SUSTAINABILITY REPORT

2023

FONDS DE RESERVE POUR LES RETRAITES

SUSTAINABILITY REPORT 2023

FRR, a committed public player

CONTENTS

Summary 2023

The 3 priority areas of the SRI Strategy for the 2024-2028 period

1. Facilitate energy and ecological transition
2. Promote social equity
3. Preserve biodiversity

FRR'S EXTRA-FINANCIAL RATING

POLICY GOVERNANCE & STRATEGY:
★★★★☆

INDIRECT - LISTED EQUITIES:
★★★☆☆

INDIRECT - FIXED INCOME:
★★★☆☆

ESG SCOPE

100%

(SHARE OF ASSETS UNDER MANAGEMENT INVESTED IN LISTED EQUITIES AND BONDS FACTORING IN ESG CRITERIA)

KEY DATES

2001 – Integration of extra-financial considerations specified in the FRR's constitutional documents

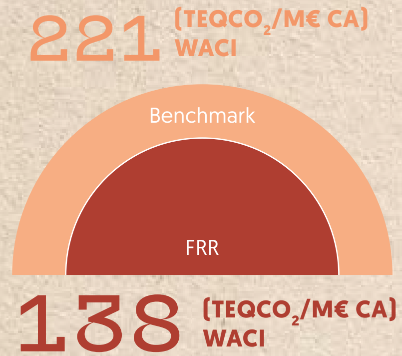
2006 – Founding member of PRI

2014 – Launch of Low Carbon Leaders Index in partnership with MSCI and the Swedish fund AP4

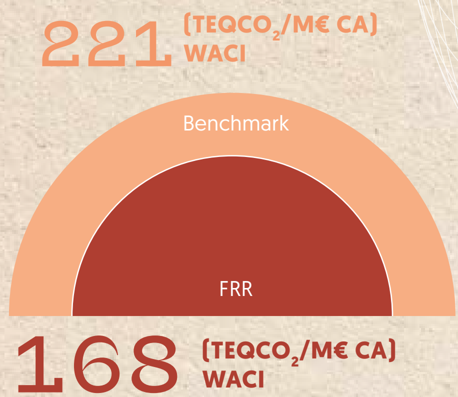
2019 – Joined the "Net zero asset owner initiative"

2023 – Joined the "Nature action 100" and "SPRING" on biodiversity

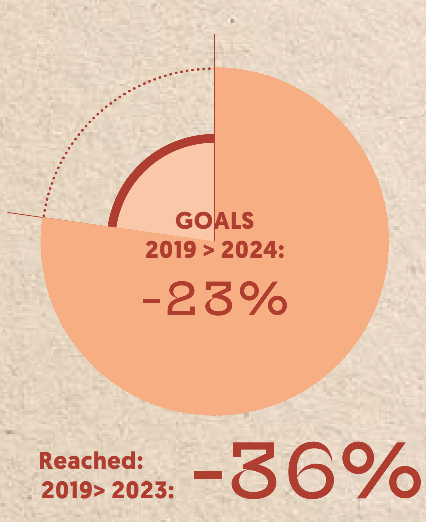
EQUITIES PORTFOLIOS EMISSIONS



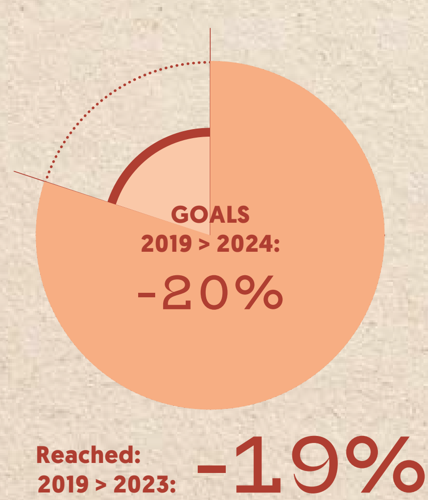
CORPORATE BONDS PORTFOLIOS EMISSIONS



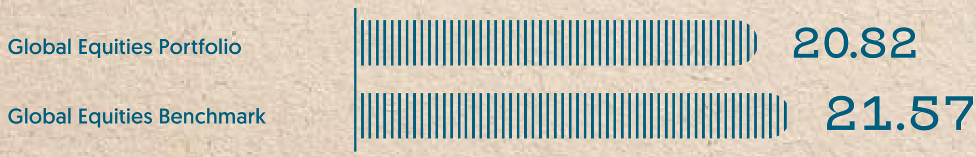
EQUITIES PORTFOLIOS CARBON FOOTPRINT (WACI - TEQCO_2/M€ CA)



CORPORATE BONDS PORTFOLIOS CARBON FOOTPRINT (WACI - TEQCO_2/M€ CA)



PORTFOLIO RATING GLOBAL EQUITIES ESG RISK LEVEL AT END OF 2023

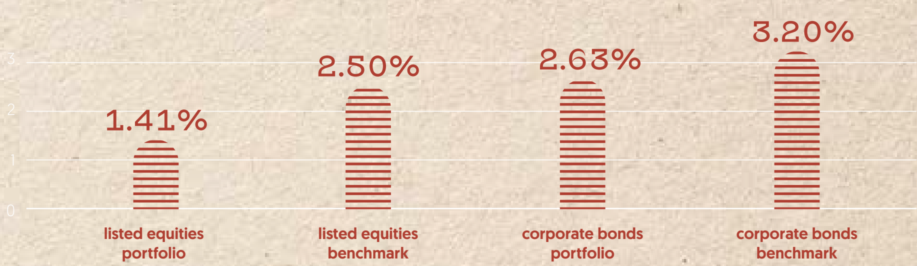


NATURAL COST OF CAPITAL
(RATIO OF ENVIRONMENTAL FOOTPRINT PER MEUR OF INVESTMENT)

2.6%
FOR THE DEVELOPED MARKETS EQUITIES PORTFOLIO

3.5%
FOR THE BENCHMARK

EXPOSURE OF PORTFOLIO TO COMBUSTIBLE FOSSIL FUELS % INCOME



1,336
attendance at general meetings

19,000
resolutions

23.55%
objections to resolutions proposed by management

1

The FRR’s overall approach

SUSTAINABILITY POLICY

Factoring sustainability criteria into its management decisions is in the FRR's DNA. Indeed, since 2001, the FRR's constitutional documents state that *"The Executive Board regularly reports to the Supervisory Board and describes how the general investment policy guidelines have factored in social, environmental and ethical considerations"*. The Supervisory Board demands from the Fonds de Réserve pour les Retraites a strong commitment towards responsible investment: as a public investor, and inter-generational vector of solidarity, the FRR must set the example by factoring Environmental, Social and Governance (ESG) considerations into its management process.

This preoccupation is reflected through a SRI strategy and the desire to exert influence over the businesses in which the FRR invests through numerous engagement initiatives and adopting voting guidelines for shareholders' general meetings

During 2023, discussions were held with a view to updating the Responsible Investment Strategy. The aim was to proactively integrate current developments into the various standards and to remain a driving force in promoting best practices.

RESPONSIBLE INVESTMENT STRATEGY

To implement its commitment as a responsible investor, the FRR laid the groundwork in 2003, then formalised it via five-year strategies demonstrating its growing ambition in terms of responsibility and the desire to advance and support the participants in its ecosystem (management companies, businesses, index suppliers, extra-financial research providers). These strategies, bringing together the general principles, concrete objectives, stages and resources, are presented by the Executive Board to the Supervisory Board which approves them having sought the opinion of the Responsible Investment Committee whose role is to implement the guidelines defined by the Board to prevent and control the extra-financial risks in the FRR's portfolios.

The FRR has therefore gradually laid the foundations upon which to have regard throughout its portfolio to Environmental, Social and Governance responsibility criteria in selecting its asset managers and the issuers in which they invest. It has also introduced an overall policy for the exercise of voting rights.

IMPLEMENTATION OF RESPONSIBLE INVESTMENT STRATEGY

Factoring esg criteria into the decision-making process for awarding new management mandates

Management of the FRR's portfolio is entirely delegated. Implementation of the FRR's responsible investment strategy essentially relies upon managers selected through requests for proposals. Bid selection questionnaires systematically include a section concerning the human and technical resources devoted to ESG/Climate aspects. They include questions in particular on the experience of the ESG management and research teams, the information sources relied upon, the ability to adapt engagement and voting policy to the FRR's specific requirements. The more specifically climate-related questions concern, for example, how the manager implements the TCFD's recommendations, the scope for which the following information is available: GHG emissions, Companies contributing to energy and ecological transition, Physical risks, Transition risks, 1.5 °C alignment of the portfolio, Companies exposed to the coal sector, Companies developing new thermal coal capacity.

Since 2020 the FRR has launched requests for proposals for credit mandates which, in addition to ESG criteria, include decarbonisation targets. By the end of 2023, optimised management and credit mandates, representing 50% in total of the FRR's assets, already included decarbonisation targets.

Once all the requests for proposals ongoing in 2024 have been finalized, 100% of the mandates invested in developed market listed equities will have to contribute to the GHG emission reduction commitments made by the FRR.

In order to monitor a mandate's ESG criteria, the FRR's managers are required to submit half-yearly ESG reports. These reports cover the items listed above with a commentary provided at least once per year, at a management Committee meeting.

Overall share of assets under management factoring in esg considerations, as a percentage of total assets managed by the entity

The FRR's management mandates require managers to have regard to its responsible investment strategy in their management process, by in particular systematically incorporating ESG analysis into the issuer selection process across all asset classes.

TABLE OF ASSETS FACTORING IN ESG CRITERIA (END OF 2023)

Asset class (mandates)	AUM (M€)	% of total assets
Listed equities	5,780	27%
Corporate bonds	7,678	35%
Sovereign bonds	3,367	15%
Unlisted assets	3,501	16%
Total	20,326	93%

Regarding treasury management (around 2% of AUM at end of 2023) and certain open-ended UCI (OPC), where it is not possible to fix ESG criteria at management level, the FRR integrates this aspect into the process for the selection of the managers and their proposed investment strategy.

For the purpose of implementing the SFDR regulation, the FRR produces an inventory categorising these open-ended UCI. Of 63 UCI, 22 fell under SFDR article 8, 9 under article 9 and 32 under article 6. Compared to the previous year, the percentage of UCI falling under articles 8 or 9 remains stable (+1 article 9 UCI). As for mandates, 59% fall under article 8 and none is declared under article 9. 25% of the mandates are categorised as article 6 and 16% consider that the SFDR is inapplicable.

EXTRA-FINANCIAL PORTFOLIO ANALYSIS

Extra-financial analysis of the portfolio is a two-stage process:

- upstream: the managers conduct extra-financial analysis when selecting issuers and monitor issuer ESG scores whilst they are held in the portfolio;
- downstream: once per year, the FRR arranges extra-financial, and also Climate, analysis to be performed by two external service providers selected by invitation-to-tender (Morningstar France Fund Information and S&P Global Market Intelligence).

Upstream extra-financial analysis

This extra-financial analysis employs various methodologies and resources deployed by the managers. The main extra-financial criteria assessed during the life of the mandates include:

- ESG analysis: the information resources and sources, a detailed description of the analysis and rating methodology and its implementation in the investment process, the indicators used, the data quality control process as well as the dialogue and engagement policy;
- a focus on the topic of climate change, for which additional information is requested on the following matters:
    - GHG emissions;
    - companies contributing to energy and ecological transition;
    - physical risks;
    - transition risks;
    - 1.5 °C alignment of the portfolio;
    - companies exposed to the coal sector;
    - companies developing new thermal coal capacity;
    - green share.

The managers also have regard to the exclusion criteria put in place by the FRR, concerning:

- corporate practices that fail to respect universally recognized principles, such as those of the United Nations Global Compact, the Principles of Responsible Investment and good governance principles
- activities that do not comply with certain international conventions ratified by the France, in particular those on non-conventional weapons and tobacco, or companies whose registered office is in a country appearing on the French and European lists of non-cooperative States and territories for tax purposes
- coal-related activities, which are particularly damaging to the climate.

ESG analysis reporting requirements

For the purpose of monitoring portfolios invested in different asset classes and different geographical zones, further information requested by the FRR as from the end of 2021 has been added. Indeed, additional reporting information, both quantitative and qualitative, on ESG actions undertaken is now required.

Firstly, managers must supply monthly reports confirming their compliance with the FRR's various exclusions.

Since 2020, the FRR requires qualitative reporting on ESG aspects that must include at least the following items:

REPORTING ON:

- the commitments made by the manager in terms of socially responsible investment indicating on what Environmental, Social and good Governance (ESG) aspects it focuses its attention within the investment universe
- the manner in which it takes such non-financial aspects into account in its company research and analysis, and whether they are considered to have an impact on stock selection or portfolio construction
- how the commitments made under the management mandates are followed-up, including in terms of resources and organisation (team development, technical resources ...)

QUALITATIVE REPORTING HIGHLIGHTING IN PARTICULAR:

- investments in the eco-technologies sector ("clean technology") or those contributing to energy transition
- dialogue or engagement with issuers on extra-financial aspects
- participation in think tanks or international initiatives relating to ESG, carbon, energy transition, etc

REPORTING ON THE ESG RATINGS

Of companies in the portfolio with summary information on the ESG ratings attributed by extra-financial research analysts, external or internal, for each security under the management mandates.

Finally, the various managers must exercise voting rights in compliance with the "Voting Guidelines" published on its website by the FRR. Regular reporting on voting is also required.

In addition to the above, other information may be required to be incorporated as part of ESG reporting during the life of the mandate following regular discussions held between the Manager and the FRR.

DOWNSTREAM EXTRA-FINANCIAL ANALYSIS

The extra-financial analysis performed for the FRR by its ESG measurement and analysis external service provider includes several components:

- ESG risk analysis;
- assessment of controversies;
- identification of issuers potentially falling within the FRR's exclusion criteria.

The SFDR (Sustainable Finance Disclosure Regulation), and also the adoption of the CSRD (Corporate Sustainable Reporting Directive) in November 2022, have introduced into the regulations the concept of double materiality. This double materiality approach aims to go further than financial materiality by also taking into account impact materiality. **Financial materiality,** being a "simple materiality" concept, studies the impact of environmental and societal issues on a company's economic performance; whereas **impact materiality** assesses the impact of a company's operations on society and the environment.

Morningstar France Fund Information incorporates this "double materiality" concept into its analysis.

PRINCIPLE OF DOUBLE MATERIALITY

ESG analysis focused on impact: What is the impact of my investments on the environment or society?

ESG analysis focused on risk: What is the impact of the environment or society on my investments?

To ensure that its responsible management is properly implemented by the management companies to which it awards mandates, the FRR regularly assesses the quality of its portfolio, in particular through the ratings of the corporations of which it is formed, not only at global level but also on a mandate-by-mandate basis.

In 2023, following a request-for-proposals to renew the **"ESG measurement and analysis service"** contract, the FRR selected the proposal presented by Morningstar France Fund Information, which replaced the previous provider for this contract (Moody's ESG research), for a period of 4 years, with a possible one-year extension.

The assessment method is therefore changing compared to that used by Moody's ESG research in 2022 (delivered in 2023). Indeed, Morningstar France Fund Information's ESG Risk Rating approach is based on a bi-dimensional architecture: exposure, which measures the degree of ESG risk to which a company is exposed, and management, a reflection of the quality of the company's management of this risk. The idea behind this ESG rating methodology is that sustainability is linked to greater long-term value if a company's management focuses on ESG issues that are actually relevant to its business model and operations.

The ESG Risk Rating score attributed to the issuer is construed as the ESG risk not managed by the company (exposure to material ESG risks minus the company's ability to manage these risks).

Unmanaged risk is measured on an open-ended scale starting at zero corresponding to zero risk. In 95% of cases, this score is below 50. Set out below is the scale of severity of the scores.

Negligible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	40+

With an ESG risk score of 20.7 as of 31 December 2023, t**he FRR's consolidated portfolio (equities, corporate and sovereigns bonds) is in the "medium" ESG risk category** with a result close to its benchmark which has a risk score of 20.99.

With an ESG risk score of 20.82, the FRR's Global Equities portfolio is in the "medium" ESG risk category and is below its benchmark (21.57). The FRR's Corporate Bonds portfolio is also in the "medium" ESG risk category and is below its benchmark (22.01 vs. 22.15).

The breakdown of the ESG risks of the FRR's "Corporate" portfolio by components E, S and G highlights that the FRR's portfolio's greatest exposure is in social matters. Indeed, 42% of the ESG risks in the global equities portfolio and 45% in the corporate bonds portfolio relate to societal issues. Social issues also represent the majority (54%) of the controversies impacting portfolio companies.

Some companies held in the FRR's equities and corporate bonds portfolios are the subject of controversies concerning established breaches of UN Global Compact principles. Nevertheless, these companies have a limited weight (1.4% of the global equities portfolio and 0.7% of the corporate bonds portfolio) and a significant number of these relate to residual positions that could not be sold in the short/medium term.

With an ESG risk score of 17.35 at the end of 2023, the FRR's sovereign bonds portfolio is in the "low" risk category. It is marginally riskier than its benchmark, which has an ESG risk score of 17.20 on the same date. The difference in the risk level of the portfolio compared to that of the benchmark (in the strategic allocation) can be explained by the overweighting of emerging market bonds in the portfolio compared to their weighting in the strategic allocation. This overweighting is offset mainly by an underweighting of high-yield corporate bonds, particularly US dollar denominated, which are also highly carbon-intensive. With French sovereign bonds having an identical weighting in both the portfolio and the strategic allocation, the portfolio's sovereign bonds benchmark is weighted less towards France and more towards the emerging markets than the strategic allocation.

Contribution to sustainable development goals

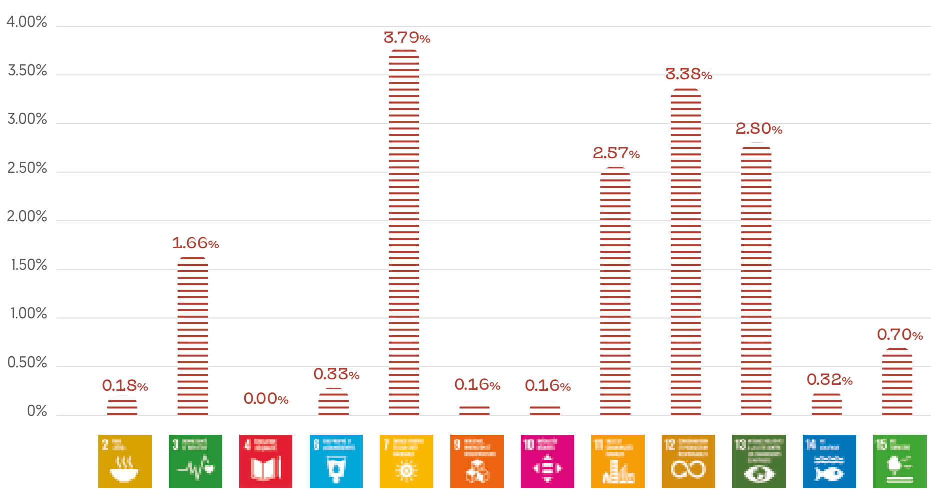
The Sustainable Development Goals, sometimes referred to as the Global Goals, are an action plan adopted by all United Nations member countries in 2015. They form a call to action to eradicate poverty, protect the planet and guarantee prosperity for all by 2030.

These 17 interconnected goals cover a wide range of global challenges, including poverty, hunger, health, education, gender equality, clean water, clean energy, climate change, peace and justice. The idea is to work together so no one is left behind.

Of the companies in the global equities portfolio, the 5 sustainability themes with the highest representation in the portfolio are:

- Affordable and clean energy [SDG 7] - 3.79%
- Responsible consumption and production [SDG 12] - 3.38%
- Climate action [SDG 13] - 2.80%
- Sustainable cities and communities [SDG 11] - 2.57%
- Good health and well-being [SDG 3] - 1.66%.

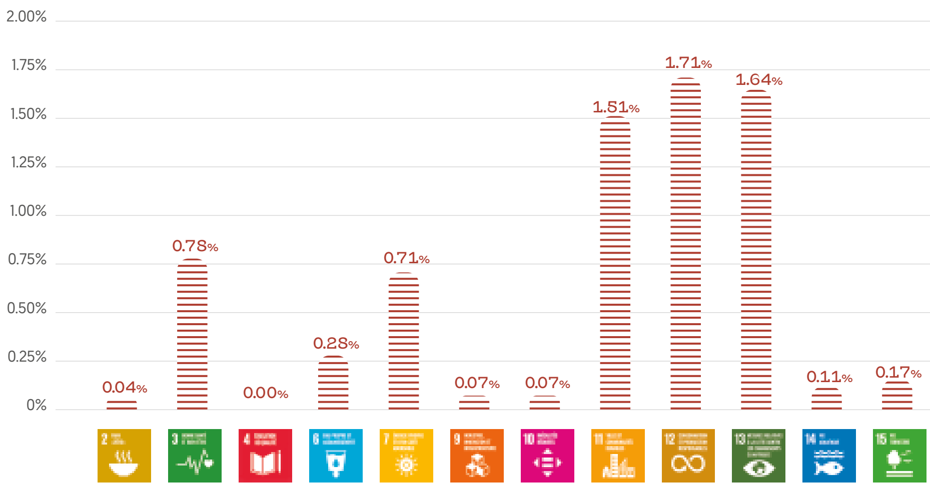
SDGS WITH THE GREATEST CONTRIBUTIONS FROM PORTFOLIO COMPANY REVENUES (%)



The 5 sustainability themes with the highest representation in the corporate bonds portfolio are identical to the global equities portfolio albeit in a different order and with lower contributions:

- Responsible consumption and production [SDG 12] - 1.71%
- Climate action [SDG 13] - 1.64%
- Sustainable cities and communities [SDG 11] - 1.51%
- Good health and well-being [SDG 3] - 0.78%
- Affordable and clean energy [SDG 7] - 0.71%

SDGS WITH THE GREATEST CONTRIBUTIONS FROM PORTFOLIO COMPANY REVENUES (%)



ASSESSMENT OF CONTROVERSIES[1]

NOTE ON METHODOLOGY

Morningstar France Fund Information assesses companies' involvement in incidents with negative environmental, social and governance (ESG) implications. Controversy involvement is one key measure of ESG performance that may inform the investment decisions of our clients. The controversy rating reflects a company's level of involvement in incidents and how it manages these incidents.

INCIDENT

An Incident is the building block to a controversy rating. It is a company activity with unintended and/or undesired negative environmental and/or social impacts on stakeholders.

Incidents are primarily assessed based on the negative environmental and/or social impact of the company activity as well as the reputational risk that this activity poses to the company. Incidents are tracked through various media and NGO sources and typically inform the controversy rating for a period of three years. In exceptional cases, long-running high-impact incidents continue to inform the Controversy Rating for more than three years until it no longer poses a risk to the company.

EVENTS

Events are series of isolated or related incidents that pertain to the same ESG issues. Events are classified into 40 event indicators which speak to these ESG issues. For example, a series of employee strikes in various locations of a company's operation forms an event under one of the event indicators, "Labour Relations". To assess an event, an analyst looks at the series of underlying incidents from a holistic perspective and assesses based on the following factors:

- Impact: Negative impact that the incidents have caused to the environment and society;
- Risk: Business risk to the company as a result of the incidents;
- Management: A company's management systems and response to incidents.

An event is assessed on a scale of 5 levels:

Category 5 - Severe

The Event has a severe impact on the environment and society, posing serious business risks to the company. This category represents exceptional egregious corporate behaviour, high frequency of recurrence if incidents, very poor management of ESG risks, and a demonstrated lack of willingness by the company to address such risks.

Category 4 - High

The Event has a high impact on the environment and society, posing high business risks to the company. This rating level represents systemic and/or structural problems within the company, weak management systems and company response, and a recurrence of incidents.

Category 3 – Significant

The Event has a significant impact on the environment and society, posing significant business risks to the company. This rating level represents evidence of structural problems in the company due to recurrence of incidents and inadequate implementation of management systems or the lack of.

Category 2 - Moderate

The Event has a moderate impact on the environment and society, posing moderate business risks to the company. This rating level represents low frequency of recurrence of incidents and adequate or strong management systems and/or company response that mitigate further risks.

1. Summary.

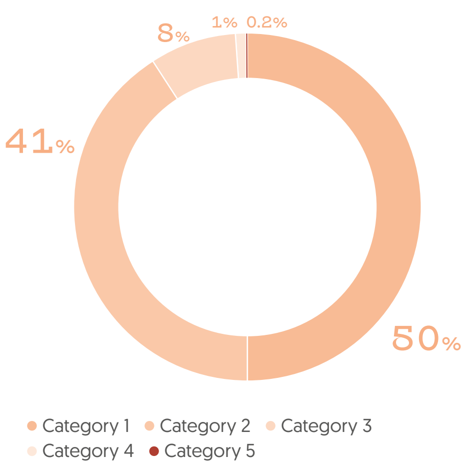
Category 1 – Low

The Event has a low impact on the environment and society, and risks to the company are minimal or negligible.

In terms of controversies, the FRR's Global Equities portfolio is comparable to the benchmark, with 1.2% of companies presenting one or more controversies in categories 4 and 5 compared to 1.1% for the benchmark (see illustration below). This represents 61 companies with a level 4 or 5 controversy compared to 117 for the benchmark. One reason for this difference is that the FRR's portfolios are more concentrated than their benchmarks. This is therefore not an indicator of the selectivity of the FRR's managers. Category 4 and 5 controversies represent a high and severe ESG risk for the company.

The FRR's Global Equities portfolio contains 0.2% of companies with a Category 5 controversy. This percentage is similar to that of the benchmark. 9 companies in the Global Equities portfolio have a Category 5 controversy, which is significantly lower than the benchmark, which contains 18 companies with severe ESG risk.

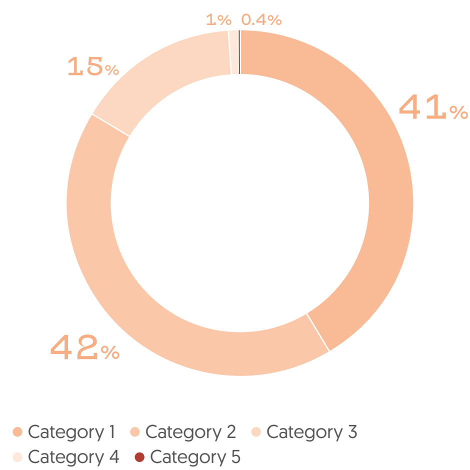
BREAKDOWN OF CONTROVERSIES BY SEVERITY – GLOBAL EQUITIES PORTFOLIO



In terms of controversies, the FRR's Corporate Bonds portfolio is comparable to the benchmark, with 1.4% of companies presenting one or more controversies in categories 4 and 5 compared to 1.3% for the benchmark (see illustration below). In absolute terms, this represents 177 companies with a level 4 or 5 controversy compared to 553 for the benchmark. Category 4 and 5 controversies represent a high and severe risk to the company.

The FRR's Corporate Bonds portfolio contains 0.4% of companies with a Category 5 controversy. This percentage is higher than that of the benchmark (0.3%). In absolute terms, 46 companies in the corporate bonds portfolio have a category 5 controversy, which is significantly lower than the benchmark, which contains 113 companies with severe ESG risk.

BREAKDOWN OF CONTROVERSIES BY SEVERITY – CORPORATE BONDS PORTFOLIO



IDENTIFICATION OF ISSUERS FALLING WITHIN THE FRR'S EXCLUSION CRITERIA

The FRR has established exclusion criteria relating to 3 types of activities:

- non-conventional weapons;
- tobacco;
- coal.

The FRR will strengthen its exclusion policy relating to fossil energies in 2024.

Non-conventional weapons[2]

Morningstar France Fund Information provides a report on the participation of companies in the development, production, maintenance, use, distribution, stockpiling, transportation of or trade in non-conventional weapons or their key components.

Excluded non-conventional weapons include anti-personnel mines (banned by the Ottawa Convention in 1997, signed by 164 countries[3]), cluster munitions (banned by the Oslo Convention in 2008, signed by 108 countries[4]), chemical weapons (1992 Chemical Weapons Convention) and biological weapons (Biological Weapons Convention 1972). These exclusions have been implemented since the FRR was established.

Each year, the FRR revises its exclusion list on approval by the Responsible Investment Committee of the Supervisory Board. This list is updated during the first half of each year and then published on the FRR's website. Today, it is based on a methodology whose aim is to identify companies involved in the development, production, maintenance, use, distribution, stockpiling, transport of or trade in cluster munitions, anti-personnel mines, chemical and bacteriological weapons or their key components.

2. Summary of analysis produced by Morningstar France Fund Information.
3. Except the United States, Russia, etc.
4. Except the United States, Russia, etc.

In late 2023, the FRR identified 17 companies in the FRR's investment universe. These will be placed on the FRR's exclusion list at the close of the first Responsible Investment Committee meeting of 2024:

TABLE OF ASSETS TAKING INTO ACCOUNT ESG CRITERIA (AT THE END OF 2023)

Manufacturer / Developer	Country
Aerospace Long-March International Trade Co., Ltd.	China
Anhui GreatWall Military Industry Co., Ltd.	China
China North Industries Corp.	China
Compania Nationala ROMARM SA	Romania
Defense Research & Development Organization	India
Electromechanical Ordtech Ltd.	Greece
Global Industrial & Defence Solutions	Pakistan
LIG Nex1 Co., Ltd.	South Korea
Makine ve Kimya Endüstrisi AS	Turkey
Nityanand Udyog Pvt Ltd.	India
Poongsan Corp.	South Korea
POONGSAN HOLDINGS Corp.	South Korea
Rostec Corp.	Russia
SNT DYNAMICS Co., Ltd.	South Korea
SNT Holdings Co., Ltd.	South Korea
The Day & Zimmermann Group, Inc.	USA
Yugoimport-SDPR	Serbia

Tobacco

The tobacco exclusion, implemented by the FRR since 2016, is based on the 2003 WHO Framework Convention on Tobacco Control, signed by France. This is the first treaty negotiated under the auspices of the World Health Organization. It is an evidence-based treaty that reaffirms the right of all people to the highest attainable standard of health. The Convention represents a fundamental step forward since it develops a strategy to regulate addictive substances. Unlike previous drug control treaties, the Framework Convention affirms the importance of demand reduction strategies as well as supply reduction strategies. The FRR has implemented this exclusion since 2016.

CLIMATE ANALYSIS

Climate analysis, performed for the FRR by S&P Global Sustainable 1, includes several aspects, the elements of which are reprised in the various parts of this report:

- green share, brown share and contribution to energy transition ;
- carbon footprint and 1.5° C alignment ;
- biodiversity footprint ;
- transition risk and physical risks.

Climate analysis of portfolio assets is performed as follows:

CLIMATE ANALYSIS TABLE

Asset class	Physical risks	Transition risks/ opportunities	Footprint / Alignment	Biodiversity
Listed Equities and Corporate Bonds	Score / 7 climate hazards	Green share / Brown share	Carbon footprint and 1.5°C alignment	Yes
Government bonds	_	_	Carbon footprint	Yes
Unlisted assets (New in 2023!)	–	–	Carbon footprint	Yes

THE FRR'S COMMITMENTS

One of the main ways for institutional investors to promote sustainable development is to exert their power of influence over the issuers they help finance but also vis-à-vis their ecosystem. From this standpoint, the FRR has been involved since its inception in numerous engagement initiatives, both internationally and nationally. It has been among the founders of some of the most structural of these initiatives, the Principles for Responsible Investment [PRI]. Moreover, the FRR has chosen to support dialogue with companies through collaborative initiatives, in collaboration with its mandate and fund managers and also, when necessary, directly with the companies themselves.

Global initiatives	Initiatives addressing environmental issues	Initiatives addressing societal issues	Initiatives addressing governance issues
PRI Principles for Responsible Investment	CDP	Women's Empowerment Principles	ICGN International Corporate Governance Network
French public investors Sustainable Development Goals [SDGs] Charter	Climate Action 100+	Investor statement on the Bangladesh accord	EITI Extractive Industries Transparency Initiative
FIR Forum pour l'Investissement Responsable	IIGCC	Statement on tobacco	
	Net-Zero Asset Owner Alliance	Gender initiative	
	French public investors climate Charter		
	Nature Action 100		
	spring A PRI stewardship initiative for nature		

Global impact initiatives

PRI – 2005

The FRR is one of the founding members of the UN's "principles for responsible investment".

The PRI reflect the shared values of a group of investors characterised by a long-term investment approach and diversified portfolios, including insurers and reinsurers, pension funds or other public or private institutional investors. They are fully compatible with the FRR's SRI strategy.

The PRI are fundamental to the growth of responsible investment: at the end of 2023, there were more than 6,000 PRI signatories, representing a total of around 140,000 Bn€ in assets under management.

French public investors Sustainable Development Goals (SDGs) Charter – 2019

The French public financial institutions and operators, of which the FRR is a member, already committed since December 2017 to implementing six principles set forth in the Public Investors Climate Charter, henceforth commit to ensuring that their responsible investor approach and their activities are consistent with all aspects of sustainable development (environmental, social, economic prosperity and governance), as stated in the 17 Sustainable Development Goals (SDGs) adopted for 2030 by the Member States.

Forum for Responsible Investment (FRI) – 2018

The Forum for Responsible Investment was created in 2001 at the initiative of fund managers, specialists in social and environmental analysis, consultants, trade unionists, academics and citizens. Since then, they have been joined by investors, including the FRR in 2018.

The aims of the FRI are to promote Socially Responsible Investment (SRI), to ensure that more investments factor in social cohesion and sustainable development aspects.

Initiatives addressing environmental issues

NEW !

The FRR supports this PRI responsible management initiative on nature, which focuses on deforestation and land degradation, key drivers of biodiversity loss. It aims to help halt and reverse biodiversity loss by 2030, in line with the Kunming-Montreal Global Biodiversity Framework.

NEW !

The 190 investors, including the FRR, gathered under the Nature Action 100 initiative, have identified a list of companies which they intend to hold accountable. Eight economic sectors in particular are targeted for their heavy impact on nature, such as agri-food, mining and distribution. Investors wish to prompt companies to align with the Kunming-Montreal Agreement by integrating nature conservation into their business models.

CDP - 2006

Supported by the United Nations Environment Programme (UNEP), CDP is one of the most important international initiatives on the environment and climate change. With the desire to improve information on corporate behaviour regarding the environment, their energy consumption and the effects of climate change, the FRR gave its support to the CDP in 2006, and subsequently to the CDP WATER and CDP FOREST.

The CDP has become a key player in the standardization and gathering of environmental information from companies. At the end of 2023, it was backed by 746 investors representing 125 000 Bn€ in assets, and more than 23,000 international listed companies responded to their questionnaires on environmental performance data.

NET-ZERO ASSET OWNER ALLIANCE - 2019

In November 2019, the FRR joined the Net-Zero Asset Owner Alliance. This alliance brings together 89 global investors, representing 8,750 Bn€ in assets, which commit to moving their investment portfolios by 2050 towards net GHG (Greenhouse Gas) emissions compatible with a maximum temperature increase of 1.5°C above pre-industrial temperatures, having regard to the best available scientific knowledge, including the conclusions of the IPCC (Intergovernmental Panel on Climate Change). Members also undertake to report regularly on progress, including by setting interim targets every five years in accordance with Article 4.9 of the Paris Agreement.

In order for members to discharge their fiduciary duties, manage their risks and achieve their investment return targets, this commitment must be part of a holistic ESG approach including, but without limitation, climate change.

Members must aim to meet this commitment, in particular by advocating and engaging with businesses and industry, and also by seeking to influence public policy, for a low-carbon transition taking into account the associated social impacts.

Institutional Investors Group on Climate Change - IIGCC - 2015

The IIGCC is a forum for investors working together to combat climate change. The IIGCC offers its members a collaborative platform for engagement that encourages public policies, investment practices and corporate behaviours to have consideration for the long-term risks, and opportunities, associated with climate change. By the end of 2023, this initiative had received the support of more than 400 investors, representing 60,000 Bn€ in assets under management.

Climate Action 100+ - 2017

Climate Action 100+ is the largest collaborative initiative on engagement in climate change. At the end of 2023, this initiative was supported by more than 700 signatories, representing more than 63,000 Bn€ in assets under management.

This initiative is at the heart of the battle against climate change of the Net-Zero Asset Owner Alliance, of which the FRR is a member. Indeed, Climate Action 100+ is an investor-led initiative aiming to mobilise more than 170 of the world's largest greenhouse gas emitters representing 80% of industrial emissions that are critical to meeting the goals of the Paris Agreement to reduce their emissions, expand climate-related financial information and improve their governance on climate risks.

French public investors climate charter - 2017

The FRR signed this charter in December 2017. All French public financial institutions and operators have decided to adopt an approach aimed at ensuring the compatibility of their activities with the objectives of the Paris Agreement.

For the record, the FRR has also, over the years, supported many other climate initiatives, including:

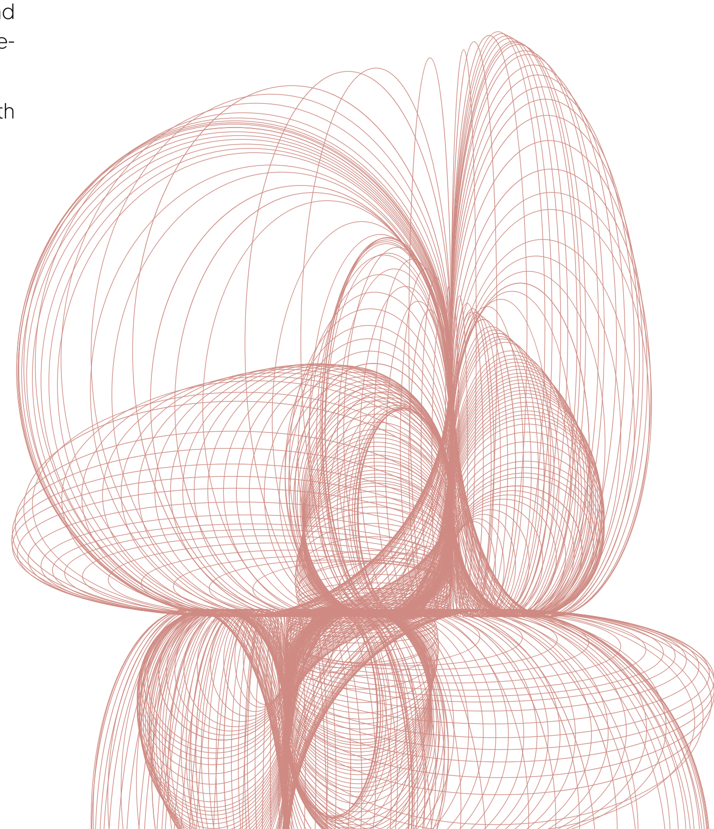
- 2014: Signing of the PRI Montréal Pledge, Support for the Portfolio Decarbonization Coalition, Signing of the declaration on climate change within the framework of the UN Climate Summit;
- 2015: Support for the ACT – ASSESSING LOW-CARBON TRANSITION initiative;
- 2017: G7 governments' declaration on Climate Change. Public Statement: Investor challenges and expectations on "Say on Climate" – 2022.

The FRR co-signed this statement, an initiative of the Forum for Responsible Investment, which has three aims:

- to publish investors' expectations on "Say on Climate" and create a "Say on Climate Terms of Reference";
- to improve dialogue between investors and companies on climate issues through shareholder General Meetings;
- Finally, to improve corporate alignment with the goals of the Paris Agreement.

IIGCC Net Zero Engagement initiative - 2022

The Net Zero Engagement Initiative aims to develop and accelerate engagement in investment portfolios. It is designed to enable investors to meet the engagement targets they have set as part of their net-zero commitments.



Other initiatives addressing societal issues

Advocacy for tobacco - 2017

53 investors, health systems, pension funds and insurers, representing 3.8 billion dollars in assets under management, signed a statement for the attention of World Health Organization (WHO) representatives and national health ministers who openly support stronger tobacco control regulations.

Declaration encouraging the signing of the Women's Empowerment Principles – 2019

The FRR is convinced that diversity is a decisive factor in companies' operational and financial performance. On 17 September 2019, with the support of UN Women, it signed a joint declaration promoting gender equality within companies. This initiative aims to bring together numerous investors to call upon a wide panel of listed companies around the world, to be more transparent in this area and to encourage them to sign the Women's Empowerment Principles. This is a set of 7 principles, the result of an alliance between UN Women and UN Global Compact, to which companies can sign-up to promote gender equality in their professional environment.

Gender initiative – 2019

On 7 November 2019, the FRR signed the Gender initiative. This declaration, coordinated by Mirova and co-signed by 66 investors representing a total of 4,000 Bn€ in assets, is supported by UN Women and the United Nations Global Compact and aims to promote gender equality in companies.

Initiatives addressing governance issues

Extractive Industries Transparency Initiative (EITI) – 2009

This initiative aims to increase the transparency and accountability of operators in the extractive industries sector through verification and publication in full of payments made by companies and income received by governments in connection with the exploitation of mineral, oil and gas resources. By supporting the EITI, the FRR invites all companies in the sectors directly or indirectly concerned, of which it is a shareholder, to join, and encourages those that have already committed to support the initiative to play an active role in its implementation.

KEY MILESTONES

2001
Factoring in of extra-financial considerations under the law establishing the FRR

2003
1st RFP to select managers: incorporating ESG criteria

2005
SRI Strategy - period 2005-2008
Publication of voting Guidelines

2006
Founding member of the PRI
CDP membership
Implementation of an approach to assessing entire portfolio having regard to extra-financial criteria

2007
Funding the "Sustainable Finance and Responsible Investment" Chair
Support for the PRI-FIR Academic Research Prize

2008
SRI strategy - period 2008-2012

2009
Joined the CDP water
Support for the Extractive Industries Transparency Initiative [EITI]

2013
SRI Strategy - period 2013-2017

2014
Membership of the International Corporate Governance Network [ICGN]
Support for an initiative on supply chain risk management in the textile sector

2014
Signing of the PRI Montréal Pledge
Signing of the UN Summit Declaration on Climate Change

2017
Signing of the French public investors climate charter
Joined the CDP FOREST

2017
Joined the CA100+
Joined the IIGCC

2017
Signing a declaration addressed to WHO members and health ministers supporting stronger tobacco control regulation

2018
Support for the United Nations Environment Programme Finance Initiative [UNEPFI]
Commitment to follow the TCFD recommendations*
Membership of the Forum for Responsible Investment [FRI]

2019
SRI Strategy - period 2019-2023
Commitment to support a fair transition*

2019
Signing of the French public investors SDG charter
"Women's Empowerment Principles" collaborative initiative
Signing of the "Gender initiative" declaration

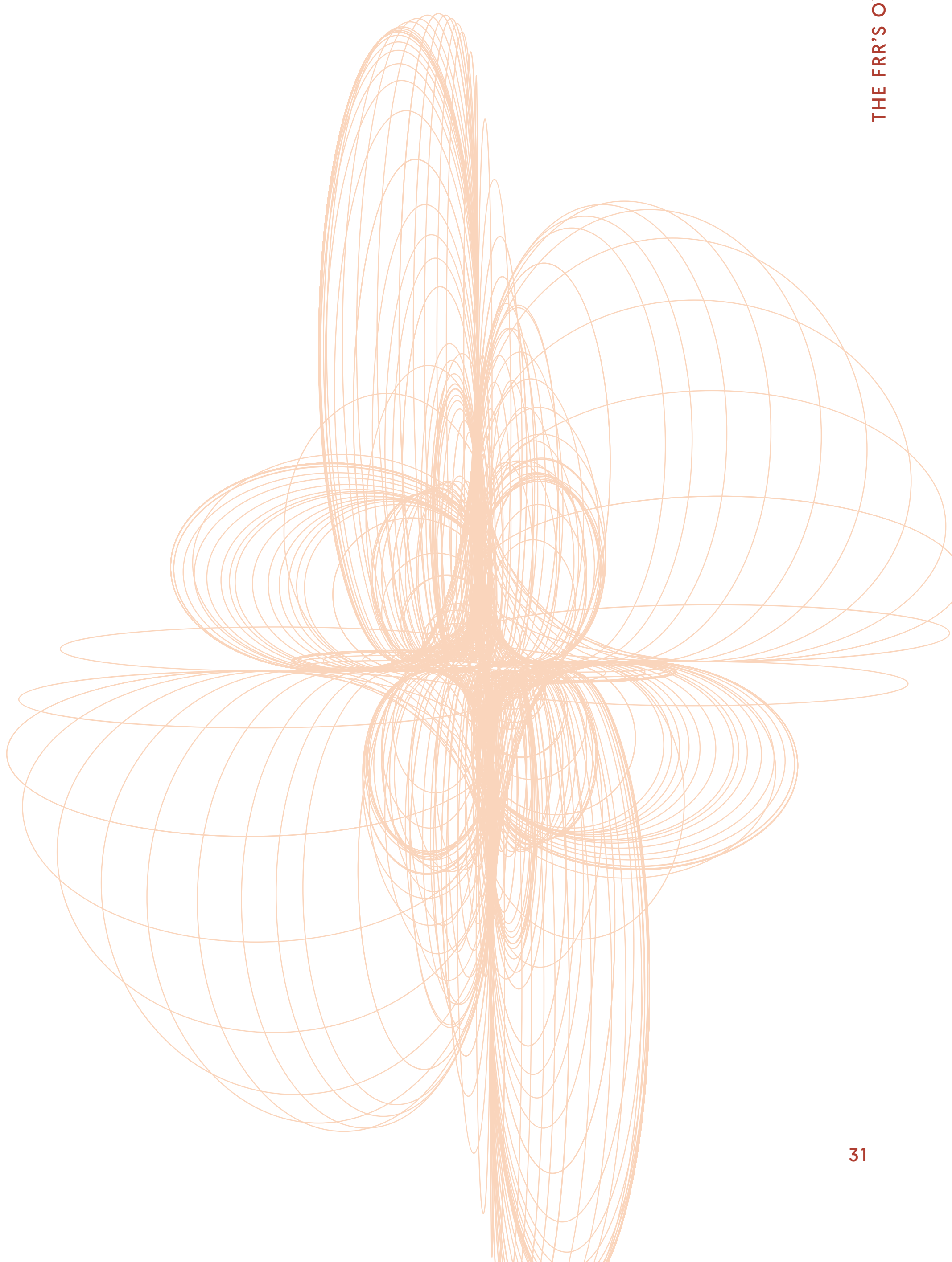
2019
Membership of the "Net zero asset owner initiative"

2021
Signing of the "Bangladesh Accord" declaration
Support for the engagement action on TotalEnergies presence in Myanmar

2022
Support for the IIGCC Net Zero Commitment initiative

2023
Supporting the Nature Action 100 and SPRING biodiversity initiatives

* SDG: Sustainable Development Goals.
* TCFD [Task Force on Climate-related Financial Disclosures]: working group on financial transparency of climate-related risks.
* Just transition: having regard to social aspects in decisions related to energy transition.



2

Internal resources to contribute to transition

Service providers and bodies responsible for the FRR's RI strategy

All assets are managed by delegation. Most of the resources used to deploy the FRR's RI strategy are therefore at manager level. The manager selection process includes a very significant component dealing with their resources dedicated to ESG in general, and Climate in particular. Investment Directors are involved at all stages during the life of a mandate (defining ESG objectives, selection, monitoring...) and report yearly to the manager selection Committee on ESG indicators within their scope. Furthermore, a Responsible Investment monitoring Committee is responsible for implementing the guidelines laid down by the Supervisory Board for the prevention and control of extra-financial risks in the FRR's portfolios.

Monitoring of the effective implementation of the RI strategy is integrated into the Delegated Management and Responsible Investment Department, within the FRR's Finance Department. This Department employs a Responsible Investment Officer, who is an expert in ESG analysis (21 years of experience). A junior analyst has also been recruited, to improve exploitation of ESG data.

The FRR relies on the resources of a number of specialist agencies:

- measurement and analysis of the ESG footprint of the FRR's portfolio, and supply of an extra-financial risk database, performed by Morningstar France Fund Information
- measurement and analysis of environmental footprint and Climate relating to the FRR's portfolio, performed by S&P Global Sustainable 1.

In 2023, the budget earmarked by the FRR towards ESG and Climate data and analysis totalled more than 230 K€.

CONTRIBUTION TO FINANCING RESPONSIBLE INVESTMENT RESEARCH

The FRR supports the FRI (Forum for Responsible Investment) and sponsors its annual Award organised in collaboration with the PRI (Principles for Responsible Investment). Since 2007, it has also financed academic research on sustainable finance and responsible investment at the Toulouse School of Economics and the École Polytechnique.

The European FIR-PRI "Finance & Sustainable Development" Awards were created in 2005 by the FIR to reward excellence in academic research in the field of finance and sustainable development. The Principles for Responsible Investment (PRI) have been partners since 2011.

Each year, a call for entrants is launched in January and April in five categories: Best Published Paper, Best Master's Thesis, Best Doctoral Thesis, Best Pedagogical Innovation and Research Grant for an ongoing doctoral thesis.

The Jury, made up of academics and professionals, meets twice, once for a pre-selection process and then for a second time to determine the winners. The results are usually announced during Responsible Finance Week at a ceremony to which the winners are invited and during which they have the opportunity to present their work.

In the Best Published Paper category, the prize was awarded to Florian Heeb, Julian Kölbel, Falko Paetzold and Stefan Zeisberger, all from the University of Zurich, with their article "Do investors care about impact?" published in The Review of Financial Studies, Florian Heeb, Julian Kölbel, Falko Paetzold and Stefan Zeisberger: “We show that Investors are willing to pay for investments that have a positive societal impact. However, they are not willing to pay more for more impact. Investors seem to draw positive emotions from choosing a green investment, regardless of its green nature.”

In addition, the FRR supported in particular the work of Patricia Crifo (Ecole Polytechnique / Sustainable Finance Responsible Investment) on inequalities and carbon neutrality. This work addresses the following issue.

Having formally adopted a carbon neutrality by 2050 goal in March 2020, European states have put in place recovery plans under which combating climate change is a clearly stated objective. In September 2020, the European Union announced a 225 billion euro issue of green bonds to finance its recovery, namely 30% of the total budget deployed to deal with the consequences of the Covid-19 crisis. France has also set itself the goal of "becoming the first major European decarbonised economy. For this purpose, 30 billion euros of the overall budget will be devoted to four priority sectors: energy renovation of buildings, transport, agricultural transition and energy. These investments will allow France to develop by adopting sustainable and fair growth." But, can the goal of carbon neutrality for States, and the green investment this requires to achieve it, be a source of higher incomes, job creation and reduced inequalities?

In an article published in 2023 in the scientific journal Employee Relations, Crifo, Diaye and Pekovic analyse, with reference to French data, the impact of environmental and social strategies, in other words CSR policy, on salaries. As a sign of corporate culture, CSR can attract productive or highly skilled employees. Studies show that green companies can also recruit motivated employees with team-working values thereby reducing costly staff turnover or ensuring the long-term survival and performance of the company. While these studies are informative, they are only part of the story because they ignore the direct impact on employee wages, which can go in two opposing directions.

On the one hand, if a proactive human resources policy tends to increase a company's performance through increased productivity, motivated employees may potentially accept salaries below fair market value because they are inherently motivated by the alignment between their work and their personal values. In fact, companies' commitment to sustainable development can result in lower labour costs. On the other hand, it may be that investing in CSR improves the skills and human capital of employees, enabling them to secure higher pay. Furthermore, CSR companies could offer employees compensation packages above and beyond the terms set out in their employment contract and under the regulations, with the aim of redistributing some of the added-value created by the potential increase in profitability due to CSR.

Thus, economic theory does not predict an unequivocal link between CSR and pay. Socially responsible firms may, on the one hand, wish to attract employees via ethical concerns and a green corporate culture, contrary to a purely financial salary incentivised motivation (inducing a negative link between CSR and wages). But on the other hand, socially responsible companies may, on the contrary, wish to combine CSR with more generous compensation as part of a strategy that combines environmental and social performance.

To study the effect of CSR on wages, Crifo, Diaye and Pekovic use three French databases. A first employer-employee database is called the Labour Costs and Pay Structure Survey. A second database called the Organizational Change and Computerization Survey (COI) provides information on firms' CSR practices. Finally, the third database, the Annual Business Survey, provides information on firms' revenues and exports. Indeed, based on data covering over 13,000 employees during the period 2003 to 2006, Crifo, Diaye and Pekovic show that CSR has an ambiguous impact on firms' wage policies depending on the types of financial incentives and status of the employees. The greener firms tend to pay lower salary and profit-sharing bonuses to non-managerial employees and higher to executives.

In an article published in the scientific journal Environmental Modelling & Assessment, Patricia Crifo analyses how green innovation strategies and employees' environmental motivation impact inter- and intra-skills inequalities. From a theoretical point of view, it shows that policies stimulating green innovation, by increasing the need for "skilled green labour", are likely to create upward pressure on the demand for green and skilled workers. If labour supply does not also increase, this effect will result in upward pressure on wage inequality.

A statistical analysis shows that the inequality between skilled and unskilled workers is greater the higher the level of the green workforce, and that the inequality among skilled workers is greater the higher the environmental performance of the company. It is also interesting to note that the greater a firm's spending on education, the lower the level of inequality between and within skills. In other words, to prevent green innovation policies from being "absorbed" by wage increases and from simply resulting in increased inequalities, they need to be combined with sustained training and education policies at firm level. As green human capital incorporates an essential component that is specific to the firm, in other words non-transferable, corporate spending is crucial to avoid increasing inequality.

This analysis shows that a growth model driven by green innovation can create more inequalities among skilled workers and between skilled and unskilled workers. The need for a "just" transition, or an equitable transition, focuses precisely on how to link these two aspects over time: overcoming the climate risks associated with energy transition by creating new economic opportunities whilst preserving social justice and reducing inequalities. This is a critical matter in terms of mitigating the socio-economic impact of transition for the most exposed stakeholders.

In 2023, the budget allocated by the FRR to all organisations and bodies supporting ESG/Climate initiatives totalled more than 81 K€ with support for academic research totalling 22k€.

COLLABORATION WITH EXTRA-FINANCIAL DATA PROVIDERS

For several years, the FRR has been working with index providers to ensure that they incorporate extra-financial criteria when constructing the indices. This work led in 2014 to the creation of the Low Carbon Leaders indices with MSCI and the Swedish fund AP4. The FRR continues this work with the various index providers and, since 2021, most of the customized smart beta indices used by the FRR incorporate into their construction methodology a carbon emission control mechanism to ensure that they remain at a level close to the capitalization-weighted index.

The FRR also works with management companies and extra-financial data suppliers to improve ESG data calculation methods and practices. With regard to ESG optimised mandates in particular, ESG data quality is key. Indeed, in recent years, the FRR has opened a dialogue between management companies and index providers with a view to harmonising coal share calculation methodologies in relation to a number of major players in the local authority services sector. These various engagement initiatives have led to greater consistency on the part of data providers in terms of methodology to better take into account the operations of the companies analysed. For example, the methodologies for consolidating the results of a subsidiary with those of its parent company, or considering inter-company payment flows, are today better understood by a number of coal data suppliers. This results in responsible management more consistent with companies' economic reality.

3

ESG/climate governance

GOVERNANCE BODIES

Factoring sustainability criteria into its management decisions is at the heart of the FRR's identity. Indeed, since 2001, the founding texts of the FRR (Article L.135-8 of the Social Security Code) specify that *"The Executive Board regularly reports to the Supervisory Board and describes how the general investment policy guidelines have factored in social, environmental and ethical considerations".*

Supervisory board

The FRR's Supervisory Board approves the Responsible Investment strategies, Voting Policy and "Climate" objectives presented to it by the Executive Board. It also oversees their implementation and the achievement of the "Climate" objective".

Responsible investment committee (RIC)

This committee, established in 2008, is formed by the President of the Supervisory Board, a member of the panel representing employee trade union organisations, and a member of the panel representing employer trade union organisations. It may in addition be supported by two qualified external persons and, where necessary, service providers. As at today's date, there are two expert members:

- Jean-Claude Javillier, aggregate professor in the Faculty of Law. He has taught Labour Law and comparative industrial relations at the International Labour Office (International Labour Organization, Geneva) and has held the posts of Director of the international labour standards Department, then chief Adviser at the International Institute for Labour Studies. He has published various books and articles in the fields of labour and professional relations, and global governance;
- Jean-Pierre Hellebuyck was vice-chairman of AXA Investment Managers and Chief Investment Officer of AXA Investment Managers. He was also chairman of the corporate governance committee at the Association française de la gestion financière (AFG). He is the author of several reports on governance and financial management.

This Committee is responsible for ensuring that the guidelines established by the Board for the control and prevention of extra-financial risks in the FRR's portfolios are implemented. In particular, it verifies annually the list of issuers excluded due to their involvement in non-conventional weapons. This Committee reports on its work at least once each year to the Supervisory Board.

Executive board

The Executive Board prepares the Responsible Investment strategies, Voting Policy and "Climate" objectives, seeks the opinion of the Responsible Investment Committee on its plans and presents them to the Supervisory Board.

The Executive Board reports, at least once per year, to the Responsible Investment Committee and to the Supervisory Board, on the implementation of the Responsible Investment strategy, the Voting Policy and the "Climate" objectives.

The reports provided to the RIC and the Supervisory Board cover extra-financial analysis of the portfolio, assessment of controversies, monitoring of issuers to which the exclusion criteria may be relevant, climate analysis and indicators for monitoring climate objectives, as well as engagement initiatives conducted and the exercise of voting rights.

Finance department

The Finance Department establishes the ESG criteria for selection of managers and their management proposals, with a special emphasis on climate.

The Finance Department then ensures that the managers properly implement the Responsible Investment strategy, the Voting Policy and the defined ESG/ Climate criteria. It conducts a two-level verification:

- 1st level analyses based on ESG/Climate reports supplied by the managers, at least twice per year, and examined at Management Committee meetings;
- 2nd level analyses, based on the assessment reports supplied by Morningstar France Fund Information for extra-financial portfolio analysis and by S&P Global Sustainable 1 for the climate and environmental audit.

Legal and communications department

The Legal and Communications Department monitors the exercise of the FRR's voting rights based on the reports prepared by ISS. It is responsible for the FRR's communications and is involved in the preparation and publication of annual reports and sustainability reports.

Operations and risks department

The operations and risks Department is responsible for monitoring compliance in particular with the various exclusions (tobacco, coal, NCST,...).

ESG committee

An ESG Committee, led by the chief ESG officer, meets on a monthly basis. The Executive Board members and all of the FRR's various Departments attend this ESG Committee, which forms the backbone of the FRR's ESG activities. It ensures that all Departments are involved in reflecting on ESG matters, in preparing the various documents, including those intended for the RIC.

Managers

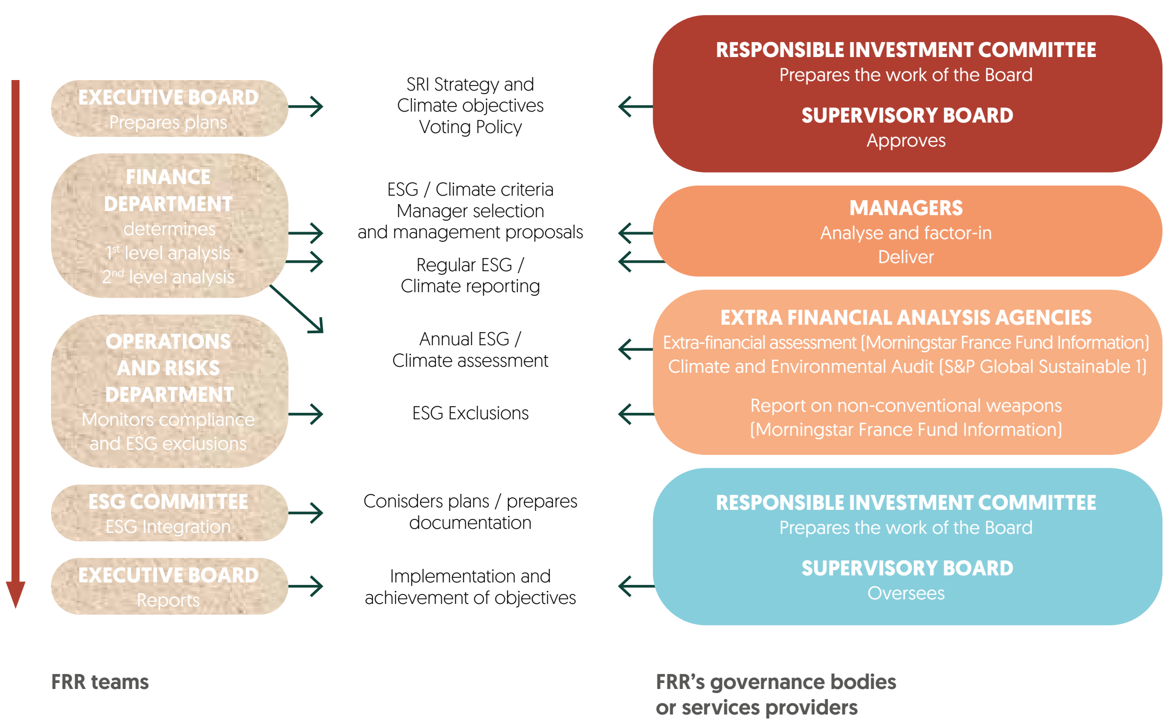
The managers must take the FRR's Responsible Investment Strategy into consideration in their management by, in particular, systematically incorporating ESG analysis into the issuer selection process, across all asset classes. They also exercise all voting rights at shareholder general meetings for equities held in the portfolio, in accordance with the FRR's Voting Policy guidelines. They submit regular reports on these matters, which are discussed at all half-yearly management committee meetings.

Extra-financial research agencies

Two extra-financial research agencies selected periodically by invitation-to-tender carry out on behalf of the FRR a full annual analysis of the portfolio:

- Morningstar France Fund Information conducts an ESG risk analysis, an ESG-related controversies assessment and identifies issuers that may fall within the FRR's exclusion criteria;
- S&P Global Sustainable 1 conducts a Climate analysis, which involves several elements: green share, brown share and contribution to energy transition, carbon footprint and 1.5°C alignment, environmental footprint, assessment of transition risks and physical risks.

ESG/CLIMATE GOVERNANCE



INTERNAL TRAINING

ESG aspects are fully integrated into the FRR's internal operations through communications on issues surrounding energy transition that are offered to employees with, for example, organised collaborative workshops such as the *"Fresque du Climat"*, which enables discussion with external stakeholders on current topics or projects conducted internally.

In terms of appropriating responsible investment, the focus on internal training on responsible investment topics for staff, members of the Executive Board, members of the Supervisory Board and the Manager Selection Committee will be deepened in line with the requirements of Article 29 of the Energy and Climate Law on the knowledge, skills and experience of governance bodies in particular. A multi-year training plan has been put in place. This appropriation will strengthen awareness and mastery of the challenges of responsible investment and enrich the dialogue with management companies and stakeholders in a virtuous, self-sustaining mechanism for mutual improvement.

INTEGRATION OF SUSTAINABILITY CRITERIA WITHIN REMUNERATION POLICY

The members of the Supervisory Board and the Responsible Investment Committee do not receive any remuneration, except for the President. Members of the Executive Board and the Finance Department are given annual targets with respect to implementation of the responsible investment strategy.

Regarding the integration of sustainability criteria within remuneration policy, two Executive Board members are given specific responsible investment targets in their annual mission letter. As for the FRR's personnel, part of their remuneration is conditional on achieving annual targets. Indeed, 20% of the finance director's target bonus is conditional on implementation of the FRR's responsible investment policy. These targets are set at Finance Department team leader level. Indeed, 30% of the target bonus of the Head of the Delegated Management and Responsible Investment Department is conditional on implementing investments in accordance with the responsible investment strategy and 10% of the target bonus of the Head of Asset Allocation is conditional on integration of responsible investment at strategic allocation level. At team level, in addition to the Responsible Investment Head of Mission 80% of whose target bonus is conditional on specific ESG targets, the ESG-related target bonus weightings of Investment Directors are set between 10 and 20% depending on their scope.

4

Engagement strategy, voting policy and reporting

The FRR's engagement strategy is based upon four main pillars:

1. shareholder dialogue conducted at shareholder general meetings and based upon the FRR's Voting Guidelines;
2. dialogue targeted at portfolio issuers, identified as posing a risk with respect to their ESG/Climate practices. These issuers enter into a Dialogue Programme conducted by managers at the FRR's request;
3. a priority topic: energy and ecological transition. For reasons of greater efficiency, this topic is addressed essentially through collaborative initiatives, in cooperation with other investors and market bodies;
4. a financial management ecosystem initiative, directly led by the FRR.

VOTING GUIDELINES

The voting guidelines were updated in december 2022

The FRR's responsible investor approach involves adopting a shareholder position at all general meetings. Given the global and international nature of the FRR's investments, the guidelines with regard to the exercise of voting rights involve three aspects:

- The FRR's interest in actively contributing towards improving governance in the companies in which it invests. Indeed, the aim here is to promote clarity and a balance of power between the governing bodies as well as quality in terms of the information supplied to shareholders, respect for their rights and voting integrity. This aspect is, therefore, one of the factors that contributes strongly to the sustainability of the business community, to the continuity of the strategy they conduct, to the manner in which they exercise their responsibilities vis-à-vis all of their stakeholders. All of these elements contribute directly to their future worth.
- The fact that the FRR is a long-term investor. It has elected to prioritise in structuring its portfolios and in its management mandates, in accordance with the asset allocation strategy adopted by the Supervisory Board, an active approach based upon an analysis of the fundamental valuation prospects of the equity and debt securities issued by the various categories of issuers. It is therefore logical that this approach is also taken into account by the managers in their case-by-case implementation of the voting guideline principles, in particular when considering the appropriateness of transactions affecting a company's share capital.

- Finally, efforts to improve corporate governance, whether by the companies themselves, by the legislator or the regulatory bodies, have increased in recent years. These must continue. The active exercise of the FRR's voting rights must, however, take a pragmatic view of the actual conditions on the ground in each market, having regard in particular to issuer capitalisations, the significant differences in company law and practice in terms of corporate governance in the relevant countries.

At the end of 2022, the Voting Guidelines were updated to provide clarity on a number of topics and to reflect recent regulatory developments. The following in particular were highlighted:

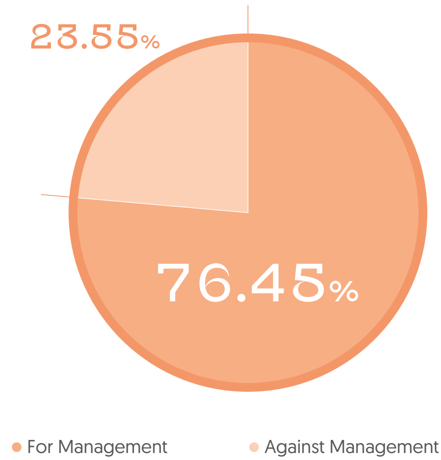
- The need to analyse dividend distribution by portfolio companies:
  - having regard to changes in the company's wage bill to ensure fairness between employees and shareholders over the long-term,
  - in line with the challenges of energy transition and associated investments.
- The importance of establishing within the FRR's Boards a Committee dedicated to Corporate Social Responsibility (CSR) matters.
- Encouraging companies to publish a fairness ratio, including in countries where this is not mandatory. This refers to the ratio between the company's highest remuneration and the average and median remuneration of employees. Moreover, in order to maintain corporate cohesion within the company, the FRR proposes that the overall annual remuneration of senior executives be capped at 100 times the minimum salary in the country where the head office is located, or where there is no minimum salary, 50 times the median remuneration calculated at Group level.
- The desire to introduce a regular vote at General Meetings on climate goals and climate reporting.

In accordance with its founding documents, the FRR's voting rights are exercised by the asset managers it has selected and in the FRR's sole interests. The guidelines on the exercise of voting rights incorporate all of these elements and must therefore be sufficiently wide to account for jurisdictional particularities (both in France and internationally). The FRR's aim is to capitalise on managers' knowledge and ability to respect the practices prevalent in the various financial markets. Managers may also have regard to these local practices on matters that are not covered by the FRR's voting guidelines.

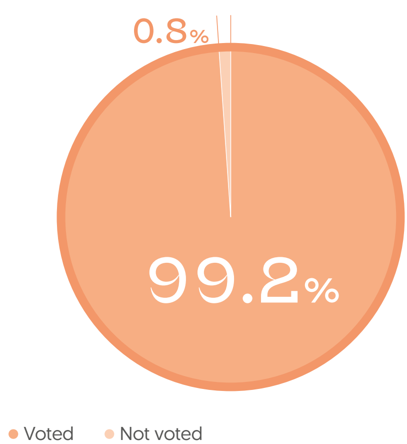
EXERCISE OF VOTING RIGHTS

To assist monitoring, the FRR is in the process of rating the quality of governance of its developed market equities portfolio. This new and analytical approach enables the FRR to better understand the essential components of governance of this portfolio. This process conducted through its active managers, has in 2023 enabled it to participate in 1,336 shareholder general meetings and to vote on more than 19,000 resolutions in the countries comprised in its developed markets equities portfolio. Its managers took part in 99.2% of voting general meetings.

The FRR's Managers voted on resolutions proposed by management at general meetings at a ratio of 76.45% FOR and 23.55% AGAINST.



NUMBER OF AG AT WHICH THE FRR VOTED IN 2023



Note that there were also a significant number of resolutions on exceptional executive compensation and on climate, diversity and inclusion. Resolutions on "Say on climate" continued their progress. Shareholders' demands are reflected by gradually diminishing levels of support.

The FRR pays close attention to the factoring in of extra-financial aspects, particularly social, societal and environmental, by boards of directors, to consideration of the recommendations of the TCFD and diversity not only on boards of directors, but also within the executive committees of the companies of which it is a shareholder.

Results of the exercise of voting rights under equity index replication mandates for management consistent with the paris agreement

Equity index replication strategies, aligned with the Paris Agreement, optimise portfolios by basing themselves on advanced extra-financial criteria. They engage in discussion with companies on various sustainability topics and implement the FRR's responsible voting rights policy.

In 2023, the managers of these mandates took part in nearly 700 general meetings, voting on around 10,000 resolutions. On average, they voted against 27% of the resolutions, a slightly higher rate than in 2022. The votes against related mainly to director compensation, director appointments, and management board structures considered not sufficiently independent or diverse, and also to financial authorisations.

Of all the shareholder resolutions voted on, around 200 concerned governance topics and a few related to ESG issues, including climate. The managers have been selective, supporting around 40% of these resolutions. Support for resolutions on major oil groups remained a priority, aimed at increasing transparency on these companies' emissions and the implementation of their climate alignment plans. The managers noted less support from US investors on these issues.

Say on Climate (SOC) resolutions were also an important topic at 2023 General Meetings. After increasing sharply in 2022, the number of SOC fell back to 26 in 2023 from 49 the previous year. France was the most active country with 8 SOC, followed by the United Kingdom with 5. Another notable trend is the increase in "Reporting" SOCs compared to "Strategy" SOCs. This is because firms whose climate transition plans were approved in 2022 are not seeking approval of their progress report in subsequent years, but have committed to communicate on their progress.

In 2024, SOC resolutions will remain a central theme to support businesses in their climate transition. The managers will aim to vote regularly on companies' strategies and progress. The inclusion of ESG performance criteria in companies' variable compensation plans will also act as a lever to encourage change. Finally, the composition of boards and the competence of directors will remain key issues for the managers, which must be able to support and challenge management on their transition strategies in a complex and uncertain economic environment.

SELECTION OF ISSUERS FOR THE FRR'S DIALOGUE PROGRAMME

The process for selection of issuers to enter FRR's Dialogue Programme is based upon identifying companies posing the highest level of ESG risk. The assessment of this risk level relied, in early 2023, upon Moody's ESG Solutions' analysis. The aim of this analysis is to identify companies accused of failing to comply with international standards, and to assess the degree of risk posed by such allegations and the quality of the relevant companies' responses. The companies selected are those that present both a poor ESG score and a "Critical" controversy severity level. The ESG assessment requires a score 1.2 times below the regional sectorial average (US, Europe, Asia-Pacific). Indeed, the FRR's view is that it is not necessary to focus its attention on companies that have already made significant progress. Finally a qualitative analysis is used to choose issuers from amongst them to participate in the Dialogue Programme. The scope, which was initially limited to equities mandates, has now been extended to the new bonds mandates. For efficiency reasons, finance companies and public enterprises are not included in this programme, given the complexity of the challenge and the anticipated lack of results deliverable by a dialogue programme.

Moody's ESG Solutions has identified, in the FRR's equities and bonds portfolios, 139 companies involved in one or more controversies of critical or high severity. This number remains stable compared to 2021 (137).

Therefore, at the end of 2022, the results of the process for selection of issuers to enter the Dialogue Programme are described in the illustration below.

Based on Moody's ESG Solutions's report received at the end of 2022, the FRR selected, for its 2023 dialogue plan via its managers, the following list of companies:

- JBS,
- Bunge,
- BMW,
- Balfour Beatty, and
- Telenor

The FRR has engaged in dialogue with 8 of its managers on these 5 controversial companies.

RESULTS OF ENGAGEMENT INITIATIVES IN 2023

Managers selected by the FRR

This 2023 dialogue campaign has demonstrated that managers' levels of involvement are increasingly uniform, of good quality and improving year-on-year. The following points characterize the 2023 dialogue campaign:

- Dialogue was engaged in 56% of cases (33% in 2022 but 73% in 2021). These wide variations can be explained by the small sample size.
- Responses were assessed as satisfactory in 89% of cases (50% in 2022 and 91% in 2021 but 44% in 2020). The responses provided were considered satisfactory by the managers.
- 100% of managers propose not to divest (100% in 2022 and 91% in 2021). This suits the FRR, which considers that divestment should only be used as a last resort.
- Managers, unlike in the previous year, responded saying they considered that 67% (100% in 2022 and 64% in 2021) of these controversies had little or no material impact. The FRR's managers therefore conclude that social issues have little impact on a company's financial outlook. Nevertheless, one third of the managers indicated that this did have an impact on their management model.

Mandate companies overall

Improving metrics is one aspect of the FRR's responsible investor policy, but it also highlights the need to encourage companies through dialogue to achieve a more virtuous trajectory. These commitments are supported by the management companies and contribute to the sustainable approach promoted by the FRR.

1) The euro-denominated high yield corporate bonds mandates, launched at the end of 2021, have throughout 2023 demonstrated results that are extremely encouraging for a bonds asset class. Indeed, managers have taken numerous steps to engage with the issuers in their portfolio or universe, whether directly or through collaborative initiatives resulting in managers dialoguing on topics such as the transparency of a company's ESG indicators, policies to promote a zero carbon economy, the issuer's sustainable governance or indeed the provenance of commodities. Overall, there is a significant level of climate engagement, a theme highlighted in these mandates, notwithstanding the managers having a good grasp on the other social and governance aspects.

2) The equities index management mandates consistent with the Paris Agreement also incorporate to a significant extent the theme of engagement with the companies in the portfolio. Indeed, the 3 managers have taken steps to engage with almost all of the companies forming their investment universe. This engagement takes the form of direct dialogue or taking part in collaborative initiatives and the topics highlighted often cover environmental issues. Indeed, amongst others, the topics discussed include protection of biodiversity, transition towards a low carbon economy, validation of SBTi commitments or the adoption of good practices from a tax perspective.

3) The European and US investment grade corporate bonds mandates currently managed on behalf of the FRR also include a specific half-yearly reporting requirement on various matters including, in particular, engagement initiatives undertaken with certain issuers in the portfolio.

As part of the information required by the FRR, management companies must specify the number of issuers in the portfolio with which it has engaged, specifying the topics covered and indicating whether the engagement was direct or part of a collective initiative.

Focus on climate-related engagement initiatives

COLLECTIVE ENGAGEMENT INITIATIVES

The FRR has continued to participate in engagement initiatives conducted within the framework of the Climate Action 100+, which engages in dialogue with 170 of the world's largest listed private issuers and drives corporate climate action in line with the global goal of net zero emissions by 2050 or earlier.

The strength of Climate Action 100+ is the global focus on results and the spirit of partnership between investors and corporates.

Climate Action 100+ is coordinated by its five founding investor networks: AIGCC, Ceres, IGCC, IIGCC and PRI. It is led by the Climate Action 100+ global steering committee, which includes five investor representatives and the leaders of the investor networks. The strategy is deployed by the staff of the investor network which supports the investors in their engagement initiatives with the target companies. Investor engagement through this initiative has resulted in the target companies expanding their climate ambitions. This engagement relies upon an assessment that is carried out each year, based on ten indicators combined within the Net-Zero Company Benchmark. These indicators concern in particular the company's "Net Zero" ambition, its short, medium and long-term emission reduction targets, its decarbonisation strategy and the investment allocated thereto, climate governance, fair transition and adoption of the TCFD's recommendations.

The 2023 report of the Net-Zero Company Benchmark shows contrasting results:

- the targeted companies continue to make progress on setting net neutrality targets for 2050 or earlier. These are now 77% compared to 50% two years previously (75% in 2022),
- 93% of the companies now have a climate supervisory board (compared to 91% in October 2022).

However, these positive developments on the stated objectives and transparency should not obscure the need to translate this into concrete steps to reduce emissions. Significant progress remains to be made: the Benchmark identifies persistent weaknesses in forming a decarbonisation strategy: only 21% of targeted companies communicate quantified plans. On the other hand, those publishing emission reduction targets in the short and medium term has significantly increased (47% and 87% of companies respectively).

Finally, the alignment of investments with the stated ambitions remains marginal: 1% of companies fully meet this criterion and 18% only partially.

ENGAGEMENT ACTIONS UNDERTAKEN AT THE FRR'S INITIATIVE

As part of the NZAOA, the FRR has requested two managers to undertake an engagement initiative concerning companies within the portfolio. The 26 targeted companies were selected in accordance with the NZAOA's "Target Setting Protocol" rules. This provides for the selection of at least 20 portfolio companies, with a focus on those responsible for emissions "generated by companies held in the portfolio" or those responsible for a total of 65% of the emissions generated by portfolio companies. The desired outcome is alignment with trajectories tending towards not exceeding, or not significantly exceeding, the 1.5°C threshold.

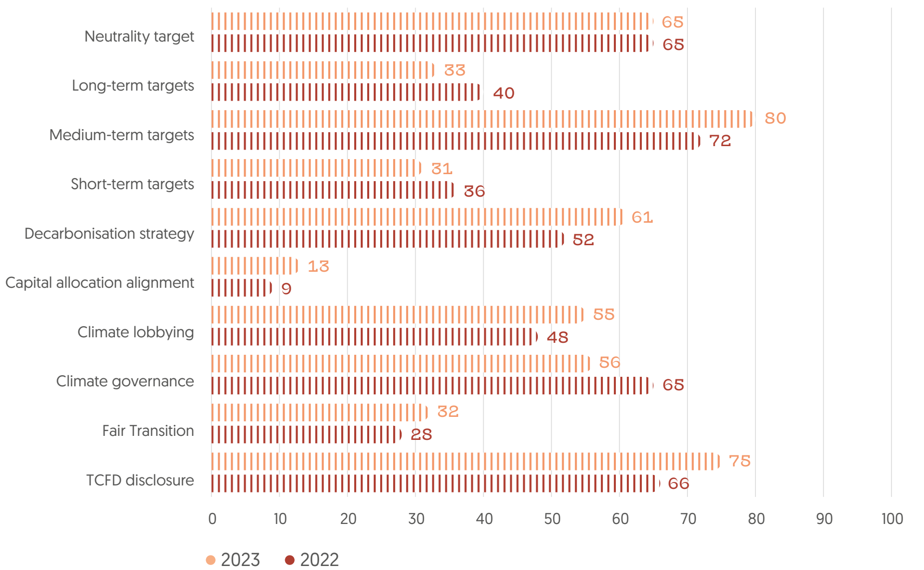
The FRR has decided to request two managers to use the analysis matrix developed by the CA 100+ initiative (the "Climate Action 100+ Net-Zero Company Benchmark"), to perform their own analysis. By using this analysis matrix, it is possible to measure as objectively as possible the positioning of the target companies, and the progress made over the duration of the engagement (planned until the end of 2024). It can also be used to compare companies' levels of progress on various matters: neutrality targets, decarbonisation strategy, alignment of capital allocation, climate lobbying, climate governance, fair transition and compliance of disclosure with TCFD recommendations.

An assessment of the initial situation has been produced for 26 companies. When interpreting these results, note that half of the companies targeted by the FRR fall within the scope of the CA100+ initiative

The results reflect an overall lower level of maturity than for the CA100+ benchmark companies, which was fairly predictable. Indeed these companies are challenged to a much lesser extent by their investors. Of the selected companies, 65% satisfy the neutrality target criteria compared to 75% for those in the scope of the CA100+ benchmark, and 66% in terms of compliance of their disclosure with TCFD recommendations compared to 91%.

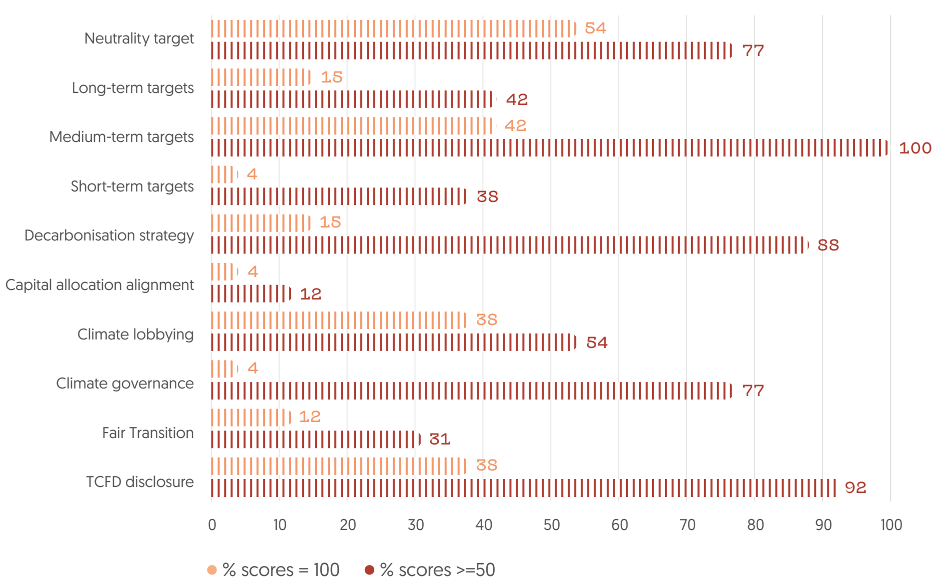
The following table gives details of the average score of 26 of the companies engaged with, for each criterion. The two criteria where the highest level of progress has been made are, like the CA100+ benchmark, determination of short-term targets and capital allocation alignment. Since scores for the fair transition criterion, which has recently been included on a trial basis in the benchmark, have only been attributed to around half of the panel, the results in this regard are less significant.

AVERAGE SCORES / 100



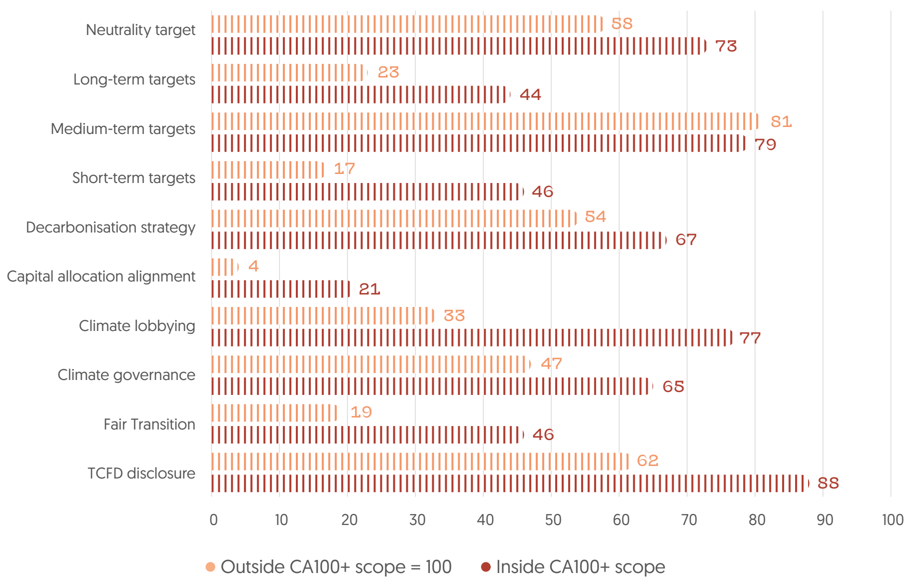
The table below gives a more accurate picture of the level of maturity of the panel companies for each of the criteria in 2023:

COMPANIES' MATURITY LEVEL BY CRITERIA



Finally, considering the average scores for the companies included within the scope of both the FRR's panel for engagement and also the CA100+ benchmark, there is a significant divergence compared to those companies outside the scope. The overall average score for the first group was 62, compared to 37 in the second. This result confirms the importance of extending dialogue to these companies.

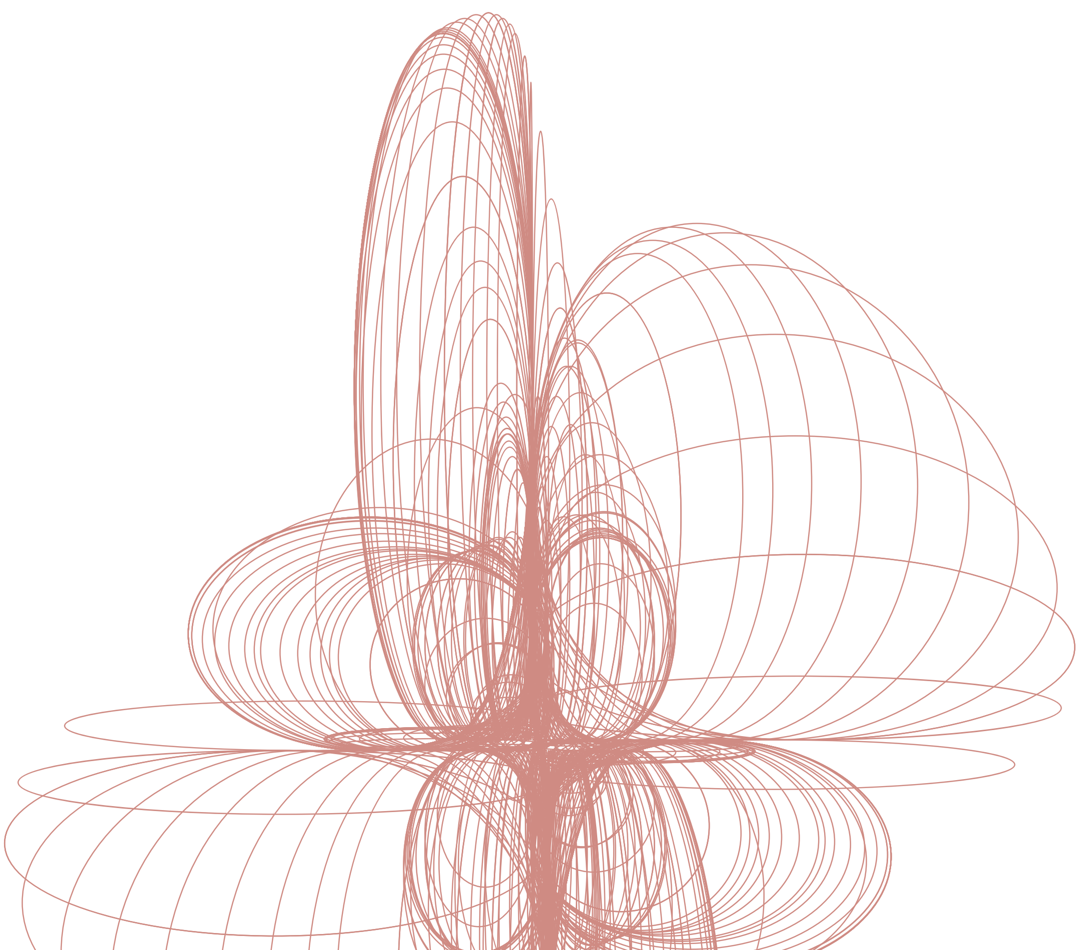
AVERAGE COMPANY SCORE



Supporting companies through private equity

Since its first private equity mandates in 2007, the FRR has required comprehensive reporting from its managers, in particular by imposing a significant ESG component in order to develop, measure and verify the impact of its investments on companies and their ecosystem. In practice, the FRR strives to ensure that its managers conduct a pre-acquisition ESG assessment, draw executives' attention to ESG issues, define areas for improvement in forthcoming years to promote a company's development and prepare it for the highest possible level of ESG requirements and thereby facilitate its disposal. The FRR's requirements have been a driving force for management companies, which have increasingly developed and boosted the monitoring of ESG aspects, with the support of the executive teams in portfolio companies. With the implementation of the SFDR regulation, management companies have been very active in deploying their ESG policies, which is recognized as a central issue for all of the FRR's managers.

One of the leading managers in the adoption of ESG matters, Swen Capital Partners has produced a best practices guide geared to the unlisted sector and has for the past 8 years bestowed an annual award to reward organisations on the steps they have taken and the progress they have made. Several of the FRR's managers have already been nominated or rewarded in recent years and, in 2023, the jury included an FRR team member.



5

“Sustainable” investments and investment in fossils

"SUSTAINABLE" INVESTMENTS

The idea of "sustainable" investments, or financing of "green" activities, has been the subject of lengthy debate. At European level, this has led to the development of a classification of economic activities with a favourable impact on the environment, referred to as the "Green taxonomy". This harmonisation was made necessary by the desire to nudge investments towards these "green" activities.

An activity is classified as sustainable if it meets at least one of the following six objectives:

- climate change mitigation;
- adaptation to climate change;
- sustainable use and protection of aquatic and marine resources;
- transition towards a circular economy;
- pollution control;
- protection and restoration of biodiversity and ecosystems.

The activity must contribute substantially to one or more of the six objectives, without significantly prejudicing the other objectives (principle of "Do no significant harm"). It is also required to comply with social standards and to comply with the technical assessment criteria set forth in delegated acts.

For example, the generation of electricity by a hydroelectric powerplant can be "sustainable" if it is a "run-of-the-river" installation, with no artificial reservoir, and if its power output is greater than 5 W/m², in particular.

At the end of 2023, only the activities in the first two above-mentioned objectives have been defined (climate change mitigation and climate change adaptation).

Eligible revenues by potential objective and activity type

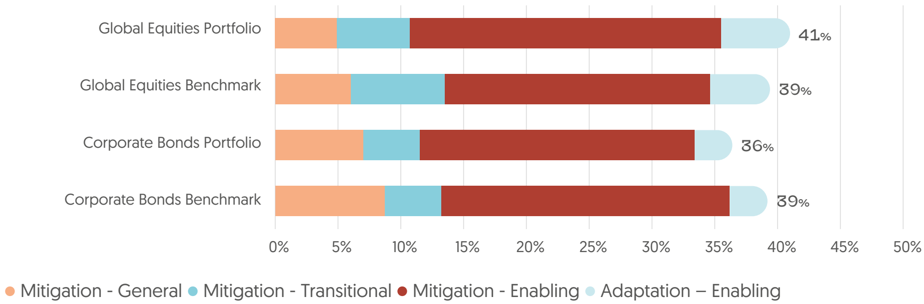
The taxonomy defines 96 commercial activities within the 13 macro sectors of the Nomenclature of Economic Activities (which may be categorised as General, Transitional or Enabling). The General activities are those that have a direct potential to mitigate carbon emissions (e.g. renewable energies). Transitional activities are those that may be of relatively high carbon intensity but which have a significant potential to reduce their carbon emissions over time (e.g. steel production). Enabling activities are those that may promote reductions in carbon emissions in other sectors (e.g. wind turbine manufacturing).

The following table shows the eligible revenues of the various portfolios and indices, broken down by objective (i.e. mitigation or adaptation) and by the type of activity they would fall under if they were categorised as aligned.

5. Source: Carbon neutrality: the European taxonomy in six questions| Vie publique.fr (vie-publique.fr)

ELIGIBLE REVENUES PER POTENTIAL OBJECTIVE AND ACTIVITY TYPE

Source: S&P Global Sustainable1



Nuclear and gas: energy forms needed for transition

In 2022, after lengthy discussions, the European Commission included nuclear and gas energy in the European taxonomy on sustainable activities.

Gas has been admitted but only in substitution as an energy source in power stations that were previously coal-fired. The maximum emission thresholds will gradually be reduced: from 270g of CO_2e/kWh to 100g for power stations built as from 2030. These figures are to be compared with current averages [418g CO_2e / kWh in 2021].

Generation of electricity using nuclear energy has also been included in the list of transitional activities, which contribute in mitigating climate change. For this form of energy, the discussions clearly did not concern the carbon intensity of power generation, but rather the risks that nuclear energy may pose to the other objectives of the taxonomy. This is why the taxonomy imposes conditions relating to waste management and security measures, and sets 2045 as the cut-off for it to qualify as "transitional energy". Furthermore, the carrying-out of works to extend the life of existing nuclear installations must be approved before 2040.

The inclusion of these two activities therefore falls within the framework of the target to achieve carbon neutrality by 2050 adopted by the European Union: gas to enable coal to be wound-down, nuclear to ensure continuity of electricity generation whilst the renewable energy phase continues ramping up.

Aside from this taxonomy, the European backdrop in 2022 of ongoing war in Ukraine has brought into sharp focus the challenges of energy independence, and choosing low-carbon energy – an alternative that is far less harmful to the climate than the forced reopening of coal-fired power stations.

Investments in activities supporting energy transition

In order to complete this analysis, the FRR identifies its investments in activities supporting energy transition, with reference to the following categories:

- "Equities" management strategies consistent with the Paris Agreement;
- Credit mandates with decarbonisation goals;
- "Green" bonds;
- Infrastructure investment contributing to energy transition.

Asset class	Amount at 31/12/2023	As total % of assets
Equities consistent with the Paris Agreement	1,625	7%
Credit mandates with decarbonisation goals	7,678	35%
Of which "green bonds"	556	3%
Infrastructure contributing to energy transition	437	2%
Total	10,296	47%

Progress in sustainable investment during 2023

Energy transition is one of the FRR's major commitments. Its express incorporation into all mandates has encouraged asset management companies to further integrate this issue into their management processes.

Equity index replication mandates for management consistent with the Paris Agreement thus promote companies that contribute to energy transition from different angles and via innovative metrics. As such, portfolios may favour companies with a temperature scenario aligned with the Paris Agreement, and a number of portfolios indeed reflect temperatures of below 1.8°C, a marked improvement compared to their benchmark index. A number of portfolios overweight companies whose energy transition policy has been validated by the Science Based Target Initiative. Other mandates direct their investments primarily towards companies for which Greentech represents a significant proportion of their revenue. In addition, certain mandates also incorporate targets for improving transition scores based on a methodology specific to the management company. The results of these portfolios in promoting energy transition are very positive, without nevertheless distorting index replication-type management.

GREEN BONDS

The bonds mandates also incorporate an approach favourable to energy transition. The FRR has requested its management companies to factor these matters into their analysis of the securities and construction of the portfolio and one of the clearest results favouring energy transition is the ever greater representation of green bonds both in the investment universe and also in the European and US investment grade and high yield corporate bonds portfolios.

At the end of 2023, green bonds represented an amount of 556 M€ which is equivalent to 2.62% of the FRR's total assets and 7.24% of credit mandate assets.

More specifically, 13.28% of the assets held under euro investment grade corporate bond management mandates are in this bond category, compared with 13.70% for their benchmark. Euro high-yield corporate bond mandates hold 9.60% in green bonds compared to 8.25% for their benchmark. These managers therefore favour this type of sustainable bond in their management.

In the United States, green bonds are still underdeveloped. The weighting is 1% for US dollar investment grade corporate bond mandates, whereas the benchmark has 1.86%.

Finally, US dollar high-yield corporate bond managers nevertheless slightly overweight green bonds with a weighting in this compartment of 1.27% compared to only 1.13% in the benchmark.

The FRR's green bonds portfolio mainly finances projects related to green buildings and renewable energy.

Investment in infrastructure contributing to energy transition

INVESTMENT IN INFRASTRUCTURES

The FRR has committed a total amount of 485 M€ to infrastructure aimed mainly towards financing energy transition. 436 M€ has been called of which 9 M€ in 2023 for a total infrastructure asset value of 600 M€. By the end of 2023, this asset class provided the FRR with returns well above its listed proxy, as illustrated by several exits from the portfolio.

Exits from the infrastructure portfolio

In November 2023, a biogas plant in the Netherlands (SFP Zeeland), in which a 40% stake had been held since 2021 by the fund SWIFT I (categorised as Article 9) managed by Swen Capital Partners alongside SFP Group, was sold to Cargill, a world leader in commodity trading. This transaction generated a very high IRR and a multiple of over 5X. This nominal repayment, equivalent to 20% of the fund's commitments, brings the total distributions to 32% of the amounts called (DPI) after only 4.5 years in existence.

In addition to this equity stake in SFP Zeeland, the SWIFT fund has also invested in shareholder loans, which are to a large extent maintained in the fund at this stage.

SFP Zeeland is a 40 MW biomethane plant processing 300,000 tonnes of inputs per year, mainly manure and residual streams from the agri-food industry. The plant produces 20,000 tonnes of liquefied CO_2 and 200,000 tonnes of digestate. A wastewater treatment facility was introduced at the plant to facilitate the post-treatment of digestate. The SFP Group's assets help accelerate energy transition, particularly in the transport and industrial sectors, by increasing the production of green gas. The inputs employed in the methanisation process are local waste, the digestate is then sold to local farmers and the biomethane output is injected into the local network. A proportion of the plant's electricity usage is supplied by a solar park owned by SFP. Finally, the biogenic CO_2 co-produced in the methanisation process is sold to neighbouring greenhouses.

The goals assigned to this asset by the impact committee, of which the FRR is a member, are monitored over time. Since SFP Zeeland joined the portfolio two years ago, cumulative net CO_2 emissions avoided have reached 108,172 tonnes. 6,482 tonnes of nitrogen fertilisers have been substituted and 8 direct jobs have been generated. These impact targets, which are initially set for 7 years, will be assessed pro rata the exit date and the final impact performance will be based on 2023 data gathered in 2024.

When selecting infrastructure funds, the FRR pays close attention to ensuring that each management company is able to communicate data on the materiality of environmental impacts (reduction of CO_2 emissions, air depollution, waste recovery, etc.) and social impacts (job creation measurement, number of potential patients covered by a hospital, etc.) of each funded project and of the portfolio as a whole.

This approach allows management companies to intervene in these areas and maximize the impacts of their holdings while limiting the potential negative impacts of the facilities financed.

Certain management companies go even further by benchmarking the Carried Interest of their funds against the anticipated impact criteria, specific to the sectors and themes financed for which indicators are set. Impact governance is put in place by bringing certain investors together on an impact committee whose role is to approve the impact objectives of each investment in a given sector, verify their achievement over time and select beneficiaries (associations, foundations, NGOs, ...) of the share of Carried Interest obtained when the fund is liquidated.

This approach was implemented in particular in the two vintages of the Swen Impact Fund for Transition (SWIFT I and II), managed by Swen Capital and aimed at financing the anaerobic digestion and hydrogen sectors.

The reports on the infrastructure funds publish these impacts in a special document (ESG and/or Impact reporting) in which these indicators are generally categorized in accordance with the 17 Sustainable Development Goals defined by the United Nations.

INVESTMENT IN CAPITAL INVESTMENT

The innovation capital funds and mandates selected by the FRR finance disruptive innovations, of which some contribute to the energy transition, such as Jimmy Energy, a French company developing a small modular reactor ("SMR") based on High Temperature Reactor ("HTR") technology to provide industrial sites with zero carbon heat. The company has been selected by France 2030, and has secured a grant that will enable it to submit orders to build a first industrial nuclear boiler in 2026.

REAL ESTATE WITH SOCIAL AND ENERGY IMPACT

The investment made in FLI, intermediate housing fund, has a positive impact on the environment, by building low energy housing in, or as an extension of, city centres thereby avoiding urban sprawl.

Indeed, 96% of residences are located in the city centre or as an extension of the existing city and 71% of new buildings have been designed in accordance with a new RT2012 standard without derogation or above. More than 69% of these projects are certified (NF Habitat – NF Habitat HQE™ or equivalent).

It has also had a positive impact from a social perspective, by enabling more than 11,000 people to be housed on a means-tested basis with a rent saving of almost 13%, or €1,313 per household accommodated, equivalent to nearly 2 months' rent.

Given the aim of achieving sustainable investment through building intermediate housing, the FLI fund was classified as a product meeting the requirements of Article 9 of the SFDR Regulation.

The aim of this investment is also to align its real estate assets with the environmental "Climate Change Mitigation" and "Climate Change Adaptation" goals for FLI fund eligible operations, namely "Acquisition and management of buildings".

In addition, the investment in the Brownfields fund, whose aim is to depollute and convert urban and industrial wastelands, helps towards rehabilitating polluted sites and thereby to avoid urban sprawl and soil artificialization. By helping to densify town centres and limit new construction on urban outskirts, the conversion of urban wastelands contributes towards reducing travel-related CO_2 emissions by about 33%. It has been estimated that converting one hectare of wasteland into urban spaces prevents the artificialization of around 2 hectares. Indeed, Brownfields 3 has contributed to preserving more than 300 hectares of natural spaces.

EXPOSURE OF THE PORTFOLIO TO FOSSIL FUELS

The portfolio's exposure to the assets of companies whose business relies on fossil fuels is analysed to assess the proportion of assets invested in "stranded assets" or "blocked assets". These activities pose a potential risk of impairment as a result of regulatory developments associated with governmental commitments to limit global warming to between 1.5 and 2 °C. In the analysis, conducted by S&P Global Sustainable 1, account is taken not only of the fossil fuel exploitation activities, but also the associated support operations (exploration, drilling...), and the electricity generation activities derived from these fossil fuels. This exposure is determined with reference to:

- the proportion of assets exposed to these activities
- the proportion of the companies' revenues derived from these activities

At the end of 2023, portfolio exposure to fossil fuels remains well below that of their benchmarks.

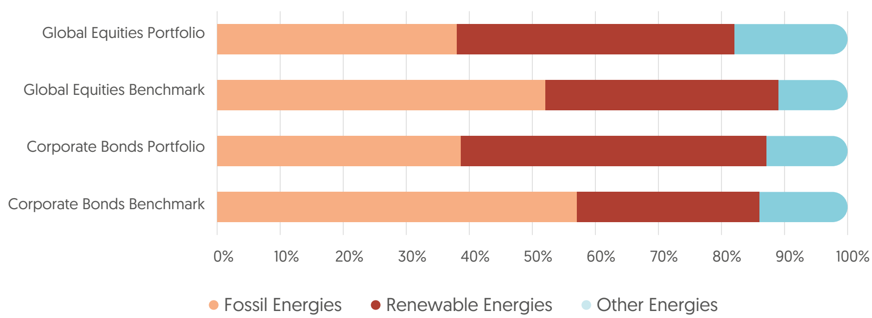
EXPOSURE TO ASSETS OF COMPANIES WHOSE BUSINESS RELIES ON FOSSIL FUELS
– Source: S&P Global Sustainable1

In order to better understand risk of blocked assets, S&P Global Sustainable 1 also measures future carbon emissions derived from fossil reserves and also capital expenditure (CAPEX) associated with fossil fuel operations, such as exploration and extraction. For these two indicators, S&P Global Sustainable 1 takes into consideration only reported (not estimated) data. The intensity of future emissions derived from reserves is also reported. It is calculated by dividing the emissions allocated to the portfolio by the value invested.

The electricity generation sector will play a crucial role in any strategy aiming to mitigate the effects of climate change. As not all companies in the energy sector disclose GWh output, it is useful to determine the portfolios' exposure to aggravating factors (Fossil Energies) and mitigating factors (Renewable Energies) depending on revenue sources.

The intensity of future carbon emissions from fossil reserves is significantly lower for the Global Equities portfolio compared to its benchmark (955 tCO_2e/mEUR invested compared to 1654). In the Corporate Bonds portfolio, this intensity is higher (909 tCO_2e/mEUR invested compared to 838 for the benchmark).

ENERGY BUNDLES

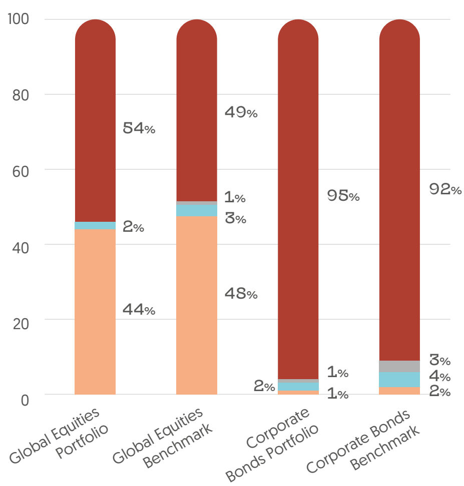


S&P Global Sustainable1 analyses two metrics that provide information on the risk of irrecoverable/stranded assets. First, there are future carbon emissions from a company's fossil fuel reserves. Indeed, these may be considered as "unburnable" if the 2°C goals are to be achieved. Second, there is capital expenditure [CAPEX] committed on new fossil fuel-related projects, such as exploration and extraction. Both metrics are based solely on information published by companies.

The charts below show a future exposure of portfolios mainly oriented towards oil and gas extraction. In most cases, the lack of corporate transparency makes it impossible to distinguish between oil-related and gas-related CAPEX. Note also the absence of massive capital spending related to coal.

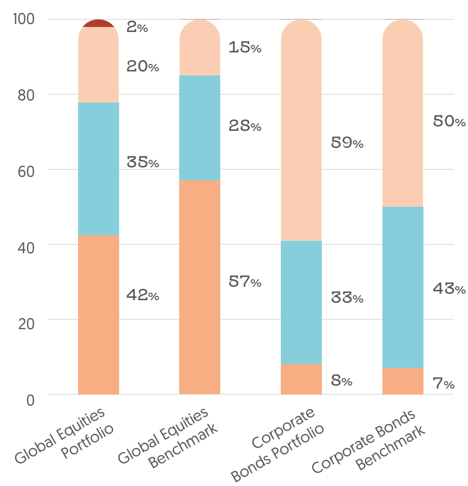
CAPITAL EXPENDITURE IN FOSSIL FUEL ACTIVITIES

Source: S&P Global Sustainable1

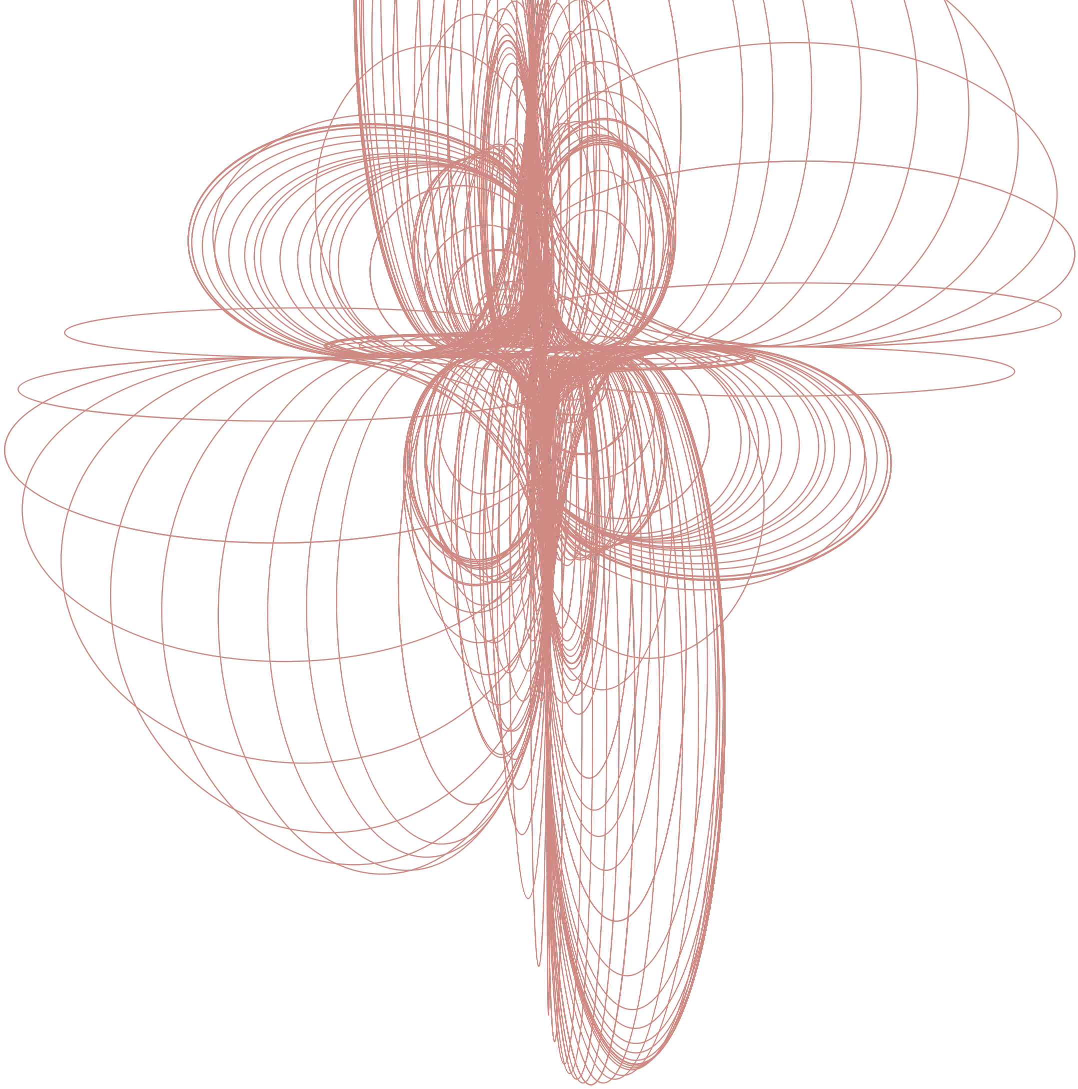


FUTURE CARBON EMISSIONS DERIVED FROM FOSSIL RESERVES

Source: S&P Global Sustainable1



Coal Oil Gas Oil and/or Gas



6

Paris agreement alignment strategy

In November 2019, the FRR joined the Net-Zero Asset Owner Alliance [NZAOA], an initiative bringing together the principal investors undertaking, in line with the Paris Agreement, to deploy the resources necessary to achieve carbon neutrality in their investments and in the economy by 2050 and to report regularly on their achievements at various stages.

The FRR's responsible investor policy is based on a holistic vision of ESG and is deployed in a realistic and pragmatic manner as part of a process of constant improvement based on regular feedback. Participation in the actions and commitments of the NZAOA is thus part of a global process encompassing all other aspects of Responsible Investment. Membership of the Net Zero Asset Owners Alliance commits FRR to alignment with the Paris Agreement, employing three levers:

- adopting ambitious greenhouse gas emission reduction targets for portfolios;
- carrying out engagement initiatives to encourage companies to adopt strategies of alignment with the Paris Agreement, via its managers but also through collaborative initiatives such as the Climate Action 100+;
- continuing to contribute to the long-term financing of energy transition.

Paris Agreement

At COP21 in Paris on 12 December 2015, Parties to the United Nations Framework Convention on Climate Change [UNFCCC] reached a historic agreement to combat climate change and accelerate and scale up actions and investments needed for a sustainable, low-carbon future. The Paris Agreement builds on the Convention and, for the first time, brings all nations together around a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with increased support to help developing countries achieve this. Indeed, it charts a new course in the global effort on climate.

The central goal of the Paris Agreement is to strengthen the global response to the threat of climate change by keeping global temperature rises well below 2°C higher than pre-industrial levels and pursue efforts to further limit the temperature increase to 1.5°C. The Agreement also aims to boost the ability of countries to cope with the impacts of climate change and to make financial flows compatible with low GHG emissions and a pathway resilient to climate. To achieve these ambitious goals, together with appropriate mobilization and allocation of financial resources, a new technological framework and increased capacity must be put in place, thereby supporting the efforts of developing, and the most vulnerable, countries in accordance with their own national goals.

PORTFOLIO GREENHOUSE GAS EMISSION REDUCTION TARGETS

While maintaining an essential level of vigilance on all other ESG issues, responding to the climate emergency is one of the FRR's priorities.

Reducing emissions

As a member of the Net Zero Asset Owners Alliance, the FRR has adopted new targets for reducing portfolio emissions. To achieve a trajectory limiting global warming to 1.5°C, the Alliance has identified a range of asset class emission reduction targets of between -20% and -32% from 2019 to the end of 2024.

At the beginning of 2021, the FRR finalized the research necessary to set its targets, which it published on 30 September 2021. This is the continuation of a long-standing process that had already **resulted in a reduction in the emissions of its mandate equities portfolios of 40% between 2013 and 2019**.

The FRR has decided to pursue its ambitions and set itself the target of a **further 20% reduction, by the end of 2024 compared to 2019, in the emissions of its developed markets equity and corporate bond portfolios**. The target set is absolute and not relative to benchmark index, it is therefore a significant reduction to which the FRR is pleased to contribute.

As part of the Net Zero Asset Owners Alliance, these targets will be reviewed by period of five years. In 2022, the FRR began to calibrate its next target for 2029 and with this in mind, requests-for-proposals underway in 2024 already include more ambitious targets

Award of mandates with decarbonisation targets for credit and equities mandates

In 2023, the FRR awarded four US dollar-denominated high yield corporate bond responsible management mandates. The FRR is pursuing its commitment to make responsibility integral to its management, whatever the asset class. The FRR has explicitly requested in these mandates that the selected candidates factor climate change issues into their management, and in particular reducing CO_2 emissions, contributing to ecological and energy transition and alignment of portfolios with a 1.5°C trajectory. They must also seek to develop specific expertise and/or strategies on impact bonds. The four managers have demonstrated great and often true expertise on this crucial topics of the FRR's responsible investment policy. The 4 mandates began in March 2023 with a target of reducing emissions by 35% compared to the benchmark GHG emission levels noted at the time the mandates were activated, and by 60% by December 2028.

Setting increasingly ambitious decarbonisation targets as management mandates are renewed

In connection with requests-for-proposals launched by the FRR, the new mandates now systematically include quantified decarbonisation targets. Initially set only for equities index replication mandates at -50% compared to the relevant benchmark index, the FRR now seeks decarbonisation in absolute terms. Since their activation, the investment grade corporate bonds mandates have included decarbonisation requirements. The euro investment grade credit contract, the mandates for which were activated in October 2021, require decarbonisation of -30% by mid-2024, whereas their US equivalents activated in July 2022 have a target set at -40% from the outset.

At the end of December 2023, all portfolios easily exceed these desired decarbonisation levels. The Euro investment grade credit contract was decarbonised by around 59% at the end of 2023, the equivalent contract for US dollar denominated corporate bonds by 66%. This reduction is generally achieved by under-exposure to the most intensive sectors.

The euro denominated high yield corporate bond mandates also activated in the last quarter of 2021 include, for the first time, a responsible dimension.

The five managers selected for this mandate have achieved very positive results in terms of responsibility and all are meeting the ambitious decarbonisation target set by the FRR. In this regard, at 31/12/2023, the reduction in carbon emissions on the HY EUR compartment is -44% compared to the benchmark level upon activation, whereas the target on that date, following a linear reduction throughout the duration of the mandate, would have been a decarbonisation of -25%. The managers are therefore ahead and even going beyond the decarbonisation target of -30% for this asset class.

The US dollar-denominated high yield corporate bond mandates were activated in March 2023. These include a decarbonisation target of -35% compared to the level of the benchmark index on the date of activation of the mandates, upon transfer of the securities, as well as a target of -60% at the end of the contract scheduled for 2028.

This decarbonisation target is ambitious for an asset class where data coverage and quality is generally lower than in Europe, although it is improving, and for which the Energy industry is one of the most important. All of the managers are meeting the decarbonisation target at the outset with two managers going even further. Finally, the USD high-yield corporate bond compartment shows a -50% decarbonisation level at the end of December 2023 compared to the benchmark level at the time of activation.

Note that additional targets will be applied to all these contracts for the remainder of their term, in line with the FRR's commitments up to 2029.

In addition, under the RFPs launched in 2022 and 2023, the carbon emission reduction target for the European small and mid-cap equities mandate compared to the 2024 benchmark has been set at 40% at start-up and 75% before June 2029.

For the French small and mid-cap equities mandate the target is -40% compared to the 2024 benchmark and 70% by the end of 2028. These mandates will be activated in summer 2024.

METHODOLOGY USED TO ESTIMATE PORTFOLIO GREENHOUSE GAS EMISSIONS

Carbon footprint

In 2002, the FFR decided to change the methodology used to calculate its carbon footprint to align more closely with the TCFD's recommendations. Whereas it previously used a calculation method based on the sum of its portfolio's emissions per million euros in revenue, now, through its service provider, it determines the Weighted Average Carbon Intensity (WACI) for the portfolio. Each method, based on identical amounts in volume terms of CO_2 emitted, interprets the results from different perspectives (ownership of emissions, or efficiency of companies or efficiency of the portfolio). At the time this change was introduced, the FRR observed that these various metrics evolved differently in magnitude or even in the opposite direction from one year to the next, which, in the short term, had the effect of making interpretation of the indicators, with regard to the quantified decarbonisation objectives set with reference to a another metric, more difficult. In the medium term, however, in line with the overall decline in the volume of emissions, these indicators are expected to converge in a downwards trend.

In 2007, the FRR calculated, for the first time, the environmental footprint of its portfolio. Since then, in line with its responsible investment strategy, the commitments it has made and the decarbonisation efforts made on some of its portfolios, the FRR measures annually the carbon footprint of its mandates and funds.

The FRR regularly studies developments in methodology and data reliability: S&P Global Sustainable 1 provides it with an estimate of the carbon footprint of its portfolio using a variety of calculation methods: per million in revenues generated, per million in euros invested and by Weighted Average Carbon Intensity (WACI). The decision to use WACI is the culmination of a thought process and studying market developments.

Carbon footprints are calculated within the scope of direct emissions and direct suppliers, and standardised using a financing rate calculated with reference to EVIC (Enterprise Value Including Cash).

Global Scope 3, although highly suitable being the only one to take emissions throughout the entire value chain into account, is not yet in use. Indeed, the FRR regularly studies developments in the quality of this data. As of today, the lack of standardisation in corporate disclosure and in the reliability of estimates mean that it is not possible to obtain a level of quality sufficient for use in relation to a portfolio.

Scope 1, 2 and 3: ADEME definitions

- Direct GHG emissions (SCOPE 1): Direct emissions emanating from stationary or mobile installations situated within the organizational boundary, i.e.: emissions from sources owned or controlled by the organization, such as combustion from stationary and mobile sources, industrial processes excluding combustion, emissions from ruminants, biogas from landfill centres, refrigerant leakages, nitrogenous fertilizers, biomass, etc.
- Indirect energy emissions (SCOPE 2): Indirect emissions associated with the production of electricity, heat or steam imported for the activities of the organization.
- Other indirect emissions (SCOPE 3): The other emissions indirectly produced by the activities of the organization which are not accounted for under Scope 2 but which are linked to the overall value chain, such as: the purchasing of raw materials, services or other products; employee travel; upstream and downstream transportation of goods; the management of waste generated by the activities of the organization; the use and end-of-life of sold products and services; the amortization of production goods and equipment...

Estimated portfolio greenhouse gas emissions at end of 2023

The available carbon footprint data covered 77% of assets at the end of 2023, with: 100% of the overall portfolio assets invested in equities, 87% of the portfolio assets invested in corporate bonds and 100 % in government bonds. The assets for which no carbon footprint is currently published are unlisted assets and cash assets (23 %, a portion of the cash assets being offset through futures exposures).

In 2023, and for the first time, the FRR calculated its carbon footprint on unlisted assets. Until now, the FRR considers the results insufficiently reliable to be published. It plans to make its carbon footprint on unlisted securities public in its 2024 report due for publication in 2025.

CARBON FOOTPRINT OF THE EQUITIES PORTFOLIO

The following chart shows the changes in the weighted carbon footprint of the Global Equities portfolio in tonnes of CO_2 equivalent per million euros in revenue.

At the end of 2023, the weighted average carbon intensity (WACI method) of the companies within the FRR's global equities portfolio totalled 138 tonnes equivalent CO_2 per million euros in revenue. This was 38% below the FRR's benchmark index. From 2016 to 2023, the carbon footprint of the FRR's portfolio's representative index had fallen by 30% compared to the FRR's portfolio which had fallen by 41% (or around 5% per year).

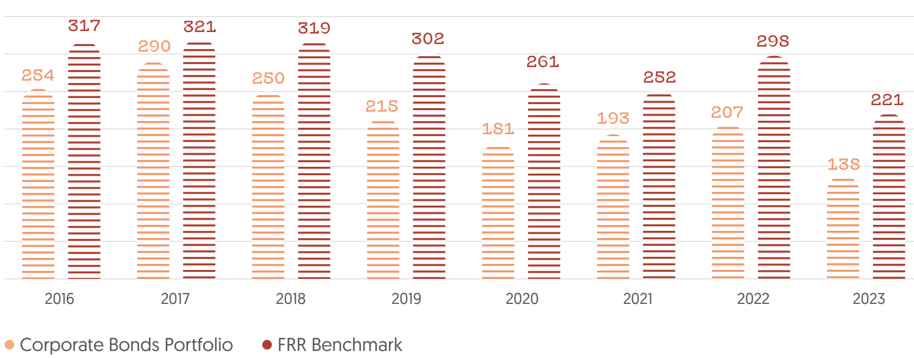
The table below compares the total decarbonisation of the FRR's equities portfolios between 2016 and 2023. There is a strong trend in the decarbonization of the developed markets equities and emerging markets equities portfolios (especially from 2022 to 2023). Note the significant decarbonisation of -30% in the developed markets equities benchmark compared to only -8% for the emerging markets equities benchmark.

Portfolio / Benchmark	Decrease in intensity (C/R method) 2016 to 2023
Global Equities Portfolio	-41%
Global Composite Equities Benchmark	-30%
Developed Markets Equities Portfolio	-44%
Developed Markets Equities Benchmark	-41%
Emerging Markets Equities Portfolio	-42%
Emerging Markets Equities Benchmark	-8%

Source: S&P Global Sustainable 1

WACI CARBON INTENSITY (TEQCO_2/M€ REVENUE) DIRECT EMISSIONS AND DIRECT SUPPLIERS

Source: S&P Global Sustainable 1



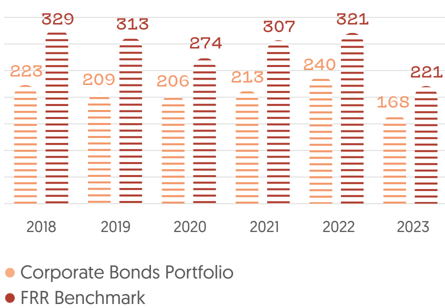
CARBON FOOTPRINT OF THE CORPORATE BONDS PORTFOLIO

The following table shows changes in the carbon footprint of the Corporate Bonds portfolio in tonnes equivalent CO_2 per million euros in revenue.

At the end of 2023, the carbon footprint of the FRR's Corporate Bonds portfolio totalled 168 tonnes equivalent CO_2 per million euros in revenue. This was 24% below the benchmark index. From 2018 to 2023, the carbon footprint of the index fell by 33% compared to the portfolio's, which fell by 25%.

WACI CARBON INTENSITY (TEQCO_2/M€ REVENUE) DIRECT EMISSIONS AND DIRECT SUPPLIERS

Source: S&P Global Sustainable 1



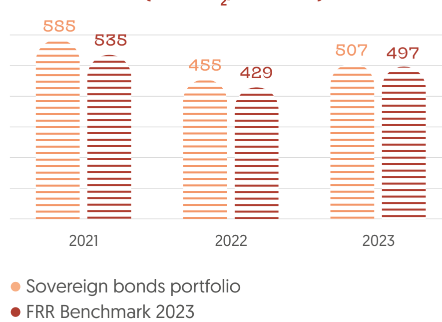
CARBON FOOTPRINT OF THE SOVEREIGN BONDS PORTFOLIO

The portfolio carbon footprint analysis methodology used by S&P Global Sustainable 1 for a portfolio of sovereign assets measures the greenhouse gas exposure of sovereign assets based on total greenhouse gas emissions by country, reflecting the specific role of the public sector as a provider of key services for the economy and as legislator having an influence on carbon footprint. The scope covers:

- domestic emissions generated by goods and services produced and consumed in a given territory;
- direct imports (emissions generated by goods and services directly imported by a country);
- direct exports (emissions generated by goods and services produced in a country and exported to a foreign economy).

The following table shows the weighted average carbon intensities of the sovereign bonds portfolio and its benchmark index: this indicator quantifies the average intensity of the portfolio by reference to the weighting of each country within it. It measures the allocation of the portfolio to more or less carbon-intensive economies. The difference in the carbon intensity level of the portfolio compared to that of its benchmark index can be explained by the tactical overweighting of emerging market bonds in the portfolio, and in particular Indonesia (4.12% for the portfolio compared to 3.72% for the benchmark) whereas there is no tactical positioning for French government bonds.

WACI CARBON INTENSITY (TEQCO_2/M€ GDP)



1.5°C ALIGNMENT

Beyond portfolio carbon footprint, climate analysis includes an assessment of the portfolio's alignment with the objective of limiting global warming to less than 1.5°C above pre-industrial levels (or "1.5°C Alignment"). This involves assessing the transition trajectory of the companies in the portfolio. The analysis, carried out by S&P Global Sustainable 1, takes into account past data (since 2012), as well as an estimate of future carbon footprint (up to 2030). S&P Global Sustainable 1 has adapted two approaches implemented by the Science Based Target Initiative (SBTI)[6]:

The first methodology (SDA-Sectoral Decarbonization Approach) applies to companies in homogeneous, energy intensive sectors. It is based on the idea that all portfolio companies, regardless of sector, must converge towards 2°C emission intensities by 2050. The method uses 2°C transition scenarios that are industry-specific, and measures a company's performance by the intensity of its emissions and levels of production (e.g., tCO_2e per GWh or per tonne of steel). Indeed, trajectories vary from one sector to another (they are for example, faster for energy and slower for cement), depending on available technologies, reduction potential, and reduction costs.

The second methodology (GEVA - Greenhouse Gas Emissions per Value Added) applies to companies in heterogeneous, less energy intensive sectors. This approach is based on the principle that many companies have diverse business activities with no specific trajectory. For these companies, the GEVA method assumes that a reduction in carbon intensity similar to that of the economy as a whole is necessary. This intensity reduction is determined with reference to the transition year emissions intensity of each company and then measured in terms of carbon per unit of added value, adjusted for inflation, which represents their contribution to total global emissions (intensity). These results are then compared to global decarbonisation trajectories that maintain warming below 2°C.

Alignment with a 1.5°C scenario covers 98% of the Global Equities portfolio and 73% of the Corporate Bonds portfolio. These percentages are stable with reference to 2022, but have clearly improved compared to 2021, having been 51% and 53% respectively at the end of 2021.

The scenarios used for assessment purposes are as follows:

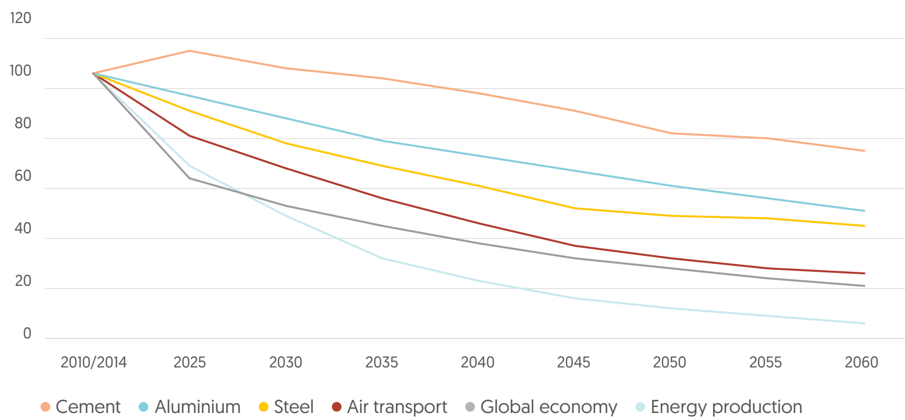
1. International Energy Agency (IEA) scenarios derived from the Energy Technology Perspectives (ETP) 2017 providing SDA assessment parameters consistent with 1.75°, 2° and 2.7°C global warming;
2. RCP (Representative Concentration Pathways) scenarios as used in the IPCC AR5 report, providing GEVA assessment parameters consistent with 1.5°, 2°, 3°, 4° and 5 °C global warming.

6. The SBTI is a joint project of the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute and the World Wide Fund.

The assessed decarbonisation trajectories incorporate historical and forward-looking data to provide a medium and long-term outlook assessment. Historical data on greenhouse gas emissions and business activities have been compiled since 2012. Forward-looking data sources are used to track likely future transition trajectories up to 2023. The forward-looking data used in the analysis depends on the availability of the sources specified below. They are listed in order of use:

1. emission reduction targets reported by companies
2. data by asset for certain sectors
3. the historical emissions of a group of companies in homogeneous sectors
4. average historical emissions trends within a sub-industry

SECTORIAL DECARBONISATION TRAJECTORIES – Source: S&P Trucost



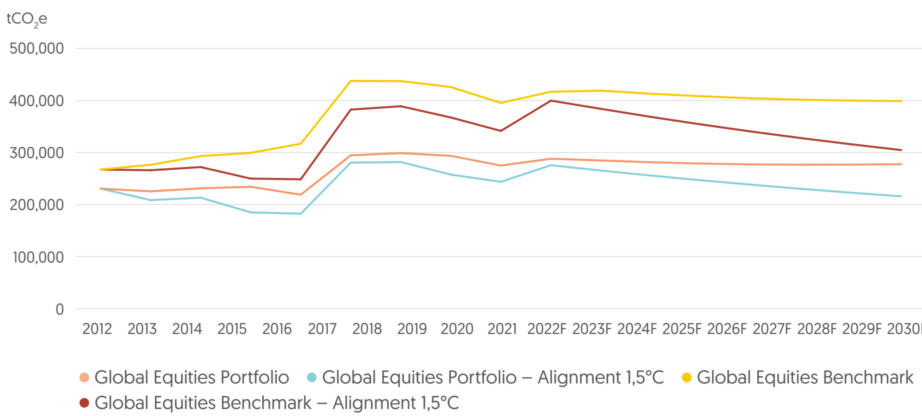
Summary of results

The graphs below show the emissions trajectory of the portfolios over the period 2012-2030 and compare it with one that would meet a 1.5°C carbon outcome. The portfolio and benchmark temperatures are also indicated.

GLOBAL EQUITIES PORTFOLIO

Companies in the Global Equities portfolio have a more favourable average trajectory than the benchmark, but improvements are still needed to reach a below 1.5°C trajectory.

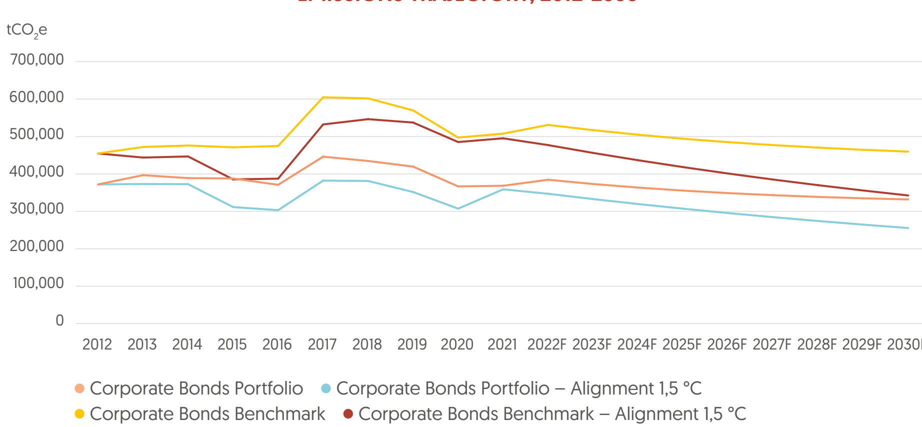
EMISSIONS TRAJECTORY, 2012-2030 – Source: S&P Global Sustainable 1, at end of 2022



CORPORATE BONDS PORTFOLIO

Issuers in the Corporate Bonds portfolio, despite a lower level of greenhouse gas emissions than, the benchmark, are still on trajectories between 2°C and 3°C.

EMISSIONS TRAJECTORY, 2012-2030



CHANGES IN THE FRR'S INVESTMENT STRATEGY IN LINE WITH THE PARIS AGREEMENT PRINCIPLES

In addition to increased financing for companies that promote energy transition, the FRR has, since 2017, decided that companies, whose thermal coal extraction operations or electricity generation from coal sourced heat or steam exceed a threshold initially set at 20% of their revenues, shall be excluded from the portfolio.

In 2018, the FRR decided to commit yet further to a low carbon intensity economy by excluding companies whose thermal coal extraction operations or generation of electricity from coal sourced heat or steam exceeds 10% of their revenues, unless they use a carbon capture or storage process.

The FRR will review this policy in 2024 as part of bringing its Responsible Investment Strategy 2024-2028 up to date.

This exclusion extends to all asset classes. The managers are responsible for identifying the relevant issuers and excluding them from the investment universe.

However, managers may invest in companies whose thermal coal extraction operations or electricity generation from coal-sourced heat or steam exceeds 10% of their revenues if the purpose of this investment is to support these companies in adopting a new production model. In such case, the manager must justify its investment, in writing, within one month of its initial investment, and thereafter every 31 December.

The Operations and Risks Department verifies compliance with these exclusions on a monthly basis. The FRR conducts an additional verification annually via the Climate Report produced by S&P Global Sustainable 1. Since these exclusions were introduced in 2017/2018, no issuers, that may have met the thermal coal extraction exclusion criteria, formed part of the portfolio at the end of 2023.

MONITORING CLIMATE GOALS

At the end of December 2023, all portfolios are in line with the desired levels of decarbonisation, and a large majority have even handsomely exceeded the targets.

This reduction is generally achieved by under-exposure to the most intensive sectors.

TABLE OF DECARBONISATION REQUIREMENTS BY ASSET CLASS

	Reduction goal of the mandate with reference to benchmark level at outset	Final reduction goal with reference to benchmark level a t outset of the mandate
Equity index replication consistent with Paris Agreement	-50% (May 2022)	-50%
Euro investment grade corporate bonds	0% (October 2021)	-30% before 30 June 2024
		-65% before 30 September 2026
USD investment grade corporate bonds	-40% (July 2022)	-40% before 30 June 2024
		-75% before 30 June 2027
Euro high-yield corporate bonds	0% (October 2021)	-30% before 30 June 2024
		-65% before 30 September 2026
USD high-yield corporate bonds	-35% (March 2023)	-60% before 31 December 2028
European small and mid-cap equities	-40% (March 2024)	-75% before 30 June 2029
	Goal at outset	**Final goal**
French small and mid-cap equities	-40% (July 2024)	-70% before 30 June 2029
US mid and large-cap equities – Blend style	-40% (October 2024)	-75% before 30 June 2029
US small-cap equities	-40% (October 2024)	-75% before 30 June 2029
Japanese all-cap equities - Blend style	-40% (2025)	-60% before 30 June 2029

The Climate goals were set as part of the FRR's membership of the Net Zero Asset Owners Alliance, and in accordance with the principles of the "Inaugural 2025 Target Setting Protocol". The Alliance plans to review these goals every 5 years.

Note that changes in carbon footprint calculation methodologies have a significant impact on how these footprints evolve. For example, considering the various methods over the same period, we obtain:

Carbon footprint* Global Equities Portfolio	**End of 2019**	**End of 2023**	**D**
In revenue (tCO_2e / m€ revenue)	233	149	-36%
In investment (tCO_2e / m€ invested)	156	96	-39%
In WACI (tCO_2e / m€ revenue)	215	138	-36%

* Direct emissions and direct suppliers

Carbon footprint* Corporate Bonds Portfolio	**End of 2019**	**End of 2023**	**D**
In revenue (tCO_2e / m€ revenue)	215	211	-2%
In investment (tCO_2e / m€ invested)	123	113	-8%
In WACI (tCO_2e / m€ revenue)	209	168/	-20%

* Direct emissions and direct suppliers

7

“Biodiversity” alignment strategy

Preserving biodiversity is one of the major challenges facing humanity, to the same degree as limiting global warming. However, up to now, lack of data has hindered the implementation of specific goals.

How companies, in the most impactful sectors, manage these issues forms part of overall extra-financial analysis. Beyond estimating the carbon footprint of the portfolios, S&P Global Sustainable 1 conducts an annual assessment of the overall environmental footprint of the portfolio companies and their supply chain. The scope of analysis includes the direct impacts of the company, those of its direct and indirect suppliers (including the extraction of raw materials). The environmental variables analysed by S&P Global Sustainable 1 are as follows:

1. greenhouse gases: emissions of carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), sulphur hexafluoride (SF6), fluorocarbons (FC), hydrofluorocarbons (HFCs) and nitrogen trifluoride (NF3)
2. water samples: purchased water (i.e. water purchased from public utilities), water from direct cooling processes, and treated water
3. waste generation: incinerated, landfill and nuclear waste (product manufacturing, nuclear combustion, industrial and medical processes), and recycled waste
4. atmospheric pollutants: pollutants from fossil fuel extraction, acid rain precursors (nitrogen oxide, sulphur dioxide, sulphuric acid, ammonia), ozone-depleting substances (HFCs and CFCs), dust and particulate matter, metal emissions, smog precursors and volatile organic compounds
5. soil and water pollutants: fertilizers and pesticides, metal emissions to soil and water, acid emissions to water, and pollutants from nutrients and acidic substances
6. Natural resource use: extraction of minerals, metals, natural gas, oil, coal, and forestry and agricultural exploitation processes

At the end of 2023, portfolio analysis showed that 67% of the assets in the developed markets Equities portfolio are at risk and the portfolio occupies 9,716 hectares, of which 13% of global importance are degraded. 80% of the assets in the Corporate Bonds portfolio are at risk. They occupy 5936 hectares, of which 10% of global importance are degraded.

This assessment provides an overview of the impact that portfolio company activities have on the environment, and therefore indirectly on biodiversity. In addition, S&P Global Sustainable 1 publishes in its report an assessment of the portfolios' and their indices' biodiversity scores. These scores reflect how companies factor in biodiversity-related risks, whether concerning the impact of their activities on biodiversity and/or that of biodiversity loss on their operations. Potential commitments towards biodiversity and, where applicable, non-deforestation are also assessed. At the end of 2023, the analysis coverage of these portfolios has improved (96% for the global equities portfolio, and 82% for the corporate bonds portfolio compared to 58% and 22% the previous year).

The FRR's teams are monitoring the emergence of impact analysis methodologies specifically targeted at biodiversity and have engaged in dialogue with mandate management companies on this topic.

8

Integrating ESG risks into risk management

The risks associated with climate change are twofold:

1. Transition risks, meaning the risks to which companies that are heavy greenhouse gas emitters are exposed, due to potential regulatory developments, carbon market pricing, technological advances and consumer expectations;
2. Physical risks related to climatic and meteorological events. These risks affect not only the direct activities of companies, but also their entire value chain.

To assess these risks, the FRR relies on the annual Climate Analysis conducted by S&P Global Sustainable 1.

TRANSITION RISKS

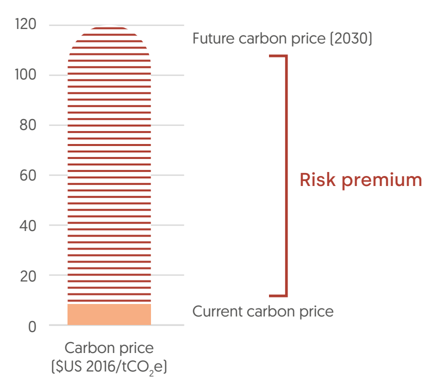
Regarding transition risks, S&P Global Sustainable 1 has compiled a dataset on potential future carbon pricing enabling investors to manage the risks associated with a rise in the price of carbon. The degree of exposure of a portfolio to carbon price risks is determined by the "total risk premium" – an indicator that quantifies the difference between the price a company pays today for a tonne of carbon emissions and the potential future price it may have to pay under various scenarios (see chart opposite).

The carbon price risk premium varies across geographic regions based on differences in government policy, depending on the year studied, and depending on the sector due to the differing treatment of each sector under the numerous policies for combating climate change. Its calculation helps determine the future carbon costs that companies may face. These future carbon costs are therefore determined by reference to a company's carbon footprint (tCO_2e) and their risk premium.

An increase in the carbon price would have direct financial consequences for high emission companies. Companies also face indirect financial risks from the pass-through of higher carbon prices to suppliers who, in turn, seek to absorb these costs, in whole or in part, by increasing their own prices. Factors have been developed to estimate the proportion of additional costs that may be passed on from suppliers to businesses.

RISK PREMIUM

Source: S&P Trucost method



Scenarios

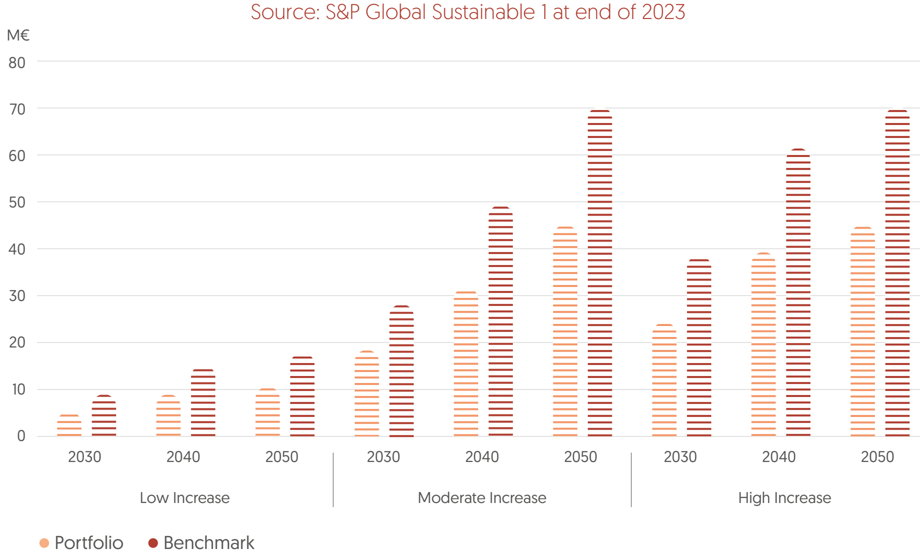
Three scenarios were used as a basis for estimating future costs:

1. Low carbon price increase: this scenario reflects the full implementation of countries' nationally determined contributions under the Paris Agreement (RCP 8.5), based on OECD and IEA research.
2. Intermediate carbon price increase: this scenario assumes that policies will be implemented to reduce greenhouse gas emissions and limit climate change to 2°C in the long term, but with delay in the implementation of measures in the short term (RCP 4.5). It also relies on OECD and IEA research as well as the viability assessments of nationally determined country contributions carried out by Ecofys, Climate Analytics and New Climate Team. It is assumed that countries whose national contributions are not aligned with the 2°C goal in the short term will boost their efforts to mitigate climate change in the medium and long term.
3. High carbon price increase: this scenario assumes that policies considered sufficient to reduce greenhouse gas emissions in line with the objective of limiting climate change to 2°C by 2100 (Paris Agreement) (RCP 2.6) will be implemented. This scenario is based on research by the OECD and IEA.

The results highlight the future carbon costs faced by companies, calculated at portfolio level: they therefore reflect the increase in risk premiums over the years studied under the various carbon price increase scenarios. Assuming a high carbon price by 2030, the analysis of transition risks reveals, as last year, that the overall at-risk EBITDA[7] of the FRR's portfolios is lower than that of its indices.

"ALLOCATED" FUTURE CARBON COSTS (M€) – GLOBAL

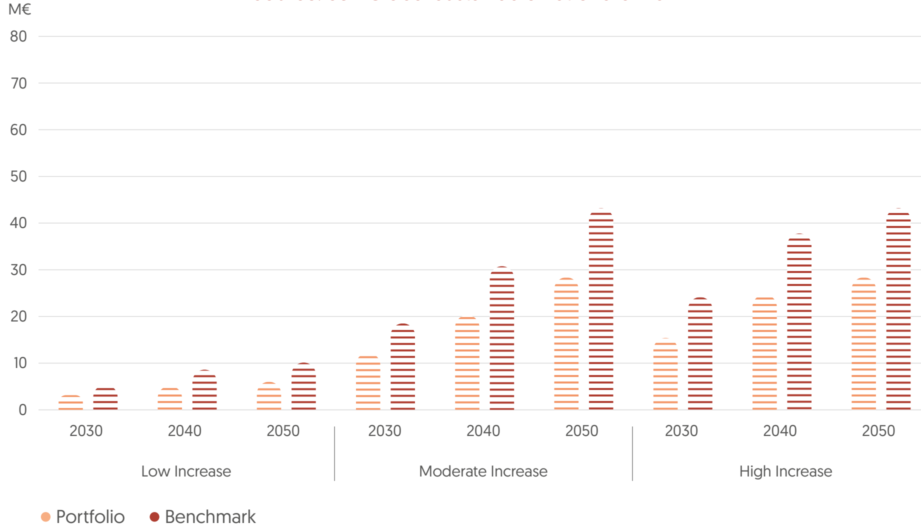
Source: S&P Global Sustainable 1 at end of 2023



7. EBITDA: earnings before interest, taxes, depreciation, and amortization.

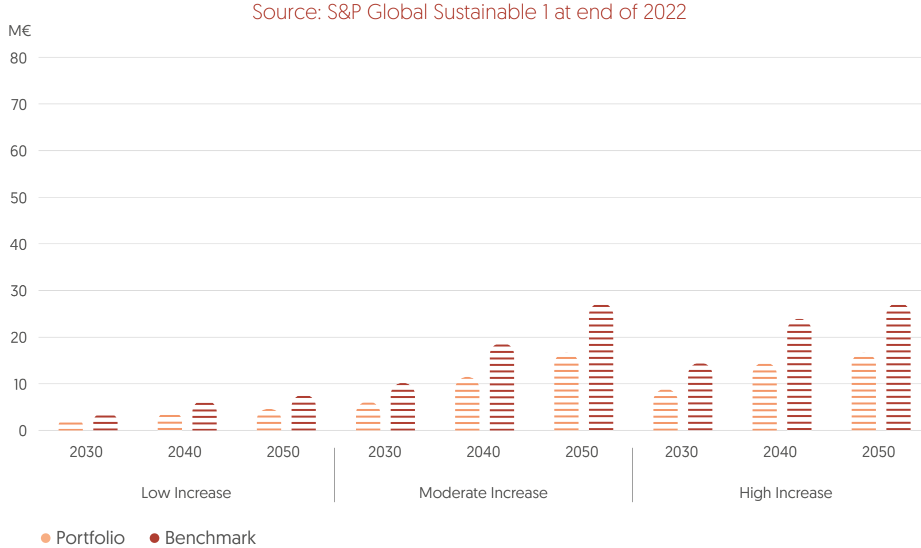
"ALLOCATED" FUTURE CARBON COSTS (M€) – DEVELOPED MARKET EQUITIES

Source: S&P Global Sustainable 1 at end of 2022



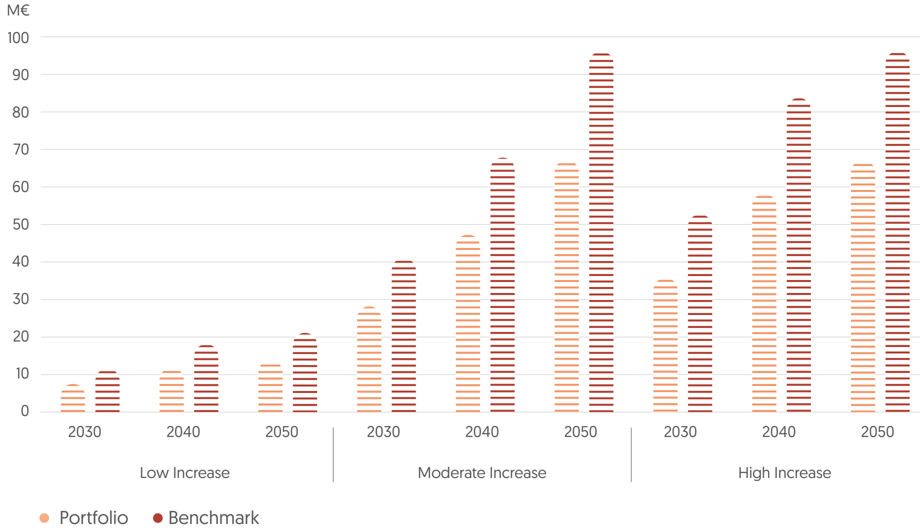
"ALLOCATED" FUTURE CARBON COSTS (M€) – EMERGING MARKET EQUITIES

Source: S&P Global Sustainable 1 at end of 2022



ALLOCATED" FUTURE CARBON COSTS (M€) – CORPORATE BONDS

Source: S&P Global Sustainable 1 at end of 2022



ESTIMATED TRANSITION RISKS

	% EBITDA at-risk	EBITDA margin decrease (% points)	% assets where EBITDA at-risk >10%	% assets whose margins become negative
Global equities portfolio	5.95 %	-0.93%	10.61%	0.65%
Global equities benchmark	9.39 %	-1.84 %	14.01 %	1.68 %
Corporate bonds portfolio	11.15 %	-1.22 %	16.94 %	1.49 %
Corporate bonds benchmark	17.53%	-1.89%	18.79%	2.85%

Source: S&P Global Sustainable 1 at end of 2023

EBITDA at-risk: proportion of portfolio profits exposed to higher carbon prices

EBITDA margin decrease: reflects the change in a portfolio's profit margins relative to portfolio margins, as a result of a carbon price increase.

PHYSICAL RISKS

S&P Global Sustainable 1 values a company's assets based on their exposure and vulnerability to 8 climatic events: Water Stress, Fire, Flood, Heat Waves, Cold Spells, Hurricanes, Drought and Rising Water Levels. Where asset-level data for a company are not available, the analysis is conducted with reference to the location of the head office, geographical breakdown, revenues and average physical risk levels in each country. Analysis coverage is progressing well: it now represents 100% for the global equities portfolio (vs 98% in 2022 and 88% in 2021), 99% for its benchmark (99% in 2022 and 92% in 2021). For the corporate bonds portfolio, it reached 87% (81% in 2022 and 74% in 2021) and 88% for its benchmark (88% in 2022 and 78% in 2021).

Companies are scored on a scale of 1 to 100 for each of the seven physical risks (a score of 100 indicates the highest risk score). S&P Global Sustainable 1 calculates an adjusted physical risk score that takes into account three factors:

1. the ferocity of the climate event
2. the location of the asset
3. the vulnerability of the company

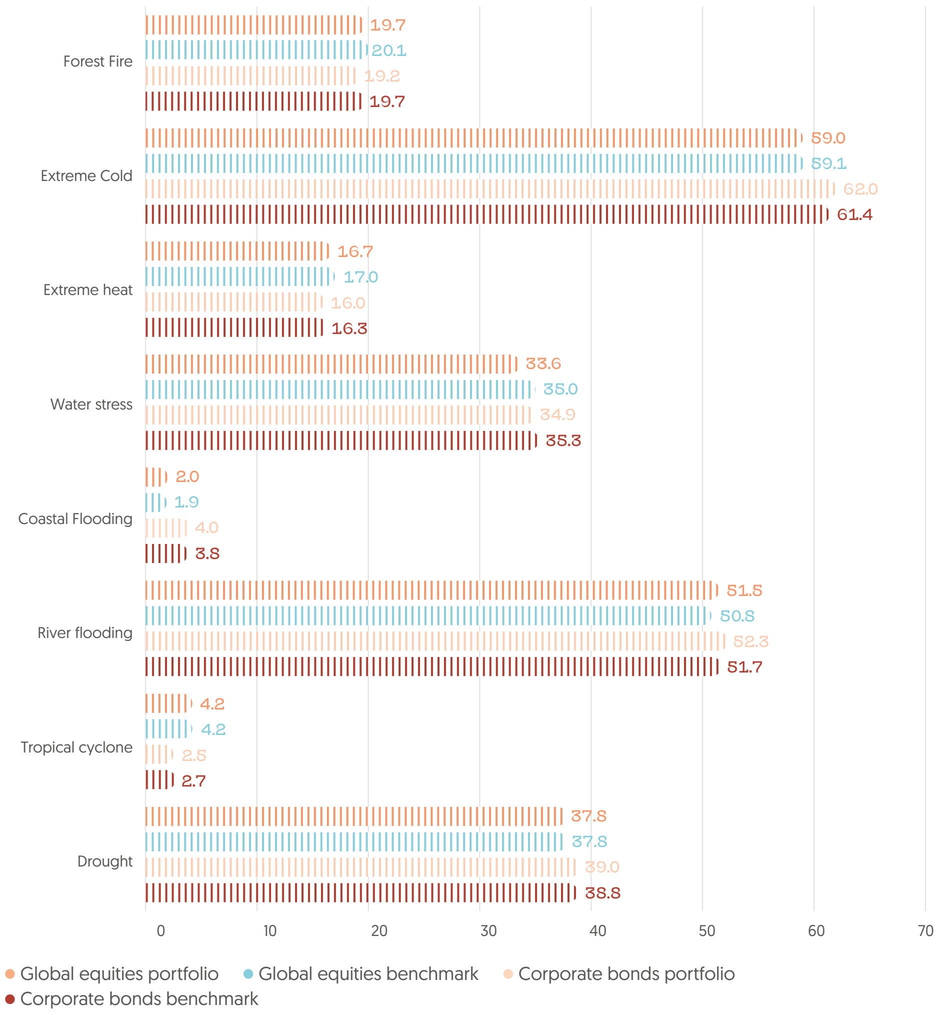
The company's vulnerability factors taken into account are:

- water intensity of activities (direct or indirect) for water stress risks
- capital intensity of companies, more likely to be affected (asset impairment, inventory loss, production disruptions, damage to infrastructure) for flood, rising water level, fire and hurricane risks
- labour intensity, for loss of productivity due to deteriorating working conditions, associated with heat wave and cold spell risks

The scores can be interpreted as follows:

- Score from 1 to 33: Low risk
- Score from 34 to 66: Medium Risk
- Score from 67 to 100: High risk

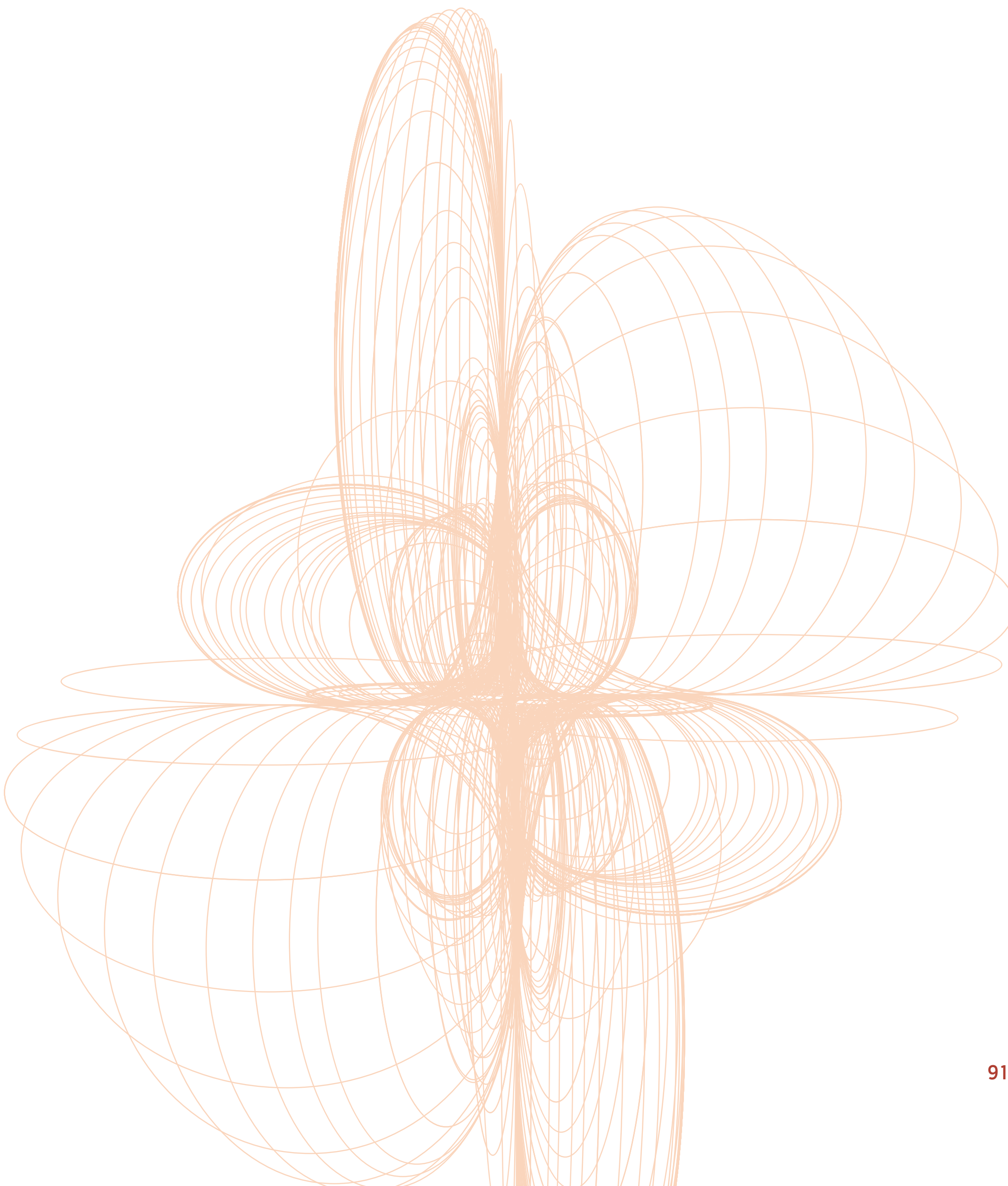
EXPOSURE SCORE BY TYPE OF PHYSICAL RISK, MODERATE-HIGH SCENARIO, 2050



The exposure scores by type of physical risk are very close between different asset categories and between funds and benchmarks.

By 2050, in a scenario of moderate to high temperature increases, the exposure levels between the FRR's portfolios and their benchmarks are similar: 76.5 for the global equities portfolio and 77.5 for the corporate bonds portfolio.

The potential financial consequences resulting from changing exposure to climate hazards compared to a baseline, are then assessed. The financial impacts are presented in the form of potential climate-related losses (i.e. for capital expenditure, operating expenditure or business interruption) as a percentage of asset value. By 2050, under a moderate-to-high temperature increase scenario, the FRR's portfolio levels are slightly higher than for their respective indices: 3.6% for the global equities portfolio and 3.5% for its benchmark, 3.9% for the corporate bonds portfolio and 3.8% for its benchmark.



9 Improvement measures

The FRR has identified several areas for improvement, for which actions are in progress, planned or to be carried out:

EXTENSION OF CARBON FOOTPRINT COVERAGE FOR UNLISTED ASSET PORTFOLIOS

To date, unlisted companies very rarely publish their greenhouse gas emissions. Improving knowledge and management of the impacts related to such financings is an important issue – as highlighted by the Net Zero Asset Owner Alliance. The FRR is therefore calling on its management companies to strengthen their dialogue with these companies on climate issues, in particular on establishing a carbon footprint assessment ("bilan carbone").

NEW SOCIAL AND ENVIRONMENTAL INDICATORS

The FRR has requested S&P Global Sustainable 1 to begin covering portfolios through indicators on social issues, respect for human rights, anti-corruption and anti-bribery, and also on activities that negatively impact fragile geographical areas from a biodiversity conservation perspective.

Schedule

Cross-reference table for information required under the implementing decree of article 29 of the Energy Climate Law of 8 November 2019

Paragraph no. of implementing decree	Page n° and link
1° Information on the entity's general approach	
a) Summary presentation of the entity's general approach to factoring-in environmental, social and governance quality criteria, including in investment policy and strategy.	p. 10
b) Content, frequency and means employed by the entity to inform subscribers, affiliates, contributors, beneficiaries or clients on the criteria relating to the environmental, social and governance quality objectives factored into investment policy and strategy.	Non applicable
c) List of financial products referred to under articles 8 and 9 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019, and the overall share, as a percentage, of assets under management factoring-in environmental, social and governance quality criteria in the total assets managed by the entity.	p. 13
d) Factoring of environmental, social and governance quality criteria into the decision-making process for the award of new management mandates by the entities mentioned in articles L. 310-1-1-3 and L. 385-7-2 of the Insurance Code.	p. 12
e) Adherence of the entity, or of certain financial products, to a charter, code, or initiative or the award of label for factoring-in environmental, social and governance quality criteria, as well as a summary description thereof, consistent with Article 4(2)(d) of the above-mentioned Regulation.	p. 25
2° Information on the internal resources deployed by the entity	
a) Description of the financial, human and technical resources dedicated to factoring environmental, social and governance quality criteria into investment strategy by referencing them to total assets managed or held by the entity. The description should include some or all of the following indicators: share, as a percentage, of corresponding full-time equivalents; share, as a percentage and in amount, in euros, of budgets earmarked for environmental, social and governance quality data; amounts invested in research; use of external service providers and data providers.	p. 32
b) Actions taken to strengthen the entity’s internal capabilities. The description should include some or all of the information on training, communication strategy, development of financial products and services associated with these actions.	p. 32

3° Information on the approach to factoring-in environmental, social and governance quality criteria at entity governance level	
a) Knowledge, skills and experience of governance bodies, including administrative, supervisory and management bodies, in decision-making relating to the integration of environmental, social and governance quality criteria into the investment strategy and policy of the entity and entities under its control, if any. The information may include, for example, the level of supervision and associated process, reporting of results, and specialist skills.	p. 39
b) Inclusion, in accordance with Article 5 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019, in remuneration policies of information on how such policies are adapted for the purpose of integrating sustainability risks, including details on the criteria for linking remuneration policy to performance indicators.	p. 43
c) Integration of environmental, social and governance quality criteria in the internal regulations of the entity's Board of Directors or Supervisory Board.	p. 39
4° Information on the engagement strategy with issuers or management companies and its implementation	
a) Scope of companies included in the engagement strategy.	p. 49
b) Presentation of voting policy.	p. 45
c) Results of the engagement strategy implemented, which may include in particular the proportion of companies with which the entity has engaged in dialogue, the topics covered and the follow-up actions of this strategy.	p. 50
d) Results of the voting policy, relating in particular to the tabling of and voting on resolutions on environmental, social and governance matters at general meetings.	p. 47
e) Investment strategy decisions, in particular on sector divestments.	Sans objet
5° Information on European taxonomy and fossil fuels	
a) Share of assets concerning activities that meet the technical screening criteria defined in the delegated acts relating to articles 10 to 15 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (UE) 2019/2088, in accordance with the delegated act adopted pursuant to article 8 of that regulation.	p. 57
b) Share of assets in companies active in the fossil fuel sector, within the meaning of the delegated act pursuant to article 4 of that regulation.	p. 64

6° Information on the strategy of alignment with the international goals of limiting global warming specified in the Paris Agreement referred to above, consistent with the Article 4(2)(d) of the same regulation	
a) A quantitative target for 2030, reviewed every five years until 2050. This objective must be reviewed no later than five years before its expiry. The target includes emissions of direct and indirect greenhouse gases, in absolute value or intensity, relative to a base scenario and reference year. It can be expressed by measuring the implied temperature increase or by the volume of greenhouse gas emissions.	p. 70
b) Where the entity uses an internal methodology, information on it to assess the alignment of the investment strategy with the Paris Agreement or the national low-carbon strategy...	p. 72
c) Quantification of results using at least one indicator.	p. 74
d) For entities managing index funds, information on the use of the European Union's “climate transition” and Paris Agreement benchmarks as defined in Regulation (EU) 2019/2089 of the European Parliament and of the Council dated 27 November 2019.	N/a
e) The role and use of assessment in the investment strategy, and in particular the complementarity between the chosen assessment methodology and other indicators on environmental, social and governance quality criteria used more broadly in the investment strategy.	N/a
f) Changes in the investment strategy consistent with the strategy of alignment with the Paris Agreement, and in particular the policies established for the phase-out of coal and non-conventional hydrocarbons, specifying the adopted exit timetable and the share of total assets managed or held by the entity covered by these policies.	p. 79
g) Possible actions to monitor results and changes made.	p. 80
h) Frequency of assessment, the provisional update timetable and relevant factors of change selected.	p. 80
7° Information on the strategy for alignment with long-term biodiversity goals	
8° Information on steps to factor environmental, social and governance quality criteria into risk management	
9° Where the entity does not publish some of the information referred to in III- 1° to 8° bis, it shall, where appropriate, publish a continuous improvement plan	

Schedule

Cross-reference table linking the information contained in this report and the TCFD recommendations

TCFD Recommendations	Page n° and link
Governance around climate related risks	
a) Supervision by the Supervisory Board and b) the Executive Board	p. 39
Strategy	
a) Climate related risks and opportunities	p. 69-81
b) Impact of climate-related risks and opportunities on investment strategy	p. 69-81
c) Resilience of the strategy and portfolio alignment with 2 °C scenarios	p. 69-81
Risk management	
a) Process for identifying and assessing climate-related risks	p. 84-90
b) Process for managing climate-related risks	p. 84-90
c) Integration into risk management	p. 84-90
Metrics and targets	
a) The measurement system used to assess climate-related risks and opportunities	p. 84
b) Scopes 1, 2 and if appropriate 3 greenhouse gas emissions and associated risks	p. 73-75
c) Objectives used to manage these risks and performance achieved	p. 80-81

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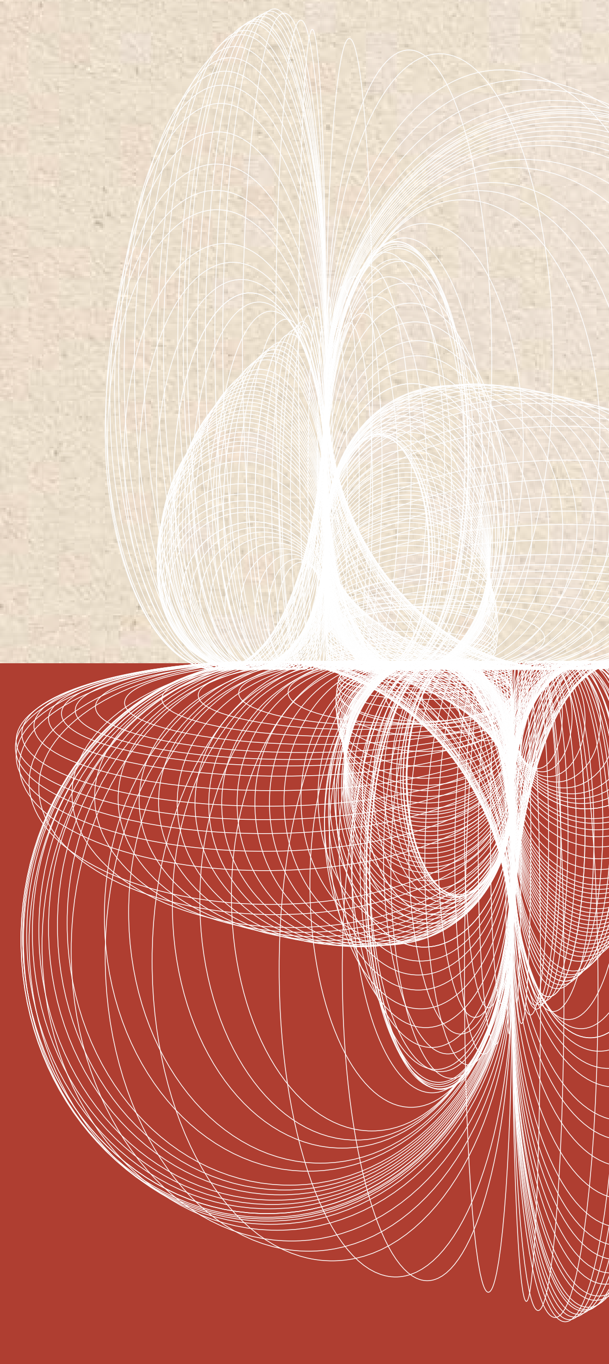

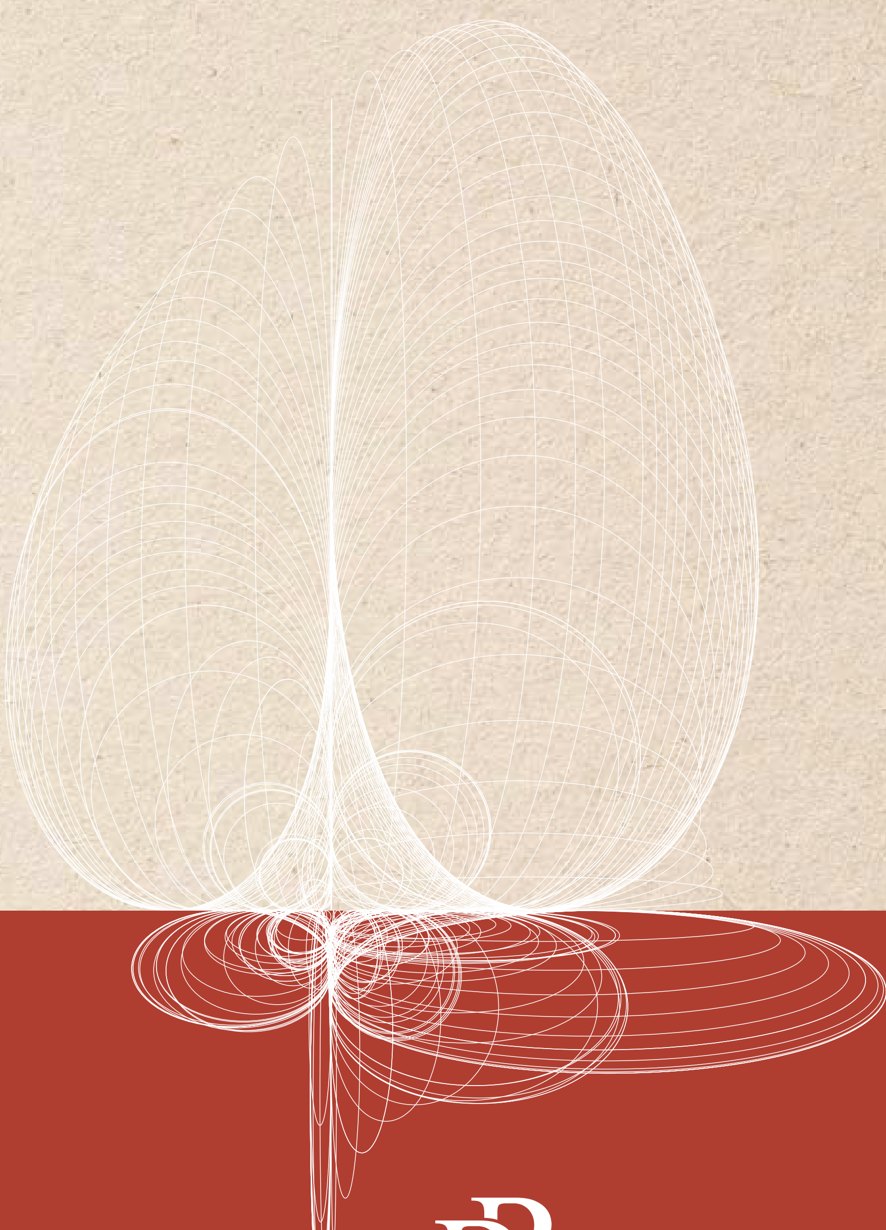

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