

LuxFLAG ESG Label

Eligibility Criteria

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

1) The Applicant Investment Fund shall:

- be classified as an Article 8 or Article 9 financial product(s) in the meaning of the Sustainable Finance Disclosure Regulation (“SFDR”);
- have 100% of the portfolio selected on the basis of an ESG screening (either from an external vendor or a proprietary methodology or a combination of both); including as regard the underlying invested assets¹ (“look-through approach”);

In case the Applicant Investment Fund is exclusively or partially invested through funds a minimum of 75% of the funds invested in (excluding cash) must be classified as Article 8 or Article 9 financial product(s) in the meaning of the SFDR. This applies when the allocation to funds exceeds 10% of the Applicant Investment Fund’s assets.

- comply with LuxFLAG’s ESG Label Exclusion Policy, including underlying invested assets; and
- submit relevant documentation to LuxFLAG related to Responsible Investment Strategies² incorporated into the investment process and investment decisions. It may cover elements such as (but not limited to) the definition of the non-financial objective, collection of ESG research, construction of investment universe, investment decision, ongoing monitoring and divestments.

2) The Manager of the Applicant Investment Fund shall:

- Demonstrate best market practices³; and
- be duly authorized by a competent supervisory authority of a jurisdiction from an EU Member State or subject to supervision equivalent to that in EU Member States.

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

¹ Compliance with this criterion may also be achieved by investing in securities or Undertaking for Collective Investments (“UCIs”) and other funds which have been either certified by a recognized sustainability labeling agency or been subject to an ESG assessment or where there is confirmation of its alignment with internationally recognized standards.

² As defined by Eurosif, available here: <http://www.eurosif.org/responsible-investment-strategies/>.

³ This documentation could be such as but not limited to CSR/Sustainability guidelines/policy, Annual CSR/Sustainability report, Engagement policy, Active ownership policy, etc. published at the level of the Manager of the Applicant Discretionary Mandate or at the level of its group.

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.

Appendix 1 – Principles for Derivatives and Other Fund-Management Techniques

1) **The Applicant Investment Fund shall:**

a) when using derivatives:

- disclose whether derivatives are used for hedging /efficient portfolio management purpose, on an ancillary basis or as a core part of the investment strategy. In addition, it should describe how the use of derivatives aligns with (i) the fund's investment strategy and (ii) its social and/or environmental characteristics and/or sustainable objective;
- disclose the nature, use, limits and risks⁴ underpinning the use of derivatives by the Fund;
- demonstrate that the underlying assets of the derivatives used by the Applicant Investment Fund are subject to an ESG screening, except when used for efficient portfolio management or hedging purposes. In this respect, the LuxFLAG ESG Label's Exclusion Policy applies to the underlying assets of the derivatives used by the Applicant Investment Fund;

For index-based products, the methodology used for the construction of the index should be screened by the Applicant Investment Fund (unless there is immaterial exposure) and aligned with the LuxFLAG ESG Label's Eligibility Criteria;

- demonstrate that the use of derivatives does not impede the Applicant Investment Fund's compliance with Criteria 1 of the LuxFLAG ESG Label Eligibility Criteria, notably the screening of its invested portfolio according to a minimum of three (3) ESG investment strategies and standards; and
- demonstrate that it (i) has controls / alerts to ensure continued compliance with its non-financial investment objective and (ii) monitors the social and/or environmental characteristics and/or sustainable objective of the underlying assets of derivatives used by the fund, including divestment/unwinding policies.

b) when using short selling:

- describe how the use of short selling improves the sustainability profile of the fund and is aligned with its social and/or environmental characteristics and/or sustainable objective.

⁴ LuxFLAG reviews whether the Applicant Investment Fund incorporates ESG criteria into the entire investment process, while screening the invested portfolio according to widely recognized ESG strategies and international standards such as (but not limited to) those provided by Eurosif. By granting a label, LuxFLAG does not incur any liability related to the financial performance and/or risks of the Applicant Investment Fund.

2) **The Manager of the Applicant Investment Fund shall:**

when selecting Undertakings for Collective Investment or other funds

- demonstrate the ESG screening of the underlying assets of the Applicant Investment Fund (look-through approach);
- demonstrate the compliance of the selected funds with the LuxFLAG ESG Label Exclusion Policy; and
- demonstrate that a minimum of 75% of selected funds⁵ is classified as Article 8 or Article 9 under the EU's Sustainable Finance Disclosure Regulation.

⁵ This minimum is calculated by excluding cash.