PRESS RELEASE

OPEN REQUESTS FOR PROPOSALS

"ANALYSIS OF EXTRA-FINANCIAL RISKS AND OPPORTUNITIES OF THE FRR'S PORTFOLIO"

"MEASUREMENT AND ANALYSIS OF THE ENVIRONMENTAL FOOTPRINT OF THE FRR'S PORTFOLIO"

Paris, 26 July 2019

On 22 July 2019 the FRR launched two requests for proposals with a view to selecting service providers tasked with analysing the extra-financial risks and opportunities and environmental footprint of the FRR's portfolio.

Since its inception, the FRR, an instrument of inter-generational solidarity, has consistently affirmed its identity as a long-term public investor preoccupied with taking Environmental, Social and Governance (ESG) issues into consideration in forming its investment strategy.

It is in its interests that the whole system generates as few negative externalities as possible, and as many positive, especially environmental and social, externalities as possible to protect as securely as possible the return on its investments and to optimise the performance of the funds entrusted to it on the public's behalf. The aim of this approach is to fully understand not only the financial and extra-financial risks, but also the opportunities, associated with the companies in which the FRR invests.

Over the years, the FRR has maintained its leadership by becoming, since 2006, a founding member of the PRI (Principles for Responsible Investment). In 2005, it launched a request for proposals for an SRI labelled European equities mandate, then in 2011 two further SRI (Socially Responsible Investment) requests for proposals: one relating to European small and medium capitalisation equities and the other relating to investment in sustainable-themed funds. The FRR has also made a significant contribution to development of the market by generalising, since 2008, non-listed ESG reporting and requiring its non-listed fund managers to sign up to the PRI.

Since 2008, the FRR has put in place systems enabling it to monitor and prevent extra-financial risks liable to impact not only on its investments but also on its reputation. Each year, it conducts an analysis of these risks, which it presents in its annual report. Although not bound to do so by the law on Energy Transition for Green Growth, it has since 2017 published a full article 173 report dealing not only with issues relating to allegations, but also climate-related aspects (CO_2 emissions, green investment portion, avoided emissions, measurement of portfolio alignment with 2°C scenario, physical risks analysis). To underscore its actions, the FRR has introduced a procedure to manage serious controversies which can result in exclusion when all attempts at dialogue and engagement have failed. It now resorts more extensively to excluding from its investments, certain companies such as controversial weapons manufacturers in particular, and certain sectors such as tobacco and coal.

At the same time, the environment has profoundly changed. Thus, the Paris Agreement, the recommendations of the TCFD[1] (G20 working group on financial information relating to climate change), of the HLEG[2] (group of high level experts on sustainable finance), of the European Commission, Article 173 of the law on energy transition for green growth, the Sustainable Development Goals (SDG) adopted by the UN are all regulatory and incentive mechanisms to promote the financing of sustainable development. On these matters, France intends to play a leading role to which, as a public institution, the FRR must contribute.

The FRR therefore seeks to pursue and further improve integration of ESG criteria into its investment policy, in particular through a new resolutely proactive responsible investment strategy.

Accordingly, the FRR plans, through two requests for proposals, to select external service providers capable of analysing its portfolio by reference to the criteria specified below.

The first contract concerns the selection of service providers able to offer external expertise to monitor and prevent extra-financial risks associated with its portfolio securities that may potentially impact on the FRR's reputation. Indeed, risks for the FRR may arise due to failure, by the companies in which it invests, to comply with universally recognised principles such as those of the United Nations Global Compact, those of the Sustainable Development Goals, those of good governance, but also those of the international treaties ratified by France. This contract is split into two lots:

- The first lot requires an analysis of the portfolio and the supply of an extra-financial risks database taking into account the following criteria:
    - Universe : Global equities, corporate, Sovereign and similar bonds.
    - ESG ratings (database format).
    - ESG analysis of the issuer (text format).
    - Controversy scores (database format).

[1] TCFD Task Force for Climate Financial Disclosure (working group on financial information relating to climate change)
[2] HLEG High Level Expert Group (group of high level experts on sustainable finance)

- Controversy assessment (text format).
- Identification of controversial activities (database format).
- Assessment of controversial activities (text format).
- Contribution of portfolio companies to Sustainable Development Goals (SDG)

- The second lot requires the supply of a second Database analysing issuers' ESG criteria and extra-financial risks, in accordance with the above-mentioned criteria. This will enable the FRR to analyse issuers from a variety of angles and thereby acquire a more complete picture.

The second contract concerns the measurement, analysis and monitoring of the environmental footprint of the FRR's financial asset Portfolio. The environmental footprint that the FRR wishes to calculate is defined by identifying the risks brought about by climate change, risks to which it is exposed through holding financial assets. This footprint will in particular enable the FRR to identify assets with the greatest carbon footprint (GHG[3] emissions and reserves, coal), those that generate physical and transition risks, all in compliance with the international aim of limiting global warming. This contract is split into three lots:

- The first lot requires an assessment of the climatic risks of the FRR's portfolio. This assessment will involve the measurement, analysis and monitoring of the exposure of the FRR's portfolio to GHG and fossil fuel reserves, and its exposure to transition risks.

- The second lot concerns the contribution of the FRR's portfolio to energy transition [and] climate targets which will enable it to assess the extent to which the activities financed by the FRR are helping to achieve this climate transition, through various indicators:
    - Identifying the issuers in the FRR's Portfolio that contribute to energy and ecological transition and to compliance with the international aim of limiting global warming to 2°C or any other scenario.
    - Analysing the energy mix, present and future, of issuers forming part of the "community services" sector
    - Calculating and analysing the green portion of the Portfolio
    - Calculating and analysing avoided emissions.

- The third lot requires an analysis of environmental impacts and physical risks. The service provider will analyse the environmental impact of the issuers in the FRR's portfolio as well as the physical risks, whether localised risks (associated with sites) or value chain-related risks (associated with the supply chain and markets).

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[3] Greenhouse gases

The FRR is a public administrative establishment of the State created by law in 2001. Governed by a Supervisory Board and Executive Board, its mission is to manage the funds allocated to it until 31 December 2010 in order to build up reserves to contribute to the long-term sustainability of the retirement pension system.

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