



ESG Label

Eligibility Criteria

Preamble:

LuxFLAG aims to revise the eligibility criteria of its labels from time to time as the market evolves.

The Eligibility Criteria list the requirements of the product, the process and the portfolio that the applicant needs to fulfill to be eligible to receive the ESG (Environment, Social, and Governance) Label.

The scope of the ESG Label's Eligibility Criteria is standardized across financial products (as defined below) which are distributed to retail, private or institutional clients.

Financial products, such as investment funds¹, insurance products, discretionary mandates, pension plans, indices or structured notes are included in the definition of the Applicant Financial Product ("AFP").

Management companies, investment managers, Alternative Investment Fund Managers (AIFMs), insurance companies, banks are included in the definition of the Manager of the AFP (the "Manager").

In order to obtain an ESG Label, both an AFP and its Manager must comply with the following eligibility criteria set out by LuxFLAG.

1) The Applicant Financial Product shall:

- a) Have an investment strategy that promotes environmental, social and governance characteristics or that includes one or more sustainable investment objective(s)²; and
- b) Have an investment selection process considering results of initial and ongoing ESG due

¹ Investment funds may include but are not limited to Undertakings for Collective Investment, collective investment schemes, RAIFs, ELTIFs, etc.

² For AFPs subject to the Sustainable Finance Disclosure Regulation ("SFDR"), this requirement will be assessed on their alignment with the Article 8 or Article 9 categories. For AFP not subject to the SFDR, this requirement will be assessed on the AFP's legal and reporting documentation, as well as its non-financial objectives described therein. In addition, the equivalence of regulatory and/or supervisory frameworks of non-EU countries with the EU framework will be assessed notably on the equivalence decisions of the European Commission and the CSSF, Luxembourg national supervisory authority.

- diligence on 100% of investments (excluding cash)³; and
- c) Apply exclusionary criteria in line with the ESG Label Exclusion and Engagement Policy (see Appendix I), including underlying investments; and
 - d) The following specifications apply at instrument level:
 - i. If investments into investment funds exceed 10% of the AFP's net assets, a minimum of 75% of the investee funds must comply with criterion 1.a), including a look-through⁴ on underlying investments.
 - ii. Sovereign bonds, green bonds, social bonds, sustainability bonds and/or sustainability-linked bonds must be subject to a relevant dedicated framework or approach, whether it is assessed using an external provider or via a proprietary methodology or a combination of both.
 - iii. In case of the use of derivatives⁵, the AFP is expected to demonstrate that the derivatives' underlying assets are subject to ESG screening, except when used for efficient portfolio management or hedging purposes⁶.

2) The Manager of the Applicant Financial Product shall:

- a) demonstrate best reporting and market practices;⁷
- b) be duly authorized by a competent supervisory authority of an EU Member State, or subject to a regulatory and/or supervisory regime considered equivalent to that of EU Member States⁸; and
- c) demonstrate a commitment to develop and implement best practices in the management of responsible investments by being signatory to recognized responsible investment frameworks⁹.

³ Such criterion shall be achieved using data either from an external provider or via a proprietary methodology or a combination of both.

⁴ This criterion shall be achieved by investing in investment funds which have been certified by a recognized labeling agency or subject to an ESG assessment or where there is confirmation of its alignment with internationally recognized standards.

⁵ Please refer to LuxFLAG Label Application Guide for more details on the use of derivatives and other portfolio management techniques.

⁶ The ESG Label's Exclusion and Engagement Policy applies to the derivatives' underlying assets used by the AFP.

⁷ This documentation should consist of at least a publicly available ESG report and in addition, but not limited to, CSR/Sustainability guidelines/policy, Annual CSR/Sustainability report, Engagement policy, Stewardship policy applicable at the level of the Manager of the AFP or at the level of its group.

⁸ the equivalence of regulatory and/or supervisory frameworks of non-EU countries with the EU framework will be assessed on the equivalence decisions of the European Commission and the CSSF, Luxembourg national supervisory authority.

⁹ Recognized responsible investment frameworks such as, but not limited to, the United Nations Principles for Responsible Investment (UN PRI).