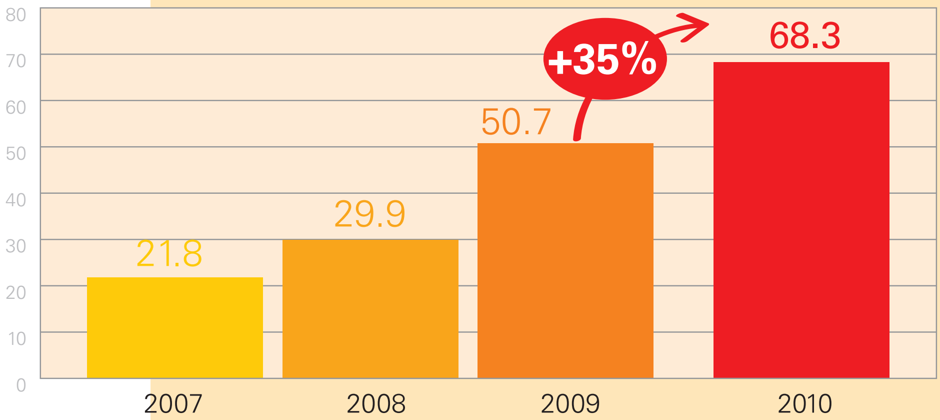
The French SRI market in 2010

novethic RESEARCH

EUR 68.3 billion **up 35%**

Growth of SRI assets on the French SRI market (EUR bn)



Breakdown of SRI assets by type of management

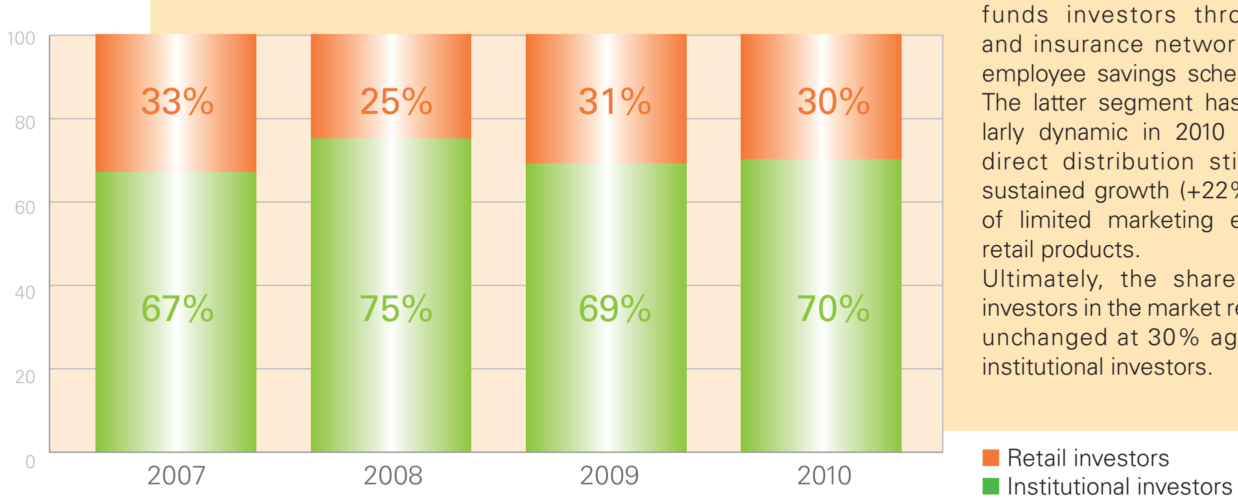
(EUR bn)		2009	2010	Trend
Pooled funds / mutual funds	Retail investors	9.0	11.1	+22%
	Institutional investors	14.5	21.3	+47%
	Employee savings	5.4	7.7	+43%
	Sub-total	**28.9**	**40.1**	**+39%**
Segregated mandates / separate account Management	Institutional investors (delegated)	10.0	14.8	+48%
	Institutional investors (in-house)	10.7	11.5	+8%
	Employee savings	1.1	1.9	+67%
	Sub-total	**21.8**	**28.2**	**+29%**
Total		**50.7**	**68.3**	**+35%**

SRI market: significant assets and a still strong growth

SRI assets held by French customers amounted to EUR 68.3 billion at end 2010, representing a strong growth (+35%) that is twenty times that of the total French market (+1.7% according to the French Asset Management Association - AFG). The increase in assets is relatively homogenous among different types of clients, with the exception of in-house institutional management. This segment remains limited to two investors and thus witnessed a smaller growth in the absence of new players. Pooled funds, which became dominant in 2009, therefore continue to outweigh segregated management with a relative share up from 57 to 59% of the market, against 41% for separate account management.

56 interviewed players manage SRI assets for French customers. However, the market is relatively concentrated, since a third of the assets are managed by two players and 95% of assets by twenty players. Furthermore, over half the market growth between 2009 and 2010 is due to two asset management firms.

Breakdown of SRI assets on the French SRI market by type of clients



Retail and institutional investors retain their market shares

Retail clients consist mainly of mutual funds investors through banking and insurance networks, as well as employee savings schemes investors. The latter segment has been particularly dynamic in 2010 (+47%), while direct distribution still managed a sustained growth (+22%) in a context of limited marketing efforts for SRI retail products.

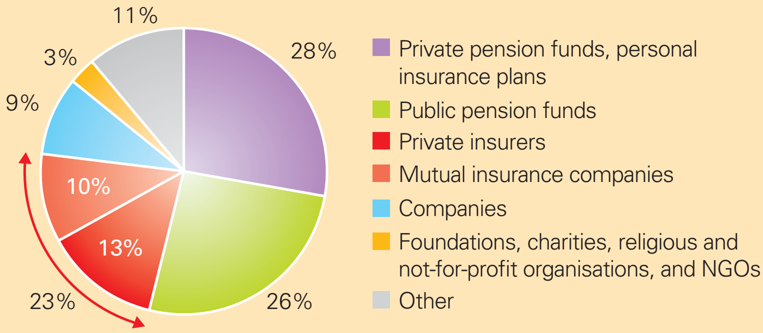
Ultimately, the share of individual investors in the market remains virtually unchanged at 30% against 70% for institutional investors.

Analysis of the French SRI market in 2010

Breakdown of SRI assets by type of investor

(EUR bn)		2009	2010	Trend
Institutional investors	Pooled funds	14.5	21.3	+47%
	Delegated management	10.0	14.8	+48%
	In-house management	10.7	11.5	+8%
	Sub-total	**35.1**	**47.6**	**+36%**
Retail investors	Pooled funds	9.0	11.1	+22%
	Employee savings	6.5	9.6	+47%
	Sub-total	**15.6**	**20.6**	**+33%**
Total		**50.7**	**68.3**	**+35%**

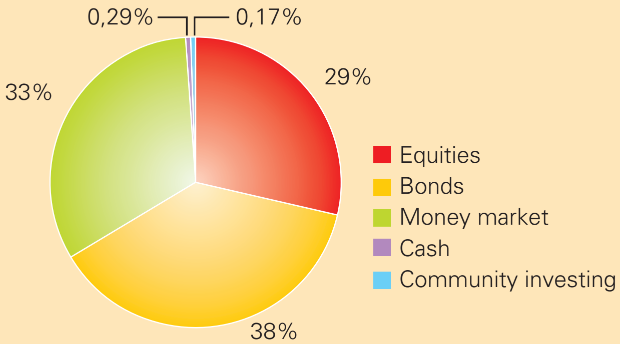
Breakdown of SRI assets by type of institutional asset owner



Pension and personal insurance plans, new drivers of the institutional sector

Retail and institutional investors are experiencing similar growth (+33% and +36% respectively). It is interesting to note that both collective and delegated management are popular among institutional investors. However, corporate treasury, primarily invested in money-market funds, is overrepresented in mutual funds (20% against 1% in dedicated management), while public pension funds are largely under-represented (6% in mutual funds against 41% in dedicated management). More generally, money-market assets are virtually absent from dedicated SRI management. Private pension and personal insurance plans, public pension funds, as well as private and mutual insurers, retain three quarters of the market but their order is reversed compared to 2009. Another notable fact is the good resilience of « historical » SRI investors (foundations, charities and religious organizations and NGOs) who manage to sustain the market growth rate and remain at 3% of institutional assets.

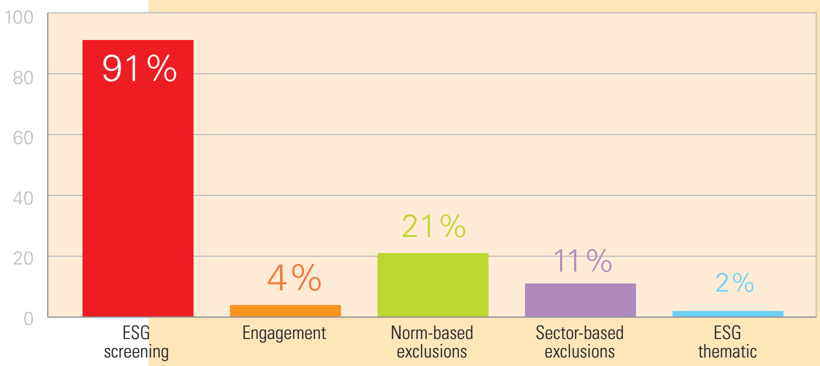
Breakdown of SRI assets by asset class



New money market funds converted to SRI

The asset allocation of the French SRI market remains relatively stable. Bonds are still largely dominant in dedicated management since they have the preference of institutional investors. Money-market increases its prevalence in mutual funds and employee savings, thanks to an ongoing series of fund conversions to SRI that started in 2008. Finally, equities also benefit from the conversion of a large fund to retain their market share. Of the 71% of assets in fixed-income, 39% are corporate bonds and 29% government securities. The remaining 3% are issued by supranational institutions and local authorities. As for the geographic breakdown, only 12% of assets have an investment universe that goes beyond Europe.

SRI approaches

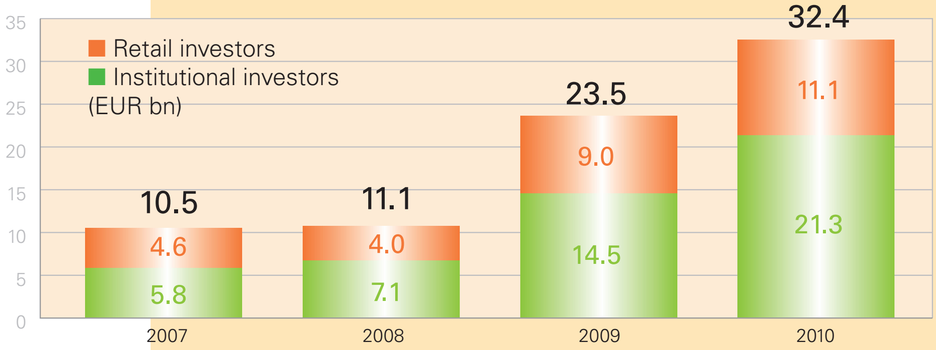


SRI approaches still rarely combined

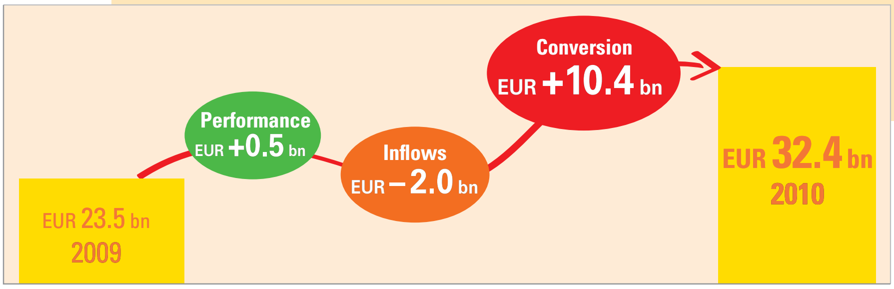
ESG screening practices, in most cases best-in-class, remain the dominant approach but have receded to slightly over 90% of SRI assets. Structured engagement approaches break through at 4% thanks to the conversion of a large equity fund subject to this approach. Down from 28 to 21%, norm-based exclusions are most often combined to other approaches. On the other hands, over three-quarters of ESG screening assets are not subject to another approach, a percentage that is similar for engagement assets. Increasingly frequent, the exclusion of landmines and cluster bombs is not included in these figures because it generally applies to all the assets of the management firm.

Pooled fund management

Breakdown of SRI pooled fund management by type of investor (excluding employee savings)



Breakdown of growth in SRI assets under pooled fund management between 2009 and 2010, in billions of euros

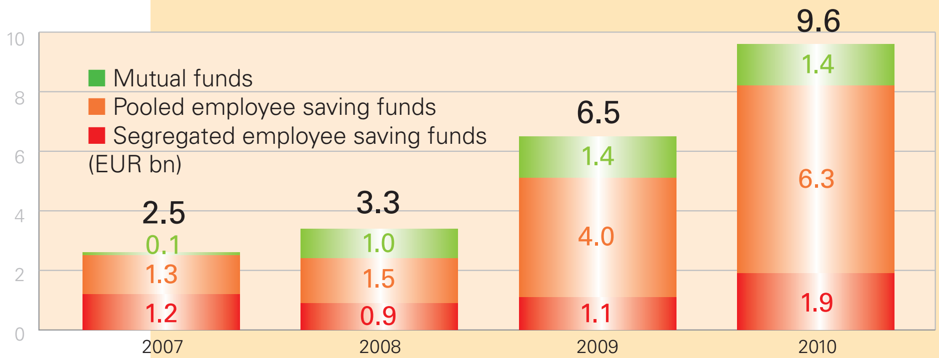


Growth mainly driven by fund conversions

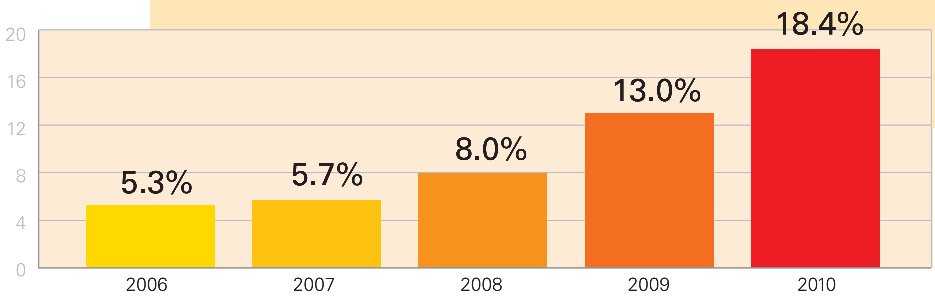
SRI pooled funds / mutual funds (excluding employee savings invested directly in open-ended mutual funds) increased by EUR 8.9 billion, mainly due to the SRI conversion of two major funds, Fonsicav (money-market) and Tricolore Rendement (equity). Regarding the subscriptions, inflows on bond funds and diversified funds (EUR 500 and 250 million respectively) were able to offset outflows from equity funds (EUR -400 million), but not the massive outflows from money market funds (EUR -2.35 billion). The contribution of financial performance had a marginal effect. With an average performance of around +5%, SRI equity funds are way below their 2009 gains, when they reached an average of +27%. Still, their performance remains positive, while at the same time the Eurostoxx50 went from +21% to -6%.

Employee savings

Breakdown of SRI employee savings by type of fund



Proportion of SRI assets in diversified employee savings

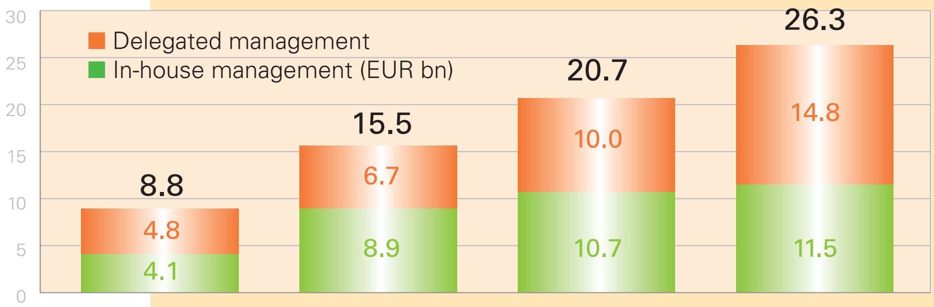


SRI keeps gaining ground in employee savings

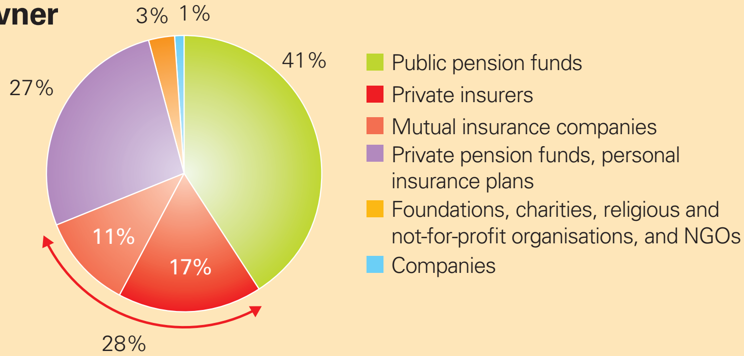
Employee savings schemes are particularly well-suited for SRI approaches, as confirmed by the continued growth in assets. This growth is due in part to the conversion of existing fund ranges. After a few slow years, dedicated funds witnessed a strong growth but remain a minority (18% of savings), whereas in 2007 their market share was equivalent to that of collective management (open-ended mutual and employee savings funds). According to the AFG, the total diversified employee savings amounted around EUR 52 billion. SRI therefore now represents more than one euro in six in employee savings. We can also note that small and medium-sized companies are more represented, with 19% of equity assets as against 11% for the whole SRI market.

Segregated asset management

Breakdown of SRI segregated management



Breakdown of SRI assets under segregated asset management by asset owner



Balanced growth for SRI segregated asset management

With an almost identical breakdown by type of institutional investor, one would think that SRI segregated management has not evolved between 2009 and 2010. However, the strong growth in the delegated management (+48%) suggests that several new SRI mandates were awarded, a sign of continued interest in these approaches. In contrast, SRI in-house management (+8%) solely relied on the organic growth of two investors. The new segregated mandates have similar characteristics to existing mandates, since the distribution by region and by asset class remained stable. One of the few notable changes is a slight resurgence of interest in corporate bonds at the expense of government securities, although these remain a majority in fixed-income products.

ESG Integration (Environmental, Social, Governance)

In the field of responsible finance, we usually distinguish between the most advanced approaches, classified as SRI, and those where ESG issues are taken into account progressively but not systematically, namely ESG integration. In the case of SRI, these issues are articulated in a structured way with the management and have an effective and measurable impact on the portfolio. Integration reflects rather an assimilation of ESG issues by managers and financial analysts on case-by-case basis. Despite its sustained growth, SRI remains a niche market that represents a few percentage points of the overall financial management, while ESG integration has expanded in recent years to several thousand billion Euros.

The PRI, an ongoing success

Such practices are encouraged by internal and external drivers, related to the presence of an SRI team within the institution, and the success of the UN-backed Principles for Responsible Investment. At the end of 2010, the PRI had more than 800 signatories, including nearly 70 French signatories. On the panel who responded to the survey on the French SRI market, there are 43 PRI signatories, of which 7 have joined the initiative in 2010.

ESG integration and SRI, an increasingly thin border

ESG integration practices among surveyed institutions have become more and more structured over the years. This tends to reduce the distance with SRI management as applied for the SRI funds included in the market survey. For at least three respondents, the extra-financial rating of issuers is almost systematically included in the assessment of issuers, whether in their financial ratings, their target stock price or their credit rating. In such cases where practices have an indirect impact on the management, the boundary between ESG integration and SRI tends to narrow, even though investors still distinguish these approaches from those adopted for their SRI funds.

Ex post ESG rating, a rising practice

Regarding practices more typically included in ESG integration, three practical approaches are commonly identified: the diffusion of extra-financial information to non-SRI teams (well-developed in the panel and involving more than EUR 2500 billion), regular exchanges between SRI and financial teams, and ex post ESG rating. This practice, which consists in assessing the overall ESG rating of a non-SRI existing portfolio, has grown significantly with at least fifteen management companies and more than EUR 500 billion in assets, against just over EUR 100 billion in 2009. Such rating often come as an answer to customers requests, and have led in some cases to the adoption of an ESG approach for concerned funds and thus their conversion to SRI.

Such ESG rating practices, as well as the progressive structuring of ESG integration approaches, may suggest optimistic outlook for both the French SRI market and the mainstreaming of more responsible financial practices.

For more information, download Novethic's study « Achieving investment objectives through ESG integration » (March 2010) from www.novethic.com.