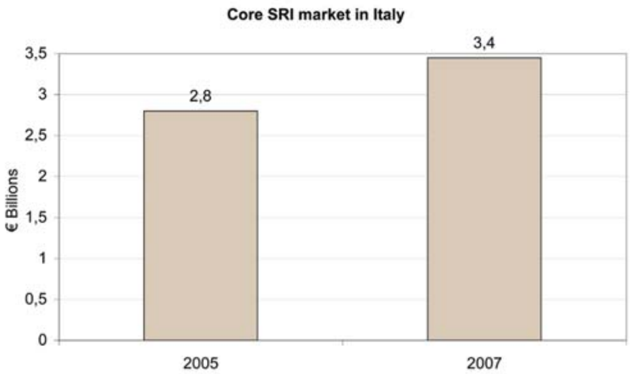
Forum per la Finanza Sostenibile

ITALY

KEY FEATURES OF SRI

SRI in Italy is still a small portion of total assets under management. Core SRI accounts for about €3.4 billion as illustrated in Figure 1, which means 0.32% of total AUM. The growth rate since the last survey in 2006 is 23% for Core SRI (CAGR: 11%). Broad SRI has increased remarkably (from €0.09 billion in 2005) and now reaches €240 billion.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

An institutional market still under-developed

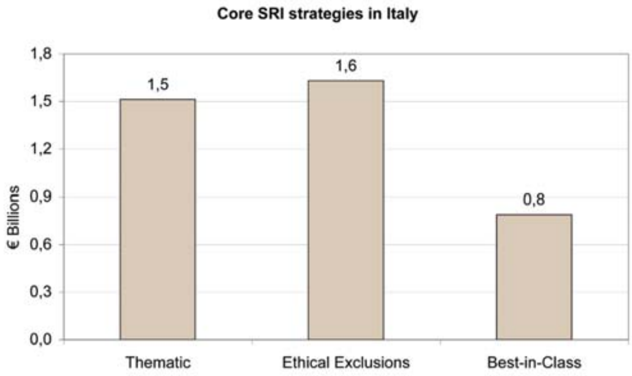
The prevalence of the retail component, as opposed to the institutional one, in the Italian SRI market still sets it apart from other markets. Unlike other European markets, the institutional investor market is still very small (6% of total Core SRI) due to the relatively recent start of the pension system (second and third pillars).

Despite the current retail market crisis, investment funds are still the preferred investment vehicle for SRI investors. The market is very concentrated with the first three players accounting for more than 95% of total AuM.

SRI practices

The most employed SRI strategy is a combination of negative screening (basically sector exclusion) and Best-in-Class. SRI thematic funds have been introduced recently and have done well in terms of inflows, reaching €1.5 billion of assets under management as shown in Figure 2.

FIGURE 2

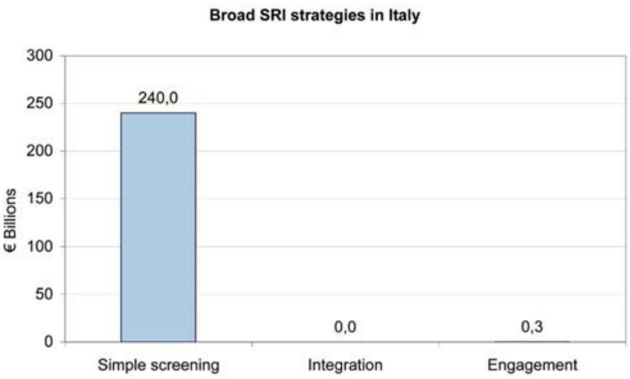


Source: Eurosif European SRI Survey, 2008

Broad SRI experienced a massive increase since the 2006 survey, now reaching €240 billion. This is the result of the simple negative screening strategy put in place by one Italian institutional investor, Assicurazioni Generali (see case study on the next page).

Engagement is still a niche phenomenon, due to the small amounts of assets, relatively recent start of the active exercise of voting rights by Italian asset managers and lack of large independent asset managers. However, a recent regulation jointly issued by Banca d'Italia and Consob (the market authority) encourages them to define and implement consistent voting policies and strategies in the interests of investors.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

ITALY

Who invests in SRI?

In the institutional market, occupational pension funds are taking the initial steps in a process that is likely to produce positive results in the medium term. The debate, mainly supported by trade unions, is lively and the level of awareness amongst Pension Funds' trustees is growing.
The other category of investors that can make a difference is banking foundations; Fondaco, the asset management company created and owned by Compagnia di San Paolo and other northern foundations, remains the leader in this segment, but the project of Fondazione Cariplo (see case study) may provide an example that others will follow.

CASE STUDY:
Fondazione Cariplo

Fondazione Cariplo is one of the largest foundations in Europe. Since 2008, its assets, worth some €9 billion, are periodically screened against a list of about 60 CSR criteria. This is an ex-post analysis, whose aim is to raise the level of awareness of the asset managers as well as the board as far as social, environmental and ethical issues are concerned and does not necessarily imply any disinvestment decision. The governance bodies of the Fondazione will evaluate each controversial case.

MARKET EVOLUTION

Retail market

The overall Italian funds industry has suffered massive outflows in the last years (- €120 billion from 2006 to 1st quarter 2008). Funds account for less than 10% of total financial wealth of Italian families and about 20% of the Italian Growth National Product. This dynamic has affected other European countries too, but in Italy the consequences have been even more serious: the Italian market used to rank third in size in Europe, whereas it is now the sixth – the reasons being (1) poor performance; (2) fiscal treatment; (3) competition with other financial products (bonds, policies or structured products) pushed by the most important distribution network (i.e. banks) and (4) limited financial education of Italian investors.

The Italian market seems to be in a vicious circle: small amounts of money do not allow asset managers to invest in quality and innovation. Poor results in terms of performance and social/environmental added value discourage investors, who tend to exit from the system preventing distributors from aggressively promoting these products.
SRI funds are of no exception. If possible, the Italian SRI industry suffered even more than mainstream asset management, since it had never really reached a sufficient size to achieve the level of efficiency and profitability that justifies major efforts by fund managers in terms of product innovation and communication. The disclosure regulation (introduced after the Parmalat scandal) that makes SRI funds even more transparent than "ordinary" ones has not produced positive effects on the market yet. The Italian SIF, Forum per la Finanza Sostenibile, together with the trade associations of the financial sector, is launching a project to contrast this negative trend, using information from retail investors and training sales forces. In 2007, only one new SRI fund was launched in Italy.

Institutional market

In the institutional market, the innovations recorded in 2007 allow for more optimism. The disclosure regulation that requires pension funds to communicate whether and to what extent social, environmental and ethical considerations are taken into account in the investment policy, has stimulated pension funds' boards to address the issue and eventually begin testing integration methods.
It is worth mentioning that, due to this study's methodology, some of the Italian pension funds' assets are not accounted here as they are managed by non-Italian asset managers (through both funds and mandates). We estimate the amount of Italian SRI institutional money that is counted in other countries' statistics to be at least €326 million.[1]

Positive signs from the private equity sector

Rather than "classical" SRI, here we record the launch of thematic private equity funds, mainly in the energy business. Although still small in volume, the growth has been remarkable: in 2007, 7 new funds specialising in renewable energy and related technologies invested almost €70 million in 17 different projects.

[1] *Source: Mefop, the organisation focused on the promotion of pension industry.*

CASE STUDY OF INTEGRATION:
Assicurazioni Generali

Assicurazioni Generali is the largest insurance company in Italy and the third in Europe. In 2005, it started considering the ethical impact of its investment and, after examining a number of different alternatives, decided that the capital managed by all Group Companies would be invested in accordance with the ethical guidelines adopted by Norway's Government Pension Fund-Global.

This means that no sector exclusion is applied, but rather negative screening on specific companies involved which (1) Directly or through their subsidiaries, produce weapons that may be used to violate fundamental humanitarian principles, (2) Are guilty of human rights violations, (3) Cause serious environmental harm, and (4) Violate basic ethical standards.
Generali does not have an internal team to manage the assessment process. It follows indications made public by the Norwegian Government Pension Fund - Global.
This negative screening is not combined with any sort of engagement with the companies.
In terms of assets, the amount involved in this practice is €240 billion (as of 31/12/07).

MARKET PREDICTIONS

The crisis of the Italian funds industry seems structural and only major changes in regulation, as well as the market forces, could adjust the situation. However, even in the most optimistic scenario, SRI in the retail sector is likely to remain a niche market.
The institutional market is going to grow and, given that it is mainly pension driven, the increase should be continual over time. Foundations have been expected to become active in SRI for a long time, but are still in a “wait and see” mode; the move of Fondazione Cariplo might be like a stone in a stagnant pond.
Private equity, although traditionally weak, is showing encouraging signs of dynamic growth that are most welcome in a country where firms are typically small or medium sized and require great financial support.
Private banking is also a business with promising opportunities. Few experiments in SRI have been carried out so far, but wealth managers feel confident that there is a latent demand in the market.