

Green, social and ethical funds in Europe 2003



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Foreword

This report is the result of collective research carried out during the year 2003 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.

This report has been written in September 2003 by Matteo Bartolomeo (Avanzi and Avanzi SRI Research), Teodosio Daga (Avanzi SRI Research) and Giovanni Familiari (Avanzi SRI Research) using data referred to the 30th of June 2003. The report has been reviewed by Adeline Hinderer (CSR Europe) and Nicki Bennett (CSR Europe).

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 local members are:

1. Avanzi SRI Research, covering **Italy**
2. CaringCompany, covering **Sweden, Denmark, Finland, Norway, Poland**
3. Centre Info Suisse, covering **Switzerland and France**
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 and France**
8. Dutch Sustainability Research, covering **the Netherlands**.
9. KLD Research & Analytics Inc., (**United States**)
10. MJRA – Michael Jantzi Research Associates, (**Canada**)
11. SIRIS, (**Australia**)

Introduction

Origin and objectives of the research

This report builds on the **SRI Funds Service** (see below).

This is the fourth edition of the report *Green, social and ethical funds in Europe* (after the 1999 and 2001 and 2002 editions), a publication that has rapidly become a benchmark in the field of socially responsible investing in Europe.

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 public?**
- **What are the top holdings for these funds?**
- **What are the trends and what can we expect in the future?**

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

- To provide professionals, the media and the general public with **key figures and trends** from green, social and ethical funds in Europe
- To provide high quality services to SRI professionals, CSR managers with companies and financial advisors as part of the **SRI Funds service**

The SRI Funds Service

This report and the SRI Compass draw on the SRI Funds Service, a European database featuring all existing socially responsible retail funds in Europe. The database is the core of the **SRI Funds Service**, an initiative launched by Avanzi SRI Research/SiRi Group which aims to:

- Facilitate the strategic SRI asset allocation for fund and institutional investors
- Allow asset managers to benchmark their SRI strategy and results
- Allow stakeholders to better understand SRI funds qualities
- Offer companies an overview on their position in funds portfolios
- Provide regular customised analyses and trend reports

The SRI Funds Service makes information available to SRI investors, managers, intermediaries and companies on a per fund basis. This includes:

- Name of the financial institution and the fund, details of the contact person
- Date of launch of fund
- Typology of the fund (equity, fixed income, bonds, etc)
- Top holdings
- Assets under management (in Euro)

- Asset allocation (geographical and sectorial)
- Daily financial performances and over/underperformance against the benchmark
- Key efficiency ratios
- Green, social and ethical policy
- Internal processes to implement the SRI policy (analysts, committees)
- Detailed list of negative criteria
- Detailed list of positive criteria
- Engagement policies and practices
- Transparency with customers (with reference to Eurosif Transparency Guidelines)
- Green social and ethical rating of the fund¹

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 **30 June, 2003**. The geographical scope of the analysis has been extended to cover: **Austria, Belgium, Finland, France, Germany, Ireland, Italy, Norway, Poland, Spain, Sweden, Switzerland, the Netherlands**, and the **United Kingdom**. Portugal and Greece 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 UCITS² funds.

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

¹ Anyone interested in accessing to the whole database or in customised extracts and analyses can contact Avanzi SRI Research (bartolomeo@avanzi.org; familiari@avanzi-sri.org; daga@avanzi-sri.org or phone +39 02 36518110).

² 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.

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

According to these definitions, funds that have significantly diluted their screening approach have been deleted from the panel considered to build the statistics in this report.

An important aspect 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 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.

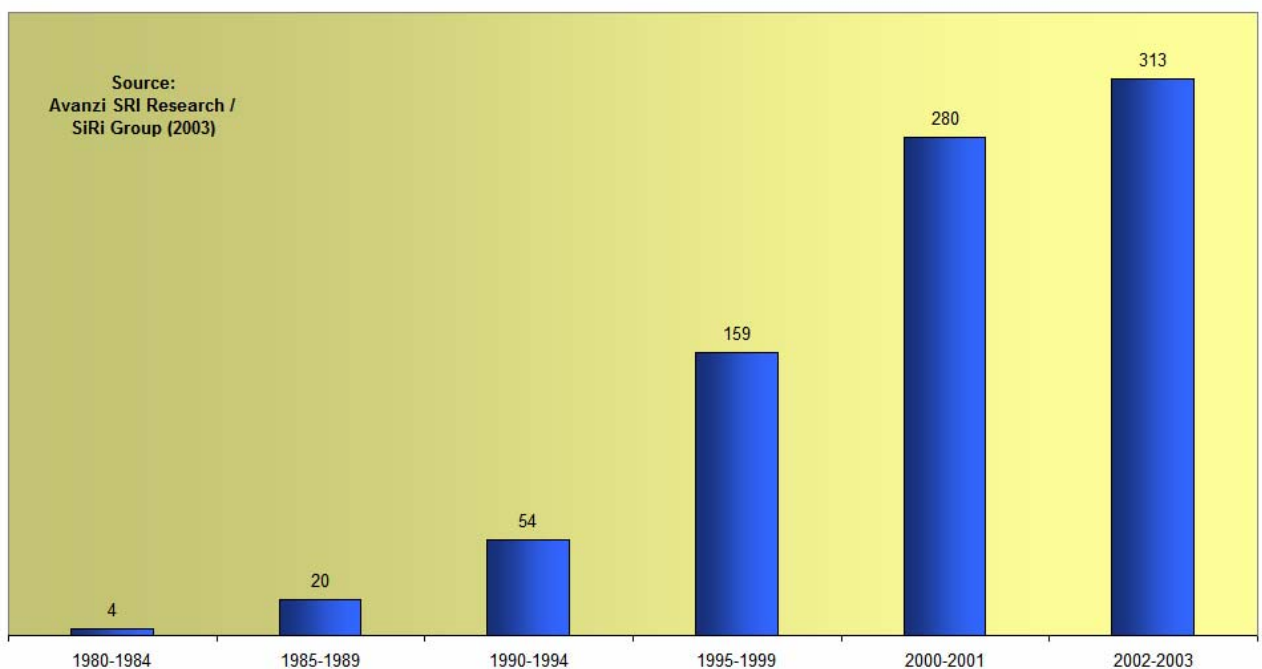
Analysis

Number of funds

On 30 June 2003 there were **313 green, social and ethical funds operating in Europe**, which represents a 12% increase over 18 months (since the end of 2001).

The growth rate has can be regarded as positive when considering the difficult context for asset management and financial investment activities all over Europe.

**Number of SRI Funds, cumulated, in the period 1980 to 2003
(on 30 June 2003)**



The research confirms that the group of **leading countries** - consisting of **the United Kingdom, Sweden, France and Belgium** - accounts for about 63% of the funds available in Europe (the concentration has slightly dropped since the last survey from 68%)³.

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 and Ireland.

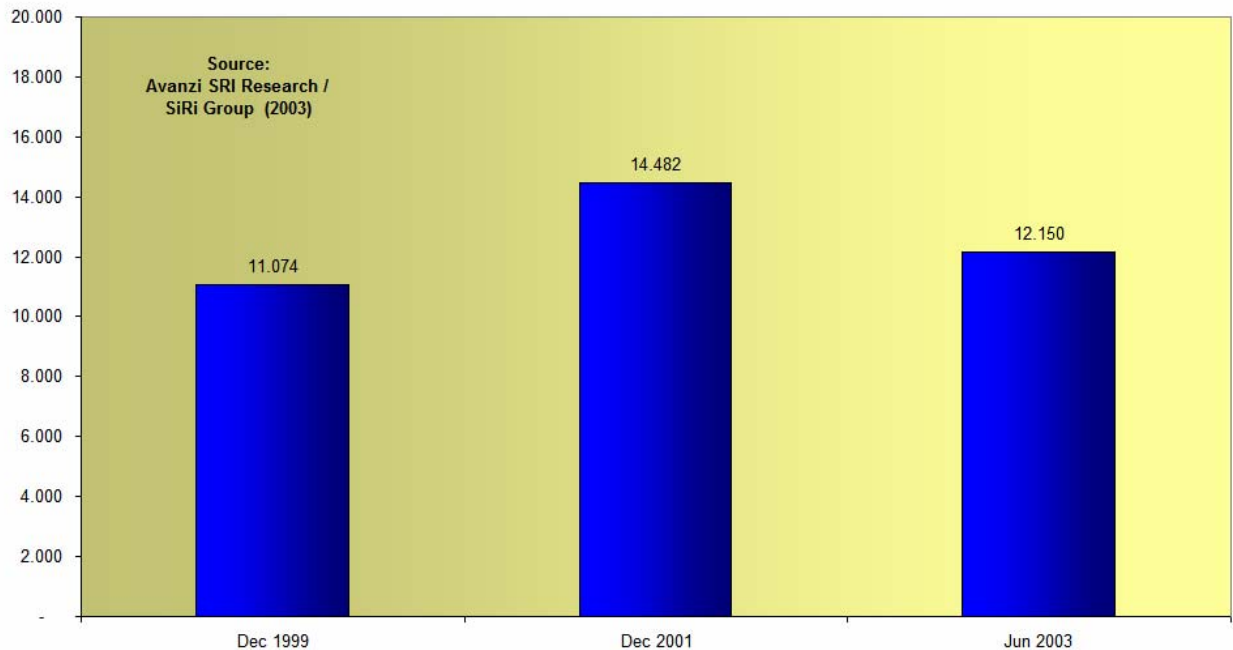
The relative weight of the UK on the whole SRI funds industry in Europe has remained steady at just below the 21% reported at end 2001. The **most dynamic retail market is Italy**, which has doubled its number of funds over the past 18 months. Italian domestic institutions have sharply increased their supply of SRI products: there are now 21 products, up from only 10 at end 2001.

Assets under management

The total amount of SRI assets has dropped by 16%, from €14,4 billion at the end of 2001 to €12,2 billion at the end of the second quarter 2003⁴.

SRI assets heavily suffered of bearish financial markets since performance reductions had direct effects on the assets under management, in particular for equity funds. The relative higher proportion (around 83% of total assets) of equity and balanced funds in the SRI industry compared to the total equity and balanced funds at large (45%) have amplified this effect.

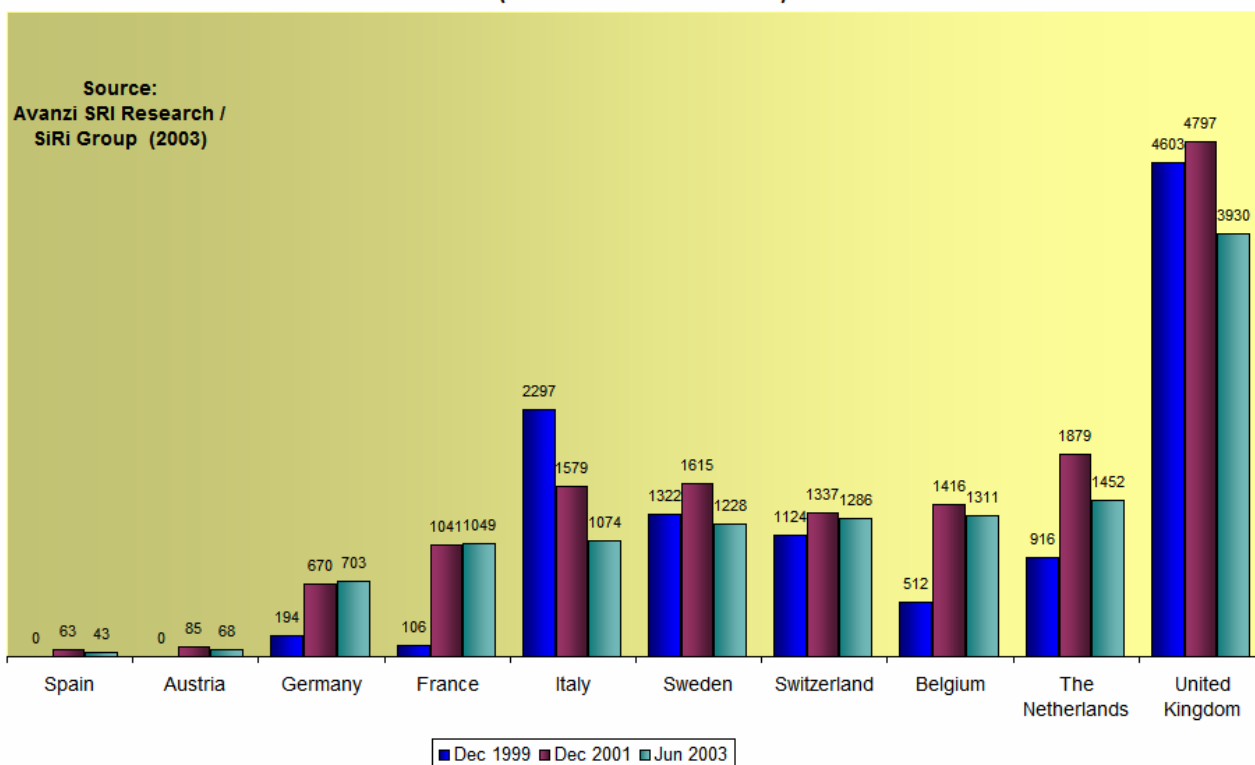
**Total asset under management for SRI funds domiciled in Europe
(mln Euro)**



The United Kingdom makes up the majority of these assets with nearly 32%, of the total European SRI retail assets. Most of the remaining countries – except for the smaller markets in Germany, Spain and Austria – have asset shares ranging from 8,5% to 12%.

⁴ It is important to note that these figures do not represent the total value of screened portfolios in Europe, since private and institutional portfolios are not considered in this report.

**Asset per country related to SRI Funds (domicile)
(mln Euro on 30 June 2003)**



Asset under management in Italy has sharply dropped also in relation to the exclusion of two relatively large funds from the statistics of the SRI Funds Service (these funds not complying anymore with definitions set above).

The size of green, social and ethical funds

The average number of assets in green, social and ethical funds (which was already narrow at last year's €51 million) has further decreased to €46 million as a consequence of the increase in the number of available products and the reduction of the overall assets under management.

Comparing this to traditional funds, one can note that the average number of assets for equity and balanced funds is significantly lower than that for fixed income (bonds and money market) funds (€41 million, €45 million, and €93 million for equity, balanced and fixed income funds respectively).

The Netherlands has taken the lead in the average number of assets ranking (€90,8 million), while Spain's very low figure of €6,1 million) can be explained by the fact that the SRI market is still at an early stage in this country.

It is interesting to note that the median asset is lower than the average one in almost every country (with Spain being the only exception), pointing to the influence of relatively few big funds in determining the average figures. This is particularly evident in the Italian market, where an average asset of €54 millions compares with a median asset of €6 million. The overall median asset in Europe is €20 millions.

Largest funds in Europe (on 30th June 2003)

| Ranking June 2003 | Ranking Dec. 2001 | Asset management company | Name of the fund | Country of the mother company | Asset (million Euro) |
|--------------------------|--------------------------|-----------------------------------|--|--------------------------------------|-----------------------------|
| 1 | 1 | ISIS Asset Management | Friends Provident Stewardship Growth Fund | United Kingdom | 606 |
| 2 | 3 | Framlington | Health Fund** | United Kingdom | 595 |
| 3 | 4 | ABN AMRO Asset Management | ABN AMRO Groen Fonds* | Netherlands | 476 |
| 4 | 2 | Sanpaolo-IMI Asset Management SGR | Sanpaolo Azionario Internazionale Etico | Italy | 446 |
| 5 | 5 | Sanpaolo-IMI Asset Management SGR | Sanpaolo Obbligazionario Etico | Italy | 433 |
| 6 | 7 | Dexia Asset Management | Dexia Sustainable European Balanced Medium | Belgium | 347 |
| 7 | new entry | Scottish Widows Unit Trust Mng | Scottish Widows Environmental Investor | United Kingdom | 232 |
| 8 | new entry | Triodos Fonds Management | Triodos Groenfonds* | Netherlands | 228 |
| 9 | 6 | UBS Asset Management | UBS (Lux) EF Eco Performance | Switzerland | 212 |
| 10 | new entry | Henderson Global Investors | NPI Pension Global Care Managed | United Kingdom | 203 |

* The Dutch Groen Fonds are not fully comparable with traditional UCITS. These funds operate under a particular law and provide loans and credit to environmentally innovative projects.

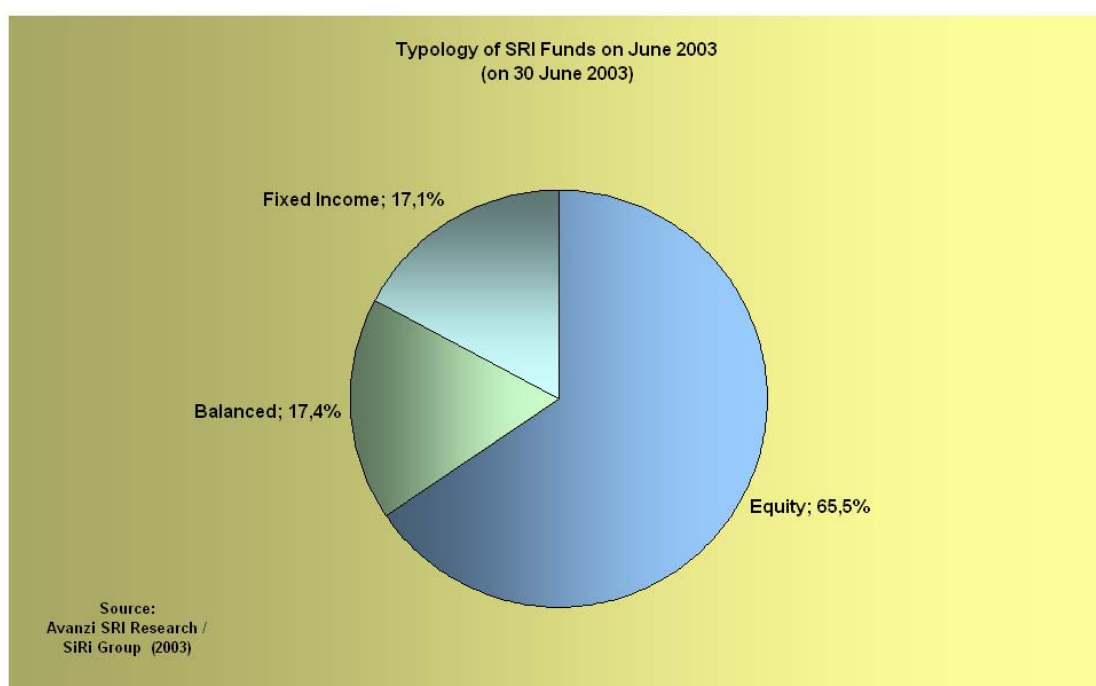
** Framlington Health Fund, which is a specialised equity fund (healthcare), has been included since a few negative and positive screens are applied.

Source: Avanzi SRI Research / SiRi Group (2003)

Funds typology

When examining SRI asset distribution relative to funds typology, it is interesting to note the heavy emphasis on equity or balanced funds (82,9% of total assets) as opposed to fixed-income funds (only 17,1% of total SRI assets).

This is in sharp contrast to traditional funds where 45% is invested into equity or balanced funds.⁵ However, SRI equity funds' weight varies greatly among the countries considered, ranging from 91% in the UK to 13,1% in Spain.



Companies in portfolio

While the growth of SRI funds has not been remarkable in the 18 months, the importance of these funds in promoting changes in corporate behaviour has definitely increased. Media coverage, closer interface between corporate management and fund managers (in many cases through screening agencies) have contributed to increase the power of SRI investments as catalysts for innovation.

The Avanzi SRI Research/SiRi Group fund database provides some input on the effect of corporate efforts to be included in green, social and ethical funds.

⁵ Source: FEFSI, European association of fund managers.

The following table shows the stocks most frequently selected by the funds considered in this study. Analysis includes the top 10 holdings of each fund. The ranking should not be read in any case as an “ethical” ranking; the inclusion and position of each stock depends on fund managers financial choices too. Changes of different funds investment policies also affects the results.

For these reasons, the lack of small companies should not be regarded as surprising.

The most frequent stocks in SRI funds portfolios (on 30th June 2003)

| Ranking June 2003 | Ranking Dec. 2001 | Company/ stock |
|------------------------------|------------------------------|--------------------------|
| 1 | 3 | Vodafone |
| 2 | 8 | Pfizer |
| 3 | 2 | Johnson & Johnson |
| 4 | new entry | Citigroup |
| 5 | 4 | GlaxoSmithKline |
| | 18 | Microsoft |
| 7 | 7 | Royal Dutch Petroleum |
| 8 | new entry | Astrazeneca |
| 9 | 9 | BP |
| 10 | 1 | Nokia |
| 11 | new entry | Bank of America |
| 12 | new entry | Hennes & Mauritz |
| 13 | new entry | HSBC Holdings |
| 14 | 17 | Royal Bank of Scotland |
| 15 | 14 | Ericsson AB |
| 16 | new entry | Cisco Systems |
| 17 | new entry | Svenska Handelsbanken AB |
| 18 | new entry | Teliasonera Ab |
| 19 | 11 | Intel |
| 20 | new entry | Tesco |

Source: Avanzi SRI Research / SiRi Group (2003)

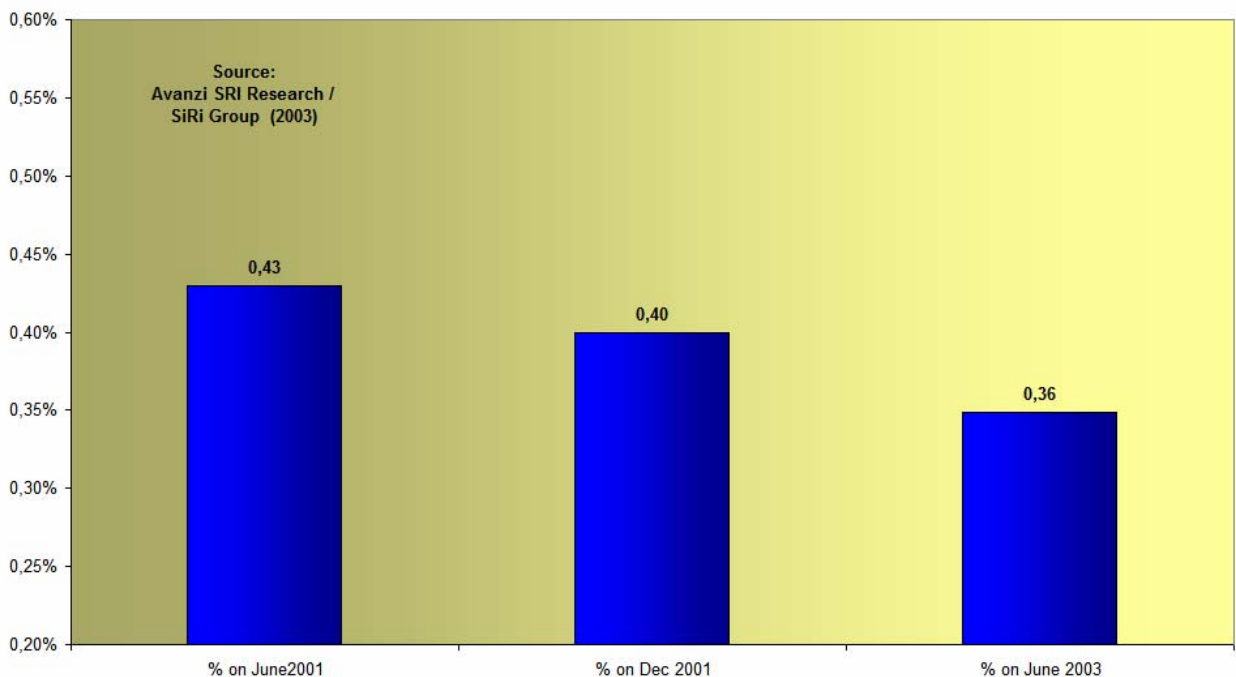
Conclusions

The survey allows a comparison between the assets of SRI funds and the total assets 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 0.36% of the total assets managed by UCITS funds.⁶ (slightly decreasing from 0,4 on December 2001).

The reduction of the ratio between UCITS assets and SRI funds assets should be valued considering the relative higher proportion (around 83% of total assets) of equity and balanced funds in the SRI industry compared to the total equity and balanced funds at large (45%). Net inflows for traditional equity funds have often been negative especially in the second half of 2002 and in the first quarter 2003. For the same reason, the bearish tendency of equity markets reduced SRI assets more than it reduced the total assets managed by UCITS funds.

Percentage of SRI funds asset over non SRI in selected countries



The country breakdowns show that Belgium leads in this special ranking with 1,67%, a figure that has remained relatively stable since the last survey (1,7%). Switzerland ranks second (with an increase from 1,32% to 1,6%).

⁶ Data taken from statistics of FESFI, the European association of fund managers.