



**Would the investment world
be the same without PRI ?!**

**Montreal
4 Novembre 2009**

- **FRR ID Card and PRI key role**
- **Responsible Investment Strategy (2008-2012)**
- **Case study : Integration of ESG issues into the investment process and assessment**
- **The organization of the IR function**
- **National and international Initiatives**
- **What we use the PRI for?**
- **Focus on the reporting tool**
- **In conclusion**
- **Contact**

- State-owned fund (1999)
- Aim : prefinance French pay-as-you go retirement system deficit (private sector) between 2020-2040
- Governance : the role of trade unions
- Activities done in-house :
 - Strategic asset allocation, tactical asset allocation
 - Manager selection and monitoring
 - RI policy, voting policy
- Externalized activities :
 - Portfolio management (31 managers)
 - Voting (at all annual general meeting)
- AUM : 32 billion euros , October 2009.

Strategic Asset allocation (2/2) :

	2003	2006	2009
Equities	55%	60%	45%
Bonds	42%	27%	25%
Inflation adjusted bonds	3%	3%	20%
Other assets (Real estate, commodities)	0	10%	10%
Total	100%	100%	100%

- **Geographical breakdown : 55% Euro Zone, 45% ROW**

- A) Background : No explicit reference to ISR in the fund 's Law, except for the reporting obligation. The real impulse came from:
- Supervisory Board (March 2003) :
"FRR acts in the general interest and its investment policy should be consistent with respect for certain shared values that promote balanced economic, social and environmental development"
 - **FRR's participation in PRI process (2004-2006)** : Experts and international investors were invited by the UN for brainstorming. The result is satisfying from both perspectives: the private sectors' and the public sector's.

B) Motives: three interdependent reasons

1/Public investor :

- Alignment of interest with our beneficiaries, their utility function not only depends on financial factors but extra-financial ones as well
- Reputation risk : trust relation with stakeholders

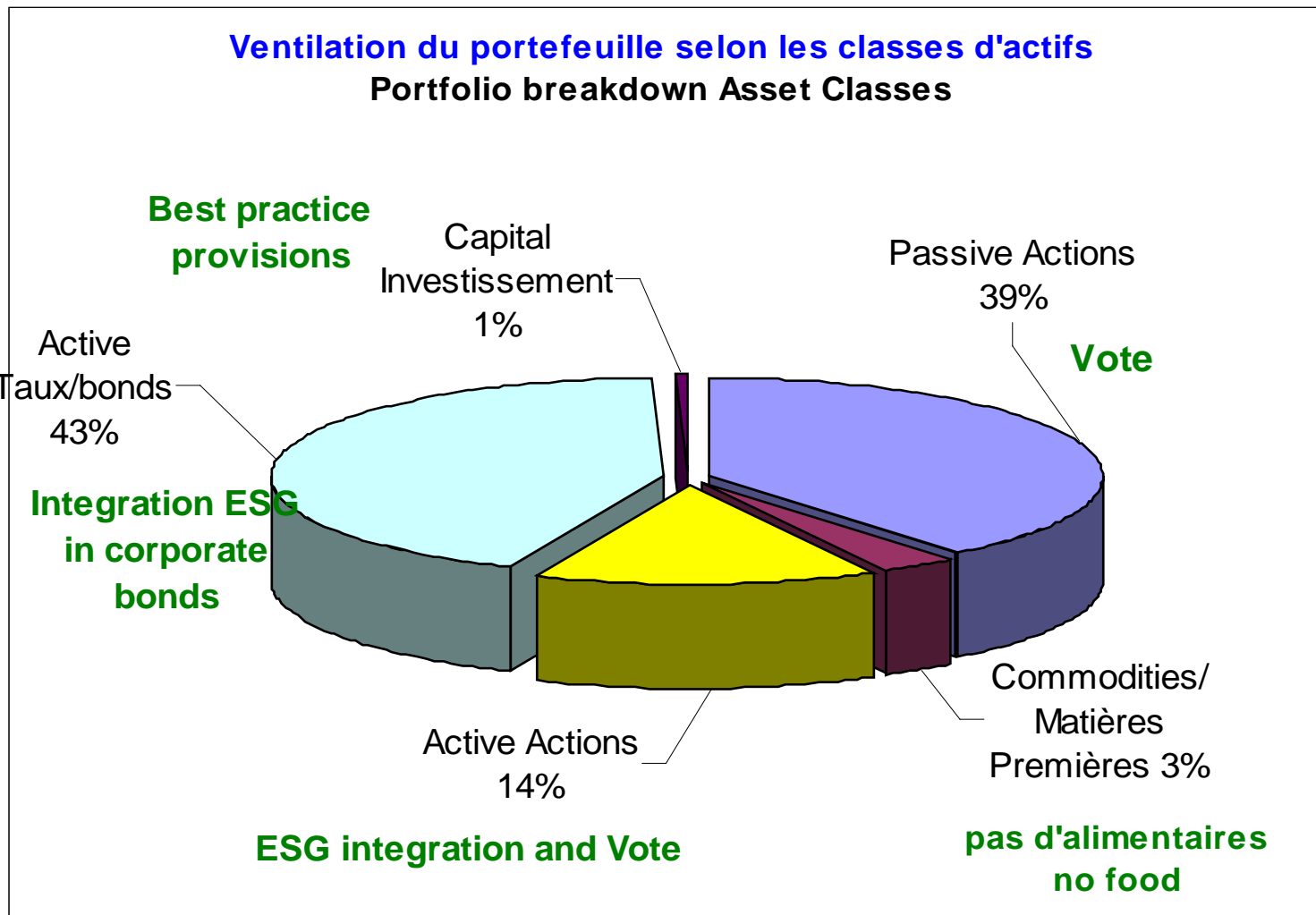
2/Long-term investor and fiduciary duty : in the long term, extra-financial issues will become more and more material

3/Universal owner: externalities matter

5 tracks Strategy for 2008-2012 :

1. **Extension of extra-financial considerations** to all asset classes
2. **Continue to vote** and have an active voting policy in order to improve corporate governance
3. Development of **overlay monitoring framework** which allows regular evaluation of portfolio extra financial risks and engagement with companies
4. Taking into account **“Environment”** at the strategic asset allocation level (*see working paper on www.fondsdereserve.fr, under « News »*)
5. Going further in **exchanging with peers**, supporting research in France and abroad and more collaborative engagement

RI is almost spread throughout all asset classes



Case study : Integration of ESG issues into the investment process

A) Mainstream Managers:

All our (equity) asset managers are asked to vote (more than 3000 stocks)

All our active managers are asked to take into account universally accepted principles (UN Global Compact)

4 commitments taken by active managers:

- 1) research and analysis
- 2) improve management process
- 3) reporting and transparency
- 4) partnership with the FRR on ESG issues

B) Niche Managers : →Experimental approach

Real specific SRI processes implemented by managers :

-5 European Equities Portfolio (Large and Mid Caps) for initial €600M, over a five year period. (2007-2011)

-Active management : Maximize profit with respect to MSCI Europe

-Integration of responsible principles through inclusive processes (Best in Class/Best effort type)

A) Mainstream manager:

Important progress in terms of resource, ESG research/analysis and organization... Current tenders show a huge improvement in this area.

B) Niche SRI mandates :

-**Financial level** (since inception, 2007, YTD): risk adjusted performance are comparable to other mandates.

-In terms of **performance attribution** it is difficult to pin down a « RI factor ». As an experimental compartment, it is still too early to be able to draw any hard and fast conclusions. However, the proactive approach seems to have the upper hand in terms of returns. It seems that additional questions stemming from RI managers do reveal additional information of value.

-**Extra-financial level**: There is a better ESG quality compared to the MSCI Europe but it is not very significant.

Organization of IR function at FRR

For FRR RI is everybody's business!

The Supervisory Board: Defines Responsible investment policy

+ Committee Responsible Investment Committee : prevention of reputation risk

The Executive Board: Implements the policy with assistance from:

- * RI Unit: (3 persons dedicated) and PRI contact
- * Financial Dept : equ. of 2 dedicated persons
- * Operational Dept.: monitoring the exercise of voting rights (1 dedicated person)
- External consultants: EIRIS (and in the past VIGEO, Trucost, I-Care and APREC)
- Managers: 31 managers around the world, of which 20 are PRI signatories now

National and international initiatives

- **PRI: Co-founder, signatory, board member**
- **Carbon Disclosure Project (CDP) : for publication by listed companies of environmental data**
- **Extractive Industries Transparency Initiative (EITI) : for transparency of financial flows-State Companies**
- **Chair in Sustainable Finance and Responsible Investment (Institute of Industrial Economics at Toulouse / Ecole Polytechnique) : support of academic research**
- **Prize of FIR (Forum for Responsible Investment) : yearly, best thesis/article in Europe .**

- UN legitimacy
- Support for the **integration of ESG issues** into investment
 - at the desired pace
 - with the resources one decides to mobilize
- Access to a set of **best practices in IR** (guide for many asset classes)
- An opportunity to **work with other investors** who share the same goals through the clearing house, webinars, conference calls, working groups ...etc)
- An opportunity to **assess its own strengths and weaknesses** in relation to each principle in relative terms (via the reporting tool)

→ Questionnaire made mandatory by the PRI Board in 2006

→ First ever global undertaking that captures in significant detail :

- Responsible activities in a given year and progress
- The extend to which signatories are working together
- Communicating about their responsible strategy.

→ Importance of the reporting from signatories' board perspective as it represents a benchmarking tools...etc.

→ Importance of the Assessment to the integrity of the PRI initiative and the PRI brand as well as the verification process that took place through calls.

The development of the IR requires shared determination by all. Beyond the specificities of each investor, linking the approach to PRI is a powerful tool because it allows :

Collaboration

With its peers and the whole investment chain as the promotion of IR and best practices is more efficient when it is shared by several actors;

Pragmatic approach

Because ESG integration into portfolio management is complex and must be tailored to each asset class

Transparency

As it provides a tool to report publicly on progress made in implementing the strategy of the signatories.

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For more information : www.fondsdereserve.fr
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