



RAFP
Retraite
additionnelle
de la Fonction
publique ■

PUBLIC REPORT 2017





Dominique LAMIOT
Chairman of ERAFP

"THE SCHEME ALSO SHOWED ITS ABILITY TO PRESERVE THE PURCHASING POWER OF THE BENEFITS THAT IT PAYS OUT. WHEN ON 1 JANUARY 2018 IT INCREASED THE SERVICE VALUE OF A POINT BY 1%, THE LEVEL OF INFLATION SEEN IN 2017"

2017 was one of the few transitional years in which the additional pension scheme evolved from a position of mostly paying out lump sums to the model for which it was designed, based on paying out annuities.

Although most of our beneficiaries fall into the lump sum category, the average number of points still being less than 5,125, we now have a significant number of annuity recipients (more than 100,000). ERAFP, a pension fund that has served workers across the whole public sector since 2005, will maintain its relationships with these beneficiaries throughout their retirement. It will be able to rely on the tools it has developed over recent years to report on how it invests the contributions paid into the Scheme, one example being through the socially responsible investment approach that the board of directors adopted in 2005.

On this point, the government recently recognised the contribution of ERAFP's SRI policy by giving it regulatory status through the decree of 18 June 2004, which defines the functioning of ERAFP and the Scheme. Strengthened by this new legitimacy, we will work to ensure that ERAFP remains demanding and innovative in the years to come. And, as is expected of us, we will also strive to assess the practical impact of this policy in terms of not only financial performance but also our investments' social productiveness - something we have already embarked on in the second part of this report.

It was this dialogue with the public authorities - which the board of directors is committed to maintaining - that enabled us to raise the regulatory cap on the Scheme's real estate holdings. This in turn allowed us to form a new real estate investment strategy focusing more strongly on residential assets, particularly with a view to facilitating public sector employees' access to the housing market in areas subject to shortages.

This acknowledged maturity in the Scheme is also attributable to its contributors. At the meetings with employers in which I took part this year, in Lille and Nice, I noticed that the additional pension scheme's unique model was gaining more and more traction, particularly as regards the sustainable investment of contributions and long-term financing of the economy. Although its base remains limited, the Scheme also showed its ability to preserve the purchasing power of the benefits that it pays out, when on 1 January 2018 it increased the service value of a point by 1%, the level of inflation seen in 2017.

Since the additional pension scheme's launch, the board of directors has accumulated know-how in managing a points-based contribution scheme, and it fully intends to deploy this experience over its term of office - while continuing to proactively plan for the future.

ERAFP is investing more in SMEs, particularly through private equity, as well as in infrastructures. This is a mark of the Scheme's potential as a long-term financier of the economy.

Supported by connected infrastructures, innovative companies develop the production models of the future, and the necessary acceleration of the energy transition depends on these companies' growth. There are few players in France with ERAFP's resources - more than €2 billion net to be invested per year over at least the next ten years - for supporting this development and these changes. In 2017, it invested €1.2 billion in SME financing and €234 million in European infrastructure funds. Over the next few years we will strive to maintain this strategy, which we find the most useful and the best adapted for ensuring a satisfactory return for the Scheme's beneficiaries.

This approach, which seeks to promote long-term investment in sustainable business models through the consideration of investments' environmental and social consequences, also underpinned our selection of funds investing in companies that implement climate change mitigation strategies - to the tune of €100 million in 2017. We are beginning to get a better idea of the risks that climate change poses to investors' assets and, as an active shareholder, ERAFP liaises with other major investors to further this process.

While the ERAFP model remains relatively rare in France, we find natural partners among international pension funds - particularly public sector ones. The recent Climate Action 100+ initiative, led by 256 investors representing €23,000 billion of managed assets, aims to encourage companies with the biggest greenhouse gas footprint to set out detailed emissions reduction policies. If they fail to adopt more appropriate governance systems, it is hard to see how they will meet the low-carbon trajectories implicit in the objective to limit the average temperature increase between now and 2050 to 2°C. Major institutional shareholders need proof from these companies of the progress they have made, so that they in turn can shape investment strategies that enable the 2°C target to be met.

With this in mind, investors' responsibility does not stop with the companies whose capital they hold. Indeed, this is a focus of current discussion about the social function of businesses, in which all stakeholders in their activities are called upon to ensure that they are sustainable. In their quest for long-term profitability in all the asset classes in which they invest, socially responsible investors are therefore gradually being required to define an engagement strategy for their bond portfolios.

ERAFP has launched a debate on this subject with a view to reconciling its non-sector-exclusive best in class approach with renewed requirements of emitter companies, including with respect to climate change imperatives. Companies have to understand that major investors such as ERAFP will not refinance bonds on maturity unless they are actively applying an energy and ecological transition strategy.

"COMPANIES HAVE TO UNDERSTAND THAT MAJOR INVESTORS SUCH AS ERAFP WILL NOT REFINANCE BONDS ON MATURITY UNLESS THEY ARE ACTIVELY APPLYING AN ENERGY AND ECOLOGICAL TRANSITION STRATEGY."



Philippe DESFOSSÉS
CEO of ERAFP

RAFP OR ERAFP?

LEGAL REFERENCES

— Article 76 of French pension reform law 2003-775 of 21 August 2003

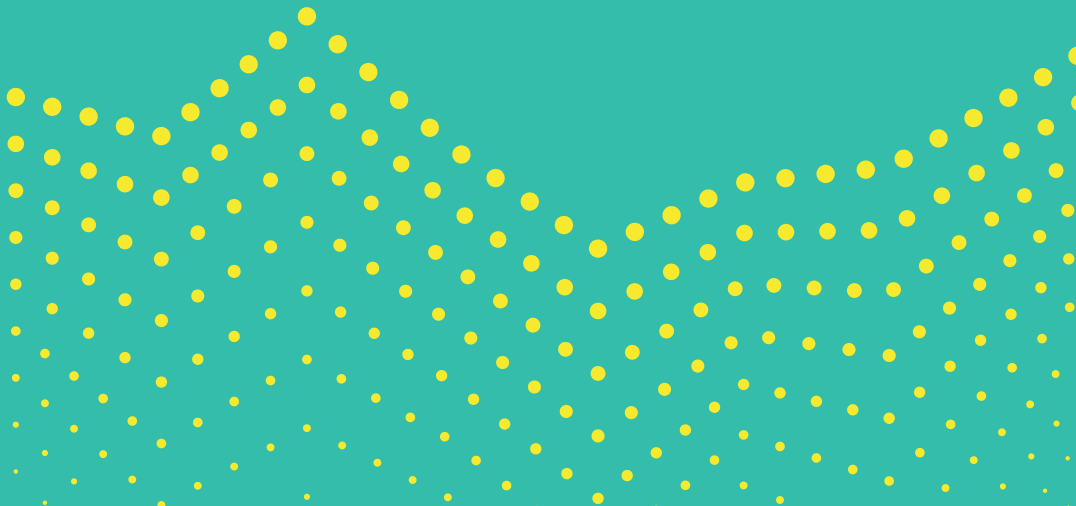
— Decree 2004-569 of 18 June 2004 on the French Public Service Additional Pension Scheme

— Statutory order of 26 November 2004, as amended, implementing decree 2004-569 of 18 June 2004 on the French Public Service Additional Pension Scheme.

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 - under the 18 June 2004 decree 2004-569.

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

ERAFP, or “Établissement de retraite additionnelle de la fonction publique”, is the public sector administrative entity charged with the Scheme’s management.



2017 HIGHLIGHTS



19 JANUARY 2017

HOUSING RESERVATION AGREEMENT FOR PUBLIC SECTOR EMPLOYEES

Based on an agreement signed with the DGAFP, ERAFP's investments in the FLI intermediate housing fund give public sector employees access to housing in areas subject to shortages several months before it is released onto the market. Currently available in the Paris region, in the future the initiative will be rolled out on a wider scale.

PAGE 39



25 JANUARY 2017

ERAFP PARTICIPATES IN THE LAUNCH OF FRANCE'S FIRST GREEN SOVEREIGN ISSUE

ERAFP invested €40 million in this €7 billion issue, designed to finance innovative transport, renewable energy or biodiversity protection projects.

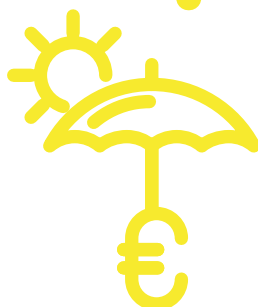
PAGE 60

05 MAY 2017

PUBLICATION OF THE STATUTORY ORDER RAISING THE CAP ON REAL ESTATE ASSETS

Following a request by the board of directors, ERAFP's supervisory ministers raised the upper limit on the fund's real estate holdings to 12.5%. ERAFP subsequently updated its medium-term real estate strategy to reflect this authorisation.

PAGE 10

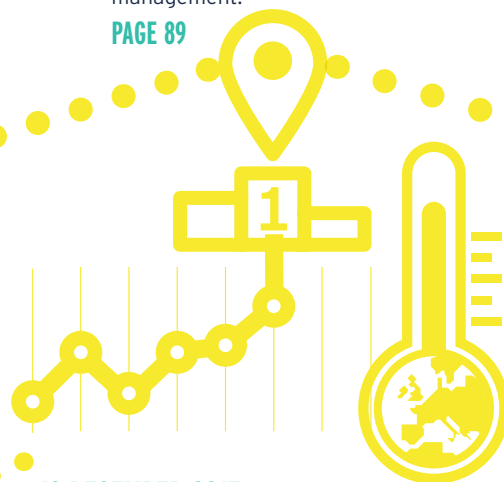


28 NOVEMBER 2017

ERAFP VOTED THE BEST EUROPEAN PUBLIC SECTOR PENSION FUND AT THE IPE AWARDS

At the 17th annual IPE Awards, ERAFP had the honour of receiving the prize for best European public sector pension fund, reflecting its peers' recognition of its status as a long-term, fully socially responsible investor. This followed its selection in 2015 for the best socially responsible investment policy, in acknowledgement of its all-round management.

PAGE 89



12 DECEMBER 2017

ERAFP SUPPORTS CLIMATE ACTION 100+ AND SIGNS A FRENCH PUBLIC SECTOR INVESTOR CLIMATE PROTECTION CHARTER

ERAFP committed alongside 225 other investors with combined AUM of more than €23,000 billion to lobby the biggest corporate greenhouse gas emitters to take rapid action to factor climate change into their governance, cut their emissions and improve their climate-related financial reporting. It also signed the French public sector investors' climate protection charter together with Caisse des Dépôts, Bpifrance, l'Agence française de développement, le Fonds de réserve pour les retraites and other state investment agencies.

PAGE 87

See page 29 for financial tender launches and mandate awards

18 MAY 2017

ERAFP ALIGNS ITS TARGET INVESTMENTS MORE CLOSELY WITH CLIMATE CHANGE REDUCTION MEASURES

Having identified a number of low-carbon strategies, ERAFP invested in five funds that have adopted a thematic approach to fighting climate change, allocating some €100 million to this strategy in late 2017.

PAGE 66





CONTENTS

1 – OPERATION OF THE RAFP IN 2017	8
A UNIQUE SCHEME, OPERATIONAL SINCE 2005	9
THE WORK OF THE BOARD OF DIRECTORS	10
PAYMENT SIMULATIONS FOR TYPICAL BENEFITS	16
2017 CONTRIBUTIONS AND BENEFITS	17
2017 MANAGEMENT COSTS	19
INITIATIVES FOR EMPLOYERS AND BENEFICIARIES AND INFORMATION ABOUT THE SCHEME	20
2 – THE SCHEME’S LONG-TERM EQUILIBRIUM	24
ACTIVITY REVIEW - KEY FIGURES	25
TECHNICAL STEERING MECHANISMS	26
ASSET ALLOCATION: GENERAL ORIENTATIONS AND INVESTMENT DECISIONS	29
PORTFOLIOS’ FINANCIAL AND SOCIAL PERFORMANCE	32
3 – A REDESIGNED SRI CHARTER ADAPTING POLICY TO THE LATEST CHALLENGES	40
GENERAL ESG APPROACH	44
ESG INFORMATION PROVIDED TO CONTRIBUTORS	45
ESG ANALYSIS METHOD	46
IMPLEMENTATION OF THE INVESTMENT POLICY	58
THE BOND PORTFOLIO	60
THE CONVERTIBLE BOND PORTFOLIO	68
THE EQUITY PORTFOLIO	71
THE MULTI-ASSET PORTFOLIO	77
THE UNLISTED PORTFOLIO	78
THE REAL ESTATE PORTFOLIO	80
ENGAGEMENT STRATEGY	82
GLOSSARY	90
4 – APPENDICES	92

1. OPERATION OF THE RAFP **IN 2017**



A UNIQUE SCHEME, OPERATIONAL SINCE 2005

RAFP'S MAIN ROLES

Operational since 2005, the French Public Service Additional Pension Scheme (RAFP) is a unique scheme.

Providing an additional pension to public sector employees

Thanks to the Scheme, close to 4.5 million contributors will benefit from additional pension benefits. Their contributions are based largely on bonuses and are topped up by some 43,000 public sector employers. Contributions totalled €1.85 billion in 2017.

Founded on inter-generational equity

RAFP is the only French pension fund to have 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.

Promoting public service values

Since the Scheme was set up, the board of directors has striven to put into practice its fiduciary responsibility to its contributing public sector employees and beneficiaries.

Accordingly, it has developed an ambitious programme to institute a socially responsible investment (SRI) policy founded on public service values. This policy takes into account environmental, social and governance criteria in all of the Scheme's investment decisions.

Faced with the public's increasingly high expectations of financial companies, and alongside its desire to raise awareness of its approach among the Scheme's contributors and beneficiaries, ERAFP seeks to demonstrate that investors have a role to play, in the service of public interest, in the transition to a carbon-free economy.

THE WORK OF THE BOARD OF DIRECTORS

IN 2017, THE SECOND YEAR OF ITS TERM OF OFFICE, THE BOARD OF DIRECTORS WAS ABLE TO CONTINUE WORKING AT A SUSTAINED PACE.

NEW APPOINTMENTS TO THE BOARD OF DIRECTORS

Pursuant to the statutory order of 20 June 2017, **Philippe Sebag** was appointed an alternate member of the board of directors, replacing Jean-Yves Delannoy.

Pursuant to the statutory order of 11 July 2017, **Chantal Gosselin** was appointed an alternate member of the board of directors, replacing Anne Meunier.

Pursuant to the statutory order of 13 November 2017, **Odile Bouny** was appointed an alternate member of the board of directors, replacing Alain Ferran.

Pursuant to the statutory order of 7 December 2017, **Emmanuelle Walraet** was appointed a full member of the board of directors, replacing Véronique Hespel.

— Decree of 20 November 2017 on certain operational aspects of the French Public Service Additional Pension Scheme

This decree, on which the board of directors was consulted prior to its enactment, updated decree 2004-569 of 18 June 2004 relating to the Scheme with regard to several organisational aspects of ERAFP and its governing and consultative bodies.

It first and foremost enshrines ERAFP's SRI policy in regulatory terms, along with the specialised investment policy monitoring committee that was originally set up pursuant to a decision of its board of directors.

The minister responsible for the economy is also added to the list of those tasked with supervising ERAFP.

The decree goes on to define and describe, for the benefit of the board of directors, the rules of professional ethics applicable to public sector employees.

Lastly, it brings forward the accounts closing date by a month as from the 2019 financial year, thereby requiring approval of the financial statements before 30 May.

MAIN DECISIONS ADOPTED IN 2017

At its meeting of 27 June 2017, the board of directors adopted a medium-term real estate investment strategy, updating the existing one to “take into greater consideration the socio-economic challenges of real estate investment, in particular in the residential segment.”

Pursuant to a decision of 17 October 2017, the board of directors decided that with effect from 2018, for people under the age of 80 and providing the Scheme had a relevant email address, it would issue tax statements in electronic rather than paper form to local and regional authority and public hospital beneficiaries.

Pursuant to a decision of 19 December 2017 and in application of the Scheme’s technical parameter drafting guidelines, the board of directors made a symmetrical 1% increase to the purchase value and the service value of a point .

The board of directors decided at the same meeting that ERAFP would join the Asian Corporate Governance Association (AGCA), in line with its 2018 engagement priority of promoting best governance practice at international level, particularly in Asia.

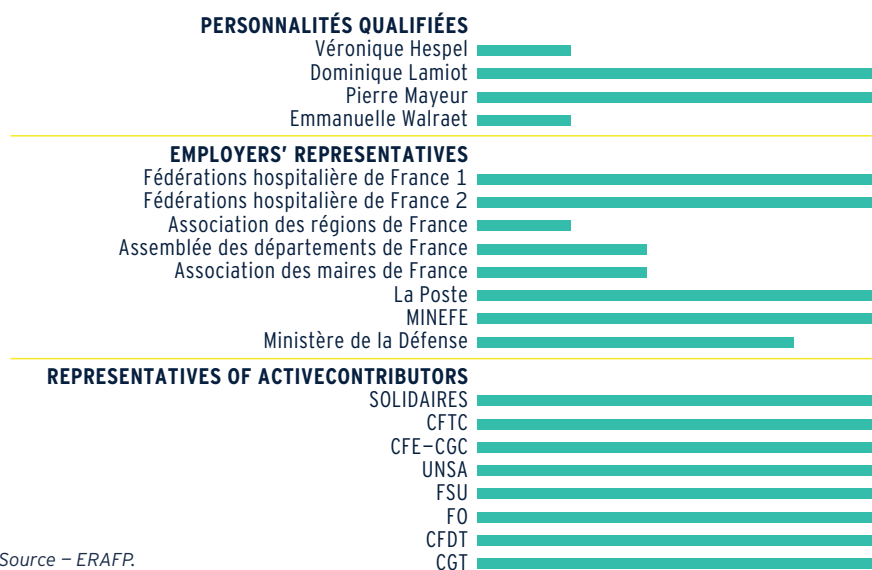
WORK BY THE BOARD’S BODIES IN 2017

ERAFP’s board of directors met four times in person over the course of the year, and also held a “virtual” meeting on 27 April 2017.

The board’s sub-committees met 28 times in all during the year. Directors were also able to take part in three training days on financial and socially responsible investment issues, as well as a day-long workshop bringing together board members and ERAFP employees to discuss the Scheme’s long-term strategies.

The above attests to the directors’ continued commitment to the Scheme’s business.

ATTENDANCE AT BOARD MEETINGS IN 2017



Source – ERAFP.

FOR MORE
INFORMATION



Scheme
governance

1. The details and application procedures for these decisions are detailed in the second section of this report.

Work of the CSR

Steve Mazens

Chair of the collections committee



The committee noted in 2017, in particular based on its reading of the administrative management reports, that the architecture defined by the 2016-2020 objectives and management agreement functioned perfectly for collections, barring a few adjustments related to the most complex cases, in which there was a lag between a change of situation and receipt of the corresponding information.

Some difficulties do persist, arising when lump sums convert into annuities, which occurs if the total points of a beneficiary who received a lump sum on initial liquidation ultimately exceed 5,125. Such cases have resulted in particular in a significant number of waiver requests from heirs who have found themselves indebted to the Scheme on the death of a family member beneficiary.

Following extensive discussions, and helped by teams from ERAFP and the Administrative Manager, the committee completed its study of the conversion question and proposed to the board of directors a mechanism that would resolve most of the abovementioned difficulties. We expect the supervisory authorities to transpose it into regulatory form in the near future.

Work of the CSA

Francis Sahal

Chair of the audit committee



One of the committee's jobs is to monitor the activity of ERAFP and the Administrative Manager from a number of complementary angles: operational, budgetary and accounting, in that order. This monitoring acquaints us with operational needs, which enables us to calculate the budgetary resources required, and accounting reporting then tells us whether these resources are being correctly used. This is the structural approach that has governed the committee's decisions since the Scheme's inception and enabled it to grow. That logic has proved salutary, including in terms of costs, which have increased at a slower rate than our managed assets.

In 2017, the Scheme saw longer-term measures put in place, including, following the Court of Auditors' 2015 audit, new accounting management reporting lines. These arise from the impossibility of having the Scheme's accounting function work in tandem with the CDC's accounting agent - as well as the SRE's accountant. This requires representation agreements to be drawn up that also impose management agreement changes, leading to duplication and additional costs. These agreements raise questions of both accounting and contractual responsibility that need settling with precision. It is also the Scheme's intention to diversify, and it has accordingly petitioned its supervisory authorities for diversifications enabling it as a minimum to protect contributions against inflation. The audit committee must be consistent with the line adopted by the CSAP, as approved by the board of directors, and with any wishes it expresses.

In conclusion, these issues put pressure on the budget, and the Scheme must not be made subject to the 1.5% budget contraction "rule" imposed on other public and semi-public bodies without so much as a thought as to whether the assets that ERAFP manages are part of the public purse. In any event, the Scheme's expenditure does not constitute public expenditure and cannot be included under the 3% rule arising from the "Maastricht criteria".

Work of the CSAP

The year ended saw a number of tenders launched and management mandates awarded, paving the way for the continued diversification called for by the board of directors, which is designed to improve the expected return on investments while contributing to economic growth. Specifically, the committee prepared an updated medium-term real estate investment strategy targeting an average of one-third residential assets across the portfolio.

Continued discussion with ERAFP's supervisory authorities will therefore be useful to give it access to all the tools it needs, notably to correctly implement this strategy - possibly through co-investment. With this in mind, the committee lobbied for ERAFP's right to invest in institutional real estate mutual funds and made other requests designed to increase its management agility and reduce the asset portfolio's dependence on interest rates, which remain excessively low.

Our work also provided the opportunity to show ERAFP's ability to diversify its investments while maintaining the Scheme's long-term solvency. We must use these structural characteristics as the basis for discussions about our investment framework.

Éric Poglio

Chair of the asset and liability management committee



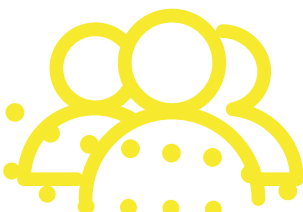
Work of the CSPP

A number of events in 2017 showed the usefulness of robustly screening major multinational companies for the breaching of standards. As well as rounding out our information on the social and environmental impact of corporate products and services, it allows us to define solid engagement policies to encourage companies to improve, while disseminating our socially responsible investment requirements which, in the case of inadequately answered questions, can lead to us to sell investments.

We are deepening our knowledge of the specific risks that certain sectors represent while remaining true to our best in class principles, which enable us to select and support the best issuers in all areas of business. While not necessarily headline grabbing in nature, we believe this approach to be the most rigorous and the best suited to a major institutional investor such as ERAFP.

Philippe Laurent

Chair of the investment policy monitoring committee



2017, ADDITIONAL PENSIONS IN BRIEF

— A mandatory, points-based scheme created for public servants working in 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.

— 4.5 million contributors in 2017.

— A contribution basis made up of all types of remuneration not included in the calculation of the basic pension – bonuses, overtime hours, allowances and in-kind benefits, capped at 20% of gross basic salary.

— An overall contribution rate set at 10% of the basis amount, split evenly

between the employer (5%) and the public servant (5%).

— Contributions that are credited to an individual retirement account, which can be viewed online at www.rafp.fr

THE RAFF BENEFIT RIGHTS VESTING SYSTEM

Legal and regulatory developments in 2017

Impacts of the pension reform law of 9 November 2010: Upon reaching the legal retirement age and provided he or she 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.

Impact of the PPCR protocol on the calculation of contributions to the Scheme: The “Job paths, careers and remuneration” (PPCR) protocol, arising from the 2016 finance act 2015-1785 of 29 December 2015, has a limited impact on the Scheme's basis.

FOR MORE INFORMATION



How contributions are calculated

MINIMUM LEGAL RETIREMENT AGE BASED ON THE YEAR OF BIRTH

Date (or year) of birth	Minimum legal retirement age	Retirement possible as from
Between 1 July and 31 December 1951	60 years and 4 months	1 November 2011
1952	60 years and 9 months	1 October 2012
1953	61 years and 2 months	1 March 2014
1954	61 years and 7 months	1 August 2015
1955	62 years	1 January 2017

Source—<http://vosdroits.service-public.fr>.

Decree 2016-588 of 11 May 2016, applicable to all three public service segments, notably implements a so-called bonus and points transfer measure featuring an increase in the number of basic points for each level of the three statutory categories, at the same time as a flat-rate reduction of the "indemnitory" component of public servants' remuneration.

While overall the transfer of a maximum of nine points reduces the Scheme's contributions basis, the resulting salary increase effectively raises the ceiling by 20%. Thus, while public servants whose indemnitory remuneration is below the ceiling will, all other things being equal, see their contribution slightly decrease, for most, for whom it exceeds 20%, the contribution to the Scheme will increase.

FOR MORE
INFORMATION



Impact PPCR

€1,2003

PURCHASE
VALUE OF A
POINT IN 2017.

€0,04487

SERVICE
VALUE OF A
POINT IN 2017.



PAYMENT SIMULATIONS FOR TYPICAL BENEFITS²

LUMP SUM PAYMENT

Caroline, an administrative assistant, retires in 2017 aged 62.

She then has **4 500 points** in her individual retirement account. (< 5,125 points)

$$\begin{array}{r} 4\,500 \\ \times 0,04487^3 \\ \times 24,62^4 \\ \times 1,00^5 \\ \hline \text{€4 971,15 gross} \end{array}$$

Caroline will receive a gross lump sum of €4 971,15

The lump sum will be paid in one or two tranches, depending on her retirement date.

ANNUITY PAYMENT

Patrick, an attaché, retires in 2017 aged 62.

He then has **7 000 points** in his individual retirement account. (> 5,125 points)

$$\begin{array}{r} 7\,000 \\ \times 0,04487^5 \\ \times 1,00^6 \\ \hline \text{€314,09 gross} \end{array}$$

Patrick will receive a gross annuity of €314,09 yearly, or €26,17 monthly

This amount will be revalued each year in line with the service value of a point.

Namia, an attaché, retires in 2017 aged 67.

He then has **7 000 points** in her individual retirement account. (> 5,125 points)

$$\begin{array}{r} 7\,000 \\ \times 0,04487^5 \\ \times 1,22^6 \\ \hline \text{€383,19 gross} \end{array}$$

Namia will receive a gross annuity of €383,19 yearly, or €31,93 monthly

This amount will be revalued each year in line with the service value of a point.

FOR MORE INFORMATION



Payment simulation

2. Illustrative examples only, not contractual and given solely for indicative purposes.
3. Service value of a point in 2017.
4. Lump sum conversion factor corresponding to life expectancy at the age when the rights are liquidated.
5. Premium factor: after age 62, the higher the retirement age, the greater the factor.

2017 CONTRIBUTIONS AND BENEFITS

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 public 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 and 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.

AROUND 43,000 EMPLOYERS...

Approximately 44,000 employers paid contributions to Caisse des Dépôts in respect of the Scheme in 2017. The vast majority are local and regional authorities and public sector hospitals.

The majority of French central government employers registered with the Scheme are regional public treasury departments, ministries and commissioners to the armies. Note that 97.3% of employers had paid in all the requisite contributions in respect of 2016 by the end of 2017.

Stable at less than 5% for a number of years, in 2017 the payment incident rate increased. The average rate for the year was 5%, compared with 4.6% in 2016.

Any payment incidents are subject to corrective actions: 97.9% of incidents arising in 2017 were corrected during the year.

... AROUND €1.85 BILLION COLLECTED ...

The Scheme collected around €1.85 billion of contributions in 2017. Employers with at least ten employees pay contributions on a monthly, aggregate basis. Those with fewer than ten employees pay contributions annually.

— Approximately 43,000 employers paid contributions to Caisse des Dépôts in respect of the Scheme in 2017.

— €1.85 billion in contributions collected in respect of the 2017 financial year

— 4.5 million contributing public servants in 2017

— 142,000 pension liquidations and 65,000 individual RAFP account revisions in 2017

— €368 million paid to beneficiaries in benefits

— Nearly 103,000 annuities in payment

In the event of a late payment, a penalty is added to the contribution. At 31 December 2017, 761 employers had received fines in respect of 2016.

... AND 4.5 MILLION CONTRIBUTING PUBLIC SERVANTS IN 2017

Each year, employers send Caisse des Dépôts a statement summarising for each of their public servants the contributions paid in during the previous year.

The deadline for reporting contributions collected in 2016 was 31 March 2017. Rights are added to the contributors' individual accounts provided the amounts reported match the contributions received.

6. Except for the payment of benefits to retired central government public servants, which is the responsibility of the Directorate of Public Finance.

7. NB. As the employers' declarations are only required to be submitted in the year following payment of the contribution, the figures correspond to the 2016 financial year.

97,3 %
FULLY PAID—IN
EMPLOYERS'
ACCOUNTS.

99,4 %
OF INDIVIDUAL
CONTRIBUTORS'
ACCOUNTS UPDATED AS
AT 31 DECEMBER.

142,000
PENSION
LIQUIDATIONS IN 2017.

65,000
BENEFITS REVISIONS.

€368 MILLION
IN TOTAL BENEFITS
PAID OUT TO
BENEFICIARIES IN
2017, OF WHICH.

€32 MILLION
AS ANNUITIES AND
€336 MILLION
AS LUMP SUMS.

AVERAGE LUMP SUM
OF **€2,272**
AND AVERAGE
ANNUITY OF **€307**.

[see tables in the appendix
showing changes since 2005]

ERAFFP and Caisse des Dépôts, working closely with the supervisory authorities, have implemented initiatives to raise awareness among employers of their regulatory obligations and their employees' rights.

Caisse des Dépôts contacts employers, by telephone or in writing, whenever a discrepancy is observed between the amount reported and the amount received.

The very high update rates for contributors' accounts since 2009 (more than 98% on average) is indicative of an increased awareness and understanding of the Scheme, which is helped by Caisse des Dépôts' employer awareness raising initiatives.

The number of updated individual retirement accounts increased slightly in 2017, as did the update rate, which came to 99.4% at 31 December.

CLOSE TO 142,000 PENSION LIQUIDATIONS AND 65,000 BENEFITS REVISIONS IN 2017

Around 142,000 pensions were liquidated and 65,000 benefits were revised in 2017. The marked increase (27%) in the number of liquidations may be attributable to the demographic profile of public service pension schemes and a sharp rise in the long-service early retirement rate in 2015, in respect of which RAFF beneficiaries are paid only once they reach the legal retirement age, meaning a possible lag until 2017. The end of the raising of the legal retirement age in 2017 is another potential factor, against a backdrop of expected future reform. The impact of this on the number of new retirees is expected to near its peak in 2018⁸.

In all, €368 million in benefits was paid out to beneficiaries in 2017. This amount includes the reversionary benefits paid out to deceased beneficiaries' spouses and children under 21.

PAYOUTS INCREASING

In 2017, payouts increased by 32%, a faster rate of increase than that of pension liquidations. The number of lump sum payments slowed in 2017 (147,904) compared with 2016 (139,342). The average lump sum payment in 2017 was €2,272, up sharply by 22% from 2016 (€1,860)⁹.

ANNUITY PAYMENTS TAKE OFF

103,215 annuities were paid in 2017. The continued increase in the number of annuities in payment compared with lump sum payments is attributable to the gradual growth of the Scheme since its inception in 2005.

Every year, therefore, there are more and 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. The average annuity in 2017 was €307¹⁰, a 2% decrease from 2016 (€313) attributable to threshold effects. By definition, as contributions did not start until 2005 annuity recipients have been able to contribute to the Scheme for a maximum of only 12 years. The average annuity shown above reflects this limited contributions period.

Although total annuity payments in 2017 were still only around 9.5% of the total lump sum payments (€336 million vs. €32 million for annuities), they are growing rapidly and increased by around 45% compared with the €22 million paid out in 2016.

FOR MORE
INFORMATION 



Appendices

8. Vermeillet Report submitted to the Senate Finance Committee: <https://www.senat.fr/rap/117-108-324/117-108-3249.html>. This report also describes a trend of "deferral [...] chosen to obtain replacement income at the full rate. The significant proportion of employees retiring with a premium is further evidence of this issue".
9. Although the increase is material, these amounts do not represent the total benefits paid, which generally comprise two lump sum payments, on liquidation and on revision.
10. Average total monthly payments throughout the year.

2017 MANAGEMENT COSTS

CONTROLLED MANAGEMENT COSTS

The operating budget for the Scheme and ERAFP is financed directly from amounts deducted from contributions, and is voted in annually by the board of directors.

In 2017, management costs totalled €34 million, corresponding to 0.14% of the Scheme's net assets and 1.8% of contributions collected in 2017.

The implementation of ERAFP's asset diversification policy implies making better use of its resources. This is a prerequisite for increasing the potential yield on the Scheme's investments and reducing its allocation risk, which is also a way of containing future costs.

— A scheme managed by a public sector entity operating under the oversight of the French State.

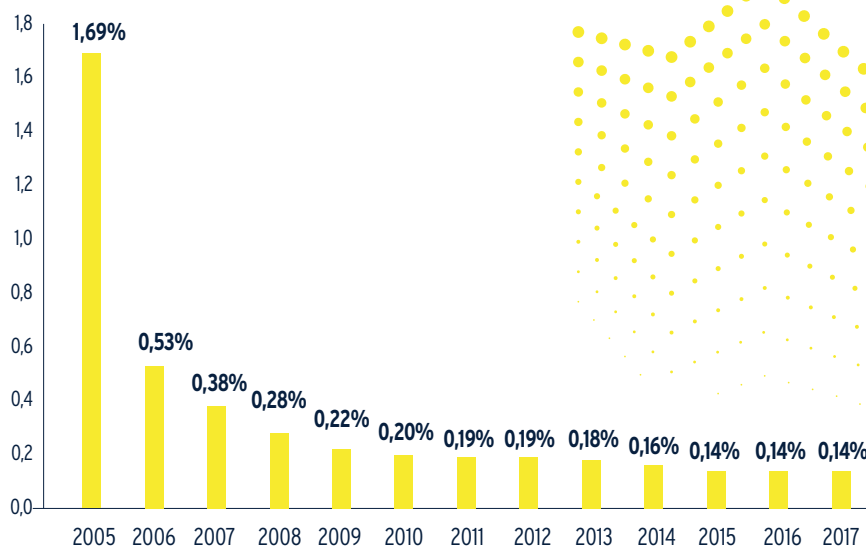
— Administrative management provided by Caisse des Dépôts et Consignations (CDC), under the authority and supervision of the board of directors.

— Management of financial assets partially delegated to asset management companies.

— Direct management by ERAFP of government bonds and government-backed securities.

— Management costs in 2017: €34 million.

CHANGES IN SCHEME MANAGEMENT COSTS SINCE 2005 AS A PERCENTAGE OF NET ASSETS AT AMORTISED COST



■ Management costs as a percentage of net assets at amortised cost

INITIATIVES FOR EMPLOYERS AND BENEFICIARIES AND INFORMATION ABOUT THE SCHEME

ERAFP's communications strategy is aimed at enhancing the Scheme's effectiveness by providing all stakeholders (beneficiaries, employers and institutional players) with the information required to participate fully at the appropriate level in its operations. It also aims to show the relevance of and promote ERAFP's SRI approach, since social responsibility is only meaningful if it is shared.

ERAFP's communications strategy is based on two key areas:

— institutional communications, mainly with public sector bodies, which are ERAFP's responsibility;

— operational communications, to inform employers and beneficiaries of their rights and obligations, which are the responsibility of the Administrative Manager, CDC.

PUBLIC SECTOR EMPLOYERS: MORE DETAILED INFORMATION

In its early years, the Scheme essentially aided public sector employers in the practical aspects of fulfilling their responsibilities. Now, it aims to promote their awareness of the Scheme's specific capitalisation and long-term socially responsible investment features to enable them to pass on such information to their employees.

> Public servants emphasise the employer's role in passing on information about the Scheme.

The main channels for passing on information are departmental circulars or pay slips¹¹.

In 2017, ERAFP met with employers twice, in Lille in March and in Nice in October. These meetings enabled it to talk to employers from all three public service segments about not only pensions but also the Scheme's specific challenges of socially responsible investment and long-term financing of the economy.

11. Results of the survey on Scheme image and recognition conducted by BVA in 2014.

> Employers in the local and regional authorities sector are more likely to say they are “well informed” than other employers¹².

In operational terms, Caisse des Dépôts’ call centre in Angers handled around 8,300 telephone calls from employers in 2017 (89% of calls received). In line with the gradual fall in call volumes seen in most recent years, this represents a 22% decrease from the 10,500 calls received in 2015, which is partly attributable to employers’ increasing awareness of the Scheme’s operating rules. Caisse des Dépôts also held a number of training and information sessions for employers in 2017. It regularly uses these sessions to present ERAFP’s video tutorials, which are much appreciated.

CDC also handled around 1,400 emails in 2017, more than in 2016 (1,200).

Note that around 200,400 account consultations were recorded on the “e-services” website set up for employers.

[see tables in the appendix showing changes since 2005].

BETTER UNDERSTANDING THE NEEDS OF ACTIVE CONTRIBUTORS IS A PRIORITY FOR THE SCHEME

The lack of knowledge and awareness of the Scheme persisted in 2017. ERAFP and the Administrative Manager are striving to remedy this by being attentive to the needs expressed by beneficiaries.

> The Scheme’s website appears to be an important addition to the information provided by the employer.¹³

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

The Scheme is now able to interact with its target sectors entirely electronically, thanks to the creation of contact forms and information letter subscription services, one example being a letter specifically for active beneficiaries introduced alongside that already provided for employers.

The quarterly letter subscription forms are available in the “Newsletter” section of the Scheme’s website: <https://www.rafp.fr/newsletter/formulaire-d-abonnement>.

After numerous requests from the Scheme’s beneficiaries, a payment simulator has been included on the site’s home page, and practical information files are now available.

200,400
CONSULTATIONS
OF ACCOUNTS ON
THE “E-SERVICES”
WEBSITE SET UP
FOR EMPLOYERS.

8,300
TELEPHONE CALLS
FROM EMPLOYERS
HANDLED IN 2017.

FOR MORE
INFORMATION



Appendices

12. Results of the survey on Scheme image and recognition conducted by BVA in 2014.

13. Results of the survey on Scheme image and recognition conducted by BVA in 2014.

98,900
TELEPHONE CALLS
FROM RETIRED
PUBLIC SERVANTS
HANDLED IN 2017.

866,000
NUMBER OF PEOPLE
REGISTERED FOR
SARA ONLINE
SERVICES IN 2017.

FOR MORE
INFORMATION



Appendices

In 2017, video tutorials were posted on the Scheme's website and on the institution's YouTube channel: <https://www.youtube.com/channel/UCATu6OUACOSh9EvnryXnVLg>. These two series of videos, one for employers and the other for beneficiaries, have been designed as educational, entertaining tools to explain how the Scheme works and answer the most frequently asked questions about it.

Informing retired beneficiaries

— Nearly 98,900 telephone calls from retired public servants were handled in 2017 (92% of calls received), which represents an increase of 23% from 2016 (80,300 calls handled). Meanwhile, around 20,600 items of correspondence (letters and e-mails) were processed over the year, down 2% from the 21,100 items processed in 2016.

— The number of SARA online service users reached 866,000 in 2017, an increase of 33% from 2016 (653,000). This portal is complemented by an automatic telephone appointment system operated via the Scheme's website: beneficiaries ask for an appointment and are called back on the day and at the time requested.

The Administrative Manager also continuously measures user satisfaction with its information services in order to improve the quality of its responses and case monitoring.

Informing active contributors

950,542 documents relating to RAFF (individual statements and overall indicative pensions estimates) were sent out to active contributors by the various schemes in compliance with contributors' 'right to information'. Note that in 2011 RAFF took over responsibility for informing active public servants if the primary scheme is unable to produce the required documents. As a result, 64,089 of the 950,542 documents were sent out directly by RAFF.

Furthermore, in 2017 Caisse des Dépôts handled nearly 33,600 telephone calls from active contributors under their right to information (92% of calls received), a 10% increase from 2016 (30,500 calls handled), as well as around 3,200 letters and e-mails (also up, by 17%).

[see tables in the appendix showing changes since 2007]

ERAFP also took part this year in the 'Preparing for and making the most of retirement' fair, which was organised in December in Bordeaux in partnership with the CARSAT pensions and occupational health insurance funds and focused on the theme of assets.

INSTITUTIONAL PLAYERS: INCREASINGLY FRUITFUL COMMUNICATIONS

Contact with the public authorities

In connection notably with its engagement within the IIGCC, ERAFP takes part in dialogue between investors and the public authorities in order to promote the transition to a carbon-free economy. The conditions of this dialogue are detailed on page 82 of the third part of this report.

Contact with the public

Following on from the COP 21, in 2017 ERAFP continued to take part in the related public debate as a long-term investor. The initiatives that it announced within this framework are detailed on page 45 of the third part of this report.

14. Such as in the case of invalid affiliation agreements, known career contributions below the requisite minimum amount, ongoing re-employment procedures or employees changing status from manager, defined by the Union Retraite GIP (retirement information public interest grouping).



Press

ERAFP's investments and strategy prompt most of its citations in the press. Similarly, its disclosures about the award of mandates and its socially responsible engagement continue to be widely reported. ERAFP's image is growing, particularly in the sphere of socially responsible investment, an area in which the institution is seen as a major player in France.

In 2017, 3,644 press or online articles mentioned RAFP or ERAFP, up 28% compared with 2016 (2,844). The Scheme's media coverage has improved consistently over the last five years.

More specifically, the 12 press releases issued by ERAFP appeared extensively in the written press, particularly in the economic and financial sections, as well as online and on social networks such as Twitter.

The Chief Executive Officer and his staff were also frequently interviewed by specialist French and English language publications and took part in around 150 conferences and seminars in France and abroad.

Twitter

ERAFP has been on the Twitter social network for four years, this year:

- publishing 850 tweets and responses;
- and retweeting 673 pieces of information in its areas of interest.

In 2017, ERAFP further expanded its audience, with 18,068 profile visits (14,025 in 2016) and 391 new followers, for a total of 1,151 at the end of the year (760 in 2016). This represents a 51% increase in the @_ERAFP_ account follower base in 2017. ERAFP is seeing steadily increasing interest in its profile, with the annual average number of retweets of its content rising to 34,000 in 2017 from 28,000 in 2016.

The website, a central communication tool for the Scheme

Site traffic grew significantly in 2017, with approximately 65,000 visits per month (60,000 in 2016). The payment simulator was the most visited page, while the calculator guide, the premium and conversion factors, the point value changes and the guidance notes were the most downloaded items.

THE SCHEME
OR ERAFP WAS
REFERRED TO IN

3,644
PRESS ARTICLES IN
2017.

850
TWEETS MENTIONED
ERAFP IN 2017.

65,000
VISITS PER MONTH
ON THE
ERAFP WEBSITE.

2.

THE SCHEME'S LONG-TERM EQUILIBRIUM



ERAFF: KEY FIGURES*

Assets of around

€23,7 billion (book value)

Financial coverage ratio of around

105% (chiffre estimé, non audité)

Technical reserves of around

€22,4 billion (estimated figure, unaudited)

Non-technical reserves of

€1,3 billion (estimated figure, unaudited)

Discount rate set at

0,7%**

* Valuation at end-2017.

** Discount rate net of management fees, set using a method that takes into account the re-investment risk.

TECHNICAL STEERING MECHANISMS

During the financial crisis and the ongoing economic crisis, the Scheme has succeeded in covering at all times its commitments to active contributors and retired beneficiaries.

ERAFP's long-term investment approach is based on:

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

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.

The board of directors is acutely conscious of its regulatory and prudential responsibilities and accordingly has adopted written guidelines for managing the Scheme's technical parameters with a view to maintaining over the long term the purchasing power of beneficiaries' vested pension rights.

Since the Scheme was formed, the board of directors has carefully monitored changes in the following parameters:

- the purchase and service values of points;
- the coverage ratio of Scheme commitments;
- the discount rate applied to reserves;
- the technical interest rate or "premium rate".

The guidelines recognise the existence of a link between the Scheme's ability to revalue vested rights and its assets, and also set out the conditions in which the premium rate may be revised.

COMMITMENTS COVERAGE RATIO

The obligation to cover the Scheme's commitments at all times implies careful monitoring of the financial coverage ratio. At the end of 2017, this ratio stood at approximately 105% (estimated figure, unaudited). Mindful of its regulatory obligations, the Scheme has the necessary reserves and provides satisfactory coverage of its

ECONOMIC COVERAGE

RATE OF **119%**
AT 31 DECEMBER 2017.

commitments. Nonetheless, the continuing particularly low level of bond yields seen in the market in 2017 calls for a highly prudent approach to steering these parameters.

As a complement to this first approach, ERAFP has sought to better define its capacity to revalue contributors' and beneficiaries' rights over the long-term horizon in which it operates. Accordingly, it has defined an "economic" coverage ratio, which takes into account the latent value of the Scheme's assets as well as the risks for which a margin of prudence should be recognised. This margin is defined as the "excess economic coverage requirement". If this requirement is not met, regardless of the financial coverage ratio, the service value of a point may not be increased. At the end of 2017, the excess economic coverage requirement stood at 18% of commitments.

The Scheme's economic coverage ratio, after revaluation, was approximately 119% (estimated figure) at 31 December 2017.

DETERMINATION OF THE PURCHASE AND SERVICE VALUES OF POINTS

The board of directors sets these parameters each year. Since adoption of the management guidelines, it takes into account the excess economic coverage requirement.

The mechanism set out in the guidelines effectively links any revaluation of points to the economic coverage ratio. If the points revaluation is lower than the inflation rate, particularly if the coverage ratio is inadequate, a mechanism is implemented in subsequent years to allow increases in the purchase and service values of points to catch up with inflation.

At the end of 2017, the board of directors increased both the service value and the purchase value of a point by 1% for 2018, thereby maintaining the technical return at 3.738%.

POINT PURCHASE AND SERVICE VALUES

Year	2005	2006	2007	2008	2009	2010	2011
Purchase value (€)	1	1,017	1,03022	1,03537	1,04572	1,05095	1,05620
Change	-	+1,70 %	+1,30 %	+0,50 %	+1%	+0,50 %	+0,50 %
Service value (€)	0,04	0,0408	0,04153	0,04219	0,04261	0,04283	0,04304
Change	-	+2,00 %	+1,80 %	+1,60 %	+1%	+0,50 %	+0,50 %
Year	2012	2013	2014	2015	2016	2017	2018
Purchase value (€)	1,07420	1,0850	1,09585	1,1452	1,1967	1,2003	1,2123
Change	+1,70 %	+1%	+1%	+4,5 %	+4,5 %	+0,3 %	+1%
Service value (€)	0,04378	0,04421	0,04465	0,04465	0,04474	0,04487	0,04532
Change	+1,70 %	+1%	+1%	0 %	+0,2 %	+0,3 %	+1%

Source – ERAFP.

15. The economic coverage ratio corresponds to the relationship between, on the one hand, bonds valued at amortised cost and all other assets at market value and, on the other hand, the technical and investment management reserve.

**RENEWAL OF THE
INDEPENDENT
AUDITORS' TERM
OF OFFICE FOR THE
2017–2022 PERIOD.**

DISCOUNT RATE APPLIED TO RESERVES

The Scheme's discount rate applied to reserves is set at a very conservative level, particularly compared with those used by other European pension funds. It takes into account the decline in bond yields seen in recent years.

As a result of changes in the investment regulatory framework in 2016, which enable the Scheme to further diversify its asset allocation, certain parameters of the discount rate formula were updated in 2016, notably by including a conservative, flat-rate return for equities and gradually phasing out the dilution effect of contributions. These adjustments relied on observation of the income generated by the equities in ERAFP's current portfolio and by past investments, while maintaining a prudential margin.

The discount rate (net of fees) used to value the technical reserve at 31 December 2017 was set at 0.7%, down by 10 points compared with 2016, due in particular to the continuing low bond yields.

The regulatory minimum level of management fees is 0.25%. This minimum level is used in the discount rate formula in order to reflect the economic realities faced by the Scheme¹⁶. The discount rate gross of fees consequently came to 0.95%.

TECHNICAL INTEREST RATE, OR "PREMIUM RATE"

On the Scheme's inception, the initial annuity was calculated on the basis of a technical interest rate (premium rate) net of inflation set at 1.34%, reflecting a return on reference assets of 3.34%. The real return of 1.34% was determined based on a long-term inflation rate of 2%, corresponding to the ECB's maximum target rate.

These parameters are no longer in line with current economic and financial conditions. The Scheme's premium rate has therefore been revised to make it consistent with market rates by increasing the purchase value in 2015 and 2016 and raising the pivotal age for applying the premium¹⁷. The technical return resulting from these changes is equivalent to that obtained by setting the premium rate at 0.90%.

AUDITED FINANCIAL STATEMENTS

The 2016 financial statements were approved by the board of directors at its meeting of 27 June 2017, in accordance with the agreed timetable.

On this occasion, after auditing the reserves valuation processes, the independent auditors certified the fairness and accuracy of the financial statements without any qualifications.

At the same meeting, the board of directors renewed the term of office of the independent auditors, Grant Thornton and Mazars, for the period 2017-2022

[Insertion here of 2017 financial statements if timing allows.]

16. See "Management costs" on page 16.

17. The guidelines provide for an immediate revision of the Scheme's premium rate if, at the end of a financial year, the discount rate gross of fees is lower than the premium rate.

ASSET ALLOCATION: GENERAL ORIENTATIONS AND INVESTMENT DECISIONS

GENERAL INVESTMENT POLICY ORIENTATIONS

In 2017, the board of directors sought to continue to diversify ERAFP's investments. Using the room for manoeuvre provided by the changes to its investment regulatory framework in 2015, it decided on the following general investment policy orientations:

- intensification of ERAFP's financing of the economy, with the launch of mandates for unlisted private equity and infrastructure assets and, depending on opportunities, investments in open-end funds;

- a 2 point increase in the target for variable-income assets, bringing their proportion to 31% of the Scheme's total assets;

- increased international diversification of the portfolio into emerging country corporate bonds denominated in strong currencies, for 0.8% of total assets, and, whenever the opportunity arises, into funds invested in emerging country equities.

On the basis of the increase in the regulatory ceiling for real estate assets in May¹⁸, the board of directors rounded out these orientations with a medium-term real estate strategy, with a stronger emphasis on housing investment through a target allocation of 33% of total real estate assets within the next few years.

ERAFP's investment policy aims to combine financial performance, risk management and

socially responsible commitment within a strategic asset allocation approved by the board of directors.

In 2017, ERAFP continued to acquire the tools and resources needed to invest in new asset classes while simultaneously extending its SRI approach.

IMPLEMENTATION OF THE INVESTMENT POLICY

Orientations

Net investments across all asset classes increased by around €1.85 billion in 2017.

Bonds (including convertible bonds) accounted for 25% of investment inflows, i.e. €458 million, of which nearly all was invested in corporate bonds. As for government bonds, given the limited opportunities for a sufficient return, sales and redemptions exceeded purchases. Equity investments accounted for most flows (52%), for a total of €964 million. The real estate segment continued to receive substantial investment, accounting for 23% of flows at €420 million. Some €50 million was invested in the multi-asset fund, i.e. 3% of flows, while unlisted private equity and infrastructure funds attracted more than 6% of investments, at €118 million. The investment opportunities in these different asset classes enabled ERAFP to withdraw some of the cash placed temporarily in money market funds, for €156 million, representing an outflow of 8% of total assets.

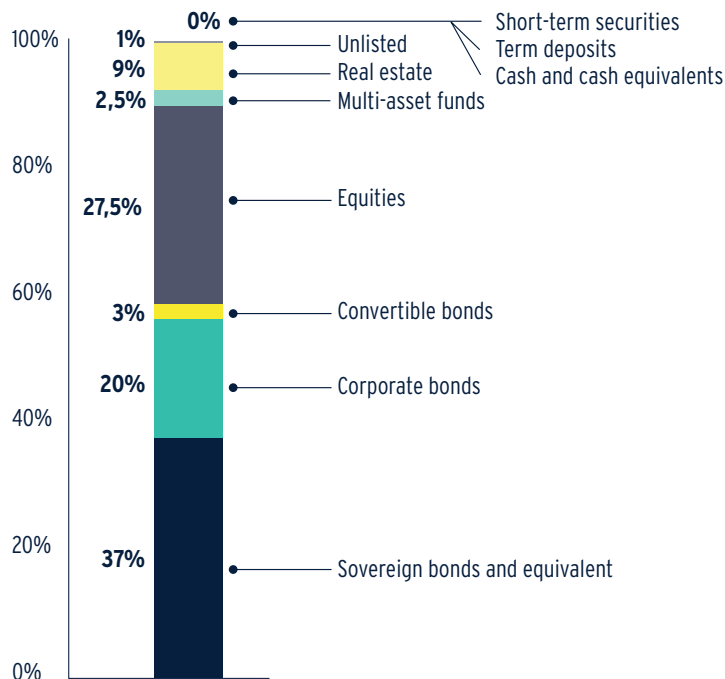
18. The statutory order of 5 May 2017 amending the statutory order of 26 November 2004 implementing decree no. 2004-569 of 18 June 2004 on the public service additional pension scheme increased the holding limit for real estate assets from 10% to 12.5% of total assets.

INVESTMENT FLOWS BY ASSET CLASS IN 2017

Assets	2017 investments	
	In millions of €	As a percentage
Bonds	457,6	24,7 %
Equities	936,9	52,0 %
Multi-asset	50,0	2,7 %
Unlisted and other funds	117,8	6,4 %
Real estate	420,2	22,7 %
Money market	-155,7	-8,4 %
Total	1 853,8	100 %

Source – ERAFP.

BREAKDOWN OF THE OVERALL PORTFOLIO BY ASSET CLASS AT 31 DECEMBER 2017



Source – ERAFP.

At the beginning of 2017, the portfolio of euro-denominated public and private sector bonds represented 62% of the Scheme's assets. ERAFP invests for the long term and aims to hold its bond investments until maturity. Most divestments are in the context of arbitrage transactions to improve asset-liability matching or, more marginally, to take advantage of specific market situations. ERAFP is therefore required to limit purchases of securities the returns on which would materially reduce the portfolio's average yield or which present a high default risk.

Operations

Pursuant to the applicable regulations, the majority of management is delegated to asset management companies.

For delegated management, using multi-manager mandates means that financial risk can be spread across a number of service providers; this is a prudent choice in the management of assets administered on behalf of beneficiaries.

Other than for the euro-denominated corporate bond mandates, each of the asset management companies has created a dedicated investment fund, in which ERAFP invests based on market conditions in accordance with a fully internal investment process. Investments are made in each fund based on its overall performance and ERAFP's investment strategy.

In 2017, ERAFP launched two financial tenders:

— on 16 May, with a view to awarding mandates to manage residential real estate assets in France;

— on 5 December, with a view to awarding mandates to manage hedging of the foreign exchange risk on its assets, with the specific aim of coordinating currency hedging for ERAFP's portfolio and limiting its exposure to foreign currency risk in a context of international diversification.

In connection with previously launched tenders, ERAFP:

- awarded an unlisted private equity asset management mandate to **Access Capital Partner** and an unlisted infrastructure asset management mandate to **Ardian France SA**, on 10 January;

- renewed the European equity mandates on 6 April, awarding seven active mandates to **Allianz GI, Amundi, AXA Investment Managers Paris, BFT IM - Montanaro AM, Candriam, EDRAM and Mirova**, and nine standby mandates to **Comgest SA, CPR AM, La Financière de l'Échiquier, Kempen Capital Management, Mandarin Gestion, NNIP, Ofi AM, Sycomore and THEAM**;

- activated the standby mandate entrusted to **Sycomore** for the management of a portfolio of euro-zone listed mid and large cap equities, on 26 July;

- activated the standby mandate entrusted to **Ofi AM** for the management of a portfolio of euro-zone listed mid and large cap equities, on 19 September.

At the end of the year, on ERAFP's behalf:

- three companies (**Amundi, La Banque Postale AM and Natixis AM**) were managing euro-denominated corporate bonds;

- one company (**AXA Investment Managers Paris**) was managing US dollar-denominated corporate bonds;

- two companies (**Schelcher Prince Gestion and Lombard Odier Gestion**) were managing convertible bonds, one under a European mandate and the other under an international mandate;

- seven companies (**Allianz GI, Amundi, AXA Investment Managers Paris, EDRAM, Mirova, Ofi AM and Sycomore AM**) were managing euro-zone listed mid and large cap equities;

- one company (**Candriam**) was managing European listed mid and large cap equities;

- one consortium (**BFT IM - Montanaro AM**) was managing European listed small and mid cap equities;

- two companies (**Sycomore AM and Amiral Gestion**) were managing French listed small and mid cap equities;

- two companies (**Natixis AM and Robeco Institutional Asset Management**) were managing North American listed large cap equities;

- two companies (**Comgest SA and Robeco Institutional Asset Management**) were managing Pacific-region listed large cap equities;

- one company (**Amundi**) was managing a multi-asset portfolio;

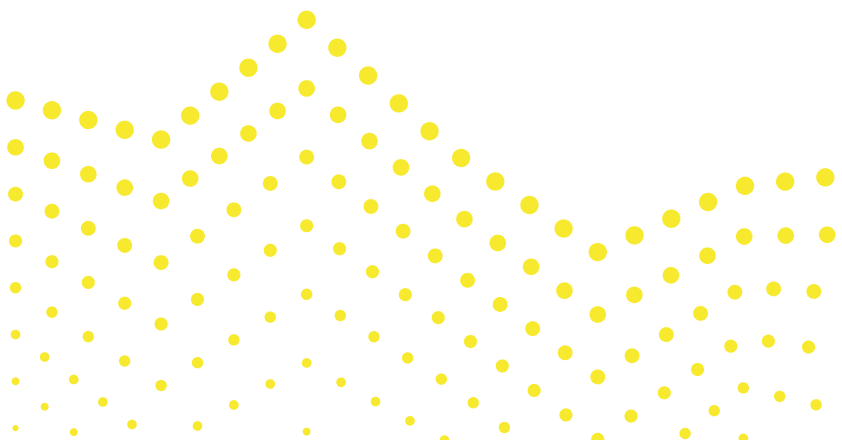
- one company (**Access Capital Partner**) was managing a portfolio of unlisted private equity assets;

- one company (**Ardian Capital SA**) was managing a portfolio of unlisted infrastructure assets;

- two companies (**AEW Europe SGP and La Française REM**) were managing French real estate assets;

- two companies (**AXA Real Estate Investments Managers SGP and LaSalle IM**) were managing European real estate assets.

RENEWAL OF THE
EUROPEAN EQUITY
MANDATES.



FINANCIAL AND SOCIAL PERFORMANCE OF INVESTMENTS

— While ERAFP's primary objective is to provide a sufficient return for beneficiaries of the additional pension scheme, its investment policy "factors in the necessity to respond to the most urgent economic needs" (foreword to the SRI Charter).

— Convinced of the link between long-term profitability and social responsibility, the board of directors has set itself the objective of developing

the measurement of the effective environmental, social and governance impact of its investments.

— Given the difficulty of defining synthetic indicators comparable to those for financial performance, for the time being the impact of investments can be assessed by a number of "social productivity" components, such as the development of the economy, particularly

SMEs and innovation, and the financing of green infrastructures.

— Subsequently, although it is not easy to establish a correlation between investment choices and concrete socio-economic impacts, with the development of new tools it will be possible to determine estimates of resulting job creations or improvements to housing access.

As a long-term investor, ERAFP seeks to invest its annual cash inflows to optimise the returns on its portfolio while keeping risk at an acceptable level for the Scheme. In 2017, the internal rate of return¹⁹ for the portfolio as a whole was 5.5%. This return reflects the stock market performance of ERAFP's portfolio and was higher than in the previous year, when it came to 5.0%. The yield to maturity, meanwhile, came to 2.6% (2.2% in 2016).

Longer-term return: performance calculated over three and five years

Although annual performance is a useful indicator, it is reasonable to assume that the closer the performance calculation period is to the length of commitments, the more relevant the information produced from that calculation will be.

If we consider a longer period than the past year, we can see that the portfolio's annualised internal rate of return came to 4.8% in market performance terms over three years, and to 6.6% over five years. Meanwhile, the yield to maturity came to 2.8% over the last three years and 3.1% over the last five years.

Since 1st January 2015

Annualised IRR at 31 December 2017		
	Yield to maturity	Market valuation
ERAFP	2,8 %	4,8 %

Since 1st January 2013

Annualised IRR at 31 December 2017		
	Yield to maturity	Market valuation
ERAFP	3,1 %	6,6 %

19. The internal rate of return (IRR) is a measure of the relevance of portfolio allocation choices. It differs from performance in that it takes into account the timing of investment and divestment flows or, in the case of delegated asset management, subscriptions and redemptions.

Given ERAFP's policy of holding these securities until maturity, the stock market performance of euro-denominated government and corporate bonds is a less useful indicator than their yield to maturity. For an average duration of 6.8 years, the average yield to maturity on the euro-denominated government and corporate bond portfolio at the end of 2017 was 3.54%²⁰, slightly down from the previous year (3.66%).

For the rest of the portfolio, stock market performance gives an indication of the returns generated during the year, although it is preferable to assess it over a longer period.

The equity portfolio performed well, at 13.1%, higher than in 2016 (6.2%) in a very favourable market environment. The performance of dollar-denominated corporate bonds was also positive (4.8%), up slightly compared with 2016 (4.0%) against a contrasting backdrop of monetary tightening and risk premium reduction. The performance of convertible bonds (5.5%) improved notably thanks to a more favourable environment than last year (0.7%). The multi-asset portfolio's performance continued to improve (11.1%) compared with 2015, when it had generated a 4.2% return, reflecting the upward trend in variable-income asset classes. The real estate portfolio's performance came to 4.2%, up from 2016 (0.3%) due to the buoyancy of the real estate markets in which ERAFP invests.

ANNUALISED INTERNAL RATE OF RETURN BY YIELD TO MATURITY AND MARKET VALUATION AT 31 DECEMBER 2017

	Annualised IRR at 31 December 2017	
	Yield to maturity	Market valuation
Cash	-0,3 %	-0,3 %
Government bonds and similar	3,9 %	1,0 %
Euro-denominated corporate bonds	3,0 %	3,1 %
US dollar-denominated corporate bonds	0,2 %	4,8 %
Convertible bonds	0,0 %	5,5 %
Euro-zone equities	1,7 %	12,2 %
International equities	0,9 %	16,0 %
Multi-asset	0,0 %	11,1 %
Real estate	1,7 %	4,2 %
Overall portfolio	2,6 %	5,5 %

Apart from for the unlisted portfolio, which was started up later, the internal rate of return on the portfolio's various variable-income asset classes was calculated over three years, giving a longer-term view of stock market performance.

ANNUALISED INTERNAL RATE OF RETURN OVER THREE YEARS BY MARKET VALUATION AT 31 DECEMBER 2017

	Annualised three-year IRR
Money market	-0,2 %
Government bonds and similar	2,6 %
Euro-denominated corporate bonds	2,6 %
US dollar-denominated corporate bonds	3,1 %
Convertible bonds	3,5 %
European equities	9,9 %
International equities	12,1 %
Multi-asset	5,6 %
Real estate	3,5 %

20. With an inflation rate of 2% - 3.23% without inflation.

Portfolio view by destination

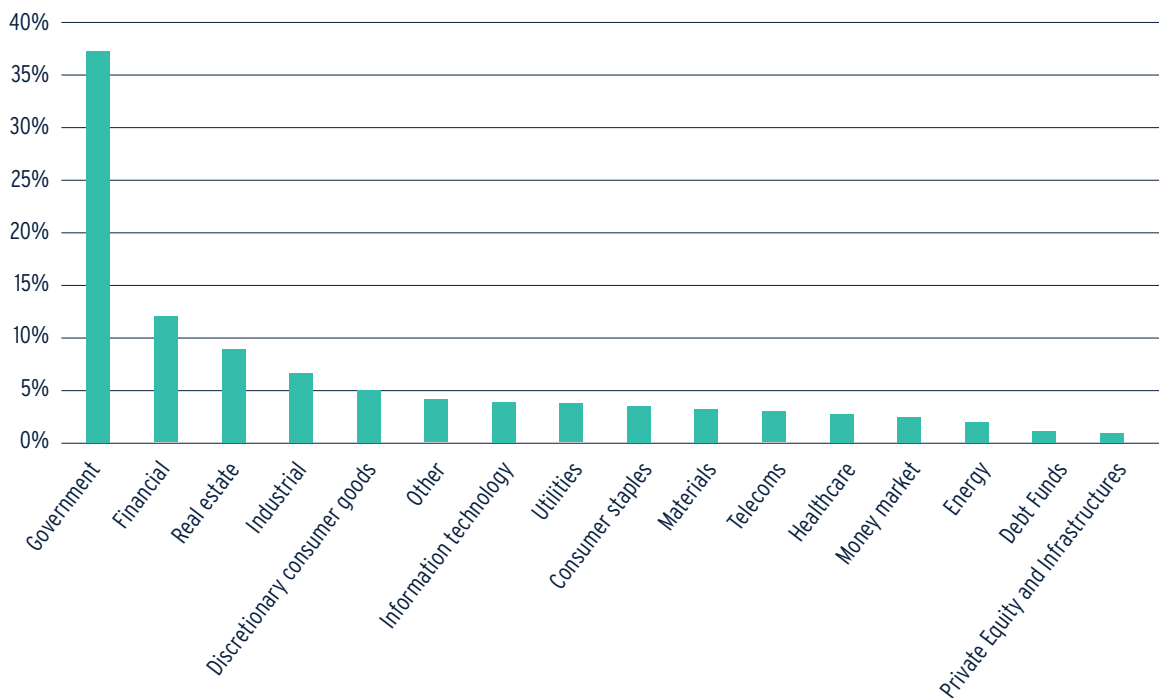
An initial way to complement the view of financial performance by asset class is to develop an allocation view by destination, by assessing what investments in the economy ultimately finance. This was done for the consolidated portfolio for the first time in 2017, with interesting results.

Local and regional authority public sector bond issues have traditionally formed the core of ERAFP's portfolio, and public sector financing therefore remains predominant. Beyond that, there is a good level of diversification.

Investment amounts also depend on issuance volumes in the various business sectors. Banks and the financial sector as a whole are active issuers, which is reflected in the breakdown of investments. Conversely, the smaller transaction volumes in unlisted assets limit investments in private equity and infrastructure assets, although they are increasing.

These initial assessment criteria remain very general in scope, offering no direct information on investments' social productivity. They can usefully be supplemented by more specific indicators, further segmenting the portfolio geographically based on the type of instruments and issuers financed.

BREAKDOWN OF ERAFP'S PORTFOLIO BY SECTOR DESTINATION AT 31 DECEMBER 2017 (AT AMORTISED COST)



TWO PRIORITIES: DEVELOPING THE FRENCH ECONOMY AND FINANCING SMES

ERAFP's investments in France: long-term financing of the economy

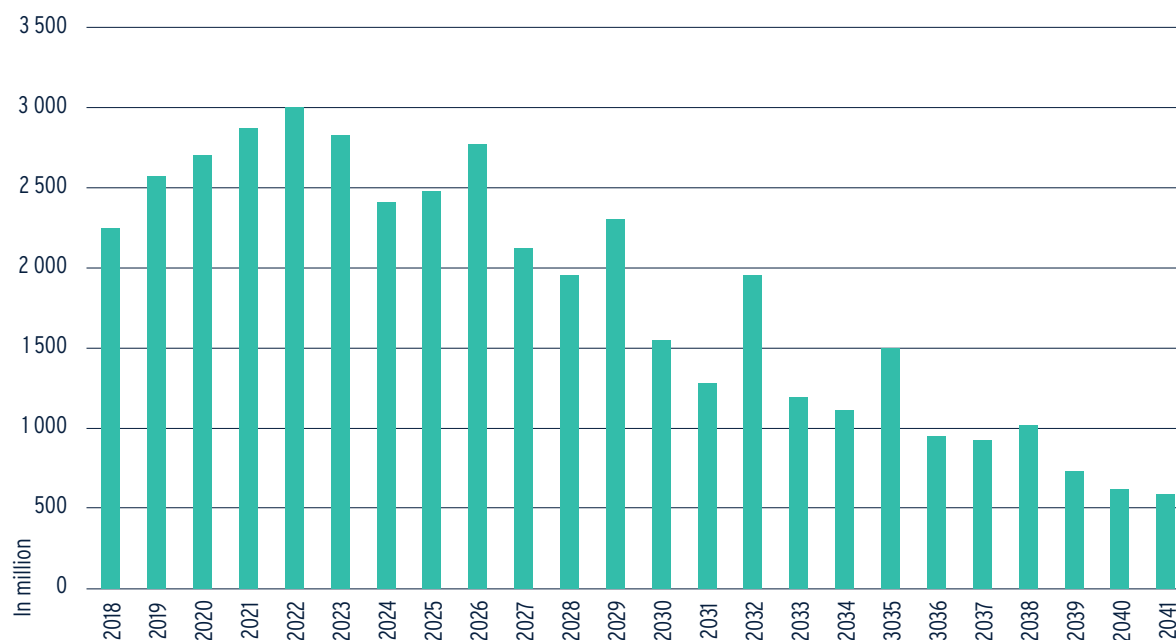
The public financial sector can serve as a relay when economic players' access to credit becomes tighter as a result of an economic slowdown²¹. ERAFP is able to perform this countercyclical function. Because it is still only at the beginning of its expansion phase, the additional pension scheme will generate an average positive net cash flow of at least €2 billion in each of the next ten years. It is therefore in the unusual position of being able to support the organisations in which it invests over the long term.

Unlike banks, which use transformation to convert short-term sources into funding for longer-term applications, by its nature the Scheme has access to ultra-long-term funding. It is therefore free from short-term management constraints and can hold portfolio securities for long periods of time.

This high liquidity is a strategic advantage in financing long-term investment projects, or even very long-term, more structural projects such as extensions to infrastructure networks and developing innovation and small enterprises.

In 2017, ERAFP provided €10.5 billion of financing to the French economy, in the broad sense, representing 44% of its total assets at amortised cost.

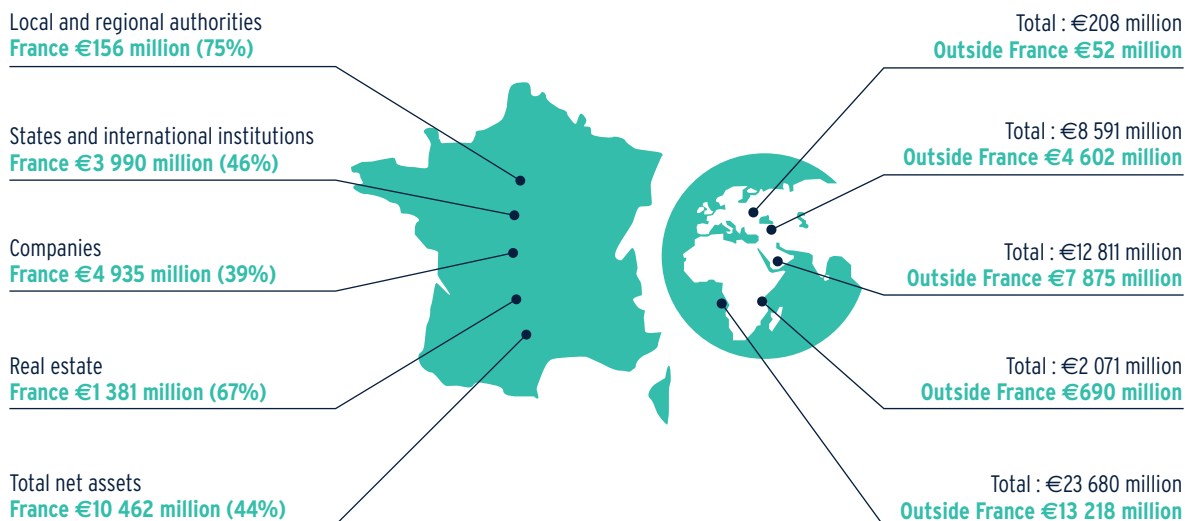
ERAFP'S FORECAST NET LONG-TERM INVESTMENT FLOWS*



Source – ERAFP.

* Contributions, redemptions and bond coupons, less benefits - excluding reinvestment of maturing bonds (conservative view).

21. L'État et le financement de l'économie ("The State and the financing of the economy"), thematic report by the Cour des Comptes (Court of Auditors), July 2012.

INVESTMENTS IN FRANCE AND GLOBALLY BY ASSET CLASS AT 31 DECEMBER 2017 (AT AMORTISED COST)


Source – ERAFP.

Investments in SMEs: propagating innovation throughout the economy

European SMEs have seen their access to financing deteriorate in the years following the major credit contraction of 2008-2009²². And yet financing these investments, which have a material impact on employment and the economy's capacity for innovation, is a key way of generating economic growth²³. In 2016, there was a continued lack of private equity financing in France²⁴.

ERAFP contributed nearly €1.2 billion to the financing of European SMEs in 2017, double the amount invested in 2016 (approximately €580 million). ERAFP is involved at various stages of the development of SMEs and intermediate-sized enterprises (ETI):

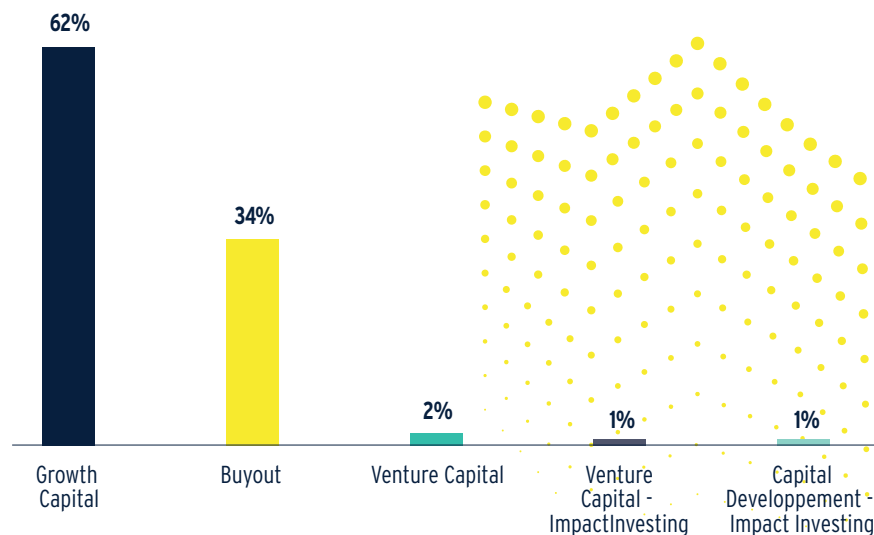
- it invests in listed SMEs and ETIs through the management mandates awarded to Amiral Gestion, BFT IM - Montanaro AM and Sycamore AM;
- it contributes to the financing of unlisted SMEs and ETIs through loan securitisation funds in which it invests directly or through the management mandates held by Amundi, La Banque Postale AM and Natixis AM;
- it makes private equity investments in unlisted SMEs directly through open-end funds, the management mandate awarded to Access Capital Partner and the multi-asset mandate held by Amundi.

22. Source: OECD *Le financement des PME et des entrepreneurs* ("The financing of SMEs and entrepreneurs"), key indicators, 2013.

23. Source *The French Council of Economic Analysis, Une stratégie PME pour la France* ("An SME strategy for France"), 2006 report.

24. *Cour des Comptes* (Court of Auditors), *L'État actionnaire* ("The shareholder State"), thematic report, January 2017).

BREAKDOWN AT 31 DECEMBER 2017 BY PRIVATE EQUITY SEGMENT OF THE PRIMARY MUTUAL FUNDS IN WHICH ERAFP INVESTS DIRECTLY(AT AMORTISED COST)



Source – ERAFP.

The “transmission belt’ channelling innovation into the production system, private equity operates at a number of stages of company development:

- it enables young start-ups to deploy a strategy, through minority equity interests in the form of venture capital;
- it helps existing companies to grow, through minority equity interests in the form of growth capital;
- and, more specifically for existing companies, it takes control of them.

Private equity is an effective conduit for so-called impact investment, which factors in social objectives such as developing activity and jobs in disadvantaged areas, meeting the basic needs of so-called vulnerable populations, promoting sustainable consumption models and sharing value creation with stakeholders.

The SSE, a source of impact for the patient investor

As an extension of impact investing, ERAFP finances the social and solidarity economy, a sector dedicated to social utility which is organised along cooperative and mutual lines.

ERAFP has invested €5 million in the NovESS social and solidarity economy fund, the purpose of which is to help socially innovative businesses in the fields of health, the circular and collaborative economy and the energy and environmental transition. Launched with a call for public interest by Caisse des Dépôts, for which Mandarinne Gestion and Comptoir de l’Innovation were selected in 2016, it aims to raise €100 million, which will be invested over a 15-year period, for an expected return of around 2%.

**PRIVATE EQUITY,
A “TRANSMISSION
BELT” CHANNELLING
INNOVATION.**

The NovESS fund has a social impact monitoring and measurement tool, MESIS, which uses cross-cutting and sector-specific indicators to tangibly assess each project's impact. This methodology is an emerging benchmark for the French social impact investment sector.

It combines generic indicators such as the number and quality of jobs created, the number and profile of beneficiaries, and positive externalities, with sector-specific indicators such as the number of hectares of land under organic farming, the number of beneficiaries without qualifications or the costs avoided in terms of health spending.

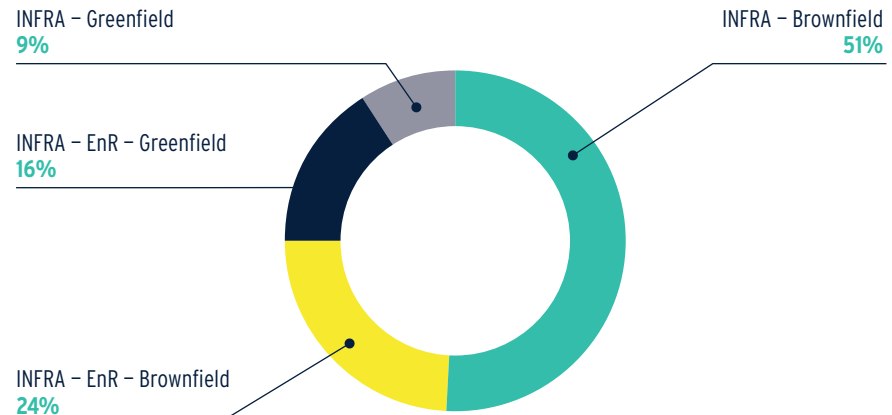
OTHER SOCIAL AND ENVIRONMENTAL PRODUCTIVITY FACTORS

Financing network and energy transition infrastructures

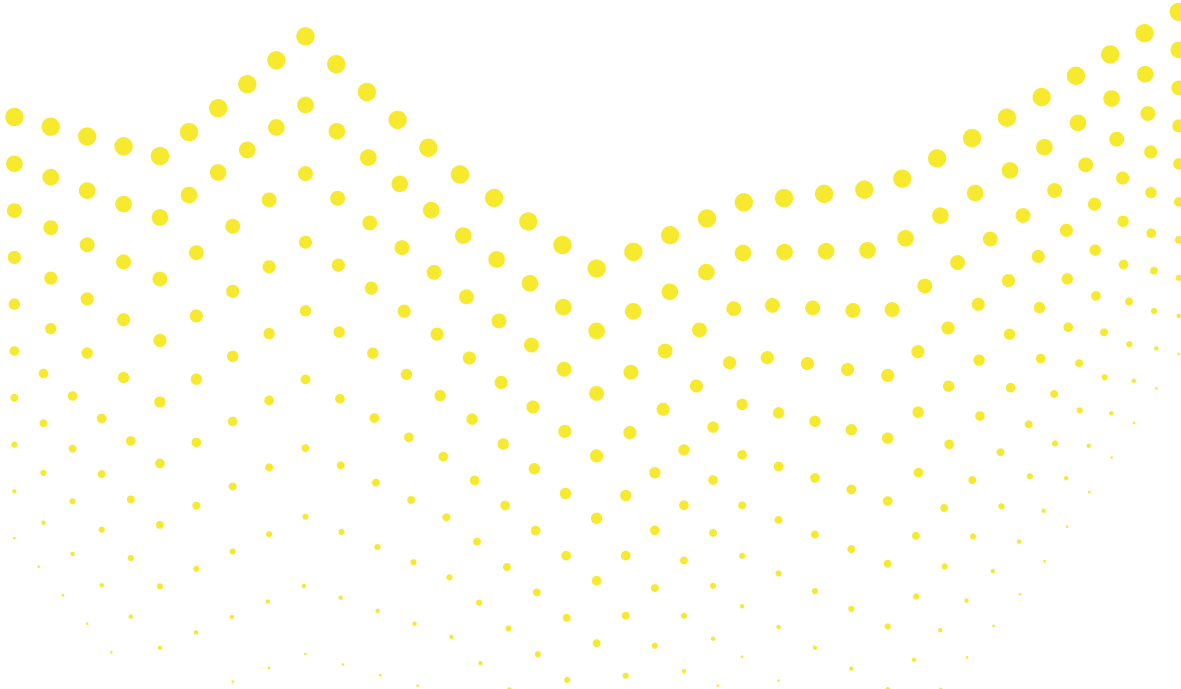
Infrastructure deployment also meets populations' socio-economic needs, in particular through connections at the European level. ERAFP invested €234 million in this area in 2017.

Again, investment here takes place at several stages, whether in infrastructures that are already built and operational (Brownfield) or ones still at the planning or construction stage (Greenfield).

BREAKDOWN AT 31 DECEMBER 2017 BY INFRASTRUCTURE TYPE OF THE PRIMARY MUTUAL FUNDS IN WHICH ERAFP INVESTS DIRECTLY (AT AMORTISED COST)



Source - ERAFP.



40% of investments subscribed directly by ERAFP finance renewable energy projects, the development of which is necessary for the transition to a low-carbon economy. The facilities that ERAFP has helped finance generated 156 GWh of electricity in 2017, of which 135 GWh of wind power and 19 GWh of solar power. As some projects are still under construction, the related production is expected to increase significantly in the coming years.

Financing intermediate housing for the benefit of public sector employees

ERAFP has invested €60 million in the FLI intermediate housing fund launched in 2014. The Scheme holds a priority information right for its share in the fund, which represents 550 housing units, enabling it to have these units allocated to public sector employees having difficulty finding housing. Intermediate housing is designed to facilitate access to housing in areas where rents are high in relation to disposable incomes. By offering rents at a discount to market rates, it represents a mid-way solution between private and social housing for people with incomes higher than the social housing threshold.


Following the signing of an initial agreement with the French directorate general for administration and public service (DGAFP), the first housing applications for central government employees in the Île-de-France region were submitted in 2017, resulting in the signing of 16 leases by 31 December 2017.

More units are scheduled for delivery over the course of the next three years, which will raise awareness about this initiative and enable it to be rolled out to other regions as well as to the public sector hospital and local and regional authority segments. The launch of a mandate to manage residential real estate assets, for investments starting at €200 million, will increase the volume of housing offered through this initiative.

**THE FACILITIES THAT
ERAFP HAS HELPED
FINANCE GENERATED
156 GWH OF
ELECTRICITY IN 2017.**

3.

A RENEWED SRI CHARTER FOR A POLICY ADAPTED TO NEW CHALLENGES



In accordance with the recommendations of article 173 of the law on the energy transition for green growth, which is of particular importance for French institutional investors, this section is structured as follows:

- presentation of the general environmental, social and governance (ESG) approach;
- ESG information provided to contributors;
- ESG analysis method;
- impact of the ESG approach on the implementation of the investment policy, asset class by asset class;
- engagement strategy and related initiatives.

The G20 Task Force on Climate-related Financial Disclosures (TCFD) also produces recommendations to help companies take into account climate challenges, and ERAFP strives to implement these too.

ERAFP's implementation of TCFD recommendations

— **Governance:** the TCFD focuses on the consideration by management bodies (the board of directors and management in ERAFP's case) of climate change risks and opportunities.

Initiatives in 2017 included the training offered to directors and management on the methods and challenges of climate alignment, as well as a study day in October that brought together ERAFP's board members and management to discuss portfolio-related climate risks and opportunities, alongside the bodies specifically tasked with discussing these topics.

— **Strategy:** the TCFD and article 173-VI are aligned in this area, calling on companies to describe the risks to which they are exposed, how these risks impact their strategy and how they change their strategy accordingly (and notably how consistent the investment policy is with climate change mitigation objectives).

During the October study day, a risk and opportunities chart was presented to the directors, reviewing the implementation of changes to the SRI Charter and how they were reflected in the investment policy.

— **Risk management:** the TCFD underlines the importance of describing the processes put in place to target risks and integrating them into the company's risk management.

The strategic management implemented by ERAFP includes monitoring its asset management companies' initiatives to take into account climate-related risks. Work to develop the most appropriate measurement tools for this is ongoing.



THE SRI CHARTER

ERAFP'S BOARD OF DIRECTORS RESOLVED ON 10 NOVEMBER 2005 TO ADOPT AN INVESTMENT POLICY THAT TAKES INTO ACCOUNT, RESOLUTELY AND PERMANENTLY, THE PURSUIT OF THE PUBLIC INTEREST. ADOPTED IN MARCH 2006, THE CHARTER SPECIFIES THE ORIENTATIONS, TOOLS AND RESOURCES NEEDED TO APPLY THIS SOCIALLY RESPONSIBLE INVESTMENT POLICY.

IN 2017, THE NEW SRI CHARTER WAS IMPLEMENTED

In 2016, ten years after ERAFP's board of directors had adopted an SRI charter, the Scheme had sufficient objectivity to review its implementation. Given the growing importance of certain issues (rapid climate change, social risks

in the supply chain, the fight against tax havens, the fight against discrimination, etc.), ERAFP sought to review its SRI system in order to better take into account the extra-financial impacts of its investments.

Following the revision of its SRI Charter, in 2017 ERAFP set about implementing its new SRI policy guidelines by updating its corporate SRI knowledge base, with the main objectives of:

- incorporating new indicators reflecting the most important extra-financial challenges for companies today;
- adapting its criteria weighting system to base the ESG assessment on the most tangible challenges for each sector;
- refining its segmentation in order to improve the comparability of issuers in the same sector.

Overall, the changes made led to a fall in the SRI ratings both of companies in ERAFP's portfolio and of European and Pacific region benchmark indices, as well as a slight increase for North American companies.

EXTRACTS FROM THE FOREWORD TO THE UPDATED VERSION OF 18 OCTOBER 2016.

"SINCE 2005, THE CONTEXT HAS CHANGED [...] WITH CERTAIN ISSUES HAVING BECOME EVEN MORE URGENT. THE FOLLOWING NEED TO BE TAKEN INTO GREATER CONSIDERATION: RAPID CLIMATE CHANGE, SOCIAL RISKS IN THE SUPPLY CHAIN, THE FIGHT AGAINST TAX HAVENS, THE FIGHT AGAINST DISCRIMINATION, ETC."

The SRI rating changes are attributable to two major factors:

Changes in the assessment criteria

Generally speaking, the integration of new criteria has tended to have a negative effect on issuers' ESG ratings, as companies have yet to provide much information about or act on these criteria. This negative effect was more pronounced for European issuers, which were better rated initially, than for North American and Pacific region issuers. At the same time, the reduction in weighting of certain indicators, in particular social criteria for which European companies provide a lot of information, also tended to have a more negative effect on European ratings than on ones from the other regions.

Changes in weightings allocated to each value area

The adaptation of the criterion weighting system, aimed at assigning a different weighting based on the importance of the underlying issue in light of the nature of the issuer's activity, resulted on average in an increase in the weighting of the "good governance and transparency" and "environment" value areas.

GENERAL ESG APPROACH

THE SCHEME'S SRI APPROACH IS ORIGINAL IN A NUMBER OF RESPECTS:

- the board of directors has defined its own SRI guidelines. While the board of directors and management naturally enlisted the services of outside providers such as consultants and rating agencies, it was the board itself that defined guidelines tailored to the directors' requirements and values, and placed them under their permanent supervision;
- the policy's content is "100% SRI", in other words the SRI Charter applies to all of the Scheme's investments and takes into account the specific features of each asset class.

THE SCHEME'S SRI APPROACH IS COMPREHENSIVE:

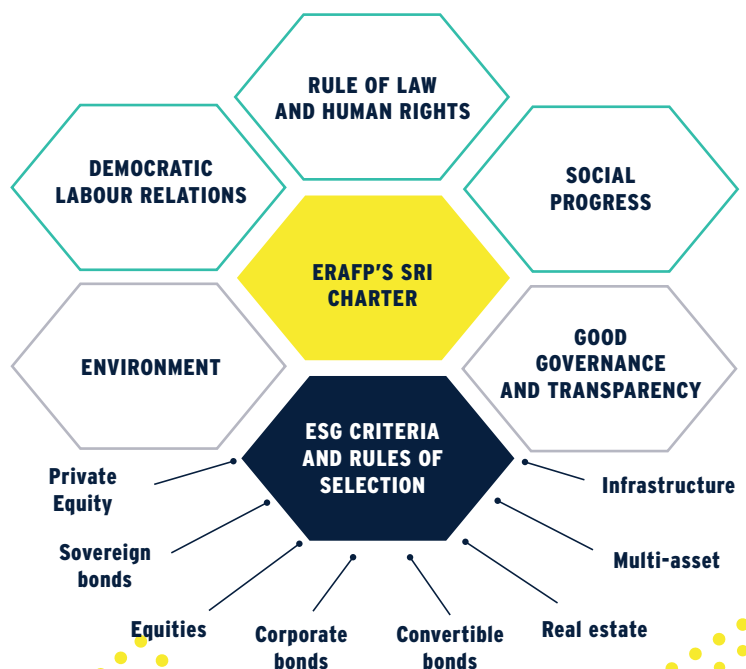
- not only does it concern all of the Scheme's investments but it also applies to all the investment phases, from the first stage of asset allocation to the post-investment stage of monitoring the companies whose securities are included in the portfolio;
- it is based on a wide, cross-cutting selection of stocks rather than a large number of single-themed sub-portfolios.

For an investor of ERAFP's size, that wishes to adopt a uniform approach for all of the asset classes in which it invests, the best in class approach seems the most appropriate, as it focuses on the links between the various considerations and the various issuers rather than tackling each challenge in isolation. Conversely, it might seem inconsistent to exclude certain business sectors completely given that the portfolio includes issuers from other sectors or other asset classes that have direct links to the excluded sectors.

The application of the best in class principle results in the inclusion in the guidelines of quantitative rules that make it possible to determine the eligible investment universe. These rules are defined for each asset class with the aim of encouraging each one to improve. Generally speaking this means:

- excluding no business sector, but promoting the issuers with the best ESG practices within each sector and, more generally, within groups of comparable issuers;
- showcasing progress made;
- monitoring and supporting issuers that have adopted a continuous improvement approach.

AN SRI CHARTER BROKEN DOWN INTO EVALUATION CRITERIA FOR THE VARIOUS ASSET CLASSES



ESG INFORMATION PROVIDED TO CONTRIBUTORS

Since ERAFP's inception, its socially responsible investment policy has been developed through the proactive initiatives of its board of directors, on which the Scheme's active contributors are represented by union organisations, alongside contributing employers from the public sector.

Reporting to contributors on the implementation of environmental, social and governance criteria in issuer selection is therefore one of the very principles underlying the SRI policy.

In recent years, public expectations have increased as regards investors' role in the transition towards a carbon-free economy. Based on this observation, ERAFP has decided to raise the profile of its action and, through the public domain, communicate directly with its 4.5 million active contributors. These contributors are also citizens concerned about such issues as the climate, and ERAFP intends, through this channel in particular, to draw their attention to the need to take into account the social and environmental consequences of the investments made for them and from which they benefit.

Every year, ERAFP publishes this public report, in which it describes its socially responsible investment approach and the integration of environmental, social and governance criteria in the various stages of issuer selection.

In 2017, in addition to the section dedicated to SRI on its institutional website, which is regularly updated based on current events, ERAFP made regular posts to "le Regard de l'ERAFP". This site is intended to relay information in blog format about responsible investment and the energy transition.

ERAFP promotes and offers to explain in detail its SRI policy when it meets public sector employers, an example of this being through trade shows.

This report, along with the initiatives launched to align the investment portfolio with international global warming limitation objectives, are also initial tools for exchanging with the organisations that most actively lobby institutional investors to factor climate considerations into their decisions.

In 2017, ERAFP also broadcast two videos on SRI targeting the general public. The first, entitled L'ISR à l'ERAFP ("SRI at ERAFP"), shows how it implements its socially responsible approach and what sets this approach apart. It released the second, L'ERAFP et le climat ("ERAFP and the climate"), online during September's SRI Week, under the sponsorship of the Responsible Investment Forum (FIR).

ERAFP has a very long-term responsibility towards its contributors and beneficiaries. Global warming represents - among other things - risks for issuers and the investors that finance them. Driven by its fiduciary duty towards its contributors, ERAFP actively seeks to raise the awareness of the various stakeholders about the importance of changing economic structures with a view to decarbonisation.

➔ FOR MORE INFORMATION



SRI at ERAFP

➔ FOR MORE INFORMATION



to Le Regard de l'ERAFP

ESG ANALYSIS METHOD

ADHERENCE TO CODES OR INITIATIVES

The financial sector can only adopt a longer-term vision in its practices and systematically take into consideration environmental, social and governance factors if responsible investors work together to influence the sector as a whole.

With this in mind, in 2006 ERAFP became a signatory of the United Nations' Principles for Responsible Investment (PRI), and has duly undertaken to apply each of these principles.

THE SIX PRINCIPLES FOR RESPONSIBLE INVESTMENT

1. Take environmental, social and governance (ESG) criteria into consideration in their investment analysis and decision-making processes;
2. Be active investors and take ESG criteria into consideration in their shareholder policies and practices;
3. Request entities to publish appropriate information about ESG matters;
4. Encourage the acceptance and application of the Principles by asset managers;
5. Work together to apply the Principles more effectively;
6. Report on their activities and progress as regards application of the Principles.

Each year, in accordance with the sixth principle, ERAFP completes a questionnaire assessing its implementation of the Principles for Responsible Investment which is sent to the PRI's secretariat and published²⁵.

This report contains - non-exhaustively - the information that illustrates the effective application of these principles.

As well as the PRI, ERAFP has joined other initiatives:

Internationally

— In 2012, the International Investors Group on Climate Change (IIGCC) and the Extractive Industries Transparency Initiative (EITI), which enable it to lobby issuers and regulatory bodies to promote more responsible practices on these two key issues for ERAFP;

— in 2015, the Portfolio Decarbonization Coalition (PDC), a United Nations Environment Programme (UNEP) initiative, and the Carbon Disclosure Project.

In 2017, ERAFP's board of directors also decided to join the Asian Corporate Governance Association (ACGA).

In France

— In 2016, the Responsible Investment Forum (FIR), which promotes SRI and related good practices, in particular by taking public positions;

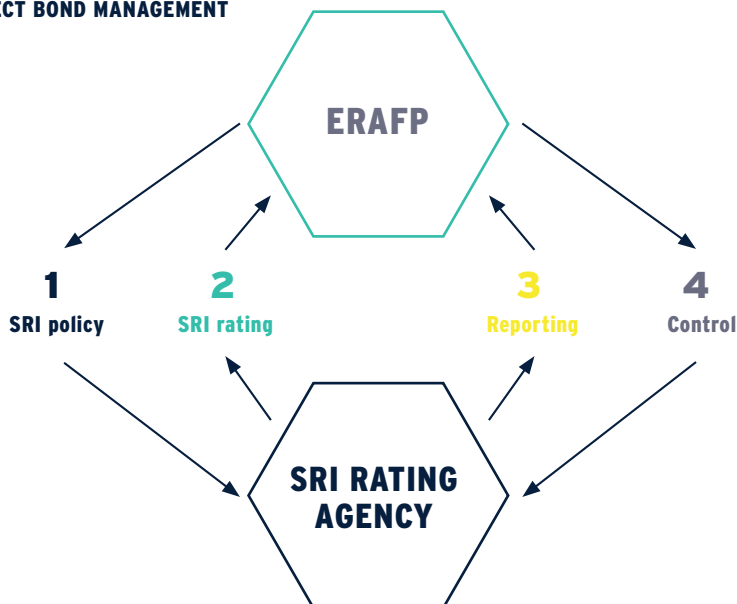
— in 2016, Finance for Tomorrow, a Paris financial markets initiative for green and sustainable finance.

Involvement in this type of initiative results from ERAFP's engagement approach, which is described in more detail on page 81.

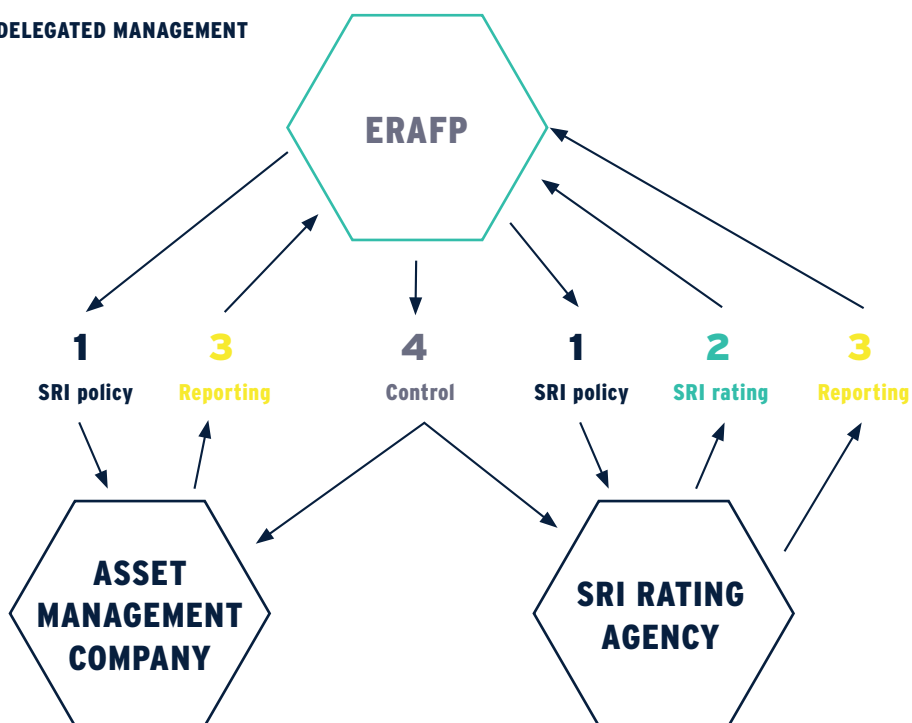
25. <https://reporting.unpri.org/surveys/PRI-reporting-framework-2017/80BCAA11-780F-474B-8997-B82C4FE6287D/79894dbc337a40828d895f9402aa63de/html/2/>.

ROLES OF THE VARIOUS ENTITIES AND CONTROL PROCEDURES

DIRECT BOND MANAGEMENT



DELEGATED MANAGEMENT



1 - SRI policy

- Definition of the investment policy
- Decision regarding any differences of interpretation
- Decisions regarding changes to the Charter and guidelines

2 - SRI rating

- Preliminary SRI data for the management company
- Alerts

3 - Reporting

- Half-yearly reporting
- Regular reporting

4 - Control

- Monitoring of application of the SRI approach controls and requests for corrections of investments
- Reviews of annual reports (managers, branches, committee, etc.)

THE BOARD OF DIRECTORS AND ITS COMMITTEE, CSPP, ERAFP'S MANAGEMENT RATING AGENCIES, AND ASSET MANAGEMENT COMPANIES EACH HAVE THEIR OWN ROLES IN IMPLEMENTING AND CONTROLLING THE SRI-POLICY OF THE SCHEME.

Board of directors (based on the CSPP's work)

The board of directors:

- sets the general orientation of the SRI policy;
- and ensures that it is effectively applied.

To enable it to be truly responsive, the board is kept permanently and fully informed, notably through regular meetings of its investment policy monitoring committee (CSPP).

ERAFP's management

ERAFP's management plays a number of roles:

- it directly implements the SRI guidelines in the area of internal bond management, which, under the Scheme's currently applicable regulations, concerns sovereign and equivalent bonds;
- it ensures that the external asset management companies apply the SRI policy, whether in terms of using the best in class principle for securities selection or applying ERAFP's voting policy at general shareholder meetings;
- it ensures that contracts entered into with the SRI rating agencies are correctly performed;
- it reports to the board of directors and the CSPP on implementation of the SRI policy, and assists directors with the preparation of their work.

Rating agencies

The rating agency - currently Vigeo - is responsible for analysing the asset portfolio and providing detailed half-yearly reports on the bond and equity portfolios for submission to ERAFP.

Asset management companies

The management of asset classes other than sovereign and equivalent bonds is delegated almost exclusively to asset management companies.

At end-2017, ERAFP had 27 dedicated mandates under management with management companies, which were charged with investing on its behalf in listed company shares, corporate bonds, convertible bonds, unlisted companies and real estate. Under these mandates, each management company must comply with ERAFP's SRI guidelines (PRI - Principle 4). ERAFP holds six-monthly investment committee meetings with each of its delegated asset managers to discuss matters such as the mandates' SRI profile.

GENERAL DESCRIPTION OF ESG RISKS

Like many pension funds and insurers, ERAFP makes a commitment to its contributors and beneficiaries lasting decades. Unlike some others, however, ERAFP enjoys a relatively unusual advantage: as a young, mandatory scheme it will benefit from significant net financial inflows (contributions net of benefits paid and investment income), which can be quite accurately forecast, over at least the next 30 years. The Scheme will then assume "cruising speed". While these factors give it a very long-term responsibility with regard to its beneficiaries, they also provide it with the resources to implement a commensurate investment policy. This obligation and the resulting ability to take a very long view are what make ERAFP strive to integrate into its investment policy, in as detailed a way possible, environmental, social and governance criteria.

While the specific ESG factors to take into account vary depending on the category, geographical exposure and activity of the issuer in question, it can be said in general, non-exhaustive terms that:

- a given state's debt is sustainable only if all the conditions for lasting growth are met: an educated, trained population, high-quality infrastructures and controlled environmental impacts;

— a company will only be profitable over the long term if:

- it anticipates its future needs in terms of key skills and trains its employees accordingly;
- puts in place the governance mechanisms needed to carry out its business efficiently, and;
- controls the costs associated with the consumption of natural resources and anticipates future environmental regulations.

Lastly, in analysing issues on a whole-portfolio basis, a universal investor such as ERAFP can only insist on the necessity of adopting a cross-cutting approach. For example, the resources that states need to create the conditions for future growth depend partly on their ability to collect taxes from companies. Similarly, a territory can only attract companies if its population is well educated and trained. Lastly, the quality of life within a country cannot be assessed without taking into consideration the environmental impacts of the economic players that do business there.

SELECTION OF THE MAIN CRITERIA

ERAFP's SRI Charter, which was drawn up as a result of its board of directors' engagement, is based on French public service values. It is applied to all of the Scheme's investments and broken down into more than 18 evaluation criteria adapted to the specific features of each category of issuer. While each issuer's individual context systematically dictates the analysis of these criteria, the Scheme considers some to be key and therefore attributes more weight to them, regardless of the issuer's geographic location or activity. The associated weightings must therefore always remain the same.

THE CHARTER'S 5 VALUES AND 18 CRITERIA

1 - Rule of law and human rights:

- fight against discrimination in all forms, particularly gender bias;
- freedom of conscience and of expression;
- human rights in the workplace;
- fight against corruption and moneylaundering, etc.

2 - Social progress:

- compliance with the fundamental rules of labour law;
- contribution to employment development;
- implementation of forward-looking employment strategies;
- quality of contractual guarantees;
- payroll/shareholder compensation ratio (for companies), etc.

3 - Democratic labour relations:

- respect for freedom of association and the rights of trade unions and employee representatives;
- existence and role of participatory and advisory bodies;
- improvements to health, safety and security conditions in the workplace and creation of health and safety committees (for companies), etc.

4 - Environment:

- prevention of environmental impacts (water, air, waste, etc.);
- management of environmental risks (pollution risks, management of life-cycle impacts of products or services);
- limitation of greenhouse gas emissions;
- preservation of biodiversity, etc.

5 - Good governance and transparency:

- good governance (balance of powers and effectiveness of decision-making and executive bodies, effectiveness of audit and control mechanisms, decision-making process for executive compensation, etc.);
- proper application of legal and tax rules;
- compliance with ethical rules (prevention of anti-competitive practices, etc.);
- open approach to relations with all stakeholders;
- transparency about business operations and financial performance, etc.

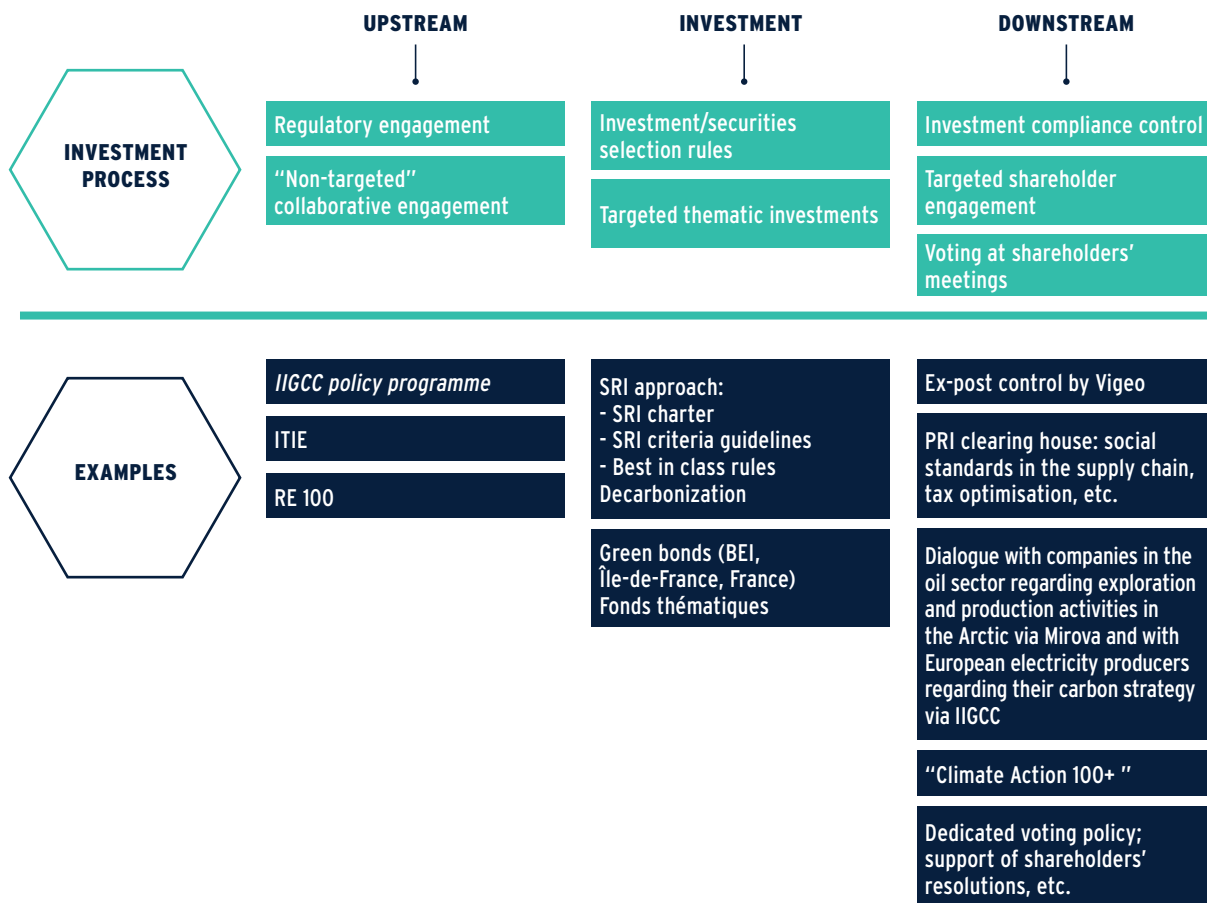
BEST IN CLASS AND ENGAGEMENT

As mentioned above, ERAFP has selected a best in class approach to take into consideration the ESG criteria underlying its SRI Charter for all its investments. Operationally, this principle takes the form of detailed rules that make it possible to determine, based on the scores that issuers obtain for ERAFP's SRI criteria, the issuers that can be considered as the best in their category.

For large listed companies, for example, the best in class principle is applied by implementing two successive filters.

If this SRI approach were limited to the application of quantitative rules established to define an eligible investment universe, it would preclude part of ERAFP's responsibility as well as an important lever available to it as a shareholder or creditor.

This is because ERAFP intends to be an active investor and, to that end, maintain dialogue or engage with those issuers in which it invests or with the authorities that define its investment framework. Accordingly, in 2012 ERAFP adopted shareholder engagement guidelines, which it updates yearly. They establish priority engagement themes for the year as well as the voting policy that ERAFP's delegated asset managers must apply at general meetings. ERAFP's SRI strategy is summarised in the following diagram:



MEASURING THE PORTFOLIO'S EXPOSURE TO CLIMATE RISKS

The consequences of climate change are probably one of the risk factors most likely to have a long-term impact on the value of ERAFP's assets. That is why, in breaking down the SRI Charter into more detailed issuer evaluation rules, ERAFP has integrated criteria designed to better determine the level of these issuers' exposure to the various facets of climate risk.

In particular, under the "environment" value of ERAFP's SRI Charter, the **Control of the risks associated with climate change and contribution to the energy transition** criterion makes it possible to assess the commitments that issuers have made, the measures that they have adopted and the tangible results that they have achieved as regards containing and reducing the greenhouse gas emissions associated with their activity. The listed and unlisted companies, the countries and the other issuers that score most highly on this criterion will probably be the best placed to cope with the adjustments needed as a result of climate change measures, such as more stringent regulations, the introduction of a carbon price, client and investor expectations and increased monitoring by civil society.

This criterion also makes it possible to assess the efforts made by issuers to anticipate and adapt to the effects and consequences of climate change.

In order to estimate the degree of control that issuers have over the physical risks associated with climate change (increasing scarcity of natural resources, especially water, increased occurrence of extreme weather events, impacts on biodiversity, etc.) ERAFP also uses a **Control of environmental impacts** criterion, making it possible to assess the commitments made by issuers regarding the protection of water, the preservation of biodiversity and the prevention of pollution risks.

Conversely, ERAFP's SRI environment value criterion relating to the **Product or service's environmental impact** makes it possible to promote companies that offer innovative solutions to sustainable development challenges, particularly in the area of the energy and environmental transition.

Monitoring an asset portfolio's average consolidated scores for these criteria can be a way of estimating that portfolio's exposure to climate change-associated risks. Such an indicator is difficult to interpret, however, and does not provide a detailed picture of the real impact of ERAFP's assets on the environment.

The search for a better understanding of a portfolio's degree of exposure to the transition risks associated with climate change has led investors to acquire specific monitoring tools. Measurement of a portfolio's **carbon footprint, green share, intensity of contribution to the climate transition, emissions avoided and energy mix alignment with a 2°C scenario** are all examples of this approach.

Carbon footprint

This involves using greenhouse gas emissions data on portfolio issuers to calculate the consolidated portfolio's carbon intensity.

There are a number of different methods of measuring carbon footprint, each one including a certain number of biases.

Of the methods presented above, the third strikes us as the most appropriate for factoring in the exposure of ERAFP's portfolios to the transitional risk associated with climate change. There are a number of reasons for this:

- investor "responsibility" measurements involve allocating a share of portfolio issuers' CO₂ emissions to the investor, based on its respective ownership share of the capital, debt or enterprise value, as appropriate, of the portfolio security issuers;

COMPLEMENTING THE EX ANTE VIEW OF THE INVESTMENT POLICY PROVIDED BY THE BEST IN CLASS APPROACH AND, PRIMARILY, THE SRI RATINGS, CLIMATE ANALYSIS TOOLS PROVIDE AN EX POST VIEW OF THE ALLOCATION CHOICES MADE.

MEASUREMENT OF THE INVESTOR'S CARBON "RESPONSIBILITY"

MEASUREMENT OF THE INVESTOR'S CARBON "RISK" EXPOSURE

CALCULATION OF ABSOLUTE EMISSIONS

At issuer level: factoring in of non-normalised CO₂ emissions

Allocation to the investor of some of these emissions in proportion to its share of the issuer's:

- capital (for an equity investment)
- or
- debt (for a bond investment)
- or
- enterprise value (capital + debt, applicable to either a bond or an equity investment)

Aggregation at portfolio level: sum of the CO₂ emissions attributable to the investor

Unit: CO₂ emissions per unit of invested amount

1

At issuer level: factoring in of carbon intensity, in terms of CO₂ emissions per unit of either revenue (companies) or GDP (countries)

Allocation to the investor of some of the emissions/ revenue in proportion to its share of the issuer's:

- capital (for an equity investment)
- or
- debt (for a bond investment)
- or
- enterprise value (for either a bond or an equity investment)

Aggregation at portfolio level: sum of the CO₂ emissions attributable to the investor

Normalisation (unit): CO₂ emissions per amount invested and per unit of revenue generated (attributable emissions/attributable revenue)

CALCULATION OF CARBON INTENSITY

At issuer level: factoring in of carbon intensity, in terms of CO₂ emissions per unit of either revenue (companies) or GDP (countries)

Allocation to the investor of some of the emissions/ revenue in proportion to its share of the issuer's:

- capital (for an equity investment)
- or
- debt (for a bond investment)
- or
- enterprise value (for either a bond or an equity investment)

Aggregation at portfolio level: sum of the CO₂ emissions attributable to the investor

Normalisation (unit): CO₂ emissions per amount invested and per unit of revenue generated (attributable emissions/attributable revenue)

2

At issuer level: factoring in of carbon intensity, in terms of CO₂ emissions per unit of either revenue (companies) or GDP (countries)

Portfolio level aggregation: average issuer carbon intensity weighted for their respective proportions of the portfolio

Normalisation (unit): CO₂ emissions per unit of revenue (weighted average)

3

NB: In 2013 and 2014, ERAFP used the second, investor carbon "responsibility" measurement method, based on carbon intensity. Since 2015, it has used the third method, which measures the investor's carbon "risk", based on carbon intensity. This is also the method recommended by TCFD.

the underlying idea is that as a shareholder or creditor, an investor is responsible for a share of the CO₂ emissions of the entity in question;

to our mind, these methods present a major limitation: at constant CO₂ emission and activity levels, the share of a company's emissions attributable to an investor fluctuates based on the company's capitalisation, debt level or, more generally, financial structure. For example, the holder of a bond

in a company whose overall debt increased would be allocated a smaller share of that company's CO₂ emissions, whereas the company's emissions and activity levels may have remained the same;

— similarly, the contribution to a portfolio's carbon footprint of two companies that have the same weight in the portfolio, the same level of CO₂ emissions, the same activity, the same geographical exposure and the same revenue varies depending on the market capitalisation or level of debt of each company. Yet these two companies have the same exposure to the transitional risk associated with climate change: indeed, they would have to bear the same level of costs or constraints if a carbon "tax" or binding regulation came into force;

— for these reasons, these methodologies do not seem to us to be the most appropriate for factoring in a portfolio's exposure to the transitional risk associated with climate change;

— furthermore, for a universal investor such as ERAFP, which invests in various asset classes and seeks to adopt a cross-cutting approach that handles extra-financial considerations consistently across its entire portfolio, these methods have the disadvantage of being difficult to transpose into certain asset classes. In particular, to us they seem inappropriate for calculating a sovereign portfolio's carbon footprint, insofar as, at relatively equivalent levels of development, countries' debt levels can differ considerably; in the same portfolio, the "carbon" contribution of a country with very little debt that emits little CO₂ could be higher than that of a highly indebted country with a poor greenhouse gas emissions record;

— an alternative approach consists in considering that a portfolio's exposure to climate risk is reflected by the average carbon intensity (CO₂ emissions normalised by revenue) of its constituent companies weighted by their respective weights in the portfolio. This measurement, while providing no information on indirect CO₂ emissions or those attributable to ERAFP's investments, circumvents the biases mentioned above and can be applied to all asset classes. ERAFP therefore decided to use this approach in the context of this report.

Analysis indicators for contribution to the energy transition and climate objectives

In order to continuously improve the approach for analysing the indicators of the contribution to the energy transition and climate objectives that ERAFP monitors, it calculated these indicators for both the portfolios and the related benchmark indices.

It also added the electrical and automotive equipment manufacturing sectors to the list of key sectors for the climate in 2017.

Lastly, to round out its assessment of the impact of its investments on the environment and its climate risk management, ERAFP extended its analysis in 2017 to a new indicator, showing the alignment of its equity and corporate bond portfolios with a 2°C trajectory.

Contrary to the analysis of carbon intensity, calculated for all of the portfolio's sectors, the analysis of the indicators of the contribution to the energy transition and climate objectives covers only part of the portfolio: sectors that are key for the climate, i.e.:

- utilities (electricity generation only);
- car manufacturing;
- passenger transport;
- goods transport;
- cement;
- steel;
- electrical equipment manufacturers;
- automotive equipment manufacturers.

A PORTFOLIO'S EXPOSURE TO CLIMATE RISK IS REFLECTED BY THE AVERAGE CARBON INTENSITY OF ITS CONSTITUENT COMPANIES WEIGHTED BY THEIR RESPECTIVE WEIGHTS IN THE PORTFOLIO.

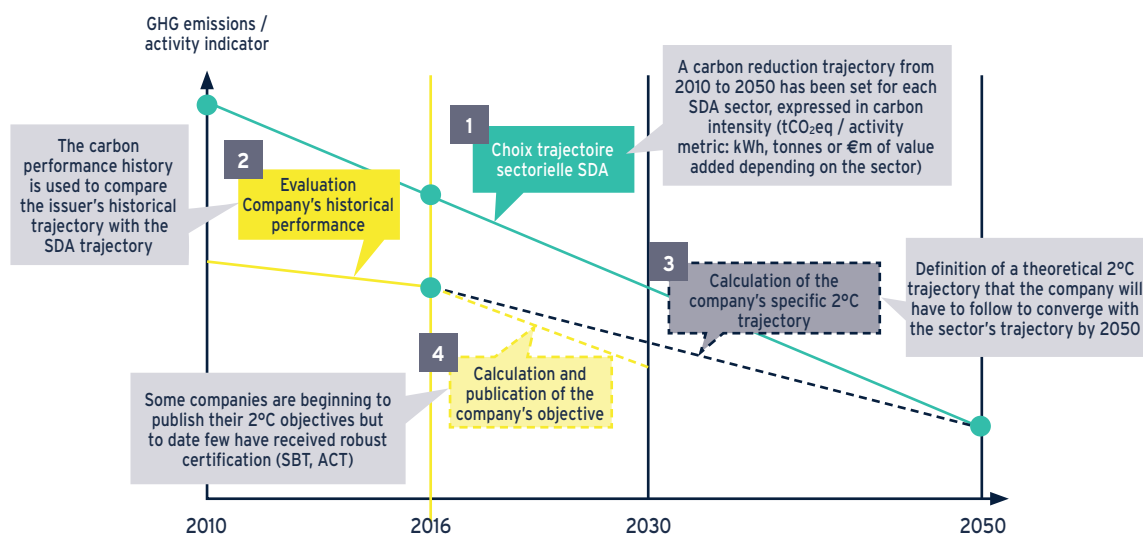
HOW DOES THE 2°C ALIGNMENT INDICATOR WORK?

The SDA method explained

ERAFP uses the sectoral decarbonization approach (SDA) methodological framework, the 2°C targets methodology recommended by the Science Based Targets²⁶ (SBT) initiative.

The SDA methodology is based on the application of the IEA's 2°C scenario, It accordingly proposes "2°C trajectories" between 2010 and 2050 for 13 business sectors, including targets for absolute carbon intensity levels by 2050 (tCO₂/unit of activity) as well as annual rates of reduction of this carbon intensity.

The SBT/SDA exercise for a company in one of the sectors covered by the SDA framework has four main stages, as shown in the diagram below:



Source – I Care & Consult.

Calculation of 2°C alignment indicators at issuer level

Using this SDA framework, two 2°C alignment indicators are calculated for issuers in the SDA sectors:

— a **static 2°C alignment indicator**, which compares the issuer's carbon intensity in 2016 to what its intensity should be then, based on the 2°C trajectory. This first indicator thus provides information on the starting level in 2016, so is a "static" view;

— a **dynamic 2°C alignment indicator**, which compares the annual trend in the issuer's carbon intensity over the period 2010-2016 with the reduction rate it would need to adopt to meet the 2050 carbon intensity target. This second indicator is a

"forward-looking" trend analysis showing the issuer's progress in terms of the 2°C scenario.

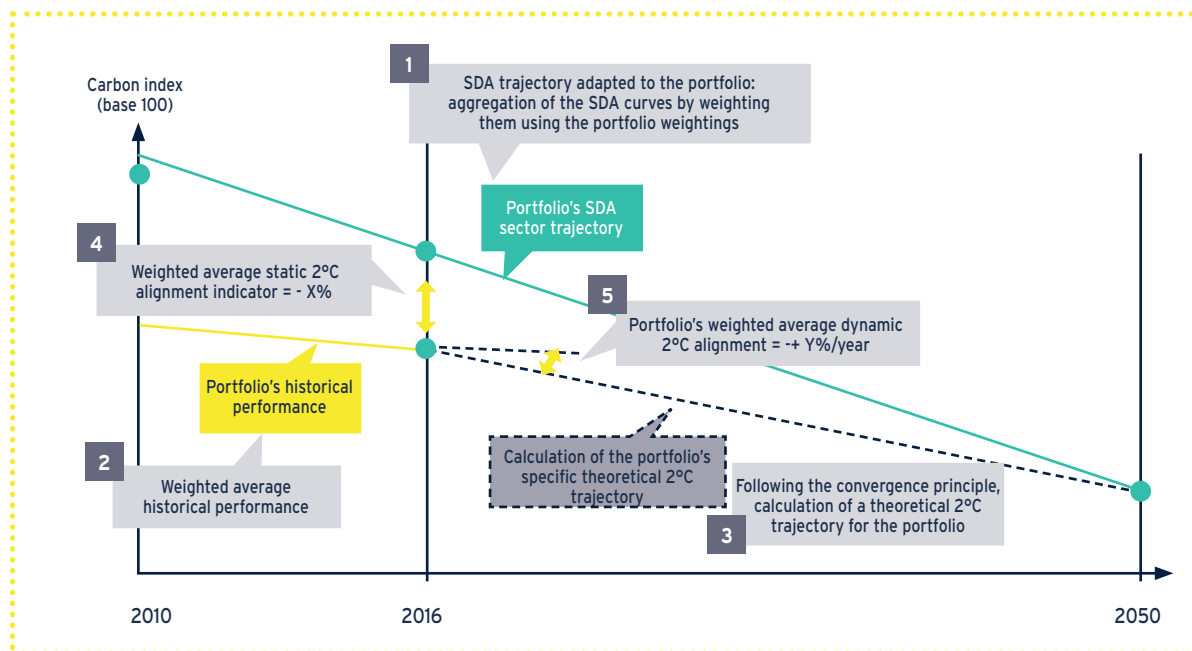
For 2017, the sectors selected for analysis are electricity, automotive, passenger transport (airline, rail and car), freight transport, cement, steel and aluminium.

Calculation of 2°C alignment indicators at portfolio level

The same rationale can be applied at portfolio level by weighting issuers' performances by their weight in the portfolio. This makes it possible to assess performance at the level of each sector analysed, then at the level of the overall portfolio, by following five steps, as shown in the diagram below:

26. SBT is an initiative carried out by WWF, the UN Global Compact, the WRI and the CDP to engage businesses in 2°C alignment.

FLOW DIAGRAM FOR THE CALCULATION OF THE TWO 2°C ALIGNMENT INDICATORS AT PORTFOLIO LEVEL



Source – I Care & Consult.

Advantages and limitations of proposed 2°C alignment indicators

Advantages:

- these indicators are based mainly on “physical” carbon intensity indicators (e.g. gCO₂/KWh), which give a more accurate idea of issuers’ actual carbon performance;
- they are “relative”, in that they compare the issuer’s performance with an objective performance within the same sector, which makes it possible to avoid stigmatising sectors that, while carbon intensive by nature, are nevertheless essential - whether in 2016 or 2050 - for the smooth functioning of the economy (e.g. the electricity or cement sector). More specifically, these indicators reveal the effect of stock selection;
- the benchmark does not reflect companies’ average performance but the required performance for 2°C compatibility;

— the dynamic alignment indicator provides a forward-looking view based on known information, in particular the historical trend: this indicator can thus be considered conservative insofar as the majority of issuers are not yet in full 2°C target mode;

— the methodological reference base used is external and well viewed in the market. It will be regularly updated in the coming years to ensure that analysis remains relevant.

Limitations:

- the method covers only the SDA sectors and therefore only part of the portfolio;
- it does not yet take into account companies’ stated carbon performance improvement targets, of which there are still few, and even fewer certified by initiatives such as SBT;
- a consensus has yet to materialise among issuers on SDA trajectories and the convergence principle.

Measurement of the “green share”

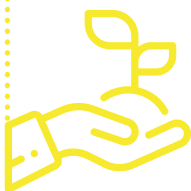
— **At the issuer level:** share of revenue that corresponds to a green activity within the meaning of the energy and environmental transition law.

The green share of the automotive sector is defined as the proportion of revenue generated by the sale of electric and hybrid vehicles.

— **Aggregation at portfolio level:** average of green shares weighted by the issuers' weight in the portfolio for the six sectors studied.

— **Unit:** average share of revenue corresponding to a green activity (definition specific to each sector).

While this green share indicator allows us to identify a certain number of key technologies for the energy and environmental transition, on the downside it has technological biases and does not evaluate the issuer's overall climate performance.



Measurement of intensity of contribution to the climate transition

— **At issuer level:** evaluation of the company's performance on a scale of 0% to 100%:

- 100% if the activity has a climate performance equal to that of green activities, as defined by the TEEC label (renewable energies, electric vehicles, etc.);
- 0% if the activity has an environmental performance corresponding to the average for its sector;
- between 0 and 100% if the performance is located between these two points on the scale.

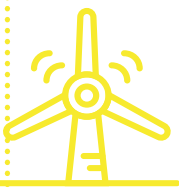
Automotive sector example: each car maker's carbon intensity (g CO₂eq/km) was plotted on a scale ranging from the average European car's carbon performance to that of an environmentally friendly electric vehicle (base European electricity).

— **Aggregation at portfolio level:** average intensity of contribution to the climate transition weighted by the weight of the issuers in the portfolio for the sectors studied.

— **Unit:** average % contribution to the climate transition (indicator specific to each sector).

Advantages of this method:

- the use of physical indicators, which give an accurate picture of the company's climate performance, free from financial bias;
- by using a climate performance indicator graded from 0% to 100% it can offer an overall assessment of an activity's climate performance that goes beyond a binary definition (0% or 100%) of a green activity, while remaining within the bounds of TEEC certification.





Measurement of emissions avoided

- **At issuer level:** emissions avoided by a higher than average carbon performance for each sector (where possible a carbon performance defined based on physical indicators such as g CO₂eq/kwh, both for the issuer and the baseline scenario, should be used to avoid economic bias).
- **Allocation to the investor:** the emissions avoided by each issuer corresponding to the percentage held by the investor.
- **Aggregation at portfolio level:** sum of the CO₂ emissions avoided attributable to the investor.
- **Unit:** CO₂ emissions avoided per invested amount.

As in 2016, ERAFP decided to use Trucost, in partnership with I Care & Consult, Grizzly Responsible Investment and Beyond Ratings, for the risk and opportunities analysis for its climate change asset portfolio. For calculating companies' carbon footprint, Trucost prioritises the use of company-sourced data on direct greenhouse gas emissions (scope 1) and indirect greenhouse gas emissions (scope 2 and first-tier suppliers). For countries, the analysis involves factoring in not only countries' territorial greenhouse gas emissions but also the emissions associated with the carbon content of their imports and exports.

I Care & Consult and Grizzly Responsible Investment, meanwhile, are tasked with analysing the contribution to the energy transition and 2°C alignment for the equity and corporate bond portfolios (green share, intensity of contribution to the climate transition and emissions avoided).

With regard to the real estate, private equity and infrastructure portfolios, the partnership with Carbone 4 has made it possible to design a methodology for measuring and analysing these portfolios' exposure to climate change issues. The associated data collection and analysis has started and is expected to be completed in 2018.

IMPLEMENTATION OF THE INVESTMENT POLICY

For ERAFP, which has been a fully socially responsible investor since inception, SRI comes into play less in terms of making changes to our investment policy than in assessing the consequences of our choices.

Asset class by asset class, mirroring the portfolio's financial profile, ERAFP measures issuers' consolidated ESG rating results and analyses changes therein over the year. It is worth noting that ERAFP's best in class approach remains selective for issuers, as almost half of the companies in the benchmark indices are excluded from its investment universe.

When available, the sub-portfolio's climate change analysis is presented after the ESG rating. This analysis is based on the following indicators:

- carbon intensity;
- green share;
- intensity of contribution to the climate transition;
- emissions avoided;
- 2°C alignment.

These indicators were analysed for all ERAFP's equity and bond portfolios.

Details are also provided on engagement initiatives and voting at shareholders' general meetings.

Given that the bigger the weight of an asset class is in ERAFP's overall portfolio the more relevant SRI management of the investment policy becomes, we carry out this cross-analysis less for diversification asset classes that are still being constructed or have a limited pool of securities.



IMPACT OF THE SRI APPROACH ON INVESTMENTS' FINANCIAL PERFORMANCE

The subject's relatively short history and complexity make it impossible to draw any definitive conclusions. While it is difficult to demonstrate that the SRI approach has had a positive impact on the performance of ERAFP's investments, it would be just as misplaced to assert that the opposite was true. Nevertheless, within the framework of its monitoring of investments, ERAFP actively reviews the signals that are most likely to shed light on the financial impact of its SRI approach.

Sovereign bonds

There is a strong negative correlation between a state's SRI rating and the cost of its debt (from a statistical point of view, the SRI score "accounts for" the vast majority of the yield). These indicators can prove complementary in the evaluation of a state's debt "quality". For example, while it is obvious that a low SRI score is the reflection in a different form of weakness that could come to light in a financial crisis, a high SRI score does not guarantee that a country's public finances will be well managed.

Equities and corporate bonds

ERAFP's SRI guidelines are applied in all of its mandates, based on procedures that can vary from one manager to the next. While the delegated asset managers notably use different sources for their extra-financial research, they must analyse and select issuers using the criteria and rules that ERAFP has drawn up.

The monitoring of the managers' performance since the launch of the first equity mandates in 2007 shows that, on average, these managers have created value, as ERAFP's equity portfolio has generated a relatively marked outperformance relative to its benchmark index. This leads to the conclusion that SRI is not a handicap to financial performance. Intuitively, one could even consider that the factoring in of environmental, social and governance criteria should lead to the selection first and foremost of securities in companies that use natural resources efficiently, seek to manage their human resources proactively and in a forward-thinking way, have corporate governance practices that conform to the most advanced standards and are therefore better placed to generate positive, stable results over the long term.

Nevertheless, over the period of observation, the outperformance of ERAFP's portfolio has not been uniform across all its mandates, nor has it been constant over time; this is because the SRI approach is only one of many factors that can influence a fund's financial performance, others being management style and quality, behavioural biases and market conditions, which makes it particularly difficult to isolate SRI's specific impact.

**AN OVERALL
OUTPERFORMANCE OF
ERAFP'S PORTFOLIO,
EVEN THOUGH SRI'S
SPECIFIC IMPACTS
REMAINS DIFFICULT
TO ISOLATE.**

THE BOND PORTFOLIO

THE BOND PORTFOLIO TOTALLED

€13,502 million
AT AMORTISED COST.

At 31 December 2017, the bond portfolio (excluding convertible bonds) totalled €13,502 million at amortised cost, representing 57.0% of ERAFP's total assets. It was split between fixed rate sovereign and equivalent bonds (29.0% of total assets, or €6,878 million), inflation-indexed bonds (8.1%, or €1,921 million) and corporate bonds (19.9%, or €4,703 million).

At end-2017, the bond portfolio had generated unrealised capital gains equivalent to 17.2% of its amortised cost.

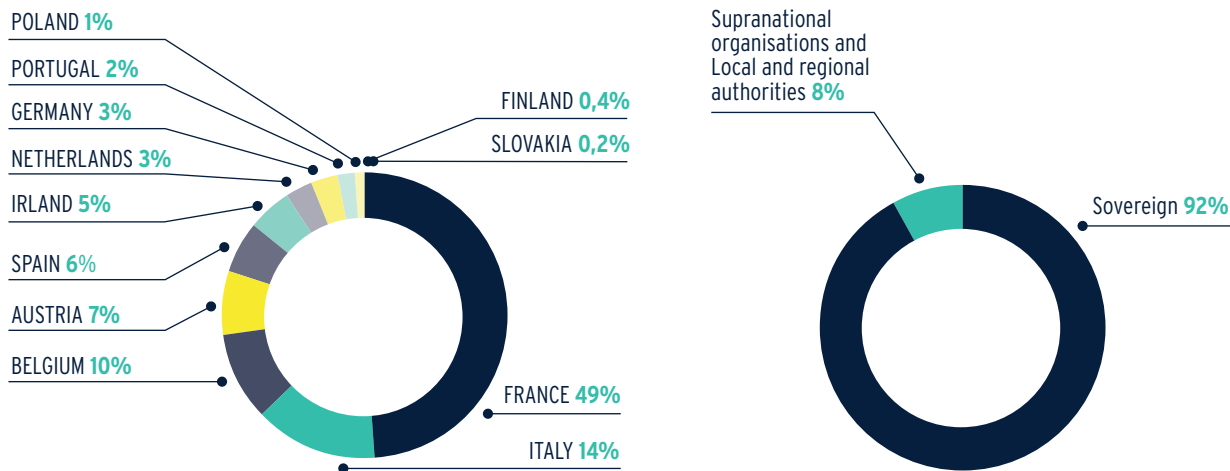
Public sector bonds

ERAFP manages all public sector bonds directly; their value at amortised cost at end-2017 was €8,799 million.

Sovereign bonds accounted for 92% of this portfolio, or around 34% of the Scheme's total investments. They include fixed rate bonds and inflation-indexed bonds issued by euro-zone sovereigns as well as bonds guaranteed by these sovereigns, such as bonds issued by Kreditanstalt für Wiederaufbau, the German national development bank.

The other public sector bonds are issued by OECD local and regional authorities and supranational institutions.

BREAKDOWN OF PUBLIC SECTOR BONDS BY COUNTRY AND ISSUER TYPE AT 31 DECEMBER 2017 (AT AMORTISED COST)



Source – ERAFP.

Euro-denominated corporate bonds

At the year-end, the "euro credit" class, consisting of euro-denominated corporate bonds, totalled €4,042 million at amortised cost, representing 17.1% of ERAFP's total assets. Note that the euro credit managers also manage a part of the Scheme's cash and cash equivalents.

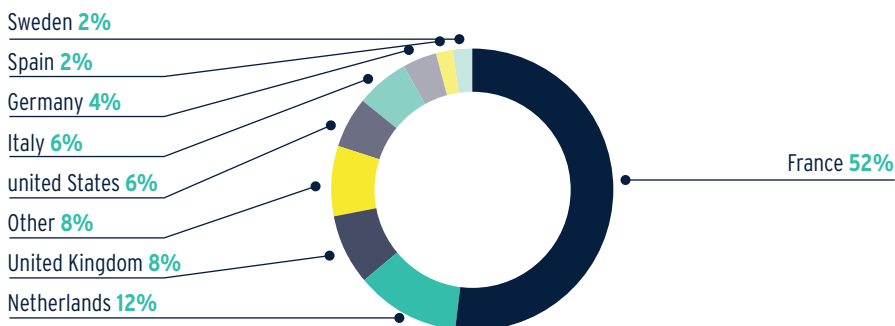
The euro-denominated corporate bond management mandates entrusted to Amundi, La Banque Postale AM and Natixis AM notably include loan securitisation fund investments in the amount of €168 million (out of a total commitment of €295 million).

In addition to delegated management, which remains preponderant, since 2015 ERAFP has held shares in external subordinated debt funds - now valued at €60 million - with the objective of gaining exposure to a bond segment not covered by the mandates and which requires active management. It has also invested €73 million in loan securitisation funds (with a total future commitment of €109 million), including the NOVO 1 and 2 funds previously held through the multi-asset mandate but which ERAFP took back on its balance sheet in 2017.

€4,042 million
OF EURO-DENOMINATED
BONDS AT AMORTISED
COST.

BREAKDOWN OF EURO-DENOMINATED CORPORATE BONDS BY COUNTRY, RATING AND SECTOR AT 31 DECEMBER 2017 (AT AMORTISED COST)

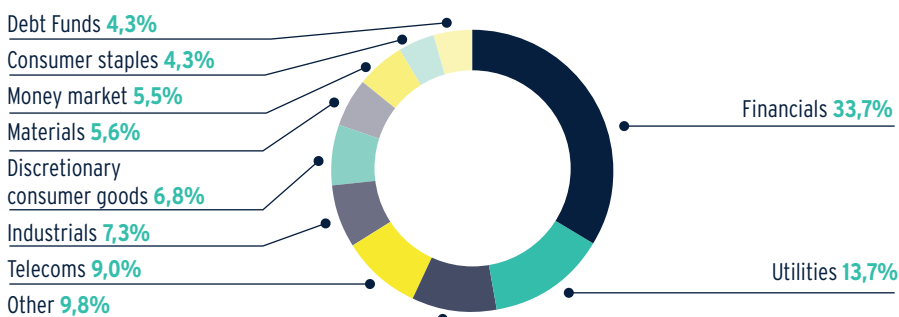
BY COUNTRY



BY RATING



BY SECTOR



Source – ERAFP.

US dollar-denominated corporate bonds

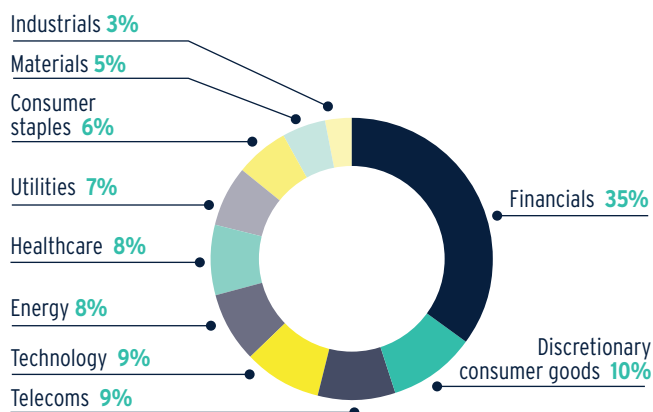
The dollar-denominated corporate bond sub-portfolio totalled €500 million at amortised cost at 31 December 2017, representing 2.1% of ERAFP's assets. This sub-portfolio was managed under a mandate awarded to AXA Investment Managers Paris.

Emerging country corporate bonds

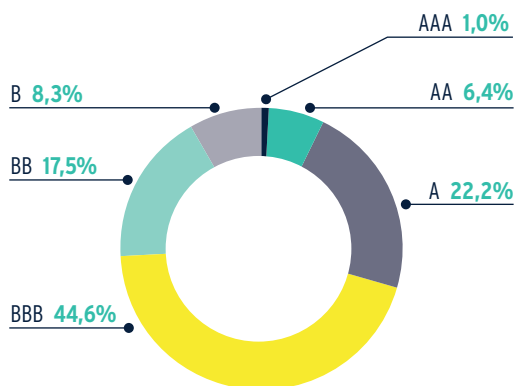
In 2017, ERAFP continued its policy of diversifying its bond investments into emerging country corporate debt funds denominated in hard currencies such as the US dollar and euro, investing some €161 million, or 0.7% of its assets, therein.

BREAKDOWN OF US DOLLAR-DENOMINATED CORPORATE BONDS BY RATING AND SECTOR AT 31 DECEMBER 2017 (AT AMORTISED COST)

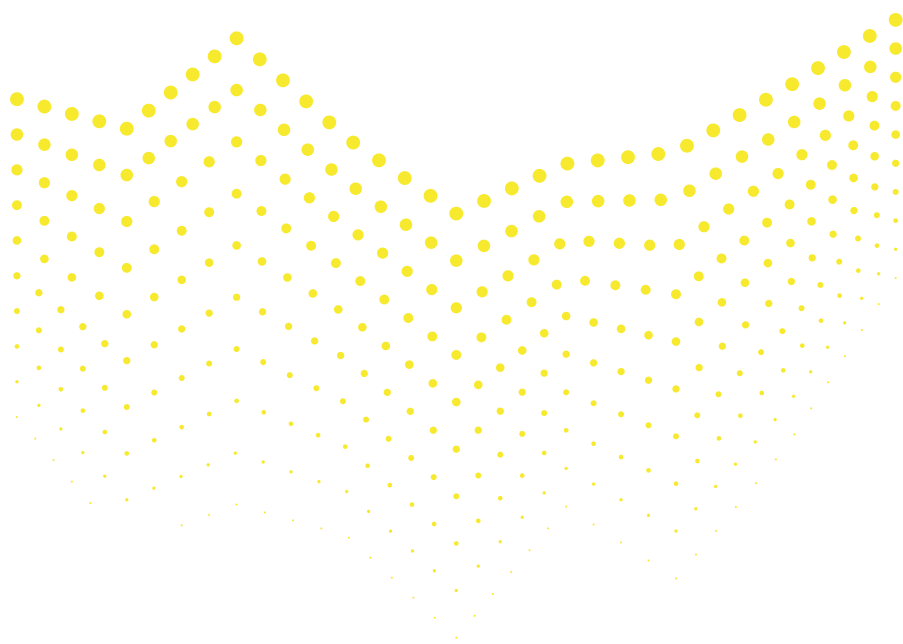
BY SECTOR



BY RATING



Source – ERAFP.



SRI PROFILE

Sovereign bonds

All issuers in ERAFP's portfolio pass its SRI criteria according to Vigeo's ratings. Indeed, all the countries whose bonds are part of ERAFP's portfolio have obtained an average SRI score of more than 50/100, the minimum rating defined in ERAFP's SRI guidelines for this asset class.

The performance gap with the index continued to narrow: it now stands at 0.6 points, compared with 2.2 points at the end of 2007, when the first extra-financial evaluation of the portfolio was carried out. This is attributable to an increase in the index's average rating, resulting from changes in its composition; before the financial crisis the index, which is made up exclusively of securities issued by euro-zone countries considered by the financial rating agencies to be "investment" grade, included securities of countries whose financial rating has since been downgraded. Those countries, whose average SRI ratings are lower than those of other euro-zone countries, are no longer represented in the index, which has resulted in an automatic increase in the index's average SRI rating since 2007.

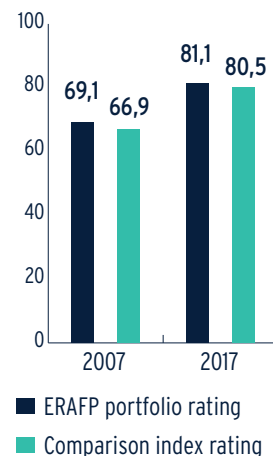
The portfolio's outperformance on extra-financial criteria relative to its benchmark is attributable mainly to the underweighting in the portfolio, relative to the index, of securities issued by countries with a below-average SRI rating and credit quality. The fact that there is a relatively strong correlation between the financial and extra-financial assessments of sovereign issuers supports this argument. It should also be noted that, given that the investment universe of euro-denominated securities issued by OECD countries is of limited size and relatively homogeneous as regards the SRI characteristics of its components, the spread between the portfolio's average SRI rating and that of the index cannot increase significantly.

CLIMATE ANALYSIS

CARBON FOOTPRINT

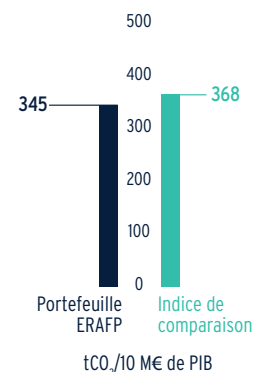
The carbon intensity of ERAFP's portfolio is 6.7% lower than that of the benchmark index, compared with 5% in 2016 and 2.1% in 2015. This positive difference is mainly attributable to the portfolio's overweighting of French government-issued securities. This relates to the fact that nearly three-quarters of the energy produced in France is from a low-carbon, nuclear source. So while the share of renewable energies in its energy mix remains relatively low, France's ratio of greenhouse gas emissions to GDP is one of the euro-zone's lowest.

CHANGE IN THE AVERAGE SRI RATING OF THE SOVEREIGN BOND PORTFOLIO COMPARED WITH THAT OF THE INDEX



Source – Vigeo-Oekom.

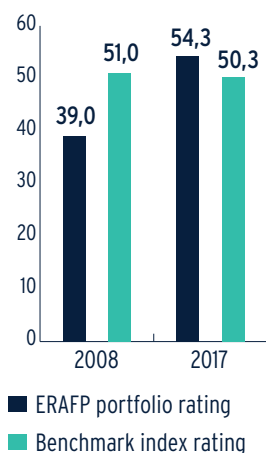
CARBON FOOTPRINT OF ERAFP'S SOVEREIGN PORTFOLIO AT 31 DECEMBER 2017



Source – Beyond Ratings.

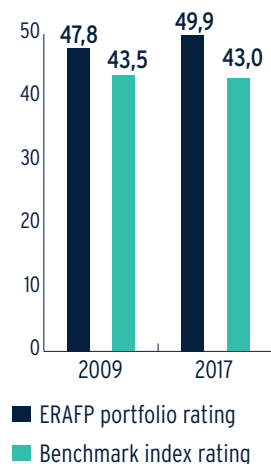
27. Beyond Ratings has developed a methodology that makes it possible to take into consideration not only countries' territorial emissions but also those associated with their specific imports and exports.

CHANGE IN THE AVERAGE SRI RATING FOR THE LOCAL AND REGIONAL AUTHORITY BOND PORTFOLIO COMPARED WITH THAT OF THE INDEX



Source – Vigeo-Oekom.

CHANGE IN EURODENOMINATED CORPORATE BOND PORTFOLIO'S AVERAGE SRI RATING COMPARED WITH THAT OF THE INDEX



Source – Vigeo.

Local and regional authority bonds

ERAFP's local and regional authority bond portfolio has been composed of the same issuers since 2014, reflecting the very low interest-rate environment and often relatively small size of these bond issues. The average SRI rating of ERAFP's portfolio has increased considerably since 2007 and is now significantly higher than that of the benchmark index. This is due not only to an improvement in the SRI ratings of the local and regional authorities represented in ERAFP's portfolio but also to the sale in previous years of local and regional authority issues that, from an SRI standpoint in particular, did not meet ERAFP's requirements, specifically in the area of extra-financial reporting. This very wide spread relative to the index thus reflects mainly the lack of portfolio representation of local and regional authorities that do not publish formal reporting on environmental, social and governance issues – which negatively impacts their SRI rating – but which nevertheless form part of the index.

The climate analysis was not carried out for this sub-portfolio due to a lack of available data.

Corporate bonds

The SRI performances of both ERAFP's euro-denominated corporate bond portfolio and the benchmark index have improved since the launch of the first mandates in 2009. The portfolio's SRI rating of 49.9/100 now stands 6.9 points above that of the index.

However, according to Vigeo's assessment at the end of 2017, the US dollar-denominated corporate bond portfolio obtained a worse SRI rating than its benchmark index, although it was slightly higher than in 2016 (up from 34.5 to 35.2). These results should be interpreted with caution, as:

- the index is composed wholly of investment grade securities, whereas ERAFP's portfolio is made up for around 20% of high-yield securities;

- the SRI performance of high-yield securities is lower than that of investment grade securities, mainly because they are less transparent;

- Vigeo's portfolio coverage rate has increased over the last year, and newly rated issuers often have a worse SRI rating than those already covered.

Accordingly, the management process for delegated asset managers responsible for high-yield securities is based on:

- automatic exclusion of any company that has been found to breach international standards at the time that the portfolio is created;

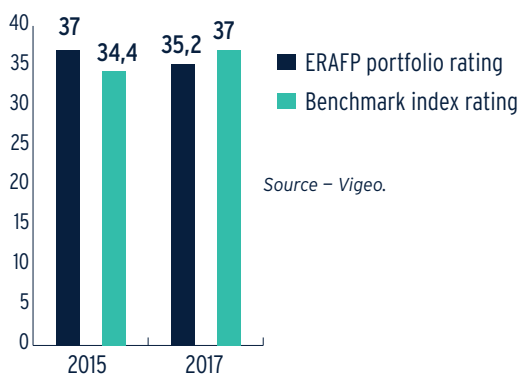
- monitoring throughout the course of the mandate of exposure to portfolio companies involved in controversial practices potentially involving a breach of international standards;

- rating of portfolio companies not covered by extra-financial rating agency research on a simplified corporate SRI scale;

- gradual improvement of the social, environmental and corporate governance practices of portfolio companies, notably by initiating dialogue with them wherever possible.

In addition, the implementation of the new SRI criterion led to a parallel fall in the portfolio's and the benchmark's ratings for euro-denominated corporate bonds, but an increase in their ratings for US dollar-denominated bonds.

COMPARISON OF THE DOLLAR-DENOMINATED CORPORATE BOND PORTFOLIO'S AVERAGE SRI RATING WITH THAT OF THE INDEX



CLIMATE ANALYSIS

CARBON FOOTPRINT

In 2017, the corporate bond portfolio's carbon intensity, calculated as a weighted average, was 27% higher than that of the benchmark index (378 tCO₂eq/€ million of revenue vs. 297 tCO₂eq/€ million of revenue).

However, the portfolio's carbon intensity was significantly better than in 2016 (423 tCO₂eq/€ million of revenue), leading to a narrowing of the gap in relation to the index.

The performance gap is mainly attributable to the strong overweighting of utilities in the portfolio compared with the index (6.8% in the index vs. 14.8% in the portfolio); this sector emits more greenhouse gases on average than other sectors, which automatically leads to a poor performance on the carbon intensity indicator.

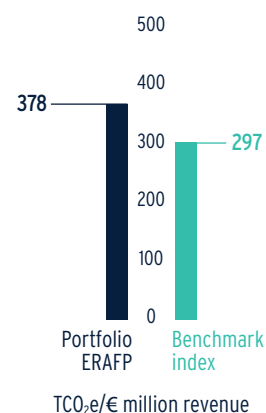
Indeed, bond mandates are not suited to a benchmarked management approach and can therefore diverge significantly from the composition of the index used as a benchmark for SRI rating or carbon footprinting. However, the stock selection effect in this sector was positive, enabling the portfolio to outperform its benchmark index on the contribution to the energy transition indicators.

CONTRIBUTION TO THE ENERGY TRANSITION

All sectors analysed scored highly on the green share and intensity of climate contribution indicators²⁸. However, the portfolio's outperformance on these two indicators relative to the benchmark index (8% outperformance for green share and 79% for climate transition contribution intensity) was chiefly driven by the strong performance of utility sector companies, to which the portfolio is highly exposed.

Emissions avoided by the portfolio amount to approximately 968 tCO₂/year per € million invested. Again, most of them are attributable to the utilities sector. The ratio of emissions avoided per € million invested is two and a half times higher than that of the index (270 tCO₂/year/€ million invested).

CARBON FOOTPRINT OF THE CORPORATE BOND PORTFOLIO AT 31 DECEMBER 2017



INDICATORS OF CONTRIBUTION TO THE ENERGY TRANSITION OF THE CORPORATE BOND PORTFOLIO AT 31 DECEMBER 2017

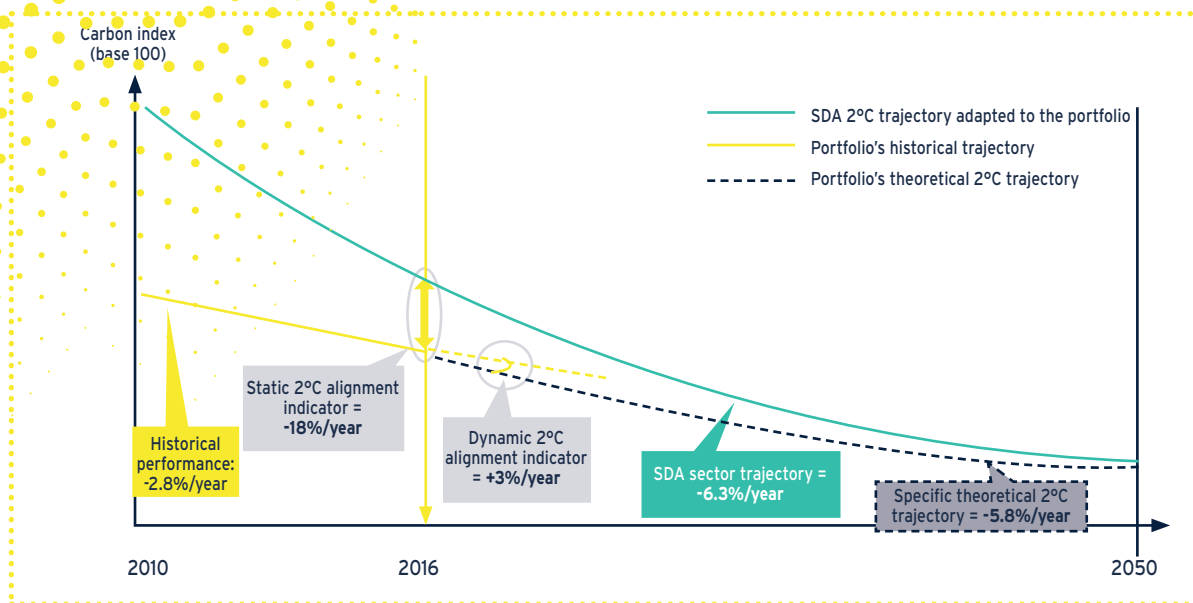
Zoom on the core sectors for climate	Green share %	Intensity of contribution to the climate transition %	Emissions avoided TCO ₂ /year/€ million invested
Portfolio	11 %	17 %	968
Composite index	10 %	10 %	270
Portfolio vs. benchmark	8 %	79 %	258 %

Source – I Care & Consult.

28. See the core sectors for climate listed on page 52.

2°C ALIGNMENT

EVALUATION OF THE ALIGNMENT OF THE CORPORATE BOND PORTFOLIO WITH A GLOBAL WARMING CAP OF 2°C



Source – I Care & Consult and Grizzly.

Portfolio static 2°C alignment

The portfolio has a good static 2°C alignment²⁹ (-18%), driven mainly by the utilities sector. In line with previous analyses, stock selection made it possible to pick particularly strong issuers in this sector with a starting point in 2016 significantly below the 2°C trajectory (static alignment of -26%). Moreover, the portfolio's static 2°C alignment is significantly better than that of the benchmark index (-18% for the portfolio vs. +11% for the index).

Focus on the utilities sector

Analysis of the portfolio's electricity-generating companies makes it possible to establish the compatibility of their activities with international climate objectives. From this perspective, the climate trajectories defined by the International Energy Agency (IEA) seem a very relevant comparison factor as they break down the energy mix of the main countries and regions in a scenario limiting global warming to 2°C.

FOR MORE INFORMATION



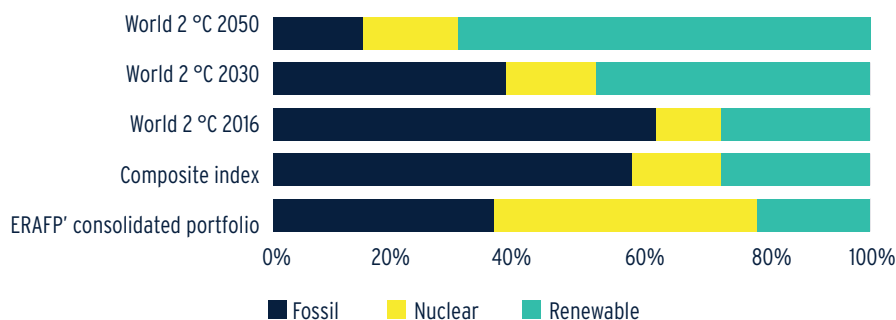
See the appendices available on the website www.rafp.fr for the results of the benchmark

Portfolio dynamic 2°C alignment

The portfolio's dynamic 2°C alignment, by contrast, is equivalent to that of the benchmark index. As a result, over the past six years both the portfolio and the index have seen a weaker reduction trend than required to reach the 2°C target (difference of around 3% per year for the portfolio and the index).

²⁹ The sectors studied in respect of static and dynamic 2° alignment analysis are utilities (electricity generation), passenger transport, goods transport, cement production and the automotive industry.

ENERGY MIX OF ERAFP'S CORPORATE BOND PORTFOLIO COMPARED WITH THE INTERNATIONAL ENERGY AGENCY'S SCENARIOS (AT AMORTISED COST)



Source – Trucost based on IEA scenarios

The first three lines of the graph illustrate the necessary change in the global energy mix towards a marginalisation of fossil energies and an increasingly important role for renewable energies. Although these scenarios are based on higher availability of green technologies in the future (carbon capture, for example), this comparison shows the energy mix that the consolidated portfolio's companies must aim for to be in line with a 2°C scenario.

Analysis of the strategy of the portfolio's electricity-generating companies (change in the energy mix, deactivation of fossil fuel production units, etc.) therefore appears to be a priority to ensure that the portfolio is aligned with the political objectives of limiting global warming. ERAFP has been committed to this for a number of years through its position as an active investor engaging with issuers in this sector.

Although it consists simply of a snapshot at a given moment, comparison of the portfolio's energy mix (consolidated energy mixes³⁰ of the portfolio companies that generate electricity) with the IEA's energy mix scenarios for 2016, 2030 and 2050 provides an initial basis for reflexion on the changes that ERAFP will need to factor into its bond investments in order to gradually align its portfolio with a 2°C scenario.

At the end of 2017, the proportion of fossil fuels in ERAFP's portfolio was already aligned with that advocated by the IEA for 2030.

The proportion of renewable energies, on the other hand, will have to more than double in order to reach the target level for 2030.

The transition to much less carbon-dependent methods of power generation will need to accelerate from 2030 in order to achieve alignment with the 2050 target energy mix.

³⁰ Breakdown of current electricity production by primary energy source; this breakdown is expected to change given in particular the investments made by various operators to reduce their dependence on fossil energies.

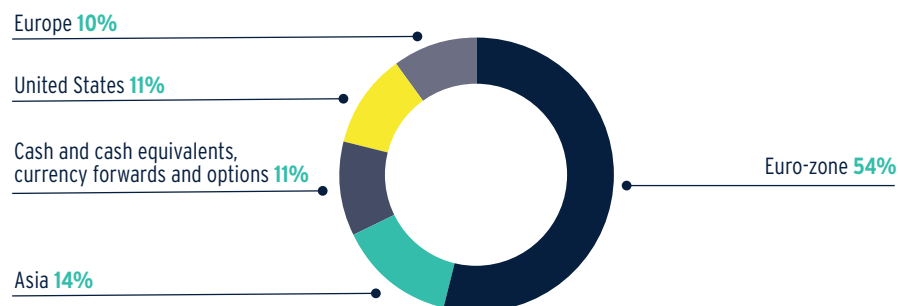
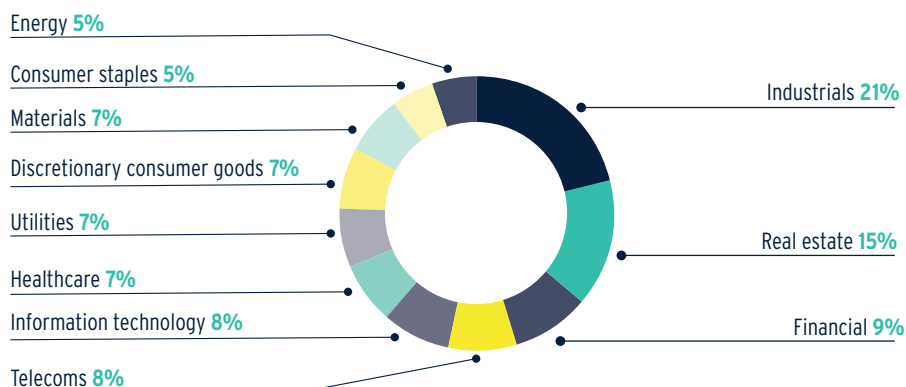
THE CONVERTIBLE BOND PORTFOLIO

THE CONVERTIBLE BOND PORTFOLIO TOTALLED **€636 million** AT AMORTISED COST.

Put in place in 2012, the convertible bond mandates have been awarded to Schelcher Prince Gestion (Europe) and Lombard Odier Gestion (International). At 31 December 2017, the convertible bond portfolio totalled €636 million at amortised cost, representing 2.7% of ERAFP's total assets.

At end-2017, it had generated unrealised capital gains equivalent to 13.3% of its amortised cost.

BREAKDOWN OF CONVERTIBLE BONDS BY SECTOR AND GEOGRAPHICAL REGION AT 31 DECEMBER 2017 (AT MARKET VALUE)



Source – ERAFP.

SRI PROFILE

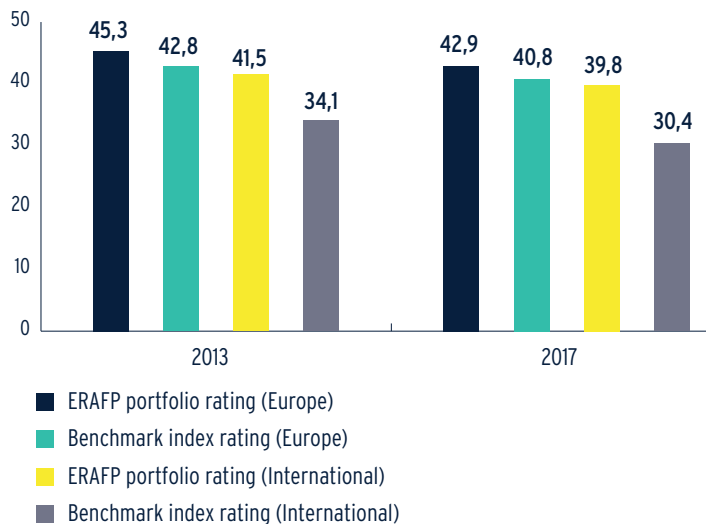
As the regions covered by each mandate are different, two separate benchmark indices are used to assess the SRI quality of these two portfolios.

Both convertible bond portfolios saw a reduction in SRI performance compared with 2016 (SRI performance of the European convertible bond portfolio: 47.5 in 2016 vs. 42.9 in 2017; SRI performance of the international convertible bond portfolio: 40.1 in 2016 vs. 39.8 in 2017). However, the performance of both portfolios' benchmark indices also declined (SRI performance of the European convertible bond benchmark index: 43.8 in 2016 vs. 40.8 in 2017; SRI performance of the international convertible bond benchmark index: 31.1 in 2016 vs. 30.4 in 2017). This was mainly attributable to the effects described above resulting from the change in SRI criteria, particularly for the European convertible bond portfolio.

Both portfolios continue to outperform their respective benchmark indices, indicating that the best in class SRI strategy has been applied correctly in these two delegated management mandates.

The rating difference and the trend therein between the European and international portfolios can be attributed to the very strong contingent of North American and Asian issuers in the international portfolio: ERAFP's SRI guidelines place strong emphasis on the consideration of social criteria such as respect of union rights and the encouragement of labour-management dialogue, which European companies generally take more into account in day-to-day management than their US and Asian counterparts, enabling them to achieve higher scores. However, the difference between the geographic regions is diminishing with the transition to the new SRI criteria.

CHANGE IN THE AVERAGE SRI RATING FOR THE CONVERTIBLE BOND PORTFOLIOS COMPARED WITH THOSE OF THEIR INDICES

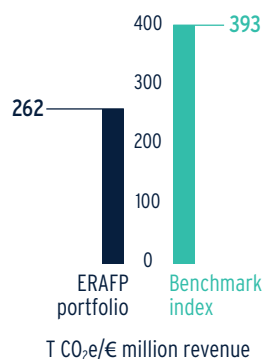


Source – Vigeo.

CLIMATE ANALYSIS

Given the characteristics of the asset class (limited pool of securities, low allocation weight of financial diversification function), calculation of a 2°C trajectory appears of little usefulness or relevance for the convertible bond portfolios. By way of illustration, however, their contribution to the energy transition is presented below, in addition to measurement of their carbon footprint.

CARBON FOOTPRINT OF ERAFP'S CONVERTIBLE BOND PORTFOLIO AT 31 DECEMBER 2017



Source – Trucost.

CARBON FOOTPRINT

The result is presented on an aggregate basis for the two convertible bond portfolios - Europe and International. The consolidated convertible bond portfolio's weighted average carbon intensity was 33% lower than that of its benchmark index. While the portfolio's carbon intensity is equivalent to that of previous years (268 tCO₂e/€ million of revenue in 2016), its gap with that of the index has reduced at the same time.

CONTRIBUTION TO THE ENERGY TRANSITION

For all sectors analysed³¹, the portfolio's green share came to 16%, approximately 44% lower than that of the benchmark index. The index's outperformance is mainly due to its inclusion of an automotive sector issuer with a 100% electric fleet, which ERAFP does not have in its portfolio.

The portfolio's intensity of contribution to the climate was 18%, slightly higher than that of the benchmark index. This outperformance was mainly driven by a positive stock selection effect in the utilities, passenger transport and steel sectors.

This outperformance is mainly due to the overweighting of the utilities sector. In addition, a slight overweighting of the industrial sector combined with effective selection of less carbon intensive securities in that sector improved the total portfolio performance by 9.6%.

Lastly, emissions avoided by the portfolio amounted to approximately 153 tCO₂e/€ million invested, 101% higher than the corresponding index performance. The overweighting of the utilities sector combined with effective selection of less carbon intensive securities in that sector accounted for this outperformance.

INDICATORS OF CONTRIBUTION TO THE ENERGY TRANSITION OF THE CONVERTIBLE BOND PORTFOLIO AT 31 DECEMBER 2017

Zoom on the core sectors for climate	Green share %	Intensity of contribution to the climate transition %	Emissions avoided TCO ₂ /year/€ million invested
Portfolio	16 %	18 %	153
Composite index	28 %	17 %	76
Portfolio vs. benchmark	-44 %	2 %	101 %

Source – I Care & Consult.

31. See the core sectors for climate presented on page 53.

THE EQUITY PORTFOLIO

At 31 December 2017, the equity portfolio totalled €6,514 million at amortised cost, representing 27.5% of ERAFP's total assets. It was split between European equities (22.5% of assets, or €5,327 million) and international equities (5.0%, or €1,186 million).

At 31 December 2017, ERAFP had delegated the management of its equity portfolio, with the exception of direct investments in climate change reduction-themed funds (€99 million) and emerging country equity funds (€30 million).

As regards the rest of the portfolio, the two asset classes were split between 15 mandates, including 11 European equity mandates entrusted to Allianz GI, Amiral Gestion, Amundi, AXA Investment Managers Paris, BFT IM - Montanaro AM, Candriam,

EDRAM, Mirova, Ofi AM and Sycomore AM (two mandates), and four international equity mandates entrusted to Natixis-Loomis and Robeco Institutional Asset Management (North America) and Comgest SA and Robeco Institutional Asset Management (Pacific region).

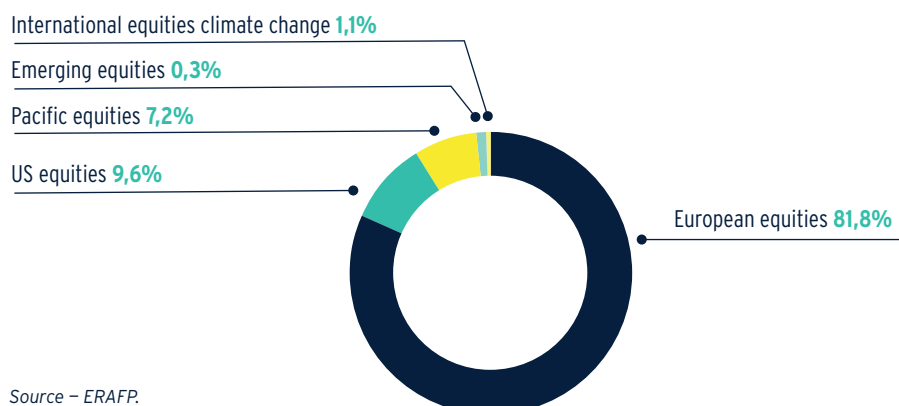
The equity portfolio had generated unrealised capital gains at end-2017 equivalent to 43.1% of its amortised cost, an increase from 2016 in a favourable market context.

In terms of risk dispersion, the ten largest investment lines in the various euro-zone equity mandates represented 17.8% of the asset class at the year-end, a lower percentage than that for the ten largest lines in the benchmark index at that date (29.2%).

**THE EQUITY PORTFOLIO
TOTALLED
€6,514
AT AMORTISED COST.**

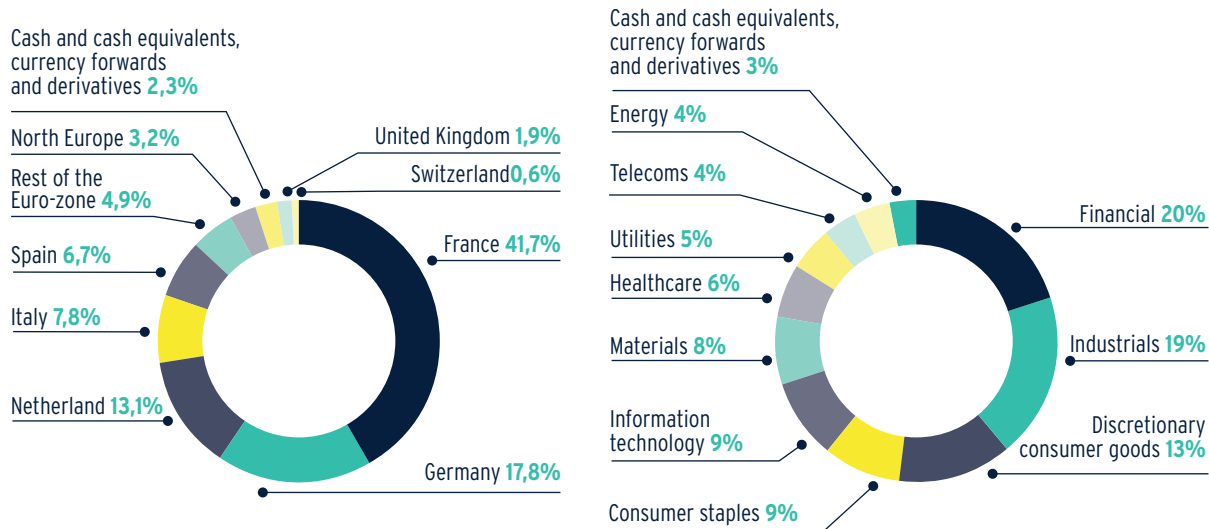
**THE EQUITY PORTFOLIO
HAD GENERATED
UNREALISED CAPITAL
GAINS AT END-2017
EQUIVALENT TO
43,1%
OF ITS AMORTISED
COST.**

BREAKDOWN OF EQUITIES BY GEOGRAPHIC REGION AT 31 DECEMBER 2017 (AT AMORTISED COST)



Source – ERAFP.

BREAKDOWN OF EUROPEAN EQUITIES BY SECTOR AND COUNTRY AT 31 DECEMBER 2017 (AT MARKET VALUE)



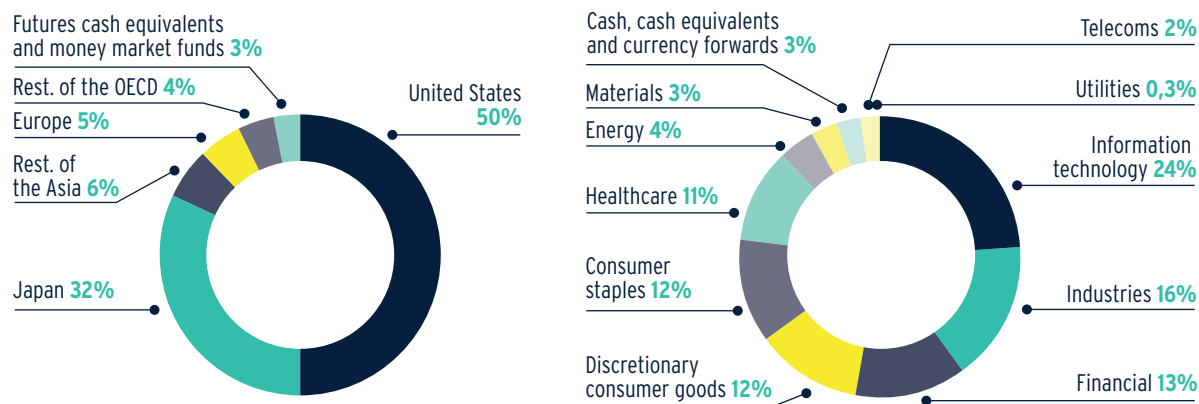
Source – ERAFP.

The international equities asset class was slightly more concentrated: the ten largest investment lines represented 19.1% of the total. By contrast, the benchmark index was far more dispersed than the portfolio (11.0% in the ten largest lines).

SRI PROFILE

In Europe and, to a lesser extent, the Pacific region, the change of criteria had a negative impact on the rating of ERAFP’s equity portfolios and their benchmark indices.

BREAKDOWN OF INTERNATIONAL EQUITIES BY SECTOR AND COUNTRY AT 31 DECEMBER 2017 (AT MARKET VALUE)



Source – ERAFP.

For US equities, by contrast, this change had a positive overall effect on the portfolio and its benchmark index.

The fall in the ratings of the European and Pacific region equity portfolios compared with 2016 should therefore be put into perspective, given the change in rating methodology.

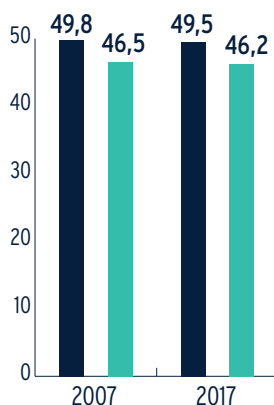
By contrast, the positive difference between the SRI rating of the European equity portfolio and that of its benchmark index remains significant (3.3 points higher). In 2017, ERAFP created, in addition to the eurozone equity mandates, a mandate for equities of European listed mid and large cap companies. This newly formed portfolio's SRI performance exceeded that of its benchmark index by 2.3 points.

As for US equities, this portfolio continued to outperform its benchmark index, and the corresponding rating gap widened. This increase can be partly attributed to ERAFP's continuing efforts to maintain a dialogue with its delegated asset managers so that its guidelines and, more generally, its SRI expectations are duly taken into account.

Lastly, with regard to the Pacific region equity portfolio, the portfolio continued to underperform its benchmark index. These results should be interpreted with circumspection insofar as Vigeo's coverage of the companies represented in the portfolio is less extensive than for the other asset classes it analyses.

This bias related to the rating agencies' lower coverage of a part of the investment universe is particularly marked for one of ERAFP's two delegated asset managers investing in mid-sized Asian companies. In this manager's case, the management process relies largely on dialogue with the portfolio companies aimed at increasing their transparency. For its part, ERAFP ensures at its regular meetings with the managers that its expectations are duly taken into consideration, although this is not yet explicitly reflected in the ratings that Vigeo issues.

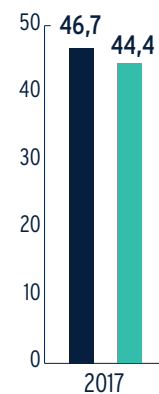
CHANGE IN THE SRI RATING OF THE EUROZONE EQUITY PORTFOLIO COMPARED WITH THAT OF ITS INDEX



■ ERAFP portfolio rating
■ Benchmark index rating

Source – Vigeo.

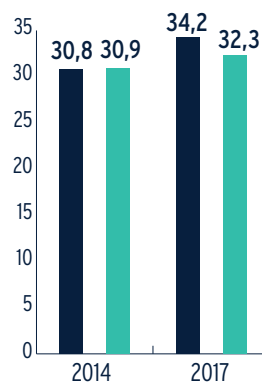
SRI RATING OF THE EUROZONE EQUITY PORTFOLIO COMPARED WITH THE INDEX



■ ERAFP portfolio rating
■ Benchmark index rating

Source – Vigeo.

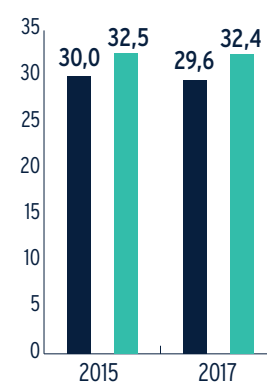
SRI RATING OF THE NORTH AMERICA EQUITY PORTFOLIO COMPARED WITH THE INDEX



■ ERAFP portfolio rating
■ Benchmark index rating

Source – Vigeo.

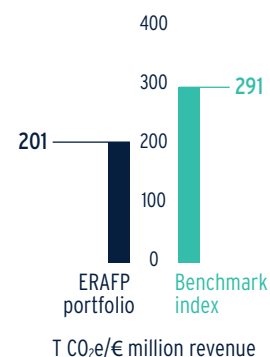
SRI RATING OF THE PACIFIC REGION EQUITY PORTFOLIO COMPARED WITH THE INDEX



■ ERAFP portfolio rating
■ Benchmark index rating

Source – Vigeo.

CARBON FOOTPRINT OF THE EQUITY PORTFOLIO AT 31 DECEMBER 2017



Source – Trucost.

CLIMATE ANALYSIS

CARBON FOOTPRINT

In 2017, the equity portfolio's carbon intensity, calculated as a weighted average, was 31% lower than that of its benchmark index (201 tCO₂ eq/€ million of revenue vs. 291 tCO₂ eq/€ million of revenue).

The portfolio's carbon intensity was significantly better than in 2016 (231 tCO₂ eq/€ million of revenue), and the gap compared with the index had increased.

This performance gap is mainly attributable to a slight underweighting in utilities combined with effective selection of less carbon intensive securities in that sector, which improved the portfolio's total performance by 14.4% relative to the benchmark index, or almost half of the total impact, across all sectors.

Moreover, the overweighting of the industrials and information technology sectors and effective stock selection in the materials sector also contributed to the portfolio's outperformance of its benchmark index.

Contribution to the energy transition

The indicators of contribution to the energy transition were positive for all sectors analysed³², and the portfolio systematically matched or bettered the performance of its benchmark index.

The portfolio's average green share came to 11%, approximately 12% higher than that of the index.

The portfolio's climate contribution intensity was 13%, representing a spread in relation to the index of around 17%.

The portfolio's outperformance on the green share and climate contribution intensity indicators was mainly driven by the good performance of the electricity and passenger transport sectors.

Emissions avoided by the portfolio, at around 315 tCO₂ eq/€ million invested, were almost exclusively attributable to the electricity sector. However, the portfolio's performance suffered due to its underweighting in this sector relative to the benchmark index, resulting in an equivalent amount of emissions avoided as the index.

INDICATORS OF CONTRIBUTION TO THE ENERGY TRANSITION OF THE EQUITY PORTFOLIO AT 31 DECEMBER 2017

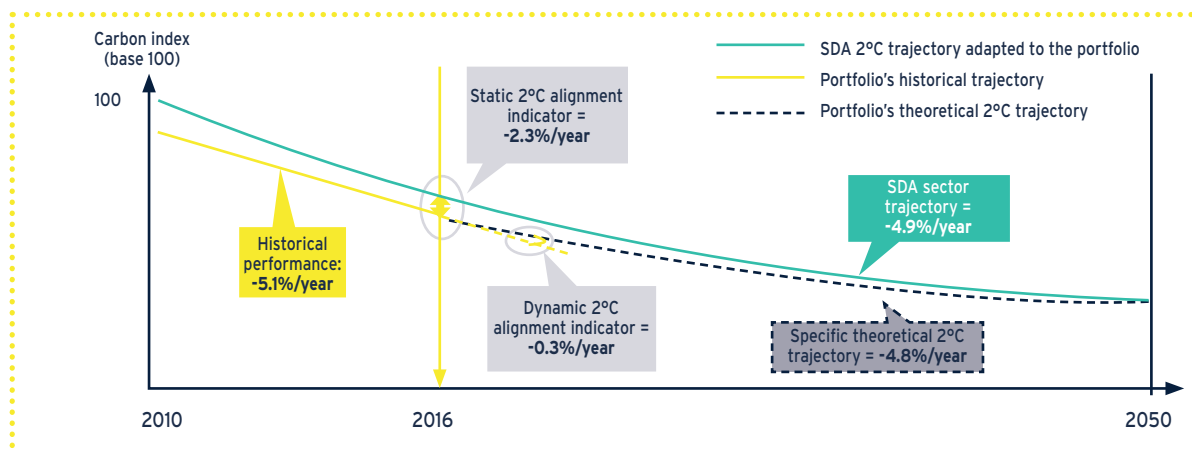
Zoom at the core sectors for climate	Green share %	Intensity of contribution to the climate transition %	Emissions avoided TCO ₂ /year/€ million invested
Portfolio	11 %	13 %	317
Composite index	10 %	11	320
Portfolio vs benchmark	12 %	17 %	-1 %

Source – I Care & Consult.

32. See the core sectors for climate presented on page 53.

2° ALIGNMENT

EVALUATION OF THE ALIGNMENT OF THE EQUITY PORTFOLIO WITH A GLOBAL WARMING CAP OF 2°C



Source – I Care & Consult. et Grizzly.

Portfolio static 2°C alignment

The portfolio has a good static 2°C alignment (-2.3%), indicating that on average the carbon intensity of issuers in the sectors analysed³³ in 2016 was within the 2°C trajectory. This is particularly true for the electricity sector, where, in line with the analysis of carbon intensity and climate contribution intensity, stock selection made it possible to pick particularly strong issuers with a starting point in 2016 significantly below the 2°C trajectory (static alignment of -22%). While the car makers in the portfolio came out above the 2°C trajectory in 2016 (static alignment indicator of +16%), they were closer to it than the issuers in the benchmark index. Moreover, at -2.3% the portfolio's static 2°C alignment is significantly better than that of the index (+4.5%).

Portfolio dynamic 2°C alignment

The portfolio's dynamic 2°C alignment is better than that of the benchmark index. Accordingly, the portfolio seems in line with the carbon intensity reductions required in the 2050 2°C trajectories for the sectors studied, by contrast with the index, for which the downward trend over the last six years has not been sufficiently marked to reach the 2°C target (average annual gap of zero for the portfolio and 3% for the index).

Focus on the utilities sector

Analysis of the portfolio's electricity-generating companies makes it possible to establish the compatibility of their activities with international climate objectives. From this perspective, the climate trajectories defined by the IEA seem a very relevant comparison factor as they break down the energy mix of the main countries and regions in a scenario limiting global warming to 2°C.

FOR MORE
INFORMATION

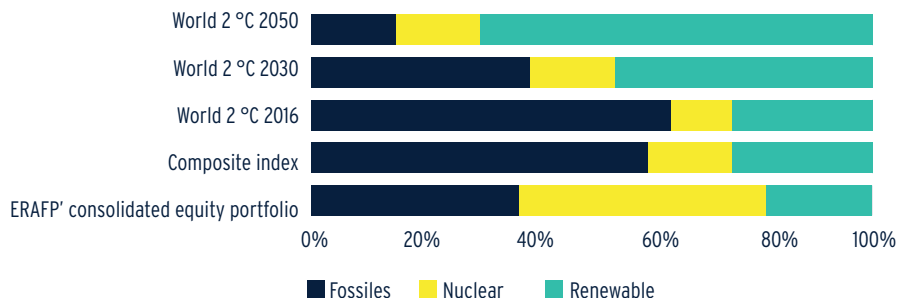


See the appendices available on the website www.rafp.fr for the results of the benchmark

33. The sectors studied in respect of static and dynamic 2° alignment analysis are utilities (electricity generation), passenger transport, goods transport, cement production and the automotive industry.

THIS PORTFOLIO'S EXCELLENT PERFORMANCE RELATIVE TO ITS BENCHMARK INDEX ON CLIMATE ANALYSIS INDICATORS (CARBON INTENSITY, GREEN SHARE, INTENSITY OF CONTRIBUTION TO THE CLIMATE TRANSITION AND STATIC AND DYNAMIC 2 DEGREE ALIGNMENT) IS MAINLY ATTRIBUTABLE TO EXCELLENT SELECTION OF STOCKS IN THE MAIN CORE SECTORS FOR THE CLIMATE, IN PARTICULAR UTILITIES (ELECTRICITY PRODUCTION).

ENERGY MIX OF ERAFP'S EQUITY PORTFOLIO COMPARED WITH THE IEA'S SCENARIOS (AT AMORTISED COST)

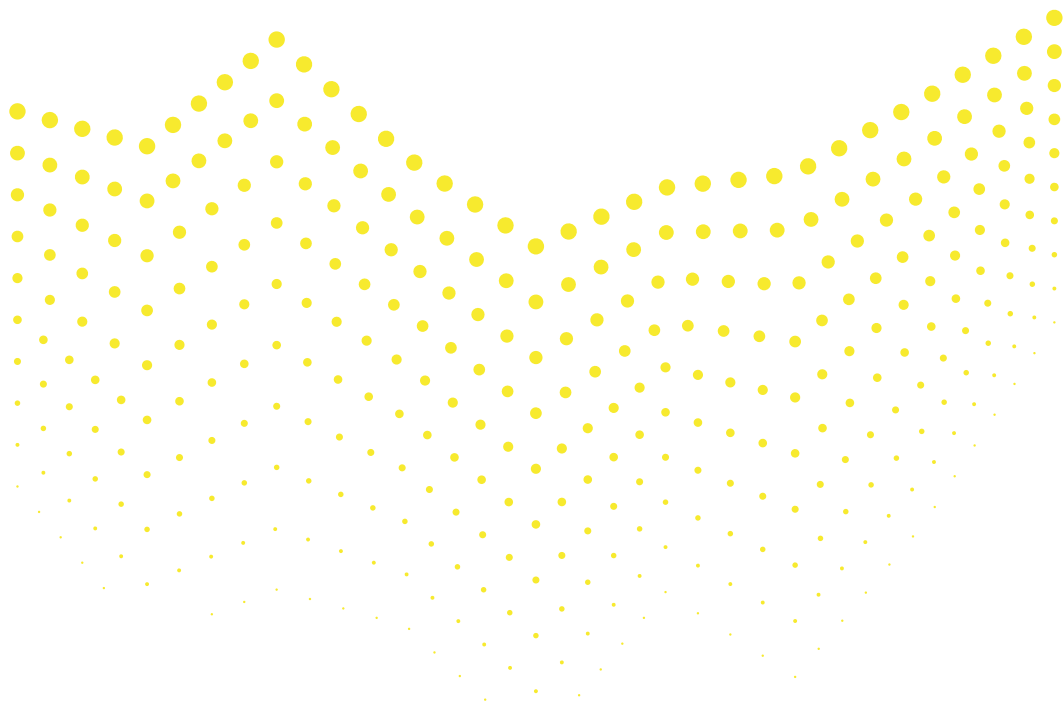


Source – Trucost based on IEA scenarios

As with the corporate bond portfolio, at the end of 2017, the proportion of fossil fuels in ERAFP's equity portfolio was already aligned with that advocated by the IEA for 2030.

The proportion of renewable energies, on the other hand, will have to more than double in order to reach the target level for 2030.

The transition to much less carbon-dependent methods of power generation will need to accelerate from 2030 in order to achieve alignment with the 2050 target energy mix.



THE MULTI-ASSET PORTFOLIO

Amundi holds this mandate, which was first awarded in 2013, with the aim of maximising performance while complying with ERAFP's SRI Charter and optimising the risk-return ratio by implementing a diversified, flexible and dynamic asset allocation. The fund is managed using a risk budget, based on a fundamental approach, with no benchmark constraint. The risk budget for this fund was set at 25% for 2017.

At 31 December 2017, the multi-asset fund totalled €598 million at amortised cost, representing 2.5% of ERAFP's total assets. It had generated unrealised capital gains equivalent to 20.7% of amortised cost, up significantly from 2016. The fund mainly benefited from its exposure to emerging market assets, Japanese equities and clean energy and water themes.

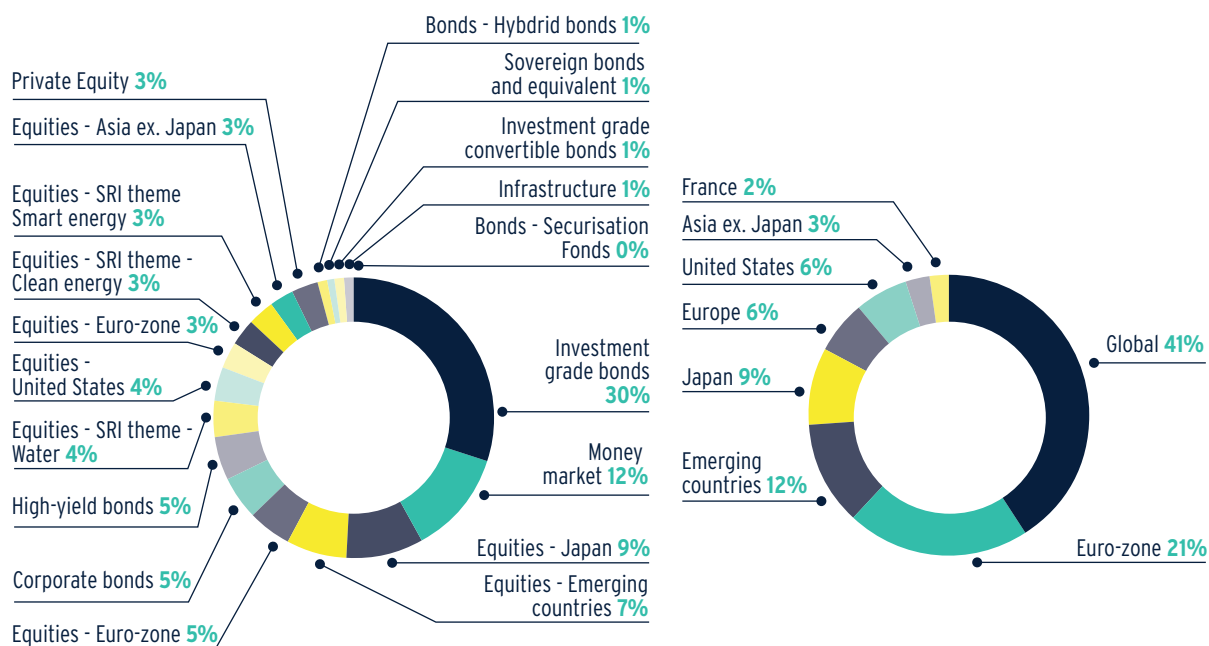
SRI PROFILE

ERAFP has developed specific application provisions regarding its SRI approach to management of the multi-asset fund-of-funds portfolio. It decided that the SRI eligibility of funds available for selection by Amundi would be determined based on:

— an analysis of the management process put in place; the only funds eligible are those based on a best in class SRI approach or adopting a particular environmental (reduction of climate change, protection of water resources, etc.) or social (healthcare, combating poverty, etc.) approach; or

— an analysis of the fund's SRI quality based on the SRI rating of each issuer represented in the fund.

BREAKDOWN BY ASSET CLASS AND GEOGRAPHIC REGION AT 31 DECEMBER 2017 (AT AMORTISED COST)



Source – ERAFP.

THE UNLISTED PORTFOLIO

ERAFP use two delegated management methods to invest in unlisted private equity and infrastructure assets.

Starting in 2015, it began to make direct investments in mutual funds, which at end-2017 amounted to:

- €216 million in private equity funds (of which €91 million called);

- €150 million in infrastructure funds (of which €56 million called), including in particular €50 million exclusively dedicated to the energy transition.

Starting in 2017, ERAFP awarded unlisted asset management mandates in the following amounts:

- €230 million in the dedicated private equity fund, managed by Access Capital Partners, which has already made €132 million of commitments (of which €42 million called);

- €200 million in the dedicated infrastructure fund, managed by Ardian France, which has already made €108 million of commitments (of which €15 million called).

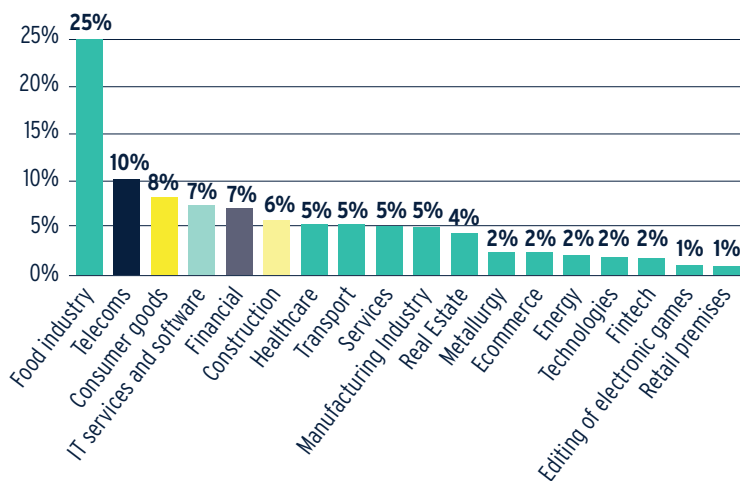
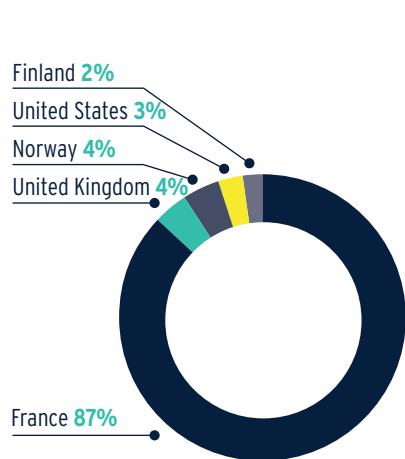
The amounts invested in the unlisted portfolio at 31 December 2017 therefore totalled €205 million (with ERAFP having committed €796 million in total), of which:

- €133 million in private equity assets (€446 million committed by ERAFP);

- €72 million in infrastructure assets (€350 million committed by ERAFP).

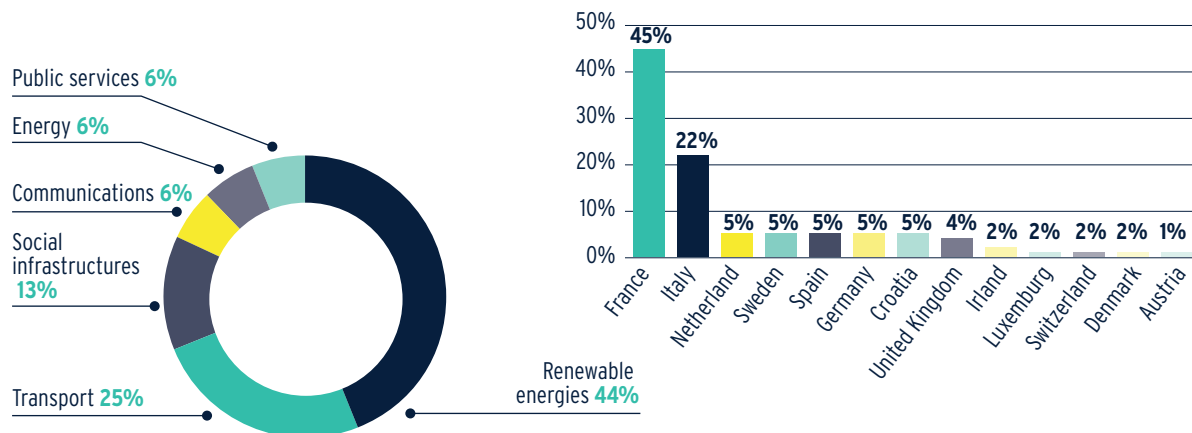
In terms of initiation of the portfolio's expansion, the share of unrealised capital gains is limited, standing at 3.8% of assets at amortised cost.

BREAKDOWN AT 31 DECEMBER 2017 BY SECTOR AND GEOGRAPHIC REGION OF THE PRIMARY PRIVATE EQUITY MUTUAL FUNDS IN WHICH ERAFP INVESTS DIRECTLY (AT AMORTISED COST)



Source – ERAFP.

BREAKDOWN AT 31 DECEMBER 2017 BY SECTOR AND GEOGRAPHIC REGION OF THE PRIMARY INFRASTRUCTURE MUTUAL FUNDS IN WHICH ERAFP INVESTS DIRECTLY (AT AMORTISED COST)



Source – ERAFP.

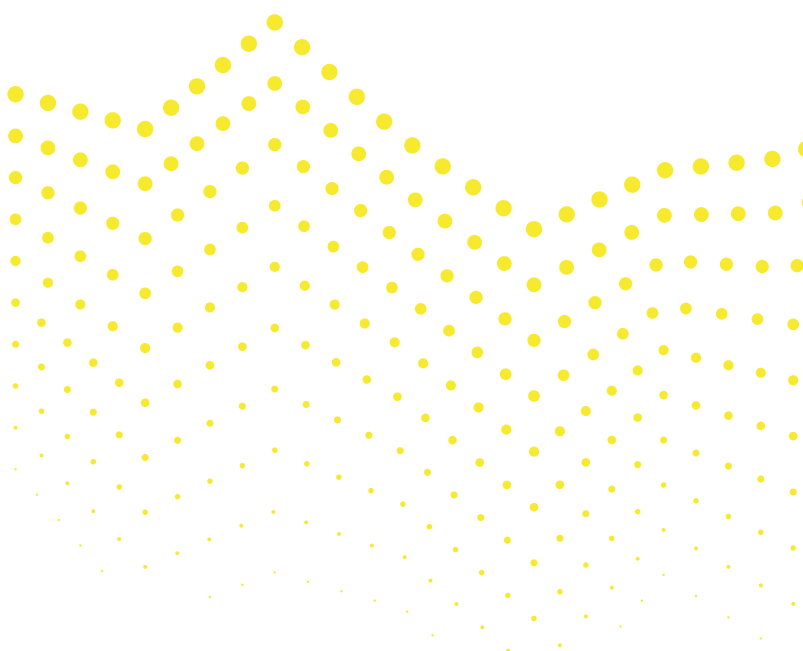
SRI PROFILE

In connection with its unlisted asset management mandate investments, ERAFP has developed SRI criteria for investing in private equity and infrastructure assets. The aim of these criteria is to adapt to the specific features of these asset classes while applying the five values of ERAFP's SRI Charter. Each criterion adapts the best in class principle to the specific nature of the asset class by incorporating a dynamic approach consistent with the investments' lifespan. Practically speaking, this means using the investment as a lever to encourage improvement in practices. Particular attention is also paid to managing the reputational risk arising from any controversial practices associated with portfolio companies or projects.

As the delegated asset managers invest mainly through mutual funds, SRI analysis is based on two aspects:

- the SRI management process implemented by the target fund;
- ESG assessment and monitoring of portfolio lines in relation to ERAFP's SRI criteria.

THE FACILITIES THAT ERAFP HAS HELPED FINANCE GENERATED 156 GWH OF ELECTRICITY IN 2017, OF WHICH 135 GWH OF WIND POWER AND 19 GWH OF SOLAR POWER (SEE PAGE 39).



THE REAL ESTATE PORTFOLIO

THE REAL ESTATE PORTFOLIO TOTALLED €2,070 million AT AMORTISED COST.

ERAFF's real estate portfolio comprises five diversified SRI asset management mandates:

- three French real estate mandates, two of which are managed by AEW Europe SGP (including ERAFF's headquarters building) and one by La Française REM;

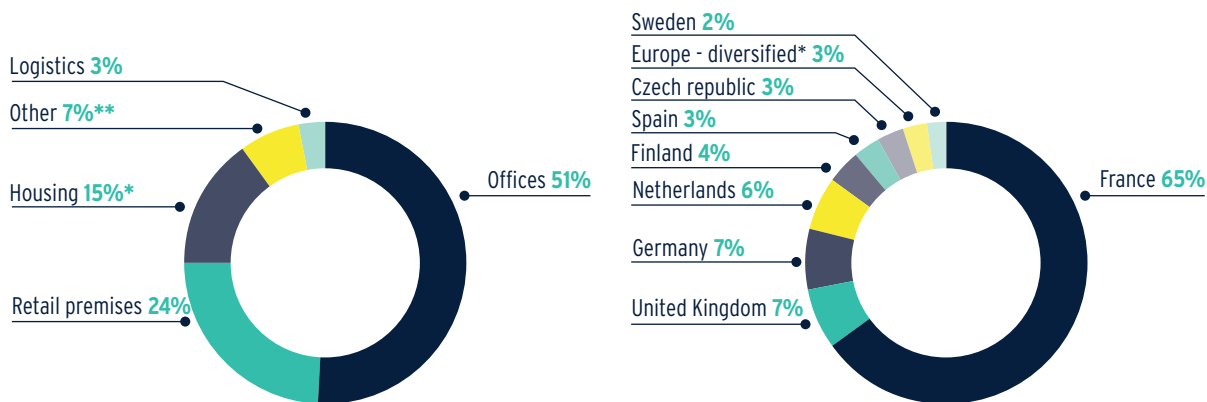
- two European real estate mandates, one managed by AXA Real Estate IM SGP and the other by LaSalle IM.

At 31 December 2017, the real estate portfolio totalled €2,070 million at amortised cost, representing 8.7% of ERAFF's total assets.

Unreleased commitments of €172 million, pending future deliveries of buildings and cash calls by the mutual funds' currently in the investment phase, can be added to this amount. In 2017, the portfolio's unrealised capital gains remained at the same level as the previous year, 3.5% of its amortised cost, reflecting the sustained pace of ongoing acquisitions, while the related costs negatively impacted asset yields.

The real estate portfolio committed to investing €60 million in the Fonds de Logement Intermédiaire.

BREAKDOWN BY COUNTRY AND SECTOR AT 31 DECEMBER 2017 (IN EXPOSURE***, AT AMORTISED COST)



* Of which, managed residences.

** Tourism, leisure and mixed assets as part of a value added strategy.

*** Exposure corresponds to the sum of the buildings' independently appraised values (failing which their acquisition values) and mutual fund commitments.

Source – ERAFF.

SRI PROFILE

ERAFP has developed a demanding and innovative SRI process for real estate assets, adapting the five values of its SRI Charter to the asset class. It not only focuses on the real estate assets' environmental impact, but also integrates the challenges of social progress, respect for human rights, democratic labour relations and good governance into their management. In this respect, taking these challenges into account along the entire management chain is of crucial importance.

This approach also aims to adapt the best in class principle to the specific nature of the real estate asset class by incorporating a dynamic approach consistent with the investments' lifespan. In practical terms, this is reflected in a dual SRI performance dimension for the real estate concerned:

— a relative performance that compares the extra-financial characteristics of these buildings and their management (lease, use, maintenance) with other buildings of the same type (same usage and type of construction, equivalent location);

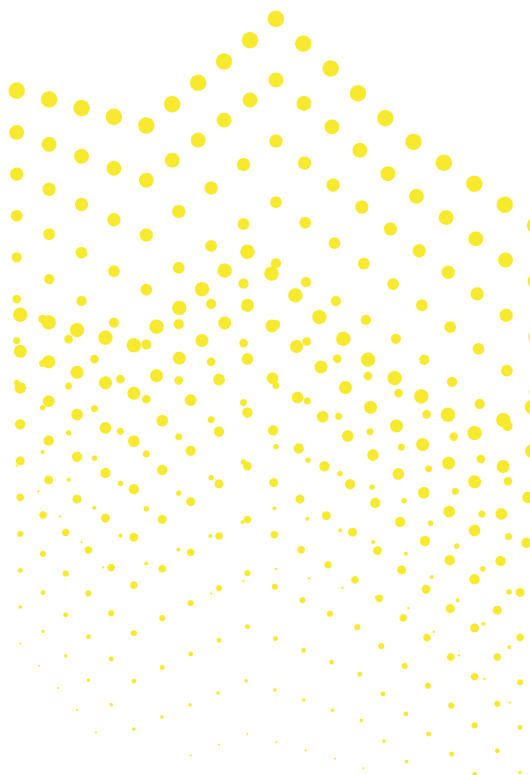
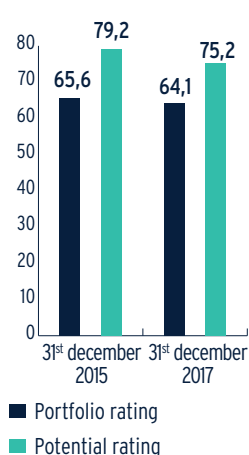
— a dynamic performance that aims to raise each asset to best in class status, using a potential SRI rating estimate at the date of acquisition.

In summary, only real estate assets with a high SRI performance within their category at the time of acquisition or those with strong improvement potential can be selected for ERAFP's portfolio.

In 2017, the consolidated portfolio's rating fell, due in particular to certain new acquisitions with a weaker rating potential than the assets already in the portfolio, which have had more time to improve. The fall can also be attributed to the change in methodology at one of ERAFP's asset management companies, which led to a downward revision of its portfolio asset ratings. The management company in question also extended its rating coverage by adding an SRI potential rating.

Most of the real estate assets in ERAFP's portfolio are certified to standards of minimum environmental and social performance. Most certifications obtained or pending are BRE Environmental Assessment Method (BREEAM) and/or High Environmental Quality (HEQ).

CHANGE IN THE CONSOLIDATED REAL ESTATE PORTFOLIO'S AVERAGE SRI RATING



ENGAGEMENT STRATEGY

Engagement refers to all forms of dialogue between one or more investors and one or more issuers. It may be collaborative, in other words led by a group of investors, or limited to exchange between a single investor and a single issuer. ERAFP tends to favour collaborative engagement, insofar as:

- a group of investors can exert more influence capitalistically on a company than one investor in isolation;
- the resources needed to carry out the engagement (research, time, etc.) can be pooled between the participants;
- it facilitates the sharing of good practice among investors.

The general meeting is an important date in the company calendar, providing an opportunity for dialogue with shareholders as it requires them to give their opinion directly on a certain number of agenda items.

Since 2012, ERAFP has formalised its engagement approach by adopting guidelines that define both priority engagement themes and its general meeting voting policy.

Moreover, in revising its SRI Charter in 2016, ERAFP sought to formally strengthen its position as a committed investor. The new SRI Charter explains that “ERAFP is determined to support, on a long-term basis, those organisations in which it has decided to invest, by exercising its responsibilities as shareholder or stakeholder in such a way as to sustainably promote, within these entities, practices that respect the values it supports.”

Dialogue can also be initiated with a regulatory authority in order to bring about change in the regulatory framework governing investors’ activity, in which case the engagement is generally collaborative, as investors join forces to exert more influence on the regulator. Within the IIGCC, at the G7 and G20 summits in particular, ERAFP lobbied in support of:

- continued efforts by governments to support and implement the Paris Agreement;
- the steering of investment towards the low-carbon transition;
- the establishment of climate-related financial reporting frameworks.

Asserting these positions and contributing analysis articles in publications aimed in particular at public decision-makers are part of the same promotional effort.

With the implementation of ERAFP’s new SRI Charter, ERAFP’s delegated asset managers are expected to closely monitor controversial practices that issuers may be exposed to. As part of a shareholder engagement approach, ERAFP’s delegated asset manager will initiate dialogue with companies that are involved in proven breaches of international standards or have questionable environmental, social or governance practices

COLLABORATIVE INITIATIVES

In 2017, ERAFP continued its engagement initiatives on a number of environmental, social and governance fronts, via both collaborative initiatives and various investor networks and platforms, including:

- the United Nations Principles for Responsible Investment (PRI), on the themes of agricultural supply chain working conditions and the fight against aggressive tax optimisation practices;

- the Extractive Industries Transparency Initiative (EITI);

- Mirova, Natixis Asset Management's dedicated responsible investment subsidiary, on hydrocarbon exploration in the Arctic and supply chain working conditions in the textile and IT industries;

- shareAction/RE100, run by the Climate Group and the Carbon Disclosure Project, encouraging listed companies to develop a 100% renewable energy supply over time;

- the Institutional Investors Group on Climate Change (IIGCC), which aims to promote strategies to European utility and automotive companies that enable them to significantly reduce their greenhouse gas emissions.

At the end of the year, ERAFP joined Climate Action 100+, an IIGCC initiative launched in collaboration with the Global Investor Coalition on Climate Change (GIC) regional networks and the PRI. Member investors are encouraged to jointly engage with the world's largest emitters of greenhouse gases or those with the most critical exposure to climate risks. The initiative will focus on three main objectives:

- establishing a strong governance framework** which clearly defines boards of directors' responsibilities with regard to climate change and how they should take into account the related risks and opportunities;

- taking steps to reduce greenhouse gases throughout the value chain.** These measures must be consistent with the objective of the Paris Agreement to limit global warming to less than two degrees Celsius compared with the pre-industrial era;

- providing more information in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)** and, where possible, with sector-specific expectations formulated through the Global Investor Coalition on Climate Change. This information should enable investors to assess the resilience of companies' climate change strategies. In particular this requires evaluating different scenarios, such as taking into account legislation aimed at limiting global warming to less than two degrees Celsius in their financial plans.

BREAKDOWN OF COLLABORATIVE INITIATIVES SUPPORTED BY ERAFP, BY PRIORITY ENGAGEMENT THEME

1

Fight against climate change

- IIGCC/Climate Action 100+
- Mirova
- RE100/ShareAction

2

Prevention of social risks in the supply chain

- PRI
- Mirova
- ICCR

3

Consistency between companies' commitments to sustainable development and their lobbying practices

- IIGCC
- ITIE

4

Fight against aggressive tax optimisation practices

- PRI

THE ASSET MANAGEMENT COMPANIES ARE MOST ACTIVE IN TACKLING ENVIRONMENTAL AND SOCIAL ISSUES. THE NUMBER OF ENGAGEMENT INITIATIVES, PARTICULARLY COLLABORATION-BASED, INCREASED FROM LAST YEAR.

Generally speaking, the objective of these collaborative initiatives is to question issuers about their practices, asking them to explain and, if necessary, improve them.

In addition to written exchange, the engagement coordinators organise meetings with willing issuers in order to explain the expected level of transparency and the best practice in their sector, and to discuss the issuers' intended action plans for the coming years.

In 2017, ERAFP held discussions with 45 companies through the various collaborative initiatives mentioned above.

In 2017, ERAFP's delegated asset managers also carried out engagement activities on its behalf³⁴:

Meanwhile, the number of companies that have made a formal commitment to change or that have already made changes following such a commitment fell slightly compared with 2016. However, this fall is partly attributable to the mandate changes made in May 2017 to the European equity portfolios, as the newly selected asset management companies have only just begun to engage on ERAFP's behalf.

A VOTING POLICY THAT IS CONSISTENT WITH PUBLIC SERVICE VALUES AND DEMANDING OF LISTED ISSUERS

ERAFP's policy for voting at general meetings (GM) is updated annually, in order to draw lessons from each general meeting season and thereby gradually improve the policy's consistency and comprehensiveness.

While the equity asset management companies implement the policy on its behalf, ERAFP ensures it is correctly implemented and positions expressed are consistent, by coordinating voting by its delegated asset managers for a number of companies. In 2017, this sample comprised 40 major French companies and 20 major international companies.

For the 40 French GMs that ERAFP monitors in depth, at around 6% the average rate of shareholder opposition to management-proposed resolutions remains low, and essentially in line with previous years.

In this, France's fourth year of "Say on Pay", for our sample the average rate of shareholder opposition to corporate officer remuneration resolutions increased (90% approval rate in 2016 compared with 87% in 2017), while over the same period the average total pay of chief executives saw continued growth, of 10% to €4.8 million.

SHAREHOLDER ENGAGEMENT CARRIED BY ASSET MANAGEMENT COMPANIES ON ERAFP'S BEHALF

Type of engagement	Number of companies
Direct engagement	230
Engagement via a collaborative initiative	50
Engagement via a collaborative initiative with a leadership role	28 %
	Engagement by theme
Environment	30 %
Social	32 %
Governance	16 %
ESG	22 %
Number of companies having made a formal commitment to change following the shareholder engagement procedure	61

³⁴ The results presented in the table below concern engagement relating to the equity and corporate bond portfolios.

In 2017, the Sapin II act was implemented. In addition to the now mandatory consultative voting on remuneration due and awarded for companies that adhere to the legally binding AFEP-MEDEF code, an obligation has been introduced requiring all companies listed on a regulated market to vote on the remuneration policy for each upcoming financial year. In 2018, we will find out whether companies have taken the measures proposed to improve their remuneration policies and related awards in cases where these have been strongly contested.

On other governance issues, ERAFP welcomes in particular the increasing proportion of women on boards of directors (36% in 2015, 41% in 2016 and 44% in 2017) as well as that of independent directors (47% in 2015, 51% in 2016 and 52% in 2017).

For the 20 international GMs that ERAFP monitors in depth, at 5.6% the average rate of shareholder opposition to management-proposed resolutions is slightly lower than that observed for the French sample.

Although the resolutions relating to remuneration policies continue to attract little opposition internationally considering the pay levels seen in this sample, it is worth noting that pay remained relatively stable compared with last year and that the level of opposition to remuneration policies increased from 9.2% in 2016 to 12.8% in 2017.

Meanwhile, at 70% the proportion of independent directors remains higher internationally than that observed in France, whereas conversely, the process of improving gender balance on boards is at a less advanced stage, with on average only 29% women directors outside France, unchanged from 2016.

Concerning more specifically voting in respect of shares held by ERAFP, the asset management companies voted more frequently against the resolutions proposed. Indeed, ERAFP voted, via its delegated asset management companies, against 43.2% and 57.8%, respectively, of the resolutions tabled by the managements of the French and international companies that it monitors in detail. The main themes opposed concerned:

- managers' remuneration;
- appropriation of earnings (dividend distribution) in cases where the company's proposal seemed irresponsible: distribution in excess of net income, excessive debt, imbalance between shareholders' and employees' remuneration, significant restructuring carried out during the year, etc.;
- the appointment of new directors or renewal of existing mandates if the board lacked independence or had a poor gender balance, or if certain directors held an excessive number of board appointments.

Lastly, in 2017 ERAFP supported 13 various external resolutions.

FRANCE

Governance indicators for ERAFP's sample	2017	2016	2015	2014
Gender balance of boards	44 %	41 %	36 %	31 %
Independence of boards	52 %	51 %	47 %	46 %
Average pay of the chief executive (€)	4 842 008	4 328 418	3 689 856	3 588 105

		2017	2016	2015	2014	2013	2012
Overall results	Resolutions (other than those submitted by shareholders) subject to close review by ERAFP	889	810	772	821	658	309
	Average adoption rate per GM of resolutions proposed by management	93,70 %	94,5 %	94,4 %	93,6 %	96,0 %	94,0 %
	Resolutions (other than those submitted by shareholders) rejected by the GM	1,7 %	1,8 %	3,6 %	0,2 %	0,2 %	1,0 %
	Resolutions (other than those submitted by shareholders) adopted by less than 90% of the votes	19,1 %	16,6 %	16,9 %	20,0 %	13,0 %	18,0 %
	Resolutions (other than those submitted by shareholders) adopted by less than 70% of the votes	2 %	1,8 %	5,5 %	5,1 %	1,0 %	4,0 %
ERAFP votes	ERAFP votes in favour of a resolution (other than those submitted by shareholders)	56,8 %	60,5 %	67,7 %	60,7 %	62,0 %	66,0 %
	ERAFP's votes in favour of a dividend distribution	50 %	51,4 %	60,5 %	43,6 %	42,5 %	-
	Average adoption rate per GM of resolutions concerning a dividend distribution	99,1 %	99,1 %	95,9 %	98,8 %	-	-
	ERAFP votes in favour of resolutions concerning executives' remuneration	8,3 %	16,9 %	16,5 %	19,7 %	-	-
	Average adoption rate per GM of resolutions concerning executives' remuneration	87,2 %	90,8 %	87,8 %	89,5 %	-	-
	ERAFP's votes in favour of directorships	63 %	67,6 %	66,9 %	71,8 %	-	-
	Average adoption rate per GM of resolutions to appoint and/or reappoint directors	92,4 %	93,8 %	94,8 %	94,2 %	-	-
External resolutions	Shareholders' resolutions submitted	3	10	9	9	6	5
	Shareholders' resolutions adopted by the GM	0	0	0	0	0	0
	Shareholders' resolutions supported by ERAFP	67 %	70 %	56 %	78 %	83 %	80 %

INTERNATIONAL

Governance indicators for ERAFP's sample	2017	2016	2015	2014
Gender balance of boards	29 %	29 %	26 %	25 %
Independence of boards	70 %	63 %	59 %	64 %
Average pay of the chief executive (€)	7 168 817	7 088 188	8 522 796	7 345 514

		2017	2016	2015	2014
Overall results	Resolutions (other than those submitted by shareholders) subject to close review by ERAFP	241	245	196	287
	Average adoption rate per GM of resolutions proposed by management	94,4 %	95,1 %	96,0 %	95,0 %
	Resolutions (other than those submitted by shareholders) rejected by the GM	1,34 %	0,44 %	0 %	0 %
	Resolutions (other than those submitted by shareholders) adopted by less than 90% of the votes	10,4 %	11 %	11,5 %	12,8 %
	Resolutions (other than those submitted by shareholders) adopted by less than 70% of the votes	2,71 %	2,63 %	0,00 %	4,9 %
ERAFP votes	ERAFP votes in favour of a resolution (other than those submitted by shareholders)	42,2 %	43,3 %	58,9 %	62,0 %
	ERAFP's votes in favour of a dividend distribution	53,3 %	42,9 %	54 %	33 %
	Average adoption rate per GM of resolutions concerning a dividend distribution	99,4 %	98,8 %	92,5 %	99,5 %
	ERAFP votes in favour of resolutions concerning executives' remuneration	5 %	0 %	0 %	10 %
	Average adoption rate per GM of resolutions concerning executives' remuneration	81,6 %	85,8 %	94,1 %	92,6 %
	ERAFP's votes in favour of directorships	31,1 %	42,7 %		
	Average adoption rate per GM of resolutions to appoint and/or reappoint directors	93,3 %	93,5 %		
External resolutions	Shareholders' resolutions submitted	17	16	13	4
	Shareholders' resolutions adopted by the GM	0	3	1	0
	Shareholders' resolutions supported by ERAFP	65 %	81 %	85 %	100 %

IN 2017, ERAFP SIGNED THE FRENCH PUBLIC SECTOR INVESTORS' CLIMATE PROTECTION CHARTER

ERAFP joined a number of other national public financial institutions and operators (Caisse des Dépôts (CDC), Bpifrance, l'Agence française de développement (AFD), le Fonds de réserve pour les retraites (FRR) and other state investment agencies), to commit to implementing an approach aimed at ensuring that their activities are consistent with the objectives of the Paris Agreement.

This commitment was reflected in the signing of the French Public Sector Investors' Climate Protection Charter, based on the following six principles:

- 1) taking climate issues into account in investment decisions;
- 2) helping to finance the transition to a low-carbon economy;
- 3) carrying out structured dialogue with stakeholders;
- 4) disseminating best practices;
- 5) issuing dedicated financial instruments;
- 6) promoting transparency and accountability.

ERAFP is not concerned by principle 5, but had already committed to implementing all of the other principles. Some of its most emblematic initiatives in these areas, which it intends to pursue and develop, are listed below.

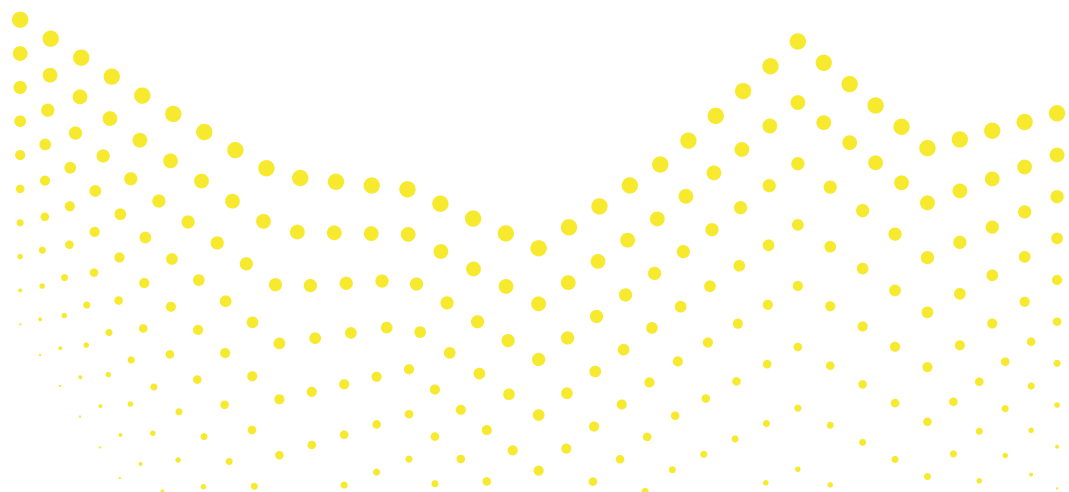
Its 100% SRI best in class approach allows it to take into account both climate issues and other ESG considerations as early as the issuer selection stage (principle 1).

The infrastructure mandate's expansion and the implementation of the low-carbon European equity mandate contribute to the direct financing of the energy transition (principle 2).

Engagement with issuers, whether as a shareholder or a creditor, is a priority for both ERAFP and its asset managers (principle 3).

ERAFP participates actively in the promotion of article 173 of the energy transition law, including abroad, an example being when its chief executive officer addressed the Californian Senate on its implementation of the related regulations (principle 4).

ERAFP seeks constantly to improve the information it publishes on its activities, in particular its investments, and does not balk at highlighting areas in which the methodologies or tools used leave room for improvement (principle 6).



ERAFP: AN INVESTOR RECOGNISED BY ITS PEERS

ERAFP: VOTED BEST PUBLIC SECTOR PENSION FUND AT THE 2017 IPE AWARDS.

At the 17th IPE Awards ceremony held on 28 November in Prague, ERAFP was recognised by its peers as a 100% SRI long-term investor at the European level.

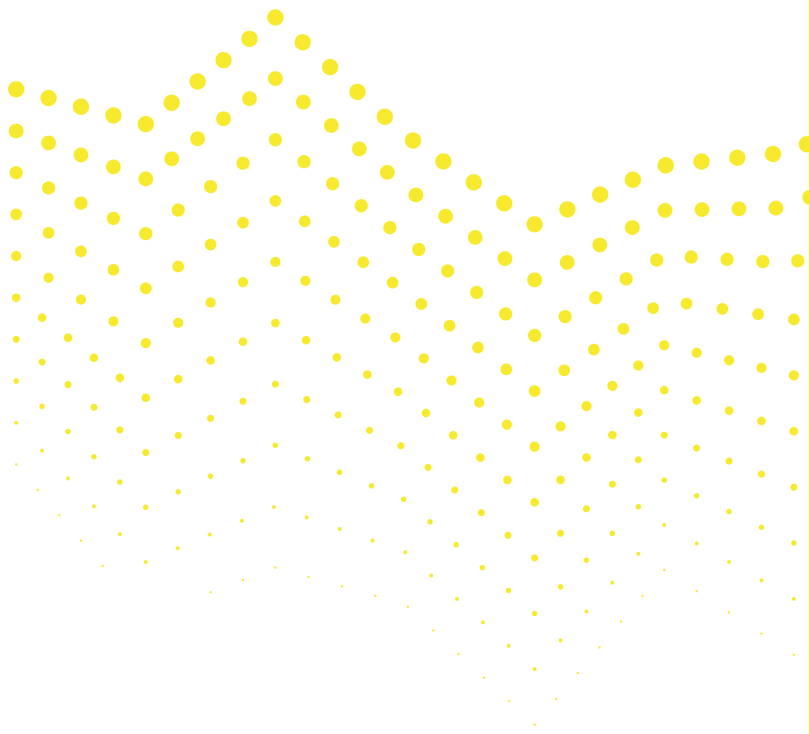
In 2015, ERAFP had received the prize for best SRI investment policy, and this new award confirms the overall quality of the fund's management.

ERAFP, THE SECOND LARGEST FRENCH INVESTOR IN THE ASSET OWNER DISCLOSURE PROJECT (AODP) ANNUAL RANKING.

In 2017, ERAFP was ranked 14th globally and second in France in AODP's annual league table, in recognition of its work to combat climate change.

Every year, the AODP publishes a ranking of the climate performance of the world's 500 largest asset owners, including pension funds, insurance funds, sovereign funds, foundations and endowment funds.

ERAFP was therefore selected for this distinction from among the world's biggest asset managers, for its consideration of carbon risks in its investments and its actions to mitigate them.



GLOSSARY

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 automatically, 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 a company, and corresponding to a long-term loan. The bondholder receives income, also known as the coupon.

Capitalisation rate

Interest rate that enables an amount invested at this rate to reach 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.

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.

Engagement

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

ESG

Acronym referring to environmental, social and governance issues.

FCP (collective investment fund)

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

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 as an annuity or in 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.

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 Pension Steering Committee (French acronym: COR).

GIP Union retraite

French public interest group

that includes 38 mandatory retirement schemes (CNAV, MSA, AGIRC, CNRACL, Ircantec, etc.) set up 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.

Greenhouse gases

Gases that are a source of global warming.

Individual statement of position (French acronym: RIS)

Document sent to active contributors. The statements relating to RAFF are sent along with those of the main pension scheme. The RIS includes information on the beneficiary's entire 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.

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 increasing 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 their respective 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.

Marketable security

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

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 points systems. Basic pension schemes tend to use the "quarter" system.

Premium

Premium applied to the amount of the future pension of a policyholder 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.

Return

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

Technical return: ratio of the service value of a point to the purchase value of a point.

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.

Share

Negotiable security that gives its owner fractional ownership of a company and certain rights: to oversee and control management, and 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

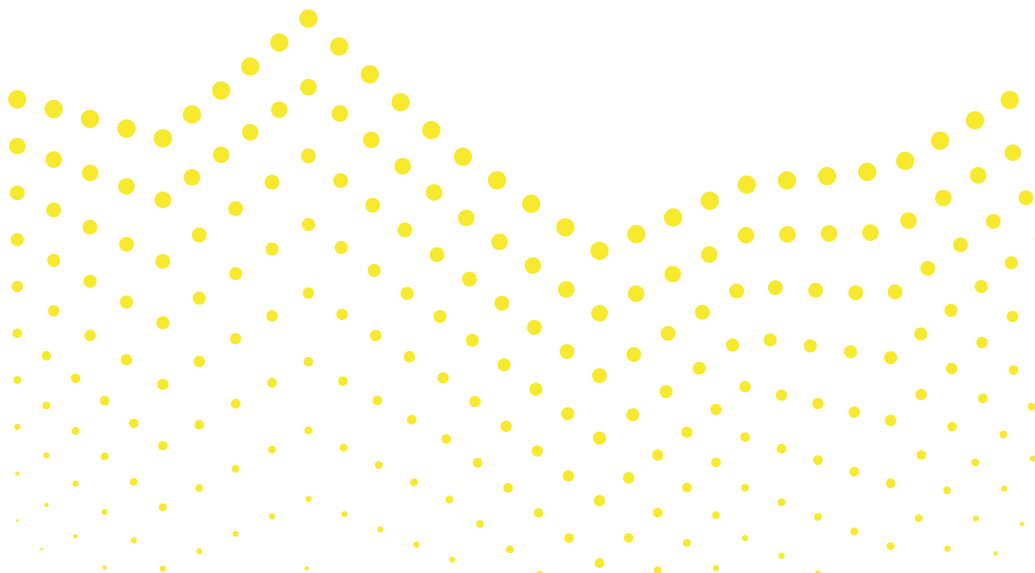
The Brundtland Report, published in 1987 by the UN World Commission on the Environment and Development, defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Tracking error

Tracking error represents the volatility of performance variances between the fund and its benchmark index.

UCI (undertaking for collective investment)

Term generally used to refer to a vehicle for the collective ownership of financial assets.

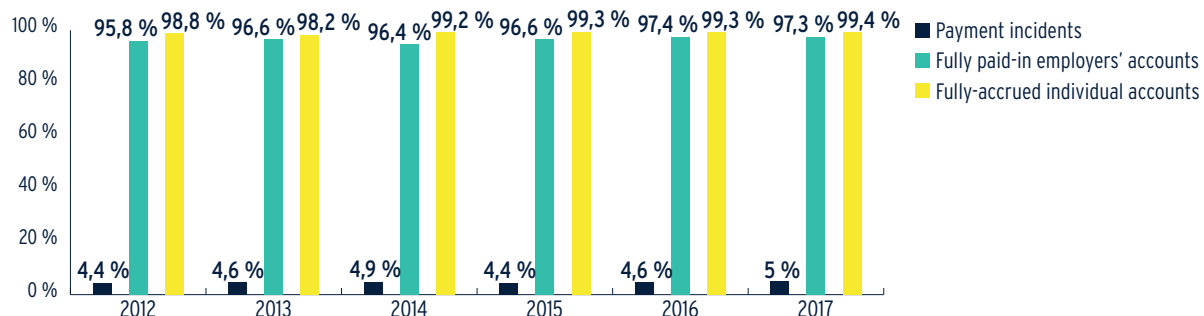


4.

APPENDICES

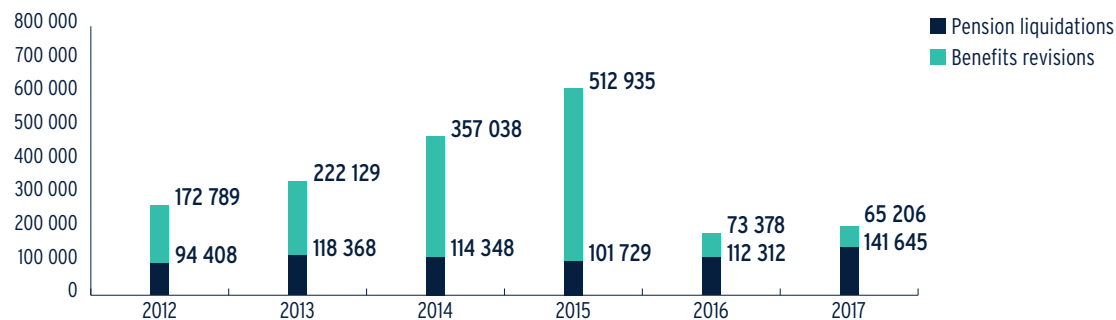
HISTORICAL DATA

EMPLOYER ACCOUNTS AND INDIVIDUAL RETIREMENT ACCOUNTS



Source – CDC GA

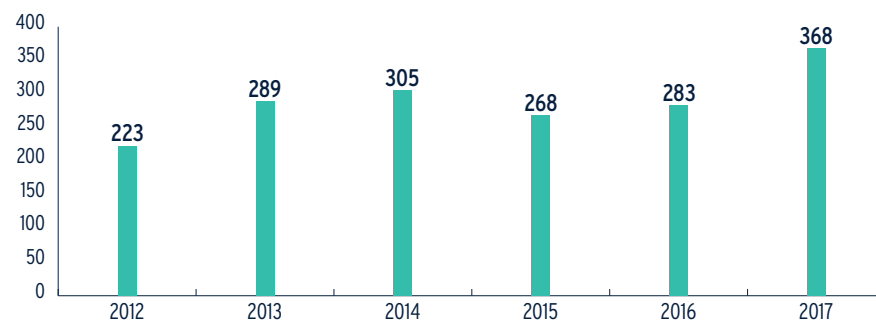
NUMBER OF PENSION LIQUIDATIONS AND BENEFITS REVISIONS, 2011-2016



Source – CDC GA

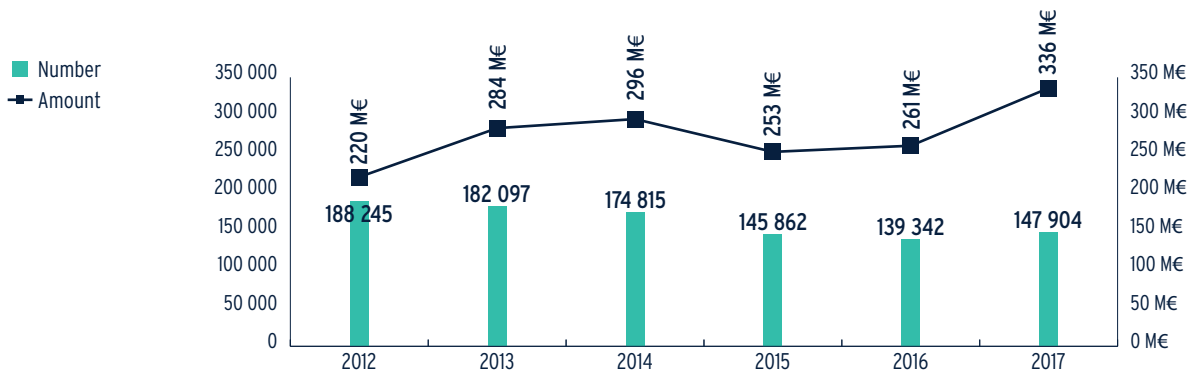
Note: from 2016, only revisions with an impact on rights are recorded.

BENEFIT PAYOUT AMOUNTS (IN MILLIONS OF EUROS)



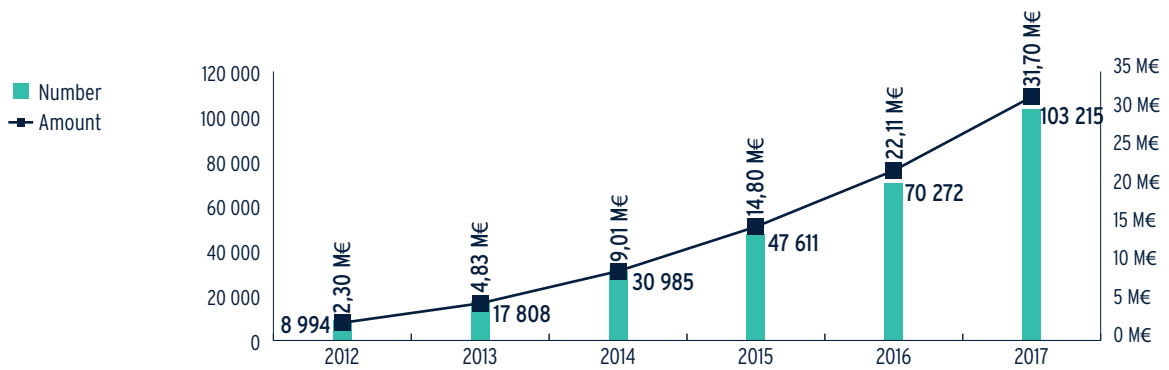
Source – CDC GA

NUMBER AND AMOUNT OF ANNUAL LUMP SUM BENEFIT PAYOUTS (IN MILLIONS OF EUROS)



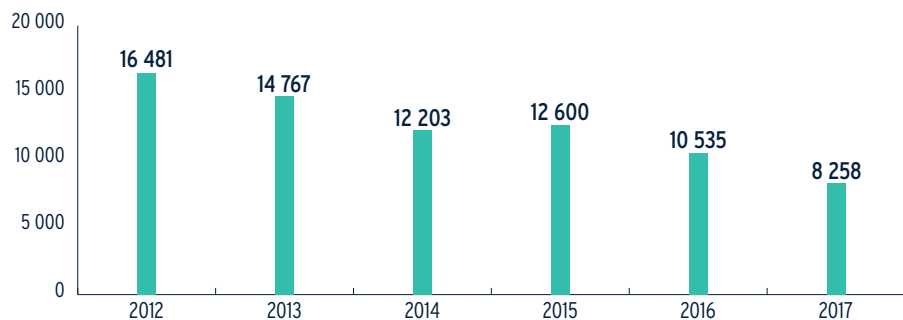
Source – CDC GA

OVERALL NUMBER AND AMOUNT OF ANNUAL ANNUITY PAYOUTS (IN MILLIONS OF EUROS)



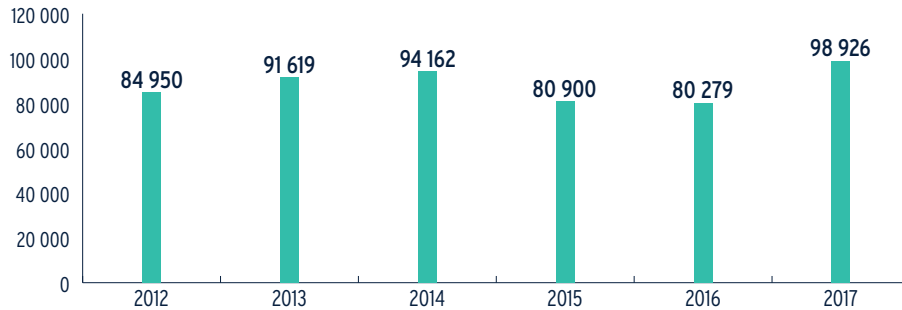
Source – CDC GA

NUMBER OF TELEPHONE CALLS HANDLED FROM EMPLOYERS



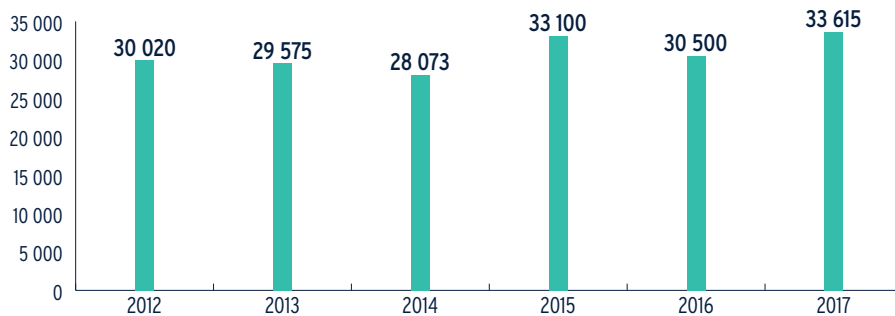
Source – CDC GA

NUMBER OF TELEPHONE CALLS HANDLED FROM RETIRED BENEFICIARIES



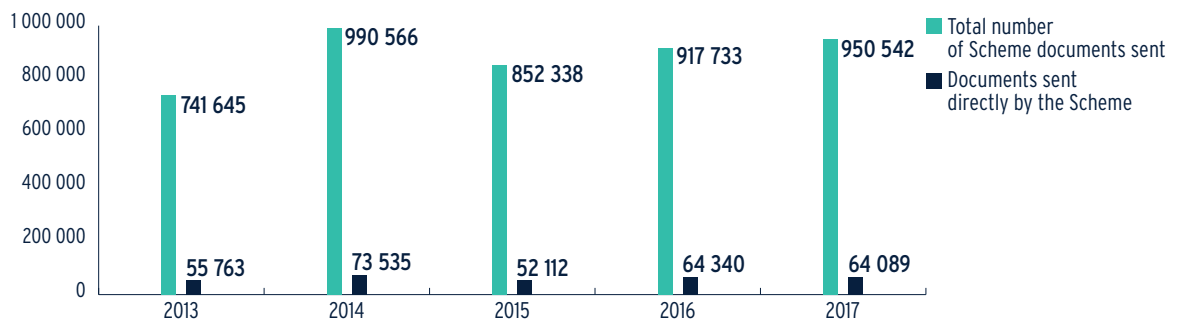
Source – CDC GA

NUMBER OF TELEPHONE CALLS HANDLED FROM ACTIVE CONTRIBUTORS



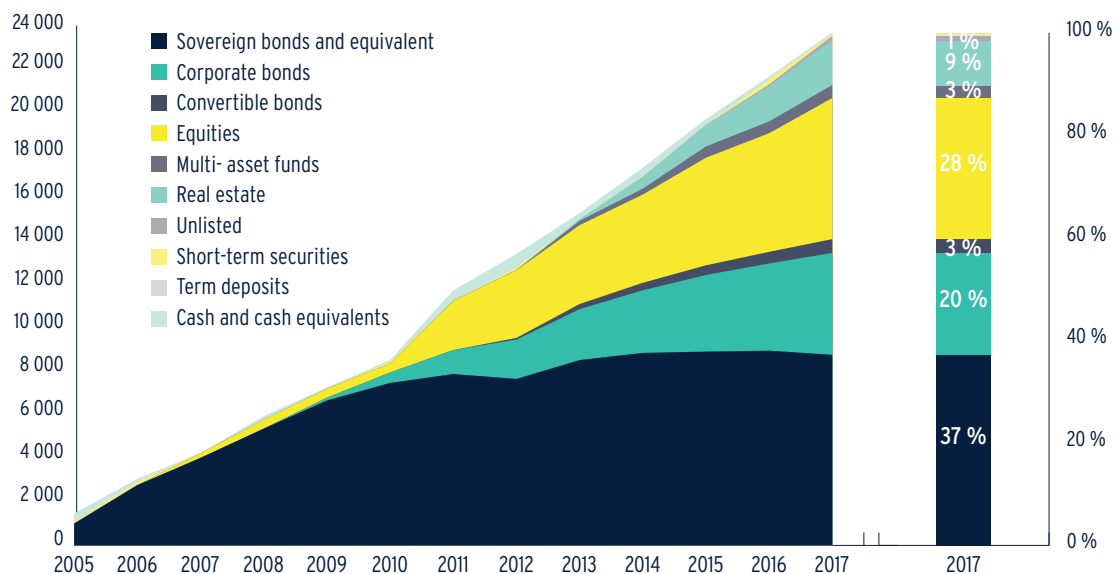
Source – CDC GA

NUMBER OF 'RIGHT TO INFORMATION' DOCUMENTS SENT



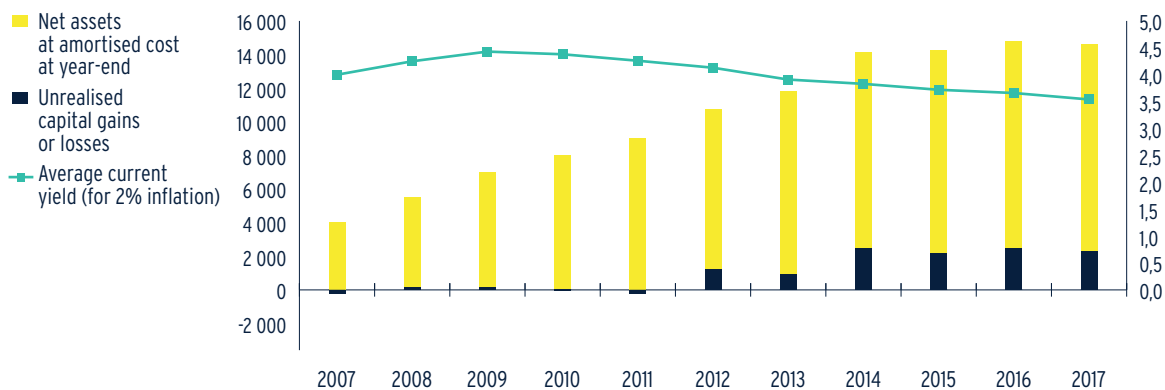
Source – CDC GA

PORTFOLIO COMPOSITION (AT AMORTISED COST IN MILLIONS OF EUROS)



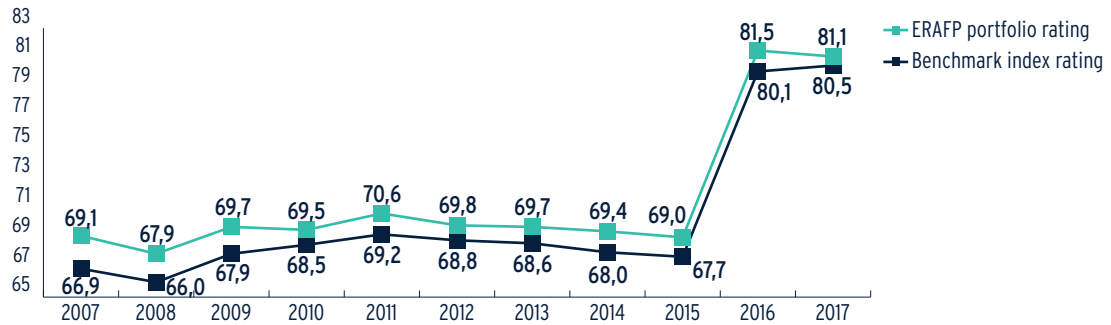
Source – ERAFP

AVERAGE YIELDS AND UNREALISED CAPITAL GAINS AND LOSSES ON THE BOND PORTFOLIO SINCE 2007



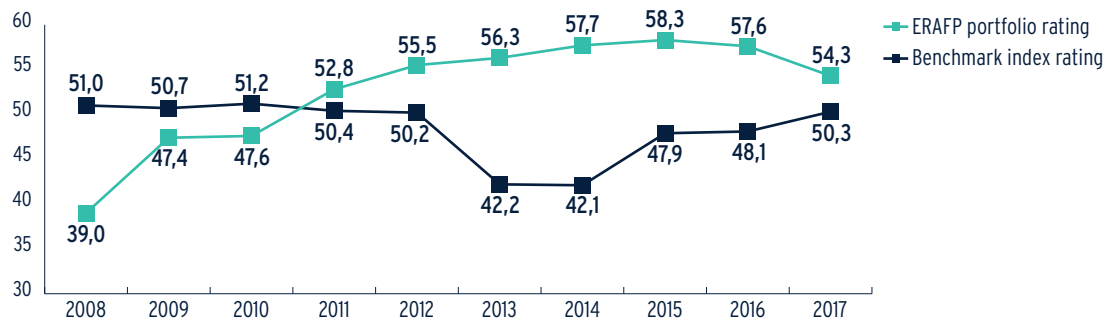
Source – ERAFP

AVERAGE SRI RATING FOR THE SOVEREIGN AND SIMILAR BOND PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



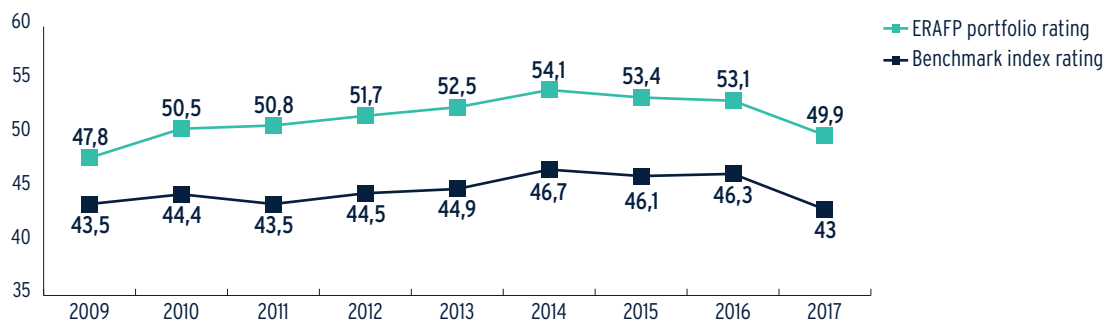
Source – Vigeo Oekom

AVERAGE SRI RATING FOR THE LOCAL AND REGIONAL AUTHORITY BOND PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



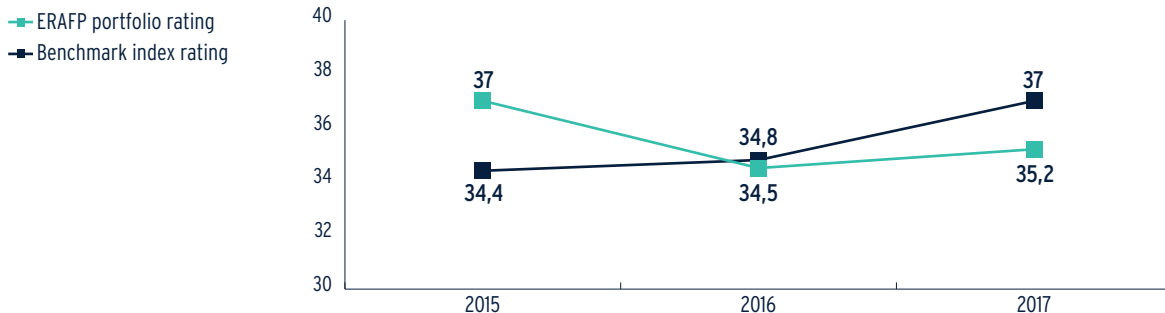
Source – Vigeo

AVERAGE SRI RATING FOR THE EURO-DENOMINATED CORPORATE BOND PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



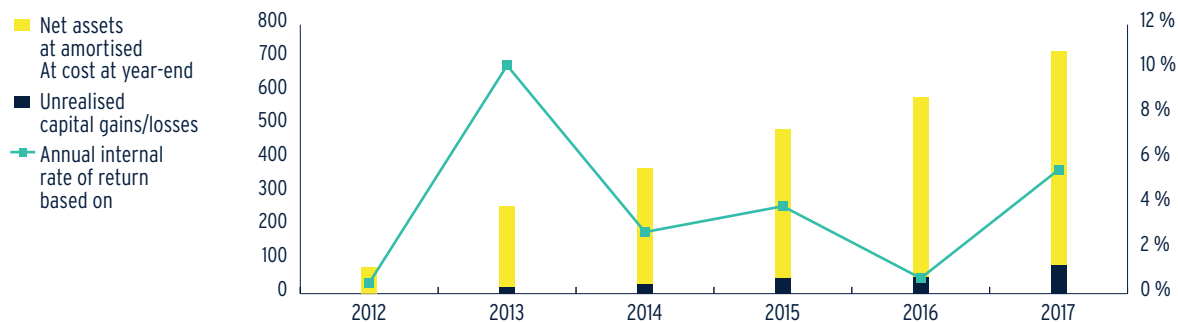
Source – Vigeo

AVERAGE SRI RATING FOR THE EURO-DENOMINATED CORPORATE BOND PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



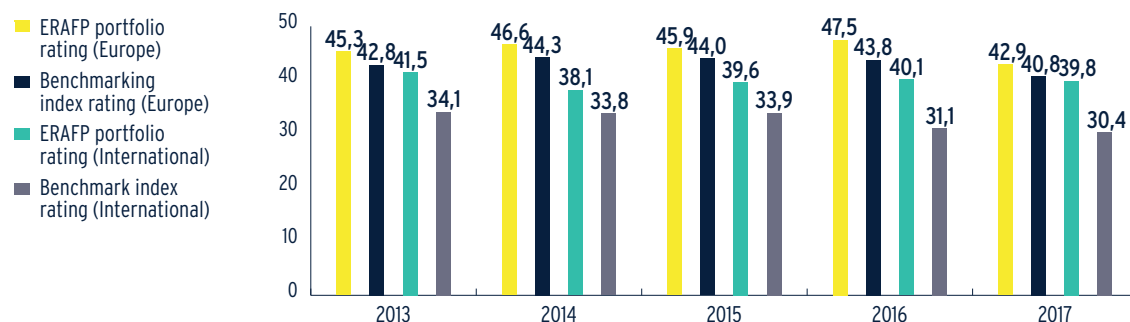
Source – Vigeo

AVERAGE YIELDS AND UNREALISED CAPITAL GAINS AND LOSSES ON THE CONVERTIBLE BOND PORTFOLIO



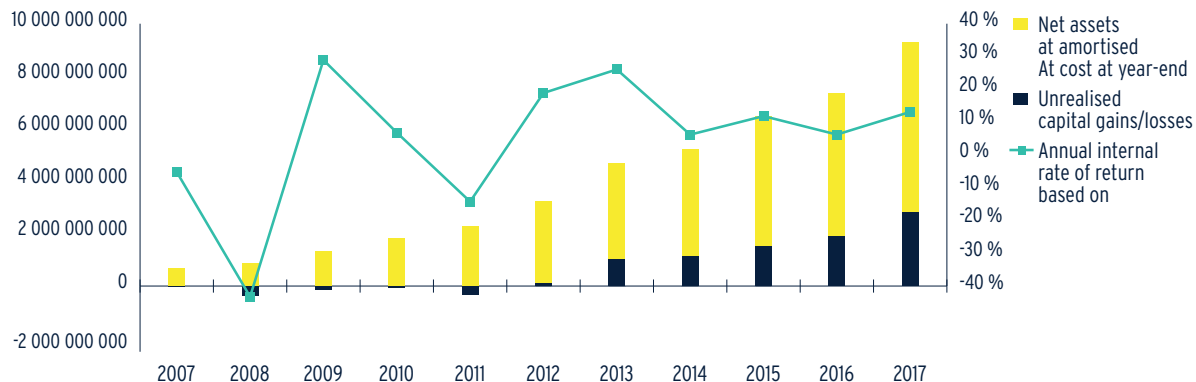
Source – ERAFP

AVERAGE SRI RATING FOR THE CONVERTIBLE BOND PORTFOLIOS COMPARED WITH THE AVERAGE INDEX RATINGS



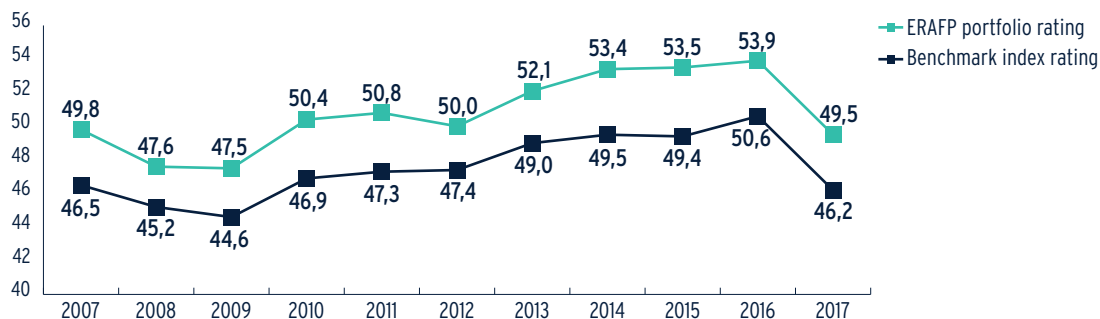
Source – Vigeo

AVERAGE YIELDS AND UNREALISED CAPITAL GAINS AND LOSSES ON THE BOND PORTFOLIO



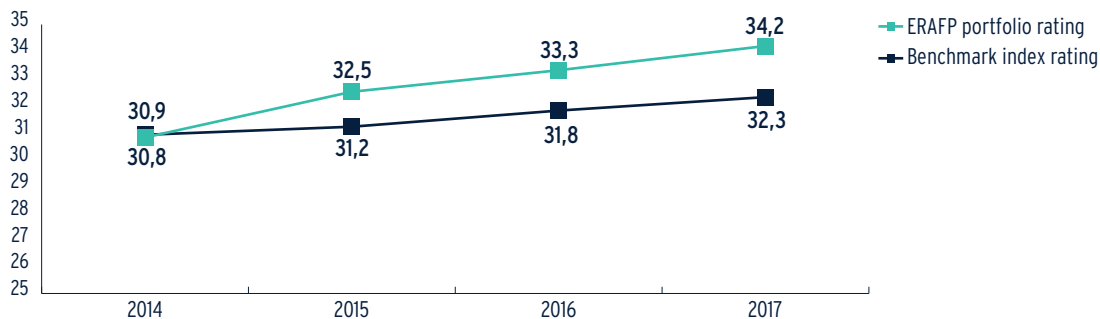
Source – ERAFP

AVERAGE SRI RATING FOR THE EURO-ZONE EQUITY PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



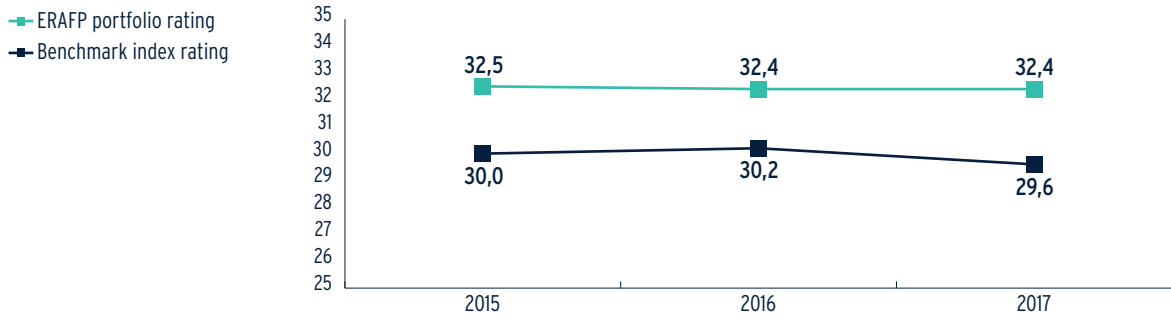
Source – Vigeo

AVERAGE SRI RATING FOR THE NORTH AMERICAN EQUITY PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



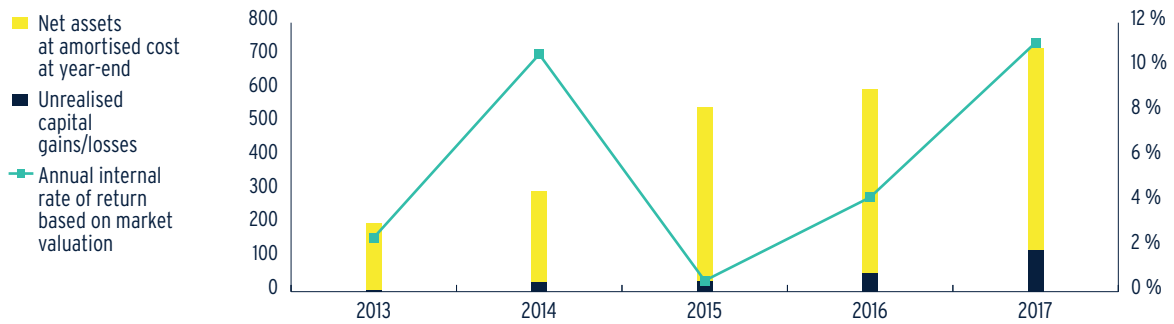
Source – Vigeo

AVERAGE SRI RATING FOR THE NORTH AMERICAN EQUITY PORTFOLIO COMPARED WITH THE AVERAGE INDEX RATING



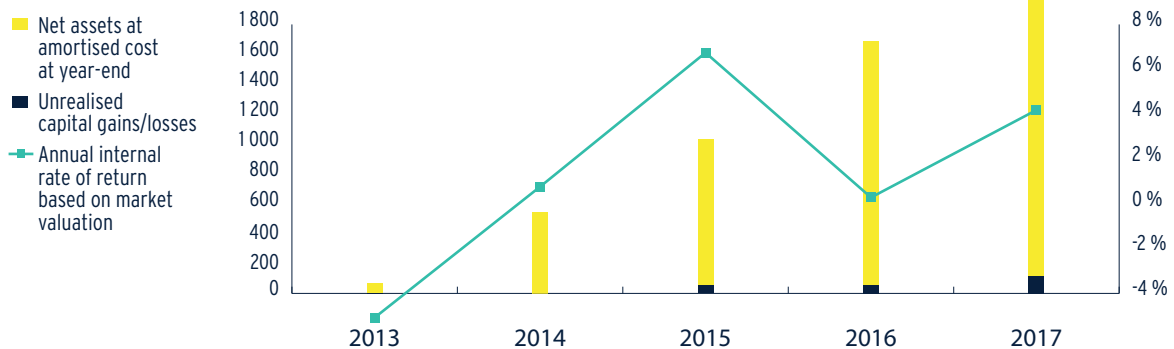
Source – Vigeo

AVERAGE YIELDS AND UNREALISED CAPITAL GAINS/LOSSES POSTED BY THE MULTI-ASSET PORTFOLIO



Source – ERAFP

AVERAGE YIELDS AND UNREALISED CAPITAL GAINS/LOSSES POSTED BY THE REAL ESTATE PORTFOLIO



Source – ERAFP

GREEN SHARE, INTENSITY OF CONTRIBUTION TO THE CLIMATE TRANSITION AND EMISSIONS AVOIDED OF THE CORPORATE BOND AND EQUITY PORTFOLIOS AT 31 DECEMBER 2017

	Green share			Intensity of contribution to the climate transition			Emissions avoided		
	Portfolio	Benchmark	Perf. Vs. Benchmark	Portfolio	Benchmark	Perf. Vs. Benchmark	Portfolio	Benchmark	Perf. Vs. Benchmark
	%	%	Delta (% points)	%	%	Delta (% points)	t CO ₂ e/ year/€m	t CO ₂ e/ year/€m	Ratio (%)
Aggregate equities	11%	10%	1%	13%	11%	2%	317	320	-1%
European equities	11%	9%	3%	14%	10%	4%	359	333	8%
US equities	8%	11%	-3%	0%	9%	-9%	6	193	-97%
Pacific Equities	5%	15%	-10%	6%	20%	-14%	4	337	-99%
Aggregate credit	11%	10%	1%	17%	10%	8%	968	270	259%
EUR credit	11%	9%	2%	18%	10%	8%	1 012	282	259%
USD credi	8%	10%	-2%	8%	9%	-1%	328	214	53%
Aggregate convertibles	16%	28%	-12%	18%	17%	0%	153	76	101%

Source – Care & Consult

STATIC 2°C ALIGNMENT AND DYNAMIC 2°C ALIGNMENT OF THE CORPORATE BOND AND EQUITY PORTFOLIOS AT 31 DECEMBER 2017

	Static 2°C alignment			Dynamic 2°C alignment		
	Portfolio	Benchmark	Perf. Vs. Benchmark	Portfolio	Benchmark	Perf. Vs. Benchmark
	%	%	Delta (% points)	%	%	Delta (% points)
Aggregate equities	-2%	4%	-7%	0%	3%	-3%
Aggregate corporate bond	-18%	11%	-29%	3%	2%	1%

Source – Care & Consult et Grizzly Responsible Investment

BALANCE SHEET 2016

BALANCE SHEET

ASSETS (€)	GROS	31/12/2016	NET	31/12/2015
		AMORTISATION, DEPRECIATION AND IMPAIRMENT		NET
I - INVESTMENTS	21 508 421 955,31	-14 900 748,14	21 493 521 207,17	19 391 161 170,38
Shares in real estate investment companies	1 629 939 738,60	-9 750 492,43	1 620 189 246,17	978 696 575,45
Bonds, negotiable debt instruments and other fixed-income securities	12 300 193 873,12	-1 465 103,88	12 298 728 769,24	12 027 597 178,77
Shares and units in UCITS	7 578 288 343,59	-3 685 151,83	7 574 603 191,76	6 384 867 416,16
II - ACTIVE CONTRIBUTORS AND BENEFICIARIES	113 717 232,69	-8 204 611,79	105 512 620,90	98 653 398,39
Active contributors and related accounts	45 272 773,85	-2 775 408,27	42 497 365,58	43 683 578,96
Beneficiaries	68 444 458,84	-5 429 203,52	63 015 255,32	54 969 819,43
III - OTHER RECEIVABLES	800 433,48	0,00	800 433,48	14 918,43
Trade receivables, advances and down-payments	0,00		0,00	8 184,11
Other receivables	800 433,48		800 433,48	6 734,32
IV - OTHER ASSETS	137 601 287,43	-96 748,89	137 504 538,54	281 806 226,22
Intangible assets				
Property, plant and equipment	177 493,32	-96 748,89	80 744,43	102 750,45
Cash and cash equivalents	137 423 794,11		137 423 794,11	281 703 475,77
V - ACCRUALS				
TOTAL I+II+III+IV+V	21 760 540 908,91	-23 202 108,82	21 737 338 800,09	19 771 635 713,42

LIABILITIES (€)	31/12/2016	31/12/2015
I - EQUITY	0,00	0,00
II - SCHEME RESERVES	20 220 849 658,98	17 497 428 787,04
Accruing rights	19 433 086 601,01	16 940 962 337,25
Rights being exercised	787 763 057,97	556 466 449,79
III - NON-TECHNICAL RESERVES	1 504 777 414,48	2 263 214 355,35
Reserves for use of surpluses	1 504 573 944,64	2 263 048 206,28
Reserves for time-savings accounts	203 469,84	166 149,07
IV - ACTIVE CONTRIBUTORS AND BENEFICIARIES	2 875 119,38	2 918 927,06
Active contributors	934 891,51	525 636,33
Beneficiaries and related accounts	1 940 227,87	2 393 290,73
V - OTHER LIABILITIES	8 836 607,25	8 073 643,97
Trade and other payables	8 758 965,54	7 952 506,72
Staff and related accounts	14 253,49	11 943,56
Social security and other employment benefits	16 398,00	55 787,66
State - taxes and duties	0,00	0,00
Other creditors	46 990,22	53 406,03
VI - ACCRUALS		
TOTAL I+II+III+IV+V+VI	21 737 338 800,09	19 771 635 713,42

INCOME STATEMENT

€	31/12/2016	31/12/2015
Contributions	1 835 464 960,32	1 827 623 941,75
Change in impairment on contributions	1 042 963,73	462 155,22
Late-payment penalties	672 884,80	52 791,25
Other technical income	0,00	0,00
TECHNICAL INCOME	1 837 180 808,85	1 828 138 888,22
Investment income	445 435 434,31	427 318 793,24
Income from realisation of investments	21 586 474,54	299 533 594,27
Other investment income	24 907 711,82	24 067 037,52
Reversal of impairment on investments	8 984 536,60	4 634 521,97
GROSS INVESTMENT INCOME	500 914 157,27	755 553 947,00
Expenses related to realisation of investments	(1 296 016,28)	(3 179 306,90)
Other investment expenses	(46 596 089,53)	(44 889 368,10)
Impairment charges on investments	(12 320 982,09)	(11 428 321,29)
INVESTMENT EXPENSES	(60 213 087,90)	(59 496 996,29)
NET FINANCIAL INCOME	440 701 069,37	696 056 950,71
Benefits paid	(281 942 637,12)	(253 733 969,12)
Changes in impairment on benefits	(649 219,22)	(1 124 197,47)
Other benefits (discounts of bonus factors)	(228 249,52)	(81 045,40)
BENEFITS	(282 820 105,86)	(254 939 211,99)
Changes in Scheme reserves	(1 964 946 610,30)	(2 241 095 595,32)
TECHNICAL EXPENSES	(2 247 766 716,16)	(2 496 034 807,31)
SCHEME'S NET CURRENT INCOME	30 115 162,06	28 161 031,62
Non-technical income	0,00	0,00
Reversals of amortisation, depreciation and impairment	0,00	0,00
OTHER NON-TECHNICAL INCOME	0,00	0,00
Overall outsourcing of administrative	(16 170 220,46)	(14 749 500,39)
Third-party investment management	(1 818 989,85)	(1 689 221,24)
Personnel expenses	(4 872 615,26)	(4 461 485,52)
Other expenses	(7 173 169,80)	(7 171 641,81)
Provision and depreciation charges	(70 615,02)	(62 749,14)
OPERATING EXPENSES	(30 105 610,39)	(28 134 598,10)
Non-recurring income	98,73	0,00
Non-recurring expense	(9 650,40)	(26 433,52)
NET NON-RECURRING INCOME (EXPENSE)	(9 551,67)	(26 433,52)
INCOME TAX		
NET INCOME	0,00	0,00

BALANCE SHEET 2017

BALANCE SHEET

ASSETS (€)	GROS	31/12/2016	NET	31/12/2015
		AMORTISATION, DEPRECIATION AND IMPAIRMENT		NET
I - INVESTMENTS	23 597 326 124,85	-7 027 811,31	23 590 298 313,54	21 493 521 207,17
Shares in real estate investment companies	2 069 990 643,97	-957 500,00	2 069 033 143,97	1 620 189 246,17
Bonds, negotiable debt instruments and other fixed-income securities	12 322 703 268,41	0,00	12 322 703 268,41	12 298 728 769,24
Shares and units in UCITS	9 204 632 212,47	-6 070 311,31	9 198 561 901,16	7 574 603 191,76
II - ACTIVE CONTRIBUTORS AND BENEFICIARIES	120 755 560,33	-9 291 064,38	111 464 495,95	105 512 620,90
Active contributors and related accounts	45 805 910,05	-3 225 749,75	42 580 160,30	42 497 365,58
Beneficiaries	74 949 650,28	-6 065 314,63	68 884 335,65	63 015 255,32
III - OTHER RECEIVABLES	81 182,38	0,00	81 182,38	800 433,48
Trade receivables, advances and down-payments	0,00		0,00	0,00
Other receivables	81 182,38		81 182,38	800 433,48
IV - OTHER ASSETS	83 687 849,54	-125 920,85	83 561 928,69	137 504 538,54
Intangible assets				
Property, plant and equipment	179 092,32	-125 920,85	53 171,47	80 744,43
Cash and cash equivalents	83 508 757,22		83 508 757,22	137 423 794,11
TOTAL I+II+III+IV+V	23 801 850 717,10	-16 444 796,54	23 785 405 920,56	21 737 338 800,09

LIABILITIES (€)	31/12/2017	31/12/2016
I - EQUITY	0,00	0,00
II - SCHEME RESERVES	22 648 846 084,83	20 220 849 658,98
Accruing rights	21 527 753 977,32	19 433 086 601,01
Rights being exercised	1 121 092 107,51	787 763 057,97
III - NON-TECHNICAL RESERVES	1 125 533 579,67	1 504 777 414,48
Reserves for use of surpluses	1 125 308 387,35	1 504 573 944,64
Reserves for time-savings accounts	225 192,32	203 469,84
IV - ACTIVE CONTRIBUTORS AND BENEFICIARIES	3 095 106,50	2 875 119,38
Active contributors	774 658,83	934 891,51
Beneficiaries and related accounts	2 320 447,67	1 940 227,87
V - OTHER LIABILITIES	7 931 149,56	8 836 607,25
Trade and other payables	7 819 639,96	8 758 965,54
Staff and related accounts	14 290,70	14 253,49
Social security and other employment benefits	19 772,99	16 398,00
State - taxes and duties	26 272,00	0,00
Other creditors	51 173,91	46 990,22
TOTAL I+II+III+IV+V+VI	23 785 405 920,56	21 737 338 800,09

INCOME STATEMENT

€	31/12/2017	31/12/2016
Contributions	1 872 276 366,00	1 835 464 960,32
Change in impairment on contributions	(450 341,48)	1 042 963,73
Late-payment penalties	373 929,49	672 884,80
Other technical income	0,00	0,00
TECHNICAL INCOME	1 872 199 954,01	1 837 180 808,85
Investment income	573 176 170,04	445 435 434,31
Income from realisation of investments	12 057 139,45	21 586 474,54
Other investment income	25 709 235,89	24 907 711,82
Reversal of impairment on investments	14 180 637,69	8 984 536,60
GROSS INVESTMENT INCOME	625 123 183,07	500 914 157,27
Expenses related to realisation of investments	(1 919 252,55)	(1 296 016,28)
Other investment expenses	(46 064 586,30)	(46 596 089,53)
Impairment charges on investments	(6 307 700,86)	(12 320 982,09)
INVESTMENT EXPENSES	(54 291 539,71)	(60 213 087,90)
NET FINANCIAL INCOME	570 831 643,36	440 701 069,37
Benefits paid	(359 211 597,02)	(281 942 637,12)
Changes in impairment on benefits	(636 111,11)	(649 219,22)
Other benefits (discounts of bonus factors)	(471 961,27)	(228 249,52)
BENEFITS	(360 319 669,40)	(282 820 105,86)
Changes in Scheme reserves	(2 048 730 868,56)	(1 964 946 610,30)
TECHNICAL EXPENSES	(2 409 050 537,96)	(2 247 766 716,16)
SCHEME'S NET CURRENT INCOME	33 981 059,41	30 115 162,06
Non-technical income	0,00	0,00
Reversals of amortisation, depreciation and impairment	0,00	0,00
OTHER NON-TECHNICAL INCOME	0,00	0,00
Overall outsourcing of administrative	(18 910 694,59)	(16 170 220,46)
Third-party investment management	(1 617 501,98)	(1 818 989,85)
Personnel expenses	(5 124 671,29)	(4 872 615,26)
Other expenses	(8 264 193,55)	(7 173 169,80)
Provision and depreciation charges	(50 894,44)	(70 615,02)
OPERATING EXPENSES	(33 967 955,85)	(30 105 610,39)
Non-recurring income	60,08	98,73
Non-recurring expense	(13 163,64)	(9 650,40)
NET NON-RECURRING INCOME (EXPENSE)	(13 103,56)	(9 551,67)
INCOME TAX		
NET INCOME	0,00	0,00



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DE RETRAITE ADDITIONNELLE
DE LA FONCTION PUBLIQUE
12, rue Portalis – CS 40 007
75381 Paris Cedex 08
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