

Green, social and ethical funds in Europe

2002



In cooperation with



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Foreword

This report is the result of collective research carried out during the year 2002 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 in cooperation with **CSR Europe**. This report has been written on October 2002 by Matteo Bartolomeo (Avanzi and Avanzi SRI Research) and Teodosio Daga (Avanzi SRI Research), in cooperation with Adeline Hinderer (CSR Europe) using data referred to the 31st of December 2001

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**)

CSR Europe

CSR Europe is a business driven membership Network of 60 companies whose mission is to place Corporate Social Responsibility (CSR) in the mainstream of business practice. Through its 17 National Partner Organisations, 8 benchmarking programmes and online Resource Centre CSR Europe is the reference platform on CSR strategies and practices for companies throughout Europe.

www.csreurope.org

Origin and objectives of the research

This report is part of the **SRI Funds Service**, the most comprehensive resource centre on SRI funds available in Europe..

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

The research questions for the current report 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 top holdings for these funds?**
- **What are the trends and what can we expect from the future?**

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 potential clients, professionals, media and the general public with information on a fund per fund basis (**through the free online database www.sricompass.org**)

as part of the **SRI Funds service**, to provide high quality services to SRI professionals, CSR managers with companies and financial advisors.

The on line resource on European SRI funds (www.sricompass.org)

The SRI Compass is the first European online resource featuring all existing green and ethical retail funds and indices in Europe. Launched as part of the European Business Campaign on Corporate Social Responsibility, the SRI Compass has three major goals:

- To provide stakeholders with an overview of the size and growth of the SRI market and detailed information on the SRI products available
- To encourage financial institutions to diversify their offer of SRI products by providing data and analysis on the existing funds as well as on the overall trends for the SRI retail market
- To offer companies concrete evidence and information on the financial benefits of attracting Socially Responsible Investors

Besides detailed information on SRI funds available throughout Europe, www.sricompass.org provides analysis on the characteristics of the funds, access to news and link to research and surveys on socially responsible investing in Europe.

The SRI Funds Service

This report and the SRI Compass, draw on the first European database featuring all existing socially responsible retail funds in Europe. The data base is the core of the **SRI Funds Service**, the initiative launched by Avanzi/SiRi Group with the aim:

- to facilitate the strategic SRI asset allocation for funds of funds and institutional investors
- to allow asset managers to benchmark their SRI strategy and results
- to allow stakeholders to better understand SRI funds qualities
- to offer companies an overview on their position in funds portfolios
- to provide customised analyses and trend reports regularly

The SRI Funds Service make available to SRI investors, managers, intermediaries and companies information, on a fund per fund basis, with regard to:

- 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, ...)
- geographical scope of the portfolio
- top holdings
- assets under management (in Euro)
- 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 criteria
- SRI style (in terms of engagement, transparency, ...)
- 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.

¹ Anyone interested in accessing to the whole database or in customised extracts and analyses can contact Avanzi SRI Research or local SiRi Group members (bartolomeo@avanzi.org or fax +39 02 4800 0009).

Definitions

The report covers green, social and ethical funds operating in Europe on **31st December, 2001**. The geographical scope of the analysis has been extended to cover: **Austria, Belgium, 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 UCITS² funds.

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

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.

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.

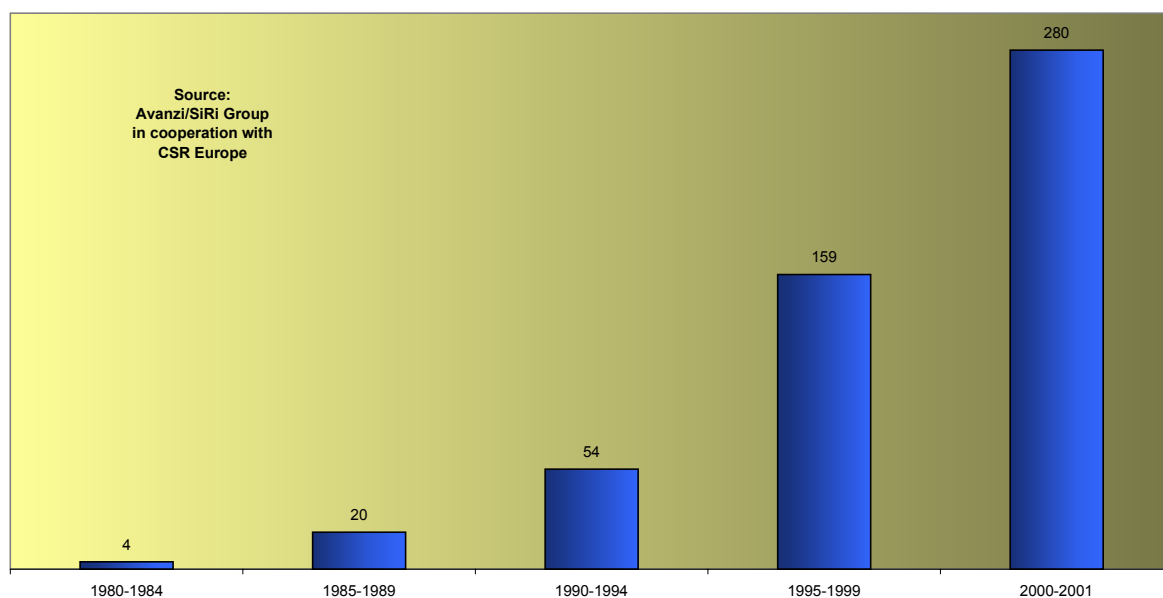
Analysis

Number of funds

On 31 December 2001 there were 280 **green, social and ethical funds operating in Europe**, with a +78% increase in 24 months period since the end of 1999. In particular, during the third and fourth quarter 2001, the number of funds increased from 251 to 280).

The growth rate is particularly interesting when considering the reference period 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.

Number of Funds, cumulated, in the period 1980 to 2001



The research confirms that the group of **leading countries** - consisting of **the United Kingdom, Sweden, France and Belgium** - accounts for **more than 68% of the funds** available in Europe (the concentration has slightly increased since the last survey from 66%)³.

The relative weight of the UK on the whole SRI funds industry in Europe decreased from 33% to 21% from the end of 1999 to end 2001. The **most dynamic retail market is France that triples the number of funds in 24 months**. It is interesting to notice that France confirms, in the last semester of 2001, a very strong growth trend as far as the number of funds is concerned.

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 have sharply increased their supply of SRI products: there are now 21 products from only 10 in 1999. 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.

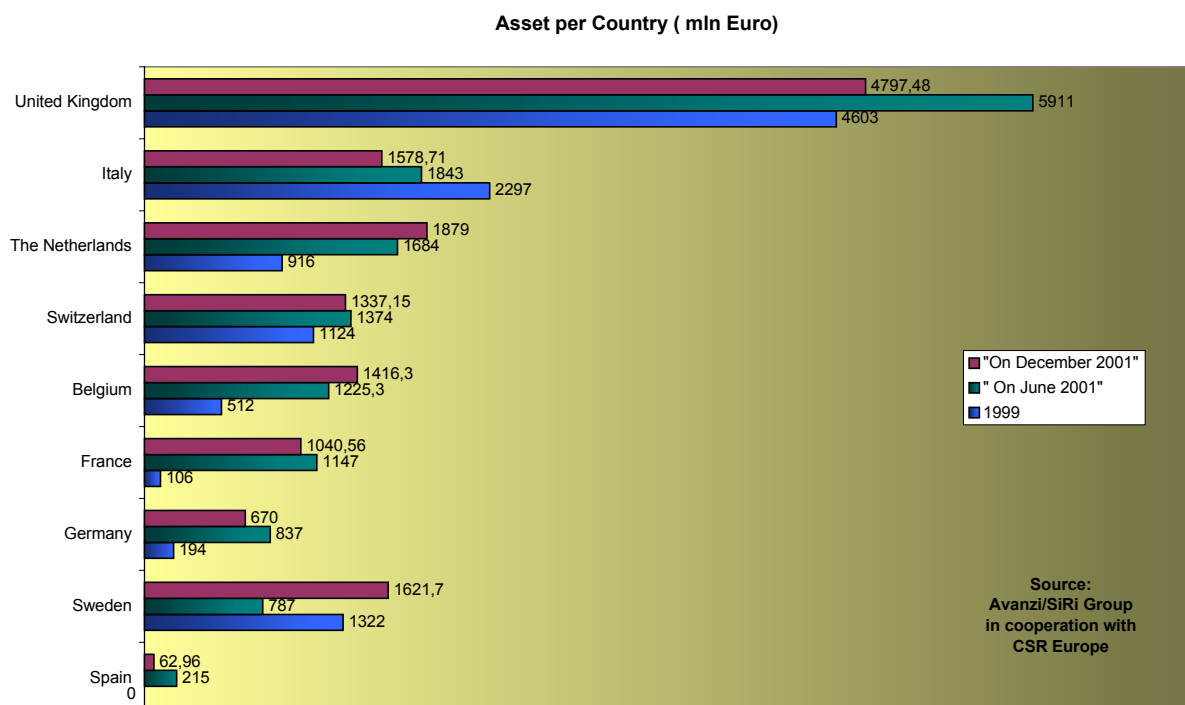
Assets under management

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 30% from € 11,1 billion at the end of 1999 to € 14,4 billion at the end of 2001.⁴

Since June 2001, as a consequence of negative inflows and performance of the majority SRI funds, the total SRI asset in retail funds decreased of around 800 mln € (from 15,2 mln €).

Three countries – **The United Kingdom, Sweden and the Netherlands**– play a **major role with an asset of nearly 58%** of the total European SRI retail asset. Five countries, the former three plus Italy and Belgium, reach 80% of the total SRI market. A similar concentration (of



⁴ It is also important to understand that the € 14,4 billion under management does not represent the total value of screened portfolios in Europe, since private and institutional portfolios, as well as portfolios for which there is an engagement policy, are not considered here.

top five countries) has been registered at June 2001.

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 since the 1999 survey, from € 74 million to **€ 51 million** (on December 2001). This average, which is much smaller than the average referred to all the EU funds (€ 140 million), is explained by the fact that SRI products are still at an infancy stage⁵.

Italy has still the leadership due to the large assets of two funds, but obviously the launch of new funds has deeply influenced the mean for the country as a whole.

Data on the median do not show major difference amongst the leading national SRI markets; it ranges from 34 to 50 mln €.

Largest funds in Europe (on 31st December 2001)

Ranking Dec. 2001	Ranking June 2001	Asset management company	Name of the fund	Country of the mother company	Asset (million Euro)
1	2	Friends Ivory & Sime Plc (now ISIS Asset Management)	Friends Provident Stewardship Unit Trust	United Kingdom	919
2	1	Sanpaolo-IMI Asset Management SGR	Sanpaolo Azionario Internazionale Etico	Italy	775
3	3	Framlington	Health Fund	United Kingdom	700
4	5	ABN AMRO Asset Management	ABN AMRO Groen Fonds	Netherlands	463
5	4	Sanpaolo-IMI Asset Management SGR	Sanpaolo Obbligazionario Etico	Italy	462
6	new entry	UBS Asset Management	UBS (Lux) EF Eco Performance	Switzerland	445
7	7	Dexia Asset Management	Stimulus Invest Stimulus European Balanced Medium	Belgium	410
8	9	SNS Asset Management	ASN Aandelen fonds N.V.	Netherlands	292
9	6	Henderson Global Investors	NPI Global Care Growth	United Kingdom	274
10	new entry	ING Fund Management B.V. and ING Bank Fondsen Beheer B.V.	ING Bank Duurzaam Rendement Fonds	Netherlands	254

Source: SiRi Group / Avanzi in cooperation with CSR Europe 2002

⁵ Source: FEFSI, European association of fund managers.

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 31st Dec. 2001)

Ranking Dec. 2001	Ranking June 2001	Most common stock
1	2	Nokia
2	4	Johnson & Johnson
3	1	Vodafone
4	3	GlaxoSmithKline
5	8	ING
	new entry	Vivendi
7	16	Royal Dutch Petroleum Shell??
8	6	Pfizer
9	11	BP
10	new entry	Home Depot
11	14	Intel
12	17	Lloyds TSB
13	20	Fannie Mae
14	new entry	Ericsson
15	new entry	Aventis
16	new entry	Sanofi Synthelabo
17	5	Royal Bank of Scotland
18	13	Microsoft
19	new entry	BNP Paribas
20	new entry	L'Oreal

Source: SiRi Group / Avanzi in cooperation with CSR Europe 2002

Conclusions: SRI funds remain stable 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 are screened assets (in some cases asset managers use a pure engagement approach without any screening).

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 0.40% of the total asset managed by UCITS funds.⁶ (decreasing from 0,43 on June 2001).

One possible explanation for the stable ration between UCITS assets and SRI funds assets, is referred to relative higher proportion (65%) of equity and balanced funds in the SRI industry compared to the total equity and balanced funds at large (around 55%). Net inflows for traditional equity and balanced funds have been often negative especially in the third quarter 2001.

The breakdown shows that Belgium has the lead in this special ranking with 1,70%, from the 1,47 just six months before. The Netherlands rank second (and has increased from 1,45 to 1,61%) while, in most of the other countries, the relative weight of SRI fund assets decreased sharply.

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