

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

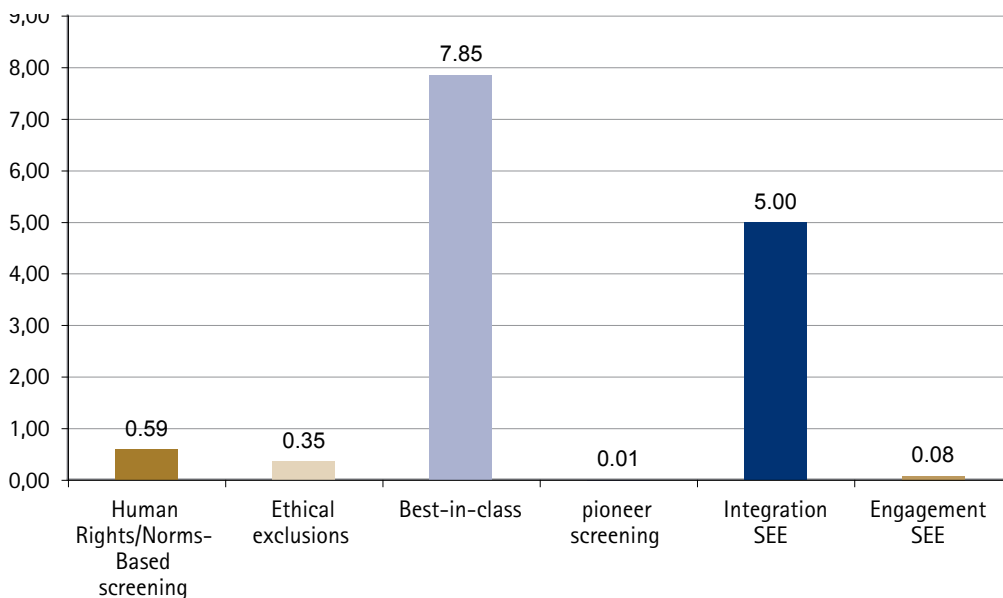
As illustrated by Figure 20, the Core SRI market is essentially made up of Best-in-class approaches (€7.85 billion). Ethical exclusions play a small role with only €350 million. The preference for Best-in-class reflects the country's historical focus on the sustainable development dimension of SRI.

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?

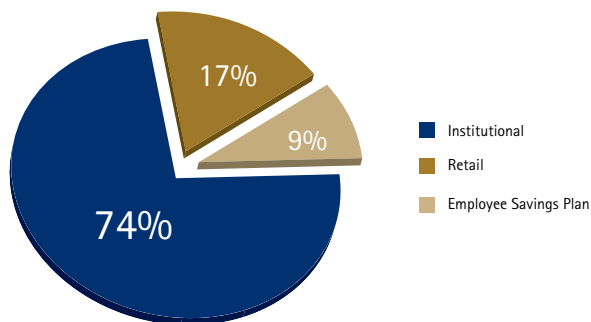
Institutional investors in SRI currently focus on the European area (74%), investments in equities (64%) and favour large caps (88%).

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.

