

# 2011 TRENDS

## NOVETHIC

### SRI LABEL

#### Breakdown of labelled funds

The third edition of the Label features a virtually unchanged number of applicants, a rise in the number of engagement funds and a significant drop in thematic funds.

#### By asset class:

	Number of applicant funds	Number of labelled funds	Percentage	Refusal rate
Equity	106	86	55%	19%
Diversified	16	16	10%	0%
Bond	36	32	21%	11%
Money market	26	22	14%	15%
<b>TOTAL</b>	<b>184</b>	<b>156</b>	<b>100%</b>	<b>15%</b>

#### By SRI approach:

	Number of applicant funds	Change on 2010	Number of labelled funds
ESG screening	166	-2%	147
Norm-based exclusions	68	-12%	57
Sector-based exclusions	68	+3%	64
ESG thematic	31	-26%	21
Shareholder engagement	8	+60%	5

## Change in governance

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### **Expert Committee:**

The Committee was set up for the 2009 edition to review the Label methodology. Its composition has been considerably revised, essentially because the organisations and people working for them that were initially involved have since changed. Committee members are co-opted by Novethic and required by the Label regulations to be qualified and independent from SRI fund distributors.

The Committee currently includes four members: the Executive Director of Eurosif, the Director of Finansol, a researcher specialised in SRI and a marketing specialist in sustainable development. (*See Committee presentation*)

### **Technical Council:**

Over the first two years of the Label's existence, numerous discussions took place between the Novethic SRI Research Centre, market authorities and investment managers that design and distribute SRI funds. To formalise this dialogue, a consultation board of SRI management professionals was set up at the beginning of 2011. This "Technical Council" comprises both extra-financial analysis and SRI management professionals appointed by the SRI Commission of AFG (French Asset Management Association).

Several meetings were organised with the Technical Council in the first quarter of 2011, prior to the call for applications. This consultation was used to determine the practical interpretation of some provisions in the Label regulations and identify methodological issues that are debated among SRI professionals on the many SRI management approaches. It highlighted the need for shared reflection on these issues but in no way challenged the principle of the attribution of the Label, which falls under the sole responsibility of Novethic.

## Relative improvement in transparency

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The drop in the number of applicants that were refused the Label reflects the overall advances made by investment managers, particularly on the transparency of their SRI management processes. However, we are far from having established common standards for clear and simple information. Furthermore, the review of Label applications in 2011 was complicated by changes in rating methodology and websites launched by some actors during the summer.

### **Positive points**

- The one-year validity of the Label is appropriate. The annual verifications have showed that the websites often need updates, and the Label acts as a major incentive to do so.
- The 2011 Label regulations required the availability of transparency documents relating to the Label directly on the fund page. Introduced in 2011, this requirement has made access to information on SRI funds easier on the websites of investment managers and retail banks.
- The availability of extra-financial information required by the Label is gradually being standardised or integrated into financial reporting updates. This is a sign of clear improvement. Nearly one hundred, i.e. two-thirds of the labelled funds, feature integrated financial and extra-financial reporting.

## Points to improve

- The transparency codes that are compulsory for AFG members offering an SRI fund provide varying levels of information. They average 23 pages long but can range from 4 to 51 pages. Another challenge is that different firms update information at very different intervals. That said, there is a strong incentive for annual updates, as they are indispensable to obtain the Label and the AFG website only provides access to recent versions of transparency codes.
- The overall quality of extra-financial reporting has improved, but we are still far from a standard that allows end clients to understand systematically which Environmental, Social and Governance (ESG) characteristics were taken into account by the manager in selecting a given issuer in an SRI fund. Hardly more than one-third of funds (38%) present a breakdown of SRI rating per issuer. Most merely provide the SRI average of the entire portfolio.

## **Awards: engagement is growing, ESG performance indicators is stagnating**

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To obtain one of the two awards, "Engagement" or "ESG Indicators", the funds must also meet the four Label criteria.

**Engagement Award**: Applicants for the Engagement Award submitted more thorough applications than in 2010, hence the rise from one to five awards attributed to four investment managers. Although they agree to report more on their engagement approaches, the public availability of the information on the results obtained needs improvement. Investment managers essentially display an engagement of resources rather than results obtained through their funds.

**ESG Indicators Award**: This category includes the same winners as in 2010, showing that the investment managers that have been awarded the ESG Indicators Award since the Label was launched have maintained their approach. Unfortunately, no new applicants qualified, nor has any genuine methodological progress been made. This suggests a relative lack of research that can be used to quantify issuers' environmental, social and governance practices in concrete terms and of adequately reliable data from issuers to build these types of indicators.

## **Conclusion**

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Three years after its launch, the SRI Label has maintained its appeal among investment managers. There is an undeniable leverage effect on them, particularly in terms of transparency, but this is not enough. The idea emerged in 2008 of broader distribution of SRI products in retail networks in order to attract individual investors, who currently favour savings products over investment products. This campaign is off to a slow start. Will the 2011 crisis provide the boost it needs? Answer to come in 2012, from a French market comprising 156 funds labelled SRI by Novethic.