LUXFLAG
Supporting Sustainable Finance

LuxFLAG Environment Label

Eligibility Criteria

In order to obtain a LuxFLAG Environment Label, an Applicant Investment Fund must comply with the following Eligibility Criteria set out by LuxFLAG:

1) The Applicant Investment Fund shall:

- have a portfolio of investments in environment-related sectors[1] corresponding to at least 75% of the Applicant Investment Fund's total assets[2]. Accordingly, 25% of total assets may be retained in the form of cash, liquid assets or other investments.[3];
- incorporate Environment, Social and Governance ("ESG") considerations in the investment decision making process;[4]
- be classified as an Article 8 or Article 9 product within the meaning of the Sustainable Finance Disclosure Regulation ("SFDR"); and
- comply with the following legal and governance criteria:
  - take the form of a distinct legal entity or of a fund under collective management;
  - segregate the functions of custody and asset management;
  - regularly report and publish audited financial and other information for investors (Minimum annual reporting); and
  - apply the principle of risk diversification[5].

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[1] Environment related sectors as defined in a globally recognized classification system such as: the FTSE Environmental Markets Classification System or the HSBC Climate Change Structure, etc.

[2] For compliance with this criterion, the following considerations apply:

- A company is considered an environmental company when its turnover in environment-related sectors corresponds to at least 20% of its total turnover
- The portfolio of investments in environmental companies weighted by the proportion of turnover of each company in environment- related sectors must correspond to at least 33%
- Allowance may be made in the calculations of 75% threshold if the portfolio of investments in environmental companies weighted by the proportion of turnover of each company in environment-related sectors is above 50%
- In the specific case of a Fund providing credit funding directly or indirectly to companies or other beneficiaries, the 75% threshold should refer to the proportion of qualifying environmental investments in the total portfolio
- Committed investments may be considered in the calculation of the 75% threshold.

[3] Allowance may be made in this calculation under certain exceptional circumstances (including, but not limited to market constraints, portfolio or capital reorganizations,) for balances of cash or cash equivalents which are temporarily unusually high. The Applicant Investment Fund must duly justify the application of the allowance to the calculation.

[4] For compliance with this criterion, Applicant Investment Funds must set out their process for ESG incorporation through the investment process (e.g. research, portfolio construction, monitoring). This may include their involvement and commitment to relevant institutions such as the UN- Principles for Responsible Investment (PRI).

[5] Entities specialized in risk capital may be exempted from this criterion.

2) The Manager of the Applicant Investment Fund shall:

- demonstrate best market practices;[6] and
- be duly authorized by a competent supervisory authority of an EU Member State, or subject to a regulatory and/or supervisory regime that could be considered equivalent to that of EU Member States.[7]

[6] This documentation could be without limitation in the form of CSR/Sustainability guidelines/policy, Annual CSR/Sustainability report, Engagement policy, Active ownership policy etc. published at the level of the Manager of the Applicant Investment Fund or at the level of its group.

[7] The equivalence of regulatory and/or supervisory frameworks of non-EU countries with the EU framework will be assessed premised on the equivalence decisions of the European Commission and the Luxembourg national supervisory authority.