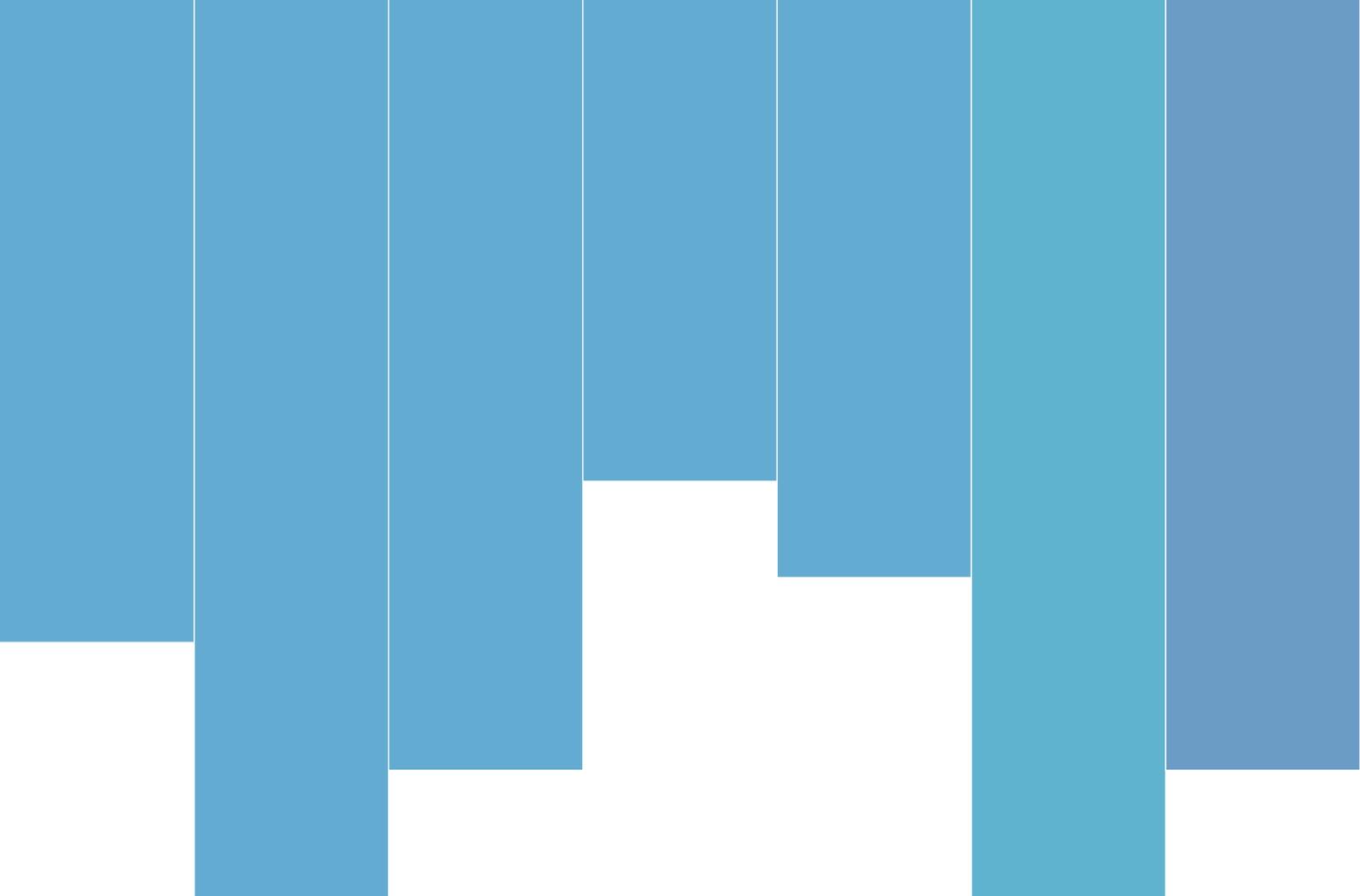


EFAMA REPORT ON RESPONSIBLE INVESTMENT

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European Fund and Asset Management Association



European Fund and Asset Management Association

Executive Summary

Responsible Investment (“RI”)¹ is an important feature of the investment management industry. Investment managers, being fiduciaries acting on behalf of their clients², may offer RI products to their clients, the asset owners, to whom they provide services and offer a choice as to the investment approach to be adopted.

It is EFAMA’s³ view that RI cannot be captured by a single regime, but a variety of approaches need to be allowed for. EFAMA recognises the lack of standardisation in this area and considers this to be an issue which is not easily resolved. The European Fund Classification (EFC), which is the pan-European classification system that has been developed by EFAMA to facilitate a transparent comparison of investment funds, offers fund providers the possibility of flagging that their funds follow a socially responsible investment strategy.

EFAMA believes that if an investment manager provides RI products, it should commit to an adequate amount of transparency regarding its processes so that end investors, its clients or beneficiaries, are able to evaluate and compare how it meets the demand for RI. Increased transparency of client reporting, communication of investment approaches and selection methods would help investors distinguish between different RI offerings and allow them to make more informed decisions. In order to facilitate this, EFAMA has developed European industry guidance on transparency, the “EFAMA Guidance on RI information in the KIID & Post Investment Disclosure”, adopted by the EFAMA Board of Directors on 16 February 2012⁴.

It is EFAMA’s view that the European Union should support self-regulatory initiatives on transparency of RI. Furthermore, the European Union should endorse RI in the management of its own EU-state owned or controlled funds and investment schemes, and highlight the benefits to institutional asset owners (particularly public pensions and other public institutional investors) of adopting RI practices.

This position paper has been drafted and subsequently updated by EFAMA’s working group on RI that was formed in autumn 2010. It aims to describe recent developments in RI, establish EFAMA’s position in relation to RI and finally suggest some actions going forward. In its appendices this paper provides an overview over RI Selection Methods (Appendix 1), information regarding the historical development of RI as well as a description of the legal frameworks and various private sector initiatives in relation to RI in selected European countries (Appendix 2).

1 Responsible Investment, or RI, is used throughout this paper to describe an approach where an asset manager is considering environmental, social and governance issues (ESG) when analyzing companies and making investment decisions. RI is arguably preferable to the more commonly used SRI (where S denotes Socially) since it indicates that the responsibility of investment managers goes beyond being socially responsible to encompass environmental responsibility as well as governance.

2 An institutional investor’s primary responsibility is the (fiduciary) responsibility to act in the best interests of the end investor, the beneficiary or client. To achieve this, institutional investors endeavour to earn an optimal return on the assets invested – allowing for the legal frameworks and the commitments that they have entered into. The law firm Freshfields Bruckhaus Deringer LLP examined in a 2005 report entitled “A legal framework for the integration of environmental, social and governance issues into institutional investment” the legal frameworks in Australia, Canada, France, Germany, Italy, Japan, Spain, the UK and the US and concluded that there is no legal bar to the integration of ESG considerations into investment decision-making (provided the focus is always on the beneficiaries’ best interest). The report concludes that particular ESG considerations must be taken into account where a consensus among beneficiaries mandates a particular investment strategy.

3 EFAMA is the representative association for the European investment management industry. EFAMA represents through its 27 member associations and 61 corporate members about EUR 15 trillion in assets under management of which EUR 9.5 trillion managed by 55,000 investment funds at end September 2013. Just over 35,500 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds. For more information about EFAMA, please visit www.efama.org.

4 http://www.efama.org/Publications/Public/Responsible_Investment/EFAMA_Guidance_RI_information_KIID_post-investment.pdf

Table of Contents

Executive Summary	3
1. Recent Development of Responsible Investment	7
2. Efama Position on Responsible Investment.....	9
3. Suggested Action.....	10
APPENDIX 1 – Responsible Investment Selection Methods	11
APPENDIX 2 – Historical and Country Specific Developments	12
Historical Developments	12
Country Specific Developments	14
1. AUSTRIA	14
1.1. Legal framework	14
1.2. Private Sector Initiatives	14
2. BELGIUM	14
2.1. Legal framework	14
2.2. Initiatives taken by the private sector	14
2.2.1. The Belgian Asset Managers Association (BEAMA) – Code of Conduct	14
2.2.2. The Belgian Asset Managers Association (BEAMA) & The Belgian Financial Sector Federation (Febelfin) – An all-encompassing concept of “SRI Funds”	15
2.2.3. BELSIF, “Belgian Sustainable and Socially Responsible Investment Forum”	16
2.2.4. RFA, le ‘Réseau Financement Alternatif’	16
3. DENMARK	16
3.1. Legal framework	16
3.2. Guide to responsible investment	17
3.3. Private sector initiatives	17
3.3.1. Study of the state of Responsible Investment in Denmark	18
3.3.2. Tools	18
3.3.3. Publications	18
4. FRANCE	18
4.1. Legal framework	18
4.1.1. Corporate Social Responsibility reporting requirements for companies	18
4.1.2. ESG disclosure	19
4.1.3. The French Environmental Conference (September 2012)	19
4.1.4. Employees Saving Schemes and Impact Investing (“investissement solidaire”)	19
4.1.5. FRR (Fonds de Réserve pour les Retraites) – ERAFP (Etablissement pour la Retraite Additionnelle pour la Fonction Publique) – IRCANTEC (Institution de retraite complémentaire des agents non titulaires de l’État et des collectivités publiques)	19
4.2. Private Sector Initiatives	19
4.2.1. Private Sector Initiatives aiming at setting up the industry improving transparency	19
4.2.1.1. Eurosif AFG/ FIR Transparency Code	19

4.2.1.2.	Novethic SRI Label	20
4.2.1.3.	CIES Label	20
4.2.1.4.	The Sustainable Financing and Socially Responsible Investment Chair	21
4.2.1.5.	Corporate governance and proxy voting	21
4.2.2.	Private Sector Initiative to increase SRI awareness	21
4.2.2.1.	The SRI Week organised by the FIR (French Social Investment Forum), under the high patronage of the Sustainable Development Ministry	21
4.2.2.2.	The Impact Investing (“investissement solidaire”) Week organised by Finansol	21
4.2.2.3.	Guide Les clés de la Banque – L’Investissement Socialement Responsable	21
4.2.2.4.	La promotion de l’ISR par les organismes financiers - Guide on best practices to help retail banks promoting SRI	21
5.	GERMANY	22
5.1.	Legal Framework	22
5.2.	Private Sector Initiatives	22
5.2.1.	Deutscher Nachhaltigkeitskodex (DNK)	22
5.2.2.	Forum Nachhaltige Geldanlagen (FNG)	23
5.2.3.	BVI Guidelines on responsible investment	23
5.2.4.	Corporate level: Policies/Collaborations/Initiatives	23
6.	ITALY	24
6.1.	Legal framework	24
6.1.1.	ESG disclosure	24
6.1.2.	Active ownership	24
6.2.	Private Sector Initiatives	25
6.3.	Assogestioni and the Charter of Sustainable and Responsible Investment of the Italian Finance	25
7.	LUXEMBOURG	26
7.1.	Legal framework	26
7.2.	Private sector initiatives	26
8.	NETHERLANDS	27
8.1.	Legal framework	27
8.2.	Private sector initiatives	28
9.	NORWAY	29
9.1.	Legal framework	29
9.2.	Private sector initiatives	30
10.	SWEDEN	30
10.1.	Legal framework	30
10.2.	Private sector initiatives	30
11.	SWITZERLAND	31
11.1.	Legal framework	31
11.2.	Private sector initiatives	32
12.	UK	33
12.1.	Legal framework	33
12.2.	Private sector initiatives	34

1. Recent Development of Responsible Investment

According to Eurosif⁵, RI in Europe is booming – the RI market in Europe reached a total AuM (assets under management) exceeding EUR 6 trillion by the end of 2011, up from EUR 5 trillion by the end 2009. These figures show that RI signifies an increasingly important feature of the European investment management industry.

EFAMA decided in autumn 2010 to establish a working group on RI. Areas for the working group's consideration included the relationship between corporate governance and RI activities, the need for standards for, and labelling of, RI products and tools, and approaches to RI in investment portfolios. Representing a large part of the European asset management industry, EFAMA is well placed to take leadership in the development of guidance for RI among asset managers in Europe.

There is no universally accepted definition of RI available and it goes beyond the purpose of this paper to define it. In broad terms, RI is an investment process or concept encompassing a wide variety of approaches ranging from negative screening and exclusion of companies based on certain criteria to a more positive approach where environmental, social and governance (ESG) factors form the basis of investment selection. A workable definition would be that RI considers ESG issues in the investment decision process.

A multitude of factors has driven RI in the last five to ten years. Most important on the supply side have been initiatives of investment managers and their national associations which are members of EFAMA (see Appendix 2). On the demand side there has been an increasing demand from institutional asset owners. Other important drivers have been legislation and increased attention from NGOs and the media.

Furthermore, the launch of United Nation's Principles for Responsible Investment (UN-PRI)⁶ in April 2006 proved to be another important milestone in the development of RI. Part of the continued success of UN-PRI can be attributed to the fact that it was a joint initiative between the UN and the financial services industry. By putting six principles for RI into practice, its goal is to understand the implications of sustainability for investors and ultimately incorporate these findings into the signatories' investment decision processes as well as their ownership practices. In implementing the principles, signatories contribute to the development of a more sustainable global financial system. Another important step was reached in June 2013 when UN-PRI introduced its new reporting framework⁷ which streamlined the reporting processes by introducing new mandatory reporting and disclosure requirements.

Another important development has been the rise of national sustainable investment forums or SIFs. Twelve European countries⁸ have SIFs today, a majority of which are members of Eurosif, the pan-European Sustainable Investment Forum that was established in 2001. Eurosif and national SIFs are open to membership not only to investors but also to other organisations with an interest in RI. The purpose of national SIFs varies between countries depending on their constitution, but in essence the aim of both national SIFs and Eurosif is to promote sustainable and responsible investment practices through various means, e.g. research and communication but also development of standards, for example transparency and reporting.

5 <http://www.eurosif.org/research/eurosif-sri-study/2010> and <http://www.eurosif.org/research/eurosif-sri-study/sri-study-2012>

6 <http://www.unpri.org>

7 http://www.eurosif.org/images/stories/pdf/1/eurosif%20sri%20study_low-res%20v1.1.pdf

8 Austria, Belgium, Denmark, Finland, France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland and United Kingdom

Eurosif has issued transparency codes with the objective of building a transparent reporting framework for SRI (Socially Responsible Investment) funds. Some national SIFs have published versions specifically tailored to fit their own country, at least in one case in full cooperation with an EFAMA national association member⁹.

In recent years European Union has also underlined at various occasions the importance of RI as fundamental to render European companies sustainable and competitive. In 2013 the European Union introduced “European Social Entrepreneurship Funds” (EuSEF) that aim to create specialised funds which can easily be identified while focusing on investing in European social businesses. Furthermore, the EU seeks to strengthen transparency rules on voting and engagement policies for institutional investors and asset managers, most recently in April 2013 through the publication of the *Commission Proposal for a Directive of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large companies and groups*.

⁹ See for example reference 4.2.6.1.

2. EFAMA Position on Responsible Investment

EFAMA fully recognises the need for the investment management industry to play its part in the aftermath of the financial crisis by rebuilding investor confidence in the financial markets. The basic operating principle of investment management is to provide a fundamental service to the real economy and to society as a whole. Investment managers collect investors' savings and convey those assets to the real economy in the form of equity and debt financing. For the investee companies, this provides a very significant form of financing. For the investors themselves, the returns on their long-term savings invested via investment managers form an increasingly important part of their future retirement income.

It has to be recognised that there are a variety of approaches to RI, not least because individual investors' perceptions, as to what can be described as responsible, differ. Therefore, the concept cannot be captured by a single regime, but a variety of approaches must be taken into consideration. The aim should be to develop procedural standards for investment managers at the European level to assist investors to evaluate different approaches to responsible investment and to allow for informed decisions in the marketplace.

Whether an individual investment management firm wants to provide products which are promoted as RI should be a decision to be made by the firm itself. The firms are in the best position to evaluate the nature and level of demand from their customer base for RI products. However, if an investment manager provides such products, it must commit to an adequate amount of transparency regarding its processes so that investors are able to evaluate and compare how investment managers meet their demands for RI.

As noted in the previous section, figures from Eurosif indicate that demand for RI products is growing constantly and investment managers are willing and prepared to meet this demand from clients¹⁰. This development could be further facilitated by European level industry guidance on transparency of the processes used in products promoted as RI, and EFAMA aims to be instrumental in developing such guidance.

EFAMA welcomes the initiative taken by members, national SIFs and Eurosif to create transparency guidance, like the Eurosif transparency code.

Appendix 2 to this position paper shows, in the specific area of RI, that there are many initiatives underway in different Member States. While these initiatives differentiate themselves in some level of detail, they all have one basic common element: providing investors with solutions for investing in a way that those investors regard as being responsible in terms of ESG issues. Given that these ESG factors have some form of materiality for the real economy, investors throughout Europe should be acting to develop tools in order to integrate ESG considerations into their investment processes.

¹⁰ Eurosif, European SRI Study 2012; Table 9: Market Growth by Strategy; p.26: <http://www.eurosif.org/research/eurosif-sri-study/sri-study-2012>

3. Suggested Action

It is EFAMA's view that the European Union should:

- support self-regulatory initiatives on transparency of RI;
- recognise RI as an incentive that can help encourage corporate responsibility of investee companies and sustainable development;
- endorse RI in the management of EU state-owned or controlled funds and investment schemes;
- encourage institutional asset owners (particularly public pension funds and other public institutional investors) to be transparent about whether they adopt RI practices or not; and
- encourage better and more standardised disclosure of ESG information by investee companies which would facilitate the processes for investment managers investing assets on behalf of clients wanting to invest in RI products.

Since investors have different preferences in the field of RI, it is difficult to find universal RI standards, other than transparency:

- in reporting on RI; and
- regarding investment processes and selection methods

In EFAMA's view transparency in RI reporting to investors should take place both in the pre- and post-investment phases only for those investment products that are promoted as RI products.

EFAMA has prepared self-regulatory European wide industry standards (EFAMA Guidance on RI information in the KIID & Post Investment Disclosure) adopted by the EFAMA Board of Directors on 16 February 2012. The EFAMA Guidance provides that in the pre-investment phase, the Key Investor Information Document (KIID) and other issuing documents such as the prospectus of a fund should indicate that the investment policy follows certain RI standards. A reference to where further information of those standards can be found should be included, as the limited space in the KIID will not allow a lengthy description. In the post-investment phase the periodic reports should provide transparency on the fund's and/or manager's RI policy. The same approach could be applied to all Packaged Retail Investment Products (PRIPs) where relevant. It could refer, for example, to a transparency code.

The aim of the transparency would be to allow investors to be able to better compare products promoted as RI products. For products that are not promoted as RI products, no additional disclosure described above should be necessary.

APPENDIX 1 – Responsible Investment Selection Methods

Several selection methods are possible within the framework of a policy on responsible investment. The typology which was defined in the EFAMA guidance on RI information in the KIID can be found below. Each of these approaches can be developed through active or passive investment strategies.

Approach/method	
Screening	Best in class
	Thematic approach
	Norms based approach
	Exclusion approach
Active ownership	Engagement (Voting)

Screening

Best-in-class policy

A best-in-class approach does not so much exclude sectors or countries, as it looks within a sector or country to see which companies best meet the given criteria. This prevents the returns varying too much from the benchmark, which is an issue in an exclusion strategy (see below).

Thematic investment

Thematic investment is another form of positive screening. Selections can be made on the basis of, for example, sustainable energy technology, water management or microfinance.

Norms based approach

In a norms based approach, certain criteria must be met for the investor to invest in the company. A variety of requirements are possible, such as international norms, human rights, etc.

Negative screening or exclusion

Investments are avoided in businesses, industries, countries or behaviours on the basis of criteria laid down in the policy on responsible investment.

Active Ownership

Engagement

This strategy involves the investor or potential investor approaching businesses, industries (or even countries) in order to enter into a dialogue on ESG issues, and to exercise actively any voting rights acquired. It is, of course, possible to combine engagement with a screening policy.

APPENDIX 2 – Historical and Country Specific Developments

Historical Developments

Responsible Investment was originally initiated in the 1920s. In the UK, the Methodist Church began avoiding “sin stocks” in its investment policy. In 1928 the first ethical investment fund, the Pioneer Fund, was established in the USA, enabling Christians to keep “sinful” businesses out of their investment portfolio.

By the 1960s, the financial-moralist movement had started to spread to continental Europe, as churches and religious groups placed their financial investments in line with their views and principles.

In 1972 institutional investors became involved in ethical discussions in connection with the war in Vietnam, when some companies were challenged about their involvement in the production of napalm and anti-personnel weapons. While profiting from the war efforts, these companies were also accused of being inhumane and collaborating with alleged violations of international law.

In the 1980s a number of investors were active with regard to the apartheid policy in South Africa, while the general tendency for companies was to divest due to the on-going UN arms and oil embargo.

In the 1990s RI began a new phase of development. At the root of this more recent movement were social activists, the public’s broader consciousness of ESG issues and the growing perception of social responsibility by governments, corporations and investors.

In 2005 the United Nations called on some of the world’s largest institutional investors to participate in the development of the UN Principles for Responsible Investment (UN-PRI). The process, coordinated by UN Global Compact and UNEP Finance Initiative, brought together representatives from twelve countries and from twenty institutional investors. The principles reflect the core values of institutional, long-term investors. The UN furthermore declared that the principles were not only intended for the largest institutional investors in the world, but also for other institutional investors, investment managers and professional service providers who find common ground in the principles. The number of UN-PRI signatories has increased substantially. Assets under management now stand at more than EUR 34 trillion¹¹ with more than half of the 1,200 UN-PRI signatories originating from Europe¹².

According to the European Responsible Investing Fund Survey 2013, as of December 2012, the RI universe in Europe represented 1,775 funds with total assets under management of EUR 237.9 billion. Almost two thirds of the RI funds apply either a positive or a negative screening.

Recent years have shown a new trend emerging that can be classified as “impact investment”, pushed for by investors seeking to exercise their social responsibilities seeking not solely financial but also non-financial returns, whilst addressing the most pressing social and environmental challenges.

In 2011, the European Commission announced in the Single Market Act that it would explore how private investment funds might help, so that investors and social businesses better reap the benefits of the single market. The Commission came up with a regulation for “European Social Entrepreneurship Funds” (EuSEF¹³), which sets out a new EuSEF label, so investors can easily identify funds that focus on investing in

11 As of April 2013; <http://www.unpri.org/about-pri/about-pri/>

12 <http://www.unpri.org/signatories/signatories/?country=World> and <http://www.unpri.org/about-pri/about-pri/>; as of April 2013

13 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:115:0018:01:EN:HTML>

European social businesses. The approach is simple: once the uniform requirements defined in the proposal are met, managers of social entrepreneurship funds will be able to use the new label and market their funds across the whole of Europe. Every fund using the label will have to prove that a high percentage of investments (70% of the capital received from investors) are spent in supporting social businesses. Uniform rules on disclosure will ensure that investors get clear and effective information on these investments.¹⁴

The evolution in this field has been progressive and continues strongly in the advent of an investor driven mind-set to consider RI¹⁵.

14 http://ec.europa.eu/internal_market/investment/social_investment_funds/index_en.htm

15 Eurosif's SRI studies both in 2010 and 2012 identified "demand from institutional investors" as the main drivers of SRI demand. Eurosif, European SRI Study 2012; p.25g: http://eurosif.org/images/stories/pdf/1/eurosif%20sri%20study_low-res%20v1.1.pdf

Country Specific Developments

1. AUSTRIA

1.1. Legal framework

Currently, there is no specific legal obligation for companies and investors to report on ESG aspects of their business. In particular the Austrian Investment Fund Act (InvFG) does not contain a specific ESG provision. However, some indirect implications in terms of ESG can be found in the Austrian Code of Corporate Governance.

1.2. Private Sector Initiatives

Most of the Austrian management companies are members of the Forum Nachhaltige Geldanlagen (FNG) which is an industry association promoting sustainable investment in Germany, Austria and Switzerland. FNG aims to provide comprehensive information to the public, investors, politicians, businessmen as well as academics, to increase awareness of sustainable investment in the financial sector and to highlight the positive impact of sustainable investment on the direction of social and environmental change.

While the Austrian Association of Investment Fund Management Companies (VÖIG) is not member of Eurosif, it is increasingly active in the field of responsible investment. In this regard, the national classification of investment funds has been fine-tuned in 2010 in the sense that only those investment funds are classified as “sustainable”, if they fulfil the Eurosif transparency standards.

2. BELGIUM

2.1. Legal framework

As stated in the Royal Decree of 12 November 2012 (execution measure of UCITS IV in Belgium), funds are obliged to clarify to what extent they are taking social, ethical and environmental aspects into account in the implementation of their investment policy.

Furthermore, several political parties regularly speak of private Member’s bills/Government bills aimed at imposing compliance with a “set of minimum requirements” for social, ethical and environmental commitments in the outline of the investment policy.

2.2. Initiatives taken by the private sector

2.2.1. The Belgian Asset Managers Association (BEAMA) – Code of Conduct

The General Meeting of the Belgian Asset Managers Association (BEAMA) has in June 2009 adopted a Code of Conduct (as part of the Constitution of the Association). This document

describes the “best practices” concerning Principles of Governance in Asset Management and their implementation.

The code takes the “fiduciary duty” as a starting point: any entity and/or individual assuming responsibility for any aspect of portfolio management in the broadest sense of the term recognizes the principle of fiduciary duty and adheres to it when exercising their activities. Generally speaking, fiduciary duty requires that all parties, in the course of their duties, pledge to act in a fair and equitable manner in the clients’ best interests and in respect of market integrity, as provided in the legal and regulatory framework. The Code of Conduct deals specifically with the principles arising from the general principle of fiduciary duty, which covers all the others, and the practical interpretation of this principle. The document treats e.g. the following aspects:

- Strategic principles and organization of various asset management activities
- Principles and measures of good operating management
- Customer information
- Clients and intermediaries
- Principles of external governance: exercising shareholder/creditor rights.

2.2.2. **The Belgian Asset Managers Association (BEAMA) & The Belgian Financial Sector Federation (Febelfin) – An all-encompassing concept of “SRI Funds”**

Since 2001, BEAMA has been active in monitoring sustainable and socially responsible investment UCIs (Undertaking for Collective Investment) as well as in taking care of their quality control. The method is regularly improved and updated in the light of the changing interpretation of sustainability and social responsibility. BEAMA informs the public about the SRI Funds that match the profile. A list of SRI Funds commercialized on the Belgian market can be found on www.beama.be. Furthermore, BEAMA provides quarterly statistics about these SRI Funds.

During 2012, Febelfin developed a recommendation for sustainable financial products. This recommendation was inspired by the existing BEAMA SRI Methodology - which served this purpose for many years – and enlarges the scope to include savings accounts and credits besides investment funds. In order to be able to develop this overarching Febelfin recommendation, the BEAMA SRI Methodology underwent some minor changes. More concretely: on the one hand fund managers are required to publish a policy on controversial activities and on the other hand the transparency/disclosure requirements are elaborated. This interaction between BEAMA and Febelfin has led to the fact that, as of early 2013, an equivalent methodology is used in Belgium when it comes to defining sustainable financial products for retail clients (funds, savings accounts or credits).

The BEAMA SRI methodology can be summarized as follows: In addition to the common financial criteria, SRI Funds structurally and systematically take into account the aspects relating to the environment, society and governance when they make an outline of their investment policy. This can be done on the basis of several strategies (Best-in-class method, normative screening, thematic approach, Shareholder engagement). Furthermore, a policy regarding controversial activities should be drawn up.

In the screening process, the following minimum standards must be met:

- Compliance with the UN Global Compact principles (<http://www.unglobalcompact.org/>);

- Exclusion of companies, as laid down in the Belgian law, that, in a broad sense, are involved in the production of anti-personnel mines, sub-ammunition and depleted uranium weapon systems;
- Exclusion of companies directly (i.e. more than 5% of their turnover) involved in the production of non-controversial weapons (end product conceived for killing).
- Over and above those minimum standards, additional screening will take place on the basis of at least one of the strategies mentioned above.

Supervision on the way in which a fund complies with the SRI investment policy and processes should have a public character. Much weight is placed on accountability:

- Transparency & disclosure: An extended number of publications – such as: policy/strategy/implementation of sustainability, policy on controversial activities, detailed listing of the sustainable assets, transparency document, etc. – must be made publicly available. Explanation of compliance is best offered in line with the Eurosif Transparency Guidelines.
- Audit & Supervision: SRI UCIs must have a quality management system that is both clear and elaborate, for the supply chain as a whole. Regular verification and audit by an independent third party is required.
- Reporting: Clear, regular and extended reporting/justification are performed by the UCI itself.

The independent third party can be an auditor, an independent research institution with the right competence or an advisory body.

2.2.3. **BELSIF, “Belgian Sustainable and Socially Responsible Investment Forum”**

BELSIF is a non-profit organization in which individual financial institutions participate along with social organizations and NGOs. BELSIF wishes to support and actively promote the application of SRI to public and private financial investors. It is also the Belgian national member of Eurosif.

2.2.4. **RFA, le ‘Réseau Financement Alternatif’**

RFA is a non-profit organization consisting of a wide variety of social organizations. Its ambition is to give “money” an added value in terms of social and environmental quality. Its main activities are financial education, research in the field of responsible investment, as well as developing and labelling financial products/services that meet its standards for social responsibility and solidarity (e.g. microfinance, niche savings products, etc.). RFA recommends public enforcement for the purpose of transparent fostering of responsible investment vis-à-vis the citizens.

3. DENMARK

3.1. Legal framework

Danish companies are free to choose whether or not they wish to work on corporate social responsibility (CSR). However, there is a statutory requirement from 2009 that large companies in Denmark must take position on CSR in their annual reports. The statutory requirement

is part of the Government's action plan for CSR (May 2008) and is intended to improve the international competitiveness of Danish trade and industry.

Companies covered by the statutory requirement must report on:

- The company's social responsibility policies
- How the business translates its social responsibility into action
- The company's evaluation of what has been achieved through social responsibility initiatives during the financial year, and any expectations it has regarding future initiatives.

Reporting must be included in the management review section of the annual report (or in a supplement). If a business has acceded to the UN Global Compact or the Principles for Responsible Invest (PRI), it is sufficient to refer to the progress report.

The same reporting requirement has also been introduced for institutional investors and investment funds, however the corporate social responsibility reporting to the PRI is considered to be particularly relevant for financial companies.

In 2009, the Danish Council on Corporate Social Responsibility was established. Council members come from a wide range of sectors, including industry, finance, NGOs and labour and consumer organizations, and the aim is to express a common understanding of corporate social responsibility.

3.2. Guide to responsible investment

In 2009, the Danish Council on Corporate Social Responsibility published a guideline with an introduction to the concept of responsible investment and in particular the Principles of Responsible Investment (PRI). The purpose of the guide is to encourage investors to include social responsibility considerations in their investment decisions. It is hoped that this will optimize the financial gain of the investors as well as the gain of the society as a whole. The guideline gives an overview of some of the methods, strategies and approaches to responsible investment normally used by investors. The guideline was written in cooperation with the Danish investment funds and pension funds which contributed with case descriptions on how they have handled each of the six principles.

The Danish Council on Corporate Social Responsibility is currently working on a guideline with the concepts of responsible investment in sovereign bonds. The guideline is expected to be published in autumn 2013, and will among other things describe how to gather relevant information, e.g. from the OECD and IMF, as well as some of the approaches normally used. The Danish investment funds and pension funds are contributing to the guideline.

3.3. Private sector initiatives

Most of the largest Danish investment funds and pension funds gather in Dansif which is an impartial forum for players with a substantial interest in SRI. All the largest Danish investment funds have also signed the PRI principles, and Denmark has a very high proportion of UN PRI signatories.

The financial sector has also contributed to the guidelines on responsible investments published by the Danish Council on Corporate Social Responsibility.

3.3.1. **Study of the state of Responsible Investment in Denmark**

Dansif presented in December 2012 the third annual Responsible Investment Study and survey among the 50 largest institutional investors in Denmark, and the questionnaire used fully aligns with the new PRI questionnaire. The 2012 study shows that:

- 86 percent of the 50 largest institutional investors in Denmark – investing 98 percent of the Assets under Management (AuM) have a policy for Responsible Investment.
- Half of the same investors have a policy for active ownership/engagement – these investors manage 88 percent of the AuM.
- ESG exclusions – covering norm-based as well as value-based screening – is the most popular Responsible Investment Approach, 89 percent applies this strategy for the actively managed listed equities. A similar proportion of the largest institutional investors apply engagement on listed equities, which characterizes the Danish approach of norm-screening and engagement.
- The use of proxy voting is increasing – from 36 percent in 2011 to 52 percent of the survey respondents in 2012.

3.3.2. **Tools**

The Danish Business Authority with its partners have made tools in order to help companies work with CSR, among others the Ideas Compass, the Climate Compass, the CSR Compass, the People and Profit Guide and the Global Compact Self Assessment Tool. The tools can be tried at <http://danishresponsibility.dk/tools>

3.3.3. **Publications**

The Guide to Responsible Investment (English version):

http://csrgov.dk/file/318420/uk_responsible_growth_2012.pdf

Other Danish publications (English versions) on, among other things, responsible growth, corporate social responsibility and Global Compact can be found at http://csrcouncil.dk/file/311022/promotion_responsible_growth_recommendations.pdf

4. FRANCE

4.1. **Legal framework**

4.1.1. **Corporate Social Responsibility reporting requirements for companies**

Since the NRE law (Loi sur les Nouvelles Réglementations Economiques – 15 May 2001) listed Companies are now required to disclose in their annual report, information regarding their social and environmental impacts.

The Grenelle 2 law (article 225), adopted in July 2010, plans to apply these requirements to unlisted companies with at least 500 employees. The information will be subject to third party verification. On the 2nd of December 2010, the AMF (Autorité des Marchés Financiers) launched a report on information required from listed companies in the field of CSR.

4.1.2. **ESG disclosure**

Since the Grenelle 2 law (article 224), management companies are subjected to new disclosure requirements. They have to describe how they take into account in their investment policies the ESG criteria.

4.1.3. **The French Environmental Conference (September 2012)**

In the roadmap of this Conference, the creation of an SRI label was announced.

4.1.4. **Employees Saving Schemes and Impact Investing (“investissement solidaire”)**

Impact investing funds invest up to 10% of their assets in non-listed companies, which have as business targets the development of the local economy, job creation, and social housing. These companies have to comply with a set of requirements defined by the Labour Law and must be referenced as such by local authorities. Since 1st of January 2010, all companies have to offer their employees at least one impact investing fund in their respective Employee Savings Scheme. Taking ESG criteria into account for the remaining 90-95% of listed assets in these funds is not mandatory but, in practice, it is often the case.

4.1.5. **FRR (Fonds de Réserve pour les Retraites) – ERAFP (Etablissement pour la Retraite Additionnelle pour la Fonction Publique) – IRCANTEC (Institution de retraite complémentaire des agents non titulaires de l’État et des collectivités publiques)**

The investment policies of these three major French public institutional investors indicate that they must take into account ESG in their investments.

4.2. **Private Sector Initiatives**

Several initiatives or working groups within institutions, composed of corporate and/or finance industry members have been formed over the past years: AFG (Association Française de la Gestion financière), FIR (Forum pour l’Investissement Responsable), ORSE (Observatoire pour la Responsabilité Sociale de l’Entreprise) CIES (Comité Intersyndical de l’Épargne Salariale), Paris Europlace, Novethic and Finansol. On one side, these working groups aim at contributing to the setup and development of the industry and to the improvement of the transparency, on the other side, they aim at increasing investors’ and savers’ awareness on SRI.

4.2.1. **Private Sector Initiatives aiming at setting up the industry improving transparency**

4.2.1.1. *Eurosif AFG/ FIR Transparency Code*¹⁶

Eurosif, AFG (Association Française de la Gestion financière) and FIR (Responsible Investment Forum) have set up a Transparency Code compulsory for all SRI Funds.

This Transparency Code has been updated for the second time in February 2013 in line with market trends and requirements.

The objectives of the Code remain unchanged:

16 http://www.afg.asso.fr/index.php?option=com_docman&Itemid=234&lang=fr

- improve transparency and understanding of SRI funds for investors, savers and other stakeholders
- contribute to an approach based on pro-active, self -regulation in favour of the development of the SRI market.

The Transparency code is filed by asset managers and it has to contain information regarding:

- Basic details about the fund management company and SRI funds
- Approach to ESG evaluation of companies
- Fund management process
- Controls and ESG reporting

The new version complies with the new regulation on ESG disclosure (article 224 Grenelle 2 law). By signing up to the Transparency Code, management companies will be in compliance with the legislation.

4.2.1.2. **Novethic SRI Label**¹⁷

Novethic, part of Caisse des Dépôts et Consignations, is the leading research centre in France on Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI) as well as a sustainable development media expert.

The Novethic SRI Label is awarded to mutual funds whose management systematically takes into account E, S and G criteria. In order to obtain the Label, the fund manager must detail the fund's SRI management approach, provide reporting on the ESG characteristics of the fund and disclose a complete list of portfolio holdings. This label does not cover the financial characteristics of the funds; it is not a guarantee of financial performance, nor is it an explicit incentive to invest in the funds.

4.2.1.3. **CIES Label**¹⁸

The CIES (Comité Intersyndical de l'Épargne Salariale) was established January 29, 2002 by 4 trade unions (CGT, CFTC, CFE-CGC and CFDT). It aims at:

- Better securing assets invested by employees by offering a socially responsible investment (SRI) option;
- Influencing corporate behaviour by using employees' savings to serve SRI objectives, especially by voting at the annual general assembly (AGM) of shareholders of companies.

The CIES has created a label, attributed to products offered by various asset management companies. It is an incentive for employees to select these products. Criteria to obtain the Label cover:

- Use of ESG rating agencies and internal resources dedicated to ESG
- low management fees
- Fund supervisory committee composed of a majority of employees representatives (2/3)
- Fund supervisory committee consulted for proxy voting
- Control and Audit structures

17 http://www.novethic.com/novethicv3_uk/sri-label.jsp

18 <http://www.ci-es.org/membres>

4.2.1.4. *The Sustainable Financing and Socially Responsible Investment Chair*¹⁹

At the behest of the AFG, asset management companies and other institutions, decided to finance an academic Chair in responsible investment and sustainable finance.

The work done under this scheme should help develop new valuation models that factor in the environmental and social impact of companies' actions in the long term.

4.2.1.5. *Corporate governance and proxy voting*²⁰

Since 1999 AFG has established a monitoring and alerts programme to draw to the attention of the 400 Asset Management Companies members of AFG on the resolutions which do not comply with AFG Corporate Governance Recommendations.

These alerts point out all resolutions submitted to the AGMs of SBF 120 listed companies which do not comply with AFG Corporate Governance Recommendations. Such alerts are sent to the members of AFG and are made available to the public on AFG website.

4.2.2. **Private Sector Initiative to increase SRI awareness**

4.2.2.1. *The SRI Week organised by the FIR (French Social Investment Forum), under the high patronage of the Sustainable Development Ministry*²¹

The first French SRI Week took place in October 2010 and aimed at increasing the awareness of retail investors on SRI, its methods and its objectives. Various events on this topic, such as conferences, working groups, meetings, chats on the internet, were organised all over the country by retail banks and insurance companies.

4.2.2.2. *The Impact Investing ("investissement solidaire") Week organised by Finansol*²²

The Impact Investing Week organised annually in November intends to demonstrate the possibility of making profitable investments, while funding activities with high social benefit (employment, housing, environment, international solidarity).

4.2.2.3. *Guide Les clés de la Banque – L'Investissement Socialement Responsable*²³

This guide aims at helping savers to discover SRI and give them the tools to talk with their financial advisors to select the type of product that best fits their ideas, values, and investment goals.

4.2.2.4. *La promotion de l'ISR par les organismes financiers - Guide on best practices to help retail banks promoting SRI*²⁴

19 <http://www.idei.fr/fdir/en/mission-en>

20 http://www.afg.asso.fr/index.php?option=com_docman&Itemid=151&lang=fr

21 <http://www.semaine-isr.com/index.php>

22 <http://finansol.org/fr/actualites.html>

23 [http://www.lesclesdelabanque.com/Web/Cdb/Particuliers/Content.nsf/DocumentsByIDWeb/86UKSS/\\$File/Guide-HS-ISR.pdf](http://www.lesclesdelabanque.com/Web/Cdb/Particuliers/Content.nsf/DocumentsByIDWeb/86UKSS/$File/Guide-HS-ISR.pdf)

24 http://www.orse.org/force_document.php?fichier=document_1195.pdf&fichier_old=2009_promotion_SRI.pdf

5. GERMANY

5.1. Legal Framework

The existing framework is based on German and European law, global principles including the pertinent environmental and social standards 'UN Global Compact' and 'OECD Guidelines for Multinational Enterprises' as well as the 'UN Convention on Cluster Munitions'. The Federal Republic of Germany ratified the application of these standards.

As of today, the legal framework provides for the following ESG disclosure and reporting standards as follows:

- The management and the supervisory board of listed corporations have to declare on an annual basis, to what extent they comply with the recommendations of the German Corporate Governance Code and explain any deviation from the Code (see Sec. 161 of the German Stock Corporation Act – *Aktiengesetz*). The aim of the German Corporate Governance Code is to make Germany's corporate governance rules transparent for both national and international investors, thus strengthening confidence in the management of German corporations. Companies have to explain investors in case they not adhered to the above recommendations.
- All companies have to include non-financial performance indicators in their year-end report, like information regarding environmental issues and employee matters, provided they are relevant for business development or the general position of the company (see Sec. 315 para. 1 and Sec. 289 para. 3 German Commercial Code – *Handelsgesetzbuch*).

5.2. Private Sector Initiatives

The legal environment is associated by a variety of private sector initiatives:

5.2.1. Deutscher Nachhaltigkeitskodex (DNK)²⁵

The German Council for Sustainable Development has drafted the German Sustainability Code, a standard offering transparency as to a company's sustainability performance. The German Sustainability Code describes twenty criteria with up to two key performance indicators each with environmental, social and corporate governance aspects (ESG). The Sustainability Code is based on principles such as UN Global Compact and the OECD Guidelines for Multinational Enterprises. The German Sustainability Code was published and handed over to the German Federal Government in October 2011.

Companies and other organisations may decide on a voluntary basis to comply with the German Sustainability Code. Companies then report on whether they have satisfied the Code criteria and explain any deviation. They generally publish the declaration of conformity on their website. Declarations can also be published in annual or sustainability reports. Further, the efforts of the companies to achieve sustainability are visualised in a database on the website of the German Council for Sustainable Development.

DNK ties in with international Key Performance Indicators (KPIs) for Environment, Social, Governance (ESG) of Deutsche Vereinigung der Finanzanalysten (EFFAS/DVFA)²⁶ as well as interna-

25 <http://www.nachhaltigkeitsrat.de/projekte/eigene-projekte/deutscher-nachhaltigkeitskodex>

26 www.effas-esg.com

tional rules and regulations like UN Global Compact²⁷ and the Global Reporting Initiative (GRI G3)²⁸. It does not replace common reporting instruments.

5.2.2. **Forum Nachhaltige Geldanlagen (FNG)²⁹**

Forum Nachhaltige Geldanlagen (FNG) is an industry association promoting sustainable investment in Germany, Austria and Switzerland. German management companies are members of FNG. FNG aims to provide comprehensive information to the public, investors, politicians, businessmen as well as academics, to increase awareness of sustainable investment in the financial sector and to highlight the positive impact of sustainable investment on the direction of social and environmental change. It is also the Austrian/German/Swiss national member of Eurosif.

5.2.3. **BVI Guidelines on responsible investment**

In November 2012, BVI has published guidelines for responsible investment. BVI members are aware of their key role in pension provision, their role as trustee and their social responsibility accordingly. The guidelines take this self-conception into account and create additional transparency. As part of the commitment, product descriptions like sustainable or comparable phrases can only be used, if the fund investment follows accepted criteria for this purpose.

According to the guidelines, the investment company has to decide, whether it will integrate criteria for responsible investment in its investment process. The investment company is primarily bound to investors' demands. Hence, the guidelines provide for a "comply or explain" approach.

5.2.4. **Corporate level: Policies/Collaborations/Initiatives**

At a corporate level, a wide range of activities can be identified, yet on a voluntary basis:

- Proxy voting policies containing ESG aspects
- ESG policies
- Signatory of the UN Principles of Responsible Investing (UN PRI), Signatory of the Carbon Disclosure Project (CDP) and the Investor Network on Climate Risk (INCR)
- Memberships of Eurosif and Forum 'Nachhaltige Geldanlagen'
- Memberships of the DVFA non-financial working group (ESG key performance indicators) and the CDP Working Group Germany
- Memberships of the World Bank / OECD Global Corporate Governance Forum, International Corporate Governance Network (ICGN) and the German Corporate Governance Commission

Fund companies show ESG- and CO₂-ratings embedded in proprietary research platforms. They support research projects on analysis of extra-financial risks and climate change with selected universities and institutes.

Portfolio Managers are encouraged to take advantage of "non-financial assessments". Industry targets include an extension of credibility and transparency. ESG disclosure must be comprehensive, consistent, relevant, standardized and independently verified. ESG reporting

27 www.unglobalcompact.org

28 www.globalreporting.org

29 <http://www.forum-ng.org>

should therefore be drafted according to global ESG standards like Global Reporting Initiative, DVFA/EFFAS KPIs for ESG and Carbon Disclosure Project (CDP). The ESG strategy and responsibility shall be anchored on board level and compensations partly linked to ESG performance.

6. ITALY

6.1. Legal framework

6.1.1. ESG disclosure

Currently, a legal obligation for companies and investors to report on ESG aspects of their business does not exist. However Decree 32/2007, enforcing the EC Directive 2003/51, envisages the possibility to integrate financial indicators with extra-financial indicators related to the company activities, such as the information concerning environmental and the human capital policies.

In addition, since 2005, Pension Fund managers are obliged (DL 252/05) to include in their annual report and their communication to the investors whether and to what extent ESG criteria are adopted in the management of assets.

As transparency is concerned, CONSOB - the public authority responsible for regulating the Italian securities market - intervened in 2007 with the Decision n. 15691, obliging those asset managers and insurance companies offering products and services labelled as "ethic" or "socially responsible" to inform and account to investors in what way those qualification have affected their investment choice.

In 2010, ISVAP – the public authority responsible for regulating the Italian insurance companies – approved the Regulation n. 35, providing dispositions on the information to be disclosed on insurance products, labelled as "ethic" or "socially responsible".

6.1.2. Active ownership

The right of the shareholder to intervene at the general meeting is stated in the *article 2.370 of the Civil Code*.

The *D.Lgs 58/1998 (Testo Unico della Finanza)* devotes a full section (articles 125-134) to the shareholders' rights; specifically, the article 127-ter states the right to formulate questions before the general meeting, in order to receive an answer during its course.

Banca d'Italia (2008) – Disposizioni di vigilanza in materia di Organizzazione e governo societario delle banche contains guidelines to be followed in the organization and government of banks; the regulation regarding active ownership refers to remuneration policies and plans (stock options) as well as the remuneration of the bodies appointed by the shareholder meeting. Additionally, banks must guarantee a complete information and effective way of communicating among and within corporate governance bodies.

6.2. Private Sector Initiatives

Companies and organizations, including Assogestioni – the association of Italian asset managers – gather in the Forum for Sustainable Finance (FFS) part of the Eurosif network to promote and support the adoption of RI criteria in finance.

To assist in the compliance of pension fund managers to regulation and raise awareness of RI issues, the FFS has organized training programmes and developed guidelines on how to make information to stakeholders about RI clear, accessible and effective. In addition, the FFS has produced training material for investment advisor in the field of RI.

6.3. Assogestioni and the Charter of Sustainable and Responsible Investment of the Italian Finance

Assogestioni has been active since 1994 in the promotion of more transparent and fair corporate governance both within the asset management industry and in the investee companies. With regards to the former, Assogestioni has drafted and promoted among its members a Code for the Governance of Conflict of Interest.

As for the latter, since 1996 the association has been supporting the active participation of asset managers in investee annual meetings and assisting in the presentation of slates of candidates for the appointment of independent minority directors and statutory auditors in Italian listed companies.

In June 2011, the Italian representatives of the banking, insurance and financial sectors - ABI, ANIA and ASSOGESTIONI - and their Federation (FeBAF), co-signed the “Charter of Sustainable and Responsible Investment of the Italian Finance”, considering it crucial to promote the integration between the criteria driving the decision making of financial institutions and a sustainable development perspective, generally understood as the search for a balance between social, environmental and economic elements when investing.

By subscribing to the document, the signatory organisations declared to share its objectives and to renew the common effort in spreading the culture of sustainability and social responsibility amongst their members and the business community as a whole. They also reaffirm their willingness to promote the debate on social responsibility within the financial community and to support the adoption of sustainable and responsible investment practices. They aim at encouraging the dialogue among the Italian financial sector, the civil society and European and international institutions.

The key principles which supported by the Charta are:

- the key role to be played by sustainable and responsible investments practice and their integration within the more traditional financial analysis
- the importance of disclosure and transparency in the financial activity and in the implementation of SRI principles
- The adoption of medium-long term view as a mean to alleviate market distortion caused by short-termism

In line with the commitments undertaken all signatories including Assogestioni have strengthened their financial education activities on SRI.

7. LUXEMBOURG

7.1. Legal framework

Currently there is no legal obligation for companies or institutional investors to disclose or report ESG aspects as regards their businesses or investment activities nor is there any specific legislation on responsible investment.

The Luxembourg Government, together and in coordination with the associations of the Luxembourg financial market place, has decided to support the development of responsible investing in Luxembourg.

To highlight this support, microfinance funds investing into microfinance institutions were exempted from the subscription tax, upon certain criteria being fulfilled.

7.2. Private sector initiatives

ALFI, the Association of the Luxembourg Fund Industry, has defined its ambition for the Luxembourg Fund Centre being a global centre of excellence for the asset management industry, creating opportunities for investors, fund professionals and the community as a whole. Amidst a challenging international context, ALFI's action plan for the next years foresee to foster a beneficial environment for funds, and prove their positive contribution to investors and to society, by stimulating innovation within the funds industry. Within this context, ALFI aims at establishing Responsible Investing as a third pillar of the Luxembourg investment fund centre, alongside UCITS and alternative investments.

In particular, the recent market turmoil has encouraged investors to reconsider their behaviour and, as a consequence, interest in long-term or socially responsible savings products has increased. Recent EU Commission work such as the consultations on long-term investing, pensions or social investment funds reflects this trend.

To respond to these new needs, ALFI has created two technical committees, one focusing on Long-term savings and pensions, and the other focusing on responsible investing. Various working groups focussing on specific sub-topics have been created under the umbrella of these two technical committees in order to encourage innovation and dialogue in the Luxembourg Fund Centre.

LuxFLAG - Various stakeholders both from public and private sectors recognised the importance of transparency in the financial sector well in advance of the financial crisis. This thought process resulted in the creation of LuxFLAG - an independent international labelling agency, specially focused on the sector of responsible investing.

This independent labelling agency with an international outlook aims to promote the raising of capital for the responsible investing sector, by awarding a recognisable label to eligible investment vehicles. LuxFLAG's objective is to reassure investors that the labelled investment fund invests most of its assets, directly or indirectly, in a responsible manner.

By the end of February 2013, 31 investments were granted the LuxFLAG Label, which total approximately USD 4 billion assets under management. LuxFLAG intends to expand its product range and is currently working on developing labels covering other themes in responsible investing sector. Further information is available on www.luxflag.org.

Furthermore, ALFI commissioned KPMG in 2011 to conduct a "European Responsible Investing Fund Survey", first published in May 2012. The survey outlines a responsible investing fund universe totalling approximately EUR 129.49 billion, across a total of 1,236 investment fund vehicles, as at December 2010. A second edition will be published in May 2013 and will give a snapshot of the RI fund universe as of December 2011 and December 2012.

Finally, ALFI is organising annual conferences dedicated to Responsible Investing to raise awareness and to encourage the development of Responsible Investing in Luxembourg and in Europe.

8. NETHERLANDS

8.1. Legal framework

Currently, there is no general legal obligation for companies and investors to report on ESG aspects of their business. However, as of January 1, 2013, there is a legal obligation for Dutch financial institutions (such as banks, insurers, pension funds and asset managers) to have controls in place which prevent investing in cluster munitions manufacturers, stockpilers or transporters, as defined in the Treaty on Cluster Munitions. This is a reversal of earlier standing Dutch policy not to enact such a prohibition, which is due to the fact that since early 2012 there is a parliamentary majority in favour of such a prohibition.

The Dutch government introduced a SRI "Transparency benchmark" for companies in 2007.³⁰ On that occasion³¹ the government stated that SRI is essential out of reach of the law and there is no standard recipe, because every company faces different challenges and dilemmas. SRI by pension funds is their responsibility, not the governments. Their investment policies should be prudent and in the interest of the stakeholders in the fund (pensioners, sleepers, contributors). The Dutch government is of the view that companies should be transparent with

30 Unfortunately, most of the information is in Dutch only and most of the links in the webpage are for participating companies only. <http://www.rijksoverheid.nl/>

31 Kabinetvisie Maatschappelijk Verantwoord Ondernemen (MVO), Kamerstuk 26.485, nr. 53.

regard to their considerations regarding decision to invest or not in the framework of their SRI policy, and be prepared to enter into a serious dialogue with their stakeholders.³²

The government expects the road of transparency to work best, because it attributes responsibility to those who should be responsible and it allows for more tailor made solutions. The government has pointed to several indicators that this approach is working. The Eerlijke Bankwijzer (“Honest Banking Indicator”) found in July of 2009 that 5 out of 6 major banks have already taken concrete steps to a more stringent investment policy regarding weapons and divestments. A survey by the pension fund industry associations of 21 December 2009 has also shown that more and more funds formulate a SRI policy.

8.2. Private sector initiatives

Although there was a debate in the Netherlands about the (un)desirability of investments and interests in South Africa during the apartheid regime (“Boycott Outspan” and campaigns against Shell) in the 1980s, and the trade union movement has for decades taken into account social and ethical problems in its investments, concern did not extend much farther. In Europe and the Netherlands there was no broad movement such as existed in the United States. The first Dutch investment product in line with this development was the Triodos Bank’s Meerwaarde Polis in 1989, in cooperation with Delta Lloyd. In 1993 the ASN Aandelenfonds was the first Dutch capital stock fund that enabled private investors to explicitly opt for social, ethical and environmental criteria.

Since 1995, VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling = Association of Investors for Sustainable Development)³³ asks questions on shareholders’ meetings on sustainability. VBDO has a large numbers of Dutch institutional investors and asset managers as members, in addition to individual members. VBDO also researches the level of sustainable investment by pension funds, insurers, charities, churches, etc. Recently VBDO has entered the field of sustainable investing and private equity.

Since 1999 the pensions sector has, on the initiative of the trade unions discussed the subject. In 2007 an investigative reporting television programme revealed that pension funds were investing in cluster munitions and other controversial weapons. The evolution of the Responsible Investment market in the Netherlands continues to be influenced by the focus on cluster munitions and other controversial weapons. Most exclusion policies now still begin with excluding these controversial weapons.

As a result of this television broadcast the Dutch pensions industry published a 75-page SRI investment policy document on November 14, 2007.³⁴ The report was focused on pension fund boards wishing to know more about SRI and handing them tools for implementation of a policy. The report stated that every pension fund board was responsible for its own investment policy, including SRI. The VBDO has published its annual benchmark report on the Responsible Investment policies of pension funds since 2007.

32 Aanhangsel Handelingen II 2008/09, nr. 3720 (answer to parliamentary questions by Kalma and Tang, MPs, on investments by financial institutions in arms manufacturers and arms exports.

33 See www.vbdo.nl

34 De gearriveerde toekomst, Nederlandse pensioenfondsen en de praktijk van verantwoord beleggen

In July 2009 the Dutch Fund and Asset Management Association (DUFAS) published a follow up on the pension industry report, providing tools to asset managers to help investors design and execute their SRI policy.

9. NORWAY

9.1. Legal framework

In Norway there is not specific legal framework regarding RI. However there are mainly three approaches used by fund managers.

- **No specific ethical guidelines:** This approach comprises fund providers which do not at all or only in a limited way refer to ethics or other forms or normative restriction for their investments.
- **Supplementary ethical guidelines:** This includes fund managers that do not offer any ethical or environmental funds. However the management companies following this approach make clear (i.e. in their websites) the way they evaluate and handle companies that consciously violate fundamental human rights or damage the local population, environment or the chosen form of government in their home country. In addition these fund managers avoid unnecessary economic risk by investing in companies that through their activities may incur significant and unwanted liabilities due to health related claim, legislative changes and environmental abuse. Normally these issues will be considered as part of a thorough analysis before the fund manager invests in a new company. In the evaluation of companies in this context, their intentions shall count more than the companies' record.
- **Ethical Guidelines for the Government Pension Fund Global (GPFG):** This approach is primarily related to the welfare state and the creation of the GPFG which is managed by the Norges Bank Investment Management (NBIM) on behalf of the Ministry of Finance, which owns the fund on behalf of the Norwegian people. The Ministry determines the fund's investment strategy, following advice from among others NBIM and discussions in Parliament. The GPFG is strictly regulated by the Government Pension Fund Act no. 123 of 21 December 2005 and the Regulations of 22 December 2005 no. 1725 regarding the management of the GPFG.

The original ethical guidelines for the GPFG have recently been replaced by two sets of guidelines: one on work linked to exclusion and observation of companies and one for Norges Bank's work on responsible management and exercise of ownership rights. Funds that follow this approach used these guidelines as their benchmark when investing and offer ethical and environmental funds³⁵.

35 <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/Guidelines-for-observation-and-exclusion-from-the-Government-Pension-Fund-Globals-investment-universe.html?id=594254>

9.2. Private sector initiatives

The Norwegian Forum for Sustainable and Responsible Investments (NORSIF) is an independent, neutral forum which promotes work and cooperation in sustainable and responsible investment. NORSIF's focus areas are:

- Collect and disseminate information on sustainable and responsible investing
- Promote and coordinate sustainable and responsible investment initiatives
- Contribute to the development and exchange of new information on sustainable and responsible investing
- Be a forum for sustainable and responsible investors and asset managers, as well as for others interested in sustainable and responsible investing
- Initiate research on responsible investment

10. SWEDEN

10.1. Legal framework

In the Swedish government proposition 1999/2000:46 on the *AP funds in a reformed pension system* it was stated that "environmental and ethical issues shall be considered in the investment activity [of the national Swedish pension funds 1-4] without wavering the overall purpose of good returns". Although the sentence above never entered the actual law, preparatory work is very important in Swedish legal tradition. No legal requirements are put on private institutional investors and asset managers in relation to RI but the Swedish financial market shows a high degree of self-regulation. One part of that self-regulation is the Ethical Marketing Committee for Funds, a body whose task is to prevent misleading marketing of investment funds. In 2009 the committee issued new rules targeting funds that include RI as part of the value proposition. Such funds are not allowed to invest in companies with revenues of more than 5% stemming from any sector the fund is avoiding such as alcohol, tobacco, gambling, pornography and weapons. Further, the management company of such funds shall provide easily accessible reports on its investment policy and selection process.

10.2. Private sector initiatives

Responsible investment has been applied to Swedish investment portfolios for more than three decades. An early adapter was the Church of Sweden, who started with a negative screening approach in 1980. During this period the analysis models used has evolved from a focus on negative screening to more of a positive sustainability approach. RI got a boost around the millennium shift when the government proposed that the national pension funds should consider ethical issues and the environment in its investments. Institutional investors have been the primary driving force and today it is not possible for an asset manager to gain an institutional mandate without having some kind of RI policy.

In the retail space most major fund management companies today offer RI funds. Sweden's sustainable investment forum Swesif recently (December 2010) launched a SRI profile for usage on a fund level. The purpose of this initiative is to establish a market standard for investor

information on funds with RI features. The profile describes which criteria are used in the fund's investment process to include or exclude companies on the basis of environmental, social and governance factors as well as on what basis the asset manager of the fund try to impact companies the fund invests in.

During 2013 it has become mandatory for those funds that want to be labelled as RI-funds in the governmental premium pension system to publish the profile. Through the Swedish Investment Fund Association's manual for Key Investor Information Document fund companies are recommended to refer to the profile in their Key Investor Information Document. Currently there is no RI standard in the Swedish market, although the Swedish Investment Fund Association's code of conduct includes guidelines on corporate governance.

Another important initiative is Sustainable Value Creation, a co-operation between fifteen of the largest asset managers and asset owners in Sweden. The initiative, launched in 2009 and based on a Norwegian model, aims at improving the ESG reporting of the largest companies on the Swedish stock market. The project collects data from the 100 largest companies through a survey directed to the chairman of the board. Results are benchmarked and reported back to the companies.

Nearly half of the Swedish Investment Fund Association's member companies have signed the UN PRI to date.

11. SWITZERLAND

11.1. Legal framework

Article 73 of the Swiss constitution refers to sustainable development, but it does not specifically extend to investment activities. Since 2002, based on the national law ruling occupational pension funds, pension funds must declare whether or not they exercise their voting rights. However, overall and to this date, there is no coherent framework, legal or other, neither for companies nor for asset owners and managers to consider, disclose or report specifically on ESG aspects.

Nevertheless, the RI, and particularly the 'governance landscape' in Switzerland is currently being reshaped by several political initiatives: On 3 March 2013, the Swiss approved an initiative giving more rights to shareholders, by among other things giving them a binding say on executive pay, banning golden hellos as well as parachutes and introducing annual re-election for directors. The initiative also stipulates to introduce mandatory voting for Swiss institutional investors. Some other more radical advances supported by the political left are in the pipeline. They aim to curb max/min salary dispersion down to a ratio of 12:1, and also ask for a much stricter regulation of commodity trade and commodity trade finance, as well as an outright ban on 'speculation' in soft commodities, which – allegedly – increase volatility and the level of food prices. Although, at this point in time, these initiatives are believed to have a much lower chance of going through, the public discussion surrounding these postulates will almost certainly heighten the awareness for issues of corporate governance and financial responsibili-

ty in general, and thus are not unlikely to trigger eventual further and voluntary developments in this direction.

Another landmark development with likely tangible consequences for investment is the International Convention on Cluster Munitions (CCM) that Switzerland, too, has ratified in 2012. On 1 January 2013, the Swiss Federal Act on War Materials came into effect and applies to Swiss companies globally. The act bans the use, stockpiling, production and transfer of cluster munitions and anti-personnel mines, as well as the direct and indirect financing of these controversial weapons. The law follows Switzerland's ratification of the Convention on Cluster Munitions (known as the Oslo convention of 2010) in 2012. The law prohibits banks from providing credit facilities to and conducting capital market transactions for companies involved in developing, producing or purchasing such controversial weapons ("affected companies").

As opposed to some other European countries such as Belgium and The Netherlands, Switzerland do not intend to come up with an 'official' list of companies ineligible for investment. The identification of respective companies is considered to be the business of banks and other financial institutions. Many banks have already adopted their own policies or black lists in this regards.

11.2. Private sector initiatives

Corporate governance codes or guidelines have been published by the Swiss Stock Exchange for listed companies and the "economiesuisse", the largest umbrella organization representing the Swiss economy based/inspired largely by OECD standards. An influential private sector initiative is the Geneva-based Ethos foundation. Originally created by two large public pension funds, it currently consists of over 100 Swiss-based institutional investors interested in RI. Ethos has been promoting active ownership and better ESG standards since its inception in 1997, and its influence in the investment community has been growing steadily. Development of RI in Switzerland has been primarily private sector and supply-side driven. The financial industry in Switzerland has been very innovative in developing RI investment products since the early 1990s and several of Europe's leading RI asset managers and index providers can be found among Swiss financial service providers (Pictet, Sarasin, SAM etc.). Apart from some information platforms on RI investment vehicles powered by NGOs and for profit organisations, there is no official Swiss labelling scheme or project in the RI field. However, all the major providers adhere to the Eurosif transparency guidelines for retail funds and some of them have gone for the Novethic SRI label in France. In general, therefore, quality and transparency regarding RI products is rather good due to the relatively long experience of the Swiss players, their intense competition and the high level of scrutiny from clients, the media and the public that RI investment are faced with. The active RI market in Switzerland has also led to the early establishment of independent RI rating agencies (Centre Info, Inrate) and the early build-up of in-house RI research teams within the financial industry. More recently, a centre of excellence for research on finance and development (CFD) has been created at the Graduate of International and Development Studies (IHEID) in Geneva. The main goal of this centre is to increase the share of competences between international finance and development studies.

According to Eurosif, the latest figures for the Swiss RI AuM (all strategies taken together, net of double counting) amounted to CHF 440 bn at the end of 2011. Unlike in most other

European countries, where a high percentage of RI AuM is in overlay strategies such as norms-based screening, engagement or voting, the SRI market in Switzerland is still dominated by focused and actively managed approaches such as 'best-in-class' or environmentally-themed funds. Of the overlay strategies, proxy voting has experienced the largest growth lately, but this is, at least in part, certainly also due to the new UCITS 4 rules that mandate active exercise of voting rights. Another differentiating feature of the Swiss RI market is its high proportion of retail investors versus institutional investors (approximately 50% : 50%), whereas this ratio is very heavily skewed in favour of institutional investors in most other European countries.

Furthermore, Switzerland is furthermore member of the Forum Nachhaltige Geldanlagen (FNG) which is an industry association promoting sustainable investment in Germany, Austria and Switzerland.

12. UK

12.1. Legal framework

Asset Managers: The UK Financial Services Authority (FSA) has made it a requirement that, since 6th December 2010, all UK-authorized investment management firms must disclose the nature of their commitment to the UK Stewardship Code (see below) or explain their alternative investment strategy in instances where they have opted not to follow the principles in the Code.

Pension Funds: The Pensions Act 1995 includes a requirement that pension funds with at least 100 members must maintain a statement of investment principles (SIP) which states the funds' investment policy and principles governing its decisions about the investment of fund money.

UK Local Authority pension funds must adhere to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This states that the SIP must include the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The terms of appointments of external fund managers include a provision that the fund manager must take account of, and shall not contravene, this Statement in undertaking its management role.

Private pension funds comply with the Occupational Pension Schemes (Investment) Regulations 2005. This does not set out any requirements in relation to RI.

12.2. Private sector initiatives

Stewardship Code: In July 2010 the UK Financial Reporting Council (FRC) published a stewardship code to set out best practice for institutional investors with regard to exercising their stewardship responsibilities in relation to the UK listed companies in which they invest³⁶.

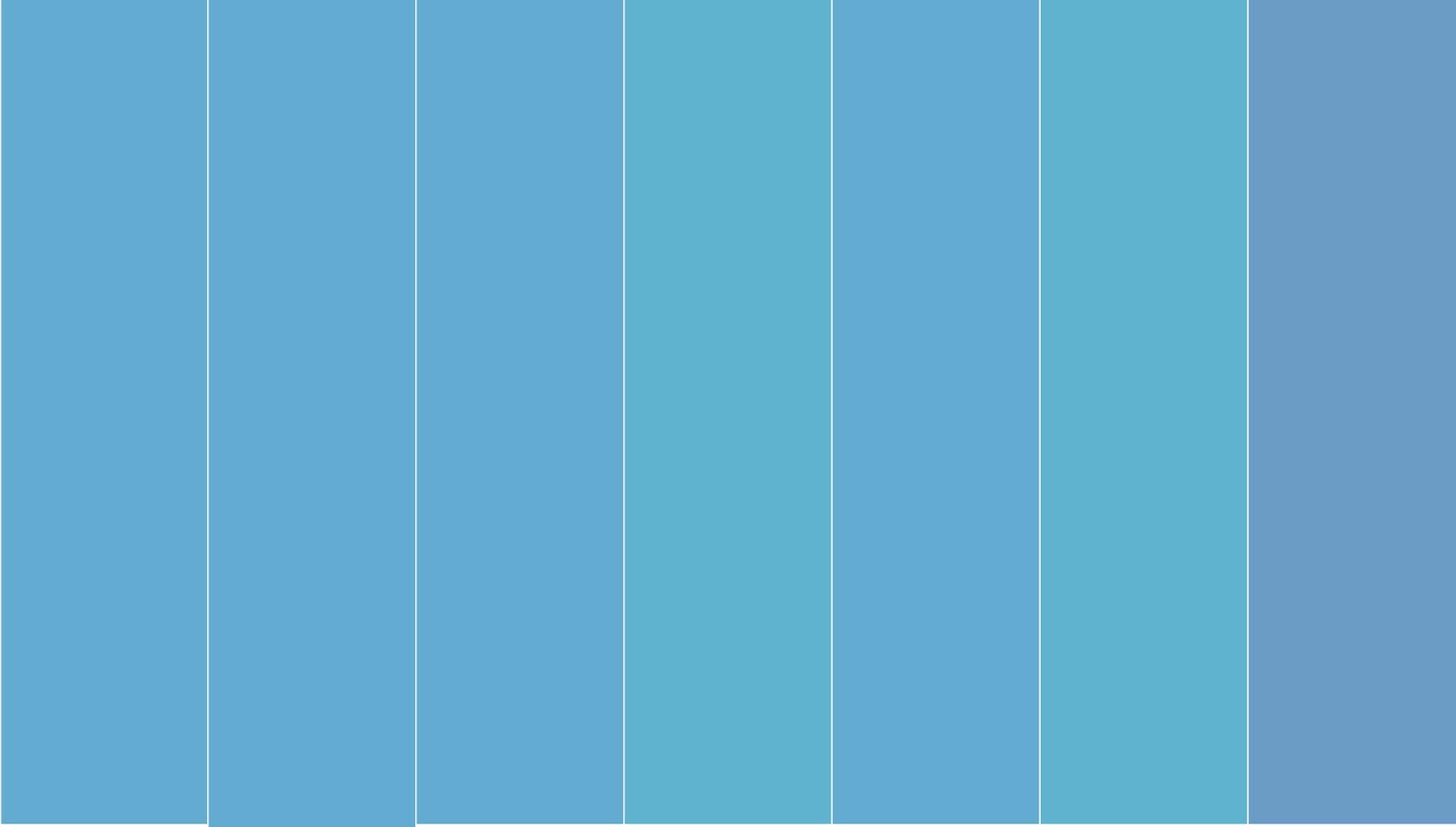
It includes principles and guidance for best practice in the following areas:

- Disclosure of a policy on stewardship
- Conflicts of interest
- Monitoring
- Escalation
- Collective engagement
- Voting and disclosure
- Reporting

Institutional investors are expected to “comply or explain” against the principles and to publish their policy in this area on their website. The FRC publishes links to all responses on its own website³⁷. There are currently around 225 institutional investors who have published their policy on compliance with the Code.

36 <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

37 <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>



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