About Nordic Swan Ecolabelled

Investment funds and investment products



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Nordic Ecolabelling

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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. It does this by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy, as a complement to public money. As a part its Green Deal, the EU aims to mobilise at least €1 trillion of sustainable investments during the 2020s[1]. 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 Ecolabel 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 now reached the implementation phase. The EU Taxonomy†, an encyclopaedia for environmentally sustainable activities, lies at the heart of the action plan.

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 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 products marketed as sustainable indeed meet ambitious sustainability criteria.

At the end of 2021, over 70 investment products from 25 different companies carried the Nordic Swan Ecolabel. In this generation 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 Ecolabel financial product must fulfil a range of strict requirements within four areas of sustainable investment: inclusion, active ownership, transparency, and exclusion. Furthermore, the Nordic Swan Ecolabel aims to integrate the upcoming EU regulations in a sensible manner. Additional emphasis will also be put on the crucial environmental challenges of climate change and declining 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.

[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-upp-och-ner-pa-borsen.pdf.

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. 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 Ecolabel investment product will identify and stimulate sustainable investments. We envision an upward spiral – benefiting companies, investors and the world we share.

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

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 Ecolabel 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 Ecolabel funds lies in the possibility to steer (S) capital flows in a more sustainable direction and leverage on the financial power of ownership to transform production and consumption.

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 Ecolabel fund must fulfil a range of strict 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. Professional investors can make use of the label when they set sustainability requirements on funds.

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 meeting the strict criteria in the four areas of exclusion, inclusion, active ownership, and transparency.

The four main strategies of the criteria are described in a more detailed manner in the following sections.

2.1 Exclusion

The exclusion requirements safeguard that a Nordic Swan Ecolabel 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†, international conventions and sanctions.

The goal of this type of requirements is to 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 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. At the same time, when the number of investors applying an exclusion strategy grows, the effect will likely become more pronounced.

Naturally, there are additional industries and business areas that are far from sustainable. Furthermore, the spectrum of less sustainable economic activities is broad. 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 yet ratified the Paris Agreement† and/or countries with a high level of corruption. However, the focus of the Nordic Ecolabelling 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/risks, and the EU Taxonomy†. Therefore, all holdings must undergo a proactive ESG and EU Taxonomy analysis† prior to investment.

Nordic Ecolabelling believes that the inclusion requirements will stimulate fund managers to enhance and refine their models for ESG and EU Taxonomy 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%) represent strong sustainability practices†. This will form the basis of better sustainability characteristics and performance in the Nordic Swan Ecolabel fund compared to conventional funds. It is always positive for a company to be a desirable investment. Ideally, Nordic Swan Ecolabel 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 and the Paris Agreement.

That said, most of the time investments will take place in secondary markets. This is particularly true for equity† investments, meaning that capital is not channelled to the issuer but rather exchanged between investors. Nordic Ecolabelling is aware that there is rarely a direct link between the investment undertaken by individual investors in a fund and the operations of an underlying issuer, and that the possible positive sustainability impact will be indirect in nature.

However, Nordic Ecolabelling is convinced that when more and more investors direct their assets towards more sustainable investments, the accumulated sustainability impact will also grow bigger. This is especially the case when several sustainability strategies are combined.

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. Bond funds can also engage with bond issuers even though these funds are not owners of the companies subject to investment.

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.

The Nordic Swan Ecolabel criteria consist of obligatory requirements and voluntary points-score requirements, out of which a certain number of points must be collected. As bond funds do not own shares of 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 Ecolabel 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 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, 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 implemented into legislation. Second, 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. Third, it is not until companies have reported

on the taxonomy according to the Corporate Sustainability Reporting Directive (CSRD†) that it is better known how an ecolabel like the Nordic Swan Ecolabel can set thresholds on alignment.

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 rather 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 be an Article 8 or Article 9 product. As a part of the revision of its fund criteria, Nordic Ecolabelling has implemented key aspects of the SFDR into the inclusion and 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[3], 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 sustainability practices. At the time of writing, there are no set dates for when the EU Ecolabel criteria will be finalized and adopted.

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.

[3] European Commission's Joint Research Centre (JRC), Development of EU Ecolabel criteria for Retail Financial Products - Technical Report 4.0: Draft proposal for the product scope and criteria, 2021, https://susproc.jrc.ec.europa.eu/product-bureau//sites/default/files/2021-03/2021.03.05%20-%20EUEL%20financial%20products%20-%20Technical%20Report%204%20FINAL.pdf.

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 (renamed from TEEC in 2019) is a green label created by the French Ministry for Ecology and Inclusive Transition in 2015. The label can be issued by several accredited auditors.

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 2020[4].

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.

[4] 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.

First, a fund must be covered by the UCITS† (Undertakings for Collective Investments in Transferable Securities, 85/611/EEC) or the AIFMD† (Alternative Investment Fund Managers Directive, 2011/61/EU) regulations, subject to certain limitations.

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.

AIFMD regulates managers of other funds than UCITS. Such funds are called alternative investments or AIFs†. The purpose of AIFMD is to protect investors by introducing stricter disclosure requirements and by limiting some of the systemic risks that some AIFs might pose. AIFMD provides a passport for any AIF to be marketed to professional investors within the EU.

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 Nordic Ecolabelling has poor steerability to achieve environmental improvements by ecolabelling funds with main assets outside these asset classes. AIFs shall comply with UCITS regulations for other types of assets and the use of leverage.

In Generation 2, the term eligible green bonds are used instead of qualified non-corporate green bonds (Generation 1). Eligible green bonds must follow the prevailing Green Bond Principles (GBP) or the EU Green Bond Standard (EU GBS) at the time of issuance. In addition, eligible green bonds must be issued for investments that are covered by the EU Taxonomy and be third-party verified. Eligible green bonds cannot be issued to investments within areas excluded in criteria O4–O11.

Third, funds are eligible only if the follow Article 8 or Article 9 of the EU regulation 2019/2088 on sustainability-related disclosures in the financial services sector (EU Sustainable Finance Disclosure Regulation, SFDR). 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.

Investment products

Starting from May 2020, also other types of investments 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 investments products that use Nordic Swan Ecolabel 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.
- Sustainable investment strategy/objective.
- Document showing the fund's compliance with the UCITS† or AIFMD† directives.
- Document showing the fund's characteristics or objective in relation to Article 8 or 9 of the EU Sustainable Finance Disclosure Regulation (SFDR†).

Fund fact sheet, fund rules, and/or other documents 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 or AIFMD Directives, and categorization according to 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. AIFMD, in turn, is also a European regulatory framework that captures the management and the marketing of alternative investment funds (AIFs). AIFs that apply for the Nordic Swan Ecolabel must follow UCITS regulations for all other types of assets than equities and bonds. Moreover, eligible AIFs cannot use more leverage than allowed within UCITS framework.

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†, eligible green bond†, other), portfolio weights (%), the securities identification number (ISIN†), sector, and the name of the issuer.

- The date when an ESG and EU Taxonomy analysis† was last performed for each holding. See also O12.
- Information on who conducted the ESG and EU Taxonomy analysis.
- Information on EU Taxonomy† alignment for each company and whether the alignment is based on estimation or audited data.
- 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 above information.

⇪ 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 product group definition and with a range of criteria. Nordic Ecolabelling is aware that this list will only give a snapshot view of the holdings at the time of application.

At least 50% of the fund's assets must be invested in equities, corporate bonds and/or eligible green bonds. Nordic Ecolabelling has determined that these asset classes are the ones where the ecolabel has the best steerability, as one of the main purposes of the criteria is to move companies in more a sustainable direction.

The certification process and audit will check the fund manager’s ability to ensure that future holdings are compliant 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 O18 and O24).

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 strategic positions are allowed, if they comply with applicable exclusion and inclusion requirements.
- Other use of derivatives and indirect holdings that do not follow the exclusion criteria may not exceed 5% of the fund's value. However, sector-based instruments or products that are mainly exposed to excluded sectors or companies 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 Ecolabel 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 cash management as well as currency and interest rate hedging. Currently, the market for e.g., liquid equity futures that would completely 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 not exceed 5% of the fund's value. 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 wants to encourage long-term and active ownership of companies.

Finally, 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 exploration, drilling, extraction and/or refining (for fuel) of:

- 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† in new capacity, on average for the 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. 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 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 explore for, drill, 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.

Nordic Ecolabelling applies the precautionary principle on nuclear power, as the storage of nuclear waste and potential incidents at nuclear power plants pose long-term risk for the environment.

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 (measured by revenue and CapEx in new capacity, respectively). Furthermore, such companies must not be involved in the most controversial sources of fossil energy, including shale oil, shale gas, and Arctic oil.

Nordic Ecolabelling acknowledges that the requirement does not cover a full phase-out of old fossil fuel capacity. However, in our experience, the combination of the three exemption criteria sorts out a limited amount of energy companies that are clearly leading the transition towards renewable energy.

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 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.

Nordic Ecolabelling applies the precautionary principle on nuclear power, as the storage of nuclear waste and potential incidents at nuclear power plants pose long-term risk for the environment.

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.

Nordic Ecolabelling acknowledges that the requirement does not cover a phase-out of old fossil fuel capacity. However, in our experience, the combination of the three exemption criteria sorts out a limited amount of energy companies that are clearly leading the transition towards renewable energy.

O6 Controversial weapons

The fund may not invest in companies which themselves or through entities that they control† derive revenue† from the production or sale of controversial 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 O6

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, incendiary weapons (e.g. white phosphorus) munitions, and other types of controversial weapons such as blinding laser weapons and weapons using non-detectable fragments.

O7 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†. 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 O7

In addition to controversial weapons, conventional weapons that directly contribute to the lethality in combat and warfare are excluded from a Nordic Swan Ecolabel fund. Such weapons include handguns, missiles, rockets, tanks, fighter jets, and warships.

The role of the Nordic Swan Ecolabel is to stimulate investments in companies that contribute to positive environmental and social effects. Some stakeholders argue that weapons facilitate a sustainable development by providing security and safety to the defence of nations. However, Nordic Ecolabelling does not want to contribute to a society where retail and professional investors, with the help of Nordic Swan Ecolabel funds, invest in businesses that profit from increased unrest in the world.

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.

O8 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 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

The impact of tobacco on human health is well-known. According to the World Health Organization[5], 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.

[5] WHO, Tobacco, December 2021, https://www.who.int/health-topics/tobacco#tab=tab_1.

O9 International norms, conventions, and sanctions

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†.

The fund may not invest in companies, including entities they control†, which are subject to EU or UN financial sanctions†.

Please also see O16 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 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

Companies that do not comply with central international norms and conventions must not be included in a Nordic Swan Ecolabel fund. These norms concern human rights†, labour rights, environmental protection and anti-corruption measures. The norms are captured by frameworks such as the UN Global Compact, UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. The two latter frameworks cover the minimum social safeguards of the EU Taxonomy.

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 holding that causes severe environmental damage† may not be part of a Nordic Swan Ecolabel 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. Irrespective of how the information is obtained, the ultimate responsibility for applying it to individual cases lies with the fund company.

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 an 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.

If the fund manager receives information indicating that a holding is in breach of international norms and conventions, the fund manager must proceed in accordance with the requirement O16 Engagement with non-conforming holdings.

Last, a Nordic Swan Ecolabel fund may not invest in companies/entities which are targeted by EU/UN sanctions. Sanctions are an essential tool for the EU/UN to prevent conflict or respond to emerging or current crisis. In this case, the goal is to bring about a change in policy or activity targeted by entities responsible for malign behaviour.

O10 Government bonds − sanctions and Paris agreement

The fund may not invest in government bonds issued by:

- Countries that are subject to EU or UN financial sanctions†.
- Countries that have not ratified 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 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

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 ratified the central international agreement on climate change cannot be included in a Nordic Swan Ecolabel fund.

Therefore, this requirement 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.

O11 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 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 ranked as having extensive corruption might lack sustainable society governance. Extensive corruption is also linked to environmental and biodiversity 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

O12 ESG and EU Taxonomy analysis

All direct holdings† in the portfolio must have undergone ESG and EU Taxonomy analysis† (see information about indirect holdings† in O3).

The methodology for ESG and EU Taxonomy analysis must cover

1. how ESG† factors are considered based on the materiality† of the issuer
2. to what degree (%) a company is aligned with the EU Taxonomy† (revenue† or CapEx†) if its activities are eligible. The fund may estimate the degree of alignment

until a company has reported taxonomy data. Proxies may be used for companies outside the scope of CSRD†.

3. how the analysis is performed with a forward-looking perspective
4. how the fund manager controls that there is an ESG and EU Taxonomy analysis for each holding prior to investment
5. how the fund manager controls that the respective ESG and EU Taxonomy analyses undergo a full update on a yearly (12–15 months) cycle
6. how the fund manager deals with corporate actions† and IPOs†, which might affect data availability in the short term
7. to what extent the analysis is done internally or by an external service provider and (if applicable) how they interact with each other
8. the capacity in terms of time, knowhow, and coverage at the fund manager and (when applicable) at the service provider, including external products and services used to comply with the requirement.

⇪ Methodology for ESG and EU Taxonomy analysis.

⇪ ESG and EU Taxonomy 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 O12

The ESG and EU Taxonomy analysis† is a central tool to promote more sustainable fund holdings. The market pressure highlights ESG issues and alignment with the EU Taxonomy among companies. The rating systems of ESG providers stimulate improvements within the area of sustainable corporate behaviour.

In generation 2 of the criteria all direct holdings in a Nordic Swan Ecolabel fund must undergo a proactive and forward-looking sustainability analysis, compared to 90% in the previous 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.

In addition to that, the analysis must also assess to what degree the activities of all companies are aligned with the EU Taxonomy. The taxonomy is gradually implemented in 2022-2024 and thus, audited company data is not yet available. Therefore, the fund may use proxies from a well-reputed provider or own

research to estimate the degree of taxonomy alignment until companies have reported audited taxonomy data. Moreover, the CSRD is expected to cover larger and listed companies in Europe. Therefore, proxies may be used for such smaller and foreign companies that fall outside the score of the CSRD.

All aspects of the ESG and EU Taxonomy analysis must be updated with an annual (12-15 month) cycle. Nordic Ecolabelling acknowledges 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 required scope of analysis. Both external and internal models of ESG and EU Taxonomy analysis, or a combination of these, are imaginable if all aspects of the requirement are covered. The analysis may for instance be based on data from a reputable ESG provider such as MSCI, Sustainalytics, ISS ESG, etc. The analysis may also be conducted internally, provided that the ESG management system is well-documented and verified by Nordic Ecolabelling. Nordic Ecolabelling is aware of the strengths and weaknesses of various ESG rating systems.

O13 Reductions of GHG emissions in critical sectors

For sectors specified in this requirement (30% company revenue† threshold), reduction of GHG† emissions shall always be treated as a material† issue in the ESG and EU Taxonomy analysis† (ref. O12).

Holdings† operating in the high-emitting sectors aluminium, aviation, automobiles, cement, mining, pulp and paper, shipping, and steel, must pass at least one of the following eligibility criteria:

1. At least 30% of the company's economic activity, according to the formula in P1, is aligned with the climate change objectives of the EU Taxonomy† (climate change mitigation and adaptation).
2. At least 75% of the company's investments, on average for three consecutive years including the last financial year, is aligned with the climate change objectives of the EU Taxonomy.
3. The company is in a rapid transition and has a validated 1.5 °C Net Zero Science Based Target† (SBT) or is aligned and validated to a similar internationally accepted framework for transition.

   Until June 1 2024, a validated 1.5 °C Near Term Science Based Target† is accepted
4. For the aluminium and steel sector, see Appendix 2 for additional eligibility criteria. The company is one of the best 15% in GHG intensity. To calculate intensity, the fund shall consistently use either yearly GHG emission/EVIC†, GHG emission/revenue or GHG/tonne production of aluminium, cement, mining, pulp and paper or steel in a global comparison of its sector with reported GHG emissions. GHG emissions shall be calculated with the GHG

Protocol Corporate Standard (scopes 1 & 2, also scope 3 for automobiles).

Alternatively, the fund passes at least one of the following criteria:

5. At least 50% of the fund is aligned with the EU Taxonomy for the part of the fund that is eligible within the climate change objectives.
6. The fund has a legally binding commitment to follow an EU Paris-Aligned Benchmark† (EU PAB) or adheres to a similar internationally established methodology for transition approved by Nordic Ecolabelling.

The fund may use proxies to estimate the degree of taxonomy alignment until a company has reported taxonomy data. Proxies may be used for companies outside the scope of CSRD†.

The fund may use proxies to estimate GHG emissions until June 1 2024.

⇪ Description of how the eligibility criteria on climate change are covered in ESG analysis for companies in relevant sectors.

⇪ Official document verifying the fund's commitment to follow an EU PAB (if applicable).

Background to the requirement O13

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 (O13 and O14) 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.

Science-based targets provide companies with a clearly defined pathway to reduce emissions in line with the Paris Agreement goals. The targets have been widely accepted as a corporate tool to reach net-zero CO2 emissions by 2050 in order to avoid catastrophic climate breakdown.

There are two additional options, which allow the requirement to be fulfilled also at the fund level. In practice, most of the fund's exposure to critical industries must be aligned with the EU Taxonomy or the fund must have legally binding commitment to follow an EU Paris-Aligned Benchmark (EU PAB).

Nordic Ecolabelling knows reporting of GHG emissions may be based on CO_2 emission factors from contractual instruments, even though local grids might have another energy mix with a potentially high CO_2 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 Ecolabel fund to require that the investee companies use another CO_2 emission factor in their calculations.

O14 Conservation and sustainable use of biodiversity in critical sectors

For sectors specified in this requirement (30% company revenue† threshold), conservation and sustainable use of biodiversity shall be assessed as a material† issue in the ESG and in EU Taxonomy analysis†.

Holdings† operating in the sectors agriculture, construction and infrastructure, extractive industries, fishery and aquaculture, food and beverage, forestry and logging, and shipping, must have strong sustainability practices† (as defined in O15). When setting the overall rating/assessment of strong sustainability practices for companies in these sectors, a significant weight in the analysis shall be given to the following factors::

- Principal Adverse Impact (PAI†) indicators on biodiversity (as specified in the Regulatory Technical Standards, RTS), and
- Do No Significant Harm (DNSH†) indicators on biodiversity in the EU Taxonomy for eligible activities.

Moreover, if a holding operates in any of these sectors and do not meet the definition of strong sustainability practices, then:

- The fund must engage† according to P3 Systematic and targeted engagement (including the subheading Engagement transparency) to stimulate the company towards conservation and sustainable use of biodiversity. Engagement progress shall be measured in relation to the goals and milestones set up in P3 and described in the annual sustainability report (ref. O18).

Engagement progress shall also be measured in relation to the PAI and DNSH indicators when implemented.

⇪ Description of how PAI and DNSH indicators on biodiversity are covered in the ESG and EU Taxonomy analysis for companies in relevant sectors.

Background to the requirement O14

The topic of biodiversity is gaining traction also in the financial industry. In the Nordic Swan Ecolabel criteria, companies causing severe environmental damage are already excluded. With this requirement, Nordic Ecolabelling wants to promote a more proactive and overarching approach to the issue of biodiversity.

Nordic Ecolabelling has provided a shortlist of industries and activities for which conservation of biodiversity is a crucial issue. For companies operating in these industries, the ESG and EU Taxonomy analysis must give a significant weight to the Principal Adverse Impacts (PAI) and Do No Significant Harm (DNSH) indicators on biodiversity.

Nordic Ecolabelling acknowledges that the interpretation of "significant weight" may differ between individual funds, for example depending on the fund's investment strategy, the materiality maps of ESG providers, and the final emphasis on biodiversity in the EU Taxonomy. Moreover, a higher weight on biodiversity will imply a lower weight on other ESG factors. As a rule of thumb, Nordic Ecolabelling would expect that a significant weight in the analysis means approximately 1/3 of the total score/assessment of individual companies.

Nordic Ecolabelling acknowledges that the issue of biodiversity is taking root also in the financial industry. Nordic Ecolabelling is closely monitoring the development of international standards on biodiversity. As an example of this, Nordic Ecolabelling has joined the TFND Forum, a consultative group of institutions supporting the development of a standardized risk management and disclosure framework for nature-related risks.

O15 Inclusion of strong sustainability practices

At least 70% of the fund's value shall always be invested in holdings† that meet the definition of strong sustainability practices†. The requirements O13 and O14 shall provide information to evaluate whether an issuer meets the definition.

The fund shall have a clear definition of strong sustainability practices at the issuer level.

The definition shall cover what the issuer produces, and how the issuer practices and performs with respect to ESG† issues, and the degree (%) of EU Taxonomy† alignment (revenue† or CapEx†) for companies.

E, S, G, and the degree of EU Taxonomy alignment can have different weights, but the overall assessment and/or rating must be strong for each issuer covered by the definition.

The definition of strong sustainability practices must be made readily available on the fund's website and in the fund's sustainability report (ref. O18).

⇪ Methodology for ESG rating/assessment and procedures for selecting investments with strong sustainability practices.

⇪ Definition of strong sustainability practices.

- ⇪ Description of how the fund manager ensures that the criteria are always fulfilled.
- ⇪ Link to the webpage where the definition of strong sustainability practices will be published.
- 🔑 Nordic Ecolabelling will perform a random sample check to ensure that the fund 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 O15

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

The minimum share of holdings displaying strong sustainability 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.

The criteria for strong sustainability practices should cover both what companies produce, how they conduct themselves on ESG issues, and the degree of alignment with the EU Taxonomy. The definition may for instance be based on an assessment model or rating system. The definition can also be thematic in nature, restricting investments to an environmental or sustainable theme, such as renewable energy, gender equality, or strong alignment with the EU Taxonomy or the Sustainable Development Goals (SDGs).

E, S, G, and the degree of EU Taxonomy alignment can have different weights in the definition, but all factors should be covered. A strong ESG score can to some extent but not entirely compensate for a low taxonomy alignment, and vice versa. The degree of taxonomy alignment shall also be viewed in relation to taxonomy eligibility. In sum, the definition of "strong sustainability practices" may vary significantly between funds and ultimately, it will be up to the individual fund manager to propose criteria that differentiate between holdings based on sustainability practice and performance.

As a rule of thumb, Nordic Ecolabelling would expect holdings with "strong sustainability practices" to score at least in the better half (top 50%) of the fund's investment universe after exclusions. Therefore, holdings with "strong sustainability practices" are likely to represent, at a minimum, the top 40-45% of the fund's gross investment universe.

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. Until companies report on taxonomy alignment, the numbers will be based on approximations. That said, simulations indicate that the share of alignment with the taxonomy is still very low even among products with a distinct environmental focus. For example, in a study of 101 green funds only a handful of funds were

able to reach a 50% alignment with the taxonomy[6]. Moreover, the estimated taxonomy alignment of the general market is extremely low. Therefore, Nordic Ecolabelling has chosen to award Taxonomy-aligned inclusion via a points-score requirement (P1), which may generate a significant number of points.

For rules-based products as well as 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, an index fund may be awarded the Nordic Swan Ecolabel.

P1 EU Taxonomy alignment (max 6p)

To be fully aligned with the EU Taxonomy†, an economic activity must**:**

a) substantially contribute to an environmental objective by fulfilling the technical screening criteria,

b) do no significant harm to other environmental objectives, and

c) comply with certain minimum social safeguards.

Points are awarded according to the share of the portfolio that is fully aligned with the EU Taxonomy, based on the calculation formula in the requirement.

Alignment of general-purpose corporate bonds shall be counted in the same way as equities. Project-based bonds whose alignment with the EU Taxonomy has been verified by a reputable third party, may be counted as the share of alignment at the individual bond level. These bonds must follow the prevailing Green Bond Principles (GBP) or the EU Green Bond Standard (EU GBS) at the time of issuance.

The fund may estimate the degree of alignment until a company has reported taxonomy data. Proxies may be used for companies outside the scope of CSRD†.

Table 2 EU Taxonomy alignment thresholds and points.

	1p	2p	3p	4p	5p	6p
Taxonomy	≥ 5%	≥ 10%	≥ 20%	≥ 30%	≥ 40%	≥ 50%

Company-level alignment with the EU Taxonomy shall be calculated using the below formula.

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

[6] European Commission's Joint Research Centre (JRC), Development of EU Ecolabel criteria for Retail Financial Products - Technical Report 4.0: Draft proposal for the product scope and criteria, 2021, https://susproc.jrc.ec.europa.eu/product-bureau//sites/default/files/2021-03/2021.03.05%20-%20EUEL%20financial%20products%20-%20Technical%20Report%204%20FINAL.pdf, pp. 45-52

where:

G = % of total portfolio value invested according to the EU Taxonomy

i = an individual holding in the portfolio

n = total number of holdings in the portfolio

PC_i = % Portfolio Contribution of holding i

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

GC_i = the highest annual Green 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

$GT_i + GC_i \leq T_i$

For more detailed information about how to use the formula, please refer to Appendix 1.

⇪ Calculation on a company level showing the weighted average of the fund aligned with the EU Taxonomy. The calculation can be performed in the calculation sheet from Nordic Ecolabelling according to the instructions provided therein.

⇪ 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 for alignment with the EU Taxonomy.

Nordic Ecolabelling has a positive stance on increased standardization of environmentally sustainable activities. The implementation of the EU Taxonomy will take place gradually in the years 2022 and 2023, meaning that the scope of environmentally sustainable activities is likely to expand in the coming years.

Nordic Ecolabelling also acknowledges that the availability and comparability of taxonomy data is set to increase in the coming years. Until official reported data from companies becomes available, the fund may use proxies to estimate the degree of taxonomy alignment. Consequently, estimations of taxonomy alignment for the same company may vary between different funds and ESG providers. It will be up to the fund manager to weigh the robustness of data used for estimations.

The calculation for this requirement is performed by counting the weighted average of the fund's alignment with the EU Taxonomy. Taxonomy alignment for individual holdings may be calculated by dividing associated revenue and capital

expenditure by total revenue, similar to how the greenness of holdings is determined in the proposed EU Ecolabel criteria (TR4)[7]. Nordic Ecolabelling will provide a formula and calculation sheet for this purpose. The fund manager may also implement the calculation in its own management system.

P2 Enhanced analysis and inclusion (max 2p)

If the fund has a clearly defined methodology for identifying, assessing and including holdings† according to the following sustainability themes. Points can only be awarded for one theme.

A. Science Based Targets†

Share of the fund's value invested in holdings that have published a validated 1.5 °C Net Zero Science Based Target (SBT) or have published a validated SBT in other environmental areas.

Until June 1 2024, a validated 1.5 °C Near Term Science Based Target† is accepted.

25% of the fund's value: 1 point.

50% of the fund's value: 2 points.

Similar methodologies as SBT can be used after approval from Nordic Ecolabelling.

B. Climate alignment

The fund has a legally binding commitment to follow an EU Paris-Aligned Benchmark† (EU PAB) or adheres to a similar internationally established methodology for transition approved by Nordic Ecolabelling.

1.5 °C target: 1 point.

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 (ref. O18).

C. Thematic focus

The fund is an article 9 product and a substantial part of the portfolio (≥ 90%) is invested in companies that deliver solutions to environmental challenges. This shall be shown by a clear environmental objective that focuses on selecting companies based on **what** they produce that is specified in the definition of strong sustainability practices† (ref. O15): 2 points.

[7] European Commission's Joint Research Centre (JRC), Development of EU Ecolabel criteria for Retail Financial Products - Technical Report 4.0: Draft proposal for the product scope and criteria, 2021, https://susproc.jrc.ec.europa.eu/product-bureau//sites/default/files/2021-03/2021.03.05%20-%20EUEL%20financial%20products%20-%20Technical%20Report%204%20FINAL.pdf, pp. 26-27

D. Strong sustainability practices

At least 90% of the fund's value is invested in holdings that meet the definition of strong sustainability practices (ref. O15): 1 point.

- Description of the fund's methodology for identifying, assessing and including holdings that fulfil the relevant theme(s). If the methodology is clearly outlined in requirement O12 ESG and EU Taxonomy analysis, no separate documentation is required.
- Calculation on a holding level showing the weighted average of the fund within a specified theme. The calculation can be performed in the calculation sheet from Nordic Ecolabelling according to the instructions provided therein. The fund manager may also implement the calculation in its own management system.
- Official document verifying the fund's commitment to follow an EU PAB (if applicable).
- Description of how the fund manager controls that the claimed 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 P2

This is a new point-score requirement that rewards funds with a clear focus on other sustainable themes than the EU Taxonomy, supported by the fund's methodology and actual investments.

In such a case, the ESG analysis and investments of the fund have a distinct orientation towards the Science Based Targets (SBT) to reduce carbon emissions, climate alignment, or other similar methodologies approved by Nordic Ecolabelling.

Moreover, points can be also collected if the fund has a clear thematic focus on environmental challenges or exhibits a higher share of holdings with strong sustainability practices than required in the obligatory inclusion requirement.

4.5 Active ownership

O16 Engagement with non-conforming holdings

When a fund manager receives information about an unacceptable risk (see O9) or that a holding† is in breach with the obligatory exclusion criteria, a general description of the alleged non-conformity must be published on the fund's webpage if the holding is kept in the portfolio for more than a month.

If the non-conformity is verified or the unacceptable risk persists, the fund manager must sell all holdings from that issuer within three months. However, if there is doubt regarding the non-conformity, or if the fund manager expects the issue to resolved/rectified in the near future, the fund manager may keep the holding provided that the fund manager enters into an engagement† process with the 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 magnitude of the 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 the fund's webpage:

- how the fund manager assesses the non-conformity,
- what actions the fund manager will take to address the issue,
- what result the fund manager expects to achieve, and
- when the fund manager 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.

⇪ Example of engagement disclosure including a link to the webpage where the information will be published (if applicable).

Background to the requirement O16

When the fund manager receives new information indicating an unacceptable risk that a holding is in breach with the 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 from receiving the information. 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. Breaches and persisting unacceptable risks that lead to exclusion must be published in the annual sustainability report (ref. O18).

The fund manager may use a traffic light system by a reputable ESG provider to identify potential unacceptable risks among holdings. As a rule of thumb, Nordic Ecolabelling would expect that a yellow/orange flag is sufficient to warrant further investigation, especially for previously compliant holdings. Nordic Ecolabelling acknowledges that there are shades of severity within yellow/orange.

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 ESG provider data, around 30 severe breaches and 2-3 very severe breaches are registered per year in a global universe of companies.

P3 Systematic and targeted engagement (max 3p)

The fund manager regularly engages† with its holdings in order to address ESG† and/or EU Taxonomy† issues, concerns or performance, and can demonstrate:

- A clear and systematic method for selecting candidates and topics/themes for engagement.
- Clear, specific, and time-bound goals and milestones for each engagement.
- Regular assessment of the achievement of the engagements.
- A description of resources and tools for conducting the engagement.

Engagement with at least 5% of the fund's holdings (in number). At least 5 but no more than 25 holdings are required: 1 point.

Engagement with at least 10% of the fund's holdings (in number). At least 10 but no more than 50 holdings are required: 2 points.

Engagements in collaboration with other stakeholders or with companies outside the portfolio 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 where the fund company actively contributes to the engagement initiative, collaborative engagements may be counted as ½.
- Engagement activities that concern companies outside the portfolio may account for up to half of the total engagement.

Engagement transparency

An additional point may be earned if the sustainability report (ref. O18, point 4) contains a brief description (an additional 4 to 10 sentences) of goals and status for the company engagements presented in the report: 1 point.

⇪ Engagement policy or routine including

- Description of the engagement method, resources, and follow-up principles, and
- Description of the process for setting engagement goals in relation to the selected theme(s) and time-bound milestones.

⇪ 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 section Engagement transparency:

⇪ A brief description of how and what the fund intends to report on the company engagements (if possible, include a reporting template).

Background to the requirement P3

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 to exert influence and develop management processes for tackling sustainability 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 on sustainability issues. This includes engagements that are carried out in collaboration with other stakeholders.

Nordic Ecolabelling also wants to stimulate engagement transparency. Therefore, an additional point may be earned if the fund discloses the goals and status of its engagements in the annual fund sustainability report. Nordic Ecolabelling acknowledges that this kind of company-level disclosure might be sensitive, especially in the early stages of an engagement process. On balance, Nordic Ecolabelling still considers voluntary disclosure to investors as the preferable option.

P4 Regular voting (max 3p)

The fund manager has a clearly written public voting policy/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 fund's holdings† (in number) 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 fund's holdings (in number) 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 70% of the fund's holdings (in number) in accordance with its voting policy/public statement: 1 point.
- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 90% of the fund's holdings (in number) in accordance with its voting policy/public statement: 2 points.

The fund manager may combine inhouse assessments and the use of a proxy voting service.

Voting transparency

An additional point may be earned if the sustainability report (ref. O18) contains or links to voting records showing company-specific voting: 1 point.

⇪ Voting policy or statement with link to website.

⇪ 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 the number of holdings) where the fund held voting rights.

For the section Voting transparency:

⇪ A brief description of how the fund plans to disclose company-specific voting records.

Background to the requirement P4

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.

An additional point may be scored if the annual sustainability report of the fund includes voting records with company-specific data.

4.6 Reporting and transparency

O17 Reporting the fund's holdings

The fund manager must report on all holdings† in the Nordic Swan Ecolabel fund on the fund's public 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 O17

To stimulate transparency about the investments of the Nordic Swan Ecolabel 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.

O18 Fund sustainability report

The fund manager shall no later than March 31 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 regarding 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 Ecolabel fund. The report must include, as a minimum (if no activities are conducted, please comment or explain):

1. Exclusions: A brief description (roughly 4 to 10 sentences) of excluded issuers based on verified non-conformities and persisting unacceptable risks identified in O16.
2. Strong sustainability practices: A brief description (roughly 4 to 10 sentences) of what the fund defines as strong sustainability practices†.

3. ESG risks and opportunities: A brief description (roughly 4 to 10 sentences) 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. Engagements: 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 4 to 10 sentence) of topics and issues discussed. If the section Engagement transparency in P3 is claimed and approved, the goals and status of the engagements shall also be added.
5. GHG† emissions: A brief description (roughly 4 to 10 sentences) of the transition progress as well as the risks and opportunities concerning GHG emissions for the five largest emitters of GHG (in absolute terms) as identified in O12/O13.
6. Biodiversity: A brief description (roughly 4 to 10 sentences) of the risks and opportunities concerning conservation and sustainable use of biodiversity for the five holdings with the poorest rating/assessment on biodiversity as identified in O12/O14, as well as the main engagement goals (if a rating/assessment is below strong sustainability practices as identified in O14).
7. Voting: The extent of voting (number and percentage of AGM/EGMs at which the fund manager voted in the relevant period). This does not apply to bond funds.
8. SFDR†: Information stated in the EU REGULATION 2019/2088 on sustainability-related disclosures in the financial services sector or a link to where 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 Ecolabel 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 an 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 O18

The aim of this requirement is to ensure that investors have access to annual information about the sustainability-related activities of the Nordic Swan Ecolabel 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 sustainability practices
- the main ESG risks and opportunities of the ten largest holdings
- risks and opportunities of the five largest holdings where reduction of greenhouse gases or preservation of biodiversity, respectively, has been identified as a material ESG factor
- company-specific disclosure of engagements
- information stated in the Sustainable Finance Disclosure Regulation (SFDR).

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 Ecolabel 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.

4.7 Points

O19 Number of points

Equity funds must achieve a minimum of 6 points. Prior to June 1 2024, a minimum of 5 points is required.

Bond funds must achieve a minimum of 5 points. Prior to June 1 2024, a minimum of 4 points is required.Mixed funds comprising of at least 50% equities are evaluated as equity funds.

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 3 Summary of points

Point-score requirement	Number of points achieved	Maximum number of points
P1 EU Taxonomy alignment		6p
P2 Enhanced analysis and inclusion		2p
P3 Systematic and targeted engagement		3p
P4 Regular voting		3p for equity fonds 0p for bond funds
Sum		14p for equity fonds 11p for bond funds

⇪ Summary of claimed points.

🔑 Will be controlled by Nordic Ecolabelling at the annual compliance check. See also O24.

Background to the requirement O19

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. Nordic Ecolabelling judges that these points-score criteria will provide options to two main categories of sustainability-oriented funds: those that already have include relatively green or sustainable companies (points-score criteria P1 and P2), and those that practice ownership (P3 and P4). Naturally, many funds will also be able to collect the points-score criteria by combining green investments and active ownership.

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 P4 Regular voting, this is compensated by a lower total threshold of 5 points.

Prior to 1 January 2024, however, equity and bond fund will have to score only 5 and 4 points, respectively. The reason for this is the gradual roll-out of the EU Taxonomy. The use of the taxonomy is expected to be facilitated by a more complete list of environmentally sustainable activities and increased availability of audited company data.

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.

4.8 Investment products

Requirements O20–O22 apply to investment products that invest in Nordic Swan Ecolabel funds.

O20 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 O20. Unit-linked insurance products do not need to document quarterly trading.

Background to the requirement O20

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

O21 Investments

A Nordic Ecolabelled investment product can solely invest in Nordic Swan Ecolabel 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–O17 and O23–O24 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 the Nordic Swan Ecolabel.

⇪ List of current holdings† including name and ISIN†.

⇪ Description of how the product manager ensures that the criteria are always fulfilled. 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 O21

To steer capital to funds that have a proven record of meeting high sustainability requirements, investments are primarily directed to Nordic Swan Ecolabel 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–O17 and O23–O24.

O22 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 Ecolabel investment product according to O17.

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.

- Link to website(s) where sustainability reports of the underlying funds can be found.
- Link to website(s) where holdings of the underlying funds can be found.
- Signed in the Nordic Ecolabelling Portal.

Background to the requirement O22

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

4.9 Licence maintenance

Requirements O23–O26 apply to both funds and investment products that invest in Nordic Swan Ecolabel funds.

O23 Management system

The licensee must have resources, capacity, competence and a management system to ensure that the quality of the Nordic Swan Ecolabel fund/investment product 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 the person(s) responsible for acting as the primary contact for the licence, the marketing of the Nordic Swan Ecolabel product, and financial reporting to Nordic Ecolabelling.
- Copy of relevant documents from the management system.

O24 Annual compliance check

The licensee 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 March 31 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 Ecolabel fund/investment product if they are reliable and have 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.

An updated list of holdings† according to O2 (per December 31 of the reporting year) and the fund sustainability report in O18 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.

⇪ Holdings per December 31 of the reporting year as described in O2.

⇪ Fund sustainability report (ref. O18).

O25 Information about the Nordic Swan Ecolabel

When a licensee uses the Nordic Swan Ecolabel in communication or marketing, there should be a clear reference to Nordic Ecolabelling's website:

https://www.nordic-ecolabel.org/product-groups/group/?productGroupCode=101

or to relevant national Nordic Ecolabelling website below:

Denmark: www.svanemaerket.dk/investeringsfonde

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

Norway: https://svanemerket.no/sparing

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

Signed in the Nordic Ecolabelling Portal.

O26 Customer information when a product is no longer a Nordic Swan Ecolabel product

The investors must be informed clearly on the product webpage if the product is no longer a Nordic Swan Ecolabel product. The information must be presented on the webpage for at least twelve months thereafter.

Signed in the Nordic Ecolabelling Portal.

Background to the requirements O23–O26

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

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 concerning the sustainability issues of the fund 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 Ecolabel product.
- No obligatory criteria are set to require calculations or simulations about the environmental impact of the fund, for instance on its environmental or carbon footprint. The development of suitable and standardized methods to measure impact will be carefully monitored in future evaluations and revisions of the criteria.
- With respect to SFDR, Nordic Ecolabelling could restrict the product group to only include Article 9 funds. However, most funds in the Nordic market are categorized as Article 8, and this is probably the group of funds where a label can make the biggest difference. Moreover, it is not always easy to distinguish between Article 8 and 9 funds in terms of their sustainability characteristics. The Nordic Swan Ecolabel provides an independent guarantee that tough sustainability criteria are met.

- 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, cannabis for recreational purposes, and/or companies tied to the fossil fuel industry, such as train companies or gas stations. Nordic Ecolabelling has decided to exclude industries and companies that are furthest from sustainable, with an emphasis on the core activities of a less sustainable industry. Nordic Ecolabelling also seeks to maintain a balance between the four strategies of exclusion, inclusion, active ownership and transparency.
- Requirements concerning 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 Ecolabel 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.

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		*		Exploration and drilling added to the scope of the exclusion.
O5	O6		*		Slightly tighter thresholds on fossil fuel companies in transition.
O6	O7		*		White phosphorus and blinding laser weapons added to the scope of controversial weapons.
O7	O8		*		Slightly expanded definition of conventional weapons.
O8	O9		*		Scope of the exclusion expanded to sale/distribution of tobacco.
O9	O10		*		Companies subject to EU or UN sanctions are added.
O10	O11		*		The UN Convention on Biological Diversity has been removed due to lack of steerability, as there are only two countries that have not ratified the convention.
O11	O12		*		Minor change to which countries are excluded based on the Corruption Perceptions Index.

O12	O13		*		Analysis required for 100% of holdings (up from 90%) and stronger focus on materiality and the EU Taxonomy. Some other small adjustments.
O13				*	Added requirement for inclusion of holdings from industries where reduction of GHG emissions is a crucial ESG issue.
O14				*	Added requirement for inclusion of holdings from industries where preservation of biodiversity is a crucial ESG issue.
O15	O14		*		Alignment with EU Taxonomy embedded in the definition ofstrong sustainability practices. Holdings with strong sustainability practices must cover 70% of the portfolio (up from 50%). Publicly available definition of "strong sustainability practices".
O16	O4		*		Mandatory disclosure of alleged breaches within a month. Mandatory engagement when a holding is kept in the portfolio after a norm violation.
O17	O16	*			
O18	O15		*		Several new obligatory reporting requirements and an update to the annual publication cycle.
O19	O25		*		The total number of available points has been reduced from 16/14 to 14/11 (equity/bond funds), and the number of point-score requirements from 8 to 4.
O20	O26	*			
O21	O27	*			
O22	O28	*			
O23	O17	*			
O24	O21		*		The annual internal audit shall have a risk-based approach.
O25	O23	*			
O26	O24	*			
P1				*	Points awarded for methodology and investments aligned with the EU Taxonomy.
P2				*	Points awarded to funds that have a clear focus on sustainable themes, such as the SBTs and climate alignment.
P3	P5		*		Method, goals, resources, and regular assessment required for points. Additional point for engagement transparency.
P4	P6		*		Higher activity thresholds for proxy voting. Option to collect points for inhouse assessments. Additional point for voting transparency.
	P1		*		Voluntary exclusion of GMO crops has been replaced by a broader, obligatory requirement to analyse and include/engage with companies for which

					biodiversity is a material ESG issue (including production of GMO grops).
	P2		*		ESG (and EU Taxonomy) analysis of all holdings has become obligatory.
	P3		*		Points for holdings with an environmental focus may now be scored as a part of criteria P1 and P2, with increasing emphasis on the EU Taxonomy.
	P4		*		Inclusion and/or exclusion of indirect holdings is not awarded any longer following a stricter approach to derivatives and indirect holdings.
	P7		*		Out of the voluntary reporting areas, a) and b) have been moved to the requirements P3 and P4, c) has been removed, and d) has become mandatory.
	P8		*		Third-party verification of sustainability reports has been removed, as it was not claimed by applicants.

7 Terms and definitions

AIF	Alternative Investment Fund according to AIFMD.
AIFMD	AIFMD stands for Alternative Investment Fund Manager Directive. AIFMD is an EU regulation that applies to alternative investments, setting standards for marketing around raising private capital, remuneration policies, risk monitoring, and reporting. AIFMD applies to EU-registered hedge funds, private equity fund, and real estate funds.
ASI Performance standard	https://aluminium-stewardship.org/knowledge-hub/document-centre
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.
Collaborative engagement	Initiative in which several participating investors actively engage with individual corporates through different activities, such as meetings/site visits, investor letters, etc. See also Engagement.
Controversial weapons	Biological and chemical weapons (Biological Weapons Convention, 1975, Chemical Weapons Convention, 1997), cluster weapons (Oslo Convention, 2008), nuclear weapons (Treaty on the Non-Profilation of Nuclear Weapons, 1968), anti-personnel mines (Ottawa Treaty, 1997) depleted uranium weapons, incendiary weapons (also including white phosphorus, blinding laser, weapons using non-detectable fragments or components solely intended for use in these weapons.
Conventional weapons	Small arms for private use, weapons of warfare, and other weapons-related products and systems that directly contribute to the lethality in combat and warfare. This includes handguns, bombs, shells, rockets, missiles, ammunition, tanks, warships, military aircraft, 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.
CSRD	Corporate Sustainability Reporting Directive. CSRD seeks to amend the existing reporting requirements of the NFRD by expanding the scope of entities that are required to report and introducing more detailed reporting according to mandatory EU sustainability reporting standards.
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).
DNSH	Do No Significant Harm (DNSH) criteria are requirements for economic activities in the EU Taxonomy. To be considered environmentally sustainable, an economic activity must not breach the DNSH for other environmental objectives of the EU Taxonomy. See also EU Taxonomy.

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 able 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 reducing the company's carbon footprint and negative environmental impact, respecting human and labour rights, ensuring product quality and safety, and upholding management systems that increase accountability.
ESG and EU Taxonomy analysis	A proactive analysis of ESG issues, which also includes an assessment of a company's alignment with the EU Taxonomy in case its activities are eligible.
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	Countries: EU Sanctions Map Specifically, the sanction measures - Asset freeze and prohibition to make funds available, - Financial measures, and - Investments. Companies: European Union Consolidated Financial Sanctions List
EU Taxonomy	The EU Taxonomy is a classification system for environmentally sustainable activities along with detailed technical screening criteria.
EVIC	Enterprise Value Including Cash.
Fund of funds	An investment strategy in which a fund invests in other types of funds (including ETFs).
GHG	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 (H_2O), carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and ozone (O_3). Shall be calculated according to GHG Protocol Corporate Standard 3.51 or later https://ghgprotocol.org/corporate-standard or similar standard.
Green bonds	Green bonds are fixed-income financial instruments exclusive applied towards new and existing green projects. Eligible green bonds must follow the prevailing Green Bond Principles (GBP) or the EU Green Bond Standard (EU GBS) at the time of issuance. In addition, eligible green bonds must be third-party verified. Eligible green bonds cannot be issued to investments within the business activities that are subject to exclusion.

Gross corruption	Gross corruption exists if a company through its representatives: a) Gives or offers an advantage – or attempts to do so – so as to unduly influence 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. and c) The corrupt acts mentioned in letters a and b are carried out in a systematic or comprehensive manner.
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	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. http://www.ilo.org/declaration/lang--en/index.htm
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 holdings.)
Index fund	An index fund (also index tracker) is a mutual fund or exchange-traded fund (ETF) designed to follow certain pre-set 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/
Investments	Any capital expenditure and selected operating expenditures such as maintenance costs related to green assets that either increase the lifetime or the value of the assets. Also, research and development expenditures are included. Note: Operating costs such as purchasing costs and leasing costs would not though normally be eligible except in exceptional cases as may be identified in the EU Taxonomy and future related guidance.
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.
Materiality	A materiality assessment is the process of identifying, refining, and evaluating the potential ESG issues - both positive and negative - that could affect a business and/or its stakeholders. The material ESG factors typically differ from one sector to another. See ESG for examples of ESG factors.
PAI	Under SFDR, Principle Adverse Impacts (PAI) are negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity. See also SFDR.

Paris Agreement	http://unfccc.int/paris_agreement/items/9444.php
Paris-Aligned Benchmark (EU PAB)	Paris-Aligned Benchmarks are indices whose constituent companies are aligned with the Paris Agreement. These indices are structured with a broad market exposure and so that a process of year-on-year decarbonization is reflected, equalling at least 7% on average per annum.
Ratification (Paris agreement)	Ratification defines the international act whereby a state indicates its consent to be bound to a treaty if the parties intended to show their consent by such an act. The instruments of "acceptance" or "approval" of a treaty have the same legal effect as ratification and consequently express the consent of a state to be bound by a treaty. UNTC
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).
Responsible Steel	https://www.responsiblesteel.org/certification/issued-certificates/
Revenue	The income that a business has from its normal business activities, usually from the sale of goods and services to customers.
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.
Scope 1, 2 and 3	Scope 1: All direct GHG emissions. Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam. Scope 3: All other indirect emissions that occur in a company's value chain.
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.
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.
SFDR	Sustainable Finance Disclosure Regulation. SFDR imposes mandatory ESG disclosure obligations for many financial market participants.
Strong sustainability practice	The term "strong sustainability practice" does not have any objective definition. It will be up to the individual fund manager to establish internal criteria within their ESG and EU Taxonomy analysis tool to differentiate between holdings with ESG and EU Taxonomy performance ranging from weak to strong. Since the Nordic Swan Ecolabel is open for funds with different geographies, themes, and investments styles, the definition can vary significantly between funds. E, S, G, and the degree of EU Taxonomy alignment can have different weights but all factors should be covered. A strong ESG score can to some extent but not entirely compensate for a low taxonomy alignment, and vice versa. The degree of taxonomy alignment shall also be viewed in relation to taxonomy eligibility.

	Nordic Ecolabelling would expect that holdings must at least score in the better half (top 50% of the fund's investment universe after exclusions) to be described as “strong sustainability practice”. Therefore, holdings with "strong sustainability practices" will likely, at a minimum, be closer to the top 40-45% of an unrestricted global universe.
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/
UCITS	UCITS is an abbreviation for the mutual funds covered by the EU's Mutual Fund Directive (Council Directive 85/611/EEC December 20 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. 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.
Unconventional natural gas and oil	Fossil fuels that are extracted from unconventional resources, e.g., shale gas, shale oil, tar sand.