

The French Public Service Additional Pension Scheme (ERAFP) Charter on Socially Responsible Investment*

30 march 2006

This text is a translation of
the “*Charte relative à
l’investissement
socialement responsable
de l’ERAFP*”, adopted in
March 2006 by the Board
of Trustees. Only the
French version is
authentic.

Introduction

In a resolution adopted on 10 November 2005, the ERAFP board of directors decided to adopt an investment policy which persistently and permanently takes account of the pursuit of the public interest.

In this context, the decision was taken to make socially responsible investments of all the assets of the Public Service Additional Pension Scheme.

This decision, which was unanimously endorsed by the board, was the result of a broader reflection on all aspects of the issues affecting such schemes, as well as the demands associated with such an approach.

The board of directors believes that investments based solely on the criterion of maximum financial profit fail to account for their social, economic and environmental consequences. In contrast, by making investments on the basis of the values it has adopted and which are restated in this charter, the Board intends both to promote the operations, companies, local authorities and States which respect these benchmark values and to exert influence to ensure that they are more widely applied.

ERAFP is therefore also determined to support, on a long term basis, those bodies in which it has decided to invest, by exercising its responsibilities as shareholder or stakeholder in such a way as to sustainably promote, within these entities, practices that respect the values it supports.

ERAFP is aware that, in adopting this approach to investment for all its assets, it is making a major commitment. Aware of the responsibilities which stem from this policy choice, ERAFP intends to put in place all the resources it needs in order to pursue an investment policy which combines, but is not limited to, concern for the financial balance of the program, the goal of at least maintaining the purchasing power of pensions, and consideration of its benchmark values.

The commitment which this policy entails must not be restricted to its initial implementation. The policy is a matter of constant concern, and permanent and responsive safeguards must therefore be put in place.

The board of directors and the pension scheme must therefore have access, in accordance with their respective needs, to all the tools and resources required in order to implement this investment policy, monitor it closely and ensure that the values agreed on, along with the relevance and effectiveness of the criteria chosen, are regularly updated and enhanced.

ERAFP undertakes to publish information on the implementation of its socially responsible investment policy on an annual basis.

The purpose of this charter is to clarify the approaches, content and resources to be used in implementing the socially responsible investment policy, which applies to all financial management transactions, whatever their nature, whether they are performed directly by ERAFP or on its behalf by its agents.

I. Values to be considered in the investment of ERAFP assets

The board of directors has agreed a set of benchmark values which it shall apply, in accordance with its investment policy, to all asset classes in its portfolio. These therefore apply to all issuers of securities: States, local authorities, public bodies, supranational bodies, financial institutions, companies, etc.

These benchmarks comprise five values that represent the public interest, which, in its current sustainable development dimension, takes economic, social and environmental factors into consideration:

- Rule of law and human rights
- Social progress
- Democratic labor relations
- The environment
- Good governance and transparency

1. Rule of law and human rights

In order to assess the extent to which issuers comply with the various essential principles of the rule of law, and their contribution to the respect and promotion of human rights, ERAFP shall look to four major principles:

- 1) The absence of discrimination, in all its forms
- 2) Freedom of conscience and of expression
- 3) Human rights in the workplace
- 4) The fight against corruption and money laundering

Specifically as regards States, in addition to their level of adherence to and implementation of international agreements (UN and ILO), ERAFP shall consider three further principles:

- Rejection of the death penalty
- Rejection of the use of child soldiers
- Rejection of the practice of torture.

2. Social progress

Because it is particularly attentive to all of the different issues relating to work and employment, ERAFP shall, when selecting issuers, give priority to those who:

- Comply with the fundamental rules of labor law (working hours, contractual guarantees and guarantees specific to employment status, etc.)
- Contribute to employment development both quantitatively and qualitatively (training, promotion and professional development, gender equality, etc.)
- Have specific investment plans which promote employment development (research and development)
- Have proactive employment strategies (lifelong training, validation of experience gained, retraining, etc.).

In applying these criteria to companies, ERAFP shall take account of the employment situation in the business sector concerned, the overall financial position of the issuer and, in particular, increases in payments made to shareholders relative to changes in the amounts paid to workers.

3. Democratic labor relations

ERAFP shall assess the way in which issuers respect the rights of employees and other workers, and shall give priority to those who score positively against the following criteria:

- Respect for the rights of trade unions and the right to strike, freedom of affiliation and the allocation of resources for staff representatives
- Respect for employee representatives, provision of information, consultation and collective bargaining
- The existence and role of participatory or advisory bodies (works councils, group councils, joint technical committees or their equivalents, etc.) in particular as regards the verification of economic, corporate and environmental information provided by the issuer
- The ability of such bodies to make proposals and the extent to which these are taken into account
- The issuer's internal practices when entering into agreements or contracts
- Resources allocated to the health and safety committee, or its equivalent, and the extent to which its opinions are followed.

4. Environment

Because it is aware that all investments can have an impact on the living conditions of the citizens of today and tomorrow, ERAFP supports sustainable development activities. Accordingly, it intends to promote, in particular, the protection of the

environment and sustainable land use planning.

ERAFP shall therefore assess issuers on the basis of:

- 1) The environmental impact of their operations and production processes
- 2) Their role in influencing and implementing environmental and planning policy
- 3) Their reporting of environmental data and the type of certification held
- 4) The economic and social impact of their operations on the area under consideration.

The agreed criteria are:

- The eco-efficiency of processes used
- The management of pollution risks
- Impact prevention as regards water, air, waste and energy consumption
- The limitation of greenhouse gas emissions
- The preservation of biodiversity
- Eco-design and management of the life-cycle impacts of products or services
- The existence of risk management plans,
- Consultation procedures for environmental issues, especially as regards national or local government policies.

5. Good governance and transparency

Although the public or private status of issuers shall still be taken into account, ERAFP intends to make its choices based on compliance with five main principles:

- Good governance (balance of powers and effectiveness of decision-making and executive bodies, effectiveness of audit and control mechanisms, decision-making process for executive compensation, traceability of decisions, etc.)
- Correct application of legal or fiscal rules or any higher standards to which the issuers bind themselves
- Compliance with ethical rules (rejection of tax havens, the fight against money laundering, the existence of professional codes of conduct, etc.)
- An open approach to relations with all stakeholders, whether individuals (measures governing relations with customers, citizens, users and employees and consideration of their expectations or complaints, processing times for requests or disputes, quality control policies) or legal entities (relations with trade unions, consumer organizations, users and local residents, as well as with the NGOs that represent stakeholders affected by the operations or policies followed, relations with sub-contractors and/or suppliers, etc.)
- Transparency about operations and financial performance (existence, quality and

certification of annual reports, including as regards social, environmental and governance issues, provision of information about the taxes paid in each country of operation and about relations with suppliers and sub-contractors, quality of communications and internal information networks, in particular with regard to strategic choices).

II. Implementation of the charter

1. Participants

a) The board of directors and the specialist committees

The board of directors shall set the general direction for the socially responsible investment (SRI) policy. It shall adopt the SRI Charter and any future updates to it. In order to develop the main lines of the investment policy, it shall rely on the work done by the specialist asset-liability management committee.

A specialist investment policy committee shall be created in order to monitor decisions relating to this policy.

This committee shall ensure compliance with the principles of the socially responsible investment charter and draft any future updates that may be necessary.

b) The directory

The director shall be the operational body responsible for the implementation of the investment policy, under the authority and control of the board of directors. He shall therefore suggest the main lines of the investment policy to the specialist asset-liability management committee. He shall report, inform and, where necessary, alert the specialist investment committee about the implementation of the investment policy. The director shall report on the implementation of the financial management policy and its socially responsible dimension in an annual report to the board of directors. He shall organize an annual discussion about his implementation of the socially responsible asset management policy and support the specialist committee in its work on adjustments or enhancements to the SRI charter and its appendices, whenever necessary.

c) The delegated managers

The delegated managers are management companies, other than ERAFP, which are mandated to make investments in accordance with this charter and the defined investment policy.

They shall have a duty to inform and alert the ERAFP management team about the application of this charter to the asset classes and investment fields to which their mandates relate. At least annually, they shall present the implementation of their management policies and the application of this charter in reports to management.

2. Details of implementation

Investment choices shall be made in accordance with asset allocation targets, either directly by ERAFP or by a delegated manager.

They shall aim to ensure the financial balance of the program at all times, to meet the goal of at least maintaining the purchasing power of pensions and to take the benchmark values into account.

Each of these values is expressed by a set of criteria contained in the operational policy appended to this charter. This appendix explains how each of these criteria is to be applied and, where applicable, the indicator(s) to be used.

In its assessment of issuers, ERAFP shall take into account both the scores achieved against the different criteria and any changes in the parties' behavior and thus of any efforts that have been or are in the process of being made. The approach taken encompasses the issuers' responsibilities in a broad sense. For example, for a large company, the responsibility considered is that of the group as a consolidated whole, including any suppliers or sub-contractors affected by the principal.

In the specific case of issuers which are public authorities, ERAFP shall assess their compliance with its benchmarks, not only with regard to the policies they have put in place as public bodies, but also with regard to their operations, both as public employers and as authorities. This key objective of the ERAFP approach shall be applied progressively depending on the tools available to measure public issuers against each of these two standards.

The appendix specifies the procedures for assessing issuers in the various investment fields and asset classes concerned. It also specifies how these assessments will be taken into account:

- When evaluating investment choices and methods
- When building portfolios (which shall be developed mainly on the basis of a 'best in class' scoring system, combined with minimum requirements for some criteria, which may result in exclusion from the portfolio if not met)
- For the purpose of direct actions with the issuers in the portfolio (meetings with investor relations managers, hearings of issuer representatives, questionnaires)
- When using the rights conferred on asset-holders (voting, tabling resolutions, asking questions at general meetings or in discussions with the issuers, etc.) or, where applicable, in the context of collective actions and investor coalitions.