

Asset owners as active shareholders:

Attitude towards and motivation behind ESG policies

In partnership with



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Introduction

- For the second year in a row, Novethic surveyed, with the support of BNP Paribas Investment Partners, French and UK asset owners on how they perceive their responsibility regarding the Environmental, Social and Governance (ESG) strategies of the companies in which they invest.
- The French and UK survey samples characterise the specific features of each country. The French sample reflects the different types of asset owners. In the UK, the survey was conducted in partnership with the extra-financial rating agency EIRIS and covered only pension funds.
- A year after the market shock triggered by the economic and financial crisis, do asset owners, supposedly long-term shareholders, wish to further integrate Environmental, Social and Governance criteria into their fund management practices? Do they believe that they are playing a role in better incorporating sustainable development into corporate strategy?
- The purpose of the survey is to provide answers to these questions. It is not to review surveyed organisations practices in integrating extra-financial criteria in their investment approach.
- This survey of over sixty asset owners in France and the UK was conducted from September to October 2009. The questionnaire was administered by email or telephone, ensuring that the respondents had the authority to make strategic decisions (management, finance, or investment executives).


France: A diverse sample

- More than 2/3 of respondents represented financial institutions with over EUR 1 billion in assets under management.
- In France, the survey covered different types of institutions, reflecting the various categories of asset owners in the country. These include superannuation funds, joint or collective welfare organisations, foundations and private or mutual insurance companies.

	AG2R LA MONDIALE	COVEA FINANCE	MEDICIS
	AGEFIPH	ERAFF	MIP
	AGRICA EPARGNE	FEDERATION CE CFDT	MTD
	ANCV	FRR	MUTRAFER
	APRIONIS	GENERALI	NOVALIS TAITBOUT
	AXA	GIE AGIRC ARRCO	PACIFICA
	BNP PARIBAS ASSURANCE	GROUPE CARREFOUR	PREDICA
	CAISSE DES DÉPÔTS	IGD	REUNICA
	CAMACTE	LOURMEL	SCOR GLOBAL INVESTMENTS
	CAPSSA	MACIF	SOGECAP
	CNP ASSURANCE	MAIF	

United Kingdom: A sample of pension funds

- The public and private pension funds that replied to the questionnaire each manage assets totalling over EUR 1 billion.

	AVIVA STAFF P.S.	HAMPSIRE COUNTY COUNCIL	RAILWAYS P.F.S
	BANK OF ENGLAND P.F.	HBOS FINAL SALARY P.S.	RWE NPOWER GROUP OF ESPS
	BBC PENSION TRUST LTD	HERMES EQUITY OWNERSHIP SERVICE	SHELL CONTRIBUTORY P.F.
	BOC PENSIONS	HSBC BANK (UK) P.S.	STAFFORDSHIRE COUNTY COUNCIL
	BP UK P.F.	LEICESTERSHIRE COUNTY COUNCIL P.F.	STRATHCLYDE
	BRITISH AIRWAYS PENSIONS	LONDON PENSIONS FUND AUTHORITY	THE FIRST UK BUS P.S.
	CO-OPERATIVE GROUP P.S.	MERSEYSIDE P.F.	THE PENSIONS TRUST
	DHL GROUP RETIREMENT PLAN	MIDDLESBROUGH BOROUGH COUNCIL	TOTAL UK PENSION PLAN
	E.ON UK GROUP OF THE ESPS	NATIONAL GRID UK P.S.	UNIVERSITY SUPERANNUATION SCHEME
	EAST RIDING P.F.	NESTLE UK PENSION TRUST LTD	WEST MIDLAND P.F.
GEC 1972	NORFOLK P.F.	WEST YORKSHIRE P.F.	

What can be drawn from the survey

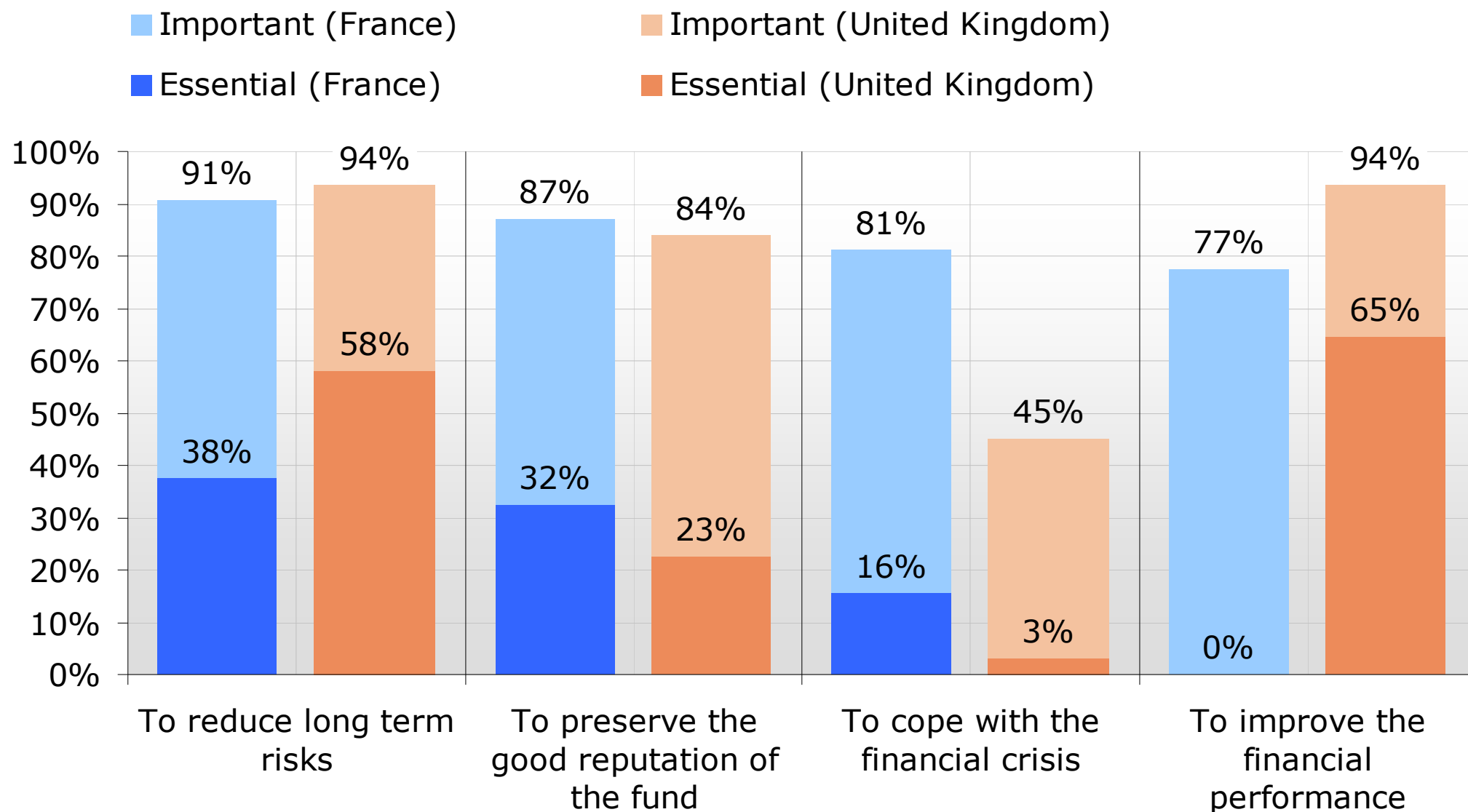
- ESG issues are associated with reducing long-term financial risk.
- The financial crisis is not perceived in the same way in France as it is in the UK. It is a powerful catalyst for incorporating ESG criteria for French asset owners, much less so for their UK counterparts.
- There was less drive to influence companies between 2008 and 2009.
- The primary incentives for companies to integrate these issues are reducing long-term financial risk and preserving the reputation of the institutions surveyed.
- The British are particularly concerned with governance and emphasise environmental issues, while the French are more interested in social issues.
- The British seem to have better integrated the economic impact of climate change, although the majority of French investors seem to understand this impact.
- French investors claim to be prepared to influence the strategy of companies to preserve jobs, while UK respondents are adamant about not interfering with company management.
- Both French and UK investors believe that it is their responsibility as shareholders to oversee executive compensation.

Part 1

ESG issues:

Are asset owners engaged shareholders?

What encourages investors to consider corporate ESG issues?



Reducing risk and preserving reputation are two key factors in France and the United Kingdom

When asked if they are concerned with the ESG practices of companies in which they invest, all French investors and 84% of UK investors said they were.

However, 16% of UK respondents stated that they do not take these issues into account as they focus exclusively on financial aspects for a “higher return on investment.”

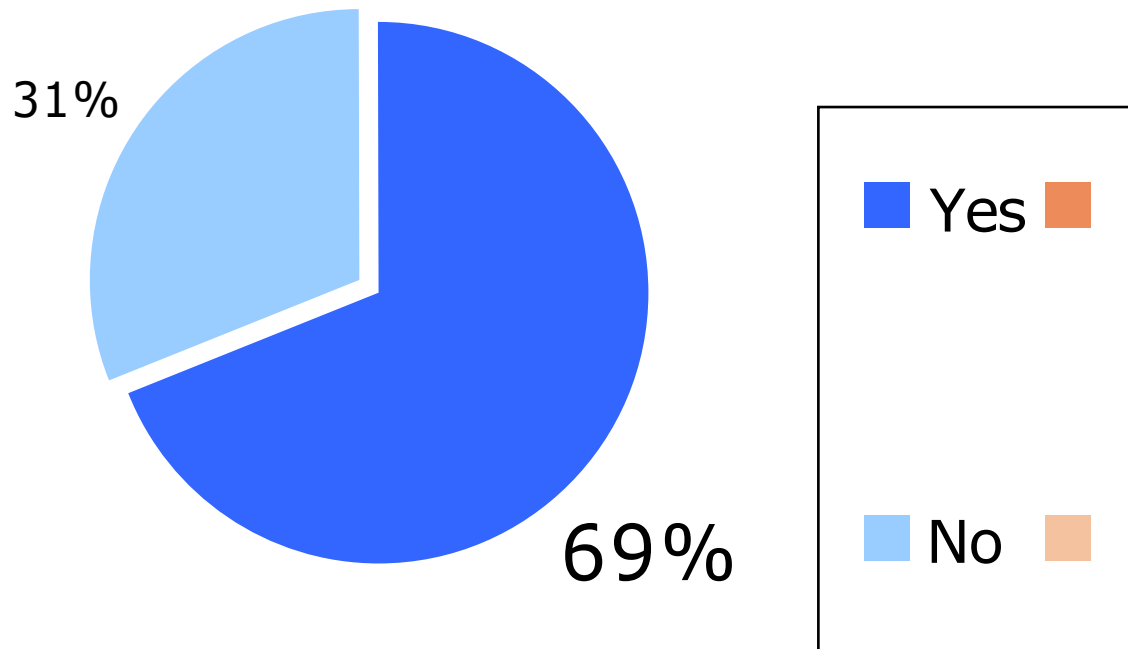
In both France and the UK, investors seem to have understood the effect of ESG analysis on reducing long-term financial risk.

The impact of the financial crisis has undoubtedly played a part in encouraging the incorporation of ESG issues in order to avoid media/NGO accusations regarding problematic investments.

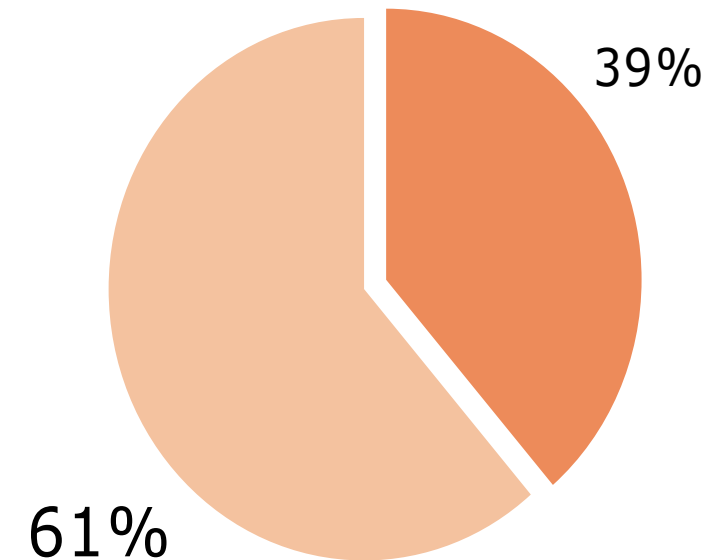
Nevertheless, the French are more reserved than the British about the contribution of extra-financial criteria in improving financial performance. They seem to doubt somewhat whether there are any “tangible” results.

Has the financial crisis compelled investors to give greater consideration to ESG issues?

France



United Kingdom



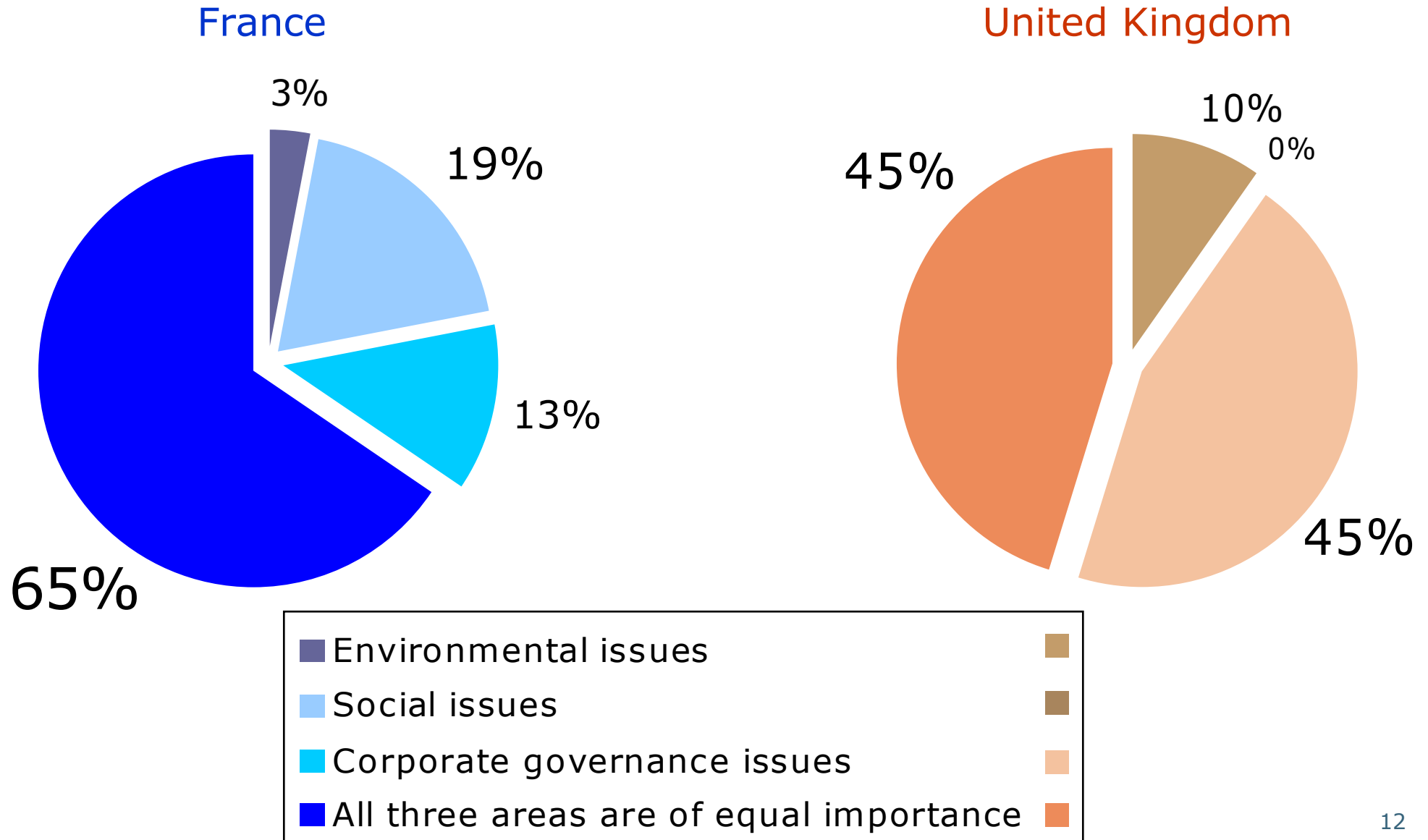
The financial crisis is more of a driving factor for the French

The financial crisis is not perceived in the same way in France as it is in the UK when it comes to ESG issues.

69% of French respondents state that it has encouraged them to further incorporate ESG criteria, as opposed to only 39% of UK respondents.

The financial crisis has challenged the methods used to make investment decisions in the French community, and SRI has in part benefited from this. However, this is not necessarily the case in the United Kingdom. This can be explained by an ESG approach that emphasises engagement with companies without any close ties to financial management.

What are investors' priorities? E, S or G or all three?



E,S and G in France, focus on governance and environmental issues in the UK

French and UK investors surveyed do not attribute the same importance to the different ESG issues.

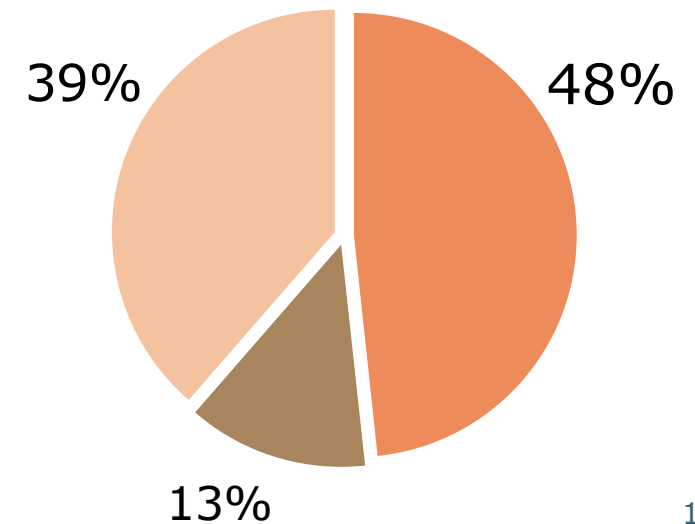
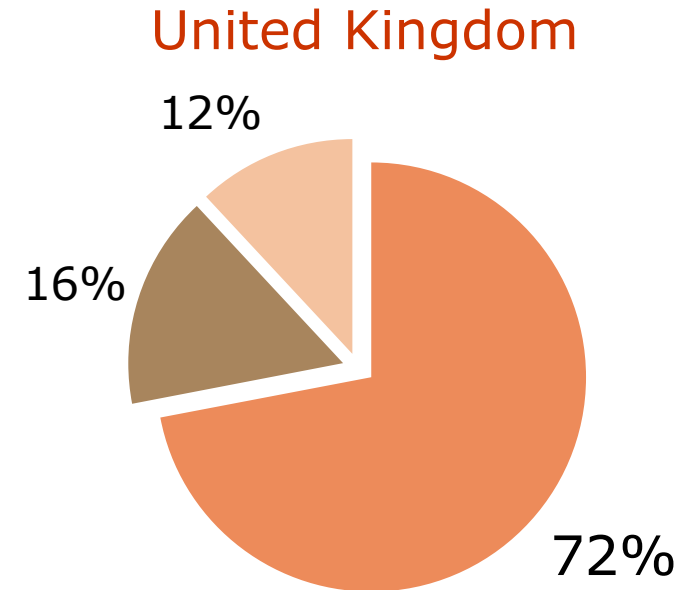
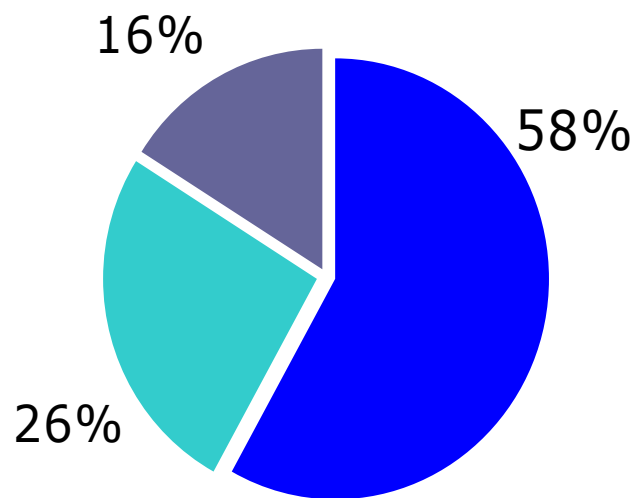
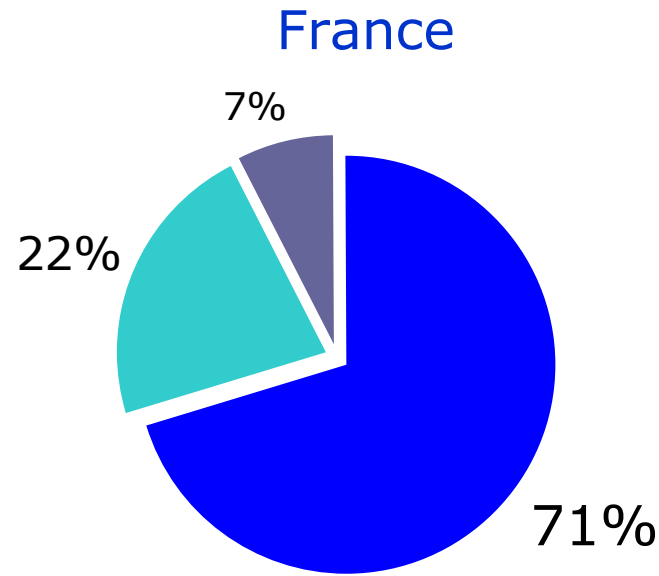
65% of French investors look at all three ESG issues as a whole, while 19% emphasise social aspects.

Many UK investors consider corporate governance as important as combining all three issues (45%).

Comparing results from the 2008 survey shows very similar attitudes, except for one: the British are now more interested in environmental than social practices.

In France, a significant proportion of insurance companies (86% of them) equally emphasise all three areas.

Is it the role of shareholders to influence the ESG strategy of the companies in which they invest?



The willingness to influence corporate ESG strategies dropped sharply between 2008 and 2009

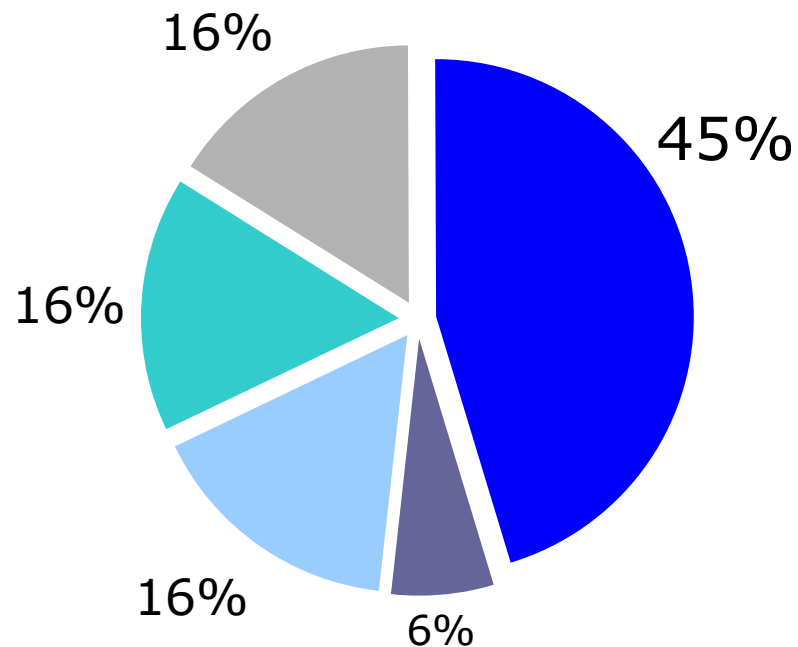
Significantly fewer French and UK investors expressed a willingness to influence companies' ESG strategies in 2009 compared with 2008. (Down from 71% to 58% in France and from 72% to 48% in the United Kingdom).

This flagging readiness in 2008 to influence companies is no doubt due to the fact that investors were surveyed in October 2008, the most critical point in the financial crisis.

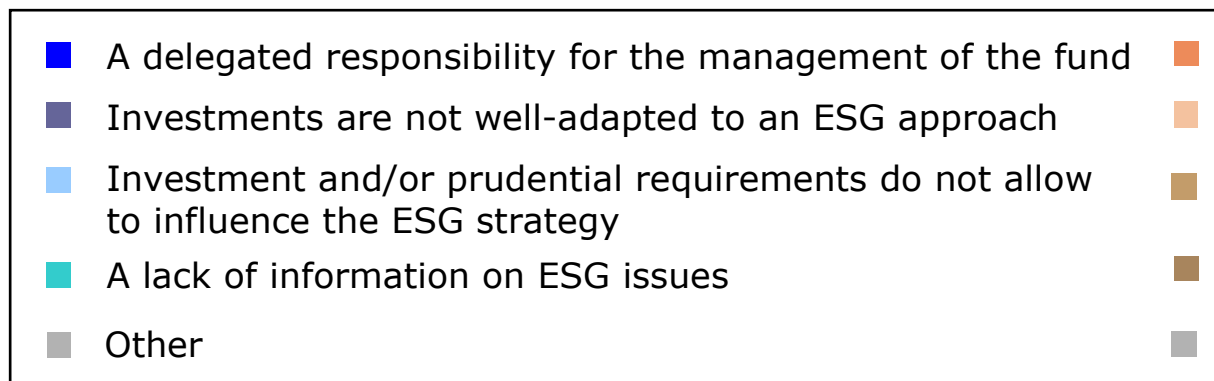
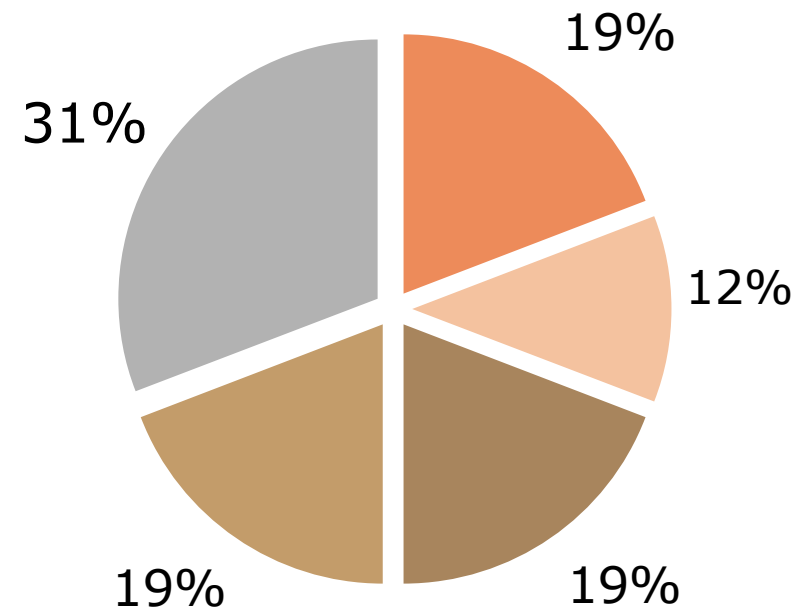
Nevertheless, 40% of UK investors believe that on a case-by-case basis, pressuring companies can be beneficial when it improves the financial performance of their investments. This position is consistent with their engagement practices.

What is holding investors back from actively engaging with companies?

France



United Kingdom



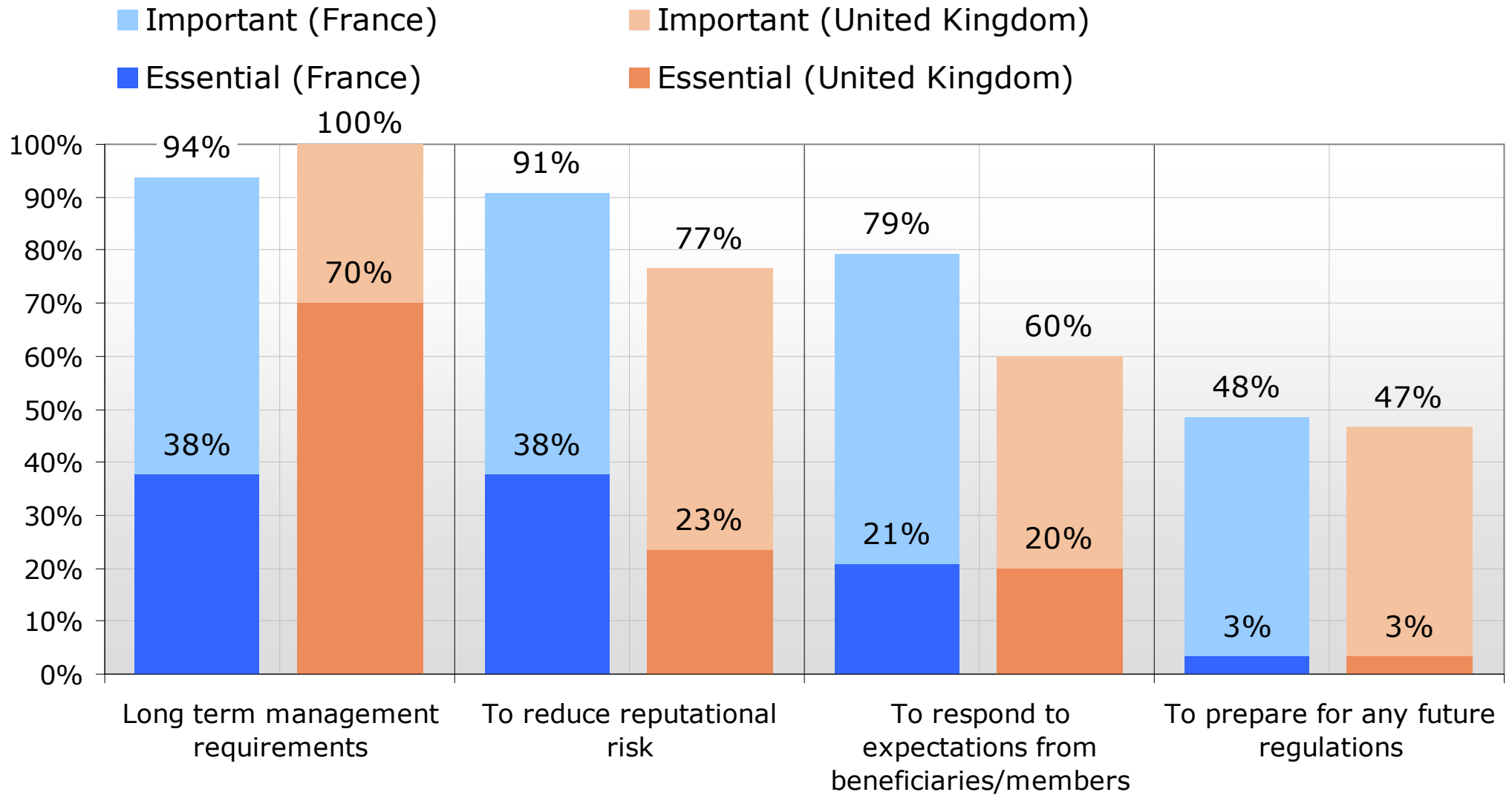
National differences regarding the obstacles to the rise of "engagement" practices

For French investors, it is by and large the delegated management mandates that impede the rise of practices influencing corporate ESG strategies.

Reasons vary for UK investors, but they give equal importance to the lack of knowledge on ESG issues, prudential requirements and the belief that they have too little influence to make any significant changes.

Some respondents claim that there is no obstacle since they already practice this type of engagement; others claim that they have no valid reasons to do so.

What factors encourage shareholder activism on ESG issues?



Long-term management and reputational risk also encourage investors to become active shareholders

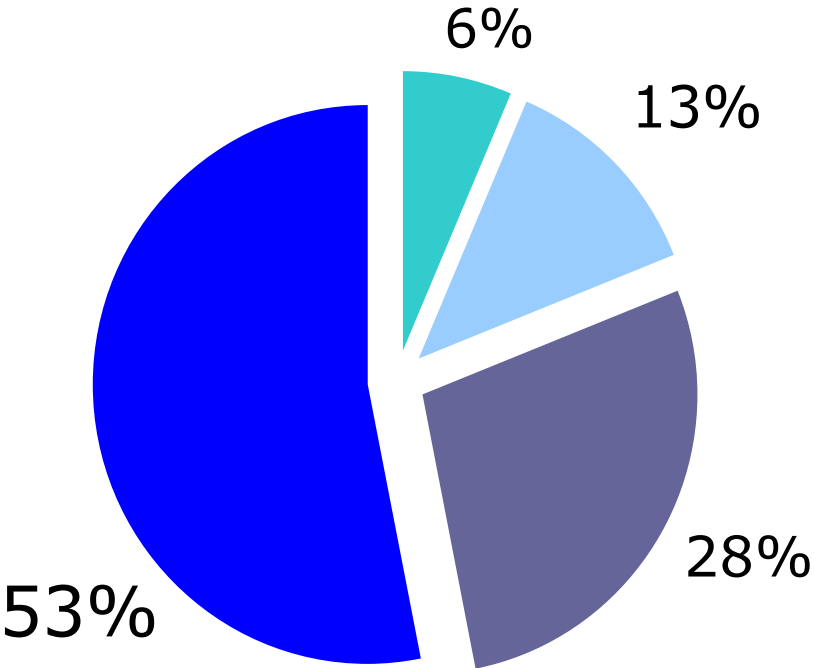
Investors seem consistently convinced that long-term management must fully integrate ESG issues. This opinion is shared by all UK respondents and 94% of French respondents.

Investors stressed that protecting their organisation's reputation also encourages them to integrate ESG issues, to prevent their organisation from being associated with environmental, financial or social scandals.

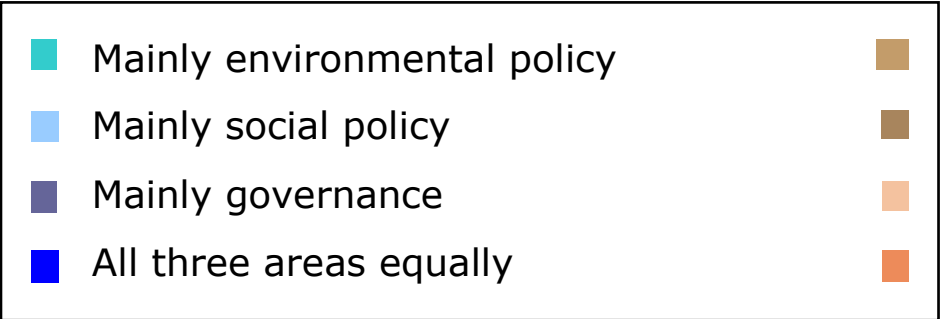
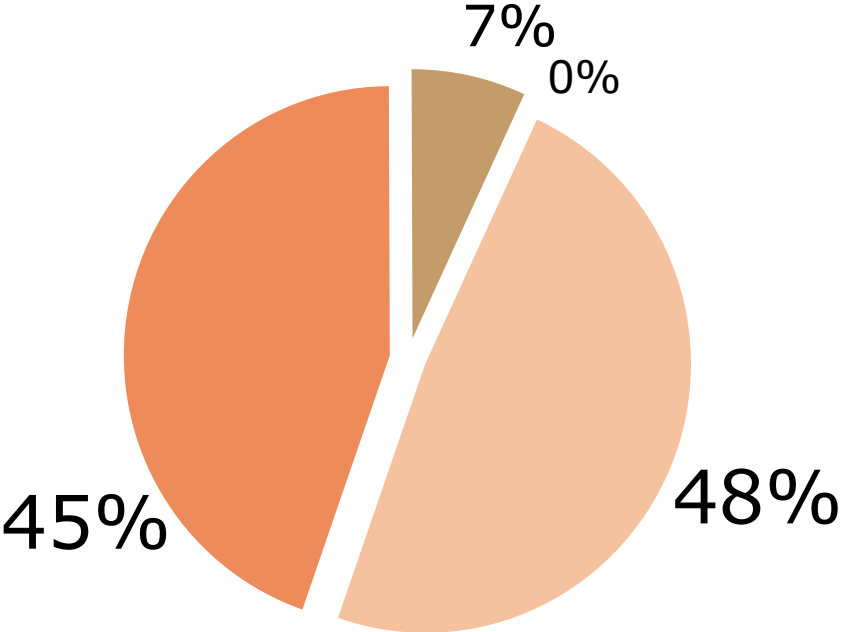
Finally, beneficiaries' expectations and anticipation of future regulations requiring the integration of ESG criteria provide less of an incentive to become active shareholders.

Activism on E, S or G or all three?

France



United Kingdom



The British emphasise governance and the French social issues

Unsurprisingly, French and UK asset owners do not have the same priorities in terms of engagement.

The majority of French respondents (53%) believe that they must act in all three areas; few focus on the environment (only 6%).

UK respondents state that they mainly act on companies' governance issues, in line with the results of last year's survey. Unlike the French, however, none of them feel that it is their primary role to become involved in companies' social policies!

Part 2

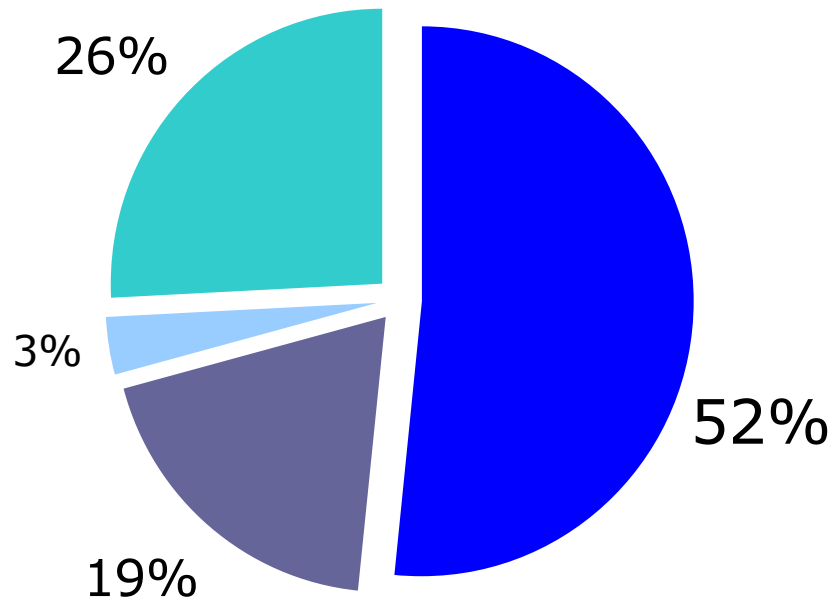
What policy should investors adopt
on specific ESG issues?

To accurately measure asset owners' perception of specific ESG issues, Novethic focused the second part of the survey on a specific issue in each of the three areas:

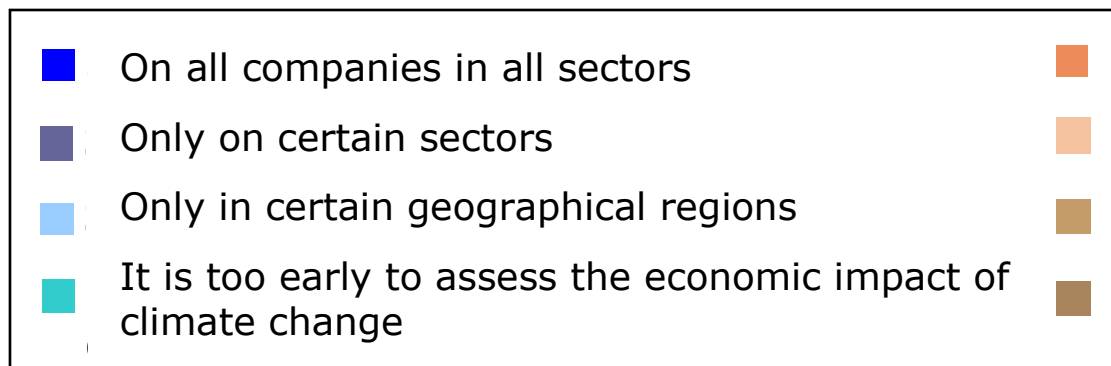
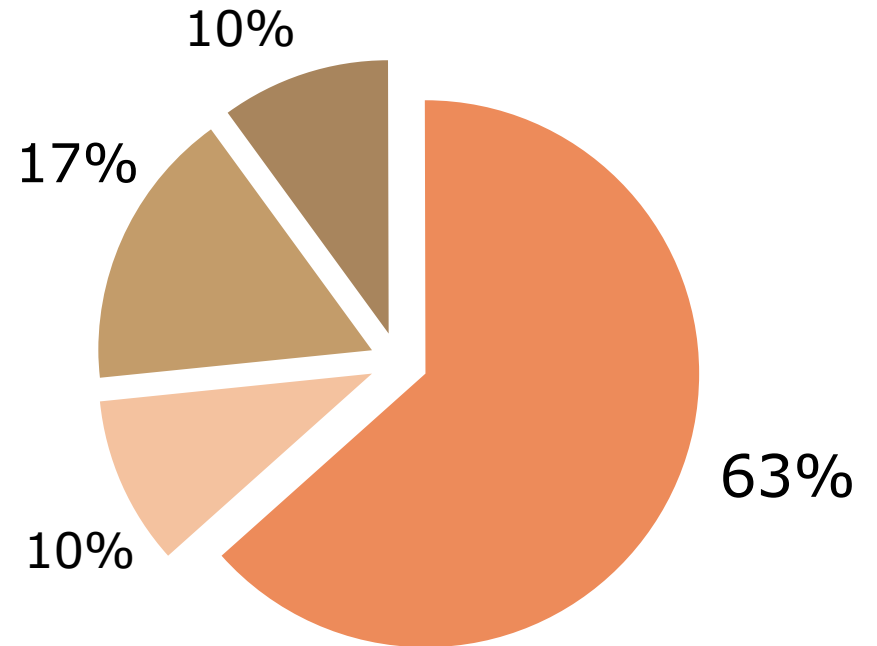
- climate change for environment
- labour for social
- executive compensation for governance

What is the economic impact of climate change?

France



United Kingdom



Climate change is not perceived in the same way in France and the UK

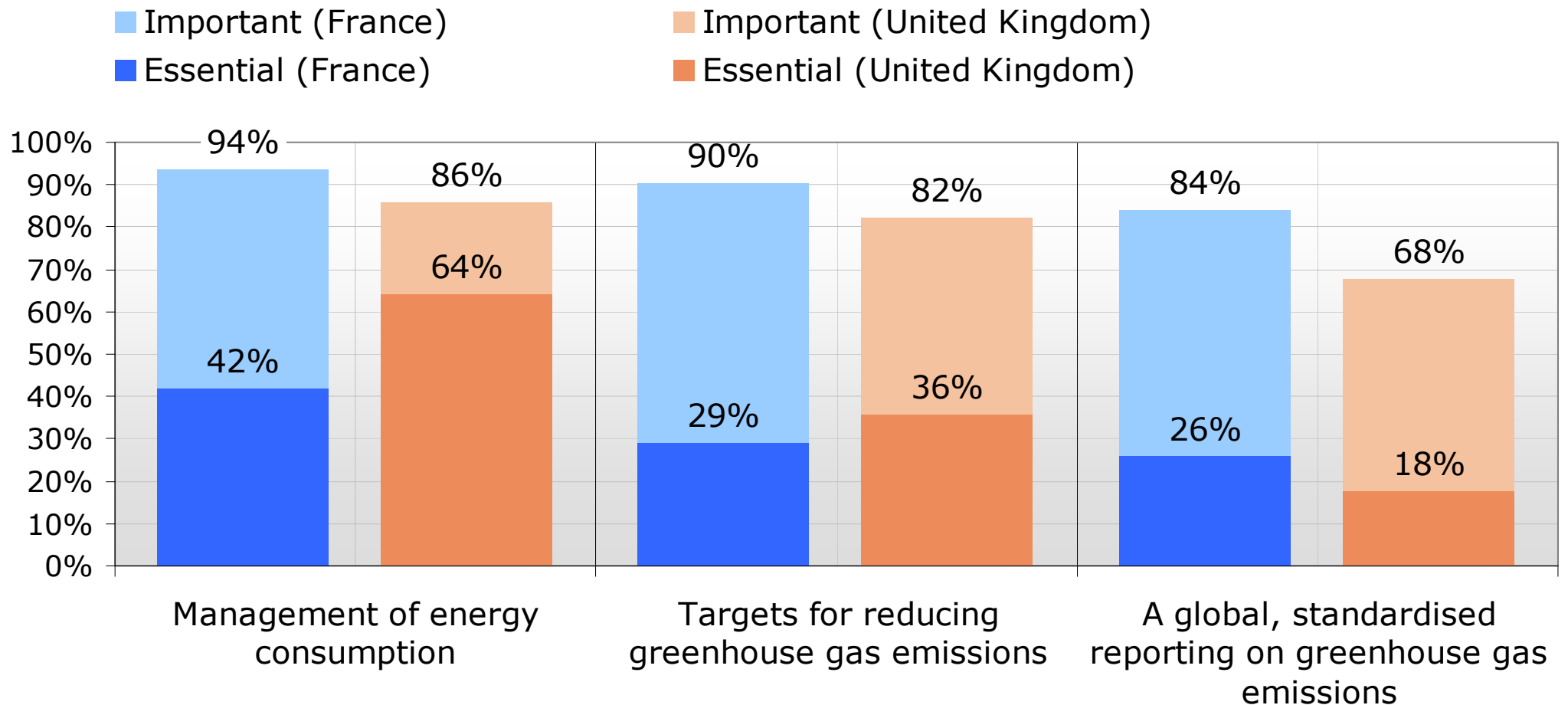
Interestingly, a growing number of investors understands that climate change will have an economic impact on all companies; this applies to a higher proportion of British respondents (63% vs. 52%).

Still, 26% of the French and 10% of the British believe that it is too early to assess the economic consequences of this environmental issue.

Around a quarter of French and UK respondents believe that the economic impact of climate change will be limited to either certain regions or certain business sectors.

All French insurance companies surveyed, however, claim to be able to assess the economic ramifications of climate change.

How should companies be asked to address climate change?



Investors expect companies to implement a global climate change policy

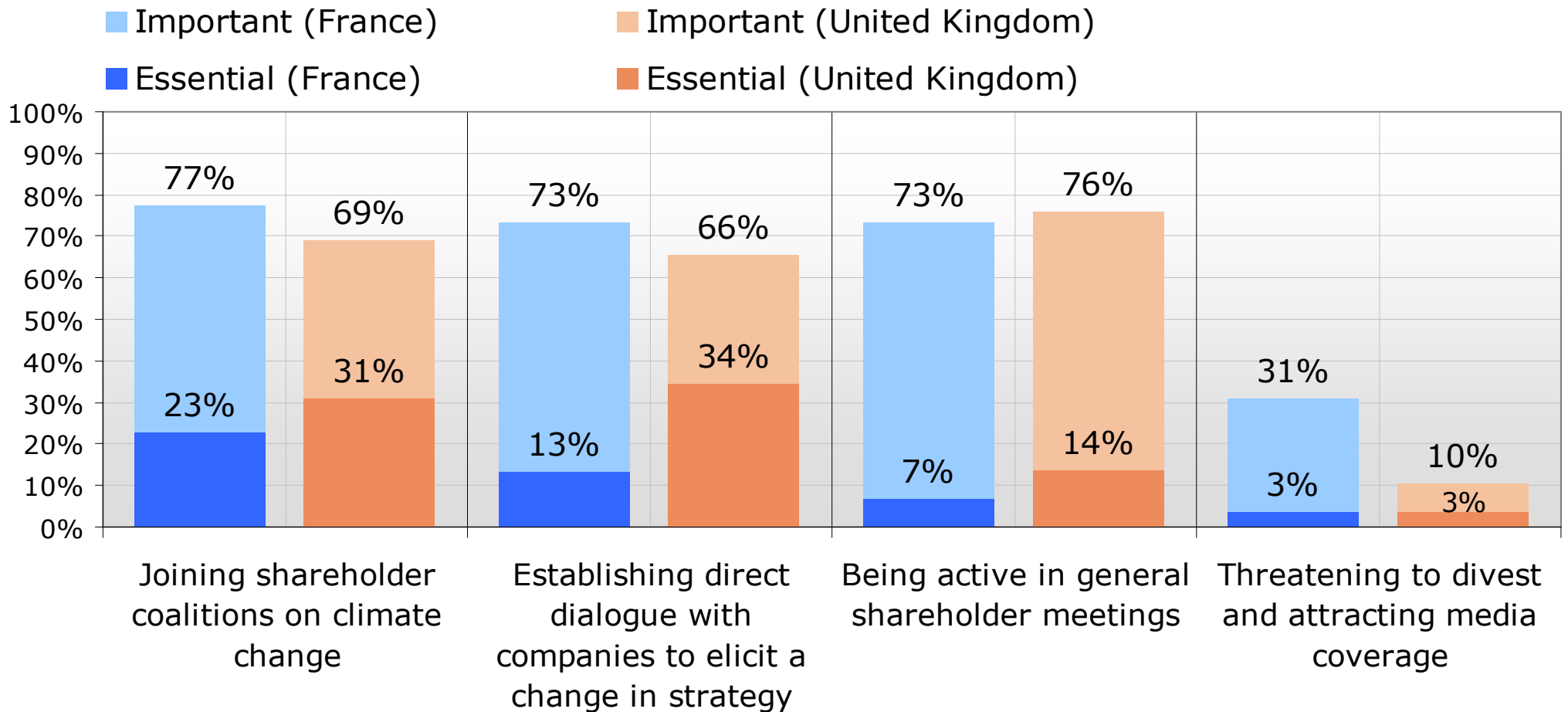
French and UK surveyed investors have similar views on what the priorities should be in companies' climate change policy.

They strongly emphasise the management of energy consumption, a policy to lower greenhouse gas emissions and standardised reporting.

If French and British respondents have similar expectations regarding the management of energy consumption and the reduction of greenhouse gas emissions, they differ regarding standardised reporting. 86% of French respondents would require such reporting, whereas this proportion falls to 68% for UK respondents. Is it because they believe they have access to higher quality information?

UK investors highlighted another expectation they have, information on “companies' capacity to adapt to climate change.”

What are the most effective ways of motivating companies to adopt a strategy to reduce their greenhouse gas emissions?



Activism but no threats

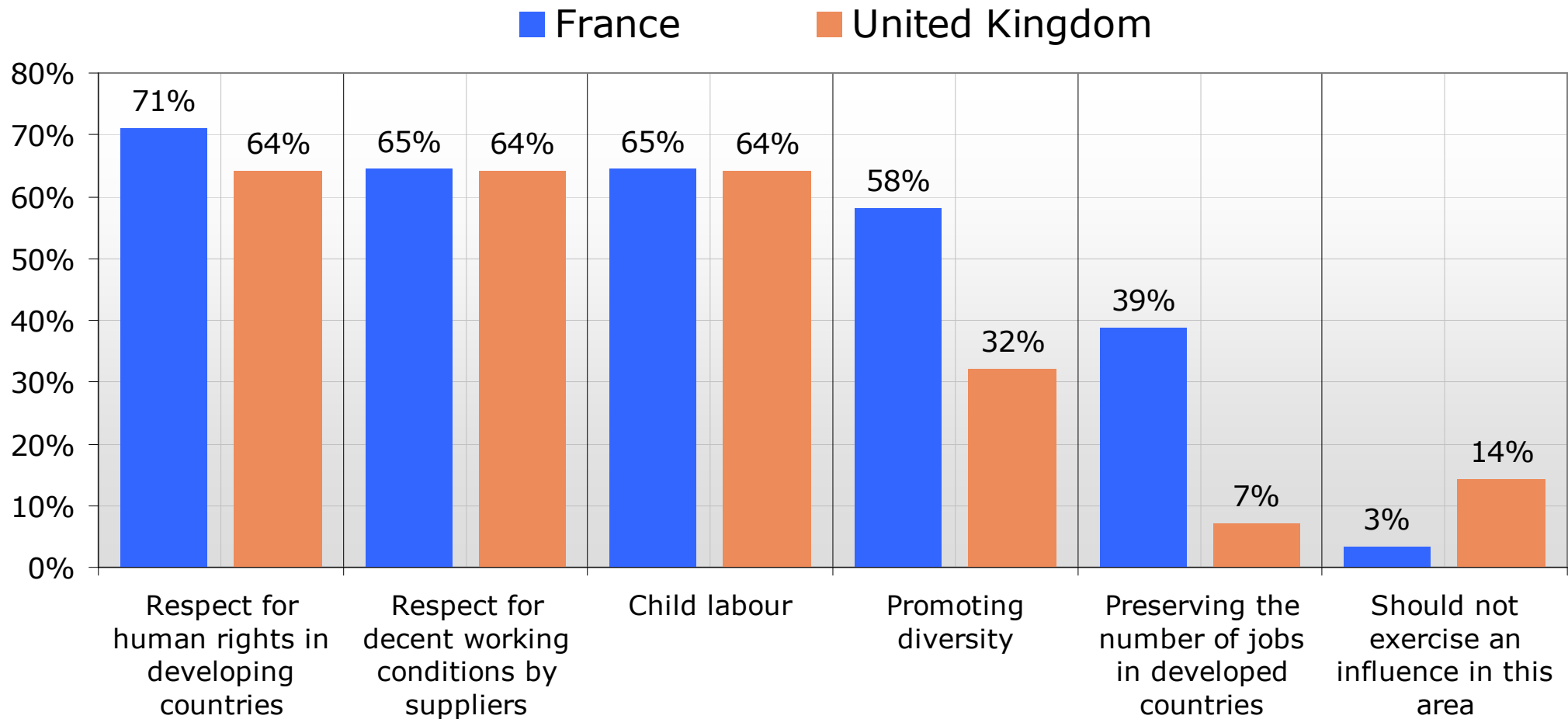
Encouraging companies to reduce greenhouse gas emissions is a priority for respondents. In both France and the UK, investors favour collective action. This attests to a shift in French attitude since they have thus far been relatively inactive in major international coalitions.

Investors also promote dialogue and the exercise of voting rights at shareholder meetings to raise awareness.

A few respondents point out that they expect their asset managers to maintain dialogue with companies on ESG issues.

Lastly, few French or UK respondents are likely to resort to scare tactics, threatening to sell their shares: 31% of the French and only 10% of the British are likely to do so.

Which social practices should shareholders act on?



Investors are sensitive to human rights and employees' working conditions

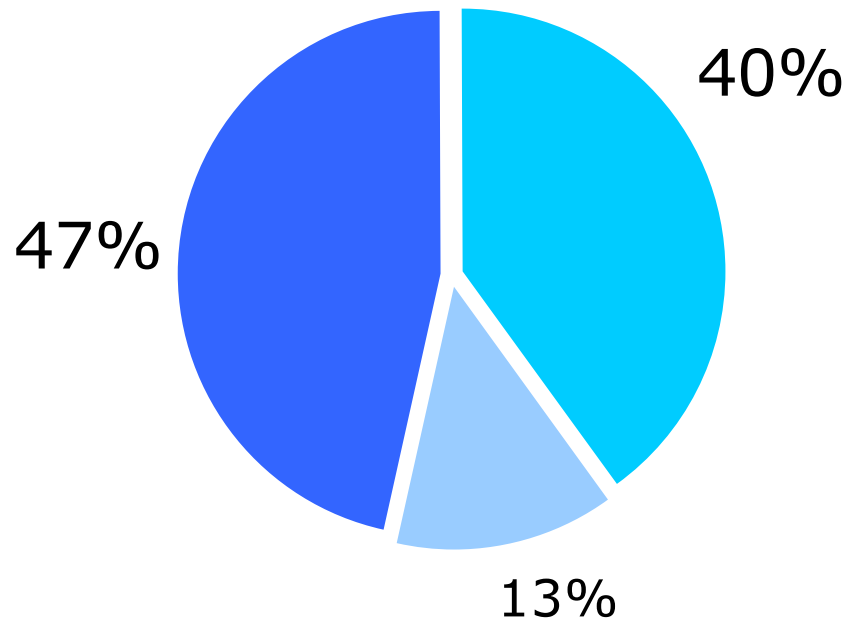
Surveyed investors favour social policies that are implemented abroad. Two-thirds of French and UK respondents state that they are concerned with human rights in sensitive countries, and the working conditions of outsourcers often located in emerging countries.

Regarding their role in their own country, the French and British do not share the same opinion. 58% of the French are interested in promoting diversity and 39% of them highlight the importance of labour issues in developed countries.

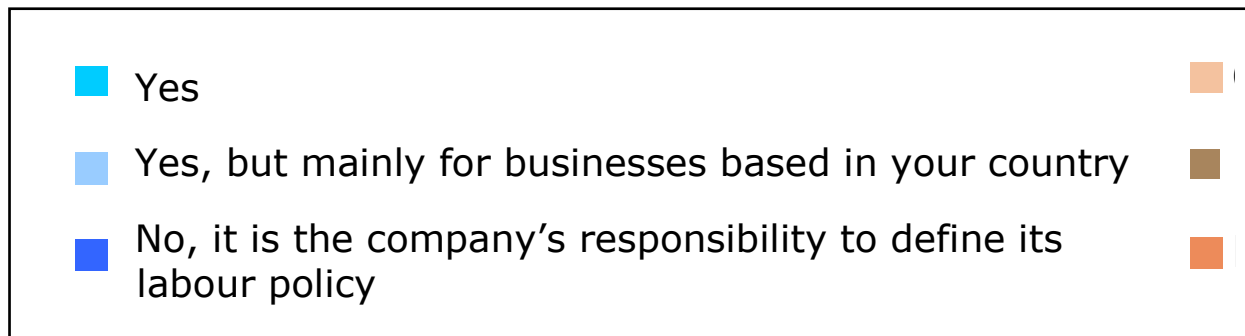
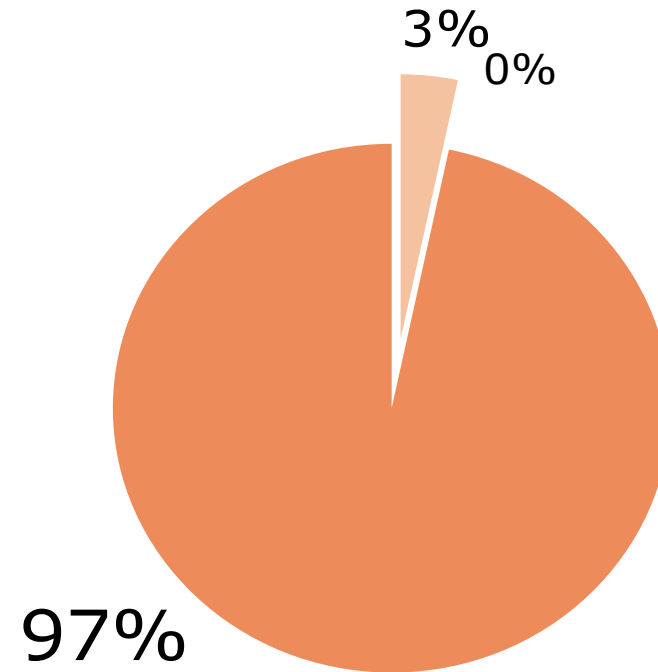
The British are much less concerned with these two points. Only 7% of them believe that it is their responsibility to preserve jobs. This figure is in line with their general stance on social issues, in which 14% believe it is not their role to intervene.

Should shareholders encourage companies to preserve jobs?

France



United Kingdom



Preserving jobs is an issue for the French, not the British

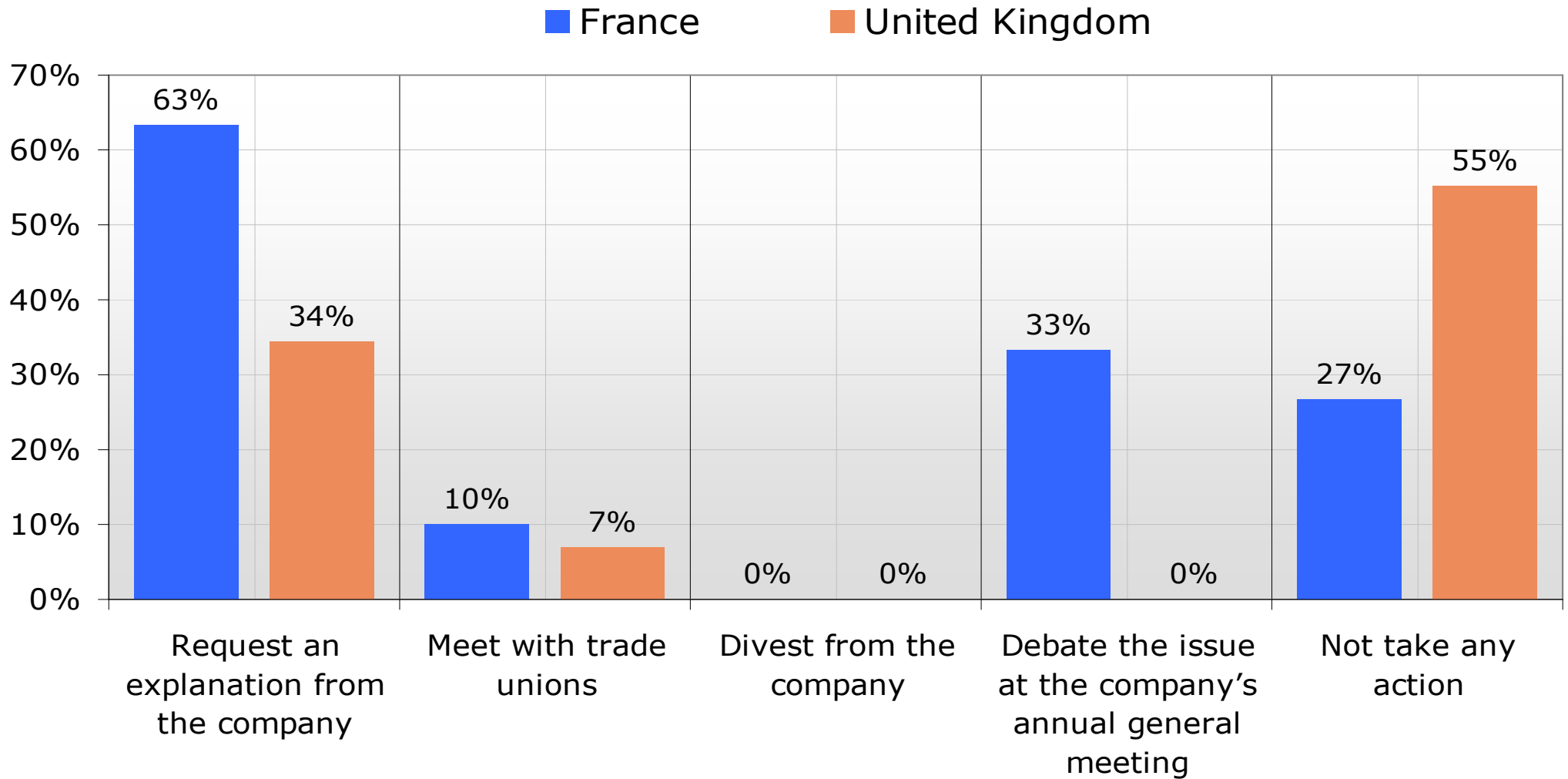
French and UK investors have different attitudes concerning their role as shareholders on labour issues due to their nationality as well as perhaps the nature of their organisations.

While 53% of French respondents believe that they should be concerned with companies' labour issues, the overwhelming majority of UK investors (97%) claim that companies should define their own labour policies.

For the British, it is a company management issue in which shareholders should not get involved.

Since a significant part of French respondents belong to joint or mutual organisations, they believe it is more legitimate to express expectations on social issues.

In the event of a redundancy plan, what should shareholders do?



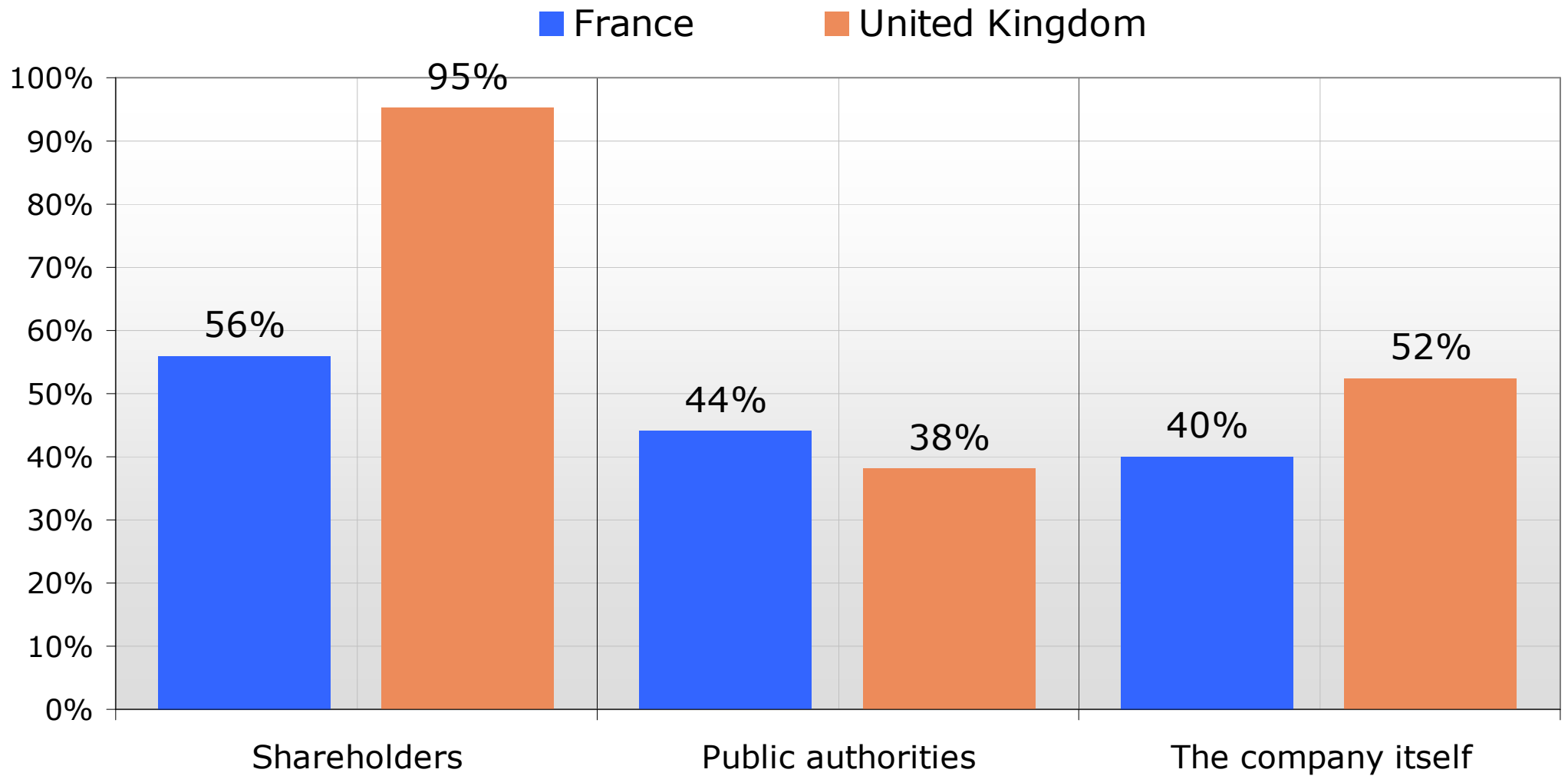
French asset owners are more "active" when it comes to redundancy plans

French investors are more readily active in the event of a redundancy plan. 2/3 of those surveyed stated that they demand an explanation from the company and 33% are prepared to debate it at shareholders' meetings. That said, 27% of French respondents prefer not to get involved.

As expected, in the event of a redundancy plan, the majority of UK respondents prefer not to get involved. One-third of them would demand an explanation from the company.

No investor would sell shares in the event of a redundancy plan.

Who should oversee executive compensation?



Shareholders should oversee executive compensation

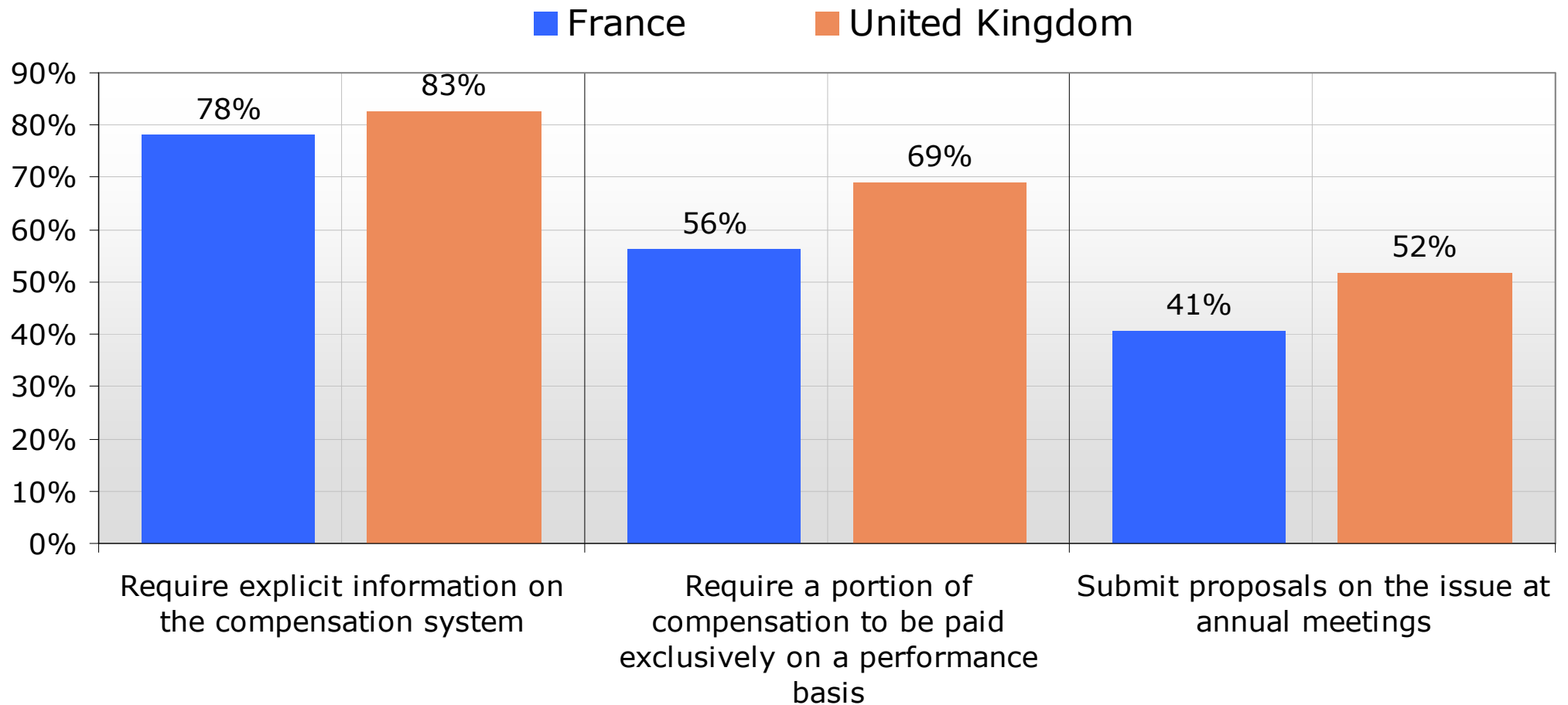
3/4 of respondents, both French and British, favour oversight in the sensitive area of executive compensation.

As shareholders, the vast majority of UK investors (95%) and nearly 60% of French investors believe that they are in the best position to do so.

Although a majority of the British (52%) consider that the company itself can oversee executive compensation, 38% believe that the public authorities should intervene.

The French have the same opinion on these points.

What is the role of shareholders regarding executive compensation policies?



Shareholders require explicit information on the executive compensation system

Both French and UK respondents believe that shareholders must first require transparency from companies on executive compensation before raising these issues at shareholder meetings.

Most agree that variable compensation parts should be paid out exclusively on a performance basis. However, the British, at 69%, seem more convinced of this point than the French, at 56%.

Asset owners as active shareholders:

Attitude towards and motivation behind ESG policies

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Novethic, a part of Caisse des Dépôts, is the leading research centre in France on Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI) and a sustainable development media expert. 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 management processes of nearly 200 SRI funds. www.novethic.com



About BNP Paribas Investment Partners

BNP Paribas Investment Partners brings together all the BNP Paribas Group's asset management expertise and is a leading SRI (Sustainable and Responsible Investment) service provider, with more than €8.2 billion assets under management and advisory mandates. Our partners' SRI solutions extend to stock picking and index-based management (BNP Paribas Asset Management), environmental theme-based management (Impax Asset Management) and active multi-management (FundQuest). These strategies systematically incorporate environmental, social and governance factors (ESG) in investment choices, issuer relations and our portfolios' extra-financial ratings. At June 30, 2009, BNP Paribas Investment Partners' total assets under management amounted to €339 billion, assets under advice included.



About EIRIS

EIRIS is a leading global provider of independent research into the social, environmental governance and ethical performance of companies. EIRIS, an international research organisation with offices in London, Paris and Boston together with its international research partners, has a wealth of experience in the field of responsible investment research. EIRIS provides comprehensive research on around 3,000 companies in Europe, North America and the Asia Pacific region. EIRIS is already retained by 100 institutional clients including pension and retail fund managers, banks, private client brokers, charities and religious institutions across Europe, North America, Australia and Asia.