



ERAFP A LONG-TERM INVESTOR

# 2020 SRI

# **ERAFP: a committed and widely recognised player**



Signatory to the Principles for Responsible Investment since 2006. Support for the Extractive Industries Transparency Initiative since 2012. Member of the Institutional Investors Group on Climate Change since 2012.

**04**

SOCIALLY  
RESPONSIBLE  
INVESTMENT

---

**06**

ERAFF,  
A LONG-TERM  
INVESTOR

---

**08**

AN SRI POLICY  
CENTRAL TO  
THE SCHEME'S  
DEVELOPMENT

---

**10**

ERAFF'S SRI  
APPROACH

# SOCIALLY RESPONSIBLE INVESTMENT

The term “socially responsible investment” (SRI) refers to all approaches that involve integrating non-financial criteria, i.e. environmental, social and governance (ESG) criteria, into investment decision-making and portfolio management processes.

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SRI CAN TAKE SEVERAL FORMS, INCLUDING:

## **Best in class**

The **best in class** approach consists in including environmental, social and governance criteria in the assessment of issuers (e.g. companies for listed equity funds or governments for sovereign bond funds) in addition to financial criteria, in order to select the best performers in terms of sustainable development objectives.

No business sector is automatically excluded or favoured. This is a positive approach in that it aims to foster the progress of society as a whole by giving preference to the best-performing issuers in each sector and region and rewarding issuers that have improved for their progress.

## Exclusion

Exclusion can be either **standards** or **sector-based**. In the first case, the investor refuses to finance companies that do not comply with international agreements. In the second, it refrains on moral grounds from investing in certain business sectors such as arms, gaming and tobacco.

## Engagement

For investors, engagement consists in taking a stand on **ESG** issues and requiring companies to improve their practices over time. These requirements can be formulated through direct dialogue with the company, collaborative initiatives or voting at general meetings.

## Thematic approach

The thematic approach favours investments in business sectors that are beneficial to the environment or society, such as renewable energies or health-care.

# ERAFP, A LONG-TERM INVESTOR

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## A player dedicated to the public interest...

ERAFP is a public sector administrative entity that manages a pension scheme for public servants working in French central government, local and regional authorities and public hospitals, as well as certain members of the judiciary. This specific profile means it is dedicated to the public interest and highly attuned to social issues.

## ...and intergenerational solidarity...

As a very long-term investor seeking to ensure the “sustainability” of its investments, ERAFP ensures that its investment policy is consistent with the long-term commitments it has made to its beneficiaries, which implies:

- 📌 taking into account future generations;
- 📌 taking into account the future interests of current generations.

## ...naturally focused on SRI

ERAFP’s investment policy is also based on the conviction that seeking to maximise immediate profit is contrary to a satisfactory and sustainable return on investments because it ignores social, economic and environmental consequences.

**ERAFP’s philosophy reflects an SRI approach and targets sustainable performance, a long-term view and consideration of future generations.**

**4.5 M**

ACTIVE  
CONTRIBUTORS



ANNUALISED  
INTERNAL RATE  
OF RETURN OF  
**5.7%** SINCE  
THE SCHEME'S  
INCEPTION



NET ASSETS  
AT MARKET  
VALUE OF

**€34.9 BN**



NET INVESTMENT  
FLOW OF MORE  
THAN



**€2 BN** / YEAR

ANNUAL  
ECONOMIC  
COVERAGE RATIO  
AFTER REVALUATION  
OF AROUND

**123.8%**



**€2.5 BN**

INVESTED IN ENERGY  
TRANSITION OR  
CONTRIBUTING TO THE  
DECARBONISATION OF  
THE ECONOMY



# AN SRI POLICY CENTRAL TO THE SCHEME'S DEVELOPMENT

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## 2019

- 📄 Acceleration of withdrawal from coal.
- 📄 Signing of the Tobacco-Free Finance Pledge and completion of withdrawal from the tobacco industry.

## 2017

- 📄 Climate Action 100+ initiative joined.

## 2016

- 📄 SRI Charter updated.
- 📄 Responsible Investment Forum (FIR) joined.

## 2015

- 📄 Definition of priority shareholder engagement themes, including combating climate change and the integration of social factors into the supply chain.

## 2014

- 📄 First publication of the carbon footprint of ERAFP's equity portfolio.

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## **2013**

- 📄 Participation in collaborative engagement initiatives on:
  - Prevention of corruption (PRI);
  - Agreement on fire and building safety in Bangladesh (ICCR).

## **2012**

- 📄 Adoption of shareholder engagement guidelines, including a governance voting policy.

## **2009**

- 📄 Initial adaptations of the SRI framework.

## **2007**

- 📄 Adoption of the SRI framework.

## **2006**

- 📄 Adoption of the SRI Charter.

## **2005**

- 📄 Operational launch of the Scheme (1 January).
- 📄 Decision to place all assets under SRI.

## **2004**

- 📄 Creation of the public institution ERAFP (18 June).

## **2003**

- 📄 Pension reform law 2003-775 of 21 August 2003 establishing the French Public Service Additional Pension Scheme.

# ERAFP'S SRI APPROACH

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## AN AMBITIOUS, COMPREHENSIVE AND DEMANDING CHARTER

Since 2005, the Scheme's board of directors has opted for a "**100% SRI**" system through the adoption of its own SRI charter.

It is applied to all of the Scheme's investments and broken down into 18 evaluation criteria adapted to the specific features of each category of issuer.

It is based on a range of five key values applied across all investments, instead of a multiplicity of theme-specific criteria.

It focuses on the **links between** the various issues and the various issuers, instead of tackling each issue in isolation.

## 5 VALUES



- \_ RULE OF LAW AND HUMAN RIGHTS
- \_ SOCIAL PROGRESS
- \_ DEMOCRATIC LABOUR RELATIONS
- \_ ENVIRONMENT
- \_ GOOD GOVERNANCE AND TRANSPARENCY

## 18

### CRITERIA FOR SELECTION



### A best in class APPROACH



### SRI PERFORMANCE MEASUREMENT



### INDIVIDUAL SHAREHOLDER ENGAGEMENT



### COLLECTIVE ENGAGEMENT



### VIGILANCE VIS-À-VIS CONTROVERSIES



### IMPACT

## THE CHARTER'S 5 VALUES AND 18 CRITERIA

# 1

### Rule of law and human rights

#### Proposed criteria

- 📄 Non-discrimination and promotion of equal opportunities
- 📄 Freedom of opinion and expression and other fundamental rights
- 📄 Responsible supply chain management

### Social progress

#### Proposed criteria

- 📄 Responsible career management and planning for jobs
- 📄 Fair distribution of added value
- 📄 Improvement of working conditions
- 📄 Impact and social added value of the product or service

# 2

# 3

### Democratic labour relations

#### Proposed criteria

- 📄 Respect for union rights and promotion of labour-management dialogue
- 📄 Improvement of health and safety conditions

# 4

## Environment

### Proposed criteria

- 🌿 Environmental strategy
- 🌿 Environmental impact of the product or service
- 🌿 Control of environmental impacts
- 🌿 Control of risks associated with climate change and contribution to energy transition énergétique

## Good governance and transparency

### Proposed criteria

- 🌿 Management — corporate governance
- 🌿 Protection of and respect for customer/consumer rights
- 🌿 Anti-corruption and money laundering
- 🌿 Responsible lobbying practices
- 🌿 Tax transparency and accountability

# 5

## A PIONEERING SYSTEM

### Selecting the best issuers in their category: best in class

The Charter follows a best in class approach, based on the principle of taking the world as it is, but aiming to make progress in every industry. Rather than ruling issuers out, this is about **favouring the most positive issuers** in each industry and region.

ERAFP thus assesses all issuers against its framework of SRI values:

- 📄 **Selection** of the best issuers in a category based on a set of environmental, social and governance criteria.
- 📄 **Application** to all investments. But adaptation to each asset class.
- 📄 **Promotion** of the most responsible issuers, support and highlighting of progress made.

### Supporting issuers: engagement

#### SHAREHOLDER ENGAGEMENT

ERAFP strives to be a **long-term partner** to the issuers in which it decides to invest as a shareholder or stakeholder, in order to encourage them to adopt practices that comply with the values it supports.

While its equity managers implement this policy on its behalf, ERAFP ensures that the positions expressed are correctly interpreted and consistent by coordinating the voting of the various asset management firms in respect of a number of companies.

- 📄 An increasingly active **shareholder engagement** approach.
- 📄 Annually updated **engagement guidelines**, including a voting policy.

## 4 PRIORITY ENGAGEMENT THEMES

- 📄 Fighting climate change.
- 📄 Preventing social risks in the supply chain.
- 📄 Promoting best governance practices.
- 📄 Combating aggressive tax optimisation practices.

### \_MONITORING CONTROVERSIES

Close monitoring of controversies also **helps to support issuers** to determine their response and the resources to be implemented to avoid negative impacts on society, particularly as regards major international standards relating to human rights.

### \_COLLABORATIVE ENGAGEMENT

ERAFP is convinced that, by **working together** with other investors who share similar values, it can produce greater responsiveness in companies whose practices it wishes to **better understand or influence**. It is involved in a number of collaborative engagement initiatives, such as:

#### 📄 Fighting climate change



#### 📄 Preventing social risks in the supply chain



#### 📄 Combating aggressive tax optimisation practices



## A PRAGMATIC APPROACH: SEEKING IMPACT

**Impact investment** aims to generate tangible social or environmental added value through the financing of specific projects. It therefore involves reconciling economic transformation and financial return.<sup>1</sup>

In seeking to adopt this pragmatic approach to SRI as a complement to its process for assessing the environmental and social impact of its investments, ERAFP has chosen to invest in **three specific areas**:

### fighting climate change

ERAFP has three main resources for impacting climate change:

- 📖 its best in class framework, including:
  - an **assessment** of the strategy for alignment with the Paris Agreement objectives,
  - **withdrawal** from thermal coal;
- 📖 investments that meet energy transition challenges amounting to 7.3% of total assets held by ERAFP;
- 📖 strong shareholder engagement on the climate change theme.

### OBJECTIVES

- Increase the asset portfolio's resilience with respect to climate risks.
- Give preference to an asset allocation compatible with the Paris Agreement.

Align ERAFP's portfolio with a global warming trajectory limited to 2°C.

For all the sectors studied, ERAFP's carbon budget and its equivalent temperature are better than that of the index.

## support for economic activity and employment

European SMEs saw their access to financing deteriorate in the years following the major credit squeeze of 2008-2009. And yet financing these investments, which significantly boost employment and the economy's capacity for innovation, is important for the economy. ERAFP has therefore committed to financing private equity and, by the end of 2018, had earmarked nearly €1.6 billion for financing European SMEs, of which it had invested around €1.2 billion.

### OBJECTIVE

Enhance the impact on various social agendas such as developing the economy and employment, promoting sustainable consumption and sharing value creation with stakeholders.

## financing intermediate housing

Since 2014, ERAFP has been involved in financing real estate projects for public sector employees in areas with prohibitive house prices. This share of investments in housing is expected to grow in the coming years, with a 50% increase in the proportion of the real estate portfolio's assets channelled into residential real estate to bring it to one-third.

### OBJECTIVE

Offer affordable rented accommodation, specifically for public sector employees, in areas with prohibitive house prices.

## ERAFP HAS RECEIVED A NUMBER OF AWARDS OVER THE YEARS HIGHLIGHTING THE QUALITY OF ITS SRI POLICY:

### 2019

- ERAFP named a PRI Leader for 2019 for its best practices in asset manager selection.
- Green Finance award for “best institutional investor”.

### 2018

- Best French pension fund and best emerging market investment strategy at the IPE Awards.

### 2016

- Best Responsible Investor Report award in the small and medium-sized pension fund category.
- Best French investor in the annual Asset Owner Disclosure Project ranking.

### 2015

- Best SRI investment policy in Europe at the IPE Awards.

### 2012 & 2013

- Best pension fund in France at the IPE Awards.

### 2010 & 2011

- TBLI award for best ESG investor.





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