

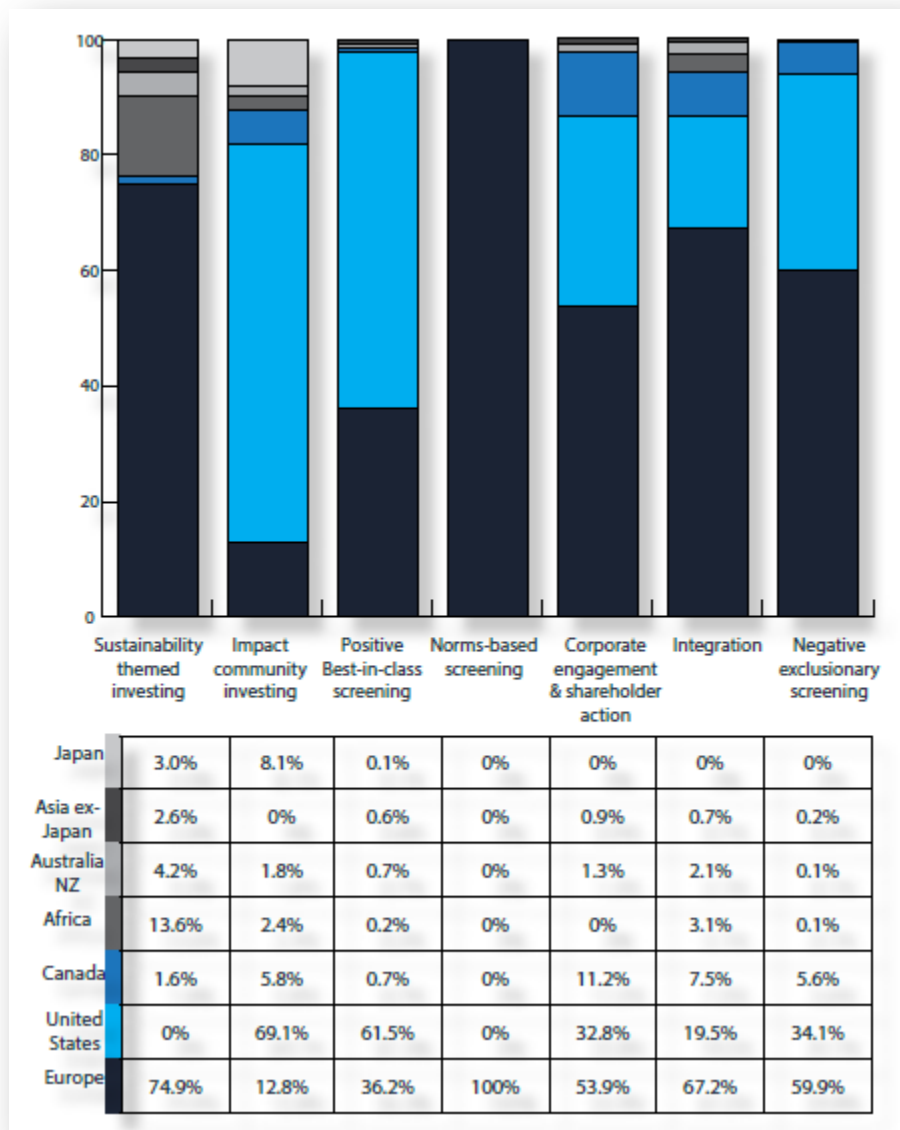


*Transparency makes
for safer investments*

A market enjoying spectacular growth

The socially responsible investment (SRI) market has grown impressively since the 2008 financial crisis. According to the Global Sustainable Investment Alliance, SRI accounted for more than 20% of globally managed assets in 2011 and for 49% in Europe. However, the expansion has been driven by a diverse range of practices, hindering the clarity of SRI approaches. Moreover, increasingly large amounts are being reported under SRI without material changes to fund management, thus undermining SRI's credibility. For this reason, a growing community believes that financial products that truly emphasise Environmental, Social and Governance (ESG) criteria should be identified in some way. This is creating added complexity for the market, as initiatives spring up across Europe to establish labels, standards and norms – all using different methodologies.

World map of responsible investment strategies



This graphic, courtesy of the GSIA, an alliance of the major proponents of responsible investment worldwide, illustrates the market's complexity as well as the resulting difficulty in explaining it with clarity and coherence.

A proliferation of SRI labelling initiatives

A number of European countries have launched or are considering initiatives based around the idea of an SRI label or equivalent. Different types of groups are behind these initiatives:

BELGIUM

Febelfin is the Belgian Financial Sector Federation.

► *Professional association*

In October 2012, the association published a recommendation on sustainable financial products and launched a website sustainableproducts.febelfin.be.

BELGIUM

Bill put forward by the **Socialist Party** in 2011

► *Parliament*

In spring 2013, parliamentary discussions resumed aimed at establishing an SRI Standard and Board.

FRANCE

AFNOR, French standard-setting and certification association.

► *Certification body*

Published a standard on SRI service commitment (*Engagement de Service - Démarche Investissement Socialement Responsable REF254*) in September 2013.

GERMANY

Forum Nachhaltige Geldanlagen (FNG) has been lobbying for responsible investing in Germany, Austria and Switzerland since 2001.

► *Association*

In 2013, FNG set up a working group on SRI labelling and asked it to explore questions of transparency and product quality. The discussions are also covering the independence and expertise of the body that awards labels.

GERMANY

Ecoreporter.de is a website providing information on sustainable development that also provides training for financial advisers and organises trade shows on environmentally-friendly investing.

► *Private company*

In September 2013, the company launched an institute for ethical development and finance (INAF) and a label (Nachhaltigkeitssiegel) for banks, investment advisers and financial products.

LIECHTENSTEIN

The **CARLO Foundation** was set up in 2012 by several parties, including the government of Liechtenstein, the Principality's banking association and an investment company, with the aim of developing an independent rating model for financial products to promote a sustainable financial market.

► *Association*

Proposed integral rating system for financial products, which would be awarded the CARLO label. A consultation was launched in July 2013 to decide on a methodology.

LUXEMBOURG

LuxFLAG, the "Luxembourg Fund Labelling Agency" awards two labels: one for microfinance funds and another for environmental funds. Initially set up in 2006 by the Luxembourg government, several professional associations and the EIB, LuxFLAG now has close to 40 members.

► *Association*

LuxFLAG has announced an ESG labelling project that is scheduled for end-2013.

SPAIN

AENOR, the Spanish standard-setting and certification association.

► *Certification body*

In June 2012, AENOR published standard UNE 165001:2012 on SRI funds.

A guarantee of transparency and robust SRI processes

Launched in 2009 the Novethic SRI Label is awarded to funds that systematically apply ESG criteria to asset management. Every year, Novethic's research centre checks the consistency of ESG analyses, their impact on issuer selection and final portfolio quality.

Awarded by an independent expert

Novethic is a subsidiary of Caisse des Dépôts and thus operates completely independently of asset management companies.

Novethic has built up its SRI expertise over more than a decade of careful analysis of French and European practices, which paved the way for it to begin awarding a label in 2009. From the outset, Novethic has helped to promote enhanced transparency. Over one-third of funds available in France applied for the new Label, with around one hundred making the first vintage of funds to receive the Label.

Today, about 40 of the management companies that are the most active in SRI submit their SRI processes and portfolios every year for review by Novethic in order to obtain this Label of quality.

Five-year track record

Since the Label was first introduced, its rules have changed to keep step with evolving market practices and promote their constant improvement. In 2013 the Label suspended the "ESG Indicators" and "Engagement" awards used since the outset.

Based on its work on ESG indicators (see Novethic study, January 2013), Novethic demonstrated the need for methodologies to be standardised in order to have comparable measures of ESG performance. Pending the gradual integration of new ESG performance reporting requirements in the rules, the ESG indicators award was suspended. Similarly, in shareholder engagement, while some SRI funds have done much to structure their approaches and improve transparency, they remain rare in France because engagement is usually conducted at the level of the asset management company. Since the engagement award had no impact on this aspect, it was removed.

Government labelling project

- **September 2012:** Creation of an SRI label included in the environmental roadmap
- **June 2013:** Brovelli-Drago-Molinié Report recommended creating a single, enhanced label to promote responsible investing
- **July 2013:** France's Forum for Responsible Investing (FIR) and Asset Management Association (AFG) proposed a new definition of SRI with a view to informing the specifications for a future label.

Criteria for receiving the SRI Label:

1. ESG analysis covering at least 90% of the portfolio; all three aspects must be systematically covered; and the analysis must have a material impact
2. Transparent and public SRI selection process
3. Regular reporting on SRI attributes of portfolio securities
4. Complete, recent portfolio inventory

Promoting funds with high SRI standards

The only label currently offered on the market, the Novethic SRI Label is intended to be awarded to discriminating funds that can demonstrate that their investment decisions are materially influenced by their ESG analysis. To measure this impact, in 2012 Novethic introduced a selectivity requirement, which is based on the ratio between the number of companies selected and the number covered by ESG screening. The resulting exclusion rate provides a minimum level that is necessary – although not sufficient by itself – to show that certified SRI approaches have a tangible impact for investors.

Label, another word for quality

A label can be defined as a special stamp or logo created by a professional union or semi-public body and affixed to a product intended for sale to certify its origin, quality and manufacturing compliance with pre-determined standards.

Assessing the quality of SRI funds

In addition to the exclusion rate, Novethic examines the ESG quality of applicant funds using a range of criteria. One interesting method is to compare the ESG performances of a fund against a benchmark or investment universe. But since management companies can still only draw from a limited list of tangible metrics, such as CO₂ emissions or job creation (see Novethic study, January 2013), it is impossible to compare all SRI funds based on their ESG performances.

In 2013 Novethic surveyed management companies on their ESG performances and measurement tools, leading to the following data:

- 47% of funds have a numerical ESG rating both for the portfolio and the investment universe or benchmark
- 13% do not have this information for their benchmark, generally because it is not sufficiently covered by the ESG analysis
- The remaining 40% use a different rating system, based on letters for example (AAA, AA, etc.), making comparisons difficult.

Identifying the risks of controversial investments

All applicant funds were asked this year about how they deal with the controversies that may arise in relation to companies, although this is not yet a mandatory criterion. The study found that more and more management companies monitor controversies and assess their seriousness.

Around 80% of applicant funds address this aspect:

- 35% have already established a formal policy covering norm-based exclusions
- 18% conduct formal monitoring of controversies that could impact companies' ESG ratings
- 25% subscribe to alerts through their ESG information providers.

Making the SRI approach more credible by supplementing the best-in-class method with norm-based exclusions is becoming standard practice, at least for funds wishing to receive a label.

104 funds were awarded the Novethic SRI Label in 2013

- ▶ 20% of them received the label for the first time



Improvements in the applications

In 2013 the number of applicant asset managers was roughly the same as in 2012, at 38 compared with 36. They filed 106 applications compared with 140 in 2012. The increasingly stringent requirements of the Novethic SRI Label seemingly prompted firms to submit their most demanding SRI funds, rather than their entire range.

Moreover, the new version of the AFG-FIR / Eurosif Transparency Code published in February 2013, which is shorter and simpler than the previous version, has made it easier to understand the SRI processes of signatory management companies, thereby facilitating the labelling process.

Opening up to Europe

Funds distributed in European countries other than France have been eligible for the label since 2013.

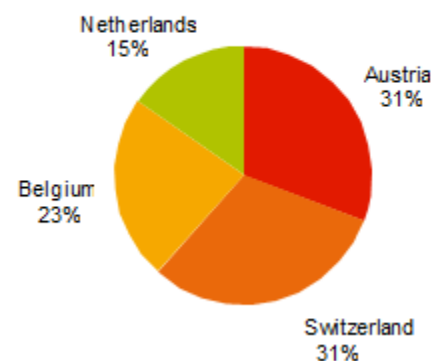
Applicant funds:

- 14% of applicant funds are managed by a foreign management company
- five are not distributed in France at all
- four foreign asset managers presented an SRI fund for the first time.

Of the funds to receive the label:

- 13% are managed by non-French companies, chiefly in Austria and Switzerland
- 18% are domiciled outside France (Luxembourg, Austria and Belgium).

Country distribution of certified funds



List of funds awarded the label

- **104** funds
- **38** management companies
- **62** equity funds, **28** fixed income funds, **9** money market funds and **5** diversified funds

Investment Manager	Fund	Asset Class
AGICAM	AG2R La Mondiale Actions Zone Euro ISR	Equity fund
	AG2R La Mondiale Oblig Euro ISR	Fixed income funds
	Ethis Valeurs	Diversified funds
ALCYONE FINANCE	Actions Nord Sud	Equity fund
ALLIANZ GI FRANCE	Allianz Citizen Care SRI	Equity fund
	Allianz Euréco Equity	Equity fund
	Allianz Euro Credit SRI	Fixed income funds
	Allianz Euro Oblig Court Terme ISR	Fixed income funds
	Allianz Securicash SRI	Money market funds
	Allianz Valeurs Durables	Equity fund
AXA IM	Axa Euro Valeurs Responsables	Equity fund
	Axa WF Framlington Eurozone RI	Equity fund
	Axa WF Framlington Human Capital	Equity fund
	Label Europe Actions	Equity fund
BNP PARIBAS IP	BNP Paribas Etheis	Equity fund
	BNP Paribas Euro Valeurs Durables	Equity fund
	BNP Paribas Mois ISR	Money market funds
	BNP Paribas Obli Etat	Fixed income funds
	BNP Paribas Obli Etheis	Fixed income funds
	BNP Paribas Retraite Horizon	Equity fund
	MAIF Investissement Responsable Europe	Equity fund
	Parvest Sustainable Bond Euro	Fixed income funds
	Parvest Sustainable Bond Euro Corporate	Fixed income funds
Parvest Sustainable Equity Europe	Equity fund	
CCR AM	CCR Actions Engagement Durable	Equity fund
CM-CIC AM	CM-CIC Actions ISR	Equity fund
	CM-CIC Moné ISR	Money market funds
	CM-CIC Obli ISR	Fixed income funds
DIAMANT BLEU GESTION	Diamant Bleu Responsable	Diversified funds
ECOFI INVESTISSEMENTS	Choix Solidaire	Diversified funds
	Confiance Solidaire	Fixed income funds
	Epargne Ethique Actions	Equity fund
	Epargne Ethique Monétaire	Money market funds
	Epargne Ethique Obligations	Fixed income funds

Investment Manager	Fund	Asset Class
EDMOND DE ROTHSCHILD AM	EdR Euro SRI	Equity fund
ERSTE AM*	Erste Responsible Bond	Fixed income funds
	Erste Responsible Bond Euro-Corporate	Fixed income funds
	Erste Responsible Stock Europe	Equity fund
	Erste Responsible Stock Global	Equity fund
FEDERAL FINANCE	Federal Actions Ethiques	Equity fund
	Federal Europe IR	Equity fund
	Federal Obligation Moyen Terme IR	Fixed income funds
	Federal Placement Court Terme IR	Money market funds
	Federal Taux Variable IR	Fixed income funds
FEDERIS GESTION	Fédérís Crédit ISR	Fixed income funds
	Fédérís Entreprises	Equity fund
	Fédérís ISR Euro	Equity fund
	Fédérís Obligations ISR	Fixed income funds
FINANCIERE DE L'ECHIQUIER	Echiquier Major	Equity fund
GENERALI INVESTMENTS EUROPE	GIS European S.R.I. Equity	Equity fund
GROUPAMA AM	Euro Capital Durable	Equity fund
	Groupama Crédit Euro ISR	Fixed income funds
HSBC GLOBAL AM	HSBC Actions Développement Durable	Equity fund
	HSBC Oblig Développement Durable	Fixed income funds
ING IM*	ING (L) Invest Sustainable Equity	Equity fund
INTER EXPANSION	Europe Ethique Expansion	Equity fund
	Monesor	Money market funds
	Soroblig	Fixed income funds
KEMPEN CAPITAL MANAGEMENT*	Kempen (Lux) Sustainable Smallcap Fund	Equity fund
LA BANQUE POSTALE AM	LBPAM Responsable Actions Environnement	Equity fund
	LBPAM Responsable Actions Euro	Equity fund
	LBPAM Responsable Actions Monde	Equity fund
	LBPAM Responsable Actions Solidaire	Equity fund
	Libertés et Solidarité	Diversified funds
LA FINANCIERE RESPONSABLE	LFR Actions Solidaires	Equity fund
	LFR Euro Développement Durable	Equity fund
LA FRANÇAISE AM	CMNE Participation Monétaire	Money market funds
	CMNE Participation Obligations C	Fixed income funds
	CMNE Sélections	Money market funds
	LFP Obligations ISR	Fixed income funds
	LFP Trésorerie Court Terme	Money market funds

Investment Manager	Fund	Asset Class
LAZARD FRERES GESTION	Objectif Investissement Responsable	<i>Equity fund</i>
LOMBARD ODIER ASSET MANAGEMENT*	LO Funds - Euro Responsible Corporate Fundamental	<i>Fixed income funds</i>
	LO Funds II - Euro Responsible Corporate Bond	<i>Fixed income funds</i>
MACIF GESTION	Macif Croissance Durable et Solidaire	<i>Equity fund</i>
	Macif Croissance Durable Euro	<i>Equity fund</i>
	MAIF Retraite Croissance Durable	<i>Equity fund</i>
	MG Croissance Durable Europe	<i>Equity fund</i>
MANDARINE GESTION	Mandarine Engagements	<i>Equity fund</i>
MEESCHAERT AM	Ethique et partage - CCFD	<i>Equity fund</i>
	MAM Humanis	<i>Equity fund</i>
	MAM Obligations ISR	<i>Fixed income funds</i>
	Nouvelle Stratégie 50	<i>Diversified funds</i>
METROPOLE GESTION	Metropole Value SRI	<i>Equity fund</i>
NATIXIS AM	Ecureuil Bénéfices Emploi	<i>Equity fund</i>
	Ecureuil Bénéfices Responsable	<i>Equity fund</i>
	Fructi Euro ISR	<i>Equity fund</i>
	Insertion Emplois Dynamique	<i>Equity fund</i>
OFI AM	OFI Euro Value ISR	<i>Equity fund</i>
	OFI Leader ISR	<i>Equity fund</i>
PALATINE AM	Gérer Multifactoriel Euro	<i>Equity fund</i>
	Palatine Actions Défensives Euro	<i>Equity fund</i>
	Palatine Or Bleu	<i>Equity fund</i>
PETERCAM*	Petercam Equities Europe Sustainable	<i>Equity fund</i>
	Petercam L Bonds Emerging Markets Sustainable	<i>Fixed income funds</i>
	Petercam L Bonds Government Sustainable	<i>Fixed income funds</i>
PHITRUST ACTIVE INVESTORS	Euro Active Investors	<i>Equity fund</i>
PICTET AM*	Pictet-European Sustainable Equities	<i>Equity fund</i>
PROBTP FINANCE	Regard Actions Développement Durable	<i>Equity fund</i>
	Regard Obligations Privées ISR	<i>Fixed income funds</i>
ROBECOSAM	RobecoSAM Sustainable European Equity	<i>Equity fund</i>
SYCOMORE AM	Sycomore Sélection Crédit	<i>Fixed income funds</i>
	Sycomore Sélection Responsable	<i>Equity fund</i>
UBS GLOBAL AM*	UBS (Lux) Equity Fund - Eco Performance	<i>Equity fund</i>

* Company whose funds are managed outside of France