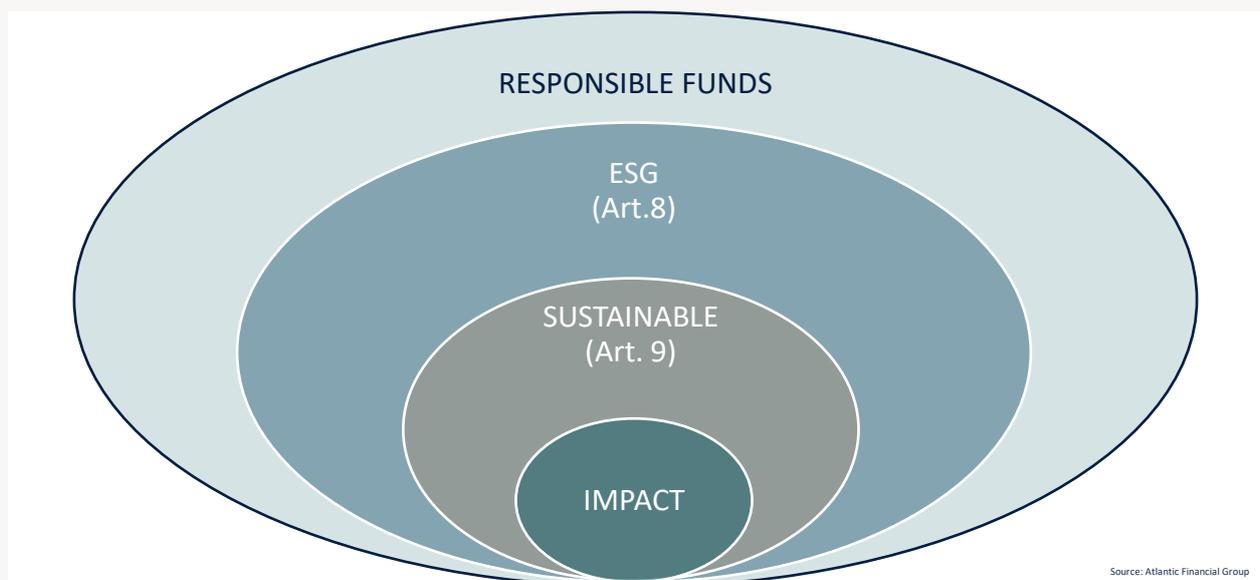




## "HOW TO AVOID GREEN WASHING?"

- ◆ What is sustainable finance and what is an impact fund?
- ◆ What is the difference between Article 8 and Article 9 funds?
- ◆ Why have a number of Article 9 funds been reclassified to Article 8 recently?
- ◆ The regulatory framework continues to be strengthened for the benefit of investors

### GRAPHIC OF THE WEEK: "Not all ESG funds are sustainable!"



**As of 31 December 2022, the assets under management of funds classified as Article 8 or Article 9 amounted to 4,600 billion euros and represented 55% of regulated funds in Europe.** European management companies, anxious to offer products labelled "green" to clients attracted by sustainable finance, sometimes have classified their funds wrongly as "article 9" and are now obliged to go back and reclassify their funds as "article 8" funds.

Blackrock, Amundi, Invesco, Pimco, DWS, AXA IM, Robeco, Deka, Neuberger Berman and others have downgraded tens of billions of euros of Article 9 funds, i.e. the funds considered most sustainable.



◆ What is sustainable finance and what is an impact fund?

**Sustainable finance**, as defined in section 2 (17) of the “Sustainable Finance Disclosure Regulation” (SFDR), **considers an investment to be sustainable if it has an economic activity that contributes to an environmental or social objective. This is also the case if the investment promotes human capital or economically or socially disadvantaged communities. It must not cause significant harm to any of these objectives and must be applied according to good governance practices.** For example, the PAI (Principle Adverse Impact) indicators are used to demonstrate the absence of significant harm and include a minimum of 16 indicators of which at least 9 are environmental and 5 are social.

**Impact funds are investment funds that focus on social and environmental causes.** The SFDR regulation provides a framework for sustainable finance and impact funds in Europe. It is relatively recent as it only came into force in March 2021 and includes the famous articles 8 and 9 which rule on the disclosure of information relating to sustainable finance. Asset managers must therefore disclose a number of environmental, social and governance (ESG) parameters. **They must also publish the characteristics and sustainability objectives of their funds** (see Fig. 2).

Fig.2 - The regulation of sustainable finance



◆ What is the difference between Article 8 and Article 9 funds?

**Article 8, or "light green" funds, use sustainability criteria** in their investment process. They use environmental, social and governance (ESG) criteria to screen out or select investments, alongside their existing financial and market analysis.

**Article 9 or "dark green" funds have a sustainability objective** for their investments, in addition to integrating ESG criteria, and really look at their impact. These funds therefore aim to have a real positive impact on the environment (see Fig. 3).

Since the regulation is recent, it does not seem to have been understood in the same way by the different management companies. **Article 8 funds include the notion of a "constraint"** in the investment selection



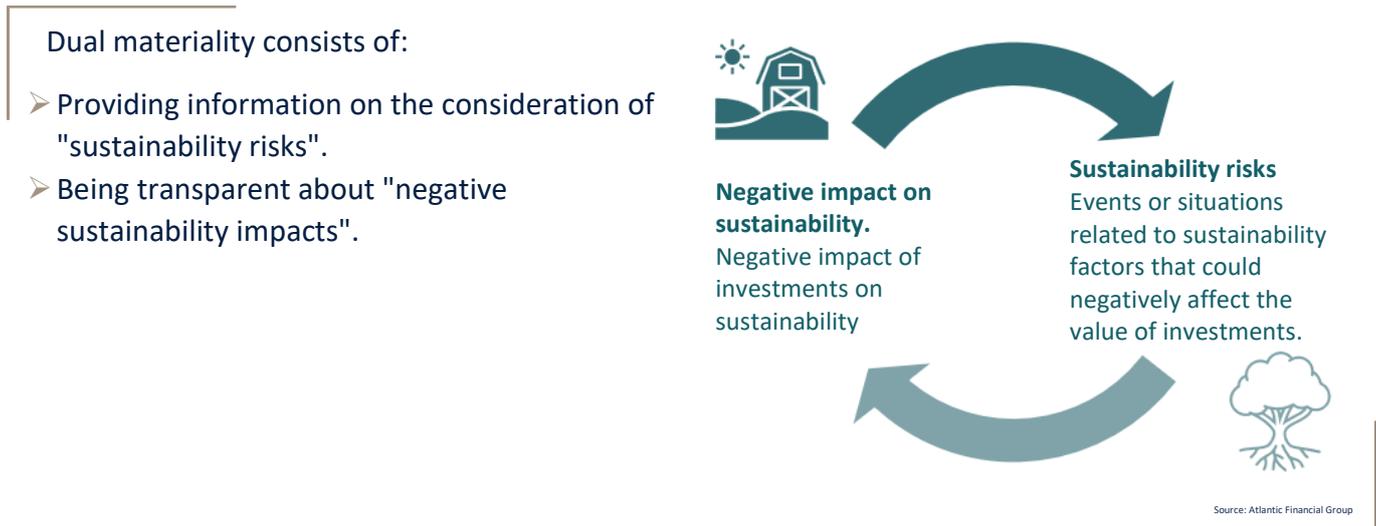
process. Often, this constraint **consists of the exclusion of certain sectors, for example companies in the mining sector or companies involved in the exploration and production of fossil fuels.** But not all Article 8 funds are exclusionary. **Others apply sustainable themes such as gender diversity, climate change, biodiversity loss, or water management.**

Fig.3 - SFDR classification of investment funds



**Finally, the double materiality** (cf. Fig.4) is part of the CSRD "Corporate Sustainability Reporting Directive", which regulates the extra-financial reporting of companies, but it is also part of the SFDR regulation, which **requires transparency from companies towards investors.**

Fig.4 - The double materiality



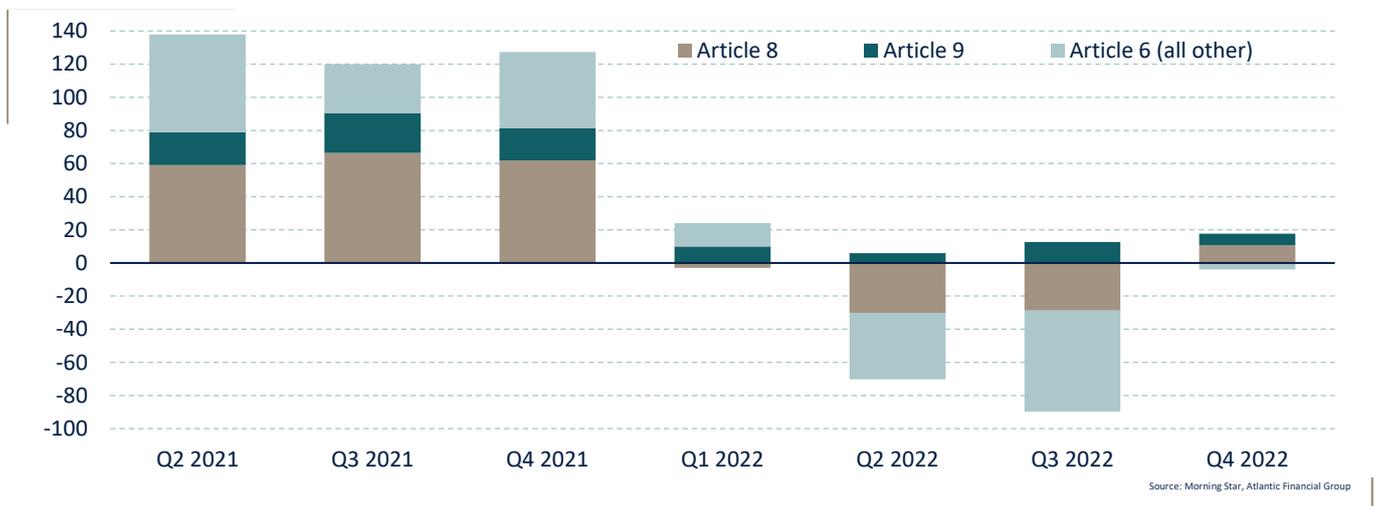


◆ Why have a number of Article 9 funds been reclassified to Article 8 recently?

The entry into force of the SFDR Level 2 regulatory technical standards (RTS) on January 1<sup>st</sup>, 2023, has prompted fund managers to scale back their ambitions. The new standards require managers to disclose more information on ESG approaches, sustainability risks of their funds, and their impact, in pre-contractual documents and periodic reports. A large majority of funds, 307 in total, have moved from an Article 9 classification, the most ambitious in terms of sustainability, to an Article 8 classification, representing €175 billion of assets (or 40% of Article 9 funds).

In the fourth quarter of 2022, Article 8 funds returned to positive net inflows of 10.7 bn euros. Article 9 funds, on the other hand, recorded their lowest ever inflows of 5.1 bn euros of fresh capital. But this low inflow is partly explained by the wave of funds that reclassified from Article 9 to Article 8 in the last three months of 2022 (see Fig. 5).

Fig.5 - Quarterly flows into funds, by classification (bn euros)



◆ The regulatory framework continues to be strengthened, to the benefit of investors.

Regulators are currently developing mandatory product labels, which will come in addition to the SFDR disclosure requirements and will impact the use of existing classifications.

However, it is likely that companies and funds will have to comply with an increasing number of product classification requirements over the next few years until a European eco-label comes into force.

There are already a few "green" labels in Europe, including the "Nordic Swan" (based in Sweden and created in 1989 but first applied to an investment fund in 2017!), the "Luxflag" (created in 2011 in Luxembourg) or the "doctrine" (introduced by the AMF, in France, in March 2020).

For example, for a fund to be labelled "LuxFlag", it must:

- Invest at least 75% of its portfolio in sectors related to the environment
- Incorporate ESG considerations into the investment decision-making process
- Seek to deliver a return on investment



In France, the "Doctrine" requires consistency between what is said in the marketing material and what is done in terms of ESG portfolio management. **The AMF has stated that it considers the "Doctrine" to be complementary to the SFDR**, but that it will reassess it in the light of the final SFDR level 2 rules and when the European Ecolabel is introduced.

### Conclusion:

As further clarifications are made by the SFDR and ESG measurement regulations continue to evolve, every asset manager must take steps to adapt to these changes. Managers and investment decision-makers who fail to incorporate these new rules into their business plans risk failing to meet European - or even global - standards. Investors are increasingly concerned about the impact of their investments, and regulation tends to provide them with all the information they need to make the right choices. ESG management is a constantly evolving subject, and management bodies are trying to respond to requests for clarification in order to avoid "green washing". The movement towards impact funds seems to be well under way. All that remains is to move towards greater transparency to allow differentiation between sustainability strategies and their real impact.





## RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2023 Year-to-Date (%)	2022 (%)	2021 (%)
<b>Equities</b>							
World (MSCI)	645.0	51.37	-0.2%	1.2%	6.8%	-11.9%	19.0%
USA (S&P 500)	4 079	52.17	-0.2%	2.4%	6.5%	-11.1%	28.7%
USA (Dow Jones)	33 827	49.93	0.0%	0.0%	2.3%	-6.9%	20.9%
USA (Nasdaq)	11 787	55.02	0.6%	3.3%	12.8%	-9.5%	22.2%
Euro Area (DJ EuroStoxx)	459.7	64.96	1.9%	2.9%	12.4%	-11.4%	23.5%
UK (FTSE 100)	8 004	70.63	1.7%	2.1%	7.6%	4.6%	18.4%
Switzerland (SMI)	11 256	51.61	1.1%	1.3%	4.9%	-14.3%	23.7%
Japan (Nikkei)	27 532	55.19	-0.6%	3.3%	5.4%	-7.3%	6.7%
Emerging (MSCI)	999	40.62	-1.4%	2.7%	4.6%	-19.8%	-2.3%
Brasil (IBOVESPA)	109 177	47.64	1.0%	2.0%	-0.5%	4.7%	-11.9%
Russia (MOEX)	2 167	40.71	-4.1%	-1.3%	1.0%	-36.9%	21.9%
India (SENSEX)	60 953	54.14	0.6%	0.7%	0.4%	5.8%	23.2%
China (CSI)	4 129	44.18	-1.7%	2.5%	4.2%	-19.8%	-3.5%
Communication Serv. (MSCI World)	78.76	50.64	0.2%	3.9%	12.0%	-31.3%	10.9%
Consumer Discret. (MSCI World)	315.5	55.41	1.1%	3.9%	13.9%	-31.5%	9.2%
Consumer Staples (MSCI World)	268.6	50.34	1.0%	1.8%	0.7%	-6.0%	11.7%
Energy (MSCI World)	237.8	40.02	-4.3%	3.9%	-0.7%	34.6%	37.5%
Financials (MSCI World)	141.0	52.90	-0.3%	0.8%	7.0%	-9.2%	25.1%
Health Care (MSCI World)	337.3	43.77	-0.3%	2.2%	-1.3%	-5.7%	18.0%
Industrials (MSCI World)	301.8	57.74	0.5%	1.3%	6.5%	-12.7%	16.6%
Info. Tech. (MSCI World)	441.8	54.25	-0.7%	5.8%	12.7%	-30.9%	27.6%
Materials (MSCI World)	329.2	42.12	-0.2%	2.3%	5.6%	-11.0%	15.4%
Real Estate (MSCI World)	182.5	44.83	-1.4%	0.9%	6.1%	-24.0%	23.6%
Utilities (MSCI World)	148.5	43.04	0.6%	4.1%	-1.6%	-3.8%	11.1%
<b>Bonds (FTSE)</b>							
USA (7-10 Yr)	3.81%	36.71	-0.6%	2.0%	0.6%	-14.5%	-2.4%
Euro Area (7-10 Yr)	3.12%	41.31	-0.7%	2.7%	1.9%	-13.4%	-2.9%
Germany (7-10 Yr)	2.44%	38.49	-0.6%	2.5%	0.8%	-17.8%	-2.7%
UK (7-10 Yr)	3.52%	40.25	-1.0%	1.2%	1.4%	-11.1%	-4.9%
Switzerland (7-10 Yr)	1.45%	40.63	-0.4%	2.6%	1.7%	-12.5%	-2.3%
Japan (5-10 Yr)	0.51%	43.36	-0.1%	0.7%	0.0%	-2.8%	0.0%
Emerging (5-10 Yr)	8.11%	34.66	-1.0%	2.6%	0.7%	-13.4%	-2.3%
USA (IG Corp.)	5.35%	38.79	-0.9%	2.0%	1.5%	-13.8%	-1.0%
Euro Area (IG Corp.)	4.09%	43.97	-0.4%	0.6%	1.8%	-13.6%	-1.0%
Emerging (IG Corp.)	7.56%	36.97	-0.6%	1.5%	1.5%	-14.9%	-3.0%
USA (HY Corp.)	8.60%	37.59	-1.0%	1.3%	2.2%	-11.2%	5.3%
Euro Area (HY Corp.)	7.21%	62.45	-0.3%	1.0%	3.8%	-10.6%	3.4%
Emerging (HY Corp.)	11.00%	34.51	-1.0%	2.6%	1.4%	-12.4%	-3.2%
World (Convertibles)	379.5	53.34	0.0%	1.0%	5.8%	-18.2%	2.4%
USA (Convertibles)	502.7	53.00	0.0%	1.2%	6.0%	-20.1%	3.1%
Euro Area (Convertibles)	189	63.35	0.5%	1.2%	4.7%	-12.1%	1.2%
Switzerland (Convertibles)	174.1	44.03	-0.3%	0.8%	1.2%	-7.5%	-0.5%
Japan (Convertibles)	205.2	78.86	1.4%	3.3%	3.6%	-1.3%	3.3%
<b>Hedge Funds (Crédit Suisse)</b>							
Hedge Funds Indus.	748	61.54	n.a.	1.8%	n.a.	1.0%	8.2%
Distressed	937	58.16	n.a.	1.4%	n.a.	-4.5%	12.5%
Event Driven	774	57.56	n.a.	2.2%	n.a.	-6.7%	12.9%
Fixed Income	395	67.08	n.a.	1.4%	n.a.	-2.3%	5.2%
Global Macro	1435	66.33	n.a.	2.7%	n.a.	17.1%	9.6%
Long/Short	903	59.63	n.a.	3.3%	n.a.	-5.9%	8.3%
CTA's	396	56.43	n.a.	2.6%	n.a.	18.0%	8.2%
Market Neutral	297	63.00	n.a.	0.8%	n.a.	-0.1%	6.2%
Multi-Strategy	710	62.09	n.a.	0.5%	n.a.	1.7%	7.0%
<b>Volatility</b>							
VIX	20.02	51.13	-2.5%	3.4%	-7.6%	25.8%	-24.3%
VSTOXX	19.23	52.18	-6.0%	3.3%	-7.9%	8.4%	-17.6%
<b>Commodities</b>							
Commodities (CRB)	551.2	n.a.	-0.5%	1.4%	-0.7%	-4.1%	30.3%
Gold (Troy Ounce)	1 843	40.23	-0.5%	4.3%	1.1%	-0.3%	-3.6%
Oil (WTI, Barrel)	76.34	44.43	-4.7%	4.8%	-4.9%	4.3%	58.7%
Oil (Brent, Barrel)	82.80	47.85	-4.3%	4.0%	-3.3%	9.7%	51.4%
<b>Currencies (vs USD)</b>							
USD (Dollar Index)	103.91	58.20	0.5%	1.9%	0.4%	8.2%	6.4%
EUR	1.0690	44.50	-0.3%	1.5%	-0.1%	-5.8%	-7.5%
JPY	134.14	38.80	-1.3%	3.4%	-2.3%	-12.2%	-10.2%
GBP	1.2031	42.39	-0.9%	3.0%	-0.4%	-10.7%	-1.0%
AUD	0.6898	46.29	-1.0%	0.9%	1.2%	-6.2%	-5.6%
CAD	1.3473	44.50	-1.0%	0.7%	0.6%	-6.8%	0.7%
CHF	0.9245	48.77	-0.5%	0.4%	0.0%	-1.3%	-3.0%
CNY	6.8597	43.18	-0.6%	1.1%	0.6%	-7.9%	2.7%
MXN	18.348	66.74	1.2%	2.9%	6.3%	5.3%	-3.0%
EM (Emerging Index)	1 674.2	36.47	-0.8%	1.3%	0.8%	-4.3%	0.9%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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