



Towards Sustainability

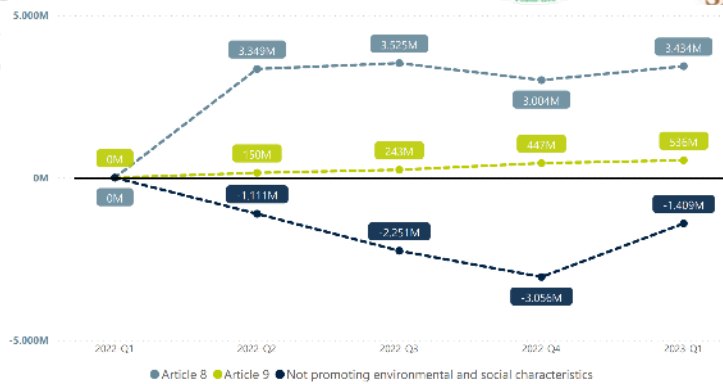
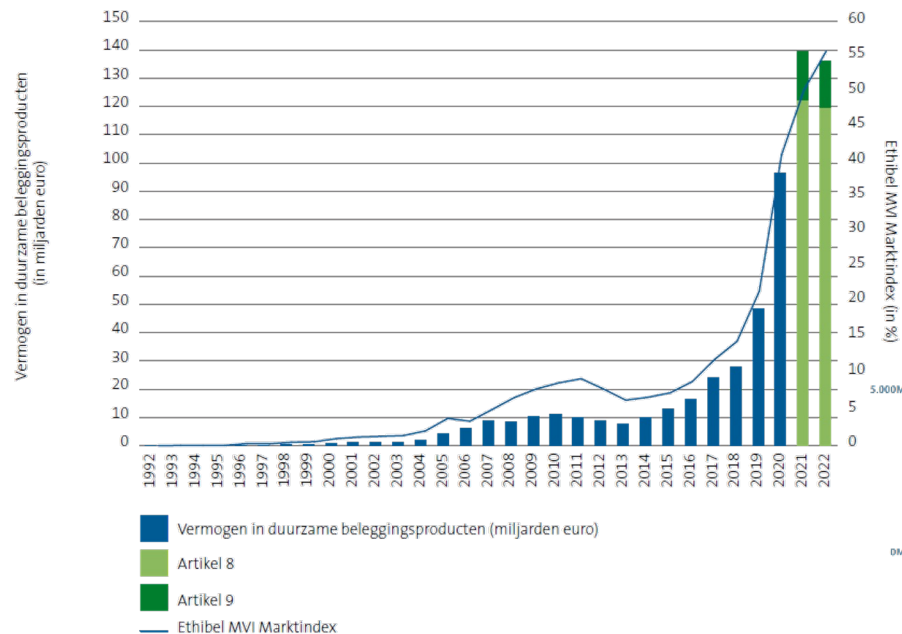
BZB-FEDAFIN Congres
19 October 2023

Key points

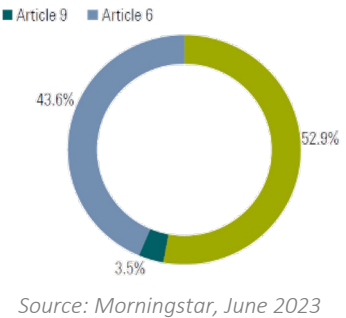
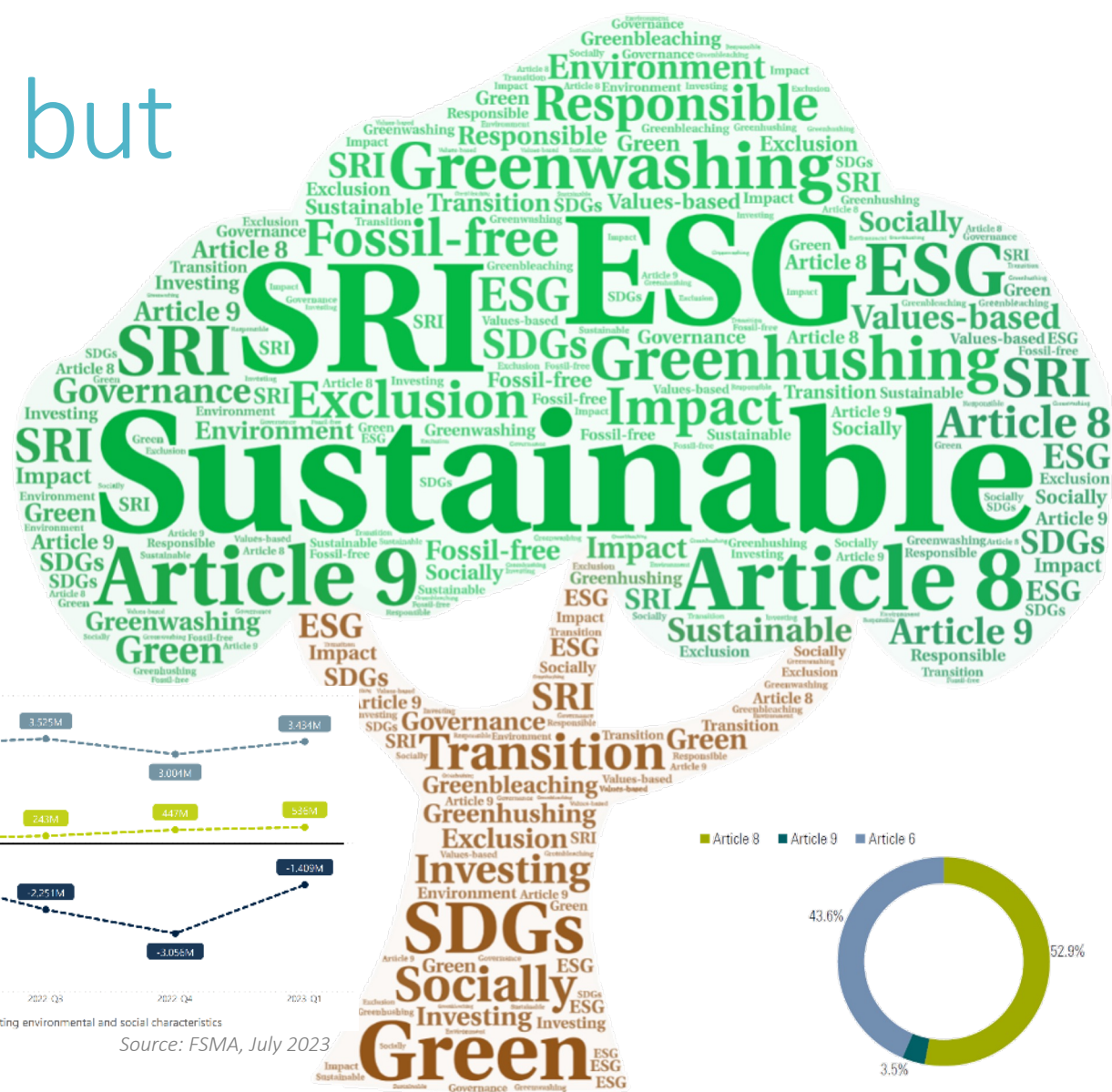
The Towards Sustainability label

1. Is a **practical and easy tool** for (retail) investors and investment advisors to understand the sustainability-profile of a product and assess alignment with personal sustainability preferences.
2. Responds to the **basic assumptions and expectations** of investors about sustainability.
3. Provide investors with the **reassurance** that the product meets a minimum but ambitious degree of sustainability.
4. Builds upon and supports the implementation of the **EU sustainable finance regulation**.

Sustainability is popular but complex



Source: FSMA, July 2023



Source: Morningstar, June 2023

- ➔ Confusion, fragmentation, greenwashing risk
- ➔ Febelfin's Towards Sustainability Initiative

Are SFDR and MiFID not enough? Why do we need a label?

The legal framework is not the complete solution

S
F
D
R

Transparency about sustainable investment products

Avoiding greenwashing

Type of sustainability claim → appropriate disclosures in prospectus, reports & website

- **Art 8:** Products promoting environmental or/and social characteristics
- **Art 9:** Products having sustainable investment as their objective

BUT

- Used by market as labels, not as intended by regulator
 - Does not aim to ensure a minimal degree of sustainability
- Disclosures too complex for retail investors

“Using an SFDR classification as a means of promoting products is undesirable”.

An SFDR classification [‘Art. 8’ or ‘Art. 9’] “in itself should not be presented as substantiation for a certain degree of sustainability of a product”.

A label complements SFDR with a **guaranteed minimum degree** of sustainability that is **independently verified**.



It is important “not to give the impression that such classifications have been assigned by a third party”.

Source: AFM

The legal framework is not the complete solution

M
i
F
I
D

Considering the sustainability preferences of investors

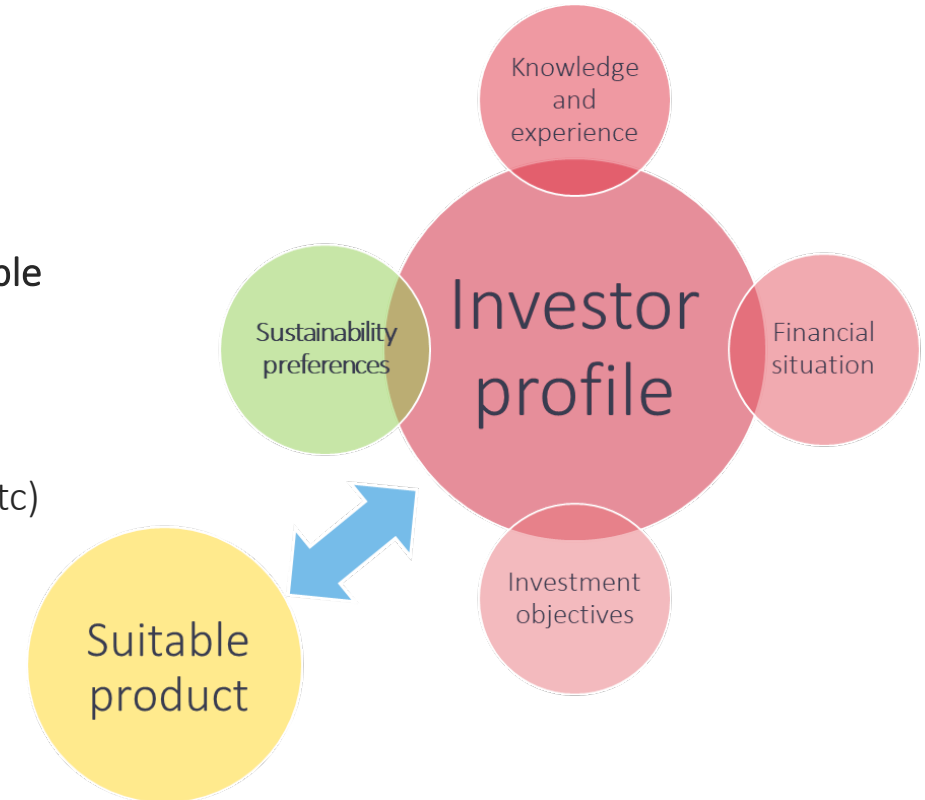
Avoiding mis-selling

Advisor must ask client about sustainability preferences, if any:

- minimum proportion that should be invested in **environmentally sustainable investments** as defined under the **EU Taxonomy**
- minimum proportion that should be invested in **'sustainable investments'** as defined under the **SFDR**
- consideration of **'Principal Adverse Impacts'** on sustainability factors (e.g. GHG emissions, fossil fuels, biodiversity, weapons, diversity, etc)

BUT

- Very complex for retail investors and for advisors
- Low engagement of investors: 20% don't care, 79% do care but have no preferences, 1% has specific preferences



A label supports MiFID with a **practical and easy tool** for (retail) investors and investment advisors to understand the ESG profile of a product and assess alignment with personal ESG preferences

Bridging the legal framework and personal convictions

Personal assumptions, expectations & convictions



Minimum guaranteed degree of sustainability



Legal requirements & building blocks



What are the basic assumptions & expectations of the sustainable retail investor?



1. **No** investments in particularly **harmful** companies

- *E.g. coal, shale, tobacco, weapons, human & labour rights, etc.*



2. An investment approach seeking some **positive impact**

- *E.g. favouring better scoring companies, thematic focus, direct impact, voting & engagement*



3. **Clarity** and understandable information

- *Detailed info about specific personal concerns e.g. fossil fuels, nuclear, biodiversity, water emissions, waste, diversity, etc*

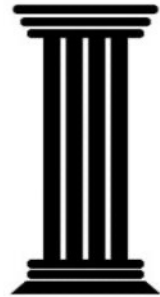


4. **Assurance & comfort**

- *Regular 3rd-party expert supervision*

3 Pillars of Towards Sustainability

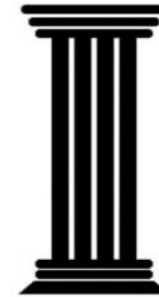
**Quality
Standard**



Label



**Independent
supervision**



How does the Towards Sustainability label work?

The Quality Standard



A. Sustainability strategies

A multi-faceted approach to sustainability

INTEGRATE -
SELECT - FOCUS -
OUTPERFORM - ENGAGE



B. Avoid harm

Some activities do not belong in a sustainable portfolio



C. Transparency

What is taken into account and how?

FORMAL POLICIES

Integrate – Act – Communicate

Not financing unsustainable companies

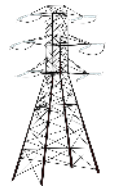
Excluded

- UN Global Compact violations, Human rights, Labour rights
- Tobacco
- Weapons
- Coal
- Unconventional oil & gas



Very strict non-expansion & transition criteria

- Conventional oil & gas
- Electricity generation



International Energy Agency (IEA): as of now no exploration, no exploitation and development of new oil and gas fields, and no new coal-fired power stations can be built if the world is to stay within safe limits of global heating and meet the goal of net zero emissions by 2050.

Not financing unsustainable governments

For all States

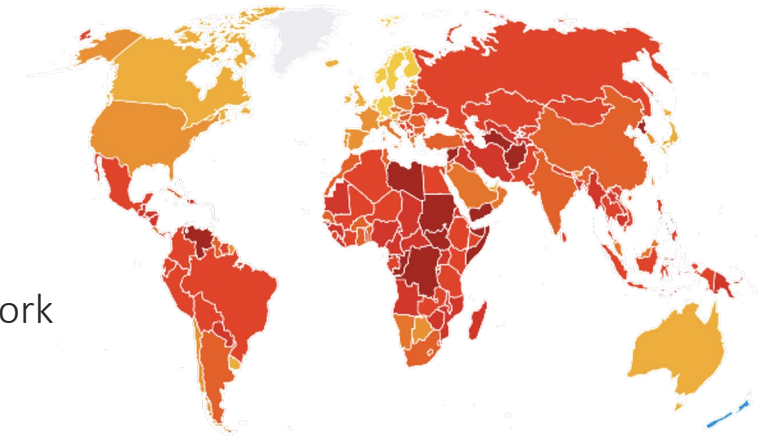
- Score above the median on the **Worldwide Governance Indicators** of the World Bank
 1. *Voice and Accountability*
 2. *Political Stability and Absence of Violence/Terrorism*
 3. *Government Effectiveness*
 4. *Regulatory Quality*
 5. *Rule of Law*
 6. *Control of Corruption*



For high-income States

(additionally)

- Human Rights
- Fundamental Rights and Principles at Work
- Paris Agreement
- UN Convention on Biological Diversity
- Nuclear Non-Proliferation Treaty
- Particularly high military budgets (>4% GDP)
- Jurisdictions with strategic AML/CFT deficiencies
- Corruption
- Freedom & democracy
- Death penalty



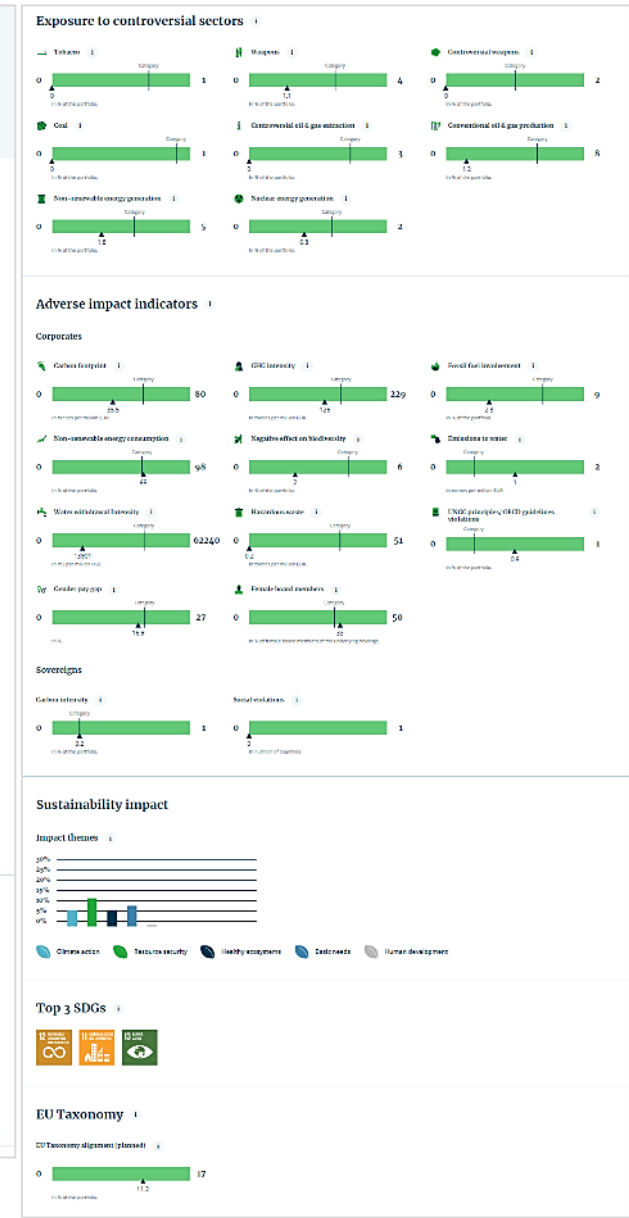
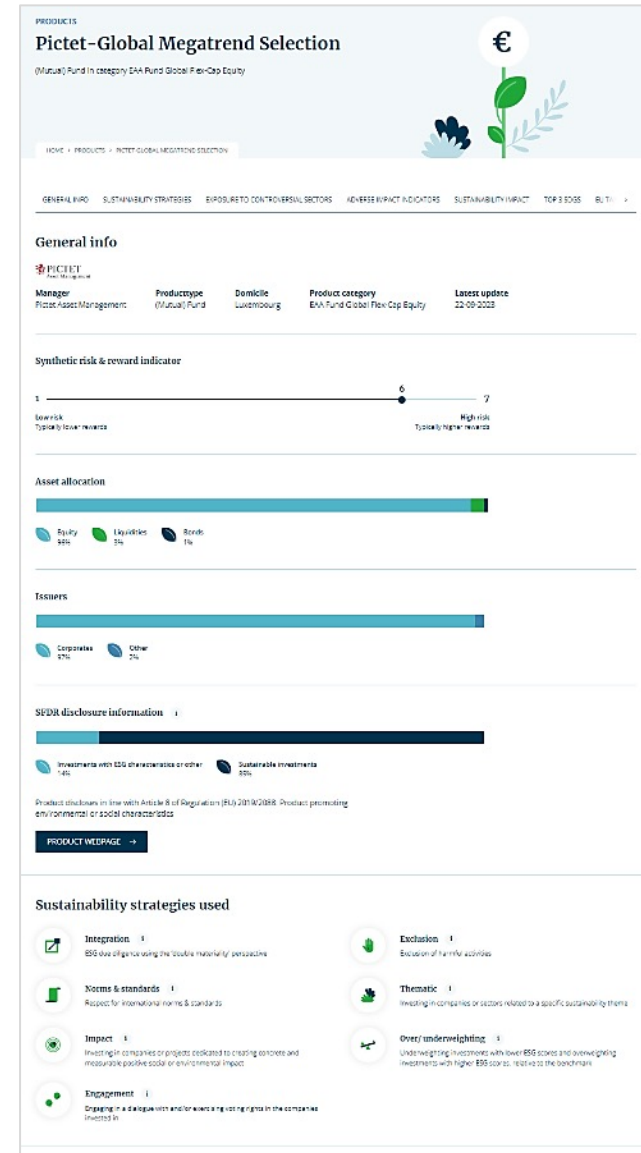
- 102 of 193 UN countries eligible
- 91 excluded

Website & Sustainability ID

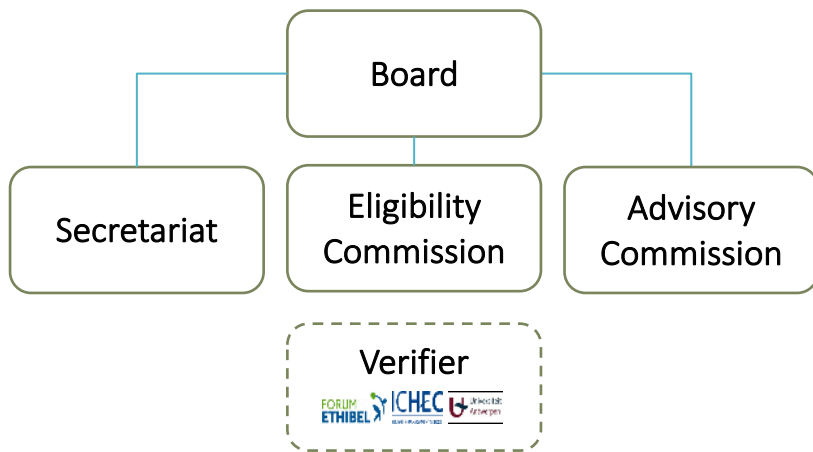
www.towardssustainability.eu



- List of labelled products
- Sustainability ID
 - *Webpage per labelled product*
 - *Overview of sustainable investment strategies and policies*
 - *Most relevant ESG indicators with context*
 - *User-friendly layout*
 - *Search and filtering options*
 - *Linked to MiFID Sustainability Preferences*



Independent Supervision & Verification



Independent **non-profit organisation**
 A majority of **independent** members in each commission

1. Methodology Screening

- Sustainability strategies
- QS compliant investment policies - ESG due diligence – Exclusions
- Internal organisation – processes – data sources

2. Portfolio Composition Check

- Focus on policy implementation
- Risk-based selection of portfolios per manager

3. Ongoing Exposure Monitoring

- Throughout the year
- Focus on high-risk sector exposures

4. Reporting

- Annual performance on KPIs
- Record of temporary non-compliance

5. On-site Audit

- Each manager once every 3 year

What is the impact of the Towards Sustainability label?

Broad market adoption of the label

Involved market participants

- 100+ financial institutions
- Banks, asset managers, insurance companies, private bankers, etc
- Indexproviders, rating agencies

from many domiciles

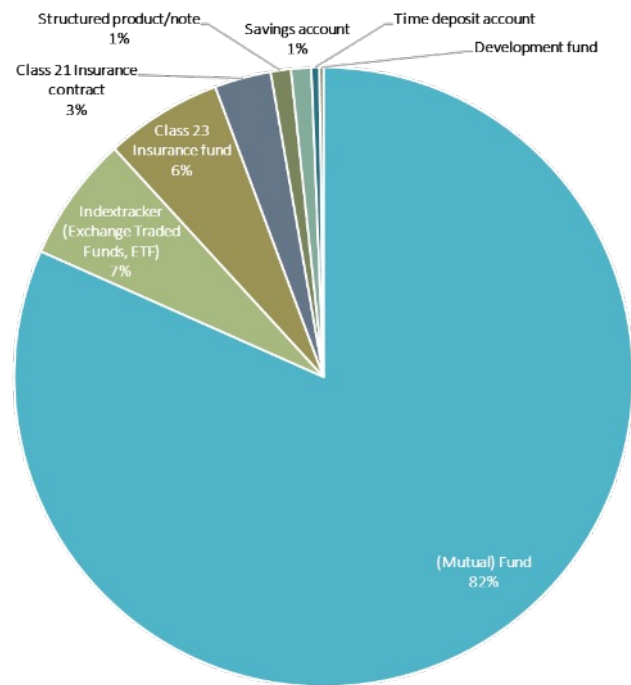
- Belgium
- France
- Germany
- Ireland
- Liechtenstein
- Luxembourg
- Netherlands
- Norway
- Sweden
- United Kingdom



Large number of labelled products

Product types

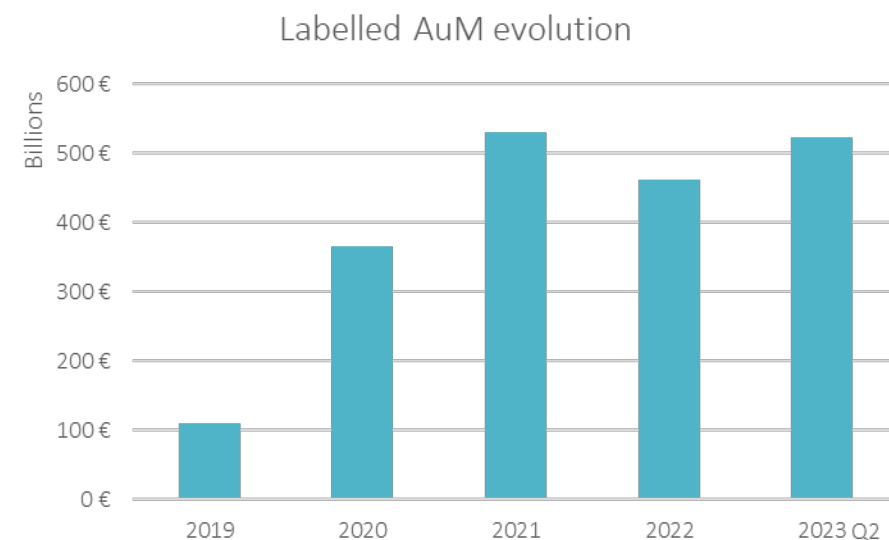
- Savings and investment products
- Mutual funds, indexfunds, ETFs, insurance funds, structured notes, savings accounts, etc
- Indices



➔ Most comprehensive label in Europe

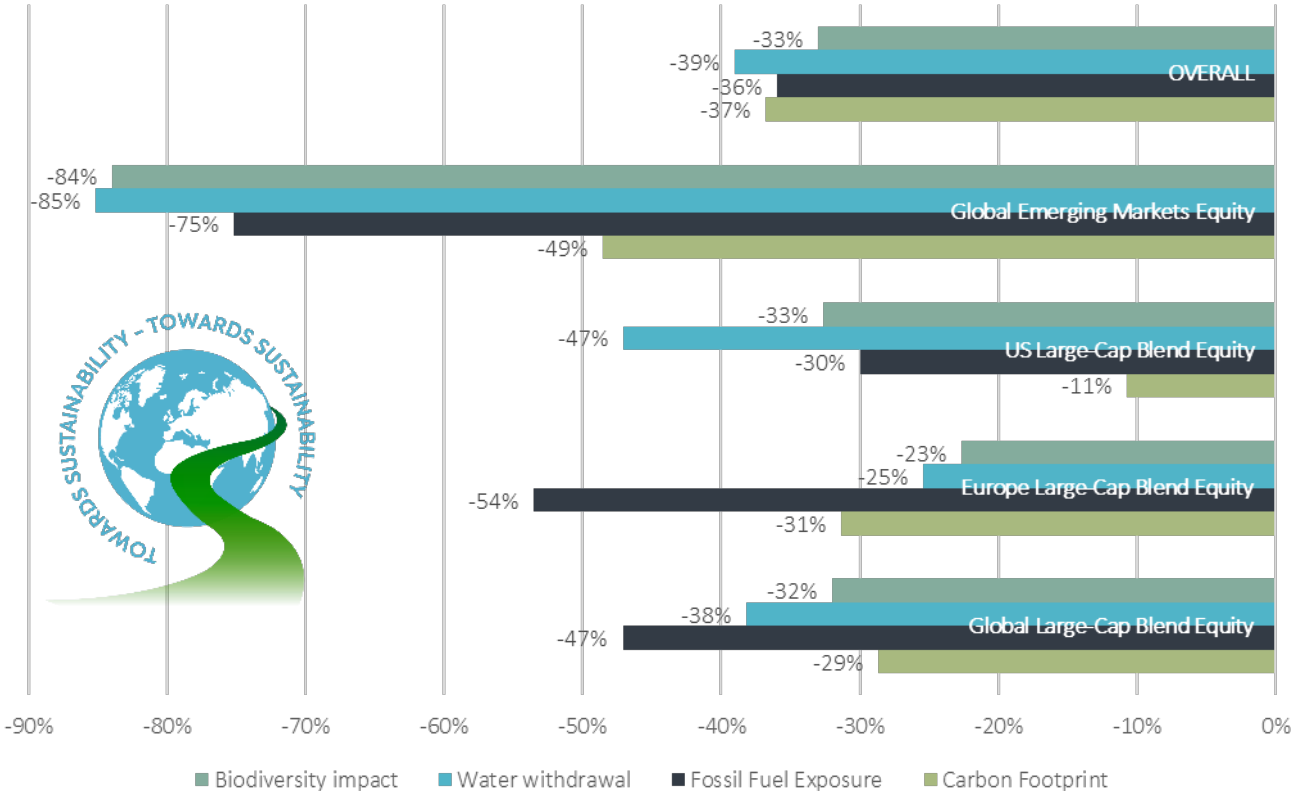
Numbers (June 2023)

- 788 products labelled
- 523 bn. EUR total AUM (482 bn Net.)
 - 25% on BE market, 75% EU

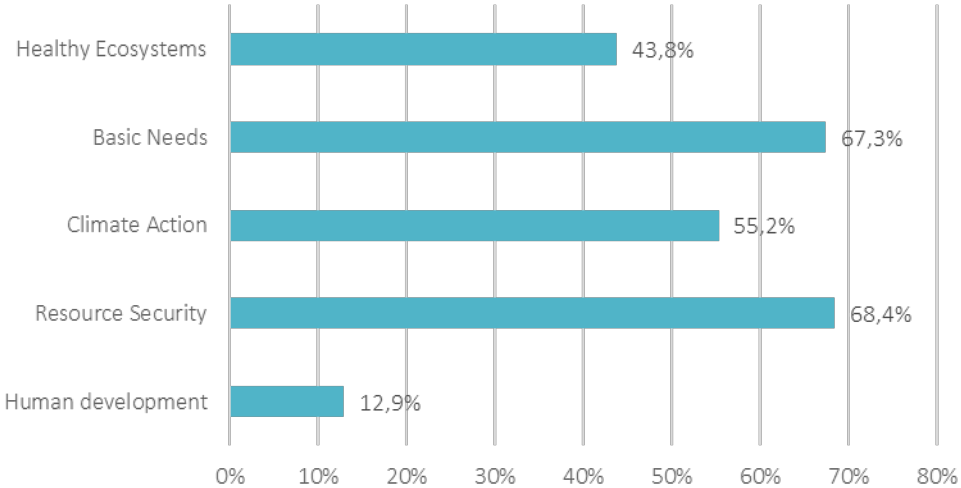


ESG performance of labelled products

ESG indicators - Labelled vs Category Average



Highest contributions to impact themes



Labelled funds (Global & EU portfolios)
 Carbon footprint ≈ 30% lower than average
 Fossil fuel exposure ≈ 50% lower than average

Source: Morningstar & CLA

Conclusions

The Towards Sustainability label:

- is the **start of the investor's journey** towards sustainable investing.
- is the **beginning of the conversation** with their financial advisor and is a **guidance for financial advisors**.
- **guarantees a strong basis** but also invites to dig deeper by providing **clear and pertinent information**.

Contact



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