



Qualitätssicherungsgesellschaft
Nachhaltiger Geldanlagen mbH



Universität Hamburg
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FNG-Label

for Sustainable Investment Funds



Rules of Procedure 2022

Last amended: 30.03.2022

Amendments and special notes:

Preliminary commentary on EU regulatory and national SRI efforts:

Unfortunately, due to the still partially missing concretisation by the regulator, the FNG-Label can still only integrate the specifications of the EU regulatory framework on sustainable investments to a limited extent. This applies in particular to the content-related definition of the term "sustainable investment" as it appears in Article 2 (17) of the Disclosure Regulation (i.e. the area outside the EU taxonomy with its six environmental objectives, although even there only the two climate objectives are defined with technical regulatory standards). This is also connected with the difficulty of referring to the BaFin Directive for sustainable assets - which, for example, when stating the 75 percent quota of sustainable assets also only refers to said Article 2 (17) without being specific. Incidentally, the FNG-Label is an SRI quality standard of the German-speaking markets, namely Austria, Liechtenstein, Switzerland and Germany and feels committed to the integration of the overall harmonization of sustainable investments desired by the EU. Aware of the importance of other national efforts, however, the FNG-Label, for example, made tobacco exclusion mandatory last year as a result of the German target market concept and is sporadically beginning to incorporate criteria from other national SRI labels - specifically, we are in exchange with the Austrian Ecolabel and the Scandinavian Nordic Swan. In 2020, the methodology of the FNG-Label has already been harmonized in many parts with the so-called AMF-Doctrine (French Financial Market Authority on "Informations à fournir par les placements collectifs intégrant des approches extra-financières"). This applies in particular to the minimum exclusion criteria relating to the existence of an explicit sustainability strategy, to the even higher (100%) ratio of required ESG coverage for the FNG-Label, and to the requirement of compliance with the European SRI Transparency Code. Its signatories, in turn, take into account recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), Article 173-VI of the French TECV regulation and the final report of the High-Level Expert Group on Sustainable Finance. In addition, many other elements required or recommended by the AMF in connection with the investment process, selection strategy, impact measurement, reporting, engagement and voting rights exercise have been and are being reviewed and evaluated in the grading model. Discussions were also held with the Swiss FINMA in connection with the supervisory guidance on preventing and combating greenwashing published in November 2021 in order to demonstrate the already existing compatibility of the FNG-Label with parts of the sustainability-related information required therein for Swiss collective investment schemes and in order to be able to better consider further elements within the scope of the SRI due diligence by means of the FNG-Label. Together with the Scandinavian and Austrian label managers, the FNG-Label also plays an important role in the JRC's work on extending the EU Ecolabel to financial products, which has been underway since 2018. Elements resulting from this will be integrated into the FNG-Label's criteriology, which will be adjusted annually, as soon as they are available. Unfortunately, however, there has been no progress on the EU Ecolabel since summer 2021.

This year's changes that were up for discussion and that were or were not adopted:

- Retention of rigid revenue thresholds and alternatives to norm- or index-based country exclusions: In late 2021/early 2022, a formalized and official feedback process was used to gather input from product providers and users (distributors) of the FNG-Label on the topic of "rigid revenue thresholds" and "country exclusions" regarding the FNG-Label's minimum exclusion criteria. The collected feedback rounds can be found in minutes that can be viewed [here](#). In total, only 20 out of 91 asset managers contacted participated in the four meetings offered. From the sales side, only few used the feedback option. Within the asset managers, the feedback was divided, with some generally in favor of retaining easy-to-understand criteria and specifically also the rigid revenue limits. Within the group of those who disagreed, the ideas were very individual and no consensus on a common position emerged. As expected, the usual "KISS" (keep it short & simple) feedback came from the stakeholders of the sales side.

Overall, it can be assumed that the desire for change is still very low, especially due to the high non-participation of the asset managers and the almost complete absence of sales feedback. Combined with the challenge of having to implement a change in the review and assessment process of the review team in an objective, systematic and traceable manner, even in consultation with the FNG-Label Committee, there is not yet a mandate to take action on these two points this year. The reasons highlighted from many perspectives and points expressed in the feedback are reflected in the before mentioned [minutes](#). In particular, more detail on the challenge of querying CapEx/OpEx and the current unfortunate lack of recourse to established and general sustainability assessments for countries. Of course, these and other necessary changes will be further discussed at each future round of adjustments and examined for feasibility by the review team - especially against the backdrop of advancing efforts by EFRAG's PTF-ESRS with regard to CSRD and the incipient efforts by ESG service providers to reach general sustainability ratings for sovereigns beyond individual KPIs.

- Changes in the assessment of product standards (reporting), among other things: Since optional elements in the FNG-Label in anticipation of regulation led to a quality upgrade, which have now become mandatory under the Disclosure Regulation, it will continue to be necessary to assess the corresponding criteria in an adjusted manner. For example, in the "Product Standards" category, the sub-category "SRI Reporting", as the requirements of the EU Disclosure Regulation continue to lead to regulatory-driven developments in the assessment here. This can lead to a drop in the overall score for reapplying funds that have not made any year-on-year improvements. This may ultimately even lead to the loss of a star.
- Neutralization of the evaluation of voting rights in the event of certain impossibilities: If no voting rights can be exercised with regard to ecological or social issues due to a lack of resolutions by the AGMs, this will be taken into account in a neutralizing manner. Evidence of this must be provided by the applicant.
- Dealing with themes: As part of the review and assessment process, the "Positive Criteria" subcategory also considers whether there is a thematic approach. This can lead to the theme-related criteria being evaluated. Reference is made to § 2.3.4.1. In case of doubt, address whether this applies to your application or not in the questionnaire in the online tool.
- Dealing with asset classes or product categories not always listed in advance in these rules of procedure (e.g. ABS and Cat Bonds): Just as in the case of the product category "sustainability bonds", for which a use of proceeds can be assigned and violations of the minimum exclusion criteria are applied at product level, the principle of the use of proceeds or the final beneficiary also applies to other asset classes or product categories, for which it is unfortunately not always possible in advance of an application to write down the respective handling in these rules of procedure. For example, in the case of catastrophe bonds (Cat Bonds) or asset-backed securities (ABS) (or more specifically mortgage-backed securities), the nature of the focused investment leads to a specific examination of the extent to which the exclusion criteria of the FNG-Label are included by these special investments. Since it is often difficult to prove e.g. concrete revenue limits, alternative (usually inductive and internal) procedures, which have to be applied by the applicant, are examined and evaluated. Ideally, the applicant seeks discussion with QNG in advance of an application, as there can be no advice of passing the minimum requirements without knowing further details and the review team reserves the right, in cases not yet comparable from the past, to work out an initially rudimentary approach to the respective new asset class or product category during the ongoing FNG-Label review in exchange with the QNG (and also with the committee members at the latest through the committee meeting in advance of the label award)

- Increased integration of the EU taxonomy: The classification of environmentally sustainable economic activities within the EU regulatory framework on sustainable finance is a suitable point of reference for being able to identify business fields explicitly considered "green" by the EU. The fact that the highly controversial areas of nuclear energy and natural gas are probably also to be included in the green taxonomy does not fundamentally change this for the time being. An investment fund applying for the FNG-Label must nevertheless describe the nature of its individual investments. Here, the (not general, but rather concrete) reference to the six environmental objectives of the EU taxonomy helps, for example, to establish a thematic reference or to better define KPIs (also over time or with a defined objective). The integration of the EU taxonomy into research, investment processes, portfolio construction, and reporting and/or other elements is also positively forward-looking. However, due to the fact that initial results on so-called taxonomy alignment quotas still vary widely depending on estimates, data collection and mapping methods, the consideration of such quantifiable elements is only possible to a limited extent. The exclusions required by the FNG-Label, especially those relating to nuclear energy and fossil energy sources, naturally continue to apply.
- Impact measurement: For the moment, still no separate, new criterion. Justification: Due to the reporting requirements for the real economy to be recommended by EFRAG only this year, which will then ideally be fully taken up by the CSRD and later by a database, ideally completely by the ESAP, the market is still in an early stage of methodology development for impact measurement. As a result of the aforementioned efforts, there is unfortunately still a weak data situation that provides no robust, systematic and comparable key performance indicators, which would be necessary for the integration of an own objectifiable "impact" measurement tool into a label standard. Initial results on so-called taxonomy alignment quotas also still vary widely depending on estimates, data collection and mapping methods. Together with the scientific community, in particular with the chair of Prof. Timo Busch from the Sustainable Finance Research Group at the University of Hamburg and the new support for the future review and assessment work from the non-profit association F.I.R.S.T. in connection with a research unit as a university spin-off, further research and testing is being carried out, also with regard to the perspective classification system proposed by the Sustainable Finance Advisory Board of the German Federal Government. In-house developments or third-party applications used by applicants themselves will therefore continue to be evaluated in the categories of product standards, selection processes and key performance indicators.
- Increased random checks/compliance with the minimum criteria: The minimum exclusions must be complied with in accordance with the listed criteria over the entire label period. Investments in holdings that violate the minimum exclusion criteria of the FNG-Label are not label-compliant and therefore not permitted. To verify compliance, the assessment team may conduct random checks that go beyond the scope of the label award process. With regard to compliance with the minimum requirements of the FNG-Label, reference is made to the measures to be taken listed in § 1.5.

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Preamble

Forum Nachhaltige Geldanlagen (FNG), the Sustainable Investment Forum (SIF) of the German-speaking countries, founded in 2001, is the industry association promoting sustainable investment in Germany, Austria, Liechtenstein and Switzerland. One of FNG's objectives is to assure the quality of sustainable investments by constantly improving quality standards for sustainable investment products.

To this end the FNG (together with its members and other stakeholders) has developed a Quality Label for sustainable investment funds and similar products. The methodology is partly based on the European SRI Transparency Code (which in turn refers to important recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and Article 173 VI of the French TECV, among others) and FNG's Sustainability Profiles. Both tools help to improve the transparency of sustainable finance products. The chair of Prof. Timo Busch from the Sustainable Finance Research Group at the University of Hamburg supports the FNG in further developing and operationalising the label's methodology. During the creation process, FNG founded a subsidiary: Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) mbH which bears the overall responsibility for the FNG-Label.

In recent years, the sustainable investment market has exhibited dynamic growth and this has been reflected in an increasing variety of products and sustainable investment approaches. The EU Sustainable Finance Disclosure Regulation (SFDR), which came into force in March 2021, has once more accelerated this development rapidly. However, it is evident that an increasing number of investors perceives the sustainable investment market as confusing and complex. Especially the large amount of investment funds classified as sustainable investments according to Article 8 of the SFDR, which represents a pure transparency requirement without minimum content standards, makes qualitative differentiation very difficult. For many investors - even professional fund selectors - filtering "good" sustainability funds is now almost impossible due to a lack of know-how and time. Moreover, due to the still inadequate data situation with missing systematic and comparable original company data at the current stage, a purely quantifiable approach is still not seriously feasible. The use of existing ESG metrics, which for the most part continue to be based on estimated values and for which the correlation of the ratings is only weak, among other things due to different data collection and estimation methods, and also the first results regarding taxonomy alignment quotas are still very different, even less useful as mostly in the low single digits, does not represent an objective and independent alternative. Current regulatory efforts, including EFRAG's preliminary work on CSRD and the plan to make data publicly available via the European Single Access Point, will lead to increased quantitative assessment only in the coming years. A quality label can help to reduce information costs, provide clarity, and promote the establishment of standards and quality assurance in a growing market. The willingness of a product provider entering into an independent sparring by and dealing with the FNG-Label criteria in the context of the external review and assessment process represents itself already a hurdle and normally leads to a higher SRI quality level. In addition, a grading model build upon a minimum standard provides constant incentives for newcomers to improve, and for those with experience it keeps the motivation high to improve best practices year after year. The FNG-Label is now used by fund providers¹ from 14 (also non-EU) countries. The responsible person for the FNG-Label repeatedly has been invited by the French Ministry of Finance to help improve their state-owned label ISR. Additionally, the FNG-Label participates (particularly with the Scandinavian Nordic Swan and the Austrian Ecolabel) in the EU Commission's working group on the extension of the EU Ecolabel to financial products. A scientific study² concluded that the FNG-Label excels especially in the criteria of transparency, stringency and governance.

¹ Fund provider is understood/synonymously seen as: Fund advisor, fund initiator, fund promoter, fund manufacturer, capital management company/ investment fund services in the role of portfolio manager, etc.

² <https://fng-siegel.org/studie-ueber-sri-labels/>

Against the background of the EU's SFDR, there is a regulatory compulsion to classify financial products with sustainability characteristics as compliant with Article 8 or 9 and to fulfill corresponding reporting requirements. In the future, it will also be necessary to classify sustainable financial products in line with EU regulations as part of the advisory process with regard to clients' sustainability preferences required under MiFID II in order to be allowed to market them at all. All product manufacturers now have a strong interest in offering a corresponding range of products in order to not be excluded from the market for sustainable investments. This will lead to even greater market dynamics.

The FNG-Label allows fund manufacturers and the respective points of sale and distribution entities the opportunity to document the quality and the sustainability standards of their investment products. It is assessed externally by a dedicated assessment team led by Prof. Timo Busch from the Sustainable Finance Research Group at the University of Hamburg and additionally accompanied by an independent committee of experts consisting of different civil society stakeholders. At the same time, it allows an active contribution to the further development of the sustainable investment market in German-speaking countries. In the sense of best practice, a framework is thus created in which innovation continues to be driven out of the market.

Funds' prospectuses and other documents from the investment funds are reviewed beyond the already existing mandatory elements of regulatory sustainability reporting only to the extent that they contain information relevant for the assessment of their sustainability quality from the perspective of the FNG-Label. The FNG-Label award process does not cover a general complete checking of the funds' prospectuses or other contractual documents, nor a continuous monitoring of all portfolio holdings at all times. However, it includes ex-post portfolio screenings and random checks. Neither is the financial performance part of the analysis. The award of the FNG-Label does not constitute in any way an assertion by QNG and the assessment team as to the completeness, accuracy, economic viability, and the legal compliance of the offer or the investment activities of the investment fund concerned. Anything to the contrary is neither intended per se by the applicant or by FNG and QNG, nor intended to be communicated to the applicant's investors in the investment fund concerned.

1. Label award terms and conditions

1.1. Label award procedure

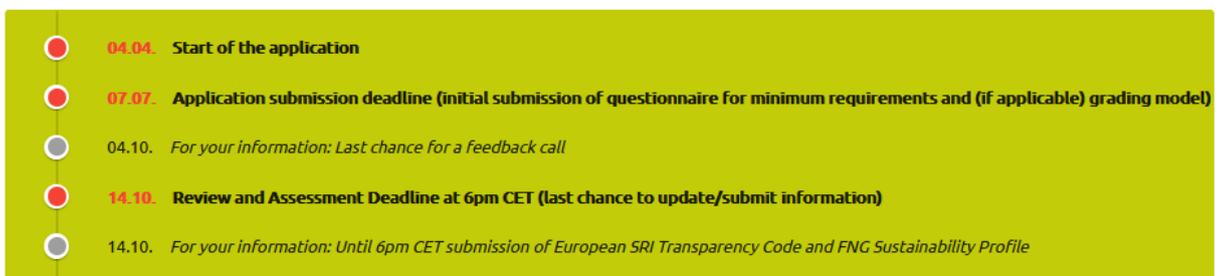
The FNG-Label award procedure is carried out annually. The results are announced in the fourth quarter of the year and communicated officially (also externally) - normally at the end of November - at an awarding ceremony. The FNG-Label is valid from the date of the award ceremony until the end of the following calendar year, if the fund meets the criteria during verification checks, which may be carried out at any time. The labelling procedure comprises the following steps:

- **Call for applications:** Applicants who have declared their willingness to participate to the QNG will be activated for the online tool with the agreed number of products. The QNG will also provide application information to applicants upon request. An application for the FNG-Label is in no way connected with a membership in FNG e.V.
- **Submission deadline for applications:** In each FNG-Label award cycle, the application must be completed online by the closing date (07.07.2022). This includes the minimum requirements and, if there is an application for it, information on the criteria of the grading model. The assessment team processes applications in the order in which they are received. Only after successful completion (including feedback loops) of the processing of the minimum requirements will the grading model be processed. The submission of the information for the grading model can nevertheless already be made with the submission of the information for the minimum requirements in the online tool.

- **Review and assessment process:**

Current review and assessment period procedure:

Important Deadlines



Information provided by the applicant in the application form must be fully valid at the time the application is submitted. **The central element of the application is the completion of the online tool.** The review and assessment of funds is based exclusively on written information. Verbal explanations given in personal meetings or telephone calls must be recorded in minutes. Statements and future commitments will not be considered. The content of the conference call offered as part of the review and assessment process is summarized in minutes by the assessment team and uploaded to the online tool.

Tip: Applications are processed on a first-come, first-served basis. This means that earlier applications are processed first. This is the same with the responses/feedbacks. A more responsive answer to the assessment team's feedback leads to a more expeditious/targeted review and a sooner possibility for a conference call to be released for booking. Conversely, this means that long response times, very late responses or documents submitted late can no longer be processed in the usual feedback loops due to a lack of time.

Feedback on the minimum requirements: Feedback on the minimum requirements is provided to applicants via the online tool for each of the criteria. Applicants can respond directly there. Each applicant's minimum requirements are reviewed prior to the grading model criteria. Careful completion of the minimum requirements and prompt feedback on the assessment team's feedback accelerate the start of the grading model review.

Feedback on the grading model: Feedback on the grading model is provided to applicants via the online tool collectively on all funds (these can also be downloaded as a csv file). Feedback on the corresponding fund criteria is collected there. The applicant can choose to book a telephone call with the review and assessment team online. However, there is no entitlement to a telephone call. The results from the telephone call are transferred to the online tool based on a protocol.

If a telephone call is not desired or a suitable date cannot be found, responses and additional documents may be submitted in written form. It should be noted that no telephone calls can be held for late applications (submission after 07.07.).

- End of review and assessment process: Please note that the submission opportunity for further information and documents will end on 14/10/2022 6 pm CET. The review team will not accept any new information or ask any further questions after this date.
- Review Assessment of minimum requirements and grading model: The candidate either only applies for the minimum requirements or also the grading model (for which passing the minimum requirements is required). The application deadline refers to the completion of the online questionnaire in the online tool (minimum requirements AND grading model (if applied for) including the submission of all documents). It should be noted that it is necessary to pass all the minimum requirements for the FNG-Label to be awarded with the FNG-Label at all. Without passing the minimum requirements, it is not possible to be awarded with stars.

2022 FNG-Label award calendar:

Call for applications:	4 April 2022
Application submission deadline:	7 July 2022
Announcement of funds awarded:	Awarding ceremony 24 November 2022 in Frankfurt a.M.

Note: As shown in the review and assessment process, the last opportunity to report back to the assessment team is 14 October 2022 18:00 CET!

1.2. Processing fee

FNG charges the following processing fee, payable within 14 days after issuing of the invoice.

- EUR 4,500 plus VAT per applicant fund in case of a new applying fund provider
- EUR 3,900 plus VAT per fund provider,
 - in the instance that an application for the FNG-Label has previously been submitted (in previous years);
 - in the instance that they apply for the label with at least four funds.

Fund providers that submit their application documents after the submission deadline must pay an extra fee of EUR 500 plus VAT. Review and assessment is included in the processing fee.

Application is always for the respective FNG-Label 2023/2024/2025 etc. annually again. Applicants who are "only" interested in the FNG-Label as such, can also apply for checking the minimum requirements only (the mandatory part without the voluntary part, i.e. grading model to obtain the stars) in a first

step, which would lead to the receipt of the FNG-Label if fulfilled. In this case, the cost of a single product for the first year is EUR 2,500.

The fee also include the verification costs, the FNG normally would have been paid for separately in case of obtaining the European SRI Transparency Code (Eurosif Transparency Logo).

Applicants must pay the processing fee in order for the fund concerned to be reviewed and assessed. Processing fees are not refunded if the FNG-Label is not awarded or if the label grade awarded does not meet the applicant's expectations. Processing fees are charged to cover all expenses incurred in the review and assessment process and all other expenses related to the administration and in particular to increase the market penetration of the FNG-Label (marketing, communication, PR, database maintenance, congress and trade fair participations or other events). The fee should not be construed as a payment made in order to obtain the FNG-Label. Upon activation of new funds in the online tool by the QNG, the applicant accepts these fees.

1.3. Label Committee

The FNG-Label Committee is a key element of the FNG-Label's organizational model. It comprises various stakeholders from the sustainable investment field, such as institutional and retail investors and representatives from NGOs, environmental or similar organizations, and the academic world. Three of the four FNG countries: Germany, Austria, Switzerland and Liechtenstein are also represented on the Committee. It has an advisory and supervisory role, its independent expertise underpins the FNG-Label concept and contributes to its development. The Committee's tasks include, amongst other things, reviewing the award of the FNG-Label, advising on the further development of the methodology, and drawing up recommendations with regard to dealing with complaints and complex or difficult cases. The Committee has the right to see the fund's reports and to conduct random checks. The Committee is bound by a formalized advisory board regulation and all members sign their own declaration of confidentiality. Minutes are taken or the entire meeting is recorded at each of the annual committee meetings prior to the award of the label (usually in November).

1.4. Compliance monitoring

The assessment team reserves the right to verify at any time that labelled funds still comply with the FNG-Label criteria. If any aspects of the labelled funds change, applicants are asked to submit information in order to check whether their compliance with the FNG-Label criteria has been compromised.

The applicant must comply with requests from the assessment team or QNG for any documents or other information needed to ensure the fund's compliance with the FNG-Label criteria. In return, the assessment team and the QNG are obliged to confidentiality regarding information that has not (yet) been published. It is in the responsibility of the applicant to keep QNG and the assessment team up to date with any changes in the investment process that are relevant for the label, both during the review and assessment process and during the validity period of the FNG-Label.

1.5. Non-compliance following the award of the label

Should the QNG or the assessment team identify a change in the fund's management or communication procedures that violates the compliance with the minimum requirements and the FNG-Label grade awarded, they will conduct a formal review comprising the steps set out below:

- The applicant will be contacted to examine the issues in question more closely.
- The applicant has one month to restore compliance with the label criteria.
- If appropriate measures are taken within the required one-month timeframe, the fund is permitted to retain the label.

- If the applicant’s response implies that it cannot comply with the minimum requirements or the label grade awarded, or if no appropriate measures are taken within the required one-month timeframe, the label will be withdrawn or the label grade that has been awarded will be downgraded as appropriate. QNG shall ensure that all label withdrawals and all label downgrades are appropriately and accurately reflected in its external communications.
- In either case, the applicant is notified of the decision reached by the QNG or the assessment team.
- In the case of the label being withdrawn, the applicant must remove all references to the FNG-Label from all communications relating to the fund.
- In the case of the label being downgraded, the applicant must correct the label grade in all communications relating to the fund.
- Funds that have had the label withdrawn cannot re-apply the following year.

1.6. Communications associated with the label

This section sets out the rules for communications relating to the FNG-Label and the conditions under which the FNG logo (referring here in all cases to all four Label grades, in German and in English) may be used. The aim of these rules is to ensure that there is consistency in communications regarding the FNG-Label and to pre-empt and prevent inappropriate use.

All fund manufacturers, including any associated subsidiaries and points of sales / distribution networks, who issue communications relating to the FNG-Label, shall be bound by the rules of this Communications Charter and should act in accordance with it.

The FNG-Label and the associated logo are registered word and figurative marks. The award of the Label is associated with the award of a Label logo, which shows the year for which the Label is valid. In addition, the award of the Label is always associated with a particular Label grade.

A list of all the funds that have been awarded the FNG-Label including the Label grade can be found at fng-siegel.org. In addition, the QNG supports that products labelled with the FNG-Label will be published on further relevant websites and databases.

1.6.1. The four grades of the logo

The FNG-Label logo is available for the following four grades, in each case in German and English (incl. monochrome) and in the formats jpg, png, eps and gif:



1.6.2. Terms of use of the FNG-Label

1. **Fund manufacturers, who have been awarded the FNG-Label, are free to choose whether they use the FNG-Label for communication purposes.** If they use it, they shall be bound by the rules of this Communication Charter.
2. Fund manufacturers, who have been awarded the FNG-Label are free to choose whether they use for communication purposes the grade of the FNG-Label received by the fund or funds concerned. **If fund manufacturers choose not to use the grade awarded, only the logo without any stars may be used.**
3. **Fund manufacturers shall be obliged to inform QNG about all their communications containing the logo shown in section A.** Each communication should be forwarded to fng-siegel@qng-online.de as a PDF, link, etc. **In practice, this happens the first few times** in order to show the style of the respective communication, to briefly coordinate again and also to get, if necessary, one or two more hints from the QNG. **Otherwise, "common sense" should be used, meaning a reader should be able to clearly recognize which concrete product has been awarded the FNG-Label.**
4. All communications relating to the FNG-Label, which do not contain the logo should also be forwarded to QNG mbH at fng-siegel@qng-online.de for information purposes.
5. **All communications relating to the FNG-Label shall be valid exclusively for the calendar year for which it was awarded.** However, the Label for a particular calendar year may also be used starting from the date of the award, i.e. the award ceremony that normally takes place in November.
6. **All communications relating to the FNG-Label are valid for only one calendar year in each case.** When a Label award is renewed, modified documents should be submitted to fng-siegel@qng-online.de for information.
7. If several funds are shown in the same document and not all of them carry the FNG-Label, the logo or text references to the FNG-Label must relate only to the pages or paragraphs about the funds carrying the FNG-Label. **The document must make clear which funds carry the FNG-Label.** Putting this information in a footnote, for example, is not sufficient.
8. If several funds carrying the FNG-Label, but at different grades, are described in the same document, the relations between the funds and their corresponding grades must be clearly and unambiguously recognizable.
9. Communications regarding the FNG-Label should refer to the Label methodology and the relevant criteria. **The FNG-Label may under no circumstances be represented as a guarantee of performance or security or an invitation to invest in the fund or funds.** Caution is advised when making statements about "impact", especially with regard to the significance of the various grades (stars). Officially, the FNG-Label states on its [website](#): "[...] Je mehr und intensiver ein Fonds auf den verschiedenen Ebenen im Sinne der Nachhaltigkeit aktiv ist, umso qualitativ hochwertiger ist er. Der Schwerpunkt liegt auf der Auswahl von Titeln für das Portfolio und die Verantwortung, die ein aktiver Investor wahrnimmt, mittels Engagements und Stimmrechtsausübung auf mehr Nachhaltigkeit bei den investierten Titeln hinzuwirken. *Die Sterne sind dann letztendlich ein Ausdruck des Potentials, inwieweit der Fonds echte Wirkung (sog. „Impact“) im Sinne von (mehr) Nachhaltigkeit erzielen kann.*"
10. **FNG reserves the right to prevent and refuse the publication of any document that is inconsistent with the rules set out in this Communications Charter.**
11. **The FNG-Label may be withdrawn from any fund manufacturer, who does not comply with the rules set out in this Communications Charter.**

1.6.3. Presentation recommendations

FNG promotes the certified funds in its media and public relations work and invites all the investment companies concerned to promote the award themselves. **All texts must clearly show that the award relates to one or more specific funds and not to the investment company as a whole.**

Sample headings:

- *XY fund has been awarded the FNG-Label*
- *XY fund has received the FNG-Label for sustainable mutual funds*
- *XX of XY company's funds have been certified with the FNG-Label*
- *XY fund meets the minimum requirements of the FNG-Label (and is awarded for quality beyond the minimum requirements)*
- *XY fund is awarded with the quality standard for sustainable investments (FNG-Label)*

Sample text regarding certification:

Mutual funds with the FNG-Label meet the quality standard developed by Forum Nachhaltige Geldanlagen e. V. (FNG) for sustainable investments in the German-speaking countries. Successfully certified funds pursue a stringent and transparent sustainability approach, the application of which has been checked by an independent review and assessment process of University of Hamburg.

The quality standard comprises the following minimum requirements:

- *Transparent and easy-to-understand presentation of the fund's sustainability strategy in the context of European SRI Transparency Code and the FNG Sustainability Profile*
- *Exclusion of armaments and weapons*
- *Exclusion of nuclear power (including uranium mining)*
- *Exclusion of coal (mining and low power generation)*
- *Exclusion of fracking and oil sands*
- *Exclusion of tobacco (production)*
- *Exclusion in cases of systematically and / or severe violation of the principles of the UN Global Compact*
- *The fund's entire portfolio is checked against sustainability criteria (social and environmental responsibility, good corporate governance, United Nations Sustainable Development Goals or others).*

Sample text for communications about higher award grades (one to three stars):

The fund has received XX out of three possible stars for its particularly ambitious and comprehensive sustainability strategy, which resulted in additional points in the areas of institutional credibility, product standards, and selection and dialogue strategies.

Sample text for general communications regarding the FNG-Label:

General additional information:

The FNG-Label is the quality standard for sustainable investments on the German-speaking financial market. It was launched in 2015 after a three-year development process involving key stakeholders. The sustainability certification must be renewed annually.

Information on the FNG-Label and the stakeholders involved:

*The FNG-Label is the quality standard for sustainable investment funds in German-speaking countries. The holistic methodology of the FNG-Label is based on a **minimum** standard. This includes transparency criteria and the consideration of **labor & human rights, environmental protection, and anti-corruption as summarized in the globally recognized UN Global Compact**. All holdings in the respective fund must*

also be fully analysed for sustainability criteria and the product must have an explicit sustainability strategy. Investments in **nuclear power, coal mining, a relevant share of coal-fired power generation, fracking, oil sands, tobacco production, and weapons & armaments are excluded.**

High-quality sustainability funds that excel in the areas of "Institutional Credibility", "Product Standards" and "Portfolio Focus" (stock selection, engagement, and KPIs) receive up to three stars.

The FNG-Label goes far beyond a pure portfolio view and is therefore holistic and meaningful. With over 80 questions, the sustainability investment style, the associated investment process, the associated ESG research capacities, and any accompanying engagement process are analyzed and evaluated. In addition, elements such as reporting, controversy monitoring, stakeholder engagement, and the fund company as such play an important role.

The more multi-layered and intensive a fund's sustainability activities are on the various levels, the higher its sustainability quality and the potential to ultimately achieve indirect and direct impact.

The assessment team of the FNG-Label is the chair of Prof. Dr. Timo Busch from the Sustainable Finance Research Group at the University of Hamburg. The Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) bears overall responsibility, especially for coordination, awarding, and marketing. An independent committee with interdisciplinary expertise also accompanies the review and assessment process. The FNG-Label has been awarded "highly recommended" by the consumer portal <https://label-online.de/> and has been included in the shopping basket of the Council for Sustainable Development. In addition, it participates with the other national, state label systems in a working group within the framework of the EU action plan for financing sustainable growth and has been invited several times by the French Ministry of Finance to further develop their label, ISR. A scientific study³ comparing European SRI-Labels came to the conclusion that the FNG-Label excels particularly in the criteria of transparency, stringency and governance.

Detailed information on the methodology can be found in the [rules of procedure](#).

Further information on the FNG-Label: www.fng-siegel.org.

Sample messages relating to the FNG-Label:

- *The FNG-Label is the quality standard for sustainable investments in the German-speaking countries*
- *The FNG-Label is a holistic, professional and credible quality mark for sustainable investments.*
- *The FNG-Label provides guidance in search for solid, professionally managed sustainability funds.*
- *The FNG-Label helps in the search for solid, sensible sustainability funds.*
- *In addition to the Label's minimum requirements, the multi-grade model promotes competition to pursue more ambitious sustainable investment strategies.*
- *By means of "compulsory and optional", the FNG-Label creates a minimum standard (avoids greenwashing) and distinguishes those products that are committed to do more.*
- *The more multi-layered and intensive a fund's activities are on the various levels in terms of sustainability, the higher its sustainability quality and the potential to ultimately achieve indirect and direct impact.*
- *The FNG-Label helps to find serious and credible offers in the field of sustainable investments.*
- *Numerous experts in the finance sector and other stakeholders from civil society were involved in the creation of the FNG-Label, which is continuously being developed further.*

³ <https://fng-siegel.org/studie-ueber-sri-labels/>

- *The credibility of the FNG-Label is underpinned through an independent review and assessment process by the University of Hamburg and additional monitoring by an external committee, with representatives from WWF Germany, the University of Augsburg, the GIIN and the Austrian ÖGUT.*

1.6.4. Technical aspects

The FNG-Label logo is available in both German and English as a *jpg, png, eps or gif* file.

The FNG-Label logo must be clearly legible, and must therefore be of at least the following **minimum size**:

- In printed publications: height 18 mm x width 14.6 mm
- In electronic communications: height 150px

Larger versions are permitted. The FNG-Label logo contains the following **colors**: green 40/10/86/10 (CMYK) and blue 75/50/0/10 (CMYK). For **black-and-white versions, the appropriate logo templates** must be used. As a guide, the colours can be converted using the following values: green = 40% black, blue = 60% black, grey = 80% black.

1.7. Liability

By submitting an application, the applicant expressly acknowledges that the QNG's and the assessment team's interpretation regarding the fund's compliance with the FNG-Label criteria shall prevail. The QNG and the assessment team shall in no way be held liable if the FNG-Label is not awarded or if the awarded label grade does not meet the applicant's expectations, irrespective of the reasons for the non-allocation or the classification of the fund into a certain label grade. In particular, the QNG and the assessment team cannot be held liable for repayment of processing fees, as explained in section 1.2 of this document.

By submitting the application documents, the applicant explicitly acknowledges that, by awarding the label, the assessment team and the QNG are not making any assertion as to the completeness, accuracy, economic viability, and the legal compliance of the offer or the investment activities of the mutual fund concerned. Anything to the contrary is neither intended by the applicant or QNG, nor intended to be communicated to the applicant's investors or investors in the mutual fund concerned. Any liability toward the applicant in this respect on the part of the QNG or the assessment team shall be excluded.

1.8. Confidentiality

The assessment team and the QNG are obliged to treat the received documents with the utmost confidentiality. No data, information, documents, etc. will be forwarded to a third party except where the fund provider gives explicit written consent. Exceptions are review or validation requests regarding exclusion criteria or Global Compact controversies, which must be carried out with the help of third parties such as ESG rating agencies or other SRI specialist service providers. In this case, only ISINs and, if necessary, the related securities are used. If this should occur, the information will be made anonymous. Members of the FNG-Label Committee are exempt from this rule. By participating in the FNG-Label award process, the applicant confirms their agreement with this rule. In cases where the submission of specific confidential data by the applicant depends on the provision of a separate non-disclosure agreement or confidentiality agreement, the QNG and the assessment team will sign such documents.

1.9. Language of proceedings

The language of both oral and written proceedings shall be German, if necessary English.

2. Label criteria

2.1. Overview

The FNG-Label methodology comprises two review and assessment sections:

- a) Minimum requirements
- b) Grading model

To verify the criteria, the assessment team may carry out random checks that go beyond the scope of the label award process.

2.2. Minimum requirements

In order for the FNG-Label to be awarded, the applicant has to meet all of the criteria in this section.

2.2.1. Eligibility

Sustainably managed mutual funds or equivalent investment vehicles of all asset classes that already applied for approval at the responsible supervisory authority may apply for the FNG-Label provided they comply with UCITS or an equivalent standard and they are distributed in at least one of the following countries: Germany, Austria, Switzerland, or Liechtenstein. Similarly, fund of funds or other fund constructs invested in target funds can apply for the FNG-Label, usually for the review and assessment of the minimum requirements (the mandatory part without the stars). In case of a request to apply for the grading model, consultation must take place in advance. The same applies to clearly defined, separable wealth management mandates. These always require prior consultation (see appendix from p. 25).

The basic condition for marketing sustainable investments in the EU is compliance with Article 8 or 9 of the EU Sustainable Finance Disclosure Regulation. The product applying must be classified accordingly. In the course of the SFDR, the product must be regulated according to Article 8 or 9. Specific regulations and exemptions can be found in the appendix (see appendix from p. 25). In the case of newly launched or very young funds, there may be a structural disadvantage, as certain criteria (e.g. a completed reporting, examples of engagement or proof of exercise of voting rights) cannot yet or not to a satisfactory extent be provided. For reissues, exceptions can be made for the subsequent submission of all not yet final but necessary documents for the assessment of the FNG-Label, which are directly related to the admission (actual, real invested portfolio, ISINs, issue date, volumes, FNG sustainability profile, European SRI Transparency Code) until 15 December of the respective application year, insofar as the product admission only takes place after the end of the assessment and evaluation. In this case, only additional feedback loops by e-mail are usually possible.

2.2.2. Transparency and sustainability coverage

The following criteria are mandatory:

A fully completed and publicly available FNG Sustainability Profile in German or English, which has not been prepared before 31.03. in the calendar year previous to the assessment. (Example: The application for the FNG-Label 2023 takes place in 2022, thus, the FNG Sustainability Profile must not have been prepared before 31.03.2021). Please note that completing the FNG Sustainability Profile does not represent an FNG-Label application. The FNG Sustainability Profile is an element in the FNG-Label application process.

To create an access-point and for help filling it out, please contact the FNG: nachhaltigkeitsprofil@forum-ng.org or access link: <https://www.forum-ng.org/typo3/>. Examples: <https://www.forum-ng.org/en/fng-sustainability-profiles>.

- A fully completed (in accordance with the Eurosif guidelines) and publicly available European SRI Transparency Code declaration in German or English, which has not been prepared before 31.03. in the year previous to assessment.

Please note that completing the European SRI Transparency Code does not constitute an FNG-Label application. The European SRI Transparency Code is an element in the FNG-Label application process. Following the link to the European SRI Transparency Code application and the accompanying document to help you complete it: <https://www.forum-ng.org/en/qualitaet-und-standards/translate-to-english-der-europaeische-transparenz-kodex/translate-to-english-transparenzlogo-antrag>. If you have any questions, please contact: transparenz-kodex@forum-ng.org.

Examples: <https://www.forum-ng.org/de/qualitaet-und-standards/transparenz-kodex/unterzeichnerinnen-transparenzkodex>

- Proof that all holdings in the portfolio are analyzed according to ESG or other sustainability criteria. In the case of non-covered securities, a period of generally three months is granted for the subsequent submission of an ESG analysis. The fulfilment / proof of the minimum exclusions (section 2.2.3.) remains unaffected by this. This also applies to target funds in funds (and all target funds within fund of funds).

The sustainability analyses must clearly show that the applicant screens issuers against environmental AND social AND governance criteria or alternatively, SDG or other sustainability criteria. This analysis must be of a comprehensive scope, meaning that, for example, one sentence per sustainability pillar is not sufficient. For example, the applicant must prove in an (internal) ESG analysis that it has analysed the implementation of environmental, social and governance aspects in the company. Further analysis options, for example according to SDGs, are possible. The aim is to justify the selection of the company and the associated business model from a sustainability perspective that is as holistic as possible. Due to the 100 percent coverage, target funds of any kind in an applying fund must also be subject to a sustainability analysis (at individual security level or fund level). This applies to all target funds within a fund (and to all target funds within fund of funds). Specifically, for "sustainability bond funds", it must be clear whether the fund also invests in regular government/corporate bonds and which securities are selected/analysed through a thematic analysis.

2.2.3. Exclusions⁴

Companies:

The applicant must prove that they have set up effective exclusion procedures (including monitoring processes) in their investment process, which enable them to exclude issuers that are active in the following sectors or are in violation of the following principles. A participation/ownership limit of 20 percent applies. As soon as a company has a shareholding of more than 20 percent in another company, this must also be checked by the FNG's exclusion criteria. In the case of the "Sustainability Bonds", for which a use of proceeds can be assigned, violations of the criteria are reviewed and assessed at the product level. Likewise, the following criteria shall be applied to target funds of any kind in the applying fund. For other asset classes or product categories, for which it is not always possible to write down the respective handling in these rules of procedures in advance of an application, the principle of the application of funds or the final beneficiary applies in connection with the following criteria. More detailed explanations can be found in the appendix of this document. Index funds/ETFs must have adjusted their minimum exclusions in accordance with the FNG-Label criteria at

⁴ Please note that the following list contains groups of criteria that are not subject to a consensual formulation by the various ESG service providers. A uniform synchronisation is unfortunately not possible due to the individual formulation of many criteria. The revenue tolerances apply including the corresponding tolerance, e.g. exclusion over five percent revenues.

the latest within the rebalancing process or by changing the index rules (incl. their coming into force) before the review and assessment deadline:

➤ Weapons

- Companies that are involved in the manufacturing of controversial weapons and/or their essential components are excluded if the 0 percent revenue threshold is exceeded at the issuer level.
- Companies that are involved in the manufacturing of conventional weapons/armaments and/or their essential components are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.⁵

➤ Nuclear Energy

- Companies that are involved in uranium mining are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.
- Companies that are involved in the electricity generation based on nuclear energy are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.
- Companies that are involved in the operation of nuclear power plants and/or the manufacturing of essential components for nuclear power plants are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.

➤ Fossil fuels

- Companies that are involved in coal mining are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.
- Companies that are involved in the power production based on coal energy are excluded if the 10 percent revenue threshold (\leq 10 per cent) is exceeded at the issuer level.
- Companies that are involved in the exploitation and/or processing of oil sands are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.
- Companies that are involved in the use and/or production of hydraulic fracking technologies are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.

➤ Other

- Companies that are involved in the production of tobacco are excluded if the 5 percent revenue threshold (\leq 5 per cent) is exceeded at the issuer level.

➤ Norm-based Criteria

- Conformity with the ten Key Principles of the UN Global Compact: This usually refers to severe and / or systematic violations of the ten Key Principles, that are differentiated according to the following four topics:
 - **Human rights**: severe and/or systematic violations of human rights. Human rights are defined in the UN Universal Declaration of Human Rights and in the European Union's Charter of Fundamental Rights.
 - **Labour rights**: severe and/or systematic violations of the fundamental conventions of the International Labour Organization (ILO) and their four core principles (freedom of association and the right to collective bargaining, the elimination of forced and compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation).
 - **Environment**: severe and/or systematic violations of environmental laws and/or large-scale environmental destruction.
 - **Bribery and corruption**: severe and/or systematic bribery and/or corruption.

Countries:

An applicant invested in government bonds must prove that the portfolio does not and cannot contain securities issued by countries to which any of the following applies (this includes monitoring processes). In case of the "Sustainability Bonds", for which a use of proceeds can be assigned, violations

⁵ Conventional weapons include handguns/civilian firearms.

of the following criteria apply at product level. Likewise, the following criteria shall be applied to target funds of any kind in the applying fund. Index funds/ETFs must have adjusted their minimum exclusions in accordance with the FNG-Label criteria at the latest within the rebalancing or change of the index rules or by changing the index rules (incl. their entry into force) before the review and valuation deadline:

- Human rights/Democracy
 - Countries that are classified as “not free” according to the current Freedom House ranking.
- Environment
 - Countries not legally bound by the UN Convention on Biological Diversity and
 - Countries not legally bound by the Paris Convention on Climate Change (COP-21).
- Corruption
 - Countries which have a score below 35 in the current Transparency International’s Corruption Perceptions Index.
- Nuclear Non-Proliferation Treaty
 - Countries which are not legally bound by the Nuclear Non-Proliferation Treaty.

Lists of all countries that fulfil one or more of these criteria are publicly available. Links to the relevant lists can be found in the appendix.

Ideally, the required proof of the exclusions is provided through official documents such as a formalized company (investment) policy, the prospectus or the like.

With regard to the exclusion as described above (for companies and countries), documents demonstrating the quality and procedure of the exclusion processes must be submitted. The assessment team reserves the right to verify the accuracy of the lists and the exclusion procedures.

If external agencies are involved in the exclusion screening, evidence of this screening must be submitted. Likewise, the exclusion according to the listed criteria must be complied with over the entire period of the label period. Investments in titles that violate the minimum exclusion criteria of the FNG-Label are not label-compliant and therefore not permitted. This applies both to investments with a short-term investment period and to titles that are subject to an engagement process. The holding of a title in spite of proven exclusions (regarding countries and companies) on the basis that the candidate is in dialogue with the company regarding the relevant violation (e.g. regarding a controversy on a serious UNGC violation) is insufficient. In addition, reference is made to § 1.5. in connection with non-compliance with the FNG-Label criteria.

2.3. Grading model

2.3.1. Scoring system and label grades

In the grading model, the applicant is awarded points for meeting the criteria for the categories specified in the table. In order to be positively assessed, the compliance to the criteria must be clearly proven. A specific label grade will be awarded depending on the total percentage achieved⁶.

⁶ Note: Adding up the stars in the individual categories or averaging them does not indicate the overall result, as the number of stars per category is determined on the basis of the number of points achieved, which in turn is essential for determining the overall result. The overall star rating results from the weighted points achieved in the respective categories.

The weighting for the different categories is as follows:

Category		Weighting (in %)
Institutional Credibility		10
Product Standards		20
Portfolio Focus	Selection Strategy	35
	Dialogue Strategy	25
	ESG Key Performance Indicators	10
Total score		100

Special fund characteristics (for example asset class) are considered accordingly. The scores are not denoting the weighting for every single criterion within one category.

The label grades awarded are the following:

Basic label: The basic grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of 24.99 percent or less in the grading model.

One-star label: This grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of between 25.00 and 49.99 percent in the grading model.

Two-star label: This grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of between 50.00 and 69.99 percent in the grading model.

Three-star label: The highest grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of at least 70.00 percent in the grading model.

2.3.2. Institutional Credibility (weighting of 10 percent)

Regarding the institutional credibility, the assessment focuses on sustainability efforts at the fund provider level. The applicants must demonstrate that they

- has defined a sustainable investment policy that clearly describes the sustainable investment processes (positive/negative selection, engagement, voting rights, taxonomy integration (PAI), etc.) and reports on them regularly in publicly available documents;
- have established responsible investment at the top management level (e.g., whether responsible investment lays within the responsibility of the board or managing director, responsible investment is a separate team, responsible investment has an independent budget);
- provide support for its employees’ SRI / ESG education;
- take into account knowledge/competence in the field of sustainability in the recruitment of new employees (for certain groups of employees);

- have linked the remuneration structure of employees/certain employee groups to the sustainability performance (of the applicant company or product-specific), e.g.: Is sustainability information about issuers systematically used in the investment process?;
- have incorporated ESG data about issuers systematically in all investment processes (e.g., systematic use of sustainability information on all or individual issuers in the investment process, etc.);
- apply dialogue strategies as an asset manager;
- manage a significant proportion of the candidate's total assets under management according to an SRI approach; the trend of SRI assets under management over the last 12 months will be considered;
- have established an investment policy on the exclusion of controversial weapons, such as cluster bombs or anti-personnel mines or NBC weapons, at company level or draw attention to it in mandates;
- have established company-wide guidelines on how the candidate aims to tackle climate change in general (e.g., portfolio decarbonization or foot printing, engagement activities, green product offer, etc.);
- implements sustainable investment policies regarding fossil fuels (for example present/ designated exclusion of certain activities or decarbonization(s) strategies of the portfolio);
- has drawn a public investment policy that regulates the sustainability of derivatives and the basic handling of derivatives;
- engage in responsible investment initiatives.

2.3.3. Product Standards (weighting of 20 percent)

Regarding the Product Standards, the assessment focuses on the quality of the research procedures and of the SRI reporting at fund level. The following aspects will be assessed:

- SRI research process
The applicant must demonstrate that they employ a significant amount of experienced SRI/ESG analysts compared to financial analysts and that they have established an advisory committee on sustainability or investment board at fund level.
- SRI research quality of sustainability analysis
The applicant must prove that the sustainability analysis for each type of issuer (company, country, supranational issuer, regional entity, and others) is based on a robust analysis structure – independent of the issuer's size. It should be clear whether the candidate obtains external sustainability information on issuers (for example from Inrate, ISS ESG, RepRisk, MSCI ESG, Refinitiv, Screen 17, Moody's ESG Solutions (formerly V.E or imug), rfu, Morningstar|Sustainalytics, etc.) and if so, to what extent the fund provider systematically incorporates specific findings from internal ESG research (e.g. results from thematic studies, internally developed innovative sustainability approaches, sector studies, controversy monitoring, engagement activities systematically into the final ESG rating of the issuer. The applicant must also ensure that it updates the ESG analysis regularly (especially the involvement of the issuer in controversial business activities).
- SRI reporting on sustainability key figures/performance of the fund
The applicant must report properly on the sustainability key figures/performance of the fund and/or its holdings at least quarterly in publicly available fund documents and preferably integrate this information into the conventional financial documents. In addition to the fact sheet, this might include communication media such as newsletters, mailings or similar, which contain for example CO₂ data, 1.5°C-/2°C-compatibility, ESG portfolio rating versus benchmark or SDG contribution including sub-targets, special key performance indicators or

other measurements. Information, which is only disclosed to institutional investors, will be considered, but will be worth only half as many points.⁷ Additionally, it is assessed whether the candidate provides information on the handling of (OTC) derivatives for all investors.

- Derivates

The use of derivatives is important for securing risks. However, the use of derivatives is not free of risks and is also discussed from a sustainability perspective. Therefore, this sub-category examines how the candidate handles derivatives in the fund. Here, it is assessed whether the candidate has formulated an exclusion policy applicable to the fund for derivatives on certain underlyings such as agricultural commodities (soft commodities) or product groups such as structured products that benefit from a downward movement of the underlying. In addition, the actual use of derivatives is reviewed. Furthermore, it is assessed whether the candidate takes sustainability information into account when using derivatives. This can be sustainability analyses (e.g. ESG analysis, SDG analysis, etc.) on the underlying asset(s) and/or the counterparties or whether the issuer is committed to a product and transparency standard (e.g. DDV Sustainability Code).

Detailed regulation regarding the use of derivatives can be found in the appendix to this document.

2.3.4. Portfolio Focus (weighting of 70 percent)

Regarding the elements of Portfolio Focus, the assessment addresses the extent to which the fund provider has established internal procedures, systems, guidelines, and measures for actively improving the overall sustainability performance of the fund. This category is divided into three sub-categories:

1. Selection Strategy
2. Dialogue Strategy
3. Sustainability Key Performance Indicators

2.3.4.1. Selection Strategy (weighting of 35 percent)

The assessment examines all the procedures and systems fund providers have set up to select issuers which perform well in terms of sustainability and to exclude controversial issuers or activities from the eligible investment universe. At fund level, the following criteria are assessed:

- Negative/exclusion criteria

The fund provider must have high-quality exclusion procedures in place, which enable it to exclude controversial issuers from its eligible investment universe. The quality of the exclusion procedures and therefore the points awarded are measured by the number and severity of exclusion criteria applied and by the number of controversial issuers or activities classified as “non-eligible” (severity here refers, for example, to the depth of the supply chain (e.g., is only coal mining excluded, or trading/power generation as well?) and revenue threshold).

- Positive criteria

The fund provider must demonstrate that the scope and quality of internal processes and tools are appropriate for identifying issuers, which perform well in terms of sustainability, and make sure to invest preferentially in these areas. Depending on the investment approach, the following criteria will be applied:

⁷ Exempted are funds, which, due to their legal status, are only offered to institutional clients. In case of legal disclosure hurdles, the applicant must explain them.

- Best-in-Class/Best-of-Class/Best-in-Universe/Best-effort/Best-progress/ESG-Integration:
The issuer's sustainability performance is expressed in the issuer's ESG rating. A fund provider must have developed effective tools that ensure the preferred inclusion of issuers with high sustainability ratings in the investment universe and portfolio.
 - To measure the quality of the process, different systems are positively assessed:
 - 1) Investment universe construction: The investment manager is looking for a high ESG portfolio quality by including only issuers with the highest ESG rating (or similar, e.g. individual sustainability indicators) in the candidate's eligible investment universe and by discarding titles with low ESG ratings out of the initial investment universe. The higher the selectivity grade among comparable investment universes and asset classes, the better the fund will be evaluated.
 - 2) Portfolio construction: The investment manager is looking for a high ESG portfolio quality either by integrating ESG ratings (or similar, e.g. individual sustainability indicators) of issuers directly into the portfolio construction process or by using a benchmarking-system to compare the fund's performance with a sustainable reference.⁸ The more ambitious the ESG ratings in the portfolio construction process have to be, the better the evaluation of the fund.
In addition, the candidate can promote the transformational effect of the securities, for example, by investing in lower-rated securities (from a sustainability perspective), but using methods to increase the sustainability contribution of these securities.
 - To measure the sustainability quality of the portfolio, the assessment team will examine the actual sustainability performance of the portfolio and its development over the past calendar year prior to the assessment, based on historic sustainability fund data (01.01.2021 to 31.12.2021).
- Or thematic approach: Under a thematic investment approach, an issuer's sustainability performance is expressed by the conformity of the issuer's activities with defined sustainability themes. The assessment team reserves the right to ask for relevant evidence when identifying theme-related elements of analysis and to include the outcome in the assessment, even if these are not explicitly addressed by the candidate as "themes". The results may be included in the assessment and influence the rating as theme approach or non-theme approach. Furthermore, it applies to the assessment that third-party products that play a role in the title selection are included in the analysis.
 - To measure the quality of the process, the assessment will closely examine the applicant's definition of a sustainable activity and the analysis relevant for the security selections. In all cases, the applicant must describe how the defined sustainable activity can contribute to sustainable development. In the case of "Sustainability Bonds", it is examined whether the framework of the specific emissions is in line with the standards accepted by the FNG-Label through a second party opinion. The assessment applies a strict definition of sustainable activities based on the following standards (see Appendix):

⁸ Benchmark system does not necessarily refer to the classic comparison against a conventional/financial benchmark. These can also be purely internal systems.

1. Environmental themes⁹: Climate Bond Initiative (CBI) Taxonomy and current version of EU Taxonomy, Green Bond Principles of the International Capital Market Association (ICMA), EU GBS¹⁰.
 2. Social themes: Social Bond Principles of the International Capital Market Association (ICMA)
 3. General sustainability themes: UN Sustainable Development Goals (SDGs).
- Furthermore, it is evaluated whether the sustainability themes on which the sustainability analysis is based were derived from the sustainability themes at indicator level.
 - In addition to the definition of sustainable activities, it is also examined whether a formal objective for the security selection is established at issuer or portfolio level (e.g. the share of theme-compliant revenues, SDG minimum score or EU taxonomy compliance). In the case of “Sustainability Bonds”, the assessment evaluates what proportion of the portfolio must be invested in “Sustainability Bonds”.
 - In addition, it is assessed whether the candidate checks the Use of Proceeds of the sustainability bonds (if this is possible through allocation reporting) or the contributions of the financed projects or activities (if it is possible through impact reporting).
 - To measure the portfolio’s sustainability performance/quality, it is assessed whether the formal objective for the security selection has been achieved. Ideally, the candidate provides evidence for the entire portfolio.
 - In the specific case of “Sustainability Bonds” where the use of proceeds can be allocated, sustainability performance is assessed at the level of the concrete projects/activities themselves, not at the level of the issuer. Second party opinions are used to assess what proportion of the portfolio is actually invested in “Sustainability Bonds”.

2.3.4.2. Dialogue Strategies (Weighting of 25 percent)

The assessment focuses on assessing the guidelines and procedures established by fund providers to raise issuers’ awareness of sustainability. The assessment will also evaluate what measures have been taken in relation to voting, an active product-related engagement, or general engagement processes to improve the sustainability performance of issuers. The following aspects will be assessed:

- Voting rights

The fund provider must demonstrate that it has drawn up voting guidelines, which clearly address sustainability issues. Since the category of the dialogue strategy is in the area of "portfolio focus", the fund provider should also provide evidence that it exercises its voting rights for share issuers in the portfolio. Accordingly, the focus is on the voting rights exercised for the portfolio holdings. If the voting rights are exercised (collectively) at the institution or KVG level of the product provider, the connection with the product being applied with must be clearly explained. It should also be shown that a report on the exercise of voting rights is published during the year, which describes the general voting activities and those, if any, with reference to social or environmental votes. If no voting rights can be exercised with regard to environmental or social issues due to a lack of resolutions of the AGMs, it will be taken into account in a neutralizing manner. Evidence of this must be provided by the applicant.

⁹ Current regulatory innovations are taken into account in the respective subsequent label test phase (e.g. EU GBS) as soon as they have been introduced in a legally binding manner.

¹⁰ The European Commission presented a proposal for an enactment on European green bonds in July 2021. As it is not yet a legally binding act, it is not subject to the review and assessment process.

The assignment of voting rights to shareholder alliances, collaborative undertakings or specialized proxy voting agencies will also be positively considered. It is also reviewed and rewarded whether the fund provider initiates or supports shareholder proposals with regard to sustainability aspects, in particular of portfolio holdings. This criterion will not be applied to funds that are not invested in equities.

- Engagement processes

The basic idea of formal engagement is to achieve clear improvements in an issuer's sustainability performance while actively exercising one's right as the company's owner or stakeholder. The candidate shall prove that it has established a policy on engagement activities with issuers that clearly describes the intended process of engagement. The outcome of these activities shall be reported on a regular basis. The specific objective of the engagement with the issuers must be explained. It is helpful to show whether, for example, a specific goal is predefined and scheduled and whether intermediate steps towards achieving targets, such as analyst conferences, meetings with business field managers, exchange with investor relations or controlling tools, are defined. In addition, the applicant should clearly document how it contributed to improve an issuer's sustainability performance either as part of an own engagement process throughout the company or as part of a Collaborative Engagement Initiative. The objectives of the engagement process should relate to sustainability aspects. In addition, the candidate should explain and ideally publish product-related engagement activities. The FNG-Label aims to increase transparency of the engagement activities of candidates. Therefore, the candidate should demonstrate that it carries out engagement on sustainability aspects with a number of issuers in the portfolio, and that the candidate reports on the outcome of these dialogues in publicly available documents. If engagement takes place on the institutional level of the product provider, the connection to the product being applied with should be explained.

2.3.4.3. Sustainability Key Performance Indicators (KPIs) (Weighting of 10 percent)

This part of the assessment focuses on the use of sustainability key performance indicators by fund providers to measure specific sustainability performance aspects at the fund level.

The fund provider must demonstrate the application of at least one sustainability key performance indicator (including some from the EU taxonomy) and the measurement against a benchmark reference. In addition to a conventional benchmark, this comparison can also be to a sustainability benchmark. It must explain and provide evidence of the methodological basis on which the measurement was conducted and indicate whether the sustainability key performance indicators applied outperform the benchmark reference. Ideally, all information should be publicly available. For this criterion, the full score will only be awarded for publicly available information and data.

Appendix

The appendix outlines exemptions for specific assessment sections, fund types, and investment approaches.

Minimum requirements

Eligibility:

The following fund types can only apply for the FNG-Label after prior consultation because of their specific fund characteristics:

- Structured funds
- Guarantee funds
- Microfinance funds
- Private/Equity/Private Debt Fonds
- Cat Bonds Fonds
- Funds of funds
- Wealth management mandates

Note: Due to the special characteristics of the fund types mentioned above, challenges arise in the area of minimum requirements, for example. This affects, among other things, the minimum exclusions. Prior consultation is therefore necessary to clarify beforehand what challenges might arise. Acceptance for application after consultation does not automatically lead to the award of the FNG-Label.

In addition, the following regulations apply:

ETFs can apply for the label as long as they are physically replicating. In this case, the indexing process is the subject of the analysis.

Section Minimum Exclusion Criteria:

In the case of other asset classes or product categories, for which it is unfortunately not always possible to write down the respective handling in these Rules of Procedures in advance of an application, the principle of the use of proceeds or the final beneficiary applies in connection with the minimum exclusion criteria. For example, in the case of catastrophe bonds (Cat Bonds) or asset-backed securities (or more specifically mortgage-backed securities), the nature of the focused investment leads to a specific examination of the extent to which the exclusion criteria of the FNG-Label are included by these special investments. Since it is often difficult to prove e.g. concrete revenue thresholds, alternative (usually inductive and internal) procedures, which must be available to the applicant, are examined and evaluated. Ideally, the applicant seeks dialogue with the QNG in advance of an application, as there can be no advice of passing the minimum requirements without knowing further details and the assessment team reserves the right, in the case of not yet comparable cases from the past, to work out an initially rudimentary approach to the respective new asset class or product category during the ongoing FNG-Label review and assessment process in exchange with the QNG (and at the latest through the committee meeting in the run-up to the award of the label).

Microfinance funds:

In the case of microfinance funds, in addition to the minimum exclusions of the FNG-Label, the exclusion criteria of the International Finance Corporation (IFC) can also be positively considered in the

review and assessment process. However, they do not replace the minimum exclusion criterion in connection with the ten core principles of the UNGC. Verifying compliance with the minimum exclusions at the most granular level of all final borrowers is not realistic. In the case of microfinance funds, it is therefore carried out in three steps instead: First, a candidate must prove that the minimum exclusions are contractually defined in "loan agreements" between the microfinance fund and the microfinance institutions (MFIs) and that compliance is ensured. Secondly, there must be the possibility to check the portfolio breakdown of MFIs in a regular screening (for example, via a detailed sector screening). Thirdly, there must be evidence that the granting of credits by MFIs is verified via regular checks by the candidate on the spot. It is pointed out that with reference to the minimum exclusions, there can only be limited (ex-ante) verifiability in the case of old holdings (already existing credit agreements), but that there must be a corresponding controversy monitoring. As soon as an adjusted or new credit agreement is concluded within the framework of a revolving credit facility or general contract prolongation or new business, it must be ensured that the minimum exclusion criteria are also formally recorded in "loan agreements" and that the three steps described above are met. If, after the FNG-Label has been awarded, it becomes clear during the validity period that one (or more) MFIs in the candidate's portfolio violate the minimum exclusions through their lending practices, the process described in § 1.5. will be initiated, which may result in the withdrawal of the FNG-Label. Furthermore, such an incident would be an indication of non-existent or non-functioning controversy monitoring, which can also lead to the FNG-Label being withdrawn. Comprehensive sustainability analyses at the MFI level must be presented for the entire portfolio, including old holdings, as the focus here is on transparency. A microfinance fund that holds loans to MFIs in its portfolio without being able to present a comprehensive sustainability analysis for each of these MFIs therefore does not fulfil the minimum requirements of the FNG-Label.

Exclusion of countries:

Rankings and lists, which are used as a basis for the exclusion of countries, can be found under the following links:

- Ranking of free and non-free countries (Freedom House): www.freedomhouse.org
- Convention on Biological Diversity (United Nations Environment Program): <https://www.cbd.int/>
- Paris Convention on Climate Change: <https://unfccc.int/process/the-paris-agreement/status-of-ratification>
- Corruption Perceptions Index (Transparency International): <http://www.transparency.org/>
- Nuclear Non-Proliferation Treaty (United Nations Office for Disarmament Affairs): <http://www.un.org/disarmament/WMD/Nuclear/NPT.html>

Grading model

Product Standards Category:

Derivatives:

The use of derivatives must be limited to instruments, which have a stable leveraging effect and are used to hedge certain market risks. The candidate guarantees that the legal provisions on the use of derivatives are complied with and that information is published in accordance with the legal requirements. Information on the possibility of using derivatives and on the strategy and risk level of the use of derivatives must be provided in the fund prospectus, fund reporting or the declaration on the European SRI Transparency Code.

The fund provider is responsible for providing the following data upon request by the assessment team:

- A list of the derivative products used
- An explanation of the potential impact of derivatives use on the fund's ESG quality
- Explanations of the volume, level of exposure, and frequency of use of derivatives, as shown in the examples below:
 - Futures on interest rates: "The fund management bases its use of derivatives on the German BUND FUTURE in order to mitigate interest rate fluctuations. This affects X% of the fund's assets."
 - Futures on equity indexes: "The fund management bases its use of derivatives on the X equity index in order to hedge against price falls on equity markets in the selected investment universe. This exposure amounts to a maximum of X% of the fund's assets."
 - Swaps on interest rates: "The fund management uses swaps on interest rates to mitigate interest rate fluctuations."
 - Put options: "The fund management uses put options on equities in the portfolio, with exposure to these not exceeding the proportion of the portfolio accounted for by the underlying value of the equities, to hedge against an anticipated drop in the equity price."

Portfolio Focus Category:

Thematic approach:

To define industries that have a strong connection to sustainability criteria, the FNG-Label follows the taxonomy of the climate bond initiative (CBI) provided that CBI's working groups have defined the industries' connection to sustainability criteria (see: <https://www.climatebonds.net/standard/taxonomy>; <https://www.climatebonds.net/standard>), or the ICMA Green Bond Principles (see: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>), EU GBS¹¹.

In order to define social activities with a clear connection to sustainability criteria, the FNG-Label follows the taxonomy of the Social Bond Principles, provided that the technical working groups of this initiative have already further classified the connection to sustainability criteria of the industries (see: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>)

Furthermore, the six subject areas of the EU taxonomy can be used to define environmentally sustainable activities (see Article 9 EU regulation 2020/852: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>). These are Climate change mitigation, Climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, Pollution prevention and control and the protection and restoration of biodiversity and ecosystems. In addition, the taxonomy regulation of the first two environmental objectives, climate change mitigation and adaptation, has been in force since January 2022. Since (a) the final decision of the EU on the inclusion of "nuclear power & natural gas" in the taxonomy is still pending at the time of entry into effect of these rules of procedure and (b) these two elements would

¹¹ EU Green Bond Standard: (current status see: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard_en). The European Commission presented a proposal for a regulation on European green bonds in July 2021. As it is not yet a legally binding delegated act, it is not subject to the review and evaluation work.

then be accompanied by additional reporting requirements anyway, the assessment team will be able to analyse more precisely the corresponding evidence for a better differentiation of e.g. high taxonomy alignment quotas. In addition, reference is made to the corresponding sub-category "Positive criteria" in the category "Selection strategy" (§ 2.3.4.1.) with regard to the proof of sustainability quality/performance or its measurement.

Information and documents on the taxonomy:

- Information and documents on the taxonomy:
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852>
- Technical Screening Criteria Climate Protection (Annex I):
https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf
- Technical Screening Criteria Adaptation to Climate Change (Annex II):
https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-2_en.pdf
- EU Taxonomy Compass:
<https://ec.europa.eu/sustainable-finance-taxonomy/>

In addition, SDG-compliant activities are also classified as sustainable activities

(https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202020%20review_Eng.pdf).

All issuers and activities that cannot be assigned to these sustainability themes are not assessed as thematic investments.