

LuxFLAG ESG Label Eligibility Criteria

In order to obtain a LuxFLAG ESG (Environment, Social, and Governance) Label, an Applicant Investment Fund must comply with the following Eligibility Criteria set by LuxFLAG:

Criteria 1: The Applicant Investment Fund must screen 100% of its invested portfolio¹ according to at least three of the ESG strategies and standards.²

Criteria 2: The Applicant Investment Fund must comply³ with the requirements defined under Article 8 or Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

Criteria 3: The Applicant Investment Fund must describe its ESG strategy and criteria and demonstrate how it integrates its ESG strategy and criteria throughout the investment process and investment decisions.

Steps of the investment process	Comment
Definition of non-financial investment objective(s)	Should be consistent with criteria 2
Collection of ESG research	Company meetings, broker research, extra-financial ratings, proprietary research which results in identifying material ESG risks
Construction of investment universe	Implementation of a binding minimum ESG assessment or performance (depending on the strategy of the fund)
Investment decision	Investment committee + portfolio manager
On-going monitoring	Controls / alerts to ensure continued compliance with non-financial investment objective, investee engagement activities (where applicable)
Divestment	Divestment procedures, in particular for securities that are in breach with non-financial investment objective

Criteria 4: The Applicant Investment Fund must comply with the exclusionary guidelines of LuxFLAG.

Criteria 5: The Applicant Investment Fund must be authorized by an EU Member State or subject to supervision equivalent to that in EU Member States;

¹ Up to 30% of total assets of the portfolio of the fund may be invested in the form of cash or short-term cash equivalents.

² The ESG strategies may include:

- Best-in-class / best effort strategies
- Exclusions / norm-based screenings
- Engagement / Active Ownership
- ESG Integration
- Impact Investing / SDG Investing

³ LuxFLAG envisages a transition period for the full compliance during the course of 2021.

If the Applicant Investment Fund Manager itself is not authorized:

- a. the Applicant Investment Fund must have a custodian that must be subject to supervision equivalent to that in EU Member States;
- b. the Applicant Investment Fund Manager must be registered by an EU Member State or subject to supervision equivalent to that in EU Member States. Equivalence with non-European regulation will be checked with ESMA and the EU Commission.

LuxFLAG reserves the right to independently assess and evaluate the Applicant Investment Fund's compliance with the above Eligibility Criteria and pertinence of the exclusion policy decided and applied by the fund.