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French Pension Reserve Fund Commits 600 Million Euros to Socially Responsible Investment

by William Baue

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The fund seeks to drive innovation and best practice through this significant infusion of cash into the European SRI asset management community.

SocialFunds.com -- What happens when an institutional investor has a two-decade time horizon? It commits to socially responsible investment (SRI), judging from the request for proposals (RFP) released late last month by France's Fonds de Réserve pour les Retraites (FRR) seeking six SRI asset managers to handle €600 million in assets for a five year period.

"It should be noted that with this first step the FRR is already the top-ranking European institutional investor in SRI assets," states the FRR's SRI Investment Strategy and SRI Mandate Philosophy document. The FRR reserve fund had €19 billion in assets at the end of 2004, with year-end 2005 assets projected to be €25 billion.

While US markets are plagued by short-termism--an affliction outgoing Securities and Exchange Commission (SEC) Director William Donaldson bemoaned in his farewell speech--French law created the FRR in 2001 with an explicit long-term mandate. Demographers project a shortfall in private pension funds by 2020, compelling the French government to charge the FRR with stockpiling reserves until that date to augment social security.

The long-term orientation of FRR makes it a perfect marriage with SRI, which looks beyond the quarterly earnings statements that mainstream investors fixate on to assess how long-term social and environmental factors will inevitably impact financial returns, positively and negatively. The law that created FRR predisposed the fund toward SRI, requiring its Executive Board to report annually to its Supervisory Board on how its asset managers take environmental, social, and governance (ESG) issues into account.

"It was a tricky thing the government required of us--we must have *something* to report about--so we are going beyond those legal obligations," said Nada Villermain-Lécolier, FRR's investment director. "The Supervisory Board of the FRR is very keen on making the FRR a responsible investor, doing whatever we can to promote sustainable development."

Before this RFP, the FRR took two steps in this direction.

"We are asking our fund managers to vote according to our proxy voting guidelines, and we are working with our mainstream managers, those not necessarily known to be SRI managers, to encourage them to take into account extra-financial factors in their investment management processes," Ms. Villermain-Lécolier told SocialFunds.com.

Now, the RFP is targeting fund managers with SRI expertise for investing in Pan-European (European Union, European Economic Area, and Helvetic Confederation) mid- and large-cap companies. Of the €600 million spread amongst the six managers, the minimum allocation will be €50 million.

"SRI in France and Europe is still emerging," FRR Executive Board Member Antoine De Salins told SocialFunds.com. "The size of the FRR RFP, which is very important at €600 million to start out, will help structure the SRI market, giving it the necessary liquidity it needs."

The RFP calls for a multi-criteria approach, asking asset managers to assess not only corporate environmental responsibility but also respect for international law, worker rights, and fair trade practices. The FRR seeks to drive innovation and best practice in SRI, so instead of calling for the screening out of problem sectors, the RFP calls for a best-in-class approach that identifies the best performers on corporate social and environmental sustainability across all sectors.

Asset managers have until August 25 to submit their proposals, in the form of answers to a detailed questionnaire.

"In the RFP procedure, there will be two detailed questionnaires: the first will help us select the candidates, and the second will help us select the final managers," explained Mr. De Salins.