2013 figures on **responsible investment** in France

novethic's 10th market survey

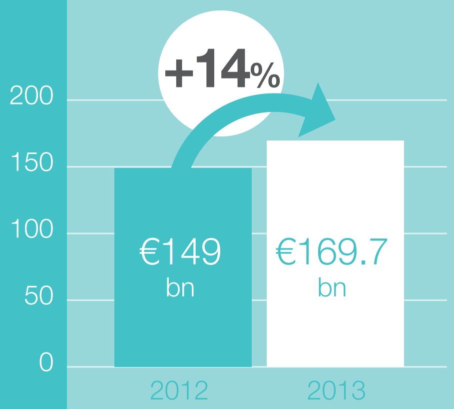
CHANGES IN FRENCH SRI

Novethic has kept a close eye on the socially responsible investment (SRI) market for ten years. The development of the market was long reflected in the strong growth in SRI assets under management (AuM) and mandates in France, **increasing from €3.9 billion in 2003 to €169.7 billion in 2013.**

But Responsible Investment (RI) today has taken on a range of forms, which are often combined by investors to build different portfolios or to exert greater influence on issuers. These increasingly cross-cutting approaches, including ESG integration, norm-based exclusions and engagement, are now presented on an equal footing with annual figures, the aim being to forge a better understanding of the deep-seated changes in RI in France and to assess the weight and characteristics of each RI approach.

The Research Centre

SRI funds



Growth in SRI AuM is slowing down. The total increased 14% in 2013, compared with 29% in 2012, to stand at nearly

€170 billion

at the end of 2013.

For the first time, Novethic is including SRI real estate assets – estimated at €1.8 billion – in its figures.

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ESG Integration

ESG integration is a financial management approach that takes account of environmental, social and governance (ESG) criteria in a formalised manner.

€440 billion

is managed using this approach, accounting for 15% of total AuM in France, which the French Asset Management Association, AFG, estimated at €3,000 billion at end-2013.

Novethic divides ESG integration practices into **three categories**:

- Formalisation of the ESG integration process
- Binding process for non-SRI fund managers
- Financial valuation of ESG issues

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Norm-based exclusions

Assets concerned by norm-based exclusions rose 13% in 2013, totalling

€1,445 billion

and applied to nearly half of AuM in France.

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Engagement

Eight SRI players, or 17% of respondents, publish their engagement policy on their website. These respondents said they rolled out

340 engagement initiatives

in 2013.

The main engagement issues were corruption, working conditions in the supply chain, and the remuneration of executives.

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SRI funds

€170 billion

Breakdown of SRI AuM by type of investors (€bn)

	2012	2013	Change
Total	**149**	**169.7**	**+14%**
Including institutional investors	**107.2**	**119.6**	**+12%**
Pooled funds	37.5	43.3	+15%
Delegated management	56.4	62.2	+10%
In-house management	13.3	14.1	+6%
Including retail investors	**41.8**	**50.1**	**+20%**
Pooled funds	24.7	31.3	+27%
Employee savings	17.1	18.8	+10%

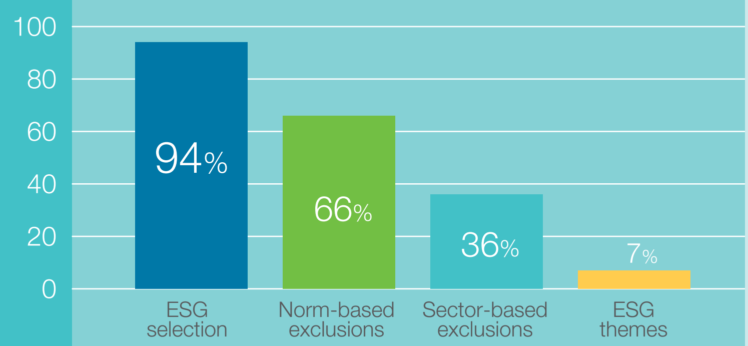
Once again this year, growth in the French SRI market was driven by asset owners (up €12.4 billion). The absence of new SRI mandates led to a relatively modest rise in assets under delegated management, up 10% in 2013 compared with a 53% increase in 2012.

Private investors also played a strong role, with an increase of €8.3 billion.
The assets managed by individual investors once again accounted for 30% of the SRI market, following a decrease to 28% in 2012, mainly owing to life insurance products.

The share of SRI in employee savings plans was stable, at 30.7% in 2013 compared with 29.1% in 2012.

Analysis of the €103 billion for which the respondents provided a detailed description of their SRI practices

SRI strategies as % of AuM, excl. Amundi



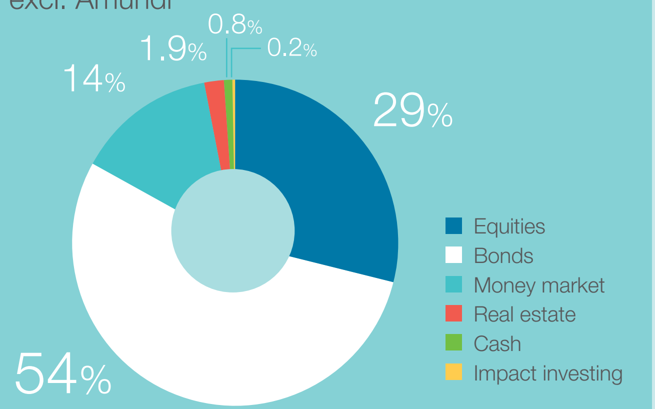
SRI STRATEGIES

The ESG selection approach was stable at 94%. But requirement levels vary from one fund to the next. For example, for nearly 20% of AuM only half of the issuers with the best ESG rating can be selected.

The introduction of norm-based exclusions by new players in 2013 led to a year-on-year increase in the assets concerned by this strategy, from 52% to 66% on a like-for-like basis.

Almost all investors rely on a non-financial rating agency to implement these strategies. With 87% of the market players, Vigeo is the most cited in France, followed by Sustainalytics (29%), EIRIS (21%), EthiFinance (21%) and oekom research (21%).

Breakdown of SRI AuM by asset class, excl. Amundi



ASSET CLASSES

On a like-for-like basis, the share of money market products fell from 25% in 2012 to 15% in 2013, confirming the trend set in 2012. This decrease mainly benefitted bonds (up from 47% in 2012 to 54% in 2013) and, to a lesser extent, equities (increasing from 27% in 2012 to 29% in 2013).

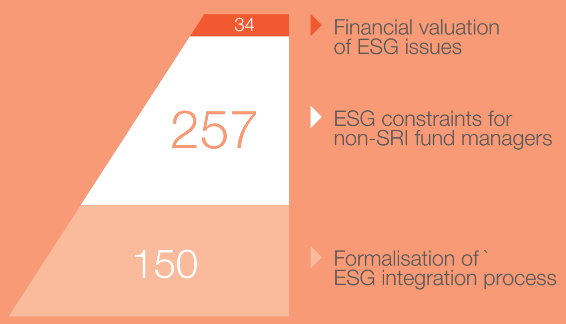
The share of funds invested in government and company securities (debt or equity) was stable in 2013, at 17% and 75% of SRI AuM respectively. SRI funds are still primarily invested in the euro zone, at 69%.

ESG integration

€440 billion

ESG integration in financial management covers a broad range of approaches, including the dissemination of ESG analyses to all the management teams, which concerns €2.265 billion in 2013. Novethic decided to qualify as ESG integration only the most formalised approaches, applying to **€440 billion** in 2013.

Breakdown of AuM concerned by ESG integration approach (€bn)



FORMALISATION OF THE ESG INTEGRATION PROCESS

ESG integration may involve a combination of financial and ESG analysis, either through close collaborative work between two teams or by entrusting the assessment of ESG risks to conventional analysts. This type of combination applied to €150 billion in 2013.

ESG CONSTRAINTS FOR NON-SRI FUND MANAGERS

In this case, the worst-rated issuers can be identified through the formalised monitoring of portfolios. Case-by-case analysis may lead funds to freeze their investment or disinvest in these issuers. This practice concerned €257 billion in 2013.

FINANCIAL VALUATION OF ESG ISSUES

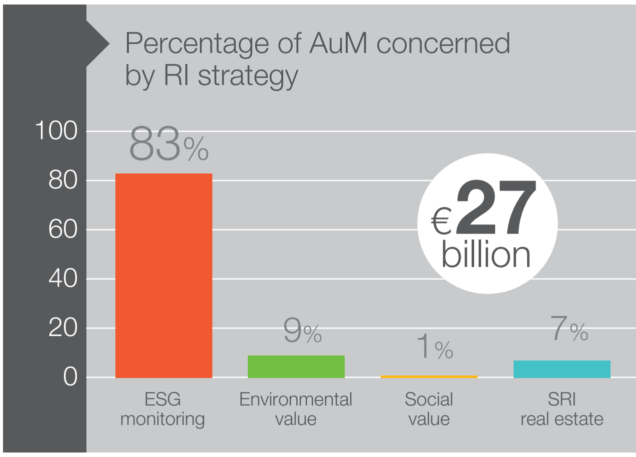
The systematic inclusion of an ESG percentage in a company's financial rating or valuation remains a rare practice, concerning €34 billion in 2013. But several players said they intended to introduce this type of valuation in 2014.

Focus on real estate

For the first time, Novethic has added real estate assets to the survey. While the large majority of respondents include environmental considerations in their investment decisions, Novethic here is counting only those that also take account of social and governance criteria. These assets totalled roughly **€27 billion in 2013**, or a quarter of total unlisted real estate.

The most widespread approach consists in **monitoring the ESG performance** of portfolios. Environmental analysis generally concerns energy, water and waste, while social and governance criteria vary considerably from one player to the next, ranging from accessibility, comfort and well-being to the social usefulness of buildings.

Percentage of AuM concerned by RI strategy



Several theme-based funds seeking to demonstrate **social or environmental value** added stand out through their clearly stated objectives, including a commitment to reducing environmental impact and analysis of the social contribution of the hosted activities.

Some **€1.8 billion** assets were managed using an **SRI approach** in 2013. The rating of the assets here is discriminatory, i.e. the worst-rated assets or those with insufficient improvement potential following works are excluded. Ratings are backed up by formalised and systematic improvement policies involving property managers and building site subcontractors. In 2013, 11 real estate investment schemes and one mandate, held exclusively by asset owners, complied with this approach.

Shareholder engagement

INCREASINGLY STRUCTURED ENGAGEMENT POLICIES

Engagement initiatives today are better monitored.

Some 12 asset managers and one asset owner were able to quantify the assets they hold in the 340 companies with which they led an engagement initiative in 2013. The total came to €40 billion at end-2013.

In addition, eight asset managers quantified the number of engagement initiatives having led to a notable change at the companies. They consider that the engagement produced results in nearly 30% of cases. In contrast, seven players sold off their position when the engagement proved unsuccessful.

THE LINK BETWEEN CONTROVERSY AND ENGAGEMENT

Governance remains a central engagement theme, especially with regard to annual general meetings, as does the transparency of companies concerning their CSR practices. However, engagement seems to be initiated more and more in reaction to major controversy.

The collapse of the Rana Plaza textile factory in Bangladesh, resulting in the death of 1,100 employees in April 2013, led several players to put pressure on the textile and mass retail sectors.

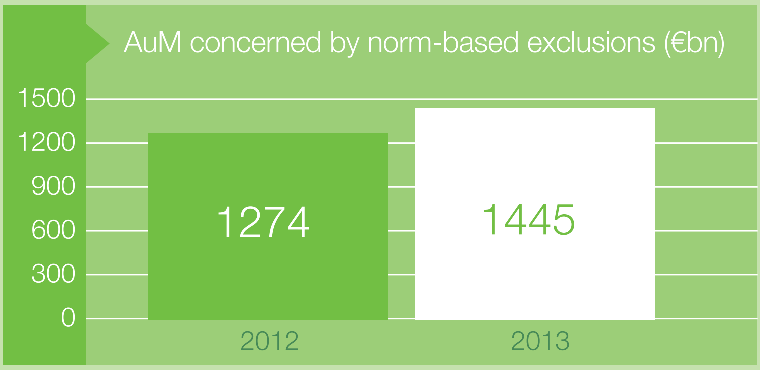
Exclusions

Besides the exclusions applied to SRI funds, some players are introducing exclusions concerning a large share of their assets.

NORM-BASED EXCLUSIONS

Norm-based exclusions consist in excluding issuers guilty of breaching internationally recognised standards and norms, including on human rights. By extension, some players are now excluding companies criticised for not respecting the principles of the Global Compact.

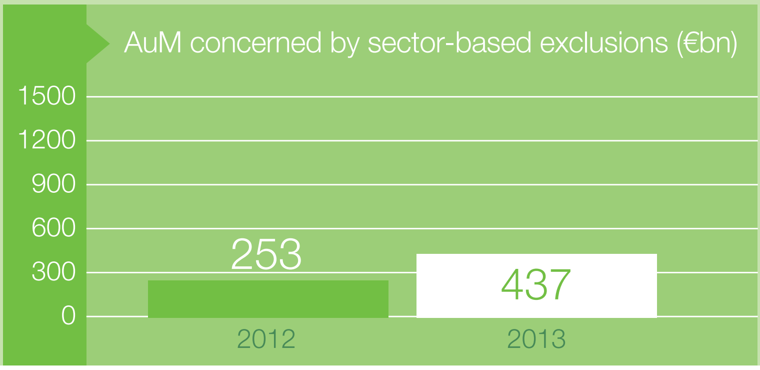
More and more investors are adopting this type of policy in France, with AuM increasing 13% between 2012 and 2013 to €1,445 billion.



SECTOR-BASED EXCLUSIONS

While excluding specific sectors or activities from all portfolios remains something of a rare practice in France, it rose sharply in 2013, up 73% in 2012.

Sector-based exclusions now apply to €437 billion AuM, with asbestos fibres, tobacco and weapons the three most excluded sectors.



METHODOLOGY: This survey presents the SRI assets held by French investors managed in France and internationally. Cross-cutting approaches (exclusions, engagement and ESG integration) are based on the assets of French players regardless of the nationality of their clients.

PANEL OF RESPONDENTS: 57 ASSET MANAGERS AND 8 ASSET OWNERS, 71% OF WHICH HAVE SIGNED THE PRI.

Asset owners: Agrica - BNP Paribas Cardif - Caisse des Dépôts - CNP Assurances - Établissement de Retraite Additionnelle de la Fonction Publique (ERAFP) - Fonds de Réserve pour les Retraites (FRR) – IRCANTEC – MAIF.

Asset managers: Agicam - Alcyone Finance - Allianz GI France – Amundi (données partielles) - Aviva Investors France - AXA IM - BNP Paribas IP – Candriam - CCR AM - Cedrus AM - CM-CIC AM – Comgest - CPR AM - Diamant Bleu Gestion - Ecofi Investissements - Edmond de Rothschild AM - Federal Finance Gestion - Fédéris Gestion d'Actifs - Financière de l'Echiquier - Fongepar Gestion Financière - Generali Investments Europe - Groupama AM - Groupe OFI - HSBC Global AM (France) - Humanis Gestion d'Actifs - ING IM - La Banque Postale AM - La Financière Responsable - La Française AM - Mandarine Gestion - Meeschaert AM - Metropole Gestion - Natixis AM et sa filiale Mirova - Neuflize OBC Investissements - Palatine AM - Petercam Institutional AM - Pictet AM - Pro BTP Finance - Quilvest Gestion - Robeco France - Roche-Brune AM - Rothschild & Cie Gestion Group - Sycomore AM - UBS Global AM - Vanguard AM.

Real estate-fund managers: A Plus Finance - AEW Europe - Allianz Real Estate France - Amundi Immobilier - BNP Paribas REIM - Corum AM - La Francaise REM - Perial AM - Primonial REIM – Sofidy - Viveris REIM.

2013 figures on responsible investment in France is an exclusive survey by Novethic, a research centre and the unique source of statistics on responsible investment in France. Find out more at www.novethic.com.