

Green, social and ethical funds in Europe

2001



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Foreword

This report is the result of collective research carried out during the year 2001 by organisations belonging to the **Sustainable Investment Research International (SiRi) Group**, a world-wide coalition of local research organisations devoted to the advancement of socially responsible investing.

Our work has been supported and made possible by CSR Europe and Euronext.

This report has been prepared by Matteo Bartolomeo (Avanzi) and Teodosio Daga (Avanzi).

The SiRi Group (www.sirigroup.org)

Consisting of many of the most prominent social investment research firms in the world, the SiRi Group provides a wide range of social investment research products and services to financial professionals in major markets. The SiRi Group is dedicated to providing such services through research organisations with **a combined total of over 100 researchers** who are in contact with local corporations and attuned to national issues and cultural differences. SiRi Group members provide coverage (with positive criteria) of **more than 4,000 companies** in the major markets worldwide.

SiRi Group members that participated in the project are:

1. Avanzi, covering **Italy**
2. CaringCompany, covering **Sweden, Denmark, Finland, Norway, Poland**
3. Centre Info Suisse, covering **Switzerland**.
4. Fundacion Ecolgia y Deasarrollo, covering **Spain and Portugal**
5. PIRC – Pensions & Investment Research Consultants, covering the **United Kingdom**
6. Scoris, covering **Germany and Austria**
7. Stock at Stake / Ethibel, covering **Belgium and Luxembourg**
8. Triodos Research, covering the **Netherlands**.

Other SiRi Group members that did not take part in the project (mainly due to its geographical scope) are:

9. KLD – Kinder, Lydenberg & Domini & Co., Inc., (**United States**)
10. MJRA – Michael Jantzi Research Associates, (**Canada**).
11. SIRIS, (**Australia**)
12. AreSE, (**France**)

CSR Europe

CSR Europe is a business driven membership network whose mission is to help companies achieve profitability, sustainable growth and human progress by placing Corporate Social Responsibility (CSR) in the mainstream of business practice.

Euronext

Euronext is the first cross-border European exchange organisation, created in September 2000 by the merger of the exchanges in Paris, Amsterdam and Brussels. Euronext manages both regulated and unregulated markets and offers a complete and varied range of services encompassing all exchange activity, including listing of financial instruments, trading in securities and derivatives, and clearing, settlement and custody.

Introduction

Origin and objectives of the research

This report is the continuation of the research project *Green and ethical funds in Europe 1999*, which was carried out in 2000 and was aimed at understanding the state of the art in green, socially and ethically responsible investing in Europe.

The previous project was co-ordinated by Avanzi and carried out under the auspices and with the contribution of member organisations of the **Global Partners for Corporate Responsibility Research (GPCCR)**, an international network of organisations which conducts research on corporate social and environmental responsibility to effect positive change.

The large attention received by the *Green and ethical funds in Europe 1999* report – from asset managers, media, listed corporations – has induced some of the research organisations to embark on a new round with a comparable approach.

While the core research demands have remained similar to the 1999 report, some additions have been made in order to fill other research gaps that have become evident since the publication of the first document. The research questions can be summarised as follows:

- **What is the size of the asset under management in green, social and ethical funds in Europe?**
- **How many funds are available to the public?**
- **What are the criteria used for portfolio screening?**
- **What are the top holdings for these funds?**
- **What are the trends and what can we expect from the future?**
- **What is the relative weight of green, social and ethical funds compared to the total European funds industry?**

The key objectives of the research can therefore be summarised as follows:

- to provide professionals, media and the general public with **key figures and trends** from green, social and ethical funds in Europe (**through this report**)
- to provide professionals with a customised benchmarking tool on European green, social and ethical funds (**through customised analysis provided on request by SiRi Group – Avanzi**)
- to provide potential clients, professionals, media and the general public with information on a fund per fund basis (**through the online database www.sricompass.org**)

The offline and online (www.sricompass.org) database

This report, which is freely distributed, draws on a large database that contains information, on a fund per fund basis, with regard to:

- name of the financial institution and the fund, details of the contact person
- year and month of launch of fund
- typology of the fund (equity, fixed income, bonds, ...)
- geographical scope of the portfolio
- top holdings
- assets under management (in Euro)
- green, social and ethical policy (including criteria, committees...)
- green, social and ethical rating of the fund

A summary of the database is available online at www.sricompass.org .

Anyone interested in customised extracts and analyses from the offline database is welcome to contact Avanzi (bartolomeo@avanzi.org or fax +39 02 4800 0009).

Use of this report

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 screens 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.

Definitions

The report covers green, social and ethical funds operating in Europe on **June 30 2001**. Since the 1999 report, the geographical scope of the analysis has been extended to cover: **Austria, Belgium, Denmark Finland, France, Germany, Italy, Norway, Poland, Spain, Sweden, Switzerland, The Netherlands, United Kingdom**. Portugal, Greece and Ireland were also covered but researchers did not identify any funds matching the strict definitions used in this report.

The **funds considered in this report** all

1. use ethical, social and environmental screens for portfolio selection
2. are marketed as socially responsible investment products
3. are available to the public (retail funds)
4. are UCITS¹ funds.

¹ UCITS stands for "Undertaking for Collective Investment in Transferable Securities" which is a collective investment fund that complies with the EU UCITS Directive N° 85/611/EEC of 20 October 1985 (OJ L 375/3 of 31.12.1985) and consequently can be marketed in all EU countries.

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

Therefore the research **does not take into account**

- funds that simply donate a part of commissions or profits to charitable or other “good” causes.
- funds specialising only in investing in environmental technologies or the environmental industry (waste management, water treatment)
- funds and other investment products available only to institutional investors

Another important limitation 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 operator is located.

While the research organisations involved have done their best to cover all the funds in a comprehensive manner, some funds have probably been missed. More funds 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 funds management and of the criteria used.

Analysis

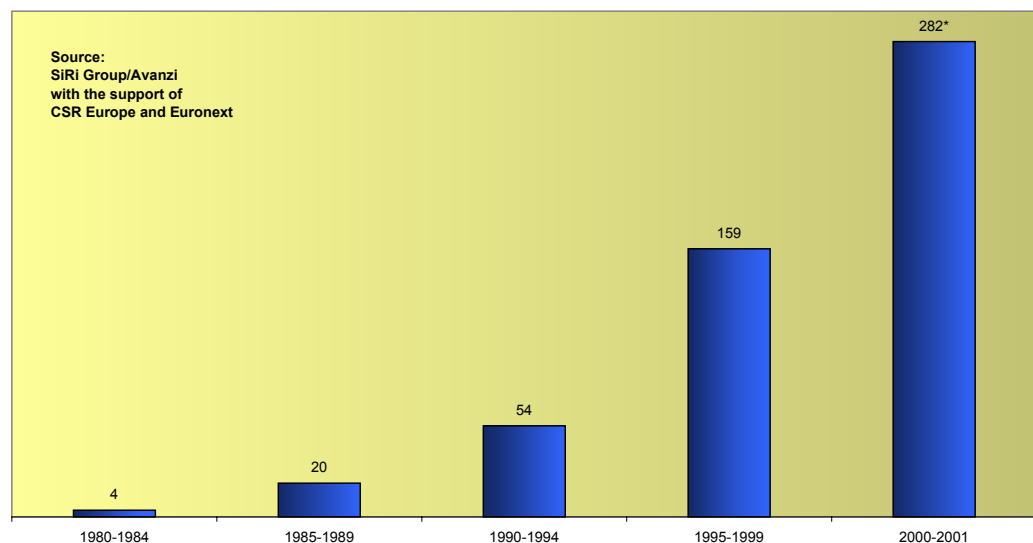
Number of funds

On 30 June 2001, there were **251 green, social and ethical funds operating in Europe**, with a **+58%** (from January 2000 to Q2 2001) increase in available financial products to the private clientele².

The growth rate is particularly interesting when considering the reference period – 18 months since the last survey – that coincides with a difficult period for asset management and financial investment activities all over Europe. Socially responsible investment can therefore be considered to be one of the most dynamic and rapidly growing activities in the investment funds industry.

By projecting the figure of the first semester 2001 to the whole year, the total number of funds in Europe reaches **282 (at Q4 2001)**, showing that the number of funds has doubled since the end of 1999.

Number of Funds, cumulated, in the period 1980 to 2001
(Total = 251 + *31 estimation II sem. 2001)



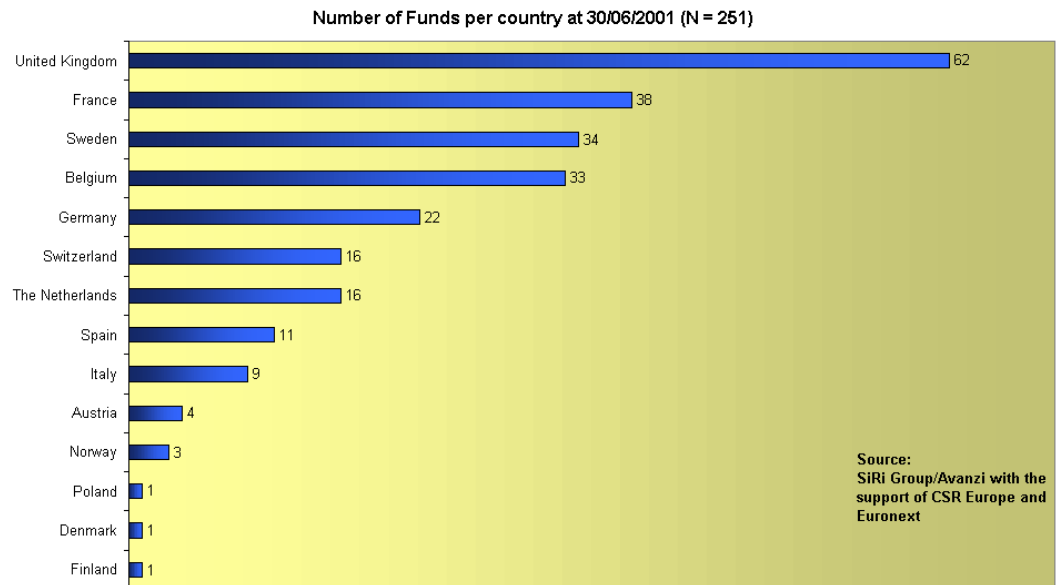
The research confirms that the group of **leading countries**, consisting of **the United Kingdom, France, Sweden and Belgium**, accounts for **more than 66% of the funds** available in Europe³.

The relative weight of the UK on the whole SRI funds industry in Europe decreased from 33% to 25% from the end of 1999 to mid 2001. The **most dynamic countries** are **France (+170% in the number of domiciled funds)**, **Belgium and Germany (both above +120%)**.

² According to the 1999 research, the funds available numbered 188, but a closer look at the typology of these funds and more strict definitions have reduced the number to 159. The remaining are rather solidarity funds than funds operating a portfolio selection on the basis of environmental, social and ethical criteria.

³ The attribution of funds to specific countries was done according to where the parent company is based. This classification has also been applied to funds domiciled in Luxembourg.

The different growth rate from country to country in the number of products available can be explained by the relative saturation of the market. In the case of the UK, for example, more than 55 different financial institutions offer an ethical option to their individual clients.



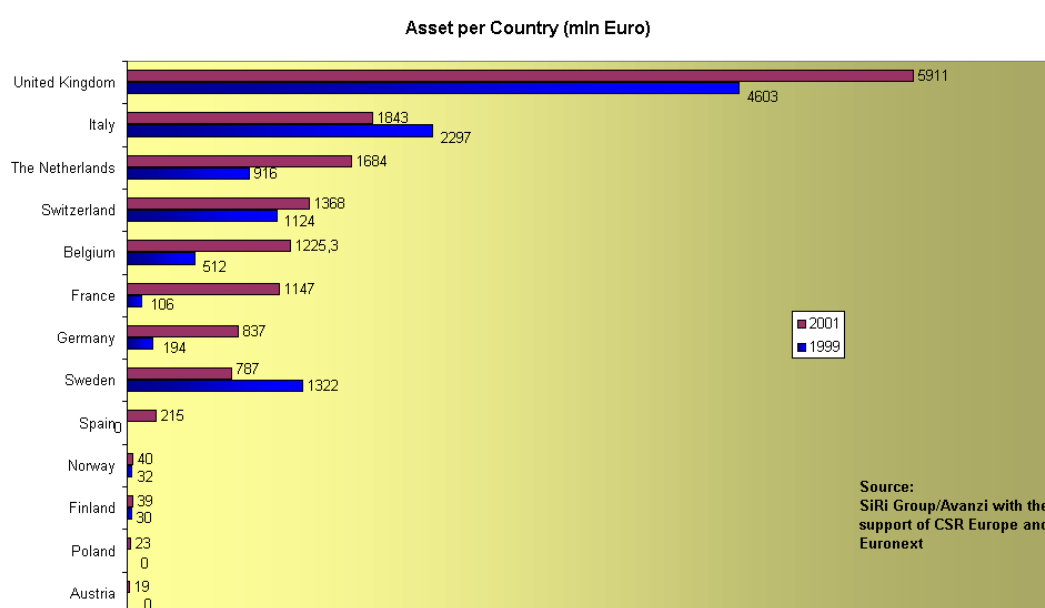
The German market shows a completely opposite situation, where the domestic institutions involved in SRI have sharply increased from a very small number (in 1999 there were only 10). It is important to notice that in countries like Germany and Italy the clientele can rely on a much wider set of funds offered by foreign institutions.

Assets under management

Figures on assets managed in green, social and ethical funds are even more interesting, especially when considering the overall growth rate of the asset management industry in Europe over the last two years.

The total SRI asset has increased by 36% from € 11,1 billion at the end of 1999⁴ to € 15,1 billion in mid-2001.⁵

Four countries – **The United Kingdom, Italy, The Netherlands and Switzerland** – play a **major role with an asset of more than 70%** of the total European SRI asset (The United Kingdom and Italy account for 50%). Comparing this data with the 1999 survey shows that there is an increasing number of countries with an SRI asset close to a billion Euro.



NOTE ON THE GRAPH

NB: data for Sweden are not fully comparable due to the change in the definitions used for considering funds in the 2001 survey: the decrease shown is overestimated. The asset of the Danish fund is not available.

A closer look to country trends adds interesting details to the European picture:

- **France registered a spectacular growth** in the asset under management (**more than 10 times** the asset at 31 December 1999)
- despite the relative maturity of the market, the **United Kingdom market still grows at a +48% rate in 18 months**

⁴ Note that the 2001 survey uses a narrower definition of funds. The 1999 figure can therefore be considered as overestimated by about 10%.

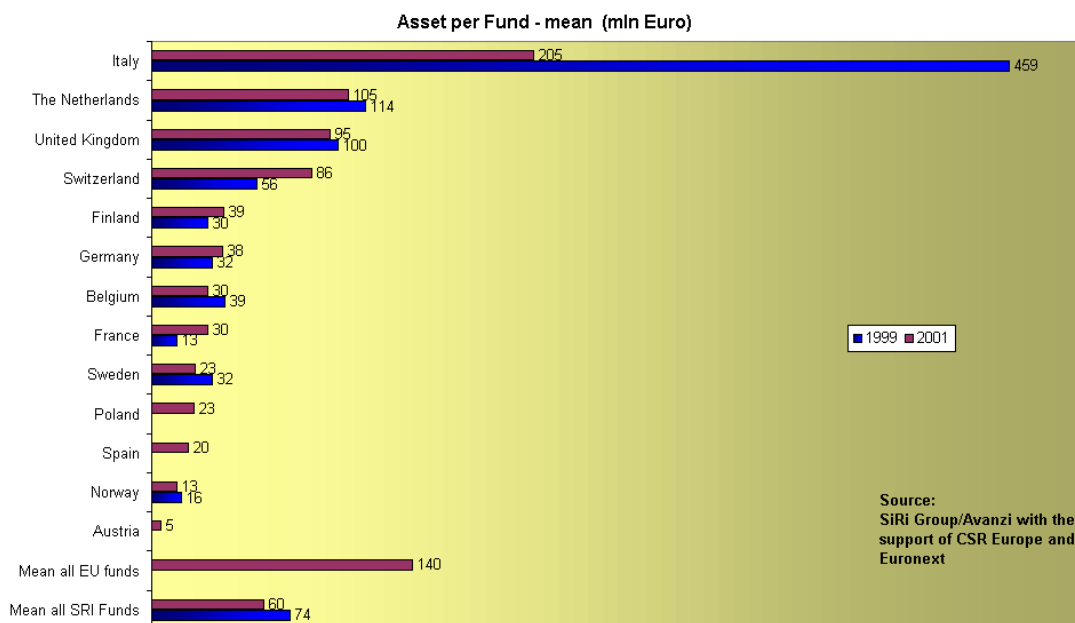
⁵ It is also important to understand that the € 15,1 billion under management does not represent the total value of screened portfolios in Europe, since private and institutional portfolios are not considered here. According to the UK Social Investment Forum, the funds represented in this analysis account for just 6% of the entire socially responsible investing market in the United Kingdom. The relative weight of retail funds over private and institutional portfolios varies from country to country.

- at last, **German** market has woken up with an increase of more than **+300%** in 18 months (in addition, many funds provided by companies located in foreign countries are available in Germany, thus increasing the overall size of the market)
- Italian market, at least in terms of SRI asset, does not appear similarly active, with a decrease in asset influenced by the negative performance of some funds

The size of green, social and ethical funds

The average number of assets in green, social and ethical funds is still very narrow and has even decreased, from € 74 million to € **60 million** since the last survey. This average is around 60% smaller than the average of European funds (€ 140 million)⁶.

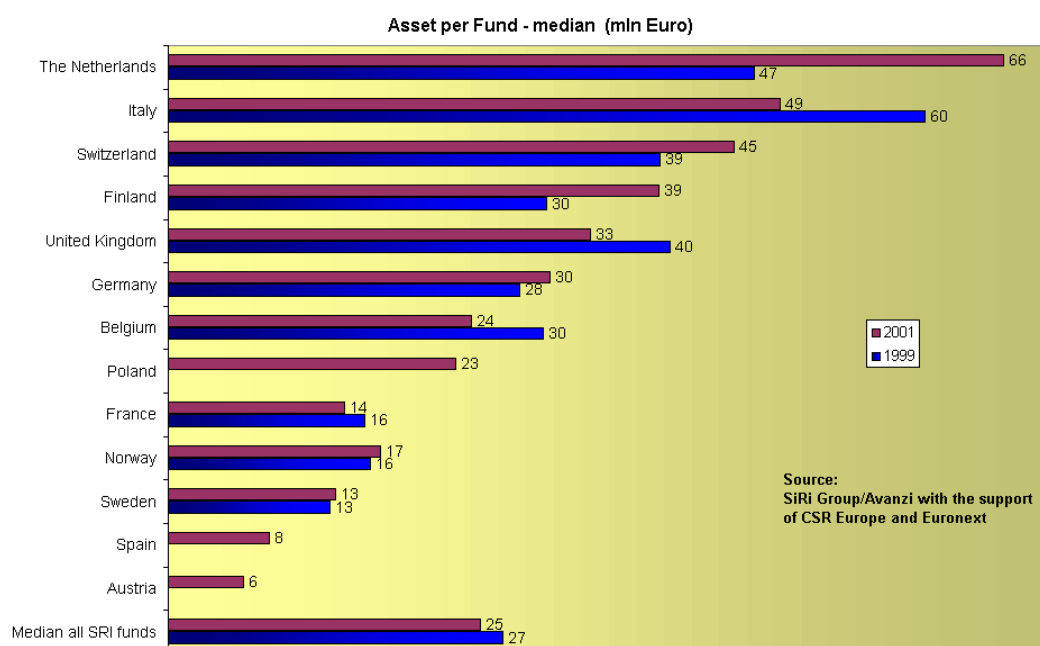
The most important positive variations have been registered in France, with a threefold increase in the average asset for an SRI fund, and in Switzerland, where the average has doubled. In Italy there has been an opposite trend due to the same reasons highlighted above: poor performance of some funds.



Data on the median are more interesting than those of the mean. The median for all the European funds considered is € 24,7 million, with a large variation from country to country ranging from € 8 million for Spain to € 66 million for the Netherlands (excluding Austria that is not statistically relevant).

Such low figures can be considered a consequence of the proliferation of new funds in a period of time – the last 18 months – where asset managers have faced difficulties in attracting additional resources from family savings.

⁶ Source: FESVI.



Largest funds in Europe (on 30 June 2001)

Ranking	Asset management company	Name of the fund	Domicile	Asset (mln Euro)
1	Sanpaolo-IMI Asset Management SGR	Sanpaolo Azionario Internazionale Etico	Italy	973
2	Friends Ivory & Sime Plc	Friends Provident Stewardship Unit Trust	United Kingdom	950
3	Framlington	Health Fund	United Kingdom	630
4	Sanpaolo-IMI Asset Management SGR	Sanpaolo Obbligazionario Etico	Italy	496
5	ABN AMRO Asset Management	ABN AMRO Groen Fonds	Netherlands	455
6	Henderson Global Investors	NPI Global Care Growth	United Kingdom	446
7	Cordius Asset Management	Stimulus Balanced Medium	Belgium/France	412
8	Henderson Global Investors	NPI Pension Global Care Managed	United Kingdom	362
9	SNS Asset Management	ASN Aandelen fonds N.V.	Netherlands	324
10	Henderson Global Investors	NPI Global Care Income	United Kingdom	298

Source: SiRi Group / Avanzi 2001

Companies in portfolio

As described, the size of the SRI market is of growing importance: for some small caps that are engaged, for example, in wind energy, organic food or other green and social niches, socially responsible investing is vital for the development of the business.

For large corporations as well, the efforts to encompass environmental standards or to adopt innovative working practices require a strong internal and external commitment. In the last decade, SRI has provided human resource managers and environmental officers with one of the most important arguments to convince the board and CEOs to shift corporate operations towards more socially responsible practices.

The SiRi Group fund database provides some input on the effect of corporate efforts to be included in green, social and ethical funds. The following table refers to the most common stocks (among the top 5 holdings) for the funds considered in the analysis.

The most frequent stocks in SRI funds portfolios (on 30 June 2001)

Ranking	Most common stock in SRI
1	Vodafone
2	Nokia
3	GlaxoSmithKline Plc
4	Johnson&Johnson
5	Royal Bank of Scotland
6	Pfizer
7	British Telecom
8	ING Groep
9	Ericsson
10	First Group
11	BP
12	Astrazeneca
13	Microsoft
14	Intel
15	Tesco
16	Royal Dutch
17	Lloyds TSB
18	Citigroup
19	IBM
20	Fannie Mae

Source: SiRi Group / Avanzi 2001

Conclusions: the increasing weight of SRI funds in the European funds industry

What is the importance of socially responsible investing for the whole investment industry in Europe? The survey does not provide a final answer to this question since it focuses on the SRI funds industry – indeed only part of it – and not on all the assets that are managed in a socially responsible manner or are screened assets.

The survey allows a comparison between the assets of SRI funds and the total asset managed in European funds. More precisely, we are able to assess the weight of SRI funds as defined above in relation to the asset UCITS funds, as defined in the European legislation.

Such a comparison shows that SRI funds still make up a very limited portion of all funds in Europe, and the assets under management are just 0.43% of the total asset managed by UCITS funds. Data referring to the latter is taken from statistics of FESFI, the European association of fund managers. The breakdown shows that Switzerland has the largest proportion of SRI fund assets with 1,47%, followed by the Netherlands (1,45), Belgium (1,18) and the United Kingdom⁷ (1,03).

Percentage of SRI funds asset over non SRI in selected countries (on 30 June 2001)

	DE	FR	IT	UK	NL	BE	CH	Total
SRI funds	837	1.147	1.842	5.910	1.683	1225	1.368	15.137
All EU (UCITS) funds	801.292	874.200	429.513	571.776	116.439	83.388	92.907	3.632.475
%	0,10%	0,13%	0,43%	1,03%	1,45%	1,47%	1,47%	0,43%

These figures, taken in isolation, can lead to an underestimation of the importance of the SRI industry. A comparison between the trends in SRI funds and the overall funds industry in Europe will attract much attention among asset managers, retailers of funds and listed corporations.

Asset and growth rates for European funds in million Euro (on 30 June 2001)

	1999	2001 (Q II)	Variation (%)
SRI Funds	11.136	15.137	+35,9%
All EU (UCITS) funds*	3.233.000	3.632.200	+12,3%

Source: SiRi Group / Avanzi 2001

* Data from FEFSI reports

What can we expect for the future? While in the short run there is place for a certain optimism, in the medium term there are several conditions that need to be met to sustain and reinforce the qualitative and quantitative increase of SRI funds in Europe.

The first is related to the transparency of asset managers, which is still limited and in contradiction with the nature of SRI investments.

The second is related to governments, at European and National level, who should realise the indirect role of SRI investments in order to meet targets of environmental protection and social inclusion.

Thirdly, consumer groups and NGOs will need to act as pressure groups towards the financial sector and work for a better quality and a larger impact of SRI funds.

⁷ The total value of UCITS funds in the UK does not include unit trusts, which are very much developed.