
# SFDR, new milestone on the road to transforming the financial industry

Improving the transparency of financial institutions on environmental and social issues is a strongpoint of the European Commission's action plan on sustainable finance. The cornerstone of this enhanced transparency, the Sustainable Finance Disclosure Regulation (SFDR) which entered into force in March 2021 for its initial phase.

This regulation is complementary to the taxonomy regulation, which introduces an obligation for companies and financial players to report on the green portion of their activities, in other words on their 'positive' contribution. For its part, the disclosure regulation imposes an obligation to report on risk management. It is important to underscore that in this regulation the European Union has implemented its so-called 'double materiality' approach. It not only takes into account sustainability risks on the value of investments but also requires that financial actors be more transparent about the impact of their investments on sustainability.

## SFDR: what implications for asset management companies?

The regulation stipulates reporting obligations for market participants, with enhanced obligations for entities with more than 500 employees, their products, and financial advisers. Expectations as to communications are differentiated according to the importance of sustainability criteria in investment processes and promotional communications. The regulation defines transparency obligations for all products, with additional obligations for products with an ESG dimension[1].

There are 3 categories:

→ So-called "Article 6" products do not include a sustainability objective.

→ So-called "Article 8" products, which promote, among their other qualities, environmental or social characteristics, or a combination thereof. This definition is deliberately very broad, in order to compel all actors who communicate to any degree on an ESG dimension to associate some level of transparency with such communications.

→ "Article 9" products, namely those whose purpose is sustainable investment, i.e. investment in economic activities that contribute to an environmental or social objective.

To date, clarifications are still awaited on the precise definition of the borderline between Article 8 and Article 9 products. Indeed, the text limits itself to listing certain characteristics, without naming specific products or offering precise specifications. Each company had to make its choice based on its understanding of the text, and it is possible that corrections will be made in the coming months.

[1] Environmental, Social and Governance

The main objective of this regulation is to go beyond the voluntary communications of asset management companies and to propose a harmonised presentation framework and more transparency on actual intentions and actions. The guiding principle is that, where a fund has environmental and/or social characteristics or objectives, whether Article 8 or Article 9, it must report in a transparent manner on indicators that demonstrate compliance with these ambitions. Even products with no ESG characteristics, must report on how they address sustainability risks. The regulation further provides for elements to gauge the degree to which the compensation policies of financial services companies are consistent with these arrangements.

## Mirova's position: all-in article 9

Mirova is an asset management company dedicated to sustainable investment. Since our creation in 2014, we have sought to demonstrate that it is possible to reconcile the search for financial performance with environmental and social impact, across all asset classes. We are fully convinced that investment is a key element in the transformation of the economy towards a sustainable model, but that in order to contribute effectively to this transition, finance must be able to detach itself from its traditional benchmarks and set itself new benchmarks and new objectives. We see this Copernican revolution not only as necessary for our economy and our society, but also as beneficial for investors in the long term. Seeking to support sustainable economic solutions also means putting ourselves in a position to benefit from their development and appreciation.

In order to formalise and raise greater awareness of this commitment, not only at the level of our products and with regard to our investors, but also at the level of our company and with regard to all our stakeholders, we have chosen to transform our organisation. In December 2020, we announced that we had adopted the status of a mission-driven company and obtained the B-Corp label. We have given ourselves a raison d'être, written into our articles of association. We have also set targets, and established governance to drive progress towards these targets. We have thus adopted a recently-developed legal status whose long-term effects are unknown. In a way, we believe that this is also our role, as a pure player, entirely dedicated to sustainable investment: to act as pathfinders, to lead other players towards new models.

We have always placed the search for impact at the heart of our objectives. This search for impact is applied across all our asset classes through the ex-ante integration of sustainable development issues into the investment objectives of all our funds, and the systematic ex-post measurement of environmental and social impacts.

Accordingly, it was natural for us, in light of our understanding of the SFDR text, to categorise all of our funds as "Article 9". We took this position officially on 10 March. With a certain amount of caution, given the fact that the texts are still very open to interpretation, but with the conviction that this was, for us, a position in line with our raison d'être and the one we wished to adopt. If the regulations are clarified or change, we will consider the implications for our funds. But we will continue to position ourselves on the side of impact investing in line with our definition of this term which we published in December 2020: an approach that combines intentionality, additionality and measurability.

A few weeks later, when the first analyses appeared, we were the only asset management company in Europe to make this initial choice for all of our portfolios. Among the asset management companies that have declared their positions, approximately 20% of the funds are invested in Article 8 and 9, and less than 4% in Article 9[2]. One can of course hope that many players preferred to adopt a cautious approach while waiting for clarifications on SFDR and that these figures may change in the coming months. However, these figures do have the advantage of tempering the passionate claims in communication that has surrounded so-called "sustainable" or "ESG" products of newly converted asset management companies, and provide a very factual and uniform answer to the question: "do your products have sustainable investing as their objective?"

## SFDR: beyond transparency

Beyond a desire for transparency, this regulation has allowed the definition of articles 8 and 9. It seems to have met a market need to distinguish investment products according to their level of ambition in terms of sustainability. Even if their direct use in other EU texts remains uncertain at this stage (those that could influence, for example, the distribution of products to retail investors), financial market players seem to be fond of these distinctions, which we believe are essential to ensure that investors' expectations are met.

[2] Source : Morningstar

Through its transparency approach, SFDR contributes to a de facto response to the issue of product standardization, even if this was not the initial intention of the regulator.

## About Mirova

Mirova is an asset-management company dedicated to sustainable investment and an affiliate of Natixis Investment Managers. Thanks to its conviction-led management style, Mirova's objective is to combine a quest for long-term value creation with sustainable development. Pioneers in many areas of sustainable finance, Mirova's talents are committed to innovation in order to provide their clients with high environmental and social impact solutions. Mirova and its affiliates manage €19.6 billion as of 31 December 2020. Mirova has been awarded the B Corp[1] label and the status of "Entreprise à Mission" (mission led company).

[1] References to a ranking, award or label do not prejudge the future performance of the fund/fund or the manager.

Since 2006, the B Corp movement has been promoting strong values of change throughout the world to make businesses "a force for good" and to distinguish those which reconcile profit (for profit) and collective interest (for purpose). B Corp's goal is to certify companies that integrate social, societal and environmental objectives into their business model and operations. More details here.

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