SUSTAINABLE FINANCE DISCLOSURE REGULATION: A GUIDE TO INVESTORS

22.03.2021

The Sustainable Finance Disclosure Regulation (SFDR) has heralded a new era in mainstream sustainable investment offerings. The SFDR has grown out of the Sustainable Finance Action Plan launched in March 2018 by the European Commission. Its deadline for implementation was the 10th March 2021.

What is SFDR?

The SFDR requires asset managers to include sustainability (ESG-related) risks in their investment decisions and requests funds to be clearly categorised as to their "greenness" while documenting their objectives, policies, methodologies in prospectuses, websites and periodic reports. A second significant measure has been the requirement for asset managers to measure their adverse impacts on a "comply or explain" basis of their investments at both firm and fund level through a prescribed set of 18 mandatory ESG indicators.

The SFDR impacts all financial participants including UCITS asset managers, insurance companies, pension funds, AIFMs and advisers. The European Union (EU) hopes to bring new capital flows to sustainable investments, create common standards and language to avoid greenwashing, and promote long termism.

*SFDR, Sustainable Finance Disclosure Regulation EU 2019/2088. Source: https://eur-lex.europa.eu/eli/reg/2019/2088/oj

How does it affect the fund industry and Carmignac?

For asset managers which have already embraced sustainable investment policies, SFDR should be no hurdle. As long time UNPRI signatories, having complied to fund carbon emissions monitoring and transparency (French Energy transition law) and to the SRI labels (French and Belgian), Carmignac's gap analysis with the SFDR requirements has not required major overhauls.

Amongst asset managers, three key workstreams have had to be organized.

- Legal and Sustainability teams have been busily rewriting Fund prospectuses;
- Sustainability and data management teams have upgraded fund reporting;

- Websites have had a look-over, with the “SFDR tab” taking predominance.

Segregating fund ranges by shades of “green” has probably been the most difficult of operations for most asset managers.

Discover our Responsible Investment Universe

How has Carmignac understood the SFDR fund categories?

The ESG alphabet soup now includes numbers!
The SFDR fund categories: Article 6, Article 8 and Article 9.

Given the official fast-tracking that the financial authorities in each country have given to the pre-contractual agreement editing, it has been up to the self-proclamation by asset managers to initiate their fund categorisation which has led to some discrepancies.

Carmignac has favored taking a conservative view in its fund categorization. We prefer to be comfortable with our fund classifications, and transparent in our approach. We hope that the following documentations will be useful in our investors’ endeavors to understand the new playing field and help comparability in their investment choices.

Carmignac’s Article 6 Funds

In accordance with the SFDR, Article 6 funds implement sustainability (ESG related) risk in their investment decisions. To do that they must include it in their due diligence and make an assessment how these risks would affect the financial return of the company. All of Carmignac funds meet the needs to manage Sustainability risk through ESG integration, filtering out of unsustainable companies according to our values or sustainability labels, and active engagement and voting with companies on ESG risks. How does this differ from Article 8 or 9? ESG analysis and mitigating sustainability risk is a component among others to the investment process in Article 6 funds. However, we do leave room for their progression to Article 8!

Carmignac’s Article 8 Funds

Carmignac’s Article 8 Funds, which promote environmental, social and/or governance characteristics, have either obtained, or are in the process of obtaining, a national sustainability label. This is close to the best third-party assurance that we have applied stringent and robust sustainability policies and procedures in our Funds. The ESG-related characteristics are obtained through 1) binding exclusions of particularly harmful sectors for the environment or society, 2) positive screening for those that are creating environmental and social good and have good governance practices in place, and 3) committing to a low carbon approach. These Funds all have at least partially sustainable investments, and allocation of these investments is seen in our new Quarterly Sustainability Reports. You may call these Article 8 “Hybrids” given their sustainable investments and carbon emissions policies.

Carmignac's Article 9 Funds

Carmignac's article 9 Funds have identified a measurable sustainable objective that is central to investment decisions and defines the investment universe. There may be room yet again for confusion between categories. As detailed in the Regulatory Technical Standards (RTS, February 2021), there is now very little difference between Article 8 and Article 9 Funds. The Do No Significant Harm (human rights and business controversy monitoring and avoiding harm to other E and S criteria) and measuring adverse impact clauses are described in both. The key difference is in the declaration of a measurable sustainable objective for Article 9 Funds and the clear and central ambition to invest in "sustainable investments" (those that contribute to the sustainable objective).

What are our new reports and how will they help investors?

Firm Sustainability Disclosures

Fund level Sustainability Disclosures

Quarterly Sustainability Report

Overview, SFDR and glossary document

These reports are in conjunction with the ESG and Carbon monthly factsheets.

For more information on SFDR, please visit our Responsible Investment section:

Responsible Investment