



European SRI Study | 2006



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EUROPEAN SRI STUDY 2006



FOREWORD

The SRI Study has quickly become one of the most important services that Eurosif provides for its affiliate membership as well as for many other interested readers on European SRI trends. With the help of the National SIFs, Eurosif produced the inaugural 2003 study that estimated the European institutional SRI market for the first time. These numbers have served as the closest approximation of the European SRI market until now.

What you will find in the 2006 European SRI Study is an SRI market that has considerably changed since 2003. Across Europe, we see signs of robust SRI strategies, increased mandates from institutional players and the growing involvement of more traditional financial services providers such as brokers. In fact, the one constant in the three years since the Study was last conducted is that European SRI continues to be an area of diversity and ever increasing scope.

What the growing mainstreaming of SRI also means is that the line between SRI and non-SRI becomes more challenging to define. In this Study, Eurosif has had to segment the SRI market into two areas - "Core" and "Broad" in order to meaningfully convey to the reader the differing types of SRI trends occurring in Europe. Readers should be mindful that a study on European SRI must navigate the inherent difficulty in collecting data across the EU in the presence of different legislations, financial service practices and accepted definitions of SRI. Even with that complexity within the EU, we have tried to draw useful conclusions as much as possible for you.

I would like to thank both the Member Affiliates and the European Commission for the continued support of Eurosif's mission of **Addressing Sustainability through Financial Markets**. I would also like to acknowledge the work of the National SIFs and the Eurosif team who worked long hours to bring this information together. Finally, please accept my thanks to the many individuals who responded to our questionnaire without which this Study would not have been possible.

Happy reading,

Matt Christensen
Executive Director
Eurosif

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INTRODUCTION

Socially Responsible Investment (**SRI**) is an area within the asset management field that means different things to different people; both veterans and newcomers alike will debate terminology and definitions in this field for many years to come. Eurosif continues to use the term 'SRI' as the most readily acknowledged expression for a field that we define in the following manner:

'SRI combines investors' financial objectives with their concerns about social, environmental and ethical (**SEE**) issues'

Many investors are now including corporate governance (**CG**) matters along with SEE issues as part of the broader group of extra financial issues. As evidence of this, the acronym **ESG**, which includes Governance matters together with Environmental and Social ones, has become frequent in the field of SRI. Nevertheless, this study will maintain its use of SEE, but we need to make clear that we are also looking at governance issues **to the extent that they link** to the Environmental and Social issues the investor is considering.

Eurosif believes that this view of SRI creates a quantifiable framework while still allowing for the necessary evolution in strategies, processes and views over time. Indeed, perhaps one of the most important features of SRI is that it is an ever-changing area as different issues take precedent over others, dependent on societal, cultural and financial factors. Ultimately, this reflects the richness and diversity of SRI across the EU.

The Eurosif 2006 SRI Study is organised geographically, starting with Europe as a whole and then breaking it down into countries. In the inaugural 2003 study, Eurosif devoted significant space to explaining the background of SRI which included a discussion on CSR, motivation for practicing SRI, the methodology each country employed, and a fairly detailed analysis of the different strategies available – readers interested in refreshing themselves on any of these areas may review the 2003 study.¹

The 2006 study has been simplified to provide readers with quick access to the data that is the most sought after. Additionally, the same methodology has been used across Europe, facilitating consistent data collection. Each country report focuses on three items:

- 1 **Key features of SRI in the country**
- 2 **Market evolution since 2003**
- 3 **Market predictions: 3 years from now**

Not surprisingly, the EU section follows a slightly different structure from the country reports; where appropriate, Eurosif has created a view across countries and highlighted changes in the market since our 2003 study. While it has not been possible to conduct an exact 'apples to apples' comparison due to a revised methodology and a different geographical scope, readers will find that the SRI market has grown substantially.²

1. The 2003 study is available at www.eurosif/publications/2003.

2. Belgium has been added to this study. Eurosif was nevertheless unable to include SRI data from the Scandinavian countries in time for publication (e.g. the Government Pension Fund of Norway is absent from this study).

METHODOLOGY

The methodology used to conduct the 2006 SRI Study has been influenced by a myriad of factors and is different from the 2003 approach.

First, defining national markets is proving more difficult in an increasingly globalised financial industry. Second, fund managers (**FMs**) are rather easy to identify, but ultimate investors are not. As a result, this study focuses exclusively on the self-reporting of asset managers and self-managed pension funds, while national markets have been defined by the country where the assets are being managed (i.e. where the asset management team is located).

Additionally, the 2006 study includes both institutional and retail assets. This is partly due to the many cases Eurosif encountered where FMs use different definitions for their retail and institutional markets; in many cases, they are not able to differentiate any of the investors in their funds. Ultimately, our hope is that the inclusion of retail in this study will add value to the research by providing further data on European SRI.

The 2006 SRI Study consisted of a nine month process to develop the questionnaire, conduct research and produce the report. National SIFs and several SRI practitioners helped create a questionnaire in late 2005 and data was collected from FMs from March to June 2006. Respondents were asked to report data as of December 31st, 2005.

The questionnaire was both qualitative and quantitative. The qualitative questions focused on practices and means used by FMs. Quantitatively, respondents were asked about SRI assets under management (**AUM**) according to:

- 1 Different SRI practices (Screening, Engagement, etc.),
- 2 Investment vehicles,
- 3 Customer segmentation (institutional, retail).

The declarative nature of the exercise raises some questions. Occasionally, questions were not understood and/or responses were not consistent. Eurosif, national SIFs, and

other survey contributors have exercised due diligence, used secondary information sources when relevant, and employed their best judgment in order to sort out answers.

Occasional discrepancies do nonetheless remain. This can be the case, for example, when the tallying of total SRI through investment vehicles (adding SRI mutual funds + SRI mandates, etc.) does not match total SRI declared per se. However the gaps were small enough so as to not render the study inconclusive.

A greater challenge appeared for FMs performing Engagement and Integration across all their holdings whether or not they were specifically mandated to do so.³ Because of this, assets specifically managed under SRI mandates or in SRI funds will amount to less than the total of assets that benefit from SRI approaches that are already in place and used by FMs. This raises a question of market definition, and different interpretations are possible. Eurosif, however, has chosen to take the wider approach because it is significant in terms of the role and outreach of SRI on financial markets.

Thus, in presenting the data on European SRI, we aim to follow in the footsteps of our 2003 study. This means essentially building on the case that there is no single approach to SRI. Rather, there are multiple strategies for conducting SRI, and part of what Eurosif aims to do with this study is to define them and help readers understand their use across different markets. In so doing, we will be in a position to make estimates of market sizes, draw comparisons about the market, and ultimately, point to conclusions on trends in European SRI.

3. For example, if a fund manager owns two shares of one company on behalf of two different clients, and has a mandate to include extra financial research from one client, then the fund manager will also use this research when making decisions for the other share.

DEFINITIONS

The key SRI practices in Europe today are defined in the glossary below. It is important to stress that these strategies are rarely performed on their own, but usually in concert, such as Ethical exclusions **AND** Best-in-class, or Engagement **AND** Integration, etc.

| STRATEGY | DEFINITION |
|---|---|
| Ethical exclusions | This refers to exclusions where a large number of negative criteria and/or filters are applied (as opposed to just tobacco or weapons for example). |
| Positive screening | Seeking to invest in companies with a commitment to responsible business practices, or that produce positive products and/or services. Includes Best-in-class and Pioneer screening. |
| Best-in-class | Approach where the leading companies with regard to SEE criteria from each individual sector or industry group are identified and included in the portfolio. |
| Pioneer screening / Thematic investment propositions | Thematic funds, based on ESG issues such as the transition to sustainable development and a low carbon economy. May focus on sectors such as Water, Energy, etc. |
| Norms-based screening | Negative screening of companies according to their compliance with international standards and norms such as issued by OECD, ILO, UN, UNICEF, etc. ⁴ |
| Simple screens / Simple exclusions | An approach that excludes a single given sector from a fund such as arms manufacture, publication of pornography, tobacco, animal testing, etc.). Simple screens also includes simple human rights screens (such as excluding Sudan or Myanmar) and Norms-based screening. |
| Engagement | Engagement is applied by some fund managers to encourage more responsible business practices and/or enhance investment returns. It relies on the influence of investors and the rights of ownership, and mainly takes the form of dialogue between investors and companies on issues of concern. Engagement may extend to voting practices. |
| Integration | The explicit inclusion by asset managers of CG / SEE-risk into traditional financial analysis. |

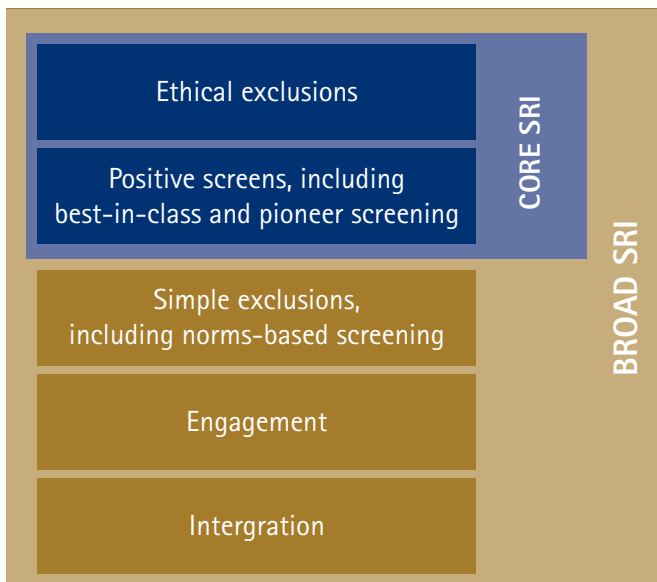
4. Norms-based screening covers a great variety of practices, some of which are much more elaborate than others. However, this survey could not capture the variations in practices. Therefore, we chose to view it as belonging to Simple screens for the time being.

In 2003, Eurosif segmented European SRI into three areas, based on differing strategies: Core, Simple exclusions and Engagement – the sum of all three provided a European SRI market of up to €336 billion.

For the 2006 study, Eurosif has decided on a different means of segmentation based on the market's evolution over the past 2 to 3 years. Thus, the two key segments Eurosif employs to categorise European SRI in the present study are **Core SRI** and **Broad SRI**. They are briefly defined in the following manner:

- **Core SRI:** Ethical exclusions, positive screens (including Best-in-class, Pioneer screening),
- **Broad SRI:** Core SRI plus Simple exclusions, including Norms-based screening, plus Engagement and Integration.⁵

FIGURE 1: STRATEGIES BELONGING TO CORE SRI AND BROAD SRI



Source: Eurosif

There are multiple reasons for regrouping the strategies in these two different markets, part observation and part assumptions, but pointing in similar directions. These are:

- **Cultural:** Debates continue amongst some SRI practitioners as to what actually qualifies as SRI. Dividing Core and Broad SRI roughly follows the lines of this debate.
- **Customer-related:** Many Core SRI customers are historical advocates of SRI such as individuals, churches and activists, while Broad SRI customers are mostly large institutional investors.
- **Practical:** this split allows us to compare some of the data with the market sizes elaborated in 2003.
- **Historical:** Core SRI may generally be perceived as the "more traditional" form of SRI.
- **Economic:** Core SRI and Broad SRI differ in relative size (Broad is much larger).
- **Strategic:** as a result of the above, one may anticipate different evolutions for these two families of SRI strategies.

In particular, the "cultural" and "customer-related" points suggest why Simple exclusions have now been included in the Broad SRI family as opposed to being a stand alone practice as in 2003. As we will also see, this choice is also justified because our findings about the Simple exclusions market differ considerably from those of 2003.

With these definitions and explanations in mind, we may now take a look at the European SRI market.

5. Integration was not studied in 2003. This is a new dimension of the study. In our 2003 survey, Simple screens formed an SRI category of their own. However, due to changes in the market, and given the high Assets Under Management (AUM) they represent, Eurosif believes it makes sense to place them in Broad SRI.

EUROPE

EUROPE

In this section, we review the key findings about the size of the European SRI market and following that, delve into the market's most important dynamics, including:

- SRI strategies
- Core SRI
- Broad SRI
- Combining Core and Broad SRI strategies
- Main characteristics of SRI products and processes
- Market evolution and trends

Where possible, we review these topics at the European level as well as discuss particular nuances in the national context that reveal the diversity of SRI.

According to Eurosif research, Core SRI AUM in Europe has reached €105 billion and Broad SRI has reached €1.033 trillion as of December 31st, 2005. This represents a substantial growth in SRI over the past 2 years, even after removing the overall growth of the European equity markets. It is fair to say that some segments of SRI are on their way to becoming accepted practice in several countries.

Additionally, as stated in the Introduction to the Study, Scandinavian SRI data was not available to Eurosif in time for the publication of this report and has therefore not been included in any of our figures on EU SRI. This means that Sweden's AP funds and the Norwegian Pension Fund Global, one of Europe's largest SRI funds at approximately €175 billion, have not been officially included in our calculation of the SRI EU market size.

FIGURE 2: SRI IN EUROPE, DECEMBER 31ST 2005



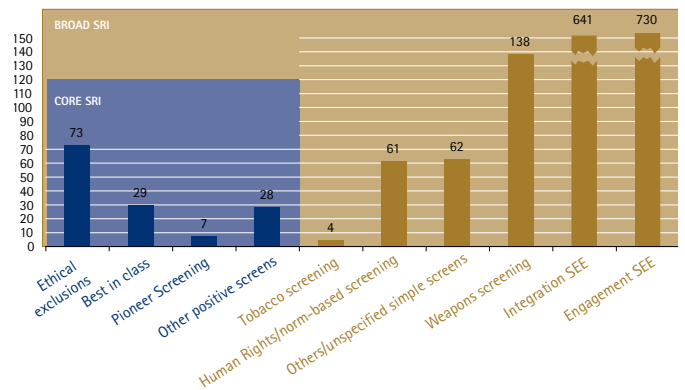
Source: Eurosif

SRI STRATEGIES

European SRI continues to be defined by a number of diverse strategies ranging from specific screens to Engagement and Integration. As Figure 3 illustrates, this study has been able to take into account a greater variety of screens than in 2003. Also noticeable is the considerable

difference in size between Integration and Engagement on one side, and Core SRI screening strategies on the other side. This shows Engagement and Integration strategies are becoming accepted practices by investors who often would not necessarily describe themselves as SRI investors.⁶ In between, Simple exclusions remain an area that is difficult to analyse as the numbers are quite large, but we know little about the growth of the practice.

FIGURE 3: SRI STRATEGIES AS APPLIED IN EUROPE, DECEMBER 31ST 2005, € BILLION⁷



Source: Eurosif

CORE SRI

Core SRI reached €105 billion as of December 31st, 2005. It consists of Ethical exclusions as well as different types of positive screens (Best-in-class, Pioneer screening) but also the many occasions where these strategies are being performed simultaneously, as illustrated by Figure 4.

To further analyse the numbers, Figure 5 compares Core SRI AUM at national levels. Core SRI is present across the continent with varying levels of investment. The Netherlands is the leading market, due to the weighty presence of pension fund PGGM. The UK is second but otherwise by far the largest market after the Netherlands.

Ethical exclusions are a successful approach, used particularly in the UK. They are popular with retail investors, but also institutional investors such as charities and other non-profits. The Dutch Pension Fund PGGM is now also

6. Our survey revealed that SRI activity in alternative or non-listed assets are also beginning to appear, mainly in property and venture capital/ private equity (VC/PE). But with as yet unreliable figures, they remain out of the scope of this study. Eurosif is currently studying the VC/PE market separately.

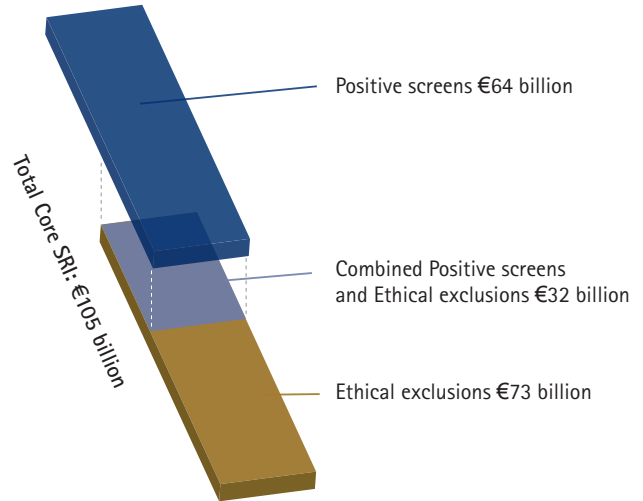
7. Bear in mind that total of individual strategies will be superior to total SRI given the areas of overlap.

practicing Ethical exclusions on some portfolios, again largely contributing to both the Dutch numbers and the overall figures.

Nevertheless, Best-in-class is still the approach of choice in continental Europe, though an increasing number of new Positive screening practices are appearing in many countries, such as funds focusing on sustainable industries of the future.⁸

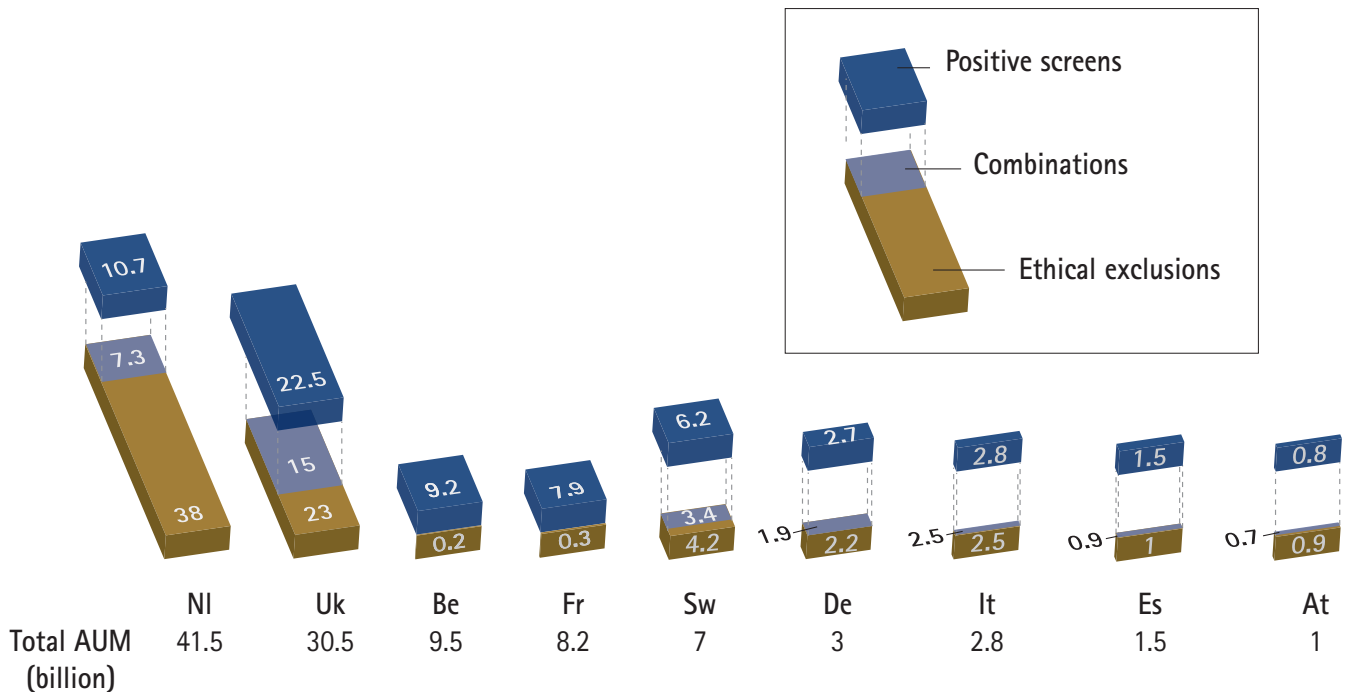
Ultimately, the different sizes of the Core SRI markets across countries are conditioned by multiple factors, including the history of the market and the activism of early investors. Compared to the overall investment market, Core SRI still shows great growth potential and is starting to attract a number of institutional investors.⁹ At this stage however, it still remains a niche approach in many countries. For a greater level of detail, the individual country reports in this document provide more insight about the drivers and barriers to the evolution of Core SRI in individual markets.

FIGURE 4: CORE SRI AND ITS COMPONENTS, DECEMBER 31ST 2005



Source: Eurosif

FIGURE 5: CORE SRI BY EUROPEAN COUNTRY, DECEMBER 31ST 2005¹⁰



Source: Eurosif

8. We should also suggest that AUM subjected to Pioneer screens might be under reported due to a growing population of specialist environmental funds.

9. See the 2003 study for more background on this point.

10. Country abbreviations Nl: Netherlands, UK: United Kingdom, Be: Belgium, Sw: Switzerland, Fr: France, De: Germany, It: Italy, Es: Spain, At: Austria.

BROAD SRI

The Broad SRI market's three additional components (Simple exclusions, Engagement and Integration) are reviewed below.

Simple exclusions, a continuing force

Simple screens continue to be practiced on a large scale, as illustrated by Figure 6. The arms trade and human rights are proving much more popular than tobacco as areas of focus in the European context. Norms-based screening is also catching on. This practice used to be perceived as a mainly Nordic and Scandinavian approach, however data here suggests otherwise.

FIGURE 6: SIMPLE EXCLUSIONS BREAKDOWN, € BILLION

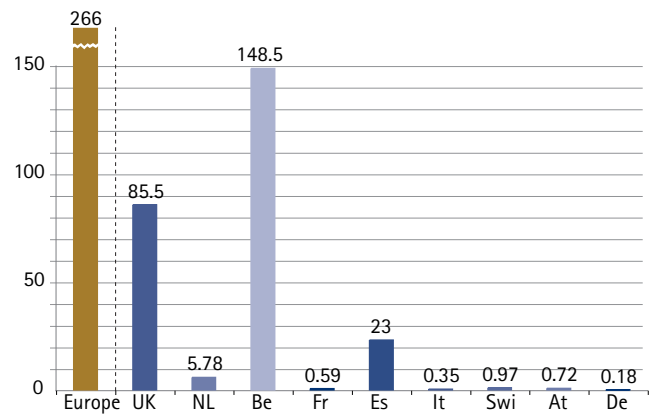
| | |
|--------------------------------|------------|
| Tobacco | 4 |
| H.R. / Norms-based screening | 61 |
| Others/Undefined ¹¹ | 62 |
| Weapons | 138 |
| Total Simple exclusions | 266 |

Source: Eurosif

Previously, Simple screens were mostly limited to Dutch pension funds. This is no longer the case today, and improved surveying allows us to see the spread of this strategy across countries. Figure 7 shows how it is now quite visible in the UK, the Netherlands, Belgium and Spain. Nevertheless, even while the volume of SRI Simple screens has significantly increased, the actual numbers of actors within each country employing this strategy remain limited, as the larger figures shown are often the consequence of one or two fund managers.

In conclusion, the figures for simple screening tend to be relatively high because of its straightforwardness. It is fairly clear-cut to practice weapons or tobacco-screening on a large scale since it does not require much stock analysis.¹² As a reference, Simple exclusions represent 6% of the overall European pension market.

FIGURE 7: SIMPLE EXCLUSIONS BY COUNTRIES



Source: Eurosif

However, as we will see below, Engagement and Integration have higher AUM and are more complex approaches within the Broad SRI family.

Engagement and Integration

Engagement and Integration remain the strategies of choice in the context of mainstreaming SRI. This is also why we group them together here. Indeed, a look at how these strategies are applied in relation to the equity allocation of pension funds¹³ suggests that mainstreaming is under way (see Figure 8). But the picture is uneven in Europe, as the UK remains the powerhouse for Engagement, and now Integration, as illustrated by Figure 9. Ultimately, the size of the European market in Engagement and Integration is really defined by the weight of UK assets. It should be noted however that this study is able to demonstrate the growing presence of Engagement and Integration in all European countries, which is a change in comparison to 2003.

Integration was not featured in past research due to a lack of consistency in the field at the time. However, many asset management houses have developed research capacities and set up systems aimed at delivering extra-financial research to mainstream in-house analysts. The UK leads the Integration field, though it is also catching on at a smaller scale in other countries. For example, the leadership of prominent institutional investors in continental Europe, such as the Fonds de Réserve pour les Retraites (FRR) in France, has significantly boosted Integration as a viable strategic approach for SRI.

11. At times, Fund managers have reported their overall AUM under Simple exclusions without specifying the breakdown by type of exclusions.

12. Investors taking an in depth look into the topic, such as the role of tobacco in the retail sector, are featured in the Ethical exclusions category.

13. As SRI has been largely driven by the equities markets, measuring SRI investments against the equity allocation of pension fund investments is an interesting benchmark for tracking SRI penetration; this does not represent a comparison against the size of the overall European investment market, and as SRI expands to other asset classes, a different comparison will have to be made in the future.

For its part, Engagement comes in different shapes and sizes. It is to be understood in the broader context of active ownership and shareholders' rights. Different FMs develop different capacities, including analyst teams, dialogue teams and voting systems. Engagement can be domestic (mostly) or international, though in the latter case, it occurs mostly in collaboration with other investors. The scope of Engagement can vary too, with some FMs firmly declaring that their objective is to influence corporate behaviour, while others saying their purpose is to enhance client investment returns.

Also to be taken into consideration is the extent to which Engagement and Integration actually cover SEE issues. While their potency in the field of corporate governance is known, it is unknown to which extent the approach of some practitioners goes beyond climate change and carbon trading with regards to SEE.¹⁴

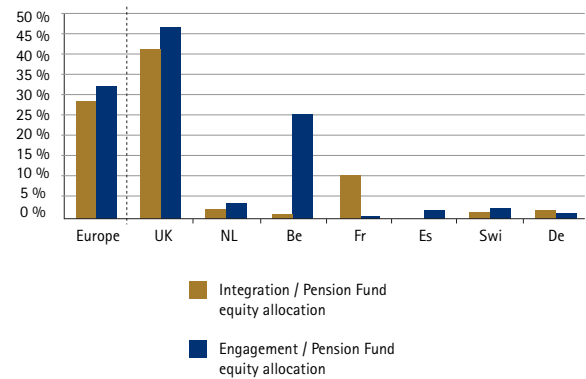
In conclusion, many SRI practitioners believe that Engagement and Integration are paths to the mainstream because they:

- are compatible with many institutional investors' views of their fiduciary duty,
- mix well with other mainstream practices, including traditional financial analysis or shareholder Engagement in the field of corporate governance.

However, some practitioners of Core SRI dispute the capacity of these strategies to propose an in-depth approach to sustainable development and ethical issues. Indeed, their strength might be in the volumes of AUM recorded rather than in the depth of their policies. The key point remains that they are attractive to the larger institutional investors, and therefore give SRI greater financial clout on the markets.

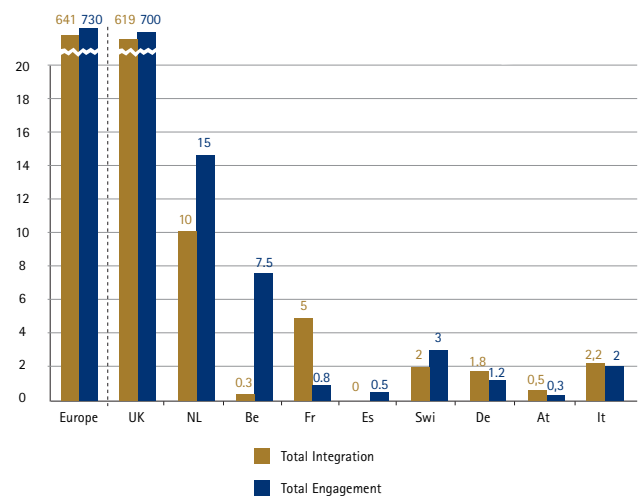
At this point, it is worth reviewing how fund managers and investors often choose to combine Core and Broad SRI strategies, often to strengthen their position as SRI investors, as well as their possible impact on companies.

FIGURE 8: ENGAGEMENT AND INTEGRATION RELATIVE TO EQUITY ALLOCATION OF PENSION FUNDS



Source: Eurosif and Mercer IC

FIGURE 9: ENGAGEMENT AND INTEGRATION, BY COUNTRY



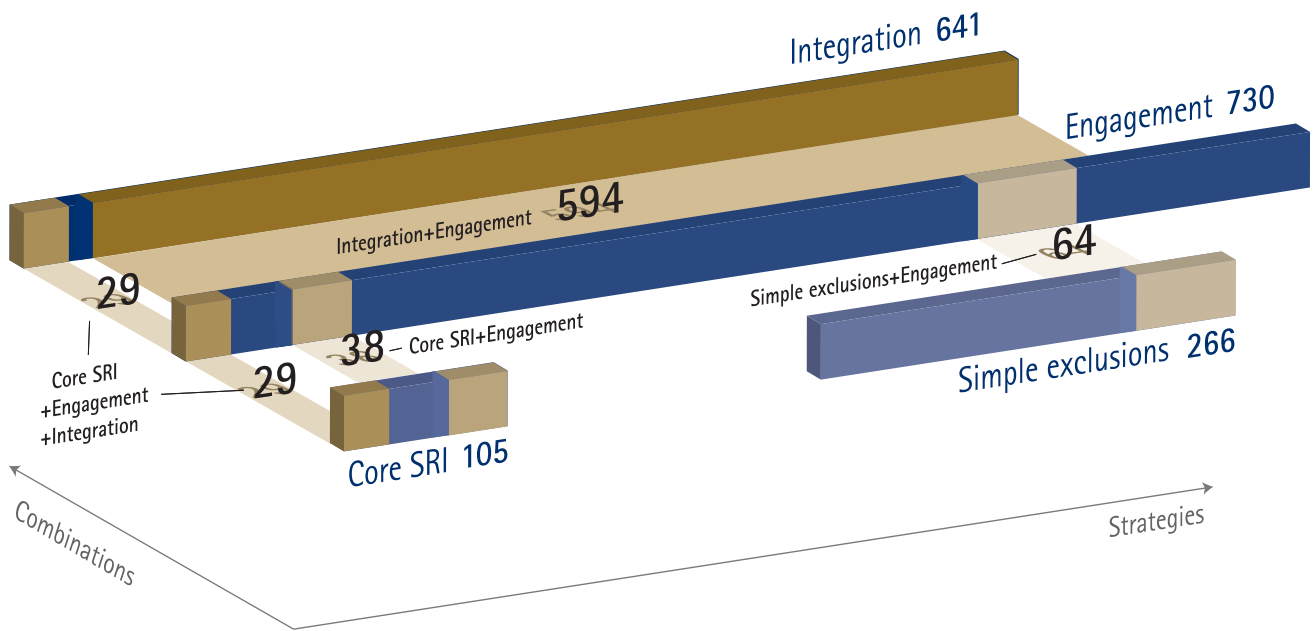
Source: Eurosif

COMBINING CORE AND BROAD SRI STRATEGIES

As mentioned in the definitions section, we found through our research that FMs are increasingly combining strategies. We have already shown some of the possible combinations within Core SRI. Here, as a further illustration, you can see the volume and combinations of Core SRI with the different components of Broad SRI below, as well as within Broad SRI strategies.

14. In the next SRI study, Eurosif could differentiate simple Engagement from extensive Engagement as it does for Negative screening.

FIGURE 10: COMBINATIONS OF CORE AND BROAD SRI



Source: Eurosif

Figure 10 shows how strategies become part of an array of tools which SRI FMs use to tailor their strategy to fit their objectives. The most common combinations are:

- Engagement and Integration: 594 Billion
- Simple negative screens and Engagement: €64 Billion
- Core SRI and Engagement: €38 Billion

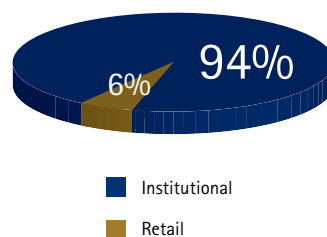
However rough, this view of the market is important because it suggests a deeper level of complexity than indicated in previous studies. These combinations will have to be taken into account when considering the evolution and the future of SRI.

MAIN CHARACTERISTICS OF SRI PRODUCTS AND PROCESSES

Who are the main SRI investors?

With a 94% market share, as suggested by Figure 11, the European market is still conspicuously dominated and driven by institutional investments.

FIGURE 11: INSTITUTIONAL VS. RETAIL INVESTMENTS IN EUROPE, DECEMBER 31ST 2005



Source: Eurosif

As was the case in 2003, large, long-term, independent institutional investors are present on some of the larger European SRI markets (such as the UK, the Netherlands or Switzerland) and they still carry a lot of weight in the development of SRI. This reflects the strong development of Engagement and Integration as highlighted in the previous section.

However, with less AUM in Core SRI, the investor balance is more nuanced. In Italy, Core SRI is carried out in an almost entirely retail market. At the opposite end of the spectrum, the UK is more institutional in proportion, and hence leans towards Broad SRI. In the middle, the activity of some key asset owners, such as Ethos in Switzerland, the Environment Agency in the UK, or the FRR in France, are helping to increase the popularity of the Core SRI market. This reflects a growing acceptance of different types of screening as a currently viable method for institutional investors in some parts of the continent and suggests potentially interesting developments in this field in the coming years.

What do SRI FMs and service providers offer?

On the supply side, our survey shows a growing number of players, including many in the mainstream, becoming involved in SRI. The good news is that the European SRI market is quite creative. One witnesses a great diversity not only in products offered, but also in the means used by FMs to support these products, particularly with regards to research.

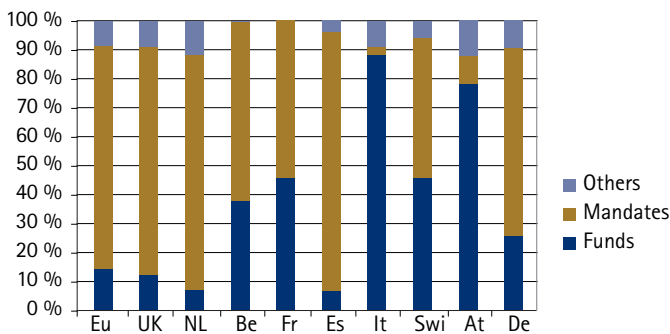
This is reflected in the following areas, which we discuss below:

- Investment vehicles
- Asset Allocation
- Type of companies concerned by SRI activity
- Processes
- Transparency

Investment vehicles

As indicated in Figure 12, the favourite SRI vehicles remain mandates¹⁵, followed by mutual funds. There is an interesting progression of structured products (included in "Others" on the chart), such as those integrating SRI indices in the structure. On the other hand, SRI funds of funds (also in "Others" on the chart) remain marginal with €1 Billion AUM Europe wide. Unsurprisingly, the specific retail market is 90% invested in mutual funds.

FIGURE 12: SRI INVESTMENT VEHICLES IN COMPARISON



Source: Eurosif

Asset Allocation

Originally, SRI was born as an equity selection concept. Equities remain SRI's favourite asset class, even if there is a significant proportion of asset managers who also apply screening on fixed income assets and/or engage with companies on behalf of all their assets. The shift from equity to **corporate** fixed income is fairly logical, but screening **public** fixed income requires creating new methodological schemes and presents a new challenge for analysts. Asset manager behaviour in this field is quite different depending on the country. For instance, in Belgium, 100% of asset managers apply SRI screens to equity AND bonds, against 65% in the Netherlands and Spain, and 40% in the UK. The SRI bond research progress gives promising perspectives to the development of SRI in terms of volumes given the bond allocation of pension funds in much of Continental Europe.

Type of companies concerned by SRI activity

Large/small caps

SRI typically focuses on Large Caps, regardless of strategies. In countries such as the Netherlands, Belgium or Spain, Large Caps represent 90% of SRI. UK asset managers are leaders in proposing investment products in Small & Medium Caps, along with the Swiss. Half of the UK FMs perform screens on Small & Medium Caps, though investment volumes are notably inferior. As a Small & Medium Cap specific approach, a few FMs seek out pioneers in sustainable development, i.e. as companies developing sustainable products that will significantly impact the shape of their industries in the future. Examples include clean energies, agriculture, or pharmaceuticals.

Geographic areas

More than half of the companies screened out or engaged by SRI FMs are European (50% for Dutch FMs, 70% for Belgian FMs, and 80% for Spanish FMs). In the UK, there is a strong focus on the domestic market (40%), due to its size. North American companies represent around 20% in the UK or Belgium, and 30% in the Netherlands. Asian-Pacific companies hardly reach 10% in leading countries such as the UK, the Netherlands and Belgium, and the UK is a leader in activities with emerging countries companies (10%), while this is residual in other countries.

15. This includes self managed funds.

Processes

SRI is becoming more elaborate: the older the SRI market, the more elaborate the SRI process. In the UK, more than 90% of SRI asset management companies have an internal SRI analyst team, 75% in the Netherlands and Belgium, 60% in Switzerland and none in Spain¹⁶ (which is the youngest country in terms of SRI).

Most of the time, internal research is linked to the use of external research. In the UK and German-speaking countries, more than 80% of FMs buy external research, 75% in the Netherlands, 50% in Belgium, and 40% in Spain. Belgium is a leader in using indexes (75% of the asset managers) while it's rare in the UK (8%) and the Netherlands (25%). Germany and Spain are in the middle, with respectively 50% and 40%.

One quarter of FMs use consultant services (which are not research houses) in SRI experienced countries such as the UK, the Netherlands and Belgium. Furthermore, one fifth of FMs who sell SRI products actually re-sell products from third parties.

The striking news from the market is the exponential interest in sell-side analysis provided by brokers, which is used by more than 70% of FMs in the UK and Belgium, and 50% of FMs in the Netherlands.¹⁷

Finally, setting up an internal SRI/Ethical committee is done in 75% of cases in Belgium, 60% in Germany, 38% in the UK, 29% in Spain, and only 13% in the Netherlands.

Transparency

Transparency is a key issue for SRI, a challenge to which fund managers reply unevenly. The figures below do not prejudge the quality and accuracy of disclosed information.¹⁸ In the UK, 78% of the SRI FMs disclose information on their website, 63% in the Netherlands, 50% in Belgium, and only 18% in Spain. Following guidelines or a certification process is a reality for 75% of FMs in Belgium, 63% in the Netherlands, 52% in the UK, and only the case for one single asset manager in Spain. Deepening SRI may be done in many different ways and allows for many creative solutions: for instance, since 2003, a new trend appeared which requires an SRI due diligence for external providers, and which

creates incentive to spread SRI criteria within the financial community; 25% of FMs do this in the Netherlands and the UK, and 18% in Spain.

Similarly, more and more FMs consider the ability to evaluate the financial impact of SEE issues to be a sales argument and thus include this aspect when responding to tenders (in 60% of the cases in the UK, 40% in the Netherlands, 25% in Belgium, and 12% in Spain).

MARKET EVOLUTION AND TRENDS

What is the growth rate of SRI AUM?

In order to look at market evolution, we again break down the market into Core SRI and Broad SRI, as we find that they evolve in significantly different ways.

Quantifying the growth of the Core SRI market

For Core SRI overall, and on a like-for-like basis¹⁹, it is estimated that the market has grown by 71% in the three-year interval between the two studies. This 71% growth should be put in perspective with the 70% growth of the MSCI Europe indice over the same time period. Lacking accurate data on the asset allocation of SRI funds across the continent, and making the assumption that they are largely share-oriented, this would suggest **the European Core SRI is stable, at 1% real market growth.**²⁰

However, as SRI investors are diversifying beyond equities, it is likely that growth is actually a bit higher. Additionally, growth is unequal on a country-to-country level. For example, starting from a low AUM base, France's Core SRI has experienced an adjusted growth of 92%.

Quantifying the growth of the Broad SRI market

On a like-for-like basis, the growth of the Broad SRI market between 2003 and the amount identified in 2006 is estimated at 106%. Again, this is to be put in perspective with the growth of the markets. Adjusted to the progression of the MSCI Europe, **the real growth of European Broad SRI is 36%.**

16. Except when foreign FMs use resources from offices abroad.

17. Responsible investors have played a role in this evolution due in part to programmes such as the Enhanced Analytics Initiative, a competition for extra financial broker research (see www.enhanced-analytics.org).

18. For disclosure standards, please see the Eurosif Transparency Guidelines at www.eurosif.org.

19. This growth measure can only be estimated because Belgium was not covered in 2003, The Netherlands were only covered from a pension fund perspective, and the UK from a pension fund and charities perspective.

20. Bear in mind that this growth figure represents assets managed in a given country, not that of its investors. Indeed, an increasing number of SRI assets are being directed towards foreign FMs across Europe and beyond. In practice, if a Switzerland-based FM earns a new mandate from a UK investor, then this will be reported as Swiss growth according to our methodology.

This figure is in effect describing four different levels:

- The growth of Core SRI as described above,
- The growth of Simple screens, by 45%,
- The growth of Engagement, by 157%,
- The addition of Integration (of which €15 billion are not combined with any Engagement).

The growth of Simple screens is difficult to analyse since it is likely that a lot of the figures reported in 2006 were not included in the 2003 study due to changes in methodology between the two studies.

As to the growing role of Engagement, and the emergence of Integration, for institutional investors and the specificities of the UK market, it is fair to say that some aspects of SRI have entered the mainstream as accepted practices. This is particularly true with regards to areas where the value case for SEE issues is the most visible, such as the impact of climate change on company bottom line and for risk management.

What lies behind the evolution?

The Business Case

Clearly, one of the outstanding drivers for growth of SRI assets is the increasing understanding by investors of the impacts of social, environmental and ethical issues on the economy. In June 2006, even the American Supreme Court was asked to rule whether the US government was breaking the law by not addressing climate change issues.²¹ This proves that over time, the issue is being taken quite seriously at the global level.

The business case is becoming more obvious, as for example, in the cases of climate change and the emergence of carbon emission quotas and carbon trading. There are even discussions as to whether deeming SEE issues as "extra financial" is appropriate, given that they are viewed as having potential direct financial impacts.

Many investors now also clearly understand the role of company boards in addressing extra financial issues, thus making a link between SEE issues and corporate governance that is essential for these questions to be tackled properly by companies.

Business Regulation

Adding to the case is the growing legislative background in the field of SEE. This is true both at national and supranational levels. One recent European example is the REACH Directive²² which is geared at addressing the lack of information available in the chemical sector, and in turn provides a basis for the establishment of better safeguards for public health. Based on these facts, financial research is now looking at these questions with greater emphasis.²³

Fiduciary duty and pension regulation

The UK Pension Reform led the way in 2000 when it set up the Statement of Investment Principles for pension funds.²⁴ Italy, Austria and Germany have since followed suit. Interestingly, the Belgian Federal Government is currently working out a formula by which pension savings in SRI products can lead to a higher tax reduction.

There is also a growing discussion among institutional investors, such as pension funds, about the links between SEE issues and the investor's fiduciary duties, or duty to manage their funds for the sole benefit of their members. UNEP-FI²⁵ recently researched the legal context for this in several countries. It concluded that "integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions". It also suggested that "ESG considerations must be integrated into an investment decision where a consensus...amongst the beneficiaries mandates a particular investment strategy." This report adds to already numerous encouragements to invest responsibly, both at a fund level and at regulatory levels.

The role of investors and financial services

As previously highlighted, at the investor level, recent high profile funds entering the SRI arena include the FRR in France and the Environment Agency in the UK. These examples are important in motivating others to do the same.

Yet the efforts of investors would be less powerful if they were not supported and, more often than not, driven by the fund management industry. This includes both the buy-side, for which this survey pointed to a growing number of FMs having set up SRI management and research capacity,

21. Associated Press, "High court to rule on 'greenhouse gas' control", June 26, 2006.

22. EU Regulation and authorization of Chemicals (REACH) Directive - http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0644en.html.

23. See for example Morgan Stanley "Socially Responsible Investment, CSR and Regulation: an EU Roadmap".

24. Requiring pension funds to state if and how they take SEE issues into account.

25. United Nations Environmental Programme Finance Initiative, www.unepfi.org: "A legal framework for the Integration of environmental, social and governance issues into institutional investment".

but also the sell-side which is increasingly proposing extra financial research as part of its services. This is true in all of the countries surveyed.

In the end, the large figures of Broad SRI in this study reflect how FMs are practicing Engagement, and particularly Integration, on assets beyond those for which they have a specific mandate to do so.

These developments are central to considering the future of SRI.

CONCLUSION

From this information, we see that European Core SRI is stable, although booming in some young markets, and Broad SRI is successfully growing across Europe. At the same time, the differences between the two types of SRI are also becoming clearer. Core SRI continues to act as the vanguard on some of the leading issues in the field, often incorporating moral values into the screens that are employed. Broad SRI, on the other hand, is increasingly looking towards a linkage to corporate governance, often a more palatable option for institutional investors. This is reflected in the recent creation of the Principles for Responsible Investment by UNEP-FI, which encompasses ESG rather than SEE criteria and has received endorsement from many large institutional investors and fund managers.

Today, the Broad SRI market is estimated to be as high as 10-15% of total European funds under management. Nevertheless, readers should exercise caution with this estimate as the findings of this 'supply side' study would be strengthened by an equivalent study on the 'demand side' of SRI. Further, the data in this study is self-disclosed, so it is reasonable to assume that there is diversity in the quality and depth of the types of services delivered by fund managers.

In any case, SRI is growing. The interest in the field continues to widen and deepen as individuals across Europe search for a means to use fund management as a tool for sustainability. The asset management market is creating more funds that incorporate 'moral values' as well as 'financial value'. How long it will take for the Broad SRI market to truly become mainstream will rely on public awareness, the strength of the regulatory context, and the central issue of returns. Eurosif expects to see significant growth in European SRI by the time the next study is published.



AUSTRIA

FIGURE 13: SRI IN AUSTRIA, DECEMBER 31ST, 2005

CORE SRI: €1 billion BROAD SRI: €1.2 billion

Source: Eurosif

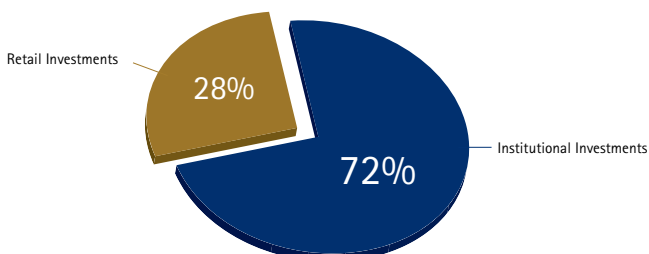
KEY FEATURES OF SRI IN AUSTRIA

Even though the beginnings of SRI in Austria were slow and comparatively late, public awareness around the issue is growing. In spite of the fact that disclosure regulations for a new type of occupational pension fund «Abfertigung neu» established in 2002 have been released only very recently, four out of nine of these occupational pension funds have been investing responsibly on a voluntary basis for years. Moreover these four pension funds applied for a sustainability-rating by the NGO ÖGUT and received a sustainability certificate for their funds.²⁶

The Austrian SRI market has grown rapidly to an overall volume of more than €1.2 billion. SRI assets contribute more than 0.5 % to the volume of the total Austrian securities market.²⁷

Institutional investors contribute more than €800 million to SRI assets. As we observed in our last market survey in 2003, Austrian institutional investors still clearly prefer mutual funds to SRI mandates. About 80% of institutional SRI capital is managed in mutual funds.²⁸

FIGURE 14: RETAIL VS. INSTITUTIONAL SRI ASSETS IN AUSTRIA, DECEMBER 31ST, 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif

Austrian SRI mutual funds have an overall volume of more than €900 million, and hold more than 1% of the overall assets managed by Austrian investments funds.

MAIN PRACTICES

Negative screening is the favoured investment strategy in Austria. More than 77% of SRI capital is screened based on ethical and other criteria. The Best-in-class approach is being used for about 60% of SRI assets.

Asset managers estimate that CG or SEE issues are integrated into the financial analysis of more than 40% of SRI assets. It should be noted that Integration is a rather unfamiliar strategy in German-speaking countries. Therefore asset-managers often use Integration as a generic term for a wide range of strategies and principles.

Some investment companies maintain a dialogue with companies, but Engagement above this level is uncommon.

Who are the main investors?

Austrian asset managers consider religious institutions as the most important investors. However, occupational pension funds are becoming increasingly prominent institutional investors on the Austrian SRI market. Other client groups include insurance companies and corporations.

26. ÖGUT: The Austrian Society for Environment and Technology is an independent platform for environmental, economical and administrative issues.

27. See Austrian National Bank's online statistics: Total volume of Austria securities' market by the end of 2005 €132,962 million.

28. See Austrian National Bank's online statistics: Total volume of Austrian mutual funds by the end of 2005 - €87,801 million.

What do SRI fund managers and service providers offer?

The majority of the Austrian SRI providers are supported by external research and rating agencies. Internal ethical committees are also very common. Finally internal asset managers cooperate with a team of external researchers and internal committees.

MARKET EVOLUTION SINCE 2003

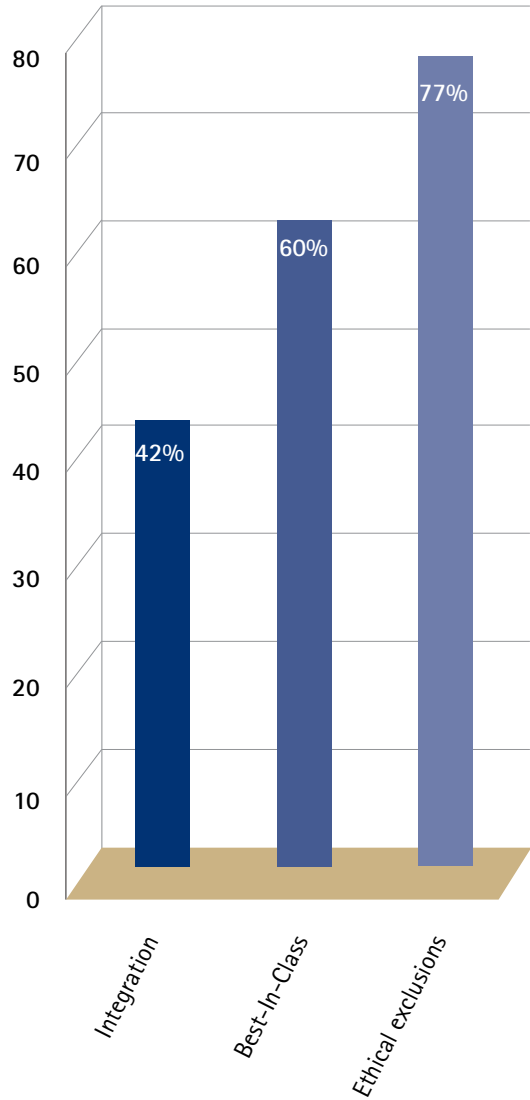
What is the growth rate of AUM?

The growth rate of the Austrian SRI market is extremely high since it started at a very low level. SRI assets have increased more than 1,000% from €109 million in 2002 to €1.2 billion by the end of 2005. The volume of institutional SRI investment almost equally grew by 900% from €80 million in 2002 to more than €800 million in 2005. The growth of the total volume of all Austrian investments was much lower and has increased by 48% since 2002.²⁹

MARKET PREDICTIONS: 3 YEARS FROM NOW

The rather newly established occupational pension funds still have a very high potential for further SRI growth. The Austrian SRI market will therefore certainly continue with its rapid growing process. Quadrupling figures from 2005 to 2007 seem likely.

FIGURE 15: SRI STRATEGIES AS APPLIED IN AUSTRIA AS PERCENTAGE OF SRI ASSETS, DECEMBER 31ST, 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif



29. See Austrian National Bank's online statistics.

BELGIUM

FIGURE 16: SRI IN BELGIUM, DECEMBER 31ST, 2005



Source: Eurosif

KEY FEATURES OF SRI IN BELGIUM

With its creation in 1984, the Belgian SRI market was composed almost exclusively of savings products (Krekelsparen in 1984, and l'Epargne Cigale in 1987). The SRI fund market started in 1992 (VMS Luxinter Ethifond) and consists mostly of SICAVs. Since 2000 there has been a dramatic growth in the number of newly created funds, with an increase of 111% in 2005. At the end of 2005, approximately 4% of the total capital invested in funds was targeted towards SRI.

Compared to the European data, Belgium places itself in 3rd position for Core SRI, and also accounts for 8% of the socially responsible capital invested in Europe in UCITS.³⁰

Early advocates of SRI in Belgium promoted stakeholder involvement throughout the SRI processes and a Positive screening approach with an emphasis on the sustainability and social responsibility performance of companies.

MAIN PRACTICES

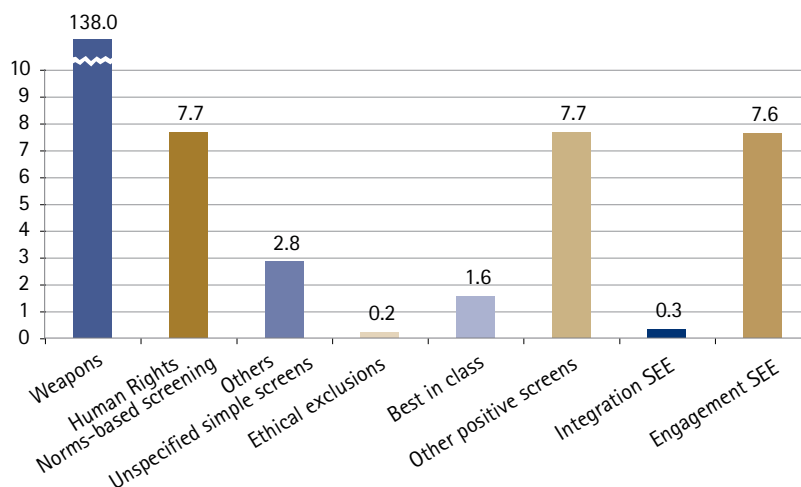
The use of positive criteria, Best-in-class and a balanced approach using social, ecological, ethical and economic indicators are the leading practices in Belgian Core SRI, amounting to a total of €9.5 billion. Depending on the nature and scope of the screening, a distinction should be made between 2 major categories:

- Sustainable funds: with multi-dimensionally screened socially responsible investments,
- Thematical funds: with socially responsible investments screened based on a particular theme.

From the data, it appears that a significant simple exclusion on weapons is practiced by a single Fund Manager, who also strongly contributes to the overall European Simple exclusions figure.

At more than €7 billion, Engagement is quite significant, and Integration is appearing at €0.3 billion. In both cases though, the figures also reflect practices by individual fund managers.

FIGURE 17: SRI AUM BY STRATEGY IN BELGIUM, € BILLION, DECEMBER 31ST 2005³¹



Source: Eurosif

30. Source SRI Group.

31. Note: total will be superior to Broad SRI since strategies widely overlap.

While certain quality labels have been important catalysts to market growth, it appears that since 2004, the leading asset managers have become more and more convinced of the strategic importance of the SRI market and have therefore created in-house SRI analyst teams.

The Belgian Asset Managers Association, BEAMA, imposes the following requirements for a fund to qualify as being active in SRI:

- there must be a 100 % screening of the shares and bonds that are part of the portfolio on the basis of extra-financial social, ecological, ethical or society-related criteria,
- the total of other non-screened assets must represent less than 10% of the portfolio.

There must be public supervision for how funds meet the conditions mentioned above. The following are required:

- regular transparent reporting and justification provided by the fund itself
- verification by an impartial third party.

The latter can be an auditor, a competent independent research institute or advisory body.

Who are the main investors?

The Belgian market is dominated by three asset managers. Two of them have been able to successfully market some of Europe's largest SRI bond funds.

As indicated by Figure 18, the SRI market is more than two thirds institutional.³²

It is estimated that institutional investors (including public authorities, pension funds, charities and high net worth individuals) represent about 70% of SRI assets under management in the Belgian market, with the remaining 30% composed of retail investors. The institutional SRI market is strongly dominated by two large Belgian asset managers whereas the market for the retail investors is more fragmented with some 50 SICAVs (mutual funds) competing for market share. On the other hand, the market for SRI saving products is not very competitive.

What do SRI fund managers and service providers offer?

Two asset managers have decided to integrate criteria associated with CSR in asset management and have strengthened their in-house SRI analyst teams. More and more asset managers are convinced that non-financial analysis is important to assess long-term financial return. They claim that it is important to build up an SRI identity and reputation in order to have a credible position on the institutional SRI market.

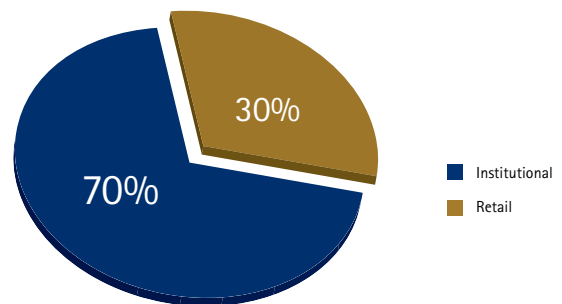
MARKET EVOLUTION SINCE 2003

The SICAV market in Belgium has grown 15% in 2005 to €111 billion, and SRI grew 111% over the same period of time.³³

MARKET PREDICTIONS: 3 YEARS FROM NOW

BELSIF believes that considerable growth can be expected for 2006 and in the coming years. This will be in part due to the fact that the Belgian Federal Government is currently working out a formula by which pension savings in SRI products can benefit from a higher tax reduction.

FIGURE 18: INSTITUTIONAL VS. RETAIL ASSETS IN BELGIAN SRI, DECEMBER 31ST, 2005



Source: Eurosif

32. This figure excludes the important screening of weapons performed by one fund manager over its entire assets.
 33. As of December 31st, 2005. Source: Forum ETHIBEL, 2006.

FRANCE

FIGURE 19: SRI IN FRANCE, DECEMBER 31ST, 2005



Source: Novethic, Eurosif

KEY FEATURES OF SRI IN FRANCE

On December 31st, 2005, the French Core SRI market reached €8.2 billion. The Broad SRI market establishes itself at €13.8 billion, adding €5 billion in Integration mandates.

MAIN PRACTICES

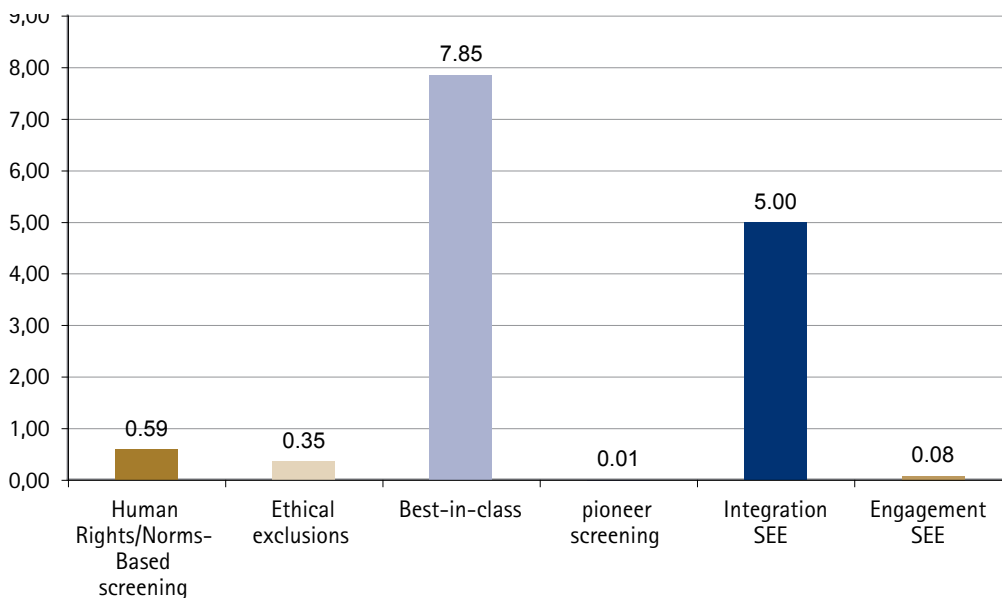
As illustrated by Figure 20, the Core SRI market is essentially made up of Best-in-class approaches (€7.85 billion). Ethical exclusions play a small role with only €350 million. The preference for Best-in-class reflects the country's historical focus on the sustainable development dimension of SRI.

In the Broad SRI market, Simple exclusions (€585 million) play a minor role. Engagement (€80 million) is essentially practiced by a minority group of activist funds which have their roots in corporate governance activism. Integration on the other hand, is making a significant debut at €5 billion.

Finally, €6.5 billion worth of shares from the Broad SRI total are being actively voted according to respondents.

In terms of investment vehicles, research data also indicates a growing preference for mandates over mutual funds, as illustrated in figure 21. This is both demand-side driven (due to the growing role of large institutional investors on the market and the requirements of Employee Savings Plans (ESPs)³⁴, and supply-side driven (due to the growing capacities of fund managers to develop tailor-made offers).

FIGURE 20: SRI STRATEGIES AS APPLIED IN FRANCE, DECEMBER 31ST 2005



Source: Novethic, Eurosif

34. A plan that allows employees to contribute to an investment pool managed by the employer. In a manner similar to DC schemes, individual employees get to choose how to allocate their assets among a range of funds proposed by the Plan's fund managers.

FIGURE 21: INVESTMENT VEHICLES IN FRENCH SRI, € BILLION, DECEMBER 31ST, 2006

| | | |
|--------------|----------------|-------------|
| Mutual Funds | Retail | 2.36 |
| | Institutionals | 3.47 |
| | ESPs | 0.48 |
| | TOTAL | 6.31 |
| Mandates | Institutionals | 6.69 |
| | ESPs | 0.81 |
| | TOTAL | 7.5 |
| TOTAL | | 13.8 |

Source: Novethic, Eurosif

Who are the main investors?

As illustrated by Figure 22, the French SRI market is characterised by the strength of both its institutional (74%) and retail (17%) arms. The recent appearance of Integration as a requirement from institutional investors creates an extra 30% market share for the institutional segment.

Historical SRI investors such as churches, NGOs and charities are still core players on the market. However, in the footsteps of the Fonds de Réserve pour les Retraites (FRR), a growing number of large institutional investors are starting to invest in SRI. This growth is also partly driven by the role of trade unions in co-managing public funds.

An additional specificity of the French market is the role of Employee Savings Plans on the SRI market, with a 9% market share. Here again, trade unions play a key role in defining the ESP offer and its SRI characteristics.

What do SRI fund managers offer?

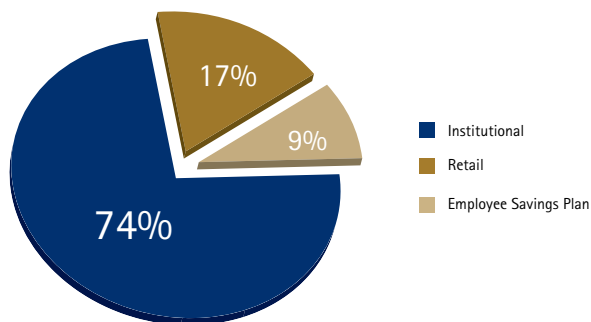
Institutional investors in SRI currently focus on the European area (74%), investments in equities (64%) and favour large caps (88%).

To cater to this demand, most large banks' fund management arms are present on the French SRI market. So are a few traditional historical SRI FMs. All FMs offer both Best-in-class mutual funds, as well as processes catering to the investors' specific requirements ("gestion dédiée"). Generally, mutual funds are sold indifferently to individuals or institutional investors.

When performing research, FMs rely on both internal and external sources.

Favoured suppliers are SRI research agencies used by 100% of FMs on Mutual Funds (and 91% and mandates) and brokers (82%). Also, 82% have a dedicated internal team (analyst and/or manager). Lastly, 36% run committees dedicated to working on SRI research.

FIGURE 22: INVESTMENT VEHICLES IN FRENCH SRI, DECEMBER 31ST 2005



Source: Novethic, Eurosif

MARKET EVOLUTION SINCE 2003

The French SRI market is healthy. The Core SRI institutional market has grown by 162% since the last SRI survey, while the Broad SRI market has jumped 663%. Over the same time interval, the MSCI France grew 65% and the MSCI Europe grew 70%. Given the European focus of French SRI, this suggests that Core SRI market's real growth was 92%, while Broad SRI's real growth was 593%.³⁵

This survey has not tracked retail data in the past, but Novethic research suggests that growth over the same time period reached 148%.

With no dramatic legal changes since 2003, the growth of assets can be partly explained by the increasing number of mainstream institutional investors on the French market. This has spurred the interest of more and more fund managers.

As for research, while historical players have been consolidating and growing internationally, the increased presence of the sell-side in extra-financial research must be emphasised.

MARKET PREDICTIONS: 3 YEARS FROM NOW

French specialists are positive about prospects for the SRI markets. In their view, future growth will be demand-driven, and include:

Institutional investors:

In the footsteps of FRR, there is a growing involvement of institutional funds in the context of pension management. Such is the case for ERAFP, a pension fund for civil servants, in mid-2006.

Employee Savings Plans:

Evolutions in this field are subject to long decision-making processes. Thus, past and present support for SRI should build more momentum and reap increasing benefits in the coming years.

Third Pillar individual pension savings accounts:

Recent regulatory changes have sparked the growth of individual pension savings accounts. This field should also soon become an area of development for SRI.

Ultimately, experts are also curious to see what impacts the UNEP-FI's Principles for Responsible Investment will have on the development of the Broad SRI market in the long term.

The data above is based on research and analysis performed by Novethic (www.novethic.fr), the French SIF (frenchsif.org) and Eurosif (www.eurosif.org).

35. The growth figure on Broad SRI should be treated with caution though. Compared to 2003, Broad SRI started from scratch and is almost entirely attributable to the appearance of Integration as an institutional practice.



GERMANY

FIGURE 23: SRI IN GERMANY, DECEMBER 31ST, 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif

KEY FEATURES OF SRI

SRI initiatives in Germany evolved in the 1970s from the ecological and pacifist movements. Since then, institutional investors, such as churches and insurance companies, have helped foster trends in SRI. From 2002 onwards the German government has enacted disclosure regulations for pensions to encourage SRI.

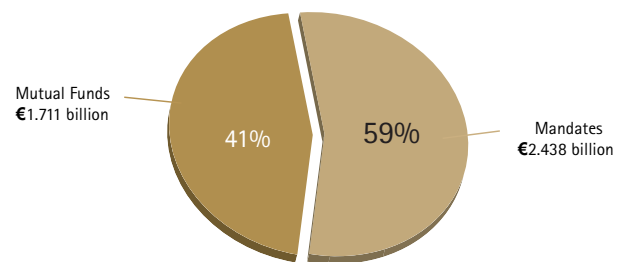
German investment companies and banks manage SRI assets of more than €5.3 billion within Germany. The total volume of capital in German investment companies came to €1.3 trillion in 2005,³⁶ with SRI assets representing approximately 0.3%.

SRI mandates reached €2.4 billion by the end of 2005. The share of SRI mandates in comparison to the total amount of mandates managed in exclusive mutual funds for institutional investors – so called «Spezialfonds» – in Germany is about 0.4%.³⁷

German SRI mutual funds (open to both retail and institutional investors) reached €1.7 billion, representing 0.3% of the total volume of German mutual funds.³⁸

Above that, more than €800 million are invested responsibly through alternative banks and micro credit organisations. More than €3 billion of SRI assets from German investors are managed abroad.

FIGURE 24: SRI ASSETS BY INVESTMENT VEHICLES IN GERMANY, DECEMBER 31ST, 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif

MAIN PRACTICES

A common strategy is the Integration of SEE aspects into traditional financial analysis. German asset managers estimate that 34% of SRI assets are invested through **Integration** strategies. But it should be noted that the term Integration is not very well established in Germany. Asset managers therefore still have variable understanding of this strategy. The traditionally most important investment strategy for German SRI investment companies is **Ethical exclusions**, which is applied to more than 41% of SRI assets.

German investment companies practice **Engagement** for corporate governance and SEE issues, with more than 22% of SRI capital managed through mandates and mutual funds.

The **Best-in-class** approach has been applied with almost 27% of the SRI assets under management. And **Pioneer screening** is a strategy for almost 11%.

36. See Bundesverbands Investment und Asset Management e.V. (BVI) online statistics. Total volume of German securities' market by the end of 2005 - €1.426 billion.

37. See Bundesverbands Investment und Asset Management e.V. (BVI) online statistics.

38. See Bundesverbands Investment und Asset Management e.V. (BVI) online statistics. Total volume of German mutual fund market by the end of 2005 - €545 billion.

«Mutual Funds»: There are two common types of mutual funds in Germany, Switzerland and Austria. So called «Publikumsfonds» is open to retail investors and institutional investors. Retail investors usually hold the majority in these «Publikumsfonds». But the exact percentage of institutional versus retail investments in «Publikumsfonds» is unknown as banks in Germany and Switzerland do not collect data on this aspect. A second type of mutual fund is the «Spezialfonds» which is a kind of mandate for several institutional investors. These «Spezialfonds» are treated as mandates in this report.

Who are the main investors?

With only few exceptions German investment companies consider religious organisations as a major SRI client group. Moreover, one third of SRI investment companies mention NGOs and foundations as clients. Insurance companies were mentioned three times and may therefore be regarded as another client group even though they are currently less relevant.

What do SRI fund managers and service providers offer?

German SRI investment companies consult external research and rating agencies (there is only one exception) and more than 50% follow SRI indices. Even though external resources are being used intensely, internal analysts are still involved in about 60% of the cases.

MARKET EVOLUTION SINCE 2003

The volume of SRI funds and mandates managed in Germany rose by 45% from €2.9 billion by the end of 2002 to more than €5.3 billion in December 2005.

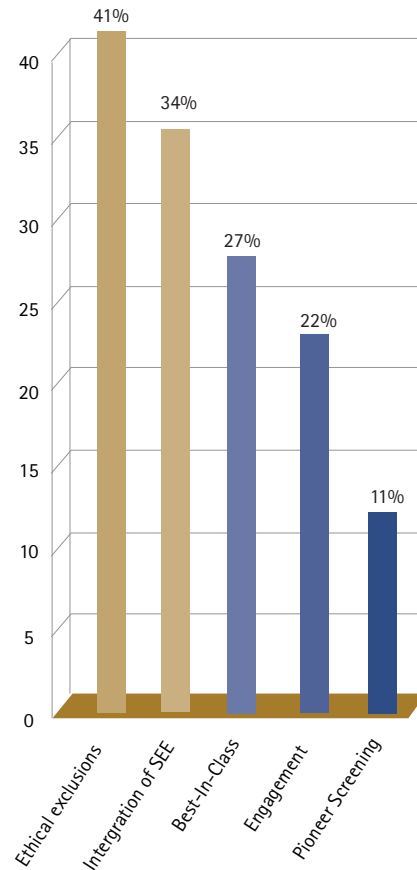
The volume of SRI investments in mutual funds grew by more than 85% - from €900 million in 2002 to more than €1.7 billion in 2005. Conventional mutual funds - in comparison - gained 43% since 2002.

On the other hand SRI mandates increased by 20% from €2 billion in 2002 to €2.4 billion by the end of 2005.³⁹

MARKET PREDICTIONS: 3 YEARS FROM NOW

The traditional client groups for institutional SRI investments in Germany still have some potential to support the continuing growth of the market. Insurance companies may also evolve as actors to stimulate the scene. Finally, private investors appear as promising players on the market.

FIGURE 25: SRI STRATEGIES AS PERCENTAGE OF SRI AUM IN GERMANY, DECEMBER 31ST, 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif

39. See Bundesverbands Investment und Asset Management e.V. (BVI) online statistics.

ITALY

FIGURE 26: SRI IN ITALY, DECEMBER 31ST 2005



Source: Eurosif

SRI in Italy has been showing continuous growth over the last three years. The size of the Italian SRI market is €2.89 billion, with a growth rate of 28.6% from 2002 to 2005 for the number of SRI mutual funds. This is almost 150% growth in AUM, and 58% more SRI assets owned by institutional investors.

This new round of research confirmed the 2003 results in terms of the demand and supply side structure of the market. For the demand side, the Italian SRI market is still quite concentrated in the retail sector (with 87% of total SRI AUM), mainly because the institutional investors are still relatively small (particularly pension funds). As for the supply side, all the largest asset managers are active in the SRI sector of ethical finance, primarily based around retail mutual funds (with 88% of total SRI AUM).

METHODOLOGY

Data in this section are based upon two main sources.

Answers to the Eurosif Questionnaire covered approximately 92% of the market, and Italian SIF (FFS) interviews with rating agencies and asset managers in order to identify institutional investors' SRI mandates, covered approximately 8% of the market.⁴⁰

Some bias is likely in the figures for socially responsible financial assets of institutional investors. In particular, the figures for SRI mandates may be stated as smaller than they are in reality because institutional investors, in particular religious organisations, are very reluctant to disclose this type of information.

KEY FEATURES OF SRI IN ITALY

Size of the market

The Broad SRI market is €2.89 billion. The core of this market is retail investments (87%) at €2.5 billion. Retail investors invest almost exclusively in mutual funds. Institutional investors amount to 13% of the market, at €381 million. This figure does not include the Catholic Church and other faith based groups whose SRI investment strategies are relatively unclear. The most important SRI institutional investors in Italy are pension funds (with about €72 million) and insurance companies (with €163 million). Pension funds typically choose to implement SRI strategies through mandates, often linking their asset management to an ethical SRI index.

MAIN PRACTICES

Screening is by far the most widespread approach (100% of SRI AUM). Negative screening is implemented mainly in the form of ethical exclusion (87% of SRI AUM) and Positive screening, mainly in the form of Best-in-class (81% of SRI AUM).

Most SRI asset managers have started integrating material SEE and CG risks into traditional financial analysis (76% of SRI AUM). Meanwhile, Engagement in the form of dialogue with companies is starting to take place in Italy. For the time being, 72% of SRI AUM are used in Engagement with companies on some level.

What do SRI fund managers offer?

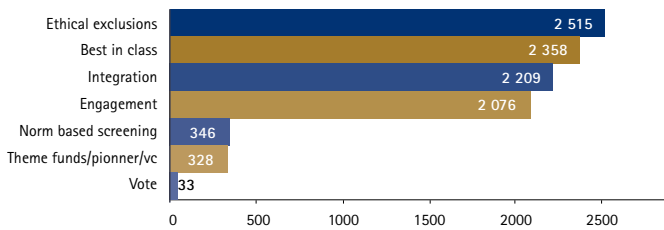
SRI investment funds are the most important SRI products (88% of total SRI AUM). SRI mandates for institutional investors represent 8% of total SRI AUM. Investors are still reluctant to implement consistent voting policies, but Engagement in the form of exercising voting rights is starting to take place.

40. The Italian SIF would like to thank Assogestioni, the Italian Asset Managers Association for the precious help in the dissemination of the questionnaire.

MARKET EVOLUTION SINCE 2003

Since 2003, there has been an increase in SRI investment funds from 21 to 27 products as of December 31st, 2005. Assets under management have increased 150% in 2 years. Even if there has been a strong growth in SRI market, it still represents a small fraction (0.54%) of total AUM.

FIGURE 27: SRI AUM BY STRATEGIES AS APPLIED IN ITALY, DECEMBER 31ST, 2005, € MILLION



Source: answers to the Eurosif questionnaire, which covers 92% of the total SRI AUM in Italy

The main reason for growth is the increased awareness of retail investors as far as SEE issues are concerned and the legitimisation of the concept of SRI amongst institutional investors, in particular pension funds.

MARKET PREDICTIONS: 3 YEARS FROM NOW

Pension funds are likely to give great momentum to the institutional SRI market due to the recent reform (L. 252/2005) that introduces mandatory disclosure regulation. Starting from January 1st, 2008 they will have to state if, and to what extent, they include SEE issues in the investments and/or exercising of voting rights.

As for the retail market, the fact that High Net Worth Individuals may represent a very important target has not yet been fully explored.

On the supply side, insurance companies could be an important driver in the SRI market in the next years. They are starting to successfully offer SRI index-linked products. Nevertheless, they remain outside the SRI debate and the SRI community. For all these reasons, we think that a greater disclosure and openness to SRI issues from insurance companies could foster the distribution of SRI products.

FIGURE 28: EVOLUTION OF KEY SRI DATA IN ITALY, 2003-2005

| | 2003 | 2005 | Growth rate '03-'05 |
|--|---------|---------|---------------------|
| Number of SRI Investment funds | 21 | 27 | 29 % |
| AUM SRI funds € million | 1.074 | 2.679 | 150 % |
| SRI Institutional Investors' AUM | 240 | 381 | 59 % |
| % SRI AUM out of traditional AUM (Funds) | 0.29% | 0.54% | 86 % |
| Traditional funds AUM € million | 370.345 | 496.111 | 34 % |

Source: Italian SIF elaboration, Avanzi SRI Research, 2003 Eurosif Report

THE NETHERLANDS

FIGURE 29: SRI IN THE NETHERLANDS
DECEMBER 31ST, 2005



Source: Eurosif

KEY FEATURES OF SRI IN THE NETHERLANDS

Dutch investment companies and banks manage more than €47 billion in SRI assets. The total volume of Dutch assets under management (AUM) was €1.1 trillion in 2005⁴¹ which brings the SRI market share to 4.3%.

SRI in the Netherlands continues to gain momentum as more investors become involved. However, while the SRI retail market is developing impressively with continuous annual growth rates exceeding 10%⁴², the institutional SRI market shows only a minor increase.⁴³ The institutional SRI market in the Netherlands continues to remain in an experimental phase with institutions using a fragment of their assets to test the different techniques available. There have not been major developments since 2002 as discussions continue about returns on investment (ROI) and fiduciary responsibility. Market trends do however indicate a growing conviction that SRI is the way forward and does not necessarily affect ROI.

MAIN PRACTICES

Most Dutch SRI investments include a mixture of investment strategies. First, all Dutch SRI investors use Negative screening. The level of strictness however may vary as some investors tolerate minor involvement of companies in some excluded industries.

After Negative screening, 17% of managed assets are invested according to the Best-in-class principle.

Engagement has gained a lot of momentum as many institutions have started their own active Engagement strategy. There has been an increase in shareholder involvement at general shareholder meetings, especially

by large pension funds. This involvement however was primarily focused on corporate governance issues and as such are not included in the Dutch SRI data.⁴⁴

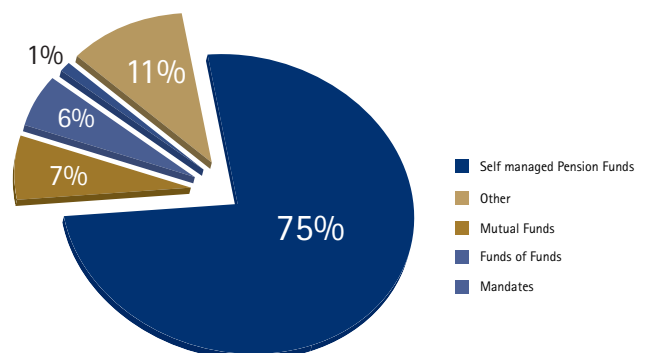
Who are the main investors?

The institutional SRI market, like the mainstream institutional market, is dominated by pension funds and insurance companies in the Netherlands. In the mainstream institutional market approximately €635 billion is represented by pension funds and €345 billion by insurers. Other institutional investors represent approximately €100 billion. The focus of VBDO research has thus far been on pension funds, with little research conducted in the insurance sector.

What do SRI fund managers and service providers offer?

In light of the above, and as illustrated by figure 30, the bulk of SRI investments is self managed by pension funds (75%). Mutual Funds (7%) and Mandates (6%) have almost equal shares of the market. Funds of funds (1%) are almost inexistent.

FIGURE 30: INVESTMENT VEHICLES IN DUTCH SRI



Source: Eurosif

41. De Nederlandsche bank, DNB 2006.

42. Duurzaam Sparen& Beleggen DSB 1987-2004.

43. Quick scan SRI Dutch pension funds 2005.

44. This study does not look at governance-related activity per se, other than when it is performed within the context of a broader SRI policy.

In terms of asset allocation, the focus is still on large caps for 93% of fund managers. 63% have extended their SRI practice from equity to corporate bonds, and 13% also to government bonds. Geographically, domestic and European markets get about 60% of assets, and North America 28%.

In terms of research, 75% of Dutch asset managers draw upon their own teams for SEE and CG research, but equally on external corporate governance and sustainability research providers for their SRI management (75%). 50% make use of broker research, and only 13% have an internal ethics committee.

MARKET EVOLUTION SINCE 2003

SRI investment in the retail market has grown substantially in the Netherlands. Institutional SRI investment however remains at a level comparable with the last survey in 2003. The figure mentioned in the 2003 survey (€3.1 billion) was based on different criteria than the €47 billion figure in 2005. The latter includes Negative screening, which can be regarded as common practice amongst institutional SRI.

However, although the data results are comparable to the last survey of institutional investors, the discussion among institutional investors regarding SRI has intensified. Predictions about the future are difficult, as major pension funds have not yet taken an official position on sustainable investment. Recently the second largest pension fund, PGGM, has shown a keen interest in increasing sustainability in their portfolio.

MARKET PREDICTIONS: 3 YEARS FROM NOW

SRI is gaining momentum and is on the agenda of many institutional investors. More and more investors are becoming convinced that SRI does not result in smaller returns on investment than traditional investors. Moreover, since the Enron and Ahold scandals, an increasing number of investors are convinced that SRI reduces risks, partly because of the high ethical standards that are to be considered.

As soon as the major pension funds (e.g. ABP and PGGM) fully commit themselves to SRI, the growth rate will increase dramatically. Additionally, it is highly likely that many smaller pension funds will follow suit. It is difficult to predict when these large pension funds will increase their SRI portfolio. ABP for example is still in an experimental phase, managing two SRI funds worth €240 million. It will most likely take another 5 to 10 years, before they evaluate the ROI results and make a decision whether or not they increase their SRI efforts.

SPAIN

FIGURE 31: SRI IN SPAIN, DECEMBER 31ST 2005

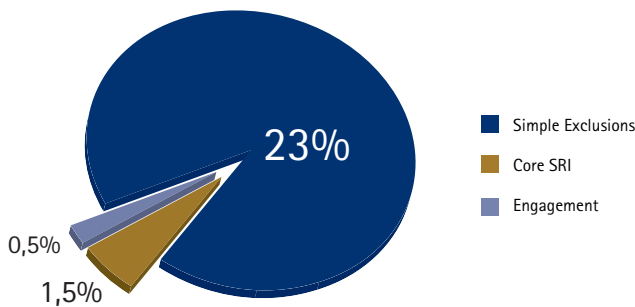


Source: Eurosif

KEY FEATURES OF SRI IN SPAIN

The Spanish SRI market has been greatly increasing over the past few years (from €79 million in 2003) and mainly uses Engagement and simple Negative screening for Broad SRI.

FIGURE 32: SRI AUM BY STRATEGIES AS APPLIED IN SPAIN, DECEMBER 31ST 2005, € BILLION



Source: Eurosif

MAIN PRACTICES

SRI in Spain roughly reflects SRI trends in other countries, as it is largely inspired by the best practices of foreign experiences.

Screening is the main SRI practice (€1.5 billion Core SRI and €23 billion in Simple exclusions, or 98% of the SRI market), Engagement is starting to develop and Integration is only just being studied as an option.

Positive screening is often combined with Ethical exclusions (for 60% of Core SRI assets, or €900 million).

As far as methodology and quality process are concerned, it is important to note that in Spain, SRI is developed mainly in-house and by non-specialised SRI professionals. This is different from other countries, such as the UK, where more than 90% of SRI asset management companies have an internal SRI analyst or asset management team. 40% of Spanish asset managers buy external research, as opposed to 80% in the UK or 75% in the Netherlands. Furthermore, consultant or broker SRI services are not used in Spain. One single asset manager uses external certification to evaluate the level of social responsibility of its assets.

As in many European countries (such as Belgium and the Netherlands), SRI is mainly applied to Large Caps in Spain.

65% of asset managers apply screening not only to equity but also to bonds (mainly private fixed income).

Many developments have recently taken place for the retail SRI market in Spain (50% of the Core SRI market). New vehicles, other than mixed funds, have appeared on the market in the form of structured products such as guaranteed funds or indexed deposits. They represent €850 million in total, or 40% of the SRI market. There is also one retail SRI pension scheme available.

The concept of sustainability, as opposed to only ethical funds, has also emerged since 2003. Traditional retail ethical funds are also charity-oriented as they give part of their fees or benefits to a list of defined charities.

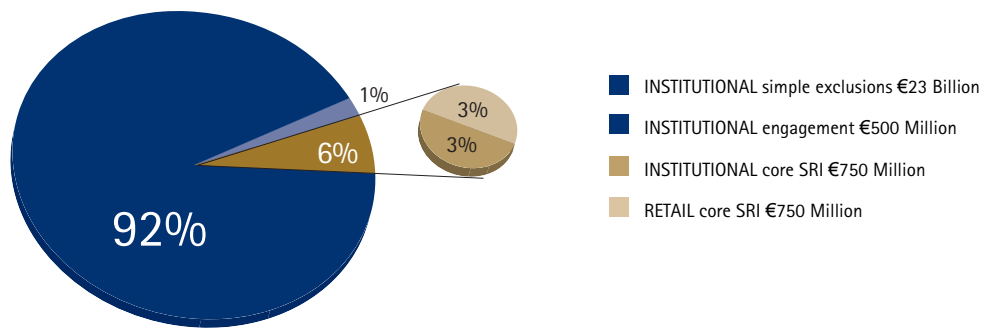
The quality of research has increased and become more robust. For example, Positive screening, has been added to simple ethical negative exclusions.

The importance of benchmarks, such as the DJSI and FTSE4good, has increased in the Spanish market. 43% of retail funds are indexed.

The Spanish institutional SRI market makes up the other 50% of the Core SRI market, with a massive €23 billion corresponding to just one institution. Spanish Institutional SRI only started in late 2003. From mid-2003 to the end of 2004, the leading occupational pension funds started testing SRI for a marginal part of their assets (in general fixing an objective of 1% of their equity assets). It should

be noted that at this stage, pension funds only invested in foreign SRI funds, as they could not find any fund suitable to their requirements in the local market. In 2005, after the experimental phase, some have decided to switch to a more integrated SRI strategy, and are in the process of spreading their SRI strategies to a larger bulk of assets, through different practices of screening or Engagement.

FIGURE 33: INSTITUTIONAL VS. RETAIL SRI ASSETS IN SPAIN, DECEMBER 31ST 2005



Source: Eurosif

Who are the main investors?

Clearly occupational pensions lead the way (44% of the Spanish Core SRI market), mostly in the sector of saving banks (38% of Spanish Core SRI), while there is a notable absence of the public sector, which represent less than 4% of Spanish SRI.

What do SRI fund managers and service providers offer?

It is interesting to note that there are no SRI mandates as such in the market. There are only investment services, which are not necessarily marketed as SRI but which

include the Integration of CG and SEE issues to some degree. Additionally, there have not been any SRI tendering processes for the moment.

Offers from asset managers cover a wide range of proposals, most of them acting as pioneers in their sectors:

- Integration of SRI criteria on a large scale for total assets,
- Post-screening of funds by external recognised research providers,
- Distribution of third party funds,
- Offer of structured products better adapted to the demand of the market,
- Implementation of an Engagement policy.



Two research providers act as the main external service providers today in Spain. One operates from the UK with the support of a local NGO, and the other is the first Spanish research company, which was launched in 2005.

MARKET EVOLUTION SINCE 2003

The evolution of the Spanish SRI market is measured every year by the IPES Institute at Esade business school.⁴⁵ The market volume evolved mainly due to the consolidation of retail SRI and the appearance of institutional SRI. From 1999 to 2003, Spanish SRI was exclusively retail. The first institutional investors appeared at the end of 2003, and confirmed their presence throughout 2004 and 2005.

In the beginning (1999-2003, ethical funds) the market was strongly UK inspired, focusing on the respect of ethics. Since then, institutional investors, along with a few retail funds, have developed a sustainability approach (or the Best-in-class approach), focusing mainly on good performance through better understanding of non-financial risks (CG and SEE).

MARKET PREDICTIONS: 3 YEARS FROM NOW

The retail market is expected to progressively grow and consolidate more and more over the next few years.

For now, the SRI institutional market involves a few key leaders, however this will most likely spread and grow in the next 2 years.

Property funds are currently being studied and may be a future development, focusing mainly on social criteria, as the Spanish government has defined this as a priority.

It will be interesting to follow how asset managers in saving banks finally conclude their internal discussions and experiments and switch to integrated management of CG/SEE criteria, which could make the SRI market jump very quickly. This could happen if investors ensure that their processes involve either external recognised expertise, or the dedication of a specialised team of analysts or asset managers, or an official ethical committee.

45. <http://www.esade.edu/institution/institutos/ipes/index.php?MzA%3D&MTA0&Et&Et>



SWITZERLAND

FIGURE 34: SRI IN SWITZERLAND
DECEMBER 31ST, 2005



Source: Eurosif

KEY FEATURES OF SRI IN SWITZERLAND

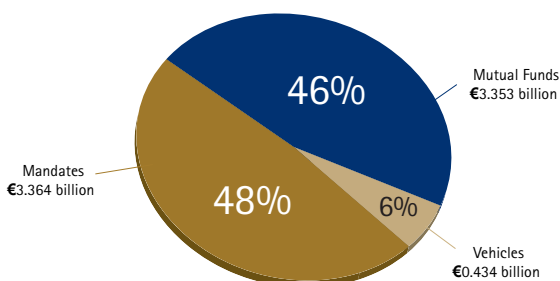
Switzerland is one of the leading countries for SRI in Europe. Swiss banks were among the first to offer SRI and to develop expertise, including the first sustainability index. The Swiss Federal Council has been encouraging public pension funds and reserve funds to implement sustainable investment strategies since 1999.

More than €7.45 billion of SRI assets are managed by investment companies in Switzerland.⁴⁶ Swiss SRI assets amount to 0.3% of the total Swiss investments market for local and foreign investors' securities deposited in Swiss investment companies and banks.⁴⁷ Even though assets managed abroad have not been counted as being part of national SRI assets in this survey, it should be mentioned that Swiss investment companies manage more than €30 billion of SRI investments in Britain and the US.

SRI mandates add up to more than €3.5 billion.

Swiss SRI mutual funds⁴⁸ comprise volumes of more than €3.3 billion. SRI mutual funds made up 2.3% of the Swiss fund-market.⁴⁹

FIGURE 35: SRI ASSETS MANAGED IN SWITZERLAND: MORE THAN €7.4 BILLION



Source: Forum Nachhaltige Geldanlagen, Eurosif

46. In addition the AHV Ausgleichsfonds holds more than €1.4 billion in SRI-assets. But the AHV-assets are managed in Great Britain and are therefore not included in this calculation.

47. See Swiss National Bank online statistics: Volume of securities managed and deposited in Swiss banks by the end of 2005 – 4.3 billion Swiss Francs.

48. There are two common types of mutual funds in Germany, Switzerland and Austria. The so-called «Publikumsfonds» is open to retail investors and institutional investors. Retail investors usually hold the majority in these «Publikumsfonds». But the exact percentage of institutional versus retail investments in «Publikumsfonds» is unknown, as banks in Germany and Switzerland do not collect data on this aspect. A second type of mutual fund is the «Spezialfonds» which is a kind of mandate for several institutional investors. These «Spezialfonds» are treated as mandates in this report.

49. See Swiss National Bank online statistics: Volume of Swiss mutual fund assets by the end of 2005 – 219.5 billion Swiss Francs.

MAIN PRACTICES

The most popular investment strategy among Swiss SRI Investors is the Best-in-class approach. About 73% of the managed assets are invested according to **Best-in-class** principles. **Ethical exclusions** is practised on more than 57% of the SRI assets.

More than two thirds of the participating companies and banks use Engagement strategies. About 64% of the capital of Swiss SRI mutual funds is involved in **Engagement** and voting processes concerning corporate governance (40%) as well as SEE issues (64%). More than 58% of the SRI capital managed in mandates is used for Engagement purposes. However, Engagement currently focuses on corporate governance issues (58%), rather than on the broader SRI agenda (24%).

Engagement on SEE issues is practised with 43% of the total volume of Swiss SRI in both funds and mandates.

Financial analysis integrating SEE aspects is being used for 27% of the SRI capital managed in Switzerland. However this strategy a rather unknown field for asset managers and investors in German-speaking countries. It is therefore very likely that asset managers have variable understanding of this strategy.

More than 11% is invested according to **pioneer-screening** methods.

Who are the main investors?

Public pension funds and reserve funds are the most prominent SRI investors in Switzerland. Almost 80% of the Swiss investment companies in the SRI segment carry out investments for these clients. The second largest client group are NGOs and foundations, followed by corporate

or occupational pension funds. And finally churches and insurance companies are clients for more than 50% of Swiss SRI investment companies.

What do SRI fund managers and service providers offer?

Most Swiss Investment Companies draw upon external CG/SEE research providers for their SRI management. Internal analysts and asset managers are frequently involved in the execution of SRI strategies. Furthermore 50% of the SRI providers established internal SRI/Ethical committees.

MARKET EVOLUTION SINCE 2003

What is the growth rate of AUM?

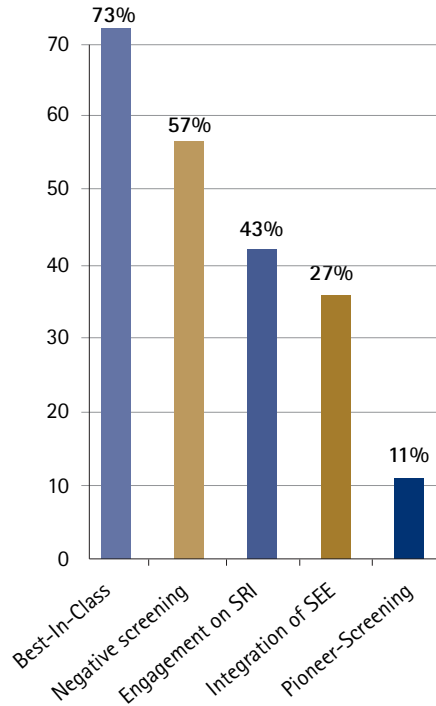
By the end of 2002 the total volume of socially responsible investments in Switzerland came to €2.15 billion. Since then the market has grown rapidly and, even without taking into account the assets by the AHV public pension fund, it more than doubled. Swiss SRI mutual funds have gained more than 160% since 2002, while the average Swiss fund grew by 69% since the end of 2002.⁵⁰

SRI mandates almost tripled from €1.34 billion at the end of 2002 to more than €3.5 billion.

MARKET PREDICTIONS: 3 YEARS FROM NOW

Public pension funds and banks will contribute to a continuous high growth of Swiss SRI. Political guidelines have been formulated to encourage public pension funds to take up SRI investment strategies. The AHV public pension fund responded and responsibly invested more than €1.4 billion (the assets are managed in London). Other public pension funds may follow. Beyond that, private SRI investments are gaining in importance and volume. The Swiss SRI market will probably exceed the €10 billion mark in 2009.

FIGURE 36: SRI INVESTMENT STRATEGIES AS PERCENTAGE OF TOTAL SRI AUM IN SWITZERLAND, DECEMBER 31ST 2005



Source: Forum Nachhaltige Geldanlagen, Eurosif

50. See Swiss National Bank online statistics: Total Volume of funds in 2002 – 130 billion Swiss Francs.

UNITED KINGDOM

FIGURE 37: SRI IN THE UK, DECEMBER 31ST, 2005



Source: Eurosif

KEY FEATURES OF SRI IN THE UK

The UK has a world leading asset management industry with the Investment Management Association (IMA) reporting that as of December 31st, 2005 an estimated £2.8 trillion (over €4 trillion) in assets was managed in the UK by their members.⁵¹ More broadly, the City of London is regarded as one of the key international centres for innovation in financial and business services. Modern SRI in the UK can be traced back at least to the 1920's, and the UK is now widely regarded internationally as a world centre for expertise in both sustainable finance and in corporate social responsibility consulting.

Since 2003, arguably the most significant area of development for SRI has been around improvements in integrating environmental, social and governance issues into investment decision-making. A key factor has been the creation of sell-side SRI teams and the resulting increase in financially-oriented SRI investment research. This has built on the UK's already strong positions in Engagement with companies on SRI issues and Core SRI practices.

MAIN PRACTICES

SRI strategies in the UK may be grouped as:

- Integration of material SEE issues into investment decision making in order to deliver improved financial returns. These issues are increasingly known also as "extra-financial" issues. This Integration is performed both for values-based investors and for investors looking purely for improved risk management or greater alpha.
- Engagement with companies about their SEE performance - monitoring corporate behaviour and intervening where necessary.
- Positive or Negative screening which takes account of the values of investing individuals or institutions.

- Thematic investment propositions based on SEE issues such as the transition to sustainable development and a low carbon economy.

Investments are often subject to some mixture of these strategies. Figure 38 shows the different layers of SRI.⁵²

FIGURE 38: SRI STRATEGIES AS APPLIED IN THE UK, DECEMBER 31ST 2005, € BILLION



Source: Eurosif

As a significant illustration of investors using a combination of strategies, the combination of Core SRI and Engagement is estimated at €21 Billion.

Who are the main investors?

Church and Charity Investors:

Church and charity investors remain the largest force in Core SRI within the UK. A new charity reporting standard (SORP 2005) introduced in 2005 requires charities with investments to report on "the extent (if any) to which social, environmental or ethical considerations are taken into account" in their investment policy.

Mass Market Individual Investors:

The UK retail market for SRI funds is now over 22 years old, with the first retail ethical fund launched in 1984. According to the Ethical Investment Research Service (EIRIS), there were 72 retail ethical funds offering Core SRI available in the UK as of December 31st, 2005,

51. <http://www.investmentfunds.org.uk/press/2006/20060704-01.pdf>

52. This study found that total AUM subject to "Best in class" screening forms only 10% of those subject to Ethical exclusions. As several retail funds offer "best in Class" screening, we conclude that this particular technique is used relatively rarely by church and charity investors.

with £6.1 billion AUM . In addition, some fund managers practice Engagement on behalf of investments held in unscreened retail funds.

High Net Worth Individual Investors:

In early 2005, UKSIF published evidence on the size of market demand for SRI from high net worth individuals. €1.8 billion (£1.2 billion; 6%) was managed under a bespoke SRI mandate from the €29 billion (£20 billion) in investments managed by a group of UKSIF members for high net worth individuals.

Occupational Pension Funds:

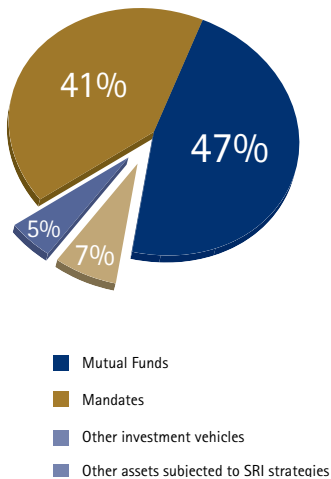
Major UK occupational pension funds form a significant force within the UK financial services market.⁵³ In total, self-administered pension funds held about £790 billion in assets at end 2004.⁵⁴ They also form a significant force within

Broad SRI. Further pension assets are held in occupational insurance-administered pensions (£160 billion) and in personal and stakeholder pensions (£430 billion). These further types of pensions are usually regarded as part of the retail market. Some provide access to Core SRI investment options (ethical funds). Investment in ethical funds via pensions has been accounted for in this study as part of the retail total.

Insurance Companies, Banks and Asset Managers:

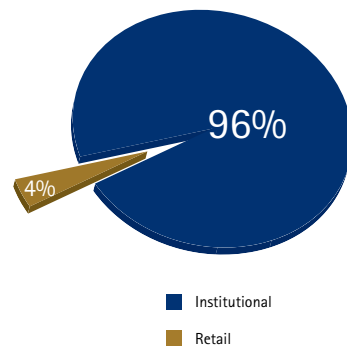
In order to manage risk and protect and enhance financial returns, some financial services companies require their asset managers to address Integration and/or Engagement on material SEE issues across all relevant asset holdings. These financial services companies are drawn from the banking, general insurance and life insurance and purely asset management sectors.

FIGURE 39: INVESTMENT VEHICLES IN UK SRI, DECEMBER 31ST, 2005



Source: Eurosif

FIGURE 40: INSTITUTIONAL AND RETAIL ASSETS IN UK SRI, DECEMBER 31ST, 2005



Source: Eurosif

53. Source: Pension Funds and their Advisers 2006.

54. Source: Pension Fund Indicators 2005, UBS Global Asset Management, May 2005 (quoted at www.napf.co.uk).

What do SRI fund managers and service providers offer?

The SRI services provided by UK fund managers may be grouped as follows.

| SRI Service | Comments |
|--|---|
| Pooled SRI funds for individual investors | Normally such funds are positively or negatively screened and/or deliver a thematic investment proposition. Engagement with companies may additionally take place. "Engagement funds" which select/exclude stocks only on financial grounds and exert their impact by influencing companies are recently starting to be marketed to retail investors. |
| Pooled SRI funds for charity investors, pension funds and other institutional investors. | For charity investors, these may be charity-specific funds approved by the Charity Commission (CIFs) or other pooled SRI funds. A report on pooled funds for charity investors will be published in 2006 by the UKSIF/EIRIS Charity Project. |
| Segregated SRI mandates for institutional investors and high net worth individuals. | Allowing a customized approach. |
| Engagement on SEE issues to protect or enhance financial return. | <p>This Engagement takes place for:</p> <ul style="list-style-type: none"> • SRI funds as described above, • AUM not managed using overtly SRI criteria (including unscreened pooled funds not marketed as SRI and assets managed by investment subsidiaries for their parent bank or insurance company), • "Engagement overlays" where an "Engagement only" mandate is awarded to a different provider from the asset management mandate. |
| Investment services not necessarily marketed as SRI but which incorporate the Integration of material SEE issues to some degree. | The depth of Integration is arguably evolving over time as financially-oriented SRI research becomes increasingly sophisticated |

MARKET EVOLUTION SINCE 2003

Over the last three years, the UK SRI market has been driven particularly by improved information provision by investment banks, by initiatives from leading asset owners such as the Environment Agency Pension Fund and the Universities Superannuation Scheme, and by increased Integration of and Engagement on SEE and CG issues by asset managers.

What is the growth rate of AUM?

This study has identified significant additional assets subject to Broad SRI within the UK since 2003.

This study found that over €600 billion (over £425 billion) in AUM in the UK were subject to the Integration of SEE into the investment process. Corporate governance issues were almost always also integrated. In the 2003 study, this figure was not quantified.

According to the current study, nearly €730 billion (over £480 billion) have been subject to Engagement policies. This contrasts with a figure of €285 billion (almost £200 billion) reported by asset managers in 2003. This is a gross growth rate of 157% and, measured against the MSCI UK performance, an adjusted growth rate of 98%.

Within the UK, increasing numbers of fund managers are seeking to address SEE issues to secure a financial edge or as part of their corporate governance approach. This has long been a goal of SRI practitioners and is very welcome. Significantly more fund managers have chosen to participate in this survey than in 2003. Meanwhile others are exploring the area but feel that it is not appropriate to include their concern about extra-financial issues within the totals reported. With this environment, detailed growth figures should be treated with caution.

Core SRI has remained more stable as a percentage of the market.⁵⁵ For example, the Investment Management Association reports that retail ethical funds have represented 1.2% of the market for investment funds consistently from 2003 to 2005.⁵⁶

What lies behind the growth?

Leadership Initiatives by Asset Owners and Asset Managers

Collaborative leadership initiatives by asset owners, sometimes working in partnership with asset managers, have been a notable feature. Many of these are international but with strong UK representation. They include:

Enhanced Analytics Initiative (www.enhancedanalytics.com)

This international collaboration between asset owners and asset managers aims to encourage investment research that take account of the impact of extra-financial issues on long-term investment. Launched in 2004, the Initiative represented total assets under management of over €00 billion by June 2006.

The Institutional Investors Group on Climate Change (www.iigcc.org)

This international forum for collaboration between pension funds and other institutional investors on issues related to climate change has over twenty six institutional investor members and appointed its first full-time Programme Director in 2005.

Initiatives by individual asset owners have included:

- The Environment Agency Pension Fund's award-winning investment management strategy addressing environmental issues.
- The competition on "Managing Pension Fund Assets As If The Long Term Really Did Matter" organised in 2003 by the Universities Superannuation Scheme, the UK's second largest occupational pension fund.

Myners, the Institutional Shareholders' Committee, Voting and Responsible Ownership

The Myners Principles are a set of principles codifying best practice for investment-decision making which are recommended for adoption by pension fund trustees on a voluntary "comply or explain" basis. They have played a high profile role in encouraging shareholder activism (Engagement and voting) in the UK.

55. This study reports Core SRI AUM managed by UK asset managers. In 2003, the UK reported Core SRI AUM held on behalf of UK asset owners. The change has been introduced to allow methodological consistency across Europe and therefore better cross-country comparison. However, it does mean that comparison of UK Core SRI data between the two studies is not meaningful.

56. <http://www.investmentfunds.org.uk/Statistics/Qtrly/2005/q411.pdf>

They were recommended in 2001 as a result of a study commissioned by the Chancellor of the Exchequer (the UK Finance Minister). Government research published in 2004 found that schemes which had decided to take action on shareholder activism represented 51% of all members even though they formed only 15% of schemes surveyed. They were therefore, on average, the larger schemes.⁵⁷

The Institutional Shareholder's Committee, consisting of the UK's leading institutional investment-related trade associations⁵⁸, published an updated Statement of Principles on the Responsibilities of Institutional Shareholders and Agents in September 2005 together with an associated commentary. The principles stated that "*Many issues could give rise to concerns about shareholder value. ... Instances when institutional shareholders and/or agents may want to intervene include when they have concerns about ... the company's approach to corporate social responsibility*".

The commentary highlighted that "there has been a general increase in the level of Engagement with investee companies" and that an IMA survey of its members in 2004 found that as of June 30th, 2004, the 34 fund managers covered represented 55% (£552 billion) of all UK equities managed within the UK. With two exceptions, these managers have a policy to vote all their UK shares and the majority vote all or some of their international shares. With one exception, these managers employ staff who are dedicated to Engagement on corporate governance or socially responsible issues and, since 2003, numbers had increased by about 10%. 33 of the managers had a clear policy statement on Engagement, with one manager's statement still in draft.

The Company Law Reform Bill currently passing through the UK parliament includes draft clauses giving government powers to require public disclosure of votes by asset managers and institutional asset owners. At the time of writing, it is not yet clear whether these clauses will become part of the final law.

Have new trends emerged?

The Sell-Side and SRI

A major development since 2003 has been the increased focus on material SEE and CG issues by major investment banks. A range of investment banks now both provide dedicated support to the buy-side SRI community and an increasing range of research reports on "ESG" issues. For the first time, we can talk about "the SRI buy side" and "the SRI sell side". This has been stimulated by many factors, such as the UKSIF/Thomson Extel Social Responsible Investment Survey (now in its fourth year), and increasing demand for such research, including but not restricted to the Enhanced Analytics Initiative.

SRI options in the UK's proposed new National Pension Savings Scheme

There is an evolving debate within the UK on how to ensure effective saving for retirement in the future. The UK government's pensions white paper published in May 2006 included a proposal to ensure that a range of investment options, including socially responsible investment, will be provided under the personal accounts proposed within a new National Pension Savings Scheme.

Regulatory and Technological Change

In April 2005, a significant change known as "depolarisation" took place in the regulation of the sales of retail investments. This made it possible for distribution channels to sell products from a limited range of providers rather than being "polarised" into selling products either from a single provider or on the other hand from the whole market. Meanwhile, technological change has resulted in increased sales of investment products via the internet as well as through traditional channels. It is too early to assess fully the implications of these developments for SRI. On the one hand, it should become easier for consumers to access distribution channels offering ethical funds. On the other, SRI products available from some of these channels may be difficult to locate in practice if there is a lack of appropriate signposting and marketing.

57. <http://www.dwp.gov.uk/asd/asd5/rports2003-2004/rrep213.asp>

58. In 2005, the members of the Institutional Shareholders Committee (ISC) were the Association of British Insurers (ABI), the Association of Investment Trust Companies (AITC), the National Association of Pension Funds (NAPF) and the Investment Management Association (IMA). The ISC statement of principles on the responsibilities of institutional shareholders (updated September 2005) and a commentary on it (September 2005) may both be found at www.napf.co.uk.

MARKET PREDICTIONS: 3 YEARS FROM NOW

Looking forward, we expect to see increased demand from asset owners, both institutional and individual, as the primary driver for the growth and development of SRI in the UK. The motivators for such demand are likely to be increases in:

- Support among the general public for “ethical consumption” and concern about sustainable development and climate change,
- Alignment between the corporate social responsibility policies of leading companies and the investment strategies of their pension funds,
- Implementation of the UN Principles for Responsible Investment by its inaugural and future signatories,
- Pressures for sustainable procurement of investment services by public sector pension funds,
- Increasing interest and demand for transparency among charity investors.

The UK currently faces two major long-term policy challenges: (1) managing the transition to sustainable development, including sustainable consumption and sustainable public procurement and (2) reforming pensions to ensure financial security in retirement for tomorrow's pensioners. It is important that both are achieved together, by a partnership not a trade-off. Looking forward, this is a major challenge and opportunity for SRI in the UK.



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