European Asset Owners:
ESG Perceptions and Integration Practices

December 2010
Local solutions for global priorities.

Restructuring, human rights, climate change, director remuneration and environmental, social and governance issues are playing an increasing part in asset management: an undisputed conclusion of the survey published by Eurosif last October which highlighted the increasing number and long-term success of responsible investment strategies over the past ten years.

But beyond the simple figures, questions remain as to the real reasons why institutional investors are taking a growing interest in extra-financial issues. While, more often than not, ESG factors and considerations take on a global dimension, practise in fact shows that investors in different countries have a different perception.

"Local solutions for global priorities" would have been a fitting title for this survey which was conducted by Novethic with the support of BNP Paribas Investment Partners, and which is the first in Europe to investigate the motivation and practices of institutional investors in Europe in incorporating ESG criteria.

BNP Paribas Investment Partners has long been committed to ESG. In fact, our decision to form a team of specialists in sustainable development dates back to 2002, thereby providing our management teams and institutional clients with a specific and recognised source of added value for financial and extra-financial investments alike.

At a time when our planet is the victim of an unprecedented level of economic, social and environmental upheaval, can we really continue to question the value of integrating these factors into all of our investments? The inclusion of ESG criteria in asset management is as valid today as it will be tomorrow. Sovereign bonds, real estate, emerging markets, venture capital, commodities, extra-financial performance indicators… the room for research is vast and there is much progress to be made. Solutions do exist, however, and it is up to us to implement them.

Philippe Marchessaux, Director and CEO | BNP Paribas Investment Partners
OVERVIEW

For the first time, 251 European investors were surveyed about how they perceive the integration of Environmental, Social and Governance criteria (ESG) into asset management. The purpose of the survey was to understand how these investors define ESG practices, how they associate them with their fiduciary responsibility and how they are encouraged to adopt a more long-term investment perspective. These asset owners (banks, insurance companies, pension funds, public financial institutions, foundations, etc.) hold a total of EUR 7,500 billion in assets.

The survey was conducted in partnership with Eurosif and spanned nine countries. For a clearer idea of each country’s involvement, they are broken down by volumes of SRI assets under management as at the end of 2009 and the number of asset owners that signed the United Nations Principles for Responsible Investment (PRI).

- **Denmark**: EUR 143.9 billion in SRI assets and 17 PRI asset owner signatories
- **Netherlands**: EUR 130.1 billion in SRI assets and 21 PRI asset owner signatories
- **Finland**: EUR 64.4 billion in SRI assets and 7 PRI asset owner signatories
- **United Kingdom**: EUR 54.7 billion in SRI assets and 22 PRI asset owner signatories
- **France**: EUR 50.7 billion in SRI assets and 5 PRI asset owner signatories
- **Belgium**: EUR 24.4 billion in SRI assets and 2 PRI asset owner signatories
- **Spain**: EUR 14.7 billion in SRI assets and 7 PRI asset owner signatories
- **Italy**: EUR 13.1 billion in SRI assets at end-2009 and 1 PRI asset owner signatory
- **Germany**: EUR 12.9 billion in SRI assets and 3 PRI asset owner signatories

*These figures are from Eurosif’s «Core SRI» survey published in October 2010. They cover Environmental, Social and Governance (ESG) practices with a systematic impact on management.*
MAIN CONCLUSIONS

Integration of ESG criteria clearly defined

More than 90% of the asset owners surveyed believe that ESG screening means «Carefully monitoring companies’ sustainable development practices,» or «Selecting issuers based on ESG criteria». Only a minority associate it with thematic approaches such as the environment or microfinance.

Anticipating long-term risks, protecting one’s reputation or remaining consistent with one’s convictions... incentives for ESG integration vary significantly from country to country.

Half of the European respondents believe that ESG issues should be integrated to be consistent with their convictions. The other half sees the more tangible benefits, such as protecting their reputation or better managing long-term risks.

Viewpoints diverge among countries. The vast majority of French (59%) and German (68%) investors want to contribute to bringing about a more sustainable development model, but this opinion is shared by only a minority of investors in Denmark (21%) and the United Kingdom (17%). Similarly, protecting one’s reputation is a priority in Finland and Denmark (more than 40% in each country), but only a small minority of French investors (11%) are concerned with this aspect, while no investors in the United Kingdom gave this any mention at all.

Long-term risk management is an incentive for one-third of French and Dutch investors surveyed but for less than 15% of German, Spanish or Finnish investors.

ESG integration contributes to long-term performance

Eighty-four percent of investors believe that integrating ESG criteria is a form of management that maximises beneficiaries’ long-term interest. This point is significant because just five years ago, investors believed that ESG integration could conflict with their fiduciary responsibility.

Focus remains on short-term performance

The majority of respondents (54%) still believe that building long-term performance relies on seeking the best short and mid-term performance. Still, some 28% believe that it can also be achieved by focusing on the management of long-term risks. Interestingly enough, 18% of respondents even claim to be ready to accept poorer short-term performance in favour of a more sustainable economy.

Gradual shift towards engagement for asset owners

Although 70% of respondents claim that they take ESG issues into account in their management decisions, only one-third of them have dedicated management mandates. Slightly more than half of those who support ESG integration have set up working groups or use the services of extra-financial rating agencies. The three most common practices are ESG integration, ESG screening and shareholder engagement. These practices can also be combined (see definitions, page 11).

The extent of ESG integration into financial management varies considerably from one country to another. Although all of the Dutch firms surveyed claim to implement this practice, only 36% do so in Italy.
Our sample was made up of 251 asset owners (banks, insurance companies, pension funds, public financial institutions, foundations, etc.) that individually hold over EUR 1 billion in assets. The types of asset owners varied with each country. In the Netherlands or the United Kingdom, they were exclusively pension funds, in Belgium, insurers, and France’s sample reflected the diversity of its major asset owners.

The organisations surveyed held a total of more than EUR 7,500 billion in assets under management as at the end of 2009, which break down as follows: 35% held by insurers, 24% by banks and 20% by pension funds.

Survey
The survey took place between July and September 2010. The questionnaire was first sent by email then administered by telephone to confirm that respondents were executives at the organisations surveyed.

Novethic carried out the survey directly in three countries: Belgium, France and the United Kingdom. Local partners recommended by Eurosif conducted the survey in the six other countries:
- Germany with FNG – the German Sustainable Investment Forum
- Italy with the Forum per la Finanza Sostenibile
- Spain with Novaster
- Finland and Denmark with Prospera (Eurosif partner)
- Netherlands with VBDO – the Dutch Association of Investors for Sustainable Development
**ESG CRITERIA INTEGRATION: PERCEPTION IN EUROPEAN COUNTRIES**

**MANAGEMENT METHODS**

- **43%** In-house management
- **44%** Delegated management
- **13%** Other

Although the European asset owners surveyed break down equally in terms of in-house versus delegated management, these figures conceal very different situations from one country to another. For example, 90% of German asset owners manage their assets in-house, while only 30% of UK asset owners do so.

**DEFINITION OF THE INTEGRATION OF ESG CRITERIA INTO ASSET MANAGEMENT**

(Several answers possible)

- **80%** Selecting issuers based on ESG criteria
- **67%** Carefully monitoring companies’ sustainable development practices
- **59%** Excluding high-risk sectors or securities
- **36%** Investing in “eco-industries”
- **24%** Investing in microfinance

Asset owners seem to understand clearly the concept of integrating ESG criteria into asset management. The vast majority of organisations surveyed believe that it means «Carefully monitoring companies’ sustainable development practices» or «Selecting issuers based on ESG criteria». Less than one-quarter mention «green» investment in clean tech companies and only 16% microfinance.
**MAIN INCENTIVES**

Nearly one out of two asset owners surveyed believes the main incentive for integrating ESG criteria into asset management is «contributing to bringing about a more sustainable development model». This reflects their willingness to show their engagement but also points to their difficulty in understanding the advantage of this approach. Far fewer have any idea of its benefits: 20% of those surveyed emphasise protecting their reputation, 19% long-term risk management and only 15% see the integration of ESG criteria as a potential way of improving financial performance.

There is a stark contrast between Northern and Southern European countries. While two-thirds (65%) of southern asset owners consider their main incentive to be «contributing to bringing about a more sustainable development model», only 34% of northern respondents agree. Northern asset owners emphasise more tangible benefits for their organisations offered by ESG approaches, in terms of long-term risk management or protection of their reputation.

**DEFINITION OF A LONG-TERM INVESTOR**

Are institutional investors ready to reduce their emphasis on short-term financial performance? To answer this question, respondents were asked to define a long-term investor. Their answers show that, even though the majority believes it consists in building long-term performance through short- and mid-term performance, a strong 46% share a different vision. For 28% of respondents, one can choose to sacrifice a little short-term performance to better cope with long-term risks. Eighteen percent even claim to be ready to accept lower returns in favour of a more sustainable development.
**INTEGRATION OF ESG CRITERIA AND FIDUCIARY RESPONSIBILITY**

The integration of extra-financial criteria could have an impact on the return/risk trade-off that makes it incompatible with fiduciary responsibility.

The vast majority of European asset owners (84%) believe that there is no contradiction between the integration of ESG criteria and their fiduciary responsibility. This concept has evolved considerably, as it was still highly disputed just five years ago, before the United Nations Principles for Responsible Investment (PRI) were published.

**INTEGRATION OF ESG CRITERIA AND LEGAL RESPONSIBILITY**

Yes, there is a legal risk of being sued for not taking ESG criteria into account.

One-quarter of investors surveyed feel that neglecting extra-financial issues could expose them to a legal risk. One-half of respondents disagree. Only 26% of survey participants therefore seem to have taken on board the conclusions of the 2005 and 2009 reports authored by legal specialists under the aegis of the United Nations Environment Programme Finance Initiative (Unep-FI), according to which the beneficiaries and clients of financial institutions may sue them for any financial losses that could be associated with a disregard for ESG factors.
ESG CRITERIA INTEGRATION: EUROPEAN PRACTICES

Sixty-nine percent of the asset owners surveyed state that they take ESG issues into account in the management of their assets. This spectacular figure masks a wide spectrum of practices ranging from awareness of these issues through extra-financial analysis to the exclusion of direct or indirect financing of the manufacture of controversial weapons to protect their reputation. They were asked to be more specific about the practices they implement, bearing in mind that there is a significant disparity between countries.

*Only the answers from asset owners that claim to integrate ESG criteria in their asset management, i.e. 69% of the initial sample, were included here.*

**EXTRA-FINANCIAL MANAGEMENT SYSTEMS**

![Bar chart showing percentages of asset owners implementing, planning, or not implementing various ESG criteria.

Interestingly, only one-third of the answers referred to management mandates that include ESG criteria, while the majority are still becoming accustomed to extra-financial analysis through reliance on specialised rating agencies (51%) or the setting up of ad hoc working groups (55%). Forty-five percent of these respondents state that they have signed a responsible investment charter, but this may be a simple commitment without any genuine consequences.
The United Nations Principles for Responsible Investment (PRI) have validated the notion that ESG criteria can be integrated into the management of all classes of assets held by institutional investors. However, as the offer of extra-financial analysis remains highly focused on large listed companies, they are more specifically concerned with the implementation of an ESG integration policy.

Equity investments are clearly the asset class subject to the most in-depth extra-financial analysis. Forty-four percent of asset owners state that they have implemented a system for this asset class, while 28% affirm that tests are run on a few funds. Thirty-seven percent of them extend this approach to corporate bonds.

Most surprisingly, 24% state that they have an ESG system in place for property investments, whereas this type of approach remains undeveloped and is most often confined to the energy performance of buildings.

The investors surveyed most often combine the various approaches to extra-financial management, with a predominance of ESG integration (see definitions). Only sector-based and/or norm-based exclusions are used as an isolated approach, but less than 10% of the time.

Disparities between countries are high. Northern European countries strongly emphasise shareholder engagement over ESG screening (50% versus 39%). Southern European countries have the opposite tendency, with 10% involved in engagement as against 50% in ESG screening.
Thirty-eight percent of asset owners state that extra-financial rating agencies are the most useful source of information for analysing the ESG practices of issuers. However, investors also look to investment managers (31%) or even the companies themselves (18%) as sources of useful extra-financial information.

**Glossary**

- **ESG SCREENING OR THE «BEST-IN-CLASS» APPROACH** means selecting the issuers in each sector with the best extra-financial ratings.

- **NORM-BASED EXCLUSIONS** involve eliminating from the investment universe companies or countries that do not comply with certain standards or international treaties, such as the Fundamental Conventions of the International Labor Organization (ILO).

- **SECTOR-BASED EXCLUSIONS** consist in eliminating from the investment universe sectors that are not deemed to be in line with values (tobacco, alcohol, weapons, etc.).

- **ENGAGEMENT** is a term used for dialogue established between a shareholder and a company with a view to improving the company’s value in the medium and long term, through the greater incorporation of environmental and socially responsible risk factors. When this dialogue proves fruitless, the shareholder-investor can take the debate public either at general meetings or by announcing the sale of its investment explaining that it is for extra-financial reasons.

- **ESG INTEGRATION** is a responsible investment approach that is less systematic and therefore less restrictive for financial management than the SRI approach. It consists in taking into account some key ESG criteria on an individual, case-by-case basis. This can be done either by providing all of the investment management teams with the ESG analysis or by encouraging joint research between financial and extra-financial analysts.
Belgium

19 investors surveyed holding €99 billion of assets
(€24.4 billion in SRI assets and 2 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG issues primarily involves screening

Belgian along with French investors are the only asset owners that make no mention of clean tech companies in the notion of ESG integration. Nearly 80% associate it with «selecting issuers based on ESG criteria», and almost 60% believe that this consists in reviewing issuers’ sustainable development practices. Exclusion approaches come in far behind at 28%.

Equal emphasis on conviction and benefits

The Belgian organisations surveyed break down almost equally between those that believe ESG criteria should be integrated to promote more sustainable development (47%) and those that think it offers measurable benefits in terms of risk management (26%) or protecting their reputation (21%). However, only 6% feel that it offers any financial advantages.
Short-sightedness of asset owners on markets

The convictions of Belgian investors do not necessarily prompt them to sacrifice short-term performance by investing on a long-term horizon in order to achieve more sustainable development. Only 10% fall into this category, while 53% state that long-term performance is built on short- and medium-term financial performance.

Asset owners’ fiduciary responsibility allows for the integration of ESG criteria

For 78% of Belgian asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility. However, many have not understood that this could give rise to a dispute. Of the investors surveyed, 53% have no opinion as to the legal risk that could arise from a disregard for ESG criteria.

Focus on ESG screening

The Belgian contingent that integrates ESG criteria is similar to the French one in that it favours ESG screening and gives equal importance to norm-based exclusions, shareholder engagement and sector-based exclusions, each representing one-quarter of practices.

Survey conducted in conjunction with the Alternative Finance Network
30 investors surveyed holding € 140 billion of assets
(€ 143.9 billion in SRI assets and 17 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG issues is synonymous with exclusion

The Danish asset owners surveyed are the only respondents that define ESG integration first by the exclusion of high-risk sectors, and over half, 53%, did so. Even more interestingly, selecting issuers based on ESG criteria came in far behind (37%) followed by investing in clean tech companies, at 27%. Their view of sustainable development seems quite different from that of other European investors surveyed.

Protecting their reputation is key

Like those of other Scandinavian countries, Danish asset owners first mention protecting their reputation as a prime incentive. Only 21% of them are motivated to contribute to bringing about more sustainable development. They practically equate this notion with long-term risk management or improving financial performance.
Focus on the short term

Danish investors gave similar answers across the board. Fifty-six percent of them agree that a better short- and medium-term performance is the key to good long-term performance. Only 19% would accept to sacrifice short-term performance for the sake of sustainable development.

19% Accepting a poorer performance to finance the transformation of the economy towards more sustainable development

56% Building long-term performance by seeking the best performance in the short and medium term

25% Preventing long-term risks by aiming for lesser performance in the short and medium term

13% No opinion

28% Yes There is a legal risk of being sued for not taking ESG criteria into account

59% No Integrating ESG criteria presents no legal risk

Poor perception of legal risk

For 78% of Danish asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility. However, only 28% believe that neglecting extra-financial issues represents a legal risk. They are considerably more sensitive to reputational risk.

PRACTICES

Norm-based approaches combined with engagement

Three-quarters of the Danish asset owners surveyed claim to practise ESG integration, with 41% that unsurprisingly favour a norm-based approach. This allows them to protect their reputation. They also use shareholder engagement, but ESG screening, unlike the rest of Europe, is relatively uncommon (14% of the sample).
Finland

32 investors surveyed holding €80 billion of assets
(€64.4 billion in SRI assets and 7 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG issues is clearly understood

The Finnish view of ESG integration reflects their relatively undeveloped SRI management practices and their strong environmental concerns. Finnish investors believe that ESG integration covers a number of practices: mainly focusing on the sustainable development practices of issuers (63%), followed by excluding high-risk sectors (53%) and selecting issuers based on ESG criteria (50%). This is the country where investing in clean tech companies is most often mentioned (47%) and the proportion of microfinance particularly high (22%).

Protecting their reputation first

Finland is unique in another way. It has the lowest percentage of investors that emphasise contributing to sustainable development as an incentive for integrating ESG criteria: 17%. Protecting their reputation is much more important, as confirmed by 41% of respondents. This is only natural, as the investments chosen by asset owners can make headlines in Scandinavian countries, a much rarer phenomenon in other countries.
Short-term performance reigns

Finnish respondents are consistent in that they make no or little connection between ESG integration and their convictions. Naturally, only 10% of investors believe in sacrificing short-term performance in favour of more sustainable development. However, 66% of them feel that long-term performance is built on short- and medium-term performance alone.

24% Preventing long-term risks by aiming for lesser performance in the short and medium term

10% Accepting a poorer performance to finance the transformation of the economy towards more sustainable development

66% Building long-term performance by seeking the best performance in the short and medium term

16% No opinion

Poor perception of legal risk

For 84% of Finnish asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility, but relatively few consider that not doing so could expose them to a legal risk. Only 22% think they could be sued for it.

63% No Integrating ESG criteria presents no legal risk

22% Yes There is a legal risk of being sued for not talking ESG criteria into account

PRACTICES

Focus on exclusions and engagement

Slightly less than half of Finnish asset owners state that they implement ESG integration practices. Of these, 44% emphasise shareholder engagement. Sector-based exclusions, closely linked to the notion of protecting reputation, take a close second place, at 38%.

© Novethic 2010 - European Asset Owners: ESG Perceptions and Integration Practices
29 investors surveyed holding € 813 billion of assets
(€ 50.7 billion in SRI assets and 5 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG issues is focused on selecting issuers

France is the only country, along with Belgium, where none of the investors surveyed associated ESG integration with investing in clean tech companies. For the French, it first means selecting issuers based on ESG criteria (76%). Nearly one-quarter of them nevertheless include the exclusion of sectors or companies that present high extra-financial risks.

59% Contributing to bringing about a more sustainable development model
30% Managing long-term risks
0% Aiming for better financial performance
11% Protecting one’s reputation

Investors motivated by their values and convictions

Most of the French organisations surveyed (59%) emphasise their convictions as their main incentive for integrating ESG criteria. Long-term risk management trails far behind at 30%. Another point worth noting is that no investor associates integrating ESG criteria with improving financial performance.
Short-sightedness of asset owners on markets

The answers given for this question contradict those on the integration of ESG criteria. Nearly half of the organisations surveyed continue to focus on short-term performance to build their long-term performance. Only 19% believe that sustainable development calls for sacrificing the short term.

Compatibility between fiduciary responsibility and integration of ESG criteria

The survey shows that for 81% of French asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility. Twenty-six percent even feel that neglecting extra-financial issues represents a legal risk.

Prevalence of ESG screening

French asset owners differ from other European countries, notably Northern European countries, with their considerable emphasis on ESG screening (81%). Very few implement shareholder engagement (24%), which is given equal importance with norm-based approaches.
32 investors surveyed holding €1,872 billion of assets
(€12,9 billion in SRI assets and 3 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG issues means screening above all

Virtually all Germans believe that the integration of ESG issues means «selecting issuers based on ESG criteria». Forty-one percent of them agree that this strategy includes investing in eco-industries. These results are in line with the Germans’ heavy focus on environmental funds.

Promoting sustainable development

German investors are among those that show the highest engagement. Sixty-eight percent of them emphasise the integration of ESG criteria as a way of contributing to bringing about more sustainable development. These convictions are for the most part shared by Southern European countries (Spain, France and Italy). This is the primary issue for them, with other factors remaining of minor importance equally shared among them.
Focus on performance

Nearly two-thirds of respondents state that they first seek the best performance in the short and medium term. This may appear to contradict the conviction that ESG criteria should be integrated to promote sustainable development, but only 19% would accept a poorer performance in the short term.

Compatibility between fiduciary responsibility and integration of ESG criteria

For 94% of German asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility. More than one-third (38%) even feel that neglecting extra-financial issues represents a legal risk.

PRACTICES

Extended range of practices

Although German asset owners emphasise ESG screening, they show great interest in other practices. More than half highlight sector-based exclusions, and many cite ESG integration.
The integration of ESG criteria means focusing on the sustainable development practices of issuers.

The Italian SRI market remains rather undeveloped, which is shown in the answers given by the Italian asset owners surveyed. They define ESG integration by affording nearly equal importance to the sustainable development practices of issuers (64%), selecting ESG criteria (52%) and exclusions (40%). However, a clear distinction is made with investing in clean tech companies or microfinance.

A matter of conviction above all

The main incentives for integrating ESG criteria into investment management also attest to this mindset. Sixty percent believe that integrating ESG criteria is a matter of conviction, while 24% think that it can be used to protect their reputation. Long-term risk management or contributing to financial performance come in far behind.
Italian asset owners are prudent with the short term

The sample of Italian investors sets itself apart from other countries in its definition of long-term investment. Although only 20% believe that short-term performance can be sacrificed for sustainable development, 56% state that they are willing to reduce short-term performance in order to prevent long-term risks. Might the lessons from the crisis be better understood in Italy?

Economists are divided on whether there is a legal risk of being sued for not taking ESG criteria into account.

72% No
Integrating ESG criteria presents no legal risk

28% No opinion

20% Accepting a poorer performance to finance the transformation of the economy towards more sustainable development

24% Building long-term performance by seeking the best performance in the short and medium term

56% Preventing long-term risks by aiming for lesser performance in the short and medium term

ESG criteria are compatible with fiduciary responsibility

For 84% of Italian asset owners, the integration of ESG criteria does not conflict with their fiduciary responsibility. However, this concept is clearly still emerging in Italy. Of the investors surveyed, 72% do not think that they could be sued by a beneficiary for neglecting to integrate ESG criteria.

PRACTICES

Emphasis on sector-based and norm-based exclusions

With only one-third implementing integration practices, Italian asset owners also differ from other European samples in that they mainly focus on sector-based (44%) and norm-based (33%) exclusions. Less than one-quarter apply ESG screening, reflecting the underdevelopment of SRI in Italy. And shareholder engagement is non-existent.
Netherlands

25 investors surveyed holding € 854 billion of assets

(€ 130.1 billion in SRI assets and 21 PRI asset owner signatories)

PERCEPTIONS

Most investors select issuers based on extra-financial criteria

Dutch asset owners have different ideas about what ESG integration is. Although nearly 90% of them believe it means «selecting issuers based on ESG criteria», the organisations surveyed feel that it also means investing in thematic funds (43%) or excluding high-risk sectors (46%). One-third answered microfinance; along with Germany, the Netherlands is the only other country with such a high figure.

Asset owners motivated by the benefits of extra-financial management

The Netherlands is one of the countries where the incentive for integrating ESG criteria comes from both a drive to contribute to a more sustainable world (38%) and the prospect of improved risk management (34%). Protecting their reputation or contributing to financial performance are much less important for the investors surveyed.
Short-sightedness of asset owners on markets

One-third of the Dutch participants believe that being a long-term investor may mean sacrificing short-term performance to a certain extent in order to prevent long-term risks. This is not the majority position, but it is a sign that the impact of ESG issues is being internalised.

11% No opinion

25% Yes
There is a legal risk of being sued for not talking ESG criteria into account

64% No
Integrating ESG criteria presents no legal risk

A question of responsibility

In the Netherlands, 81% of asset owners believe that the integration of ESG criteria is compatible with their fiduciary responsibility, with 25% that even feel that neglecting extra-financial issues represents a legal risk.

PRACTICES

Shareholder engagement combined with ESG integration

Dutch asset owners mainly practise ESG integration and shareholder engagement. ESG screening, widespread in Southern European countries, is only used by one out of four investors in the Netherlands.
Spain

42 investors surveyed holding €43 billion of assets
(€14.7 billion in SRI assets and 7 PRI asset owner signatories)

PERCEPTIONS

The integration of ESG Issues means stock-picking

Although the Spanish market is relatively nascent, it seems to have a firm grasp of the integration of ESG issues. Eighty-three percent of respondents first mention «selecting issuers based on ESG criteria». Only 19% believe that investing in clean tech companies is a way of integrating ESG criteria.

Spanish investors express their convictions

The Spanish organisations surveyed differ from other European asset owners in that nearly three-quarters of them state that the conviction to contribute to bringing about a more sustainable development model is their main incentive for integrating ESG criteria. Coming in far behind are protection of their reputation (11%) and long-term risk management (8%).

© Novethic 2010 - European Asset Owners: ESG Perceptions and Integration Practices
Short term comes first

What engagement and conviction mean to the Spanish varies, however. More than half of the respondents feel that long-term performance is built on short- and medium-term performance. That said, one-quarter of them would accept a poorer performance in the short term in order to contribute to bringing about sustainable development.

Compatibility between fiduciary responsibility and integration of ESG criteria

For 86% of Spanish asset owners, the integration of ESG criteria does not conflict with their fiduciary responsibility. Although the SRI market in Spain, as in Italy, remains small as yet, Spanish investors seem to have a clearer understanding of ESG integration than their Italian counterparts. One-third of those surveyed believe that neglecting extra-financial issues represents a legal risk.

Emphasis on ESG integration and norm-based and sector-based approaches

With barely half of the sample implementing ESG integration practices, the approaches of Spanish asset owners remain highly unstructured. ESG screening is only practised by 28% and norm-based exclusions by 39% of the organisations surveyed, while shareholder engagement is entirely non-existent.
24 investors surveyed holding €2672 billion of assets

(€54.7 billion in SRI assets and 22 PRI asset owner signatories)

PERCEPTIONS

Integration of ESG issues: focus on the practices of issuers

The vast majority of UK asset owners surveyed (87%) believe that the integration of ESG issues involves “carefully monitoring companies’ sustainable development practices”. Only one-third consider that it means “selecting issuers based on ESG criteria”. This confirms UK investors’ emphasis on integration practices and dialogue with companies about extra-financial issues.

Means of improving financial performance

UK asset owners seem convinced of the tangible results produced by integrating ESG criteria. They are the only investors that did not even mention protecting their reputation. 57% of them even consider that it can improve financial performance, while 26% firmly believe that it contributes to long-term risk management. The UK sample therefore believes in the «materiality» of ESG criteria and their impact. It is not a question of ideology: barely 17% of the organisations surveyed feel that it is important to contribute to a more sustainable development model.
Main objective: performance
Nearly three-quarters of UK respondents state that they first seek the best performance in the short and medium term. The choice of a short-term strategy on the markets is widely emphasised by the UK organisations surveyed. These results are in line with the integration practices that clearly distinguish between financial management and an interest in the impact of ESG issues on company policy.

Compatibility between fiduciary responsibility and integration of ESG criteria
For 70% of UK asset owners, the integration of ESG criteria is not in contradiction with their fiduciary responsibility. Nearly one-third (30%) even feel that neglecting extra-financial issues represents a legal risk.

Focus on shareholder engagement
UK asset owners differ from investors in other European countries, notably Southern Europe, with a very widespread emphasis on shareholder engagement (77%). Less than one-quarter practise ESG screening (23%), which is still higher than the rather marginal practices of norm-based and sector-based exclusions (14% of respondents).
# TABLE OF CONTENTS

OVERVIEW  
MAIN CONCLUSIONS  
METHODODOLOGY  

ESG CRITERIA INTEGRATION:  
PERCEPTION IN EUROPEAN COUNTRIES  

ESG CRITERIA INTEGRATION:  
EUROPEAN PRACTICES  
DEFINITIONS  

BELGIUM  
DENMARK  
FINLAND  
FRANCE  
GERMANY  
ITALY  
NETHERLANDS  
SPAIN  
UNITED KINGDOM

© Novethic 2010 - European Asset Owners: ESG Perceptions and Integration Practices
The list of organizations that responded to the survey is presented by country.

**BELGIUM**
- Allianz Belgium
- Amro
- AXA Belgium
- Belstar Assurances
- Corona
- Dexia Assurances
- DKV
- Ethias
- Euromex
- Fondation Roi Baudouin
- Generali
- ING
- KBC
- Mercator
- P&V
- Saffex
- Vivium
- ZA-Assurance

**DENMARK AND FINLAND**
- AP Pension
- ATP
- Danica Pension & Danica Link
- DIP
- EVL Finland
- Finansforbundet
- Finnish Metalworkers Union
- Helsingin Seuran kuntayhtymä
- Ilmarinen
- Kemira Eläkesäätiö Nelapalio
- Kirkbi
- Københavns Kommune
- Købstaedernes Forsikring
- Nordea Liv og Pension
- Odense Kommune
- OP Eläkekassa
- Pensam
- Pensionsforsäkringsaktiebolaget Veritas
- Pensionskassen for Børne og Ongdomspædagoger
- Pensionskassen for Teknikum og Diplomingeniører
- Region Sjælland/Roskilde Amt
- Suomen Teollisuusliitto
- Topdanmark
- Turku Kaupunki
- Unipension
- Väkstfonden
- Varma
- YLE

**FRANCE**
- ERAFP
- Fonds d’Action Sociale du Travail Temporaire (FASST)
- BNP Paribas Personal Investors
- Groupe AXA
- BNP Paribas Assurance
- CCPB-RP
- Agefiph
- Maif
- Groupe Lourmel
- Groupe Pasteur Mutualité
- Ecureuil Protection Sociale
- Agence Nationale pour les Chèques-Vacances
- GIE AGIRC-ARRCO
- Medicis
- Swisslife
- CAPSSA
- Mutuafer
- CNP Assurances
- UNIPIF
- FCE-CFDT
- Suravenir
- Aviva
- Agric Epargne
- Groupe Macif
- Predica
- Novalis Taltboug
- Generali Investments
- CEA
- Reunica

**GERMANY**
- Pensionskasse für die Deutsche Wirtschaft
- Körber-Stiftung
- Invesco
- Lombard Odier Investment Managers
- Aquila Capital
- MEAG
- Bistum Limburg
- Union Investment
- LBS Invest
- Pioneer Investments
- Bank für Kirche und Caritas
- German Industrial Corporation
- Deka Bank
- Skandia
- KfW Bankengruppe
- Bank im Bistum Essen
- Pictet Asset Management
- GLS Gemeinschaftsbank eG
- Atria Group
- Oikocredit
- AXA Germany
- KD-Bank
- LLBW Asset Management
- Erbschaftliches Ordinariat Freiburg
- Bank Sarasin AG
- Triodos Bank Germany
- BayernInvest Kapitalanlagegesellschaft mbH
- HypoVereinsbank (UniCredit Bank AG)
- Missionszentrale der Franziskaner
- Metzler Asset Management
- SEB Asset Management AG
- DB Advisors

**ITALY**
- AXA MPS
- Fondo Pensione "Cassa Previdenza Aziendale Personale MPS"
- Ente Cassa di Risparmio di Firenze
- Compagnia San Paolo di Torino - Fondaco
- Fondazione Cariparma
- Fondazione Cariplo
- Fondazione Cassa di Risparmio di Cuneo
- Fondazione Roma
- Fondiaria Sai
-OPEN - Fondo Pensione Dipendenti Gruppo Enel
- Fondo Pensione per il Personale della Banca di Roma
- Fondo Pensione per il Personale del Gruppo Banco Popolare
- Fondo Pensioni del Personale BNL
- Fondo Pensione Confindustria
- Fondo Pensione Cometa
- Fondo Pensione Complementare dei Dipendenti MPS Divenuti Tall Dall
- Fipad Fondo di Previdenza Complementare per i Dirigenti del Gruppo Banca Popolare di Novara
- Fondo Pensione Fideuram
- Fondo Pensione per il Personale Deutsche Bank
- Fondo Pensione Dirigenti Rai
- Fondo Pensione Unicredit
- Fondo Pensione Aperto ORF Previdenza
- Assicurazioni Generali
- Fondo Pensione Aperto Teseo
- Fondo Pensione Solidarieta Veneto
- UGF Assicurazioni

**NETHERLANDS**
- ABN Amro Pension Fund
- Achmea
- Aegon Asset Management
- Allianz Nederland Asset Management
- APG
- BlackSky Group
- BPF Schilders
- Generali Investments
- Loyalis Verzekeringen
- Pensioenfonds KPN
- Pensioenfonds Vervoer
- Pensioenfonds Volkenwells
- PNO Media
- Rabobank Pension Fund
- Real Verzekeringen
- SPF Beheer BV
- Stichting Heineken Pensioenfonds
- Stichting Pensioenfonds Hoogovens
- Stichting Pensioenfonds IBM Nederland
- Stichting Pensioenfonds Medewerkers
- Apotheek
- Stichting Pensioenfonds Medisch
- Specialisten
- Stichting Pensioenfonds TNO
- Stichting Philips Pensioenfonds
- Unive Asset Management
- Zorgverzekeraar Menzis

**SPAIN**
- Fondo de Pensiones Grupo Cepsa
- Mutualidad de Previsión Social de la Policía Elkaridetza EPSV
- Mutua Alianza
- Izarri Epsv
- Mutualidad General de Previsión del hogar “Divina Pastora”
- Grupo Enderas
- Etorpension EPSV
- La Caixa
- Mutualidad Abogacía
- Mutualidad de Deportistas Profesionales
- Hazia Bkz Epsv
- Surne Mutua de Seguros
- Montejo Loreto Mps
- Mutual Medica
- Mutualidad de Previsión Social de Aragonesas a Prima Fija
- Bridgestone Hispania
- Caja Navarra
- Fondo de Pensiones de los Empleados de Caja Navarra
- Fondetel Pensiones
- BBVA
- Epsv Araba Eta Gasteizko Aurrezki Kutxa Iii
- Premaat Mps
- Mutua dels Enginyers
- Cajasol
- Epsv Lanuar Bat – Kutxa Gipuzkoa
- Bancaja
- Vodafone
- Bancari España S.A.
- Fondo Empleados Grupo Caja Madrid
- Mutualidad de Previsión Social "FAM"
- Empleados Caixa Galicia, Fondo de Pensiones
- Empleados de Caja de Jaen, Fondo de Pensiones
- Petronor S.A.
- Plan Asociado de la CS de CCOO
- Empresa Mixta de Aguas de Santa Cruz de Tenerife
- Fondo de Pensiones de Empleados de Seguros Bilbao
- Mupiti
- Plan de Pensiones Empleados de Telefonica de España SA
- Pla Col·lectiu d’Empleats de la Caixa d’Estalvis i Pensions de Barcelona
- Generalitat de Catalunya
- Elkaridetza EPSV

**UNITED KINGDOM**
- Co-operative Group
- Environment Agency Pension Fund
- Firstgroup PLC
- Nestle UK Pension Trust Ltd
- Staffordshire County Council
- West Midlands Pension Fund
- BP Pension Trustees Ltd
- East Riding Pension Fund
- Leicestershire County Council
- Bank of England Pension Fund
- Hampshire Pension Fund
- Strathclyde Pension Fund
- British Airways Pensions
- USS
- Thomas Cook PLC
- Somerset County Council
- London Pensions Fund Authority
- Unilever Corporate Pensions
- Hermes Equity Ownership Services
- BBC Pension Trust Ltd
- Middlesbrough Council Teesside Pension Fund
- Merseyside Pension Fund
- Standard Life
European Asset Owners:
ESG Perception and Integration Practices

A study conducted by the Novethic SRI Research Centre, with the support of BNP Paribas Investment Partners and in partnership with Eurosif.

Novethic, subsidiary of Caisse des Dépôts, is the leading research centre in France on Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR) and a sustainable development media expert. Set up in 2001, today Novethic is the exclusive source of statistical information on the French SRI market. The research team conducts thematic studies, analyses product trends and assesses the SRI processes of asset management firms. Novethic initiated a label for the SRI funds available on the French market in 2009.

© Novethic 2010
Total or partial reproduction of the content of this document is prohibited without the prior consent of Novethic. Using or citing the quantified data is allowed, provided that the source is indicated.