

Green, Social and Ethical Funds in Europe. 2010 Review

October 2010





Table of contents

2.

Key findings

Analysis

- Number of SRI funds
- Assets under management
- The size of green, social and ethical funds
 - Focus on Belgium
- Funds typology
- Top performing SRI funds
- Companies in portfolio
- Conclusions

About this report

- The research
- The objectives
- Use of this report
- Definitions
- Funds not taken into account
- Funds domiciliation and coverage

The SRI Shareholder Identification Service

Vigeo



3.

— Key findings



Socially responsible investing: 2010 key data...

4.

Impressive growth in the number of SRI retail funds for the second year in a row: +29%, from 683 to 879, after a 27% growth between 2008 and 2009.

Total assets under management increased by 41%: from €53 bn, to €75 bn in 12 months time.

Spectacular increase in assets and number of funds in France, Switzerland, Germany and Belgium.

Amundi, Friends Provident Pensions and OFI Asset Management funds rank at 1°, 2° and 3° place in terms of SRI asset under management (only retail funds).

European SRI funds are now more important in the overall funds industry, with assets reaching 1.34% (from 1.11%) over total UCITS* assets.



The SRI market is consolidating over time, with a few large players accumulating a growing share of AUM.

France ranks first again in terms of AUM.

Investment policies are always evolving in terms of:

- Styles,
- Specialisations (human capital, healthy living, environment, climate change),
- Regional allocation (emerging European economies),
- Financial allocation (small and mid cap).

Inflows into capital protected funds are very strong.

Conversion of existing funds into SRI funds boost both assets and number of available products.



6.

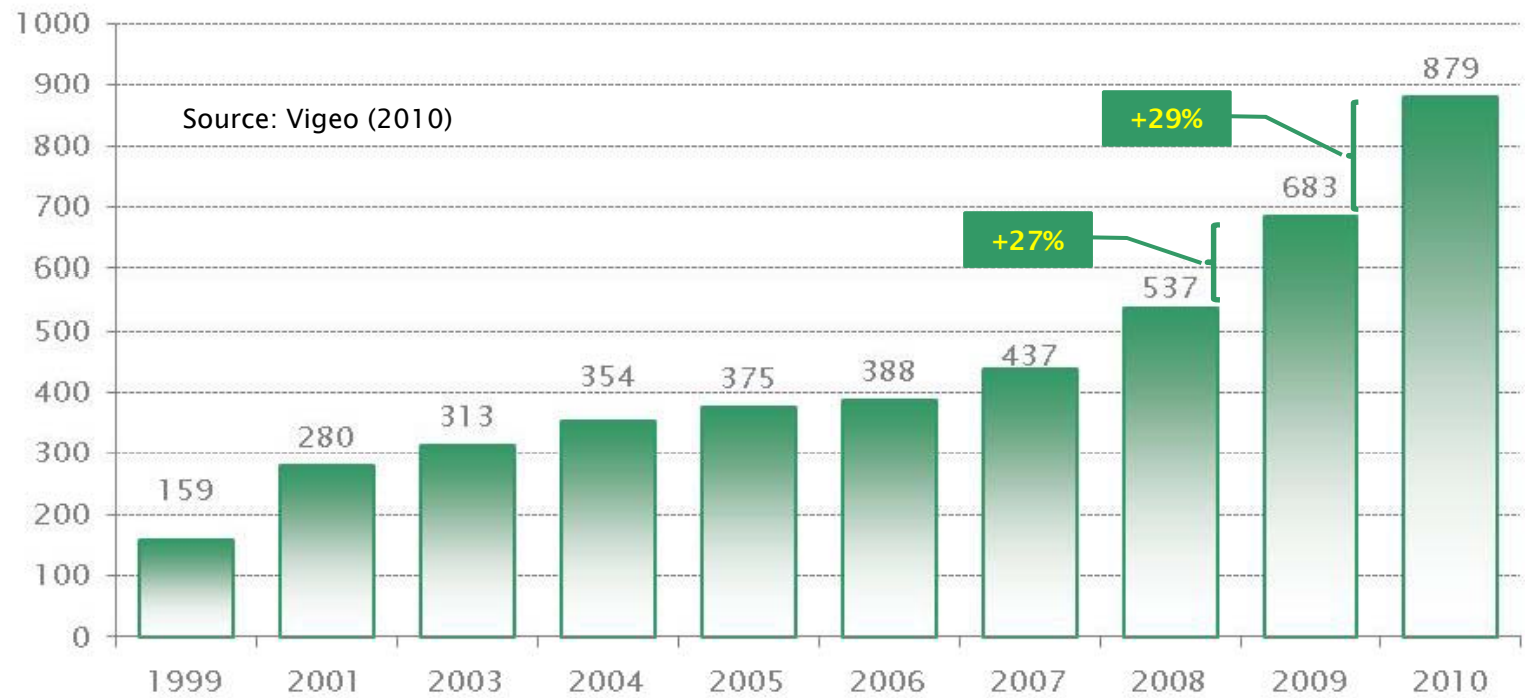
— Analysis



Number of SRI funds

7.

Number of SRI Funds, cumulated, in the period 1999 to 2010
(on June 30, 2010)

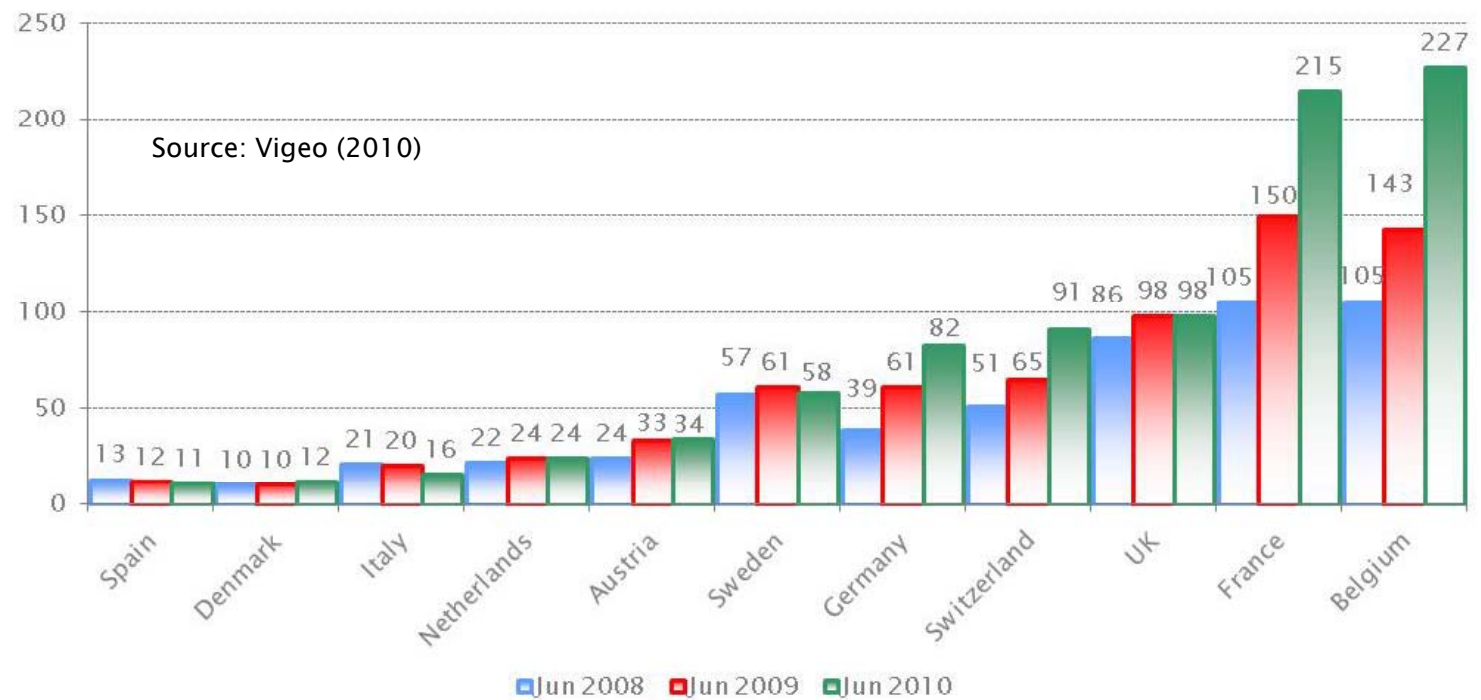




Number of SRI funds per country

8.

Number of SR funds domiciled in each country
(on June, 30 2010)





SRI Funds in Europe (number)

9.

As of June 30, 2010, there were 879 green, social and ethical funds domiciled in Europe, with an increase of about 29% over the last 12 months. This is the highest growth rate since 2001.

- This trend witnesses market players' confidence in the solidity of the rationale behind RI, becoming a clear choice for several asset managers, converting their existing funds to SRI and launching new products.

France, Belgium, the United Kingdom, and Switzerland account for 72% of total SRI funds.

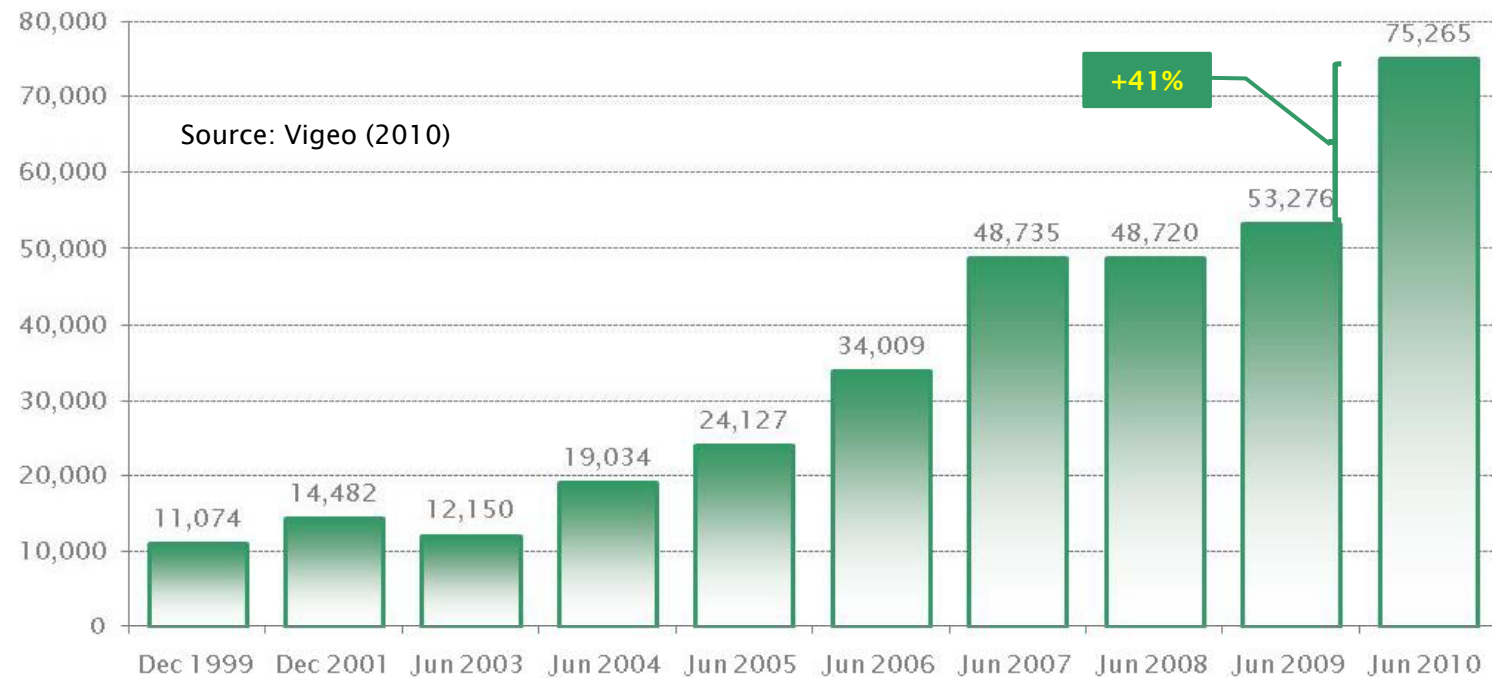
- Belgium has shown the most dramatic increase (+59%), followed by France (+43% for the second year), Switzerland (+40%) and Germany (+34%).
- Belgium, France and Switzerland confirm solid and continuous growth.
- Italy confirms the negative trend launched in 2008 with another negative result (-20%), also due to a merger of asset managers and consequent redesign of the product range, while Spain steps back to 2005 number of funds (-8%).



Assets in the SRI funds industry

10.

Total asset under management for SR funds domiciled in Europe
(end of June 2010, mIn Euro)

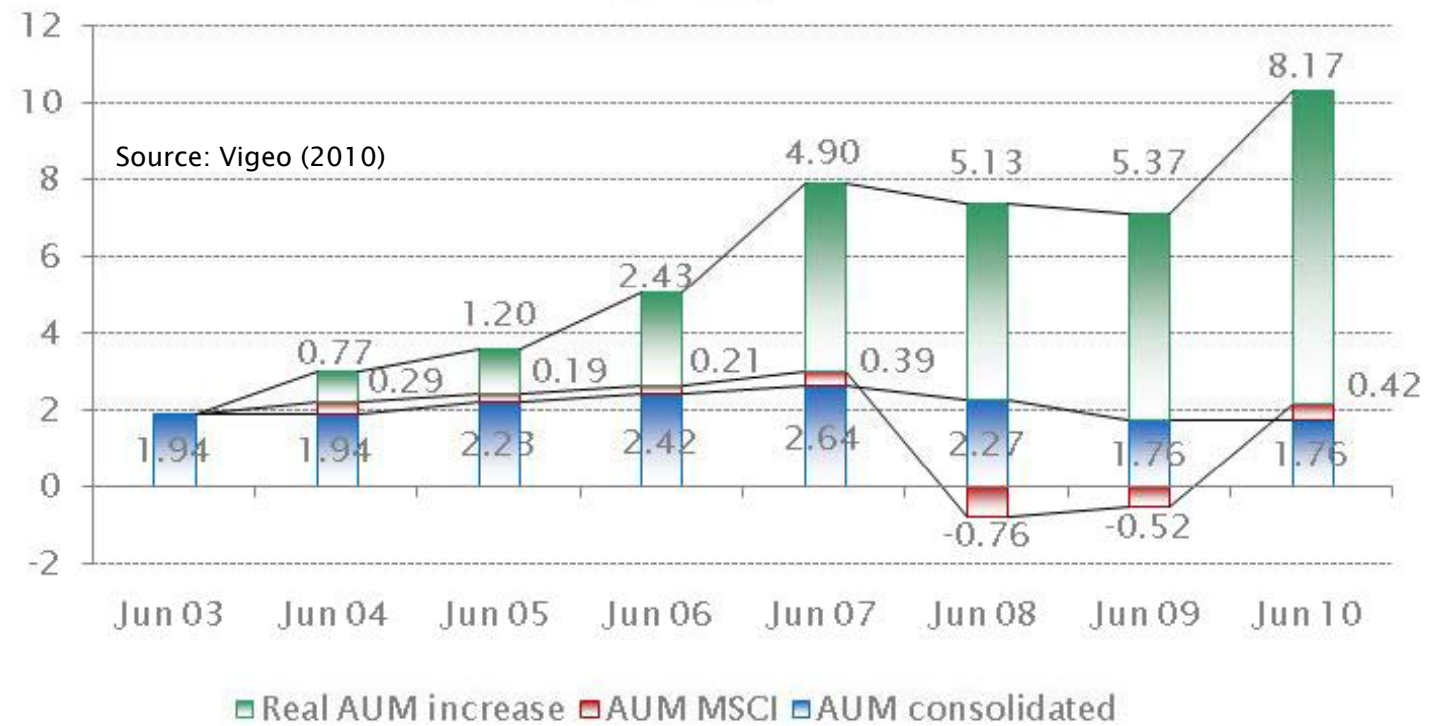




SRI assets increase vs. MSCI World Index annual growth rate

11.

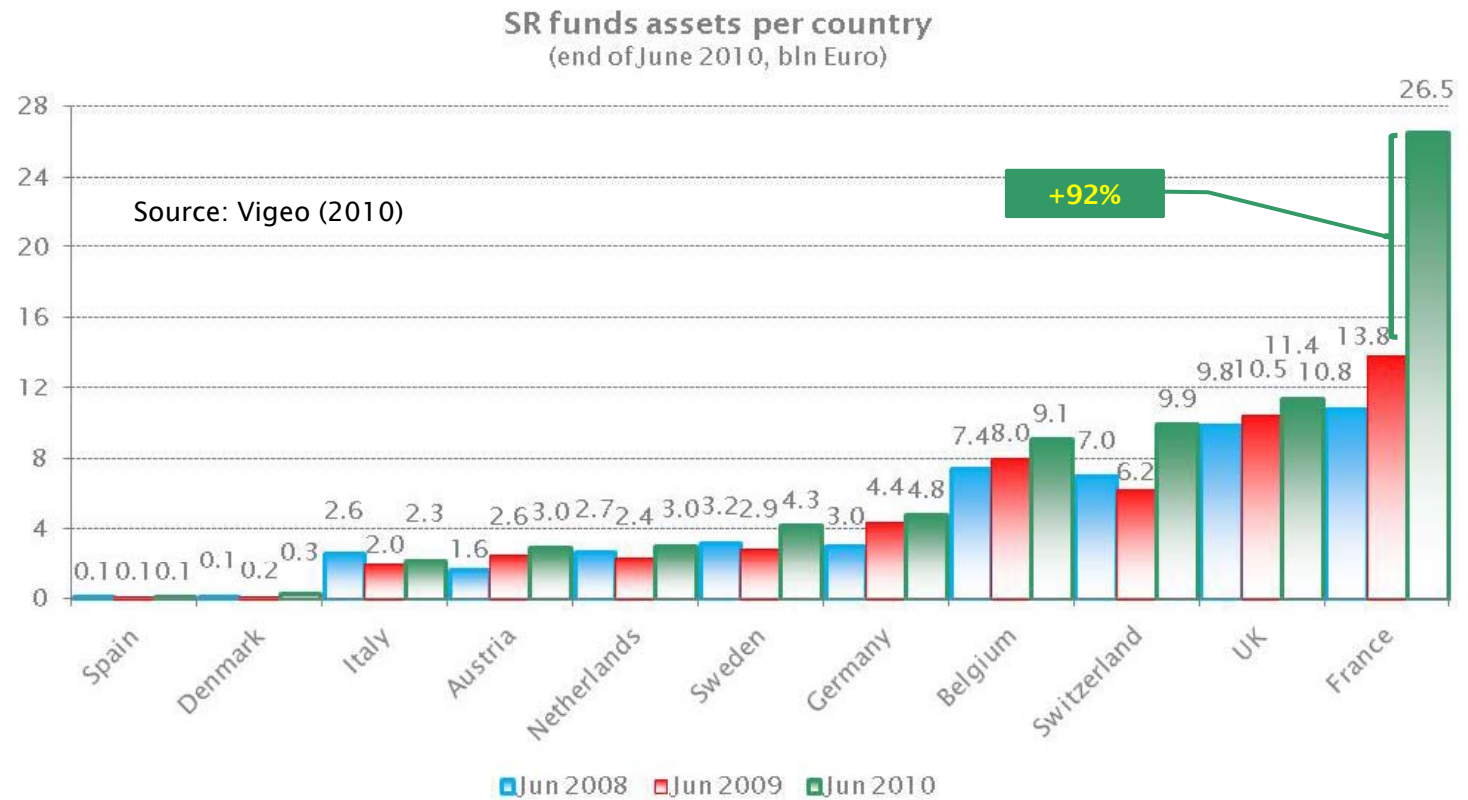
AUM equity world funds vs MSCI World Index AGR
(bn Euro)





SRI funds' assets per country

12.

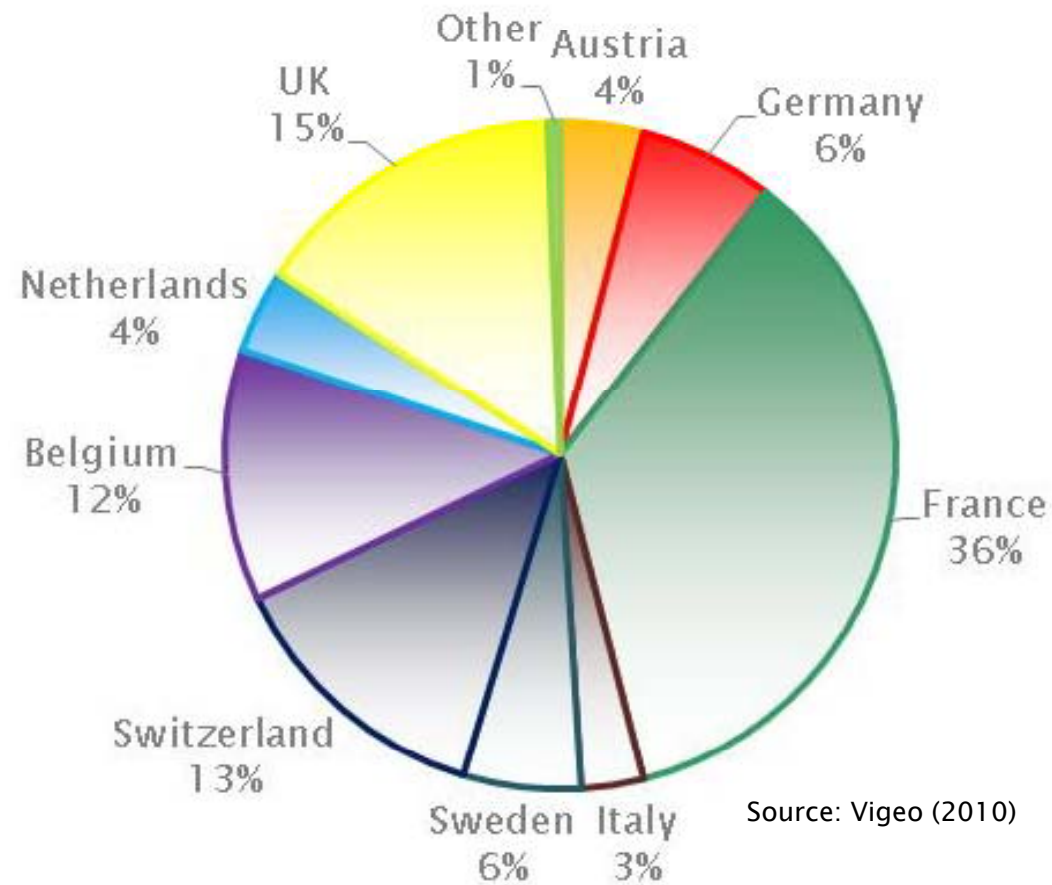




SRI funds' assets: Country/Total (%)

13.

SR funds assets per country
(% breakdown, end of June 2010)



Source: Vigeo (2010)



In terms of AUM, the assets grew by 41% in comparison with last year, now reaching €75 bn.

The comparison between AUM trends (although limited to equity global ones) and MSCI World index over the last ten years, proves that growth is not due only to portfolio appreciation but also to real flows of money – even in the worst periods.

On the whole, the picture is heterogenous and confirms 2008 and 2009 trends:

- A group of countries leads growth (FR +92%, CH +59%, SE +48%).
- In other countries SRI assets growth is moderate and probably backed by financial markets recovery (UK +9%, DE +11%, IT +13%).

The four largest markets (FR, UK, CH, BE) account for 76% of European assets.



France confirms to be the largest European SRI market (35% of the total) while the UK remains at the second rank (15%) – noting that:

- In 2008, France records the growth of monetary funds as a consequence of the financial crisis (need for a sure and liquid investment),
- Some monetary funds have been converted into SRI monetary funds

The fact that the assets are concentrated in few countries, confirms that some SRI markets have achieved the size that enables a virtuous circle (resources -> quality -> customer satisfaction -> increase in overall market share...), thanks to different reasons:

- Legislative initiatives, giving an increasing importance to sustainability (UK, FR),
- Maturity of the market.

The relative share of SRI AUM has grown vis-à-vis total UCITS:

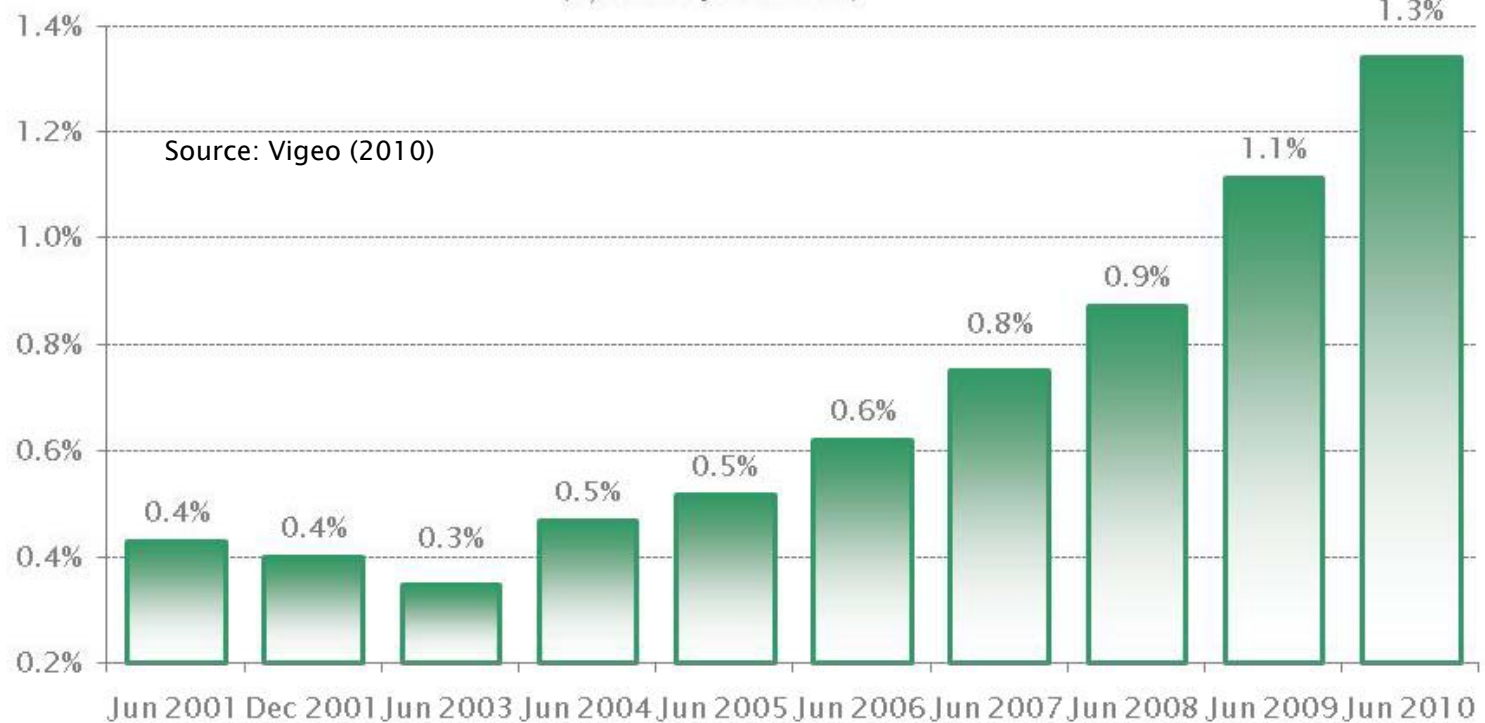
- The countries where SRI holds more weight are BE (9.86%, in 2009 9,47%*), CH (4.26%, last year 4,29%), NL (3.75%, in 2009 3,41%) and FR (1.91%, in 2009 1.02%).



Assets managed by European SRI funds over total UCITS

16.

European SR funds assets over total UCITS
(%, end of June 2010)

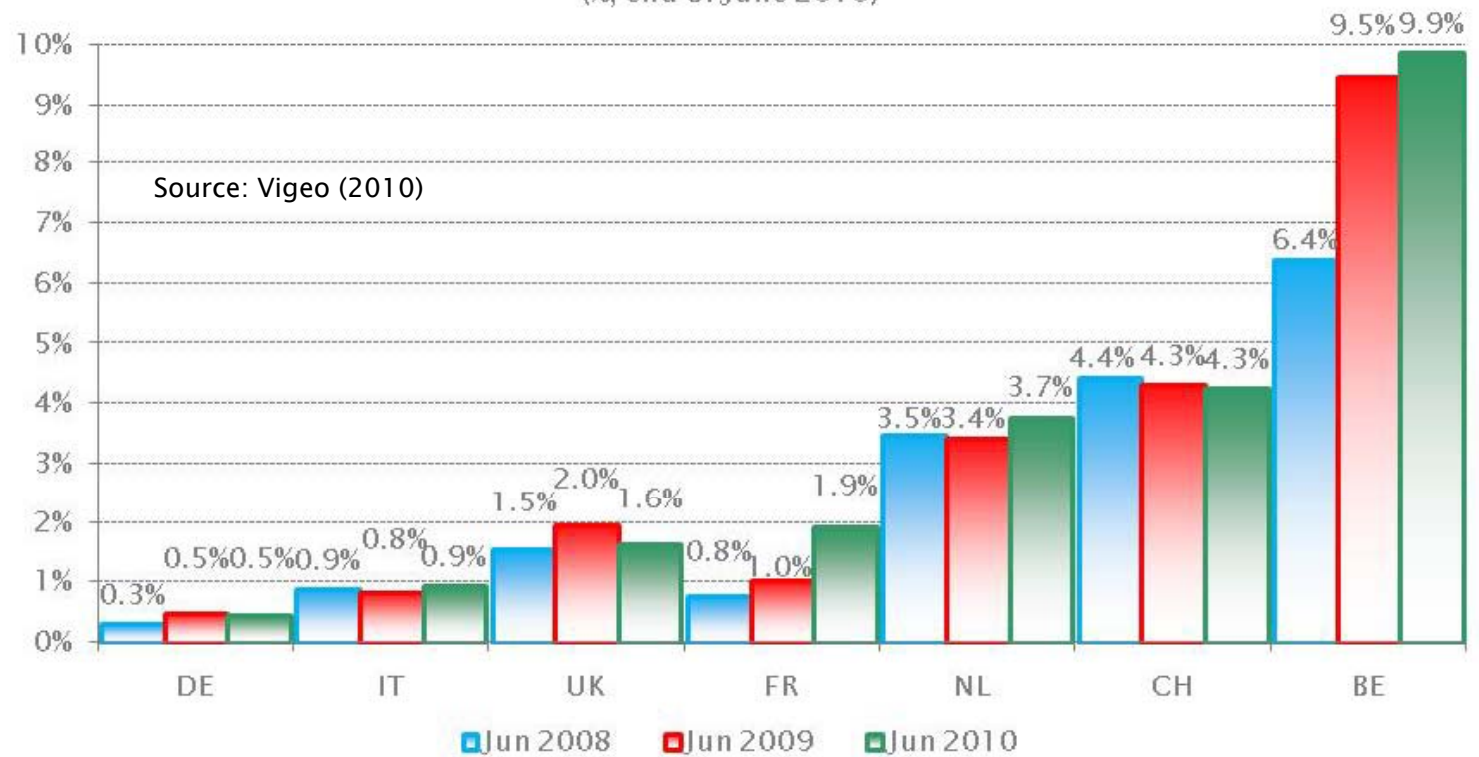




Assets managed by SRI funds over total UCITS in selected countries 17.

SR funds assets over total assets in selected countries

(%, end of June 2010)



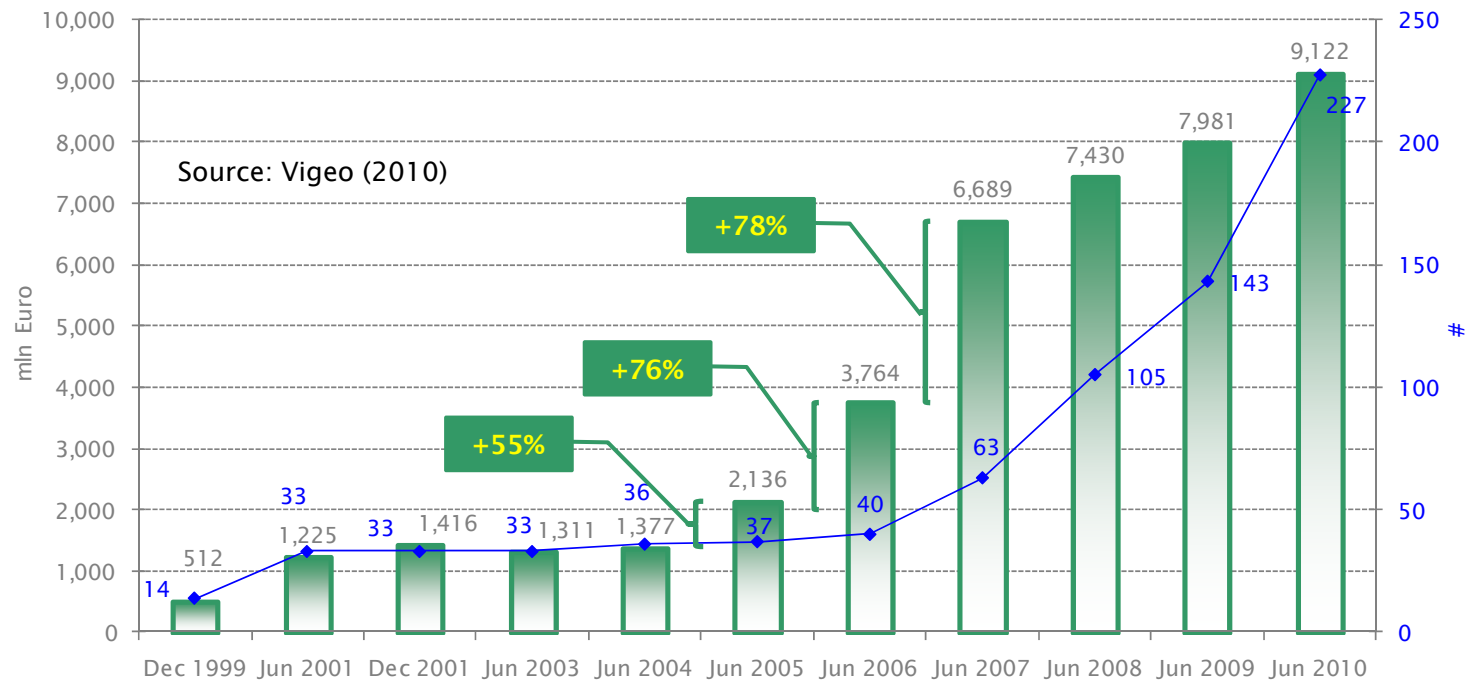


Focus on Belgium (1/2)

18.

Since 2005, Belgium has gradually become one of the prominent markets for SRI in Europe, ensuring a stable and solid growth in terms of number of funds. On the other hand, assets saw notable increases, in particular between 2004 and 2007:

Total asset under management and number of SR funds domiciled in Belgium
(end of June 2010)





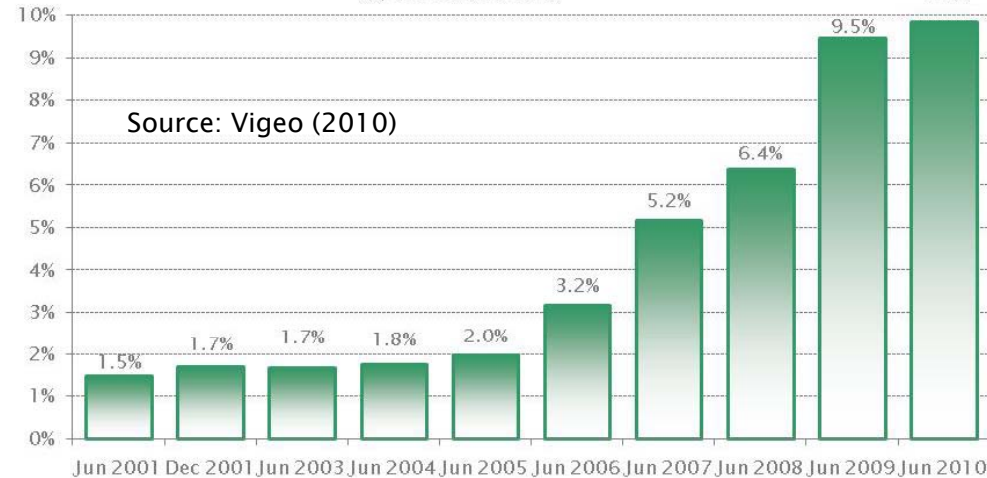
Focus on Belgium (2/2)

19.

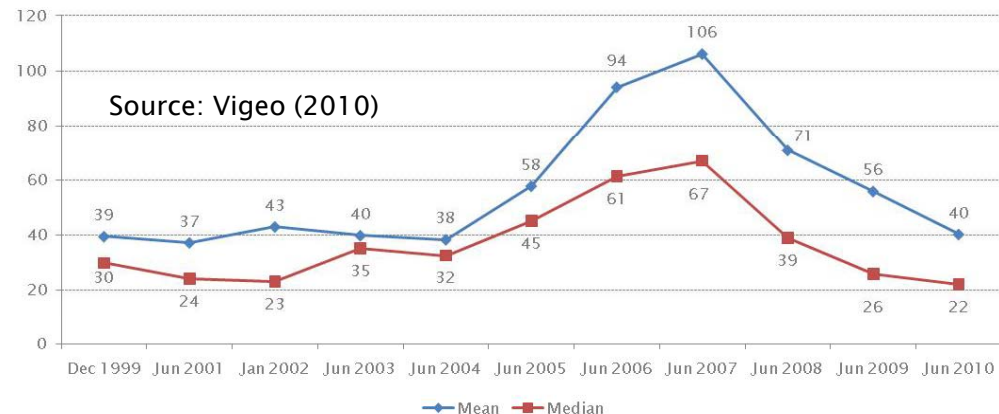
The growth is notable also in comparison with the total Belgian AUM, making up 9.86% of the whole market, the highest percentage among the European countries.

Mean and median trends confirm that the Belgian market is dominated by a few leading major players, as is the whole European stage:

Belgian SR funds assets over total UCITS
(%, end of June 2010)



Mean and Median
(mln Euro)





The size of green, social and ethical funds: mean

20.

Funds' asset mean has increased from €78 mln to €86 mln per fund, showing a slight increase (10%), following two years of decreases (€112 mln in 2007 and €91 mln in 2008):

- The mean size has increased in all countries, except for Belgium (-28%) and Germany (-18%),
- The highest mean is that of Italian funds (€141 mln), followed by Dutch, French and UK funds (€126 mln, €123 mln and €116 mln respectively).

Average assets for equity (€83 mln) continues to be lower than that for fixed income – bonds and money market – funds (€211 mln), even if higher than for balanced funds (€63 mln).



The size of green, social and ethical funds: median

21.

The median (€29 mln) has also slightly increased in comparison to 2009 (€28 mln) and remains still much lower than the average in every country, showing that all domestic markets are concentrated around a few leading funds.

This datum is particularly evident in France (mean asset €123 mln, median €28 mln), in Austria (€88 mln, €27 mln) and in Germany (€59 mln, €23 mln).



The size of green, social and ethical funds: the largest funds in Europe

22.

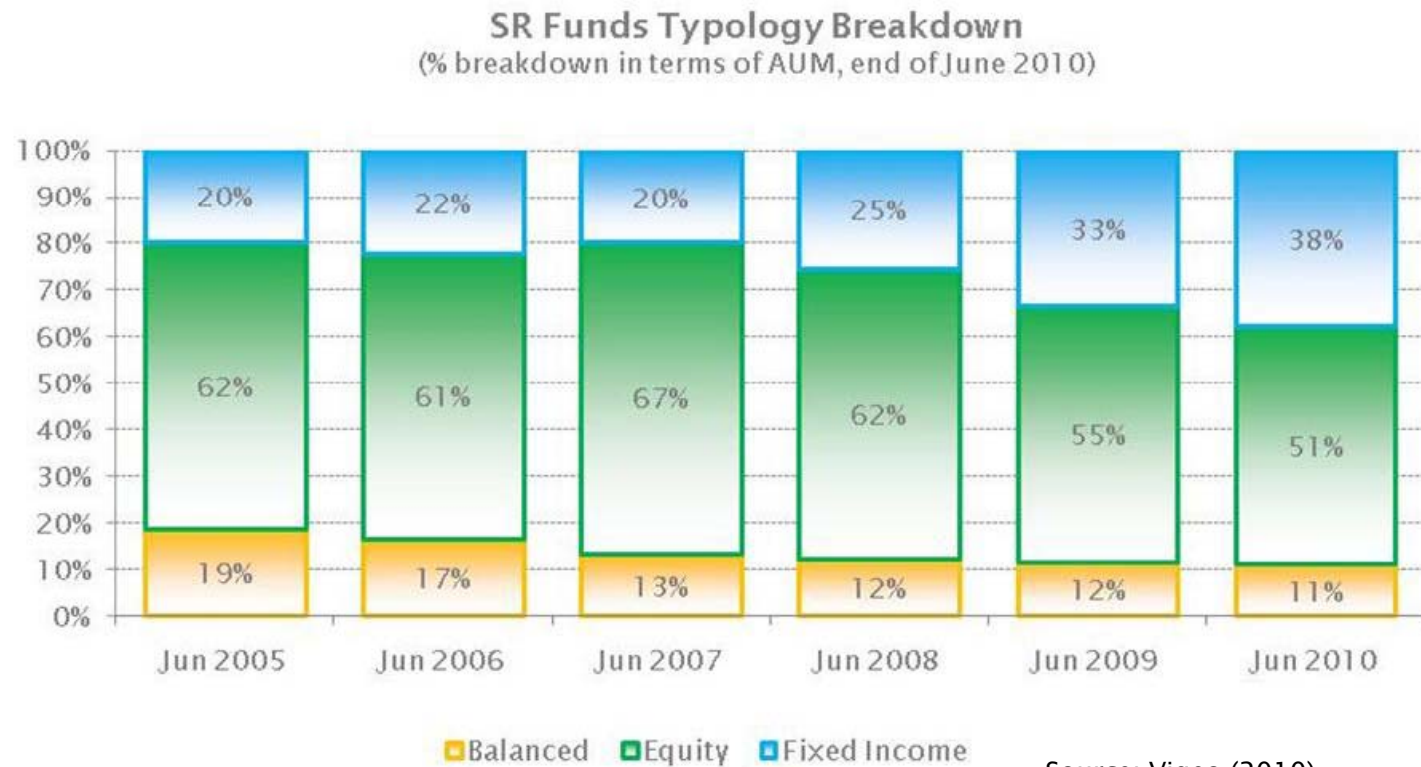
Ranking June 10	Ranking June 09	Asset Management Company	Fund Name	Country	Asset mln €
1	New Entry	Amundi	Amundi Trésor ISR	FR	6,756
2	4	Friends Provident Pensions	Stewardship Pension Fund	UK	1,325
3	New Entry	OFI Asset Management	Ofi Trésor ISR	FR	1,230
4	7	Swiss & Global AM	SAM Sustainable Water	CH	1,134
5	8	Natixis AM	Natixis Impact Aggregate Euro	FR	1,081
6	5	Allianz Global Investors	Allianz Valeurs Durables	FR	998
7	6	Macif Gestion	Macif Court terme ISR	FR	964
8	9	Pioneer AM SA	Pioneer Funds – Global Ecology	IT	921
9	New Entry	AXA Investment Managers	AXA Trésor Court Terme	FR	792
10	1	Société Générale Gestion	SG Monétaire ISR	FR	722

Source: Vigeo (2010)



SRI funds: Breakdown by tipology (AUM)

23.



Source: Vigeo (2010)



In terms of AUM (cfr. previous slide), we record again the growth (+5%) of fixed income from 33% to 38%, shifted from the equity component. The share of balanced funds remains relatively stable. The decrease of equity funds is due to the market turmoil, that has clearly affected them more than others. Besides, many investors have diverted their assets to more prudent and conservative instruments and many new SRI funds have balanced or fixed income allocations. The breakdown of SRI assets by fund typology varies greatly across Europe:

- The share of equity component is prevalent in SE (86%), UK (77%) and CH (67%),
- Fixed income are heavier in Austria (76%), France (61% from 52%) and Netherlands (41% decreasing from 49%).

In terms of the number of funds, equity funds are still the large majority (437, equal to 50%), followed by fixed income and balanced (both 126, 14%).



Top performing SRI funds in Europe

25.

The next table lists the top 5 one year performing funds, comparing funds returns with their peer groups average. The table does not aim to give information about fund managers abilities, as the ranking includes funds investing in different financial instruments/markets whose performances can't be therefore compared.

The table gives a general idea about the best performances achieved by European SRI funds during the last 12 months.

As for expenses, this year Global Small/Mid-Cap Equity funds classify as the most expensive ones (TER 5.52% on average), while the Euro Money Market Stable category emerges as the cheapest (0.34%).



Top performing SRI funds in Europe (1 year returns, end of August 2010)

26.

Asset Management Company	Fund Name	Country	Category	1y Fund Perf. (%)	1y Categ. Perf. (%)
First State Investments (UK) Ltd	First State Global Emerg Mkts Sustblty	UK	Emerging Markets Equity	42.1	30.3
First State Investments (UK) Ltd	First State As Pac Sustainability	UK	Asia-Pacific ex-Japan Equity	37.5	28.9
Swiss & Global Asset Management AG	SAM Sustainable Healthy Living	CH	Global Small/Mid-Cap Equity	36.0	15.9
Rathbone Unit Trust Management Limited	Rathbone Ethical Bond	UK	Sterling Corporate Bond	31.7	22.5
FundLogic	FSP - Emerging Markets SRI	FR	Emerging Markets Equity	30.9	30.3

Source: Vigeo (2010), elaboration on Morningstar data; returns calculated using Euro as base currency.



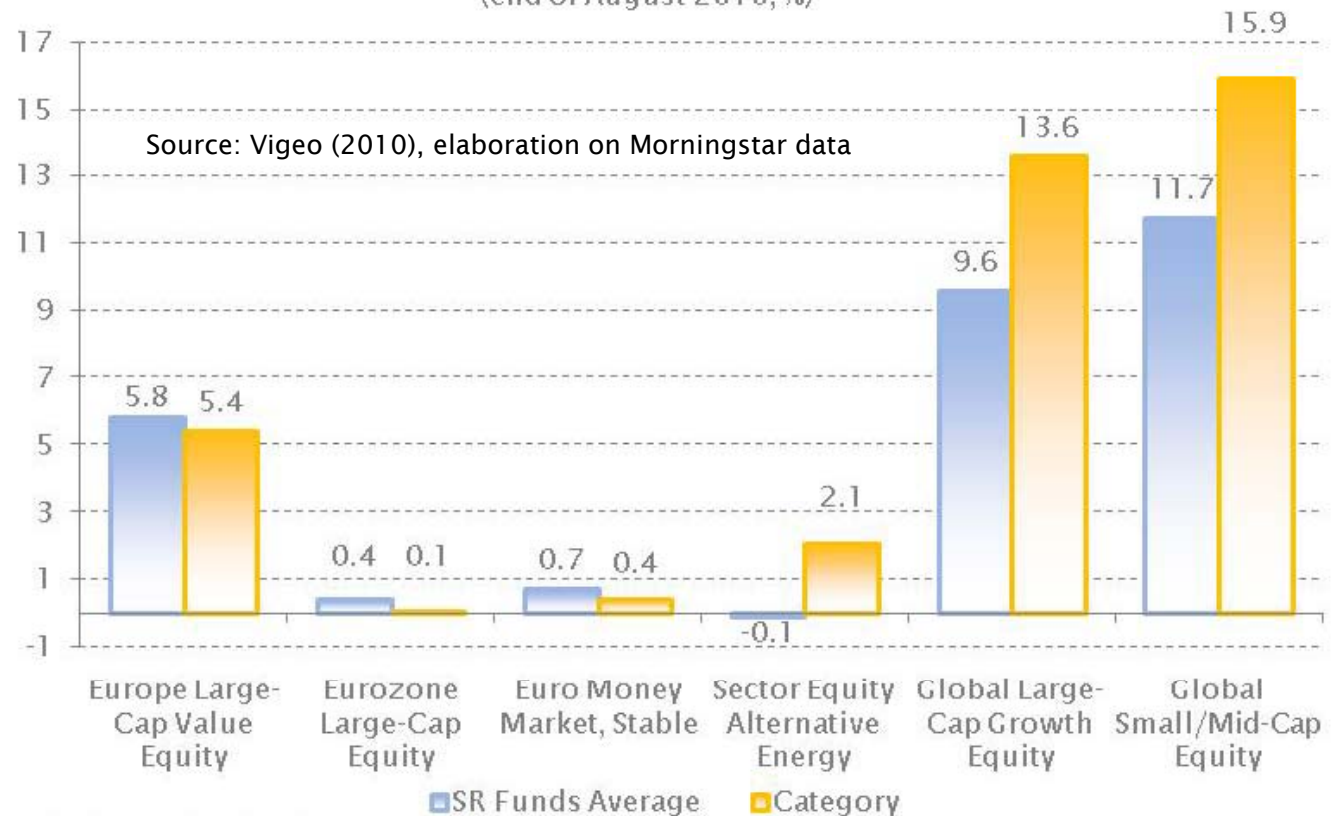
Best and worst SRI 1 Yr performing categories*

27.

Best and worst SR 1 Yr performing categories*

(end of August 2010, %)

Source: Vigeo (2010), elaboration on Morningstar data



* relative to their broad peers



Top holdings in SRI fund portfolios (as of June, 30 2010)

28.

Ranking June 10	Ranking June 09	Company	Country	Ranking June 10	Ranking June 09	Company	Country
1	3	Vodafone Group	UK	11	17	Hennes & Mauritz AB	SE
2	1	HSBC Holdings Plc	UK	12	6	Vestas Wind Systems	DK
3	15	Roche Holding AG	CH	13	New Entry	Danone	FR
4	7	Sanofi-Aventis	FR	14	20	Allianz	DE
5	2	BG Group Plc	UK	15	10	AstraZeneca PLC	UK
6	5	BNP Paribas	FR	16	New Entry	Schneider Electric	FR
7	14	ABB Ltd	CH	17	New Entry	Koninklijke Philips Electronics N.V.	NL
8	New Entry	Nestle SA	CH	18	16	ENI SpA	IT
9	New Entry	Ericsson Telephone Company	SE	19	New Entry	GDF Suez	FR
10	4	Total SA	FR	20	New Entry	Nordea Bank AB	SE

Source: Vigeo (2010), elaboration on Morningstar data



Companies in portfolio

29.

The growth of SRI funds has been remarkable in the last 12 months, increasing therefore their ability to promote positive changes in corporate behaviour.

In addition to the increase of assets, the involvement of key institutional investors, media coverage, closer interface between corporate management and fund managers (in some cases through screening agencies) are enhancing the power of SRI investments as catalysts for innovation.

The previous table shows the stocks most frequently selected by the funds considered in this study. The ranking should not be read in any case as an ethical ranking; the inclusion and position of each stock derives from fund managers financial choices, too. Changes of funds' investment policies also affect the results. For these reasons, the lack of small companies should not be regarded as surprising.

During the last year, SRI money managers allocated a portion of their portfolio to green stocks (water, renewable energy, green innovation...), betting on the upside potential.



Conclusions

30.

SRI AUM grew in absolute and relative terms. SRI remains a niche but its relevance has been increasing year by year, showing in some cases to be more dynamic than the rest of the industry.

The crisis that affected the asset management industry in the last years seems to have pushed further sustainable investing, at least in certain countries where SRI is already affirmed.

The general interest showed by market players, institutions and stakeholders enlarged investors' focus to new frontiers, including new subjects (HNWIs) and new asset classes (private equity, commodities), favouring in the end the recovery of the market and contributing to the definitive affirmation of SRI.



31.

About this report



Since 1999, this is the tenth edition of the report *Green, social and ethical funds in Europe*, a publication that has rapidly become a benchmark in the field of SRI in Europe.

This report was prepared in September/October 2010

by **vigeo**

in cooperation with

MORNINGSTAR®

Giovanni Familiari and Federico Pezzolato elaborated the data.



The objectives of the research

33.

The research questions for the report can be summarised as follows:

- What is the size of the assets under management in green, social and ethical funds in Europe?
- How many funds are available to the retail market?
- What are the top holdings for these funds?
- What are the country-specific approaches to socially responsible investing?
- How much does it cost to invest in these funds? How have they performed relative to their traditional peers?
- What are the main trends of the industry and what can we expect in the future?

The key objectives of this continuous research on SRI funds in Europe are:

- To provide professionals, the media and the general public with key figures and trends for green, social and ethical funds in Europe
- To provide high quality services to SRI professionals, CSR managers with companies and financial advisors



This report is intended to serve the following users:

- Managers of financial institutions already engaged in socially responsible or ethical investing,
- Managers of financial institutions that are considering incorporating social screening in their portfolios or launching green or ethical funds,
- Managers of corporations willing to improve their understanding of trends in socially responsible investing,
- Policy makers who are interested in identifying appropriate policy instruments to stimulate financial institutions and business managers to address issues related to social responsibility.



A fund has to meet all these conditions in order to be eligible for the analysis

The report covers green, social and ethical funds operating in Europe as of June 30, 2010. The analysis covers: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Norway, Spain, Sweden, Switzerland, Luxembourg, the Netherlands and the United Kingdom.

The funds considered in this report:

- All use ethical, social or environmental screening for stock and bond issuers selection,
- All are marketed as socially responsible investment products,
- All are available to the public (retail funds).

UCITS is used in the same sense as for The European Fund and Asset Management Association (EFAMA) Statistical Releases: publicly offered open-end funds investing in transferable securities and money market funds. However, the data are not completely comparable, as this report includes some life insurances and pension funds complying with our definitions and some of the countries (even if with a marginal weight on the total assets managed in Europe) considered in EFAMA statistics aren't considered by this research.



Funds not taken into account

36.

Therefore the research does not take into account:

- Funds that simply donate a part of their commissions or profits to charitable or other “good” causes,
- Funds and other investment products available to institutional investors only,
- Funds applying one or multiple CSR screens that are not marketed as socially responsible products.

According to these definitions, funds that have significantly diluted their screening approach have been deleted from the panel.



Fund domiciliation and coverage

37.

An important issue to consider is related to the allocation of products to countries. In order to avoid double counting, the survey takes into account where the fund is based. When a fund is domiciled in Switzerland and sold also in Germany, it is considered to be a Swiss fund. This approach can create a bias when assessing the size of a national market (that does not correspond to the assets managed by domiciled funds). Luxembourg Sicav have normally been allocated to the country where the parent company of the fund retailer is located.

While Vigeo has done its best to cover all the funds in a comprehensive manner, some funds have probably been missed. More funds could have been launched since the collation of the information for this report. While there are many limitations in this research, the report and the database provide a reliable picture of the size of the market, of the diverse situation in various European countries, of the approach to fund management and of the criteria used.



38.

— Vigeo



Vigeo is the leading European expert in responsible performance. Vigeo measures companies' CSR performance on Environmental, Social and Governance (ESG) criteria and identifies ESG risk factors with regard to six areas: Environment, human rights, human resources, community involvement, business behaviour and corporate governance.

Vigeo offers two kinds of services through two business brands:

- Vigeo rating *-the way to responsible investment-* offers a broad range of product and services to investors seeking a sustainable and responsible performance of their investments.
- Vigeo enterprise *-the way to responsible management-* conducts global CSR audits as well as thematic audits such as diversity and purchasing audits. Vigeo enterprise also develops services to assist organisations in the implementation of their CSR strategy.

The Vigeo team comprises 86 employees of 14 different nationalities, based in 4 locations: Paris, Brussels, Milan, Casablanca.
150 clients and partners worldwide use Vigeo research.



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