



Qualitätssicherungsgesellschaft
Nachhaltiger Geldanlagen mbH



Universität Hamburg
DER FORSCHUNG | DER LEHRE | DER BILDUNG



FNG-Label

for Sustainable Investment Funds



Rules of Procedure 2021

Last amended: 21 March 2021

Amendments:

- Compliance with Article 8 or 9 of the EU's sustainable finance disclosure regulation (SFDR) is a requirement when marketing sustainable financial products in the EU. The FNG-Label will therefore ask for the classification of the respective SRI product purely for informative purposes.

- Various changes to the rating-scale, e.g. Product Standards (reporting).

Rationale: Due to the fact that optional elements in the FNG-Label, which have so far led to a higher rating, will now be mandatory under the SFDR, it is necessary to reassess some parts of individual assessment criteria. For example, changes have been made to "SRI Reporting" in the "Product Standards" category, since the requirements of the SFDR already ensure a regulatory upgrade for this element.

- Coal-fired power generation: Lowering the revenue threshold from 25% to 10%.

Rationale: Unfortunately (according to the current status of several ESG agencies), the only options would be to maintain the 25% or 10% revenue thresholds. In light of current efforts by many end investors, including central banks and the EU taxonomy, it would most likely be unacceptable for an SRI label to do nothing here. At the same time, we have to ensure that new revenue thresholds can also be implemented, meaning the ESG agencies can also deliver the data for our requirements, so that we do not discriminate against asset managers who do not receive revenue data. After investigating the matter, with at least one ESG agency would not be able to deliver data at the 20% or 15% revenue thresholds.

Not changing the revenue thresholds for a second year in a row (last year it was impossible due to operational reasons) is therefore not an alternative for an SRI label for the reasons mentioned above.

Three main arguments for the reduction.

(a) coal is not taxonomy compliant

(b) a technical impossibility to reduce to a 20% or 15% threshold

(c) absence of feedback from asset managers in favor of no reduction - on the contrary, the vast majority of feedback was in favor of a lower revenue threshold.

- Include tobacco (production at the 5% revenue threshold) as a minimum exclusion criterion.

Rationale: The German target market concept requires tobacco exclusion. As a mark of quality, the FNG-Label goes beyond purely regulatory or target market requirements. The FNG Basic Label should therefore at least fulfil the minimum exclusions of the German target market concept.

- Retention of rigid revenue thresholds

The handling of rigid revenue limits in the minimum criteria was discussed. Some asset managers pleaded for also allowing other elements such as engagement or CAPEX, especially for utilities. The discussion about this request during a meeting with the committee in mid-November was complex and

tried to work out all the advantages and disadvantages but, in the end, the majority was in favor of retaining the current practice. The main reasons were (a) a clear and transparent traceability of each exclusion criterion, (b) avoidance of the perception of "loopholes" by outsiders, (c) a wait and see attitude concerning the possible adaptation of the EU criteria on CAPEX, which are unfortunately not yet available from the Ecolabel working group, (d) a lack of existing systematic CAPEX data (verifiability is difficult in non-obvious cases) and (e) an inconsistency with other sectors if exceptions were only allowed for utilities.

- Change of the minimum exclusion criterion "corruption in criteria set for countries" from "40 percent last ranked states in the currently valid Transparency International Corruption Perceptions Index" to a "CPI score below 35".

Rationale: Due to multiple rankings, the criterion cannot always be precisely operationalized mathematically. The change to an exact score makes a precise cut possible and, moreover, better fits to dealing with corruption. After all, corruption is a phenomenon whose severity can be better accounted for with an absolute level than with a relative measure. This change reinforces the FNG-Label's methodology.

- Impact measurement: No separate, new criterion.

Rationale: Due to the early phase of the discussion on impact and impact investments respectively (two different things!), a lack of market standards, different results (even in the main tendency) from current "impact" measurement systems and above all the weak data situation as far as robust, systematic and comparable key performance indicators are concerned, the integration of a non-objectifiable "impact" measurement tool into a label standard does not make sense at this point in time. Further research and testing is being carried out together with academia, in particular from Prof. Dr. Timo Busch's chair at the Research Group on Sustainable Finance of the University of Hamburg, also with regard to the classification system as suggested by the Sustainable Finance Advisory Council of the German government.

We were aware from the outset that we would be taking far too high a risk in integrating such an approach into our methodology, which would not do justice to the many different methods, because of many weaknesses and unsolved problems we had already discovered, including the question of the availability of official benchmark constituents. The tool itself does not capture impact in the true sense (it is a kind of ex-post impact alignment). However, we still wanted to collect the reactions of the asset managers by means of a test run, as we do not want to further develop the FNG-Label "bypassing the market". The feedback we have received so far confirms our assessment. We may continue to use the current test tool for internal reporting purposes or further research.

We will continue to evaluate proprietary tools used by applicants or third-party tools in the categories of Product Standards, selection processes and key performance indicators.

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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 with its members and other stakeholders has developed a Quality Label for sustainable mutual funds and similar products. The methodology is partly based on Eurosif's Transparency Code and FNG's Sustainability Profiles. Both these tools help improve the transparency of sustainable finance products. The chair of Prof. Dr. Timo Busch from the Research Group on Sustainable Finance at the University of Hamburg supports the FNG in the further developing and operationalising the label methodology. During the process, FNG founded a subsidiary: Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) mbH. This subsidiary 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. However, it is evident that an increasing number of investors perceive the sustainable investment market as confusing and complex. Due to the still inadequate data situation with systematic and comparable original company data at the current stage, a purely quantifiable approach is unfortunately impossible. The use of existing ESG metrics, which are largely based on estimated values and for which the correlation of the various survey methods is only weak, also does not present an objective and independent alternative. A quality label can help reduce information costs, provide clarity, and promote the establishment of standards and quality assurance in a growing market. Sparring with a product provider within the scope of the examination process of an application for the FNG-Label alone represents a hurdle. This is because the audit by an external and independent body is the first filter that leads to a higher quality level of a sustainable investment. In addition, a step-by-step model based on 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 for year. The FNG-Label is now used by fund providers¹ from 14 (also non-EU) countries. The people responsible for the FNG-Label have been repeatedly invited by the French Ministry of Finance to help improve their government label ISR.

Particularly against the background of the EU Disclosure Regulation, there is a regulatory compulsion to classify products as compliant according to Article 8 or 9 in order to be allowed to market them at all within the framework of the enquiry of sustainability preferences required from the client according to MiFID-II. All product providers 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 gives fund providers and the respective distributors the opportunity to document the quality and the sustainability standards of their investment products – audited externally by a dedicated audit team led by Prof. Dr. Timo Busch from the Research Group on Sustainable Finance at the University of Hamburg and additionally accompanied by an independent committee of experts, consisting of different stakeholders. At the same time, it allows an active contribution to the further development of the sustainable investment market in German-speaking countries to be made. In the sense of best practice, a framework is thus created in which innovation continues to happen out of the market.

¹ Fund provider is understood/synonymously seen as: Fund advisor, fund initiator, capital management company/custodian service functions in the role of portfolio manager, etc.

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 sustainability quality from the perspective of the FNG-Label. The FNG-Label award process does not cover the general checking of mutual funds' prospectuses or other offer documents, nor of the actual use of funds by fund managers. 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 audit team 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 per se by the applicant or by FNG and QNG, nor intended to be communicated to the applicant's investors or investors in the mutual fund concerned.

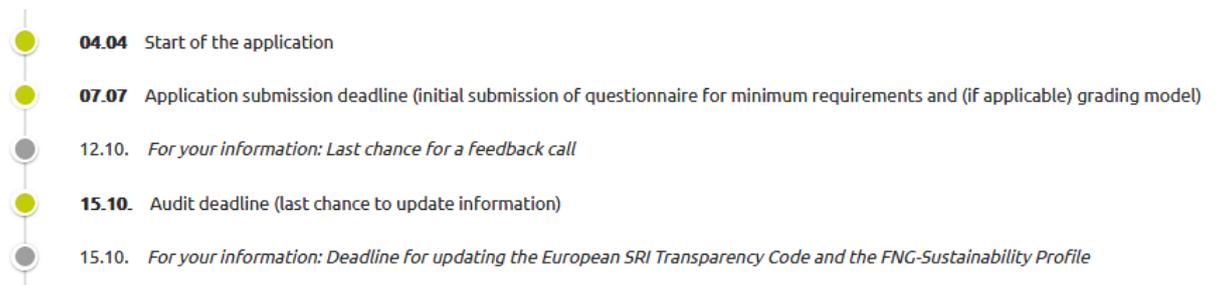
1. Label award terms and conditions

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) 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 (07.07.2021). This includes the minimum requirements and, if applicable, the grading model. The audit team processes applications in the order in which they are received.
- Audit process:

Current audit period procedure:



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 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.

- Audit of minimum requirements and grading model: The candidate either only applies for the minimum standard or also the grading model. The application deadline refers to the complete submission of all documents and online submission of the questionnaire (minimum requirements AND grading model (if applied applicable)). It should be noted that it is necessary to pass all the minimum requirements to be awarded the basic label. Without meeting the minimum requirements, it is not possible for a star to be awarded.
- Audit and publication of final results: The audit team processes applications in the order in which they are received.

2021 FNG-Label award calendar:

Call for applications:	4 April 2021
Application submission deadline:	7 July 2021
Announcement of funds awarded:	Awarding ceremony 25 November 2021 in Frankfurt a.M.

Note: As shown in the audit process, the last opportunity to report back to the audit team is **15 October 2021!**

1.2. Processing fee

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

- EUR 4,200 plus VAT per applicant fund in case of a new applying fund provider
- EUR 3,700 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 400 plus VAT. Auditing is included in the processing fee.

Additionally, the fee includes the audit costs for the Eurosif transparency logo.

Applicants must pay the processing fee in order for the fund concerned to be audited. 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 audit process and all other expenses related to the administration and in particular to increase the market penetration of the FNG-Label (marketing, communication, database maintenance, congresses, trade fairs or other events). The fees should not be construed as a payment made in order to obtain the FNG-Label. Upon activation of new funds in the online audit 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, industry associations and the academic world. Three of the four FNG countries: Germany, Austria and Switzerland, 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 audit 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 at the annual committee meetings prior to the award of the label (usually in November).

1.4. Compliance monitoring

The auditor 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 audit team or QNG for any documents or other information needed to ensure the fund's compliance with the FNG-Label criteria. In return, the audit team and the QNG are obliged to confidentiality regarding information that has not (yet) been published. The applicant undertakes to keep QNG and the audit team up to date with any changes in the investment process, particularly where these occur during the audit period.

1.5. Non-compliance following the award of the label

Should the QNG or the audit 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 audit 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 providers, including any associated subsidiaries and distribution networks, which issue communications relating to the FNG-Label shall be bound by the rules of this Communications Charter and must 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](https://www.fng-siegel.org) In addition, the QNG supports that products labelled with the FNG-Label will be published on further relevant websites and data bases.

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:



1.6.2. Terms of use of the FNG-Label

1. **Fund providers, which 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 providers, which 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 providers choose not to use the grade awarded, only the logo without any stars may be used.**
3. **Fund providers shall be obliged to inform QNG mbH about all their communications containing the FNG logo shown in section A.** Each communication must 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 one or two more hints from the QNG if necessary. 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 must 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 from the date of the award where such award takes place before the calendar year of validity, for example if an award is made 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 must 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 therefore 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 levels (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 provider, which 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 standards 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 the independent Auditor 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 the Eurosif 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 gained it 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**. These include transparency criteria and the consideration of **labor & human rights, environmental protection and anti-corruption as summarized in the globally recognized UN Global Compact**. All companies in the respective fund must also be fully analyzed for sustainability criteria and the product must have an explicit sustainability strategy. Investments in **nuclear power, coal mining, small-scale 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 auditor of the FNG-Label is the chair of Prof. Dr. Timo Busch from the Research Group on Sustainable Finance 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 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.

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.*
- *The credibility of the FNG-Label is underpinned by an independent audit 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 or EPS* 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 audit team's interpretation regarding the fund's compliance with the FNG-Label criteria shall prevail. The QNG and the audit 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 audit 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 audit 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 FNG, 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 audit team shall be excluded.

1.8. Confidentiality

The audit 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, then in any case transformed into an anonymous form. 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 audit 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 audit sections:

- a) Minimum requirements
- b) Grading model

To verify the criteria, the audit 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. The basic condition for marketing sustainable investments in the EU is compliance with Article 8 or 9 of the EU Disclosure Regulation. The product applying must be classified accordingly. In the course of the Disclosure Regulation, the product must be regulated according to Article 8 or 9. Specific regulations and exemptions can be found in the appendix.

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 year previous to assessment. (Example: Application for the FNG-Label 2022 takes place in 2021, the FNG Sustainability Profile must not have been prepared before 31.03.2020).

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

2.2.3. Exclusions²

Companies:

The applicant must prove that they have set up effective exclusion procedures (including monitoring processes) through their sustainability analysis, which enable them to exclude issuers which 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 Awareness Bonds", for which a use of funds can be assigned, violations of the criteria are audited at the product level. Likewise, the following criteria shall be applied to target funds of any kind in the applying fund:

➤ 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 is exceeded at the issuer level.³

➤ Nuclear Energy

- Companies that are involved in uranium mining are excluded if the 5 percent revenue threshold 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 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 is exceeded at the issuer level.

➤ Fossil fuels

- Companies that are involved in coal mining are excluded if the 5 percent revenue threshold 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 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 is exceeded at the issuer level.

² 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.

³ Conventional weapons include handguns/civilian firearms.

- Companies that are involved in the use and/or production of hydraulic fracking technologies are excluded if the 5 percent revenue threshold is exceeded at the issuer level.

➤ Other

- Companies that are involved in the production of tobacco are excluded if the 5 percent revenue threshold 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 apply (this includes monitoring processes). In case of the "Sustainability Awareness Bonds", for which a use of funds can be assigned, violations 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:

➤ 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.

With regard to the exclusion of companies as described above, lists demonstrating the quality of the exclusion procedures must be submitted to the auditor. The audit team reserves the right to verify the accuracy of the lists and the exclusion procedures.

Ideally, the required proof of the exclusions is provided through official documents such as a formalized company (investment) policy, the prospectus or the like. If this is not the case, a declaration of commitment must be submitted as a short-term assistance, which should increase in terms of rigor or degree of formalization in the years following the initial application. A publicly visible commitment by the fund provider regarding the exclusion criteria is important in terms of product clarity and

therefore important for the investor. In case of a repeated application, the fund provider must show the auditor that it aims at providing a publicly visible commitment with regard to the exclusion criteria. This proof can take different forms; for example, gradually including the criteria in public (not necessarily mandatory legally binding) documents.

2.3. Grading model

2.3.1. Scoring system and label grades

In the “grading model”, the applicant is awarded points if it meets the criteria for the sections specified in the table. In order to be positively assessed, the compliance of criteria must be clearly proven. A specific label grade will be awarded depending on the total percentage achieved.

The allocation of percentages to the different sections is as follows:

Section		Maximum score (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 section.

The label grades awarded are the following:

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

One-star label: This grade is awarded to applicants, which meet all the criteria in the minimum requirements section and 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, which meet all the criteria in the minimum requirements section and 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, which meet all the criteria in the minimum requirements section and achieve a total score of at least 70.00 percent in the grading model.

2.3.2. Institutional Credibility (10 percent of the total score)

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

- have defined a responsible investment policy and report regularly on this 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);
- 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?;
- provide support for its employees' SRI / ESG education;
- have incorporated ESG data about issuers systematically in all investment processes (e.g. portfolio manager must achieve a specific minimum ESG score);
- 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 guidelines 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.) and/or specific investment policies regarding fossil fuels (for example present/ designated exclusion of certain activities);
- engage in responsible investment initiatives.

2.3.3. Product Standards (20 percent of the total score)

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

- Fund provider's SRI research process
The applicant must demonstrate that
 - they employ a significant amount of experienced SRI/ESG analysts compared to financial analysts;
 - they are obtaining external sustainability information on issuers (for example from Inrate, ISS-ESG, RepRisk, MSCI ESG, Refinitiv, V.E. or imug, Sustainalytics, rfu, etc.);
 - they systematically process these sustainability assessments internally for a high number of issuers of the investment universe (for instance in the field of theme studies, dialogue activities, monitoring of issuer controversies, etc.);
 - they have established an advisory committee on sustainability or investment board at fund level.
- 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 how the fund provider integrates specific insights derived from the internal research (results from theme or sector studies, controversy monitoring, engagement activities, and innovative SRI approaches) 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).

- Reporting on the sustainability performance of the fund
The applicant must report properly on the sustainability performance of the fund and/or its holdings at least quarterly in publicly available fund documents. This information should preferably be included in 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.⁴ Additionally, the use of derivatives will also come under scrutiny. Up to four points may be deducted for missing or insufficient information.

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

2.3.4. Portfolio Focus (70 percent of the total score)

Regarding the elements of Portfolio Focus, the audit 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 section is divided into three sub-sections:

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

2.3.4.1. Selection Strategy (35 percent of the total score)

The audit examines all the procedures and systems which 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 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 is measured by the number and severity of exclusion criteria applied (degree of supply chain (e.g. is only coal mining excluded, or trading/power generation as well?) and revenue threshold). Furthermore, the number of controversial issuers or activities classified as “non-eligible” come under scrutiny.
- 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:
 - 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:

⁴ 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.

- 1) Investment universe construction: The investment manager is looking for a high ESG portfolio quality by including only issuers with the highest ESG rating 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 of issuers directly into the portfolio construction process or by using a benchmarking-system to compare the fund's performance with sustainable references.⁵ 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 audit will assess the actual ESG performance of the portfolio and its development over the last 12 months, based on historic ESG fund data (01.01.2020 to 31.12.2020).
- 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.
 - To measure the quality of the process, the audit will closely examine the applicant's definition of a sustainable activity. In all cases, the applicant must describe how the defined sustainable activity can contribute to sustainable development. The audit applies a strict definition of sustainable activities based on the following standards (see Appendix):
 1. Environmental themes⁶: Climate Bond Initiative (CBI) Taxonomy and current version of EU Taxonomy, Green Bond Principles of the International Capital Market Association (ICMA), EU GBS⁷.
 2. Social themes: Social Bond Principles of the International Capital Market Association (ICMA)
 3. General sustainability themes: UN Sustainable Development Goals (SDGs).
 - In addition to the definition of sustainable activities, it is also examined whether a minimum turnover through sustainable activities is set as a formal goal at issuer or portfolio level. In the case of "Sustainability Awareness Bonds", the audit evaluates what proportion of the portfolio must be invested in Sustainability Awareness Bonds.
 - To measure the portfolio's sustainability performance/quality, the audit assesses the average turnover at portfolio level realized through sustainable activities.

⁵ Benchmark system does not necessarily refer to the classic comparison against a conventional/financial benchmark. These can also be purely internal systems.

⁶ 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.

⁷ As this is currently in the draft stage, it is not the subject of the audit.

- In the specific case of “Sustainability Awareness Bonds” where the use of funds 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 Awareness Bonds”.

2.3.4.2. Dialogue Strategies (25 percent of the total score)

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

- Fund provider’s guidelines for the exercise of voting rights and own practices
The fund provider must demonstrate that it has drawn up voting guidelines, which clearly address sustainability issues. Furthermore, it must demonstrate that it exercises its voting rights in respect to its equity holdings, publishes a voting report, and initiates or supports shareholder proposals on sustainability aspects for portfolio holdings. The assignment of voting rights to shareholder alliances or specialized proxy voting agencies will also be positively considered. This criterion will not be applied to funds, which are not invested in equities.
- Engagement processes with issuers
The basic idea of formal engagement is to achieve clear improvements in an issuer’s ESG performance while actively exercising one’s right as the company’s owner or stakeholder. The candidate shall prove that it has established a formal policy on engagement activities with issuers and reports on the outcome of these activities at least once a year. It is helpful to show whether, for example, a specific goal is planned and whether intermediate steps towards achieving targets, such as analyst conferences, meetings with business field managers, or controlling tools, are defined. In addition, the applicant should clearly document how it as part of an own engagement process or as part of a Collaborative Engagement Initiative, contributed to improve an issuer’s ESG performance. The objectives of the engagement process should primarily relate to sustainability aspects.
In addition, the candidate should explain and ideally publish (some) dialogue activities. The FNG-Label aims to increase transparency in the sustainability performance of issuers. Therefore, the candidate should demonstrate that it is engaged in an active dialogue on sustainability aspects with a significant number of issuers in the portfolio, and that he reports on the outcome of these dialogues in publicly available documents.

2.3.4.3. ESG Key Performance Indicators (KPIs) (10 percent of the total score)

This part of the audit focuses on the use of ESG 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 ESG key performance indicator 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 ESG key performance indicators applied outperforms 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. Data, which is not publicly available, will be considered but will be worth only half as many points.

Appendix

The appendix outlines exemptions for specific audit 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
- Synthetic exchange-traded funds
- Funds of funds

In addition, the following regulations apply:

ETFs are eligible as long as the index construction process is analysed using sustainability or ESG criteria.

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 Programme): <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.shtml>

Grading model

Product Standards section:

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 fund provider undertakes to provide the following data, in case such data is not available in the fund prospectus, fund reporting or Eurosif Transparency Code declaration:

- A description of the investment philosophy regarding the use of derivatives
- An explanation of the strategy on the use of derivatives
- A list of the derivatives products used
- A declaration not to use derivatives that would significantly compromise the fund's sustainability quality;
- 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 Section:

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 GBS⁸.

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 (current) EU taxonomy can be used to define environmentally sustainable activities (see draft regulation, p. 30 Article 5: <https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:52018PC0353&from=DE>). Namely these are Climate protection; adaptation to climate change; sustainable use and protection of water and marine resources; transition to a circular economy; waste prevention and recycling, pollution prevention and control; protection of healthy ecosystems. Additional information on the first two topics is also available from the EU Technical Expert Group on Sustainable Finance

- Final report
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf
- Technical Annex:
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

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).

Any issuers, which are not active in these industries / thematic areas, will not be audited as thematic investments.

⁸ 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). As this is currently in the draft stage, it is not the subject of the audit.