AUTORITÉ
DES MARCHÉS FINANCIERS

AMF report on socially responsible investment in collective investment schemes

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Contents

Introduction

In recent years, socially responsible investment (SRI) has grown substantially in France and more broadly in Europe[1]. According to the results of a survey published by Paris Europlace on January 21, 2015[2], investors view SRI as an opportunity to both reduce their risks and have an impact on society. Institutional investors, which hold more than 80% of SRI investments[3], promote their social responsibility and are sensitive to reputation risk. Retail clients hope to have an impact on society and align their investments with their values.

While it is not for the AMF to say which investment funds are to be considered SRI, investors should have access to the necessary and sufficient information to decide whether the SRI strategy proposed is consistent with the investment they would like make. As one of the AMF's core tasks is to ensure that information is clear, accurate and not misleading, it has a legitimate role to play in this discussion.

As such, and in line with its 2013-2016 Strategic Plan, the AMF aims to develop an approach to non-financial information, corporate social responsibility and socially responsible investment, and to conduct targeted studies on these topics.

In November 2013, the AMF published a report on the social and environmental responsibility of listed companies[4]. As a follow-up to that report, this study reveals a number of findings about SRI, as adopted by management companies that market funds in France, and puts forward some proposals.

Throughout this report, some sections are intended to draw attention to elements incorporated into relevant AMF policy documents. As a result, none of the sections in this report constitutes policy *per se*.

[1] According to Novethic, assets under management (funds, mandates and direct management) in France rose from €3.9 billion in 2003 to €222.9 billion in 2014. This increase was due in part to the conversion of assets already under management to SRI and therefore did not result only from the creation of new funds and new subscriptions.
[2] Survey conducted from July 15 to November15, 2014 and sent to 109 Paris financial centre issuers and financial institutions.
[3] Source: Novethic.
[4] AMF Recommendation No. 2013-18.

Summary

The phrase "socially responsible investment" covers the different approaches to incorporating sustainable development into investment management. As the *Inspection générale des finances* (French inspectorate general of finances) previously noted in a 2002 report[5] that remains relevant today, SRI cannot be reduced to a simple, consensual definition: *"The changes in the terms used to describe this sector are an indication of its gradual expansion: the terminology has progressed from "ethical" to "socially responsible" to "sustainable development". Socially responsible funds reflect this diversity. They can either exclude business sectors for ethical reasons (tobacco, weapons), invest in companies deemed to behave responsibly following an analysis based on variable criteria (reduced environmental impact, quality of working conditions and of relationships with local communities, ability to combine social, environmental and economic performance) or be used to pressure companies to change their social and environmental management"*.

The primary objectives of socially responsible investment are generally threefold[6]:

- Invest with a certain philosophy and in keeping with certain values;
- Invest while taking into account the risks and opportunities identified in the non-financial analysis of issuers;
- Invest to make a positive impact on social, environmental and governance issues[7].

While this movement encourages innovation, the comprehensibility and clarity of the concept of SRI for investors remains a major question.

In Europe, there is no standard and no uniform definition for this concept, but several initiatives have been implemented in countries such as France, Italy and Germany to shed some light on this notion. Several countries are considering developing labels to make it easier to understand the SRI offering, particularly for retail investors. Private labels already exist in Luxembourg (LuxFlag created in 2006/ESG label in 2014) and in France (Novethic label created in 2009). In France, on September 28, 2015, the Minister for Finance and Public Accounts announced the creation of an SRI label backed by the public authorities. At the same time, the Minister for Ecology, Sustainable Development and Energy launched the consultation procedure for documents concerning the creation of an "Energy Transition and Climate" label.

A national definition of the concept of SRI was proposed on 2 July 2013 by the *Association Française de la Gestion Financière* (French Asset Management Association — AFG) and the *Forum pour l'Investissement Responsable* (French Social Investment Forum — FIR). Under this definition, SRI *"is an investment that aims to reconcile economic performance with social and environmental impact by financing companies and public entities that contribute to sustainable development regardless of their industry. By influencing firms' governance and behaviour, SRI promotes a responsible economy"*.

This definition highlights the close links between the concepts of SRI and Corporate Social Responsibility (CSR), which are based on the three pillars of sustainable development[8] (environmental, social and governance [ESG] criteria). It also emphasises the expected impact of SRI. An investment management approach can be considered SRI only if it contributes to sustainable development and influences the governance and behaviour of the firms being financed. An SRI strategy is therefore a proactive strategy that needs to have tangible sustainable development impacts.

The absence of a bespoke regulatory framework or specific standard for SRI[9] promotes innovation because of the freedom it offers, but is also a factor in the proliferation of investment management and

[5] Socially responsible finance and solidarity-based finance survey report (No. 2001-M-044-01).

[6] Several studies have looked at the potential out-/underperformance of "SRI" investment vehicles versus equivalent traditional vehicles. It is not possible to conclude from the results that "SRI" investment vehicles out-/underperform.

[7] Investments are therefore made on the basis of environmental, social and governance (ESG) criteria – see part 1)b.

[8] The Brundtland report (*Our Common Future*), published in 1987 by the United Nations, reflects these concerns and to date contains the most consensual definition of sustainable development: "*sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".*

selection methods, as well as of "investible" asset classes, hindering clarity for the end investor. Because there is no such thing as an SRI asset, like bonds or equities for example, and because there is no such thing as an SRI classification, as SRI is a multi-layered concept, management companies need to make sure that the strategies implemented are transparent enough and the information disclosed is accessible and reliable. Only then will investors be able to form their own opinion on the robustness of the SRI aspects proposed.

While each SRI approach[10] reflects a specific method for selecting portfolio issuers, investment management techniques consistent with an "SRI" financial product are rarely explained. Yet both these aspects must be taken into account. For the purposes of this report, the AMF therefore focuses equally on the methods used to select the portfolio securities/instruments and the corresponding asset classes and on the investment management techniques implemented by funds promoting themselves as SRI.

To better understand the realities and challenges of the French SRI market, the AMF conducted interviews with key stakeholders. It also performed an analysis using a sample of funds[11].

This analysis shows that, from a selection method standpoint, the same SRI approach can result in the construction of vastly dissimilar portfolios. Conversely, broad similarities can sometimes be found between a portfolio managed to an SRI standard and a traditional non-SRI portfolio, and questions may be raised about the differentiating impact of certain SRI management practices.

Aside from traditional asset classes such as equities and corporate bonds, it is legitimate to ask to what extent and under what conditions certain assets could fall under SRI. This question, the subject of much debate within the SRI world, mainly concerns money-market assets, sovereign bonds, securitisation, and commodities and precious metals. As SRI is based mainly on listed companies' CSR approach, the "traditional" SRI selection methods are not directly applicable to specific asset classes such as real estate and private equity, and require adjustment.

From an investment management technique standpoint, a more in-depth look at the mechanics of SRI portfolio management is necessary. For now, a number of techniques, such as the use of derivatives, securities lending/borrowing and funds of funds, as well as structured funds, alternative investment and index tracking, are the subject of debate. It is therefore important to provide investors with adequate information to help them determine the extent to which the SRI techniques used meet their particular expectations. The use of these investment management techniques should also not conflict with the SRI policies presented by the management companies[12].

Financial innovation is healthy as long as it is controlled and investors have the tools they need to understand the nature of the products and strategies in which they are investing. Socially responsible investment is no exception. It is therefore important to ask whether the information in the basic documentation — the legal documentation — is sufficient for investors to identify the SRI approaches that are consistent with their principles. While not all investors share the same sensitivities in this regard, they all need access to information that helps them determine whether a financial product

[9] This does not mean there are no rules at all. Articles L. 533-22-1 and D. 533-16-1 of the French monetary and financial code subsequent to the 2010 Grenelle 2 Act require that UCITS management companies and some AIF management companies disclose in their annual report and on their website the ways in which ESG criteria are taken into account (or not) in the investment policy of the funds they manage and explain how they exercise the voting rights attached to the corresponding securities. Article 173 of the law on energy transition for green growth of 17 August 2015 amends Article L. 533-22-1 and requires that institutional investors and open-end funds (SICAVs) disclose the ways in which criteria for meeting social, environmental and governance quality objectives are taken into account in their investment policy and the steps taken to contribute to the energy and ecological transition including the contribution to meeting the international objective of limiting global warming and achieving the energy and ecological transition goals.

[10] The "traditional" approaches will be described in part 1)b.

[11] The analysis was performed using a set of public documents (key investor information document [KIID], prospectus, rules, reporting, annual report, transparency code) for a sample of 100 of the 409 open-end funds marketed in France and promoting themselves as SRI.

[12] For example, if a fund states that it excludes tobacco and weapons but simultaneously invests in index futures that include this type of company, it would have to be clear about this possibility or be at risk of failing to provide investors with clear and not misleading information.

matches the type of SRI they wish to support. The management company should not, however, be required to divulge all its expertise to its clients and competitors.

An analysis of a sample of funds shows that, 74% of the time, investors do not have enough information to understand what it means in practice when a product has SRI in its name.

The following element is incorporated into AMF policy:
For greater clarity, regulatory documents and marketing materials for SRI funds should include (i) an investment objective that incorporates non-financial aspects, (ii) the SRI approaches applied and (iii) information about the investment management and selection methods used.

Moreover, insofar as retail investors have neither prior knowledge of the scope of the SRI offering nor a technical understanding of the different possible approaches, the information should enable them to place the approach used for a fund in the context of the primary approaches an SRI fund can adopt.

The SRI approaches applied could be based on the "traditional" types of SRI (best-in-class, engagement, exclusion, systematic ESG integration, impact investing, themed investing, etc.). These classifications will be considered clear when investors can understand them and their definitions are standardised and easily accessible on a public platform. Some balance needs to be found in this regard to ensure that investors are well informed while not oversimplifying the segmentation and thus erasing the significant differences among SRI portfolio management approaches.

Many SRI stakeholders agree on the crucial nature of the concept of transparency. A European transparency code has moreover been developed to better meet this challenge. It aims to improve transparency for investors so they can understand asset managers' SRI practices and biases. The first version was introduced in May 2008; more widespread use of this code was driven by Novethic (the Novethic SRI Label was launched in 2009) and the joint efforts of the FIR and the AFG. The Board of Directors of Eurosif[13] adopted this code on October 3, 2012.

In December 2013, more than 500 open-end funds, out of nearly 884 distributed in Europe, had a transparency code. This code is now required for all SRI funds that are open to the public and managed by management companies that are members of the AFG or the FIR. In adhering to this code, fund managers agree to answer questions about their SRI funds. Signatories must also reference this code when they communicate on the SRI aspects of the funds they manage.

Within the sample, most of the funds analysed had a transparency code. However, the content of the codes revealed significant disparities, if not inconsistencies, with the rest of the information available. While some of the codes provide details on the information presented in the legal documentation, others are much more sparse (giving only yes or no answers to certain questions with no explanation or cross-referencing the codes of the underlying funds with no additional clarifications) and the length of the document is not always an indication of its quality.

For example, only 4% of SRI funds in the sample have an engagement policy in their legal documentation while nearly 80% describe an engagement policy in their transparency code. While it was determined that all the funds in the sample have the option of using derivatives in their legal documentation, only 62% seem to use or be authorised to use derivatives in their transparency code. Although 91% of funds state they can use securities lending/borrowing techniques in their legal documentation, only 20% say so in their transparency codes. The AMF also observed from the sample that the same transparency code might cover 19 funds (diversified, bond, money-market and equity), which makes the information even harder to analyse. Lastly, in terms of consistency, it was noted (in only one instance, however) that a fund whose transparency code explained that it does not use derivatives nevertheless described futures transactions in its annual report.

It could be helpful to transpose the use of transparency codes to the all-subscriber SRI funds that are "passported" to France. The number of funds that claim to be SRI or promote their connection to

[13] European sustainable investment forum (SIF) to which the national SIFs belong.

sustainable development has increased in recent years. However, scant information may be provided about the SRI process. Consequently, to ensure that investors have adequate information, any fund that wishes to promote itself as responsible should be required to publish a document that fulfils the same functions as the transparency code. This requirement would align the practices of SRI funds under a standard defined at the European level and promoted by Eurosif.

The following element is incorporated into AMF policy:
The AMF recommends that any fund marketed in France and wishing to promote its SRI dimension publish a document that clarifies its approach, modelled on the European Transparency Code, or adhere to a charter, code or label that factors in criteria relating to the achievement of social, environmental or governance quality objectives.

The following element is incorporated into AMF policy:
Management companies shall ensure consistency among the different sources of information available and, more specifically, between the marketing materials and legal documentation and the transparency code.

Within the transparency codes, several issues relate to engagement and, more specifically, the voting and/or issuer dialogue policy. Many management companies report having a voting policy[14] and/or dialogue policy but not as many make it easy to access the relevant documentation. Yet, here again, it is important for management companies to communicate this type of information. Just as non-financial reporting identifies the tangible impacts of the SRI strategy, voting and/or dialogue reports describe the management company's engagement decisions and should be easily accessible.

The following element is incorporated into AMF policy:
If the management company reports having an engagement policy, the AMF recommends that it specify the procedures for accessing the documents that provide details on these aspects (voting and dialogue reports).

The following element is incorporated into AMF policy:
The AMF recommends that non-financial reporting (whether incorporated into traditional financial reporting or not) be easily accessible from web pages dedicated to SRI funds and that it be updated at least once a year.

The AMF also notes that there are some best practices for the dissemination of non-financial information. A number of management companies have created special SRI portfolio management pages on their websites, where they provide a detailed description of the SRI approach of each family of funds and a list of SRI funds managed along with any relevant documents (transparency codes, non-financial reporting, engagement and/or dialogue reports, etc.).

A number of interesting initiatives are underway at the European level, such as those implemented by Novethic, whose database includes more than 300 funds, and by the *Fédération belge du secteur financier* (Belgian financial sector federation — Febelfin)[15]. This organisation launched a site that is specifically for sustainable products. It presents a summary of their main characteristics and lists the key documents under one heading. This type of initiative makes it easier for potential subscribers and investors to do their research and helps improve the transparency of these financial products.

In France, the websites of the AFG and the FIR have dedicated pages for transparency codes. This initiative is worth noting as any investor can visit those sites. However, it was found that the two dedicated pages are not systematically updated and sometimes link to old versions of the transparency codes.

[14] Note that all management companies referenced in Article L. 533-22 of the French monetary and financial code — whether or not they use an SRI portfolio management approach — must exercise the rights attached to the securities held by the UCITS and AIFs referenced in that same article. In particular, when they do not exercise these voting rights, they must explain their reasoning to the unit- or shareholders.
[15] It covers 264 financial institutions located in Belgium and includes not just banks but also lenders, asset and fund managers, broker-dealers, leasing companies, etc. Insurers, pension funds and investment firms are excluded.

Avenue of discussion:

Ensure that transparency codes are accessible and up to date by compiling them all on a single web page. At the very least, such a page could list the relevant funds and link to the management companies' websites where the corresponding transparency codes are available for download.

In addition to improving the transparency of the SRI vehicles and investors' access to documentation, substantial progress also needs to be made on the reliability and consistency of the information. All the investor information needs to be accessible, reliable and up to date. The various current and future labels have played or could play a critical role to that end.

I. SRI: a multi-faceted and evolving concept that can be difficult to grasp

1.1. A relatively new approach that is evolving to keep pace with investor concerns

1.1.1. From the abolitionist stance of the Quaker movement to the best-in-class approach

The roots of socially responsible investment lie in the 17th century with the Quaker movement[16]. The beginnings of SRI as it is known today date back to the 20th century and the creation of the first "ethical" funds. The most well-known of these is the Pioneer Fund created in Boston in 1928. Its policy was to exclude "sin stocks", namely companies having to do with weapons, alcohol, gambling, pornography and tobacco.

While the exclusion approach continued to gain ground until the 1980s, a new approach, known as best-in-class, emerged in 1972 with the Pax World Fund, the first modern SRI fund created by two Methodist ministers. This approach does not exclude companies based on their industry but rather aims to encourage and enhance the value of the top companies in each industry. It is based on the idea that is not advisable to introduce a sector bias into a portfolio as all industries contribute to the development of the economy despite the polemics surrounding certain sectors (nuclear, oil, etc.). This approach seeks to improve corporate behaviour.

At around the same time, in France, a number of movements promoting sustainable development and more responsible finance began to gather momentum. The first "social" (*solidaire*) and "revenue-sharing" funds (*fonds de partage*) emerged in 1983[17]. The first French ethical SRI fund was created at the instigation of Sister Nicole Reille[18] who wished to establish a fund that would invest in companies that were more respectful of humankind.

At the end of the 1990s, the first European non-financial rating agencies, SRI advocacy groups (continental[19] and domestic[20] SRI forums) and non-financial research centres (ORSE (*Observatoire de la Responsabilité Sociétale des Entreprises*, the French corporate social responsibility observatory)[21] in 2000 and Novethic[22] in 2001) were formed in Europe and in France.

A number of long-term public institutional investors, such as the *Fonds de Réserve des Retraites* (French pension reserve fund — FRR) in 2005 and the *Etablissement pour la Retraite Additionnelle de la Fonction Publique* (French public service additional pension scheme — ERAFP) in 2007, promote responsible investment policies.

While socially responsible investment resulted from investors' changing ethical and moral principles, it is important to note that behind every responsible investment funds are responsible companies. "Responsible investors" are those who decide to invest their funds in companies that meet certain financial and non-financial criteria. However, they still need to be able to do their due diligence and this requires access to the appropriate information. Corporate transparency is, in point of fact, the foundation on which socially responsible investment is based. To understand exactly what a socially responsible investment is, it is important to understand how the concept of sustainable development was developed and then broadened first to the corporate world with corporate social responsibility (CSR) before subsequently expanding to financial investment with SRI.

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16 A community that advocated the principles of simplicity and equality and was the first to oppose the slave trade in the United States.
17 In a revenue-sharing fund, investors agree not to take a portion of the income generated by the fund and instead to donate that amount to a non-profit organisation. This entitles them to a tax reduction.
18 http://www.rse-magazine.com/Hommage-a-Nicole-Reille_a147.html
19 Continental forums: Eurosif in Europe and ASrIA in Asia, both modelled on the US SIF.
20 The French SIF: the FIR, founded in 2001.
21 The ORSE focuses more specifically on Corporate Social Responsibility (CSR, see definition below) and SRI issues.
22 A subsidiary of Caisse des dépôts et consignations, Novethic is both a media expert on the responsible economy and a socially responsible investment research centre.

1.1.2. The emergence of sustainable development and CSR as a collective concern: the foundation of the development of socially responsible investment management in its current form

Socially responsible investment reflects investors' concerns and their determination to reconcile personal ethics and investment against the backdrop of a succession of social, ecological and economic crises. The Brundtland report (*Our Common Future*), published in 1987 by the United Nations, reflects these concerns and to date contains the most consensual definition of sustainable development: "*sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".* Originally a theoretical concept, sustainable development took a more tangible form at the sovereign level with the Earth Summit in Rio de Janeiro (1992), which proposed a locally scalable action plan through Agenda 21[23]. The corporate sector followed suit, using the concept of corporate social responsibility to express sustainable development at the corporate level. CSR had been conceptualised in the literature since the 1960s but was not actually put into practice until the 1990s. The European Commission did not define it until the late date of 2011: "*the responsibility of enterprises for their impacts on society*" and on all stakeholders.

Momentum in CSR, the foundation on which SRI is based, has been driven by three major events:

- Formalisation of the idea of CSR with the "Triple Bottom Line" concept, coined and popularised in 1994 by the UK's first sustainable development strategy consulting firm: *SustainAbility.* In this concept, CSR is based on three interdependent pillars: environmental (planet), social (people) and financial (profit); in combination, these three elements are the prerequisite for the sustainable development of our economy.

- The non-financial information required for CSR through non-financial reporting: chiefly with the creation of the Global Reporting Initiative (1997) by the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES), which is the original source of the first international guidelines on non-financial information, non-financial reporting and the dissemination of non-financial best practices. This is a powerful tool for incentivising companies to incorporate all CSR issues under a voluntary framework. These measures were clarified and made compulsory in France – a pioneer in the field – with the NRE act in 2001[24], then with Grenelle 2[25], which expanded and spelled out listed and unlisted companies' obligations to report environmental and social information, but also covered investment management companies in Article 224. The European Union decided to follow a similar course at the community level with the EU directive published on October 22, 2014 on non-financial reporting by companies. It is equivalent to what is in theory a less restrictive version of French Article 225, again in the form of comply or explain[26].

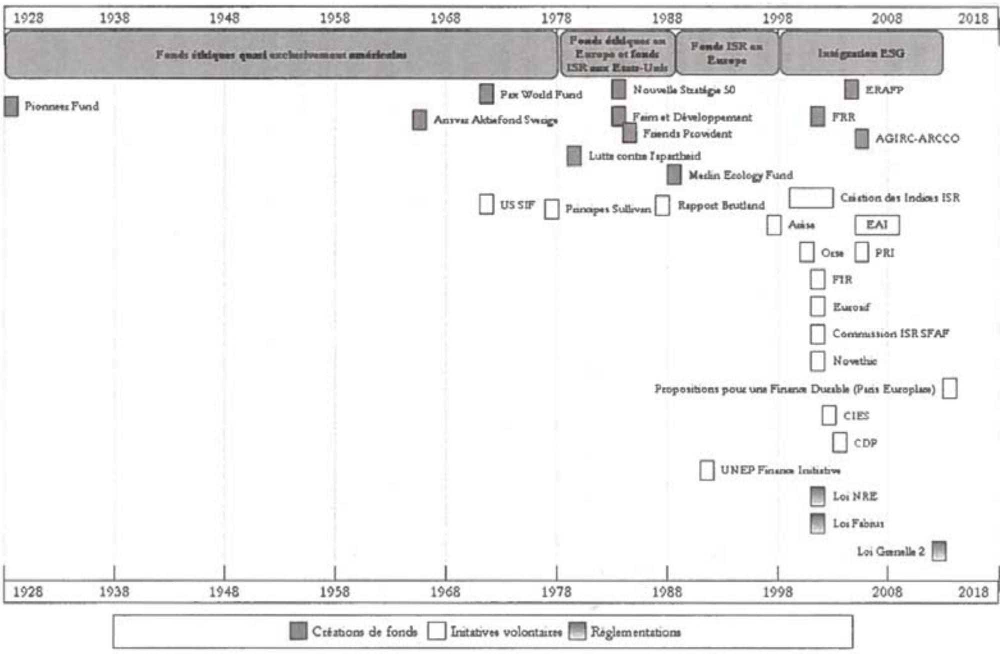
- Drafting of universal guidelines: these range from the adoption of the OECD's guidelines for multinational enterprises on social responsibility in 1976 to the Global Compact. The latter is a UN initiative launched in 2000 whereby the signatories — there are now 12,000 participants representing more than 145 countries — agree to align "*their strategies and operations with Ten Principles on human rights, labour, environment and anti-corruption*[27]".

[23] Agenda 21 is, as its name suggests, an action plan for the 21st century. It was adopted by 178 heads of state at the Earth Summit in Rio de Janeiro in 1992.
[24] Act. No. 2001-420 of 15 May 2001 on new economic regulations.
[25] Act No. 2010-788 of 12 July 2010 establishing a national commitment as regards the environment.
[26] Articles L. 532-22-1 and D. 533-16-1 of the French monetary and financial code subsequent to the 2010 Grenelle 2 Act now require that UCITS management companies and some AIF management companies disclose in their annual report and on their website the ways in which ESG criteria are taken into account (or not) in the investment policy of the funds they manage and explain how they exercise the voting rights attached to the corresponding securities.
[27] www.unglobalcompact.org.

Globally, socially responsible investment has been recognised through the Principles for Responsible Investment (PRI). These principles were established by the United Nations Environment Programme/Finance Initiative (UNEP/FI) and the United Nations Global Compact. They were initially designed for institutional investors and management companies but are also intended for any stakeholder wishing to commit to these Principles[28], by incorporating environmental, social and governance (ESG) criteria.

Modern-day SRI is therefore the product of collective concerns and the search for a type of finance that no longer focuses only on purely financial aspects but also considers the non-financial outlook of the companies supported.

Milestones in the development of SRI



Source: Nicolas Mottis et al., ISR et Finance Responsable, ed. ellipses, Paris, 2014

[28] There are six general principles participating investors should take into consideration:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into their ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which they invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance their effectiveness in implementing the Principles.
6. Report on their activities and progress towards implementing the Principles.

1.2. The modern-day concept of SRI embraces a wide range of realities depending on the country, the approach and the desired outcome

The development of socially responsible investment represents a commitment by various stakeholders to better account for today's global challenges, including non-financial negative externalities, through environmental, social and governance (ESG) criteria. This trio of terms echoes the three pillars of CSR. While some initiatives have sought to clarify the concept of socially responsible investment, it remains fairly broad and leaves the door open to multiple approaches and practices. Although specific approaches have tended to become more widespread in certain regions of the world, asset managers take many different approaches and they all add their own personal touch. While this movement encourages innovation, the comprehensibility and clarity of the concept of SRI for investors remains a major question.

1.2.1. A broad definition that borders on other concepts

The primary objectives of socially responsible investment are generally threefold:

- Invest with a certain philosophy and in keeping with certain values;
- Invest while taking into account the risks and opportunities identified in the non-financial analysis of issuers;
- Invest to make a positive impact on social, environmental and governance issues (impact investing[29]).

In Europe, there is no standard and no uniform definition of the concept of socially responsible investment, but several initiatives have been implemented in countries such as France, Italy and Germany to bring some clarification. Several countries are considering developing labels to make it easier to understand the SRI offering, particularly for retail investors. Private labels already exist in Luxembourg (LuxFlag created in 2006/ESG label in 2014) and in France (Novethic label created in 2009). Other countries are working to establish public SRI labels; that is the case in Germany, which will launch its project in the fall of 2015. A public SRI label is also under discussion in France.

A national definition of the concept of SRI was proposed on 2 July 2013 by the *Association Française de la Gestion Financière* (French Asset Management Association — AFG) and the *Forum pour l'Investissement Responsable* (French Social Investment Forum — FIR). Under this definition, SRI "*is an investment that aims to reconcile economic performance with social and environmental impact by financing companies and public entities that contribute to sustainable development regardless of their industry. In influencing firms' governance and behaviour, SRI promotes a responsible economy*".

This definition highlights the close links between the concept of SRI and the three pillars of sustainable development, i.e., social, economic and environmental. It also underscores the concrete impacts expected from SRI strategies. A strategy can be considered SRI only if it directly or indirectly contributes to sustainable development and influences the governance and behaviour of the firms being financed. An SRI strategy is therefore a proactive strategy that needs to have tangible sustainable development impacts.

Some SRI funds also have a social (*solidaire*) or revenue-sharing (*fonds de partage*) dimension. Revenue-sharing is when the investor agrees not to take a portion of the income generated by the fund. That amount is then donated to a non-profit organisation.

[29] Eurosif classifies impact investing as an SRI strategy but many in the industry view it as a separate approach; it has a very specific dimension that is closer to project finance.

1.2.2. A wide range of approaches

At the global level, the Global Sustainable Investment Alliance (GSIA), the umbrella organisation for several associations that promote the development of socially responsible investment, has identified seven major categories of SRI strategies. The categories identified by Eurosif, at the European level, are very similar although their names vary slightly.

It is not easy to assign every existing SRI fund to a defined category. Broadly speaking, the major categories used to classify the population of SRI funds are non-disjoint overlapping sets.

At the fund level in particular, SRI investment management can be characterised by the adoption of one or more standard approaches (exclusion, ESG integration, positive strategies, impact investing, themed investing, engagement). These approaches are not mutually exclusive. They are generally combined to form the fund's SRI strategy. For example, a given SRI fund can easily combine the exclusion, best-in-class and engagement approaches[30].

Positive strategies consist of selecting issuers based on their positive ESG contribution relative to their peers. These strategies comprise several approaches which include but are not limited to:

- Best-in-class: this approach aims to select/weight the best issuers in each sector, in theory without excluding any sectors;
- Best-in-universe: this approach aims to select/weight the best issuers in the initial universe. Unlike the best-in-class approach, certain sectors may be excluded if their contribution to sustainable development is not sufficient relative to issuers in other sectors represented in the initial universe;
- Best-effort: this approach seeks to include in the portfolio only issuers that have made the greatest sustainable development effort. Issuers that have made the most progress are not necessarily best-in-universe in ESG.

Shareholder engagement aims to promote corporate ESG practices. As with the best-effort approach, the issuers selected are not necessarily the best from an ESG perspective. They are, however, those that the management company will actively encourage to work towards respecting people and the environment. This can take the form of voting at the annual shareholders' meeting, submitting resolutions and/or entering into a dialogue with the issuers in the portfolio.

Regarding *ESG integration*, the degree of integration can vary. A manager can make the ESG analysis available to general analysts and fund managers without standardising the procedure. This is referred to as non-systematic ESG integration. An ESG analysis can also be systematically included in the investment management and analysis process. Lastly, investment constraints can be introduced into the portfolio management process. Eurosif views systematic ESG integration as a form of SRI.

With respect to *negative ESG strategies*, exclusion can be based on ESG criteria or have a norms-based dimension when screening excludes companies that fail to comply with international standards or conventions (violations of human rights, environmental standards, etc.).

Impact investing is one of the forms of SRI identified by Eurosif and the GSIA. It involves making targeted investments (in particular in unlisted companies) to solve social or environmental problems. The capital invested can be directed to underserved individuals.

Lastly, *themed investing* focuses on investment themes as diverse as human rights, renewable energy and water.

Some local labels may take a more restrictive stance and consider that implementation of some of the above approaches is not enough to entitle a particular vehicle to SRI status. In France, for example, Novethic requires systematic integration of the ESG analysis and application of all three criteria, even if the approach selected favours one or more of these issues over the others. Themed investment and sector or norms-based exclusions are also not enough to meet this criterion. Similarly, Novethic does

[30] See definitions of these terms below.

not regard social investment as a full-fledged form of SRI when the systematic integration of E, S and G criteria is not verified for at least 90% of portfolio assets[31].

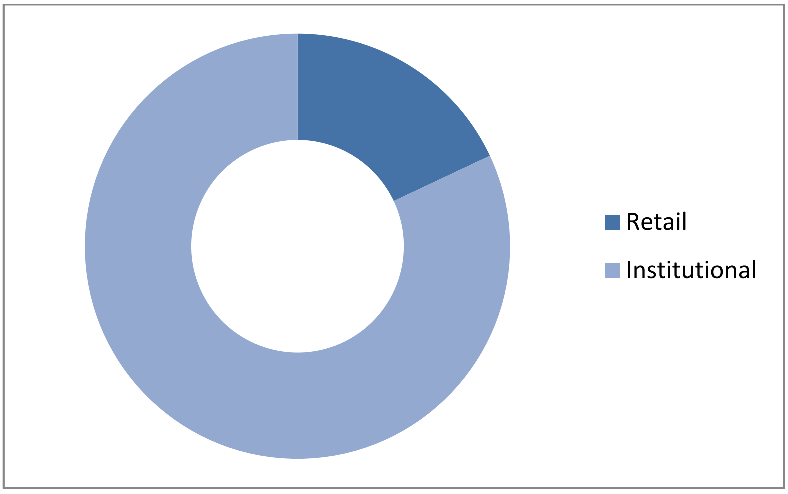
Finansol awards a specific label for savings products when i) the invested savings finance “social” enterprises focused on themes such as housing, reintegration into the community, ecology or aid for developing countries, and/or ii) income is regularly donated in the form of a gift to charities.

Breakdown of SRI assets by client (€bn)

	2013	2014	Change
Total	169,7	222,9	0,31
of which institutional investors	132,3	182	0,38
- **Collective management**	43,3	41,8	-0,03
- **Delegated management**	75	118,3	0,58
- **Internal management**	14,1	21,9	0,55
of which retail investors	37,4	40,9	0,09
- **Collective management**	18,6	20,6	0,11
- **Employee savings**	18,8	20,3	0,08

Source: Novethic and FIR

Breakdown by type of investor



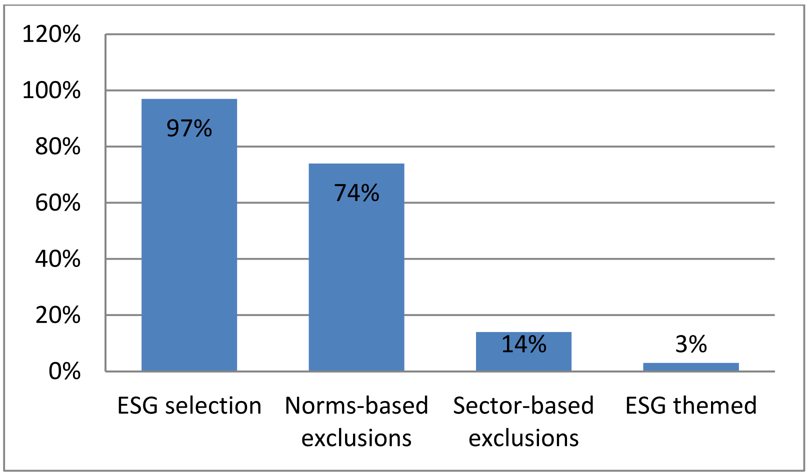
Source: Novethic and FIR

In recent years, socially responsible investment (SRI) has grown substantially in France. According to Novethic, assets under management (all funds, mandates and direct portfolio management combined) rose in France from €3.9 billion in 2003 to €222.9 billion in 2014. These SRI assets encompass a variety of strategies and philosophies. This increase was also due in part to the conversion of assets

[31] Excluding cash and cash equivalents and any possible social component.

already under management to SRI. The growth in SRI management was driven mainly by institutional investors, representing 82% of the market.

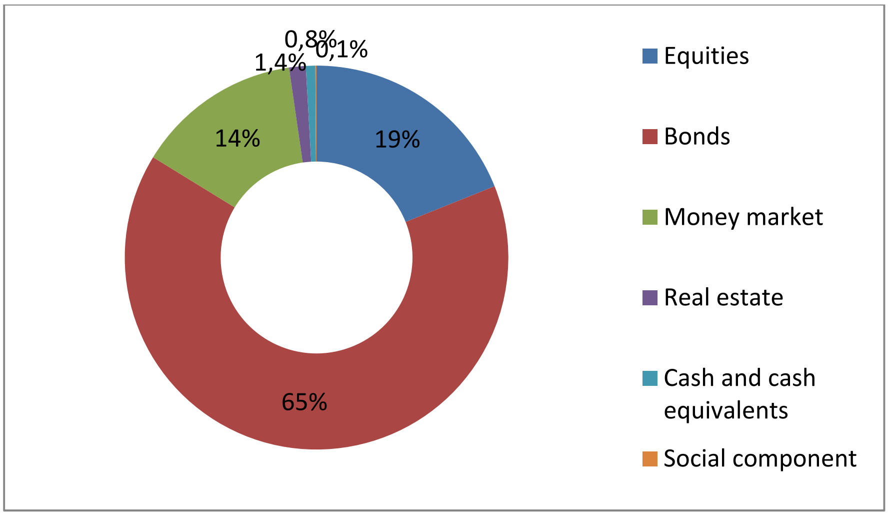
SRI strategies as % of assets



Source: Novethic and FIR

ESG selection remained the primary SRI strategy adopted in 2014, according to Novethic and the FIR. Of the 97% of assets subject to this approach, 90% adhered to a best-in-class methodology and 7% to a best-in-universe methodology. An increasing number of investment management companies combine these ESG approaches with the norms-based exclusions now applied by three-fourths of the market.

Breakdown of SRI assets by asset class



Source: Novethic and FIR

Equities and bonds represent, by their very nature, a major proportion of the asset classes. However, according to Novethic and the FIR, 14% of assets consist of money-market funds and real estate represents more than 1% at €2.88 billion (up 59% in 2014).

Lastly, integration of ESG criteria in investment management continues to expand (up 22% in 2014) and is applied consistently to €356 billion.

1.2.3. Asset managers use a variety and wealth of practices

There are multiple versions of each of the strategies identified above. For example, a positive ESG strategy may consist of a best-in-universe type approach. Only the best issuers are selected from the initial universe. A best-in-class type approach can also be implemented, where only the best issuers in each class or sector are selected for the portfolio. Unlike the best-in-universe approach, all classes or sectors can be represented in a best-in-class approach.

A single ESG criterion can be substantiated by a large number of indicators. When measuring an issuer's social aspect, asset managers can, for example, focus on human resources management, employee safety or compliance with international standards (ILO). They can also integrate societal criteria and examine the impacts of the issuer's activities on society as a whole. Lastly, looking more closely at one of these indicators, employee safety, for example, asset managers can use the rate of occupational injuries or the progression in that rate. They can also define different thresholds based on the nature of the issuer's business and its location. The “acceptable” occupational injury rate for a services company in Europe will therefore be lower than that of a public works company based in a developing country.

1.2.4. Approaches vary by country

The 2014 global sustainable investment review published by the Global Sustainable Investment Alliance describes the wide range of SRI management methods used around the world. The regions of the world with the sharpest growth in SRI assets are the United States, Canada and Europe. These regions represent 99% of responsibly managed assets. The report considered SRI strategies in the broadest sense of the term[32].

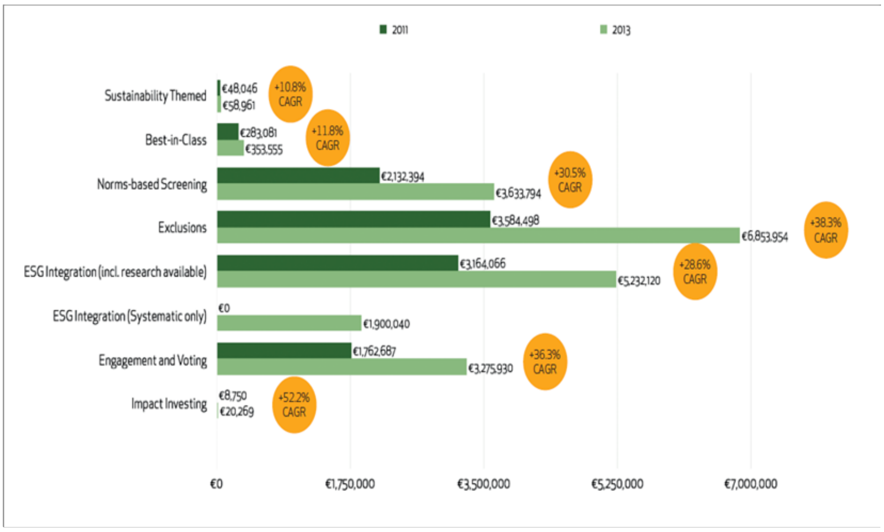
Internationally, the most common practice is negative screening or exclusion, particularly in Northern Europe. This is followed by ESG integration, which prevails in the United States, Australia/New Zealand and Asia. In third place is engagement, which is particularly popular in Canada.

North American market
The American market is a pioneer in SRI. The definition of SRI remains quite broad there and responsible investment practices are highly diverse (ESG integration, positive approach, exclusion, shareholder engagement). The North American SRI market (United States and Canada) grew by 74% between 2012 and 2014, rising from USD 4,329 billion to USD 7,517 billion. Institutional investors continue to dominate the market. This is true for the North American market and for the Canadian market, where demand for SRI strategies is driven by large pension funds that are very active in this area.

Asian market
Despite the lack of ESG data, which is hindering growth in the SRI market in Asia, this market is progressing, mainly in South Korea and Singapore. The primary strategies used are ESG integration and exclusion. Impact investing is also a major strategy in Asia. One of the distinct features of the Asian market is the source of demand for SRI financial products, with retail investors representing a significant share.

European market
At 97%, assets held by institutional investors represent almost all of the European SRI market. According to the results of a survey by Paris Europlace's Sustainable Finance Committee published on January 21, 2015, institutional investors in France are drawn to SRI products due to the scale of their social responsibility and in order to limit their reputation risk.

[32] Negative screening/exclusion, positive approach (best-in-class, etc.), ESG integration, themed investing, impact investing and shareholder engagement.



Source: Eurosif data (€bn), GAGR stands for Compound Annual Growth Rate

A Eurosif report published on February 8, 2015 paints a picture of the European SRI market[33]. The primary SRI strategies implemented in Europe are exclusion, ESG integration and shareholder engagement. Within these approaches, asset managers employ a wide variety of practices.

Norms-based exclusions continue to be widely used in Northern Europe. They relate in part to the steps taken at the national level on cluster munitions and anti-personnel landmines (CM & APL)[34] but also have a broader scope.

ESG integration is very widespread in the United Kingdom, the Netherlands and France, whether in its broadest form (ESG research made available to general analysts/managers) or most absolute forms (systematic ESG integration and/or constraint-based ESG integration). If only systematic ESG integration and constraint-based ESG integration are considered, the leading countries in Europe are the United Kingdom, France and the Netherlands.

With European texts such as the “Shareholder Rights” directive[35], engagement and the exercise of voting rights are gaining ground. The rising use of these strategies demonstrates the shift in investment management behaviour, particularly in markets such as Italy (193% growth between 2011 and 2013), Germany (up 48%) and Belgium (up 94%) where engagement had not been as widely used in the past. Leaders in engagement are the United Kingdom, the Netherlands and Norway.

Touching on the other types of SRI strategies, the Eurosif report highlights the widespread use of the best-in-class approach in France and its rapid ascension in Norway and the Netherlands. Themed investing also soared in France with a compound annual growth rate of 166% between 2011 and 2013.

Lastly, Eurosif estimates the size of the European impact investing market at about €20 billion at end-2013.

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[33] European SRI Study 2014 (8 February 2015) - www.eurosif.org

[34] The Ottawa (1999) and Oslo (2010) conventions ban the production, use, stockpiling, sale and transfer of anti-personnel landmines (APL) and cluster munitions (CM). In France, for example, “any deliberate financial assistance, whether direct or indirect, for the production or trade of cluster munitions would be considered assistance, encouragement or inducement falling under criminal law”.

[35] The European Commission adopted a proposal for the revision of the Shareholder Rights Directive on April 9, 2014. This revision aims to “strengthen shareholder engagement and introduce a 'say on pay' for the largest companies”.

*

*   *

To better understand the realities and challenges of the French SRI market, the AMF conducted interviews with key stakeholders when preparing this report (Appendix 2). It also performed an analysis using a sample of funds.

This review counted 409 funds marketed in France and promoting themselves as SRI at end-2013, for about €81 billion in assets. The SRI aspect of their investment management is generally expressed in their name and/or marketing message. The analysis was performed using a set of public documents (key investor information document (KIID), prospectus, reporting, annual report, transparency code) for a sample of 100 open-end funds representing €44 billion, or more than half the initial universe in asset terms.

The analytical method involved filling in a grid of about 180 questions. The responses to the quantitative and qualitative questions could be open- or closed-ended. While the sample was selected to be as representative as possible of the initial universe, the work done by the AMF was not statistical but rather aimed to identify best and worst SRI practices. When a figure derived from this analysis is cited below, it should therefore be considered in terms of its relative importance rather than its accuracy as such, as that is, by design, subject to limits.

The AMF has sometimes cited, as examples, excerpts from documents published by fund management companies included in this sample without identifying them by name.

II. Despite considerable effort, the French framework still does not enable investors to fully identify which products meet their needs

2.1. The clarity of information challenge and the risk of greenwashing[36] in the absence of a regulatory framework

Much of the challenge of defining the concept of SRI lies in the incorporation of a degree of subjectivity in the investment management process. That is the main reason a uniform definition has failed to emerge at the European level. The AFG-FIR definition is the first step towards clarifying this concept although it is still relatively broad. The different SRI strategies — the most common of which are described above — can be complex and combine a number of approaches. Similarly, the same approach can give rise to different practices by different asset managers. For example, within a best-in-class type approach, funds may use an ESG screen after a financial screen or before. In the first case, financial selection is more important and, in the second, ESG selection takes precedence.

This analysis shows that, from a selection method standpoint, the same SRI approach can result in the construction of vastly dissimilar portfolios. Conversely, broad similarities can sometimes be found between a portfolio managed to an SRI standard and a traditional non-SRI portfolio, and questions may be raised about the differentiating impact of certain SRI portfolio management practices.

It is not for the AMF to say whether one method is better than another. What is important is that investors have access to the necessary and sufficient information to decide whether the SRI strategy proposed is consistent with their understanding of it or at least in line with the assets they wish to finance.

It should also be noted that while all these approaches are concerned with defining criteria that will result in the selection of an investment for the SRI portfolio, they say very little, if anything, about investment management techniques. Yet both these aspects must be taken into account. For the purposes of this report, the AMF therefore focuses equally on the investment management techniques implemented by funds promoting themselves as SRI and on the methods used to select the portfolio securities/instruments and the corresponding asset classes.

2.1.1. Specific asset classes that raise the question of their compatibility with a socially responsible approach

The absence of a bespoke regulatory framework or a specific standard for SRI[37] promotes innovation because of the freedom it offers but is also a factor in the proliferation of investment management and selection methods, as well as of “investible” asset classes, hindering clarity for the end investor.

Aside from traditional asset classes such as equities and corporate bonds, it is legitimate to ask to what extent and under what conditions certain assets could fall under SRI. This question mainly concerns money-market assets, sovereign bonds, securitisation, and commodities and precious metals.

[36] The practice of providing the public with information that is not entirely accurate with the aim of presenting an environmentally friendly image to a targeted audience.

[37] This does not mean there are no rules at all. Articles L. 533-22-1 and D. 533-16-1 of the French monetary and financial code subsequent to the 2010 Grenelle 2 Act require that UCITS management companies and some AIF management companies disclose in their annual report and on their website the ways in which ESG criteria are taken into account (or not) in the investment policy of the funds they manage and explain how they exercise the voting rights attached to the corresponding securities. Article 173 of the law on energy transition for green growth of 17 August 2015 amends Article L. 533-22-1 and requires that institutional investors and open-end funds (SICAVs) disclose the ways in which criteria for meeting social, environmental and governance quality objectives are taken into account in their investment policy and the steps taken to contribute to the energy and ecological transition including the contribution to meeting the international objective of limiting global warming and achieving the energy and ecological transition goals.

Money-market assets
These assets, which represent a significant share of SRI assets (14% according to Novethic), have attracted a great deal of criticism from certain quarters:

- These are short-term assets: by definition, money-market assets have a short lifespan. Some therefore question the relevance of including these assets in the SRI landscape, which is founded on the three ESG pillars characterised by their long-term outlook.
- They are not consistent with a strong engagement policy: money-market assets offer limited flexibility when it comes to engagement. Investors are not always able to influence issuers' behaviour, unlike equities, which offer an opportunity to interact directly with the issuer over the course of the (long-term) relationship between the management company and the issuer.

Some management companies rely on these arguments to reject the idea of money-market SRI[38].

In contrast, advocates of money-market SRI believe the short-term nature of this asset class can be overcome given that money-market issues are recurring and often roll over at maturity, offering investors stability over time even if the maturity of the issues is particularly short. This stability can therefore have an impact over time. Advocates of money-market SRI also believe it is possible to consolidate positions at the management company level and to interact with issuers even though the proportion of equities is small.

Sovereign bonds
Compared to corporate securities, government-issued securities have the following distinctive characteristics which could raise flags for socially responsible investors:

- the non-financial analysis of States is not as developed as that of corporates': A number of questions remain, including: what is a socially responsible State? Is it the State that should be rated or the government, or its local authorities and public institutions? According to what standards?
- the engagement policy has a much smaller impact: an investment in sovereign securities would not influence government behaviour due to the fragmentation of the sovereign bond markets and the independence of public policies.

Note also that it is becoming more common for sovereign securities to be assigned a non-financial rating.

Green bonds
Green bonds have their own distinctive characteristics. Unlike sovereign and corporate bonds, it is not the issuer that is assessed but the underlying project funded by the bonds, and therefore the environmental and social impacts[39] associated with the project.

These innovative instruments are still lightly regulated despite the formalisation of the Green Bond Principles, launched in New York in January 2014[40], which promote "their transparency and integrity" with the aim of standardising the green bond market. Measuring the impact is also a real issue insofar as it is difficult to find relevant, comparable and verifiable quantitative indicators for the targeted projects. Each management company has therefore developed its own methodology for assessing a green or social project, as well as its own requirement thresholds, and decides how this assessment ties in to the overall ESG assessment of the issuer.

Other initiatives in this area include the one developed by Europlace, which published a guide on May 22, 2015 (*Green Bonds, The French Expertise*) for issuers and investors.

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[38] One major management company also states openly in the KIID for one of its funds "*Disregarding investments in money-market products for which a 'socially responsible' approach is not relevant".*
[39] Social impact bonds are quite similar to green bonds, but focus on social rather than environmental aspects. These are contracts entered into with the public sector that "reward investor engagement in a structure for the public good based on the costs the community will avoid due to its activity" (mouves.org).
[40] Novethic.

Securitised products

Securitisation contributes to the financing of the economy by creating ways to refinance certain intrinsically illiquid assets, generally receivables (trade receivables, bank loans to businesses, retail mortgage loans, car loans), which are grouped together and converted into financial securities then issued on the capital markets. Beyond this purely financial view, the question is how products derived from securitisation can be considered socially responsible. Why would one car loan or consumer credit be more socially responsible than another and on what basis?

First, it is worth noting that interest in assessing the social responsibility of certain credit offers is increasing. For example, a firm active in consumer credit recently asked a rating agency to analyse its new credit offer and marketing. After auditing both the structure of the offer with the marketing teams and how it would be marketed by direct sales consultants, the agency certified that the credit offer was socially responsible.

While some management companies do not provide for the possibility of investing in this type of product in the legal documentation for their SRI funds (prospectus), others retain this option (but without specifying any predetermined non-financial assessment criteria). Companies are working to develop procedures to assess the social responsibility of these products. Such an analysis could be based on an assessment of the borrower's profile (socio-professional category, income, etc.) the type of loan granted (revolving, other consumer credit, real estate investments), or the form of the loan (bullet or amortising) with the aim of “maximising the social impact”.

Commodities and precious metals

Investing in commodities and precious metals is a sensitive issue for an SRI fund.

It is important to clarify the management company's positions and approaches insofar as several funds promoting themselves as socially responsible are now investing in the commodities market, mainly through commodity index derivatives.

Management companies are expanding their SRI approach to assets that may be controversial. Similarly, as SRI is based mainly on listed companies' CSR approach, the “traditional” SRI selection methods are not directly applicable to specific asset classes such as real estate and private equity, and require adjustment. Several management companies are seeking to define a responsible methodology for funds that use investment management strategies with ties to private equity, real estate and infrastructure.

Private equity

SRI is based on an analysis of the non-financial information communicated by issuers; however, unlisted companies do not meet the same disclosure standards as listed companies. Yet, as Eurosif points out[41], investors in unlisted companies can directly influence the governance of these companies and can encourage them to incorporate social and environmental factors into the investment management of their business.

As such, the initiatives launched in this sector since 2008 by the *Association Française des Investisseurs pour la Croissance* (French private equity association — AFIC) are:

- publication of the Charter of Commitments for Investors in Growth adopted in 2008 and updated in 2014;
- publication of the Sustainable Development Guide (2010);
- creation of a Sustainable Development Club (2009) which became the ESG Committee (2013);
- distribution of the Guide to disclosing ESG information for private equity (2013);
- adherence to the United Nations Principles for Responsible Investment (2013).

[41] *Corporate Pension Funds and Sustainable Investment Study*, 2011.

These various documents highlighted the need to provide investors with sufficient information to understand a given responsible investment policy and decide whether it is in line with an approach they wish to finance.

In its "First Annual ESG Report", AFIC stated that, at end-2013, 62% of management companies had a formal ESG policy and that ESG is monitored for 35% of supported companies.

Real estate

The real estate sector is by nature involved in sustainable development issues. According to a recent study by an investment management company, this sector "*consumes 36% of the energy produced worldwide"* and *"the construction industry generates half of industrial waste*". To address the challenge, the Grenelle 2 Act introduced a stringent set of provisions for energy use.

However, as SRI is traditionally based on the three ESG pillars, real estate SRI differs from traditional SRI in that the governance criteria and, to a lesser extent, the less easily realisable social criteria[42] do not readily translate to the sector.

French real estate funds are gradually incorporating non-financial themes that go beyond buildings' energy consumption and CO_2 emissions. As such, there are several initiatives that illustrate the emergence of real estate SRI. Some real estate mandates managed for institutional investors take a best-in-progress approach, similar to that employed by certain traditional SRI funds. Another indication of growth in this market is Ethifinance's rating of a real estate fund made up of residential assets purchased from home-owner retirees who wished to sell their property to ensure additional retirement income without having to leave their home[43].

According to a joint report by Novethic and ASPIM, multi-criteria approaches are taking shape and more than half of management companies surveyed had formal ESG policies at the end of 2014. However, the processes for integrating criteria and the treatment of social and governance themes are very "disparate". At the end of 2014, €2.88 billion in assets were managed in ways that systematically take ESG criteria into account.

2.1.2. Potentially controversial investment management techniques in a responsible environment

Aside from the question of which asset classes are "investable" for socially responsible funds, a more in-depth look at the mechanics of SRI and a greater focus on the investment management techniques used by management companies are needed. **As is the case for asset classes and selection methods, it is not for the AMF to say whether an investment management technique is compatible with an SRI dimension. What is important is that investors have access to the necessary and sufficient information to decide whether the SRI strategy proposed is consistent with the investment they would like to make.**

Derivatives

The use of derivatives is a sensitive issue as it raises the question of the fund's tangible impact on the real economy.

In practice, management companies have different views on these instruments. Some maintain that they do not have a significant impact on the SRI quality of the fund. Others integrate ESG criteria in their choice of underlying asset and/or counterparty. Lastly, some reject outright the use of derivatives in their SRI funds.

[42] The following social criteria may be used, for example: "disabled access; the comfort and well-being of the building's occupants with consideration given to mechanisms that ensure a high level of comfort (visual, auditory, olfactory, hygrothermal)".

[43] Article published by Option Finance in 2010.

Within the sample, all SRI funds retain the option of using derivatives in their legal documents. These instruments can be used for hedging, exposure, overexposure, arbitrage or trading purposes.

Excerpt from a prospectus

☒ futures contracts are used (i) in buy and sell transactions as inexpensive and liquid substitutes for direct investments in order to adjust both the portfolio's overall exposure to bond or equity markets and the geographic allocation among various countries, (ii) to implement arbitrage strategies to take advantage of inefficiencies, (iii) in buy and sell transactions involving equity market volatility indices, either to protect the portfolio against a rise in market volatility or to expose it to a drop in volatility.

☒ credit derivatives (credit default swaps, Itraxx and CDX) are used either to protect against credit risk or issuer default, or in connection with arbitrage strategies: to anticipate upward and downward fluctuations in these instruments or to take advantage of disparities (i) for a single issuer, between the credit risk market and the market for the security or (ii) between two issuers. Purchasing protection reduces the portfolio's risk whereas selling protection, which results in the synthetic replication of ownership of a physical security, generates a risk equivalent to that of direct ownership of the security. Therefore, like a default by an issuer in the portfolio, a default by an issuer underlying a credit derivative will have a negative impact on net asset value. CDS may be rated AAA to BBB- according to S&P's rating scale or Aaa to Baa3 according to Moody's.
The fund's derivatives exposure may not exceed 100% of net assets.

Lending/borrowing
Securities lending/borrowing is another hotly debated investment management technique. Just like the use of derivatives, securities borrowing/lending is covered by specific sections of the AFG-FIR transparency code[44]. Three key points are addressed:

- whether or not securities lending/borrowing is used;
- the effectiveness of a securities recall policy so that voting rights can be exercised (critical to the manager's ability to pursue an engagement policy);
- inclusion of ESG criteria in counterparty selection.

There again, practices vary among SRI fund managers. Some prohibit the use of securities lending/borrowing. Others allow it, provided securities can be recalled to exercise voting rights (e.g., establishment of a minimum usage constraint of 70% of voting rights).

[44] Question 3.e).

Excerpt from a prospectus

♦ Type of transactions used:

☒ repurchase and reverse repurchase agreements by reference to the French monetary and financial code
☒ securities lending and borrowing by reference to the French monetary and financial code

♦ Type of activity, as transactions may be carried out only for the purpose of achieving the investment objective:

☒ cash management: through repurchase or reverse repurchase agreements;
☒ optimisation of the fund's income;
☒ potential contribution to the fund's overexposure.

Repurchase and reverse repurchase agreements are used to manage cash and optimise the fund's income (reverse repurchase agreements in the event of a cash surplus; repurchase agreements in the event of cash requirements).
Securities lending is used to optimise the fund's performance via the returns it generates.

The fund's exposure to the temporary purchase and sale of securities may not exceed 100% of net assts.

The fund's exposure to derivatives and to the temporary purchase and sale of securities may not exceed 100% of net assets.

<u>Funds of funds and master-feeder structures</u>
While SRI funds of funds can be understood as a vehicle for diversification, this method of investment management raises several questions:

- the lack of a direct connection between the fund and the companies financed;
- the lack of consistency among the underlying funds (in terms of approaches, criteria and investment management techniques);
- the complexity of assessing the impact of the investment;
- the dilution of the proportion of SRI assets represented at the core fund level.

SRI funds of funds exist within the SRI management landscape. They offer exposure to several underlying vehicles that use an SRI approach.

<u>Index tracking</u>
With index tracking proper, fund managers use a passive, rather than active, investment management strategy in which they seek full replication of a benchmark. Fund managers can replicate an index by buying all the securities that make up the replicated index in the right proportions, buying listed derivatives (futures), or entering into over-the-counter derivative contracts (usually performance swaps) with intermediaries (synthetic replication). Critics of synthetic replication note that it means there is no actual investment and therefore no direct financing of the underlying companies. Conversely, its proponents underscore that such a fund helps finance companies indirectly because it enters into a contract with a counterparty that ultimately must replicate the given exposure.

"Benchmarked" management is another type of model. Some degree of deviation from a given index is permitted, with the requirement that the tracking error, relative to the benchmark, remain below a predetermined threshold. This type of approach considerably limits the trade-offs made at the non-financial level as well as the fund manager's engagement.

The index replicated in passive investment management or used as a reference in benchmarked active investment management can be an SRI or traditional index. The index's socially responsible dimension is therefore highly relevant. The robustness of the index's SRI methodology affects the robustness of the SRI strategy of the fund that seeks to replicate its performance. However, at a time when most of the indices used are traditional and not SRI indices, the information provided to investors must clearly reflect this dimension.

Structured funds

These funds are not particularly common in the French SRI universe at only 8 out of the 409 funds in the identified universe. With these funds, the financial gain is determined mainly by a formula based on the performance of the SRI index or a basket of securities selected according to financial and non-financial criteria. This basket is most often fixed, irrespective of its ESG quality. The disconnect and the distance in the relationship between the fund and the issuers selected based on ESG criteria are therefore also significant.

Excerpt from a prospectus for a structured fund whose name includes the term "SRI"

Investment objective:
[…] The investment objective of the [name of management company] SRI fund is for them to benefit from:
- a 100% capital guarantee excluding any subscription fees.
- performance linked to the performance of a basket of 25 euro-area equities […]

Structure:
This fund's underlying economic bet is moderate growth in the equity markets in euro-area countries for the duration of its formula. In return for the capital guarantee (excluding any subscription fees) on the Guarantee Maturity Date, the holder then:
- waives the dividends associated with the shares in the basket;
- benefits from a performance linked to the performance of a basket of 25 euro-area equities, with the understanding that negative performances are taken into account as is and positive performances are 55% replaced […]

This basket of 25 equities was selected from a universe of euro-area large caps using both financial and non-financial criteria relating to the companies' sustainable development practices. The financial criteria used to select the securities are based mainly on the quality of the security's financial visibility, financial strength and operational and accounting transparency, etc. The non-financial criteria are based on respect for human rights, social and environmental policies, corporate governance and the social behaviour of the companies selected. Consideration of these criteria complements the use of traditional financial criteria, such as earnings growth and company valuations, with the aim of building a basket of equities that offers the best pairing of social and financial qualities.

Assets used:
[…]
For the duration of the formula:
The UCITS portfolio is invested:
- primarily in a basket of European government bonds issued in euros with maturities similar to the maturity of the UCITS. These bonds offer semi-annual or annual fixed-rate coupons. The basket of bonds is designed to enable investors to receive the guaranteed capital on the Guarantee Maturity Date.
- secondarily (less than 10% of its assets) in equities or units of other European Directive-compliant French or foreign UCITS. To avoid conflicts of interest, [name of management company] has developed a conflict-of-interest management policy accessible on the website […]

The fund will also contract a number of swaps to enable it to receive, on the Guarantee Maturity Date, an amount that, in view of the securities in the portfolio, will allow it to achieve the investment objective. The fund manager may also carry out temporary purchases and sales of securities and borrow cash up to a maximum of 10% of net assets.

The same question arises with synthetic replication index tracking: the fund is exposed to the performance of responsible companies (sometimes selected according to a very rudimentary method) but is not directly invested in the companies in question. Engagement is limited or non-existent. Also, exposure to ESG assets is particularly limited when the formula is similar to the one presented in the boxed text. While this formula may change based on market conditions, the order of magnitude of the exposure when such a product is launched is 20-30% of the amount invested.

Some of the structured funds in the review present a high level of transparency, as the following example shows.

Excerpt from a prospectus for a structured fund

Investment objective:
The investment objective is to guarantee investors […] a net asset value equal to the Reference Net Asset Value plus 120% of the Average Performance of the [name of Index] Index excluding dividends (the "Index"), if it is positive, or less a maximum of 10% if the Average Performance of the Index is negative. Investors may therefore lose 10% of capital invested (excluding subscription fees or upfront fees).

The composition of the Index is determined based on a combination of, first, environmental, social, governance (ESG) and ethical criteria and, second, financial criteria. The composition of the Index is reviewed every three months in accordance with the selection methodology described below.

Selection methodology for shares included in the [name of Index] Index:
The [name of Index] Index is composed of 30 European equities, selected in accordance with a strict methodology from all companies rated by the XXX rating agency.
Its composition is determined based on a combination of, first, environmental, social, governance (ESG) and ethical criteria and, second, financial criteria.
To reflect the reality of the market, the composition of the index is reviewed every three months and is determined in accordance with the following selection process:
The 30 shares included in the index are selected from a universe of more than XXX securities on which XXX publishes analyses and issues opinions. This is a three-step selection process:
1- ESG screen
The first selection screen is to choose only the European companies with a score greater than:
(i) the average in their industry, AND
(ii) the overall average of the European investment universe.

2- Ethical screen
A second ethical screen aims to exclude companies that:
(i) generate more than 50% of their sales in the nuclear industry,
(ii) are heavily involved in producing or distributing products and services relating to gambling, tobacco or weapons,
(iii) have been involved in major human rights or labour law controversies within the meaning of the International Labour Organization,
(iv) have been involved in major environmental controversies.

3- Selection based on financial criteria […]

Hedge fund strategies
As with the above strategies, some question the consistency of certain investment management models and the tangible impact of these strategies on the targets selected according to ESG criteria.

Some of the funds analysed implement alternative strategies that fall under the heading of arbitrage. This investment management technique aims to achieve an absolute performance that is decorrelated from the financial markets, mainly through yield curve, convertible bond or volatility arbitrage.

In general, the question is whether absolute performance investment management techniques, which could involve playing a down market and could therefore mean the relevant funds are not invested, can be characterised as socially responsible investment. Critics of absolute performance SRI management therefore generally highlight the fact that before it is even socially responsible, SRI should start with an actual investment and not a play, if need be to the downside, on financial market performance.

Excerpt from a prospectus

⬩ Risks to which the manager seeks exposure

☒ equity
☒ interest rate
☒ currency
☒ credit: credit default swaps, CDS indices (Itraxx, CDX)
☒ other risks: volatility, commodities via stock market indices

⬩ Type of activity, as transactions may be carried out only for the purpose of achieving the investment objective:

☒ hedging
☒ exposure
☒ arbitrage
☒ tactical buy/sell transaction (**trading**)

⬩ Type of instruments used:

☒ futures: equity/stock market index, currency, interest rate and volatility index futures
☒ options: equity/stock market index, currency and interest rate options
☒ swaps: currency, equity/stock market index and interest rate swaps
☒ currency forwards: Forward purchases and sales of foreign currencies
☒ credit default swaps, CDS indices (Itraxx, CDX

It is worth noting that one fund in the sample has implemented a constant proportion portfolio insurance (CPPI) strategy. CPPI uses a dynamic investment management technique[45] that enables investors to maintain exposure to risky assets while guaranteeing some of the capital invested in low-risk assets.

While it is entirely possible for these funds to invest in "SRI" assets, the controversy lies in the CPPI management process. The asset reallocation is based primarily on the CPPI-specific mechanism, with the objective of protecting some of the capital invested, then, where possible, on the manager's non-financial conviction. It is therefore difficult to implement an engagement policy due to the lack of flexibility in the investment management process.

[45] The manager does this by determining the "cushion" or the portion of the fund's assets that can be risked without jeopardising the level of protection. The cushion is measured as the difference between the initial value of the product and the minimum current value required to offer a capital guarantee at maturity. Using quantitative models, the manager then determines the indexing (or multiplier) to be applied to the cushion to define the portfolio's exposure to the risky underlying. The indexing is adjusted dynamically and depends on fluctuations in the risky underlying. The better the performance of the risky underlying, the higher the indexing and the more the manager increases the share of risky assets. And, vice versa, the lower the return on the risky underlying, the lower the indexation and the more the manager reduces the share of risky assets.

Excerpt from a prospectus

Strategies used

The Fund will be managed in accordance with a portfolio insurance mechanism based on the distinction between two types of assets within a single portfolio:

- an asset with a money-market and/or bond risk profile to ensure partial protection. This asset may be made up of a combination of money-market assets, euro-denominated bonds, sustainable development-themed (SRI) funds and interest rate swaps.
- a risky asset, intended to generate the desired performance. The manager shall therefore use:
- euro-area and international government bonds, as credit obligations and as emerging country debt through direct investments, collective investment scheme vehicles and bond futures.
- euro-area equities and international — including emerging country — equities, through sustainable development-themed collective investment scheme vehicles, futures, direct investments.
- other sources of value added (currency, volatility, diversified funds).

The outcome of the “SRI” fund selection process is the use of funds made up of securities with good ESG practices (social, environmental and corporate governance ratings corresponding to the rating agencies' assessment of the companies' social responsibility and the existence of analysts with expertise in this field). […]

Equities:

Exposure to the equities asset class is limited to 50% of assets and is acquired through sustainable development-themed (SRI) funds, direct investments and derivatives:

-European and international equities
-All sectors
-All management styles
-The portfolio may be exposed to small and mid-caps. The breakdown between large, mid- and small caps is not predetermined and will depend on the manager's expectations with no pre-established limit.

Financial innovation is healthy as long as it is controlled and investors have the tools they need to understand their investments. Socially responsible investment is no exception. To give meaning to SRI, it is important to give meaning to the words that characterise this form of investment. This requires more precise definitions of both the form and substance of its practices.

Aside from this need to clarify the information and the room for manoeuvre consistent with the concept of socially responsible investment, it is important to ask whether the information in the basic documentation — the legal documentation — is sufficient for investors to identify the SRI approaches that are consistent with their principles

2.2. Insufficient information in the legal and marketing documentation sometimes leaves investors unable to identify the SRI approaches they want to invest in, and to assess the quality of the non-financial dimension of the portfolio management

This review counted 409 open-end funds marketed in France and promoting themselves as SRI at end-2013, for about €81 billion in assets. The SRI aspect of their investment management is generally expressed in their name and/or marketing message.

This group of funds also consists of funds whose names include descriptors equivalent to the SRI designation, or descriptors that are close to or fall under related concepts, such as “responsible”, “sustainable”, “ethical”, etc. However, the sales pitches for all these products are similar.

Within this expanded universe, a review of a sample of 100 funds — representing €44 billion, or more than half the initial universe in asset terms — as stated above, shows that 74% of the time, investors do not have enough information to understand what it means in practice when a product has SRI in its name.

Consequently, the gaps in the information about funds' SRI management vary widely in scope:

- 3% of the time, the fund is listed as belonging to the producer's family of SRI or equivalent funds but this characteristic is not reflected at all in the legal documentation. This extreme example is, however, rare;
- 18% of the time, the fund states that there is a responsible investment policy but the legal documentation provides no information on the nature of the non-financial criteria used;
- 40% of the time, the fund states that there is a responsible investment policy, and the legal documentation does provide information on the nature of the non-financial criteria used, but this information gives very few details (for example, it notes the existence of environmental, social and governance criteria, but nothing further);
- 13% of the time, the information on the nature of the non-financial criteria is highly detailed but the approach used is not defined (for example, exclusion, weighting, restrictions on the eligible universe before or after financial criteria are factored into the investment process).

Ultimately, while it is generally clear whether a particular fund is included in the SRI scope, there is often insufficient information about the nature of the non-financial criteria or an incomplete explanation of how the SRI mecanism is implemented. In contrast, some management companies are making a concerted effort to inform and it is important to highlight best practices.

Excerpt from a key investor information document

Investment objective

The fund's objective is to seek long-term capital growth, measured in euros, mainly through exposure to euro-area equity markets, by implementing dynamic, discretionary investment management through a selection of financial instruments based on a financial analysis of socially responsible issuers.

Investment policy

The investment strategy is to seek the best opportunities in euro-area and global equity markets. This fund's investment strategy is to invest in securities that meet socially responsible criteria (for example, social policy, the company's commitment to the environment, relationships with shareholders and partners (clients and suppliers), the company's commitment to corporate citizenship).

In accordance with Decree no. 2012-132 of 30/01/2012, please be informed that the fund simultaneously applies environmental, social and governance criteria (ESG criteria), as determined by [*name of management company*]. Information about these criteria can be found on the management company's website [*link*] and reference will be made to this information in the annual reports for the financial years beginning on or after [*date*]. The following documents are also available from the management company and are updated on a regular basis: the transparency code applied by the fund and non-financial reporting, which includes information on the ESG qualities of the issuers in which the fund has invested.

Although best practices do exist, the lack of information available on SRI management policies in the legal documentation of certain funds is cause for concern. This applies to French SRI funds as well as foreign funds marketed in France with a European passport[46].

Investors may access the following documents to learn about a fund's SRI policy:

- regulatory documents: Key Investor Information Document (KIID) and prospectus;
- other documents: sales brochure, transparency code, reporting.

Key information about the SRI policy must be included in the legal documents, which alone are binding. These documents form the core of the regulatory framework as the AMF's entire policy on disclosure relates back to their content (documents must be consistent among themselves).

In light of the best practices observed over the course of this review, the key elements that would benefit from inclusion in the regulatory documents to aid in the understanding of SRI policy are:

- **An investment objective that incorporates a non-financial dimension**: this does not mean taking a stance on the mainstreaming of “impact”-like non-financial objectives (for example, regarding the environment: X% reduction in the carbon emissions of issuers in the portfolio), but rather specifying that the investment objective comprises a non-financial approach or that it is pursued within the confines of SRI.

- **Details on the SRI strategy applied**: this means explaining the fund's main SRI strategy in simplified terms. This SRI strategy is specific to each fund, in that it generally represents a combination of standard approaches (see below).

- **The selection methods used**: The way in which ESG criteria dovetail with financial criteria in the selection process.

[46] 29 of the 100 funds in the sample.

<u>The following element is incorporated into AMF policy:</u>
For greater clarity, regulatory documents and marketing materials for SRI funds should include (i) an investment objective that incorporates non-financial aspects, (ii) the SRI approaches applied and (iii) information about the investment management and selection methods used.

Moreover, insofar as retail investors have neither prior knowledge of the scope of the SRI offering nor a technical understanding of the different possible approaches, the information should enable them to place any SRI fund in the context of a universe made up of several major generic approaches. Investors should therefore be informed not only of the SRI approaches that constitute the fund's strategy but also of the approaches excluded by the fund's strategy. This will allow investors to instantly view the different SRI offerings and draw their own conclusions about the possible approaches.

The SRI approaches applied could be based on the "traditional" types of SRI (best-in-class, engagement, exclusion, systematic ESG integration, impact investing, themed investing, etc.). These classifications will be considered clear when investors can understand them and their definitions are standardised and easily accessible on a public platform. Some balance needs to be found in this regard to ensure that investors are well informed while not oversimplifying the segmentation and thus erasing the significant differences among SRI management approaches.

This recommendation accords with the following proposal issued by EFAMA:
"*In this EFAMA Guidance*[47]*, EFAMA suggests that, for funds which are marketed as RI, the KIID could include a very short first guidance in form of a standardized wording. This will allow investors to more easily recognize and compare RI offerings. Investment managers may of course at their own discretion include further and more detailed information into the KIID or any other fund documentation. The KIID should also provide information as to where investors may find further information of the RI features (for example on a website, the long form prospectus, financial reports etc.)*". EFAMA therefore proposes that the documentation include generic wording such as "*This fund takes [environmental and/or social and/or governance factors] into consideration by [selecting/excluding/following or engaging/voting] based on [Best-in-Class approach/Thematic approach/Norms based approach]*".

The AMF also observed that some firms have implemented best practices involving the disclosure of secondary but useful indicators that show where each fund is positioned relative to these controversial practices (turnover rate, selectivity rate, purpose of the derivatives used, impact measurements).

While the SRI movement continues to evolve and its actual impact is not easily measured, this issue nonetheless remains is a key concern for investors and their expectations remain high.

2.3. Information transparency, accessibility and reliability: three prerequisites for growth in the SRI market

SRI takes multiple forms. All investors should therefore be able to look at the market and find a strategy that aligns with their own expectations and philosophy. They can choose to focus on financing issuers who make substantial ESG efforts (best-effort) or select an investment strategy that supports issuers with the highest ESG ratings. This shows the complexity of grouping such diverse strategies under the single heading of SRI.

The wide variety of SRI practices only presents a real opportunity if the information provided to investors is sufficient for them to form their own opinion about whether the proposed products meet their expectations. This aspect is also vital in an intermediated market where advisors direct investors to specific SRI products. To act in the best interest of their clients, these advisors need to be able to understand the SRI strategy they are recommending.

[47] *EFAMA Guidance on RI information in the KIID & Post Investment Disclosure.*

There is no such thing as an SRI asset, like bonds and equities, for example. SRI is a multifaceted concept. Against this backdrop, management companies need to ensure sufficient transparency in the strategies implemented and focus on the accessibility and reliability of the information disclosed. Only then will investors be able to form their own opinion on the robustness of the SRI aspects proposed.

2.3.1. Calls by SRI investors for greater transparency

Many SRI stakeholders agree on the crucial nature of the concept of transparency. A European transparency code has moreover been developed to better meet this challenge. This code is fully in keeping with the European SRI Transparency Guidelines. It aims to improve transparency for investors so they can understand asset managers' SRI practices and biases. The first version of this code was introduced in May 2008. The Board of Directors of Eurosif adopted it on October 3, 2012. In December 2013, more than 500 all-subscriber funds, out of nearly 884 distributed in Europe, had a transparency code. A “transparent” logo was even created to promote funds whose managers support transparency. This logo may be used as long as the product's transparency code has been updated and it has been reviewed by the local SIF.

While use of the transparency code varies by country, a number of labels and associations are interested in this initiative and would like to promote it domestically. In France, the AFG, the FIR and Eurosif adopted their versions of the transparency code at their board of directors meetings of December 13, 2012 (AFG), December 20, 2012 (FIR) and October 3, 2012 (Eurosif).

This code is now required for all SRI funds that are open to the public and managed by management companies that are members of the AFG or the FIR. In adhering to this code, fund managers agree to answer questions about each of their all-subscriber SRI funds. Signatories must reference this code when they communicate on the SRI aspects of the funds they manage. Adherence to the transparency code, which is mandatory for the retail SRI funds of companies that are members of the AFG and/or the FIR, signifies compliance with the expectations of the Grenelle 2 Act.

Within the sample, most of the funds analysed had an easily accessible transparency code (82%[48]). This practice should be commended but is clearly not the case for one in five funds. However, significant disparities were observed when the focus turned to the content of the code. While some of the transparency codes are used as a real selling point and provide details on the information presented in the legal documentation, others are much more sparse and the length of the document is not always an indication of its quality.

Such a code could also be required for all-subscriber SRI funds "passported" to France (at end-2013, 30% of the 409 funds identified above). The number of funds that are responsible or promote their connection to sustainable development has risen in recent years. However, scant information may be provided about the SRI process. Consequently, to ensure that investors have adequate information, any fund that wishes to promote itself as responsible should be required to publish a document comparable to the transparency code. This requirement would align the practices of SRI funds under the Transparency Code standard that has been defined at the European level.

The following element is incorporated into AMF policy:
The AMF recommends that any fund marketed in France and wishing to promote its SRI aspects publish a document that clarifies its approach, modelled on the European Transparency Code, or adhere to a charter, code or label that factors in criteria relating to the achievement of social, environmental or governance quality objectives.

The Novethic label already insists on a certain level of transparency and one of its requirements is that applicant funds duly complete the transparency code to be eligible for the SRI label. With new labels

[48] The remaining 18% might have such a code, but AMF staff were unable to locate them.

now being launched[49], the importance of transparency and the need for certifiers to verify its adequacy must not be forgotten.

Non-financial reporting is another important vehicle for transparency. It gives investors a more detailed picture of the practical implications of the investment decisions management companies make about the composition of their SRI portfolios. The quality of the SRI reporting is therefore closely linked to the quality of the data made available to fund managers. As such, issuers' CSR is a crucial factor when preparing the reporting. Yet, as noted in the AMF's November 2013 report on the social and environmental responsibility information published by listed companies[50], while some progress has been made in recent years, much remains to be done to ensure that management companies publish relevant, uniform indicators that allow for a comparison across all SRI vehicles.

Lastly, impact investing funds present one final major challenge. They promise investors that their SRI fund's investment policy will have tangible positive externalities. However, it is still difficult to single out the consequences of the investment policy pursued at the SRI vehicle level. The problem is mainly that it is hard to measure in isolation the impact of a fund's investment policy on the issuer's behaviour. There is therefore significant room to improve how the impact highlighted by some SRI strategies is measured.

<u>Avenue of discussion:</u>
Continue and strengthen efforts to better define the indicators used and their method of calculation in the non-financial reporting of SRI funds.

<u>The following element is incorporated into AMF policy:</u>
Funds communicating about objectives to measure their ESG impact should, first, present clear, precise objectives that are well-argued and measurable and, second, monitor these objectives over time.

Transparency means improving the content of non-financial reporting. But the quality of the reporting is closely linked to issuers' progress on CSR. Note, therefore, that issuers still use a variety of different indicators to evaluate the same themes. Although certain trends are crystallising and certain key indicators are gaining ground, this aspect makes it difficult to compare non-financial reporting across SRI funds and over time.

2.3.2. Accessibility of SRI information

The issue of the accessibility of investor documentation is an extension of the transparency question. Any investor seeking information about a financial product needs access to a number of important documents.

Foremost among them is the legal documentation. As stated in the previous section, this basic document is indispensable and must include a minimum level of information about the product's SRI strategy. This is also the document in which the management company makes a commitment to investors. The legal documentation must therefore specify the SRI process and the main environmental, social and governance criteria used by each management company. It does not have to be as comprehensive as the transparency code. However, information that explains the funds' SRI aspects should be included in summary form in the KIID and detailed more thoroughly in the fund prospectus.

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[49] In France, on September 28, 2015, the Minister for Finance and Public Accounts announced the creation of an SRI label backed by the public authorities. At the same time, the Minister for Ecology, Sustainable Development and Energy launched the consultation procedure for documents concerning the creation of an "Energy Transition and Climate" label.

[50] AMF Recommendation No. 2013-18. This report noted that "*the wide range of indicators used by companies in each area makes it difficult, as in 2010, to compare indicators across companies, although trends are crystallising in terms of the selection of certain indicators; the methods used to measure the same indicator may vary from one company to the next, although more and more companies are supplying specific information about the methodologies they use*".

Next follow the two documents mentioned above, the transparency code and non-financial reporting. These are intended to supplement the information in the funds' legal documentation. The transparency code further details the SRI process established at the individual vehicle level. Non-financial reporting describes the real ex post impacts on implementation of the SRI strategy. Transparency codes are not always available on the management companies' websites; within the sample, this was the case for 24 funds. Sometimes, only old versions of the transparency code are posted on companies' websites. Within the sample, 4 of the transparency codes available on the management companies' websites were out of date, having last been updated prior to 2014. While the trend is moving towards the disclosure of non-financial reporting, the practice is still not widespread among French asset managers[51].

The websites of the AFG and the FIR have dedicated pages for transparency codes. This initiative is worth noting as any investor can visit those sites to compare fund manager philosophies side by side. However, the two dedicated pages are not systematically updated and can sometimes link to old versions of the transparency codes.

Avenue of discussion:
Ensure that transparency codes are accessible and up to date by compiling them all on a single web page. At the very least, such a page could list the relevant funds and link to the management companies' websites where the corresponding transparency codes are available for download.

Within the transparency codes, several issues relate to engagement and, more specifically, the voting and/or issuer dialogue policy. Many management companies report having a voting policy and/or dialogue policy but not all of them make it easy to access the relevant documentation. Yet, here again, it is important for management companies to communicate this type of information. Just as non-financial reporting identifies the tangible impacts of the SRI strategy, voting and/or dialogue reports summarise the management companies' engagement decisions.

The following element is incorporated into AMF policy:
The AMF recommends that non-financial reporting (whether or not it is incorporated into traditional financial reporting) be easily accessible from web pages dedicated to SRI funds and that it be updated at least once a year.

The following element is incorporated into AMF policy:
If the management company reports having an engagement policy, the AMF recommends that it specify the procedures for accessing the documents that provide details on these aspects (voting and dialogue reports).

A number of interesting initiatives are under way, such as those implemented by the US SIF and by the *Fédération belge du secteur financier* (Belgian financial sector federation — Febelfin)[52]. This organisation launched a site that is specifically for sustainable products. It presents a clear summary of their main characteristics and lists the key documents under one heading. This type of initiative makes it easier for potential subscribers and investors to do their research and thus helps improve the transparency of these financial products.

Avenue of discussion:
Modelled on Belgian or US practices, the information used to situate each fund within a typology of approaches could be centralised in one document that covers all funds. This document could be made available, for example, on the website of one or more professional associations.

[51] The entry into force of Article 173 of the law on energy transition for green growth of 17 August 2015 will likely lead to changes.

[52] It covers 264 financial institutions located in Belgium and includes not just banks but also lenders, asset and fund managers, broker-dealers, leasing companies, etc. Insurers, pension funds and investment firms are excluded.

2.3.3. Reliability of SRI information

Investors have many sources of information, ranging from legal documentation to non-financial reporting to transparency codes. However, the consistency of their content is just as important as their accessibility. Increased disclosure on SRI should not come at the expense of the consistency and reliability of the data provided.

The transparency code generally provides more specifics on the information in the legal documentation. Management companies answer certain questions to give additional details on the investment management processes and criteria presented in the legal documentation. However, the answers given to certain questions in the transparency code regularly differ from the information included in the legal documentation. When questioned, management companies stated more often than not that their SRI funds did not use derivatives or securities borrowing/lending. However, the legal documentation for the vehicles in question frequently do provide for this option. While the reason for this discrepancy could be that the legal documentation describes the manager's room for manoeuvre while the transparency code deals with the actual investment management approach employed, this information may be misleading for investors who, based on the transparency code, might believe that the company prohibits the use of certain instruments and/or certain investment management practices. This point is particularly worrying as these are not trivial issues. Novethic believes, for example, that an SRI fund should use derivatives only for hedging purposes. Similarly, the practice of securities borrowing/lending can prompt considerable debate on shareholder engagement.

The following element is incorporated into AMF policy:
Management companies shall ensure consistency among the different sources of information available and, more specifically, between the marketing materials and legal documentation and the transparency code.

In addition to improving the transparency of the SRI vehicles and investors' access to documentation, substantial progress also needs to be made on the reliability and consistency of the information. All the investor information needs to be accessible, reliable and up to date.

Annex 1: Proposed positions, recommendations[53] and avenues of discussion

	Positions - Recommendations – Avenues of discussion
1	**<u>Recommendation:</u> For greater clarity, regulatory documents and marketing materials for SRI funds should include (i) an investment objective that incorporates non-financial aspects, (ii) the SRI approaches applied and (iii) information about the investment management and selection methods used.**
2	**<u>Position:</u> Management companies shall ensure consistency among the different sources of information available and, more specifically, between the marketing materials and legal documentation and the transparency code.**
3	**<u>Avenue of discussion:</u> Ensure that transparency codes are accessible and up to date by compiling them all on a single web page. At the very least, such a page could list the relevant funds and link to the management companies' websites where the corresponding transparency codes are available for download.**
4	**<u>Recommendation:</u> The AMF recommends that any fund marketed in France and wishing to promote its SRI aspects publish a document that clarifies its approach, modelled on the European Transparency Code, or adhere to a charter, code or label that factors in criteria relating to the achievement of social, environmental or governance quality objectives.**
5	**<u>Recommendation:</u> If the management company reports having an engagement policy, the AMF recommends that it specify the procedures for accessing the documents that provide details on these aspects (voting and dialogue reports).**
6	**<u>Recommendation:</u> The AMF recommends that non-financial reporting (whether incorporated into traditional financial reporting or not) be easily accessible from web pages dedicated to SRI funds and that it be updated at least once a year.**
7	**<u>Recommendation:</u> Funds communicating about objectives to measure their ESG impact should, first, present clear, precise objectives that are well-argued and measurable and, second, monitor these objectives over time.**
8	**<u>Avenue of discussion:</u> Continue and strengthen efforts to better define the indicators used and their method of calculation in the non-financial reporting of SRI funds.**
9	**<u>Avenue of discussion:</u> Modelled on Belgian or US practices, the information used to situate each fund within a typology of approaches could be centralised in one document that covers all funds. This document could be made available, for example, on the website of one or more professional associations.**

[53] Which are incorporated into AMF policy.

Annex 2: List of interviewees

- ***Forum pour l'Investissement Responsable* (French Social Investment Forum — FIR)**
    - Bertrand Fournier, President
    - Grégoire Cousté, Executive Director

- ***Association Française de la Gestion Financière* (French Asset Management Association — AFG)**
    - Laure Delahousse, Director of Specialised Investments
    - Philippe Zaouati, Chief Executive Officer of Mirova
    - Audrey Hyvernat, Head of Private Equity and SRI

- ***Association Française des Sociétés de Placement Immobilier* (French association of real estate investment companies — ASPIM)**
    - Arnaud Dewachter, General Manager
    - Stéphanie Saint-Pé, Director of Tax and Legal Affairs

- ***Association Française des Investisseurs pour la Croissance* (French private equity association — AFIC)**
    - Paul Perpère, Delegate General
    - Olivier Millet, Chairman of the ESG Committee
    - France Vassaux, Head of the Tax and Legal Department

- ***Association Française des Investisseurs Institutionnels* (French association of institutional investors —AF2I**)
    - Jean Eyraud, Chairman
    - Philippe Haudeville, Secretary-General

- ***Caisse des dépôts et consignations***
    - Joël Prohin, Head of Proprietary Asset Management

- ***Etablissement pour la retraite additionnelle de la fonction publique* (French public service additional pension scheme — ERAFP)**
    - Philippe Desfossés, Chief Executive Officer

- ***Fonds de Réserve des Retraites* (French pension reserve fund — FRR)**
    - Salwa Boussoukaya-Nasr, Chief Investment Officer

- **AG2R La Mondiale**
    - Philippe Dutertre, Chairman of the Management Board of Agicam (AG2R La Mondiale)

- **Amundi**
    - Thierry Bogaty, Director of Amundi SRI Expertise

- **Agrica Epargne**
    - Jean-Claude Guimiot, Deputy Managing Director

- **Axa IM**
    - Lise Moret, Head of ESG Quantitative Solutions

- **Ecofi**
    - François Lett, Deputy Chief Executive Officer and Head of Ethical and Sustainable Investments

- **Mirova**
  - Philippe Zaouati, Chief Executive Officer

- **Ethifinance**
  - Emmanuel de La Ville, Founder and Chief Executive Officer

- **Finansol**
  - Sophie des Mazery, Director
  - Frédéric Fourrier, Head of the Responsible Finance Observatory

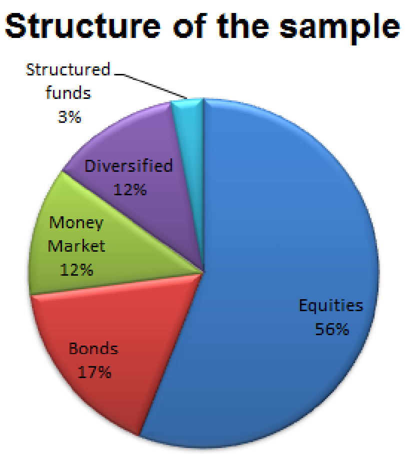
- **Novethic**
  - Dominique Blanc, Head of SRI Research

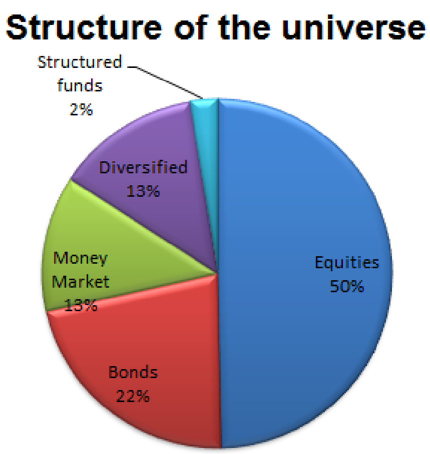
- **Vigeo**
  - Nicole Notat, President

- **Commissioner General's office in charge of Sustainable Development**
  - Robin Edme, Senior Advisor Responsible Finance

- **Treasury Directorate General**
  - Alexis Dupont, Deputy Head of Savings and Financial Markets

Annex 3: Sample





Fund Name	Management Company	ISIN
AG2R La Mondiale Ethomed ISR	AGICAM	FR0011336320
AG2R La Mondiale Oblig Euro ISR	AGICAM	FR0007021324
Allianz Citizen Care SRI	Allianz GI France	FR0010716837
Allianz Securicash SRI	Allianz GI France	FR0010017731
Allianz Formuleo ISR	Allianz Global Investors France	FR0010766121
Atout France	Amundi	FR0010093716
Amundi Actions Euro ISR	Amundi	FR0010458745
Etoile Développement Durable - Environnement	Amundi	FR0010502088
LCL Actions USA ISR (Euro)	Amundi	FR0000994816
Solidarité	Amundi	FR0011161173
Amundi AFD Avenirs Durables	Amundi	FR0010698555
Hymnos	Amundi	FR0007447891
CPR Reflex Solidaire	Amundi	FR0010931584
LCL Altisr	Amundi	FR0010841585
Amundi Tréso Eonia ISR	Amundi	FR0007435920
danone.communities D.ISR Prudent	Amundi	FR0010439935
Aviva Valeurs Responsables	Aviva Investors	FR0010746776
Aviva Monétaire ISR	Aviva Investors	FR0007437546
Axa Euro Valeurs Responsables	AXA IM	FR0000982761
Label Europe Actions	AXA IM	FR0007073713
BFT Convertibles ISR	BFT Gestion	FR0010236091
AGIPI Monde Durable	BNP Paribas IP	FR0010500603
Parvest Environmental Opportunities	BNP Paribas IP	LU0406802339
MAIF Investissement Responsable Europe	BNP Paribas IP	FR0010696815
BNP Paribas L1 Equity World Aqua	BNP Paribas IP	LU0831546592
Parvest Green Tigers	BNP Paribas IP	LU0823437925
Low Carbon 100 Europe THEAM EASY UCITS ETF	BNP Paribas IP	FR0010655597
BNP Paribas Retraite 2016-2018	BNP Paribas IP	FR0000174609
Parvest Sustainable Bond Euro	BNP Paribas IP	LU0828230697
BNP Paribas Obli Etheis	BNP Paribas IP	FR0010076893
Candriam Equities L Sustainable EMU	CANDRIAM	LU0344047559
Candriam Sustainable High	CANDRIAM	BE0169199313
Candriam Money Market Euro Sustainable	CANDRIAM	LU0206980129
Cedrus Sustainable Opportunities	Cedrus Asset Management	FR0011345560
CM-CIC Actions ISR	CM-CIC AM	FR0000444366

CM-CIC Obli ISR	CM-CIC AM	FR0010941328
Covea Espace ISR	Covea Finance	FR0010689794
Guilé European Engagement Fund	De Pury Pictet Turrettini	LU0269642889
Guilé Emerging Markets Engagement Fund	De Pury Pictet Turrettini	LU0412997545
Diamant Bleu Responsable	Diamant Bleu Gestion	FR0010896548
Ecofi Actions Rendement	Ecofi Investissements	FR0007005624
Ecofi Annuel	Ecofi Investissements	FR0007462833
SSgA World SRI Index Equity Fund	State Street GA France	FR0010596718
Ecofi Optim Capital Garanti 2017	Ecofi Investissements	FR0011559574
Epargne Solidaire	Ecofi Investissements	FR0007413091
EdR Tricolore Rendement	Edmond de Rothschild AM	FR0010588343
EdR Euro SRI	Edmond de Rothschild AM	FR0010505578
Federal Conviction ISR Euro	Federal Finance	FR0000994378
Federal Taux Variable IR	Federal Finance	FR0010859785
Fédéris ISR Euro	Fédéris Gestion	FR0007045950
Fédéris ISR Trésorerie	Fédéris Gestion	FR0010256156
Convertibles Europe Responsable	Fédéris Gestion	FR0011315787
Echiquier Major	Financière de l'échiquier	FR0010581728
HSBC Actions Développement Durable	HSBC Global AM	FR0000437113
HSBC Oblig Développement Durable	HSBC Global AM	FR0010061283
Europe Ethique Expansion	Humanis Gestion d'Actifs	FR0007059886
ING (L) Invest Europe Sustainable Equity	ING IM	LU0991964247
ING (L) Renta Fund Euro Credit Sustainable	ING IM	LU0577863615
JPMF Global Socially Responsible Fund	JP Morgan Fleming AM	LU0111753769
Kempen (Lux) Sustainable Smallcap Fund	Kempen Capital Management	LU0427934699
LBPAM Responsable Actions Euro	La Banque Postale AM	FR0000008963
LBP EthicEuro 100	La Banque Postale AM	FR0012021574
LBP EthicEuro 90	La Banque Postale AM	FR0012021558
Libertés et Solidarité	La Banque Postale AM	FR0000004962
Sarasin Sustainable Equity - Real Estate Global	La Française AM	LU0288928376
CMNE Sélections	La Française AM	FR0010214650
Objectif Investissement Responsable	Lazard Frères Gestion	FR0000003998
LO Funds - Euro Responsible Corporate Fundamental	Lombard Odier Investment Managers	LU0210004429
Mandarine Engagements	Mandarine Gestion	FR0010707554
Ethique et Partage - CCFD	Meeschaert AM	FR0000970899
Proclero	Meeschaert AM	FR0011136563
Metropole Value SRI	Metropole Gestion	FR0010632364
Mirova Euro Sustainable Equity	Natixis AM	LU0914731947
Mirova Global Sustainable Equity	Natixis AM	LU0914729966
Natixis Sustainable Tresorerie Euro	Natixis AM	FR0010008003
Mirova Euro Sustainable Aggregate	Natixis AM	LU0914734701
Neuflize Actions Euro ISR	Neuflize OBC Investissements	FR0000985764
Neuflize Dynamique ISR	Neuflize OBC Investissements	FR0000985756
Neuflize Monétaire ISR	Neuflize OBC Investissements	FR0000299711
Avenir Partage ISR	OFI AM	FR0010279034
MAIF Retraite Croissance Durable	OFI AM	FR0010091660
OFI Trésorerie Performance ISR	OFI AM	FR0011381227
Palatine Trésorerie Première	Palatine AM	FR0007474838
Petercam Equities Europe Sustainable	Petercam	BE0940002729
Euro Active Investors	Phitrust AI	FR0007037130
Pictet-Emerging Sustainable Equities	Pictet AM	LU0725974272
Regard Actions Développement Durable	Pro BTP Finance	FR0007083357
Quilvest Monétaire ISR	Quilvest Gestion	FR0007080023
RJ Déploiement Discipline	Raymond James AMI	FR0010883017
RobecoSAM Sustainable European Equities	RobecoSAM	LU0187077218
RobecoSAM Sustainable Climate Fund	RobecoSAM	LU0280770255
Roche-Brune Europe Actions	Roche-Brune AM	FR0010237503
Sparinvest Ethical High Yield Value Bonds	Sparinvest	LU0473785169

SSgA World SRI Index Equity Fund	State Street GA France	FR0010596718
Swisscanto (LU) Portfolio Fund Green Invest Income	Swisscanto	LU0288148280
Sycomore Sélection Crédit	Sycomore AM	FR0011288489
Triodos Sustainable Equity Fund	Triodos Investment Management	LU0278271951
Triodos Sustainable Pioneer Fund	Triodos Investment Management	LU0278275606
UBS (Lux) Equity Fund - Global Sustainable	UBS Global AM	LU0076532638
Vanguard SRI European Stock Fund	Vanguard Asset Management	IE00B76VTL96
Vontobel Global Responsibility Asia (ex-Japan) Equity	Vontobel AM	LU0384409180