

SPAIN

FIGURE 31: SRI IN SPAIN, DECEMBER 31ST 2005

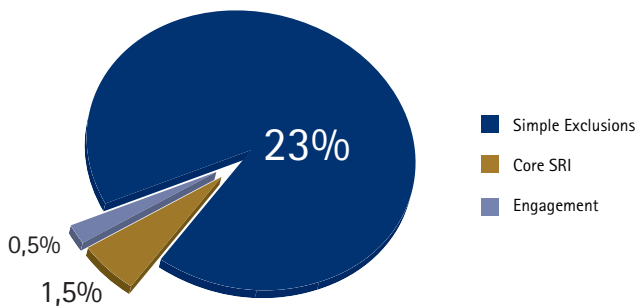


Source: Eurosif

KEY FEATURES OF SRI IN SPAIN

The Spanish SRI market has been greatly increasing over the past few years (from €79 million in 2003) and mainly uses Engagement and simple Negative screening for Broad SRI.

FIGURE 32: SRI AUM BY STRATEGIES AS APPLIED IN SPAIN, DECEMBER 31ST 2005, € BILLION



Source: Eurosif

MAIN PRACTICES

SRI in Spain roughly reflects SRI trends in other countries, as it is largely inspired by the best practices of foreign experiences.

Screening is the main SRI practice (€1.5 billion Core SRI and €23 billion in Simple exclusions, or 98% of the SRI market), Engagement is starting to develop and Integration is only just being studied as an option.

Positive screening is often combined with Ethical exclusions (for 60% of Core SRI assets, or €900 million).

As far as methodology and quality process are concerned, it is important to note that in Spain, SRI is developed mainly in-house and by non-specialised SRI professionals. This is different from other countries, such as the UK, where more than 90% of SRI asset management companies have an internal SRI analyst or asset management team. 40% of Spanish asset managers buy external research, as opposed to 80% in the UK or 75% in the Netherlands. Furthermore, consultant or broker SRI services are not used in Spain. One single asset manager uses external certification to evaluate the level of social responsibility of its assets.

As in many European countries (such as Belgium and the Netherlands), SRI is mainly applied to Large Caps in Spain.

65% of asset managers apply screening not only to equity but also to bonds (mainly private fixed income).

Many developments have recently taken place for the retail SRI market in Spain (50% of the Core SRI market). New vehicles, other than mixed funds, have appeared on the market in the form of structured products such as guaranteed funds or indexed deposits. They represent €850 million in total, or 40% of the SRI market. There is also one retail SRI pension scheme available.

The concept of sustainability, as opposed to only ethical funds, has also emerged since 2003. Traditional retail ethical funds are also charity-oriented as they give part of their fees or benefits to a list of defined charities.

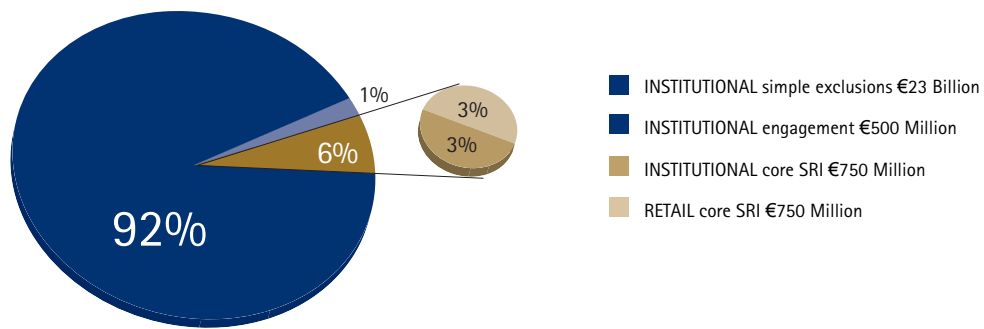
The quality of research has increased and become more robust. For example, Positive screening, has been added to simple ethical negative exclusions.

The importance of benchmarks, such as the DJSI and FTSE4good, has increased in the Spanish market. 43% of retail funds are indexed.

The Spanish institutional SRI market makes up the other 50% of the Core SRI market, with a massive €23 billion corresponding to just one institution. Spanish Institutional SRI only started in late 2003. From mid-2003 to the end of 2004, the leading occupational pension funds started testing SRI for a marginal part of their assets (in general fixing an objective of 1% of their equity assets). It should

be noted that at this stage, pension funds only invested in foreign SRI funds, as they could not find any fund suitable to their requirements in the local market. In 2005, after the experimental phase, some have decided to switch to a more integrated SRI strategy, and are in the process of spreading their SRI strategies to a larger bulk of assets, through different practices of screening or Engagement.

FIGURE 33: INSTITUTIONAL VS. RETAIL SRI ASSETS IN SPAIN, DECEMBER 31ST 2005



Source: Eurosif

Who are the main investors?

Clearly occupational pensions lead the way (44% of the Spanish Core SRI market), mostly in the sector of saving banks (38% of Spanish Core SRI), while there is a notable absence of the public sector, which represent less than 4% of Spanish SRI.

What do SRI fund managers and service providers offer?

It is interesting to note that there are no SRI mandates as such in the market. There are only investment services, which are not necessarily marketed as SRI but which

include the Integration of CG and SEE issues to some degree. Additionally, there have not been any SRI tendering processes for the moment.

Offers from asset managers cover a wide range of proposals, most of them acting as pioneers in their sectors:

- Integration of SRI criteria on a large scale for total assets,
- Post-screening of funds by external recognised research providers,
- Distribution of third party funds,
- Offer of structured products better adapted to the demand of the market,
- Implementation of an Engagement policy.



Two research providers act as the main external service providers today in Spain. One operates from the UK with the support of a local NGO, and the other is the first Spanish research company, which was launched in 2005.

MARKET EVOLUTION SINCE 2003

The evolution of the Spanish SRI market is measured every year by the IPES Institute at Esade business school.⁴⁵ The market volume evolved mainly due to the consolidation of retail SRI and the appearance of institutional SRI. From 1999 to 2003, Spanish SRI was exclusively retail. The first institutional investors appeared at the end of 2003, and confirmed their presence throughout 2004 and 2005.

In the beginning (1999-2003, ethical funds) the market was strongly UK inspired, focusing on the respect of ethics. Since then, institutional investors, along with a few retail funds, have developed a sustainability approach (or the Best-in-class approach), focusing mainly on good performance through better understanding of non-financial risks (CG and SEE).

MARKET PREDICTIONS: 3 YEARS FROM NOW

The retail market is expected to progressively grow and consolidate more and more over the next few years.

For now, the SRI institutional market involves a few key leaders, however this will most likely spread and grow in the next 2 years.

Property funds are currently being studied and may be a future development, focusing mainly on social criteria, as the Spanish government has defined this as a priority.

It will be interesting to follow how asset managers in saving banks finally conclude their internal discussions and experiments and switch to integrated management of CG/SEE criteria, which could make the SRI market jump very quickly. This could happen if investors ensure that their processes involve either external recognised expertise, or the dedication of a specialised team of analysts or asset managers, or an official ethical committee.

45. <http://www.esade.edu/institution/institutos/ipes/index.php?MzA%3D&MTA0&Et&Et>

