FONDS DE RESERVE POUR LES RETRAITES

The Executive Board 16 September 2014

Press Release

The FRR, having taken an early interest in climate change issues and looking ahead to COP 21, wishes to continue to play a leading role in promoting the emergence of low-carbon indices ("low carbon” indices).

This initiative is part of an overall strategy to take account of environment-related risks and opportunities in the management of its assets.

In 2007, an initial assessment of the environmental footprint (including carbon footprint) of the FRR’s portfolio was performed. A new measurement will be made in the coming weeks and will be updated regularly in order to measure the effects of these actions.

In 2009, the FRR in the wake of the first measurement of its environmental footprint led a study to measure the impact of global warming on its long-term asset allocation looking as far ahead as 2040. The 2010 pension reforms resulted in substantial changes in asset allocation and prevented the recommendations of this study from being implemented, although it was made available on the FRR’s website giving the entire investment community food for thought.

Since 2011, the FRR, through its mandates "SRI New sustainable growth European equities" seeks to promote companies that have adopted best practices or those that implement proven dynamics of progress. For this purpose, it has chosen not to use to a market index, which allows its managers to overcome short-term constraints and focus on stock selection. Moreover, to add impact to its action, the FRR has chosen to focus on an as yet little followed sector, that of small and mid-caps to raise awareness and support them in their development. In this context, the FRR requires its managers to track ten or so quantitative indicators on the three mainstays Environmental, Social and Governance, and to report thereon. A total of € 250 million is managed by this approach.

In 2012, the FRR also decided to invest over 165 million euros in mandates dedicated to environmentally innovative companies in six areas: water, eco-technologies, waste treatment and management, renewable energy, climate change and sustainable development.

To the extent that global warming is a long-term risk factor that could have a negative impact on the value of its assets, the FRR wanted to take an extra step. To this end, it contributed with the Swedish AP4 Fund, Amundi and MSCI, to the development of an index aiming to reduce to a real extent the carbon footprint of part of its portfolio.

By this new development of its environmental policy, the FRR is pursuing a two-fold objective:

- Manage the overall risk of its portfolio : by reducing the share of companies with a high carbon footprint and the share of those with significant quantities of fossil reserves that may never be exploited in full (the so-called "stranded assets" issue), the risk of impairment of firms exposed to increased regulation by governments around the world may be limited ;
- Accelerate the awareness of the urgency of change and contribute to a change in corporate practices in the direction of greater compatibility with the requirements of energy transition.

This initiative, which will quickly translate into an investment in a new passively managed index, may call for other approaches, complementary to that being implemented, and add to the range of tools available to address the challenges of climate change and the necessary energy transition.

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The FRR is an administrative public establishment of the State established by law in 2001. With a Supervisory Board and an Executive Board, it is responsible for managing the funds that were allocated to it up until 31 December 2010 to build up reserves contributing to the pensions systems' long-term future.

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SCHEDULE

Main principles for construction of the index

Initial universe: all securities included in the standard MSCI index (weighted by free float market capitalizations)

Step 1

A) Selection of 80% of stocks with the lowest carbon emissions (based on revenue), keeping at least 70 % of the capitalization of each sector;

B) Selection of stocks with the lowest carbon reserves (based on market capitalization) to reduce reserves in the index by 50%.

Step 2

A) Only the stocks selected after the 2 filters (A and B) of the 1st stage are retained;

B) Optimization of stock weightings minimizes tracking error against the standard index (weighted by market capitalization).

After this optimization, the reduction in carbon footprint and fossil reserves must remain above 50%.