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European SRI Study

2014

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EDMOND DE ROTHSCHILD

Today's global sustainable development challenges require urgent attention and that means economic agents across the board need to find a collective response. The financial sector is increasingly committed to expanding investment products and services for economic agents working to meet these challenges. This commitment is once again on show in Eurosif's biennial survey of the European SRI market, a report that we are pleased to sponsor. It shows that this is one of the world's most dynamic markets and that a wide variety of SRI strategies have been developed to meet stringent needs that vary from one country to another.

As part of this deep-seated trend, Edmond de Rothschild Asset Management (France) has been actively engaged in these initiatives since the launch of its SRI analytical and investment division in 2007. At end 2013 we were in the top 5 managers of open-ended SRI equity funds on the French market with EUR 2.3bn in assets under management.

Our market reputation stems from our ability to provide clients with bespoke solutions, notably through our proprietary ESG research. This is qualified analysis that is primarily carried out for our open-ended SRI funds and mandates. And to promote gradual integration of ESG criteria in stock analysis, it is also available to all our fund managers. We were also pioneers in advocating the shareholder engagement approach on the French market.

And our commitment goes even further: we fully realise that a market that is gradually developing and harmonising requires us to constantly challenge our approach and standards so as to anticipate the most efficient ways of integrating ESG criteria in our investment range and keep abreast of changing trends in SRI/ESG processes that best combine financial and extra-financial performance.

Our Responsible Investment Strategy for 2013-2016 is geared to this target and our sponsorship of the Eurosif report aims to promote quantitative and qualitative yardsticks on a market that needs to be very closely monitored.

Manuel Doméon
Deputy Director – Head of SRI Analysis and Investment
Edmond de Rothschild Asset Management (France)

GENERALI Investments Europe

With more than € 340 bn* of AuM, Generali Investments Europe is one of the largest asset managers in Europe.

Since 2006, the Generali Group has paid great attention to sustainable development applying an ethical filter to all investments. Its commitment is based on the conviction that taking into account and foreseeing risks is at the heart of the insurance business; preventing main systemic risks is key to preserve capital and create financial value.

Furthermore, the Group signed the UN Global Compact in 2007, the PRI in 2011 and is a member of the international workshops on SRI as EUROSIF, SPAINSIF, FIR, FFS and AFG.

Following the Group's commitment to sustainable development and SRI topics, a dedicated team of 6 SRI analysts was set up in 2010 to develop an innovative ESG proprietary screening methodology applied to € 22 bn* of AuM.

The SRI Research team headed by Franca Perin, developed an internal database S.A.R.A. (Sustainability Analysis of Responsible Asset Management) identifying responsible investments opportunities that best fit our SRI strategy. It is fed by the results of our analyses and shared with portfolio managers. Our ESG analysis' model includes internal and external information on various asset classes. Our ESG selection process follows an innovative methodology integrating a series of non-financial variables that may have an impact on financial and economic corporate performance in the long term.

The analysis on companies, for example, takes into consideration various issues and non-financial risks such as corporate governance, the impact of climate change, among others. We also identify potential risks to provide a complete analysis of every company and sector covered to identify the best practice in their industry. Finally, an ESG rating is given to each company on which traditional financial analysis is carried out. Analyzing and rating the companies facilitates the identification of the best-effort companies with regards to the management of the main sector ESG risks identified.

In 2013, Generali's approach was awarded with a special mention at the Italian Sustainable Finance Forum. GIS European S.R.I Equity fund, our SRI flagship fund, was awarded with the Novethic SRI Label 2013 and 2014 as it systematically applies ESG criteria in its investment process.

The SRI research activity also includes proxy voting and engagement activity for the companies analysed in the universe.

* Source: Generali Investments Europe Spa SGR, data as of end of December 2013

Franca Perin
Head of SRI
Generali Investments Europe

Inrate is an independent sustainability rating agency based in Switzerland. Since 1990, we are providing sustainability intelligence that allows capital markets to redirect investment flows toward a more sustainable economy. This makes Inrate an integral part of the sustainable investment value chain because sustainability knowledge is essential for asset managers and asset owners, the drivers of this market.

Inrate is the first sustainability rating agency ever to sponsor the Eurosif SRI Study. Why have we decided to do so? From our many years of work, we know that only what is measured can be truly assessed. And if you want to measure, you need facts and figures – figures that are comparable, documented and trustworthy. Finally, it all has to root in a sound methodology. Only then investors can rely on sustainability research and integrate it in their investment decisions.

Therefore, Inrate applauds Eurosif for producing the SRI Study: The Eurosif methodology enables rating agencies and asset managers committed to sustainability to measure and interpret market figures. This helps our industry to get the necessary overview on where we stand in SRI investment – where we made progress and where we still have room for improvement.

The same principles are part of the Inrate DNA. We have developed and adapted our research approach for over 20 years. Our ESG metrics are regularly reviewed for their accuracy and validity. Supported by an experienced team of analysts and a renowned Board of Experts, we are able to translate complex sustainability issues into useful tools to empower financial markets and investors.

We use the occasion of the Eurosif SRI study to look ahead: What are our expectations? At Inrate, we believe that ESG reporting should mainly focus on the relevant impacts of companies on society and environment. We hope that the reporting regulation will develop into this direction. Furthermore, we believe that investors should avoid the trap of focusing on short-term performance only. Recent developments in the financial markets have proven that risks and opportunities very often only get evident over time.

We all know that sustainability research does not substitute traditional financial analysis. However, it is complementary by mapping the long-term risk situation from a sustainability perspective. Inrate is committed to supporting investors in this process to get a more thorough picture of the relevant investment aspects. This makes Inrate a reliable partner in finding your individual sustainable investment strategy.

Stefano Gilardi
Head of Market Relations
Inrate

Nordea is the largest financial services group in Northern Europe with a market capitalization of approximately EUR 41.7bn, total assets of EUR 636.7bn. Our commitment to being a responsible asset manager has deep roots in our corporate culture and business model and our mission is to deliver returns with responsibility. Asset management is all about value creation and we believe that responsible value creation is what makes the difference.

Yet again, the results of the Eurosif study confirm that the Sustainable and Responsible Investments market has grown spectacularly and have done so at a faster rate than the broad European asset management market.

The study also shows that Exclusions now has gone mainstream and for the first time the study also looks into ESG integration. Asset owners see ESG integration as an opportunity to generate long-term performance while fulfilling their fiduciary duty, and investment managers see it as a way to improve risk management in the financial performance of their investment portfolio. This investment strategy offers companies opportunities to attract long-term investors while, at the same time, reducing their shareholder turnover, aligning their investment strategy with the real needs of their business and laying down the foundation for a sustainable future.

The ESG integration process that we have developed at Nordea Asset Management is one way to do it that we find promising, although it will take time to have the full results and conclusions of this ESG integration work. Nevertheless, it is our ambition to leverage ESG analysis and engagement solutions in order to embed ESG across all investments processes. We are committed to assisting clients with the adoption of responsible investment strategies that enhance long-term investment performance.

The next challenge ahead lies in increasing the transparency and accountability, to prove that the industry does not only talk the talk but also walk the walk. At Nordea Asset Management we strive to be transparent and find new creative communication methods with the aim to provide clear communication towards clients. With this in mind, we applaud Eurosif for producing this study and with it, bringing clarity to our rapidly growing and ever changing industry.

Sasja Beslik
Head of Responsible Investments & Identity
Nordea Asset Management

Foreword from Eurosif

Eurosif is pleased to present the 6th edition of the European SRI Market Study. For the past ten years, this study has shown how dynamic, fast growing and innovative the European SRI industry is. This time makes no exception, but what is very clear since the last edition (fall 2012), is the recent peak in concentration of interest around Sustainable and Responsible Investment. Whether this marks a tipping point for the industry or not is difficult to predict. However, this interest in SRI sends encouraging signals and shows that SRI conveys a powerful message.

Policy-makers, both at the European level and, in many instances, at the national level, have started to look at ways to unlock the potential of SRI to contribute to more sustainable capital markets and business practices. The adoption of new EU corporate non-financial disclosure legislation, which Eurosif has actively lobbied for, and the recent EU Proposal to revise the current Shareholder Rights Directive, are worth mentioning in that respect.

Civil society has also been a longstanding advocate of various forms of SRI, and is, in many countries, signalling its renewed interest to further push this on the agenda. This will, however, require better accountability and transparency by the industry in the future, and Eurosif and its members will continue to be actively involved in that agenda.

Furthermore, the broader European investment industry is starting to recognize the importance of addressing non-financial matters when making investment decisions, as evidenced by the growing figures in ESG integration and Engagement and voting, for instance.

Sustainable Investment Forums in Europe and around the world have exhibited strong dynamism and activity levels. This report highlights a few examples of recent activities performed by European SIFs and 2013 marked the official launch of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world, of which Eurosif is a member.

In this report, you will find that all SRI strategies covered by the Study have continued to grow at double-digit rates since 2011. One of the key take-away of the Study is also the emergence of Impact investing as another important component of the SRI toolbox. Finally, it shows that Exclusions deployed as "overlays" on a wide range of assets are on a path to become the norm rather than the exception.

Despite the apparent growth of the market, once again, the Study highlights a number of market failures or challenges, such as the wide variations in adoption of SRI practices across countries, the weakness of the retail SRI market and the under-utilised potential of Sustainability themed investments given their potential to closely align with certain public policy objectives. Legislative incentives will hence continue to play a key role in addressing market failures, and Eurosif will fully play its role in engaging with EU policy-makers to further promote this agenda.

Finally, Eurosif would like to warmly thank the sponsors who made this study possible. Edmond de Rothschild Asset Management, Generali Investments Europe, Inrate and Nordea Investment Funds have generously funded this project, which would not have been possible otherwise.

We hope that this study will help you to better understand the current state of the market, the opportunities that it offers and where it might be headed.

Happy reading,

François Passant
Executive Director

Giuseppe van der Helm
President

Executive Summary

The 2014 European SRI Study confirms some industry trends already detected in the previous editions. Data was collected or estimated at the end of 2013 covering institutional and retail assets from 13 distinct European markets. The methodology is consistent with previous editions, adding details around some SRI strategies and drawing upon the taxonomy refreshed in 2012. Reported figures are best-effort estimates of the market combining self-reported data and Eurosif and national SIFs estimations where appropriate.

The first finding of the Study is that all surveyed Sustainable and Responsible Investment strategies are continuing to grow, in aggregate, with no exception, and they do so at a faster rate than the broad European asset management market. Looking at the more conventional strategies, growth rates range from 22.6% (Sustainability themed) to 91% (Exclusions) between 2011 and 2013. Impact investing is the fastest growing strategy, registering 132% over the period. Over the same period, the overall European asset management industry has grown by an estimated 22%.[1]

The Study also confirms that Exclusions has gone 'mainstream' as a strategy with, by far, more assets covered than any other strategy, and with the most consistent usage across Europe. Exclusions cover about 41% (€7 trillion) of European total professionally managed assets. Even when considering Exclusions not related to Cluster Munition and Anti-Personnel Landmines (CM & APL), the strategy covers about 23% (€4 trillion) of the overall European investment market. Voluntary Exclusions related to CM & APL reach about 30% (€5 trillion) of the European investment market.

Other strategies like Norms-based screening or Engagement and voting also exhibit impressive adoption rates (70% and 86% respectively) and assets but are not deployed as consistently as Exclusions across countries. The progress of Engagement and voting in non-traditional markets such as Italy (+193% growth over 2011-2013), Germany (+48%), Belgium (+94%), Scandinavia and Switzerland signals changes in attitudes toward stewardship amongst European investors.

For the first time, the Study looks in detail at ESG integration practices. Three categories of practices have been defined. In the first category, ESG analysis is made available to mainstream analysts and fund managers and no formalized process exist. Eurosif calls this "non-systematic ESG integration." In the second category, investors systematically consider or include ESG analysis when rating or valuing investments. Finally, the third category covers assets subject to mandatory investment constraints based on findings from ESG research/analyses. These last two categories are called explicit and systematic ESG integration. Going forward, Eurosif will use these categories to represent ESG Integration but continues to report both figures in this report. Systematic ESG integration covers about 40% of all forms of Integration in the countries where data is available.[2] In other terms, it is estimated to cover (a minimum of) about 11% (€2 trillion) of all European professionally managed assets. This percentage amounts to about one third for all forms of ESG integration (including non-systematic practices). If one thinks that making ESG/SRI analysis available to mainstream portfolio management teams is often a first step towards more formal practices, it is therefore encouraging to see that all forms of Integration have grown by 65% since 2011 making this strategy one of the fastest growing strategies.

For the first time, the Study provides historical depth to the growth of the European Impact investing market, albeit focusing only, by purpose, on investments made by institutional investors and asset managers (thus excluding public and philanthropic funding). European Impact investing has grown to an estimated €20 billion market, with a 132% growth rate between 2011 and 2013. While this figure is certainly underestimated, it still is the fastest growing SRI strategy in Europe.

In terms of asset allocation, equities represented about half of the European SRI assets at the end of 2013, up from 33% late 2011. By contrast, the allocation to bonds fell sharply to 40% last year. Of that, about 21% were invested in corporate bonds and 17% in sovereign bonds, a breakdown provided in this study for the first time. Allocation to real estate and commodities recorded significant growth.

The most prevalent perceived market driver for the near future remains institutional demand. Institutional investors continue to drive the market with an even higher market share than in 2011. However, the Study mentions several national and European legislative developments that will also support future growth. For instance, the revision of the European Shareholder Rights Directive has the potential to foster Engagement and voting practices.

Finally, a common theme throughout the Study remains the heterogeneity of the European SRI market in terms of practices. Apart from Exclusions, various markets do not consistently apply SRI strategies today. Only a few strategies, particularly Norms-based, Engagement and voting and ESG integration seem to be making significant inroads through most markets.

Survey Definitions and Methodology

DEFINITIONS AND METHODOLOGY

Sustainable and Responsible Investment Defined

The decision of whether something is 'SRI' is very much coloured by the cultural and historical diversity of Europe and, as noted in the 2012 Study:

> *At this stage, no consensus on a unified definition of SRI exists within Europe, whether that definition focuses on processes used (referred to as strategies in this study), sought outcomes or depth and quality of the processes applied.*

The present edition of the European SRI Market Study does not, therefore, impose a specific definition of SRI and the Study continues to cover "any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues."

By doing so, the Study covers a range of approaches to SRI (or processes), measuring what investment managers do, not why, for what purpose and with which actual impact (on companies, environment, etc.). As such, it does not make judgements on the depth, breadth or quality of the approach.

While no single harmonised and operational European definition of SRI exists at this stage, it is, however, interesting to note that several local initiatives have (or are still in the process to) defined more specifically what SRI is. This is the case in France and in Italy, and to some extent in Germany, where local SIFs have worked with other stakeholders to better define SRI. Some of these initiatives try to define SRI via the impacts it may generate, some focus more on the processes being deployed. Whatever the resulting definition, these initiatives mark a new and strong interest for 'calibrating' SRI, the motivation being typically to increase the visibility of SRI with investors, as well as their understanding of and their interest for it. The corresponding country sections contain more comments on these initiatives. Eurosif anticipates discussions around a common definition of SRI to increase in the near future and intends to take an active part in the debate.

Classification of Approaches[3]

The 2012 Study suggested a refreshed classification of SRI approaches. The seven distinct approaches identified, referred to as strategies in this study, are:

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

More details on each approach are provided in the Glossary section of this study. The reader is also invited to consult the 2012 corresponding section for more background information. As illustrated in the table below, the Eurosif classification closely aligns with other frameworks available to the industry although underlying detailed definitions may sometimes vary.

Comparison of SRI Classifications

Eurosif	**GSIA-equivalent**[4]	**PRI-equivalent**[5]	**EFAMA-equivalent**[6]
Exclusions	ESG Negative screening	ESG Negative / Exclusionary screening	Negative screening or Exclusion
Norms-based screening	Norms-based screening	Norms-based screening	Norms-based approach
Best-in-Class selection	ESG Positive screening and Best-in-Class	ESG Positive screening and Best-in-Class	Best-in-Class policy
Sustainability themed	Sustainability-themed	ESG -themed Investments	Thematic investment
ESG integration	ESG Integration	Integration of ESG issues	-
Engagement and voting	Corporate engagement and shareholder action	Engagement (three types)	Engagement (voting)
Impact investing	Impact / Community investing	-	-

Source: Eurosif

Survey Methodology

The methodology is consistent with previous studies and no major changes are to note. The Study remains a joint product between Eurosif and its national member SIFs who have been, when relevant, instrumental in collecting local data and articulating local trends in the individual country profiles.

Scope

The Study covers so-called professionally managed SRI assets, subject to one or more SRI approaches covered in the Eurosif classification. This means that the Study attempts to capture both retail and institutional SRI assets:

- Managed by asset managers via pooled products, both institutional or retail;
- Managed by asset managers via separate accounts on behalf of their institutional clients;
- Managed internally by asset owners (self-managed assets).

Further, assets are allocated to a particular market (country) on the basis of where the portfolio management team is located rather than where the client is.[7] In other terms, the study measures the size of the SRI asset management markets, rather than the SRI markets (supply not demand). While fund managers are rather easy to locate, ultimate investors are not, which makes the measurement of 'demand' by market more cumbersome.

The study covers 13 distinct markets in detail[8]: Austria (AT), Belgium (BE), Finland (FI), France (FR), Germany (DE), Italy (IT), Netherlands (NL), Norway (NO), Poland (PL), Spain (ES), Sweden (SE), Switzerland (CH) and the United Kingdom (UK).

Questionnaire

In late 2013, Eurosif launched a focus group gathering several industry practitioners in order to form its information gathering strategy. Following the recommendations of this group, Eurosif has refreshed its template questionnaire, simplifying it where possible and focusing adding more details around (a) information on Exclusions, in particular when used as overlays to a broad range of assets, (b) allocation to fixed income and (c) practices around ESG integration.

The questionnaire was then sent to local market participants by the national SIFs or, if appropriate, a partner or consultant with local contacts. Data was collected from asset managers and self-managed asset owners from March to June 2014. Respondents were asked to report data as of December 31, 2013.

Important Limitations to the Study

The backbone of the Study remains an extensive market participant survey, using a template questionnaire sent to asset managers and asset owners (for the self-managed part of their assets). It is therefore important to note that a large portion of the figures used in this study is self-reported.

As SRI practices become more and more sophisticated, often involving combinations of approaches, some of the self-reported data was inconsistent throughout a given response (some of the questions were used as cross-checks). Particular attention has been given by Eurosif to ensure the consistency of responses across any given questionnaire.

Moreover, readers are reminded that each survey sample contains a discretionary set of respondents. Market coverage and / or response rate may have varied from one year to another for a given market. Sample overlaps may have varied too. In some instances, the 2014 group of respondents was superior in numbers to the 2012 group of respondents, but a few large players had not responded in 2014. Reverse situations can also happen in some markets, making direct comparisons between 2012 and 2014 figures difficult.

To mitigate the risk of error, misallocation of assets, sample biases or insufficient market coverage, Eurosif and its partners have exercised due diligence on a best-effort basis to maintain the highest possible data integrity and quality.

When inconsistencies or data gaps have been identified, Eurosif, national SIFs and other survey contributors have recontacted the respondent, tried to clarify the data reported or to fill any gap. When this was not possible or sufficient, secondary information sources have been used, such as the annual RI report, the European Transparency Code, fund fact sheets or the UN-backed PRI reporting. On specific occasions, data reported by the institution for the 2011 edition of the Study has also been used to fill a specific data gap when no other valid source of information was available.

Therefore, it is very important to note that the data cannot be seen as the exact reflection of any given national SRI market. However, Eurosif is confident that the report provides a picture very close to what the reality is and the trends are.

Structure of the Report

The Eurosif 2014 SRI Study is organised geographically, starting with Europe as a whole and then in alphabetical order for the 13 markets covered by the survey.

Impact investments are covered in the Study for the second year, but discussed separately in the dedicated section.

The State of European SRI

Sustainable and Responsible Investment (SRI) incorporates any strategy an investor may deploy which incorporates Environmental, Social and Governance (ESG) consideration or analysis. These ESG issues may be incorporated in a variety of ways. Drawing upon a methodological framework refreshed in 2012,[9] the present study looks at trends affecting the seven strategies falling under this definition and defined in the Glossary and Abbreviations section.

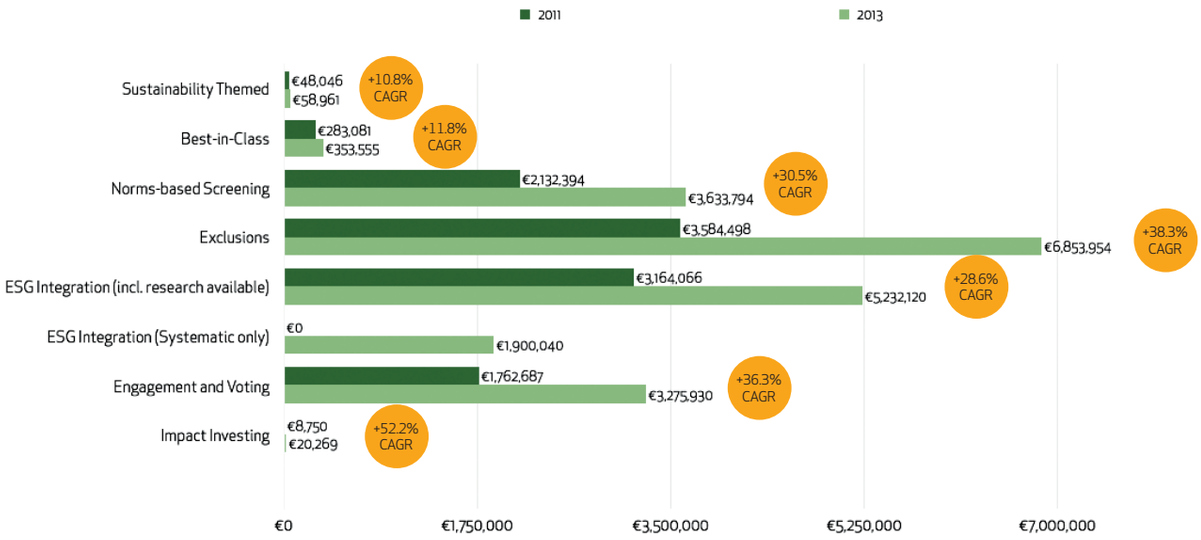
For several years, in aggregate, investment approaches making some form of reference to extra-financial factors are gaining strong momentum in Europe– an assertion corroborated by this study and its previous edition. The range of Sustainable and/or Responsible Investment strategies applied varies from a simple exclusion of companies that produce cluster munitions and anti-personnel landmines, to more complex strategies involving adjusting forecasted financials for ESG risk or establishing long-term strategic dialogue with company boards and management on issues of concern.

The richness of variety of SRI shows the strength of the industry, as investors continue to show creativity in developing new products and in combining approaches. The fast evolving nature of the industry, combined with a high degree of innovation, and the fragmentation of expectations on the 'buy-side' represent, however, real challenges to the future success of SRI, in particular when it comes to standardisation and comparability. Therefore, the growing attention and scrutiny the SRI industry is subject to by its stakeholders should not come as a surprise.

Nevertheless, as shown in the graphic below, all seven SRI strategies categorised by the Eurosif framework are growing. They are growing relatively evenly, between 11% and 38% CAGR[10] for the main strategies. Impact investing is outpacing the growth of the other strategies at a 52% CAGR, albeit from a much lower base.

While the continued aggregate growth of all SRI strategies across Europe is welcome, there is considerable difference in growth at the country level, and some strategies remain concentrated around a few markets.

FIGURE 1: Overview of SRI Strategies in Europe



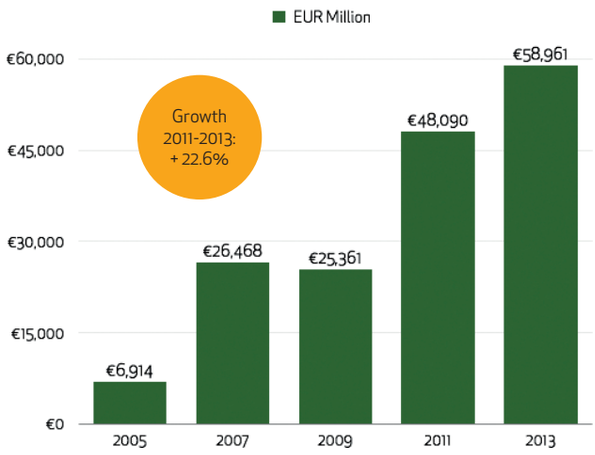
Source: Eurosif (EU 13)

SUSTAINABILITY THEMED

Sustainability themed investments cover a wide range of themes from climate change and energy efficiency to forests and water. Investors' motivations may vary greatly, but it is typical to support particular industries transitioning to more sustainable consumption and production. This can be combined with a belief that a particular theme will outperform the rest of the market over the holding period, or may provide some degree of de-correlation to other investments.

Some market participants view this strategy as one of the purest, in the sense that these assets are targeting certain themes around sustainability, as opposed to applying extra-financial (ESG) criteria or norms to a standard portfolio of assets regardless of the industry or activity. By nature, and despite its real potential to contribute to a more sustainable economy, it has traditionally been one of the smaller of the SRI strategies across Europe. Figure 2 below shows the evolution of sustainability themed assets from 2005 to 2013.

FIGURE 2: Growth of Sustainability Themed Investments in Europe



Source: Eurosif

In the last two years, European Sustainability themed assets have increased by 11% per year to reach €59 billion. The growth is even more impressive on a longer time scale - since measurements began in 2005, it has grown on average 30.7% per annum.

Table 1 shows the growth in this strategy by country from 2011 to 2013. The biggest increases in percentage are found in France, Sweden and Norway. In absolute terms the Netherlands remains the biggest market, but the UK has now surpassed Switzerland to become the second largest market for Sustainability themed investments.

TABLE 1: Growth of Sustainability Themed Investments by Country

Country (€ Mn)	2011	2013	CAGR
Austria	€ 56	€ 82	21%
Belgium	€ 367	€ 816	49%
Finland	€ 322	€ 220	-17%
France	€ 623	€ 4,392	166%
Germany	€ 4,523	€ 4,127	-4%
Italy	€ 1,051	€ 1,094	2%
Netherlands	€ 19,914	€ 20,163	1%
Norway	€ 676	€ 2,078	75%
Poland	€ 0	€ 0	0%
Spain	€ 107	€ 82	-12%
Sweden	€ 396	€ 1,985	124%
Switzerland	€ 11,079	€ 11,061	0%
United Kingdom	€ 8,932	€ 12,860	20%
Europe (13)	€ 48,046	€ 58,961	11%

Source: Eurosif

BEST-IN-CLASS

Best-in-Class assets typically involve selecting the top percentage of companies within a sector using ESG criteria. For example, within the consumer goods sector, in companies eligible for portfolio selection, a portfolio manager might restrict the investable universe to the top 50% based on an ESG rating screen. The relative allocation to the portfolio of the selected companies may then depend on purely financial criteria, but can also be made using a combination of financial and ESG analysis. Other Best-in-Class methods also exist (e.g. Best-in-Universe, Best-in-Effort), and the strategy is also referred to as positive screening.

The Best-in-Class methodology has traditionally been applied to specific funds or mandates. However, some asset managers now apply this to a broader range of their assets. This has led to some large increases in Best-in-Class strategy for certain countries.

In the period from 2005 to 2013, the strategy has grown 26% per annum, showing strong growth across the years. In the period from 2011 to 2013, the growth was 12% per year, adding over €70 billion in assets to grow to €354 billion. The graph below shows the growth from 2005 to 2013.

FIGURE 3: Growth of Best-in-Class Investments in Europe

Source: Eurosif

Turning to the country-by-country view, the biggest increase is seen in Norway with an explosive growth from €1 billion to €44 billion. However, part of that growth is explained by a corresponding fall in assets in Sweden from €86 billion to €48 billion, as part of a regional asset manager's reorganisation relocating some assets from one country to the other. Largest net growth is seen in the Netherlands and in Belgium. Finland has seen a large fall in Best-in-Class assets as some asset managers moved from this strategy to ESG integration. France remains the biggest market for Best-in-Class in Europe with almost half the total assets.

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

Country (€ Mn)	2011	2013	CAGR
Austria	€ 3,009	€ 4,575	23%
Belgium	€ 7,834	€ 17,132	48%
Finland	€ 24,798	€ 310	-89%
France	€ 115,309	€ 173,213	23%
Germany	€ 13,115	€ 15,813	10%
Italy	€ 3,422	€ 3,917	7%
Netherlands	€ 1,120	€ 15,232	269%
Norway	€ 1,117	€ 44,484	531%
Poland	€ 13	€ 3	-52%
Spain	€ 1,558	€ 1,961	12%
Sweden	€ 86,134	€ 48,151	-25%
Switzerland	€ 23,093	€ 25,428	5%
United Kingdom	€ 2,559	€ 3,335	14%
Europe (13)	€ 283,081	€ 353,555	12%

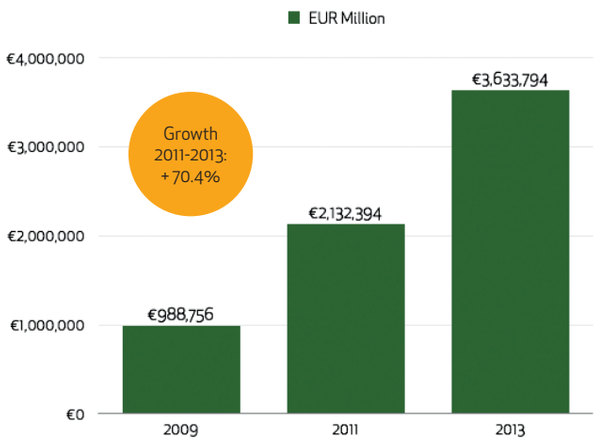
Source: Eurosif

NORMS-BASED SCREENING

Norms-based screening is a strategy that involves assessing each company held in the investment portfolio against specific standards of Environmental, Social and Governance performance. These standards are based on international norms set by organisations or institutions such as the United Nations Global Compact (UNGC), the OECD Guidelines for Multinational Corporations and International Treaties. Investors will often use one or a combination of these standards, or they may construct their own standard based on these initiatives. Once companies in the portfolio have been identified in breach of these standards, investors will perform a deeper analysis and take action. This action typically falls into two categories: exclusion from portfolio or engagement with companies.

Norms-based screening has risen rapidly since first being counted in 2009, and now stands at €3.6 trillion, meaning an increase of 39% per annum since 2009. On a like-for-like basis, this is an increase of 31% per year since last measured in 2011.

FIGURE 4: Growth of Norms-based Screening Investments in Europe



Source: Eurosif

The strategy is most commonly associated with the Nordic countries, and as seen in Table 3, these countries are still the largest contributors to the European aggregate. In the Nordic countries, a Norms-based screen covers most assets that have an SRI strategy applied to them and is typically coupled with engagement activities that may ultimately lead to divestment if no result is achieved. In practice, however, it is important to keep in mind that this approach has a small effect on a large portfolio as typically few stocks tend to be excluded.

The most common Norms-based screen is the UN Global Compact, but ILO Conventions are almost as commonly used. The OECD Guidelines are also popular, but to a lesser extent. According to the survey, the most common follow-up action taken is to exclude companies when they breach these conventions, but engaging with them is almost as common.

Beyond the Nordic pioneers of this strategy, it is noteworthy that French asset managers are the most prolific users of Norms-based screening, with over €1.1 trillion in assets, a recent phenomenon already detected in 2011. The strategy is also common in the Netherlands, which exhibits high growth due to several larger players moving into this space or expanding the range of investments subject to this strategy.

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

Country (€ Mn)	2011	2013	CAGR
Austria	€ 3,862	€ 5,467	19%
Belgium	€ 19,744	€ 20,235	1%
Finland	€ 62,336	€ 64,667	2%
France	€ 679,566	€ 1,119,040	28%
Germany	€ 11,255	€ 10,177	-5%
Italy	€ 314,248	€ 351,754	6%
Netherlands	€ 166,359	€ 746,125	112%
Norway	€ 550,834	€ 798,682	20%
Poland	€ 13	€ 773	671%
Spain	€ 1,119	€ 14,247	257%
Sweden	€ 259,346	€ 420,718	27%
Switzerland	€ 192	€ 10,454	638%
United Kingdom	€ 63,520	€ 71,456	6%
Europe (13)	€ 2,132,394	€ 3,633,794	31%

Source: Eurosif

Case Study 1: Norms-based Screening at Etica SGR

Etica SGR is currently the only Italian asset management company fully dedicated to the institution and promotion of SRI funds and to the engagement with companies on ESG issues. The Norms-based screening informs both the exclusion process, the evaluation of companies as part of a Best-in-Class approach and can lead to Engagement activities. It covers Environmental, Social and Governance aspects.

Etica SGR analyses allegations and assessments of international norms' breaches drawn from a range of principles covering human rights, labour standard, biodiversity and environmental pollution items, as referenced in a number of internationally-recognized normative frameworks and conventions such as: the UN Global Compact, OECD Guidelines for Multinational Enterprises, Universal Declaration on Human Rights, UN Human Rights Norms for Business, ILO Core Conventions, UN Declaration on the Rights of Indigenous Peoples, Kyoto & Montreal Protocols, Convention on Biological Diversity, Ottawa Convention on Anti-Personnel Landmines and the UN Convention against Corruption. The allegations are then rated on the basis of their severity (high, medium or low) and on the basis of whether the company has done enough to 'address' them. Companies are assessed individually based on the policy, systems and reporting they have implemented and also an overall rating is given. A five rating system is used to value what companies do in order to both prevent and amend this kind of situation: "no evidence", "limited", "intermediate", "good" and "advanced".

When analysing the responses of companies and their behaviour, Etica SGR selects which companies to engage with (in line with Etica' "Guidelines on Shareholder Engagement," published by Etica SGR) and which ones to exclude ex-ante from the investment universe or to divest from (the worst cases scenario). Companies excluded usually remain out of the universe for five years.

With regard to the UN Convention Against Corruption, for example, companies are rated as to whether the risk considered is high (severe allegation) or medium, and then on the basis of efforts deployed to stop similar incidents occurring (from "no evidence" to "advanced"). For example, in order to consider allegations as "good" (addressed), the company must have a clear policy and systems in place to implement this policy such as: employee training on bribery policies and systems, an internal investigation or external audit into the allega-

tion, transparency in the decision making process or public reporting on compliance including details of any breaches and enforcements.
Over the last few years, human rights have become central to Etica SGR corporate social responsibility agenda and great attention is also paid to the supply chain. For example, in 2012, Etica SGR faced the case of a textile industry company accused of breaches of core ILO standards in its supply chain (supplier had violated freedom of association and collective bargaining rights by dismissing and transferring employees intent on forming a new union) with a risk exposure that has been assessed as medium. An explanation of the allegations was asked to the company but, since no response has been provided, its behaviour has been assessed as "limited" and, therefore, the company was excluded from Etica SGR investments.

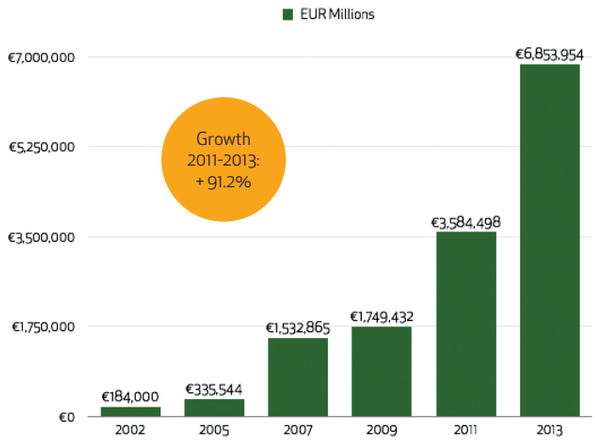
EXCLUSIONS

Exclusions or negative screening is a strategy that involves removing companies or sectors from the investible universe of the portfolio. There are a number of different motivations and applications of this strategy, from risk management to values-based investing (moral, ethical or mission-based requirements). The exclusion of certain controversial activities is becoming common among European investors. This often includes those prohibited by international conventions, such as the 1997 Ottawa convention on anti-personnel landmines and the 2008 Oslo convention on cluster munitions.[11]

Exclusions has consistently been the most common strategy applied to investment portfolios, and continues to grow rapidly. About 40% of European professionally invested assets[12] have one or more (voluntary) exclusions applied to them.

Since last measured in 2011, the strategy has grown by 38% per annum. It has grown by 39% per annum since measurements began in 2002. The reader should note that Eurosif only captures assets subject to exclusions not mandated by law. For instance, several countries have enforced laws prohibiting investments in Cluster Munitions and Anti-Personnel Landmines, as detailed later.

FIGURE 5: Growth of Investments Subject to Exclusions in Europe



Source: Eurosif

On a country level, Switzerland and the Netherlands both have over €1 trillion of assets with an Exclusion strategy. It is also notable that most countries experienced double-digit annual growth from 2011 to 2013. Such growth can be largely attributed to the adoption of exclusions overlays, i.e. deploying exclusion policies targeting a specific theme or issue on a wide range of assets. Typically, an exclusion overlay would apply one or two exclusion criteria, such as cluster munitions or tobacco, to all assets managed. More details on exclusion overlays are provided later and in the country profiles.

TABLE 4: Growth of Exclusions by Country

Country (€ Mn)	2011	2013	CAGR
Austria	€ 8,195	€ 26,983	81%
Belgium	€ 96,736	€ 226,026	53%
Finland	€ 83,637	€ 95,248	7%
France	€ 15,975	€ 472,660	444%
Germany	€ 618,248	€ 893,685	20%
Italy	€ 446,790	€ 496,561	5%
Netherlands	€ 665,108	€ 1,068,769	27%
Norway	€ 550,843	€ 797,257	20%
Poland	€ 612	€ 1,060	32%
Spain	€ 56,226	€ 92,421	28%
Sweden	€ 339,754	€ 648,348	38%
Switzerland	€ 429,194	€ 1,561,974	91%
United Kingdom	€ 273,180	€ 472,963	32%
Europe (13)	€ 3,584,498	€ 6,853,954	38%

Source: Eurosif

CLUSTER MUNITIONS AND ANTI-PERSONNEL LANDMINES

The most common exclusions in Europe follow the international conventions on Cluster Munitions and Anti-Personnel Landmines (CM & APL). The very large figure presented above is mainly driven by large asset managers and owners voluntarily excluding the handful of public and private companies that are engaged in these activities. This contributes to the debate on whether these investors can be regarded as sustainable and responsible, as their commitment is arguably less impactful compared to investors that have an ESG strategy applied to each company in their portfolio. Nevertheless, these investors are going beyond those that purely look at financial indicators.

In three countries, Belgium, France and the Netherlands, there is legislation in place prohibiting investors from holding companies involved in these activities. Other countries are in the process of exploring or drafting similar legislation. More details can be found in Focus 1 in this section as well as in some country sections. Eurosif's methodology will only include assets where investors' policies go beyond legislation. It therefore does not count assets in these countries that only exclude activities prohibited by law. For example, the figure for the Netherlands does not include assets that only exclude CM & APL.

Table 5 shows more details about the effect of these two Exclusions on each country. The table shows that there are €7 trillion of total assets having some form of exclusion applied that goes beyond legislation. Of this, €5 trillion is covered by Cluster Munitions and Anti-Personnel Landmines (note that all assets from Belgium, France and the Netherlands are removed). In the first column, any CM & APL exclusion is removed, leaving only assets that have other exclusion overlays or fund-specific exclusions, such as alcohol, tobacco, etc. This amounts to €4 trillion. The revelation is that, while CM & APL exclusions remain widely popular across Europe even if the exclusion of these two activities is removed from the figure, there are significant assets in Europe with Exclusion strategies applied.

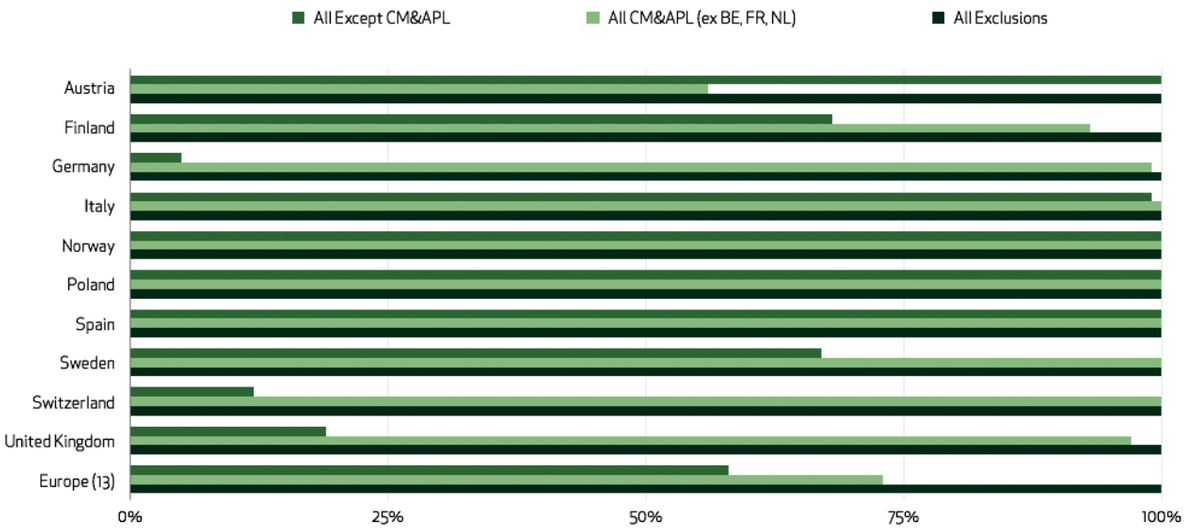
TABLE 5: Cluster Munitions and Anti-Personnel Landmines Exclusions[13]

Country (€ Mn)	Exclusions: Without CM&APL	Exclusions: All CM&APL	All Exclusions
Austria	€ 26,983	€ 15,000	€ 26,983
Belgium	€ 226,026	na	€ 226,026
Finland	€ 64,896	€ 88,375	€ 95,248
France	€ 472,660	na	€ 472,660
Germany	€ 47,842	€ 882,061	€ 893,685
Italy	€ 491,251	€ 496,561	€ 496,561
Netherlands	€ 1,068,769	na	€ 1,068,769
Norway	€ 797,254	€ 797,254	€ 797,257
Poland	€ 1,060	€ 1,060	€ 1,060
Spain	€ 92,401	€ 92,397	€ 92,421
Sweden	€ 435,891	€ 648,348	€ 648,348
Switzerland	€ 190,153	€ 1,557,329	€ 1,561,974
United Kingdom	€ 91,928	€ 458,820	€ 472,963
Europe (13)	€ 4,007,113	€ 5,037,205	€ 6,853,954

Source: Eurosif

On a country level, the analysis uncovers large differences in what asset managers and owners apply, as shown by Figure 6. The first bar shows all Exclusions except CM & APL in relation to total Exclusions (illustrated by the third bar). The second bar shows all CM & APL Exclusions in relation to the total.

FIGURE 6: Types of Exclusions by Country as % of Total Exclusions



Source: Eurosif

In Italy, Norway, Poland and Spain, the first two bars are almost equal to the third. This shows that in these countries, most investors have exclusions in addition to Cluster Munitions and Anti-Personnel Landmines. In Germany, Switzerland and the UK, the first bar is very small compared to the second bar, indicating that most investors in these countries only apply Exclusions on CM & APL.

Focus 1: European Legislation on Investments into Controversial Weapons

Over the recent years, a number of legislative initiatives to ban investment in cluster munitions have emerged. Some countries addressed the investment issue as part of the Convention on Cluster Munitions ratification measures; others issued separate laws (or ministerial statements) to prohibit investments. Some examples can be found below.

Belgium: Belgium is the first country to have passed a law banning investment in cluster munitions and anti-personnel mine producers. Following a bill passed in 2006, the law was passed in March 2007. It includes a ban on any form of financing (loan, direct investment, etc.), financial support to companies involved in the manufacture, use, repair, marketing, sale, import/export and transportation of anti-personnel mines and cluster munitions. The legislation therefore prohibits banks, investment funds, pension funds, and other investors from acquiring shares in a company tied to cluster munitions, with the exception of index funds.

France: The French government gave an interpretative statement specifying that they understand investments in cluster munitions as being banned under the prohibition on assistance. On 6 July 2010, the Deputy Minister of Defense at the National Assembly said: "any knowingly financial assistance, directly or indirectly, in the production or trading of cluster munitions would be considered as assistance, encouragement or inducement falling within the scope of the law under criminal complicity or commission of offenses under this bill. As a consequence of this and guidelines developed by the local asset management association, French asset managers are de facto required to have an exclusion policy in place for cluster munitions and anti-personnel mines.

I**reland:** Ireland was the first country to specify an investment ban in the act ratifying the Cluster Munition Convention (CCM) in 2008. The 2008 act explicitly prohibits investment of public money in cluster munition producers. However, public money does not cover investments by counties and municipalities. The law also does not cover passive investments.

Italy: In July 2011, Italy published the law on the ratification of the Oslo Convention. Article 95 declares financial assistance to acts prohibited by the law as a crime. Following an NGO campaign, separate draft legislation on investments was introduced in the Parliament in 2010. The text would

prohibit all Italian financial institutions from providing any form of support to activities related to cluster munitions. In December 2012, the Chamber of Deputies approved the draft legislation. The text still has to be progressed to become legislation. For the moment, article 95 remains the legislative framework about investments related to cluster munitions.

Luxembourg: Luxembourg signed the Convention on cluster munition in December 2008 and ratified it in July 2009. The ratification law was passed in May 209 and its Article 3 contains the investment ban. The law prohibits persons, business and corporate entities from the financing of cluster munitions or explosive sub-munitions. It does not explain whether producers of cluster munitions are excluded from investment. The term "financing" is not defined and the word "knowingly" can also have important legal ramifications.

Switzerland: The Federal Law on War Material was amended in February 2013 to include a prohibition on direct and indirect investments in prohibited war material, including cluster munitions. Article 8c regarding indirect investments prohibits buying shares or bonds of a company that develops, produces or acquires prohibited war material "where the prohibition of direct financing is circumvented thereby".

The Netherlands: The Netherlands ratified the CCM in February 2011, however, the same year, the Dutch Senate and Parliament adopted motions calling for a "prohibition on direct and demonstrable investments in the production, sales and distribution of cluster munitions". In January 2013, the amended Market Abuse Decree entered into force and imposed "an obligation that prevents an enterprise directly supporting any national or foreign enterprise which produces, sells or distributes cluster munitions". Accordingly to this law, Dutch institutional investors and funds cannot invest in producers of cluster munitions. Some exceptions are catered for in the law, for instance in the case of index funds or investments in third party funds. The scope of the ban limits itself to new investments.

ESG INTEGRATION

ESG integration is defined as 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.

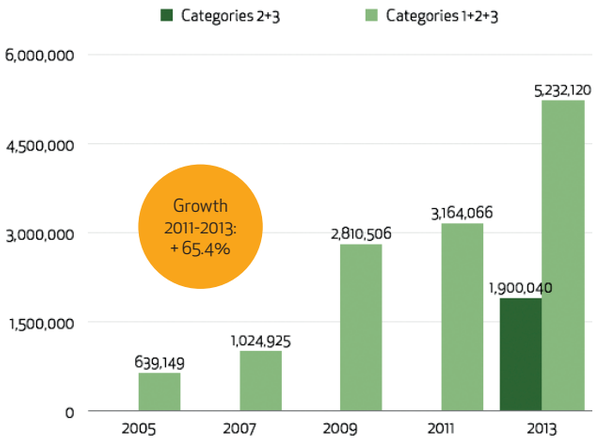
In previous years this has been measured including practices, whereas ESG research and analyses were made available to mainstream analysts and fund managers as this was a common form of ESG Integration, albeit in a more informal and unsystematic way. In order to provide a figure for ESG Integration that more closely matches the Eurosif definition and to provide more explanatory power behind evolving market practices, Eurosif has, for the first time, divided the activities performed by asset managers into three categories while attempting to allocate estimated assets to each:

- Category 1 ("non systematic ESG Integration"): ESG research and analyses made available to mainstream analysts and fund managers;
- Category 2: Systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers;
- Category 3: Mandatory investment constraints based on financial ratings/valuations derived from ESG research/analyses (exclusions, under-weighting, etc.).

Going forward, Eurosif will only consider categories 2 and 3 to be consistent with its current definition of ESG integration, but in order to provide historical comparisons will also provide figures for non-systematic ESG integration practices (category 1).

Figure 7 shows growth of both non-systematic ESG integration and more systematic and formalised practices from 2005 to 2013. The 2005-2013 bars include all practices (the sum of the three categories). The smaller bar for 2013 only reflects more systematic, formalised and structured integration practices (categories 2 and 3). Note that the latter is likely underreported because this figure is not available in all countries, and within countries that report the breakdown, not all respondents have been able to supply this level of detail. Eurosif and its national SIF partners will strive to continuously improve this analysis in subsequent editions of the Study.

FIGURE 7: Growth of ESG Integration in Europe



SOURCE: Eurosif

Figure 7 shows a large increase in the aggregate of all integration practices, whether systematic or not. It now stands at €5 trillion, which represents an increase of 29% per annum on a like-for-like basis since 2011, and an increase of 30% per annum since 2005. Systematic ESG integration (categories 2 and 3) is less ubiquitous at €1.9 trillion, but confirms that a significant section of the industry has started to invest material time and resources in this strategy.

On a country level (see Table 6), ESG integration is most common in France and the UK, whether one looks at all three categories of ESG integration practices or more systematic and formalised ones. ESG integration is also quite significant in the Netherlands. Furthermore, it is encouraging to see sharp growth of ESG integration practices in general in the Nordic region (Norway, Sweden, Finland), as these markets had previously only marginally considered this strategy.

The growth of ESG integration in Italy is real, but the high growth rate is largely due to a better reporting of respondents, thanks to a refreshed questionnaire providing better clarity around integration practices.

TABLE 6: ESG Integration All Categories[14]

Country (€ Mn)	2011	2013	CAGR
Austria	€ 108	€ 986	202%
Belgium	€ 13,830	€ 89,720	155%
Finland	€ 20,715	€ 46,075	49%
France	€ 1,804,781	€ 2,265,000	12%
Germany	€ 11,424	€ 10,990	-2%
Italy	€ 446	€ 195,979	1996%
Netherlands	€ 542,156	€ 629,236	8%
Norway	€ 23,206	€ 94,209	101%
Poland	€ 0	€ 0	0%
Spain	€ 7,302	€ 7,551	2%
Sweden	€ 34,897	€ 318,664	202%
Switzerland	€ 7,509	€ 19,910	63%
United Kingdom	€ 697,692	€ 1,553,800	49%
Europe (13)	€ 3,164,066	€ 5,232,120	29%

Source: Eurosif

Taking a closer look at the different categories of Integration, however, reveals a different picture. In Table 7, ESG integration figures for the different categories are shown by country. Eurosif was able to collect or estimate data for 8 countries, representing about 90% of all ESG integration assets reported in this study.

TABLE 7: ESG Integration by Category and Country

Country (€ Mn)	1: ESG Research Made Available	2: Systematic Consideration/ Inclusion	3: Mandatory Investment Constraints	2+3: Systematic Inclusion and/or Portfolio Constraints	1+2+3: Total 2014 - No Double Counting
Austria	€ 986	nc	nc	nc	€ 986
Belgium	€ 89,720	€ 22,006	€ 640	€ 22,006	€ 89,720
Finland	nc	nc	nc	nc	€ 46,075
France	€ 2,265,000	€ 150,000	€ 291,000	€ 440,000	€ 2,265,000
Germany	€ 10,990	€ 2,327	€ 927	€ 3,255	€ 10,990
Italy	€ 195,979	€ 31,163	€ 2,739	€ 33,879	€ 195,979
Netherlands	€ 629,236	€ 178,911	€ 20,785	€ 199,512	€ 629,236
Norway	nc	nc	nc	nc	€ 94,209
Poland	nc	nc	nc	nc	€ 0
Spain	€ 7,551	€ 7,138	€ 7,238	€ 7,338	€ 7,551
Sweden	nc	nc	nc	nc	€ 318,664
Switzerland	€ 19,910	€ 1,863	€ 7,690	€ 7,754	€ 19,910
United Kingdom	€ 1,553,800	€ 1,184,681	€ 17,746	€ 1,186,296	€ 1,553,800
Europe (13)	€ 4,773,172	€ 1,578,090	€ 348,765	€ 1,900,040	€ 5,232,120

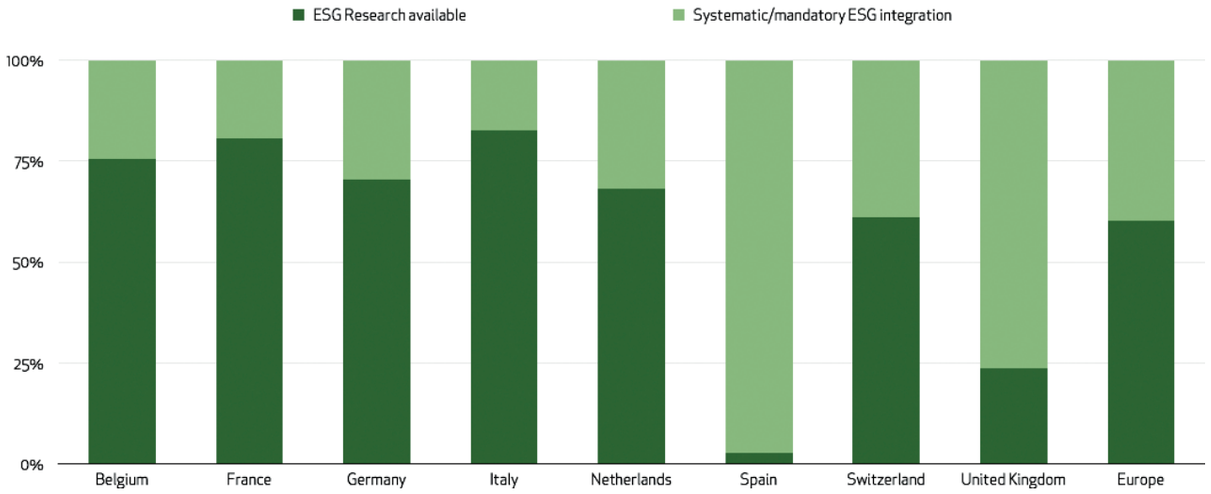
Source: Eurosif

The last two columns of the table show assets subject to systematic and formalised ESG integration (categories 2 and 3) and those subject to any form of Integration (all categories with any double counting removed). This shows some large differences in integration practices. For example, France has the most assets in all ESG integration, whereas the UK appears to be the largest contributor to the European figure when only considering systematic integration practices.

Figure 8 below shows that most countries where data is available, have less than 40% of all ESG integration assets subject to systematic and/or mandatory ESG integration practices (categories 2 and 3). The exceptions are Spain with almost 100%, and the UK.

Still, in the countries where data is available, systematic integration practices represent, on average, 40% of all reported European ESG integration assets in 2013. This is a significant number that Eurosif is convinced is set to grow as several players, including asset owners, are currently experimenting with more formal ESG integration approaches, or expending those to new asset classes. These results are not surprising if one thinks of category 1 as a first 'toe in the water' for ESG integration.

FIGURE 8: ESG Integration Categories (% of total)



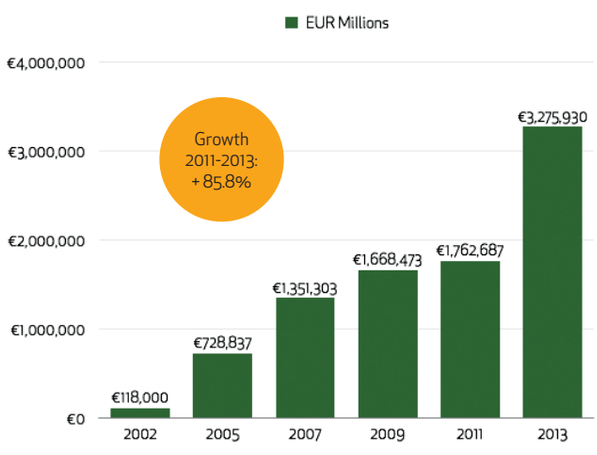
Source: Eurosif

ENGAGEMENT AND VOTING

As indicated in the Eurosif 2013 Study "Shareholder Stewardship: European ESG Engagement Practices", shareholder stewardship is increasing in importance, both for SRI investors and others. This is driven in large part by the view that shareholders are stewards of assets who are accountable to their beneficiaries for how they manage those assets. Policymakers and other stakeholders are propagating this view through initiatives like Stewardship Codes and legislation such as the EU Shareholder Rights Directive (see Focus 2: European Commission's Proposal for a Revised Shareholder Rights Directive).

This momentum is reflected in the significant growth of this strategy, with a 36% increase per annum from 2011 to 2013 on a like-for-like basis to reach €3.3 trillion. The growth per annum since 2002 is 35%.

FIGURE 9: Growth of Engagement and Voting in Europe



Source: Eurosif

At the country level, the UK continues to be the main origin of this strategy with half the European assets, followed by the Netherlands, another country with a strong tradition of active ownership.

TABLE 8: Engagement and Voting by Country[15]

Country (€ Mn)	2011	2013	CAGR
Austria	€ 1,191	€ 2,060	32%
Belgium	€ 19,586	€ 38,006	39%
Finland	€ 44,870	€ 50,565	6%
France	nm	€ 55,304	nc
Germany	€ 7,927	€ 11,736	22%
Italy	€ 18,531	€ 54,372	71%
Netherlands	€ 472,019	€ 649,198	17%
Norway	€ 55,652	€ 321,245	140%
Poland	€ 0	€ 578	nc
Spain	€ 11,094	€ 9,103	-9%
Sweden	€ 137,660	€ 349,736	59%
Switzerland	€ 4,946	€ 16,563	83%
United Kingdom	€ 989,211	€ 1,717,461	32%
Europe (13)	€ 1,762,687	€ 3,275,930	36%

Source: Eurosif

About 42% of respondents to the survey have a formal Engagement and voting policy and about 24% make this policy public.

Focus 2: European Commission's Proposal for a Revised Shareholder Rights Directive

In April 2014, the European Commission published a proposal for the revision of the Shareholder Rights Directive (Directive 2007/36/EC). The proposal was one of the initiatives announced in the Commission's Action Plan issued in late 2012: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies.[16] It also relates to the Communication on Long-Term Financing of the European economy (COM (2014) 168 final), published in March 2014.

The overarching objective of the current proposal is to foster more long-term oriented and engaged shareholders. Increasing the level and quality of engagement of institutional investors and asset managers in investee companies is anticipated to tackle corporate governance shortcomings and excessive short-termism. It should also improve the long-term competitiveness of European listed companies. According to the Commission, as the recent financial crisis showed, shareholders supported, in many cases, managers' excessive short-term risk taking. The Commission's services also note that the level of shareholder engagement and "monitoring" of investee companies is "sub-optimal".

On that basis, the proposal includes a number of measures aimed at facilitating the exercise of shareholder rights and at enhancing those rights where appropriate. It also comes with additional transparency requirements along the investment chain.

The key specific measures included in the proposal are:

- Mandatory transparency of institutional investors and asset managers on their voting and engagement and certain aspects of asset management arrangements, in particular around how they integrate long-term perspective and considerations into their investment policies;
- Disclosure of the remuneration policy and individual remunerations, combined with a shareholder vote (European "say on pay");
- Additional transparency and an independent opinion on more important related party transactions and submission of the most substantial transactions to shareholder approval;
- Binding disclosure requirements on the methodology and conflicts of interests of proxy advisors;
- Creating a framework to allow listed companies to identify their shareholders and requiring intermediaries to rapidly transmit information related to shareholders and to facilitate the exercise of shareholder rights.

The proposal is expected to be examined in the coming months by the co-legislators (European Parliament and Council). Overall, Eurosif welcomes the proposal as it contains a number of measures supporting active long-term oriented share-ownership and transparency.

European Data Table

	A	B	C	D	E	F	G
Country	**Sustainability Themed**	**Best-in-Class**	**A+B**	**Norms-based Screening**	**A+B+D**	**Exclusions Not Related to CM & APL**	**ESG Integration (incl. Research Available)**
Austria	€ 82	€ 4,575	€ 4,582	€ 5,467	€ 5,536	€ 26,983	€ 986
Belgium	€ 816	€ 17,132	€ 17,488	€ 20,235	€ 20,804	€ 226,026	€ 89,720
Finland	€ 220	€ 310	€ 380	€ 64,667	€ 81,792	€ 64,896	€ 46,075
France	€ 4,392	€ 173,213	€ 177,580	€ 1,119,040	€ 1,195,870	€ 472,660	€ 2,265,000
Germany	€ 4,127	€ 15,813	€ 19,451	€ 10,177	€ 21,989	€ 47,842	€ 10,990
Italy	€ 1,094	€ 3,917	€ 3,917	€ 351,754	€ 353,212	€ 491,251	€ 195,979
Netherlands	€ 20,163	€ 15,232	€ 34,785	€ 746,125	€ 747,025	€ 1,068,769	€ 629,236
Norway	€ 2,078	€ 44,484	€ 46,562	€ 798,682	€ 798,682	€ 797,254	€ 94,209
Poland	€ 0	€ 3	€ 3	€ 773	€ 733	€ 1,060	€ 0
Spain	€ 82	€ 1,961	€ 2,043	€ 14,247	€ 14,444	€ 92,401	€ 7,551
Sweden	€ 1,985	€ 48,151	€ 49,811	€ 420,718	€ 420,718	€ 435,891	€ 318,664
Switzerland	€ 11,061	€ 25,428	€ 33,505	€ 10,454	€ 35,828	€ 190,153	€ 19,910
UK	€ 12,860	€ 3,335	€ 15,097	€ 71,456	€ 81,956	€ 91,928	€ 1,553,800
Europe (13)	€ 58,961	€ 353,555	€ 405,204	€ 3,633,794	€ 3,778,589	€ 4,007,113	€ 5,232,120

	H	I	J	K	L	M
Country	**ESG Integration (Systematic and Explicit Only)**	**Engagement & Voting**	**A+B+D+F+G+I**	**Exclusions: All CM & APL**	**Exclusions (All Overlay and Funds/Mandates)**	**A+B+D+G+I+L**
Austria	nc	€ 2,060	€ 26,983	€ 15,000	€ 26,983	€ 26,983
Belgium	€ 22,006	€ 38,006	€ 226,026	€ 0	€ 226,026	€ 226,026
Finland	nc	€ 50,565	€ 101,602	€ 88,375	€ 95,248	€ 131,540
France	€ 440,000	€ 55,304	€ 1,728,880	€ 0	€ 472,660	€ 1,728,880
Germany	€ 3,255	€ 11,736	€ 51,964	€ 882,061	€ 893,685	€ 897,945
Italy	€ 33,879	€ 54,372	€ 551,455	€ 496,561	€ 496,561	€ 551,931
Netherlands	€ 199,512	€ 649,198	€ 1,244,576	€ 0	€ 1,068,769	€ 1,244,576
Norway	nc	€ 321,245	€ 798,682	€ 797,254	€ 797,257	€ 798,682
Poland	nc	€ 578	€ 1,060	€ 1,060	€ 1,060	€ 1,060
Spain	€ 7,338	€ 9,103	€ 93,182	€ 92,397	€ 92,421	€ 93,202
Sweden	nc	€ 349,736	€ 648,965	€ 648,348	€ 648,348	€ 648,965
Switzerland	€ 7,754	€ 16,563	€ 204,634	€ 1,557,329	€ 1,561,974	€ 1,562,027
UK	€ 1,186,296	€ 1,717,461	€ 1,807,665	€ 458,820	€ 472,963	€ 1,973,148
Europe (13)	€ 1,900,040	€ 3,275,930	€ 7,485,674	€ 5,037,205	€ 6,853,954	€ 9,884,966

Notes:
Column F captures all assets subject to exclusion overlays or Exclusions that are applied to specific products as long as they do not refer to Cluster Munition (CM) and Anti-Personnel Landmines (APL). Overlaps with these are possible.

Column H represents all practices relating to ESG integration, including non-systematic, for instance ,when SRI/ESG research is made available to mainstream analysts.

Column I represents systematic and explicit ESG integration practices. Going forward, Eurosif will use the figures as ESG integration figures.

Column K captures all assets subject to a policy excluding Cluster Munition (CM) and/or Anti-Personnel Landmines (APL). Overlaps with column F are possible if the same assets are subject to other types of exclusion policies.

Column K: in Belgium, France and the Netherlands, CM & APL excluded by law. The figures have therefore been put to zero since Eurosif measures exclusions beyond law.
Impact investing assets are not included in the table (included in FNG study).

Impact Investing in Europe

In recent years, Impact investing has gained significant attention from policy-makers and investors. It was a topic for the first time at the World Economic Forum Annual Meeting 2013 in Davos, Switzerland, and in June 2013, the UK hosted the first G8 Social Impact Investment Forum, the first event to use the G8 platform to discuss social investment.

Eurosif initially attempted to measure the European Impact investing market in its 2012 edition of the present study. The current edition draws upon the work carried out previously and expands it. This year, Eurosif and its member SIFs have surveyed their traditional network of industry participants while expanding the coverage of the survey to local organisations specifically identified as impact investors.

WHAT MAKES IMPACT INVESTING SPECIFIC?

Impact investing is a term coined in 2007 at the Bellagio Summit convened by the Rockefeller Foundation in the U.S. Since then, the term has gained acceptance on both sides of the Atlantic. Increasingly, the term is synonymous to 'social investments' (while some investment categories may not be directly seen as 'social,' they all ultimately aim at improving socio-economic, social or environmental conditions), especially in Europe.

Impact investing spans a large range of 'social' issues and themes that can broadly be classified into two categories:

- Social integration, be it about access to affordable housing, health, finance, education, personal care or employability, to name a few examples. Microfinance would fall under this category;
- Sustainability-related projects in the field of production and access to, for instance, renewable energy, food, water, sustainable agriculture. This category is heavily focused on developing markets.

With growing light shed on this 'strategy', confusion has sometimes arisen between Impact investing and Sustainable and Responsible Investment (SRI). Impact investing has been presented as the next phase of SRI (SRI 2.0) by some market commentators. Impact investing has also been presented as a new asset class by others. These representations are misleading.

In fact, Impact investing is an umbrella term that transcends several asset classes (e.g. fixed income, equity) and is another distinct way to channel funding to social organisations or enterprises that seek to tackle specific social challenges through market mechanisms.

Alternative funding for these enterprises would come from philanthropy, public money and more recently, crowd funding. While grants (philanthropy) are not technically Impact investing (no expectation of a financial return), they can and do play an important role for funding social enterprises, especially in their incubation and early development phase. Public support continues to be also very important for the development of the social enterprise market.

What is clear is that Impact investors seek to generate both a financial return (to various extents) alongside a social one (social impact). Impact investors are socially motivated (Paul Brest & Kelly Born, 2013[17]). As such, Eurosif legitimately considers that Impact investing as 'just' another way to implement an SRI strategy, being aware that it has its own ecosystem and challenges at the same time.

Impact investing does, however, exhibit a few distinct features from other, more traditional SRI strategies. The table below displays definitions provided by various organisations that have performed recent work around Impact investing and provides a list of what these organisations perceive to be key characteristics of Impact investing.

TABLE 9: Definitions and Key Characteristics of Impact Investing

Source	Definition	Key Characteristics
OECD[18]	Social investment is the provision of finance to organisations with the explicit expectation of a social, as well as financial, return.	• Involves private investment that contributes to the public benefit; • Explicit social dimension; • Hybrid funding involving private investment that contributes to the public benefit; • Financial goals can range from capital preservation to a market rate of return.
Global Impact Investing Network (GIIN)[19]	Impact investments are investments made into companies, organisations, 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.	• Intentionality – The intent of the investor to generate social and/or environmental impact through investments is an essential component of Impact investing; • Investment with return expectations – Impact investments are expected to generate a financial return on capital and, at a minimum, a return of capital; • Range of return expectations and asset classes – Impact investments generate returns that range from below market to risk-adjusted market rate. Impact investments can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity; • Impact measurement – A hallmark of Impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments.
World Economic Forum (WEF)[20]	• Impact investing is an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that is actively measured; • It does intentionally and explicitly set out to deliver the dual objective of social/environmental outcomes and financial returns (which may be below market, at market or above market).	• An investment approach and not an asset class (a criterion by which investments are made across asset classes); • Intentionality matters. Investments that are motivated by the intention to create a social or environmental good are Impact investments. • Outcomes, including both the financial return and the social and environmental impact, are actively measured; • Impact investing is unique in that the investor may be willing to accept a lower financial return in exchange for achievement of a social outcome; • Covers all investments that intentionally seek to create measurable social or environmental value, regardless of the stage of maturity of the enterprise.
European Commission[21]	• European Social Enterprise Funds (EuSEF) are funds (undertakings) investing at least 70% of raised capital in social businesses.	• Social businesses are businesses whose primary objective is the achievement of measurable, positive social impacts (art. 3(d)ii); • Procedures to measure the social impact investee businesses have committed to must be in place together with specific indicators (art. 10); • Investors must be informed about targeted and actual social impacts and the measurement methodologies used (art. 14d).
IESE research project[22]	• Any profit-seeking investment activity that intentionally generates measurable benefits for society.	• Correlation between impact and financial return: the financial return drivers of the funded business model cannot be dissociated from impact objectives; • Social impact must be intentional; • Social impact must be measurable; • It needs to generate positive benefits for society.

Source: Eurosif

Some of the key characteristics mentioned by the different sources can delineate Impact investing from other forms of SRI, but not all of them. For instance, the intention to create an impact (e.g. social, environmental) does not represent an absolute distinct feature of Impact investing since many other SRI strategies can be used to (or seek to) generate such an impact (examples: Engagement and voting or Sustainability themed), while others would be more neutral (for instance, ESG integration can both proactively seek to generate positive ESG impact or simply be motivated by better risk management considerations).

It appears, however, that two features mentioned by several sources in the table represent strong differentiators with respect to all other SRI strategies: (a) the explicit expectation of measurable social impacts and (b) the active measurement of these. Impact investors seek to generate measurable benefits and actively measure these. This is a core characteristic of Impact investors and is what makes them distinct from other SRI investors, at least at this stage of the SRI market development. This can be explained in part by the way Impact investing is implemented in practice. Typically, Impact Investors invest in a portfolio of social enterprises that are seeking to generate social benefits for a specific local community (whether in an OECD country or a developing one). This proximity with the investee company and the geographical focus of the latter makes the measurement of social impacts in many ways less cumbersome than for an investment in a listed company, sometimes with global presence.

That said, while the Impact investing term has gained wide acceptance in recent years, it should not overshadow the fact that Europe has a longstanding tradition of solidarity and funding of the so-called 'third sector' (or social and solidarity economy). Impact investing, in its modern Anglo-Saxon acception, as used in this study, does not fully account for the diversity of the European 'social economy' landscape. It does not fully include, for instance, the longstanding European tradition of social cooperatives and social banks specialising in the third sector, mutual aid societies, etc., i.e. organisations that are created to meet a general or mutual interest, to contribute to common good or to meet a specific social demand from certain segments of the population. There are numerous examples of such organisations to be found in Europe, such as Umweltbank in Germany, Banca Etica in Italy or Triodos Bank in the Netherlands.

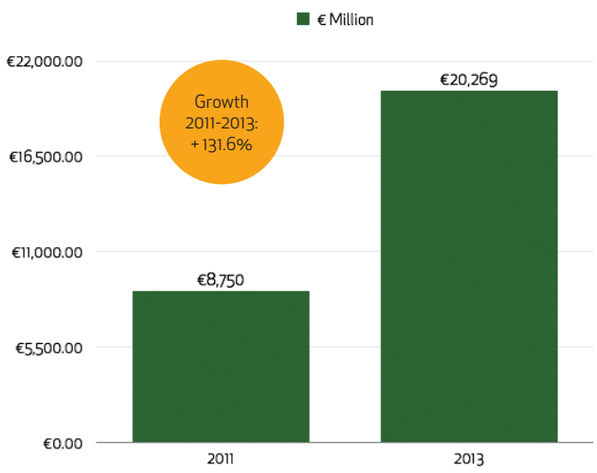
THE EUROPEAN IMPACT INVESTING MARKET AT A GLANCE

Impact investing takes different shapes across European markets. As other SRI strategies, but in different ways, local Impact investing markets are heavily influenced by local history and sensitivities. They are also heavily dependent on how the local social and financial systems are structured which determines the mix of public and private capital. Therefore, the reader is cautioned not to jump too quickly to conclusions based on some of the figures reported, especially on a country-by-country basis. By the nature of the methodology followed, these figures only look at one source of funding to local social enterprises. As mentioned above, a diversity of funding systems exist but are not in scope for this study. The European estimates reported here should however provide a good sense of where the market currently directionally stands in terms of how much professionally managed private money is flowing into the sector.

According to the responses collected by Eurosif for the Study, the European Impact investing market has grown significantly between 2011 – the first time Eurosif started to measure the market – and 2013 to reach about €20 billion. This represents an annual growth of 52.3%. [Note again that these figures measure actual investments made by professional private investors and not commitments of public or philanthropic funding].

This year, in close cooperation with its national member SIFs, Eurosif has increased its coverage of European Impact investment managers, including smaller and more local players. It is likely that the reported figure remains below the real market to some extent, yet the growth remains impressive.

FIGURE 10: Growth of Impact Investing in Europe



Source: Eurosif

When breaking down this European figure by market as shown in Table 10, a few countries appear to be leading the pack. The Netherlands and Switzerland stand out as leading markets, followed by a group of significant countries including the UK, France, Italy, Germany and Sweden. Here again, figures are to be taken with extreme caution and analysed

in the context of the specific methodology used by Eurosif:

- The UK figure is likely to be underestimated. In addition, this figure also reflects the fact that the Eurosif survey does not account for philanthropic and public money, key sources of funding to the UK social enterprise market. Yet, the £1.2 billion (€1.4 billion) assets in Impact investing reported exceed the prediction of a landmark report published late 2012, estimating that the UK social investment market would reach £1 billion by 2016.[23] This is also consistent with the £500 Mio institutional market size, reported by the City of London in a recent report commissioned by the Social Investment Research Council and Big Society Capital;[24]
- Nordic markets are under-represented as no data was available for Finland, Denmark and Norway. Nevertheless, there is evidence of institutional money invested into microfinance in some of these markets. For instance, Storebrand (Norway) or KLP (Norway) are known to have Impact investments that are not captured by the survey;
- In the same fashion, Belgium and Luxembourg are missing from the sample. These markets are important contributors and vectors of growth for Impact investing due to the importance of their local private banking sector. Luxembourg is also a key country for the domiciliation for Microfinance Investment Vehicles. Some of these local assets are however captured by surveying product sponsors domiciled in other markets. For example, when Banque Degroof distributes a microfinance fund managed out of Switzerland to its Belgian clients, these assets are captured in Swiss data.

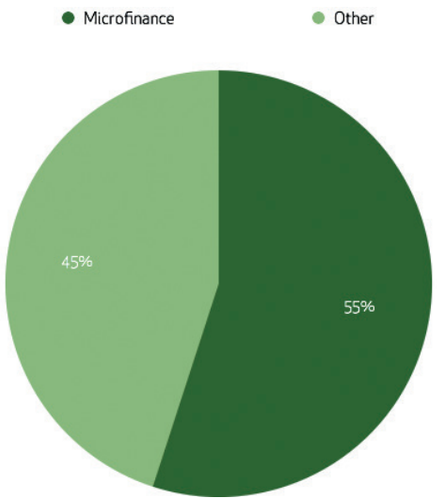
TABLE 10: Overview of Impact Investments by Country

Country (€ Mn)	2013
Austria	€ 217
France	€ 1,020
Germany	€ 1,366
Italy	€ 2,003
Netherlands	€ 8,821
Spain	€ 87
Sweden	€ 1,058
Switzerland	€ 4,231
United Kingdom	€ 1,400
Other EU	€ 65
Europe	€ 20,269

Source : Eurosif

A closer look at the type of Impact investments made by European asset owners and asset managers at the end of 2013 reveals that about 55% of these seem to be made into microfinance. The other category includes community investing, social business investment, as well as thematic investments, especially with environmental or renewable energy themes, and development finance (Figure 11).

FIGURE 11: European Impact Investing by Type



Source: Eurosif

ASSET OWNERS AND IMPACT INVESTING

It will not come as a surprise that High Net Worth Individuals (HNWI), via their advisors (private banks and family offices), represent a strong source of finance for the sector as evidenced by recent research conducted by Eurosif ("HNWI and Sustainable Investments, 2012"). These investors have no particular formal or regulatory investment constraints to deal with (other than trans-generational wealth preservation), as opposed to most institutional investors and are therefore more open in general to long-term investment with different risk profiles. Several European private banks have understood this and have entered the market by distributing or even structuring themselves Impact investment solutions for their clients. French BNP Wealth Management (since 2004), German Private Bank Berenberg and Belgian Banque Degroof (since 2006) are examples of mainstream banks that have entered this market very early.

Foundations (and charitable organisations), which remain first and foremost providers of "concessionary" money (grants), represent another potential important source of "non-concessionary" funding (expectation of a dual

financial and social return). To Eurosif's knowledge, data is not available on how much money is invested by European foundations into Impact investments. While it is fair to assume that foundations play a big role given their focus and based on U.S. experience and anecdotal evidence, it is important to remember that the legislative framework for foundations differs from one country to another. This can play a big role in directing their investment policy and may enable or slow their engagement in the market. In Germany, for example, legislation governing foundations gives priority to capital preservation. This requirement limits opportunities to invest in social / Impact investments that do not provide for market-rate financial returns. This could explain why German foundations, with total assets estimated at €100 billion, have a potential that seems to be untapped as a major source of funding for German social entrepreneurs.[25] Nevertheless, there are German foundations with Impact investment exposure. For instance, BMW Stiftung, Herbert Quandt and the Eberhard von Kuenheim Stiftung are invested in a tuition-financing fund by Brain Capital[26]. When it comes to institutional investors, the picture is more complex. While acknowledging a relatively low penetration rate of Impact investing in institutional portfolios at this stage in general, Eurosif's research brings evidence of rapidly mounting interest. This interest remains, however, concentrated, especially at the larger end of the defined-benefit pension fund market. Yet, data collected for this study presents anecdotal evidence that other institutional players start to tiptoe into the sector.

In December 2013, Bank Berenberg, one of Germany's oldest private banks and LGT Venture Philanthropy, announced the first close of their social impact fund, Impact Ventures UK (IVUK), after raising £20.8 million from investors. IVUK will invest in enterprises that create strong positive social impact for disadvantaged people and communities in the UK as well as generating a financial return.
Investors include the London Borough of Waltham Forest Pension Fund, Deutsche Bank via the DB Impact Investment Fund, Stichting Anton Jurgens Fonds and £10 million from Big Society Capital. (Source: www.berenberg.com).

Insurers have had historically little involvement in social investment as underlined by a recent World Economic Forum report from 2013.[27] However, a few recent moves indicate that this may change as illustrated in Table 11.

TABLE 11: Examples of Impact Investment Initiatives by European Insurers

Institution	Year	Investment
Axa Group	2013	• Launched the Group's «Impact Investment» initiative, aiming to allocate capital to social investment; • Themes include: climate change, health & longevity, socio-economic risks; • Initial €150 million commitment; • Exploring a fund-of-(Impact investing) funds structure, primarily microfinance, private equity and structured bond funds; • About 70% exposure to developing markets; • Targeted annual return: 4% to 8%
Aviva France	2013	• Launch of the "Aviva Impact Investing Fund France", a dedicated fund to finance the growth of French social enterprises; • Partnership with Comptoir de l'Innovation, a French specialist Impact investor, to whom the governance of the fund has been delegated; • Themes include: healthcare, social integration, social housing and education; • Initial €10 million investment; • Targeted annual return (net of fees): 3.5% to 4.5 %.
Legal & General	2013	• Announced the launch of an infrastructure investment programme, focused on "transport and energy projects, house-building, property and education" with additional investments in care homes (£70 million) and hospitals (£89 million); • £15 billion commitment; • L&G already had investments in social housing, green energy and student accommodation.
Zurich Insurance Group[28]	2013	• Worked to develop a strategy for Responsible Investment; • Will invest in assets that generate a targeted and measurable positive impact, but also offer a financial return commensurate with risk, with the goals of supporting sustainable economic development and making communities more resilient; • Focuses on opportunities where the return fully compensates for the risk • Is developing a strategy for Impact investing within each of the major asset classes in which Zurich invests already; • As of January 2014, Zurich had invested more than $200 million in various green bonds.

Source: Eurosif, based on companies' websites / press releases.

A key challenge for Impact investing penetration of the institutional segment is that it is largely composed of so-called liability-constrained investors such as defined-benefit pension funds and insurers. These need to maintain sufficient assets to meet all liabilities, both current and future. This fiduciary responsibility will influence them when trading-off between financial return and social purpose. It is likely to penalize Impact investments that target below-market risk adjusted financial returns. Insurers, for instance, will favour low-risk fixed income-like products. However, for certain forms of Impact investments where there is no expected trade-off or where their "risk budget" allows them, some of these investors are starting to allocate capital to Impact investments.

Another key challenge for Impact investing in the institutional space is the relative lack of products 'at scale', and the absence of track records similarly to what they require from mainstream products. Institutional investors can invest large, multi-million tickets. They need access to products offering a sufficient pool of opportunities. They are therefore reluctant to invest due diligence efforts for smaller funds. They also tend to prefer investments in products where risks are shared with other investors in a balanced way and where they remain with minority stakes. This explains, for example, why some larger investors sometimes prefer to structure the opportunities themselves rather than engaging with social investment product providers. Another way to build scale for them would be to consider fund-of- (impact) funds structures (FoF). An example of this is the recent announcement by AXA IM that they will be launching such a FoF (See Table 11). In 2009, in response to demand from charity clients, CCLA launched the COIF Charities Ethical Investment Fund. This global and UK equities fund applies a range of ESG screening criteria but also has a specific allocation for "high impact investments" in sectors such as microfinance, immunisation bonds and timber that make up approximately 1% of the portfolio. An example of "high impact investments" is Triodos Microfinance, a Fund providing loans and equity to microfinance institutions and banks in Asia. Such a structure mixing traditional SRI investments with Impact investments also exists in France with the so-called 'solidarity funds' or '90/10 funds' (90% in conventional investments and 10% in social investments) and offers interesting exposure to Impact investments while managing scale.

Asset managers designing Impact investment solutions for their institutional clients will need to keep such considerations in mind.

Yet Impact investing has started appealing to institutional investors like pension funds. A survey conducted with 47 UK-based pension funds in October 2012 showed that 20% of respondents thought that it was the role of pension funds to invest in Impact investment and that of these, 70% (7 pension funds) have already made what they consider to be an Impact investment, this proportion being set to increase.[29] In the Netherlands, Dutch Pension Fund PGGM is known to have made significant Impact investments. Other examples of pension funds with exposure to Impact investing include KLP (Norway), PKA (Denmark) or more recently a group of five UK local authorities pension funds that have conducted due diligence in 2013 as part of the "Investing for Growth" initiative (I4G) in order to deploy capital to Impact investments, as recommended by a 2012 report commissioned by the Local Authority Pension Fund Forum (LAPFF). As of June 2014, £152 million have been committed by I4G to five Impact Investment Funds.

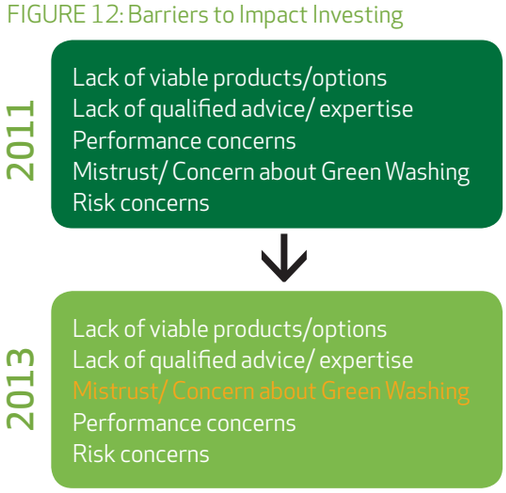
THE FUTURE OF IMPACT INVESTING IN EUROPE

Our survey reveals that perceived challenges by European Investors when considering social investments are broadly similar to those in 2011. The lack of viable products and options remains a top concern. As mentioned previously in this section, institutional investors in particular (a key focus of this study) are seeking products exhibiting:

- Scale and scalability to match institutional minimum investment sizes, e.g. €5 million;[30]
- Track record (notably in terms of financial performance);
- Investment characteristics matching their asset allocation constraints (liquidity, volatility, investment style, etc.).

A second challenge is the relative lack of knowledge and expertise of institutional investors as illustrated by the survey results. While awareness of Impact investing seems to grow, professional investors need more support to understand how Impact investing works and how investment risks can be managed. They also need more clarity about how social impacts can be measured in a comparable way, a key requirement for investors during their due diligence process.

FIGURE 1.2: Barriers to Impact Investing



Source: Eurosif

Other impediments to the growth of the European Impact investing market have been well documented. These could be addressed by policy-makers to secure further engagement by professional investors in the sector and include, in particular:

- The need to further develop market infrastructure and mechanisms. Transaction costs and information asymmetry are still very high in the market. Strengthening the Impact investing intermediary and brokerage ecosystem is essential. Capacity should be built around existing and new specialised intermediary structures and platforms. The emergence of Social Stock Exchanges also offer great potential (see Case Study 2: Social Stock Exchange);
- The need to refine and develop widely accepted and comparable social impact performance standards. As highlighted above, impact measurement is a key feature of Impact investing and something that investors require. By nature, social and socio-economic benefits are difficult to measure. Today, many Impact investment fund managers have developed proprietary tools to fill the gaps. This makes comparisons cumbersome for investors. Some initiatives like IRIS or GIIRS could go a long way addressing this issue (see Focus 3: Social Impact Measurement and Reporting Initiatives Highlights);
- Fostering financial innovation and a broader range of financial instruments. This would allow social enterprises to attract capital at the various stages of their development and help investors cover the full risk/return spectrum. This is a top issue as evidenced by our own survey as well as a recent JP Morgan survey. In that regard, funds, funds-of-(impact) fund structures and "Pay for Success" instruments such as Social Impact Bonds (SIBs) are promising new developments.

Case Study 2: The Social Stock Exchange (SSX)

The SSX launched at the G8 Social Investment Summit in June 2013, is designed to be the leading global venue for finding publicly tradable securities in social-impact businesses. The SSX allows Impact investors to find companies whose values they share and into whom they might want to invest. The SSX is not currently a trading platform; companies and securities admitted to the Social Stock Exchange must already be listed on a recognized stock exchange. However, the SSX is designed to improve access to capital – specifically 'impact' capital from engaged investors – for organisations that are for-profit social impact businesses, most likely from sectors that create high intrinsic social value such as health; social and affordable housing; education; leisure; sustainable transport; clean-technology and renewable energy; waste, water and recycling; green and ethical consumerism; and bonds that are issued by charities or other social enterprises and non-profits.

The SSX is based in the UK but is designed to include companies and organisations from around the world, providing the oxygen of capital to alleviate social and environmental problems at home, within the EU and wider western world, and in developing nations. Its founding investors include Big Society Capital, Joseph Rowntree Charitable Trust and Panahpur, and it enjoys the support of the London Stock Exchange and the City of London Corporation. The SSX currently has 12 organisations on the platform ranging from PLC's that provide water purification in the developed and developing nations through to charities issuing publicly traded fixed-income products.

The SSX seeks to connect socially focused businesses with investors looking to generate social or environmental positive change as well as financial return from their investment. This is done by providing investors with information to identify and compare organisations that deliver value to society and the environment, specifically through the mandatory publication of a standardised impact report. The SSX has a transparent, independent and rigorous admission process to ensure that the companies listed adhere to a clear set of values, standards and disclosures that seek to provide impact evidence. It serves the social investment ecosystem by providing a mechanism for Impact investors who want to develop or deploy a public equities or public debt investment strategy.

Focus 3: Social Impact Measurement and Reporting Initiatives Highlights

Impact Reporting and Investment Standards (IRIS)[31] is an initiative of the Global Impact Investing Network (GIIN). It is a catalogue of standardised metrics that can be used to measure and describe the social, environmental, and financial performance of social organisations and businesses. It is designed to help Impact investors evaluate deals. IRIS metrics have been available since 2009 and are free. It is widely used by Impact investors in the U.S. and also in the UK, Germany and the Netherlands.

Global Impact Investing Ratings System (GIIRS)
GIIRS is a system for assessing the social and environmental impact of social companies and social funds using a rating and analytical approach analogous to Morningstar investment rankings and Capital IQ financial analytics. GIIRS ratings are analogous to Morningstar investment rankings or S&P credit risk ratings but don't take into account financial performance. GIIRS is also popular in the U.S. and the Netherlands.

A new standard to allow social enterprises to better measure their social impact was published by the **European Commission** in June 2014. The standard will help European social enterprises to benefit from funding via the European Social Entrepreneurship Funds (EuSEFs) and its Programme for Employment and Social Innovation ("EaSI"). The standard is developed in a report endorsed by an expert group on social entrepreneurship (GECES) set up by the Commission.

Other notable initiatives exist such as the recent **Outcomes Matrix** developed by the Big Society Capital in the UK in partnership with Investing for Good, New Philanthropy Capital and the SROI Network.

ZOOM ON THE RISE OF SOCIAL IMPACT BONDS (SIBS)

Social Impact Bonds (SIBs) were pioneered in the United Kingdom in 2010.[32] SIBs are not to be confused with traditional bonds. They are a pay-for-success contract between a private investor, an originator, typically a public entity, and "delivery organisation" (a social enterprise, for instance). The investor commits capital to the social enterprise that is responsible for addressing a social challenge (e.g. recidivism, homelessness, etc.). The investor is paid a financial return based on the outcomes actually achieved as a result of a successful intervention (e.g. fewer people in prison which means less costs for public authorities). SIBs are interesting forms of public-private partnerships and an innovative way to translate socially desirable outcomes into measurable economic returns. This explains why SIBs have gained significant momentum in recent years and captured the attention of some investors. As of December 2013, there were 16 operational SIBs in the UK, and more planned. SIBs have also been launched in Germany (Benckiser Foundation, its subsidiary Juvat gGmbH and municipalities and the federal state of Bavaria), in Belgium (by Kois Invest in cooperation with Duo For a Job and Brussels Employment Agency Actiris) and in the Netherlands (ABN Amro, Start Foundation and City of Rotterdam) where interest is mounting.[33]

Case study 3: Threadneedle Social Impact Bond Fund

To date Impact investment has been associated with illiquid, higher risk private investment (often equity-based) into ventures that have a very direct outcome. The challenge for asset managers has been to develop a credible, mainstream (daily priced) investment product, which can appeal to a broad investor base. The Threadneedle UK Social Bond Fund, the first of its kind, was launched in December 2013 to meet these challenges.

The Fund is a partnership between Threadneedle, the UK asset manager, and Big Issue Invest, a leader and innovator in backing social businesses in the UK. The Fund offers a diversified social bond portfolio that targets positive social benefits and outcomes, as well as market-like risk-adjusted returns in line with traditional UK corporate bond portfolios. Big Issue Invest, working with Threadneedle's Governance & Responsible Investment team, has developed a unique Social Assessment Methodology that positively screens all investable bonds with a focus on the degree to which they deliver positive outcomes across eight fields of social development, including: healthcare, community services, transport and communication, utilities and the environment, education, employment and training, financial inclusion and social housing. This provides the framework under which the social attributes and intensity of an investment are assessed for consideration alongside its yield and liquidity characteristics, in building a balanced, diversified portfolio.

In addition, the partnership allows continuous monitoring of social performance via the Social Advisory Committee, comprised of three Big Issue Invest representatives, an independent Chair and two Threadneedle representatives. Importantly, this Committee will produce an annual report on the social outcomes of the Fund.

The Fund launched with £10 million of seed investment from Big Society Capital, the world's first social investment bank, and £5 million from Threadneedle. It is the first fund of its kind with daily liquidity, presence on distribution platforms, retail pricing and convenient access to the social investment space to a broad range of investors.

CONCLUSION

The past two years have been marked by impressive growth of Impact investing assets. This growth has been supported by the arrival of new institutional investors in the market. This might indicate, on the one hand, that the awareness of Impact investing as a specific SRI strategy has made significant progress, and that on the other hand, some of the barriers to entry, such as the lack of investment opportunities, instruments or risk perceptions, have started to ease.

Yet, this impressive growth should not mask that Impact investing remains a peripheral strategy within SRI that has not yet realized its full potential. For instance, if just 0.012% of UK pension fund assets were allocated to social investment, the size of this would double the UK Impact investing market.[34]

To secure further growth, policy-makers, both at EU level and nationally, as well as players alongside the investment chain (asset managers, intermediaries, distributors), need to continue to build a more conducive environment. Efforts around transparency and the refinement of impact measurement standards as well as financial innovation will be important success factors in that regard.

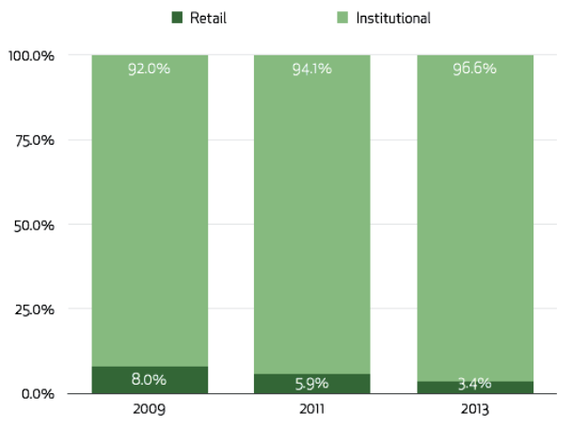
It is too early to predict which market share of the European professionally-managed assets market Impact investing will be able to capture given the many challenges, but it seems clear that Impact investing is here to stay and will continue to grow to significant levels, both in Europe and globally.

Key Features of the European Market[35]

CHARACTERISTICS OF INVESTORS

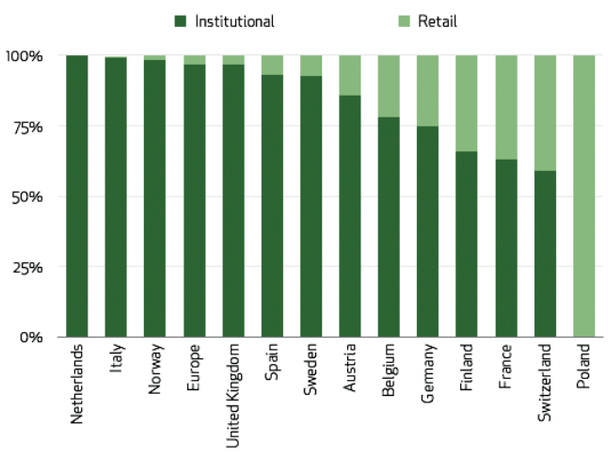
The impressive growth of SRI in Europe can, just as in previous years' reports, be attributed to institutional investors. The overall split between retail assets and institutional assets has tilted further in favour of the latter, and now stands at 96.6% institutional. Part of this growth can be attributed to the addition of Finland, Norway and Sweden to this data for 2013, but even correcting for this shows minimal growth for retail assets on aggregate. Figure 13 provides the evolution of the European market breakdown of retail vs. institutional since 2009, while Figure 14 illustrates the differences across the European countries.

FIGURE 13: Institutional vs. Retail Europe 2009 – 2013 (%)



Source : Eurosif

FIGURE 14: Institutional vs. Retail Split by Country (2013)



Source: Eurosif

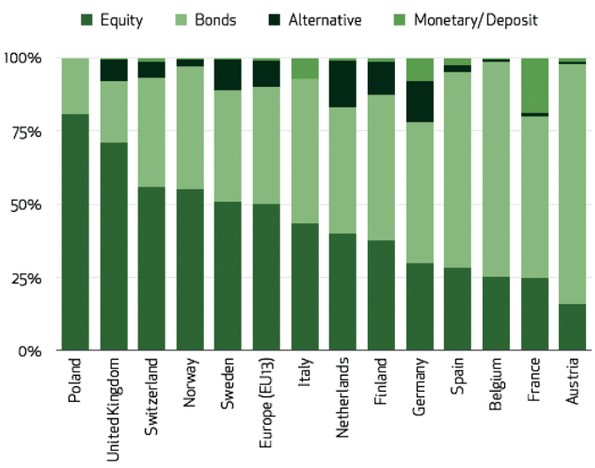
ASSET ALLOCATION

Figure 15 details SRI asset allocations by country and provides an asset-weighted European average. At European level, equities represented about 50% of the SRI assets in December 2013. This compares with 33% for both 2011 and 2009, thus representing a significant increase. By contrast, the allocation to bonds fell from 53% and 51% in 2009 and 2011 respectively to 40.0% in 2013. The allocation to money markets also fell sharply from 6.9% in 2011 to 1% last year.

This year, for the first time, Eurosif broke down the allocation to bonds. In 2013, 21.3% of SRI bond assets were invested in corporate bonds, 16.6% in sovereign bonds and 1.4% in supra-national bonds (Figure 16).

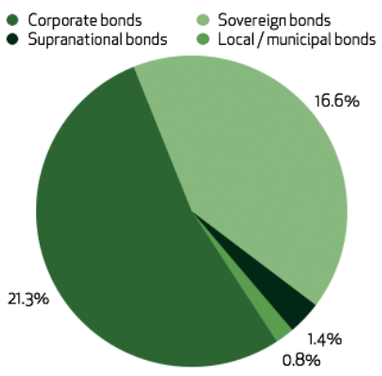
Allocation to so-called alternative assets remained relatively flat between 2009 (9.3%) and 2013 (9.1%), but fell compared to 2009 (12%). However, real estate and commodities recorded significant growth between 2011 and 2013, while the allocation to hedge funds decreased.

FIGURE 15: SRI Asset Allocation by Country (2013)



Source: Eurosif

FIGURE 16: Breakdown of European SRI Bond Assets (2013)



Source: Eurosif

Focus 4: The Rise of Green Bonds

2013 has been a landmark year for green (and climate) bonds, and marked a likely turning point for this new market.

Green bonds refer to bonds whose use of proceeds is earmarked to finance a specific project generating a direct environmental or climate benefit. Typical projects' use includes, for instance, renewable energy, energy efficiency, waste management, clean transportation, etc. The green nature of the bond is therefore directly connected to the objective of the project its proceeds will be financing, rather than the overall ESG score of its issuer.

Labelling bonds 'green' or 'climate' help investors identify investments that address climate or environmental issues. Since the repayment comes from the general funds, the bond benefit from the same credit rating as other bonds of similar composition from the same issuer. This makes it attractive to investors seeking an environmental impact like SRI investors. Nevertheless, if SRI investors still represent the lion's share of green bond buyers with 60-80% of the demand, mainstream investors are also becoming interested in these instruments.[36]

The first so-called 'green' bond was issued in 2007 by the European Investment Bank (EIB), a "Climate Awareness Bond", whose proceeds were specifically linked to renewable energy and energy efficiency. Since then, other supra-national organisations and development banks (World Bank, EIB, IFC, for instance) as well as local authorities[37] have also issued green bonds. The year 2013 was a turning point for the market with 20 green bonds being issued, a record figure. By the end of 2013, the global market stood at about $14 billion outstanding and the average size of bond issuance had risen with most bonds larger than $200 million in size. Analysts believe that the market could reach $40 billion by the end of 2014.[38]

The emergence of corporate (self-labelled) green bonds partly explained the 2013 record. Corporate green bonds are a new phenomenon and will certainly be catalyst for market growth. To date, it is estimated that about $12 billion of such bonds have been issued. Late 2013, Electricité de France (EDF), Swedish property company Vasakronan and BoA Merill Lynch have issued the first corporate green bonds. More recently, French GDF Suez issued two green bonds for a record $3.4 billion.

The success of green bonds and the emergence of corporate green bonds are, however, fuelling a debate around the necessity to make these instruments more transparent and ensure that they meet minimum standards in terms of environmental impact. So far, green bonds are 'self-labelled' in the absence of a market standard. Some issuers would aim to demonstrate their 'green' commitment by seeking an overall ESG rating from an independent third party, alongside their financial rating; while providing transparency around the project to be financed by the issue. Some others, as illustrated by EDF, may go further by requesting not only a corporate ESG rating, but also independent verification of the use of funds. These practices are likely to evolve as new initiatives and are emerging to certify the 'green' nature of the projects. These include CICERO (the Center of International Climate and Environmental Research in Oslo), and the Climate Bond Standard launched by the Climate Bond Initiative. In January 2014, a coalition of major global banks launched the Green Bond Principles, a call for issuers to be transparent about what is included as 'green'.

Given that bonds are the largest single pool of capital with about $80 trillion, the mobilisation of the bond market is key to meeting climate change related targets. Last year seems to have been a turning point for the market and could set the stage for further rapid growth of the market.

INVESTMENT VEHICLES

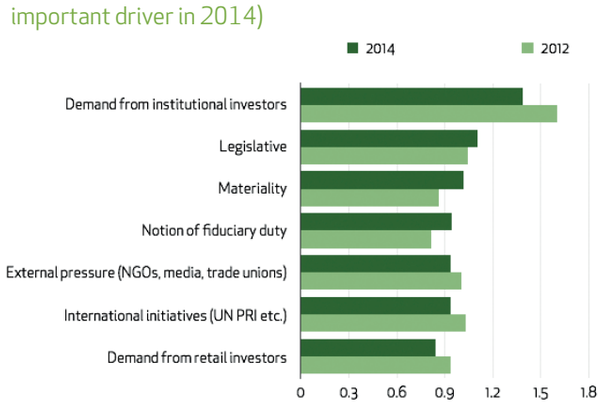
Discretionary mandates remain the dominant form of investment vehicles used, which does not come as a surprise given the importance of institutional market. Mandates represented 83.4% of assets against 16.6% for pooled funds in 2013. This compares to 2009 levels, while 2011 saw about 26% of SRI assets in funds.

GEOGRAPHICAL FOCUS

The prevalence of assets invested into domestic and European markets is confirmed with 17% and 38% of SRI assets allocated to these geographies, respectively. However, this total of 55% is to be compared with 75% in 2011 and 85% in 2009. This decrease in "local" investments has benefited to North America (27% of SRI assets in 2013 vs. 6% in 2009), Asia-Pacific (7% in 2013 vs. 1% in 2009) and Japan (5% vs. 2%). Other markets, including emerging markets, seem to have remained stable with 5% in 2013 compared to 6% in 2009. This area will deserve more analysis in the next study.

MARKET DRIVERS AND FUTURE TRENDS

FIGURE 17: Drivers of SRI Demand (score relative to least important driver in 2014)



Source: Eurosif

Respondents to the Eurosif survey were asked to rank a number of potential drivers for future growth of the market in the next three years. Figure 17 shows the results of this survey and the importance of SRI drivers for 2014 using a relative scoring method (demand from retail investors is the smallest driver and is set to zero). Responses for 2012 are shown using the same methodology.

Demand from institutional investors remains the most important in 2014, but has fallen compared to 2012. Materiality has the biggest increase from 2012 to 2014. Fiduciary duty was the smallest in 2012, but is now the fourth largest. An interpretation of these results could be that European asset managers and owners increasingly recognise the materiality of Environmental, Social and Governance factors on the one end, while also acknowledging that it is an increasingly integral part of their fiduciary duty to consider these. This would promote further adoption of SRI practices, in particular around ESG integration and Engagement / voting.

An area of on-going concern for the industry remains to be the lack of clarity about the future of the European retail demand for SRI as shown by the low score of "retail demand" in this survey. Yet, latent demand for SRI products is there as highlighted by financial "users" surveys conducted in several EU markets. Several private bankers have already understood this and deployed SRI strategies for their clients; other experiments, such as the mandatory inclusion of SRI options in French employee savings schemes, also reveal that such retail demand can be fostered. However, this demand is not resulting in massive growth in retail inflows.

Summary and Conclusions

The European SRI Study 2014 confirms some industry trends already detected in the previous recent editions.

All surveyed Sustainable and Responsible Investment strategies are continuing to grow. As shown in Table 12, growth rates range from 22.6% (Sustainability themed) to 91% (Exclusions), outpacing the yet impressive 22% growth rate of the industry over the period. Impact investing is the fastest growing strategy, registering 132% over the period.

TABLE 12: Market Growth by Strategy

In € million (EU 13)	2011	2013	CAGR 2011 - 2013	Growth 2011-13
Sustainability Themed	€ 48,046	€ 58,961	10,8%	22,6%
Best-in-Class	€ 283,081	€ 353,555	11,8%	24,9%
Norms-based Screening	€ 2,132,394	€ 3,633,794	30,5%	70,4%
Exclusions	€ 3,584,498	€ 6,853,954	38,3%	91,2%
ESG Integration (incl. research available)	€ 3,164,066	€ 5,232,120	28,6%	65,4%
Engagement and Voting	€ 1,762,687	€ 3,275,930	36,3%	85,8%
Impact Investing	€ 8,750	€ 20,269	52,2%	131,6%
EU Industry (EFAMA est.)	€ 13,800,000	€ 16,800,000		21,7%

Source: Eurosif Note: EFAMA estimates of European professionally managed assets (AuM) cover 27 markets.

The Study also confirms that Exclusions remains the dominant strategy and has exhibited the strongest growth rate across conventional SRI strategies. Exclusions (beyond those required by law) represent about 41% (€7 trillion) of European total professionally-managed assets today. If one only considers voluntary exclusions related to investments into Cluster Munition and Anti-Personnel Landmines (CM & APL), this percentage is about 30% (€5 trillion). Yet, other types of Exclusions are almost as significant, covering about 23% (€4 trillion) of the overall European investment market.

The strong continuous growth of Exclusions should not overshadow the growth of Norms-based screening (+70%), largely due to the French, Dutch and Swedish markets, and the significant growth of Engagement and voting (+86%) over the period.

The Study also shows significant progress of ESG integration: all forms of integration practices have grown by 65% between 2011 and 2013, making this strategy one of the fastest growing ones. Systematic and non-systematic integration practices now cover an estimated 31% of the overall European investment market.

A key finding of the Study is that the European Impact investing market, excluding public and philanthropic grants and commitments, has grown to an estimated €20 billion market, with a 132% growth rate between 2011 and 2013. While this figure is certainly underestimated, it still is the fastest growing SRI strategy in Europe, now representing about one third Sustainability themed investments. The Netherlands and Switzerland are key players in this segment.

In terms of asset allocation, equities represented about half of the European SRI assets at the end of 2013, from 33% in late 2011. By contrast, the allocation to bonds fell sharply, from 51% in 2011 to 40% last year. Allocation to real estate and commodities recorded significant growth.

The most prevalent perceived market driver for the near future remains institutional demand. Institutional investors continue to drive the market with an even higher market share than in 2011. However, the Study mentions several legislative developments in specific jurisdictions or at European level that will also underpin future growth. Self-regulation and transparency will certainly also have a role to play to enable growth and preserve the credibility of the industry (See Focus 5).

Focus 5: Fostering Greater Transparency of the European SRI industry

The European SRI Transparency Code

The European SRI Transparency Guidelines were created in November 2004 by Eurosif and its national member SIFs to increase the accountability and transparency of SRI products to users. They were re-launched in 2008 (as the Transparency Code), together with the launch of a Transparency Logo in 2008.

By the end of 2013, there were over 500 signatory funds to the Transparency Code, representing over 70 firms and a significant market share of the SRI market. The Code also creates greater transparency and comparability to users across products marketed as SRI products to understand the SRI policies and practices related to the fund.

Over the past years, the Code has become a widely used tool. It has been made mandatory for French SRI funds by the French Asset Management Association, as well as in Belgium by Febelfin, and is used or referenced by several labelling organisations such as French Novethic and Austrian Umweltzeichnen. Transparency being the base requirement to any SRI product, it is anticipated that the recognition of the Code will continue to grow.

The Transparency Logo can only be used by signatories to the Transparency Code and in product specific marketing collateral. The Logo signatories agree to be open and honest, and to disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the SRI policies and practices of their funds.

The Code is maintained by Eurosif, with the support of the national SIFs, who lead the promotion and implementation of the Code in their local market. The Code was last updated in February 2013 (version 3.0) in consultation with the national SIFs and other stakeholders. All exiting codes can be accessed via the Eurosif website (www.eurosif.org).

Arista

Seated in Belgium, the international trade association Arise (Association for Responsible Investment Services) has launched the international quality standard ARISTA 3.0®, a voluntary quality standard for ESG rating firms.

ARISTA 3.0® has been developed in response to the demands from global investors and companies for Responsible Investment Research (RIR) Groups to incorporate the key principles of quality, integrity, transparency and accountability into their research processes.

The objective of the standard is twofold: to promote confidence in Responsible Investment, and second to address criticisms around the lack of transparency around the methodologies and criteria of ESG rating firms. The ultimate goal is to develop a sound product quality assurance for consumers and professionals.

Compared to its predecessor, CSRR-QS 2.1®, ARISTA 3.0® has a broader scope of certification and covers a much wider range of RI services and products. The standard uses a fully transparent methodology. See http://www.aristastandard.org/content/home.html

Austria

Highlights

- Each strategy grew at double-digit CAGR rate over 2011-2013;
- ESG integration assets were multiplied by nine since 2011;
- Agricultural commodities has become an important asset overlay Exclusion criterion;
- 77% of SRI institutional money is with public and corporate pension funds.

Country Introduction

The Austrian banking and asset management industry is strongly diversified and well established, with public and cooperative banks playing a particularly important role. In this context, especially the "Sparkassen", which operates under the principle of public's common interest, should be mentioned, as well as the "Volksbanken" and the "Raiffeisenbanken" as important cooperative banks. These organisations, and more specifically their respective asset management companies, are of great importance for the Austrian SRI market. This is also true for private banks, among them an old church bank with a long tradition. Moreover, they contribute crucially to the further development of SRI in Austria.

With a society that attaches particularly high importance to ethical values and is remarkably open towards sustainability issues and ideas, Austria has a strong basis for further quantitative and qualitative growth in SRI. In addition to the bank and asset management side, a broad institutional structure with specialised media agencies, NGOs and consulting agencies, among others, is an additional supporting factor.

Legal/Regulatory Framework

Austria has not seen any remarkable legal changes concerning SRI or CSR in the past two years. Specific disclosure requirements for pension funds were introduced in 2005. Since then, pension funds are obliged to report on ESG issues provided they do implement an ESG approach. To support an overall sustainable development, the Austrian government adopted a national sustainability strategy in 2002. Every second year, a report assesses the progress achieved across different categories such as quality of life, wealth and the well being of Austrian citizens, on the basis of indicators especially developed for this purpose. In addition, the Austrian government, along with other institutions, encourages companies to publish sustainability reports by means of the "Austrian Sustainability Reporting Award – ASRA" that is awarded annually in different categories.

With regard to severance pay funds as well as corporate pension funds, sustainability certification was introduced in 2004 and is awarded by the Austrian Society for Environment and Technology (ÖGUT). At present, eight institutions hold this certificate (see Focus: ÖGUT certification). Another Austrian particularity is the "Umweltzeichen", which is a state-run quality label for thematic funds, SRI funds as well as certificates that celebrates its tenth anniversary this year. More than 50 financial products from ten different financial providers – not only domiciled in Austria but also in Germany, Luxemburg and Switzerland – hold this label.[39] That is quite an increase compared to 2012, when the label was awarded to only 26 financial products.

SRI Market Size and Characteristics

In 2013, the Austrian SRI market continued its vivid growth that could already be observed in previous years. While most SRI strategies recorded a double-digit increase of CAGR between 19% and 32%, Exclusions (including asset overlays) grew by a CAGR of about 80% and Integration by a CAGR of more than 200%. This means that every single strategy gained in importance.

Looking at a longer period, the dominant impression is that the Austrian SRI marked shows a strong development. With the exception of a slight decrease in 2007, the Austrian market grew year by year with substantial rates and multiplied its volume by more than five times since 2005.

Traditionally, exclusion criteria are of great importance in Austria. Almost all SRI funds and mandates apply exclusion criteria and, in addition, Exclusions as asset overlays are gaining significance from year to year. The latter grew by a CAGR of 81% since 2011, whereas Exclusions applied to funds and mandates only increased by a much lower CAGR of 25%. With respect to asset overlay Exclusions, it is remarkable that investment in agricultural commodities was the most important criterion in 2013, whereas cluster munitions and anti-personnel mines rank second place, which is quite uncommon in comparison to countries like Germany or Switzerland where the latter clearly dominates. Concerning exclusion criteria that are applied directly to certain funds and mandates, the production of and trade in weapons as well as nuclear energy are the most important criteria, followed by tobacco, pornography and animal testing.

As in 2011, Norms-based screening is still the second most important SRI approach in Austria. It grew by a CAGR of 19% and amounts to €5.47 billion. Austrian asset managers most commonly use ILO conventions, followed by the UN Global Compact and the OECD guidelines for MNCs.

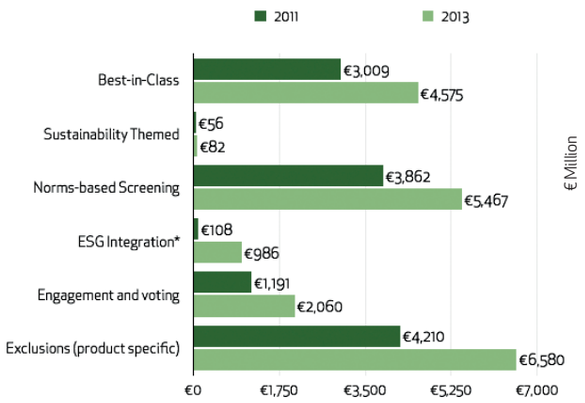
Next to Exclusion criteria and Norms-based screening, the Best-in-Class approach ranks among the three central SRI strategies. It amounts to €4.58 billion and grew by a CAGR of 23% from 2011 to 2013.

With a view to Engagement and voting, Austria is seeing a growing importance of these two strategies with a CAGR of 32% and a volume that amounted to €2.06 billion at the end of 2013, thereby maintaining the upward trend that could be observed in previous years.

The Integration approach showed a particularly remarkable development. From not being used at all in 2009, to a starting volume of €108 million in 2011, it almost reached the €1 billion mark in 2013, which corresponds to nine-fold growth within the last two years and a CAGR of 202%.[40]

Still of less importance are Sustainability themed funds. Although the approach increased with CAGR of 21% between 2011 and 2013, it must be stated, that it still plays a subordinate role with a volume of only €82 million.

FIGURE 1: Austrian Market Breakdown by Strategy



Source: Eurosif *Includes all categories of ESG Integration

Apart from the preference of certain SRI strategies, one important characteristic of the Austrian market is its preference for bonds. Their market share amounted to 82% in 2013 (50% corporate and 32% sovereign bonds), while equity reached only 16%, and others such as monetary or hedge funds were around 2%. This asset allocation remained almost unchanged since 2011, and thereby reflects a remarkable continuity in the development of the Austrian SRI market.

Compared with 2011, institutional investors gained ground in 2013. Their market share increased from 78% to 86%, whereas the relative importance of retail investors declined to a share of 14% – in spite of a growth in absolute terms compared to 2011. With a view to the different types of institutional investors, corporate and public pension funds are traditionally strong in Austria and account for the lion share of almost 80% in 2013. Religious institutions and charities rank on third place with 13%, followed by insurance companies and mutuals (4%) and public authorities and governments (3%). Foundations and endowments, as well as universities & other academic institutions play a negligible role.

Market Predictions

Institutional investors are generally expected to be the most important drivers for the further development of the Austrian SRI market. This should not come as a surprise since the Austrian market is dominated by institutional investors among which corporate and public pension funds play a significant if not to say dominating role. This circumstance is – to a certain extent – supported by disclosure requirements and the sustainability certification for pension funds. In addition to this, civil society is seen as another important market driver, which means that pressure from NGOs, the media and trade unions is considered to influence and further encourage the quantitative and qualitative market growth.

The overall impression is that the Austrian SRI market will continue its dynamic growth and development path it pursued in 2013, as already in previous years. Especially with respect to asset overlay Exclusions, Impact investing, Engagement and voting, further vivid growth is anticipated.

Focus 6: ÖGUT Sustainability Certification for Severance Pay Funds and Corporate Pension Funds

With its sustainability certification for severance pay and corporate pension funds, Austria shows how best practice can work in terms of initiating processes that encourage investors to move towards sustainability and keep on strengthening and intensifying these efforts. Awarded for the first time in 2004, the certification now covers 80% of the local severance pay funds market. It was developed under the direction of the Austrian Society for Environment and Technology (ÖGUT) – a not-for-profit organisation, formed as a scientific platform for environment, economy and administration.

Being an Austrian particularity, these severance pay funds were introduced in 2002 to improve corporate pension planning. Hence, employers and self-employed persons are legally bound to pay 1.53% of their monthly incomes to severance pay funds. All in all, ten such funds with estimated assets of more than €6 billion exist in Austria. Eight of them hold the ÖGUT certification at present, of which four achieve the highest gold standard, three qualify for silver and one, certified for the first time, bronze. In addition, one corporate pension fund received a silver certification.

The ÖGUT sustainability certification is based on a multi-level process that scrutinises the pension or severance pay fund's sustainability methodology, its portfolio and, thirdly, its performance with respect to transparency, communication, engagement and CSR practices. In terms of methodology, a sustainability policy in writing is compulsory as well as sustainability criteria for positive screenings and exclusions; criteria for real estate, hedge funds and other asset classes are looked upon favourably. In addition, the whole investment and research process must be described coherently.

While the methodology is not assessed according to a certain set of sustainability criteria, the portfolio itself is analysed based on obligatory exclusion criteria required for the Austrian SRI label "Umweltzeichen", which include nuclear energy, armaments, violation of human and labour rights, as well as genetic engineering, alcohol, gambling and tobacco. Besides that, positive sustainability criteria are taken into account. To complete the process, every additional measure concerning sustainability, such as corresponding publications, engagement dialogues and internal staff or ecology policies, is assessed.

While the analysis is conducted by specialist auditors, the final valuation rests on a jury of independent experts. The ÖGUT certification is voluntary, conducted annually and does not include any financial criteria. Please find further information at www.gruenesgeld.at

Belgium

Highlights

- The overall asset management market has rebounded;
- All SRI strategies have exhibited growth over the period despite decrease in number of SRI funds;
- Engagement and voting now cover significant assets;
- Political and industry-driven initiatives have the potential to further drive growth.

Country Introduction

After bottoming out in 2011 in terms of assets under management, the Belgian Asset Management is recovering from the crisis. As reported by BEAMA, assets under management in funds totalled €117.53 billion at the end of 2013, compared to €104.39 billion in 2011. Fundamentals (demography, savings rate) are sound and the industry as a whole is well positioned for the future. The rebound of the industry does not seem to have fully benefited the Belgian SRI market yet, even though figures reported below exhibit growth since end of 2011. A potential explanatory element might reside in the collapse of capital-protected products, a traditionally important SRI vehicle.

Nevertheless, Belgium has over twenty years of history in Sustainable and Responsible Investment and the Belgian market has been very active as a result of both NGO activism and the proactive approach of several financial institutions.

Next to Responsible Investment products such as pooled funds, unit-linked insurance and structured products, the Belgian market is characterised by an important presence of sustainable and responsible savings products. These include, for instance, solidarity and sustainable savings accounts. The latter products are, however, not taken into account in the Eurosif Study.

Legal/Regulatory Framework

Belgian public authorities and trade bodies have shown a real interest to stimulate and promote Responsible Investment in Belgium. For instance, Responsible Investment was already mentioned in the 2004-2008 Federal Plan for Sustainable Development. A 2003 Supplementary Pensions Law mandates some form of ESG disclosure for these funds.

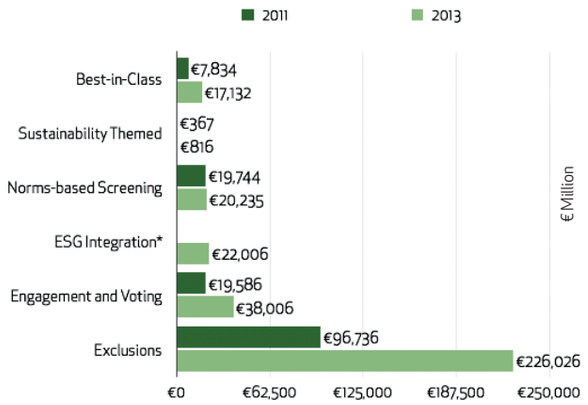
Since November 2012, mutual funds are obliged to clarify to what extent they are taking social, ethical and environmental factors into account in the implementation of their investment policy.

As of early 2013, the Belgian Financial Sector Federation (Febelfin) and Asset Management Association (BEAMA) have harmonised their definition of sustainable financial products, including investments, marketed to retail clients. SRI funds are subject to specific disclosure requirements, including compliance with the European Transparency Code, and must have a policy on controversial activities.

SRI Market Size and Characteristics

The market consists mostly of pooled funds as standalone products or in an insurance wrapper.

FIGURE 1: Belgian Market Breakdown by Strategy



Source: Eurosif *Only explicit and systematic Integration practices

Despite a decrease in the number of funds labelled as SRI / RI funds during the period (from 232 to 153), all Responsible Investment strategies have exhibited growth over the past two years, even if part of this growth can be attributed to an increase in the sample of respondents compared to the 2011 survey.

Exclusions, including exclusion overlays on a range of assets, remain the dominant strategy with €226 billion. Best-in-Class, a traditional strategy in Belgium, has proved to grow significantly over the period while Norms-based strategies, also a focus for Belgian players, have increased more modestly. The long history of the country in Exclusions is confirmed as assets subject to these have boomed.

ESG integration practices following a systematic and explicit approach covered about €22 billion according to Eurosif's estimates. This compares to €14 billion reported in 2011 for all types of Integration, i.e. a CAGR of 26% for the period. However, about €89.7 billion were covered by ESG approaches, making some form of ESG research and analyses (internally produced or bought) available to their mainstream analysts and portfolio managers.

Since the last study, a few large players have deployed Engagement and voting policies covering a significant part of their assets. While the growth can mainly be attributed to the extension of voting policies, Engagement is gaining significant traction too. It is also interesting to note that some engagement policies cover passively managed assets.

Market Predictions

After a challenging post-crisis period for the whole Belgian asset management industry, the outlook for the SRI market in Belgium looks brighter. A number of factors could act as catalysts to the growth of the market:

- The institutional investor market is growing in absolute terms. Although at this stage, only few institutional players have embraced SRI, there is anecdotal evidence that interest for it is growing. A particularly interesting segment to watch in the coming years will be the insurance segment. At this stage, however, it is extremely difficult to collect data on this segment;
- Several political initiatives are currently being debated and have the potential, if implemented, to boost the domestic demand. The first discussion is around mandating public savings pension schemes to adopt Responsible Investment practices. The second is about fiscal incentives to promote so-called solidarity products;
- Given the relative importance of the private banking sector in Belgium, Impact investing should also show signs of growth in the future, as HNWI are an important source of funding for this segment;
- Finally, SRI continues to be supported by the proactive involvement of local initiatives and national legislators. This includes Febelfin, BEAMA and BelSIF.

Finland

Highlights

- Moderate growth over 2011-2013 given an already high penetration rate of SRI;
- Exclusions and Norms-based remain prevalent but Engagement and Integration grew;
- Most large local players are active in at least one strategy;
- The evolution of strategies is exposed to significant swings in a concentrated market when one or a few players change their strategies.

Country Introduction

Finland is a relatively new entrant into the Responsible Investment space compared to other Nordic countries; however, interest has been mounting as evidenced by the rapid growth of UN-backed PRI signatories and members of the Finnish Sustainable Investment Forum, Finsif (launched in 2010). At the end of 2013, Finsif had close to 60 member organisations. This includes all of the largest pension funds and asset managers, but also a wide variety of other institutional players like trade unions, endowments, municipalities, etc. Although precise estimates are difficult to make, it is fair to estimate that more than 80% of the investable assets in Finland have signed the Principles of Responsible Investment and/or are members of Finsif.

Legal/Regulatory Framework

No specific legislation covers SRI practices in Finland. Moreover, pressure from civil society- such as NGOs and media- to incentivise institutional investors to adopt more 'responsible' investment practices is weak. However, large institutions like Finnish Pension Alliance (TELA) have publicly endorsed the PRI.

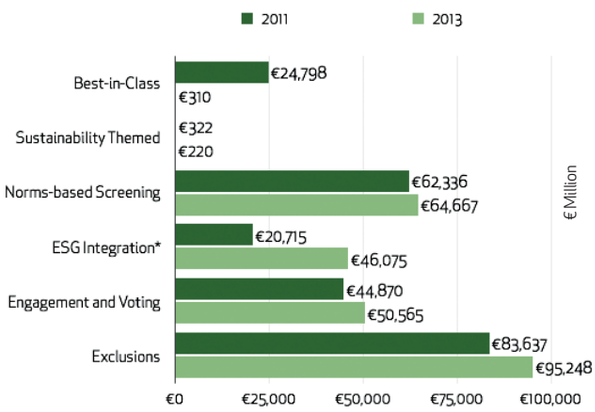
A key driver for growth is, therefore, the appetite of institutional investors and asset managers themselves to adopt SRI practices. As indicated above, asset owners and asset managers have recently exhibited strong interest for SRI, as evidenced by the relatively high number of UN-backed PRI signatories. As of July 2014, there were 10 asset owners, 21 asset managers and one service provider having signed the PRI. This number, which compares to Sweden, is high for the Nordic region.

SRI Market Size and Characteristics

The top three most popular strategies in Finland remain Exclusions, Norms-based screening and Engagement and voting, similar to 2011. All of these strategies exhibit some level of growth since that year. However, ESG integration is recording the fastest growth in Finland, more than doubling in assets under management. The high proportion of Principles for Responsible Investment signatories in relative terms to other markets and the commitment of some significant local or regional asset managers may explain part of this increase.

By contrast, Best-in-Class is dropping significantly. This can be explained by the change in strategy of one significant local asset owner. Sustainability themed strategies are not very common in Finland.

FIGURE 1: Finnish Market Breakdown by Strategy



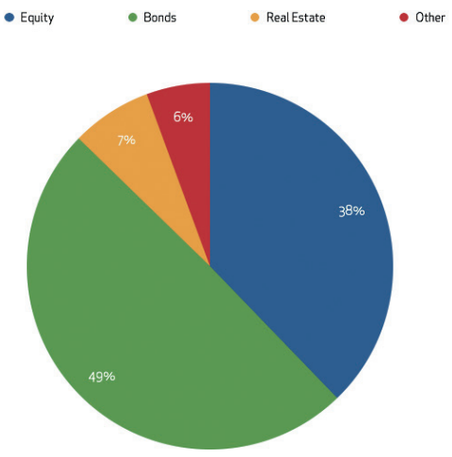
Source: Eurosif *All categories

It is interesting to note that most SRI assets in Finland are managed via pooled funds (72%), while mandates remain less popular but not insignificant (28%).

Fixed income investments still represent a large proportion of SRI assets in Finland, followed by equities. Most of the fixed income SRI assets are in corporate bonds.

Alternative investments, including real estate, hedge funds, commodities and PE/VC, amounted to over 12% of the total SRI allocation, a significant percentage.

FIGURE 2: Finnish SRI Asset Allocation



Source: Eurosif

Market Predictions

Finland equity markets continue to be small and concentrated, both in terms of investors and listed companies. There are only 125 companies listed in the main market, with the largest three companies making up on average 80% of each sector. Five of the largest pension funds together with 5 of the largest asset managers together manage around €175 billion, a dominant market share. Given this nature of the market, it is fair to estimate that Engagement and voting will remain highly valued within domestic investments.

Like other Nordic countries, Finland scores relatively high in number of development indexes, like corruption perception, freedom of the press, equality and diversity. Therefore, it is arguable that sustainable development and corporate responsibility come naturally to Finnish investors from a moral standpoint. This explains the prevalence of Exclusions and Norms-based screening as well as high penetration of Responsible Investment in general in the Finnish investment market.

A key challenge for growth of the local SRI market is the relative lack of products of sufficient size to absorb institutional tickets and the broadening of solutions and services related to Responsible Investment. To further mature, the Finish market will also have to continue exploring other approaches to Responsible Investment, a process that seems to have started as ESG Integration, Engagement and voting continue to grow, even though the market remains dominated by Norms-based screening and Exclusions.

France

Highlights

- Growth of the SRI market is still dynamic, but slower than in previous years;
- ESG integration is becoming more formalised; systematic Integration accounts for 15% of total AuM[41];
- Exclusion overlays are increasingly applied by SRI pioneers to all their assets;
- Norms-based and Engagement continue to grow.

Country Introduction

France has one of the most developed SRI markets in Europe, with around 50 industry players. It is worth noting that one of these investment managers accounts for nearly 40% of the market. SRI market growth during the last two years at 47.2% is still significant, but this growth slowed down in 2013 (compared to the 2009-2011 growth at 127%). Even if the Best-in-Class approach has been the most popular historically, other strategies like Engagement and exclusions overlays are gaining ground. Over the past two years, growth has been driven by new mandates from asset owners as well as by employees' savings plans and life insurance products from retail investors. The market share of retail and institutional investors segments are respectively 37% and 63% in 2013.

Legal/Regulatory Framework

In France, "Say on Pay" constitutes one of the main innovations introduced in the new AFEP-MEDEF Governance Code, published in June 2013. Listed companies are now encouraged to let investors vote on executive remuneration during AGMs. This self-regulation is clearly a step forward, but it is still considered insufficient by many responsible investors, and a few more years may be necessary to measure its impact on company practices. In 2013, a law introduced the status of employee representative at the board in order to foster employees' implication in large companies' strategy.

SRI Market Size and Characteristics

SRI Funds and Mandates

New SRI mandates led to a rise in assets under delegated management, up 66.3% between 2011 and 2013. Private investors also played a strong role, with an increase of €33 billion during the same period. The assets held by individual investors, once again accounted for 30% of the SRI market in 2013, mainly owing to life insurance products. SRI in employees' savings plans has increased by 23% during the period considered.

Best-in-Class and Sustainability Themed Strategies

The French SRI market is traditionally defined by combining the Best-in-Class and Sustainability themed strategies. According to the survey, Best-in-Class and other positive screens remain the first SRI strategy applied, with this strategy showing significant growth from €115 billion in 2011 up to €173.2 billion in 2013.

On the other hand, there is a significant increase for Sustainability themed strategies (the total amount of sustainability themed assets has multiplied by more than seven between 2011 and 2013, reaching €4.39 billion in 2013). This is due to the fact that two asset owners declared many more of these assets due to large net inflows. More specifically, one has a quite ambitious commercial strategy to promote Sustainability themed assets and the other shifted its commercial strategy since the previous study from Best-in-Class to Sustainability themed.

Norms-based Approaches

Several French investors adopted Norm-based exclusions policies, applied to a large share of their assets, accounting for €1,119 billion in 2013. This explains the growth of 64.5% between 2011 and 2013 for the Norms-based screening figures.

Exclusions

Cluster munitions and anti-personnel mines exclusion overlays are mandatory by law in France. Hence, they are not included in the Exclusions figures. Other overlay exclusions (funds and mandates, as well as non-cluster munitions and anti-personnel mine exclusion overlays) are still rare in France, but Exclusions of weapons, tobacco and the extraction or production of asbestos fibre are increasingly applied by a few investors to €473 billion, compared to €16 billion in 2011. This evolution is mainly due to new exclusions applied by the asset owners. The overall figure is large, but the actual impact on portfolios is limited.

ESG Integration

ESG integration in financial management covers a broad range of approaches, including the dissemination of ESG analyses to fund management teams, which concerned €2.3 trillion in 2013. The most formalised ESG integration approaches apply to €440 billion in 2013. This second figure is the one recognized by the French market.

Systematic inclusion in ratings/valuation accounted for €184 billion in 2013. This ESG integration may involve a combination of financial and ESG analysis, either through close collaborative work between two teams or by entrusting the assessment of ESG risks to conventional analysis.

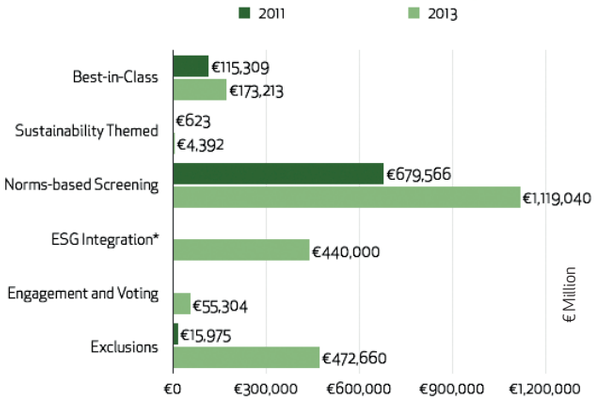
Mandatory investment constraints concerned €257 billion in 2013. In this case, the worst-rated issuers can be identified through the formalised monitoring of portfolios. Case-by-case analysis may lead funds to freeze their investment or disinvest in these issuers.

Ex-post assessment applied to €354 billion in 2013.

Engagement

The 2013 figure of €55.3 billion is Engagement only, as voting policy is mandated by French law.

FIGURE 1: French Market Breakdown by Strategy



Source: Eurosif *Only explicit and systematic Integration practices

Focus 7: SRI and Real Estate in France

For the first time, real estate assets have been added to the survey. While the large majority of respondents include environmental considerations in their investment decisions, only those that also take account of social and governance criteria are included. These assets totalled roughly €27 billion in 2013, or a quarter of total real estate assets under management (listed and not listed companies) in France. The most widespread approach consists in monitoring the ESG performance of portfolios. Environmental analysis generally concerns energy, water and waste, while social and governance criteria vary considerably from one player to the next, ranging from accessibility, comfort and well-being to the social usefulness of buildings.

Finally, one can consider that €1.8 billion assets were managed using a full SRI approach in 2013, including ratings, exclusion of buildings with low ratings and no significant capacity to improve.

Market Predictions

Studies and surveys conducted by Novethic in the French market show a growing interest for a combination of RI strategies including Engagement, Norms-based screening (Exclusions) and ESG integration.

In 2012, the French government announced plans to launch an SRI Label. Although the specifications of this future national label have not yet been revealed, this development could significantly increase the visibility and knowledge of SRI funds among retail investors.

Focus 8: New SRI Definition and Label

Since 2012, French public authorities have referred several times in reports and white papers to the creation of an SRI label.

In anticipation of this label, the French SIF and French Asset Managers Association (AFG) have worked in parallel and jointly to develop and agree on a new SRI definition for the French market. A definition based on process had already existed as part of the European SRI Transparency Code, mandatory in France for all SRI funds since 2010: *"SRI is a financial investment including simultaneously Environment, Social and Governance criteria, in addition to the financial ones".*

However, this time, SRI has been defined based on its purpose and not only by its methodology. This new definition was launched in June 2013:

"SRI (Socially Responsible Investment) is an investment approach that aims to reconcile financial performance and social and environmental impacts by financing private companies and public entities that contribute to sustainable development regardless of their industry sector. By influencing the governance and the behaviour of these players, SRI fosters a responsible economy".

Responding to a White Paper on Financing Ecological Transition, the French SIF, along with the French Asset Managers Association (AFG), as well as the French Normalisation Association, the inter-union committee for employees' saving plans (CIES), Finansol, Novethic, CSR Observatory and Paris Europlace, reaffirmed that an SRI label should not only be environmentally oriented. They also encouraged the creation of an SRI label supported by public authorities that may lead to fiscal incentives, especially in life insurance, a favourite savings product in France. For those actors, such a label would encourage the development of the SRI market.

The Ministry of Sustainability and the multi-stakeholder CSR Platform, a recently created discussion platform under the authority of the Prime Minister, are both working on the development of this label with the support of all stakeholders, including the French SIF and current label providers, CIES and Novethic.

The text above largely draws upon research and analysis conducted by Novethic.

Germany

FNG
Forum Nachhaltige Geldanlagen

Highlights

- Best-in-Class and Exclusions are still the most popular strategies;
- Engagement and voting become more important;
- Religious institutions and charities represent an institutional investors' market share of almost 60%.

Country Introduction

The SRI market in Germany is well developed and consists mainly of the following four areas:

1. A broad set of sustainable investment funds is available in Germany, including equity, bond and balanced funds as well as microfinance, closed-end and exchange traded funds. Banks, regardless whether they are private, publicly owned or cooperative, distribute such funds not necessarily actively, but at least on client request.
2. In addition, most German asset management companies, including the market leaders, offer SRI solutions for institutional investors. They have specialised teams and work either with their own research departments or with external sustainability research agencies, or combine internal and external expertise.
3. Germany has more than a dozen green or alternative and church banks with a strong focus on sustainability. These sustainability-oriented specialist banks employ a comprehensive set of ethical and sustainable criteria in their investment and in many cases also in their loan decisions. They offer sustainable finance products such as demand and saving deposits.
4. Many people view this kind of investment as a synonym for SRI per se, as investments in renewable energies have a long tradition in Germany. In this area, private equity investments, participation certificates and, with growing importance, renewable energies cooperatives are quite common.

Apart from banks and asset management companies, a couple of important sustainability research agencies are based in Germany, along with a wide range of financial advisors, as well as small organisations such as NGOs and associations with a special focus on SRI.

Legal/Regulatory Framework

In the past two years, the legal framework for SRI and CSR has hardly changed in Germany. Only in the Renewable Energies Act, which initially came into effect in 2000, reforms have taken place. The Act regulates the promotion of renewable energies and thus provides incentives for investors. In August 2014, a new version of the Renewable Energies Act became effective. It reduces the fixed compensation rate paid to operators of plants generating electricity out of wind, water, solar, and geothermal energy as well as biomass for all new applications, amongst other things. According to critics, the reform contributes to a deceleration of the energy transition.

In Autumn 2012, the Ministers of Consumer Protection of the German states launched an initiative for a uniform and nationwide quality label for SRI. However, this initiative hasn't yet led to any legal outcome but has been an important contribution to an on-going debate on quality of SRI.

Legal regulations for the German SRI market introduced before 2012 consist basically of disclosure requirements. For instance, pension funds, pension institutions and direct insurances have to provide information on whether and how they address ethical, social and environmental concerns in the allocation of pension contributions. However, these legal regulations, introduced in 2001 and 2005, do not bind pension and insurance companies to a sustainable investment policy. Disclosure requirements for large companies, such as limited liability or joint stock companies, came into effect in 2004. These are obliged to report on certain material non-financial criteria.

Besides legislation, "soft" SRI guidelines exist. The German Association for Investment and Asset Management (BVI) published its "Guidelines for Responsible Investment" in 2012 and the Evangelical Church launched 'Guidelines for Ethical Sustainable Investment' in 2011. The "Frankfurt-Hohenheim Guideline", consisting of over 800 criteria and presented to the public in 1997, was quite important for the development of the German SRI market in its beginnings and is still widely used and well respected as it is said to be the most comprehensive SRI criteriology.

With respect to CSR, the Sustainability Code, launched by the German Council for Sustainable Development in 2011, is noteworthy. Its purpose is to make large companies' sustainability performance more transparent and comparable. Sixty-seven companies, among them banks and asset managers, have signed the code as of July 2014.

SRI Market Size and Characteristics

All in all, the German SRI market took a big step forward in the 2012-2013 period. Compound annual growth rates (CAGR) of more than 20% (Exclusions as well as Engagement and voting) and almost 10% (Best-in-Class) compensated slight decreases of 4% and 5% (Sustainability themed assets and Norms-based screening, respectively) and 2% (ESG integration). Exclusions and Best-in-Class remain the most widely used sustainable investment strategies.

In 2013, Exclusions combined assets with a volume of €894 billion. This market figure includes exclusion criteria especially applied to funds and segregated mandates (€25.269

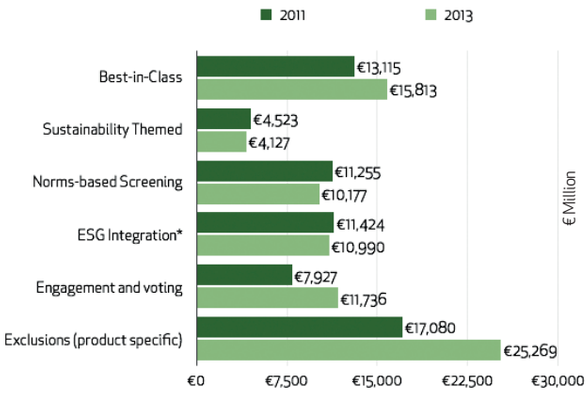
billion), plus Exclusions applied as asset overlays to product ranges (Figure 1 only shows exclusions applied to specific funds or mandates; please refer to the European section for more details on exclusion overlays in Germany). While asset overlays typically apply one or at the most two selection criteria – which, in Germany, is almost always anti-personnel mines and cluster munitions –funds and mandates mostly combine a variety of exclusion criteria, up to 18 different ones in some cases. The most important criteria here are trade in and production of weapons, gambling, tobacco, pornography and alcohol. Exclusions altogether as well as Exclusions only applied to funds and segregated mandates each grew by a CAGR of more than 20%.

The Best-in-Class approach has grown from €13.115 billion in 2011 to €15.813 billion in 2013, which is an increase of more than €2 billion in absolute terms. In Germany, Best-in-Class has been the second most important sustainable investment strategy for years and the new market figures stress that asset managers continue to value it.

From being almost negligible in 2009 to being applied to more than €11 billion in 2011, the ESG integration approach slightly decreased in 2013 with a negative CAGR of 2%. This sustainable investment strategy, only recently adopted by German asset managers, has thereby now reached a consolidated level.[42]

Norms-based screening, with a volume of more than €10 billion, decreased by a CAGR of around 4% compared to 2011. The most widely used international standards and norms in terms of norms-based screening are the ILO conventions followed by the UN Global Compact. Whereas Engagement and voting practices gained ground in Germany in 2013, Sustainability themed assets decreased and thereby tie in with the upward trend last observed in 2009.

FIGURE 1: German Market Breakdown by Strategy



Source: Eurosif *All categories

With a view to the development in the German SRI market between 2005 and 2013, a clear upward trend can be observed with a slightly decelerating, but still positive growth between 2007 and 2009 as a consequence of the financial crises.

The market share of institutional investors amounted to 75% in 2013, which is lower than the European average. However, compared to 2011 when the market share was at 68%, institutional investors gained importance. Religious institutions and charities, as well as endowments and foundations are the main market drivers. They represent around 60% and almost 20% of the institutional investment market, respectively. However, retail investors are also important for the German SRI market, especially with regard to sustainable closed-end funds, where their market share amounted to 93% in 2013.

Market Predictions

Asset managers in Germany take an optimistic view on the future. They expect the market to further grow and believe that institutional investors will continue to be the most important drivers of SRI demand. Nevertheless, legislative drivers are seen as significant too. This assessment could refer to discussions on nonfinancial reporting on European level and concerning a ban of cluster munitions in neighbouring countries such as Switzerland, as well as to the on-going debate on a quality label for SRI where FNG plays a central role with its label concept for sustainable mutual funds with an expected market entry in 2015. Regarding the renewable energies sector, it remains to be seen whether the latest reforms have a negative effect on corresponding investments.

Focus 9: FNG's Sustainability Fund Profiles

FNG's two-page profiles for sustainable investment funds have provided investors and financial advisors with helpful information in their investment decision process for more than two years now. The profiles, developed by a FNG working group and based on preliminary work conducted by BELSIF, provide a brief and concise overview of each fund's sustainability aspects. This includes information on investment strategies such as Engagement, Best-in-Class and Exclusions, details concerning the sustainability analysis, transparency measures and specific criteria in the areas Environment, Social and Governance (ESG).

As of August 2014, FNG's sustainability profiles cover a total of 112 funds, among them 65 equity, 20 balanced and 23 fixed income funds, as well as two funds of funds and two alternative investment vehicles. In almost all cases (96%), the entire portfolio is subject to sustainability analyses whereas three quarters of the funds count on the support of a sustainability committee. Eighty-six percent are signatories to Eurosif's SRI Transparency Code.

All except one of the 112 funds use Exclusion criteria in which tobacco, nuclear energy and exploitive child labour are predominant. Conventions with respect to banned weapons are the most frequently used norms, followed by the ILO conventions on labour standards. Apart from Exclusions and norms, Engagement and voting, with shares of 74% and 68%, respectively, are widely used, followed by Best-in-Class with 66%. The approaches Integration (34%) and Sustainability themed (15%) are less prevalent among the 112 funds.

All information contained within the sustainability profiles rests upon a database that includes funds authorized for distribution at least either in Germany, Austria or Switzerland. The sustainability fund profiles enjoy great popularity among financial advisors and are –judging from the webpage traffic – widely used. In addition, the profiles will play an important role in the design of the quality label for sustainable funds that is currently being developed by FNG. The profiles and the database are available free of charge at FNG's website: www.forum-ng.org/fng-nachhaltigkeitsprofil.

Italy

Forum per la Finanza Sostenibile

Highlights

- Local preference for Exclusions and Norms-based screening;
- Positive changes have been registered on Engagement and Integration;
- Insurance companies and pensions funds continue to be the most dynamic players;
- Impact investing and Engagement seem to be the areas which will attract major interest in the near future.

Country Introduction

The attention paid by the Italian financial industry towards institutional investors and long-term investment strategies is fully consistent with the SRI market dynamics. On the other hand, Italian asset managers continue to underestimate the potential demand on SRI products and services in the retail market, despite Italian households recovering their investment after the negative trends registered in 2011-2012.

A survey carried out in 2013 by Forum per la Finanza Sostenibile, in collaboration with Doxametrics, on a sample group of the Italian population reveals that 45% of private investors are interested in SRI and would consider SRI products in their investment choices. A key role is obviously attributed to financial advisors and, indirectly, to asset managers. Transparency is considered by retail investors as important as ESG themes.

Legal/Regulatory Framework

The Italian regulatory framework on SRI is well advanced in the European context. The legislator mainly focused its intervention on transparency in the Sustainable and Responsible Investment processes; since 2007, mandatory information documents (prospectus and annual report) related to SRI products and services have to disclose their SRI policy and strategies, ESG criteria and engagement initiatives. The last regulatory intervention dates back to 2012 with the introduction of the 'transparency' principle in the Statement of Investment Principles published by pension funds: ethical, social and environmental aspects integrated in the investment strategy have to be listed, together with the voting policy.

While the proposal to ban the financing of controversial weapons still has to be discussed by the competent bodies in the Italian Parliament, in 2013-2014, other initiatives arose from political representatives, with the aim to provide fiscal benefits to SRI products. The last one regards government support toward financial instruments incorporating ESG criteria, as stated in the Guidelines for the Third Sector's Reform (put in consultation on May the 13th).

Given the state of play of the Italian SRI regulation, it is possible to highlight two work streams for the SRI community:

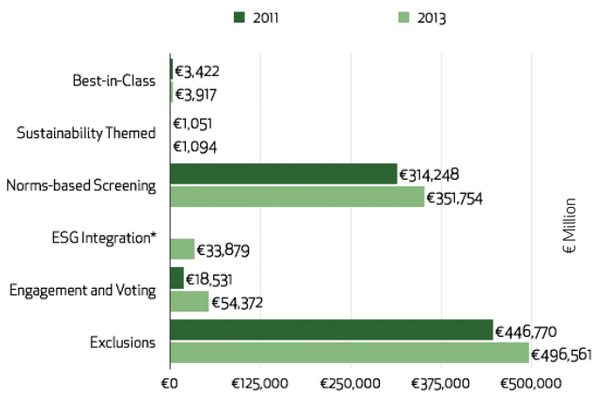
- To bridge the gap between the 'forward looking' regulation on SRI products and services and the 'soft' disclosure practices of the asset managers and pension funds;
- To provide a clear definition of Sustainable and Responsible Investment, in order to better identify the boundaries of SRI products and facilitate the application of fiscal incentives (see Focus box).

SRI Market Size and Characteristics

Exclusions and Norms-based screening are the most popular SRI strategies in Italy. Exclusions assets amounted to €496 billion at the end of 2013, with the controversial weapons sector being a key focus area due to ethical and reputational concerns. Norms-based screening amounted to €352 billion AuM: UN Global Compact and all the related international conventions – mainly focused on human rights, labour rights, environmental protection and corruption – are the most common standards.

The relevant amount of assets concentrated in Exclusions and Norms-based strategies is mainly influenced by the SRI policies adopted by big players, whether in the insurance and asset management sectors, and in a lower measure by banking foundations. These actors – Generali Group, Cattolica Assicurazioni and Pioneer Investments – represent more than 90% of the Exclusions and Norms-based screening AuM.[43]

FIGURE 1: Italian Market Breakdown by Strategy



Source: Eurosif *Only explicit and systematic Integration practices in 2013

Between 2011 and 2013, all SRI strategies registered growth in Italy. Much of that growth has been concentrated around Integration and Engagement and voting. The reader should note that the reported 2013 Integration figure covers only ESG integration practices that are applied systematically and formalised. When SRI analysis is made available to a

mainstream portfolio manager but no formal process or constraint was in place, assets are not recorded in this figure. It is estimated that around €196 billion of assets are subject to such non systematic ESG integration practices in 2013 (see the European section for more details). This compares with €446 Million in 2011 or an increase of 1996% over the period.

The notable increase of the Engagement and voting strategy (71%) is mainly due to the implementation of a proxy voting policy integrating ESG criteria by one of the leading Italian asset managers. The €54 billion of assets in Engagement and voting is the result of a variety of approaches: more proactive approaches associate a systematic dialogue with companies in portfolio and the exercise of voting rights; on the other hand, engagement is exclusively implemented with controversial companies and precedes divestments or underweighting decisions. Among investors, pension funds appear to be the most dynamic type in the Engagement area.

Institutional investors continue to lead the Italian SRI market. Pension funds and foundations each cover 44% of the SRI institutional market.[44] While the foundations segment continues to be dominated by one main actor, the pension funds segment is more diversified. The signals of interest registered in the past among pension funds have been translated into real SRI practices; the approach typically followed is a prudent one, with the initial implementation of 'soft' integration strategies and the progressive introduction of other SRI strategies as Exclusions, Norms-based screening and Engagement.

In terms of investment vehicles, SRI mandates marginally increased during the period in comparison to SRI pooled investment funds; at the end of 2013, they respectively covered 41% (36% in 2011) and 58% (64% in 2011) of the SRI AuM.

The asset allocation related to these SRI investments shows a prevalence of equities (44%), followed by sovereign bonds (32%) and corporate bonds (16%). Money market assets represent 7% of the SRI AuM.

Market Predictions

For the near future, the Italian SRI market seems to be facing a few key challenges:

- The implementation of effective SRI strategies, with the idea to stimulate the real economy through innovative and sustainable-oriented financial instruments and practices;
- The move from a market with few asset owners implementing SRI policies to a new scenario were SRI becomes a more widespread practice;
- To show the 'business case' for asset managers and financial advisors in order to match the potential demand of SRI products in the retail sector.

In the institutional SRI market, insurance companies and pension funds will continue to represent the actors with the most promising growth trend. Positive signals are coming from the private banking sector were the growing demand for 'responsible and sustainable minded' financial products is going to influence the offer.

Focus 10: The Emergence of an Italian Definition of SRI

The ever-growing complexity of the SRI market, the requests for an effective classification of SRI products by the national regulator, and the difficulty to effectively promote SRI to the general public have been the main drivers motivating Forum per la Finanza Sostenibile (FFS) to create a working group on SRI definition in Italy. The underlying rationale of this work was to strengthen the foundations of SRI in order to preserve its credibility.

With this aim in mind, the working group was formed to discuss the technical aspects of existing SRI strategies, identify points of convergence and establish a widely accepted definition of Sustainable and Responsible Investment. Ultimately, this definition may feed into pan-European discussions in order to find common ground and establish a pan-European definition. All members of FFS and major experts on sustainable finance in Italy were involved in the working group.

A position paper was released in September 2014 that contains the following elements:

- A general SRI definition: "Sustainable and Responsible Investment is a medium to long-term investment strategy which, in the evaluation of companies and institutions, combines the financial analysis with a robust Environmental, Social and Governance (ESG) analysis, with the aim to create value to the benefit of investors and the society as a whole";
- A check-list of the essential requirements to be classified as a specific SRI strategy. The check-list is focused on the quality and transparency of ESG analysis, a common prerequisite for every approach, whether Exclusions or Impact investing.

The position paper is available on the FFS website:
www.finanzasostenibile.it

Netherlands

Highlights

- Long history of Responsible Investment (RI) but uneven adoption of RI practices is uneven across market segments (e.g. insurers lagging behind pension funds);
- Almost all asset managers in the Netherlands have a Responsible Investment strategy;
- Engagement is a well-established practice and continues to grow;
- The introduction of new hard and 'soft' regulation in 2013 should have a positive impact on RI in both the pension and insurance segments.

Country Introduction

The SRI market in the Netherlands has been showing continuous growth since it started in the 1970s. Dutch pension funds exhibit an increasing awareness and interest in Responsible Investment as evidenced year after year by research conducted by the Dutch SIF (VBDO). Beneath the surface, however, smaller pension funds seem to be lagging behind their larger counterparts when it comes to adopting Responsible Investment practices. Since 2009 also, VBDO has been conducting research into Responsible Investment practices by insurance companies. The VBDO research shows that Dutch insurance companies are lagging in comparison to pension funds. For example, insurers remain far behind on the theme 'transparency' than Dutch pension funds. Of the 29 insurance companies examined by VBDO in 2013, nine have no information at all about their sustainability policy on their website.

The VBDO's insurers' benchmark 2013 also shows that there is a relationship between the size of the insurance company and the score in the benchmark. Larger insurers do better than medium sized peers in terms of overall scoring, while smaller insurers are lagging behind when it comes to sustainable investment policy and its implementation. Yet that does not mean that the size of the company automatically prevents a company from adopting a strong Responsible Investment policy. VBDO's research includes examples of small insurers who score relatively high in the benchmark.

Another important trend is that engagement dialogues are well on the way to become common ground within the relationship between institutional investors and companies, according to a study conducted in early 2014 by VBDO. Eighty-five percent of the Dutch pension funds conduct such dialogues with companies. Insurers are less active on the corporate engagement front: 34% of them only perform Engagement. About 60% of the pension funds report on their engagement activities and can show demonstrable results. Among the insurers that figure is only 17%.

Legal/Regulatory Framework

In the Netherlands, since January 2013, there is legislation concerning SRI that bans investments in cluster munitions. This came after the Dutch parliament twice passed a motion to ban the investments in cluster ammunition that was rejected by the cabinet.

In September 2013, a governance code for pension funds (in line with the already existing codes for banks and insurers) was published. The Pension Governance Code gives guidance on important themes like transparency, accountability and communication, financial control, diversity and professional and competent governance. Additionally, it focuses on the expertise and diversity of the board and Responsible Investment. It is the first time a code explicitly mentions the responsibilities of a pension fund with regard to Responsible Investment. The code requires pension funds to define a Responsible Investment strategy and make this available for stakeholders. Furthermore, the pension fund should take shareholder interests into account and make sure stakeholders support the investment strategy at hand. Regarding diversity, pension funds are required to have at least one woman and one person younger than forty on the Board. Moreover, the pension fund has to create a diversity policy, which sets out how the pension fund is going to ensure diversity of the board. The governance code is based on the 'comply or explain' principle. Pension funds must report annually on how the Code is applied and respected. The corresponding monitoring committee shall monitor the application of the Code.

The bill "Wet Versterking Pensioenfondsbestuur", published on 13 July 2013, complements the Pension Fund Act (introduced in 2007) to increase transparency, security and knowledge regarding pensions in the Netherlands. This objective of the bill is to strengthen the statutory rules for the governance and participation of pension funds. It requires sufficient expertise of the board as internal supervision. The act will, to a greater or lesser extent, pose complications for all pension funds. The Fund may choose from three governance models, but in each of the models employers, employees and retirees are clearly represented. In addition, the September 2013 Governance Code, as discussed in the previous paragraph, will be firmly rooted in the new Pension Fund Act. This implicates that all pension funds, whether or not they are Pension Federation members, are bound to this code's requirements regarding Responsible Investment and Board diversity.

Furthermore, since September 2013, a number of NGOs such as Amnesty International, Oxfam Novib, Milieudefensie, FNV, Dierenbescherming and PAX, have unveiled the "The Fair Insurance Guide", which is the insurance version of the already

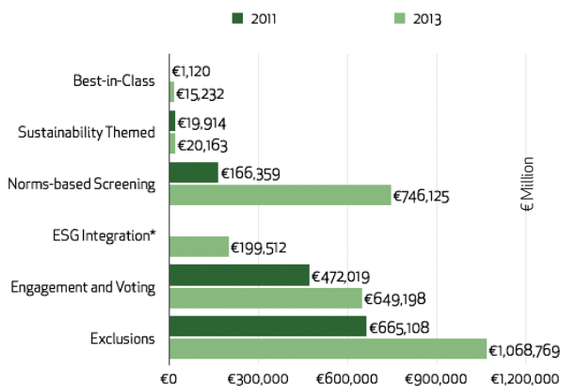
existing Fair Pension Guide. The Fair Insurance Guide wants the investment of insurance companies to become more sustainable. The underlying aim is that insurers use their (financial) impact to green up companies and governments.

The Fair Insurance Guide compares the ten most important providers of life insurance on the Dutch market on their sustainability. Both the policy and the investment practices of insurers are examined and the results are published in Dutch. Additionally, the initiators of the Fair Insurance Guide pursue a constructive dialogue with insurers on sustainability themes.

SRI Market Size and Characteristics

As can be seen in Figure 1 below, Exclusions is the most popular SRI strategy in the Netherlands with €1.068 trillion AuM, followed by Norms-based screening with €746 billion, and Engagement and voting with €649 billion. ESG integration represents another important strategy often used by the market. ESG integration practices following a systematic and explicit approach covered about €199 billion, according to Eurosif's estimates. By contrast, about €629 billion were covered by institutional investors and asset managers making some form of ESG research and analyses (internally produced or bought) available to their mainstream analysts and portfolio managers. The number reported in 2011 did not break these practices down. This number would compare with the €629 billion at the end of 2013, therefore indicating an increase in the incorporation or consideration of ESG factors by mainstream investors. The use of other strategies is rather limited (Best-in-Class and Sustainability themed). However, it is interesting to note a strong growth of Best-in-Class.

FIGURE 1: Dutch Market Breakdown by Strategy



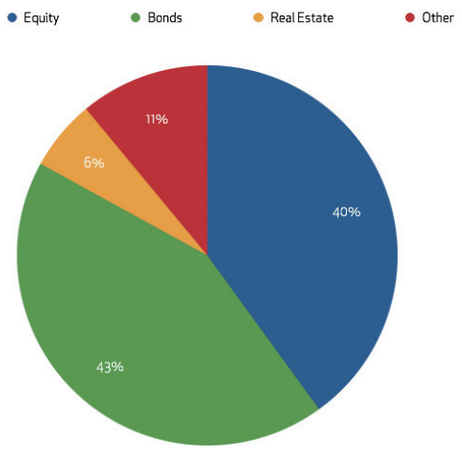
Source: Eurosif *Explicit and systematic practices only

Almost all asset managers in the Netherlands have a Responsible Investment strategy and instruments. Not all of them participated in this survey. It is very likely that the size of the SRI market is actually slightly higher than reported here.

Of the total portfolio, 40% consists of equity and 43% of the portfolio of bonds (both government and corporate bonds). The other asset classes together comprise a small portion of the portfolio although real estate reaches 6.3%, a high number compared to other European markets. The breakdown can be found in Figure 2.

Institutional mandates represent 88% of the Dutch SRI assets, the remaining 12% being invested in pooled funds.

FIGURE 2: Dutch SRI Market Asset Allocation



Source: Eurosif

Market Predictions

The Dutch SRI market is still growing; important reasons for this are awareness, consumers asking for it and a supportive regulatory framework. 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 that new legislation will help to function as a framework within which investors will increasingly move. Also, the increased involvement of citizens and the growing number of investors using techniques like Engagement and Impact investing will give more accessibility and visibility to the Dutch SRI market.

Focus 11: The Role of Pension Fund Boards in the Netherlands

In its 2013 Benchmark Report, for the first time, VBDO examined the role of boards of pension funds in sustainable investment. It appears that only 4 out of 10 pension funds make use of external consultants other than their fiduciary manager. Most pension funds leave decisions about sustainable investment to fund managers or their external financial service providers. Most pension fund managers do not develop their own vision and do not tighten their policies as needed.

It not only relates to the moral obligation of transparency that the boards have towards their participants. Dialogue also enhances sustainable investment policy. The material expertise of external stakeholders, such as NGOs, and the specific needs of participants can bring both Responsible Investment and its implementation to a higher plan. A number of pension funds already take action on this front, for example in the form of round table meetings during which they speak with participants about ethical issues.

Norway

norsif

Highlights

- The market is heavily influenced by the Norwegian Government Pension Fund Global;
- Exclusions remain the main strategy;
- Engagement and Norms-based approaches have grown significantly;
- The growth of ESG integration is set to continue.

Country Introduction

Norway is today and has historically been one of the countries considered to be in the forefront of SRI and a large part of the total amount of capital in Norway is already invested in ethical/SRI investments. The SRI market has grown over the last years and is expected to continue to show positive growth. The Norwegian Government Pension Fund Global serves as a role model for asset managers and investors in both Norway and abroad. This, of course, also affects the composition of the volume. 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 Norwegian Government Pension Fund Global's (GPFG) assets under management, the Fund will continue to be a major driver in the world of SRI. It is, however, important to keep in mind that other Norwegian investors and asset managers, individually and collectively, have made important contributions increasing the size, breadth and depth of the Norwegian Responsible Investment market.

Legal/Regulatory Framework

SRI practices in Norway are not governed by any explicit legal framework; nevertheless, local SRI practices tend to rest on the foundation of the Norwegian Government Pension Fund set by Stortinget, which in practice acts as a proxy. The Principles for Responsible Investment (PRI) have gained a foothold amongst the largest actors in the market, but there are still relatively few Norwegian signatories to the PRI to date. As of June 1, 2014, only 10 asset managers and asset owners had signed the initiative, which is only two more than in 2012.

SRI Market Size and Characteristics

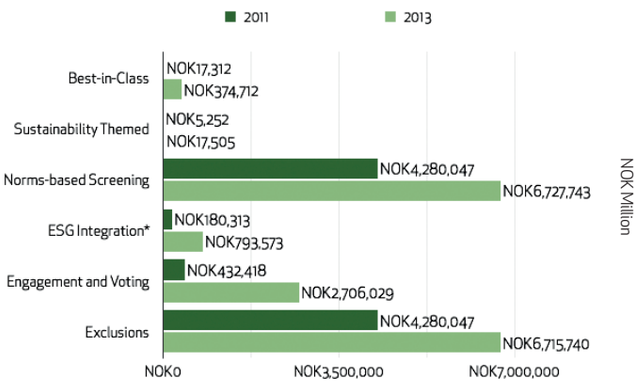
The volume of the total SRI assets under management in Norway has increased significantly compared to the 2012 report. A key reason for this is mainly attributed to the Norwegian Government Pension Fund whose assets have grown during the period mainly due to strong stock markets and good performance.

The most commonly used SRI strategies in Norway have always been Exclusions and Norms-based strategies. Exclusion criteria that are especially common are tobacco, weapons and environmental issues. Many asset owners state that they follow the exclusion criteria applied by Norges Bank Investment Management (NBIM), managing the (GPFG). 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.

Assets allocated to Engagement and Integration strategies have increased since the last study. The GPFG pursues an active shareholder policy and gets involved with the management of companies on ESG issues, as do a number of other actors in the market, including the Norwegian Government Pension Fund Norway (GPFN), managed by Folketrygdfondet, as well as Storebrand and KLP. ESG integration is also becoming a more important strategy among Norwegian asset managers and owners.

As seen previously, the Best-in-Class approach and SRI Sustainably themed funds still account for a small part of the total SRI market in Norway.

FIGURE 1: Norwegian Market Breakdown by Strategy

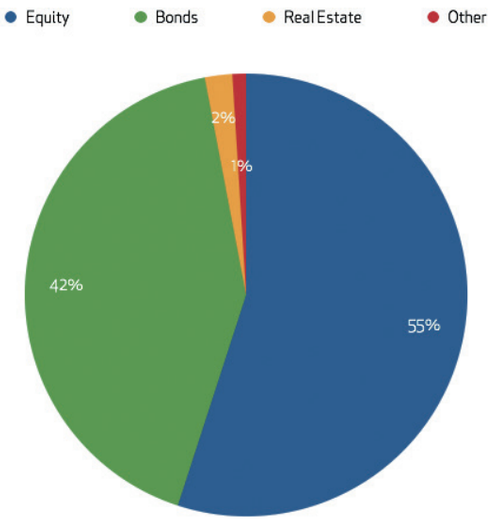


Source: Eurosif * All categories

SRI Asset Allocation

Almost all of the Norwegian SRI assets are invested in either equities or fixed income. Most of the institutions interviewed for this study invest in both equities and fixed income products. The market share for equities has increased compared to 2012, and alternative investments serve only as a small part of the total SRI assets. Alternative investments, such as hedge funds, real estate, structured products, PE/VC and commodities, still account for only 2% of the total SRI market. However, recent initiatives have been taken by the GPFG to invest more in real estate.

FIGURE 2: Norwegian SRI Asset Allocation



Source: Eurosif

Market Predictions

In Norway, most asset owners and asset managers have some kind of SRI policy. The use of SRI strategies in Norway is probably the most widespread of any Nordic country. While the Norwegian SRI market has gained in sophistication in recent years, as evidenced by new initiatives such as micro financing, the sophistication of the Norwegian SRI market is expected to further expand in the upcoming years. Demands from institutional investors, international initiatives as well as materiality are perceived to be the most important drivers for SRI. Norwegian asset managers are also among the most active in the Nordic region when it comes to the promotion of SRI in the media.

Norway has a highly developed corporate bond market, especially with High Yield bonds, which is one of the largest in the world. It is predicated that there will be more issues of green bonds among prominent issuers.

There is also a general belief that Integration will increase and that negative screening, which has historically been the dominating strategy, will be less prominent.

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

Poland

Highlights

- The Polish market remains in its infancy;
- The two most popular strategies are Exclusions and Norms-based screening;
- Some new marketplace initiatives promote sustainable business practices among listed companies and investors, such as the RESPECT Index on the Warsaw Stock Exchange and the "ESG Analysis of Companies in Poland" project.

Country Introduction

Poland's economy slowed slightly in the years 2012-2013, but continued to develop. Poland's GDP grew by 2% in 2012 and 1.6% in 2013, which were the fourth and seventh scores among the 27 EU countries, respectively.

In 2013, the Warsaw Stock Exchange (WSE) continued to be a financial centre of the Central-Eastern Europe region. At the end of 2013, 450 companies with a combined capitalisation of €202.7 billion were listed on the WSE Main Market.

The core of the Polish financial system is still dominated by banks- they make up 68.9% of the AUM. The rest is made up of open pension funds (13.7%), insurance companies (8.3%), investment funds (7.7%), credit unions (0.9%) and brokerage firms (0.5%).

The Polish SRI market is still in its infancy and is driven by some pioneers.

Legal/Regulatory Framework

There is no specific SRI regulation currently in Poland for funds, asset managers or asset owners.

However, regulation exists for public companies listed on the WSE. Since 2009, every public company is obligated to include a detailed statement on corporate governance in its annual report, and the vast majority of companies fulfil this obligation.

Regarding the disclosure of social and environmental issues, Poland implemented Directive 2003/51/EC along with its accession to the European Union in 2004. The Directive covers some level of 'E' and 'S' disclosure in the annual and consolidated reports. Despite the implementation of the aforementioned regulation in the legal order, only a few companies include a social section in their annual reports.

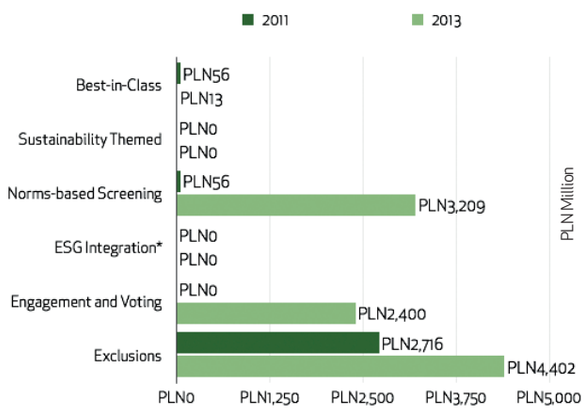
SRI Market Size and Characteristics

As shown in Figure 1, Exclusions from the investment universe continued to be the most commonly used strategy in 2013. Assets subject to Exclusions amounted to PLN 4.40 billion (€1.06 billion).[45] The most important exclusions in Poland are controversial weapons, nuclear energy, pornography, alcohol, tobacco and gambling. All study participants had an Exclusions strategy in place.

The largest pooled fund, practicing negative screening in 2011, developed a Norms-based screening strategy, focusing on S & G criteria, which accounted for most of the significant increase of assets in this category. The fund also created a formal policy on voting, which caused the rise in assets in Engagement and voting. The drop in Best-in-Class assets parallels the drop in assets of the two funds adopting this strategy.

Two ESG rating agencies are operating in the Polish market.

FIGURE 1: Polish Market Breakdown by Strategy



Source: Eurosif *All categories

Market Predictions

Greater awareness and pressure of clients, as well as higher level of ESG disclosure among listed companies, are the most important factors indicated by investors that would entice/attract them to consider ESG factors to a greater degree when making financial decisions and exercising shareholders' rights (See 2012 WSE study).

One of the most important initiatives for the promotion of SRI in Poland was the Responsible Investment Working Group, operating in the framework of the governmental Team for Social Responsibility of Enterprises, established in 2009 by the Chairman of the Council of Ministers. The group, which consisted of representatives of the financial and insurance sectors as well as administration and employees' unions, developed the "Guidelines for Investors in the Scope of Responsible Investing", and in January 2013, organised the SRI Workshop Day 2013 – a conference for financial profes-

sionals. The Working Group was disbanded in August 2013, but there are plans to reactivate it in 2014.

Another important organisation for the polish SRI market is the Warsaw Stock Exchange (WSE). In 2009 it initiated the index of responsible companies, RESPECT, and promotes high CSR standards among its listed companies and investors. On December 17, 2013, WSE joined the UN Sustainable Stock Exchanges, sending a strong signal that it will further promote sustainable business practices.

A significant barrier to development of the Responsible Investment market in Poland is inevitably the low level of reporting on social and environmental issues by companies listed on the WSE. In 2012, CSR reports were published by only 12 public companies and 12 in 2013. The "ESG Analysis of Companies in Poland" project, prepared by the Polish Association of Listed Companies, the ESG rating agency Global Engagement Services and consulting firm Crido Taxand, aims to analyse the ESG performance of all WSE listed companies and engage with them on raising the amount and quality of the revealed ESG data, with the mediation of a specially activated internet platform in English and Polish. There have already been two editions of the project.

Finally, the significant weakness of the SRI market in Poland is its lack of engagement of foreign financial institutions via their subsidiaries, be those institutions UN-backed PRI signatories or not. Engagement of one of the big players could significantly enhance development of the SRI market in the country.

The data and the text above are based on research and analysis conducted by Crido Taxand.

Spain

Highlights

- Most strategies have recorded growth over the period;
- Exclusions remains the most popular strategy and exhibited the strongest growth;
- Norms-based has grown significantly over the period and ranks now second in assets;
- The growth of retail assets sends a positive signal to the industry.

Country Introduction

In an economic environment characterised by a slight recovery in economic activity, after more than two years of recession, a trend reversal is confirmed in 2014. The asset management industry has experienced an improvement after the relaxation of tensions in financial markets, lower volatility and improved confidence that characterised the second half of 2013. The correction that affected the asset management industry in recent years seems to have been left behind, in light of recent stock markets' performances. The IBEX, after three years of corrections, has achieved an annual return of 21.4% in its benchmark index (IBEX-35), thus being the second fastest growing in Europe.

This scenario has had a positive impact on the Spanish asset management industry, resulting in a 20.2% increase in assets under management between 2011 and 2013.

In this economic context, SRI is starting to attract attention as an alternative to traditional investment options. In comparison with other European markets, the Spanish SRI market is still very small but exhibiting continuous growth thanks to supporting factors such as the recovery of the asset management industry and stock markets, the interest of the asset managers, asset owners and customer organisations regarding the application of the ESG criteria.

Legal/Regulatory Framework

The legal framework for SRI in Spain is still less developed than in other European countries, but the legislative environment has experienced significant changes in recent years.

In 2011 with the approval of the Sustainable Economy Law (Law 2/2011, March 4, 2011) and the Updating, Improvement and Modernization of the Social Security System Law (Law 27/2011, August 1, 2011), a change in the public administration and other related characters began. A proposal for a new regulation of investments and pension funds aiming to include ESG criteria and other transparency and communication mechanisms is being discussed. If passed, the legislation would apply on a 'complain or explain' basis.

Within public administration, the General Direction of self-employment and Corporate Social Responsibility is currently working on a proposal lead by the National Strategic Plan for Corporate Social Responsibility, which includes a section about SRI.

Moreover, in early 2014, INVERCO (Association of Collective Investment Institutions and Pension Funds) published its voluntary internal regulation about ESG applications, updating their last voluntary internal regulation on Ethics Investment (1999).

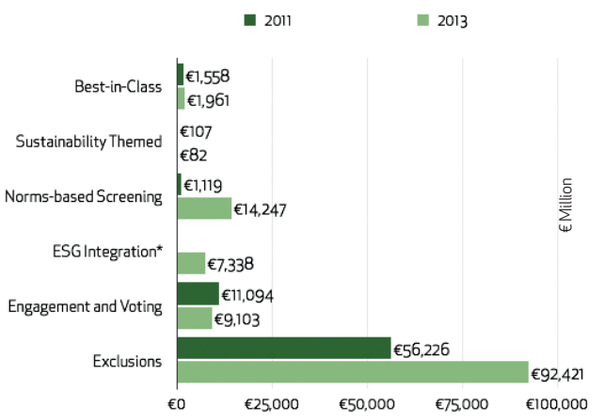
Finally, the CNMV (National Commission of the Market) is working on the update of their Governance code (2006), and a draft amendment of Capital Companies Law (Law 1/2010, July 2, 2010) that will be based on transparency of information.

SRI Market Size and Characteristics

Market Practices

A close look at the SRI strategies (Figure 1) shows that most of the increase came from the growth of Exclusions, which have grown by 28% per annum between 2011 and 2013 and remains the most dominant strategy in Spain. Exclusions have grown in particular due to new market entrants that typically deploy with negative screening strategies, as these strategies are seen as rather easy and less costly to implement.

FIGURE 1: Spanish Market Breakdown by Strategy



Source: Eurosif *2013 includes explicit and systematic practices only

Norms-based screening has recorded a significant growth with a CAGR of 256.8% from a low base, becoming the second most popular Responsible Investment strategy, before Engagement and voting. The sharp increase in Norms-based

screening could indicate a growing sophistication of the Spanish SRI market. More and more asset managers or institutional investors introduce screening based on international treaties and norms, such as the UN Global Compact.

Assets covered by an Engagement and voting policy recorded a slight decrease between 2011 and 2013. However, this growth figure should be read with caution due to partial responses to the 2014 survey. It is therefore likely that assets covered by Engagement and voting have, at a minimum, remained stable. Discussions with market participants reveal growing interest for this strategy. Active ownership in the form of shareholder dialogue and/or the exercise of voting rights remains mainly focused on corporate governance issues, and less frequently, environmental and social stewardship aspects. Indirect engagement remains the most common form of Engagement as noted in the previous report. It is used by the largest occupational pension funds that are the most common form of institutional funds.

Best-in-Class grows by 12% in the comparison period and thematic funds remain marginal, with a decrease of a 12.3%. ESG integration remains somewhat flat, however, it is interesting to note that Spanish institutional investors and asset managers practicing ESG integration do so in a rather systematic and explicit way, rather than making some form of ESG research and analyses (internally produced or bought) available to their mainstream analysts and portfolio managers (see European section for more details).

Market Characteristics

The SRI market in Spain is still dominated by institutional SRI, representing 93% of the total, with a weighting of occupational pension funds of 85%.

SRI assets held by retail investors have increased by 4% over the past two years (from 3% in 2011 to 7% in 2013). The significant growth of the retail assets is a positive trend for the Spanish SRI market. Occupational pension plans remain the most engaged institutional investors in terms of Responsible Investment, in large part due to the leadership of some large institutions, trade unions and other large employers.

Market Predictions

In the years to come, economic recovery is expected to take its course. The SRI market has managed to grow during the worst period of the economic recession and it now starting to be considered as a credible investment strategy alternative. The government and other regulatory authorities are beginning to draft legislation making reference to ESG criteria, Socially Responsible Investments and/or transparency of information. The rebound of the broad local asset management industry should also have a positive impact on the Spanish SRI market.

The SRI market in Spain is anticipated to keep growing and to become more sophisticated, even though Exclusions are set to remain the most common strategy in the next years. The recent strong growth of Norms-based screening seems to indicate, however, a progressive evolution of market practices.

Finally, even if institutional investors will continue to drive the market, it is expected that retail SRI assets will increase their market share, thanks to favourable legislation, active promotion by asset managers and enhanced demand, pushed by consumer associations, financial groups and other stakeholders such as SpainSIF.

Sweden

SWESIF
SVERIGES FORUM FÖR HÅLLBARA INVESTERINGAR

Highlights

- A mature market with experienced institutions and most large players having formal SRI policies;
- Exclusions and Norms-based screening remain the dominant strategies;
- Integration and Engagement have increased significantly compared to 2012;
- Equities are still the dominating asset class. However corporate bonds becoming of greater interest due to green bond issues.

Country Introduction

Swedish institutions are mature when it comes to SRI and almost all large prominent asset managers have been active within this area for more than ten years. All large institutions in Sweden have some kind of policy document governing SRI.

A recent trend in Sweden is the increased interest in green bonds. By issuing green bonds, the issuer actively promotes long-term sustainable development and more directly links investments to sustainability issues. During the last years, green bonds have moved from being niche products with relatively few issuers and investors into becoming more of a mainstream product. This has fuelled the market and today there are not only Swedish public institutions issuing green bonds, but also corporates to a larger extent. This is something that will continue to further increase the interest. It is important to keep in mind that green bond issues still account for a small portion of total issues.

During the last few years, there has been a trend among Swedish institutions to move from applying mainly Exclusion based strategies into more and more Integration. The strategies are becoming more elaborated and more resources are spent within this area.

The SRI practices in Sweden are not governed by any explicit legal framework, but rest on the foundation of frontrunners and initiatives such as UNPRI. As of June 1, 2014, 38 investment managers, asset owners and professional services partners had signed the initiative.

SRI Market Size and Characteristics

The total SRI market in Sweden has, for the fourth consecutive survey, increased and there are more assets under management allocated to most strategies than previously.

The SRI market in Sweden has historically consisted mainly, according to the definitions of Eurosif, of Norms-based screening and Exclusions. These are still prominent strategies applied by many institutions, both large and small. As has been seen in previous reports, the Best-in-Class approach is still not frequently used in Sweden and the asset under management allocation to that strategy are smaller this year compared to previously. SRI thematic funds are still more or less absent and have only a small footprint on the Swedish SRI market.

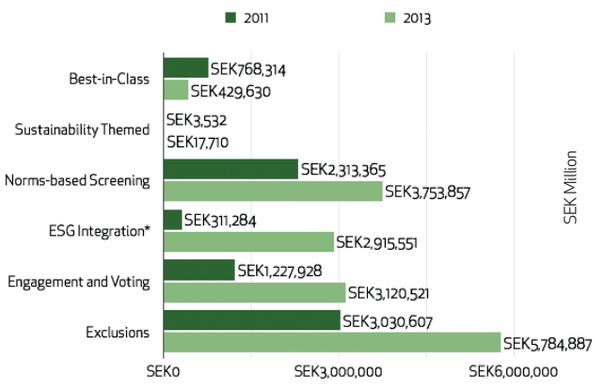
The same applies to Impact investments, which are almost non-existent. However, there have been some interesting developments within the area since one of the largest asset managers in Sweden has created an investment fund specialising in micro-financing.

The most commonly used strategy in Sweden is still Exclusions based on value-based criteria. This strategy amounts for around SEK 5.8 trillion (€648 billion).[46] Exclusion criteria that are mainly used are the publication of pornography, weapons, tobacco and gambling.

The usage of Engagement and voting has increased, compared to previously, to around SEK 3.1 trillion (€350 billion). Several organisations in the Swedish market have, during the last few years, developed their strategies even further towards having a dialogue with a company instead of excluding companies. Active corporate governance with voting has also become more common.

A frontrunner within this SRI-related corporate governance is still The Ethical Council, an initiative of The AP Funds 1-4, that has worked for positive change in companies associated with Engagement and voting since 2007. In 2011, the Ethical Council had on-going dialogues with 133 companies. Recently, the Ethical Council employed a classification system to categorise and evaluate their engagement activities. In most cases, the discussions have led to improvements and the dialogue has been considered successful.

FIGURE 1: Swedish Market Breakdown by Strategy



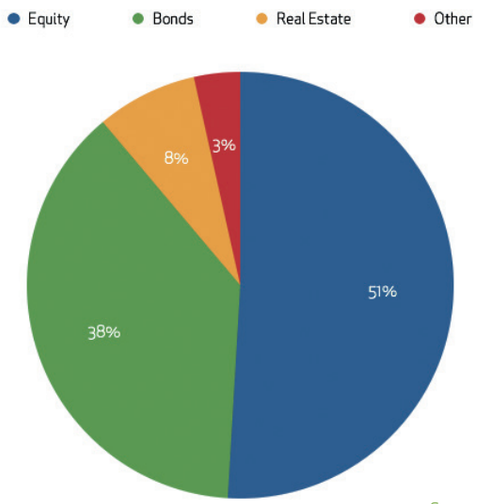
Source: Eurosif * All categories

SRI Asset Allocation

The majority of the SRI capital has been invested in equities, which today and historically have dominated the Swedish SRI market with 51%, as illustrated in Figure 2 below. Almost all organisations invest SRI capital into equities. Corporate bonds are the dominating fixed income product, with sovereign bonds as clear second.

The market share of alternative investments (including real estate, hedge funds, structured products, PE/VC and commodities) has increased slightly for the third consecutive study and currently amounts for approximately 11%-12%. Investment into real estate has increased from 5% in 2012 to 8% in this study.

FIGURE 2: Swedish SRI 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. New market developments, such as green bonds, and more elaborate strategies will continue to move SRI to become even more mainstream. Today there are more and more institutions trying to prove the benefits of SRI both short-term as well as long-term. SRI will probably be a more natural part of investment decisions in the future.

The organisations interviewed regard demand from institutional to be the most important driver for SRI in the next three years, followed by materiality and external pressure from e.g. media, NGOs and trade unions.

The fact that corporates are becoming more active as issuers of green bonds will probably further fuel the interest in fixed income related SRI products. The size of the green bond market is still very small but is expected to grow in the upcoming years.

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

Switzerland

FNG
Forum Nachhaltige Geldanlagen

Highlights

- Norms-based screening multiplied its volume by a factor of more than fifty;
- Integration gains importance and is the third most frequently used approach now;
- Retail investors lost market share but still play a particularly important role compared to other European markets.

Country Introduction

Switzerland is one of the world's leading financial centres and plays a particularly important role with respect to cross-border private wealth management, where it is number one in the world. The Swiss finance industry generates around 10% of the Swiss Confederation's GDP and directly employs almost 6% of its working population.

With respect to sustainability, Switzerland remarkably ranks among the countries that explicitly include sustainability in its constitution. Article 73 states: "The Confederation and the Cantons shall endeavour to achieve a balanced and sustainable relationship between nature and its capacity to renew itself and the demands placed on it by the population."

Switzerland is also widely acknowledged as a strong player in sustainable and responsible finance. It is home to banks and asset managers and other finance companies offering a broad variety of sustainable products and corresponding services, to academic institutions contributing to SRI research, to the Dow Jones Sustainability Index Group, as well as to the Covalence Ethical Quote index for reputation. Furthermore, Switzerland ranks among the world's most important microfinance centres.

Legal/Regulatory Framework

Looking back at the past two years, the "fat cat initiative" of March 2013 (see Focus on the Minder Initiative) is specifically worth mentioning. By voting for this so-called "Minder initiative", a large majority of the population opted in favour of pension funds having to actively exercise their voting rights at AGMs of Swiss companies on behalf of their members, amongst other things. Specific "Guidelines for institutional investors governing the exercise of shareholder rights in Swiss listed companies" have been in place since January 2013. Published and developed by a group of institutional investors, proxy advisors and business representatives, these guidelines are meant to help facilitate a voluntary agreement concerning the industry's commitment to the exercise of voting rights.

In January 2014, a public discussion on whether the Swiss National Bank (SNB) should take ethical criteria into account in its investments has, however, addressed the responsibility of public institutions as large asset holders and is as such noteworthy with regard to SNB's importance.

No specific regulation on SRI was enforced since the previous edition of this study but related regulations and incentive schemes like the "Klimarappen/Centime Climatique", an industry initiative to reduce CO2-emissions, or the steering tax on CO2 emissions from fossil fuels, have been maintained.

In addition to that, Switzerland has ratified the International Convention on Cluster Munitions (CCM). The corresponding legislation includes the ban of financing such weapons through direct or indirect investments, whereas the latter are prohibited if they are meant to evade direct investments. This last-mentioned condition leaves some scope for interpretation on how far the ban of indirect investments actually goes; however, several banks have developed policies on the topic.

SRI Market Size and Characteristics

The SRI market in Switzerland has shown a vigorous and dynamic development in the past two years. Each single strategy outreached its respective volume measured in 2011. In doing so, Exclusions, Integration as well as Engagement and voting featured particularly high growth rates, whereas Norms-based screening multiplied its volume by a factor of more than fifty.

Exclusions of holdings is the most popular strategy. Best-in-Class, the predominant SRI approach in 2011 on funds and mandates level, now ranks second in terms of assets. Whereas the volume of assets subject to a Best-in-Class strategy, either in combination with another strategy or not (which is normally the case), grew with a CAGR of 5% from CHF 28.07 in 2011 to CHF 31.22 billion in 2013, Exclusions increased with a CAGR of 18% from CHF 25.07 billion to CHF 35.07 billion.

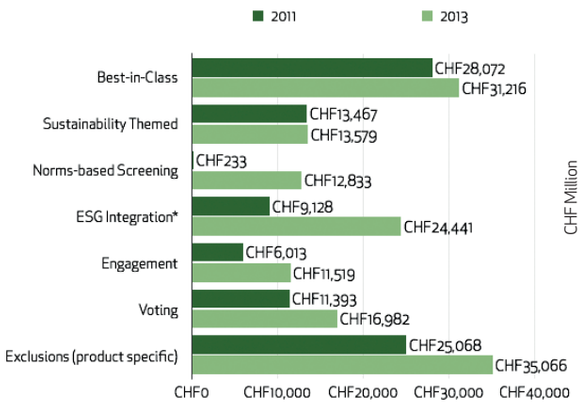
This Exclusion figure, however, does not contain assets subject to an exclusion overlay. The figure for exclusion overlays (anti personal mines, cluster munitions and any other criteria) is much different and higher. This volume of asset overlay exclusions amounted to CHF 496.7 billion in 2011 and rose to CHF 1,917.5 billion in 2013, which corresponds to a CAGR of 96%. However, the observed increase is only, to some extent, due to actual growth in asset overlays, but rather to the fact that more comprehensive data has been provided. As in 2011, most asset overlays refer to cluster munitions and anti-personnel mines and only a small part to biological and chemical weapons or agricultural commodities. By contrast, exclusion criteria applied specifically at product level typi-

cally contain several criteria – popular ones include the production of and trade in weapons, tobacco, nuclear energy, pornography and gambling.

In terms of ESG integration, it seems that the Swiss asset management industry is starting to increasingly adopt this strategy. In the past years, it has grown at a constant rate and has thereby become an established approach, which lately has increased by a CAGR of 64% and amounted to CHF 24.44 billion at the end of 2013.[47] A quite similar but even stronger development can be observed with the Norms-based screening approach. It grew by a CAGR of 642% from 2011 and amounted to CHF 12.83 billion in 2013 and has thereby reached considerable importance within the Swiss market.

Engagement and voting also gained in importance between 2011 and 2013 with a CAGR of 38% and 22%, respectively, and a volume of CHF 11.52 billion and CHF 16.98 billion. The most moderate growth was displayed by Sustainability themed funds – they grew by a CAGR of only 0.5%. Yet, this has not stopped the slight upward tendency that could be observed in recent years in Switzerland as well as in other countries.

FIGURE 1: Swiss Market Breakdown by Strategy



Source: Eurosif / FNG * All categories

In terms of asset classes, the Swiss SRI market has a strong prevalence for equities with a share of 56%, whereas corporate bonds (26%) and sovereign bonds (11%) comprise about a third. Other asset classes, such as real estate and property, private equity and venture capital, account for less than 1% up to 2.6%.

One particularity of the Swiss SRI market is its relatively high importance of retail investors that comprised 41% in 2013 – a decrease of 9% compared to 2011. Correspondingly, this goes hand in hand with a relatively low share of institutional investors (59%) compared to other European countries. Explanations for the high retail share could be the relatively huge amount of money that is managed for foreign retail clients and the important role of HNWIs in Switzerland. Almost one fifth of all SRI mandates in Switzerland belong to this investor group. With respect to institutional investors only, corporate pension funds and investment foundations are the predominant group with a market share of 40%, followed by religious institutions and charities (30%), public pension funds or reserve funds (20%), as well as endowments & foundations (10%).

Market Predictions

On the whole, the players on the sustainable investment market are positive about the future. They are typically assuming growth in sustainable investments of between 20% and 50% over the next three years. Integration of sustainability criteria into financial analysis as well as Engagement and voting are especially seen as approaches with high growth potential. In the opinion of the surveyed financial institutions, the key driver of further growth will continue to be institutional investors, followed by legislation and retail investors. In addition, Switzerland has a broad skillset in sustainable and Impact investment available.

The Swiss SRI market itself has a lot of potential represented in its strong and diversified finance companies and organisations, as well as NGOs such as the Swiss Sustainable Investment Forum (FNG), the Sustainable Finance Geneva (SFG) and the newly formed Swiss Sustainable Finance (SSF), which replaces The Sustainability Forum Zürich (TSF). All these players will help to further develop, promote and strengthen the sustainable Swiss financial centre.

Focus 12: The Minder Initiative

It ranks among the referendums with the highest approval rates in Swiss history: The Minder Initiative against excessive remunerations – also known as "fat cat initiative" – has been adopted by a vast majority of almost 68% of Swiss voters in March 2013 and, furthermore, triggered lively debates across Europe on how to curb golden handshakes and golden parachutes. The corresponding transitional regulation was published by the Swiss Federal Council in January 2014 and will be legally binding as of 2015. The demands of the initiative must then be embodied in the Swiss Constitution.

But what was it that drove Swiss citizens to the ballot box and strongly echoed in the international press? The initiative, fathered by the business man and independent politician Thomas Minder, was a reaction to salaries and compensations of individual managers from large Swiss companies and banks that were perceived as being exorbitant.

As a result, the proposed law includes, amongst other things, a ban to pay off managers of listed companies with compensations, premiums for acquisitions or sales of companies and suchlike along with the obligation that AGMs vote on the total remuneration of their board, executive board and advisory board. In addition, it requires the AGM to elect the members of the board and the remuneration committee plus an independent proxy voter. Apart from that, pension funds are obliged to vote in the interest of their policyholders and have to disclose their voting behaviour. Violations are sanctioned by imprisonment for up to three years.

The last-mentioned regulation specifically for pension funds has generated criticism as this asset owner group is estimated to hold only around 5% of blue chip securities, which implies that 5% of shareholders come under this law, whereas 95% are not affected at all. However, observers of the Swiss market emphasise that the initiative has contributed to enhancing the public debate on good governance and helped to anchor and further develop active voting practices of Swiss pension funds. In any case, the exercise of voting rights within the Swiss sustainable investment market has increased in Switzerland within the last two years – even though it is difficult to say whether this can– even only partially – be credited to the Minder Initiative or not.

UKSIF
UK Sustainable Investment and Finance Association

United Kingdom

Highlights

- Europe's largest Sustainable and Responsible Investment market;
- Wide range of techniques and approaches;
- Evolving and potentially supportive legal developments.

Country Introduction

The UK is a world leader in sustainable and responsible finance, with expertise evidenced across asset classes, product types and target markets. This expertise is closely linked to: developing views in civil society; debate stimulated by mainstream politics in areas such as wealth creation, wealth distribution, fracking and airport expansion; NGO presence and research; and a legal/regulatory environment that recent developments suggest may become more supportive.

Intellectual and NGO Environment

The UK is home to a wide variety of NGOs and thinkers in the SRI area. UKSIF (the UK Sustainable Investment and Finance Association) is the membership association for companies active in sustainable and responsible financial services in the UK. Reflecting the UK's leading international position in SRI, many significant global organisations are based in the UK, including the Carbon Disclosure Project, the Carbon Tracker Initiative, the Institutional Investors Group on Climate Change and the UN-backed Principles for Responsible Investment. Intellectual analysis on a variety of problems comes from many sources, including the NGOs, universities (where there are over 1200 post-graduate courses with sustainability as a theme), leading investment banks with teams in London and international investment consultancies.

Geographical Spread

The necessary SRI skills can be found throughout the UK. Financial adviser coverage for saver/retail support is nationwide; private banking services for wealthier savers are provided by firms with regional office coverage around the country; at the institutional level, London is the largest centre, with Edinburgh representing an alternative centre of expertise.

Types of Provider

In asset management, providers range widely in size. There are a variety of smaller SRI providers with defined and distinct approaches, a large number of primarily UK focused firms offering broader services, and a smaller number of larger firms that operate on a multi-national basis. The latter are typically not UK owned but do have significant SRI expertise in London and elsewhere.

In banking, there are signs of potentially significant change among the large incumbents. The large UK banks suffered badly in terms of reputation during the financial crisis and are now trying to re-engage with society. Typically, the banks are amplifying their commitments to responsible behaviour and providing more detail of positive investment, but it remains to be seen whether this will be translated into patterns of behaviour on the ground. As part of this process, some of the large banks are beginning to disengage from some areas of investment banking activity. UKSIF sees the banks failing to successfully rebuild their reputation as a significant risk to wider UK financial services, with the issue damaging confidence in savings and pensions.

Smaller banks, and those providing services described as ethical and/or sustainable, have seen rapid growth in assets with NGO campaigns publicising their availability. This is despite one well-established leader in the sector suffering serious financial reverses as a result of poor internal governance.

Legal/Regulatory Framework

There has been considerable change in the wider UK legal and regulatory environment with respect to sustainable and responsible finance and there are signs of more to come.

In 2011, the Charity Commission, the independent regulator of charities for much of the UK, published guidance on investment and the extent to which charities could consider their wider aims in setting investment policy. Broadly the Commission said that charities that had considered the relevant issues, taken advice, and acted reasonably were unlikely to be criticised for adopting a particular investment policy, with this language sitting alongside an explicit endorsement of ethical investment. The process of implementing this approach is underway with Comic Relief, one of the UK's best known charities and the target of recent public criticism over its investments, announcing a new investment policy in May 2014.

In a linked area, the Law Commission, an independent statutory body that keeps the law under review, is consulting on changes to the law relating to social investment by charities and seems likely to recommend a new statutory power permitting such acts by charities. This consultation is underway shortly after the Law Commission announced the results of a consultation on fiduciary duty with respect (primarily) to defined benefit pensions (see box). Whilst the final results of the two Law Commission consultations are not yet known, when taken together with the Charity Commission guidance they represent potentially significant permissive moves which should expand the SRI market.

In practical terms, for shareholders, the period since 2012 has seen the introduction of a binding vote on executive pay and the introduction of mandatory greenhouse gas emission reporting for many companies. Pay votes in 2014 have seen

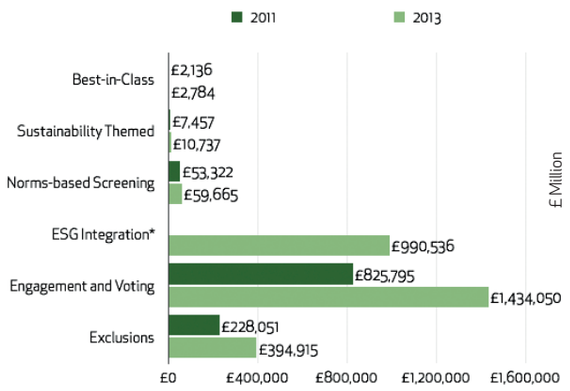
several large asset managers publicly oppose company proposals and this reflects far more challenges made privately. Shareholder engagement and activism continues to grow.

There is a UK General Election in 2015. It is probably fair to say that the coalition government –unusual in the UK- has not stimulated debate on environmental issues due to the split of views between and within the coalition parties. This relatively low level of political attention has coincided over the past 12 months with the UK's wettest winter on record and the third warmest spring since 1910. The Prime Minister said he "suspected" the wet winter was linked to climate change. It is possible that if weather extremes continue, environmental issues will rise up the political agenda and become combined with continuing debate on issues such as the price of energy, wind turbines and fracking. At this stage, it is impossible to predict the outcome of the 2015 general election and the policy environment that will follow it.

SRI Market Size and Characteristics

The most practiced strategy in the UK by AuM is Engagement and voting with the strategy covering some £1.434 trillion. This strategy saw a CAGR of 31.8% between 2011 and 2013. This growth and scale is the result of a now widespread view on the part of large asset owners that it is best practice to instruct their managers to vote. Linked to this development is the view of many managers that it is also best practice to vote in respect of smaller institutional and retail portfolios.

FIGURE 1: UK Market Breakdown by Strategy



Source: Eurosif * Includes explicit and systematic practices only

Several managers are moving to integrate ESG explicitly into their process and this is now the second most prevalent strategy. Exclusions is the third most practiced strategy, with the growth reflecting acceptance of international conventions such as the ban on land mines.

Market Predictions

UKSIF believes several trends can be realistically forecast:

Growth in conforming: several national and international initiatives have gained traction in the UK. The UK Stewardship Code, a series of commitments made by owners, has been signed by 79 asset owners and over 200 fund managers. The PRI continues to make strides in UK membership:

Signatory category	Summer 2010	Summer 2012	Summer 2014	% Increase 2014 on 2012
Asset manager	57	84	111	32%
Asset owner	22	28	39	39%
Service provider	26	27	30	10%

It seems likely that for large and/or significant stakeholders in all sectors of the asset management value chain, compliance with appropriate codes and standards will become the norm. The possibility exists that the evolving legal framework (see above and text box) will further stimulate and support this growth. The challenge, of course, is to make sure the compliance is more than skin deep. There are now relatively few large UK based fund managers who do not claim to vote their shareholdings. In that sense, the first stage of the Engagement battle has been won and the aim must now be to make best use of those votes.

Intellectual acceptance/integration. Anecdotal evidence is that integration of SRI concepts into investment thinking is continuing to gain ground. This trend probably reflects the relative simplicity and conventional nature of some hypotheses e.g. that the threat and impact of a carbon tax can be incorporated into conventional company analysis, whilst at the asset class level SRI threats can be expressed in conventional risk/return/volatility terms.

Continued innovation. The UK industry continues to create products either to broaden the market or to meet market demands. In recent months, a new bond fund aimed at supporting and funding socially beneficial activities and development in the UK has been launched as has the world's first carbon free passive index.

Impact investing. The UK government has paid attention to public interest in impact/social investment by introducing a tax credit for qualifying investments made by individual taxpayers, which is expected to stimulate £500 million of additional investment in five years. At the institutional level, growth has been relatively muted, but a group of five local councils did tender a mandate for up to £250 million of investments that had a positive social or environmental impact. Our forecast is that there will be continued interest in Impact investing, but in the short term it will be driven from the bottom up by small investors rather than large.

Focus 13: The Fiduciary Duty Review in the UK

Fiduciary duty is a complex UK legal concept. It also exists in other jurisdictions linked historically to the UK notably Australia, Canada and the United States. A layperson's summary of the UK position would say that it revolves around "doing your best for anyone for whom you have a responsibility". The concept has lacked precision because it is defined by reference to past law cases rather than statute law.

With this lack of precision, the view developed in some significant areas of thought leadership that fiduciary duty required the maximisation of short-term financial return. This hindered SRI and ESG investment, but was also deemed to handicap equity investment more widely. As a result, the Law Commission, a statutory body that advises on the law, was asked to review the position.

The Law Commission produced a very detailed initial assessment and invited comment. The Law Commission received 96 responses from a wide variety of parties: pension funds, fund managers, lawyers and NGOs. The issue has, therefore, been thoroughly aired and it is to be hoped that the resulting changes will represent a long-term resolution on this use. This is an initial assessment of the key findings:
From the SRI/ESG perspective, the results are very welcome. In the words of the Commissioner:

"The law does not prevent trustees from taking a long-term view when setting investment strategies. They are free to take account of Environmental, Social and Governance issues or ethical factors where they are financially material or where the tests we have set out are satisfied".

In UKSIF's view this is a sensible conclusion, and given the weight of evidence that ESG factors can be financially material, it offers the chance of accelerating the move to sensible investment.

The Law Commission points to difficulties with 'ethics' as a concept, and cites established law that means trustees cannot bring their own ethical perspectives to their decisions. But the Law Commission does say in a summary of its report:

"Where poor business ethics raise questions about a company's long-term sustainability, we would classify them as a financial factor which is relevant to risk".

It seems likely that by making the equation that "poor ethics means poor business means poor investment", the essentials of ethics, if not the word itself, can now be legitimately raised by trustees.

In the UK, defined contribution pension schemes are growing far faster than defined benefit and there have been concerns over the less robust governance structures that exist in some forms of DC. The UK Government has begun to act on the issue and the Law Commission has endorsed this saying:

"We therefore recommend that [schemes]…owe a statutory duty to scheme members to act, with reasonable skill and care, in members' interests".

It is accepted that there is a lot more work to do on DC governance, but the endorsement from the Law Commission is welcome. UKSIF and others had hoped that the Law Commission would recommend a statutory clarification on the wider issue of fiduciary duty. The Law Commission did not go that far, citing fears that changes driven by pension fund concerns might complicate the operation of other fields affected by fiduciary concerns such as family offices. Instead, the Law Commission has asked three bodies, the Government, the Pensions Regulator and the Financial Conduct Authority, to act in specified ways in the areas for which each has primary responsibility. This means it will be a while before the law Commission's recommendations are made effective, but the direction of travel is encouraging.

Glossary and Abbreviations

Asset manager	Organisation or individual managing investments on behalf of a client.
Asset owner	Owner of investments managed by asset manager.
Best-in-Class investment selection	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.
Engagement and voting on sustainability matters	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.
Exclusion of holdings from investment universe	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors or countries.
GSIA	Global and Sustainable Investment Alliance (www.gsi-alliance.org).
High Net Worth Individuals	Individual with more than US$1 million in liquid financial assets.
Impact investment	Impact investments are investments made into companies, organisations 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 internally manage a part of their invested assets.
Institutional mandate	Bespoke investment portfolio designed for professional investor (institutional separate account or separately managed account are other common terms used by the industry).
Integration of ESG factors in financial analysis	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.
Microfinance	Microfinance generates a social value by improving access to financial services, mostly in emerging and developing economies. Commonly, investments into microfinance are channeled 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.
PRI	Principles for Responsible Investment.
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.
Sustainability themed investment	Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

List of Surveyed Organisations

A Plus Finance • Aberdeen Asset Management Finland • Absolute Portfolio Management GmbH • ACATIS Fair Value Investment AG • Aegon Asset Management • AEW Europe • AFA Försäkring • Agicam • Agrica • Alcyone Finance • Alliance Trust Investments • Allianz GI France • Allianz Global Investors • Allianz Popular Pensiones /Allianz Popular Asset Management • Allianz Real Estate France • AMF • Amundi Asset Management • Amundi Immobilier • AP1 • AP2 • AP3 • AP4 • AP6 • AP7 • Aquila Capital Structured Assets GmbH • ASR Nederland N.V. • ATLANTIS SEGUROS • Aviva Investors France • AXA IM • Banca Reale Spa • Bank für Kirche und Caritas eG • BANK IM BISTUM ESSEN eG • Bank J. Safra Sarasin • Bank Vontobel AG • Bankhaus Schelhammer & Schattera Kapitalanlagegesellschaft m.b.H. • Bankia Pensiones S.A. E.G.F.P. • Banque Cantonale de Genève – BCGE Asset Management • BAWAG P.S.K. INVEST GmbH • BayernInvest Kapitalanlagegesellschaft mbH • BBVA ASSET MANAGEMENT, S.G.I.I.C, S.A. • Bethmann Bank AG • Bethmann Bank AG - Vermögensverwaltung - • BlueOrchard Finance S.A. • BNP Paribas Cardif • BNP Paribas IP • BNP Paribas REIM • Caisse des Dépôts • Caja Ingenieros Gestión SGIIC, SAU • Candriam Asset Management • Care Group AG • Cassa di previdenza aziendale per i dipendenti della Banca MPS • CATUS AG Vermögensverwaltung • CCR AM • Cedrus AM • CM-CIC AM • CNP Assurances • Colonial First State Global Asset Management • Cometa Pension Fund • Comgest • COMPAGNIA DI SAN PAOLO • CONINCO Explorers in finance SA • Consorzio Etimos S.c. • Cooperlavoro Fondo Pensione Complementare • Corum AM • CPR AM • Craton Capital Ltd • Credit Suisse AG • Danske Capital • De Pury Pictet Turrettini & Cie S.A. • Deka Investment GmbH • Delta Lloyd Asset Management • Deutsche Asset & Wealth Management • Deutsche Zurich Pensiones, E.G.F.P. • Diamant Bleu Gestion • DNB Asset Management • Ecofi Investissements • Edmond de Rothschild AM • ENERTRAG EnergieInvest GmbH • eQ Asset Management Ltd • ERSTE ASSET MANAGEMENT • Etablissement de Retraite Additionnelle de la Fonction Publique (ERAFP) • Etera Mutual Pension Insurance Company • Ethias • Ethos Services SA • Etica Sgr • Evangelische Kreditgenossenschaft eG • Evli Bank Plc • F&C Investments • Federal Finance Gestion • Fédéris Gestion d'Actifs • Ferd Social Entrepreneurs • Fideuram Asset Management Ireland • FIDURA Private Equity Fonds • Finance in Motion GmbH • Financière de l'Echiquier • Folketrygdfondet • FONDAZIONE CARIPLO • FONDENERGIA • Fonditel pensiones • FONDO DE PENSIONES DE EMPLEADOS DE BBVA • FONDO DE PENSIONES SANTANDER EMPLEADOS • Fondo pensione complementare pe ri dipendenti della BMPS post 91 • Fondo pensione per i dipendenti del gruppo credito valtellinese • Fondo Pensioni del Gruppo Sanpaolo IMI • Fondo Pensioni del Personale del Gruppo BNL/BNP Paribas Italia • Fonds de Réserve pour les Retraites (FRR) • Fongepar Gestion Financière • Fronteris Energie AG • Generali Investments Europe • GLS Bank • GOOD GROWTH INSTITUT für globale Vermögensentwicklung mbH • Groupama AM • Groupe OFI • Handelsbanken Asset Management • Hauck & Aufhäuser (Schweiz) AG • Hermes Fund Managers • HSBC Global AM (France) • Humanis Gestion d'Actifs • HYPO CAPITAL MANAGEMENT AG • Ilmarinen • Impax Asset Management • ING Investment Management International • Invesco Asset Management Deutschland GmbH • Invest in Visions GmbH • Investec Asset Management • IRCANTEC • Kames Capital • Kammarkollegiet • KBC Asset Management • KEPLER-FONDS KAG • Keva • KLP • La Banque Postale AM • La Financière Responsable • La Française AM • La Francaise REM • Lacuna AG • LBBW Asset Management Investmentgesellschaft mbH • Legal & General Investment Management • LGT Capital Management • LocalTapiola Asset Management • Loyalis • MAIF • Mandarine Gestion • MAPFRE VIDA DOS F.P. • MEAG • Meeschaert AM • Menzis Zorgverzekeraar • Meriten Investment Management GmbH • Metropole Gestion • Migros Bank AG • Missionszentrale der Franziskaner • Mistra • Natixis AM and Mirova • Neuflize OBC Investissements • NORD/LB Kapitalanlagegesellschaft AG • Nordea Asset Management • Nordea Investment Management • Norwegian Government Pension Fund/Finansdepartementet • Notenstein Privatbank AG • oeco capital Lebensversicherung AG • ÖKOWORLD LUX S.A. • Oltre Gestioni srl • Palatine AM • Perial AM • PGGM Vermogensbeheer B.V. • Pictet Asset Management • Pioneer Investments • Pocztylion - Arka Powszechne Towarzystwo Emerytalne S.A. • Pohjola Asset Management • Polsko-Amerykański Fundusz Pożyczkowy Inicjatyw Obywatelskich Sp. z o.o. • Primonial REIM • Pro BTP Finance • ProVita GmbH • Quaestio Capital Management SGR S.p.A. Unipersonale • Quantex AG • Quilvest Gestion • Raiffeisen Kapitalanlagegesellschaft mbH • Raiffeisen Schweiz Genossenschaft • Rathbone Greenbank Investments • responsAbility Investments AG • RobecoSAM AG • Roche-Brune AM • Rothschild & Cie Gestion Group • RTVE PENSIONES, FONDO DE PENSIONES • RURAL PENSIONES EGFP • Sarasin & Partners LLP • Schoellerbank Invest AG • Schroders • SEB Investment Management • Security Kapitalanlage Gesellschaft • Skandia Fonder • Skandia Lebensversicherung AG • Skandia Liv • Società Reale Mutua di Assicurazioni • Sofidy • Sparkasse Oberösterreich Kapitalanlagegesellschaft mbH • Sparkasse OEE • Standard Life Investments • State Pension Fund (VER) • Steyler Bank GmbH • Storebrand • Swedbank Robur • Swisscanto Asset Management AG • Sycomore AM • Symbiotics SA • The Church of Sweden • The Church Pension Fund • Threadneedle Investments • Towarzystwo Inwestycji Społeczno-Ekonomicznych SA • Triodos Investment Management • Truestone Impact Investment Management • UBI Banca • UBS Global Asset Management • Union Investment • Unipol Gruppo Finanziario S.p.A. • Van Lanschot Bankiers & Kempen Capital Management • Varma Mutual Pension Insurance Company • Veritas Investment GmbH • Viveris REIM • VOIGT & Coll. GmbH • Volksbank Invest Kapitalanlagegesellschaft m.h.H. • Windwärts Energie GmbH • Zürcher Kantonalbank

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

Endnotes

[1] EFAMA, Asset Management in Europe, June 2014.
[2] Markets for which detailed ESG integration data was available or estimated cover €5.9 trillion of SRI assets (when summing all strategies, but excluding CM & APL overlays). This equates to about 80 % of the total SRI assets covered in this study.
[3] 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. Note that Eurosif is a member of GSIA (www.gsi-alliance.org).
[4] Global Sustainable Investment Alliance (GSIA), 2012 Global Sustainable Investment Review.
[5] PRI Reporting Framework, 2013 Main Definitions.
[6] "EFAMA Guidance on RI information in the KIID & Post Investment Disclosure", 16 February 2012.
[7] For instance, if a German asset manager with a portfolio management team based in Zürich is managing assets for a Dutch pension fund, these assets will be counted against Switzerland. If the portfolio management is done out of London, the assets will be allocated to the UK market.
[8] Denmark is not covered due to a particularly low response rate by local market participants.
[9] See Eurosif's European SRI Market Study 2012 for more details.
[10] Compound annual growth rate (CAGR) calculated (2013/2011)^0.5-1).
[11] Such conventions do not fall under Eurosif's Norms-based classification as Norms-based screening covers, according to Eurosif's definition, simultaneous screens on the three Environmental, Social and Governance dimensions.
[12] As of the end of 2013, total professionally managed assets in Europe reached an estimated €16.8 trillion. Source: EFAMA, 2014.
[13] France: All exclusions (overlay and funds/mandates); Belgium, France, Netherlands: CM & APL excluded by law; Poland: 2011 figure corrected to €612 million from €1,174 million.
[14] Poland: 2011 figure revised to zero from €13 million; Belgium: 2011 figure revised to €92,330 million from €13,830 million.
[15] Switzerland: 2011 figure is Engagement only.
[16] COM(2012) 740 final.
[17] Standford Social Innovation Review, Paul Brest and Kelly Born, "When Can Impact Investing Create Real Impact?," Fall 2013.
[18] K. Wilson, "New Investment Approaches for Addressing Social and Economic Challenges", OECD Science, Technology and Industry Policy Papers, No. 15, OECD Publishing, 2014.
[19] http://www.thegiin.org.
[20] World Economic Forum, "From the Margins to the Mainstream", 2013.
[21] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds.
[22] Uli Grabenwarter & Heinrich Liechtenstein, IESE research project, "In search of gamma: An Unconventional Perspective On Impact Investing".
[23] Boston Consulting Group and Big Society Capital, "The First Billion", 2012.
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[26] Ibid.
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[31] Source: GIIN website and http://www.ssireview.org/blog/entry/why_iris.
[32] Social Finance UK launched the world's first SIB in 2010 to fund interventions aimed at reducing the rate of recidivism among ex-offenders leaving Peterborough prison.
[33] ABN Amro, "Social Impact Bonds opportunities and challenges for The Netherlands", September 2013.
[34] City of London, "New Specialist Sources of Capital for the Social Investment Market", 2014.
[35] Note that the figures shown in percent in this section mainly refer to SRI funds and mandates, and are therefore a subset of overall European SRI assets. This is consistent with previous years. Some data do not cover all respondents' assets, but data displayed has sufficient coverage to characterize the markets.
[36] See list of top reported holders of corporate self-labelled green bonds in Bloomberg New Energy Finance, Green Bonds Market Outlook 2014.
[37] Examples of this would be the French Nord-Pas-de-Calais region in 2008, the Swedish city of Göteborg, the Norwegian Kommunalbanken and the French Région Ile de France in 2013. Note that sometimes these bonds combine environmental and social objectives.
[38] Bloomberg New Energy Finance, Green Bonds Market Outlook 2014.
[39] Note: One of the eligibility criteria for the label is compliance with the European SRI Transparency Code developed by Eurosif.
[40] Note: Eurosif was not able to distinguish the different categories of ESG integration used in the Austrian market. The reported figure covers all types of ESG integration (see European section for more details).
[41] According to the most formalised ESG integration approach, see dedicated paragraph.
[42] Note: this figure includes all types of ESG integration. An estimated €3.3 billion AuM are subject to a systematic and formalised ESG integration process (see European section for more details). However, this number should only be taken as an indication since information on the type of ESG Integration being practiced has not been reported by all respondents.
[43] These assets are typically associated with so-called 'SRI Asset Overlays' type. This expression means that a screening or exclusion criteria is applied to a broad range of assets and not specifically to products labelled or marketed as "SRI".
[44] Figure does not include the 'SRI Asset Overlays'.
[45] Figures are converted with a currency rate as of 31 December 2013 (PLN/EUR 0.2411).
[46] Exchange rate used as of 31 December 2013 : EUR/SEK = 8,92251.
[47] Note that an estimated CHF 9.5 billion AuM (€ 7.8 billion) are subject to a systematic and formalised ESG integration process (see European section for more details). However, this number should only be taken as an indication since information on the type of ESG integration being practiced has not been reported by all respondents.

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