

# Green, social and ethical funds in Europe. 2006 Review

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### Origin and objectives of the research

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This report has been written in September 2006 by Matteo Bartolomeo (Avanzi and Avanzi SRI Research) and Giovanni Familiari (Avanzi SRI Research) using data referred to the 30th of June 2006.

The 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, 2003, 2004 and 2005 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 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 the continuous research on the 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 as part of the SRI Funds Service

### The SRI Funds Service

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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 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 fund<sup>1</sup>

## Use of this report

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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.

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<sup>1</sup> Further details on the service are available through [www.avanzi-sri.org/eng/index\\_en.htm](http://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](mailto:bartolomeo@avanzi.org); [familiari@avanzi-sri.org](mailto:familiari@avanzi-sri.org); or phone +39 02 36518110).

SRI Funds Service is a  recommended solution.

## Definitions

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The report covers green, social and ethical funds operating in Europe on **30 June, 2006**. 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<sup>2</sup> for stock and bond issuers 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
- funds specialising only in investing in environmental technologies or the environmental industry (waste management, water treatment)
- funds and other investment products available to institutional investors only
- 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 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 Avanzi SRI Research 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 funds management and of the criteria used.

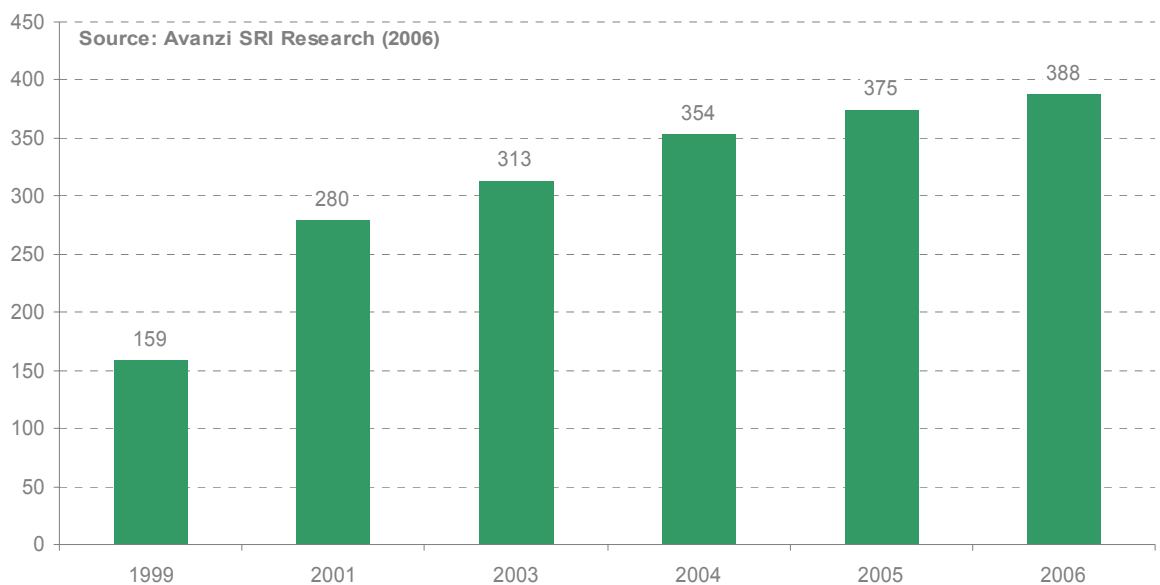
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<sup>2</sup> The report considers negative or / and positive screens. Negative criteria are used to identify companies with activities, practices or policies that conflict with the ethical social and/or environmental values of an investor. Positive criteria require companies to demonstrate an active positive contribution to society or the environment. Specific negative/positive criteria could be used for non-company issuers (especially for governments, international bodies, agencies).

### Number of funds

On 30 June 2006 there were **388** green, social and ethical funds domiciled in Europe, with an increase of about 3% over the last 12 months, showing a generalised slowing down of the net growth rate of products available.

Number of SRI Funds, cumulated, in the period 1980 to 2006  
(on 30 June 2006)



The decrease in the growth rate can partly be explained by the increased integration of European retail markets. But it is also due to the closure of 24 equity and balanced funds, due to the limited success of some initiatives and the restructuring of SRI offering by some asset managers.

The research confirms that the group of leading countries - consisting of the **France, United Kingdom, Sweden** and **Belgium**- accounts for more than 63% of the funds available in Europe (this concentration is very stable since 2004)<sup>3</sup>.

In the UK, for the first time since the inception of the research, the number of funds remained almost the same from one year to another (but three have been liquidated), similarly to Italy, Austria and the Netherlands. France, with a remarkable increase of funds in the last 4 years is now the leading European country, with more than 80 products domiciled (even if 8 funds were closed during the last year).

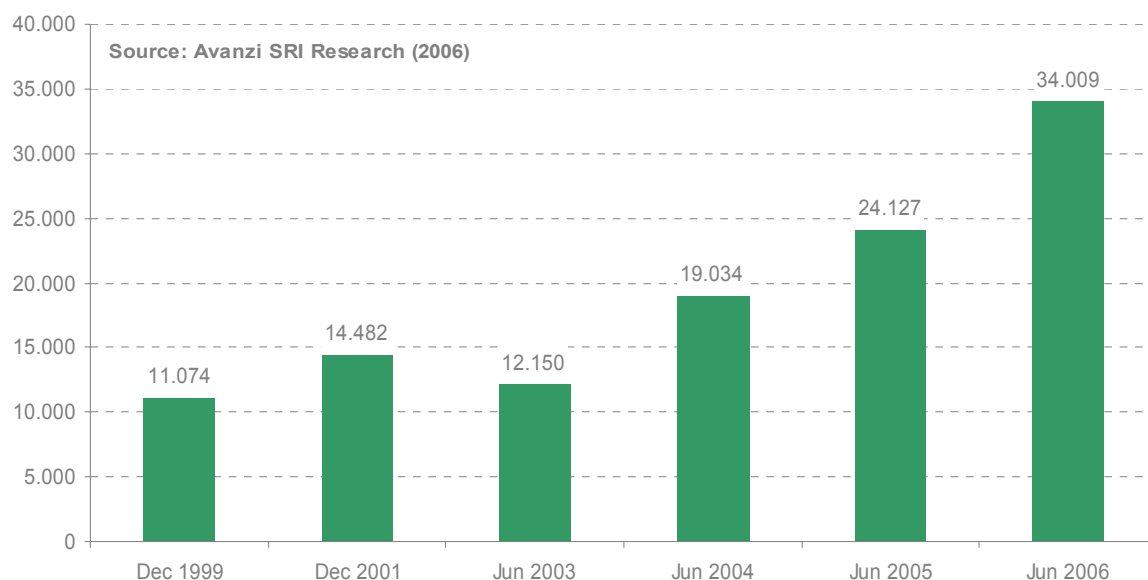
<sup>3</sup> The attribution of funds to specific countries was done according to where the parent company is based. This classification has also been applied to funds domiciled in Luxembourg and Ireland.

## Assets under management

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The total amount of SRI assets grew by more than **40%**, from €24.1 billions mid 2005 to €34.0 billions at the end of the second quarter 2006<sup>4</sup>.

Total asset under management for SR funds domiciled in Europe  
(end of June 2006, mln Euro)



As during 2005, SRI assets benefited from financial markets, since positive returns had direct effects on the assets under management, in particular for equity funds that still count for 61% of the total AUM of the SRI retail industry in Europe. However, once deduced the share of assets growth that could be attributed to financial markets effects, the extent to which the total assets increase could be attributed to these effects remains limited.<sup>5</sup>

There are therefore two additional reasons for such a growth rate:

- On the one side, there are asset managers that are really conceiving SRI specialisation as a key competitive levy, and have started marketing and commercialising their products more aggressively than in the past;
- On the other side, some products with quite remarkable assets have been transformed into SRI UCITS, contributing to an immediate increase in the total AUM of the industry and the respective country.

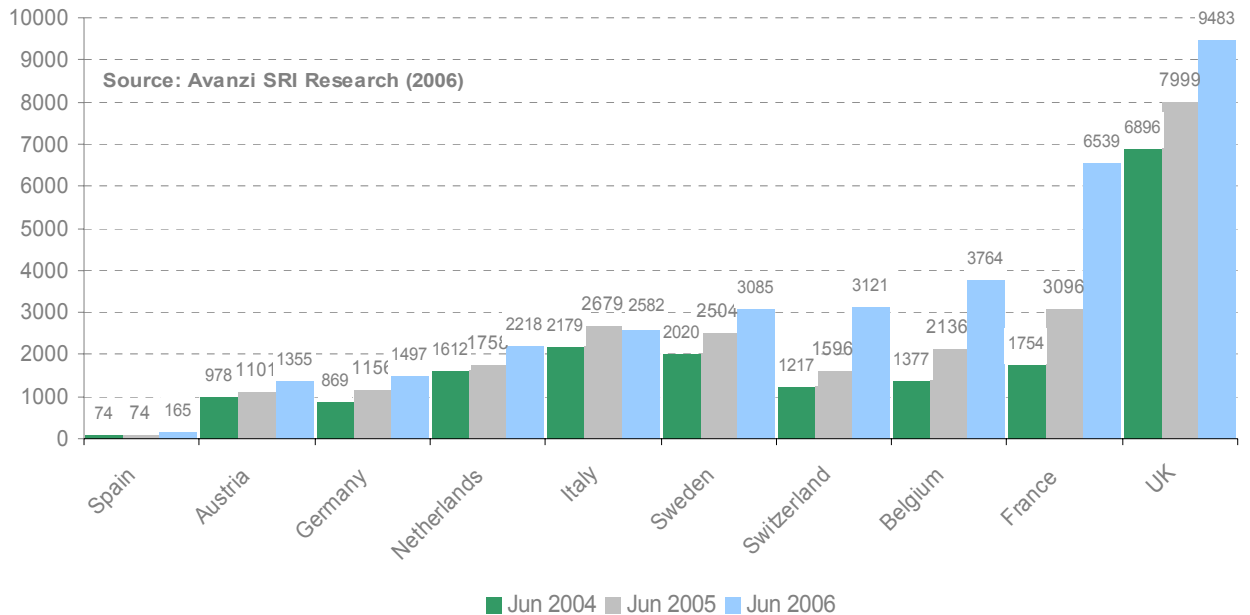
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<sup>4</sup> The figure do not represent the total value of screened portfolios in Europe, since private and institutional portfolios are not considered in this report.

<sup>5</sup> With the aim of assuring an as meaningful as possible comparison, we assumed a 70% equity and 30% bond portfolio – see the following “Funds Typology” paragraph -, using as proxies of the two asset classes the MSCI World Net Dividends and the Lehman Brothers Euro-Aggregate indexes respectively, and obtaining a +6.8% return for the period considered (from June 2005 to June 2006).

An interesting example is Dexia AM, which offers today a range of more than 15 funds with a total AUM of around €2.7 billions, and 4 new funds contributing to nearly 50% of the SRI AUM of the Belgian asset manager. Another example is represented by Natexis that now offers 7 funds, 4 of which have been recently launched or transformed (these have now more than €1.2 billions and contribute to 70% of the SRI AUM).

SR funds assets per country (mln Euro on 30 June 2006)



The growth of France is really remarkable with more than 100% increase in the asset under management and now by far the second country in Europe with about 20% of market share. But also Switzerland and Belgium, with +95% and +75% are closing the gap with the UK that remains by far the largest manager of SRI retail asset with a share of about 28%. On the opposite, Italian funds did not increase, as a total, their asset. This is due not to a generalised trends, but to the variability of net inflows of some specific large funds.

## The size of green, social and ethical funds

The average (mean and median) obviously follows these two main trends, stability in the number of funds and increase in asset.

In terms of mean, the average has increased again to €88 million per fund, with a remarkable growth in the last years (the progression is €39, 54, 64 and 88 millions per fund). In all the countries, the funds increased their mean size and in some cases, like France and

Switzerland, by more than 80%. The United Kingdom retains today the lead in the average number of assets ranking (€132 millions).

Spain, which remains the less developed country in terms of number and asset of domiciled funds, is also the very bottom of the rank as far as the mean is concerned (even if it has doubled from 2005).

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 144€ million.

The median 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 mean asset of €96 millions compares with a median asset of €37 millions), in France (€81 and €26 million), in the Netherlands (€123 and €66 million) The overall median asset in Europe has quite increased from €29 at mid 2005 to €41 millions at June 2006.

#### Largest funds in Europe (on 30th June 2006)

Ranking June 2006	Ranking June 2005	Asset Management Company	Fund Name	Country	Asset (mln Euro)
1	1	Friends Provident Pensions Ltd	Stewardship Pension Fund	United Kingdom	1550
2	3	F&C Fund Management Ltd	F&C Stewardship Growth Fund	United Kingdom	1098
3	4	Erste Sparinvest KAG	ESPA Bond Euro-Mündelrent	Austria	770
4	New Entry	AGF Asset Management	AGF Euro Actions	France	713
5	5	Henderson Global Investors Ltd	Henderson Global Care Managed	United Kingdom	668
6	6	AXA Framlington Unit Management Ltd	AXA Framlington Health Fund **	United Kingdom	647
7	New Entry	Natexis Asset Management	Natexis ISR Obli Euro Moyen Terme	France	638
8	New Entry	AGF Asset Management	AGF Valeurs Durables	France	572
9	New Entry	Julius Baer Investment Funds Services	JB Multipartner SAM Sustainable Water	Switzerland	509
10	2	Pioneer IM SGRpA	Pioneer Obbligazionario Euro Corporate Etico	Italy	502

\*\* 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 (2006)

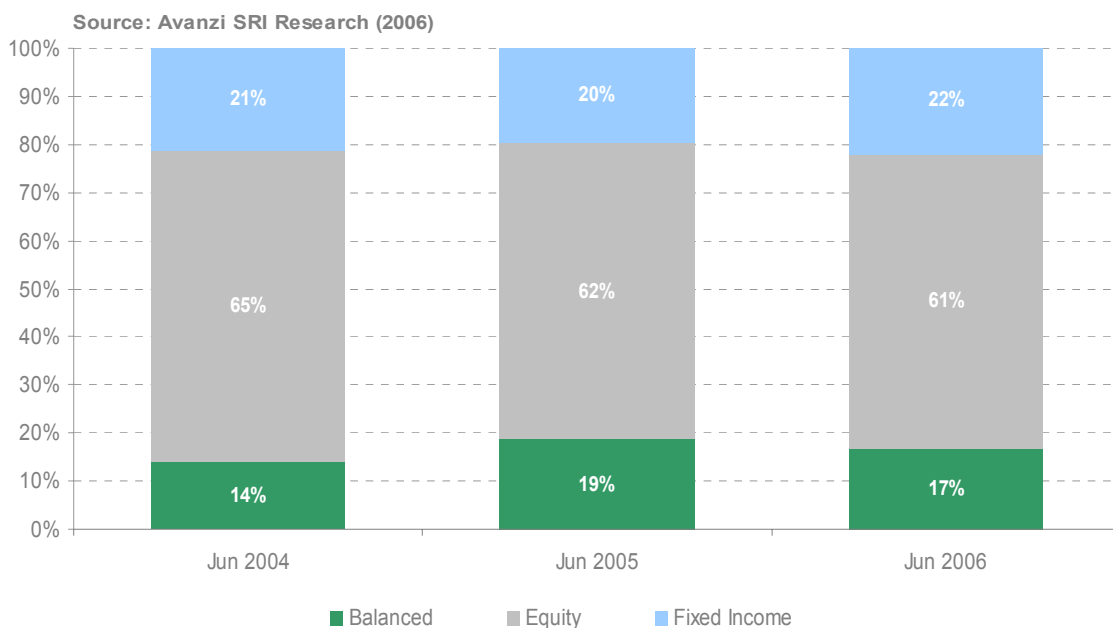
## Funds typology

When examining SRI asset breakdown by funds typology, it is interesting to notice the predominance of equity and balanced funds (77.9% 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 funds<sup>6</sup>. However, SRI assets breakdown by fund typology varies greatly among the countries considered, with the prevalence of equity funds in most countries - especially Sweden (93%) and the United Kingdom (82%) - being partly counterbalanced by the strength of fixed income funds in countries like Austria (76%) and Italy (44% from 63.6% in 2005).

Even if apparently there is not a significant trend in the last years in terms of distribution among the three categories, once considered the significant growth of equity markets in the last two years, it clearly emerges as a growing share of asset managers now applying SRI screening on fixed income assets.

SR Funds Typology Breakdown (%)



<sup>6</sup> Source: EFAMA Quarterly Statistical Release N°26 (Second Quarter of 2006). See the "Conclusions" paragraph for further details.

## Companies in portfolio

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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 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.

Avanzi SRI Research 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 derives from fund managers financial choices too. 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 2006)

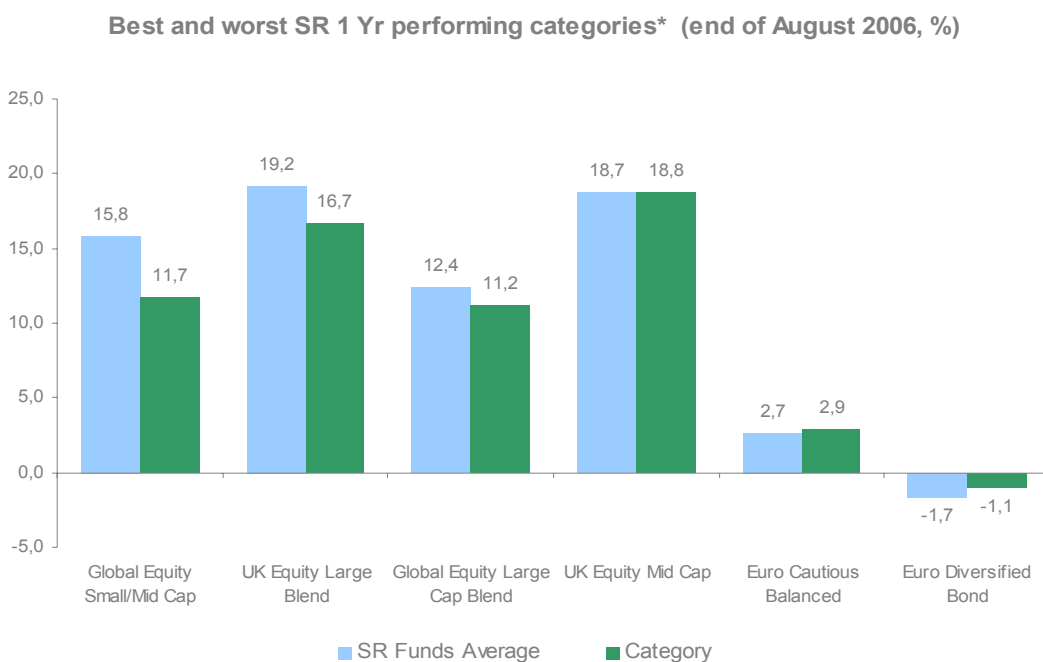
Ranking June 2006	Ranking June 2005	Company
1	11	ING
2	3	AstraZeneca
3	8	HSBC Holdings
4	5	BP
5	14	Royal Bank Of Scotland
6	1	Vodafone
7	New Entry	Novartis
8	New Entry	BNP Paribas
9	New Entry	Eni
10	9	Nordea Bank
11	6	Hennes & Mauritz
12	7	Ericsson
13	New Entry	BG Grp
14	New Entry	Total
15	2	GlaxoSmithKline
16	New Entry	Skandinaviska Enskilda Banken
17	New Entry	UBS
18	12	Svenska Handelsbanken
19	13	Sanofi-Synthelabo
20	New Entry	Nokia

Source: Avanzi SRI Research (2006)

## Fees and performances

The following graph compares SRI funds average returns with those of their traditional peers during the last 12 months ending 31st August 2006.

The chart illustrates the three best and worst performing SRI categories<sup>7</sup> (simple average return) relative to their broad peers averages.



Source: Avanzi SRI Research (2006)

The over-performance within the Global Equity Large Cap Blend portfolios is particularly relevant as the category is the most populated among European socially responsible funds and because it includes SR equity portfolios with the most general mandates (i.e. without any geographical, sector, or style constraints).

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

<sup>7</sup> 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. UK Equity Large Blend and Global Equity Large Cap Blend portfolios invest at least 75% of total assets in equity - primarily large cap companies -, without predominance of growth or value characteristics. UK Equity Mid Cap funds invests in UK equities being focused in mid capitalisation shares or being invested in shares of various capitalisation levels. Euro Cautious Balanced funds have a mandate to balance equity - not more than 35% in the normal running of the fund- and bond investments for a euro-based investor. Euro Diversified Bond funds invest in bonds denominated in euros with a generalist mandate and do not exhibit significant risk concentrations.

### Top performing SR funds in Europe (1 year returns, end of August 2006)

Asset Management Company	Fund Name	Country	Category	1y Fund Prf	1y Cat Prf
Kempen Capital Management N.V.	Orange SeNSE Fund	NL	Europe Equity Mid Cap	31.7	19.5
AEGON Fund Management (UK) Ltd	Aegon Ethical Equity	UK	UK Equity Mid Cap	26.6	18.8
Robur AB	Robur Etikfond Sverige MEGA	SE	Sweden Equity Large Cap	26.6	22.7
Aktie-Ansvar AB	Aktie-Ansvar Sverige	SE	Sweden Equity Large Cap	26.0	22.7
Scottish Widows Investment Partnership	SWIP Pan-European SRI Equity Fund	UK	Europe Equity Large Cap Blend	25.7	17.7

Source: Avanzi SRI Research (2006) using SRI Funds Service Standard data (<http://www.avanzi-sri.org/sri-fundsservice.htm>) and Morningstar categories<sup>8</sup>; returns calculated using Euro as base currency.

As far as management fees are concerned, 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 (1.59% on average), followed by Global Equity Large Cap Blend and Sweden Equity Large Cap ones (1.41%). Euro Global Bond category emerge as the cheapest (0.79%), followed by European Bond funds (0.82%). 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 assets of SRI funds are encouraging, suggesting that the socially responsible investment industry is continuously gaining importance and recognition.

Other data, more specifically those comparing the SRI funds asset and those of traditional funds (UCITS<sup>9</sup>), confirm and reinforce this belief.

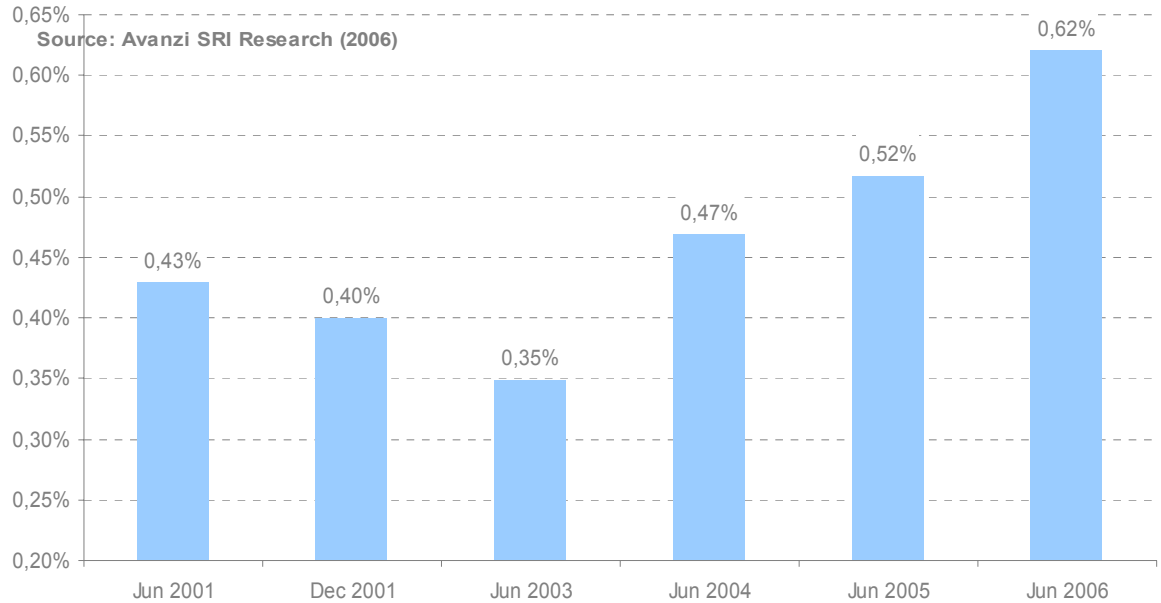
Such a comparison shows that SRI funds, although still make up a very limited portion of all funds in Europe, are gaining importance.

<sup>8</sup> Europe Equity Mid Cap funds invests in European equity, being focused in mid capitalisation companies or being invested in stocks of all sizes, thus leading to a mid-cap profile. Sweden Equity Large Cap funds emphasize big companies based in Sweden. Europe Equity Large Cap Blend funds are fairly representative of the overall European stock market (including UK) in size, growth rates and price.

<sup>9</sup> "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.

In many countries the percentage is much above 1%: Belgium leads this special ranking with 3.17%, a figure that has markedly increased since the last survey (1.97%). Netherlands and Switzerland follow, both with a ratio higher than 2%.

European SR funds assets over total UCITs (end of June 2006)



The relative higher share of equity and balanced funds in the SRI industry compared to the total equity and balanced funds assets at large<sup>10</sup> 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 - in a period of intense upside for the global equity markets. However, as noted above, the much more sustained growth of SRI assets relative to general UCITS goes 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.

<sup>10</sup> Equity & Balanced funds have a share of 54% on total European UCITs assets (Source: EFAMA Quarterly Statistical Release N°26 (Second Quarter of 2006)).