

January 2009

Please find in this note recent initiatives Eurosif has undertaken to promote CSR and Sustainable and Responsible Investment (SRI). The following points are developed:

- Eurosif and its role,
- Eurosif definition of SRI,
- EU SRI Market Size,
- Groundbreaking Specialised Studies on CSR/SRI,
- Sector and Theme reports,
- European Transparency Guidelines for SRI funds,
- Media partnership fostering a better understanding of CSR and SRI issues,
- Going forward.

Eurosif and its role:

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to address sustainability through the financial markets. Eurosif works as a partnership of the national Social Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's Member Affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totalling over €600bn. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector. For the full list of Eurosif Member Affiliates, please see www.eurosif.org.

Eurosif has two main roles: (1) to provide an international forum that allows SIFs and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment and Corporate Governance in the EU financial services sector, and (2) to collect input from SIFs and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament. Therefore, this note is mainly driven from and by the interest and expertise of our collective SIFs and member affiliates.

Eurosif definition of SRI:

Sustainable and responsible investment is a concept that continues to evolve. Nevertheless, the constant within this area is that sustainable and responsible investors are concerned with long-term investment, and environmental, social and governance (ESG) issues are important criteria in determining long-term investment performance. In this domain, Eurosif observes an increasing split into three areas:

- **Responsible Investment (RI)** is an area developing particularly among the institutional investors and remains most connected to the mainstream financial community. Responsible investors take into consideration the long-term influence of extra-financial factors such as environmental, social and governance (ESG) issues in their investment decision-making. They integrate ESG factors into their stock portfolio analysis and management, bringing together social and sustainability indicators with traditional financial analysis.
- **Socially Responsible Investment (SRI)** is an important area for the retail financial sector and may incorporate ESG issues as well as criteria more closely linked to a values-based approach. For example, it can involve the application of pre-determined social or environmental values to investment selection. Investors choose to exclude or select particular companies or sectors because of their impact on the environment or stakeholders.
- **Sustainable investment (SI)** is a growing area where investors align their investments with emerging environmental and social realities. This area brings together those in the financial sector committed to the sustainability imperative along with those interested by the investment

opportunities that the ongoing shift in regulations and market practices are creating. A good example of this would be High Net Worth Individuals (HNWI) choosing to invest in thematic funds (clean energy, water, etc.) because of their financial and sustainable returns prospects.

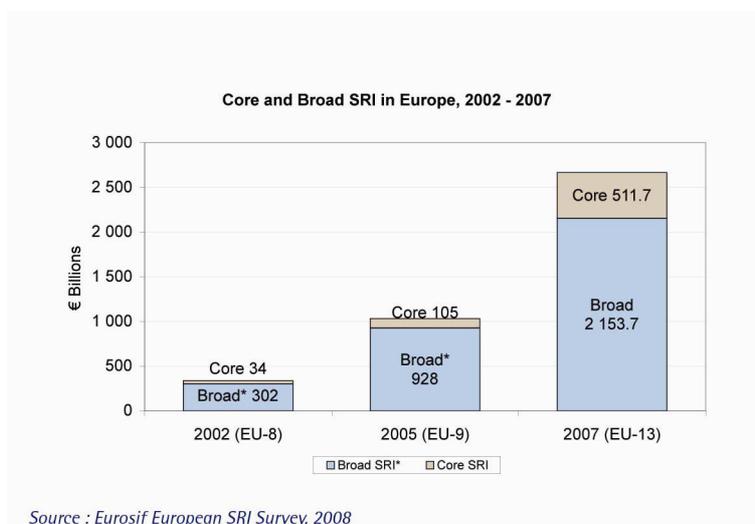
Eurosif continues to use the term “SRI” as the most readily acknowledged expression for this field and defines SRI as follows:

SRI, a generic term covering ethical investments, responsible investments, sustainable investments, and any other **investment process that combines investors’ financial objectives with their concerns about environmental, social and governance (ESG) issues.**

EU SRI Market Size

http://www.eurosif.org/publications/sri_studies

Eurosif recently published the latest Sustainable and Responsible Investment (SRI) figures and trends in its “European SRI Study 2008”.¹ This unique study highlights the scale of European SRI as well as European and National trends across thirteen countries. Based on a survey of asset managers and self-managed asset owners, we found that total SRI assets under management (AuMs) have reached **€2.7 trillion as of December 31, 2007 and represent as much as 17.5% of the asset management industry in Europe.** This corresponds to a remarkable growth of 102%² since December 31, 2005 as illustrated in the figure below.



Note: the market coverage is not constant: 8 countries were covered in 2002, 9 in 2005 and 13 in 2007.

The European SRI market’s growth is driven by:

- An increasing demand from institutional investors, for which responsible investment becomes a matter of risk management, particularly around the area of climate change,
- A further mainstreaming of Environmental, Social and Governance (ESG) considerations into traditional financial services,
- External pressure from NGOs and media,
- A growing interest from individuals, particularly wealthy individuals.

Eurosif segments the SRI market with Core SRI estimated at €512 billion and Broad SRI at €2.2 trillion. Core SRI consists of elaborated screening strategies systematically impacting portfolio construction and

¹ www.eurosif.org

² The growth figure is calculated on the nine countries covered on both Eurosif’s 2008 and 2006 studies: Austria, Belgium, France, Germany, Italy, Spain, Switzerland, the Netherlands and the UK.

often implying a values-based approach while Broad SRI partly represents the mainstreaming of SRI and the growing interest of large institutional investors in this area.

Core SRI consists of ethical exclusions (more than two negative criteria) as well as different types of positive screening (Best-in-Class, SRI theme funds, etc.). Germany, France and Switzerland show the fastest growth in Core SRI while the UK and Netherlands retain the largest markets. Broad SRI is composed of three SRI strategies which include simple exclusions, engagement, and integration of ESG risks into traditional financial analysis. For the Broad segment, the Netherlands has experienced the fastest growth followed by France. The UK remains the largest Broad SRI market.

The European SRI market is clearly driven by institutional investors although High Net Worth Individuals (HNWIs)³ are also exhibiting a growing influence in shaping its evolution. In the past two years, we also see the emergence of SRI thematic funds and a greater focus on areas such as property, private equity and microfinance.

Equities remain the preferred SRI asset class, but fixed income and alternative asset classes are now cumulatively representing half of the total for SRI allocations.

Going forward, Eurosif will continue to produce EU market studies at least every other year.

Groundbreaking Specialised Studies on CSR/SRI

http://www.eurosif.org/publications/venture_capital_for_sustainability

http://www.eurosif.org/publications/hnwi_sustainable_investment

In 2007, Eurosif conducted a survey that reviewed how CSR/SRI issues were being incorporated into the Venture Capital/Private Equity asset class. This was the first study of its kind and accomplished a number of goals:

1. Reached a new audience that had not been exposed to CSR issues.
2. Made the business case for its inclusion as a part of private equity, whereas the focus had always previously been on publicly listed companies.
3. Showed that the market was growing quickly and that it was a source of new companies that would integrate CSR issues into their business strategies from the beginning.

In 2008, Eurosif published the first ever review of the High Net Worth Market that analysed how individuals, families and private banks were integrating CSR/SRI issues into fund management practices. Again, this was the first study of its kind and its timeliness given the current crisis means that the studies have already gone out of print due to a massive increase in this space.

Going forward: With specialised studies, Eurosif will continue to highlight areas that have been traditionally left out of the CSR/SRI discussion. If we are to move to a mainstream CSR/SRI economy, these groups must also be part of the discussion as they influence the shape and speed that CSR will be taken up.

Sector and Theme reports

http://www.eurosif.org/publications/sector_theme_reports

As SRI continues to become more widespread across Europe, investors are focusing at a deeper level on ESG factors across various industry sectors or sustainable themes in order to improve their long-term returns. Further, investors increasingly believe that management's ability to manage their ESG risks will improve the performance of the company.

In 2005, Eurosif launched a series of sector reports, adapted to the EU market. It has become one of Eurosif's more popular services among a wide audience – trustees, asset managers, policy makers and

³ Defined as individual with more than \$1 million in financial assets, excluding primary residence.

other important stakeholders. Eurosif has enjoyed success with this initiative in helping to clarify the key issues in a succinct format (4 pages) and push the SRI debate forward in Europe.

The series covers environmental, social and governance issues facing a particular sector as well as the specific material risks and opportunities for companies. The aim of the sector reports is to help trustees, mainstream financial service providers and policy makers understand risks that lie outside the realm of traditional financial analysis, but may influence the performance of investments. Eurosif published in 2008 for the first time a “thematic” report, around Water – looking at ESG challenges facing water-dependent industries.

To date, Eurosif published reports on the following sectors / themes:

- Shipping (2008)
- Water (*theme*) (2008)
- ICT Hardware (2008)
- Nuclear (2008)
- Real Estate (2007)
- Forestry & Paper (2007)
- Food Production (2007)
- Insurance (2007)
- Automobile (2006)
- Chemicals (2005)
- Hotel and Tourism (2005)

The Sector / Theme Reports have become one of the most effective tools to communicate quickly and concisely the key ESG issues facing investors within a given sector.

Going forward: Eurosif plans to continue with this successful initiative and cover the following sectors / themes in 2009-2010:

- Banks
- Remuneration, incentives & long-term sustainability
- Biodiversity
- Infrastructure projects (beyond just energy projects)
- Fossil fuels in the utility sector
- Climate change adaptation.
- Extractive industries
- Waste management

All reports are available on Eurosif website at www.eurosif.org/publications.

European Transparency Guidelines for SRI funds

http://www.eurosif.org/publications/european_sri_transparency_guidelines

Eurosif launched in May 2008 a logo specific to the European SRI Transparency Guidelines which can be used by signatories, once their responses to the Transparency Guidelines have been updated and reviewed by a national Social Investment Forum.

The European SRI Transparency Guidelines were created in November 2004 to increase accountability to consumers. As of January 2009, there are 50 signatories of the Transparency Guidelines, representing over 200 SRI funds – of these, 20 signatories have been granted the Transparency logo. The guidelines also create greater clarity for asset managers, research providers and other stakeholders. Signatories to the guidelines should be open and honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the SRI policies and practices related to the fund.



Interest for the Transparency Guidelines continues to grow and this logo represents a further step in its implementation across the EU. Eurosif wishes to enhance the responding process and visibility of the Transparency Guidelines as well as the funds' responses. The use of the logo is strictly controlled by

Eurosif and the local Social Investment Forums. In reviewing the responses, the local Social Investment Forums assess whether the response is clearly articulated, informative and clear.

Responses are available on Eurosif website at www.eurosif.org.

Going forward: The European Commission could play an enormously helpful role with this initiative by supporting the promotion of the logo across the EU. The impact has already been significant, but in order for it be sustaining, assistance is needed to reach consumers, financial actors and policy makers about the existence of this important effort.

Media partnership fostering a better understanding of CSR and SRI issues

[http://www.eurosif.org/publications/le monde la stampa el pais zeit online le temps partnership](http://www.eurosif.org/publications/le_monde_la_stampa_el_pais_zeit_online_le_temps_partnership)

This media partnership seeks to foster a culture and understanding of SRI within the mainstream media and their audiences. There is still a need to make Social, Environmental and Governance (ESG) issues and risks, and the involvement of financial actors in CSR, a part of every day language. Therefore, Eurosif aimed with this project to develop SRI among the media and the general public by:

- Raising awareness and communicating the opportunities of SRI to a wider audience,
- Educating the public to the role of financial markets in CSR issues,
- Helping to enlist the support and commitment of individuals, citizens and stakeholders.

Eurosif developed a media partnership with the French daily **Le Monde** in order to ensure publication of articles on Industry Sectors and ESG issues. This partnership has been extended to include not only Le Monde but also other mainstream European newspapers such as La Stampa, El Pais, Die Zeit, and Le Temps. The news articles are co-branded with Eurosif's name, published every six weeks on average, and provide a periodical page describing CSR issues for companies and how they are meaningful to investors. Eurosif's role is to ensure that appropriate level of expertise is provided to the journalists, including:

- Quality CSR data describing the key CSR issues faced by specific economic sectors (provided by Ernst & Young)
- Relevant expertise on CSR issues,
- Relevant expertise on SRI and the investors' views of CSR.

The articles published so far covered the following CSR subjects:

- Carbon Offsetting *January 5, 2009*
- Salary Policies *November 11, 2008*
- Electromagnetic Fields *September 23, 2008*
- REACH, progress of companies *May 27, 2008*
- Obesity *April 1, 2008*
- Mining *February 12, 2008*
- Pharmaceutical Companies *December 17, 2007*
- Tourism *May 22, 2007*
- Corporate Governance *April 11, 2007*
- Responsible Consumption *February 13, 2007*
- Transport *December 19, 2006*
- Safety in the work place *November 7, 2006*
- Waste *September 19, 2006*
- Bank Sector *July 4, 2006*
- Gender Equality *May 10, 2006*
- CO2 emissions *March 14, 2006*

Going forward, articles will continue to be published on a regular basis, and we hope to extend the coverage to other European mainstream media.



Initiatives to promote CSR and Sustainable and Responsible Investment (SRI)

Going forward

Eurosif plans to push forward all those successful projects and continue to develop ground-breaking research on sustainable investment and innovative solutions to address sustainability through the financial markets.

Eurosif is currently collecting input from members and member affiliates on transparency issues (transparency of companies on ESG data but also transparency of investment funds) and will focus on communicating these ideas to European policy makers. Eurosif will publish a position paper on these issues and use it to engage with European policy makers, including the European Commission as well as the European Parliament in the following months.

Eurosif is also keenly interested in building effective alliances and partnerships with other actors where the investor point of view on SRI and CSR can be helpful in pushing the agenda forward. Finally, it is hoped that with the current crisis and a new US administration, the European Commission will renew its commitment to CSR and SRI as a means to ensure an improved and durable state of European capitalism going forward.