



2008  
FIGURES  
AND  
ANALYSIS  
OF  
THE FRENCH  
SRI  
MARKET



A PART OF CAISSE DES DÉPÔTS ■

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# Overview

Every year of its young existence, SRI has brought its share of developments. However, 2008 will remain marked by a number of major shifts, from collective management towards separate account management and from equity to fixed income. The one thing that we have learned is clear: SRI is becoming a safe haven in these tough economic times.

Amidst tumbling markets and plummeting confidence, resulting in the significant outflows from traditional fund management, SRI continues to grow, amounting to close to EUR 30 billion at the end of 2008 (up 37% on 2007). It notably benefited from the arrival of new institutional investors on the market, expected since the initiatives of the FRR (French Pensions Reserve Fund) and the ERAFP (French Public Service Additional Pension Scheme). SRI employee savings also saw strong growth, now representing 8% of total diversified employee savings. The only segment that has not profited from this expansion is that of retail investors, whose assets under management have actually fallen.

Market structure changed in 2008: since institutional investors tend to favour “tailored” SRI strategies, designed to align their investments with their convictions, separate account management now, for the first time ever, dominates collective or pooled management. Predicted by Novethic last year, this shift turned out to be even more pronounced than expected.

Another change involves the leading asset classes. While equity has traditionally been the key asset class in SRI, the fixed income and money markets have taken advantage of their lower exposure to risk and the downturn on equity markets to edge ahead. This newfound lead for fixed income products raises a few issues in terms of extra-financial screening and selectivity. How are the main issuers of fixed income products, i.e. governments, unlisted financial institutions or state-owned companies, assessed? What political issues come into play in their analysis? What selectivity levels can be expected from funds investing in euro-zone government bonds, which all must comply with rather strict requirements?

All of these factors point to the fact that the market is changing. This is particularly true as ESG integration approaches, which apply these criteria to mainstream asset management but less systematically, are growing and diversifying due to factors such as increasing awareness, the financial crisis, and the influence of the United Nations Principles for Responsible Investment.

# The French SRI Market in 2008

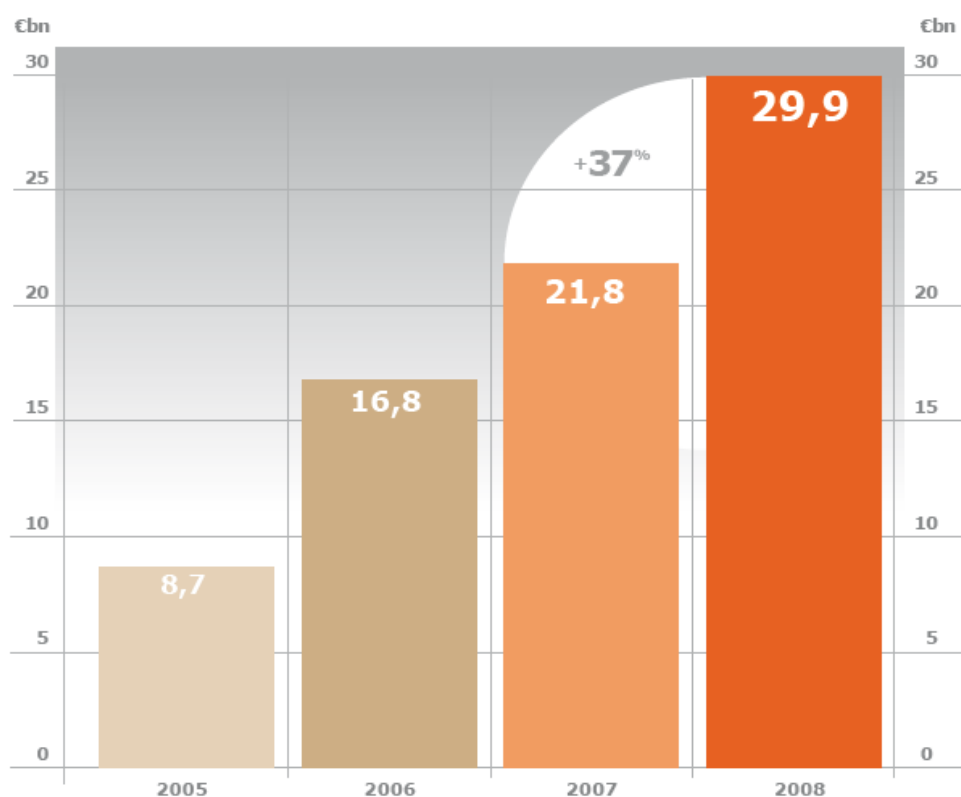
## Overall data

### Sharp growth of the French SRI market

Between end-2007 and end-2008, the SRI market of French residents rose from EUR 22 billion to EUR 30 billion, representing 37% growth, which was even higher than the previous year (30%). This success is due to new inflows, the conversion to SRI of major traditional funds, essentially money market funds, new institutional mandates and the increase in in-house asset management. As a result, not even the sluggish equity market (DJ Eurostoxx 50 down 44.2% for 2008) was enough to jeopardise the development of SRI. Comparatively, AFG, the French Asset Management Association, reported an 11% drop in assets under management in France between 2007 and 2008, to EUR 2,360 billion, with outflows of EUR 45 billion from collective management alone.

SRI thus confirms its safe haven status. The growth in these assets under management reflects investors' rising confidence in approaches that combine both financial and extra-financial criteria, especially since comparable non-SRI products showed similar performances.

Evolution of SRI assets on the French market



(Source: Novethic)

## Market shift to separate account management

TABLE 1 - Breakdown of SRI assets by type of management

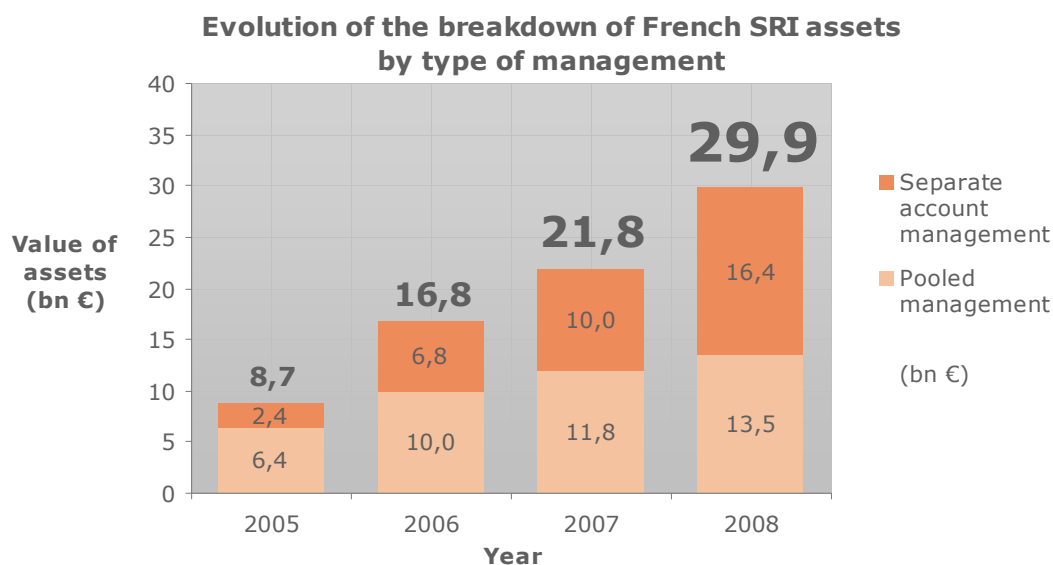
		€ bn	2006	2007	2008	2007/08
Pooled management	Retail		3,9	4,6	4,0	-13%
	Institutional		5,0	5,8	7,1	+21%
	Employee savings		1,1	1,4	2,5	+78%
	<b>Sub-total</b>		<b>10,0</b>	<b>11,8</b>	<b>13,5</b>	<b>+14%</b>
Separate account management	Institutional (delegated management)		3,0	4,8	6,7	+39%
	Institutional (internal management)		2,7	4,1	8,9	+119%
	Employee savings		1,0	1,2	0,9	-26%
	<b>Sub-total</b>		<b>6,8</b>	<b>10,0</b>	<b>16,4</b>	<b>+64%</b>
<b>Total</b>			<b>16,8</b>	<b>21,8</b>	<b>29,9</b>	<b>+37%</b>

(Source: Novethic)

For the first time since Novethic began publishing data, separate account management now surpasses collective management, by boasting much stronger growth (64% versus 14%). This is due to the awarding of new SRI management mandates and, more importantly, to Agricola Épargne's decision to bring over EUR 3 billion in assets under in-house management. In-house SRI management is growing fast, currently representing 30% of the total SRI market.

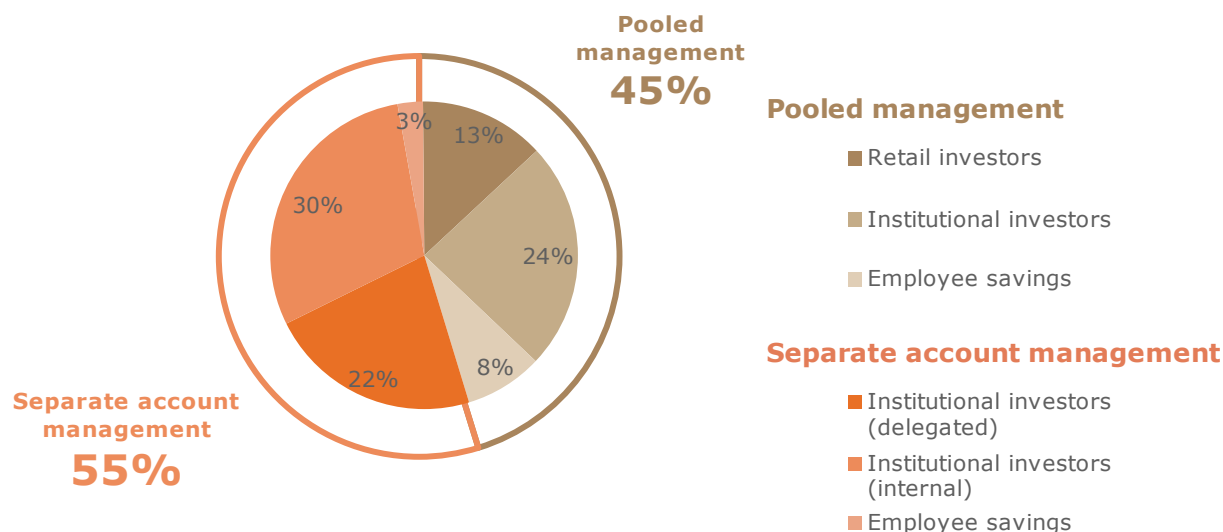
The shift in market structure towards separate account management, anticipated last year, reflects institutional investors' interest in designing their own extra-financial approaches, through "tailored" SRI strategies. This trend is expected to grow stronger in the future.

Despite the negative market effect on equities, collective management grew, with EUR 2 billion in inflows and the conversion of large existing money market funds to SRI. When converted, these funds represented a total of EUR 3.2 billion and continued to rise, to end the year at EUR 4.1 billion. These significant inflows are one of the clearest indicators that investors equate SRI with safe investments.



(Source: Novethic)

### Breakdown of SRI assets by type of management (as of 31/12/2008)



(Source: Novethic)

### Individual and institutional investors: The great divide

TABLE 2 - Breakdown of SRI assets by type of investor

		€bn	2006	2007	2008	2007/08
Institutional Investors	<b>Pooled management</b>		5,0	5,8	7,1	+21%
	<b>Delegated management</b>		3,0	4,8	6,7	+39%
	<b>Internal management</b>		2,7	4,1	8,9	+119%
	<b>Sub-total</b>		<b>10,8</b>	<b>14,7</b>	<b>22,5</b>	<b>+54%</b>
Retail Investors	<b>Pooled management</b>		3,9	4,6	4,0	-13%
	<b>Employee savings</b>		2,1	2,5	3,3	+31%
	<b>Sub-total</b>		<b>6,0</b>	<b>7,2</b>	<b>7,4</b>	<b>+3%</b>
<b>Total</b>			<b>16,8</b>	<b>21,8</b>	<b>29,9</b>	<b>+37%</b>

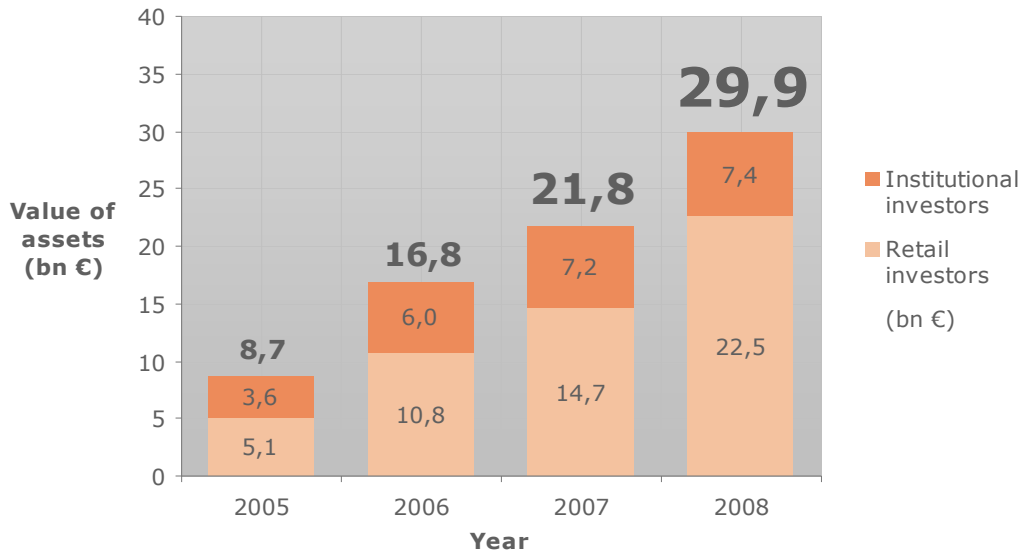
(Source: Novethic)

In recent years, the French SRI market has set itself apart from most European markets by its relatively significant share of individual investors. That said, this segment is losing ground, dropping from one-third at end-2007 to one-quarter at end-2008. It could have fallen even further, had SRI employee savings not posted such a strong growth: the individual investor market remains rather sluggish. Overall, the impact of inflows hardly managed to offset the drop in markets, bringing with it a degree of stability (up 3%).

On the other hand, the institutional segment rose by 54%, securing a significant part of the growth from money market funds, in addition to new management mandates and Agricar's in-house management switch to SRI. At last, institutional investors, expected on the market since the initiatives of the FRR (French Pensions Reserve Fund) in 2004 and

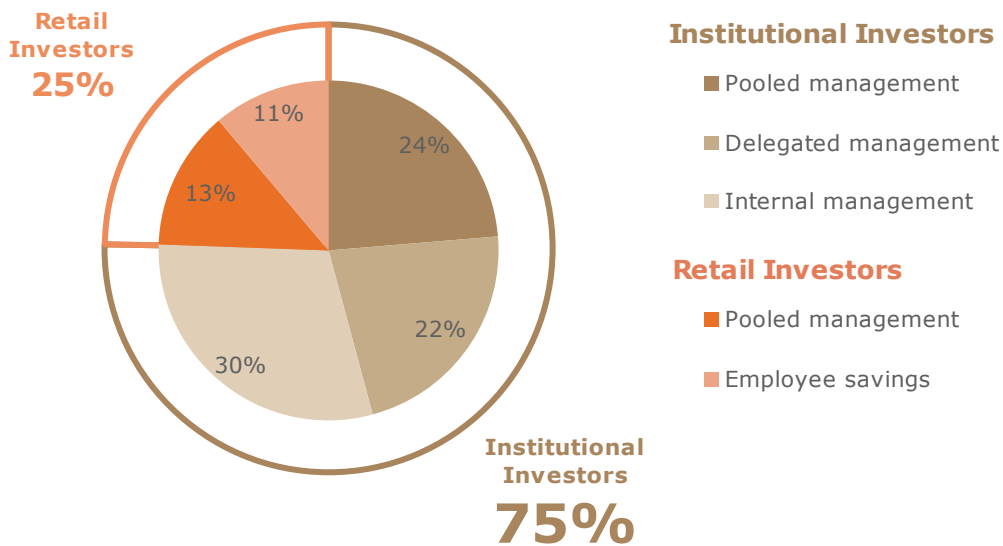
ERAFP (French Public Service Additional Pension Scheme) in 2005, are becoming an active SRI growth driver in France.

**Evolution of the breakdown of French SRI assets by type of investor**



(Source: Novethic)

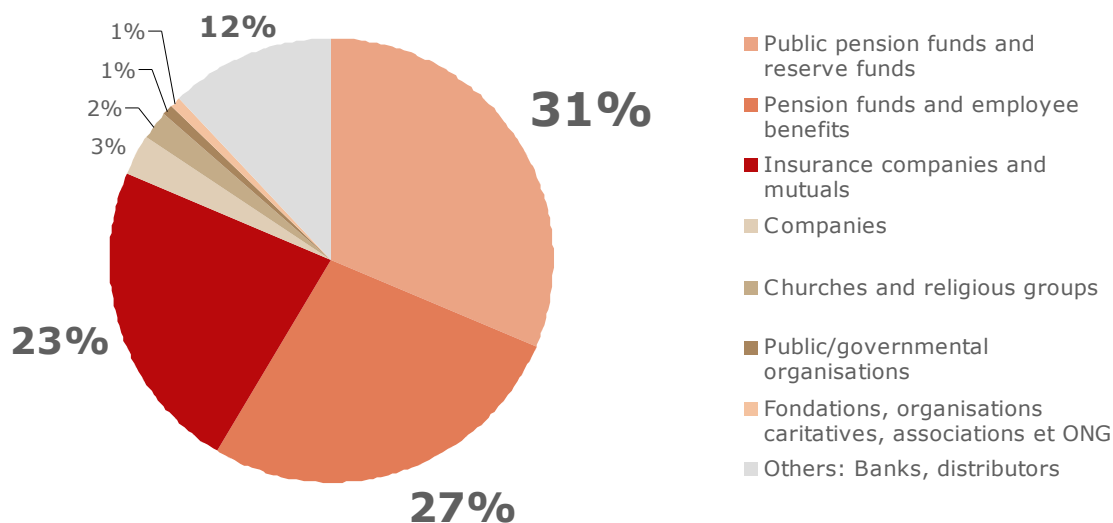
**Breakdown of SRI assets by type of investor (as of 31/12/2008)**



(Source: Novethic)

## Specification of assets under management

**Breakdown of French SRI assets by type of institutional investor  
(31/12/2008)**

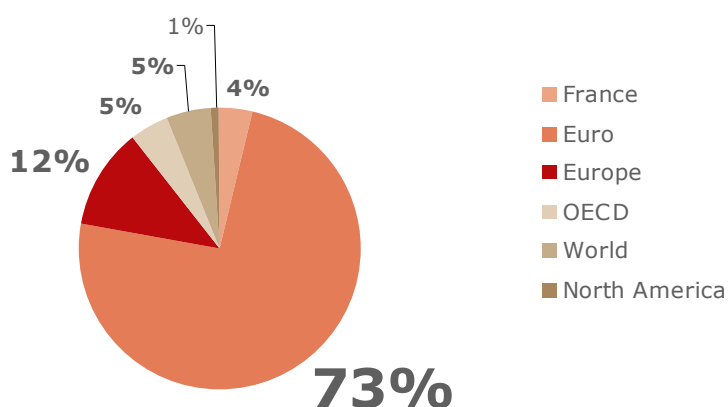


(Source: Novethic)

The main institutional investors in SRI are large long-term investors (public pension funds and reserve funds, superannuation and provident funds, and insurance and mutual companies). These three categories account for over 80% of the institutional assets under management. Historically, SRI providers were churches, religious groups and charities, which only represent 3% of the market today, not because they have turned away from SRI, but because their assets pale in comparison to those of the institutional giants mentioned above.

Comparatively, in the UK, they still lead the way in terms of SRI assets under management, according to the UK Sustainable Investment and Finance Association (UKSIF). This is the case in other European countries such as Germany and Austria, but is not so in Belgium or the Netherlands, for example, according to the Eurosif study conducted at the end of 2007 to review the largest European SRI markets.

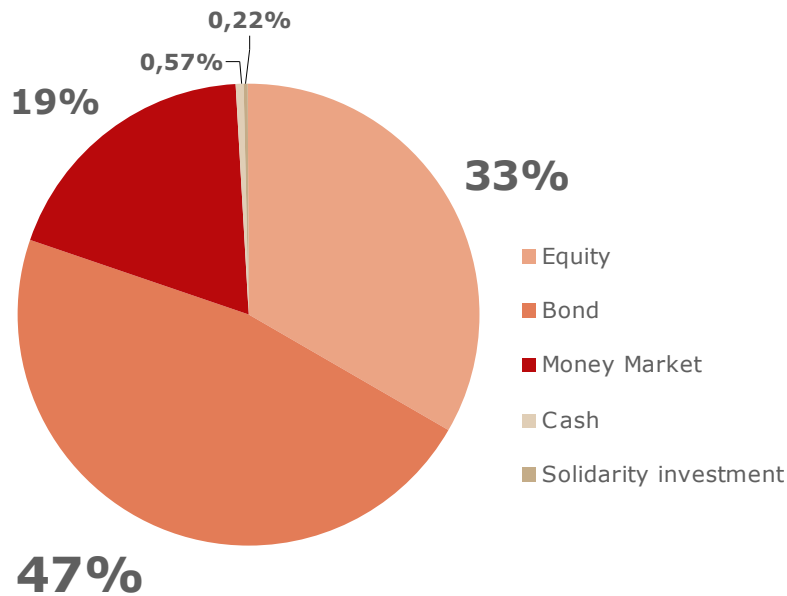
**Breakdown of French SRI assets by investment zone  
(31/12/2008)**



(Source: Novethic)

French SRI clients are mainly invested in the euro zone (73%). By looking at the proportions in other regions, we see that the majority of investments are focused in European countries.

**Breakdown of French SRI assets by asset class  
(31/12/2008)**

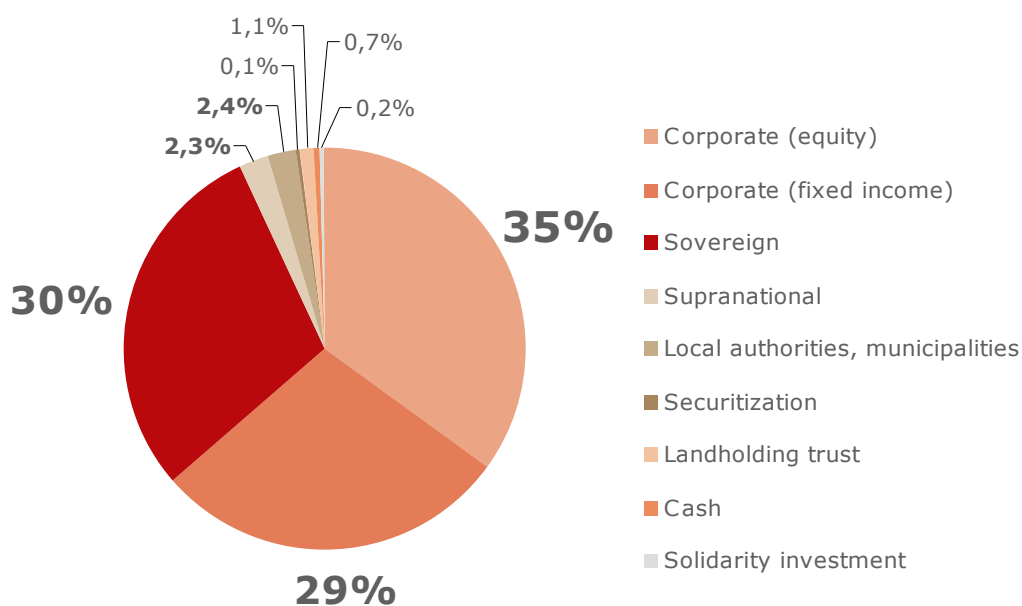


(Source: Novethic)

In this graph, funds were broken down by the asset classes in which they are invested, and not only by their largest asset class, making a “diversified” category irrelevant.

Compared to 2007, when equities (51%) and bonds (43%) ranked as the largest classes, we note that in 2008 money market funds sapped growth from equities, due to their poor financial performance; yet the amounts of inflows were comparable for open SRI money market and equity funds. In absolute terms, equity assets under management dropped by 10%, while bonds rose by 50% and money market funds more than quadrupled, notably as a result of the conversion of a few major funds.

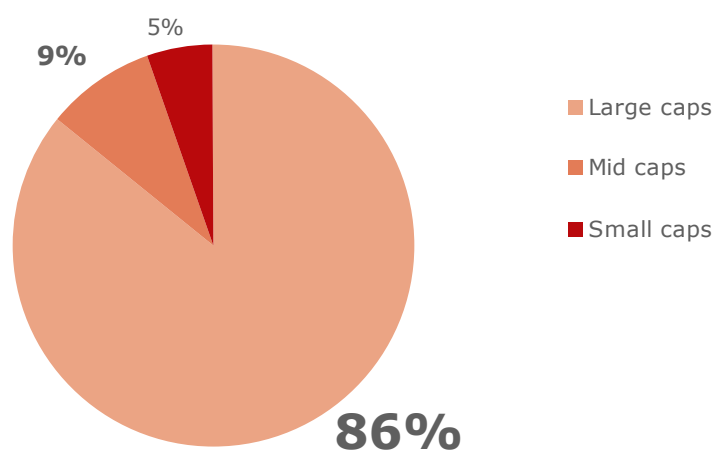
**Breakdown of French SRI assets by issuer type (31/12/2008)**



(Source: Novethic)

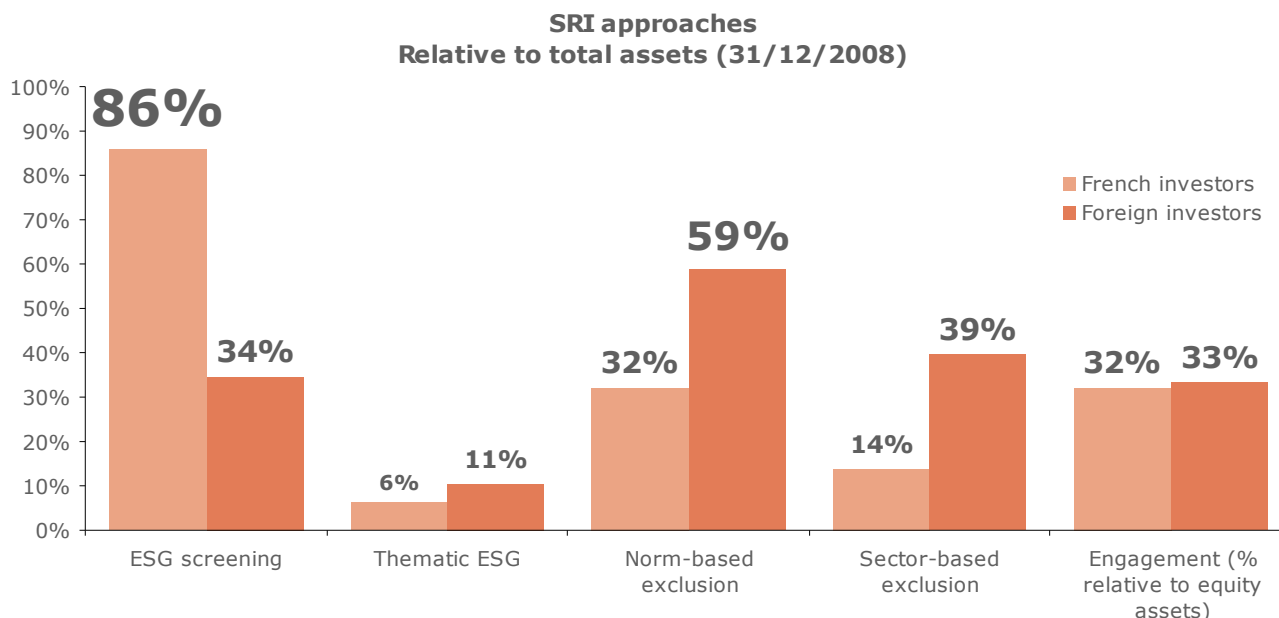
Excluding companies and governments, there are few other issuers of fixed income investments, probably because these issuers are not sufficiently included in extra-financial research. This revives the case that marked the beginnings of equity SRI, that of investors increasingly claiming extensive research and rating agencies waiting for the resources to carry it out. In other words, the issue has yet to be resolved. Moreover, the large number of sovereign issuers raises the issue of the selectivity criteria of bond funds invested in these issuers, and the political and diplomatic ramifications that their assessment and potential exclusion may involve.

**Breakdown of French SRI equity assets by company size (31/12/2008)**



(Source: Novethic)

Investment in small and mid caps remains low but is beginning to gain ground. This may suggest that in-house SRI analyst teams or specialised agencies have begun dealing with this universe. It may also be due to the increasing number of thematic funds or sub-funds within more traditional funds. However, overall the midcap segment regressed considerably in 2007-2008, which may have hindered its relative growth within SRI.



(Source: Novethic)

The fund managers surveyed also provided information on their non-French clients, allowing for a comparison between the characteristics of “French” and “foreign” assets under management. In terms of the SRI strategy applied to these two categories, the traditional pattern was confirmed, whereby French clients favour ESG screening in its different forms, while foreign clients prefer ESG exclusions. That said, the exclusion approach is growing amongst French clients, with 32% of the assets under management concerned by norm-based exclusions. Active ownership also drew back as compared with 2007, falling from nearly 100% to 32% for French clients. The concept is better defined and better understood, and management firms are now confusing it less with simply exercising voting rights or practicing non-targeted dialogue.

## Market segments

### Growth remains moderate for open-ended mutual funds

Open collective or pooled management refers here to the SRI mutual funds open to all types of clients. This does not include employee savings funds which, although they fall under collective management, are not open to clients other than company employees. We also decided not to include employee savings invested directly in open-ended mutual funds (EUR 1 billion), as they are taken into account in the following section and involves a specific client base. The amounts presented below therefore do not match the collective management figures in Table 1.

Under this definition, open-ended collective management amounts to EUR 11.1 billion, up by 6% on 2007 (EUR 10.5 billion). Institutional investors' assets under management, up by 21%, while those of individuals declined by 13%, account for 64% of total assets, as against 36% for individuals. The divide has thus widened considerably compared with the past three years, during which individuals managed to hold on to about 44% of the assets under management.

SRI equity funds saw a substantial market drop of approximately EUR 2.7 billion. In comparison, the performance of other asset classes is insignificant. In addition, some funds, worth EUR 0.9 billion at the end of 2007, and are no longer SRI as a result of a change in management strategy. However, the conversion of several money market funds to SRI, representing EUR 3.2 billion, along with inflows of EUR 1 billion (EUR 2 billion counting employee savings invested in open-ended funds), boosted the assets under management in the open-ended collective management segment.

It should be noted that these inflows are not limited to bond and money market funds. Equity funds (45% of inflows, or EUR 0.9 billion) represent a significant portion, despite performing similarly to an already very tumultuous equity market.

ESG screening remains the most common SRI approach, with 87% of French assets under management applying it. This approach tends to be diversified according to the specific management style: best-in-class, as well as best-effort and best-in-universe strategies are used (see *glossary*). Thematic approaches have retreated, representing only 11% of assets under management. This may be due both to the reduced proportion of SRI funds invested in equities and to the stock market turbulence in environmental sectors, which have high capital and credit requirements. Exclusions remain less common, whether norm-based (18%) or sector-based (27%). Active ownership fell to 32%, but this figure should be considered with care, as the notion itself is subject to interpretation.

### Development of SRI in employee savings

Assets under management invested in open-ended mutual funds, representing EUR 1 billion, were taken into account in SRI employee savings.

SRI employee savings jumped significantly, from EUR 2.5 billion in 2007 to EUR 3.3 billion in 2008, up 31%. Growth in employee savings under open-ended

collective management offset the drop in assets under separate account management, mostly due to a significant mandate. The rise in the share of SRI in total diversified employee savings<sup>1</sup> (excluding employee share ownership) from 5.7% to 8% attests to the strength of this segment. The primary SRI approach here remains ESG screening (75%), sometimes with a certain penchant for social responsibility. As in 2007, norm-based exclusions were virtually absent (6%), but sector-based exclusions (23%) were bolstered by open-ended mutual funds.

### **Separate account management, a market growth driver**

Separate account management (both delegated and in-house, excluding employee savings) showed a strong growth of 76%, amounting to EUR 15.5 billion versus EUR 8.8 billion at the end of 2007. Along with the new delegated management mandates, up from EUR 4.8 billion to EUR 6.7 billion (up 37%), came Agricor's decision to convert over EUR 3 billion to in-house SRI management, more than doubling total in-house SRI management, which grew from EUR 4.1 billion to EUR 8.9 billion (up 119%)

Pension and reserve funds, superannuation and provident funds, and insurance and mutual companies account for the largest portion of institutional assets under separate account SRI management. Religious groups and charity organisations, historical SRI institutional clients, saw their portion reduced further, from 4% to 3%.

Assets are almost exclusively invested in the euro zone (90%), primarily involving bonds (71%), two-thirds of which are government-issued. Equities account for only 24% of the total. Comparatively, the assets under management of foreign clients are invested to a greater extent in equities (57%) and in Europe (83%).

ESG screening remains by far the most common SRI strategy, with a higher share of norm-based exclusion than under collective management, representing 48% of assets under management. Sector-based exclusion is practically non-existent (3%), which is typical of the French SRI approach. This is compounded by the fact that churches, one of the few clients with ethical exclusion requirements, represent a very limited part of total assets under management.

Active ownership, highly dependent on specific demand from institutional investors, accounts for one-third of equity assets under management. Managers and investors blame each other: management firms claim that they cannot practice engagement for lack of delegation by institutional clients, while institutional investors assert that this approach should be decided upon by the managers....

### **Leaders making their mark**

SRI leaders, in terms of assets under management on the French market, remain virtually unchanged from last year; they include (in alphabetical order): Allianz Global Investors France, BNP Paribas Investment Partners, Crédit Agricole Asset Management Group (CAAM, IDEAM, and CPR AM), Dexia Asset Management and Natixis Asset Management, along with Société Générale Asset Management. Each of the six members

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<sup>1</sup> EUR 41.4 billion at end-2008, according to the AFG. Including EUR 30 billion in employee share ownership at end-2008, employee savings totalled EUR 71.4 billion.

in this “club” manages over EUR 1.5 billion for French clients, which includes some significant money market funds. The threshold is 50% higher than that of EUR 1 billion applied last year.

## ESG integration approaches

Apart from funds that qualify as structured SRI funds, a growing number of fund management companies now use new insight offered by SRI management in their traditional management approach, but apply more flexible or different requirements to ESG issues. Institutional investors are taking initiatives that are in line with the recommendations of the PRI (United Nations Principles for Responsible Investment) or designed to protect against reputational risk such as human rights violations or even important extra-financial risks such as climate change. These approaches, which fall under what we call ESG integration or mainstreaming, often cover significant volumes of assets under management since they can apply to mainstream management and are not limited to a few funds. However, it is difficult to determine the amounts impacted by these practices: they may affect a large number of assets under management but are not necessarily applied systematically. As such, we have presented each individual approach below, rather than attempted to calculate an overall figure for ESG integration.

### Practices reviewed<sup>2</sup>:

- **Norm-based screening/exclusions:** These practices do not have a major impact on the investment universe as they exclude securities from issuers whose controversial practices have been proven. They are easily applied to traditional management and currently represent EUR 3.9 billion. These practices are generally applied by foreign issuers seeking protection against certain forms of reputational risk.
- **Exclusions of weapons:** Two forms of exclusions that are increasingly applied combine the norm-based and sector-based approaches: following the Ottawa Convention and the Oslo Process, a number of investors exclude any company active in the production or distribution of anti-personal mines or cluster bombs. The assets concerned have not been disclosed by all the companies involved, but they may very well total as much as EUR 1,000 billion.
- **Availability of ESG analysis for non-SRI managers:** This represents nearly EUR 1,300 billion. These analyses may be more qualitative (analysis summaries, often sector-based) or quantitative (ESG rating) for some, but for most, both aspects are used. Tools such as databases (separate account or integrated) are increasingly available to mainstream managers. Moreover, the analyses available to mainstream managers strongly emphasise the combination of financial and ESG criteria, placing greater value on in-house research as opposed to the ratings and global analyses provided by specialised rating agencies. Several players now highlight the importance of training and awareness raising of mainstream managers on extra-financial issues but do not necessarily provide any figures on these areas. For some, a few elements of the ESG analysis or rating have begun to be integrated systematically in global securities analyses. Lastly, access to extra-financial analysis may result in the fact

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<sup>2</sup> In addition to the ESG integration described here, two types of practices can be included in Broad SRI, as defined by Eurosif. These include engagement or simple exclusion (*see glossary*). These strategies are not included in our review, as they are virtually non-existent in France.

that issuers are asked additional questions at meetings, or a commitment is made in which securities with better ESG ratings are favoured over those with an equivalent financial outlook. In any case, the application of these approaches by managers is very rarely monitored, which is inherent to the integration approach, unlike “structured” SRI.

- **Exchange between the SRI and financial teams** (at regular investment committee meetings): this practice is also becoming more common, but numbers on asset volumes are vague. Over twenty management companies and institutional investors use this approach. Even if SRI and traditional managers remain on separate teams in most firms, the financial and SRI analysis teams are now in the same department in many companies. Some argue that this type of practice has no direct impact on fund management, but it clearly helps raise awareness within the financial industry.
- **Applying ESG measures ex post to non-SRI portfolios**: the assets under management associated with these practices differ according to whether they cover global ESG measures (thus involving EUR 150 billion) or specific indicator measures such as greenhouse gas emissions (EUR 3 billion only). Again, several market players mention this but do not provide any figures. These measures do not impact fund management at first but may encourage managers to improve their ESG evaluation, mainly by limiting the weighting of issuers with bad ratings, therefore limiting ESG risks. Still, the motivation behind these practices often remains “at the client’s request”, which appears to be growing.

The detailed analysis of these practices presents tangible evidence that they are penetrating financial management on a wider scale. Interestingly, some managers and institutional investors apply several of these practices, resulting in an approach similar to structured SRI. Far from competing with the SRI market, mainstreaming is expected to continue fuelling its development in fund management companies. The two approaches actually feed off each other, as SRI is often used as an R&D department for mainstreaming. For institutional investors aware of the interest in using a genuine extra-financial approach combined with traditional risk analysis and financial opportunities, ESG integration is a means to begin incorporating these issues, which have thus far been the domain of SRI funds, in their strictest sense. Today, there is no doubt that the PRI, signed by over 400 investors and representing nearly EUR 15000 billion in assets under management worldwide, have played a major role in raising awareness.

# Methodology and research panel

Research for this report was conducted using the information collected through a questionnaire sent to asset managers that offer an SRI fund on the French market or identified as active in separate account management in SRI on behalf of French institutional investors. The analysis of their answers has been used to prepare this report.

The questionnaire was sent to 63 of these asset management firms as well as five major institutional investors with in-house management teams or active mandates granted to SRI managers.

59 fund managers and all 5 institutional investors participated in the survey.

## Fund management companies that participated in the Novethic survey:

AGICAM	Financière de l'Échiquier	Natixis AM
Alcyone Finance	First State Investments	OFI AM
Allianz Global Investors France	Fongepar Gestion Financière (CNP)	Orsay Gestion
Alto Invest	Fortis Investments	Palatine AM
Aviva Investors	Fundlogic (Morgan Stanley)	Petercam
AXA Investment Managers	Groupama AM	Phitrust Active Investors
Barclays Wealth Managers	Henderson GI	Pictet AM
BFT Gestion	HSBC Global AM (France)	Pioneer Investments
BNP Paribas AM	ING IM	Prado Épargne
CCR AM	Inter Expansion (Ionis group)	ProBTP Finance
CM-CIC AM	JP Morgan AM	Quilvest Gestion Privée
COGEFI Gestion	La Banque Postale AM	Raymond James AM International
Covea Finance	La Financière Responsable	Robeco SAM
Credit Agricole AM Group	Lazard Frères Gestion	Sarasin AM (France)
Dexia AM	Living Planet FMC S.A.	Société Générale AM + Étoile Gestion
DWS	LODH	Sparinvest
Ecofi Investissements	MACIF Gestion	State Street Global Advisors
Federal Finance	Mandarine Gestion	Swiss Life AM France
Fédéris Gestion d'Actifs	Meeschaert Gestion Privée	UBS Global AM
Financière de Champlain	Metropole Gestion	

Novethic's annual study is close to being a completely exhaustive analysis of the market for collective management. Novethic estimates that the managers that did not take part in the survey only represent a few million euros on the French SRI market.

## Institutional investors that participated in the Novethic survey:

The top five SRI institutional investors today: Caisse des Dépôts (CDC), Établissement de Retraite Additionnelle de la Fonction Publique (ERAFP), Fonds de Réserve pour les Retraites (FRR), along with Agrica group and BNP Paribas Assurance. Data on the separate account management of other institutional investors was collected through the fund managers handling their mandates, although the names of their clients were not disclosed.

### Questionnaire and data processing

Each participant was asked to break down its SRI assets under management by asset class, investment region, type of issuer and SRI strategy, and then break down investors by type (retail, high net worth individuals, employee savings or institutional), differentiating between French and foreign residents. This latter point refers to investors living in France or outside France enabling us to provide a more accurate assessment of the French SRI market. The difference here between French and foreign clients is in terms of the country of residence rather than nationality. Unless otherwise mentioned, the data used in this review only concern clients residing in France.

The answers to this questionnaire were treated with the utmost confidentiality, as most fund management companies do not wish to disclose the information publicly, notably regarding the separate account management.

The inflows to open funds were based on data from Morningstar, covering over 95% of the funds offered in France, but taking only French investors into account. For each fund, the difference between total assets at end-2007 and end-2008 was determined, and then the portion of this difference due to market effects (by multiplying the annual financial performance by assets at end-2007). The remaining portion of the difference was considered inflow or outflow. This is an approximation and does not account for certain factors such as the performance of share subscriptions made over the year or reinvested dividends, but Novethic's SRI research centre believes it is sufficiently adequate to draw the conclusions presented in this review.

# Glossary

## **SRI strategy**

Management strategy systematically taking into account extra-financial or ESG (Environmental, Social and Governance) criteria in stock selection and/or active engagement with companies on such issues. An SRI strategy is characterised by a single approach or a combination of different approaches (see definitions below).

## **ESG Integration or Mainstreaming**

Taking ESG issues into account in global asset management (mainstream) to varying degrees, without resulting in a systematic impact on the selection of portfolio securities.

## **Core SRI and Broad SRI**

Terms used by Eurosif, a European organisation that promotes SRI. Core SRI refers to SRI strategy and Broad SRI to ESG integration.

## **ESG screening**

SRI strategy based on the selection or weighting of issuers using an analysis of their ESG practices according to a variety of information sources: extra-financial rating agencies, NGOs, brokers, in-house analyses by dedicated teams which may involve meeting with issuers. There are several types of ESG screening: best-in-class, best-in-universe or best-effort.

## **Best-in-class**

An ESG screening that consists in selecting the best rated companies in their business sector.

## **Best-in-universe**

An ESG screening that consists in selecting the best rated companies regardless of business sector.

## **Best effort**

An ESG screening that consists in selecting the companies that have demonstrated the best efforts to improve their ESG practices.

## **Norm-based exclusions**

Exclusions of companies that have breached internationally recognised standards and conventions. The most common benchmarks are the ten principles of the UN Global Compact which are grouped into four categories (human rights, labour, environment and anti-corruption), the International Labour Organization Declaration on Fundamental Principles and Rights at Work notably concerning child labour, the Universal Declaration of Human Rights, as well as certain practices such as responsibility in environmental disasters or animal testing.

### **Sector-based exclusions**

Exclusions of companies generating a portion of their revenue from controversial activities, such as alcohol, tobacco, weapons, gambling, pornography, etc. Sector-based exclusions are often subject to specific cultural traditions. For example, this approach is quite rare in France, and even non-existent in the case of nuclear energy.

*According to Novethic, this approach alone is not considered SRI in its strictest sense, since companies are not analysed based on their ESG practices. To be considered part of an SRI strategy this approach must be combined with other systematic approaches such as ESG screening, norms-based exclusions or active ownership.*

### **Ethical exclusions**

This term generally refers to sector-based exclusions (see above) since the proscribed activities are deemed unethical.

### **ESG thematic**

The thematic ESG approach involves selecting companies focused on a sustainable development theme or sector, for example: renewable energy, water, healthcare, or, more generally, climate change, eco-efficiency or demographic aging. A company is usually eligible if the portion of its revenue generated in the sector is above a pre-defined threshold or if it holds a leading position on the market in question.

A thematic or sector-based ESG approach may involve an entire fund or only a portion of total fund assets. When combined with ESG screening, it may also result in the overweighting of one of the areas (generally the environment or social responsibility depending on the theme selected) over the other two.

*This approach, like sector-based exclusions, must be combined at least with another approach that analyses practices (and not solely the business sector) in order to be considered part of an SRI strategy.*

### **Active ownership / Engagement**

This is not solely limited to the exercise of voting rights at general assemblies but also consists in engaging with the company on certain ESG issues in an effort to persuade it to improve its practices. If the dialogue fails, this can lead to a public communication or result in a resolution filed at a general meeting. The fund manager can also decide to divest from the company if it refuses to improve its practices.

Novethic would like to thank all of the fund management firms and institutional investors that took the time to answer these questions.



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## 2008 FIGURES AND ANALYSIS OF THE FRENCH SRI MARKET

Study conducted by Dominique Blanc and Samer Hobeika of Novethic's SRI research centre.

Since 2001, Novethic provides expert resources and mobilises business leaders, investors, NGOs and other stakeholders on key topics related to CSR and SRI. Novethic is the only source of analytical and statistical information on the French SRI market. The SRI research team conducts thematic studies, analyses product trends and assesses the SRI processes of asset management firms.

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