

LuxFLAG ESG Discretionary Mandate Label

Eligibility Criteria

In order to obtain a LuxFLAG ESG Discretionary Mandate Label, an Applicant Discretionary Mandate¹ and its Manager must comply with the following Eligibility Criteria set out by LuxFLAG:

1) The Applicant Discretionary Mandate shall:

- be classified as an Article 8 or Article 9 financial product within 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 the underlying invested assets² (“look-through approach”);

In case the Applicant Discretionary Mandate 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) within the meaning of the SFDR. This applies when the allocation to funds exceeds 10% of the Applicant Discretionary Mandate’s assets.

- comply with LuxFLAG’s ESG Label Exclusion Policy, including underlying invested assets; and
- submit documentation related to Responsible Investment Strategies incorporated into the investment process and investment decisions.³

2) The Manager of the Applicant Discretionary Mandate shall:

- demonstrate best market practices;⁴
- demonstrate its compliance with disclosure requirements of sustainability-related information on a pre-contractual basis and in periodic reporting to their clients in accordance with the SFDR; and

¹ Tailor-made Discretionary Mandates are excluded.

² 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.

³ As defined by Eurosif, available here: <http://www.eurosif.org/responsible-investment-strategies/>. The requested documentation may cover without limitation elements such as the definition of the non-financial objective, collection of ESG research, construction of investment universe, investment decision, ongoing monitoring and divestments.

⁴ This documentation could be without limitation 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.

- be duly authorized to provide discretionary portfolio management services or activities under the Luxembourg law of 5 April 1993 on the financial sector (the “Financial Sector Law” or “FSL”), as amended, or be duly authorized by a competent supervisory authority of a jurisdiction applying FSL-equivalent supervision and authorization rules.

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

1) The Applicant Discretionary Mandate 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 risks⁵ underpinning the use of derivatives by the Fund;
- demonstrate that the underlying assets of the derivatives used by the Applicant Discretionary Mandate 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 Discretionary Mandate;

For index-based products, the methodology used for the construction of the index should be screened by the Applicant Discretionary Mandate (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 Discretionary Mandate’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.

⁵ LuxFLAG reviews whether the Applicant Discretionary Mandate 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 Discretionary Mandate.

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.

2) **The Manager of the Applicant Discretionary Mandate shall:**

when selecting Undertakings for Collective Investment or other funds

- demonstrate the ESG screening of the underlying assets of the Applicant Discretionary Mandate, notably a 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 funds⁶ is classified as Article 8 or Article 9 financial product(s) within the meaning of the SFDR.

⁶ This minimum is calculated by excluding cash.