Responsible Investment Strategy

2024-2028

PREAMBLE

ESG regulation in France has undergone significant change in recent years, in line with European objectives on sustainable finance.

- **In 2021**, the Sustainable Finance Disclosure Regulation (SFDR) came into force. The aim of this regulation is to improve the transparency of financial products in terms of sustainability, by requiring the providers of such products to disclose information on how ESG aspects are incorporated into their investment decisions, as well as the impact of their investments on the environment and society.
- **In 2022,** the Markets in Financial Instruments Directive (MiFID2) reinforced the obligations of investment advisers which must henceforth assessing their clients' ESG requirements and goals before offering them financial products.
- **In 2023,** the Corporate Sustainability Reporting Directive (CSRD) was adopted by the European Parliament. The aim of this directive is to harmonise corporate publication of extra-financial information, to provide investors, consumers and the wider public with comparable and reliable information on companies' ESG performance.

The main ESG regulatory developments in France are therefore as follows:

- **Clarity and transparency of financial products.**
- **Investor responsibility with regard to assessing clients' ESG goals.**
- **Corporate transparency on ESG performance.**

These developments are significant in that they contribute towards promoting sustainable finance in France. They enable both investors to better identify the financial products that match their ESG goals and also companies to report on their ESG performance in a more transparent manner.

As a pioneer of Responsible Investment since its earliest investments in 2004, the FRR has solidified its leadership over the years. In renewal of its commitment to sustainable investment, it decided in 2023, with both its staff and governing bodies, to formalise its "raison d'être" which enshrines in the management of its assets the importance of responsible investment.

INVESTING TO CREATE SUSTAINABLE VALUE TO MEET THE MAJOR PUBLIC CHALLENGES OF TOMORROW

As a long-term institutional investor, **the FRR has a fiduciary duty to act in the best long-term interests of future generations,** in other words to optimise the returns on the funds entrusted to it in as secure a manner as possible. However, environmental, societal and corporate governance issues can affect the performance and risk levels of investment portfolios. The return on investment thus depends not only on the impact of corporate financial strategy, but also on the externalities they generate across their industry or the economy.

An analysis and consideration of the environmental and social externalities of corporate strategies and their consequences for society and our planet are necessary, in particular, for a universal public investor, actor in the pensions sphere, whose vocation is to protect its investments over the long term.

Such analysis is part of the regulatory framework which has grown over the years, made up of major international agreements, in particular: the United Nations Global Compact, the Declaration of the International Labour Organization (ILO), the OECD Guidelines for Multinational Enterprises, the Sustainable Development Goals (SDGs), the Paris Climate Agreement, as well as European (European Green Deal) and French (Art. 29 Energy and Climate Law) regulations.

To implement its Responsible Investor Strategy, the FRR relies on the management companies to which it delegates the management of its assets by requiring them to systematically include Environmental, Societal and Governance (ESG) considerations in their investment processes, in particular alignment with the Paris Climate Agreement.

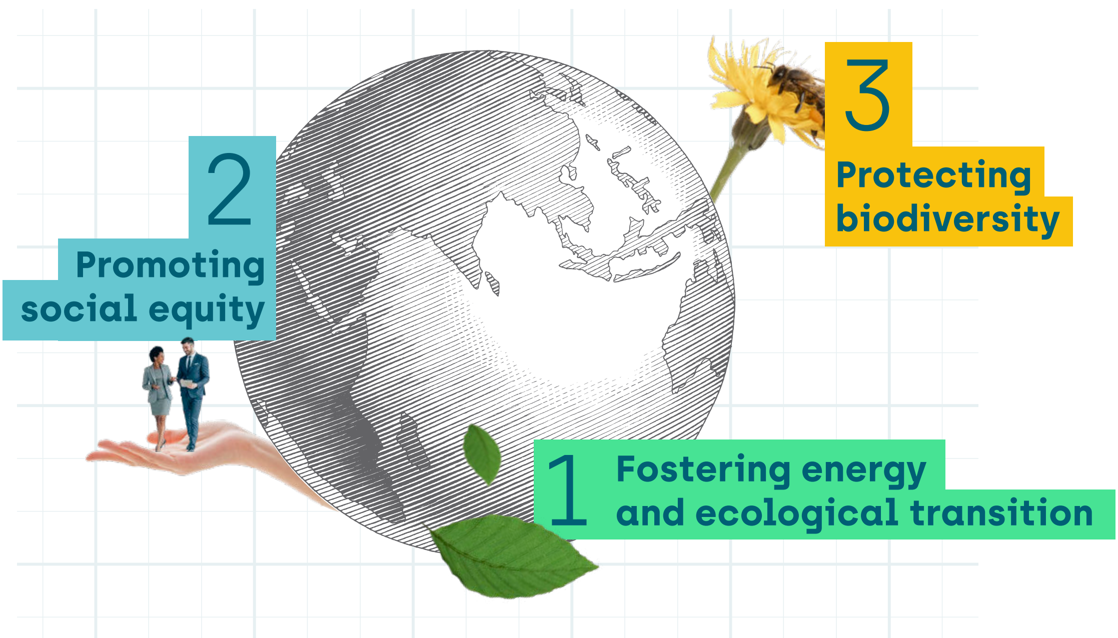
Investment strategy takes into consideration the impact of the companies invested in on society and the environment: the FRR aims to contribute towards the financing of French companies and those that contribute to energy and ecological transition, whilst refusing to finance a number of particularly harmful activities, such as certain weapons, tobacco and coal.

PART 1

Responsible Investment Strategy 2024-2028

This Responsible Investment Strategy, developed by the FRR's Supervisory Board upon the recommendation of the Executive Board, is the fifth since the FRR's inception. In line with previous Responsible Investment Strategies, it pursues the aim of adopting the most vigorous standards and aligns with commitments made by the FRR, in particular as a founding member of the **Principles for Responsible Investment** and as a member of the **Net Zero Asset Owners Alliance.**

The strategy is structured around **three priority areas** for the FRR:



These priority areas are in line with the **Sustainable Development Goals** (SDGs), in particular the following objectives:

1 FOSTERING ENERGY AND ECOLOGICAL TRANSITION

Climate change is one of the major challenges of the XXIst century. Greenhouse gas emissions from human activity lead to an increase in average temperatures and related phenomena (drought, wildfire, floods, etc.). This affects human health and well-being as well as the natural environment, and poses significant risks to the global economy and therefore to businesses.

In 2019, the FRR joined the Net Zero Asset Owner Alliance (NZAOA) whose aim is to lead investment portfolios to net-zero GHG emissions by 2050, in line with a maximum temperature increase of 1.5°C as set out in the Paris Climate Agreement

Achieving this goal of limiting global warming **is not dependent solely on investors:** it requires the development of new technological solutions, especially in terms of carbon capture and storage. Furthermore, the overall exposure of the FRR's portfolio depends on the progress of the global economy and on policy and regulatory developments. However, as an investor, the FRR considers it essential to encourage, in so far as possible, companies, whether listed or unlisted, to strive towards these goals.

The FRR will seek to **foster investment in companies that align their operations with the trajectories that limit global warming to 1.5°C,** in line with the Paris Climate Agreement. Managers must report on all indicators relating to alignment with the Paris Agreement, in particular greenhouse gas emissions, but also the risks, whether physical or transition risks, involved for asset values and must inform it, if relevant, of the main controversies and engagement initiatives they have carried out in relation to these matters. Like listed companies, unlisted companies in the FRR's portfolio must henceforth publish their greenhouse gas emissions.

2 PROMOTING SOCIAL EQUITY

The financial community's focus on climate and the environment in recent years should not obscure the fact that the FRR has always defended social equity as **a vector of balance in society, creating value at corporate level and consistent with its mission of managing at the service of future generations.**

As part of the new strategy, this area will be paid even closer attention, focusing in particular on the following four topics: human rights, tax practices, gender equality, and just transition.

On the topic of **Human Rights and Fundamental Rights at Work,** the FRR relies on the main international agreements, in particular the Declaration of the International Labour Organization (ILO), the United Nations Global Compact and the OECD Guidelines to which companies must refer to ensure respect for human rights and Fundamental Rights at work. In addition to the financial risk involved, failure to comply with these standards poses a reputational risk to the FRR. **The FRR's management companies must therefore ensure that the companies in which they invest on behalf of the FRR respect Human Rights in their sphere of influence and report to the FRR.**

Equality between men and women is a fundamental value but also a mean of achieving other social cohesion goals essential for establishing peaceful societies bestowed with full human potential and sustainable development. There are also advantages in terms of human development and economic growth. Studies show a clear correlation between gender equality and business performance. The economic benefit is demonstrated, among other things, by improved profitability, performance, innovation, recruitment, working environment and brand image.

In order to exert influence in this area, **the FRR will attach great importance** to, on the one hand, the publication by the companies in which it invests of annual diversity indicators with in particular their average pay gap and, on the other hand, such indicators being in balance or improving. In addition, for French companies, the FRR shall verify that they publish, in accordance with current legislation, an index of professional equality and male/female representation and the associated remedial measures where the index level suggests slowness in achieving equality.

Regarding **just transition, it is described by the International Labour Organization (ILO)** as «greening the economy in a way that is as fair and inclusive as possible for all concerned, creating decent work opportunities and leaving no one behind». Indeed, achieving the goals of the Paris Agreement to limit global warming to 1.5°C requires an unprecedented change in our behaviour. However, any abrupt change can come at a high price for workers and society. In addition, if climate transition is not managed fairly and equitably, the risk of civil unrest is high.

Just transition thus contributes to advancing climate action by also enabling progress towards the achievement of a number of Sustainable Development Goals (SDGs), in particular those relating to affordable and clean energy, decent work and economic growth, reducing inequalities and responsible modes of production and consumption.

Long aware of the importance of this issue, the FRR is committed to ensuring that energy and ecological transition takes place with respect for workers and civil society. It therefore expects its managers, in making their investments, to consider how companies manage the societal impacts of their "Climate" strategy, in line with the ILO's guidelines for a just transition.

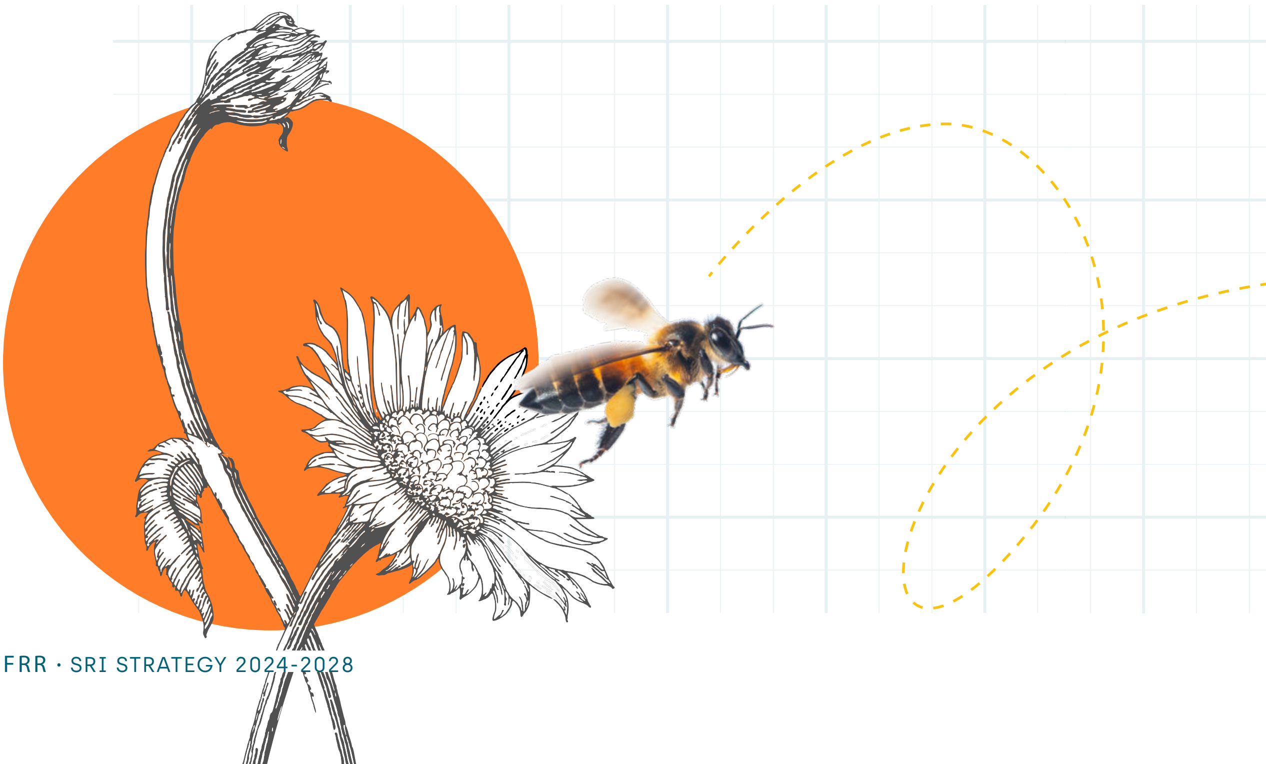
Regarding aggressive **tax practices** whereas, unlike tax evasion, they are not illegal, they have damaging effects on the community and therefore on social equity. Indeed, corporation tax plays an important role in any country's public finances: it is how companies contribute to the financing of the infrastructure they use for their activities. However, multi-national corporations with global operations benefit from national tax systems that are not inter-jurisdictionally harmonized. **The FRR therefore seeks to ensure that multinational enterprises comply with the OECD Guidelines** for multinational enterprises and, in particular, refrain from seeking or accepting exemptions not admitted under applicable tax regulations. In particular, taxes should be paid in the place where the economic value is generated, and such information together with transfer pricing should be published transparently, on a country-by-country basis.

Finally, the FRR is of the view that corporate tax arrangements are the responsibility of boards of directors. The FRR expects its managers to **identify cases of aggressive tax planning in order to limit them and to engage in dialogue with the companies concerned. Moreover, in such cases, the FRR's voting guidelines recommend voting against approving the annual accounts.**

3 PROTECTING BIODIVERSITY

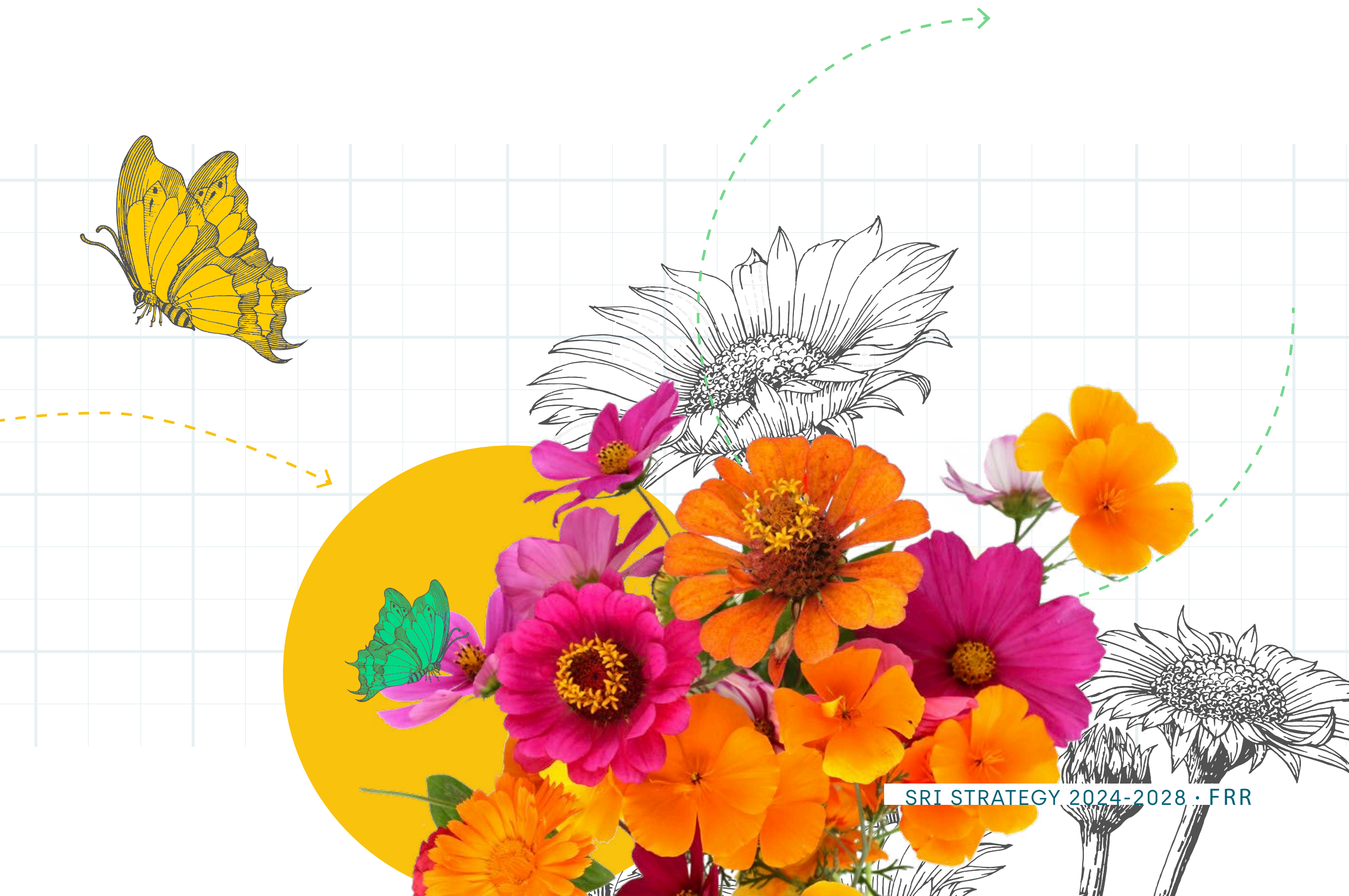
Protecting and restoring biodiversity is a major challenge, intermeshed with the fight against climate change. Indeed, the increase in climate risks (wildfires, drought, floods…) adds to the pressure on biodiversity, whereas biodiversity forms part of the solution to limit climate change (absorption of greenhouse gases…). In 2019, the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) published a report confirming the alarming decline in biodiversity: more than one million species are threatened with extinction. Biodiversity is declining at a rate unprecedented in human history and the rate of extinction among species is accelerating, having a severe and immediate impact on human populations around the world.

The FRR will attach greater importance to factoring this issue into its investments by giving priority to companies that communicate transparently on their risk analysis and the actions taken towards protecting biodiversity. Although this issue is cross-cutting, it principally concerns the activity sectors that rely, or have the biggest impact, on biodiversity and land or marine ecosystems. These include the following sectors identified by the **Nature Action 100** initiative: biotechnology and pharmaceuticals, chemicals, consumer goods distribution, food products, forestry, paper production, fast-moving consumer goods, household items, restaurants, metals and mining.



In particular, the FRR's management companies will have to **ensure that the companies in these sectors in which they invest comply with the international agreements, in particular the United Nations Convention on Biological Diversity of December 2022,** which has three main goals:

- the conservation of biological diversity,
- the sustainable use of biological diversity,
- fair and equitable sharing of benefits gained from the use of genetic resources.



PART 2
Deployment of the responsible investment strategy

The FRR's Responsible Investment Strategy is deployed by **actioning a number of levers: orienting investment, asset management ecosystem initiatives and influencing business.**

The implementation of this Strategy will be detailed in the FRR's Responsible Investment Action Plan, which includes *action plans*, with *targeted objectives* based on their feasibility and relevance, as well as *results indicators*. In addition, the FRR attaches great importance to *transparency:* an assessment of the actions carried out and the results indicators are published in its sustainability report.

1 ORIENTING INVESTMENT

Beyond factoring in the imperatives of return-on-investment, risk level and compliance with global ESG best practices, a portion of the investments must be oriented towards activities that have a positive impact on the environment or society. In addition, investments in the most socially or environmentally harmful activities will be excluded.

The FRR is therefore committed to boosting investments that foster energy and ecological transition and accelerating its exit from the most polluting types of activity.

In line with the commitments made by the NZAOA members, the FRR will **pursue its aims of portfolio decarbonisation,** investing to promote energy and ecological transition and **accelerating an exit from the most polluting activities** linked to fossil fuels, by:

- **firstly, exiting thermal coal by 2030 for OECD zone companies and by 2040 for other geographical areas,** in line with the global warming limiting trajectories specified in the Paris Agreement. This involves a stop to the financing of any new coal-fired power plant projects other than those already under construction and halting any additional thermal coal power plant or mining projects;

- secondly, **implementing exclusion criteria for non-conventional fossil fuels** (oil sands, Arctic drilling, deepwater boring and hydraulic fracking).

In order to converge towards this target, the FRR sets carbon footprint reduction targets for its managers at the beginning and end of their mandates, and occasionally creates customized versions of its benchmarks.

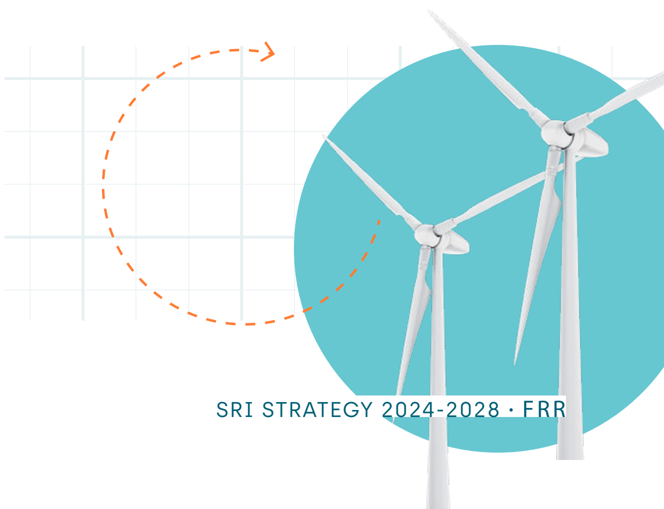
The FRR will also factor physical and climate transition risks into its strategic allocation assumptions, to optimally adapt its portfolio to these challenges. To factor physical and climate transition risks into its strategic allocation assumptions, the FRR has chosen to associate with each of its macroeconomic scenarios a climate scenario inspired by those developed by the NGFS (Network for Greening the Financial System - Central Banks and Supervisors).

Finally, regarding energy transition financing, **it may earmark a new allocation for unlisted assets dedicated to infrastructure or innovative solutions** by, for example, reinvesting a portion of the redemptions of funds in which it is currently invested.

In addition, the FRR will, as part of this new strategy, target positive impact investments while excluding the most controversial activities.

Regarding listed investments, the FRR naturally continues to reject financing activities of particularly harmful impact: tobacco, agricultural raw materials, weapons covered by the international conventions signed up to by France. It will continue annually to assess the quality of the companies in its portfolio in order to identify those where an effort needs to be made to engage in dialogue initiatives and see improvement in the practices targeted. Accommodation will have to be made in the FRR's portfolio for the creation of **an investment compartment dedicated to thematic, positive-impact investments** in the areas of biodiversity, social equity or the environment in general.

Concerning unlisted assets, these provide very targeted and significant support for organisations that promote solutions fostering social equity and/or biodiversity: social housing, social inclusion, preservation of natural capital (water, forests, combatting plastic pollution…). More generally, **the FRR shall seek to devote a new unlisted-assets compartment investing in these activities that generate a positive impact** for social equity and/or biodiversity.



2 ASSET MANAGEMENT ECOSYSTEM INITIATIVES

To complement its actions beyond investment operations, **the FRR may act to promote responsible investment within the asset management ecosystem,** whether among managers, the FRR's staff, index providers and market operators.

With regard to selecting and monitoring managers, the requirements will be strengthened in terms of including ESG criteria in the selection process (appraisals, goals…), and monitoring ESG management in terms of indicators and results of initiatives for engagement with the companies in which the managers invest on the FRR's behalf.

Having actively deployed these requirements for assets under management, the FRR must now **focus on funds, particularly those invested in companies in emerging markets,** not only when selecting new funds, but also by maintaining a more intensive dialogue on ESG aspects with the existing fund managers. Indeed, this is a geographical area where the most carbon-intensive activities continue, in particular the use of coal as an energy source and where social aspects, together with other ESG issues, are a focal point. The criteria concerning the improvement of corporate practices will therefore have to be strengthened as part of the fund selection process.

In terms of appropriating responsible investment, the focus of **internal training on responsible investment topics** for staff, members of the Executive Board, members of the Supervisory Board and of the Manager Selection Committee **will be further developed** in line with the requirements of Article 29 of the Energy and Climate Law on the knowledge, skills and experience of governance bodies in particular. **A multi-year training plan will be put in place.** This appropriation will strengthen the awareness and understanding of the challenges of responsible investment and help enrich the dialogue with management companies and stakeholders in a self-sustaining virtuous circle of mutual improvement.

Providers, whether rating agencies, index providers or analysts, play an important role in the implementation and monitoring of responsible investment management. The FRR will continue to **work on improving the quality of ESG data and analysis,** by including key selection criteria in requests-for-proposals in particular and by maintaining a decent level of exchanges with the various providers. It will also keep an **active eye on the methodologies used for constructing ESG or climate indices,** contributing where appropriate to the thinking on new developments.

Finally, the FRR can also influence **the market bodies** and will continue to do so **by participating in the main marketplace work ongoing, by supporting academic research** on the various aspects of Responsible Investment and **by intervening in various forums** to share its experience as widely as possible.

3 INFLUENCING COMPANIES

The FRR is pursuing its strategy of engaging with companies to encourage them to adopt ESG best practices.

The FRR's aim is to encourage the companies in which it invests to mitigate their main negative impacts on the environment and all stakeholders. It will conduct **targeted dialogue initiatives** – via the management companies and via collective initiatives – to promote the implementation of the main international, European and French standards. The priority areas include Human Rights, social equity, the environment in general and climate in particular, as well as the protection of biodiversity.

The FRR also wishes best governance practices to drive long-term value creation and reduce ESG risks. This is expressed in particular at shareholders' General Meetings, where the exercise of voting rights is required to follow the **Guidelines on exercice of voting right – revised 2022 version.**

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POUR LES RETRAITES

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