

# 2011 PUBLIC REPORT

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FRENCH PUBLIC SERVICE  
ADDITIONAL PENSION SCHEME

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## **RAFP OR ERAFP?**

Article 76 of the 21 August 2003 pension reform law created a mandatory public service additional pension scheme – known as “*Retraite Additionnelle de la Fonction Publique*”, or RAFP – in the 18 June 2004 decree No. 2004-569.

**RAFP** therefore generically describes the Scheme created through this law, but not the legal entity itself.

**ERAFP**, or “*Etablissement de Retraite Additionnelle de la Fonction Publique*”, is the public-sector administrative entity charged with the Scheme’s management.

## **LEGAL REFERENCES**

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- Article 76 of the French pension reform law 2003-775 of 21 August 2003
  - Decree 2004-569 of 18 June 2004 on the French Public Service Additional Pension Scheme
  - Statutory order of 26 November 2004 implementing Decree 2004-569 of 18 June 2004 on the French Public Service Additional Pension Scheme
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by Jean-François Rocchi, Chairman of ERAFP's Board of Directors

by Philippe Desfossés, Chief Executive Officer of ERAFP

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# EDITORIAL



## The activity review performed at the end of the second term of office of ERAFP's Board of Directors shows the progress made since the Scheme's inception.

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The merit goes above all to the board members whose involvement and commitment have helped ensure its active governance. ERAFP's staff should also be thanked for this success. They have consistently supplied the information, analyses and proposals that have enabled the Scheme to move forward. Also, ever since ERAFP was created, the Caisse des dépôts et consignations has provided the necessary support for its administrative management. The quality of this relationship is of primary importance and has facilitated the renewal of the objectives and management agreement ("Convention d'objectifs et de gestion" – COG).

In keeping with its Charter and the values it advocates, the Scheme has continued to develop a socially responsible investment policy that is both rigorous and realistic. Its realism is reflected in the choice of an approach that "rewards", within the different business sectors, those businesses that have understood the need to take into account social requirements, good governance values and respect for the environment. This type of *best in class* policy is increasingly widely accepted but we nonetheless observe that it often focuses excessively on thematic investments or funds that exclude certain types of investments whereas ERAFP's approach accepts the world's complexity and rises to the challenge of encouraging progress in the practices of all issuers. This narrow focus is a pity and we must endeavour to highlight the originality of our approach.

Due to the delays that arose in its renewal, the new Board of Directors did not begin to operate until towards the end of the year when tensions in the market were running very high. The recently created Board "Bureau" will in this respect provide the continuity that was lacking previously and will facilitate ERAFP's response when market tensions arise.

The new Board's term of office has opened against a background of continuing crisis. The euro zone countries' growing indebtedness, and indeed that of most developed countries, has left governments with no choice but to implement determined policies to bring public finances under control even if these do contain some measures to stimulate growth. It is therefore against a background of moderate growth and strong fiscal adjustments that the Scheme will be investing over the coming years. It will continue to invest prudently and with the aim of diversifying its investments. Proposals in this respect will be submitted to the supervisory bodies in 2012.

It is important that the Scheme should enter the present difficult period with the determination to maintain, as its primary mission requires, a sound financial balance and, in particular, a high coverage ratio of its commitments. Only in this way can ERAFP sail smoothly through this new phase.

—  
**Jean-François Rocchi,**  
Chairman of the Board of Directors



## For ERAFP's staff, 2011 saw significant progress made in several areas despite the challenging environment.

The first European equity management mandates were renewed and transferred to the new investment managers in good conditions. This was a remarkable achievement given the amounts transferred and the fact that this was the first operation of its kind for ERAFP. With regard to the Scheme's investment policy, the Board of Directors took another major step forward in terms of diversifying its asset allocation by approving at its meeting on 19 May the principle of a first investment in real estate assets. The purchase of a first building will be an opportunity for ERAFP to widen its knowledge of an asset class that is new for it and to define SRI principles adapted to this asset class. The Board also specified that this first building could house ERAFP's head office and services if appropriate.

2011 also marked the third consecutive year of the public debt crisis. In August, the stress in the bond markets led the ECB to implement an unprecedentedly large-scale bank refinancing programme or Long Term Refinancing Operation (LTRO).

This restored a precarious period of calm, with only Greece continuing to suffer a severe deterioration in its situation. In keeping with its commitment to socially responsible investment, and unlike some investors whose sales contributed to tip the country into default, the Scheme did not sell its Greek sovereign bonds. Greece's debt swap in March 2012 has meant a loss of €218 million for ERAFP. This loss should be viewed against total assets amounting to €11.239 billion (unaudited estimated net figure); the estimated impact on the Scheme's coverage is around 2.1%. The impact should also be viewed in the light of the high yields provided by these securities ever since they were added to the Scheme's portfolio.

Deleveraging is set to continue among economic agents of developed countries for several years to come. Given the lasting decline in returns on assets in developed countries, it is increasingly important to continue to diversify the Scheme's asset allocation. The returns offered by the sovereign bonds

of the most strongly rated euro zone countries are too low. Conversely, doubts regarding the true situations of some of the peripheral countries have fuelled investor uncertainty, thereby significantly pushing up the yields on sovereign bonds issued by these countries as investors consider them to carry significantly more risk than those of the so-called "core" countries (Germany in particular). In view of this environment, the Scheme has continued to work so as to be able to invest in new asset classes as from 2012. The aim is to be able in the near future to invest in convertible bonds and infrastructure financing (waste treatment, water supply, upgrading of electricity supply networks, etc.).

The growth enjoyed by the Scheme and its original investment approach have attracted the interest of other major pension funds. At the Institutional Investors Roundtable, ERAFP developed relations with several other institutional investors. The possible terms and conditions and means of collaborating or co-investing with such entities will be examined. By joining forces, large investors and in particular pension funds can ensure that the interests of their beneficiaries are better taken into account. With this in mind, ERAFP's staff will draw up a proposal in 2012 for the principles of a policy of active engagement that will be actively expressed by the managers of ERAFP's equity management mandates at shareholders' general meetings from the spring of 2012. This move by ERAFP will only be fully effective if it contributes to increased cooperation between large investors.

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**Philippe Desfossés,**  
Chief Executive Officer of ERAFP

# 01

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- A unique Scheme, in operation since **2005**.
- **Close to 4.6 million** contributors in 2011 who will benefit from additional pension benefits.
- **Around 45,000** public-sector employers making contributions on a regular basis.
- **€1.7 billion** in contributions in 2011, based mainly on bonuses.



A LEADING  
PLAYER IN  
PUBLIC SERVICE  
RETIREMENT  
SAVINGS

# 45,000

PUBLIC SECTOR  
EMPLOYERS

# €1.7 BILLION

IN CONTRIBUTIONS  
IN 2011

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## RAFP AND THE FINANCIAL CRISIS

Like all institutional investors, RAFP has been affected by the financial crisis.

The Scheme has nevertheless been supported by:

- + prudent asset and liability management;
- + ongoing diversification of the asset allocation;
- + a Socially Responsible Investment (SRI) policy consistent with a long-term view and a commitment to looking beyond immediate financial gain.

The Scheme's commitments to active contributors and pensioners are well covered. This ample coverage is noteworthy because the Scheme calculates the likely present value of these commitments using a relatively low, and therefore very conservative, discount rate.

Finally, for RAFP, the crisis confirms the relevance of its SRI approach.

Indeed, the SRI filter makes it possible to better assess risk and identify sectors and companies that will be the growth drivers of tomorrow.

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The Public Sector Additional Pension Scheme (RAFP) is an original pension scheme that has been in operation since 2005.

### A leading player in public service retirement savings

Nearly 4.6 million contributors will benefit from an additional pension. Some 45,000 public-sector employers paid in regular contributions – totalling €1.7 billion in 2011 – based essentially on bonuses.

### The inter-generational equity requirement

As the only mandatory French pension fund, RAFP has made inter-generational equity a core component of its governance and management. This commitment is reflected in particular through the implementation of a points-based system with a single purchase value.

### Ongoing development

After an initial period focused on the challenges of creating a new Scheme, the Board of Directors has initiated new measures on behalf of beneficiaries. It has therefore made adjustments in the asset allocation to favour greater diversification. Similarly, the Board plans to increase the Scheme's visibility not only with active contributors but also the wider public through new communication and public relations initiatives, particularly as regards the implementation of the SRI charter.

## THE WORK OF THE BOARD OF DIRECTORS IN 2011

At its meeting on 31 March 2011, the Board of Directors reviewed:

- ◆ the draft decree on the age of entitlement to a full pension;
- ◆ proposed changes to the annuity payments or lump sum payout received by Scheme beneficiaries who retire after the age of 60, in line with the changes to the legal retirement age, including the application of the current premium on the basis of the service value of a point at age 60.

At the final meeting of its term of office, held on 19 May 2011, the Board authorised Management to launch a tender for the purpose of an initial investment in real estate in the form of the purchase of an office building, which will be used as ERAFP's headquarters and registered office.

This project is in line with ERAFP's SRI Charter, and will integrate the key principles which will subsequently serve as the basis for its SRI policy on real estate investments.

In line with its prudential approach, the Board of Directors also decided that the TPG93 life-expectancy table would no longer be used and would be replaced by the TGH05 and TGF05 tables currently used by insurance companies and mutual societies.

Lastly, at the same meeting the Chairman of ERAFP presented a report on the 2008-2011 term, which was particularly eventful:

### Events affecting general operations

- ◆ a new objectives and management agreement was signed with the Caisse des dépôts et consignations;
- ◆ a new generation of "equities" mandates were awarded to investment management companies;
- ◆ a compliance charter applying to all ERAFP staff came into effect.

### Events affecting asset management

The Scheme stood up well through the 2008 financial markets crisis, and the subsequent Eurozone sovereign debt crisis.

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FIRST REAL ESTATE  
INVESTMENT

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## MEMBERS OF THE BUREAU

- THE CHAIRMAN
- THE DEPUTY CHAIRMAN\*
- THE CHAIRMEN OF THE SPECIALISED COMMITTEES
- THREE BOARD MEMBERS APPOINTED TO THE BUREAU BY THE BOARD

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\* Philippe Soubirous was appointed Deputy Chairman of ERAFP by virtue of a Presidential decree dated 20 March 2012

## Events affecting the Scheme

Several developments have had an impact on the Scheme:

- legislative change, such as the November 2010 retirement reform;
- regulatory change: introduction of the right to pay a pecuniary equivalent of time accrued in a time savings account for local, regional and central government civil servants; the Scheme is now entitled to invest in real estate; reform of the accounting rules.

The members of the new Board of Directors were announced in the decree and application decree of 7 and 8 November 2011.

The new Board took up office on 2 December 2011 after a six-month vacancy period. On 15 December 2011, the Board decided to symmetrically increase the purchase and service values of a point by 1.7%.

The same meeting also examined the diversification of asset allocation, and the Board voted:

- to define a target allocation, to include convertible bonds within a limit of 1% of the assets;
- to continue to diversify into equities, with a view to equities accounting for 21% of assets in 2012;
- to gradually diversify into real estate, which will represent 1% of the assets;
- to introduce a multi-asset mandate, which will represent 1% of the assets, in order to improve the flexibility of the current investment policy.

Lastly, at the same meeting, the Board decided to appoint a Bureau with authority to monitor ERAFP's affairs between two Board meetings. The Chief Executive Officer will report to the Bureau on his management.

**The Bureau has nine members.**

## ATTENDANCE AT BOARD OF DIRECTORS' MEETINGS

### QUALIFIED PERSONS

Jean-François Rocchi



Alain Dorison



Jean-Jacques Marette / Pierre Mayeur



### EMPLOYERS' REPRESENTATIVES

Fédération hospitalière de France 2



Fédération hospitalière de France 1



Association des régions de France



Assemblée des départements de France



Association des maires de France



La Poste



MINEFE



Ministère de la défense



### REPRESENTATIVES OF ACTIVE CONTRIBUTORS

UNSA



SOLIDAIRES



FSU



FO



CGT



CFTC



CFE-CGC



CFDT



# SCHEME GOVERNANCE



- 19 directors:
  - 8 representatives of active contributors;
  - 8 employers' representatives;
  - 3 qualified persons.
- 4 specialised committees.
- 4 Board meetings and 13 meetings of the specialised committees in 2011.
- 1 Bureau of the Board of Directors, composed of the Chairman, the Deputy Chairman, the chairmen of the 4 committees and 3 Board members.

## — THE BOARD OF DIRECTORS

After a six-month vacancy period, a new Board of Directors was appointed pursuant to the decree and application decree of 7 and 8 November 2011. The new Board took up office on 2 December 2011.

It has 19 members:

- + eight representatives of active contributors, drawn from the representative trade unions;
- + eight representatives of employers, including three for the French State, three for the local and regional authorities and two for the public hospitals sector;
- + three qualified persons.

Jean-François Rocchi is the Chairman of ERAFP and Philippe Desfossés is Chief Executive Officer.

## — SPECIALISED COMMITTEES

Four specialised committees assist the Board with preparations and follow-up of its work, with particular responsibility for asset and liability management, audit,

collections (committees created by the decree of 18 June 2004) and investment policy monitoring (committee created by a decision of the 8 June 2006 meeting of the Board of Directors).

## — ACTIVITY REPORT

The Board met four times in 2011. Attendance levels were once again very high. The Board considered matters falling within the remit of its regulatory responsibilities:

- + determination of asset allocation;
- + assessment of the Scheme's commitments;
- + determination of the amount of reserves required to cover these commitments;
- + purchase and service values of points;
- + management entity's budget;
- + financial statements, etc.

## — SPECIALISED COMMITTEES OF THE BOARD OF DIRECTORS

### Asset and liability management committee

This committee prepares the Board of Directors' decisions concerning the assessment of commitments towards Scheme beneficiaries, the determination of purchase and service values of points and general aspects of the investment policy. It is assisted by an independent actuary, who submits annual reports on the Scheme's financial and technical perspectives. The Asset and Liability Management Committee was chaired by Michel Moujart during the first term. Alain Dorison was then appointed chairman in 2008 and his appointment was renewed in 2011.

### Audit Committee

This committee verifies that the Scheme's management rules are correctly applied and proposes measures to improve management. It has broad investigative powers, which it can exercise through delegates, into the administrative management body referred to in article 32 of the decree of 18 June 2004, who are responsible for carrying out the tasks defined in the agreement referred to in the same article. The Audit Committee was chaired by Christian Parent during the first term, and by Jean-Louis Rouquette during the second term. Gilles Oberrieder is the current chairman.

### Collections Committee

This committee prepares collection statements and reports to the Board of Directors. The statements show the list of outstanding receivables, the reasons for non-collection and actions taken to obtain payment. Jean-Marie Poirot chaired the Collections Committee during the first and second terms. Marc Chrétien is the current chairman.

### Investment Policy Monitoring Committee

This committee was set up by the Board of Directors in order to monitor decisions relating to the socially responsible investment policy defined by the Board of Directors. The committee was chaired by Bernard Lhubert and then by Chantal Labat-Gest during the first and second terms. Eric Loiselet is the current chairman.

# CSAP

ASSET AND LIABILITY  
MANAGEMENT  
COMMITTEE

# CSA

AUDIT COMMITTEE

# CSR

COLLECTIONS  
COMMITTEE

# CSPP

INVESTMENT POLICY  
MONITORING  
COMMITTEE

# ADDITIONAL PENSIONS IN 10 KEY POINTS



- ➔ A mandatory, points-based scheme created for civil servants working in the French central government (civilians and military), local and regional authorities and the public hospitals sector, and members of the judiciary.
- ➔ An additional retirement benefit that takes into account bonuses and ancillary remuneration.
- ➔ 4.6 million contributors in 2011.
- ➔ A contribution basis comprised of all types of remuneration not included in the calculation of the basic pension – bonuses, overtime hours, allowances and in-kind benefits.
- ➔ An overall contribution rate set at 10% of the basis amount, split evenly between the employer (5%) and the civil servant (5%).
- ➔ Contributions that are credited to an individual retirement account, which can be viewed online at [www.rafp.fr](http://www.rafp.fr)
- ➔ Investments in bonds, equities, listed assets and real estate.
- ➔ Prudential rules are applied when investing the assets:
  - at least 65% of the assets invested in bonds;
  - assets invested in equities or UCITS limited to 25%;
  - assets invested in real estate limited to 10%;
  - securities issued by a single entity limited to 5%, etc.

RAFP is a mandatory, points-based scheme benefiting civil servants working in the French central government (civilians and military), local and regional authorities and the public hospitals sector, as well as members of the judiciary. Under the Scheme, civil servants can receive an additional retirement benefit along with their basic pension, which takes into account the bonuses and ancillary remuneration they receive during their careers.

## 1. A PUBLIC PENSION FUND

The public sector additional pension is based on the fully funded, pay-as-you-go model, thus combining the advantages of a pay-as-you-go system with those of a funded system.

Comparable to collective funding, the system hinges on the obligation that the Scheme must at all times cover all of its commitments with financial assets. This means the rights vested by each beneficiary over the course of their career are fully guaranteed over time through the establishment of financial reserves, which themselves generate income.

## 2. RECONCILING THE SCHEME WITH PRUDENTIAL RULES

Each year, the Board of Directors assesses the Scheme's commitments and determines the amount of the provision required to cover them. The challenge is clearly to maintain a prudent policy as regards the rate of return within the context of economic crisis in order to maintain the Scheme's long-term equilibrium.

The amount corresponding to funded contributions is invested in bonds, equities, listed assets and real estate.

In addition to the requirement that its commitments be fully covered, the Scheme is subject to prudential investment rules: 25% limit on assets invested in equities or UCITS; 10% limit on assets invested in real estate; 5% limit on investments in securities issued by the same entity, etc.




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A FULLY-FUNDED,  
PAY-AS-YOU-GO MODEL

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STRICT PRUDENTIAL  
RULES

# 20%

OF THE GROSS BASIC SALARY RECEIVED BY THE CIVIL SERVANT IN A CALENDAR YEAR

# GIPA

INDIVIDUAL PURCHASING POWER GUARANTEE

# CET

TIME SAVINGS ACCOUNT

### 3. BENEFICIARIES

In order to acquire additional pension rights, beneficiaries must satisfy three conditions:

- + be a civil servant in one of the three public sectors (French central government, local and regional authorities or the public hospitals sector), a member of the judiciary, a person in the military or working for the military on a contractual basis;
- + contribute to the French State's civil or military pension scheme or the scheme for local and regional civil servants (Caisse Nationale de Retraites des Agents des Collectivités Locales);
- + receive eligible remuneration.

### 4. BASIS AND CONTRIBUTIONS

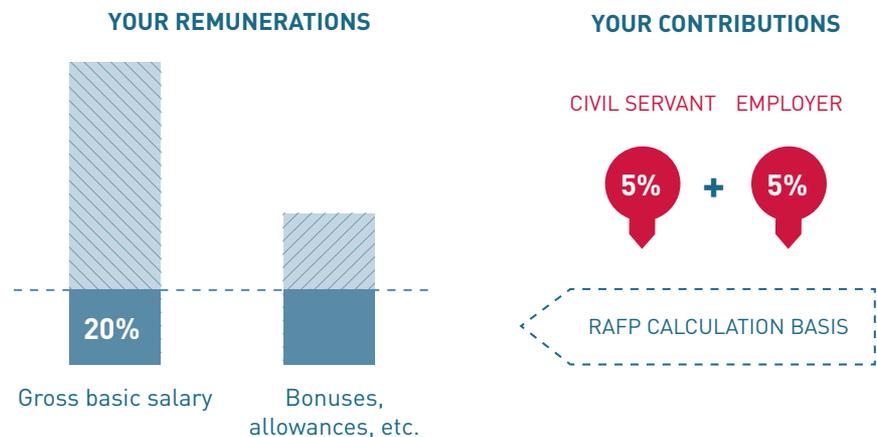
The contribution basis consists of all types of remuneration not included in the basic pension calculation, such as bonuses, overtime hours, allowances and in-kind benefits. However, this basis may not exceed 20% of the gross basic salary received by the civil servant in the course of a calendar year.

The "Individual Purchasing Power Guarantee" (GIPA), created in 2008, is an exception to this principle. Accordingly, the full amount is eligible under the Scheme<sup>(1)</sup>.

The cap is also waived for time savings days accrued under a Time Savings Account (CET) and convertible into RAFF points.

#### BASIS

Source — ERAPF Communications Department



Since 1 January 2005, bonuses and ancillary remuneration are included in the contribution basis within the limit of 20% of the annual gross basic salary. This type of contribution entitles the civil servant to an additional retirement benefit over and above the basic pension.

\*Bonuses, allowances, overtime hours, in-kind benefits

The overall contribution rate is set at 10% of the basis amount, split evenly between the employer (5%) and the civil servant (5%).

Each euro paid in to RAFFP by the civil servant is matched by an employer contribution (with the exception of converted time savings days). Contributions are usually paid in monthly.

## 5. INDIVIDUAL RETIREMENT ACCOUNTS

In the first quarter of each year, the employer sends Caisse des Dépôts a summary statement of all contributions paid in during the previous year for all its participating civil servants. The sum of the amounts indicated in these statements must be equal to the sum of the amounts effectively paid in.

Converted into points, the contributions are credited to the civil servant's individual retirement account, which may be viewed online at [www.rafp.fr](http://www.rafp.fr)

The number of points is determined by dividing the total

amount of contributions paid in during a year by the purchase value of a point for the given year.

## 6. POINT VALUES

Point values are set each year by the Board of Directors:

- + The purchase value makes it possible to calculate the number of points vested during the year. This value is identical for all contributors, regardless of their age. It thus represents a form of intergenerational solidarity between age categories.
- + The service value is applied to the total number of points vested to calculate the additional benefit.

**€1.05620**

PURCHASE VALUE  
OF A POINT IN 2011

**€0.04304**

SERVICE VALUE  
OF A POINT IN 2011

[1] Decree no. 2008-964 of 16 September 2008.

## IMPORTANT

- + The "Individual Purchasing Power Guarantee" (GIPA) is excluded from the cap. This means the full amount is eligible for application of the 10% contribution rate, irrespective of the relative level of ancillary remuneration.
- + Likewise, days accrued under a Time Savings Account that are directly converted into RAFFP points in accordance with Decree 2009-1065 of 28 August 2009 and Decree 2010-531 of 20 May 2010 are excluded from the cap. The amount corresponding to converted Time Savings Account days is transferred to the Scheme after deduction of the mandatory social security and related contributions, and the standard 10% contribution rate is not applied.

# 5,125

THE MINIMUM NUMBER  
OF POINTS REQUIRED  
TO RECEIVE ANNUITY  
PAYMENTS

# 5,957

ANNUITIES IN PAYMENT  
AS AT 31 DECEMBER 2011

## 7. TECHNICAL RETURN AND VALUE OF A POINT IN 2011

Derived by dividing the service value by the purchase value, the technical return is 4.075%. On 15 December 2011, the Board of Directors decided to symmetrically increase the purchase value and the service value of a point by 1.7%.

## 8. PENSION LIQUIDATION AND PREMIUM

→ See also Appendix 1

Upon reaching the legal retirement age and provided the beneficiary qualifies for pension benefits under the basic pension scheme, the beneficiary may apply for the additional pension benefit. The age at which the additional pension benefit becomes available was previously set at 60 and has been gradually raised to 62, in line with the change in the legal retirement age (Retirement Reform Law of 9 November 2010).

Application of the premium avoids the need to change the current rates, designed for retirement at age 60, and re-establishes actuarial equity between beneficiaries.

## 9. BENEFIT PAYMENTS

The annual amount of the additional benefit is obtained by multiplying the number of points vested in the retirement account by the service value of the point.

### Lump sum payments

Before 2008, all additional pension benefits were paid out in a lump sum. At present, the liquidated benefit is paid out in a lump sum, calculated on the basis of an actuarial table, if the number of vested points is less than 5,125.

### Annuity

The liquidated benefit is paid out in the form of a monthly annuity if the number of vested points is equal to or greater than 5,125. The first annuity payments began in 2009. 5,957 annuities were in payment as at 31 December 2011.

## 10. REVERSION

→ See also Appendix 2

If the rights holder dies, a reversionary benefit is paid to the surviving spouse and orphaned children until they reach the age of 21.

# SCHEME OPERATIONS

## GENERAL OPERATION OF THE SYSTEM

The Scheme, which was created by the Law of 21 August 2003, is managed by a public-sector management entity operating under the oversight of the French State. The application decree<sup>(2)</sup> entrusts administrative management to Caisse des dépôts et consignations, under the authority and control of the Board of Directors. The management of financial assets is partially outsourced to investment management firms.

## ERAFP – CAISSE DES DÉPÔTS: CONTRACTUAL COMMITMENTS

The main administrative management services provided by Caisse des Dépôts are set forth in the Objectives and Management Agreement (“Convention d’objectifs et de gestion”) entered into by the two institutions.

The first Agreement covered the period from 2006 to 2010. A second Agreement, for 2011 to 2015, has been approved by the Board of Directors.

In addition, ERAFP’s Public Accountant entrusted pre-litigation collection of contributions from legal entities and individuals to Caisse des Dépôts under agreements signed in May 2009 and July 2010.

## ERAFP – FRENCH STATE: A SPECIFIC SERVICE

In addition to its role as the institution’s supervisory authority, the French State, through the Directorate of Public Finance’s regional pension centres, pays out the additional pension benefits to retired central government civil servants along with the basic pension benefits. This service is billed separately, in accordance with a bi-partite agreement.



- ➡ A Scheme managed by a public-sector management entity operating under the oversight of the French State.
- ➡ Administrative management provided by Caisse des dépôts et consignations (CDC), under the authority and control of the Board of Directors.
- ➡ Management of financial assets partially delegated to investment management firms.
- ➡ Direct management by ERAFP of government bonds and government-backed securities.
- ➡ Management costs for 2011: €21.8 million.

(2) Decree 2004-569 of 18 June 2004

## — PARTIALLY OUTSOURCED FINANCIAL MANAGEMENT

Since 2005 and as authorised by the applicable regulations, ERAFP directly manages its investments in government bonds and government-backed securities.

However, the financial management of the Scheme's equity and corporate bond portfolios is delegated to specialised firms. The investment managers selected undertake to optimise the financial return of the funds whilst remaining in compliance with ERAFP's SRI Charter. The allocation of the equity portfolios between a number of different firms diversifies the financial risks across several service providers and reflects a prudent asset management approach on behalf of the beneficiaries.

Each of these companies has created a dedicated investment fund, in which ERAFP invests depending on market conditions, always on the basis of an entirely proprietary investment process. Investments into each fund are made according to their respective overall performance and ERAFP's investment strategy.

In 2011 all the "Eurozone equities" portfolio management agreements were renewed. A second corporate bond investment management agreement, which had previously been on standby, was activated in 2011. Following the regulatory changes that came into force on 30 December 2010, ERAFP awarded an investment management agreement for real estate assets in the autumn of 2011.

## — CONTROLLED ADMINISTRATIVE COSTS

The operating budget for the Scheme and its management entity is financed directly from amounts withheld from receipts. The budget is voted by the Board of Directors annually.

In 2011, administrative costs totalled €21.786 million.

### ADMINISTRATIVE COSTS (in millions of euros)

Source — ERAFP



# RAFP'S ADMINISTRATIVE MANAGEMENT

The Scheme's administrative management has been entrusted to Caisse des dépôts et consignations pursuant to article 32 of the Decree of 18 June 2004 on additional pensions for civil servants. Caisse des Dépôts is responsible for the following tasks under the authority and supervision of the Board of Directors: collection of contributions, maintenance of beneficiaries' individual retirement accounts, liquidation of rights, payment of benefits<sup>(3)</sup>, the Scheme's accounting and operational communications. It accordingly acts as the Scheme's single interface for employers, retired beneficiaries and active contributors with regard to their right to information.

ERAFF's Public Accountant entrusted pre-litigation collection of contributions from legal entities and individuals to Caisse des Dépôts under a service agreement signed with ERAFF.

## — MORE THAN 45,000 EMPLOYERS...

Some 45,000 employers paid RAFFP contributions to Caisse des Dépôts in 2011. The vast majority are local and regional authorities and public-sector hospitals. The majority of French central government employers are public treasury departments, ministries

and commissioners to the armies registered with the Scheme.

It should be noted that 96.6% of employers paid in all the requisite contributions in 2011. Furthermore, the number of payment incidents caused by incorrect references has gradually decreased over the past few years and only concerned 4.9% of all payments received in 2011.

<sup>(3)</sup> Except for the payment of benefits to retired central government civil servants, which is the responsibility of the Directorate of Public Finance.



- ➡ Approximately 45,000 employers paid contributions to Caisse des Dépôts in respect of the Scheme in 2011.
- ➡ €1.7 billion collected in 2011.
- ➡ 4.6 million contributing civil servants in 2011.
- ➡ More than 110,000 pension liquidations and 158,000 revisions in 2011.
- ➡ More than €230 million paid to beneficiaries in benefits.
- ➡ Approximately 6,000 annuities in payment.

# 99.2 %

OF INDIVIDUAL  
CONTRIBUTORS'  
ACCOUNTS UPDATED  
AT 31 DECEMBER 2011

## ... MORE THAN €1.7 BILLION COLLECTED...

The Scheme collected more than €1.7 billion in 2011. Employers with at least 10 employees pay contributions on a monthly, aggregate basis. Those with less than 10 employees pay contributions annually. In the event of a late payment, a penalty is added to the contribution. In 2010, 1,250 employers had to pay penalties.

## ... AND 4.6 MILLION CONTRIBUTING CIVIL SERVANTS IN 2011

Each year, employers send Caisse des Dépôts a statement summarising for each of their civil servants the contributions paid in during the previous year. The deadline for reporting contributions collected during 2010 was 31 March 2011.

Rights are accrued to the contributors' individual accounts provided the amounts reported match the contributions received.

ERAFP and Caisse des Dépôts, working closely with the supervisory authority, have implemented actions to raise awareness among employers of their regulatory commitments and the rights of their civil servants. Caisse des Dépôts contacts employers, by telephone or in writing, whenever a discrepancy between the reported amount and the amount received is observed. The significant improvement in the updated rates for contributors' accounts since 2009 (99.2% accrual rate for contributors' accounts as at 31 December 2011) is indicative of an increased awareness and understanding of the Scheme, which is partly due to Caisse des Dépôts' actions to raise awareness among employers.

### EMPLOYER ACCOUNTS AND INDIVIDUAL RETIREMENT ACCOUNTS

Source — Caisse des Dépôts, Mutual Management department production data



**A STICKING POINT: MULTIPLE EMPLOYERS**

Some civil servants receive remuneration from several employers. This may occur when a civil servant is assigned to another employer on a temporary basis. In such cases, the primary employer is responsible for obtaining data on contributions and bonuses from the “secondary” employers, to ensure compliance with the aggregate cap of 20% of the gross basic salary, and to calculate the amount of contributions to be paid by each employer. This system, which was introduced by the applicable regulations, is complex to implement for employers, and compliance with the 20% cap is impossible in practice, because amounts paid in respect of the Individual

Purchasing Power Guarantee (GIPA) or as converted Time Savings Account days are excluded from the cap on the contribution basis.

**MORE THAN 110,000 PENSION LIQUIDATIONS AND 158,000 BENEFITS REVISIONS IN 2011**

A total of 110,066 pensions were liquidated in 2011, and 158,450 revisions were made. In all, more than €230 million was paid out to beneficiaries in the year. This amount includes reversionary benefits paid out to deceased beneficiaries’ spouses and children under 21.

**110,066**

PENSION LIQUIDATIONS IN 2011

**158,450**

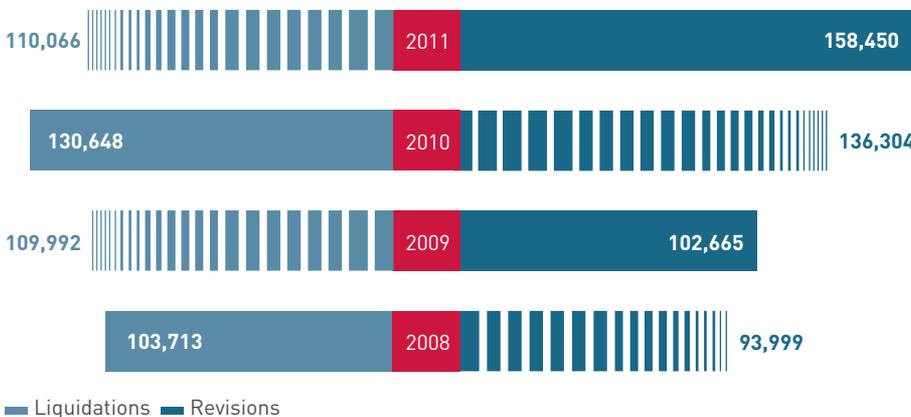
BENEFITS REVISIONS

MORE THAN **€230** MILLION

PAID OUT TO BENEFICIARIES IN 2011

**LIQUIDATIONS AND REVISIONS, 2008 TO 2011**

Source — CDC, Administrative Manager



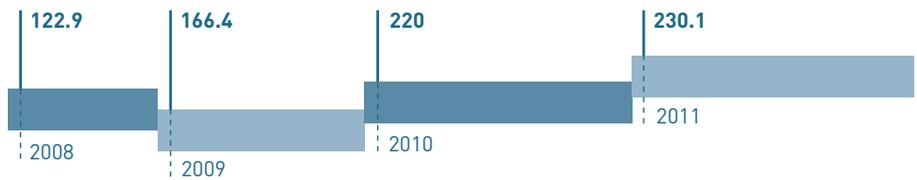
## — RISING PAYMENTS

Despite the drop in the number of liquidations, due to the later legal retirement age for individuals born after 1 July 1951, overall

benefit payout amounts increased by 5% in 2011 compared to the previous year.

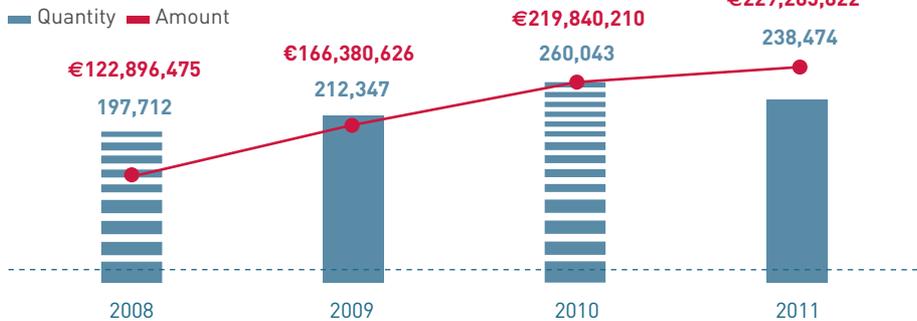
### BENEFIT PAYOUT AMOUNTS (in millions of euros)

Source — CDC, Administrative Manager



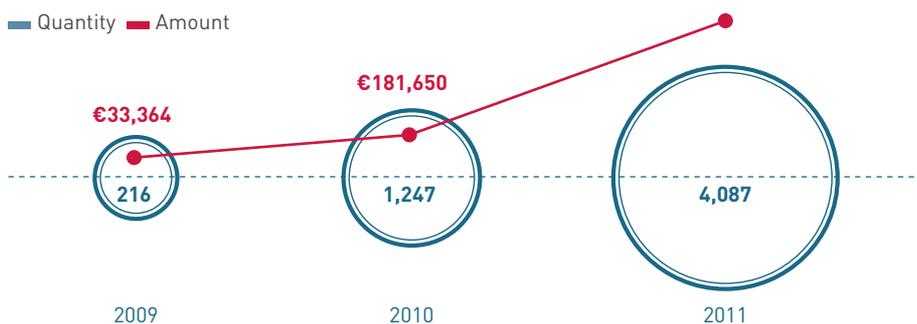
### ANNUAL LUMP SUM BENEFIT PAYOUTS

Source — CDC, Administrative Manager - Reduction in number of lump sum payouts, increase in total sum paid



### ANNUAL ANNUITY PAYMENTS

Source — CDC, Administrative Manager



## — ANNUITY PAYMENTS TAKE OFF

At 31 December 2011, 5,957 annuities were being paid. The sharp increase in the total number of annuities in payment (up from 1,247 annuities in 2010) can be explained by the gradual development of the Scheme since its inception in 2005. Every year, there are more beneficiaries who have accrued throughout their careers a total number of points in excess of the minimum 5,125 necessary to receive annuity payments.

A total of €815,446 was paid out under annuities in 2011, which is 4.5 times more than in the previous year (€181,650).

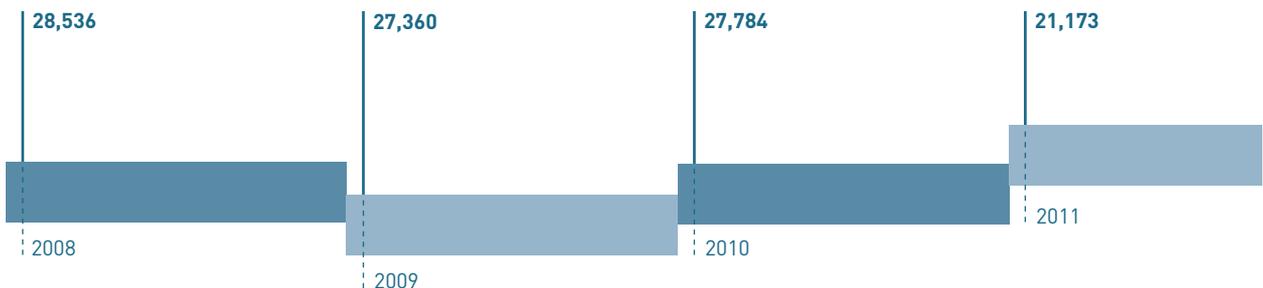
## — INFORMING EMPLOYERS

More than 21,000 telephone calls from employers were handled in 2011 (90.4% of all calls received). This figure is lower than in previous years, which suggests that employers now have a better awareness and understanding of the Scheme and its rules. In addition, approximately 1,000 e-mails from employers were processed. Caisse des Dépôts also organised information sessions for employers.

Employers also used the dedicated “e-services” website to view their accounts, with over 87,000 connections in 2011. Again, this figure is lower than in 2010, due to improvements in the quality of data sent by employers.

### NUMBER OF TELEPHONE CALLS FROM EMPLOYERS

Source — CDC, Communications department/call centre



## — INFORMING RETIRED BENEFICIARIES

- + More than 61,000 telephone calls from retired civil servants were handled in 2011 (97.3% of all calls received). In addition, more than 12,800 items of correspondence (letters and e-mails) were processed in 2011.
- + More than 425,000 beneficiaries have signed up for the on-line services available to active and retired civil servants (compared to 357,000 in 2010).

## — INFORMING ACTIVE CONTRIBUTORS

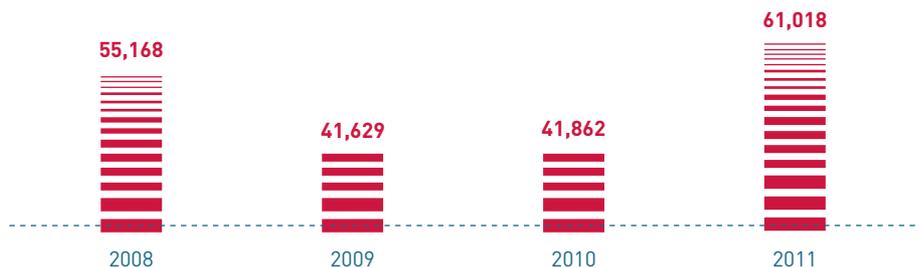
1,078,892 documents relating to RAFP were sent out to active contributors by the various schemes in compliance with

contributors' rights to information (individual statements and general indicative estimates for pensions). In the course of 2011, RAFP took over responsibility for informing active civil servants in the absence of a primary scheme. As a result, more than 155,000 of the 1,078,892 documents were sent out directly by RAFP.

Furthermore, Caisse des Dépôts also handled more than 17,800 telephone calls from active contributors under their "right to information" (88.1% of calls received), as well as more than 2,600 letters and e-mails.

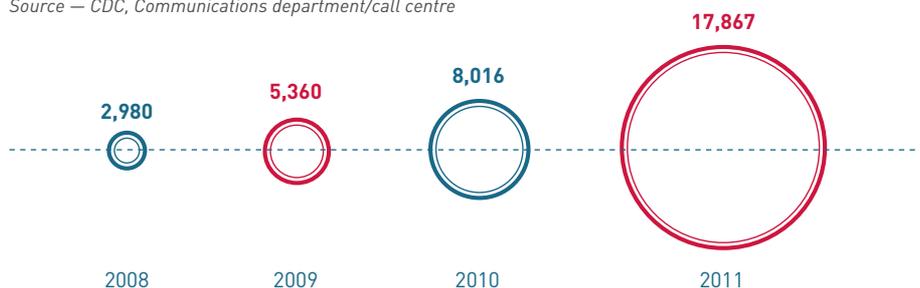
### NUMBER OF TELEPHONE CALLS FROM RETIRED CIVIL SERVANTS

Source — CDC, Communications department/call centre



### NUMBER OF TELEPHONE CALLS FROM ACTIVE CONTRIBUTORS (RIGHT TO INFORMATION)

Source — CDC, Communications department/call centre



# SCHEME INFORMATION AND COMMUNICATIONS



- ➔ A stable team with two financial and institutional communication officers.
- ➔ A strong desire to improve awareness and understanding of the Scheme through local meetings with employers organised in conjunction with Caisse des Dépôts.
- ➔ Spotlight on the Scheme's SRI policy through the on-line quiz on the [www.rafp.fr](http://www.rafp.fr) website during SRI Week.
- ➔ Press coverage of the Scheme and its investments with approximately 50 articles in the mainstream and specialist press.
- ➔ Plans to redesign the Scheme's visual identity and communication tools on the basis of an awareness survey.

ERAFF's communications strategy reflects its desire not only to raise awareness of the Scheme, but also to improve the level of trust and confidence beneficiaries have in their Scheme. This will be achieved by demonstrating its usefulness as a long-term investor and its relevance, in particular through its commitment to prudential investment rules and to public service values (100% SRI).

Seven years after inception of the public service additional pension scheme, the need to continue to raise awareness and understanding among all participants – be they contributors, employers or institutions - remains a vital and strategic objective.

# 4,6 MILLION

CIVIL SERVANTS REGISTERED WITH THE SCHEME

# 100

AVERAGE NUMBER OF ATTENDEES AT REGIONAL INFORMATION MEETINGS

## — ACTIVE CONTRIBUTORS: THE LINCHPIN OF THE SYSTEM

Although RAFP is a mandatory scheme and represents a huge step forward for the 4.6 million civil servants it covers, it is still not well known. Awareness of the Scheme needs to be improved and the goodwill and trust afforded it needs to be further strengthened.

## — PUBLIC SECTOR EMPLOYERS: IN NEED OF INFORMATION

Building on the positive feedback from initiatives organised in 2010, and as part of the actions to raise awareness of the Scheme among employers, two new regional information meetings with public sector employers were held in 2011, one in Strasbourg in January and one in Toulouse in April. Both were attended by approximately 100 employers.

The half-day meetings were hosted by Jean-François Rocchi, chairman of ERAFP's Board of Directors, accompanied by representatives from Caisse des Dépôts. They provided an opportunity to enter into direct contact with employers, answer their questions and listen to their concerns. Each meeting was followed up by a satisfaction survey. Two main lessons were learned:

- ✦ there is a greater awareness of the Scheme;
- ✦ there is a need to provide precise and practical information on topics such as the introduction of the Time Savings Account or problems associated with multiple employers.

## — INSTITUTIONS: POTENTIAL CONVEYORS OF INFORMATION

### Contact with the public authorities

With a view to raising the Scheme's profile and consolidating its position in the public sector, ERAFP is now in regular contact with the Ministry of the Civil Service, and also attended the annual "Rencontres acteurs publics" conference for public-sector players in July 2011.

The Scheme also shared Caisse des Dépôts's stand at the Salon des Maires, an exhibition for mayors and local authorities, which took place between 22 and 24 November 2011.

### Media relations

ERAFP cultivates its relations with the media, seeking to capitalise on every opportunity presented by a new call for tenders to raise the profile of the Scheme.

### Press

RAFP and ERAFP were mentioned in over 50 articles in 2011. This impressive result is due in particular to media coverage following our press releases announcing the award of six asset management mandates and the award of the first real estate investment mandate.

The Chief Executive Officer has also been interviewed by around a dozen specialist French and English language publications and has taken part in a number of conferences and seminars.

### The website: a central communication tool

The Scheme's website, [www.rafp.fr](http://www.rafp.fr), has played a growing role in 2011, thanks to a dynamic on-line communication policy designed to bring awareness of the Scheme to a wider public. An on-line presence is essential to improve off-line information and communication. The main on-line event was the website's SRI quiz during SRI Week (10 to 16 October 2011), designed to provide information on socially responsible investment by pension funds.

The website's most frequent users are the Scheme's active contributors (52% of all visits), who are seeking practical information about the Scheme. The majority of the queries concerned the calculation of points vested. For the second consecutive year, the most visited areas were the "points calculator" and "your personal situation" areas.

The website currently allows beneficiaries to obtain detailed information about the Scheme and to view their individual retirement accounts using applications developed by Caisse des Dépôts.

However, we will be looking at how we can further improve this valuable tool, and plan to launch a newly designed site within the next three years which will confirm ERAFP's determination to prioritise a dynamic on-line communication policy.

# OVER 50

PRESS ARTICLES  
MENTIONING RAFP  
AND ERAFP

# 52 %

OF [WWW.RAFP.FR](http://WWW.RAFP.FR)  
USERS ARE ACTIVE  
CONTRIBUTORS

**The Scheme's socially responsible investment policy underscores its approach as a long-term investor. It is initially reflected in:**

- a particularly conservative approach in terms of defining the technical parameters;
- an asset allocation designed to ensure the Scheme's equilibrium over the long term.

The Scheme's annual report describes the way in which the SRI system functions, while providing background information that better reveals the system's originality.

This is followed by an analysis of the asset portfolio's compliance with the SRI criteria and of any deviation observed together with the measures taken to reduce such deviations. The changes in the portfolio in the light of the SRI approach since the end of 2007, and in particular during 2011, are also examined.

Lastly, the final section of the report raises the issues of the impact of SRI on financial management during crisis periods and ERAFP's engagement policy.



ERAFP,  
A SOCIALLY-  
RESPONSIBLE  
INVESTOR

# ERAFP KEY FIGURES\*

Net assets of around

**€11,239 million**

An estimated regulatory  
coverage ratio of around

**109.35%**

Technical reserves of around

**€10,268  
million**

Non-technical reserves  
established since 2010 of

**€960  
million**

**1.70%**

discount rate \*\*

\* Valuation at end-2011.

\*\* Gross discount rate of management fees, valued using a method that takes into account re-investment risk.

# A PRUDENTIAL FRAMEWORK

## THE SCHEME'S FINANCIAL EQUILIBRIUM

RAFP is subject to strict prudential regulation stipulating that:

- + the Scheme's commitments to its beneficiaries must be at least fully covered by assets,
- + the likely present value of these commitments must be calculated using a conservative discount rate (i.e. consistent with the conservatively estimated return on the Scheme's assets).

The Board of Directors is responsible for ensuring this financial equilibrium.

### — A DEFINED STRATEGIC FRAMEWORK

The central pillar of the Scheme's asset and liability management is its obligation to cover commitments. This goal is complemented by that of maintaining the purchasing power of annuities. Finally, the strategic framework is rounded out by the goal of maintaining adequate solvency to deal with the Scheme's risk exposure.

### — A CHALLENGING ENVIRONMENT...

RAFP began investing in 2005, when nominal interest rates offered on French sovereign bonds were particularly low.

The Scheme also entered the euro zone equity markets in 2007 when they were at a relatively

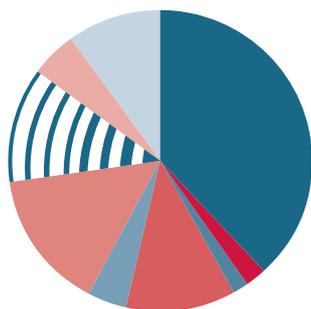
high level (with the CAC 40 around 6,000 points). Thanks to a constant allocation throughout the crisis, however, the Scheme was also able to invest in equities during periods when valuations became particularly attractive.

Given the downward yield trends for bonds issued by the "core" euro zone countries, the bond portfolio's average yield declined slightly. In these difficult conditions, the Scheme maintained its capacity to cover its commitments. The coverage ratio stood at 109.35% (estimated unaudited ratio) at the end of 2011.

## PORTFOLIO COMPOSITION (by asset class, as a %)

At 31 December 2011

Source — ERAFP Technical  
and Financial Management  
department



## ... BUT A POSITIVE OUTLOOK

As a recently established Scheme, RAFP will undergo a long period of growth as it gathers steam. With substantial net cash inflows, the Scheme is not hampered by short-term management constraints and is therefore able to hold portfolio securities for the long term.

## A CONSERVATIVE APPROACH

Although the economic environment remains uncertain, the Scheme benefits from a solid base.

The Board of Directors has in effect opted for a conservative definition of the Scheme's main parameters, resulting in an initial technical return of 4% that has since risen at a modest rate (4.075% in 2011).

At the same time, the Scheme's discount rate is set at a very conservative level compared with the practices of other European pension funds.

Since publication of the statutory order of 28 December 2011 (Article 1) amending the statutory order of 26 November 2004, RAFP has used the TGH05 and TGF05 generation tables which are more closely in line with usual market practices than the TPG93 tables formerly used.

Lastly, the Scheme's target portfolio reflects its conservative management policy. It includes a substantial portion of sovereign debt, weighted by gradual diversification into new asset classes. The Scheme has therefore increased its investments in corporate bonds. Continuing from its investments in inflation indexed sovereign bonds (within the limits of a fairly restrictive universe as France, Italy and Germany are the three countries that offer such instruments<sup>(4)</sup>), the Scheme seeks to invest in assets offering a degree of protection against the threat of inflation. This is one of the reasons for its diversification into real estate assets.

## POINT PURCHASE AND SERVICE VALUES

Source — ERAFP Technical and Financial Management department

ANNÉE	2005	2006	2007	2008	2009	2010	2011	2012
Purchase value (€)	1	1.017	1.03022	1.03537	1.04572	1.05095	1.05620	1.07420
Change	-	1.70%	1.30%	0.50%	1%	0.50%	0.50%	1.70%
Service value (€)	0.04	0.0408	0.04153	0.04219	0.04261	0.04283	0.04304	0.04378
Change	-	2.00%	1.80%	1.60%	1%	0.50%	0.50%	1.70%
Technical return	4.00%	4.01%	4.03%	4.08%	4.08%	4.08%	4.08%	4.08%

(4) Other countries also issue but not denominated in euros.

## SCHEME PARAMETERS

Each year, the Board of Directors sets the Scheme parameters:

- + purchase value, and
- + service value of a point.

When it adopted the new point values for 2012, the Board chose to take a prudent approach by keeping the technical return at 4.075% while raising the purchase and service values of the point by 1.7%.

## AUDITED FINANCIAL STATEMENTS

In 2011 as in all the previous years, the Board of Directors only began deliberations on the previous year's financial statements in the second half.

This time lag is closely related to the system for processing and verifying data submitted by employers, which ends on 30 June. The time lag will be reduced over time as employers become more familiar with the system.

After auditing the valuation process for reserves, the independent auditors again certified the fairness and accuracy of the 2010 financial statements without any reserves.

## WHOLLY COVERED COMMITMENTS

Despite the unprecedented conditions linked to the crisis, ERAFP's conservative management policy enabled it to record an estimated coverage ratio of 109.35% at end-2011. In compliance with regulatory obligations, the Scheme maintains comfortable reserves and, given the difficult economic conditions, ensures satisfactory coverage of its commitments.

### BREAKDOWN OF DIRECTLY-MANAGED BONDS BY COUNTRY MARKET VALUE AT 31/12/2011

Source — ERAFP Technical and Financial Management department

Germany	8.5%
Austria	10.7%
Belgium	5.7%
Canada	0.8%
Spain	4.6%
Finland	0.5%
France	41.3%
Greece	0.9%
Hungary	0.2%
Ireland	4.4%
Italy	9.1%
Luxembourg	5.1%
Netherlands	6.2%
Portugal	1.2%
Switzerland	1.0%

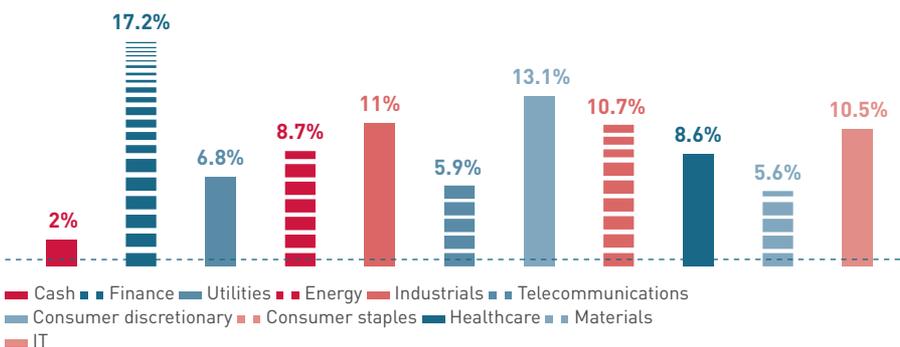
### BREAKDOWN OF EQUITIES BY COUNTRY MARKET VALUE AT 31/12/2011

Source — ERAFP Technical and Financial Management department

Germany	18.79%
Australia	1.05%
Austria	0.67%
Belgium	0.86%
Canada	1.08%
Denmark	0.40%
Spain	6.10%
United States	14.45%
Finland	1.48%
France	27.58%
Greece	0.38%
Hong Kong	0.63%
Ireland	0.41%
Israel	0.03%
Italy	8.20%
Japan	2.16%
Luxembourg	0.05%
Norway	0.03%
New Zealand	0.00%
Netherlands	7.38%
Portugal	0.59%
United Kingdom	3.52%
Singapore	0.06%
Sweden	0.82%
Switzerland	1.29%
Cash	1.99%

### BREAKDOWN OF EQUITIES BY ECONOMIC SECTOR MARKET VALUE AT 31/12/2011

Source — ERAFP Technical and Financial Management department



# THE FINANCIAL POLICY

- + ERAFP's investment policy aims to reconcile financial performance, risk management and socially responsible commitment within the strategic allocation approved by the Board of Directors.
- + More than €1.7 billion was received in contributions in 2011. As a long-term investor, ERAFP seeks to optimise the return on its portfolio while keeping the Scheme's risk exposure to an acceptable level.

## 61%

OF BOND INVESTMENTS  
CONCERNED CORPORATE  
BONDS

## 39%

OF BOND INVESTMENTS  
CONCERNED SOVEREIGN  
BONDS

In accordance with the strategic allocation, euro-denominated bonds accounted for around 70% of investment flows while equities accounted for around 25% in 2011. The remaining 5% was invested in cash assets. Against a background of low interest rates for bonds issued by "Northern" euro zone countries (interest rates at end-September of respectively 2.60% and 1.89% for French and German 10-year government bonds) and increased sovereign risk for peripheral European countries, corporate bonds were given preference over sovereign bonds. Accordingly 39% of bond investments concerned sovereign bonds while 61% concerned corporate bonds.

The portion of ERAFP's total assets invested in corporate bonds virtually doubled, increasing from 4.81% at end-2010 to 9.39% at end-2011, while the portion of directly-managed assets invested in sovereign bonds fell from 75% to 67%.

At the same time, action was taken to restructure and reduce bond portfolio risk, particularly as from May 2011. ERAFP, which had ceased to invest in the sovereign debt of the peripheral countries as from 2010 (2009 in the case of Greece), reduced its exposure to Portuguese, Spanish and Italian sovereign debt. The proceeds from these sales were invested mainly in French bonds.

As the equity purchases for the year had already been made and it was not good management policy to invest in securities with a return that was lower than the liabilities discount rate nor in securities with high default risk, in the fourth quarter the Scheme increased its cash position, which ended the year at €479 million.

At 31 December 2011 the portfolio's average effective return came to 4.26%<sup>(5)</sup>, down slightly from 4.38% at the end of the previous year.

Against the background of the European debt crisis, the performance of the equity portfolio suffered in the same way as the benchmark indices. ERAFP's overall equity portfolio was down by 13.35% at the end of 2011. The overall annual performance of the euro zone equity portfolio was negative by 16.60% while the international equity portfolio shed 5.5%. As a result, the portfolio's unrealised capital losses increased to €330.9 million at the end of 2011.

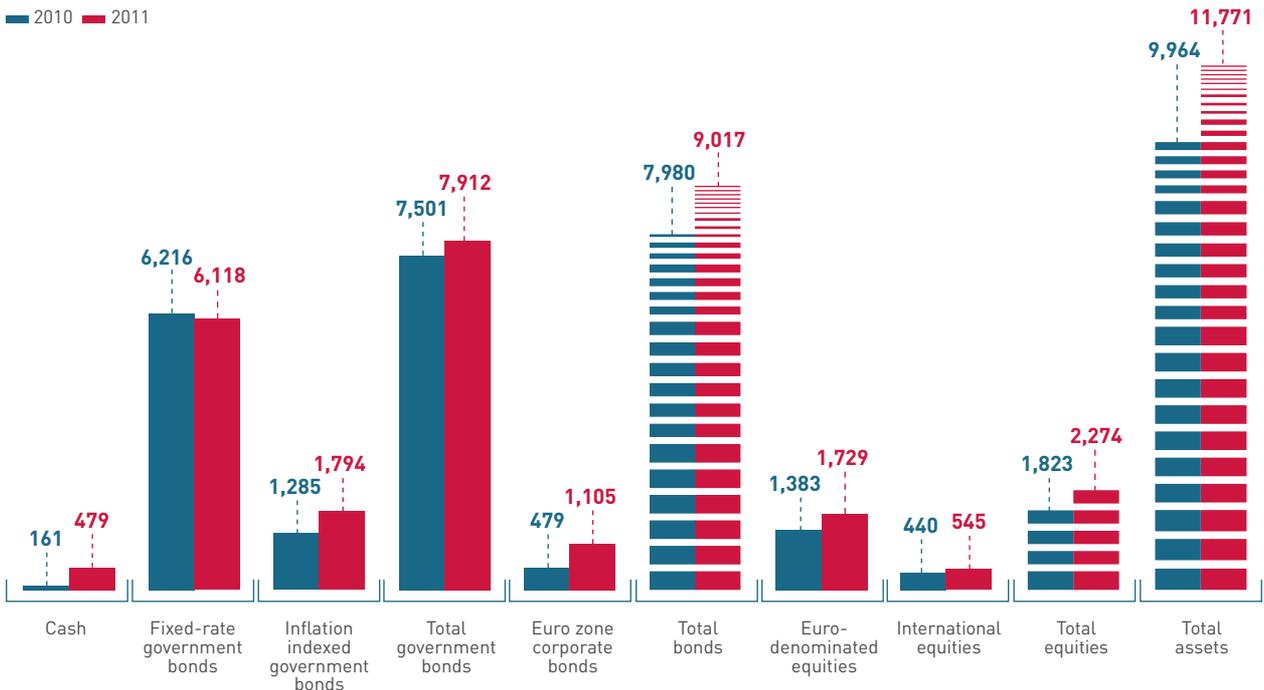
# 4.26%<sup>(5)</sup>

AVERAGE  
EFFECTIVE RETURN  
AT 31 DECEMBER 2011

(5) assuming inflation of 2%.

## CHANGE IN ASSETS

Source — ERAFP Technical and Financial Management department



# 19.32%

OF ERAFP'S PORTFOLIO  
CONSISTS OF EQUITIES

At the end of 2011, equities accounted for 19.32% of ERAFP's portfolio. During the year, ERAFP renewed the managers of the euro zone equity funds whose management mandate expired. The renewal of the mandates resulted in the creation of six dedicated investment funds:

- + five "large cap" investment funds;
- + one "small and mid cap" investment fund.

With regard to large cap equity investments, ERAFP put in place three types of management:

- + passive management;
- + benchmarked active management;
- + non-benchmarked active management.

With regard to small and mid cap equity investments, ERAFP opted for passive management.

The international equities portfolio is managed by two management companies appointed in 2009 and whose mandates will come up for renewal in 2012.

The asset diversification is scheduled to continue in 2012, in particular into convertible bonds.

Following the regulatory changes introduced on 30 December 2010, in the autumn of 2011 ERAFP granted a real estate asset management mandate. Given the time required to identify suitable real estate, investment under this mandate will not be made until 2012.

## BREAKDOWN OF EQUITY PERFORMANCES BY INVESTMENT STYLE (PRICE PERFORMANCES)

Source — Datastream, Stoxx, Nomura, Russel, S&P

	2005	2006	2007	2008	2009	2010	2011
<b>Size factor</b>							
European large caps	22.5	15.3	1.4	-45.0	25.1	6.2	-10.0
European mid caps	28.3	27.7	-7.2	-47.5	41.3	20.0	-17.0
European small caps	27.3	31.2	-5.7	-50.5	49.1	22.0	-17.5
US large caps	3.0	13.6	3.5	-38.5	23.5	12.8	0.0
US mid caps	11.0	13.5	4.1	-42.6	37.7	23.5	-3.1
US small caps	3.3	17.0	-2.8	-34.8	25.2	25.3	-5.5
Japanese large caps	42.8	5.0	-11.0	-43.5	5.7	-1.0	-20.5
Japanese mid caps	46.0	-2.5	-10.8	-40.9	8.6	-0.7	-17.1
Japanese small caps	55.8	-14.5	17.1	-34.5	6.8	2.2	-9.0
<b>Yield stocks and growth stocks</b>							
European growth stocks	22.9	15.5	5.3	-43.1	24.1	17.4	-9.6
European yield stocks	23.2	18.4	-2.8	-48.5	32.7	-2.0	-15.7
US growth stocks	2.6	10.0	9.0	-36.9	33.1	14.7	0.4
US yield stocks	6.9	17.0	-0.9	-40.5	19.3	15.8	-2.1
Japanese growth stocks	45.6	0.4	-12.9	-45.3	1.8	-1.2	-16.6
Japanese yield stocks	43.4	3.6	-11.0	-39.2	10.2	0.2	-20.7

# THE SOVEREIGN DEBT CRISIS IN 2011

The ongoing European sovereign debt crisis was the most significant economic event in 2011. The financial markets were also affected by other major developments, often closely linked to political events such as the revolutions in the Middle East, disasters such as Fukushima and drastic trend breaks such as the downgrading of the US rating which calls into question the very idea of such a thing as a risk-free asset.

The crisis intensified. Interest rate spreads within the euro zone widened further, affecting even the triple-A countries. Despite the determination shown by the authorities, who stepped up the role of the European Financial Stability Facility (EFSF), the crisis took on a new dimension. Since then, Spain and Italy have also become the targets of speculative attacks.

The resulting rise in interest rates on these countries debt worsened the situation. Faced with this generalised distrust, the European Central Bank (ECB) decided to take action by putting in place extraordinary liquidity measures to lessen the tensions in the interbank market and by restarting its Securities Markets Programme (SMP). This brought a precarious calm back to the markets out to the end of the year.

# ↓ 2011

## JULY

---

RESTRUCTURING  
BOND PORTFOLIO  
AND REDUCING RISK

## AUGUST – OCTOBER

---

INVESTMENTS  
IN CORPORATE  
BONDS AND EQUITIES

## NOVEMBER – DECEMBER

---

REDUCING EXPOSURE  
TO THE SOVEREIGN  
DEBT OF PERIPHERAL  
EUROPEAN COUNTRIES

## 5 DECEMBER

---

REFUSAL TO INVEST  
IN SECURITIES:

- + WITH A LOWER RETURN  
THAN THE RETURN  
ON LIABILITIES
- + WITH A HIGH RISK  
OF DEFAULT

Between 19 May 2011 when the last meeting of the former Board of Directors took place and 2 December 2011 when the present Board of Directors was installed, the management took the following measures:

### — JULY 2011

#### → *Review of events*

In Europe, an agreement was reached with regard to Greece and the use of financial stability mechanisms (extension of EFSF). After much discussion, on 21 July the governments agreed a new bailout plan for Greece totalling €109 billion, with as a principle the involvement of private investors. The only constraint set by the Greek Treasury was a minimum participation of 90% of investors.

#### → *Actions taken by management*

As from May 2011, action was taken to restructure and reduce risk in the bond portfolio. Exposure to Portugal was reduced by close to €70 million at the end of May while exposure to Spain was reduced by €94 million in May and by a further €23 million in June. The divestment proceeds were invested mainly in French debt and to a lesser extent debt issued by the Netherlands.

In parallel, management launched a tender procedure to select a manager with a view to a first investment in office real estate. The procedure implemented was a restricted call for tender in two phases. It was launched on 7 June 2011. The procurement committee met on 28 July 2011 to issue its opinions on the candidates accepted to make a bid.

### — AUGUST – OCTOBER 2011

#### → *Review of events*

On 5 August, Standard & Poor's downgraded the United States' AAA rating in view of the difficulties encountered in reaching an agreement on raising the debt ceiling. This triggered an immediate upsurge in risk aversion. The stock markets slumped, paving the way for an explosion in interest rates and spreads within the European Union.

This environment provided the background for speculative attacks on Spanish and Italian debt, pushing the 10-year rates for these two countries up to 6.40%. French debt also came under attack following rumours of a possible rating downgrade. These conditions therefore greatly benefited "core" country

bonds and particularly German bonds, whose rates dropped to record lows (1.89% at end-September) due to the flight to quality.

In these conditions, the ECB was forced to reactivate its asset purchase programme and extend it to Italy and Spain (€55 billion over the month). It also reintroduced extraordinary liquidity measures.

→ **Action taken by management**

The moves made to reduce the bond portfolio's risk, initiated in May, continued through July and August with the sale of nearly €150 million of Italian bonds.

The Scheme favoured investments in corporate bonds rather than sovereign debt, with €435 million invested in the "credit" mandates between May and December 2011.

At the same time, the procurement committee met on 11 October 2011 to allocate the first real estate asset management mandates.

The Scheme took advantage of the fall in the equity markets during the summer to invest the remainder of the budget allocated to equity investments.

— **NOVEMBER – DECEMBER 2011**

→ **Review of events**

Policymakers' failure to reassure investors weighed on the markets. In line with market expectations, the ECB decided to lower its key rates. On 1 November, Mario Draghi took over as head of the ECB and started his mandate with a 25bp rate cut. New technical governments took up their positions in Greece and Italy.

→ **Action taken by management**

The Scheme continued to reduce its exposure to the sovereign debt of peripheral European countries by selling €81 million of Italian bonds, in order to strengthen its positions in French bonds and more marginally in Austrian bonds.

— **5 DECEMBER 2011**

→ **Review of events**

S&P threatened to downgrade the ratings of all European countries. On 8 December the ECB once again cut its key rates by 25bp and introduced various measures to shore up the banks. The upsurge in risk aversion following the European summit on 9 December added to the downward pressure on the yields of the safest bond assets.

The flight to quality resulted in a fall in the German 10-year rate, bringing it to 1.82% at the end of December.

Following the summit, the French government bond yield curve came under pressure. Fitch downgraded France's rating outlook and put the ratings of six other euro zone countries on negative credit watch.

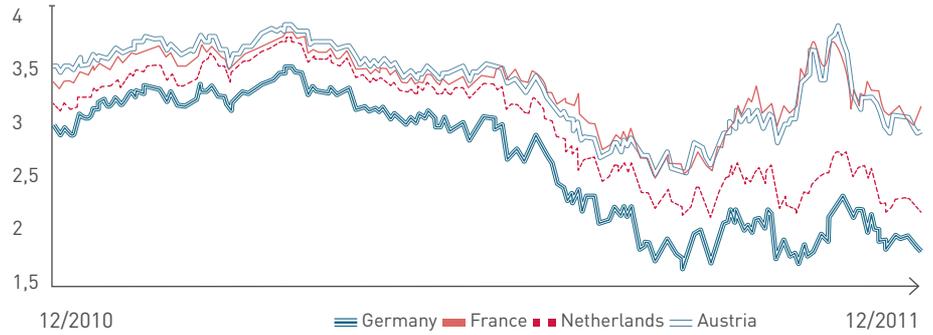
The creation of the European Stability Mechanism was brought forward by one year and it was agreed to strengthen the IMF's capacity to intervene.

→ **Action taken by management**

As there could be no question of investing in securities whose yield was lower than the rate of return on liabilities, or in securities with high risks of default, the Scheme increased its cash position, which stood at €479 million at the end of 2011.

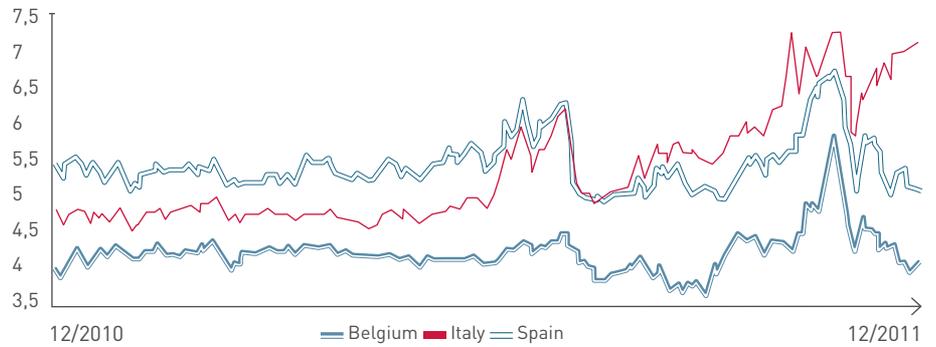
### 10-YEAR RATE – 2011

Source — ERAFP Technical and Financial Management department



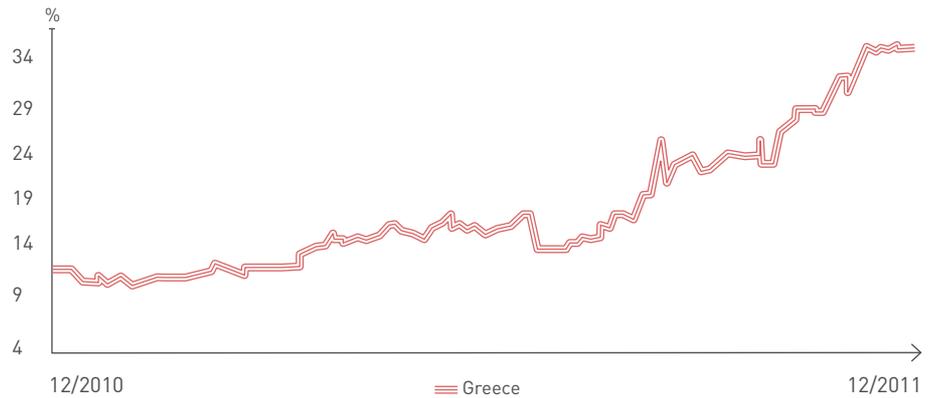
### 10-YEAR RATE – 2011

Source — ERAFP Technical and Financial Management department



### 10-YEAR RATE GREECE – 2011

Source — ERAFP Technical and Financial Management department



# AN ORIGINAL SRI APPROACH

## THE SRI CHARTER

In a resolution adopted on 10 November 2005, ERAFP's Board of Directors decided to implement an investment policy that consistently and permanently factors in the pursuit of the public interest. Adopted in March 2006, the SRI Charter specifies the orientations, content and resources needed to apply this policy of socially responsible investment.

### — THE SCHEME'S SRI APPROACH IS UNIQUE IN SEVERAL WAYS:

- ✦ the Board of Directors oversees the SRI approach internally; while the Board and management entity naturally rely on outside service providers such as consultants and rating agencies, the Board itself defined the approach to satisfy the demands and values of the Board members, and permanently monitor its application;
- ✦ the policy's content is "100% SRI", i.e. the SRI Charter applies to all of the Scheme's investments and takes into account the specificities of each asset class.

### — THE SCHEME'S SRI APPROACH IS GLOBAL AND INTEGRATED:

- ✦ it applies not only to all the Scheme's investments but also to all investment phases, from the stock-picking process to monitoring the securities or assets held following the investment;
- ✦ it is based on a broad range of values applied across all investments, instead of an array of theme-specific criteria;
- ✦ it factors in links between different challenges and among various issuers instead of addressing each situation separately.

# 2006

SRI CHARTER  
IS ADOPTED

— IT IS THEREFORE  
NOTEWORTHY, FOR  
EXAMPLE, THAT:

- + the analysis of a company's environmental performance is incomplete if it does not take into account the impact of its products;

- + it makes no sense to exclude certain economic sectors when the portfolio includes issuers from other sectors with close ties to the excluded sectors.

---

## THE FIVE VALUES OF THE CHARTER

### + Rule of law and human rights

Fight against discrimination in all forms, particularly gender bias.

Freedom of conscience and expression.

Human rights in the workplace.

Fight against corruption and money-laundering, etc.

### + Social progress

Compliance with fundamental rules of labour law,

Contribution to employment growth,

Implementation of forward-looking employment strategies,

Quality of contractual guarantees,

Ratio of employee earnings to shareholder remuneration (for companies), etc.

### + Democratic labour relations

Respect for freedom of association and the rights of trade unions and employee representatives.

Promotion of collective bargaining.

Existence and role of participative and advisory bodies.

Improvements to health, safety and security conditions in the workplace and creation of health and safety committees (for companies), etc.

### + Environment

Preventing environmental impact (water, air, waste, etc.).

Management of environmental risks (pollution, management of life-cycle impacts of products or services).

Limitations of greenhouse gas emissions.

Preservation of biodiversity, etc.

### + Good governance and transparency

Good governance (balance of powers and effectiveness of decision-making and executive bodies, effectiveness of audit and control mechanisms, method for determining executive remuneration, etc.).

Proper application of legal and tax rules.

Compliance with ethical rules (rejection of tax havens, fight against money-laundering, etc.).

Open approach to relations with all stakeholders.

Transparency about business operations and financial performance, etc.

# THE SRI EVALUATION SYSTEM

## THE RATING METHOD

The SRI guidelines, adopted in March 2007, outline in detail and “make operational” the values and implementation principles set forth in the Charter. Each value is broken down into separate criteria, and each criterion is associated with indicators.

The ratings are assigned:

- + based on criteria,
- + and then totalled for each value, with weightings ranging between 1 and 3 for each criterion.

The final issuer rating is the simple average of the ratings assigned for the five values, with each value given the same weighting.

## EXCLUSION CRITERIA

The Charter sets out three criteria that if not fulfilled result in the automatic exclusion of State-issued securities, and in some cases local authority issues, from investment.

These criteria are:

- + rejection of the death penalty;
- + rejection of the use of child soldiers;
- + rejection of the practice of torture.

## A DYNAMIC BEST IN CLASS APPROACH

The Charter uses a best-in-class approach reflected in the guidelines through quantitative rules that define the scope of eligible investments. These rules are detailed for each asset class in order to foster progress. This implies:

- + not excluding certain business sectors but promoting the most responsible issuers within each sector and, more generally, within comparable issuer groups,
- + rewarding progress by awarding bonus points to issuers that have made efforts to improve,
- + monitoring and working with issuers that are making steady progress.

## 3 EXCLUSION CRITERIA

---

*DYNAMIC BEST IN CLASS APPROACH*

---

**ORGANISATIONAL MODEL FOR THE SYSTEM**

Source — ERAFP Technical and Financial Management department

**1 SRI POLICY**

- + Definition of investment policy
- + Ruling on differences of interpretation
- + Decisions on changes to the Charter and guidelines

**2 SRI RATING**

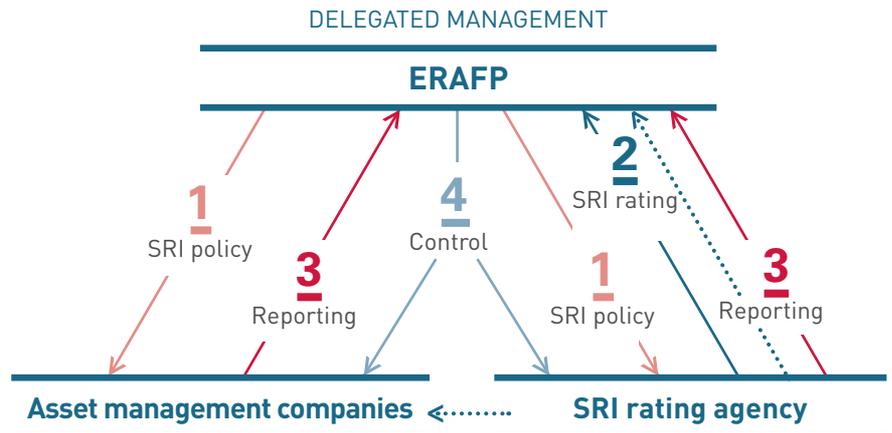
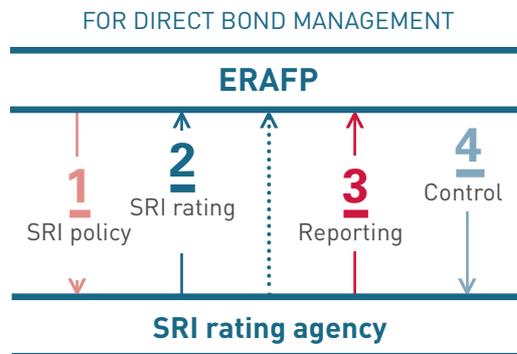
- + SRI data for the management entity
- (.....) Red flags

**3 REPORTING**

- + Quarterly reporting
- + Regular updates

**4 REPORTING**

- + Oversight of SRI policy implementation, controls and requests for investment adjustments
- + Study of annual reports (managers, agencies, committees, etc.)



# ROLES OF THE VARIOUS BODIES

## — BOARD OF DIRECTORS

The Board of Directors:

- + sets the general direction for the SRI policy. To be truly responsive, the Board needs to be consistently and fully informed, not just brought up to date after the event. Additional measures assure this close relationship, notably regular meetings of the Investment Policy Monitoring Committee (*comité de suivi de la politique de placements – CSPP*);
- + oversees implementation of the SRI policy, notably through the work performed by the CSPP;
- + makes decisions on any changes to the guidelines based on the preparatory work by the CSPP.

## — THE MANAGEMENT ENTITY

The management entity plays several roles:

- + directly implements the SRI policy for bond investments managed in-house, which under the Scheme's current regulations concerns sovereign and similar bonds;
- + verifies application of the SRI policy by external asset management companies, taking any necessary measures to ensure compliance;
- + ensures that the contracts signed with external rating agencies are properly executed;
- + reports to the Board of Directors and the CSPP on the implementation of SRI policy and provides support for preparatory work performed by directors.



## VIGEO & OEKOM

SRI RATING AGENCIES

### — RATING AGENCIES

The rating agencies – currently Vigeo and its partner Oekom – are responsible for analysing the asset portfolio on a quarterly basis and providing detailed reports to ERAFP.

### — ASSET MANAGEMENT COMPANIES

The management of asset classes other than sovereign and similar bonds has been delegated to asset management companies.

Up to 2011, four companies managed equities of large, listed euro zone companies, each with an identical mandate.

Following a tender procedure launched in 2010, these management companies, whose mandates expired in 2011, were replaced.

Currently:

- + five companies manage equities of large, listed euro zone companies, each with a distinct mandate;
- + one company manages listed euro zone small and mid caps.

The tender, which is innovative in several ways, is described in greater detail in the last section of this report.

In addition:

- + two companies manage equities of large, listed international companies (excluding emerging countries), each with identical mandates;
- + two companies manage investment grade euro-denominated bonds, each with identical mandates.

# OVERVIEW

To reduce the number of cases of non-compliance with the SRI policy, ERAFP meets regularly with asset managers and interacts directly with issuers.

## — SOVEREIGN BONDS

These securities are managed directly by ERAFP. They account for the large majority of the Scheme's assets and generally obtain higher SRI scores than the benchmark index. All countries represented in the portfolio are eligible as regards ERAFP's SRI policy. The portfolio's SRI outperformance increased in 2011, resulting in part from a reduction in ERAFP's positions on some countries whose SRI ratings were on average lower than those of other euro zone countries.

## — LOCAL AUTHORITY BONDS

The Scheme holds bonds issued by local authorities whose SRI ratings have up to now been relatively low, due largely to their lack of participation in the rating process initiated by the rating agencies operating in this area. ERAFP works with these local authorities to encourage them to participate actively in the rating process. These discussions have revealed local authorities' growing awareness of the expectations of "responsible" investors in the area of ESG<sup>(6)</sup> criteria, as well as the need for these investors to adapt their assessment tools to the specificities of such issuers. These efforts have borne fruit; on average the SRI ratings of the local authority issuers in the portfolio improved in 2011.

## — CORPORATE BONDS

The good SRI results achieved since 2009 were confirmed in 2011, as the portfolio further outperformed the benchmark index. The outperformance is greatest for this asset class.

## — EQUITIES

In terms of its investments both in euro zone and international equities, ERAFP's portfolio has higher overall SRI ratings than the benchmark index. This trend remained stable in 2011 for euro zone equities whereas the SRI outperformance of international equities declined slightly.

According to the rating agency, the weight in the portfolio of companies that do not comply with the SRI system decreased in 2011. To minimise the weight of non-compliant companies, ERAFP regularly meets the asset managers to compare their viewpoints with the Vigeo ratings.

The asset managers have also implemented active voting policies.

(6) Environmental, social and governance.

# BOND PORTFOLIO

**MORE  
THAN 60%**

OF SCHEME'S PORTFOLIO  
IN SOVEREIGN BONDS  
AT 31 DECEMBER 2011

## — SOVEREIGN BONDS

Sovereign bonds accounted for more than 60% of the Scheme's bond portfolio at 31 December 2011. They include fixed-rate and inflation-indexed bonds issued by euro zone States as well as bonds guaranteed by these States, such as bonds issued by *Kreditanstalt für Wiederaufbau*, the German public-sector development bank.

All issuers in the portfolio satisfy the ERAFP eligibility filter, based on the Oekom rating. Indeed, as regards the overall SRI rating, all States whose bonds are included in the ERAFP portfolio have received an average rating of above 50/100. In addition, the average rating of ERAFP's portfolio is 1.4 points above that of the benchmark index. This non-negligible outperformance<sup>(7)</sup> increased further in 2011. The SRI rating difference between the portfolio and the benchmark index is positive for each of the five values of ERAFP's SRI approach.

In contrast, over a four year period, the outperformance has declined as it stood at 2.2 points in December 2007. In absolute terms, however, the portfolio's average rating has improved by

0.8 points over this period. The deterioration in the portfolio's relative SRI performance despite this increase is due to the marked improvement in the average rating of the benchmark during this period.

From 2007 to 2009, the gradual reduction in the average difference between the portfolio's SRI rating and that of the index resulted from the portfolio's diversification towards issuers<sup>(8)</sup> satisfying ERAFP's SRI requirements but which nevertheless:

- + have average SRI ratings lower than those of the other euro zone countries,
- + offer higher returns along with better overall portfolio diversification.

To some extent, a positive correlation is observed between the financial solidity of the States and their SRI rating<sup>(9)</sup>. This point will be discussed in greater detail in the last section of this report.

The more marked reduction in the average SRI rating between the portfolio and benchmark index in 2010 also reflects mainly the reduced weighting in the index of certain countries whose SRI performance was below the euro zone average and whose financial ratings were downgraded. For these States shaken by the financial crisis and whose bonds were overweighted in ERAFP's portfolio at the end of 2010, transparency problems were mentioned on

several occasions. This issue is reflected in particular in the portfolio's underperformance relative to the index in the area of Good governance and transparency at the end of 2010. As ERAFP gradually reduced its positions on some of these States in 2011, the SRI rating difference between the portfolio and its benchmark index increased again during the year.

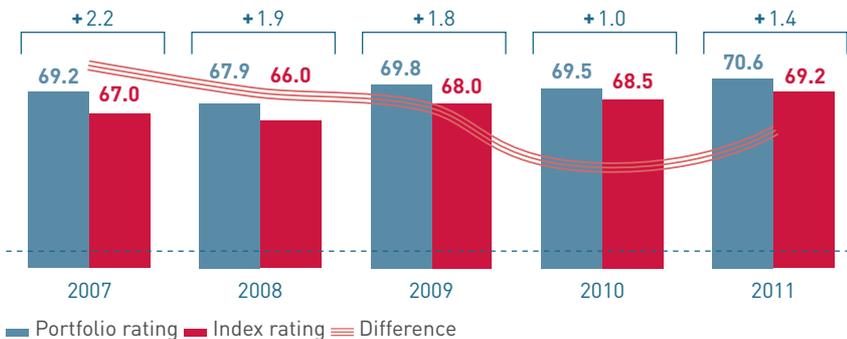
(7) A 1-point outperformance is non-negligible to the extent that significant overlap exists between the benchmark index universe and ERAFP's investment universe following the application of its SRI filter.

(8) ERAFP's initial investments in sovereign bonds involved French government bonds with a high SRI rating. Consequently, any diversification towards government bonds of less highly rated countries necessarily decreases the portfolio's average SRI rating.

(9) The Irish example nevertheless illustrates that the two cannot be considered equivalent, since the country's SRI rating is relatively high and before the crisis the country was considered to be in a healthy financial position.

#### COMPARATIVE TREND IN PORTFOLIO AND BENCHMARK INDEX At 31 December 2011

Source — Vigeo



#### EUROPEAN SOVEREIGN BOND PORTFOLIO – At 31 December 2011

Source — Vigeo

	SUMMARY RATINGS			DIFFERENCE AT 31/12/10
	Average rating PORTFOLIO	Average rating INDEX	DIFFERENCE	
Rule of law and human rights	65.7	63.2	2.5	1.9
Social progress	49.8	46.9	2.9	1.7
Democratic labour relations	83.2	82.1	1.1	0.6
Environment	65.2	65.0	0.2	0.9
Good governance and transparency	89.3	88.5	0.8	-0.1
<b>Overall rating</b>	<b>70.6</b>	<b>69.2</b>	<b>1.4</b>	<b>1.0</b>

## — LOCAL AND REGIONAL AUTHORITY BONDS

The lack of liquidity in the local and regional authority bond market is not a dissuasive factor for an investor such as ERAFP, which is structured to hold bonds until they mature. This portfolio was valued at some €362 million at end-2011, or 3% of the total portfolio. At 31 December 2011, ERAFP's portfolio contained nine bond lines from 15 issuers, one of the lines being jointly issued by seven German federal states.

ERAFP innovated by launching a tender for a rating agency on this asset class. So far, the Scheme appears to be the only investor to systematically incorporate SRI analyses in its investment process for this asset class.

Local and regional authorities are not used to the requirements of non-financial rating agencies and do not yet appear to have the resources and structures needed to participate actively in the rating process established by Vigeo.

Meanwhile, non-financial ratings agencies have only limited demand from investors for SRI assessments of local and regional authorities. As a result, they have limited resources available to develop research and ratings processes that are ideally adapted to the specificities of these types of issuers.

In markets with only limited liquidity, RAFFP can provide an incentive for the respective authorities to participate in the ratings process so as to improve the relevance of the ratings. Thus in 2008 ERAFP initiated an engagement process with the local and regional authorities it was most likely to invest in:

- ✦ in 2008, ERAFP worked with 26 rated authorities to explain its investment policy;
- ✦ in 2009 it informed the authorities whose SRI ratings were not satisfactory that it would not be able to invest further in their securities unless they improved their ratings;

• in 2010, ERAFP, with the support of Vigeo, continued its efforts by writing to and establishing direct contact with all rated authorities in the portfolio whose SRI ratings were deemed less than satisfactory. These discussions confirmed the growing awareness among local and regional authorities of responsible investors' expectations regarding ESG transparency issues. They also confirmed a certain mismatch between

some aspects of the ERAFP guidelines and the ratings methods of the agencies on the one hand and the specificities of this type of issuer on the other;

• in 2011, discussions were stepped up with three local or regional authorities included in ERAFP's portfolio. The impact of these discussions was particularly positive, with one authority achieving a significant improvement in its average SRI rating.

# ESG

ENVIRONMENTAL,  
SOCIAL AND  
GOVERNANCE ISSUES

## LOCAL AND REGIONAL AUTHORITY BOND PORTFOLIO – At 31 December 2011

Source – Vigeo

	SUMMARY RATINGS			DIFFERENCE AT 31/12/10
	PORTFOLIO	Average rating INDEX	DIFFERENCE	
Rule of law and human rights	49.9	50.2	-0.3	-6.0
Social progress	38.2	29.4	8.8	-1.2
Democratic labour relations	53.1	51.8	1.3	2.1
Environment	56.0	49.3	6.7	-0.9
Good governance and transparency	60.6	63.7	-3.1	-11.7
<b>Overall rating</b>	<b>52.8</b>	<b>50.4</b>	<b>2.4</b>	<b>-3.5</b>

## CORPORATE BOND PORTFOLIO – At 31 December 2011

Source – Vigeo

	SUMMARY RATINGS			DIFFERENCE AT 31/12/10
	PORTFOLIO	Average rating INDEX	DIFFERENCE	
Rule of law and human rights	58.2	50.1	8.1	6.3
Social progress	45.5	37.1	8.4	6.9
Democratic labour relations	49.9	42.3	7.6	8.5
Environment	51.2	43.1	8.1	4.6
Good governance and transparency	49.2	44.7	4.5	4.2
<b>Overall rating</b>	<b>50.8</b>	<b>43.5</b>	<b>7.3</b>	<b>6.1</b>

Another authority expressed its decision to participate more actively in the SRI rating process without this having as yet any noticeable impact on its SRI ratings.

The third authority explicitly refused to participate in the SRI rating process. As the market conditions were favourable, this authority's bonds were sold.

This process is part of a policy of engagement with issuers. It enables the local authorities to familiarise themselves with the expectations of SRI investors, of which there are not many for this asset class but whose influence is sure to grow steadily in the years ahead. For ERAFP, these discussions are also part of a continuous improvement process in the implementation of its SRI approach. In 2011, ERAFP worked with its SRI research providers to better adapt the ratings methods and tools to the specificities of local authorities.

In the light of the average SRI ratings of ERAFP's local and regional authority bond portfolio, this engagement approach has had a positive impact. On average, the SRI ratings of ERAFP's portfolio are significantly higher than those of the index. This improvement is due not only to a better understanding of the ratings process by some authorities whose securities are held in ERAFP's portfolio but also to the bonus system for SRI ratings of issuers which have made progress from one year to the next.

## — SUPRA-NATIONAL BONDS

ERAFP's portfolio contains bonds of only one "supra-national" institution, the European Investment Bank (EIB), which satisfies ERAFP's SRI filter, according to Oekom.

## — CORPORATE BONDS

In 2009, an investment mandate was awarded for euro-denominated investment-grade bonds. In 2011, a second mandate with identical characteristics was activated. These mandates do not include sovereign bonds or bonds receiving an explicit State guarantee, bonds issued or explicitly guaranteed by local or regional authorities and supra-national bonds.

Issuers whose bonds may be purchased pursuant to this mandate may fall into four categories:

- + financial companies;
- + non-financial companies;
- + collateralised bond issuers;
- + government agencies, which are private- or public-sector entities more or less controlled by States or local or regional authorities.

On average this bond portfolio has ratings well above those of the benchmark index for all ERAFP's SRI values. The increase in its outperformance relative to the benchmark index in 2011 reflected the very good SRI performance of the mandate activated during the year.

# THE EQUITY PORTFOLIO

## EURO ZONE EQUITIES

The SRI analyses presented in this report for listed large- and mid-cap euro zone equities begin as from 31 December 2007, when Vigeo was first able to provide analyses across the full scope of ERAFP's guidelines.

Vigeo's research now covers 97.1% of the companies included in the MSCI EMU<sup>(10)</sup> index, which represent 98.8% of the index's value. The analyses presented below may, therefore, be considered as representative of the entire portfolio.

Based on Vigeo's analysis at 31 December 2011, the portfolio's average rating is substantially above that of the benchmark index for all ERAFP's SRI values. Since the end of 2010, the average difference has remained unchanged at 3.5 points.

At 31 December 2011 42% of the portfolio was invested in companies rated in the first quartile of eligible companies, i.e. companies that received the highest ratings in their sector (in red in the chart below), which demonstrates the proper application of the *best in class* principle by the asset management companies to which ERAFP has delegated

the management of its equity investments.

The application rules for the best in class principle defined by ERAFP for equity investments require exclusion from the portfolio of:

- + any company whose rating for one or more of ERAFP's SRI values is less than half the average rating for the sector;
- + companies that qualify under this first filter but whose overall SRI ratings place them in the bottom quartile in their sector.

(10) The MSCI EMU is an index that measures the stock market performance of euro zone equities.

## CONSOLIDATED EURO ZONE EQUITY PORTFOLIO - At 31 December 2011

Source — Vigeo

	SUMMARY RATINGS			DIFFERENCE AT 31/12/10
	PORTFOLIO	INDEX	DIFFERENCE	
Rule of law and human rights	57.5	54.0	3.5	4.1
Social progress	44.6	42.0	2.6	3.8
Democratic labour relations	49.8	45.1	4.7	3.0
Environment	51.6	47.8	3.8	4.0
Good governance and transparency	50.7	47.8	2.9	2.4
<b>Overall rating</b>	<b>50.8</b>	<b>47.3</b>	<b>3.5</b>	<b>3.5</b>

# 50.8

PORTFOLIO'S AVERAGE  
SRI RATING

Based on Vigeo's analysis, the companies represented in the euro zone equity portfolio that failed to pass through at least one of ERAFP's two SRI filters (in dark red and light red respectively in the chart on the opposite page) accounted for 6.5% of the total portfolio at the end of 2011. While further progress is needed, this is nonetheless an improvement as such companies represented 7.5% of the portfolio value at end-2010.

Over a longer period, the portfolio's average SRI rating has improved but the improvement was not continuous (see chart on page 57). While in absolute terms the increase in the portfolio's average SRI rating partially reflects the improvement in the practices of companies in the investment universe (the index's average SRI rating also increased), the widening difference between the portfolio and the index can be attributed to:

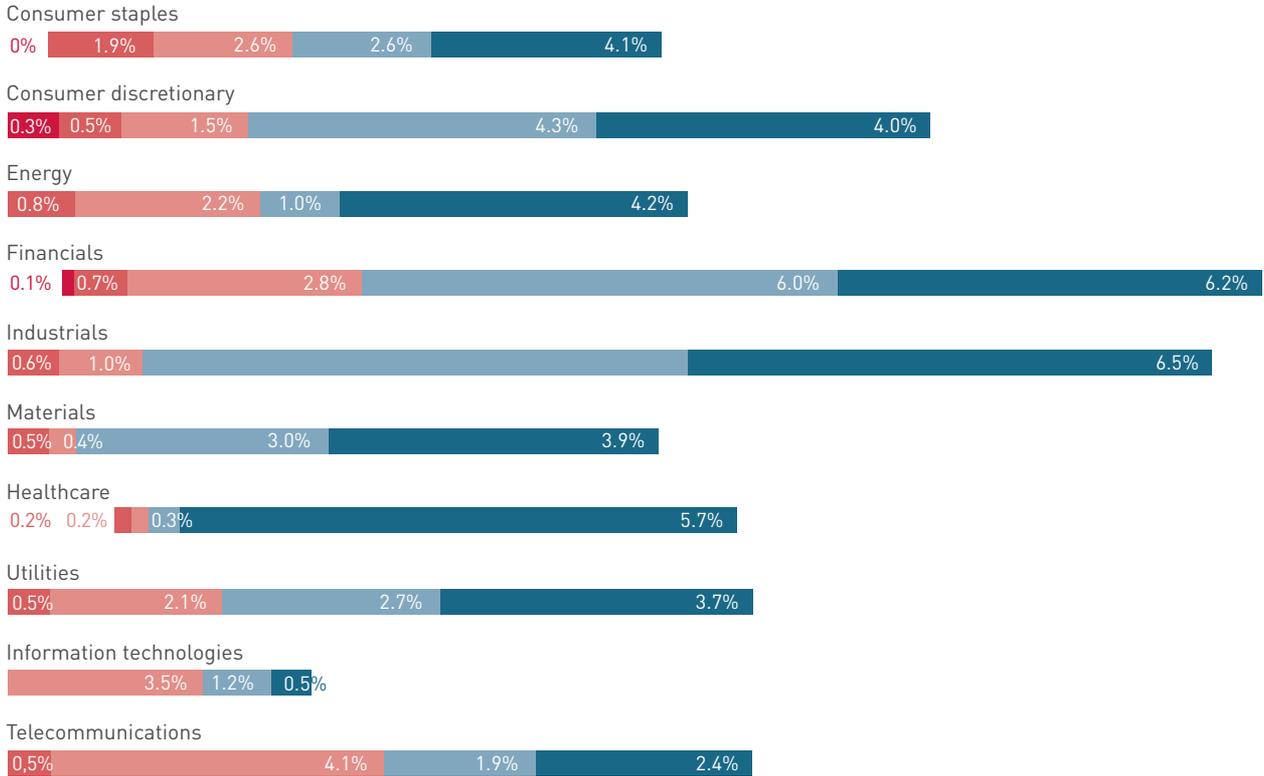
- + the investment choices of the fund managers;
- + the effective allocation of investments amongst the various investment funds decided by ERAFP.

In 2011, the portfolio's average rating continued to improve while the difference relative to the index remained stable.

The impact of the change of asset management companies and the new mandates put in place has therefore been neutral, or even somewhat positive, in terms of the portfolio's SRI quality. All in all, the portfolio's average rating is now higher than at the end of 2007, at 50.8 compared with 49.8, and the difference compared with the index has increased to 3.5 points at the end of 2011 compared with 3.3 points at end-2007.

**BREAKDOWN OF EQUITY PORTFOLIO BY SECTOR AND SRI RATING**

Source — Vigeo



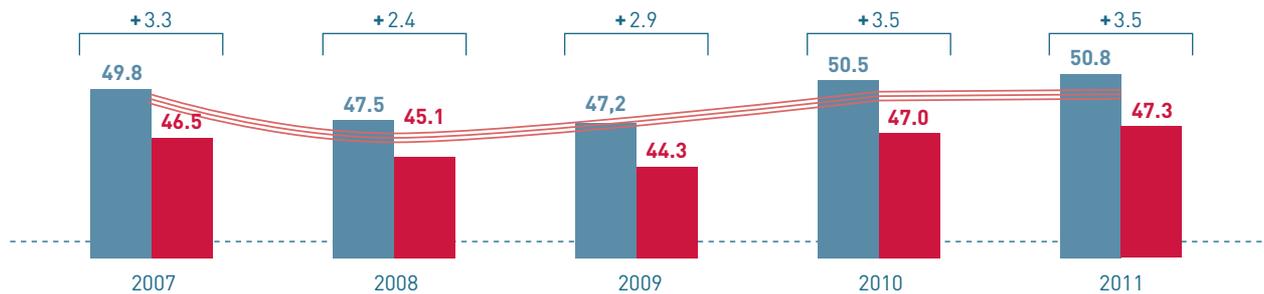
■ Exclusion<sup>(1)</sup> (1st filter) ■ 1st quartile of remaining securities ■ 2nd quartile of remaining securities ■ 3rd quartile of remaining securities ■ 4th quartile of remaining securities

<sup>(1)</sup> ERAFP's best in class approach to equities is applied based on the following rules:

- Companies whose rating for at least one ERAFP value is less than half the average rating of its business sector (first filter) are excluded,
- All companies that pass this first filter are then ranked according to their overall SRI rating; the lowest-rated companies are then excluded.

**EURO ZONE EQUITY PORTFOLIO - Overall rating: comparative trends in portfolio and benchmark index**

Source — Vigeo



■ Portfolio rating ■ Benchmark index rating ≡ Difference

## INTERNATIONAL EQUITIES

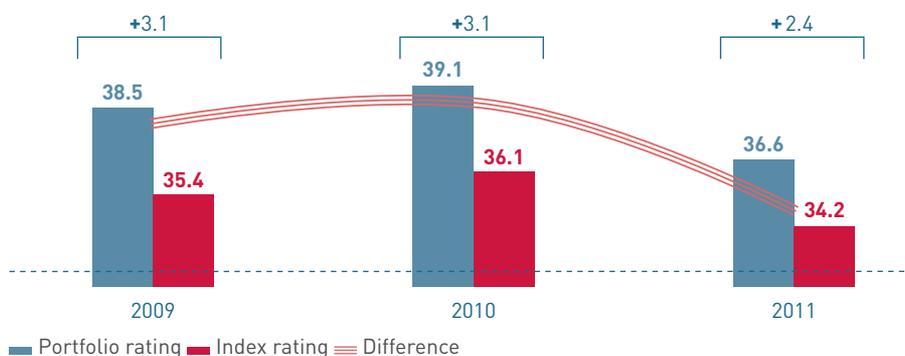
In 2009, ERAFP allocated two new management mandates for international equities excluding emerging countries. The first analysis of this new portfolio was performed in December 2009, and as a result we now have a two-year track record to assess SRI performances.

The average ratings are well below those of the euro zone equities portfolio, notably with regard to the social progress and democratic labour relations

categories. The high proportion of US companies within the portfolio and the index<sup>(11)</sup> is one reason for the major difference with the euro zone equity portfolio. Aside from the substantial cultural differences in these areas compared with the euro zone countries most broadly represented in the equity market indices, the impact of the US regulatory framework also plays a major role.

### COMPARATIVE TRENDS IN PORTFOLIO AND BENCHMARK INDEX

Source — Vigeo



### INTERNATIONAL EQUITIES PORTFOLIO – At 31 December 2011

Source — Vigeo

	SUMMARY RATINGS			DIFFERENCE AT 31/12/10
	PORTFOLIO	INDEX	DIFFERENCE	
Rule of law and human rights	43.9	40.9	3.0	2.0
Social progress	27.1	24.2	2.9	3.0
Democratic labour relations	28.3	26.8	1.5	2.0
Environment	40.1	36.5	3.6	5.0
Good governance and transparency	43.8	42.8	1.0	3.3
<b>Overall rating</b>	<b>36.6</b>	<b>34.2</b>	<b>2.4</b>	<b>3.1</b>

For example, the United States has never signed any of the main International Labour Organisation agreements<sup>(12)</sup> on freedom of association.

Although this portfolio's SRI ratings are relatively low in absolute terms, its SRI performance is very positive when compared with that of the index. Based on Vigeo's analysis, the portfolio outperformed the index by 2.4 points at the end of 2011 in terms of SRI ratings.

After improving significantly in 2010 due to the fund managers' better understanding of social progress and democratic labour relations issues, the portfolio's average SRI rating deteriorated significantly in 2011 and the difference relative to the index lessened. This was due largely to the emphasis placed on "engagement" by one of ERAFP's two international equities asset management companies. Rather than sell the shares of a company whose ESG performance has deteriorated, the management company prefers to play its role as an active shareholder by urging it, through discussions, to improve its practices in these areas. However, it is hard to see any positive impact of this engagement in the short-term trends in SRI ratings of the companies concerned. These will need to be examined on a case by case basis to see whether this approach is really effective.

## EXERCISE OF VOTING RIGHTS

In 2011 ERAFP had not yet established a set of principles for the exercise of voting rights beyond those included in the SRI Charter's general principles, which in the area of governance recommend in particular:

- + the separation of duties of the company's Chairman and its Chief Executive Officer;
- + the diversity and complementary nature of experience and skills on the board of directors;
- + a significant proportion of independent members of the board of directors and its specialised committees;
- + respect for shareholders' rights and fair treatment of shareholders;
- + when an officer leaves the company, predefined and limited retirement and/or severance packages.

The exercise of voting rights is delegated to the asset management companies.

(11) At 31 December 2011, securities issued by US companies accounted for 50.7% and 52.7% of the portfolio and index, respectively.

(12) Convention 87 on the Freedom of Association and Protection of the Right to Organise - Convention 98 on the Right to Organise and Collective Bargaining - Convention 135 on Workers' Representation.

They undertake to exercise the voting rights attached to the financial instruments held in the investment funds in the sole interest of ERAFP, based on its guidelines and in particular in accordance with its SRI Charter.

The asset managers vote independently, but there is nonetheless a degree of convergence between the principles applied by the various institutional investors. ERAFP's asset managers report on the implementation of their voting policy on a quarterly basis. In 2011, in order to limit situations of potentially inconsistent voting amongst the various managers, ERAFP asked to be informed of their voting plans prior to the shareholders' meetings of a number of companies. Given its limited resources and experience in the analysis of shareholder resolutions, ERAFP decided to concentrate initially on French companies whose shares were included in most of the investment funds at the time of the vote.

This practice enabled ERAFP to:

- + ensure a consistent approach amongst the managers on the main topics to be voted upon by shareholders;
- + identify the topics that will require more in-depth analysis in the future with a view to possibly drawing up formal voting guidelines.

In 2011, ERAFP's asset managers exercised their voting rights at 1,086 shareholders' meetings. Some of the votes cast during these meetings were votes against resolutions or abstentions.

Out of a total of 14,661 votes cast, 1,226, or 8%, were either against the resolutions or were abstentions. If we take solely the euro zone equity mandates, the opposition rate rises to 11%. While this "opposition ratio" may appear low, it is twice as high as that of the average investor in France, which is around 5% according to Proxinvest. The lower opposition ratio in connection with international equity mandates is largely due to the fact that one of the portfolios, which is highly diversified, has a large number of investment lines, thereby making it difficult to perform an in-depth analysis of all resolutions put to shareholder votes.

As regards the smaller number of companies in respect of which ERAFP has asked to be consulted prior to the shareholders' meetings, asset management company votes opposing the resolutions and abstentions typically fell into three categories:

- + the appointment or renewal of a mandate of directors deemed non-independent, i.e. with ties to the company's management, or with too many board appointments to be able to fulfil their duties in a satisfactory manner;
- + management remuneration (bonuses, stock options, retirement and/or severance benefits, additional pensions, etc.) deemed excessive and/or uncorrelated to the company's performance;
- + the establishment of anti-takeover provisions, notably the possibility of significantly increasing the company's share capital without preferential subscription rights for existing shareholders during the offering period.

# FINE-TUNING, IMPLEMENTING AND ENHANCING THE SRI SYSTEM

The financial and economic crisis that began in 2007 and whose effects were still being felt in 2011 has confirmed the relevance of the Scheme's SRI policy:

- + maximisation of financial returns alone and complete reliance on the self-regulation of the financial markets have revealed their limitations;
- + major issues addressed in the Charter but often ignored in the past, such as sharing value added and fighting against tax havens, have once again become central issues;
- + the Scheme's SRI policy is part of a broader investment strategy based also on prudent asset and liability management, which enables it to stay the course in an uncertain financial market environment.

In 2011, the tender procedure staged to renew the euro zone equity management mandates provided an opportunity to draw up new mandates and management tools designed to facilitate the dissemination of SRI practices. In 2012, ERAFP will continue to develop its approach as a responsible investor, in particular by further developing its engagement policy.

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*THE FINANCIAL AND ECONOMIC CRISIS HAS CONFIRMED THE RELEVANCE OF THE SCHEME'S SRI POLICY*

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# CONSOLIDATING THE SCHEME'S APPROACH

## — REAFFIRMING THE SCHEME'S CONVICTIONS

Given the regulations governing ERAFP's investment universe, the sovereign debt crisis substantially restricted its investment opportunities. Despite this difficult environment, ERAFP managed to maintain a high coverage ratio of the Scheme's liabilities, at 109.35%.

Financial market uncertainty nevertheless continues, and ERAFP intends to maintain an investment strategy that will enable it to stay the course during this turbulent period. This strategy is based on conservative asset and liability management, ongoing asset diversification and a Socially Responsible Investment (SRI) policy consistent with a long-term view and a commitment to looking beyond immediate financial gain.

The financial crisis has elicited two types of response:

- + some have decided that it could justify a return to strictly financial considerations on the grounds that during difficult periods the priority should be given to maintaining returns in the short-term;
- + others have found that the crisis has revealed the limitations of such an approach, which favours a short-term investment horizon, excessive risk-taking, inflated estimates and/or demands regarding returns, and in some cases blindness to risks that cannot be assessed solely on the basis of financial data.

For the Scheme, the crisis confirms the relevance of its SRI approach. The Scheme's commitment to its SRI policy is not motivated by hopes of immediate outperformance. The SRI filter nevertheless makes it possible to better assess medium- and long-term risks and identify the sectors and companies that will be the growth drivers of tomorrow.

# 109.35%

THE SCHEME'S COVERAGE RATIO

For the Scheme, and as part of its endeavours to optimise its financial return/SRI profile, the message included in the Charter bears repeating:

*“The Board of Directors believes that investments based solely on the criterion of maximum financial return fail to account for their social, economic and environmental consequences. In contrast, by making investments on the basis of the values it has adopted (...), 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.”*

## LESSONS LEARNED FROM THE CRISIS

### Social values

The Charter includes at least two criteria that are specific to the Scheme, namely the rejection of tax havens and relative trends in the remuneration of shareholders and of employees. The crisis has highlighted the extent to which both criteria have contributed to the imbalances that triggered it.

### Environmental values

It could be feared that the financial crisis would call into question the commitments made by many governments to pursue ambitious environmental policies. After the relative failures of the Copenhagen and Cancun Summits in 2009 and 2010, respectively, the difficulties of

getting governments to agree on the tough undertakings needed to limit global warming to 2°C were highlighted in 2011 at the 17th UN Congress on climate change in Durban. Although the agreement reached provides for continuing negotiations, no global agreement involving the United States, India and China is likely to be drawn up before 2015. Although the Kyoto Protocol will continue until then, several countries including Japan, Russia and Canada have decided to withdraw their commitments.

In these conditions it would be unwise to see international negotiations as the sole response to the challenge of climate change. In that sense, through their investment choices and engagement as active shareholders, investors need to favour companies that, in their own way and on a voluntary basis, strive to fight against climate change.

### Governance values

The present economic crisis, and in particular that of the financial system, can be largely attributed to governance deficiencies at financial institutions, with far from adequate linkage between remuneration, risk exposure and long-term earnings, deficient control systems, etc. The crisis can therefore only motivate investors to give more weight to such considerations.

The current economic environment is a good time for reflection on strengthening the regulatory framework, and in particular the financial regulatory framework. Issuers that demonstrate sufficient innovative capacities to anticipate upcoming regulatory changes will gain a competitive advantage over time. In that regard, ERAFP's *best in class* SRI approach makes perfect sense.

#### — THE IMPACT OF SRI ON FINANCIAL MANAGEMENT: FIRST IMPRESSIONS

Given its limited history and the complexity of the subject, no hasty and definitive conclusions should be drawn. Nevertheless, one characteristic feature of an SRI approach is emerging in the context of this crisis, namely that it would appear to have a more defensive profile.

#### — SOVEREIGN BONDS

Before the crisis erupted, all euro zone States were paying nearly the same interest rates on their debt. The crisis changed this situation, and at the end of 2008 rates diverged, with the least financially sound States having to offer creditors significantly higher rates.

A strong negative correlation exists between a State's SRI rating and the cost of its debt (from a statistical standpoint, the SRI rating "explains" the vast majority of the return). These indicators can be complementary in assessing the "quality" of a State's debt. Thus, before the eruption of the sovereign debt crisis, the SRI ratings showed substantial divergences between certain euro zone countries currently in distress and the most economically sound euro zone States, whereas these divergences were much less evident in their respective interest rates. And yet asymmetries exist. For example, while it is clear that a poor SRI rating is in some ways a reflection of weakness that may be further revealed financially as a result of the crisis, a strong SRI rating does not per se guarantee sound management of public finances. The Irish example cited previously clearly demonstrated this point.

## EQUITIES

The performance attributions of companies to which ERAFP delegated its equity management show that in its current state, SRI research induces a bias in favour of large cap stocks, which post the most stable earnings and are clearly in a better position to implement and conduct SRI reporting.

During periods when markets decline, this bias in favour of large caps – which tends to give SRI portfolios a more defensive profile - can have a positive impact on their performance. After all, investors fall back on safer securities during crises, in particular equities of larger and therefore more diversified and stable companies. Conversely, during periods of strong economic growth and rising markets, riskier securities are often the most favoured. A *best in class* SRI approach that focuses on the sustainable performance of companies may be penalised during bull markets, especially when they reach exuberant levels.

This line of thinking has found support in the findings of a recent study published by the EDHEC-Risk Institute<sup>(13)</sup>. According to this study, the Aspi Eurozone (SRI index constructed using the Vigeo methodology, which is akin to that of ERAFP), slightly underperformed a comparable non-SRI index over the 2002-2009 period. The study goes on to show that after adjusting for several factors, including in particular the size bias, the ASPI index outperformed fairly significantly on average over the same period.

Accordingly, ERAFP's decision to diversify its investments towards listed small- and mid-cap shares, which took concrete form in 2011 with the award of an SRI mandate focusing on these types of companies – is in particular designed to temper this bias at the level of its equity portfolio. The growing demand from investors for SRI research more adapted to the specificities of small- and medium-sized companies should also drive rating agencies to build up their own research in this asset class.

## THE SRI INDEX

CONSTRUCTED USING  
ERAFP'S METHODOLOGY  
AND VIGEO'S DATA

(13) *The performance of Socially Responsible Investment and sustainable development in France: an update after the financial crisis, september 2010.*

# ERAFFP, AN INVESTOR ACKNOWLEDGED BY ITS PEERS



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**BEST USE OF EQUITIES,  
11TH ANNUAL IPE  
AWARDS**

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**BEST EUROPEAN  
INVESTOR IN ESG,  
14TH ANNUAL ESG  
LEADERS AWARDS**

In 2011, ERAFFP participated in numerous SRI and general investment conferences in order to promote its SRI approach.

The Scheme's determined and original SRI approach won further recognition in 2011 with several awards:

- + "Best use of Equities" at the 11th annual IPE (Investment & Pensions Europe) awards.
- + "Best European investor in ESG" for the second year running at the 14th annual TBLI (Triple Bottom Line Investing) ESG Leaders Awards.

For ERAFFP, this communications policy is part of a strategy to promote its responsible investment approach and the values it adopts through its Charter. In terms of external communications, the goal is to develop a participation and communications policy that in both form and substance goes beyond mere information on the operation of the Scheme and instead centres on the quest for effective implementation of the Charter.

This “engagement” approach may be taken with respect to:

- + other investors: as part of the renewal of the euro zone equity investment mandates, ERAFP organised a tender consisting of several lots corresponding to various types of mandates. For several of these mandates, by taking on a significant portion of the non-financial analysis, ERAFP positioned itself to work with asset management firms that are not specialists in this area and for which collaboration with ERAFP would provide an opportunity to develop such skills.

Moreover, by establishing indexed management mandates based on indices that satisfy its SRI needs, ERAFP aims to help disseminate tools that make it easier for other institutional investors to adopt a similar approach.

- + issuers: until recently, ERAFP’s actions targeted mainly the entities whose securities were directly held. Since 2008, ERAFP has worked with local and regional authorities in various ways.

At the beginning of 2012, ERAFP decided to extend the scope of its engagement policy to listed companies by drawing up guidelines for shareholder engagement, and in particular a voting policy with respect to governance issues for implementation during the 2012 season of annual general meetings.

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*IN 2012, ERAFP DREW UP  
SHAREHOLDER  
ENGAGEMENT GUIDELINES*

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# APPENDICES



- 1** Premium factor
  - 2** Annuity to lump sum conversion factor
  - 3** Organisation of internal control and risk management
  - 4** 2010 financial statements Independent Auditor's Report (excerpt)
  - 5** Additional data
  - 6** Members of the Board of Directors
- Glossary

## 1 PREMIUM FACTOR

RAFP beneficiaries can exercise their pension rights upon reaching an age of between 60 and 62 depending on their date of birth. The purchase and service unit values are the same for all generations of RAFP contributors and pensioners. The application of a premium factor ensures actuarial fairness for all beneficiaries regardless of the age at which they are entitled to retire.

Pursuant to Article 8 of the 18 June 2004 decree, this premium factor is set by the Board of Directors.

- + For example, the calculation of pension rights for a civil servant who has accrued 5,600 points in his retirement account and retires in 2011 at age 65 would be as follows:

$$5,600 \times 0.04304 \times 1.23 = \mathbf{\text{€}296.46 \text{ gross annual annuity.}}$$

- + After age 75, the right to a premium continues to apply.

The pension reforms in France have introduced changes in the legal retirement age. Application of the premium factor makes it unnecessary to adjust the current price (set for a retirement age of 60).

## 2 ANNUITY TO LUMP SUM CONVERSION FACTOR

This factor applies to beneficiaries whose retirement accounts contain fewer than

5,125 points at the time of liquidation.

### → For the original beneficiary

AGE	LUMP SUM CONVERSION FACTOR	AGE	LUMP SUM CONVERSION FACTOR
60	25.98	68	20.36
61	25.30	69	19.63
62	24.62	70	18.90
63	23.92	71	18.16
64	23.22	72	17.43
65	22.51	73	16.70
66	31.80	74	15.97
67	21.08	75	15.24

### → For orphaned child, at time of reversion:

AGE	LUMP SUM CONVERSION FACTOR	AGE	LUMP SUM CONVERSION FACTOR
0	18.33	11	9.37
1	17.57	12	8.49
2	16.80	13	7.59
3	16.01	14	6.69
4	15.22	15	5.77
5	14.42	16	4.84
6	13.60	17	3.90
7	12.78	18	2.94
8	11.94	19	1.97
9	11.10	20	0.99
10	10.24		

### 3 ORGANISATION OF INTERNAL CONTROL AND RISK MANAGEMENT

Internal control is defined as the process implemented on a continuous basis within ERAFP that encompasses all controls, financial and other, making it possible to obtain reasonable assurance that the following objectives are achieved:

- + achievement of objectives set, in compliance and consistent with the orientations defined by the Board of Directors;
- + economical and efficient use of resources;
- + adequate control of risks incurred;
- + reliability and integrity of accounting and financial information, compliance with laws and regulations and with internal rules and procedures.

The internal control system is built on the following fundamental principles:

- + separation of functions: to reduce the risk of conflicts of interest and/or fraud, the commitment, settlement and control functions must be distinct;
- + control levels: distinction between first-level controls (which are executed by the operations staff themselves or by their management) and second-level controls (performed by dedicated internal control staff with separate reporting hierarchies from the operations staff being controlled). In ERAFP's case, its small size can result in several tasks (execution and control of execution) being performed by a single employee;
- + implementation of appropriate tools, committees and procedures. These may concern the following items:
  - **Tools**  
Incidents and discrepancies database, risk mapping, control plans, etc.
  - **Committees**  
Audit committee, internal control and risk committee, new products committee, commitments committee, etc.

### → **Procedures**

Internal control charter, compliance charter, IT security charter, committee internal rules, investment procedure for capital markets securities, delegations of authority, etc.

The control activities are performed within a “risk and internal control” department by:

- + a head of internal control and operational risk on the one hand, and
- + a head of financial risk and a credit risk analyst on the other.

The Risk and Internal Control department reports to ERAFP’s Deputy CEO. The controllers are therefore independent of the activities they control in the operational and functional departments.

The Risk and Internal Control department is responsible for coordinating and supervising implementation of the internal control system. During the preparation phase, the procedures drafted by the various departments are submitted to it for its opinion. This second review ensures that these procedures clearly establish who does what, when and under which operational security conditions. It also ensures that the responsibilities of each party involved in the procedure are clearly established and that the first-level controls, even those exercised within the departments, exist and are formally documented.

### — **ERAFP RISK UNIVERSE**

ERAFP distinguishes between financial, technical and operational risks. Financial risk includes:

- + credit risk (counterparty or default risk, settlement/delivery risk, country risk, etc.);
- + market risk (equity risk, interest rate risk, liquidity risk, currency risk, etc.);
- + asset-liability matching risk (also known as ‘overall interest rate risk’ in banking circles), which includes inflation risk.

**Technical risk includes:**

- + longevity risk, and more generally demographic risk (birth rates, marriage rates, etc.);
- + regulatory risk applying to pensions (change in Scheme parameters, such as the retirement age);
- + economic risk applying to pensions (changes in remuneration, employment policy at national or employer levels);
- + model risk applying to actuarial tables and discount rate calculations.

**Operational risk includes:**

- + risk related to human resources;
- + accounting risk;
- + legal and tax risk;
- + IT systems security risk;
- + physical and environmental risk;
- + fraud risk;
- + administrative risk.

By extension, non-compliance and ethical risk are dealt with as a part of operational risk.

**— SCOPE OF CONTROL**

ERAFF's organisation leads it to outsource a significant portion of its activities:

- + for non-fixed-income financial assets: to third-party asset managers,
- + for the Scheme's administrative management: this is mandated by decree to the Pensions Department of Caisse des Dépôts, which performs all large scale management processes (receipt of contributions, calculation of rights and pension liquidations, information to employers and retirees, etc.) on behalf of ERAFF.

The scope of control therefore extends:

- + first: to ERAFF, i.e. its own staff, processes and systems
- + second, and indirectly: to the risks and controls of service providers and external agents, and in particular the delegated managers and respective units of Caisse des Dépôts' Pensions Department:

- Paris, for financial management support (middle office and reporting);
- Angers, for the employer client call centre;
- Bordeaux, for contribution collections processes, account-keeping functions for individual retirement accounts, rights liquidations, payment of benefits, information provided to beneficiaries and Scheme accounting.

In the first case, ERAFP's internal control consists of ensuring that its own departments implement the processes in accordance with the internal control system.

In the second case, ERAFP extends its internal control system to these third parties to ensure that their own internal control systems fully meet its expectations and requirements in this area. For many of the activities, the first-level controls therefore consist of verifying the proper execution of the management mandates (financial and administrative) assigned to these legal entities.

## — MAIN CHANGES RELATED TO INTERNAL CONTROL IN 2011

There were several changes to the organisation of internal control and risk management in 2011, namely:

- + regular Risk and Internal Control Committee meetings: this committee, which meets quarterly, comprises the members of the management committee, the internal controller and the financial risk controller along with, depending on the meeting agenda, any other persons involved in risk management and the organisation of controls. Its scope includes reviewing the effectiveness of the financial, technical and operational risk management systems, transaction compliance, IT systems security and new products and activities. It also reviews key financial risk indicators. The committee met for the first time in January 2011, when it approved its internal rules;

- + launch of a project aimed at organising financial risk management.
  - The first step consisted of choosing a consultant to perform a diagnosis and propose target organisations. PriceWaterhouseCoopers was chosen and carried out its assignment in the second half of the year. It presented its findings to the first Specialised Audit Committee meeting in 2011;
  - launch of a selection process for choosing ex ante financial risk and financial performance measurement and analysis solutions;
- + launch of a project for updating operational risk maps with the help of an outside consulting firm. This project will be supplemented by the drafting of a control plan.

The Specialised Audit Committee met three times in 2011. The following recurring items were included in the agenda of these meetings:

- + presentation of the draft budget for the following year and its approval;
- + presentation of ERAFP's internal control and risk management report;
- + presentation of the annual financial statements and their approval.

The non-recurring items examined during committee meetings in 2011 included in particular:

- + Feedback on PriceWaterhouseCoopers' assignment  
> *March 2011*
- + Ethics: updating list of ERAFP's sensitive functions  
> *March 2011*
- + Report on compliance visits relating to the new mandates  
> *May 2011*
- + ERAFP's status and that of its employees  
> *December 2011*
- + Renewal of independent auditors' appointments  
> *December 2011*

## 4 ERAFP FINANCIAL STATEMENTS 2010

### BALANCE SHEET

ASSETS (€)	2010			2009
	GROSS	DEPRECIATION & IMPAIRMENT	NET	NET
<b>Investments</b>	<b>9,888,670,856.82</b>	<b>-111,506,876.07</b>	<b>9,777,163,980.75</b>	<b>7,969,685,129.12</b>
Bonds, negotiable debt instruments and other fixed-income securities	8,065,670,876.21	-	8,065,670,876.21	6,811,220,217.91
Equities and mutual fund shares	1,822,999,980.61	-111,506,876.0	1,711,493,104.54	1,158,464,911.21
<b>Active contributors and beneficiaries</b>	<b>51,968,053.91</b>	<b>-12,663,568.77</b>	<b>39,304,485.14</b>	<b>41,085,177.50</b>
Active contributors and related accounts	48,509,142.27	-12,663,568.77	35,845,573.50	40,521,473.53
Beneficiaries	3,458,911.64	-	3,458,911.64	563,703.97
<b>Other receivables</b>	<b>234.34</b>	<b>0.00</b>	<b>234.34</b>	<b>3,932.48</b>
Trade receivables, advances and down payments	234.34	-	234.34	3,932.48
Other receivables	-	-	0.00	0.00
<b>Other assets</b>	<b>76,206,564.22</b>	<b>-17,855.73</b>	<b>76,188,708.49</b>	<b>68,112,862.13</b>
Intangible assets	-	-	0.00	0.00
Property, plant and equipment	28,266.25	-17,855.73	10,410.52	14,557.26
Cash and cash equivalents	76,178,297.97	-	76,178,297.97	68,098,304.87
<b>Accruals</b>	<b>-</b>	<b>-</b>	<b>0.00</b>	<b>0.00</b>
<b>GENERAL TOTAL</b>	<b>10,016,845,709.29</b>	<b>-124,188,300.57</b>	<b>9,892,657,408.72</b>	<b>8,078,887,101.23</b>

	2010	2009
<b>LIABILITIES (€)</b>		
<b>Equity</b>	0.00	0.00
Net income for the year	0.00	0.00
<b>Scheme reserves</b>	8,511,340,829.99	6,838,226,894.53
Accruing rights	8,474,584,852.11	6,814,263,217.93
Rights being exercised	36,755,977.88	23,963,676.60
<b>Reserves for use of surpluses</b>	1,370,260,227.35	1,206,601,219.09
<b>Active contributors and beneficiaries</b>	2,257,213.02	2,182,954.75
Active contributors	301,279.04	913,376.38
Beneficiaries and related accounts	1,955,933.98	1,269,578.37
<b>Other liabilities</b>	8,799,138.36	31,876,032.86
Trade and other payables	8,747,585.81	31,506,873.75
Staff and related accounts	0.00	0.00
Social security and other employment benefits	30,622.57	62,377.45
State – taxes and duties	11,577.00	9,332.00
Other creditors	9,352.98	297,449.66
<b>Accruals</b>	0.00	0.00
<b>GENERAL TOTAL</b>	<b>9,892,657,408.72</b>	<b>8,078,887,101.23</b>

## — INCOME STATEMENT

(€)	2010	2009
Contributions	1,721,026,231.42	1,688,355,696.41
Changes in impairment on contributions	-706,494.55	3,082,877.11
Late penalties	225,598.09	716,394.32
Other technical income	-	-
<b>Technical income</b>	<b>1,720,545,334.96</b>	<b>1,692,154,967.84</b>
Investment income	312,242,637.36	239,699,908.36
Income from realisation of investments	118,447.32	4,976,113.27
Other investment income	14,853,393.97	13,013,590.69
Reversals of impairment on investments	42,028,204.42	195,181,152.06
<b>Gross investment income</b>	<b>369,242,683.07</b>	<b>452,870,764.38</b>
Expenses related to realisation of investments	0.00	0.00
Other investment expenses	-16,624,176.41	-11,593,299.37
Impairment charges on investments	0.00	0.00
<b>Investment expenses</b>	<b>-16,624,176.41</b>	<b>-11,593,299.37</b>
<b>Net financial income</b>	<b>352,618,506.66</b>	<b>441,277,465.01</b>
Benefits paid	-216,471,458.39	-165,623,472.64
Other benefits (discounts of bonus factors)	-49,691.21	-232,235.31
<b>Benefits</b>	<b>-216,521,149.60</b>	<b>-165,855,707.95</b>
Changes in Scheme reserves	-1,836,772,943.72	-1,949,210,243.71
<b>Technical expenses</b>	<b>-2,053,294,093.32</b>	<b>-2,115,065,951.66</b>
<b>Scheme's net current income</b>	<b>19,869,748.30</b>	<b>18,366,481.19</b>
Reversals of depreciation and impairment	0.00	0.00
<b>Other non-technical income</b>	<b>0.00</b>	<b>0.00</b>
Overall outsourcing of administrative management	-14,214,740.05	-14,046,221.86
Third-party investment management expenses	-143,003.56	-14,193.84
Personnel expenses	-1,369,816.10	-980,160.44
Other expenses	-4,131,796.50	-3,317,108.00
Provision and depreciation charges	-5,496.09	-5,434.65
Non-recurring income	-	-
Non-recurring expense	-4,896.00	-3,362.40
<b>Net non-recurring income (expense)</b>	<b>-4,896.00</b>	<b>-3,362.40</b>
<b>Operating expenses</b>	<b>-19,864,852.30</b>	<b>-18,363,118.79</b>
Income tax	-	-
<b>NET INCOME</b>	<b>0.00</b>	<b>0.00</b>



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## ERAFP

### Independent Auditors' Report on the Annual Financial Statements

Year ended 31 December 2010  
ERAFP  
67 rue de Lille, Paris 75007  
*This report contains 29 pages*  
Reference: 1B-114-003



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ERAFP

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### **Independent Auditors' Report on the Annual Financial Statements**

Year ended 31 December 2010

Dear Sir or Madam,

In accordance with the terms of our appointment by the Board of Directors, we hereby present our report on the financial year ended 31 December 2010 on:

- the audit of ERAFP's annual financial statements, as attached to this report,
- the justification of our assessments,
- the specific verifications and information required by law.

The financial statements were prepared by the Board of Directors. It is our responsibility to express an opinion on these financial statements on the basis of our audit.

## **1 Opinion on the annual financial statements**

We performed our audit in accordance with generally accepted French auditing standards; these standards require that we perform due diligence to determine with reasonable certainty that the annual financial statements do not contain significant discrepancies. An audit consists of verifying on the basis of sampling or other selection methods the items justifying the amounts and information presented in the annual financial statements. It also consists of assessing the accounting policies applied, the main estimates used and the overall presentation of the financial statements. We believe that the information we obtained provides a sufficient and appropriate basis for our opinion.

We certify that the annual financial statements are faithful and consistent with French accounting policies and that they provide a true and fair view of the management entity's operating results for the year as well as its financial position and net assets at the end of that year.

Without prejudice to the above opinion, we call your attention to the following points:

- Note 3.4 relating to financial conditions after the end of the reporting period.
- Note 3.5.3 relating to the reclassification under "Reserves for use of surpluses" of provisions for risks and charges, which had previously been recognised under "Non-technical reserves". This note also provides the reasons underlying the accounting treatment used.



**ERAFP**  
*Rapport des commissaires aux comptes sur les  
 comptes annuels  
 31 décembre 2010*

## 2 Justification of our assessments

Pursuant to the provisions of article L.823-9 of the French Commercial Code relative to the justification of our assessments, we bring the following points to your attention:

As mentioned in Note 3.3.2 to the financial statements, ERAFP establishes reserves for the Scheme that are estimated in accordance with regulatory methods and using statistical data and actuarial techniques. As part of our assessment of the significant estimates used to prepare the financial statements and on the basis of currently available information, we reviewed the process established to assess these reserves and ensured the reasonable nature of the assumptions used in the calculation methods applied, notably taking into account the available data, the regulatory and economic environment and the overall consistency of these assumptions.

As mentioned in Note 3.3.3 to the financial statements, ERAFP has a provisioning mechanism for lasting impairment of non-amortisable assets. As part of our assessment of the significant estimates used to prepare the financial statements, we reviewed the proper application of the principles and criteria used as described in the notes to the financial statements.

The resulting assessments form part of our audit of the annual financial statements taken as a whole, and therefore contributed toward the determination of our opinion expressed in the first part of this report.

## 3 Specific verifications and information

We also performed the specific verifications required by law in accordance with the professional standards applicable in France.

Concerning the information presented in the Board of Director's Management Report, we have no observations to make regarding its accuracy or consistency with the annual financial statements.

Paris La Défense, le 19 décembre 2011

KPMG Audit  
 Département de KPMG S.A.

Isabelle Bousquie  
 Associé

Mazars

Nicolas Robert  
 Associé

## 5 ADDITIONAL DATA

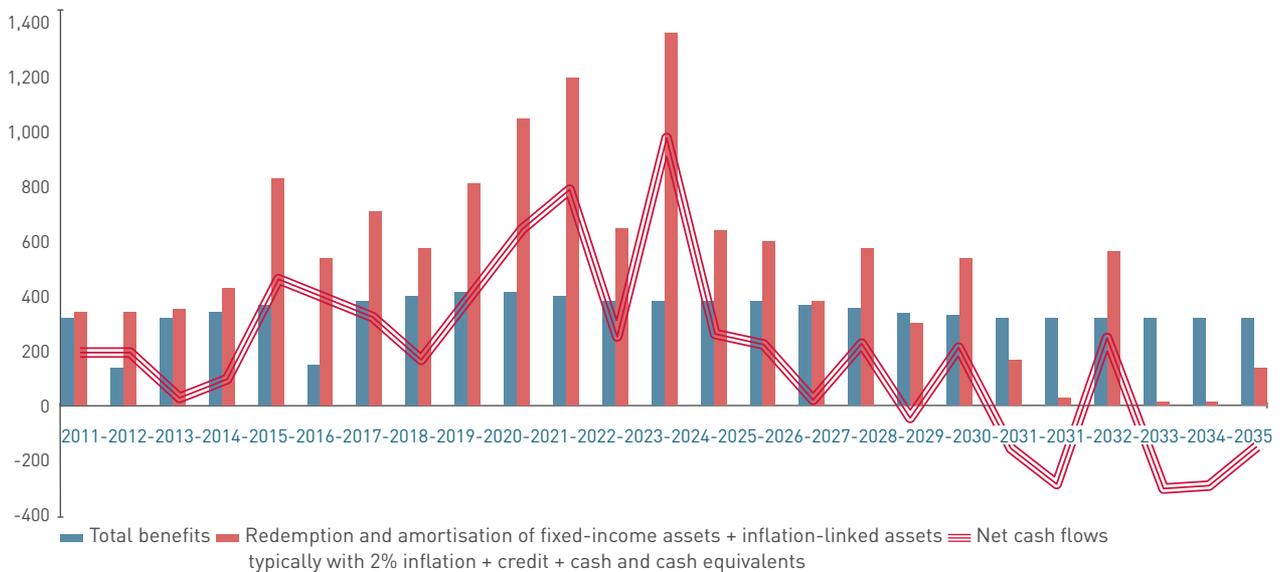
### — MATCHING OF ASSET AND LIABILITY MATURITIES

Assuming that contributions cease as from 31 December 2010, the bond assets would cover

benefit liabilities (payment of annuities and lump-sum benefits) for the next 15 years.

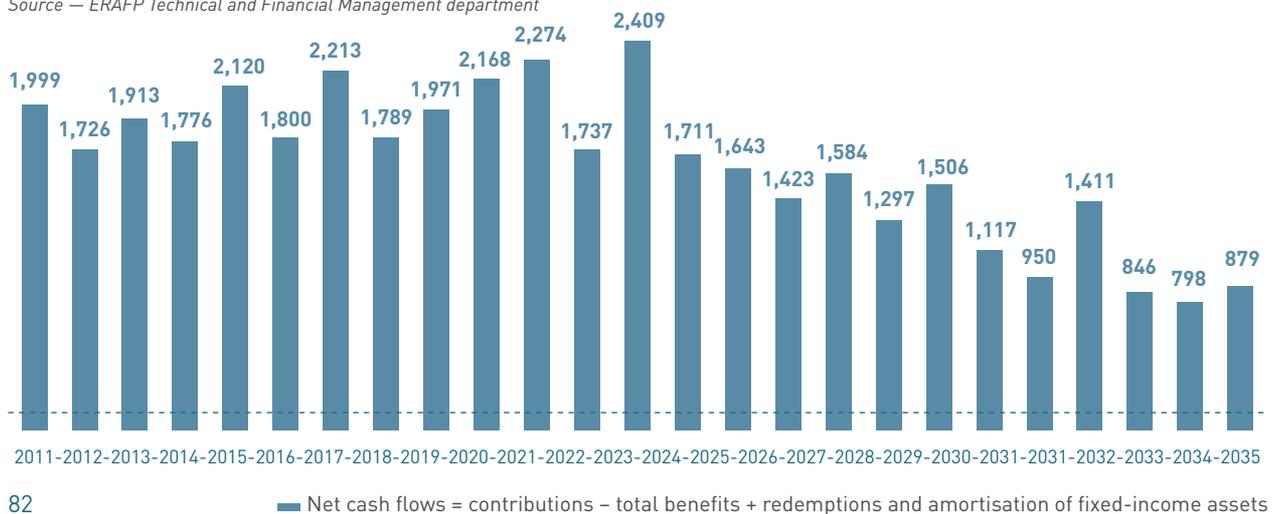
#### ASSET/LIABILITY MATCH (€ million)

Source — ERAFP Technical and Financial Management department



#### NET CASH FLOWS (€ million)

Source — ERAFP Technical and Financial Management department



## CASH FLOW PROJECTIONS (BY YEAR)

ERAFP is a long-term investor. The duration of its liabilities is estimated at 30 years for mathematical reserves and 15 years for financial cash flows.

Barring recognition of any change in the purchase and service values of a point and in contributions, we obtain the following results.

The contributions and bond cash flows (redemptions, interest payments) net of benefits generate substantial investment capacity over the long term. The securities acquired through these investments, whether bonds or equities, are intended to be held for a very long period. The accounting and prudential rules, which have an annual horizon, do not recognise this characteristic and are therefore inappropriate and have an adverse impact.

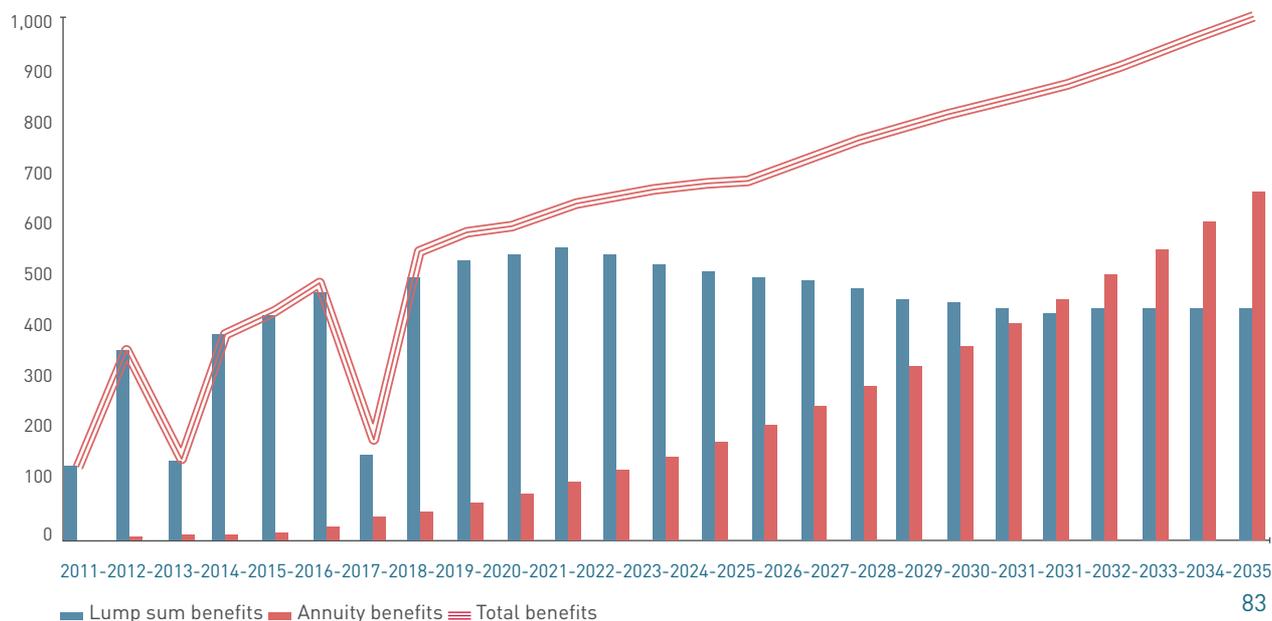
## AVERAGE INDIVIDUAL RETIREMENT ACCOUNTS

Source — CDC Administrative Management

	MEN		WOMEN		OVERALL	
	CONTRIBUTIONS	POINTS	CONTRIBUTIONS	POINTS	CONTRIBUTIONS	POINTS
Central government	€2,078	2,020	€1,721	1,672	€1,908	1,854
Public hospitals	€2,046	1,989	€1,842	1,791	€1,881	1,829
Local/regional governments	€1,760	1,710	€1,528	1,485	€1,630	1,584

## CASH OUTFLOWS (€ million)

Source — ERAFP Technical and Financial Management department



## 6 MEMBERS OF THE BOARD OF DIRECTORS (to 23 May 2011)

### Chairman

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- + Jean-François Rocchi  
(decree of 16 June 2008)

### Chairmen of the specialised committees:

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#### *ALM Steering Committee*

- + Alain Dorison

#### *Audit Committee*

- + Jean-Louis Rouquette

#### *Collection Committee*

- + Jean-Marie Poirot

#### *Investment Policy Monitoring Committee*

- + Bernard Lhubert, replaced by Chantal Labat-Gest (Board of Directors' decision of 14 December 2010)

### Representatives of active contributors

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#### *Union Générale des Fédérations de Fonctionnaires CGT*

- + Bernard Lhubert, principal  
Gilles Oberrieder, deputy

#### *Union des Fédérations CFTD des Fonctions Publiques et Assimilés*

- + Chantal Labat-Gest, principal  
Michèle Nathan, deputy

#### *Union Interfédérale des Agents de la Fonction Publique Force Ouvrière*

- + Gérard Nogues, principal, replaced by Philippe Soubirous (order of 4 March 2009)  
Brigitte Fidry, deputy

#### *Fédération Syndicale Unitaire*

- + Régis Metzger, principal  
Anne Feray, deputy

#### *Union Nationale des Syndicats Autonomes*

- + Jean-Marie Poirot, principal  
Corinne Spehner, deputy, replaced by Marc Chrétien (order of 4 March 2009)

#### *Union fédérale des cadres des fonctions publiques CFE-CGC*

- + Robert Laganier, principal  
Patrick Guyot, deputy

#### *Interfon Confédération Française des Travailleurs Chrétiens*

- + Xavier Delvart, principal  
Jacques Vannet, deputy

#### *Union syndicale Solidaires fonctions publiques et assimilés*

- + Dorine Pasqualini, principal  
Philippe Tijou, deputy

### Employer representatives

---

#### *Representatives of all central government public service employers*

- + Jacques Roudiere, General Controller of the Armies, Ministry of Defence Head of Human Resources (DRH-MD), principal
- + General Daniel Daehn, Ministry of Defence Deputy Director of Human Resources, General Policy Department Head of Human and Civilian Resources, deputy replaced by Rear Admiral Jean Casabianca, Ministry of Defence Deputy to the Head of Human Resources, General Policy Department Head of Human, Military and Civilian Resources (order of 21 October 2009)
- + Jean-Louis Rouquette, Inspector General of Finances, Director, Deputy to Secretary General of the Minister of the Economy, Industry and Employment, principal
- + Michèle Fejoz, Controller General, Delegate to Executive Management, deputy

- + Marie-Hélène Lechevallier, General Controller of the Risk Management Department, La Poste, principal
- + Foucauld Lestienne, Deputy Director for Human Resources, La Poste, deputy

### Representatives of local and regional public service employers

#### *On behalf of the Association des Maires de France*

- + Jean-Pierre Balligand, Mayor of Vervins, principal
- + Daniel Leroy, Deputy Mayor of Moussy-le-Neuf, deputy

#### *On behalf of the Assemblée des Départements de France*

- + Bernard Derosier, Chairman of the Conseil Général du Nord, principal
- + François Scellier, Conseiller Général du Val d'Oise, deputy

#### *On behalf of the Association des Régions de France*

- + Michèle Sabban, Vice Chairman of the Conseil Régional d'Île-de-France, principal
- + André Drouin, Conseiller Régional d'Aquitaine, deputy

### Representatives of the French public hospital sector employers

- + Michel Moujart, Honorary CEO of the CHU de Tours, director of the Centre Hospitalier de Chinon, principal
- + Jean-Pierre Gusching, CEO of the CHU d'Orléans, deputy
- + Daniel Bouquet, General Manager of Hôpitaux de Drôme Nord-Romans/Saint-Vallier, principal
- + Philippe Marin, directeur General Manager of the Centre Hospitalier de Laval, deputy replaced by Maurice Toullalan, General Manager of the Centre Hospitalier d'Argenteuil (order of 21 October 2009)

### Members of the Board of Directors in the capacity of qualified persons

- + Jean-François Rocchi, Inspector General of the Administration
- + Alain Dorison, Inspector General of Finance
- + Jean-Jacques Marette, senior civil servant, CEO of the Agirc-Arrco Economic Interest Group (GIE)

### The following persons also attend Board of Directors' meetings

#### *CEO of ERAFP*

- + Philippe Desfossés (order of 28 May 2008)

#### *Economic and financial control*

- + Pierre Brunet, Economic and Financial Controller, Insurance Commissioner, replaced by Alain Casanova, Head of Economic and Financial General Control

#### *Accounting manager*

- + Patrick Hédé, Public Finances Administrator

#### *Government Commissioner*

- + Thierry Pelle, Head of Pension Office at the Budget Department of the Ministry of the Budget, Public Accounts and Civil Service replaced by Philippe Jarraud, Head of the Pensions and Special Schemes Office at the Budget Department (decision of 17 June 2009)

#### *Representative of Caisse des Dépôts Administrative Manager*

- + Gérard Perfettini, Head of the Bordeaux agency (Pensions Department)

**By order dated 7 November 2011 of the Minister for the Budget, Public Accounts and State Reform, Government spokesperson, and of the Minister for the Civil Service:**

**Members of the Board of Directors of ERAFP representing the active contributors**

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*Representing Union Générale des Fédérations de Fonctionnaires CGT*

- + Gilles Oberrieder, principal
- Francis Sahal, deputy

*Representing Union des Fédérations CFDT des Fonctions Publiques et Assimilés*

- + Marcel Lecaudey, principal
- Anne Meunier, deputy

*Representing Union Interfédérale des Agents de la Fonction Publique Force Ouvrière*

- + Philippe Soubirous\*, principal
- Brigitte Fidry, deputy

*Representing Fédération Syndicale Unitaire*

- + Régis Metzger, principal
- Erick Staëlen, deputy

*Representing Union Nationale des Syndicats Autonomes*

- + Marc Chrétien, principal
- Jean-Louis Blanc, deputy,

*Representing Union Fédérale des Cadres des Fonctions Publiques CFE-CGC*

- + Jean-Paul Thivolie, principal
- Jean-Yves Delannoy, deputy

*Representing Interfon Confédération Française des Travailleurs Chrétiens*

- + Denis Lefebvre, principal
- Awa Burlet, deputy

*Representing Union Syndicale Solidaires Fonctions Publiques et Assimilés*

- + Dorine Pasqualini, principal
- Philippe Benjamin, deputy

**Members of the Board of Directors of ERAFP representing all central government public service employers**

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- + Jacques Roudiere, General Controller of the Armies, Ministry of Defence Head of Human Resources (DRH-MD), principal

- + Alain Ferran, Ministry of Defence Deputy Director of Human Resources, General Policy Department Head of Human, Military and Civilian Resources, deputy

- + Michèle Fejz, Director of Human Resources, Deputy General Secretary to the Minister of Economy, Industry and Employment, principal

- + Coralie Oudot, Assistant Director of Human Resources at the Ministry of Economy, Industry and Employment, deputy

- + Eric Poglio, Manager responsible for employee share ownership plans at the department of executives management and remuneration policy, La Poste, principal

- + Foucauld Lestienne, Deputy Director of Human Resources, La Poste, deputy

\* Appointed Deputy Chairman of ERAFP by virtue of a Presidential decree dated 20 March 2012

### Members of the Board of Directors representing local and regional public service employers

---

#### *Representing the Association des Maires de France*

- + Michel Liebgott, Deputy Mayor of Fameck, principal
- + Michel Tousaint, Vice-Chairman of the Sud Estuaire communes, deputy

#### *Representing the Assemblée des Départements de France*

- + Claude Jeannerot, Chairman of the Conseil Général du Doubs, principal
- + François Scellier, Vice Chairman of the Conseil Général du Val d'Oise, deputy

#### *Representing the Association des Régions de France*

- + Eric Loiselet, Conseiller Régional Champagne-Ardenne, principal
- + Corinne Bord, Conseillère Régional Ile-de-France, deputy

### Members of the Board of Directors representing the French public hospital sector employers

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- + Jean-Pierre Gusching, Honorary CEO of the CHU d'Orléans, principal
- + Daniel Bouquet, General Manager of Hôpitaux de Drôme Nord-Romans/Saint-Vallier, deputy
- + Maurice Toullalan, General Manager of the Centre Hospitalier d'Argenteuil, principal
- + Alain Amat, Honorary Director of the Centre Hospitalier de La Rochelle, deputy

### Members of the Board of Directors in the capacity of qualified persons

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- + Jean-François Rocchi, Inspector General of the Administration, Chairman of the Board of Directors by order of 8 November 2011.
- + Alain Dorison, Inspector General of Finance
- + Pierre Mayeur, Director of Caisse Nationale d'Assurance Vieillesse des Travailleurs Salariés

### The following persons also attend Board of Directors' meetings

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#### *CEO of ERAFP*

- + Philippe Desfossés (order of 28 May 2008)

#### *Economic and financial control*

- + Alain Casanova, Head of Economic and Financial General Control

#### *Public Accountant*

- + Patrick Hédé, public finances administrator

#### *Government Commissioner*

- + Philippe Jarraud, Head of the Pensions and Special Schemes Office at the Budget Department (order of 17 June 2009) replaced by Sébastien Raspiller, Head of Insurance Markets and Products at the Treasury department of the Ministry for the Economy, Finance and Industry (order of 2 December 2011)

#### *Representative of the Administrative Manager, Caisse des Dépôts*

- + Gérard Perfettini, Head of the Bordeaux agency (Pensions Department) until 16 January 2012, replaced by Jean-Michel Bacquer.

## GLOSSAIRE

### **B**

#### **BENCHMARK INDEX**

An index that is representative of the market(s) in which the fund is invested.

#### **BEST IN CLASS**

Approach used in socially responsible investing that consists of selecting those issuers considered to be the most responsible within a group of comparable issuers. For equities, this approach means not excluding any single business sector peremptorily, but favouring the companies in each business sector that have made the most progress as regards environmental, social and governance criteria.

#### **BOND**

A bond is a security evidencing a debt, issued by a State or by a company, and corresponding to a long-term loan. The bondholder receives income, also known as the coupon.

### **C**

#### **CAPITALISATION RATE**

Interest rate that enables an amount invested at this rate to achieve a higher amount over a given time period.

#### **CSR**

The concept of Corporate Social Responsibility corresponds to the implementation of sustainable development practices at the company level. A socially responsible company integrates social, environmental and economic impacts in its decision-making mechanisms and strives to minimise these impacts.

### **D**

#### **DEFINED CONTRIBUTION SCHEMES**

Schemes in which only the level of the contributions is set.

#### **DISCOUNTING**

Method for calculating the present value of a future amount based on an interest rate (here known as the discount rate).

#### **DORMANT**

A person who has taken retirement under the main pension scheme but who has not yet liquidated his/her additional pension rights.

### **E**

#### **ENGAGEMENT**

This term describes the dialogue between an institutional shareholder (pension fund, investment firm, etc.) and an issuer, typically a company, for the purpose of having this issuer take into account environmental, social and governance risk factors.

#### **ESG**

Acronym referring to environmental, social and governance issues.

### **F**

#### **FUNDED SCHEME**

A funded retirement scheme invests the paid-in contributions in financial assets, which are liquidated at the time of retirement to pay the accrued rights either in an annuity or a lump sum. The payment depends on both the amount saved and changes in the value of the assets (typically equities and bonds) in which the funds were invested.

#### **FCP (COLLECTIVE INVESTMENT FUND)**

A French FCP is a mutual fund managed by a management company on behalf of unit-holders; the FCP is not a legal entity.

## **G**

### **GENERAL INDICATIVE ESTIMATES FOR PENSIONS (FRENCH ACRONYM: EIG):**

Document sent to active contributors aged 55 and subsequently every five years. The EIG provides an estimate of the amount of their pension at the legal retirement age and at the full rate, relying on income projections prepared by the Conseil d'orientation des retraites (Pension Steering Committee).

### **GREENHOUSE GASES**

gases that are a source of global warming.

### **GIP INFORMATION RETRAITE**

French public interest group that includes 38 compulsory retirement schemes (CNAV, MSA, AGIRC, CNRACL, Ircantec, etc.) to create the individual information for beneficiaries on rights vested in all schemes in which they participate. GIP provides an online universal pension simulator (m@rel) that covers 95% of the population. RAFP is scheduled to integrate m@rel soon.

## **I**

### **INDIVIDUAL STATEMENT OF POSITION (FRENCH ACRONYM: RIS)**

Document sent annually to active contributors. The statements relating to RAFP are sent along with those of the main pension scheme. The RIS includes information on the beneficiary's career, coverage periods and vested points. It can be prepared at the beneficiary's request.

### **INTERGENERATIONAL EQUITY**

This concept aims to ensure an equivalent standard of living amongst individuals at a given point in time and relative to other generations at the same ages.

## **L**

### **LIFE EXPECTANCY TABLES**

The TGF05 and TGH05 tables are forward-looking generational life expectancy tables. For each birth year, a life expectancy table is constructed, which allows lengthening life expectancy to be taken into account. All the tables have been drawn up based on an analysis of annuity holders' life expectancy performed by the insurance companies using

data from INSEE. Two sets of tables have been drawn up: one for women (TGF05) and one for men (TGH05). The life expectancy tables applied up to the end of 2006 had been drawn up in 1993. They were also forward-looking but had been constructed based solely on the life expectancy of French women. The change of tables was required by the increase in life expectancy which has on the whole been stronger than anticipated in 1993.

### **LIQUIDATION**

Set of procedures aimed at calculating and paying out benefits to a beneficiary.

## **M**

### **MARKETABLE SECURITY:**

Security traded on the financial markets and evidencing a negotiable claim or associated right (equities, bonds, etc.)

## **P**

### **POINT**

Unit for calculating the pension in certain schemes. The contributions make it possible to acquire (vest) points. The amount of the pension is equal to the points acquired during the beneficiary's professional life, multiplied by the value of a point at the time of retirement. Most additional pension schemes are based on point systems. Basic pension schemes tend to use the "quarter" system.

### **PREMIUM**

Premium applied to the amount of the future pension of a beneficiary who has reached the legal retirement age but chooses to continue working, even though he or she has satisfied the coverage period needed to receive a full pension.

### **PRI**

Principles for Responsible Investment, a charter drafted under the auspices of the United Nations and to which ERAFP adheres.

## **R**

### **REVERSION**

Attribution to a deceased beneficiary's spouse (prior to or after the beneficiary's retirement) of a portion of the pension. The reversionary pension is based on the resources of the surviving spouse in the French general scheme for employees (régime général des salariés) and ancillary schemes.

### **RETURN**

Ratio of the pension amounts received over the course of retirement and contribution amounts paid in during the beneficiary's active working life.

## **S**

### **SHARE**

Negotiable security that gives its owner fractional ownership of a company and certain rights: to oversee and control management, to receive a share of the distributed profit (dividend).

## **SRI**

Socially Responsible Investing is an approach aimed at integrating environmental, social and/or governance criteria in investment decisions and portfolio management.

### **SUSTAINABLE DEVELOPMENT**

The Brundtland Report, published in 1987 by the UN World Commission on the Environment and Development, defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

## **T**

### **TECHNICAL RETURN**

Ratio of the service value of a point to the purchase value of a point.



