



## **FRR's Exclusions Policy**

### **FRR's Missions**

The *Fonds de Réserve pour les Retraites* (FRR) is tasked, on behalf of society to invest and optimize the returns on funds entrusted to it by public authorities to help finance public pensions.

As a signatory to the Principles for Responsible Investment (UN PRI) since 2006, the FRR commits to integrating Environmental, Social, and Governance (ESG) criteria into all its investment decisions and portfolio management. The FRR actively promotes sustainable finance by engaging with companies and asset managers to encourage responsible and transparent practices.

As a member of the Net Zero Asset Owner Alliance (NZAOA) since 2019, the FRR is committed to aligning its investment portfolios with a trajectory consistent with the goal of net-zero emissions by 2050. It sets intermediate decarbonization targets, strengthens engagement with companies and asset managers, and supports the transition to a low-carbon economy in line with the Paris Agreement.

As a reminder, the FRR aims to accelerate the energy transition, expand sustainability requirements in investments, and engage with the financial management ecosystem to improve practices. As a responsible investor, the FRR commits to maintaining an exclusion policy, voting policy, and engagement policy aligned with its mission as a responsible investor and in service of decarbonization.

The FRR's exclusions policy applies to both listed and unlisted asset classes, including equities and fixed income, managed through mandates or mutual funds by its external managers. While the FRR strictly and regularly monitors compliance with its exclusion policy by external managers, implementation remains the responsibility of the managers. In the case of an open-ended fund, the FRR engages in dialogue with the manager and may divest from the fund in the event of non-compliance.

It is stated that when a benchmark index is used in the FRR's mandates, the benchmark will not be modified, and the manager's performance will not be adjusted for any financial consequences resulting from the application of the FRR's exclusions policy.

### **1. Positions and Exclusions Policy related to Controversial weapons**

Financial instruments<sup>1</sup> issued by companies involved in the use, storage, production, or transfer of anti-personnel mines, cluster munitions, biological weapons, or chemical weapons are excluded from the FRR's investment portfolio.

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<sup>1</sup> As defined by Article L.211-1 of the *Code monétaire et financier* (Monetary and Financial Code)

## **2. Positions and Exclusions Policy on the tobacco sector**

Financial instruments issued by tobacco-producing companies are excluded from the FRR's investment portfolio.

The exclusion of tobacco, implemented by the FRR since 2016 is, for its part, based on the World Health Organization (WHO) Framework Convention on Tobacco Control of 2003, signed by France. This is the first treaty negotiated under the auspices of the WHO. It is a treaty that reaffirms the right of all people to the highest attainable standard of health. The convention represents a fundamental shift in this regard, as it develops a strategy aimed at regulating dependence-inducing substances. Unlike previous drug control treaties, this convention emphasizes the importance of both demand reduction strategies and supply reduction.

## **3. Positions and Exclusions Policy on fossil fuels**

The FRR's exclusion policy on fossil fuels sets clear thresholds, prohibits new financing and investments in thermal coal and unconventional fossil fuel projects, and establishes a timeline for the complete phase-out of the most climate- and environmentally damaging activities, in accordance with Article 29 of the French Energy-Climate Law.

The FRR aims at engaging with some carbon intensive companies of its portfolio to encourage them to adopt measures to reduce their impact on climate.

The FRR applies a thermal coal phase-out policy, a gradual exit from unconventional hydrocarbons and a framework policy for conventional oil and gas.

### **a. Thermal Coal Exclusion Threshold**

The FRR commits to excluding all financial instruments issued by companies involved in thermal coal from its portfolio by 2030 in OECD countries and by 2040 in the rest of the world.

The FRR commits to excluding any financing or investment in new capacity related to energy production, coal power plant renovations, or any other infrastructure dedicated to thermal coal.

The FRR aims to exclude from its portfolio all financial instruments issued by companies whose thermal coal extraction, electricity, heat, or steam production from coal, or related infrastructure exceeds one percent (1%) of their revenue, subject to the exceptions defined in section c) below.

### **b. Unconventional Fossil Fuel Exclusion Threshold**

Unconventional fossil fuels include the following practices : oil sands extraction, hydraulic fracturing, oil shale and shale gas, Arctic drilling and ultra-deepwater drilling.

The FRR aims to exclude all financial instruments issued by companies generating more than 10% of their revenue from unconventional fossil fuels, as well as any new unconventional fossil fuel projects.

### **c. Exceptions to Fossil Fuel Exclusion Rules**

However, to support the decarbonization of the real economy and high-carbon-intensity sectors, the FRR allows its managers to invest in companies exceeding the unconventional fossil fuel and/or thermal coal exclusion thresholds in the following exceptional cases:

- The investment is a green bond (use of the funds validated by certification, third-party verification, or an external audit, such as the EU Green Bond Standard).
- The company has a decarbonization plan aligned with a credible Net Zero 2050 scenario, and scientifically validated by the SBTi (or equivalent).
- The company plans to sell or shut down the relevant activities by 2030, allowing it to fall below the specified revenue threshold, with a preference for shutting down over selling.

In such cases, the manager must justify the initial investment in writing and provide bi-annual updates to justify maintaining the investment.

The FRR encourages managers to engage directly or collaboratively with companies involved in these activities to promote an exit plan. If necessary, the company may ultimately be excluded from the portfolio.

### **d. Monitoring Policy for Conventional Fossil Fuels**

The FRR aims to engage with companies involved in conventional fossil fuels, by taking into account both scientific recommendations to limit global warming in line with the Paris Agreement and the temporary need for fossil fuels for economic and energy security reasons.

The FRR commits to evolving its climate policy in the future to encourage companies in the sector to develop and follow a decarbonization plan compatible with a Net Zero 2050 scenario, in alignment with its commitments and membership in various ESG and climate initiatives.

## **4. Other Exclusions**

The FRR may also, on an exceptional basis, exclude other companies for serious, proven, and repeated violations of global standards referenced in the FRR's responsible investment strategy (as published and updated on the FRR's website).

The managers may also exclude additional companies under their own exclusion policies. The FRR reserves the right to implement further exclusions in its indexed investment strategies with climate criteria.