OVERVIEW OF EUROPEAN SUSTAINABLE FINANCE LABELS

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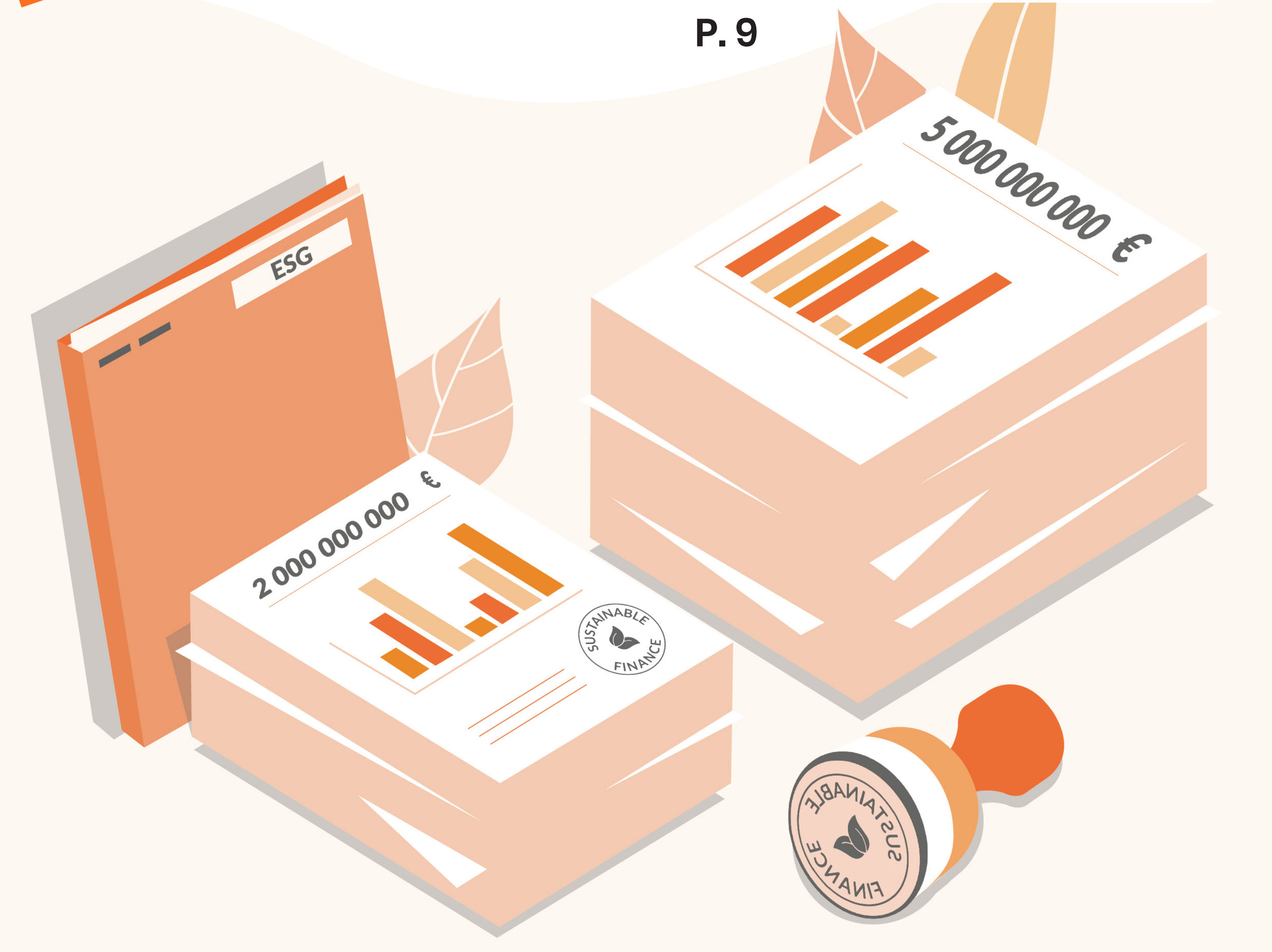

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STRENGHTENED REQUIREMENTS TO **BETTER FIT INTO THE EUROPEAN FRAMEWORK**

European sustainable finance labels continue to grow their market share. The assets under management of labelled funds doubled between the end of 2020 and the end of 2021, while their number increased by a factor of 1.5. This solid growth continues in a market that has been made even more complex by the arrival, in March 2021, of the Article 8 or Article 9 classification of sustainable funds under the European SFDR Regulation. Some asset management companies tend to use it as a label, whereas it is merely a self-declaration.

In order to curb this competition in display of sustainability credentials, six of the nine sustainable finance labels have already made it an additional criterion. They have introduced an Article 8 and/or Article 9 compliance requirement for applicant funds, which allows them to supervise the claimed credentials. While SFDR mainly aims to increase transparency and regulate the relevant information for so-called sustainable funds, label criteria guidelines set a minimum level of requirements regarding management processes, ESG criteria integration, green share, shareholder engagement or enforcement of sector exclusions.

The first year of the SFDR's entry into force confirms the wide variety of approaches in the offer of sustainable financial products, whether they claim to be Article 8 or 9. The European labels therefore have the opportunity to capitalise on the guarantees provided by their criteria documents. Four of them have been revised over the last 12 months to dovetail with the SFDR regulation. These revisions have also paved the way for a clarification of expectations regarding the inclusion of «material» sustainability criteria in asset management.

Sustainable finance labels are thus part of a major evolution in sustainable finance which, under the impetus of SFDR and new market expectations, will have to integrate the notions of double materiality in the ESG assessment of invested assets. At the end of 2021, a Bloomberg investigation questioned the relevance of the ESG ratings provided by the giant MSCI, accusing them of not assessing, for example, the impact of a company on climate change but only the potential impact of climate change on the company, for the benefit of its shareholders. MSCI did not dispute this, explaining that its ESG ratings allow for a common definition of ESG criteria. The new requirements introduced by Nordic Swan and Towards Sustainability labels respond to the expectations on double materiality highlighted by Bloomberg, since the emphasis has been put on the proportionality of ESG analysis with the double materiality of risks according to sectors or companies. Nordic Swan now has, for example, specific criteria for sectors where these issues are critical, i.e. the most carbon-intensive sectors or those with a high impact on biodiversity.

Finally, it should be noted that three labels are beginning to integrate the European taxonomy into the calculation of the green share of thematic funds. However, this exercise will be complicated by the staggered availability of taxonomy alignment data. In March 2022, the European Supervision Authorities encouraged fund managers not to postpone their first quantification of the degree of their taxonomy alignment until 2023. They recommend that, where information is not readily available from public disclosure, financial market participants may rely on equivalent information obtained directly from investee companies, even though companies legally have an extra year to make their taxonomy alignment data public.

Content

I. A still nuanced **range of labels**

Since 2019, Novethic has been compiling and updating an overview of the nine European sustainable finance labels, supported by governments, independent labelling committees or specialised bodies. They are grouped into two main categories: on the one hand, ESG labels, centred on minimum requirements and in some cases a points-based system, and, on the other hand, so-called «green» labels focused on the environmental quality of portfolios, based or not on a taxonomy of green activities.
France is the only country that currently has two[1] labels supported by different Ministries: the SRI label, which guarantees the quality of SRI/ESG management processes and is currently being overhauled, and the Greenfin label, which is specialised in environmentally-focused investment.

[1] Besides Finansol and France Relance, whose guidelines differ from the main features of the labels presented in this Overview.

	Labels	Governance	Attribution	Type of label	Eligibility
	SRI Label (France)	Standalone stakeholder committee, supported by the Ministry of Finances	Accredited auditors	SRI/ESG investment process	UCITS, AIFs (including Real Estate funds)
	FNG-Siegel (Germany, Austria & Switzerland)	Overall steering and review by QNG, a subsidiary of FNG[a], supervised by an independent expert committee	QNG, based on 3rd-party audits by Univ. of Hamburg	SRI/ESG investment process with ESG and climate exclusions. Point system	Article 8/9 funds distributed in AT/DE/CH/LI
ESG	**LuxFLAG ESG** (Luxembourg)	LuxFLAG[b]	LuxFLAG	SRI/ESG investment process with climate exclusions	Article 8/9 funds authorized in an EU country or equivalent authority
	Towards Sustainability (Belgium)	Central Labelling Agency[c] (CLA)	Verifiers appointed by the CLA	Quality standard combining requirements on the investment process and exclusions	All types of funds (Article 8/9 funds if in scope of SFDR)
	Umweltzeichen (Austria)	Austrian Federal Ministry for the Environment	Ministry	SRI/ESG investment process with ESG and climate exclusions. Point system	Investment products, including funds of funds, life insurance products, real estate funds
	Nordic Swan Ecolabel (Nordic countries)	Nordic Ecolabelling Board[d], on a mandate from Nordic governments	Nordic Swan	SRI/ESG investment process with ESG and climate exclusions & optional green label criteria. Point system	Article 8/9 funds and investment products that invest in NS labelled funds
	LuxFLAG Environment (Luxembourg)	LuxFLAG[b]	LuxFLAG	Thematic investments and ESG criteria	Article 8/9 funds
Green labels	**LuxFLAG Climate Finance** (Luxembourg)	LuxFLAG[b]	LuxFLAG	Thematic investments and ESG criteria. Climate exclusions	Article 9 funds
	Greenfin Label (France)	Standalone stakeholder committee, chaired by the Ministry for the Ecological Transition	Accredited auditors	Thematic investments and ESG criteria. Climate exclusions	Listed UCITS and some non listed AIFs

Source: Novethic

[a] Sustainable investment forum (German-speaking countries)
[b] Cross-border labelling agency with founding members from the financial sector in Luxembourg
[c] The Central Labelling Agency (CLA) is the not-for-profit association that awards the Towards Sustainability Label.
[d] Nordic Swan 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.

! Note : the information on labelling criteria contained in this document is based on eligibility criteria documents available online on March 31st, 2022. They might further evolve. In the case of Nordic Swan, funds labelled before February 2022 have until March 2023 to comply with the criteria presented in this report. The new Towards Sustainability criteria came into force in January 2022.

BRIEFS ESSENTIELS — Premium content —

For more information on how the labels relate to the EU's Sustainable Finance Action Plan (SFDR, Taxonomy, Benchmarks), **see Novethic Essentiel's premium content** (in French).

II. ESG safeguards

Better framed ESG requirements

In order to be awarded, most labels require that a minimum percentage of securities (equities and corporate bonds, sovereign bonds, or even private debt) has been subject to ESG analysis. These rules are sometimes combined with exclusions *(see pages 8&9)* or a points system *(see page 7)*. Some labels also require regular updates of the ESG analysis.

Labels	Requirements on ESG coverage and selectivity	Details on what the analysis should target
Nordic Swan Ecolabel	All direct holdings must undergo a double analysis prior to investment. At least 70% of portfolio invested in holdings with strong sustainability practices according to a published definition.	Two dimensions must be taken into account : - ESG (according to a materiality differentiated by sectors) - EU Taxonomy (% of alignment of revenue or CapEx for each company if its activities are eligible).
Towards Sustainability	Mandatory ESG integration : analysis of 100% of positions. Display of selectivity when *Best in class* or *Best in universe* filter is used.	Double materiality analysis. The depth and focus of the ESG due diligence process shall take into account the likelihood and size of the potential negative impact on sustainability factors of each investment. A "controversy" screening is not considered sufficient.
FNG-Siegel	ESG screening (of companies and associated business model) for 100% of the portfolio	Demonstration that all E/S/G pillars are taken into account and that the analysis is conducted from the most holistic perspective as possible.
LuxFLAG ESG	100% portfolio screening, according to at least 3 in-house ESG strategies and standards.	Identification of material ESG risks.
Umweltzeichen	- Mandatory integration of ESG selection criteria - Less than 50% of the total investment universe can be investable	Based on two sets of themes (environment and climate ; relations with stakeholder groups), the selection should allow at least (alternatively): - to identify issuers which perform above-average in above-mentioned fields - to identify holdings of solution providers - to exclude issuers whose business lines, activities or practices contribute to environmental or social problems
SRI Label	ESG screening of lastingly more than 90% of the portfolio. 20% reduction of the investable universe, or "significantly" better average ESG score than initial universe.	Currently under review. The SRI label committee was renewed in Q3 2021.

Source: Novethic

Focus on (double) materiality

While requiring an ESG analysis for all portfolio lines is becoming the norm, the corresponding criteria are gradually being refined. Environment, Social and Governance (ESG) still make up the bedrock of analysis requirements, but the labels updated in 2021 and 2022 have introduced nuances, more particularly on the so-called "material" ESG risks, and adopted new minimum requirements on environmental analysis.

The new version of the *Towards Sustainability Quality Standard* follows the approach of the SFDR regulation by requiring an assessment of both the likely impacts of sustainability risks on the return of the product ("outside in") and the risks of principal adverse impacts (PAI) on E, S and G factors of each investment ("inside out"). Social factors are specifically targeted.

The most notable development is the update of the Nordic Swan criteria document. It introduces the notion of critical sectors, for which the label defines minimum standards of analysis quality. Any company with more than 30% of its revenue derived from carbon-intensive[2] activities must meet at least one quantitative criterion (revenue and CapEx aligned with the taxonomy) or qualitative criterion (validated *Science-Based Target* for its GHG emissions, or company among the 15% best in its sector for its GHG intensity). On biodiversity, all companies operating (above 30% of revenue) in sectors[3] where biodiversity is a material issue and which have poor sustainability performance must be subject to targeted shareholder engagement.

[2] Aluminium, aviation, automobiles, cement, mining, pulp and paper, shipping, and steel.
[3] Agriculture, construction & infrastructure, extractive industries, fishery & aquaculture, food & beverage, forestry & logging, shipping.

Strengthened requirements on shareholder engagement

The guidelines of the so-called "ESG" labels are gradually strengthening their requirements on criteria relating to shareholder engagement, as it is considered to be a lever for improving the performance of companies. The guidelines emphasise the existence of a formalised engagement approach and the exercise of voting rights by the asset management company that distributes the fund. Depending on the profile of the label, the criteria may be mandatory (minimum requirement) or part of a points-based system.

The chosen engagement approach should be described and allow for monitoring of progress achieved or not, as well as regular reporting. With regard to the voting policy, it should describe how voting rights are exercised at general meetings and provide a record of cast votes.

While there are many similarities in the process criteria, there is more variety in the definition of objectives. Only the Towards Sustainability and Nordic Swan labels, which were reviewed in depth in 2021 and 2022, precisely state the expected purpose of shareholder engagement. Finally, while some asset management companies have only limited resources available, the criteria do not set quantitative objectives, with the exception of the Nordic Swan label, which rewards the most comprehensive approaches in its points-based system and requires targeted shareholder engagement for companies with a poor biodiversity rating to stimulate them towards conservation and sustainable use of biodiversity.

Criteria applying to shareholder engagement and voting (for equity funds):

Labels	Criteria	Objective	Presentation of results
SRI Label	Existence of a formal voting policy by the asset management company and published on its website. Details on the engagement policy (means, content, voting statistics, track record of resolutions).	Coherence with ESG objectives.	Publication of votes on resolutions presented at the AGMs of investee companies and examples of successful/failed engagement.
LuxFLAG ESG	Description of investee "engagement activities" when engagement or active ownership are one of the three selected ESG strategies.	Continued compliance with non-financial objective. Companies with significant breaches of controversy principles must be engaged. 2-year ultimatum.	–
Towards Sustainability	At least for the fossil fuel sector, and encouraged for other sectors with elevated risks for adverse impacts: clarification of the engagement policy (objectives, strategy, methods, monitoring), and of the voting and dialogue policy.	Interrogate issuers about their alignment with the objectives of the Paris agreement, including intermediatory targets (2030)	If appropriate, publication of an annual engagement and/or voting report, with more detailed information for companies in the fossil fuel sector.
Nordic Swan	• Engagement related to ESG controversies : presentation of the means to systematically carry out and follow up on engagement in a way that matches the magnitude of breaches.	• Lift doubts regarding compliance with global norms (unacceptable risk or breach of exclusion criteria). 3 to 24 months ultimatum.	• Updates on the non-conformity on the fund's webpage as long as doubt persists.
	• Voting policy or statement that promotes ESG-related issues. • Systematic and targeted engagement on sustainability : time-bound goals and milestones for each engagement, regular assessment of achievements, and description of resources and tools	• Vote on ESG-related issues • Address ESG and/or EU Taxonomy issues, concerns or performance	• Company-specific voting records. • Brief description In the fund's Sustainability Report
FNG-Siegel	The point system rewards (in relation with sustainability): - the existence of specific voting guidelines, the exercise of voting rights, the initiation of or support for shareholder proposals - the existence of a formal policy on engagement activities (objectives, intermediate steps and outcomes). Engagement also contributes to the "institutional credibility" rating of the asset manager in the points system.	Raise issuers' awareness of sustainability and improve their related performance.	Publication of a Voting report detailing E or S resolutions, and an engagement report illustrating the existence of an active dialogue with a number of issuers and the outcome of the process.
Umweltzeichen	• Exercises of voting and shareholder rights in a structured and active way • Pursuit of a clear and structured engagement approach.	Structural contact to companies, demonstration of need for action and approaches to solutions.	In the annual report, at least in an aggregated way: - Voting record - Engagement topics

Mandatory   Rewarded in a points system

Source: Novethic

[4] Several guidelines also mention the possible participation in collaborative shareholder engagement initiatives (FNG, Nordic Swan).

III. Green share and point systems

Green labels must link green share and EU taxonomy

There are three labels whose awarding decision is subject to a minimum[5] "green share" calculation (Greenfin, LuxFLAG Environment or Climate Finance), as well as a 4th label for which a high green share exempts from certain optional criteria (Nordic Swan).
Article 4 of the Taxonomy Regulation mandates the application of its criteria for environmentally sustainable economic activities to requirements for financial products "that are made available as environmentally sustainable". Labels whose guidelines fit that definition are in the process of deploying these criteria, with Nordic Swan having taken the biggest leap so far while tolerating the use proxies to estimate the degree of taxonomy alignment of funds until January 2024. Until deployment, the three other labels continue to use an older and more succinct list of eco-activities to ensure that investments are directed towards environmental activities.

See also the section on *green & thematic funds* in **Novethic's Brief** dedicated to labels vs. EU Regulation (in French).

Points systems: Nordic Swan tightens the rules

Three labels stand out for basing their standards on a points system. For Nordic Swan and Umweltzeichen, the scoring system is used to check that a minimum number of requirements are met. However, the Nordic label has reduced the number of point criteria from 8 to 4 in order to remove points that were too "easy" to obtain and criteria that were not used by applicant funds. The FNG-Siegel scoring system encourages the adoption of the most comprehensive ESG management practices and rewards "institutional credibility", i.e. the overall ESG / SRI commitments made by the asset management company.

Points for:	FNG	Umweltzeichen	Nordic Swan
Additional ESG analysis & selectivity of ESG filter	**Yes**, a selection strategy score assesses and rewards positive & negative screening	**Yes**, high selectivity rates are rewarded (via 3 thresholds of 50, 33 & 25% of initial investment universe remaining)	Added to mandatory requirements
Stringency of ESG processes	**Yes** (qualitative)	**Yes** (quantitative)	
Voting policy (equity funds) *See previous page*	**Yes** (qualitative & quantitative)	**Yes** (qualitative)	**Yes** (quantitative), if votes cast at more than 25 or 50% of AGMs of investee companies (70 or 90% if a proxy voting service is used)
Engagement and dialogue *See previous page*	**Yes** (qualitative & quantitative)	**Yes** (qualitative)	**Yes** (quantitative), if engagement with at least 5% of the fund's holdings (in number). Points doubled if with at least 10%
Additional exclusions	**Yes**, free choice and graded according to depth of the supply chain taken into account	**No**	**No**, criterion replaced by an obligation to take biodiversity issues into account in sectors where they are material
EU Taxonomy focus	**Yes**, if the taxonomy is used to define sustainability KPIs	**No**	**Yes**, according to two approaches : green share, or thematic fund
Additionnal reporting	**Yes**, if ESG KPIs at fund level are made public	**No**	**Yes**, if the fund's Sustainability Report: - presents the goals, method, resources, and follow-up principles for company engagements - contains or links to voting records showing company-specific voting.
Total score:	"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 14 (equity funds) or 11 (bond funds). Minimum score of respectively 6 and 5 points. (1 point flexibility until 2024)

[5] Two other labels use the EU taxonomy as part of their criteria for thematic funds, but meeting this criterion is not sufficient to obtain the label.

Source: Novethic

IV. Norm-based and sector **exclusions**

ESG exclusions

Label criteria guidelines combine ESG analysis with two types of exclusions.

Norm-based exclusions
They aim to eliminate controversial companies that violate fundamental conventions such as the Universal Declaration of Human Rights or do not respect the *Global Compact*, likened to the "Ten Commandments" for responsible businesses. The Towards Sustainability standard complements the *Global Compact* criteria with a list of *minimum social safeguards* (MSS) inspired from the European taxonomy. These MSS are: the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the 8 core conventions of the International Labour Organisation (ILO).

Sector exclusions
Exclusions of controversial activities such as production of tobacco or landmines are very varied. Umweltzeichen is the last label to exclude GMOs since the Nordic Swan label replaced a similar exclusion with increased requirements for sectors with high biodiversity impacts, including agriculture *(See page 5)*. In addition, it should be noted that the Towards Sustainability standard specifies that ESG controversy analysis should be able to capture cases of companies whose lobbying activities contribute to "manufacturing doubt" about the adverse impacts of their activities on sustainability factors.

For exclusions applicable to sovereign issuers, three labels now use, among others, the *Corruption Perceptions Index* maintained by the NGO Transparency International. This is one of the exclusion criteria proposed for the upcoming EU Ecolabel, according to the latest version published in March 2021. The same applies to the exclusion of countries that have not ratified the Convention on Biological Diversity, with the United States at the forefront of non-ratifiers.

ESG EXCLUSIONS		FNG-Siegel	Umweltzeichen	Nordic Swan	Towards Sustainability	LuxFLAG ESG[a]
Norm-based exclusions framework	Corporates	Global Compact	"In house" framework	"In house" framework	Global Compact + MSS[b] of the EU Taxonomy	Global Compact / OECD guidelines
	Government bonds	Lists (Freedom House, Paris Agreement, Convention on Biological Diversity, NPT[c], score below 35 in the CPI[d])	Lists (Human rights, death penalty, military budgets, nuclear energy expansion policy)	Lists (sanctions, Paris Agreement, score below 40 in the CPI[d])	Lists (incl. Labour and Human rights, military budgets, Freedom House, Paris Agreement, Convention on Biological Diversity, NPT[c], score below 40 in the CPI[d])	Countries on sanctions lists
Unconventional weapons		P / C	R / P	R / P / C	R / P / C	R / P
Conventional weapons		P / C	R / P	R / P	P / C	No
Tobacco		P	No	R / P	R / P / C	R / P
Genetic engineering		No	R / P	No	No	No

Source: Novethic

R : resale – P : production – C : components
The turnover thresholds used to define the exclusions for the targeted activities vary between 0 and 10%.

[a] Differentiated thresholds for tobacco production and resale. Ad hoc exclusions encouraged for alcohol, gambling, adult entertainment.
[b] *Minimum Social Safeguards*
[c] Nuclear Non-Proliferation Treaty
[d] *Corruption Perceptions Index*, published by Transparency International

Labels not mentioned above leave the definition of exclusions to the discretion of the fund manager (SRI Label and LuxFLAG Environment), or only exclude weapons covered by the Oslo and Ottawa Conventions, and, in terms of sovereign bonds, are only open to green bonds (Greenfin).

Sensitive exclusions: fossil fuels and nuclear energy

Responding to the expectation that a labelled fund can offer the guarantee that it will not invest in environmentally damaging sectors, the exclusion of fossil fuels is widespread in label requirements, with the exception of the SRI label. Coal is the most widely excluded sector, with varying thresholds. While this exclusion seems natural for green labels or those that are the scheme for financial products of an eco-label for consumption goods (Nordic Swan and Umweltzeichen), it is important to note that two standards presented as ESG (FNG and Towards Sustainability) also encompass stringent criteria on fossil fuel exclusion. Beyond coal production or combustion, each of the standards offers highly technical distinctions between the different modes of oil and gas production and extraction (upstream), to which criteria guidelines sometimes add transport and distribution (downstream) or the enabling industries that provide services and equipment to excluded companies. Finally, while the "Net Zero by 2050" report, published in May 2021 by the International Energy Agency (IEA), imposed the idea that no new oil and gas fields should be approved after 2021, only two labels apply a "non expansion" criterion for excluded activities, on a restricted perimeter not including conventional oil and gas.

How are gas and nuclear treated ?

The exclusion of nuclear energy by some labels, which predates the possible introduction of this technology into the European taxonomy[6], is still practiced on a large scale. Only the LuxFLAG ESG label takes a position on a hypothetic evolution of the criteria in a footnote which states that it "*might revisit nuclear exclusion once discussions are finalised*". Fossil gas benefits from a differentiated criteria under FNG and Umweltzeichen labels, which do not exclude it for electricity production. The Towards Sustainability standard does not directly exclude it, as long as the energy company using it is diversified.

Convergence towards 5% brought to a halt ?

The enforcement of the exclusion criteria is based on the percentage of a company's revenue attributable to an excluded activity. While the thresholds have been progressively lowered to converge around 5% for many activities, this threshold does not seem to be further extended to additional activities. Instead, the trend is to define derogations to the exclusions for companies "in transition".

Schematic view of the exclusion criteria, presented by fuels and revenue thresholds

	Exploration & extraction				Production of electricity (and heat)				Other		
	Coal	n.c.F.	c.F.	Uranium	Coal	Oil	Gas	Nuclear	Equipment and services	Transport (F)	Non expansion
Greenfin	5%	5%	5%	5%	5%	5%	5%	5%	33%	5%	–
Nordic Swan*	5%	5%	5%	5%	5%	5%	5%	5%	–	–	–
Umweltzeichen	5%	5%	5%	5%	5%	5%	–	5%	5% (N)	–	–
FNG	5%	5%	–	5%	10%	–	–	5%	5% (N/n.c.F.)	–	–
Towards Sustainability**	5%	5%	5%	–	Declining thresholds*** for carbon intensity (gCO$_2$/kWh) apply until 2025				50% (by NACE codes)	5%	C/N/n.c.F.
LuxFLAG Climate Finance	30%	Internal criteria apply	30% (exploration)	–	30%	–	–	–	–	–	C/N
LuxFLAG ESG****	"encouraged"			5%	"encouraged"			5%	5% (N)	–	–

F: all fossil fuels – **n.c.F.**: non-conventional fossil fuels – **c.F.**: conventional fossil fuels – **C** : coal – **N** : nuclear

Source: Novethic

* With possible exceptions
** Metrics other than revenue can be used in some cases
*** Their trajectory is set by a 2°C scenario from the IEA.
**** Non-final criterion, subject to the final decision on the presence of nuclear energy in the EU Taxonomy

[6] The European Commission decided on February 2nd to include nuclear energy (and fossil gas) in a Complementary Delegated Act of the Taxonomy, as "transition" technologies until 2050 and under certain conditions. The Council of the EU and the European Parliament can still block this addition, although obtaining the necessary majorities (qualified or absolute) seems hypothetical.

Technical derogations to fossil fuel exclusion criteria

Nordic Swan and Towards Sustainability labels have updated the wording of the criteria that can be used to justify an exception or waiver to their exclusions related to the Energy sectors. For Nordic Swan, oil & gas majors and energy utilities must be able to demonstrate that they focus more than 90% of their new capacity investments on renewables and that renewables represent more than 50% of revenues or installed capacity. The Towards Sustainability standard has opted for a more differentiated treatment, allowing a choice between validated SBT targets, capped fossil fuel CapEx or a minimum share of CapEx/green revenue. Gas-fired power generation is not targeted.

The table below summarizes these criteria and compares them with those foreseen for electricity and heat production in the latest version of the upcoming EU Ecolabel for financial products (V4).

Types of criteria used to define companies not subject to the strict exclusion thresholds

	Exploration & extraction		Production of electricity and heat		
	Nordic Swan	Towards Sustainability*	Nordic Swan	Towards Sustainability*	Ecolabel V4**
Minimum CapEx spent in renewable energy	**Yes** (90%)	**Yes** (50% / 15%)	**Yes** (90%)	**Yes** (50%)	
Minimum revenue or installed capacity in renewable energy	**Yes** (50%)		**Yes** (50%)	**Yes** (50%)	
Cap on revenue from non-conventional fossil fuels	**Yes** (0%)		**Yes** (0%)		
Cap on CapEx spent on fossil fuels or non-expansion criteria		**Yes** (15% for O&G, 10% for coal)			**Yes** (0% of expansion CapEx & maintenance OpEx)
SBTi target set, or GHG emissions decreasing by 7% annually		**Yes**		**Yes**	**Yes**
Strategic transition plan that includes a phase-out of fossil assets, or harm reduction strategy		**Yes**		**Yes**	**Yes**

Cumulative criteria   Alternative criteria   O&G : oil and gas   Source: Novethic

* Criterion for minimum CapEx dedicated to renewables is less stringent for conventional oil majors (15% threshold versus 50% for other fossil fuel companies). For electricity generation, the criterion only applies to companies active in coal and nuclear power. Gas-fired power generation is not directly targeted.
** Criterion applicable to companies with 5 to 30% of revenue in the supply of fossil fuels and their use for electricity and heat production.

In contrast to these two sets of guidelines, the October 2021 update of the Greenfin label chose to reinforce the exclusions on the fossil fuel value chain (see previous page). This update received a lukewarm welcome, as some asset management companies feel that it prevents them from investing in some of the leading renewable energy companies because they retain a legacy fossil fuel business. In parallel, the FNG label preferred to open a consultation with the management companies that hold the label on its exclusion thresholds, before opening it up to all the stakeholders of the German label at the beginning of 2022.

V. Key figures

Competition between labels remains keen

There are now five labels with more than 200 labelled funds and four with more than €100 billion under management. Two labels are leading the way since 2019: the French SRI label and the Belgian Towards Sustainability standard. Both are the only ones to have surpassed 600 labelled funds and well over €500 billion in assets under management. As of 31 December 2021, the leader in terms of number of funds was the SRI label (950 vs. 642), as well as in terms of volume of assets under management (777 billion vs. 578), but its reform is still underway and it remains far from the various European regulations.

FNG-Siegel and Umweltzeichen labels are maintaining their momentum in the German-speaking orbit, as is Nordic Swan in Northern Europe. Their volume of assets under management remains modest but has almost doubled in one year. In Luxembourg, the environmentally themed approach of the LuxFLAG (Climate Finance and Environment) labels is struggling to attract asset managers, who prefer the ESG approach, which is increasing in terms of number of funds and volume of assets under management. Finally, the growing number of multiple labelling should be noted. There are 254 funds with two labels, 38 others with three, and even 14 funds with four. The number of funds with at least two labels has almost doubled (306 compared to 171) from one edition of the Overview to the next, which testifies to the persistence of national dynamics in various European markets.

		Number of funds			AuM (€bn) (Morningstar & LuxFLAG data)			Number of funds with multiple labels
		12/31/2019	12/31/2020	12/31/2021	12/31/2019	12/31/2020	12/31/2021	12/31/2021
ESG	**SRI Label** (France)	321	649	950	138	359	777	185
ESG	**FNG-Siegel** (Germany, Austria, Switzerland)	104	168	257	30	60	115	116
ESG	**LuxFLAG ESG** (Luxembourg)	100	238	277	43	121	148	55
ESG	**Towards Sustainability** (Belgium)	265	442	642	139	284	578	218
ESG	**Umweltzeichen** (Austria)	116*	123*	206	15*	34*	60	66
ESG / Green labels	**Nordic Swan Ecolabel** (Nordic countries)	32	54	74	11	25	34	7
Green labels	**LuxFLAG Environment** (Luxembourg)	10	4	8	8	< 1	2	3
Green labels	**LuxFLAG Climate Finance** (Luxembourg)	2*	2*	5	< 1*	< 1*	< 1*	0
Green labels	**Greenfin Label** (France)	19*	29*	74	6*	14*	31**	20
TOTAL		806	1418	2119	302	690	1337	306

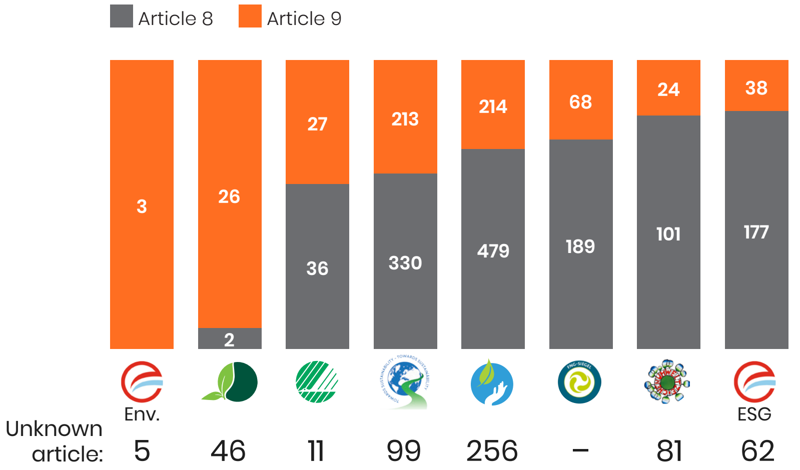
*Number and AuM for listed funds only ** €21bn for listed funds and €10bn for unlisted funds

Source: Novethic

European labels reflect the sustainable finance market

Scrutiny of sustainable finance labels shows that they are part of a market dominated by a broad ESG selection approach. With the exception of the green labels, they are awarded to a majority of funds that self-classify as Article 8 under the SFDR regulation. France takes a lion's share with its SRI label, which has however not been reformed to fit the new European framework. The overhaul of the most advanced criteria guidelines, such as Nordic Swan, sets out new requirements based on double materiality and differentiated sectoral approaches according to their exposure to environmental risks.

Breakdown of labelled funds according to their SFDR « Article » (as of 12/31/2021)



Source: Novethic

92% of labelled funds are actively managed, and 8% are passively managed. (Sample : 1820 funds whose type of management is known)

Breakdown of labelled funds by firm country

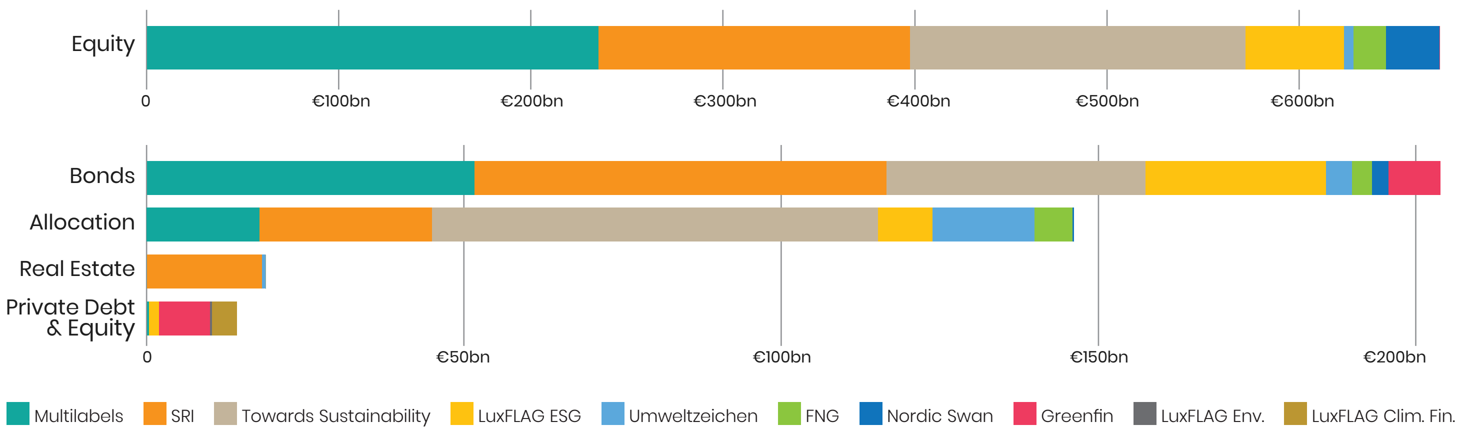
Firm country of labelled funds	Number of funds	AuM (12/31/2021)
France	707	€559bn
Luxembourg	485	€420bn
Belgium	129	€93bn
Austria	111	€26bn
Denmark	80	€28bn
Germany	80	€24bn
Irland	66	€81bn
Netherlands	53	€56bn
United Kingdom	26	€16bn
Sweden	19	€21bn

Source: Novethic

Assets mostly invested in equity, a quarter of which are multi-labelled

49% of the total assets under management (AuM) of labelled European funds are invested in equities. This is followed by bonds (18% of AuM) and allocation funds (14%). The rest of the asset classes represent less than a quarter of the AuM. As for multi-labelled funds, their share of AuM represents almost a quarter of the total (24%). Furthermore, in number, funds only awarded with a green label (excluding multi-labelled funds) represent less than 1% of total equity funds, compared to 3.5% of the total for green bond funds.

Breakdown of AuM by asset class and label (as of 12/31/2021)



Source: Novethic

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Overview of **european sustainable finance labels**

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

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