

FRR

Fonds de réserve pour les retraites

The French Pensions Reserve Fund and its SRI Strategy

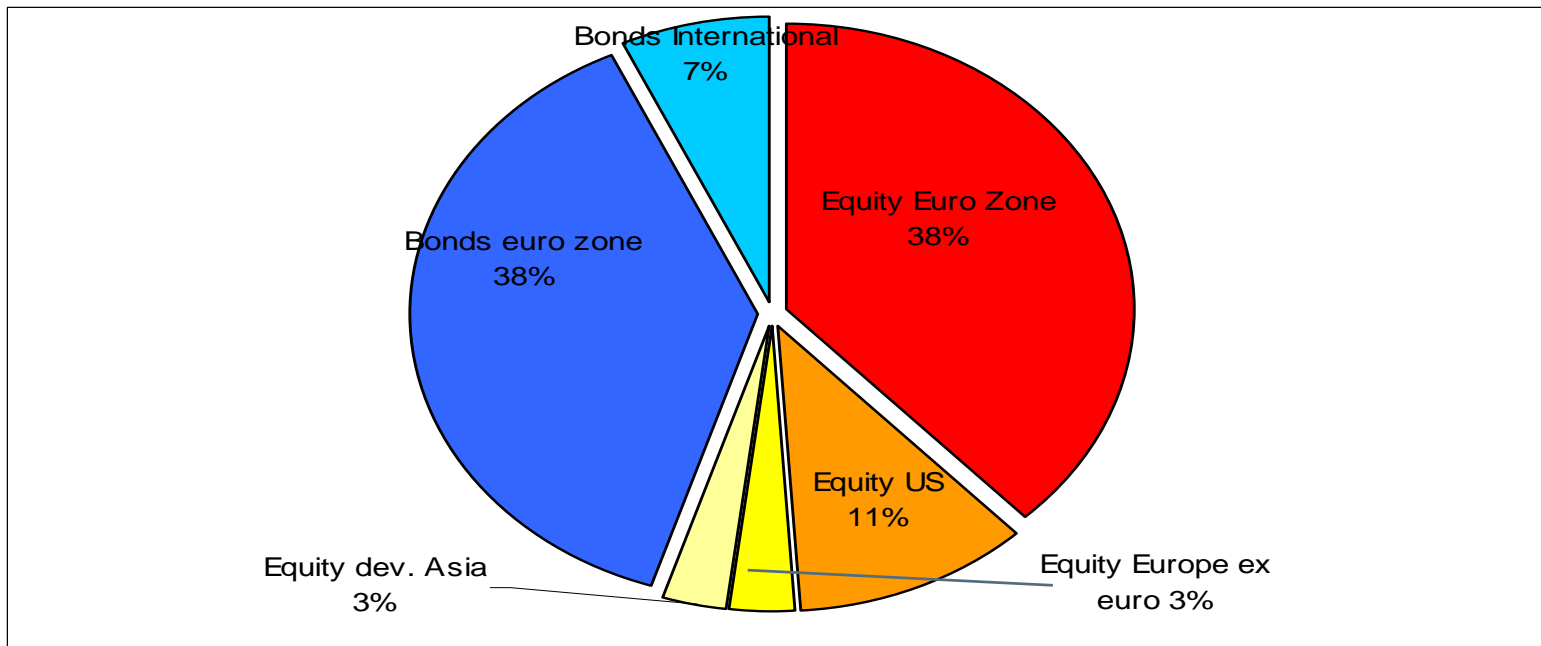
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The French Pensions Reserve Fund : MISSIONS & IDENTITY

- FRR is a state-funded administrative agency under the auspices of the French Government (Act July 17th, 2001).
- FRR is governed by an Executive Board and a Supervisory Board
- The aim of the Fund is to invest its financial resources, making the accrued resources gradually available to retirement plans in 2020 onward
 - *Reserves: 19.4 bn euros (end 2004), 24 bn euros expected (end 2005)*
 - *No liabilities constraints*

● Asset Allocation and Portfolio Structure :

- Final objective : reach the highest rate of return under the risk budget set by the Supervisory Board and the law.
- The strategic allocation : 55% equities 45% bonds and highly diversified investment universe- Introduction of PE in 2006



● Building the Portfolio structure

- Specialized Mandates ranging from purely indexed portfolios to highly active ones (36 mandates / 12 specialized strategies)
- Relative risk budgeted according to market inefficiencies
- Overlay management : foreign currency hedging and TAA
- Transition manager
- Asset management fully externalized : more than 20 asset managers selected via call for tenders from initials 410 applicants.
- A process placed under the "European and French regulation on public tendering"
- An independent Asset Manager Selection Committee

The initial portfolio structure

Strategic allocation	Strategic allocation	Asset class	Sector	actif passif	Tracking Error	Mandate Size €mn	M	Manager Weight	size	Actif Weight	Back up	nb yr			
EURO EQUITY	38,00%	euro large	18,8%	passif	0,5%	1000	1	6,25%	3000	6,3%	1	3	F		
				passif	0,5%	1000	2	6,25%		6,3%					
				passif	0,5%	1000	3	6,25%		6,3%					
		euro mid/small	3,8%	actif	10,0%	actif	10,0%	200	4	1,25%	600	1,3%	1	5	V 0,9%
				actif		10,0%	200	5	1,25%	1,3%					
				actif		10,0%	200	6	1,25%	1,3%					
		euro large	15,5%	actif	5,0%	actif	5,0%	620	7	3,88%	2480	3,9%	1	4	F
						actif	5,0%	620	8	3,88%		3,9%			
						actif	5,0%	620	9	3,88%		3,9%			
actif	5,0%					620	10	3,88%	3,9%						
NON-EURO EQUITY	17,00%	US large US mid US large growth US large value	11,0%	passif	0,5%	640	11	4,00%	1760	4,0%	1	3	F		
				actif	8,0%	200	12	1,25%		1,3%				5	V(0,9%)
				actif	10,0%	460	13	2,88%		2,9%					
				actif	7,0%	460	14	2,88%		2,9%					
		Europe Non-Euro	3,0%	actif	5,0%	actif	5,0%	240	15	1,50%	480	1,5%	1	4	F
						actif	5,0%	240	16	1,50%		1,5%			
Pacific Basin	3,0%	actif	8,0%	actif	8,0%	240	17	1,50%	480	1,5%	1	4	F		
				actif	8,0%	240	18	1,50%		1,5%					
EURO FIXED INCOME	38,00%	Euro bonds (aggregate)	36,0%	actif	2,0%	960	19	6,00%	5760	6,0%	1	4	F		
				actif	2,0%	960	20	6,00%		6,0%					
				actif	2,0%	960	21	6,00%		6,0%					
				actif	2,0%	960	22	6,00%		6,0%					
				actif	2,0%	960	23	6,00%		6,0%					
				actif	2,0%	960	24	6,00%		6,0%					
NON-EURO FIXED INC.	7,00%	Index Linked bonds (Euro) (non-Euro)	3,0%	actif	1,5%	480	25	2,00%	480	3,0%	1	4	F		
				actif	1,5%			1,00%							
		ex-Euro bonds (aggregate)	6,0%	actif	2,0%	480	26	3,00%	960	3,0%	1	4	F		
				actif	2,0%	480	27	3,00%		3,0%					
	100%		100,0%			16000	27	100,00%	16000	100,0%	12				

Socially Responsible Investment

OVERVIEW

- Legal Environment Social and Governance (ESG) Obligations
- Beyond legal obligations
 - o Exercise voting rights
 - o ESG in current traditional Mandates
 - o Specialized future SRI Mandates

Legal Obligation : THE LEGISLATOR CAUTIOUSNESS

- *«The Executive body should report annually to its Supervisory Board the way ESG issues are taken into account in asset management».* **Art. L. 135-8**

- *«The Fund's Managers exercises voting rights for the sole purpose of safeguarding the Fund's Interest».* **Art. R. 135-29**

Beyond Legal Obligation : GENERAL PHILOSOPHY

- The FRR acts in the interest of the community : it seeks to maximize profits for future retirees under its risk constraints. However profits must not be generated at the cost of negative environmental and social externalities for the community.
- The FRR must have investment policies that is consistent with communal values that promote balanced economic social and environmental development

Beyond Legal Obligation : EXERCISE VOTING RIGHTS

Executive Board guidelines :

- The FRR systematically exercises its shareholder's rights via its asset managers
- Elaboration of own voting policy guidelines (published on website: www.fondsdereserve.fr).

Beyond Legal Obligation : ESG in current traditional Mandates

➤ Promote Asset managers best practices aimed at taking into account ESG issues in the investment process

Current application : European mandates AUM = 3 billions euros. 8 asset managers who's process is not necessarily known to be SRI's

➔ Proposed Referential : UN Global Compact

➔ 4 commitments taken: a)- research and analysis ;

b)- improve management process ; c)- reporting and

transparency ; d)- partnership with the FRR on ESG issues

Beyond Legal Obligation : Specialized future SRI Mandates

- **New SRI Mandates : An experimental approach**
 - Built on the FRR philosophy on one hand and on the absence of a robust correlation between financial performance and SRI ; Positive alpha is for the moment only an intuition
 - “Best in Class” selection process with variable level of relative risk to allow for a diversity of management styles, long term management (5 years mandates)
 - Pan-European Equity mandates : 3 to 5 mandates + stand by
 - Amount to be allocated : initial allocation close to 600 millions €

NEW SRI CALL FOR TENDERS

- FRR Investment Principles take into account :
 - Respect of international laws and conventions
 - Development of employment and human resources management
 - Responsibility toward environment
 - Respect of consumer interests and fair market conditions
 - Promotion of good corporate governance