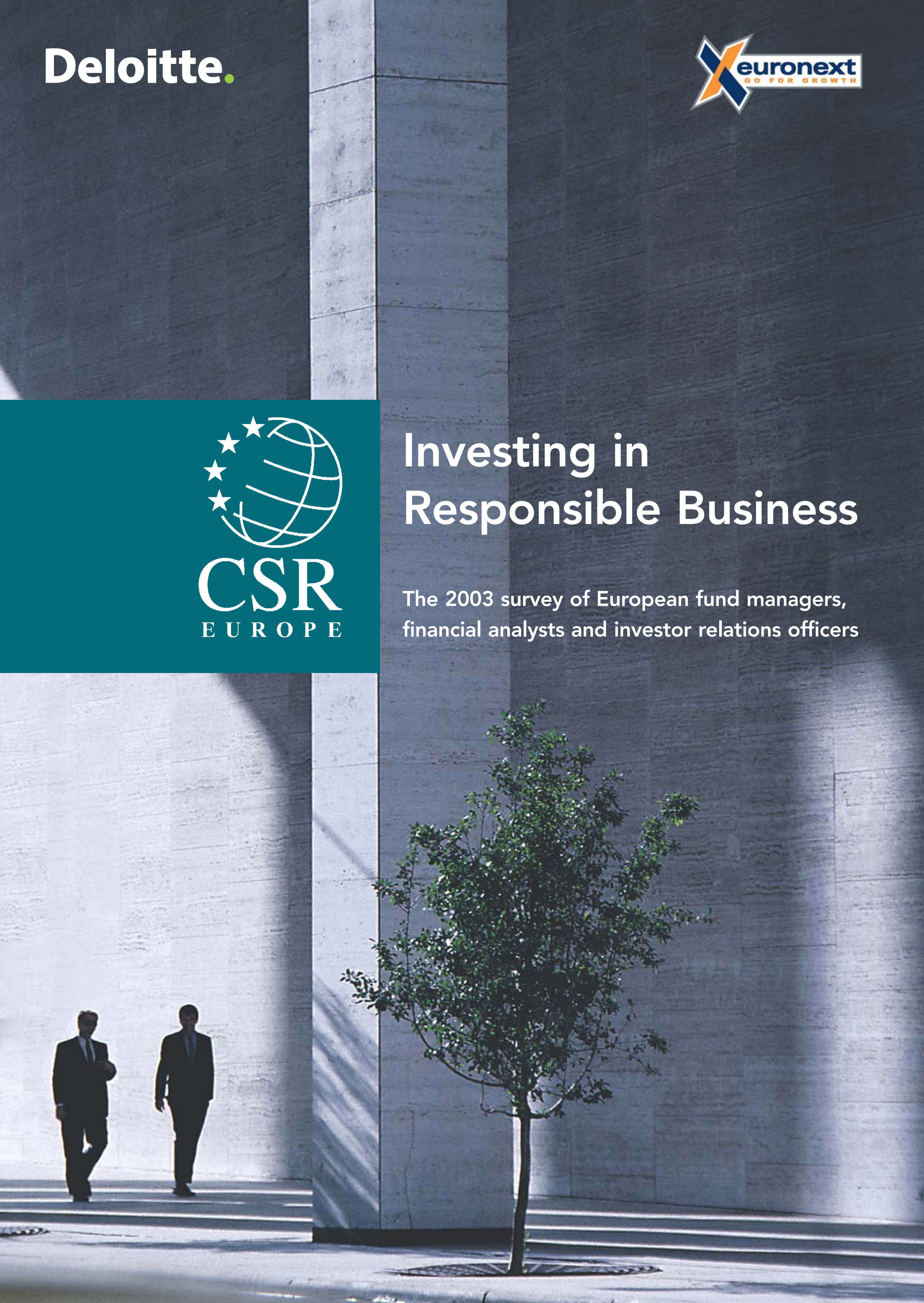

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CSR EUROPE

Investing in Responsible Business

The 2003 survey of European fund managers, financial analysts and investor relations officers

Investing in Responsible Business

The 2003 survey of European fund managers, financial analysts and investor relations officers

Report produced by:

CSR Europe, Deloitte, Euronext

With the support of:

Banca Intesa, Caisse des Dépôts et Consignations

Survey conducted by:

Taylor Nelson Sofres

Contents

Executive summary

This survey combines and builds upon two earlier streams of analysis on attitudes to socially responsible investment (SRI) among, first, fund managers and financial analysts ('analysts') in Europe (CSR Europe and Euronext, 2001) and then among fund managers in the UK (Deloitte, 2001 and 2002). The joint 2003 survey presents the first comprehensive European picture of how social and environmental performance informs decisions and attitudes both amongst mainstream fund managers/analysts and investor relations officers (IROs) in major companies.

To reflect the different type of SRI practice and level of understanding of the concept across Europe, this survey uses a broad definition of SRI[1]. On certain occasions, this may limit the analysis of the information; however, we believe that the results from the interviews allow this report to further clarify the practice of SRI in Europe and facilitate its definition for future debate. While interviewing fund managers/analysts, we have not asked them to distinguish between equity and debt investment.

Evolution and consistency from 2001 to 2003

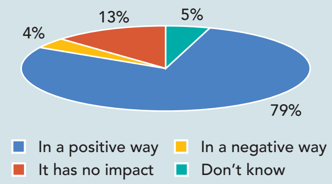
Interest in SRI has risen over the past two years according to 61% of fund managers and analysts, in line with expectations for growth expressed in the survey conducted by CSR Europe and Euronext in 2001. The European SRI retail market is currently estimated to be worth €12.2 billion[2], while the European SRI institutional market represents €336 billion[3].

Market forces are expected to drive the future development of SRI, while pressure groups are seen as less relevant. The relative importance of regulatory authorities as a driving factor has also declined.

For 79% of fund managers and analysts surveyed in 2003, the management of social and environmental risks has a positive impact on a company's market value in the long-term, but no impact in the short-term. These figures are comparable to the results of the 2001 survey. The view is echoed by IROs who believe that good social and environmental performance in the long term strongly influences a company's brand and reputation (69%), economic performance (46%), and market value (36%).

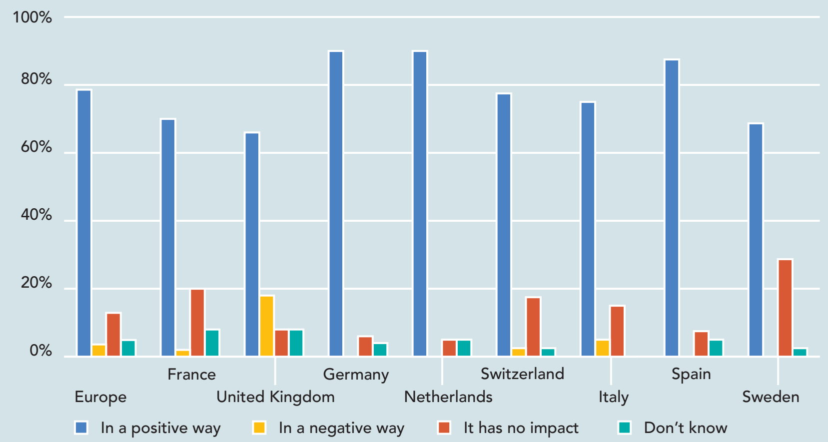
For 59% of fund managers and analysts, social and environmental reputation crises are an important or very important consideration when making investment decisions, indicating that corporate social responsibility (CSR) can become relevant in the short term when it impacts a company's reputation. This view is supported by 34% of IROs.

Does social and environmental risk management impact on a company's long term market value? *[Question to fund managers and analysts]*



Two years ago, fund managers revealed a higher degree of awareness of corporate social responsibility and socially responsible investment than analysts. In 2003, sell-side analysts differentiate themselves from both fund managers and buy-side analysts. Overall, sell-side analysts are more sceptical about the impact of non-financial risks on shareholder value, the growth of SRI and the potential for social and environmental criteria to become a significant aspect of mainstream investment decision-making (43% against 55% of fund managers/analysts). They are less likely to use information on companies' social and environmental performance than fund managers and buy-side analysts.

Does social and environmental risk management impact on a company's long term market value? *[Question to fund managers and analysts]*



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[1] Please refer to the terminology section of this report on page 7.

[2] By SiRi Group and Avanzi SRI, further details on page 9 of this report.

[3] By Eurosif, further details on page 9 of this report.

SRI: niche or mainstream?

Sixty-nine percent of fund managers and financial analysts believe that the SRI market will continue to grow at a similar rate over the next two years. Interest in SRI products is especially increasing in Italy, Spain and France, which may contribute to closing the gap with more developed markets such as the UK, the Netherlands and Switzerland.

Despite this on-going growth, fund managers and analysts believe that the market for products with strong values-based SRI characteristics is likely to remain a niche market (71%). It is thought that growth in the market for SRI products will come mainly from existing offerings: 46% of the interviewees' organisations provide SRI products in 2003 (compared to 33% in 2001). Planned product launches (7.5%) have halved in the last two years, and 32% do not plan any product development in this area.

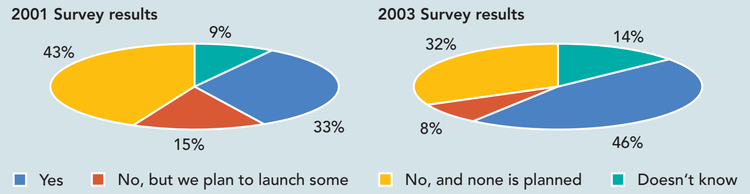
Of the 388 fund managers and analysts who responded to the survey, 183 were working in organisations that offered some kind of SRI service. Only 46 agreed to share further details on their operational approach.

Amongst the SRI methodologies used by these fund managers and analysts, negative and positive screening methodologies are the most widely used, although a commitment to engagement and shareholder activism is becoming more widespread. About half of them use a combination of at least three methodologies.

Valuing responsibility

The financial community sees a clear link between non-financial risks and shareholder value. Investor relations officers are nearly unanimous on this point (89%), while fund managers and analysts are marginally more cautious (76%). Fund managers and analysts systematically take issues such as the ability to innovate (65%), corporate governance and risk management (54%), and the management of customer relations (49%) into account. Human resources management is ranked lower in importance by both fund managers/analysts and IROs. Environmental impact and supply chain management are considered to be the most relevant areas 'for some sectors or companies'.

Is your company offering SRI products or services? *[Question to fund managers and analysts]*



However, 52% of fund managers/ analysts and 47% of IROs believe that social and environmental considerations will become a significant aspect of mainstream investment decisions in the next two years. This will not come without some challenges though: the extent of growth could be affected by a variety of drivers and obstacles, including the requirements of national capital markets and the ability to develop sound analytical tools and better communication channels for CSR performance.

Respondents are not in agreement on whether they grant demonstrably responsible companies a premium in their investment decisions: slightly more than half claim that this is not the case, while 40% agree that they grant a premium to companies with a good CSR performance.

There are significant national differences in this area: only 22% of fund managers/ analysts in the UK and 26% in Sweden grant a premium to responsible companies, while 57% of Spanish and 50% of Dutch and Italian fund managers/analysts do.

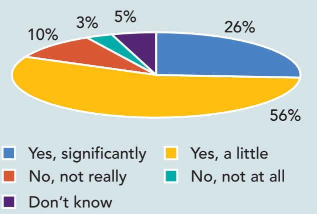
Interviews reveal that the actual premium is more of an indicator that reinforces feelings about a company. It seems that engagement in CSR can be used as a proxy for the quality of management, but it will never compensate for poor results. Poor social and environmental practices, on the other hand, are likely to trigger suspicion and numerous questions.

Interactions between companies, fund managers and analysts

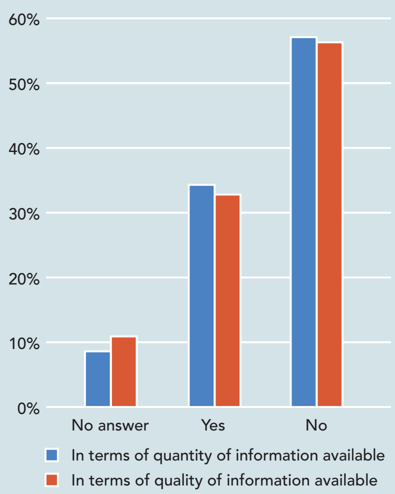
Written information from companies themselves continue to be the main direct source of information on which investment decisions are based. Specialist external information and dialogue with companies rank second and third, yet 43% of IROs indicate that they rarely receive oral or written requests on social and environmental performance from traditional mainstream fund managers and analysts. Requests come mostly from SRI analysts working for screened funds or rating agencies, and active asset managers with a strong focus on social and environmental performance. IROs, specialist CSR departments, and corporate communications departments are the main contacts for this information. Almost all IROs (96%) identify a trend of increasing dialogue on social and environmental issues with their shareholders, and 79% describe this dialogue as being positive.

Fifty-six percent of fund managers and analysts feel that companies' communication practices have improved over the past two years. But the majority still think that corporate reporting and communication remains unsatisfactory. In terms of quality, 56% are dissatisfied with the current information. Italy, Spain and the Netherlands are the least satisfied at 65%, while the UK is an exception with more respondents satisfied (44%) than dissatisfied (38%).

Do you think that companies' communication practices on social and environmental performance have improved over the last two years? *[Question to fund managers and analysts]*



Would you say that corporate reporting and communication on social and environmental performance is satisfactory today? *[Question to fund managers and analysts]*



Pressure for improved disclosure is expected to increase from all stakeholders. In particular, 85% of IROs believe that the next three years will see more legal requirements imposed on companies for reporting. At the same time, 95% are convinced that companies will voluntarily integrate better social and environmental practices into their way of doing business.

A consensus is emerging among fund managers and analysts (69%) and IROs (70%) that third-party assurance could be instrumental in improving the credibility and reliability of corporate information.

Conclusion

Socially responsible investment seems to be on a growth trajectory in Europe, even if the survey confirms the existence of significant differences in the level of development and perceptions of SRI across European countries.

As fund managers, analysts and IROs recognise strong connections between the management of non-financial risks and long-term shareholder value, there are significant indications suggesting the potential for SRI to be further integrated in mainstream financial analysis and investment decisions. Positive signs include the fact that fund managers and analysts' answers in 2003 reveal a more thorough understanding of issues related to CSR and SRI, and their potential relevance to their work than in 2001.

In the past few years, the financial community has made a valuable contribution to a better understanding of the link between sustainable development challenges and business risks and performance. Looking forward, some exciting and challenging work is required to further establish SRI's credentials by consistently demonstrating the value it can add to the financial community and corporates – and ultimately society at large.

Survey highlights: outlook for the next two to three years

- According to 69% of fund managers and analysts, the SRI market will continue to grow over the next two years. Seventy-one percent believe that the market for products with strong value-based SRI characteristics is likely to remain a niche market.
- 52% of fund managers/analysts and 47% of IROs believe that social and environmental considerations will become a significant aspect of mainstream investment decisions in the next two years.
- 96% of IROs think that dialogue with shareholders on social and environmental issues is increasing.
- 95% of IROs strongly feel that companies will voluntarily integrate better social and environmental practices in their way of doing business.
- 85% of IROs are also convinced that the next three years will see more legal requirements imposed on companies for social and environmental reporting.
- Social and environmental practices in the developing world is perceived as a "hot" new area of non-financial risks, for which scrutiny is likely to increase by both fund managers/analysts and IROs.
- A consensus is emerging among fund managers and analysts (69%) and IROs (70%) that third-party assurance is instrumental in improving the credibility and reliability of corporate information.

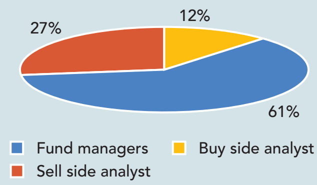
Methodology

Survey of mainstream fund managers and financial analysts

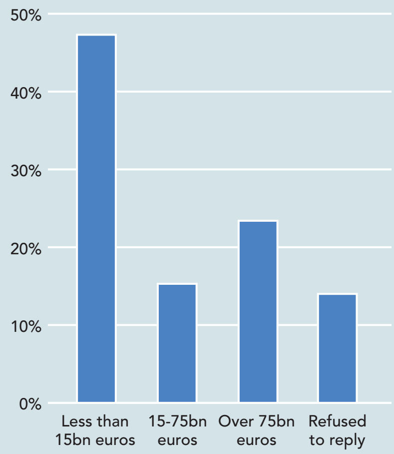
The survey was conducted by TN Sofres using a judgement sample[4] of 388 mainstream fund managers and financial analysts (including both sell-side and buy-side analysts) across nine European countries (Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, and United Kingdom). Interviews took place over the phone in five languages in July and August 2003.

In order to offer a representative picture of practices and perceptions, the sample was selected according to the kind of organisations, as well as assets under management. This selection process ensured to include a certain number of large institutions. Nineteen percent indicated that their organisation manages assets in excess of €150 billion. It is worth noting that information related to assets under management provided by respondents has to be interpreted with caution because of its volatility to stock market movements.

Interviewees activities



European fund managers and analysts' organisations assets under management



Survey of investor relations officers (IROs)

In order to understand the subject from a company's point of view, interviews were also conducted by TN Sofres in English and French with 80 investor relations officers of 80 companies ranked within the Financial Times list of Europe's 500 largest market capitalisation[5]. The number of interviewees per country reflects the proportion of companies per country in the list. 31% were based in the UK, 19% in France, 13% in Germany, 9% in Italy, 8% in Switzerland, 6% in both Spain and the Netherlands, 4% in Portugal, 2% in both Sweden and Belgium.

Interviewees' companies represent a total market value and also a turnover of more than €1,000 billion.

To refine the analysis further, 14 interviews were conducted amongst CSR and SRI experts, investor relations officers and fund managers from various countries, in particular France and the UK.

It is important to note that interviewees were provided with a definition of socially responsible investment only when they indicated that they needed one. The survey therefore measures perceptions of SRI as it is currently understood by the financial community. Many questions were formulated so as not to refer to the term SRI itself.

Business sectors represented in the IROs sample

	Number of interviewees
Financial services	14
Consumer business	11
Utilities	9
Construction & materials	5
Telecom	5
Oil & Gas	4
Others	32

4 This ensures a minimum number of interviews for a given population, which in turn allows the analysis of that population's answers. This method produces a reliable result for the whole sample (thanks to a subsequent weighting) and also allows detailed analysis by sub-population.

5 As of 23rd May 2003.

Terminology

Provided below is some guidance as to how certain terms and abbreviations are used in this survey.

Corporate social responsibility (CSR)

How a company manages and improves its social and environmental impact to generate value for both its shareholders and stakeholders by innovating its strategy, organisation and operations.

Socially responsible investment (SRI)

In a broad sense, the term SRI is used to describe investment decisions informed by corporate social responsibility considerations. Socially Responsible Investment (SRI) combines investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues.

There are four main approaches to taking into considerations corporate CSR practices and performance that are currently used by socially responsible investors, either separately or in combination:

Negative screening

The exclusion of certain companies or industry sectors from investment portfolios on the basis of their profile against various social, environmental and ethical criteria.

Examples

- Armaments, firearms and military contracting.
- Nuclear power.
- Tobacco.

Positive screening

The building of investment portfolios from companies that have been actively selected on the basis of their strong performance on social, environmental or ethical issues.

Examples

- Environmental policy, codes, management systems.
- Respect for human rights, working conditions.

Engagement

The use by investors of robust dialogue with the boards or other management of companies with the aim of altering corporate behaviour in relation to social, environmental or ethical issues.

Examples

Discussions on risks related to:

- Lack of policy on climate change.
- Activities in Burma.
- Pricing of medicines in developing countries.

Shareholder activism

The exercise of shareholder powers through general protest voting at annual general meetings or the support of SRI-related shareholder resolutions. Shareholder activism can be considered as one of the forms of engagement.

Examples

- Voting against resolutions to adopt companies' report and accounts if they do not report on their environmental performance.

1. Evolution of the SRI market

1.1 The past two years

Sixty-one percent of fund managers and financial analysts ('analysts') think that interest in SRI has risen over the past two years (42% a little, 19% significantly). This increase neatly matches the expectations for growth expressed in the survey conducted by CSR Europe and Euronext in 2001.

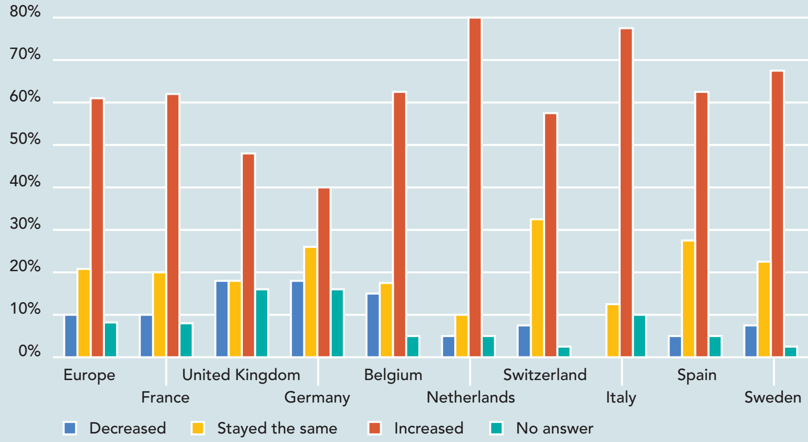
The level of interest in SRI products is equally strong for pension funds, other institutional investors and retail markets.

The evolution of interest across Europe varies. The highest increases were experienced in the Netherlands (80%) and Italy (77%). Switzerland, Sweden, France and Belgium experienced medium growth of between 57% and 67%. Growth was lowest in the UK (48%) and Germany (40%).

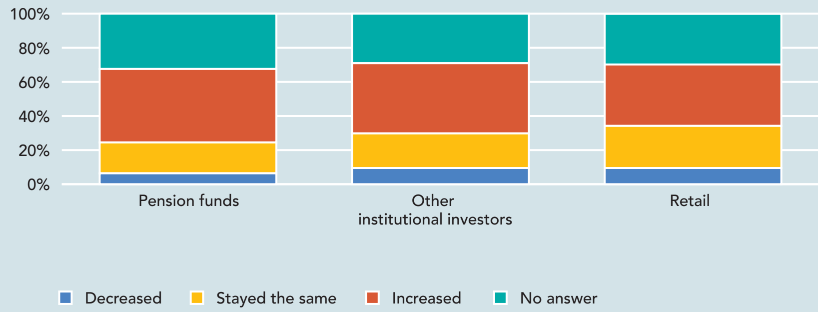
Results of the 2001 survey revealed that countries such as Italy, Spain and to some extent France were lagging behind northern European countries. There now seems to be more even spread of interest in SRI products.

In 2001, fund managers were more familiar with SRI than financial analysts. The 2003 survey reveals a new level of appreciation for SRI among buy-side financial analysts, whose perceptions seem to have evolved in the last two years as social and environmental performance is becoming more relevant to their work. Sell-side analysts, however, remain more sceptical.

Graph 1.1-1 According to your knowledge and observation, how has the level of interest in socially responsible investment changed over the last two years? *[Question to fund managers and analysts]*



Graph 1.1-2 How has the level of interest in SRI evolved amongst your clients in the last two years? *[Question to fund managers and analysts]*



Size of the SRI retail and institutional market across Europe

Retail market

The UK market makes up the majority of the assets, with nearly 32% of the total European SRI retail assets (June 2003). It is followed by the Netherlands, Belgium and Switzerland.

Italy has become the most dynamic retail market in terms of product development, with 2l SRI products in June 2003, up from only 10 at the end of 2001. The SRI retail market in Spain is still at a very early stage of development (with only €43 million of assets under management as of June 2003).

Another indication of the growth of markets in Switzerland and Belgium compared to Spain, Italy or France is the fact that the Belgian and Swiss SRI markets represent 1.67% and 1.6% of total assets under management in their country respectively, well above the European average (0.36%).

Total SRI assets amounted to €12.2 billion at the end of the second quarter 2003 (this figure covers Austria, Belgium, Finland France, Germany, Ireland, Italy, Norway, Poland, Spain, Sweden, Switzerland, the Netherlands, and the United Kingdom).

(Source: 'Green, social and ethical funds in Europe 2003', SiRi Group and Avanzi SRI research, September 2003. Available on www.sricompass.org)

Institutional market

Using a broad definition of SRI that includes engagement and single criteria exclusions, it appears that the Netherlands and the UK are clearly the leading markets in Europe with €181.1 billion and €145.11 billion under management respectively. However, if one eliminates single criteria exclusions in the Netherlands, assets amount to only €3 billion. In the UK, if one doesn't take engagement into account, assets under management amount to €27.55 billion.

Levels of investment in other countries are less significant: €3 billion in Germany and Switzerland, €2.08 billion in France, €0.24 billion in Italy and €0.08 billion in Spain.

Total SRI assets for France, Germany, the Netherlands, the United Kingdom, Spain, Switzerland and Germany therefore stand at €336 billion.

(Source: Eurosif in cooperation with national social investment forums, www.eurosif.org)

Selected events which influenced the development of SRI and CSR over the past three years

2000

UK
- SRI Pensions Disclosure Regulation, under the 1995 Pensions Act, comes into force.

2001

Belgium
- Regulation requiring pension institutions to report on how social and environmental aspects are taken into account is introduced.

France
- Employee Savings Plans' annual reports disclose how social, environmental or ethical considerations are taken into account.
- Law indicates that pension reserve fund takes into account social, environmental and ethical considerations.
- New economic regulations law introduces extra financial reporting and disclosure provisions for listed companies.

Germany
- Pension reform legislation enters into force. Certified private and occupational pension schemes will have to report whether ethical, ecological and social aspects are taken into account.

UK
- Myners Review of Institutional Investment advocates shareholder activism.
- The Association of British Insurers publishes new SRI guidelines for companies asking them to report on social, environmental and ethical risks relevant to their business activities.

Sweden
- State-controlled pension funds have to include environment and ethics in their investment policy and report to the government annually.

EU
- European Commission Green Paper on 'Promoting a European framework for CSR' is published.
- Launch of www.sricompass.org and Eurosif (European Sustainable and Responsible Investment Forum).

International
- Advanced Sustainability Performance Index (ASPI) indices are launched.
- FTSE4GOOD indices are launched.

2002

France
- Creation of the 'comité intersyndical de l'épargne salariale' by four trade unions to award socially responsible labels to employee savings plans.

EU
- European Commission communication "Corporate social responsibility: a business contribution to sustainable development" is published.
- Creation of the European Multi-Stakeholder Forum on Corporate Social Responsibility.

USA
- Sarbanes-Oxley Act becomes law.

International
- Ethibel sustainability index launched.
- New Global Reporting Initiative (GRI) guidelines released.
- World Summit on Sustainable Development in Johannesburg includes the launch of the "London Principles" of sustainable finance.

2003

UK
- Government announces plans for reforming company law, including the implementation of the proposal for a statutory Operating and Financial Review (OFR) for large companies. It will allow a greater disclosure of non-financial performance.

EU
- Communication from the European Commission on "Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to move forward" (Action Plan) is published.

USA
- Nike vs Kasky lawsuit surrounding a company's right to commercial speech is settled.

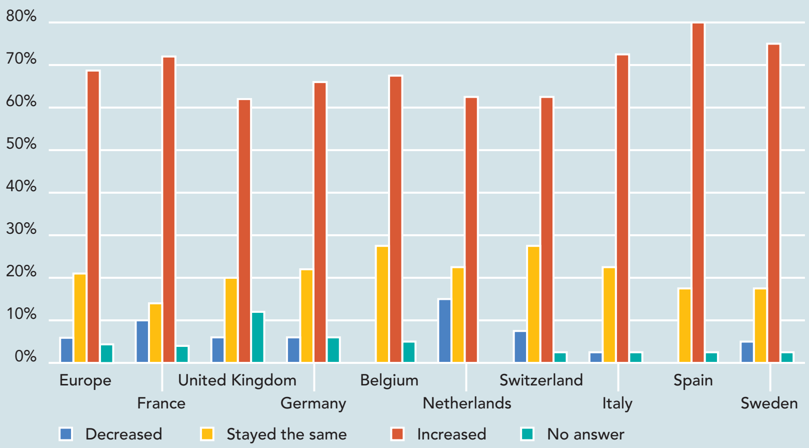
International
- The Carbon Disclosure Project is launched to advocate corporate disclosure of investment-relevant information concerning greenhouse gas emissions.
- AA1000 Assurance Standard is launched.

1.2 The future

Sixty-nine percent of fund managers and analysts believe that interest in SRI will continue to grow over the next two years, with similar proportions of interest from pension funds, other investment institutions and retail investors. Sell-side analysts are less convinced of the potential for growth of SRI: 28% of sell-side analysts believe that the interest for SRI will remain the same over the next years, compared to 19% of fund managers and buy-side analysts.

Significant increases are expected in Spain, Sweden, Italy and France. Growth will be more limited in the Netherlands, the UK, and Switzerland where the market for SRI is already more developed. It is important to remember that the growth percentages also need to be weighted with the current size of assets: a high percentage in a country where the market for SRI is less developed may still represent relatively small asset value, while a small percentage in a country where the SRI market is already more developed may be significant in terms of assets.

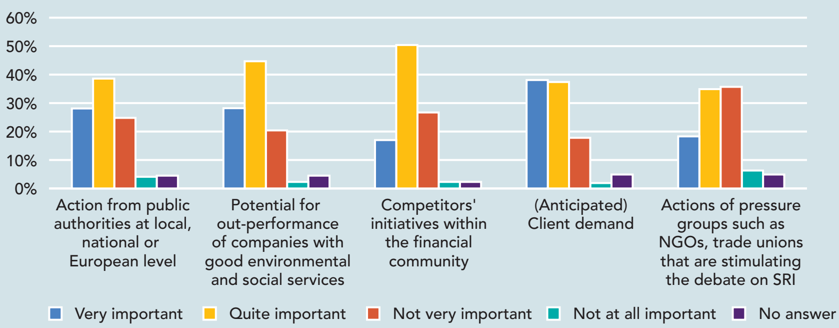
Graph 1.2-1 How do you expect the level of interest to change over the next two years? *[Question to fund managers and analysts]*



1.3 Market drivers

The main drivers for the development of SRI products and services are market factors. 76% of fund managers and analysts believe that client demand is an important factor here, with 38% identifying it as very important. The potential for out-performance from a company with a good environmental and social record is also a strong factor for 73% of fund managers and analysts. Pressure groups are ranked as the least important factor in driving the growth of the SRI market: while their role has been significant in drawing attention to specific environmental and social issues and initiating a debate, these groups do not seem to figure as an important long-term driver for the development of the SRI market. The influence of public authorities is considered less significant now than in 2001.

Graph 1.3-1 Please tell me how important you find each of the following factors that drive the development of SRI products and services? *[Question to fund managers and analysts]*



1.4 Approaches and methodologies

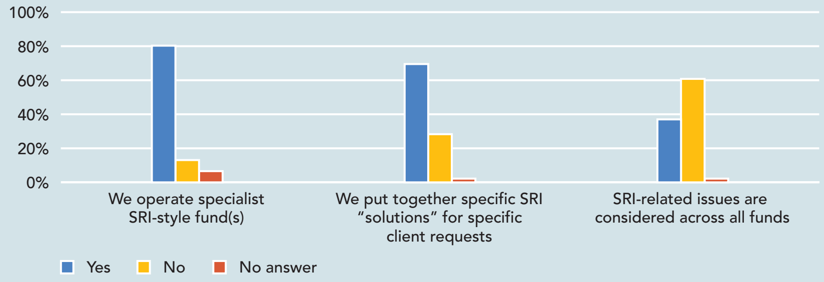
Of the 388 fund managers and analysts who responded to the survey, 183 were working in organisations that offered some kind of SRI service and only 46 agreed to share further details on their operational approach.

Out of these 46 respondents, over 80% run specialist SRI funds and two-thirds develop SRI solutions for specific clients. Nearly 40% incorporate SRI analysis into investment decisions for all of their funds.

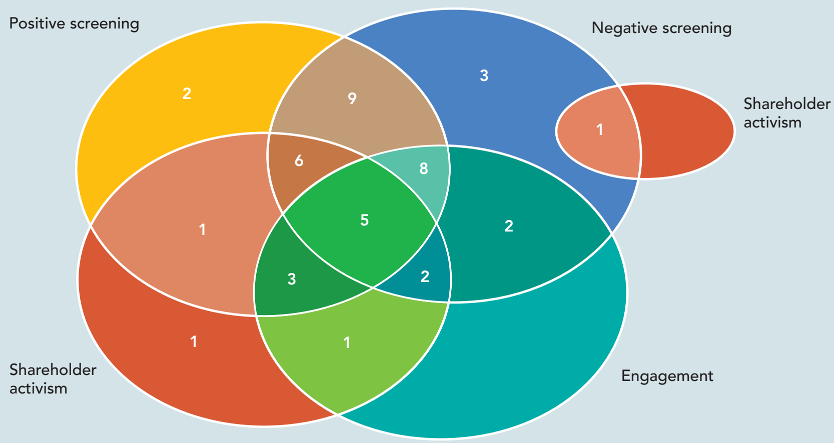
Responses indicate that fund managers still rely mainly on negative and positive screening (83% and 78% respectively), although a commitment to engagement and shareholder activism is becoming more widespread (52% and 42% respectively).

Engagement and shareholder activism are rarely used in isolation though: about half of the respondents use a combination of at least three different approaches, which indicates a significant resource commitment and a growing sophistication of methodologies.

Graph 1.4-1 How is SRI addressed within the organisation? *[Question to fund managers and analysts]*

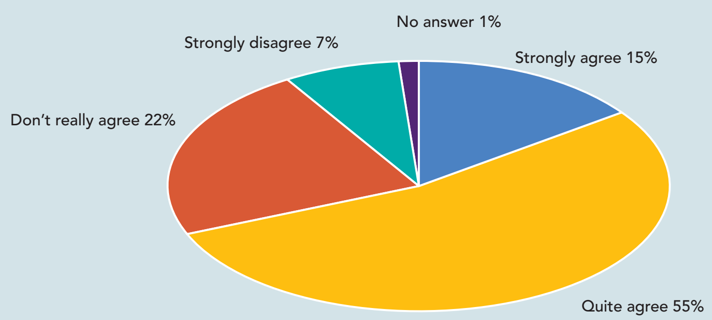


Graph 1.4-2 Which techniques are used within your SRI approach? *[Question to fund managers and analysts]*



This graph presents the number of organisations using a certain combination of SRI techniques to deliver their SRI services.

Graph 1.4-3 Will investors become significantly more active in exercising their voting rights in relation to social, environmental and ethical issues in the next three years? *[Question to fund managers and analysts]*



1.5 SRI: niche or mainstream?

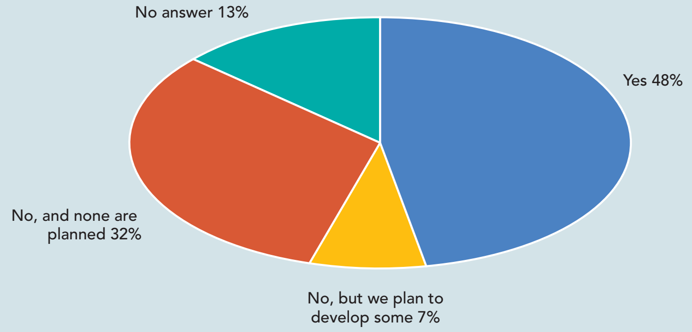
Growth in the market for SRI products will come mainly from existing offerings. Forty-seven percent of the 388 respondents come from an organisation that already provide SRI products, and an additional 8% plan to develop these in the future (32% do not plan any product development in this area). This is a clear progression from 2001, when only 33% of those surveyed were offering SRI products (with an additional 15% planning to develop them).

Italy is the country with the strongest commitment to developing new products (18%), while Germany (10%), France (10%) and Spain (8%) are less prepared to do so.

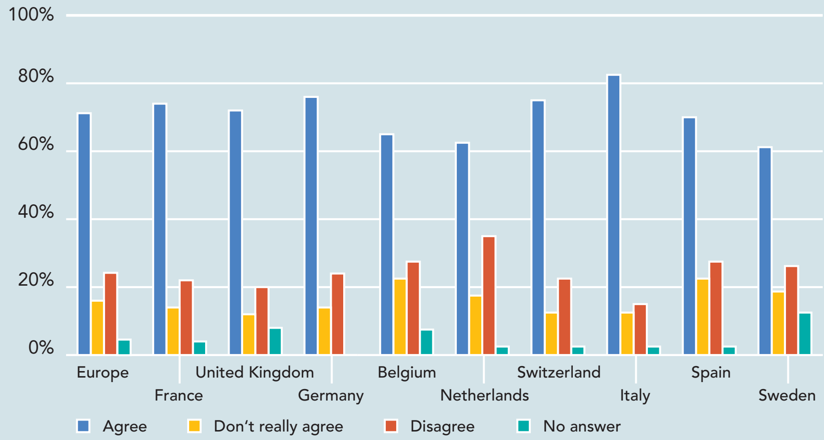
The responses from fund managers and analysts indicate two directions for the future of SRI, which are currently running parallel to each other.

The first of these foresees the market for SRI specialist funds remaining a niche market catering to the needs of investors whose investment preferences reflect specific values. This view is most strongly supported by Italian fund managers and analysts (83% compared to the European average of 71%) and reflects the Italian tradition of ethical banking and the history of using criteria aimed primarily at Catholic investors.

Graph 1.5-1 Does your company offer any SRI product(s) and/or service(s)? *[Question to fund managers and analysts]*



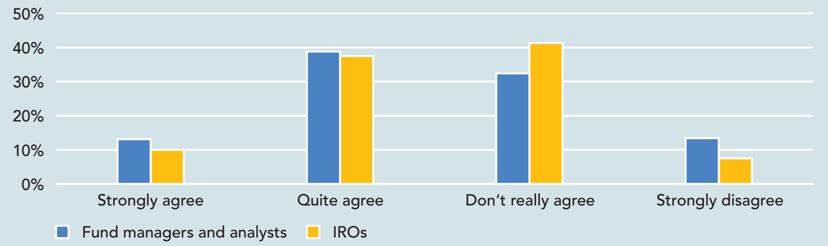
Graph 1.5-2 SRI will remain a niche segment of the market, catering for a minority of investors with particular "ethical" values, through relatively small specialist funds *[Question to fund managers and analysts]*



> ***SRI as a 'label' could represent a market niche. At the same time, what seems to be appearing, and is illustrated by some of the survey results, is that SRI criteria could progressively be used in a complementary approach for asset allocation together with other criteria – such as top/down and bottom/up approach and growth or value criteria – used by fund managers.***
>
> ***Geneviève Férone, President, CoreRatings***

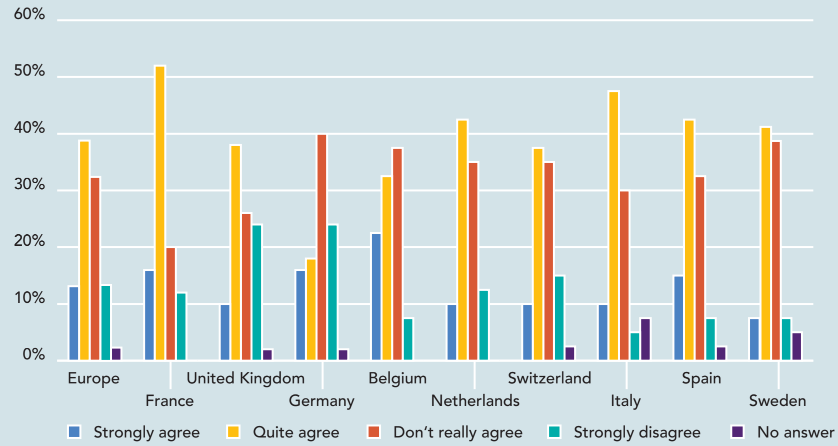
The second – only recently emerging – trend sees social and environmental considerations becoming a significant aspect of mainstream investment decisions within the next three years. This view is supported by more than half of fund managers and analysts and 47% of IROs. However, it should be noted that a substantial number of interviewees do not expect such trend.

Graph 1.5-3 Consideration of social and environmental issues will become a significantly important aspect of mainstream investment decision-making within three years? *[Question to fund managers and analysts and IROs]*



Fund managers and buy-side analysts are more confident about this trend (55%), while sell-side analysts are less convinced (43%). Belgian fund managers and analysts are particularly positive about this trend (23% strongly agree, compared to the European average of 13%), while respondents from the UK and Germany are more sceptical of this happening (24% strongly disagree, compared to the European average of 13%).

Graph 1.5-4 Consideration of social and environmental issues will become a significantly important aspect of mainstream investment decision-making within three years? *[Question to fund managers and analysts]*



Results confirm the potential for SRI analysis to become integrated into the mainstream market over the next three years, especially due to its value in understanding risk management.

This second direction – integrating SRI analysis into mainstream investment decision making – yields the most potential for the growth of the SRI market. However, the extent of growth could be affected by a variety of drivers and obstacles, including the national structure of national capital markets and the ability to develop sound analytical tools and better communication channels for CSR performance.

> “*The main element shaping the future of institutional SRI is how sustainability issues can successfully be integrated into long-term financial management of public funds. The strength of debates on corporate governance, transparency and disclosure suggests that to a large extent, Social, Ethical and Environmental (SEE) criteria might become a mainstream analysis factor for the financial markets in the years to come.*”

Matt Christensen, Executive Director, Eurosif

2. Valuing responsibility

2.1 Relevance of non-financial risks to the shareholder value

The financial community sees a clear link between non-financial risks and shareholder value. Investor relations officers are nearly unanimous with 89% agreeing on this issue, while fund managers and analysts are marginally more cautious (76%). However, 15% of those interviewed did not see any link between the two.

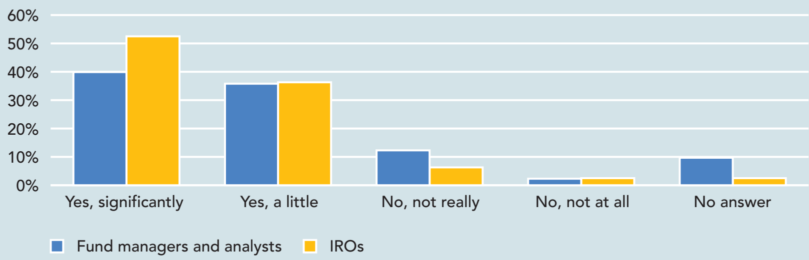
The survey also asked interviewees to define the relative value of the constituents of these non-financial risks. Results show that fund managers and analysts systematically take into account the ability to innovate (65%), corporate governance and risk management (54%), and the management of customer relations (49%). Human resources management is ranked rather as a low factor in investment decisions by fund managers, analysts and IROs.

Environmental impact management and supply chain management are both among those areas considered relevant 'for some sectors or companies', and are ranked highly by both fund managers and analysts and IROs. This reflects the need for a sector-specific approach in terms of both the company's communication methods and investor analysis.

IROs differ slightly from fund managers and analysts in prioritising non-financial risks: they attach most importance to corporate governance and risk management, whereas fund managers and analysts rank the ability to innovate above those.

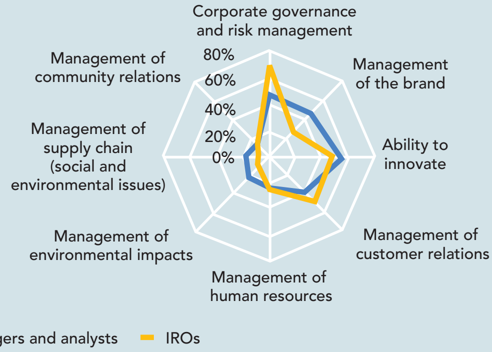
This overall ranking of non-financial risks may also reflect current availability and robustness of techniques used to measure the value of such non-financial risk (hence the low ranking for human resources).

Graph 2.1-1 In your opinion, do intangible assets contribute to shareholder value?
[Question to fund managers and analysts and IROs]

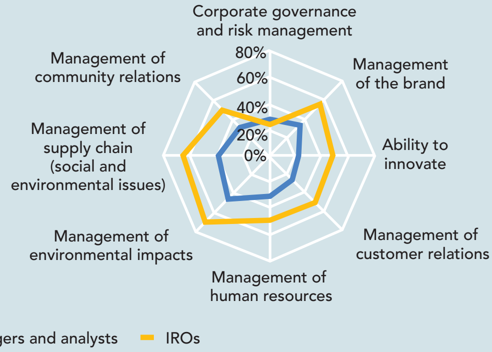


Graph 2.1-2 Which topic is taken into account when making an investment recommendation?
[Question to fund managers and analysts and IROs]

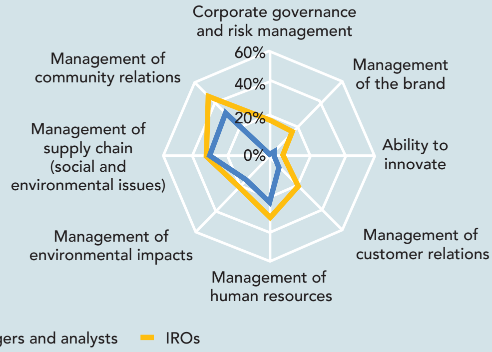
Option 1: Yes, systematically



Option 2: Yes, for some sectors or companies



Option 3: No, not at all



Looking at some of the new areas of non-financial risks, the survey also asked whether the financial community will increasingly investigate companies' social and environmental practices in economically developing and emerging countries over the coming three years. More than three-quarters of IROs and fund managers/analysts predict that this development will take place – fund managers and analysts were especially convinced on this point, with 28% strongly agreeing (compared to 21% of IROs).

"Sustainable development is indivisible: achieving it is as much an imperative for developing countries as for the developed world. The Global Reporting Initiative believes that globalisation and transparency can be forces for good. Multinational companies are placing more emphasis on their operations in developing countries because they can now be held accountable everywhere. But companies from countries such as Brazil, South Africa or India are becoming global players and want to show their achievements as responsible businesses by demonstrating a strong interest in using the globally accepted GRI sustainability guidelines to report on their economic, social and environmental performance."

Paul Hohnen, Director Strategic Development, Global Reporting Inititative

2.2 Potential premium for demonstrable CSR performance

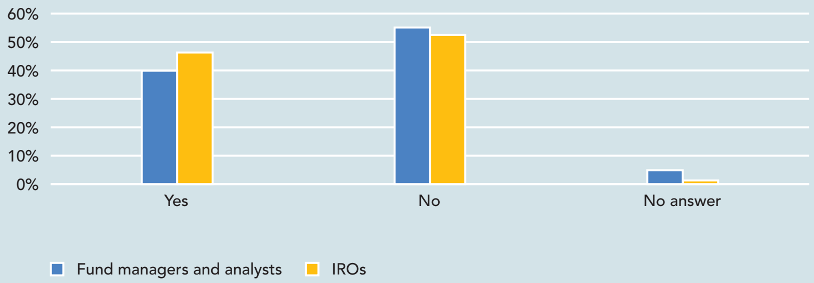
Respondents are not in agreement on whether they grant demonstrably responsible companies a premium in their investment decisions: slightly more than half claim that this is not the case, while 40% agree that they grant a premium to companies with a good CSR performance.

There are significant national differences in this area: only 22% of fund managers and analysts in the UK and 26% in Sweden grant a premium to responsible companies, while 57% of Spanish and 50% of Dutch and Italian fund managers/analysts do.

The responses may be representative of an evolution in the perception of the value of SRI, which could be attributed to the improvement in the quality of the CSR information disclosed and in the methodology of analysis and screening.

The interviews revealed that one still needs to be careful when assessing the "materialisation" of such a premium. It seems to remain itself an intangible, more of a 'gut feeling' that is added on to a financial evaluation and linked to management quality. Good CSR practices seem to be used as a proxy of good quality of management by fund managers and analysts if company results are satisfactory – but it cannot compensate for poor results.

Graph 2.2-1 Do you think that investors grant a premium to companies that are, demonstrably, environmentally and socially responsible? *[Question to fund managers and analysts and IROs]*



The absence of a sound CSR record, on the other hand, can also be a drawback for fund managers and analysts if a company exhibits specific risk characteristics. Here, the absence of social and environmental policies can trigger suspicion and questions, which may lead to the company being marked down or even ruled out for investment.

"As the institutional investors' spotlight starts to illuminate the material social and environmental risks faced by some companies, the premium for good risk management is likely to increase."

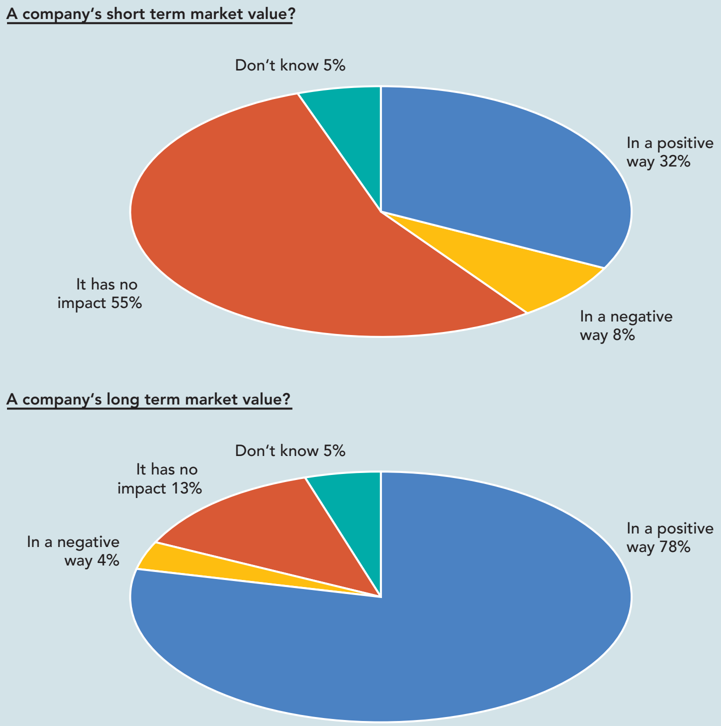
Helen Wildsmith, Executive Director, UK Social Investment Forum

2.3 Value of CSR practices on companies' performance

For 79% of fund managers and analysts, the management of social and environmental risks has a positive impact on a company's market value in the long term. However, 50% of fund managers and analysts believe that managing social and environmental risks has little effect on market value in the short term (these responses are very similar to the 2001 results).

The fact that 33% of respondents still identified an impact on short term performance may reflect the constructive role that sound CSR management practices can play within the overall management of a crisis, especially in the business-to-consumer industry sectors.

Graph 2.3-1 Based on your experience, how does social and environmental risk management impact on? *[Question to fund managers and analysts]*



> ***The survey definitely shows that the status quo is changing. The results reflect a growing mainstream view that SRI is no longer a niche market serving mainly ethical investment needs. All investors are concerned about corporate opacity, greater regulation of industry and minimising risks. As research uncovers more evidence of the link between environmental/social factors and management quality and investment return, SRI is clearly gaining wider acceptance.***

Andy White, Director of Research, Innovest Strategic Value Advisors

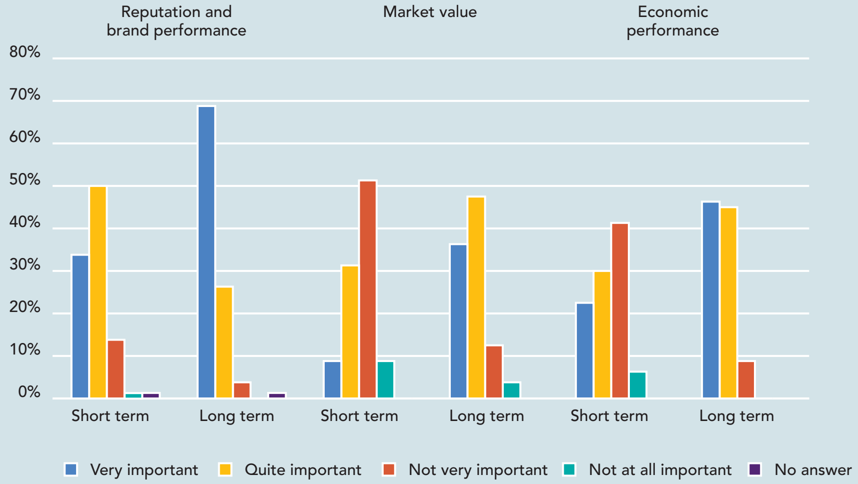
This is also reflected in IROs' views on the short and long term impact of sound CSR management practice on the company's performance. Investor relations officers identify a clear link between good social and environmental performance and a company's brand and reputation both in the short term (83%) and in the long term (96%). The short term element is further emphasised when a company is experiencing a social and environmental reputation crisis: 59% take such crises into account when making investment decisions with 20% considering it very important.

IROs are equally convinced of the long term effects of environmental and social responsibility on the market value and the economic performance of their companies, although they are more doubtful about any impact in the short term.

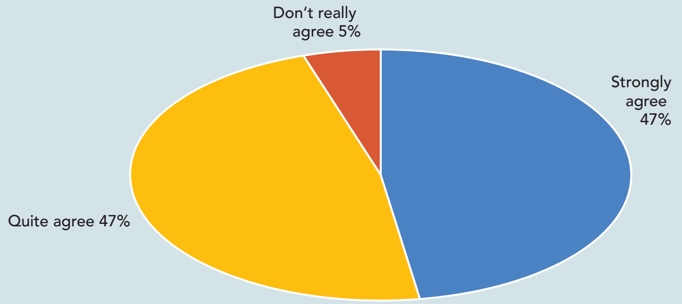
Almost all IROs (95%) strongly believe that companies will voluntarily integrate better social and environmental practices in their way of doing business over the coming three years. This resonates with the many studies highlighting the business case for the implementation and integration of CSR management practices within businesses.

The survey clearly indicates that CSR issues need to be considered as a long term strategy rather than as a quick-fix public relations solution to be valuable to fund managers and analysts.

Graph 2.3-2 From your experience, how important is good social and environmental performance to a company's performance? *[Question to IROs]*



Graph 2.3-3 In the next three years, will companies voluntarily integrate better social and environmental practices in their way of doing business? *[Question to IROs]*



3. Interactions between companies, fund managers and analysts

3.1 Information sources

Fund managers and analysts identify written information provided by companies as their main source for CSR performance (49%), while external specialist information ranked second (42%).

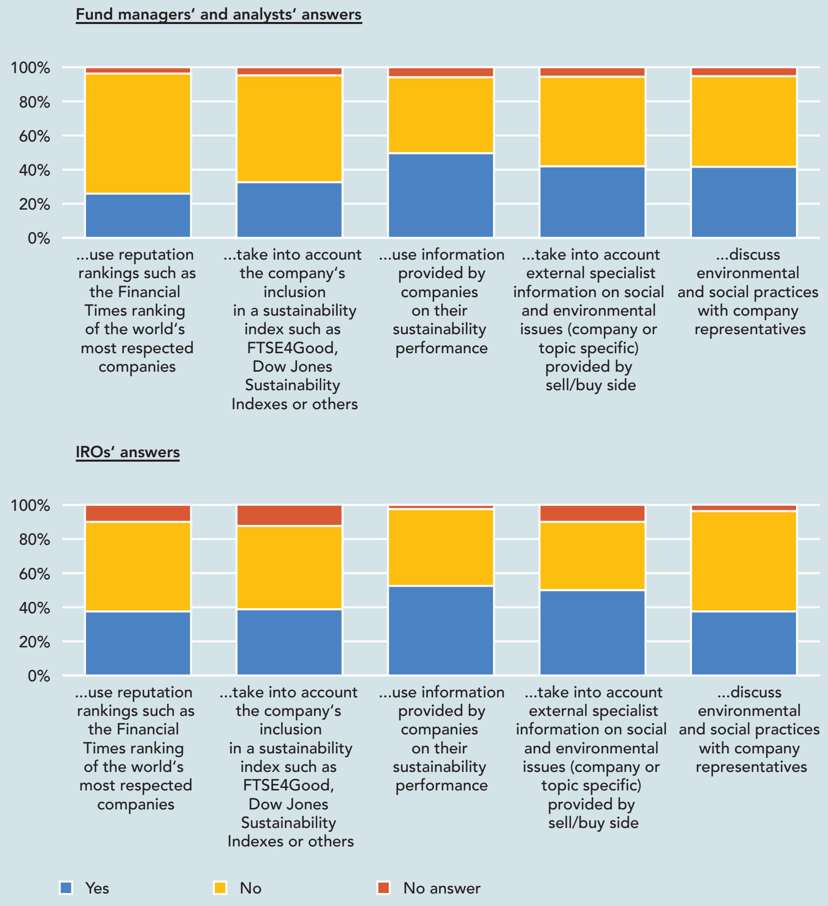
Dialogue with companies is the third most important sources of gathering information, but 59% of IROs do not believe it truly exists yet.

Swedish (64%) and British (54%) fund managers/ analysts make the most use of dialogue, while Spain, France, Belgium and Italy rely on it least (18%, 34%, 40%, 33% and respectively).

Sell-side analysts seem more cautious than their buy-side counterparts in their use of information related to non-financial performance: a majority (55%) does not take into account corporate information on social and environmental performance, compared to 41% of fund managers/buy-side analysts. They are also more sceptical about the inclusion in sustainability indices (71% do not use it, compared to 59% amongst the rest of the sample) and reputation rankings (79% do not use it, compared to 67% of fund managers/buy-side analysts).

Sustainability indices are not widely used as a guide to CSR performance: 32% of fund managers and analysts refer to them. This can be explained by the fact that an index does not provide a comprehensive analysis of companies, but merely an investment universe and sometimes a ranking.

Graph 3.1-1 When analysing non-financial information related to a company, do mainstream investors and analysts *[Question to fund managers and analysts and IROs]*



To understand the results related to the use of indices, it is important to keep in mind that a sustainability index is first and foremost an investment universe representing the leading sustainability companies overall. Hence, an index cannot be seen as insightful research information such as that provided by ratings, which are more valuable for investment decisions.

Alois Flatz, Head of Research, Sustainable Asset Management

3.2 Views of fund managers and analysts on CSR reporting

Fund managers, analysts and IROs recognise that companies' communication practices have improved over the past two years: 56% of fund managers/analysts think that they are a little better and 65% of IROs say they have improved significantly.

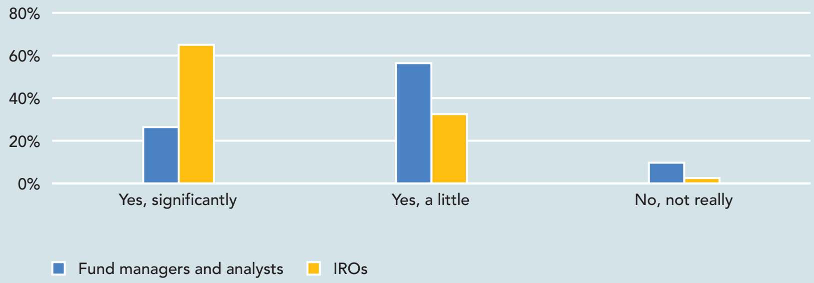
Dutch and UK respondents are more positive than their European counterparts: 48% of fund managers and analysts in the Netherlands and 40% in the UK agree that there has been a significant improvement, compared with the European average of 36%.

Despite this, the majority of fund managers and analysts still describe corporate reporting and communication as unsatisfactory.

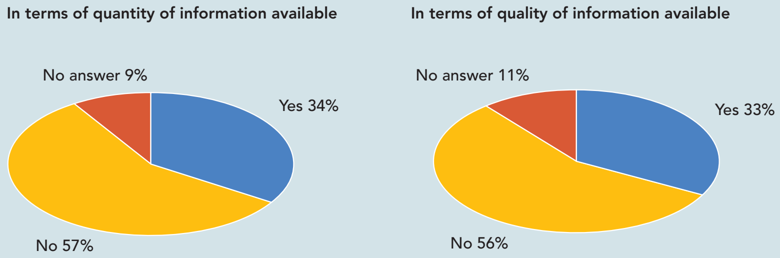
In terms of quality, 56% are dissatisfied with the current information. Italy, Spain and the Netherlands are the least satisfied at 65%, while the UK is an exception with more respondents satisfied (44%) than dissatisfied (38%).

In terms of the quantity of information available, 57% are dissatisfied (compared to 74% in 2001). Italy, Spain and the Netherlands are again the most critical, with 70% dissatisfied overall. The UK again remains the exception with more interviewees satisfied (54%) than dissatisfied (36%).

Graph 3.2-1 Do you think that companies' communication practices on social and environmental performance have improved over the last two years? *[Question to fund managers and analysts and IROs]*



Graph 3.2-2 Would you say that corporate reporting and communication on social and environmental performance is satisfactory today? *[Question to fund managers and analysts]*



2003 Update on level of CSR reporting in Europe

- In Western Europe, two-thirds (68%) of large companies report on 'triple bottom line' – economic, social and environmental – performance in addition to required financial reports. In the US, 41% provide such information.

  (Source: Management Barometer, Quarterly survey in US and Western Europe, PriceWaterhouseCoopers/ BSI Global Research Inc, 2003.)

- In the UK, 98 companies of the top 250 UK companies now report on environmental, social and ethical issues and 45 of these have carried out some kind of independent verification on their report.

  (Source: Trends in CSR reporting 2002-03, Context and Salterbaxter, 2003.)

- In France, 19 of the CAC 40 corporates reported on CSR issues either in their Annual Report & Accounts or as a separate report in June 2003.

  (Source: Deloitte & Touche and Publicis consultants Ecocom, 2003.)

3.3 Pressure for future disclosure

Fund managers, analysts and IROs have different opinions on the relative importance of stakeholders in fostering more and better disclosure from companies.

For IROs, the influence of the financial community is paramount. Pressure groups are becoming less significant and are being replaced by regulatory authorities as a key driver for reporting. It seems that – while pressure groups are often the first to draw attention to specific environmental and social issues – they are not necessarily considered drivers for the improvement of sustainable practices in the long run in the way that traditional stakeholders (public authorities, financial community and the public) are.

Surprisingly, the role of consumers as a driver for CSR is strongly emphasised by fund managers and analysts. This points to the earlier identified link between CSR practices and brand/reputation, which interviewees considered significant in both the long term and the short term.

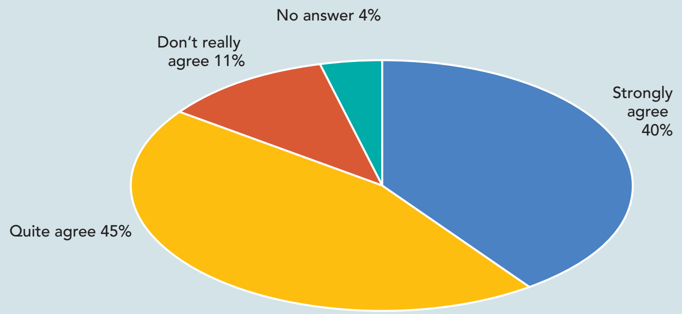
Fund managers and analysts across Europe are fairly unanimous in their prediction of future influences, although the role of public authorities is given particular prominence in Spain, Italy and the Netherlands.

It is interesting to see that most of the stakeholders listed by fund managers, analysts and IROs are given more weight in the future, as pressure for improved disclosure is expected to increase from all stakeholders. In fact, 85% of IROs are convinced that the next three years will see more legal requirements imposed on companies for social and environmental reporting.

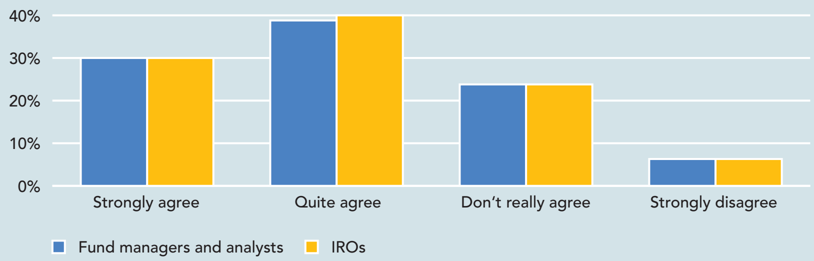
Graph 3.3-1 Which stakeholders drive the development of corporate reporting? *[Question to fund managers and analysts]*

Past two years		**Future**	
Fund managers and financial analysts	IROs	Fund managers and financial analysts	IROs
1) Consumers 80%	Financial community 73%	Consumers 83%	Public authorities 89%
2) Public authorities 72%	Pressure groups 73%	Public authorities 76%	Financial community 85%
3) Pressure groups 69%	Public authorities 69%	Financial community 73%	Business partners 80%
4) Financial community 64%	Employees 67%	Pressure groups 67%	Consumers 79%

Graph 3.3-2 In the next three years, new legal requirements related to the reporting of social and environmental practices will be introduced? *[Question to IROs]*



Graph 3.3-3 In the next three years, should environmental and social information reported by companies be assured by a third party? *[Question to fund managers and analysts and IROs]*



Third party assurance statement was seen as important in improving disclosure: sixty-nine percent of fund managers/analysts and 70% of IROs thought that social and environmental information should be assured by a third party.

Interviews also reveal that non-financial information and performance reporting could be improved by making it more relevant to stakeholders, considering sectoral or contextual trends, and aligning communication with voluntary and regulatory standards.

> ***This survey demonstrates again that interest in SRI is growing right across Europe. Public concern over sustainability issues is growing and investors are increasingly realising that companies' response to them will be a defining success factor in the coming years. It is a powerful combination.***
>
> *Rob Lake, Head of Strategy, Socially Responsible Investment, Henderson Global Investors*

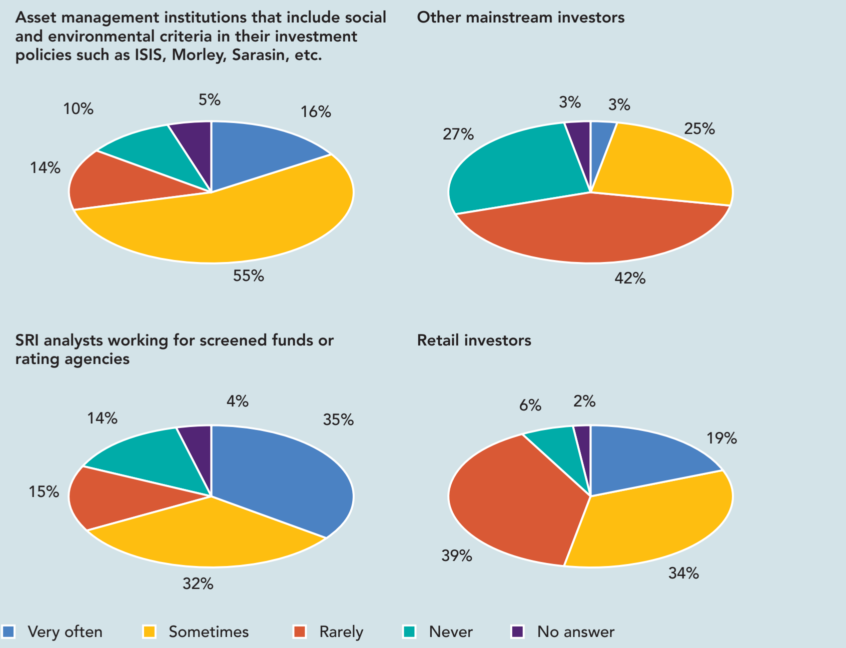
3.4 IR officers' views on dialogue with the financial community

SRI analysts working for screened funds or rating agencies (35%) and active asset managers with a commitment to social and environmental performance (16%) are the most frequent groups to ask questions.

IROs say that they rarely receive oral or written requests on social and environmental performance from traditional mainstream investors (43%) and even less from retail investors (39% never receive requests from these).

It is important to note that direct interaction on CSR performance between IROs and the financial community has only evolved in recent years. SRI analysts and certain fund managers now expect a high level of interaction with companies, and interest is starting to emerge among mainstream investors as the SRI market is expanding.

Graph 3.4-1 How often do you receive oral or written requests regarding social and environmental performance from the following categories of investors? *[Question to IROs]*



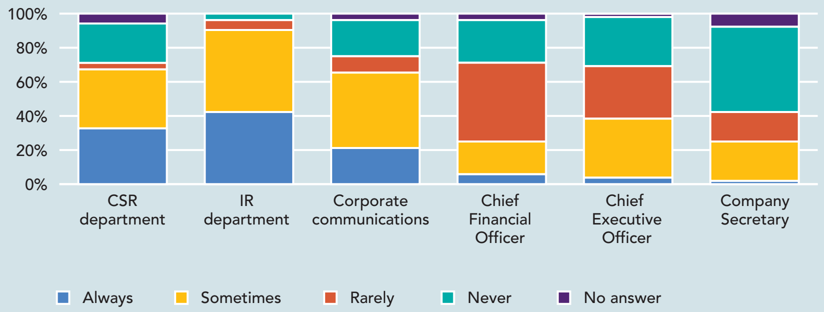
The investor relations department (90%), specialist CSR departments (68%) and corporate communications departments (65%) are the main contacts for investors, although the Chief Executive Officer, the Chief Financial Officer and the Company Secretary may also answer questions on social and environmental performance.

The significant percentage related to the involvement of the IR department – which may surprise some practitioners – could be due to the fact that IROs are handling many CSR-related requests that are later passed on to specialists. It also the emergence of a perceived trend of increasing involvement of the Investor Relations department in communicating social and environmental performance.

Seventy-nine percent of IROs characterise the experience of this dialogue as positive. Moreover, an overwhelming majority of IROs think that dialogue with shareholders on social and environmental issues is increasing (50% significantly, 46% a little).

Interviews confirm that the dialogue between companies and the financial community still needs to improve though. There are still too few SRI analysts leading most of the dialogue, and many companies complain that the quality of dialogue has not really improved over the past two years.

Graph 3.4-2 How often do they speak to the following people/departments, when they want to discuss a CSR issue? *[Question to IROs]*

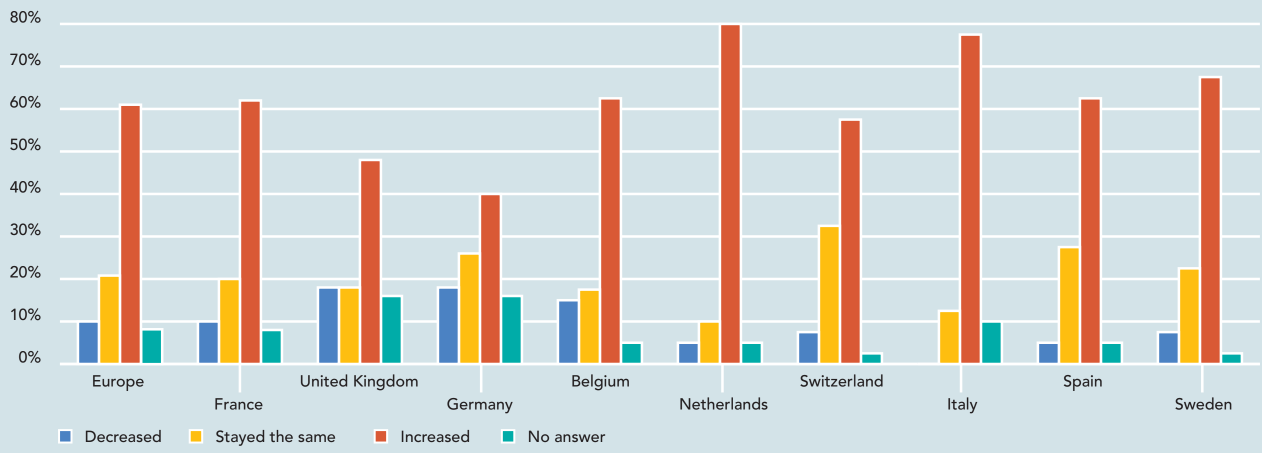


4. Country breakdowns

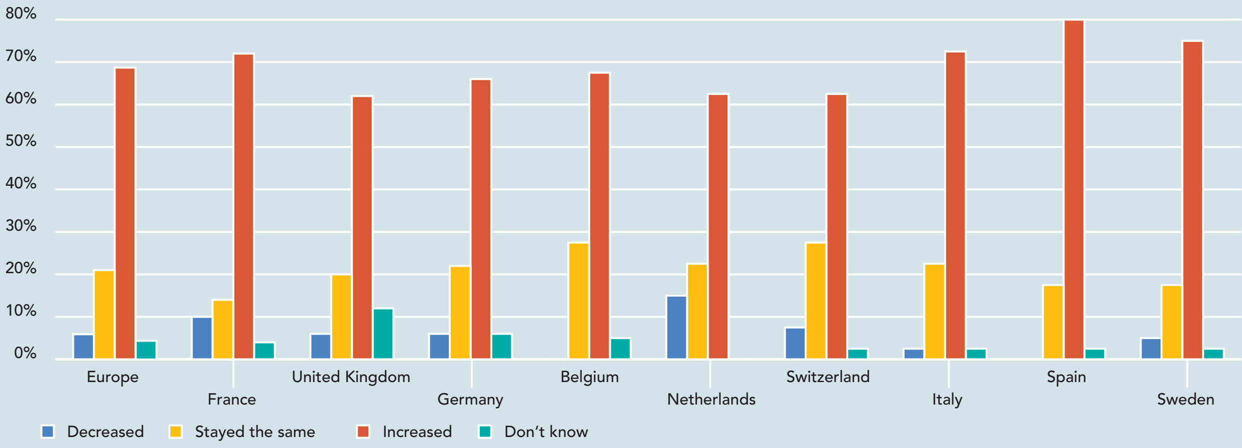
This section presents a series of graphs showing the responses of each of the nine countries surveyed (based on 50 interviews carried out in the UK, France and Germany, and 40 interviews in all other countries). The graphs only relate to answers provided by fund managers and financial analysts.

For the individual country analysis, results should be interpreted with caution, due to the sample sizes (Belgium, Italy, the Netherlands, Sweden, Spain).

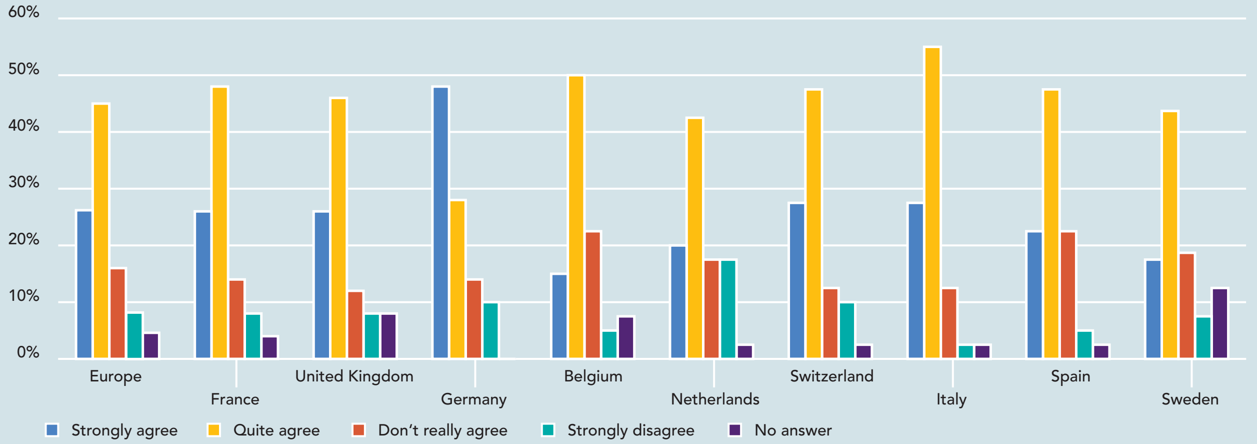
Graph 4-1 According to your knowledge and observation, how has the level of interest in Socially Responsible Investment changed over the last two years? *[Question to fund managers and analysts]*



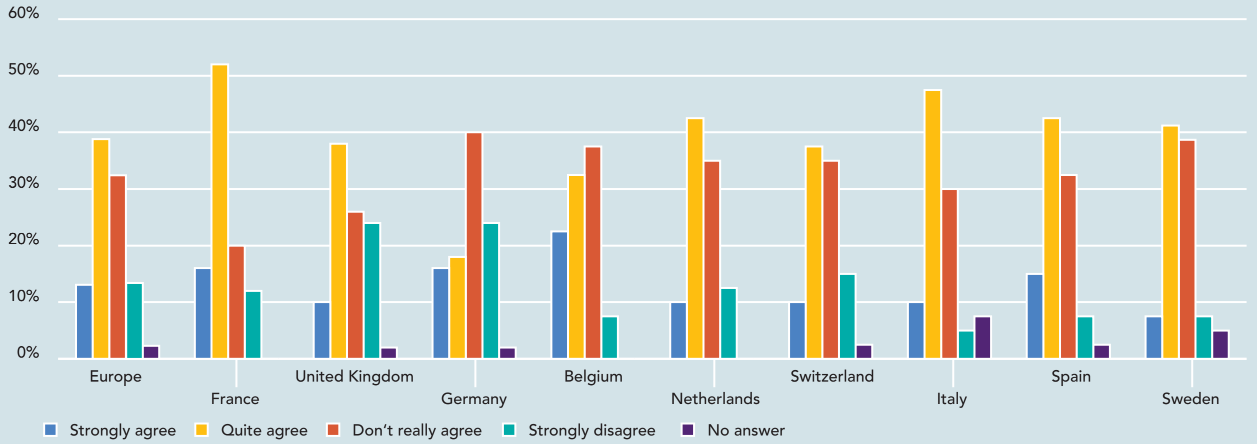
Graph 4-2 How do you expect the level of interest to change over the next two years? *[Question to fund managers and analysts]*



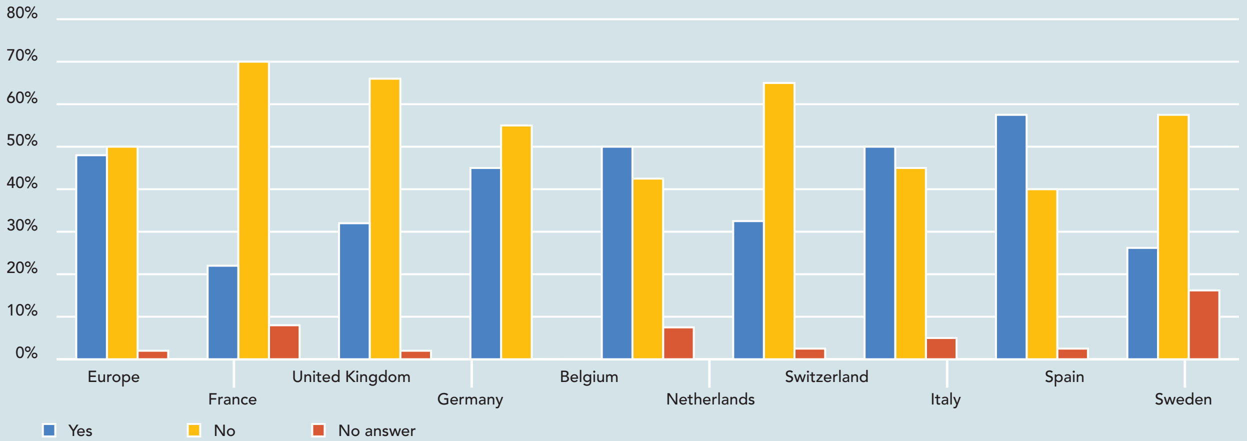
Graph 4-3 Will SRI remain a niche segment of the market, catering for a minority of investors with particular "ethical" values, through relatively small specialist fund? *[Question to fund managers and analysts]*



Graph 4-4 Consideration of social and environmental issues will become a significantly important aspect of mainstream investment decision-making within three years? *[Question to fund managers and analysts]*

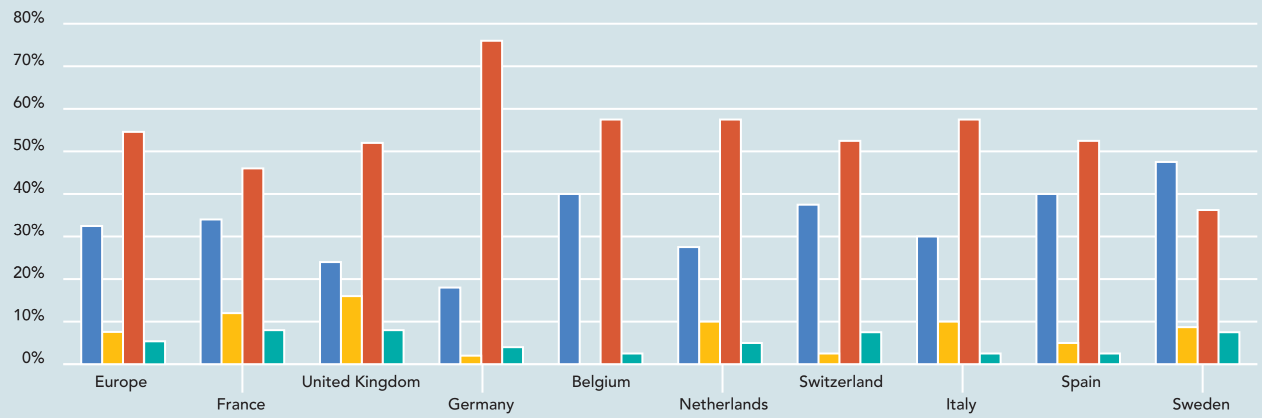


Graph 4-5 Do you grant a premium to companies which are, demonstrably, environmentally and socially responsible? *[Question to fund managers and analysts]*

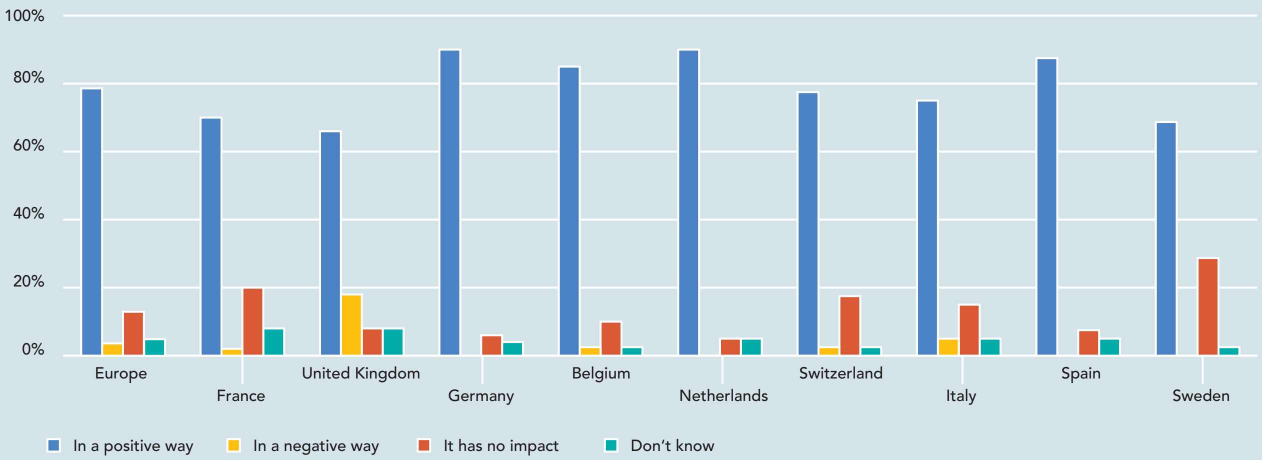


Graph 4-6 Based on your experience, does social and environmental risk management impact. *[Question to fund managers and analysts]*

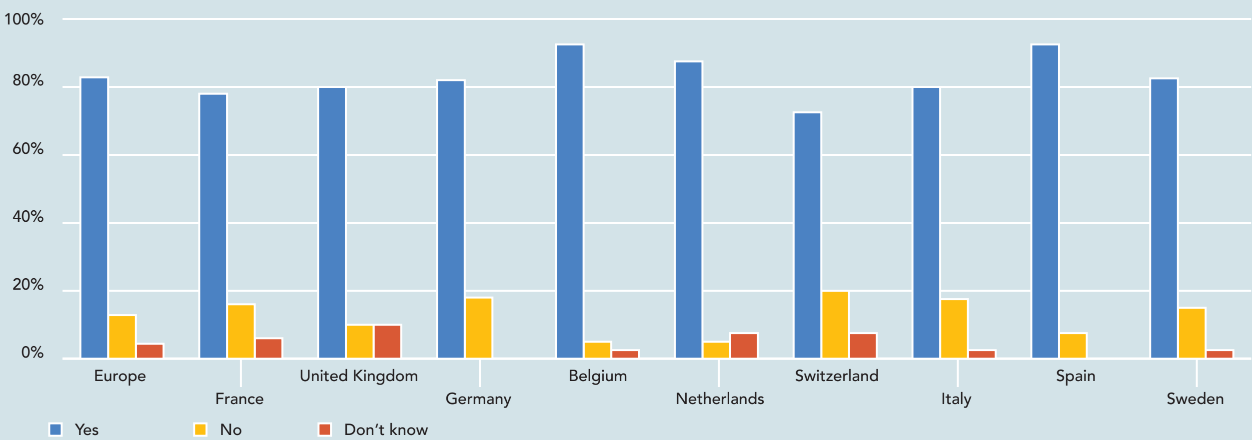
A company's short term market value?



A company's long term market value?

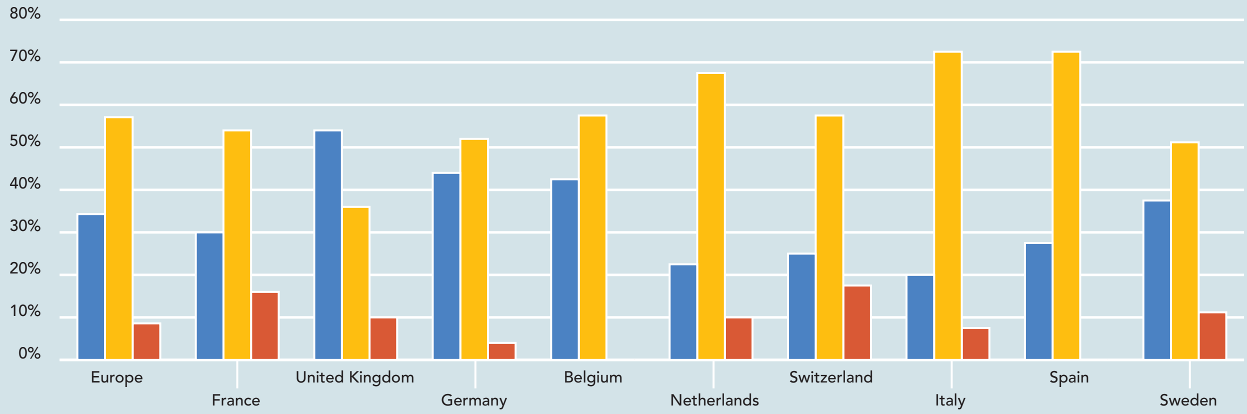


Graph 4-7 Do you think that companies' communication practices on social and environmental performance have improved over the last two years? *[Question to fund managers and analysts]*

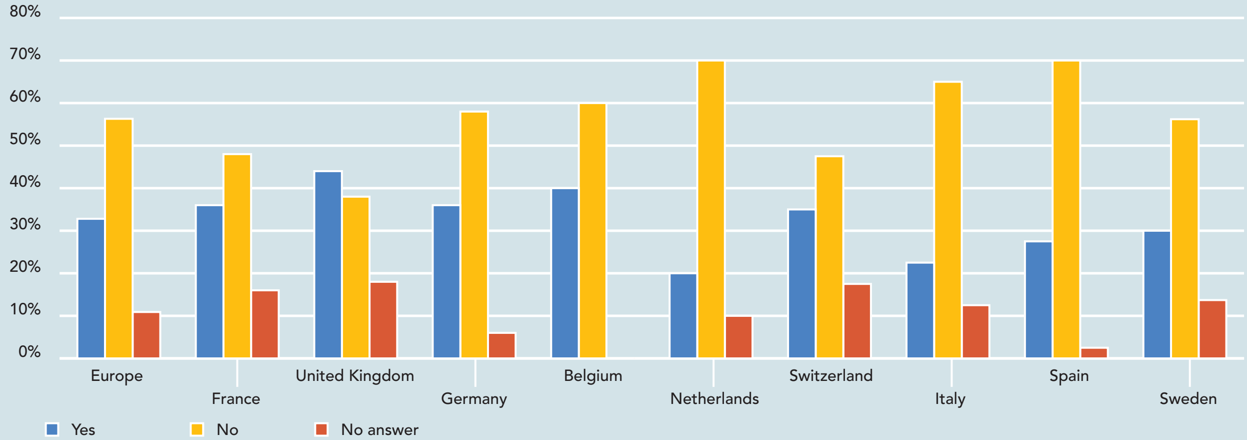


Graph 4-8 Would you say that corporate reporting and communication on social and environmental performance is satisfactory today? *[Question to fund managers and analysts]*

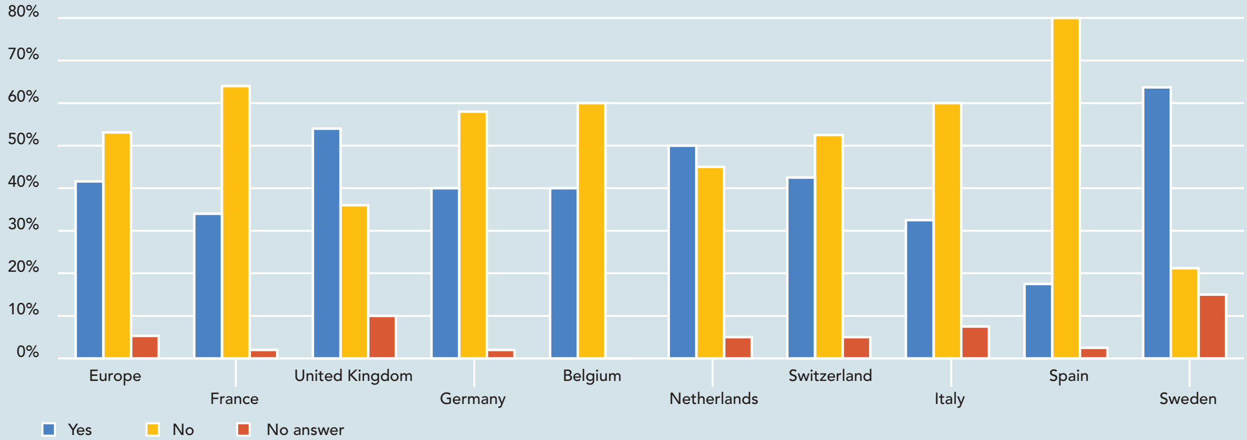
In terms of quantity of information available



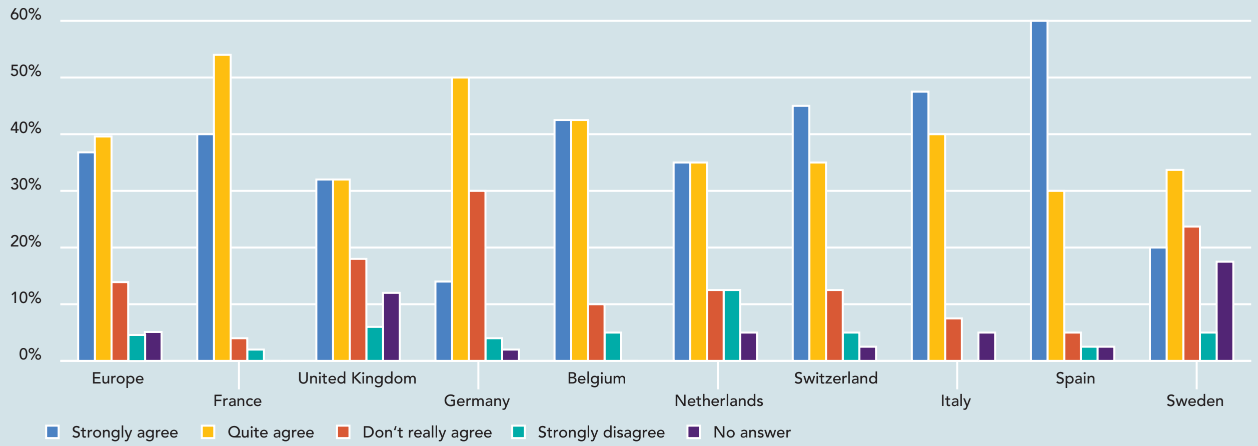
In terms of quality of information available



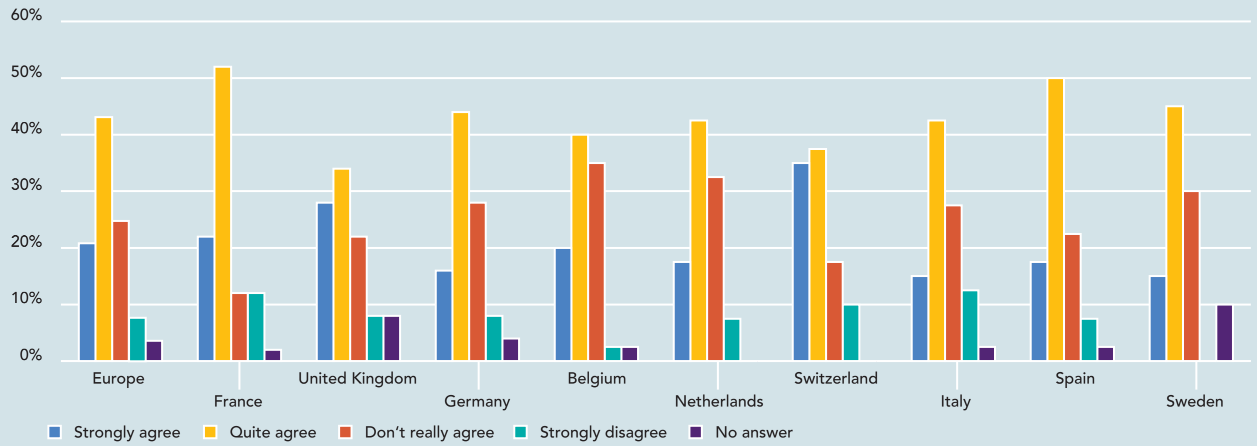
Graph 4-9 When analysing non-financial information related to a company, do mainstream investors and analysts discuss environmental and social practices with company representatives? *[Question to fund managers and analysts]*



Graph 4-10 Should environmental and social information reported by companies be assured by a third party? *[Question to fund managers and analysts]*



Graph 4-11 Will investors become significantly more active in exercising their voting rights in relation to social, environmental and "ethical" issues in the next three years? *[Question to fund managers and analysts]*



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- Neil Yeomans, Partner, Environmental & Sustainability services, UK

Euronext

- Karim Abbey, Senior Project Manager, Strategy and Market Development
- Martine Charbonnier, Executive Director, Listing
- Andre Went, Strategy and Market Development

The project partners

CSR Europe, the European business network for CSR, is thanking its members for their involvement in the project.

Deloitte Touche Tohmatsu is an organisation of member firms devoted to excellence in providing professional services and advice. It is focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte's member firms (including their affiliates) deliver services in four professional areas: audit, tax, consulting, and financial advisory services. The member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global growth companies. Deloitte Touche Tohmatsu is a Swiss Verein and each of its national practices is a separate and independent legal entity.

Our Environment & Sustainability professionals service clients globally in the areas of sustainability reporting, accountability, and assurance as well as climate change business.

The first cross-border stock exchange, Euronext results from the merger in September 2000 of cash and derivatives markets in Amsterdam, Brussels and Paris. It offers services that range from listing and trading of securities and derivatives to clearing, dissemination of market data and IT services. In 2002, the Euronext group expanded to include the Portuguese stock exchange, BVLP, and LIFFE, the international derivatives market.

Financial institution that is conducting both public- sector and open- market activities. The group has in 2002 consolidated balance sheet of €349 billion, consolidated net €710 million and employs more than 39 000 employees. It manages savings funds exceeding €209 billion and, through its CDC IXIS Asset Management subsidiary, third-party assets of nearly €300 billion. As a long term institutional investor, it owns strategic assets, finances public interest programmes and invests its resources in financial assets to promote economic development.

Gruppo Intesa, the largest banking group in Italy and a leading player in Europe, was established from the integration of Banco Ambrosiano Veneto and Cariplo, banks deeply rooted in the economy of Northern Italy, and BCI, with a distinguished corporate vocation and a wide banking presence on both domestic and international markets. The union of the three banks led to the formation of a new entity made up of companies operating in all banking and near-banking fields in Italy and abroad, all playing a forefront role in their respective sectors. In Italy, Intesa is the leading banking group in retail and corporate banking with approximately nine million customers.

The joint 2003 survey presents the first European picture of how social and environmental performance informs decisions and attitudes both among mainstream fund managers and financial analysts and among investor relations officers (IROs) in major companies. The survey highlights the differences in the level of development and perceptions of socially responsible investment (SRI) across European countries. Strong connections between the management of non-financial risks and long-term shareholder value identified by interviewees suggest the potential for SRI to be further integrated in mainstream financial analysis and investment decisions. The survey also points at trends for the next two to three years, as well as challenges ahead.

This project has also been made feasible thanks to the support of:

CAISSE DES DÉPÔTS ET CONSIGNATIONS

Banca Intesa

CSR Europe is a non-profit membership network that aims to help companies integrate corporate social responsibility (CSR) into the way they do business, every day.

Today, business and European institutions alike regard us a the major reference point on corporate social responsibility strategies and practices for companies in Europe.

CSR Europe reaches out through more than 60 member companies and 18 national partner organisations (representing a total of more than 1500 companies) in 15 European countries.

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