

European SRI Study



2012



Created with the support of

EUROSIF MEMBER AFFILIATES

AG2R La Mondiale	INOKS Capital
Amundi	Inrate AG
Aviva Investors	KPMG
AXA Investment Managers	LGT Capital Management
Bank Sarasin	MACIF Gestion
Bloomberg LP	Manifest Information Services
BlueOrchard	Meeschaert Gestion Privée
BNP Paribas Asset Management	Mercer
CA Cheuvreux	MSCI
Caisse des Dépôts	Natixis Asset Management
Calvert	Nordea Investment Funds S.A.
Carbon Disclosure Project	oekom research
CM-CIC Asset Management	Oikocredit
CSSP- Center for Social and Sustainable Products	Oxfam
DB Advisors / DWS Investments	Pictet Asset Management S.A.
Dexia Asset Management	Pioneer Investments
ECPI	responsAbility
Edmond de Rothschild Asset Management	Robeco
EIRIS	SAM Sustainable Asset Management
Ethix SRI Advisors AB	Schroders
Ethos	SNS Asset Management
Etica Sgr	Sparinvest
FEBEA	Standard Life Investments
Fédération des Experts Comptables Européens (FEE)	Standard & Poor's Indices
Forética	Sustainalytics
FTSE Group	Sustainable Business Institute
Fundación Ecología y Desarrollo (ECODES)	Threadneedle Asset Management
Generali Investments Europe	Triodos Bank
Generation Investment Management LLP	Trucost
Groupama Asset Management	UBS
Henderson Global Investors	Union Investment
Hermes Equity Ownership Services Ltd.	Vigeo
HSBC	VINIS
Humanis - Inter Expansion	

NATIONAL SIFS IN EUROPE

Belsif*, Belgium
 Dansif, Denmark
 Finsif, Finland
 Forum Nachhaltige Geldanlagen* (FNG) e.V., Austria, Germany and Switzerland
 Forum per la Finanza Sostenibile* (FFS), Italy
 Forum pour l'Investissement Responsable* (FIR), France
 Norsif, Norway
 Spainsif*, Spain
 Swesif*, Sweden
 UK Sustainable Investment and Finance Association* (UKSIF), UK
 Vereniging van Beleggers voor Duurzame Ontwikking* (VBDO), the Netherlands

*Member of Eurosif

Table of contents

Forewords from our Sponsors	4
Foreword from Eurosif	6
Executive Summary	7
Introduction.....	8
Historical Development of SRI	8
Survey Definitions and Methodology	9
European Results by Strategy	13
Impact Investing	21
Summary of European Results	25
Austria	27
Belgium.....	29
Denmark	30
Finland	32
France	34
Germany	39
Italy.....	43
Netherlands.....	47
Norway.....	49
Poland	51
Spain.....	53
Sweden	55
Switzerland.....	57
United Kingdom	59
European Data Table	63
Glossary.....	64
List of Surveyed Organisations	65
Credits	66
About Eurosif.....	67

The views in this document do not necessarily represent the views of all Eurosif member affiliates. This publication should not be taken as financial advice or seen as an endorsement of any particular company, organisation or individual. While we have sought to ensure that this information is correct at time of print, Eurosif does not accept liability for any errors.

© Eurosif A.I.S.B.L.

All rights reserved. It is not permitted to reproduce this content (electronic, photocopy or other means) without the explicit and written permission of Eurosif.

Forewords from our Sponsors



With €62,2 billion³ of assets under SRI management, Amundi is the leader of the SRI French market and has a deep and long-held commitment to responsible investing. As early as 2000 Amundi was the first company in France to create a dedicated sustainability research team in charge of the analysis of environmental, social and governance (ESG). Amundi has been a signatory to the Principles for Responsible Investment (PRI) since their inception in 2006.

Amundi firmly believes that the responsibility of an asset manager stretches beyond the purely financial matters. Amundi intends to be a factor of progress and evolution in its environment. Aware of the growing importance of environmental, social and governance (ESG) issues, Amundi chose to integrate them into its analysis process, investment decisions and its general voting policy. Therefore, it enforces strict rules that are the foundation of its responsible policy in all of its active management*.

About 2900 issuers are rigorously rated by an in-house team of 14 extra-financial analysts. All fund managers of the Group have access not only to corporate credit and financial ratings, but also to these extra-financial ratings.

Beside its ESG integration policy, Amundi favours the development of Socially Responsible Investing (SRI) known as "Best in Class". This positive approach increases companies' awareness of ESG issues and helps them developing and improving. Amundi is also developing an innovative impact investing funds range bringing benefits to society: profit-sharing, social business and development aid funds. For employee savings schemes, Amundi manages a comprehensive range of SRI FCPEs.

Lastly, Amundi is also actively involved in the works of the market authorities on themes related to Corporate Governance, SRI and, more broadly, ESG. It also supports academic research.

Currently leader on the French SRI market, Amundi hence stretches beyond boundaries, conquering the SRI European market. Therefore, it seemed natural for Amundi to sponsor the Eurosif study.



Pierre Schereck
Head of Employee Saving Schemes
Head of SRI Development
Amundi

Amundi ranks number 1 in France¹, second in Europe² and ninth worldwide² among the players in asset management with €692.9 billion under management³.

1. Open-ended funds domiciled in France - Source Europerformance NMO, June 2012
2. No. 2 in Europe and No. 9 worldwide - Total assets under management - Source IPE "Top 400 global asset managers active in the European marketplace" published in June 2012, based on figures as at December 2011 Ranking established from a questionnaire fulfilled by fund management companies total AUM as at December 2011 (open-end funds, dedicated funds, mandates). Ranking retreated of a double accounting of AUM.

3. Amundi Group figures as at 30 June 2012

* active management: except index-tracking UCITS and except ETFs



It comes as no surprise, given the diversity that spans Europe, that investors approach responsible investment in different ways. Part of our hope in sponsoring the Eurosif study—the reference for the European SRI market—is to highlight this heterogeneity, to encourage investors to share best practices and to promote the practice of responsible investment.

From an asset manager's perspective, it is crucial to embed global ESG research across all asset classes in order to be able to provide solutions that meet specific client requirements. Doing so allows us to provide investors the opportunity to select the level of ESG integration that best fits their needs and objectives.

Investors, and in particular decision-makers such as trustees and investment committee members, will likely give more consideration to their asset managers' handling of ESG issues in the future. Investors will need to be able to identify how their managers integrate ESG considerations into the investment process and stewardship activities.

As a result, one of the biggest challenges facing the asset management industry is to demonstrate to asset owners that environmental, social and governance factors are genuinely being taken into account. At AXA Investment Managers, we strive to display our commitment to genuine ESG integration through actions such as bringing in an independent expert to verify that our pure RI funds fully comply with ESG principles, and by regularly publishing our proxy voting activities.

In the coming months and years, it is our expectation that studies such as this one will show responsible investment gaining further prominence, continuing to become a key factor for investors—not simply a 'nice-to-have' but an essential component of investments. We are committed to supporting investors in this endeavour.



Matt Christensen
Global Head of Responsible Investment
AXA Investment Managers



Nordea is the largest financial services group in the Nordic and Baltic Sea region with a market capitalisation of approximately €28 billion and total assets of €694 billion. Our commitment to being a responsible asset manager has deep roots in our corporate culture and business model. Asset management is all about value creation and we believe that responsible value creation is what makes the difference.

Our responsible investment journey started in 2007 when we signed, as one of the first major banks in the Nordic market, the Principles for Responsible Investment. The foundation of our Responsible Investment strategy lies in in-depth environment, social and governance (ESG) analysis and engagement activities. A further step was taken in 2011, when we launched unique responsible investment funds where ESG is an integral part of the product's DNA.

Nordea's competency within this area is enhanced by our dedicated Responsible Investment and Governance team. All our Responsible Investment strategies are overseen by dedicated responsible investment committee, chaired by the CEO of Nordea Asset Management and which has representation from all businesses involved from investment management to sales and marketing and anything and everything in between bringing the responsible investment practices to everything that we do.

The results of this study confirm that Sustainable and Responsible Investments have grown spectacularly and will continue in this direction going forward. The next challenge ahead lies in providing clear communication towards retail investors so that they can benefit from investing with responsibility.

With this in mind, we applaud Eurosif for producing this study and with that, bringing clarity to our rapidly growing and ever changing industry. While we can all congratulate ourselves in bringing ESG closer to day to day life of all investors, there is still plenty of room to grow for us all.



Sasja Beslik

Head of Responsible
Investment & Governance
Nordea



At Pictet, we define sustainability as economic activity that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Our sustainable vision arises from a 200-year history as a family-owned business that has grown by developing enduring relationships with clients and employees. Our ambition to be a leading wealth and asset management group worldwide is solidly grounded on sustainable business principles for the environment, for society and corporate governance.

It is this open, coherent and transparent approach that has enabled us to grow a successful sustainable investment franchise. At the end of July 2012, Pictet Asset Management had more than €6.5 billion of SRI assets under management.

We began looking at diversified SRI portfolios in 1997 and have since developed a broad range of equity and bond products. Our innovative investment process not only considers extra-financial factors but also a set of proprietary financial sustainability indicators - company-specific factors which we believe have a positive effect on companies' long-term prosperity and, overall, contribute to the stability of financial markets, and therefore ensure that the economy as a whole is better able to withstand shocks.

We also offer thematic investments funds which provide investors with a concentrated exposure to a selection of key environmental themes (water, clean energy, timber and agriculture). The water fund, launched in 2000, was the first-ever investment fund aimed at improving the way global water resources are managed, and is still the largest fund of its kind worldwide.

Our distinct competitive edge in SRI investing has earned us continued recognition in the industry. We recently won the SRI/ESG Provider of the Year award at the 2012 Professional Pensions' UK Pensions Awards 2012. This follows a number of awards earned over the years including three consecutive years of winning the "SRI Provider of the Year" at the Global Pensions Awards.

Sustainability has become a legitimate investment choice for a growing number of private and institutional investors who take a long-term view. The financial crisis has stressed the need to shift to a more sustainable global growth model. The asset management industry has the potential to be a major catalyst for change in this process, and at Pictet we take that responsibility very seriously.



Rémy Best

Managing Partner
Pictet & Cie

Foreword from Eurosif

In 2011, Eurosif celebrated its tenth anniversary. In 2012, Eurosif celebrates its first year of operations out of Brussels, the Capital of Europe. But 2012 is also the tenth anniversary of the present biannual Study whose 5th edition Eurosif is pleased to present, together with the national SIFs who were instrumental in contributing to the research.

Over these years, the SRI industry has witnessed significant changes and our European Sustainable and Responsible Investment Study has constantly evolved to reflect these adjustments and stay current with the industry developments. While finding a consensus around a single definition of SRI across Europe remains challenging, this Study aims to further inspire the debate and help the general public, as well as industry practitioners, policy makers and other commentators to gain insight to an increasingly sophisticated market. This is why this 5th European SRI Study brings with it a few changes as it, for instance, focuses on trends affecting individual responsible investment strategies and includes for the first time a brief review of the European impact investing market.

The European SRI industry and more broadly, the European economy, are faced with its biggest challenges for decades. Yet, as this new edition shows, most responsible investment strategies have proven to be resilient, if not demonstrating exemplary growth rates since the last Study of this kind was undertaken. As in every crisis there is an opportunity, this one is no exception. We strongly believe that current environment is providing numerous opportunities for SRI.

First, as the economy continues to struggle, as inflation lurks, as market volatility leads to higher risk premium requirements, cost of and access to capital will worsen. This will impact both companies and investors. Investors, whatever their motivation is, are bound to pay more and more

attention to factors affecting capital risks, including Environmental, Social and Governance factors, when assessing an investment in a particular company. Companies will subsequently need to carefully manage their cost of capital and address the growing concerns of investors around their sustainability, which entails a forward-looking view about how they manage ESG aspects. The background for this is an important body of academic research suggesting that a company's strong ESG performance is positively correlated with lower cost of capital.¹

Second, at a time when regulators are seeking ways to reconcile financial markets with "the real economy" and unlock the potential for long term investment and "smart, sustainable and inclusive growth"², SRI should be seen as a complementary resource to realize that potential. In fact, it is interesting to note that respondents to the 2012 Study saw regulatory drivers as the second most important driver for the industry, after institutional investors.

Finally, Eurosif would like to especially thank the four sponsors who made this research again possible this year. Amundi, Axa Investment Managers, Nordea and Pictet have generously funded this undertaking and provided valuable comments and insights to the research. This research would not have been possible without their support. And once again, Eurosif would like to reiterate its recognition to the contribution of its Member Affiliate network and national SIF partners for their ongoing support and involvement in the Association's development and mission to promote sustainability through financial markets.

We hope that this Study will help you better understand the state of the European SRI market and where it is heading.

Happy reading,



François Passant
Executive Director



Giuseppe van der Helm
President

¹See for example the meta-study by DB Climate Change Advisors, Sustainable Investing: Establishing Long-Term Value and Performance, 2012.

²European Commission, COM(2010) 2020 final

Executive Summary

The European SRI Study 2012 shows that all responsible investment strategies surveyed have outgrown the market, and four out of six have grown by more than 35% per annum since 2009. The combined growth of all strategies at European level continues to outpace the overall investment market, demonstrating the continuous appetite by investors to take into account Environmental, Social and Governance factors, despite (or maybe due to) the ongoing economic and market turmoil.

Beyond the European averages, national markets continue to vary considerably in terms of growth, use of strategies, asset allocation and whether the investment is retail or institutional. There is no homogenous market for SRI in Europe. In fact, as Eurosif undertook a thorough review of SRI classifications and definitions to better reflect the innovative and evolving nature of the industry before launching the new survey, it became clear that the judgement of whether something is 'SRI' is very much coloured by the cultural and historical diversity of Europe. At this stage, no consensus on a unified definition of SRI exists within Europe, regardless of whether that definition focuses on the processes used, societal outcomes sought or the depth and quality of ESG analysis applied. For investors, in particular retail investors, this represents a challenge to understanding the various product offerings. For providers (asset managers), this also represents a challenge as different national markets may require various product strategies to be deployed depending on local investor preferences.

The present Study therefore presents SRI strategies individually, rather than imposing SRI aggregates which may not suit local market condition. It continues to focus exclusively on the self-reporting of asset managers and self-managing asset owners. It includes both retail and institutional assets. The methodology of the study has to the greatest extent possible been retained from previous years.

The seven strategies covered in this report are:

- Sustainability themed investment
- Best-in-Class investment selection
- Norms-based screening
- Exclusion of holdings from investment universe
- Integration of ESG factors in financial analysis
- Engagement and voting on sustainability matters
- Impact investment

The fastest growing strategy is Norms-based screening, closely followed by Exclusions and Best-in-Class. However, the growth is not uniform across the markets, and is typically characterised by a small number of large asset owners or managers adopting a certain strategy for all or a significant portion of their assets. Nevertheless, experience shows that

a few large pioneers can have strong influence on the market and lead to a proliferation of certain strategies.

Looking at Exclusions, one notable finding of the Study is that, according to the responses, almost half of Europe's total assets under management have policies in place which specify the exclusion of companies involved in the manufacture certain types of weapons, the most common being those subject to the international Conventions on Cluster Munitions and Anti-Personnel Mines.. This remarkable result shows that international conventions and treaties can have a real impact on the financing decisions of the industry, even if legislation is not in place.

Eurosif has for the first time included a separate section on Impact investing. This section focuses a lot of attention on definitional aspects since Impact investing currently is characterised more as an investment philosophy than a distinct process, and there are differing views in the market on how to balance financial and societal goals. This exciting way of targeting outcomes that benefit society through investments has been the purview of few, but is now gaining attention both in the institutional market and retail market and is the most talked about new investment strategy in the SRI industry. European policy-makers, as well as many national ones, have recently expressed strong interest in launching initiatives aimed at strengthening this emerging segment. Eurosif estimates the current European Impact investing market at €8.75 billion. As this is the first time that this segment is measured no historic growth perspective is available, however the market is undoubtedly poised for growth.

With SRI growth showing no sign of slowing, it is clear that the European asset management industry is continuing to support sustainable investment in its various forms. One notable exception is the retail market which, while growing in aggregate, is not growing as fast as the institutional market. Clearly communication and clarification is needed to make retail investors see the same value in SRI that professional investors do. Some of Eurosif's initiatives such as the European SRI Transparency Code contribute to this effort.

Finally, the Study mentions at several occasion various legislative developments that have the potential to positively affect the industry. In an era when Europe is struggling to find a path towards economic growth, and as the European Commission seeks to achieve its European 2020 Agenda through a policy framework covering "smart, sustainable and inclusive growth", improving investor and company disclosure on ESG matters, and finally encouraging social entrepreneurship, political reflections on how to support long term investing will no doubt feature high on the agenda. This should result in growing political attention to SRI in the coming years.

Introduction

EUROSIF AND EUROPEAN SRI MARKET STUDY

Eurosif, the European Sustainable Investment Forum, is proud to present the fifth edition of the European Study on Sustainable and Responsible Investment (SRI). The Study has undergone many developments in the decade since it was first launched, a reflection of the growing acceptance of SRI and maturing of the SRI industry, but it remains true to its original design: to inform, educate and inspire the European public on SRI, and to use the knowledge to develop sustainability through European financial markets.

In this decade of producing SRI surveys, Eurosif and the national Sustainable Investment Forums (SIFs) have evolved into important forums for sustainable investment. Activities vary across national borders, but include promoting and advocating SRI through publications, events and advocacy, and educating investors on sustainability best practice. Arguably the biggest change is at Eurosif itself: our recent move from Paris to Brussels demonstrates the increased focus on policy work as we forge closer ties with European Union (EU) policy-makers and legislators. This Study adds to a significant body of research supporting that policy work.

However, as Europe languishes under the yoke of austerity and struggles to generate the growth needed to prosper, one may ask the question whether sustainability and responsibility are luxuries best left for times of plenty. The answer to that is a resounding no: now more than ever, growth strategies need to be sustainable, green and responsible. This is also emphasised in EU policies for growth such as Europe 2020.³ The SRI industry, with its considerable financial muscle and knowledge, plays a key role in getting Europe's economy back on track. This Study highlights the strategies used and amounts invested in SRI, demonstrating the industry's contribution to supporting sustainable and responsible growth.

SUSTAINABLE AND RESPONSIBLE INVESTMENT

Many readers will have heard the term SRI and formed their own opinion on what it is. This opinion reflects their values and judgements, norms and behaviour. This is also true for the SRI industry. History, culture, beliefs and motivation have a large impact on what an asset manager or asset owner will call SRI. The terms employed also vary with time, place and fashion. They include, but are not limited to: 'ethical', 'social', 'green', 'responsible', 'sustainable', 'societal', 'impact' and 'clean'.

The Study does not impose a specific definition of SRI. However, in terms of scope and to ensure consistency with its previous editions, this Study covers any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues.

This scope defines some important boundaries:

- The Study covers processes, measuring what investment managers do, not why or for what purpose. As such it does not make judgements on the depth, breadth or quality of the approach.
- The covered processes combine financial with extra-financial concerns, meaning that the investments have a profit motive and are therefore distinct from philanthropy and charity.

While the scope of the Study has not changed, the classification of processes (strategies) has. Understandably, this creates challenges in comparing previous data with this year's results, but it also reflects the dynamic and innovative nature of the industry. A more detailed discussion of the Eurosif classification and its evolution over time is provided after the following historical overview of SRI.

Historical Development of SRI⁴

Ever since the concept of investment for capital return was conceived, investors have based their investment choices on a variety of criteria, including whether investments harm or benefit society. Investment choices evolve in parallel with societal norms and values, so whereas slavery and child labour may have been commonplace in certain eras of human history, international norms now prohibit such practices. Similarly, as society addresses the causes and effects of climate change, investors increasingly incorporate such considerations into their investment choices.

The origins of responsible investment are found in religious organisations. The earliest concrete reference to investment allocation based on extra-financial criteria is found in the Quaker movement, and their avoidance of investments in slavery in the 17th century. The first responsible investment fund, the US Pioneer Fund launched in 1928, was motivated by the prohibition era and excluded investments in alcohol and tobacco. From the 1960s onwards, many of Europe's churches and religious organisations adopted ethical screens and launched ethical funds founded on their moral values.

³ For more information about Europe 2020, the EU's growth strategy, please visit http://ec.europa.eu/europe2020/index_en.htm.

⁴ This very brief overview and is based on:

Louche, C. and S. Lydenberg, "Dilemmas in Responsible Investment", Greenleaf, London: 2011.

Louche, C. and S. Lydenberg, "Socially Responsible Investment: Differences between Europe and United States", Vlerick LeuvenGent Working Paper Series 2006/22, 2006.

Louche, C., D. Arenas and K.C. van Cranenburgh, "From Preaching to Investing: Attitudes of Religious Organisations Towards Responsible Investment", Springer Science and Business Media, 2011.

Sparkes, R., "Socially Responsible Investment: A Global Revolution", Wiley, New York: 2002.

In the 1960s and 70s, the US civil rights movement, the war in Vietnam, apartheid in South Africa and other events contributed to increasing global social and political awareness that brought socially responsible investment to the attention of many secular investors. In this era, there was an increased focus on individual companies' business choices and behaviour as opposed to the avoidance of specific products. It also marks the emergence of the activist investor, especially in the US. In the 1980s and 90s, with increased attention on environmental issues, including the establishment of the United Nations World Commission on Environment and Development in 1983 and the 1992 Earth Summit, sustainability came to the forefront of society and hence also of investments. On the retail side, the first SRI index fund, the KLD 400 Social Index (now MSCI KLD 400 Social Index) was launched in 1990.

In the 2000s, investors combine the socially responsible aspect of investments with the concept of sustainable development, expanding the notion of SRI from Socially Responsible Investment to Sustainable and Responsible Investment. At the same time, with evidence mounting that extra-financial information has financial impact, the United

Nations backed Principles for Responsible Investments (PRI) were launched in 2006. While the proliferation of SRI is primarily institutional, as professional investors increasingly demand extra-financial information from companies and their investment managers, this period also sees a range of SRI products available for retail investors.

Today, SRI is an established industry, offering a variety of specialised and standardised products to both retail and institutional investors. The wide range of SRI and other responsible investment strategies covered in this publication reflects the range of demand. Some investors will seek to avoid certain products, whereas some will evaluate companies against a minimum standard. Some are motivated to incorporate ESG criteria by risk aversion, whereas some seek investments aimed at outperforming the market by capitalising on the demand for sustainable products and solutions. Some investors seek environmental and/or social impact; some look for long-term (even intergenerational) stability of financial returns. Common to all is the consideration of Environmental, Social and Governance concerns in the investment process.

Survey Definitions and Methodology

CLASSIFYING AND DEFINING SRI PROCESSES

The financial industry is highly innovative, and SRI asset managers are no exception. This makes it challenging for both researchers and the industry to agree on standards. The evolution over time of Eurosif's classifications of individual strategies and the definition of SRI reflects this.⁵

The first Eurosif SRI study in 2003 defined SRI as Socially Responsible Investment as that was the most commonly used term at the time. The individual strategies measured were *elaborate screening strategies* (called Core SRI), *simple screening and engagement*.⁶ The term Sustainable and Responsible Investment was introduced in 2008, and by this time the screening strategies were sub-divided into positive and negative screening, and the strategies of Integration and Norms-based screening were added. As the industry has evolved, the focus of the Study has also moved from mainly

ethical concerns to the range of ESG issues that a sustainable investor faces and the wide array of approaches available to tackle these.

Following the publication of the 2010 SRI Study, the industry has continued to evolve and innovate, and feedback from readers (both within and outside of the industry) showed that a review of the classifications used and definitions employed was needed for the 2012 Study.

In response to this, Eurosif set up a working group to construct a proposal for a new set of classifications and definitions for responsible investment processes. The group was pan-European and composed of industry experts nominated by the national SIFs. The findings of the group went through an extensive consultation process with the SIFs and the Eurosif board.

⁵For clarification, a strategy is a type of process (e.g. Best-in-Class). A definition details the characteristics of a strategy.

⁶See Eurosif website for previous studies and other research: www.eurosif.org

The seven distinct processes identified, referred to as strategies in this Study, are:

- Sustainability themed Investment
- Best-in-Class investment selection
- Norms-based screening
- Exclusion of holdings from investment universe
- Integration of ESG factors in financial analysis
- Engagement and voting on sustainability matters
- Impact investment

These seven processes represent the strategies used by asset managers that incorporate sustainability and responsibility into their investment decisions or take into account ESG criteria in various shapes and forms. The strategies are processes-oriented, showing what they do, not why they do it, the manner in which they do it or how thorough the process is.

Sustainability Themed Investment

Definition: Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

Comment: Sustainability themed investments inherently contribute to addressing social and/or environmental challenges such as climate change, eco-efficiency and health. Since 2008, funds are required to have an ESG analysis or screen of investments in order to be counted in this approach.

Best-in-Class Investment Selection

Definition: Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.

Comment: This approach involves the selection or weighting of the best performing or most improved companies or assets as identified by ESG analysis⁷, within a defined investment universe. This approach includes Best-in-Class, best-in-universe, and best-effort.

Norms-based Screening

Definition: Screening of investments according to their compliance with international standards and norms.⁸

Comment: This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies such as the United Nations (UN).

Exclusion of Holdings from Investment Universe

Definition: An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.

Comment: This approach systematically excludes companies, sectors, or countries from the permissible investment universe if involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be applied at individual fund or mandate level, but increasingly also at asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical- or values-based exclusions, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

Integration of ESG Factors in Financial Analysis

Definition: The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.

Comment: This type covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

Engagement and Voting on Sustainability Matters

Definition: Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.

Comment: Engagement and voting on corporate governance only is necessary, but not sufficient to be counted in this strategy.

Impact Investment

Definition: Impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances.⁹

Comment: Investments are often project-specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investment includes microfinance, community investing, social business/entrepreneurship funds and French fonds solidaires.

⁷For clarification, there is normally also a financial selection either before, during or after the ESG selection process.

⁸International norms based on ESG criteria such as those developed by the OECD, the UN and UN agencies (including Global Compact, ILO, UNICEF, UNHRC).

⁹Global Impact Investing Network (GIIN), "What is Impact Investing?", <http://www.thegiin.org/cgi-bin/iowa/investing/index.html>, 2012.

COMPARISONS WITH OTHER DEFINITIONS

During the process of defining strategies, Eurosif researched and engaged with stakeholders, including other organisations that are involved in the industry. Two prominent organisations in field also published RI frameworks in 2012, the UN-backed Principles for Responsible Investment (PRI) and the European Fund and Asset Management Association (EFAMA). In the following table, Eurosif has grouped similar strategies into the same rows for easy comparison, although the reader should note that the definitions underpinning each strategy differ¹⁰:

Eurosif	PRI-equivalent ¹¹	EFAMA-equivalent ¹²
Norms-based screens	ESG Exclusions	Norms-based approach
Best-in-Class selection	ESG Positive screening and Best-in-Class	Best-in-Class
Sustainability themes	ESG -themed Investments	Thematic approach
Exclusions	ESG Exclusions	Exclusion approach
ESG Integration	ESG Integration	-
Engagement and voting	Engagements (three types)	Engagement (voting)
Impact investing	-	-
-	Passive ESG tilted indices	-

Source: Eurosif

It is noteworthy that standards are converging, a sign that the industry is maturing and that processes are becoming standardised. The main differences are that the PRI includes passive ESG tilted indices, Eurosif includes Impact investing, and EFAMA does not include Integration.

CASE STUDY 1: Exclusions and Norms-based screening

What is the difference between Exclusions and Norms-based screening? Exclusions, in simplified terms, is a process of avoiding investments in certain companies or projects based on the avoidance of certain products, services or activities. Typical examples include weapons production, production or marketing of alcohol or tobacco, or investments in food commodities such as wheat. The process involves an evaluation of how much company revenue, profit or other metric derives from the excluded product. If the threshold is breached, for example more than 5% of revenue derives from production of nuclear energy, the company is blacklisted and investment managers are not permitted to invest in company equity or debt. This evaluation may also extend to affiliated companies and joint ventures. Exclusions may also cover situations where a company engages in certain business practices that the asset manager finds objectionable, but where these practices are not part of international norms covered below.

Norms-based screening involves the evaluation of a company, country or project against certain minimum standards of business conduct. Under the Eurosif definition, these standards are based on international norms. These norms are generally understood to be internationally recognised, even if not universally applied or adopted, and they are fluid. Once a screen has identified companies or assets that potentially

violate these norms or standards, a fund manager may take a number of actions. The most common action is divestment, but increasingly asset managers and owners may engage with the company before considering divestment.

A Norms-based screen of a company is generally more complex than an Exclusions screen. For example the most common norms-based screen is based on the United Nations Global Compact Principles.¹³ Under this screen, each investment is evaluated against the ten principles covering environment, human rights, labour and anti-corruption. The key difference from avoidance of companies based on products or services is an evaluation of business practices based on certain norms. Rather than involvement in a specific product or sector, the concern in a norms-based screen is how the company management behaves in relation to international business conduct norms.

Common to both strategies, and indeed to all other RI strategies, is that asset managers have differing methodologies and thresholds for determining breach of the responsible investment policy. For example, two asset managers both excluding producers of tobacco may use different thresholds in terms of revenue, leading to one excluding more companies than the other.

¹⁰ Comparisons are based on Eurosif's impressions, and not verified by the PRI or EFAMA. Interested readers should consult the source documents to compare the detailed definitions.

¹¹ PRI Reporting Framework Pilot Main Definitions, June 13, 2012.

¹² EFAMA Guidance on RI information in the KIID & Post Investment Disclosure, Feb. 16, 2012.

¹³ "The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere." Source: <http://www.unglobalcompact.org/AboutTheGC/>, 2012.

AGGREGATING SRI STRATEGIES

In previous studies Eurosif has added several strategies to produce aggregate figures, labelling them Core SRI and Broad SRI. During the development of the new classification of RI strategies in the context of this Study, the question of what SRI is and which strategies should be aggregated to produce a figure for SRI was discussed. During these debates, it became clear that the decision of whether something is 'SRI' is very much coloured by the cultural and historical diversity of Europe and that the notions of Core and Broad were not relevant any more to reflect the increasing sophistication of the market and the increasing simultaneous use of multiple strategies. In addition, some countries and organisations have or are in the process of developing local legal frameworks for the use of 'SRI' or 'Eco' in relation to asset management and investment funds. At this stage, no consensus on a unified definition of SRI exists within Europe, regardless of whether that definition focuses on processes used (referred to as strategies in this Study), the societal outcomes sought or the depth and quality of ESG analysis applied.

For some, the focus of SRI is on investment strategies that select investments based on their sustainability credentials. The motivation is to choose to fund companies and projects for their positive effect on society or expected outperformance of other assets as the world's consumption shifts to more sustainable products. The strategies aggregated according to this view would typically be Sustainability themed and Best-in-Class.

For others, SRI is the process of selecting or deselecting investments based on a screen or analysis incorporating environmental, social and governance issues. The motivation is not only to select the best companies as above, but also to apply a screen to avoid companies that have bad business practices as defined by certain norms or standards. The strategies aggregated according to this view would typically be Sustainability themed, Best-in-Class and Norms-based screening, as they follow a structured, comparable and externally measurable process and incorporate a screening process covering the three ESG criteria.

Further, there are some who believe that any investment strategy that includes a focus on environmental, social and/or governance issues should be counted as SRI. The motivation is that one responsible investment strategy is not inherently better than another, and therefore they should be treated as equals. According to this view, all strategies would be included in the aggregate.

The question of producing aggregate figures is relevant because, to give an example, one cannot take the figure for

Best-in-Class and add it to the figure for Exclusions because a significant portion of assets will be subject to both strategies. Adding the two figures thus leads to double counting of assets, which is especially pertinent considering that most of the assets in the Study are subjected to more than one RI strategy. If a fund with €3 million in assets reports both Best-in-Class and Exclusions, €3 million will be reported in each individual strategy. However, if Best-in-Class and Exclusions are added together, only €3 million should be reported in this aggregate not €6 million.

In this report, Eurosif takes the pragmatic approach by acknowledging that there is no universal definition of SRI. Responsible investment strategies are therefore presented individually in the European and all the country sections. Readers who wish to group certain strategies together may refer to the Appendix for selected aggregate data removing double counting.

SURVEY METHODOLOGY

The methodology is consistent with previous studies; the main change is the adoption of amended classifications and definitions for Sustainable and Responsible Investment strategies. For reporting purposes, previous data has been recalculated using the new methodology where possible.

The European fund management industry is highly internationalised. Therefore, SRI funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or overseas. As a result, defining national SRI markets is not straightforward. While fund managers are rather easy to locate, ultimate investors are not.

For this reason, and to remain consistent with the methodology of previous studies, in the country sections *Eurosif generally defines a national market by the country where the SRI assets are being managed* (i.e. where the SRI asset management team is located).¹⁴ As a consequence, the Study measures the size of the SRI asset management markets, rather than the SRI markets (supply not demand).

The survey covers asset managers and asset owners based in Europe or managing European assets, and covers both institutional and retail SRI assets. Respondents respond to a questionnaire developed by Eurosif in collaboration with national SIFs. While responses have been verified to ensure their accuracy, the survey is based on self-reporting.

The Study covers 14 distinct markets in detail:

Austria (AT), Belgium (BE), Denmark (DK), Finland (FI), France (FR), Germany (DE), Italy (IT), Netherlands (NL), Norway

¹⁴For example, if a Swiss asset manager with an SRI team based in Switzerland is managing assets for a French asset owner, this is counted in the Swiss market. If the SRI team is located in London, it is counted in the UK market.

(NO), Poland (PL), Spain (ES), Sweden (SE), Switzerland (CH) and the United Kingdom (UK).

National Sustainable Investment Forums (SIFs) and several SRI practitioners helped revise the questionnaire in late 2011 and early 2012. Data was collected from fund managers and self-managing asset owners from April to July 2012. Respondents were asked to report data as of December 31, 2011.

The questionnaire included both quantitative and qualitative questions. Qualitative questions dealt with practices, means used by fund managers and trends. Quantitative questions referred to SRI and other responsible investment assets under management according to:

- Different strategies used,
- Investment vehicles and allocations,
- Customer segmentation (e.g. institutional and retail).

Occasionally, questions were not understood and/or responses were not consistent. Eurosif, national SIFs and other survey contributors have exercised due diligence, used secondary information sources where relevant, and employed their best judgement in order to ensure the answers are robust. Sometimes incomplete answers are provided if respondents are not able to provide the breakdown of their total amounts declared, for example for investment vehicles, customer segments or asset classes. In these cases, the use of percentages rather than actual volumes gives a fair idea of the market dynamics.

The Eurosif 2012 SRI Study is organised geographically, starting with Europe as a whole and then in alphabetical order for the 14 markets covered by the survey. As Impact investments are covered in the Study for the first time, they are discussed in a separate section.

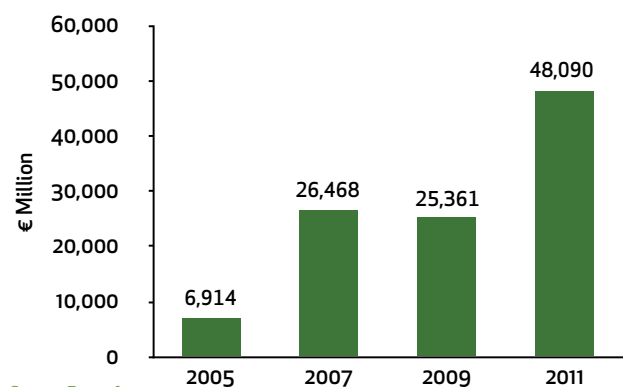
European Results by Strategy

This section details the results of the survey for each of the responsible investment strategies. Eurosif provides an overview of the growth of the strategy since measuring began using as comparable data as possible.

SUSTAINABILITY THEMED INVESTMENT

Sustainability Themed Investments focus on one or more themes directly related to sustainability. The themes generally focus on either an environmental or social theme, but environmental themes remain the most prevalent. Typical examples include renewable energy, clean technology, climate change, water, forestry and ecological. The growth of this strategy from it was first measured as a separate strategy in 2005 is shown in Figure 1.

FIGURE 1: Growth of Sustainability Themed Investments in Europe



Source: Eurosif

The survey shows that, having suffered a decline in 2009, thematic investments are once again on the rise. Readers following the retail market will know that many thematic funds, especially those investing in green and clean technologies, have suffered outflows and losses in the last two years as investments have been affected by the financial crisis. On aggregate this has not transposed to the European market, however the figures collected by Eurosif show that the growth in Sustainability themed investments is mainly due to new institutional investments. The European country figures for 2011 and 2009 are shown in Table 1, and demonstrate that the main source of growth in absolute terms is found in the Netherlands. The Dutch growth is primarily due to a small number of new institutional mandates allocating assets to sustainable themes. Despite this unequal growth, it is worth celebrating that Sustainability themed investments are now found in almost all countries in the sample as shown in Table 1.

TABLE 1: Growth of Sustainability Themed Investments by Country

€Mn	Sustainability themed		CAGR
	2009	2011	2009-11
Country			
Austria	€ 129	€ 56	-33.9%
Belgium	€ 595	€ 367	-21.5%
Denmark	€ 0	€ 43	nc
Finland	€ 0	€ 322	nc
France	€ 3,279	€ 623	-56.4%
Germany	€ 2,995	€ 4,523	22.9%
Italy	€ 987	€ 1,051	3.2%
Netherlands	€ 3,324	€ 19,914	144.8%
Norway	€ 0	€ 676	nc
Poland	€ 0	€ 0	nc
Spain	€ 0	€ 107	nc
Sweden	€ 0	€ 396	nc
Switzerland	€ 9,508	€ 11,079	7.9%
UK	€ 4,544	€ 8,932	40.2%
Europe	€ 25,361	€ 48,090	37.7%

Source: Eurosif

Sustainability themed investments are subject to much debate, as they can sometimes be difficult to classify as truly sustainable. For example, a fund investing in companies that produce solar panels is inherently contributing to sustainable development by financing products that produce clean energy. However, the conduct of the company is also important to sustainability, as the company may violate environmental or social norms and standards in the production process. Eurosif therefore aims at only including Sustainability themed investments that also take ESG considerations into account in their investment selection process. This can sometimes be challenging to identify as not all funds disclose their processes. In addition, one could argue that all thematic funds with a sustainability theme should be included in this tally as they are financing products that contribute to sustainability. However, in order to stay true to the definition, Eurosif distinguishes between investments that combine financial and ESG concerns and those that are purely focused on financial return. Specifying an ESG screen is the most convenient way of achieving this.

This hurdle means that not all clean-tech or water funds, to name two themes, are included in the figures. It also means that most of the assets are institutional. For comparison, the audit firm KPMG has recently produced a *European Responsible Investing Fund Survey*¹⁵ that focuses on retail funds and classifies funds according to investment sector using a different methodology from Eurosif. In this study,

KPMG counts €30.49 billion in Environment themed funds and €6.71 billion in Social themed funds. This total of €37.2 billion is higher than the Eurosif retail figure for Sustainability themed funds. The reader should keep this in mind when considering the definitions of thematic funds and the size of the market for such funds.

BEST-IN-CLASS AND POSITIVE SCREENS

TABLE 2: Growth of Best-in-Class Investments by Country

€Mn	Best in Class/Positive Screens		CAGR
	2009	2011	2009-11
Country			
Austria	€ 1,314	€ 3,009	51.3%
Belgium	€ 10,530	€ 7,834	-13.7%
Denmark	€ 3,335	€ 127	-80.5%
Finland	€ 24,453	€ 24,798	0.7%
France	€ 49,406	€ 115,309	52.8%
Germany	€ 8,586	€ 13,115	23.6%
Italy	€ 1,829	€ 3,422	36.8%
Netherlands	€ 1,046	€ 1,120	3.5%
Norway	€ 2,093	€ 1,117	-27.0%
Poland	€ 0	€ 13	nc
Spain	€ 1,100	€ 1,558	19.0%
Sweden	€ 8,800	€ 86,134	212.9%
Switzerland	€ 13,080	€ 23,093	32.9%
UK	€ 7,383	€ 2,559	-41.1%
Europe	€ 132,956	€ 283,206	45.9%

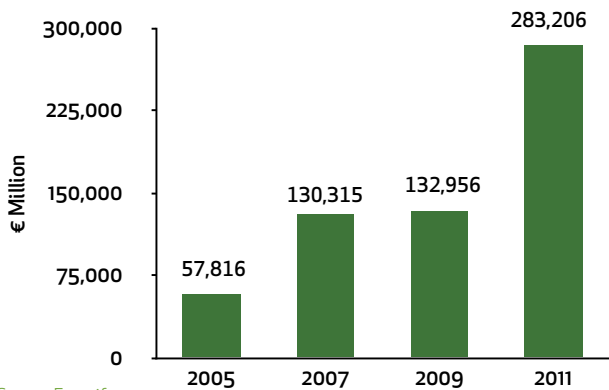
Source: Eurosif

The strategy termed Best-in-Class encompasses all the positive screening classes. Positive screening entails the selection of the top investments in a category based on ESG and financial analysis. For example, within a universe defined as German equities a Best-in-Class strategy will select a certain proportion of the top performers based on this analysis. Best-in-Class investments are typically thought of as equity portfolios, but fixed income also features in this category. The relative weight of ESG selection versus financial analysis varies between providers. According to the data provided by respondents, a Best-in-Class screen will typically reduce the initial investment universe by 40-60%, but behind this average lies great variability.

The growth of Best-in-Class in Europe is shown in Figure 2. Note that previous years' data have been recalculated to reflect the new definition, as some of the previous studies reported Best-in-Class and other positive screens separately. All positive screens are now part of this figure.

¹⁵KPMG European Responsible Investing Fund Survey, 2012

FIGURE 2: Growth of Best-in-Class Investments in Europe



Source: Eurosif

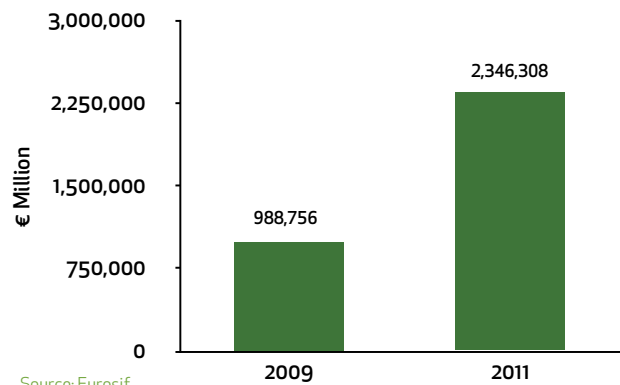
This strategy has experienced remarkably similar growth to the thematic category, stagnating in the years 2007-09, but then more than doubling to 2011. As shown in the country Table 2, the main contributors to this growth are Sweden and France. In Sweden, the ten-fold increase is not a general trend, but is due to the conversion of assets to Best-in-Class by a small number of institutional investors.

NORMS-BASED SCREENING

Norms-based screening is a comparatively recent strategy that has its origins in the Nordic countries. Since it was first measured as a separate strategy in 2010, its adoption by asset managers has been explosive. The reason for this appears to be a desire by many asset managers and owners to avoid companies in breach of one or more internationally recognized norms covering ESG practices. A Norms-based screen is a relatively impartial way of identifying companies whose practices are at odds with generally accepted good business behaviour. Once a company has been identified as a poor performer, the information can be used to engage for change or avoid by divesting, depending on the preference of the asset manager or owner. In this way, the responsible investor can enforce a minimum standard without compromising the freedom of fund managers to pursue profit maximising investment opportunities. In order to be classified under this strategy, Eurosif requires a comprehensive screen based on international norms covering Environ-

mental and Social and Governance criteria. The evolution of Norms-based screening is shown in Figure 3.

FIGURE 3: Growth of Norms-based Screening Investments in Europe



Source: Eurosif

This growth is primarily seen among asset managers or owners adopting a screen across all assets. While this strategy has been common in the Nordic countries for a number of years, evidence shows that it is now spreading to continental Europe and the UK. The reader should note, however, that a Norms-based screen typically has a small effect on the portfolio of a large asset manager or owner. In this respect, it is similar to the Exclusions strategy. For example, the Norwegian Government Pension Fund Global, which manages €426 billion at the end of 2011 and was invested in 8,005 companies,¹⁶ excludes 55 companies¹⁷ from its investment universe at the time of writing, based on a combination of Exclusions and Norms-based screening. Further, while the most common Norms-based screen is in relation to UN Global Compact, there are differing methodologies to determine what constitutes a breach of the norm, and asset managers and research providers are not typically transparent on the methodology. Novethic¹⁸, a French SRI research centre finds that investors using the same norms-based exclusion framework do not always exclude the same companies, and often, the name of excluded companies is not even disclosed. Nevertheless, Norms-based screening is being adopted by more and more asset managers. The growth of Norms-based screening by country is shown in Table 3.

¹⁶ Norges Bank Investment Management, "Government Pension Fund Global Annual Report", 2011, http://www.nbim.no/Global/Reports/2011/Annual%20report%202011/Arsrapport_11_ENG_web.pdf.

¹⁷ Norwegian Ministry of Finance, "Companies Excluded from the Investment Universe", <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122>, 2012.

¹⁸ Novethic (2012) Norms-based exclusions. Available: http://www.novethic.fr/novethic/upload/etudes/Norm-based_exclusions_EN_20120306.pdf

TABLE 3: Growth of Norms-based Screening Investments by Country

€Mn	Norms-based screening		CAGR
	2009	2011	
Country	2009	2011	2009-11
Austria	€ 1,465	€ 3,862	62.4%
Belgium	€ 23,478	€ 19,744	-8.3%
Denmark	€ 143,917	€ 213,906	21.9%
Finland	€ 62,850	€ 62,336	-0.4%
France	€ 17,256	€ 679,566	527.5%
Germany	€ 6,616	€ 11,255	30.4%
Italy	€ 2,352	€ 314,248	1056.0%
Netherlands	€ 125,264	€ 166,359	15.2%
Norway	€ 372,056	€ 550,843	21.7%
Poland	€ 2	€ 13	151.2%
Spain	€ 755	€ 1,119	21.7%
Sweden	€ 214,435	€ 259,346	10.0%
Switzerland	nm	€ 192	nc
UK	€ 18,310	€ 63,520	86.3%
Europe	€ 988,756	€ 2,346,308	54.0%

Source: Eurosif

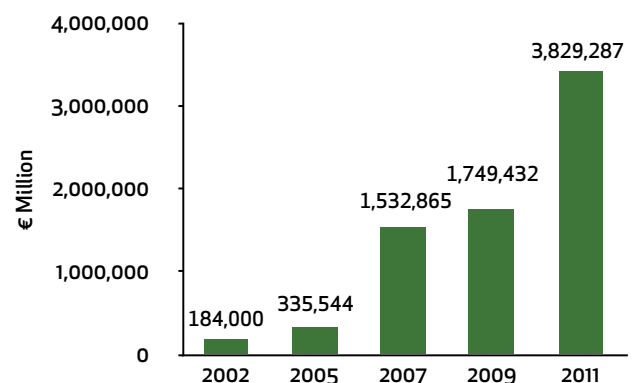
Whilst the extraordinary growth in France and Italy especially, is welcome, readers should note that this cannot yet be described as a general market trend, as it is due to a small number of very large asset managers or owners adopting this strategy. Nevertheless, indications are that this method of avoiding the worst performing companies, countries or projects in terms of good business practices is becoming more widespread and will continue to grow.

EXCLUSIONS

Exclusions of investments from the universe of possible investments on extra-financial grounds is the oldest and largest responsible investment strategy. While the origin of this strategy is founded on religious beliefs, its use has expanded to secular asset managers and asset owners. The motivation for this varies: some have reputational concerns, whereas others may be unwilling to finance the production and marketing of certain products. Figure 4 shows the evolution of Exclusions over time. Note that previous years' data have been recalculated to reflect a change in methodology. In most previous years, Eurosif used the term simple screening for one or two exclusions and values-based screening for

three or more exclusions and reported these figures separately. These two classes have now been merged to produce Exclusions. In addition, Norms-based screening was previously part of values-based exclusions. See Case Study 1 for a discussion on Exclusions versus Norms-based screening. It also bears noting that the figures only measure Exclusions beyond that required by law, so for example in Belgium and France exclusions on cluster-munitions only is not counted as these exclusions are required by law.

FIGURE 4: Growth of Exclusion Investments in Europe



Source: Eurosif

Exclusions can be applied across all managed (or owned) assets, or to certain funds or mandates only. The former is often referred to as exclusion overlays. For example, an asset manager or an asset owner could have a policy to exclude producers of cluster munitions from all investments, but then have specific funds or mandates with additional Exclusions such as producers of tobacco. In the Austrian, German and Swiss country reports, the fund specific and asset overlay Exclusions are treated separately, whereas in the figures in Table 4 below all Exclusions are reported. Applying Exclusions across all assets is becoming more common among asset owners and managers, and this asset overlay Exclusion represents most of the growth in this strategy. The most popular Exclusion overlay is weapons. However, within this category a number of differences exist, ranging from only those covered by international treaties such as cluster munitions and anti-personnel mines to all weapons. Other common Exclusions are tobacco, alcohol, gambling and nuclear weapons. Beyond these, asset managers and owners mention production of pork, animal testing, food commodities, genetically modified foods and stem-cell technology. Table 4 shows the growth by country from 2009 to 2011.

TABLE 4: Growth of Exclusion Investments by Country

€Mn	Exclusions		CAGR
	2009	2011	2009-11
Austria	€ 1,336	€ 8,195	147.7%
Belgium	€ 125,027	€ 96,736	-12.0%
Denmark	€ 143,951	€ 244,227	30.3%
Finland	€ 58,695	€ 83,637	19.4%
France	€ 16,716	€ 15,975	-2.2%
Germany	€ 8,893	€ 618,248	733.8%
Italy	€ 308,628	€ 446,790	20.3%
Netherlands	€ 368,975	€ 665,108	34.3%
Norway	€ 378,059	€ 550,843	20.7%
Poland	€ 1,076	€ 1,174	4.5%
Spain	€ 27,611	€ 56,226	42.7%
Sweden	€ 216,052	€ 339,754	25.4%
Switzerland	€ 12,107	€ 429,194	495.4%
UK	€ 82,307	€ 273,180	82.2%
Europe	€ 1,749,432	€ 3,829,287	47.9%

Source: Eurosif

The growth in Exclusions, most notable in Germany, Switzerland and the Netherlands, is driven by a small number of large asset managers or owners having adopted Exclusions across all assets under management. However, there is also a trend to apply Exclusions among smaller asset managers or owners, so the growth is more correctly identified as a market trend than is the case with Best-in-Class or Sustainability themed strategies. As the total assets under management by European asset managers is estimated by EFAMA at €13.8 trillion at the end of 2011¹⁹, Exclusions cover 27.7% of European invested assets.

However, this is not the whole story. As mentioned, investing in certain products banned by international conven-

tions such as cluster munitions is prohibited in Belgium and France and therefore not counted in this figure. For these two countries alone, €2,9 trillion can be added to the above figure meaning that 48% of the industry is applying exclusions, and most of this covers cluster munitions and anti-personnel mines. In addition there are many asset managers not included in this figure, for example in the UK and Switzerland, which are in the process of implementing a complete ban on investing in weapons covered by international conventions. Certainly, some asset managers and owners are doing more than others, and some have only started the process, but already half of Europe's invested assets have policies in place to exclude weapons banned by international conventions, and this figure is increasing. This must surely be heralded as a tremendous success for the international community and a validation of the work of many individuals to make it happen.²⁰

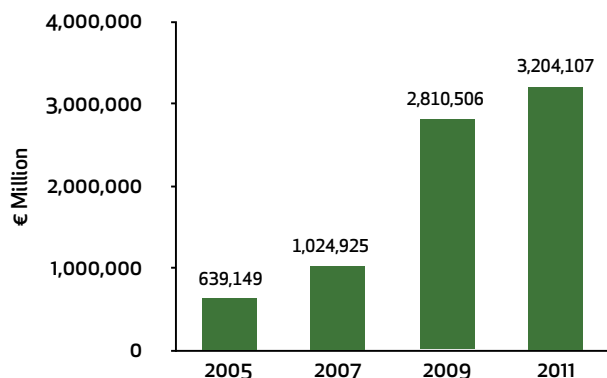
INTEGRATION

The process of integrating ESG criteria in financial analysis has received much attention in recent years, especially with the popularity of the UN-backed Principles for Responsible Investment (PRI). The 2010 Study documented substantial growth in this strategy, but concerns remain about the consistency and quality of the process adopted by asset managers and owners. In principle, an integration strategy will use ESG information to adjust the forward-looking financial projections for companies upon which fund managers base their investment decisions. In practice, it is difficult to measure and validate the impact this strategy has on portfolio selection. Further, some may argue that the incorporation of extra-financial information in portfolio management is not an SRI strategy; it is simply part of good fund management. Nevertheless, this strategy is interesting from a philosophical point of view because it attempts to place a financial cost or benefit on ESG information. The growth of Integration is shown in Figure 5.

¹⁹EFAMA Asset Management in Europe, Facts and Figures, May 2012

²⁰For an overview of cluster munitions legislation, initiatives and investor policies see: www.stopexplosiveinvestments.org

FIGURE 5: Growth of ESG Integration in Europe



Source: Eurosif

As seen above, the remarkable growth in Integration experienced from 2007 to 2009 has not been duplicated this time. The individual country growth is shown below.

TABLE 5: Growth of ESG Integration by Country

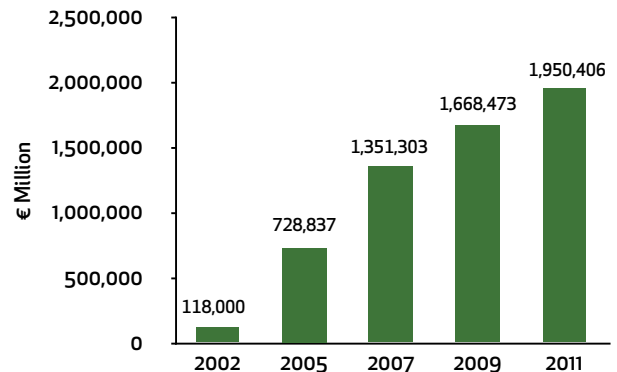
€Mn	ESG Integration		CAGR
	2009	2011	2009-11
Country			
Austria	€ 0	€ 108	nc
Belgium	€ 47,275	€ 13,830	-45.9%
Denmark	€ 83,583	€ 40,027	-30.8%
Finland	€ 24,963	€ 20,715	-8.9%
France	€ 1,800,000	€ 1,804,781	0.1%
Germany	€ 0	€ 11,424	nc
Italy	€ 317	€ 446	18.5%
Netherlands	€ 274,385	€ 542,156	40.6%
Norway	€ 32,400	€ 23,206	-15.4%
Poland	€ 0	€ 13	nc
Spain	€ 2,086	€ 7,302	87.1%
Sweden	€ 83,512	€ 34,897	-35.4%
Switzerland	nm	€ 7,509	nc
UK	€ 461,985	€ 697,692	22.9%
Europe	€ 2,810,506	€ 3,204,107	6.8%

Source: Eurosif

ENGAGEMENT AND VOTING

Responsible ownership through engagement with companies and voting shares at general meetings is an important part of responsible investment and is a practice that has received much attention in connection with the debate around how shareholders make use (or fail to make use) of their power as owners of companies. The 2012 general meeting season was termed the 'Shareholder Spring' by many in the UK following a number of instances where investors voiced their displeasure with company management through voting at general meetings. While shareholder activism is not new, it is arguably more vocal in the US, partly for cultural reasons and differences in corporate legislation. Indeed, in certain parts of Europe, corporate dialogue with shareholders has been almost unheard of until recently. Eurosif provides a figure for Engagement in Figure 6, but the reader should note that, just like with Integration, Engagement is more about the quality of the interaction than quantity of assets it applies to.

FIGURE 6: Growth of Engagement and Voting Strategies in Europe



Source: Eurosif

Nevertheless, the figures show an increased allocation to Engagement and voting, indicating that more asset managers and owners are using this strategy to manage their portfolio in the post-investment stage. It is also worth noting that many asset managers and owners focus their attention on governance issues in the exercise of voting rights and engagement with companies. Environmental and social issues are gaining ground in the engagement process, but governance (especially corporate governance) remains a focus for investors. The country results are shown in Table 6.²¹

²¹ Figures are not reported for France because voting by asset managers is regulated by a comply-or-explain regime. Please see French country section for more detail. Swiss data is Engagement only.

CASE STUDY 2: ESG Integration Case Study: The Co-operative Asset Management²²

The Co-operative Asset Management (TCAM) is a research-driven fund management company which identifies and exploits assets mispricing through analysis at three levels: company, industry and thematic. ESG issues are integrated into analysis at each level:

- Company level issues might include: new management, improved governance, transformational mergers and acquisitions, strength in emissions or energy efficiency standards, or a unique franchise capable of sustaining a competitive advantage longer than the market is giving credit for.
- At an industry level, a fuller appreciation of the competitive dynamics of an industry helps highlight medium and long-term trends not adequately captured in the current price.
- Finally, longer-term themes such as demographics, energy availability and climate change, may also result in mispricing – especially where the market is focused on shorter-term issues.

The ESG assessment includes scores on three indicators: the extent to which the company faces a headwind or tailwind from ecological and social issues, the quality of the management in addressing the company's ESG risks and opportunities, and finally whether its corporate governance structures and practices – including alignment of executive remuneration with valid corporate targets – are likely to enhance or destroy value.

Further, for the more specialist ESG funds, called Sustainable Trusts, TCAM has shifted from a “Best-in-Class on ESG” approach to selecting companies that through their products, services or standards, produce a “net benefit” for the environment and society, as well as meeting the exclusion criteria, such as tobacco and armaments manufacture. In short, this means seeking out companies that are more part of solutions for, than the problem with, unsustainable economic activity.

In order to evaluate whether this ESG analysis actually has an impact on stock selection, TCAM surveyed the 200 equities actively covered or invested in financial year 2011/12. In over a quarter of cases, the ESG issues were explicit drivers or risks in determining the investment case. However, not all integration is equally impactful nor is it all equally measurable. At most companies, ESG factors were part of a series of factors which affected outlook and valuation. In a few cases it was the dominant factor.

So far, TCAM has not attempted to quantify what contribution ESG has made to beta or alpha performance, in part because few investment decisions are ever taken because of one factor alone. However, a number of companies were avoided because of grave ESG concerns that went on to underperform for those reasons, and many were identified that stand to profit from being on the right side of the sustainability agenda.

²² This case study is based on: <http://co-operativeassetmanagement.co.uk/downloads/TCAM-Responsible-Investment-Annual-Review-1112.pdf>. Specific company examples are available in the report.

TABLE 6: Growth of Engagement and Voting Strategies by Country

€Mn	Engagement/Voting		CAGR
	2009	2011	2009-11
Country			
Austria	€ 963	€ 1,191	11.2%
Belgium	€ 20,371	€ 19,586	-1.9%
Denmark	€ 41,792	€ 187,718	111.9%
Finland	€ 31,551	€ 44,870	19.3%
France	nm	nm	nc
Germany	€ 9,190	€ 7,927	-7.1%
Italy	€ 317	€ 18,531	664.1%
Netherlands	€ 307,487	€ 472,019	23.9%
Norway	€ 195,200	€ 55,652	-46.6%
Poland	€ 0	€ 0	nc
Spain	€ 3,112	€ 11,094	88.8%
Sweden	€ 118,760	€ 137,660	7.7%
Switzerland	€ 3,461	€ 4,946	19.5%
UK	€ 936,269	€ 989,211	2.8%
Europe	€ 1,668,473	€ 1,950,406	8.1%

Source: Eurosif

FOCUS 1: EU Initiatives in Company and Investor Disclosure

Asset managers pursuing responsible investment strategies are dependent on ESG information from their investee companies in order to perform their analysis. Likewise, investors looking for responsible investments need information from asset managers on their responsible investment process in order to evaluate its suitability. This is how corporate social responsibility (CSR) complements sustainable and responsible investment (SRI).

The European Union (EU) has recently taken significant steps towards improving both company and investor disclosure. In the Nov. 25, 2011 communication on CSR the Commission writes that "Disclosure of social and environmental information, including climate-related information, can facilitate engagement with stakeholders and the identification of material sustainability risks. It is also an important element of accountability and can contribute to building

public trust in enterprises. To meet the needs of enterprises and other stakeholders, information should be material, and cost-effective to collect." The Commission further writes that a legislative proposal will be presented on the transparency of the social and environmental information provided by companies in all sectors.

On the investor side, the Commission launched a proposal²² for legislation making it mandatory for retail investors to be informed about how environmental, social and governance (ESG) concerns are taken into account in their investment, whether in a mutual fund or other investment-linked products. The proposal of July 3, 2012, is on the Key Information Document (KID) for investment products, and is linked to a wider EU initiative to create a sustainably and satisfactory regulatory environment for the sale and disclosures of retail investment products.

Impact Investing

Eurosif has previously mentioned Impact investments in its studies, but this is the first attempt at measuring the market and collecting qualitative information in the survey. The data was collected from two sources: first we included a separate section on Impact investing in the questionnaire sent to all respondents in our traditional coverage; second we sent a shorter questionnaire to 74 European organisations specifically identified as impact investors.

Talking about Impact investments as an investment process is slightly misleading, as it is highly differentiated ranging from profit first to social impact first investments, using a range of asset classes and incorporating a range of methodologies. In addition, while a substantial body of ever expanding literature is available on Impact investing, there is no common definition. Eurosif has adopted the GIIN definition²³ but the reader should be aware that others exist²⁴.

In this section, the term Impact investment is therefore used as an umbrella term covering a number of distinct but related developments in the funding of social and environmental projects and organisations. The spectrum of revenue models range from social return only with little or no profit, through blended models to the socially motivated businesses with market-based financial returns.

DIFFERENTIATING IMPACT INVESTMENT FROM SUSTAINABLE INVESTMENT AND PHILANTHROPY

Impact investments are investments made with the intention to generate social and environmental impact alongside a financial return²⁵, and it should be financially sustainable in the long run.

The differentiation between the different processes (or strategies) is illustrated below. While not all market actors will agree with this framework, it nevertheless provides an informative view of Impact investment in relation to other strategies referred to in this Study.

Bridges Ventures, who developed the framework, considers Impact investing to cover both thematic strategies and Impact-first strategies. For example, they run a thematic Sustainable Growth Fund (focused exclusively on solving problems related to health, education, the environment and underserved areas) and an impact-first Social Entrepreneurs Fund. Specific investments are placed in one of the funds based on whether the underlying enterprise is capable of generating full market returns or is a social enterprise whose model prioritises impact above returns to investors.

FIGURE 7: Illustrative Map of Capital Market Strategies

		Impact Investment					
		Traditional	Responsible	Sustainable	Thematic	Impact-first	Philanthropy
		Competitive returns					
		ESG risk management					
		ESG opportunities					
					High-impact solutions		
		The New Paradigm					
Focus	Finance Only ←	Limited or no focus on ESG factors of underlying investments	Focus on ESG risks ranging from a wide consideration of ESG factors to negative screening of harmful products	Focus on ESG opportunities, through investment selection, portfolio management and shareholder	Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off	Impact only →
	Examples		• PE firm integrating ESG risks into investment analysis • Ethically screened investment fund	• "Best-in-class" SRI fund • Long-only public equity fund using deep integration of ESG to create additional value	• Clean energy mutual fund • Emerging markets healthcare fund • Microfinance structured debt fund	• Fund providing debt or equity to social enterprises and/or trading charities	

Source: Bridges Ventures (2012), Bridges Ventures & Impact Investing: An Overview, p. 3

²³ Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances." Source: <http://www.thegiin.org/cgi-bin/iowa/investing/index.html>

²⁴ For example, a recent report by UN Global Compact refers to Social enterprise development, defined as creating and nurturing micro-, small- and medium-sized businesses that aim for positive social and environmental outcomes while generating financial returns; and Impact investing, defined as the placement of capital (into social enterprises and other structures) with the intent to create benefits beyond financial return. Source: http://www.unglobalcompact.org/docs/issues_doc/development/Framework_Social_Enterprise_Impact_Investing.pdf

²⁵ See for example Credit Suisse, Investing for Impact, 2012

In this respect, there may appear little distinction between thematic investments in the above framework and thematic funds as defined by Eurosif. Arguably, the key differences lie in the themes a fund manager chooses (whether or not they are closely linked to improved societal outcomes, such as affordable healthcare or education, or the environment), and the intent of the investor (impact investors are driven by a desire for social or environmental change alongside financial returns, and impact is therefore tracked throughout the investment cycle).

This duality, where some thematic funds are marketed as impact investments alongside impact-first funds may be confusing to investors. However, if one follows the logic that Impact investment is about intentionally using investment to solve social problems (and measuring the results), there is no reason why Impact investment cannot range from below-market (impact-first) to fully market-rate returns. Impact investors are learning that some societal challenges can be addressed commercially, while others cannot, but both have a place in Impact investing and are able to attract investors.

IMPACT INVESTMENT CATEGORIES

This Study includes three Impact investment categories, Microfinance, Social Business and Community investments. Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies, although it is not limited to this. Commonly investments into microfinance are channelled through Microfinance

Investment Vehicles, which are independent investment funds that allow private and public capital to flow to Microfinance institutions.

Social Business investments are made directly or through a fund into social businesses, which have the intention to generate a social and environmental impact alongside a financial return. To illustrate this with an example, Social Venture Fund is a German social enterprise whose aim is to provide broad solutions for social change through the combination of entrepreneurial energy and a success orientated investment approach²⁶. One of their investments is AUTICON, which aims to employ people with autistic behavioural characteristics. According to Social Venture, nearly 1% of the world's population has autistic behavioural characteristics. Because of their limited social skills in terms of interaction and communication, they have little chance to obtain a good education, let alone to pursue a successful career, and therefore bring social costs to society. By placing these people in a position to earn money themselves and thus become active members of our society and our economy, one makes a social impact through targeted investment. For example, there is a special form of autism called Asperger's autism, and according to AUTICON approximately 15% of people with Asperger's syndrome demonstrate above-average capabilities in the IT field. AUTICON employs individuals with these outstanding abilities in specialized IT services such as software testing. With their attention to detail and sustained high concentration levels in repetitive tasks, the em-

FOCUS 2: A Primer on Venture Philanthropy²⁸

According to a recent report²⁷ by the European Venture Philanthropy Association (EVPA) "Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The venture philanthropy approach includes both the use of social investment and grants."

As the name suggests, VP uses many of the techniques of venture capital to build organisations, offering both capital and knowledge to build a partnership with the enterprise. According to the EVPA report, it offers flexible long term and sometimes repayable investments. 72% of funding is distributed to investees through grants, showing that the positioning of VP is often more towards generating societal impact above financial return. Individuals, including High Net Worth Individuals (HNWIs) are the main source of

funding for non-endowed organizations (45%), followed by corporations, foundations and others - including institutional investors, governments and earned income.

The total investments made by VP organizations reached €1 billion of financial and non-financial support since the beginning of their operations, with eight organisations contributing 64% of total VP investments. This shows that VP investments are still in their infancy and dominated by a small amount of large organizations.

According to the survey, a majority of 92% of organisations measure the social performance of their investments. Most integrate simple output measures such as "number of people reached", and some integrate measurements of change in outcome. In addition, the majority of VPOs developed their own tailor-made systems of metrics and reporting standards, while only a minority uses standardised methods.

²⁶ Source: http://www.socialventurefund.com/eng/about_us/the_company/

²⁷ The European Venture Philanthropy Association, Industry Report 2010/2011

²⁸ Venture Philanthropy assets are not counted towards Impact investing in this Study, as funds are mostly distributed through grants. However, it provides a good example of applying business practices to achieving societal goals

employees of AUTICON achieve significantly lower error rates than the average IT tester.²⁹

Community investments are into local or other communities either directly or through channels such as local community development banks, credit unions, and loan funds. They focus on affordable housing, small business creation, development of community facilities, job creation and the empowerment of minorities.

The investments can be structured in many different ways, ranging from grants, to loans to equity. A number of funds offer different financing structures to fit the both the financing needs of microfinance institutions and the risk/return profile of various investors. For example, BlueOrchard Loans for Development's BOLD 2007 was a special purpose vehicle created to make five-year loans to a portfolio of microfinance institutions. The loans were used as collateral backing the issuance of equity, senior and subordinated debt. These subordinated tranches were divided into two tranches (B and C) offering different levels of risk and return. The Senior A-Notes were rated AA by Standard & Poors at issuance, while the B-Notes were rated BBB. A total of 21 investors participated in BOLD 2007: Institutional investors bought more than 70% of the overall issuance, concentrated mostly in the rated A and B Notes, while Development Finance Institutions purchased 28%, with a greater emphasis on the subordinated and equity investments. MIVs, High Net Worth Individuals and other small investors also participated in the subordinated and equity tranches. BOLD 2007 matured in June 2012, and with the exception of the equity tranche, which remains outstanding (the Legal Final Maturity is in June 2014) investors in all note classes were paid back in full, having received coupon payments throughout the life of the product. For the equity tranche, slightly more than half of the original investment made has been reimbursed to date, and recovery payments coming from restructured and defaulted loans in the portfolio over the coming 18 months are expected to result in investors' recouping 95% of their original investment.³⁰

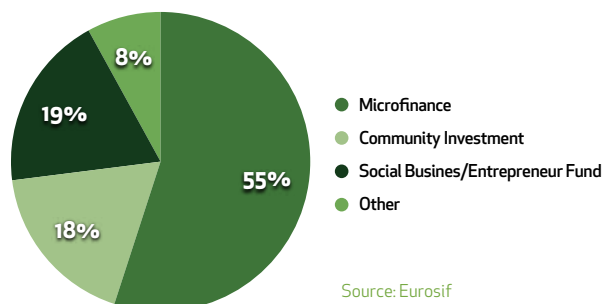
EUROPEAN IMPACT INVESTING MARKET

The European market for Impact investing is challenging to measure due to the differing views of Impact investment and the many small independent actors in the market. As noted above, Microfinance is the best known Impact investment sector, with a wide availability of funds. Various studies try to estimate the size of the global Microfinance market. Micro Rate and Symbiotics estimate the aggregate global volume

of Microfinance Investment Vehicles (MIVs) at about US\$ 7 billion in 2010.³¹ The Consultative Group to Assist the Poor (CGAP) estimates the global commitments to microfinance at US\$ 24 billion, including not only MIVs but also public and private funders (foundations, institutional and individual investors as well as Development Finance Institutions).³²

Eurosif has measured the invested assets (excluding commitments) of institutional and individual investors in Impact investing. This figure does not include community bank deposits used for local development purposes or development finance. Nevertheless, the figure presented is probably understated, as not all organisations responded to the survey or could be added using other sources of data. According to the survey, Eurosif finds that the amount invested in Impact investing is €8.75 billion. This figure also includes French fonds solidaires whose assets have been allocated to the various categories depending on the focus. The distribution of assets is shown in Figure 8.

FIGURE 8: Breakdown of European Impact Investment Assets by Category



This result compares favourably with the recent KPMG study on Responsible Investing³³, which includes a specific section on retail funds classified as social. It finds that the total market for social funds is €6.71 billion, with 53% classified as microfinance.

MOTIVATIONS, BARRIERS AND OPPORTUNITIES

The survey also included qualitative questions on motivations and barriers to Impact investing. Respondents were asked to rank these by order of importance, and provide clarifying comments if needed.

The main motivation for investors to allocate investments to Impact investing is shown in the following table, ranked from most important to least important.

²⁹Social Venture Fund: http://www.socialventurefund.com/eng/social_enterprises_portfolio/investment_example_auticon/

³⁰Source: BlueOrchard Loans for Development S.A., Offering Circular (2007), BOLD 2007 Investor Update: April 2012. BlueOrchard estimates as of Sept 2012

³¹Symbiotics, 2011 Global MIV Survey, 2011 and Micro Rate, The State of Microfinance Investments, 2011

³²CGAP, <http://www.cgap.org/p/site/c/template.rc/1.11.1792/1.26.2114/>

³³KPMG European Responsible Investing Fund Survey, 2012

TABLE 7: Motivations for Impact Investing

<i>Most → Least</i>	<i>Contribute to Sustainable Development</i>
	<i>Contribute to Local Community Development</i>
	<i>Looking for stable long-term return</i>
	<i>Risk management</i>
	<i>Financial opportunity</i>
	<i>Alternative to Philanthropy</i>
	<i>Generational transfer of wealth</i>
	<i>Responsibility to client/ Fiduciary duty</i>

Clearly, the biggest motivation is to contribute to sustainable development and local communities, but interestingly, financial considerations such as return and risk management feature higher than philanthropic or fiduciary concerns.

TABLE 8: Barriers to Impact Investing

<i>Most → Least</i>	<i>Lack of viable products/options</i>
	<i>Lack of qualified advice/expertise</i>
	<i>Performance concerns</i>
	<i>Mistrust/Concern about Green Washing</i>
	<i>Risk concerns</i>

Turning to barriers to Impact investing, the main investor concerns are on the product access and design side (eg. liquidity, structure,...) as well as the relative lack of expertise, whereas performance and risk concerns are less important.

The data on Impact investing shows that this category of investment is still ill-defined and is in its infancy in comparison to sustainable and responsible investment. However, Impact investing is attracting considerable attention from investors, researchers and legislators alike and its future growth seems assured. As it grows it will encounter concerns on quality and commitment, as already seen in the microfinance sector, and a challenge to potential investors will be to identify those investment managers committed to quality and transparency.

FOCUS 3: European Social Entrepreneurship Funds Framework

On 7 December 2011, the European Commission published a proposal for a Regulation³⁴ introducing a new EU-wide fund structure: the "European Social Entrepreneurship Fund" ("EuSEF").

Outlined by the Single Market Act in 2011³⁵, and recognized as a valuable contributor to the objectives of Europe 2020, the proposed new regime is the brainchild of the Commission's Social Business Initiative, which recognises "social business" as an important emerging sector within the broader investment context. Inspired by the UCITS experience, this proposed Regulation therefore aims to create a trusted EU label for Social Entrepreneurship funds which would increase confidence in this market and overcome some of the barriers hindering its growth, in particular the uneven distribution of capital available for social investment across Europe.

The Regulation acknowledges that funds investing in social business are likely to differ from mainstream investment vehicles in various important respects, such as lower liquidity or less frequent valuations for instance. That said, it sets out uniform quality criteria for funds operating under the EuSEF designation, including specific requirements regarding portfolio composition, qualifying investment tools,

qualifying investment targets, eligible investors and the internal organisation of fund managers.

EuSEFs are pooled funds that invest at least 70% of their capital in qualifying investments. The range of qualifying investments, including equity and debt instruments for instance, is related to eligible "social business" undertakings. These are defined as undertakings whose primary objective is the achievement of a positive social impact, rather than financial gain to shareholders or other stakeholders. They include social services or goods to vulnerable or marginalized persons and undertakings that employ a method of production of goods or services that embodies its social objective. An example relating to the first category would be access to housing or healthcare while an example of the second one would be professional integration for disadvantaged segments of the population.

The proposal is that new funds will only be available to professional investors and a small group of traditional investors in social enterprise (high net worth individuals, family offices, angel investors and philanthropists) who can commit a minimum of €100,000. Finally, the EuSEF designation will also only be available to funds with less than €500 million under management. The proposal is currently under discussion at the time of this Study.

³⁴ 2011/0418 (COD)

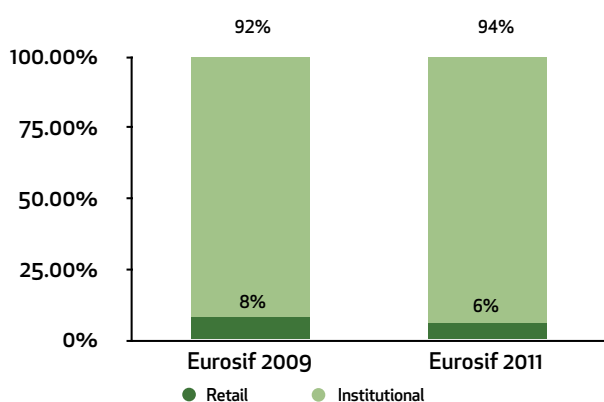
³⁵ COM (2011) 0862 final

Summary of European Results

CHARACTERISTICS OF INVESTORS

Investments allocated to responsible investment strategies continue to be predominately institutional. Further, even though European assets allocated to responsible investment strategies have increased rapidly, allocation to retail funds has grown slower than institutional resulting in the proportion allocated to retail falling from 2009 to 2011. Figure 9 shows that the proportion of institutional assets have grown from 92% in 2009 to 94% in 2011.

FIGURE 9: Breakdown by type of Investor



Source: Eurosis

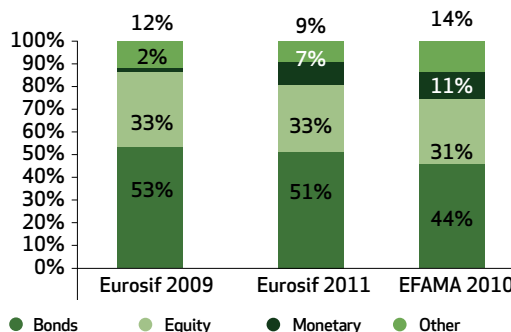
This result is remarkable when compared with figures by EFAMA of the whole asset management industry in Europe. According to 2010 figures from EFAMA, 31% of all invested assets in Europe are retail. Comparing this to the 6% proportion of retail assets in SRI shows that the penetration of responsible investment in European retail assets has much potential for growth. However, one should be aware that great variability exists between countries, with some countries having a much stronger retail sector. More on individual country results are available in the country sections.

ASSET ALLOCATION

The allocation of SRI assets has not changed much since 2009, with equities remaining at 33% and bonds decreasing from 53% to 51%. However, allocation to alternative assets such as hedge funds and venture capital has decreased in favour of more liquid monetary assets. Comparing this with overall industry figures from 2010 compiled by EFAMA

in column three in Figure 10 shows that SRI investors on aggregate favour a higher allocation to bonds over more exotic assets.

Figure 10: Asset Allocation of SRI in Europe



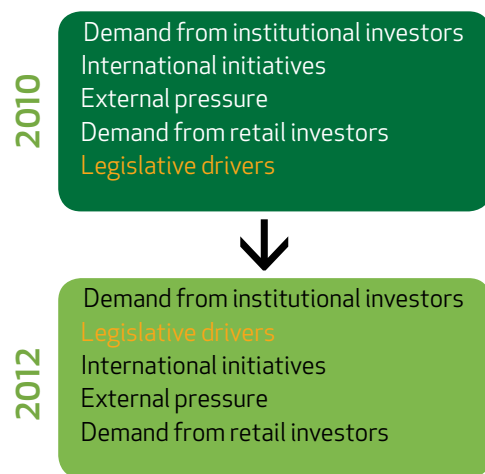
Source: Eurosis

DRIVERS OF SRI DEMAND

According to the survey, the main driver for SRI demand in the next years will continue to be demand from institutional investors. While the top 5 answers have not changed since 2010, it is noteworthy that legislative drivers as a have jumped from fifth to second in importance. Continued and increasing focus on investors by national and EU legislators is the likely cause of this as legislators make moves to safeguard Europe from future financial turbulence caused by short-sighted behaviour.

While these drivers are important, they also mask the power of peer pressure and transparency. One or two pioneers can affect the whole industry. One example of this is the Norwegian Government Pension Fund – Global, often called the ‘Gold standard’ in institutional responsible investing. However, the Norwegian fund is not very different from many other large institutional investors in their responsible investing process, the differentiator is transparency. For many years, the Norwegian Ministry of Finance, the Ethical Council and the Fund itself have been transparent about their screening process, their expectations of companies, and thorough in justifying their decisions. This quality of process and transparency has led many other investors to emulate their decisions. If other investors were equally transparent, not only would beneficiaries be better informed, but other investors could be inspired to follow.

FIGURE 11: Drivers of SRI demand



SUMMARY AND CONCLUSIONS

The results of this Study, summarized in Table 9, clearly show that Sustainable and Responsible Investment is flourishing in Europe. This is an incontrovertible truth whichever strategy one chooses to look at and whatever definition of SRI one ascribes to. During a timeframe when European AuM has increased by 3.8%³⁶ all of the sustainable and responsible strategies have outpaced this growth.

However, the figures also mask some uncomfortable truths. The European SRI market remains primarily institutional, and most of the growth in each of the individual strategies comes from a small number of large institutional players investing in new mandates. The growth in each strategy is not from SRI assets outperforming the the market, nor is it from

an inflow of assets from the retail market, but a conversion of existing investments to one of the strategies.

This represents a challenge for the industry. If institutional investors and professional asset managers are pouring money into SRI, why are retail sales not keeping pace? Clearly communication and clarification is needed to make retail investors see the same value in SRI that professional investors do. Some of Eurosif's initiatives such as the European SRI Transparency Code contribute to this effort.

Amongst these strategies, Norms-based screening is the fastest growing with a growth of 137% since 2009. Other fast growing strategies include Exclusions and Best-in-Class which have experienced growth in AuM of 119% and 113% respectively between 2009 and 2011.

The study also finds that almost 50% of Europe's total AuM now have policies in place which specify the exclusion of companies involved in the manufacture certain types of weapons, the most common being those subject to the international Conventions on Cluster Munitions and Anti-personnel Mines. While this finding can open the door to some further debate with regards to what a policy means in practice or how it is implemented, it remains nevertheless a very encouraging sign of positive moves made by the industry.

Finally, the Study measures for the first time the European market for Impact investments, estimated at €8.75 billion. This reflects the increasing interest of investors in achieving a measureable social and/or environmental impact from their investments. Increasingly attracting the attention of investors and politicians, this space remains to watch and is set for further growth.

TABLE 9: Market Growth by Strategy

Europe (14 countries) €Mn	2009	2011	CAGR
Sustainability themed	€ 25,361	€ 48,090	37.7%
Best in Class/Positive Screen	€ 132,956	€ 283,206	45.9%
Norms-based screening	€ 988,756	€ 2,346,308	54.0%
Exclusions	€ 1,749,432	€ 3,829,287	47.9%
Engagement/Voting	€ 1,668,473	€ 1,950,406	8.1%
Integration	€ 2,810,506	€ 3,204,107	6.8%

Source: Eurosif

³⁶ According to EFAMA estimates European AuM grew from €12.8 trillion in 2009 to €13.8 trillion in 2011, or CAGR of 3.8%. The EFAMA figures cover more markets, and 2011 figures are estimates.



Introduction

Austria has a diverse banking industry that consists of private and specialist banks such as joint stock banks and mortgage banks, as well as building societies and cooperative banks. The latter have a great significance in Austria. The cooperative 'Sparkassen' are organised collaboratively and operate under the serving of principle of serving the public's common interest. Other cooperative banks are the 'Volksbanken' and the 'Raiffeisenbanken'. Austria possesses one of the densest bank branch networks in Europe.

The Austrian SRI market consists of several players, among them private as well as cooperative banks, which offer a broad selection of SRI products and have contributed to the development of sustainable finance products in quantitative and qualitative terms. Most of these banks have been active in the SRI arena for 10 years or longer. Pension institutions also play an important role in the Austrian SRI market.

Legal Framework

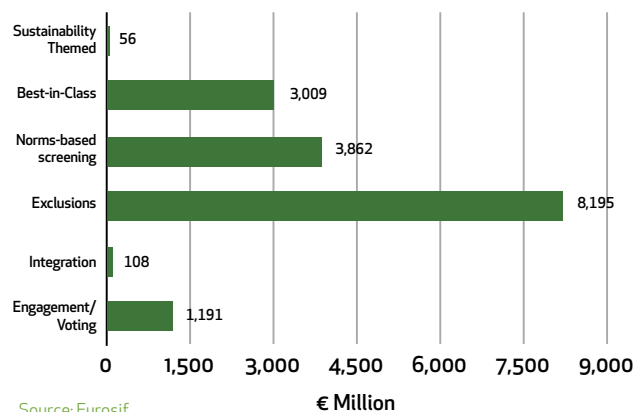
In 2005, Austria introduced an obligation for pension funds that take ESG criteria into account when investing monies paid into saving plans to report on ESG issues. This regulation does not apply to pension funds that do not consider ESG criteria. The Austrian Society for Environment and Technology (ÖGUT) awards severance-pay funds and company pension funds a sustainability certification. Eight institutions hold the certificate at present.

One specific characteristic of the Austrian SRI market is the 'Umweltzeichen', which is a state-run environmental quality label for all kinds of products including financial ones. Sustainable funds with an ethical and ecological approach, as well as Sustainability-themed funds (water, climate change, renewable energy, environmental technology), are eligible to apply for the quality label. For funds to obtain the quality label they must comply with a set of exclusion criteria, e.g. nuclear energy and weapons, and with a set of positive criteria including social and ecological standards as well. At the time of writing, 26 sustainable funds have the environmental quality label, according to the Umweltzeichen website.

Market Practices

In 2011, the Austrian market continued the dynamic development it has shown in previous years. With only one exception, the volumes of all strategies increased significantly. Asset managers in Austria normally combine different strategies.

FIGURE 1: Austrian Market Breakdown by Strategy



Exclusions from the investment universe was the most commonly used strategy in 2011. Its volume amounted to €8.2 billion. It consists of the exclusion criteria for specific funds and segregated mandates (€4.2 billion) and exclusions applied as overlays to product ranges (€4.0 billion). Compared to 2009, it increased more than six-fold (+613%). The reason for this extraordinary increase is a change in the investment policy of one large asset management company which began excluding producers of controversial weapons from the investment universe. The most important Exclusions in Austria are controversial weapons, nuclear energy, the production and trade of weapons, pornography, tobacco and gambling. All study participants had an Exclusions strategy in place and combined different criteria, numbering between 3 and 17 at once.

Best-in-Class was amongst the predominant approaches in Austria. Its volume was €3 billion at the end of 2011 and had more than doubled within the last two years (+129%).

With a volume of €1.2 billion, Engagement and voting is gaining significance in Austria. This strategy grew by a rate of 24% from 2009. In addition, some asset managers have an official policy on voting, Engagement or both in place. However, the majority of participants to the Study did not use Engagement or voting at all.

Integration of ESG criteria in the financial analysis is not very common in Austria but increased compared to 2009 when it was completely negligible. Assets managed according to this approach amounted to €108 million at the end of 2011.

Assets that are managed using the Norms-based screening approach were at €3.9 billion in 2011. This corresponds to a 164% growth rate over the last two years. The ILO conventions and the UN Global Compact were the most commonly used norms.

The only strategy to decline from previous years is Sustainability themed funds. Their volume halved over the last two years and amounted to €56 million at the end of 2011. The most common themes were climate protection, environmental technology, energy efficiency and renewable energies. The growth of individual strategies is shown in Table 1.

TABLE 1: Austrian Market Evolution by Strategy

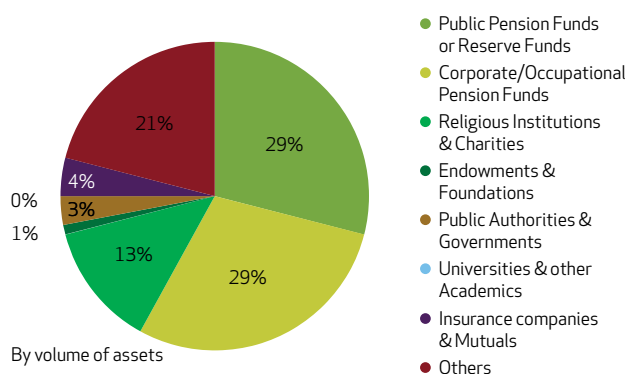
€Mn	2009	2011
Sustainability themed	€ 129	€ 56
Best-in-Class	€ 1,314	€ 3,009
Norms-based screening	€ 1,465	€ 3,862
Exclusions	€ 1,336	€ 8,195
Integration	€ 0	€ 108
Engagement and voting	€ 963	€ 1,191

Source: Eurosif

Market Characteristics

Despite being traditionally strong in Austria, institutional investors lost market share within the last two years but were still predominant. Their share decreased from 84% in 2009 to 78% in 2011. The most important institutional investors were again corporate pension funds, followed by public pension and reserve funds, and religious institutions and charities. The market share of retail investors was 22% at the end of 2011.

FIGURE 2: Typology of SRI Institutional Investors in Austria

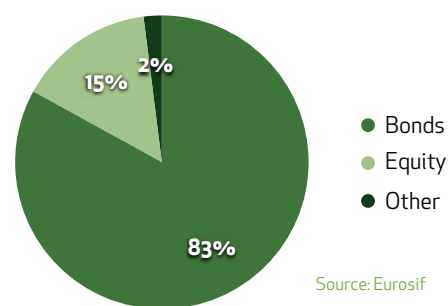


Source: Eurosif

Asset allocation figures are shown in Figure 4, below. Bonds are still the predominant asset class with a market share of 83% in 2011. This represents an increase of 10 percentage points over the same period of the two previous years. Equity had a market share of 15% in 2011 and other asset classes had hardly any significance in Austria at about 2%.

With regard to the SRI processes, asset managers in Austria use external research providers in most cases, and, in terms of internal resources, their own fund management teams and their SRI advisory committees. All respondents who answered this question combine external with internal resources.

FIGURE 3: Austrian SRI Market Asset Allocation



Source: Eurosif

Market Predictions

SRI asset managers in Austria expect ongoing growth within the next three years. On average, they think the market will increase by 63%. In addition, they plan to enlarge their SRI teams almost up to one third. The SRI asset managers believe that the market development will be mainly driven by institutional investors. External pressure, e.g. from NGOs, trade unions or the media, is considered to be the second most important key driver, followed by international initiatives like PRI and the demand of retail investors. Asset managers believe that SRI will gain significance within the Austrian financial market and start to become mainstream.

The data and text above is based on research and analysis conducted by FNG

Belgium



Introduction

Belgium has a long history of sustainable investment, and has traditionally had a wide selection of SRI investments, especially on the local retail market. However, the financial crisis has hit Belgian banks and asset management industry hard, which is reflected in the development of SRI assets.

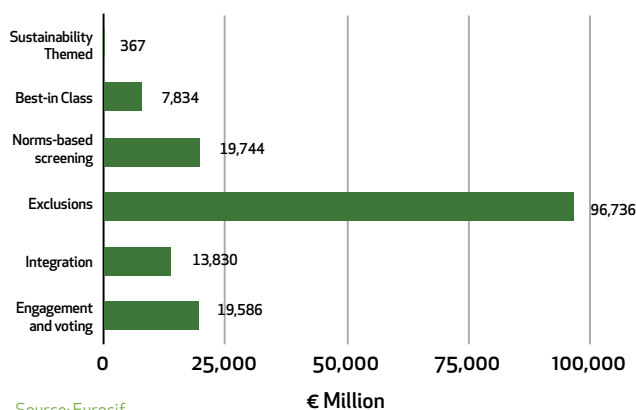
Several local initiatives promote the development of SRI in Belgium. In addition to the work of Belsif the local national SIF, the Belgian Asset Management Association (BEAMA) is active in the monitoring and quality control of sustainable and socially responsible investment funds distributed on the Belgian market. BEAMA has developed an SRI methodology that is refined and adapted on a regular basis, in the light of the local developments in the interpretation of sustainability and social responsibility.³⁷ Over time, this methodology has been adopted by more and more asset managers, and has also been adopted by mainstream players in recent years.

In 2010, a project started with the Belgian Financial Sector Federation (Febelfin) – of which BEAMA is a co-founding member - to create an overarching recommendation regarding financial SRI products (funds, saving accounts and loans). The BEAMA SRI methodology, elaborated in 2012 by Febelfin, mentions the disclosure rules, the frameworks and criteria a fund manager has to comply with to be recognized by Febelfin as being an SRI fund.³⁸

Market Practices

The Belgian market is typically focused on Norms-based screening and Best-in-Class strategies, but also has a history of applying Exclusions across assets, as shown in Figure 1.

FIGURE 1: Belgian Market Breakdown by Strategy



Source: Eurosif

Table 1 illustrates the evolution of each strategy between 2009 and 2011. The overall resulting negative growth is reflective of the recent challenges experienced by Belgian asset managers and the financial industry in general, and responsible investment assets have fallen in line with the market.

TABLE 1: Belgian Market Evolution by Strategy

€Mn	2009	2011
Sustainability themed	€ 595	€ 367
Best-in-Class	€ 10,530	€ 7,834
Norms-based screening	€ 23,478	€ 19,744
Exclusions	€ 125,027	€ 96,736
Integration	€ 47,275	€ 13,830
Engagement and voting	€ 20,371	€ 19,586

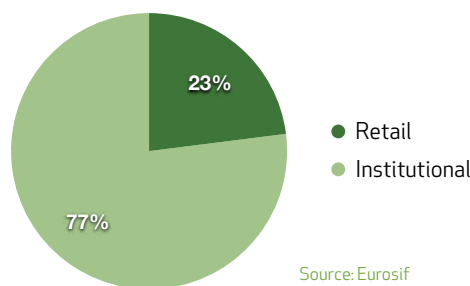
Source: Eurosif

As mentioned in the European section, Belgium has legislation in place prohibiting asset managers from investing in weapons banned by international conventions such as cluster munitions. The Exclusions figure above therefore excludes these assets, and the figure comprises assets with additional Exclusions beyond these weapons. If all the assets covered by this mandatory exclusion were included, the figure would be higher.

Market Characteristics

The Belgian market has historically had a very strong and high profile retail SRI sector compared to other European markets, and this continues today. As seen in Figure 2, the proportion of retail assets in Belgium is high at 23%.

FIGURE 2: Retail versus Institutional SRI Assets



Source: Eurosif

Market Predictions

While the Belgian asset management industry has experienced challenging times in the last two years, local initiatives and national legislators remain committed to the growth of SRI through initiatives such as the BEAMA/Febelfin SRI recommendation. This commitment is expected to provide growth for SRI in the future.

The data and text above is based on research and analysis conducted by BEAMA and Eurosif.

³⁷ The BEAMA SRI methodology can be found at: <http://www.beama.be/duurzame-icbs-fr/definitie-en-methodologie-dmvi> and <http://www.beama.be/duurzame-icbs/definitie-en-methodologie-dmvi>.

³⁸ The Febelfin SRI recommendation can be found at: <http://www.febelfin.be/fr/produits-durables> and <http://www.febelfin.be/nl/duurzame-producten>.



Introduction

Following a significant growth of SRI in the last few years, almost all of the 50 largest Danish asset owners and asset managers are now committed to at least one responsible investment strategy. The main drivers have been government soft law, the UN-backed PRI initiative, SRI professionals' networking and knowledge seeking activities, together with an ever-alerted NGO environment and corresponding media attention.

Openness and transparency of asset owner and asset manager SRI policies are still increasing. Consultations among ministers and investor representatives have resulted in the launch of several new soft law initiatives. In 2010, a statutory obligation for investors to inform on SRI in general in their annual accounts was put into force. As a next step, the government has pushed for initiatives to extend this transparency obligation to include specific SRI policies on government bonds.

Dansif is the leading SRI network in Denmark and has a strong and ever-growing membership. The organisation is now regularly launching surveys and hosting debates among investors, NGOs and other interested parties, as well as experts from both Denmark and abroad. Dansif also initiates in-depth studies on specific focus areas chosen by the members and thus contributing to the specialisation.

Market Practices

Looking at individual responsible investment strategies, in Figure 1, Norms-based screening remains one of the most common strategies in Denmark, and the most used Norms-based screen is the UN Global Compact Principles. Best-in-Class and Sustainability themed strategies are still very small in the Danish market.

FIGURE 1: Danish Market Breakdown by Strategy

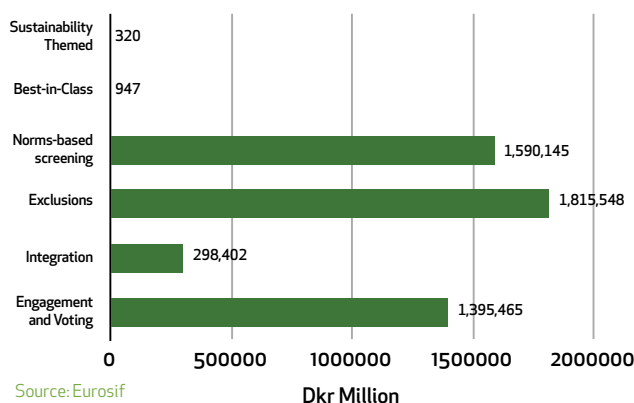


Figure 1 also shows that Exclusions is a very common strategy, covering more than 90% of reported assets. When it comes to controversial activities such as alcohol, tobacco, pornography and weapons, the commonly used strategy is exclusion. However, these traditional negative screens are not as widespread in Denmark as in other Nordic countries.

Further, different kinds of Engagement have been growing very fast the latest years as investors use more diverse ways of interacting with companies. When it comes to the reaction towards companies that can be associated with violations of international norms, most Danish investors are now trying to influence the companies through different types of active engagement. As many as 75% of the respondents have a formal policy on Engagement, and most of these also make it available to the public. Respondents engage on a wide range of issues covering environmental, social and governance issues, and use a pallet of instruments like mail correspondence, company meetings, proxy voting and shareholder resolutions.

However, if the Engagement initiatives do not create positive results within a certain time limit, the companies concerned will typically be excluded from the portfolio. Companies producing and selling controversial weapons like cluster munitions and landmines in conflict with international conventions, are excluded by most Danish institutional investors.

It is also worth noting that many Danish asset owners and managers are more transparent about their excluded companies than investors on many other markets, and will publish the list of Exclusions on their websites.

Turning to Integration, this is practiced by fewer respondents than is the case for Engagement, but many state the approach as a growing practice that is formalised across asset management organisations.

Market Characteristics

The figures show that most of the SRI market in Denmark is institutional, while retail investment in funds especially committed to ESG is relatively limited.

The SRI strategies of most asset owners and managers cover all equities and company bonds in their portfolio. However, many are now considering how to integrate other asset classes such as government bonds, private equity and real estate.

Market Predictions

The Nordic countries, including Denmark, have traditionally been focusing on Norms-based screening in their SRI asset management. Respondents to the survey predict that other asset overlay strategies, such as ESG Integration and Engagement, will become more common in mainstream asset management in Denmark.

The data and text above is based on research and analysis conducted by Dansif and Eurosif.



Introduction

Finland has historically not been as developed as the other Nordic countries when it comes to the implementation of SRI. However, the importance of taking SRI into consideration has increased during the last years, even though Finland is still behind the other Nordic countries. Investors are finally set to start embracing a more sustainable investment approach.

The external pressure from NGOs, regulators, media and investors is still weak. Nevertheless, the establishment of Finsif in June 2010 has put more interest into the issue. As of June 30, 2012, Finsif has 37 members, making them the SIF with most members in the Nordics. From the beginning, the organization has been very active in the arrangement of seminars, awarding scholarships and focusing on communicating the work that members are conducting in the field.

Legal Framework

SRI practices in Finland are not governed by any explicit legal framework, therefore practices rest on organizations such as Finsif and initiatives such as UN-backed Principles for Responsible Investment (PRI). As of June 30, 2012, 31 investment managers, asset owners and professional services partners had signed the PRI, the same number of signatories from Denmark and Sweden.

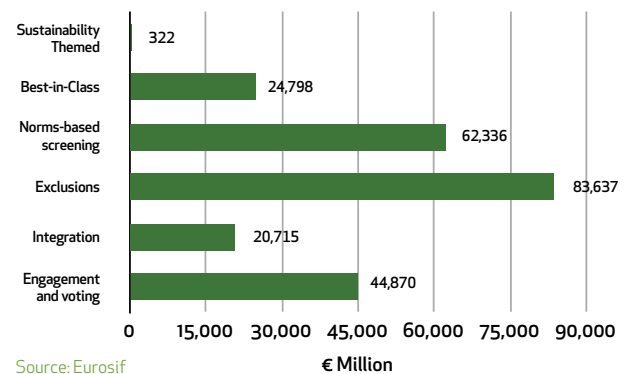
Market Practices

As shown in Figure 1, Exclusions and Norms-based strategies are the two most commonly used strategies in Finland. Exclusion criteria that are especially common in Finland are tobacco, publication of pornography, controversial weapons and environmental issues.

However Best-in-Class is also prominent and amounts to €24.8 billion, which is mostly unchanged relative to the 2010 Study. Sustainability themed strategies are not prominent in the Finnish market, and the portion of asset managers and asset owners investing in such funds accounts for a very small part of the total SRI assets.

Engagement and voting are frequently used and currently account for €44.9 billion. The use of Engagement has increased relative the 2010 Study. ESG Integration into the investment process seems to also gain momentum

FIGURE 1: Finnish Market Breakdown by Strategy



Source: Eurosif

Table 1 illustrates the adoption rate of each strategy between 2009 and 2011.

TABLE 1: Finnish Market Evolution by Strategy

€Mn	2009	2011
Sustainability themed	€ 0	€ 322
Best-in-Class	€ 24,453	€ 24,798
Norms-based screening	€ 62,850	€ 62,336
Exclusions	€ 58,695	€ 83,637
Integration	€ 24,963	€ 20,715
Engagement and voting	€ 31,551	€ 44,870

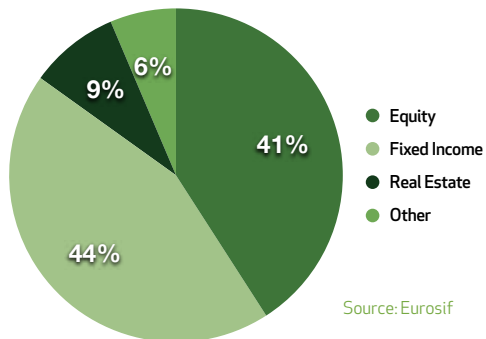
Source: Eurosif

Market Characteristics

As illustrated in Figure 2, fixed income investments represent 44% of the SRI market in Finland. Fixed income investments are however closely followed by equities, which account for 41%. Fixed income and equities are the most popular asset classes; both are used by over 90% of all investors.

Alternative investments (structured products, real estate, hedge funds, PE/VC and commodities) amount to 15% of the total SRI allocation. This portion of alternative investments allocated in SRI is larger than in other Nordic countries and has also increased somewhat compared to the 2010 survey.

FIGURE 2: Finnish SRI Market Asset Allocation



Market Predictions

It is predicted that the Finnish SRI market will continue to increase in importance and will become a more natural part of the investment process.

As in other Nordic countries, there is a belief that Integration will be used to a larger extent and a more holistic approach to SRI will be implemented. Few asset owners and asset managers foresee any drastic changes, but more small incremental steps towards a larger embrace of SRI. Other asset managers state that they see an increased interest from institutional investors and that more organisations will increase focus on this issue.

The data and text above is based on research and analysis conducted by TNS Prospera



Introduction

France is among the countries where SRI is most developed in Europe, with some forty domestic asset managers offering SRI dedicated products, and ESG analyst teams in all the main asset management firms, some of them being fully integrated into financial research teams. This is also the country where Best-in-Class approach has been historically the most popular, although other strategies like Engagement and Norms-based screening are gaining ground. In quantitative terms, the French SRI market is well developed and continues to grow rapidly whilst the mainstream asset management industry is challenged by four years of financial crises.

Legal Framework

France offers a set of regulatory requirements which all together have favoured the development of SRI and more widely, of CSR among companies in the country.

Asset Managers

The recently passed Article 224 of the 'Grenelle II de l'environnement' Law (January 2012) requires fund managers to describe how they take into account ESG criteria in their investment policy and which funds are concerned on their website by July 1, 2012 and then in their annual report. This is expected to improve communication and transparency as well as encourage ESG integration.

Employee Savings Plans (ESPs)

For a decade, SRI has been actively promoted within ESPs, thanks to the involvement of the main French trade unions organised through the 'CIES' committee, which grants a Label to the main SRI ESPs since 2002. Another indirect leverage for SRI within ESPs is the obligation since 2008 for ESPs to include at least one 'fonds solidaire'. These typical French funds include 10% of impact investments and 90% of equity or bonds assets that are usually managed under SRI approaches. Due to these two incentives, ESPs are currently the main source of inflows among individual investors.

Listed Companies

Since 2001, French listed companies are required to publish information on their environmental and social impacts in their annual report.

A second round of requirements also passed in 2012 (Article 225 of the "Grenelle II" law) to progressively extend the ESG reporting requirement to a wider scope of companies (SMEs and unlisted corporations).

Market Practices

The French SRI market is traditionally defined by combining the Best-in-Class and the Sustainability themed strategies figures³⁹. According to the survey, the French preference for Best-in-Class investments is continuing, with this strategy showing significant growth from 2009. According to this measure, the French market amounted to €115 billion, an increase of 127% on a like-for-like basis over the 2009 figure of €50.7 billion.

Besides the notable continuous growth of Best-in-Class in a depressed economic context, a significant development is the remarkable growth of Norms-based strategies from €17.3 billion in 2009 to €679.6 billion in 2011. The survey shows that French asset managers are making clear moves towards adopting additional forms of responsible investment strategies, often motivated by reputational aspects or concerns about meeting their stakeholders' expectations. This may explain the rapid growth of Norms-based approaches. One should note, however that while Environmental, Social and Governance (ESG) criteria are becoming increasingly common in financial management, the manner and consistency in which they are implemented and the standards applied can vary considerably, even within the same strategy as it is the case for instance for ESG Integration or Norms-based approaches.⁴⁰

The data and the text below are based on research and analysis conducted by Novethic. It uses the Novethic definition of SRI⁴¹ and counts assets held by French residents regardless of whether they are managed in France or abroad.

French SRI assets are managed by 53 investment managers and two asset owners managing internally such assets. It is worth noting that one of these investment managers accounts for 48% of the market. In 2011, segregated mandates regained their momentum and grew faster than funds. This increase in SRI management mandates recovered the ground lost in the past two years. Today, segregated assets under management accounts for 44% of assets under management, or €51 billion.

³⁹ See European section of this Study in reference to the discussion around market definition.

⁴⁰ See Novethic Norms-based exclusions study

⁴¹ Novethic does not count sector-based exclusions, norm-based exclusions and non-ESG screened thematic approaches as SRI unless they are combined with ESG screening or engagement. SRI is the systematic selection of issuers based on the analysis of their ESG practices.

CASE STUDY 3: A Wave of Conversions to SRI

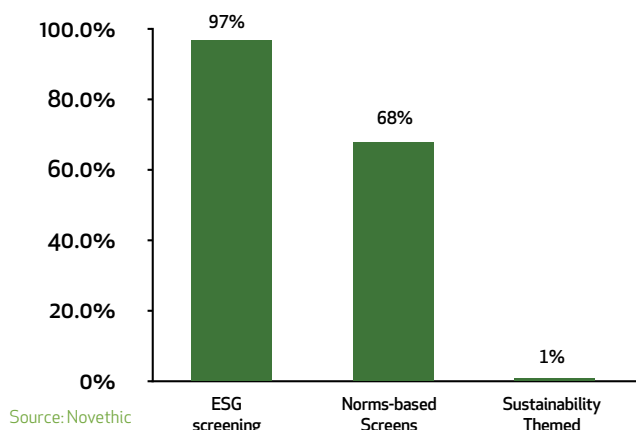
One of the significant trends of the French market comes from the number of funds 'converted' to SRI, i.e. applying SRI requirements to traditional funds. This phenomenon accounted for more than €28 billion in 2011.

Several reasons may lead asset managers to adopt this strategy, including taking advantage of their ESG research developed for a small number of SRI funds, not waiting for retail investors demand and protecting their reputation by extending their SRI policy. Although this conversion wave obviously reflects investment managers' buy into SRI and shows a growing level of confidence in the added value provided by ESG research that has

been developed during the last decade, its magnitude raises questions about methodology and the effective impact of such conversions on the investment universe.

According to respondents, converting a fund to SRI takes between six months to two years including feasibility analysis, extending ESG rating coverage if needed, selling securities with poor ESG practices, implementing internal control procedures, adapting reporting, etc. The impact on portfolios also varies: 5% to 35% of issuers can be excluded, depending on the investment universe of the fund, its business sectors focus, etc.

FIGURE 1: French SRI Market Breakdown by Strategy (% of aggregate SRI)



- **Best-in-Class and Related ESG Screening**

Positive ESG selection (referred to in Figure 1 as ESG screening) strategies such as Best-in-Class remain the dominant SRI approaches in France, covering 97% of assets, according to the Novethic data. In the 2011 Study, for the first time Novethic was able to provide more detail on the ESG selection strategies used in the French market.⁴² It shows that Best-in-Class approaches now only represent 80% of SRI management versus over 90% two years ago. By contrast, Best-in-Universe strategies are developing and now account for 8% of assets. Moreover, 14% of the assets are managed with weighting systems and 1% with best-effort approaches. These two strategies are often combined with other SRI strategies within the same funds.

- **Norms-based Approaches**

Norms-based exclusions soared to 68% (versus 21% in 2010). This is particularly remarkable as the funds using this approach on an exclusive basis are not included here, showing the appeal of combining ESG selection with Norms-based exclusions. Additional players have adopted Norms-based approaches during the first semester 2012, meaning that the assets reported in this strategy would even be larger if reported at the end of 2012.

- **Sustainability Themed strategies**

This strategy has become less important over the last two years, likely because of the poor financial performance of such strategies since the beginning of the crisis in 2007.

- **Engagement and voting**

Shareholder engagement is becoming formalised in France. Two trends have been noted:

- Voting in general meetings, practised by 50% of those surveyed (35% in 2010) for a majority of their shares, is developing. Furthermore, 69% of survey respondents publish a voting report following general meetings.
- Half of those surveyed (37% in 2010) could list the number of times dialogue had been engaged with companies on ESG issues. However, only 38% state that they have a formal engagement policy, and only 14% make it public.
- Some asset managers conduct engagement activities around specific SRI products. The assets covered by such activity represent about €2.6 Billion. It is important to note that this figure does not account for engagement activities carried out across various products as such statistics do not exist. The figure is therefore not compa-

⁴² See the 2011 Novethic Study for more detail on this breakdown between Best-in-Class, Best-in-Universe, best effort and weighting strategies.

able to other European country data in this Study but tends to indicate that there is ample room in the French market for more engagement.

- **Exclusions**

Exclusions are still rare at the mainstream level. Only one French asset owner excludes weapons from all its assets. One exception is the exclusion of controversial weapons that is rapidly expanding among French assets: Anti-personnel mines and cluster bombs are banned by international conventions that have been ratified by France. The resulting French law of 2010 indirectly covers investment in these industries. At the end of 2011, 23 investors out of the 48 surveyed had introduced an exclusion policy of controversial weapons from all their investments. As they are covered by French law, the corresponding assets totalling €2.8 trillion have not been added to the Exclusions figure in this Study.⁴³ Some policies also covered depleted uranium and even nuclear weapons.

- **ESG Integration**

For several years, analysts and portfolio managers have increasingly applied ESG integration. In 2011, 59% of the survey sample, representing nearly €2 trillion in assets, stated that they had established some crossover between financial and extra-financial analysis in their databases and internal structure. This percentage has been increasing steadily over the past three years, from 47% in 2009 and 53% in 2010. These analysis enable measuring ESG quality of portfolios ex post, which are not subject to SRI requirements, with a view to prepare for an eventual conversion of the funds and identify any reputational risks. This type of process is applied occasionally by 48% of the sample and regularly and automatically by 34% of respondents.

In the past five years, a growing number of investors have also been taking ESG issues into account on a case-by-case basis in their financial management. Applying these practices to all assets has a more powerful leverage effect than strict SRI management. However, the overall asset figures provide only one side of the picture as standards vary considerably in ESG integration.

Market Characteristics

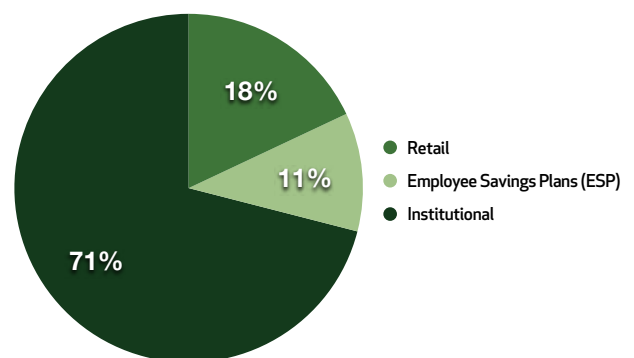
TABLE 1: Investment Vehicles in French SRI Market (€ billion)

		2009	2011	Trend
Investment funds	Retail	€9	€21	133%
	Employee Savings Plans (ESPs)	€5.4	€11	104%
	Institutional	€14.5	€32.3	123%
	Sub-total	€28.9	€64.3	122%
Segregated mandates	Institutional investors (delegated)	€10	€36.9	269%
	Institutional investors (in-house)	€10.7	€11.9	12%
	Employee Savings Plans (ESPs)	€1.1	€2.1	95%
	Sub-total	€21.8	€51	134%
Total		€50.7	€115.3	127%

Source: Novethic

The ratio of institutional to individual investors remains unchanged. Institutional investors represent 70% of the French SRI market. The evolution lies with investor typology within this market segment. Nearly 40% of the €81 billion is now held by private insurance companies, 20% by pension funds and 18% by public institutions. SRI performed well among individual investors through employee savings schemes. However, pooled fund management turned in more significant growth (89%) to reach €21 billion, primarily through the conversion of large equity funds or life insurance products.

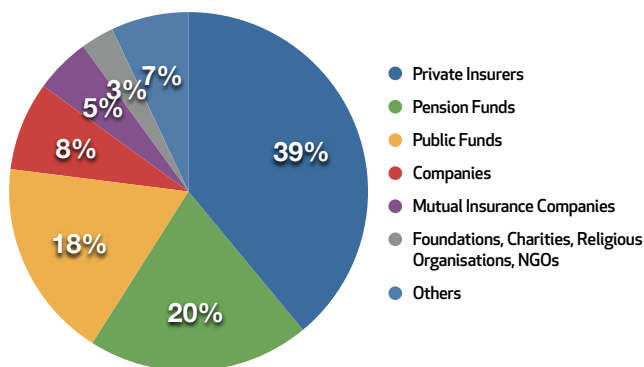
FIGURE 2: Institutional versus Retail Investors in France



Source: Novethic

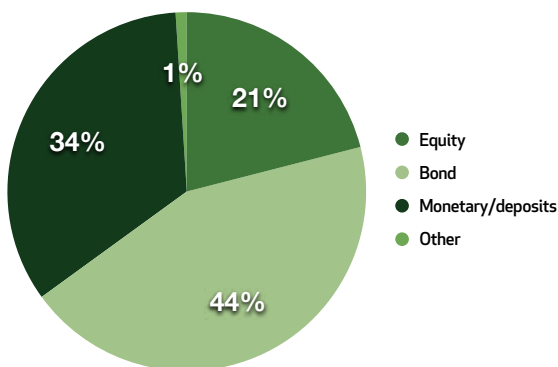
⁴³See European section on Exclusions for more information.

FIGURE 3: Typology of SRI Institutional Investors in France



Source: Novethic

FIGURE 4: French SRI Market Asset Allocation



Source: Novethic

Representing 44% of the market in 2011, bonds dominate equities (21%), with the money market segment maintaining its share at 34%. However, this breakdown is highly variable depending on the management scheme. Equities and money market are more prevalent in pooled fund management at 30% and 56%, respectively. Money market is similarly common in employee savings (48%). However, bonds are preferred in segregated mandates (79%). Fifty-nine percent of the 78% of fixed-income products are corporate bonds (versus 39% in 2010), while government bonds only account for 13%. The remaining 6% are from other issuers, such as supranational organisations, local governments, etc. The French SRI market is gradually extending its geographical coverage. The proportion of assets invested in OECD countries, the United States or other regions in the world rose from 12% to 24% between 2010 and 2011.

Evolution of Market 2003-2012

In 2003, SRI assets under management held by French residents accounted for €3.9 billion. Since then, the market has increased almost fortyfold to reach €115.3 billion, according to the Novethic definition.

In 2003, no mandate was allocated to SRI, and with the French Reserve Fund launching its first SRI RFPs in 2004, a new trend has been initiated. Today, market players mention that almost no institutional RFP is completely devoid of ESG considerations.

Finally, a significant number of funds with existing assets of over €1 billion have shifted to SRI within the last three years.

All together, these trends show that SRI is progressively leaving the niche to become a genuine capability promoted by a growing number of asset managers or demanded by more and more institutional investors.

The targets assigned to responsible investment, being ethical, reputational, sustainable development or long term financial risks and opportunities management, are very diverse and sometimes unclear. Moreover, the increasing volume of SRI funds raises the question of the impact of SRI processes and the measure of their environmental and social added value. At this stage, the capacity of SRI to be part of the answer to the wider challenges to which the financial markets are confronted remains a mid-long term objective.

Market Predictions

Retail Investors

Although there is still a lack of product visibility amongst retail investors, there are several reasons to be optimistic about this segment: asset managers continue to convert traditional funds to SRI, including funds distributed in banking and insurance networks; a growing number of insurers adopt SRI strategies in life insurance products, one of the most popular financial products in France; and the first offer of SRI mandates for HNWI emerged. The SRI Week in October led by French SIF and supported by French Ministry of Sustainable Development specifically targets retail investors. Furthermore, SRI funds are gaining exposure in mainstream media, which could also encourage retail investors to ask for SRI funds.

Employee Savings Plans (ESPs)

The challenge concerning ESPs is linked to the regulatory environment trends. The latest fiscal law appears to be less encouraging for the development of ESPs, which could lower the momentum of SRI increase among this segment over the next years.

Institutional Investors

Nine French asset owners are signatories of the Principles for Responsible Investment, three of them having signed over the past two years. The challenge is now to see how they will implement strong and visible responsible investment policies and which precise SRI techniques like Engagement or Norms-based exclusions they will apply.

Type of SRI most commonly used

Even though the French market remains very Best-in-Class oriented, it appears that other approaches like Best-in-Universe or Norms-based strategies see a growing interest from asset managers. The question raised for the coming years is whether these approaches will have a large audience among institutional investors or retail clients.

Legal Framework

The recent shift of the majority at the French government and assembly might lead to an increased support to responsible investment, but this is yet too early to see to what extent it will provide a boost to the market and at which horizon.

The data and text above is based on research and analysis conducted by Novethic.

CASE STUDY 4: 2009-2012, Four Years of the Novethic SRI Label

The Novethic SRI Label, first of its kind in Europe, was launched in France in 2009. Its objective is to promote enhanced transparency and practices of SRI funds in order to offer retail investors a better 'compass' to find their way through the product offering.

After four seasons of labelling, and the examination of 100 to 200 fund files each year, the independent SRI research centre is in a position to draw some conclusions on the impact that the Label has had on the SRI fund offering in France.

1. Important Progress Regarding Transparency

Today more than 150 labelled funds publish the exhaustive list of their portfolio holdings, a rare practice in the French Asset Management industry. Each is subject to reporting on their financial as well as ESG performance. Via their websites, asset managers explain their ESG screening and analysis processes as well as their portfolio management approach, using the European SRI Transparency Code developed by Eurosif. AFG and the French SIF have made the Code compulsory for all SRI

funds since 2010. In addition, information on SRI funds, initially limited to the asset manager's proprietary website, is now being posted on their distribution networks' websites, with which retail investors are more familiar.

2. The SRI Fund Offering Remains Heterogeneous

The SRI fund offering has developed significantly over the past ten years, but remains far from being homogenous. The impact of SRI processes on the eligible investment universe, the sector allocation and, finally, the ESG practices of selected companies, vary greatly from one product to another. The Novethic SRI Label, whose criteria are re-examined on a yearly basis, has for the first time in 2012 introduced the idea that a fund could only obtain the Label beyond a significant selectivity ratio. The objective is to enable retail investors to measure the contribution of SRI on funds that have the Label, in comparison to those that do not.

For more information on the Label, its criteria and methodology, please consult www.novethic.com.



Introduction

The German banking industry ranks among the largest in the world. But nevertheless, finance and insurance services have quite a low share of the gross value added and amounted to only 5% in 2011. One particularity of the German banking industry is the great significance of public sector and cooperative banks. The market share of private banks is quite low compared to other countries.

All three pillars of the German banking industry – public-owned as well as private and cooperative banks – are important with respect to the SRI market. The government owned promotional bank KfW is active in the field of sustainable investment too. In addition, several private banks, including the market leaders offer a broad variety of SRI products. A few other SRI specialised fund management companies are less important in quantitative terms but vitally important with regard to standard setting and best practice.

In addition, Germany has some sustainability research agencies and research institutions that, inter alia, specialise in SRI. Finally, various financial advisors have a special focus on SRI and play an important role within the German SRI market.

Legal Framework

The SRI market and the implementation of CSR in Germany are not highly regulated. Legal regulations basically consist of disclosure requirements.

Two such legal regulations include the obligation to report on ethical, social, and ecological criteria taken into account in the use of investments in saving plans. These were adopted in 2001 for pension funds (Pensionsfonds) and extended to pension institutions (Pensionskassen), as well as direct insurance (Direktversicherer) in 2005. The regulations apply to certified products and a broad range of occupational pension schemes. The obligation to report must be fulfilled when a contract is signed and annually thereafter. The German pension and insurance companies are not bound to a sustainable investment policy; they are only required to report on whether they invest sustainably or not.

To encourage the growth of the renewable energy sector, the German parliament passed the Renewable Energies Act in 2000. It offers the legal framework to incentivise investment in renewable energies. The law guarantees operators of plants generating electricity out of wind, water, solar and biomass fixed compensation rates, some of which are significantly above market prices.

In 2010, the German government adopted a national CSR strategy. With a view to developing an action plan, a national

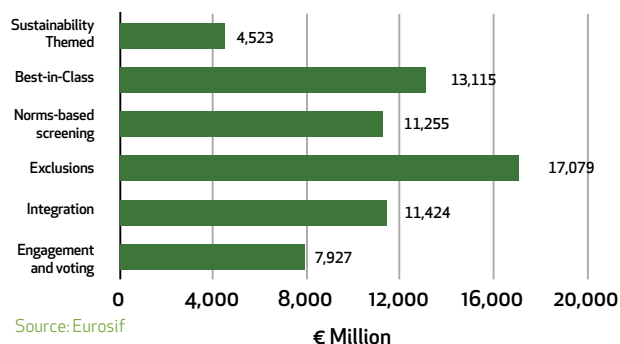
CSR forum consisting of experts from the world of business, trade unions, NGOs and academic institutions was established to provide recommendations to the government. The action plan aims to make people aware of the benefits that CSR offers for companies and society as a whole. However, there are no legal or regulatory implications attached to this. Also in 2010, the German government convened the German Council for Sustainable Development (RNE), which consists of 15 representatives of society that are involved in sustainable development. The RNE adopted a sustainability code in 2011 and plans to introduce it as a basis for the assessment of the performance of financial market companies. A legal regulation with respect to CSR was adopted in 2004. Since then large asset management companies must report on non-financial performance criteria such as environmental or employee issues in their annual reports.

Market Practices

In 2011, the market showed a vital and dynamic development. With a volume of €618.2 billion, the most important strategy in quantitative terms was the exclusion of holdings from the investment universe. This consists of the exclusion criteria for specific funds and segregated mandates (€ 17.1 billion) and exclusions applied as overlays to product ranges (€601.1 billion). This is a tremendous, almost hundredfold growth compared to 2009 when the volume amounted to €8.9 billion. The reason for this extraordinary increase is a change in the investment policy of several large asset management companies who began excluding producers of cluster munitions from their investment universe in 2010 and 2011. In this regard, all of these asset management companies took the Convention on Cluster Munitions into account. The assets with the Exclusion of cluster munitions amounted to €611 billion at the end of 2011.

The second most important exclusion criterion was the production and trade of weapons that amounted to approximately €27.5 billion. Other important exclusion criteria were direct investments in food commodities (€ 17.8 billion), pornography (€9.4 billion), tobacco (€8.5 billion), gambling (€8.2 billion), followed by nuclear energy (€6.1 billion) and animal testing (almost €5.1 billion). Other exclusion criteria with volumes between €4.9 and €1.8 billion were alcohol, abortion, child labour, research on human embryonic stem cells, contraception that inhibits nidation, cloning of human genomes, the production of bio fuel from food commodities and green genetic engineering. The asset managers indicated nine additional exclusion criteria with volumes between €800 and €300 million. The vast majority of assets under the strategies Norms-based screening, Best-in-Class and Sustainability themed funds were combined with exclusion criteria.

FIGURE 1: German Market Breakdown by Strategy



With a volume of €13.1 billion, the Best-in-Class approach was the second most important singular strategy within the German market. Compared to 2009, its volume increased by more than 50%.

The integration of ESG factors in financial analysis plays an increasingly important role in Germany. From being almost negligible in 2009, the volumes of assets with an Integration approach amounted to €11.4 billion at the end of 2011. In most cases, this strategy was combined with other strategies.

Norms-based screening of investments according to their compliance with international standards and norms amounted to €11.3 billion euro at the end of 2011. This is an increase of 70% in 2009. In most cases, asset managers refer to the UN Global Compact, followed by the ILO conventions (which cover child labour, among other issues) and to the OECD guidelines for MNCs. They also mentioned several of additional official documents.

Engagement and voting, which are normally combined with other strategies too, amounted to almost €8 billion. Engagement alone grew by a rate of 30% from 2009 and was €6 billion in 2011. In terms of ESG, the most important factor in asset manager's engagement policies was, on average, S, followed by E and then G.

The Sustainability themed investment approach grew too, but to a lesser extent. With a volume of €4.5 billion, it showed an increase of 50% on 2009. Important themes were renewable energies (especially solar and wind power), climate change, green real estate and water. Closed-end funds are particularly important in relation to the Sustainability themed investment approach.

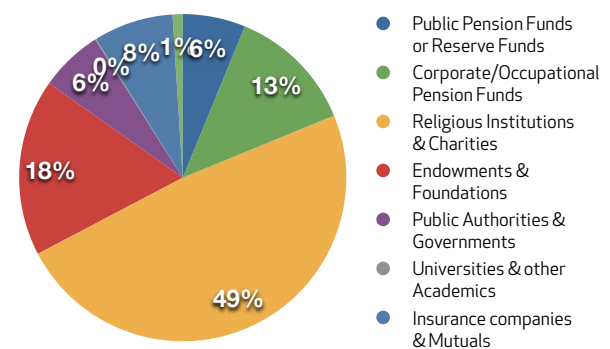
TABLE 1: German Market Evolution by Strategy

€Mn	2009	2011
Sustainability themed	€ 2,995	€ 4,523
Best-in-Class	€ 8,586	€ 13,115
Norms-based screening	€ 6,616	€ 11,255
Exclusions (without asset overlays)	€ 8,893	€ 17,079
Integration	€ 0	€ 11,424
Engagement and voting	€ 9,190	€ 7,927

Source: Eurosif

Institutional investors became more important in 2011 and tend to dominate the market. Their market share was 68% which is an increase compared to 2009 when their market share was 55%. As in previous years, religious institutions and charities were the predominant institutional investors in Germany. Endowments and foundations and corporate or occupational pension funds also had a market share of more than 10 %.

FIGURE 2: Typology of SRI Institutional Investors in Germany



By volume of assets

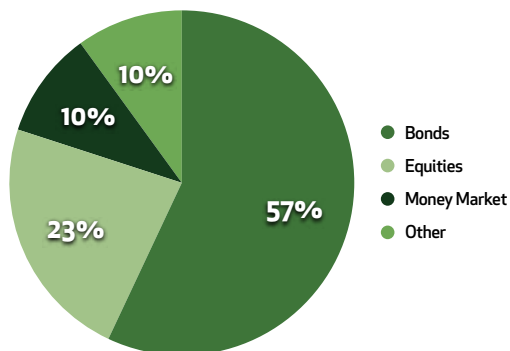
Source: Eurosif

With a share of 32%, the retail investors lost importance compared to 2009. But nevertheless, investment made by this group increased in absolute terms. Closed-end funds that amounted to €2.8 billion at the end of 2011 contributed decisively to this growth. The closed-end funds market is 75% dominated by retail investors.

With respect to asset allocation, the importance of bonds slightly increased. Their market share was 52% in 2009 and 57% in 2011. On the contrary, equity lost market share in 2011 (23% compared to 38% in 2009). Monetary increased with

2 percentage points from 2009 and was at 10% in 2011. The share of Venture Capital and Private Equity grew substantially and was almost 9% at the end of 2011. The rest, which is almost 1%, was distributed among real estate, commodities and alternative or hedge funds.

FIGURE 3: German SRI Market Asset Allocation



Source: Eurosif

With regard to sustainability research, asset managers that participated in the survey engage external ESG research providers in most cases. In addition, they combine this resource with their own fund management (e.g. portfolio manager) or analyst team (e.g. SRI CG and, research & en-

agement) as well as with other internal fund management team resources. Further important external resources are SRI index providers, PRI and brokers.

Market Predictions

The SRI asset management industry in Germany is optimistic and expects SRI to continue its growth during the next three years. On average, they expect an increase of 46% and also plan to enlarge their SRI teams. Many asset managers think that all responsible investment strategies will receive more attention in the future and will become increasingly well recognised. The integration of sustainability issues in the traditional financial analysis is especially expected to become more and more commonly used.

Asset managers see the demand from institutional investors as the most important key driver for SRI. However, external pressure (e.g. from NGOs, the media or trade unions), the demand from retail investors, changes in the legal framework and international initiatives are also seen as factors that are likely to influence the development of SRI in a positive way. Germany's renewed abandonment of nuclear power stations and the increasing awareness among investors for the need of an energy transition could also contribute to the development of SRI.

CASE STUDY 5: Sustainability-Oriented Specialist Banks

Sustainability-oriented specialist banks such as church, green and alternative banks play an important role within the German sustainable finance and investment market. Some of these contributed decisively to the development and promotion of SRI in its beginning dating back to last century's seventies and sixties. They are significant players in financing companies, projects and initiatives that contribute to sustainable development, church activities and institutions that mainly focus on social issues. Moreover, they employ a broad set of ethical criteria in their investment decisions that comprise Exclusions as well as ESG screenings.

These sustainability-oriented specialist banks are not or only partly active in the field of classical asset management. Against this background, the need to reflect and accompany the development of this important market segment arose. FNG started to survey the sustainability-oriented bank sector in 2011 and conducted this research in 2012 for the second time. The survey includes data from 12 different banks that are partly taken from their annual reports. Nine of them answered a questionnaire on their SRI approaches and their sustainability policies. To complete the picture, data provided by the German development bank KfW was also taken into account.

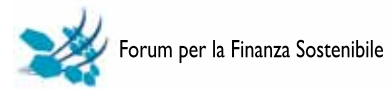
At the end of 2011, the volume invested in account deposits of all 12 banks was €20.2 billion. * Compared to the

previous year, this is an increase of almost 6%. Assets owned by the German promotional bank KfW and managed according to an approach that consists of ESG integration, a set of 12 different exclusion criteria including international norms and an engagement policy on sustainability matters amounted to €20 billion at the end of 2011. In this regard, the total of sustainable investment in Germany includes, alongside sustainable funds and mandates, sustainable assets in the amount of €40.2 billion.

The ESG investment policies of the 9 banks that answered the questionnaire consist of a comprehensive set of Exclusions, the Best-in-Class approach and sophisticated ESG-screenings, in one case according to a specified and broadly accepted guideline called "Frankfurt-Hohenheimer Leitfaden". Seven out of nine sustainability-oriented specialist banks use the expertise of external sustainability rating agencies. Three combine it with internal research and two rely on internal research alone. All nine banks have an explicit sustainability policy in place, and seven also have an ethical advisory committee. With regard to E, S and G, the S is the most important with a share of 46%, followed by E (32%) and G (22%).

*Although the total volume of account deposits is very unlikely to be invested in sustainable mandates or investment funds at the same time, double counting cannot be excluded with 100% certainty.

The data and text above is based on research and analysis conducted by FNG



Introduction

The Asset Management Industry in Italy⁴⁴

To fully understand the key features of the Italian asset management industry, it is important to look at the savings trend and related financial investments of Italian households.

Traditionally, Italians direct more of their incomes towards savings than other European citizens. The saving rate since the end of the Second World War until the 1990's was between 20% and 30% of income. Over time, the gap has progressively decreased to converge with the saving rates of the other European countries, equal to 12% on average.

Financial investments of Italian families amount to roughly €3,500 billion as of 2011; 40% is direct investments, equally distributed between bonds and equities, and only 25% by indirect investments, through pension funds, investment funds and insurance companies. Compared to other European countries, direct investments in bonds have more weight in the portfolios of Italian asset owners, while investments in equities reflect the high percentage of small and medium family-owned companies in the Italian economy, with the predominance of investments in non-listed companies. In the area of indirect investments, pension funds play a secondary role, with a small increase over time, especially when compared with other developed countries. On the other hand, investment funds show more dynamism, with a significant growth in the second half of 1990's, followed by a slow-down in recent years.

Focusing on the overall asset management industry, the amount of AuM was about €940 billion (as of December 31, 2011), equally distributed in investment funds – open and closed – and mandates. This is a 7% decrease compared to 2010, partly due to the negative economic trends at global level. To complete the analysis of such a negative trend, it is necessary to look at structural factors of the Italian asset management industry. First, the market share of domestic asset managers has been eroded by foreign competitors which succeeded offering their investment products through the Independent Financial Advisor network. Secondly, the industry seems to put more effort into segregated mandates, and therefore toward institutional investors and long-term investment strategies. These factors will profoundly affect the future development of the Italian asset management industry and the quality of Italian households' financial portfolios.

The emphasis on institutional investors and long-term investment strategies, as key drivers for the future development of the Italian asset management industry, is perfectly aligned with the evolution of the Italian SRI market.

Despite the size of the market as measured in this Study, SRI still remains a niche investment area within the asset management industry.

Legal Framework

Regulation versus Self-Regulation

The Italian regulatory framework consists of a balanced mix of mandatory and voluntary initiatives. The former drive financial institutions towards a better disclosure on SRI practices; the latter provide detailed guidelines and toolkits on processes, methodologies and ESG issues.

Disclosure

Currently, a legal obligation for companies and investors to report on ESG aspects of their business does not exist. The Legislative Decree 32/2007 entails the possibility for companies to integrate financial indicators with extra-financial indicators related to the company's activities, such as information concerning the environment and human capital. The choice on whether or not use them is being left to the directors, along with their perception of the materiality of ESG issues on the business.

Pursuant to the Legislative Decree 252/2005, pension funds are obliged to include in their annual report and their communication to the investors whether and to what extent ESG criteria are adopted in the management of assets.

Following the so-called 'Parmalat scandal', the Parliament passed a law that, among other things, stated a further disclosure obligation for all financial products labeled as 'ethical' or 'socially responsible'. This principle had been enforced by Consob, the Financial Services Authority, through the Regulation n. 16190/2007. To a large extent, the standard follows the content of the Eurosif Transparency Guidelines; signatories that are in line with them are de facto compliant with such regulation.

Isvap, the Insurance Services Authority, approved a similar Regulation (n. 35/2010), applicable to insurance products.

More recently, Covip, the Pension Authority, passed a new measure on pension funds' investment policy, enforcing the obligation to communicate (if any) ethical, environmental and social criteria in the statement of investment principles.

Active Ownership

The right of the shareholder to intervene at the general meeting is stated in article 2370 of the Civil Code.

– The D.Lgs. 58/1998 (Testo Unico della Finanza) devotes a full section (articles 125-134) to shareholders' rights; specifically, the article 127-ter states the right to formulate questions before the general meeting, in order to receive an

⁴⁴ Data on the Asset Management Industry are from Assogestioni, "Guida italiana al risparmio gestito – Factbook 2011", 2011.

TABLE 1: Italian SRI Regulatory Framework

Regulation	Voluntary standards
Pension funds	
- Legislative Decree of December 5, 2005, n. 252 "Disciplina delle forme pensionistiche complementari" Art. 6 - 19 - Decision by COVIP, October 31, 2006 - Decision by COVIP, July 22, 2010, "Disposizioni in materia di comunicazioni agli iscritti" - Decision by COVIP, March 16, 2012, "Disposizioni sul processo di attuazione della politica di investimento" Art. 4 - 5	- Toolkit on SRI for Pension Funds (FFS, 2004) - Guidelines for disclosure on environmental, social and ethical aspects for the supplementary protection sector (FFS, 2007) - Guidelines for the integration of Environmental, Social and Governance factors in the investment processes of complementary pensions (FFS, 2012).
Asset managers	
- Law of December 28, 2005, n. 262: "Disposizioni per la tutela del risparmio e disciplina dei mercati finanziari" Art. 14	- see European SRI Transparency Code (Eurosif)
Insurance companies	
- ISVAP Regulation n. 35/2010, Art. 23 (Obblighi informativi) - Art. 24 (Obblighi di rendicontazione)	
Cross-sector	
- CONSOB Regulation n.16190, Intermediaries, Chapter VII - Disposizioni in the field of ethical finance or Socially Responsible Investment, Art. 89 (Obblighi informativi) Art. 90 (Obblighi di rendicontazione)	

answer during its course.

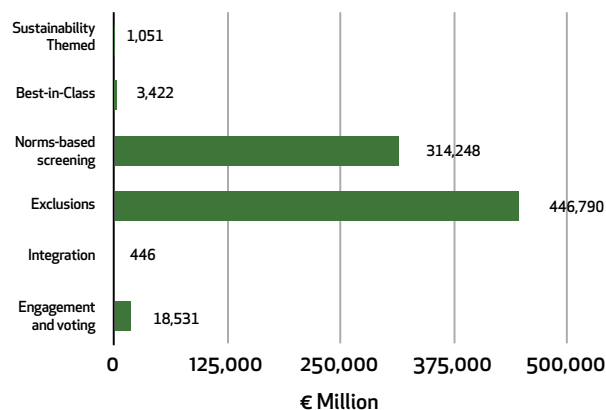
- Banca d'Italia (2008). Disposizioni di vigilanza in materia di organizzazione e governo societario delle banche. This contains directives about the organisation and governance of banks. The shareholder meeting approves the remuneration policy, equity-based remuneration plans (stock options), as well as the remunerations of the bodies appointed by the shareholder meeting. Banks must guarantee complete information sharing and effective ways of communication among and within the corporate governance bodies.
- The 2012 Covip Decision on the process to implement pension funds' investment policy requires providing policy orientation in order to stimulate active ownership behavior.

Market Practices

As shown in Figure 1, the Italian market predominately makes use of Norms-based screening and Exclusions.

With almost €447 billion in assets, Exclusions of investments or classes of investment based on values, principles or beliefs, is established as the most common practice in Italy. In 2011, one of the major Italian asset managers, Pioneer Investments, set up a policy on anti-personnel landmines and cluster munitions, with the aim to fill the gap between international agreements and the binding ratifications in relevant countries. The policy applies to almost all Pioneer Investments' actively managed funds; this explains the remarkable increase registered at the end of 2011.

FIGURE 1: Italian Market Breakdown by Strategy



Source: Eurosif

However, one significant development in the market shown in Table 2 is the outstanding growth of Norms-based screening strategies. In 2010, Assicurazioni Generali, which is in absolute terms the largest company in the Italian SRI market, introduced a Norms-based screening overlay strategy to all its assets. Assicurazioni Generali Norms-based screening amounts to €310.8 billion (note that this figure covers Generali's global assets), hence boosting the reported figure for Norms-based screening in Italy.

TABLE 2: Italian Market Evolution by Strategy

€Mn	2009	2011
Sustainability themed	€ 987	€ 1,051
Best-in-Class	€ 1,829	€ 3,422
Norms-based screening	€ 2,352	€ 314,248
Exclusions	€ 308,628	€ 446,790
Integration	€ 317	€ 446
Engagement and voting	€ 317	€ 18,531

Source: Eurosif / Please note that the 2009 figures for Best-in-Class and Norms-based screening have been restated

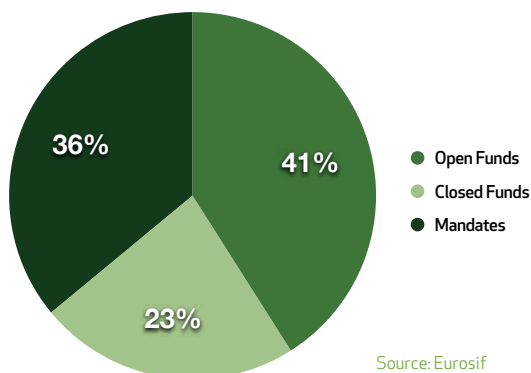
Market Characteristics

Institutional investors, essentially represented by pension funds, also play a major role in the development of the Italian market: since 2010, pension funds increasingly included SRI in their investment strategies and mandates, mainly through the adoption of SRI benchmarks within an 'active' management approach. Some progress was also made in terms of Engagement.

Retail funds, - which traditionally led the market, - in recent years showed an outflow, reflecting the weaknesses of the demand as well as the low interest of the asset management industry in this area.

Open-ended funds still represent the major financial vehicle in the Italian SRI market: they count for 41%, closed funds and mandates for 23% and 36% respectively.

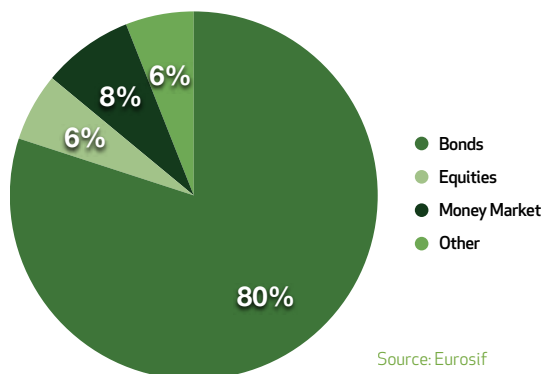
FIGURE 2: Italian SRI Market Breakdown by Investment Vehicle



While institutional investors show an increasing awareness towards SRI as a long term investment approach able to capture ESG risks, retail investors play a very marginal role. Their investments – through specialized SRI funds – represent 0.26% of the total SRI AuM. Analysing the ‘supply versus demand’ dilemma, main reasons may be traced back to the supply side’s lack of interest to create successful SRI products. As stated in the 2010 European SRI Study, when SRI funds are supported by a good quality design with robust ESG research and a reliable SRI approach, together with effective marketing and distribution initiatives, they effectively attract remarkable amounts of assets from retail investors.

In line with the overall asset management industry, bonds represent the main asset class, even among the SRI AuM: bonds account for 80% and equities for 6%. A distinctive approach has been adopted by pension funds, which especially focus their SRI strategies on equities.

FIGURE 3: Italian SRI Market Asset Allocation



Market predictions

On the other hand the future growth of the Italian SRI market depends on the positive signals coming from pension funds and insurance companies.

Pension funds progressively increase their awareness on SRI from both a cultural and technical point of view. SRI practices can be fully integrated into investment practices consistently with a pension fund’s fiduciary duties.

Insurance companies are stimulated to adopt sustainable investment policies, due to internal and external drivers, such as:

- the increasing dialogue and sensitivity between the CSR/SRI officer and the financial officer;
- the involvement in national and international initiatives (e.g. the Sustainable and Responsible Investment Charter and the Principles for Responsible Insurance).

On the other hand, the asset management industry still seems reluctant to adopt SRI as a strong strategy to exit from the structural crisis that has affected it over the last ten years. Best practices seem to be isolated cases, while the overall sector is not really investing on ESG issues.

In the years to come, the signature of the Sustainable and Responsible Investment Charter by key representatives of the Italian finance sector might act as an effective stimulus for companies.

FOCUS 4: Italian Sustainable and Responsible Investment Charter Highlights

The Charter is articulated in three Principles, coherently with the renewed EU strategy 2011-2014 for Corporate Social Responsibility.

The **first Principle** highlights the need to acknowledge the relevance of Environmental, Social and Governance (ESG) issues within an investment strategy, moved by moral and economic reasons as well.

The **second Principle** is focused on transparency, requiring a progressive increase in the quality of information provided, on one hand by institutional investors and asset managers on SRI strategy / methodology / ESG criteria, and on the other hand by companies on their sustainability policies / objectives / practices / results.

The **third** and last **Principle** places attention on the long-term dimension of investment strategies, requiring institutional investors to manage their assets coherently with fiduciary duties; requiring companies to implement top managers' incentive systems in the interest of company's stakeholders; and requiring financial institutions to offer long-term-oriented products.

The Charter was signed by the representatives of the **Italian Banking Association**, the **Association of Italian Insurers**, the **Italian Investment Management Association** and their Federation (FeBAF) on the first **Italian SRI Day**, held in **Rome on June 6, 2012**. Other financial trade organisations have already announced their willingness to join the group.

CASE STUDY 6: Assicurazioni Generali

In 2010, Assicurazioni Generali decided to define its own Ethical Guidelines with the aim to put in place an SRI strategy in line with the structure and key features of its assets under management. This is an outstanding step forward for the company, increasing the overall Italian SRI market quality and dimension as well. Through a customised SRI strategy, the insurance Group intends to better manage the ESG risks influencing its reputation and fiduciary relationships with stakeholders.

Following the Ethical Guidelines, Exclusions are not applied at specific sectors following a moral-based approach, instead giving priority to those ESG issues relevant on a risk management perspective.

Besides this ethical screen, Generali applies a proprietary ESG methodology for SRI funds. Generali's current range of socially responsible investments comprises a number of funds totaling €6.3 billion, which are managed by the Group's companies in France, Italy, Austria and Switzerland.

Ethical Guidelines

Principles set up within the Group's Ethical Guidelines correspond to those required to observe and promote by participating in the Global Compact.

Specifically, the Group's Ethical Guidelines - applying to all investments except third party assets - forbid investment in financial instruments issued by companies that, directly or through subsidiaries:

- produce weapons that violate fundamental humanitarian principles through their normal use;
- sell weapons or military materials to countries deemed to be at risk;
- are involved in serious or systematic violations of human rights, serious environmental damage, serious instances of corruption, or other particularly serious violations of fundamental ethical standards.

At the time of writing, thirty companies have been identified as not eligible for the investment universe.

Netherlands



Introduction

The SRI market in the Netherlands has been showing continuous growth since it started in the 1970s. In this market, a division can be made between the retail and institutional market; the latter is mainly comprised of pension funds and insurance companies.

Since 2007, the VBDO has been publishing an annual report comparing and tracking responsible investment by the largest Dutch pension funds. These reports show an increasing willingness to invest responsibly, with the larger pension funds leading the way. Since 2009, a separate report has also been published looking into responsible investment by insurance companies. In general, insurance companies lag behind pension funds when it comes to SRI. The 2011 report showed a clear distinction between two groups of insurance companies: one group was embracing responsible investment and was increasingly using different ESG-instruments; the other group, however, did not invest responsibly at all and did not even have an exclusion policy.

While most of institutional investors made at least some progress, the retail investment market showed less progress. The 2012 VBDO study into the size and growth of the Dutch retail sustainable saving and investment market ("Duurzaam Sparen en Beleggen 2011") shows that this market had no growth in 2011 and remained at less than 5% of the total Dutch retail savings and investment market.

Legal Framework

In the Netherlands there is no legislation in place concerning SRI. There is, however, pending legislation that will ban investments in cluster munitions. This comes after the Dutch parliament twice passed a motion to ban investments in cluster ammunition that was rejected by the cabinet.

The umbrella organization for pension funds, the Pension Federation (de Pensioen Federatie), has published a handbook regarding responsible investment. Furthermore, the umbrella organization for insurance companies, the Association of Insurers (het Verbond van Verzekeraars), has introduced a Responsible Investment Code effective in the beginning of 2012 that requires its members to take a number of initiatives to make their investments more responsible. Other institutional investors, such as charities and foundations, have also made efforts to introduce sustainable investments.

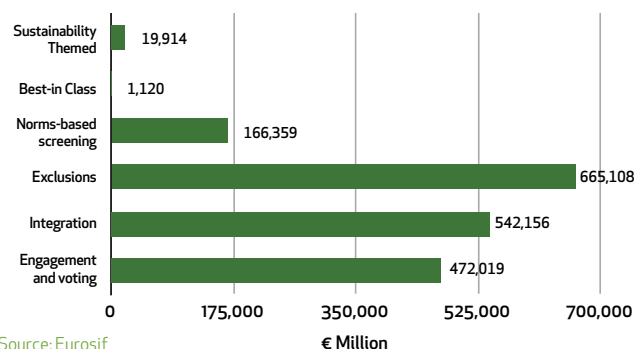
Market Practices

Exclusions are the most popular strategy in the Netherlands with €665 billion AuM followed by ESG Integration with €542 billion, and Engagement and voting with €472 billion.

Norms-based strategies represent another strategy often used, albeit to a lesser extent, by the market, with more than €166 billion AuM. The use of other strategies is rather limited (Best-in-Class and Sustainability themed). However, it is interesting to note a strong growth of Sustainability themed strategies due to a handful of large institutional mandates.

These findings are comparable with the results of the benchmark researches of the VBDO. In these studies, Exclusion is also the most widespread SRI strategy and the share of Integration is growing. Figure 1 shows the use of the different strategies in the Dutch market and Table 1 shows the growth by strategy.

FIGURE 1: Dutch Market Breakdown by Strategy



Source: Eurosif

TABLE 1: Dutch Market Evolution by Strategy

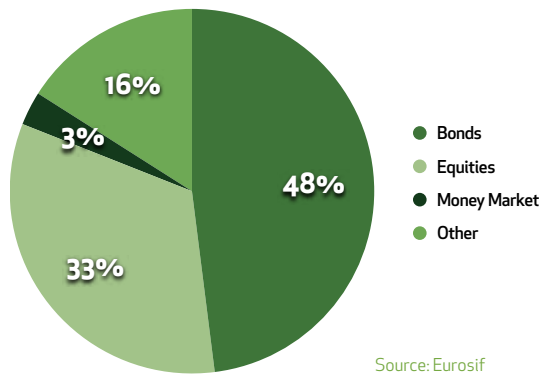
€Mn	2009	2011
Sustainability themed	€ 3,324	€ 19,914
Best-in-Class	€ 1,046	€ 1,120
Norms-based screening	€ 125,264	€ 166,359
Exclusions	€ 368,975	€ 665,108
Integration	€ 274,385	€ 542,156
Engagement and voting	€ 307,487	€ 472,019

Source: Eurosif

Market Characteristics

In terms of asset covered by the different strategies available in the market, one third consists of equity and half of the portfolio is bonds (both government and corporate bonds). The other asset classes together comprise a small portion of the portfolio. This breakdown can be found in Figure 2. The respondents to the survey operate almost exclusively in the institutional market, as revealed by Figure 3 which breaks down the Dutch market by type of vehicle used.

FIGURE 2: Dutch SRI Market Asset Allocation

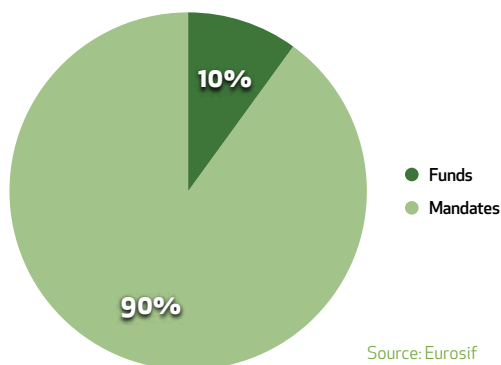


Market Predictions

The different players in the Dutch market all indicate that SRI will become more mainstream in the next ten years. However, some indicate that SRI will become more important whilst others state that it will fully integrate with mainstream investments and therefore will not exist any longer as a separate market. The expectation is, therefore, that more widely used strategies, such as Exclusion and Engagement and voting will be used by the majority of asset managers while specific, more sustainability-minded strategies such as Best-in-Class and Impact investments will see less growth. On the other hand, one respondent indicated that the responsible investment policies of investors will advance, innovate, differentiate and develop further.

The data and text above is based on research and analysis conducted by VBDO

FIGURE 3: Dutch SRI Market Breakdown by Investment Vehicle





Introduction

Norway is today and has historically been one of the countries considered to be at the forefront of SRI. A large part of the total amount of capital in Norway is already invested in responsible investments. The SRI market has grown over the last years and is expected to continue to show a positive growth. The Norwegian Government Pension Fund Global serves as a role model for asset managers and investors in both Norway and abroad. Due to its dominance on the Norwegian market, the Fund defines the Norwegian responsible investment market in terms of its guidelines and investment approaches.

Given the size of the assets under management of the Norwegian Government Pension Fund Global, the Fund will continue to be a major power in the world of SRI. However, the size of the assets could make it more difficult to apply SRI together with other targets such as return and risk. The outcome of how these issues are dealt with will definitely influence the future of SRI investments in Norway.

It is, nevertheless, important to keep in mind that other Norwegian investors and asset managers, individually and collectively, have made important contributions to increasing the size, breadth and depth of the Norwegian responsible investment market, despite the dominance of the Norwegian Government Pension Fund Global. According to research commissioned by Norsif, the most important incentive for using SRI among Norwegian asset owners and asset managers was that SRI is used when there are strong ethical convictions internally. The second strongest incentive was, interestingly, that organisations use SRI in order to reduce the risk of negative publicity. Norwegian organisations also consider the external pressure within this area to be stronger than do Swedish asset owners and asset managers.

Legal Framework

The practice of SRI in Norway is not governed by any explicit legal framework, however it relies on the foundation of the Norwegian Government Pension Fund, which acts as a proxy. Initiatives such as the UNPRI have fairly few Norwegian signatories and by far the least of any Nordic country. As of June 30, 2012, only eight asset managers and asset owners had signed the UNPRI.

Market Practices

As shown in Figure 1, the most commonly used strategies in Norway are Exclusions and Norms-based screening. Exclusion criteria that are especially common are tobacco, controversial weapons, other weapons, pornography and environmental issues. Many asset owners state that they follow the exclusion criteria set by Norges Bank Investment Management, which manages the Norwegian Government Pension Fund

Global. The UN Global Compact, OECD Guidelines for MNCs, national laws and ILO Conventions are all more or less used to the same extent when it concerns Norms-based screening.

Engagement is also a used strategy especially among the larger asset owners and asset managers. Many Norwegian asset managers are also transparent regarding with which organizations the engagement has been conducted.

The Best-in-Class approach and Sustainability themed funds still account for a small part of the total responsible investment market in Norway. The Norwegian Government Pension Fund Global is an investor in thematic funds with investments in renewable energy and water management.

FIGURE 1: Norwegian Market Breakdown by Strategy

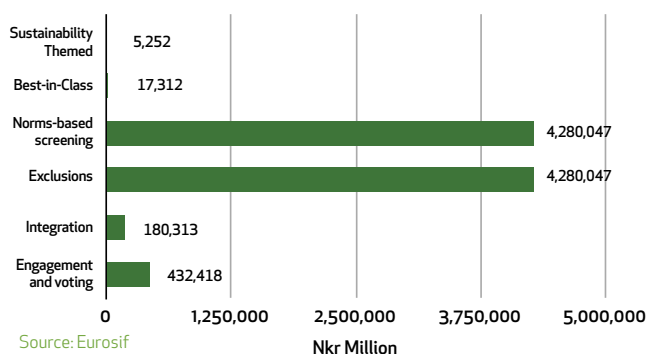


TABLE 1: Market Evolution by Strategy

Nkr Mn	2009	2011
Sustainability themed	Nkr 0	Nkr 5,252
Best-in-Class	Nkr 17,414	Nkr 17,312
Norms-based screening	Nkr 3,095,506	Nkr 4,280,047
Exclusions	Nkr 3,145,451	Nkr 4,280,047
Integration	Nkr 269,568	Nkr 180,313
Engagement and voting	Nkr 1,624,064	Nkr 432,418

Source: Eurosif

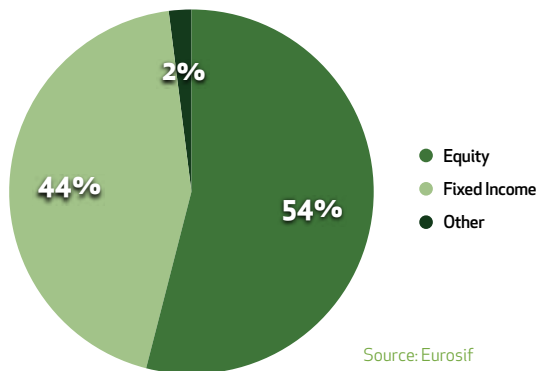
Market Characteristics

Almost all of the Norwegian SRI assets are invested in either equities or fixed income. All of the organizations included in the survey invest in both equities and fixed income products. The market share for equities has increased compared to 2010, and the market share for fixed income has somewhat decreased.

Alternative investments such as hedge funds, real estate, structured products, PE/VC and commodities account for only 2% of the total SRI market.

The Norwegian SRI market is mainly driven and characterized by a few large organisations and not least by the Norwegian Government Pension Fund Global. This of course also affects the composition of its volume.

FIGURE 2: Norwegian SRI Market Asset Allocation



Market Predictions

Several asset managers and asset owners believe that SRI and ethical investment will become more mainstream. Some also state that this is something that all investment managers will apply in the future. The Norges Bank Investment Management, as well as the many Norwegian asset managers that are clearly in the forefront of the development, will continue to be major role models when it comes to SRI. There is not much more progress for asset owners and asset managers to make in terms of implementing policies to govern SRI as most already have some kind of policy in place.

There is also a general belief that ESG Integration will increase and that negative screening, which has historically been the dominating strategy, will decrease. Another asset manager states that there might be more funds that will apply positive screening in the future, and the Best-in-Class strategy will be more frequently used.

The data and text above is based on research and analysis conducted by TNS Prospera

Poland

Introduction

The Polish economy has stood out positively against those of other countries during the financial crisis. In terms of economic growth, which reached 4.3% in 2011, Poland is placed fourth among the 27 EU countries, behind the Baltic countries.

The year 2011 strengthened the position of the Warsaw Stock Exchange (WSE) as a financial centre of the Central-Eastern Europe region. The WSE was placed first in Europe and third in the world in terms of the number of IPOs in 2011. At the end of 2011, 426 companies with a combined capitalisation of €102 billion were quoted on the WSE.

The core of the Polish financial system is still dominated by banks – they make up 69.6% of the AuM. The rest is made up of pension funds (13.3%), insurance companies (8.7%), investment funds (7%), credit unions (0.8%) and brokerage firms (0.6%). This structure is subject to systematic changes, as the highest growth of AuM, approximately 25% annually, is recorded by open retirement and investment funds.

The Polish SRI market is still in an initial phase of development, and is driven by some pioneers. It is possible to indicate the presence of SRI funds, funds applying negative screening, and some companies practising Impact investment.

Legal Framework

There is currently no regulation in Poland for funds, asset managers or asset owners regarding ESG issues in investment policies.

However, regulations exist for public companies listed on the WSE. In accordance with the Regulation of the Ministry of Finance, as of 2009, every public company is required to include a detailed statement on corporate governance in its annual report.

Regarding the disclosure of social and environmental issues, Poland implemented Directive 2003/51/EC into legislation, along with its accession into the European Union in 2004. This obligates European companies to reveal information regarding environmental protection and employment issues in their annual and consolidated reports. Despite the implementation of the above-mentioned regulation in the legal order, legislators do not currently enforce it.

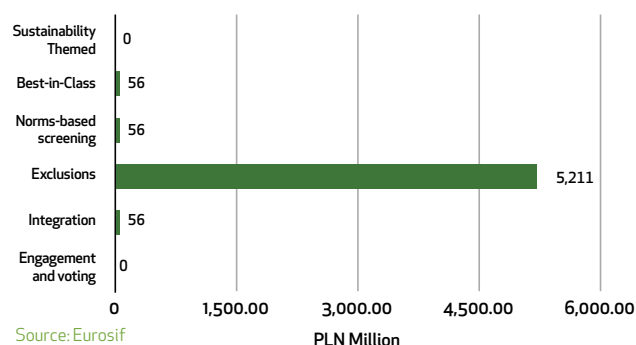
Market Practices

As shown in Figure 1, Exclusions from the investment universe was the most commonly used strategy in 2011. Its volume amounted to PLN 5.2 billion (€1.2 billion)³⁹. The most important Exclusions in Poland are nuclear energy,

the production and trade of weapons, alcohol, tobacco and gambling. All study participants had an Exclusions strategy in place.

Apart from that, two funds, amounting to PLN 56 million (€12.6 million) are implementing ESG Integration, Norm-based screening, and Best-in-Class selection.

FIGURE 1: Polish Market Breakdown by Strategy



Source: Eurosif

Table 1 shows the evolution of the different strategies between 2009 and 2011. Even if numbers are not spectacular, it is interesting to note that investors use a wider array of strategies as Best-in-Class and Integration seem to start gathering some interest.

TABLE 1: Polish Market Evolution by Strategy

PLN Mn	2009	2011
Sustainability themed	PLN 0	PLN 0
Best-in-Class	PLN 0	PLN 56
Norms-based screening	PLN 8	PLN 56
Exclusions	PLN 4,450	PLN 5,211
Integration	PLN 0	PLN 56
Engagement and voting	PLN 0	PLN 0

Source: Eurosif

Market Characteristics

Institutional investors account for 98% of the market, with pension and investment funds playing the most important role. The Polish assets consist mostly of bonds (63%) and equity (24%).

Two rating agencies operate on the Polish market, the offers of which include the assessment of Polish public companies in terms of ESG factors. However, demand for their services is still low.

³⁹Figures are converted with a currency rate as of 31 December 2011 (PLN/EUR 0.2254).

In June 2011, Deloitte published a report on the awareness of Polish institutional investors on the topic of responsible investment. Approximately 62.5% of respondents admitted that actions undertaken by companies in the sphere of social responsibility can measurably influence financial results, but simultaneously 72.5% stated that they do not take ESG factors into consideration at all when it comes to making investment decisions.

Since 2009, an index of responsible companies called RESPECT has operated on the WSE. According to the Deloitte survey, 82.5% of investors are aware of its existence, and 50% believe that it could measurably influence an increased interest in responsible investing, and increase the engagement of ethical funds on the Polish market in the next two to three years.

Market Predictions

Companies that contributed to the study expect a quick increase of SRI in Poland in the coming years. Of course, this increase depends on a range of factors.

In the above-mentioned Deloitte study, greater awareness and emphasis on the part of the clients and development of legislature that put greater emphasis on ESG issues in fund operation were indicated as the most important factors that would entice institutional investors to consider ESG factors to a greater degree when making financial decisions and executing shareholders' rights.

One of the most important initiatives in the range of SRI in Poland is the Working Group for Responsible Investments, operating in the framework of the Governmental Team for Social Responsibility of Enterprises, instigated in 2009 by the Chairman of the Council of Ministers. The group consists of representatives of the financial and insurance sectors as well as administration and employees' unions. It prepares recommendations for the government on the scope of the development of responsible investing in Poland, as well as

guidelines for financial institutions regarding the broader consideration of the risks of ESG in strategic investing. It is also educating the financial market about SRI.

In the first half of 2011, a survey was carried out on the topic of ethical investment among individual investors. The majority of investors indicated significant interest in the idea of SRI. To the question of being inclined towards investing in ethical funds, 50% of those surveyed responded that they would be interested in such a form of investing if the results of the fund were at least average or insignificantly lower than average. There is, however, a need for a wider offer of ethical funds from financial institutions. Involvement from foreign institutions operating in Poland that are signatories of the UN-backed Principles for Responsible Investment (such as Aviva, AXA, KBC, UBS), and are currently implementing these principles in other countries could lead to the faster development of the SRI market. An increase in these institutions' activity in the field of SRI in Poland is expected.

A significant barrier to the development of the responsible investment market in Poland is the low level of reporting on social and environmental issues by companies listed on WSE. Eight public companies published CSR reports in 2010, and only seven did in 2011.

The "ESG Analysis of Companies in Poland" project, prepared by the Polish Association of Listed Companies, the analytical firm Global Engagement Services and the Accreo Taxand consultancy firm, is an opportunity to increase the value level of non-financial data for investors. This project not only establishes an analysis of ESG data of all companies listed on the Polish regulated and non-regulated market, but also enhances engagement with the companies in raising the level of revealed data, through the creation and use of a specially activated internet platform in English and Polish.

The data and text above is based on research and analysis conducted by Accreo Taxand.



Introduction

The current prolonged economic recession has deeply affected all aspects of the economy in Spain, and the asset management industry has unsurprisingly not been immune to these negative shocks. The overall asset management market in Spain has seen total assets under management (AuM) decline considerably over the past several years, triggered in large part by contagion effects from the global financial crisis of 2007-2008, as well as the steep corrections experienced in the overheated local housing and commercial real estate market. For instance, the total AuM of the broader Spanish asset management industry have declined by over 31% since their peak in 2007, when total AuM reached €414.6 billion.⁴⁶ The downward trend has continued over the past year as total assets declined by an additional 6% to reach €284.7 billion at the close of 2011.

Despite this very difficult economic context, or perhaps because of it, the SRI market continues to gain traction in Spain. However, the Spanish market remains considerably less developed than many of its Northern European neighbours and continues to struggle to unleash the untapped potential that many analysts have been predicting for several years now given the size and sophistication of the broader Spanish asset management industry. It remains a niche investment strategy dominated by a few large institutional investors, in particular large occupational pension funds.

Legal Framework

Despite the fact that the legal framework for SRI in Spain remains less robust than in many of its European neighbours, several recent developments point to promising perspectives in the near term horizon. For instance, the recently approved Sustainable Economy Law (Law 2/2011, March 4, 2011) calls for pension funds to disclose on an annual basis whether or not they use social, environmental or governance criteria in their investment approach. In addition, a recently passed law modernizing Spain's Social Security system calls on employer-sponsored occupational pension plans to disclose whether they incorporate the analysis of ESG risks as part of their investment selection process. While these new disclosure rules are promising, a more proactive role of the executive and legislative branches is needed in order to ensure that SRI emerges from its current niche status in Spain. However, as of the time of this writing, it is unclear how the recently elected government will position itself on the issue of SRI and CSR promotion, so a certain degree of caution is necessary in analysing future legislative developments in this area.

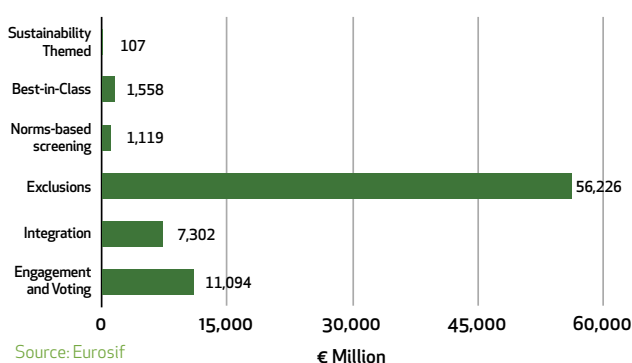
Market Practices

Each of the different responsible investment strategies has demonstrated growth in Spain, a sign of the growing maturity of the market. Figure 1 shows the breakdown of the market by strategy.

Several strategies have in fact experienced a dramatic growth over the two-year period from 2009 to 2011. For instance, the Integration of ESG factors into financial analysis and Engagement and voting strategies on sustainability matters have both seen their volume of activity more than double, when measured by the total AuM they cover.

The increased shareholder activism around ESG issues in Spain has been in large part driven by several big institutional players, including the two main trade unions and a number of large employers, particularly in the financial sector. As in previous years, the main issues targeted during the voting processes centre around governance and executive compensation issues and less frequently touch upon the environmental and social stewardship of the targeted companies, although exceptions exist. Direct engagement with companies regarding ESG issues remains relatively underutilized in Spain, although it has been increasing in recent years. Indirect engagement with asset managers regarding their SRI investment practices is more common and is practiced by several large occupational pension funds.

FIGURE 1: Spanish Market Breakdown by Strategy



While the Spanish SRI market has gained in sophistication in recent years as evidenced by the increasing use of more complex strategies (see Table 1), Exclusions of holdings remains the most common strategy, accounting for €56.2 billion in AuM. Growth in the use of this strategy continues to be quite robust as the total AuM employing this strategy has more than doubled since 2009. Weapons is the most common form of exclusion criteria in the Spanish SRI market, followed by vice exclusions such as pornography, tobacco, gambling and alcohol.

The use of Norm-based exclusions has grown modestly in Spain but is used less widely than more traditional exclusions filters.

Sustainability themed investment has grown slightly in recent years but remains a less widely used SRI strategy, although it is expected to gain in prominence in the near future, particularly among High Net Worth Individuals

⁴⁶ Asociación de Instituciones de Inversión Colectiva y Fondos de Pensión / Association of Collective Investment Institutions and Pension Funds, INVERCO Annual Report, 2011.

(HNWIs) as these sophisticated market participants search for profitable investment opportunities arising from the necessary transition to a less carbon intensive economy.

TABLE 1: Spanish Market Evolution by Strategy

€Mn	2009	2011
Sustainability themed	€ 0	€ 107
Best-in-Class	€ 1,100	€ 1,558
Norms-based screening	€ 755	€ 1,119
Exclusions	€ 27,611	€ 56,226
Integration	€ 2,086	€ 7,302
Engagement and voting	€ 3,112	€ 11,094

Source: Eurosif / Please note that the 2009 figures for Best-in-Class and Norms-based screening have been restated.

While the overall responsible investment market in Spain remains small, it has shown surprising resilience given the poor performance in recent years of the overall asset management industry in Spain, as evidenced by the steep declines experienced among Spanish mutual and pension funds over the past several years. While over the past two year period there have been large gains in SRI market penetration, albeit from very low levels, these gains are due mainly to large and dramatic reductions in the volume size of mutual fund market in Spain which fell from €163.2 billion in 2009 to €127.8 billion in 2011. Few commentators disagree on the fact that there is ample room for growth in Spain.

Market Characteristics

The Spanish responsible investment market is overwhelmingly dominated by large institutional investors who account for 97% of total AuM. Of these, by far the most active and dominant market participants are large occupational pension funds that remain the main drivers of the market in Spain. Retail specific SRI funds remain very marginal due in large part to a lack of interest and awareness from individual investors. This is not surpris-

ing given the risk profile of the average Spanish investor who tends to be very conservative, favouring fixed income and/or traditional bank deposits over equities. The recent growth of ethical banking options in Spain, as well as the launching of several new retail SRI mutual funds are expected to jumpstart growth in the retail end of the SRI market in the mid-term. Nevertheless, it is not envisaged that the Spanish SRI market reaches the level of retail market penetration seen in other leading European countries.

Market Predictions

The asset managers who participated in the survey expect healthy increases in SRI investments in the near term, a development that is good for the growth of SRI in Spain going forward. This growth will, at least in the short term, continue to be driven by occupational pension funds that are the most active participants in the Spanish SRI market. Several factors continue to encourage the use of responsible investment strategies among large occupational pension funds, most notably pressure and activism from the main trade-unions through their participation in the committees that oversee the management of these funds, as well as recent legislative action that is forcing pension funds to publicly disclose their investment strategies in regards to ESG issues.

The Spanish retail SRI market is expected to remain very marginal in the near term as overly cautious individual investors. Many of those have been burned by risky investments in the run up to the financial crisis and now seek safe havens in investment vehicles with less perceived risk such as fixed income funds and traditional bank deposits. In addition, the awareness of SRI issues among average Spanish retail investors remains very low; this will further hamper growth within the retail SRI market in Spain at least in the short term.

The data and text above is based on research and analysis conducted by ECODES



Introduction

Swedish organizations are quite mature when it comes to SRI and a majority of the asset managers have been active within this area for more than ten years. Almost all large asset managers and asset owners in Sweden have some kind of policy document to govern SRI. However, in previous studies commissioned by Swesif, the national SIF, it has been quite clear that the most important incentives for using SRI are that "SRI can reduce the risk of negative publicity". This might indicate that the establishment and execution of SRI strategies is still more externally than internally influenced.

Legal Framework

SRI practices in Sweden are not governed by any explicit legal framework, however it rests on the foundation of frontrunners and initiatives such as UN-backed Principles for Responsible Investment. As of June 30, 2012, 28 investment managers, asset owners and professional services partners had signed the initiative.

Market Practices

The SRI market in Sweden is still dominated by value-based exclusions and Norms-based screening, but a growing number of organizations utilize other strategies such as Engagement and voting. Figure 1 shows the market breakdown by strategy.

The most commonly used strategy in Sweden is Exclusions. Exclusion criteria that are used are alcohol, publication of pornography, controversial weapons, other weapons, tobacco and gambling.

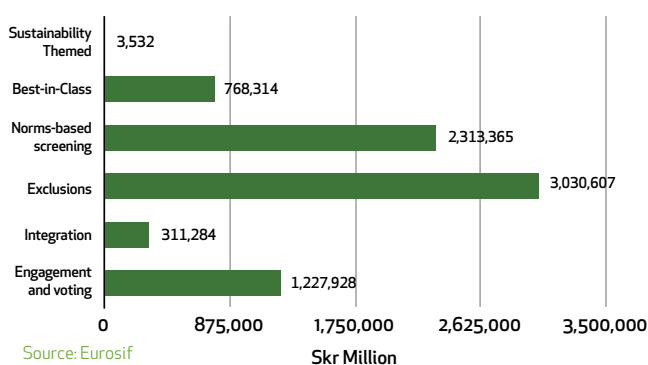
The second most popular strategy used in Sweden is Norms-based screening and this strategy is used by many of the significant asset owners and asset managers in Sweden. The Best-in-Class approach is still not used by many asset managers in Sweden, but the amount of assets using this strategy has increased ten-fold compared to the 2010 survey due to a small number of institutional investors creating mandates using this strategy.

Sustainability themed funds are still more or less absent and have not yet entered the Swedish market.

The use of Engagement and voting at present represents €137.7 billion. During the last few years, several organizations in the Swedish market have expressed a need to change their SRI strategies, as the possibility for development is greater

by opening a dialogue with companies instead of simply excluding companies. One example of this is the ethical council, an initiative of The AP Funds 1-4, which since 2007, has worked for positive change in companies associated with violations of international conventions, environmental issues, corruption and human rights. In 2011, the ethical council had ongoing dialogues with 126 companies. The dialogues have been closed with companies that have either improved their policies or considerations, or after recommendations for the exclusion of companies.

FIGURE 1: Swedish Market Breakdown by Strategy



Source: Eurosif

TABLE 1: Swedish Market Evolution by Strategy

Skr Mn	2009	2011
Sustainability themed	Skr 0	Skr 3,532
Best-in-Class	Skr 90,728	Skr 768,314
Norms-based screening	Skr 2,210,825	Skr 2,313,365
Exclusions	Skr 2,227,496	Skr 3,030,607
Integration	Skr 861,009	Skr 311,284
Engagement and voting	Skr 1,224,416	Skr 1,227,928

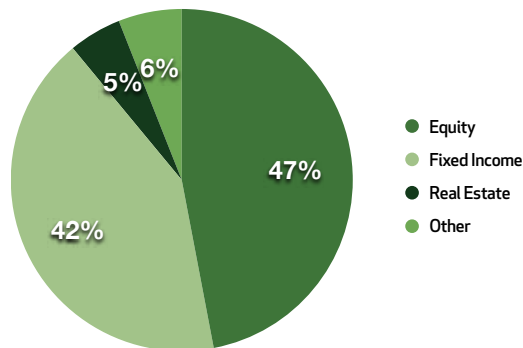
Source: Eurosif

Market Characteristics

The majority of the SRI capital has been invested into either equities or fixed income products, which commonly dominates the Swedish SRI market with 47% and 42% respectively, as illustrated in Figure 3 above. Almost 100% of all organizations invest their SRI capital into equities.

The market share of other investments (including real estate, hedge funds, structured products, PE/VC and commodities) has increased slightly since 2010 and currently amounts to approximately 9%.

FIGURE 3: Swedish Market Asset Allocation



Source: Eurosif

Market Predictions

Several asset managers and asset owners in Sweden believe in an increased interest in and importance of SRI in the upcoming years. According to some asset managers and asset owners, this interest will change the view of SRI, making it more mainstream and moving it from strictly excluding to a more integrated approach. The financial crisis has shown the importance of transparency and responsibility, as well as the importance of integrating sustainable criteria into the investment process. Corporate governance and climate change are important criteria to evaluate in order to make sure that a company can deliver sustainable returns. These aspects will be a more natural part of investment decisions in the future.

Furthermore, more organizations are realizing that they must invest using a consensus approach in order for their investment to influence trends and developments in society. SRI products are likely to increase in the future, according to the survey. Two organizations comment that SRI will eventually become a criterion that is applicable to all funds, but there will still be a market for specialist sustainability products for those who are interested.

The data and text above is based on research and analysis conducted by TNS Prospera.

Switzerland



Introduction

The banking industry in Switzerland has a long tradition and ranks among the world's most important finance centres. Swiss banks manage almost 10% (about CHF11.3 trillion) of all assets that are managed globally. In this regard, Switzerland is the third largest finance centre in the world. The Swiss banking industry is a central pillar of the Swiss economy, generating about 11% of the Swiss GDP and 6% of Switzerland's working population are directly employed within this sector.

Switzerland is also traditionally strong in SRI. Swiss banks played an important role in the initial development of SRI in its beginning and many SRI pioneers are based in Switzerland. The fact that the first sustainability index was developed in Switzerland is only one example that indicates the important part that this country plays, and continues to play, in the promotion of the sustainable investment market in general.

The SRI market in Switzerland is highly developed and consists of a broad variety of different players, among them pioneers specialised in SRI, as well the biggest Swiss banks, which offer a broad selection of sustainable products.

Legal Framework

Switzerland has no specific legal regulations on SRI. But nevertheless, there are schemes that encourage investments in energy efficiency and renewable energies such as the steering tax on CO2 for fuels or the "Klimarappen", an industry initiative to reduce CO2-Emissions.

Switzerland also has supportive regulations with respect to pension funds, but there are no statutory reporting requirements attached to this. In addition, the regulation "BVV 1", introduced in 2002, makes it mandatory for Swiss pension funds to establish rules on exercising shareholder rights. In this context, it is sufficient to report either that voting rights are not used at all or that votes always follow the board's proposal. The Swiss government's social security invests a small part of its assets using ethical, social and environmental criteria.

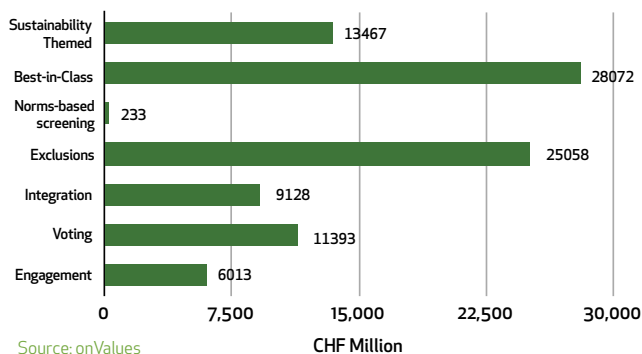
Switzerland has ratified the international treaty on the ban of cluster-ammunition and the according legislation was signed off. It includes the ban of financing such weapons through direct or indirect investments.

Market Practices

With a volume of CHF 521.7 billion, the most important strategy in quantitative terms was the exclusion of holdings from the investment universe. This consists of the exclusion criteria for specific funds and segregated mandates (CHF 25,0

billion) and exclusions applied as overlays to product ranges (CHF 496.7 billion). This is a tremendous growth compared to 2009 when the volume amounted to almost CHF 18.0 billion. The reason for this extraordinary increase is a change in the investment policy of several large asset management companies who began excluding producers of cluster munitions from their investment universe in 2010 and 2011. As in previous years, Best-in-Class was among the predominant strategies in Switzerland, as can be seen from Figure 1. Its volume amounted to CHF 28.1 billion at the end of 2011, which is a big increase on 2009, when it amounted to only CHF 19.4 billion.

FIGURE 1: Swiss Market Breakdown by Strategy



The third most commonly adopted strategy in Switzerland is Sustainability themed strategies which also saw an increase from 2009 to 2011 in Euro terms, but decreased from CHF14.1 billion in 2009 to CHF13.5 billion in 2011 in local currency terms. Norms-based screening was only CHF 233 million at the end of 2011, since Exclusions is the predominant form of screening in Switzerland.

Voting saw its volume more than tripled over the last two years and amounted CHF 11.4 billion in 2011. Engagement also grew from CHF 5.2 billion in 2009 to CHF 6.0 billion in 2011.

One also has to note that, in Switzerland, it is very common to combine several strategies.

TABLE 1: Swiss Market Evolution by Strategy

CHF Mn	2009	2011
Sustainability themed	CHF 14,114	CHF 13,467
Best-in-Class	CHF 19,416	CHF 28,072
Norms-based screening	nm	CHF 233
Exclusions (without asset overlays)	CHF 17,971	CHF 25,068
Integration	nm	CHF 9,128
Voting	CHF 4,088	CHF 11,393
Engagement	CHF 5,137	CHF 6,013

Source: onValues

Market Characteristics

In terms of different investor types, the historical trend toward higher percentages of retail investors in the market has come to a halt. In 2011, institutional and retail investors had an almost equal share.

Retail funds with volumes of CHF 22.5 billion represent of 53% of the total sustainable investment market, mandates with volumes of CHF 18.7 billion account for 44% and structured products have 3% of the market.

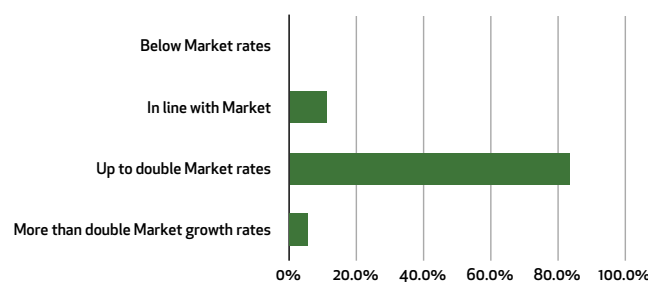
As in previous years, the majority of assets were invested in equity, although this category has lost almost 10 percentage points over the past two years, and at the end of 2011, had a market share of 53%. Bonds are the second most important asset class in Switzerland (31%) and grew since 2009.

Market Predictions

With respect to the development of the sustainable investment market, SRI asset managers in Switzerland are quite optimistic. The majority of participants in the Swiss survey expect a market growth of up to double the average growth rate experienced by the Swiss investment market. Only some participants think it will grow in line with market and a smaller group expects more than double market growth rates. No one expects it to grow below market rates.

The Swiss market shows a remarkable trend towards active voting of proxies and the integration of ESG factors in financial analysis.

FIGURE 2: Expected Growth Rates of Sustainable Investment Market Compared to Whole Market



The data and text above is based on data provided by onValues⁴⁷ and analysis conducted by FNG.

⁴⁷ Forum Nachhaltige Geldanlagen/onValues, Sustainable Investments in Switzerland 2011. Available: http://www.forum-ng.org/images/stories/Regional_CH/sustainable_investments_in_switzerland_2011.pdf



United Kingdom

Introduction

The UK is widely acknowledged as a global leader in sustainable and responsible finance. Its dynamic cluster of sustainable and responsible investment expertise is spread across the investment chain. It also aims to be a world centre for carbon finance, Impact investing and Islamic investing.

In addition to the UK Sustainable Investment and Finance Association (UKSIF), other globally significant responsible investment initiatives headquartered in the UK include the UN-backed Principles for Responsible Investment (PRI), the Carbon Disclosure Project (CDP) and the Institutional Investors Group on Climate Change (IIGCC).

UK asset managers manage over £3.9 trillion (€4.6 trillion) in assets for UK and overseas clients. The 185 members of the Investment Management Association (IMA) manage over 90% of that total.⁴⁸ Meanwhile, UKSIF has about fifty asset manager members. Sustainable and responsible investment

– particularly Engagement and Integration – is therefore a mainstream UK asset management practice today even though it is not yet universal.

In contrast, less than a hundred financial advisers belong to the Ethical Investment Association (EIA), UKSIF's specialist chapter for financial advisers, either directly or through their firm while The Personal Finance Society, the UK financial adviser professional body, has over 30,000 members including over 3,000 Chartered Financial Planners.

Over 60 investment banks, research houses, consultancies and other service providers are also UKSIF members, together with banks, asset owners, non-governmental organisations and other stakeholders.

Legal Framework

The legal and regulatory framework in force for SRI in the UK is shown in Table 1.

TABLE 1: UK Legal Framework for SRI

Name	Affects	Type	Introduced by	Date introduced	Description
The Occupational Pension Schemes (Investment) Regulations 2005 – Regulation 2(3) (and equivalent for stakeholder pensions and charities)	Occupational Pension Funds (and subsequently stakeholder pensions and charities)	Regulation (secondary legislation)	UK Parliament	1999 (in force = 2000; regulation republished 2005)	Requires occupational pension funds to disclose their responsible investment policy in their 'statement of investment principles'. This requirement was subsequently extended to 'stakeholder' pension products and to charity investors.
Companies Act	Companies	Act (primary legislation)	UK Parliament	2006	Directors' duties; business review (corporate reporting); non-binding vote on remuneration report, etc.
	Institutional investors	Act (primary legislation enabling implementation by regulation)	UK Parliament	2006, but not yet brought into force	Disclosure of voting records. Act enables the measure to be introduced by regulation; currently no plan to do this.
UK Corporate Governance Code	Companies, particularly listed companies	Voluntary code	Financial Reporting Council (UK financial reporting regulator)	Latest: 2010 (2012 version expected; consultation closed) 2012 (additions on diversity, incl. gender)	See "The UK Approach to Corporate Governance" (Financial Reporting Council, October 2010)
	UK listed companies	Listing rules	UK Listing Authority (UKLA), a division of the Financial Services Authority	1994	Listing rules require disclosure of compliance on 'comply or explain' basis.
UK Stewardship Code	Asset managers, asset owners and service providers	Voluntary code	Financial Reporting Council (UK financial reporting regulator)	2010	Good practice standards on engagement with companies, including associated issues such as conflicts of interest and reporting.
	UK-regulated asset managers	Financial Services Authority Handbook (rules set by financial services regulator)	Financial Services Authority (UK financial services regulator)	2010	Mandatory disclosure of commitment to the Stewardship Code on 'comply or explain' basis.
"Charities and Investment Matters" (CC14)	Charities	Guidance	Charity Commission (UK charities regulator)	2011	Guidance across the spectrum of potential investment approaches, including on ESG risks, mixed motive investing and programme-related investments.

⁴⁸ Investment Management Association, www.investmentfunds.org.uk/the-industry-and-ima/about-ima/

In addition, the UK government has proposed additional measures to address:

- Mandatory reporting of greenhouse gas emissions by listed companies (announced June 2012)
- Corporate narrative reporting
- Executive pay

The Kay Review of UK Equity Markets and Long-Term Decision Making, an independent review for the UK government, published its recommendations in July 2012.⁴⁹

The UK government is holding a review of financial regulation affecting Impact investing in summer/autumn of 2012. This 'red tape challenge'⁵⁰ is seeking evidence of legal, regulatory and fiscal barriers to Impact investing together with recommended changes to achieve a more proportionate regime.

Finally, under pension reforms being introduced on a phased basis from 2012, employers will be required to enrol employees automatically into a qualifying pension fund. NEST, the new workplace pension scheme set up as part of these reforms, is one option. NEST's approach to responsible investment is likely to influence wider industry practice. It seeks to apply responsible investment principles across all its assets, as well as offer an ethical fund and a Sharia fund. "Incorporating environmental, social and governance (ESG) factors within the investment process is in the best interests of our members", it says.⁵¹

SRI Market Practices

The UK SRI market, measured by assets under management, is overwhelmingly institutional (97%) rather than retail (3%). Equities remain the most popular asset class for responsible investment strategies but the practice is growing in significance for bond portfolios. This reflects the more general shift towards bonds by the UK institutional market.

As of July 2012, 13% of signatories to the UN-backed Principles for Responsible Investment (139 of 1085) came from the UK. The UK continues to have the second highest number of PRI signatories globally, following the USA with Australia in third place. Asset manager signatories have increased by nearly 50% since summer 2010.

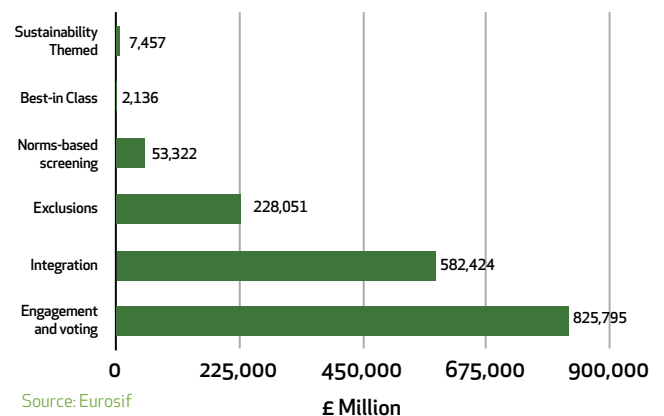
TABLE 2: UK PRI Signatories by Category

Signatory Category	Summer 2012	Summer 2010	% Increase
Asset Manager	84	57	47%
Asset Owner	28	22	27%
Professional Service Provider	27	26	4%

Source: Eurosif

As shown in Figure 1, Engagement/voting, Integration and Exclusions are particularly popular responsible investment strategies in the UK market. There is strong UK government support for responsible ownership while asset owners increasingly expect both active and passive investment managers to sign and implement the PRI. However, Exclusions are used mainly by church, charity and private investors rather than pension funds or insurance companies.

FIGURE 1: UK Market Breakdown by Strategy



Reflecting cultural differences between the UK market and some other parts of Europe, some strategies that are popular at the pan-European level are less well represented within the UK. As shown below, Norms-based screening attracts £53.0 billion, while respondents have attributed £2.1 billion to Best-in-Class investing.

Sustainability themed investments continue to grow, with this study identifying £7.5 billion in UK managed assets. However, it is worth noting that this total does not include thematic assets owned by UK investors but managed in Switzerland. For example, some thematic funds popular with UK retail investors are marketed in the UK but managed elsewhere. Indeed, this is the only responsible investment strategy where there is evidence that tracking assets managed within the UK may materially under-represent the strength of UK asset owner demand.

⁴⁹ See separate case study

⁵⁰ Note that 'red tape' is a colloquial term meaning 'excessive regulation'.

⁵¹ National Employment Savings Trust (NEST), "Investing Our Members' Money", www.nestpensions.org.uk/schemeweb/NestWeb/public/aboutUs/contents/nest-investment.html, 2012

The growth of individual responsible investing strategies from 2009-11 is as shown in Table 3.

TABLE 3: UK Market Evolution by Strategy

£Mn	2009	2011
Sustainability themed	£4,029	£7,457
Best-in-Class	£6,546	£2,136
Norms-based screening	£16,233	£53,322
Exclusions	£72,971	£228,051
Integration	£409,583	£582,424
Engagement and voting	£830,070	£825,795

Source: Eurosif / Please note that the 2009 figure for Best-in-Class has been restated.

Care should be taken in drawing conclusions about trends in popularity from this table. For example, the growth rate for Exclusions results from changes reported by one or two asset managers only rather than a wider market trend.

Market Predictions

Not all of these have participated in this survey. However well placed practitioners say that their interest is genuine and will lead in time to further deepening of practices. This is demonstrated particularly by nearly 50% growth in this group of PRI signatories over the last two years. Well-placed practitioners say that their interest is genuine and will lead in time to further deepening of practices.

In 2012, investors in UK companies have been active particularly in voting against inappropriate executive pay. Indeed, by analogy with the Arab Spring, this increase in active stewardship has been described as the 'Shareholder Spring'.

Meanwhile, in a parallel trend, a wide ranging restructuring of the investment management industry is taking place. Institutional clients are demanding lower fees and staffing within asset managers is shrinking. Sustainable and responsible investments are not immune from these wider pressures even though the demand for long-term and more responsible investment approaches is growing and deepening. At a 2012 UKSIF seminar for investment analysts and asset owner representatives, there was widespread expectation of further significant industry restructuring over the coming years.

The resulting changes are affecting how and whether investment institutions are providing sustainable and responsible investment approaches to specific client groups as part of a much wider rethink of their market positioning. Market conditions, different asset allocation choices, cost pressures and forthcoming regulatory changes such as the banning of

commission payments for independent financial advice are all driving this industry-wide rethink. Many asset managers are shifting priorities or focusing on a more limited range of offerings in which they judge that they have particular strengths. This is resulting in some changes to well-established SRI offerings, particularly in the retail market. Some specialist teams have shifted employers while other established providers are emphasising their continuing SRI commitment. Mergers or closures of some smaller funds have taken place and one manager now uses external research in preference to an in-house team.

Institutional client demand for high quality asset stewardship remains a key issue in spite of increasing expectations that asset managers will commit to the UK Stewardship Code and to PRI implementation. There are clear opportunities to improve UK retail distribution support and access to specialist financial advice. Some are concerned that synergies between engagement/integration practitioners and specialist investment strategy practitioners will be lost, damaging intellectual cross-fertilisation and falling below the critical mass of resources needed to demand or deliver innovative approaches.

Nevertheless, in spite of these issues and the continued uncertainty in the wider investment market, it is clear that an exciting new phase in the development of SRI is now taking place in the UK. Drivers for development and evolution include:

- Increasing public policy pressure for long-term asset stewardship, such as in the recently published Kay Report
- Rising support from credible industry figures such as GMO's Jeremy Grantham
- Generational change and new norms among clients and the investment community
- Growing appetite for Impact investing, including investment in community-based assets and third sector delivery of public services
- Developing role of employers in selecting workplace savings solutions

Sustainable and responsible investment is already far more significant within the UK than before the financial crisis. Now, as the public continues to demand a more responsible finance sector, the world faces major environmental and economic threats and associated social change, UK government continues to push for long-term responsible ownership and support the development of impact investing and a new generation of industry leaders starts to emerge, a paradigm shift is approaching.

FOCUS 5: The Kay Review of UK Equity Markets and Long-Term Decision Making

A major independent study of UK equity markets published its analysis and recommendations in Summer 2012. The Kay Review of Equity Markets and Long-Term Decision Making⁵² was commissioned by the UK government and led by Professor John Kay. It was asked “to examine the mechanisms of corporate control and accountability provided by UK equity markets and their impact on the long term competitive performance of UK businesses, and to make recommendations.”

In his report, Professor Kay argued that UK equity markets were not as effective as they should be in achieving their core purpose of enhancing the long-term performance of UK companies, and enabling savers to implement their financial plans. During his review, he found widespread agreement with this view. He concluded that short-termism, principally caused by a misalignment of incentives within the investment chain, had become a major problem that must be tackled.

The Review identified a range of initial measures to start to tackle this challenge – but Kay stated clearly that his fundamental purpose was to encourage a change of philosophy and culture that restored relationships of trust and confidence in the investment chain and diminished the current role of trading and transactional cultures. Introducing his report, he emphasised the importance of “giving people incentives to do the right thing” rather than expecting prescriptive rules to work in situations where “commercial incentives encourage them to do the wrong thing”.

The Review’s seventeen recommendations included the following:

- Regulators should require all parties in the investment chain to exercise their responsibilities for investment or advice to a fiduciary standard. Contractual agreements to operate to a lower standard of care should be forbidden.

- To assist trustees and their advisers, the UK Law Commission should be asked to review the legal concept of fiduciary duty as it applied to investment.
- Company directors, asset managers and asset holders should adopt Good Practice Statements that promote stewardship and long-term decision making. And, alongside changes to corporate remuneration, asset managers should align the remuneration of their staff with the interests and timescales of their clients rather than benchmark-related performance
- Mandatory quarterly corporate reporting requirements should be removed.
- An investors’ forum should be established to facilitate collective engagement by investors in UK companies.

The recommendations put forward by the Review echo views held by many in the SRI community including aligning management incentives with that of clients, a focus on long-term performance, and fostering a view of fiduciary duty beyond short-term returns. The Review is also noteworthy because it emphasises ownership behaviour and the importance of cultures and relationships that create trust and confidence.

Just as the Cadbury Report in 1992 provided the basis for much of today’s international best practice on how boards are run, the Kay Review could, in time, have a similar impact on how institutional shareholders behave. Kay’s emphasis, analysis and approach are more significant than the details of any one recommendation. Although there is no consensus on his detailed recommendations, there is widespread support from thoughtful commentators for his underlying message. And, although Kay’s reforms are focused on the UK market, the global nature of the UK stock market means that his report will strike a chord that will echo around the world.

The data and text above is based on research and analysis conducted by UKSIF.

⁵² www.bis.gov.uk/kayreview

European Data Table

2011 €Mn	1: Sustain-ability themed assets	2: Best-in-Class and other Positive Screens	1+2*	3: Norms-based screening	1+2+3*	4: Exclusions	5: Integration	6: Engagement and Voting	1+2+3+4+5+6*
Austria	€ 56	€ 3,009	€ 3,011	€ 3,862	€ 3,877	€ 8,195	€ 108	€ 1,191	€ 8,251
Belgium	€ 367	€ 7,834	€ 8,201	€ 19,744	€ 19,893	€ 96,736	€ 13,830	€ 19,586	€ 96,905
Denmark	€ 43	€ 127	€ 157	€ 213,906	€ 213,906	€ 244,227	€ 40,027	€ 187,718	€ 244,227
Finland	€ 322	€ 24,798	€ 25,120	€ 62,336	€ 87,157	€ 83,637	€ 20,715	€ 44,870	€ 107,600
France	€ 623	€ 115,309	€ 115,932	€ 679,566	€ 730,229	€ 15,975	€ 1,804,781	nm	€ 1,884,000
Germany	€ 4,523	€ 13,115	€ 17,477	€ 11,255	€ 19,988	€ 618,248	€ 11,424	€ 7,927	€ 621,020
Italy	€ 1,051	€ 3,422	€ 3,603	€ 314,248	€ 315,492	€ 446,790	€ 446	€ 18,531	€ 447,592
Netherlands	€ 19,914	€ 1,120	€ 20,602	€ 166,359	€ 168,425	€ 665,108	€ 542,156	€ 472,019	€ 666,248
Norway	€ 676	€ 1,117	€ 1,793	€ 550,843	€ 550,879	€ 550,843	€ 23,206	€ 55,652	€ 574,100
Poland	€ 0	€ 13	€ 13	€ 13	€ 13	€ 1,174	€ 13	€ 0	€ 1,174
Spain	€ 107	€ 1,558	€ 1,665	€ 1,119	€ 2,022	€ 56,226	€ 7,302	€ 11,094	€ 57,091
Sweden	€ 396	€ 86,134	€ 86,530	€ 259,346	€ 343,002	€ 339,754	€ 34,897	€ 137,660	€ 378,300
Switzerland	€ 11,079	€ 23,093	€ 29,565	€ 192	€ 29,757	€ 429,194	€ 7,509	€ 4,946	€ 441,637
UK	€ 8,932	€ 2,559	€ 9,154	€ 63,520	€ 69,959	€ 273,180	€ 697,692	€ 989,211	€ 1,235,201
Europe	€ 48,090	€ 283,206	€ 322,823	€ 2,346,308	€ 2,554,597	€ 3,829,287	€ 3,204,107	€ 1,950,406	€ 6,763,347

*Adjusted for double counting

Notes (see country sections for details): French Engagement and voting figures are not available; Swiss figure is Engagement only; Austrian, German and Swiss Exclusion figures include asset overlays; All figures exclude Impact investing.

Glossary

Asset manager	Organisation or individual managing investments on behalf of a client.
Asset owner	Owner of investments managed by asset manager.
Best-in-Class	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.
CAGR	Compound Annual Growth Rate
Community investing	Investments into local communities, either directly or through channels such as local community development banks, credit unions, and loan funds. They focus on affordable housing, small business creation, development of community facilities, and the empowerment of women and minorities.
Core and Broad SRI	Aggregations of SRI strategies without double counting used in previous editions of the Study.
Engagement and voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
ESG	Environmental, Social and Governance
Exclusions	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.
High Net Worth Individuals	Individual with more than US\$1 million in liquid financial assets.
Impact investing	Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.
Institutional investor	Large professional investors such as pension funds for instance. In this Study, Institutional investors may comprise asset managers and asset owners, to the extent the latter manage internally a part of their invested assets.
Integration	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
Institutional mandate	Bespoke investment portfolio designed for professional investor (institutional separate account or separately managed account are other common terms used by the industry).
Microfinance	Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies. Commonly investments into microfinance are channelled through microfinance investment vehicles, which are independent investment funds that allow private and public capital to flow to microfinance institutions.
nc	Not calculated
nm	Not measured
Norms-based screening	Screening of investments according to their compliance with international standards and norms.
Pooled fund	Collectively managed investment vehicle, pulling monies from multiple investors.
Retail fund	Pooled fund primarily targeting the retail market (see above).
Retail investor	Non-professional investor.
SIF	Sustainable Investment Forum
SRI	Sustainable and Responsible Investment
Social business	Investments made directly or through a fund into social businesses, which have the intention to generate a social and environmental impact alongside a financial return.
Sustainability themed	Investment in themes or assets linked to the promotion of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

List of Surveyed Organisations

1 AP-fonden • 2 AP-fonden • 3 AP-fonden • 4 AP-fonden • 5 AP-fonden • 6 AP-fonden • 7 AP-fonden • Aberdeen Asset Management • Absolute Portfolio Management GmbH • AGICAM Agrica Épargne – Groupe Agrica • Ålandsbanken • Alcyone Finance • Aletti Gestielle SGR • Alfred Berg • Allianz Global Investors • AMF • Amundi • Aquila Capital Structured Assets GmbH • ASEGURADORA VALENCIANA • S.A. DE SEGUROS Y REASEGUROS • AXA Investment Managers • Bank Coop AG • Bank für Kirche und Caritas eG • Bank im Bistum Essen • Bank Sarasin & Co. Ltd • Bank Vontobel AG • Bankhaus Schelhammer & Schattera Kapitalanlagegesellschaft m.b.H. • BAWAG P.S.K. INVEST GMBH • BayernInvest • Kapitalanlagegesellschaft mbH • BBVA ASSET MANAGEMENT • S.G.I.I.C. • S.A. • BCGE Asset Management • BFT Gestion • BNP Paribas Cardif • BNP Paribas Investment Partners • Bridges Ventures LLP • Caisse des Dépôts (CDC) • Caja Madrid Pensiones • S.A. EGFP • Care Group AG • Carnegie Asset Management • Caser pensiones • Entidad gestora de fondos de pensiones S.A. • Catella • Cazenove Capital Management Limited • CM-CIC AM • CNP Assurances • Confédération Française Démocratique du Travail (CFDT) • Consorzio Etimos • Covea Finance • CPR AM • Credit Suisse AG • Danske Capital • Deka Investment GmbH • Delta Lloyd Asset Management • Deutsche Sachwert Kontor Emissionshaus GmbH • Dexia Asset Management • DNB • DWS Finanz-Service GmbH • DB Advisors / DWS Investments • East Capital • Ecclesiastical Investment Management Ltd • Ecofi Investissements • Edmond de Rothschild AM • ELKARKIDETZA EPSV • ENERTRAG EnergiInvest GmbH • Erik Penser Asset Management • ERSTE-SPARINVEST KAG • Établissement de Retraite Additionnelle de la Fonction Publique (ERAFFP) • Ethos • Etica SGR • Eurizon Capital • EVANGELISCHE KREDITGENOSSENSCHAFT eG • Evli • Federal Finance Gestion • Fédérés Gestion d'Actifs • FIDURA Private Equity Fonds • FIM • Financière de Champlain • Financière de l'Échiquier • Folketrygdfondet • Fondazione Cariplo • Fonds de Réserve pour les Retraites (FRR) • Fonds Stratégique d'Investissement (FSI) • Generali Investments • GOOD GROWTH INSTITUT für globale Vermögensentwicklung mbH • Green City Energy AG • Groupama AM • Groupe OFI • Hamburgische Energiehandlung • Handelsbanken Asset Management • Hauck & Aufhäuser (Schweiz) AG • HSBC Global Asset Management (France) • Humanis - Inter Expansion • Ibercaja Pensión • E.G.F.P. S.A. • Ilmarinen • ING Investment Management • Institution de retraite complémentaire des agents non titulaires de l'État et des collectivités publiques (IRCANTEC) • INVERCAIXA GESTION SGIC S.A. • Invesco Asset Management Deutschland GmbH • Invest In Visions Microfinance Fund • Investec Asset Management • INVESTIN • Jupiter Asset Management • Kames Capital • Kammarkollegiet • KBC Asset Management • KEPLER-FONDS KAG • KGAL GmbH & Co. KG • KLP • La Banque Postale AM • La Financière Responsable • La Française AM • Lannebo Fonder • Länsförsäkringar Fonder • Länsförsäkringar Sak & Liv • LBBW Asset Management Investmentgesellschaft mbH • LD • Legal & General Investment Management • LGT Capital Management AG • MAIF • Mandarine Gestion • MEAG • Metropole Gestion • Migros Bank AG • Missionszentrale der Franziskaner • Mistra • The Foundation for Strategic Environmental Research • Natixis AM • NBIM • Neitzel & Cie. Gesellschaft für Beteiligungen mbH & Co. KG • Newton Investment Management • NORD/LB Kapitalanlagegesellschaft AG • Nordea Investment Management • Nykredit • Odin Fund Management • Öhman • ÖkoWorld Lux. S.A. • Oltre Gestioni • Palatine AM • Pareto • PBU • Pensam • Pension Fennia • Pensions Caixa 30 • PhiTrust Active Investors • Pictet Asset Management • Pioneer Investments • PKA • Plan de Pensiones Empleados Telefónica de España • Pohjola Polsko-Amerykański Fundusz Pożyczkowy Inicjatyw Obywatelskich Sp. z o.o. • POPULAR GESTION / EUROPENSIONES • ProBTP Finance • ProVita GmbH • Quilvest Gestion Privée • Raiffeisen Kapitalanlage GmbH • Raiffeisen Schweiz Genossenschaft Rathbone Greenbank • Rathbone Brothers plc • responsAbility Social Investments AG • Roche-Brune AM • SAM Sustainable Asset Management • Santander Asset Management SA • SGIC • Schoellerbank Invest AG • SEB Gyllenberg • SEB Investment Management • SEB Trygg Liv • Sella Gestioni SGR • SNS Asset Management • Società Reale Mutua di Assicurazioni • Sparebank 1 Livsforsikring • Sparinvest • Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H. • SPP • Standard Life Investments • Stichting Gemeenschappelijk Beleggingsfonds FNV • Svenska Kyrkan Svenska Kyrkans pensionskassa • Swedbank Robur SWIP • Swisscanto Asset Management AG • Sycomore AM • Sydbank • Sydinvest • Syntrus Achmea • The Evangelical Lutheran Church of Finland • Towarzystwo Inwestycji Społeczno-Ekonomicznych SA • Triodos Investment Management • UBI Pramerica SGR • Union Investment • Unipension • Unipol Gruppo Finanziario • Varma Mutual Pension Insurance • Ventafond Öko Umwelt 1 Beteiligungs GmbH • Vidacaixa • VOIGT & Coll. GmbH • Volksbank Invest Kapitalanlagegesellschaft m.h.H. • WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH • WHEB Asset Management • Windwärts Energie GmbH • Zürcher Kantonalbank

This list is not exhaustive as some respondents preferred not to have their organisation's name disclosed

Credits

Sponsors



Project Supervisor

François Passant

Project Manager

Anders Nordheim

Editor

Anne Emson

Media Relations

François Passant

Contributors

Erik Alhøj
 Dominique Blanc
 Clara Barby
 Renagh Christopher
 Aela Cozic
 Simon Dittrich
 Erik Eliasson
 Kees Gootjes
 Marta Ferrer Gracia
 Adam Grzymistowski
 Eva Hammer
 David Imbert
 Ivo Knoepfel
 Charles Castro Lampón
 Maria Paola Marchello
 Christopher Moore
 Penny Sheperd
 Lisa Stonestreet
 Michael Sørensen
 Nina Rydström
 Robert Sroka
 Andy Vangenck
 Rudy Verstappen
 Gesa Vögele

Design

Transfer Studio

Printed by

Vanden Broele

Printed on Recycled Paper



About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the leading European membership association whose mission is to develop sustainability through European financial markets. It was founded in 2001 and works as a partnership of the national Sustainable Investment Forums (SIFs) and with the support and involvement of Member Affiliates. The eight national SIF members of Eurosif are based in France, Germany, Italy, the Netherlands, the UK, Belgium, Spain and Sweden. Eurosif's Member Affiliates include institutional investors, financial services providers, academic institutes and NGOs.

Membership of Eurosif is open to organisations with a commitment to SRI at a European level. A current list of Member Affiliates is published on www.eurosif.org.

The main activities of Eurosif are public policy, research and creating platforms for nurturing SRI best practices.

MEMBER AFFILIATE BENEFITS

EU public policy

- Be informed through exclusive editions of the 'EU Insider', a Member Affiliate bulletin that provides details on how Eurosif is involved in the debates and discussions at the European Commission and European Parliament.
- Participate in ad-hoc workshops and roundtables with EU-policy-makers on specific topics of interest.
- Engage as an active participant to Eurosif's Lobbying Advisory Group, a group that brings technical input into Eurosif's EU policy responses.

Groundbreaking pan-European research

- Get preferred access to research produced by Eurosif.
- Learn about marketplace developments and best practices through ad-hoc working groups and networking events.
- Profile and share your expertise by acting as an advisory member to research initiatives or contributing to Eurosif thematic reports.

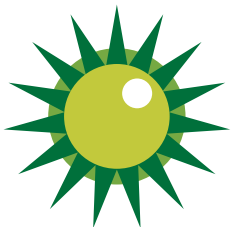
Visibility and industry network

- Leverage Eurosif's newsletter and social media to inform the industry about your recent developments, vacancies and SRI events.
- Take advantage of Eurosif's Annual Event, dedicated to Member Affiliates from all around Europe, to network with your peers and learn about their practices.
- Sponsor Eurosif landmark pan-European studies to increase your visibility. Members can sponsor Eurosif's studies with a discounted price compared to non-member sponsors.
- Benefit from special discounts at a range of industry events.

If you are interested in becoming a Eurosif Member Affiliate please contact us at contact@eurosif.org

For more information please visit www.eurosif.org

Follow us on Twitter at www.twitter.com/eurosif



Eurosif A.I.S.B.L.
331 Rue du Progrès
B-1030 Brussels
Belgium
Tel: +32 (0)2 274 14 35
contact@eurosif.org
www.twitter.com/eurosif
www.eurosif.org