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 funds[1], insurance products, discretionary mandates, pension plans, indices or structured notes are included in the definition of "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" or 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.

Depending on the type of AFP, specific provisions may apply as detailed in Appendix I.

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

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) and;[2]

b) Have an investment selection process considering results of initial and ongoing ESG due diligence on 100% of investments (excluding cash) and;[3]

c) Apply exclusionary criteria in line with the ESG Label Exclusion and Engagement Policy (see Appendix II), 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-through[4] 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 use of derivatives[5], 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 purposes[6];

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[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 Luxembourg national supervisory authority (the "CSSF").

[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 investments 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.

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 States[8]; and

c) demonstrate a commitment to develop and implement best practices in the management of responsible investments by being signatory to recognized responsible investment frameworks[9].

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[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 Luxembourg national supervisory authority (the “CSSF”).

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

Appendix I – ESG Label Exclusion and Engagement Policy

A. List of sectors and activities[10], in which investments must be excluded:

Controversial behaviors: Investments in companies which may be involved (whether credibly alleged or actual involvement), and/or whose management bodies may be involved in severe or very severe harm in violation of one or more of the following: the UN Global Compact Principles, the UN Guiding Principles on Business and Human Rights, the ILO Conventions, and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (see Appendix II.1 for further details).

Controversial jurisdictions: Investments in sovereign or corporate issuers and/or individuals or entities involved in countries or entities listed in one of the following: the United Nations Security Council sanctions regimes[11], the list of high-risk jurisdictions subject to a Call for Action by the Financial Action Task Force[12], the consolidated list of persons, groups and entities subject to the European Union financial sanctions[13].

Controversial weapons: Investments in companies involved, or through owned entities, in the manufacturing of controversial weapons, including anti-personnel mines, cluster munitions, chemical, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons and/or essential components of such weapons and/or relevant services in relation to such weapons, (see Appendix II.2 for further details).

Tobacco: Investments in companies deriving their revenues from production or cultivation of tobacco, or more than 15% from sales and/or distribution of any traditional tobacco products, as well as tobacco-related products (including without limitation e-cigarettes and next- generation tobacco/nicotine products) and/or tobacco-supporting services (including without limitation filters and smoking halls).

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[10] The activities listed here are in no way exhaustive and their interpretation by LuxFLAG may vary over time depending on the data provider. The accuracy and completeness of the data provided by third parties cannot be guaranteed. LuxFLAG assumes no responsibility or liability for any damages that may arise as a result of the use of such data.
[11] Additional information is available at https://www.un.org/securitycouncil/sanctions/information.
[12] Additional information is available at https://www.fatf-gafi.org/en/home.html.
[13]Additional information available at https://data.europa.eu/data/datasets/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions?locale=en.

B. **List of sectors and activities[14], in which – in relation to investments – engagement is encouraged [15] on ESG-related matters, unless they are excluded:**

Coal[16]: Investments in companies deriving more than 1% of their revenues from the exploration, mining, extraction, distribution or refining of hard coal and lignite.

Oil & Gas[17]: Investments in companies deriving more than 10% of their revenues from exploration, extraction, distribution or refining of oil fuels.

Investments in companies deriving more than 50% of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels.

Electricity generation[17]: investments in companies deriving more than 50% of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kwH.
These include – but are not limited to – thermal coal, arctic oil & gas, shale energy, oil sands, hydraulic fracturing/fracking, and deep-water drilling.

Palm Oil: Investments in companies involved in the extraction, production or distribution of palm oil as well as companies which use palm oil in their products, including- but not limited to- the upstream (plantations, mills) or downstream (refining/trading) palm oil value chain.

[14] The activities listed here are in no way exhaustive and their interpretation by LuxFLAG may vary over time depending on the data provider. The accuracy and completeness of the data provided by third parties cannot be guaranteed. LuxFLAG assumes no responsibility or liability for any damages that may arise as a result of the use of such data.

[15] The Principles for Responsible Investment (PRI) defines engagement as "*interactions between the investor and current or potential investees on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosures*." LuxFLAG would require engagement to be monitored and reported, including at least the following aspects: theme, target outcome and timeline.

[16] The definition of this activity and/or sector is aligned with the exclusions set out in Article 12 of the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum standards for the EU Paris-aligned Benchmarks.

[17] The definition of this activity and/or sector is aligned with the exclusions set out in Article 12 of the Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum standards for the EU Paris-aligned Benchmarks.

Pesticides and Genetically Modified Organisms ("GMOs"): investments in companies deriving more than 5% of their revenues from the activities listed below:

a. Production of pesticides, including plant protection products, that are not approved for use in the EU and which are identified in the Rotterdam Convention Prior Informed Consent (PIC) procedure.
b. The development, distribution and cultivation of food or feed from genetically modified varieties of plants that have not passed a risk assessment carried out according to the criteria in Annex II to Regulation EN 503/2013 or equivalent.

LuxFLAG reserves the right to update this Exclusion and Engagement Policy at regular intervals as the market evolves.

Appendix I.1 – Internationally recognised standards referred to in the Controversial behaviors exclusion

Internationally recognized standards include, without limitation, the following:

- the Universal Declaration of Human Rights;
- the United Nations Guiding Principles on Business and Human Rights;
- the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct;
- the International Labour Organization's Fundamental Labour Conventions;
- the International Bill of Human Rights;
- the United Nations Global Compact; and
- the Declaration on Fundamental Rights and Principles at Work.

For sovereign issuers, human rights due diligence may rely, without limitation, on the Freedom House Index and the Transparency International's Corruption Perceptions Index.

In the case of companies operating in conflict-affected or high-risk areas, their investments are required to be subject to robust human rights due diligence processes, including engagement, particularly where credible allegations of human rights' violations have been identified.

Appendix I.2 - Internationally recognised standards referred to in the Controversial weapons exclusion

Relevant international conventions include, without limitation, the following:

- the Geneva Protocol (1925) (on chemical and biological weapons);
- the Treaty on the Non-Proliferation of Nuclear Weapons (1968);
- the Convention on the prohibition of biological weapons (1972);
- the Convention on Cluster Munitions (2008);
- Protocol III to the Convention on Certain Conventional Weapons (1980) (on incendiary weapons);
- the Convention on the Prohibition of Chemical Weapons (1993);
- the Convention on the Prohibition of Anti-Personnel Mines (Ottawa Treaty) (1997); and
- the Treaty on the Prohibition of Nuclear Weapons (2017).