EXPECTATIONS OF INSTITUTIONAL INVESTORS WITH RESPECT TO SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES IN SPANISH LISTED COMPANIES
Georgeson

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The Club de Excelencia en Sostenibilidad is a business association formed by a group of twenty major companies that support sustainable growth from an economic, social and environmental point of view, and is the leading forum in Spain for dissemination and promotion of responsible practices.

These companies are: ABB España, Adecco España, AENA, BASF Española, BSH Electrodomésticos España, CEMEX España, Endesa, FCC, Holcim España, Mahou San Miguel, Iberdrola, ISS Facility Services, MONDRAGON, NH Hoteles, Orange España, Red Eléctrica de España, Renault, Renfe, SEAT and Vodafone España.

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Funds People is the benchmark community for collective investment professionals in Spain, Italy, Latin America and Portugal. Addressed to experts in fund management and allocation, institutional investors and private banking, it provides daily information through www.fundspeople.com and high quality monthly analysis in the Funds People journal.

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A mixed public-private Advisory Committee composed by company partners of the Club de Excelencia en Sostenibilidad (Aena, Endesa, FCC, Iberdrola, NH Hoteles, and Red Eléctrica de España), public sector members and other leading specialists in SRI (CNMV, CPPS Asesores and Grupo Generali) was formed to provide consultancy during preparation of the study. The committee was chaired by José Folgado, Chairman of Red Eléctrica de España.

Its mission was to advise on the drafting, preparation and dissemination of the results. Meetings were held during the course of the study to ascertain the objectives and progress of the study at first hand, harness the vision and knowledge of the experts with respect to the results and draw up recommendations.

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Preface

I am grateful for the opportunity provided by this preface to reflect for a few moments on the degree of response and commitment that the investment community should demonstrate when faced with situations deriving from the economic recession, environmentally damaging activities and the presence of corruption that weaken the economic and financial structure of a country.

Companies must respond by implementing strategies with a clear commitment to environmental, social and ethical values. Investors and society in general must ask themselves questions on the proper implementation of these strategies.

Investors must become aware of the current turbulent social panorama, integrate non-financial criteria into their analyses and take further steps to establish a clear commitment in conjunction with senior management to become catalysts for implementation of these policies and set up measures to monitor their progress.

The good news is that socially responsible investment (SRI) has been growing at double figure rates in recent years and that the stock exchanges have created SRI indexes to reflect this in response to the growing demand from investors for an index that will enable them to structure their investment portfolios.

The aim of this report is to foster understanding of investment strategies through interviews with socially responsible investors who we thank for their participation and contribution to progress of the SRI index.

It has been an honour for Red Eléctrica - whose goal is to become an industry standard for implementation of these values - to participate in this project which has been carried out in the most professional manner by the Club de Excelencia en Sostenibilidad, Georgeson and Funds People.

JOSÉ FOLGADO BLANCO,  
Chairman of Red Eléctrica de España
INTRODUCTION

It is an undeniable fact that concern for social, environmental and ethical issues forms part of the risk and investment analysis undertaken by institutional investors that have implemented responsible investment policies which cover aspects relating to labour relations, Human Rights and climate change, among others. Furthermore, there is empirical evidence\(^1\) to show that the securities market performance of companies that figure on responsible investment indexes is better than that of those that do not. The use of best practices in these fields has become a highly effective tool for attracting and retaining investors.

The global context in which companies carry on their business has been affected in recent years by a series of major trends including population growth, the growth of emerging markets and the pressure that these factors are applying to the sustainability of natural resources. This phenomenon has obliged governments, consumers and business to introduce policies and practices they consider relevant to these variables.

Institutional investors are not strangers to a reality that has direct implications for the way they invest, taking social, environmental and ethical criteria into consideration on the premise that only businesses prepared to face this kind of challenge will prosper in the long term and be sustainable themselves. Socially responsible investment is gaining ground every year. According to a study published in 2012 by the “Global Sustainable Investment Alliance”, the socially responsible investment market reached USD 13.6 thousand million\(^2\) worldwide, led by the United States and Europe.

The goal of the Club de Excelencia en Sostenibilidad, Georgeson and Funds People with this study is to provide a deeper insight into the importance of ascertaining and identifying the ethical, social and environmental criteria employed by the international and local institutional investors that most frequently hold equity in Spanish listed companies.

Finally, the purpose of the study is to provide a useful tool for listed companies to deepen their awareness of the importance of implementing ongoing processes of dialogue - known internationally as engagement - with institutional investors on social, ethical and environmental issues.

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Club de Excelencia en Sostenibilidad

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Funds People

\(^{1}\) Feldman, Soyka y Ameer, 1997, Repetto & Dustin, 2000
\(^{2}\) www.gsiareview2012.gsi-alliance.org
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OBJECTIVES AND METHODOLOGY

The interest of investors in social, environmental and ethical issues has grown in recent years in the belief that businesses that pay attention to sustainability criteria provide greater profitability than their competitors with equal risk parameters.

Therefore Georgeson, the Club de Excelencia en Sostenibilidad and Funds People decided to undertake a study on Socially Responsible Investment in Spain to achieve the following objectives:

**MAIN OBJECTIVES**

- To provide information to IBEX35, “Mercado Continuo”-listed companies and other that issue corporate debt on non-financial criteria taken into consideration by institutional investors when composing their investment portfolios.
- To identify the main investment strategies for institutional investors with holdings in the equity of companies traded on the IBEX 35 (engagement, integration of non-financial factors, exclusion and thematic strategies, best in class, screening based on international standards and impact).
- To analyse the exclusion policies of such investors, identifying the criteria used to exclude a company from the portfolio.
- To identify the main international initiatives of a non-financial nature commonly followed by investors (UN PRI, Global Compact, Carbon Disclosure Project, EITI, Eurosif, etc.).
- To analyse the different approaches of domestic and international institutional investors to provide Spanish regulators with empirical evidence to help them to achieve convergence of the latter with the former.
- To serve as a platform for the promotion of social responsible investment (SRI).
- To encourage listed companies to include in their CSR Master Plans social and environmental issues that investors take into account when making decisions.
- To foster awareness by listed companies in Spain of the need to adopt an integrated reporting.

The scope of this study does not include issues relating to corporate governance as these tend to be included by institutional investors with different objectives and approaches in relation to social, environmental and ethical issues. For further information on issues related to the dynamics and structure of the Board of Directors, remuneration of the Board of Directors or capital dilution, please see the report drawn up by Georgeson and Cuatrecasas ‘El Gobierno Corporativo y los Inversores Institucionales’.

3 [www.cuatrecasas.com](http://www.cuatrecasas.com) Corporate Governance and Institutional Investors
Before performing the research, questionnaires were distributed to 100 international institutional investors (of which 23 responded) and 95 domestic institutional investors (24 responses) with holdings in IBEX-35 companies. The questionnaires were sent out respectively by Georgeson and Funds People in late November 2013 and the response period was closed in February 2014.

The study was completed with an analysis of the public policies of the 50 largest international institutional investors by volume of "socially responsible investments" managed.

Analysis of the public policies of the top 50 international institutional investors by volume of SRI assets managed.

 Dispatch of an anonymous questionnaire to 100 international institutional investors with holdings in IBEX-35 and other listed companies, from which 23 responses were received.

 Dispatch of an anonymous questionnaire to 95 domestic institutional investors with holdings in the share capital of companies listed on the IBEX-35 and stock exchange, from which 24 responses were received.

GEOGRAPHIC LOCATION OF THE INVESTORS THAT RESPONDED TO THE GEORGESON SURVEY

Canada (43%)

The Netherlands (8,7%)

Scandinavia (8,7%)

France (21,7%)

United Kingdom (30,4%)

United States (26,1%)

United States (26%)

Switzerland (14%)

France (14%)

Sweden (14%)

Norway (6%)

Ireland (2%)

China (2%)

Italy (2%)

Netherlands (6%)

Sweden (14%)

United Kingdom (22%)

United Kingdom (25%)

Pension fund managers (29%)

Pension managers (25%)

Fund managers / Pension fund managers (18%)

Anonymous (3%)

TYPE OF DOMESTIC INSTITUTIONAL INVESTORS RESPONDING TO THE QUESTIONNAIRE SENT BY FUNDS PEOPLE

Of the 23 international institutional investors which responded to the survey, the majority are from the United Kingdom (30,4%), USA (26,1%) and France (21,7%). These are followed by investors from northern European countries (8,7%), The Netherlands (8,7%) and Canada (4,3%). The interest by French mainstream investors in the social and environmental performance of Spanish listed companies is noteworthy. Although their holdings in the equity of Spanish issuers are proportionally less than those of their British and American counterparts (in spite of the fact that they doubled their holdings in 2013), almost all major French investors emphasise the importance of social and environmental aspects.
Of the 24 domestic institutional investors that responded to the survey, 29% are pension funds, 25% fund managers, 25% pension managers and 18% fund managers/pension managers. The latter are organisations in which the asset management unit is responsible for both functions, although with separate teams.

The questionnaires were broken down into 12 questions which covered the following issues:

1. Penalisation for election of directors with poor track record on social and environmental issues
2. Existence of a formal SRI policy
3. Existence of an in-house SRI department
4. Use of rating agencies
5. Inclusion of social and environmental issues in AGM agendas
6. Voting on social and environmental issues
7. Engagement in sustainability issues
8. Existence of an in-house SRI department
9. Most important sustainability indices
10. Membership of international initiatives
11. Relevance of social and environmental issues
12. Disclosure of social and environmental issues by Spanish companies

Moreover, the following issues are analysed in the public information available from international institutional investors (top 50 by volume of SRI assets managed):

1. Existence of a responsible investment policy
2. Existence of commitment to make a report
3. Key social, environmental and ethical issues
4. Issues included in the exclusion strategy
5. Investment strategies
6. Joining and monitoring international initiatives

In the course of the study the results of the two surveys were combined with analysis of the public policies of the international institutional investors.
Socially responsible investment has its origins in the 1950s in the United States when certain religious movements began to apply investment policies that discriminated against activities such as alcohol production and others linked with gambling and pornography. Some years later, coinciding with the Vietnam War and apartheid, activist groups championed the idea that companies could be pressured into refraining from investing in certain activities. The rise of socially responsible investment through collective investment institutions that fostered the first socially responsible funds is linked to these two historical events.

Europe was a pioneer in the creation and distribution of social responsible investment funds. In 1965 the first ethical investment fund was launched in Sweden – *Ansvar Aktiefond Sverig*. The first ethical fund in the United Kingdom - *Friends Provident Stewardship* – was launched in 1984.

In the early stages of the development of SRI the majority of projects were conceived on the basis of negative selection criteria such as the exclusion of alcohol or the pornography industry. Along the same lines the Pax World Fund, created in the United States in 1968, excluded companies linked with arms production and military supplies from its portfolio. The decision of many investors not to invest in companies with businesses in South Africa also had the effect of drastically reducing the number of North American companies making direct investments in the country. This type of investment filter is currently aimed at rejecting investment in countries with totalitarian political regimes such as Libya, Syria or Afghanistan.

The development of the concept of SRI subsequently led to replacement of exclusion of certain activities by the inclusion of companies with a good performance (best in class). Thus, in recent years different methods for screening companies have been developed, which resulting in several generations of SRI funds and sustainable indexes where the way that companies carry on their activities has greater weight than the activity itself.

In this context a distinction can be made between core and broad responsible investment strategies. While the core approach includes moral principles that apply ethical criteria in the initial screening process to identify an acceptable investment, the broad approach, which covers engagement and the integration of social and environmental criteria into the traditional investment process, is currently the dominant form in the sphere of responsible investment.

The inclusion of social and environmental principles into traditional financial analysis enables an integrated investment approach. Engagement refers to the principle of not divesting from a company due to its poor track record in social and environmental issues but rather actively influencing the company to improve its profile in this respect. Those practising the broad approach are the major institutional investors and it is this type of investment that represents the mainstream of responsible investment today.

As a consequence of the generalisation of the broad approach in recent years the volume of assets encompassed by the term ‘responsible investment’ has increased significantly.
undergone a significant increase. Investors that favour the broad approach are not concerned with moral issues but with criteria of financial performance.

One of the most recent examples of the implications that non-financial risks can have on capital markets is the BP oil spill in the Gulf of Mexico, which estimated to have caused losses of USD 90 thousand million in equity market value between the sale of shares, the clean-up operation and indemnities. One of the main credit rating agencies reduced BP’s rating from AA to BBB in June 2010. BP shares worth USD 60 on 20 April were trading at USD 27 on 25 June, only to bounce back to USD 39 on 5 August after the spill had been contained. These data indicate a fall of 35% in the price of BP shares between the start and the end of the spill.

**SOCIALLY RESPONSIBLE INVESTMENT INDEXES**

Some of the well known stock exchanges located in countries such as the United States, Mexico, Brazil, Peru, the United Kingdom, South Africa and Spain have now created responsible investment indexes in response to the growing demand from advanced investors for responsible market indices to structure their investment portfolios.

The pioneer in this field is the *Dow Jones Sustainability Index*, launched in 1999. Its annual reviews are based, among others, on analysis of financial criteria, social and environmental transformation, risk management, brand management, climate change mitigation and compliance with labour-related standards and practices. In 2000 the Jantzi Social Index was started in Canada with a similar profile to its predecessor.

FTSE4Good, the sustainability index created by the London Stock Market, was launched in 2001 and it include listed companies from all over the world that apply corporate social responsibility practices. This index, which holds reviews to accept new listings twice a year while removing those that fail to fulfil its requirements, is composed of a list of worldwide companies (*FTSE4Good Global Index*), another for the United States (*FTSE4Good USA Index*), one for Europe (*FTSE4Good Europe Index*), one for the Spanish market (*FTSE4Good IBEX*) and one for Japan (*FTSE4Good Japan Index*).

The Johannesburg stock exchange has applied its own index, the *Socially Responsible Investment Index*, since 2004 and assess a total of 90 social, environmental, ethical and corporate governance indicators.

In Latin America, the São Paolo stock exchange created the *Índice de Sustentabilidade Empresarial* in 2005 with the support of the International Finance Corporation (IFC), the private sector lending arm of the World Bank. In 2011 the *IPC Sustentable* was launched as a sustainability and corporate governance index by the Mexican stock exchange.

The NYSE Euronext has recently launched four new indexes to stimulate responsible investment: *Euronext Vigeo World 120, Euronext Vigeo Europe 120, Euronext Vigeo France 20* and *Euronext Vigeo United Kingdom 20*. These indexes are renewed half-yearly and include companies selected for their corporate responsibility risk management and contribution to sustainable development.

In 2011 the Shanghai Stock Exchange launched its own sustainability index, the “SSE Sustainable Development Industry Index”.
Its universe is composed by all listed companies on Chinese stock exchanges. Its assessment criteria is focused on the environmental efficiency. The Index include the 40 best companies.

Finally, in 2014 the Istanbul and the Chile stock exchanges are expected to launch their own socially responsible investment indices.

60% of international institutional investors surveyed by Georgeson indicated that the most influential sustainability index is the Dow Jones Sustainability Index followed by MSCI ESG (20%), the FTSE4Good (13,3%) and Ethibel Sustainability (6,7%). However, it is interesting to observe that 26,7% of investors do not take into account the composition of any sustainability index when they analized listed companies in Spain and when they structure their investment portfolios. Georgeson considers that this percentage could increase in coming years and for this reason we would stress the importance and the need for issuers to devote resources and time to setting up corporate responsibility road shows with investors active in the field.

Moreover, 26% of domestic institutional investors consulted by Funds People indicated that the most important sustainability indices are the Dow Jones Sustainability Index and the FTSE4 Good followed by the MSCI ESG (18%). It should be noted that 30% of the domestic institutional investors consulted stated that the composition of a sustainability stock market listing is not taken into account when studying listed companies in Spain when composing their investment portfolios.
SRI PRODUCTS OFFERED ON THE SPANISH MARKET BY INTERNATIONAL FUND MANAGERS

Source: Funds People

In general terms, and in accordance with information collected recently by Funds People, it could be said that the international funds offered in Spain have a strong French accent, as evidenced by the fact that the majority of French firms with a presence on the Spanish market have registered SRI products. The last fund to bring its range of SRI products to Spain is Natixis Global AM with, its specialised division: Mirova.

As a Luxembourg registered, Mirova Funds was able to offer to its investors five variable-yield funds (Mirova Global Climate Change, Mirova Global Sustainable Equity, Mirova Europe Sustainable Equity, Mirova Euro Sustainable Equity and Mirova Europe Life Quality) and two other fixed interest funds (Mirova Euro Sustainable Corporate Bonds and Mirova Euro Sustainable Aggregate).

Thus Natixis Global AM with seven funds became - together with Candriam (18), Robeco (8), Pictet AM (7) and BNP Paribas IP (5) - one of the entities with the greatest number of products available to Spanish investors. Natixis Global AM also became one of the asset management firms with a most comprehensive ranges when considering of its diversification by asset class.

The majority of asset management firms concentrate their SRI offer on variable yield funds. Few are the ones offering fixed interest products. Once again, French firms the majority of the offer. Among those including SRI product of fixed interest are: BNP Paribas IP (Parvest Sustainable Bond Euro and Parvest Sustainable Bond Euro Corporate), Groupama AM with Groupama Credit Euro SRI (fixed income credit), and Petercam (Belgium) with Petercam L Bonds Government Sustainable which invests in sovereign bonds quoted in Euros from OECD countries and its emerging markets version, Petercam L Bonds Emerging Markets Sustainable.

The biggest European fund managed with SRI criteria is registered in Spain. Its the Amundi money market fund Amundi Tresor Eonia SRI with current assets of 23,35 thousand million euros according to Morningstar data. In spite of the firm's global presence, the French market is one of the most advanced from an SRI point of view and one of the most important for Amundi, which manages around 70 billion euros under these criteria in investments ranging from monetary products through variable yield funds and European credit to social private equity with a variety of focuses including best in class, thematic funds, ethical funds, SRI pension funds, etc.

In spite of the importance that institutional investors have always had in this market the balance between them and private clients has evened out in recent years. However, and despite this more even institutional-retail balance it seems that the tendency is still in the early stages and institutional investment remains a very significant factor. The weight of institutional investors is still very high. The main investors are insurance companies, private banks, pension funds and foundations. The retail element is still minor although shows strong growth potential.
Taking into account the different strategies employed by global variable yield funds following a SRI criteria, it seems that the United States wins over Europe. The truth is that the weight of these managers on the American securities market is extremely high. The *JP Morgan Funds - Global Socially Responsible Fund*, the SRI product that JP Morgan AM has registered on the Spanish market, is an example of this. Almost 50% of the portfolio is invested in US companies (25% in financial organisations, and 20% in the healthcare sector). Another fund with a similar profile is *GS Global Responsible Equity Portfolio*, a Goldman Sachs AM product which however, distributes its portfolio differently in sectoral terms: cyclical commodity accounts for 15,6%, financial services 14,8% and technology 14,6%.

Nevertheless, there are funds with the same profile that follow a very different strategy, such as the *Aberdeen Global-Responsible World Equity Fund*, which invests 40% of their portfolio in Europe (8,8% in the Eurozone, 13% in the United Kingdom and 17,8% in other European markets outside of the Eurozone and the United Kingdom, mainly Switzerland). Although no company figures repeated in the top ten places on all three portfolios, there is a clear preference for technology companies – Microsoft, for instance, appears in two portfolios – and major Swiss pharmaceutical companies, including Roche and Novartis.

As for European variable yield SRI funds, *Generali IS European SRI Equity* has the highest exposure to financial services companies (19%) followed by the industrial sector (17,4%) and cyclical consumer goods (13,8%) with Vodafone, BNP Paribas and Novartis occupying the top three positions in the portfolio. Like the Generali Investments Europe fund, AXA IM’s *AXA World Funds Framlington Eurozone RI* also prioritises the financial sector (16,6%) although in this case the exposure is to basic commodities (15,3) and cyclical consumer goods companies (13,6%). The top three positions in the portfolio are occupied by Allianz, Sanofi and BNP Paribas. In addition to the French financial firm both Bayer and Sanofi figure in the top 10 of both portfolios.

There are more variable yield funds applying SRI criteria, most of them thematic. *UBS (Lux) Equity SICAV – Sustainable Global Leaders* invests in companies worldwide, mainly in variable yield products of companies with sustainable operations that provide innovative services and products to combat specific global problems. It invests 52% of its assets in the United States and 18% in the Eurozone. The same applies to the *Vontobel Fund- Sustainable Global leaders* (46,7% in the United States and 33% in Europe). However, the range of variable yield products available to Spanish investors could still become more open to thematic influences.

The *Pioneer Funds-Global Ecology*, for instance, is a Pioneer Investments fund investing in businesses which produce or manufacture environmentally friendly products and/or technologies, or which contribute to a cleaner and healthier environment. The *Pictet European Sustainable Equities* and *Pictet Emerging Markets Sustainable Equities* apply sustainability criteria by sector, selecting the best in class and taking into account financial sustainability factors such as leverage and growth stability. *Pictet Water, Pictet Clean Energy, Pictet Timber* and *Pictet Agriculture*, all part of the *Pictet Environmental Megatrend Selection*, apply environmental criteria according to their specific thematic nature and corporate governance focus, under which voting is exercised in the major positions.
UBS Global AM provides a range of products including *UBS (Lux) Equity Fund-Global Innovators*, a thematic fund that invests in businesses throughout the world, mainly with small and medium equity levels, and focuses on those with sustainable products and services from companies that address the question of limited resources. But it is not alone. It also markets *UBS (Lux) Emerging Markets Sustainable* in Spain, a fund that invests mainly in innovative business in emerging markets operating in the climate change, water and sustainable development industries and *UBS (Lux) Equity Fund- Eco Performance* that supports 'sustainability champions'.
<table>
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<th>Name</th>
<th>Number of funds registered in Spain</th>
<th>Allocation of the range to SRI funds registered in Spain</th>
<th>Total assets held by funds registered in Spain (million Euro)</th>
<th>Specialised personnel managing SRI strategies</th>
<th>Type of clients investing in SRI funds</th>
</tr>
</thead>
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<td>Candriam (formerly Dexia)</td>
<td>18</td>
<td>8 equity, 6 fixed income, 3 mixed and 1 monetary</td>
<td>1.833</td>
<td>-</td>
<td>European pensions funds. Also in Spain, but to a lesser degree. Very low retail participation</td>
</tr>
<tr>
<td>Robeco</td>
<td>8</td>
<td>All these are equity funds</td>
<td>1.773</td>
<td>7 managers backed by a team of 20 analysts</td>
<td>Mainly insurance and private banking</td>
</tr>
<tr>
<td>Natixis Global AM</td>
<td>7</td>
<td>5 equity and 2 fixed income funds</td>
<td>1.500</td>
<td>42 experts in various disciplines</td>
<td>Institutional investors, with insurance companies and private banks showing increasing</td>
</tr>
<tr>
<td>Groupama Asset</td>
<td>7</td>
<td>All these are equity funds</td>
<td>5.000</td>
<td>-</td>
<td>Institutional</td>
</tr>
<tr>
<td>BNP Paribas Investment Partners</td>
<td>5</td>
<td>4 equity, 2 fixed income and 1 mixed</td>
<td>1.240</td>
<td>57 people including members of the sustainability analysis team</td>
<td>Subscribers to thematic funds are French and Belgian retail investors and the rest are major asset holders and external distributors</td>
</tr>
<tr>
<td>UBS Global Asset Management</td>
<td>4</td>
<td>All these are equity funds</td>
<td>300</td>
<td>4 managers and analysts</td>
<td>Institutional clients</td>
</tr>
<tr>
<td>Petercam</td>
<td>4</td>
<td>2 equity and 2 fixed income funds</td>
<td>183</td>
<td>1 SRI strategy coordinator</td>
<td>75% institutional and 25% retail</td>
</tr>
<tr>
<td>Vontobel</td>
<td>3</td>
<td>2 Asian equity funds and 1 global equity fund</td>
<td>213</td>
<td>3 managers and 14 analysts</td>
<td>97,5% corresponds to institutional investors and 2,5% is retail trade</td>
</tr>
<tr>
<td>AXA IM</td>
<td>2</td>
<td>Both are European equity</td>
<td>337</td>
<td>7 managers (3 variable yield, 3 fixed interest and 1 mixed)</td>
<td>Banks, multi-management and retail (57%), private companies (23%) and insurance firms</td>
</tr>
<tr>
<td>Fund Management</td>
<td>Equity/Income</td>
<td>Funds</td>
<td>Analysts</td>
<td>Investors</td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
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<td></td>
</tr>
<tr>
<td>Groupama Asset Management</td>
<td>1 Eurozone equity and 1 European fixed income fund</td>
<td>590</td>
<td>9 financial and 5 non-financial analysts</td>
<td>Social Security institutions, public bodies, employee pension funds, mutual funds, insurance companies, organisations, foundations and religious congregations</td>
<td></td>
</tr>
<tr>
<td>Deutsche Asset &amp; Wealth Management</td>
<td>1 equity European fund</td>
<td>6</td>
<td>40</td>
<td>Pension funds, foundations and churches with growing interest from retail investors</td>
<td></td>
</tr>
<tr>
<td>Generali Investments Europe</td>
<td>1 equity European fund</td>
<td>142</td>
<td>4 managers backed by a team of analysts.</td>
<td>Mainly insurance companies and pension funds</td>
<td></td>
</tr>
<tr>
<td>Pioneer Investments</td>
<td>Global equity fund</td>
<td>152</td>
<td>2 managers</td>
<td>Mixed investor profile although mainly distribution</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs AM</td>
<td>Global equity fund</td>
<td>40</td>
<td>2 managers that form part of a team of 80 managers and analysts in 9 countries</td>
<td>Private bankers</td>
<td></td>
</tr>
<tr>
<td>Amundi</td>
<td>Monetary funds</td>
<td>23,350</td>
<td>15 analysts</td>
<td>In Spain, pension funds. In France, balance between institutional investors and private clients</td>
<td></td>
</tr>
<tr>
<td>J.P.Morgan Asset Management</td>
<td>Global equity fund</td>
<td>170</td>
<td>1 manager with a worldwide team of analysts</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Aberdeen Asset Management</td>
<td>Global equity</td>
<td>134</td>
<td>15 employees (5 specialist SRI analysts)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>BLI-Banque de Luxembourg Investments</td>
<td>European equity fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>La Française</td>
<td>Equity fund</td>
<td>134</td>
<td>4 managers and 2 analysts</td>
<td>Potential investors are private banks, pension funds and foundations</td>
<td></td>
</tr>
<tr>
<td>Financière de l'Echiquier</td>
<td>Equity fund</td>
<td>1,064</td>
<td>1 manager</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Source: Funds People Information provided by various managers in interviews led by Funds People. The asset information was extracted from Morningstar funds files. All information is dated April 2014 with asset information at end of March 2014.
INVESTMENT STRATEGIES OF SOCIALLY RESPONSIBLE INVESTORS

Analyzing the responsible investment policies available on the websites of the top 50 international institutional investors with holdings in IBEX-35 and “Mercado Continuo” companies see the list of investors in Appendix 4) by volume of SRI assets, with the aim to discover what investment strategies they apply, it appears that 'integration of ESG issues' is used by 43 of the 50 investors studied (86%) followed by engagement with 37 (74%), investment on thematic criteria with 33 (66%) and investment on exclusion criteria with 26 (52%). Best in class with 12 (24%), screening based on international standards with 7 (14%) and impact with 1 investor are the least popular investment strategies.

The majority of instrumental investors tend to use these strategies simultaneously. Very few of them employ one strategy to the exclusion of the rest.

INTEGRATION OF ESG ISSUES

This consists of the explicit integration by asset managers of social, environmental and ethical’s risks and opportunities into traditional financial analysis. The integration process is focused around the potential impact of this type of issue on the finances of the company, which in turn may affect the investment decision.

If the international and domestic sections of the results of the survey carried out by Georgeson and Funds People are compared, it will be seen that domestic investors apply these criteria to a lesser degree. This seems to indicate that analyses performed by the foreign institutional investors have a higher degree of sophistication.

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According to Eurosif - one of the firms that has contributed most actively to driving the debate on SRI in Europe in recent years -, there are 7 different types of investment strategy commonly employed by socially responsible investors.
Fund managers must begin to integrate the study of social, environmental and ethical issues as additional parameters in their studies to select investments. Although these issues may generate reticence due to their apparent complexity, integration should be encouraged through experiences shared in forums and public debates and fostered by the regulators.

**ENGAGEMENT**

Engagement consists of a set of dialogue and active management measures undertaken by investors and commitment to social, environmental and ethical issues in a long term process that seeks to influence and change the behaviour of businesses.

The percentage of domestic investors that adopt this investment strategy is remarkably low and a long way behind international trends, where a constant, ongoing dialogue is encouraged between issuers and investors on non-financial questions.

![PERCENTAGE OF INTERNATIONAL INSTITUTIONAL INVESTORS THAT EMPLOY THE ENGAGEMENT STRATEGY GEORGESON SURVEY](image)

![DOMESTIC INSTITUTIONAL INVESTORS THAT EMPLOY THE ENGAGEMENT STRATEGY. FUNDS PEOPLE SURVEY](image)

**PROACTIVE INVESTORS**

Following the fires that affected various textile factories in Bangladesh in 2013 which were subcontracted by various textile groups, several institutional investors including the Swedish AP1 fund and Belgian Dexia coordinated with the Interfaith Center on Corporate Responsibility (ICCR), sent a letter to certain companies in the textile industry.

The letter exhorted them to amend their business model and stressed the need to observe the Accord of Fire and Building Safety in the country which would improve the working conditions of the employees in the factories.

The Norwegian Sovereign Fund (Norges) is very active in terms of engagement, participating actively in the general meetings of companies in which it has holdings and has submitted proposals for social and environmental improvements including, for example, pollution of the Niger River Delta or environmental damage by mining in Ghana. In March this year (2014) the fund reported that it was reviewing the actions of the French company Total in the Western Sahara following reports from Human Rights organisations that the company had renewed its enable to operate in the area without the consent of the Sahara people.
THEMATIC FUNDS

This strategy consists of investment in themes or assets that have a direct relationship with sustainability-related aspects (environment, social, ethical, etc.).

In terms of returns and risk these funds are generally no different from other investment funds. The main difference is in selection of the investment portfolio in accordance with criteria not only of financial returns but also of a social, and environmental nature. The potential return drives their management but not to the exclusion of other criteria, and this distinguishes them from other investment funds.

57% of international institutional investors consulted by Georgeson confirm the use of this investment strategy compared with 10% of domestic institutional investors consulted by Funds People. The latter statistic makes clear that today this is a minority practice in Spain which the authors of this study hope will take off in years to come.

57% of international institutional investors that employ the thematic fund strategy.

INTERNATIONAL INSTITUTIONAL INVESTORS THAT EMPLOY THE THEMATIC FUND STRATEGY. GEORGESON SURVEY

Yes (57%)

No (43%)

DOMESTIC INSTITUTIONAL INVESTORS THAT EMPLOY THE THEMATIC FUND STRATEGY. FUNDS PEOPLE SURVEY

Yes (10%)

No (90%)

THE FIRST SOCIAL ENTERPRISE FUND IS REGISTERED IN EUROPE

ESMA recently published the first European Social Entrepreneurship Fund managed by Bonventure Management GmbH and based in Munich.

In order to obtain the seal of approval the managers of the fund - which is marketed in Germany and Austria - had to prove that over 70% of the capital received by investors devoted to supporting social enterprises.

Certification from the European Social Entrepreneurship Fund was created by the European Union to identify funds that invest in social enterprises in addition to establishing a common framework for the entire EU region.

Servimedia states that funds of this type must publish clear information on the type of social enterprise they invest in, how they select and support these enterprises and the supervision method used to ascertain the social repercussions.

With a view to improving financing, the publication in April 2013 of the rules governing them also created a European passport that enables social enterprise funds to accept investments from any part of Europe.

The seal is currently available only to professional investors. However, according to its regulations, once the Fund is fully operational the Commission will assess the option of adopting measures to enable retail investors to access these investments.
**BEST IN CLASS**

This is an approach in which the main investments or those with the best returns are ranked in a population or category based on social, environmental or ethical criteria. The Dow Jones Sustainability Index - where Robeco-SAM includes businesses with the best performance in each sector that takes part in the evaluation process every year to become a part of this index - is a clear example of this strategy.

81.8% of international institutional investors consulted by Georgeson confirm the use of this investment strategy compared with 30% of domestic institutional investors consulted by Funds People.

**EXCLUSION**

This strategy consists of excluding businesses that belong to a particular industry (gambling, pornography, arms, etc.) or specific country (e.g. those which abuse Human Rights including North Korea and Iraq) from the population of companies included in the investment portfolio.

Traditionally, Scandinavian countries have been more inclined to apply these criteria due to their more permissive legal systems. On the other hand moralistic criteria such as boycotting gambling, pornography or alcohol, basically ignored in Europe, are much more common in the United States.

The exclusion policies applied by the 26 international institutional investors belonging to the top 50 by SRI assets managed include the issues shown in the following figure (see Appendix 1 to the report for more information on the definition of the issues described).

The bar graph shows how subjects relating to arms, Human Rights violations and the environment occupy the leading positions.
Furthermore, if the results of the survey carried out by Georgeson and Funds People are analysed it appears that 78% of international institutional investors consulted have a formal exclusion policy compared to 68% of domestic institutional investors.

100% of the international institutional investors with an exclusion policy include the use of controversial weapons such as depleted uranium, land mines, cluster bombs, nuclear and biological weapons in the list of vetoed investments.

On a second tier, 55.6% of investors exclude investments related to tobacco, pornography, alcohol and nuclear energy. Finally, we find transactions with countries with a record of Human Rights violations (16.7%) and animal testing (11.1%).

With respect to domestic institutional investors it is noteworthy that while controversial weapons are also the most common exclusion criterion, only 32% of investors consulted confirmed that it figures in their exclusion policy. Pornography (24%), gambling (17%) and tobacco (10%) are next in importance. Finally, animal testing (5%), infringement of the principles of the United Nations (5%), nuclear power (2%), alcohol (2%) and transactions with countries where fundamental rights are violated (2%) complete the list.
In April 2014 Blackrock and the FTSE launched the FTSE Developed ex Fossil Fuels Index, the methodology of which is based on three exclusion criteria - transparency, comprehensibility and quantifiability and repeatability. It was designed in conjunction with the FTSE Global Equity Index Series that covers around 7,400 businesses.

Specifically, all companies classified in oil and gas exploration and production, mining in general and specifically coal mining are excluded. Companies with turnover deriving from coal mining and the exploration and production of natural gas and crude oil are also excluded. Finally, all companies linked with proven or potential coal, oil or gas reserves according to their annual reports are excluded.

SCREENING BASED ON INTERNATIONAL STANDARDS

This strategy consists of analysis by the investor of compliance with international standards on social, environmental and ethical matters (e.g. the UN Global Compact).

64% of international and domestic institutional investors consulted confirmed the use of this investment strategy which has grown very gradually in Spain and the rest of the world in detriment to the more traditional exclusions referred to above.
**IMPACT**
These are investments in businesses, organisations and funds with the intention of creating a social and environmental impact together with a financial return. In general this type of investment is made in unlisted businesses due to their size. Examples of impact investments include private clients who demand investments with a social or environmental return, investment funds for activities of a social or environmental type or private foundations that seek to contribute to their mission.

As can be seen in the following figures, these strategies are not widely represented among the institutional investors consulted for this study.

**INTERNATIONAL INSTITUTIONAL INVESTORS THAT USE THE CREATION OF SOCIAL OR ENVIRONMENTAL IMPACT AS AN INVESTMENT STRATEGY. GEORGESON SURVEY**

- Yes (27.3%)
- No (72.7%)

**DOMESTIC INSTITUTIONAL INVESTORS THAT USE THE CREATION OF SOCIAL OR ENVIRONMENTAL IMPACT AS AN INVESTMENT STRATEGY FUNDS. PEO SURVEY**

- Yes (14%)
- No (86%)

**TIAA-CREF AND EVALUATION OF THE IMPACT OF ITS INVESTORS**
TIAA–CREF is the United States teachers’ pension fund which manages assets of more than 520 thousand million USD for more than 4 million beneficiaries. As a founder member of ‘Principles for Responsible Investment in Farmland’ it is currently developing a set of indicators to measure the impact of its investments on farmland.

On the 31st of March 2013, TIAA-CREF invested almost USD 800 million in farms in various parts of Brazil. The following results were achieved through these investments:

- Reduction of soil erosion and run-off by means of suitably designed roads, drains, terraces and coverage crops.
- Conservation of water (during irrigation) by levelling and enhancement of the technology to optimise efficient delivery of water.
- Avoidance of polluting underground water.
- Monitoring fertility and crop rotation to ensure the long-term health of soils.

**USE OF EXTERNAL INFORMATION PROVIDERS**
Socially responsible investors require non-financial information on the assets in which they invest. Although many of these investors have in-house staff devoted to this type of analysis, these agencies tend to complement their work by providing highly detailed information on performance in the fields of Human Rights, climate change, supply chain or water management, among others.
100% of international institutional investors consulted by Georgeson use external, non-financial information providers. This percentage drops to 79% in the case of domestic institutional investors consulted by Funds People.

The external providers of social and environmental information to listed companies most frequently used by international institutional investors consulted by Georgeson are Sustainalytics (56.5%), MSCI (52.2%), Bloomberg (43.5%), EIRIS and Vigeo (39.1%).

More than half the investors surveyed use the information provided by the United States agency SCI and the Dutch Sustainalytics. The latter has grown significantly in recent years and was recently contracted by the Norwegian Sovereign Fund (Norges) as an information provider.

Being aware of who the most important agencies are enables investor relations and corporate responsibility departments to prioritise the resources necessary to respond to their questionnaires and align sustainability practices in accordance with their importance.

The external providers of social and environmental information on listed companies most used by the domestic institutional investors consulted by Funds People are EIRIS (24%), Bloomberg (19%) and the respective fund managers (14%). MSCI, Vigeo, Thomson Reuters and other external consultants appear in the second tier with around 10% each.

The importance of the EIRIS agency to domestic investors, is due to its strategic alliance for data that it had until September 2013 with the FTSE4 Good index to set up the latter.
ADHERENCE TO INTERNATIONAL INITIATIVES IN THE SOCIALLY RESPONSIBLE INVESTMENT FIELD

In recent years numerous initiatives have arisen in Europe and the United States in the socially responsible investment field, many of them governed by bodies such as the United Nations or international institutional investors.

Twelve initiatives were identified as the most common in terms of adherence on the basis of analysis of the Top 50 institutional investors by volume of SRI assets managed. Appendix 1 to this report contains a detailed description of each initiative identified.

However, if we compare the responses of international and domestic institutional investors consulted by Georgeson and Fund People there is a striking diversity in the initiatives to which the former accede. The United Nations Principles of Responsible Investment is the initiative to which most funds in both segments accede. Moreover, 45% of domestic institutional investors do not adhere to any major internationals initiative.
EXISTENCE OF INVESTORS, IN-HOUSE TEAMS, FOR ANALYSIS OF SOCIAL, ENVIRONMENTAL AND ETHICAL CRITERIA

Provide specialist teams for analysis of non-financial issues is a frequent practice by foreign institutional investors. Some investors include personnel responsible for the analysis of social, environmental and ethical issues in the proxy voting team although the most frequent practice is that corporate governance issues linked to voting in general meetings is to disconnect them from issues closely related to sustainability.

One Hundred Percent of international institutional investors consulted by Georgeson indicated that they have an in-house team engaged in non-financial analysis of listed companies. These tend to be specialist teams independent of the traditional portfolio manager.

This practice is not common among domestic institutional investors, which tend to use external providers or control committees of their pension plans for non-financial information.

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1 Specialised teams on Corporate Governance of International Institutional Investors in charge of analysing GM agendas and deciding how to vote
SOCIALLY RESPONSIBLE INVESTMENT IN EMPLOYEE PENSION FUNDS

Source: Social security and pension consultant CPPS Asesores

The role of Socially Responsible Investment (SRI) is slowly but steadily gaining ground in Spain. Although recent studies indicate that investors, mainly institutional, are progressively integrating non-financial criteria into their investment policies, we are still a long way away from the progress achieved in other countries.

Within this process employee pension funds have become the main players and drivers of change, due mainly to their long term institutional investor profile and greater commitment to sustainability.

But it has not been easy. Rejection of the unknown, the supposed negative influence on the return on investment, the potential initial costs deriving from implementation or an assumed reduction in the total number of potential investments for managers have all obstructed the development of SRI in Spain.

International experience in this area - in particular for the more active and advanced employee pension funds in the United States and several European countries especially in the north - have changed this perception and shown that integrating these non-financial criteria does not necessarily mean a lower return. Rather, it means that traditional returns, the main objective of investment policies, may be enhanced by the addition of social returns and contribute to sustainable economic development in the long term (the temporal horizon for pension funds) while identifying risks that may entail future reductions in returns.

With this objective in mind, Spanish regulations in recent years have adopted a regulatory framework favourable to the development of SRI. Act 2/2011 on the Sustainable Economy dated 4 March referred to the issue for the first time and provided for the future development of provision of information on the use of social, environmental and governance issues in the investment policy of pension funds.

The Eleventh Additional Provision of Act 27/2011 dated of 1 August on modernisation and harmonisation of the Social Security System brought a major advance through the introduction of explicit reference to the integration of ethical, social and environmental criteria into the investment policies of employee pension funds in the Pension Plans and Funds Act for the first time.

But it was the recent development of implementation regulations of the Pension Plans and Funds Act last August that represented the decisive step forward and requires the control committees of employee pension funds to expressly declare whether they use SRI policies or not. The funds' investment policy must address the ethical, social, environmental and corporate governance criteria employed, the classes of assets on which non-financial analysis is performed and the minimum percentage of the portfolio invested according to said criteria. It must also be drawn up in a transparent manner since the manager must place the SRI policy, the procedure used to implement
it and the effective percentage of assets where said criteria are taken into account on public record in the annual pension fund management report.

In addition, the “CSR Spanish Strategy” anticipate measures to foster the use of SRI criteria by employee pension funds. For this, it provide that the control committees must include, in their fund management reports, which internationally accepted principles, agreements, regulations and recommendations they have taken into account, the selection criteria used and the investment volumes that take ESG (environmental, social and governance) criteria. Another measure is to encourage measure is to encourage investment fund management organisations and pension plans to indicate (as applicable) whether or not they integrate social, environmental and Human Rights criteria into their analysis when selecting investments. The objective is to extend the transparency of the financial market together with respect for social, environmental and good governance criteria in this type of activity, generating financial products which respect those criteria.

These regulatory developments have encouraged control committees to propose and debate the potential and the alternatives for the implementation of said measures with employee pension fund managing organisations.

Clearly, certain market leaders have been ahead of the regulations and have been including non-financial criteria in their investment decisions for some years, have formulated investment policies including non-financial criteria and have added ethical appendices to their policies, widening the options for pension fund management organisations to take socially responsible decisions.

However, a significant proportion of control committees are still at the stage of preliminary analysis of the approach. Of course, once the decision is taken to incorporate these criteria into the investment policy, regardless of the SRI strategy adopted, the management organisations must have the infrastructure required to implement it from both the financial and non-financial perspectives.

It is indispensable therefore that the Asset Management Firm have their own non-financial analysis team or, the most frequent option, dispose of specialised analysis tools that use information compiled by a series of non-financial rating agencies that operate worldwide and cover a good part of the investment sphere and issue ratings, not only on listed companies but also countries and organisations that are not traded on open markets but issue fixed interest bonds.

The greater part of the debate focuses on how to combine the ratings issued by these specialized analysts with the traditional form of making investment decisions. Addressing the specific SRI implementation strategy substantially affects its subsequent development. It is important to stress that gradual and proportional implementation are vital factors when preparing to tackle this problem.

Initially, investment mandates imposed the strategy of excluding investment in certain sectors or activities. However, the strategy of integrating non-financial criteria is considered more suitable for selection of bonds since it enables coverage of all potential risks and opportunities. In other instances strategies based on best in class assessments which rewards good behaviour.
in non-financial matters in each sector are used, or others which take companies' acceptance and compliance with international standards such as the UNPRI (United Nations Responsible Investment Principles), the ILO social policy etc, into consideration.

The use of other strategies of a collaborative type that seek to promote relationships between the owners of assets and companies should also be underlined, such as engagement. These strategies include active dialogue between investors and investment companies, the exercise of political rights, collaboration with other investors in international networks such as UNPRI or domestic versions such as SPAINSIF (Forum for Socially Responsible Investment in Spain) etc.

Indeed, the exercise of the political rights of the assets that embody the investment was one of the basic pillars of the development of SRI in other countries. Since 2008 it has been obligatory in Spain although the control committees of domestic employee pension funds have not been particularly active in this area. A variety of factors have influenced this lack of investment activism: the concentration of general meetings in a short period of time and the resulting volume of information to be analysed, the internal decision-making process in the control committees, the lack of specialised proxy advisory firms and inertia in the delegation of competences by the control committee of the management entity are some of them.

Finally, it should be remembered that in any investment process it is essential to have an adequate system of control and supervision. Therefore, these monitoring and supervision tasks of an employee pension fund's investments, at present exercised by independent specialists through the revision of the financial aspects of the pension plan, must be complemented by verifications and assessments of an non-financial nature.

Furthermore, with something as new and at times distrusted as SRI it is advisable to complement supervision with an analysis of the attribution of non-financial results that would enable any doubts about the generation of value by SRI to be finally clarified. Studying possible correlations between traditional financial return and non-financial rating may throw light on the fact that obtaining greater returns in the long term is a consequence of having analysed the risks more comprehensively by including non-financial risks and assessing whether the market, in the long term, actually rewards businesses with the best behaviour in all areas.

In conclusion, it can be stated that implementation of SRI in the field of domestic occupational pension funds is an unstoppable process of great economic and social relevance and that coming years will see dramatic progress and gradual fulfilment of the goals. To bring about this fulfilment an effort will be necessary to disseminate information, train personnel, develop external consultancies, make analysis tools available and above all to harness the involvement of all stakeholders: promoters, participants and beneficiaries, control committees, management entities, external consultants and the public authorities.
APPROVAL BY THE BOARD OF INVERCO OF THE CIRCULAR ON THE APPLICATION OF ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE CRITERIA IN THE INVESTMENT POLICY OF COLLECTIVE INVESTMENT ENTITIES

In its meeting on the 8th April 2014 the Board of Directors of INVERCO approved the circular on application of environmental, social and corporate governance criteria to the investment policy of collective investment institutions.

With the approval of this circular INVERCO acknowledges the significant growth of Socially Responsible Investment on both European and domestic markets, the reason why SRI has become a differentiated type of investment in its own right.

The new Circular replaces the current IIC Ethics Circular published in 1999 in which the existence of tendency to include ethical, ecological and social responsibility criteria in investment selection processes was already recognised, and in which the main demands to be met by socially responsible collective investment institutions were set forth.

Since the publication of the IIC Ethics Circular the concept of socially responsible investment has consolidated its presence not only in collective investment but also throughout the financial sector in general. With this new Circular INVERCO seeks to bring together all subsequent developments in the area of socially responsible investment both internationally and in the European Union including the launch in April 2006 of the United Nations Principles for responsible investment (UN-PRI) and the publication in June 2013 by the same body of the new information and publication obligations and requirements and, within the framework of the European Union, regulation of the European Social Entrepreneurship Funds and the Directive Proposal to strengthen the rules affecting transparent voting and institutional investor relations with businesses.

With the approval of this circular, Spanish collective investment institutions wishing to use the term Socially Responsible Investment or the initials SRI or ESG are provided with a set of up to date criteria for socially responsible investments in line with other countries in Europe.
THE IMPORTANCE OF ENGAGEMENT WITH SOCIALLY RESPONSIBLE INVESTORS

The 2014 Proxy Season made it clear that investors are increasingly in favour of a direct dialogue on issues outside the financial sphere that provide them with a better understanding of questions that could cause controversy or represent a risk to the company's reputation when voting, and they encourage companies to engage in such dialogue.

The fundamental reason for investor's in engagement derives from their need to ensure that the General Meeting and the Board of Directors of companies are acting in defence of shareholders' interests. These interests may be broken down into 4 basic categories:

- Avoiding risks to the reputation of the company and undesirable attention to investment in companies with questionable commercial practices or other issues from which investors would prefer to distance themselves.
- These issues may have financial or reputational impact and the disclosure of this type of information is less standardized than in the case of financial information.
- Improving environmental and social performance advantage for the company, especially in the long term. If performed, it contributes to long-term risk management of issues such as climate change, bio-diversity, obesity and unemployment. Refusing to profit from companies that are in conflict with certain rules of conduct or of belief, the strategy of engagement seeks to get the company to act in accordance with these rules or beliefs with a view to avoiding exclusion of the company from potential investments.

Investors examine the behaviour of companies through analysis of public information and by direct dialogue. Where public information is inadequate or the behaviour of the company suggests that a change is required, then engagement is a powerful tool.

Social responsible investors are becoming catalysts for change in businesses in areas as diverse as climate change, Human Rights, confidentiality of information or diversity. The reputational risk of these investors voting against these issues may be sufficient reason for the company's management to engage in dialogue concerning the issue in question. There are recent examples of international institutional investors such as Calvert or the Norwegian Pension Fund that monitor the activities of the companies in which they invest not only to maximize their investment but also to mitigate potential social, environmental or ethics-related risks.

Eighty-six percent of international institutional investors surveyed by Georgeson stress their having undertaken engagement with Spanish issuers on matters relating to social, environmental or ethical questions.
This statistic contrasts with the opinion of domestic institutional investors surveyed by Funds People where 70% state that they have not undertaken any kind of engagement activity on these subjects with issuers in the past year.

These statistics make it clear that businesses with a high proportion of foreign investment need to know what the social, environmental and ethical criteria espoused by the investors that hold equity in the company are, in order to be prepared to respond to their queries.

Thus to anticipate the demands of their shareholders, companies must draw up a sustainable equity story and be provided with an exhaustive document with questions and answers on sustainability issues which will allow the investor to have a clear snapshot of the main risks and opportunities in social, environmental and ethics-related issues.

**DISCLOSURE OF INFORMATION BY SPANISH ISSUERS**

Companies must keep in mind that there is an important category of social responsible investors that does not act symmetrically in relation to social, environmental and ethical issues, requiring a different level of disclosure on the basis of what they consider to be critical risks for each sector of activity. Geography is also important. Investors from Northern European countries, for example, tend to be concerned with ethical and Human Rights issues while French and North American investors are more concerned with diversity issues in the broadest sense. Therefore, drawing up of a map of investors and establishing their profile is fundamental to understanding the type of information that the investor will require.

More than eighty percent of international institutional investors surveyed by Georgeson consider that there are deficiencies in the information provided by Spanish issuers on social, environmental and ethical issues. These investors look for greater transparency and more integration of socially responsible concepts in financial reporting and a more future-oriented approach. They also stress that they would like to see more accurate information in relation to CO₂ strategies, the extent of emissions and the link between key performance indicators and executive remuneration.

In contrast, only 59% of domestic institutional investors consulted by Funds People state that Spanish issuers do not provide sufficient information.

This difference may be due to the fact that the analyses performed by international institutional investors are more thorough and sophisticated than those of their domestic counterparts.
INTERNATIONAL INSTITUTIONAL INVESTORS THAT STATE THAT SPANISH ISSUERS PROVIDE SUFFICIENT INFORMATION ON SOCIAL, ENVIRONMENTAL AND ETHICAL PERFORMANCE. GEORGESON SURVEY

Domestic Institutional Investors that state that Spanish issuers provide sufficient information on social, environmental and ethical performance. Funds People Survey

MITIGATION OF THE RISK OF A LOSING VOTE IN THE ELECTION/RE-ELECTION OF DIRECTORS

Currently, in both North American and European listed companies, when investors vote against the election or re-election of directors it is almost invariably in relation to aspects of corporate governance. Currently shareholders are not penalising the election or re-election of directors for socio-environmental reasons. However it can be expected that in future years shareholders in listed companies will begin to vote against managements for what they would consider to be poor corporate performance in social and environmental questions.

It should be stressed that on road shows with investors it is increasingly common for shareholders to question businesses about their strategy and performance on issues of corporate responsibility and the measures being taken by management to mitigate potential social and environmental risks.

According to the survey carried out by Georgeson, 69.6% of international institutional investors expect that within three years, re-election of directors in general meetings will be penalised as a consequence of inadequate corporate performance in social, environmental and/or ethical issues. This percentage increases slightly to 75% in the case of domestic institutional investors consulted by Funds People.

It is interesting to note that a large number of investors believe that this practice, usually focused on issues related to corporate governance, will spread to social, environmental and ethical issues. This emphasises the fact that Boards of Directors need to properly supervise the social, environmental and ethical issues to which Spanish listed companies are exposed.
THE INCLUSION OF SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES IN THE AGENDAS OF ANNUAL GENERAL MEETINGS

The inclusion of social, environmental and ethical issues in the agenda for annual general meetings of shareholders has increased substantially compared to previous years, especially in the United States. According to information published by Proxy Advisors ISS, in the third quarter of this year proposals related to political issues and in particular disclosure of lobbying information and financing of political parties occupy first place, followed by social and environmental questions with a higher number of proposals submitted by shareholders.

Environment-related questions, with a significant increase in proposals connected with climate change and greenhouse gas emissions, are in second place. A significant number of these proposals seeks to have listed companies adopt targets for the reduction of greenhouse gases in both their products and their operations, while another important group is related to disclosure of information on how businesses are addressing the challenges posed by the risks associated with climate change.

Other categories of proposals of a social and environmental nature in recent years are related to the question of management of Human Rights in listed companies. In this respect shareholders have submitted proposals requesting companies to undertake evaluations of the risks faced in the area of Human Rights or demanding implementation of formal Human Rights policies.

The following categories predominate in the profiles of shareholders with a tendency to submit proposals of a social and environmental nature in the general meetings of North American listed companies:

- Religious investor groups (e.g. Interfaith Center of Corporate Responsibility).
- Socially responsible niche investors (e.g. Boston Common Asset Management Calvert Investments, Domini Social Investments...)
- Major pension funds such as the New York City Pension Funds, New York State State Common Retirement Fund and California State Teachers’ Retirement System.

Although this phenomenon is non-existent in Spain it is important to stress that the practice of including social and environmental questions in the agenda of listed companies is typical of a more proactive investor profile, generally North American, and that this occurs fundamentally with North American companies. However, the trend is expected to continue to increase in Europe and North America in line with the tendency in recent years.

Thirty Four point eight percent of international institutional investors surveyed by Georgeson point to the inclusion of a social and/or environmental proposal in the agenda of a shareholder meeting in the past three years.

PERCENTAGE OF INTERNATIONAL INSTITUTIONAL INVESTORS THAT HAVE INCLUDED SOCIAL OR ENVIRONMENTAL PROPOSALS DURING THE PAST THREE PROXY SEASONS. GEORGESON SURVEY

Note: This question was not put to domestic institutional investors
SUPPORT FOR SOCIAL, ENVIRONMENTAL AND ETHICAL PROPOSALS BY INVESTORS

More and more companies, mainly in the United States and northern Europe, submit social and environmental questions for approval to shareholder meetings. Thus according to a recent study by Proxy Advisor ISS (Institutional Shareholder Services) 428 social or environmental proposals were identified in the United States Proxy Season on 7th March 2014 compared to 396 for the whole of 2013. Among the most recurring issues submitted for approval are those related to climate change, Human Rights, animal welfare, social or political contributions and the security, privacy and confidentiality of information.

Although this is a relatively recent phenomenon in Europe currently limited to a few social and environmental questions mainly related to energy companies we can expect that it will become more widespread in coming years and reach the same levels as in the United States.

Eighty seven percent of international institutional investors surveyed stated that they have supported a social, environmental or ethical question in a meeting of shareholders in the past three years at an international level.

THE INCORPORATION OF SOCIAL AND ENVIRONMENTAL CRITERIA INTO REMUNERATION SCHEMES

The remuneration of executives has become one of the most controversial issues during recent shareholder meeting seasons worldwide and provides evidence of the influence investors have over issues related to remuneration in major companies. As a result, many are opting for remuneration schemes with long term orientation, penalising policies with excessively short-term approaches of the type that was largely responsible for the recent global recession.

In an effort to achieve sustainable long term growth and in response to the demands of socially responsible investors, companies are increasingly incorporating social and environmental criteria into the incentive plans for managers.

For example, in June 2012 the United Nations Principles for Responsible Investment published a guide for integration of social and environmental questions into the remuneration of executives. The guide covers the three key areas in the construction of compensation packages that successfully use sustainability metrics:

- Identifying social and environmental metrics appropriate for each company.
- Linking said metrics with the remuneration packages of managers.
- Provision of an adequate level of disclosure on these incentive plans.
The movement towards integration of compensation metrics related to sustainability into executive remuneration schemes originates in the belief that companies that foster sustainable business practices often exceed the performance and outcomes of those that do not.

A recent study from the provider of non-financial information GMI that analysed the remuneration schemes of companies in the S&P 500 reached the following conclusions:

- 53.8% cite at least one sustainability factor that has a key role in management remuneration schemes.
- While the majority of S&P 500 companies include sustainability factors in their management remuneration schemes, only 16% specifically cite metrics for the measurement of performance.
- 9.8% of the companies studied reveal clear targets for each of the sustainability metrics established.
- More than 90% of companies in the utilities and energy sectors reported the use of sustainability metrics with particular focus on issues relating to health and safety at work.
- Less than 10 companies include sustainability factors in their long term incentive plans.
One of the main objectives of this study is to analyse the key social, environmental and ethical issues included in the socially responsible investment policies of institutional investors which formed part of the sample for this study.

Among the Top 50 international institutional investors by volume of SRI assets managed, 82% (41 investors) have a public policy in which the key issues, the investment strategy, international initiatives to which the investor subscribes and the issues covered by their exclusion policy (if any) are described. Of the remaining 18% (9 investors):

- 5 have a public policy that appears on their website.
- 3 manage SRI funds in spite of not having an SRI policy.
- 1 investor, in spite of not having a public SRI policy, is advised by another investor that provides ‘sub-advice’ through a specific department responsible for stewardship services for other investors.

All international institutional investors consulted by Georgeson, moreover, indicated that they have implemented a socially responsible investment policy in which they emphasise the role that social and environmental criteria play in the composition of the investment portfolio. On the other hand, 62% of domestic institutional investors indicate that they have a responsible investment policy although, in contrast to their international counterparts, said policies are not made public. This raises a question regarding their transparency on the criteria applied by these domestic investors.
SOCIAL AND ETHICS-RELATED ISSUES INCLUDED IN RESPONSIBLE INVESTMENT POLICIES

The following graphic shows the 9 major social and ethical issues that Georgeson has identified in the socially responsible investment policies of the Top 50 international institutional investors by volume of SRI assets managed.

The most important issue is Human Rights, considered by 72% of the sample followed by employment practices with 52%, health and safety at work and the supply chain with 50%.

HUMAN RIGHTS

One of the reasons why investors take this criterion into account is that the capacity for transformation of some multinationals exceeds the GDP of some countries. These companies can exercise an enormous influence on the development of economies and societies.

Therefore investors affirm that a business model under which Human Rights are respected brings the following benefits:

- The attraction of institutional investors that consider aspects related to Human Rights in their investment decisions.
- Helps to protect and enhance the corporate reputation.
- Helps businesses to attract talent.
- Reduces the risk of litigation for abuse of Human Rights.
- Protects and expands the client portfolio.
- Reduces the risks deriving from strikes and other labour disputes.

The questions relating to Human Rights are particularly important for investors with interests in labour-intensive sectors in the supply chain as retailers and producers of consumer goods and in extractive industries.

The following are the conventions and basic guidelines on Human Rights most frequently observed by investors:

- The UN Universal Declaration of Human Rights
- The United Nations Global Compacta (Principles 1 and 2).
- The Guidelines from the OECD for Multinational Enterprises (Chapters 1 and 2 on the Principles and Concepts and General Policies for Operations, chapter 5 on Labour Relations and Chapter 8 on Consumer Interests).
- The UN Guiding Principles on Business and Human Rights (The Ruggie framework).
Analysis of the results of the surveys carried out by Georgeson and Funds People clearly show that this is one of the questions of greatest importance for institutional investors, both international and domestic, and in particular those with interests in extractive industries, textiles or utilities.

**THE IMPORTANCE OF THE HUMAN RIGHTS ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS**

- **Very important**: 65.22%
- **Quite important**: 26.09%
- **Not very important**: 8.7%
- **Unimportant**: 0%

**THE IMPORTANCE OF THE HUMAN RIGHTS ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS**

- **Very important**: 17%
- **Quite important**: 65%
- **Not very important**: 13%
- **Unimportant**: 4%

**EMPLOYMENT PRACTICE AND HUMAN CAPITAL**

The importance that institutional investors consulted by Georgeson and Funds People are granting to questions such as equal opportunities is particularly noteworthy and implies that labour-related issues will play a more important role in coming years.

Policies, systems and procedures employed by businesses for personnel management (satisfaction studies, performance assessment, recruiting talent, trade union relations, wages and salaries policies, gender equality or the work and family life balance) come under this head.

**THE IMPORTANCE OF THE LABOUR PRACTICES ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS**

- **Very important**: 34.78%
- **Quite important**: 47.83%
- **Not very important**: 17.39%
- **Unimportant**: 0%
THE IMPORTANCE OF THE LABOUR PRACTISES ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS

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OCCUPATIONAL HEALTH AND SAFETY
The exposure of companies to health and safety issues varies greatly according to the sector, activity and geographic location. Investors need to understand how companies can provide solutions to tackle these questions and assess the way they manage their risk exposure from the point of view of their stakeholders: employees, suppliers, subcontractors, clients and the local community.

The right to health is enshrined in numerous international human rights treaties and more specifically in the Universal Declaration of Human Rights. It is also a feature of the constitution of most countries and is one of the eight United Nations Millennium Development Goals. Health is a basic pillar for development as a fundamental human right. Sustainable development goes beyond economic factors and takes fundamental questions such as health and life expectancy into account.

The right to health encompasses many issues including the very existence of healthcare services, equitable access to said services, safe working conditions and a healthy diet. However, a significant proportion of the world’s population is not able to benefit from rights that are vital to a decent level of human development.

It is a proven fact that almost 20% of the world’s population does not have access to basic healthcare, thousands of mortal accidents happen in the workplace, and that 1.400 million adults are overweight or obese.

DEVELOPMENT OF THE MAIN HEALTH RISKS ACCORDING TO THE WHO

The following are among the occupational health and safety-related aspects that investors usually analyse:

**Health and safety in the workplace:** Employees and sub-contractors in certain activities such as construction and extractive industries are exposed to health and safety risks such as a higher accident rate and exposure to toxic substances that can cause occupational illnesses.

**Development of products to address health-related issues:** Due to the nature of their business, certain companies are in a position to offer solutions to some health-related questions. For example, pharmaceutical companies are able to foster universal access to medication in particular in emerging countries. In the food industry, businesses are able to contribute to a healthier diet in particular by reformulating their products (reduction of sugar, salt and saturated fats).

**PRESSURE FROM INSTITUTIONAL INVESTORS TO COMBAT OBESITY**

In recent years certain investors are beginning to put pressure on major multinationals in the food sector to report their "health footprint". For example, in 2012 various investors in conjunction with other stakeholders and support from 2,500 paediatricians, cardiologists and other health professionals, included for the second consecutive year an additional proposal at the McDonald's General Meeting requesting that the fast-food chain carry out an evaluation of their impact on diet-related illnesses and other aspects of children's health including obesity.

With the backing of 6.4% of the investors attending the General Meeting, this resolution could mark the beginning of similar initiatives by investors in coming years with the aim of changing the policies of businesses in this respect and forcing them to become more transparent by reporting on their impact and contribution to obesity.

Investors argue that obesity is the fifth major cause of death worldwide and is responsible for at least 2.8 million adult deaths per year. This means that a significant part of healthcare spending is a direct or indirect consequence of obesity; in addition, the cost of healthcare is 40% higher for obese patients than for patients of normal weight.

The annual cost of obesity-related illnesses in the United States is estimated at 190 billion USD or some 21% of annual healthcare spending in the country. This cost could increase in future, particularly if the high levels of child obesity in the world and growing obesity in emerging markets are taken into account.

**Protection of local communities:** Certain activities can have a direct impact on the general health of local populations. For example, extractive industries can affect surrounding communities (dust, atmospheric emissions and water pollution). Therefore it is necessary to assess the prevention measures, consultation mechanisms and corrective measures implemented in the event of an increase in the level of complaints.
The subject is of particular importance for labour-intensive industries such as construction, mining, oil and gas and textiles. According to the results of the surveys carried out by Georgeson and Funds People, both international and domestic institutional investors will grant increasing importance to this issue in coming years.

**THE IMPORTANCE OF THE HEALTH AND SAFETY ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS**

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**THE IMPORTANCE OF THE HEALTH AND SAFETY ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS**

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**THE SUPPLY CHAIN**

Supply chain management is one of the aspects to which institutional investors pay most attention and where the greatest number of risks related to Human Rights, the environment and health and safety at work is concentrated.

Advanced investors hold that the integration of responsible practices along the entire increasingly globalised supply chain forms part of the strategic focus of businesses that seek to integrate environmental and social aspects into their relationship with all stakeholders.

The question is critical in labour-intensive industries such as textiles with procurement operations and manufacturing in regions such as Asia and North Africa. In this respect recent scandals in textile factories in Asia have demonstrated a lack of ethics, transparency and supervision in relation to suppliers that can have a major effect on companies, seriously prejudicing their reputation and consequently their business.

Both international and domestic institutional investors consulted by Georgeson and Funds People will grant increasing importance to this question in coming years.
THE IMPORTANCE OF THE SUPPLY CHAIN ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS

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ANTI-CORRUPTION

Institutional investors support the international struggle against corruption by excluding businesses linked to bribery and fraud. Companies must be aware that the adoption of anti-corruption measures is an essential component for protecting the interests of their shareholders and investors.

Corruption, extortion and bribery are among the most commonly prosecuted violations of both domestic and international law. Corruption is one of the world's major economic problems and impairs the economic development of many countries. Recent scandals have shaken the financial markets, eroded the confidence of investors and affected the reputation of the companies involved. Although all businesses are exposed to corruption risks, said risks vary according to their dimensions, the geographical market they serve and the sector where the activity takes place.

As a general rule the investors analysed take the following key conventions and guidelines into consideration:

- The United Nations Convention against Corruption.
- The United Nations Global Compact. Principle 10: Businesses should work against corruption in all its forms including extortion and bribery.
- The OECD Convention against Corruption.
- The OECD Guidelines for Multinational Enterprises. Chapter 7 on Corruption.

On the other hand, it should be stressed that according to the "Statement and Guidance on Anti-corruption Practices" by the International Corporate Governance Network (ICGN), shareholders are recommended to request companies to have strict policies and internal controls to avoid bribery and corruption.
The results of the surveys carried out by Georgeson and Funds People indicate that for both international and domestic institutional investors, issues related to ethics and integrity will become increasingly important during the next three years.

### THE IMPORTANCE OF THE ETHICAL INTEGRITY ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS

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### THE IMPORTANCE OF THE ETHICAL INTEGRITY ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS

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### DIVERSITY

According to a recent study by the Global Diversity Foundation, “from a business point of view the integration of diversity as a variable in the management system of an organization enhances understanding of the needs of stakeholders and the market in which the business operates and helps to design a commercial strategy adapted to the same, to identify new business opportunities, develop new services or products and to enhance the positioning of the company in all these scenarios”. Diversity is an asset and affects the interests of organisations (not only in the area of ethics but also in the income statement).

The principle of diversity in its broadest sense is an issue of vital importance to investors. At Board level investors seek a diversity of disciplines, experience and origins with the objective that all key questions which a Board must address are approached in a suitable way.

According to the latest study prepared by Georgeson and Cuatrecasas ("El Gobierno Corporativo y los Inversores Institucionales") that reviews the 2013 general meetings season, in the French and English markets especially we are beginning to see a powerful movement promoting the presence of women on Boards of Directors. In the 2013 season an investor movement was detected that uses its vote to penalise proposed appointments or re-election of directors on the grounds that the Board includes insufficient women or none at all. This is one of the questions that make investors ask about the efficacy of the system that the appointments committee uses to assess candidates for election or re-election to the board.
IMPORTANT DIVERSITY-RELATED INITIATIVES IN EUROPEAN UNION

The CRD IV (Capital Requirements Directive IV), which came into effect on 17th July 2013 and was applied as of 1st January 2014, includes provisions relating to diversity in major banks and investment companies in the European Union. The provisions are aimed at encouraging the governing bodies of this type of institution to become sufficiently diverse on issues of age, gender, geographic origin and academic and professional track records. The gender balance is of particular importance. The relevant institutions are required to establish an appointments committee which must set an objective for the representation of the less represented gender on the board of directors and to prepare a policy on the means for achieving this goal. Said policy will be made public together with the associated objectives and targets and the degree of progress achieved.

In April 2013 the European Union published a proposed Directive by which businesses with more than 500 employees are required to disclose social and environmental information in their annual reports. In relation to diversity, this would require disclosure of information on the diversity policies that deal with age, gender, geographic diversity and academic and professional training. Therefore, businesses must include the objectives of the policy, the implementation procedure and the results on the “comply or explain” principle.

In November 2013 the European Union issued a draft Directive that requires listed companies to address the chronic under-representation of women among non-executive directors to ensure that by 2020 (2018 for certain state-controlled businesses) at least 40% of non-executive directors are women. The proposal requires that where the Board of Directors of a listed company is not composed of at least 40% of women it would be necessary to introduce a new selection procedure for non-executive members of the Board that gives priority to female candidates. It is important to stress that this requirement only gives priority to a female candidate if she is equally well qualified for the position as a male candidate.

On 15th April 2014 the European Parliament approved the non-financial reporting and diversity directive according to which entities must report on the objectives and results of their diversity-related policies applied to their governing bodies, management and supervisory personnel on issues such as age, gender, geographical origin, training and professional experience.

SOCIAL AND POLITICAL CONTRIBUTIONS

Although most foreign institutional investors include these issues jointly with their socially responsible investment policies, and since in Spain direct contributions to political parties are prohibited, this study considers that issues related to corporate citizenship should be separated from those concerning political contributions.

The foreign institutional investors consulted by Georgeson consider this issue of relative importance, requiring companies to make a thorough assessment of the impact of their contributions on society and penalizing excessively cosmetic and market-orientated approaches. Moreover, it is worth noting that domestic institutional investors grant more importance to this issue in the coming years than their international counterparts.
The issue of political contributions refers to the company’s policy regarding its political involvement and contributions to political parties. It is a particularly relevant issue in countries such as the USA, where contributions to political parties are legal and are a common practice in major listed corporations. In this respect the work being done in the U.S. by the Center for Political Accountability (CPA) to promote the transparency of companies by disclosing information on this issue is outstanding.

It is noteworthy that domestic institutional investors grant increasing importance to this issue in coming years. This is surely a cue to the government to legislate and regulate the contributions of private bodies to political parties as in the USA.
THE IMPORTANCE OF THE POLITICAL PARTY FINANCING ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS

CLIENTS
This subject encompasses issues concerning customer satisfaction, mechanisms for dialogue with these stakeholders and integration of their expectations in the business strategy of companies. It also includes all those questions concerning confidentiality, a matter that has been considered of major importance among investors in the recently concluded Proxy Season in the USA.

Both international and domestic investors give increasing importance to this issue, especially with regard to how companies integrate the expectations and demands of their customers into their product range.

THE IMPORTANCE OF THE CLIENT ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS

THE IMPORTANCE OF THE CLIENT ISSUE FOR DOMESTIC INSTITUTIONAL INVESTORS

MICROCREDITS
Although it is the last item in the ranking of the issues identified, this is a particularly significant matter for the financial and insurance sector.

The financial sector plays a key role in the allocation of financial resources,
acting as a catalyst for a more sustainable economy. According to the latest World Bank data extracted from the report, “World Bank, 2012, Who are the Unbanked”, over 2.5 billion people currently have access to financial services such as bank accounts or loans. Financial institutions can offer savings accounts, loans and insurance to low-income segments of the population of developed and underdeveloped economies through micro-financing.

Among the Top 50 foreign institutional investors analysed, 9 (18%) include this issue in their socially responsible investment policies.

### ENVIRONMENTAL ISSUES INCLUDED IN RESPONSIBLE INVESTMENT POLICIES

The following graph shows the seven major environmental issues identified by Georgeson included in the socially responsible investment policies of the Top 50 foreign institutional investors by volume of SRI assets managed.

The most important issue is climate change, taken into account by 80% of the investors analysed, followed by water-related questions (62%), waste (50%), alternative energies (38%), clean technologies (32%), soil erosion (24%) and scarcity of resources (18%).

### CLIMATE CHANGE

For over a century the intensive use of fossil fuels (coal, oil and gas) has enabled major progress in most human activities and thus contributed to worldwide economic growth.

However, it is a proven fact that climate change and the use of fossil fuels (which currently account for 80% of overall energy supplies according to International Energy Agency data) are threatening the economic development model in both advanced economies and emerging countries.
The results of the survey conducted by Georgeson and Funds People show that this is the issue that awakens most concern among all the institutional investors consulted and that it will become increasingly important in coming years.

The following are some of the initiatives that investors considered most effective to mitigate the risks deriving from climate change:

**Energy efficiency and renewable energies:** Improving energy efficiency and using renewable energies are considered to be among the most effective solutions to mitigate the risks associated with climate change, although the latter account for less than 15% of world energy production. However, the regulatory efforts promoted by the Kyoto Protocol and the Copenhagen Agreement and the development of carbon markets in areas such as Europe, California and Australia have helped raise awareness of the need to seek rapid solutions to this problem.

**Sustainable mobility:** According to International Energy Agency data, 15% of greenhouse gas emissions come from the transport sector. In an increasingly globalised context in which people travel more and more and the effects of climate change, urban development and environmental degradation become increasingly acute, sustainable mobility has become an effective tool to help mitigate these risks. Thus, encouraging rail travel and the use of hybrid vehicles are some of the initiatives highlighted by investors in the short and medium term.

**Sustainable buildings and cities:** The International Energy Agency estimates that 35% of world energy is consumed in buildings. Buildings are also a source of major environmental impact due to water consumption and greenhouse gas emissions and constitute one of the major concerns according to investors.
Bearing in mind population growth and the rapidly increasing development of cities, this is one of the issues that will be subject to increasingly close examination by investors in the near future. Various initiatives have been implemented to promote sustainable buildings and cities such as the European Energy Efficiency Directive, the United Nations Better Buildings Initiative and development of the HEQ, BREEAM and LEED certifications.

**WATER MANAGEMENT**

One of the issues that most concerns investors regarding water management is calculation of the water footprint, meaning the total volume of fresh water used to produce the goods and services provided by a company.

Population growth, increased per capita water consumption, food production and pollution are the main causes of limited water availability. This is aggravated by an ageing water infrastructure in developed countries, where some cities lose 30% or more of their tap water due to leaks.

The relationship between economic development and the development of water resources can be observed throughout history. However, water availability depends on numerous external agents such as population, climate change, technological innovations and local regulations.

According to the data published in 2009 by the 2030 Water Resource Group, it is estimated that by 2030 world water demand will have risen to 6.900 billion cubic metres, compared to the current 4.500 billion cubic metres.

Drinking water is a resource unequally distributed worldwide. The issue is closely related to food safety and health since approximately 70% of the water consumed worldwide is associated with agriculture. Investments in infrastructures to improve water distribution and treatment and the improved efficiency of water use through new irrigation techniques, for example, will help reduce this inequality.

The international and domestic institutional investors that participated in the survey conducted by Georgeson and Funds People grant a high degree of importance to this issue, which will become increasingly important in coming years.

**THE IMPORTANCE OF THE WATER MANAGEMENT ISSUE FOR INTERNATIONAL INSTITUTIONAL INVESTORS**

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WASTE MANAGEMENT

Business models based on a linear economy that rely on “extraction, processing and disposal” are exposed to an increasing number of risks ranging from rising raw material prices to interruption of the supply chain. These trends will intensify with urbanisation of the population and the rising costs of resource extraction.

The investors analysed see waste management not only as a tool for minimizing environmental impact but also as a key factor in cost saving with a direct impact on profits. In short, investors take into account the way in which companies manage their waste throughout the life-cycle of their activities and also the extent to which they champion reuse and recycling.

ALTERNATIVE ENERGIES

As mentioned above the mass use of fossil fuels has led to considerable progress in most human activities: mobility, housing, industry, agriculture and health. However, today we are aware that climate change and the use of fossil fuels are threatening our development model. To solve this problem it is essential to make a rapid transition not only towards the use of energy resources with low CO2 emissions, but also towards a more energy-efficient economy. These changes are necessary because world energy consumption continues to increase and fossil fuels still account for 80% of the world energy supply.

Electricity suppliers are among those most affected by the need to reduce their CO2 emissions by reducing thermal production capacity and investing in renewable energy production capacity. Although the production cost of renewable energy is still significantly higher than that of thermal energy, the development of these technologies driven by regulations and consumer demand has become a necessity and a window of opportunity.
The renewable energy concept includes all energy sources that do not involve burning fossil fuels (coal, oil and gas). Examples of this type of energy include solar energy, wind power, hydroelectric power and bio-fuels.

**CLEAN TECHNOLOGIES**

This term is used to describe non-polluting technologies that use renewable and non-renewable natural resources in a rational manner. It refers to technologies that when applied do not cause side effects or alter the environmental balance or natural systems (ecosystems).

According to the definition used by the United Nations, this consists of the continuous application of an integrated, preventive environmentally-friendly strategy applied to processes, products and services to improve eco-efficiency and reduce risks to people and the environment.

The clean technology sector is strategically important because of its ability to create wealth and employment since clean technologies are related to business models that combine profitability and cost efficiency with reduced environmental impact and resource consumption required for an economic activity.

This market includes energy technologies (smart grids, renewable energies etc.), sustainable mobility, advanced materials, recycling and water and waste management, eco-design in goods and equipment, etc. It represents a potential market of over 3 billion Euros by 2020 in which nearly 40.000 million Euros a year are currently invested: 80% in mergers and takeovers and the remaining 20% in risk capital operations. This market shows annual growth of 6,5% to 13%.

**SOIL EROSION**

The intensification of agriculture, abuse of chemical substances and water and overgrazing have caused soil and farmland degradation and growing desertification with the resulting loss of productive land, shrinking production, acute water shortage and pollution.

According to the 2010 report on the economy of ecosystems and biodiversity for companies, it is estimated that about 85% of farmland has
been degraded by erosion, salinity, soil compression, nutrient exhaustion, biological degradation or pollution. Moreover, 12 million hectares are lost every year to desertification.

There are three types of erosion: water erosion, wind erosion and erosion caused by human activities. Soil erosion is the direct result of deforestation. Extensive erosion can cause landslides which means that erosion is a serious long-term threat to forests. Farm work, building and all human activities cause direct damage to the soil.

**SCARCITY OF RESOURCES**

Whether renewable (such as agriculture or water) or non-renewable (oil, gas, coal, metals), resources are limited and are not renewed fast enough to meet our needs. Based on current consumer habits, nearly all estimates calculate that most energy and mining reserves will last less than 100 years. Moreover, experts agree that there will be a peak in oil production before 2030.

It is estimated that fresh water availability is about 18.500 litres per person per day. With population growth and increased consumption (agriculture, industry etc.), it is forecast that available resources worldwide per person will decrease, approaching the threshold defined as dangerous by the United Nations Environmental Programme (about 7.000 litres/person/day).

Investors require companies to include measures to reduce their heavy dependence on limited resources in their strategies: industrial eco-design, ecology, recovery of by-products and functionally orientated business models are interesting concepts that respond the challenge to conserve resources. The aforementioned resources represent the raw material of all activities. So much so, that all sectors can be affected to a greater or lesser extent by resource management.
MAIN CONCLUSIONS

I. Analysis of the results of the surveys conducted by Georgeson and Funds People and analysis of the public information of foreign and domestic institutional investors reveal the major differences between them when it comes to fulfilling their fiduciary duties. This means that the degree of progress of socially responsible investment in Spain compared to the United States and northern Europe is extremely patchy. The following are some of the more striking differences:

- While 100% of the foreign institutional investors analysed in this survey claim to have a responsible investment policy, this figure is only 62% in the case of their domestic counterparts.
- The frequency of engagement activities with issuing companies is higher in foreign than domestic institutional investors.
- The existence of teams responsible for analysing social, environmental and ethical issues is much more common in foreign institutional investors than in domestic ones.
- The level of accession to international benchmark initiatives is much more diverse in foreign institutional investors than in their domestic counterparts.

II. The acute interest of French investors in the environmental and social performance of companies is noteworthy, especially in view of the fact that their proportional holdings in Spanish listed companies is less than that of British and American investors.

III. The huge influence of foreign international investors and voting consultants on payroll-related issues in recent years will continue in the foreseeable future with rising pressure for senior management of companies to include sustainability-related issues in their remuneration schemes, with special impact on industries such as textile, utilities/energy and construction.

IV. The investors consulted in the survey observe lack of information in the social, environmental and ethical areas by Spanish issuing companies. In particular, over 80% of foreign international investors consulted in the survey state that Spanish issuing companies do not provide comprehensive and relevant information. They demand a reporting approach more closely integrated with the financial report.

V. The increasing interest of Spanish listed companies in integrated reporting with the aim of providing investors with data on the future strategy of the company combining economic, social and environmental indicators will help mitigate this lack of information in the future.

VI. Although sustainability indexes are important to the investors consulted in the survey it should be noted that nearly 30% of the foreign and domestic institutional investors that participated in the survey do not take these indexes into account when composing their investment portfolios.
VII. Employee Pension Funds have played a very important role in the development of socially responsible investment in the United States and northern Europe. In Spain, however, this development is less advanced for the following reasons:
- Concentration of Shareholders Meetings in a specific period of time and the resulting volume of information to be analysed.
- Inefficiencies in the internal decision-making process in monitoring committees.
- Non-existence of specialized Proxy Consultants in Spain.
- Inertia in the delegation of monitoring committee powers to the management body.

VIII. The investors consulted believe that in the future they will start penalising the election/re-election of directors for the poor environmental and social performance of listed companies.

IX. The inclusion of environmental and social proposals in the agenda of Shareholders Meetings is virtually non-existent in Spain. However, in northern Europe and particularly in the USA, institutional investors observe an increase in this practice.

X. Overall, the subjects arousing most concern among the institutional investors analysed in the survey primarily focus on 9 issues: Human rights, corruption, the supply chain, employment practices, occupational health and safety, diversity, climate change, water and waste management. Depending on the business sector of the companies involved there are sub-issues that should be analysed in depth, such as combating obesity in the food industry, sustainable mobility in the transport sector, sustainable buildings and cities in the construction industry and alternative energies in the electric power sector.
RECOMENDATIONS

I. Boards of Directors should be responsible for supervising the performance of listed companies on non-financial issues. A member of the board should also be appointed to lead engagement activities with socially responsible investors.

II. Engagement activities should be systematised by the investor relations department in collaboration with the departments responsible for social, environmental and ethical issues.

III. Criteria and objectives related to social, environmental and ethical issues should be included in senior management variable remuneration schemes.

IV. The social and environmental criteria demanded by investors should be included in the Corporate Social Responsibility Strategic Plan of listed companies.

V. Domestic funds and management companies should have specialized teams to analyse social, environmental and ethical issues.

VI. Financial instruments must be found to ensure that pension funds retain their voting powers and do not delegate them to third parties, enabling them to exercise their fiduciary duties in the same way as major international pension funds.

VII. Creation of proxy voting teams in Spanish management companies responsible for exercising voting rights at shareholders’ meetings.

VIII. It is vital for listed companies to have a thorough knowledge of their shareholders, especially the international investors, in order to ascertain and respond to their social, environmental and ethical concerns.

IX. Companies should adopt integrated reporting to respond to the information requirements of investors.

X. Domestic institutional investors should be obliged to publish the voting results of the shareholders meetings in which they take part.

XI. Domestic funds must be encouraged to participate in more international initiatives in the field of socially responsible investment.

XII. Since there is an increasing percentage of investors stating that they do not take any stock exchange sustainability index into account when analysing Spanish companies and composing investor portfolios, it is necessary for issuing companies to allocate time and resources to conducting corporate responsibility road shows with active investors in this field.
**Biological weapons**

Weapons designed to release a biological agent. Such agents include, among others, disease-producing micro-organisms and toxic biological products that cause death or injury to human beings, animals and plants. In 1972, 103 countries signed the Biological Weapons Convention. This convention bans the development and use of biological and chemical weapons.

**Cluster Bombs**

Conventional munitions less than 20 kg in weight designed to disperse or release explosive submunitions. The Convention on Cluster Munitions came into effect on 1st August 2010 and has been signed by 104 countries, 30 of which have ratified it. Of the 20 countries that did not sign the convention, 17 probably still manufacture this type of munitions today.

**Nuclear Bombs**

Also known as “A” bombs, atom bombs, fission bombs or plutonium bombs. These are mass destruction nuclear weapons in which a huge amount of energy is released by nuclear fission (the division of the nucleus of a heavy element such as uranium 235 or plutonium 239). The countries that possess nuclear weapons include USA, UK, China, France, India, Pakistan, Russia and North Korea. Israel is also believed to have nuclear weapons and Iran, Myanmar and Syria are believed to be developing them.

**Carbon Disclosure Project (CDP)** [www.cdproject.net](http://www.cdproject.net)

The mission of the CDP is to compile and distribute high quality information to encourage investors, corporations and governments to take steps to prevent climate change. The CDP acts on behalf of over 655 institutional investors with a managed asset volume of over USD 78 billion, and offers the capital market a measurement of carbon-related reporting and performance.

**CDP Water Disclosure Project** [www.cdproject.net](http://www.cdproject.net)

This is a new programme launched by the CDP intended to help institutional investors to better understand the risks and opportunities associated with the shortage of water and other related questions, encouraging companies to report the availability of the resource and the associated risk management. It is a key tool for investors and businesses to assess the ability of companies to operate successfully in a world with water restrictions.

**OECD Guidelines for Multinational Enterprises**

[www.oecd.org](http://www.oecd.org)

This is the most extensive set of recommendations regarding responsible business conduct. The governments that have signed these guidelines aim to encourage and maximize the positive impact of multinational companies. They contain principles and standards in areas such as employment and labour relations, Human Rights, environment, dissemination of information, combating bribery, consumer interests, science and technology, competition and voluntary taxation.
**EXTRACTIVE INDUSTRY TRANSPARENCY INITIATIVE (EITI)** www.eiti.org

The EITI is an international standard that fosters transparency in the revenues of the extractive industry. It has a solid, flexible method for monitoring and reconciling company payments and government revenue from oil, gas and mining nationwide. The implementation of the EITI has two main components:

- **Transparency**: oil, gas and mining companies reveal their payments to the government and the government reveals its revenue. The figures are reconciled and published in the annual EITI reports along with contextual information about the extractive industry.

- **Accountability**: a multiple stakeholder group with government representatives, companies and civil society monitors the process and communicates the conclusions of the EITI report.

**EUROSIF** www.eurosif.org

The European Sustainable Investment Forum is a pan-European discussion network the mission of which is to develop sustainability through European financial markets. Its members include institutional investors, financial service providers, academic institutions, research associations, trade unions and non-governmental organizations. It is a non-profit organization representing the more than € 1 billion assets of its associate members.

**GLOBAL COMPACT** www.unglobalcompact.org

The United Nations Global Compact is an international initiative to promote the implementation of 10 universally accepted principles in the areas of Human Rights, labour standards, environment and the fight against corruption in the activities and business strategy of companies. With over 10,000 signatory companies in more than 130 countries, it is the world’s largest voluntary corporate social responsibility initiative.

**INSTITUTIONAL INVESTORS GROUP ON CLIMATE CHANGE (IIGCC)** www.iigcc.org

This is a forum for cooperation on climate change issues for European investors. There are currently over 80 members including some of Europe’s largest pension funds and asset managers, representing about € 7.5 billion. The aim of this forum is to ensure that the risks and opportunities connected with climate change are taken into account when investing.

**INTERNATIONAL INTEGRATED REPORTING COMMITTEE** www.theiirc.org

This organization was created in 2009 when various initiatives, organizations and individuals converged on the idea of founding an institution to promote the development and worldwide implementation of the procedure known as Integrated Reporting. For this purpose the Prince of Wales sponsored an international meeting with investors, standardization bodies, companies, accountants’ associations and United Nations representatives at which it was decided to launch a project led by the Prince’s Accounting for Sustainability Project and the Global Reporting Initiative which, together with other organizations, would constitute a worldwide organization to define a generally accepted framework on integrated reporting.

The mission of the IIRC is set forth in the following terms: “to create a globally accepted framework that brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format – put briefly, in an “integrated” format“. The intention is to help with the development of more comprehensive and comprehensible information about an organization’s total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model.”
FOREST FOOTPRINT DISCLOSURE PROJECT  www.forestdisclosure.com
This initiative, promoted by the Global Capy Programme (GCP), has merged with the Carbon Disclosure Project (CDP) to offer companies and investors a single source of information for the interrelated issues of climate, water and forests. The CDP Forest Programme helps companies and investors around the world to understand and deal with their exposure to the risks of deforestation due to their use of five agricultural products that are responsible for most deforestation (wood products, oil, soya, bio-fuel, livestock and palm oil).

LANDMINES
These are mines activated by their victims indiscriminately; whoever activates the mine, whether it is a child or a soldier, becomes its victim. Mines laid against enemy forces during a war can continue killing and injuring civilians decades later. Despite being banned by the Landmine Ban Convention (LBC) since 1997, they were still used by Russia and Myanmar in 2007.

Although their use has decreased in recent years, non-governmental armed groups continue using anti-personnel mines.

DEPLETED URANIUM MUNITIONS
With 1.7 times the density of lead, this substance is highly valued by the armed forces due to its ability to penetrate armoured vehicles. After the explosion it produces the vapour settles in the form of poisonous radioactive dust.

In December 2010, 148 countries ratified a Resolution of the United Nations General Assembly urging countries that use depleted uranium weapons to reveal where such weapons had been used when the countries concerned so requested.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (UNPRI)  www.unpri.org
This is an international network under the auspices of the United Nations the main purpose of which is to raise awareness of the implications of sustainability for investors and encourage signatories to include these issues in investment decision-making. By applying its six principles, the signatories contribute to the development of a more sustainable world financial system.

PRINCIPLES FOR RESPONSIBLE INVESTMENT IN FARMLAND (PRIF)  www.unpri.org
These principles were drawn up in 2011 by a group of signatories of the Principles for Responsible Development. They were designed to guide institutional investors that want to invest in farmland in a responsible way. They are not part of the PRI. However, their agenda is very much aligned with that of the PRI and it is a requirement for all signatories of the farmland principles to also be signatories of the PRI.

PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE (PIIF)  www.unpri.org
The PIIF provides a framework for responsible investment in inclusive finance. Inclusive finance is a concept that includes but is not limited to microfinancing. It aims to extend access to affordable and responsible financial products and services to poor and vulnerable populations. This also includes organizations that do not usually have access to financial products and services, such as micro-enterprises and small enterprises. There is a wide range of financial products and services included in the scope of microfinancing such as savings, credit, insurance, remittances and payments.
PIIF have been developed as a response to the increasing interest in inclusive financing and the demand for guidance for investors. They are an initiative of investors and Her Royal Highness Princess Maxima of the Netherlands, Special Representative of the General Secretary of the UN for inclusive finance for development.

**UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS**

[www.business-humanright.org](http://www.business-humanright.org)

These Guiding Principles are based on the recognition of:

a) the current obligations of States to respect, protect and comply with Human Rights and fundamental freedoms.

b) the role of companies as specialized bodies of society that perform specialized functions and must comply with all applicable laws and respect Human Rights.

c) the need for rights and obligations to be accompanied by adequate and effective resources in the case of non-compliance.

These Guiding Principles apply to all States and all businesses, transnational or otherwise, regardless of their size, sector, location, ownership and structure.

The framework is based on three fundamental principles.

- Firstly, the obligation of the State to provide protection from the abuse of Human Rights committed by third parties, including businesses, through suitable measures, regulatory activities and submission to justice.
- Secondly, the obligation of businesses to respect Human Rights, which means acting with due diligence to avoid violating the rights of others and repairing the adverse consequences of their activities.
- Thirdly, the need to improve the access of victims to effective repair channels, both in and out of court.
APPENDIX 2: LIST OF INTERNATIONAL INSTITUTIONAL INVESTORS THAT RECEIVED THE SURVEY SENT BY GEORGESON

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<th>Credit Suisse Asset Management</th>
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<td>Clearbridge Advisors</td>
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<td>CPP INVESTMENT BOARD</td>
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<td>Amundi Asset Management</td>
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<td>Alliance Trust Asset Management, Ltd</td>
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<td>Delta Lloyd Asset Management N.V.</td>
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<td>Allianz Global Investors France</td>
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<td>Dimensional Fund Advisors, LP</td>
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<td>Assurance du Credit Mutuel S.A</td>
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<td>AXA Investment Managers Paris</td>
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<td>Atlanta Capital Management Company, LLC</td>
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<td>BlackRock Advisors (UK) Limited</td>
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<td>Inter Expansion S.A.</td>
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</tr>
<tr>
<td>92</td>
<td>Threadneedle Asset Management Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>93</td>
<td>The Vanguard Group, Inc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>94</td>
<td>Tredje AP Fonden</td>
<td></td>
<td></td>
</tr>
<tr>
<td>95</td>
<td>TIAA-CREF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>96</td>
<td>UBS Global Asset Management (UK) Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>97</td>
<td>Universities Superannuation Scheme Ltd. (USS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>98</td>
<td>Union Investment Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>99</td>
<td>Vontobel Asset Management AG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>Wellington Management Company, LLP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 23 anonymous responses were received from the total of 100 international institutional investors to which the survey was sent.
APPENDIX 3: LIST OF DOMESTIC INSTITUTIONAL INVESTORS THAT RECEIVED THE SURVEY SENT BY FUNDS PEOPLE

**SRI in Spanish funds: Survey by Funds People, Georgeson, CPPS and the Club de Excelencia en Sostenibilidad**

- A&G
- Abante Asesores
- Acacia Inversión
- Ahorro Corporación Gestión
- Allianz Popular AM
- Alpha Plus Gestora
- Altex Partners
- Amistra
- Amundi Iberia
- Andbanc
- Arquigest
- Atl Capital
- Aviva Gestión
- Banco Madrid Gestión de Activos
- Bankia Fondos
- Bankia Pensiones
- Bankinter Gestión de Activos
- BanSabadell Inversión
- Barclays Wealth Managers
- BBVA
- BBVA Asset Management
- Belgravia
- Bestinver
- BMN Gestión
- BNP Paribas Gestión
- Caja España Fondos
- Caja Ingenieros Gestión
- Cartesio
- Catalunya Banc Plan
- Pensiones.P.Emplei
- Citibank España
- Comisión de Control del Plan de Pensiones de Empleo de Ferrocarril Metropolitana de Barcelona
- Consulnor
- Creditiges
- Credit Suisse Gestión
- CX Inversió
- Cygnus AM
- Deutsche Asset & Wealth Management
- Deutsche Bank
- Dux Inversiones
- EDM
- Egeria Activos
- Empleados Telefónica de España, F.P.
- Espírito Santo Gestión
- Euroagentes
- Fineco
- Fonditel
- Fondo de Pensiones de C.S. de CCOO
- Fondo de Pensiones de Empleo de BCCM
- Fondo de Pensiones Grupo Santander
- Fondo Repsol II
- Fondo Santander Ahorro, 5
- Gesalcalá
- Gesbusa
- Gesconsult
- Gescooperativo
- Gesinter
- Gesiuris
- Gesrte
- Gesprofit
- Gestifonsa
- Grupo Barclays Bank en España
- GVC Gaesco
- Ibercaja Gestión
- ICR
- Intermoney
- Invercaixa
- Inverseguros
- Inversiis Banco
- Kutxagest
- Laboral Kutxa
- Mapfre Gestóra
- March Gestión
- MDEF Gestefin
- Merchbanc
• Metagestión
• Mirabaud Gestión
• Mutuactivos
• N+1
• Omega Gestión
• Pensions Caixa 30
• Previsión Social Empleados Grupo Endesa, Fondo de Pensiones
• Privat Bank Degroof
• PSN
• Renta 4 Gestora
• Santander Asset Management España
• Seguros Bilbao
• Siitnedif
• Telephone
• Transportes de Barcelona SA
• Trea Capital
• Tressis Gestión
• UBS Gestión
• Unigest
• Vodafone España SAU-Comision de Control del Plan de Pensiones
• Welzia
## APPENDIX 4. TOP 50 INTERNATIONAL INSTITUTIONAL INVESTORS BY VOLUME OF SRI ASSETS MANAGED ANALYSED IN THE STUDY

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investment Firm</th>
<th>Value Assets SRI year 2013 (Million €)</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Norges Bank Investment Management (NBIM)</td>
<td>609.306</td>
<td>Norway</td>
</tr>
<tr>
<td>2</td>
<td>APG Asset Management</td>
<td>343.000</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>3</td>
<td>Swedbank Robur AB</td>
<td>340.000</td>
<td>Sweden</td>
</tr>
<tr>
<td>4</td>
<td>Aviva Investors France S.A.</td>
<td>298.000</td>
<td>France</td>
</tr>
<tr>
<td>5</td>
<td>Andra AP-Fonden</td>
<td>227.000,3</td>
<td>Sweden</td>
</tr>
<tr>
<td>6</td>
<td>California Public Employees’ Retirement System</td>
<td>189.058</td>
<td>USA</td>
</tr>
<tr>
<td>7</td>
<td>La Banque Postale Asset Management</td>
<td>139.000</td>
<td>France</td>
</tr>
<tr>
<td>8</td>
<td>State Street Global Advisors (US)</td>
<td>134.558,8</td>
<td>USA</td>
</tr>
<tr>
<td>9</td>
<td>PGGM Vermogensbeheer B.V.</td>
<td>133.000</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>10</td>
<td>CALSTRS</td>
<td>129.705,9</td>
<td>USA</td>
</tr>
<tr>
<td>11</td>
<td>Threadneedle Asset Management Ltd.</td>
<td>101.500</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>12</td>
<td>Amundi Asset Management</td>
<td>62.000</td>
<td>France</td>
</tr>
<tr>
<td>13</td>
<td>SNS Asset Management</td>
<td>42.400</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>14</td>
<td>Universities Superannuation Scheme Ltd. (USS)</td>
<td>39.927</td>
<td>United Kingdom</td>
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<tr>
<td>15</td>
<td>Hermes Fund Managers Limited</td>
<td>31.059</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>16</td>
<td>Generali Investments Europe</td>
<td>22.000</td>
<td>Italy</td>
</tr>
<tr>
<td>17</td>
<td>Northern Trust Global Investments</td>
<td>15.367,6</td>
<td>USA</td>
</tr>
<tr>
<td>18</td>
<td>BNP Paribas Investment Partners (France)</td>
<td>15.000</td>
<td>France</td>
</tr>
<tr>
<td>19</td>
<td>Fjärde AP-Fonden</td>
<td>11.701,6</td>
<td>Sweden</td>
</tr>
<tr>
<td>20</td>
<td>Tredje AP Fonden</td>
<td>10.149,0</td>
<td>Sweden</td>
</tr>
<tr>
<td>21</td>
<td>TIAA-CREF</td>
<td>8.823,5</td>
<td>USA</td>
</tr>
<tr>
<td>22</td>
<td>Pamassus Investments</td>
<td>6.005,7</td>
<td>USA</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Total</td>
<td>Country</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------------------</td>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>23</td>
<td>AXA Investment Managers Paris</td>
<td>4.100,0</td>
<td>France</td>
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<tr>
<td>24</td>
<td>Natixis Asset Management</td>
<td>3.900,0</td>
<td>France</td>
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<tr>
<td>25</td>
<td>Pictet Asset Management Ltd.</td>
<td>3.131,7</td>
<td>United Kingdom</td>
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<td>26</td>
<td>Handelsbanken Asset Management</td>
<td>2.060,5</td>
<td>Sweden</td>
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<tr>
<td>27</td>
<td>Atlanta Capital Management Company, LLC</td>
<td>1.938,8</td>
<td>United States</td>
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<tr>
<td>28</td>
<td>RobecoSAM</td>
<td>1.880,7</td>
<td>Switzerland</td>
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<tr>
<td>29</td>
<td>Neuberger Berman Management, LLC</td>
<td>1.866,0</td>
<td>United States</td>
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<tr>
<td>30</td>
<td>SEB Asset Management (Stockholm)</td>
<td>1.674,5</td>
<td>Sweden</td>
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<tr>
<td>31</td>
<td>F&amp;C Asset Management plc</td>
<td>1.465,6</td>
<td>United Kingdom</td>
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<tr>
<td>32</td>
<td>Kames Capital</td>
<td>1.270,1</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>33</td>
<td>Alliance Trust Asset Management, Ltd</td>
<td>1.215,7</td>
<td>United Kingdom</td>
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<tr>
<td>34</td>
<td>Legal &amp; General</td>
<td>1.205,7</td>
<td>United Kingdom</td>
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<tr>
<td>35</td>
<td>Impax Asset Management, LTD</td>
<td>1.176,5</td>
<td>United Kingdom</td>
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<td>36</td>
<td>The Vanguard Group, Inc.</td>
<td>1.176,3</td>
<td>United States</td>
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<tr>
<td>37</td>
<td>M&amp;G Investment Management Ltd.</td>
<td>1.152,4</td>
<td>United Kingdom</td>
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<tr>
<td>38</td>
<td>BlackRock Advisors (UK) Limited</td>
<td>1.152,4</td>
<td>United Kingdom</td>
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<tr>
<td>39</td>
<td>Pax World Management LLC</td>
<td>1.150,3</td>
<td>United States</td>
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<td>40</td>
<td>Dimensional Fund Advisors, LP</td>
<td>1.128,6</td>
<td>United States</td>
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<tr>
<td>41</td>
<td>Assurance du Credit Mutuel S.A</td>
<td>1.075,2</td>
<td>France</td>
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<tr>
<td>42</td>
<td>Swisscanto Asset Management AG</td>
<td>1.045,8</td>
<td>Switzerland</td>
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<tr>
<td>43</td>
<td>Calvert Investment Management</td>
<td>1.030,3</td>
<td>United States</td>
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<td>44</td>
<td>Bank Sarasin &amp; Cie AG</td>
<td>1.019,3</td>
<td>Switzerland</td>
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<tr>
<td>45</td>
<td>Storebrand Kapitalforvaltning AS</td>
<td>1.017,6</td>
<td>Norway</td>
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<td>46</td>
<td>Invesco Powershares Capital Management, LLC</td>
<td>930,5</td>
<td>United States</td>
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<tr>
<td>47</td>
<td>Vontobel Asset Management AG</td>
<td>901,8</td>
<td>Switzerland</td>
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<td>48</td>
<td>Pioneer Investments Management Ltd.</td>
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<td>Ireland</td>
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<td>49</td>
<td>Aegon Industrial Fund Management Company</td>
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<tr>
<td>50</td>
<td>Ohman Fonder Ab</td>
<td>825,5</td>
<td>Sweden</td>
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</table>
Members of the Club
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