FONDS DE RESERVE POUR LES RETRAITES

General investment policy guidelines

1. The FRR's mission

1.1 Established by Law no. 2001-624 dated 17th July 2001, the FRR's mission as conferred by law is to *"manage the sums that are allocated to it, to build up reserves to help ensure the long-term future of eligible retirement plans"* (Article L 135-6 of the French Social Security Code).

The FRR is also responsible for the financial management of a portion of the exceptional, one-off, lump-sum contribution owed to the CNAVTS (*Caisse Nationale d'Assurance Vieillesse des Travailleurs Salariés*) pursuant to the 3rd section of Article 19, Law no. 2004-803, dated 9th August, 2004 on public utilities (natural gas and electricity) and public utility providers in the electricity and natural gas industries.

Acting on the Executive Board's proposals, the FRR's Supervisory Board determines the general guidelines underlying the investment policy for the Fund's assets, in line with (i) the objectives and timeframe for utilisation of the Fund's resources and (ii) the principles of prudence and risk diversification (Article L 135-8 of the above-mentioned code).

1.2 The government has set out a timetable for the payout of the Fund's assets[1]. Under the terms of the social security financing law 2011, "the sums allocated to the Fund are held in reserve until 1st January 2011. As from this date and up until 2024, the Fund shall each year, and at the latest by 31 October, pay 2.1 billion euros to the *Caisse d'Amortissement de la Dette Sociale* (national social debt amortization fund) to help finance, between 2011 to 2018" the deficits of the entities that administer the basic old age pension.

On this basis the FRR determines the general investment policy guidelines consistent with "the principles of prudence and risk diversification given the target timetable for utilisation of the Fund's resources, in particular the above-mentioned payout obligations" (article L 135-8 of the social security code).

1.3 In its implementation, the aim of the FRR's investment policy is also to help finance economic actors in general and businesses in particular. This in turn helps to consolidate their prospects for long-term growth and promote sustainable wealth creation and job growth. At the same time, it is consistent with certain shared values that promote balanced economic, social and environmental development.

In 2008, the Supervisory Board adopted a responsible investment strategy which seeks to enable the Fund to honour its commitments as a signatory to the UN's PRI (Principles for Responsible Investment).

2. The FRR's principles of governance

Within the framework of rules enacted by law and laid down in regulations, the Fund's Supervisory and Executive Boards are particularly attached to the belief that its organization and activities should guarantee, in fulfilment of its public interest mission:

- the integrity of the institution, i.e., its independence as well as respect for its own particular obligations, in particular those relating to ethics and compliance;
- the professional quality of the expertise the FRR requires to achieve its performance-related objectives, both in-house (its own staff) and in its outside service providers;

[1] The text of the law does not specify the CNIEG contribution liability. This will be deemed due in 2020 and the way it is managed may change in the future depending on the further work to be conducted in 2011.

- the effectiveness of internal and external systems of control;
- the quality of its communications with all of the FRR's stakeholders.

3. The guiding principles of investment strategy

Given its mission, the first aim of the FRR’s investment strategy is to manage its assets in a manner that will ensure that it can meet the payment obligations set down by law and, then, to seek the best possible return on its investments by the year 2024.

The Supervisory Board has identified the following five principles that underpin its actions:

3.1 Management horizon

Maintaining a long-term horizon (2024), once the liquidity constraints imposed by the fourteen payments required under the law are embedded, constitutes an obvious comparative advantage for an investor like the FRR. This horizon enables the FRR to factor in “return to mean” phenomena and thereby potentially take advantage of higher returns at certain points in the cycle. The existence over the long term of a premium, available to investors that assume the risk of holding assets whose volatility may be high or that have limited liquidity, is also one of the reasonable convictions held by the FRR.

3.2 Diversification

The conventional approach to the diversification of investments and related risks remains an essential part of practice. However, it is not of itself an adequate response to the most extreme scenarios, under which the correlation-de-correlation hypotheses cease to function.

3.3 The performance of the main asset classes included in the portfolios constitutes the bulk of its expected long-term return or yield. This is why the task of defining and managing this portfolio and its related risks falls ultimately to the governing bodies of the Fund. Sources of outperformance can be found, in particular through the use of active management styles that seek to explore market inefficiencies and bring in an element of de-correlation with respect to trends in the markets.

3.4 For any long-term, public investor like the FRR, the investment policy must take into account environmental, social and good governance criteria. Doing so offers a way of fully factoring in the risks and opportunities that are associated with the companies in which the FRR does or may invest. These criteria may in fact have a significant impact on valuation. The analysis of the environmental and social sustainability of businesses’ strategies, as well as of their positive or negative impacts on the community and the risks they could expose the FRR to in terms of image, is also necessary. The discussions underway on the impact of environmental issues on the investment policy of the FRR will be pursued.

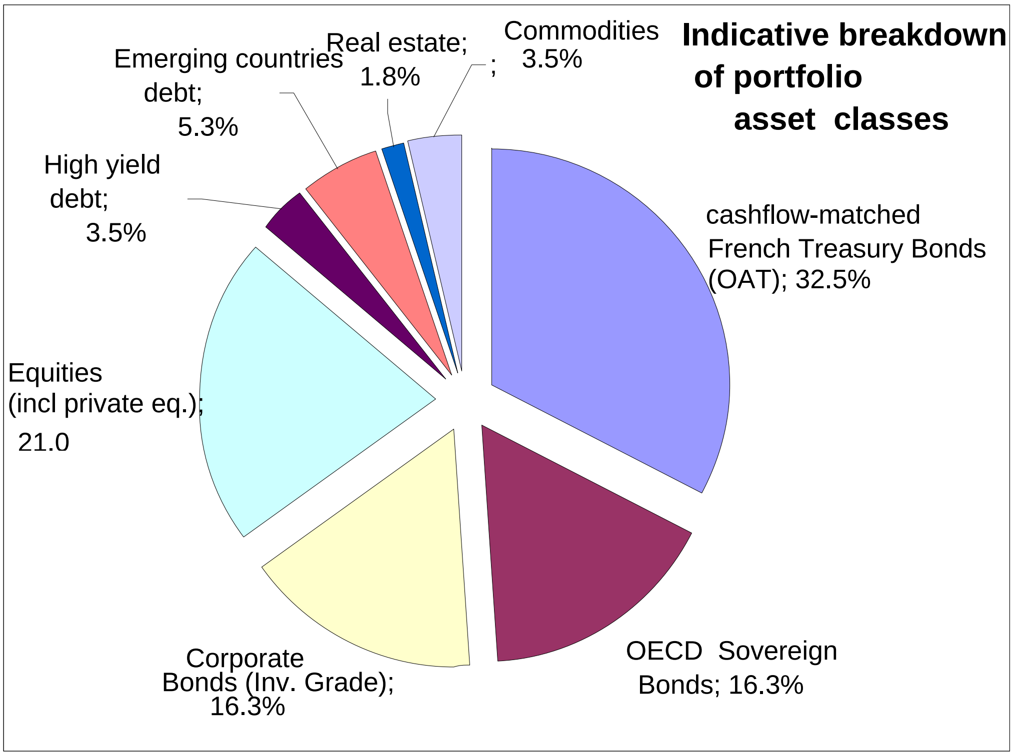
3.5 To define and manage the FRR’s reference portfolio and seek out sources of outperformance, **the Supervisory and Executive Boards must take steps to mobilize the best possible talents, inside the Fund as well as outside, and must also ensure that systems of information and control are effective.** The costs incurred for this purpose are investments defined by reference to performance objectives net of fees. They are benchmarked to those of comparable institutions.

With regard to selecting external experts, the FRR is aware of and attentive to the need to ensure that mandates awarded to such experts effectively guarantee an alignment of their interests, practices and behaviours with the Fund’s own needs in terms of financial stability, professional integrity and the long-term effectiveness of their investment processes.

4. The FRR’s portfolio and its dynamic management

The FRR’s portfolio is one that, whilst covering the risk of being unable to satisfy its liabilities, offers it the prospect of reasonable returns. It is determined on the basis of new long-term risk and return assumptions, which remain conservative, while also drawing lessons from the recent crisis and the reversion to average that ensued. It takes into account the occurrence of extreme scenarios for all financial risks. The Supervisory Board has examined and taken note of these scenarios. Naturally, these risks will be re-examined regularly within the context of the dynamic management of the portfolio.

The Supervisory Board has opted for the following portfolio which it believes will enable the FRR to both satisfy its liabilities as indicated above and provide an expected annualised return from its performance assets compartment (equities, real estate, commodities, emerging country debt and high yield debt) of an estimated 6% in years to come. This portfolio is indicative and reflects prevailing market conditions. It may change depending on the impact these conditions have on the value of the Fund's assets and liabilities and choices made by its governing bodies.



The Supervisory Board clarifies the following points:

4.1 The nature of the specific investment vehicle for each asset class shall be determined by the Executive Board based on the advantages and drawbacks that are also specific to each (return, risk, diversification, liquidity, cost, etc.). In the case of equities, the Supervisory Board has approved the Executive Board's desire to increase the relative percentage of companies whose growth and valuation characteristics take particular account of the sustained real growth of emerging countries.

4.3 The actual asset allocation of the Fund and, in particular the relative percentage of assets designed to cover liabilities and those seeking optimum performance shall evolve in line with the impact of market conditions.

The Investment Strategy Committee (ISC) shall hold meetings to sum up the position of the portfolios and the economic and financial situation.

4.4 Optimal diversification (by sector, market capitalization, credit rating, etc.) shall be determined by the Executive Board acting within the confines of the Fund's prudential rules. As regards assets designed to achieve higher returns (equities, emerging countries debt, high yield bonds, real estate and commodities), the forex risk relating to investments excluding emerging countries will be 90% hedged. As regards sovereign debt and corporate bonds designed to cover liabilities, forex risk will be 100% hedged.

4.5 The Supervisory Board reviews annually the implementation of its investment strategy. In the course of this review, the Board examines the main parameters and adjusts them as needed.