

FONDS DE RÉSERVE POUR LES RETRAITES

The Supervisory Board

RESOLUTION ON THE BROAD GUIDELINES FOR INVESTMENT POLICY

The Supervisory Board of the French Pensions Reserve Fund (*Fonds de Réserve pour les Retraites, FRR*),

In view of the Executive Board's recommendations presented to the Supervisory Board at its meetings of 5 March and 2 April 2003,

- Whereas the objective of the FRR is to contribute to financing the relevant pay-as-you-go pension schemes in the future ; and the reserves accumulated by the Fund by the year 2020 shall especially enable to smooth out the expected impact of anticipated demographic trends on the financing needs of these schemes at this stage ;
- Whereas the FRR has a long-term investment horizon; and the Supervisory Board reaffirms its commitment up to 2020, upon which the French Law of 17 July 2001 makes it possible to draw on the Fund to help finance eligible compulsory pension schemes ; and the disbursements rythm is a key element in defining the investment policy and, as a consequence, the Supervisory Board agreed with the technical hypothesis used by the Executive Board of a linear disbursement plan over the ten years following 2020, while underlining the fact that a longer payout hypothesis extending over twenty years may be appropriate ; and, furthermore, a long-term strategy for regular lump sum payments to the Fund is required in order to adapt its investment policy in the best possible conditions ;
- Whereas the FRR investment policy should aim at optimising by the year 2020 the investments return in the best possible safety conditions and under the risk constraints stated below ; and through its implementation the Fund will contribute to financing economic agents, especially companies, and thus it will help strengthening their long-term growth prospects, the sustainable creation of wealth and the expansion of employment ;
- Whereas the FRR acts in the community interest ; and under these conditions its investment policy has to comply with a number of community values which promote a balanced economic, social and

environmental development ; and in this regard, and within the broad guidelines of the investment policy drawn up by the Supervisory Board, the Executive Board shall actively participate in promoting best practices whose purpose is to foster the application of these values by asset managers in their financial analysis and the transparency of corporate governance ; and on this last point, the French decree of 19 December 2001 stipulates that voting rights be exercised by the Fund's agents in the sole interests of the Fund ; and the Fund plans to define the principles that the asset managers must follow when they participate in general shareholders' meetings of the companies in which the Fund has invested ; and following the example undertaken in some foreign reserve funds, the Fund may invest in mutual funds specialised in the various segments of socially responsible investment ; and the Supervisory Board attaches a particular importance to regular reporting from the Executive Board on its efforts to make these aspects a part of the Fund's investment policy;

- Whereas it is the Supervisory Board's responsibility to define the broad guidelines of the investment policy ; and these guidelines must describe the portions allocated to the principal categories of financial instruments from a strategic perspective, according to the FRR's objectives and characteristics ; and these guidelines are meant to be modified over time as the FRR's investment horizon changes ; and moreover, they may be revised, on the Executive Board's recommendations, if new assets are added to the Fund's investment portfolio or if the principal hypotheses on which they were built should be reviewed; and the Fund's investment policy shall maintain a margin of flexibility in the strategic target allocation decided by the Supervisory Board depending on market fluctuations and short-term expectations for trends in economic and financial developments ; and it is incumbent on the Executive Board, especially when defining management mandates, to choose the way this flexibility shall be shared between itself and the asset managers acting on behalf of the FRR ; and the Executive Board shall report on a regular basis to the Supervisory Board on the way it has used this flexibility ;
- Whereas the Executive Board's recommendations in respect of investment allocation lie on the need to limit the probability of a nominal capital loss over the Fund's investment horizon ; and the objective, which is shared by the Supervisory Board, to optimise long-term return does not preclude possible significant short-term fluctuations over the FRR portfolio's asset value ;
- Whereas, in order to build its strategic allocation proposal, the Board has leant on a financial and macroeconomic model partly excluding some previously recorded returns ; and thus that the possible consequences of demographic ageing process upon the macroeconomic developments in industrialized countries and the evolution of financial markets have been taken into account ; that the Supervisory Board is willing to do so ;

- Whereas the Law allows the FRR to invest a proportion of its assets in securities issued or traded outside the euro zone ; that regulations applying to the FRR have limited the portion of equities from companies head-quartered outside the European Economic Area to 25 % ; that those regulations have also limited the FRR portfolio potential exposure to exchange risk to 20 % ; that investments outside the euro zone should be conceived with a view to portfolio diversification as a way to minimize risk, and to reach a higher financial return in geographical areas that are likely to be less affected by macroeconomic effects of the demographic ageing process on the long term.

Has decided the following general guidelines for the investment policy of the FRR :

1. The Supervisory Board approves the list of assets which may be included in the FRR's initial invitation to tender, and which appears in the annex to this Resolution. This list may be modified by the Supervisory Board at its future meetings on the Executive Board's recommendation.
2. Through asset managers selected as a result of a tendering process, the Executive Board is allowed to gradually invest, depending on market conditions, the Fund's reserves in the principal asset classes based on the following target allocations :

Financial instrument	Target investment allocation
Total Equities	55%
Euro zone equities	38%
International equities	17%
Total Bonds	45%
Euro zone bonds	38%
International bonds	7%
Total	100%

3. The Supervisory Board takes note that the allocation of international assets by geographic area shall take into account the relative weight of these markets in the total market capitalisation of those assets outside the euro zone.
4. This investment allocation constitutes a medium-term benchmark. It may be modified by the Supervisory Board on the Executive Board's recommendation.
5. To ensure an efficient tactical management, the Executive Board shall maintain a margin of flexibility on the target investment allocation as determined by the Supervisory Board. The

Executive Board shall recommend to the Supervisory Board, at its next meeting, a precise definition of this margin of flexibility. In addition, it will inform the Supervisory Board of the procedures planned for using this margin of flexibility, especially through the management methods contained in the tender specifications.

6. The Executive Board shall inform the Supervisory Board of the principles that it intends the management firms to use in exercising voting rights in general shareholders' meetings and these will be defined in the tender specifications.
7. The Executive Board shall report regularly, and at least once every six months, on how it is implementing this investment policy, its results and, in particular, on its allocation by asset class.
8. This resolution shall be made public.

ANNEX

LIST OF ASSET CLASSES WHICH MAY BE INCLUDED IN THE FRR'S INITIAL INVITATION TO TENDER

- Money market instruments in the euro zone (negotiable debt securities or money market funds denominated in euros).
- Equities listed in the euro zone. These are shares of companies whose head office is located in one of the countries in the European Economic Area and quoted in euros. They include large-cap stocks (companies whose market capitalisation normally exceeds €3bn) and mid-cap stocks (those whose market capitalisation ranges from €500m to €3bn).
- Sovereign and quasi-sovereign debt instruments of the euro zone. These are sovereign bonds traded or listed on a regulated market of the euro zone and denominated in euros. It includes inflation-linked bonds, indexed to either the euro zone or French inflation.
- Non-sovereign bonds of the euro zone issued by an issuer whose long-term credit rating is investment grade (rating of at least BBB- for Standard and Poor's and Fitch or Baa3 for Moody's)¹.
- International listed equities from Europe outside the euro zone, North America, Asia excluding Japan, and Japan.
- International sovereign bonds from Europe outside the euro zone, North America and Japan. Sovereign bonds of emerging market countries shall be excluded from the initial invitation to tender.
- Non-sovereign international bonds issued by an issuer whose long-term credit rating is investment grade (rating of at least BBB- for Standard and Poor's and Fitch or Baa3 for Moody's) from North America and Europe outside the euro zone².
- Private equities including unlisted equities, shares of venture capital/innovation funds ("FCPR"/"FCPI" in French), and shares of unlisted property unit trusts or REITs.

¹ "High yield" bonds issued by an issuer whose long-term credit rating is of speculative grade shall be excluded from the initial invitation to tender (a rating below the aforementioned threshold).

² "High yield" bonds issued by an issuer outside the euro zone whose long-term credit rating is of speculative grade shall be excluded from the initial invitation to tender (a rating below the aforementioned threshold).