



Current State of Sustainable Investment EC DG Secretariat General (EUSDS Progress Report)

Christine Dalby
DG Secretariat General
European Commission
B-1049 Brussels
Belgium

Via Email: Christine.Dalby@ec.europa.eu

July 16, 2007

Dear Mrs. Dalby,

Re: Current state of Sustainable Investment in Europe

Please find in this note an update of the current state of sustainable investment in Europe, according to Eurosif.

EUROSIF, the European Social Investment Forum, is the pan-European stakeholder network whose mission is to address sustainability through the financial markets. Eurosif works at the pan-European level as a partnership of the national Social Investment Forums (SIFs) and with the support and involvement of its member affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's member affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totalling over €600bn. For the full list of Eurosif Member Affiliates, please see www.eurosif.org.

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Socially Responsible Investment (SRI) and Corporate Governance in the EU financial services sector, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament. Therefore, our input on the consultation document is mainly driven from and by the interest and expertise of our membership.

Definitions

Sustainable investment is a concept that continues to evolve. Nevertheless, the constant within this space is that sustainable investing is concerned with long term investment, and environmental, social and governance (ESG) issues are important criteria in determining long term investment performance. Climate change is an area that is receiving particular attention at the moment, but there are a number of ESG issues that are relevant for long term, sustainable development of the financial services sector and they will often depend on the sector of business. Within the sustainable investment domain, Eurosif observes an increasing split in two areas:

- **Responsible Investment (RI)** is a concept developed particularly among the institutional investors and most connected to the mainstream financial community. Responsible investors take into consideration the long-term influence of extra-financial factors such as environmental, social and governance (ESG) issues in their investment decision-making. They integrate ESG factors into their stock portfolio analysis and management, bringing together social and sustainability indicators with traditional financial analysis.
- **Socially Responsible Investment (SRI)** is an important area for the retail financial sector and may incorporate ESG issues as well as criteria more closely linked to a values-based approach. For example, it can involve the application of pre-determined social or environmental values to investment selection. Investors choose to exclude or select particular companies or sectors because of their impact on the environment or stakeholders.

Eurosif aims to promote the development of both areas and would like to encourage the Commission to do so as well.

¹ This trend is reflected in the success of the UN PRI (Principles for Responsible Investment) launched in April 2006 and coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and UN Global Compact. In a year, UN PRI has achieved over 190 leading institutional signatories from all around the globe. www.unpri.org

Active Share Ownership²

Shareholders in the field of SRI consider a good governance framework to be paramount to an accountable economic system, where investors and companies each have rights, roles and responsibilities towards each other and society. Active SRI Shareholders are long term investors who pay particular attention to how extra-financial issues, such as governance, social or environmental risks, may affect company performance. This attention translates into regular interaction with investee companies and participation in AGMs and voting to the extent that it is possible and there is a proper framework of shareholders rights. In this respect, it is essential that shareholder rights regulations enable SRI investors to be **active owners**. This is all the more so in a cross-border setting, as European investors' stock portfolios are increasingly international.

Thus, Eurosif encourages the EC to continue in its efforts to better enable shareholder democracy and an appropriate regime for shareholder rights in the European Union.

European SRI Market trends

In its European SRI Study 2006 (available on www.eurosif.org), Eurosif provides a picture of the European SRI market as it currently is. As SRI continues to be an area of diversity and ever increasing scope, Eurosif has had to segment the SRI market into two areas – “Core” and “Broad” in order to meaningfully convey the different types of SRI trends occurring in Europe.

The broad European market was estimated in 2006 to be up to €1 trillion and representing as much as 10% of the total European funds under management.

The three key drivers of the growth in SRI are:

- Increased credibility of the business case in the financial community,
- Business and financial services regulation that requires more transparency and incorporation of Social, Environmental and Governance (ESG) issues³,
- A growing use by the fund management community of strategies such as Engagement and Integration which may be used across all assets, regardless of whether they are specifically subjected to SRI mandates.

European SRI remains driven by institutional investors, with pension funds increasingly demanding that their asset managers incorporate ESG issues into the management of their assets. This is both due to the strong pull provided by some leading institutional investors (Environment Agency in the UK, FRR in France, Norwegian Government Pension Fund, etc.) as well as the high quality of services provided by SRI managers.

Eurosif notes a greater diversification in SRI across asset classes. Today, bonds and structured debt products are utilizing SRI criteria; so too, real estate, where developers and investors are working together to ensure energy and materials are more sustainable; and finally, private equity, where venture capital is increasingly being linked to eco-efficiency and clean technology investment criteria.

The diversification also points to a growing trend for innovation in SRI strategies; combining screens with engagement and/or integration are increasingly used as investors further refine their SRI approaches to fit the interests and needs of their clientele.

² See also Eurosif's « Active Share Ownership in Europe » study on www.eurosif.org

³ Including the REACH Directive or the implementation of the 2003 EU Accounts Modernisation Directive (78/660/EEC, as amended by 2003/51/EC), which requires large quoted and unquoted companies to report on relevant social, environmental and ethical (SEE) issues using key performance indicators.

Recommendations

Sustainable investment is becoming more mainstream each year, but there are areas where the EC can play a role to broaden and deepen its impact on the European Sustainable Development strategy.

Therefore, Eurosif would like the European Commission to further consider the following:

1. In order to promote sustainable development across the EU, Eurosif believes that the Commission should foster the development of Responsible Investment among institutional investors. Environmental, Social and Governance (ESG) issues do affect the performance of companies. There is a growing consensus in the financial community that taking ESG issues into consideration is consistent with the fiduciary duty of investors when it impacts profitability, and is further relevant when there is a consensus to do so by participants /members /stakeholders⁴. The introduction of an EU wide “**Statement of Investment Principles (SIPs)**” for investments funds, as suggested in the European Parliament resolution of March 13 2007 on Corporate Social Responsibility (2006/2133(INI)) would ensure that Pension Fund trustees have to report on how they are taking those ESG risks into consideration. Ownership and power imply responsibility from investors and trustees.
2. The Commission should encourage a greater choice of investment options for consumers. In this respect, Eurosif believes that the Commission should foster the development of Socially Responsible Investment, particularly by encouraging the development of SRI options in pension plans. A close attention to pension plans disclosure is also important.
3. Eurosif believes that the Commission should develop an optional legal EU-wide regime (“28th regime”) for savings. An EU-wide regime would offer greater saving choices and options for the final consumers, as it would create a bigger market for specific products (including SRI products) that otherwise would not be served, for lack of market volume.
4. For sustainable investment to be better understood, the Commission should consider ways to improve consumers’ financial literacy and capability. In order to do so, accountability to consumers must be increased and this can be achieved through greater transparency from retail financial services providers. In this respect, Eurosif wishes to put forward as an example the **Eurosif Transparency Guidelines for the Retail SRI fund sector** that it launched in November 2004, with the support of the Commission (DG EMPL). The guiding principle is that signatories to the guidelines should be open and honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the SRI policies and practices relating to the fund. To date, there are over 40 signatories of the transparency guidelines, representing more than 140 SRI funds. More information is available at: http://www.eurosif.org/publications/retail_transparency_guidelines

This response has been developed as a part of Eurosif’s aims to encourage disclosure, transparency and responsible ownership, and to promote the integration of social, environmental and ethical issues into European financial services. It does not necessarily reflect the views of all of its member affiliates.

Yours sincerely,



Matt Christensen
Executive Director
Eurosif (European Social Investment Forum)

⁴ UNEP FI, Freshfields, Bruckhaus, Deringer : a legal framework for the integration of environmental, social and governance issues into institutional investment, October 2005.