

Ethibel
label

The Ethibel Label

*European Quality Label
for Sustainable Investing*



ETHIBEL

ADVANCING SOCIALLY RESPONSIBLE INVESTING

ETHIBEL



Ethibel is a leading European screening company in the field of Socially Responsible Investing (SRI). Ethibel, based in Brussels, Belgium, was established in 1992 as an independent, not-for-profit organisation. During the 90s Ethibel developed the so-called "Ethibel Label" for SRI funds or investment portfolios. Based on its research methodology and evaluation, Ethibel selects companies that demonstrate their Corporate Social Responsibility at every level. The Ethibel Label offers investors a visible and reliable quality guarantee.

October 2004 out of 49 Belgian SRI funds, 24 SRI funds use products and/or services from Ethibel. The majority of these funds have the Ethibel Label. The funds were estimated to hold assets of around 1 billion euros on 31 December 2003. In 2003, Italian Banca Etica launched 3 funds and OikoCredit, the Dutch Cooperative Society, launched a Bond portfolio in the Netherlands, all carrying the Ethibel Label. In November 2003, the Flemish government adopted the Ethibel Sustainability index for the management of the equities included in its Care Fund.



STOCK AT STAKE

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In June 2000, Ethibel founded the limited company Stock at Stake. Stock at Stake, part of the Ethibel Group focuses on CSR research. Since 2001, Ethibel outsourced all its research activities to Stock at Stake.

Clients range from financial institutions, and other screening companies, to individual companies, stakeholder groups, governments and many others (both nationally and internationally).

Stock at Stake is the Belgian representative of SiRI Company (Sustainable Investment Research International), which groups the main European, American and Australian SRI and CSR screening organisations. In this group, Stock at Stake is responsible for examining companies in Belgium and Luxembourg on the basis of SiRI's methodology and criteria.



The Ethibel Label = the basis for a solid socially responsible investment

The Ethibel Label is the visible and reliable guarantee for an investment based on SRI criteria. This label is attributed to investment portfolios that exclusively invest in stocks and/or bonds from the Ethibel Investment Register.

The Ethibel Label was launched in 1992 by the not-for-profit SRI screening company Ethibel. Since 2001, Ethibel has outsourced most of the research to its subsidiary, the CSR research organisation, Stock at Stake.

The Ethibel Investment Register is based on a 'fourth-generation' SRI approach

The 'quality' of the Ethibel Label refers to the quality of the research methodology used to select the values for the Ethibel Investment Register. The Ethibel SRI approach is referred to as 'fourth generation', the highest quality of SRI products currently available. It implies an integrated approach to sustainability, a multi-stakeholder approach, a clear distinction between research and evaluation responsibilities and strong internal quality procedures.

Ethibel's SRI methodology has been recognised by a number of clients, for example public institutions, as a model leading to the best choice of SRI products. (see box).

Stocks & corporate bonds

For the composition of its Investment Register, Ethibel primarily selects the world's leading companies in terms of corporate social responsibility.

Ethibel uses the same research methodology to select both stocks and bonds issued by companies.

Government bonds

Ethibel has developed a specific rating system for the selection of government bonds. (For more details on the methodology, see box on page 8.) Since 2001, SRI funds carrying the Ethibel Label can - under specific conditions - invest in bonds issued by governments.

Successful cooperation with financial clients

The CSR screening of companies requires a specific expertise that goes beyond the economic and financial know-how of financial institutions. By applying the Ethibel Label to their SRI products, banks and asset managers show their customers that the values of their investment portfolios have been screened in a professional way, by an independent party, on all aspects of CSR. From the Ethibel Investment Register the fund managers can select those values that, from a financial and economic point of view, should offer the best guarantee for a good return.

This cooperation has proven to be a very successful concept, resulting in sustainable investments with a financial, social and ecological return.

European scope

The Ethibel Label was registered for all the countries of the European Union, Switzerland and Japan. Ethibel can count on the cooperation of several partners and clients to promote this label on a European level.

Four generations of SRI Funds

To indicate the 'ethical depth', the scope and the quality of the research model and evaluation methodologies, Ethibel offers a classification into four generations of SRI funds.

First-generation SRI funds are based on negative or exclusionary criteria. This means that when composing the portfolio, fund managers will exclude companies that are involved in specific activities with apparently negative effects on sustainable development (for example, the arms trade or the production of nuclear energy). The first-generation approach gives investors an opportunity to protest against these activities, but is not considered to provide a strong positive stimulus to the corporate world.

The **second-generation** SRI funds apply positive criteria, focusing on a limited number of themes and issues. Researchers for these funds actively look for companies performing well in a specific field, for example, because they implement a more progressive social policy or make considerable efforts to produce ecologically responsible products. For these types of funds, companies are screened for some aspects of CSR.

Third-generation SRI funds can be called "sustainable funds" in the sense that the research with regard to

these funds covers all areas of CSR, focusing on internal social policy and the relationship with the social environment, as well as on efforts made in the environment and the ethical aspects of the company's economic policy.

Fourth-generation funds make up the highest quality of SRI. Like third-generation funds, they are invested in enterprises that contribute to sustainable development in the broadest sense of the word. The added value of fourth generation evaluation is the involvement of 'stakeholders', both in screening research and evaluation. This term refers to both the financial and the "social" shareholders who are directly or indirectly involved in the company - employees, trade unions, members of environmental and third world movements, etc.

In addition to the stakeholder involvement, a split between research and evaluation and strong internal procedures provide a guarantee of quality. This means that the sources consulted are known and the various steps of the research are verifiable by external parties.

All the investment funds which carry the Ethibel Label are high quality 'fourth-generation' SRI funds.

The Flemish Care Fund invests in accordance with the Ethibel criteria

The Flemish Care Fund is the reserve fund which the Government of Flanders created to cope with the increasing non-medical costs resulting from the ageing population. It was decided to invest this government money in a safe and sustainable way. The Fund will invest 90% in bonds and 10% in shares. It will exclusively use the Ethibel Investment Register, both for company bonds and for shares. The proportion in shares will be given the Ethibel Label. The Flemish Care Fund is the first large institutional investor in Belgium to take the step to sustainable investment.

On 13-05-03, the Kringloop Fund (Fonds de l'économie sociale et durable) was established by Belgian Royal Decree. The Kringloop Fund is a cooperative society with social objectives. Through the Fund, the Belgian Federal government aims to direct resources into the social economy. The reserves of the Kringloop Fund will be invested in accordance with the criteria of the Ethibel Quality Label.

The Ethibel Label guarantees a fourth-generation SRI approach

The main features of Ethibel's fourth-generation SRI methodology are:

1. an integrated approach to sustainability;
2. a multi-stakeholder approach;
3. a clear distinction between research and evaluation responsibilities;
4. strong internal quality procedures.

1. The Ethibel research model integrates every area of CSR

The analytical framework for company research consists of an extensive checklist of "sustainability criteria", divided into four areas:

- internal social policy,
- environmental policy,
- external social policy,
- and the ethical economic policy.

These four areas cover all aspects of the social responsibility of companies. Each area is divided into several themes. Each theme is divided into several topics.

EVALUATION SCHEME: 4 BLOCKS, 21 THEMES, 66 TOPICS



For a list of all the research items, please consult the brochure "The Ethibel Research Methodology: Integrating Sustainable Development and Stakeholder Involvement"

2. The multi-stakeholder approach

The Ethibel methodology takes into account the expectations of stakeholders at three levels:

Methodology. To make sure that the research methodology is up to date, Ethibel has regular contacts with scientific institutions, trade unions, international organisations and NGOs that are active in the third world, environmental, consumer and peace movements. In the elaboration of criteria, stakeholders' interests and opinions are used as instruments for indicating relevant topics, defining benchmarks and identifying controversial practices.

Information gathering. During the research, Ethibel not only concentrates on information disclosed by the company, but also enters into an active dialogue with the company and all its key stakeholders.

Evaluation. The final decision on whether companies should be included in (or excluded from) the investment register is taken by Ethibel's Board of Directors. The Register Committee, a committee of experts in several areas of CSR, advises the Board of Directors on the acceptability of companies. This procedure guarantees a balanced and independent evaluation.

Ethibel's Register Committee

The independent experts on the Register Committee have an in-depth knowledge and experience of the respective study areas (corporate ethics, environment, industrial relations, economics and ethics, human rights and international relations). These experts are on the committee in a personal capacity and in no way represent their company or organisation. The current members of the Register Committee are:

- Dirk Ameel, secretary of Eurocadres, a European trade union representing executive staff. He has a special interest in topics related to the North-South divide.
- Stephan Cludts, a commercial engineer and philosopher; holds a PhD in economic sciences. He works as an advisor for the 'Commission de Régulation de l'Electricité et du Gaz' (CREG).
- Luc Hens, professor at the Free University of Brussels (VUB) in the Human Ecology department.
- Bo Jonsson, retired economist from the ICFTU (International Confederation of Free Trade Unions). Currently works as a consultant for ACTRAV (the ILO Bureau for Workers' Activities) on research capacity building.
- Luc Van Liedekerke, economist and philosopher. He teaches business ethics at the Universities of Leuven and Antwerp.
- Suzy Sumner has a background in human rights. She is an active trade unionist.
- Melissa Shinn, EU Policy officer at the European Environment Bureau, in charge of the waste, natural resource use and ecological product policy.
- Stephanos Anastasiadis, policy officer at "Transport & Environment", a European environmental NGO. He holds degrees in psychology, science of religion and international politics.

3. Distinction between research and evaluation

In order to avoid conflicts of interest and bias, the research activities have been separated from the evaluation procedure. Research is carried out by Stock at Stake, strictly applying the research methodology developed by Ethibel. The evaluation process, based on the results of the research, is organised by Ethibel.

4. Strong internal quality procedures

The research process is guided by detailed procedures. These procedures describe the research steps: the pre-screening of all companies within a sector, the information gathering, the contacting of the stakeholders and the production of the final profile of a company. The research procedures cover, amongst other things, how to involve companies and stakeholders, how to check the quality and completeness of every profile internally and the follow-up system for companies in the Ethibel Investment Register.

Ethibel's process to select companies for the Investment Register follows a number of successive steps:

1. Pre-selection	Ethibel bases its preselection of companies on sector studies, starting from broad market indexes such as the S&P Global 1200 or MSCI World.
2. Screening	The screening of a company always takes place on the basis of direct contacts with the company, information from international partners and a survey of various 'stakeholders'. In addition, the annual reports and websites of the companies, all kinds of publications, specialised databanks and websites are extensively used. An extensive list of themes and indicators is examined with respect to all areas of the companies' social responsibility.
3. Company profile	Based on the screening, a company profile is written. This outlines the activities and general context of the company and then provides detailed information on four research fields: - internal social policy, - environmental policy, - external social policy, - ethical-economic policy. The profile is sent to the representatives of the company to have their comments.
4. Rating	For each of the four fields examined, the research team proposes a rating based on an extensive list of criteria. The scores vary from 0 to 6. For some criteria, the performance of the company is evaluated in relative terms, and compared with the overall performance of its sector and region. Some topics transcend the sectoral context. Respect for human rights, for example, is an ethical imperative and cannot be rated on a sectoral comparison only. Only those companies that score at least 'average' in all four areas are presented to the Register Committee.
5. Advice by the Register Committee	The Register Committee of independent external experts judges the integrity of the company profiles presented and gives its opinion about the rating and eventual inclusion of a company in Ethibel's Investment Register.
6. Decision by Ethibel's Board of Directors	Ethibel's Board of Directors takes the final decision on whether to include or exclude a company, based on the advice of the Register Committee.
7. Communication about the register	- The company will be informed about its inclusion or exclusion from the register. - The clients of Ethibel products (the Ethibel Label and the Ethibel Sustainability Index) are informed every time the register is updated. - The public can check the constituents or composition of the register via the online databank.
8. Monitoring	Once a company has been selected, it is closely monitored by the research team. Whenever a problem arises that might cause a significant change in the company rating, the company is screened again and submitted to the Register Committee for re-evaluation. This can lead to the exclusion of the company from the Ethibel Investment Register.
9. Re-evaluation	Every company in the Ethibel Investment Register is completely re-evaluated at least every two years.

The Ethibel Investment Register

Ethibel's research model results in high quality company profiles, considered as 'full risks and opportunities assessments' by financial analysts. This fact-based approach forms the basis for an Investment Register that allows investors to compose SRI portfolios, which attain a return that is comparable to traditional investment portfolios.

Geographical and sectoral allocation

Ethibel selects companies which lead the field in their sector and region in all areas of sustainability, including some of the more "sensitive" sectors from the viewpoint of sustainability, such as the oil industry or the materials sector.

Today, about 230 companies have been selected for the Ethibel Investment Register. Two kinds of companies are listed in the Register:

- 'pioneers': these are businesses that can be considered leaders in their sector and region in terms of corporate social responsibility;
- best-of-class': these are businesses that make most efforts in every field of sustainable enterprise compared with other companies in the same sector and region.

Ethibel constantly monitors the sectoral and geographical spread of the Investment Register, in permanent dialogue with the clients. Ethibel tries to compose well-balanced portfolios for the regions of Europe, North America and the Pacific. Screening is based on S&P Global 1200 and MSCI World. The companies included in the Ethibel Sustainability Index are based in Europe (53%), Asia Pacific (20%) and the Americas (27%). In terms of market capitalization, the figures are: Europe (36%), Asia Pacific (12%) and the Americas (52%). (figures as of September 2004)

Government bonds

The Ethibel Label allows for composing portfolios of all kinds, including a mix of stocks and bonds. With respect to bonds, much attention is given to the issuing entity of a bond. Organizations issuing bonds in the capital markets are mainly the different governments on a national level, but also regional governments, institutions with government guarantee, international banks, corporations, international development banks and others are active as an issuer. From the Ethibel Investment Register, investment managers can not only pick stocks, but also bonds from governments, companies, international development banks and many others.

The research methodology for the selection of company bonds and bonds issued by international development banks is the same as the research methodology used for the selection of stocks. However, for the selection of government bonds, Ethibel has developed a separate research methodology. This system allows to rank government bonds according to a number of ethical, economic, social and environmental criteria and to select a number of countries, or rather governments, which are different from others because of the successful way in which they carry out their social responsibilities and take up human rights.

What is examined?

First, Ethibel carries out a pre-selection of the countries (and thus governments) based on level of democracy. After all, it is self-evident that bonds of states where democratic rights and freedoms are seriously violated can never be included in SRI funds.

Then, Ethibel determines the different political, social & cultural, economic and environmental responsibilities of a government, and its responsibility for international development. In accordance with the fourth-generation approach for stocks, Ethibel opts for a broad approach in terms of criteria and takes into account the input from several stakeholders. For each field of governmental responsibility, a number of indicators are selected. The global score awarded to a country is calculated by adding up the scores for each field of responsibility.

Ranking

In fact, 23 countries, for which the research team managed to obtain sufficient data, were found to be eligible for Ethibel's rating system. These countries are, in alphabetical order: Australia, Austria, Belgium, Canada, Costa Rica, The Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Iceland, Ireland, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, Sweden, Switzerland, Uruguay.

After evaluation Ethibel has developed a ranking of these countries based on their performance on all the indicators. This ranking is revised once a year and is calculated on moving averages over several years. The use of the government bonds in relation to stocks under the Ethibel Label is subject to specific conditions.

Partnerships with fund managers

While Ethibel is responsible for the screening and monitoring of companies from the viewpoint of sustainability, it is the responsibility of the fund managers to manage an investment portfolio. From the Ethibel Investment Register, they select those companies that, from a financial and economic point of view and based on the objectives of their specific fund or mandate, should offer the best guarantee for a good return in relation to the risk. Once a month the fund managers report to Ethibel about the composition of their portfolio.

The result of this cooperation is a series of high SRI quality investment funds that have proved that they can compete favorably within their category of investment funds. Some have received high rankings from independent financial institutions (see box).

These products are based on the Ethibel Investment Register:

1. The Ethibel Label for Sustainable Investing was attributed to the following SRI Funds:

Promotor	Funds
Dexia Asset Management	Dexia Sustainable (SIVAV) Accent Earth Accent Social Europe North America USD Pacific JPY EMU World Large Caps European Balanced (Low, Medium, High) Paricor E10 Dexia Equities L World Welfare (SICAV) Cordius Capital Stimulus European Quality
KBC	KBC Click Solidarity I KBC Equisafe Ethinvest I
Mercator Bank, Bank Corluy	Bevek 21 Participatie 21
Bonnewijn, Renwart, Van Goethem & Co	BRG Fund Ethiglobal
Bank Delen	Athena World Equity (Sustainability fund)
Fortis Bank, Mercator Bank	Altersion Balance Europe
Van Moer Santerre & Cie	VMS Luxinter Ethifond
Petercam	PAM Equities Europe Ethical
Etica SGR	Valori Responsabili Monetario Valori Responsabili Obbligazionario Misto Valori Responsabili Bilanciato
Institutional Management Services (IMS) B.V.	Oikocredit Ecumenical Development Cooperative Society U.A.
Dexia Asset Management /	N.V. Kringloop Fund
Degroof Institutional Asset Management	(Fonds de l'économie sociale et durable)

2. The Ethibel Sustainability Index: a sustainable benchmark with a financial and a social return

In June 2002 Ethibel launched the Ethibel Sustainability Index (ESI). The ESI enables investors to see at a glance how a carefully screened group of companies that set the tone in terms of corporate social responsibility, is performing financially. At the end of October 2004, 196 companies were selected out of about 255 companies.

The Ethibel Label = key player in a growing European SRI market

During the last few years, the Ethibel Label has gained the confidence of both SRI asset managers and private investors in Belgium and is now well on the way to convince investors in other European countries.

1. The Ethibel Label on the Belgian market

Out of 49 Belgian SRI funds, 24 SRI funds use products and/or services from Ethibel. The majority of these funds have the Ethibel Label. The funds were estimated to hold assets of around 1 billion euros on December 31, 2003. Ethibel labeled funds account for a high market share of SRI funds in Belgium.

2. The Ethibel Label on the European market

2.1. Comparison with other European countries

Because of its success, the Ethibel Label has served as an engine for sustainable investments on the Belgian market. This is one reason why the Belgian market of SRI investment funds targeted at retail investors was able to develop successfully in comparison with other European countries. Despite the relatively small financial market, Belgium comes in fourth place as regards the number of SRI investment funds, according to a SiRi study (after the United Kingdom, France and Sweden), and in fifth place as regards the capital invested (after the United Kingdom, Italy, the Netherlands and Switzerland). The same comparative examination of the market share of SRI investment funds between seven European countries put Belgium at the top with Switzerland, with 1.47%, closely followed by the Netherlands with 1.45%, and followed slightly further down by the United Kingdom with 1.03% (situation on 30 June 2001).

Source: SiRi (2002), *Green, social and ethical funds in Europe*, SiRi, January 2002, Milano.

2.2 European growth potential

The market share of SRI investments in Europe is far below the figures reported for the United States. However, this difference is mainly due to the large differences in terminology between sustainable investments in Europe and the United States. In fact, in the US there are a large number of 'ethical investment funds' of the first generation which are restricted to adopting one or a few negative criteria. This means that American 'ethical investment funds' can in practice still invest in the large majority of 'mainstream' companies.

Ethibel strongly believes that the European SRI market is ready for high quality fourth generation SRI investment tools, which combines a full people-planet-profit vision with a multi-stakeholder approach. The Ethibel Label guarantees this quality and provides asset managers, banks and retail investors with an indispensable tool for a solid, socially responsible investment.

The success of the current funds with the Ethibel label reinforces this vision. Several of them, in particular ten divisions of Dexia's Stimulus Bevek, are currently offered to consumers in France, Luxembourg, the Netherlands, Switzerland, Italy, Australia and soon Germany.

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For more background information about Ethibel, please visit our website (available in English, French, Dutch, German and a summary in Japanese): www.ethibel.org

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