

About Nordic Swan Ecolabelled

Investment funds and investment products



Version 2.0 • Consultation period 28 April 2021 – 28 June 2021

Background document for consultation

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Addresses

In 1989, the Nordic Council of Ministers decided to introduce a voluntary official ecolabel, the Nordic Swan Ecolabel. These organisations/companies operate the Nordic Ecolabelling system on behalf of their own country's government. For more information, see the websites:

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1 Summary

Sustainable finance plays a crucial role in the transition to a low-carbon, more resource-efficient and resilient economy. As a part of its Green Deal, the EU aims to mobilise at least €1 trillion of sustainable investments during the 2020s¹. To reach this goal, several industries and individual companies need to work systematically to become more sustainable. The financial sector can contribute through its impact on capital flows.

Nordic Ecolabelling launched criteria for Nordic Swan Ecolabelled funds in June 2017. Since then, public and political awareness of sustainable investment has continued to expand, putting additional pressure on increased standardization. The EU Action Plan on Sustainable Finance was presented in March 2018 and has reached the implementation phase in 2021. The EU Taxonomy, an encyclopaedia for environmentally sustainable activities, lies at the heart of the action plan. EU Ecolabel criteria for financial products are just around the corner.

Thus, the demand for more sustainable investment products is high and the supply of such products is constantly growing. Investors are also increasingly calling for an independent assessment of the actual sustainability profile of the various investment funds and products in the market. 8 out of 10 Swedish private investors want an independent party to assess the sustainability claims of a fund product.² The Nordic Swan Ecolabel can take on this important task and provide a credible, independent guarantee that the products meet ambitious sustainability criteria.

In Generation 2 of the criteria, the Nordic Swan Ecolabel aims to strengthen its role and position as a holistic label for investment funds and products. This means that a Nordic Swan Ecolabelled financial product must fulfil a range of tough requirements within four ESG strategies: inclusion, active ownership, transparency, and exclusion. Furthermore, the Nordic Swan Ecolabel aims to integrate the upcoming EU regulations and the Sustainable Development Goals (SDG) in a sensible manner. Additional emphasis will also be put on the crucial environmental challenges of climate change and biodiversity.

Investment products differ from other products and services that can carry the Nordic Swan Ecolabel. Unlike many other manufactured products, the investment fund or product as such does not have any negative environmental effects. Rather, Nordic Ecolabelling's aim is to reduce an investor's investments in non-sustainable industries and increase investments in companies with strong sustainability performance, while stimulating active ownership and transparency. In the long run, we believe that this will affect the business community and steer capital markets towards more sustainable investments.

All in all, the Nordic Swan Ecolabel will give the investment manager access to a clear and simple means of communicating the product's sustainability profile.

¹ EU Commission, The European Green Deal Investment Plan and Just Transition Mechanism, January 2020, https://ec.europa.eu/info/publications/200114-european-green-deal-investment-plan_fi.

² Miljömärkning Sverige AB, Det är kvinnorna som vänder upp och ner på börsen, January 2018, <https://www.svanen.se/siteassets/rapporter--undersokningar/rapport-det-ar-kvinnor-som-vander-det-ar-kvinnor-som-vander-och-ner-pa-borsen.pdf>.

Nordic Ecolabelling also believes that companies that systematically and prospectively work with sustainability issues will be more profitable in the long term. A Nordic Swan Ecolabelled investment product will identify and stimulate sustainable investments. We envision an upward spiral – benefiting companies, investors and the world we share.

2 Environmental impact of Investment funds and Investment products

To achieve environmental gains, Nordic Ecolabelling must be able to set requirements that are relevant to inherent environmental problems. There must also be potential to differentiate between products based on their environmental or sustainability profile. Finally, it must be possible to steer the environmental problem in question via the Nordic Ecolabelling requirements. These three parameters should be taken together and are referred to as Relevance–Potential–Steerability, RPS.

Asset management and investment funds in itself has a small direct effect on the environment. Assets are acquired and managed indirectly via funds and other investment vehicles, while money is being transferred and registered on electronic accounts.

That said, the investment of money in companies or shares has an indirect effect on all aspects of the environment. It can have environmental impacts on, for example, climate change, emissions to air, water or soil, resource depletion, waste and deforestation. Funds have relevance, R, in the sense that the activity and production of companies in a Nordic Swan Ecolabelled fund will have environmental effects. The relevance will cover different environmental parameters depending on the industry where the company operates.

The biggest potential, P, for Nordic Swan Ecolabelled funds lies in the possibility to steer capital flows in a more sustainable direction and leverage on the financial power of ownership to transform production and consumption.

Can the Nordic Ecolabelling make difference and reduce the indirect environmental effect of funds? In other words, where can the Nordic Swan Ecolabel have steerability, S? In the field of funds and investment products, Nordic Ecolabelling has identified four key strategies that can influence companies and markets in a more sustainable direction: exclusion, inclusion, active ownership, and transparency.

The Nordic Swan Ecolabel aims to be a holistic label for funds. This means that a Nordic Swan Ecolabelled fund must fulfil a range of tough requirements in the four aforementioned areas of exclusion, inclusion, active ownership, and transparency. The environmental effects of the individual strategies are described more thoroughly later in this chapter.

Taken together, we are convinced that the combined application of the criteria in these areas will generate a positive indirect effect, albeit that the effect is hard to measure or show in quantitative terms. Moreover, The Nordic Swan Ecolabel is a well-known and credible ecolabel in the Nordic region. Therefore, the Nordic Swan Ecolabel criteria can guide non-professional investors as they navigate in a

myriad of funds and investment products. There are thousands of investment funds in the Nordic market alone. As the practice of sustainable investment increases, claims about the sustainability profile of funds are also becoming more and more common.

Nordic Ecolabelling wants to promote funds that have taken a far-reaching and holistic approach to sustainable investment by complying with tough criteria in the four areas of exclusion, inclusion, active ownership, and transparency. Next, the four strategies that Nordic Swan Ecolabelled fund must apply are described in a more detailed manner.

If a definition is required for a word or text in the requirement, the word/text is underlined and marked with a †. Key terms and definitions can be found at the of this document in the chapter Terms and definitions.

2.1 Exclusion

The exclusion requirements safeguard that a Nordic Swan Ecolabelled fund does not have holdings† in industries and companies that Nordic Ecolabelling considers to be the least sustainable. Consequently, the exclusion criteria will reduce investors' indirect ownership of companies whose current business model is incompatible with a long-term sustainable development, or whose activities violate basic human rights† and international conventions.

The aim of this set of requirements is reduce the investor's risk of obtaining a financial return from business activities that are unacceptable from a sustainability perspective. Moreover, Nordic Ecolabelling is making it clear to the world which types of business activities we consider to be unsustainable. In theory, this could lead to reduced demand for unsustainable investments and in turn affect the price of securities or raise the cost of capital for these companies. However, such an effect would require worldwide adherence to an exclusion strategy, and this seems unlikely. The effect is more likely to be that of a signal value.

Naturally, there are additional industries and business areas that are far from sustainable. The basic principle of Nordic Ecolabelling is to exclude the least sustainable industries and activities, while simultaneously creating opportunities for engagement and transition among the remaining companies. Nordic Ecolabelling finds it important to maintain a balance between the four main strategies of the criteria.

In addition to the exclusion requirements for industries and companies, there are two exclusion requirements for government bonds. Nordic Ecolabelling wants to exclude countries that have not ratified central international agreements on the environment and/or countries with a high level of corruption. However, the main focus of the Nordic Swan Ecolabel criteria is on companies.

More information about the exclusion criteria can be found in Chapter 3.4.

2.2 Inclusion

The inclusion requirements set out rules for how the fund will analyse and select investments from a sustainability perspective. As for analysis, the goal is to increase the focus on material environmental, social and governance (ESG) opportunities and risks. All companies must undergo a proactive ESG analysis prior to investment.

Nordic Ecolabelling believes that the inclusion requirements will stimulate fund managers to enhance and refine their models for ESG analysis, exert more pressure on potential and current investee companies, as well as increase communication about their own sustainability efforts.

As for the inclusion of companies, the criteria will result in a fund where a clear majority of holdings (at least 70%) will represent strong ESG practices. This will set the stage for better sustainability characteristics and performance in the Nordic Swan Ecolabelled fund compared to conventional funds. It is always positive for a company to be a desirable investment. Ideally, Nordic Swan Ecolabelled funds will provide an incentive for companies to improve their sustainability performance. Nordic Ecolabelling also aims to stimulate capital flows to businesses and industries that have a large potential to contribute to a more sustainable future. Nordic Ecolabelling also wishes to reward funds where holdings are explicitly selected based on internationally accepted frameworks facilitating sustainable investment. Such frameworks are for instance the EU Taxonomy, the Sustainable Development Goals (SDGs), and the Paris Agreement.

That said, most of the time investments will take place in secondary markets. This means that capital is not channelled to the company but rather exchanged between investors. Nordic Ecolabelling is aware that there are no direct links between the investment undertaken by individual investors in a fund and the operations of an underlying company, and that the possible positive sustainability impact will be indirect in nature.

More information about the inclusion criteria can be found in Chapter 3.5.

2.3 Active ownership

The aim of the requirements on active ownership is to stimulate the fund manager to exercise its ownership rights to improve the sustainability strategy and performance of the holdings. Investing in a (equity) fund means ownership, albeit indirectly through the fund manager. This ownership implies responsibility. Anonymous, short-term and uninvolved owners will not help companies to develop sustainable and responsible business models.

Active, long-term owners can play a key part in addressing and influencing environmental and sustainability aspects of a company's operations. Moreover, co-operation between several owners and other stakeholders can increase the weight of the engagement. On the other hand, it is not always easy to determine the causal connection between the action taken by an individual owner and changes in the company's policy or conduct.

As bond funds do not own stock in a company, and therefore do not have the power to vote at AGMs, the required points-score total for bonds funds is lower than for equity funds.

The active ownership criteria are described more thoroughly in Chapter 3.6.

2.4 Transparency

The aim of the transparency criteria is to increase the information available about the sustainability characteristics and performance of the Nordic Swan Ecolabelled fund. The transparency criteria will also enable justification for the investments and facilitate dialogue between the investor, fund manager, investee company, and other stakeholders. In this way, increased transparency and dialogue may support and contribute to how the operations of different companies are perceived by the investment community and other stakeholders.

The transparency criteria are presented in Chapter 3.7.

3 Other labels and policy instruments

In March 2018, the European Commission released the EU Action Plan on Sustainable Finance. Since then, a lot of work has been carried out to formulate an extensive legislative package that will be rolled out in the next few years. The practical implementation of the action plan will have far-reaching effects on the sustainability agenda of investors, financial institutions, supervisory bodies, and other stakeholders.

The EU Taxonomy is at the heart of the action plan. The key aim of the taxonomy is to provide definitions on environmentally sustainable activities to companies, investors, and policymakers. The taxonomy is expected to be used as a manual and toolkit that stimulates the growth and comparison of environmentally sustainable investments. Nordic Ecolabelling appreciates increased standardization of definitions in the area of sustainable investment and will follow the development closely.

The Nordic Swan Ecolabel will, however, implement the EU Taxonomy into its criteria in a gradual and appropriate manner. There are several reasons for this. First, at the time of writing (4/2021), the activities that will substantially contribute to environmental objectives 3-6 have not been defined. So far, only the climate-related objectives 1-2 have been addressed. Second, even the status of some climate-related activities is still unclear. Among others, this is the case for energy generation based on natural gas and nuclear power. Third, it remains to be seen how market participants will use the taxonomy in practice. Nordic Ecolabelling expects that the actual usability will be better known towards the end of the lifespan of these criteria.

To sum up, there are still many unanswered questions about the scope and practicalities of the taxonomy to justify a more thorough integration into the Nordic Swan Ecolabel criteria. At this stage, Nordic Ecolabelling therefore wants to give funds the opportunity to invest with a broader mandate than a fairly narrow climate focus. Having said that, Nordic Ecolabelling expects the

taxonomy to play a larger part in the next revision of the criteria. This will also be reflected in a relative short lifespan of these criteria.

Another part of EU's regulatory package is the Sustainable Finance Disclosure Regulation (SFDR), which requires all investment fund managers to disclose how sustainability risks are integrated into investment decisions and to assess the likely impacts of sustainability risks on fund returns. In addition to that, the SFDR creates a legal framework for products that actively promote environmental or social characteristics (Article 8) and products that have sustainable investment as their objective (Article 9).

In order to be eligible to apply for the Nordic Swan Ecolabel, a fund must at be an Article 8 or Article 9 product. As a part of the revision of its fund criteria, Nordic Ecolabelling also aims to implement key aspects of the SFDR into the transparency requirements.

As a further dimension of its action plan on sustainable finance, the EU also aims to develop EU Ecolabel criteria for financial products. These criteria will to a large extent build on the EU Taxonomy, with the addition of some exclusion, active ownership and transparency criteria.

The proposed EU Ecolabel criteria are set so that at least some part of the portfolio is invested in line with the EU Taxonomy, while the Nordic Swan Ecolabel requirements are met when a substantial part of the portfolio is invested in at least light green activities with strong ESG practices. In April 2021, The EU Ecolabel criteria were expected to be voted on in June 2021.

3.1 Sustainable finance labels in Europe

Currently, the Nordic Swan Ecolabel is the only ISO 14024 Type 1 ecolabel for investment funds in the Nordic region. There are, however, a handful of other labelling schemes operating in the European financial market. In the following paragraphs, these labels are presented briefly in alphabetical order.

Beyond Sustainability is a label for investment products that are marketed as being socially responsible or sustainable in the Belgian market. The initiative was launched in 2019 by Febelfin, which is the sector association of the Belgian financial industry.

ESG4Real is an initiative created by the asset management units of labour unions FNV in the Netherlands and LO in Sweden. The ESG4Real Standard was launched in 2015, providing quality assurance of minimum level of requirements within responsible investment. The audit and certification may be conducted by a ISO 17065 product certification body.

FNG Siegel is an SRI label for financial products in the German-speaking countries. The label is governed by FNG (Forum Nachhaltige Geldanlagen e.V.), which is the association for sustainable investments in Germany, Austria, Liechtenstein, and Switzerland. FNG Siegel was launched in 2015.

Greenfin is a label created by the French Ministry for Ecology and Inclusive Transition. The Greenfin label is audited by Novethic, a French research company within sustainable finance.

LuxFLAG is a labelling agency based in Luxembourg, created by seven local financial institutions in 2006. At present, LuxFLAG offers labels for five types of investment products: Microfinance, Environment, ESG, Climate Finance, and Green Bonds.

SRI Label is a French label launched in 2016 and owned by the Finance Ministry. The label is audited by Afnor Certification and EY France, both of which are accredited by COFRAC, a semi-public body assessing the quality of certification bodies.

Österreichisches Umweltzeichen (Austrian Ecolabel) is awarded by the Republic of Austria, represented by the Federal Ministry of Sustainability and Tourism. The label has provided criteria for sustainable investment products since 2004, thus being the oldest label of its kind in Europe. As the Nordic Swan Ecolabel, the Austrian Ecolabel follows the principles and procedures of an ISO 14024 Type I ecolabel.

In 2019, Novethic carried out a study where the scope and criteria of several of the above labels were compared. At the time of writing, the latest update had been performed in January 2020³.

4 Justification of the requirements

This chapter presents the requirements and explains the background to the requirements and the chosen requirement level.

Each requirement, with its associated definitions, describes the scope of the requirement.

4.1 Definition of the product group

Funds that seek to apply for the Nordic Swan Ecolabel must fulfil three eligibility criteria, which are presented more thoroughly in the following paragraphs.

First, a fund must be covered by the UCITS[†] (Undertakings for Collective Investments in Transferable Securities, 85/611/EEC) regulations. UCITS is a regulatory framework that creates a harmonised regime throughout Europe for the management and sale of mutual funds. UCITS funds can be registered in Europe and sold to investors worldwide using unified regulatory and investor protection requirements.

UCITS fund providers who meet the standards are exempt from national regulation in individual European countries. Limiting the criteria scope to UCITS, a standardized and well-regulated framework, sets a natural boundary to the product group.

Second, at least 50% on average of the fund's assets over the course of the last 12 months must be based on equities[†], corporate debt[†] and/or other eligible green bonds (see the definition of Green bonds[†]). The reason for this limitation is that

³ Novethic, Overview of European Sustainable Finance Labels, 2020, https://www.novethic.com/fileadmin/user_upload/tx_ausynovethicetudes/pdf_complets/Novethic_Overview-European-Sustainable-Finance-Labels_2020.pdf.

Nordic Ecolabelling has poor steerability to achieve environmental improvements by ecolabelling funds with main assets outside these asset classes.

From February 7, 2018, qualified non-corporate green bonds were added to the eligible list of asset types that must be held up to at least 50% of the total assets of a Nordic Swan Ecolabelled fund. Green bonds differ from traditional bonds in the sense that proceeds must be used exclusively to finance or refinance key areas of environmental concern such as climate change, natural resources depletion, loss of biodiversity, and air, water or soil pollution.

In Generation 2, the term eligible green bonds is used instead of qualified non-corporate green bonds. Eligible green bonds must follow the 2017 or later edition of the Green Bond Principles (GBP). In addition, they must be issued for investments named in Appendix 2 of the criteria document and be third-party verified. Green bonds cannot be issued to investments within areas excluded in criteria O4–O12.

Third, funds are eligible only if they follow Article 8 or Article 9 of the EU regulation 2019/2088 on sustainability-related disclosures in the financial services sector. Level 1 of the regulation entered into force on 10 March 2021. According to regulation, Article 8 products actively promote environmental or social characteristics, while Article 9 products have sustainable investment as their objective.

Starting from May 2020, also other types of investment products can have a Nordic Swan Ecolabel licence. There are many types of investment products that has the potential to steer companies towards a more sustainable direction. However, Nordic Ecolabelling decided to give investment products that use Nordic Swan Ecolabelled funds as building blocks a possibility to have a licence of their own. These types of products are among others, but not limited to alternative investment funds (AIFs), fund of funds, as well as various kinds of insurance and pension products.

4.2 General – investment funds

O1 Description of the fund

A brief description of the product intended for Nordic Swan Ecolabelling and how the product fulfils the definition of what can carry the Nordic Swan Ecolabel. The following must be included:

- Investment universe.
- ESG investment strategy/objective.
- Document showing the fund's compliance with the UCITS[†] directives.
- Information showing the fund's compliance with Article 8 or 9 in EU regulation 2019/2088 on sustainability-related disclosures in the financial services sector.

 Signed application form.

- 🏠 Fund fact sheet and/or other document showing details according to O1.
- 🔗 Link to website where official documents are published.

Background to the requirement O1

The description of the fund must enable Nordic Ecolabelling to check the general characteristics of the fund. This general documentation confirms compliance with the UCITS Directive and Article 8 or 9 of the EU Sustainable Finance Disclosure Regulation (SFDR).

UCITS is a common and well-known European legislative framework for investment funds. UCITS funds can be registered in Europe and sold to investors worldwide using unified regulatory and investor protection requirements. Therefore, UCITS sets a natural boundary for the type of fund that is eligible to apply.

SFDR creates a common legal framework for sustainability-related disclosures in the financial services sector. Funds that qualify under Articles 8 and 9 of the SFDR must describe how the levels of sustainability are achieved.

O2 Holdings

The fund manager must provide a list of the holdings† in the fund. The list must include:

- Identification of the type of security (equity†, corporate debt†, qualified non-corporate green bond†, other) and the securities identification number (ISIN†).
- The date when an ESG analysis (see requirement O13 ESG analysis) was last performed for each holding.
- Information on how and by whom the ESG analysis was performed.
- Information showing that at least 50% of the total value of the portfolio is invested in listed equities, corporate debt and/or eligible green bonds.

🏠 List of holdings as of the date of application, including the date when the ESG analysis was performed or last updated. The list must also include details of how and by whom the analysis was performed.

🏠 Nordic Ecolabelling may request an updated list of holdings at any time.

🏠 Information showing the average total proportion of invested in equities, corporate debt and/or eligible green bonds for the last 12 months. If the fund rules clearly quantify the boundaries for the proportion invested in equities, corporate debt and/or eligible green bonds, no separate documentation is required.

Background to the requirement O2

The current list of holdings must be submitted so that Nordic Ecolabelling can verify compliance with the criteria. Nordic Ecolabelling is aware that this list will only give a snapshot view of the holdings at the time of application.

The certification process and audit will check the fund manager's ability to ensure that future holdings are in compliance with the criteria, and annual reports will provide a further source of validation of the fund's compliance with the criteria during the validity of the licence (see O19 and O25).

O3 Derivatives and indirect holdings

The criteria in this document apply to both direct and indirect holdings†.

For derivatives and indirect holdings, the following limitations apply:

- Indirect holdings used for long-term positions are allowed, as long as they comply with applicable exclusion and inclusion requirements.
- For purposes of everyday portfolio management, such as cash management, currency and interest rate hedging etc., the fund company shall have a process/routine to select and only use derivatives and indirect holdings† that support the principles of the excluded sectors (O4-O12). Such instruments that do not follow the exclusion criteria may amount to 5% of the portfolio.
- Sector-based instruments or products that are mainly exposed to excluded sectors or companies (see O4–O12) are not allowed.
- Short selling of companies is not allowed.

☞ Fund policy or description of the use of derivatives and indirect holdings.

☞ Process or routine to ensure that the use of derivatives and indirect holdings is aligned with relevant exclusion and inclusion criteria. If the fund rules clearly prohibit the use of derivatives and indirect holdings, no separate documentation is required.

Background to the requirement O3

The aim of Nordic Swan Ecolabelled funds is to influence companies and markets in a more sustainable direction. As this is mainly possible with direct exposure to equities and bonds, the use of derivatives and indirect investments (such as ETFs and other funds) is regulated.

One option would be to restrict the use of derivatives and indirect holdings altogether. However, this would complicate the management of many funds and investment products, including daily processes such as cash management as well as currency and interest rate hedging. Currently, the market for e.g., liquid equity futures that would cover all exclusion criteria is very limited.

Therefore, for purpose of everyday portfolio management, Nordic Ecolabelling allows for the restricted use of derivatives and indirect holdings that do not fulfil the exclusion criteria. Such instruments may amount to 5% of the portfolio.

Nevertheless, these instruments must not be mainly exposed to excluded sectors or companies.

In addition to the generally restricted use of derivatives, short selling of companies is not allowed. Traditionally, sustainable investment is seen as an owner-centric activity that attempts to influence companies and the real economy in a more sustainable direction. Nordic Ecolabelling encourages long-term and active ownership of companies.

Moreover, long-term investments in indirect holdings (such as exposure to specific markets via other funds and ETFs) are allowed if the underlying assets comply with the criteria.

4.3 Exclusion criteria

O4 Extracting and refining fossil fuels and uranium

The fund may not invest in companies which themselves or through entities they control† derive 5% or more of their revenue from extracting and/or refining for fuel:

- coal (all sorts of thermal coal, e.g. lignite or anthracite),
- natural gas (conventional and unconventional),
- crude oil (conventional and unconventional),
- uranium.

Companies that fulfil all of the following criteria are exempt and may be included in the fund.

- At least 90% of the company's energy sector CapEx† are on average for the last three consecutive years are in the renewable energy† sector.
- Revenue from renewable energy comprises at least 50% of the company's total revenue. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.
- The company has no revenue from tar sand, shale oil or shale gas, or other fracking activities and/or mining of oil shale and/or extraction in the Arctic region.

🏠 Fund policy or guideline.

🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.

🏠 List of any holdings† that fulfil the exemption criteria.

🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O4

The aim of this exclusion requirement is to restrict the fund's holdings in companies that extract and refine fossil fuels (thermal coal, natural gas, oil) and uranium. This includes both conventional and unconventional sources of fossil fuels.

The reasons for the requirement are the challenges posed by climate change and the excessive risks associated with nuclear power and the extraction (mining) of uranium. From a consumer point of view, it would not be convincing to award the Nordic Swan Ecolabel to a fund without restrictions on fossil fuels, which are at the centre of the contemporary focus on preventing climate change.

To promote the transition towards renewable energy, an exemption has been set for companies with a majority (and growing) share of renewable energy production and investment. Furthermore, such companies must not be involved in the most controversial sources of fossil energy, including shale oil, shale gas, and Arctic oil.

O5 Generating power

The fund may not invest in energy companies which themselves or through entities they control† derive 5% or more of their revenue from generating power from:

- coal (all sorts of thermal coal, e.g. lignite or anthracite),
- natural gas (conventional and unconventional),
- crude oil (conventional and unconventional),
- uranium.

Companies that fulfil all of the following criteria are exempt and may be included in the fund.

- At least 90% of the company's energy sector CapEx† is in new capacity, on average for three consecutive years including the last financial year, are in the renewable energy† sector.
- Revenue† from renewable energy comprises at least 50% of the company's total revenue from power generation OR at least 50% of the company's energy production capacity is based on renewable sources. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.
- The company has no revenue from tar sand, shale oil or shale gas or other fracking activities and/or mining of oil shale and/or extraction in the Arctic region.

🏠 Fund policy or guideline.

- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🏠 List of any holdings† that fulfil the exemption criteria.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O5

This requirement is complementary to O4, set to exclude companies that use fossil fuels (coal, natural gas, fossil oil) and/or uranium to generate power.

Utilities that are investing heavily in renewable sources of energy have an important role in the transition to a more sustainable future. Therefore, an exemption has been set for utilities that already have a major exposure to renewable sources of energy and are committed to significant further investments into renewable energy. As capital expenditure (Capex) to renewable energy capacity may fluctuate between individual years, Capex may be calculated as an average for three consecutive years including the last financial year.

O6 Fossil fuel and uranium transportation and service

The fund may not invest in companies which themselves or through entities they control† derive 5% or more of their revenue from relating to the transportation† or service† activities for:

- coal (all sorts of thermal coal, e.g. lignite or anthracite),
- natural gas (conventional and unconventional),
- crude oil (conventional and unconventional),
- uranium.

- 🏠 Fund policy or guideline.
- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O6

This is a new requirement that seeks to broaden the scope of fossil fuel and uranium exclusion in Generation 2.0 of the criteria. According to the requirement, companies that provide transportation, service and key components to the fossil fuel sector and to the nuclear power industry must be excluded. This includes companies involved in shipping, pipeline transport, and suppliers of key products and services to activities related to nuclear power.

O7 Controversial weapons

The fund may not invest in companies which themselves or through entities that they control produce or sell nuclear, chemical, biological, cluster and/or (the Ottawa Treaty) land mine weapons, depleted uranium, white phosphorus or components solely intended for use in these weapons.

- 🏠 Fund policy or guideline.
- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O7

Investment in companies that produce or sell controversial weapons is not compatible with a sustainable development. This requirement excludes weapons of mass destruction and/or weapons banned by international treaties such as nuclear, chemical, and biological weapons, cluster munitions, land mines banned by the Ottawa treaty, white phosphorus munitions, and other types of controversial weapons such as blinding laser weapons.

O8 Conventional weapons

The fund may not invest in companies which themselves or through entities they control† derive 5% or more of their revenue† from the production or sale of conventional weapons† and military products† used for combat. This also covers firearms for civilian use. However, production or sale of weapons or ammunition for hunting and competition are not excluded.

- 🏠 Fund policy or guideline.
- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O8

This requirement aims to exclude conventional weapons and military products used for combat. As with controversial weapons, the use of conventional weapons is not compatible with a sustainable development. With the exclusion of military equipment used for combat (e.g., drones, radar and satellite systems, and other products and services with a weapons-related application), the scope of the requirement has been broadened in Generation 2 of the criteria.

Sale of weapons and ammunition for hunting and competition (shooting sports) is allowed. Nordic Ecolabelling has made this exception to allow for retail stores selling this kind of equipment as part of their business, such as sports equipment stores. These businesses are not the primary focus of this requirement.

O9 Tobacco

The fund may not invest in companies which themselves or through entities they control† derive 5% or more of their revenue† from the production or sale/distribution of tobacco and tobacco products†.

- 🏠 Fund policy or guideline.
- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O9

The impact of tobacco on human health is well-known. According to the World Health Organization, tobacco kills more than 8 million people each year.

Within the scope of this requirement, manufacture of all kinds of tobacco products such as cigarettes, cigars, e-cigarettes, snuff, and chewing tobacco is excluded. In addition, sale/distribution of tobacco has been added to the scope of exclusion in Generation 2 of the criteria.

O10 International norms and conventions

The fund may not invest in companies, including entities they control†, if there is an unacceptable risk that the company contributes to or is responsible for severe or systematic violations of one or more of the following:

- ILO's fundamental principles†.
- Human rights†.
- Severe environmental damage†.
- Gross corruption†.

In case an existing holding violates international norms or conventions, the fund must proceed according to the requirement O17 Engagement with non-conforming holdings.

- 🏠 Fund policy or guideline.

- 🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O10

Companies that do not comply with central international norms and conventions must not be included in a Nordic Swan Ecolabelled fund. These norms concern human rights†, labour rights, environmental protection and anti-corruption measures.

Generally speaking, Nordic Ecolabelling believes that ecolabelled products should not only be the best choice in terms of the environment but also be produced under acceptable working conditions. Furthermore, a company that causes severe environmental damage† may not be part of a Nordic Swan Ecolabelled fund.

The most common way to deal with companies that violate international norms and conventions is to obtain the information from a service provider such as MSCI, Sustainalytics, or ISS ESG. If the portfolio's universe is very limited and there is reliable access to data, the fund manager may also perform this check.

In many situations, it can be hard to assess and determine whether international norms have been violated. There may be a dispute concerning facts or circumstances, or the degree or materiality of the negative corporate action/behaviour can be difficult to judge. Hence, the final decision will often be based on a subjective assessment – a situation of which Nordic Ecolabelling is aware.

The term “unacceptable risk” is used in the criteria. The term has no simple definition, but there are some aspects that can be of help when assessing whether there is an unacceptable risk, for example:

- The severity of the violation.
- The systemic nature of the violation: Has this kind of incident happened before or is it the first time for the company in question?
- The response of the company: Has the company taken active and relevant steps to change their practice and improve their conduct going forward?

The above assessment may be supported by an alert service/a traffic light system or similar delivered by a ESG service provider. Nordic Ecolabelling has evaluated that it is better to refer the notion of "unacceptable risk" than to require legally binding proof of the incident. This is because it can in many cases take months or even years to get a court decision. In addition, in countries with extensive corruption, such incidents may never even end up in court.

O11 Government bonds – sanctions and international agreements

The fund may not invest in government bonds issued by:

- Countries that are subject to EU or UN financial sanctions†.
- Countries which have not ratified the following:
- The UN Convention on Biological Diversity†.
- The Paris Agreement†.
- Fund policy or guideline.

🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.

🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O11

Countries that are subject to sanctions from the EU and/or UN are highly likely to lack sustainable society governance. Moreover, countries that have not signed central international agreements on climate change and biodiversity cannot be included in a Nordic Swan Ecolabelled fund.

This requirement therefore excludes government bonds by countries that are subject to EU/UN financial sanctions and/or countries that have not ratified the Paris Agreement on climate change or the UN Convention on Biological Diversity.

O12 Government bonds – corruption

The fund may not invest in government bonds issued by countries which achieve a score worse than 40 in the currently valid Transparency International's Corruption Perceptions Index†.

🏠 Fund policy or guideline.

🏠 Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.

🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O12

Countries that are ranked as having extensive corruption might lack sustainable society governance. Extensive corruption is also linked to environmental problems, such as illegal trading of forest products. The corruption ranking refers to the Transparency International's Corruption Perceptions Index, which is commonly used by investors.

In Generation 2 of the criteria, the scope of exclusion has been slightly changed from all countries that rank worse than number 70 to a score worse than 40 in the Corruption Perceptions Index.

4.4 Inclusion criteria

O13 ESG analysis

All direct holdings† in the portfolio must have undergone ESG analysis† prior to investment (see information about indirect holdings† in O3).

The fund company shall present a methodology, which clearly demonstrates that environmental, social and governance are taken into account based on the materiality† of the issuer.

The ESG analysis shall be performed with a forward-looking perspective based on available ESG information. The analysis shall undergo a full update, according to a case by case approved methodology, on a yearly (12 - 15 months) cycle. In cases of corporate actions† or initial public offerings† (IPOs), the analysis may temporarily be performed in a less complex way.

The analysis shall be done with sufficient capacity in terms of time, knowhow, and coverage. It can be conducted by a well-reputed external party or internally, or as a combination of these.

🏠 Model for ESG analysis. The description of the model must include:

- a methodology that clearly demonstrates that environmental, social and governance factors are taken into account based on the materiality of the issuer.
- how the fund manager controls that there is an ESG analysis for each holding prior to investment
- how the analysis is performed with a forward-looking perspective
- how the fund manager controls that the respective ESG analysis undergo a full update on a yearly (12 - 15 months) cycle
- the fund managers process in cases of corporate actions and IPOs.
- the capacity in terms of time and knowhow at the fund manager and (if applicable) at the service provider, including external products and services used to comply with the requirement.
- to what extent the analysis is done internally or by an external service provider and (if applicable) how they interact with each other.

🏠 ESG analysis template (please include a couple of example analyses).

- 🏠 Nordic Ecolabelling may ask for further information to check whether the service provider meets the above criteria.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Background to the requirement O13

ESG analysis† is a central tool to promote achieve holdings in more sustainable companies. The market pressure highlights ESG issues and the rating systems of ESG providers stimulate improvements within the area of sustainable corporate behaviour.

All direct holdings in a Nordic Swan Ecolabelled fund must undergo a proactive and forward-looking ESG analysis, up from 90% of holdings in the previous generation of the criteria. From this generation of the criteria, the analysis model must also include an assessment of how material and relevant ESG factors are captured in different industries and companies. All aspects of the ESG analysis must be updated with an annual (12-15 month) cycle.

Nordic Ecolabelling is aware of the fact that there might not be a full analysis in place for companies involved in corporate actions† or IPOs†. In these cases, the analysis can temporarily be performed in a less stringent way.

The fund manager must also show that there is sufficient know-how and resources to perform the ESG analyses. The ESG analysis may be based on data from a reputable ESG provider such as MSCI, Sustainalytics, ISS ESG, etc. The ESG analysis may also be conducted internally, provided that the ESG management system is documented and verified by Nordic Ecolabelling. Nordic Ecolabelling is aware of the strengths and weaknesses of various ESG rating systems.

O14 Reductions of GHG emissions in critical sectors

When investing in companies that have at least 5% revenue in the following NACE code economic sectors: aluminium (C24.4.2), aviation (H51), automobiles (C29.1), cement (C23.5.1), mining (B7), pulp and paper (C17.1), shipping (H50), and steel (C24.1), one of the following musts either be verified or carried into effect.

- the reported GHG† emissions (at least scope† 1 and 2, also scope 3 for automobiles) of the company decrease annually by an average of at least 7 % per annum for at least three consecutive years or meet the industry-level emission reduction criteria for companies to be included in Paris-Aligned Benchmarks (PAB) according to the EU Commission Delegated Regulation C(2020)4757.
- commit to, publish and follow a Science Based Target (including short-term or intermediate goals) for GHG emission reduction or a similar reduction target that follows a 1.5°C trajectory in an internationally approved methodology.

- capex is on average for three consecutive years including the last financial year at least 90 % aligned with the environmental objectives for Climate change mitigation and Climate change adaption in the EU Taxonomy.
- the fund company shall engage with the issuer to stimulate their actions to reach at least one of the three thresholds above. The engagement must be carried out according to all parts of requirement P2.

🏠 Description of how the fund manager ensures continuous access to data and information and how this data is processed in order to comply with the requirement.

🏠 See P2.

Background to the requirement O14

Climate change and the loss of biodiversity are two of the most pressing environmental issues of our time. Therefore, Nordic Ecolabelling wants to set two new requirements (O14 and O15) for industries that are critical for the reduction of greenhouse gas emissions and/or conservation of biodiversity.

Nordic Ecolabelling has provided a shortlist of industries and activities in which the reduction of greenhouse gases is crucial, in addition to the already excluded fossil fuel activities. A company in these industries may be included only if it has a clear pathway to and/or history of reduced emissions, or if the fund engages with the company to achieve such a pathway.

Nordic Ecolabelling is aware of the fact that reporting of GHG emissions may be based on CO₂ emission factors from contractual instruments, even though local grids might have another energy mix with a potentially high CO₂ emission factor. However, a location-based approach is also allowed.

A higher demand for renewable electricity, because of parties agreeing upon the purchase of renewable electricity, does not automatically lead to increased production of renewable electricity. Other factors, including policy, subsidies, and taxes, affect the supply and expansion of renewable electricity.

The implications of this calculation method are more extensive for industries that are or are expected to be electricity-intensive (such as steel and cement), while less electricity-intensive industries (such as aviation and shipping) are affected to a smaller extent.

Despite these reporting flaws, Nordic Ecolabelling has chosen to formulate the requirement in this way, as the global calculation methods for GHG emissions accept such an approach. Therefore, it is not realistic for a Nordic Swan Ecolabelled fund to require that the investee companies use another CO₂ emission factor in their calculations.

O15 Conservation and sustainable use of biodiversity in critical sectors

When investing in companies that have at least 5% revenue in the following NACE code economic sectors including their sub sectors: agriculture (A.01.1, A.01.2, A.01.3, A.01.4, A.01.5, A.03, C.10.41, C.20.2), construction/infrastructure (F.41, F.42), extractive industries (B.07, B.08), food and beverage (C.10, C.11), forestry and logging (A.02.1, A.02.2, C.16.1, C.17.1), and shipping (H.50), the following must be verified and carried into effect for the five largest holdings of the fund that operate in these sectors.

- The fund company has a detailed assessment on the issuers' ability for conservation and sustainable use of biodiversity (must be part of the ESG analysis methodology), and key findings shall be presented in the fund sustainability report (ref. O19).
- The fund company shall engage with the issuer to stimulate their preservation of biodiversity. The engagement must be carried out according to all parts of requirement P2.

📖 Description of how the fund manager ensures continuous access to data and information and how this data is processed in order to comply with the requirement.

📖 See P2.

Background to the requirement O15

Climate change and the loss of biodiversity are two of the most pressing environmental issues of our time. Therefore, Nordic Ecolabelling wants to set two new requirements (O14 and O15) for industries that are critical for the reduction of greenhouse gas emissions and/or conservation of biodiversity.

Nordic Ecolabelling has provided a shortlist of industries and activities for which conservation of biodiversity is a crucial issue. The fund manager must perform a detailed assessment of how the five largest holdings operating in these industries preserve biodiversity, and also engage with these holdings on the topic of biodiversity.

The topic of biodiversity is gaining traction also in the financial industry. In March 2021, there were still no internationally recognized, standardized methods widely used within the financial industry. Nordic Ecolabelling is monitoring the situation closely and wants to promote a more detailed and overarching approach to biodiversity with this requirement.

O16 Inclusion of ESG

More than 70% of the fund, measured by the value of the fund, must be invested in holdings† with strong ESG practices† relative to its peers as identified in the ESG analysis (see O13).

The fund has clearly set criteria (assessment and/or rating) of what are defined as strong ESG practices at the issuer level.

The definition shall cover both what the issuer produces and how the issuer practices and performs with respect to environmental, social, and governance issues. E, S, and G can have different weights, but the overall assessment and/or rating must be strong for each issuer covered by the definition.

The definition(s) of strong ESG practices must be made readily available on the fund's website and in the fund's sustainability report (O19).

- ☞ Methodology for ESG rating/assessment and procedures for selecting investments with strong ESG practices.
- ☞ Description of what are defined as strong ESG practices.
- ☞ Description of how the fund manager ensures that the criteria are fulfilled at all times.
- ☞ Link to the webpage where the definition of strong ESG practices will be published.
- 🔗 Nordic Ecolabelling will perform a random sample check to ensure that the portfolio holdings are in line with the ESG analysis and inclusion criteria at the time of application and as part of the annual reporting.

Background to the requirement O16

The ESG analysis of a Nordic Swan Ecolabelled fund must be used to construct a portfolio of companies based on their ESG practices. Nordic Ecolabelling requires that funds invest a clear majority of their assets (at least 70%) displaying "strong ESG practices".

The minimum share of holdings displaying strong ESG practices has been raised from 50% to 70% in Generation 2 of the criteria. Based on portfolio simulations with data from ESG providers in February 2021, Nordic Ecolabelling has concluded that the new level of 70% is ambitious but reachable. This will also allow for some diversification in the portfolio.

At this stage, Nordic Ecolabelling has decided not to pursue a mandatory level of alignment with the upcoming EU Taxonomy, as this classification system is still not finalized and will be implemented gradually in the coming years. Instead, Nordic Ecolabelling has chosen to embed Taxonomy-aligned inclusion via a points-score requirement.

The criteria for strong ESG practices should cover both what companies produce and how they conduct themselves on ESG issues. The definition may for instance be based on an assessment model or rating system. Ultimately, it will be up to the individual fund manager to establish criteria that differentiate between holdings based on ESG practice and performance.

As a rule of thumb, Nordic Ecolabelling would expect that holdings must at least score in the better half (top 50%) of the analysis in order to be categorized with "strong ESG practices".

For index and enhanced-index funds†, positive selection of holdings in line with this criterion constitutes a challenge but it is still achievable. If the fund follows an index that is structured in accordance with the exclusion and inclusion criteria, the index fund may be awarded the Nordic Swan Ecolabel.

P1 Enhanced analysis and inclusion (max 4p for equity funds and max 5p for bond funds)

If the fund has a clearly defined objective and methodology for identifying, assessing and including holdings† according to the following themes, points may be awarded in line with the table two below:

EU Taxonomy

The share of the portfolio that is aligned with the EU Taxonomy, based on the calculation formula in the documentation requirement.

Until criteria for environmental objectives 3-6 have been implemented in the EU Taxonomy, business areas listed in Appendix 2 may be used instead.

UN Sustainable Development Goals (SDGs).

The share of the portfolio invested in issuers with activities and products linked to the SDG Targets†, based on the calculation formula in the documentation requirement.

The fund must have pre-defined selection criteria that connect activities and products to individual SDG Targets.

Science Based Targets†.

Share of issuers in the portfolio that has published an approved (set target) Science Based Target to reduce GHG emissions or in other environmental areas. Published commitment to a science-based target that is not verified by a third party shall be counted as ½. Similar methodologies as Science Based Target can be used after approval from Nordic Ecolabelling.

Climate alignment.

The fund is managed in line with an internationally approved methodology for CO₂ emission reduction targets that is transparent and established by a third party, e.g., EU Paris-Aligned Benchmark (EU PAB).

On the fund's webpage, the fund manager must briefly describe the methodology, give easy access to an external link where investors can read more about the methodology, and provide a status of the alignment in the fund's sustainability report (See O19 Fund sustainability report).

Strong ESG practices.

Share of issuers in the portfolio that reach the funds definition of strong ESG practices set in criterion O16 Inclusion of ESG.

For each theme, points are given if the weighted holdings in the fund (defined as the percentage of the fund's investment in a company relative to the total investment of the fund) is met at all times.

Table 1 Individual themes and thresholds. Points can be scored within each individual theme when the relevant threshold is met. For the themes Taxonomy, SDG and SBT, the same share of the portfolio may only be counted once.

	1p	2p	3p	4p
Taxonomy	≥ 10%	≥ 25%	≥ 50%	≥ 75%
SDG	≥ 50%	≥ 90%		
SBT (or similar)	≥ 25 %	≥ 50%	≥ 75%	≥ 90%
Climate Alignment	1,5 °			
Strong ESG practice	≥ 90%			

Issuer-level alignment with the EU Taxonomy or the SDG Targets shall be calculated using the below formula. If figures on revenues/capex for an individual issuer cannot be documented by a third party or in an otherwise a reliable way, the share of alignment must be rounded down to the nearest ten percent.

$$G = \sum_{i=1}^n PC_i * \frac{GT_i + GC_i}{T_i}$$

Where:

G = % of total portfolio value invested according to EU Taxonomy/SDG Targets aligned economic activity (or 'portfolio greenness')

i = an individual company in which portfolio equities are held,

n = total number of companies in the portfolio

PC_i = % Portfolio contribution of company i

GT_i = Green/SDG Turnover (EUR) of company i of the last year prior the application

GC_i = the highest annual Green/SDG Capex (EUR) of company i over the past 3 years prior the application

T_i = Turnover (EUR) of company i of the last year prior the application

GT_i + GC_i ≤ T_i

- ☞ Description of the fund's objective and methodology for identifying, assessing and including holdings that fulfil the aforementioned specifications. If the objective and methodology is clearly outlined in requirement O13 ESG analysis, no separate documentation is required.
- ☞ Calculation on an issuer level showing the weighted average of the fund within a specified theme. The calculation must be performed in the calculation sheet [from Nordic Ecolabelling](#) according to the instructions

provided therein. The data source of each individual percentage must be included in the calculation sheet.

- 🏠 Description of how the fund manager controls that the approved level of alignment is maintained at all times.
- 🔑 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting, and may ask for more documentation

Background to the requirement P1

This is a new point-score requirement that rewards funds with a clear focus on sustainable themes, supported by the fund's methodology and actual investments. This means that the ESG analysis and investments of the fund have a distinct orientation towards themes such as the EU Taxonomy, the UN Sustainable Development Goals (SDGs), Science Based Targets (SBT) to reduce carbon emissions, climate alignment, or other similar methodologies approved by Nordic Ecolabelling. Moreover, a point can be also collected if the fund can exhibit a higher share of holdings with strong ESG practices than required in the obligatory inclusion requirement.

The calculation for this requirement is performed by counting the weighted average of the fund's exposure to specific themes. With respect to alignment with the EU Taxonomy and the SDGs, exposure of individual holdings may be calculated by dividing associated revenue and capital expenditure by total revenue, similar to how the greenness of holdings is calculated in the EU Ecolabel criteria. Nordic Ecolabelling will provide a formula and calculation sheet for this purpose.

The EU Taxonomy will gradually replace green business areas that were previously rewarded in the requirement P3 Environmental focus in Generation 1 of the criteria. Please refer to Appendix 2 in the criteria document for a replacement scheme.

4.5 Active ownership

O17 Engagement with non-conforming holdings

When a fund manager receives information indicating that a holding is in breach with the obligatory exclusion criteria, a general description of the breach must be published on the fund's website if the holding is kept in the portfolio for more than a month.

If the non-conformity is verified, the fund manager must sell all of the holdings in the company within three months. However, if there is doubt regarding the non-conformity, or if the fund manager expects the issue to be resolved/rectified in the near future, the fund manager may keep the holding provided that the fund manager enters into an engagement† process with company in question.

Moreover, the fund manager must show how it systematically carries out and follows up on the engagement in a way that corresponds to the degree

of breach. The fund manager may use a reputable external provider to carry out the engagement.

As long as there is doubt about the non-conformity or the issue is ongoing, the fund manager must explain on their website

- how they assess the situation,
- what actions the fund manager will take in order to address the issue,
- what result the fund manager expects to achieve, and
- when they estimate that the issue will be resolved.

If, after 24 months, the issue causing the possible non-conformity has not been successfully addressed and there is still an issue which implies non-conformity, the holdings must be sold.

The fund may use a traffic light model (or similar) delivered by a reputable external provider of ESG data as the source of information. If the fund receives information from more than one source, the source that shows the most extensive non-conformity should be used.

☞ Ownership policy or similar, and procedures showing how the fund manager will act in accordance with the requirement.

Background to the requirement O17

When the fund manager receives new information indicating that a holding is in breach with the exclusion criteria, the breach must be published on the fund's website within a month. In addition, the holding must be sold within three months unless the fund manager expects the issue be resolved or rectified in the near future.

That said, Nordic Ecolabelling believes that in some cases it is better to retain the possibility of shaping the company's future conduct as an owner, rather than to simply sell off the holdings. Therefore, the main purpose of this requirement is to stimulate engagement and transparency as means to correct a situation where a fund holding is accused of violating international norms.

In cases where a company is accused of breaching an international norm, the fund manager has two options: either to sell the holdings within three months, or to enter an engagement process in which the fund manager aims to influence the company to change its behaviour, to rectify the harm done and/or to prevent similar situations from happening in the future. The engagement process must be described on the fund manager's website. In any case of a severe breach, the fund manager must disclose the breach on its website within one month of receiving information.

The fund manager must respond to the conduct of non-conforming holdings within a strict time limit and the holdings must fulfil the criteria within 24 months. The 24-month limit gives the fund manager time to create material change via the engagement process. This might lead to some companies in the fund not fulfilling the criteria for a limited period of time.

According to data from MSCI, around 30 severe breaches and 2-3 very severe breaches are registered per year in a global universe of companies.

P2 Systematic and targeted engagement (max 3p)

The fund manager regularly engages with its holding companies in order to address ESG† issues, concerns or performance and can demonstrate:

- A clear and systematic method for selecting candidates and topics/themes for engagement.
- A description of resources and tools for conducting the engagement.
- Regular assessment of the achievement of the engagements

Engagements in collaboration with other stakeholders may be included when calculating the percentages. A collaborative engagement may be included in full if the fund company acts as a lead investor. In other cases, collaborative engagements may be counted as ½.

Engagement with at least 10% (minimum 5 and maximum 50 holdings) of its holdings, in addition to holdings engaged with through O14 and/or O15: 1 point.

Engagement with at least 20% (minimum 10 and maximum 50 holdings) of its holdings, in addition to holdings engaged with through O14 and/or O15: 2 points.

If the above is fulfilled, additional points can be earned if the fund manager can demonstrate that the engagement process also includes clear and specific ESG-related goals for the engagement, including a planned timeframe and a regular assessment of the achievement of goals in these areas:

The engagement and goal(s) shall have specific ESG themes in the areas of the UN Sustainable Development Goals (SDGs), the EU Taxonomy, and/or the Science Based Target initiative: 1 point.

☞ For the first section:

- Description of the engagement method, resources, and follow-up principles, and
- Description of planned or performed engagement activities in relation to the required thresholds. The document must include a high-level description of relevant ESG issues, concerns or performance at the holding level.

☞ For the second section:

- Description of the goal setting in relation to the selected ESG theme(s), timeframe, and the goal achieved by the holding.

Background to the requirement P2

The basic premise of all engagement is to be a better-informed owner and thereby to make better investment decisions. Engagement can be reactive because something has already happened and the fund wishes the company to make sure that this does not happen again, and that the company's processes are developed. Reactive engagement is regulated in the obligatory criterion O16.

Engagement can also take place proactively in order to exert influence and develop management processes for tackling ESG issues such as climate change, biodiversity, working conditions, and gender equality. The aim of this requirement is to reward funds that have a clear and systematic process for engaging with holdings companies on ESG issues. This includes engagements that are carried out in collaboration with other stakeholders.

Nordic Ecolabelling also stimulates engagement themes and goal setting within the areas of the UN Sustainable Development Goals (SDGs), the EU Taxonomy, and the Science Based Target initiative. Therefore, an additional point may be earned if a fund can show that it actively sets and assesses goals with the aforementioned areas.

P3 Regular voting (max 2 points)

The fund manager has a clearly written voting policy or public statement that promotes ESG†-related issues.

The fund manager does case by case inhouse assessments and:

- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 25% of the holding (AUM or number of holdings†) in accordance with its voting policy/public statement: 1 point.
- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 50% of the holding (AUM or number of holdings) in accordance with its voting policy/public statement: 2 points.

The fund manager uses a proxy voting service and

- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 75% of the holding (AUM or number of holdings†) in accordance with its voting policy/public statement: 1 point.
- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 100% of the holding (AUM or number of holdings) in accordance with its voting policy/public statement: 2 points.

🏠 Voting policy or statement.

🏠 Description of the fund manager's process for voting including the use of proxy services and / or the inhouse assessment for each AGMs\EGMs. Nordic Ecolabelling may request samples.

- 🏠 Voting records showing the extent of voting as a percentage (based on AUM or the number of holdings) where the fund held voting rights.

Background to the requirement P3

This requirement is set to encourage fund managers to vote at companies' annual and extraordinary general meetings. Exercising one's right to vote at AGMs and EGMs is a way of actively exercising ownership and influencing corporate governance.

Nordic Ecolabelling also acknowledges that voting can be executed by proxy or by making case-by-case inhouse assessments. Therefore, both types of approaches are rewarded within the scope of this criterion. Voting must be in line with a policy or statement that promotes ESG issues. Voting must take place regularly, and at least once a year.

4.6 Reporting and transparency

O18 Reporting the fund's holdings

The fund manager must report on all holdings† in the Nordic Swan Ecolabelled fund on the fund's website at least once every quarter.

A lag of 45 days for publishing is allowed. The list can but does not have to include the weighting of each holding.

- 🔗 Link to the website(s) where the holdings will be published.
- 🔍 Will be controlled by Nordic Ecolabelling at the annual compliance check.

Background to the requirement O18

To stimulate transparency about the investments of the Nordic Swan Ecolabelled fund, the fund manager will report on all holdings on the fund's website. This information will be updated at least quarterly. At a maximum, a lag of 45 days is allowed.

O19 Fund sustainability report

The fund manager shall no later than 31 March each year publish an annual sustainability report describing the ESG† activities and performance of the fund in the previous calendar year. The report will be appropriate for its primary target group of investors.

The report will be published on the fund manager's website, linked to where the ordinary information with regard to the fund is made available to (potential) investors. The report should be made available to unitholders in the main markets where the fund is distributed.

The report will cover the relevant reporting period and contain information about ESG-motivated activities relating to the holdings† in the Nordic Swan Ecolabelled fund. The report must include, as a minimum (if no activities are conducted, please comment or explain:

1. An overview of non-conforming holdings that were excluded in the reporting period (also identifying the reason) in regard to O17 Engagement with non-conforming holdings.
2. A brief description (roughly 4 to 10 sentences) of what the fund defines as strong ESG practices.
3. A brief description (roughly 10 to 30 words) of the main ESG† risks and opportunities, and the sustainability impact of the holdings for the ten largest holdings† and include a link to the holdings' websites.
4. A brief description (roughly 10 to 30 words) of the main engagement goals (if applicable) as well as the risks and opportunities concerning GHG emissions for the five largest emitters of GHG.
5. A brief description (roughly 10 to 30 words) of the main engagement goals as well as the risks and opportunities concerning conservation and sustainable use of biodiversity for the five largest holdings identified in O15.
6. A summary of the engagements† and dialogue with the ten largest holdings, if any. The summary shall at least include the name of the company and a description (roughly 10 to 30 words) of topics and issues discussed.
7. The extent of voting (number and percentage of AGM/EGMs at which the fund manager voted in the relevant period). (Not applicable to bond funds.)
8. Information stated in the EU REGULATION 2019/2088 on sustainability-related disclosures in the financial services sector or a link to the fund specific information can be found.

The above information can also be presented in a more general fund company report, but it must be described how the aforementioned aspects are achieved by the Nordic Swan Ecolabelled fund. The report can be produced as a separate document or on a webpage, and the selected format may also include other information with regards to the fund.

The report can also be produced by an external organisation. If the fund or the fund company has another financial year than the calendar year, the report may be published according to that period.



Reporting template or example report, outlining the minimum requirements.



Link to the website where the report(s) or the planned report will be published.

Will be controlled by Nordic Ecolabelling at the annual compliance check.

Background to the requirement O19

The aim of this requirement is to ensure that investors have access to annual information about the sustainability-related activities of the Nordic Swan

Ecolabelled fund. The report must be made available in all main markets where the fund is distributed.

Nordic Ecolabelling encourages a high degree of transparency and information to the end-investor. In Generation 2 of the criteria, Nordic Ecolabelling has added several aspects to the obligatory reporting:

- the fund's definition of strong ESG practices
- the main ESG risks and opportunities of the ten largest holdings
- risks and opportunities of the five largest holdings where greenhouse gases or biodiversity, respectively, has been identified as a material ESG factor
- company-specific disclosure of engagements
- information stated in the Sustainable Finance Disclosure Regulation.

As it is often valuable to provide fund-specific information in a broader context, the fund company can meet the requirement by adding the required information about the Nordic Swan Ecolabelled fund to a more general ESG report produced by the fund company. From Generation 2 of the criteria, Nordic Ecolabelling aims to harmonize the cycle of the annual sustainability reports so that they follow the calendar year.

P4 Additional reporting (max 2p for equity funds and max 3p for bond funds)


The fund sustainability report (ref O19) includes the following:

- Brief reporting with regard to company engagements† for each engagement with at least five and up to ten holdings, including both goals and status for the engagement: 1 point.
- Voting records showing company-specific voting: 1 point.
- The sustainability impact of the fund in absolute terms in at least one area, e.g., CO₂ reduced (compared with benchmark), renewable GWh produced, clean water provided, km² of land sustainably managed (PEFC/FSC certified), etc.: 1 point.

The report of all holdings (ref O18) includes the following information:

- Link to each holding's website: 1 point.

- ☞ A brief description of how and what the fund intends to report on the company's engagements (if possible, include a reporting template).
- ☞ A brief description of how the fund plans to disclose voting records.
- ☞ A brief description of how the fund plans to report the sustainability impact.
- ☞ Link to the website where the report or the planned report will be published.

 Link to the website(s) where the holdings will be published.

Background to the requirement P4

Nordic Ecolabelling rewards reporting that extends beyond the requirements O18 and O19, as additional transparency and more detailed information is a preferable option in most cases. The requirement is thus set to stimulate further reporting within the areas of engagement, voting, sustainability impact, or company-level disclosure of strong ESG practices.

4.7 Points

O20 Number of points

The fund must achieve a minimum of 6 points.

Bond funds must achieve a minimum of 5 points.

The minimum point requirements must be met for as long as the licence is valid.

The following table contains a summary of which areas you can get points in.

Table 2 Summary of points

Point requirement	Number of points achieved	Maximum number of points
P1 Enhanced analysis and inclusion		4p for equity funds 5p for bond funds
P2 Systematic and targeted engagement		3p
P3 Regular voting		2p for equity funds 0p for bond funds
P4 Additional reporting		2p for equity funds 3p for bond funds
Summa		11p for equity funds 11p for bond funds

 Appendix 1.

 Will be controlled by Nordic Ecolabelling at the annual compliance check. See also O25.

Background to the requirement O20

A point-score system will give different types of funds greater flexibility in achieving the Nordic Swan Ecolabel. There are four (4) point-score requirements in the criteria.

To fulfil this requirement, equity funds must score a minimum of 6 points out of a possible total of 11 points. As bond funds cannot collect points on all point-score criteria, for instance on P3 Regular voting, this is compensated by a higher number of available points in requirements P1 and P4 as well as a lower total threshold of 5 points.

Compared to Generation 1, the amount of points a fund must score (5 or 6) is the same but the number of available points has been reduced from 16 to 11. There

are only four points-score criteria in Generation 2 compared to eight in Generation 1.

These points-score criteria will provide options to two main categories of funds: those that already have include relatively green or sustainable companies (points-score criterion P1), and those that practice ownership (P2 and P3).

4.8 Investment products

Requirements O21–O23 apply to other investment products than UCITS funds.

O21 Description of the product

A brief description of the investment product intended for Nordic Swan Ecolabelling and how the product fulfils the definition of what can carry the Nordic Swan Ecolabel. The following must be included:

- ESG investment strategy/objective.
- Document showing that the product is approved for retail marketing by the local financial supervisory authorities in each of the Nordic countries where it is distributed and that it is, at a minimum, open for quarterly trading.

🏠 Fact sheet and/or other document showing details according to O26. Unit-linked insurance products do not need to document quarterly trading.

📄 Signed application form.

Background to the requirement O21

The description of the product enables Nordic Ecolabelling to check whether the investment product falls within the scope of the product group.

O22 Investments

A Nordic Ecolabelled investment product can solely invest in Nordic Swan Ecolabelled funds. Exceptions can be made for investments in funds that cannot apply for a Nordic Swan Ecolabelling licence because their share of listed equities†, corporate debt† and / or eligible green bonds† is lower than 50%. In such cases, the fund must document that it complies with O1–O18 and O24–O25 except for requirement O2, where the 50% threshold does not need to be met.

At least 50%, calculated as a weighted average, of the assets in the investment product must be held in listed equities, corporate debt and/or eligible green bonds. This can be shown as the average for a small family/group of products that collectively apply for a Nordic Swan Ecolabeling licence.

🏠 List of current holdings including name and ISIN.

🏠 Description of how the product manager ensures that the criteria are fulfilled at all times. Nordic Ecolabelling will perform a random sample

check to ensure that the portfolio holdings are in line with the criteria at the time of application and as part of the annual reporting.

- ☞ Information showing the average total proportion of invested in equities, corporate debt and/or qualified non-corporate green bonds is at least 50%.

Background to the requirement O22

In order to steer capital to funds that have a proven record of meeting high sustainability requirements, investments are primarily directed to Nordic Swan Ecolabelled funds. In case an underlying fund cannot apply for the Nordic Swan Ecolabel due to the eligibility threshold of at least 50% equities, corporate debt and/or other eligible green bonds, the underlying fund must document how it complies with the criteria O1–O18 and O24–O25.

O23 Other requirements for investment products

The portfolio manager shall, on its website, provide easy access to the Nordic Swan Ecolabel fund sustainability reports for the funds in which the product is invested.

The portfolio manager must report on all holdings of the Nordic Swan Ecolabelled investment product according to O18.

If the investment product is an insurance product and it comprises more elements than asset management, the licensee must, when using the Nordic Swan Ecolabel in marketing, clearly describe that the Nordic Swan Ecolabel only applies to the asset management part of the insurance premiums.

The investors must be informed clearly on the former licensee's website if the product is no longer Nordic Swan Ecolabelled. The information must be presented on the website for at least twelve months thereafter.

- ☞ Link to website where sustainability reports can be found.
- ☞ Link to website where holdings can be found.
- ☞ Signed application form.

Background to the requirement O23

To promote transparency, a Nordic Swan Ecolabelled investment product shall give easy access to information about holdings and the annual sustainability reports of these holdings.

4.9 Licence maintenance

O24 Management system

The fund manager must have resources, capacity, competence and a management system to ensure that the quality of the Nordic Swan Ecolabelled fund does not deteriorate during the period of validity of the

licence. The management system must be sufficient to document compliance with the Nordic Ecolabelling requirements.

- ☞ Description of resources, capacity and competence to show that the fund can comply with the Nordic Ecolabelling requirements during the period of validity of the licence.
- ☞ Organisation chart and a description showing who is responsible the licence, marketing of the Nordic Swan Ecolabelled products.
- ☞ Copy of relevant documents from the management system.
- ☞ Signed Appendix 1.

O25 Annual compliance check

The fund manager must perform an internal audit to ensure that the fund fulfils all relevant Nordic Ecolabelling criteria every twelve months. The result will be sent to Nordic Ecolabelling by no later than 31 March each year.

The internal audit:

- shall have a risk-based approach where the most relevant risks of non-compliance are identified
- can use other internal audits of methods and processes that are already in place for the Nordic Swan Ecolabelled fund in the audit report if they are reliable, has relevance and usability for this audit.
- must be carried out by internal audit, risk control, or compliance, i.e., a department that is independent from the upholding of the Nordic Swan Ecolabel licence.

The fund sustainability report in requirement O19 will also be sent to Nordic Ecolabelling.

The audit can be outsourced to an external organisation.

- ☞ Annual internal audit report. The report shall include the risk analysis identifying the most relevant risks of non-compliance.
- ☞ Fund sustainability report (as described in O19).

O26 Information about the Nordic Swan Ecolabel

When a fund manager uses the Nordic Swan Ecolabel in communication or marketing, there should be a clear reference to Nordic Ecolabelling's website: <http://www.nordic-ecolabel.org/investmentfunds> or to relevant national Nordic Ecolabelling website below:

Denmark: <https://www.ecolabel.dk/opsparring>

Finland: <https://joutsenmerkki.fi/teemat/sijoittaminen/>

Norway: <https://www.svanemarket.no/sparing>

Sweden: <https://www.svanen.se/spararen>

🏠 Signed Appendix 1.

O27 Customer information when a fund is no longer Nordic Swan Ecolabelled

The fund investors must be informed clearly on the fund manager's website if the fund is no longer Nordic Swan Ecolabelled. The information must be presented on the website for at least twelve months thereafter.

🏠 Signed application form.

Background to the requirements O24–27

The requirements of this chapter are common to all Nordic Ecolabelling criteria. The purpose of these criteria is to safeguard that the Nordic Swan Ecolabelled fund will fulfil all requirements during the validity of the licence.

The requirement O27 on a routine for handling and archiving customer complaints has been added to all product groups after the first generation of criteria for investment funds were published.

5 Areas without requirements

The criteria cover requirements within commonly used sustainability strategies. In the criteria development process for Generation 2, Nordic Ecolabelling has aimed to tighten the requirements in all four areas (exclusion, inclusion, active ownership, and transparency) with an emphasis on the three latter strategies.

At the same time, Nordic Ecolabelling aims to find a balance between requirements that are tough and progressive, but not too tough to function in the current state of the market for investment funds and products. Setting criteria that are too stringent will give the result that no funds, or very few funds, achieve the Nordic Swan Ecolabel. Setting criteria that are too relaxed could possibly raise questions concerning the credibility of the criteria.

Here are some areas that have been considered, but which have not been included in the requirements because of reasons described below.

- No criteria are set for the fund company besides the management of the Nordic Swan Ecolabel fund, for example the sustainability issues with the company's other non-ecolabelled funds, or how the fund company works with environmental issues at their offices. At this point we find it important to focus on the entity that is the Nordic Swan Ecolabelled product.
- No obligatory criteria are set to require calculations or simulations about the environmental impact of the fund's holdings. The development of

suitable and standardized methods to measure impact will be carefully monitored in future evaluations and revisions of the criteria.

- No criteria are set for asset classes such as real estate or commodities. The primary aim of the Nordic Swan Ecolabel is to influence companies in a more sustainable direction. Therefore, these criteria are mainly developed for funds and products that invest into corporate equity or debt.
- More stringent exclusion requirements would be possible, for instance to cover products such as alcoholic beverages, gambling and/or cannabis for recreational purposes. Nordic Ecolabelling has decided to exclude industries and companies that are furthest from sustainable and maintain a balance between the four ESG strategies of exclusion, inclusion, active ownership and transparency.
- Requirements concerning ESG† methods could be more specific, but Nordic Ecolabelling prefers to allow for flexibility in the developing field of sustainable investment. This means that a Nordic Swan Ecolabelled fund may take a more general ESG approach and/or align with the EU Taxonomy, the Sustainable Development Goals (SDGs) etc. in a suitable manner.

6 Changes compared to the previous generation

The key amendments compared with the previous generation 1 are summarized in the below table.

Comparison between requirements in criteria generation 1.3 and 2.0 for the product group Investment funds and Investment Products.

Proposed requirement generation 2	Requirement generation 1	Same requirement	Change	New requirement	Comment
O1	O1		*		Compliance with Article 8 or 9 in the SFDR must be documented.
O2	O2	*			
O3	O3		*		Specification on allowed use of derivatives and indirect holdings.
O4	O5	*			
O5	O6		*		Slightly tighter definition of fossil fuel companies in transition.
O6				*	Exclusions relating to fossil fuel and uranium expanded to transport and service activities.
O7	O7		*		White phosphorus and blinding laser weapons added to the scope of controversial weapons.
O8	O8		*		Scope of the exclusion expanded to military products..
O9	O9		*		Scope of the exclusion expanded to sale/distribution of tobacco.
O10	O10	*			
O11	O11		*		Obligatory to exclude issuers that have not ratified both the Paris Agreement and the UN Convention on Biological Diversity.

O12	O12		*		Minor change to which issuers are excluded based on the Corruption Perceptions Index.
O13	O13		*		ESG analysis required for 100% of holding (up from 90%) and stronger focus on materiality. Some other small adjustments.
O14				*	Enhanced requirement for inclusion of industries to which reduction of GHG emissions is a crucial ESG issue.
O15				*	Enhanced requirement for inclusion of industries to which preservation of biodiversity is a crucial ESG issue.
O16	O14		*		Strong ESG practices required for 70% of the portfolio (up from 50%). Publicly available definition of "strong ESG practices".
O17	O4		*		Mandatory engagement when a holding is kept in the portfolio after a norm violation.
O18	O16	*			
O19	O15		*		Several new obligatory reporting requirements and an update to the annual publication cycle.
O20	O25		*		The total number of available points has been reduced from 16 to 11, and the number of point-score
O21	O26	*			
O22	O27	*			
O23	O28	*			
O24	O17	*			
O25	O21		*		The annual internal audit shall have a risk-based approach.
O26	O23	*			
O27	O24	*			
P1				*	Points awarded for methodology and investments aligned with the EU Taxonomy, the SDGs, and some other approaches.
P2	P5		*		Method, resources, and regular assessment required for points. Additional point for clear goals linked to the EU Taxonomy, the SDGs, and/or the SBTs.
P3	P6		*		Higher activity thresholds for proxy voting. Option to collect points for inhouse assessments.
P4	P7		*		Change to the option a), a new option d).
	P1		*		Voluntary exclusion of GMO crops has been replaced by a broader scope of obligatory requirements to analyse and disclose companies for which biodiversity is a material ESG factor (including production of GMO crops).
	P2		*		ESG analysis of all holdings has become mandatory in Generation 2 of the criteria.

	P3		*		Points for holdings with an environmental focus may now be scored as a part of criterion P1, gradually replaced by the EU Taxonomy.
	P4		*		Inclusion and/or exclusion of indirect holdings is not awarded points any longer following a stricter approach to derivatives and indirect holdings.
	P8		*		Third-party verification of sustainability reports has been removed from the points-score criteria, as it has not been claimed by applicants.

Terms and definitions

AIF	Alternative Investment Fund according to AIFM Directive.
CapEx	CapEx means capital expenditure (investment) made along the life cycle of a project and assigned to the year when it is incurred. Included are investments in assets used for production, transformation and distribution, as well as for refurbishment, upgrades, new construction and the replacements of capital assets. Also included are investments made in Research & Development that are directed towards the development of new assets or production technologies.
Controversial weapons	chemical, biological, cluster and/or (the Ottawa Treaty) land mine weapons, depleted uranium, white phosphorus or components solely intended for use in these weapons
Conventional weapons	Small arms and light weapons as well as weapons of warfare that are not controversial weapons, such as bombs, shells, rockets, missiles, warships, military aircraft, tanks, ammunition etc.
Corporate action	A corporate action is an event initiated by a public company that triggers a change to the traded securities of a company. Examples of corporate actions include stock split, dividends, mergers and acquisitions, rights issues, and spin-offs.
Corporate debt	Corporate debt covers different types of bonds issued by private corporations.
Derivatives	Derivatives are financial instruments based upon an underlying financial asset. Common examples of derivatives include futures, forwards, options, and swaps.
Direct holdings	See also definition of Holdings. Direct holdings are investments in individual and identifiable stocks and bonds, as opposed to indirect holdings (see definition below).
Engagement	Engagement refers to interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure. This definition follows the same definition as outlined in PRI's reporting framework 2017.
Entities they control	The control over an entity through ownership of shares (>50%) or, according to the legal definitions in the market it operates, by being in a position to exercise control of the entity (for example dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity.)
Equities	Equities are a share in ownership of a company.
ESG	Environmental, social and governance. ESG is a generic term used in capital markets and commonly used by investors to identify, analyse and evaluate issues and/or corporate behaviour. ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring there are systems in place to ensure accountability.
ESG analysis	A proactive analysis of ESG-relevant issues.
ETF	An exchange-traded fund (ETF) is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day. Most ETFs track an index, such as a stock index or bond index. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features. By 2013, ETFs were the most popular type of exchange-traded product.
EU or UN financial sanctions	http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm
Fund of funds	An investment strategy in which a fund invests in other types of funds (including ETFs).

GHG	<p>Greenhouse gases (GHG) are gases that absorb and emit radiant energy within the thermal infrared range, causing the greenhouse effect. Common greenhouse gases in the Earth's atmosphere are water vapor (H₂O), carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and ozone (O₃).</p> <p>Shall be calculated according to GHG Protocol Corporate Standard 3.51 or later https://ghgprotocol.org/corporate-standard or similar standard.</p>
Global SDG Indicators	SDG Indicators — SDG Indicators (un.org)
GMO crops	Production of genetically modified crops that are to be used by others in agriculture. The DNA of GMO crops has been modified using genetic engineering techniques, for example to gain resistance to certain pests or diseases.
Green bonds	<p>Green bonds are fixed-income financial instruments exclusive applied towards new and existing green projects.</p> <p>Eligible green bonds must follow the EU Green Bond Standard, the 2017 or later edition of the Green Bond Principles (GBP) or the Climate Bond Standard (CBS). In addition, eligible green bonds must be issued for investments named in Appendix 2 and be third-party verified. Eligible green bonds cannot be issued to investments within the business activities that are subject to exclusion</p>
Gross corruption	<p>Gross corruption exists if a company through its representatives:</p> <ul style="list-style-type: none"> a) Gives or offers an advantage – or attempts to do so – so as to unduly influence <ul style="list-style-type: none"> i) a public servant in the execution of public duties or in decisions which may bring the company an advantage, or ii) a person in the private sector who takes decisions or has influence on decisions which may bring the company an advantage. b) Demands or receives bribes. <p>and</p> <p>c) The corrupt acts mentioned in letters a and b are carried out in a systematic or comprehensive manner.</p>
Holdings	Holdings are the contents of an investment portfolio. Portfolio holdings may encompass a wide range of investment products, from stocks, bonds and mutual funds to options, futures and exchange-traded funds (ETFs), and relatively esoteric instruments such as private equity and hedge funds.
Human rights	http://www.un.org/en/universal-declaration-human-rights/ , UN Guiding Principles on Business and Human Rights
ILO's fundamental principles	<p>The International Labour Organization's principles cover freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.</p> <p>http://www.ilo.org/declaration/lang-en/index.htm</p>
Indirect holdings	Indirect holdings are investments in equities and bonds via products such as funds, ETFs, etc., as opposed to direct ownership in equities and bonds. (See also definition of Holdings and Direct holding.)
Index fund	An index fund (also index tracker) is a mutual fund or exchange-traded fund (ETF) designed to follow certain preset rules so that the fund can track specified basket of underlying investments. Those rules may include tracking prominent indexes like the S&P 500 or the Dow Jones Industrial Average or implementation rules, such as tax-management, tracking error minimization, large block trading or patient/flexible trading strategies that allows for greater tracking error but lower market impact costs. Index funds may also have rules that screen for social and sustainable criteria.
Initial public offering (IPO)	An initial public offering (IPO) is a type of public offering in which shares of company are sold to investors.
Intact forest landscape (IFL)	http://www.intactforests.org/

Investment universe	A fund will define its investment universe describing where it can invest its holdings. It can be defined by geography, sector or a combination of both.
ISIN	International Securities Identification Number.
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne EU REGULATION (EC) No 1893/2006 Browse NACE Code
Materiality	A materiality assessment is the process of identifying, refining, and evaluating the potential ESG issues that could affect a business and/or its stakeholders.
Military products	Products that contribute to the lethality of combat and warfare. Such military products include for instance components of weapons, drones, surveillance systems, weapons training systems, weapons R&D, and other systems or services with a direct weapons-related application.
Renewable energy	Any naturally occurring, theoretically inexhaustible source of energy (such as biomass, solar, wind, wave, tidal, and hydroelectric power that is not derived from fossil or nuclear fuel).
Revenue	The income that a business has from its normal business activities, usually from the sale of goods and services to customers.
Scope 1 and 2	Scope 1: All direct GHG emissions Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam.
Serious or systematic human rights violations	Serious or systematic human rights violations may involve murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation; serious violations of the rights of individuals in situations of war or conflict.
Service to fossil fuel and uranium	Activities that service, support, and/or deliver key components for use in the fossil fuel or nuclear power sector.
Severe environmental damage	Projects or activities with potential significant adverse environmental risks and/or impacts that are diverse, irreversible or unprecedented. Considerations for deciding severity could also include the following: – the damage is a result of violations of national laws or international norms, – the company has neglected to act in order to prevent the damage, – the company has not implemented adequate measures to rectify the damage, – it is probable that the company's unacceptable practice will continue.
Science Based Target	Science-Based Targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as 'science-based' if it is developed in line with the scale of reductions required to keep global warming below 2C from pre-industrial levels.
Strong ESG practice	The term "strong ESG practise" does not have any objective definition. It will be up to the individual fund manager to establish internal criteria within their ESG analysis tool to differentiate between holdings with ESG performance ranging from weak to strong. Nordic Ecolabelling would expect that holdings must at least score in the better half (top 50%) in the analysis in order to be described as "strong ESG practice".
The Paris Agreement	http://unfccc.int/paris_agreement/items/9444.php
The UN Convention on Biological Diversity	https://www.cbd.int/information/parties.shtml
Tobacco products	Tobacco products include cigarettes, cigars, e-cigarettes, snuff, snus, pipe tobacco, and chewing tobacco etc.
Transparency International's Corruption Perceptions Index	http://www.transparency.org/
Transportation of fossil fuels and uranium	Activities that are involved in the road, rail and sea transportation of fossil fuels or uranium, such as shipping, rail freight, oil and gas pipelines, etc.

UCITS	<p>UCITS is an abbreviation for the mutual funds covered by the EU's Mutual Fund Directive (Council Directive 85/611/EEC 20 December 1985). UCITS stands for "Undertakings for Collective Investments In Transferable Securities". UCITS is a concept that accepts collective locations from shareholders, that will be, in the Fund's name, placed in highly liquid securities.</p> <p>It follows from the directive that UCITS funds that have been approved in one country in the European economic area is allowed to market in other EEA countries.</p>
Unconventional natural gas and oil	<p>Fossil fuels that are extracted from unconventional resources, e.g. shale gas, shale oil, tar sand.</p>