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European SRI Study

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FOREWORD FROM EUROSIF

According to the UN, in 2025, one third of the world's 7.9 billion people will not have access to adequate drinking water. The 21st century is increasingly being defined as one of resource scarcity whether it be scarcity of clean air and water, a diminishing oil supply or lack of land to grow food and plant trees. As a consequence, sustainability is one of the most pressing challenges worldwide today. Investors have an important role to play in this landscape by addressing sustainable issues with an investment rationale.

The European SRI Study has been one of the few sources in Europe detailing the sustainable and responsible investment (SRI) market, both in terms of the amount of capital invested in SRI as well as highlighting European and National trends. There continues to be a strong demand for information about the size of the SRI market across Europe, and therefore, this study remains one of the most important services that Eurosif provides for its affiliate membership as well as many other readers interested in European SRI trends. Capitalising on the success and experiences drawn from previous studies (2006 & 2003) and with the help of the National SIFs, Eurosif presents the European SRI Study 2008 edition.

You will find in this report that European SRI has accelerated its growth since our last study, both for its Core and Broad segments. This growth is driven by an increasing demand from institutional investors, a further mainstreaming of SRI into traditional financial services, and also a growing interest from individuals, particularly wealthy individuals. European SRI continues to be an area of diversity with, for instance, the emergence in the last two years of SRI thematic funds and new asset classes.

Readers should keep in mind that the line between SRI and non-SRI becomes more difficult to define in each study – incidentally, this is arguably a positive development. So too, another challenge is the inherent complexity of the European market. For example, national differences in legislation can significantly impact a domestic market; Belgium is an important case study for this phenomenon. Finally, the diversity of local SRI markets means that simple cross-border analyses can sometimes be misleading – do read the country sections for enhanced insight.

With that said, we are confident that this study will help you better understand the intricacies of the European SRI market as of today.

Happy reading and sustainable investing,

Matt Christensen
Executive Director
Eurosif

Robin Edme
President
Eurosif

FOREWORDS FROM OUR SPONSORS

Groupama Asset Management

With 88 billion euros of AuM's (December 31, 2007), Groupama Asset Management is the 6th largest asset management company in France. Its client base includes Groupama companies, institutional investors, corporations and external distributors.

Groupama Asset Management is convinced that responsible investment is triggering a virtuous circle that will foster sustainable development and positive growth and has been committed to SRI since the early 2000s. More and more, ESG considerations are seen as important aspects for investors in the analysis and active ownership of companies, since these value-adding factors can have an impact on the companies' business model and financial performance.

Since 2003, our in-house SRI research team has worked to undertake jointly the ESG dimension with fundamental analysis. Based on risk and opportunity considerations, a security scorecard takes ESG performance criteria into account with adjusted weightings per ESG pillar on a sector basis.

Now the challenge of Groupama Asset Management is to gradually roll out SRI across all asset management activities with an end objective to meet social and fiduciary responsibilities in compliance with its commitment to the PRI.



Michel Lemonnier
SRI Business Manager

Highland Good Steward Management, LTD.

Highland is a US Registered Investment Advisor and we act as the Fund Manager for the Good Steward Enhanced Fund. The fund is a socially screened hedge fund of funds. Upon first reading, this statement, may appear to be an oxymoron – – – a socially screened hedge fund of funds?? On the contrary, and perhaps surprising to many, this hedged investment platform has been an excellent foundation from which to promote our ESG policies. I include this in my foreword to the Eurosif SRI Study because without the words of encouragement from Matt Christensen, of Eurosif, our challenge would have seemed more daunting than it has actually been.

I am absolutely delighted to be part of the sponsoring group of the 2008 Eurosif SRI Study. The clarity, accuracy, and timeliness of this information will allow and stimulate other entrepreneurs to launch products in the Responsible Investment segment of the market. This vitality, and the resulting evolution, will continue to produce products which have features that lead the capital markets in a positive social direction.



William Mills
Managing Partner

I.DE.A.M. (Crédit Agricole Asset Management Group)

For CAAM Group, SRI is Sustainable Development applied to finance and an approach echoing the mutual founding values of Crédit Agricole. SRI is no longer a niche activity: an increasing interest is displayed by clients – both institutional investors and progressively, individuals – wishing to invest according to their own values. Taking this growing interest into account, CAAM Group has decided that SRI expertise should flow towards all investment teams, and has thus regrouped sustainable research, SRI promotion and product development within its dedicated subsidiary I.DE.A.M. This organization materialises CAAM Group's ambitions in terms of Socially Responsible Investment; indeed, in May 2006, CAAM Group signed the Principles for Responsible Investment, thus committing to the development and promotion of investment processes integrating ESG issues.

When Eurosif asked us whether we would go along with their study, we very naturally took them up on their offer.



Michèle Jardin
CEO, I.DE.A.M.

Natixis Asset Management

Natixis Asset management (NAM) is a pioneer in Socially Responsible Investing (SRI) with a history in SRI overlay dating back to 1985.

NAM benefits from a dominant position on the French SRI market and manages 40 SRI investment vehicles through open ended Funds, employee saving schemes and mandates in all asset classes.

NAM is a firm believer that the combination of financial and extra financial criteria delivers significant added value. Extra financial research has embodied a conviction based investment approach at the firm level.

Our research focuses on in-house analysis of extra-financial criteria which have demonstrated their "financial materiality", that is to say their impact on the level of profitability or the level of risk of an issuer, thus establishing a tangible link between extra-financial elements and market valuations, looking for both financial and extra-financial performance.



Sami Gotrane
Head of SRI

DEFINITION

WHAT IS SRI?

Sustainable and responsible investment is a concept that continues to evolve, where both veteran and newer players alike debate the semantics and definitions in this field. The terms "social", "ethical", "responsible", "socially responsible" and "sustainable" are all used in a multitude of overlapping and competing ways. Nevertheless, the constant within this area is that sustainable and responsible investors are concerned with long-term investment, and environmental, social and governance (ESG) issues are important criteria in determining long-term investment performance. In this domain, Eurosif observes an increasing split into three areas:

- **Responsible Investment (RI)** is an area developing particularly among the institutional investors and remains 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.
- **Sustainable Investment (SI)** is a growing area where investors align their investments with emerging environmental and social realities. This area brings together those in the financial sector committed to the sustainability imperative along with those interested by the investment opportunities that the ongoing shift in regulations and market practices are creating.¹ A good example of this would be High Net Worth Individuals (HNWI) choosing to invest in thematic funds (clean energy, water, etc.) because of their financial and sustainable returns prospects.

Eurosif continues to use the term "SRI" as the most readily acknowledged expression for this field **but is changing its direct meaning to "Sustainable and Responsible Investment" as an acronym encompassing all the subsets discussed above.** We define SRI as follows:

SRI, a generic term covering ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues.

Corporate governance concerns are now widely accepted as part of the broader group of extra-financial issues as evidenced by the widespread use of the acronym ESG within the sustainable and responsible investment community.² However it should be noted that in this study, corporate governance is considered only in the context of SRI management, i.e. limited to the interface between Governance and Environmental and Social issues.

Additionally, recent developments in Belgium raised the question of whether SRI issues mandated by regulation should still be considered within our SRI definition. A law prohibiting the direct and indirect financing of the manufacture, use and possession of antipersonnel mines and submunitions was approved by the Belgian Parliament in March 2007. Eurosif's position is that **SRI should always be one step ahead of legislation**; therefore if aspects of SRI, such as a subset of negative screening, were to become a legal obligation, those assets would no longer be counted as SRI.

For the Belgian case however, the government has not yet issued a decree applying the law; there is no government approved list specifying prohibited companies. Therefore without the guidance for investors to apply the law, negative screening on weaponry is not yet technically a legal requirement in Belgium. As a result, we have included in the Belgian Broad SRI total those assets managed solely with a negative screening on weapons. These assets would be excluded from our SRI definition in subsequent studies once the decree is issued.

A key challenge for sustainable and responsible investors is in investing for the long-term while facing short-term pressures. There is rarely a simple answer to the complicated puzzle of combining money-making with 'sustainability' criteria. For example, in evaluating a company's ESG issues, some investors will find the environmental policies to be the key input while others will point to the company's human rights practices as the critical issue. This study shows that there are multiple approaches for conducting SRI and it is Eurosif's aim to help readers understand their use across the most important European markets.

¹ "The emergence of sustainable investing" - Nick Robins, 2008. Eurosif "HNWI & Sustainable Investment", 2008.

² "ESG takes top slot in label polls", *FTm* article, July 28, 2008.

³ In the 2006 study, Core SRI was included in Broad SRI and Broad SRI therefore made up the total SRI market. The figures of Broad SRI for 2005 and 2002 have been re-calculated in this report to allow for a comparison.

CORE AND BROAD SRI

In its 2006 study, Eurosif segmented the SRI market for the first time, defining it by Core SRI and Broad SRI. We welcome the subsequent take-up of a similar segmentation by other regional SIFs in their respective market reports. In an effort to harmonise methodologies across regions, for the 2008 study Eurosif continues to employ Core and Broad SRI but with a slightly different definition. Core SRI and Broad SRI are now exclusive of each other. Adding them together results in a figure for the total EU SRI market.³ The Core and Broad SRI are defined as follows:

Core SRI is composed of the following strategies:

- Ethical exclusions⁴ (more than two negative criteria applied),
- Positive screening, including Best-in-Class and SRI Theme Funds,
- Combination of ethical exclusion and positive screening.

Core SRI may be perceived historically as the original form of SRI, with elaborated screening strategies impacting systematically the portfolio construction and often implying a values-based approach. Many Core SRI investors such as individuals, churches and activists are historical advocates of SRI. Nevertheless, Core SRI continues to evolve, and thematic SRI funds are the most recent addition to this segment.

Broad SRI is composed of the following strategies:

- Simple screening, including norms-based screening (up to two negative criteria),
- Engagement,
- Integration.

Generally speaking, Broad SRI practitioners are mostly large institutional investors. This segment partly represents the "mainstreaming" of SRI and the growing interest of responsible investors in this area. For this reason, the volume of Broad SRI is often much larger than Core SRI.

It is worth noting that **SRI practices are rarely performed on their own but usually in concert**, with an increasing number of possible combinations that are difficult to track. For this reason, simply adding each practice within a given SRI segment will usually yield an amount larger than the total Core and total Broad SRI. Furthermore, some practices are used in combination across the two different segments, for example ethical exclusions and engagement, or positive screening and simple negative screening. In order to avoid double counting, those assets pertaining

both to Core and Broad SRI, due to combined strategies, have been included in the total Core SRI only.

SURVEY METHODOLOGY

For this study, we have used the same methodology as in our 2006 SRI study as much as possible. However, readers should keep in mind that the scope of our market coverage has increased and that we have adjusted some definitions to follow the market evolutions of this fast-changing field.

A survey of asset management markets

As with traditional financing, the market for European sustainable and responsible investing is highly internationalised. SRI funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or overseas. As a result, defining national SRI markets is proving increasingly difficult. In particular, while fund managers are rather easy to locate,⁵ ultimate investors are not.

For these reasons, and to remain consistent with the methodology of our previous study, we define a national market by the country where the SRI assets are being managed (i.e. where the SRI asset management team is located).⁶ As a consequence, this study should be seen as an attempt to measure the size of the SRI management markets, rather than the SRI markets themselves.

Scope of the study

This report focuses exclusively on the self-reporting of asset managers and self-managed asset owners.⁷ The 2008 study includes both institutional and retail SRI assets. This is partly due to the fact that in many cases, SRI practitioners are not able to differentiate any of the investors in their investment funds.

The study covers 13 distinct markets:

- Nine countries already covered in our SRI 2006 study: Austria (AU), Belgium (BE), France (FR), Germany (DE), Italy (IT), The Netherlands (NL), Spain (ES), Switzerland (CH) and the UK.
- Four Nordic countries that had not been covered previously: Denmark (DK), Finland (FI), Norway (NO) and Sweden (SE).

Questionnaire

National SIFs and several SRI practitioners helped revise our questionnaire in late 2007 and data was collected from fund managers and self-managed asset owners from April

⁴ Definitions of the various strategies are available in the glossary, at the end of this report.

⁵ Although this could become more complicated as SRI asset management teams split across several locations.

⁶ For example, if a Swiss asset manager with an SRI team based in Switzerland is managing assets for a French asset owner, this is counted in the Swiss market. If the SRI team is located in London, it is counted in the UK market.

⁷ A list of responding organisations is available at the end of this section.

to June 2008. Respondents were asked to report data as of December 31, 2007.

The questionnaire included both quantitative and qualitative questions. Qualitative questions dealt with practices, means used by fund managers and trends. Quantitative questions referred to SRI assets under management according to:

- Different SRI practices used,
- Investment vehicles and allocations,
- Customer segmentation (institutional, retail).

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 where relevant, and employed their best judgement in order to ensure the answers are robust.

Occasional discrepancies do nonetheless remain. This can be the case for example, when the tallying of total SRI through investment vehicles (investment funds + mandates) or through customer segments (retail + institutional) do not match total SRI declared per se as some respondents were not able to provide the breakdown of their total amounts declared. However, in this case the use of percentage rather than actual volumes should give a fair idea of the market dynamics, particularly for the Core SRI segment.

STRUCTURE OF THE REPORT

The Eurosif 2008 SRI Study is organised geographically, starting with Europe as a whole and then by alphabetical order of the 13 covered countries. This is the third Eurosif SRI study and we invite readers to refer to the 2003 and 2006 studies for further information on local SRI background, drivers and methodologies employed.⁸

Each country report is structured similarly, focusing on key features of SRI in the country, market evolution since 2006 and market predictions. As much as possible, data are presented through consistent charts to allow comparison. In the European section, Eurosif has created, where appropriate, a view across countries and highlighted changes in the market since our 2006 study.

Finally, we have collected available data from other regional SIFs and synthesised figures at a global level. This is presented in the last section of this report.

⁸ Eurosif's 2006 and 2003 SRI Studies are available at www.eurosif.org/publications.

LIST OF SURVEYED ORGANISATIONS

(this list is not exhaustive as some respondents preferred not to have their organisation's name disclosed).

The Nordic organisations listed below are the ones who were approached for the survey.

1 AP-fonden / 2 AP-fonden / 3 AP-fonden / 4 AP-fonden / 6 AP-fonden / 7 AP-fonden / AEGON Asset Management / AFA / Agenta / Agicam (AG2R) / Ahorro Corporación / Åke Wibergs Stiftelse / Akershus Fylkes Kommunale Pensjonskasse / Alcyone Finance / Alecta / Allianz GI France / AMF / AmpegaGerling Investment GmbH / APG / Apoteket / Apteekien Eläkekassa / Arkitekternas Pensionskassa / AstraZeneca / ATP / AXA IM Paris / Banco Fonder / Bank für Kirche und Caritas eG / Bank IM Bistum Essen eG / Bankernes Sikringsfond / Bankhaus Schelhammer & Schattera KAG / Bankinter / Bankinvest Funds / BBK Gestión SGIIC / BBVA / Bergen Kommunale Pensjonskasse / BFT Gestion / BNP IP / BRF Fonden / Caixa Galicia / Caja de ingenieros / CAM / Cancerfonden / Carnegie Kapitalförvaltning-Carnegie Fonder / Caser / Catella Kapitalförvaltning-Catella Fonder / Chalmers Tekniska Högskola / Codan / Covea Finance / Crédit Agricole AM / Danica Pension & Danica Link / Danske Capital-Danske Fonder / Danske Capital-Danske Funds / Danske Capital-Danske Funds / Delta Lloyd Asset Management / Den Norske Legeforening / Den Norske Veritas / Deutsche Postbank AG / Dexia AM / DIP Pensionskasse / DnB Asset Management-Carlson Investment Management-Carlson / DnB NOR Asset Management- / Drammen Kommunale Pensjonskasse & Buskerud FylkesKommunale Pensjonskasse / DWS Investments - DB Advisors / Ecofi (Crédit coopératif) / Ecureuil Gestion / Erste-Sparinvest / Espoon Kaupunki / Etoile Gestion / F&C Management Ltd / Federal Finance (CM Bretagne) / Federation of Finnish Technology Industries / Fédérés Gestion / Financière de Champlain / FMS04 Management / FNV / Folkhälsan / Folksam-KP Pension & Försäkring-KPA / Formuesforvaltning / Försäkringsbranschens Pk-Skandikon / Fortis Banca Privada / Fortis Investments / Frimurarorden och anknutna stiftelser / Fundquest / Gållöstiftelsen / Gävleborgs Landsting / George V AM / Gesbusa / Gjensidige Forsikring / GLS Gemeinschaftsbank eG / Göteborgs Universitet / Groupama AM / Hallands Landsting / Halmstad Kommun / Handelsbanken Fonder / Helsingborgs Kommun / Henderson Global Investors Ltd / Hermes Equity Ownership / Hjärt- och Lungfonden / HQ Fonder / HSBC AM / HypoVereinsbank / I.DE.A.M. / Industriens Pension / ING / Insight Investment / Inter Expansion (Ionis) / Invercaixa / Invesco Asset Management Deutschland GmbH / Jönköpings Läns Landsting / Jupiter Asset Management / Juristernes og Økonomernes Pensionskasse / Kalmar Läns Pensionsförv.-Mörby-Kalmar / Kammarkollegiet / Katolinen Kirkko Suomessa / KBC / Kepler-Fonds KAG / Keskinäinen Eläkevakuutusyhtiö Ilmarinen / Keskinäinen Eläkevakuutusyhtiö Varma / Keskinäinen Vakuutusyhtiö Eläke-Fennia / KfW Bankengruppe / Kirkon Keskusrahasto / KLP Asset Management / KLP Liv &

Pensjon & Skade / Kommun / Kungliga Vetenskapsakademien-KVA / Kuntien Eläkevakuutus-KEVA / La Banque Postale AM / La Financière Responsable / Laegernes Pensionskasse / Landskrona Kommun / Landstingsförbundet / Lazard Frères Gestion / LBBW Asset Management GmbH / Lidingö Stad / Lidköpings Kommun / Lundbeckfonden / Lunds Universitet / MACIF Gestion / Malmö Kommun / Meeschaert Gestion Privée / Mistra-Stift. för miljöstrategisk forskning / Morley Fund Management Limited / MP Pension / Natixis AM / NHO AS& NHO Pensjonskasse / Nordea Investment Management-Nordea Funds / Nordea Link Fondsforsikringsselskap / Nordea Liv / Nordea Liv & Pension / Norges Rødekors / Norrköpings Kommun / Norske Shells Pensjonskasse / OFI AM / Öhman Fonder / Örebro Kommun / Orsay Gestion / Oskarshamns Kommun / Oslo Pensjonsforsikring / Östergötlands Landsting / Östersjöstiftelsen / PANDA Investment Management / PBU / Pensam / Pension Danmark / Pensionskassen For Håndværk og Industri - Phi Pension / Petercam / PFA Pension / PGGM / Phitrust Finance / PKA / Postens Pensionsstiftelse / Prado Epargne Gestion / Praktikertjänst / Pro BTP Finance / Rautaruukin T Eläkesäätiö S.R. / RCM / Riksbankens Jubileumsfond / Robeco / Röda Korset / SAAB / Scania's Resultatbonusstiftelse / Schroders / SEB Asset Management-SEB Fonder / SEB Gamla Liv-Nya Liv / SEB Gyllenberg Funds / SEB Investment Management- SEB Funds / SEB Stiftelsen / Sitra / Skandia Liv / Skogs- och Träfacket / SKTF / SNS / Société Générale AM / Sparebank 1 Livsforsikring / Sparkasse Oberösterreich Kapitalanlagegesellschaft mbH / SPP / Standard Life Investments Limited / Statoil Kapitalforvaltning & Pensjonskasse / Stiftelsen för internationalisering av högre / Stiftelsen för Strategisk Forskning / Stiftelsen Henry och Gerda Dunkers donationsfond / Stiftelsen Stockholms Sjukhem / Stockholms Stad / Storebrand Investments / Storebrand Liv / Svensk Stiftelseförvaltning / Svenska Kommunförbundet / Svenska Kyrkan / Svenska Kyrkans pensionskassa / Svenska Läkarsällskapet / Svenska Litteratursällskapet / Svenska Metallindustriförbundet / Svenskt Näringsliv & anslutna organisationer / Swedbank Robur Kapitalförvaltning-Swedbank Robur Fonder / Tapiola Life / Tapiola Mutual Pension Insurance Co / Telenor Pensjonkasse & Branila Pensjonskasse / TeliaSonera / The Government Pension Fund Global - The Government Petroleum Insurance Fund / Threadneedle Asset Management / Triodos / Trondheim Kommunale Pensjonskasse / Trondheim Kommune / Unionen / Universities Superannuation Scheme / utbildning och forskning / Valtiokonttori-Valtion Eläkerahasto / Västerbottens Läns Landsting / Västmanlands Landsting / VCH Investment Group AG / Veritas Eläkevakuutus / Vital Forsikring / Yleisradion Eläkesäätiö.

EUROPE

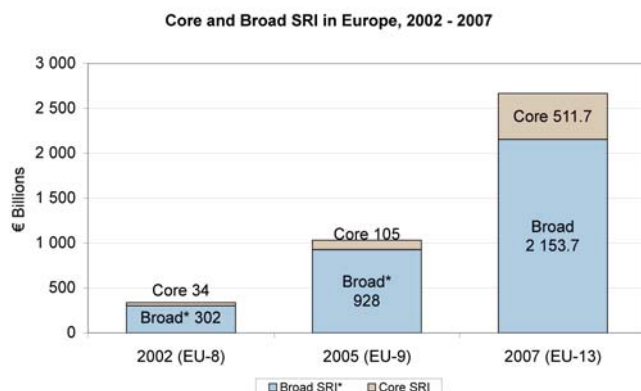
In this section, we review the key findings of the SRI market at the European level.⁹ Particularly, we look at the following items:

- Market size,
- Market growth,
- Market share,
- SRI strategies,
- Core SRI,
- Broad SRI,
- SRI investors,
- SRI products and processes,
- Market drivers and future trends.

MARKET SIZE

According to Eurosif research, total SRI assets under management (AuM) in Europe has reached €2.665 trillion as of December 31, 2007. This total SRI amount is made up of €511.7 billion for Core SRI and €2.154 trillion for Broad SRI as illustrated in Figure 1. While our market coverage has increased in this survey (this is the first time the Nordic countries are surveyed), on a like-for-like basis this still represents a significant growth since our 2006 study.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

* Re-calculated according to the new Broad SRI definition.

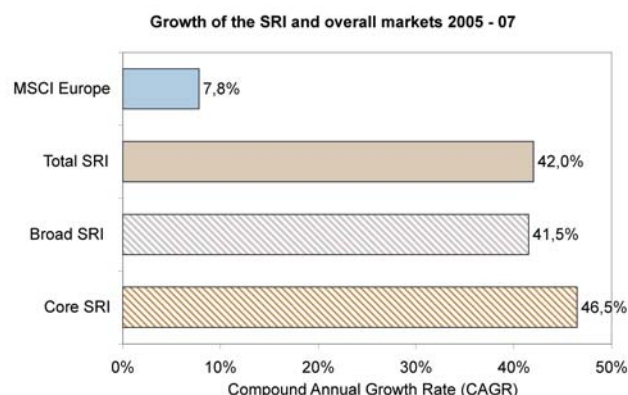
Note: the market coverage is not constant. 8 countries were covered in 2002, 9 in 2005 and 13 in 2007.

MARKET GROWTH

As illustrated in Figure 1, the European SRI market has increased from €1.033 trillion in 2005 to €2.665 trillion at the end of 2007. On a like-for-like basis¹⁰, this represents a growth of 102% over two years or a

compound annual growth rate (CAGR) of 42%. Over the same two-year period, the MSCI Europe index grew 16.16% (CAGR of 7.78%), suggesting a real market growth for the total SRI market of 85.5% over two years, which is quite remarkable. As Core and Broad SRI might evolve in different ways, it is worth looking at their respective growth as illustrated in Figure 2.

FIGURE 2



Source: Eurosif European SRI Survey, 2008 and MSCI Barra.

MARKET SHARE

Concerning the market share of SRI compared to the mainstream European financial market, providing an accurate figure is not a simple task since Eurosif surveys both the SRI asset management industry and self-managed pension funds. The European Fund and Asset Management Association (EFAMA) estimated the European asset management industry at €13.5 trillion AuM for both investment funds and discretionary mandates by the end of 2006.¹¹ Estimating an average growth rate of 4.4% between 2006 and 2007,¹² this would suggest that the SRI assets represent about 17.6% of the asset management industry in Europe; broken down as 3.4% for Core SRI and 14.2% for the Broad SRI segment.

Overall, the national markets vary considerably in terms of size, growth and market share of traditional finance. Figure 3 should provide a better picture of the European Core SRI market dynamics for the countries that were already covered in our 2006 SRI study. For Core SRI, Germany, France and Switzerland show the fastest growth while the UK and the Netherlands hold the largest markets. In the Netherlands, and then Belgium, Core SRI has the largest market share of the domestic asset management industry.

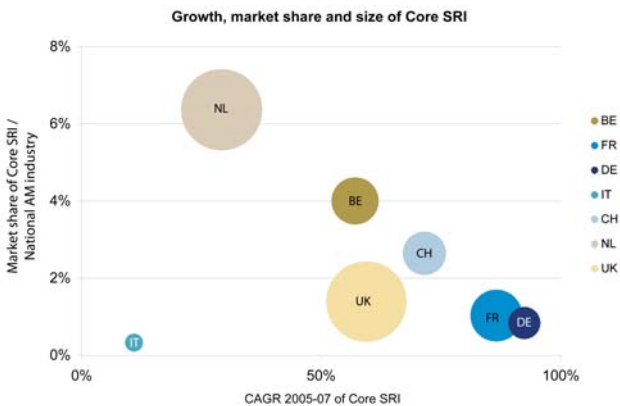
⁹ Further details of each local market surveyed are available in the country sections of the report.

¹⁰ Excluding the 4 Nordic countries covered for the first time in this study. All growth figures are calculated on the 9 countries covered on both 2008 and 2006 studies: AT, BE, FR, DE, IT, ES, CH, NL and UK.

¹¹ EFAMA "Annual Asset Management Report: Facts and Figures" July 2008.

¹² According to McKinsey Global Capital Market report, in Europe financial depth has grown at a CAGR of 4.4% from 1996 to 2006.

FIGURE 3



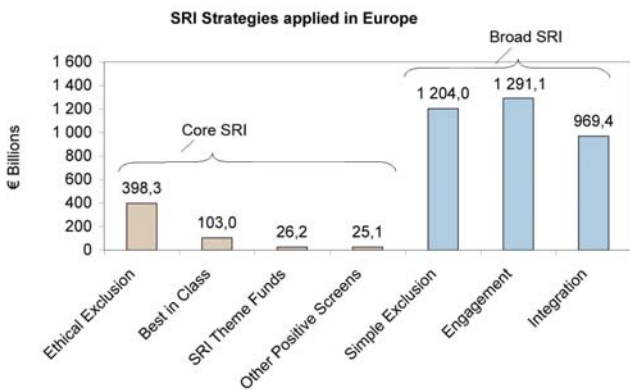
Source: Eurosif European SRI Survey, 2008.
Note: bubble size represents the size of Core SRI.
The chart only includes countries which showed comparable data.

As for Broad SRI, the Netherlands has experienced the fastest growth by far with a CAGR at 681%, followed by France.¹³ The UK remains the country with the largest market but it is Belgium which has the largest market share of its domestic asset management industry.

SRI STRATEGIES

Broad SRI strategies such as engagement and integration are frequently used by large institutional investors and therefore practiced on large volumes of assets as illustrated in Figure 4.

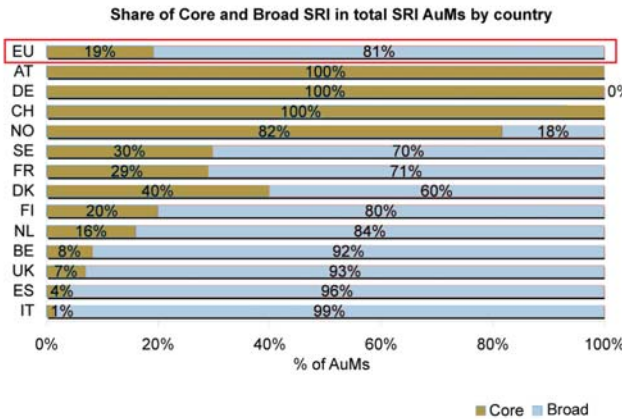
FIGURE 4



Source: Eurosif European SRI Survey, 2008
Note: total of individual strategies added together may be superior to the total of Core and Broad SRI due to overlaps.

This explains to some extent the considerable difference in terms of volume between Core and Broad SRI: at the European level, Core SRI represents 19% of the total SRI and Broad 81%. As shown in Figure 5, the split between Core and Broad SRI varies greatly from one country to the next, illustrating the different levels of “mainstreaming” of the various SRI markets as well as the weight of a few institutional investors practicing Broad SRI strategies on large volumes of assets (Assicurazioni Generali in Italy, ABP and PPGM in the Netherlands for instance). Italy, Belgium and UK have the largest share of Broad SRI while Austria, Germany and Switzerland have the largest share of Core SRI.

FIGURE 5



Source: Eurosif European SRI Survey, 2008

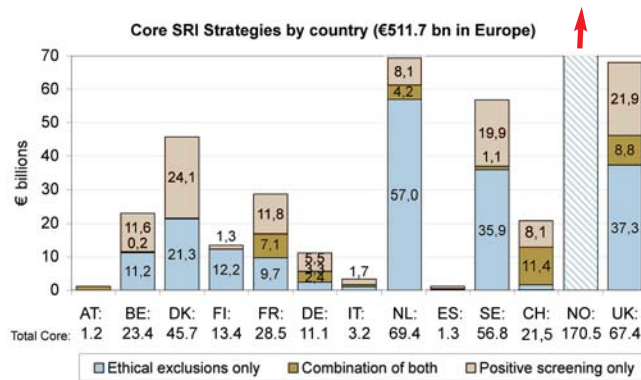
CORE SRI

Core SRI consists of ethical exclusions (more than two negative criteria) as well as different types of positive screens (Best-in-Class, SRI theme funds or others). As illustrated in Figure 6, those strategies are often combined, especially in Switzerland, France and the UK.

On a like-for-like basis, the growth of Core SRI between 2005 and 2007 is estimated at 115% (CAGR at 46.5%). Adjusted to the growth of MSCI Europe, this means a **real growth of Core SRI at 98.4% over two years (CAGR at 38.7%)**. The growth of ethical exclusion by 115% (CAGR at 46.7%) and the growth of positive screens by 67% (CAGR at 29.0%) help explain the overall rise in the Core SRI market.

¹³ The reasons behind the dramatic Dutch growth is further explained in the country section.

FIGURE 6



Source: Eurosif European SRI Survey, 2008

Thematic funds with an explicit SRI component

A new generation of SRI funds is emerging, driven by investors' focus on specific sustainability themes in the market where they see strong growth potential. Technological innovations, the creation of new markets through government regulations that reward sustainable practices (such as carbon markets), and an increased spending on health, by both governments and consumers all present investment opportunities. Funds focusing on themes such as water, climate change, renewable energy, eco-efficiency or health and nutrition have multiplied since our 2006 SRI study.

Eurosif's point of view is that to be considered sustainable, a theme fund must truly take Environmental, Social and Governance (ESG) considerations into account in the fund construction process.¹⁴ As a consequence, in this survey, we only include the thematic funds with an explicit SRI component – a significant number of theme funds not marketed as "SRI" were not included in our results. In terms of specific themes, renewable energy / energy efficiency, water and climate change are evenly split in Europe, along with multi-thematic.

Among the various positive screening strategies, SRI theme funds are the most developed in Switzerland and Germany while the Best-in-Class approach is used to a large extent in Denmark, Sweden, France, Switzerland and Belgium. At the European level, assets managed with a Best-in-Class approach represent €103 billion while those with an SRI thematic approach are €26.2 billion.

BROAD SRI

The Broad SRI segment is composed of three strategies: simple exclusions, engagement and integration. Here again, those strategies may be combined, particularly engagement and integration.

On a like-for-like basis, the growth of Broad SRI between 2005 and 2007 is estimated at 100% (CAGR at 41.5%). Adjusted to the growth of MSCI Europe, this means a real growth of Broad SRI at 84.1% over two years (CAGR at 33.7%).

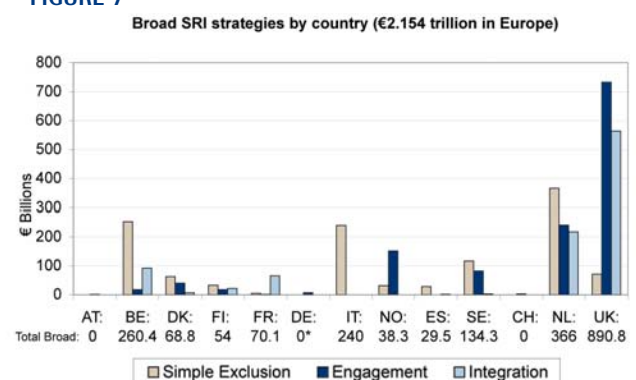
The growth of Broad SRI is the result of the following trends:

- Growth of simple exclusions by 263% (CAGR at 90.4%),
- Growth of engagement by 37% (CAGR at 17.1%),
- Growth of integration by 46% (CAGR at 21.0%).

The remarkable growth of simple exclusions since the 2006 study is partly due to the entrance of a few large institutional investors (i.e. Italy) and the specific circumstances of the Belgian market.¹⁵ Concerning the growth of engagement and integration, one should keep in mind that those two strategies are practiced largely in the UK where the British pound sterling has lost strength compared to the Euro since our last study. As a result, had we used the same exchange rate as for the 2006 study, the growth of both integration and engagement would have been much larger. Additionally, for segmentation purposes, the assets declared both as Core SRI and integration were only counted once, in Core SRI.

In terms of market size, the UK continues to possess the largest Broad SRI market, followed by the Netherlands and Belgium as illustrated in Figure 7. Italy also saw a remarkable increase in its Broad SRI total, due to a single institutional investor applying a simple exclusion across a large amount of assets.

FIGURE 7



Source: Eurosif European SRI Survey, 2008

Note: total of individual strategies may be superior to the total Broad SRI due to overlaps with other SRI strategies.

¹⁴ For more on this, refer to Novethic's study "The new frontier of SRI: the Green Investments claiming to be SRI" October 2007.

¹⁵ See page 6.

Simple exclusions

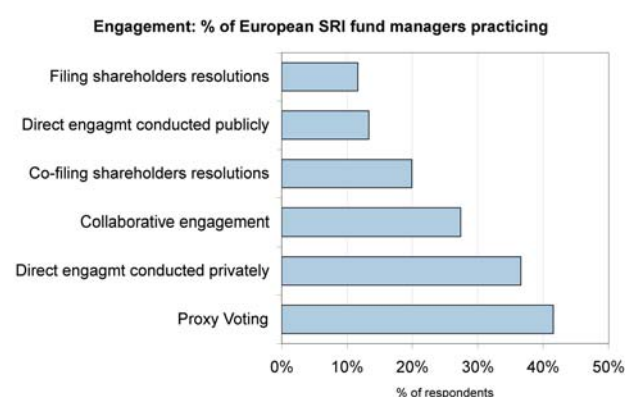
Assets managed with a simple exclusion strategy (no more than two negative criteria) represent €1.204 trillion and mostly originate in the Netherlands, Italy, Belgium and Sweden. Weapons screening is the most frequently used simple exclusion with €656 billion under management, followed by Norms-based screening with €402 billion.¹⁶ Tobacco simple exclusions represent €17.5 billion of assets under management.

It is important to keep in mind that the large figures shown in simple exclusions are often the result of only a few fund managers. For instance, as an example of one of their SRI strategies the prominent Dutch pension fund PGGM decided in January 2008 to exclude Petrochina, based on its activity in Sudan. This represents a new development in the way pension funds are handling their holdings, no doubt partly due to the media attention Dutch pension funds received after the Zembra documentary (see the Netherlands section for further details).

Engagement

In Europe, Engagement practices represent €1.291 trillion. The UK remains the leader by far in this area, followed by the Netherlands and the Nordic countries. In terms of engagement practices, they vary as illustrated in Figure 8.

FIGURE 8



Source: Eurosif European SRI Survey, 2008

Engagement is practiced almost equally at both the domestic and international levels. For about half of the assets, engagement activities concern governance issues; the remainder is split evenly between environmental and social issues. While the engagement activity of choice is

direct private engagement, public engagement and filing shareholders' resolutions tend to be used scarcely, if at all. This is one of the areas where European investors most differ from their North American counterparts.

Established in late 2006, the Principles for Responsible Investment (PRI) Engagement Clearinghouse has been an important factor in facilitating collaborative engagement. It is an opt-in online forum where PRI signatories can post ideas and proposals for collaboration with peers to seek changes in company behaviour and policies.¹⁷ Other collaborative initiatives include the Carbon Disclosure Project (CDP), the Enhanced Analytics Initiative (EAI) or the Institutional Investors Group on Climate Change (IIGCC).

Integration

Integration is the explicit inclusion by asset managers of ESG-risk into traditional financial analysis. It is the strategy of choice in the context of mainstreaming SRI and represents €969 billion of assets under management. Here also, the UK leads the integration field. The Netherlands, Belgium and France have seen this practice increase rapidly, often driven by a few large institutional investors such as ABP, PGGM or the French Caisse des Dépôts.

It is worth mentioning that the concept of integration remains difficult to pin down and its understanding may vary from one country or asset manager to the next. For segmentation purposes, Eurosif's interpretation of integration is that it is not something practiced in conjunction with any type of systematic SRI screening;¹⁸ integration is practiced on "mainstream" or "traditional" assets. This interpretation was also needed to segment Core and Broad SRI as distinct from one another. Integration and engagement practices can however be combined.

Out of the respondents practicing integration, 54% indicated that they have a formal integration policy document which is another sign that integration is still likely to be interpreted in various ways. It also raises caution when it comes to analysing those large volumes of assets, as practices and depths of the approach may vary.

In terms of integration practices, respondents that do practice integration provided the following information in our survey:

¹⁶ In the 2008 survey, respondents were asked to specify which norms the exclusion was based on. When the norms-based screening was clearly using several negative criteria, the assets were considered under the ethical exclusions segment (i.e. Core SRI).

¹⁷ There are now a dozen active collaborations being undertaken on a wide range of ESG issues such as climate change disclosure and performance, ESG disclosure in emerging markets, director elections etc. Source: PRI Report on Progress 2008.

¹⁸ For instance if a fund manager declared that ethical exclusion and integration are practiced on the same assets, Eurosif reported those assets under ethical screening, and not integration.

| | | |
|---|---|-----|
| I. Practices applied for the integration of ESG issues in the investment process | Thematic analysis and research on ESG issues fed back to mainstream analysts | 44% |
| | ESG analyst(s) working directly and on a regular basis with mainstream analysts | 30% |
| | ESG rating(s) systematically included in standard analysis spreadsheet | 28% |
| II. Integration practiced on | Each company of portfolios | 23% |
| | A selection of companies based on specific risks / sectors identified | 16% |
| | On a case by case basis | 26% |
| III. Extent of providing dedicated ESG training for the organisation's non-ESG-specialist investment management staff | Small extent | 33% |
| | Moderate extent | 14% |
| | Large extent | 9% |

Note: for section I, multiple-answers were possible.

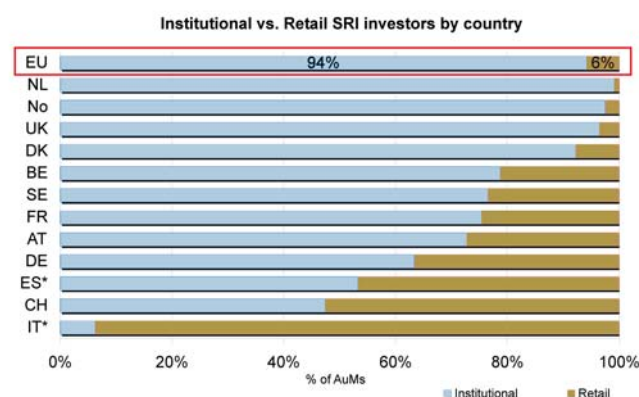
In the absence of a proper standardisation of integration practices, the emergence of assessment and comparison mechanisms are necessary. In this respect, the details of the integration practices of each PRI signatory provided in the annual "PRI Report on Progress" are a welcome initiative.¹⁹ One of the challenges faced by responsible investors is also to extend the integration into asset classes other than listed equities, especially fixed income. At the present time, some investors still remain sceptical about whether integration is a positive or negative trend for the industry. The PRI should be a vehicle for better clarifying this in the coming years.

SRI INVESTORS

As was already the case in our previous study, the European SRI market remains clearly driven by institutional investments which represent 94% of the total EU SRI market. Large, long-term institutional

investors continue to help drive the development of European SRI. These investors are especially present in some of the larger European markets such as the Netherlands and the UK; there is also another important group in Scandinavia, France and most likely Spain in the near future.

FIGURE 9



Source: Eurosif European SRI Survey, 2008

* based on Core SRI only.

Figure 9 illustrates the differences across the European countries. Italy continues to be unique with a Core SRI market largely driven by retail investors. Also noteworthy is the growing importance of the retail segment in Switzerland, which overtook the institutional investor segment since our last study in 2006, with a present market share of 53%.

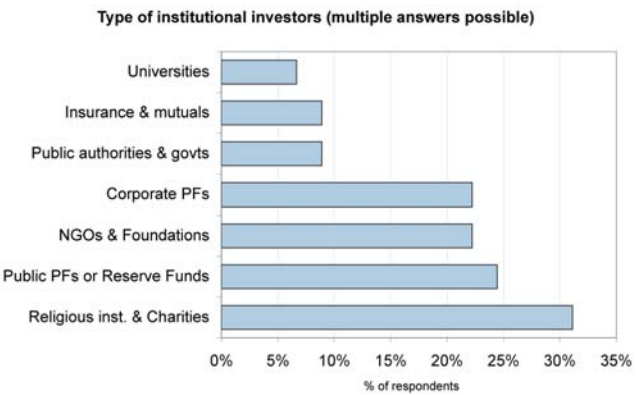
This clearly points to the increasing force of high net worth individuals (HNWI) in the European SRI market. In Eurosif's recently published study on the European HNWI and sustainable investment market, one of the key trends that was uncovered was that HNWI demand for sustainability offerings is growing rapidly, largely due to a generational shift in thinking about capital growth and preservation as well as financial out-performance prospects. The study forecasts this growth to translate into further institutional interest as the HNWI market traditionally acts as an early signal of investing appetite for future asset allocations of more mainstream institutions.²⁰

Figure 10 illustrates the main type of institutional investors that invest in European SRI funds, with religious institutions & charities and public pension funds / reserve funds leading the way. This ranking is representative of the main type of investors involved, and not necessarily of the volume of SRI assets they represent.

¹⁹ PRI Report on Progress 2008. www.unpri.org/report08

²⁰ Eurosif "High Net Worth Individuals and Sustainable Investment" study, September 2008. www.eurosif.org

FIGURE 10



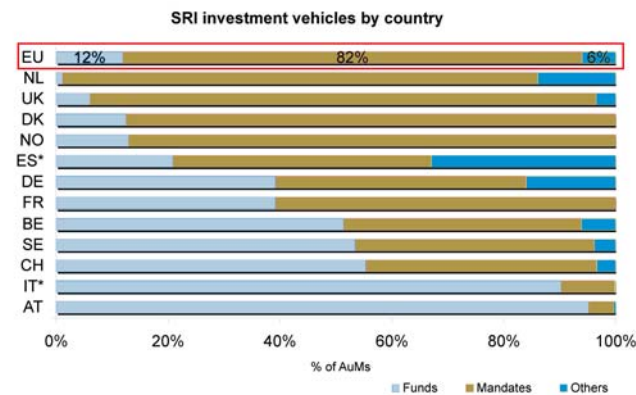
Source: Eurosif European SRI Survey, 2008

SRI PRODUCTS AND PROCESSES

Investment vehicles

At the European level, the SRI vehicles most often used remain discretionary mandates (82%) followed by investment funds (12%). Structured products, included in "others" in Figure 11 remain fairly marginal. The chart provides a breakdown by country: unsurprisingly the local trends mirror the breakdown between institutional and retail investors previously observed in Figure 9. Although still marginal, the number of SRI funds of funds has somewhat increased in the last two years; according to our survey, they now represent €2.4 billion of AuM.

FIGURE 11



Source: Eurosif European SRI Survey, 2008

* based on Core SRI only.

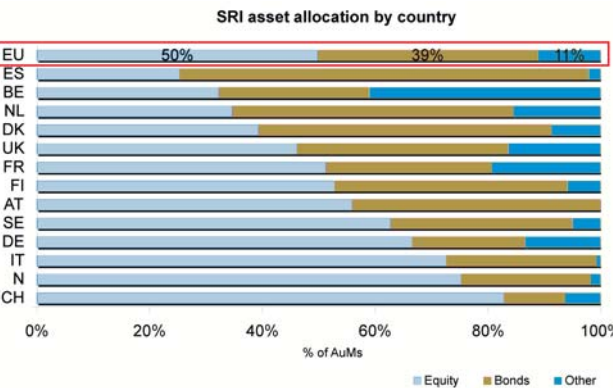
Note: responses from Finland did not permit an accurate interpretation of data.

Asset Allocation

Figure 12 details SRI asset allocations by country. In Europe, equities remain the preferred SRI asset class with 50% of total AuM. For comparison, equity represents 39% of European mainstream AuM.²¹

The share of SRI bonds has continued to increase and it now represents 39% of the total SRI AuM, which is equal to the share of mainstream assets in Europe. This increase should not be surprising as fixed income investments have always received substantial allocations of assets from institutional investors, particularly those with long-term liabilities. Fund managers have developed new methodologies allowing them to apply SRI approaches to not only corporate bonds but also government and supranational bonds. For instance, the French pension fund ERAPF selected a research agency in late 2006 to build an SRI reference tool specific to sovereign bonds (states, municipalities and international organisations). An increasing number of research agencies now offer country sustainable ratings, and many SRI asset managers use internal research and have developed their own set of criteria, often utilising public information from international organisations and NGOs.

FIGURE 12



Source: Eurosif European SRI Survey, 2008

For the remaining assets, property assets represent 4% of the total European SRI AuM (€56.65 billion), originating most importantly from the Netherlands, UK, Sweden and Denmark. Private equity / venture capital stands at 1.4% (see next paragraph for more details) similar to the alternative / hedge funds asset class which is at 1.3% followed by commodities at 0.8%. Most of those figures are driven by the Netherlands, where large pension funds such as ABP and PGGM are delving into new asset classes. Lastly, although still marginal at the European level, SRI

²¹ EFAMA "Annual Asset Management Report: facts and figures". July 2008.

money market funds have started to emerge and are increasing rapidly, especially in France, Germany and Belgium.

Eurosif published a study on "Venture Capital for Sustainability" (VC4S)²² in early 2007 showing the growth in this dynamic new segment. The study revealed that €1.25 billion of committed capital had been raised by European VC4S as of 2006 (especially in the UK, France and the Netherlands). VC4S experienced a boom in 2007 and now represents over 10% of the European VC-only market. This burgeoning sector encompasses funds specialised in renewable energy, but it also includes community funds that are focused on bridging economic divides while earning market returns.

Finally, microfinance is on the cusp of becoming a strategy or asset class for the SRI market but it was not included in this survey as traditionally, it did not meet the market return requirement of our SRI definition. This is however changing and Eurosif predicts microfinance will be of significant interest to SRI investors in the coming years, as illustrated next page in the case study provided by CGAP.

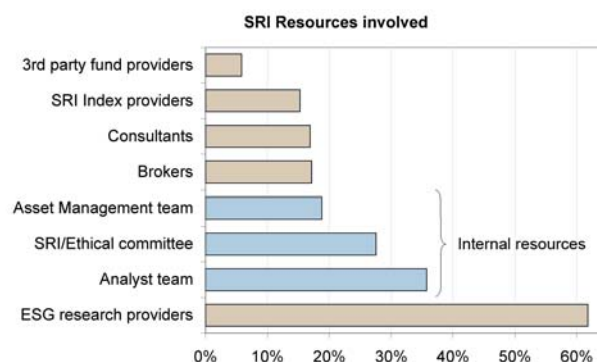
Geography Allocation

As was the case in our previous study, close to 60% of the SRI assets are invested in Europe (of which 21% is within the respective domestic market). The share of Europe is particularly strong in Spain (95%) and the UK (88%, of which 64% in the UK market itself). North America stands at 25%, with strong share of investments from Belgium (50%), the Netherlands (35%) and Norway (34%). Asia (Japan, HK, Australia) is at 9% while the emerging markets receive 7% of the European SRI investments, coming mostly from the Nordic countries and the Netherlands. Those are estimated figures as many respondents of our survey were not able to provide an accurate breakdown.

Processes

In terms of processes, Figure 13 illustrates the resources most often used by SRI fund managers, both internal and external.

FIGURE 13



Source: Eurosif European SRI Survey, 2008

Transparency

Concerning transparency, 70% of respondents disclose information on their SRI processes on their website and 67% use an SRI norm or label such as the European SRI Transparency Guidelines.

²² VC4S, a specific area with Venture Capital where profit objectives are supplemented by a mission which has direct impacts on sustainability. The study is available at www.eurosif.org.

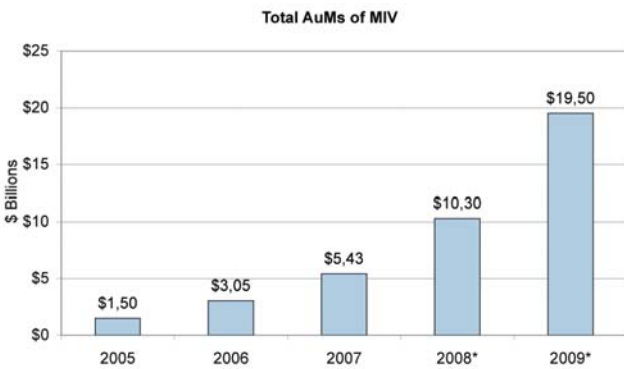
CASE STUDY
Microfinance, an opportunity for SRI investors

Microfinance is a rapidly evolving field

Microfinance, with its focus on providing financial services to the world poor is increasingly of interest to SRI Investors. There are now approximately 10,000 microfinance institutions (MFIs) with consolidated assets of \$53 billion.²³ In spite of the current turmoil in the financial markets, asset quality remains high where PAR (portfolio at risk) is lower than 2%. Contrary to sub-prime, microfinance is a low credit risk, high-transaction cost activity with robust earning records. Investors, seeking to augment their allocations to alternative asset classes and emerging markets, increasingly have access to this sector as 91 Microfinance Investment Vehicles (MIVs) now exist to intermediate capital to MFIs worldwide.

Significant growth in the assets under management of MIVs

A recent survey completed by the CGAP, the international resource centre for microfinance, assessed the performance of MIVs, revealing that there are currently 91 funds totaling \$5.4 billion in assets under management (AuMs).



* =predicted

The market is in an early, high-growth phase, having more than doubled last year, with a compound annual growth rate of 90% since 2005. Following this same growth rate into the future, projections show that AuMs of MIVs will reach almost \$20 billion by 2009. Currently, over three-quarters are in fixed income but equity investments are growing rapidly (+ 95% in 2007). Investments are primarily directed towards Eastern Europe and Central Asia (45%) and Latin America (32%) although South Asia and Africa are on the rise (+ 164% and 119% respectively). One of the most notable shifts occurring in the sector is the increase in fund sizes with the average assets per fund growing from \$60 million (2006) to \$80 million (2007).

Microfinance performance driving investor interest

The strong performance of the sector over the past 10 years under both strong and poor worldwide economic conditions has made it increasingly evident that microfinance is a fairly low risk investment opportunity with aspects uncorrelated to economic conditions. The results of the CGAP survey indeed illustrate strong performance for fixed income as well as equity funds, comparing favorably to traditional SRI retail funds:

| | Return | Total Expense Ratio (TER) | Fund Size (\$ mm) | Age of Fund (yrs) |
|---------------------|--------|---------------------------|-------------------|-------------------|
| Fixed income funds | 6.30% | 2.7% | 102 | 3 |
| Equity funds | 12.5% | 5.7% | 20.4 | 3 |
| EU SRI retail funds | 10.2% | 1.3% | 112 | 6 |

Sources: CGAP MIV Survey 2007, Vigeo/Avanzi 2007 SRI Retail Fund Review

The survey reveals a surging appetite among institutional investors as a source for MIV funding over the past three years, having gone from 14% in 2006 to 41% as of 2008. This rapid growth – as evidenced by increased allocations from leading pension funds such as TIAA-CREF and ABP – will continue as SRI investors seek to expand their emerging market and alternative asset exposure. Microfinance continues to be a European phenomenon with the top asset managers all based within Europe.

Professionalisation of the sector is critical for sustained growth

As the microfinance sector receives greater interest from institutional investors, it will need to further professionalise in order to meet stricter demands. For example, increased transparency on social performance will better highlight and differentiate microfinance from other areas such as the subprime mortgage market. As a response and with CGAP support, the microfinance fund industry is developing a voluntary initiative as a first step to improve financial and social performance disclosure.

To conclude, the CGAP survey shows that the microfinance sector is in a strong growth phase. It is also clear that a new chapter is beginning where institutional investors will play a more meaningful role as they increase allocations towards this space. MIVs are positioned to grow substantially in the coming years, but their success will be partly predicated on the implementation of proper risk management, especially as competition in the space increases.

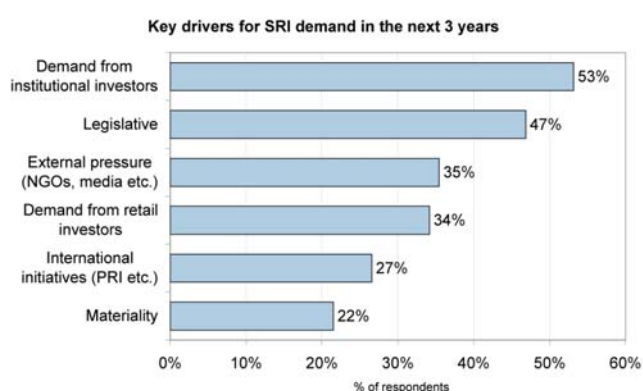
For further information on the CGAP survey, please refer to www.cgap.org

²³ Source: MIX

MARKET DRIVERS AND FUTURE TRENDS

According to our survey and as shown in Figure 14, 53% of SRI investors predict that demand from institutional investors will be the main driver for SRI demand in the next three years, followed by legislative changes and external pressure from NGOs or media.

FIGURE 14



Source: Eurosif European SRI Survey, 2008

Further details on market drivers, present and future, identified by Eurosif are developed below.

Demand from institutional investors

Responsible investment strategy will increasingly become a matter of risk management for institutional investors. This is particularly true around the area of climate change mitigation where the Stern Review made alarming warnings.²⁴ Concrete evidence of the increasing demand for SRI from institutional investors comes from the recent SRI tenders issued by European institutional investors.²⁵ Recent hires in SRI teams of European pension funds are another sign that demand for responsible investment is increasing. With the success of the PRI initiated in 2006,²⁶ we can expect that integration and engagement will increase in the coming years and represent larger volumes of assets – the important measurement of this will be through recent PRI signatories actively implementing the principles.

Demand from High Net Worth Individuals (HNWI)

The demand from HNWIs for sustainable investment will expand. Eurosif estimates that sustainable investments represented approximately 8% of European HNWIs' portfolios as of December 31, 2007. This financial clout is all the more impressive knowing that the HNWI sustainable investment market has only just begun. Based on Eurosif growth trends in the market, we predict that by 2012 the share of sustainable investments in HNWIs' portfolios will have increased to 12%, surpassing the €1 trillion mark.²⁷

Legislative drivers

Currently, at least eight countries in Europe have specific National SRI regulations in place that cover their pension systems: United Kingdom (2000), France (2001), Germany (2001), Sweden (2001), Belgium (2004), Norway (2004), Austria (2005) and Italy (2004). In Italy, the disclosure obligations applying to all complementary pension funds started in January 2008. Spain is in the process of introducing such regulations. At the EU level, the European Parliament is currently in discussions around a possible need for further transparency from institutional investors. There are presently no mandatory transparency laws at the EU level requiring investors to disclose the ESG issues of their investments; Eurosif has been pushing for the introduction of an EU wide "Statement of Investment Principles (SIPs)" for investment funds.²⁸ It would ensure that Pension Fund trustees have to report on how they are taking those ESG risks into consideration.

Further emergence of new asset classes

Responsible Property Investment is receiving increasing attention from institutional investors in the EU, as reflected by the launch in 2006 of the UNEP FI Property Working Group which recently produced a report providing examples of responsible investment in property portfolios. There are a handful of sustainable property funds in Europe and this list is increasing quickly as the level of interest from institutional investors is now quite high. A number of trends indicate that the real estate allocations of institutional investors may grow in the coming years. For example, real estate investment trust (REIT) legislation has recently been introduced (France, UK) or is pending (Germany, Italy).²⁹ Next, the trend to adopt strategic asset

²⁴ The Stern Review, published in late 2006, estimated that global warming could shrink the world economy by up to 20% unless 1% of global GDP is spent each year to resolve some of the issues.

²⁵ Examples include French ERAFP (international equity & euro-denominated fixed income), the UK Environment Agency Pension Fund (global equity portfolios with climate change themes), Swedish AP7 (clean tech), Danish PKA (forestry), The Lutheran Church of Finland pension fund (European SRI equity), the British pension fund of Unison (equity mandate) and Dutch APG and PGGM (sustainable energy infrastructure projects, forestry).

²⁶ As of early August 2008, over 400 global investment institutions, managing over \$15 trillion of assets, had signed up to the six principles for responsible investment. European investors continue to lead the way with about 150 signatories representing \$9.7 trillion in AuM.

²⁷ Eurosif "High Net Worth Individuals & Sustainable Investment" study, September 2008.

²⁸ As suggested in the European Parliament resolution of March 13, 2007 on Corporate Social Responsibility (2006/2133(INI)).

²⁹ "Seeking rewards in sustainable real estate" Global Pensions, January 2008.

allocations, less dominated by listed equity and fixed income will likely result in higher allocations to alternatives, which include real estate among other areas such as venture capital and hedge funds. In fact, hedge funds are increasingly moving into the sustainability space, largely through thematic funds. This is a new phenomenon but partnerships such as GLG with a research agency focusing on environmental issues are an indication of new areas for cooperation that are happening.

A continued growth of thematic funds

Thematic investing has experienced tremendous growth in the last three years. Recent studies³⁰ show that investors in sustainable themes are driven by a combination of financial and altruistic motives. Most of them expect an above or strongly above average growth rate, especially for renewable energy / energy efficiency themes. As discussed previously, part of those green funds are not considered as SRI and therefore not included in our SRI definition. We can expect however that their remarkable growth will impact the European SRI market in the coming years.

Mainstreaming of ESG considerations should continue

We predict that in the wake of established players including ESG criteria as part of their fundamental financial analysis,³¹ many more mainstream financial institutions will also begin considering its importance. As evidence that ESG criteria are moving out of the realm of isolated discussions among SRI professionals and receiving mainstream attention, the CFA Institute published in 2008 a study aiming to help investment professionals identify and properly evaluate the risks and opportunities ESG factors present for investors in public companies and included the topic as part of its annual conference.³² This mainstreaming trend should result in further ESG integration in the coming years, and Eurosif expects that Broad SRI will continue to grow at a rapid pace.

A broadening of the performance debate

Undoubtedly, one of the main drivers of growth for SRI is the increasing understanding by investors of the impacts of ESG issues on the economy. A recent report features influential academic studies and a diverse set of studies from renowned brokerage firms, analysing responsible investment performance at both the company/stock and fund/portfolio level.³³ Of the 20 academic studies reviewed

in the report, there was evidence of a positive relationship between ESG factors and portfolio performance in half of these, with 7 reporting a neutral effect and 3 a negative association.

On the other side of the SRI spectrum, some SRI specialists raised the need to measure extra-financial performance, estimating that the financial return on SRI is not a sufficient criterion on which to judge the success of an SRI strategy. According to the authors, SRI investors' objectives are not one-dimensional but multidimensional, adding an environmental and a social dimension to their finance expectations. Hence the need for a credible and transparent extra-financial reporting, so that investors inclined towards SRI can better ascertain whether they are in fact achieving their investment aims with the chosen investment strategy.³⁴

CONCLUSION

The drivers and trends suggest a bright future going forward for the European SRI industry. Nevertheless, it would be prudent to remain vigilant and aware of the challenges. The financial markets are currently in a state of turmoil, much of which started with the subprime crisis and has spread into the mainstream financial system. In a negative or uncertain environment, investors tend to withdraw funds -- SRI funds would certainly be impacted if conditions continue to spiral downwards. This already occurred mildly in 2001 and it is possible that the next few years will be bumpy after the recent bull market.

On a more positive note, SRI has evolved considerably since the earlier part of this decade, both in terms of a greater spread among asset classes and in the different strategies being employed. Although national situations may vary across the EU, Core and Broad SRI are equally exhibiting growth and innovation. To conclude, even in a downturn of the financial markets, Eurosif expects to see growth in European SRI above and beyond the general market by the time the next study is published.

³⁰ OnValues "Sustainable investments in Switzerland". March 2008. Eurosif "HNWIs & Sustainable Investment" 2008.

³¹ Based on its recent methodology that includes ESG criteria, Goldman Sachs has been able to pick stocks that outperform relative to the MSCI World in the short term. Source: "Introducing GS Sustain" June 2007.

³² CFA Institute "Environmental, Social and Governance factors at Listed Companies – a manual for investors" May 2008.

³³ "Demystifying Responsible Investment Performance" UNEP FI Asset Management Group & Mercer. October 2007.

³⁴ "The SRI performance paradox - How to gauge and measure the extra-financial performance of Socially Responsible Investment" Pictet Asset Management, May 2008.

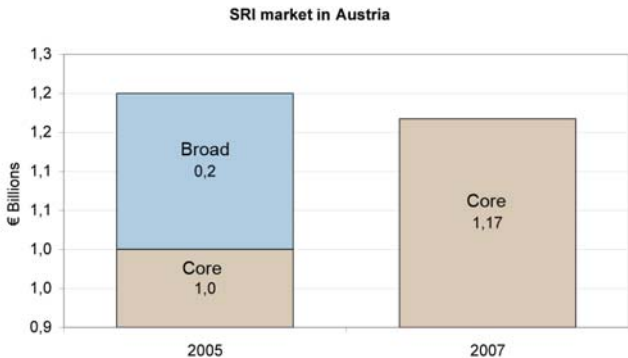
AUSTRIA

Compared to the last 2006 survey, the Austrian SRI market has slightly declined. This is mainly due to one of the large pensions funds cutting back on their SRI investments. In addition, the stock market crisis led to some reluctance of private investors.

KEY FEATURES OF SRI

The Austrian SRI market amounts to €1.17 billion as illustrated in Figure 1 and is mostly composed of Core SRI, combined with engagement. Investment funds are the largest group of assets among the Austrian SRI AuM (€1.12 billion). As the volume of overall Austrian funds, funds of funds and special funds sums up overall €163.8 billion, the share of SRI funds is very low (0.7%).

FIGURE 1



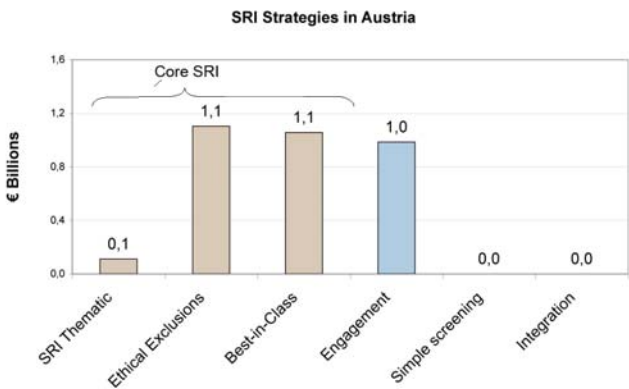
Source: Eurosif European SRI Survey, 2008

Core and Broad SRI Market

As illustrated in Figure 2, within Core SRI, ethical exclusions as well as Best-in-Class have the biggest share with close to €1.1 billion each. Thematic funds with an SRI approach are at the early stage and account for €100 million. The Austrian financial service providers combine ethical exclusions and positive screening in nearly all their assets.

Austrian SRI actors practice engagement on about €1 billion of assets, also in conjunction with Core strategies. This is the reason why the total Broad SRI amounts to zero, to avoid double counting as those assets are already included in Core SRI.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: Total of individual strategies may be superior to total Core SRI and total Broad due to overlaps.

Who are the main investors?

Retail investors account for approximately one fourth of the total SRI AuM, while institutional investors account for 73%. Religious institutions and charities, as well as insurance companies seem to play the most important role as institutional investors, followed by corporate/occupational pension funds.

What do SRI fund managers and service providers offer?

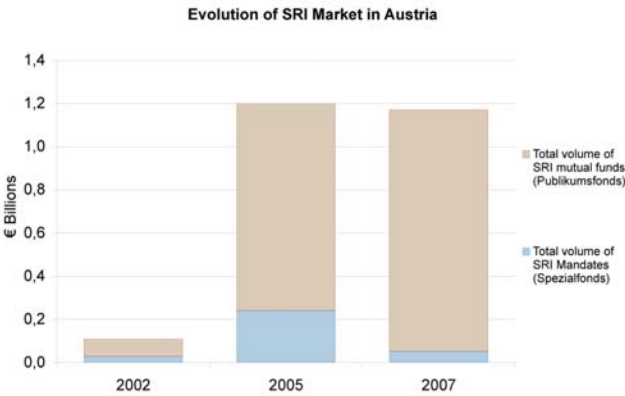
In Austria, investment funds play the most important role as investment vehicles, accounting for €1.15 billion. Mandates have a very small share of approximately € 50 million. Other products are negligible.

The Austrian SRI market is almost equally split between equity (56%) and bonds (44%).

MARKET EVOLUTION

The total SRI AuM in Austria has experienced a slight decrease (-3%) since 2005 (CAGR: -1%) as shown in Figure 3. While the volume of investment funds increased by 17%, there was a sharp decrease in SRI mandates. The overall Austrian funds market (€163.8 billion at the end of 2007) showed a slight decrease from 2006 to 2007 (-2%). Compared to the volume of 2005 (€155.6 billion), it still increased by 5%.

FIGURE 3



Source: Eurosif European SRI Survey, 2008, Forum Nachhaltige Geldanlagen

MARKET PREDICTIONS

In the next three years, the financial service providers taking part in this study estimate that their SRI assets under management will increase by 55% on average. They are even more optimistic regarding their own SRI management teams for which they expect an 85% staffing increase in the next three years. It can be assumed that a recovery of the conventional stock market will also lead to a rise in SRI investments.

One major regulation that might positively affect the Austrian SRI market is the opening-up of the former employment retirement payment funds to self-employed occupational groups. The funds therefore can expect a rise in their volume.

BELGIUM

A law prohibiting the direct and indirect financing of the manufacture, use and possession of anti-personnel mines and submunitions was approved by the Belgian Parliament in March 2007. However, the government has not yet issued a decree applying the law with a specific list of prohibited companies. Therefore it appears that negative screening on weapons is not yet technically a legal requirement. As a result, in this study we have included those assets managed solely with a negative screen on weapons in the Belgian Broad SRI. As these assets will be excluded from our SRI definition once the decree is issued¹, they have been clearly identified in Figure 3 of this section.

KEY FEATURES OF SRI

As noted below in Figure 1, the Belgian total SRI management market² amounts to €283.8 billion. This represents about 48% of the overall Belgium asset management market.³ When excluding assets managed with only a weapons screen, the total SRI market represents 20% of the overall asset management market.

The Core SRI market amounts to €23.4 billion while the Broad SRI market is €260.4 billion.

FIGURE 1

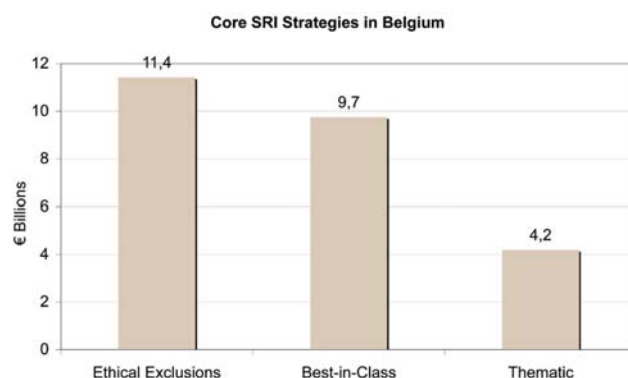


Source: Eurosif European SRI Survey, 2008

Core SRI Market

As detailed in Figure 2, ethical exclusions represent the largest component of the Core SRI market in Belgium. These exclusions take into account elaborate norms-based principles, such as the Global Compact, in combination with arms exclusions and other customised management principles. While the Best-in-Class approach is also popular, thematic funds are relatively small, consisting mainly of water and energy funds.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: Total of individual strategies may be superior to total Core SRI due to overlaps.

Broad SRI Market

Integration has witnessed remarkable growth since our 2006 survey, jumping from €0.3 billion to €91.9 billion and now constituting the largest component of the Broad SRI market in Belgium. As applied by market practitioners, integration appears to take into account a number of complex procedures:

- Integration is applied to all equities rather than to specific funds,
- Analysis comes from both outside sources fed back to mainstream analysts and from dedicated in-house ESG analysts,
- Analysis takes into account key sustainability challenges based on the risks and opportunities they present for businesses,
- Integration is performed on a case-by-case basis, and internal training for non-ESG specialists is practised on a small to moderate scale,
- However, no formal document or integration policy appears to be put in place.

Engagement has also grown, but more modestly from €7 billion to €17.1 billion. Typical engagement practices involve proxy voting, direct engagement conducted privately and collaborative engagement. Engagement is always practiced in combination with Core strategies.

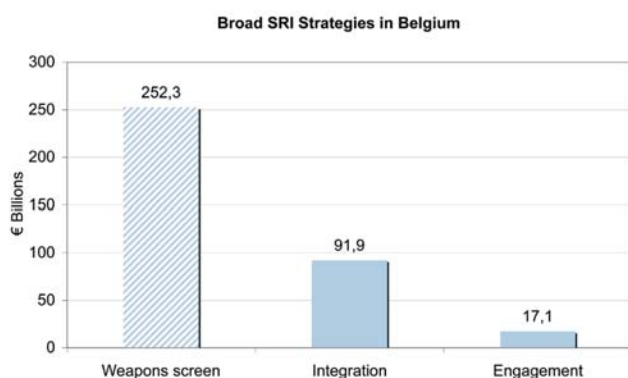
As discussed in the introduction, the assets managed solely based on weapon exclusions, which for the time being comprise a large part of the Belgian broad SRI category at €252.3 billion according to our survey, will most likely no longer be counted in our next study.

¹ According to Eurosif, SRI should always be one step ahead of legislation. As a result, if aspects of SRI, such as negative screening, were to become a legal obligation, those assets would no longer be counted as SRI.

² As a reminder, this study should be seen as an attempt to measure the size of the Belgian SRI asset management market, rather than the SRI market itself.

³ Source: BEAMA (Belgian Asset Managers Association), Annual Report 2007. The Belgian asset management market was estimated at €586.2 billion in 2007.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

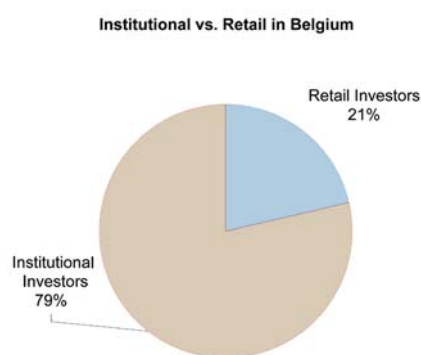
Note: total of individual strategies may be superior to total Broad SRI due to overlaps.

Who invests in SRI?

It is estimated that institutional investors (Belgian and non-Belgian) account for 79% of SRI assets under management in Belgium, consisting mainly of public pension or reserve funds, corporate/occupational pension funds, and public authorities/governments. The vast majority of these institutional assets are managed by mandate.

Retail investors account for the remaining 21%, mainly through mutual funds as illustrated in Figure 4.

FIGURE 4



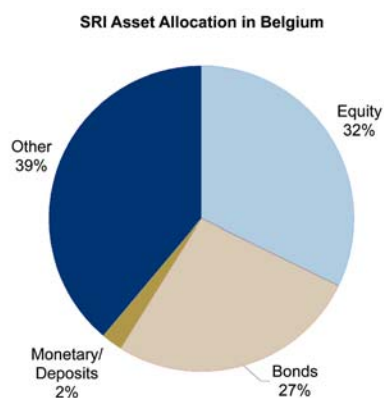
Source: Eurosif European SRI Survey, 2008

Products/Offering

Equities and bonds account for the majority of asset classes for Belgian SRI investment. The category "Other" consists mainly of a mix of equities, bonds and structured products. Although still negligible, the relative importance of the monetary/deposit asset class (2%) compared to

other European countries is a sign of the progressive emergence of SRI money market funds in Belgium.

FIGURE 5



Source: Eurosif European SRI Survey, 2008

MARKET EVOLUTION

Increasing from €149 billion in 2005 to €283.8 billion in 2007, the total SRI market has grown 90% since our last survey (CAGR 38%). Both the Core and Broad SRI Markets experienced similar growth (+147% and +91% respectively). Over the same period of time, the Belgian asset management market grew by 30%.⁴

With more than 60 SRI retail products domiciled there, Belgium showed the most remarkable increase in the growth rate of retail SRI funds.⁵

MARKET PREDICTIONS

It is believed that SRI will continue to grow in the coming years, and that it will increasingly be integrated into "traditional" financial analysis. This growth should be seen in existing investment vehicles such as bonds, as well as in new geographic areas such as emerging markets. In the retail market, two banks have taken the lead in SRI offerings, and others are expected to follow, further expanding the market. Finally, it is expected that fiscal advantages tied to SRI investment will be implemented for the first time in the near future, which should provide an additional boost to growth.

The data above is based on research and analysis conducted by Eurosif and input from Belsif.

⁴ BEAMA Annual reports 2007 and 2006.

⁵ "Green, Social and Ethical funds in Europe, 2007 Review". Vigeo / Avanzi SRI Research October 2007. For more information on Belgian retail SRI, see also the statistics of the Belgian Asset Managers Association, available at www.beama.be.

DENMARK

The Danish SRI market has grown recently, after having been historically slow to embrace SRI. This can be attributed to the predominance of fixed income securities in Danish investment portfolios, where there were at the time no responsible investment alternatives. In addition, Danish SRI pioneers faced an uphill battle where they were met by adverse media attention and received little NGO, government and union support.

Recent growth in responsible investment has been stimulated by the introduction and subsequent development of fixed income investment products, as well as the increased importance of equity products in the Danish market. The emergence of the UN PRI has also promoted growth in the Danish institutional SRI market, and it is likely to continue to do so in the future. A new governmental CSR action plan is also anticipated to spur growth over the coming years.

While norms-based screening will continue to be the dominant approach in the Danish market, it is likely to be supplemented by engagement approaches.

KEY FEATURES OF SRI

The total SRI market in Denmark amounts to €114.5 billion, with Core SRI reaching €45.7 billion and broad SRI €68.8 billion as illustrated in Figure 1.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

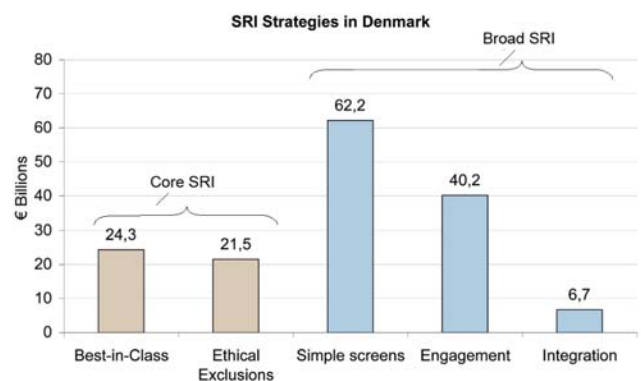
Core and Broad SRI Market

Denmark's Core SRI market is almost evenly divided between ethical exclusions and Best-in-Class strategies as illustrated in Figure 2. Currently, thematic funds are completely absent from the Danish SRI market.

Broad SRI Market

Norms-based screening represents the largest segment of the Broad SRI market in Denmark. Norms include ILO conventions, OECD Guidelines and domestic laws. Criteria embedded in the UN Global Compact are also included in norms-based screening approaches. Engagement represents the second largest component of the Broad SRI market. Generally, engagement practices include direct private engagement, proxy voting and collaborative engagement. Integration has yet to play a significant role in the Danish market.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Who invests in SRI?

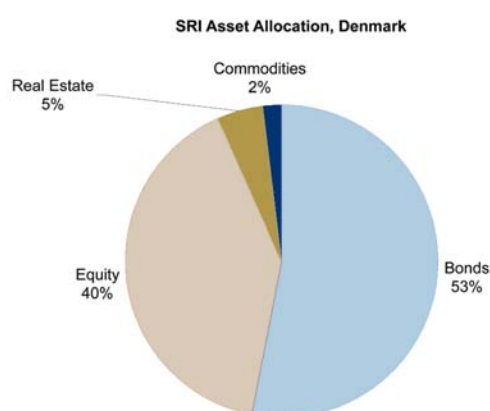
The SRI market is largely driven by institutional investors but available data cannot be broken down by market segment.¹

Products/Offering

Bonds constitute the single largest asset class of SRI assets under Danish management as shown in Figure 3. While equities represent a somewhat smaller proportion of SRI assets, this asset class also appears to be the most commonly used by market practitioners (95% of respondents invested in equities). Similarly, real estate and venture capital/private equity represent minor proportions of the total value of SRI assets, but were used by almost a third of market practitioners.

¹ As most Nordic Asset Managers have a cross Nordic scope of their organisation, it is very difficult for them to know how much is retail in Sweden, Norway, Denmark and Finland.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

Geographically, 63% of SRI equity investment took place in Europe (including 39% in Denmark), while the remainder was almost evenly allocated between North America, Asia and emerging markets.

MARKET EVOLUTION

As noted earlier, the Danish SRI market was smaller than may have been expected due to the predominance of fixed income holdings and a lack of interest from stakeholders such as governments, NGOs and trade unions.

The media also hampered the development of responsible investing in Denmark. For example, in the early 1990s, two Danish pension funds began to implement ethical investment policies. These funds faced such pervasive criticism in the media that it inhibited other asset managers from adapting similar policies. The responsible investment market was also set back by the lacklustre performance of Denmark's first retail SRI fund.

Times have changed. Today, the majority of the large pension funds have adopted systematic responsible investment approaches. Responsible investment products have been tailored for fixed income securities, and an increasing share of Danish assets has been placed in equity securities. Generally, strategies are based upon portfolio risk assessments. External responsible research and rating providers support most asset managers' responsible investment processes. Danish schemes have recently received pressure by the public to boycott investments linked to the manufacture of cluster bombs after criticism in the media from the Danish Church and NGOs, including Amnesty International. The UN PRI has played a key role in

stimulating awareness in responsible investment, which has in turn promoted growth.

On the retail side, there are currently eight retail SRI funds available in the Danish market. However, the assets under management in these retail funds are meagre.

MARKET PREDICTIONS

Practitioners expect both the Danish institutional and retail responsible investment markets to grow. The UN PRI will continue to play a vital role in encouraging asset managers to adopt and further develop responsible investment practices. Engagement is likely to increase. The market also anticipates that a new governmental CSR action plan will also be an important driving force in the coming years.

The data above is based on research conducted by TNS Prospera and analysis conducted by Eurosif, with input from Sarita Bartlett at KPMG and Erik Alhoej at GES Investment Services.

FINLAND

SRI in Finland has gotten off to a slow start. The inertia in the Finnish market can be attributed to the absence of a responsible investment asset manager or investor spearheading this type of investing and a lack of media and NGO attention. However, there are indications that responsible investment is gaining momentum.

There are €67.4 billion in assets under SRI management in Finland. The majority of these assets are subject to ethical exclusions in the form of Norms-based screening. At the same time, interest in engagement, integration, and thematic funds (especially climate funds) is growing. Equities are the predominant asset class, accounting for 53% of total assets.

KEY FEATURES OF SRI

The Finnish SRI market amounts to €83 billion, with Core SRI reaching €13.4 billion and Broad SRI €54 billion as illustrated in Figure 1.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

Core SRI Market

Ethical exclusions comprise the overwhelming majority of the Core SRI market in Finland as shown in Figure 2. While the Best-in-Class approach is undertaken by some managers, thematic funds are only now starting to enter the Finnish SRI market.

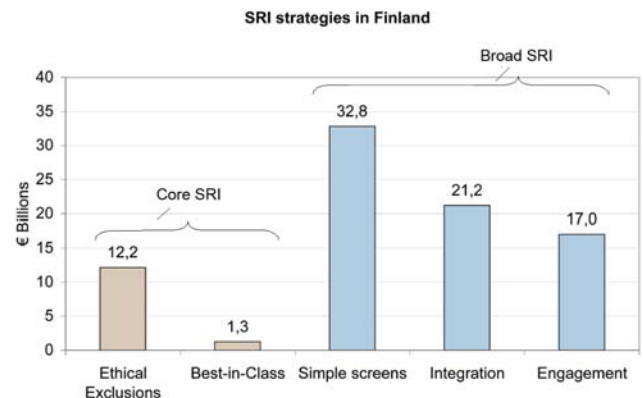
Broad SRI Market

Norms-based screening represents the largest segment of the Broad SRI market in Finland. The norms used are mainly UN Global Compact, ILO and domestic laws. Integration, the second largest component of the Broad

SRI market, appears to be applied somewhat informally: no formal document or integration policy is generally used, and integration is usually restricted to specific funds rather than applied across the board.

Engagement is gaining momentum in Finland. However, it is usually conducted by individual investors. There has been reluctance among Finnish institutional investors to adapt collaborative engagement approaches towards Finnish companies.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Who invests in SRI?

The market is largely driven by institutional investors, but available data cannot be broken down by market segment.¹

Products/Offering

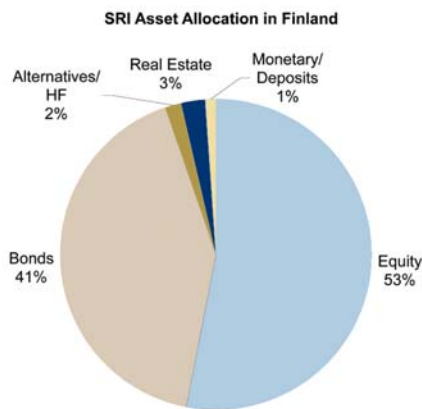
Equities, representing 53% of SRI assets under Finnish management, is also the most popular asset class as shown in Figure 3: all respondents stated that they used equities as an asset class. Bond investments, accounting for 41% of SRI investments, are relatively balanced between public and corporate bonds. While the remaining asset classes represent only 5% of total SRI investment, they appear to be quite popular across the population of market practitioners, indicating perhaps that such products are useful for diversification purposes, or that demand for such products is still at an early stage. For example, real estate, while representing only 3% of total SRI investment, was used by 39% of respondents, and venture capital/private equity (1% of total) was used by 28% of respondents.

Geographically, 71% of SRI equity investment took place

¹ As most Nordic Asset Managers have a cross Nordic scope of their organisation, it is very difficult for them to know how much is retail in Sweden, Norway, Denmark and Finland.

in Europe (including 45% in Finland), while North America, Asia and emerging markets were allocated 11%, 10% and 8% of SRI equity investment, respectively.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

legislation. There is a consensus that thematic funds (especially climate funds) are likely to increase in popularity.

The data above is based on research conducted by TNS Prospera and analysis done by Eurosif, with input from Sarita Bartlett at KPMG and Fredric Nystrom at GES Investment Services.

MARKET EVOLUTION

The responsible investment market in Finland has experienced sluggish growth. Until recently the Finnish Church was the only institutional SRI investor. The inertia in the Finnish market can be attributed to a vacuum in responsible investor leadership (i.e., an absence of one or several asset managers or investors spearheading responsible investing), and until recently, a lack of media and NGO focus on corporate responsibility and responsible investing.

In the summer of 2007, a TV documentary spotlighted suspect investment practices. As a consequence, at least one pension fund adopted responsible investment guidelines based on UN PRI principles, and there are indications that other institutions are likely to follow.

MARKET PREDICTIONS

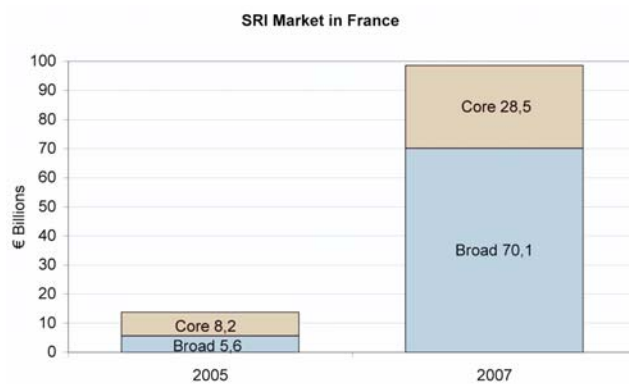
Market practitioners appear to be cautiously optimistic about the development of the SRI market in Finland. Optimists assert that we may see asset managers establishing ESG policies and new actors coming into the market soon. Others highlight difficulties in identifying new companies that meet SRI criteria and the complexity of proxy voting in Finland. With respect to the latter barrier, there is a call for European-wide proxy voting

FRANCE

KEY FEATURES OF SRI IN FRANCE

As of December 31st, 2007, the French Core SRI market had reached €28.5 billion as illustrated in Figure 1. The Broad SRI market amounts to €70.1 billion, of which €66 billion is allocated to mandates using an integration approach and about €4 billion subject to simple exclusions.

FIGURE 1



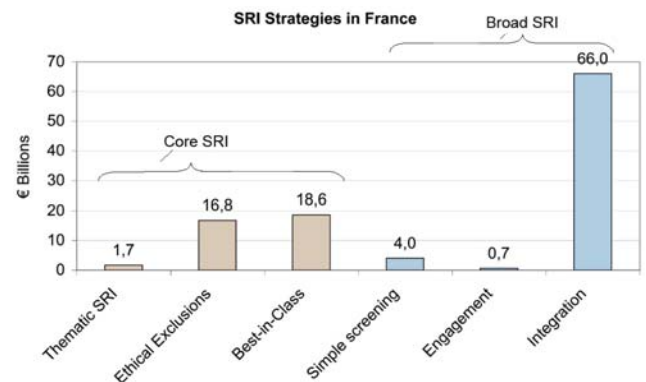
Source: Novethic, Eurosif

Main practices

As illustrated in Figure 2, the Core SRI market of French Asset Managers is still made up of ESG Best-in-Class approaches (€18.8 billion) and multiple-factor ethical exclusions. Such exclusions play a small role for French clients, as they are often combined with ESG selection; but when foreign customers are included, the amounts subject to exclusions reach €16.8 billion. French clients' preference for ESG positive selection reflects the country's historical focus on the sustainable development dimension of SRI. Eurosif estimates that the Core SRI French assets contribute about 1.0% of the French asset management industry.¹

In the Broad SRI market, simple exclusions (€4 billion) play a minor role. Engagement (€651 million) is essentially practiced by a minority group of activist funds which have their roots in corporate governance activism. Integration on the other hand, has shown a rapid growth, culminating at €66 billion. Indeed, following Fonds de Réserve pour les Retraites (FRR) (since 2004) and the Caisse des Dépôts et Consignations (CDC) pioneer involvements, private asset management subsidiaries of large insurance groups have started to integrate ESG criteria into their mainstream investment strategies.

FIGURE 2



Source: Novethic, Eurosif

Finally, most AuM invested in company shares are being actively voted according to respondents, who must abide by the "comply or explain" legislation in France. However, such voting practices rarely go beyond statutory proposal and corporate governance issues.

In terms of investment vehicles, research data indicates a growing preference for mandates over investment funds, as illustrated in table 3. 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)², and supply-side driven due to the growing capacities of fund managers to develop tailor-made offers.

Who are the main investors?

TABLE 3: INVESTMENT VEHICLES IN FRENCH CORE SRI

| | |
|------------------|---------------------|
| Investment Funds | Retail 4.35 |
| | Institutional 5.47 |
| | ESP 1.38 |
| | TOTAL 11.21 |
| Mandates | Institutional 16.05 |
| | ESP 1.29 |
| | TOTAL 17.34 |
| TOTAL Core SRI | 28.55 |

Source: Novethic, Eurosif

As illustrated by Figure 4, the French SRI market is characterised by the strength of both its institutional (76%) and retail (26%) arms.

Historical SRI investors such as churches, NGOs and

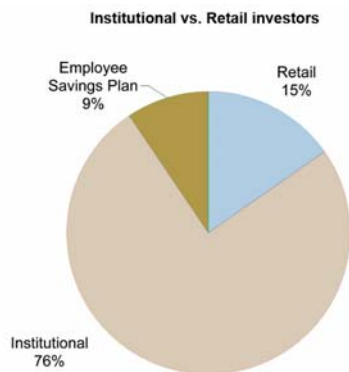
¹ Source: "EFAMA: Annual Asset Management report - July 2008" estimates the French asset management market at €2,727 billion in 2006. Assuming a 1.6% growth in 2007 (AMF, French SICAV), this suggests a market at €2,771 billion in 2007.

² A plan that allows employees to contribute to an investment pool managed by the employer. In a manner similar to Defined Contribution schemes, individual employees get to choose how to allocate their assets among a range of funds proposed by the Plan's fund managers.

charities are no longer core players in the market. Indeed, following in the footsteps of the FRR and the French Public Service Additional Pension Scheme (ERAFP), a growing number of large institutional investors such as insurers now apply an SRI approach. This growth is also partly driven by the role of trade unions in co-managing public funds.

Employee Savings Plans represent 9.4% of the SRI market. Here again, trade unions play a key role in defining the ESP offer and its SRI characteristics. One may note that SRI ESPs represent more than 6% of the global ESP AuM.

FIGURE 4

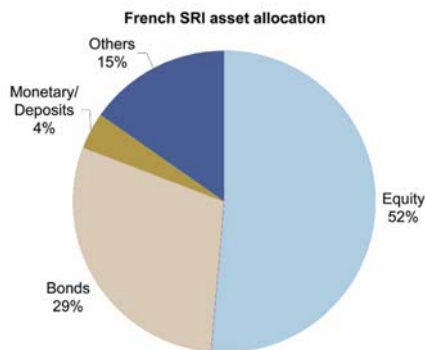


Source: Novethic, Eurosif

What do SRI fund managers offer?

Institutional investors in SRI currently focus on Europe geographically, equities in terms of investments and favour large caps. However, other asset classes such as SRI bonds have grown significantly these past two years as illustrated in Figure 5. More recently, a few SRI funds of funds have also been launched on the French market.

FIGURE 5



Source: Novethic, Eurosif

To cater to this demand, most large banks are present on the French SRI market through their fund management departments, along with smaller specialised fund managers. Most fund managers offer both investment funds, as well as customised management (mandates) in order to meet the specific requirements of a growing number of investors.

When performing research, fund managers rely on both internal and external sources. Favoured suppliers are SRI research agencies, used by all fund managers, and brokers (25%). Also, 88% have a dedicated internal team (analyst and/or manager). Lastly, 44% run committees dedicated to SRI issues.

MARKET EVOLUTION

The French SRI market is healthy and has proven to be quite resistant to the financial crisis that has persisted since mid-2007. The Core SRI market has grown by 247% since the 2006 SRI survey (CAGR³: 87%), while the Broad SRI market has jumped 1150% (CAGR: 254%). Overall the total SRI French market (Core + Broad) has grown 615% between 2005 and 2007 (CAGR: 167%) which is one of the fastest growths in Europe. Over the same time period, MSCI Europe grew 16.16%. Given the European focus of French SRI, this suggests that the Core SRI market's real growth was 230% (CAGR: 79.2%).

Although retail investors have shown significant interest in SRI funds (+84%), the market is still driven by institutional investors, whose assets have increased by 317%.

With no dramatic legal changes since 2005, 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 a growing number of fund managers.

MARKET PREDICTIONS

Along with investment professionals, Novethic and Eurosif are optimistic that the SRI growth prospects in France will be demand-driven, led by:

Institutional investors:

Several request for proposals (RFPs) have been launched this year for SRI mandates. Large institutional investors, especially those managing their customers' assets such as insurance companies, are increasingly focusing on the ESG and reputational risks and opportunities of their

³ Compound Annual Growth Rate

investments. Additionally, a few institutional investors already involved in SRI, such as the FRR, are now in the process of expanding the scope of SRI strategies to all asset classes.

Employee Savings Plans (ESPs):

This year's survey by Novethic and Altedia IC showed a mitigated knowledge of SRI across the 120 largest French companies, although a majority displayed an interest in SRI ESPs and predicted an important increase of this market within the next 5 years.

Retail investors

The marketing aspect of SRI, which has long been neglected by SRI suppliers, seems to be developing with innovative initiatives such as Caisses d'Epargne's "Bénéfices Futur" program, which seeks to raise public awareness of ESG issues linked to their financial products.

The data above is based on research and analysis conducted by Novethic (www.novethic.fr / www.novethic.com) and Eurosif (www.eurosif.org).

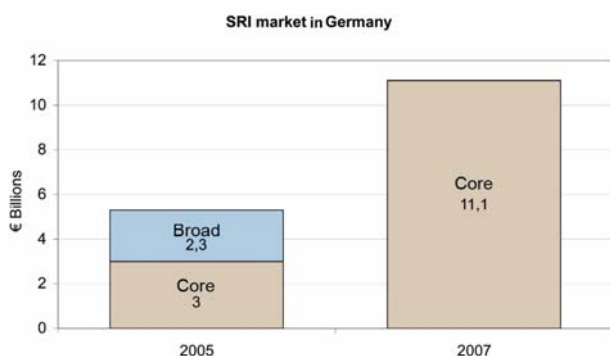


SRI initiatives in Germany evolved in the 1970s from the ecological and pacifist movements. Since then, institutional investors, such as churches and insurance companies, have helped foster the trend towards SRI. From 2002 onwards the German government enacted disclosure regulations for pensions to encourage SRI.

KEY FEATURES OF SRI

The German SRI management market amounts to €11.1 billion. Core SRI accounts for 100% of the total SRI AuM as shown in Figure 1. As the total volume of capital in German investment companies came to €1698.4 billion in 2007¹, the share of total SRI assets sums up to approximately 0.7%.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

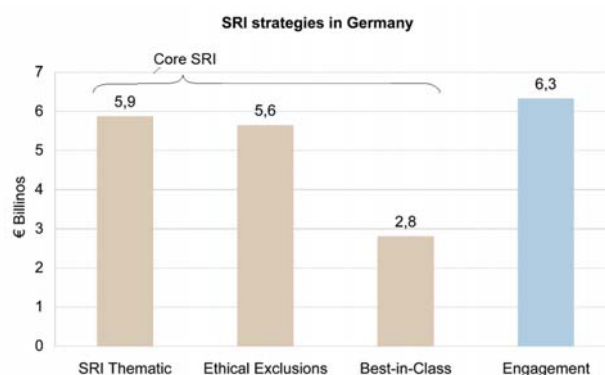
Core SRI Market

Within Core SRI, theme funds play a major role with €5.9 billion of assets under management as illustrated in Figure 2. The second most commonly used investment strategy is ethical exclusions which accounts for €5.6 billion. Best-in-Class plays a lesser role and sums up to €2.8 billion. The importance of other positive screening criteria is very low, at less than 1%. In some cases, investors combine ethical exclusions with positive screening (26.8%).

Broad SRI Market

Engagement practices cover about €6.3 billion of assets and are always combined in Germany with positive screening or ethical exclusions. This is the reason why the total Broad SRI amounts to zero, to avoid double counting as those assets are already included in Core SRI.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: As engagement is systematically practiced in combination with Core strategies, the engagement assets are not counted in the total Broad SRI to avoid double-counting, hence a total Broad at zero.

Who are the main investors?

The German SRI market is dominated by institutional investors (63%). Respondents of our survey rated religious institutions and charities as the most important institutional investors, followed closely by NGOs and foundations. Corporate/occupational pension funds as well as insurance companies and mutual organisations are also seen as important institutional investors. Other institutional investor groups like public authorities and governments, universities and other academics, public pension funds or reserve funds continue to play a minor role in SRI investment.

On the retail side, High Net Worth Individuals are expected to increasingly drive the demand of this segment.

What do SRI fund managers and service providers offer?

The spectrum of SRI products and financial services offered includes the whole opportunity set of traditional investment. Mandates make up the largest part of German SRI assets at €4.9 billion as of the end of 2007. German SRI investment funds (open to both retail and institutional investors) reached €4.3 billion, representing 0.6 % of the total volume of German mutual funds.²

Other SRI assets such as ETFs, structured products, hedge funds, closed end-funds and guaranteed funds, sum up to €1.8 billion.

In terms of asset allocation, German SRI is largely dominated by equities (70%), followed by bonds (21%). Noteworthy is the relative importance of the SRI money

¹ See Bundesverband Investment und Asset Management e.V. (BVI): Jahrbuch "Investment 2008", Daten, Fakten, Entwicklungen (p. 4). Link: http://www.bvi.de/de/bibliothek/jahrbuecher/archiv/jb2008/jb2008_neu.pdf.

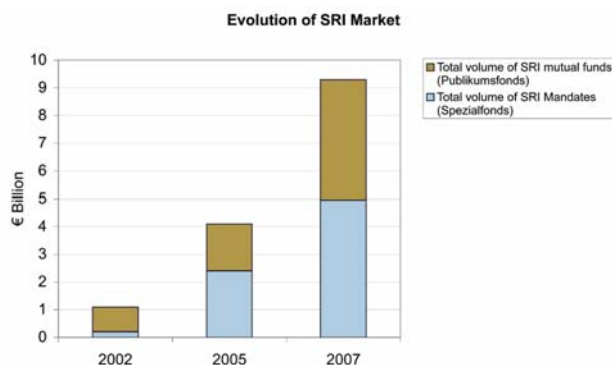
² Ibid.

market (3% of SRI assets), compared to other European countries.

MARKET EVOLUTION

Since 2005 there has been a steady growth in the German SRI market. The total volume of SRI investments managed in Germany rose by about 110% (CAGR: 45%) from €5.3 billion at the end of 2005 to €11.1 billion in December 2007. This growth is mainly caused by the increase of total volume of SRI mandates ('Spezialfonds'). The SRI mandates' volume grew by more than 106% from €2.4 billion at the end of 2005 to €4.9 billion in 2007.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

Concerning growth expectations for the German SRI market, the financial service providers are optimistic. On average, they expect an increase of 241% in their SRI assets under management. However, the question in our survey relating to future prospects was answered very heterogeneously by the financial service providers taking part in this study. Regarding their SRI management teams, respondents predict an average 38% growth in the next three years. There also seems to be an optimistic view that extra financial aspects will become more important for private investors.

In 2008, there are also significant signs of institutional investors starting to integrate ESG criteria into their traditional investment analysis on a large volume of assets; therefore it is expected that integration (and therefore Broad SRI) will increase tremendously in the coming years.

MARKET PREDICTIONS

The discussion on how to cope with climate change has influenced the business environment for sustainable investments in Germany. For example, policy makers recognise the importance of the financial market in financing climate friendly technologies and ecological innovation in general. The German Federal Ministry for Education and Research has launched a platform for climate change and investments in order to better inform financial service providers on this topic. Nevertheless, there are no legal or regulatory implications attached to this.

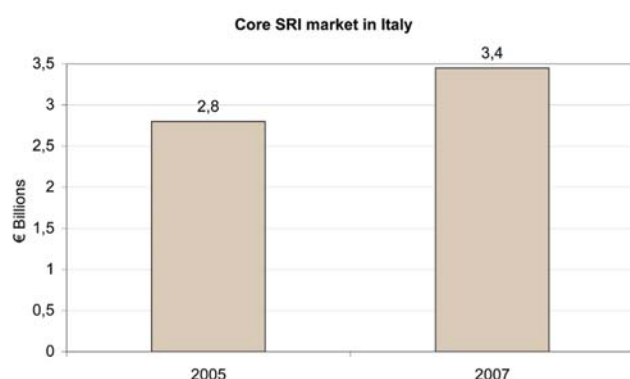
Additionally, the relevance and actuality of climate change has led to increased consumer awareness and the development of new markets for climate friendly investment products. Therefore, new financial products focusing on climate change as well as financing start-ups in the field of new energies and clean technologies are entering the market and might also influence the shape of SRI in the years to come.



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

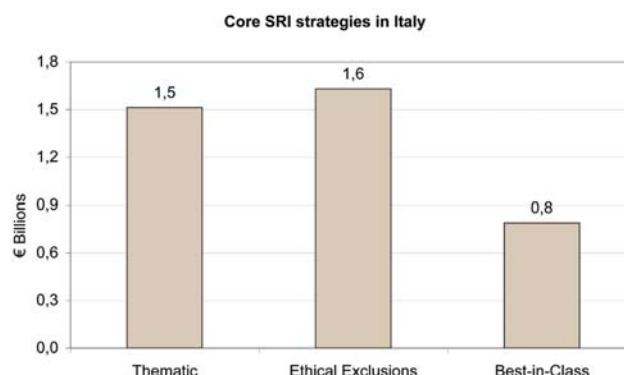
The prevalence of the retail component, as opposed to the institutional one, in the Italian SRI market still sets it apart from other markets. Unlike other European markets, the institutional investor market is still very small (6% of total Core SRI) due to the relatively recent start of the pension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

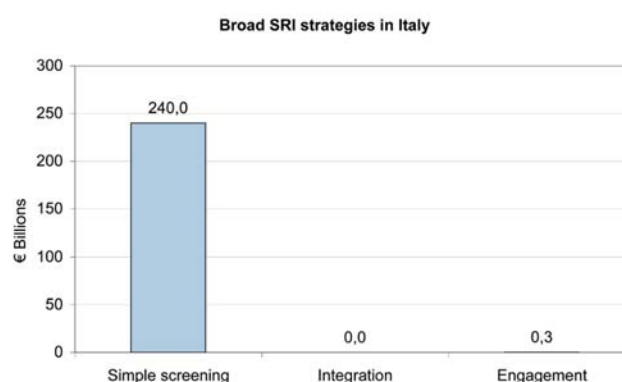


Source: Eurosif European SRI Survey, 2008

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

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.

NORWAY

Responsible investment in Norway can be traced back to the late 1980s with the introduction of the country's first environmental fund. There was steady growth in this type of investing, especially among institutional investors, from the mid-1990s to 2004. The size of the market increased dramatically in 2004 with the introduction of ethical guidelines on the Norwegian Pension Fund.

Norway's premier fund, the Norwegian Government Pension Fund-Global, defines the Norwegian responsible investment market in terms of its guidelines and investment approaches. The fund's guidelines are based on a combination of engagement, negative screening, and exclusion.

In addition to dominating the domestic market due to its sheer size, the Norwegian Government Pension Fund serves as a role model for other asset managers and investors in Norway and abroad. These asset managers and investors have adopted similar policies and practices and often join in collaborative engagement, as well as follow the Norwegian Government Pension Fund-Global's exclusion recommendations.

At the same time, other Norwegian asset managers and investors, individually and collectively, have made important contributions to increasing the size, breadth, and depth of the Norwegian responsible investment market. The Sustainable Value Creation Initiative and the Norwegian Microfinance Initiative are examples of significant contributions.

BACKGROUND

In the early 2000s, the Norwegian NGO community began to question the social responsibility of asset managers that offered only a few responsible investment products and institutional investors that only applied responsible investment policies to a small fraction of their assets. Managers and investors responded by applying a "minimum ethical standard" to all of their products and assets.

Minimum ethical standards led to large increases of SRI AuM. By far the largest growth can be credited to the Norwegian Government's Pension Fund. With overall assets of approximately €270 billion (as of December 31, 2007), it is the largest pension fund in Europe and the second largest pension fund in the world.

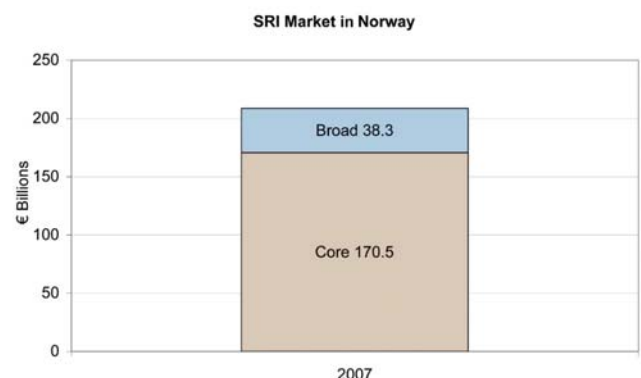
The Norwegian Government Pension Fund has served as a role model for both international and other domestic asset

managers and investors. As a consequence, those recommendations serve as minimum ethical standards for most Norwegian asset managers and investors.

KEY FEATURES OF SRI

Norway's SRI market totals €208.8 billion, with Core SRI amounting to €170.4 billion and Broad SRI to €38.3 billion as illustrated in Figure 1.¹

FIGURE 1



Source: Eurosif European SRI Survey, 2008

Core SRI Market

As illustrated in Figure 2, the Core SRI market in Norway consists almost exclusively of ethical exclusions, including violations of fundamental humanitarian principles, serious violations of human rights, gross corruption and severe environmental damages. Several asset managers use the Best-in-Class approach. Thematic funds (e.g., clean tech funds) are experiencing a renaissance.

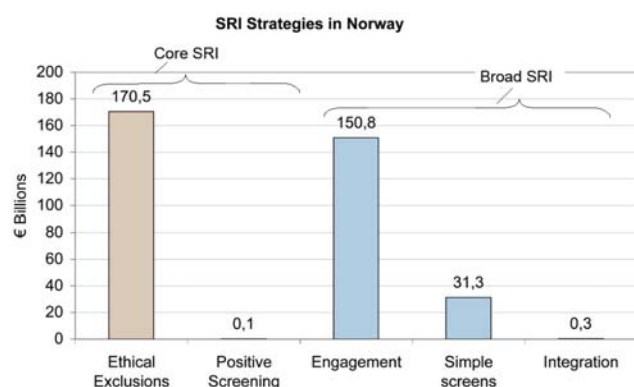
Broad SRI Market

Engagement is the most widely applied strategy in the Broad SRI market in Norway, very often practiced in combination with Core strategies (hence a total Broad smaller to avoid double-counting). It most frequently involves proxy voting, direct engagement conducted privately, collaborative engagement and, to a lesser extent, the co-filing of shareholder resolutions. Simple screening takes the form of norms-based exclusions,² weapons-only exclusions, and, for the majority, screening based on other criteria. Integration is not a widely used strategy for the Norwegian Broad SRI market.

¹ Most Nordic Asset Managers have a cross Nordic scope of their organisations. As a result, and following Eurosif's national market definition, some very large Norwegian/Swedish Asset Manager are accounted for in the Swedish and not the Norwegian survey.

² For this study, respondents were asked to specify which norms the exclusion was based on. When the norms-based screening was clearly using several negative criteria, the assets were considered under the ethical exclusions segment (i.e. Core SRI).

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: Total of individual strategies may be superior to total Core and Broad SRI due to overlaps.

Who invests in SRI?

The Norwegian responsible investment market is largely dominated by institutional investors; the largest investor is the Norwegian Government Pension Fund. SRI in the retail sector is also considerable, accounting for at least €5 billion in assets under management.³

Products/Offering

Roughly 75% of Norwegian SRI assets under management are invested in equities, mostly in Europe (exclusive of Norway) and North America. Unlike most other countries, only a small portion (3%) of those equity investments are in Norwegian equities. This can be attributed to the predominance of the Norwegian Government Pension Fund- Global which only invests outside of Norway.

Bonds account for 23% of the Norwegian SRI asset allocation, overwhelmingly in the form of corporate bonds. Finally, other asset classes such as hedge funds, venture capital/private equity and real estate, while negligible in relative value, are used by a sizable proportion of market practitioners. Large Caps investments represent 60% of the Norwegian SRI assets in volume; Small and Medium Caps 40%.

MARKET EVOLUTION

The recent focus on climate change and the natural energy dominance in the Norwegian economy have led to a re-emergence in the popularity of funds involved in alternative fuels and environmental technologies. Recently, Norway's

largest institutional investors, representing nearly €349 billion in assets, launched Sustainable Value Creation. These investors will seek to use their influence as owners to actively influence Norwegian stock exchange listed companies towards sustainable development (i.e. by creating economic, environmental and social value). The initiative has been based upon the principles contained in the UN Global Compact, UN PRI, OECD's Guidelines for Multinational Enterprises, and the Norwegian Code of Practice for Corporate Governance (NUES).

In June 2008, three large Norwegian asset managers, Norad (the Norwegian Agency for Development Cooperation) and Norfund (the Norwegian Investment Fund for Developing Countries) launched the Norwegian Microfinance Initiative (NMI). This \$120 million initiative is comprised of two funds, the NMI Global Fund which is targeted towards mainstream microfinance institutions, and the NMI Frontier Fund which is directed at less mature institutions.

MARKET PREDICTIONS

The Norwegian responsible investment market will continue to increase and expand. Growth will be driven by increases in the size of pension funds with responsible investment strategies, especially the Government Pension Fund. Growth is also likely in the responsible investment retail markets.

The Norwegian Government is currently evaluating the Norwegian Government Pension Fund-Global's Ethical Guidelines. The objectives are to review its guidelines, maintain "broad political support", and collect feedback as to the ways in which it could strengthen its profile as a responsible investor. The results of this evaluation will be presented to the Norwegian Parliament in a white paper in spring 2009.

Revisions in the Norwegian Government's Ethical Guidelines will undoubtedly shape other asset manager and investors' responsible investment policies both in Norway and abroad. At the same time, the Sustainable Value Creation initiative will also promote responsible investment in Norwegian companies.

Finally, in January 2008, a group of Norwegian investors and stakeholders met to explore the possibility of forming a Norwegian Social Investment Forum (Norsif). Interest is strong, and informal meetings have been held throughout the year.

The data above is based on research conducted by TNS Prospera, and analysis done by Eurosif. Sarita Bartlett at KPMG kindly provided market context for this analysis.

³ As most Nordic Asset Managers have a cross Nordic scope of their organisation, it is very difficult for them to know how much is retail in Sweden, Norway, Denmark and Finland.

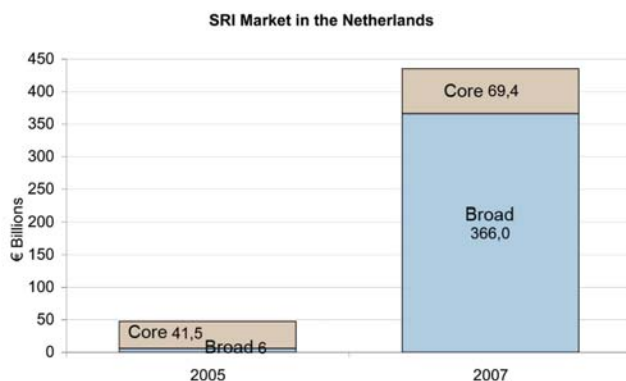
THE NETHERLANDS



KEY FEATURES

Both Core and Broad SRI have increased dramatically in recent years. Since the 2006 SRI Study, total SRI Assets under management (AuM) have increased +816% from €47 billion to €435 billion at the end of 2007 (CAGR: +203%), one of the fastest growth patterns in Europe. Of that, approximately €69.4 billion (+67% compared to 2005, CAGR at 29%) is regarded as Core SRI and €366 billion (€6 billion in 2005) as Broad SRI as illustrated in Figure 1. The total volume of Dutch AuM was at €1.09 trillion in 2007¹ resulting in a total SRI market share of 40%.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

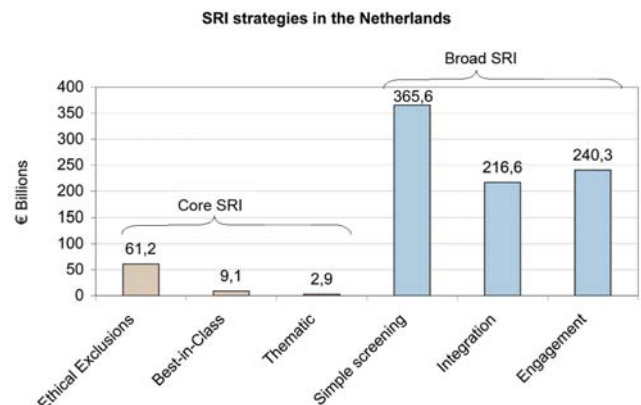
Institutional SRI in the Netherlands has shown incredible development in recent years. Besides a growing societal concern about the environment and awareness of social injustice, the Dutch financial community was rocked by a documentary that was broadcasted in early 2007. In this documentary several large pension funds were confronted with the fact that their SRI investments were minimal, and that some of their investments included investments in highly polluting companies or in producers of weapons such as cluster bombs. The broadcast acted as a wake up call and/or accelerator in the traditionally conservative mainstream financial market where only a few institutional investors had made efforts to increase SRI in their portfolio. Since the broadcast, the largest pension funds in particular have made genuine and impressive efforts to further increase SRI in their portfolio. The first results of these increased efforts include drawing up policies, and in some cases, implementing them.

It should be noted that the documentary had a major impact but was certainly not the sole reason for the incredible development of SRI. Several of the largest institutional investors were already in the process of implementing SRI policies before the broadcast. It did however expose the financial community to a level of media attention that was unheard of beforehand.

MAIN PRACTICES

The majority of Dutch SRI AuM are based on simple negative screening as shown in Figure 2. €365.6 billion of assets are screened on the exclusion of weapons alone. This represents 36% of the total Dutch AuM. Simple negative screening is often the first and most common step in the implementation of an SRI policy. It should be noted that the level of strictness varies as some investors tolerate minor involvement of companies in some excluded industries.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

After simple negative screening, about €61 billion are invested according to multiple ethical exclusion criteria.

Total positive screening has increased far less dramatically than negative screening. However, the increase is still + 16% compared to the 2006 study. This growth is largely due to the introduction of several sustainability related theme funds.

Engagement too has shown a tremendous growth (€15 billion in 2005 to €240 billion in 2007) as large institutional investors continue to increase their engagement efforts. Although the primary focus is still on corporate governance issues, several institutional frontrunners are increasingly engaging with companies on environmental and social issues.

All parties involved indicate that they make use of their proxy voting right and 57% indicate that they have an active engagement policy. Engagement is mostly conducted on a private and collaborative basis with only 14% indicating that they engage with companies publicly.

Integration policies are limited to specific funds in most cases with only 29% indicating that they have a formal integration policy that covers all equities. Practically the same number of parties indicate that thematic analysis and research on ESG

¹ Source: DNB, Statistical Bulletin 2007.

issues are fed back to mainstream analysts, that ESG analysts work directly and on a regular basis with mainstream analysts and that ESG rating are systematically included in standard analysis spreadsheets.

MAIN INVESTORS

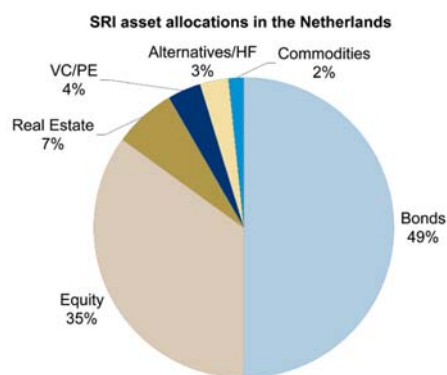
Pension funds and insurance companies continue to be a dominant force in the Dutch mainstream and SRI institutional markets.² In the pension fund market, the two largest pension funds (ABP and PGGM) represent approximately €300 billion in assets. These largest pension funds also happen to be frontrunners in the development and implementation of their SRI strategies, hence the remarkable volume of Broad SRI in the Netherlands. Many smaller pension funds assets are managed externally.

The Dutch asset management market traditionally consists of several very large mainstream asset managers and a few niche SRI asset managers. Trends show that the large mainstream asset managers are increasing their SRI efforts and that due to rapid growth rates, niche markets are becoming more mainstream.

According to our survey, retail investors represent about €3.7 billion of AuM.

INVESTMENT PRODUCTS

FIGURE 3



Source: Eurosif European SRI Survey, 2008

As illustrated in Figure 3, the Dutch SRI market is dominated by fixed income (49%) and equities (35%). It is also starting to be quite diversified in other asset classes compared to other European markets. Here again, this mirrors the weight of the largest Dutch pension funds which are delving into new SRI asset classes such as sustainable property, private equity, hedge funds or commodities (forestry).

MARKET EVOLUTION

SRI growth rates in the Netherlands are extreme, both institutional and retail. There are however several issues to take into consideration. First, it should be noted that €366 billion of SRI is Broad based. More specifically, this is primarily due to simple screening, most of which is weapons exclusion.

Second, the growth can also be attributed to the decision of three major asset managers to exclude the weapon industry in their investment decisions.

It is difficult to pinpoint the exact reason for the major developments in the Dutch SRI community, but there are some clear indications. First of all, there is an overall growing concern in society about issues related to the environment. People are more frequently confronted through the media with the consequences of climate change and people increasingly link environmental issues with high energy prices. Finally, as discussed in the introduction, in early 2007, pension funds experienced media attention and public pressure following the broadcasting of the Zembla documentary called 'the cluster bomb feeling'. For several SRI frontrunners, it acted as an accelerator to implement SRI policies, and for followers, it meant a wake-up call to finally act.

MARKET PREDICTIONS: 3 YEARS FROM NOW

Environmental related issues such as above mentioned climate change and energy scarcity will continue to be prominent. More and more large institutional investors are expected to take their own responsibility in contributing to the solutions for these challenges. As a result, Eurosif and VBDO expect many large institutional investors to invest more in sustainability related theme funds such as water, clean energy and climate change funds.

Large institutional investors will proactively look for means to prevent being confronted with another Zembla like broadcast. This means that more large institutional investors will actively develop and implement policies on sensitive sectors but also more general policies on international labour standards and human rights.

Further SRI developments will be more gradual as many financial market actors are still either not convinced that sustainability and finance are compatible, or have difficulty adapting their business. SRI will however continue to gain momentum as civil society, faced with the growing urgency of environmental and social challenges, seeks financial means to address these issues.

² Pension funds represent approximately €650 billion in assets and insurers approximately €350 billion.

SPAIN



KEY FEATURES OF SRI

The Spanish market has experienced a phase of consolidation in the last two years but has not yet taken off. As shown in Figure 1, the total SRI industry was €30.75 billion, of which a meager 5% (€1.44 billion) would be considered Core SRI and 95% (€ 29.31 billion) would be included in Broad SRI parameters. With that in mind, total SRI AuM represents 9.42 % of the total asset management industry in Spain.

FIGURE 1



The overall figure does not reflect however the main characteristic of the Spanish market. This is due to the strong concentration of Broad assets under management in only one player in the institutional market that accounts for 96% of the total Broad SRI market.¹ For this reason, when analysing the market we will refer to adjusted values in order to neutralize the statistical bias created by this strong concentration of AuMs.

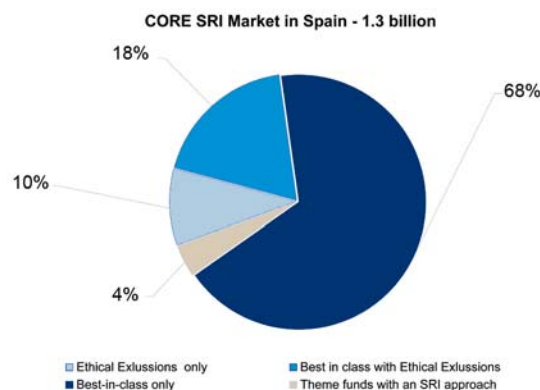
TABLE OF ADJUSTMENTS

| | 2005 | 2007 | % of total |
|-------------------------------|--------------|--------------|-------------|
| Core | 1,56 | 1,28 | 4% |
| Broad | 23,49 | 29,46 | 96% |
| Total Market | 25,06 | 30,75 | 100% |
| (-) Adjustments for Core AuMs | 0 | 0 | - |
| (-) Adjustments for Broad AUM | 22,96 | 28,12 | - |
| Core adjusted | 1,56 | 1,28 | 49% |
| Broad adjusted | 0,53 | 1,34 | 51% |
| Total Market adjusted | 2,10 | 2,62 | 100% |

Main SRI practices

As shown in Figure 2, the most developed practice within Core SRI in Spain is the Best-in-Class approach which accounts for 86% of the category and can be broken down between only Best-in-Class at 68% and Best-in-Class combined with ethical exclusions at 18%.

FIGURE 2



Theme funds with an SRI focus have emerged in the Spanish market recently. They represent a mere 2% of the total adjusted SRI AuM. Renewable Energy/Energy Efficiency and Climate Change funds are the most popular theme funds.

From the negative screening perspective, Spanish funds with ethical exclusions apply on average 5 systematic exclusions. This can be enhanced by the use of ethical committees, used by 44% of the asset managers surveyed.

The bulk of Broad SRI is based on integration. 22% of asset managers in the SRI market systematically include ESG ratings in standard analysis spreadsheets. The same number of managers provide feedback on ESG issues after the mainstream analysis is compiled. Finally, only 16% of the asset managers have ESG specialists in their analysis team. This small degree of development within the fund managers on ESG issues can largely be attributed to the low volume of assets.

Engagement on SRI issues is probably the area where there is the most room for improvement in the Spanish market. Due to a less compelling regulation regarding fiduciary duties on behalf of investors, engagement is largely reserved for issues such as corporate dividend policies or corporate activity with potential dilution in terms of earnings per share. Only two out of ten asset managers have conducted any kind of engagement on ESG issues during the last two years. There is also a clear bias towards governance in terms of engagement issues (accounting for 57%) when compared to social and environmental issues, with 37% and 6% respectively.

¹ One single asset manager applies ethical exclusions to its overall portfolio as a corporate policy. The calculation of their AuMs would overstate the overall reading of the market.

Main Investors

In terms of demand for SRI investment we observe an even development in the retail (47%) and institutional (53%) segments in our adjusted calculations.² This reveals a divergence of the Spanish market compared to most of European SRI markets, dominated by institutional investors.

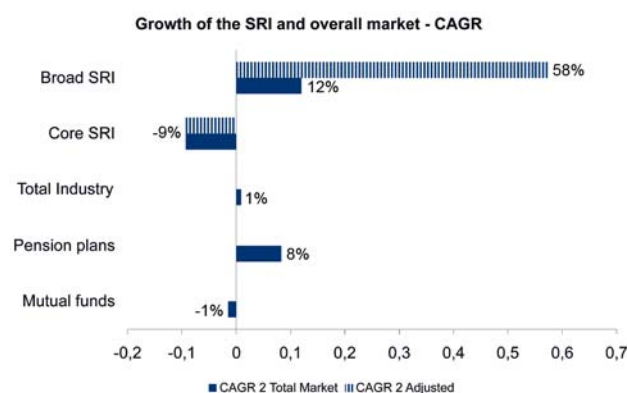
From the asset allocation strategy we note a very defensive offer of SRI investment. 72% of assets are invested in fixed income products of which government bonds account for three quarters. Only 26% is exposed to the equity market with a clear orientation towards large caps. This is slightly higher than the average 22% exposure of Spanish investors through mainstream investment funds at the same period. From a geographical standpoint the bulk of the investment is allocated in local currency (euro) with little exposure to other markets such as USA, Asia and emerging markets. The offer is now limited, with little diversification possibilities; this corresponds to a very conservative investment style of Spanish investors in capital markets.

MARKET EVOLUTION

The Spanish market has not yet taken off. A total AuM of €30.75 billion represents a growth of 23% (CAGR10.8%), well above the overall average annual growth. Still, this suggests a slow pace considering SRI as an emerging practice in the Spanish asset management industry.

As illustrated in Figure 3, the growth rates have been uneven among categories. Broad SRI has increased with vigour while Core SRI has decreased over the same period. Considering the SRI market as a whole, it has outperformed the overall market in terms of assets under management growth.

FIGURE 3



Source: Inverco, Dirección General del Tesoro, SpainSIF

| Overall Spanish | 2005 | 2007 | CAGR 2 | Total Growth |
|-----------------------|---------------|---------------|--------------|---------------|
| Mutual funds | 245,82 | 238,74 | -1,5% | -2,9% |
| Pension plans | 74,69 | 87,58 | 8,3% | 17,3% |
| Total Industry | 320,51 | 326,31 | 0,9% | 1,8% |
| Core SRI | 1,56 | 1,28 | -9,3% | -17,8% |
| Broad SRI | 23,49 | 29,46 | 12,0% | 25,4% |
| Total SRI | 25,06 | 30,75 | 10,8% | 22,71% |
| Adjusted Spanish | 2005 | 2007 | CAGR 2 | Total Growth |
| Mutual funds | 245,82 | 238,74 | -1,5% | -2,9% |
| Pension plans | 74,69 | 87,58 | 8,3% | 17,3% |
| Total Industry | 320,51 | 326,31 | 0,9% | 1,8% |
| Core SRI | 1,56 | 1,28 | -9,3% | -17,8% |
| Broad SRI | 0,53 | 1,34 | 58,4% | 151,0% |
| Total SRI | 2,10 | 2,62 | 11,9% | 25,25% |

MARKET PREDICTIONS

Key questions for the future

The key question regarding the evolution of the SRI market depends on three critical factors:

- Closing the gap: Closing the breach between the Spanish institutional market and the rest of Europe in terms of embedding SRI as a value added investment philosophy. This is necessary, especially for corporate pension funds where employees could have their money invested in companies that perform well financially while covering other areas of concern such as social performance, environmental issues and good governance. In addition, boosting growth in the institutional market would create a virtuous circle for SRI. The average share of European institutional investment versus retail is 66% of the market.³ However in Spain this figure is only 27%. A movement towards the mean would therefore imply a huge growth for the Spanish asset management industry.

² Adjusted versus overall figure: When analysing the total SRI market this would raise the institutional investors share to 96%. We should note that this particular case does not respond to a specific demand pattern from institutional investors but to an internal corporate policy.

³ Annual Asset Management Report: Facts and figures. July 2008. EFAMA. European Fund and Asset Management Association.

- **Sell, sell, sell:** Spanish financial institutions are well positioned with Spanish consumers and investors and are successful in promoting products. SRI retail products have not been one of the selling priorities of Spanish banks lately. As much as 40.2% of the household saving has been directed towards deposits, versus an 11.5% in investment funds and a 6.2% for pension plans.

A reality on the move

The figures presented in this report might understate the real situation for 2008 and 2009. Some changes are already being implemented.

- **Public pensions at the gate:** The externalisation of the management of the Social Security Reserve Fund could become a reality in the coming years. A law proposal presented by the Spanish government in the last legislature is pending for approval in the Spanish Parliament. The proposal includes the allocation of 10% of this fund (worth €47 billion⁴) in equities under the principles of socially responsible investment. This could add another €4.7 billion to the SRI market.
- **Asset managers to the rescue:** In the first half of 2008, major institutional fund managers have committed to allocating stakes of their assets under management to SRI instruments and vehicles. Furthermore, the average estimate for growth in the next two years made by the asset managers in the survey is 543%⁵. The main driver for this growth will be, in their view, the institutional market.
- **Finally, a Spanish SIF:** Another element for future SRI activity is the creation of SpainSIF, the Spanish Social Investment Forum, in 2008. The Forum aims to promote and disseminate information for SRI development.

All of these factors combined increase our expectations for high level of growth in the Spanish SRI market over the next two years.

⁴ As of 31/12/07. Source: Fondo De Reserva De La Seguridad Social. Informe A Las Cortes Generales Evolución, actuaciones del año 2007 y situación a 31-12-2007. Seguridad Social. Ministerio de Trabajo e Inmigración.

⁵ Consensus estimate, calculated as a weighted average of the growth prediction from respondents.

About two thirds of financial assets in the Swedish market are subject to some sort of ethical or sustainability criteria.¹ This puts Sweden as one of the most developed markets in terms of application of SRI criteria. However, in terms of sophistication of SRI practices, there is further development to be expected.

The Swedish SRI market is dominated by institutional assets with the retail segment making up a small part.

Historically, the state pension buffer funds, the AP funds, and notably the 7th AP fund, were leaders in developing and adopting norms-based screening. Norms-based screening has since become a common practice within institutional investing in Sweden. Savings within the municipal and local county sectors have also been early adopters of negative screening of controversial activities.

FIGURE 1



Source: Eurosif European SRI Survey, 2008

KEY FEATURES OF SRI

The Swedish SRI market is dominated by negative screening of controversial activities. These can include screens on the production and/or distribution of tobacco, weapons, and/or pornography. As for international norms, typically Global Compact is a requirement and is the most widely applied negative screen.

The total SRI market in Sweden amounts to €191 billion.² The majority, or roughly 65%, manages its capital internally within large institutional investors while 35% is managed by asset managers. Private investors in the SRI market represent 9%.

The use of external SRI consultants is high. For 86% of all

SRI capital, an external SRI analysis is used. For more than 57% of all assets, external SRI analysis is exclusively used, and for 29% of assets in conjunction with proprietary SRI analysis. A mere 13% of capital is managed solely with proprietary analysis.

Core SRI Market

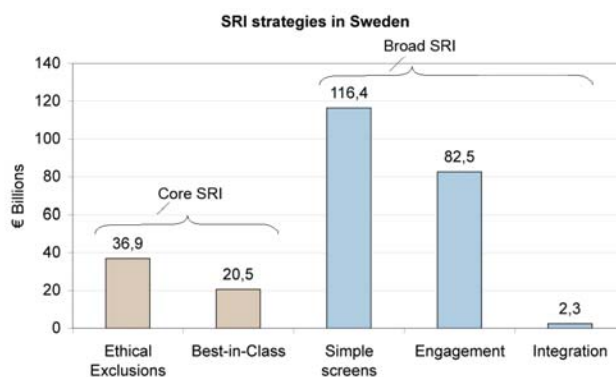
Sustainable investments with a Best-in-Class approach represent a 10% share of total SRI capital. Combinations of negative screens dominate the market, the most common being international norms, tobacco and weapons as shown in Figure 2.

Broad SRI Market

The Broad SRI market is dominated by simple screens, with international norms-based screening being the most prevalent. Engagement has grown considerably, especially with the creation of the joint AP-fund ethical council in 2007.

Integration of sustainability criteria in the financial investment process is considered an advanced concept in Sweden and is not widely practiced.

FIGURE 2



Source: Eurosif European SRI Survey, 2008

Note: total of individual strategies may be superior to total Broad SRI due to overlaps.

Who invests in SRI?

A recent study has found that roughly 2/3rds of all investments in Sweden are subject to sustainability criteria.³ The market is dominated by large institutional investors. However, application of sustainability criteria is also widespread among medium-sized organisations. Application within public sector related organisations is greatest, but is also relatively broad among private sector companies.

¹ Swesif SRI market study 2008.

² Most Nordic Asset Managers have a cross Nordic scope of their organisations. This is due to previous mergers and acquisitions among the Nordic banks and the fact that the individual Nordic markets are fairly small. As a result, and following Eurosif's national market definition, some very large Norwegian/Swedish Asset Manager are accounted for in the Swedish and not the Norwegian survey.

³ Swesif SRI market study 2008.

Products/Offering

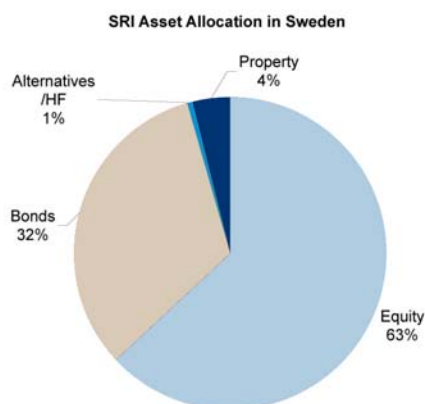
Equity funds and mandates account for the majority of Swedish SRI investments.

SRI asset management products are typically tailored to domestic demand and there is limited marketing of Swedish SRI asset management solutions outside of Sweden. Not included in the figures reported in this study are consultant services, where Swedish specialist SRI consultancies have tapped into international demand for such services to a much greater extent.

The bond market is largely domestic due to the domestic currency (Kronor), while equity investments have been diversified into foreign equities. Alternative investments are still small in relative numbers. However, there have been some interesting developments, notably with Swedish insurer Folksam launching a sustainable fund of hedge funds in a joint venture with Norwegian insurer Storebrand and Swiss asset manager Harcourt. Application of sustainability criteria to private equity and real estate investments is also frequently mentioned, although asset management products catering to this demand are scarce.

Theme funds have not taken off in Sweden. It represents less than 1% of SRI assets. However, there have been recent developments in this area with some of the AP-funds again taking the lead. Some of these large investors have announced specific searches for managers within "new energy" for instance.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

MARKET EVOLUTION

There is considerable effort to include sustainability criteria in all types of alternative assets, such as private equity, real estate, forestry and infrastructure.

Engagement is a growing practice. It is widespread among large organisations, while there is considerable scope for development of collaborative engagement among smaller and mid-sized investors.

Of great importance to the future development of the market will be the findings of the committee appointed by the Swedish Parliament to evaluate the implementation of ethical and environmental criteria in the investment process at the Swedish state pension buffer funds, AP-Funds. The committee is due to report its findings in the second half of 2008.

MARKET PREDICTIONS

It is expected that we will see applications of SRI criteria in more asset classes, in particular, within alternative investments. Developments are already underway, as alternative investments are a growing allocation of Swedish institutional investors. We expect to see more SRI criteria being applied in real estate, hedge funds and private equity. Furthermore, there have been recent activities pointing to emerging market equities as an asset class where there is better scope for positive results from the inclusion of SRI criteria than in developed equity markets.

No study on the market would be complete without mentioning the two largest proponents of sustainable investing in Sweden. These are Mistra, a government sponsored environmental research foundation, and the central Swedish Church. These two organisations are actively showing the way to more advanced versions of SRI and are leaders among Swedish institutional SRI investors.

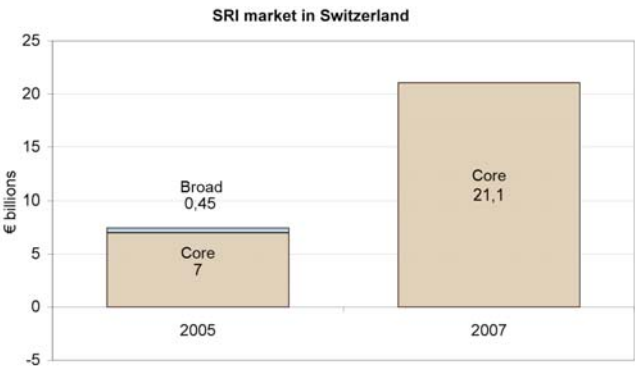
SWITZERLAND

Switzerland is one of the leading countries for SRI in Europe and has been particularly dynamic since the 2006 survey. Swiss banks were among the first to offer SRI and to develop expertise, including the first sustainability index. In the last years, there have been numerous releases of SRI products such as funds and certificates focusing on themes such as water, climate change and renewable energy / mobility. The positive performance of SRI products as well as the increased awareness around environmental issues (such as climate change) and better and more pro-active marketing strategies for SRI products have driven solid growth in SRI assets. An interesting finding in this year's SRI study is the fact that Swiss private investors overtook institutional investors for the first time regarding their share of SRI investments.

KEY FEATURES OF SRI

In Switzerland, the size of the total SRI management market¹ represents €21.1 billion as of the end of 2007. Core SRI represents 100% of the total SRI market as shown in Figure 1.

FIGURE 1

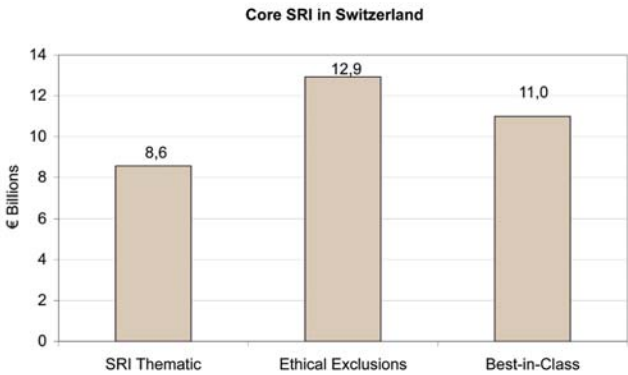


Sources: onValues, Eurosif, Forum Nachhaltige Geldanlagen

Core SRI Market

Within Core SRI, the most popular investment strategy is ethical exclusions as illustrated in Figure 2. About €12.9 billion of managed assets are invested according to ethical exclusion, in most cases used in combination with some sort of positive screening. Best-in-Class is the second most favoured strategy with €11 billion assets. Noteworthy is the importance of SRI thematic funds which account for €8.6 billion and which have experienced tremendous growth since 2005. The most favoured themes are water, climate change and renewable energy.

FIGURE 2



Sources: onValues, Eurosif, Forum Nachhaltige Geldanlagen

In terms of Broad SRI strategies, engagement is the strategy most used by Swiss financial providers, representing €1.9 billion of assets. Engagement is always used in conjunction with Core strategies; this is the reason why the total Broad SRI amounts to zero, to avoid double counting. While integration beyond their Core SRI assets is not really practiced by the Swiss financial providers, a few large Swiss pension funds are beginning to integrate ESG issues into their traditional financial analysis.

Who are the main investors?

Retail and institutional investors are almost equally split in Switzerland as shown in Figure 3. Interestingly retail investors, which represented a minority in our last survey, have now the largest share of investments with 53% of the SRI assets, overtaking institutional investors. High Net Worth Individual investors are showing an increasing interest for sustainable investments and are important drivers of this increase on the retail side.

FIGURE 3



Sources: onValues, Eurosif, Forum Nachhaltige Geldanlagen

¹ The data presented here was collected from asset managers only and does not cover institutional investors such as pension funds managing their own assets.

What do SRI fund managers and service providers offer?

In Switzerland, investment funds are the most important investments vehicles with approximately €11.6 billion (55%). Mandates make up €8.6 billion (41%). Structured products account for approximately € 718 million (3%).

In terms of asset allocation, SRI assets in Switzerland are principally invested in equities (83%), followed by fixed income (11%), monetary funds and private equity.

MARKET EVOLUTION

By the end of 2005 the total volume of SRI assets amounted to €7.45 billion in Switzerland. The market has grown rapidly, almost tripling in the last two years (+183%, CAGR: 68%) to reach €21.1 billion. This growth is well beyond that of the mainstream Swiss market² and one of the fastest in Europe in terms of SRI.

According to Swiss fund data, assets managed by Swiss fund providers (excluding discretionary mandates) was estimated at 668.8 billion CHF at the end of 2007 (€412.7 billion), suggesting a market share for the Swiss SRI management market of 2.8%.

MARKET PREDICTIONS

While the volume of SRI investments has risen steadily over the last years, the current negative performance of the stock market does effect the Swiss SRI market as SRI assets are mostly invested in equities.

Still, it is conceivable that in the coming three years the private SRI investments will continue to gain in importance and volume.

On the regulatory front, there are no immediate legislative steps planned that are designed to affect the SRI market positively. In any case, investors currently benefit from a positive regulatory environment for different themes in SRI like renewable energies. Therefore, this regulation has an indirect positive effect on SRI assets.

The above section is based on data kindly provided by onValues (www.onvalues.ch) and analysis conducted by the German SIF (Forum Nachhaltige Geldanlagen) and Eurosif.

FIGURE 4



Sources: Forum Nachhaltige Geldanlagen, onValues, Eurosif,

² Assets managed by Swiss fund providers grew 2.8% in 2007, according to Swiss fund data. www.swissfunddata.ch



UNITED KINGDOM

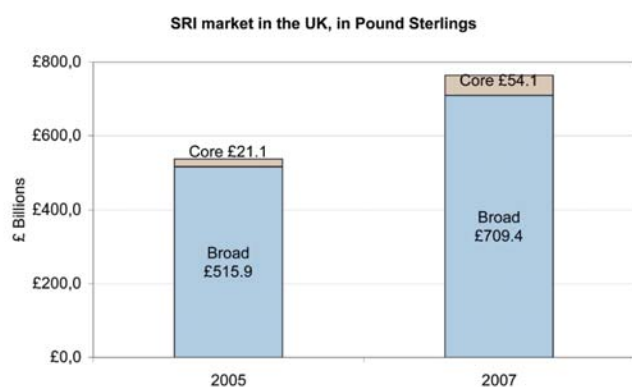
KEY FEATURES OF SRI

The City of London is widely recognised as one of the pre-eminent world centres for financial services, with an impressive track record in innovation. The UK's asset management industry plays an important role in this, with the Investment Management Association (IMA) reporting that at end December 2007 an estimated £3,400 billion (over €4269 billion) in assets was managed in the UK by their members.¹ This study found that the total of SRI AuM in the UK was £764 billion (€959 billion) with £54.1 billion (€68 billion) defined as Core SRI and £709.4 billion (€890.8 billion) as Broad SRI.

The UK has become a world centre for sustainable and responsible finance, with a growing reputation for developing and hosting catalytic initiatives. The Carbon Disclosure Project (CDP) and the Institutional Investors Group on Climate Change (IIGCC) are both based in London. They have been joined recently by the core secretariat of the UN Principles for Responsible Investment (UN PRI). London was a pioneer in carbon trading and is now a key centre for the carbon markets. The UK's expertise in responsible investment is spread across a range of institutions, including asset managers, investment consultants, investment banks and independent research houses.

Figure 1 shows the growth in the UK SRI Market from the end of December 2005 to the end of December 2007. Broad SRI has grown by 38% while Core SRI has grown by 154%.²

FIGURE 1



Source: Eurosif European SRI Survey, 2008

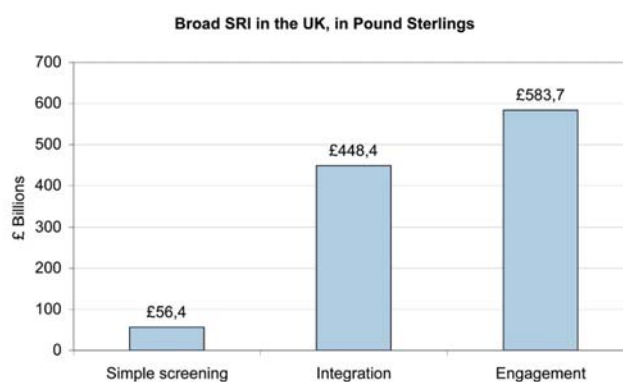
Main Practices

SRI strategies in the UK may be grouped as:

- **Integration** of environmental, social and governance (ESG) issues into investment decision making to deliver improved financial returns. This integration is performed for investors looking purely for improved risk management or greater alpha. When combined with other SRI strategies, it forms part of the offer to values-based investors. This study found that in the UK, £448.4 billion (€563 billion) in AuM were considered subject to Integration.
- **Engagement** with companies about their ESG performance – monitoring corporate behaviour and intervening where necessary. According to this study £583.7 billion (€732.9 billion) in AuM in the UK are managed under an Engagement policy.
- **Positive or negative screening** which takes account of the values of investing individuals or institutions.
- **Thematic investment propositions** based on ESG issues such as healthy lifestyles or the transition to a low carbon economy. In general, these thematic funds cover multiple ESG issues although a number of funds specific to climate change have been launched recently.

Investments are often subject to some mixture of these strategies. The funds subject to the various Broad SRI strategies are described in Figure 2 while the funds subject to Core SRI strategies are described in Figure 3.

FIGURE 2

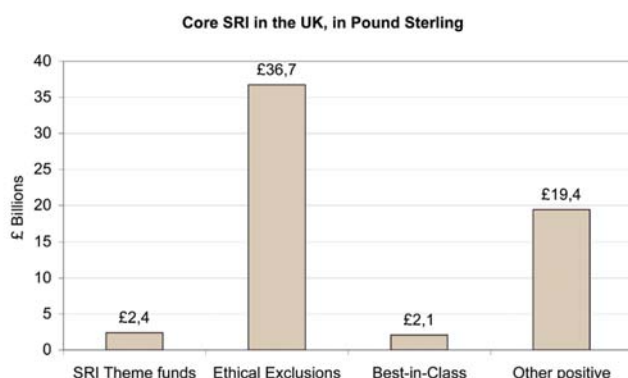


Source: Eurosif European SRI Survey, 2008

¹ <http://www.investmentuk.org/press/2008/20080808.asp>

² Data throughout the UK section of this study is reported in Pounds Sterling rather than Euros in order to exclude the effect of exchange rate fluctuations.

FIGURE 3



Source: Eurosif European SRI Survey, 2008

Who are the main investors?

High Net Worth Individual (HNWI) Investors: The last two years have seen the emergence of high net worth individuals and ultra high net worth individuals as a significant group within the SRI market. In general, their interest has focused particularly on thematic investment propositions. This development is covered in the Eurosif study "High Net Worth individuals & Sustainable Investment" (published September 2008).

Mass Market Individual Investors: The UK retail market for SRI funds is now in its 25th year, with the first retail ethical fund launched in 1984. According to the Ethical Investment Research Service (EIRIS), nearly £9 billion (€11.3 billion) was held in the UK's green and ethical retail funds (ie. funds available to the UK general public) at end 2007. These are held in almost three quarters of a million accounts invested across nearly 100 funds.³ Effectively, all of this investment was in Core SRI although the totals do include a very small number of Broad SRI funds. In addition, some fund managers practice engagement on behalf of investments held in unscreened retail funds.

Church and Charity Investors: Church and charity investors remain the largest force in Core SRI within the UK. Nevertheless, they have not recently been a significant driver of growth or innovation. A new web site for charity investors www.charitysri.org launched in 2007 aims to support charity investors to deepen their approach to responsible investment.

Occupational Pension Funds: Major UK occupational pension funds form a significant force within Broad SRI. They hold over £1.580 billion (€1.983 billion) in assets with an average of 59.5% in equities, 27.7% in UK fixed interest

and 12.8% in other.⁴ In total, self-administered pension funds held about £970 billion in assets at end 2005.⁵ Further pension assets are held in occupational insurance-administered pensions (£200 billion) and in personal and stakeholder pensions (£335 billion).⁶ These two groups of assets are usually regarded as part of the retail market.

Insurance Companies, Banks and Asset Managers: To manage risk and protect and enhance financial returns, some financial services companies require their asset managers to address integration and/or engagement on ESG issues across all relevant asset holdings.⁷ These financial services companies are drawn from the banking, general insurance and life insurance and purely asset management sectors.

What do SRI fund managers and service providers offer?

The SRI services provided by UK asset managers may be grouped as follows:

| SRI Service | Comments |
|---|--|
| Pooled SRI funds for individual investors | Normally such funds are positively or negatively screened and/or deliver an ESG investment proposition. Engagement with companies may additionally take place. |
| Pooled SRI funds for charity investors, pension funds and other institutional investors. | For charity investors, these may be charity-specific funds approved by the Charity Commission (CICs) or other pooled SRI funds. ⁸ |
| Segregated SRI mandates for institutional investors and high net worth individuals. | |
| Investment services not necessarily marketed as SRI but which incorporate the integration of ESG issues to some degree. | See the Market Evolution section below for a discussion on how the depth of integration is evolving over time with increasing sophistication in financially-oriented SRI research. |
| Engagement on ESG issues to protect or enhance financial return. | This engagement takes place for: <ul style="list-style-type: none"> • SRI funds as described above, • AuM not managed using overtly SRI criteria (including unscreened pooled funds not marketed as SRI and assets managed by investment subsidiaries for their parent bank or insurance company), • "Engagement overlays" where an "engagement only" mandate is awarded to a different provider from the asset management mandate. |

³ <http://www.eiris.org/files/press%20releases/ethicalinvestrecordhighfeb08.pdf>

⁴ Source: NAPF Annual Survey 2006.

⁵ Source: Calculated using ONS Series RYIR and HM Treasury GDP deflators (quoted at www.napf.co.uk).

⁶ Source: Pension Fund Indicators 2006, UBS Global Asset Management, June 2007 (quoted at www.napf.co.uk).

⁷ This policy may be subject to restrictions on grounds such as geography and size.

⁸ A report on pooled SRI funds for charity investors published in Autumn 2006 by the Eiris/UKSIF Charity Project is available at www.charitysri.org.

In addition, an increasing range of associated services are available including:

| Provider | Service |
|--|---|
| Investment Consultants | Assessment of ESG-related competencies of Asset Managers for use by Institutional Asset Owners. Investment Banks and |
| Independent Research Houses | Financially oriented SRI research for use by Asset Managers. |
| Independent Financial Advisers and their support providers | Assessment of ESG features of green and ethical investment funds – particularly to assess suitability for values based investors rather than to assess ESG-related competencies in effective integration or engagement using material ESG criteria. |

MARKET EVOLUTION

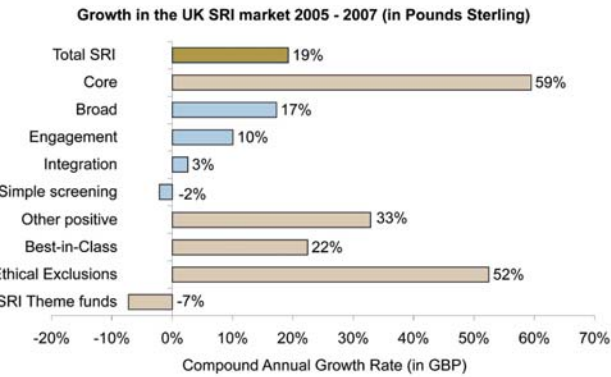
What is the growth rate of AuM?

Since the Eurosif SRI 2006 study, there was an increase of over 150% for Core SRI and an increase of almost 40% for Broad SRI, measured in Pounds Sterling as illustrated in Figure 4. It is most accurate to consider the UK growth rate in Pounds Sterling rather than in Euros so that the effect of exchange rate changes is excluded.

Within Core SRI, the strongest growth was in Ethical Exclusions (129% increase) and Best in Class (50% increase). Although qualitative feedback indicated a strong growth in SRI Thematic, the data indicates a fall. This was due to tightening of definitions, reclassification of their approach by some funds and the effect of funds choosing not to identify some thematic funds as SRI. This is described further below.

Within Broad SRI, the greatest growth was reported in Engagement (23% increase) followed by Integration (8% increase).

FIGURE 4



Source: Eurosif European SRI Survey, 2008

What lies behind this? Have new trends emerged?

Since 2005, sustainable and responsible investment (SRI) in the UK has moved "out of the silo" in a very real way. Non-SRI investors are gaining exposure to ESG themes because these are now widely recognised as significant investment themes. Climate change is probably the most visible of these themes – driving assessment of corporate exposure to climate change risks, new business models based on responding to climate change and significant investment in green technology themes such as renewables. However, the range of themes is growing and is encompassing social as well as environmental issues.

Underpinning this is a significant shift from a need to demonstrate that some ESG issues are material to financial return (which is now routinely accepted) to a deepening of research into identifying how these issues are material and how this impact will play out.

This approach to ESG themes is resulting in the "greening" of a wide range of investment, rather than being restricted to the development of specialist SRI funds. Indeed, as a proportion of the total, the development of specialist SRI funds forms a minor part. This deeper approach to ESG integration goes well beyond public equities – it is an increasing feature of real estate / property investment, private equity and infrastructure investment. Interestingly, it is utilising and benefiting from the expertise developed by the UK's SRI analysts and research houses, meaning that the skills and knowledge of these individuals and organisations are often being drawn on by a much wider group within investment institutions than as recently as 2005.

This highly significant move is not easily captured in raw market sizing figures. Indeed this exciting and important development brings into question the whole concept of measuring the size of the "SRI market".

The data within this survey measures investments that meet the Eurosif SRI criteria and that the reporting asset manager chooses to define as SRI. As such, it does not include a range of investments that integrate ESG issues but that UK asset managers prefer not to describe as SRI. For example, it is increasingly routine within property investment to take account the impact of regulation and standards about ESG issues but property fund managers tend to not define their investments as SRI. Similarly, many of the new climate change funds might be eligible for inclusion in this survey but the fund manager has preferred not to include them within their responses.

Meanwhile, institutional asset owners are increasingly interested in exploring responsible investment but this interest is not yet being translated by most into systematic implementation. In general, the new level of integration is therefore being driven by the asset managers rather than the asset owners. However, asset managers report an increased demand by asset owners for active engagement. They also highlight increased demand for their services from asset owners outside the UK.

HNWI and mass market investors are mainly responsible for the growth in Core SRI. The evaluation of the UK's first National Ethical Investment Week, held in May 2008, suggests that the key driver is a new level of interest by mainstream investors and their advisers. These mainstream investors want to achieve a good financial return for their investments but also have a positive impact on society and the environment. They probably do not invest exclusively in SRI investments and are less engaged with or interested in the details of ethical issues than the more traditional values-based investor. Instead they want to do what they can while not being willing to accept a financial trade-off and looking to others to make detailed ethical decisions for them. In this respect, the growth of green and ethical investing mirrors the growth of other forms of ethical consumerism in the UK, notably the outstanding success of the "Fairtrade" label.⁹ In addition, the increasing interest by non-specialist advisers forms part of a broader drive for increased professionalism and a client-centred approach within the UK financial adviser community. UK asset managers also report an increased demand for their Core SRI products from investors outside the UK.

Beyond the scope of this study, the development of responsible investing has been complemented by a rising interest in 'social

investment' in community businesses, social enterprises and other investments that have a particularly strong focus on delivering high social impact. While the total amount of such investment remains small, it has been actively encouraged by the UK government and interesting developments have included the launch of specialist funds and continuing research on the viability of a 'social stock exchange'.

MARKET PREDICTIONS

Customer Demand

UKSIF predicts that the appetite for sustainable investing among high net worth and ultra high net worth individuals will continue to grow over the coming three years, driven by the financial opportunities and supported by the demographic change of significant wealth being transferred to or earned by a more concerned generation.

Similarly, we expect that mass market green and ethical investment will continue to grow strongly, supported by:

- The increasing need for individuals to make their own provision for retirement,
- Increasing recognition by advisers and consumers that green and ethical investment need not have a financial penalty,
- Having recognised that financial returns need not be sacrificed, a growing interest in including savings and investments within ethical consumer lifestyle choices.

Over this time period, UKSIF expects that the interest by institutional investors highlighted above will start to translate into systematic implementation by the leaders. We expect that this will then transfer to the main body of institutional investors by means of learning from respected peers and utilising the increasing SRI capacity available within the investment consultancies. It is likely to be driven both by peer encouragement and also by benchmarking initiatives such as UKSIF's Sustainable Pensions Project which highlights leadership and progress among the pension funds of the UK's Corporate Social Responsibility leaders in their approach to responsible investment. Lobbying by NGOs, Trade Unions and specialist bodies such as FairPensions should also act as a driver.

Implementation of the UK's new personal accounts pension scheme is still over three years away but debate on its approach to responsible investment may also be influential.

⁹ See www.fairtrade.foundation.org.uk

Supply of Responsible Investment Services

UKSIF anticipates that the increasing sophistication of ESG analysis will continue. In particular, we expect that investors will develop their understanding of regulatory drivers. This should result in increasing engagement with governments by leading investors to encourage the creation of long-term regulatory frameworks that align profitability with responsible corporate behaviour and investment in innovative solutions to ESG challenges. Investors will also deepen their understanding of the impact on corporate profitability and growth of new legislation worldwide such as the UK's new Climate Change Bill.

We predict that ESG integration will continue to deepen for a wide range of asset classes rather than mainly public equities. For some asset classes, this may be driven by public pressure in addition to regulatory drivers. For example, we expect that UK private equity will continue to deepen its response to the public concerns about its social responsibilities that has already resulted in the 2007 Walker Guidelines on Disclosure and Transparency in Private Equity.¹⁰

The coming three years should also be notable for an increased focus on "capital market campaigning" by NGOs and trade unions in the UK, seeking to influence investors and partner with them to engage with companies. This is already starting to be visible. A new level of sophistication is in evidence compared with the first wave of such campaigning in the early years of the decade, with NGOs becoming increasingly skilful in putting their case in ways that make investment-relevant arguments.

NGO pressure, consumer demand and City champions should also lead to an increasing focus on measuring and demonstrating the positive social and environmental impact of responsible investment distinct from and additional to its positive financial impact.

Impact of the Financial Services Operating Environment on Responsible Investment

UKSIF expects that investors will start to identify and influence government not only on the regulatory environment for companies but also to demand action to address the market failures within the financial services supply chain that encourage short-termism and an insufficient focus on external ESG impact.

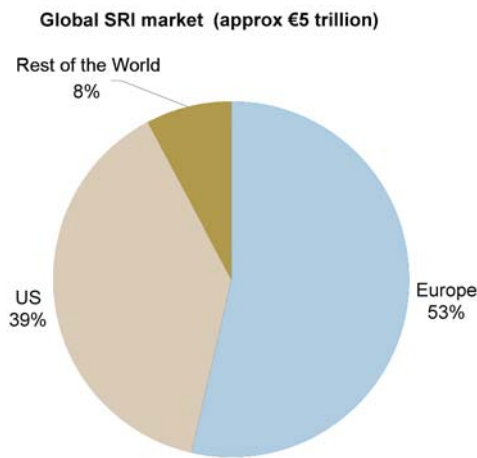
The UK's Retail Distribution Review will encourage greater professionalism by independent financial advisers, continuing the trend described above. This should drive a new interest by advisers in understanding the social responsibility approaches of their clients. This may lead in turn to demands both for increasing transparency by funds and to external fund endorsement by "cause champions" such as the most respected NGOs.

For occupational pension funds, the most significant external development is likely to be the future development of the pensions "buyout" market – where the assets and liabilities of occupational pension funds are taken over by new specialist insurance companies. Will the buyout companies make the breakthrough to becoming significant asset owners? And, if so, will they embrace long term responsible investment? To date, they have been notably silent on the issue.

¹⁰ See www.bvca.co.uk

GLOBAL SRI DATA

Below is a table presenting the main SRI data from various regions of the world, available as of September 2008. According to our estimation, the global SRI market can be estimated to reach approximately €5 trillion and Europe now holds the largest share as illustrated in the chart below.



Source: Social Investment Forum, RIAA, SIO, Eurosif, SIF-Japan.

While methodologies of SRI market studies from the regional Social Investment Fora are starting to converge, one should keep in mind that SRI practices can be quite specific from one region to another. As an example, shareholder advocacy, i.e. proposing to sponsor or co-sponsor shareholder resolution(s) based on ESG issues, is something quite specific to the US market, for both cultural and regulatory reasons. In addition, the year of the available data might differ (both RIAA and SIO will release updated data in the autumn 2008).

| In Billions | | 2007 | Total SRI | Total SRI in Euros |
|-----------------------|----------------------------|-----------|------------|--------------------|
| United States (2007) | Social Screening | US\$2098 | US\$2710 | €1917.3 |
| | Shareholder Advocacy | US\$739 | | |
| | Screening and Shareholder* | (US\$151) | | |
| | Community investing | US\$26 | | |
| Canada (2006) | Core SRI | Cnd\$57.4 | Cnd\$503.6 | €333.6 |
| | Broad SR | Cnd\$446 | | |
| Australia / NZ (2007) | Core SRI | Au\$19.4 | Au\$72.2 | €41.4 |
| | Broad SRI | Au\$52.8 | | |
| Japan (30/09/2007) | | Y840 | Y 840 | €5.5 |
| Europe (2007) | Core SRI | €511.7 | €2665.4 | €2665.4 |
| | Broad SRI | €2153.7 | | |
| TOTAL WORLD | | | | €4963.2 |

Source: Social Investment Forum, RIAA, SIO, Eurosif, SIF-Japan.

Note: Exchange rate as of 10/09/2008.

* negative number to avoid double-counting

Details on the practices and evolution of the various regional markets are presented below. For more details and in depth analysis, we invite readers to consult the regional SIFs; all market data is available to the public.

United States

| In Billions US\$ | 2003 | 2005 | 2007 |
|---------------------------|---------------|---------------|---------------|
| Social Screening | \$2143 | \$1685 | \$2098 |
| Shareholder Advocacy | \$448 | \$703 | \$739 |
| Screening and Shareholder | (\$441) | (\$117) | (\$151) |
| Community investing | \$14 | \$20 | \$26 |
| Total SRI | \$2164 | \$2290 | \$2711 |

Source: Social Investment Forum www.socialinvest.org

Canada

| In Billions Cnd\$ | 2002 | 2004 | 2006 |
|---|-------------|-------------|--------------|
| Asset managers employing social and environmental screening | 16.7 | 21.2 | 36.5 |
| Retail investment funds | 9.9 | 14.8 | 18.1 |
| Community Investment | 0.0 | 0.5 | 0.8 |
| Socially Responsible Lending | 0.1 | 1.3 | 1.9 |
| Core SRI Total | 26.9 | 37.9 | 57.4 |
| Asset managers employing ESG integration | NA | NA | 12.708 |
| Pension funds employing ESG integration, ESG proxy voting or corporate engagement or economically targeted investment | 24.1 | 25.4 | 433.1 |
| Shareholder Advocacy | 0.5 | 2.1 | NA |
| Sustainable Venture Capital | NA | 0.05 | 0.5 |
| Broad SRI Total | 24.6 | 27.6 | 446.2 |
| Total SRI | 51.4 | 65.5 | 503.6 |

Source: Social Investment Organisation www.socialinvest.ca

Australia / New Zealand

| In Billions Au\$ | 2006 | 2007 |
|---------------------------------|---------------|---------------|
| Managed portfolios | \$12 | \$17.1 |
| Community finance | \$0.5 | \$0.7 |
| Charities and charitable trusts | \$0.3 | \$0.6 |
| Green loans | \$0.04 | \$0.06 |
| Ethical adviser portfolios | \$0.7 | \$0.9 |
| Core SRI Total | \$13.5 | \$19.4 |
| ESG Integration | n/a | \$2.7 |
| Corporate engagement | n/a | \$50.1 |
| Shareholder activism | n/a | 0 |
| Broad SRI Total | n/a | \$52.8 |
| Total SRI | \$13.5 | \$72.2 |

Source: Responsible Investment Association Australasia www.responsibleinvestment.org



GLOSSARY

CORE STRATEGIES

Positive screening: The selection, within a given investment universe, of stocks of companies that perform best against a defined set of ESG criteria. This may include Best-in-Class or SRI theme funds for instance.

Best-in-Class: Approach where the leading companies with regard to ESG criteria from each individual sector or industry group are identified and included in the portfolio. (Subset of positive screening)

SRI Theme funds: Thematic funds may focus on sectors such as Water or Energy, or issues such as the transition to sustainable development and a low carbon economy. To be considered SRI, a theme fund must show an explicit SRI motivation, taking into account ESG considerations in the fund construction process. This requires the existence of specific mechanisms, such as the involvement of SRI expertise in stock analysis selection, the application of an ESG screen, or the management of the product by the SRI team. (Subset of positive screening)

Ethical exclusions: This refers to exclusions where more than two negative criteria/filters are applied (as opposed to just tobacco or weapons for example)

BROAD STRATEGIES:

Simple screening: An approach that excludes given sectors or companies from a fund if involved in certain activities based on specific criteria, such as arms manufacture, publication of pornography, tobacco, animal testing, etc.¹

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.²

Engagement: A long-term process of dialogue with companies which seeks to influence company behaviour in relation to their social, ethical and environmental practices.

Integration: The explicit inclusion by asset managers of ESG-risk into traditional financial analysis. Corporate Governance risk should be limited here to the interface between Governance and Social and Environmental issues.

CAGR: Compound Annual Growth Rate. The year-over-year growth rate of an investment for a specified period of time.

Country abbreviations used in Figures: AT: Austria, BE: Belgium, DK: Denmark, FI: Finland, FR: France, DE: Germany, IT: Italy, NO: Norway, ES: Spain, SE: Sweden, CH: Switzerland, NL: The Netherlands, UK: United Kingdom, EU: Europe.

ESG: Environmental, Social, Governance.

High Net Worth Individuals (HNWIs): Individuals with more than \$1 million in financial assets, excluding primary residence.

¹ If the exclusion approach is based on more than two criteria, it is considered to be an "ethical exclusion".

² In this survey, if the Norms-based screening is clearly based on more than two negative criteria (for instance, compliance with the 10 principles of Global Compact), it was accounted as if it were an ethical exclusion, ie within Core SRI to be consistent with our categorisation of Core & Broad SRI.

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