

# Green, social and ethical funds in Europe 2004



Financial data provided by MORNINGSTAR®

## Table of contents

Foreword.....	3
SiRi Company (www.siricompany.com).....	3
Introduction .....	4
Origin and objectives of the research.....	4
The SRI Funds Service .....	4
Use of this report .....	5
Definitions.....	5
Analysis.....	7
Number of funds.....	7
Assets under management .....	8
The size of green, social and ethical funds.....	9
Funds typology .....	10
Companies in portfolio.....	11
Fees and performances .....	12
Conclusions .....	14

## Foreword

This report is the result of collective research carried out during the year 2004 by **Sustainable Investment Research International (SiRi) Company** Network Partners, a world-wide coalition of local research organisations devoted to the advancement of socially responsible investing.

This report has been written in October 2004 by Matteo Bartolomeo (Avanzi and Avanzi SRI Research) and Giovanni Familiari (Avanzi SRI Research) using data referred to the 30th of June 2004.

### **SiRi Company ([www.siricompany.com](http://www.siricompany.com))**

---

Established in 2003 as the for-profit successor of the SiRi Group, SiRi Company provides a wide range of social investment research products and services to financial professionals in major markets. The SiRi Company is dedicated to providing such services through research organisations with **a combined total of over 100 researchers** who are in contact with local corporations and attuned to national issues and cultural differences. SiRi Company Network Partners provide coverage (with positive criteria) of **more than 4,000 corporations** in the major markets worldwide.

**SiRi Group Network Partners** are:

1. Avanzi SRI Research, covering **Italy**
2. CaringCompany, covering **Sweden, Denmark, Finland, Norway, Poland**
3. Centre Info Suisse, covering **Switzerland** and **France**
4. Fundación Ecología y Desarrollo, covering **Spain** and **Portugal**
5. PIRC – Pensions & Investment Research Consultants, covering the **United Kingdom**
6. scoris, covering **Germany** and **Austria**
7. Stock at Stake / Ethibel, covering **Belgium, Luxembourg** and **France**
8. Dutch Sustainability Research, covering the **Netherlands**
9. KLD Research & Analytics Inc., (**United States**)
10. MJRA – Michael Jantzi Research Associates, (**Canada**)
11. SIRIS, (**Australia**)

### Origin and objectives of the research

---

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

This is the fifth edition of the report *Green, social and ethical funds in Europe* (after the 1999, 2001, 2002 and 2003 editions), a publication that has rapidly become a benchmark in the field of socially responsible investing in Europe.

The research questions for the report can be summarised as follows:

- What is the size of the assets under management in green, social and ethical funds in Europe?
- How many funds are available to the public?
- What are the top holdings for these funds?
- What is the cost to invest on funds? How have they performed relative to their traditional peers?
- What are the trends and what can we expect in the future?

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

- To provide professionals, the media and the general public with key figures and trends from green, social and ethical funds in Europe
- To provide high quality services to SRI professionals, CSR managers with companies and financial advisors as part of the SRI Funds service

### The SRI Funds Service

---

This report draws on the SRI Funds Service, a European database featuring all existing socially responsible retail funds in Europe. The database is the core of the SRI Funds Service, an initiative launched by Avanzi SRI Research/SiRi Company which aims to:

- Facilitate the strategic SRI asset allocation for fund and institutional investors
- Allow asset managers to benchmark their SRI strategy and results
- Allow stakeholders to better understand SRI funds qualities
- Offer companies an overview on their position in funds portfolios
- Provide regular customised analyses and trend reports

The SRI Funds Service makes information available to SRI investors, managers, intermediaries and companies on a per fund basis. This includes:

- Name of the asset management company and the fund, details of the contact person
- Fund inception date
- Fund typology (equity, balanced, fixed income, etc)
- Top holdings
- Assets under management (in Euro)
- Asset allocation, Regional Breakdown and Sector Weightings
- Daily financial performances and over/underperformance against the benchmark

- Key efficiency ratios
- Green, social and ethical policy
- Internal processes to implement the SRI policy (analysts, committees)
- Detailed list of negative criteria
- Detailed list of positive criteria
- Engagement policies and practices
- Transparency with customers (with reference to Eurosif Transparency Guidelines)
- Green social and ethical rating of the fund<sup>1</sup>

## Use of this report

---

This report is intended to serve the following users:

- Managers of financial institutions already engaged in socially responsible or ethical investing
- Managers of financial institutions that are considering incorporating social screens in their portfolios or launching green or ethical funds
- Managers of corporations willing to improve their understanding of trends in socially responsible investing
- Policy makers who are interested in identifying appropriate policy instruments to stimulate financial institutions and business managers to address issues related to social responsibility.

## Definitions

---

The report covers green, social and ethical funds operating in Europe on **30 June, 2004**. The geographical scope of the analysis covers: **Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Norway, Poland, Spain, Sweden, Switzerland, the Netherlands, and the United Kingdom.**

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

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

**A fund has to meet all these conditions in order to be eligible for the analysis.**

Therefore the research **does not take into account:**

---

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

SRI Funds Service is a  recommended solution.

- funds that simply donate a part of commissions or profits to charitable or other “good” causes
- funds specialising only in investing in environmental technologies or the environmental industry (waste management, water treatment)
- funds and other investment products available only to institutional investors
- funds applying one or multiple CSR screens but that are not marketed as socially responsible products

According to these definitions, funds that have significantly diluted their screening approach have been deleted from the panel considered to build the statistics in this report.

An important aspect to consider is related to the allocation of products to countries. In order to avoid double counting, the survey takes into account where the fund is based. When a fund is domiciled in Switzerland and sold also in Germany, it is considered to be a Swiss fund. This approach can create a bias when assessing the size of a national market (that does not correspond to the assets managed by domiciled funds).

Luxembourg Sicav have normally been allocated to the country where the parent company of the fund retailer is located.

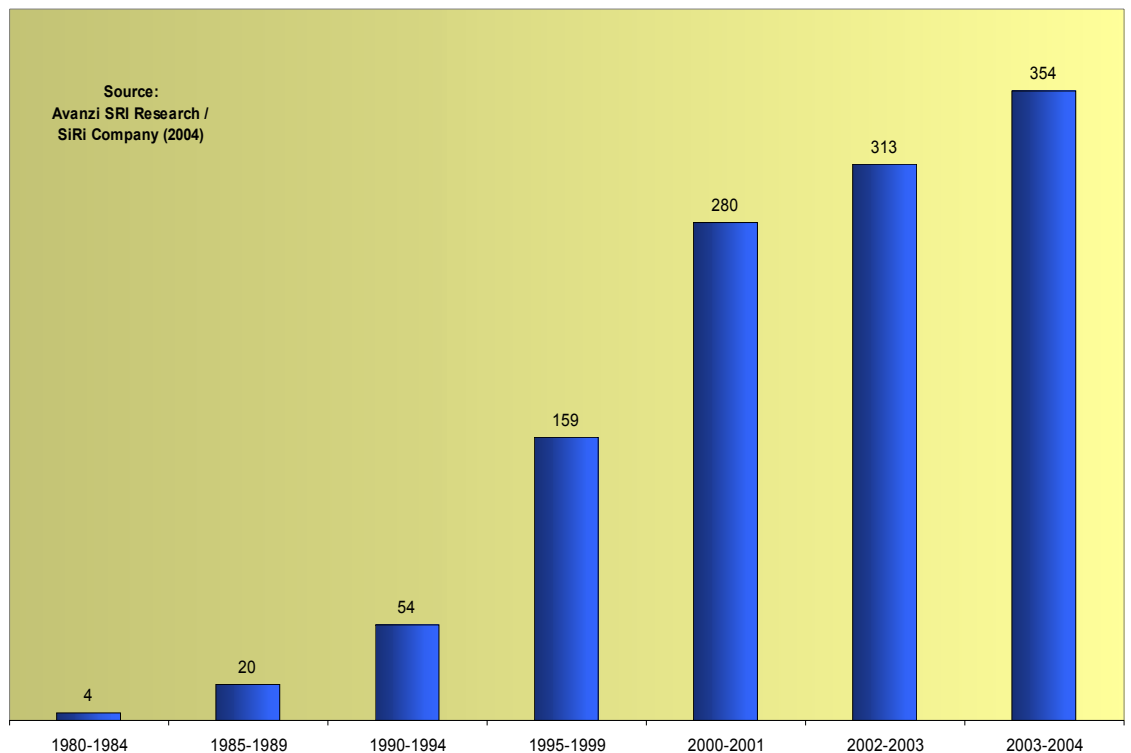
While the research organisations involved have done their best to cover all the funds in a comprehensive manner, some funds have probably been missed. More funds have been launched since the collation of the information for this report.

While there are many limitations in this research, the report and the database provide a reliable picture of the size of the market, of the diverse situation in various European countries, of the approach to funds management and of the criteria used.

## Number of funds

On 30 June 2004 there were **354** green, social and ethical funds operating in Europe, with an increase of 13% over the last 12 months.

Number of SRI Funds, cumulated, in the period 1980 to 2004  
(on 30 June 2004)



The research confirms that the group of leading countries - consisting of the **United Kingdom, Sweden, France and Belgium** - accounts for about 64.4% of the funds available in Europe (the concentration has slightly increased since the last survey from 63%)<sup>2</sup>.

The relative weight of the UK on the whole SRI funds industry in Europe has remained steady at just below the 21% reported at mid 2003. The most dynamic retail markets are **Austria and France**, with a growth rate in terms of number of funds of more than 25% over the past 12 months.

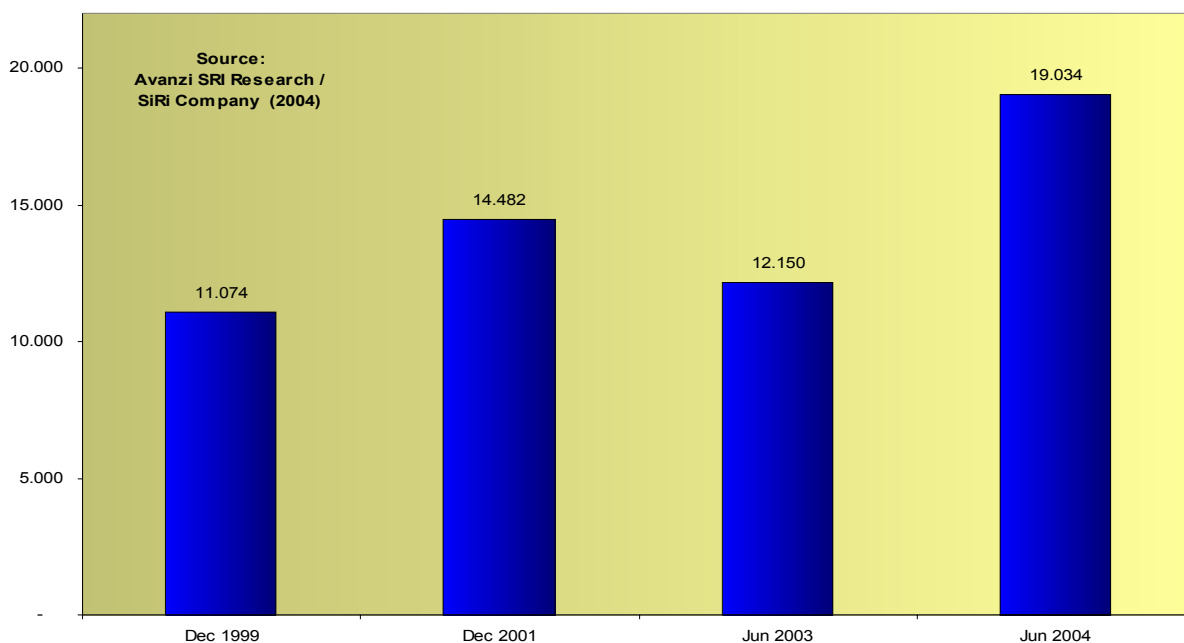
<sup>2</sup> The attribution of funds to specific countries was done according to where the parent company is based. This classification has also been applied to funds domiciled in Luxembourg and Ireland.

## Assets under management

---

The total amount of SRI assets grew by **57%**, from €12,2 billion at mid 2003 to €19,0 billion at the end of the second quarter 2004<sup>3</sup>.

**Total asset under management for SR funds domiciled in Europe  
(end of June 2004, mIn Euro)**



SRI assets benefited from financial markets, since positive returns had direct effects on the assets under management, in particular for equity funds. The relative higher proportion (around 83% of total assets at mid 2003) of equity and balanced funds in the SRI industry compared to the total equity and balanced funds at large (45% at the same time) have amplified this effect. The brilliant result could have also been partly influenced by the presence of numerous funds investing in Nordic countries equities, that experienced a particularly strong growth. The much more intense growth of SRI assets relative to general UCITS<sup>4</sup> seems anyway to go beyond financial markets impacts, being influenced by the launch of new SR products by key asset managers, or the re-design of existing products – this for instance is one of the reasons of the sharp increase of assets under management in Austria.

In some countries, such as Italy, the increase is also due to a much stronger commitment of distributors towards SRI products, that confirms once again the supply-push nature of funds industry.

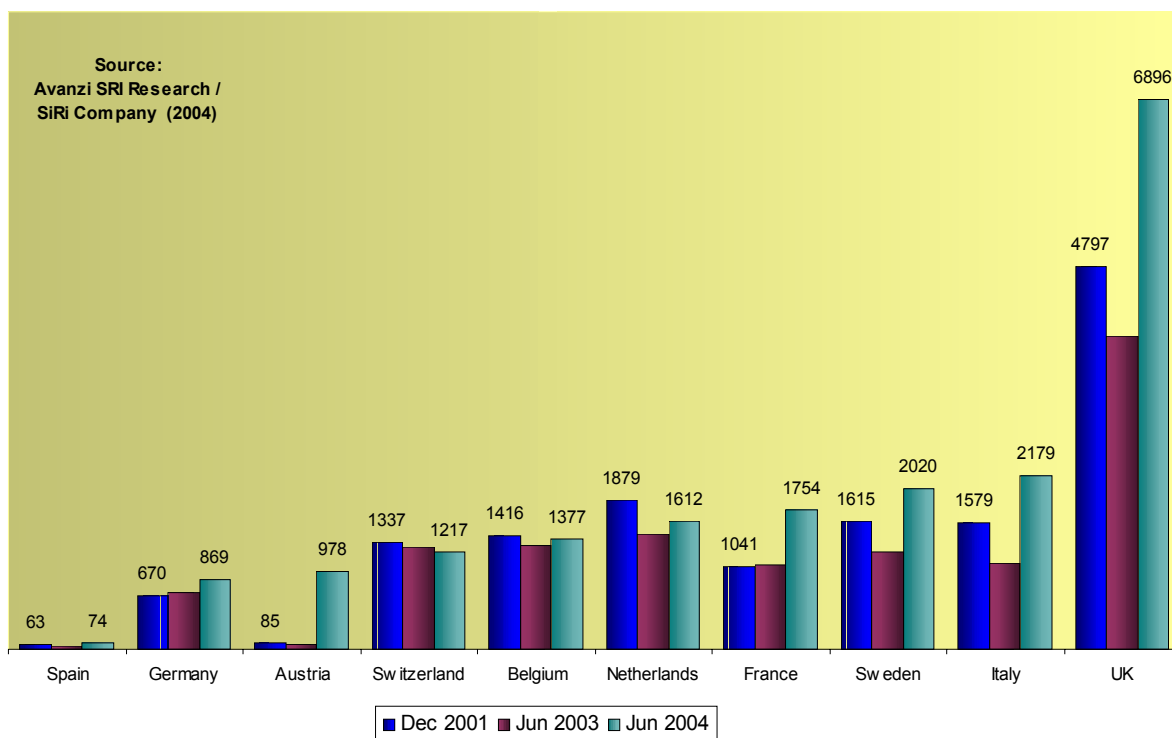
---

<sup>3</sup> The result is partly influenced by the inclusion of the previously not considered Stewardship Pension Fund, that classifies as the biggest European socially responsible financial vehicle – see below. It is also important to note that these figures do not represent the total value of screened portfolios in Europe, since private and institutional portfolios are not considered in this report.

<sup>4</sup> “UCITS” is used in this note in the same sense as for FEFSI Statistical Releases: publicly offered open-end funds investing in transferable securities and money market funds. Consider that the data are not completely comparable as this report includes some life insurances and pension funds complying with our definitions and some of the countries (even if with a marginal weight on the total assets managed in Europe) considered in FEFSI statistics aren’t considered by this research.



### SR funds assets per country (mln Euro on 30 June 2004)



As regards assets distribution among countries, United Kingdom makes up the majority of these with nearly 36,2%, of the total European SRI retail assets. Italy and Sweden rank respectively second and third, with shares higher than 10%.

### The size of green, social and ethical funds

The average number of assets in green, social and ethical funds has increased to €53.8 millions, just above the level reached at end 2001 and significantly more than the 2002 level.

Average assets for equity and balanced funds continues to be significantly lower than that for fixed income - bonds and money market – funds. The latter grew further during the last 12 months, passing from €93 to 121.8€ millions.

The Netherlands retains the lead in the average number of assets ranking (€94.8 millions), followed by Italy (90.8€ millions), while Spain continues to be tail-end with 7.4€ millions.

It is worth noticing that the median asset is lower than the average one in every country, pointing out the influence of relatively few big funds in determining the average figures. This continues to be particularly evident in the Italian market, where an average asset of €91 millions compares with a median asset of €15 millions. The overall median asset in Europe has slightly increased from €20 at mid 2003 to €25 millions at June 2004.

### Largest funds in Europe (on 30th June 2004)

Ranking June 2004	Ranking June 2003	Asset Management Company	Fund Name	Country	Asset (mln Euro)
1	New Entry	Friends Provident Pensions	Stewardship Pension Fund	United Kingdom	1036
2	New Entry	Pioneer IM	Unicredit Obbligazionario Euro Corporate Etico	Italy	933
3	1	ISIS AM	ISIS Stewardship Growth Fund	United Kingdom	802
4	New Entry	Erste Sparinvest	ESPA Bond Mündelrent	Austria	721
5	2	Framlington Unit Management	Framlington Health Fund **	United Kingdom	677
6	New Entry	NPI	Socially Responsible With-Profit	United Kingdom	471
7	3	ABN AMRO Beheer Beleggingsfondsen B.V.	ABN AMRO Groen Fonds *	Netherlands	463
8	4	Sanpaolo IMI AM SGR S.p.A.	Sanpaolo Azionario Internazionale Etico	Italy	431
9	5	Sanpaolo IMI AM SGR S.p.A.	Sanpaolo Obbligazionario Etico	Italy	406
10	New Entry	Friends Provident Life Assurance Ltd	Stewardship Life Fund	United Kingdom	377

\* The Dutch Groen Fonds are not fully comparable with traditional UCITS. These funds operate under a particular law and provide loans and credit to environmentally innovative projects.

\*\* Framlington Health Fund, which is a specialised equity fund (healthcare), has been included since a few negative and positive screens are applied.

Source: Avanzi SRI Research / SiRi Company (2004)

### Funds typology

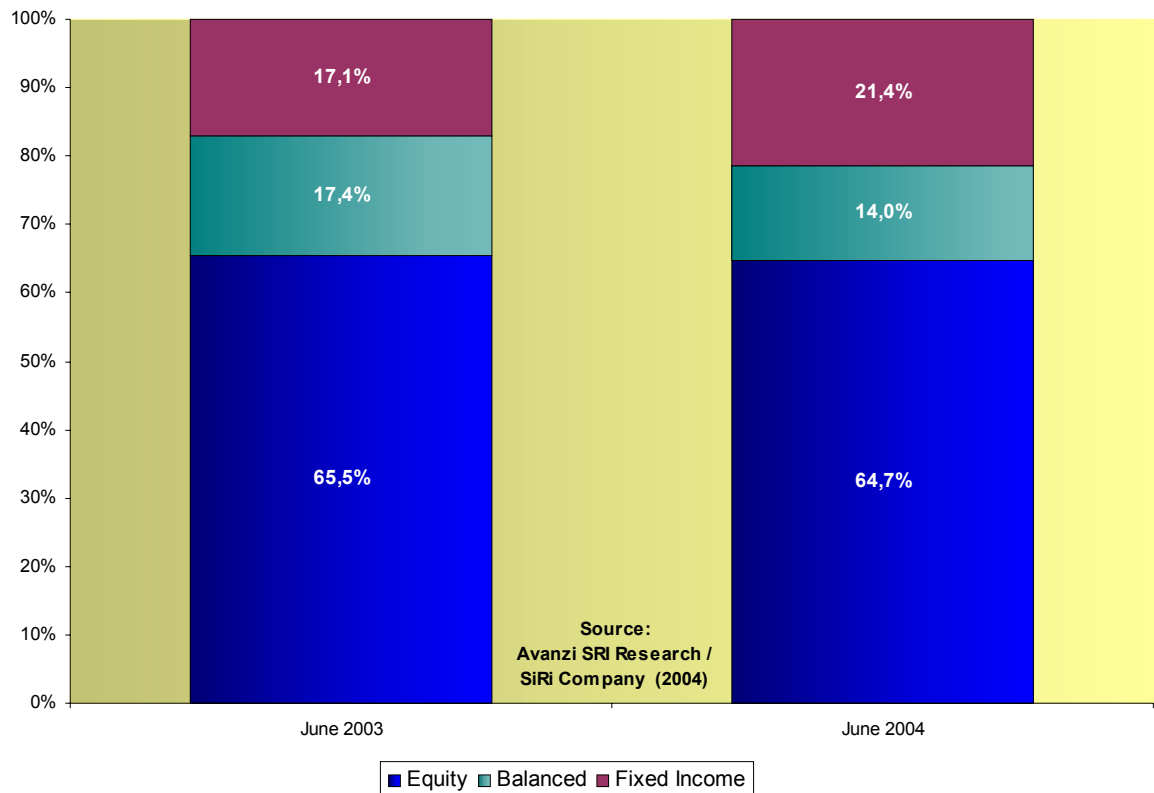
When examining SRI asset distribution relative to funds typology, it is interesting to notice the heavy emphasis on equity or balanced funds (78.6% of total assets) as opposed to fixed-income funds (only 21.4% of total SRI assets).

This is in sharp contrast to traditional funds where assets are almost equally distributed among fixed income, and equity and balanced funds<sup>5</sup>. However, SRI equity funds' weight varies greatly among the countries considered, with Sweden and United Kingdom equity funds weight being more than 90% of the national total while that of Austria and Spain being less than 10%.

The growth of fixed equity funds share in total SRI retail asset (21,4% from 17,1% of total SRI assets 12 months ago) is even more remarkable when considering that equity funds outperformed fixed income instruments over the last year.

<sup>5</sup> Source: FEFSI Quarterly Statistical Release N°18 (Second Quarter of 2004).

SR funds over total UCITS assets per country (%)



## Companies in portfolio

Growth of SRI funds has been remarkable in the last 12 months, increasing therefore the ability of these funds to promote changes in corporate behaviour. A part from assets expansion, the involvement of new key institutional investors, media coverage, closer interface between corporate management and fund managers (in many cases through screening agencies) are contributing to the increase the power of SRI investments as catalysts for innovation.

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

The following table shows the stocks most frequently selected by the funds considered in this study. The analysis includes the top 10 holdings of each fund. The ranking should not be read in any case as an ethical ranking; the inclusion and position of each stock depends on fund managers financial choices too. Changes of funds investment policies also affects the results. For these reasons, the lack of small companies should not be regarded as surprising.

### Most frequent stocks in SR funds portfolios (on 30th June 2004)

Ranking June 2004	Ranking June 2003	Company
1	8	AstraZeneca
2	1	Vodafone
3	2	Pfizer
4	15	Ericsson
5	12	Hennes & Mauritz
6	4	Citigroup
7	17	Svenska Handelsbanken
8	New Entry	Novartis
9	5	GlaxoSmithKline
10	13	HSBC Holdings
11	9	BP
12	New Entry	Nordea Bank
13	3	Johnson & Johnson
14	7	Royal Dutch Petroleum
15	14	Royal Bank Of Scotland
16	19	Intel
17	6	Microsoft
18	10	Nokia
19	New Entry	Volvo
20	11	Bank of America

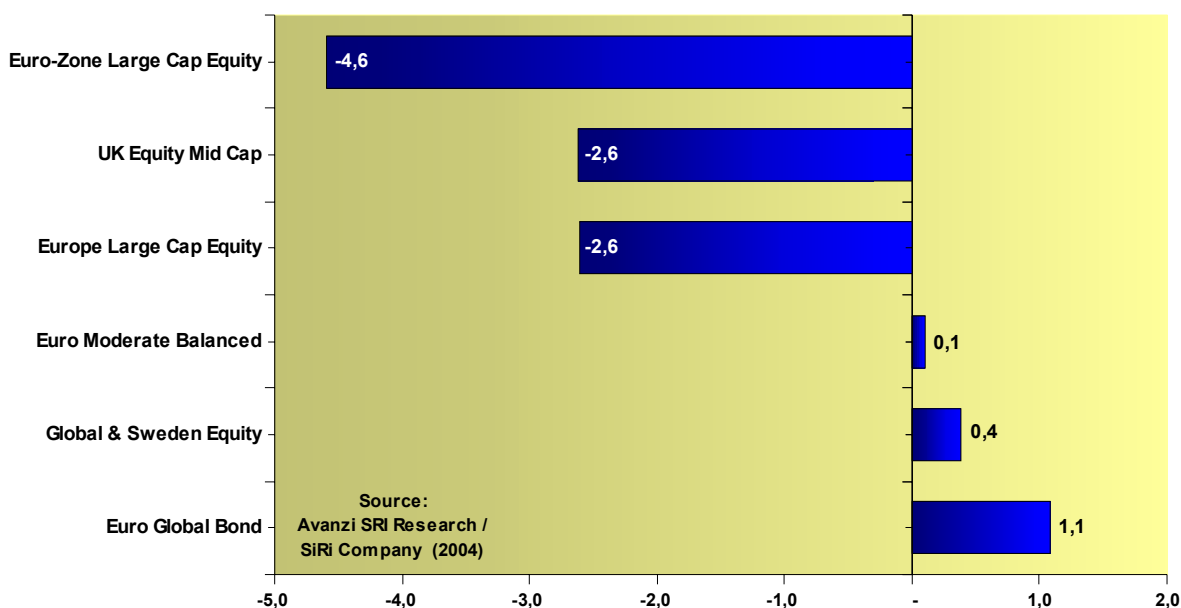
Source: Avanzi SRI Research / SiRi Company (2004)

### Fees and performances

On the occasion of the 2004 edition of the “Green, social and ethical funds in Europe 2004” survey, Avanzi SRI Research / SiRi Company is pleased to add to the traditional sections of the report, some snapshots on European SR funds costs and financial returns. Without the aim of being exhaustive, graphs and tables of this section provide valuable information about the funds surveyed, compared when possible to their traditional peers.

The following graph compares SR funds performance with average returns of traditional peers during the last 12 months ending 31st August 2004.

Best and worst SR 1 Yr performing categories relative to broad peers (end of August 2004)



The chart illustrates the three best and worst performing SR categories<sup>6</sup> (simple average return) relative to their broad peers averages.

As it can be seen, SR fund managers have achieved higher results particularly when investing in global fixed income securities, when investing in equities globally with a focus on Swedish (these are Sweden domiciled funds only), and when balancing equity - not exceeding 60% of the whole portfolio - and bond investments.

The following table lists top 5 one year performing funds, comparing funds returns with their peer groups average. The table does not aim to give information about fund managers abilities, as the ranking includes funds investing in different financial instruments/markets whose performances can't be therefore compared – see the wide presence of funds investing in Sweden equities. The table gives a general idea about the best performance results reached by European SR funds during the last 12 months.

<sup>6</sup> Allocation of funds to categories is based on Morningstar Europe classification scheme. Euro Global Bonds includes funds investing in fixed income securities and taking material currency exposures as part of their investment strategies, but optimised in Euros. Global & Sweden Equity includes funds with a mandate to invest in equity globally, with a focus on Swedish companies. Euro Moderate Balanced funds balance equity (not exceeding 60%) and bond investments for a Euro-based investor. UK Equity Mid Cap funds invests in UK equities having less than 55% in either large or small capitalisation shares. Funds belonging to the two remaining categories invests in European or Euro-zone equity markets having 55% or more in large capitalisation shares.

### Top performing SR funds in Europe (1 year returns, end of August 2004)

Asset Management Company	Fund Name	Country	Category	1y Fund Prf	1y Category Prf
Sarasin Expertise AM	Sarasin Euro Mid-Caps Expansion Durable	France	Euro-Zone Mid Cap Equity	22.0	18.0
Robur AB	Robur Etikfond Sverige Mega	Sweden	Sweden Large Cap Equity	19.7	14.5
Raiffeisenbanken	Raiffeisen-Fonds Futura Swiss Stock	Switzerland	Swiss Equity	18.5	9.5
SEB Fonder Aktiebolag	SEB Stiftelsefond Sverige	Sweden	Sweden Large Cap Equity	17.8	14.5
SEB Fonder Aktiebolag	SEB Etisk Sverigefond – Lux	Sweden	Sweden Large Cap Equity	17.2	14.5

Source: Avanzi SRI Research / SiRi Company (2004) using Morningstar data<sup>7</sup>; returns calculated using Euro as base currency

As regards management fees, socially responsible Other Sectors Equity funds – focusing on sectors other than finance, life sciences, property, TMT and resources - classify the most expensive ones (1.57% on average), followed by Euro Aggressive Balanced – with a mandate to balance equity (not exceeding 75%) and bond investments for a Euro-based investor – and Euro-Zone Large Cap Equity funds. SR Euro Diversified Bond Funds, investing in bonds denominated in euros with a generalist mandate, without significant risk concentrations, emerge as the cheapest (0.9%), while it's worth noticing that, even investing in stocks, Global & Sweden Equity category classifies among the low-cost ones.

## Conclusions

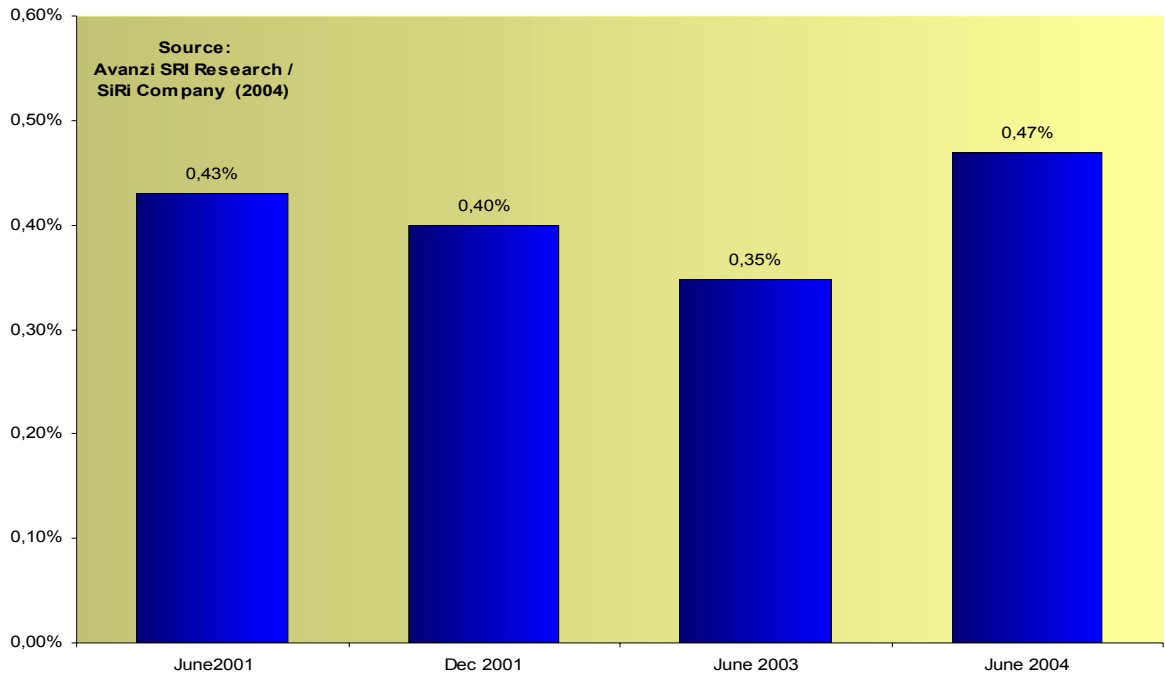
The survey allows a comparison between the assets of SRI funds and the total assets managed in European funds. More precisely, we are able to assess the weight of SRI funds as defined above in relation to the asset UCITS funds - as defined in note 4 above.

Such a comparison shows that SRI funds still make up a very limited portion of all funds in Europe, and the assets under management are just 0.47% of the total assets managed by UCITS funds<sup>8</sup> (increasing from 0.36 on June 2003).

<sup>7</sup> Sweden Large Cap Equity funds are dedicated to Swedish equities and allocates 55% or more to large capitalisation shares. Euro-Zone Mid Cap Equity funds invests in any or all of the equity markets of the Euro-zone, with large or small capitalisation shares both below 55% of the fund's equity investments.

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

**SR funds assets over total UCITs in selected countries (%)**



Countries breakdown show that Belgium leads this special ranking with 1.75%, a figure that has slightly increased since the last survey (1.67%). Netherlands, United Kingdom and Switzerland follow, all with a ratio higher than 1.45%.