Investing with impact

ERAFP CEO, *Régis Pelissier*, chats to *Natalie Tuck* about how RAFP's investment strategy has evolved, its strong ESG ethos and the challenges and opportunities that lie ahead

Can you begin by telling us about ERAFP?

■ The French Public Additional Pension Scheme (ERAFP) is a state-supervised public institution, responsible for managing the Public Sector Additional Pension Scheme (RAFP).

Established by the 2003 pension law reform, RAFP began operations in 2005. The defined benefit-style scheme operates on a points basis. Membership is mandatory for civil servants, local authority employees and public hospital staff (4.4 million contributors and 43,000 employers).

It is governed by a joint board of directors, composed of trade unions representing civil servants and representatives of public employers. The board also includes three qualified individuals. Currently, RAFP has approximately €50 billion in assets under management and invests around €3 billion per year.

What is ERAFP's current asset allocation strategy, and how has it evolved?

■ ERAFP's strategic allocation is diversified across fixed income (sovereign and credit), listed equities, private equity and unlisted infrastructure, as well as real estate. Fixed income and listed equities account for approximately the same share of the portfolio in terms of market value, at around 40 per cent each, while real estate accounts for just under 10 per cent and unlisted assets around 5 per cent.

The remainder consists of a multi-asset portfolio, convertible bonds, a liquidity and a currency risk hedge portfolio. In geographical terms, Europe accounts for nearly 80 per cent of the portfolio and France slightly more than one-third.

The strategic allocation has been characterised by diversification throughout the 2010s, with a gradual increase in the weighting of listed equities and real estate, followed by the start of diversification into unlisted assets in 2017. More recently, since the rise in interest rates in 2022, flows have been mainly directed towards credit, while the share of sovereign bonds has continued to decline.

Flows to real estate have also slowed. The strategic allocation for 2025 is in line with the previous year.

Has ERAFP made/or is planning to make any adjustments following US President Trump's tariff announcements?

■ At this stage, ERAFP has no plans to change its strategic allocation. This allocation is not based on a specific economic and financial scenario, but is designed to withstand adverse scenarios, even if they are unlikely. This includes simulations of market shocks and recessions. We have therefore not made any tactical adjustments in response to the US administration's announcements.

However, we are keeping a close

eye on entry points and opportunities. For example, when interest rates rose in Europe in the winter, we resumed buying sovereign bonds. Similarly, we are currently cautious on equities given the short-term uncertainties and are waiting for greater clarity. This situation may nevertheless lead to attractive entry points on the equity markets for long-term investors.

Is ERAFP exploring new asset classes or geographies as part of its future growth or diversification plans?

■ The asset classes eligible for investment by ERAFP depend on the regulations applicable to the RAFP. These are the responsibility of the French government, and more specifically the Ministry of Economics, Finance and Industrial and Digital Sovereignty. At present, there are no plans to further expand the investment universe. However, we are considering the medium-term trajectory of our private equity investments.

ERAFP has long been recognised for its commitment to socially responsible investment. How do you integrate ESG factors into your portfolio?

■ ESG is indeed a strong marker of ERAFP's identity, to which governance is particularly attached. The integration of ESG considerations into ERAFP's investments is therefore systematic and tailored to the different asset classes.

The approach is based on four complementary pillars: A best-in-class investment philosophy, with no sector exclusions except for tobacco and sovereign bonds from countries that practise the death penalty (the arms sector, for example, is not excluded from ERAFP investments, except for companies in the arms sector that do not comply with international conventions signed by France); engagement, either directly or through delegated asset managers; the pursuit of impact and social utility; specific policies on climate, fossil fuels and, soon, biodiversity.

This 'best in class' approach is based on a charter established by the Board of Directors, which defines the values that must guide the investment choices of fund managers. This charter is binding on them within the framework of the management mandates we entrust to them. Compliance with this charter is a contractual obligation, as is, for example, the policy on fossil fuels, which excludes companies whose share of revenue from unconventional fossil fuels is considered too high.

This approach is demanding because it has a significant impact on the investment universe, which is reduced by more than 20 per cent compared to the index. In the case of unlisted assets, the approach is different as ERAFP is involved in multi-investor funds. It is therefore not possible to strictly apply the institution's guidelines. However, we strive to select managers whose practices are closest to our philosophy.

This commitment is reflected in ERAFP's participation in several investor coalitions, as well as in voting guidelines which, again, are binding on managers at general meetings. ERAFP also allocates some of its capital to renewable energy, the technology industry and housing for civil servants.

How has ERAFP performed in recent years compared to its long-term targets, and what are the key drivers behind that performance?

■ ERAFP measures performance in various ways. With regard to the asset portfolio, at the end of 2024 it achieved an annualised internal rate of return since inception of 4.3 per cent. Diversification is the main driver, however, the portfolio's financial performance is only the lever needed to establish the scheme's technical return to its members.

This means that ERAFP does not invest with the aim of seeking absolute performance, but rather to secure a recurring return to pay pensions over the long term and guarantee, at least, the maintenance of their purchasing power. In fact, since RAFP was set up, pensions have always been indexed at least to inflation, and even above inflation over the past two years.

Looking ahead, what are the biggest opportunities and challenges you foresee for ERAFP over the next 5–10 years?

■ In the very short term, the main challenge is geopolitical instability, which could trigger market shocks. It is therefore important to maintain significant safety margins.

In the medium to long term, there are multiple challenges. These include the impact of climate change and environmental constraints on long-term economic growth, but which also present investment opportunities, such as the industrial revolution in the form of artificial intelligence technologies.

Another is changes to real equilibrium interest rates in Europe because, given the nature of ERAFP's liabilities, which consist of long-term pension commitments, backing them with bond assets in order to generate returns is an important lever for recurring performance. There is considerable uncertainty in this area between the risk of a slowdown in European potential growth, which has a downward impact on long-term equilibrium interest rates, and recent announcements that point to a different and more favourable trajectory, with investment plans in Europe.