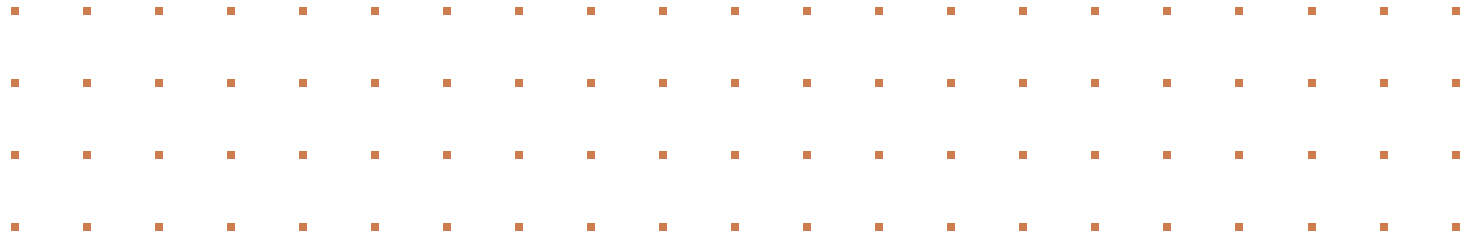




FRR Press Conference 10 March 2011



- **Net asset position at end of 2010**
- **Consequence of pension reforms: the FRR's liabilities and the new strategic allocation**
- **Implementing the allocation in 2011**

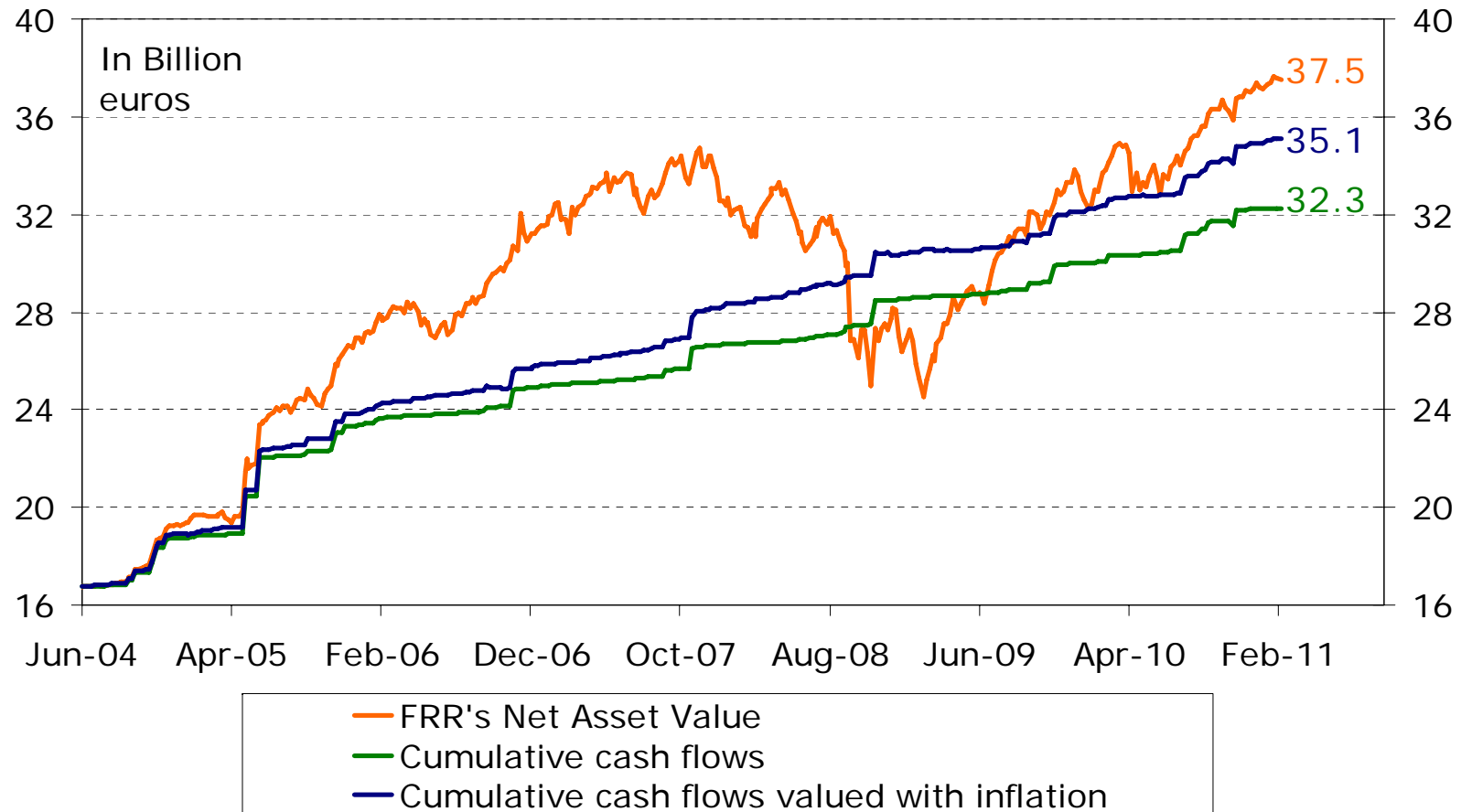
NET ASSET POSITION AT END OF 2010



Net assets: return to high point thanks to endowments and the market rebound

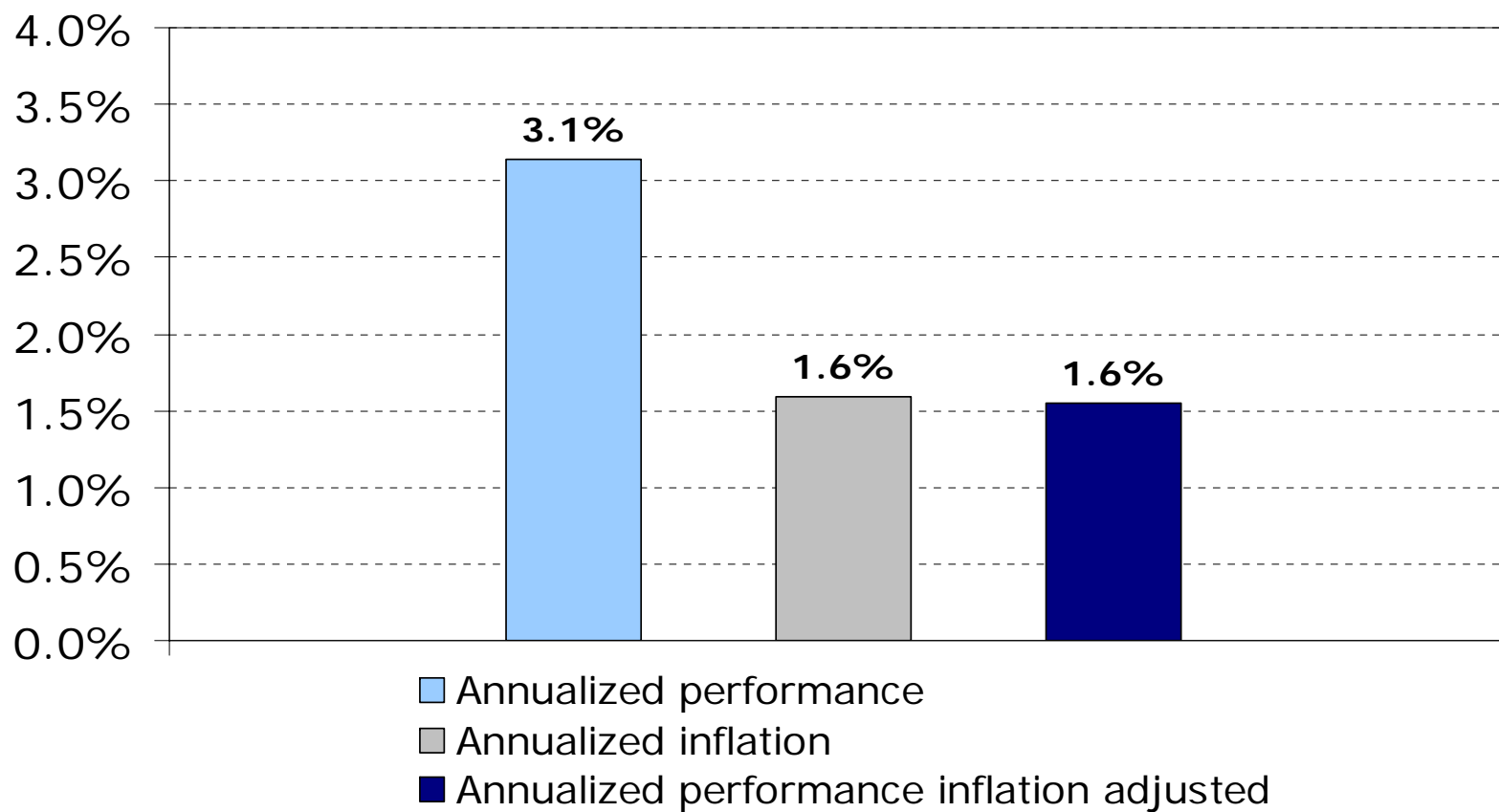
FRR's Net Asset Value

04/03/2011

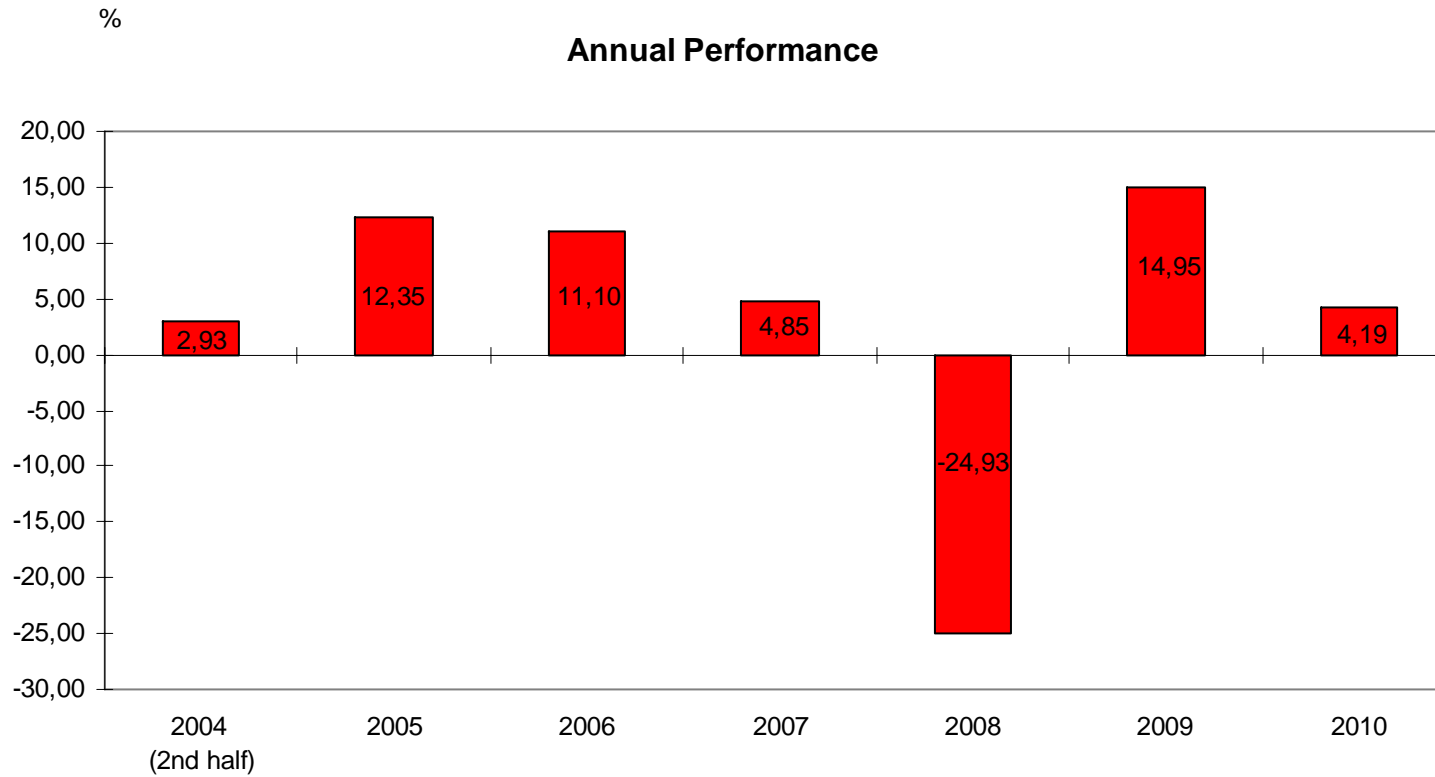


FRR's performance since conception

04/03/2011



Annual performance



Contributors to 2010 performance

Main contributors to performance :

❖ Equities	3.2%
❖ Commodities	0.1%
❖ Bonds	1.1%
Net performance after finance and administrative costs	4.4%
❖ Finance and administrative costs to be deducted	-0.2%
Net performance over year	4.2%

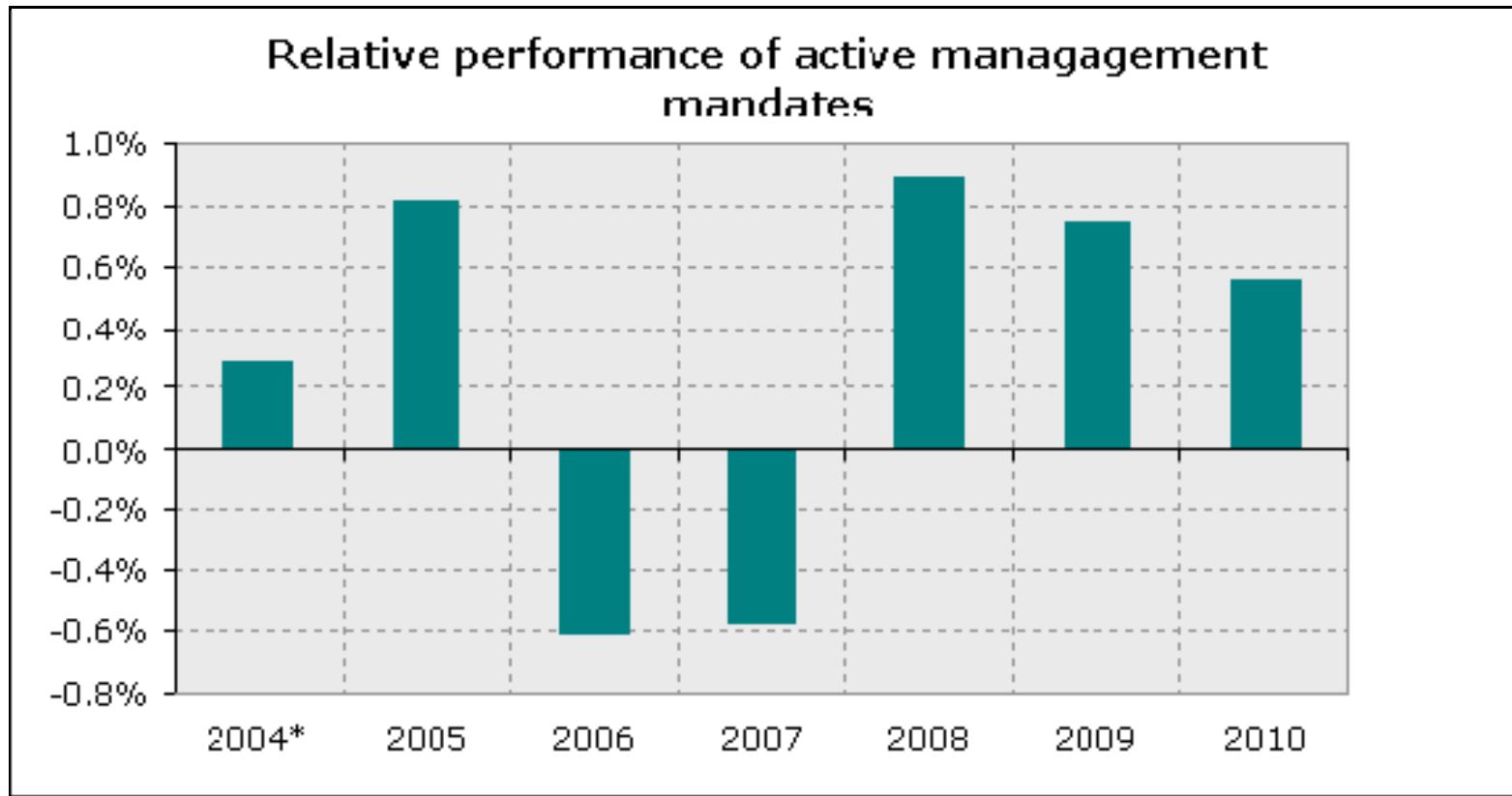
Contributors to relative performance

Contributors to net (active management) outperformance compared to benchmark indices

❖ Equities	0.28%
❖ Commodities	-0.03%
❖ Bonds	-0.03%
❖ Currency (active)	0.05%
Overall net management outperformance (listed /total assets)	0.27%

Approx. 100 M€ in 2010

Relative performance of active management mandates compared to their benchmark indices



* Année 2004 : à partir du 09/07

CONSEQUENCES OF PENSION REFORMS FOR THE FRR

LIABILITIES AND OBJECTIVES CLARIFIED



Social Security Financing Law (SSFL) extracts: The FRR's objectives

The FRR shall respect:

" (...) the principles of prudence and diversification of risks given the objectives and timeframe for utilisation of the Fund's resources, **in particular the planned payment obligations** (...)"

Reasoning:

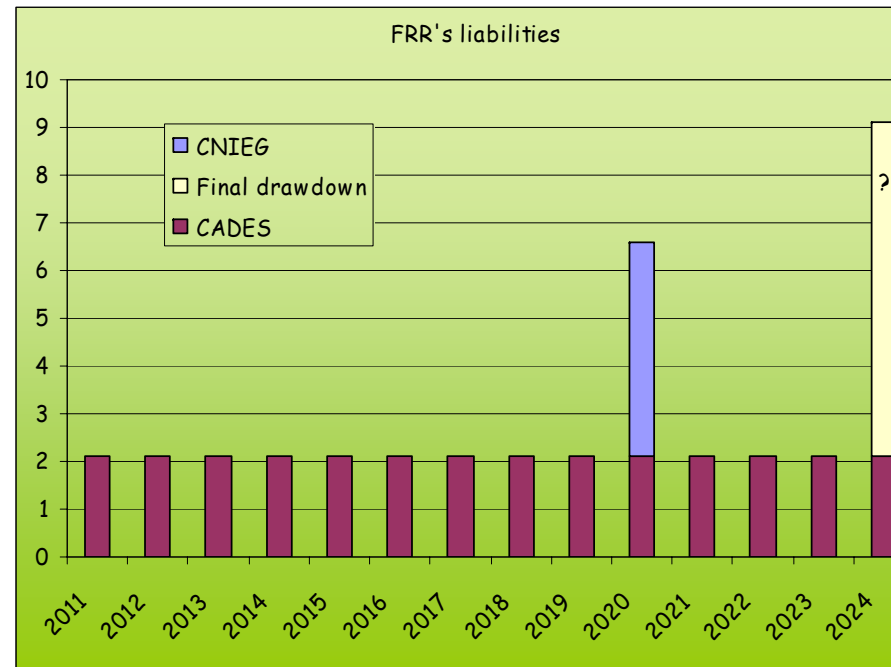
The FRR will comprehensively manage its assets to **guarantee totally** the 14 payments whilst continuing to **search for best overall performance** for its investments.



II. New liabilities SSFL : FRR Liabilities

The FRR's liabilities comprise:

- 1. A fixed nominal amount of 2.1 Bn€ per year to CADES**
These payments to be made between **2011 and 2024**.
- 2. A final outlay** depending on the FRR's performance
- 3. The CNIEG contribution** by a single payment in 2020



CONSEQUENCES OF PENSION REFORMS FOR THE FRR

**A NEW ALLOCATION CONSTRUCTED
ON THE BASIS OF CLARIFIED LIABILITIES
AND LESSONS LEARNT FROM THE CRISIS**

I. Lessons of the crisis : focussing on risk management

- diversification is necessary but not sufficient to manage severe crises
- extreme events are unpredictable and inevitable
- financial management must be structured so that liabilities are met even in extreme situations
- management of performance assets must be flexible in a world where financial cycles can be deep and vary in duration: asset allocation must, at all times, reflect the risk content of the asset classes.

II. The new strategic allocation

Key points of the 2010 strategic allocation

Guaranteeing the FRR's liabilities

- Strategic allocation comprising **two main asset compartments** constructed...
- ...as part of **comprehensive risk management** of the portfolio
- **Financing ratio** (value of assets / discounted value of liabilities) of 138% from the outset of new allocation management
- A **stress test** of -66% on performance assets gives a post-stress financing ratio of more than 100%.
- Liabilities well covered by **coverage assets** alone (85%)
- Coverage assets themselves **highly secure and diversified**

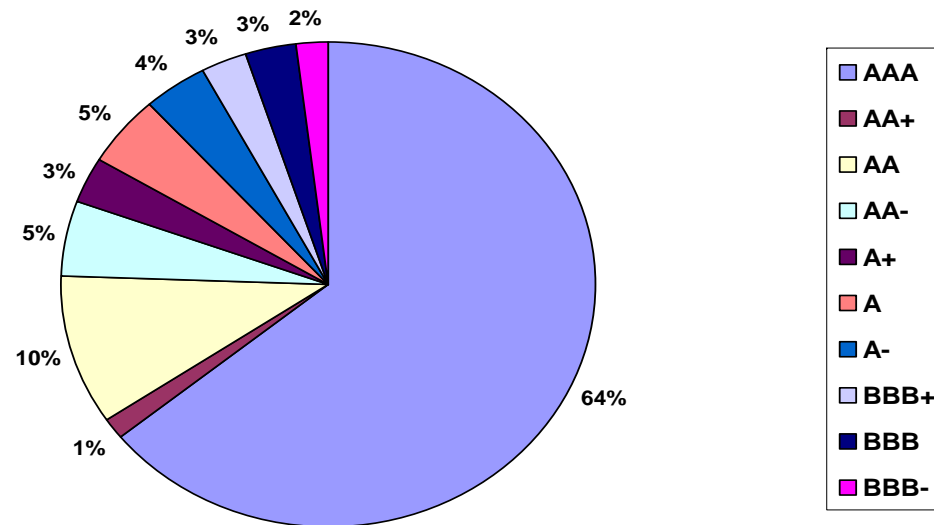
II. The new strategic allocation

Coverage compartment

The coverage compartment is diversified with the aim of improving returns whilst remaining secure.

- 50% French Treasury Bonds (maturities matching payment schedule)
- 25% OECD large countries sovereign (today AA minimum)
- 25% Credit (Investment grade ; BBB- issuers)

Breakdown of liabilities' hedging securities' ratings



II. . The new strategic allocation

Performance compartment: principles of construction

The four principles underpinning the construction of the performance compartment are:

- acceleration of bubble phenomena prompts us to **conserve mobility to enable asset allocation by reference to risk**
- search for **diversification** still relevant
- **overweighting market segments likely to show higher growth** over the FRR's investment timeline of 14 years (overweighting of emerging economies).
- a significant proportion of **economic exposure to emerging markets** will be sought by using businesses from developed countries exposed to growth in such markets as an investment platform .

II. The new strategic allocation Performance compartment

<i>Asset clusters</i>	<i>indicative mediane weights</i>	<i>Included assets</i>
Real assets	15%	Comodities, real estate
"business assets"	70%	Equities, high yield
soverain debts	15%	emerging markets debts
Cash	0%	Cash

Breakdown of « business & souverain » assets

-EURO 1/3

-DEVELOPPED 1/3

-EMERGING 1/3

IMPLEMENTATION OF STRATEGIC ALLOCATION

RAMPING UP INVESTMENT IN 2011

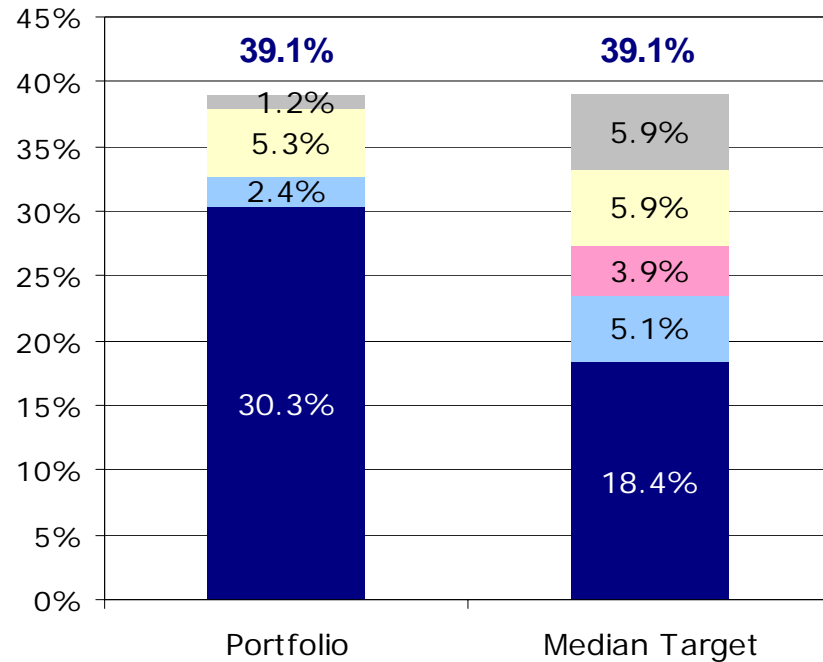


Asset allocation: reducing "developed" in favour of "emerging" and reorganising coverage compartment

Performance compartment

31/12/10

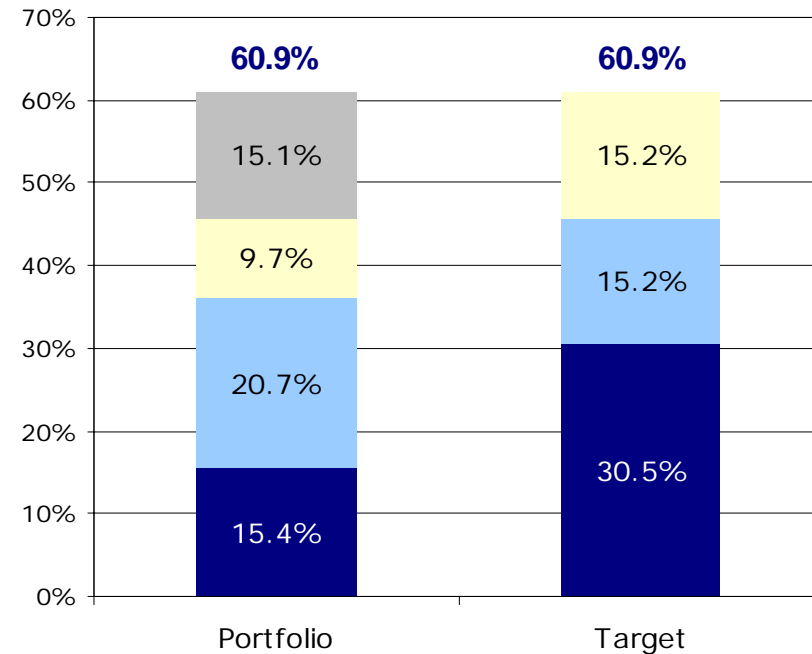
- Developed equities
- Emerging equities
- High yield debt
- Real assets
- Emerging debt



Coverage compartment

31/12/10

- OAT / ILB
- International bonds
- Euro and US Corporate
- Cash



Requests for proposals and fund selection

- 8 waves of management mandate RFPs
- 3 to 4 fund selection procedures for new asset classes

1. Overlay mandate being renewed

2. Coverage compartment

- Management of French Treasury Bond (OAT) held till maturity
- Passive index management of developed countries bonds

3. Performance compartment

- Index equities: based on capitalisation or risk
- SRI : renewal launched at end of year
- Commodities: renewal during the year
- High yield debt
- Emerging countries via equities in companies in developed countries



Responsible investment (RI) : principal results in 2010

- **Transparency** : publication of a RI report, with details of actions since 2008 and results indicators
- **Integration** : end of 2010, 100% of equities mandates integrate ESG provisions
- **Policy of dialogue** : participation in new collaboration initiatives (Emerging Markets Disclosure Project, Aviva initiative on responsible stock markets..) and continuing to vote at GMs in France and abroad
- **Research**: contribution to "Universal Owner" (UNPRI) project and renewal of SF&RI Chair

=> "Responsible Investor 2010" Prize

(awarded by Amadéis and Natixis AM)



Responsible investment as part of the new financial strategy

- Reaffirmation by the Supervisory Board of the FRR's identity as a responsible investor.
- 2008-2012 strategy, a benchmark framework that remains relevant.
- Work during 2011 : from adapting to the new portfolio structure to innovation :

Examples :

- ❖ *renewal of RI mandates,*
- ❖ *reflection on thematic approach*
- ❖ *managers ESG reporting*
- ❖ *continued promotion of RI*



2011 : the year of responsible investment in Paris

The FRR is actively promoting RI at three major international events in Paris :

- **EITI Conference** (Extractive Industries Transparency Initiative) : 2-3 March 2011
- **ICGN Conference** (International Corporate Governance Network) : 12-14 September 2011
- **"PRI in Person"** : 15-16 September 2011

Conclusions

- The FRR's liabilities and objectives have been clarified; the FRR has a clear investment timeline (2024) and clear liabilities.
- The new strategic allocation aims to secure payment of liabilities, on the one hand, and achieve a surplus return on the other. The proportion of performance assets is very substantial (around 15 Bn€).
- Impementing this strategic allocation requires restructuring the portfolio which means selecting new managers.
- The FRR's responsible investor identity will continue to be developed.



Schedule: The *Cour des comptes* public report

The **public report of the *Cour des comptes*** :

1. expresses a hint of **disappointment** after the historic financial crisis and the continuing crisis in the public finances;
2. does **not** reveal **poor management or misuse of the public coffers**;
3. insists on **necessary stabilisation of the amount and rhythm of payments to CADES** over the next 14 years.

With legislation now stabilised, the *Cour des comptes* report reinforces the strategy adopted by the FRR at the end of 2010: the FRR "can find a way to remain a useful and flexible instrument".