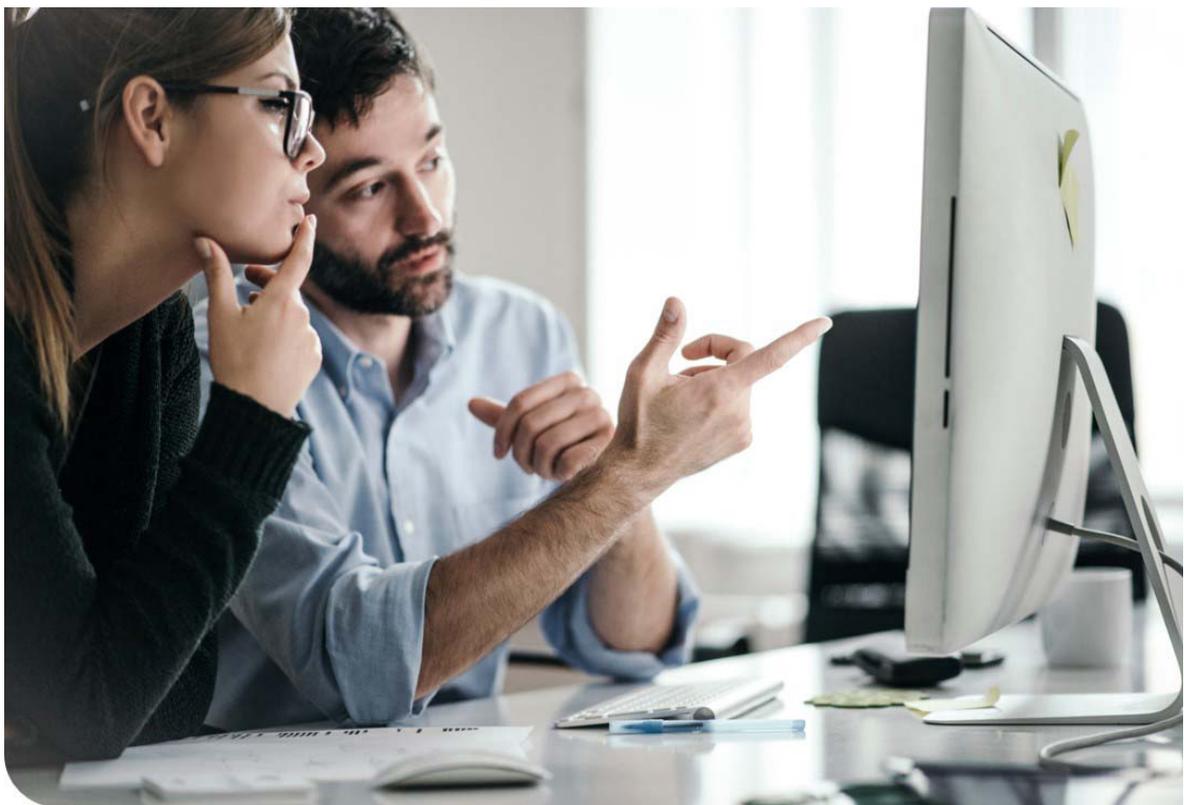


About Nordic Swan Ecolabelled
Investment Funds



Background document 1.0

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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 – Nordic Swan Ecolabelled Funds

Countries of the world have agreed on a common UN framework for sustainable development, the 2030 Agenda. Every nation is expected to work towards 17 Sustainable Development Goals (SDGs), and it is the responsibility of each government to ensure that the goals are achieved. The implementation of the Agenda will take place in cooperation with national and local authorities, organisations and associations, as well as academia and business.

All business sectors need to work systematically with environmental sustainability, and consumers require guidance to understand how their choices affect companies, products and services.

This also applies to the financial sector, which has a great responsibility – and a great opportunity – to contribute to the efforts to achieve a sustainable world through its impact on capital flows. Products offered by the sector include investment funds for private and institutional investors. At the same time, the fund manager assumes ownership responsibilities in respect of the holdings[†] of the fund.

The objective of Nordic Swan Ecolabelled investment funds is to support investors in the Nordic countries who, in addition to earning returns, want their invested capital to work towards the achievement of the 2030 Agenda for Sustainable Development. Furthermore, the Nordic Swan Ecolabel will give the fund manager a clear and simple means of communicating a fund's sustainability profile.

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

Investment funds differ from other products and services that can carry the Nordic Swan Ecolabel. Unlike many other manufactured products, the fund itself does not have any negative environmental effects. Rather, Nordic Ecolabelling's aim is to reduce an investor's investments in non-sustainable companies and increase investments in companies with good sustainability performance. In the long run, we believe that this will stimulate the business community towards more sustainable development.

The demand for more sustainable investment funds is high and the supply of such funds is constantly growing. However, investors are also calling for an independent assessment of the actual sustainability profile of the various funds in the market. The Nordic Swan Ecolabel can take on this important task and provide a credible, independent guarantee that the fund meets high sustainability criteria.

With the Nordic Swan Ecolabelling of funds, Nordic Ecolabelling also wishes to raise awareness of and improve commitment to environmental sustainability in the financial industry, and also to increase the influx of capital into funds with greater focus on sustainability. It is our belief that the Nordic Swan Ecolabel (when a certain volume of Nordic Swan Ecolabelled funds have been awarded a

licence) can indirectly have a positive impact on companies and their products and services.

The requirements for all products and services that can carry the Nordic Swan Ecolabel are high, but achievable.

2 The purpose of the criteria

A Nordic Swan Ecolabelled fund will be managed in such a way that it encourages companies to move in a more sustainable direction, and thereby contribute to the goals of the UN's Agenda 2030 and reduce the risk that the return to investors will come from activities defined as undesirable from a sustainability perspective.

Overall, the criteria will provide a regulatory framework for various types of funds, which may have different strategies to achieve the aforementioned purpose.

What Nordic Ecolabelling wishes to achieve with Nordic Swan Ecolabelled funds is to:

- Reduce Nordic investors' investments in non-sustainable companies;
- Increase investments in companies with good sustainability performance;
- Influence and encourage companies to show greater accountability concerning the UN's Agenda 2030 through active ownership;
and
- Increase visibility and engagement[†] in sustainability issues from the financial industry through transparency and dialogue with investors.

Disclaimer

A fund's objective is primarily to provide a financial return within a defined risk profile. The fund manager is obliged to always work for the investor's best interests in that respect. This also applies to Nordic Swan Ecolabelled funds. The criteria are formulated and put together in a way that does not limit the investment universe to such a degree that the risk increases to an unacceptable level. As a result, Nordic Swan Ecolabelled funds may comprise investment in companies that are not considered to be sustainable, and that make mistakes and need to be developed further. Our requirements therefore do not guarantee in any way that each and every holding in the fund is in a sustainable company. However, a fund that complies with the Nordic Ecolabelling requirements will meet an ambitious level of sustainable investments and will be able to steer companies in a more sustainable direction, contributing to the goals of the UN's Agenda 2030.

2.1 Relevance, potential, steerability and the sustainability impact

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 more environmentally-focused products and other products. 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. More information on RPS can be found in the Nordic Ecolabelling Prestudy on Sustainable Funds (2014), and can be requested by contacting Nordic Ecolabelling.

Exclusion

The exclusion requirements ensure that a Nordic Swan Ecolabelled fund does not have holdings[†] in certain industries and companies. The exclusion criteria will therefore reduce fund investors' indirect ownership of companies whose current business model is incompatible with long-term sustainable development, or whose activities violate basic human rights[†] and international conventions.

The requirements are intended to reduce the risk of the saver/investor obtaining a financial return from business activities that are unacceptable from a sustainability perspective. Moreover, we are making clear to the world which types of business activities Nordic Ecolabelling considers 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 this strategy, and this seems unlikely. The effect is more likely to be that of a signal value. Yet we believe that if Nordic savers/investors reduce their financial investments in unsustainable business, this could, in turn, facilitate policy decisions that might change the conditions for unsustainable business activities – and thereby alter the industry. More information about the exclusion criteria can be found in Chapter 8.2.

Inclusion

The inclusion requirements set out rules for how the fund will analyse actual and potential investments from a sustainability perspective.

The goal is to increase the focus on environmental, social and governance (ESG) opportunities and risks. Nordic Ecolabelling believes that the requirements will stimulate fund managers to increase their ESG analysis and exert more pressure on companies to invest in and communicate about their own sustainability efforts.

The criteria will result in a fund where the majority of holdings will represent sustainable business models. This will give better sustainability performance in the Nordic Swan Ecolabelled fund than in conventional funds. It is always positive for a company to be a desirable investment. Once they have reached a certain volume, Nordic Swan Ecolabelled funds will, ideally, provide an incentive for companies to improve their sustainability performance, so that they qualify for inclusion in a Nordic Swan Ecolabelled fund. This will create goodwill, both externally and internally.

Nordic Ecolabelling also wishes the requirements to stimulate capital flows to the businesses and industries that Nordic Ecolabelling wishes to further develop from a sustainability viewpoint.

Responsible ownership and transparency

The ownership requirements will stimulate the fund manager to exercise ownership rights aimed at improving the sustainability strategy and performance of the holdings. Saving and investing in a 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.

Nordic Ecolabelling's goal is for the fund investors to become aware of and involved in their indirect ownership of companies, and to understand how ownership activities may influence companies in the portfolio through fund manager transparency (reporting and justification) and in dialogue with the fund manager.

3 Basic facts about the criteria

The criteria for a Nordic Swan Ecolabelled fund are a combination of obligatory requirements that must be met at all times, as well as point-score requirements. Out of the total score of 16, a minimum of 6 must be achieved to fulfil the licence conditions. For bond funds, a minimum of 5 points must be achieved to fulfil the licence conditions. The aim of the point scores is to allow the different types of funds greater flexibility to fulfil the criteria.

As bond funds cannot collect all points, e.g. P5 Regular voting, a lower threshold for the minimum number of points has been set for bond funds.

Note: if a definition is required for a word or text in the requirement, the word/text is underlined and marked with a †, which refers to the Terms and definitions chapter.

3.1 Products that can be Nordic Swan Ecolabelled

Funds of all asset classes may carry the Nordic Swan Ecolabel, provided that they comply with the UCITS[†] Directive (85/611/EEC). Compliance with UCITS must be documented in requirement O1. The fund must be distributed in one or more of the Nordic countries, and no more than 50% of its assets may be held in non-corporate bonds, such as government bonds. The background to these limitations is presented in Chapter 9.1, Definition of the product group.

Index funds[†] can base part of their application for the Nordic Swan Ecolabel on an index for which all relevant exclusion and inclusion criteria are included and pre-evaluated by Nordic Ecolabelling.

3.2 Justification of the requirements

Nordic Ecolabelling's mission is to contribute to sustainable consumption and production. Funds that apply and fulfil all of the requirements will offer consumers a Nordic Swan Ecolabelled option. The requirements will also help fund managers to develop more sustainable products.

To achieve environmental gains, Nordic Ecolabelling must be able to set requirements that are relevant to environmental issues by using the Relevance–Potential–Steerability (RPS) tool. There must also be potential to differentiate between green funds and others, and to steer the environmental

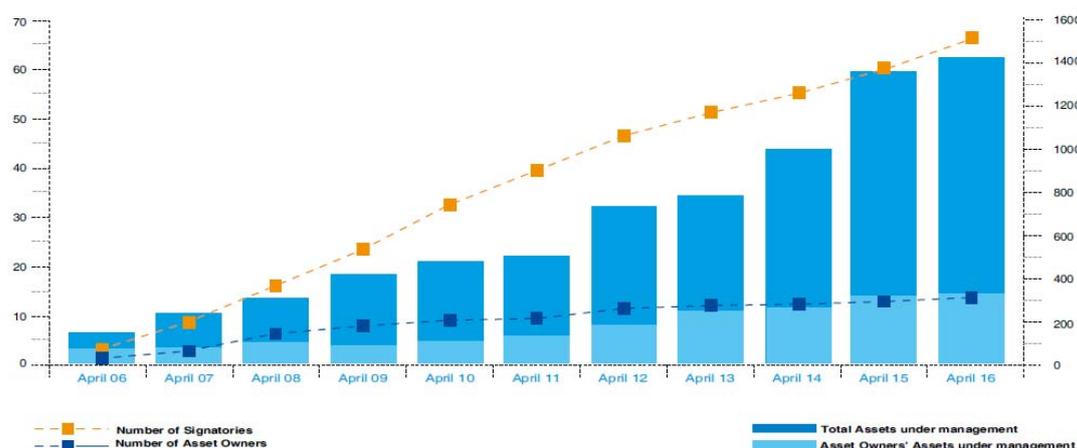
issue in question via ecolabelling requirements. An RPS screening was performed during the prestudy¹ and showed that the three parameters of relevance, potential and steerability were all met for the product group.

4 The Nordic market

Table 1 shows how the global market for responsible investment is growing rapidly.

Table 1. The global market for responsible investment (Source: unpri)

The PRI has grown consistently since it began in 2006:



An increase in both the number of environmental funds and their fund capital was noted² in the Nordic market back in 1999. Environmental funds were increasingly discussed and scrutinised in the media and other debate forums. Today, there are more than 6,000 UCITS[†] funds in the Nordic market³ while in Europe there are 1,874 funds, with a total AUM (Assets Under Management) of EUR 372.0 billion, with a responsible investment profile⁴.

The Nordic investment market was screened during Nordic Ecolabelling's prestudy of sustainable funds, in order to obtain information about the interest in ecolabelling. The findings showed that both fund managers and investors were interested in ecolabelling. More details about the market screening can be found in Nordic Ecolabelling's 2014 prestudy.

5 Other labels

At present, there are no official ecolabels for funds covering all the Nordic countries. In Europe, there are a few ecolabels at a national or European level. One of the oldest is the Austrian ecolabel for sustainable financial products⁵.

¹ Nordisk miljømærking (2014) Forstudie for svanemærking av aksjefond.

² <https://www.naturvardsverket.se/Documents/publikationer/620-6132-1.pdf?pid=2826>

³ Morningstar 2016-08-31.

⁴ http://www.alfi.lu/sites/alfi.lu/files/European-Responsible-Investing-Fund-Survey-2015_1.pdf

⁵ <https://www.umweltzeichen.at/cms/de/produkte/nachhaltige-finanzprodukte/content.html%20#>

More details about other labels in the market can be found in Nordic Ecolabelling's 2014 prestudy.

6 About the criteria development

All ecolabelling criteria are developed in compliance with the ISO14024 type 1 standards in an open process. The criteria development process has broadly involved stakeholders in the Nordic countries and the review is available for public comment.

As part one of the open process, in the spring of 2016 Nordic Ecolabelling initiated reference groups in all Nordic countries, except Iceland,. Banks, pension funds, large and small fund companies, academics, and consumer and environmental organisations were invited to be part of the reference group. Up to 80 different parties/organisations have been involved in the process. Open consultative meetings are scheduled for the hearing period.

During the criteria development process, Nordic Ecolabelling contacted the reference group members with questions on different aspects of sustainability and fund management. The response was good and it is evident that there is considerable interest in sustainable investment funds. The reference group feedback proved very useful in developing the draft criteria.

Besides the reference group work, the project managers held separate meetings with fund managers representing different types of funds/stakeholders, to ensure that no single opinion is too dominant.

The dialogues with professionals who have experience and knowledge of sustainable fund management were another key aspect of the project. This was particularly important for the development of these criteria, since Nordic Ecolabelling has little previous experience in the business area. To ensure the availability of good expertise in the project, Nordic Ecolabelling engaged the services of consultants from DNV GL.

Members of the project

| Name | Role in the project | Title | Country |
|----------------------|-----------------------|--|---------|
| Per Sandell | Project Manager | Business Developer | Sweden |
| Karin Bergbom | Product Adviser | Criteria Manager | Finland |
| Anne Karin Kvam | Consultant, DNV GL | Responsible Investment and Sustainability Specialist | Norway |
| Else Hovind Hendel | Consultant, DNV GL | Senior Consultant, Assessment Services | Norway |
| Thomas Christensen | National Contact | Product Manager | Denmark |
| Elisabeth Magnus | National Contact | Senior Environmental Expert | Norway |
| Karen Dahl Jensen | Steering Group member | Manager Product Development | Denmark |
| Jeppe Frydendal | Steering Group member | Certification Manager | Denmark |
| Anne-Grete Henriksen | Steering Group member | Marketing and Communications Manager | Norway |
| Ragnar Unge | Steering Group member | CEO, Ecolabelling Sweden | Sweden |

7 Environmental impact of the product group

The investment of money in companies or shares has an indirect effect on all sectors of the environment. It can have environmental impacts on, for example, climate change, emissions, resource depletion, waste, pollution and deforestation. More details about the environmental impact of investments can be found in Nordic Ecolabelling's 2014 prestudy.

8 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. In some cases, the scope remains vague. This is intentional, since very exact definitions could limit the use of existing Environmental, Social and Governance (ESG) rating systems.

8.1 Definition of the product group

A general definition of the product group is given in the chapter "What can carry the Nordic Swan Ecolabel".

As a general rule, a fund must be covered by the UCITS[†] (Undertakings for Collective Investments in Transferable Securities, 85/611/EEC) regulations. UCITS is a regulatory framework that creates a harmonised regime throughout Europe for the management and sale of mutual funds. UCITS funds can be registered in Europe and sold to investors worldwide using unified regulatory and investor protection requirements. UCITS fund providers who meet the standards are exempt from national regulation in individual European countries. Because they are seen as very safe and well-regulated, UCITS funds are very popular investments and account for about 75% of all collective investments by small investors in Europe. Limiting the criteria scope to UCITS sets a natural boundary to this regulatory framework.

The fund must be registered for distribution in at least one of the Nordic countries. This requirement is set because the Nordic Swan Ecolabel mainly operates in the Nordic countries. However, it does not limit holdings[†] from the global universe or the origin of the fund managers.

No more than 50% on average of the fund's assets over the course of the last 12 months must be based on non-corporate credits[†], such as government bonds. The reason for this limitation is that Nordic Ecolabelling has poor steerability to achieve environmental improvements by ecolabelling funds with main assets in government bonds.

O1 Description of the fund

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

- Investment universe.
- ESG investment strategy/objective.

- Document showing the fund's compliance with the UCITS[†] regulations.
- Signed application form.
- Fund fact sheet and/or other document showing details according to O1.

Description of the fund

The description of the fund must enable Nordic Ecolabelling to check whether the fund falls within the scope of the criteria and other general documentation. This requires confirmation of compliance with the UCITS Directive (85/611/EEC) and that the fund is distributed in one or more Nordic countries.

O2 Holdings

The fund manager must provide a list of the holdings[†] in the fund. The list will identify the type of securities (equity, corporate credit, non-corporate credit) and the securities identification number (ISIN[†]), and also include:

- The date when an ESG analysis was last performed for each holding.
- Information on how and by whom the analysis was performed: internally by the fund manager or by a reputable service provider.
- Information showing that no more than 50% of the total value of the portfolio is non-corporate credits[†].
- List of holdings as of the date of application, including the date when the ESG analysis was performed or last updated. The list must also include details of whether the analysis was performed internally or by a specific reputable service provider.

Nordic Ecolabelling may request an updated list of holdings at any time.
- Information showing the average proportion of non-corporate credits for the last 12 months.

Holdings

The list of holdings must be submitted so that Nordic Ecolabelling can verify compliance with the criteria. Nordic Ecolabelling is aware that this list will only give a snapshot view of the holdings at the time of application. The certification process and audit will check the fund manager's ability to ensure that future holdings are in compliance with the criteria, and annual reports will further confirm the fund's compliance with the criteria during the validity of the licence (see O21).

O3 Indirect holdings

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

Indirect holdings that do not fulfil the criteria may not exceed 5% of the fund's value on average over the course of the last 12 months from the application date. The requirement must be met as the annual running average during the validity of the licence.

Sector-based instruments or products that are mainly exposed to excluded sectors or companies (see O5 – O12) may not be part of the indirect holdings.

- Description of the fund's system to keep track of the proportion of indirect holdings.

- ☒ Description of the process to ensure that sector-based instruments or products that are mainly exposed to excluded sectors or companies (see O5 – O12) cannot be part of the indirect holdings.
- ☒ Information showing the average proportion of indirect holdings for the last 12 months.
- 🔗 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Indirect holdings

Direct investments are those for which the fund owns the particular assets itself, while indirect investments are investments made in other funds (fund-in-fund), equity index futures, etc., as opposed to direct holdings. Since the ecolabelling requirements for indirect holdings might be difficult to verify, one option would be to restrict these indirect holdings completely. This would cut out too much of the market, however, and was not supported by the reference group. Nordic Ecolabelling has therefore decided to limit indirect holdings that do not fulfil the obligatory requirements for exclusion and inclusion to 5%. Nordic Ecolabelling also limits indirect holdings that are sector-based instruments or products that are mainly exposed to excluded sectors or companies (see O5 – O12).

In reality, this means that indirect holdings can include uncontrolled investment by the ecolabelled fund. For example, an index fund that focuses on the US market will probably include holdings in oil companies. A point score (P4) is set, however, if all of the inclusion and exclusion criteria are met for all of the indirect holdings.

8.2 Exclusion criteria

The exclusion criteria are set to give the Nordic Swan Ecolabelled fund a clear environmental and social profile. The criteria cover central environmental issues such as fossil energy utilisation and climate change, and social responsibility issues such as anti-corruption and transparency. The requirements are chosen to have the greatest RPS and/or credibility among investors and consumers, and to give the Nordic Swan Ecolabelled fund a clear profile.

There may be variation in how the fund manages the exclusion of holdings[†]. In many cases, the fund will use ESG systems which allow the fund manager to identify holdings that are not allowed and exclude them from the portfolio. For an index fund, the index profile automatically excludes certain business areas. Some fund managers might choose to screen the profile of a holding themselves, for example by studying the company's annual reports.

Threshold

A revenue share that is permitted, despite the intention of the exclusion, is indicated for the exclusion criteria. In some cases, the limit is set at zero, e.g. serious or systematic human rights violations[†]. This will require the fund manager to perform a sound analysis of the holdings to ensure compliance with the requirement.

There is a 5% revenue limit for several of the requirements. Nordic Ecolabelling has assessed that a zero limit in these cases is very resource-intensive and

difficult to ensure on a daily basis. There is the risk that if a zero limit is set, an unreasonable amount of a fund's potential investment universe will be excluded.

On setting the threshold, Nordic Ecolabelling uses the same limit percentage value as the Swedish Ethical Committee for fund marketing⁶, which indicates that a fund may be marketed as "free from..." if the holding has less than 5% revenue in the excluded sector.

O4 New information on holdings

When a fund manager receives information that an obligatory exclusion requirement is not met, the fund manager must sell all of the holdings within three months after receiving the information.

If there is doubt regarding the non-conformity, or if the fund manager expects the issue to be resolved/rectified in the near future, the fund manager will not need to sell the holdings within three months. However, within three months after receiving the information, the fund manager must explain on their website how they assess the situation, what actions the fund manager will take in order to address the issue, what result the fund manager expects to achieve, and when they estimate that the issue will be resolved. If, after 24 months, the issue causing the possible non-conformity has not been successfully addressed and there is still an issue which implies non-conformity, the holdings must be sold.

If the fund receives information from two different sources, the source that shows the most extensive non-conformity should be used.

- Policy, procedures or similar showing that the fund manager will act in accordance with the requirement.

New information on holdings

Should changes occur in the fund during the validity of the Nordic Swan Ecolabel licence, this might lead to the exclusion requirements no longer being met. This information about non-conformities may differ, depending on the ESG rating systems. If the fund receives information from two different sources, the source that shows the most extensive non-conformity should be used.

If non-conformities are found, the fund manager has two options: either to sell the holdings within three months, or to publish a programme of corrective measures and the results which the fund manager expects. The fund manager must respond to the non-conformities within a strict time limit and the holdings must fulfil the ecolabelling criteria within 24 months.

The 24-month limit gives the fund manager time to shape the decision of the company by voting or other action. This might lead to some companies in the fund not fulfilling the criteria for a limited period of time. Nordic Ecolabelling believes that in some cases it is better to retain the possibility of shaping the company's decision as an owner, rather than to sell off the holdings.

See requirement O21 which explains how unplanned non-conformities must be handled.

⁶ Etiska Nämnden För Fondmarknadsföring VÄGLEDANDE UTTALANDE meddelat den 17 november 2015, i ärende 8/2015 angående marknadsföring av fonder som hållbara.

O5 Extracting and refining fossil fuels

The fund may not invest in companies which themselves or through entities they control[†] derive 5% or more of their revenue from extracting coal (all sorts, e.g. lignite or anthracite), natural gas, crude oil or uranium, and/or from refining coal, natural gas, crude oil or uranium for fuel.

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

- At least 75% of the company's energy sector investments on average for the last three consecutive years are in the renewable energy[†] sector.
 - Revenue from renewable energy comprises at least 50% of the company's total revenue. This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.
 - The company has less than 0.1% revenue from tar sand, shale oil or shale gas, or other fracking activities and/or mining of oil shale.
- ☒ Fund policy or guideline.
- ☒ Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.
- ☒ List of any holdings[†] that fulfil the aforementioned exemption criteria.
- 🔍 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Extracting and refining fossil fuels

This obligatory requirement restricts the fund's holdings in the extraction and refining of fossil fuels (fossil coal of any type, natural gas, oil and uranium). The reason for the requirement is the challenges posed by climate change and the excessive risks associated with nuclear power and the extraction (mining) of uranium. It is also important to restrict fossil fuel use from a consumer point of view. For example, it would not be convincing to Nordic Swan Ecolabel a fund without restrictions on fossil coal or oil, due to the focus on preventing climate change in today's society.

An exception of 5% for the main requirement is allowed in order to give more flexibility. This exception is in line with the Swedish fund marketing guidelines. To promote the transition towards renewable energy, an exemption has been set that allows companies with a large and growing share of renewable energy investment and production to be included. However, there is a 0.1% limit on investments in problematic energy sources, such as tar sand and shale oil.

O6 Generating power

The fund may not invest in energy companies which themselves or through entities they control[†] have 5% or more of their installed energy production capacity (GW), or derive 5% or more of their revenue from generating power, from fossil fuels such as coal (all types), natural gas, fossil oil and/or uranium.

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

- At least 75% of the company's energy sector investments on average for the last three consecutive years are in the renewable energy[†] sector.
 - Revenue[†] from renewable energy comprises at least 50% of the company's total revenue 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 less than 0.1% revenue from tar sand, shale oil or shale gas or other fracking activities and/or mining of oil shale.
- 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 provide information, and how this data is processed in order to comply with the requirement.
-  List of any holdings[†] that fulfil the aforementioned exemption criteria. Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Generating power

This requirement is complementary to O5 and is set to exclude companies that use fossil fuels (coal, oil, gas or uranium) to generate power. An exception has been set for power generation companies that are increasingly using renewable sources of energy. This has been set to stimulate a production shift towards renewable energy.

The criteria have a threshold value of 5% to allow flexibility (see Threshold above).

O7 Controversial weapons

The fund may not invest in companies which themselves or through entities that they control produce or sell nuclear, chemical, biological, cluster and/or land mine weapons or components solely intended for use in these weapons.

- Fund policy or guideline.
- Description of how the fund manager ensures access to data and information and how this data is processed in order to provide 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.

Controversial weapons

Investment in companies that produce or sell controversial weapons is not compatible with the sustainable development goals. The requirement includes weapons of mass destruction such as nuclear, chemical, biological, cluster and/or landmine weapons. No exceptions are allowed.

O8 Conventional weapons

The fund may not invest in companies which themselves or through entities they control[†] derive 5% or more of their revenue[†] from the production or sale of conventional weapons[†]. Sale of civilian arms/ammunition for hunting and competition do not need to be included when calculating the ratio of sales.

- 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.

Conventional weapons

The requirement aims to exclude conventional weapons and is based on the same background as O7 Controversial weapons (see Terms and definitions for more information on the scope of the requirement). Nordic Ecolabelling is aware that this does not automatically exclude companies exporting weapons to countries that abuse human rights[†] or are engaged in armed conflict.

A threshold of 5% is set because it is extremely difficult for a fund manager to guarantee a 0% threshold. This means that the Nordic Swan Ecolabelled fund may be invested in companies that to a marginal extent derive revenue from the production or sale of arms or war material. NB: Under O7, weapons of mass destruction are prohibited without exception.

Nordic Ecolabelling has made an exception that allows the sale of weapons and ammunition for the civilian market, meaning hunting and competition (shooting sports) purposes. Nordic Ecolabelling has made this exception because otherwise it might exclude retail stores selling these as part of their business (sports equipment stores, etc.), which is not the primary focus for these criteria. The production of weapons for the civilian market is still excluded, however, which means that companies which produce weapons or ammunition for hunting or competitions may not be part of a Nordic Swan Ecolabelled fund (with 5% exemption allowed).

O9 Tobacco

The fund may not invest in companies which themselves or through entities they control[†] derive 5% or more of their revenue[†] from the production of tobacco.

- 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.

Tobacco

The impact of tobacco on human health is well-known. Furthermore, the cultivation of tobacco plants may pose a threat to biodiversity due to land use changes and less sustainable methods of farming (excessive use of pesticides,

water and fertilizers). A threshold of 5% is set because it is extremely difficult for a fund manager to guarantee a 0% threshold. Exclusion of the sale of tobacco and tobacco products was also evaluated, but this was omitted because it could exclude the retail stores sector.

P1 GMO crops

The fund may not invest in companies which themselves or through entities they control[†] derive 5% or more of their revenue[†] from GMO crop[†] production: 1 point.

- 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.

GMO crops

Genetically-modified crops are plants used in agriculture. The DNA of GMO crops has been modified using genetic engineering techniques, for example to develop resistance to certain pests, diseases, environmental conditions, or chemical treatments (e.g. resistance to herbicides), reduce spoilage, or improve the nutrient profile of the crop. Although the risks associated with GMO crops are disputed, those often mentioned are the risks of crop-to-weed or crop-to-crop gene flow and development of resistance to herbicides. These risks are related to biodiversity loss, which is one of the main threats to the environment today, since biotypes with high biodiversity are generally more resistant. Based on the precautionary principle, Nordic Ecolabelling has chosen to exclude companies that either themselves or through entities they control derive 5% or more of their revenue from GMO crops. The requirement is set as a point requirement, because there is not enough knowledge of the possible documentation difficulties. It would be too stringent in this first criteria generation to set the requirement as obligatory.

O10 International norms and conventions

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

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

International norms and conventions

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

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

The fund must make a clear statement in its policy and/or guidelines concerning norms and conventions. Moreover, the fund must have a management system that describes how to deal with non-conformities (see O20).

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 or Sustainalytics. If the portfolio's universe is very limited, a fund manager can also perform this check. In many situations, it can be hard to assess and determine whether international norms have been violated. There may be a dispute concerning facts or circumstances, or the degree or materiality of the negative corporate action/behaviour can be difficult to judge. Hence, the final decision will often be based on a subjective assessment – a situation of which Nordic Ecolabelling is aware.

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

- The severity of the violation.
- Whether it has happened before or this is the first time this has happened with the company in question.
- Whether the company has taken active and relevant steps to change their practice and improve their conduct going forward?

Despite this vague definition, it has been evaluated that it is better to refer to unacceptable risk than to require legally binding proof of the incident. This is because it can in many cases take months or even years to get a court decision. In addition, in countries with extensive corruption, such incidents may never even end up in court.

O11 Government bonds – sanctions

The fund may not invest in government bonds issued by:

- Countries that are subject to EU or UN financial sanctions[†].
- Countries which have not ratified one or both of the following:
 - The UN Convention on Biological Diversity[†].
 - The Paris Agreement[†].

- Fund policy or guideline.
- Description of how the fund manager ensures access to data and information and how this data is processed in order to comply with the requirement.

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

Government bonds – sanctions

Countries that do not ratify international conventions/laws might lack sustainable society governance. These are countries named in the EU/UN financial sanctions list⁷ and/or countries that have not ratified central environmental conventions concerning biodiversity⁸ and climate change⁹. Any changes in the sanctions lists will be identified in the annual ESG analysis[†] update.

O12 Government bonds – anti-corruption

The fund may not invest in government bonds issued by countries which are ranked below the 70 best-ranked countries in the currently valid Transparency International's Corruption Perceptions Index[†].

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

Government bonds – anti-corruption

Points are given if the fund does not invest in countries that are ranked as having extensive corruption, since these countries might lack sustainable society governance. Extensive corruption is also linked to environmental problems, such as illegal trading of forest products. The corruption ranking refers to the Transparency International's Corruption Perceptions Index, which is commonly used by investors. Any changes in the sanctions lists will be identified in the annual ESG analysis[†] update.

8.3 Inclusion criteria

The inclusion criteria are set to ensure that most of the holdings[†] undergo an environmental, social and governance (ESG[†]) analysis and that fund managers use this information when making their investments. This chapter also includes criteria to promote green investments. The requirements are chosen for having the greatest RPS and/or credibility among investors and consumers and to give the Nordic Swan Ecolabelled fund a clear sustainable environmental and/or social profile.

O13 ESG analysis

At least 90% of direct holdings[†] in the portfolio, measured by number of issuers, have undergone ESG analysis[†] (see information about indirect holdings[†] in O3). The analysis can be conducted by an external party or internally.

⁷ http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm

⁸ <https://www.cbd.int/information/parties.shtml>

⁹ http://unfccc.int/paris_agreement/items/9444.php

External analysis must be conducted by a reputable service provider, with relevant coverage and sufficient analytical capacity. The service provider must update the ESG analysis at least once a year.

If the analysis is conducted internally:

- It must clearly demonstrate that relevant issues in all three categories – environmental, social and governance – are covered.
- For equities and corporate bonds, the analysis must include whether the investee company has a publicly available policy and strategy on corporate social responsibility (CSR), and publicly reports CSR performance.
- The internal analysis must be updated regularly, at least once a year.

Documentation if the fund manager has one or more external providers of ESG analysis

- ☒ Name of the external ESG service provider and a description of their compliance with the competence requirement and of the data they deliver. Nordic Ecolabelling may ask for further information to check whether the provider meets the above criteria.
- ☒ Description of how the fund manager controls that:
 - There is an ESG analysis for at least 90% of the holdings (measured in number of issuers).
 - There are documents showing the current % of direct holdings that have undergone ESG analysis.
 - The respective ESG analysis is updated at least every twelve months.
- 🔗 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

Documentation if the fund manager performs ESG analyses internally

- ☒ Description or template of the analysis document showing how the fund manager selects the relevant ESG criteria and conducts its ESG analysis in accordance with the requirements outlined.
- ☒ Description of how the fund manager controls that:
 - There is an ESG analysis for at least 90% of the holdings (measured in number of issuers).
 - Relevant environmental, social and governance issues are covered.
 - The respective ESG analysis is updated at least every twelve months.
- 🔗 Nordic Ecolabelling will perform random sample checks at the time of application and as part of the annual reporting.

ESG analysis

ESG analysis[†] is a central tool to promote the sustainability of holdings. The market pressure highlights ESG issues and the rating system is also a trigger for ESG improvements. At least 90% of the direct holdings in a Nordic Swan Ecolabelled fund must undergo an ESG analysis.

This requirement is not applicable to indirect holdings (if ESG covers these as well, it is awarded points).

The ESG analysis may be performed by a reputable independent third party such as MSCI, ISS-Ethix and Sustainalytics. The ESG analysis may also be conducted internally, provided that the ESG management system is documented and verified by Nordic Ecolabelling.

The threshold limit is set at 90%, because all not all direct holdings in the fund might be included in existing ESG rating systems, for example if they are small companies or start-ups.

P2 ESG analysis – point score

100% of the direct holdings[†] in the portfolio, measured by the number of issuers, have undergone ESG analysis[†] according to O14: 2 points.

See O14.

ESG analysis – point score

The obligatory requirement is subject to a point score if the ESG[†] coverage is 100% of the direct holdings.

O14 Inclusion of ESG

More than 50% of the fund, measured by the value of the fund, must be invested in holdings[†] with strong ESG practices[†] as identified in the ESG analysis (see O13).

The fund must have clearly defined criteria used for rating/assessment and must include holdings based on environmental, social and governance practices and performance.

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

Inclusion of ESG

After an ESG analysis has been conducted for a Nordic Swan Ecolabelled fund, the results must be used to select companies for the portfolio based on their ESG practices. Nordic Ecolabelling wishes to label funds whose holdings are mainly subject to strong ESG practices.

In some cases, greater effect is achieved by investing in companies that today are not ranked high for ESG screenings. For instance, when a business is in a transition period and its emission performance will improve its ESG rating in the future. Nordic Ecolabelling therefore allows the fund to have holdings that are not subject to strong ESG practices today if there is a clear ESG-related reason for including the holding in the portfolio.

The term “strong ESG practices” does not have any objective definition. It will be up to the individual fund manager to establish internal criteria within their ESG analysis tool to differentiate between holdings with ESG performance ranging from weak to strong. Nordic Ecolabelling would expect that holdings must at least score in the better half (top 50%) of the analysis in order to be described as being subject to “strong ESG practices”.

For enhanced-index funds[†], the positive selection of holdings is a challenge, but is achievable. If the fund follows an index which is structured in accordance with Nordic Ecolabelling’s exclusion and inclusion criteria, the index fund may be accepted under the Nordic Swan Ecolabel. It must be noted that the index must be pre-evaluated by Nordic Ecolabelling.

P3 Environmental focus

If the fund has a clearly defined objective and methodology for identifying, assessing and including holdings[†] that promote the transition to an environmentally sustainable future, points can be awarded.

Points are given if the weighted holdings in the fund (defined as the percentage of the fund’s investment in a company relative to the total investment of the fund) have at least 10% (1 point), 22% (2 points), 35% (3 points) or 50% (4 points) of their total revenue[†] in such business areas.

The weighting refers to a calculation that supports the business part of a company that promotes the transition to an environmentally sustainable future and the holding's proportional share of the fund.

Such holdings are defined as companies involved in the development, production and supply of products and services that deliver solutions to environmental challenges or deliver environmental technology, also sometimes referred to as clean technology, and which are active in at least one of the following business areas:

- Renewable & alternative energy (wind, solar, geothermal, hydropower, biomass/gas and biofuel generation, etc. Note that the following energy sources may not be included: palm oil, soya bean, sugarcane or GMO-based raw material).
- Energy efficiency (power network efficiency, industrial energy efficiency, building energy efficiency or transport efficiency).
- Water infrastructure in developing countries (potable water and sewerage infrastructure).
- Pollution control (products and services for air or soil pollution prevention, reduction and clean-up, environmental testing and monitoring, etc.).
- Waste/secondary resource management and technologies (waste collection, processing, recycling, reuse, energy recovery, hazardous waste management etc.).
- Environmental support services (consulting, planning and certification).
- Sustainable food, agriculture & forestry (production and distribution of organic food, and FSC- and/or PEFC-certified forestry). Note: the following forest products may not be included: tropical timber or intact forest landscape[†] (IFL).

- Products and services that are third-party ecolabelled (Note: ecolabels must function in accordance with ISO 14024 of Type 1).
 - Green bonds[†] (Note: the bonds must follow the Green Bond Principles or the Climate Bond Standard must be issued for investments named in this requirement, and be third-party verified).
 - Other business areas after approval from Nordic Ecolabelling.
- ☒ Description of the fund's objective and methodology for identifying, assessing and including holdings that fulfil the aforementioned specifications.
- ☒ Calculation showing the percentage of the fund that promotes a transition to an sustainable future. The calculation must be performed in the calculation sheet from Nordic Ecolabelling according to the instructions provided therein.
- ☒ The source of the information regarding the percentage of each holding in the calculation (included in the calculation sheet).
- ☒ Brief description how the holding promotes the transition to a sustainable future (included in the calculation sheet).
- 🔍 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

Environmental focus

This point-score requirement aims to stimulate investments that promote the transition to an environmentally sustainable future. Nordic Ecolabelling does not give a specific definition of what a business that “promotes an environmentally sustainable future” is, as no such commonly accepted definition exists. However, examples that can give guidance to the fund are stated in the requirement.

The aim is to stimulate business with products and services that have a positive environmental impact. Nordic Ecolabelling is aware that there are no direct links between the investment undertaken by individual investors in a fund and the company, and that the possible positive environmental impact can be questioned. Nordic Ecolabelling nonetheless still has this point requirement because we believe that, in the long run, there is an environmental impact.

The calculation for this requirement is set up so that both the revenue share of a holding that promotes a more environmentally sustainable future and the holding's share in the fund are included. (More information can be found in the calculation sheet.) The requirement is set up to also include holdings that only have part of their revenue from business that promotes a more environmentally sustainable future.

P4 Inclusion/exclusion criteria for indirect holdings (*maximum 2 points*)

All obligatory inclusion or exclusion criteria are met for all indirect holdings[†]: 1 point.

All obligatory inclusion and exclusion criteria are met for all indirect holdings: 2 points.

The fund has an average of less than 0.5% indirect holdings (as calculated in O3): 2 points.

- 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.

Inclusion/exclusion criteria for indirect holdings

The obligatory criteria for inclusion and exclusion do not apply to indirect holdings below 5%. Therefore the fund is rewarded with points if all obligatory inclusion and/or exclusion requirements are met for indirect holdings.

If the fund has no indirect holdings, it is also rewarded with points. This is set to balance the point scores for holdings with or without indirect holdings (a fund without indirect holdings would otherwise not be able to gain points from this requirement). For more information about indirect holdings, see the background to O3.

8.4 Active ownership

P5 Regular voting (*maximum 2 points*)

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

The fund manager:

- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 10% of the holding (AUM or number of holdings[†]) in accordance with its voting policy/public statement: 1 point.
- Identifies ESG-related issues and regularly votes at AGMs/EGMs for at least 50% of the holding (AUM or number of holdings) in accordance with its voting policy/public statement: 2 points.

The fund manager has a past track record, and a future strategy, of regularly putting forward shareholder proposals (at least 3 proposals over a 5-year period) related to ESG issues: 1 point.

- Voting policy or statement.
- Voting records showing the extent of voting as a percentage (based on AUM or the number of holdings) where the fund held voting rights.
- Document outlining the shareholder proposal strategy and documentation of previous proposals.

Regular voting

The 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 for owners to participate actively in exercising ownership and influencing corporate governance. Voting must take place regularly, and at least

once a year, for example at the annual general meeting. Voting must be in line with a policy or statement that promotes ESG issues.

Some investors also put forward their own shareholder proposals at AGMs. The proposals often concern ESG issues, and are proposed by investors that have made a significant effort to address their concerns to the company and their peer investors. Even if the shareholder proposals do not gain sufficient votes at the AGM to be adopted, they can be a useful tool to encourage further dialogue and action by the company on various ESG issues.

P6 Engagement and company dialogue

The fund manager:

- Regularly engages with at least 10% of its holding companies (in number or AUM) in order to address ESG[†] issues, concerns or performance;
- or
- The fund manager regularly engages at a comprehensive level with at least 5% of its holding companies (in number or AUM) in order to address ESG issues, concerns or performance.

If there are holdings in the portfolio as described in the second paragraph of O4 (doubts regarding non-conformities), these holdings must be included in the fund manager's company engagements[†]: 1 point.

If the above is fulfilled, a maximum of one additional point (1 point) can be earned if the fund manager can demonstrate that the engagement process includes:

- A clear and systematic method for selecting candidates and topics/themes for engagement.
 - Clear and specific ESG-related goals for the engagement, including the planned timeframe.
 - A description of resources and tools for conducting the engagement.
 - A description of how the engagement and company dialogue reflect the UN's Agenda 2030 goals.
 - Regular assessment of the achievement of goals.
- For the first section, a document confirming the extent and description of the engagement (engagement vs comprehensive engagement[†]), including a high-level description of relevant ESG issues, concerns or performance.
- For the second section, a document describing the engagement process, including: a method for selecting the engagement candidate, themes/issues, goal setting, resources and goal achievement in accordance with criteria b) above.

Engagement and company dialogue

The basic premise of all engagement is to be a better-informed owner and thereby to achieve 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. Engagement can also be take place proactively before something happens, in

order to exert influence to develop management processes for future challenges such as climate change.

The purpose of this requirement is to stimulate both types of engagement, so that the fund manager meets the companies in the portfolio at regular intervals. During these meetings, there will be a good opportunity to a) collect more information about the company's ESG work; and/or b) influence the company concerning ESG issues. The reference to the UN's Agenda 2030 goals is set in order to strengthen the themes for engagement and company dialogue, so that they are in line with the commonly accepted sustainability goals. The requirement allows a broad approach to be taken towards the goals, which is necessary due to the various portfolio structures.

8.5 Reporting and transparency

The requirements concerning reporting and transparency are central to ensuring the credibility of sustainable investments. The requirements in this chapter aim to influence the fund company towards increased transparency in its fund management.

O15 Fund sustainability report

The fund will regularly, and at least annually, issue a brief report describing the ESG[†] activities and performance of the fund. The report will be appropriate for its primary target group of investors.

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

The first report must be produced within a year after achieving the Nordic Swan Ecolabel. The report will cover the relevant reporting period and contain information relating to the holdings[†] in the Nordic Swan Ecolabelled fund, including:

- A brief description of the main ESG-motivated activities conducted by the fund during the reporting period, including, as a minimum (if no activities are conducted please comment or explain):
 - An overview of holdings excluded in the period (also identifying the reason);
 - A summary of engagements[†] and dialogue with holding companies, if any (no need to identify company names of holdings, but should outline the number of engagements and identify topics and issues discussed); and
 - The extent of voting (number and percentage of AGM/EGMs at which the fund manager voted in the relevant period). (Not applicable to bond funds.)
- A general description of relevant and/or material sustainability trends and developments for the fund's holdings in the short or long term.

The report can be presented in a fund company report for the fund, but it must be described how the aforementioned aspects are achieved by the Nordic Ecolabel fund.

- A brief description of how and what it is intended to report (if possible, include a reporting template or example).

- Link to the website where the report or the planned report will be published.
- Will be controlled by Nordic Ecolabelling at the annual compliance check.

Fund sustainability report.

The requirement is set so that investors can receive annual information about ESG practices and sustainability-related activities in a Nordic Swan Ecolabelled fund.

Nordic Ecolabelling has concluded that a high degree of transparency and information is valuable to the investor, even though most relevant activities are carried out by the fund company. Nordic Ecolabelling has chosen to outline the requirement in a way that does not require the fund company to disclose detailed information about the companies subject to engagement, such as the name of the company and the topics discussed.

Nordic Ecolabelling has noted that an individual fund may be subject to fewer engagements, even if the fund company is very active on aggregate. This can be due to the fact that the fund company evaluates several aspects before carrying out engagements: the probability of success, the relevance of the engagement, and so on. Another reason might be that a sustainable fund perhaps less frequently has holdings subject to engagement. It is also worth mentioning that the number of ownership activities for a specific fund may vary significantly from year to year.

As it is often valuable to provide fund-specific information in a broader context, the fund company can meet the requirement by adding information to its ordinary reporting about how the general ESG activities of the fund company have been carried out in the Nordic Swan Ecolabelled fund.

P7 Additional reporting (maximum 2 points)

The fund sustainability report (ref O15) includes the following:

- a) Brief reporting with regard to company engagements[†], including the name of the company, topic for engagement and a description of the status of the engagement: 1 point.
 - b) Voting records showing company-specific voting: 1 point.
 - c) The sustainability impact of the fund in absolute terms in at least one area, e.g. CO₂ reduced (compared with benchmark), renewable GWh produced, clean water provided, km² of land sustainably managed, etc.: 1 point.
 - d) The fund holding list (ref O16) must identify the 10 largest holdings[†], and include a link to the holdings' websites, as well as a brief description of ESG[†] risks and opportunities, and the sustainability impact of the holdings: 1 point.
- A brief description of how and what the fund intends to report on the company's engagements (if possible, include a reporting template).
 - A brief description of how the fund plans to disclose voting records.

- A brief description of how the fund plans to report the sustainability impact.
- Link to the website where the report or the planned report will be published.

Additional reporting

Nordic Ecolabelling considers reporting that extends beyond requirement O15 to be justifiable, as additional information is a preferable option in most cases. The requirement is thus set to stimulate further reporting, and points are given according to the following:

- a) Although there are different opinions about the pros and cons of disclosing the names of specific companies subject to engagement, Nordic Ecolabelling prefers and rewards a high degree of transparency.
- b) The voting records of the fund company can be seen as an extension of the investor's actions, as the fund company represents the interests of the investor. Therefore, Nordic Ecolabelling has chosen to reward this with a point.
- c) Nordic Ecolabelling is convinced that there is a positive sustainability impact to be gained from sustainable investment. Having said that, the magnitude and sufficiency of this impact is unclear. Nordic Ecolabelling has therefore set a points requirement to stimulate reporting in absolute terms.
- d) Clear guidance about the sustainability aspects of the largest holdings of the fund is also rewarded. This provides investors with further information about where their money is invested and what the main sustainability topics are.

P8 Third-party verification of sustainability reports

The fund's sustainability report has been assessed and verified by an external, independent organisation: 1 point.

- Report and/or third-party verified report/assessment. The report can be made by an external organisation.

Third-party verification of sustainability reports

All reporting is considered to be more reliable if it is verified by a third party. This is why Nordic Ecolabelling rewards this with a points requirement. Points cannot be scored if the sustainability report is written at a fund company level, i.e. the report should be produced specifically for the Nordic Swan Ecolabelled fund.

O16 Reporting the fund's holdings

The fund manager must report on all holdings[†] in the Nordic Swan Ecolabelled fund, both the direct and the indirect holdings[†], on the fund's website at least once every quarter.

- Link to website.
-  Will be controlled by Nordic Ecolabelling at the annual compliance check.

Reporting the fund's holdings

To ensure transparency, the fund manager will report on all holdings (both direct and indirect holdings) on the fund's website. This information will be updated at least quarterly.

8.6 Quality and regulations

O17 Management system

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

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

- Description of resources, capacity and competence to show that the fund can comply with the Nordic Ecolabelling requirements during the period of validity of the licence.
- Copy of relevant documents from the management system.
- Signed appendix 1.

O18 Responsible person and organisation

The fund manager will appoint individuals who are responsible for:

- Ensuring the fulfilment of the Nordic Ecolabelling requirements and acting as the primary contact person for the licence;
 - Marketing of the fund; and responsible
 - For financial reporting (required for licence fee calculation) to Nordic Ecolabelling.
- Organisation chart and a description showing who is responsible for the above, including name, title, e-mail address, direct phone and other relevant contact information.

O19 Planned changes

Written notice must be given to Nordic Ecolabelling of planned changes in the fund product or how the fund is marketed that have a bearing on the Nordic Ecolabelling requirements.

- Procedures showing how Nordic Ecolabelling will be informed of planned changes as described in this requirement.

O20 Non-conformities

There must be a system for handling non-conformities or events that impact the fund profile and/or the companies in the fund and which may lead to the Nordic Ecolabelling requirements no longer being fulfilled.

The system must include:

- How to deal with non-conformities or events as described above.
- Reporting of major non-conformities to Nordic Ecolabelling.

- Procedures detailing how unplanned non-conformities are handled.

O21 Annual compliance check

The fund manager must perform an internal audit to ensure that the fund fulfils all relevant Nordic Ecolabelling criteria every twelve months. The result will be sent to Nordic Ecolabelling by no later than 31 March each year. The fund sustainability report in requirement O15 will also be sent to Nordic Ecolabelling.

The audit can be performed by an external organisation.

- Annual internal audit report.
- ESG[†] report (as described in O15).

O22 Legislation and regulations

The licensee must ensure their own compliance with all applicable local laws and provisions relevant for the Nordic Swan Ecolabelled fund, e.g. with regard to financial regulations and working environment.

- Signed application form.

O23 Information about the Nordic Swan Ecolabel

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

- Appendix 1.

O24 Customer information when a fund is no longer Nordic Swan Ecolabelled

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

- Signed application form.

The requirements in this chapter are common to all Nordic Ecolabelling criteria and aim to ensure that the requirements are met, provided that the fund is Nordic Swan Ecolabelled. The chapter covers the obligatory requirements O17–O24. NB: O23 states that there must be a reference to Nordic Ecolabelling's website where additional information about Nordic Swan Ecolabelled funds can be found, e.g. what it means that a fund is ecolabelled and a description of the sustainability benefits and any weaknesses in the labelling system.

8.7 Points

O25 Number of points

The fund must achieve a minimum of 6 points.

Bond funds must achieve a minimum of 5 points.

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

- Appendix 1.

- ⌘ Will be controlled by Nordic Ecolabelling at the annual compliance check. See also O21.

There are 8 point requirements in the criteria. A minimum of 6 points must be scored (out of a possible total of 16 points) to be awarded the Nordic Swan Ecolabel. The introduction of point scores will give different types of funds greater flexibility in achieving the Nordic Swan Ecolabel.

As bond funds cannot collect all points, e.g. P5 Regular voting, a lower threshold for the minimum number of points has been set for bond funds.

9 Areas without requirements

These criteria comprise requirements regarding commonly used sustainability strategies. In the criteria development process, we have aimed to find a balance between requirements that are tough, but not too tough to function in the investment market. Setting criteria that are too stringent would probably 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.

Below are some areas that have been considered, but where we have evaluated that at this point the requirements could possibly make the criteria too tough.

- No criteria are set concerning the fund company besides the management of the ecolabelled fund, for example the sustainability issues with the company's other non-ecolabelled funds, or how the fund company works with environmental issues at their offices. At this point we find it important to focus on the main ecolabelled product.
- No obligatory criteria are set to require that the environmental benefits of the fund's holdings[†] must be calculated and/or simulated. To date, there are no common standardised methods to use. The development of methods will, however, be carefully monitored in future evaluations and revisions of the criteria.
- More stringent requirements concerning exclusions, e.g. even marginal sales (below the current 5 % revenue threshold) of conventional weapons[†] to controversial countries, mining, and the production of alcohol will be considered in the future.
- Requirements concerning ESG[†] methods could be more specific, but we wish to allow flexibility in the developing field of ESG investments.

10 New criteria

This is the first version of the criteria for investment funds.

The development of sustainable funds is growing quickly, with ever-increasing focus on better data quality and greater transparency. Awareness of environmental and social issues is also increasing. Nordic Ecolabelling will therefore revise the criteria within a defined period of time.

In the future, the revision of these criteria will be updated on the basis of experience gained from this version and general developments in the business area.

Terms and definitions

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| Comprehensive engagement | <p>Engagements that involve multiple, substantive and detailed discussions or interactions with a company (e.g. letters, meetings and calls) relating to a particular ESG issue. (For a definition of Engagement, see below.)</p> <p>This definition follows the same definition as outlined in PRI's 2017 reporting framework.</p> |
| Conventional weapons | <p>Small arms and light weapons, as well as (non-weapons of mass destruction) bombs, shells, rockets and missiles.</p> |
| Direct holdings | <p>See also the definition of Holdings. Direct holdings are investments in individual and identifiable shares and bonds, as opposed to indirect holdings (see the definition below).</p> |
| Engagement | <p>Engagement refers to interaction between the investor and current or potential investees (which may be companies, governments or municipalities, etc.) on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.</p> <p>This definition follows the same definition as outlined in PRI's 2017 reporting framework.</p> |
| Entities they control | <p>The control over an entity through ownership of shares (>50%) or, according to the legal definitions in the market in which it operates, by being in a position to exercise control of the entity (for example to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity).</p> |
| ESG | <p>Environmental, social and governance. ESG is a generic term used in capital markets and is commonly used by investors to identify, analyse and evaluate issues and/or corporate behaviour. ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing the company's carbon footprint and ensuring that there are systems in place to ensure accountability.</p> |
| ESG analysis | <p>An analysis of ESG-relevant issues.</p> |
| ETF | <p>An exchange-traded fund (ETF) is an investment fund traded on stock exchanges, much like shares. An ETF holds assets such as equities, 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 an equity index or bond index. ETFs may be attractive as investments because of their low costs, tax efficiency, and equity-like features. By 2013, ETFs were the most popular type of exchange-traded product.</p> |
| EU or UN financial sanctions | <p>http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm</p> |
| Fund-of-fund | <p>An investment strategy in which a fund invests in other types of funds (including ETFs).</p> |
| GMO crops | <p>Genetically-modified crops are plants used in agriculture. The DNA of GMO crops has been modified using genetic engineering techniques, e.g. to achieve resistance to certain pests or diseases.</p> |
| Green bonds | <p>Fixed-income financial instruments of which the proceeds will be exclusively applied towards new and existing Green Projects – defined here as projects and activities that promote climate change or other environmental sustainability purposes.</p> |
| Gross corruption | <p>Gross corruption exists if a company through its representatives:</p> <ul style="list-style-type: none">a) Gives or offers an advantage – or attempts to do so – so as to unduly influence<ul style="list-style-type: none">i) a public servant in the execution of public duties or in decisions which may bring the company an advantage; orii) a person in the private sector who takes decisions or has influence on decisions which may bring the company an advantage.b) Demands or receives bribes <p>and</p> <ul style="list-style-type: none">c) The corrupt acts mentioned in a) and b) are carried out in a systematic or comprehensive manner. |
| Holdings | <p>Holdings are the contents of an investment portfolio. Portfolio holdings may encompass a wide range of investment products, from equities, bonds and mutual funds to options, futures and exchange-traded funds (ETFs), and relatively esoteric instruments</p> |

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| | 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 products such as other funds (fund of funds), equity index futures, investment companies (see the definition below), etc. as opposed to direct holdings. (See also the definitions 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 preset rules so that the fund can track a 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 minimisation, large block trading, or patient/flexible trading strategies that allow for greater tracking error, but lower market impact costs. Index funds may also have rules that screen for social and sustainable criteria. |
| Intact forest landscape (IFL) | http://www.intactforests.org/ |
| Investment company | A corporation or trust engaged in the business of investing the pooled capital of investors in financial securities. |
| Investment universe | A fund will define its investment universe describing where it can invest its holdings. This can be defined by geography, sector or a combination of both. |
| ISIN | International Securities Identification Number. |
| Non-Corporate Credit | Non-Corporate Credit is a catch-all term used to include types of bonds that are forms of credit, but are not issued by private corporations – and therefore cannot be considered to be corporate debt. Non-Corporate Credit generally includes sovereign debt, regional governments and government agencies in a currency other than that of the issuer, and bonds issued by supranational entities. |
| 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 fuels). |
| Revenue | The income that a business has from its normal business activities, usually from the sale of goods and services to customers. |
| 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; or 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; or – it is probable that the company's unacceptable practice will continue. |
| Strong ESG practices | The term "strong ESG practices" does not have any objective definition. It will be up to the individual fund manager to establish internal criteria within their ESG analysis tool to differentiate between holdings with ESG performance ranging from weak to strong. Nordic Ecolabelling would expect that holdings must at least score in the better half (top 50%) in the analysis in order to be described as "strong ESG practices". |
| The Paris Agreement | http://unfccc.int/paris_agreement/items/9444.php |

The UN Convention on Biological Diversity

<https://www.cbd.int/information/parties.shtml>

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 of 20 December 1985). UCITS stands for "Undertakings for Collective Investments In Transferable Securities". UCITS is a concept that accepts collective investments from shareholders that will, in the Fund's name, be 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 are allowed to market in other EEA countries. The UCITS Directive has thus contributed to achieving a free internal market for the issue of mutual fund shares.

The purpose of the Directive was to strengthen competition within the EU and at the same time to protect investors. Today, the regulations contain 120 articles governing everything from investor protection to the funds' placements and a fund's Board and management. The EU's rules on mutual funds were modified by the UCITS V-directive and efforts have been made to introduce this in local legislation in 2015 and 2016. The Directive includes rules for securities account management, tax arrangements in fund management companies, and sanctions.