

# OVERVIEW OF EUROPEAN SUSTAINABLE FINANCE LABELS



# Evolving frameworks to adapt to Sustainable Finance's progression

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The increasing importance of sustainable finance is based on a large variety of terminologies and practices, which often render the characteristics of a financial product difficult to read. In order to clarify the offer, nine dedicated labels have been launched over the past decade. Today, they are awarded to almost 1000 funds on the European market, which totals almost 60,000 funds, and represent more than €300 billion in AuM.

At a time when the European Union is preparing a new stage in its sustainable finance strategy, labels are adapting their standards so that they can continue to play their role as benchmarks for responsible investment practitioners.

## A varied offer and confusing promises

There are two categories of labels: on the one hand, labels focusing on ESG; on the other hand, labels focusing on green. Some labels are managed by financial centers, a few by professional responsible investment associations, and others by specialized environmental labeling organizations. France is the only country in which the government has created and supports two public labels: the SRI label, dedicated to responsible investment; and the Greenfin label for more committed environmental funds.

All labels aim to guarantee a quality level regarding sustainable asset management. The stellar growth of responsible investment in Europe has indeed relied on voluntary commitments without a true standardization of practices.

This overview was drafted by Novethic's research team. It allows for a comparison between these labels based on their attribution criteria and their impact requirements. Each of them combines positive criteria relative to the assets selected in portfolios with negative sectorial screenings. Finally, the variety of terminologies (SRI, ESG, Greenfin, Climate) gives an idea of the diversity of their respective objectives.

## Labels continually adapting to the new European framework

The European Union is progressively imposing a framework for sustainable finance. At the end of 2019, it published new regulations on "sustainability related disclosures in the financial services sector". They include two dimensions, that of the environmental and social impact of sustainable management with suitable indicators, and that of "materiality", i.e. the financial evaluation of the cost of ESG risks, starting with climate change. Finally, the green taxonomy, a common reference framework for activities with environmental benefits, has become a reality. From 2021, companies and investors will have to refer to it to publish the «green share» of their activities. It is also the basis of the future European Ecolabel for financial products.

In the meantime, at least three of the labels listed in this panorama are adapting their frameworks to better incorporate the European framework. The Austrian Umweltzeichen will require proof of compliance with the European scheme and has extended its labelling to savings and deposit accounts. Belgium's Towards Sustainability will introduce a revision of its framework in January 2021. Last but not least, the German FNG label is currently innovating the most. It is already using the European taxonomy for selected green thematic funds and is asking candidate funds for an «explicit sustainability strategy», which must detail, in writing, how a fund is intended to have a positive impact on sustainable development or to avoid negative developments.

For European savers to make informed choices, they need to be able to understand the sustainable qualities of the different products on offer. This overview already enables them to better identify the promises of each label. Although their awarding ensures the prior existence of an external audit and the soundness of a fund's approach, it remains important to be able to differentiate between the various orientations adopted by the labels. Next major challenge to take up: making these labels known to savers and financial advisors who will have to talk ESG with their customers. ”

# 9 labels for European sustainable funds

The Luxembourg Green Exchange (LGX) platform, launched in 2016 by the Luxembourg Stock Exchange, references 8 labels. A distinction is made between ESG and green labels. The former must guarantee that financial products rely on an integrated ESG strategy. The latter are awarded to so-called “green” thematic environmental funds (see chart below).

Additionally, Febelfin, the Belgian Financial Sector Federation, launched in 2019 a label designed as a norm or quality standard which all funds claiming to be sustainable, socially responsible or responsible should abide by. Its ambitions to become a market standard, at least for Belgium.

|   | Label   | Governance   | Attribution                                 | Type of label  | Annual cost   |       |
|---|---|--|---|--|---|-------|
| ESG   |  <b>SRI Label</b><br>(France)                          | Standalone stakeholder committee, supported by the Ministry of Finance   | Accredited auditors                         | SRI/ESG investment process   | Fee including the audit and promotion costs               |       |
|   |  <b>FNG-Siegel</b><br>(Germany, Austria & Switzerland) | Expert committee under the stewardship of FNG <sup>1</sup>   | GNG (FNG's labelling entity) & Uni. Hamburg | SRI/ESG investment process with climate exclusions. Point system                   | €4200   |       |
|   |  <b>LuxFLAG ESG</b><br>(Luxembourg)                    | LuxFLAG <sup>2</sup>   | LuxFLAG                                     | SRI/ESG investment process   | €3000   |       |
|   |  <b>Towards Sustainability</b><br>(Belgium)            | Central Labelling Agency <sup>3</sup> (CLA)  | Verifiers appointed by the CLA              | Quality standard combining requirements on the investment process and exclusions   | Fee per labelled product collected by CLA                 |       |
|   |  <b>Umweltzeichen</b><br>(Austria)                   | Austrian Federal Ministry for the Environment  | Ministry                                    | SRI/ESG investment process with climate exclusions. Point system                   | Variable annual fee                                       |       |
|   |  <b>Nordic Swan Ecolabel</b><br>(Nordic countries)   | Nordic Ecolabelling Board <sup>4</sup> , on a mandate from Nordic governments  | Nordic Swan                                 | SRI/ESG investment process with climate exclusions & green reporting. Point system | Based on AuM  |       |
|   | «Green» labels  |  <b>LuxFLAG Environment</b><br>(Luxembourg)     | LuxFLAG <sup>2</sup>                        | LuxFLAG  | Thematic investments and ESG criteria                     | 3000€ |
|   |   |  <b>LuxFLAG Climate Finance</b><br>(Luxembourg) | LuxFLAG <sup>2</sup>                        | LuxFLAG  | Thematic investments and ESG criteria. Climate exclusions | 3000€ |
|  <b>Greenfin Label</b><br>(France) |   | Standalone stakeholder committee, chaired by the Ministry for the Ecological and Fair Transition                                   | Accredited auditors                         | Thematic investments and ESG criteria. Climate exclusions                          | Depending on auditor                                      |       |

<sup>1</sup> Sustainable investment forum (German-speaking countries)

Source: Novethic

<sup>2</sup> Cross-border labelling agency with founding members from the financial sector in Luxembourg

<sup>3</sup> The Central Labelling Agency (CLA) is the not-for-profit association that awards the Towards Sustainability Label.

<sup>4</sup> *Nordic Ecolabel* is a voluntary label created by the Nordic Council of Ministers in 1989 and available for about sixty categories of retail products. The “Financial Products” category was introduced in 2017.

 **Disclaimer:** the information on labelling criteria contained in this document is based on eligibility criteria documents available online on March 31st, 2020. They might further evolve.

## Asset classes covered in the different labels

Most of the existing labels apply at the minimum to UCITS-type equity and bond funds, marketed in the country of the label's governance body. To date, only the Umweltzeichen and Greenfin labels can certify real estate funds, with the SRI label expected to join the list in 2020. The Greenfin label is the only label that extends to unlisted funds (FIA for private equity and infrastructure), but they are not included in this overview.

## Varied ESG requirements

ESG analysis of portfolio assets is mandatory for all labels, but the threshold definitions vary from one label to another. While most labels use a “pass or fail” system with predefined thresholds, some combine it with requirements on exclusions and/or a point system. These requirements regarding ESG screening ensure that a large majority of assets in portfolios have been analyzed, and whenever possible, picked not only on financial but also ESG criteria. Some labels also require a regular update of the ESG analysis.

| Label  | ESG analysis coverage requirements   |
|--|--|
|  <b>SRI label</b>               | - ESG screening of more than 90% of the portfolio<br>- 20% reduction of the investable universe, or “significantly” better average ESG score than initial universe |
|  <b>FNG-Siegel</b>              | ESG screening of 100% of the portfolio   |
|  <b>LuxFLAG ESG</b>             | 100% portfolio screening, in compliance with an ESG strategy (e.g. best-in-class)  |
|  <b>Towards Sustainability</b> | 100% ESG screening, with temporary derogations   |
|  <b>Umweltzeichen</b>         | - Mandatory integration of ESG selection criteria<br>- Less than 50% of the total investment universe can be investable  |
|  <b>Nordic Swan Ecolabel</b>  | - ESG screening of more than 90% of the portfolio<br>- More than 50% of the fund must be invested in holdings with “strong ESG practices”                          |

Source: Novethic

## ● Exclusions combined with ESG analysis

| ESG exclusions                         |                               |  <b>FNG-Siegel</b> |  <b>Umweltzeichen</b>                             |  <b>Nordic Swan</b> |  <b>Towards Sustainability</b> |
|--|-------------------------------|---|--|--|---|
| <b>Norm-based exclusions framework</b> | <b>Corporate bonds</b>        | Global Compact  | “In house” framework   | “In house” framework   | Global Compact  |
|  | <b>Government bonds</b>       | Based on various norm-based country exclusion lists (Freedom House, biodiversity, corruption)         | Based on various norm-based country exclusion lists (human rights, death penalty, military budgets, nuclear energy expansion policy) | Sanctions and conventions (sanctions, Paris agreement, biodiversity, corruption)                       | Countries on sanctions lists and Global Compact   |
|  | <b>Unconventional weapons</b> | P / C   | R / P  | R / P / C  | R / P / C   |
|  | <b>Conventional weapons</b>   | P / C   | R / P  | R / P  | P / C   |
|  | <b>Tobacco</b>                | -   | -  | P  | R / P   |
|  | <b>Genetic engineering</b>    | -   | V / P  | Part of the point system   | -   |

Four out of six labels centered on ESG analysis apply exclusions to companies and sovereign issuers alike. There are two types of exclusions. On the one hand, some exclusions target “controversial” companies known for breaching international conventions on fundamental human rights or from the International Labor Organization (ILO). The reference framework used here is the Global Compact of the United Nations, listing the 10 “commandments” of a responsible company. On the other hand, enforced sectoral exclusions might affect “controversial” activities such as GMOs and anti-personnel mines. For the two other labels, the definition of exclusions is left up to the discretion of the fund manager.

R: resale - P: production - C: components

Source: Novethic

## Point systems: a way to highlight best practices

Three ESG labels use a point system, either to ensure that minimum requirements are met (Nordic Swan & Umweltzeichen), or to distinguish funds whose ESG practices are more holistic (FNG). Additionally, the FNG label also rewards “institutional credibility”, entailing that the asset management company takes and upholds company-wide ESG/SRI commitments. Besides these three labels, point systems are not commonly in use.



| Points for:   | FNG-Siegel  | Umweltzeichen  | Nordic Swan  |
|---|---|--|--|
| Additional ESG analysis & selectivity of ESG filter | <b>Yes</b> , a selection strategy score assesses and rewards positive & negative screening  | <b>Yes</b> , high selectivity rates are rewarded (via 3 thresholds of 50, 33 & 25% of initial investment universe remaining) | <b>Yes</b> , if 100% of the portfolio (in number of issuers) has undergone ESG analysis  |
| Stringency of ESG processes                         | <b>Yes</b> (qualitative)  | <b>Yes</b> (quantitative)  | <b>No</b> (assessed in minimum requirements)   |
| Voting policy (equity funds)                        | <b>Yes</b> , a dialogue strategy grade rewards funds that can show evidence of an active dialogue on sustainability with a large proportion of issuers. A policy on formal engagement processes with issuers is also mandatory. | <b>Yes</b> , the exercise of voting rights in general assemblies is rewarded   | <b>Yes</b> , rewards regular voting (at more than 10 or 50% of general assemblies) and the funds able to demonstrate a past track record and future strategy of regularly putting forward shareholder proposals  |
| Engagement and dialogue                             | <b>Yes</b> , a dialogue strategy grade rewards funds that can show evidence of an active dialogue on sustainability with a large proportion of issuers. A policy on formal engagement processes with issuers is also mandatory. | <b>Yes</b> , an engagement criteria rewards solution-oriented dialogue with portfolio corporations                           | <b>Yes</b> , points are attributed if the fund manager regularly engages on ESG issues with at least 5/10% of portfolio companies. Another point is awarded if specific resources and objectives are allocated for the engagement and dialogue process |
| Additional exclusions                               | <b>Yes</b> , free choice  | <b>No</b>  | <b>Yes</b> , GMO crops   |
| Environmental focus                                 | <b>No</b> . Thematic funds are treated separately   | <b>No</b> . Thematic funds are treated separately  | <b>Yes</b> , based on a simplified environmental taxonomy (see page 7)   |
| Additional reporting                                | <b>Yes</b> , if ESG KPIs at fund level are made public  | <b>No</b>  | <b>Yes</b> , if one or several of the following are publicly available: detailed engagement list, voting records showing company-specific voting, environmental performance indicators (see on page 8), holding list with ESG brief                    |
| Reporting verification (3rd party)                  | <b>No</b>   | <b>No</b>  | <b>Yes</b>   |
| Point system  | Graded from 0 to 100. “Basic” label between 0 and 24,9%. Stars awarded when grades exceed 25, 50 or 70%   | Weighted points sum must exceed 65 % of the maximum amount of points (differentiated by category of products)                | Graded from 0 to 16. A minimum score of 6 points must be achieved  |

Source: Novethic

## The exclusion of fossil fuels, a common feature of all labels?

Environmental labels intend to offer the guarantee of not investing in sectors detrimental to the environment. On the negative screening side, this approach consists in the exclusion of fossil fuels, coal in particular, with varied thresholds. While this exclusion seems logic for green labels or those that are the scheme for financial products of an eco-label for consumption goods (Nordic Swan & Umweltzeichen), interestingly two ESG standards (FNG & Towards Sustainability) also encompass stringent criteria on coal. Beyond coal, each set of label guidelines comes with rather technical distinctions between different types of fossil fuel production and extraction. These criteria openly target oil and gas activities (*upstream and downstream*), energy or mining companies highly involved in coal, as well as the nuclear industry. For most labels, the criteria apply to the revenue share of a company directly related to an excluded activity, except for electricity production where installed capacity (in GW) may also be considered.

Criteria specifically written for electricity generation are also becoming widespread. Four out of the six labels detailed below enforce them, with the strictest thresholds found in the Greenfin and Nordic Swan label criteria. In the case of natural gas, both Umweltzeichen and Towards Sustainability labels have introduced a differentiated exclusion (respectively for electricity generation from gas, and gas extraction). In addition, the Towards Sustainability label chooses to align its exclusions on a 2°C pathway modeled on the Paris Agreement, by applying a maximum carbon intensity threshold for electricity generation. This threshold evolves over time in accordance with a below 2°C scenario from the IEA.

|                          |                             |  Greenfin <sup>1</sup> |  Nordic Swan Ecolabel <sup>2</sup> |  LuxFLAG Climate Finance |  Umweltzeichen |  FNG-Siegel |  Towards Sustainability <sup>2</sup> |
|--------------------------|-----------------------------|--|--|--|---|---|--|
| Exploration & extraction | Coal                        | Yes (5%)   | Yes (5%)   | Yes (30%)  | Yes (5%)  | Yes (5%)  | Yes (10%), with expansion criteria <sup>3</sup>  |
|                          | Non-conventional O&G        | Yes (5%)   | Yes (5%)   | Yes, internal criteria apply   | Yes (5%)  | Yes (5%)  | Yes (10%), with expansion criteria <sup>3</sup>  |
|                          | Conventional O&G            | Yes (5%)   | Yes (5%)   | Exploration only (30%)   | Yes (5%)  | No  | Oil only (60%)   |
| Electricity generation   | Fossil fuels                | Yes (5%)   | Yes (5%)   | No   | Oil only (5%)   | No  | Based on carbon intensity of the energy mix (gCO <sub>2</sub> /kWh) <sup>5</sup>   |
|                          | Coal                        | Yes (5%)   | Yes (5%)   | Yes (30%), with expansion criteria <sup>3</sup>  | Yes (5%)  | Yes (25%)   |  |
|                          | Nuclear energy <sup>4</sup> | Yes (5%)   | Yes (5%)   | New projects only  | Yes (5%)  | Yes (5%)  |  |

<sup>1</sup> Additional partial exclusion criteria apply to activities listed in this chart. Service companies and companies involved in the distribution / transportation and the production of equipment and services are excluded in so far as 33% or more of their turnover comes from clients from excluded sectors.

<sup>2</sup> Exceptions apply to companies that can demonstrate an ambitious low-carbon transition strategy (see below).

<sup>3</sup> A specific exclusion criterion targets companies which have announced "expansion plans". Assessment is based on physical assets (building or modernizing coal plants, in the case of LuxFLAG) or on corresponding revenue growth (Febelfin).

<sup>4</sup> Besides nuclear power generation, the FNG, Nordic Swan and Umweltzeichen labels also exclude uranium mining. In addition, FNG and Umweltzeichen exclusions target companies supplying components for nuclear power plants, and the latter also extends this exclusion to the construction of nuclear power plants. The Greenfin label excludes the entire related value chain.

<sup>5</sup> Criterion based on energy mix projections as per the Energy Technology Perspectives 2017 scenario of the IEA. If data in gCO<sub>2</sub>/kWh is not available, thresholds of 30% fossil fuels, 10% coal and 30% nuclear energy apply.

Source: Novethic

### ● Fossil fuels: encourage the transition

The Nordic Swan and Towards Sustainability standards allow for exceptions in the case of companies whose energy transition strategy meets certain criteria. In the case of Nordic Swan, companies qualify for the exception if at least 75% of their energy sector investments (actual or committed and budgeted) in new capacity, on average for three consecutive years, are in renewables, and if renewables generate more than 50% of their revenue from power generation. For Towards Sustainability funds, companies that don't comply with exclusion criteria might account for up to 5% of a portfolio if selected among the best performing companies on sustainable energy transition (on a "phase out" approach) within their peer group ("best-in-class" filter).

## A systematic use of taxonomies

### ● What share of green activities in labelled equity funds?

To ensure that investments are directed towards environmental activities, labels combine two strategies. They are supported by a taxonomy of eco-activities and define, directly or indirectly, a minimum share of green activities that a labelled portfolio should include. This minimum share is computed based on two thresholds, one at company level and the other at portfolio level.

|   | Taxonomy used to define eco-activities   | Thresholds at holding level («green company»)  | + Thresholds <sup>1</sup> at portfolio level   | = Minimum threshold of aggregated turnover <sup>2</sup> from eco-activities in portfolio |
|---|--|--|--|--|
|  <b>LuxFLAG Climate Finance</b>            | Common Principles for Climate Change Mitigation and Adaptation Finance Tracking (IDFC) | Company with a turnover of at least 50% from eco-activities  | 75% of green companies   | 37,5%  |
|  <b>LuxFLAG Environment</b>                | Environment related sectors as defined in the main classification systems              | Company with a turnover of at least 20% from eco-activities  | 75% of green companies. Within this pocket, companies must derive 33% of turnover from eco-activities in aggregate   | 24,75%   |
|  <b>Greenfin Label</b>                    | Based on CBI's taxonomy (Climate Bonds Initiative), slightly modified                  | Three types of companies:<br>I: more than 50% from eco-activities<br>II: between 10 and 50%<br>III: less than 10%) | Portfolio made up of at least 20% of Type I companies and no more than 25% of Type III companies   | 15,5%  |
|  <b>Nordic Swan Ecolabel<sup>3</sup></b> | Based on categories used for the Green Bond Principles (ICMA)                          | No threshold at holding level  | No mandatory threshold, but the point system rewards portfolios that can demonstrate a share of 10 / 22 / 35 or 50% of aggregated turnover from eco-activities | At least 10%   |

<sup>1</sup> Thresholds measured in holding weight, not by number of holdings.

<sup>2</sup> For concision purposes, "revenue" and "turnover" are used as synonyms here.

<sup>3</sup> Label with both ESG and green characteristics but listed among ESG labels on LGX.

Source: Novethic

According to the first work documents released by the European Commission, a similar system will be used for the future European Ecolabel for financial products. The challenge will be to determine where to set the threshold for aggregate green turnover in portfolio. With today's labels, it varies between 15,5 and 37,5%.

### ● Environmental exclusions: early examples of a « do no significant harm » principle

Two green labels, Greenfin and LuxFLAG Climate Finance, entail particular environmental exclusions aimed at ensuring that the choice of technology comes with limited negative impact. This principle is currently part of the works of the *Technical Expert Group* which will set the basis for the future European taxonomy.



|                                 |   |   |
|---------------------------------|---|---|
| <b>Environmental exclusions</b> | Restriction apply to geothermal plants, mining, as well as biofuel and biomass (related to food security and deforestation issues)        | Companies generating 33% or more of their turnover from forest exploitation, except if sustainably managed, and peatland agriculture are excluded |
| <b>Hydro power restrictions</b> | Exclusion of hydro-electric dams above 20MW in capacity, except if built according to high precautionary standards, such as Gold Standard | Large dams (above 15MW) are not viewed as an eco-activity, but are not strictly excluded  |

Source: Novethic

# Transparency criteria based on investment processes and portfolio allocation

The European labels presented in this overview detail their criteria in documents whose length ranges from a single page to several dozens. All have additional requirements beyond common sustainable finance criteria. These can be financial or transparency requirements, but also aim to limit the use of derivatives and other “speculative” financial products, as well as making the disclosure of portfolio holdings mandatory.

This table summarizes the different reporting requirements:

|  | Portfolio disclosure  | ESG transparency   | Climate transparency   |
|--|---|--|--|
|  <b>SRI Label</b>                 | Frequency as stated in the transparency code                                    | Voting policy published online & annual report on ESG processes  | -  |
|  <b>FNG-Siegel</b>                | Frequency as stated in the transparency code                                    | Official document on engagement policy & annual report on results  | For thematic funds, the definition of sustainable activities must be publicly available  |
|  <b>LuxFLAG ESG</b>               | Annual (full portfolio)   | -  | -  |
|  <b>Towards Sustainability</b>   | Half-yearly (legal obligation in Belgium)                                       | Engagement report on company or on product level   | Official document detailing the policy on exclusions and other material issues with regards to ESG and climate   |
|  <b>Umweltzeichen</b>           | Monthly (full portfolio)  | Main ESG characteristics of product  | Presentation of a top 5 of selected sustainable assets in portfolio  |
|  <b>Nordic Swan Ecolabel</b>    | Quarterly (full portfolio)  | The point system rewards annual reporting that contain a detailed review of engagement & voting statistics | The point system rewards thematic funds that describe how they identify, assess and include companies that promote the transition to an environmentally sustainable future |
|  <b>LuxFLAG Environment</b>     | Annual publication of financial data & other relevant information for investors |  | -  |
|  <b>LuxFLAG Climate Finance</b> | Annual  | General information on ESG policy  | Description of environmental & financial objectives linked to climate finance. Breakdown of portfolio per category of climate financing                                    |
|  <b>Greenfin Label</b>           | Annual (full portfolio)   | Information on resources put in place to monitor and manage ESG controversies                              | General or environmental objectives sought by the investment policy  |

Source: Novethic

## Impact indicators, an emerging trend

Several labels have introduced requirements on publication of impact reporting which can take several forms, ranging from the simple calculation of physical indicators (carbon or water footprint for example) to the publication of a dedicated report.

| Label  | Impact reporting requirements  |
|--|--|
|  <b>SRI Label</b>               | General indicators of ESG performance  |
|  <b>FNG-Siegel</b>              | Quarterly report on the fund's sustainability performance. ESG KPIs compared to a baseline   |
|  <b>Towards Sustainability</b>  | Asset Management companies are encouraged to provide for each fund: the carbon intensity, the exclusion thresholds which are applied and the indicative exposure of the fund to the fossil fuel sector (in % of the AuM) |
|  <b>LuxFLAG Climate Finance</b> | Monitoring, evaluation and reporting of fund climate impact, with indicators to choose from three lists: adaptation, mitigation and REDD (forest protection).  |
|  <b>Greenfin label</b>         | Description of effective performance for at least one domain of reporting (climate, water, natural resources, biodiversity). Publication of at least one mandatory indicator to choose from a list                       |
|  <b>Nordic Swan Ecolabel</b>  | The point system rewards the publication of physical indicators (avoided CO <sub>2</sub> emissions, renewable energy generated, clean water supplied, etc.) and of the impact analysis of the 10 largest fund's holdings |

Source : Novethic

### ● Uneven information on label websites

All label websites provide a list of labelled funds with the name of the fund and that of the asset management company, as well as, in seven out of nine cases, a typology (asset class and/or legal structure). In addition to this summary information, several websites offer various documents to download, as well as "profile factsheets" and / or "sustainability factsheets" for labelled funds.

|  | Display system   | ISIN codes | Downloadable list    | Additional information  | External links   |
|--|--|------------|----------------------|---|--|
|  <b>SRI label</b>                                 | Simple list  | Yes        | Excel format         | -   | -  |
|  <b>FNG-Siegel</b>                                | Clickable list with factsheet (by fund) and rating in the point system | Yes        | Excel and Pdf format | On the sustainability profile page (Pdf):<br>- investment strategies and objectives<br>- exclusions<br>- source of ESG data   | Transparency codes   |
|  <b>LuxFLAG (common website for all 3 labels)</b> | Simple list  | No         | Pdf format           | - Assets under management<br>- Currency (€ / \$) of the fund<br>- List of candidate funds   | -  |
|  <b>Towards Sustainability</b>                    | Clickable list with factsheet (by fund)                                | No         | No                   | On the profile page:<br>- bullet points identifying investment strategies and objectives<br>- exclusions<br>- carbon intensity of the portfolio<br>- source of ESG data | - Fund's page<br>- Responsible investment policy of the Asset Management company<br>- Portfolio holdings, if available |
|  <b>Nordic Swan</b>                               | Clickable list with factsheet (by fund)                                | No         | No                   | On the profile page:<br>- short description of the fund's investment strategy and objectives  | Sustainability report of the fund (if available, see <i>top table</i> )  |
|  <b>Umweltzeichen</b>                             | Clickable list with factsheet (by asset manager)                       | Yes        | Excel format         | On the profile page of the asset manager:<br>- general information<br>- investment strategy and objectives of certain funds   | Website of the Asset Management company  |
|  <b>Greenfin label</b>                            | Simple list (on the Ministry's website)                                | No         | Excel format         | -   | -  |

Source: Novethic

## Green bond issuance and label exclusions : a culture shock

More than 200 European bond funds have been awarded with a sustainable finance label, including around twenty green bond funds. The transparency around the «use of proceeds» which characterize them leads to somewhat acrobatic textbook cases when considering the exclusions enforced by these labels. For instance, a fund awarded with the Greenfin label may invest in green bonds of a gas company, because the exclusion of companies with fossil fuel involvement does not apply to their green bonds. However, this is not the case for Nordic Swan. Similar particular requirements apply within the Austrian Umweltzeichen label, which has chosen to extend its exclusion of nuclear energy to sovereign issuers with expansive policy concerning the further development of this technology, which is the case in France.

The tables below provide a summary of the criteria for the different labels, and a review of all exclusion cases.

### Green bonds and exclusions for predominantly “ESG” labels

|                                     |   | Label ISR<br> | Umweltzeichen <sup>4</sup><br> | Towards Sustainability<br> | FNG-Siegel<br> | LuxFLAG ESG <sup>4</sup><br> |
|-------------------------------------|---|--|---|--|---|---|
| Sovereign and quasi-sovereign bonds | Non green   | No   | Yes   | Yes  | Yes   | Yes   |
|                                     | Green   | Yes  | Yes   | Yes  | Yes   | Yes   |
|                                     | Exclusion overriding for green bonds <sup>1</sup> | N/A  | No  | Left up to the sovereign ESG due diligence process set up by the fund  | Yes, if verified by a SPO <sup>6</sup>  | As per mandatory exclusion policy defined by the fund   |
| Corporate bonds                     | Non green   | Yes  | Yes   | Yes  | Yes   | Yes   |
|                                     | Green   | Yes  | Yes   | Yes  | Yes   | Yes   |
|                                     | Exclusion overriding for green bonds <sup>2</sup> | N/A  | No, with additional criteria on energy efficiency and CCS <sup>3</sup>  | No, except, under conditions, conventional oil & gas companies and electric utilities                        | Yes, if verified by a SPO <sup>6</sup>  | As per mandatory exclusion policy defined by the fund   |

### Green bonds and exclusions for predominantly “Green” labels

|                                     |   | Label Greenfin <sup>5</sup><br> | LuxFLAG Climate Finance <sup>5</sup><br> | LuxFLAG Environment<br> | Nordic Swan Ecolabel<br> |
|-------------------------------------|---|--|---|--|---|
| Sovereign and quasi-sovereign bonds | Non green   | Yes (max. 25% of AuM)  | Yes (max. 25% of AuM)   | Yes (max. 25% of AuM)  | Yes (max. 50% of AuM)   |
|                                     | Green   | Yes (min. 75% of AuM)  | Yes (min. 75% of AuM)   | Yes (min. 75% of AuM)  | Yes   |
|                                     | Exclusion overriding for green bonds <sup>1</sup> | N/A  | No  | No   | No  |
| Corporate bonds                     | Non green   | Yes (max. 25% of AuM)  | Yes (max. 25% of AuM)   | Yes (max. 25% of AuM)  | Yes   |
|                                     | Green   | Yes (min. 75% of AuM)  | Yes (min. 75% of AuM)   | Yes (min. 75% of AuM)  | Yes   |
|                                     | Exclusion overriding for green bonds <sup>2</sup> | Yes  | No, with further DD requirements  | No, with further DD requirements   | No  |

<sup>1</sup> E.g. sovereign green bonds of a country that enforces the death penalty or has not ratified the Paris Climate Agreement

<sup>2</sup> E.g. green bonds of an O&G or tobacco company

<sup>3</sup> Carbon capture and storage

<sup>4</sup> Other than to funds, Umweltzeichen and LuxFLAG labels can also be awarded to standalone green bonds

<sup>5</sup> Only green bond funds are eligible for the label

<sup>6</sup> Second Party Opinion, i.e. an independent review of the actual allocation of funds

The implementation of exclusions for sovereign bond issuances is the subject of debate within the working group in charge of drafting the future European ecolabel. In the current version, green sovereign bonds who comply with the EU Green Bond Standard could be exempt from exclusions. The envisioned criterion has not met unanimous approval.

# Competing and fast-developing labels

In terms of assets under management and attractiveness for fund managers, two labels have been leading the race since 2019: the French SRI label and the Belgian Towards Sustainability label. There is intense competition between these two, both of which have reached more than 300 labelled funds and well over €100 billion in assets under management.

As of 31 March 2020, the SRI label was leading in terms of number of funds (395 versus 355) but, in terms of volume of assets under management, Towards Sustainability was ahead (168 billion versus 145 billion). While both are bound to become the market standard in their respective countries, the French label is at a disadvantage: its low ability to adapt to changes on the European market. The SRI label remains the only one with no sectorial exclusion and the committee in charge of the methodology is at a standstill.

In the German-speaking sphere, FNG and Umweltzeichen are maintaining their momentum in terms of number of labelled funds, as well as Nordic Swan in Northern Europe, while the volume of assets under management of all three remains modest. In Luxembourg, the two environment-themed LuxFLAG labels (Climate Finance and Environment) seem to be gradually losing steam with asset managers who favour the ESG version, which is increasing in terms of number of funds and volume of assets under management.

Finally, it should be noted that the number of funds awarded with two or more labels is increasing. Since December 2019, around fifty additional funds have made this choice, demonstrating the importance of national labels in order to conquer local markets. The arrival of the European Ecolabel and the entry into force of the «Disclosure» regulation in 2021 could be game-changing.

|  | Number of funds  |   | AuM in €bn<br>(Morningstar data)   |  | Number of funds with<br>multiple labels   |     |
|--|--|---|--|--|---|-----|
|  | 03/31/2020   | Growth in 3 months  | 03/31/2020   | Growth in 3 months   | 03/31/2020  |     |
| <div style="display: flex; flex-direction: column; align-items: center;"> <div style="background-color: #f96; padding: 5px; margin-bottom: 5px;">ESG</div> <div style="background-color: #4caf50; padding: 5px; margin-bottom: 5px;">«Green» labels</div> </div> |  <b>ISR Label</b><br>(France)                                  | <b>395</b>  |  + 74               | 141.0  |  x 1.02 | 102 |
|  |  <b>FNG-Siegel</b><br>(Germany, Austria & Switzerland)        | <b>104</b>  |  + 3 <sup>(2)</sup> | 27.8   |  x 0.9  | 59  |
|  |  <b>LuxFLAG ESG</b><br>(Luxembourg)                           | <b>118</b>  |  + 18               | 51.7   |  x 1.2  | 32  |
|  |  <b>Towards Sustainability<sup>(1)</sup></b><br>(Belgium)     | <b>355</b>  |  + 90               | 167.6  |  x 1.2  | 123 |
|  |  <b>Umweltzeichen<sup>(1)</sup></b><br>(Austria)              | <b>119</b>  |  + 3                | 21.3   |  x 1.4  | 45  |
|  |  <b>Nordic Swan Ecolabel</b><br>(Nordic Countries)            | <b>33</b>   |  + 1                | 9.8  |  x 0.9  | 6   |
|  |  <b>LuxFLAG Environment</b><br>(Luxembourg)                   | <b>5</b>  |  -5                 | 0.7  |  x 0.1  | 1   |
|  |  <b>LuxFLAG Climate Finance<sup>(1)</sup></b><br>(Luxembourg) | <b>1</b>  |  - 1                | 0.01   |  x 0.2  | 0   |
|  |  <b>Greenfin Label<sup>(1)</sup></b><br>(France)              | <b>19</b>   |                     | 6.4  |  x 1.05 | 11  |
| <b>TOTAL</b>   | <b>935</b>   |  + 129 | <b>326.7</b>   |  x 1.1 | <b>171</b>  |     |

Source: Novethic

<sup>1</sup> Unlisted infrastructure and real estate funds awarded with the Greenfin, LuxFLAG and Umweltzeichen are not counted here. For Towards Sustainability labelled funds, only the financial vehicles classified as mutual funds and index funds (ETFs) were counted.

<sup>2</sup> March 2020 adjusted figures

Source: Morningstar and label websites



# OVERVIEW OF EUROPEAN SUSTAINABLE FINANCE LABELS

Study carried out by Nicolas Redon and Lorène Moretti  
with Anne-Catherine Husson-Traore

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