

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.

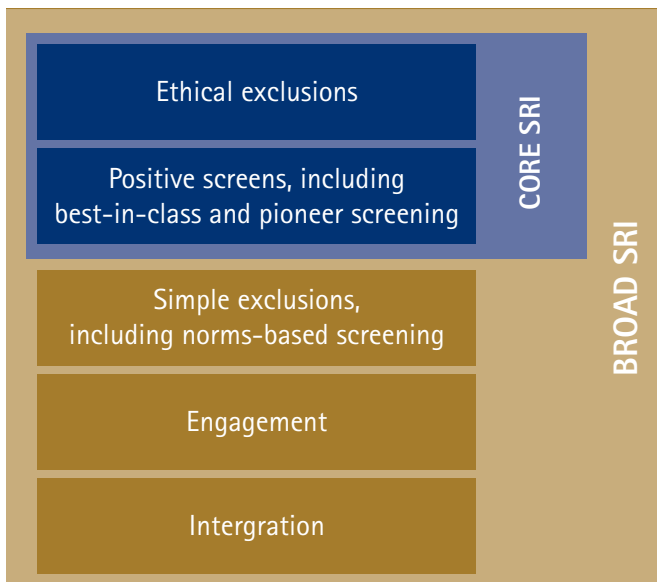
4. Norms-based screening covers a great variety of practices, some of which are much more elaborate than others. However, this survey could not capture the variations in practices. Therefore, we chose to view it as belonging to Simple screens for the time being.

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.