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Understanding the accountability and reporting practices on sustainability performance developed by the ethical mutual funds in the UK

by

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Abstract

The SR mutual funds have incorporated different approaches into the traditional investment criteria to tackle sustainability issues such as positive or negative screening, engagement, integration and best in class. These strategies seek to satisfy the variety of clients' values and interests and manage accordingly the investment's risks. This offer of products not only generates financial profits, but also sustainability returns.

The growth of the SR retail investment showed over last years reflects the genuine interest from retail investors in being informed about these products. The satisfaction of this demand must be supported by reliable and complete information. Since the sustainability returns are of increased interest from potential investors and other stakeholders, it is therefore fundamental an adequate

communication of these achievements to dynamize the market in a greater scale. Given the scarcity of information in regard to sustainability reporting within the SR mutual funds industry the objective of this project points to get an understanding of the current accountability and disclosure practices on environmental, social and corporate governance performance developed by the FMCs which belong to this sector.

This research is focused on four areas: ESG investment analysis, ESG investment and implementation, Engagement practices and voting policy, and Characteristics of the SR mutual fund reporting. This structure not only includes an analysis of the reporting process itself, but also comprises an understanding of the core processes that back up the performance results to be disclosed to the stakeholders. The data to carry out this research were obtained from the responses to the European SRI Transparency Code provided voluntarily by some SR mutual funds. The structure and content of this questionnaire is aligned with the research areas.

One of the main findings of this research is the disclosure of good intentions to work issues around sustainability but a lack of disclosure to prove what has been done regarding targets and impact. The main cause of this problem is the lack of clarity in defining what the expected outcomes are and the justification to do so. Given the lack of regulation in this area the FMCs have assumed the task to setting up the tone to carry out the sustainability strategies and monitor them to satisfy the investors‘ interests. This function has not been satisfactory enough. Another cause is the inexistent government‘s role within this market as regulator and promoter of the development of the SR retail investment sector. The lack of accountability principles to establish the ESG performance criteria is missing as well as the reporting parameters to communicate the progresses made.

Without a report including information on performance aligned with strategic objectives and in a quantitative format, the SR retail mutual funds will continue seen as a marginal investment option. It is imperative to take action coordinately at the management, industry and systemic level to promote the development of the sector and enhance its potential benefits.

Contents

Acronyms

SRI : Sustainable and Responsible Investment
CSR : Corporate Social Responsibility
SR : Sustainable and Responsible
ESG : Environmental, Social and Governance
FMC : Fund Management Company
GRI : Global Reporting Initiative
PRI : Principles for Responsible Investment
Eurosif : European Sustainable Investment Forum
UKSIF : UK Sustainable Investment and Finance Association

Chapter 1 Introduction

1. Background of the research

The growing interest of investors regarding human rights, climate change, water scarcity, among others sustainability issues has demanded the creation of new investment products in the international financial market. The USA and European countries such as the UK have led this trend since some decades ago and they have pioneered the creation of an innovative range of products which have boosted the development of the ethical investment market internationally.

The adoption of sustainability concepts into business practices is still an area in progress. Certainly, the financial sector has not reached such a maturity level. The understanding of environmental, social, corporate governance and ethical concepts is still flaw even in the ethical investment sector. However, as of December 2009 approximately £9.5 billion were invested in Britain’s green and ethical retail funds by the mass market[1]. In 2007 it was registered a growth of more than 100% in this sector compared to 2005 according to Eurosif[2].

The SR mutual funds have incorporated different approaches into the traditional investment criteria to tackle sustainability issues such as positive or negative screening, engagement, integration and best in class, in order to satisfy the variety of clients‘ values and manage the investment‘s risks. Consequently, the offer of products not only yields financial profits, but also environmental, social or governance returns.

The importance of the SR mutual funds relies in their approach to the mass market. The growth showed over last years demonstrates the genuine interest from retail investors in knowing and being informed about these products. The satisfaction of this demand must be backed up by reliable and complete information. Since the “sustainability returns” are of increased interest from potential investors and other stakeholders, it is therefore fundamental an adequate communication of these achievements to dynamize the market in a greater scale.

2. Research objective

Given the previous background, the area of study chosen was the accountability and reporting of sustainability performance and achievements carried out by the SR mutual funds in the UK. This area is of particular interest to understand what are the impacts generated by the sustainability approaches employed by mutual funds engaged in these practices, what are the characteristics and content of the information reported, and what are the processes that support the sustainability performance and its reporting.

Since the sustainability concept cover a variety of topics, the ethical investment sector has defined three main aspects based on the triple bottom line approach to narrow down this concept. They are environmental, social and governance (ESG) areas which will be used in this research to align our study purpose with the sector practice.

Accordingly, the objective of this project is to get an overview of the current accountability and reporting practices on environmental, social and corporate governance performance developed by the ethical mutual funds in the UK.

3. Structure of the report

The dissertation structure has been divided in seven chapters which follow the flow of the analysis performed and facilitate a fluid read.

Chapter 1 presents an overview of the research which highlights the relevance of the research study and the main objective of this project.

Chapter 2 is a synthesis of the literature review at both the academic and practitioner level. It includes an introduction to SRI concepts and overview of the UK market; understanding of SR mutual funds, their ESG strategies and current accountability and reporting practices in the UK; explanation of the European SRI Transparency Code, its importance and structure; and overview of the accountability and reporting best practices on ESG performance. At the end the research questions are defined and aligned with the main objective of this project.

Chapter 3 comprises the explanation of the methodological approach chosen, research methods and limitations of the study.

Chapter 4 looks at the findings about ESG performance, accountability and reporting which are based on the analysis of the responses to the European Transparency Code and supporting information found on the FMC's website.

Chapter 5 analyses the findings collected in Chapter 4 in order to outline the performance gaps against the main frameworks introduced in the literature review. The gap analysis quests to examine the sufficiency and completeness of the ESG performance outcomes from every process analysed to setting up a solid ESG reporting criteria.

Chapter 6 discusses the main drivers of change for the initial proposals to improve the accountability and disclosure of the ESG performance covered in Chapter 5. It includes some thoughts found in the extensive literature about SR institutional investment and financial supervision literature to contrast ideas and assess viability of the final recommendations.

Chapter 7 presents the conclusions and thereafter the recommendations for SR mutual funds' management, SR retail industry and policy makers are presented as well as suggestions for future academic research.

Chapter 2 Literature Review

2.1. Important points of literature review

2.1.1. Sustainable and Responsible Investment (SRI)

2.1.1.1. Basic concepts

The concept of sustainability has been adopted by the financial sector within the ethical investment industry. The most complete definition of sustainability is offered by the Brundtland Report (1987) which is based on the concept of sustainable development understood as meeting the needs of the present without compromising the ability of future generations to meet their own needs.

The investment industry includes two main actors. The retail investors who purchases small amounts of securities for him/herself as opposed to an institutional investor which is an entity with large amounts to invest, such as investment companies, brokerages, insurance companies, mutual funds, pension funds, investment banks and endowment funds.[3]

Since the scope of this research include investment funds, this type of company is defined as a firm that invests the pooled funds of retail investors for a fee[4]. By aggregating the funds of a large number of small investors into specific investments (in line with the objectives of the investors), an investment company gives individual investors access to a wider range of securities than the investors themselves would have been able to access.

Currently, sustainable and responsible investment is a concept that has evolved notably in the UK. The terms “social”, “ethical”, “responsible”, “socially responsible” and “sustainable” are all used in a multitude of overlapping and competing ways. Nevertheless, the constant within this area is that sustainable and responsible investors are concerned with long-term investment, and environmental, social and governance (ESG) issues are important criteria in determining long-term investment performance. According to Eurosif (2008) there has been an increasing split into three areas:

- Responsible Investment is an area developing particularly among the institutional investors and remains most connected to the mainstream financial community. Responsible investors take into consideration the long-term influence of extrafinancial factors such as environmental, social and governance (ESG) issues in their investment selection. They integrate ESG factors into their stock portfolio analysis and management, bringing together social and sustainability indicators with traditional financial analysis.

- Socially Responsible Investment is an important area for the retail financial sector and may incorporate ESG issues as well as criteria based on social or environmental values.

- Sustainable Investment is a growing area where both retail and institutional investors align their investments with emerging environmental and social realities. This area brings together those in the financial sector committed to the sustainability imperative along with those interested by the investment opportunities that the ongoing shift in regulations and market practices are creating.

Thus, the definition of Sustainable and Responsible Investment (SRI) acknowledged in this research covers ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues (Eurosif, 2008).

2.1.1.2. Evolution of the SRI Concept

According to KLD Research & Analytics, Inc. (2007) it is possible to identify three categories of SRI approaches as a result of the evolution of the concept over the time.

- "The first approach is called Values-Based SRI and represents the beginning of SRI. It emerged in the US in the late-1960s, and in the UK, Canada and Australia in the mid-1980s. In all four countries, SRI's character and shape remained fixed, more or less, until the late 1990s. This approach aligned the investor's portfolio holdings with its beliefs. The primary investor types are mainly individual investors who participate in the market through mutual funds and indirect engagement.

- The second approach called Value-Seeking SRI emerged by the late 1990s. It seeks to identify social and environmental criteria which may affect financial performance and therefore share price. The primary investor types are fund managers, pensions, foundations and endowments and the vehicles they use are direct and indirect engagement, separately-managed accounts and pooled vehicles.

- The Value-Enhancing SRI approach differs from the previous approaches notably since the institutions who have adopted it reject the notion that they are SRI investors. They apply techniques of shareholder activism and direct engagement to maintain or increase the financial value of their investments. Accordingly, this approach regards corporate governance practices."

Surprisingly, this last approach has been adopted by the SR mutual funds in the UK as it will be analysed in the next sections of this study.

2.1.1.3. Institutions supporting SRI's growth

At the international level the most representative organizations are

- Principles for Responsible Investment (PRI). An investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact in order to develop a framework for responsible investment.[5]
- Organisation for Economic Co-operation and Development (OECD). Forum for international cooperation, policy analysis and advice to governments.[6]
- European Sustainable Investment Forum (Eurosif). Pan-European group whose mission is to address Sustainability through financial markets.[7]

The most representative initiative in England is UK Sustainable Investment and Finance Association (UKSIF) whose mission is facilitate networking for sustainable and responsible financial services in the UK.[8]

2.1.1.4. SRI Categories

There are two main categories of investments in the EU SRI market. Core SRI and Broad SRI are now exclusive of each other.

Core SRI is composed of the following strategies (Eurosif, 2008):

- Ethical exclusions (more than two negative criteria applied)
- Positive screening, including Best-in-Class and SRI Theme Funds (e.g. clean energy, water, etc.). The selection includes stocks of companies that perform best against a defined set of ESG criteria.
- Combination of ethical exclusion and positive screening

Core SRI may be perceived historically as the original form of SRI, with elaborated screening strategies impacting systematically the portfolio construction and often implying a values-based approach (Eurosif, 2008). Many Core SRI investors such as individuals, churches and activists are historical advocates of SRI (White, 2005). Nevertheless, Core SRI continues to evolve, and thematic SRI funds are the most recent addition to this segment.

Broad SRI is composed of the following strategies (Eurosif,2008):

- Simple screening, including norms-based screening (up to two negative criteria)
- Engagement (concern governance issues and can be executed mainly by proxy voting, direct engagement, collaborative engagement and co-filling shareholders resolutions)
- Integration (regards the inclusion of ESG-risk into traditional financial analysis by asset managers)

Broad SRI practitioners are mostly large institutional investors. This segment represents the “mainstreaming” of SRI since it is a major step in the maturing of this industry and offers the prospect of putting significant pressure on companies to adopt CSR (Sparkes and Cowton, 2004).

2.1.1.5. SRI in the UK Market

At end of December 2007 an estimated of GBP 764 billion represented the total of assets under management with GBP 54 billion defined as Core SRI and GBP 709 billion as Broad SRI. Although the amount of SRI is not representative of the total invested in the financial market, it has been noted a clear progress especially in the UK market represented mainly by SR pension and mutual funds (Eurosif, 2008).

The investors in the UK are divided in two main sectors, Institutional and Retail markets. As part of former the main actors are as follows (Eurosif, 2008):

- Occupational Pension Funds. Represent a significant portion within the Broad SRI market.
- Insurance Companies, Banks and Asset Managers. They are required to apply integration and/or engagement on ESG across all relevant asset holdings.

The Retail market is composed by different investors such as (Eurosif, 2008):

- Church and Charity Investors. Remain the biggest portion of Core SRI in the UK.
- Mass Market Individual Investors. Nearly GBP 9 billion was held in the UK‘s ethical and retail funds at end 2007.
- High Net Worth Individual (HNWI) investors. Individuals with more than USD 1 million in financial assets. Their interest is focused on thematic investments such as climate change which encompasses social and environmental issues.

There have been some few attempts to profile the SR investor in previous researches. Nilsson (2009) developed a segmentation of social responsible investors with regard to their reasons for choosing to invest in SRI. The main conclusions of this study regard how private SR investors deal with the relationship between financial return and social responsibility. On the one hand, there is a group of investors that regard financial return to be more important than social responsibility, thus it cannot be assumed that individuals who have invested in SRI are fully socially concerned. On the other hand, come SR investors do not regard financial return as the number one objective when making investment decisions. For this type of investors the "psychic return" is more valuable (Beal et.al., 2005) since even though the investor does not maximize financial returns, they get some form of psychic return in terms of socially responsible investment strategy. This last group of investors may be willing to pay a premium for social, environmental and ethical goods and they might be interested in a long term engagement with the investee company (Nilson, 2009).

In 2009 YouGov[9] carried out a survey in the UK and some results show 1 in 12 (8%) investors currently hold green and ethical investments and 47% will regard doing so in the future. On the other hand, the over-55 age group has the greenest outlook with the 75% stating they are very or fairly green. In contrast, the 18-24 group only shows 62% expressing such green consciousness. One of the main elements recognized in this survey as a driver to facilitate the growth of the ethical investment sector is the information role, for instance nearly 44% of all people said they would be encouraged to consider green and ethical investments if there was clearer evidence of the impact of their investments. 39% of people among the young generation (18-34 years) demand more informed financial advisers regarding ethical investment. Half of the people surveyed believe that government should introduce measures to ensure transparency in the sector[10], while the financial services industry called to sign up to transparency guidelines. Indeed, there is an increasing call to produce consistent and comparable information.

2.1.2. Current sustainability reporting practices

Over the past years the Socially Responsible Fund Managers have not demonstrated interest in using the Corporate Social and Environmental Reporting (CS&ER) issued by the companies because this does not regard relevant information according to their needs and includes useless qualitative data (Friedman, A. and Miles S., 2000).

Different initiatives have appeared in order to promote and standardize the disclosure of social responsibility activities related with the ESG company's performance. The most popular has been encouraged by Global Reporting Initiative (GRI) and its Sustainability Reporting Guidelines. Willis (2003) argues "GRI Guidelines are emerging as an important instrument in enabling companies to communicate with their stakeholders about performance and accountability beyond just the financial bottom line". Likewise other standards such as SA8000 (Social Accountability), Ethical Trading Initiative (ETI), Carbon Disclosure Project, International Standard on Assurance Engagements 3000, AA1000 (AccountAbility) are being implemented in increasing number by many companies in order to enhance social accountability practices in a voluntary way.

Currently, it is recognised the progressive efforts undertaken by Global Reporting Initiative to provide an accountability framework which is broadly accepted internationally by an increased number of companies across different industries (Owen and O'Dwyer, 2007; Adams, 2004). Although it seems that GRI is better seen as an accountability tool rather than a fully developed sustainability reporting framework, its value relies on the recognition of the main elements associated to the triple bottom line such as economical, environmental and social which are complemented with ethical issues such as human rights (Elkington, 2004). GRI and

Accountability standards represent so far best practices to set up accountability and reporting processes but their application do not regard the reporting of the companies‘ negative ESG impacts (Adams, 2004).

2.1.3. European SRI Transparency Code: What is reported?

Currently, European Social Invesment Forum (EUROSIF) has implemented the European SRI Transparency Code which is addressed to SR retail fund managers and it has been created in order to “clarify their approach and motivations to SRI and therefore, positively reflect their transparency to investors and other stakeholders, and strengthen proactive auto-regulation which contributes to the development and promotion of SRI funds by setting up a common framework around good transparency practices” (Eurosif, 2004). The main sections covered by the Code are ESG investment criteria, ESG research process, Evaluation and implementation, Engagement approach and Voting policy. As of March 2009, there are over 30 signatories using the European SRI Transparency logo, representing about 150 funds[11].

At this point some of the Code‘s sections such as ESG investment criteria, ESG Evaluation and implementation, Engagement Approach and Voting policy have been selected according to the objective of this research because of their impact on the accountability of the ESG performance[12]. So the frameworks and related concepts found in the literature will be introduced to be used as resources in the forthcoming analyses.

2.1.3.1. ESG investment criteria definition

According to Shepers and Sethi (2003), SRI funds have not adequately delivered on their promise of serving the expressed and implied needs of socially responsible investors, and influencing the conduct of our private economic institutions in a manner that would have better congruence with the social preferences of significant segments of investing public.

In this context of analysis, the SRI industry should develop a portfolio of social funds where individual investors would decide directly their preferences for socially desired corporate conduct in one or more dimensions (Shepers and Sethi, 2003).

Other criticized aspect is the use of negative screening which is less popular among institutional investors in the UK since it does not regard the principle of portfolio diversification and it represents a passive approach focused on simple avoidance (Sparkes and Cowton, 2004). According to Juravle and Lewis (2008) engagement with investee companies and weighed integration of ESG factors into core investment process are SRI strategies that overcome this problem (Hudson, 2006; Sullivan and Mackenzie, 2006) and they are likely to influence corporate executives to engage in corporate social responsibility (Sparkes and Cowton, 2004). The role of institutional investors has developed further the concept of SRI and its maturity has implied to increase the pressure on companies to adopt CSR practices.

Since these critiques are focused on the impact of the screening approaches applied by SR Mutual Funds, it will be analysed the best practices suggested to overcome these issues.

i. Positive screening and the use of indices

Originally SRI was associated with negative screening strategies but since 1990s it has emerged a focus on “best in class” which means that socially responsible funds do not exclude whole sectors that are making the most effort to improve social responsibility (Solomon, 2007). The

FTSE4Good index adopts this approach and it represents a more realistic tool for socially responsible investment and it is open to a more large range of investors. Likewise, the Dow Jones Sustainability Index offer benchmarking tools designed for financial analysts (involved in both equity and debt finance) to evaluate corporate sustainability performance. Launched in 2001 and 1999 respectively, these indices have gained reputation and credibility over the years in global markets (Coulson, 2007).

According to the assessment methods applied by the indices, sustainability accounting and reporting is viewed as the best mechanism to express the companies‘ performance regarding sustainability issues such as climate change, human rights, ethical supply chain, countering bribery, among others. The advantages of the use of the indices regard the solution of the problem of rights of information and risks of information and asymmetry by providing an independent service to investors, and also help to standardize information provision and encourage equity in decision-making by benchmarking (Coulson, 2007). Participating in the FTSE4Good represents a reputational benefit for some companies and therefore they have to reveal satisfactory policy decisions and management systems to be included.

However, what is criticized is the inexistence of a sound engagement by SRI fund managers regarding negative externalities which may be explained by presenting evidence that responsible self-regulation is being exercised, financial markets counter government regulation (Collison et.al., 2009). In this regard, Porrit (2005) suggests that "If society wants companies to rebalance the respective interests of shareholders and other interested stakeholders . . . then it is society – through its governments – that must reframe their respective obligations. Governments, not companies, have the democratic mandate to intervene in order to shape market forces".

ii. Negative screening: A new approach

Colle and York (2009) propose an alternative and pragmatic framework, which would allow SRI funds to truly represent their investor's moral beliefs as well as engage constructively with any company, including those operating in the industries they identify as least likely to embrace social and environmental goals. The challenge for SRI funds is to promote the adoption of socially responsible practices and the sustainability of any business disregarding the "product-based criterion". It is not useful and practical to define what socially responsible behavior is on the basis of the particular product or service that a firm produces. According to Rivoli (2003) if SRI funds negatively screen and only invest in firms that are doing "good", investors cannot use SRI techniques to change the behaviours of "bad" or "sinful" firms. Indeed, SRI funds would be making "good" firms better which does not have sense.

Colle and York (2009) came up with an integral proposal oriented to improve the SRI effectiveness by redirecting its screening methodology. This new framework (Figure 1) [13] offers a better perspective for engaging in SRI and enables SRI fund managers to achieve their stated aims and engage in a more productive and impactful method of investing. The key components of this approach are focused on the following firm‘s aspects:

- "Product impacts: Understanding the social, and economic, psychological impacts (expected or unexpected; positive and negative) generated by the company's product and services on its users (and abusers), and other stakeholders affected.
- Stakeholder relationships: Focusing on the real network of the company's stakeholders in the various communities it operates – not in abstract terms of 'client,' 'supplier,' and other

general categories, but in the real terms of human beings with names, faces, and families, to understand what their expectations are and assess how the company is creating value for them.

- Contingent environment: Analyzing the specific dimensions of the external environment in which the company operates, including its own management culture, the culture of the local community, and the social, economic, political, and legal aspects that affect its operation and influence the consequences of its actions and decisions, in order to understand – based on this experimental assessment – the meaning of ‘social responsibility’ in that specific context”

Figure 1- Product Impacts– Contingent Environment–Stakeholder Relationships

Since every business deal with different issues, so should be the criteria upon which investors “screen” companies to invest in a socially responsible manner. It is evident these criteria may be useful to set up the parameters of reporting to retail investors. This responsibility will rely on the retail fund managers whom will follow up the companies´ performance periodically.

2.1.3.2. Evaluation and Implementation of EGS criteria

In different markets information has not captured properly the financial value of ESG factors and these factors are not captured by share prices. Currently institutional and retail investors are collecting ESG data either in house or by external providers who sell that information. Unfortunately, there are some doubts and skepticism regarding the quality of this data, some authors suggest a lack of consistency among SRI analysts that holds back the ability of companies to respond to requests and diminishes the credibility and transparency of the sector (Edmonson and Payne, 2006; D‘Little, 2003). Likewise, it is suggested the high levels of diversity in collection of data by CSR rating agencies and the existence of limited progress in the development of a set of extra-financial indicators (Entine, 2003; Sethi, 2005).

The information provided by Kinder, Lyndenberg and Domini (KLD)[14] has been found to be hopelessly flawed (Entine, 2003; Schepers and Sethi, 2003) since the ranking is highly subjective, there are issues regarding the selection of screens, arbitrary standards of permissiveness, among others. The KLD initiative originated in the US have been criticized as well by Chatterji, et.al (2007) who found low validity of measures to capture environmental management systems and they suggest that rating agencies should try to avoid qualitative data with high levels of subjectivity regarding social and environmental performance. The main challenge for SRI Rating Agencies is to obtain quantitative and valid information from the investee companies, this task implies that the companies should have in place effective accountability and reporting systems to provide this information timely.

The rating systems that have evolved lack a coherent moral or ethical perspective. They systematically underplay key aspects of corporate behavior, including corporate governance and transparency, and overplay facile moral notions (Entine, 2003). For social investing to evolve into more than just a symbolic exercise, it is imperative that researchers develop verifiable standards beyond mere social agendas and base them instead on the social consequences of corporate behavior.

On the other hand, Kreander (2005), Bauer et. al. (2005) and Cortez et. al. (2008) found that socially responsible funds performance is similar to conventional funds when controlling for investment style and conditional models of performance evaluation. Ethical mutual funds tend to be more growth-oriented and they exhibit different investment styles. Indeed, European socially responsible funds present, in general, a performance which is comparable to the performance of conventional or socially responsible benchmarks (Cortez et. al., 2008). In addition, performance estimates seem to be slightly higher when funds are evaluated against socially responsible indices. For investors these findings demonstrate it is likely to invest in European mutual funds without sacrificing financial performance.

2.1.3.3. Engagement approach and voting policy

Certainly, engagement strategies are generally applied by Broad SRI practitioners which are mostly represented by large institutional investors. But according to the European SRI Study 2008 the Core SR FMCs in the UK are offering pooled SRI funds for individual investors which are normally “positively or negatively screened and engagement with companies may additionally take place” (Eurosif, 2008)

Since there is a growing interest from private investors in SRI products[15], the engagement approach to the traditional screening approaches may be understood as a differentiated and more proactive service offered by FMC to satisfy the increased demand of the mass market of individual investors. After the events succeeded as a consequence of the financial crisis in 2008, investors are demanding governmental intervention not only by regulation but also by addressing market failures within the financial services supply chain (Eurosif, 2008).

The most popular approaches of engagement carried out by European SR mutual funds are proxy voting, direct engagement conducted privately and collaborative engagement. The less popular approaches are public engagement and filing shareholders‘ resolutions. The latter has become in an ineffective approach to date since “by themselves, resolutions represent piecemeal responses to perceived social and environmental problems, unlikely to result in long-term desired social outcomes” (Haigh and Hazelton, 2004)

In a pessimistic tone, Lewis and Juravle (2010) argue that traditional forms of responsible investment such as negative screening, best-in-class and, more recently, engagement, have largely failed to change corporate behaviour towards sustainability. While negative screening avoids the problem as opposed to addressing it, best-in-class and engagement tend to be biased towards large companies in Europe. SR boutiques within the core SRI are more likely to successfully address the challenge of sustainability as they are involved in developing specialist funds focused on small and medium-sized companies which contribute to the industries of the future (Lewis and Juravle, 2010)

At all cases, the opinions about the engagement activities carried out by SR mutual funds are based on qualitative appreciations. What is a truly fact is the importance in working at the corporate governance level to promote a sustainable change. The importance of this concept concept has backed up the development of engagement practices within the SRI industry. The first version of the UK Code on Corporate Governance (the Code) was produced in 1992 by the Cadbury Committee. The definition of corporate governance valid since then has been outlined as “the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place…” (The UK Corporate Governance Code, 2010).

In the UK there have been different codes and documents of practice for corporate governance since the launch of the Cadbury Report until arriving to the UK Corporate Governance Code. Clearly, the development of good corporate governance implies more than the adherence to codes of practice. It implies a clear mandate to encourage companies in their quest for greater accountability to their shareholders and other stakeholders (Solomon, 2007).

The lack of evidence and research of the engagement and voting practices will be covered with some limitations by the existent information available on institutional investor activism. The restrictions in the use of this reference information will be pointed out in the analysis performed in Chapter 4.

The Cadbury Report (1992) and its successors encourage institutional shareholders to play an active role in the companies they manage, overcoming their “trader” role from the past. In synthesis these codes suggest that institutional investors (Solomon, 2007; The UK Corporate Governance Code, 2010):

- Should encourage regular one-to one meetings with the directors of their investee companies (a process referred to as “engagement and dialogue”) based on the mutual understanding of objectives
- Should make positive use of their voting rights
- Should pay attention to the composition of the board of directors in their investee companies. Investors should avoid a box-ticking approach to assessing company‘s corporate governance. They should bear in mind the size and complexity of the company and the nature of the risks and challenges it faces.

According to Solomon research (2007) regarding institutional investors and corporate governance reform, fund managers appeared to be engaging with their investee companies on a regular basis and were participating actively by dialogue on diverse corporate governance issues. Furthermore, this study found that the dialogue was developing into an interactive “two-way” process demanding the active participation of companies and fund managers. It is evident that institutional investors prefer the engagement route than the voting route as a means of influencing investee company management. It seems that institutional investors prefer to discuss sensitive issues behind closed doors, rather than exposing companies publicly. One of the main drivers for this increased dialogue is the fear of materialization of reputational risks.

An important distinction between investors is determined by the use of index-tracking (Solomon, 2007). An index-tracking fund is one that invests in companies in a fixed proportion relative to their position and size at the stock exchange. They cannot vary their investment allocation unless the index that they are tracking is changed. The aim is to achieve a return on investment at least equivalent to the index itself. Index-tracking investors are called passive investors as they do not choose the companies in the portfolio. On the other hand, active investors manage non-index-tracking funds. In terms of active engagement, passive investors are attached to their investee companies and cannot divest easily if they are dissatisfied with the management, so they may employ their voting rights and active dialogue to influence company management.

For passive and index-tracking fund managers, shareholder activism is considered important since there is an interest in improving companies‘ performance through activism (Monks, 2001). Supposedly, active funds may divest but in case they have very large holdings they could not divest because of the impacts may cause in the financial market. Thus, different institutions will show different attitudes towards corporate governance.

2.1.4. Accountability and reporting practices on ESG performance

Accountability demonstrates corporate acceptance of its environmental, social, and ethical responsibility. A good “ethical” report should be transparent and represent a genuine attempt to provide an account which covers negative as well as positive aspects of all material impacts caused by the company performance (Adams, 2004). To be accountable, reports need to demonstrate corporate acceptance of its ethical, social and environmental responsibility. This acceptance can be demonstrated through a clear statement of values with corresponding objectives and quantified targets with expected achievement dates. Companies should report their performance against those initial targets and the reports should provide a balanced and impartial view of key ethical issues faced by the company (Adams, 2004). In order to define reasonably the content Adam (2004) suggest “It is important regard if reports are to be complete covering all material aspects from a stakeholder perspective, thus stakeholders must be consulted.”

The relevance of disclosure is associated with corporate transparency as a mean of reducing the agency problem and information asymmetries. Given the growth of the responsible investment sector, it is imperative to set up adequate criteria for the ESG reporting process. Currently as part of a greater corporate accountability by disclosing all categories of risk[16], the ESG factors have been included in this list (Solomon, 2007). This inclusion evidences the increasing interest on how the company is managing the social, governance and environmental issues and how is dealing with the different stakeholders involved. Accordingly, engaging in an effective Corporate Social Responsibility strategy will imply the management of the threats may rise in the market and non-market environments (Baron, 2006). An effective management may build up a sustainable competitive advantage and enhance the company positioning and differentiation.

Within the SRI industry, the evolution in the terminology used to refer to the factors relevant to socially responsible investment over the last five years. When institutional investors in the UK move to the mainstream of SRI, they become concerned with the extent to which they were incorporating social and environmental factors into their investment decisions. Thus, the terminology has broadened to include environmental, social and governance (ESG) rather than social, environmental and ethical (SEE) (Solomon, 2007). This implies that social and environmental factors have now caught up with more central corporate governance issues in their importance for investment institutions. Indeed, Adams (2004) calls for a comprehensive mandatory requirements concerning ESG reporting by focusing on processes supported by governance structures.

2.1.4.1. Sustainability Reporting Model

The most advanced level of reporting are known as the triple bottom line approach focused on social, environmental and sustainability reporting and accounting (SEA), and the ecologically and eco-justice-informed approach to sustainability reporting.

The triple bottom line (TBL) approach has been drawn upon Elkginton's call for an equal three part approach to accountability (Elkington, 1997) where organization's annual report should comprise three equally emphasized and reliable sections regarding economical, social and environmental activities. According to Gray (2006) GRI is a step towards a TBL approach, but there are many further steps to go, conformance with GRI does not deliver a full TBL report. It is important to notice that the TBL is not an approach to sustainability reporting and opens up some questions such as, what is the relationship between power and responsibility? and is the present system of economic organization likely to threaten this or any future generation's ability to sustain itself?. Both questions are related to the discharge of accountability and the pursuit of sustainability (Gray ,2006). Unfortunately such questions are not addressed fully by the TBL perspective and it justifies the need to develop a proper sustainability accounting system

The ecologically and eco-justice-informed approach aims to report directly on sustainability (Gray ,2006). The first characteristic is that all approaches to ecologically-based reporting are founded on the need to establish whether or not organizations are socially and environmentally sustainable. As a second characteristic, this approach assumes that the causes of un-sustainability are due to systemic failures, so the solution would be predicated on some drastic, radical revision and analysis of how the economic organization is managed in addition to who and what is privileged in that system (Gray, 2006). One of the schools of thought regarding this approach proposes that reporting should be based at the organizational level because is the entity what we are used to as an economic unit. Other school suggests that the economic organization is the problem and that all reporting needs to be based on ecological regions and local eco-systems, and the borders between organizations must be removed (Gray and Milne, 2004).

Regarding the organizational-level approach for sustainability reporting, it is needed a viable proposal to satisfy the current demanding information needs. Thus the conditions required to implement this approach successfully regard (Gray ,2006):

- Corporations must be reformed if they are to be moved towards sustainability and this will involve at least a systematic reduction in the organization's ecological carbon footprint.

- Systematic attempt to increase the access which disadvantaged sections of the society have to environmental resources

- Systematic attempt to reverse the increasing disparities in wealth and consumption.

This approach may seem unattractive for corporate strategists and conventional investors because it challenges the major tenets of current corporate life including growth of profit and perhaps even capitalism itself (Gray and Bebbington, 2000). Definitely, it represents an opportunity for SR Mutual Funds to connect with the companies eager to work on improving their sustainability performance, but bearing in mind that this kind of engagement may be suitable for some investors with a high sustainability consciousness.

In the UK some organizations have attempted to explore how such sustainability reporting might look like. These experiments have been led by Inter alia, Forum for the Future, CSEAR, among others, and this has demonstrated the economically significant extent to which organizations failed in meeting the exigencies of sustainability (Gray, 2006). Sustainability reporting represents a big challenge of value creation for investors and investee companies within the SRI industry.

2.1.4.2. Ethical compliance

It is important to note however that the provision of sufficient information does not ensure that the ethical mutual fund firm is acting ethically, but might be considered a moral minimum. In this context Shwartz (2003) proposes a "code of ethics for ethical investment" which may be applied to the activities of ethical mutual fund firms to enhance the transparency. The main topics of this code should include the following areas:

"Disclosure:

- Indicate explicit criteria for screening decisions
- Provide moral justification for screens
- Indicate parties/individuals who apply criteria
- Indicate how often screens are applied
- Indicate which companies are being invested in (real-time)
- Indicate how conflicts between bottom line considerations versus screens will be resolved

Process:

- Avoid minimum percentages for screens
- Include indirect infringement of screens where information is available
- Avoid misleading advertising
- Engage in an ethical audit of fund periodically"

As the internet now facilitates disclosure, and as the information is clearly pertinent to potential and current investors, there is a strong argument that firms offering ethical funds should attempt to ensure such full and ongoing disclosure (Shwartz, 2003).

2.2. Discussion on Conceptual Framework

So far it has been explored and examined the literature on SRI related concepts, SR mutual funds and their ESG approaches, ESG accountability and reporting practices with incidence in the UK, the role of the European Transparency Code as a mechanism which is expected to demand compliance from retail mutual funds in a near future. The evidences obtained along our journey show that information disclosure on the ESG performance plays a crucial role to enable a sustainable growth of the SR retail mutual funds and it should regard investors and other stakeholders' demands. After the financial crisis the opportunity to capture this market is still present given the increased demand for a governmental participation in the market and major consciousness about market failures in the financial sector. Currently, potential private investors were involved in SRI investments, if they would be better advertised[17].

The European Transparency Code is currently the most representative initiative regarding the need of transparency from mutual funds on SRI policies and disclosure practices in place. Since the structure of the Code regards the core processes carried out by mutual funds, it will be used to guide the structure in the next chapters. The processes selected are ESG investment criteria definition, Evaluation and implementation of ESG criteria, and Engagement and voting approach, and the analysis and discussion in the next chapters will follow this sequence. The closing section will cover the accountability and reporting process of the ESG performance and it will be drawn upon the evaluation of the three previous processes from the Transparency Code. The inclusion of this last section is justified to explore what would be the reporting characteristics of the ESG performance by SR mutual funds.

Firstly, regarding the ESG investment criteria definition by FMCs, the main frameworks and concepts to be used are proposed by Coulson (2007) and Colle and York (2009) which consider the use of best-in-class indices and a new approach in the use of negative screening respectively. The framework of Colle and York (2009) highlights the importance of engage in a more productive and impactful method of investing.

Secondly, it will be analysed the Evaluation and implementation of ESG criteria by SR mutual fund's managers and the implications for investors and analysts when interpreting financial performance along with ESG outcomes. This process refers to the monitoring of the application of ESG parameters into the investment activity. The visible tools developed so far to measure the correlation between the ESG and financial results (Chatterji et.al., 2007, Cortez et.al., 2008) are not enough. In Chapter 5 Discussion will be introduced other mechanisms found in the financial sector such a Basel II to monitor properly the implementation and continuous assessment of the ESG criteria.

Thirdly, the engagement and voting approach will be assessed for the SR mutual funds part of the sample. The codes on corporate governance and their engagement principles for shareholders (Cadbury Code, 1992; The UK Corporate Governance Code, 2010) will be applied in the assessment of the alignment of these practices to these standards. Although most of the literature on engagement and voting is related to the institutional investors' performance, some best practices will be extended (annotating that limitation) to the analysis of these processes performed by individual investors which are the target of this research. In addition it will be analysed the nature of the investors according to the use of index-tracking (Solomon, 2007) in order to determine the degree of engagement and dialogue practices by SR mutual fund managers.

Finally, the accountability and reporting process of ESG performance will be shown to outline the reporting characteristics with especial attention on what information should be reported. The previous three sections will provide an understanding of the processes which generate information and a justification of the reporting basis. It will be used the framework suggested by Shwartz (2003) in order to embed the ethical practices in the accountability process and enhance the transparency by SR mutual fund managers. This is an important issue demanded by the market and regulators with more emphasis after the financial crisis in 2008. Likewise it will be examined the content may generate impact indicators over the ESG related processes based on the ecologically and eco-justice-informed approach to sustainability reporting as proposed by Gray (2006). The conclusions from this section will be tailored according to the nature of the SRI sector.

The selected frameworks and concepts will allow a proper analysis of the current information disclosure and supporting activities which produce the necessary data on the ESG performance (See Figure 2- Conceptual Framework). The main framework of reference for this research is the Transparency Code implemented by Eurosif which addresses SR mutual funds. The assessment of the gaps to improve the quality and sufficiency of the information generated along the ESG related processes selected will provide a good basis for outlining the ESG performance reporting and disclosure. The demand of more effective ESG disclosure practices aligned with the financial performance of the mutual fund will come up sooner or later. It is likely the SR mutual funds will face more pressure from external market forces to offering more sophisticated products according to the sustainability fashion and other concerns to address the failures in the financial market mainly. The disclosure and reporting of the ESG performance play an important role in boosting the growth and credibility of the ethical investment sector. The role assumed by Eurosif and its Transparency Code is an important endeavour to demonstrate accountability although still imperfect.

Figure 2- Conceptual framework

2.3. Research questions

Given the frameworks and concepts chosen to undertake this project, the questions to be discussed along this research process are:

1. What are the processes that support the accountability and reporting of the ESG performance?

2. How is embedded the ESG criteria into the investment decision made by the fund manager?

3. What activities are carried out to implement and evaluate the compliance with the ESG criteria?

4. How is developed the engagement with investee companies? How and when is executed the voting right?

5. What are the characteristics and content of the information reported? Who is providing this data (e.g. investee company, FMC, etc)? Does the report include the outcomes from the ESG processes identified previously? Is it useful for the stakeholders ‘decision- making?

After answering these questions it will be possible to assess the sufficiency of the information prepared and disclosed to enable the growth of the SR retail mutual fund market and satisfy the information needs of investors and other stakeholders such as government, policy makers, regulators, assurance providers, among others.

Chapter 3 Methodology

This chapter sets out the research methodology and research design. It will be presented the research framework, research methods and approaches, data analysis and interpretation techniques, and limitations of the research.

3.1. Initial research

The SR mutual fund sector is a field still in development within the financial sector in the UK. The ethical retail investment industry has grown progressively during the last decades. Although this development cannot still be compared with the institutional retail sector, the importance of the mutual funds relies in their approach to the mass market. In this context the offer of products not only yields financial profits, but also environmental, social or governance returns. Since the latter benefits are of increased interest from potential investors and other stakeholders, it is therefore fundamental an adequate communication of these achievements to dynamize the market.

Given the previous background, the area of study chosen was the accountability and reporting practices carried out by the SR mutual funds in the UK. The motivation for this research choice was to contribute to develop the limited knowledge around this topic and cooperate with UKSIF whose mission is to promote responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

The initial work was based on background research obtained by accessing academic and practitioner literature published by organizations such as EUROSIF, PRI, EIRIS, among others. The purpose of this project is to get an overview of the current accountability and reporting practices on ESG performance developed by the ethical retail investment sector in the UK. An important outcome of this study will be the recommendations to improve the disclosure of ESG issues and results of the related initiatives.

3.2. Research methods and approaches

The ethical retail investment market and specifically the sustainable and responsible mutual funds sector do not possess an extensive literature regarding the topic of this project. The data found in the literature is mostly qualitative based on opinions of specialists and champions within the ethical retail investment sector. It is evident the lack of quantitative data such as statistics, performance results, targets, etc. to be analysed and interpreted. The gathering of such data does not constitute part of this research, and this study is therefore largely based on qualitative information obtained through the responses to the European SRI Transparency Code.

In this context, the research method for this qualitative research is characterized by a detailed reflection of the social reality with an emphasis on the way in which individuals interpret the world (Bryman and Bell, 2007). Thus, given the nature of the topic chosen and objective of this project, the nature of the research applicable to reach this goal is rather exploratory which is used for studies oriented to get a better understanding of a problem. The questions asked stress how, what, when and where which is a useful approach for small-scale studies of this type (Hart, 1998).

The qualitative source of information for this study was taken from the European SRI Transparency Code, version 2 (Eurosif, 2004). The Code is basically a questionnaire divided in six sections which cover Basic details, ESG Investment, ESG research, Evaluation and Implementation, Engagement approach, and Voting policy (See Apendix 1). The completion task addresses SRI retail funds in order to increase accountability to consumers and greater clarity for asset managers, research providers and other stakeholders. Currently it comes with a Guidance Document for fund managers on how to best use and respond to the questions formulated in each section. The guiding principle to respond encourages signatories to be open and honest and disclosure accurate, adequate and timely information to enable stakeholders to understand the ESG policies and practices related to the fund (Eurosif, 2004). Consequently, the secondary data used to solve the research questions come from this document whose accessibility, scope and content are highly suitable to explore what actions are being carried out by SR mutual funds. It is important to mention that Eurosif‘s aim is developing a compliance manual for the Code by end of 2010. This document once accredited by Eurosif, independent third parties will then be able to use it as a compliance manual to audit the funds‘ responses to the Transparency Code[18].

The questionnaire responses are available on Eurosif website[19] and they are organized per country. By accessing the UK responses, it was found a list of 10 signatories whose responses have been posted according to the Code requirements since 2008. Given this is a voluntary process some responses have not been updated annually after the first or second declaration. In other cases the fund has closed, changed into a new society, etc. In Table 1 is shown the status of the responses found on Eurosif‘s website and the limitations if any to use this information in our research.

Table 1- Reporting date to Eurosif

Fund Management Company	Last period reported as of	Limitations to use the information
AXA Investment Managers	August 2010	It is not a FMC based in the UK
CIS Sustainable Leaders Trust	April 2005	It has not been updated the information according to the Transparency Code
F&C Asset Management	May 2010	No limitations
Friends Provident	September 2009	The funds disclosed include pension funds
Henderson Global Investors	December 2009	No limitations
Insight Investment	December 2008	The fund closed in 2010
Jupiter Asset Management	December 2009	No limitations
Norwich Union	It does not say	The funds were transferred to Aviva
Rathbone Unit Trust Management	November 2009	No limitations
Standard Life Investments	December 2007	No limitations

As a result of the analysis performed, the sample was reduced to five FMCs without limitations to access to the Code‘s responses and supporting information on their websites. The total of mutual funds under the administration of these FMCs is thirteen (see detailed characteristics in Appendix 2). All the responses regarding mutual fund performance and reporting were corroborated with public reports, internal policies, factsheets, newsletters, website content, in order to validate reasonably the data to be used in this study.

The next step consisted in grouping the Code‘s responses according to our four areas of research: ESG investment analysis, ESG investment and implementation, Engagement practices and voting policy, and Characteristics of the SR mutual fund reporting. This structure not only includes an analysis of the reporting process itself, but also comprises an understanding of the core processes that back up the outcomes should be disclosed to stakeholders. Since the Code‘s structure presented by Eurosif is aligned with the Principles for Responsible Investment promoted by PRI, the research areas adapted from this model are grounded on a firm basis subscribed by many practitioners around the world. The layout of the questions and responses collected is shown in Chapter 4. The findings summary is synthesized thereafter at each section.

The gap analysis is presented in Chapter 5. This chapter aims to analyse the findings collected in Chapter 4 in order to outline the performance gaps against the main frameworks introduced in the literature review. This analysis is complemented with a discussion of contrasting elements found in the literature associated to sustainability accountability and reporting, and financial supervision that might be replicable. The gap analysis over these sections seeks to examine the sufficiency and completeness of the ESG performance outcomes from every process analysed to setting up an optimum ESG reporting criteria. A critical success factor for accountability and reporting is to have clear objectives along the processes aligned with a main strategy in order to produce meaningful outputs.

In Chapter 6 the discussion focuses on reflections on the main drivers of change for the initial proposals to improve the accountability and disclosure of the ESG performance covered in Chapter 5. It includes some thoughts found in the extensive literature about SR institutional investment literature since this sector has evolved more rapidly. The inclusion of these references will allow to contrasting our analysis and predict what might be the real challenges to endeavour a successful change in the SR mutual fund sector.

Finally, the conclusions introduced in Chapter 7 are presented following a structure which starts with the main finding of the research, causes of this problem, and implications of the persistence of this situation. Thereafter, the recommendations for SR mutual funds' management, SR retail industry and policy makers are presented as well as suggestions for future academic research.

3.3. Limitations of the research

Starting this research the main limitation found was associated to the absence of quantitative data to complement the qualitative analysis. Unfortunately, the Code responses are mainly a descriptive disclosure of policies and practices along the SR mutual fund processes that are related to the investment performance. Nevertheless, the information is of great value for this exploratory study and understands what is happening in terms of disclosure and what is behind.

Other limitation was the size of the sample used in this analysis. Just the information from thirteen SR mutual funds represented by five FMCs was considered appropriate and accessible via Internet to participate in this study. Since the Code is not mandatory in its application the sample was limited because of this factor. According to Your Ethical Money[20], the number of ethical mutual funds which attend the mass market in the UK sums 70 approximately. Thus, the sample used in this study represents 19% of the universe of SR mutual funds.

The adoption of sustainability concepts into business practices is still an area in progress. Certainly, the financial sector has not reached such a maturity level. The understanding of environmental, social, corporate governance and ethical concepts is still flaw even in the ethical investment sector. The limited impact of the growth over the last years shows there is much more to do to before thinking in expand the offer and demand into the financial market.

Chapter 4 Findings Summary

As indicated in Chapter 2 there is a growing concern regarding the transparency, completeness and reliability of the performance reporting by SR retail mutual funds. The importance of this issue is fundamental since the information quality will facilitate the development of the SR retail mutual fund sector by building up credibility among investors and stakeholders in general.

This chapter aims to introduce the findings and analysis of the voluntary responses from five British fund management companies to the European SRI Transparency Code from EUROSIF received from 2008 to 2010 and publicized on its institutional website. The key points to be examined answer the initial research questions and they are oriented to explore how are justified the core ESG processes, and how SR mutual funds are prepared to disclose the performance on the processes selected. The findings would enable to profile the current disclosure activity in order to elaborate in the forthcoming chapter the gap analysis regarding the best practices.

4.1. ESG Investment analysis

In Table 2 is shown a summary of the responses provided by the Fund Management Companies to the questions 2a, 2b and 2c of the European SRI Transparency Code.

2a. How does the fund define SRI?

2b. What are the ESG investment criteria of the fund?

2c. How are the ESG investment criteria defined?

The information presented below comprises thirteen SR retail mutual funds under management of these companies.

Table 2- Summary of ESG investment analysis

Company	SR Mutual Fund	Transparency Code's answers
F&C Investments	F&C Stewardship Growth Fund	2a. Our Stewardship range of funds offers a stringently screened investment choice. Stewardship defines ethical investment as investment in companies that make a positive contribution to society, while avoiding those whose activities can harm society or the natural environment. In addition the funds are covered by our responsible engagement overlay service called reo®. 2b. The Stewardship applies predetermined positive and negative screening criteria. The Stewardship's core aim of investing only in those companies which, in what they do and the way they do it, on balance make a positive contribution to society. We may on rare occasions exclude companies which we judge conflict with that aim even when they do not fall foul of any of the negative criteria set out in the company's policy. 2c. The Stewardship screening criteria are formulated, periodically reviewed and approved by an external panel of experts the Stewardship 'Committee of Reference', who are supported by F&C's Governance and Sustainable Investment (GSI) team.
	F&C Stewardship Income Fund	
	F&C	

	Stewardship International Fund	
Rathbone Unitrust Management Limited	Rathbone Ethical Bond Fund	2a. In general terms, for the fund, we define socially responsible investment as an investment strategy in which we believe that long-term growth can be achieved by companies which conduct their business and apply capital responsibly, giving full consideration to a range of social, environmental and ethical issues as they might affect concerned parties (employees, customers, shareholders, etc) as well as wider society. Specifically, the fund applies key negative exclusion criteria to issuers of corporate bonds before ensuring that any issuers not in breach of these satisfy at least one of the funds positive activity requirements. 2b. The company applies predetermined positive and negative screening criteria 2c. Criteria are defined with reference to the funds ethical committee which meets once a year as part of the fund s annual review process. Changes to criteria are expected to be infrequent: none have occurred since the funds launch in 2002. Any proposed changes would be published in the subsequent annual report. Comments would be invited from investors; if none are received, then the changes would be implemented.
Jupiter Unit Trist Managers Limited	Jupiter Ecology Fund	2a. The Jupiter Ecology Fund invests worldwide in companies that demonstrate a positive commitment to the long-term protection of the environment. 2b. Focuses on companies providing solutions to environmental and social problems through Jupiter’s six green investment themes – clean energy, water management, green transport, waste management, sustainable living and environmental services. Companies must meet both our financial and socially responsible criteria and for the Jupiter Ecology Fund this includes looking at a full range of ethical exclusions, which can be found in the Manager’s Report. 2c. The ESG criteria were defined by the Green and SRI Research Team.
	Jupiter Environmental Income Fund	2a. The Jupiter Environmental Income Fund invests primarily in the UK, in a portfolio of companies that are actively managing their environmental and social impact. 2b. The Jupiter Environmental Income Fund differs from the Jupiter Ecology Fund in having a predominantly UK bias with fewer ethical exclusions. The Fund focuses on investing in UK companies that are actively managing their environmental and social impact: good governance companies. The Fund will specifically avoid investing in companies associated with armaments, tobacco, nuclear power and animal testing for toiletries and cosmetics. The companies in which the fund manager invests are screened by Jupiter’s Green and SRI Research Team, and monitored on an ongoing basis, in order to ensure compliance with the Fund’s objective. 2c. The ESG criteria were defined by the Green and SRI Research Team.
Standard Life Investments Ltd	Standard Life UK Ethical Fund	2a. The fund do not define SRI. There is a Statement of Principles and Policies on Socially Responsible Investment for Standard Life Investments. 2b. The company applies predetermined positive screening

		(companies which are regarded as having a positive effect on society and the environment) and negative screening (companies which have a harmful effect on the environment and its inhabitants) 2c. The criteria for the funds were originally established after consultation with 1000 existing clients and 1000 Independent Financial Advisers, and reference to the research provided by Ethical Investment Research services (EIRIS) Ltd, an independent research agency. The Ethical Committee reviews the criteria annually, when the results of our annual survey of the funds' investors are presented, and at other times when the SRI Research Team has brought issues to its attention, such as when EIRIS has changed the criteria it makes available to clients.
	Standard Life Ethical Corporate Bond Fund	
	Standard Life European Equity Ethical Fund	
Henderson Global Investors	Henderson Global Care Growth Fund	2a. At Henderson, we use the term Sustainable & Responsible Investment (SRI) to describe our approach to investing which takes proactive and explicit account of environmental, social & governance (ESG) issues in the investment process. For Henderson, SRI is a dynamic investment approach based on a simple premise - the concept of 'doing well by doing good'. Our funds aim to deliver excellent returns by investing in companies that contribute to, benefit from, and best adapt to the shift to a more sustainable society. We achieve this through: · Seeking out Industries of the Future through positive thematic investing · Identifying responsible companies · Promoting improvement and addressing risks through active corporate engagement · Responding to investors' values through ethical screening · Understanding & shaping the market through policy dialogue 2b. The funds apply predetermined positive and negative screening criteria based on the activities and conduct of the potential investee companies. 2c. Henderson's SRI funds provide a range of investment styles to meet client needs. They also offer different blends of sustainability themes, corporate responsibility factors, ethical exclusions and engagement level.
	Henderson Global Care Managed Fund	
	Henderson Global Care UK Income Fund	
	Henderson Industries of the Future Fund	

The responses from the European SRI Transparency Code show that the fund management companies (FMC) posses an internal governance body, specialized research teams and/or policies to set up the understanding and operationalization of SRI and ESG concepts. Regarding the understanding of SRI, the common elements in the definitions provided refer to investment in companies that make a positive contribution to the society, are concerned about the environmental impact of their operations, and regard ethical issues might affect their stakeholders. The FMCs have operationalized the SRI concept through the definition of ESG criteria which consist of the application of a combination of positive and negative screening (ethical exclusion) in all the cases examined. The ESG criteria have been predetermined by the governance body or internal policies; and these norms should be applied by the fund managers before deciding to invest by acquiring equity or any other asset from the investee company.

The definition of ESG criteria at the FMCs obey to the market needs and investors concerns. An initial definition of ESG criteria has been obtained by internal or external research teams (e.g. EIRIS). Generally the update of the ESG criteria is done annually via consultation to investors by using research tools. Any change is approved previously by the governance body within the FMC. After this process the new criteria may be used formally by the fund managers in forthcoming investments. The only FMC which requires additionally the approval from investors at an annual Extraordinary General Meeting is Henderson Global Investors according to our sample.

An additional issue examined was the existence of some ethics code or policy to reinforce a transparent and ethical trading. Just Standard Life Investments Ltd mentions explicitly that it possesses an ethical policy and there is a governance body called Standard Life Ethical Committee which regulates and monitor the fund‘s activities and application of ESG criteria by positive and negative screenings.

4.2. ESG Evaluation and Implementation

In Table 3 is shown a summary of the responses provided by the Fund Management Companies to the questions 4a and 4b of the European SRI Transparency Code.

4a. How are the results of ESG research integrated into the investment process, including selection and approval of companies/ issuers for investment?

4b. What internal and/or external measures are in place to ensure portfolio holdings comply (or do not comply) with ESG investment criteria?

The information presented below comprises thirteen SR retail mutual funds under management of these companies.

Table 3- ESG Evaluation and Implementation

Company	SR Mutual Fund	Transparency Code‘s answer
F&C Investments	F&C Stewardship Growth Fund	4a. The request to ethically screen a stock is initiated by a Stewardship fund manager. When a Stewardship fund manager requests a company it is put forward for research by the GSI team and then put to the Investment Sub-Committee (ISC) for approval. Fund managers can only invest in companies that have been approved by the ISC and are given a list that informs them of approved stocks. 4b. The internal and external measures are: 1. Internal Measures: include our “Dealing Ban” system, which means that Fund Managers are physically unable to

		purchase or trade stocks that are Unacceptable for Stewardship. Internal processes also include reviewing companies on an ongoing and three-year basis to check held companies continue to comply with the SRI investment criteria. The GSI team regularly monitors companies that are held in our ethically screened funds to ensure they continue to meet the ethical criteria, through our research providers, news services and company press releases. Held companies are typically fully reviewed every three years. We also commission an independent research provider to check holdings comply with the SRI investment criteria on a quarterly basis. 2. External measures: include the independent Committee of Reference, operating through the Investment Sub-Committee, viewing the acceptable universe of stocks and reviewing portfolio exceptions noted by the independent research provider. The Committee takes into account external sources, including NGOs, campaign groups and press articles.
	F&C Stewardship Income Fund F&C Stewardship International Fund	
Rathbone Unitrust Management Limited	Rathbone Ethical Bond Fund	4a. Steps: 1. The fund manager will first identify corporate bonds that represent an attractive investment proposition. 2. Companies issuing these bonds will then be screened by Rathbone Greenbank ethical research team in accordance with the funds ethical criteria. 3. Issuing companies involved in any activities that fall into the categories outlined by negative criteria will not be considered for inclusion in the fund universe. 4. Issuing companies demonstrating well-developed policies and practices in at least one of the positive areas will be included in the fund universe provided they are not involved in any areas of negative concern. 5. Companies identified as being suitable at this stage will then be subject to the consensus approval of at least two senior members of the Rathbone Greenbank team. 4b. At the time of investment, the fund manager is required to have clear approval from the ethical committee. This is complemented by a review of all holdings at the annual review meeting. The portfolio is open to public scrutiny: comments and questions are invited on any of the holdings in the portfolio.
Jupiter Unit Trist Managers Limited	Jupiter Ecology Fund	4a. Our research process involves a ’twin track’ approach combining: Our specialist Fund Management Team, focused on financially led stock selection. Our SRI & Governance Team, take a proactive approach to environmental, social and governance research To determine whether a company is eligible for investment, we: Research the company through meetings with its management, on-site visits and desk-based research. Receive and analyse information from other interested stakeholders including campaign groups, financial analysts and trade bodies. 4b. In order to ensure the highest standards, our research is cross-checked internally by the Green and SRI Research Team. All research is overseen by the Head of

		SRI & Governance. Jupiter's Compliance Department also carries out regular checks to ensure that the Funds' procedures are met.
	Jupiter Environmental Income Fund	
Standard Life Investments Ltd	Standard Life UK Ethical Fund	4a. The results of our research process using the EIRIS web-based database system are company ratings that are added to the investment matrix used by the fund managers in making investment decisions using normal investment criteria. 4b. We update company ratings monthly and check to ensure that portfolio holdings continue to comply with the Ethical Policy. If a company has moved from a pass or preferred rating to a fail, our SRI research team contacts the company to confirm the accuracy of the information on which the new rating is based. The company is informed that if the information is accurate, and if the company intends to continue the noncompliant activity, the holding will be sold within a reasonable time. External control is exercised by the Ethical Committee, comprised of senior managers of Standard Life and investors in the ethical funds, which reviews the funds' holdings quarterly to ensure that all companies meet the requirements of the Ethical Policy.
	Standard Life Ethical Corporate Bond Fund	
	Standard Life European Equity Ethical Fund	
Henderson Global Investors	Henderson Global Care Growth Fund	4a. For our SRI funds, we broadly have two approaches to integrating research into the investment process. This approaches will facilitate an Active investment, research and engagement: 1. Approach for Global Care Growth and Industries of the Future funds. The methodological steps are: Top-Down theme selection, Ideas generation, Corporate Responsibility evaluation, Financial analysis, Portfolio construction. 2. Approach for Global Care Managed and Global Care UK Income funds. The methodological steps are: Idea generation, Company approval, Corporate Responsibility analysis, Fundamental/ Financial analysis, Portfolio construction. 4b. The mechanisms in place that support the portfolio monitoring are: Electronic trading system, External reviews and External SRI Advisory Committee. In addition, the SRI team monitors news flow affecting companies, and attends regular updates with company management.
	Henderson Global Care Managed Fund	
	Henderson Global Care UK Income Fund	
	Henderson Industries of the Future Fund	

The examined FMCs integrate the results of their ESG research into the investment process in different ways. Generally the fund manager is who proposes a company to be researched by a specialized research team (internal or external) before investing. All the FMC possesses policies and/or methodologies to undertake the ESG research about the company until its incorporation into the investment portfolio. Some funds have explicit internal controls regarding the superior approval of the companies before investing such as F&C Investments, Rathbone Unitrust Management Limited, Henderson Global Investors.

In all the cases reviewed the results of the ESG research about the company is the decisive resource of information to continue with the financial assessment stage. Some FMCs not only apply screenings but also regards a deep analysis of corporate social responsibility activities, external information provided by stakeholders, among others. These sources may provide a broad understanding about how the company is managing its risks and how well prepared is to face any contingency in the future.

The monitoring to ensure that the portfolio holdings comply with the ESG investment criteria is carried out in an ongoing basis by different governance bodies within the FMCs such as Reference or Ethical Committees, specialized SRI research teams or Compliance Departments. The mechanisms used by these bodies are quarterly/ annual/every three-year revisions, outsourced research, cross-checked research and/or compliance testing.

These control activity does not rely on the fund manager in any of the cases examined which shows a clear understanding of the independence principle to avoid tasks concentration in just one individual. Certainly, this principle is one of the pillars of a sound corporate governance system and it avoids risks related to the portfolio management.

4.3. Engagement approach and voting policy

In Table 4 is shown a summary of the responses provided by the Fund Management Companies to the questions 5b, 5d, 5e, 5f, and 6a of the European SRI Transparency Code.

Engagement approach:

5b. How does the fund prioritise which companies/issuers it will engage with?

5d. What methods of engagement are employed?

5e. How is the effectiveness of engagement activity monitored/ addressed?

5f. What further steps if any, are taken if engagement is considered unsuccessful?

Voting policy:

6a. Does the fund have a voting policy?

The information presented below comprises thirteen SR retail mutual funds under management of these companies.

Table 4- Engagement approach and voting policy

Company	SR Mutual Fund	Transparency Code’s answer
F&C Investments	F&C Stewardship Growth Fund	Engagement approach 5b. F&C considers a number of factors when prioritizing companies including size of the holding (both F&C and client holdings), the sector, the issue and client concerns.

		5d. Engagement is carried out largely through one-to-one contacts with companies. The GSI (Governance & Sustainable Investment) team also operates a policy of considered voting across the whole of F&C and its clients’ global holdings. The team engages companies both before and after the vote, to explain the standards we expect, and afterwards, to explain the reasons for any votes against management. In addition to direct dialogue with companies, F&C publishes and circulates proprietary research on a range of ESG themes with a view to prompting industry-wide debate on emerging standards of best practice. We also draw on the research and knowledge of leading research organisations, government agencies, trade associations and leading companies. 5e. The effectiveness of our engagement activities are measured by recording each event –called a Milestone – in which a company has improved its policies, performance or practices after intervention by F&C. F&C’s engagement programmes are actively designed to achieve improvements in ESG risk management, linked to company performance. F&C tracks and records each occasion on which a company has changed its policy, performance or practices after engagement by F&C. The rating reflects both the influence of F&C and the potential impact on value. F&C has recorded over 1,000 milestones in the course of the past four years, demonstrating a commitment to ensuring that successful outcomes and investment performance are achieved from engagement and voting. 5f. F&C does not divest if a company fails to respond the engagement. However, we do not invest in companies unless they meet strict Stewardship criteria. Voting policy 6a. Yes, F&C has a Responsible Ownership policy which reflects best practices. This is supplemented by our Corporate Governance General Guidelines. F&C believes in using its influence to encourage good practice through both informal engagement with companies, and the exercise of its votes. It seeks to develop dialogue with companies in order better to understand individual market circumstances and company practices and to encourage improvements. F&C also co-operates, where appropriate, with like-minded investors or other stakeholders in order to emphasise shared concerns. F&C will, as a general rule, avoid public comment on the details of its engagement with companies in order to enable in-depth, constructive discussions in a climate of trust and confidentiality. However, where discussions have not been satisfactory on an issue of major significance, F&C may file a shareholder resolution or comment publicly.
	F&C Stewardship Income Fund F&C Stewardship International Fund	
Rathbone Unitrust Management Limited	Rathbone Ethical Bond Fund	Engagement approach 5b. The following factors will guide the issues chosen for engagement: - Large or widespread holdings among Rathbone Greenbank fund managers on issues material to clients; deeper engagement on a more focused range of issues is preferred;

		- Rathbone Greenbank welcomes and gives due consideration to suggestions for specific engagement topics from clients; - Rathbone Greenbank favours engagement on those issues where it has particular expertise, or where positive outcomes are clearly identifiable, in order to make most effective use of time and resources. 5d. Formal and informal correspondence and/or meetings with company representatives; Where appropriate, Rathbone Greenbank will seek to collaborate with other members of the SRI community as well as other fund managers within RIM. When doing so, the principles stated above will guide the level of involvement and choice of partners. 5e. In measuring the effectiveness of its engagement strategy, Rathbone Greenbank will: - Consider any material changes in company policy or performance achieved from year to year, in the course of the ethical research team s regular updating of company profiles; - Aim to report at least once a year the scope and number of engagement activities undertaken to clients. 5f. Should dialogue fail, Rathbone Greenbank will seek to utilise more formal methods. This may include voting on remuneration reports and other AGM resolutions; attending AGMs to pose questions; and using nominee shareholdings in companies to table resolutions as part of AGM business. Rathbone Greenbank will aim to communicate voting preferences to the company beforehand. Voting policy 6a. No, not applicable. The fund is a corporate bond fund and voting rights do not ordinarily attach to its underlying holdings.
Jupiter Unit Trist Managers Limited	Jupiter Ecology Fund	Engagement approach 5b. Initially, the Green and SRI Research Team will carry out background research on the key environmental and social issues facing a company and the sector in which it operates, analysing the company’s environmental and social performance. This will include third party research from relevant organizations including Non-Governmental Organisations, trade associations and brokers. The Green and SRI Research Team’s engagement with a company will then focus on the key environmental and social issues which we believe have the potential to affect the company’s financial performance or risk profile. These may include: • management of environmental risk • management of reputational risk • maximising cost savings • development of new business opportunities. Periodically the Green and SRI Research Team chooses a selection of companies for engagement, taking into account those companies in which we have a meaningful shareholding. The focus of this engagement may be on a specific industry sector or on a specific environmental or social issue. 5d. Jupiter believes an important part of the engagement process is the dialogue (usually private) between institutional shareholders and the companies in which they invest. As such, our fund managers and analysts host and attend regular meetings with the management of companies, with a high percentage of companies being seen twice a year where corporate strategy, performance and

		other management issues are discussed. In addition to these meetings, Jupiter’s CG Team engages with companies on corporate governance issues, whilst the Green and Socially Responsible Investment Research Team (Green and SRI Research Team) engages on environmental and social issues. This engagement plays an integral part in the monitoring process of companies. 5e. Jupiter uses the annual general meeting as a basic starting point for monitoring the effectiveness of companies’ compliance with the Code in respect of corporate governance issues. Jupiter complements its assessment of companies with the analysis provided by two external corporate governance research providers – RREV (Research, Recommendations and Electronic Voting, part of the Risk Metrics Group) and IVIS, the Association of British Insurers’ institutional voting information service. Jupiter engages with companies on corporate governance issues when best practice has not been met. This engagement is monitored and referred to when reviewing companies at future annual general meetings. All engagement is considered confidential. 5f. If one engagement strategy seems to be unsuccessful, we would review that strategy and adopt an alternative one. For example, we may seek to engage with another member of the company team, we may collaborate with other investors, support a shareholder resolution or, as a last resort divest. Voting policy 6a. Exercising voting rights forms an integral part of our stewardship responsibilities. Jupiter’s Corporate Governance and Voting Policy explains our approach to voting at general meetings. In deciding how to vote, we follow prevailing local market best practice. The resolutions proposed at each meeting are analysed by the Corporate Governance Team (CG Team) against Jupiter’s policy and any non-compliance with best practice or controversial items (including investment issues) are discussed with the relevant fund managers prior to voting. We recognise that it takes time to implement changes and that compliance with best practice may not always be achieved in the short term, so we will be supportive where there is a commitment from companies to change. However, we will vote against management if the explanation or assurance from the company is deemed to be inadequate or not in the best interests of shareholders. Alternatively we may cast an abstain vote to register our reservation on an issue without having to vote against a resolution.
	Jupiter Environmental Income Fund	
Standard Life Investments Ltd	Standard Life UK Ethical Fund	Engagement approach 5b. Engagement with the following companies is prioritized: companies in high environmental impact sectors who are identified as below industry standards; companies in which we have large holdings; companies involved in serious or high-profile incidents. 5d. Our Corporate Governance and SRI Research Team meets, speaks and writes regularly to companies and provides them with written guidelines setting out our expectations. We seek to use our

		influence to encourage best practice standards on Social, Economic and Environmental (SEE) and Corporate Governance issues at the companies in which we invest with a view to protecting and enhancing the value of the investments held on behalf of our clients. 5e. We monitor whether companies agree to review and consider our views and whether there is a change in policy, practice or reporting. 5f. If engagement indicates that a company fails our Ethical Policy and does not aim to change the noncompliant activity, the holding will be sold. Voting policy 6a. The funds’ voting policy is described in our UK Corporate Governance Guidelines, which can be viewed at www.standardlifeinvestments.com. We will vote all shares we manage at all shareholder meetings in the UK except when otherwise instructed by the beneficial owners of these shares.
	Standard Life Ethical Corporate Bond Fund Standard Life European Equity Ethical Fund	
Henderson Global Investors	Henderson Global Care Growth Fund	Engagement approach 5b. We undertake three main forms of company engagement: · The first is baseload engagement, where we seek regular updates from companies on their corporate responsibility and provide recommendations accordingly, and which are prioritised according to the size of the company holding in the SRI funds · The second is thematic engagement, where we select an issue of importance and undertake dialogue with a number of companies to compare and contrast approaches, and make suggestions for best practice · The third is reactive engagement, where we engage with companies in the wake of events which raise concerns and raise specific requests for action, and which are prioritised by the severity of the issue at stake as well as the size of the company holding in the SRI funds. We engage in a combination of these engagement efforts, balancing the more pro-active thematic and baseload work with the ad-hoc reactive as appropriate. 5d. Typically our engagement activities take the form of dialogue through meetings (one to one, group etc.), conference calls, telephone calls or written communications. 5e. Engagement activities are monitored and reviewed on an ongoing basis. We monitor and evaluate the success of our engagement efforts by classifying the outcome as one of the following: · Complete success: An engagement is considered to be a ‘complete success’ when a company agrees to implement our recommendations/request fully within a specified timeframe · Significant success: Where a company agrees to take significant steps to implement our recommendation(s) though timeframes and/or the extent of action may be unclear · Partial success: Where a company indicates that they are supportive of our recommendation(s) but are unable to

		make clear commitments on timing/extent of implementation · Unsuccessful: An engagement is considered to be unsuccessful when there is little or no response from a company or whether management refuses to take any action to adopt/implement our recommendation(s). If we are unable to resolve the matter through this dialogue, we may work with other institutional investors to put our concerns to the company jointly. We also have the option of using the voting rights held on behalf of clients to impress upon management the need for change or ultimately to support a takeover. Should efforts be unsuccessful, we may de-approve and divest our investments in the company. 5f. Where engagement efforts fail to result in adequate results, we may exercise our voting rights (for example, against the adoption of the report & accounts) or de-approve the company (e.g. although not currently held, any future investment would not be permitted), which may result in divestment if it is an existing holding. Voting policy 6a. Yes – the SRI funds have a policy of actively voting its shares in all geographies where possible. We seek to promote the highest standards of corporate governance and corporate responsibility (CR), and will support special resolutions where we believe these have merit.
	Henderson Global Care Managed Fund Henderson Global Care UK Income Fund Henderson Industries of the Future Fund	

As part of the analysis of the responses in this section it was unexpectedly found that FMCs employ engagement approaches to deal with issues of their interest within some investee companies. The most used criteria to select the companies to engage with are basically size of the holding, material issues, and risky companies in sectors which may be exposed to contingencies. These criteria have been predetermined by policies in order to be applied formally by the mutual fund managers.

The most used method of engagement is the private or one-to-one dialogue with company representatives through meetings, written communications, calls, among others. Other forms of engagement applied by Rathbone Unitrust Management Limited are collaboration with other members of the SRI community. The main purpose of this contact with the investee companies through the engagement tools is to raise ESG issues of shareholders' concern and encourage the use of best practices.

If the engagement activity is unsuccessful, the FMCs will insist by changing the engagement strategy or using more formal methods such as voting rights. If the investee company fails subsequently, some of the FMCs examined regard the divestment option.

Regarding the monitoring of the effectiveness of engagement activities just F&C Investments and Henderson Global Investors mention they have developed a an ongoing tracking system to measure and qualify respectively the engagement progress. The other FMCs have reported they just review annually whether the company has changed any policy, practice or reporting related to the investors' concerns.

Interestingly F&C Investment has mentioned that its "engagement programmes are actively designed to achieve improvements in ESG risk management linked to company performance". Accordingly, the rating reflects both the degree of influence of F&C Investment and the potential impact on value. This approach shows a proactive approach towards risk management focused on ESG issues which may affect largely the company reputation and image if they are not monitored properly.

Additionally, it was identified that only the mutual funds from F&C Investments regard a mix of individual and institutional investors which justifies undertaking a consistent engagement because of the regulated accountability towards institutional investors. Accordingly, the voting policy is formal and executed at all times.

On the other hand, the mutual funds which exercise their voting rights possess a formal policy complemented by Corporate Governance guidelines. These policies regard the best practices in the market according to the expressed by them. The only mutual fund which does not possess a voting policy is Rathbone Ethical Mutual Fund since it is not applicable because of the nature of the holdings possessed by this fund (bonds).

4.4. Characteristics of the SR retail mutual funds reporting

In Table 5 is shown a summary of the responses provided by the Fund Management Companies to the questions 1e, 2d, 4e, 4f, 5g and 6b.

1e. Provide details of the content, frequency and means of communicating information to investors.

2d. How are ESG criteria changes communicated to investors?

4e. Are investors informed about divestments on ESG grounds?

4f. Does the fund manager inform companies/issuers of portfolio movements due to non-compliance with its ESG policy and criteria?

5g. How, and how frequently, are engagement activities communicated to investors and other stakeholders?

6b. Does the fund disclose its voting practices and reasoning for decisions?

The information attached comprises thirteen SR retail mutual funds under management of these companies.

Table 5- Summary of reporting characteristics' responses

Company	SR Mutual Fund	Transparency Code's answer
F&C Investments	F&C Stewardship Growth Fund	1e. We communicate to investors through annual reports, 6 monthly newsletters and our website. In addition, some of our clients receive F&C's Governance and Sustainable Investment (GSI) monthly bulletin. Communication with our investors is two-way and we respond to individual investor queries. The Stewardship Committee of Reference welcomes and is committed to responding to any investor who writes to

		them about the ethical criteria or held companies. 2d. Significant criteria changes are communicated to investors through our six monthly newsletters. 4e. Existing investors are informed about significant divestments due to the ethical criteria in quarterly newsletters. The Committee of Reference advises us as to whether a divestment is “significant” or not. 4f. If a company asks whether it is Acceptable for Stewardship or requests further information regarding divestments, then we provide this. We do not systematically inform all companies of divestment due to non-compliance with the ethical criteria or “name and shame” companies, as we do not believe that this benefits either the company or F&C as an asset manager. If a company does not comply with the ethical criteria, we consider prioritising it for engagement through our reo® programme, to encourage better practices. 5g. Every quarter F&C publishes a report on its engagement activities – the public reo® report - Each quarter F&C publishes a report on how it voted at global company’s annual general meetings - Every year F&C also publishes an annual report to summarise our engagement and voting over the year – the annual responsible investment report - Case studies and examples of our engagement work are also published in F&C six-monthly Stewardship newsletter. All of the above are available on our website. In addition, F&C provides tailored reporting to clients through it confidential reo® reports. 6b. Yes, we have pioneered disclosure in this area. See our website, which details our voting practices and the reasons for our decisions. This includes quarterly and annual reporting.
	F&C Stewardship Income Fund F&C Stewardship International Fund	
Rathbone Unitrust Management Limited	Rathbone Ethical Bond Fund	1e. The company reports are: * Monthly: Rathbone Ethical Bond Fund Factsheet summarises fund performance for the period, sector asset allocation, ten largest holdings and credit quality and maturity distribution. * Quarterly: Rathbone Ethical Bond Fund Quarterly investment report offers brief overview of the fund, portfolio changes for the period and economic outlook. * Bi-annual: Rathbone Ethical Bond Fund Manager Report (April & October). Both short and long versions of interim and annual reports are published alternately every six months. Contents include managers report, ethical report (long version), full list of holdings (long version) and ten largest holdings (short version). 2d. Any changes to the funds ethical criteria will be communicated through the annual report. 4e. Existing investors are informed about significant divestments due to the ethical criteria in quarterly newsletters. The Committee of Reference advises us as to whether a divestment is “significant” or not.

		4f. No. 5g. Any engagement activity undertaken specifically with regard to holdings in the fund will be communicated through the annual report. 6b. Not applicable.
Jupiter Unit Trist Managers Limited	Jupiter Ecology Fund	1e. All investors receive a summary version of the Annual and Interim Manager’s Reports. The Annual Report covers the period from the 1 April to 31 March; the Interim Report covers the period 1 April to 30 September. The full version of the Manager’s Report, which includes a full financial breakdown is also published every six months and is available on the website. All investors also receive six-monthly statements regarding their investments, prepared as at 5 April and 5 October each year. We also produce monthly fund fact sheets summarising fund performance. Investors receive the Green Gauge Bulletin, which is published every six months. Ad hoc briefings are produced, which highlight one of the green themes and selected companies in the portfolio. 2d. Any significant changes to the criteria would be communicated via the Green Gauge Bulletin or customer service line. 4e. There is no formal procedure for informing investors about divestments as there are a variety of reasons why any given company may be divested. However, in exceptional circumstances, a divestment decision may be made public. 4f. Jupiter does not routinely inform companies of portfolio movements due to non-compliance with the Fund’s ESG criteria; however, it may be discussed during meetings with company management. 5g. Jupiter publishes biannual Voting and Engagement Report which disclose high-level reporting of the number of UK meetings voted at, how votes were cast and some of the key corporate governance and voting issues. Jupiter’s engagement with companies to promote more responsible practice on environmental and social issues is also included. 6b. See 5g response.
	Jupiter Environmental Income Fund	
Standard Life Investments Ltd	Standard Life UK Ethical Fund	1e. For each of the funds, the information is available in the following formats: * Annual newsletter. Includes results of investor research and any changes to our ethical policy. * Quarterly reports. Includes Composition of portfolio, Top ten holdings, Investment review and Outlook, and Performance Commentary. Available on the website. * Fund factsheets available monthly. * In addition a Bi-Annual Report is also available for the UK Ethical Fund which includes a report on the work of the Ethical Committee. 2d. Criteria changes are communicated to investors in our Annual Newsletter. 4e. We do not regularly inform investors about disinvestments on SRI grounds. 4f. When a company moves from a pass or preferred rating to a fail, our SRI research Team contacts the company to confirm the accuracy of the

		information on which the new rating is based. The company is informed that if the information is accurate, and if the company intends to continue the noncompliant activity, the holding will be sold within a reasonable time. 5g. We do not regularly report on engagement activities to our ethical fund investors or other stakeholders. From time to time we discuss our engagement activities with individual investors who have made inquiries about holdings in particular companies. 6b. Details of voting activity are provided in the Long Form Annual and Semi Annual Report and Accounts for our UK (OEIC) Ethical Fund. In addition, we publish a voting disclosure report at www.standardlifeinvestments.com which discloses monthly in arrears when we have voted against or abstained on a particular resolution and includes a brief explanation where we did not support management recommendations.
	Standard Life Ethical Corporate Bond Fund	
	Standard Life European Equity Ethical Fund	
Henderson Global Investors	Henderson Global Care Growth Fund	1e. List of reports: * Annual reports. All investors in the OEICs receive copies of the manager’s annual and semi-annual report in hard copy. * Bi-annual. All retail SRI investors receive a printed copy of ‘Investing in the Future’ newsletter twice a year (April and October). This includes a summary of fund activity, select stock profiles, and information on SRI research & engagement activities. Full listing of fund holdings with a short SRI rationale are published on the website twice a year (holdings as of 30 the June and 31st December) * Monthly. Fund Fact Sheets summarising fund performance, and top 10 holdings are updated monthly and available at the website. Financial advisers can also subscribe to a monthly e-newsletter ‘SRI Investment News’, which includes a summary of fund performance, select stock profiles and information on SRI research & engagement activities * Ad-hoc. The SRI website is the main channel through which the team communicates its SRI activities, and this includes copies of reports on the latest SRI research & engagement activities (www.henderson.com/sri) SRI blog (www.henderson.com/sriblog) 2d. The SRI team defines the ESG criteria of the funds. From time to time, the SRI team reviews how it interprets the ESG criteria in light of the latest developments in sustainability thinking on best practice. This is to ensure the criteria remain relevant and do not become outdated. Any material changes to the existing ESG criteria have to be approved by investors at an Extraordinary General Meeting (EGM). As part of the review process, the SRI team proactively consults with appropriate stakeholders such as its clients, financial advisers,

		the SRI Advisory Committee etc. about any proposed changes to criteria wording or interpretation, and does this through various communications means such as the SRI newsletters, the SRI website, the SRI blog and ad-hoc mailings. 4e. Yes - The SRI team endeavours to inform investors of divestments on SRI grounds in the bi-annual 'Investing in the Future' newsletter. 4f. Yes – on a case by case basis. Where a divestment is made on SRI grounds the SRI team may inform the company if we believe there to be a benefit in doing so. 5g. Engagement is communicated to investors through the bi-annual Investing in the Future newsletter (April and October), which is also available on the website. The website also provides information on engagement activities undertaken by the team as and when appropriate to do so. In the case of the Horizon Industries of the Future fund SICAV, the quarterly research & engagement report is available on Henderson's French website. 6b. Henderson seeks to disclose where it has voted against management or abstained, and/or its view on shareholder proposals. This information can be found in this document (the Statement of Commitment), the bi-annual Investing in the Future newsletter, as well as in ad-hoc communications as appropriate
	Henderson Global Care Managed Fund Henderson Global Care UK Income Fund Henderson Industries of the Future Fund	

According to the responses obtained from the FMCs the common way of communicating to investors the SR mutual fund performance is by monthly and annual reporting. Some companies issue some extra report bi-annually and quarterly. The channels to reach the audience are by sending hard copies of these reports to the investors' addresses and/or publicizing the reports on internet. These reports are also available to the public in general for consulting as literature of the products portfolio offered by the fund management companies and they can be accessed through their websites.

Another important observation is the inclusion of financial and ESG issues and/or performance in the reporting process with different levels of deepness. For instance, the F&C's Governance and Sustainable Investment annual report and monthly bulletin include mainly information of the financial performance from the mutual funds. The reporting of ESG issues appears quite limited as presented by F&C Investments. On the other hand, Jupiter Unit Trust Managers Limited reports clearly the investment policy, fund screening criteria, ESG issues, financial performance review, market and policy review. The Annual and Interim Manager's Report (issued six-monthly) are available to all the investors by hard copy and online. As a complement Jupiter issues the Green Gauge Bulletin and the Voting and Engagement Report which regard the green trends and the engagement performance respectively.

The communication of the ESG criteria changes to investors is done by any of the monthly, six-monthly and annual reports, newsletters or bulletins issued in hard copy or publicized on the website.

Regarding divestments on ESG grounds most of the mutual funds report this information to investors by annual reports or newsletters. Two of the funds do not report regularly about these issues and they do not have formal procedures to inform to investors. On the other hand, the communication to investee companies about divestment decisions is not a common procedure but exceptional. Some of the FMC prefer to discuss this potential decision with the management or encourage better practices rather than divesting.

The engagement activities are reported to investors by four of the FMC and this activity could be carried out quarterly, bi-annually or annually through dedicated reports or annual reports. Standard Life Investment Ltd was the only FMC who mentioned it is not a regular practice to report on engagement activities to investors and this is performed as required by individual investors.

All the SR mutual funds which manage equity holdings reported a proper communication of voting practices and the reasons for the decisions made. The way to report these issues is through the quarterly, semiannual and/or annual reports issued by the FMC.

Since the ESG reporting process done by fund management companies responsible of the administration of SR mutual funds in the UK is a voluntary process no subject to regulation, the reports differ significantly among companies regarding format, contents and quality. Indeed, it has been noticed that none of the reports refers to any type of reporting framework or regulation. This situation differs notably from the ethical institutional investment industry which has increased the regulation over the last years given the institutional representation and the representative amount of investment involved. Additionally, governance structures vary notably and some companies have in place Ethical Committees, SRI and Governance teams, specialized policies and procedures which may broad or narrow the understanding of the internal monitoring responsibility over the SR mutual fund accountability and reporting.

Regarding the audience of the reports reviewed this is primarily constituted by individual investors. It is important to realize and recognize formally that other users may access to this information such as financial regulators, policy makers, investee companies, potential investors, academics, among others.

Chapter 5 Gap Analysis

This chapter aims to analyse the findings collected in Chapter 4 in order to outline the performance gaps against the main frameworks introduced in the literature review. This analysis is complemented with a discussion of contrasting elements found in the literature. Indeed, there are some references to the extensive research on sustainability accountability and reporting, and financial supervision to nurture our analysis.

The structure of this section covers firstly the following topics: ESG investment analysis, ESG research process, Evaluation and implementation, and Engagement approach and voting policy, which are aligned with the Transparency Code main sections. The gap analysis over these sections seeks to examine the sufficiency and completeness of the ESG performance outcomes from every process analysed to setting up the ESG reporting criteria. A critical success factor for accountability and reporting is to have clear objectives along the processes aligned with a main strategy in order to produce meaningful outputs.

The last topic covered is Accountability and reporting practices on ESG performance which will be backed up by the outcomes of the previous analysis with especial incidence on accountability principles, content and added value.

From the analysis of the European SRI Transparency Code it can be noticed that its structure reflects the application of the first three Principles for Responsible Investment[21]:

1. “We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest”

Indeed, the consideration of these principles within the Transparency Code is promoting indirectly the compliance of the other three principles related to the acceptance and implementation of the Principles within the investment industry. So far, the Transparency Code is aligned with the basic set of Principles broadly recognized by the members of the SRI industry around the world. The justification for using the Code is justified on its representativeness in the UK and Europe.

1. ESG Investment

The main issues raised from the responses of the ESG Investment section examined earlier are associated with the definition of the ESG criteria itself, and the positive and negative screenings.

From the responses related to construction of the ESG Investment criteria most of the mutual funds have set up policies regarding the environmental, social, governance and ethical parameters to be used in the ESG assessment by the superior instances in charge of this task. The policies in place and the segregation of this task from the fund manager functions ensure the appropriate performance and subsequent monitoring of the application of the ESG criteria.

However, despite the formality and governance structures put in place by the FMCs analysed, it still persists the risk of “one-size-fits-all” version (Shepers and Sheti, 2003) as a consequence of the “internal regulation” created in order to simplify the ESG process. Every SR mutual fund should assess properly the extent of these procedures in order to avoid the feared risk of generalization of clients assuming they have the same interest in the same ESG issues. Consistently, the ESG investment assessment will complement the financial investment assessment to be performed in a second instance according to the investor‘s profile and risk appetite. A economic assessment is a fundamental task within the SRI industry to offer bespoke products to satisfy the market demands and segment the offer properly.

The third generation of screens refers to an integrated approach of selecting companies based on the economic, environmental and social criteria comprised by both negative and positive screens (Renneboog et. al., 2008). This approach is often called “triple bottom line” or “sustainability”. The Transparency Code responses reviewed in the previous section confirm that this is the approach applied by all the UK SR mutual funds which are part of the sample.

Although the FMCs have declared that they apply a combined criteria considering positive and negative screening, the internal policies should prevent the sole use of positive screening. In the SRI literature has been criticized the impact of this technique since it does not deem a sound engagement regarding negative externalities (Collison et.al., 2009) and may be helping outstanding companies to do better which is far from the SRI spirit. The exclusive focus on positive screening may affect the image of the FMC and the reputation of the SRI industry if the SR mutual fund is perceived as a passive agent.

The negative screening used by the FMCs analysed show a “product-based criterion” focus which represents a limitation in the promotion of socially responsible practices and the sustainability of any business (Colle and York, 2009). The redefinition of this ESG criterion is vital in order to engage properly in SRI and create a sustainable impact in the investee companies. According to Colle and York (2009) the FMCs should perform an integrated assessment to decide reasonably the exclusion of any company for investment purposes. These elements are basically product impact, stakeholder relationships and contingent environment. This approach encourages the assessment of the corporate social responsibility (CSR) practice by analyzing the company impacts on its stakeholders because of its operations, stakeholder management process and engagement, and the market and non-market environmental dimensions as potential contingency originators. Certainly, the non-market environmental will be difficult to approach if the company does not possess a well developed CSR practice. Most of the companies may manage very well internal and market risks related to their products and stakeholders, but when they face risks coming from the non-market environment it appears to challenge their responsive ability. Even, they may not have idea about how to identify and assess those risks and either how to justify the mitigation plans from an ethical business perspective (Baron, 2006). This situation may worsen for potential investee companies based in emerging markets where CSR practices based on risk management are scarce.

Notably, Henderson Global Investors is the only FMC who has revealed extensively its approach which matches nearly Cole and York‘s framework to redirect the screening methodology. Henderson‘s approach[22] is undertaken by conducting both Company and Strategic SRI research. The former comprises an assessment in terms of Sustainability of their core business, and CSR of their operations by using qualitative scales in order to come up with a SRI Company Evaluation Matrix. This result is complemented with the Strategic SRI research which regards critical sustainability themes and CSR issues that will be analysed from an environmental risk perspective (e.g. industry, regulation, technology, etc.). So far, Henderson‘s model is the closest to the best practice suggested by Colle and York.

2. ESG Evaluation and Implementation

The responses to the Transparency Code show all the FMCs possess formal policies to carry out the ESG and financial assessments over the proposed investee companies in order to decide their incorporation into the mutual fund's portfolio. It was found that the subsequent monitoring of the investments to ensure their compliance with the ESG criteria is a self-regulated activity as well, and it regards the participation of different governance instances to ensure an objective supervision. The segregation of functions is the common characteristic of all these internal policies and it attends to the independence principle which is one of the fundamental principles to set up a reliable internal control along the ESG supporting processes.

This significant progresses achieved by FMCs may cause the impression they are ready to propagate and disclose this information to investors and other stakeholders who are eager to know which are the ESG impacts caused by SRI activities. But, when the data was required by SRI Agencies to different investee companies, the information produced was mainly subjective and qualitative. Indeed, the ESG results reported were not quite reliable (Chatterji et.al., 2007; Entine, 2003) and they did not facilitate the performance comparability and benchmarking.

In this context, despite the existence of self-regulated initiatives carried out by the FMCs it is still missing the implementation of standards at the systemic level in order to assess properly the effectiveness and impact of the internal ESG implementation and monitoring. These standards should address the needs of the investors and other stakeholders, cover the basic reporting characteristics, and outline the monitoring and assurance activities (Entine, 2003). In the UK, this task may be assumed by researchers and knowledge bodies from financial and ESG investment backgrounds. So far there is not such a framework dedicated to the ethical investment sector.

A suggested model of reference to prepare these standards for the SRI industry is Basel II[23] which is currently applied by the conventional financial industry. As an analogous version, the new standard may be based on 3 pillars to support properly the ESG evaluation, implementation and monitoring undertaken by FMCs. The first pillar may cover basic risk assessment criteria to set up and monitor the SRI investments portfolio (e.g. product impact risk, stakeholder risk, CSR risk, contingent risk, integrated financial risk, business sustainability risk, etc.). The second pillar may include some principles for external supervisory review with emphasis in internal control, risk management and corporate governance processes within the FMC, and for designing ESG performance and impact indicators. The third pillar would require specific ESG and financial disclosure principles and information requirements. This "Basel-based" framework would allow the SRI industry to ensure the compliance and reporting of the ESG-financial assessment for supporting investment decisions and their maintenance in the portfolio.

Definitely, it will take some time to implement this framework as it happened within the financial system internationally with Basel II but it is important having an official supervision of the internal SR mutual funds performance to guarantee market stability and sustainable development.

5.3. Engagement approach and voting policy

Renneboog, et. al. (2008) proposed the existence of a "fourth" generation of ethical funds[24] which combines the sustainable investing approach (third generation) with shareholder activism. In this context, SR fund managers procure influencing the investee company's actions through a direct dialogue with the management or by the use of voting rights at AGM (Renneboog et.al., 2008). Certainly, the responses obtained from the Transparency Code show that this approach is applicable to the SR mutual funds in the UK which are performing mainly private dialogues with investee company's representatives. This approach is seen as more popular than voting in the

SRI literature about institutional investment. This may be explained because of the nature of the private dialogue which implies an interaction with the company‘s management as a direct way to solve the SR mutual fund‘s concerns in the best interest of its investors. Actually it has proven to be more effective and it is recognized an interactive participation of companies and fund managers (Solomon, 2007). Although there is not literature reference of the replication of this positive effect on the retail market of mutual funds, it is broadly recognized the efficacy of the engagement approach to promote changes.

What is missing in the engagement approaches analysed is a constructive dialogue with government agencies and non-government organizations (policy makers, regulators, industry organizations) in order to create a sound and broad impact in the ethical retail investment sector (Bruyn, 1987) and avoid overlapping in their interventions. For instance, instead of targeting individual firms either by shareholder activism or screening criteria, a governmental and industry intervention should be encouraged to extend the scope and effectiveness of individual investors‘ intervention. A more aggressive view is proposed by Haigh and Hazelton(2004) who claim that SR mutual fund managers genuinely interested in promote changes within the corporate sector should consider firstly, to increase their funds under management to obtain representativeness and secondly, to act in concert along with other mutual fund companies as a united sector to achieve common goals. The SRI mutual funds should address government‘s spheres by lobbying and consequently they may be benefitted by the better financial position of the companies where they have invested.

Meanwhile, since the SR mutual funds continue growing, the current engagement activities should be recorded not only in number but also in ESG impact terms such as Henderson Global Investors does it. Data recording is an important process which should be extended across the SR retail fund industry in order to facilitate and support the impact assessment of the engagement activities‘ outcomes. The reporting of these activities to interest groups should be backed up by this information. Likewise, the data recorded will assist future researches about the industry performance.

The responses to the Transparency Code questionnaire do not mention how the SR mutual fund‘s manager defines the amount of investment and portfolio structure as an standard to decide if engaging or not. One criterion applicable in the institutional investment market is the trade of index-tracking equities (Solomon, 2007). So, the use of indices is an important tool for some SR fund managers to determine the amount of investment after assessing and approving the company‘s ESG and financial profile. This index-tracking orientation determines the amount traded according to the company position and size at the stock exchange. In this context passive investors will not divest till the index is changed and they are more eager to engage and use their voting rights. Conversely, the active investors are less engaged since they can divest at any time without caring the index results. This investment trading rationale should be noted and clarified by SR mutual funds and communicated properly to individual investors since this issue may create a big difference in the engagement attitude developed by FMCs and it represents an important issue for investors before choosing a SR mutual fund.

Accordingly, the engagement degree must be explicit depending on the SR mutual fund ESG criteria. For instance there are three levels of engagement recognized by PRI (2010), extensive, moderate and basic engagement. Neither the information collected by the Transparency Code responses nor the questions stated in this document require specifying the engagement degree. Definitely, the extensive engagement is the most proactive approach since it tackles issues of the FMC‘s interest and it aims to change corporate behaviour by a direct dialogue. It is remarkable the extensive engagement undertaken by FMC‘s internal staff in the UK within the SRI industry which sums almost 2,500 according to the reported by PRI (2010), the highest number compared to the rest of the world. Although there are some critics on the effectiveness of the engagement based on qualitative data (Lewis and Juravle, 2010), a demonstrable fact is the impact of the ESG criteria applied by the FMC depends on the truly interaction with the investee company. So, the performance of the engagement activity is a critical success factor to boost the SRI growth and credibility while developing lobbying strategies at governmental spheres.

Regarding the exercise of voting rights by the SR mutual funds analysed, it is an option employed as a last resort in case the companies do not react positively to the engagement activities. The unpopularity of this practice is due to the indirect approach to the management instead of face-to-face meetings on a frequent basis. Since the voting practice is promoted by different corporate governance frameworks, the SR mutual funds should reaffirm their concerns by voting especially when the holding is representative in size.

5.4. Accountability and reporting practices on ESG performance

While analysing the responses from mutual funds in the previous sections it was found that the reports prepared by FMCs that support their responses to the questionnaire include a mix of both financial and ESG performance information. The latter is rather descriptive and qualitative and its usefulness is limited since the high variability among FMCs approaches make impossible to compare the performance of the SR mutual funds. Certainly, the different criteria applied by the FMCs and lack of standardization for ESG reporting do not support benchmarking activities for decision making purposes.

The responses reviewed and supporting reports analysed summarize the outcomes and current policies from the core processes carried out by the mutual funds such as ESG criteria definition and changes, investment decisions, portfolio maintenance, and engagement and voting practices. It is missing a report on ESG activities based on performance indicators in all the cases. It was noted that the reporting itself is a process carried out by the fund managers and/or a superior hierarchy, and the reporting format and structure varies significantly when compared with FMCs. Generally, the different reports are issued on a monthly and annual basis.

The forthcoming sections cover the analysis of the areas which define a sound ESG accountability practice for SR mutual funds regarding the previous results of the gap analysis along the core processes. Different aspects of the accountability and reporting process will be deemed as well in order to provide an extensive gap analysis on the ESG performance reporting.

5.4.1. Accountability and reporting principles

An effective model of social and environmental reporting process should regard the “why-who-for what-how” stages (Unerman, 2007), it implies to take in to account the motivations for reporting, range of stakeholders to be addressed, responsibilities identified towards the different stakeholders, and dialogue in order to design the mechanisms to compile and communicate properly the stakeholders expectations. According to the information obtained from the Transparency Code responses the reporting process undertaken by SR mutual funds regards somehow the four aspects required by Unerman. In some cases this sequence is not clear and the reports reviewed do not regard fully these elements to ensure that the basic elements of reporting are covered. After having clarified the spirit of the reporting the content definition may be developed upon a sound basis. By setting up these accountability principles will facilitate this primary analysis in order to justify the report itself.

By performing an exhaustive definition of the main users of the information and their needs, it will be possible to clarify the reasons of reporting ESG issues as well as the fund‘s financial performance. Since the latter is a well regulated area, the main attention of this research relies on the sustainability reporting. The existence of different information users such as investors, regulators, investee companies, among others do not mean that the FMCs should prepare a report for each interest group. Instead should be applied an integral approach addressing the variety of stakeholders which is the fashion in sustainability reporting (Solomon, 2007)

Currently, GRI[25] is broadly recognized as an accountability tool and its value relies on the recognition of basic accountability principles for defining the following aspects:

Report content

- Materiality. The information in a report should cover topics and indicators that reflect the organization’s significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.
- Inclusiveness. The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.
- Sustainability Context. The report should present the organization’s performance in the wider context of sustainability.
- Completeness. Coverage of the material topics and ieconomic, environmental, and social impacts and enable stakeholders to assess the reporting organization’s performance in the reporting period.

Report quality

- Balance. The report should reflect positive and negative aspects of the organization’s performance to enable a reasoned assessment of overall performance.
- Comparability. Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization’s performance over time, and could support analysis relative to other organizations.
- Accuracy. The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization’s performance.
- Timeliness. Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.
- Clarity. Information should be made available in a manner that is understandable and accessible to stakeholders using the report.
- Reliability. Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

So far, these sets of principles may be applicable for the SRI sector. This framework covers the reporting of ESG issues and is based on the triple bottom line approach which is complemented with governance elements. But the applicability of GRI for the SRI industry is limited regarding the Standard Disclosures because of the performance indicators section (Adams, 2004) since the companies are still free of reporting their negative impacts on sustainability. Thus the ESG performance accountability based on GRI‘s indicators may create a distortion for decision making purposes and affect the investors‘ interests. This issue will be examined in the next sections.

5.4.2. Accountability content

There is a great variation of content among the reports reviewed from the SR mutual funds analysed. So for instance, some of them stress much more the financials rather than the ESG performance and others report ESG outcomes in a superficial way. Certainly these reports do not add value because it does not communicate the mutual fund performance and its achievements that may demonstrate the truly impact of SRI on the investee companies' CSR.

A sound content outline for a good and transparent sustainability report should demonstrate acceptance of the ESG responsibility through a statement of values (Adams, 2004) or "code of ethics" for ethical investment (Schwartz, 2003). SR mutual funds have to demonstrate objectiveness in their actions, so the moral justification underlying SRI processes and their disclosure must be explicit and embed the daily activities of the mutual fund through policies and procedures. For instance some of the activities to be justified under these criteria are screenings, responsibilities, conflict resolution, functions segregation, which are internal control parameters that guarantee the optimum performance of any business process. The justification of these issues will facilitate the operationalization of SRI processes and design the outcomes to support the ESG performance reporting. These processes may regard ESG investment, evaluation, implementation and monitoring, engagement and voting, advertising, and assurance. By making explicit the values and moral of the FMC behind the main processes, the mutual fund manager will be able to justify properly the content of the report addressed to stakeholders.

At all times, the FMC should procure to "measure" the results of the strategic processes. Given the critiques regarding the abundance of qualitative information in the reports issued by FMCs, it is fundamental to measure the progress made by fund managers. Just by making tangible the outcomes of the ESG performance, analysts will consider this data for an integral analysis of the mutual fund performance along with its financial results. Thus, the main core processes such as ESG investment, evaluation, implementation and monitoring, engagement and voting, should deem objectives and quantified targets with expected achievement dates (Adams, 2004). The SR mutual funds examined should enhance the measurement and reporting of the ESG activities against predetermined targets. The credibility of the ESG performance will be boosted by having in place a consistent and relevant set of indicators aligned with the stakeholders' information needs.

A model to build up impact indicators for SRI may be aligned with the ecologically and eco-justice-informed approach proposed by Gray (2006). This framework promotes sustainability reporting and its main value relies on defining whether organizations are socially and environmentally sustainable. If the FMCs adapt some aspects of this model, they may tackle sustainability issues with the investee companies to be reported consistently. The entity-based reporting regards, as main conditions towards an impactful performance, the systematic reduction in the company's ecological carbon footprint, the access opportunity given to disadvantaged sectors to environmental resources, and the reverse of disparities in wealth and consumption. By creating performance indicators around these themes, the SR mutual fund manager may push a truly change of attitude in the investee companies and incorporate sustainability issues in the company's agenda. Possibly, these issues may create some conflicts with other company stakeholders' interests or financial performance. In these cases an integral ESG and financial analysis should be carried out to define the extent of the application of this model and the expected quantified outcomes.

Since the model proposed by Gray regards mainly environmental and social issues, the governance performance of the investee companies may be managed by the fund managers through more conventional mechanisms such as engagement and voting practices.

Some companies according to the nature of their operations may prioritize different sustainability issues, the challenge for mutual funds is to engage with the investee company management in enhancing or reinforcing the strategy towards sustainability by understanding the main company's risks in the market and non-market environment in order to add value to its CSR performance and protect investors' interests. Clearly the driver of any sustainability strategy should be based on a risk management approach to mitigate the threats that might affect the long-term performance.

5.4.3. Adding value through accountability

Since CSR is a strategic activity which should address potential threats originated in the non-market environment driven by stakeholders' ethical concerns (Baron, 2006), it should be linked with a corporate risk management system whether the company has it in place or alternatively with the risks analysis performed to set up the company's corporate strategy. In order to add value to the business operations, build up competitive advantage, and use the company's resources efficiently, the CSR strategy should be complemented with an ongoing analysis of the risks in the non-market environment.

The added value of Sustainable and Responsible Investment (SRI) is the consideration of sustainability issues regarding environment, social and governance (ESG) aspects. The main tool for many investors to solve their ESG concerns is the CSR strategy carried out by the investee company. By engaging the company in a meaningful CSR driven by ethical concerns the company will be better positioned to take advantage of the threats may come up applying a preventive focus. Thus, the engagement activities carried out by SR mutual funds will definitely impact the financial performance of the investee companies. In order to report valuable information on the ESG performance the companies should align the investors' monitoring requirements with the CSR and risk management systems to generate meaningful data.

A subsequent assurance of the ESG report will add credibility and trust regarding the achievements made by the concerted interaction between the investee companies and FMCs.

Chapter 6 Discussion

This research is based on a sample of thirteen sustainable and responsible mutual funds under the administration of five companies based in the UK which voluntarily have signed to report annually their compliance with the European SRI Transparency Code. Despite the limited number of the sample examined, we could access to privileged and detailed information about internal polices and ESG performance. The information sources were supporting data to the Code's responses, as well as information found on their websites.

The succeeding discussion shall focus on reflections on the main drivers of change for the initial proposals to improve the accountability and disclosure of the ESG performance covered in the previous chapter. It includes some thoughts found in the extensive SR institutional investment literature to contrast our analysis and initial change proposals.

6.1. Drivers of change

The most important driver to boost the growth of the SR retail mutual fund sector is to build up industry representativeness as a sum of forces to lobbying at governmental spheres. By achieving a direct contact with authorities and/or influential representatives engaged with the ethical investment sector growth, it will be easier to tackle market failures, broad the scope of the ESG activity, set up sustainability targets, and influence investee companies by using legislation. So far, EUROSIF and UKSIF are the main organizations where the UK SR mutual funds are subscribed, but the main activities carried out by these organisations have been dedicated to the institutional investment sector mainly. This prioritisation obeys to the investor demands from this sector represented mainly by pension funds where the current investment represents more than 90% of the ethical investment market in the UK. The existence of regulation on institutional investment associated with SRI has been put in place to protect of the interests of the representative mass of workers whose pensions are invested in this market.

The financial crisis initiated in 2008 has demonstrated the fragility of the financial market in the UK. The banks put in evidence their irresponsibility in undertaking core back-office processes and managing the internal control systems. The corporate governance within these institutions proved to be weak structures which lacked of an ethical behaviour and long-term vision to build up sustainable businesses. As a result of these events the UK government has launched in June 2010 the new UK Corporate Governance Code[26] which sets up the principles and rules of good governance. As the Code itself recognizes the compliance with it does not guarantee effective board behaviour because of the variety of situations where it is applicable. In this case the role of shareholders in monitoring the Code is crucial to ensure a good corporate governance practice within the financial institutions as a preventive resort against a new financial crisis risk.

Although the financial crisis did not affect directly the SRI industry, its effects hit on the consumers awareness in different ways. One of these was realizing about the market failures within the financial system and the potential risks may affect the management of deposits or investments whether the corporate governance and control environment are not taken seriously. Trusting in the external monitoring executed by financial authorities seems not enough anymore. Thus, investors are turning into other “alternative” ways of obtaining competitive profits within the financial systems which represents an interesting opportunity to boost the SR retail investment sector. Certainly, the differentiated products offered by FMCs are attractive options which are dealing with sustainability issues of public concern at the same they are making profits. So, the added value to strengthen the differentiation of these products is embed a sound corporate governance practice within these institutions by opening participatory channels to retail investors groups to satisfy their concerns regarding the efficiency, effectiveness and impact of the ESG criteria applied across the range of products.

The UK Stewardship Code[27] launched in July 2010 aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Actually, this Code represents a set of principles which incorporates the lessons learned after the financial crisis. It may be adapted for the SR retail investment sector given the emphasis on engagement practices as well, and it would complement the needed ESG performance guidelines to be discussed in the next section.

Certainly, the previous issues stress the importance to sort out the accountability gap by boosting the standardization of disclosure and reporting regarding ESG performance. Currently the SR mutual funds are not under any specific regulation in this area. The general regulation applicable is the same for conventional mutual funds related to declare the characteristics of their portfolio investments. It is necessary greater clarity and consistency in the reporting process carried out by both SR mutual funds and investee companies. The varieties of reports and disclosure styles have made difficult the comparability of information, establishing benchmarks and the reporting itself towards investors and other stakeholders. The critical aspects for reporting are the activities associated to the ESG performance which address to demonstrate the efficiency of the SR mutual funds regarding their engagement activities. The fundamental aspect to succeed is to make an effort to categorize investments according to the sustainability area of intervention to develop not only general principles to measure the processes‘ outcomes but also some guidance to measure the performance impacts in the long term. The regulated disclosure and reporting of these quantified outputs will play an important role in boosting the credibility of the ethical investment sector. Definitely the quality and sufficiency of the information disclosed is important to be regarded as a key driver to promote the growth of the SR mutual fund sector and attract more supporters to this cause at all levels.

6.2. Challenges

The main challenge to succeed is undoubtedly the government role as regulator and promoter of the retail investment sector in the UK. In this specific case the government should go beyond the regulatory task and engage in an effective supervision given the lack of institutional representativeness for the case of retail investors. Since this mass market is more disperse and there are not mandates involved, the role to protect investors‘ interests relies on the financial regulators. Indeed, this task will bring other challenges such as the previous development of monitoring tools such as the accountability and reporting standards proposed in order to have clear guidelines to assess the FMCs‘ performance. And another important issue is the ethical and performance training of the human capital whose participation plays a fundamental role in the operationalization of the standards and their compliance.

In the SR institutional investment market there have been a continuous presence of market failures because of the complexity of the investment chain and presence of different actors across. Among these impediments to mainstream SRI are competition rather than cooperation at all levels of the investment chain; superficial understanding of sustainability issues; separation of ownership and executive control; imbalanced power and diffused responsibility between trustees, fund managers and consultants; and conflicts of interest that impede the development of a common strategy for institutional investment along the chain (Juravle and Lewis, 2008). Bearing these issues and in mind, the challenge for the retail market is to overcome such failures which may be replicated somehow because of the proximity between those markets. As the SR mutual fund market is growing rapidly since some few years ago, the consciousness about the failures will be a strategic factor to build up a sustainable development agenda for this sector and organizational-level interventions.

In a company level, the implementation of the accountability and reporting standards will require the adaption or customization of information systems within the investee companies to produce the data and within the SR mutual funds to process the data. Once the set of indicators is implemented the workflow will feed the system. The challenge to make efficient this process is the alignment of information demands and requirements from different stakeholders to avoid overlapping them, therefore the standards would be of extensive use if they satisfied the information needs of the most significant stakeholders groups.

Interestingly, in the institutional investment sector it has been notably the development of the private disclosure process carried out by investee companies to institutional investors which is evolving gradually and feeding into the public disclosure process (Solomon and Solomon, 2006). The increased interest in the private disclosure by investors was originated for the poor quality and quantity of public social, environmental and ethical disclosure. For instance some of the failures found were lack of a proper disclosure process and specialization, use of narrative and qualitative data, limited and inadequate content for decision-making purposes. Just recently, the public disclosure flows from investee companies towards the public in general has evolved based on the elements regarded by the private disclosure and this fact is setting up the agenda for engagement and dialogue. In this scenario, the main challenge is to continue developing this bi-directional dialogue to sort out the information market failure, and assist investee companies in developing a consistent report based on engagement.

Chapter 7 Conclusions and Recommendations

This chapter will attempt to synthesize the main points discussed in the previous chapters, highlighting the importance to set up the accountability bases of the ESG performance for reporting purposes. The recommendations for SR mutual funds' management, SR retail industry and policy makers will be presented as well as suggestions for future academic research.

7.1. Conclusions

The role of the SR mutual funds has been criticized mainly because of the failure of the different ESG traditional approaches such as ethical exclusion and best-in-class. The literature reviewed suggests as well pessimistic future results regarding the progress made by recent engagement strategies used by the FMCs in the UK. The main findings of this research after analysing a sample of SR mutual funds' responses about ESG performance and reporting practices required by the European SRI Transparency Code, is the disclosure of good intentions to work issues around sustainability but a lack of disclosure to prove what has been done regarding targets and impact.

The main cause of this problem observed in our assessment along the core ESG processes carried out by SR mutual funds is the lack of clarity in defining what the expected outcomes are and the justification to do so. Given the lack of regulation in this area the FMCs have assumed the task to setting up the tone to carry out the sustainability strategies and monitor them to satisfy the investors' interests. But these activities seem to be atomized and obey to particular criteria which are not aligned to any standard on sustainability performance and reporting suitable for SRI. Currently, the SR fund managers who belong to the mutual funds examined are working following an "individualistic" fashion with a limited interaction with other companies in the same industry.

Another cause is the inexistent government's role within this market as regulator and promoter of the development of the SR retail investment sector. This situation contrast with the interest from government and policy makers in the SR institutional investment industry given the significantly superior amount of investments, better organization of the members and their representatives, and influence of coordinated actions to benefit the whole sector mainly.

The lack of accountability principles to establish the ESG performance criteria is missing as well as the reporting parameters to communicate the progresses made. Although the European SRI Transparency Code is an initiative promoted by EUROSIF to increase accountability to consumers by SR retail mutual funds, it encourages mainly the disclosure of ESG policies and the principles behind them. The Code does not require a performance reporting based on predetermined criteria and targets. What the Code promotes is mainly the transparency and accountability in descriptive terms rather than the standardization of ESG practices. So far, its use is limited for performance accountability and reporting purposes.

The implications of the persistence of the causes analysed can be seen as potential risks that might affect the growth and major exposure of the SR retail sector. The persistence of these threats may bring negative effects such as inefficiency in managing and monitoring sustainability issues; lack of impact because of the poor definition of targets; short-term impact of the ESG strategies carried out by investee companies; absenteeism of data to track the SR mutual funds' performance, develop benchmarks and integrate them with financial indicators; lack of support from the government and key stakeholders because of the lack of valid and assured information; ineffective approach to the market limited by the presentation of qualitative results; and so forth.

It is imperative to take action coordinately at the management, industry and systemic level to turn these risks into opportunities. It is absolutely clear that without a report including information on performance the SR retail mutual funds will continue seen as a marginal investment option.

7.2. Recommendations

i. Management level

- The Corporate Social Responsibility drawn upon risk management practices will definitely enable investee company to improve its performance regarding sustainability issues, add value to the business operations, and build up a sustainable competitive advantage. Particularly, CSR is the company's process which may ensure a sound management of non-market risks which may affect suddenly the company performance. SR mutual fund managers should possess a sound understanding of the CSR impacts, scope and benefits to assist investee companies and influence the corporate governance with a sound advice to protect the fund's investments.

- SR mutual funds should carry out an organizational assessment over their competencies and assets in order to find the internal gaps which may delay or affect an optimum performance. By performing this self-assessment and developing action plans to overcome these issues on an ongoing basis, the FMCs will ensure the quality and impact of their products. Likewise, they will be able to address their efforts to sustainability areas or markets where they can create value and position itself by developing differentiation strategies.

ii. Industry level

- The SR mutual funds should set up a front as a specialized sector within the financial industry. By being part of this coalition the mutual funds may act with representativeness and their voice will have a greater impact when interacting with other stakeholders. The industry representation will allow as well sharing experiences, knowledge, best practices and building up an extensive networking to improve de individual performance.

- Once constituted the industry representation the SR mutual funds should engage in lobbying practices as a sector with governmental institutions and non-governmental organizations which may impact the sustainability of their activities. A concerted intervention by a body which represents the interests of its members will avoid overlapping in their claims or requests.

- Defining the sector agenda to approach the government, regulators and policy makers is fundamental to obtain the desired outcomes of the dialogue with the government. This agenda should regard the strategic gaps found in the performance of the SR mutual fund sector such as sustainability issues to prioritize by SR mutual funds intervention and definition of the corresponding ESG performance and accountability standards to ensure the achievement of strategic targets.

- One of the main drivers of change clearly identified from our assessment is the need of iprofessional people qualified and knowledgeable in an integral management of environmental, social, governance and financial issues associated to sustainable and responsible investments. The proper qualification and training of the professionals responsible of managing the mutual funds and engaging with the different stakeholders is a vital factor to satisfy the market needs.

- An important variable for the expansion of the SR retail investment market is the preparation of a business case to communicate properly the past performance of the SR mutual funds and potential business opportunities. Indeed, the expansion of this market should deem the quest for potential partners in the conventional financial sector to broad the offer of the products. The use of the business case will certainly be advantageous for "selling" this idea to conventional mutual funds by showing a tracking of the financial and ESG performance. Likewise, on the demand side the utilization of the business case will add credibility to the marketing activities to convince potential customers.

iii. Policy making and government

- Before designing policies about the performance of mutual funds, it should be clear the strategy should be followed at the systemic level. In this case the government and internationally recognized SRI bodies are called to intervene to set up the tone of the sustainable and responsible retail investment role in the economy, and address market failures on sustainability issues which are of great priority to protect the development of future generations.

• Regarding policy making it is clear the need of ESG accountability and reporting standards with a quantitative approach. These standardized outcomes will certainly represent the most crucial element to develop integrated measurements of an overall performance. To ensure that the critical elements of the core ESG processes identified in this research will be taken into account, policy makers may include them as performance drivers. These elements are:

> ESG assessments of potential investments based on a CSR approach (product impact, stakeholder relationship and contingent environment).
> Monitoring systems to assess the impact of the ESG performance at investee companies to protect the investments‘ profitability.
> Extensive engagement activities based on the sustainability themes highlighted by the governmental and industry agendas.
> Existence of tracking systems to collect the data from the ESG performance assessment against predetermined targets.
> Reporting supported by principles to set up content and quality, and ensure the information will satisfy information needs from stakeholders for decision making activities.

The level of deepness of the suggested standardization should regard an action margin to allow the industry and FMCs‘ management to adapt these norms into the operations of the SR mutual fund without constraints may impede or burden their compliance. A set of values is fundamental to clear the spirit of these norms from an ethical perspective and facilitate their implementation.

• As a second stage in the development of standards it will be demanded the design of assurance policies. Once having implemented the ESG performance norms on accountability and reporting, policy makers should continue with developing assurance standards and appointing the most credible institutions to be in charge of carrying out this task.

7.3. Future academic research

The approach used in this dissertation was limited in terms of the availability of quantitative data about the ESG performance of the investments held by SR mutual funds. Therefore, the opportunities for further research can cover a variety of areas such as market development, integration of conventional mutual funds, design and implementation of financial-ESG performance indicators, assessment of the information produced by SR mutual funds, sustainability impacts caused by the SR retail investment sector, and indeed, the development of accountability, reporting and assurance standards. An important enabler to foster the research into the ethical retail investment sector is the industry support by offering networking and data access, funding and employing of the knowledge generated for policy making and improving the sector performance.

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Appendices

Appendix 1

European SRI Transparency Code

Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of COMPANYXXX. We have been involved in SRI since YEARXXX and welcome the European SRI Transparency Code.

This is our first, second…XXX statement of commitment and covers the period XXX to XXX. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our web site.

Compliance with the Transparency Code

FUNDMANAGERXXX is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate.

COMPANYXX meets the full recommendations of the European SRI Transparency Code with the exception of QUESTIONXX & YY.

If the full recommendations are not met, please state then if and when you hope to comply with the questions you cannot answer at this time

DATE

Code Categories

	Section 1. Basic Details
1	Signatories should be clear about who they are and provide precise background information on the fund management company and the fund(s)
	The fund management company
1a	Provide the name of the fund management company managing the fund(s) to which this code apply.
1b	Describe, in a general way, the SRI philosophy of the fund management company and the way it is implemented concretely.
	The SRI fund(s)
1c	Provide the name of the fund(s) to which this code apply, and its (their) main characteristics.
1d	Provide details on how to find further information regarding the funds.
1e	Provide details of the content, frequency and means of communicating information to investors.

	Section 2. ESG Investment Criteria in SRI fund
2	Signatories should be clear about the fund(s) purpose and its (their) ESG investment criteria.
2a	How does the fund define SRI?
2b	What are the ESG investment criteria of the fund?
2c	How are the ESG criteria defined?
2d	How are criteria changes communicated to investors?

	Section 3. ESG Research Process
3	Signatories should provide clear information on the ESG research process of their investments.
3a	Describe your ESG research methodology and process.
3b	Does the fund manager use an in-house ESG research team and/or does he delegate this research to one or several external specialised providers?
3c	Is there an external control or external verification process in place for the ESG research process?
3d	Does the ESG research process include stakeholder consultation?
3e	Do companies/issuers have the opportunity to see their profile or analysis?
3f	How frequently is the ESG research process reviewed?
3g	What research findings are disclosed to the public?

	Section 4. Evaluation and Implementation
4	Signatories should provide information on how the ESG research is used to build and maintain their portfolio.
4a	How are the results of ESG research integrated into the investment process, including selection and approval of companies/issuers for investment?
4b	What internal and/or external measures are in place to ensure portfolio holdings comply (or not comply) with ESG investment criteria?
4c	What is the policy and procedure for divestments on ESG grounds?
4d	What divestments occurred in the past year related to the SRI fund criteria?
4e	Are investors informed about divestments on ESG grounds?
4f	Does the fund manager inform companies/issuers of portfolio movements due to non-compliance with its ESG policy and criteria?
4g	To what extent do any results of engagement activities feed into companies/issuers selection?

	Section 5. Engagement Approach
5	Signatories should explain their approach to engagement if the fund has such a policy.
5a	What are the aims of the engagement policy?
5b	How does the fund prioritise which companies/issuers it will engage with?
5c	Who undertakes engagement on behalf of the fund?
5d	What methods of engagement are employed?
5e	How is the effectiveness of engagement activity monitored/addressed?
5f	What further steps, if any, are taken if engagement is considered unsuccessful?
5g	How, and how frequently, are engagement activities communicated to investors and other stakeholders?
5h	What engagement activity has been carried out on behalf of the fund during the past year?

	Section 6. Voting Policy
6	Signatories should make clear their policies on voting.
6a	Does the fund have a voting policy?
6b	Does the fund disclose its voting practices and reasoning for decisions?
6c	Does the fund sponsor/co-sponsor shareholder resolutions?
6d	What voting actions occurred that were related to the SRI fund ESG criteria?

Definitions of key terms used in the Code

Term	Definition
Divestments	Companies that are sold from the fund portfolio.
ESG	Environment, Social and Governance
Engagement	A long-term process of dialogue with companies by investors which seeks to positively influence company behaviour in relation to their social, ethical, governance and environmental practices. This includes vote at AGM, filing or co-filing shareholder proposals, asking questions at AGM, collaborative engagement initiatives, individual company contact and dialogue with policy makers and industry organisations.

Exclusion	The exclusion of sectors or companies from a fund if involved in certain activities based on specific ESG criteria.
Fund manager	The entity responsible for overall management of the fund.
Fund(s)	A legal entity, the purpose of which is solely the acquisition of portfolio investments. This also includes compartments and sub-funds.
Fund Purpose	The spirit and overall focus of the fund, but not the investment criteria employed.
Holdings	Equities and/or bonds of companies that collectively comprise the fund portfolio.
Portfolio	A collection of investments managed by the fund manager.
Signatories	Fund(s) and/or fund manager that commits to disclose SRI information in line with the Code.
SRI	SRI, a generic term covering sustainable, responsible, ethical, environmental, social investments and any other investment process that integrates financial analysis with the influence of environmental, social and governance (ESG) issues. It includes an explicit written policy to make use of ESG criteria.
Voting Policy	Policy of a fund to exercise its voting rights as investors to influence company behaviour.

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[1] http://www.eiris.org/news/statistics.html. Accessed on 10/06/2010

[2] http://www.eurosif.org/publications/sri_studies. Accessed on 10/06/2010

[3] Definition found on http://www.investorwords.com/4231/retail_investor.html Accessed 31/08/2010.

[4] Definition found on http://www.investorwords.com/2613/investment_fund.html#ixzz0z5N5OpFH Accessed 31/08/2010.

[5] http://www.unpri.org/. Accessed 15/05/2010

[6] http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1,00.html. Accessed 15/05/2010

[7] http://www.eurosif.org/. Accessed 15/05/2010

[8] http://www.uksif.org/ Accessed 15/05/2010

[9] Available on http://today.yougov.co.uk/. Accessed 07/07/2010

[10] Actually, the most important initiative to promote the transparency is led by EUROSIF and its European SRI Transparency Code which will be analysed later.

[11] Available on http://www.eurosif.org/publications/european_sri_transparency_code Accessed on 30/06/2010

[12] These processes have been designed in accordance with PRI (Principles for Responsible Investment). Available on http://www.unpri.org/principles/ Accessed on 15/07/2010

[13] A new approach to SRI: the PRO.CE.ST model, cited in Colle and York, 2009, p. 94

[14] KLD Research & Analytics, Inc., recently acquired by RiskMetrics Group, is an investment research firm providing management tools to professionals integrating environmental, social and governance factors (ESG) into their investment decisions. Among the service marks KLD provides are "Domini 400 Social Index", KLD Broad Market Social Index", "KLD Large Cap Social Index", "KLD Catholic Values Index", "KLD Catholic Healthcare Index", "KLD Select Social Index", "KLD Social Strategy Indexes" and "Investing for Good" are service marks of KLD Research & Analytics, Inc.

[15] The growth in the UK SRI market from 2006 to 2007 has been clearly led by Core SRI which showed an increase of over 150%, while the Broad SRI presented an increase of almost 40%. The strongest growth was seen in the Ethical Exclusions category (129% increase). (Eurosif, 2008).

[16] Promoted by risk management frameworks such as Turnbull Report and Cardbury Report.

[17] According to YouGOv survey carried out in 2009, nearly 44% of all people said they would be encouraged to consider green and ethical investments if there was clearer evidence of the impact of their investments.

[18] http://www.eurosif.org/publications/european_sri_transparency_code. Accessed on 15/08/2010

[19] http://www.eurosif.org/publications/european_sri_transparency_code/signatories_responses

[20] This is an EIRIS initiative to promote the demand of ethical investments in the UK. http://www.yourethicalmoney.org/ Accessed on 20/05/2010.

[21] http://www.unpri.org/principles/ Accessed on 01/07/2010. Principles of Responsible Investment is a global investor initiative in partnership with UNEP Finance Initiative and the UN

Global Compact.
[22] Henderson Global Investors (2010). European SRI Transparency Code. Statement of Commitment 2009. Available on http://www3.henderson.com/content/sri/eurosif/europeansritransparencycode2009.pdf . Accessed on 14/08/2010
[23]Basel Committee on Banking Supervision (2004). International Convergence of Capital Measurement and Capital Standards. Available on http://www.bis.org/publ/bcbs107.pdf. Accessed on 29/08/2010
[24] The previous three categories refer to negative screen, positive screen and the combination of the first two categories, respectively.
[25] GRI. G3 Guidelines and the rest of the Sustainability Reporting Framework. Available on http://www.globalreporting.org/ReportingFramework/G3Guidelines/. Accessed on 25/06/2010
[26] http://www.frc.org.uk/corporate/ukcgcode.cfm. Accessed on 12/08/2010
[27] http://www.frc.org.uk/corporate/investorgovernance.cfm. Accessed on 12/08/2010