• Net asset position at end of 2010

• Consequence of pension reforms: the FRR’s liabilities and the new strategic allocation

• Implementing the allocation in 2011
NET ASSET POSITION AT END OF 2010
Net assets: return to high point thanks to endowments and the market rebound

FRR's Net Asset Value
04/03/2011

In Billion euros

- FRR's Net Asset Value
- Cumulative cash flows
- Cumulative cash flows valued with inflation
Annualised performance

FRR's performance since conception

04/03/2011

- Annualized performance: 3.1%
- Annualized inflation: 1.6%
- Annualized performance inflation adjusted: 1.6%
Annual performance

Annual Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2.93%</td>
</tr>
<tr>
<td>2005</td>
<td>12.35%</td>
</tr>
<tr>
<td>2006</td>
<td>11.10%</td>
</tr>
<tr>
<td>2007</td>
<td>4.85%</td>
</tr>
<tr>
<td>2008</td>
<td>-24.93%</td>
</tr>
<tr>
<td>2009</td>
<td>14.95%</td>
</tr>
<tr>
<td>2010</td>
<td>4.19%</td>
</tr>
</tbody>
</table>

(2nd half)
Contributors to 2010 performance

Main contributors to performance:

- Equities: 3.2%
- Commodities: 0.1%
- Bonds: 1.1%

Net performance after finance and administrative costs: 4.4%

Finance and administrative costs to be deducted: -0.2%

Net performance over year: 4.2%
Contributors to relative performance

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

- Equities 0.28%
- Commodities -0.03%
- Bonds -0.03%
- Currency (active) 0.05%

Overall net management outperformance (listed /total assets) 0.27%

Approx. 100 M€ in 2010
Relative performance of active management mandates compared to their benchmark indices

* Année 2004 : à partir du 09/07
CONSEQUENCES OF PENSION REFORMS FOR THE FRR

LIABILITIES AND OBJECTIVES CLARIFIED
Social Security Financing Law (SSFL) extracts: The FRR’s objectives

The FRR shall respect:
"(..) the principles of prudence and diversification of risks given the objectives and timeframe for utilisation of the Fund’s resources, in particular the planned payment obligations (..)"

Reasoning:
The FRR will comprehensively manage its assets to guarantee totally the 14 payments whilst continuing to search for best overall performance for its investments.
II. New liabilities
SSFL : FRR Liabilities

The FRR’s liabilities comprise:

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

A NEW ALLOCATION CONSTRUCTED ON THE BASIS OF CLARIFIED LIABILITIES AND LESSONS LEARNT FROM THE CRISIS
I. Lessons of the crisis: focussing on risk management

- diversification is necessary but not sufficient to manage severe crises
- extreme events are unpredictable and inevitable
- financial management must be structured so that liabilities are met even in extreme situations
- management of performance assets must be flexible in a world where financial cycles can be deep and vary in duration: asset allocation must, at all times, reflect the risk content of the asset classes.
II. The new strategic allocation
Key points of the 2010 strategic allocation

Guaranteeing the FRR’s liabilities

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

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

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

Breakdown of liabilities’ hedging securities’ ratings
II. The new strategic allocation
Performance compartment: principles of construction

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

• acceleration of bubble phenomena prompts us to conserve mobility to enable asset allocation by reference to risk

• search for diversification still relevant

• overweighting market segments likely to show higher growth over the FRR’s investment timeline of 14 years (overweighting of emerging economies).

• a significant proportion of economic exposure to emerging markets will be sought by using businesses from developed countries exposed to growth in such markets as an investment platform.
### II. The new strategic allocation

**Performance compartment**

<table>
<thead>
<tr>
<th>Asset clusters</th>
<th>indicative mediane weights</th>
<th>Included assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real assets</td>
<td>15%</td>
<td>Comodities, real estate</td>
</tr>
<tr>
<td>&quot;business assets&quot;</td>
<td>70%</td>
<td>Equities, high yield</td>
</tr>
<tr>
<td>soverain debts</td>
<td>15%</td>
<td>emerging markets debts</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>Cash</td>
</tr>
</tbody>
</table>

Breakdown of « business & souverain » assets

- EURO 1/3
- DEVELOPPED 1/3
- EMERGING 1/3
IMPLEMENTATION OF STRATEGIC ALLOCATION

RAMPING UP INVESTMENT IN 2011
Asset allocation: reducing "developed" in favour of "emerging" and reorganising coverage compartment

Performance compartment
31/12/10

Coverage compartment
31/12/10
Requests for proposals and fund selection

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

1. Overlay mandate being renewed

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

3. Performance compartment
   - Index equities: based on capitalisation or risk
   - SRI: renewal launched at end of year
   - Commodities: renewal during the year
   - High yield debt
   - Emerging countries via equities in companies in developed countries
Responsible investment (RI) : principal results in 2010

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

=> "Responsible Investor 2010" Prize

*(awarded by Amadéis and Natixis AM)*
Responsible investment as part of the new financial strategy

- Reaffirmation by the Supervisory Board of the FRR’s identity as a responsible investor.

- 2008-2012 strategy, a benchmark framework that remains relevant.

- Work during 2011: from adapting to the new portfolio structure to innovation:

Examples:
- renewal of RI mandates,
- reflection on thematic approach
- managers ESG reporting
- continued promotion of RI
2011: the year of responsible investment in Paris

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

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

• The FRR’s liabilities and objectives have been clarified; the FRR has a clear investment timeline (2024) and clear liabilities.

• The new strategic allocation aims to secure payment of liabilities, on the one hand, and achieve a surplus return on the other. The proportion of performance assets is very substantial (around 15 Bn€).

• Implementing this strategic allocation requires restructuring the portfolio which means selecting new managers.

• The FRR’s responsible investor identity will continue to be developed.
The public report of the Cour des comptes:

1. expresses a hint of disappointment after the historic financial crisis and the continuing crisis in the public finances;

2. does not reveal poor management or misuse of the public coffers;

3. insists on necessary stabilisation of the amount and rhythm of payments to CADES over the next 14 years.

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