

About Funds@Work AG

- We are a research based strategy consultant focusing on the investment industry. Since 2001 we have completed more than 160 projects in 14 countries. In this context we have developed new solutions and organizations and have been involved in numerous market entry as well as expansion projects, and also assisted in take over activities within our industry
- Among our clients are mainly asset management companies (including ETF providers) and fiduciary managers, portfolio managers, stock exchanges, technology and information providers, and other relevant entities of the asset management industry's value chain. We focus on those that provide solutions and platforms for investors but also on institutions governing the industry
- As part of our unparalleled market intelligence we cover among others over 13,000 institutional and semi-institutional investors across our core and strategic markets, i.e. those that use the products and services of our clients. We hereby apply a model-based screening process but also (social) network analysis and visualization to get deep insights into market participants' needs and motives as well as their relationships
- In 2003 we added a particular focus on socially responsible investments, SRI, and have worked for numerous clients, being convinced that SRI would increasingly take away market share from the traditional investment industry. In 2006, we won a State Street Award for financial journalism emphasising, in our publication, the great importance of including Corporate Governance and socially responsible investment criteria in institutional investors' portfolio decisions. SRI brought "values" back to investments
- In October 2010, after 8 years of engagement with the region, our Joint Venture in the Gulf Cooperation Council (Saudi Arabia, Kuwait, Bahrain, UAE, Oman, Qatar) went live focussing on our network analysis in the Islamic Finance space which has set the Global Standard in this 1000 USD bn. industry having recently received the *Mediterranean Presidential Award for Global Excellence in Islamic Finance*, being chosen as the *Leading Advisory Group in the Mediterranean*.
- Our complementary focus on the conventional investment industry, socially responsible/sustainable investments and know how in Islamic Finance is indeed unique





SRI – network analysis 2010 – process steps as part of the hybrid approach

Systematic Screening of the individual product and solution providers in the SRI space (such as asset managers, rating and research agencies, index providers, standard setters, associations, interest groups, consultants etc.) and their relationships to institutional investors in Germany, Austria, and Switzerland. Hereby over 500 organizations were looked at. Apart from Funds@Work's proprietary database multiple data sources were analysed (triangulation). Investors who were identified as clients of such companies were added to the „sustainable institutional investor universe“

1

Systematic Screening of over 1200 institutional investors (church related investors and banks, corporations, pension funds, occupational pension schemes, foundations, public investors etc.) in Germany, Austria, and Switzerland. Hereby the focus was whether these investors were engaged in sustainable investments. Those that actively use sustainable criteria were again added to the „sustainable institutional investor universe“

Parallel execution of qualitative interviews with 14 selected SRI-providers that have been prominently mentioned in our last year's SRI network analysis (October 2009). These were primarily the ones which currently form the provider network of institutional investors in Germany, Austria, and Switzerland. When existing, publicly communicated, relationships were highlighted with specific investors, these were also added to the „sustainable institutional investor universe“

February-May 2010

On the basis of the initial analytic steps (1) we identified approximately 200 institutional investors which we added to the „sustainable institutional investor universe“. We invited those to participate in individual interviews and/or hand in a specific questionnaire addressing all relevant topics. The aim was to also gain insights into their SRI investments and provider networks. Over 120 were included in the following final results with overall 735 bn. EUR assets under management

2

June- October 2010

Summary of the results, looking at differences compared to the network analysis in 2009. Provision of statistical analysis and visualization of provider networks across countries and target groups. Creating a transparent overview to assist market participants in getting insights into the status quo

3

October –November 2010

Cover story of the innovative study in Financial Times Asset Management publications (such as DPN - Deutsche Pensions News) in October-December and DPN's Sustainability Dossiers. Dissemination of results which provide investors and market participants unique insights into the SRI-ecosystem in Germany, Austria, and Switzerland

4



A definition of socially responsible investors and who ended up in the sustainable investor universe

In order to decide who among the overall 1200 institutional investors in Germany, Austria, and Switzerland acts in a socially responsible manner we had to define clear minimum criteria for an investor , in order to be included in the „sustainable investor universe“:

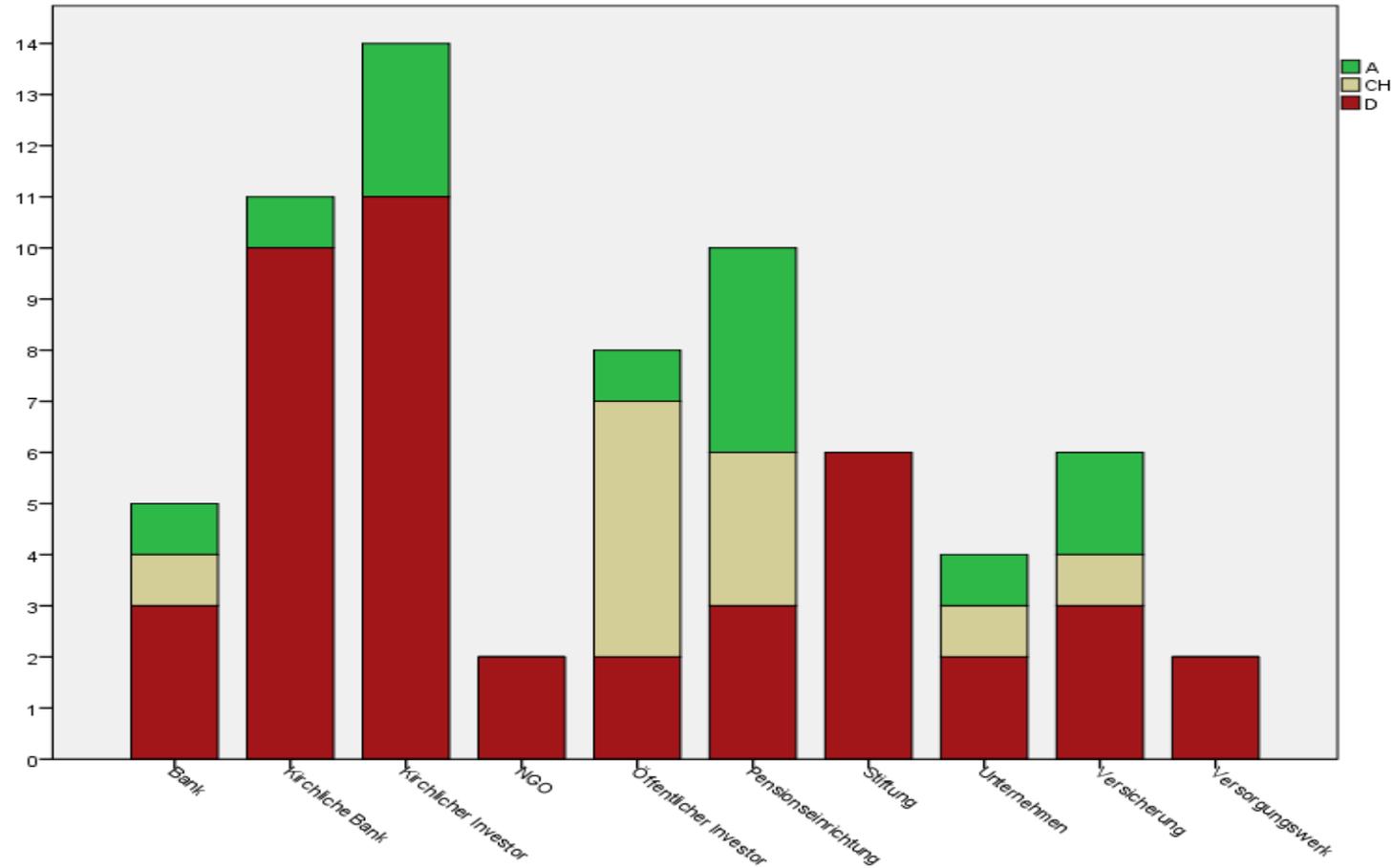
- 1) A sustainable or socially responsible investor for us is someone who „actively“ includes non-financial, i.e. sustainable criteria in managing the institution`s own money or such assets that are managed to meet future liabilities. We therefore did not include those that carried out a portfolio-check e.g. in order to find out what percentage of their assets are meeting sustainability criteria as this is clearly a passive way. The investor should clearly communicate that sustainability , using among others ethical, ecological or social criteria is a clear principle of his/her investment activities**
- 2) Banks or insurance companies that distribute sustainable funds or use them as part of unit linked solutions and other product packages were not included either as a key criteria is that own money, such as treasury assets, need to be managed sustainably. We therefore focused clearly on asset owners and not asset managers or distributors of such products**
- 3) When managing sustainably well known approaches such as exclusion or positive lists/criteria, best-in-class or best-of-class or engagement overlays should be used to exert influence over investments. This could also include Corporate Governance related measures such as proxy voting**
- 4) Thematic investments such as into water, climate change etc. were not per se accepted to reflect investments by sustainable investors as many non-sustainable institutional investors have exposure to those themes for purely financial reasons. There thus had to be other evidence for sustainable behaviour**



A snapshot of the major findings: Number of Institutional Investors that have specifically stated their SRI provider

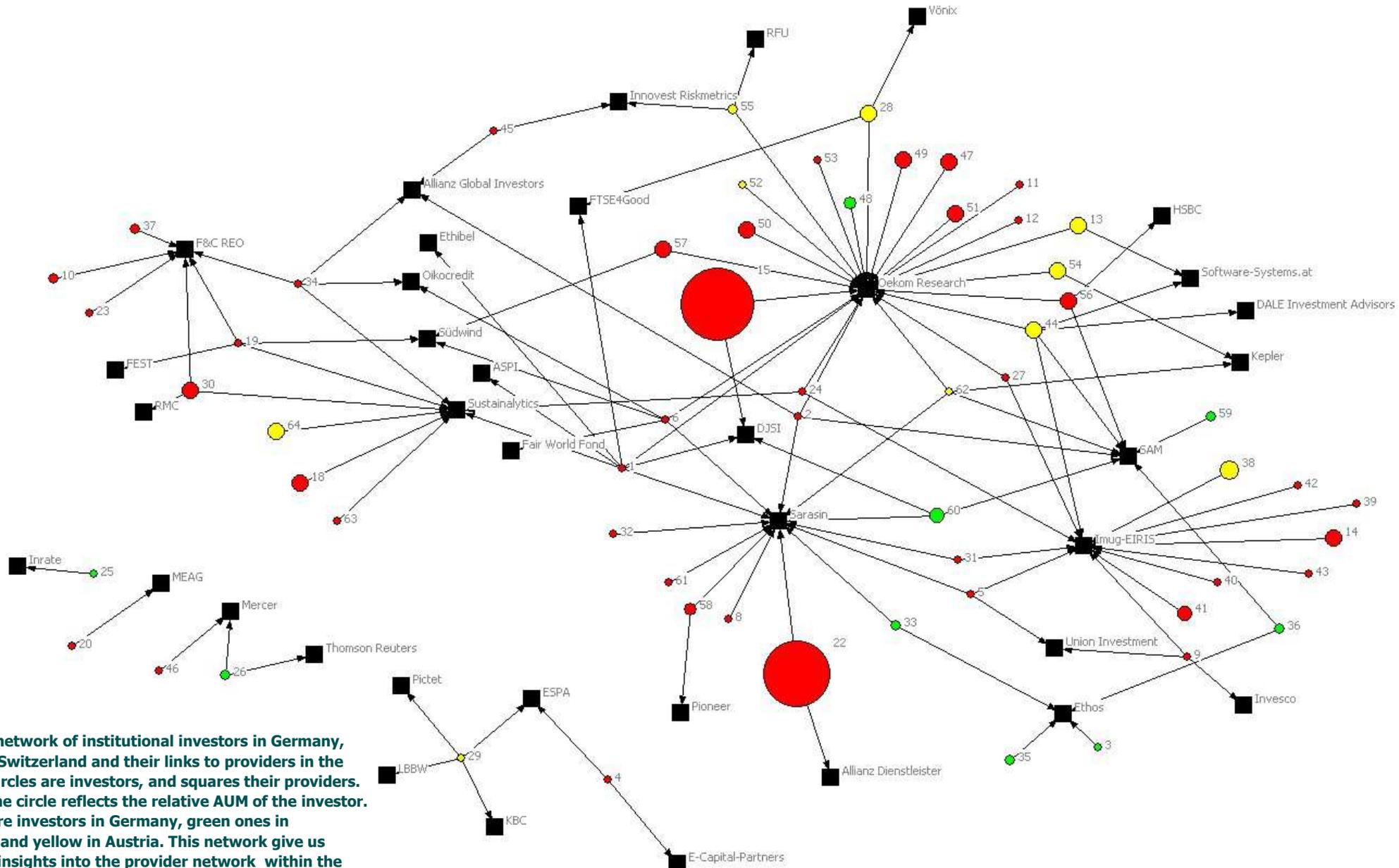
Green bars - Austrian investors, red ones – German, and yellow - Swiss institutional investors across the individual investor groups, namely Banks, church related banks, church related investors, NGOs, public investors, pension entities, foundations, corporations, insurances, and occupational pension funds of the liberal professions (Versorgungswerk).

Church related investors and banks clearly dominate the socially responsible investor landscape in the German speaking markets.





Institutional Investors and their provider network 2010



Anonymous network of institutional investors in Germany, Austria, and Switzerland and their links to providers in the SRI space. Circles are investors, and squares their providers. The size of the circle reflects the relative AUM of the investor. Red circles are investors in Germany, green ones in Switzerland, and yellow in Austria. This network gives us tremendous insights into the provider network within the SRI space and their actual links with investors themselves. „A picture is worth a thousand words“

Institutional Investors and their provider network in numbers 2010

This bar graph is a nice reflection of the organizations mentioned by individual institutional investors as their SRI-service providers

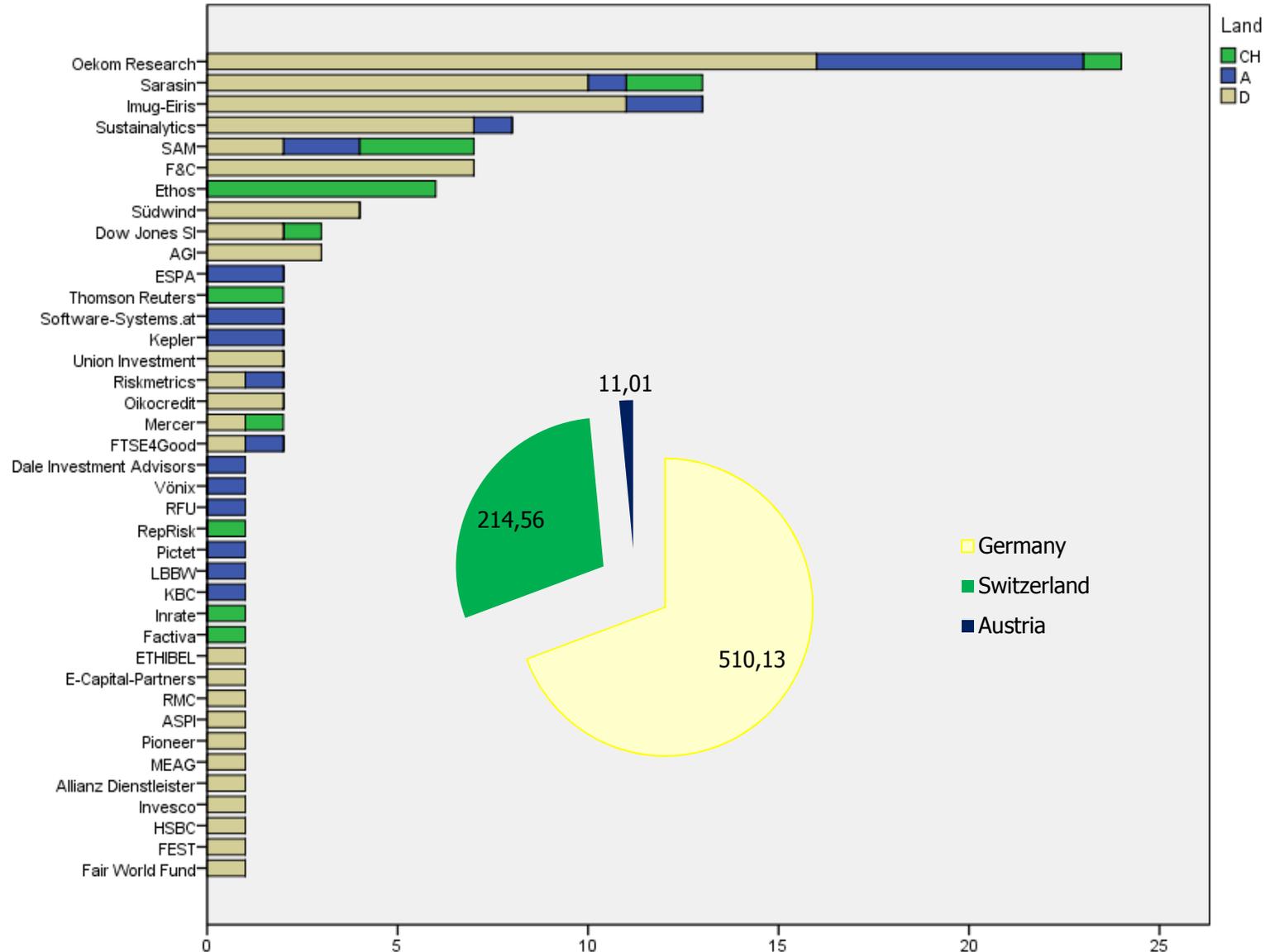
Oekom Research has by far been mentioned most among institutional investors with Sarasin, Imug-Eiris and Sustainalytics following

The green bars stand for Switzerland, yellow for Germany and blue for Austria, i.e. the country of origin of investors who mentioned the service provider (actually working for the investors that participated in the research)

As you can see some providers serve investors in one country only like F&C servicing German ones only based on investor feedback whereas others like SAM serve multiple countries

However one needs to also bear in mind the size of the individual markets.

Our Austrian investors which participated and that manage partially or fully their money in a sustainable manner overall have 11,01 bn. EUR AUM, our German investors altogether 510,13 bn. EUR AUM, and the Swiss ones 214,56 bn in AUM

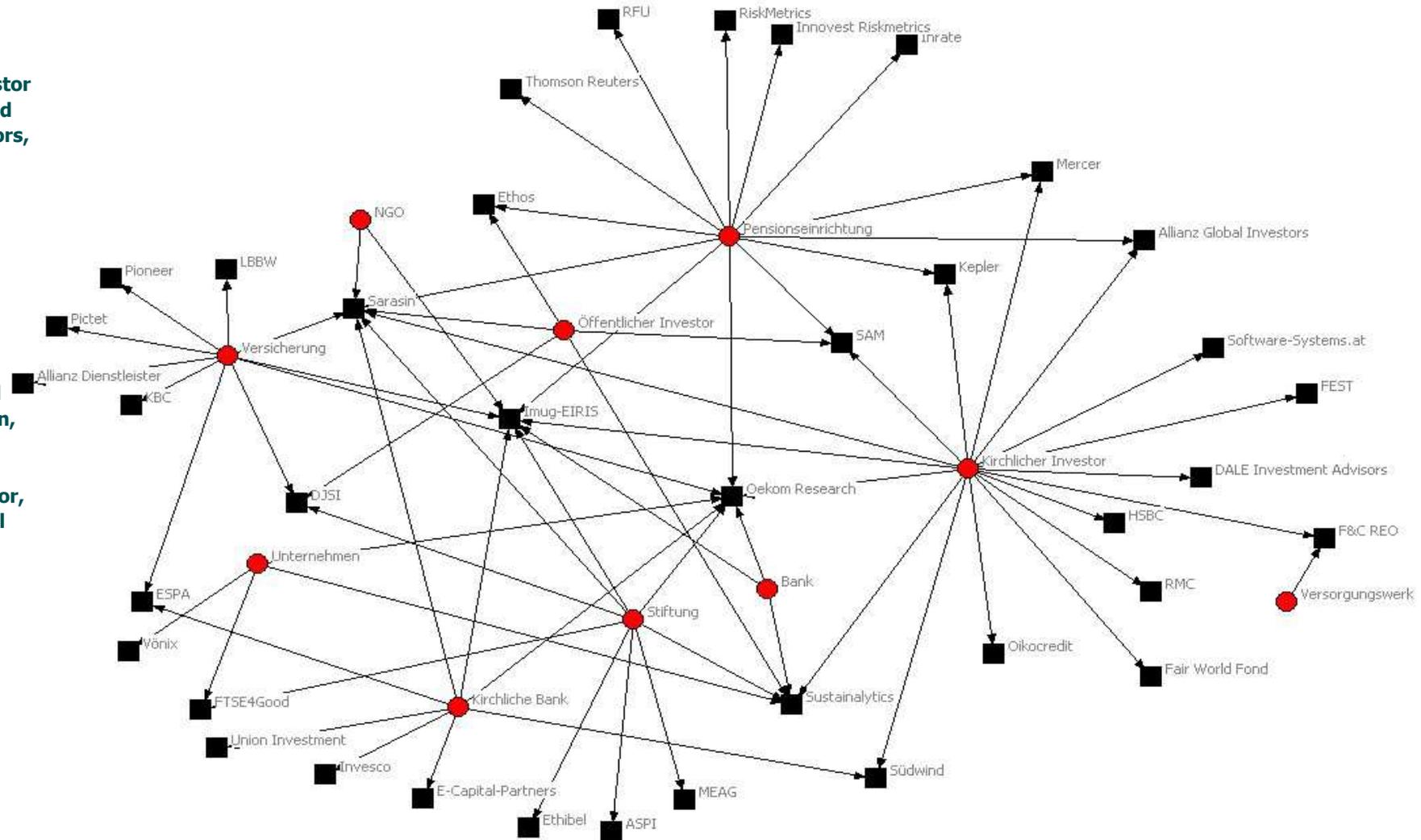


Institutional Investors and their provider network

Network of SRI providers and their links to institutional investor groups in Germany, Austria, and Switzerland. Circles are investors, and squares their providers.

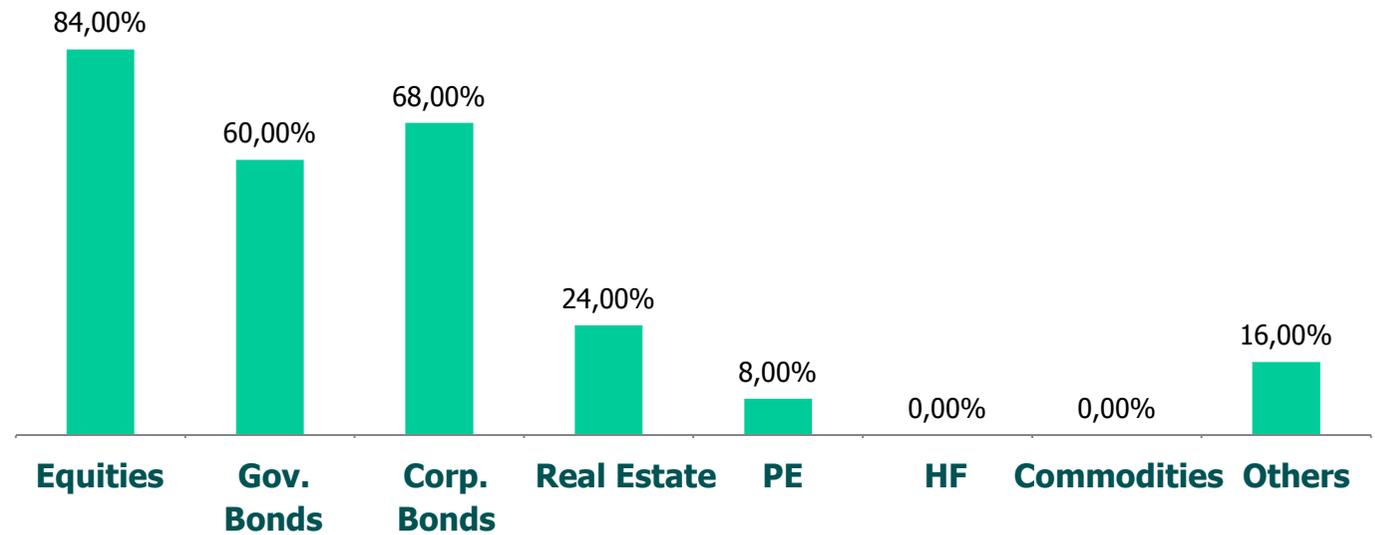
Again this network give us tremendous insights such as which target groups specific providers serve.

Versicherung/Insurance, Unternehmen/Corporation, Kirchliche Bank/church related bank, NGO, Stiftung/foundation, öffentlicher Investor/public investor, Bank, Kirchlicher Investor/church related investor, Versorgungswerk/occupational pension fund for the liberal professions



Institutional Investors and their asset class exposure in the SRI space

Equities and corporate bonds are among the asset classes most used when institutional investors invest sustainably, certainly also due to the similarity of the research process as both are financing instruments of stock companies/corporations who are at the core of the Corporate Social Responsibility discussion

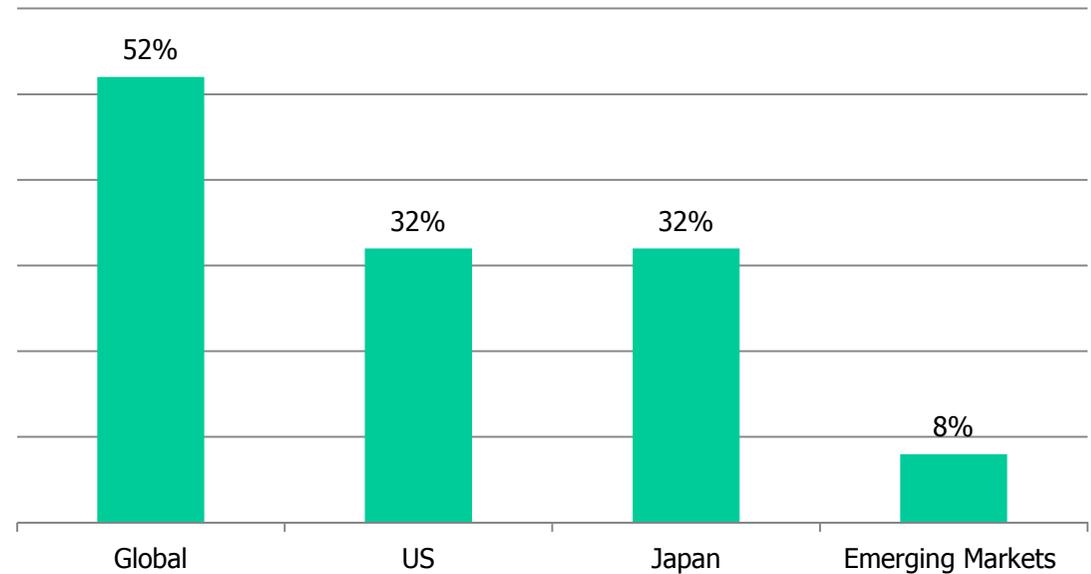




Institutional Investors and their regional exposure outside Europe in the SRI space

Outside Europe, institutional investors either invest globally in general or in the US and Japan. Emerging markets are still the exception which certainly also goes back to the availability of data to be considered in the selection process.

Specifically Austrian and Swiss investors tend to invest globally more often relative to their German peers.

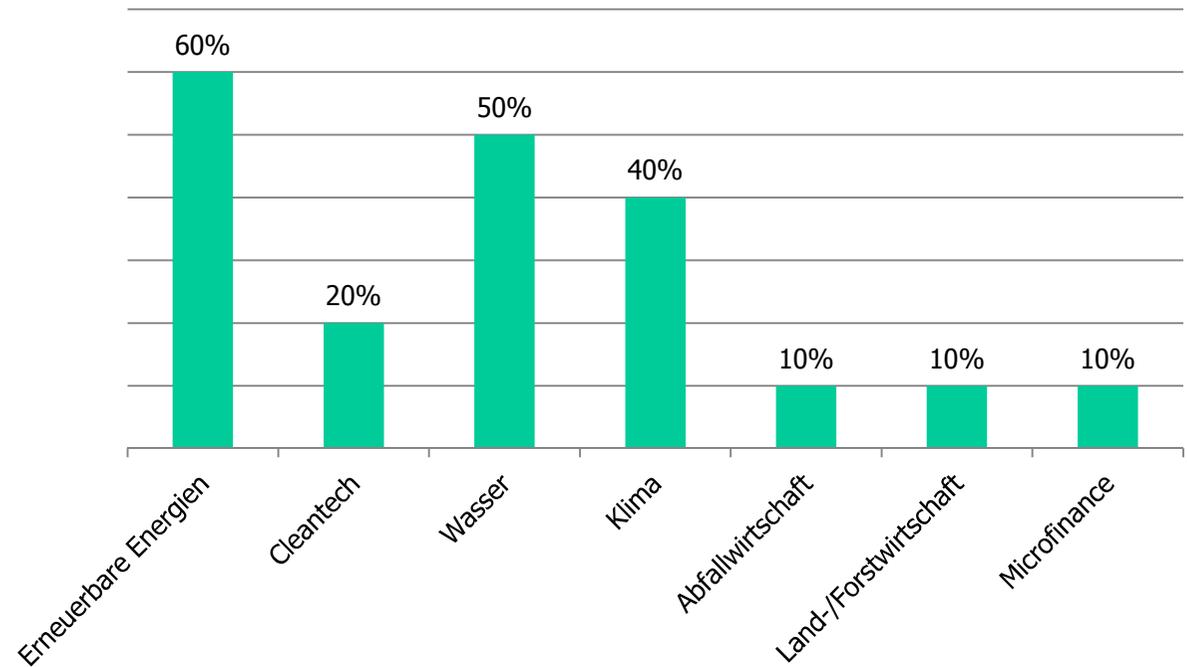




Institutional Investors and their thematic exposure

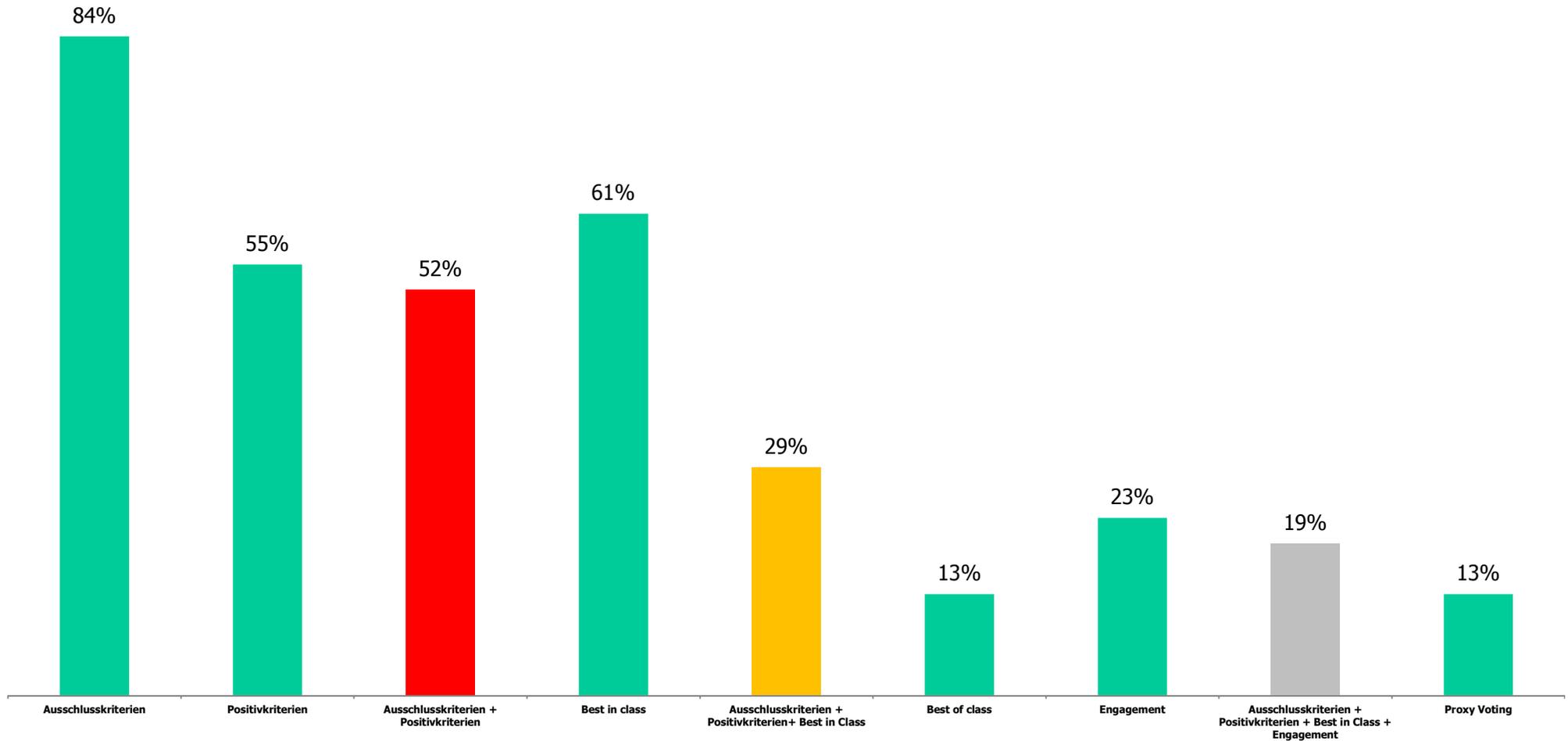
These are themes in which sustainable investors invest their money. Only 10% of those we interviewed however invest thematically and the above results reflect the feedback of those 10%.

Erneuerbare Energien/renewable energies, cleantech, Wasser/water, Klima/climate change, Abfallwirtschaft/waste management, Land-/Forstwirtschaft/Agriculture-Land-Timber, and finally Microfinance





Institutional Investors and their SRI related approaches (including combinations) in a nutshell



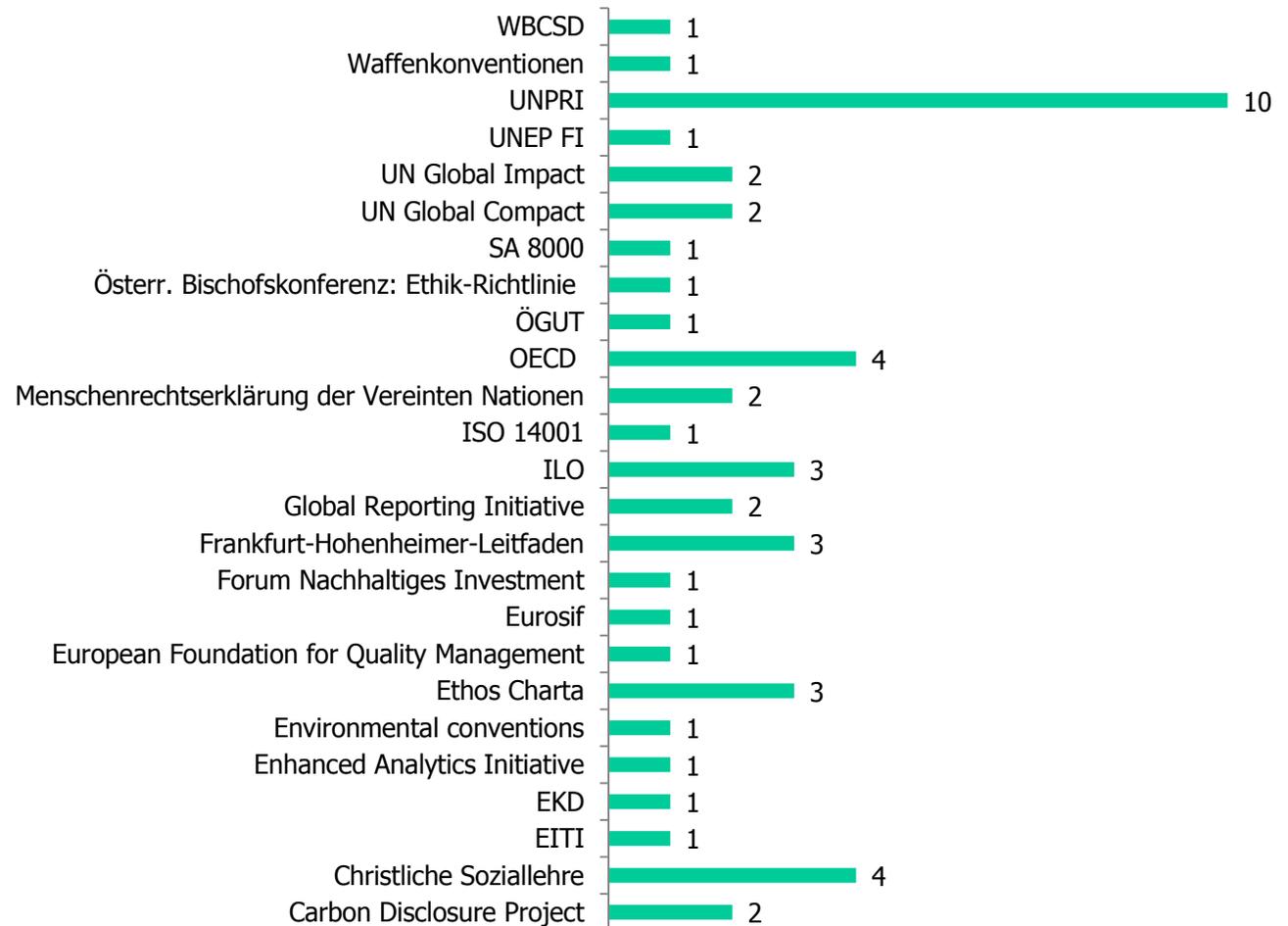
Ausschlusskriterien = exclusion criteria, Positivkriterien= positive criteria/lists. The majority of investors clearly use exclusion criteria (84%) whereas 52% e.g. combine exclusion and positive criteria as part of their portfolio management approach to sustainable investments

Institutional Investors and standards they adhere to

Not all investors pursue external standards. 63% do adhere to external ones, whereas 14% follow internal as well as external standards. The remaining looking at internal standards only.

WBCSD stands for *World Business Council for Sustainable Development*, EKD for *Arbeitskreis kirchlicher Investments der Evangelischen Kirche Deutschlands*, EITI for *Extractive Industries Transparency Initiative*, ILO for *International Labor Organization*

This overview provides insights into the standards and the frequency they were mentioned throughout the interview process



SRI providers (asset managers and others highlighting their competitors)

Here our interview partners who represented the major SRI-providers based on our last year's research, n=14, were asked as part of our qualitative interviews which providers they saw as major competitors

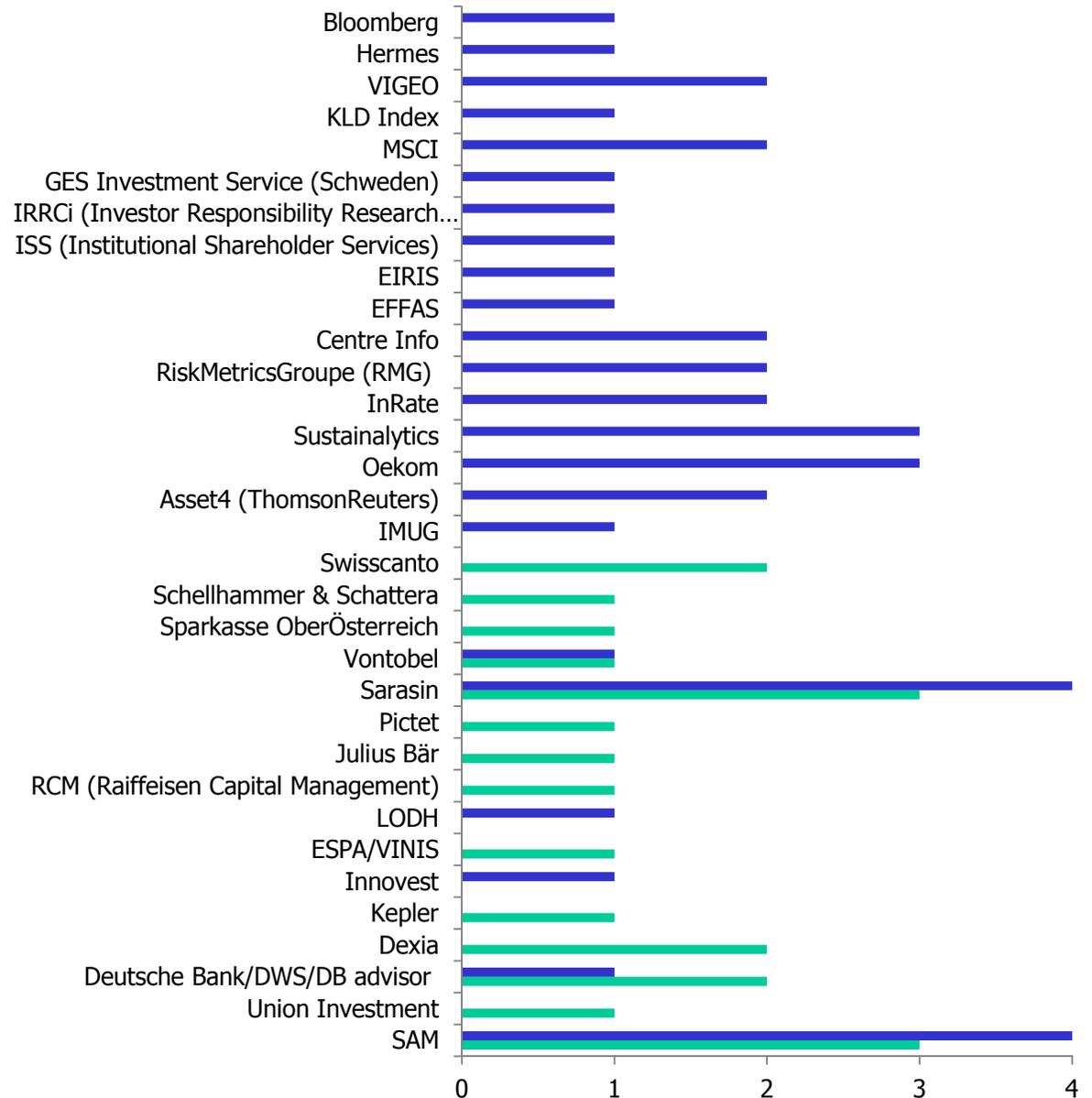
Blue bars = feedback of non-asset managers such as rating or research companies

Green bars = feedback of asset managers

As you can see Sarasin and SAM who are asset managers are also perceived as major competitors (blue bars) by rating and research companies.

Here we also have SRI-providers (asset managers) mentioned such as Swisscanto or DB Advisors as potential competitors but who in line with our investor research were not mentioned as providers of investors.

This shows that perception of competition is certainly different than real/actual competition in this area.



Finally - Walking the Talk - Corporations/Stock Companies

Funds@Work®

THE INVESTMENT INDUSTRY'S STRATEGY CONSULTANT

How Long Is a Piece of String?

The definition of what it means to be 'responsible' or 'sustainable' is always changing. Today, the main focus is on sustainable, responsible supply chains. But the corporate social responsibility (CSR) agenda may be on the move again. How responsible is your company's investment strategy?

Over recent years, institutional investors, such as insurance companies, foundations, endowments, sovereign wealth funds, and public and private pension funds, have devoted more attention to CSR-related issues when investing into corporates' (corporations not including financial services providers such as insurance companies and banks) equities or bonds through primary or secondary capital markets based on their socially responsible investments (SRI) activities.

Institutional investors can play a decisive role in driving corporate social responsibility by offering carrots and sticks to the companies whose equity or debt they hold. They either exclude companies in certain sectors (*Negative Criteria*) such as tobacco or pornography or only invest in certain industries (*Positive Criteria*) such as renewable energy or clean technologies. Furthermore, by focusing their investments on those companies with the highest CSR scores in a specific sector (*Best in Class*) or by investing only in the leading company in the chosen area (*Best of Class*), they can encourage competition around best practice.¹ In addition, institutional investors can also enter into a dialogue



Germany: Walk the talk

01 Oct 2010



Murat Ünal argues that genuine corporate social responsibility should go hand in hand with socially responsible investment. Despite the prevalence of CSR policies in Germany, Austria and Switzerland, by contrast, only 10% of institutional investors actively invest along SRI criteria

Institutional investors play a crucial role in driving corporate social responsibility (CSR) as shareholders of listed and unlisted companies, and as bondholders. Apart from explicitly divesting certain holdings, institutional investors also voice their concerns and express their views by using various stock selection and/or avoidance strategies, and influence companies through their engagement activities.

They exclude companies in certain sectors such as the tobacco business (negative criteria), or only invest in particular industries such as renewable energy or clean technologies (positive criteria). Furthermore, they might also focus on those organisations with the highest CSR scores in a specific sector (best in class), or invest only

A major finding:

Corporations/Stock Companies apart from being a target for investments by institutional investors, "are also major institutional investors themselves", managing not only sizeable assets for their employees' pensions but also money set aside for other future liabilities. Common sense would tell us that a company that takes CSR seriously and is truly sustainable, i.e. walks the talk, should also actively invest its own fiduciary money "sustainably", i.e. actively using socially responsible investments (SRI). This however is clearly an exception in Germany, Austria, and Switzerland. Well known listed corporations that in some cases manage up to 20 bn in assets for future liabilities do not apply the same sustainable standards to their own investments. In our research less than 3% in this target group "walk the talk", thus when it comes to attracting money from investors they want to be perceived as socially responsible but when it comes to applying the same criteria to their own investments we see a huge gap. Shall we call this window dressing, greenwashing or symbolic management?

Thanks for your patience and interest!



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INTERNATIONAL COMMERCE REVIEW



Author



Murat Hasan Ünal studied Business Administration and graduated from the University of Adelaide/Australia (with research in Asia/Pacific) with a Bachelors Degree in Commerce (**B.Com**). He worked for an international management consulting firm after his studies and joined the mutual fund/financial services business in 1998 acting finally as a Management Committee member for a German Asset Manager where he was mainly responsible for integrated marketing, sales and PR.

As Head of Investment Marketing and Sales within Citibank Northern Europe (focusing on Belgium & France) in Brussels he managed the third party fund business (CitiChoice) and brokerage activities. Before Murat founded Funds@Work at the end of 2001, which he now represents as the responsible board member, he took over the bank marketing business at Fidelity Investments for a short period of time.

Murat has a Master of Business Administration degree (**M.B.A**) from the Kellogg School of Management/USA in joint cooperation with WHU/Germany and its network programs at Tel Aviv University/Israel and Hong Kong University of Science and Technology/China). Murat also holds a Master of Laws (**LL.M.**) degree from the School of Law at Northwestern University (NLaw) in Chicago.

Murat is a **Doctoral Candidate** and about to complete his Doctorate in Business Administration at IE Business School (Instituto de Empresa, www.ie.edu) in Madrid focusing on Social Network Analysis and its impact on Strategy but particularly Corporate Governance.

He has published and contributed to more than 1000 articles in local and international dailies, practitioner magazines, industry books looking specifically at the investment sector. The leading German economic daily Handelsblatt recently featured him as one of six internationally acknowledged masterminds within the investment industry and the FT Asset Management's DPN publication singled out his work (a network analysis carried out among institutional investors and their links to the SRI industry) as ingenious.