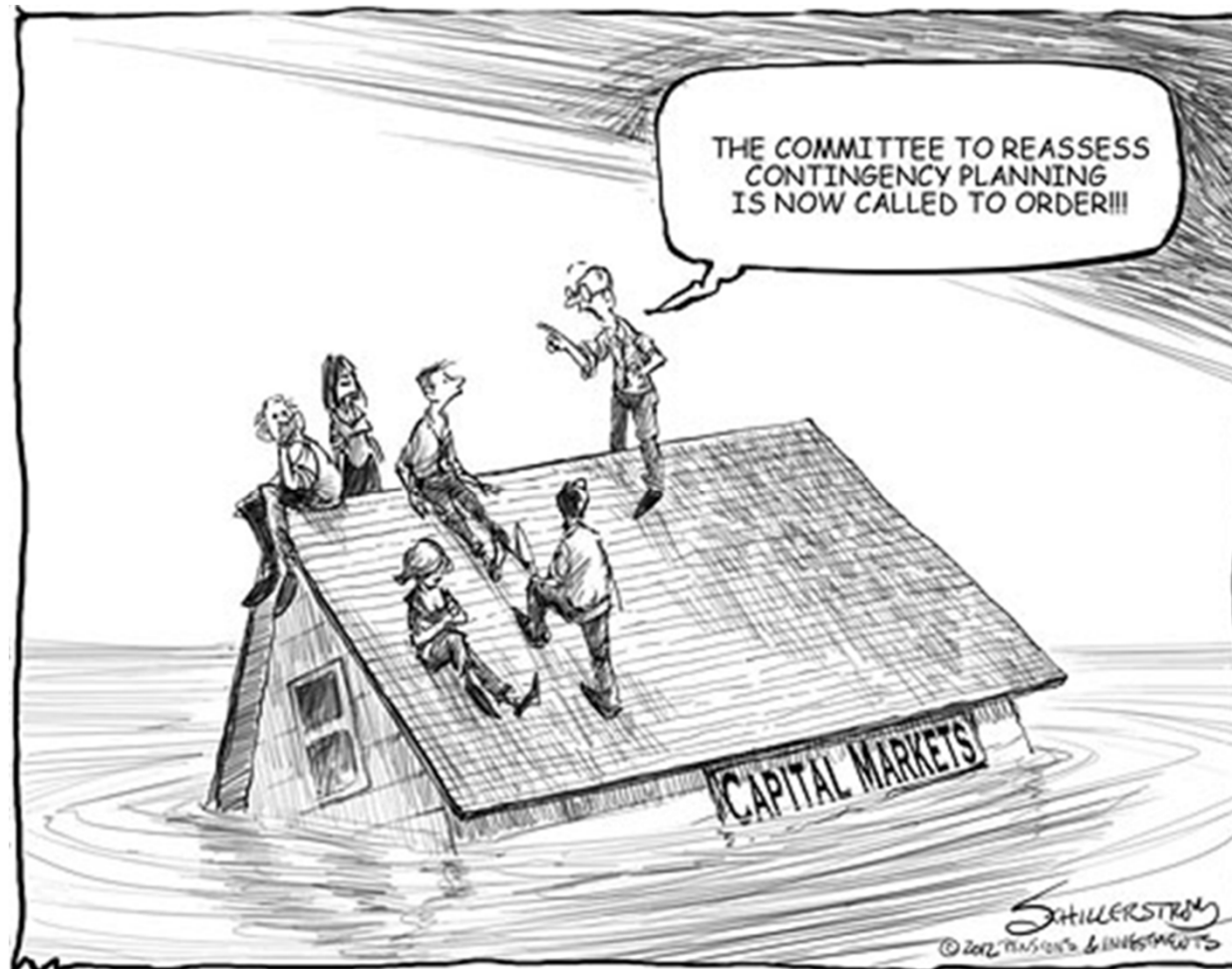
2

## Its subsidiaries contribute to national economic development

- Housing and real estate
- Private equity
- Public transportation and infrastructures
- Patents and licenses
- Environmental services
- IT projects
- Leisure and tourism
- Urban planning and engineering
- Insurance: CNP Assurances

### Key figures

- ❑ Equity : **€ 23.7 billion**
- ❑ Consolidated assets (except saving funds) : **€287 billion**
- ❑ Saving funds managed by Caisse des Dépôts : **€269.5 billion**
- ❑ Rating (07/31/2013) : **AA+ (Fitch) / Aa1 (Moody's) / AA+ (S&P's)**
- ❑ **138,196** employees
- ❑ **25 regional offices** in France , a footprint **>80 countries**



- ✓ **Contribute to our legal mission of Public Interest**
- ✓ **Optimise risk/returns over a long term horizon**
- ✓ **Contribute to implementation of public sustainability policies**
- ✓ **Exercise our responsibilities towards business counterparts**

- **Incorporation of ESG:**

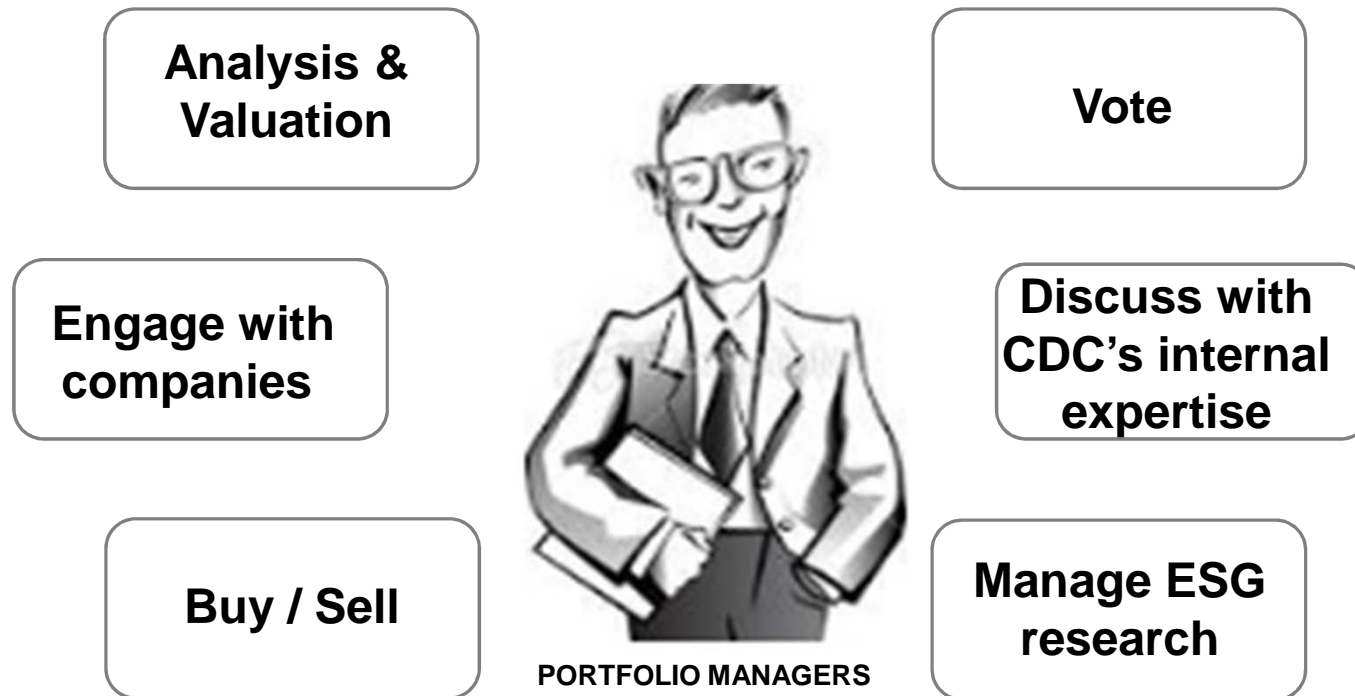
- For every investment decision
- Focus on materiality over long term investment performance and social value-creation

- **Active dialogue over a long term horizon:** monitor ESG issues and engage with investee company/project to improve practices, through votes and bilateral dialogue

- **Limited set of exclusions based on international norms:** sector based exclusions + country based exclusions when serious and sustained lack of concern for international law

Target: tailored implementation to 100% of investment portfolio

# An integrated organizational approach



**Share- and bondholder  
≠ Investor**





## POLICY AND PRINCIPLES

- RI Charter

Signatory of:



## INCORPORATION INTO INVESTMENT PROCESSES

- Asset Class RI processes
- Voting guidelines

## DEVELOPING CAPABILITIES & INCENTIVES

- Performance criteria for individual bonuses
- Training
- Cross fertilizing

## REPORTING

- Internal and external reporting on implementation
- Assessment and improvement of practices

## PROMOTING RI

- Academic and field research
- Dialogue with policy makers

L  
I  
S  
T  
E  
D  
  
E  
Q  
U  
I  
T  
Y

Selection of most material ESG issues:

- Qualitative analysis vs peers
- Systematic ESG opinion in investment documentation

ESG taken into account on a case-specific basis

ESG discussion  
Incorporation into benchmark portfolio composition

ESG follow-up of every holding

Vote

Engagement: systematic in o/o meetings with management

Annual ESG scoring of portfolio vs. sector benchmark

ESG analysis

Investment decision

Investment monitoring

F  
I  
X  
E  
D  
  
I  
N  
C  
O  
M  
E

Selection of most material ESG issues :

- Qualitative analysis vs. peers
- Quant. analysis (KPIs) vs. proprietary sector benchmark
- Systematic ESG profile in investment documentation

ESG taken into account on a case-specific basis

ESG incorporated by Risk Dept. to define exposure limits

ESG follow up of every issuer (implementation in progress)

Annual ESG scoring of portfolio

ESG follow up by Risk Dept.



## Banking sector: strong focus on Governance

### Governance structure

- Separation between supervision/control and execution
- Board composition: independence, skills, diversity
- Board access to information

### Management compensation

- Detailed disclosure of remuneration policy ( incl. performance criteria)
- Detailed disclosure of effective remuneration components
- Independence and accountability of Remuneration Committee
- Deferred remuneration

### Shareholder rights

- No or limited anti-takeover measures
- Justification of capital increase resolutions
- Overall quality of financial, strategic, sustainability reporting

### Risk management

- Independent audit committee and risk-management structure
- Quality of investment and control procedures
- Quality of reporting

## Salesforce incentives and skills

- Incentive policy:
  - Reasonable
  - Qualitative customer satisfaction indicators
  - No incentive on volumes or specific products
- Performance/trend of customer satisfaction rates
- Training on compliance issues

## Tax havens

- No subsidiary in OECD/French Treasury list of tax havens

## Litigation

- Quality of disclosure on litigation on ethical/compliance matters

## Mainstream product line

- Sector guidelines: precise guidelines, detailed disclosure
- Project finance: Equator Principles
- Lending activities: international norms and guidelines
- Asset management: SRI-oriented products

## Access-to-finance

- Micro credit & micro insurance
- Consumer lending: monitor clients' borrowing capabilities

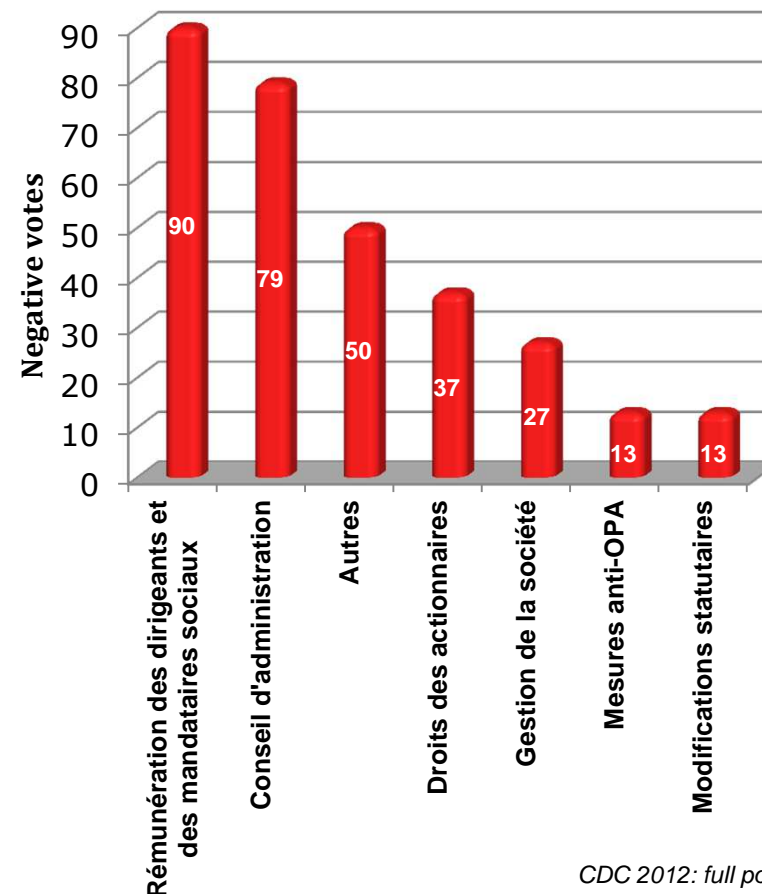
## Incentives

- ESG performance criteria in middle-management and sales force compensation

## Examples of engagement in banking sector

- Management compensation:
  - Detailed disclosure
  - Comments by Remuneration Committee
  - ESG criteria
- Disclosure of compensation for specific investment banking and capital markets staff
- Separation between chairman and CEO functions
- Dedicated ESG committee within Board
- Efficiency of control procedures
- Class action risk on misselling

## Breakdown of negative votes



✓ CDC Corporate Governance Principles are made public

[http://www.caissedesdepots.fr/fileadmin/PDF/03\\_developpement\\_durable/principes\\_generaux.pdf](http://www.caissedesdepots.fr/fileadmin/PDF/03_developpement_durable/principes_generaux.pdf)

## INVESTOR

- ESG difficult to incorporate into valuation
- Analysis efficiency limited by poor or box-ticking disclosure
- Limited time on ESG in o/o meetings
- Patience and constructive dialogue not acknowledged:
  - by investee banks
  - by NGOs and activist peers

## BANK

- Concern over detailed disclosure
- CSR organized away from governance, strategy, IR, and operations
- Limited executive commitment and responsibility
- Perception of limited market recognition of CSR efforts

- Disclosure remains a challenge
- But improving strategic analysis and disclosure of material ESG issues

## ALIGNMENT

Strategy

Roadshows

Shareholder meeting resolutions

Annual report

CSR report

- Training of directors and executives on CSR
- Need for CSR dialogue with major long term investors



Thank you

**Appendix:  
contacts & references**





**Helena Charrier**

Responsible Investment Project Director

Tel: + 33 (0)1 58 50 70 91

[helena.charrier@caissedesdepots.fr](mailto:helena.charrier@caissedesdepots.fr)

**Bernard Icard**

Head of Proprietary Equity Investments

Tel: + 33 (0)1 58 50 22 42

[bernard.icard@caissedesdepots.fr](mailto:bernard.icard@caissedesdepots.fr)

**Antoine Beaugendre**

Portfolio Manager Equities

Tel: + 33 (0)1 58 50 24 67

[antoine.beaugendre@caissedesdepots.fr](mailto:antoine.beaugendre@caissedesdepots.fr)

**Dominique St Yves**

Portfolio Manager Fixed-income

Tel: + 33 (0)1 58 50 22 06

[dominique.saint-yves@caissedesdepots.fr](mailto:dominique.saint-yves@caissedesdepots.fr)

- OECD Guidelines for Multinational Enterprises  
([http://www.oecd.org/department/0,3355,en\\_2649\\_34889\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1_1,00.html))
- OECD Anti-Bribery Convention  
([http://www.oecd.org/department/0,3355,en\\_2649\\_34859\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html))
- OECD Principles of Corporate Governance  
([http://www.oecd.org/document/49/0,3746,en\\_2649\\_34795\\_31530865\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/49/0,3746,en_2649_34795_31530865_1_1_1_1_1,00.html))
- UN Global Compact (<http://www.unglobalcompact.org>)
- The Universal Declaration of Human Rights  
(<http://www.un.org/en/documents/udhr/index.shtml>)
- ILO Declaration on Fundamental Principles and Rights at Work  
(<http://www.ilo.org/declaration/thedeclaration/lang--en/index.htm>)
- The Rio Conventions (<http://www.cbd.int/rio/>)
- The UN Convention Against Corruption  
(<http://www.unodc.org/unodc/en/treaties/CAC/index.html>)

- Proprietary documentation :
  - CDC Group Responsible Investment Charter  
[http://www.caissedesdepots.fr/fileadmin/PDF/03.\\_developpement\\_durable/charte\\_responsible\\_investement\\_CDC\\_GB.pdf](http://www.caissedesdepots.fr/fileadmin/PDF/03._developpement_durable/charte_responsible_investement_CDC_GB.pdf)
  - CDC Governance Principles for Listed Companies  
[http://www.caissedesdepots.fr/fileadmin/PDF/03.\\_developpement\\_durable/principes\\_generaux.pdf](http://www.caissedesdepots.fr/fileadmin/PDF/03._developpement_durable/principes_generaux.pdf)
  - Annual Responsible Investment Report  
[http://www.caissedesdepots.fr/fileadmin/PDF/03.\\_developpement\\_durable/Rapport\\_IR\\_2011-2012.pdf](http://www.caissedesdepots.fr/fileadmin/PDF/03._developpement_durable/Rapport_IR_2011-2012.pdf)
  - Novethic : [www.novethic.fr](http://www.novethic.fr)
  - Novethic study on CSR communication in the financial sector  
[http://www.novethic.fr/novethic/upload/etudes/Etude\\_RSE\\_bancassurances.pdf](http://www.novethic.fr/novethic/upload/etudes/Etude_RSE_bancassurances.pdf)
- Long Term Investors Club Charter : <http://www.ltic.org/-Beliefs-objectives-.html>
- Principles for Responsible Investment : [www.unpri.org](http://www.unpri.org)