




Sustainable Investing

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Responsible Investment labels: welcome to the jungle!



There is no common definition of “sustainable finance”, which leaves ample room for interpretation when referencing sustainable investments.

Sustainable investment strategies can be based on environmental or social themes like climate change or human capital, exclusions based, best in class, best in progress or future potential progress...

Sustainable investments can also differ largely in terms of objective and allocation. Amidst the variety of terminology: sustainable, responsible, SRI (Socially Responsible Investing), ESG (Environmental, Social, Governance), green, climate, eco, transition, most investors are ill-equipped to understand the growing responsible investment offer.










Labels have been developed to answer that lack of clarity and make sustainable financial products easier to understand. They attest to the quality of the process.

But labels cannot streamline what is already fragmented. Moreover, they are viewed as a tool to influence standards, regulations and potentially a future European ecolabel. Many EU countries are now racing to be at the forefront, so they can impose their view of responsible or green investments and set the standard.

Across Europe, we have inventoried no less than nine different labels and 800 labelled funds in a total universe of 60,000 funds (as at Dec. 31, 2019). Though that represents just 1% of the total market, the number of labelled funds doubled in a single year.

Of the nine labels, five can be qualified as ESG (Environmental, Social and Governance) and four as “Green”. However, the boundary between ESG and Green labels is blurry. For example, the ESG labels include the “E” of environment and therefore also examine green criteria whereas the Green labels require a minimum of ESG criteria/standards. Between both types of labels, it is a question of proportion and focus rather than a fundamental distinction in the approach, as illustrated in the following below.

In the jungle of labels, two, the French “SRI label” and the Belgian “Towards Sustainability”, are leading the pack, with approximatively 300 labelled funds each, representing close to three-quarters of the total number of labelled funds and 90% of the total assets under management of labelled funds.

		Number of funds		AuM in €bn (Morningstar and LuxFLAG data)		Number of funds with multiple labels
		12/31/2019	Growth in 9 months	12/31/2019	Growth in 9 months	12/31/2019
ESG "Green" labels	 SRI Label (France)	321	↗ + 121	137.8	↗ x 2.7	66
	 FNG-Siegel (Germany, Austria & Switzerland)	101	↗ + 36	30.2	↗ x 3.1	56
	 LuxFLAG ESG (Luxembourg)	100	↗ + 55	42.9	↗ x 3.4	25
	 Towards Sustainability⁽¹⁾ (Belgium)	265	–	138.6	–	78
	 Umweltzeichen⁽¹⁾ (Austria)	116	↗ + 12	14.8	↗ x 1.3	41
	 Nordic Swan Ecolabel (Nordic Countries)	32	↗ + 9	11.4	↗ x 1.4	6
	 LuxFLAG Environment (Luxembourg)	10	↗ + 3	7.9	↗ x 1.3	6
	 LuxFLAG Climate Finance⁽¹⁾⁽²⁾ (Luxembourg)	2	↘ - 1	0.05	↘ x 0.2	–
	 Greenfin Label⁽¹⁾ (France)	19	↗ + 8	6.1	↗ x 2.3	8
TOTAL		806	↗ + 392	302	↗ x 3.2	126

Source: Novethic

Commonalities and Specificities

Qualifying for a label means that the fund has committed to exclude certain activities or companies that are misaligned with environmental, social and governance (ESG) objectives. It generally means, for example, that fossil fuels are excluded and that the investment process and portfolio holdings are transparent. Of course, there are varying thresholds, scopes and ESG selection requirements.

Certain labels introduce additional disclosure requirements such as the reporting of impact indicators. And some labels have defined a point system with minimum requirements and an incentive to develop what is deemed as best practice.

Green labels impose a minimum share of green revenues, but the thresholds vary from 10% to 37%.

Each label is a unique combination of commonalities and specificities often reflecting national preferences and views on responsible investment. The diversity of available labels complicates their use in the distribution of investment funds outside their domestic market and raises many questions: which label, multiple labels, the cost implications... We are increasingly seeing funds displaying multiple labels, some have up to three, which leads to a question of common sense: how this could impact the investment philosophy of the fund?

Aiming for a label as a certification of the intrinsic quality of the fund and choosing the label that matches the fund's philosophy and helps convey the sustainability message makes sense. It also makes sense when it becomes a "must-have" to sell in different jurisdictions. Will a future European label put an end to the recent proliferation of national labels? Up to now, only an ecolabel is on the table which would merely replace the green labels, but not the ESG ones. The road may be long before agreeing on a European ESG label.

In order to transform the jungle of labels into useful tools for investors, what if we were to rely on the point system used by some labels and define minimum requirements applicable across all of Europe and then allot additional points to specific criteria that could vary across countries?

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