# RESPONSIBLE INVESTMENT STRATEGY

# 2019 – 2023

**Introduction – Situation report**

As a pioneer of responsible investment, the FRR has consolidated its leadership over the years. In 2019, it redefined its responsible investment strategy for the forthcoming 4 years. This is a continuation of previous strategies whilst being resolutely proactive and ever more ambitious. It reflects a changing economic and financial environment. This strategy ushers in a new phase that will drive ambition further by increasing accountability at all portfolio levels and involving the entire financial management ecosystem to underline the leadership role assumed by the FRR over many years. Given the urgency in a number of areas, in particular climate, and the accelerated integration of ESG issues by the financial world, the FRR will continue to draw on its long-term public investor values to recognize and measure the impact of its investments whilst preserving its unchanging aim to achieve financial performance.

The FRR's strategy will be developed around four ambitious main pillars.

## INTEGRATING THE NEW REFERENCE FRAMEWORKS

- Publication of Article 173 Report
- Following the recommendations of the TCFD, HLEG And the European Commission
- Adoption of global stewardship code Principles
- Reflection on, with the aim of incorporating, SDG
- Measurement of extra-financial performance
- Defining an extra-financial risks budget
- Adapting voting policy

## ACCELERATING ENERGY TRANSITION

- Integrated vision of (social and environmental) impact
- Supporting transition
- Reducing negative impacts
- Minimising environmental footprint
- Target trajectory of below 2°
- Financing "green" activities

## EMBODYING RESPONSIBLE MANAGEMENT

## EXTENDING RESPONSIBILITY REQUIREMENTS IN INVESTMENT

- Responsible management of all assets
- Integration of ESG issues in all investment processes
- Impact assessment
- Supporting businesses
- Defining impact indicators and measurement
- Systematization of reporting
- Active management of exclusion scope

## ACTING ON ASSET MANAGEMENT ECOSYSTEM

- Exchange with peers
- Communicate
- Develop the research
- Share, Communicate, Develop, Exchange, Associate
- Transmit good practices
- Promote the ESG criteria integration on indexes

## Pillar 1 : Intégrating the new Responsible Investment frameworks

The FRR fully subscribes to the new reference frameworks, and those defining impacts and goals that have emerged over the last few years and on which it considers it appropriate to base its actions. Specifically, France has played a major role at global level by promoting the law on Energy and Ecological Transition and, although not required to do so, the FRR has undertaken to publish a detailed article 173 report (http://www.fondsdereserve.fr/en/publications/annual-reports). The discussions conducted by the TCFD climate working group and by the HLEG resulted in the publication of recommendations which the European Commission will rely upon to influence the behaviour of actors in the financial world. The Commission also wishes to introduce a taxonomy, in other words an EU–wide common classification system enabling investors to identify activity sectors that may be viewed as "sustainable".

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The FRR and its governing bodies including its executive board, its supervisory board and its responsible investment committee are determined to follow these recommendations and to apply them in its investment policies, whether for the effective management of climate-related risks and opportunities, as a matter of strategy given the climate scenarios, managing risk to mitigate these scenarios or seizing new opportunities, measuring its portfolio CO2 emissions, engaging with businesses and external fund managers and transparency of its actions.

Furthermore, the 17 Sustainable Development Goals (SDG) adopted by 193 member States of the United Nations under the 2030 Agenda signed in 2015 lays down a road map which covers all sustainable development issues such as climate, biodiversity, energy, water and also poverty, gender equality, economic prosperity and peace, agriculture, education... These underline the need to mobilise all actors, whether institutions or civil society. France has reaffirmed its commitment to implement these goals. The FRR will conduct an indepth analysis of these SDG in order to align its managment with those that are most relevant in accordance with its values and fidcuciary responsibility.

**" The FRR has been firmly committed to the ecological and energy transition theme these past few years and has implemented an ambitious decarbonization policy aimed at reducing its portfolio's CO2 emissions"**

The FRR may look carefully into valuing extra-financial performance and on how the usefulness of the impact of its investments might be added to that of their financial performance. It will include its actions in a risks budget that has yet to be defined.

Finally, the FRR will take into account legal and regulatory developments relating to fiduciary responsibility and investor responsibility requiring it to establish a new relationship with management companies and the businesses in which it invests.

The FRR's voting policy will be reviewed to take account of both new domestic and international legal developments (transposition of the shareholder rights

Directive) and also the governance and stewardship codes introduced throughout the world.

- Loi n° 2015-992 du 17 août 2015 relative à la Transition énergétique pour la croissance verte
- TCFD, Task Force on Climate related Financial Disclosure https://www.fsb-tcfd.org/
- HLEG, High-Level Expert Group on Sustainable Finance https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#hleg
- Objectifs de Développement Durable https://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable/
- L'Agenda 2030 https://www.agenda-2030.fr/

## PILLAR 2 : EXTEND THE RESPONSIBLE DIMENSION OF ITS INVESTMENTS

In order to remain consistent with its values, and to limit its reputational and financial risks associated with poor control of SRI management of its investments, the FRR will seek to extend its responsible approach beyond the specific areas on which it bases its actions such as norm-based exclusions (http://www.fondsdereserve.fr/en/socially-responsible-investment/exclusions-list) (banned weapons, tobacco, coal, non-cooperative jurisdictions...), allegations, reduction of CO2 emissions or voting policy.

Having been introduced for passive funds

**« Since 2008, the FRR has had in place a system enabling it to monitor and prevent extra-financial risks that may have an impact not only on its investments but also its reputation »**

and specific equities mandates, the obligation of managers to take account of ESG factors in making investment decisions has been gradually extended to all management mandates and asset classes (active equities mandates, good quality credit bonds mandates, unlisted asset funds). In order to be awarded a management mandate, management companies must demonstrate that they have integrated ESG factors into their investment processes and also their ability to support and influence the companies invested in.

The FRR shall endeavour to define appropriate indicators and report either directly or indirectly through its managers with which it shall work closely to produce both quantitative and qualitative reports on its management mandates.

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Finally, the FRR shall remain vigilant on the nature of the activities conducted by the businesses in which it invests and shall continue to consider, with a view to adjusting or extending as necessary, the scope of its dialogue and exclusions.

- https://www.diplomatie.gouv.fr/en/french-foreign-policy/security-disarmament-and-non-proliferation/disarmament-and-non-proliferation/anti-personel-mines/
- http://www.clusterconvention.org/

## PILLAR 3 : GIVING ENERGY TRANSITION THE HIGHEST PRIORITY

In its latest report, the IPCC[1] highlighted the delay in tackling climate change and the disastrous consequences of temperatures increasing by more than 1.5°C, even more so if global warming reaches 2°C or above as indicated by the current trajectory. Faced with the climate emergency, the need to redirect financial flows to achieve energy transition has become all the more evident.

Over the next few years, the FRR intends to make particular efforts in this area (http://www.fondsdereserve.fr/en/socially-responsible-investment/the-frr-and-climate-change). Fully playing its role in inter-generational solidarity, and being aware of its public investor status, the FRR remains consistent with the resolutions of the Paris Conference (COP 21). It has susbcribed to a number of initiatives or projects by which it commits to communicating, and reducing, its CO2 emissions and putting pressure on companies with the highest emissions to themselves implement strategies to reduce their emissions and to transition towards a low carbon economy.

**"In 2018, the FRR decided to go even further in his decarbonization policy by excluding companies whose thermal coal mining or coal-fired electricity, heat or steam generation business exceeds 10% of their revenue".**

This will require the FRR to support the companies in which it invests in achieving their transformation taking into consideration the social and governance aspects involved during this change to their growth model. Far from adopting an exclusively norm-based approach, it will seek to **support these businesses through dialogue** and exchange in adopting practices that are more compatible with tackling global warming. From this perspective, managing energy transition represents a global ESG challenge.

With regard to the physical or transitional risks weighing on its portfolio, the FRR will pursue its **efforts to reduce its negative impact on climate and to encourage activities and initiatives contributing to energy and ecological transition**.

It shall, as far as possible**, continue gradually to align its portfolio with a 2°, or even 1.5° trajectory,** by reducing the proportion of its most CO2-emitting investments and increasing so-called "green" investment financing contributing to energy transition, especially in infrastructure, green or climate bonds and shares in businesses developing green technologies (that avoid emission of CO2, for example).

- https://www.gouvernement.fr/action/la-cop-21

[1] IPCC (International Panel on Climate Change)

## PILLAR 4 : ACTING ON THE ASSET MANAGEMENT ECOSYSTEM

The FRR aims to maintain its influential role in terms of responsible investment by increasing the requirements it places on management companies to improve their practices and better integrate responsible investment aspects in their investment choices. Through its communications, its participation in various conferences or working groups, the FRR will share its experience widely and pave the way for investors who wish to engage further, with the FRR, in SRI.

**"The FRR's responsible investor policy requires shareholder approval at every general meeting, through its managers, in accordance with the provisions of the decree of 19 December 2001".**

With regard to the companies in which it invests, the FRR shall strengthen its good practice requirements via dialogue, engagement, and voting policy, in a number of different forms: whether directly by FRR, through the intermediary of managers or via collaborative initiatives.

To achieve consistency between the management deployed and performance benchmarks, the FRR shall continue its **collaboration with index providers ensuring they create and enrich a range of indices** that are open to all and take account of extra-financial criteria, such as, for example, C02 emissions, corporate ESG ratings, involvement in the manufacture of non-conventional weapons, production of tobacco, or coal-related activities.

Finally, with a view to improving and disseminating knowledge on responsible investment, the FRR shall continue to provide its support for academic and applied research projects and share the results as widely as possible, in particular regarding coherent methodology and metrics data analysis providers.

**"The FRR's objective here is to increase awareness on responsible investment and on sharing academic works as widely as possible"**

- http://www.fondsdereserve.fr/en/socially-responsible-investment/supported-initiatives