Green, Social and Ethical Funds in Europe

2011 Review

October 2011
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#### About Vigeo
Key findings
There were 886 SRI retail funds in Europe at the end of June 2011. Following two years of impressive growth in the number of SRI retail funds (+65%), the market has been consolidating in 2011, with the net creation of 7 funds.

Assets under management continued to grow (+12% in 2011) and reached € 84 bn at the end of June 2011. This represented 1.42% of the overall retail funds market, a slightly higher proportion than in 2010 (1.34%).

France was the most dynamic market for SRI retail funds, in terms of AUM growth, while the increase in other countries was moderate.

The 3 largest funds are provided by Amundi AM (Amundi Tréso ISR) and Natixis AM (Fonsicav) in France and Friends Provident Pensions (Stewardship Pension Fund) in the UK.
Analysis
Number of SRI Funds, cumulated, in the period 2001 to 2011

(on June 30, 2011)

Source: Vigeo (2011)
Number of SRI retail funds per country

Number of SRI funds domiciliated in each country

Source: Vigeo (2011)
Number of SRI retail funds per country

Wound Up Funds vs. New Funds
(end of June 2011)

Source: Vigeo (2011)
At the end of June 2011, there were 886 green, social and ethical funds domiciled in Europe.

- Following a 29% record growth in the previous year, the market has been consolidating with the net creation of 7 funds.

France, Belgium, the United Kingdom and Switzerland account for 72% of total SRI retail funds.

- The Netherlands recorded a +13% increase in number of funds offered to retail investors. For the second year in a row, Belgium has shown a significant increase (+6%), followed by France (+2%).

- The United Kingdom, Switzerland, Germany, Sweden, Italy and Spain all showed a net reduction in the number of SRI retail funds.
Assets in the SRI retail funds industry

Total asset under management for SR funds domiciled in Europe
(end of June 2011, mln Euro)

Source: Vigeo (2011)
SRI assets trend vs. MSCI World annual growth rate

AUM equity world funds vs MSCI World Index AGR (bn Euro)

Source: Vigeo (2011)
SRI funds’ assets per country

Source: Vigeo (2011)
SRI retail funds’ assets in Europe

SR funds assets per country
(% breakdown, end of June 2010)

Source: Vigeo (2010, 2011)
SRI retail fund assets under management grew by 12% over the twelve months to June 2011 and reached €84 bn.

- The comparison between SRI equity funds and MSCI World index over the last ten years shows that growth is not only driven by stock market appreciation but also to real inflows of money, even in the worst periods.

**Trends per country are mixed:**

- Some countries showed solid growth: +26% in the Netherlands, +21% in Germany, +19% in France and +18% in Sweden.
- SRI assets growth was moderate in Switzerland (+12%) and in the UK (+8%) whilst some countries experienced a decline in SRI assets (-9% in Belgium, -2% in Austria, -1% in Italy).

**The four largest markets (France, UK, Switzerland and Belgium) confirm their leadership and still account for 76% of European assets.**

- France was confirmed as the largest European SRI retail market (38% of the total) and is characterised by a high proportion of fixed income funds.
- The UK remained in second place (15%), closely followed by Switzerland (13%).
- The share of the Belgian market has slightly decreased (10% vs 12% in 2010).
Share of SRI funds in the European retail funds market

European SRI funds assets over total UCITS (% end of June 2011)

Source: Vigeo (2011)
Market share of SRI funds in selected countries

Source: Vigeo (2011)

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

Source: Vigeo (2011)
In aggregate, SRI funds represented 1.42% of the overall European retail funds market*, a slightly higher proportion than in 2010 (1.34%).

Belgium retains the highest country market share for SRI retail funds (8.8%)
  • However, this share has been declining by over 1 percentage point from the previous year (9.9%).

The fastest growing penetration was seen in the Netherlands with a market share progressing from 3.7% last year to 5.1% this year.
  • This now places the Netherlands in 2nd position behind Belgium in terms of penetration of SRI funds in the retail funds market.

* % of total UCITS assets in Europe – cf slide 31
The size of green, social and ethical funds: average and median

The average size of SRI retail funds has increased from €86 million to €95 million, showing a moderate increase (+11%) for the second year in a row:

- The average size has increased in all countries, except in Belgium (-14%), Spain (-13%) and Austria (-2%),
- On average, SRI funds are larger in Italy (€148M), followed by France (€143M), the Netherlands (€141M), the UK (€129M) and Switzerland (€128M),
- Fixed income (bonds and money market) funds are the largest on average (€251M), compared to equity funds (€92M) and balanced funds (€77M).

The median size of funds (€31 million vs €29 million in 2010) is still much lower than the average in every country, showing that all domestic markets remain concentrated around a few leading funds.

- This is particularly true in countries with large fixed income funds: France (median of €33M vs mean of €143M), Austria (€27M vs €86M) and Germany (€24M vs €72M).
10 largest green, social and ethical funds in Europe (by AUM)

<table>
<thead>
<tr>
<th>Ranking June 11</th>
<th>Ranking June 10</th>
<th>Asset Management Company</th>
<th>Fund Name</th>
<th>Country</th>
<th>Assets €M</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Amundi Asset Management</td>
<td>Amundi Tréso ISR</td>
<td>FR</td>
<td>7,510</td>
</tr>
<tr>
<td>2</td>
<td>New Entry</td>
<td>Natixis Asset Management</td>
<td>Fonsicav</td>
<td>FR</td>
<td>4,514</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>Friends Provident Pensions</td>
<td>Stewardship Pension Fund</td>
<td>UK</td>
<td>1,372</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>OFI Asset Management</td>
<td>Ofi Trésor ISR</td>
<td>FR</td>
<td>1,109</td>
</tr>
<tr>
<td>5</td>
<td>8</td>
<td>Pioneer Asset Management</td>
<td>Pioneer Funds – Global Ecology</td>
<td>IT</td>
<td>1,033</td>
</tr>
<tr>
<td>6</td>
<td>New Entry</td>
<td>Deka Investment</td>
<td>Deka-Stiftungen Balance</td>
<td>DE</td>
<td>1,015</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>Natixis Asset Management</td>
<td>Natixis Impact Aggregate Euro</td>
<td>FR</td>
<td>991</td>
</tr>
<tr>
<td>8</td>
<td>6</td>
<td>Allianz Global Investors</td>
<td>Allianz Valeurs Durables</td>
<td>FR</td>
<td>970</td>
</tr>
<tr>
<td>9</td>
<td>4</td>
<td>Swiss &amp; Global Asset Management</td>
<td>SAM Sustainable Water</td>
<td>CH</td>
<td>870</td>
</tr>
<tr>
<td>10</td>
<td>New Entry</td>
<td>Vontobel Fonds Services</td>
<td>Raiffeisen Pension Invest Futura Balanced</td>
<td>CH</td>
<td>759</td>
</tr>
</tbody>
</table>

Source: Vigeo (2011)
SRI retail funds: breakdown by asset class

SR Funds Breakdown by Asset Class
(% breakdown in terms of AUM, end of June 2011)

Source: Vigeo (2011)
Equity funds (48% of the total) still outweigh fixed income funds (40%) and balanced funds (12%). However their share has been consistently declining since 2007 (when they accounted for 67% of the total).

- This declining trend results from lower stock market valuations combined with a general shift in asset allocations towards more prudent and conservative instruments.

2011 saw a continuation of this trend with the shares of fixed income funds and balanced funds gaining respectively 2 and 1 percentage points.

The breakdown of SRI funds by asset class varies greatly across Europe:
- The share of equity component is prevalent in Sweden (86%), the UK (78%) and Switzerland (67%),
- Fixed income funds are more prominent in Austria (78%) and France (68%).

In numbers, equity funds are still the large majority (417 funds, i.e. 47%), followed by fixed income and balanced (127 and 126 respectively).
The next table lists the top 5 funds based on one-year performance and compares funds returns with their peer groups average.

The table does not aim to give information about fund managers abilities, as the ranking includes funds investing in different financial instruments/markets whose performances cannot be therefore compared.

The table gives a general indication of the best performances achieved by European SRI funds during the last 12 months.

By price the Eurozone Mid-Cap Equity funds classify as the most expensive (TER 4.01% on average), while the Euro Money Market - Short Term category emerges as the cheapest (0.24%).
### Top performing SRI funds in Europe (one-year returns, end of August 2011)

<table>
<thead>
<tr>
<th>Asset Management Company</th>
<th>Fund Name</th>
<th>Country</th>
<th>Category</th>
<th>1y Fund Perf</th>
<th>1y Cat Perf</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss &amp; Global Asset Management</td>
<td>SAM Smart Materials</td>
<td>CH</td>
<td>Sector Equity Industrial Materials</td>
<td>16.2</td>
<td>1.7</td>
</tr>
<tr>
<td>KBC Asset Management</td>
<td>KBC Renta NZD-Renta</td>
<td>BE</td>
<td>Other Bond</td>
<td>15.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Amundi</td>
<td>LCL Actions USA ISR</td>
<td>FR</td>
<td>US Large-Cap Blend Equity</td>
<td>14.4</td>
<td>3.3</td>
</tr>
<tr>
<td>KBC Asset Management</td>
<td>KBC Renta AUD-Renta</td>
<td>BE</td>
<td>AUD Bond</td>
<td>13.3</td>
<td>12.3</td>
</tr>
<tr>
<td>Vontobel Fonds Services</td>
<td>Raiffeisen Futura Swiss Franc Bond</td>
<td>CH</td>
<td>CHF Bond</td>
<td>12.5</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Source: Vigeo (2011), elaboration on Morningstar data; returns calculated using Euro as base currency.
### Top holdings in SRI retail fund portfolios (as of June, 30 2011)

<table>
<thead>
<tr>
<th>Ranking June 11</th>
<th>Ranking June 10</th>
<th>Company</th>
<th>Country</th>
<th>Ranking June 11</th>
<th>Ranking June 10</th>
<th>Company</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>BG Group Plc</td>
<td>UK</td>
<td>11</td>
<td>9</td>
<td>Ericsson</td>
<td>SE</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Vodafone Group</td>
<td>UK</td>
<td>12</td>
<td>16</td>
<td>Schneider Electric</td>
<td>FR</td>
</tr>
<tr>
<td>3</td>
<td>8</td>
<td>Nestle SA</td>
<td>CH</td>
<td>13</td>
<td>14</td>
<td>Allianz</td>
<td>DE</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>ABB Ltd</td>
<td>CH</td>
<td>14</td>
<td>13</td>
<td>Danone</td>
<td>FR</td>
</tr>
<tr>
<td>5</td>
<td>New Entry</td>
<td>Novartis</td>
<td>CH</td>
<td>15</td>
<td>11</td>
<td>Hennes &amp; Mauritz</td>
<td>SE</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>Roche Holding</td>
<td>CH</td>
<td>16</td>
<td>20</td>
<td>Nordea Bank</td>
<td>SE</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>HSBC Holdings</td>
<td>UK</td>
<td>17</td>
<td>New Entry</td>
<td>SAP</td>
<td>DE</td>
</tr>
<tr>
<td>8</td>
<td>4</td>
<td>Sanofi</td>
<td>FR</td>
<td>18</td>
<td>New Entry</td>
<td>BASF</td>
<td>DE</td>
</tr>
<tr>
<td>9</td>
<td>6</td>
<td>BNP Paribas</td>
<td>FR</td>
<td>19</td>
<td>New Entry</td>
<td>Saint-Gobain</td>
<td>FR</td>
</tr>
<tr>
<td>10</td>
<td>New Entry</td>
<td>Siemens AG</td>
<td>DE</td>
<td>20</td>
<td>10</td>
<td>Total SA</td>
<td>FR</td>
</tr>
</tbody>
</table>

Source: Vigeo (2011), elaboration on Morningstar data.

Companies included in the 2010 top holdings, that no longer feature are: Vestas Wind Systems, AstraZeneca PLC, Koninklijke Philips Electronics N.V., ENI SpA and GDF Suez. The table above displays the stocks that are most frequently selected by the funds considered in this study. However, the ranking should not be construed as an ethical ranking; the inclusion and weight of each stock also results from fund managers financial assessment. Changes in the funds’ investment policies may also affect the results.
Conclusions

- The SRI retail funds market has continued to grow over the 12 months to June 2011 albeit at a slower pace than in the previous periods. SRI still remains more niche than mainstream but its significance continues to increase year on year.

- In our previous two reviews, it was clear that the financial crisis that affected the asset management industry encouraged further sustainable investing, particularly in countries where SRI was already prevalent. This year, the SRI growth trend has slowed. The SRI market has clearly been affected by the financial uncertainties; impacting growth and resulting in only slight increases to AUM and number of funds.
Conclusions

✓ The general interest showed by market players, institutions and stakeholders enlarged investors’ focus to new frontiers, including new asset classes (private equity, commodities, infrastructures, real estate), favouring the recovery of the market and contributing to the definitive affirmation of SRI in the end.

✓ On the other hand, the ESG research made relevant improvements, too, and it is now part of the mainstream investment activities of important asset managers.

✓ Finally, there is indication that the involvement of key institutional investors, media coverage and closer interfaces between corporate management and fund managers (in some cases through research agencies) are enhancing the power of SRI investments as catalysts for innovation.
About this report
Since 1999, this is the 11th edition of the report *Green, social and ethical funds in Europe*, a publication that has rapidly become a benchmark in the field of SRI in Europe.

This report was prepared in October 2011 by Vigeo.

In cooperation with Morningstar®

Giovanni Familiari and Federico Pezzolato put together the data.
The research questions for the report can be summarised as follows:

• What is the size of the assets under management in green, social and ethical funds in Europe?
• How many funds are available to the retail market?
• What are the top holdings for these funds?
• What are the country-specific approaches to socially responsible investing?
• How much does it cost to invest in these funds? How have they performed relative to their traditional peers?
• What are the main trends of the industry and what can we expect in the future?

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

• To provide professionals, the media and the general public with key figures and trends for green, social and ethical funds in Europe
• To provide high quality services to SRI professionals, CSR managers with companies and financial advisors
This report is intended to serve the following users:

- Managers of financial institutions already engaged in socially responsible or ethical investing,
- Managers of financial institutions that are considering incorporating social screening in their portfolios or launching green or ethical funds,
- Managers of corporations willing to improve their understanding of trends in socially responsible investing,
- Policy makers who are interested in identifying appropriate policy instruments to stimulate financial institutions and business managers to address issues related to social responsibility.
The report covers green, social and ethical funds operating in Europe as of June 30, 2011. The analysis covers: Austria, Belgium, Denmark, France, Germany, Italy, Norway, Spain, Sweden, Switzerland, the Netherlands and the United Kingdom.

The funds considered in this report:
- All use ethical, social or environmental screening for stock and bond issuers selection,
- All are marketed as socially responsible investment products,
- All are available to the public (retail funds).

UCITS is used in the same sense as for The European Fund and Asset Management Association (EFAMA) Statistical Releases: publicly offered open-end funds investing in transferable securities and money market funds. However, the data are not fully comparable, as this report includes some life insurances and pension funds complying with our definitions and some of the countries (even if with a marginal weight on the total assets managed in Europe) considered in EFAMA statistics are not considered by this research.
Therefore the research does not take into account:

- Funds that simply donate a part of their commissions or profits to charitable or other “good” causes,
- Funds and other investment products available to institutional investors only,
- Funds applying one or multiple CSR screens that are not marketed as socially responsible products.

According to these definitions, funds that have significantly diluted their screening approach have been deleted from the panel.
When reading this report it is important to consider the method applied for the allocation of products to countries. To avoid double counting, the survey takes into account the country where the asset management firm is based e.g. when a fund is domiciled in Switzerland and also sold in Germany, it is considered to be a Swiss fund. This approach can create a bias when assessing the size of a national market (that does not correspond to the assets managed by domiciled funds). Luxembourg SICAVS have normally been allocated to the country where the parent company of the fund retailer is located.

While Vigeo has done its best to cover all the funds in a comprehensive manner, some funds may have been missed. More funds could have been launched since the collation of the information for this report. While there are some limitations in this research, the report and the database provide a reliable picture of the size of the market, of the diverse situation in various European countries, of the approach to fund management, and of the criteria used.
Vigeo
Vigeo is a gateway to investment insight on the long-term risks and opportunities facing investors.

Vigeo, the leading European expert in the assessment of environmental, social and governance (ESG) risk factors, facing today’s companies, institutions and countries. Through its 15 year heritage, Vigeo has established a reputation for rigorous and in-depth ESG research, centred on core and sector-specific drivers of sustainable performance and risk mitigation.

Vigeo measures companies’ performance on ESG criteria and identifies related risk factors with regard to six areas: Environment, Human Rights, Human Resources, Community Involvement, Business Behaviour and Corporate Governance.

The Vigeo team comprises nearly 100 employees of 14 different nationalities and is present in Paris, Brussels, Milan, Casablanca, London and Tokyo. 150 clients and partners worldwide use Vigeo research and services.
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