



Green, social and ethical funds in Europe. 2005 Review

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Foreword

This report is the result of collective research carried out during the year 2005 by **Sustainable Investment Research International (SiRi) Company** Network Partners, a world-wide coalition of local research organisations devoted to the advancement of socially responsible investing.

This report has been written in September 2005 by Matteo Bartolomeo (Avanzi and Avanzi SRI Research) and Giovanni Familiari (Avanzi SRI Research) using data referred to the 30th of June 2005.

SiRi Company (www.siricompany.com)

Established in 2003 as the for-profit successor of the SiRi Group, SiRi Company provides a wide range of social investment research products and services to financial professionals in major markets. The SiRi Company 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 Company Network Partners provide coverage (with positive criteria) of **more than 4,000 corporations** in the major markets worldwide.

SiRi Company Network Partners are:

Avanzi SRI Research s.r.l., **Italy**

GES Investment Services AB, **Sweden**

Centre Info SA, **Switzerland**

Fundación Ecología y Desarrollo, **Spain**

PIRC – Pensions & Investment Research Consultants Ltd, **United Kingdom**

Scoris GmbH, **Germany**

Stock at Stake NV, **Belgium**

Dutch Sustainability Research BV, **Netherlands**

KLD Research & Analytics Inc., **United States**

Jantzi Research Inc., **Canada**

SIRIS, **Australia**

Origin and objectives of the research

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

This is the sixth edition of the report *Green, social and ethical funds in Europe* (after the 1999, 2001, 2002, 2003, and 2004 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?
- Which is the cost to invest on these funds? How have they performed relative to their traditional peers?
- 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 draws 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 Company which aims to:

- Facilitate the strategic SRI asset allocation for funds and institutional investors
- Allow asset managers to benchmark their SRI strategy and results
- Allow stakeholders to better understand SRI funds features
- Offer companies an overview of 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 asset management company and the fund, details of the contact person
- Fund inception date
- Fund typology (equity, balanced, fixed income, etc)
- Top holdings
- Assets under management (in Euro)
- Asset allocation, Regional Breakdown and Sector Weightings

- 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, 2005**. The geographical scope of the analysis covers: **Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Norway, Poland, Spain, Sweden, Switzerland, Netherlands, and United Kingdom.**

The **funds considered** in this report all:

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

A 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

¹ Further details on the service are available through www.avanzi-sri.org/eng/index_en.htm. Anyone interested in accessing the whole database or in customised extracts and analyses can contact Avanzi SRI Research (bartolomeo@avanzi.org; familiari@avanzi-sri.org; or phone +39 02 36518110).

SRI Funds Service is a  recommended solution.

- 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
- funds applying one or multiple CSR screens but 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 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 retailer is located.

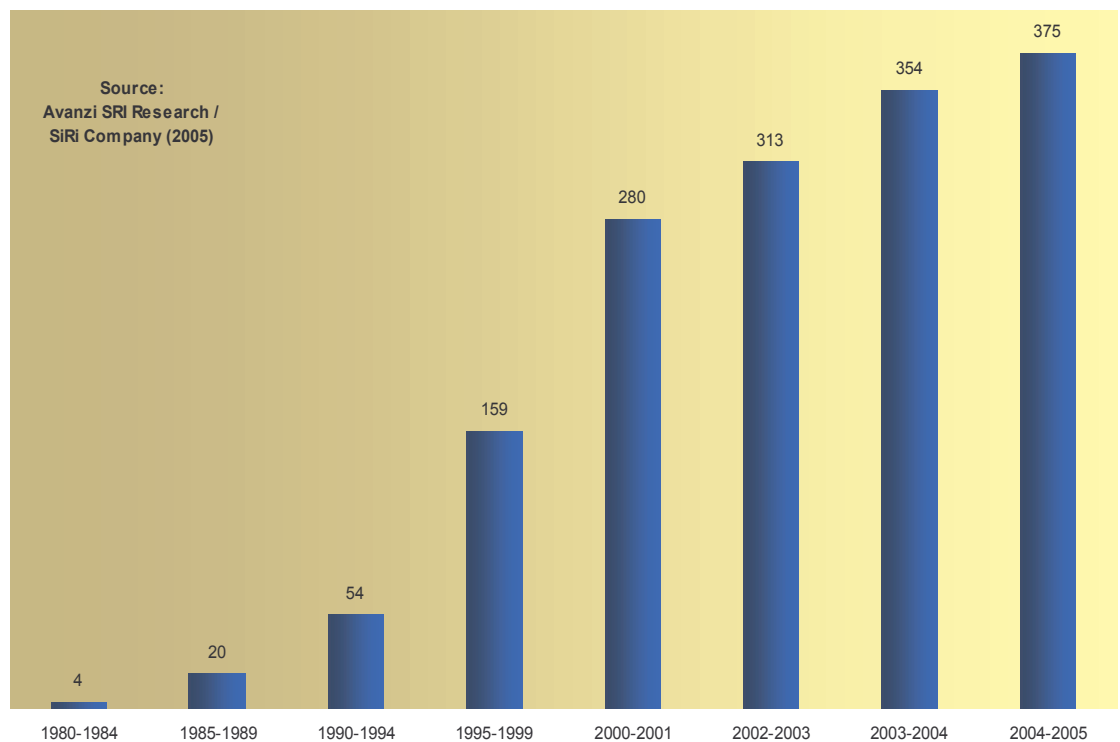
While the research organisations involved have done their best to cover all the funds in a comprehensive manner, some funds have probably been missed. More funds have been launched since the collation of the information for this report.

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.

Number of funds

On 30 June 2005 there were **375** green, social and ethical funds operating in Europe, with an increase of about 6% over the last 12 months.

Number of SRI Funds, cumulated, in the period 1980 to 2005
(on 30 June 2005)



The research confirms that the group of leading countries - consisting of the **United Kingdom, Sweden, France and Belgium** - accounts for about 63.7% of the funds available in Europe (the concentration has slightly decreased since the last survey from 64.4%)².

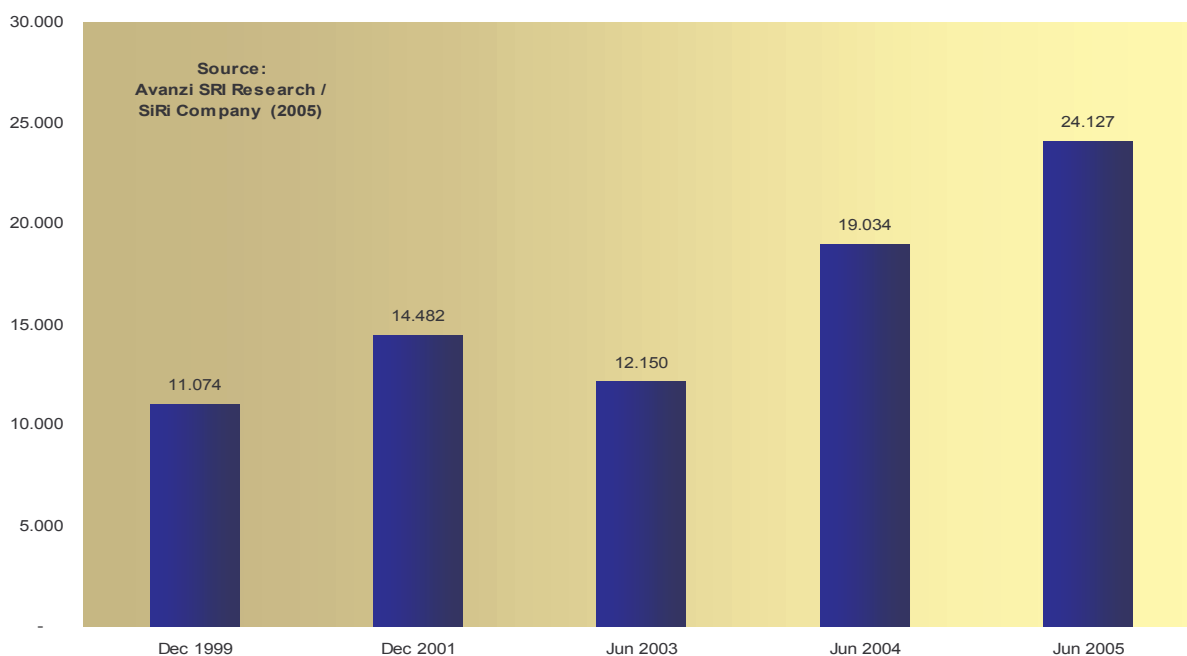
The relative weight of the UK on the whole SRI funds industry in Europe has reduced at just above 19% steady from the 21% reported at mid 2004. **France** continues to be the most dynamic retail market, with an annual growth rate in terms of number of funds of more than 20% for the second successive year.

² 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.

Assets under management

The total amount of SRI assets grew by about **27%**, from €19.0 billion at mid 2004 to **€24.1 billion** at the end of the second quarter 2005³.

**Total asset under management for SR funds domiciled in Europe
(end of June 2005, mIn Euro)**



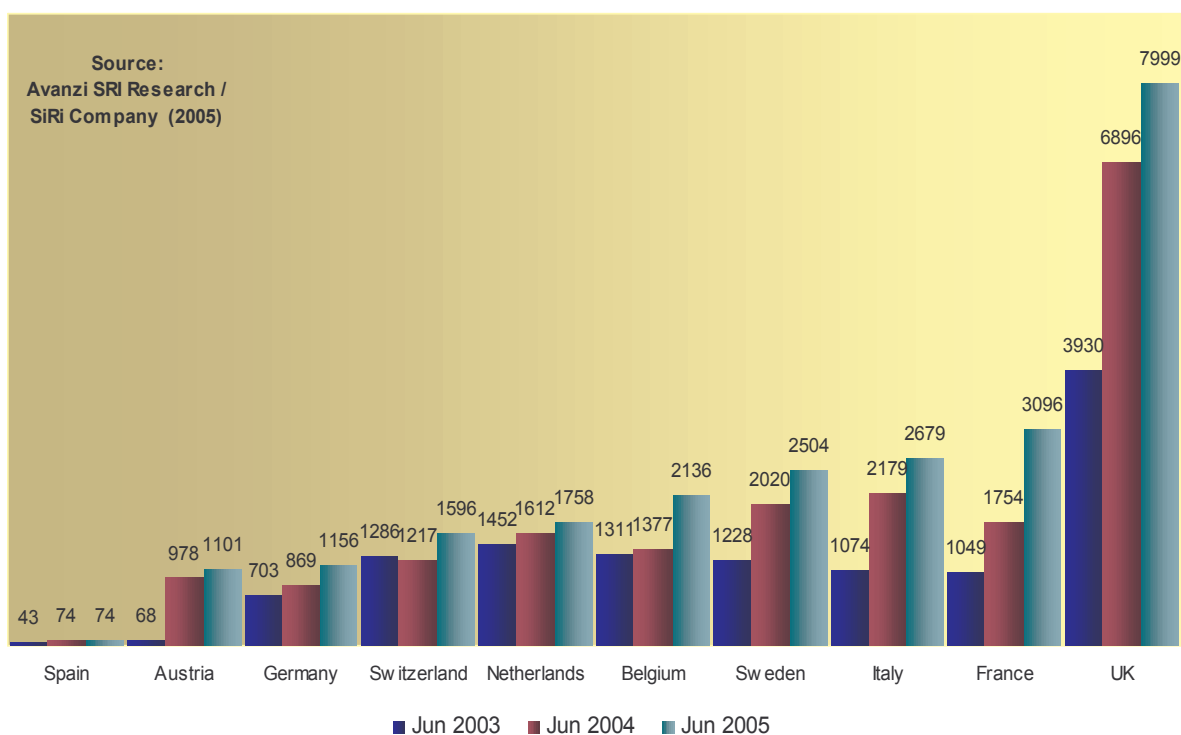
As during 2004, SRI assets benefited from financial markets, since positive returns had direct effects on the assets under management, in particular for equity funds⁴. The relative higher proportion (more than 78% of total assets at mid 2004) of equity and balanced funds in the SRI industry compared to the total equity and balanced funds at large (48% at the same time) amplified this effect. The more intense growth of SRI assets relative to general UCITS⁵ seems anyway to go beyond financial markets impacts and to be partially generated by the continuous entrance – through the launch of new SR products, or the re-design of existing “traditional” products – of new key European asset managers into the SRI segment.

³ The figure do not represent the total value of screened portfolios in Europe, since private and institutional portfolios are not considered in this report.

⁴ At the same time, as the Euro strengthened relative to the Swedish Krona, the actual growth of total assets could be slightly underestimated.

⁵ “UCITS” is used in this note in the same sense as for 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.

SR funds assets per country (mln Euro on 30 June 2005)



If the United Kingdom makes up the majority of the total European SRI retail assets – about 33.2% of the total - France and Belgium have become the fastest-growing countries by asset under management. At the same time, Italy and Sweden still account for more than 10% of the total market.

The size of green, social and ethical funds

The average number of assets in green, social and ethical funds has increased to €64.3 million, with a remarkable growth for the second year, reaching the highest level since December 1999.

Average assets for equity and balanced funds continues to be significantly lower than that for fixed income - bonds and money market – funds, with the latter still slightly growing to 124€ million.

The United Kingdom retains today the lead in the average number of assets ranking (€111.1 millions), followed by Italy (99.2€ millions), while Spain continues to be tail-end with 6.7€ millions.

It is worth noticing that the median asset is still much lower than the average in every country, pointing out the influence of a few large funds in determining the average figures. This continues to be particularly evident in the Italian market, where an average asset of €99.2 millions compares with a median asset of €23.3 millions. The overall median asset in Europe has slightly increased from €25 at mid 2004 to €29 millions at June 2005.

Largest funds in Europe (on 30th June 2005)

Ranking June 2005	Ranking June 2004	Asset Management Company	Fund Name	Country	Asset (mln Euro)
1	1	Friends Provident Pensions Ltd	Stewardship Pension Fund	United Kingdom	1298
2	2	Pioneer IM SGRpA	Pioneer Obbligazionario Euro Corporate Etico	Italy	984
3	3	F&C Fund Management Ltd	F&C Stewardship Growth Fund	United Kingdom	967
4	4	Erste Sparinvest KAG	ESPA Bond Euro-Mündelrent	Austria	773
5	New Entry	Henderson Global Investors	Henderson Global Care Managed	United Kingdom	668
6	5	Framlington Unit Management Ltd	Framlington Health Fund **	United Kingdom	633
7	7	ABN AMRO AM NL	ABN AMRO Groen Fonds *	Netherlands	478
8	10	Friends Provident Life Assurance Ltd	Stewardship Life Fund	United Kingdom	433
9	9	Sanpaolo IMI AM SGR S.p.A.	Sanpaolo Obbligazionario Etico	Italy	422
10	New Entry	Dexia AM Belgium SA	Dexia Sustainable European Balanced Medium	Belgium	396

* 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 Company (2005)

Funds typology

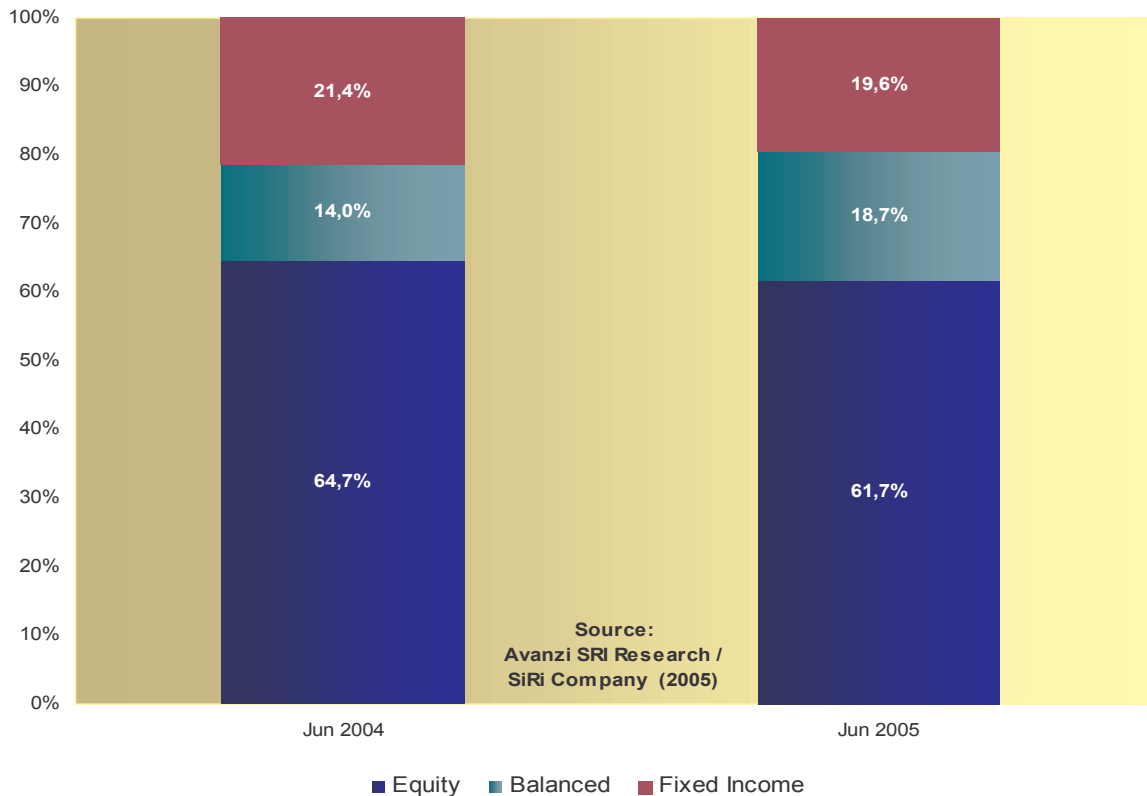
When examining SRI asset breakdown by funds typology, it is interesting to notice the heavy emphasis on equity or balanced funds (80.4% of total assets) as opposed to fixed-income funds (only 19.6% of total SRI assets).

A significant difference thus emerges between SRI and traditional funds, where the assets of the latter are almost equally distributed among fixed income, and equity and balanced funds⁶. However, SRI assets breakdown by fund typology varies greatly among the countries considered, with the prevalence of equity funds in most countries - especially Sweden (92.2%) and the United Kingdom (82.8%) - being partly counterbalanced by the strength of fixed income funds in countries like Austria (78.5%) and Italy (63.6%).

Balanced funds share of the total grew remarkably - passing from 14.0 to 18.7% - thanks to the launch of many new products of this kind within the last 12 months.

⁶ Source: EFAMA Quarterly Statistical Release N°18 (Second Quarter of 2005).

SR funds typology breakdown (%)



Companies in portfolio

The growth of SRI funds has been remarkable in the last 12 months, increasing therefore their ability to promote changes in corporate behaviour. In addition to the increase of assets, the involvement of new key institutional investors, media coverage, closer interface between corporate management and fund managers (in many cases through screening agencies) are enhancing the power of SRI investments as catalysts for innovation.

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

The following table shows the stocks most frequently selected by the funds considered in this study. The 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 hinges equally on fund managers financial choices. Changes of funds investment policies also affects the results. For these reasons, the lack of small companies should not be regarded as surprising.

Most frequent stocks in SR funds portfolios (on 30th June 2005)

Ranking June 2005	Ranking June 2004	Company
1	2	Vodafone
2	9	GlaxoSmithKline
3	1	AstraZeneca
4	13	Johnson & Johnson
5	11	BP
6	5	Hennes & Mauritz
7	4	Ericsson
8	10	HSBC Holdings
9	12	Nordea Bank
10	6	Citigroup
11	New Entry	ING
12	7	Svenska Handelsbanken
13	New Entry	Sanofi-Synthelabo
14	15	Royal Bank Of Scotland
15	New Entry	TeliaSonera
16	New Entry	Telefonica
17	16	Intel
18	New Entry	FöreningsSparbanken
19	3	Pfizer
20	14	Royal Dutch Petroleum

Source: Avanzi SRI Research / SiRi Company (2005)

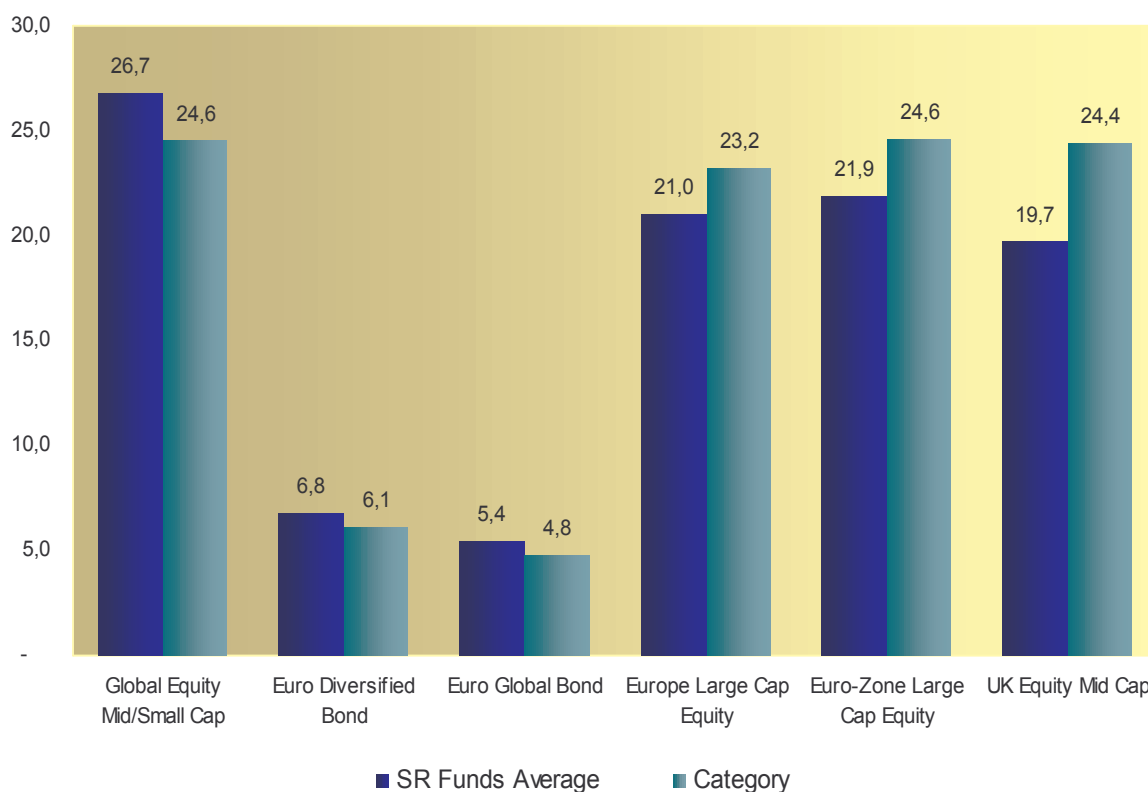
Fees and performances

The following graph compares SR funds average returns with those of their traditional peers during the last 12 months ending 31st August 2005.

The chart illustrates the three best and worst performing SR categories⁷ (simple average return) relative to their broad peers averages.

⁷ Funds allocation to categories is based on Morningstar Europe classification scheme. Global Equity Mid/Small Cap funds have a mandate to invest globally - more than one regional economic bloc - in mid or small capitalisation shares. Euro Diversified Bond funds invest in bonds denominated in euros with a generalist mandate and do not exhibit significant risk concentrations. The Euro Global Bonds category

Best and worst SR 1 Yr performing categories relative to broad peers (end of August 2005, %)



As it can be seen, socially responsible funds with a mandate to invest globally in mid/small cap equities have achieved the best relative results, while those focused on UK mid capitalisation shares were the worst relative performers.

The following table lists 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 – see the wide presence of funds investing in Nordic equities. The table gives a general idea about the best relative performance results achieved by European SR funds during the last 12 months.

includes funds investing in fixed income securities and taking material currency exposures as part of their investment strategies, but optimised in Euros. UK Equity Mid Cap funds invests in UK equities being focused in mid capitalisation shares or being invested in shares of various capitalisation levels. Funds belonging to the two remaining categories invests in large capitalisation shares of the European or Euro-zone equity markets.

Top performing SR funds in Europe (1 year returns, end of August 2005)

Asset Management Company	Fund Name	Country	Category	1y Fund Prf	1y Category Prf
Sarasin Investmentfonds AG	Sarasin New Energy Fund	Switzerland	Natural Resources Sector Equity	48.8	32.8
Sarasin Expertise AM	Sarasin Euro Mid-Caps Expansion Durable	France	Euro-Zone Mid Cap Equity	38.2	33.9
Skandia Fonder AB	Skandia Idéer För Livet	Sweden	Nordic Equity	35.6	39.8
Activest Luxembourg	Activest Lux EcoTech	Germany	Global Equity Mid/Small Cap	34.3	24.6
Öhman Fonder AB	Öhman Nordisk Miljöfond	Sweden	Nordic Equity	34.2	39.8

Source: Avanzi SRI Research / SiRi Company (2005) using Morningstar data⁸; returns calculated using Euro as base currency

As regards management fees, socially responsible Euro Aggressive Balanced funds – with a mandate to balance equity (not exceeding 75%) and bond investments for a Euro-based investor - classify as the most expensive ones (1.47% on average), followed by Euro Aggressive Balanced – together with Global Equity Mid/Small Cap ones, and followed by the Euro-Zone Large Cap Equity funds (1.42%). Euro Global Bond category emerge as the cheapest (0.84%), followed by Euro Diversified Bond funds (0.9%). It's worth noticing that, even investing in stocks, the Global & Sweden Equity category classifies among the low-cost ones (1.0%).

Conclusions

Data regarding the growing number and asset of SRI funds are encouraging, suggesting that the socially responsible investment industry is gaining importance and recognition.

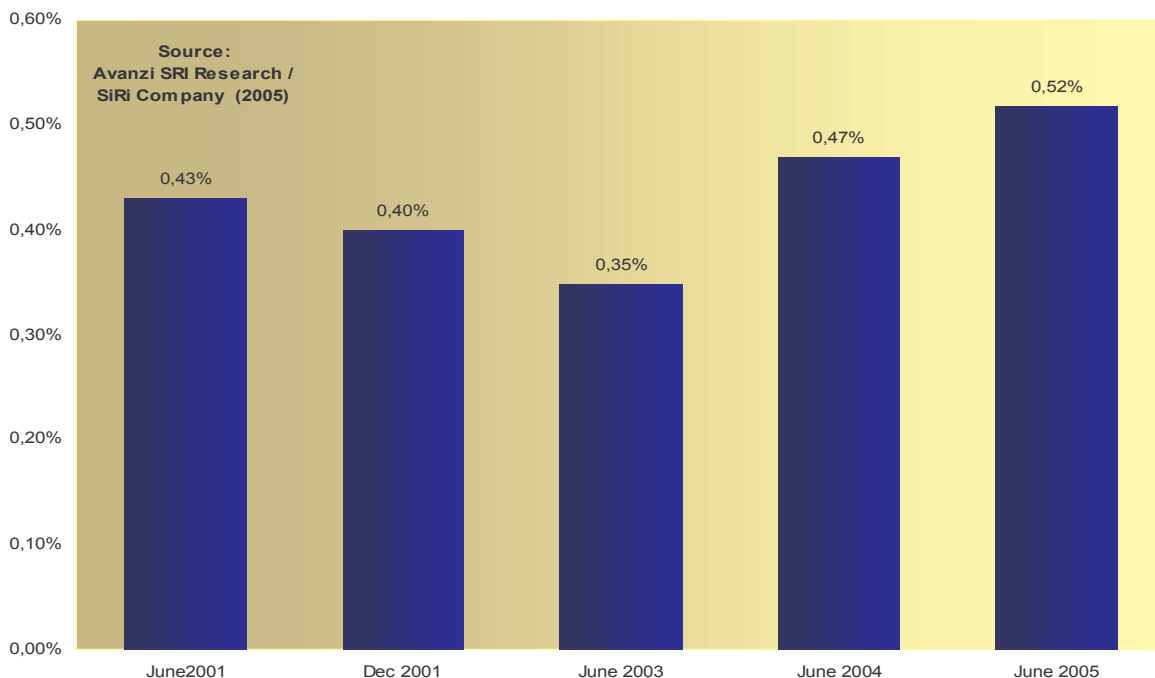
Other data, more specifically those comparing the SRI funds asset and those of traditional funds (UCITS), confirm and reinforce this belief.

Such a comparison shows that SRI funds, although still make up a very limited portion of all funds in Europe, are gaining importance.

⁸ Natural Resources Sector Equity category includes funds with assets concentrated in extractive and related industries (commodities, metal and oil). Nordic Equity funds are dedicated to equities of more than one country in the Nordic region (Denmark, Finland, Norway and Sweden). Euro-Zone Mid Cap Equity funds invests in any or all of the equity markets of the Euro-zone, being focused in mid capitalisation shares or being invested in shares of various capitalisation levels.

In selected countries the percentage is much above 1%: Belgium leads this special ranking with 1.97%, a figure that has markedly increased since the last survey (1.75%). Netherlands, Switzerland and the United Kingdom follow, all with a ratio higher than 1.45%.

SR funds assets over total UCITS in selected countries (%)



The relative higher share of equity and balanced funds in the SRI industry compared to the total equity and balanced funds assets at large certainly has influenced the increase of the ratio between SRI funds and UCITS assets, that has never been so high since European SR funds trends began to be surveyed. However, as noted above, the much more intense growth of SRI assets relative to general UCITS seems to go beyond financial markets impacts, being influenced by the launch of new SR products by key asset managers, or the re-design of existing traditional products being transformed to include a socially responsible approach in their investment policies.