FONDS DE RESERVE
POUR LES RETRAITES

ANNUAL REPORT 2009

INVESTING TODAY FOR TOMORROW'S RETIREMENTS

FONDS DE RÉSERVE POUR LES RETRAITES
2009 ANNUAL REPORT

Contents

Message from the Chairmen of the Supervisory and Executive Boards

In the aftermath of 2008 which, due to the brutality of the financial crisis, wiped out four and a half years of positive results, the FRR has, as had already been planned, undertaken a thorough review of the pillars of its financial strategy. An in-depth technical analysis was carried out which has informed the rich debate and reflection of the FRR's governing bodies. The new strategic asset allocation at the end of this process in June 2009 does not constitute a departure from the FRR's identity as a long-term investor. With no liquidity constraints, and therefore being in a position to take advantage of the extra performance expected in the long-term from equities, the FRR has chosen to conserve a substantial proportion of performance assets, whose volatility is greater, based essentially on the "return to mean" phenomenon.

"It is in seeing its role in the perspective of long-term consolidation of the system, that the nation as a whole will get the best out of the FRR."

This fundamental decision which had already underpinned the positions taken in Autumn 2008, has today been proved correct by the results in 2009. With a financial performance of +15% over the year, the FRR has made up almost 2/3 of the losses made in 2008. And its annualised performance, from the start, very slightly positive at the end of 2008 (+0.3%) has climbed to +2.8%.

Whilst maintaining this course, new measures have been introduced to offer more dynamic management of the strategic allocation more suited to markets that remain very uncertain: widening the margin of fluctuation around the benchmark weighting (60%) of performance assets (equities, real estate, commodities): quarterly review of exposure with recommendations from the Strategic Investment Committee, a sub-committee of the Supervisory Board widened to include outside experts.

The FRR has also deliberately factored into its asset allocation risk profile, the imperative that the initial investment entrusted to it by the nation has to be redeemed between 2020 and 2040.

Raoul Briet
Chairman of the Supervisory Board

Augustin de Romanet
Chairman of the Executive Board

The "rendez-vous 2010" which should culminate in the introduction of structural measures to reform our retirement system, is the right occasion for the government to clearly state, above and beyond the technical measures mentioned above, what it is that the nation as a whole expects from the FRR. In other words, how this specific leverage may, in years to come, be used to complement the permanent structural leverage measures designed to balance the system.

This debate opens against a background where the crisis has substantially increased the immediate funding requirements of the retirement system. But whilst this has compounded the economic problems, it has not made the long-term demographic challenges disappear, especially the impact that the gradual march towards the age of retirement – until around 2035 – of the post-war "baby boom" generations will have on our system. It is in seeing the role of the FRR in the perspective of long-term consolidation of the system, that the nation as a whole will get the best out of the FRR.

Profile and key figures

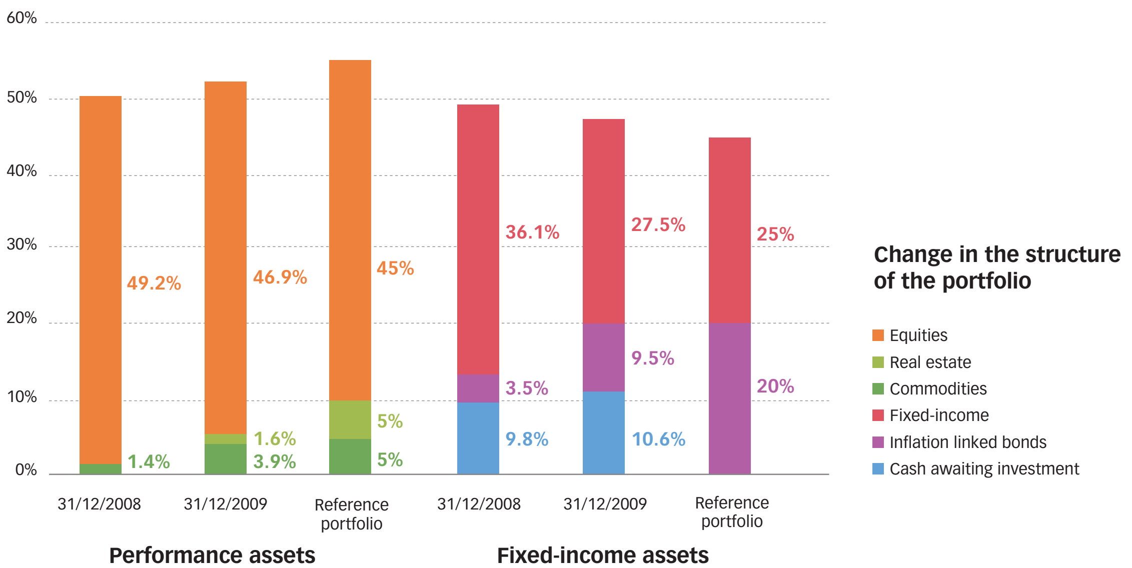
Set up in the early 2000's, the FRR (Fonds de réserve pour les retraites) is a public agency dedicated to ensuring the long-term viability of the French pension system.
Its role, as of 2020, is to cover a significant portion of the funding needs of basic pension plans for employees in the private sector, as well as self-employed craftspeople and retailers, through optimal management of the public resources entrusted to its care.

€29.1 billion
Total amount of public funds entrusted to the FRR as at 31/12/2009

€33.3 billion
The FRR's total assets as at 31/12/2009

+2.8%
Annualized asset performance since inception

+15%
2009 performance



The 2009 FRR annual report is also available on the website www.fondsdereserve.fr

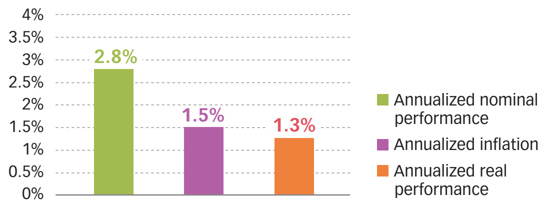
2009, year of the rebound

The strong rebound of the markets allowed the FRR to recover quickly in 2009. The FRR's net assets at 31st December 2009 totalled 33.3 billion euros, putting the seal on a performance of +15% over the year. This growth touched all asset classes all of which recorded positive gains, whether equities, bonds or commodities, marking an exceptional year where an influx of liquidity and less aversion to risk sustained the financial markets.

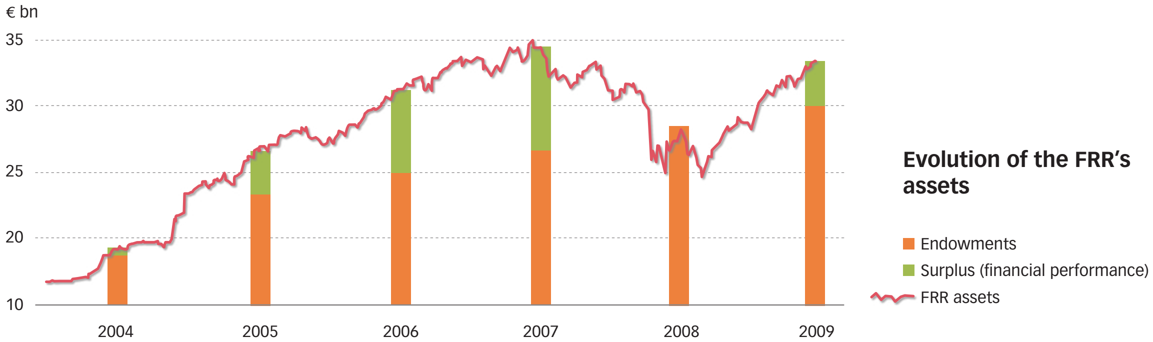
Performance of +15% in 2009

After losses of 25% in 2008, the 15% rebound in 2009 enabled the FRR to recover a very substantial part of the depreciation recorded during the crisis. Net assets at year-end are slightly more comfortably above cumulative endowments adjusted for inflation (namely 32.1 billion euros). It should be noted that the crisis has also had a direct impact on endowments received in 2009. These were limited to 1.4 billion euros in 2009, as against 1.9 billion in 2008.

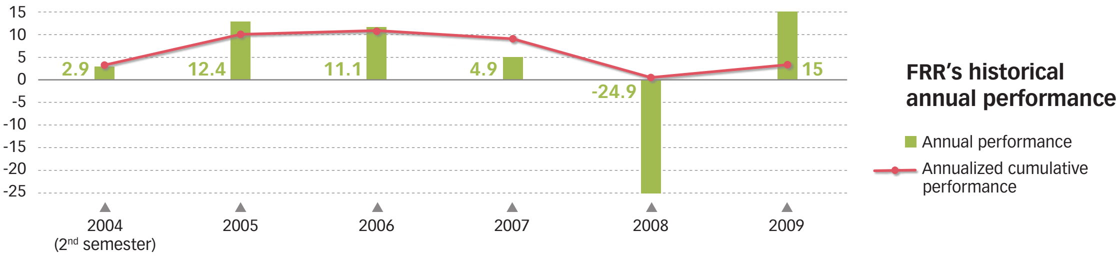
The FRR's performance since its creation at 31/12/2009



Annualised performance since the start of management operations continues to recover, reaching +2.8% per annum since June 2004. In real terms (adjusted for average inflation of 1.5% over the period), it equals 1.3%, which is still far from the FRR's expected real performance over the medium term (4.3% in the strategic allocation).



Evolution of the FRR's assets



An exceptional year on the "risky" assets markets

Following a chaotic opening to the year, the financial markets rebounded strongly, under the combined effect of a return to a more normal liquidity situation, an improvement in the perception of risk and a recovery in economic activity.

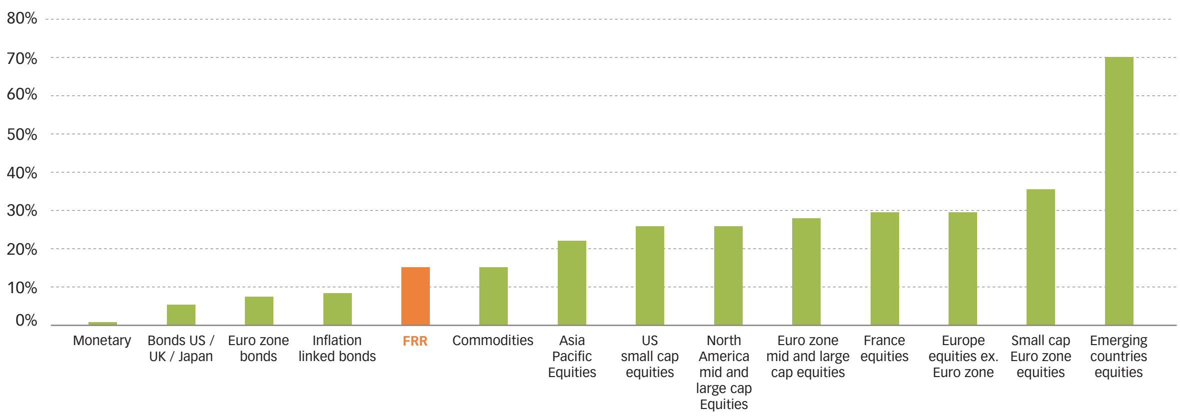
The huge support provided by the central banks led to a normalisation of banks' short-term financing conditions. Also, the open willingness of the monetary authorities to provide support throughout the recovery period by maintaining interest rates at durably low levels stabilised, then sustained all of the financial markets.

The combination of major efforts by the public authorities on two fronts – bailing out financial institutions and implementing a series of fiscal stimulus packages – provided a glimpse of possible macro-economic stabilisation, thus lifting, at least partially, the fear of deflationary risk.

Since the spring of 2009, economic recovery has been in motion. First, the US real estate sector stabilised, the economic growth of the Asian emerging countries hardly dipped and corporate results were encouraging. The global cyclical recovery accelerated in the second semester, in particular in the manufacturing sector.

Consequently, all of the FRR's main asset classes recorded a positive performance over 2009 – and especially the most risky assets. Equity markets have rebounded very markedly since the month of March – the MSCI World Total Return index in local currencies went up by 30.0% over the year. The credit market also recorded a historic level of performance thanks to the considerable contraction of interest rate spreads – the European credit index "IBOXX Euro Total Return All Corporate" increased by 28.4% over the year. As for commodities, these increased by 13.2%.

Performance chart from 31 December 2008 to 31 December 2009



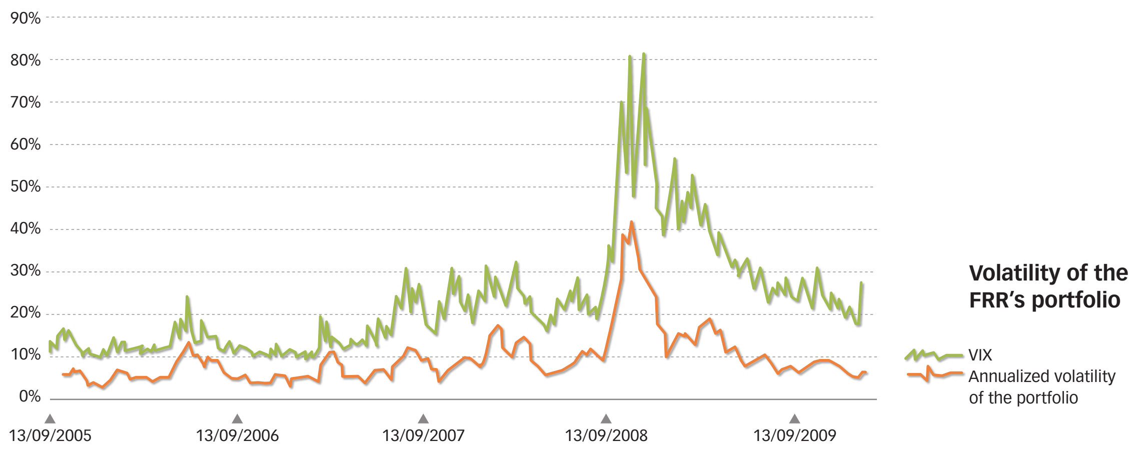
In exact contrast to the period of crisis, the most risky assets or assets showing significant falls during this period, have performed the best, as shown by the increases of 72.5% for emerging equities[1] or 89.3% for Euro Zone financials[2] and the increase of 65.5% for European high-yield credit.

This environment was less favourable to sovereign bond markets. Rates had achieved historically low levels at the worst stage of the crisis, under the combined effect of the flight to quality and massive liquidity injections. This trend reversed with the prospect of an economic recovery and the rapid deterioration of public finances. But the effect was limited: interest rates remain at relatively low levels, in the order of 3.7% for US 10-year rates and 3.2% for Euro Zone 10-year rates.

1/ MSCI Emerging Markets Total Return in local currencies
2/ MSCI Financials Euro index

Evolution of the "performance assets" compartment

Evolution of the bonds compartment



Volatility of the FRR's portfolio

"The decrease in volatility that has been seen must not, however, lead us to assume that all risk has disappeared in the forthcoming quarters."

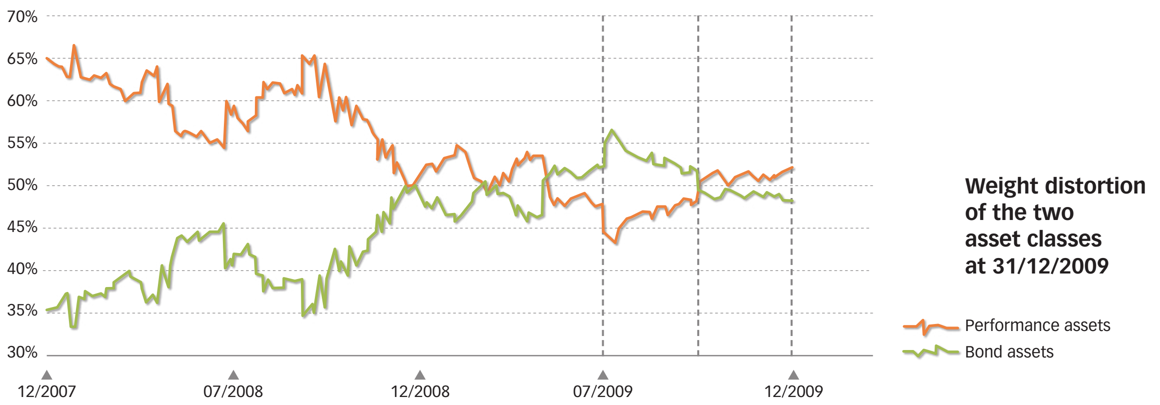
A steady improvement in risk indicators

Normalisation of the markets was also demonstrated by a steady decrease in the volatility levels of the most risky assets.

This improvement led to a relaxation of the FRR's **short-term risk** indicators. The volatility of the FRR's portfolio was noted to have returned to well below 10% as from the middle of the year, influenced by the lessening volatility of the equities markets and the reduction in the weight of risky assets following the strategic allocation review. It must not be assumed, however, from this progressive return to normality that all risk has disappeared in the forthcoming quarters.

As regards **long-term risks**, these are measured by reference to the estimated capacity of the FRR to meet its long-term liabilities (i.e. to repay at least the endowments received, adjusted for inflation, between 2020 and 2040). More specifically, the long-term risk indicator is assessed by reference to the residual value of the FRR in 2040 – once all liabilities have been paid – in the 5% worst case scenarios. These metrics improved slightly during the second semester of 2009. The FRR's asset allocation at year-end 2009 is estimated at a residual surplus of around 6 billion constant euros (11 Bn nominal euros) – in other words, therefore, a slight gain compared to the position in June when the surplus was around 4 billion constant euros (7.5 billion nominal euros).

This improvement is attributable in particular to the FRR's recovery in 2009 which enabled it to make up some of the lost ground suffered in 2008. If this were to continue in the same vein in the coming quarters, it would enable the FRR to increase the weight of performance assets in the portfolio – or alternatively to crystallise a higher level of liabilities than that decided in June 2009. These aspects will be looked at in detail during the annual strategic asset allocation review in 2010.



Weight distortion of the two asset classes at 31/12/2009

Gradually less defensive asset allocation

Dynamic strategic asset allocation management

Asset allocation – at its most global level – has experienced two different phases.

The defining characteristic of the direction taken in the first half of the year was prudence – as a result firstly of the decision of the Supervisory Board at the end of November 2008 to allow the assets to follow their path (with no monthly rebalancing of strategic asset allocation weights) and not to invest the endowments received; secondly, of a reduction of exposure to the equities markets in May 2009.

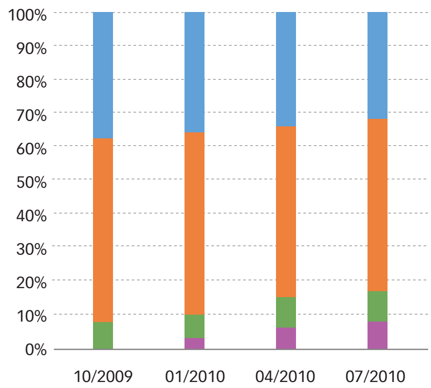
The weight of performance assets (listed equities, private equity, real estate, commodities) in the FRR's portfolio gradually fell to reach around 48% at the end of June 2009.

The changes shown since 1st July 2009 reflect the decisions taken in light of the advice offered by the new Strategic Investment Committee (ISC), which met three times.

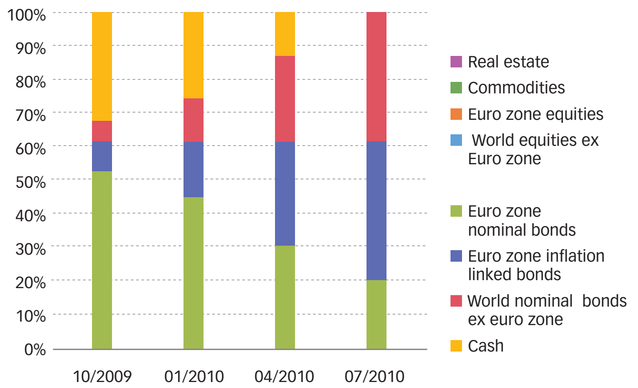
At 31 December 2009, due to the sustained performance of the equities markets, the proportion of performance assets in the FRR's portfolio accounted for 52.5% of the total.

" The decisions taken have enabled us to follow the slightest volatility in the financial markets, in particular in the third quarter, under the effect of the very marked improvement in corporate results thanks to their cost control measures. "

Theoretical ramp up



of the "performance assets" compartment



of the bonds compartment

Ramping up new assets

At the same time the Executive Board has, since the summer of 2009, begun bringing the structure of the FRR's portfolio into line with the new strategic asset allocation. As a reminder, this essentially involves two shifts at macro-asset class level:

- In the bonds compartment, increase the proportion of inflation linked bonds whilst decreasing the proportion of cash and equivalent;
- In the "performance assets" compartment, increase the proportion of real estate (and, to a lesser extent, commodities) whilst decreasing the proportion of equities.

Distribution of assets in the portfolio at 31/12/2009

PERFORMANCE ASSETS 52.5%	**EQUITIES**	**47.0%**
	Euro zone equities	*27.5%*
	International equities	*18.8%*
	Private Equity	*0.6%*
	Infrastructure	*0.1%*
	COMMODITIES	**3.9%**
	REAL ESTATE	**1.6%**
BOND ASSETS 47.5%	**BONDS**	**36.9%**
	European bonds	*23.5%*
	International bonds	*3.3%*
	Euro indexed bonds	*10.1%*
	CASH AND EQUIVALENT	**10.6%**

At the end of 2009, the FRR's actual portfolio is in line with the ramp-up trajectory. In the bonds compartment, the FRR bought indexed bonds financed by decreasing economic exposure to monetary assets, which now represent only 11.5% of the portfolio, having reached a peak at nearly 20% during the summer.

As for the "performance assets" compartment, the FRR bought listed real estate assets (shares of listed property investment companies), financed by selling equities.

The distribution of the portfolio at 31 December 2009 is detailed in the table on page 10. It shows that the "performance assets" compartment is starting to be more diversified, with a higher weight of real estate assets and commodities. In the bonds compartment, indexed bonds now account for 10.1% of the FRR's net assets.

These shifts will continue in the coming months. The Executive Board will not hesitate to optimise the trajectory if entry points are not attractive.

	CONTRIBUTION OF EXTERNAL LISTED ASSET MANAGEMENT TO GLOBAL RELATIVE PERFORMANCE
Equities	**0.83%**
Bonds	**-0.07%**
Commodities	**0.03%**
Active currency portfolio management	**-0.09%**
Relative global performance	**0.70%**

Implementation of asset allocation and the contribution of external managers

The actual investment process is guided by the strategic asset allocation decided by the Supervisory Board, but it varies regularly for several reasons: rebalancing cannot be done immediately, it depends on market liquidity; the vehicles underlying the investments are not available at all times (all mandates are put out to tender) and therefore "similar" but different instruments must be made use of. The Executive Board manages this "ramping up" as effectively as possible, which involves gradually allocating the assets using the most effective instruments. By definition this variance generates friction estimated at 0.16% of performance for the FRR in 2009[3].

The ramping-up process can also sometimes be slowed down or modified to factor in market conditions. For example, the aim of the decision to allow the weight of performance assets to fall during the collapse of the markets in the first semester was to reduce the FRR's risk exposure.

Finally, the actively managed funds forming part of the FRR's investments are designed to improve overall performance in a small but important way by straying from the benchmark indexes.

External management of listed assets recorded a very good year with a contribution to outperformance, net of management commission, of 0.70% (compared to around 0.27% net in 2008 including transition performance).

These results have been achieved due to the equities mandates which have made a positive contribution of 0.83% whereas fixed income mandates recorded a slightly negative contribution of -0.07%. The performance of bond mandates has been volatile with very negative performance in the first semester followed by a rebound in the second half of the year.

3 / This difference in performance may be positive or negative depending on short term market movements.

As always, these figures disguise significant differences in terms of relative performance within each management mandate: these are on a scale of between -8% and +10.4%. Also, by looking at performance on a global mandate scale, the three best contributors generated +0.64% compared to -0.25% for the three least well performing contributors.

As for non-listed assets, involving only private equity in 2009, these recorded a negative contribution of -0.24% due to the impact of the "J curve" , as expected in the initial years for these kinds of investments.

Evolution of mandates in 2009

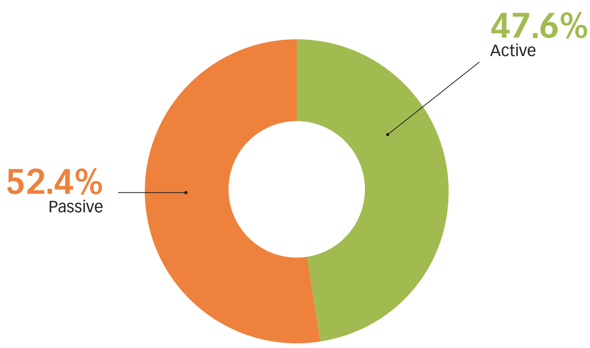
The FRR's portfolio comprises, on the one hand, index mandates of high unitary value and, on the other, active management mandates focused on market segments delivering consistent alpha generation appropriate to the long-term investor profile.

The aim of this "core-satellite" approach is to provide low cost exposure to the main markets, the selection risk focussing primarily on active strategies considered the best placed to remunerate such risk. It was reinforced in 2009 by the implementation of wider and more diversified passive management in the most mature and best arbitraged market segments for both equities and bonds.

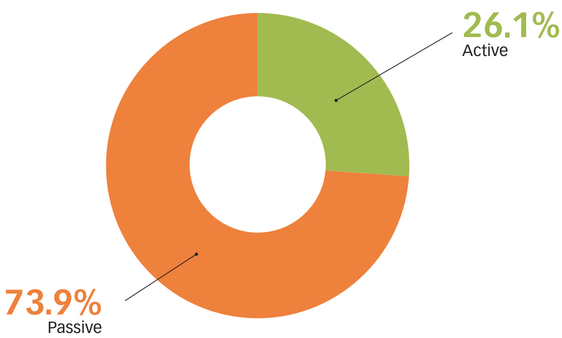
During the first quarter of 2009 investments were made employing low tracking-error ("enhanced") management of European mid- and large cap equities and passive management on a mid- and large cap Euro zone equities benchmark index.

Distribution of the portfolio* at 31/12/09

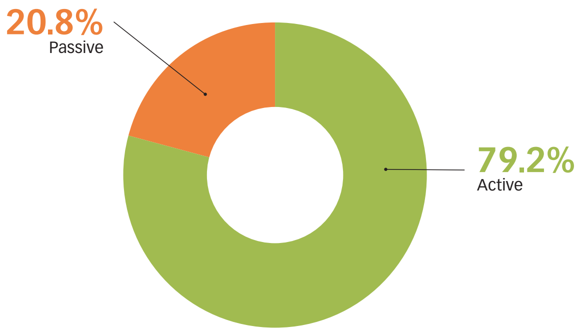
*excl overlay, excl cash. Commodities, private equity and real estate included



Distribution of equities portfolio (excl overlay) at 31/12/09



Distribution of fixed income portfolio (excl overlay) at 31/12/09



At the same time, active management was focused on European small-caps, Japan and the United States where requests for proposals (RFP) launched at the end of 2008 resulted during the course of the year in the selection of managers employing high tracking-error active management methods.

The FRR also renewed some of the fixed income mandates thereby increasing significantly the weight allocated to inflation linked bonds. This shift, which began during the course of the year and is set to continue in 2010 is the direct consequence of the decisions made in June 2009 when the FRR reviewed its strategic asset allocation.

In the case of Euro zone bonds, mandate selection procedures were launched concerning low tracking-error management of inflation linked bonds and active management of investment-grade credit issues.

In relation to international bonds, the FRR launched two active management requests for proposals: first for United States investment-grade credit issues, and second for a world universe of developed countries' sovereign debt.

ALIGNMENT OF INVESTORS' AND MANAGERS' INTERESTS

The FRR has for several years been considering how to align the interests of institutional investors with those of their management companies. This process of reflection concerns the alignment of both financial and extra-financial interests.

The FRR's extra-financial interests may be defined as respecting "a number of shared values that promote balanced economic, social and environmental development" (meeting of the Supervisory Board in 2003, reaffirmed in 2006 and 2009). To achieve this alignment of interests, the FRR ensures both during the selection phase and whilst overseeing the mandates, that the selected management companies satisfy three criteria:

- integrity, measured by good practice indicators applied in the asset management profession: professional conduct, independence, good governance, transparency, avoidance of conflicts of interest, …
- understanding of the FRR's identity as a responsible investor and its multi-year strategy in this area,
- the ability to use their resources to factor in the FRR's non-financial interests and comply with the terms of the mandate.

As regards its financial interests, a management fees policy including a variable element (outperformance commission) was put in place from the very first active management mandate RFPs. It has been systemised and developed on the renewal of actively managed equities mandates, and on selection of new fixed income mandates (credit and sovereign debt), following two main principles:

- Outperformance commission is only paid at the end of the mandate if relative performance net of fixed commission is positive (as for equities mandates);
- Fixed management commission is designed to remunerate the relative performance target declared by the manager. If the manager fails to reach its targets, the fees are reduced down to a floor commission fixed by the FRR. If the manager exceeds its outperformance targets, a portion of the excess is allocated to the manager (as is the case for fixed income mandates)

THE GLOBAL EXPOSURE MANDATE

In 2009, the FRR introduced a new vehicle for extending multi-asset class exposure known as the "global exposure mandate". This multi-asset class mandate is a fall-back solution giving the FRR continuity of exposure to its strategic asset allocation.

The roles to be performed under this mandate are as follows:

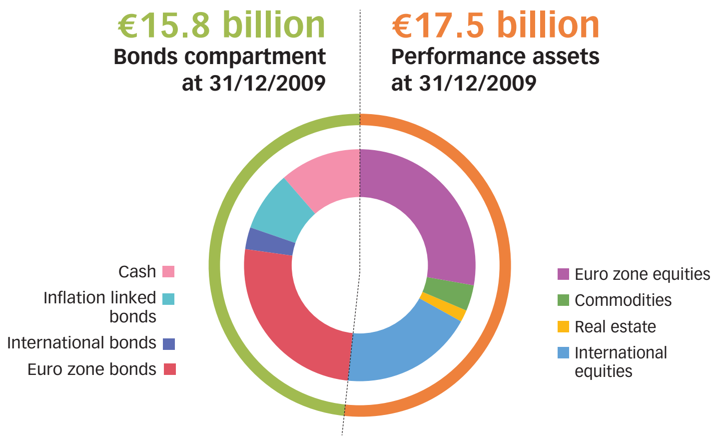
- A role as "stand-by" mandate for all other mandates: in the event of a failure in the execution, or expiry of, any other mandate, assumption of the asset management function, on an essentially passive basis.
- A role as provider of additional exposure: in certain market segments included in the strategic asset allocation but not yet invested, extending the exposure of the FRR's portfolio also on a passive management basis.

This mandate was awarded to the company Amundi and was activated in October 2009 to accelerate the ramping-up of indexed bonds and listed real estate.

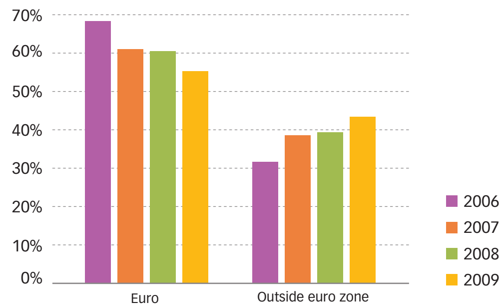
2009 also saw the completion of the request for proposals process to replace the initially appointed transition broker at the end of its mandate. The mission of the two new managers selected involves trading financial instruments on a centralised basis, on the FRR's behalf, to create financial asset portfolios, on the best possible conditions in terms of cost and confidentiality.

The FRR has set up a new investment vehicle known as the "Global Exposure Mandate", which allows it to extend its exposure to a variety of asset classes using an index approach.

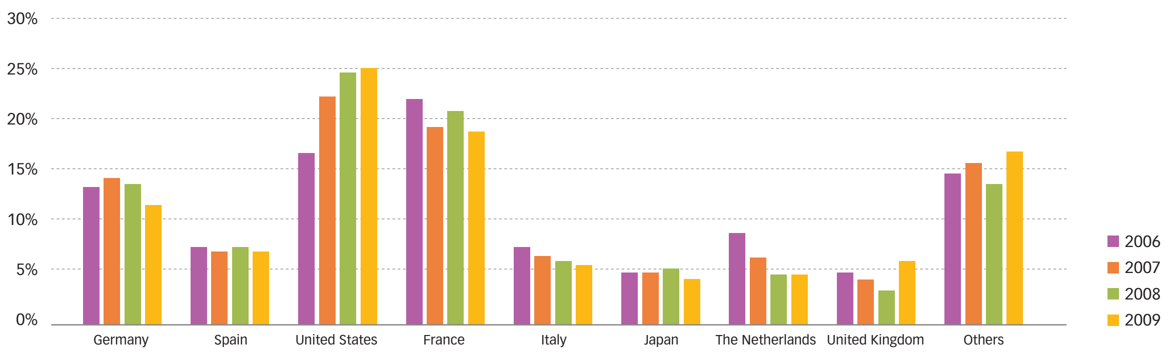
Finally, in relation to asset diversification, new investments were made this year in emerging countries' sovereign debt funds, in a European infrastructure fund and global real estate.



These two compartments included the following assets as at 31/12/09



Evolution of geographical distribution for equities



Evolution of geographical distribution for equities

Detailed structure of the portfolio

At 31 December 2009, the FRR's portfolio was made up as follows:

- The so-called "performance assets" compartment, combining equities, private equity and "diversified" assets (commodities, real estate and infrastructure) accounted for 17.5 billion euros.
- The bonds compartment comprising the FRR's fixed income products and cash represented 15.8 billion euros.

"Performance assets":

Listed equities

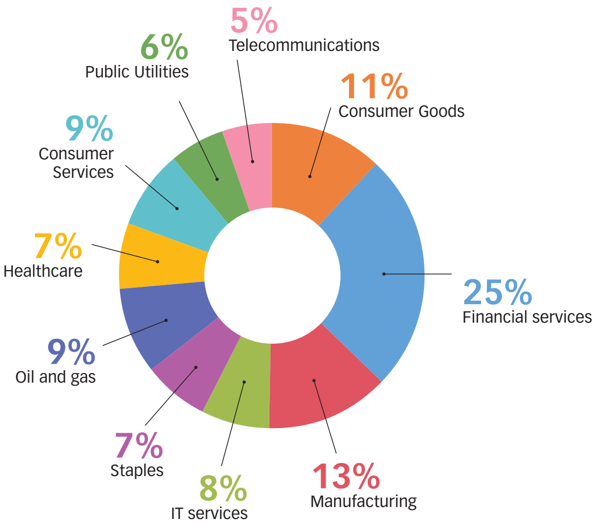
At 31 December 2009, the market value of the equities portfolio amounted to 15.6 billion euros.

Evolution over the last four years shows the relative weight of the Euro zone which, whilst still predominant, has fallen relative to the international zone, which represented more than 40% in 2009 as against less than 20% in 2005.

The weight of France (around 19% of total equities), which is greater than the relative weight of this country in terms of global capitalisation, is mainly the result of a deliberate over-exposure of the FRR's strategic equity asset allocation to the Euro zone and over-weighting in favour of French equities by the majority of the fund managers mandated in this zone.

INVESTMENT IN COMMODITIES

The strategic asset allocation review in June 2009 increased the weight of commodities investments from 3% to 5% of the FRR's global portfolio. The rationale for this decision is, on the one hand, the need to protect the FRR's portfolio against the risk of an unexpected rise in inflation and, second, diversification of its assets (de-correlation of returns) achieved by the inclusion of commodities.
The method for gaining exposure chosen in 2006 remains a GSCI index swap contract, which excludes all agro-food commodities, the SPGSCI – EM, Standard & Poor's Goldman Sachs Commodity Index – Energy and Metals.
After starting up at the lowest entry point levels of the year in December 2008, investments continued into January 2009 (550 MUSD) and again in October 2009 (450 MUSD), bringing the total investment to 3.9% of the FRR's portfolio by 31 December 2009.
The ramp-up towards the target allocation of 5% should be achieved during the first quarter of 2010.



Sectoral distribution of equities at 31/12/2009

In sectoral terms, the portfolio is mainly invested in financial services, manufacturing and securities of companies operating in the consumer goods sector.

Apart from the tactical bets implemented by the managers, this distribution remained close to that of the benchmark indexes that serve to measure managers' performance under each mandate.

In terms of the size of the businesses in which it invests, the amounts invested in small and medium capitalisation mandates account for nearly 10% of the equities held in the portfolio. Exposure to this segment has been increased during the year by the completion of RFP procedures launched in relation to European small-cap companies following which 5 management mandates were awarded.

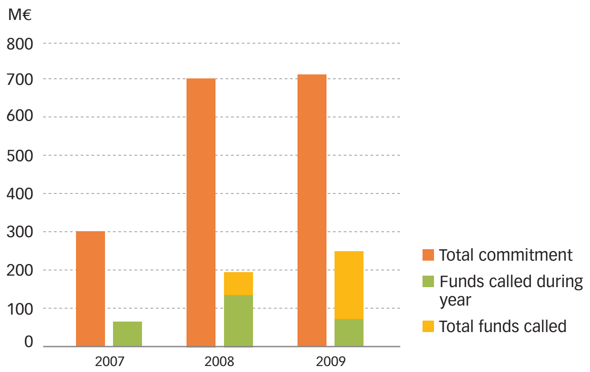
> "The FRR has invested in listed real estate companies which offer immediate exposure to the asset class whilst waiting for the ramp-up on non-listed real estate."

Real estate

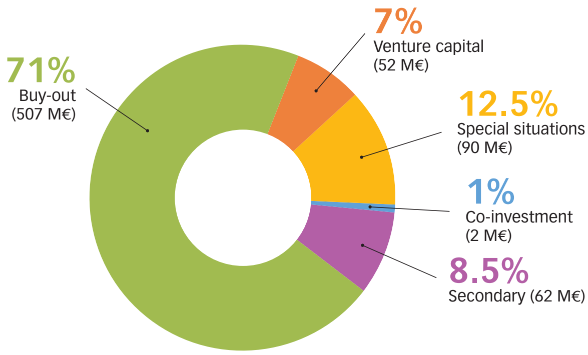
The FRR's strategic asset allocation for real estate assets is 5% of its portfolio. The FRR applies this allocation through investment in non-listed and listed vehicles.

In 2009, the FRR launched a RFP procedure with a view to appointing 2 real estate fund managers charged with managing 2 dedicated pan-European non-listed real estate funds. This process should culminate in these vehicles commencing operations in 2010. This strategy involves taking positions on diversified professional Europe zone investments through a management style usually known as "Core+" to "Value-added".

At the same time the FRR has invested in listed real estate companies with two objectives. First, listed exposure is much faster than direct real estate exposure and therefore provides immediate exposure to the asset class whilst waiting for the non-listed side to ramp-up. Second, this exposure improves diversification to the extent that it targets all sectors and all countries represented in the benchmark index which is global. In this regard, by the end of 2009, the FRR held 500 million euros of listed real estate through securities representing the FTSE EPRA/NAREIT global developed countries index.



Evolution of funds committed and called under the private equity programme



Underlying commitments invested December 2009

Private equity

The FRR's asset allocation includes investments in non-listed companies with four distinct strategies: three "primary" dedicated funds of funds (European medium capitalisations, European small capitalisations, portfolio of international, mostly US, stocks) as well as a "secondary" strategy of international scope. Four private equity funds of funds managers were selected in 2006 and 2007.

Investment diversification is in line with the target portfolio as is shown by the illustration above. The same is true of the management companies (55 underlying teams) and in terms of geographical allocation.

400 companies are held via the three mandates. The maximum holding is 5.6 M€, or 2.3% of the current portfolio and 0.6% of the target portfolio, representing 3.5% of the share capital of the company in question.

70% of primary subscriptions have been made at present in funds targeting companies with an average valuation of less than 250 M€.

Net global performance at the end of 2009 remains negative, at –14% when expressed in the form of IRR since its inception. Annual performance in 2009 taken in isolation shows an IRR of -9%. This again shows the effect of the "J curve", typical of the beginning of the life cycle of non-listed investment funds. Globally, the programme is still at an early stage, with only 28 months completed out of 12 years. Half of this negative performance can be attributed to the impact of commissions and half to falls in value.

The combination of the financial crisis and the economic crisis had a significant impact on private equity activity in 2009. The main trends in this market were as follows:

- Investors' hesitancy in terms of new investment resulted in far less funds being raised in 2009 than in previous years. This is expected to continue in 2010. Some investors sought to sell or arbitrage part of their portfolio. Nevertheless the secondary market also remained very quiet overall in 2009 due to the inability of operators to reach agreement on pricing proposed transactions.
- primary investment of funds in businesses was sharply down compared to previous years. Against a background of

> "The weight of inflation linked bonds will increase to represent almost half of the bonds compartment."

INVESTMENT IN EMERGING COUNTRY DEBT

The FRR has incorporated an allocation for emerging country debt into its fixed income investments, in the same proportion as its weight in the global bond markets, namely 1% of the total portfolio of the fund.
The investments comprise debt issued in local currencies (70%) and debt issued in external currencies (30%) such as USD, or even EUR.
The FRR has preferred exposure through actively managed collective funds, specialising in emerging country debt markets, with a global approach (no geographically specific funds).
A collective fund selection process, defined and ratified in April 2008 by the Manager Selection Committee was instituted resulting in a total investment of 95 M€ split between 3 collective funds and made in two tranches: in July and October 2009. In 2009, all of these investments together achieved a performance of 6.8%.
The FRR wants to complete the fund selection process. A second wave of investment should take place during the first semester of 2010.

deep economic uncertainty, completed transactions were thin on the ground, mainly in rather defensive sectors, with a low debt structure. Managers focused on managing their existing invested portfolios, with little arbitrage and low trading volumes resulting in an almost total lack of liquidity for investors.

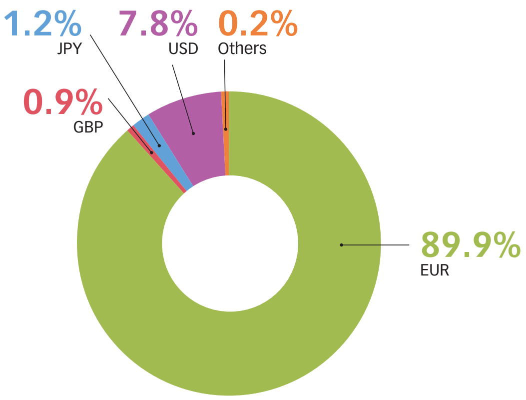
- the businesses invested in had to optimise their operational and financial structures.
- there was a marked fall in the value of assets in the portfolio in the first half of 2009 with discounts of 15 to 25%. Values then globally stabilised over the year. The brightening up of the markets in the second semester 2009 had little effect given the traditional inertia of this asset class compared to listed equities.

The FRR's programme is at an early stage in its construction which has lessened the impact of these unfavourable market conditions in 2009.

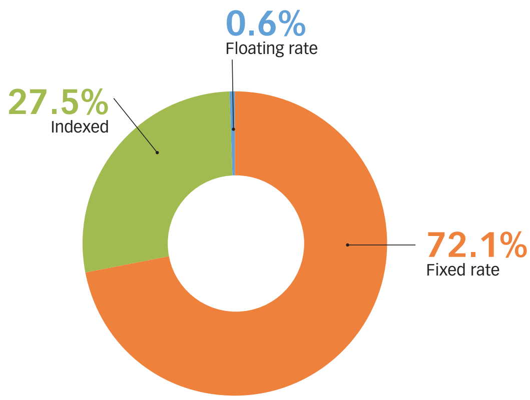
Given the financial climate, the FRR has decided to limit the total investment capacity of the programme to 900 M€

2009 witnessed very low levels of additional commitment (17 M€) after two years of substantial deployment. At the end of December 2009, 800[4] million euros, or 88% of the programme had been committed leaving a residual available commitment capacity for primary managers of 100 M€.

4/ Includes the total commitment planned for the Axa secondary collective fund (150 M€). This mandate is itself committed in the underlying funds in an amount of 60 M€.



Distribution of fixed income mandates by currency at 31/12/2009



Distribution of bonds between fixed rate, indexed rate and floating rate at 31/12/2009

The rhythm of investment in underlying funds slowed in 2009, reflecting the general weakness in investment activity that was seen during the period. The called funds, namely the amounts actually invested in the underlying funds, amounted to 244 M€ at the end of 2009 which is 27% of the programme corresponding to called funds of 62 M€ in 2009 alone.

Non-listed infrastructure

At the beginning of 2009 the FRR finalised an initial investment framework for its non-listed infrastructure programme. The aim of this programme is to build up a diversified portfolio implemented by direct selection of non-listed infrastructure funds targeting mainly mature European economic assets.

The FRR made its first investment in 2009 in an amount of 50 M€. 18.4 M€ (36%) of the funds have been called by the end of 2009.

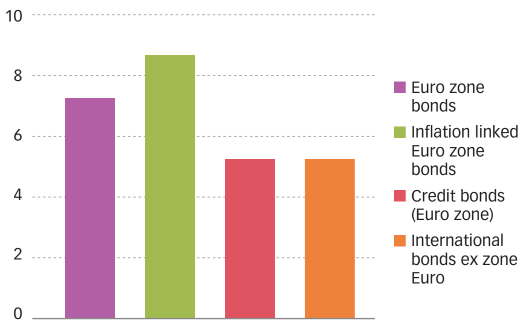
Bond assets

At 31 December 2009, the market value of the bond portfolio totalled 12.3 billion euros. In accordance with the decisions taken at the time of the strategic asset allocation review by the FRR in June 2009, the structure of the bond compartment of the Fund shall be modified with a significant increase in the proportion of inflation linked bonds which will ultimately represent more than 40% of the bonds compartment.

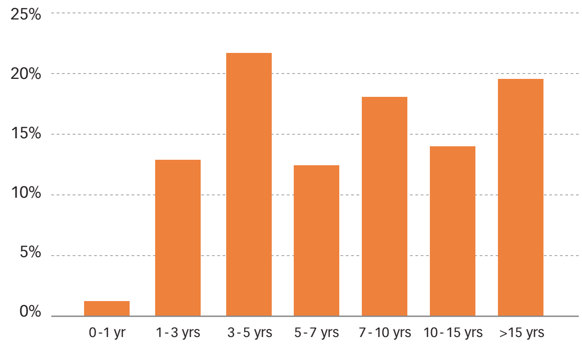
At 31 December 2009, the portfolio comprised mainly euro denominated bonds and its currency distribution was very similar to that of the benchmark index of the fixed income mandates.

The percentage of inflation linked bonds was 27.5% of the bond portfolio, with the rest almost entirely invested in nominal fixed-rate bonds. The percentage invested in floating rate bonds (included in the managers' investment universe, but not represented in their benchmark index)

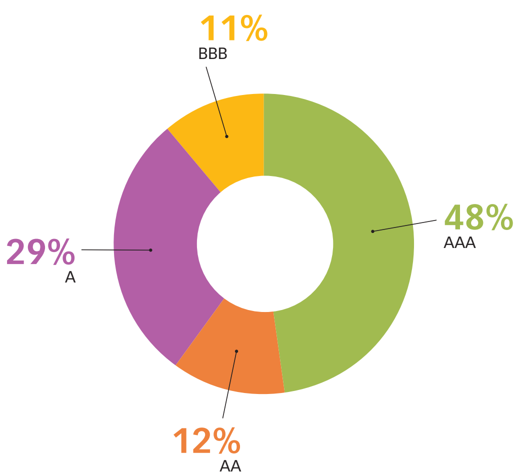
Sensitivity of bond indexes at 31/12/2009



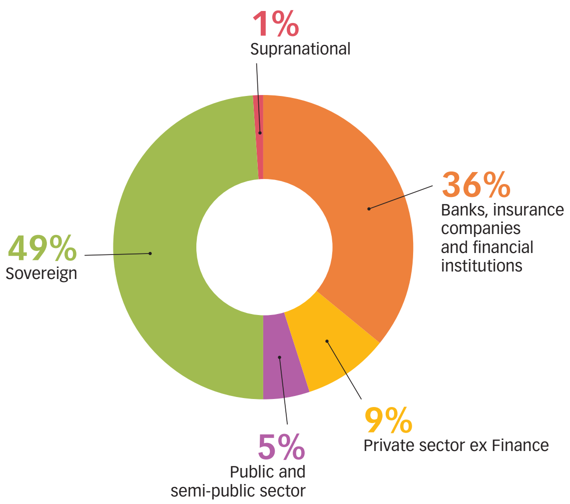
Structure of fixed income mandates by maturity at 31/12/2009



Distribution of fixed income products by issue rating at 31/12/2009



Distribution of fixed income by issuer category at 31/12/2009



remains marginal (0.6%). The bond portfolio includes a significant percentage (almost 20%) of bonds with a maturity of over fifteen years, which reflects the composition of the benchmark indexes, which are themselves structured consistently with the long-term nature of the FRR's liabilities.

More than half of the bond portfolio comprises securities of sovereign issuers, a significantly higher proportion than in the benchmark indexes of the mandates.

This over-weighting of sovereign securities naturally means that the proportion of AAA rated bonds in the portfolio is very high.

June 2009, adoption of a new strategic asset allocation

The FRR reaffirms its identity as a responsible long-term investor and moves towards more dynamic implementation

Following its reviews in 2003 and 2006, the FRR reviewed its allocation in 2009 against a background of difficult macro-economic and financial circumstances. The 2009 allocation is the fruit of a long process of research and discussion (workshops) between the Executive Board and the Supervisory Board during which numerous issues were considered. The result is an allocation that contains slightly less performance assets and tends towards greater reactivity given both the reduction in the term of investment and a climate that is likely to remain volatile. The strategic asset allocation will from now be reviewed at least annually.

The guiding principles of the FRR's investment strategy

Long-term horizon and short- to medium-term risks

The long-term horizon and lack of liquidity constraints are obvious comparative advantages for an investor like the FRR. They allow the FRR to rely on the "return to the mean" phenomenon and accordingly offer it the opportunity of higher returns at certain points in the cycle. The FRR is convinced that there is a significant long-term risk premium available for investors able to assume the risk of holding assets with potentially high volatility and low liquidity.

The FRR's comparative advantages underpin the expected return that it hopes to bring to the management of the reserves with which it has been entrusted. Added to these, are two other considerations:

- The FRR's strategic asset allocation must factor in the occurrence of extreme scenarios and allow it to cover its liabilities with a high degree of certainty. With this cover in place, the investment policy is to seek the best returns.
- Although conservative, the risk and return assumptions underlying the strategic asset allocation decisions can be undermined by capital market movements. These movements are reflected in higher volatility and short-term risks. In the process of implementing the investment policy, an attempt must be made to constantly identify these shocks and disruptions upstream.

Dynamic management that takes into account short-term risks as well as entry and exit points over a medium-term timeframe is absolutely vital for coping with uncertainties. An investment policy must be more than a fixed and static allocation among asset classes; it must also be capable of substantial deviation whenever it appears that the real risk underlying an asset class or an entire portfolio has become too high.

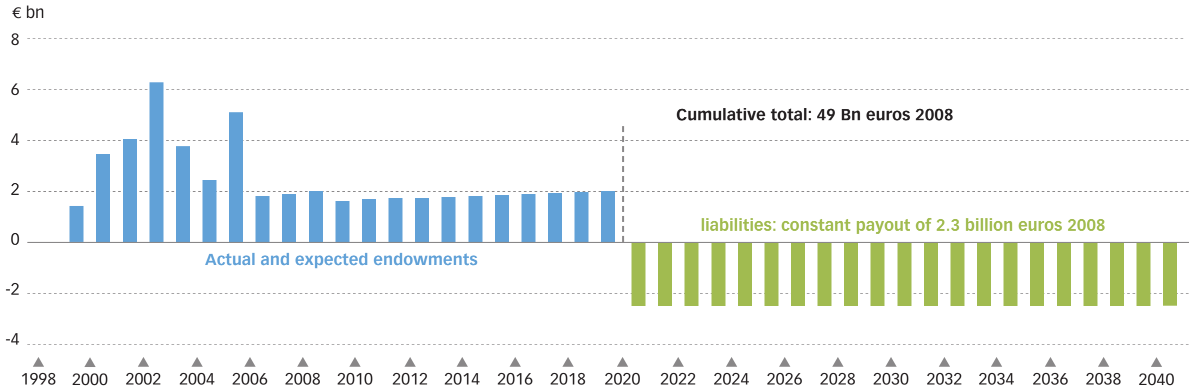
Diversification

The conventional approach to diversification of investments and related risks is also a necessary part of practice.

However, it is not of itself an adequate response to the most extreme scenarios, under which the correlation/de-correlation assumptions cease to function.

The performance of the strategic asset allocation is fundamental to the expected long-term return on the FRR's portfolio.

Timetable of endowments and payouts



This is why the task of defining and managing this allocation and its related risks falls ultimately to the FRR's governing bodies. Sources of outperformance can be found, in particular through the use of active management styles that seek to explore market inefficiencies and achieve a level of de-correlation compared to market trends.

For any long-term, public investor like the FRR, the investment policy must take into account environmental, social and good governance criteria in order for it to fully factor in the risks and opportunities associated with the companies in which the FRR invests or may invest. These criteria may in fact have a significant impact on valuation. The analysis of the sustainable development strategies (environmental and social) of businesses, as well as of their positive or negative impacts on the community and the risks to which they may expose the FRR in terms of image, is also necessary. The discussions underway on the impact of environmental issues on the FRR's investment policy and, in particular its long-term asset allocation, will be pursued.

The FRR's objectives

In the absence of government clarification on the exact timetable and amount of the payouts by the FRR to eligible pension schemes post 2020, the FRR has taken a technical scenario approach to Fund payouts, which is fundamental to ensure optimal management of its reserves. This scenario of linear payouts over 20 years is consistent with the work done by the COR *(Conseil d'orientation des retraites)* which highlights the growing funding requirements of eligible pension schemes, in particular between 2030 and 2040.

- The FRR has therefore precisely framed its liabilities and its investment objectives: The Fund's liabilities comprise the repayment between 2020 and 2040, in the form of 21 equal instalments, of the value of the endowments paid in, adjusted for inflation.
- Over and above these liabilities, the FRR aims to extract the best performance, whilst adhering to the principles of prudence and risk diversification.

These liabilities will be revised upwards automatically if the FRR receives additional endowments or when conditions allow over time to crystallise gains from management of investments.

Strategic asset classes and allocation objectives

To discharge its mission, the FRR is at liberty to invest in a wide range of asset classes.

The FRR, in its preparatory work to determine the new strategic asset allocation, decided to select 5+1 "strategic" asset classes: equities, bonds, real estate, commodities and monetary products – added to which are inflation linked bonds which constitutes a special asset for the FRR because it is a so-called "no risk" asset. These asset classes indeed represent the "main families" of investment that have to be considered at allocation time.

This choice signifies that an asset is considered to be "strategic" when it concerns assets that produce a defined return by the mere fact of holding them. This excludes from the "strategic" asset class definition assets whose value is derived from their management, in other words whose return is based on know-how.

Another characteristic of these asset classes is that their return depends partly on common factors (such as economic growth) and partly on specific factors relating to their inherent risks. Consequently, co-investment in them offers the FRR the benefit of diversification.

In this context, private equity and infrastructure are not assets that can be incorporated as such into the strategic asset allocation. They may be considered as sub-groups of the 6 strategic asset classes. They may however be incorporated into the FRR's investment universe, and therefore into the actual allocations and possible ways of investing the main asset families highlighted. The reason for introducing them into the FRR's portfolio is not to introduce a new family of strategic assets but rather to seek extra outperformance.

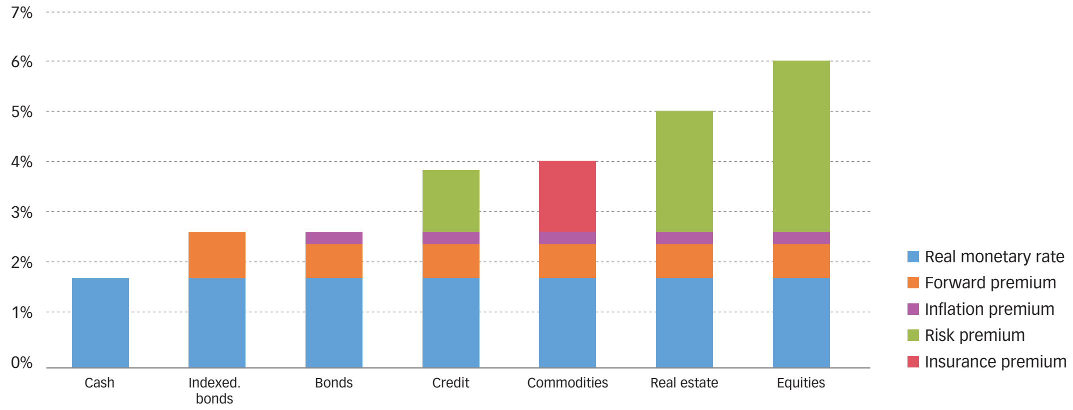
The rationale in seeking the best allocation can be summarised as follows:

"The FRR has precisely framed its liabilities and investment objectives."

- The FRR wishes above all to honour its long-term liabilities: it therefore tends to build its portfolio with securities that enable it to secure its future payments. This means bond assets where there is a strong inflation indexed component (this cannot be total because of the lack of market depth and the current weakness of inflation may still justify exposure to nominal bonds).
- But the FRR's horizon is long and it does not have to start paying out until 2020: it can also hold more risky assets to try to achieve a higher return in the long-term. It will therefore take exposure on so-called "performance" assets, where expected performance is better than bonds but where the risks are higher. Both in the short term – because they expose the FRR to big fluctuations in values along the trajectory or sudden collapses – as well as in the long-term – particularly due to the risk of extreme events on certain assets.

The whole challenge of strategic asset allocation is to find the right balance between these two compartments and to make sure that this balance can be adjusted in the future depending on circumstances, views of post-crisis scenarios and the degree of risk assumed.

Breakdown of different risk premiums (in real terms)



Risk and return assumptions

The FRR's central scenario is that the major crisis which has badly shaken the world economy has signalled a change of regime: the "rose tinted" view of globalisation is over; a view where economic growth and the financial markets seemed to advance automatically together at a brisk pace with no lasting bumps or accidents.

The time for the excesses of the past to be expurgated has now begun. It will only end when all necessary adjustments have been made. This long and painful process will continue to impact world economic growth and squeeze returns on assets for a few more years.

Beyond that time, the FRR maintains an optimistic view of sustained world growth and financial markets producing returns for long-term investors.

The FRR has therefore adopted a reasonably optimistic central macro-economic scenario over the medium term, in which the current crisis does not develop either into a prolonged recession or into hyper-inflation and increasing protectionism. It gives cause to expect high premiums on risky assets (equities, corporate bonds, real estate, commodities). Conversely, this optimism about levels of return is matched by circumspection about levels of risk, as the FRR has revised upwards the volatility of all of its assets.

The FRR's strategic asset allocation is framed on the basis of new assumptions as to returns and long-term risk that remain cautious and draw lessons from the recent crisis. It also factors in the possible occurrence of extreme scenarios.

Compared to previous assumptions, the FRR has factored in an increase in volatility and believes that it now has a better point of entry than in the past for equities. This last point leads to a rise in the risk premium consistent with the assumption of a "return to the mean" which seems to be characteristic of equities over the long-term.

The assessment remains globally favourable for investors who can carry risk over the long-term. But this will mean evaluating even better the limits beyond which a given risk becomes excessive. Beyond the central scenario, the soundness of the investment strategy will have to be put to worst-case-scenario tests, as such scenarios cannot be completely ruled out over the life of the FRR.

	EXPECTED RETURN	VOLATILITY
Inflation	2%	1.50%
Monetary	3.60%	1%
Bonds	4.70%	5%
Inflation linked bonds	4.50%	-
Global equities	8%	17%
Real estate	7%	15%
Commodities	6%	25%

The FRR's reference portfolio

The reference portfolio is the one that offers the FRR the best prospects of a return whilst limiting the risk of it not being able to honour its liabilities.

It is determined on the basis of long-term return and risk assumptions.

Reference portfolio (long-term target)

ASSET CLASS	WEIGHT
Equities *(listed and non-listed)*	**45%**
Real estate *(listed and non-listed)*	**5%**
Commodities	**5%**
Fixed-rate bonds	**25%**
Inflation linked bonds	**20%**

The main asset classes are grouped in two families: on the one hand, assets designed to cover the FRR's liabilities – bond assets – and on the other hand, so-called "performance assets" which improve expected returns with greater volatility (equities, commodities and real estate).

The nature of the investment vehicle specific to each asset class (listed or non-listed) is decided by the Executive Board depending on their inherent advantages and drawbacks (returns, risk, diversification, liquidity, cost..).

The Executive Board also determines the optimum diversification (by sector, geographical zone, market capitalisation, credit rating…) within the framework of the prudential rules applicable to the FRR. The targeted proportion of investments in equities and fixed-income instruments made within the Euro zone is 60% of each of the relevant assets. The forex risk on non-Euro zone investments will be hedged up to 90%.

The new reference portfolio comprises less "performance assets", has more diversified assets and a greater proportion of inflation linked bonds.

Dynamic allocation management

In the event that the expected risk or return parameters deviate substantially from the long-term choices made, the FRR's actual asset allocation may depart from the reference portfolio.

In this perspective, the relative proportion of performance assets will vary within a range of fluctuation the breadth of which is fixed by the Supervisory Board. Hence at its meeting of June 2009, the Board set an upper limit of 60% and a lower limit of 40%. The weighting was positioned at 45% in June 2009 (at the lower end of the scale) given the uncertainties surrounding the strength of the rebound.

Within this range of fluctuation, any future decisions with respect to reducing or increasing performance assets within a given year are made by the Executive Board on the recommendation of the Supervisory Board's Investment Strategy Committee (ISC).

In general, the FRR strives to introduce a more dynamic allocation, where the weighting of assets can be adjusted regularly in line with risk and return criteria. The purpose of this evolution is better management of the consequences of extreme events.

There are several ways in which the FRR will seek to achieve greater reactivity in asset allocation:

- The Supervisory Board each year assesses how its investment policy is implemented. It reviews the main parameters of this policy and adjusts them as necessary. The upper and lower allocation thresholds (40% to 60% proportion of risky assets) can therefore be modified depending

INVESTMENT STRATEGY COMMITTEE (ISC)

In June 2009, as part of the FRR's new investment strategy, the Supervisory Board set up an Investment Strategy Committee (ISC) charged with assisting in defining, overseeing implementation of and adapting the strategic asset allocation.
To this end, the ISC studies the quarterly reports presented by the Executive Board on the management results for the reference portfolio, the intra-year economic and financial prospects and the short and medium term risks that may have an impact on the FRR's long-term trajectory.
The ISC gives its opinion on the Executive Board's proposals for modifying the relative percentage of the two portfolios: "performance" (equities, real estate, commodities) and "fixed income".
It prepares the annual review of the Board relating to the reference portfolio and the modalities of its management and refers to the Board any management adaptations that can usefully be made in the meantime.
The ISC comprises the following five members:
- **Jean-Christophe Le Duigou, appointed as representative of the employee trade unions;**
- **Alain Leclair, appointed as representative of the employer trade unions;**
- **Hervé de Villeroché, appointed as representative of the State;**
- **Jean-Louis Beffa and Raoul Briet, appointed as qualified persons.**

Bertrand Jacquillat, university professor at the Institute for Political studies in Paris, and Marc de Scitivaux, economist, also assist the Committee in its work as experts.
The ISC is chaired by the Chairman of the Supervisory Board. It meets at least 4 times each year and can be called upon by the Executive Board in emergencies on all matters requiring urgent attention.

on the market and risks outlook, historical performance of the FRR and the assessment of short-term risks.

- The issue of possible crystallisation of past gains by (irreversibly) raising its liabilities is considered.
- The composition of the performance compartment or of the bonds compartment can be modified. The level of hedging[1] against forex risk is examined.
- Automatic monthly rebalancing of the reference portfolio has been abandoned in favour of a quarterly meeting of the ISC which gives recommendations on the weighting of performance assets. The aim of this measure is to optimise tactics on a tighter timetable than annually, but also to manage any potential short term risks. It is within the ISC that, for example, the issue of possible hedging strategies to cover identified risks can be discussed: sector risks, geographical risks, risk of collapse in the bond markets or sharp fall of the equities or commodities markets, etc.
- For its part, the Executive Board also has a certain leeway to optimise the composition of the portfolio compartments.

This vision of a fairly discretionary dynamic management – as opposed to dynamic management inspired by rules aimed at targeting a certain level of long and short term risk – is founded on the quality of the collaborative work of the two boards, the Executive Board and Supervisory Board.

1/ 90% hedging is in place for currencies of developed countries; investments in emerging countries are not hedged against forex risk as this is an inherent part of the expected return.

The FRR, a responsible investor

Right from its earliest investments in 2004, the FRR has sought to ensure that its investment policy is consistent with *"respect for certain shared values that promote balanced economic, social and environmental development"* (meeting of the Supervisory Board of 2 April 2003). The Board in April 2003 adopted a responsible investment strategy that sets out the priorities in this area for 2008-2012. The recent financial crisis has further strengthened the FRR's commitment to responsible investment and sustainable finance.

As each year, the main developments in responsible investment strategy are summarised in the following paragraphs and, for the first time, a mid-term (2008-2009) detailed assessment on strategy has been set out in a special report.

The environment's place in strategic asset allocation

"Environmental concerns and, in particular, the impact of global warming (…) pose many questions that a long-term investor cannot ignore when defining its global investment strategy." (Responsible investment strategy). This is why, at the time of its strategic asset allocation review, the FRR has decided to carry out a detailed study on the impact of environmental factors on its investment strategy. The results of this study have been presented to the Supervisory Board as part of its work reviewing the long-term asset allocation.

This study concludes that climate change, and also the exhaustion of natural resources, the scarceness of water and loss of biodiversity are the most pressing environmental issues for long-term investors. Based on long-term climatic scenarios, medium-term economic and financial scenarios are worked out which enable the risk/return trade-off of the various strategic assets to be redefined and a strategic asset allocation to be calculated with reference to climatic change, in particular. The main results show that factoring climate change into strategic asset allocation reduces, in most scenarios studied, the proportion of risky assets. Of the five economic and financial case scenarios examined, the results are reversed only in the "green growth" scenario (in which environmental constraints result in the emergence of a new growth model). Another avenue that was explored was to supplement the portfolio with "environmental" assets such as carbon or forest, a source of protection or return in the face of the identified environmental concerns.

In all, factoring environmental factors into strategic asset allocation reinforced the Board's decision to slightly reduce the percentage of risky assets. Further work will, however, have to be carried out before new asset classes are introduced or specific environmental factors are integrated into the asset classes included in the strategic asset allocation.

Extra-financial risks of the portfolio and launch of a process of dialogue

The Responsible Investment Committee has received the analysis of the extra-financial risks of the FRR's portfolio, carried out by the specialist research agency EIRIS. Based on the portfolio of corporate securities (equities, bonds) at the end of 2008, it appears that around 6% of the issuers in the equities portfolio are implicated in one or more allegations relating to violation of the global compact principles (Human rights, labour rights, environment, corruption) or one of the conventions on prohibited weapons (bacteriological, biological or chemical weapons, anti-personnel mines or sub-munitions bombs) – irrespective of the seriousness of the allegation. When looking only at those allegations classified as serious and in respect of which the company has not taken any remedial steps or only limited steps, around 35 companies are involved at

> “ The integration of extra-financial issues into management of the portfolio depends not only on the asset class in question and the management style, but also on new opportunities or risk factors that arise under new circumstances. ”

the final tally (out of more than 2500 that make up the portfolio, in other words less than 2%). Added to this is a very limited number of companies potentially involved in the manufacture of sub-munitions bombs.

Based on these results, the Committee may recommend measures from "an array of possible actions ranging from dialogue with the companies to, as a final resort, deciding to remove the company involved from its portfolio for repeated violations that it has refused to put an end to", as stated in the Strategy. The Committee has recommended the implementation of a policy of dialogue initially involving the posting of letters to companies implicated in the most serious alleged violations, to open the way to dialogue and meetings to throw light on the allegations that have been raised. Following opening of the ratification of the Oslo Convention prohibiting sub-munitions bombs, the FRR has contacted various companies potentially involved in the manufacture of these weapons; by the end of 2009, in light of the evidence collected, the FRR decided to remove two companies, in addition to the 6 companies that it has excluded since 2008 under the Ottawa convention prohibiting anti-personnel mines. Similarly, the FRR has contacted companies that are the subject of serious allegations relating to violations of the principles of the global compact.

In terms of collaborative initiatives, the FRR has joined the Extractive Industries Transparency Initiative (EITI) which targets sectors where businesses are the subject of numerous allegations.

Finally, 2009 was the year when the FRR launched a programme of commitment to dialogue with businesses, which although modest is nevertheless pragmatic and consistent with its available resources which are limited at present.

Integration of extra-financial issues into management of the portfolio

When the equities and fixed income (credit) mandates were renewed in 2009, extra-financial questions were included in the selection questionnaires and provisions of the management mandates as appropriate to the relevant management style (active or passive). Also, when selecting an infrastructure fund, consideration was given to integration of environmental, social and governance (ESG) aspects into this asset class which resulted in the drafting of a specific ESG selection questionnaire. Similarly, the preparation for investment in real estate, included an in-depth study on integration of environmental considerations.

The integration of extra-financial issues into management of the portfolio depends not only on the asset class in question and the management style, but also the context and new issues that arise. Accordingly during 2009, and as a result of the financial crisis, stricter questions and provisions relating to financial soundness and integrity of managers were introduced (in particular, questions were introduced on whether the groups to which the candidate management companies belonged had any presence in "tax havens").

Extending the active shareholder policy

Voting rights now extend to the whole of the FRR's portfolio and shareholders' general meetings are attended at nearly all of the companies forming the portfolio. In 2009, with holdings of securities in more than 2,500 businesses, the FRR was able, via its managers, to participate in 5,420 general meetings (some of the FRR's managers may hold the same security and therefore vote at the same meeting). 61,082 resolutions were considered and voted on (85% for, 13% against and 2% abstentions).

Like each year, the topics that provoked the most discussion between issuers and investors were the remuneration of directors, increases of share capital, takeover defence mechanisms. For so-called deferred compensation packages ("golden parachutes" and "retirement hats"), that fall within the related party agreements regime, a strong protest (particularly in the absence of performance conditions) was registered against a background where, in France, companies have had to amend the contracts concerning this kind of remuneration to bring them into line with the requirements of the AFEP – MEDEF Code of October 2008. Objection by shareholders to share capital increases without preferential subscription rights is a common theme, with strong opposition especially to requests relating to a substantial percentage of the share capital (greater than 20%) and with no guaranteed priority period. The FRR's voting policy is favourable to share capital increases reserved for employees and its managers have, in most cases, voted in favour. Finally, resolutions concerning share buy-backs by

THE RESPONSIBLE INVESTMENT COMMITTEE (RIC)

Chaired by the Chairman of the Supervisory Board and made up of two representatives of the management/labour partners sitting on the Board as well as two outside experts, this Committee met four times during 2009.

Following its initial work in 2008 which involved framing the scope of its remit, in particular concerning the definition of:

- **extra-financial risks and reputational risks for the FRR, in other words those that might cause lasting harm to the relationship of trust that a public institutional investor, serving inter-generational solidarity, must keep and maintain with its key stakeholders (public authorities and management/labour partners), represented on the Supervisory Board. Serious, recognised and repeated attacks on the benchmark principles are what constitute such risks;**
- **the benchmark principles: principles of the Global Compact, the Universal Declaration on Human Rights, the fundamental conventions of the International Labour Organisation, the OECD convention on corruption, conventions prohibiting biological and chemical weapons and anti-personnel mines;**
- **the needs in terms of extra-financial analysis and selection of service providers: at the end of 2008, the British research firm EIRIS (Ethical Investment Research Service) was chosen to conduct a detailed analysis of the FRR's portfolio in light of the FRR's benchmark principles.**

In 2009 the Committee set itself the task of carrying out a concrete analysis of the extra-financial risks of the FRR's portfolio and adopting measures designed to limit and prevent the occurrence of these risks.

> "Transparency towards its stakeholders on the results of its responsible investment strategy is one of the FRR's commitments."

the company have been the subject of shareholder opposition, especially if the buy-back has been allowed in the case of a tender offer; these resolutions were approved but often by a slim majority. The granting of equity warrants representing too large a proportion of the share capital (over 30%) was also opposed, or even rejected.

Active support for responsible investment research and development

The FRR actively supports the "Sustainable finance and responsible investment" chair set up by the Paris market place, which since 2008 brings together academics (Ecole polytechnique, Institut d'Economie Industrielle de l'Université de Toulouse) and professionals (investors, managers). The FRR also sits on the Responsible Investment Forum jury that awards a prize each year rewarding European research work on responsible investment issues.

At the international level, the FRR is a member of the PRI (Principles for Responsible Investment) Board of directors, the benchmark organisation which, under the aegis of the United Nations, brings together institutional investors from the whole world and promotes the development of responsible investment and the adoption of best practices by financiers. The FRR also participates in numerous PRI working groups and workshops.

Finally and more generally the FRR also contributes to the thinking on responsible investment by taking an active role in the work of the market place and taking part in public events addressing responsible investment issues.

The concern for ever greater transparency

Responsible investment requires transparency from all players – from the company to the investor and all other participants in the investment chain. For a public investor such as the FRR, it is important to be accountable to all of the stakeholders and society in general.

As mentioned before, whereas the FRR each year devotes a section of its annual report to its responsible investment policy, this year it also present a detailed report providing a mid-term analysis of the implementation of the responsible investment strategy it has adopted for the period 2008-2012 (available on www.fondsdereserve.fr). Elsewhere, it has also agreed for its responses to the Principles for Responsible Investment questionnaire to be made public (http://www.unpri.org/report09/).

Risk Audit and Management

Following 2008 which saw the launch of a global risk analysis process (known as ERM or Enterprise Risk Management), 2009 was devoted to operational implementation of this process.

The main objectives of risk management are as follows:

- Analyzing and managing all risks in order to avoid vertical segmentation effects (financial, human, information system, strategic ...), as well as all of the potential impacts of these risks (financial and non-financial impacts such as reputation, image, knowledge, etc.). The scope of analysis is the FRR and its stakeholders: its trustee/custodian (Caisse des Dépôts), external asset managers, index providers and other suppliers. One of the sources of added value of this approach lies in aggregating all of the major risks and ensuring the global consistency of the risk analysis and organisational action plans.
- Alerting the Executive Board of the potential occurrence of major risks and risks deemed to be unacceptable.
- Propose and coordinate the roll-out of action plans designed to reduce or change the profile of these risks.
- Assist with the dissemination of best practices and a risk management culture within the FRR.
- Give the Executive Board an independent opinion on the management indices chosen by the Finance Division of the Fund for its own management.
- Propose or validate risk thresholds by major risk type or area of activity.
- Prior to launch, analyze new investment products/processes from the perspective of financial and operational risks. Set limits for these new investment products/processes.

The principal risks to which the FRR is exposed

- **Long-term asset/liability management risk:** the primary risk for the FRR is of a mismatch between its strategic asset allocation and its long-term financial objectives. The FRR's asset allocation strategy is regularly reviewed (in 2003, 2006 and 2009), and will from now on be reviewed at least annually to adapt to the sharp fluctuations in the financial markets.
- **short-term financial risks:** these can be sub-divided into two types:

Absolute risks: these are absolute losses to which the Fund may be subject over the short term. The level of these short-term losses is measured on a regular basis by the FRR staff.

Relative risks: these risks relate to the under-performance of an asset manager versus the defined benchmark index. This relative loss is monitored and contained by enforcing compliance with a maximum ex-ante tracking error.

- **Counterparty risk:** via its managers, the FRR transacts with bank counterparties on OTC derivative products and money market investment products. In terms of counterparty selection, the FRR requires that its managers transact with counterparties that meet minimum financial rating requirements (Standard & Poor's, Fitch and Moody's) and satisfy minimum own funds levels. The FRR also requires collateral mechanisms to be put in place for certain derivative products that are sold OTC. It also requires that maximum exposure thresholds be respected and enforces disciplined monitoring of counterparties.
- **Fraud and money-laundering risk:** the FRR is particularly attentive when it comes to selecting investment vehicles to avoid running the slightest risk of coming into contact with practices that involve fraud or money laundering.
- **Compliance risks:** the FRR constantly monitors compliance with the prudential regulations to which it is subject (related to the Act passed in 2001). In addition to these regulations, the FRR has also adopted and enforces a set of internal rules.

■ **Forex risk:** the FRR's portfolio is partially invested in foreign currencies. Accordingly, the FRR decided to hedge 90% of these exposures by contracting forex futures that are reviewed and updated on a regular basis. Statistically, this hedge improves the return/risk trade-off significantly for the currencies of developed countries (the volatility of the portfolio is reduced with no significant impact on net performance).

■ **Business interruption risk:** to ensure that the assets entrusted to the FRR's care by the public are effectively safeguarded, the FRR must track the financial markets on a daily basis (insofar as these markets can be extremely volatile) in order to be able to intervene rapidly when this proves necessary. In performing its mission, it is therefore extremely important that the FRR be able to ensure business continuity over several days should serious events arise (pandemic, flood, fire...). Emergency business continuity and relief plans have been developed and are regularly tested for readiness to respond if needed.

■ **Supplier risks:** the FRR selects a large number of external managers to manage its portfolio of assets. This risk is managed and contained through a rigorous selection process carried out via an open and public request for proposals (RFP) procedure, combined with thorough due diligence audits of managers and regular monitoring (with a process for putting a manager on the watch list if necessary). Changes can be made in case of problems, particularly at asset manager level.

■ **Data risks:** the calculation of performances and risks, and hence investment decisions, depend on the quality of the data populating the FRR's information system. In 2009, an effort was made to strengthen the internal system for verifying the quality and consistency of financial data.

KEY EVENTS OF 2009

A number of actions relating to global risk management were taken during the year:

■ More regular and complete monthly reporting on financial and operational risks to the Executive Board.

■ Implementation, together with the back-office of Caisse des Dépôts, of the CLS Bank solution which eradicates the settlement-delivery risk on forward forex contracts traded over-the-counter.

■ Reworking of the counterparty risk policy and the risk limits per counterparty for better containment of this type of risk.

■ New software to measure short-term financial risk (Riskmetrics) selected and setting of paramaters commenced.

■ The Risks Department has equipped itself with tools to measure the value of derivative products traded OTC (options, swaps,…) to gain an independent view on these valuations.

■ Development of two 2/3 year cycle economic-financial stress tests.

■ Upstream reduction of financial and operational risks by systemisation of tests before the launch of new assets or management processes.

■ Reworking of several key investment processes (improving the efficiency of these processes, refining the description of roles and responsibilities and structuring of controls on major risks in the processes).

■ Actions to improve the quality of the financial data of the FRR's portfolio allowing more accurate calculation of performance and financial risk measurement.

■ The initial business continuity plan (BCP) has been reinforced.

■ Reworking the incident collection database which now covers almost all types of incidents the FRR encounters.

■ More and improved contacts with the risk management functions of the large pension funds or other long-term investors than in 2008 with the objective of benchmarking themselves against the best market practices.

Organisation and costs in 2009

Organisation and human resources

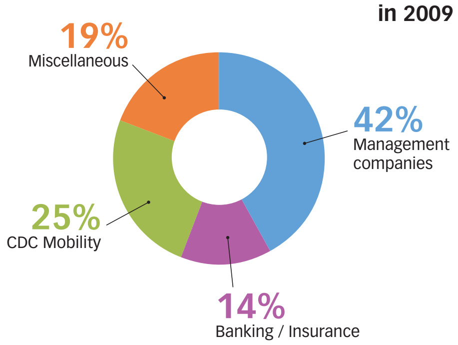
In 2009 the FRR made organisational changes necessary for the management of an industrialised business, with staffing at levels capable of ensuring proper management of the Fund's assets.

The process of recruiting individuals with the necessary technical profile launched in 2008[1] was in the main completed by the second semester of 2008, bringing the FRR's headcount to 55.

These additional human resources, combined with its technical resources, enabled the FRR in 2009 to develop a global risks policy, by implementing projects to secure processes and operations, in particular by the deployment of a new measuring system for short-term risks.

1/ 48 employees at end of 2007

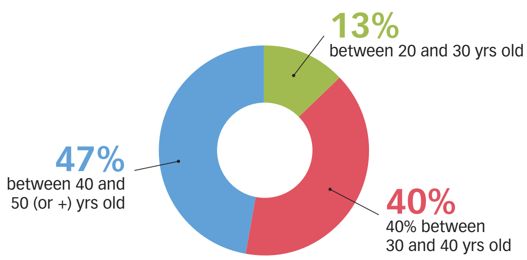
Origin of the FRR's staff in 2009



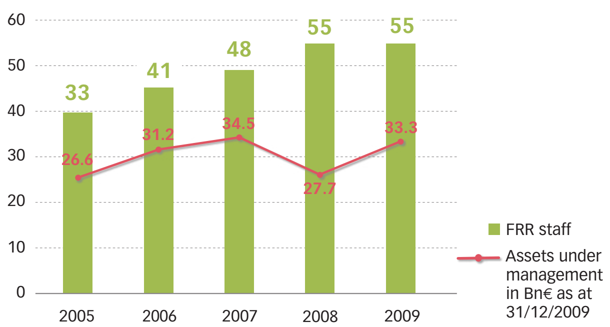
Evolution of training costs

	2005	2006	2007	2008	2008
Cost of training €	34 259	41 355	71 697	36 090	65 557
FRR's total costs M€	48.0	52.8	68.9	73.7	55.5
% of training costs/FRR's total costs	0.07%	0.08%	0.10%	0.05%	0.12%
Total staff	33	41	48	55	55
Cost of training per member of staff	1 038 €	1 009 €	1 494 €	656 €	1 192 €

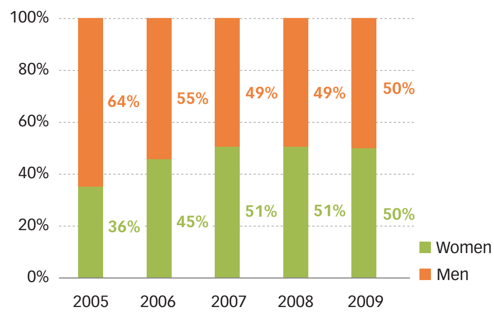
Age of the FRR's staff in 2009



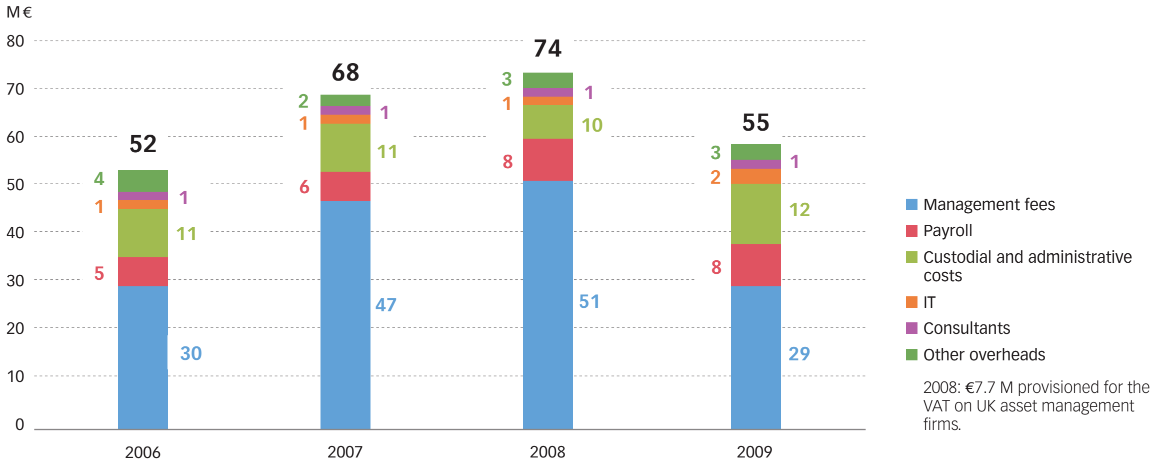
Changes in staff numbers since



Ratio Men/Women



Cost structure



The FRR's costs

Operating expenses in 2009 totalled 55.5 M€, down 24.8% compared to 2008 (16% excluding the effect of provision for VAT on the fees of the British management companies constituted in 2008[2]).

Topping the list of expenses, management commissions are the quid pro quo of external listed asset management. These represented 29.5 M€ in 2009 as against 50.8 M€ in 2008 (43.0 M€ excluding provision for VAT on the British management companies' commission).

2009 was a significant year for the renewal of management mandates, with twelve expiring during the course of the year and twenty new mandates beginning in the same period.

The FRR began in 2007 a process of significantly increasing the bias towards passive management in its investment strategy and thereby reducing the overall cost of its management fees[3]. This process resulted in 2009 in a 21.3 M€ reduction in the commissions paid to management companies, bringing the percentage of these expenses as a proportion of total operating expenses down from 69% to 53%.

The move towards passive management has thus led to a significant decrease in fixed commissions (-41%) and a fall in outperformance commissions (-11%).

On average, the management commission rate in 2009 was 8.8 basis points as against 13 bp in 2008 (excluding overlay management). A more generalised commission structure that includes a small fixed component with a variable element linked to outperformance achieved during the course of the mandate satisfies the need to balance the interests of investors with those of the managers.

The recruitment drive implemented in 2008 showed its effect on payroll expenses (+5%), and the FRR's IT costs in 2009 reflected the deployment of the system to improve risk prevention and control.

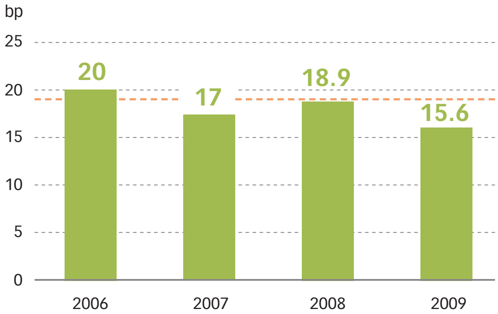
The other operating expenses reflect the evolution, throughout the year, of funds under management thanks to the buoyancy of the markets, 2009 having been a year in which there was a significant increase in trading volumes under the mandates (+17%).

It is noteworthy that almost 75% of these costs are variable expenses relating to management commissions and mandate management expenses (fund custody and administration costs), the FRR's own structural expenses representing only 25% of the total, which is about 0.05% of the total assets under management.

The FRR is also continuing the process of calibrating its management costs which it has pursued since it began

2/ Provision over the 2008 financial year was set aside of 7.7 M€ for VAT on commissions charged by British management companies.
3/ Percentage of assets invested in passively managed mandates: 30% in 2004, 60% as from 2010.

Management cost



operations. The analysis carried out in 2005 by the consultancy firm McKinsey, which assessed the FRR's global benchmark at around 19 bp, is followed up each year by another audit carried out by a Canadian company, Cost Effectiveness Measurement Inc/ CEM, whose conclusions confirm those of McKinsey.

2009 was therefore a year of transition, as regards both mandate management costs and also its other operating expenses. The FRR was able to achieve a benchmark of 15.6 basis points, approaching the criteria set by McKinsey.

THE FRR'S CARBON AUDIT

Aware of the need to reduce greenhouse gas emissions (GHG emissions), the FRR intends to limit its own impact on the environment. According to the 2008 Bilan Carbone (Carbon audit) carried out for the FRR by Ecoact, the Fund was found to have emitted the equivalent of around 700 tons of CO2 (TeqCO2). Combined with this audit were a number of actions designed to raise employee awareness, reduce GHG and offset impacts.
To supplement this GHG reduction effort, the FRR wanted to offset the emissions that are produced by its business activity. To this end, the FRR opted to work with the technical support of Sagacarbon on this voluntary offset programme.
The FRR chose a hydro-electric project located in Trojes, Mexico (1). The project involves implementing an electrical turbine at the exit point of an intake, in an existing dam that was built to store water from three rivers for irrigation purposes. It avoids producing the level of emissions that are produced by high-emission thermal power plants, and the electricity that is produced is injected into the national network. Beyond its impact on the environment, this project also benefits local communities.
The carbon credits that are generated by this project are validated by the United Nations as part of the flexibility mechanisms introduced under the Kyoto Protocol. The 700TeqCO2 bought in the regulated market (UN Certified Reduction Units) were cancelled, thus neutralizing the carbon footprint of the FRR.

For information:
***EcoAct** is a French-Brazilian organization that was founded in 2005. It is dedicated to the fight against climate change and specializes in carbon strategies.*
***Sagacarbon**, a subsidiary of the Caisse des Dépôts, is responsible for the management and trading of CO2 quotas for its clients. Sagacarbon is a member of Bluenext and ECX.*

(1) Referenced under the title CDM project n°649 clean development mechanism.

FRR Governance
as of 31 December 2009

SUPERVISORY BOARD

Chairman
Raoul Briet

Members from the French Assemblée nationale
Yves Bur
Alternate
Valérie Boyer

Marc Laffineur
Alternate
Bérangère Poletti

Members from the French Sénat
Jean-Jacques Jegou
Alternate
Bertrand Auban

Dominique Leclerc
Alternate
René Teulade

Qualified person
Jean-Louis Beffa
Vice President of the Supervisory Board

Representatives of Social Security beneficiaries appointed by nationally representative trade unions
- **Confédération générale du travail**

Jean-Christophe Le Duigou
Vice Président of the Supervisory Board
Alternate
Pierre-Yves Chanu

- **Confédération générale du travail – Force ouvrière**

Jean-Jacques Poujade
Alternate
Bernard Devy

- **Confédération française démocratique du travail**

Jean-Paul Le Bail
Alternate
Philippe Le Clezio

- **Confédération française des travailleurs chrétiens**

Isabelle Sancerni
Alternate
Michel Moise-Mijon

- **Confédération française de l'encadrement – CGC**

Danièle Karniewicz
Alternate
Alain Dematons

Representatives of self-employed and workers
- **Mouvement des entreprises de France**

Jean-René Buisson
Alternate
Catherine Thibier

Julien Guez
Alternate
Véronique Cazals

Alain Leclair
Alternate
Jean-Claude Guéry
Association française de la gestion financière

■ **Confédération générale des PME**
Jean-François Veysset
Alternate
Georges Tissié

■ **L'Union professionnelle artisanale**
Dany Bourdeaux
Alternatev
Berthe Duguey

Representatives of the Minister in charge of Social Security
Dominique Libault
Alternate
Laurent Habert

Jean-Louis Rey
Alternate
Franck Le Morvan

Representing the Minister of the Economy, Finance and Industry
Hervé de Villeroché
Alternate
Nicolas Carnot

Representing the Minister in charge of the Budget
Philippe Josse
Alternate
Guillaume Gaubert

EXECUTIVE BOARD

Chairman
Augustin de Romanet

Other members
Yves Chevalier
Antoine de Salins

MANAGER SELECTION COMMITTEE
(list drawn up on 4 February 2010)

Chairman
Antoine de Salins

Other members
Nathalie Boullefort-Fulconis,
former deputy CEO of an asset management company
Thierry Coste,
former Chairman-CEO of an asset management company
Jean-François Marie,
former financial company director
Marcel Nicolaï,
former partner-manager of an asset management company

Management structure chart*

SUPERVISORY BOARD

Chairman: **Raoul Briet**
Vice-chairmen: **Jean-Louis Beffa, Jean-Christophe Le Duigou**

MANAGER SELECTION COMMITTEE

Chairman: **Antoine de Salins**
Members: **N. Boullefort-Fulconis, T. Coste, J.-F. Marie, M. Nicolaï**

EXECUTIVE BOARD

Chairmen: **Augustin de Romanet, Yves Chevalier, Antoine de Salins**

Assistants: Brigitte Dahan, Anna Louër

RESPONSIBLE INVESTMENT POLICY

Nada Villermain-Lécolier
Sophie Barbier

COMMUNICATIONS

Christelle Cuzou

AUDITORS

François Fournier
Deputy: Thierry Tacinelli, Marie-Christine Huguet

OPERATIONS DIVISION

Maria Rucli

Deputy director: **Christophe Aubin**
Head of global risk management

Assistants: Martine Carton, Nathalie Lalande

OPERATIONAL RISKS

Jean-Gabriel Balme

FINANCIAL RISK MANAGEMENT AND PERFORMANCE DEPARTMENT

Réka May
Abdelouahid Akarkoub, Arabelle Fontaine, Ronan Meunier, Antoine Peter

LEGAL DEPARTMENT

Bénédicte Paulze d'Ivoy
Anne-Marie Jourdan, François Calonne

MIDDLE-OFFICE DEPARTMENT

Isabelle Boublil
Bernard Pariset

Assistant / Operational relations managers and service providers
Christine Hamelin
Franck Temim, Yves-André Mani, Duc-Tien Bui Van

INFORMATION SYSTEMS, ORGANISATION AND PROJECTS

Sabine Botras
Ronan Hénaff

HUMAN RESOURCES AND MANAGEMENT CONTROL DEPARTMENT

Jeanne Morand
Nicolas Umbach-Bascone, Marie Retault

FINANCE DIVISION

Philippe Aurain
Assistants: Colette Cheuret, Karine Bocquet

STRATEGIC ALLOCATION DEPARTMENT

Jaouhar Mouldi
Pierre-Olivier Billard, Eric Bouyé

ALLOCATION ADVISORY DEPARTMENT

Salwa Boussoukaya-Nasr, Pauline Mercier

DELEGATED MANAGEMENT DEPARTMENT

Jean-Philippe Olivier

Manager selection
Grégoire Badault

Mandate supervision
Antoine Beaugendre, Vincent Cordier, Cristel Kuczko, Jeremy Willems

Non-listed asset management
REAL ESTATE
Marie Aymard-Lefaure
PRIVATE EQUITY AND INFRASTRUCTURE
Françoise Tauzinat

**as at the date of publication of the report (June 2010)*

2009 Financial Statement

The 2009 financial statements reflect a clear consolidation of the FRR's financial position. Permanent capital totalled 29.979 billion euros. However financial assets, marketable securities and cash remain 793 million euros below their fair market value at 31 December 2007.

The sources of funds of the Fund in 2009 were also affected by the crisis because endowments received were down by 380 million euros to 1.461 billion euros compared to 1.841 in 2008. Income from assets accounts for most of this movement because the corresponding social levy recorded a fall of 279 million euros.

Proceeds from life insurance contracts represented €171 124.28 in 2009 which is half of the 2008 level.

The CNIEG contribution was 3.336 billion, above its historic initial level of 3.06 billion euros.

Results for the 2009 were close to even at -133 million euros compared to -2.559 billion euros in 2008. The same applies to valuation variances recorded on the balance sheet which, pursuant to the valuation method applied to the FRR's assets, show the difference between the purchase price and the market value as at 31 December. These variances of -3.977 billion euros at the end of 2008 came to -40 million euros at the end of 2009. These very material differences between the last two financial years demonstrate the scale of the rebound that marked the year 2009.

The breakdown of the financial results enables us to identify more precisely how each item of income or expense has contributed to the final annual results.

Income from marketable securities (interest and dividends) returned to its 2007 level at 881 million euros.

Thanks to an active strategy developed in 2009, forex transactions contributed a net gain of 482.5 million euros because all of the currencies to which the FRR has exposure fell in value compared to the euro. In addition, index swap transactions contributed 150 million euros to the 2009 results.

Conversely, disposals of marketable securities had a negative effect on financial results amounting to 1.566 billion euros arising as the mandates were renewed during the course of 2009. To the extent that the proceeds of these disposals were immediately reinvested when the markets were at a low point, particularly in March 2009, the impact of this accounting result should be viewed in a relative light financially.

Finally, forward financial instruments (futures) which had had a negative impact on the 2008 results (-1.326 billion euros) ended the year practically even in 2009 with a loss limited to 55 million euros.

Balance sheet

in euros

ASSETS	31/12/2009	31/12/2008
Long term assets	**486 898.64**	**477 005.48**
Receivables	**14 014 218 314.91**	**11 980 612 476.21**
Endowments allocated to the FRR receivable	110 156 516.22	35 697 158.35
Receivables from operations	0.00	0.00
Receivables on financial instruments	101 310 766.38	57 100 065.78
Receivables on forex transactions	13 773 154 766.46	11 826 364 529.39
Receivables on financial futures	29 596 265.85	61 450 722.69
Marketable securities	**31 159 182 689.62**	**24 405 802774.09**
Equities	14 728 511 734.58	12 029 436 496.60
Bonds	11 894 200 443.81	11 674 659 166.91
Negotiable debt instruments	3 866 912 939.79	425 633 918.50
UCITS (OPCVM)	447 616 483.20	118 533 302.42
Private equity	221 941 088.24	157 539 889.66
Cash and equivalent	**2 316 673 324.28**	**2 745 592 624.84**
Prepaid expenses	**232 536.41**	**30 219.79**
TOTAL	47 490 793 763.86	39 132 515 100.41

LIABILITIES	31/12/2009	31/12/2008
Equity capital	**29 973 364 267.26**	**24 708 301 668.03**
Endowments	26 068 461 679.37	24 607 005 853.79
Reserves	4 078 228 303.87	6 637 716 246.07
Valuation variance	-39 770 653.51	-3 976 932 489.63
Income or loss for the year	-133 555 062.47	-2 559 487 942.20
Liabilities	**17 515 187 293.76**	**14 421 729 145.93**
Prepaid endowments allocated to FRR	93 779 873.85	0.00
CNIEG non-recurring contribution	3 335 613 175.49	2 912 325 327.14
Payables from operations	32 244 048.46	56 279 497.44
Payables on financial instruments	51 970 069.83	19 490 328.86
Payables on forex transactions	14 000 639 452.29	11 417 646 082.51
Payables on financial futures	940 673.84	15 987 909.98
Prepaid income	**2 242 202.84**	**2 484 286.45**
TOTAL	47 490 793 763.86	39 132 515 100.41

Income statement

EXPENSES	2009	2008
Outside services	54 032 101.33	72 452 264.64
Taxes and duties	102 600.32	95 682.60
Payroll	1 180 752.26	1 020 631.76
Amortization	186 265.50	205 057.78
Operating expenses	**55 501 719.41**	**73 773 636.78**
Currency translation losses	1 451 539 690.71	1 620 683 643.02
Expenses on financial futures	546 450 601.59	1 827 246 408.21
Expenses on sale of securities	2 545 629 568.79	2 940 815 447.88
Other financial expenses	140 343 333.23	2 668 838.41
Interest expense on CNIEG contribution	-14 862 796.92	-318 546 041.77
Finance expenses	**4 669 100 397.40**	**6 072 868 295.75**
Non-recurring expenses	**0.00**	**1 987.63**
Total expenses	**4 724 602 116.81**	**6 146 643 920.16**
Net result for the period	**-133 555 062.47**	**-2 559 487 942.20**
TOTAL	4 591 047 054.34	3 587 155 977.96

INCOME	31/12/2009	31/12/2008
Income from marketable securities	881 197 949.53	1 030 789 512.78
Currency translation gains	1 934 032 775.85	1 198 464 349.83
Income on financial futures	490 989 151.21	500 861 119.98
Income from sale of securities	979 579 427.88	772 415 830.55
Other financial income	305 193 138.09	84 476 905.13
Financial income	**4 590 992 442.56**	**3 587 007 718,27**
Non-recurring income	**54 611.78**	**148 259.69**
Total income	**4 591 047 054.34**	**3 587 155 977.96**
TOTAL	4 591 047 054.34	3 587 155 977.96

Notes to the financial statements

for the year ended 31/12/2009

Significant accounting policies and methods

The FRR's financial statements are prepared in accordance with generally accepted accounting standards set out in the chart of accounts applicable to Social Security organizations and in opinion n°2003-07 of 24 June 2003 issued by the CNC (Conseil Nationale de la Comptabilité) as amended by opinion n°2008-10 of 5 June 2008.

The generally accepted accounting standards have been applied in compliance with the principles of conservatism, regularity, truth and fairness of view in accordance with the fundamental assumptions of operation as a going concern, consistency of accounting policies and accrual accounting.

The FRR's accounts are stated in euros, positions of FRR mandates in foreign currencies are valued and accounted for on the basis of exchange values calculated using WM/Reuters closing spot rates.

Transactions are recorded on the relevant trading date. Since 30 November 2006, transactions on investment securities are recorded inclusive of fees in accordance with the CNC opinion dated 31 March 2006.

The weighted average cost price (WACP) rule is used for realised capital gains or losses on securities. For futures, the FIFO (first in first out) rule is used.

Asset values are calculated on the basis of positions held on Friday evening or the last TARGET business day of the week, and the last TARGET business day of the month. The default price is the closing price on the issuer's benchmark market, case by case on the principal quotation market.

In the event that price quotes are not available on the day of valuation, assets are valued on the basis of the last known price or using a predefined procedure in the case of previously established prices.

Bond valuations are based on the principle of a Bid quotation from offered prices communicated by various financial services providers.

Accrued coupon interest on buy or sell transactions as well as at the end of period valuation are expressed with respect to the value date. This accounting policy is related to the fact that operations are accounted for as of the date of the trade.

BTF and BTAN French sovereign debt securities are valued on the basis of published Banque de France rates on the date of valuation.

Negotiable debt instruments (and equivalent) for which transaction amounts are not significant are valued on an actuarial basis, based on the zero coupon rate of the same maturity, plus the issuer spread where applicable.

OPCVM (UCITS) are valued on the basis of the last known net asset value. ETFs (exchange traded funds) are valued on the basis of the last quoted price.

Private equity funds are valued on the basis of the last valuation communicated by the managers.

Financial futures instruments traded on a regulated market or the equivalent and related commitments are valued on the basis of the settlement price.

Forex futures positions are valued and amortized on a straight-line basis based on the amount of the initial report/deport and the valuation of the currency position based on WM/Reuters closing spot rates.

Swaps are valued based on price information transmitted by the counterparty, under the supervision of the manager, and also formally controlled at various levels set up within the FRR.

Unrealized gains and losses and translation differences are accounted for as valuation variances and have no impact on the Fund's income statement.

Withholding tax rebates are accounted for as and when received.

Realized gains and losses and definitive translation differences are credited to or charged against income.

Tangible fixed assets are amortized on a straight-line basis over three years.

Intangible fixed assets primarily related to the user licenses for the SPIRRIS software and related maintenance, are amortized over 5 years on a straight-line basis.

The non-recurring, lump-sum contribution mentioned in article 19 of L. 2004-803 of August 9, 2004 and paid to the FRR by the CNIEG, pursuant to the April 20, 2005 decision by the Haut Conseil interministériel de la comptabilité des organismes de Sécurité sociale, is accounted for and carried as a liability in the FRR's financial statements.

In accordance with amendment n° 1 dated 20 March 2009, amending the agreement dated 12 July 2005, entered into between FRR and the CNAVTS, the FRR henceforth determines the proportion of the balancing payment on an annual basis.

The fees paid to management companies are based on a fees scale that assigns a number of basis points per tranche of assets under management.

Certain mandates receive variable fees for outperforming their benchmark index by a given margin. Outperformance is defined as the positive mathematical difference between the performance of the portfolio and that of the benchmark. These fees are payable at the end of the mandate if the outperformance is sustained over the life of the mandate.

Presentation of the financial statements

For reader convenience, certain classifications have been made with respect to these financial statements:

Balance sheet

The various line items are presented as net values and take into account amortization (for long-term fixed assets) and valuation variances (for financial assets and liabilities).

"Endowments allocated to the FRR receivable" represent the total endowments allocated to the FRR at the accounting cut-off date, although not yet received at such date, but known by the time the financial statements are prepared. "Prepaid endowments allocated to the FRR" represent the amounts actually received by the FRR by the accounting cut-off date, but which are attributable to the 2010 financial year.

"Payables on financial instruments" and "receivables on financial instruments" include securities transactions carried out by investment firms but for which settlement is pending (coupon interest due and payable or receivable, sales or purchases pending settlement).

"Payables on forex transactions" and "receivables on forex transactions" include pending transactions involving currencies, regardless of whether they are over-the-counter cash transactions or related to futures contracts.

"Payables on financial futures" and "receivables on financial futures" include pending transactions related to futures (margin payable or receivable, security deposit) and swaps (amounts payable or receivable).

"Marketable securities" fall under one of five categories: equities, bonds, negotiable debt instruments (NDI), UCITS (OPCVM) and private equity. They are recorded and carried at their fair market value, including accrued coupon interest for bonds and NDIs.

The line item "Cash and equivalent" includes all of the FRR's cash accounts stated in euros or in other currencies (at their year-end exchange values) as well as accrued interest on these demand and term deposits.

"Equity capital" includes:

- "Endowments", which are the monies the Fund has received since the date of its inception in 1999,
- "Reserves", which correspond to the aggregate returns the Fund has generated since its inception,
- "Valuation variances", which represent the unrealized capital gains and losses recorded for all assets on the December 31, 2009 reporting date,
- Net income or loss for the year.

The line item "CNIEG non-recurring contribution" includes:

- the terms and conditions under which the CNIEG electricity and gas industry fund (Caisse nationale des industries électriques et gazières) pays the FRR the non-recurring, lump-sum contribution mentioned in article 19 of L. 2004-803 of August 9, 2004 were laid down by order of the Minister of Solidarity, Health and the Family on January 31, 2005. Pursuant to this order, the CNIEG paid the FRR the sum of 3,060,000,000 euros during the second quarter of 2005.
- interest paid to the FRR by the CNIEG pursuant to the order dated 31 January, 2005,
- a proportionate share of the income for the period, net of management fees, which corresponds to interest earned by the FRR on the cash sum provided by the CNIEG,
- the share in the FRR's total unrealized capital gains or losses at the reporting date.

Changes in the value of marketable securities in the portfolio

PORTFOLIO ON 31 DECEMBER 2008

	Purchase price	Valuation variances[1]	Accrued interest	Book value
Equities	16 923 938 985.90	-4 894 502 489.30	-	12 029 436 496.60
Bonds	11 405 710 335.49	36 298 802.14	232 650 029.28	11 674 659 166.91
NDI	450 406 670.52	-25 097 160.29	324 408.27	425 633 918.50
UCITS	136 951 026.99	-18 417 724.57	-	118 533 302.42
Private equity	187 542 618.18	-30 002 728.52	-	157 539 889.66
TOTAL	**29 104 549 637.08**	**-4 931 721 300.54**	**232 974 437.55**	**24 405 802 774.09**

PORTFOLIO ON 31 DECEMBER 2009

	Purchase price	Valuation variances[1]	Accrued interest	Book value
Equities	15 004 427 289.31	-275 915 554.73	-	14 728 511 734.58
Bonds	11 384 203 575.27	293 598 475.36	216 398 393.18	11 894 200 443.81
NDI	3 834 708 815.66	25 519 153.81	6 684 970.32	3 866 912 939.79
UCITS	415 441 468.59	32 175 014.61	-	447 616 483.20
Private equity	271 022 568.65	-49 081 480.41	-	221 941 088.24
TOTAL	**30 909 803 717.48**	**26 295 608.64**	**223 083 363.50**	**31 159 182 689.62**

	31/12/2008	31/12/2009
Equities	12 029 436 496.60	14 728 511 734.58
Bonds	11 674 659 166.91	11 894 200 443.81
NDI	425 633 918.50	3 866 912 939.79
UCITS	118 533 302.42	447 616 483.20
Private equity	157 539 889.66	221 941 088.24
TOTAL	**24 405 802 774.09**	**31 159 182 689.62**

1/Valuation variances before allocation of CNIEG share.

Analysis of Portfolio by remaining term to maturity

	31/12/2008	31/12/2009
<3 months	2.71%	17.12%
> 3 months < 1 yr	3.18%	6.81%
1 to 3 yrs	14.36%	11.62%
3 to 5 yrs	15.80%	16.28%
5 to 7 yrs	9.59%	9.21%
7 to 10 yrs	21.52%	13.68%
10 to 15 yrs	11.76%	10.44%
> 15 yrs	21.08%	14.84%
	100.00%	**100.00%**

Analysis of Portfolio by coupon type

	31/12/2008	31/12/2009
Fixed	91.14%	79.34%
Indexed	8.31%	20.20%
Floating	0.55%	0.46%
	100.00%	**100.00%**

Analysis of securities Portfolio by currency of listing

Currency	Equities	Bonds	NDI	UCITS(3)	LP and FCPR	Total
AUD	300 574 220.07	5 147 821.73	-	-	-	305 722 041.80
CAD	171 753 300.68	7 683 055.98	-	-	-	179 436 356.66
CHF	311 777 896.89	-	-	-	-	311 777 896.89
DKK	76 359 803.00	-	-	-	-	76 359 803.00
EUR	8 153 726 050.56	10 639 213 169.43	2 458 227 786.61	1 950.18	123 210 732.00	21 374 379 688.78
GBP	893 507 723.84	152 829 590.57	-	1 307 576.06	-	1 047 644 890.47
HKD	190 901 127.43	-	-	-	-	190 901 127.43
JPY	587 393 219.96	155 195 436.32	-	-	-	742 588 656.28
NOK	63 767 729.33	-	-	-	-	63 767 729.33
NZD	5 170 897.87	-	-	-	-	5 170 897.87
SEK	104 563 908.74	11 856 434.05	-	-	-	116 420 342.79
SGD	75 134 504.10	-	-	-	-	75 134 504.10
USD	3 793 881 352.11	922 274 935.73	1 406 442 950.34	446 306 956.96	98 730 356.24	6 667 636 551.38
TOTAL NET of PPI(5)	**14 728 511 734.58**	**11 894 200 443.81**	**3 864 670 736.95**	**447 616 483.20**	**221 941 088.24**	**31 156 940 486.78**

		PPI on French commercial paper (BTF)		1 987 023.19		
		PPI on foreign commercial paper (BTE)		255 179.65		
		PPI on certificates of deposit		-		
		TOTAL PPI	**2 242 202.84**			

TOTAL PORTFOLIO	**114 728 511 734.58**	**11 894 200 443.81**	**3 866 912 939.79**	**447 616 483.20**	**221 941 088.24**	**31 159 182 689.62**

3/ Incl. Exchange Traded Funds 4/ Limited Partnership and venture capital fund 5/ PPI: Pre-paid interest

Itemised statement of securities at 31 December 2009

Marketable securities	Total net of PPI	PPI	Total Portfolio
Equities			
Europe euro zone	8 153 726 050.56	-	8 153 726 050.56
Europe ex-euro zone	1 449 977 061.80	-	1 449 977 061.80
US	3 965 634 652.79	-	3 965 634 652.79
Asia ex Japan	571 780 749.47	-	571 780 749.47
Japan	587 393 219.96	-	587 393 219.96
	14 728 511 734.58	**-**	**14 728 511 734.58**
Bonds			
Europe euro zone	10 639 213 169.43	-	10 639 213 169.43
Europe ex-euro zone	164 686 024.62	-	164 686 024.62
US	929 957 991.71	-	929 957 991.71
Asia ex Japan	5 147 821.73	-	5 147 821.73
Japan	155 195 436.32	-	155 195 436.32
	11 894 200 443.81	**-**	**11 894 200 443.81**
Negotiable debt instruments			
Europe euro zone	2 458 227 786.61	1 987 023.19	2 460 214 809.80
US	1 406 442 950.34	255 179.65	1 406 698 129.99
	3 864 670 736.95	**2 242 202.84**	**3 866 912 939.79**
UCITS			
Europe euro zone	1 950.18	-	1 950.18
Europe ex-euro zone	1 307 576.06	-	1 307 576.06
US	446 306 956.96	-	446 306 956.96
	447 616 483.20	**-**	**447 616 483.20**
Private equity			
Europe	123 210 732.00	-	123 210 732.00
US	98 730 356.24	-	98 730 356.24
	221 941 088.24	**-**	**221 941 088.24**
TOTAL	**31 156 940 486.78**	**2 242 202.84**	**31 159 182 689.62**

Endowments allocated to the FRR receivable

ACOSS – Employee savings	2 688 437.91
SCBCM MINEFE	100 819 856.18
Social contribution on asset revenues (individual and supplementary rolls nov. 2009)	*2 214 127.03*
Social contribution on asset revenues (general roll dec. 2009)	*5 632 437.34*
Accrued income on asset revenues (individual and supplementary rolls nov. & dec. 2009)	*22 651 899.76*
Accrued income in respect of social levy (2%) and additional levy (0.3%) on investment income	*70 321 392.05*
Caisse des dépôts et consignations	6 648 222.13
Participation of building and public works employees	*436 412.11*
Prescribed consignments	*6 211 810.02*
TOTAL	**110 156 516.22**

Prepaid endowments allocated to the FRR

SCBCM MINEFE	
Deferred revenue in respect of social levy (2%) and additional levy (0.3%) on investment income	*93 779 873.85*
TOTAL	**93 779 873.85**

Current liabilities

LIABILITIES	31/12/2009	> 1 YR	< 1 YR
Government and social security	39 623.20	-	39 623.20
Other liabilities	32 204 425.26	-	32 204 425.26
TOTAL	32 244 048.46	-	32 244 048.46

Receivables on financial management

RECEIVABLES	31/12/2009
related to financial instruments	
Interest due and immediately payable	31 536 127.98
Interest accrued not yet due	-
Sales pending settlement	69 774 638.40
TOTAL	101 310 766.38
relating to forex transactions	
Forward purchases	854 772 234.44
Forex forward receivables	12 910 271 275.72
Forex spot receivables	837 842.09
Discount/deport	7 273 414.21
TOTAL	13 773 154 766.46
relating to financial futures	
Security deposits	14 469 193.59
Margin receivable	2 883 649.65
Valuation variance on swap contract	12 243 422.61
TOTAL	29 596 265.85

Payables on financial management

PAYABLES	31/12/2009
relating to financial instruments	
Purchased pending settlement	51 970 069.83
TOTAL	51 970 069.83
relating to forex transactions	
Forward sales	13 144 661 368.49
Foreign forwards payable	843 684 840.61
Foreign spots payable	840 613.94
Report	11 452 629.25
TOTAL	14 000 639 452.29

Change in equity

	31/12/2008	31/12/2009	EVOLUTION
Endowments	24 607 005 853.79	26 068 461 679.37	5.94 %
Reserves	6 637 716 246.06	4 078 228 303.87	-38.56 %
Valuation variances	-3 976 932 489.63	-39 770 653.51	-99.00 %
Net income or loss for the year	-2 559 487 942.20	-133 555 062.47	-94.78 %
	24 708 301 668.03	29 973 364 267.26	21.31 %

CNIEG non-recurring contribution

APPLICATION OF THE CNAV-FRR AGREEMENT

Total equity at 31/12/2008	24 708 301 668.03
Endowments 2009	1 461 455 825.58
CNIEG payment at 31/12/2008	2 912 325 327.13
	29 082 082 820.74
CNAV share at 31/12/2009	**10.01 %**

Endowments

Cumulative endowments at 31/12/2008	24 607 005 853.79
Cumulative endowments at 31/12/2009	26 068 461 679.37
	1 461 455 825.58

Breakdown at 31 December 2009	31/12/2008	31/12/2009	Carried forward
Operating expenses		-55 501 719.41	-55 501 719.41
Financial result		-92 970 751.76	-92 970 751.76
Non-recurring result		54 611.78	54 611.78
TOTAL RESULT		**-148 417 859.39**	**-148 417 859.39**
Valuation variance, private equity	-30 002 728.52	-49 081 480.41	-19 078 751.89
Valuation variance, forex	-21 870 484.49	3 330 832.78	25 201 317.27
Valuation variance, forex futures	408 887 827.52	-230 068 686.10	-638 956 513.62
Valuation variance, derivatives	9 795 481.79	14 245 743.46	4 450 261.67
Valuation variance, swaps	-14 357 084.28	12 243 422.61	26 600 506.89
Valuation variance, marketable securities	-4 901 718 572.02	75 377 089.05	4 977 095 661.07
VALUATION VARIANCE TOTAL	**-4 549 265 560.00**	**-173 953 078.61**	**4 375 312 481.39**

[Financial and non-recurring income] – [operating expenses]	-148 417 859.39
Percentage share	10.01 %
TO BE CARRIED AS A DEBIT FOR CNAV	**-14 862 796.92**

Valuation variance	4 375 312 481.39
Percentage share	10.01 %
TO BE CARRIED AS A DEBIT FOR CNAV	**438 150 645.27**

Recap

Financial income less operating expenses	-14 862 796.92
Valuation variance (unrealized capital gains)	438 150 645.27
TOTAL	**423 287 848.35**

REMINDER : CNIEG CONTRIBUTION AT 31/12/2008 ***2 912 325 327.13***

CNIEG CONTRIBUTION AT 31/12/2009 **3 335 613 175.48**

Cash and equivalent

CURRENCIES	TOTAL
AUD	13 389 101.25
CAD	18 377 999.48
CHF	9 587 155.86
DKK	419 045.85
EUR	2 013 855 131.66
GBP	41 104 122.52
HKD	5 856 608.98
JPY	29 224 194.04
NOK	1 809 168.90
NZD	30 581.41
SEK	3 022 581.83
SGD	295 610.94
USD	179 702 021.56
TOTAL	**2 316 673 324.28**

Operating expenses

	MONTANT
Outside services	**54 032 101.33**
Administrative management (Caisse des dépôts)	23 570 729.34
Fees paid to investment firms	27 166 902.64
Other outside services	3 294 469.35
Of which brokerage fees on financial futures	*2 305 801.62*
Taxes and duties	**102 600.32**
Payroll	**1 180 752.26**
Amortization	**186 265.50**
TOTAL	**55 501 719.41**

Prepaid interest

Prepaid interest came to 2 242 202.84 €. This concerns prepaid interest on certain negotiable debt securities (BTF, CDN, foreign commercial paper).

Off-Balance sheet commitments

FINANCIAL FUTURES AGREEMENTS

Currency code	Currency deliverable[7]	%	Currency receivable[8]	%
AUD	0.00	0.00	291 833 532.67	2.26
CAD	0.00	0.00	748 666 508.77	5.81
CHF	1 338 688.09	0.16	840 988 525.17	6.51
DKK	0.00	0.00	74 975 415.51	0.58
GBP	7 262 229.64	0.86	1 194 809 274.26	9.25
HKD	0.00	0.00	164 031 472.13	1.27
JPY	0.00	0.00	1 199 388 664.00	9.29
NOK	2 426 922.88	0.29	57 389 006.92	0.44
NZD	0.00	0.00	4 589 586.88	0.04
SEK	0.00	0.00	110 459 516.76	0.86
SGD	0.00	0.00	60 844 870.61	0.47
USD	832 657 000.00	98.69	8 162 294 902.04	63.22
TOTAL	**843 684 840.61**	**100.00**	**12 910 271 275.72**	**100.00**

7 / Corresponds to forward forex purchases. *8 / Corresponds to forward forex sales.*

Other commitments

VALUE OF OFF-BALANCE SHEET COMMITMENTS ON DERIVATIVES

Forex futures

Buy position

Code	Description	Currency	Price	Value of Off-BS commitment
EC0310	CHI FUTUR EUR/U 0310	USD	1.43	749 544 066.96
TOTAL				**749 544 066.96**

Index futures

Buy position

Code	Description	Currency	Price	Value of Off-BS commitment
AP0310	SYD FUTURE SPI2 0310	AUD	4 879.00	23 778 740.68
AP0310	SYD FUTURE SPI2 0310	AUD	4 879.00	458 753.84
BXF0110	BEL FUTURE BEL2 0110	EUR	2 513.30	19 050 814.00
EMD0310	CHI FUTURE SPI4 0310	USD	724.90	25 211 716.33
FCE0110	Mar CAC40 0110	EUR	3 941.50	156 753 455.00
FCE0110	Mar CAC4 0110	EUR	3 941.50	1 064 205.00
FDAX0310	EUR FUTURE DAX 0310	EUR	5 959.50	310 638 937.50
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	397 802 200.00
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	3 804 160.00
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	15 454 400.00
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	1 812 920.00
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	4 428 280.00
FESX0310	EUR DJ EURO STO 0310	EUR	2 972.00	832 160.00
FTI0110	AEX FUTURE AEX 0110	EUR	335.50	89 712 700.00
GI0110	CHI FUTUR GOLDM 0110	USD	525.00	49 124 411.92
HSI0110	HKF HANG SENG I 0110	HKD	21 925.00	12 908 535.66
HSI0110	HKF HANG SENG I 0110	HKD	21 925.00	985 384.40
RTA0310	ICE RUSSELL 200 0310	USD	630.70	34 859 390.14
SP0310	CHI SP500 0310	USD	1 110.70	4 451 315.56
SP0310	CHI SP500 0310	USD	1 110.70	2 128 890.05
TP0310	TOK TOPIX 0310	JPY	904.50	58 644 017.66
TP0310	TOK TOPIX 0310	JPY	904.50	474 027.86
Z0310	LIF FTSE100 0310	GBP	5 361.50	1 810 400.13
Z0310	LIF FTSE100 0310	GBP	5 361.50	2 172 480.16
TOTAL				**1 218 362 295.89**

Sell position

Code	Description	Currency	Price	Value of Off-BS commitment
FSMI0310	EUR FUTURE SMI 0310	CHF	6 490.00	66 950 072.48
NQ0310	CHI NASDAQ 100 0310	USD	1 858.75	5 052 535.29
YM0310	CBO FUTURE DJ M 0310	USD	10 365.00	39 588 917.93
Z0310	LIF FTSE100 0310	GBP	5 361.50	147 849 344.36
ES0310	CHI FUTUR SPMIN 0310	USD	1 110.70	105 167 168.50
TOTAL				**364 608 038.56**

Interest rate futures

Buy position

Code	Description	Currency	Price	Value of Off-BS commitment
FGBL0310	EUR EURO BUND F 0310	EUR	121.19	156 941 050.00
FGBL0310	EUR EURO BUND F 0310	EUR	121.19	56 474 540.00
FGBM0310	EUR EURO BOBL F 0310	EUR	115.66	124 565 820.00
FGBM0310	EUR EURO BOBL F 0310	EUR	115.66	56 904 720.00
FGBS0310	EUR EURO SCHATZ 0310	EUR	107.96	74 816 280.00
FGBS0310	EUR EURO SCHATZ 0310	EUR	107.96	117 028 640.00
FGBS0310	EUR EURO SCHATZ 0310	EUR	107.96	23 859 160.00
FGBX0310	EUR FUTURE EURO 0310	EUR	96.72	57 064 800.00
FGBX0310	EUR FUTURE EURO 0310	EUR	96.72	50 584 560.00
I0310	LIF 3MO EURO EU 0310	EUR	99.24	33 491 812.50
I0610	LIF 3MO EURO EU 0610	EUR	98.88	23 482 812.50
I0910	LIF 3MO EURO EU 0910	EUR	98.49	8 371 650.00
I1210	LIF 3MO EURO EU 1210	EUR	98.15	4 416 525.00
TOTAL				**788 002 370.00**

Sell position

Code	Description	Currency	Price	Value of Off-BS commitment
FGBL0310	EUR EURO BUND F 0310	EUR	121.19	167 605 770.00
FGBL0310	EUR EURO BUND F 0310	EUR	121.19	45 082 680.00
FGBM0310	EUR EURO BOBL F 0310	EUR	115.66	73 444 100.00
FGBM0310	EUR EURO BOBL F 0310	EUR	115.66	46 264 000.00
FGBS0310	EUR EURO SCHATZ 0310	EUR	107.96	101 374 440.00
FV0310	CBO UST NOTE 5 0310	USD	114.38	129 628 097.24
JGB0310	TOK JPN 10Y BON 0310	JPY	139.70	37 652 703.07
R0310	LIF GILT FUTURE 0310	GBP	114.45	10 820 867.80
SXF600310	MON FUTURE TSE6 0310	CAD	690.80	12 951 638.85
TY0310	CBO T NOTE US 1 0310	USD	115.45	26 313 414.80
TOTAL				**651 137 711.76**

OFF-BALANCE SHEET COMMITMENTS ON SWAPS

Commodity swaps

Code	Description	Currency	Nominal commitment in €
SWAP412331	Swap SG2 GSCI Energy & Metals	USD	315 753 110.29
SWAP426600	Swap SG3 GSCI Energy & Metals	USD	463 955 902.58
SWAP426605	Swap CS4 GSCI Energy & Metals	USD	453 040 599.41
TOTAL			**1 232 749 612.28**

Investment funds

		Panthéon Ventures	Access Capital Partners	Antin Infrastructures	Total
Initial commitments	EUR	550 000 000	300 000 000	50 000 000	900 000 000
Balance from previous period	EUR	55 055 000	45 000 000	0	100 055 000
Payments during the period	EUR	27 500 000	15 000 000	18 446 508[9]	60 946 508
Distribution of assets	EUR	0	0	0	0
Balance on accounting cut-off date	EUR	82 555 000	60 000 000	18 446 508	161 001 508
Valuation on accounting cut-off date	EUR	61 465 118	44 494 864	17 250 750	123 210 732

		NBEL[10]	Axa IM Private Equity Europe	Total		NBEL[10]	Axa IM Private Equity Europe	Total
Initial commitments	USD	280 711 144	198 000 000	478 711 144	EUR[11]	195 651 597	138 003 129	333 654 726
Balance from previous period	USD	74 853 720	52 067 454	126 921 174	EUR[12]	51 271 927	36 215 691	87 487 618
Payments during the period	USD	24 824 638	5 898 020	30 722 658	EUR[12]	18 478 008	4 055 433	22 533 441
Distribution of assets	USD	0	0	0	EUR[12]	0	0	0
Valuation on accounting cut-off date	USD	99 678 358	57 965 474	157 643 832	EUR[12]	69 749 935	40 271 124	110 021 059
Valuation on accounting cut-off date	USD	94 870 953	46 770 645	141 641 598	EUR[11]	66 123 679	32 606 677	98 730 356
Total initial commitments (EUR)								**1 233 654 726**
Total net payments over the period (EUR)								**83 479 949**
Total valuation on accounting cut-off date (EUR)								**221 941 088**

9/ of which 256 508€ paid with respect to the commission premium and the subscription premium in accordance with the rules of the fund.
10/ Neuberger Berman Europe Limited ex Lehman Brothers Int. Europe
11/ Based on $ vs € exchange rate of 0.6969855 on the accounting cut-off date
12/ Based on $ vs € exchange rate on the date of the transaction.

Additional information

Transactions on futures markets.

SECURITIES AND CASH ON DEPOSIT AT 31/12/2009

Code	Description	Amount	Cost price	Market price
AU300TB01216	AUSTRALIA 5.25 15/08/10	8 000	4 688 597.71	5 147 821.73
FR0116114945	BTF 11/03/10	100 000 000	100 000 000.00	99 907 701.94
FR0117173718	BTF 29/07/10	100 000 000	100 000 000.00	99 658 641.47
GB00B0LNX641	GILT 4.25 07/03/11	25 000 000	29 728 892.44	29 666 118.01
JP1050461555	JAPAN 0.5 20/03/10 N.46	30 000	11 648 288.74	11 254 926.72
US912795U411	USA TREASURY BILL 06/05/10	100 000 000	70 886 618.28	69 674 119.53
US912795U585	USA TREASURY BILL 03/06/10	50 000 000	35 646 811.40	34 823 377.59
SUB-TOTAL SECURITIES			352 599 208.57	350 132 706.99

Code	Description	Amount	Cost price	Market price
DG.AUD	DEPOSIT AUD	36 000	22 253.20	22 566.28
DG.CAD	DEPOSIT CAD	2 199 600	1 370 690.45	1 462 402.76
DG.EUR	DEPOSIT EUR	1 589 280	1 589 280.00	1 589 280.00
DG.EUR	DEPOSIT EUR	1 566 300	1 566 300.00	1 566 300.00
DG.EUR	DEPOSIT EUR	5 562 150	5 562 150.00	5 562 150.00
DG.EUR	DEPOSIT EUR	1 450 800	1 450 800.00	1 450 800.00
DG.EUR	DEPOSIT EUR	67 500	67 500.00	67 500.00
DG.EUR	DEPOSIT EUR	170 190	170 190.00	170 190.00
DG.EUR	DEPOSIT EUR	357 120	357 120.00	357 120.00
DG.EUR	DEPOSIT EUR	415 710	415 710.00	415 710.00
DG.EUR	DEPOSIT EUR	78 120	78 120.00	78 120.00
DG.GBP	DEPOSIT GBP	74 250	83 147.68	83 572.51
DG.GBP	DEPOSIT GBP	89 100	99 494.88	100 287.01
DG.HKD	DEPOSIT HKD	10 276 950	938 886.62	923 762.48
DG.HKD	DEPOSIT HKD	784 500	69 574.38	70 516.22
DG.JPY	DEPOSIT JPY	2 100 000	15 933.44	15 722.31
DG.USD	DEPOSIT USD	517 500	375 091.39	360 690.01
DG.USD	DEPOSIT USD	247 500	171 118.28	172 503.92
SUB-TOTAL CASH			14 403 360.32	14 469 193.50
TOTAL			367 002 568.89	364 601 900.49

Management fees

VARIABLE FEES OUTPERFORMANCE COMMISSION

The value at the accounting cut-off date of outperformance commission payable on expiry of the relevant management mandates totals 5 352 986.84 €.

Prior period results

	31/12/2006	31/12/2007	31/12/2008	31/12/2009
Results for the period	2 133 257 018.38	2 724 542 270.38	-2 559 487 942.20	-133 555 062.47

Results for prior periods are set aside as reserves.

Table of staff paid directly by the FRR

WORKFORCE BREAKDOWN BY EMPLOYMENT CATEGORY

CATEGORY	OPEN-ENDED CONTRACTS	FIXED TERM CONTRACTS	TEMPORARY	OTHERS	TOTAL
EXECUTIVES	2	-	-	-	2
MANAGERS	3	-	-	-	3
NON-MANAGEMENT	5	-	-	-	5
TOTAL	10	-	-	-	10
OTHERS[13]	-	-	-	1	-

13 / Chairman of the Supervisory Board. Payment of an indemnity

Long term fixed assets

TABLE OF LONG-TERM FIXED ASSETS AND AMORTIZATIONS

	Long-term fixed assets			Amortizations			
Line items	Gross value start of period	Increase	Gross value end of period	Cumulative at start of period	Allowances	Cumulative at the end of period	Net book value
Intangible assets	1 182 827.02	196 158.66	1 378 985.68	-709 467.12	-183 824.57	-893 291.69	485 693.99
I - TOTAL	1 182 827.02	196 158.66	1 378 985.68	-709 467.12	-183 824.57	-893 291.69	485 693.99
Tangible assets	10 498.91	0.00	10 498.91	-6 853.33	-2 440.93	-9 294.26	1 204.65
II - TOTAL	10 498.91	0.00	10 498.91	-6 853.33	-2 440.93	-9 294.26	1 204.65
OVERALL TOTAL	1 193 325.93	196 158.66	1 389 484.59	-716 320.45	-186 265.50	-902 585.95	486 898.64

Statutory auditors' report on the annual financial statements

Year ended December 31, 2009

In compliance with the assignment entrusted to us by the Supervisory Board, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying annual financial statements of Fonds de Réserve pour les Retraites (hereinafter the "Fund");
- the justification of our assessments;
- the specific verifications and information required by law.

These annual financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the Fund's financial position and its assets and liabilities, as of December 31, 2009 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code du commerce) relating to the justification of our assessments, we bring to your attention the following matters:

The financial statements have been prepared in a context of markets volatility and uncertain economic outlooks with respect to the future that already existed at the 2008 year-end closing. It is in this context that we conducted our own assessments, which we bring to your attention.

Our assessments concerned, in particular, the correct application of the accounting policies used by the Fund as set out in Notice n°2003-07 dated 24 June 2003 of the CNC, the French National Accounting Council and revised by Notice n°2008-10 dated 5 June 2008 of the CNC.

As part of our assessment of the rules and accounting methods applied in relation to the financial instruments in the portfolio, we verified the appropriateness of these rules and methods and the disclosures provided in the note to the financial statements We also verified the correct application of these rules and methods.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report with respect to the financial position and the financial statements.

Levallois-Perret, Paris La Défense, April 16, 2010.

Constantin Associés

Françoise Constant
Partner

Mazars

Pierre Masiéri
Partner

Gilles Dunand-Roux
Partner

Asset management firms selected by the FRR(1)

at 31 December 2009

Eurozone large caps, passive management

Indicative lot size: € 3 Bn
for a period of 3 yrs(2)

• BlackRock Advisors (UK) Limited
• CCR AM
• Vanguard Investments Europe SA

Eurozone mid and large caps, passive management

Indicative lot size: € 1 Bn
for a period of 4 yrs(2)

• BlackRock Advisors (UK) Limited

European small caps, active management

Indicative lot size: € 600 M
for a period of 4 yrs(2)

• Allianz Global Investors France (RCM, Francfort)
• Kempen Capital Management
• Montanaro Fund Managers
• Scottish Widows Investment Partners
• Threadneedle Asset Management

European mid and large caps, low tracking error management

Indicative lot size: € 2 Bn
for a period of 4 yrs(2)

• State Street Global Advisors France SA
• Robeco Institutional Asset Management BV

European mid and large caps, SRI (socially responsible investment) active management

Indicative lot size: € 600 M
for a period of 5 yrs(2)

• Allianz Global Investors France
• Aviva Investors
• Pictet Asset Management
• UFG-LFP(ex-Sarasin AM)

French equities, passive management

Indicative mandate size: € 500 M
for a period of 4 yrs(2)

• Amundi AM
• BNP Paribas Asset Management*

North America mid and large caps, passive management

Indicative lot size: € 2.8 Bn
for a period of 3 yrs(2)

• BlackRock International Limited
• Vanguard Investments Europe SA

US small caps, active management

Indicative mandate size: € 250 M
for a period of 5 yrs(2)

• Allianz Global Investors France
(Nicholas Applegate Capital Management)
• BlackRock International Limited
(BlackRock Capital Management, Inc.)

US equities growth style, active management

Indicative lot size: € 800 M
for a period of 4 yrs(2)

• Allianz Global Investors France
(RCM Capital Management LLC)
• ING Investment Management SA

US equities value style, active management

Indicative lot size: € 500 M
for a period of 4 yrs(2)

• Robeco Institutional Asset Management
(Robeco Investment Management, Boston)
• Wellington Management International
(Wellington Management Company, Boston)

Japan all caps, active management

Indicative lot size: € 900 M
for a period of 4 yrs(2)

- Daiwa SB Investments Ltd
- DIAM International Ltd
- Fidelity Gestion SAS

Asia-Pacific all caps, passive management

Indicative lot size: € 600 M
for a period of 4 yrs(2)

- BlackRock Advisors (UK) Limited

Eurozone bonds – sovereigns and credit, active management

Indicative mandate size: € 960 M
for a period of 4 yrs(2)

- Allianz Global Investors France
- AXA Investment Managers Paris
- Amundi AM*
- HSBC Investments (France)

International bonds (non-euro denominated) sovereigns and credit, active management

Indicative mandate size: € 480 M
for a period of 4 yrs(2)

- Capital International Limited*
- Natixis AM (Loomis, Sayles & Company, L.P.)

Inflation linked bonds denominated in euros

Indicative lot size: € 4 Bn
for a period of 5 yrs(2)

- Axa IM
- BlackRock Advisors (UK) Limited
- BNP Paribas Asset Management
- Amundi AM
- Natixis Asset Management
- Sinopia Asset Management (groupe HSBC)

Bonds denominated in euros - credit (Investment Grade), active management

Indicative lot size: € 1 Bn
for a period of 5 yrs(2)

- Axa IM
- BNP Paribas Asset Management
- Halbis Capital Management (HSBC group)
- La Banque Postale AM
- Quoniam AM
- Standard Life Investment

Bonds denominated in USD - credit (Investment Grade), active management

Indicative lot size: € 1.5 Bn
for a period of 5 yrs(2)

- Axa IM
- BlackRock International Limited
- Conning AM
- Deutsche AM International
- Schroder IM

Private equity

- Pantheon Ventures (European diversified funds)
- Access Capital Partners (Small and mid cap European funds)
- Neuberger Investment Management (Diversified US funds)
- Axa Private Equity Europe (Secondary fund)

Commodities indices

- BNP Paribas Asset Management

Tactical overlay management and forex risk hedging

- State Street Global Advisors

Global Exposure Mandate

- Amundi AM

1/ In accordance with the consultation regulations, notification of the award of the contract which is only binding on the FRR, will take place after the contract finalisation phase with each management company whose proposal has been accepted. Details are provided in brackets of the name of the entity which, by delegation from the contracted entity, will actually manage the mandate if its name is not the same as the contracted entity.
2/ As from the date of activation of the mandate.
** Stand-by mandate: the FRR reserves the right to abandon this mandate if necessary, in particular for reasons of risk diversification or if one or more mandate holders for the same lot is unavailable.*

Graphic Design efil
Printing Gibert-Clarey, an Imprim'vert printer
(charter for the reduction of environmental impact, traceability and waste treatment)
PEFC certified paper/ 10-31-1073 (guarantee of sustainably managed forest resources)
Photos ©Stéphane de Bourgies – Caisse des Dépôts/Jean Marc Pettina
Translation: Matthew Jansen Legal Translation Ltd

FONDS DE RESERVE
POUR LES RETRAITES

84, rue de Lille - 75007 Paris
Tél. 33 (0) 1 58 50 99 86
www.fondsdereserve.fr