FONDS DE RESERVE POUR LES RETRAITES

# THE FRR, A RESPONSIBLE LONG-TERM PUBLIC INVESTOR

2022 ANNUAL REPORT

# CONTENTS

## PREAMBLE



## THE YEAR IN REVIEW



## FINANCIAL INFORMATION







# Message from the President of the Supervisory Board and the Executive Board

### 2022, a year characterised by sharply rising inflation and interest rates.

The year 2022 was marked by a complete shift in tone by central banks, whose optimistic expectation that inflation would return to within its normal boundaries has been completely dashed.

Indeed inflationary pressure has reached levels not seen in 40 years. The war in Ukraine has caused a further inflationary shock, especially in Europe with gas and electricity prices soaring whereas, in the United States, price increases have mostly resulted from overly relaxed fiscal policies introduced in response to the Covid crisis, combined with a very accommodatory FED.

The central banks' realisation that their analysis of inflation was mistaken has been demonstrated by the most brutal increase in key rates since the early 1980's and the end of an era where economies have become addicted to zero, or even negative, rates and quantitative easing.

### Against this difficult background, the FRR's portfolio has proved rather resilient.

The year 2022 closed with the FRR's total assets down by 4.7 Bn€ to 21.4 Bn€, including -2.1 Bn€ by way of annual instalment to CADES and -2.6 Bn€ due to market effect, resulting in a negative return of -10.03%.

At the end of that financial year, the FRR's annualised performance, calculated since 1 January 2011, stood at 3.4% and had generated a cumulative net value of 11.3 Bn€ for the public finances.

Listed risk assets (around 60% of the total of which half is pure equity risk, the rest consisting of option-hedged equities, high-yield credit and emerging market debt) have produced a representative index estimated performance of -12% whereas the so-called hedging assets (OAT and investment grade credit) returned a negative performance of -13.3% due to the rise in interest rates.

SANDRINE LEMERY
President of the Supervisory Board

The rally in the relative performance of value equities compared to growth equities, which began in 2021, increased sharply in 2022. US equities, heavily weighted towards growth style and technology stocks in particular, were impacted much more heavily than value-type markets, such as the Eurozone and Japan. In 2022, as already in 2021, small cap equities fared less well than the major stock indices.

**Major contribution by unlisted assets to the FRR's performance in 2022.**

Unlisted assets, authorised under three successive plans (as from 2013 for unlisted debt; 2015 for the 2.2 Bn€ programme and a further 1 Bn€ in 2020 including the 250 M€ envelope for the *late stage* element of the Tibi initiative) are meeting our expectations by, in particular, contributing healthily to the financing of the economy, diversifying the portfolio and capturing liquidity premiums.

**"The FRR's unlisted assets generated an exceptional outperformance."**

**ÉRIC LOMBARD**
President of the Executive Board

The amount actually invested by the end of 2022 in unlisted assets (sum of amounts actually called net of principal distributions, plus net revaluations) was 2.9 Bn€, or 13.7% of the FRR's total assets.

The FRR's unlisted assets produced an exceptional increase in return compared to corresponding listed assets, greater than 600 M€ or close to 2.5 points in terms of return for the FRR's portfolio as a whole. Whereas listed asset indices representative of our unlisted assets fell by 12% in 2022, our unlisted assets portfolio produced a positive return of around 9%.

An out-performance of 21% can clearly not be reproduced every year, however it does reflect the healthy overall state of the FRR's unlisted assets portfolio and is a reward for the long-term decisions made by the FRR's governing bodies and operational teams.

Infrastructure (535 M€ in assets at the end of 2022) delivered an outstanding performance and also made a significant contribution to social and environmental impact objectives. Private equity, real estate and unlisted debt also all made a positive contribution.





**OLIVIER ROUSSEAU**
Member of the Executive Board

**As a responsible investor, the FRR has aligned itself ever more closely with State and European ecological and energy transition financing targets.**

The FRR's approach is absolutely consistent with the desire of the public authorities to invest in fair energy transition with due regard to the social aspect of this major transformation.

Accordingly in 2022, the FRR awarded 3 equity management mandates for management consistent with the Paris Agreement incorporating a 50% reduction in $CO_2$ emissions compared to the benchmark and 3 US dollar investment grade corporate bond mandates with a 40% reduction in $CO_2$ emissions compared to the benchmark.

The FRR's objective, by 2025, is to reduce by 20% (after a decrease of almost 40% during the previous decade) the carbon footprint of its portfolio since 2019 in accordance with commitments made as part of the Net Zero Asset Owner Alliance.

**"The FRR's objective, by 2025, is to reduce by 20% (after a decrease of almost 40% during the previous decade) the carbon footprint of its portfolio since 2019."**

This approach will be applied in 2023 to US dollar high-yield bond and European small and mid-cap equities management mandates for which the requests-for-proposals are underway, and also to French and US small and mid-cap equities management mandates for which the requests-for-proposals will be launched during 2023.

The FRR will also in 2023 reappoint its ESG and Environment-Climate research providers, whose research is used to select and monitor its managers as well as the regulatory and ESG reports on its portfolios.

**YVES CHEVALIER**
Member of the Executive Board

# KEY FIGURES

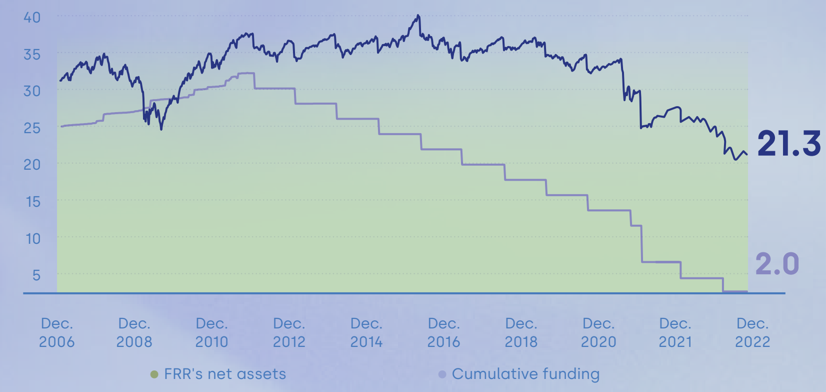


**21.3**

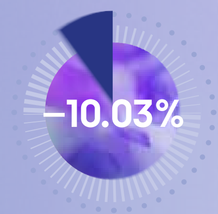
**BILLION EUROS**

FRR's assets at 31/12/2022

**CHANGES IN FRR'S NET ASSETS AT 31/12/2022 (BILLIONS OF EUROS)**

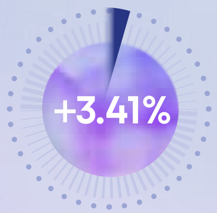



**FRR'S NET ANNUAL PERFORMANCE (%)**


2022 performance net of expenses


Annualised asset performance since June 2004




Annualised asset performance since December 2010[1]

1. Since the 2010 pension reforms entered into force, the FRR's financial model has changed significantly:
– the FRR no longer receives any income (1.5 to 2 Bn€ per year up to 2010);
– the FRR pays 2.1 Bn€ each year to CADES.

# THE FRR IN ITS ECONOMIC ENVIRONMENT

PART 1



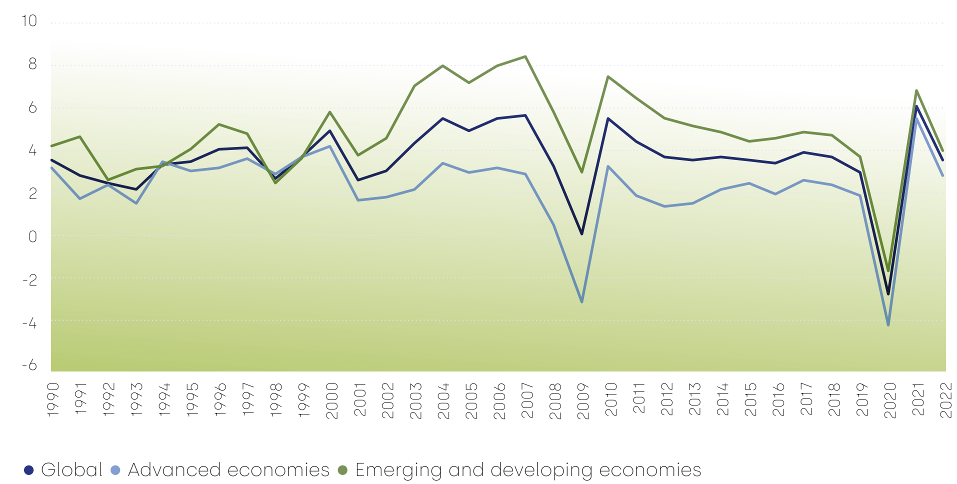


## ECONOMIC AND FINANCIAL ASSESSMENT

### ECONOMIC AND FINANCIAL EVENTS

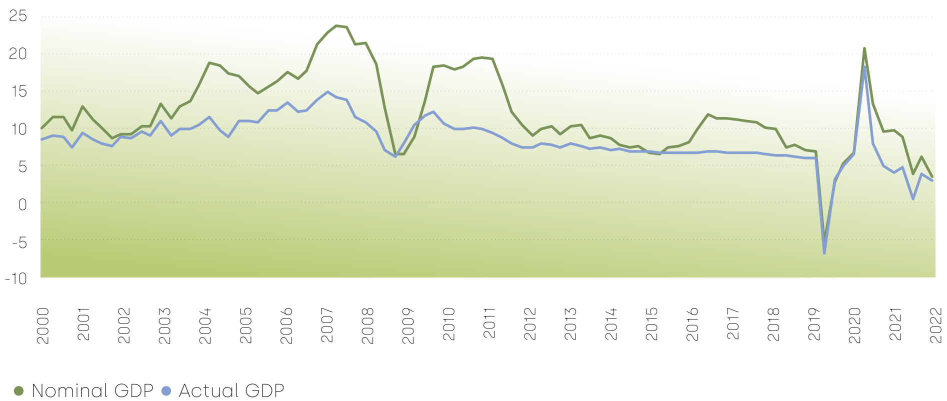
In 2022, the expectation of continued strong economic recovery, aided by diminishing health risks, was undermined by **a series of shocks that increased inflationary pressures, damaged confidence and depressed global growth.** Largely due to Russia's invasion of Ukraine, but also China's continuing pursuit of its "zero Covid" strategy, supply chain pressures and rising commodity prices have been exacerbated. Central banks, in both developed and emerging economies, have been forced to rapidly tighten monetary policy to combat surprisingly stubborn inflation. Given these headwinds, **global growth slowed significantly in 2022 to +3.4%** (following +6.0% in 2021), according to IMF estimates, whereas average annual global inflation is expected to reach +8.8% (after +4.7% in 2021).

**ANNUAL GROWTH IN GDP: GLOBAL, ADVANCED ECONOMIES AND EMERGING AND DEVELOPING ECONOMIES (%)** – Source: IMF



**In China,** maintaining the "zero Covid" policy again weighed heavily on domestic consumption leading to significantly lower growth than the Chinese government's initial target of +5.5%. This barely reached +3.0% in 2022 compared to +8.4% in 2021. Moreover, the authorities' efforts to boost credit and support domestic demand through increased infrastructure spending did little to offset the sharp slowdown in the real estate sector, still suffering from significant regulatory constraints.

**CHINA: ANNUAL GROWTH IN GDP (%)** – Source: National Bureau of Statistics



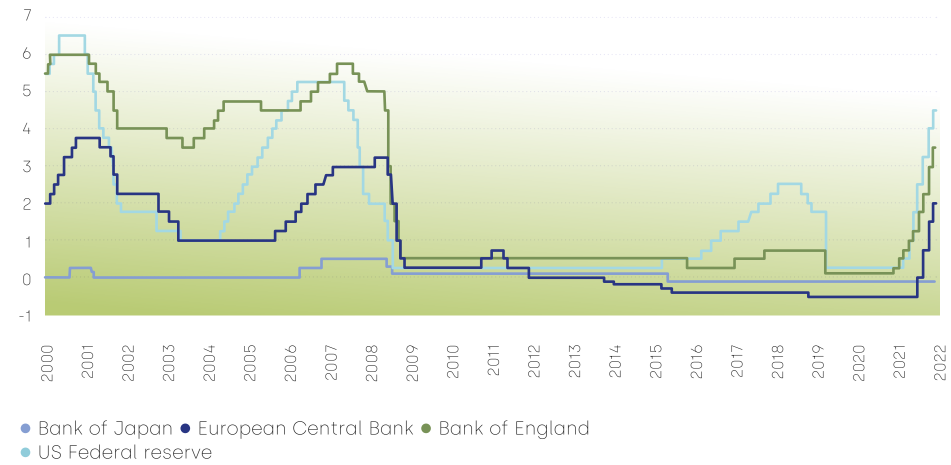

Having recovered strongly in 2021 (+5.4%), **advanced economies grew at a more moderate rate of +2.7% in 2022**. Inflation, already high at the end of 2021, has accelerated further as negative supply shocks test the resilience of the private sector. **Central banks have curtailed accommodatory monetary policies and aggressively raised key rates,** with the exception of the Bank of Japan.

This rapid about-turn, aimed at stemming anticipated inflation, also became necessary due to the sharp increase in labour market pressures, particularly in English-speaking economies. Against this backdrop of rapidly tightening financial conditions, persistent inflation and heightened geopolitical risk due to the conflict in Ukraine, **recessionary fears dominated much of 2022** before subsiding in the realisation that economies remained resilient.





**CENTRAL BANK KEY RATES: UNITED STATES, EUROZONE, UNITED KINGDOM, JAPAN (%)**
– Source: Fed, ECB, BoE and BoJ

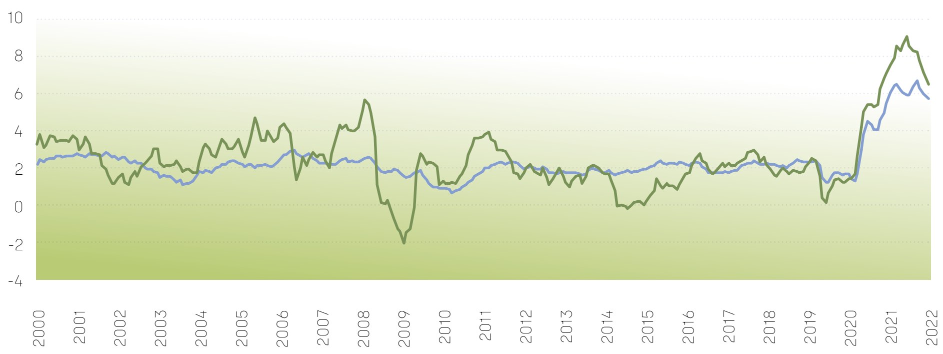



**In the United States,** economic activity contracted slightly over two quarters at the beginning of 2022 (-0.4% in the 1st quarter and -0.1% in the 2nd quarter), driven by a sharply widening trade deficit and shrinking inventories. In the second half of the year, the return to growth (+0.8% in the 3rd quarter and +0.7% in the 4th) was due to volatile factors, whilst underlying domestic demand softened. Private investment was dampened by a contraction in the residential real estate sector, which is highly susceptible to rising interest rates. Private consumption, on the other hand, has held up, despite the erosion of purchasing power, through tapping into surplus savings accumulated by households during the Covid-19 pandemic. Overall, the US economy grew by +2.1% in 2022 (+5.9% in 2021).

The labour market continued tightening. The recovery in the jobs market continued with a total of almost 4.6 million non-agricultural jobs created in 2022, focused for the most part on the services sector. The unemployment rate fell to its pre-pandemic lows of around 3.5%. The robust employment market and sharp rise in wages no doubt encouraged individuals, who had voluntarily withdrawn for Covid-19 related reasons, to return to work. The participation rate has therefore slightly increased, from 61.7% in 2021 to 62.2% in 2022.

Inflationary pressures have now touched all components of the consumer price index. In the first semester, the sharp rise in energy and food prices, as well as still significant supply chain pressures, took inflation to a peak of +9.1% year-on-year in June 2022 (compared to +7.5% in January). The softening of these factors in the second half of the year brought total inflation down to +6.5% by the end of 2022. However, underlying inflation did not significantly decelerate but remained close to +6%, sustained by an increase in the services components despite a fall in the price of goods, excluding energy and food. Against this background, and with a labour market showing no sign of slowing, the Federal Reserve raised the federal funds rate from 0.25% to 4.5% from March 2022 and began simultaneously reducing its balance sheet (at a monthly rate of 45 Bn$ per month from June 2022, then 90 Bn$ from September).

**UNITED STATES: ANNUAL CHANGE IN INFLATION RATE (%)** – Source: U.S. Bureau of Labor Statistics




● Total inflation ● Underlying inflation

In the **Eurozone,** the effects of the war in Ukraine have significantly impacted on economic conditions, damaging household and business confidence and fuelling persistently high inflation. However, economic activity remained resilient in the first half of 2022 (+0.6% in the 1st quarter and +0.9% in the 2nd quarter), although slowing to a lesser extent than in the United States over the year as a whole (+3.5% after +5.3% in 2021). Eurozone economies continued to enjoy a post-health crisis catch-up effect, particularly in the services sector, as well as support from the European Next Generation EU recovery plan and fiscal measures to protect households and businesses against inflation. Faced with the energy crisis, the Eurozone has entered into a weak growth pattern in the second semester (+0.4% in the 3rd quarter and +0.0% in the 4th), narrowly avoiding recession.

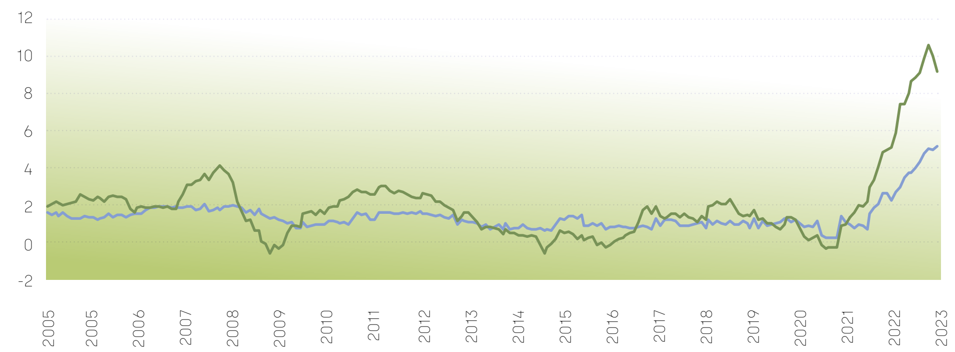




Exacerbated by the conflict in Ukraine, rising commodity prices led to an unprecedented acceleration in consumer prices, from +5.1% year-on-year in January to a peak of +10.6% in October 2022, before slowing slightly to +9.2% in December. Gas prices, which have fluctuated wildly, peaked at 311 €/MWh in the last week of August before falling back significantly over the rest of the year.

Underlying inflation also accelerated from +2.3% in January to +5.2% at the end of 2022, partly due to the effect of high energy costs across the economy, provoking a catch-up in wages. Against this background, the European Central Bank raised its key interest rate by 2.5 points between July and December 2022, bringing it to 2.0%, and decided to bring its asset purchase programme to an end. It has also recalibrated the terms of its targeted long-term refinancing operations (TLTROs).

**EUROZONE: ANNUAL CHANGE IN INFLATION RATE (%)** – Source: Eurostat




● Total inflation ● Underlying inflation

# PERFORMANCE OF THE FRR'S ASSET CLASSES

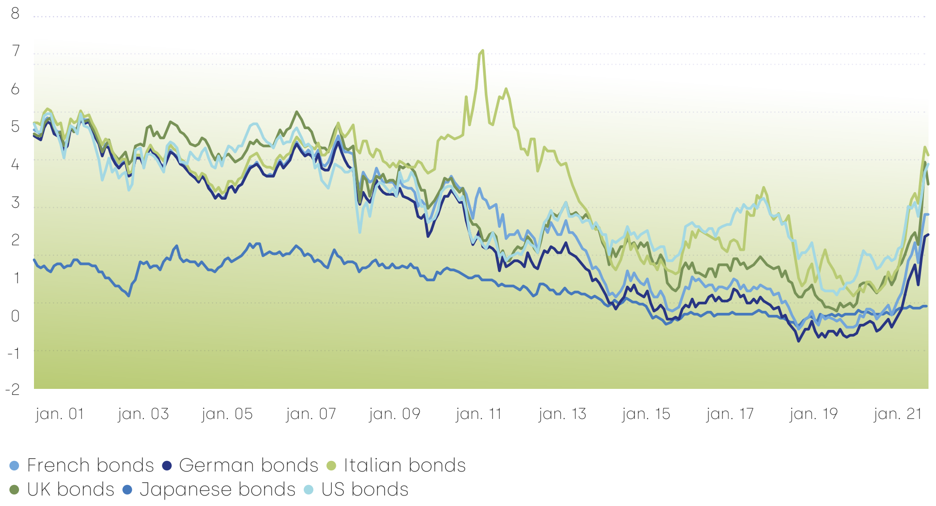
## HEDGING ASSETS HAVE BEEN IMPACTED BY RISING INTEREST RATES

Due to sharply increasing inflation, 10-year rates rose significantly in 2022, from 1.5% to 3.9% for US rates, 0.2% to 3.1% for French rates, and -0.2% to 2.6% for German rates.

This had a very negative impact on the performance of sovereign bonds and investment grade corporate bonds with high duration in 2022.

For Euro and dollar-denominated investment grade corporate bonds, the effect of rising interest rates was exacerbated by the adverse trend in risk premiums. These ranged from 1% at the beginning of the year to 1.7% at the end of the year for euro-denominated investment grade corporate bonds and from 0.9% to 1.3% for US dollar-denominated investment grade corporate bonds. As a result, these asset classes saw significant falls of -14% and -12% respectively over the year.

**10-YEAR INTEREST RATES ON SOVEREIGN BONDS SINCE 2000 (%)**








**PERFORMANCE OF HEDGING ASSETS IN 2022** – 31/12/2022

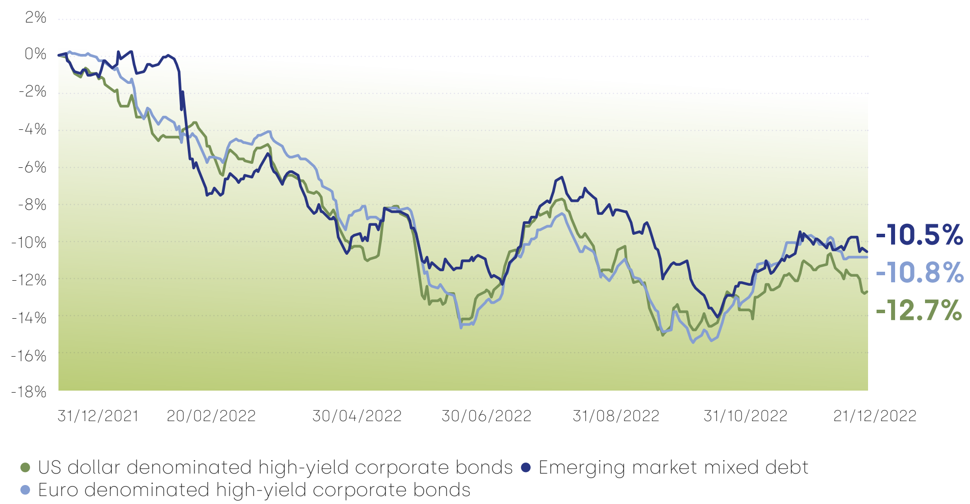

## SIMILARLY FOR INTERMEDIATE-RISK BOND ASSETS

The performance of intermediate risk assets (emerging market and high-yield corporate bonds) was also very negative in 2022. High-yield corporate bonds were impacted by rising interest rates and risk premiums. Indeed, fears of a future recession and more significant defaults have increased the risk premium on euro issues from 3.1% to 4.9% and on dollar issues from 2.8% to 4.7% in 2022. Nevertheless, high-yield corporate bonds have enjoyed favourable carry and, for the time being, a limited failure rate.

Emerging markets local currency and US dollar-denominated bonds also suffered in 2022. The rise in US sovereign rates has penalized these two asset classes, and more particularly dollar issues because their average maturity is longer. In addition, risk premiums on dollar-denominated high-yield corporate bonds also increased, from 3.3% to 3.7%. As a result, yields on local currency issues also increased in 2022, from 5.7% to 6.9%.

Emerging market currencies had no significant impact on the annual performance of the asset class. However, their volatility was quite significant during the year. The performance of these currencies against the euro was very positive until the summer, however the trend subsequently reversed. The most favourable changes over the year included the Brazilian real (+12%) and the Mexican peso (+12%). Conversely, the Turkish lira collapsed by -25% and the Argentine peso by -38%. The weightings of these two countries within the index are not very significant and therefore their negative impact is limited.

PERFORMANCE OF INTERMEDIATE RISK ASSETS OVER 2022




## ● AND EQUITY RISK PREMIUMS HAVE ADJUSTED

The correlation between equities and bonds solidified in 2022. Indeed, in order to maintain their risk premium, having been eroded by increasing rates, the value of equities fell sharply in 2022, although to a greater or lesser extent depending on the region. Japanese equities performed best, falling -3.9%, compared to -12.5% for Eurozone equities, -15% for emerging market equities, and almost -20% for US equities.

Comprising a large number of export companies, Japanese equities benefited from the depreciation of the Yen, from 130.9 Yen/Euro at the end of 2021 to 140.4 Yen/Euro at the end of 2022. Moreover, rising inflation has been less damaging in this region, since it has experienced persistent deflation in recent years. Nevertheless, global economic weakness meant that they failed to end the year in positive territory.

The trend in Russian and Chinese assets is the main reason for the poor performance of emerging market equities. In China, restrictive health policy, the weak real estate sector and the slowdown in global trade have put a brake on economic recovery. The value of Russian assets has collapsed due to the imposition of international sanctions against Russia, due to the conflict in Ukraine.

In the United States, the tightening of monetary policy (to combat soaring inflation) and the very sharp rise in long-term rates have had a significantly negative impact on the equity markets. The zone's intrinsic "growth" bias (notably due to the technology sector's heavy weighting) has suffered greatly from this paradigm shift, with future results, although anticipated to improve, now being discounted at much higher rates. The prospect of a recession and fear of a decline in corporate earnings have resulted in stock markets falling by nearly -20% compared to the end of 2021.



In the Eurozone, the sharp rise in inflation is mainly the result of supply constraints in 2022, such as the increase in energy prices brought about by the need to find an alternative to Russian gas and to ensure adequate stocks for winter. The resulting rise in rates and market fears surrounding increased business costs have been very unpropitious as far as stock market growth is concerned. However, European corporate earnings held up well in the end (+23% in 2022) and, in the last quarter, markets were able to bounce back (+13%) given the diminishing risk of energy shortages.

PERFORMANCE OF EQUITIES MARKETS OVER 2022

# A DIVERSIFIED PORTFOLIO. TO CONTROL RISK

PART 2





## THE FRR'S OVERALL ASSET POSITION DID NOT SUFFER IN 2022!

### LIABILITIES COVERAGE MARGIN STABILITY IN 2022

Since the end of 2010, liabilities comprised of 14 annual instalments of 2.1 Bn€, from 2011 to 2024. However, due to the health crisis, the FRR's overall asset position was dented in 2020 by the request for payment of the CNIEG balance (approximately 5 Bn€) and by the addition to the FRR's liabilities of 9 annual payments of 1.45 Bn€, from 2025 to 2033. This directly increased liabilities by more than 13 Bn€ in 2020 and reduced the Liabilities Coverage Margin (Assets – Liabilities) to 3 Bn€. However, from mid-2020 to the end of 2021, it recovered significantly to 6.7 Bn€.

In 2022, the Liabilities Coverage Margin varied between 5 Bn€ and 6.8 Bn€, ending at 6.4 Bn€, down only 0.3 Bn€ over the year. Indeed, due to the sharp rise in interest rates, the fall in liabilities (as a %) was greater than for assets. In terms of amount, assets have therefore lost only slightly more than liabilities.

The FRR's **long-term** objectives have therefore not suffered in 2022. On the contrary, they can be revised upwards, because the sudden increase in interest rates will as from now mean a higher carry on the Liabilities Coverage Margin.

LIABILITIES COVERAGE MARGIN (BN€)

## THE FRR'S MAJOR MANAGEMENT DECISIONS IN 2022

The FRR's major management decisions in 2022 resulted in the following changes to the portfolio between the end of 2021 and the end of 2022.

Three main factors contributed to the portfolio changes in 2022:

### 2022 strategic allocation

The weight of performance assets in the portfolio increased by more than 6%, from 61.4% to 67.6%. This reflects their 10% increase in the 2022 strategic allocation, mainly through equities (+5%) and high-yield corporate bonds (+4.5%). US dollar high-yield corporate bond mandates will not be activated until March 2023. The remaining increase in performance assets adopted as part of the strategic allocation will then materialise in the portfolio.

The 10% increase in the weight of performance assets in the 2022 strategic allocation was driven by the high risk premium levels on these assets at the beginning of 2022, due in particular to the gloomy outlook for investment grade corporate bonds. Furthermore, in 2022, the FRR still had 11 years' worth of remaining liabilities and would be able to count on the return-to-average effect historically seen on performance assets. Finally, its initial Liabilities Coverage Margin allowed short-term losses to be assumed without risking mortgaging the payment of liabilities-side commitments.

The increase in the weight of performance assets in the 2022 strategic allocation improved the FRR's performance by around 0.2% in the second half of 2022. Since 2010, their weight in the strategic allocation has increased from 40% to 70%. From year to year, it has either been maintained or revised upwards, except in 2019 (-5%), before the Covid-19 crisis.

### Tactical management

Tactical management did not have a material effect in 2022. It benefited from the overweighting in European equities, which recovered strongly in the 4th quarter, and the underweighting in US equities. With a view to managing market risk, the FRR has strengthened its options hedging, particularly on European equities after phases of increase. Indeed, the weighting of hedged equities increased by around 11% (from 8.9% to 19.7%), whereas non-hedged European equities decreased by 10%. In contrast, the FRR was impacted by its overexposure to European small caps, which suffered by comparison to large-caps in 2022.

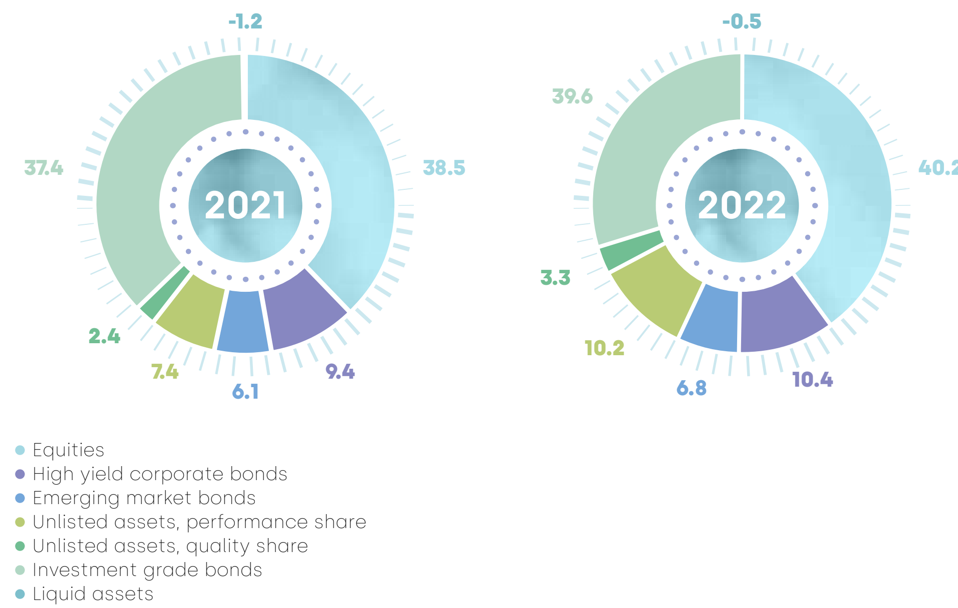
### Unlisted assets

The weighting of unlisted assets increased by almost 4%, despite barely positive net calls for funds in 2022. In reality, this increase is mainly due to the decrease in the amount of listed assets, as a result of disposals made to pay the 2.1 Bn€ owed to CADES and due to their clearly negative performance in 2022.

Indeed, whereas, in 2022, almost no listed assets offered positive returns, the FRR's unlisted assets generated an average absolute return of around +10%! At the same time, their listed asset proxies, determined for their comparable long-term risk, lost more than -12%. As a result, employing unlisted assets generated around +2.2% in terms of implementation performance in 2022.








**CHANGES IN THE FRR'S PORTFOLIO FROM 2021 TO 2022**

| | Fin 2021 | Fin 2022 |
|---|---|---|
| **Equities** | **38.5%** | **40.2%** |
| *European equities* | *19.55%* | *9.7%* |
| *Non-European developed market equities* | *5.8%* | *6.3%* |
| *Emerging market equities* | *4.25%* | *4.5%* |
| *Developed market option hedged equities* | *8.90%* | *19.7%* |
| **High-yield corporate bonds** | **9.4%** | **10.4%** |
| **Emerging market bonds** | **6.1%** | **6.8%** |
| **Unlisted assets, performance share** | **7.4%** | **10.2%** |
| **Performance assets** | **61.4%** | **67.6%** |
| **Unlisted assets, quality share** | **2.4%** | **3.3%** |
| **Investment grade bonds** | **37.4%** | **29.6%** |
| *Liability matching* | *9.7%* | *9.2%* |
| *Developed market sovereign bonds* | *0.0%* | *0.0%* |
| *Investment grade corporate bonds* | *27.7%* | *20.4%* |
| **Cash** | **-1.2%** | **-0.5%** |
| **Investment grade bond assets** | **38.6%** | **32.4%** |

# Exceptional contribution of unlisted assets to 2022 performance

The unlisted assets held by the FRR emanate from 4 consecutive envelopes (1.1 Bn€ for private debt since 2013, 2.2 Bn€ under a multi-asset programme since 2015, an additional 750 M€ in 2020 and 250 M€ under the "Tibi" initiative). By the end of 2022, 4,208 M€ had been committed, or substantially the entire amount of the programmes, of which 3,395 M€ has been called via 57 funds.

Whereas the performance of all listed assets in the portfolio was negative in 2022, the portfolio's unlisted assets contributed +1.2% in absolute terms to the FRR's performance. With an average weighting of 12% of the portfolio during the year, their absolute return was around +10% overall, whilst listed performance assets fell by 12% and hedging assets by -13.3%.

These assets outperformed the strategic allocation indices by 22%, with a performance gap of +604 M€ compared to their listed proxies. In other words, this means that if the FRR had had no unlisted assets in 2022, but merely listed assets returning the performance of the strategic allocation indices, net assets at the end of 2022 would have been 604 M€ less than what they would otherwise have been, with an annual performance of around -12.5% instead of -10.0%.

The valuations of unlisted assets are subject to valuation time-lag[2] or performance smoothing. A collapse of the listed financial markets is therefore not mechanically reflected in the latest known price of unlisted assets, resulting in a time-lag and smoothing in terms of their performance. This bias partly explains the outperformance of unlisted assets relative to their proxy, which could have the opposite effect if markets bounce back significantly in 2023. However, **it also appears that most unlisted assets, particularly in private equity and infrastructure, have withstood the adverse environment well and seen their valuations rise during the year.**

Occasionally, unlisted assets may also react differently to their long-term proxies for structural reasons. For example, a large proportion of the private debt in the portfolio is variable rate which has not been affected by the increase in rates, whereas its strategic allocation proxy consists of fixed rates only.

In 2022, all made positive contributions, although private equity and infrastructure in particular stood out. Private equity contributed +0.3% to the FRR's performance and infrastructure +0.6%, whereas these represent only 2% of the portfolio! Infrastructure (assets of 535 M€ at the end of 2022) delivered an outstanding performance and also greatly contributed to objectives of social and environmental impact.

Such outperformance can clearly not be replicated every year, however it does reflect the healthy overall state of the FRR's unlisted assets portfolio and is a reward for the long-term decisions made by the FRR's governing bodies and operational teams.

2. The net asset value of unlisted funds is not known for 45 to 60 days given the time required to audit them. Between two publication dates, the FRR only corrects the latest known valuation of the calls-for-funds and distributions since made.





# Symbolic exits from the infrastructure and private equity portfolio

## Exits from the Infrastructure portfolio

*For information only, this text has been written in agreement with Quaero Capital's management teams.*

Among the recent achievements of the Infrastructure funds in which the FRR has invested, the highlights include two disposals made by the Quaero European Infrastructure Fund I. Indeed, on 28 December 2022, Quaero Capital sold its Telecoms platform comprising two holdings: the project companies Rosace and Losange whose mission was to roll-out and operate superfast broadband networks across rural areas of the Grand Est Region for a period of 30 to 35 years.

This infrastructure meets several Sustainable Development Goals, including SDG 10 on reducing inequalities in numerous priority neighbourhoods and in rural areas previously lacking quality internet access. These two projects have indeed left their mark on the zones covered, by connecting them to superfast broadband, thereby offering them access to a wide variety of digital services that are now essential not only for human settlement but also to maintaining dynamic and prosperous economic activity.

In total, between Rosace and Losange, more than 4,100 rural communes are now connected to optical fibre. 550,000 households had already subscribed for optical fibre on these networks by the end of 2022, providing coverage for more than 1 million people, with a future potential of more than 3 million people.

**These two exits alone are sufficient to repay in full the commitments called on from this fund's investors.**

## Exits from the private equity portfolio

In 2022, various successful exits were made under the innovation capital and growth/buyout capital mandates, such as the Metaline holding, under the mandate managed by Isatis Capital. **Two years since acquiring a stake in 2020, this company specializing in data centre facilities management has tripled in size** through sustained organic growth, combined with an aggressive external growth strategy. In total, seven successful acquisitions in 5 years and significant integration work to form a coherent group of nearly 800 people achieving 60 M€ in turnover. This symbolizes the ability of the FRR's selected managers to support business leaders in their structural challenges, their external growth policy and their successful integration. By the end of 2022, the group modified its holding and governance to prepare for the next stage in its development.

# A DIVERSIFIED PORTFOLIO FOCUSED ON THE LONG-TERM

## A REFINED AND ROBUST ASSET ALLOCATION PROCESS

Asset allocation analysis is the responsibility of the Asset Allocation Department, which presents its research to the Executive Board forming the basis of its recommendations made to the Supervisory Board.

The long-term strategic allocation is reviewed annually after consultation with the various parties forming, and validation by, the Supervisory Board. The research is based primarily on two long-term macroeconomic scenarios developed by an in-house economist: a reference near-to-consensus scenario, and a downgraded scenario. Forecasts ultimately include GDP growth, the unemployment rate, underlying and total inflation and equity earnings growth, both in France and the United States. Each scenario includes a margin for uncertainty. Finally, in **2022, and for the first time, the FRR examined climate scenarios to be factored into macroeconomic scenarios** involving a material impact on macroeconomic variables and the resulting financial forecasts.

## Focus on the climate scenarios selected by the FRR

Investors, being committed to decarbonizing their portfolio to promote energy and ecological transition (EET), also take a more systematic interest in the impact of climate change on the economic framework under which they invest. The FRR has recently undertaken to consider climate scenarios in developing its long-term strategic allocation. This exercise relies on the framework conceived by the central banks' Network for Greening the Financial System (NGFS) which is now widespread amongst financial institutions.

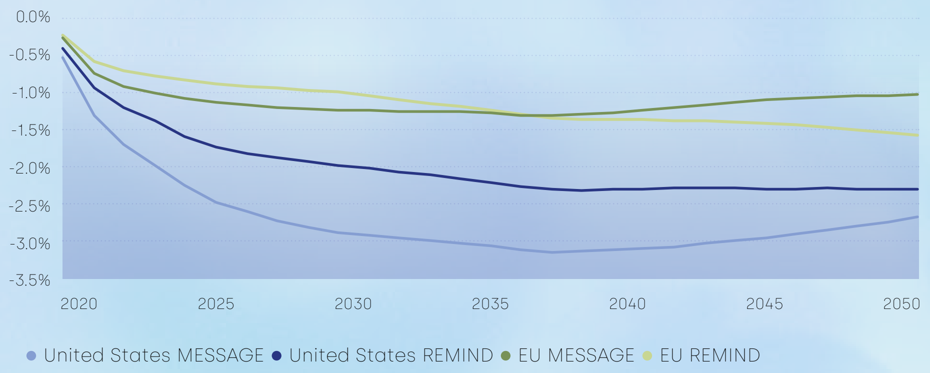
Since 2020, the NGFS has published baseline climate scenarios setting out various characteristics of mitigation and adaptation trajectories assessed by the Intergovernmental Panel on Climate Change (IPCC). These representative scenarios combine, in various ways, transition risk (arising from climate policies and technological developments) and physical risk (related to the damage caused by climate change) and form six "plausible" representations of the future for climate. There are four low-carbon transition scenarios under which global warming is limited to 1.5°C or 2°C by 2100, and two adverse climate impact scenarios where the temperature increase reaches 2.6°C or more than 3°C, due to continuing with the status quo or failure to transition. The four scenarios that assume compliance with the commitments of the Paris Agreement characterize each in turn various transition situations: "orderly" thanks to ambitious, anticipatory and progressively strengthened policies ("Net zero 2050" and "Below 2°C" scenarios); or "disorderly" due to policies introduced either late ("Delayed transition" scenario) or in a divergent manner across sectors ("Divergent Net Zero" scenario).

The assessment of the economic impacts of climate scenarios employs a set of models: transition risk is modelled on three integrated assessment models (IAM) used by the IPCC scientific community (GCAM[3], MESSAGEix-GLOBIOM[4], REMIND-MagPIE[5]), chronic physical risk is assessed by application of a function of damage linking loss of productivity to temperature increases, whereas severe physical risk relies upon the calculation of potential damage resulting from extreme climate events (cyclones, rising sea levels and floods). Finally, the economic impacts by 2050 are estimated using the global macroeconomic model NiGEM[6]. The results reveal that, at global level, the trend or unchanged policy scenario ("Current Policies" scenario) would result in a cumulative loss of GDP of almost 8% by 2050 and almost 20% by the end of the century, linked entirely to the exacerbation of physical risks.

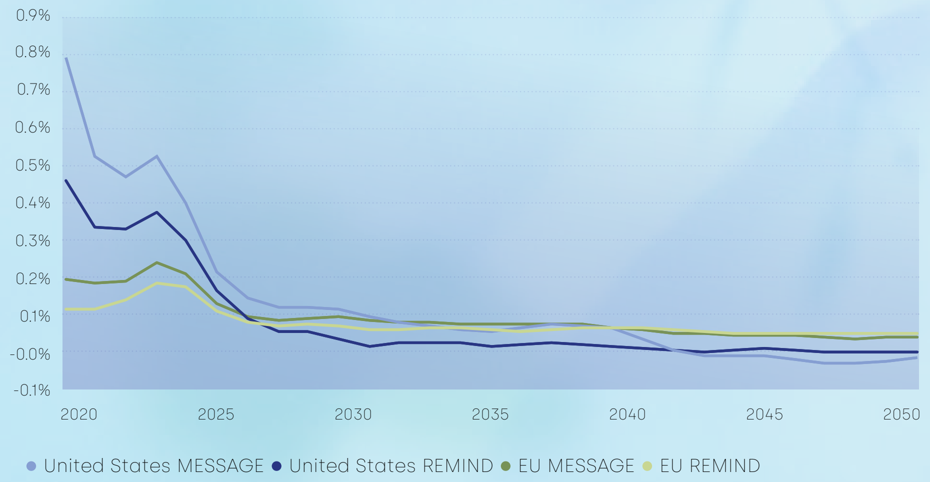
From the baseline scenarios published by the NGFS, the FRR has selected two that appear relevant having regard to the 2033 liabilities horizon: the "Below 2°C" orderly transition scenario and the "Delayed Transition" scenario. Whereas significant uncertainties still surround the effects of transition and climate change, the NGFS's work highlights the modest impact of a "Below 2°C" transition on growth and inflation, less severe in Europe than in the United States. Indeed, in this scenario, Europe would incur a cumulative GDP loss of -1.1% to -1.2% by 2033, and the United States of between -2.1% and -3.0% depending on the IAM used. Conversely, under the "Delayed Transition" scenario, transition would have a much greater effect, first due to the negative shock to confidence due to economic actors' lack of preparedness, followed by a rapid and sharp rise in the price of carbon after the introduction of climate policies from 2030 onwards. In addition, the margin of uncertainty included in the models is wide: by 2033, the cumulative loss of GDP would be between -2.2% and -6.4% in Europe, and -3% and -9.4% in the United States. Similarly, the inflationary impact of delayed transition could be significant, peaking in 2035 at between 0.8 and 3.2 points in Europe, and 1.2 and 4.5 points in the United States.

3. Global Change Assessment Model.
4. Model for Energy Supply Strategy Alternatives and their General Environmental Impact – Global Biosphere Management Impact.
5. Regional Model of Investments and Development – Model of Agricultural Production and its Impact on the Environment.
6. National Institute Global Econometric.

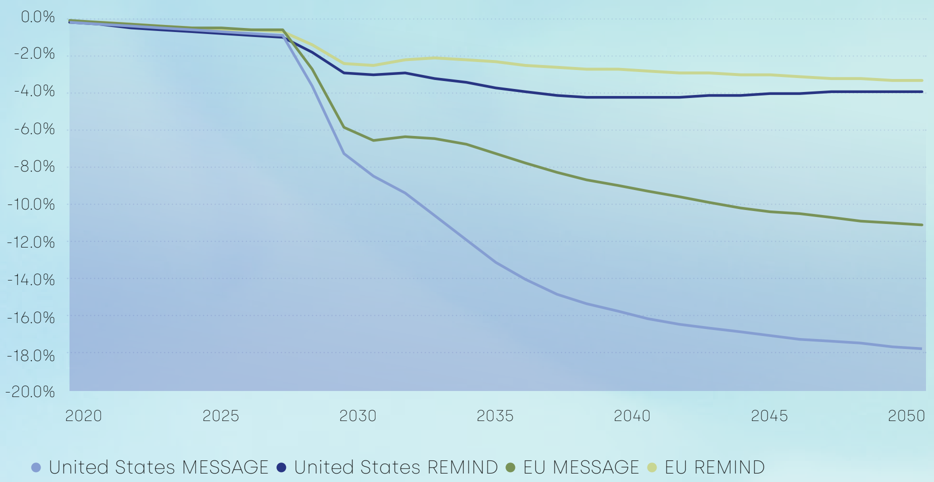
**CUMULATIVE GDP LOSS UNDER “BELOW 2°C” SCENARIO, WITH THE REMIND-MAGPIE AND MESSAGEIX-GLOBIOM MODELS**



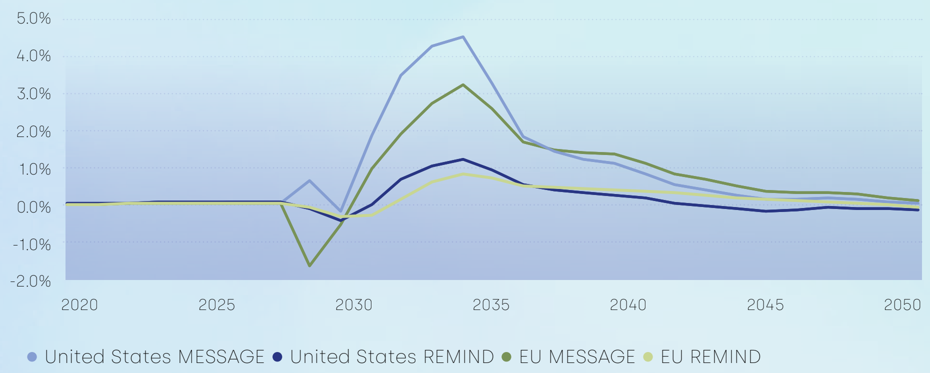

**IMPACT ON INFLATION UNDER “BELOW 2°C” SCENARIO, WITH THE REMIND-MAGPIE AND MESSAGEIX-GLOBIOM MODELS**




**CUMULATIVE GDP LOSS UNDER THE DELAYED TRANSITION SCENARIO, WITH THE REMIND-MAGPIE AND MESSAGEIX-GLOBIOM MODELS**

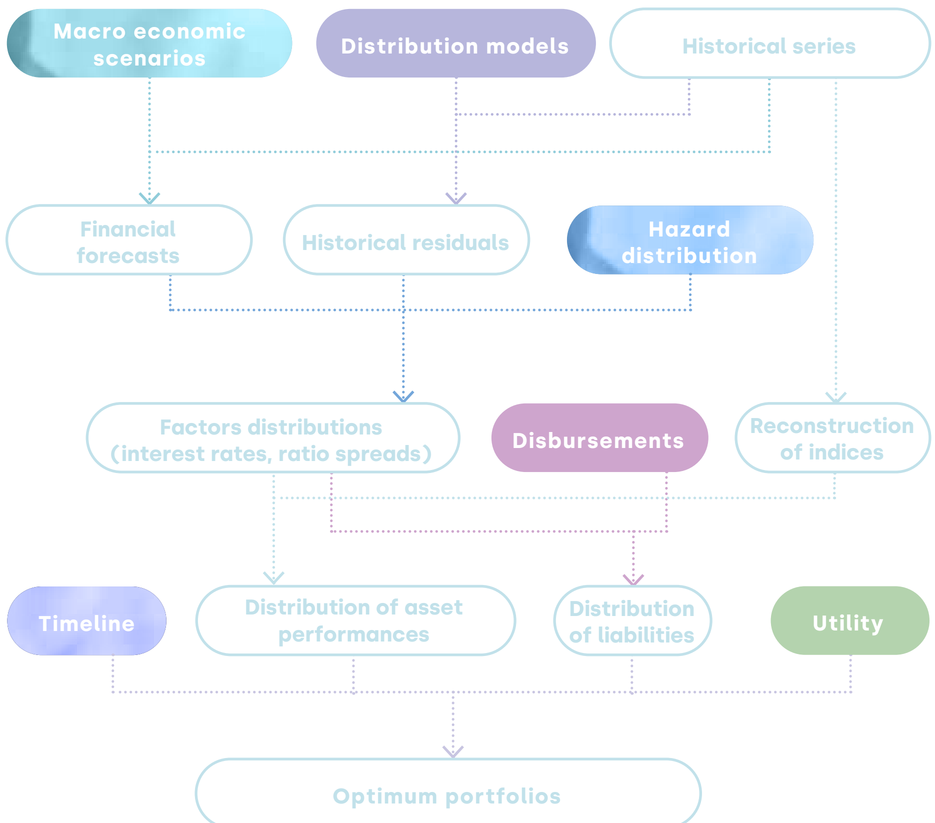



**IMPACT ON INFLATION UNDER THE DELAYED TRANSITION SCENARIO, WITH THE REMIND-MAGPIE AND MESSAGEIX-GLOBIOM MODELS**



A strategist then translates the economic forecasts of the two scenarios into market variables to establish average changes to, and uncertainties on, short and long-term rates in France and the United States, the risk premiums of the various bond assets and equity valuations.

Two financial engineers incorporate into these forecasts hazards, determined with reference to historical distributions and deterministic choices, and insert them into models used to determine the distribution of various factors. These models include the Diebold-Li interest rates model (based on Nelson Siegel's factors), the Black-Karasinski risk premiums model and the Campbell-Shiller equities model. Finally, factor distributions are used to obtain asset class performance distributions. Combined with the FRR's financial position (assets and liabilities, timeline) and its utility (management objectives and risk aversion), they will produce the optimal portfolios for presentation to the Executive Board and recommendation to the Supervisory Board.




The coloured boxes represent "input assumptions".



These optimum portfolios are split between the FRR's various asset classes, forming two groups[7]:

- hedging assets, more or less correlated with liabilities, with low expectation of performance and risk (Government bonds including liability matching - OAT, liquid assets, investment grade corporate bonds denominated in euros and dollars); and
- performance assets, with high expectation of performance and risk. This category in fact includes two subgroups: developed and emerging market equities on the one hand, with the highest expectation of performance, and, on the other hand, intermediate risk assets (high yield corporate bonds, emerging market bonds, option-hedged developed market equities).

Optimum strategic allocations enable the FRR to achieve its objectives:

- meeting its payment obligations to CADES: 2.1 Bn€ per year from 2022 to 2024, then 1.45 Bn€ from 2025 to 2033. Satisfying this duty involves a very low probability, over the long-term, of insufficient funds. Thanks to the allocation adopted in 2022, this risk has become very low over the long-term and even below 0.1% as from 2027, due in particular to the "return-to-average" effect seen in performance assets.
- achieving a worthwhile return and in particular greater than the cost of French national debt. A significant proportion (70%) of the performance assets included in the 2022 strategic allocation satisfies this ambition. Since the introduction of the assets-liabilities management model at the end of 2010, the FRR has generated for the State an additional value (compared to the cost of its debt) of 11.3 Bn€ as of 31/12/2022.

Finally, on its strategic allocation the FRR superimposes tactical bets, decided by the Executive Board based upon macroeconomic and market forecasts over a short/medium term timescale. The department is also working on developing quantitative tools to assist in tactical management. Tactical bets are mostly implemented via derivatives through the FRR's overlay managers supervised by an overlay investment director.

## Highly diversified allocation implementation

### Selection of indices

All indices are also selected in line with the Asset Allocation Department's recommendations.

A significant proportion of the investments made in developed market equities are through index management aimed in particular at alignment with the Paris Agreement. Unlike passive equities management, all indices are non-capitalisation weighted "smart beta" type indices. Their goal, in the medium to long term, is to outperform the standard capitalisation-weighted indices.

The FRR's other investments are implemented through active management. The selected managers are required to outperform the benchmark indices over the medium/long term. Nowadays, these are all capitalisation weighted and selected by the department depending on their method of construction, representativity among managers or cost to the FRR.

7. The FRR's unlisted assets are a hybrid of these two groups.

• **Manager selection**

The FRR's investments are then made entirely through investment service providers, with the exception of day-to-day cash management. "Portfolio" investments comprise management mandates, awarded by request-for-proposal process, or OPC (UCI) chosen after a rigorous selection procedure. Service providers are selected by the Delegated Management and Responsible Investment Department, whose 11 employees are responsible for selecting managers for the purpose of implementing the adopted asset allocation, overseeing and reporting on the investments, defining and implementing ESG policy and, finally, manage the FRR's treasury. Two individuals, specifically assigned to the request-for-proposal process, work alongside five investment directors specialized by asset class with the aim of selecting the best proposals. They are assisted by two portfolio analysts who perform quantitative analyses on portfolio performance drivers and risk indicators and produce highly refined financial and extra-financial internal reports, and an SRI officer who evaluates service providers' SRI processes. The department relies upon all of the expertise of the FRR.

The analyses are then submitted for the opinion of the Manager Selection Committee, composed of independent experts from outside the FRR, and chaired by a member of the Executive Board.

Two specific transversal or "Overlay" management mandates are used to hedge the FRR's foreign exchange risk and, via investments in simple derivatives (stock or bond index futures traded on a regulated market), to adjust the allocation without intervening in the management of the securities portfolios or putting in place option hedging strategies on regulated markets.

A number of asset classes (emerging market debt, emerging market equities, high-yield corporate bonds, unlisted assets and monetary management) are invested in via mostly actively managed OPC (UCI).

The FRR's portfolio consists of both index replication management mandates and active management mandates seeking consistent relative outperformance.

The aim of this management mandate "core-satellite" approach is to guarantee exposure to the main markets, at the lowest possible cost, with selection risk focused primarily on active strategies deemed best positioned to reward it. As of 31 December 2022, around 59% of the FRR's total net assets and 65% of its equity investments are actively managed.





## Requests for Proposals in 2022

The year 2022 was busy in terms of news on requests for proposals (RFP) resulting in the launch and finalisation of a number of significant tenders for the FRR's investment management.

### Finalised

First, in April, the FRR finalised an open request for proposals by selecting **two investment service providers specialising in transition management.** Their main responsibility is to make a number of investments or divestments necessary to build or modify the portfolios managed by the asset managers. Their aim is to reconfigure the portfolios in line with the wishes of the FRR's asset managers, to reduce the overall costs normally associated with these operations.

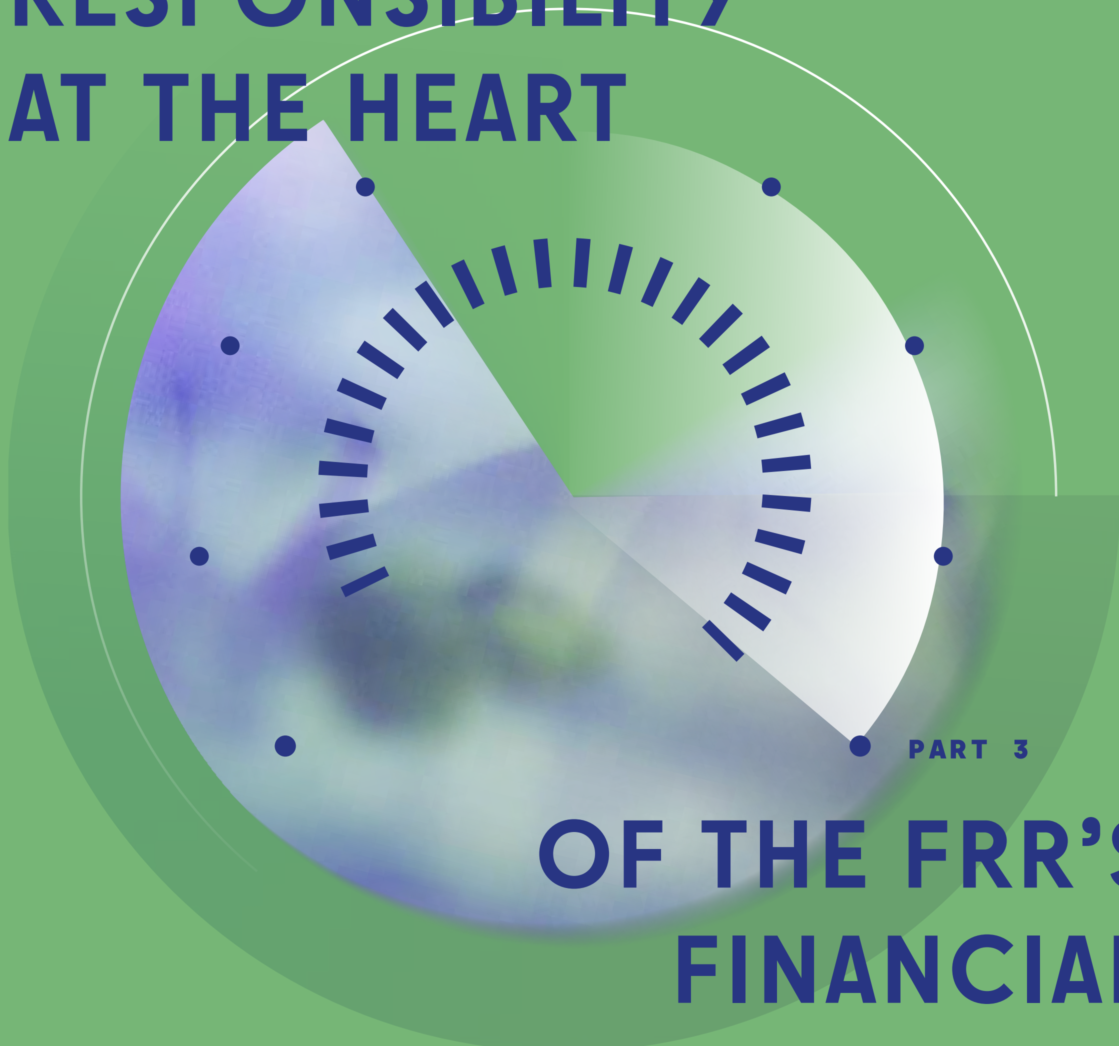
In May, the FRR then finalised the selection of **three managers for "responsible active management mandates: investment grade corporate bonds issued in dollars"** benchmarked against the "Bloomberg Barclays US Intermediate Corporate" index for an indicative amount of 2.5 Bn€.

### Launches

Furthermore, in January 2022, the FRR launched a procedure for the selection of one or more managers in relation to responsible active management **mandates for high yield corporate bonds issued in dollars** with an indicative asset value of 1.5 Bn€. The contract concerns the selection of a maximum of five managers capable of actively managing high yield corporate bonds issued in dollars benchmarked against the "ICE BofA US High Yield Constrained Index". The final selection of the managers under this request for proposals is earmarked for January 2023.

Finally, in October 2022, the FRR also launched a request for proposals relating to the selection of a maximum of five managers for a **European small and medium capitalisation equities responsible active management mandate.** This restricted request for proposals has an indicative asset value of 450 M€. For this mandate, the final selection of managers will take place at the end of 2023.

# RESPONSIBILITY AT THE HEART OF THE FRR'S FINANCIAL MANAGEMENT



PART 3





## 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 FRR 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.

### SRI 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 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.

**The 4 pillars of the SRI Strategy for the period 2019-2023**

**1.** Integration of new standards (derived from best practices and regulatory developments)

**2.** Expansion of responsible aspect of investment

**3.** Acceleration of energy transition

**4.** Action on asset management ecosystem

## 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 PRI
CDP membership
Approach to assessing the 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 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 textiles sector

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

**2017**
Signing of French public investors climate charter
loined CDP FOREST CA100+ and IIGCC

**2017**
Joined CA100+
Joined IIGCC

**2017**
Signing of 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 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 French public investors SDG charter
"Women's Empowerment Principles" collaborative initiative
Signing of "Gender Initiative* declaration

**2019**
Membership of "Net zero asset owner initiative"

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

**2022**
Support for IIGCC Net Zero Commitment initiative

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





# 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 many engagement initiatives, both internationally and nationally. It has been among the founders of some of the most structural of these initiatives (notably the 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 | Environmental initiatives | Societal initiatives | Governance initiatives |
|---|---|---|---|
| PRI Principles for Responsible Investment | CDP | Women's Empowerment Principles | ICGN |
| 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 | | |

## GLOBAL 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 2022, there were more than 5,300 PRI signatories, representing a total of around 113,000 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

### 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 2022, it was backed by 680 investors representing 121,000 Bn€ in assets, and more than 13,000 international listed companies responded to their questionnaires on climate change, water and forests.

### Net-zero asset owner alliance – 2009

In November 2019, the FRR joined the Net-Zero Asset Owner Alliance. This alliance brings together 84 global investors, representing 10,300 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.

### Climate action 100+ – 2017

Climate Action 100+ is the largest collaborative initiative on engagement in climate change. At the end of 2022, 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 168 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.

### 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 2022, this initiative had received the support of more than 375 investors, representing 56,000 Bn€ in assets under management.

### 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 cosigned this statement, an initiative of the Forum for Responsible Investment, which has three aims:

- to publish investors' expectations on the "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.

Climate Action 100+ has increased the scale and significance of climate engagement, with 166 companies targeted. However, many more companies need to be engaged for portfolios to align with net zero.

This new engagement initiative will initially target a minimum of 100 significant GHG emitters with a primary focus on demand and small businesses in the supply chain that are critical to the overall transition to net zero. The IIGCC has drawn up an initial list, investors who sign up for the initiative may propose others.

Letters will be sent to targeted companies in early January 2023, marking the public launch of the initiative.

### Statement ahead of TotalEnergies' 2022 AGM as part of Climate Action 100+

The FRR co-signed a letter addressed to TotalEnergies prior to the presentation of its "Sustainable Development and Climate" progress report 2021 . This letter was structured around three requests from investors to the company:

- publication of scope 3 upstream targets aligned with a 1.5°C scenario
- alignment of the company's published targets with a 1.5°C scenario
- publication of more granular CAPEX to better understand how it aligns with a 1.5°C scenario.



## INITIATIVES ADDRESSING SOCIETAL ISSUES

### 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

### International Corporate Governance Network (ICGN) – 2014

The ICGN is an international organization of governance professionals whose goal is to inspire and promote international standards of corporate governance. These improvements help companies perform more sustainably and increase transparency.

For this purpose, the ICGN has various committees which reflect upon adopting best corporate governance practices. Having for 6 years sat on the Board of Directors of ICGN, the FRR has been involved in defining rules of good conduct the practical implementation of which is evident in the request-for-proposal mandate contracts.

### 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.

## THE VOTING GUIDELINES HAVE BEEN UPDATED IN 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 their 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.

## INTEGRATION OF NEW STANDARDS

Since the 2021 financial year, the FRR has published a Sustainability Report pursuant to Article 29 of the Energy and Climate Law (LEC) of 8 November 2019. This is voluntary, since the FRR is under no obligation to publish such a report. This article 29 integrates regulatory changes and experience derived from best market practices:

- The European Sustainable Finance Disclosure Regulation (SFDR), including in particular the incorporation of the concept of "double materiality": the potential risks of ESG criteria on investments/Main Negative Impacts of investments on sustainability factors (Principle Adverse Impact – PAI);
- The EU Taxonomy Regulation on sustainable activities, which partially entered into force at the beginning of 2022;
- The TCFD recommendations[8].

Article 29 of the LEC also contains a number of provisions specific to France:

- Details on the integration of ESG factors into risk management frameworks, with a focus on climate and biodiversity related risks;
- Publication of strategies to align with the temperature targets of the Paris Agreement, as well as with the long-term international objectives on biodiversity conservation;
- Evolution of the "comply or explain" principle towards a requirement for a continuous improvement plan with setting of targets and corrective measures.

8. TCFD (Task Force on Climate-related Financial Disclosures): working group on financial transparency of climate risks.

## ACCELERATING ENERGY TRANSITION

While maintaining an essential level of vigilance on all other ESG issues, responding to the climate emergency is one of the FRR's priorities. Membership of the Net Zero Asset Owners Alliance commits the FRR to alignment with the Paris Agreement, using three levers:

- Adopting ambitious targets for reducing portfolio greenhouse gas emissions
- Pursuing engagement initiatives to encourage companies to adopt strategies for alignment with the Paris Agreement, via its managers but also through collaborative initiatives such as the Climate 100+
- Contributing towards the financing of energy transition, by continuing to make a long-term contribution to creating of a net zero economy through "financing the transition".

### 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% by 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 has already reduced emissions by 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 set target is absolute and not relative to benchmark, 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, ongoing requests-for-proposals will include more ambitious targets.

### Award of mandates with decarbonisation targets for credit and equities mandates

In 2022, the FRR awarded three responsible management equities index replication mandates to be managed in a manner consistent with the Paris Agreement and a further three in US dollar-denominated investment grade corporate bonds. The FRR is pursuing its commitment to integrate into its management a responsible dimension, regardless of the asset class. The FRR has explicitly stated in these mandates that the selected candidates must, amongst other things, factor climate change issues into their management, including reducing $CO_2$ emissions, contributing to ecological and energy transition and alignment of portfolios with a 1.5°C trajectory. These mandates, managed by 6 managers, launched in January and May 2022 with the target of reducing emissions, compared to their respective benchmarks, by 50% for equities mandates and 40% for bonds mandates.



### 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, the FRR now seeks decarbonisation in absolute terms.

The "US dollar high yield corporate bonds" mandate launched at the beginning of 2022 has a twin objective: resume the efforts made by the FRR in terms of decarbonization from the launch of the mandates, and pursue the decarbonization approach by continuing to reduce the carbon emissions of portfolios with ever more ambitious carbon footprint reduction targets (-35% at the launch of the mandate and -60% by December 2028).

The implementation of this decarbonization approach was not new for bonds portfolios, however it now had to be applied to a specific asset class with its own challenges such as the composition of the highly energy sector-focused investment universe or the transparency and quality of data that still need to be improved.

During the RFP procedure, the FRR noted significant developments occurring in terms of decarbonisation in the target asset class. The asset management companies have shown great and often true expertise on this crucial topic of the FRR's responsible investment policy.

The aim is to select in early 2023 between three and four managers for this asset class with mandates to be activated in the first quarter of 2023.

The 3 mandates selected under the RFP to renew the strategy of equity index replication for management consistent with the Paris Agreement were activated in the first semester 2022. The initial results sought such as overweighting of the green share, increasing the number of companies with validated Science Based Target Initiative (SBTi) commitments, reduced physical and transition risks and indeed overweighting of companies with 1.5° C scenario trajectories, are conclusive. The portfolios are delivering a financial performance close to that of their benchmark, whilst at the same time controlling risks and considerably improving the ESG characteristics of the portfolios.

The mandates devoted to the Investment Grade credit market also include decarbonisation requirements. The Investment grade corporate bonds EUR activated in October 2021, requires decarbonisation of -30% by mid-2024, whereas their US equivalents activated in July 2022 have a target set at -40% from the outset.

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 31/12/2022, the reduction in carbon emissions on the HY EUR compartment is -25% compared to the benchmark level upon activation.

At the end of December 2022, 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 underexposure to the most intensive sectors.

Finally, the last request for proposals launched in 2022 to renew the European small capitalisation equities responsible active management mandate falls within the second phase of the NZAOA targets for 2029. The selected managers must therefore, over the duration of their mandate, achieve a reduction in emissions of up to 75% compared to 2019 levels.

**TABLE OF DECARBONATION REQUIREMENTS BY ASSET CLASS**

| | Goal at start up | Final goal |
|---|---|---|
| Equity index replication for management consistent with the Paris agreement | -50% | -50% |
| Euro denominated investment grade corporate bonds | -0% | -30% before June 2024 |
| Dollar denominated investment grade corporate bonds | -40% | -40% |
| Euro denominated high-yield corporate bonds | -0% | -30% before June 2024 |
| Dollar denominated high-yield corporate bonds | -35% | -60% before December 2028 |
| European small and mid-cap equities (in progress) | -40% | -75% before December 2028 |

### Exclusion of the most pollutive companies

In addition to dialogue with companies, and financing for activities that promote energy transition, the FRR decided, as from 2017, to exclude from its portfolios companies whose thermal coal extraction operations or generation of electricity, heat or steam using coal exceeds a threshold initially set at 20% of their revenues then reduced to 10% in 2018 in order to commit even further towards a low carbon intensity economy.





# MAIN CLIMATE INDICATORS

### Measuring carbon footprint

In 2007, and for the first time, the FRR calculated 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 a number of its portfolios, the FRR now measures the carbon footprint of its mandates and funds annually.

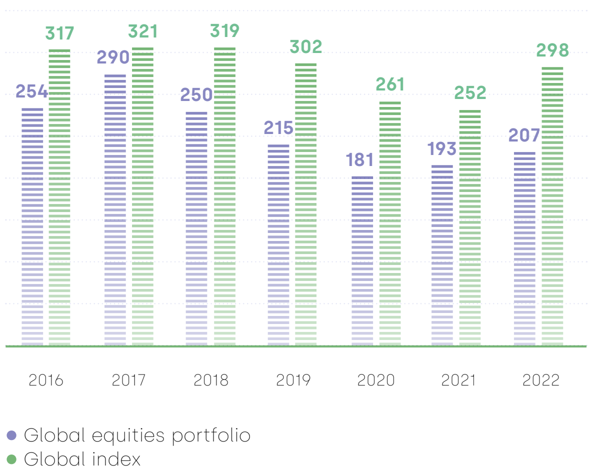
The assessment, carried out by S&P Global Sustainable 1, covers the emissions generated by the operations of companies and their direct suppliers. Carbon emissions are estimated by weighted average carbon intensity (or WACI) and expressed in tonnes equivalent $CO_2$ per million euros in revenue, which is the preferred method in the TCFD recommendations and workings of the Net Zero Asset Owner Alliance.

At the end of 2022, the weighted average carbon intensity (WACI method) of the companies within the FRR's global equities portfolio totalled 207 tonnes equivalent $CO_2$ per million euros in revenue. This was 31% below the FRR's benchmark index. From 2016 to 2022, the carbon footprint of the FRR's portfolio's representative benchmark had fallen by 6% compared to the FRR's portfolio which had fallen by 18% (or around 3% per year).At the end of 2022, the weighted average carbon intensity (WACI method) of the companies within the FRR's global equities portfolio totalled 207 tonnes equivalent $CO_2$ per million euros in revenue. This was 31% below the FRR's benchmark index. From 2016 to 2022, the carbon footprint of the FRR's portfolio's representative benchmark had fallen by 6% compared to the FRR's portfolio which had fallen by 18% (or around 3% per year).

### CARBON FOOTPRINT OF THE EQUITIES PORTFOLIO

The graph opposite shows changes in the carbon footprint of the Global Equities portfolio in tonnes equivalent $CO_2$ per million euros in revenue[9].

**WACI CARBON INTENSITY (TEQ$CO_2$ / M€ REV) DIRECT EMISSIONS AND DIRECT SUPPLIERS** – Source: S&P Global Sustainable 1



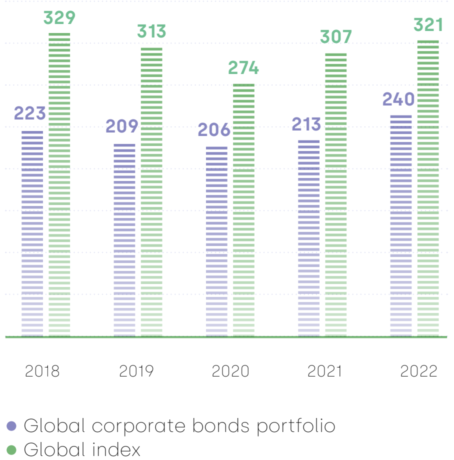

9. Source: S&P Global Sustainable 1.

The table below compares the total decarbonisation of the FRR's equities portfolios between 2016 and 2022. There is a strong trend in the decarbonization of the Developed Equities portfolio compared to the Emerging Equities portfolio. Note, however, the significant decrease in the latter between 2021 and 2022: -12% for the Emerging Equities portfolio and its benchmark whilst, over the entire period, the decarbonization of this portfolio was -6% with its benchmark still increasing by +13%.

| Portfolio / Index | Decrease in intensity (C/R method) 2016-2022 |
|---|---|
| Global Equities Portfolio | -23% |
| Composite Equities Index | -8% |
| Developed Markets Equities Portfolio | -23% |
| Developed Markets Equities Index | -10% |
| Emerging Markets Equities Portfolio | -6% |
| Emerging Markets Equities Index | +13% |

## CARBON FOOTPRINT OF THE CORPORATE BONDS PORTFOLIO

**WACI CARBON INTENSITY ($TEQCO_2$/M€ REV) DIRECT EMISSIONS & DIRECT SUPPLIERS –**
Source: S&P Global Sustainable 1




The graph above 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 2022, the carbon footprint of the FRR's Corporate Bonds portfolio totalled 240 tonnes equivalent $CO_2$ per million euros in revenue. This was 25% below the benchmark. From 2018 to 2022, the carbon footprint of the benchmark fell by 2.5% compared to the portfolio's, which increased by 7.6%.

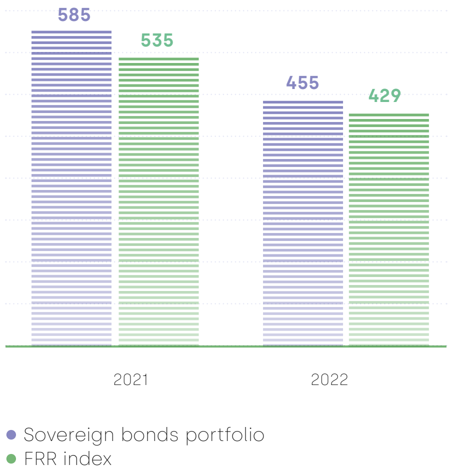
## CARBON FOOTPRINT OF THE SOVEREIGN BONDS PORTFOLIO

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: 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 graph shows the weighted average carbon intensities of the portfolio and its benchmark: 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 can be explained by the overweighting of emerging countries in the FRR's portfolio (40.4% for the portfolio compared to 37.2% for the benchmark). This is the result of asset allocation decisions within the hedging portfolio.

**WACI CARBON INTENSITY ($TEQCO_2$ /M€ GDP)**



## Assessment of the engagement in climate initiatives in 2022

### At mandate level

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 2022 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. Certain managers have in 2022 also signed collaborative initiatives promoting sustainable investment policy.

**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 credit 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.

### At FRR level

#### Collective engagement initiatives

Climate Action 100+, the largest investor engagement initiative on climate change, continued developing in 2022. With 85 new investors, Climate Action 100+ now has more than 700 signatories representing 68,000 Bn$ in assets under management.

These investors engage in dialogue with 166 of the world's largest listed private issuers and drive 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 investments allocated thereto, climate governance, fair transition and following of the TCFD's recommendations.

The 2022 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 75% compared to 50% a year ago,
- 91% of the companies now follow the TCFD recommendations compared to 72% the previous year.

However, these positive developments on the stated objectives and transparency must not hide 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 19% of targeted companies communicate quantified plans.

Publishing emission reduction targets in the short and medium term remains in the minority (21% and 12% of companies respectively).

Finally, the alignment of investments with stated ambitions remains marginal: 1% of companies fully meet this criterion and 9% only partially.

#### Engagement actions undertaken at the FRR's initiative

As part of the NZAOA, the FRR has asked two managers to engage with a selection of portfolio companies. The 27 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 of these engagement initiatives 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 also makes possible a comparison between a company's level of progress on various matters: neutrality targets, decarbonisation strategy, alignment of capital expenditure, climate lobbying, climate governance, fair transition and compliance of reporting with TCFD recommendations.

# CONTINUED FINANCING OF ENERGY AND ECOLOGICAL TRANSITION

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. A number of portfolios overweight companies whose energy transition policy has been validated by the Science Based Target Initiative. Various 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.

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 portfolios.

## Green bonds

The FRR's financing of energy transition is also reflected in practical terms by investment in Green bonds in dedicated Investment Grade Credit and High Yield Euro and US Investment Grade mandates.

At the end of 2022, Green Bonds represented an amount of 464 M€ which is equivalent to 2.17% of the FRR's total assets and 7.76% of credit mandate assets (vs 6.2% at the end of 2021).

More specifically, 12.2% of the assets of the Euro Investment Grade Credit mandates falls within this bonds category compared to 8.9% in 2021 and 11.5% for their benchmark. The weighting is 1.50% for US Investment Grade Credit mandates, whereas the benchmark has 1.69%. Finally, the Euro High Yield mandates hold 5.83% of green bonds compared to 5.4% in 2021 and 6.21% for their benchmark.



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

## Infrastructure investment contributing to energy transition

The FRR has committed a total amount of 485 M€ to infrastructure aimed mainly towards financing energy transition. 426 M€ has been called of which 85 M€ in 2022 for a total infrastructure asset value of 560 M€.

## Private equity: Investments in innovative biotechnologies contributing to energy and ecological transition

The FRR's selected funds and innovation capital mandates finance breakthrough innovations, a number of which combat climate change and contribute to preserving the environment such as:

- Seacure, established by Truffle Capital, which designs and markets innovative solutions to combat coastal erosion and protect coastal marine structures and offshore structures. These solutions are based on a patented electrochemical process that respects the environment to produce in situ Geocoral, an artificial rock made from minerals present in marine environments and therefore has excellent compatibility with aquatic life forms, thus preserving the biological diversity of marine environments.
- Ynsect, a company founded in 2011, whose aim is to revolutionize human, plant and animal food by transforming insects into ingredients, against a background where global consumption of animal protein is expected to increase sharply by 2030. The company is in the process of finalizing the construction of a 45,000 m² vertical farm near Amiens.

## Investment in 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 extension of the existing city, thus limiting urban sprawl.

More than 70% of the built properties have an energy consumption of 13 to 30% below regulatory requirements. More than 68% of these projects are certified (NF Habitat – NF Habitat HQE™ or equivalent).

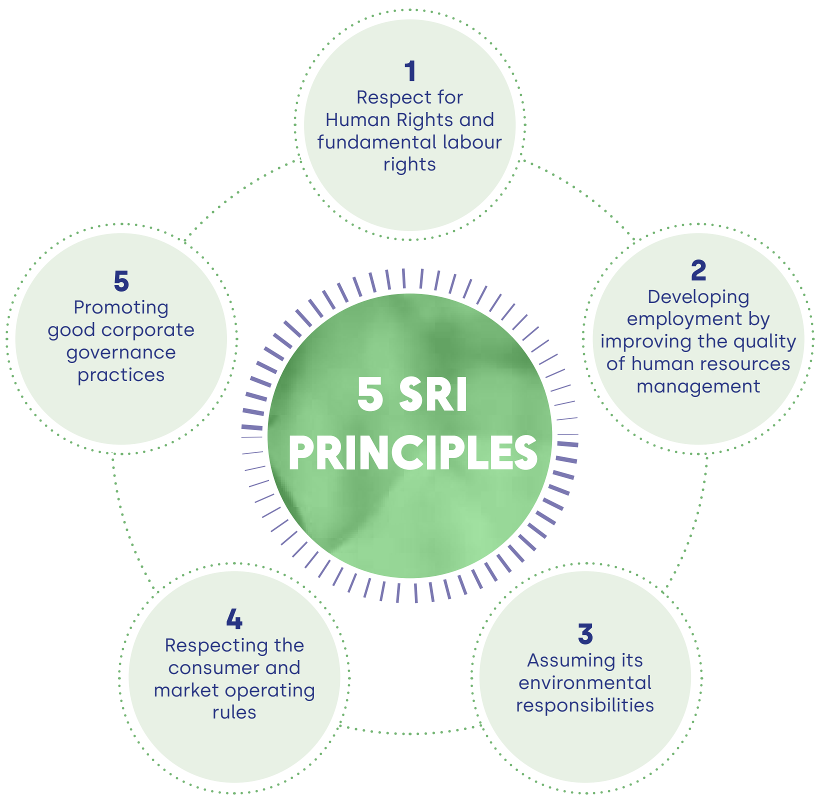
Given the aim of achieving sustainable investment through building intermediate housing, the FLI fund was classified as a product meeting the requirements of Article 9 of the SFDR Regulation.

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".

# EXPANDING THE RESPONSIBLE ASPECT OF INVESTMENT

## FACTORING ESG ISSUES INTO INVESTMENT

Regardless of the asset class, the FRR's management mandates, following a selection process that places ever increasing emphasis on ESG, require the FRR's managers to factor its responsible investment strategy into their management, in particular by systematically integrating ESG analysis into the issuer selection process, and by exercising voting rights and through dialogue and reporting thereon at biannual management committee meetings as well as in the annual reports. Companies' ESG assessments are conducted in accordance with the FRR's five SRI principles.








## SUPPORTING BUSINESSES ON ESG MATTERS

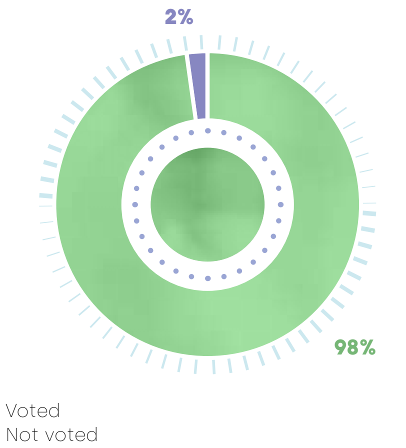
### Exercise of voting rights

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.

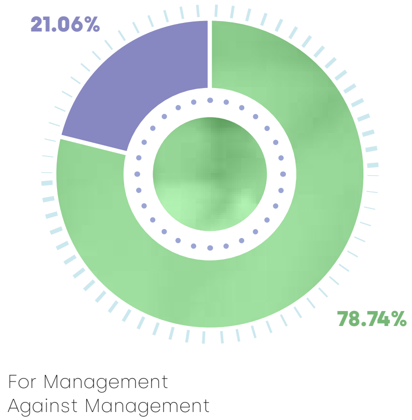
The guidelines on the exercise of voting rights incorporate all of the elements specific to the FRR but must be sufficiently wide to also account for jurisdictional particularities (both in France and internationally). The FRR's aim is to capitalise on managers' knowledge and ability to respect the practices in force 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.

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 2022 enabled it to participate in 1511 shareholder general meetings and to vote on more than 20,000 resolutions in the countries comprised in its developed markets equities portfolio. Its managers took part in 98% of voting general meetings.

NUMBER OF GM VOTED AT IN 2022




The FRR's Managers voted on resolutions proposed by management at general meetings at a ratio of 78.7% FOR and 21.3% AGAINST.




In 2022, disagreements over director appointments increased significantly, from 12% of votes against resolutions presented by management to 31%. Resolutions on compensation accounted for 23%, down from 27% in 2021.

Note also a significant number of resolutions on exceptional executive compensation and climate, diversity and inclusion. Resolutions on "Say on Climate" continued to rise: 55 companies submitted resolutions on this topic (vs 11 in 2021). Shareholder demands translate into a level of support that tends to decrease.

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.

### Assessment on exercise of voting rights under equity index replication mandates for management consistent with the Paris Agreement

Equity index replication strategies for management consistent with the Paris Agreement optimize portfolios based on advanced extra-financial criteria, dialogue with companies on various sustainability topics and implement the FRR's responsible voting rights policy.

The managers of these mandates took part in nearly 700 general meetings and voted on more than 12,000 resolutions, including around 300 shareholder resolutions in 2022. On average, managers voted against 25% of the resolutions reviewed, a level similar to 2021. The votes against mainly concerned compensation, the appointment of directors deemed not sufficiently independent or cumulating too many corporate officer positions or authorising changes to share capital.

One of the major themes also in 2022, as in previous years, was energy transition and emitters' decarbonisation trajectories. All of the managers highlighted the increasing number of so-called "Say on Climate" (SOC) resolutions. This new vote on corporate climate strategy expanded in 2022 to numerous companies and the inclusion of "Say on Climate" on general meeting agendas allowed managers to express themselves more clearly on this topic. Management companies nevertheless stress that the developing importance of SOC at general meetings requires them to be more demanding on such resolutions by strengthening their analytical framework. This approach has led to varied, case-by-case voting on climate strategies submitted to shareholders. Indeed, managers' high expectations on this topic explain why they supported on average only 30% of SOC resolutions.

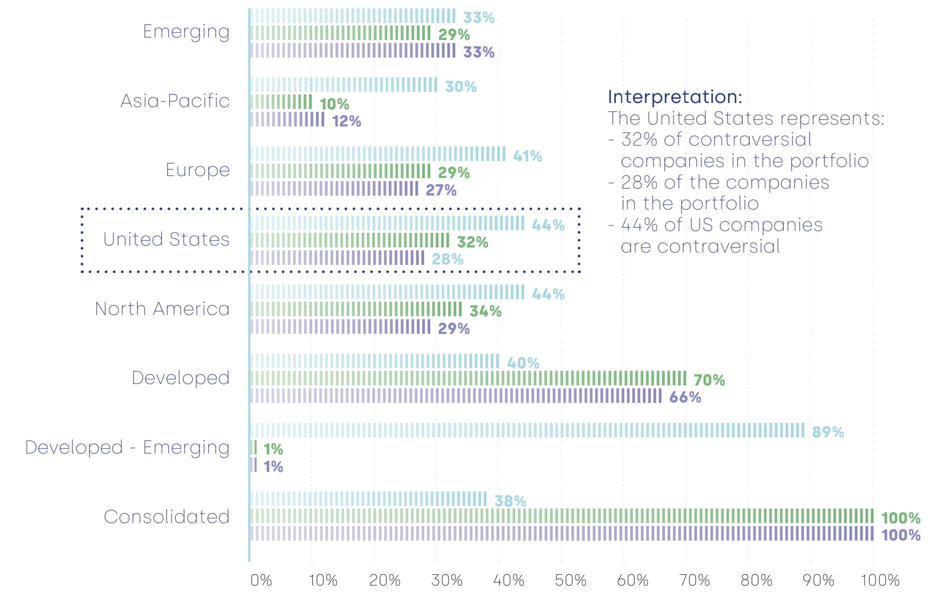
### Assessment on engagement initiatives in 2022 (non-climate related):

Extra-financial risks may arise from a company's failure to comply with universally recognized principles such as the United Nations Global Compact, good governance practices or under international treaties ratified by France. This is why the FRR's portfolio is analysed each year by a third party. For this purpose, it has selected Moody's ESG Solutions (formerly Vigeo Eiris). It identified, in the FRR's equity and bonds portfolios, 139 companies involved in one or more controversies of critical or high severity. This number remains relatively stable compared to 2021 (137).





**BREAKDOWN OF CONTRAVERSIAL COUNTRIES BY ZONE/COUNTRY**




Based on the report received at the end of 2021, the FRR selected, for its 2022 dialogue plan via its managers, the following list of companies: BUNGE LTD, CHARTER COMMUNICATION, EASTMAN CHEMICAL CO, INDIVIOR PLC and JUST EAT TAKEAWAY.COM NV. The FRR has engaged in dialogue with 6 of its managers on these 5 controversial companies.

This 2022 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 2022 dialogue campaign: Managers have clearly identified the controversies and are in dialogue with companies on one in three cases. In the other cases, they took the view that dialogue was unnecessary given the types of controversies involved. This increased selectivity may, however, be perceived as a high level of maturity on the part of asset managers in their dialogue activities rather than a withdrawal from these matters. Indeed, they are engaging with an increasing number of companies and teams are strengthening their engagement activities.

### Engagement activities in Investment Grade credit

The mandates currently managed on behalf of the FRR on European and American investment grade credit require the submission of a specific half-yearly report on various topics, and, in particular, on the engagement initiatives entered into with certain portfolio issuers.

As part of the information required by the FRR, management companies must indicate the number of issuers in the portfolio engaged with, specifying the areas covered by the engagement and whether it is a direct form of engagement or via a collective initiative.

### 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 2022, the jury included an FRR team member.

### Exclusions policy

The FRR has established exclusion criteria 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 such as the International Corporate Governance Network (ICGN),
- activities that do not comply with certain international conventions ratified by France, in particular those on non-conventional weapons and tobacco, or companies whose registered office is in a country 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.

These controversial practices and activities are analysed by Moody's.

Regarding controversial practices, the analysis covers 95.2% of the capitalisation of the consolidated portfolio (equities and bonds). 3,295 companies are analysed out of 5,582 in the portfolio. 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, frequently or persistently associated with a lack of reactivity on their part. This figure remains fairly stable (137 the previous year). As in 2021, US companies, and the financial and telecoms/media sectors remain over-represented as far as these controversy levels are concerned. This analysis was used to prepare the list of companies for the 2022 dialogue campaign.





Excluded non-conventional weapons include anti-personnel mines (banned by the Ottawa Convention in 1997, signed by 164 countries[10]), cluster munitions (banned by the Oslo Convention in 2008, signed by 108 countries[11]), chemical weapons (Chemical Weapons Convention 1992) and biological weapons (Biological Weapons Convention 1972). Each year, the FRR publishes an exclusion list validated 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.

In 2022, 15 companies identified in the FRR's investment universe are placed on the exclusion list:

| COMPANY | COUNTRY |
|---|---|
| ANHUI GREATWALL MILITARY INDUSTRY CO., LTD. | CHINA |
| ANHUI MILITARY INDUSTRY GROUP HOLDING CO. LTD. | CHINA |
| ARYT INDUSTRIES | ISRAEL |
| BHARAT DYNAMICS | INDIA |
| CHINA AEROSPACE SCIENCE & TECHNOLOGY CORP. | CHINA |
| HANWHA AEROSPACE | SOUTH KOREA |
| HANWHA CORP | SOUTH KOREA |
| KCP | INDIA |
| LIG NEX1 | SOUTH KOREA |
| LOCKHEED MARTIN | UNITED STATES |
| NORTHROP GRUMMAN | UNITED STATES |
| PREMIER EXPLOSIVES | INDIA |
| SOLAR INDUSTRIES INDIA | INDIA |
| TEXTRON | UNITED STATES |
| UNITED ENGINE CORP. JSC | RUSSIA |

The tobacco exclusion 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 development in that it develops a strategy to regulate addictive substances. Unlike previous drug control treaties, the

10. Other than the United States, Russia etc.
11. Other than the United States, Russia etc.

Framework Convention affirms the importance of demand reduction strategies as well as supply reduction strategies.

### The portfolio's ESG score

An analysis of the FRR's global equities portfolio at the end of 2022 highlights an average ESG score of 46.8/100, a slight improvement compared to the end of 2021 (+0.8) and 2.5 points above its benchmark. This performance can be ascribed to the implementation of its responsible investment policy in the FRR's mandates.

This trend is the result of an improvement in the ESG score throughout the equities portfolios. The most improved portfolio is the emerging markets equities portfolio, which has increased from 33.6 to 38.1.

Regarding the corporate bonds portfolio, the average ESG score has increased by 2.7, rising from 45.5 to 48.2, with a more slight increase for the benchmark (from 47.3 to 48.3).

# FINANCING THE FRENCH ECONOMY: AN INTER-GENERATIONAL SOCIAL RESPONSIBILITY

### France's weighting as a proportion of the FRR's assets

Acting as an instrument of solidarity between generations, a long-term investor and an actor managing public funds for the collective benefit, the FRR is increasing its efforts little by little each year to support French companies. In this way it contributes towards consolidating the equilibrium of the social security system through the jobs created and income generated by the companies it supports.

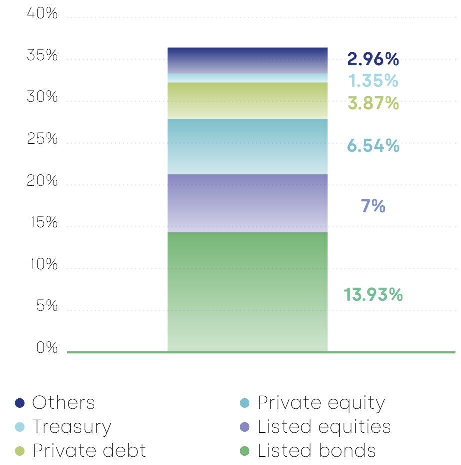
As of 31 December 2022, France's weighting as a proportion of the FRR's investments amounted to 32.9% and reaches 35.7% taking into account investments in futures, which represents an increase of 3.2% compared to the previous year.

For the purpose of balancing the social security system and in particular to fund the Caisse d'Amortissement de la Dette Sociale (CADES) each year, the FRR was required to divest a portion of its assets in an amount of 2.1 Bn€. Like the previous year, besides part of its liability matching mandate, the FRR preferred not to sell its mandates directly invested in France, but rather to reduce its euro and dollar denominated investment grade bonds mandates, together with its Eurozone equities mandates in particular.

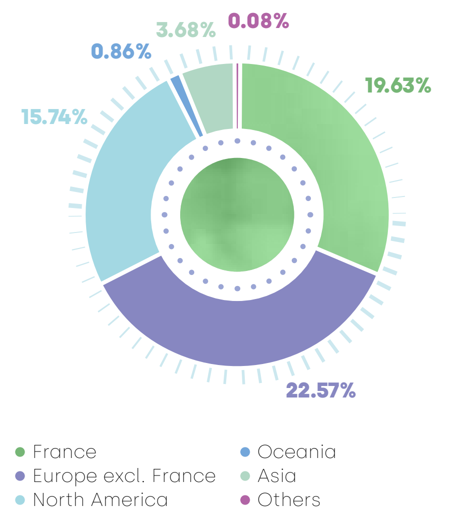




**SUPPORT FOR THE FRENCH ECONOMY AS % OF FRR'S TOTAL INVESTMENTS AT 31/12/2022**




**GEOGRAPHICAL BREAKDOWN OF THE FRR'S MANDATES (EXCLUDING FUNDS) AT 31/12/2022**




At 31/12/2022, 42.2% of the FRR's investments through mandates are made in Europe, and France in particular (19.6%). In terms of distribution per asset class (cf. chart opposite), a major proportion of the investments made in France derive from the following five types of mandates:

- Liability Matching (1.8 Bn€)
- Optimised management consistent with the Paris Agreement (897 M€)
- Euro investment-grade credit (551 M€)
- Small Cap France (495 M€)
- Euro High Yield credit (369 M€)

### Financing French SME and ISE: a primary objective

**Listed shares of small and medium-sized French and European companies**

The FRR's 2022 asset allocation increased the proportion of performance assets by 70%. However, due to the reduction in the asset base following the payment to CADES, it has been necessary to make adjustments in various asset classes.

To this end, European small-cap mandates were sold for an amount of 140 M€ in June 2022.

This asset class, dedicated to French and European companies, represents 5.43% of the FRR's total assets at the end of 2022.

Worthy of note during this year are a number of standout transactions made by various small capitalisation companies held in these mandates such as the **Manutan takeover** (family group established in 1966 specialising in commercial distribution), launched by its founders, **attracting a premium of 51.1%,** or indeed the **friendly takeover in July by the KKR fund of Albioma,** a French renewable energy producer, which also **attracted a premium of more than 50%** on the price prevailing before rumours of this transaction emerged.

**Private equity**

Private equity supports the growth and development of unlisted businesses, by providing the necessary capital to accompany start-up (innovation capital), to help grow (growth capital) and to contribute towards business transfer (buyout capital).

This capital support helps strengthen companies in their markets and promotes their development, particularly internationally. This contributes towards job creation and helps national champions emerge.

Indeed, by the end of 2022, more than 1.1 Bn€ was committed to private equity funds in the buyout capital, innovation capital and growth capital segments targeting French companies, thus supporting their development and job creation in France. These include:

- 315 M€ in innovation capital, of which 67% on average has been called contributing to the financing of young innovative companies from the earliest stage of their development in the digital (low-tech and deep tech), biotechnology, medtechnology and fintechnology sectors;
- 290 M€ in tech growth capital as part of the Tibi initiative, of which an average of 48% has been called;
- 415 M€ in development/buyout capital of which an average of 61% has been called and used for the most part to finance SME in their expansion strategy;
- 400 M€ in private equity through funds of funds, of which an average of 63% has been called and is invested in medium-sized development/buyout capital funds for French, mostly regional, SME and ISE.

The deployment of these funds and mandates has continued, with an average call rate having increased to 60%.

Since 2020, the FRR is also participating in two market initiatives put in place at the beginning of the Covid 19 health crisis, one relating to tourism and the other to health, through two market funds dedicated to supporting these sectors (the Nov Santé and Nov Tourisme funds). These initiatives form part of a huge 2.2 Bn€ programme.

Nov Tourisme Fund:

The Nov Tourisme Fund represents a commitment of around 170 M€ intended for the financing of VSE, SME and ISE enterprises in the tourism, hotel, restaurant and leisure sectors and solutions for the tourism industry, through equity or quasi-equity investments. The FRR has committed 25 M€ to these funds, in which it is the largest investor.

Tourism is an important sector for the French economy accounting for 7.4% in GDP and more than 2 million jobs. It is a major contributor to the French economy, but also contributes towards the balance of payments to the tune of around 17 Bn€. France is the most visited country in the world, with more than 89 million international tourist visitors in 2018. It ranks 3rd in the world in terms of revenue, behind Spain and the United States (totalling 55.5 Bn€ in 2018).



By the end of 2022, the Nov Tourime Fund had made 13 investments for an amount of 110 M€ (65% of the 60 funds). The investment process established by Montefiore is consistent with the targets of the anticipated timetable with the investment period closing within around one year including additional investments in companies currently in the portfolio.

Most of the investments are made through preference shares or convertible bonds, a strategy which offers greater protection than a purely equity investment. Note that the businesses financed have little financial leverage. The Gross IRR of the fund at the end of 2022 should be greater than 21%. This IRR should be strengthened since Montefiore intends to implement a policy of reinvesting released commitments to enable a number of additional investments to be made.

Nov Santé Fund:

The FRR has decided to invest 40 M€ alongside 19 investors in the 420 M€ unlisted equity fund Nov Santé to support the development of French SME/ISEs in the health sector. This fund will, through equity and quasi-equity financing, take minority stakes by way of capital development and late stage/growth at a minimum level of 70%. These investments are mainly (80%) targeted at France: objectives that are fully in line with the FRR's targets.

Unlike the "Tourism initiative" in which the FRR has also invested, the aim here is to help strengthen health sovereignty by financing amenities, health operators, biotechnology ... Therefore, the investments are conditional on targets from a health sovereignty perspective the lack of which was thrown into light early on in the health crisis: a major constraint of the Health project that should be noted, is that French actors should be the primary beneficiaries of the investments disposed of by the fund. In addition, the fund's managers aim, during the asset holding phase, to consolidate indicators such as the increase in the share of output, employment and R&D in France, in conjunction with ESG monitoring required by the "Relance" label.

Launched several months after the Nov Tourisme Fund, the Nov Santé Fund is, at the beginning of 2023, invested in 5 projects and has deployed 149 M€ of the available 420 M€, or 35% of the available commitments.

The last 3 years' investments should enable the fund to fully achieve its ambitious investment targets, mainly in the field of growth capital whose market depth remains limited.

**Corporate financing through private debt**

The FRR's private debt investments represent slightly under 1.9 Bn€ committed in 2022, with total investments at such date of around 1 Bn€ in financing through private debt funds. This therefore forms an important element in the FRR's policy for financing the French economy in place since 2013.

These investments are made through the funds of 12 management companies via 24 funds. The companies financed have on average 2900 employees and an EBITDA of around 70 M€.

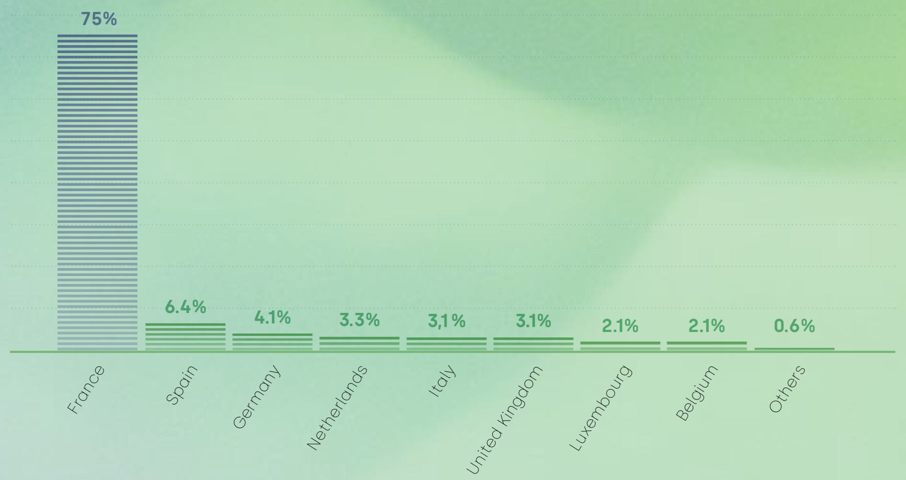
The number of companies financed is down given the termination of the FRR's private debt investment programme, with an estimated 324 at the beginning of 2022.

## France's weight in private debt financing

As regards in particular the private debt programmes launched by the FRR, the vast majority have helped to finance French companies and to a lesser extent European companies (more than 97%).

French companies account for 75% of the beneficiaries of this financing:

**BORROWER COUNTRIES: MORE THAN 75% OF THE COMPANIES IN THE PRIVATE DEBT PORTFOLIO ARE FRENCH**



# THE FRR'S IMPACT ON ITS ECOSYSTEM

PART 4





## IMPACT ON MANAGEMENT COMPANIES

### INTEGRATING ESG INTO THE REQUEST FOR PROPOSAL PROCESS

For all manager selections via requests for proposals (RFP), ESG matters have become an increasingly important part of the provider selection criteria in various aspects.

**a) Within the various selection stages:**

As part of the RFP manager selection process, three phases of analysis now incorporate ESG metrics:

- during the application stage, a specific section devoted to ESG analysis has been strengthened in order to assess a number of quantitative criteria related to ESG coverage;
- in the proposals stage, several series of questions require further analysis of the resources implemented as well as the process for incorporating ESG aspects into management decisions;
- finally, the on-site visit stage helps to assess the involvement of the dedicated teams in factoring in ESG criteria, the capabilities and methodologies for analysing these aspects and measuring their incorporation within the management process.

**b) Through responsible active management:**

For all of its active management mandates, the FRR requires "responsible active management". This is defined as the factoring-in by asset managers of ESG aspects into the analysis and management process whilst also integrating the FRR's exclusions (banned weapons, tobacco and coal), voting and engagement policies and, in particular, its decarbonisation objectives as detailed below.

Managers must therefore demonstrate, in particular through the structuring of their analysis, integration of the management teams and processes put in place:

- consideration of extra-financial criteria in the investment assessment process (ESG scores and controversies in particular);
- consideration of $CO_2$eq emissions, alignment of portfolios with a 1.5°C trajectory, the green energy and transition (gas and nuclear) share, physical and transition risks and biodiversity;
- dialogue with companies held in the portfolio.

They must also produce both quantitative and qualitative reports on the actions taken and the progress made in this area.

More broadly, managers must favour companies whose strategy is in line with the Paris Agreement.

**c) Through decarbonisation targets:**

By signing the Net-Zero Asset Owner Alliance, the FRR has committed to steer its investment portfolio towards net-zero GHG (Greenhouse Gas) emissions by 2050 in line with the Paris Agreement. The mandates for each asset class must therefore contribute to these commitments by significantly reducing GHG emissions in absolute terms. Decarbonisation is therefore a requirement from the launch of the Mandates and must be pursued going forward.

Managers must provide the FRR biannually, on June 30 and December 31 of each year, with the level of GHG emissions of the portfolio (and benchmark) in order to monitor their trajectory.

## HIGH LEVEL REPORTING REQUIREMENTS

For the purpose of monitoring portfolios invested in different asset classes and different geographical zones, additional reporting information, both quantitative and qualitative, on ESG actions undertaken is now required for all new mandates.

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; how it takes these 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.
- quantitative reporting on standard indicators for the purpose of comparing mandates against each other.

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





# IMPACT OF MANAGEMENT CHOICES ON THE ECOSYSTEM

A number of the FRR's investments have an inherently positive investment profile in terms of impact.

The investment made in FLI (intermediate housing fund), has a positive impact both from a social perspective, by providing more than 11,000 means-tested people with housing, with rent savings of nearly 13%, or €1313 per household benefiting.

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.

Finally, the biotech or medtech funds selected by the FRR finance innovations targeting unmet medical needs thereby enabling therapeutically denied patients to be treated. Other funds under the "Tibi" initiative also help to finance Greentech enterprises that are fighting climate change and contribute to protecting the environment such as Carbios, a pioneer in the design and development of enzymatic processes that enable plastics and PET textiles to be recycled repeatedly while maintaining the quality of virgin plastic.

## INVESTMENT IN IMPACT FUNDS

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.

## UPDATE ON THE "TIBI" UNLISTED LATE-STAGE GROWTH PROGRAMME

In parallel with the deployment of the 2015 2 Bn€ and the 2020 750 M€ programmes for investment in unlisted French companies, the FRR participated in the "Tibi" initiative aimed at France becoming a leader in the technological revolution by investing in disruptive technologies developed by French companies. The aim is to fill a funding gap by providing broad access to finance for these innovative and risky technology companies. These companies typically achieve strong revenue growth (more than 20-30% per year) and valuations exceeding several hundred million euros, while aiming to become regional or global leaders. As part of this initiative, the FRR has committed to invest 250 M€ of unlisted growth capital in technology companies and 250 M€ in listed equity funds.

In 2022, the FRR continued rolling out these investments by selecting a further two closed-end funds for an amount of 75 M€, bringing the cumulative commitment under this initiative to 290 M€ through 7 closed-end funds.

French Tech, the French startups movement, has developed two indices: the French Tech 120 and the Next 40, which target promising French startups that have already reached a certain stage of maturity confirmed by their investors and/or their revenues. The aim of the French Tech Next 40/120 is to bring out new technology players, by offering support to 120 French companies capable of becoming world-class leaders in technology.

Among the 120 awardees under the programme, 40 companies form the French Tech Next40, which brings together: companies valued at at least one billion dollars, or those that have raised more than 100 M€ between 2020 and 2022.

Through the selected mandates and funds, the FRR has invested in 25 Next40/120 companies.

In addition, the goal set by the Government to reach 25 French unicorns (startups valued at over one billion dollars) by 2025 was exceeded in early 2022, at 26 in number.

Of these 26 unicorns, through the selected mandates and funds, the FRR has invested in 10: Ankorstore, Backmarket, Doctolib, ManoMano, Payfit, Qonto, Sorare, Swile, Vestiaire Collective and Younited.




## INVOLVEMENT IN THE "TIBI" FUTURE LEADERS IN TECHNOLOGY LISTED EQUITIES PROGRAMME

The FRR has committed to the initiative seeking to promote the financing of technology companies. Having been able to rapidly deploy funds towards the unlisted vehicles that support technology companies, the FRR began work on selecting funds for the listed component. The results of this selection process, modelled on the rigorous RFP procedures, gave an overview of the funds validated by the initiative's Technical Committee. Certain funds were then targeted for more detailed analysis. Funds were selected at the end of 2022 with more are planned for selection in 2023. Investment in these funds is expected to take place in the first half of 2023.

# IMPACT OF EXTRA-FINANCIAL DATA ON SERVICE 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 2013 to the creation of the Low Carbon Leaders indices with MSCI. The FRR continues this work with the various index providers and, in 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 equivalent capitalization-weighted index.

The FRR also works with management companies and extra-financial data suppliers to improve ESG data calculation methodologies and practices since, as far as ESG optimised mandates amongst others are concerned, 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.

As 2022 is the final analysis year under the extra-financial analysis mandate, the FRR will in 2023 launch a request for proposals for the selection of service providers, which will enable the methodological advances developed over recent years to be incorporated by the various entities.

## CONTRIBUTION TOWARDS FINANCING RESEARCH ON RESPONSIBLE INVESTMENT

The FRR supports the FRI (Forum for Responsible Investment) and sponsors its annual prize organised in collaboration with the PRI (Principles for Responsible Investment). It also, since 2007, finances academic research into sustainable finance and responsible investment at the Toulouse School of Economics and the École Polytechnique.

In 2022, the FRR supported in particular the work of Uli Hege on "The value of green innovation" in collaboration with Sébastien Pouget (co-director of FDIR Toulouse School of Economics) and Yifei Zhang. Uli Hege studies the ESG and financial performance of companies that file "green" patents. He found that companies that file climate-related patents subsequently posted higher positive cumulative stock market returns thereby enjoying a lower cost of capital, compared to equally innovative companies.





## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

One quarter of the assets in the equities and bonds portfolios have been found to make a positive or a very positive contribution on 7 SDG. This contribution is assessed by reviewing companies' commercial operations, products and services. Note also that one quarter of the assets of the portfolios have made a negative or very negative contribution on 2 SDG (good health and well-being as well as peace, justice and effective institutions).

Moreover, half of portfolio assets' behaviour is favourable or very favourable for a majority of the SDG. Behaviour assesses the extent to which companies act responsibly in promoting each SDG. Note also that the behaviour of one quarter of the equities portfolio and one fifth of the bonds portfolio is unfavourable or very unfavourable.

# OVERALL IMPACT ON THE ENVIRONMENT: MEASURING ENVIRONMENTAL IMPACT

Beyond estimating portfolios' carbon footprints, 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 the study extends to the direct impacts of the company and 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 (N2 O), 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.

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 benchmarks' 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 2022, portfolio analysis found that every million euros of revenue generates a natural cost of capital of 2.8 to 5.1% (2.8% for the developed equities portfolio, stable with reference to the previous year, 5.1% for the emerging equities portfolio, vs 6.3% in 2021). The environmental impact of the portfolios is significantly lower than their benchmarks (-9% to -22%), with the exception of the corporate bonds portfolio whose environmental impact is higher than that of its benchmark (+10%). However, the analysis coverage of these portfolios remains modest (58% for the global equities portfolio, and only 22% for the corporate bonds portfolio).

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.

The new extra-financial analysis service provider request for proposals will contain a section dedicated to deepening biodiversity analysis.

# RISK MANAGEMENT AND CONTROL

PART 5





## RISK MANAGEMENT GOVERNANCE

Since the 2010 pension reforms, the Supervisory Board each year adopts a strategic allocation based on a management model designed to ensure a high level of coverage of liabilities. The FRR's investments mainly take the form of mandates delegated to managers. The FRR is also authorised to invest directly in OPC (UCI), within the limit of 25% of its assets, excluding money market OPC (limit increased from 20% to 25% pursuant to the decree dated 15 September 2022 on the FRR). The exposure of the FRR's portfolio via OPC was 22.64% in December 2022 (compared to 18.67% at the end of 2021). This change can be explained by the implementation of 2022 the strategic allocation.

A **risks committee** reviews on a monthly basis the performance of the portfolios and the FRR, as well as changes to key financial and operational risks. In addition, this committee reviews the investments in new asset classes and defines the risk frameworks applicable in each case. It is chaired by a member of the Executive Board and led by the risk management teams. More generally, it is responsible for broadening the risk culture throughout the FRR. Presentations on risk committee matters are then given at Executive Board meetings.

The financial performance and risk department (DPRF) is also invited to various FRR specialist committees (Investment Strategy Committee, Manager Selection Committee) and issues an opinion when needed. It also participates in various internal bodies (Tactical Investment Committee, Strategic Allocation Steering Committee, etc.). Finally, it may issue opinions on the strategic allocation review, presented at the Supervisory Board meeting devoted to this matter.

Within the FRR, a SRI monitoring technical committee led by the finance department brings together members from each department and the members of the Executive Board. It meets at least once a month to develop indicators, monitor strategy implementation and discuss any issues related to the FRR's investment responsibilities. It prepares dossiers for presentation to the Responsible Investment Committee and Supervisory Board.

# FINANCIAL RISKS

Since 2020, the ex-ante financial risk measurements used by the FRR for its service provider management purposes are the subject of in depth research (in particular "Tracking Error" or TE, and "spread-weighted sensitivity" (SWS) or "duration times spread" (DTS), with the aim of harmonising, insofar as possible, the different approaches and methodologies for calculating ex-ante risk measurement (TE and DTS) of both the FRR and its managers.

For the purpose of controlling the credit risk of its bond managers, the FRR has endeavoured to standardise the managers' approach to calculating SWS (or DTS), in particular by taking into account the extension risk on quasi-equity securities (in connection with US IG Credit and US HY Credit requests for proposals).

In order to manage the risk of portfolio performance deviating from the benchmark (equity indices replication RFPs for management consistent with the Paris Agreement), the FRR has strived to impose tracking-error calculation methodologies that are consistent between the managers and the FRR: the feedback presented to the Risk Committee at the end of 2022 confirmed the effectiveness of this approach.

## ASSETS-LIABILITIES MANAGEMENT RISK

This involves the risk of mismatch between the FRR's strategic allocation and compliance with its commitments to CADES, as the FRR's only identified beneficiary.

Each year, the FRR must pay an amount of 2.1 Bn€ to CADES until 2024 then 1.45 Bn€ per year from 2025 to 2033. Over the year, the Liabilities Coverage Margin has fallen by 0.3 Bn€ and equalled 6.4 Bn€ at 30 December 2022, which is a fall in the Liabilities Coverage Margin's performance of -4.69% over the year.

## PORTFOLIO MARKET RISKS

The annualised volatility level of the portfolio as a whole is rather high in historic terms for the FRR, whether such level is measured ex-ante (anticipated volatility of the portfolio) or ex-post (subsequently observed volatility).

The ex-post annual volatility of the value of the FRR's assets was 9.47% in 2022 (compared to 2.9% in 2021) for an annual return of -10.03% (compared to 6.95% in 2021). The average ex-ante volatility was 8.7% in 2022, compared to 9.5% in the previous year.

The risk of an adverse variation in the value of the portfolio (loss) is assessed over a short-term timescale of one year, which is the same period for which the strategic allocation is updated in consultation with the FRR's governance bodies.

Thus, the estimated average potential loss over one year in the 1% worst case scenarios, measured by "Conditional Value at Risk" (CVaR) at 99% over one year, is 23.39% of the FRR's assets (compared to 23.20% at the end of 2021), or 4.99 Bn€.





ANNUAL RECORDED VOLATILITY (%)


## PERFORMANCE ASSET RISK

The performance assets (equities mainly) represent the greatest CVaR risk factor. At the end of 2022, their contribution to the potential average loss related to price fluctuations in the 1% worst case scenarios was 21.1% of the FRR's assets, or 4.51 Bn€ (compared to 21.0% at the end of 2021).

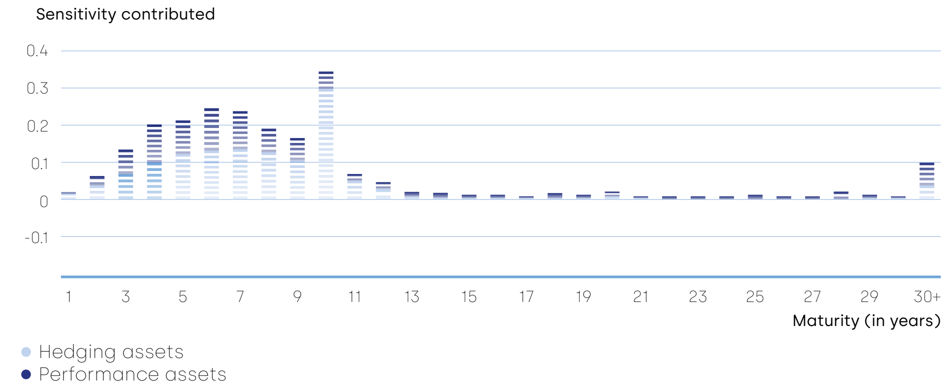
## INTEREST RATE RISK

At the end of the year, the contribution to the potential average loss related to interest rate curve fluctuations, measured by a CVaR at 99% over one year, is 2.3% on the FRR's hedging assets, or 0.81 Bn€ on the market value of the FRR's portfolio (compared to 2.2% at the end of 2021).

The sensitivity of the FRR's portfolio to all rate curves has fallen, from 2.74[12] at the end of 2021 to 2.25 at the end of 2022. Therefore, henceforth, for a consistent increase across all rate curves of 100 basis points, the value of the FRR's portfolio would decrease by 2.25%, or around 0.48 Bn€. This level of sensitivity in the FRR's portfolio takes account of the reduced exposure of credit assets to interest rate risk due to the implementation of strategic and tactical interest rate hedging.

Reciprocally, a 100 basis point increase in interest rates would result in a fall in the value of the FRR's balance sheet liabilities of 4.71% (sensitivity of 5.18 at the end of 2021).

CONTRIBUTIONS TO PORTFOLIO SENSITIVITY BY ASSET TYPE AND MATURITY




12. Including performance compartment interest rate assets.

## PORTFOLIO CREDIT RISK

The table below shows the breakdown in the FRR's fixed income assets by rating at year-end 2021 and 2022. The majority of these assets are invested in "Investment Grade" category securities.

| | AAA | AA | A | BBB | <BBB- & NR |
|---|---|---|---|---|---|
| 31/12/21 | 2% | 19% | 20% | 30% | 29% |
| 31/12/22 | 3% | 19% | 20% | 26% | 32% |

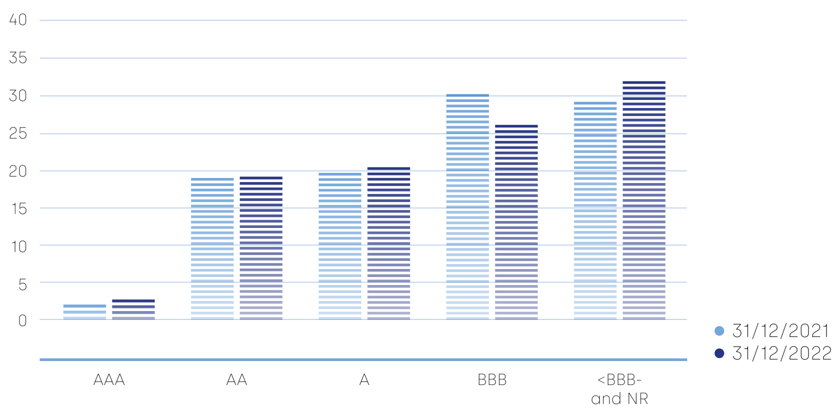
Credit risk remained stable between the end of 2021 and end of 2022. The implementation of the 2022 strategic allocation increased the proportion of performance assets (High Yield for the interest rate part), without harming the "quality of signature" of the FRR's credit portfolio. Indeed, market developments, against a background of rising interest rates and widening spreads, resulted in managers returning towards higher rated securities. Indeed, the proportion of AAA, AA and A rated securities in our Investment Grade portfolios has increased and this has improved the "quality of signature" of the interest rate portfolio.

The overall quality of the FRR's interest rate products portfolio at the end of 2022 is relatively stable compared to the end of 2021: 68% of this portfolio is invested in securities of good "quality of signature" (investment grade) compared to 71% at the end of 2021.

The average rating[13] of the FRR's interest rate portfolio in 2022 is the same as 2021, namely BB. The anticipated rate of loss over one year for such average rating is 0.44%.

To improve credit risk monitoring, the FRR uses a system enabling it to monitor rating downgrades, independently of the FRR's asset managers, on a weekly basis for the Euro Credit and US Credit compartments. This tool enables the FRR to anticipate sharp downgrades to the issuers or issues held under its mandates. Any alarming downgrades are notified by the Financial Risks and Performance Department at the monthly Risks Committee meeting. In 2022, 6 alerts were triggered by this system (compared to 5 alerts in 2021).

**BREAKDOWN BY RATING OF THE FIXED INCOME COMPARTMENT**




13. This is an average of the portfolio assets by rating weighted by the one year cumulative default rates observed between 1983 and 2021 for this same rating.





Furthermore, the potential loss associated with the correlated migration of issuer credit quality[14] is also measured on the FRR's Credit portfolio. At 31/12/2022, the Credit CvaR at 99% over one year of the Credit portfolio was 6.7% (compared to 9.3% in 2021), whereas the Credit CVaR of the performance compartment was 14.6% compared to 4.5% for the hedging compartment (vs 18.6% and 6.1% respectively in 2021). Performance assets contributed 62.6% to the Credit CVaR (compared to 53.4% in 2021), with hedging assets contributing 37.4% (compared to 46.6% in 2021).

Counterparty risk concerns the risk of managers trading forward financial instruments OTC with bank counterparties (swaps, forward exchange). This is greatly reduced by implementing various measures: minimum rating of authorised counterparties, margin calls, use for foreign exchange purposes of the clearing services of CLS Bank[15], limits per counterparty. At the end of 2022, the FRR's overall risk exposure to counterparty risk was 579 M€ (compared to 441 M€ at the end of 2021), derived from forex hedging.

## SIGNATURE RISK DIVERSIFICATION RATIOS

The regulations applicable to the FRR contain specific ratios relating to diversification of portfolio signature risk on debt and equity issuers. In addition to these ratios, the FRR has, since 2011, set an internal limit on its maximum exposure to a single signature (issuer or OTC transaction counterparty) of 3.5% of the FRR's net assets, excluding sovereign issuers, for which special limits have been set depending on the issuer's rating, and excluding OPC which have a limit of 5% of net assets. Since the Order dated 24 May 2016, the applicable regulatory issuer or counterparty concentration limits also take into account indirect positions held via collective investment undertakings (OPC).

## FOREIGN EXCHANGE RISK

Part of the FRR's portfolio is invested in foreign currencies. The strategic allocation is fully hedged except for performance assets which are hedged at 90%. Assets denominated in emerging market currencies are not hedged since the currency price is intrinsic to performance. Nevertheless, the FRR maintains a margin of flexibility over its hedging level, provided that its overall currency risk exposure remains below 20% of its total overall assets (regulatory limit). Foreign exchange risk exposure at the end of 2022 represents 14.77% (compared to 11.86% at the end of 2021).

## RISKS OF TRACKING ERROR BETWEEN THE FRR'S AND ITS MANAGERS' PERFORMANCE AND THAT OF THEIR BENCHMARKS

The volatility of the spread between the performance of the strategic allocation and that of the actual portfolio allocation is measured by tracking error-type indicators (ex-ante TE). This is defined as the annualised standard deviation of the gap in performance between the actual portfolio and the benchmark target allocation.

14. Credit CVaR takes into account historic probabilities of issuer rating migration by sector whereas market CVaR only considers changing credit spreads (assuming stable credit quality) to assess risk.
15. "Continuous Linked Settlement": clearing and settlement system that reduces counterparty risk.

In 2022, the managers overall remained within the TE limits specified in the management mandates, with one exception under an equities mandate where the limit was exceeded.

At the end of the year 2022, the ex-ante TE between the FRR's actual portfolio and that of the strategic allocation was 179 basis points (compared to 130 basis points the previous year). This discrepancy can be explained, firstly, by selection effect (managers' active management, selection of different indices than those of the strategic allocation …), and, secondly, the flexible management effect (technical over or under-exposure depending on the asset class and interest rate and foreign exchange risk hedging adjustments). This gap is mainly due to the prudent tactical decisions made for the portfolio compared to the strategic allocation.

In parallel with the authorised margin, granted to managers of investment grade credit mandates, to diversify into securities of lower "quality of signature", the FRR regulates their management through a defined limit relative to their benchmark. This regulation is based upon a measurement of the spread weighted sensitivity (SWS) of the value of all of the securities in the portfolio. This sensitivity reflects the level of credit risk taken based on the following two elements: the remuneration received by investors in exchange for the risk taken (the "spread" or risk premium) and the duration of exposure to such risk (the "duration"). A comparison between the SWS of the portfolio of each manager and that of its benchmark enables its over- or under-exposure to credit risk relative to its benchmark to be assessed and controlled.

## ● RISK ON FINANCIAL CONTRACTS ESPECIALLY DERIVATIVES

The FRR can only invest in financial contracts where there is a high level of security: its regulatory framework comprises the Monetary and Financial Code and the General Regulations of the AMF[16] concerning French coordinated OPC.

The FRR therefore applies the risk monitoring principles applicable to transactions on forward financial instruments set forth in the AMF regulation of June 2018 on the methodology for calculating overall risk on OPC.

For the purpose of calculating overall risk, the FRR applies the commitment method. This method involves calculating the effective commitment under financial contracts compared to the total net value of the fund. The commitment at the end of 2022 represents 0.39% (compared to 4.62% at the end of 2021) of the FRR's assets. It therefore remains well below the regulatory limit of 100%.

## ● LIQUIDITY RISK ON ASSETS UNDER MANAGEMENT

An overall limit on OPC was defined in the Order dated 24 May 2016, which sets a maximum limit for holdings in OPC of 20% (this level was previously an internal limit).

The FRR also manages an overall limit on holdings in the share capital of companies: the FRR may not hold more than 3% of the shares of any single issuer (except for the unlisted real estate or private equity assets portfolio).

16. *Autorité des Marchés Financiers.*



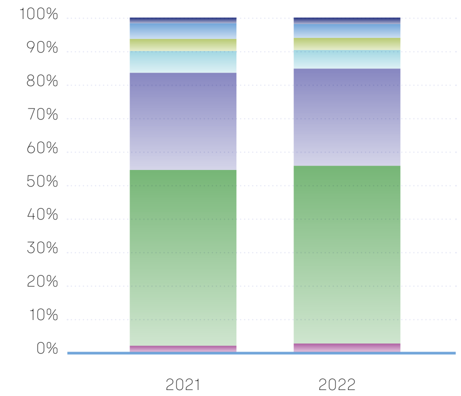


For the purpose of estimating the liquidity of the FRR's portfolio, various independent management measurements were taken at the end of December 2022:

- *For French, European and US small and mid- capitalisation equities, 85% of the portfolio could be disposed of with no price impact in less than 5 days[17], compared to 84% at the end of 2021 (cf. chart below).*

**MEASUREMENT OF THE LIQUIDITY OF FUNDS INVESTED IN FRENCH, EUROPEAN AND US SMALL AND MID- CAPITALISATION EQUITIES**

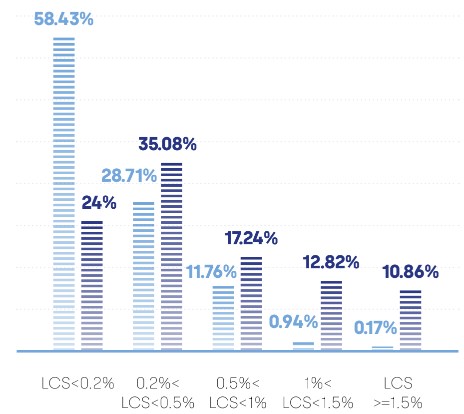
**% of small and mid-capitalisation assets sellable in a given number of days, at 30/12/2022**




- *For the FRR's Credit portfolio (invested in the Euro IG Credit, Euro HY Credit, US IG Credit and OAT liability matching compartments), the least "liquid" part of the portfolio is defined[18] by the securities in respect of which a sale-repurchase transaction would attract a discount rate of greater than or equal to 0.5%. Whereas this part was at around 40.92% at the end of 2022 (discount rate of mainly between 0.5% and 1%), compared to 28.90% at the end of 2021. 10.86% of the securities are considered illiquid, with a discount rate on sale of more than 1.5%, compared to 0.17% at the end of 2021 (cf. chart below).*

This trend can be explained by the increase in spreads over the year, resulting in a widening of the spread between buy and sell prices and therefore a deterioration in the LCS level.

**ESTIMATE OF THE LIQUIDITY OF THE FRR'S CREDIT PORTFOLIO**




● % of the credit compartment 2021
● % of the credit compartment 2022

17. Based on the assumption that 25% of the daily average volume of transactions over the last 3 months may be liquidated in one day without impacting on the price of the securities analysed.
18. Definition based on the Liquidity Cost Score (or LCS) method. LCS is an indicator measuring the cost of liquidation and is calculated using the following formula: LCS = (Sale Price – Purchase Price) / Purchase Price of the security.

# EXTRA-FINANCIAL RISKS

Each year S&P Global Sustainable 1 produces a climate risk and ESG audit report, which includes amongst other things an analysis of the risks relating to climate change. These risks are twofold:

- **transition risks,** meaning the risks to which companies that are heavy greenhouse gas emitters are exposed, due to potential regulatory developments and carbon market pricing. S&P Trucost makes estimations of potential losses based on three scenarios for future trends in more or less high carbon prices. These estimates factor in both the risks associated with greenhouse gas emissions by companies and with the indirect repercussions through suppliers.

  The transition risks analysis reveals, like last year, that the EBITDA at risk across all of the FRR's portfolios is below that of its benchmarks (6.2% compared to 9.3% for global equities and 7% compared to 9.9% for corporate bonds).

- **physical risks,** which may have a considerable impact on the financial markets. These physical risks combine localised risk (on-site) and risks to the value chain of the affected companies. More than 2 million assets have been linked to over 15,000 companies in S&P Trucost's CorePlus universe. These assets are then assessed with reference to their exposure and vulnerability to 7 climate events: water stress, fire, flood, heat wave, cold spell, hurricanes, and rising water levels. Following their assessment, the physical risks analysis reveals that the FRR's portfolios' exposure to these risks is relatively similar to that of their benchmarks. In an "moderate/severe" climate scenario, the potential financial impact associated with these risks is estimated at between 3.05% and 3.8%.





# OPERATIONAL RISKS

These are the risks associated with failed or inadequate internal processes or external events, whether of a deliberate or accidental nature or natural cause.

The FRR's operational risk management system relies on regular risk self-assessment exercises designed to establish an updated residual risks map and also on following-up on the action plans made subsequent to this mapping. The implementation of new processes or redesign as necessary of key processes related to dematerialisation, business continuity or broadening the use of electronic approvals and signatures, also contributes towards upstream mitigation of operational risks. The system was further improved in 2022 to strengthen the operational security of internal processes.

In performing its mission, it is important that the FRR is able to conduct its principal activities without interruption in the event of serious incident (supplier failure, physical damage to buildings, cyber attack, industrial action, pandemic, flooding of the Seine, etc.). The various prevention, crisis management and continuity management measures (crisis management organisation and procedures, recovery site, analysis of essential supplier continuity arrangements) are regularly updated and monitored by the Risk Committee. The FRR ensures that its continuity system remains available, particularly during an annual business recovery test held at an external site conducted by the FRR's teams in October 2022.

All significant operational incidents affecting the FRR, whether of internal or external origin, are identified and analysed on an ongoing basis. They are analysed and monitored by the Risk Committee (corrective measures, impacts, compensation, monitoring of improvement plans). In this regard, the FRR also pays close attention to following-up on any operational incidents and regulatory penalties affecting its management companies as well as its essential suppliers. In 2022, the FRR identified three significant operational incidents of external origin which, after analysis, resulted in corrective measures being taken and compensation being paid by the responsible managers of the delegated management mandates.

# HEALTH CRISIS

At the outbreak of the health crisis in March 2020, the FRR was able to ensure that its operations continued by immediately supplying its staff with computer equipment enabling them to work from home.

In 2022, as in 2021, the FRR crisis unit continued meeting on a weekly basis to pilot the business continuity system, to organise operations whilst taking into account service requirements and the easing of health restrictions. The adjustments to working arrangements adopted in the first quarter of 2022 have enabled the FRR to function perfectly satisfactorily.





# COMPLIANCE

## PROFESSIONAL ETHICS

The FRR takes special care to ensure that its employees comply with a very strict ethical framework which involves a programme of specific mandatory training in the form of e-learning and group sessions.

The professional ethics framework applicable to the three members of the Executive Board is contained in the Social Security Code, that applicable to Manager Selection Committee and Supervisory Board members is set forth in their respective codes of professional ethics. More generally, the FRR's code of professional ethics specifies in particular that in order to satisfy the principle that conflicts of interest must be avoided, the FRR bans all its employees from soliciting or accepting, whether in a personal or family capacity, any gift, favour, service, non-professional invitation or other gift. Similarly, participation in seminars, conferences or business trips is only permitted with the express prior consent of line management.

Ethical, money-laundering, terrorism financing and international sanction compliance risks are all part of an internal mandatory training programme, combined with internal due diligence and specific due diligence on the manager and investment selection process.

## COMPLIANCE OF INVESTMENTS AND OF THE PORTFOLIO

Compliance risk is the risk of failure to comply with legislative, regulatory or contractual requirements and obligations.

Monitoring the compliance of investments is an essential element of the internal control framework. As such, the FRR:

- daily monitors compliance by the managers of delegated management mandates with their contractual obligations;
- also verifies that investments made via OPCs and funds are in compliance with the internal rules;
- ensures compliance with its regulatory ratios (diversification by issuer, exposure to markets outside the European Economic Area or non-organised markets, position limit on shareholdings in companies, position limit on OPC, exposure to currency risk, exposure to mutual funds, the various commitment ratios);
- verifies that the FRR's exclusion policy is implemented and adhered to by its managers.

The analysis of potential incidents of failure to observe compliance rules, impact assessments, corrective measures and potential compensation claims are entered in an incident report and followed-up by the Risks Committee.

# ORGANISATION AND COSTS

PART 6





## HUMAN RESOURCES AND ORGANIZATION

In 2022, the FRR employed 47 permanent staff, of which 39 under contract with Caisse des Dépôts.

All perform their functions under the authority of an Executive Board to which a finance department, an operations and risks department and a legal and communications department report.

The FRR maintains it processes under stringent levels of security, thanks to effective and reliable management and analysis systems, and continually reflects on the efficiency of its organization.

## THE FRR'S COSTS

Costs for the 2022 financial year amounted to 87.10 M€ compared to 85.40 M€ in 2021.

Included in these, expenses such as staff costs, real estate costs, IT and general overheads form the FRR's recurring costs budget (*"enveloppe limitative"*). These totalled 14.20 M€, down compared to 2021, and represent 16% of expenditure compared to 18% the previous year. These costs, uncorrelated to assets under management, represent around 6.0 basis points of net assets.

The FRR's assessment-based budget (*"enveloppe evaluative"*) is 72.90 M€. This is mostly made up of management fees, which represented nearly 75% of operating costs in 2022. Among these expenses, which vary in line with the FRR's overall portfolio, the accounting method for the year-end estimation of final (*in fine*) fees has been changed. As from 2022, the difference between the amount of such fees – calculated on all unexpired mandates – and the amount actually paid during the following financial year is recognised for accounting purposes under operating income, whereas previously it was treated as a deduction against management fees. The aim of this change in method is to facilitate analysis of the financial statements.

At 31 December 2022, the -10% overall performance resulted in a fall in the estimated amount of these outperformance fees, which decreased from 45.70 M€ to 25.50 M€. In parallel, an amount of 14.10 M€ in final (*in fine*) fees was paid in 2022 on closure of the "US Credit" lot, whereas in the previous year 31.30 M€ had been paid to the managers on expiry of the "Euro Credit" lot.

Back-office and custodial fees – which complete the FRR's assessment-based expenses budget – related to services provided by Caisse des Dépôts under the terms of an agreement between the two entities. These are stable with reference to the previous financial year (7.70 M€ compared to 7.60 M€ in 2021).

# GOVERNANCE

PART 7





## GOVERNING BODIES

**SUPERVISORY BOARD AS *AT 30 JUNE 2022***

PRESIDENT
Sandrine LEMERY

MEMBERS OF THE NATIONAL ASSEMBLY
Bénédicte Auzanot
Belkhir Belhaddad

MEMBERS OF THE SENATE
Jérôme Bascher
Patricia Schillinger

QUALIFIED PERSONALITY
Philippe Tibi, Vice-President of the Supervisory Board
Sandrine Lemery, President of the Supervisory Board

REPRESENTATIVES OF INSURED PERSONS NOMINATED BY THE INTER-PROFESSIONAL TRADE UNION BODIES REPRESENTATIVE AT NATIONAL LEVEL

**Confédération Générale du Travail**
Pierre-Yves Chanu, Vice-President of the Supervisory Board,
alternate Hélène Guerra

**Confédération Générale du Travail – Force ouvrière**
Philippe Soubirous,
alternate Éric Gautron

**Confédération française démocratique du travail**
Laetitia Tankwe,
alternate Thibaut Sellier

**Confédération française des travailleurs chrétiens**
Isabelle Sancerni,
alternate Pierre-Alexis Van Den Boomgaerde

**Confédération française de l'encadrement – CGC**
Jean-Arnaud Guyard,
alternate Christine Diebold

EMPLOYERS' REPRESENTATIVES AND SELF-EMPLOYED PERSONS

**Mouvement des Entreprises de France**
Eric Pinon,
alternate Jacques Vessaud
Florent Sarrazin,
alternate Eric Andrieu
Philippe Poiget,
alternate Nicolas Bondonneau

**Confédération générale des PME**
Alain Duffoux,
alternate Michel Giordano

**Union des entreprises de proximité**
Corinne Postel,
alternate Michel Bressy

REPRESENTATIVES OF THE MINISTER FOR SOCIAL SECURITY APPOINTED BY ORDER OF THE MINISTER FOR SOCIAL SECURITY

Frank von Lennep,
alternate Morgan Delaye
Paul-Antoine Georges,
alternate Pierre Prady

REPRESENTATIVE OF THE MINISTER FOR THE ECONOMY AND FINANCE AND INDUSTRY APPOINTED BY ORDER OF THE MINISTER FOR THE ECONOMY, FINANCE AND INDUSTRY

Sébastien Raspiller,
alternate Martin Landais

REPRESENTATIVE OF THE MINIS-TER RESPONSIBLE FOR THE BUDGET APPOINTED BY ORDER OF THE MINISTER RESPONSIBLE FOR THE BUDGET

Marie Chanchole,
alternate John Houldsworth

## EXECUTIVE BOARD

**PRESIDENT**
Éric Lombard

**MEMBERS OF THE EXECUTIVE BOARD**
Yves Chevalier
Olivier Rousseau

## MANAGER SELECTION COMMITTEE

**PRESIDENT**
Olivier Rousseau

## MEMBERS OF THE MANAGER SELECTION COMMITTEE

Catherine Guinefort
Samia Khallaf
Thierry Coussieu
Patrick Savadoux

## STEERING COMMITTEE

Yves Chevalier: *Member of the Executive Board*

Olivier Rousseau: *Member of the Executive Board*

Salwa Boussoukaya Nasr: *Chief Financial Officer*

Rachel Cascajo: *Director of Operations and Risk*

Sidonie Freoa Dhekaier: *Legal and Communications Director*

Pierre Leygue: *Head of the Financial Risk and Performance Department*

**Sidonie Freoa Dhekaier**
Legal and Communications Director

**Salwa Boussoukaya-Nasr**
Chief Financial Officer

**Rachel Cascajo**
Director of Operations and Risk





# THE FRR'S TEAMS

## FINANCE DEPARTMENT

↑
Delegated Management and Responsible Investment Department

→
Asset Allocation Department

## LEGAL AND COMMUNICATIONS DEPARTMENT

## ACCOUNTING AGENCY





## OPERATIONS AND RISKS DEPARTMENT

Operational and Financial Risks and Performance Department

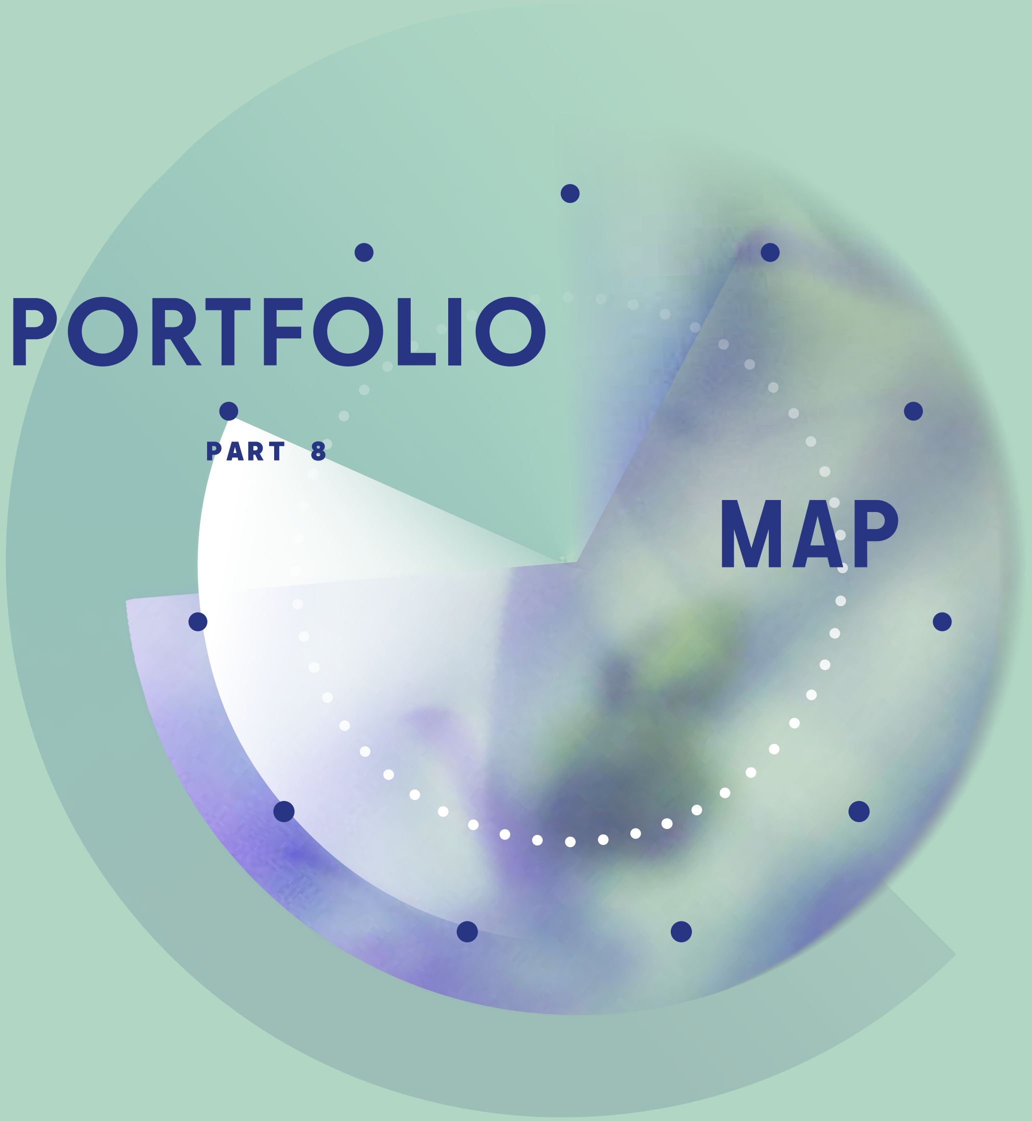
Information System, Organization and Projects Department

HR, Management Control Department

Middle Office Department

# PORTFOLIO MAP

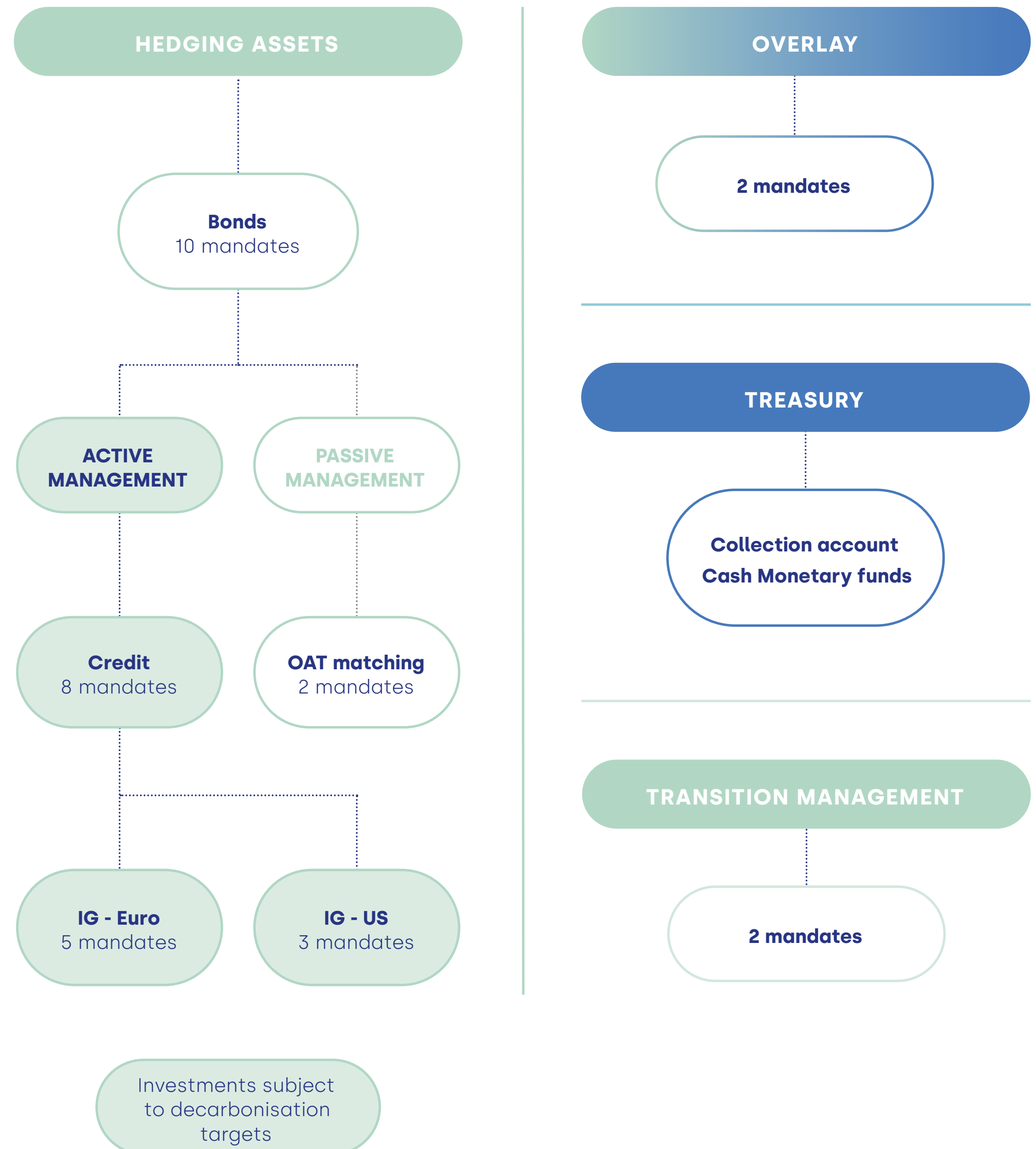
PART 8



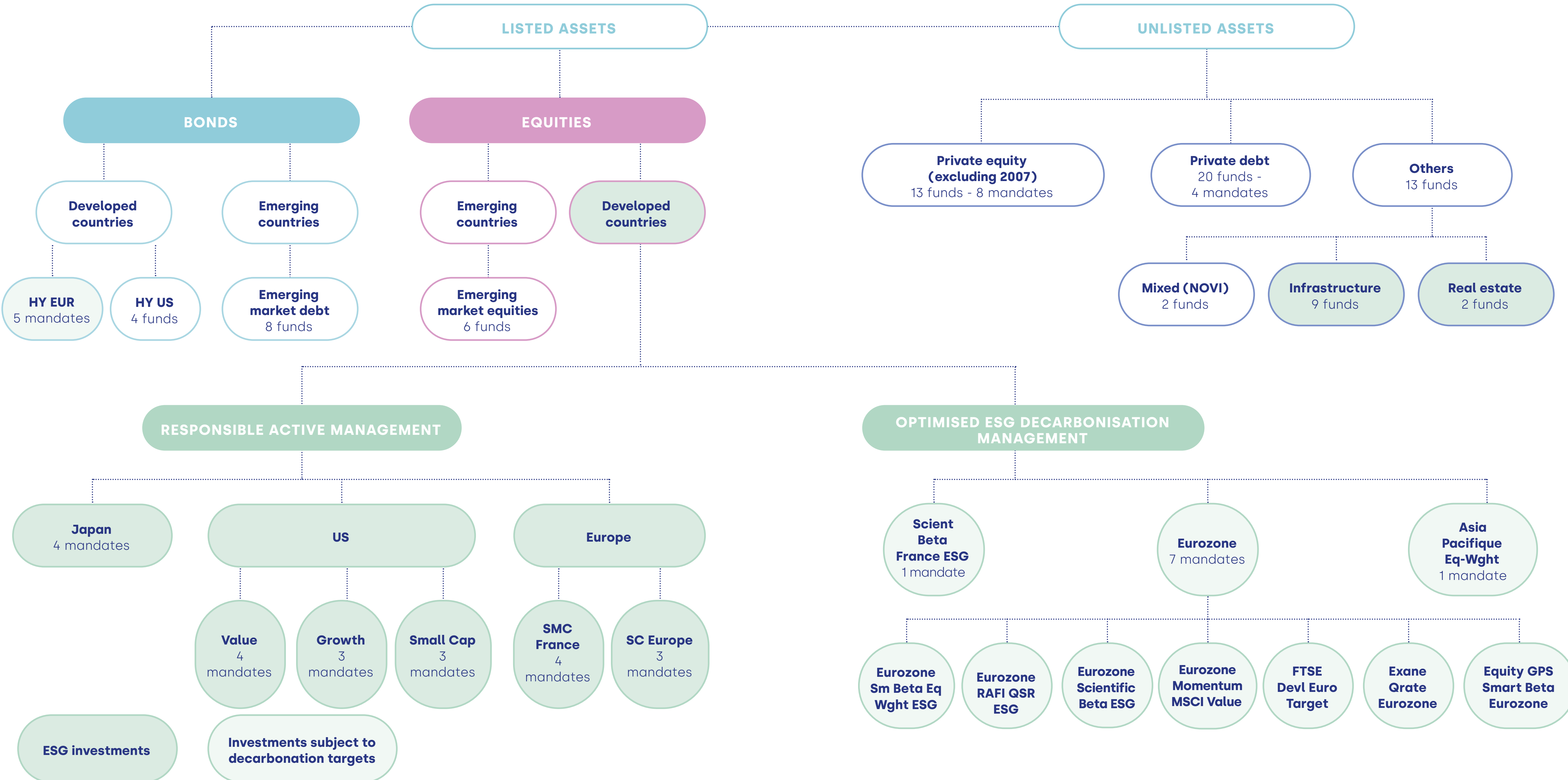




## MAP OF HEDGING ASSETS, OVERLAY, TRANSITION MANAGEMENT AND TREASURY AT 31/12/2022



## ● MAP OF PERFORMANCE ASSETS AT 31/12/2022 (PHYSICAL INVESTMENTS)



PART 9

# THE FRR'S SERVICE PROVIDERS





## THE FRR'S MANAGEMENT COMPANIES

### FRR'S MANAGEMENT COMPANIES AT 31 DECEMBER 2022

**2005FRR05**
**PRIVATE EQUITY PROGRAMME**

- PANTHEON VENTURES (UK) LLP (DIVERSIFIED EUROPEAN FUND)

**2016FRR02**
**DEDICATED FUND MANDATES – FRENCH CORPORATE PRIVATE DEBT - LOT 1 – PRIVATE PLACEMENTS**

- BNP PARIBAS ASSET MANAGEMENT
- SCHELCHER PRINCE GESTION

**2016FRR02**
**DEDICATED FUND MANDATES – FRENCH CORPORATE PRIVATE DEBT - LOT 2 – ACQUISITION DEBT**

- IDINVEST PARTNERS
- LYXOR INTERNATIONAL ASSET MANAGEMENT

**2016FRR03**
**DEDICATED FUND MANDATES - PRIVATE EQUITY FUNDS SELECTION**

- ARDIAN
- SWEN CAPITAL PARTNERS
- LGT CAPITAL PARTNERS LIMITED

**2016FRR05**
**DEDICATED FUND MANDATES – INNOVATION EQUITY FRANCE**

- IDINVEST
- TRUFFLE CAPITAL
- OMNES CAPITAL

**2017FRR02**
**MANAGEMENT MANDATES – LIABILITY MATCHING (OAT)**

- AXA INVESTMENT MANAGERS
- AMUNDI

**2017FRR03**
**DEDICATED FUND MANDATES - GROWTH EQUITY FRANCE**

- LBO FRANCE
- ISATIS CAPITAL

**2018FRR02**
**ACTIVE MANAGEMENT MANDATES – LOT 1 – EUROPEAN SMALL CAPITALISATION EQUITIES**

- JP MORGAN ASSET MANAGEMENT (EUROPE) S.A.R.L.
- FIL GESTION
- BNP PARIBAS ASSET MANAGEMENT FRANCE

**2018FRR02**
**ACTIVE MANAGEMENT MANDATES – LOT 2 – FRENCH SMALL CAPITALISATION EQUITIES**

- HSBC GLOBAL ASSET MANAGEMENT
- BFT INVESTMENT MANAGERS
- AMIRAL GESTION
- SYCOMORE ASSET MANAGEMENT

**2018FRR03**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES - US EQUITIES - LOT 1: US EQUITIES, ACTIVE MANAGEMENT, "VALUE"**

- AMUNDI ASSET MANAGEMENT
- DEGROOF PETERCAM ASSET MANAGEMENT SA
- LAZARD FRERES GESTION
- T ROWE PRICE (LUXEMBOURG) MANAGEMENT SARL

**2018FRR03**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES - US EQUITIES - LOT 2: US EQUITIES, ACTIVE MANAGEMENT, "GROWTH"**

- DAVY INVESTMENT FUND SERVICES LIMITED
- LEGG MASON INVESTMENTS IRELAND LTD
- T ROWE PRICE (LUXEMBOURG) MANAGEMENT SARL

**2018FRR03**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES - US EQUITIES - LOT 2: US EQUITIES, ACTIVE MANAGEMENT, "SMALL CAPITALISATIONS"**

- ABERDEEN STANDARD INVESTMENTS IRELAND LIMITED
- BNP PARIBAS ASSET MANAGEMENT FRANCE
- DAVY INVESTMENT FUND SERVICES LIMITED

**2019FRR01**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES – JAPANESE EQUITIES**

- BFT INVESTMENT MANAGERS
- COMGEST
- MYRIA ASSET MANAGEMENT
- NOMURA ASSET MANAGEMENT EUROPE KVG MBH (NAM EUROPE)

**2019FRR02**
**OVERLAY MANAGEMENT MANDATES**

- AXA INVESTMENT MANAGERS PARIS
- RUSSEL INVESTMENTS FRANCE

**2020FRR01**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES: CORPORATE BONDS – LOT 1 – EURO DENOMINATED INVESTMENT-GRADE CORPORATE BONDS**

- AXA INVESTMENT MANAGERS PARIS
- BFT INVESTMENT MANAGERS (M&G INVESTMENTS)
- BFT INVESTMENT MANAGERS (UNION INVESTMENT INSTITUTIONAL GmbH)
- BLACKROCK NETHERLANDS B.V.
- DWS INTERNATIONAL GMBH

**2020FRR01**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES: CORPORATE BONDS – LOT 2 – EURO DENOMINATED HIGH YIELD CORPORATE BONDS**

- BLACKROCK NETHERLANDS B.V.
- CANDRIAM
- DEGROOF PETERCAM ASSET MANAGEMENT SA
- DWS INTERNATIONAL GMBH
- THREADNEEDLE MANAGEMENT LUXEMBOURG SA

**2021FRR01**
**RESPONSIBLE MANAGEMENT MANDATES: EQUITY INDEX REPLICATION FOR MANAGEMENT IN LINE WITH THE PARIS AGREEMENT**

- AMUNDI ASSET MANAGEMENT
- BNP PARIBAS ASSET MANAGEMENT
- CANDRIAM

**2021FRR02**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES – US DOLLAR DENOMINATED INVESTMENT-GRADE CORPORATE BONDS**

- ALLSPRING GLOBAL INVESTMENTS LUXEMBOURG S.A.
- FRANKLIN TEMPLETON INTERNATIONAL SERVICES SARL
- BFT INVESTMENT MANAGERS (METLIFE INVESTMENT MANAGEMENT LLC)

**2021FRR03**
**TRANSITION OPERATIONS MANAGEMENT**

- RUSSEL INVESTMENTS FRANCE
- BLACKROCK NETHERLANDS B.V.

## OTHER SERVICE PROVIDERS

**2018FRR06**
**FRR WRITTEN COMMUNICATIONS MEDIA**

- LUCIOLE

**2019FRR03**
**PROVISION OF ANALYSIS OF FRR PORTFOLIO EXTRA-FINANCIAL OPPORTUNITIES AND RISKS – LOT 1 - PORTFOLIO ANALYSIS AND SUPPLY OF EXTRA-FINANCIAL RISKS DATABASE**

- VIGEO EIRIS

**PROVISION OF ANALYSIS OF FRR PORTFOLIO EXTRA-FINANCIAL OPPORTUNITIES AND RISKS – LOT 2 - PORTFOLIO ANALYSIS AND SUPPLY OF EXTRA-FINANCIAL RISKS DATABASE**

- ISS EUROPE

**2019FRR04**
**PROVISION OF MEASUREMENT AND ANALYSIS OF FRR PORTFOLIO ENVIRONMENTAL FOOTPRINT – LOT 1 – ASSESSMENT OF PORTFOLIO CLIMATE RISKS**

- S&P TRUCOST LIMITED

**2019FRR04**
**PROVISION OF MEASUREMENT AND ANALYSIS OF FRR PORTFOLIO ENVIRONMENTAL FOOTPRINT – LOT 2 – CONTRIBUTION TO ENERGY TRANSITION**

- S&P TRUCOST LIMITED

**2019FRR04**
**PROVISION OF MEASUREMENT AND ANALYSIS OF FRR PORTFOLIO ENVIRONMENTAL FOOTPRINT – LOT 3 – ANALYSIS OF ENVIRONMENTAL IMPACTS AND PHYSICAL RISKS**

- S&P TRUCOST LIMITED

**2020FRR02**
**STATUTORY AUDITORS**

- MAZARS
- GRANT THORNTON

**2022FRR02**
**SELECTION OF LEGAL SERVICES PROVIDERS**

- FIELDFISHER (FRANCE) LLP AND CABINET ÉMILIE MAZZEI
- KRAMER LEVIN NAFTALIS & FRANKEL LLP

**2022FRR04**
**FRR WRITTEN COMMUNICATIONS MEDIA**

- LUCIOLE

## ● REQUESTS FOR PROPOSALS LAUNCHED, BUT NOT FINALISED, IN 2022

**2022FRR01**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES: US DOLLAR-DENOMINATED HIGH YIELD CORPORATE BONDS**

**2022FRR03**
**RESPONSIBLE ACTIVE MANAGEMENT MANDATES: EUROPEAN SMALL AND MID CAPITALISATION EQUITIES**






# ACCOUNTING AND FINANCIAL SUMMARY

The 2022 result shows a deficit of 562 M€, following a positive 2021 result of 1,564 M€.

Financial assets, transferable securities and cash totalled 20.8 Bn€, down 5 Bn€ compared to 25.9 Bn€ in 2021.

The valuation differences recorded in the balance sheet show the difference between the purchase price of the assets and their market value as at 31 December. These positive differences, of 2.6 Bn€ at 31 December 2021, fell by 2.05 Bn€ to 598 M€ at the closing date.

The 2022 financial result is a deficit of 507 M€, after a positive 2021 financial result of 1,648.70 M€.

By analysing the financial result, the contribution of each income or expense category to the financial year's result can be assessed.

Income from transferable securities totalled 443.20 M€ compared to 451.30 M€ in 2021.

Foreign exchange transactions generated a negative result of 714.50 M€, compared to -231.60 M€ at 31 December 2021.

Forward financial instruments posted a loss of 1.10 M€, compared to a gain of 267.80 M€ in 2021.

Financial instrument disposals produced a deficit of 277.80 M€, compared to a surplus of 1316.50 M€ in 2021.

Finally, the result on option hedging was positive at 36.3 M€ compared to the negative result of 158.40 M€ in 2021.

# BALANCE SHEET AT 31/12/2022

## ASSETS

| | 2022 | | | 2021 |
|---|---|---|---|---|
| | Gross | Depreciation and amortisation | Net | Net |
| **FIXED ASSETS** | | | | |
| **Intangible assets** | | | | |
| Other intangible assets | 6,780,629.44 | -5,779,720.17 | 1,000,909.27 | 971,456.27 |
| **Tangible fixed assets** | | | | |
| Plant and equipment | 12,712.31 | -12,712.31 | 0.00 | 0.00 |
| **Total I** | **6,793,341.75** | **-5,792,432.48** | **1,000,909.27** | **971,456.27** |
| **CURRENT ASSETS** | | | | |
| **Operating receivables** | 91,462.17 | | 91,462.17 | 2,500.00 |
| **Miscellaneous receivables** | | | | |
| Financial instruments | 13,828,526.46 | | 13,828,526.46 | 18,965,130.81 |
| Foreign exchange transactions | 5,157,698,877.99 | | 5,157,698,877.99 | 7,339,457,255.04 |
| Forward financial instruments | 315,361,920.73 | | 315,361,920.73 | 291,155,456.31 |
| **Financial instruments** | | | | |
| Equities and similar securities | 5,759,320,326.32 | | 5,759,320,326.32 | 7,528,255,634.93 |
| Bonds & similar securities | 7,576,189,769.72 | | 7,576,189,769.72 | 11,184,599,372.66 |
| Negotiable debt securities (TCN) | 602,467,622.83 | | 602,467,622.83 | 520,342,123.53 |
| Undertakings for collective Investment (OPC) | 6,207,731,025.41 | | 6,207,731,025.41 | 6,119,129,430.36 |
| **Cash and cash equivalent** | 737,159,980.97 | | 737,159,980.97 | 576,576,539.44 |
| **Prepaid expenses** | | | 0.00 | 1,039,565.02 |
| **Total II** | **26,369,849,512.60** | **0.00** | **26,369,849,512.60** | **33,579,523,008.10** |
| **OVERALL TOTAL (I + II)** | **26,376,642,854.35** | **-5,792,432.48** | **26,370,850,421.87** | **33,580,494,464.37** |





## LIABILITIES

| | 2022 | 2021 |
|---|---|---|
| **OWN CAPITAL** | | |
| **Allocations** | 1,742,655,311.70 | 1,742,655,311.70 |
| **Reserves** | 2,286,323,232.06 | 722,543,052.97 |
| **Valuation differences** | 598,216,579.05 | 2,655,746,352.59 |
| **Profit/(loss) for the financial year** | -561,982,986.51 | 1,563,780,179.09 |
| **Total I** | **4,065,212,136.30** | **6,684,724,896.35** |
| **PAYABLES** | | |
| **Financial payables** | | |
| CADES Dept - 1 yr | 2,100,000,000.00 | 2,100,000,000.00 |
| CADES Dept + 1 yr | 15,150,000,000.00 | 17,250,000,000.00 |
| **Operating payables** | 40,474,796.75 | 63,193,796.44 |
| **Miscellaneous payables** | | |
| Financial instruments | 62,755,717.52 | 8,888,670.88 |
| Foreign exchange transactions | 4,911,421,831.14 | 7,433,160,830.53 |
| Forward financial instruments | 40,985,795.72 | 40,526,270.17 |
| **Deferred income** | 144.44 | 0.00 |
| **Total II** | **22,305,638,285.57** | **26,895,769,568.02** |
| **OVERALL TOTAL (I + II)** | **26,370,850,421.87** | **33,580,494,464.37** |

# INCOME STATEMENT AT 31/12/2022

| EXPENSES | 2022 | | 2021 |
|---|---|---|---|
| **OPERATING EXPENSES** | | | |
| **External services** | | 85,657,201.64 | 84,041,643.06 |
| Management company fees | 62,732,234.04 | | |
| CDC administrative management | 19,697,416.72 | | |
| Other | 3,227,550.88 | | |
| **Duties, taxes and similar payments** | | 91,298.31 | 89,484.55 |
| Payroll tax | 91,298.31 | | |
| **Staff costs** | | 1,038,816.20 | 1,008,582.00 |
| Wages and salaries | 766,920.19 | | |
| Social security contributions | 271,896.01 | | |
| **Depreciation and amortization expense** | | 289,294.00 | 297,434.00 |
| Depreciation and amortization expense | 289,294.00 | | |
| **Total I** | **87,076,610.15** | **87,076,610.15** | **85,437,143.61** |
| **FINANCIAL EXPENSES** | | | |
| **Financial expenses** | | 2,679,887,908.78 | 1,282,478,997.05 |
| Foreign exchange losses | 943,898,047.76 | | |
| Forward Financial instrument expenses | 445,331,492.58 | | |
| Financial instrument disposal costs | 925,973,114.52 | | |
| Option expenses | 359,487,169.73 | | |
| Other financial expenses | 5,198,084.19 | | |
| **Total II** | **2,679,887,908.78** | **2,679,887,908.78** | **1,282,478,997.05** |
| **EXTRAORDINARY EXPENSES** | | | |
| **Extraordinary expenses** | | 0.00 | 0.00 |
| On management operations | 0.00 | | |
| **Total III** | **0.00** | **0.00** | **0.00** |
| **Profit/(loss) for the financial year** | | -561,982,986.51 | 1,563,780,179.09 |
| **OVERALL TOTAL** | | **2,204,981,532.42** | **2,931,696,319.75** |





| INCOME | 2022 | | 2021 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| **External services** | | 32,484,030.87 | 462,258.61 |
| Other | 32,484,030.87 | | |
| **Total I** | **32,484,030.87** | **32,484,030.87** | **462,258.61** |
| **FINANCIAL INCOME** | | | |
| **Financial income** | | 2,172,325,812.76 | 2,931,192,095.30 |
| Income | 443,252,078.64 | | |
| Foreign exchange gains | 229,395,134.63 | | |
| Income on forward financial instruments | 444,182,953.64 | | |
| Income on disposal of financial instruments | 648,213,949.72 | | |
| Income on options | 395,835,255.76 | | |
| Other financial income | 11,446,440.37 | | |
| **Total II** | **2,172,325,812.76** | **2,172,325,812.76** | **2,931,192,095.30** |
| **EXTRAORDINARY INCOME** | | | |
| **Extraordinary income** | | 171,688.79 | 41,965.84 |
| On management operations | 171,688.79 | | |
| **Total III** | **171,688.79** | **171,688.79** | **41,965.84** |
| **OVERALL TOTAL** | | **2,204,981,532.42** | **2,931,696,319.75** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31/12/2022

## ● ACCOUNTING PRINCIPLES AND METHODS USED

The FRR's accounts are prepared in accordance with the general principles applicable under the social security entities' single chart of accounts (*plan comptable unique des organismes de sécurité sociale*) and the opinion n° 2003- 07 dated 24 June 2003 issued by the Conseil National de la Comptabilité (CNC), as amended by the opinion n° 2008-10 dated 5 June 2008.

The general accounting conventions have been applied in compliance with the principles of prudence, regularity, sincerity and true and fair view under the key going-concern, consistency of accounting methodologies and independent financial year assumptions.

Since the FRR's accounts are kept in euros, the FRR mandates' foreign currency position valuations are recognised at their equivalent in euros, calculated using the WM/ Reuters closing spot rates of exchange.

Transactions are recorded on the trade date. Since 30 November 2006, transactions on investment securities are recorded inclusive of expenses, in accordance with the CNC opinion dated 31 March 2006.

The WACP (weighted average cost price) rule is applied to determine gains or losses on transferable securities, and the FIFO (first in first out) rule, for futures.

Position valuations are determined on Friday evenings or on the last TARGET business day of the week, and on the last TARGET business day of the month, by default based on the closing price on the issuer's reference venue, on a case-by-case basis, on the principal place of listing.

If no price is available on the valuation date, the valuation is made based on the latest known price or using a preset procedure using an old rate.

Bond valuations are based upon the principle of BID quotations based on contributed prices communicated by various financial services providers.

Accrued coupons on sale or purchase, as well as end-of-period coupons, are expressed by value date; this accounting method reflects recognition of transactions as from their trade date.

French Government treasury bills or bonds (BTF and BTAN) are valued by reference to the rate published by the Banque de France, on the valuation date.

Negotiable debt instruments (TCN) or equivalent with low transaction volumes are valued using an actuarial method based on identical maturity zero-coupon rates, plus, if applicable, an issuer spread.

UCITS (OPCVM) are valued by reference to the latest known net asset value. ETF (Exchange Traded Funds) are valued by reference to the latest listed price.



Private equity funds are valued on the basis of the latest valuations communicated by the managers.

Unlisted asset UCI (OPC) are valued on the basis of the latest valuations communicated by the managers if below their acquisition cost, or at par if above such cost.

Forward financial instruments traded on regulated or equivalent markets and their related commitments are valued by reference to the clearing price.

Forward foreign exchange positions are valued both, by linear depreciation of the initial premium/discount and by valuation of the currency position using the WM/ Reuters closing spot rates of exchange.

Swaps are valued based upon the prices submitted by the counterparty, verified by the manager, and also subject to various levels of control imposed by the FRR.

Unrealised gains or losses and latent foreign exchange differences are recognised in the balance sheet under valuation differences and do not affect the FRR's results.

Recoveries of withholding tax are recognised as and when collected.

Realised gains or losses and definitive exchange differences are recorded in the income and expenses accounts.

Tangible fixed assets are depreciated on a straight line basis over a period of 3 years.

Intangible assets, essentially the right to use the SPIRRIS software and related maintenance, are amortised on a straight line basis over 5 years.

Management company remuneration is based on a tariff scale divided into tranches for amounts of assets under management to which basis-point fees are ascribed.

Certain mandates attract variable fees for outperformance defined as the positive arithmetical difference between the performance of the portfolio and that of its benchmark. Such fees become payable at the end of the management mandate provided that the outperformance is confirmed for the relevant periods, capped in accordance with the contractually agreed limits.

## ● PRESENTATION OF THE FINANCIAL STATEMENTS

To facilitate a reading of the financial statements, certain items have been grouped together:

Balance sheet:

The various headings are presented in terms of net values having regard to depreciation made for fixed assets or valuation differences for financial assets and liabilities.

- "Receivables" and "Payables on financial instruments" include transactions on financial instruments made by investment companies for which the amounts due or payable have yet to be paid or received (coupons due, sales or purchases pending settlement).
- "Receivables" and "Payables on foreign exchange transactions" include pending transactions whether spot foreign exchange transactions or forward foreign exchange contracts.
- "Receivables" and "Payables on forward financial instruments" include pending transactions relating to futures (margin payable or receivable, security deposit), option premiums and swaps (amounts payable or receivable).

- "Financial instruments" are divided into 4 categories: shares and similar securities, bonds and similar securities, negotiable debt instruments (TCN), undertakings for collective investment (OPC), including private equity funds and unlisted asset OPC. These appear in the balance sheet at their market value taking into account coupons accrued on bonds, TCN and unlisted asset OPC.
- "Cash and cash equivalent" includes all of the FRR's cash accounts in euros and foreign currencies (valued at their price on the last day of the financial period) and accrued interest by way of remuneration on such current accounts and fixed-term (deposit) accounts.
- "Own Capital" includes:

- "Allocations" meaning the balance of the funds received by the Fonds de Réserve pour les Retraites since its establishment in 1999, less the amounts allocated to CADES,

- "Reserves" representing the cumulative results generated by the FRR since its inception, less the amounts applied towards CADES debt,

- "Valuation differences" representing the latent gains and/or losses recorded across all assets as at the closing date,

- the financial year profit or loss.

## NOTEWORTHY EVENTS

For the record, the one-off, lump-sum contribution in full discharge referred to in article 19 of the law n° 2004-803 dated 9 August 2004 paid to the FRR by CNIEG, pursuant to a decision of the High Inter-ministerial Council for social security entity accounting dated 20 April 2005, recognised in the FRR's accounts as a debt, was settled in full and repaid on 31/07/2020 in accordance with the law n° 2020-992 dated 7 August 2020 on the social security debt and autonomy.

The "CADES debt" is presented as a "debts of less than one year" and as a "debts of over one year". The law n° 2020-992 dated 7 August 2020 on the social security debt and autonomy also provides that as from 2025, the FRR shall pay each year to CADES, an amount of 1.45 Bn€ towards financing the repayment of social security debt.

The additional debt of 13,050,101,020,000.00 € is recorded in the FRR's balance sheet under "debts of over one year" by reconciling the Own Capital "reserves" and "allocations" items.

Note a change in the presentation of the operating result. In 2022, the difference between the reversal of the accrued liability in respect of 2021 variable final (in fine) fees and the amount of such fees actually paid in 2022 is entered under operating income. In 2021 the amount of this difference was credited to the category 6 "Management fees" account.

The effect of this change in presentation is:

- First, to align the extra-accounting calculations of management fees determined by the Operations Department's middle-office, with the trial balance on the closing date,
- Secondly, to increase the amount of the operating expenses and the amount of the operating income having regard to the preceding financial year. However, this has no impact on the overall operating result.





## ADDITIONAL INFORMATION RELATING TO ASSETS

### Fixed assets

#### FIXED ASSETS AND DEPRECIATION TABLE

| Headings and items | FIXED ASSETS | | | |
|---|---|---|---|---|
| | Gross book value – opening balance | Increase | Decrease | Gross book value – closing balance |
| Intangible assets | 6,460,882.44 | 406,153.00 | -87,406.00 | 6,779,629.44 |
| Equity holding | 1,000.00 | 0.00 | 0.00 | 1,000.00 |
| **Total I** | **6,461,882.44** | **406,153.00** | **-87,406.00** | **6,780,629.44** |
| Tangible fixed assets | 12,712.31 | 0.00 | 0.00 | 12,712.31 |
| **Total II** | **12,712.31** | **0.00** | **0.00** | **12,712.31** |
| **Overall Total** | **6,474,594.75** | **406,153.00** | **-87,406.00** | **6,793,341.75** |

| Headings and items | DEPRECIATION AND AMORTISATION | | | | |
|---|---|---|---|---|---|
| | Accumulated values – opening balance | Depreciation/ amortisation charges | Decrease | Accumulated values – closing balance | Net book value |
| Intangible assets | -5,490,426.17 | -289,294.00 | 0.00 | -5,779,720.17 | 999,909.27 |
| Equity holding | 0.00 | 0.00 | 0.00 | 0.00 | 1,000.00 |
| **Total I** | **-5,490,426.17** | **-289,294.00** | **0.00** | **-5,779,720.17** | **1,000,909.27** |
| Tangible fixed assets | -12,712.31 | 0.00 | 0.00 | -12,712.31 | 0.00 |
| **Total II** | **-12,712.31** | **0.00** | **0.00** | **-12,712.31** | **0.00** |
| **Overall Total** | **-5,503,138.48** | **-289,294.00** | **0.00** | **-5,792,432.48** | **1,000,909.27** |

## Financial management-related receivables

| Receivables | 31/12/2022 |
|---|---|
| **Related to financial instruments** | |
| Coupons due for collection | 6,985,924.53 |
| Sales pending settlement | 5,738,889.15 |
| Fees/rebates receivable | 1,103,712.78 |
| **Total** | **13,828,526.46** |
| **Related to foreign exchange transactions** | |
| Forward purchases | 199,872,665.53 |
| Forward foreign currency receivable | 4,936,912,701.81 |
| Spot foreign currency receivable | 37,806.20 |
| Discount | 20,875,704.45 |
| **Total** | **5,157,698,877.99** |
| **Related to forward financial instruments** | |
| Security deposits | 211,195,475.34 |
| Margin receivable | 893,624.27 |
| Option premium | 103,272,821.12 |
| **Total** | **315,361,920.73** |





## Financial instruments

### CHANGES IN THE VALUE OF THE SECURITIES PORTFOLIO

**PORTFOLIO AS OF 31 DECEMBER 2021**

| | Acquisition Value | Valuation difference | Accrued coupons | Balance sheet value |
|---|---|---|---|---|
| Equities | 6,001,524,761.09 | 1,526,730,873.84 | | 7,528,255,634.93 |
| Bonds | 11,210,111,698.90 | -123,733,735.31 | 98,221,409.07 | 11,184,599,372.66 |
| TCN | 520,550,000.00 | -207,876.47 | | 520,342,123.53 |
| Undertakings for collective investment | 4,930,323,321.93 | 1,188,806,108.43 | | 6,119,129,430.36 |
| OPCVM | 4,340,268,012.84 | 1,138,982,898.72 | | 5,479,250,911.56 |
| Other OPC | 590,055,309.09 | 49,823,209.71 | | 639,878,518.80 |
| *Private Equity Fund* | *0.00* | *60,250,127.52* | | *60,250,127.52* |
| *Unlisted asset OPC* | *590,055,309.09* | *-10,426,917.81* | | *579,628,391.28* |
| **Total** | **22,662,509,781.92** | **2,591,595,370.49** | **98,221,409.07** | **25,352,326,561.48** |

**PORTFOLIO AT 31 DECEMBER 2022**

| | Acquisition Value | Valuation difference | Accrued coupons | Balance sheet value |
|---|---|---|---|---|
| Equities | 5,502,744,169.41 | 256,576,156.91 | | 5,759,320,326.32 |
| Bonds | 8,616,131,286.87 | -1,120,238,776.61 | 80,297,259.46 | 7,576,189,769.72 |
| TCN | 607,304,972.37 | -4,837,349.54 | | 602,467,622.83 |
| Undertakings for collective investment | 5,130,335,651.58 | 1,077,395,373.83 | | 6,207,731,025.41 |
| OPCVM | 4,625,035,745.05 | 1,054,483,649.54 | | 5,679,519,394.59 |
| Other OPC | 505,299,906.53 | 22,911,724.29 | | 528,211,630.82 |
| *Private Equity Fund* | *0.00* | *32,712,458.91* | | *32,712,458.91* |
| *Unlisted asset OPC* | *505,299,906.53* | *-9,800,734.62* | | *495,499,171.91* |
| **Total** | **19,856,516,080.23** | **208,895,404.59** | **80,297,259.46** | **20,145,708,744.28** |

| | 31/12/2021 | 31/12/2022 |
|---|---|---|
| Equities | 7,528,255,634.93 | 5,759,320,326.32 |
| Bonds | 11,184,599,372.66 | 7,576,189,769.72 |
| TCN | 520,342,123.53 | 602,467,622.83 |
| Undertakings for collective investment | 6,119,129,430.36 | 6,207,731,025.41 |
| OPCVM | 5,479,250,911.56 | 5,679,519,394.59 |
| Other OPC | 639,878,518.80 | 528,211,630.82 |
| *Private Equity Fund* | *60,250,127.52* | *32,712,458.91* |
| *Unlisted asset OPC* | *579,628,391.28* | *495,499,171.91* |
| **Total** | **25,352,326,561.48** | **20,145,708,744.28** |

## PORTFOLIO BREAKDOWN BY RESIDUAL MATURITY

| | 31/12/2021 | 31/12/2022 |
|---|---|---|
| < 3 months | 2.15% | 3.69% |
| > 3 months < 1 yr | 4.22% | 7.08% |
| 1 à 3 yrs | 16.69% | 19.61% |
| 3 à 5 yrs | 25.00% | 22.76% |
| 5 à 7 yrs | 19.96% | 17.84% |
| 7 à 10 yrs | 18.16% | 18.90% |
| 10 à 15 yrs | 7.31% | 2.91% |
| > 15 yrs | 6.50% | 7.21% |
| | **100.00%** | **100.00%** |

## PORTFOLIO BREAKDOWN BY TYPE OF INTEREST RATE

| | 31/12/2021 | 31/12/2022 |
|---|---|---|
| Fixed rate | 93.46% | 93.0% |
| Index-linked rate | 0.01% | 0.02% |
| Variable rate | 6.53% | 6.92% |
| | **100.00%** | **100.00%** |





## BREAKDOWN OF FINANCIAL INSTRUMENTS PORTFOLIO BY QUOTE CURRENCY

| | | | | Undertakings for Collective Investment | | | |
|---|---|---|---|---|---|---|---|
| Currency | Equities | Bonds | TCN | OPCVM[1] | Other OPC | | Total |
| | | | | | OPC ULA[2] | LP[3] and FCPR | |
| AUD | 93,576,948.79 | | | | | | 93,576,948.79 |
| CAD | 0.00 | | | | | | 0.00 |
| CHF | 39,411,443.94 | | | | | | 39,411,443.94 |
| DKK | 11,935,146.35 | | | | | | 11,935,146.35 |
| EUR | 2,985,314,020.46 | 6,102,168,620.82 | 602,467,478.39 | 3 391 190 705.59 | 495,499,171.91 | 32 484 907.00 | 13,609,124,904.17 |
| GBP | 221,297,744.84 | | | | | | 221,297,744.84 |
| HKD | 52,166,875.02 | | | | | | 52,166,875.02 |
| JPY | 644,319,439.60 | | | | | | 644,319,439.60 |
| NOK | 17,022,091.06 | | | | | | 17,022,091.06 |
| NZD | 7,991,186.82 | | | | | | 7,991,186.82 |
| SEK | 49,672,614.49 | | | | | | 49,672,614.49 |
| SGD | 24,725,973.34 | | | | | | 24,725,973.34 |
| USD | 1,611,886,841.61 | 1,474,021,148.90 | | 2 288 328 689.00 | | 227 551.91 | 5,374,464,231.42 |
| | | | | | **495,499,171.91** | **32 712 458.91** | |
| **TOTAL NET OF IRA[4]** | **5,759,320,326.32** | **7,576,189,769.72** | **602,467,478.39** | **5 679 519 394.59** | **528,211,630.82** | | **20,145,708,599.84** |

| | |
|---|---|
| IRA on treasury bills (BT) | 0.00 |
| IRA on foreign treasury bills | 0.00 |
| IRA on certificates of deposit | 144.44 |
| **Total IRA** | **144.44** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **TOTAL** | **5,759,320,326.32** | **7,576,189,769.72** | **602,467,622.83** | | | **6 207 731 025.41** | **20 145 708 744.28** |

1. Of which exchange traded funds.
2. Unlisted asset OPC.
3. Limited Partnership (LP): private equity funds.
4. IRA: interest received in advance.

## DETAILED STATEMENT OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2022

| Financial instruments | Total net of IrA | IRA | Portfolio total |
|---|---|---|---|
| **Equities** | | | |
| European Eurozone | 2,985,314,020.46 | | 2,985,314,020.46 |
| European excluding Eurozone | 339,339,040.68 | | 339,339,040.68 |
| America | 1,611,886,841.61 | | 1,611,886,841.61 |
| Asia excluding Japan | 178,460,983.97 | | 178,460,983.97 |
| Japan | 644,319,439.60 | | 644,319,439.60 |
| | **5,759,320,326.32** | | **5,759,320,326.32** |
| **Bonds** | | | |
| European Eurozone | 6,102,168,620.82 | | 6,102,168,620.82 |
| America | 1,474,021,148.90 | | 1,474,021,148.90 |
| | **7,576,189,769.72** | | **7,576,189,769.72** |
| **Negociable dept instrument (TCN)** | | | |
| European Eurozone | 602,467,478.39 | 144.44 | 602,467,622.83 |
| America | | | |
| | **602,467,478.39** | **144.44** | **602,467,622.83** |
| **Undertakings for collective investment (OPC)** | | | |
| **OPCVM** | | | |
| European Eurozone | 3,391,190,705.59 | | 3,391,190,705.59 |
| European excluding Eurozone | 0.00 | | 0.00 |
| America | 2,288,328,689.00 | | 2,288,328,689.00 |
| | **5,679,519,394.59** | | **5,679,519,394.59** |
| **Other OPC** | | | |
| **Private equity funds** | | | |
| Europe | 32,484,907.00 | | 32,484,907.00 |
| America | 227,551.91 | | 227,551.91 |
| | **32,712,458.91** | | **32,712,458.91** |
| **Unlisted asset OPC** | | | |
| Europe | 495,499,171.91 | | 495,499,171.91 |
| | **495,499,171.91** | | **495,499,171.91** |
| | **528,211,630.82** | | **528,211,630.82** |
| | **6,207,731,025.41** | | **6,207,731,025.41** |
| **Overall Total** | **20,145,708,599.84** | **144.44** | **20,145,708,744.28** |





## UNLISTED ASSET UNDERTAKINGS FOR COLLECTIVE INVESTMENT (OPC)

| Funds | Intitial commitments | Commitments at closing date | Balance sheet value FY. n-1 | Payments during period | | Ballance sheet value FY. n | Value at closing date |
|---|---|---|---|---|---|---|---|
| | | | | Calls for funds | Distribution of assets | | |
| SECURISATION MUTUAL FUND (505300) | 1,035,000,000 | 1,111,000,000 | 590,055,310 | 24,214,827 | -108,970,230 | 505,299,907 | 495,499,172 |
| OPCVM (508100) | 2,895,190,000 | 3,086,900,000 | 1,671,135,342 | 356,216,561 | -216,546,441 | 1,820,752,180 | 2,337,638,441 |
| **TOTAL** | **3,930,190,000** | **4,197,900,000** | **2,261,190,652** | **380,431,389** | **-325,516,671** | **2,326,052,086** | **2,833,137,613** |

## Cash and equivalent

| Currencies | Total |
|---|---|
| AUD | 272,415.52 |
| CAD | 0.00 |
| CHF | 934,068.12 |
| DKK | 404,133.61 |
| EUR | 522,950,940.86 |
| GBP | 2,229,956.94 |
| HKD | 276,921.87 |
| JPY | 22,268,945.34 |
| NOK | 332,493.69 |
| NZD | 40,474.96 |
| SEK | 416,173.51 |
| SGD | 103,558.41 |
| USD | 186,929,898.14 |
| **Total** | **737,159,980.97** |

## ADDITIONAL INFORMATION ON LIABILITIES

### Changes in permanent capital

| Own Capital | 31/12/2021 | Allocation of 2020 profit/(loss) | 2021 profit/(loss) | [+] | [-] | 31/12/2022 |
|---|---|---|---|---|---|---|
| Allocations | 1,742,655,311.70 | | | | | 1,742,655,311.70 |
| Reserves | 722,543,052.97 | 1,563,780,179.09 | | | | 2,286,323,232.06 |
| Valuation differences | 2,655,746,352.59 | | | | 2,057,529,773.54 | 598,216,579.05 |
| Profit/(loss) for the financial year | 1,563,780,179.09 | -1,563,780,179.09 | -561,982,986.51 | | | -561,982,986.51 |
| **Sub-Total** | **6,684,724,896.35** | **0.00** | **-561,982,986.51** | **0.00** | **2,057,529,773.54** | **4,065,212,136.30** |

| Long-Term debts | 31/12/2021 | | | | | 31/12/2022 |
|---|---|---|---|---|---|---|
| CADES + 1 year | 17,250,000,000.00 | | | | 2,100,000,000.00 | 15,150,000,000.00 |
| **Sub-Total** | **17,250,000,000.00** | **0.00** | **0.00** | **0.00** | **2,100,000,000.00** | **15,150,000,000.00** |
| **Total permanent capital** | **23,934,724,896.35** | **0.00** | **-561,982,986.51** | **0.00** | **4,157,529,773.54** | **19,215,212,136.30** |

### Recent financial year results

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Financial year profit/(loss) | 841,482,768.05 | 722,543,052.97 | 1,563,780,179.09 | -561,982,986.51 |

The profit/(loss) of financial years prior to closing date are allocated to reserves.



## PAYABLES

### Debt repayment schedule

| Payables | Total | - 1 year | + 1 year | 1 to 5 years | 5+ years |
|---|---|---|---|---|---|
| CADES debt | 17,250,000,000.00 | 2,100,000,000.00 | 15,150,000,000.00 | 7,900,000,000.00 | 7,250,000,000.00 |
| Operating payables | 40,474,796.75 | | | | |
| Payables on financial instruments | 62,755,717.52 | | | | |
| Payables on forex transactions | 4,911,421,831.14 | | | | |
| Payables on forward financial instrument | 40,985,795.72 | | | | |
| | **22,305,638,141.13** | **2,100,000,000.00** | **15,150,000,000.00** | **7,900,000,000.00** | **7,250,000,000.00** |

## PAYABLES RELATED TO FINANCIAL MANAGEMENT

| Payables | 31/12/2022 |
|---|---|
| **Related to financial instruments** | |
| Purchases pending settlement | 62,755,717.52 |
| | |
| **Total** | **62,755,717.52** |
| **Related to foreign exchange transactions** | |
| Forward sales | 4,705,063,552.47 |
| Forward foreign currency deliverable | 204,753,217.72 |
| Spot foreign currency deliverable | 37,871.19 |
| Premium | 1,567,189.76 |
| | |
| **Total** | **4,911,421,831.14** |
| **Related to forward financial instruments** | |
| Margin payable | 27,748,810.24 |
| Option premium | 13,236,985.48 |
| | |
| **Total** | **40,985,795.72** |

### Deferred income

Deferred income amounted to **144,44 €**. This represents interest deducted on certain negotiable debt instruments (TCN).





# ● ADDITIONAL INFORMATION ON THE INCOME STATEMENT

## OPERATING EXPENSES

| | Amount |
|---|---|
| **External services** | **85,657,201.64** |
| *Administrative Management (Caisse des Dépôts et Consignations)* | 19,697,416.72 |
| Investment company fees | 62,732,234.04 |
| Other external services | 3,227,550.88 |
| *Of wich trading fees on forward financial instruments* | *2,500,041.82* |
| **Duties and taxes** | **91,298.31** |
| **Payroll** | **1,038,816.20** |
| **Depreciation and amortisation** | **289,294.00** |
| | |
| **Total** | **87,076,610.15** |

## OPERATING INCOME

| | Amount |
|---|---|
| **External services** | **32,484,030.87** |
| Other external services | 32,484,030.87 |

## FRR'S DIRECT PAYROLL EMPLOYEES

**EMPLOYEES AND THEIR BREAKDOWN BY CATEGORY**

| Category | Open end contract | Fixed term contract | Temp. | Other | Total |
|---|---|---|---|---|---|
| Senior executives | 2 | | | | 2 |
| Managerial staff | 2 | | | | 2 |
| Employees | 4 | | | | 4 |
| | 8 | | | | |
| **Total** | **7** | | | | **8** |
| Others[1] | | | | 2 | |

1. Accountant and President of the Supervisory Board.

## OFF-BALANCE SHEET COMMITMENTS

**FORWARD FOREIGN EXCHANGE CONTRACTS**

| Currency codes | Currency receivable | % | Currency deliverable | % |
|---|---|---|---|---|
| AUD | 86,550,523.98 | 1.75% | 3,241,140.29 | 1.58% |
| CAD | 0.00 | 0.00% | 0.00 | 0.00% |
| CHF | 36,066,212.20 | 0.73% | 1,639,829.95 | 0.80% |
| DKK | 11,708,566.58 | 0.24% | 2,013,882.79 | 0.98% |
| GBP | 235,486,072.32 | 4.77% | 30,309,280.61 | 14.80% |
| HKD | 56,283,173.91 | 1.14% | 4,744,310.84 | 2.32% |
| JPY | 194,439,727.41 | 3.94% | 13,255,135.40 | 6.47% |
| NOK | 18,342,361.42 | 0.37% | 3,692,394.35 | 1.80% |
| NZD | 7,440,482.00 | 0.15% | 23,830.83 | 0.01% |
| SEK | 48,184,526.18 | 0.98% | 4,296,274.12 | 2.10% |
| SGD | 23,913,849.19 | 0.48% | 1,088,931.02 | 0.53% |
| USD | 4,218,497,206.62 | 85.45% | 140,448,207.52 | 68.59% |
| **Total** | **4,936,912,701.81** | **100.00%** | **204,753,217.72** | **100.00%** |

**SECURITIES AND CASH ON DEPOSIT AT 31 DECEMBER 2021**

| Symbol | Description | Quantity | Cost price | Market price |
|---|---|---|---|---|
| DG.AUD | DEPOSIT AUD | 59,760.00 | 39,260.23 | 37,972.99 |
| DG.EUR | DEPOSIT EUR | 84,261,156.26 | 84,261,156.26 | 84,261,156.26 |
| DG.EUR | DEPOSIT EUR | 390,314.30 | 390,314.30 | 390,314.30 |
| DG.EUR | DEPOSIT EUR | 1,564,968.80 | 1,564,968.80 | 1,564,968.80 |
| DG.EUR | DEPOSIT EUR | 927,047.80 | 927,047.80 | 927,047.80 |
| DG.EUR | DEPOSIT EUR | 73,031.70 | 73,031.70 | 73,031.70 |
| DG.EUR | DEPOSIT EUR | 113,605.60 | 113,605.60 | 113,605.60 |
| DG.EUR | DEPOSIT EUR | 336,770.80 | 336,770.80 | 336,770.80 |
| DG.EUR | DEPOSIT EUR | 150,122.50 | 150,122.50 | 150,122.50 |
| DG.HKD | DEPOSIT HKD | 311,819.00 | 39,006.44 | 37,433.92 |
| DG.JPY | DEPOSIT JPY | 163,400,000.00 | 1,178,163.69 | 1,160,360.54 |
| DG.SGD | DEPOSIT SGD | 11,550.00 | 8,143.44 | 8,069.02 |
| DG.USD | DEPOSIT USD | 75,407,675.20 | 74,464,189.83 | 70,656,055.46 |
| DG.USD | DEPOSIT USD | 54,940,499.20 | 54,070,068.28 | 51,478,565.65 |
| | | | **217,615,849.67** | **211,195,475.34** |

### OTHER COMMITMENTS

**Off-balance sheet commitments on derivatives**

**Forex futures**

**Buyer**

| Symbol | Description | Curr. | Quantity | Price | OBS commitment value |
|---|---|---|---|---|---|
| EC0323 | CHI FUTUR EUR/U 0323 | USD | 919.00 | 1.08 | 115,752,237.06 |
| ECJPY0323 | CHI EURO/JPY 0323 | JPY | 93.00 | 139.54 | 11,519,472.33 |
| | | | | | **127,271,709.39** |

**Index futures**

**Buyer**

| Symbol | Description | Curr. | Quantity | Price | OBS commitment value |
|---|---|---|---|---|---|
| AP0323 | SYD FUTURE SPI2 0323 | AUD | 4.00 | 6,992.00 | 444,289.12 |
| FCE0123 | Mar CAC40 0123 | EUR | 6,590.00 | 6,470.50 | 426,405,950.00 |
| FDAX0323 | EUR FUTURE DAX 0323 | EUR | 921.00 | 13,988.00 | 322,073,700.00 |
| FESX0323 | EUR DJ EURO STO 0323 | EUR | 11,446.00 | 3,785.00 | 433,231,100.00 |
| FESX0323 | EUR DJ EURO STO 0323 | EUR | 18.00 | 3,785.00 | 681,300.00 |
| FESX0323 | EUR DJ EURO STO 0323 | EUR | 30.00 | 3,785.00 | 1,135,500.00 |
| FESX0323 | EUR DJ EURO STO 0323 | EUR | 83.00 | 3,785.00 | 3,141,550.00 |
| FESX0323 | EUR DJ EURO STO 0323 | EUR | 39.00 | 3,785.00 | 1,476,150.00 |
| FMCE_FA0323 | EUR EURO STOXX 0323 | EUR | 1,618.00 | 448.60 | 36,291,740.00 |
| FTI0123 | Mar FUTURE AEX 0123 | EUR | 2,025.00 | 689.65 | 279,308,250.00 |
| HSI0123 | HKF HANG SENG I 0123 | HKD | 3.00 | 19,915.00 | 358,619.90 |
| IX0123 | MEF IBEX 35 0123 | EUR | 1,460.00 | 8,194.30 | 119,636,780.00 |
| **SG_FQ0123** | **SIM MSCI SINGAP 0123** | **SGD** | **7.00** | **290.55** | **142,088.17** |
| SPMIB0323 | ITA SPMIB INDEX 0323 | EUR | 1,153.00 | 23,708.00 | 136,676,620.00 |
| TP0323 | OSA TOPIX 0323 | JPY | 134.00 | 1,891.50 | 17,999,152.22 |
| | | | | | **1,779,002,789.40** |

**Seller**

| Symbol | Description | Curr. | Quantity | Price | OBS commitment value |
|---|---|---|---|---|---|
| EMD0323 | CHI FUTURE SPI4 0323 | USD | 48.00 | 2,442.60 | 10,985,692.20 |
| ES0323 | CHI FUTUR SPMIN 0323 | USD | 204.00 | 3,861.00 | 36,900,632.47 |
| RTY_FG0323 | CHI E MINI RUSS 0323 | USD | 375.00 | 1,770.90 | 31,112,087.14 |
| | | | | | **78,998,411.80** |





**Interest rate futures**

**Buyer**

| Symbol | Description | Curr. | Quantity | Price | OBS commitment value |
|---|---|---|---|---|---|
| FBTP0323 | EUR EURO BTP FU 0323 | EUR | 3.00 | 108.92 | 326,760.00 |
| FGBL0323 | EUR EURO BUND F 0323 | EUR | 422.00 | 132.93 | 56,096,460.00 |
| FGBL0323 | EUR EURO BUND F 0323 | EUR | 97.00 | 132.93 | 12,894,210.00 |
| FGBM0323 | EUR EURO BOBL F 0323 | EUR | 117.00 | 115.75 | 13,542,750.00 |
| | | | | | **82,860,180.00** |

**Seller**

| Symbol | Description | Curr. | Quantity | Price | OBS commitment value |
|---|---|---|---|---|---|
| FGBM0323 | EUR EURO BOBL F 0323 | EUR | 257.00 | 115.75 | 29,747,750.00 |
| FGBS0323 | EUR EURO SCHATZ 0323 | EUR | 71.00 | 105.42 | 7,484,820.00 |
| FGBS0323 | EUR EURO SCHATZ 0323 | EUR | 210.00 | 105.42 | 22,138,200.00 |
| FGBX0323 | EUR FUTURE EURO 0323 | EUR | 15.00 | 135.24 | 2,028,600.00 |
| FOAT0323 | EUR EURO OAT FU 0323 | EUR | 53.00 | 127.30 | 6,746,900.00 |
| | | | | | **68,146,270.00** |

### INDEX CALL OPTIONS

| Symbol | Fininfo description | Quantity | Exercice price | Price of underlying | Delta (Mid) | Delta (Last) | Commitment value (value of the underlying) |
|---|---|---|---|---|---|---|---|
| OESX0223C-1 | EURO STOXX 50 C 2302 4250.00 | -13,761.00 | 4,250.00 | 3,793.62 | 0.032 | 0.032 | -16,705,281.54 |
| OESX0323C-1 | EURO STOXX 50 C 2303 4175.00 | -52,870.00 | 4,175.00 | 3,793.62 | 0.106 | 0.105 | -212,602,810.76 |
| OSPX0223C-1 | S&P 500 C 2302 4300.00 | -1,164.00 | 4,300.00 | 3,839.50 | 0.051 | 0.049 | -4,271,315.56 |
| OSPX0323C-1 | S&P 500 C 2303 4220.00 | -520.00 | 4,220.00 | 3,839.50 | 0.160 | 0.144 | -5,986,346.19 |
| OSPX0323C-2 | S&P 500 C 2303 4180.00 | -520.00 | 4,180.00 | 3,839.50 | 0.192 | 0.161 | -7,183,615.42 |
| OSPX0323C-3 | S&P 500 C 2303 4200.00 | -772.00 | 4,200.00 | 3,839.50 | 0.175 | 0.147 | -9,720,617.42 |
| **Total in absolute value** | | | | | | | **256,469,986.90** |

### INDEX PUT OPTIONS

| Symbol | Fininfo description | Quantity | Exercice price | Price of underlying | Delta (Mid) | Delta (Last) | Commitment value (value of the underlying) |
|---|---|---|---|---|---|---|---|
| OESX0323P-3 | EURO STOXX 50 P 2303 3625.00 | -52,870.00 | 3,625.00 | 3,793.62 | -0.311 | -0.313 | 623,768,624.03 |
| OESX0323P-4 | EURO STOXX 50 P 2303 3875.00 | 52,870.00 | 3,875.00 | 3,793.62 | -0.579 | -0.583 | -1,161,292,711.63 |
| OESX0623P-1 | EURO STOXX 50 P 2306 3575.00 | -27,522.00 | 3,575.00 | 3,793.62 | -0.349 | -0.35 | 364,383,953.64 |
| OESX0623P-2 | EURO STOXX 50 P 2306 3825.00 | 27,522.00 | 3,825.00 | 3,793.62 | -0.531 | -0.533 | -554,406,531.19 |
| OSPX0323P-1 | S&P 500 P 2303 3875.00 | 1,164.00 | 3,875.00 | 3,839.50 | -0.486 | -0.492 | -40,703,124.79 |
| OSPX0323P-2 | S&P 500 P 2303 3625.00 | -1,164.00 | 3,625.00 | 3,839.50 | -0.261 | -0.259 | 21,859,085.54 |
| OSPX0323P-3 | S&P 500 P 2303 3860.00 | 520.00 | 3,860.00 | 3,839.50 | -0.470 | -0.476 | -17,584,891.92 |
| OSPX0323P-4 | S&P 500 P 2303 3600.00 | -520.00 | 3,600.00 | 3,839.50 | -0.243 | -0.246 | 9,091,763.27 |
| OSPX0323P-5 | S&P 500 P 2303 3560.00 | -1,292.00 | 3,560.00 | 3,839.50 | -0.216 | -0.22 | 20,079,586.57 |
| OSPX0323P-6 | S&P 500 P 2303 3820.00 | 1,292.00 | 3,820.00 | 3,839.50 | -0.430 | -0.458 | -39,973,251.04 |
| **Total in absolute value** | | | | | | | **2,853,143,523.62** |





# STATUTORY AUDITORS' REPORT

mazars
61, rue Henri Regnault
92075 Paris La Défense Cedex

Grant Thornton
29, rue du Pont
92578 Neuilly-sur-Seine Cedex

***FONDS DE RESERVE POUR LES RETRAITES***

Rapport des commissaires aux comptes sur les comptes annuels

*Exercice clos le 31 décembre 2022*

**FONDS DE RESERVE POUR LES RETRAITES**
56, rue de Lille
75007 Paris

Rapport des commissaires aux comptes sur les comptes annuels
Exercice clos le 31 décembre 2022

Aux membres de Conseil de Surveillance,

## Opinion

En exécution de la mission qui nous a été confiée par le Conseil de Surveillance, nous avons effectué l'audit des comptes annuels du Fonds de Réserve pour les Retraites relatifs à l'exercice clos le 31 décembre 2022, tels qu'ils sont joints au présent rapport.

Nous certifions que les comptes annuels sont, au regard des règles et principes comptables français, réguliers et sincères et donnent une image fidèle du résultat des opérations de l'exercice écoulé ainsi que de la situation financière et du patrimoine du Fonds de Réserve pour les Retraites à la fin de cet exercice.

## Fondement de l'opinion

### *Référentiel d'audit*

Nous avons effectué notre audit selon les normes d'exercice professionnel applicables en France. Nous estimons que les éléments que nous avons collectés sont suffisants et appropriés pour fonder notre opinion.

Les responsabilités qui nous incombent en vertu de ces normes sont indiquées dans la partie « Responsabilités des Commissaires aux comptes relatives à l'audit des comptes annuels » du présent rapport.

### *Indépendance*

Nous avons réalisé notre mission d'audit dans le respect des règles d'indépendance prévues par le code de commerce et par le code de déontologie de la profession de commissaire aux comptes, sur la période du 1er janvier 2022 à la date d'émission de notre rapport.





## Observation

Sans remettre en cause l'opinion exprimée ci-dessus, nous attirons votre attention sur le point suivant exposé dans la note « Faits marquants » de l'annexe des comptes annuels concernant le changement de présentation de la contrepassation de la charge à payer sur frais de gestion variables « in fine » de l'exercice précédent.

## Justification des appréciations

En application des dispositions des articles L.823-9 et R.823-7 du code de commerce relatives à la justification de nos appréciations, nous portons à votre connaissance les appréciations suivantes qui, selon notre jugement professionnel, ont été les plus importantes pour l'audit des comptes annuels de l'exercice.

Les appréciations ainsi portées s'inscrivent dans le contexte de l'audit des comptes annuels pris dans leur ensemble et de la formation de notre opinion exprimée ci-avant. Nous n'exprimons pas d'opinion sur des éléments de ces comptes annuels pris isolément.

Comme il est précisé à la note 1 de l'annexe des comptes « Règles et méthodes comptables utilisées », les comptes sont établis selon les principes et méthodes du plan comptable unique des organismes de sécurité sociale et l'avis CNC n°2003-07 du 24 juin 2003 modifié par l'avis n°2008-10 du 5 juin 2008 relatif à la comptabilisation des instruments financiers du Fonds de Réserve pour les Retraites.

Dans le cadre de notre appréciation des règles et méthodes comptables suivies par votre Etablissement, en particulier de celles relatives à l'évaluation des instruments financiers en portefeuille, nous avons vérifié le caractère approprié de ces règles et méthodes et des informations fournies dans les notes de l'annexe, et nous nous sommes assurés de leur correcte application.

## Vérifications spécifiques

Nous avons également procédé, conformément aux normes d'exercice professionnel applicables en France, aux vérifications spécifiques prévues par les textes légaux et réglementaires.

### *Informations données dans le rapport de gestion et dans les autres documents sur la situation financière et les comptes annuels adressés aux membres du Conseil de Surveillance*

Nous n'avons pas d'observation à formuler sur la sincérité et la concordance avec les comptes annuels des informations données dans le rapport de gestion du Directoire et dans les autres documents sur la situation financière et les comptes annuels adressés aux membres de Conseil de Surveillance.

## Responsabilités de la direction et des personnes constituant le gouvernement d'entreprise relatives aux comptes annuels

Il appartient à la direction d'établir des comptes annuels présentant une image fidèle conformément aux règles et principes comptables français ainsi que de mettre en place le contrôle interne qu'elle estime nécessaire à l'établissement de comptes annuels ne comportant pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs.

Lors de l'établissement des comptes annuels, il incombe à la direction d'évaluer la capacité du Fonds de Réserve pour les Retraites à poursuivre son exploitation, de présenter dans ces comptes, le cas échéant, les informations nécessaires relatives à la continuité d'exploitation et d'appliquer la convention comptable de continuité d'exploitation, sauf s'il est prévu de liquider le Fonds ou de cesser son activité.

Les comptes annuels ont été arrêtés par le Directoire.

## Responsabilités des commissaires aux comptes relatives à l'audit des comptes annuels

Il nous appartient d'établir un rapport sur les comptes annuels. Notre objectif est d'obtenir l'assurance raisonnable que les comptes annuels pris dans leur ensemble ne comportent pas d'anomalies significatives. L'assurance raisonnable correspond à un niveau élevé d'assurance, sans toutefois garantir qu'un audit réalisé conformément aux normes d'exercice professionnel permet de systématiquement détecter toute anomalie significative. Les anomalies peuvent provenir de fraudes ou résulter d'erreurs et sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce qu'elles puissent, prises individuellement ou en cumulé, influencer les décisions économiques que les utilisateurs des comptes prennent en se fondant sur ceux-ci.

Comme précisé par l'article L.823-10-1 du code de commerce, notre mission de certification des comptes ne consiste pas à garantir la viabilité ou la qualité de la gestion de l'Etablissement.

Dans le cadre d'un audit réalisé conformément aux normes d'exercice professionnel applicables en France, le commissaire aux comptes exerce son jugement professionnel tout au long de cet audit.

En outre :

- il identifie et évalue les risques que les comptes annuels comportent des anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, définit et met en œuvre des procédures d'audit face à ces risques, et recueille des éléments qu'il estime suffisants et appropriés pour fonder son opinion. Le risque de non-détection d'une anomalie significative provenant d'une fraude est plus élevé que celui d'une anomalie significative résultant d'une erreur, car la fraude peut impliquer la collusion, la falsification, les omissions volontaires, les fausses déclarations ou le contournement du contrôle interne ;





- il prend connaissance du contrôle interne pertinent pour l'audit afin de définir des procédures d'audit appropriées en la circonstance, et non dans le but d'exprimer une opinion sur l'efficacité du contrôle interne ;
- il apprécie le caractère approprié des méthodes comptables retenues et le caractère raisonnable des estimations comptables faites par la direction, ainsi que les informations les concernant fournies dans les comptes annuels ;
- il apprécie le caractère approprié de l'application par la direction de la convention comptable de continuité d'exploitation et, selon les éléments collectés, l'existence ou non d'une incertitude significative liée à des événements ou à des circonstances susceptibles de mettre en cause la capacité de l'Etablissement à poursuivre son exploitation. Cette appréciation s'appuie sur les éléments collectés jusqu'à la date de son rapport, étant toutefois rappelé que des circonstances ou événements ultérieurs pourraient mettre en cause la continuité d'exploitation. S'il conclut à l'existence d'une incertitude significative, il attire l'attention des lecteurs de son rapport sur les informations fournies dans les comptes annuels au sujet de cette incertitude ou, si ces informations ne sont pas fournies ou ne sont pas pertinentes, il formule une certification avec réserve ou un refus de certifier ;
- il apprécie la présentation d'ensemble des comptes annuels et évalue si les comptes annuels reflètent les opérations et événements sous-jacents de manière à en donner une image fidèle.

Les Commissaires aux comptes

| Mazars | | Grant Thornton |
|---|---|---|
| Courbevoie, le 10 mars 2023 | | Neuilly-sur-Seine, le 10 mars 2023 |
| Gilles DUNAND-ROUX | Jean-Luc MENDIELA | Leslie FITOUSSI |
| Associé | Associé | Associée |

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