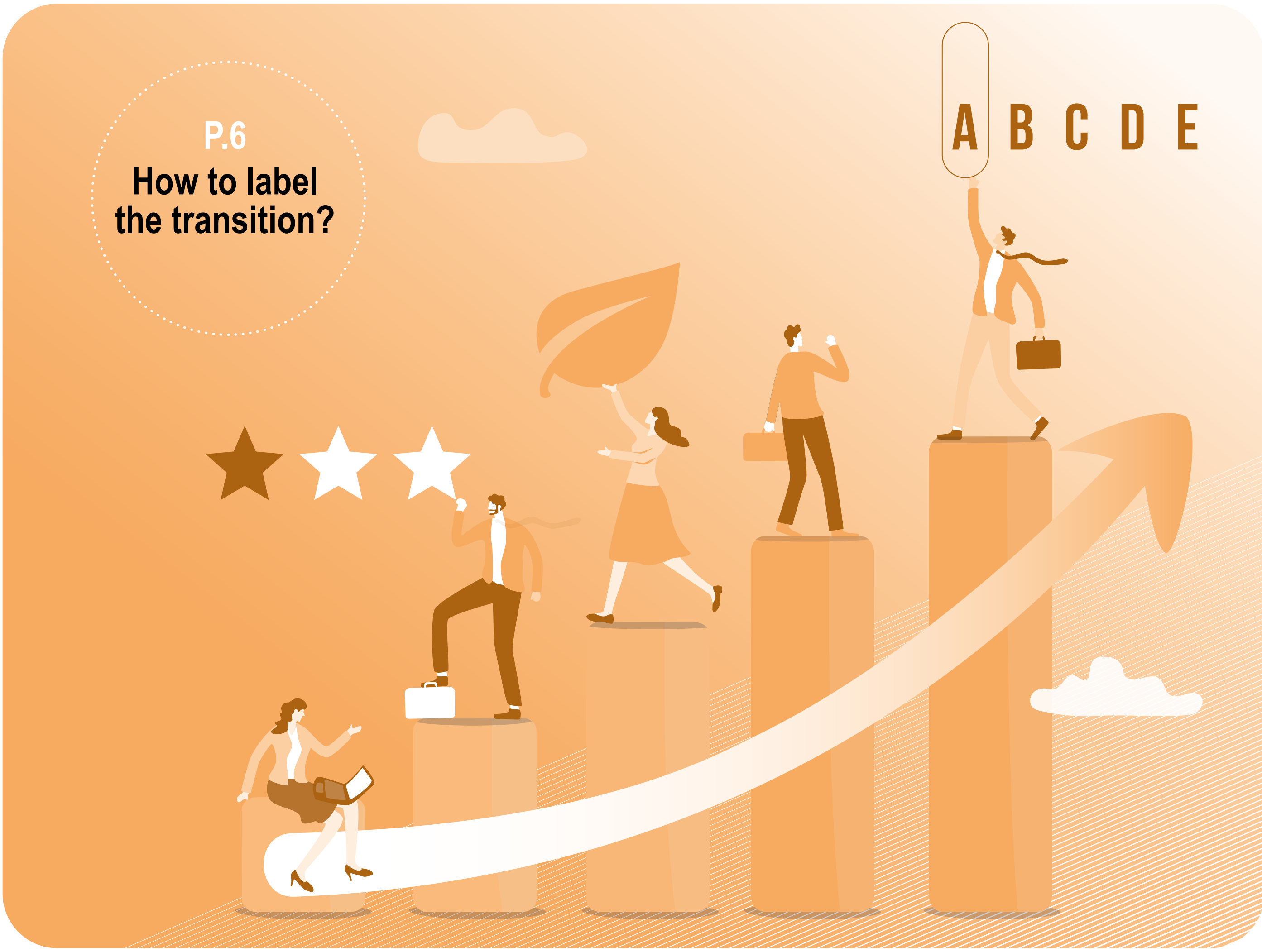
SUSTAINABLE FINANCE

Overview of European sustainable finance labels

RECALIBRATION OR IDENTITY CRISIS?



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INTRODUCTION

The European Commission has paused the criteria development process for the European Ecolabel for Retail Financial Products – probably for good. With no timeline to revisit the project, national sustainable finance labels can seemingly continue to gain traction. Since 2021, they must cohabitate with the Sustainable Finance Disclosure Regulation (SFDR), and, from 2024, with the Guidelines on fund names using ESG or sustainability-related terms issued by the European Securities and Markets Authority (ESMA).

The main aim of the SFDR is to improve transparency, while the ESMA Guidelines seek to clarify to what extent funds use "unfair, unclear or misleading" ESG- or sustainability-related terms. Labels are, in comparison, more encompassing. They set criteria to guarantee minimum standards for management processes, ESG screening criteria, the "green share" of investments, stewardship and sector exclusions. These criteria evolve consistently to stay ahead of regulations.

A range of different approaches has emerged to address the key focus of the most recent criteria updates: ambitious metrics aimed at supporting the most carbon-intensive companies in their transition. These updates seem all the more necessary knowing that, for the first time, a national financial market supervisor has issued formal notice to some funds for non-compliance with the SFDR. Finanstilsynet, the Danish supervisor in question, has in particular accused one "Article 9" fund of applying looser exclusion rules to companies in transition, despite the principle of doing no significant harm (DNSH) to its environmental objectives. External verification that companies in the labelled funds' portfolios have credible transition plans is vital if labels are to play their part in addressing the challenges of interpreting the SFDR framework.

In a striking development, the market data presented in this report shows that the total number of labelled funds fell for the first time, primarily due to stricter criteria introduced by the two main labels (in number of funds). This first major correction calls for further monitoring of developments on this market.

UPDATE NOTE:

Label criteria information in this overview is based on the reference frameworks versions available online at 31 March 2025. They are subject to change. The market data as at 31 December 2024 take account of funds that dropped sustainability labels following the entry into force of new criteria versions. Most affected were the Towards Sustainability standard and the French government SRI label. Yet, only the Towards Sustainability scope had been fully re-audited at that date. The SRI label data comprises funds within its scope that "state that they apply the requirements of the new labelling framework", but have not been officially re-audited against the updated criteria.

AN ABUNDANCE OF LABELS

There are a dozen sustainable finance labels for retail financial products (UCITS and alternative investment funds (AIF)) in Europe. For the sake of concision, this overview does not address solidarity-based finance,[1] microfinance or insurance product labels.

These labels are supported by national government departments, independent label committees or specialist bodies. Seven of these originate in sustainable finance initiatives, while two are environmental labels known to the public that have added a specific category for financial products: Nordic

	LABELS	GOVERNANCE	VERIFIERS	LABELLING RENEWAL	ELIGIBLE PRODUCT TYPES: FUNDS AND MANDATES BASED ON SEGREGATED PORTFOLIOS	ELIGIBLE PRODUCT TYPES: OTHER TYPES OF PRODUCTS
PUBLIC LABELS	**SRI Label** (France)	Standalone stakeholder committee, supported by the Ministry of Finance	Accredited auditors	Every 3 years, with intermediary reviews	UCITS funds, some AIF, real estate funds, discretionary mandates	—
PUBLIC LABELS	**Greenfin Label** (France)	Standalone stakeholder committee, chaired by the Ministry for the Ecological Transition	Accredited auditors	Every year	UCITS funds, some AIF, real estate funds	—
PUBLIC LABELS	**Umweltzeichen** (Austria)	Austrian Federal Ministry for the Environment	Ministry	Every year	Investment funds, non-securities funds in the infrastructure sector, unit-linked life insurance policies, certificates	Green bonds, green loans, current accounts and savings products
PUBLIC LABELS	**Nordic Swan Ecolabel** (Nordic countries)	Nordic Ecolabelling Board[a], on a mandate from Nordic governments	Nordic Swan Ecolabel	Licence renewal when criteria are revised. Annual random sample checks.	UCITS and AIF funds, provided that they invest mostly in listed assets.	Insurance products
MARKET LABELS	**Towards Sustainability** (Belgium)	Central Labelling Agency[b] (CLA)	Verifiers appointed by the CLA	Every year	Mutual funds, private equity funds, structured products.	Insurance and pension products and life insurance contracts, savings accounts
MARKET LABELS	**FNG**[c] (Germany, Austria & Switzerland) **FNG-Siegel** **FNG-Siegel Transition**	Expert Committee and Advisory Board	F.I.R.S.T. / AIR[d]	Every year	UCITS funds. Other funds are eligible after prior consultation.	—
MARKET LABELS	**LuxFLAG** (Luxembourg) **Climate Finance** **Environment** **ESG** **Social Impact**	LuxFLAG[e]	LuxFLAG	Every 3 years, with intermediary reviews	Article 8 and/or 9 (UCITS and AIF). A specific label is available for discretionary mandates.	Specific LuxFLAG labels exist for green bonds and insurance products.

[a] Created in 1989, the Nordic Ecolabel is a voluntary initiative of the Nordic Council of Ministers. It applies to some 60 categories of consumer products. It was extended to financial products in 2017.
[b] The Central Labelling Agency (CLA) is a non-profit organisation that operates as a labelling agency.
[c] Forum for sustainable investment (German-speaking countries).
[d] Spin-off of the University of Hamburg
[e] Cross-border labelling agency with founding members come from the financial sector in Luxembourg

Source: Novethic

[1] Finansol is the leading label in this area of finance. Created in 1997, it is awarded by FAIR to savings products that allocate some or all assets to finance social enterprises or to support non-profits. It means savers can see the social or environmental benefits of their savings. Product categories eligible for the label: UCIs or mutual funds for both professional and non-professional investors; life insurance policies, demand and term deposit accounts; debt securities; other securities in the "social enterprise" or "solidarity-based finance provider" category; digital portfolios. For a detailed description of how the label operates and what it finances, see the report (in French) here: https://www.strategie.gouv.fr/files/files/Publications/Rapport/novethic-fair_-_evaluation_du_marche_europeen_des_labels_de_finance_verte_et_solidaire_-_septembre_2022_0.pdf

Swan for Northern Europe and the Umweltzeichen ecolabel for Austria. The French SRI and Greenfin labels are government initiatives, overseen by the Ministry of Finance and the Ministry of the Ecological Transition (MTE), respectively.

Among labels originating from market initiatives, 2025 saw the launch of two variants of established labels, namely FNG and LuxFLAG. These are the FNG-Siegel Transition label, which aims to address a gap in the market "by establishing a clear and much-needed quality standard for transition-related financial products", and the LuxFLAG Social Impact label, to recognise thematic funds that contribute to "positive, measured and managed social outcomes". As these are recent launches, only a cursory analysis of their criteria was possible for this overview.

Finally, it should be noted that several labels (notably the SRI label and Umweltzeichen) have specific criteria for real estate funds, which have also not been analyzed here.

1. LATEST DEVELOPMENTS: LABELS AND REGULATIONS ATTEMPT TO COEXIST

Although not the original intention of this classification, one segment of the market lost no time in presenting the Article 8 and Article 9 categories introduced by the SFDR as quasi-labelling criteria. The development was not lost on the European Commission, which called attention to it in September 2023 during the wide-ranging SFDR consultation prior to a potential root-and-branch review – which has yet to materialise. The consultation document interpreted the confusion around these articles as an indication of market interest in tools to provide information on the ESG or sustainability performance of financial products. The review trend is towards eschewing self-classification and opting instead for classes of products based on minimum criteria.

WHERE LABELS LEAD, REGULATIONS FOLLOW

Two recent European regulatory initiatives have drawn inspiration from label criteria.

In 2023 in the UK, the Sustainability Disclosure Requirement (SDR), the British equivalent of the SFDR, was finalised with a package of measures known as PS23/16 and accompanied by anti-greenwashing rules. Applicable only to UK-domiciled funds open to private investors to date, the rules require asset managers to ensure that the wording they use conforms to the Financial Conduct Authority's labelling regime. In practice, there are four labels,[2] each with its own minimum requirements, available to managers whose funds employ regulated terminology[3] either directly in the fund name or in a "financial promotion that references the sustainability characteristics of a product". Although they are required to notify the FCA which label(s) they intend to use, the FCA does not need to approve the use of the label(s). Two alternatives are open to managers that employ sustainability-related terms but elect not to use these labels: publish the reasons why or stop using the terms, including changing the name if necessary.

In its Guidelines on fund names using ESG or sustainability-related terms,[4] the European Securities and Markets Authority, ESMA, establishes criteria for using ESG- or sustainability-related terms to address greenwashing concerns. Set for adoption by 26 or the 27 national authorities in the EU, the Guidelines took effect on 21 November 2024 for new funds and on 21 May 2025 for existing funds. According to MSCI,[5] the number of funds with ESG-related terms[6] in their name has fallen 20% since the Guidelines were published, mainly due to the extension of fossil fuel exclusions to all funds with environment, impact or sustainability in their name (see page 13 and 14).

Overhauling the SFDR is on the European Commission's Work Programme for Q4 2025. The revisions will be at least partly based on a report published in December 2024 by the EU Platform on Sustainable Finance. The authors recommend[7] replacing the SFDR nomenclature with three new product categories,[8] each with minimum requirements drawn from label criteria.

[2] *Sustainability Focus, Sustainability Improvers, Sustainability Impact* and *Sustainability Mixed Goals.*
[3] ESG, Environment, Social, Climate, Sustainable, Green, Transition, Net Zero, Impact, Responsible, SDG, Paris-Aligned, etc.
[4] https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657_Guidelines_on_funds_names_using_ESG_or_sustainability_related_terms.pdf
[5] https://www.msci.com/www/quick-take/evolution-of-fund-naming-calls/05427906358
[6] Concerns all transition-, environment-, governance-, sustainability-, impact and social-related terms.
[7] https://finance.ec.europa.eu/publications/categorisation-products-under-sfdr-proposal-platform-sustainable-finance_en
[8] Sustainable: for funds that guarantee a percentage of green or sustainable investments. Transition: for funds with a minimum percentage of portfolio companies with a "credible" transition pathway. ESG Collection: for funds that apply a range of positive screening criteria and basic exclusions.

TRANSITION CRITERIA : LABELS TRY TO STAY ONE STEP AHEAD

Supporting large listed companies to shift to a low-carbon model stands out as the main issue to be addressed by the updates to generic ESG label criteria. Historically, this aim first took shape by granting exemptions from exclusion rules to companies able to demonstrate, through specific metrics, that they had started out on their transition pathway (the case of Nordic Swan and Towards Sustainability). Next, standardised criteria were added to this approach – originally restricted to the energy sector – to ensure that ESG assessments consistently emphasised transition efforts in all sectors characterised by high emissions or significant pressure on biodiversity. The Austrian Umweltzeichen ecolabel also calibrates its stewardship criteria according to screening selectivity so that funds whose allocation and selection policies permit more laggard companies can "make up" points through stewardship actions.

Even more ad hoc criteria emerged in 2024 with the overhaul of French SRI label and again in 2025 with the launch of the FNG Transition variant of the main FNG label.

SRI Label. In France, V3 of the reformed socially responsible investment label (SRI) introduces a two-fold requirement to take companies' transition strategies and plans into account. First, how transition plans are considered counts towards the qualitative review of an asset manager's methodology to assess and rate portfolio companies. Second, when plans lack credibility or do not reflect their stated aims, criteria apply to stewardship actions.

Under the new rules, asset managers must analyse the transition plans of all portfolio companies and apply stricter vigilance to companies operating in "high impact climate sectors".[9] From 2026 on, a performance obligation applies to companies, based on the transition plans published in 2025. In real terms, this criterion means maintaining a minimum share of companies in these sectors with a credible transition plan, and a minimum share of companies that are likely to have one within the next three years. The addition of these two minimum percentages amounts to the need to constitute a sub-portfolio containing the equivalent (in number) of 35% of companies operating in these sectors. Of this 35%, at least 15% must already have credible transition plans verified through established standards. For the others, i.e. up to 20%, that don't, targeted stewardship actions should take place over three years at most. The outcome is a binary choice: retain if a credible transition plan is produced; divest if not.

As well as the performance obligation, investees must be monitored through stewardship actions to ensure that issuers with credible transition plans are on track to meet their stated objectives. If this is not the case, asset managers are asked to "engage" with the laggard companies. However they can exempt themselves from this step under certain conditions.

FNG-Siegel Transition. The FNG-Siegel label was launched in 2016. In April 2025, following a lengthy consultation process with stakeholders, FNG Siegel announced the award criteria for a new variant focusing on transition products. The rules for the new Transition label are based on Recommendation (EU) 2023/1425, issued to clarify what transition finance includes and the tools that can be used to finance the transition. FNG takes the four types of financing instrument defined in the document and adds a social dimension – absent from the European Recommendation – based on measuring contributions to at least one social SDG.[10] Applicant funds must be able to certify that 80% of their portfolio complies with the label definitions. For companies operating in high impact climate sectors, the transition strategy must relate to climate and not social aspects.

For reference, the four label definitions based on the EU Recommendation are:

- Investments in portfolios that replicate EU Climate Transition Benchmarks (CTB) or Paris-aligned Benchmarks (PAB);
- Taxonomy-compliant investments, including transitional activities and dedicated capital expenditure (CapEx) plans;
- Investments in companies or activities with a credible transition plan;
- Investment in companies with credible science-based targets.

As a broad approach, and unlike the original EU Recommendation, the FNG criteria for these last two categories emphasises on companies with science-based targets (approved by the SBTi) to clarify what is considered credible. Next, the star-based points model ensures that funds with a stricter methodology get a higher rating. Indeed, the EU definition of transition financing specifies that science-based targets must be backed up by data to ensure their integrity, transparency and accountability.

[9] Agriculture, forestry and fishing; mining and quarrying; manufacturing; production and distribution of electricity, gas, steam and air conditioning; production and distribution of water, sewage, waste management and remediation; construction; trade, repair of motor vehicles and motorcycles; transport and storage; real estate.

[10] "Investments in securities that make a positive contribution to at least one social Sustainable Development Goal and are on a clear and measurable social transition pathway".

CRITERIA FRAMEWORKS DIFFER ON THE CREDIBILITY OF TRANSITION PLANS

The rules for the French SRI label require managers to do more than simply read company transition plans: they must demonstrate their ability to incorporate them in their analysis process and make sure they are aligned with the Paris Agreement. This means a fine-grained analysis of emissions **reduction targets** over the near and medium terms, the **governance** structures to achieve the climate target, and the **resources** (especially financial resources) implemented by the issuer.

Although SBTi approval of a company's reduction targets is no guarantee of the governance and resources implemented, several labels use the SBTi framework "as is". For example, Nordic Swan draws on it for some of its screening criteria applied to carbon-intensive sectors. The Towards Sustainability standard also uses it as a qualitative criterion to "overrule" an investment ban in companies that are theoretically excluded because of their exposure to fossil fuels. The new FNG-Siegel Transition label goes further. It stipulates that "a transition plan is considered credible if it is based on a verified SBTi trajectory". These approaches differ from a methodology presented in a report on the EU Platform on Sustainable Finance to monitor transition-related investments. According to the methodology,[11] companies that have set a science-based target must verify a whole series of additional criteria before they can be classed as having a credible plan. They are disqualified if they have any residual CapEx going to fossil fuels.

The methodology proposed by the Platform categorises companies by credibility level. Of the 1,063 European companies analysed, roughly 12% met the minimum requirements for credible transition plans. In the same vein, Sustainalytics,[12] the ESG rating and research agency, analysed 9,500 companies in its covered universe across five levels from Aligned to Severely Misaligned. Sustainalytics estimates that none of the sample has a credible transition plan aligned with a 1.5°C warming scenario (Level 1). The same goes for the 1,450 companies within this universe with validated SBTi targets. 17% of companies (and 25% of those with SBTi targets) are classed as Level 2 (Moderately Misaligned). We could also cite the IIGCC's Net Zero Investment Framework, which has four levels. Clearly, the challenge for label auditors is to know how to calibrate expectations in terms of credibility and thus also in terms of selectivity of the methodologies.

INTEGRATION OF THE EU TAXONOMY IS FAR FROM EASY

A version of the European Ecolabel for financial products was first mooted in 2019. The project, which aimed to develop a new label based on the EU Taxonomy to ensure a minimum share of capital directed towards green investments, seems to have been shelved for good.[13] In its Article 4, the Taxonomy Regulation does however require all other green labels to incorporate the Taxonomy in their requirements over time, which the Greenfin label has just done after 18 months of discussions. With effect from 1 January 2025, the first stage is based on the principle of minimum compliance, since asset managers retain the option to label their funds using the previous definitions of "green activities". In the longer term and with the Omnibus package looming, how to replace this list with the Taxonomy will be discussed. Regardless of which list of green activities they use, funds must nonetheless declare to the certification body the share of Taxonomy-aligned AuM, based on issuers' revenue and CapEx. To meet this requirement, asset managers can draw on disclosures reported directly by the companies, or estimates obtained using a "robust and verifiable methodological approach".

The Nordic Swan label integrated the Taxonomy in 2022, taking the EU Ecolabel project's taxonomy-alignment score to calculate the green share. Unlike the Greenfin label, this calculation also includes CapEx-alignment and, since the 2024 update, operating expenditure (OpEx). A portfolio with an average Taxonomy-alignment score of more than 5% earns one point on the scale; scores of 50% or more get all the points needed for the label (in addition to the baseline minimum criteria).

Work is also in progress to finalise new Umweltzeichen label rules to require a mandatory Taxonomy-aligned minimum. Scheduled for approval in June 2025, the update sets a minimum alignment score of 8% for all funds instead of an optional point-based alignment score. Calculation of the green share will mirror the Nordic Swan formula. The new criterion would take effect on 1 July 2026, but, given the uncertainty surrounding the treatment of the Taxonomy Regulation in the Omnibus package, would only apply to funds whose share of investee companies who publish taxonomy alignment data exceeds 20% of AuM.

[11] https://finance.ec.europa.eu/publications/platform-sustainable-finance-report-monitoring-capital-flows-sustainable-investments_en

[12] https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/setting-sbti-targets-is-good--but-far-from-sufficient

[13] Some of the criteria are retained in the Umweltzeichen label. It takes the preliminary Ecolabel criteria for measures to improve the impact attributable to investors through active portfolio management.

FORMULA FOR CALCULATING THE TAXONOMY-ALIGNMENT SCORE USED BY NORDIC SWAN AND UMWELTZEICHEN

Unlike the approach adopted by Greenfin, which also uses "greenness" thresholds at issuer level for certain asset classes, the Nordic Swan and Umweltzeichen method solely calculates an aggregate green share at portfolio level. Each company's Taxonomy-alignment score is weighted by its relative weighting in the portfolio. To do this, for each holding the three key performance indicators for non-financial companies are added up:[14] aligned revenue, CapEx and OpEx.

$$green\ share = \sum_{i=1}^{n} weight_i * \frac{green\ revenue_i + green\ CapEx_i + green\ OpEx_i}{revenue_i}$$

i = companies in the portfolio taken individually
n = total number of companies in the portfolio
$weight_i$ = percentage of portfolio AuM invested in company i
Green $revenue_i$ = aligned revenue of company i according to the latest report available
Green $CapEx_i$ / Green $OpEx_i$ = the highest of aligned CapEx / OpEx for company i over the past three years
$Revenue_i$ = total revenue of company i according to the latest report available

Average Taxonomy alignment of labelled funds

Among other data points, Morningstar Direct tracks asset managers' disclosures in their SFDR templates, as provided in their EET files.[15] They include voluntary disclosures on the alignment of Article 8 or 9 funds with the Taxonomy, based on a calculation that is partially comparable with the Greenfin method for calculating the green share, but not with either the Nordic Swan or Umweltzeichen calculations. Nonetheless, the data review gives an interesting indication of the extent to which reference frameworks can steer investments and, ultimately, contribute to the Taxonomy's six climate and environmental objectives. For example, the table opposite shows the average percentages of Taxonomy-alignment for the main labelled funds scopes. Only equity funds that disclose an alignment greater than zero were included to calculate these percentages.

Caution is advised as these figures may reflect an overestimation bias. Spot checks of the data provided in the EETs often threw up inconsistencies in funds with a high level of alignment, mostly because some SFDR templates still confuse the concepts of eligibility and alignment. Values greater than or equal to 40% were stripped out of the calculation as a precaution. Given their inconsistency, the figures for CapEx and OpEx in the EETs were not used.

Average taxonomy-alignment of labelled equity funds

LABEL	AVERAGE ALIGNMENT % (in terms of revenue)
Greenfin (11 funds)	**17.0%**
Nordic Swan (15 funds)	**10.9%**
FNG (35 funds)	**9.2%**
Umweltzeichen (23 funds)	**8.6%**
Towards Sustainability (118 funds)	**8.0%**
LuxFLAG ESG (10 funds)	**7.7%**
SRI Label (180 funds)	**7.5%**

Source: Novethic

2. INCREASINGLY PRECISE CRITERIA

A MIX OF RECURRENT OR SPECIFIC CRITERIA

The "pass-or-fail" approach in the majority of labels requires funds to comply on aggregate with a set of minimum criteria. For "generic" labels, this amounts to analysing practically all securities in the portfolio against more or less specific themes and the widest possible use of ESG assessments (possibly with minimum selectivity levels after ESG screening is applied). Stewardship criteria are also emerging to ensure engagement with a minimum number of portfolio issuers (equities primarily, but also of corporate bonds). The main investment constraint

[14] This total is capped at 100%.
[15] The European ESG Template (EET) is a standardised data exchange format to consolidate all the main sustainability features of financial products.

for green labels such as Greenfin is a minimum green share for the portfolio, which is calculated for each company individually based on the percentage of revenue accounted for by green activities. With the exception of LuxFLAG ESG, both generic and green labels all now apply ESG exclusions combined with Climate exclusions.

Three labels stand out for basing their criteria on a points system. In addition to meeting a set of minimum requirements, funds need to exceed a given score to qualify for the Nordic Swan or Umweltzeichen labels. Using a different approach, the FNG label is awarded according to a star rating system to encourage managers to implement more comprehensive ESG practices. The 1-, 2- or 3-star rating enables more demanding savers to identify products who apply stricter screening criteria and more comprehensive management practices, beyond the baseline criteria.

LABEL	SUMMARY	MAIN INVESTMENT CONSTRAINTS
Nordic Swan Ecolabel	SRI/ESG investment process with ESG and climate exclusions & green reporting. Point-based system.	Assessment of holdings against material ESG factors and the EU Taxonomy. Wide ranging minimum performance requirements for investments in critical sectors. Mandatory and points-based criteria for engagement and voting.
Towards Sustainability	Quality standard combining requirements on the investment process and ESG & climate exclusions	ESG integration and engagement, calibrated by sectors and risk levels. Minimum performance on 2 PAI indicators. Specific criteria variants for several product strategies (best-in, themed or impact funds).
FNG-Siegel	SRI/ESG investment process with ESG and climate exclusions. Point-based system	Publication of the fund's detailed ESG profile and description of the sustainability objective. Qualitative grading of positive/negative selection, dialogue (engagement + voting), ESG data, and reporting.
LuxFLAG ESG	SRI/ESG investment process with ESG exclusions.	ESG selection + use of at least three strategies from the following list: *Screening / ESG integration / Thematic investing / Stewardship / Impact investing* (as per PRI definitions).
Umweltzeichen	SRI/ESG investment process with ESG and climate exclusions. Point-based system	Minimum requirements on selectivity level and quality of ESG research. Specific reporting. Taxonomy analysis. Engagement and voting.
SRI Label	SRI/ESG investment process with ESG and climate exclusions.	Description of the objectives underlying the (disaggregated) E / S / G criteria. Balanced weighting of each E/S/G pillar in ratings, and mandatory consideration of transition plans (TP). Min. selectivity. Obligation to beat the benchmark on two preferred PAI indicators. Engagement and voting, with quantitative criteria and TP focus. Specific reporting, including PAI indicators.
LuxFLAG Environment	Thematic investments and ESG criteria.	Enforcement of a minimum green share.
LuxFLAG Climate Finance	Thematic investments and ESG criteria. Climate exclusions	Enforcement of a minimum green share.
Greenfin Label	Thematic investments and ESG criteria. Climate exclusions	Enforcement of a minimum green share. Measurement of the environmental impact of the investment strategy.

Source: Novethic

REFOCUS ON DOUBLE MATERIALITY, WHICH DEFINES RISK SECTORS

New requirements on "material" ESG risks were recently added to the reference frameworks, often aiming to ensure a minimum level of "environmental" analysis. They use the SFDR approach that requires fund managers to evaluate both the likely impacts of sustainability risks on the product's return ("outside in") and the risks of principal adverse impacts on sustainability factors (E, S and G) for each investment ("inside out").

The Nordic Swan rules define the key concept of critical sectors.[16] For these, materiality is defined in the label framework and no longer left to the discretion of asset managers. The June 2023 version of the Towards Sustainability standard also defines a list of high-impact sectors[17] "from a sustainability due diligence point of view", that merit closer scrutiny. The French SRI label opts for the SFDR definition of high impact climate sectors.[18]

[16] Steel, aluminium, aviation, automotive, cement, mining, pulp and paper, shipping, with specific requirements for steel and aluminium.
[17] Textiles manufacture and wholesale, agriculture/fishery and wholesale, mineral resources extraction, basic products manufacture and wholesale, other high-emitting sectors (such as cement, shipping and aviation).
[18] Agriculture, forestry and fishing; mining and quarrying; manufacturing; production and distribution of electricity, gas, steam and air conditioning; production and distribution of water, sewage, waste management and remediation; construction; trade, repair of motor vehicles and motorcycles; transport and storage; real estate.

STEWARDSHIP AND VOTING

Requirements differ on this potential lever for improving the sustainability profile of portfolio companies, primarily those invested in equities. Some metrics are aimed specifically at monitoring controversies ("reactive" stewardship), while the majority focus on dialogue to improve the sustainability performance of investee companies ("objective-driven" stewardship).

Stewardship practices, combined with exercising voting rights, are still optional for some labels. For example LuxFLAG ESG includes stewardship in the strategies funds can choose from, while FNG-Siegel includes it in its points system. Labels with mandatory stewardship criteria have tended to opt for quantitative requirements aimed at setting minimum rates of participation at AGMs at which managers have voting rights, despite the limited resources available to smaller asset managers.

The usual criteria cover detailed engagement and voting policies (objectives, strategy, method, monitoring and process for measuring the success or failure of stewardship initiatives), as well as annual reporting on stewardship actions. AGM voting reports must contain more or less granular and nominative statistics. Towards Sustainability also encourages investors to state their voting intentions on certain key resolutions in advance and give the rationale for the decision.

Three labels (Towards Sustainability, Umweltzeichen and the SRI label) add requirements around escalation pathways and their time frames. As explained in its report (see page 5), the EU Platform on Sustainable Finance is currently working on defining a "credible engagement strategy", which is expected to include an "escalation mechanism eventually leading to exclusion".

Lastly, we should note the adoption since 2022 of best-endeavour criteria concerning engagement with companies in sectors where improvement or their transition is critical, in conjunction with criteria to ensure robust and reliable analysis of the sustainability risks for these sectors.

Stewardship and voting criteria for improving sustainability performance

	ALL SECTORS		MANDATORY SECTORS OR ISSUER TYPES	
LABEL	**Primary engagement topics**	**Quantitative criteria**	**In scope sectors**	**Quantitative criteria**
SRI Label	Not specified, but must be consistent with the fund's sustainability objectives.	Exercise of voting rights at no less than 90% of the AGMs of French companies, and 70% of the AGMs of foreign companies.	Companies in high impact climate[19] sectors who deviate from the trajectory described in their transition plan (TP), or who lack one.	Engagement with 20% of issuers whose TP lacks credibility, for up to three years before divestment.
Towards Sustainability	Human rights and labour rights, gender diversity, decarbonisation and 1.5°C alignment, natural resource use/impact, (esp. water and biodiversity), pollution and waste	—	Companies from about ten sectors[20] known for high risks of negative impacts.	Exercise of voting rights at no less than 50% of the AGMs of companies in high risk sectors.
Nordic Swan	ESG and/or EU Taxonomy issues, concerns or performance	Points awarded if: - engagement is conducted with at least 5 or 10% of portfolio issuers - the manager votes at more than 25/50% of AGMs (relying on in house assessments) or more than 70/90% (via a proxy voting service)	Companies in critical sectors[21] who perform poorly in terms of impacts on biodiversity	Mandatory engagement with any poorly performing company. Progress needs to be measured in relation with the PAI indicator and DNSH criteria on biodiversity.
Umweltzeichen	Label criteria encourage the use of the taxonomy as the basis for engagement efforts, in particular to push for higher aligned turnover, or lower shares of activities not complying with DNSH	Points are awarded based on a quantitative assessment of the number of engagement levers that are acted upon.	—	—

Mandatory   Assessed in point-based systems

Source: Novethic

[19] See page 9.
[20] See page 9
[21] See page 9.

Stewardship criteria focused on controversy management

LABEL	CRITERION	MONITORING AND RESOLUTION
Nordic Swan	In the event of non-conformities to be resolved in the "near future", the fund manager must enter into an engagement process, taking into account the magnitude of the breach	Updates are to be published for as long at there is ongoing doubt surrounding the non-conformity. Two-year deadline to resolve the issue or be forced to divest.
LuxFLAG ESG	An engagement process is to be undertaken with companies affected by norm-based controversies.	Two-year deadline to resolve the issue or be forced to divest.
SRI Label	The controversy monitoring policy should establish the potential link with the engagement policy, in accordance with the escalation pathway.	Managers must prepare formalized reports on decisions relating to controversies, and ensure transparency on the timescale specific to each level of controversy.

Source: Novethic

NORM-BASED AND SECTOR EXCLUSIONS

Exclusions are an important feature to provide clarity for retail clients. ESG exclusion criteria apply to equities, corporate bonds and sovereign bonds and fall into two categories:

Norm-based exclusions seek to screen out controversial companies because they breach fundamental conventions on human rights, labour rights or corruption. For sovereign bonds, this means excluding countries that have not ratified certain treaties or conventions or that are included on lists of countries known for human rights abuses.

Exclusions predating the new ESMA Guidelines now risk being outdated, as these guidelines require all funds with ESG-related terms in their name to apply the same normative exclusions as in the EU Climate Transition Benchmark (CTB) rules. The priority targets are companies in breach of one of the 10 principles of the UN Global Compact, the benchmark for norm-based exclusions across all the labels. On the other hand, there is no such consensus on the OECD Guidelines for Multinational Enterprises, although they are covered by the CTB rules. Towards Sustainability has expanded its exclusion criteria to include all the minimum safeguards set out in the EU Taxonomy, reflecting the growing convergence between sustainable finance labels and the EU regulatory framework.

Sector exclusions target controversial activities like tobacco and weapons. Activities are excluded based on the share of a given company's revenue they represent. The ESMA/CTB Guidelines also shake up the labels by introducing stricter criteria, requiring the exclusion of companies involved in the manufacture or sale of controversial weapons[22] and the cultivation or production of tobacco (zero revenue threshold). Several labels also exclude conventional weapons.

The reform of the SRI label led to incorporating **governance exclusion criteria**, applicable to any issuer with its registered office domiciled in a country or state on the EU list of non-cooperative jurisdictions for tax purposes or on the black or grey list of the Financial Action Task Force (FATF). Greenfin has moved to do likewise in the interests of harmonisation. Croatia and Bulgaria, two EU countries where some private debt funds occasionally invested, are on the FATF's grey list.

[22] Anti-personnel mines, cluster munitions, chemical weapons and biological weapons

Norm-based and sector exclusion by revenue threshold

			ESMA / CTB	UMWELT-ZEICHEN	FNG-SIEGEL*	TOWARDS SUST.**	NORDIC SWAN	SRI/ GREENFIN	LUXFLAG ESG
Baseline norm-based exclusions	Principles of the UN Global Compact		✔	✔	✔	✔	~	✔	✔
	Minimum Safeguards (EU Taxonomy)	OECD Guidelines	✔		✔	✔			✔
		UN Guiding Principles				✔	✔		
		ILO Conventions				✔	✔		
Companies domiciled in a jurisdiction		on FATF lists (black ✔ & grey ✔)						✔ ✔	✔
		non-cooperative for tax purposes						✔	
		under UN sanctions							✔
Exposure to controversial weapons (unconventional weapons)		R	0 or 1%	—	—	0 or 1%	0 or 1%	—	0 or 1%
		P	0 or 1%	0 or 1%	0 or 1%	0 or 1%	0 or 1%	0 or 1%	0 or 1%
		C	0 or 1%	0 or 1%	0 or 1%	0 or 1%	—	0 or 1%	0 or 1%
Exposure to conventional weapons		R	—	—	—		5%	—	—
		P	—	5%	5%	5%	5%	—	—
		C	—	5%	5%	5% / 25%	—	—	—
Tobacco		R	—	5%	—	5%	5%	5%	15%
		P	0 or 1%	0 or 1% / 5%	5%	5%	5%	5%	5%
Genetic engineering			—	5%	—	—	—	—	—

R : resale – P : production – C : components — Legend: 0 or 1% / 5% / 15% / 25%

* The "original" FNG label applies a threshold of 5% of revenue to tobacco. This threshold is zero for FNG-Siegel Transition as per the EU CTB/ESMA rules.
** Conventional weapons: threshold of 5% of revenue for components and 25% for products, equipment or tailored services

Source: Novethic

Exclusion criteria applicable to sovereign issuers

		UMWELT-ZEICHEN	FNG-SIEGEL	TOWARDS SUST.	NORDIC SWAN	SRI/ GREENFIN	LUXFLAG ESG
Signing / ratification of	Paris Agreement	✔	✔	✔	✔		
	Convention on Biological Diversity	✔	✔	✔			
	Nuclear Non-Proliferation Treaty		✔	✔			
	ILO Conventions			✔			
	Core International Human Rights Treaties			✔			
States under UN sanctions					✔		✔
Score as per the Corruption Perception Index*		< 30	< 35	< 40	< 40	< 40	
Freedom House list of *not free* countries		✔	✔	✔			
Countries in which the death penalty is applied		✔		✔			
FATF lists** (black ✔ & grey ✔)		✔		✔		✔ ✔	✔
Non-cooperative jurisdictions for tax purposes						✔	
Countries involved in new nuclear power projects		✔					
Military budgets higher than 4% of GDP		✔		✔			
Countries whose per capita emissions exceed 14 tons CO2eq		✔					

* according to Transparency International
** Financial Action Task Force (FATF) (intergovernmental organisation)

Source: Novethic

ENVIRONMENTAL EXCLUSIONS

Fossil energy exclusions, across all or part of their value chain and according to more or less strict revenue thresholds were originally the preserve of green labels like Greenfin, or of per se ecolabels (Nordic Swan and Umweltzeichen). The SRI label followed suit in late-2023 with fossil fuel exclusions following an in-depth review that lasted two and a half years and sparked heated debate. Some called for retaining more general criteria, while others pointed out the potential for greenwashing if oil majors could still be included in “responsible” funds. Ultimately, the reformed rules (V3) opted to fall in line with other European labels on exclusions “with more exacting requirements and climate restrictions in response to investor demands and the scale of the challenges we face”.

Where most labels specify sector-by-sector criteria (coal, oil and gas), the FNG and SRI labels only stipulate maximum revenue thresholds for coal and unconventional fossil fuels. But, by also including a “non-expansion” clause, the latter de facto excludes the bulk of upstream oil and gas operators involved in new exploration and extraction projects.

Since 2022, a stricter Greenfin update also applies this restriction. In addition, it bans any company developing new electricity generation capacity from fossil fuels. The Towards Sustainability standard applies similar criteria, while the Umweltzeichen label stands out by targeting investments in any financial company that has not made a public commitment to stop financing the expansion of oil and gas activities by 2025.

Exclusion criteria by type of fuel and revenue threshold

				ESMA / PAB	GREENFIN	UZ	NORDIC SWAN	TS	FNG	SRI LABEL*
FOSSIL FUELS	Upstream	Exploration / extraction	C	1%	1%	5%	5%	5%	5%	5%
			O	10%	5%	5%	5%	5%	5% unconventional	5% unconventional
			G	50% or “main activity”	5%	5%	5%	5%	5% unconventional	5% unconventional
	Mid-downstream	Transport	C	—	5%	5%	—	10%	—	5%
			O	—	5%	5%	—	5%	—	—
			G	—	25 or 30%	5%	—	5%	—	—
		Distribution	C	1%	1%	5%	—	—	—	—
			O	10%	5%	5%	—	—	—	—
			G	50% or “main activity”	25 or 30%	5%	—	—	—	—
		Refining / transformation	C	1%	1%	5%	5%	5%	—	5%
			O	10%	5%	5%	5%	5%	5% unconventional	5% unconventional
			G	—	—	5%	5%	5%	—	5% unconventional
		Power / heat	C	Mix (100g/kWh)	5%	5%	5%	5%	5%	Mix (291g/kWh in 2025)
			O		5%	5%	5%	5%	—	
			G		5%	5%	5%	5%	—	
		Fossil fuel derivatives		—	5%	—	—	—	—	—
	Other	Equipment and services		—	25 or 30%	25 or 30%	—	10%	Fracking	Coal
		Derogations to exclusions**		—	—	—	Yes	Yes	—	—
		Non-expansion criteria		—	Yes	—	—	Yes	—	Yes
NUCLEAR	Uranium extraction			—	—	5%	5%	—	5%	—
	Power / heat			—	—	5%	5%	—	5%	—
	Equipment and services			—	—	5%	—	—	5%	—

C : coal – O : oil – G : gas

1% 5% 10% 25 or 30% 50% or “main activity”
5% Restricted to unconventional fossil fuels

Source: Novethic

* Thresholds applied as a % of total “fossil fuel” activity and not a % of total revenue.
** CapEx for renewable energy, approved SBTi targets or demonstrated progress in phasing out target activities may be used here as criteria for determining which companies remain eligible despite exceeding the revenue threshold.

Just like the other exclusions, environmental exclusions will likely have to align with the new ESMA Guidelines on funds with ESG-related terms in their name, within the semantic field of “sustainable”, “green” and “impact”. In this area, ESMA draws on the rules for the composition of PAB climate indices. The Greenfin label has already moved to align its rules to the Guidelines and lowered the exclusion threshold for coal, the only area where the ESMA/PAB rules were stricter.

We should also note that Greenfin changed course in 2024 on excluding nuclear energy. Ecolabels in German-speaking and Nordic countries, where public opinion is largely opposed to nuclear power, continue to apply a strict exclusion policy, despite nuclear energy being included in the Taxonomy.

PRINCIPAL ADVERSE IMPACTS (PAI)

As of 30 December 2022, financial products’ pre-contractual disclosures under the SFDR must explain how the principal adverse impacts of investment decisions on sustainability factors have been taken considered. PAI terminology refers to a set of core indicators to measure the adverse impacts of investments on key ESG metrics.

Since the SFDR does not set specific performance expectations for the indicators by sector, company size or region, some labels have stepped up and expanded their criteria. The Towards Sustainability standard added performance metrics for two of the SFDR indicators: to comply with the standard, funds’ carbon intensity must be below a certain threshold. Additionally, for all companies in the portfolio, average board gender diversity must be at least 33-67% for European investments, 28-72% in the United States, and 23-77% for a World portfolio. Similarly, the SRI label rules require funds to specify their performance commitment for two indicators (see page 9) selected from the list[23] of PAIs.

3. MARKET DATA

Announcing its Guidelines on fund names, ESMA put the share of UCITS funds with ESG-related names at 15% of the total, which gives an idea of the size of the potential European market for labelled funds. This market is however experiencing a sharp contraction: the number of labelled funds dropped 20% between July 2023, when Novethic last updated its database of European labelled funds, and December 2024. The decline was particularly noticeable for two labels: 387 products fell out of scope for the SRI label and 166 for the Towards Sustainability standard. Only the Austrian Umweltzeichen and French Greenfin labels bucked the trend with an increase in the number of labelled products in the period.

The lists of funds given on official label sites include some that are not covered by Morningstar Direct, which is the tool that Novethic uses to obtain the size of assets under management (AuM) as well as data on inflows. The Morningstar scope excludes many alternative investment funds and concentrates on funds that are open to retail investors, at least in part.

Of the roughly 2,500 investment products in the table on the next page, at 31 December 2024 only 1,500 or so labelled funds[24] were identified as covered by Morningstar. Unsurprisingly, as the number of labelled funds observed over the period fell, so too did the total AuM for all the labels studied. The Umweltzeichen label was the exception.

[23] Not including the indicators that fall within the scope of the label’s exclusion policy. The selected indicators cannot both be based on the same unit of measure.
[24] This figure was restated to take account of the 208 multi-label funds.

Evolution of the number of labelled products in the period July 2023 to December 2024

	TOTAL NUMBER OF LABELLED INVESTMENT PRODUCTS*		
	07/31/2023	12/31/2024	
SRI Label	1354	967	↓
Towards Sustainability	771	605	↓
Umweltzeichen	304	402	↑
FNG-Siegel	291	233	↓
LuxFLAG ESG	246	153	↓
Label Greenfin	120	124	↑
Nordic Swan	60	50	↓

Note: All these data include funds that hold several labels simultaneously
*The minimum for each label in this table is 50 products

Source: Novethic

Number and AuM of labelled funds

(Morningstar panel)	NUMBER OF FUNDS		AUM IN €BN*	
	07/31/2023	12/31/2024	07/31/2023	12/31/2024
	1 066	701	783	468
	661	468	539	375
	188	124	112	71
	284	209	94	63
	167	165	64	67
[25]	46	53	22	19
	48	41	18	17
TOTAL[26]	2 058	1,429	€1,307 BN	€751 BN

*Note: Feeder funds are included in the number of funds, but their AuM are excluded from the total AuM of the labelled funds.

Source: Novethic / Morningstar

ASSETS UNDER MANAGEMENT, INFLOWS AND PERFORMANCE ALL UNDER PRESSURE AMID UNCERTAINTY

Labelled funds in Europe saw significant net outflows in 2024. Some recorded net outflows over two consecutive years: net outflows from SRI labelled funds observed in 2023 accelerated in 2024 to almost €13 billion. For Greenfin funds, the outflows partly explain the decline in AuM in the funds covered by Morningstar, despite the increase in the number of labelled funds.

In contrast, Umweltzeichen and Nordic Swan labelled funds were more stable: outflows in 2024 cancelled out inflows in 2023.

The pattern for LuxFLAG ESG funds was different. As for SRI- and Towards Sustainability-labelled funds, there was a sharp drop in the number of funds, but inflows were positive for the funds that retained the label. It's worth noting that this label is the only one without formal fossil fuel exclusion criteria.

Inflow data for labelled funds

(Morningstar panel)	INFLOWS IN €BN (Morningstar data)*	
	January 2023 – December 2023	January 2024 – December 2024
	-7.0	-13.0
	-1.6	-22.7
	+1.6	+1.6
	-1.6	-5.8
	+0.82	-0.89
	+0.56	-2.5
	+1.0	-1.1

*Note: The inflow total does not include feeder funds, funds of funds and money market funds.

Source: Novethic / Morningstar

[25] According to the Ministry of the Ecological Transition (MTE) data, the AuM of the 46 unlisted and private debt funds not included in this table stood at €13.9 billion at January 2025.
[26] For this total, "multi-label" funds – awarded with at least two labels – accounted for €156 bn.

Investors seek certainty

This decline must be seen in the context of continuing market instability and a tougher political stance on sustainable finance, in the United States in particular. In Europe, the situation is compounded by "competition" between national labels and regulatory frameworks (such as the revised SFDR that could create new product categories and the ESMA Guidelines with exclusion rules). As a result it is more difficult for investors to navigate the products on offer and what each label actually promises. It's interesting that net inflows for the two per se ecolabels, Nordic Swan and Umweltzeichen, were positive in 2023 and remained practically unchanged between January 2023 and December 2024. Common to both these labels are strong public governance and clear brand recognition with individuals beyond the world of finance. This broader reach stems from the fact that, unlike dedicated sustainable finance labels, Nordic Swan and Umweltzeichen are multi-sector labels that can be awarded to a wide range of consumer products (household products, paper, furniture and more). When applied to finance, the fact that they enjoy brand recognition with the general public adds to their legitimacy, which seems to increase investor trust.

In its August 2024 TRV Risk Monitor (ESMA Report on Trends, Risks and Vulnerabilities)[22] ESMA opined that the strong interest in sustainable investments over the past few years "sent positive signals about investor willingness to finance the transition". But it also recognised the "rocky road" ahead as well as concerns about the ability to mobilise private capital. Therefore, firms' ability to "announce credible transition plans could steer broader investor willingness to mobilise the necessary capital", especially if these plans are independently verified. Although labels are not referred to in the report, they could seize the opportunity to attract investors by guaranteeing careful and thorough analysis of labelled companies' transition plans.

Labelled funds' performance struggles in a tough environment

In 2022 and 2023, labelled equity funds in Europe underperformed against benchmarks such as the MSCI Europe Net Return.[28] This trend was reversed in 2024.

For the most part, this under-performance stems from the market conditions in 2022 and 2023, with rising inflation, higher interest rates and the geopolitical and economic fallout from the war in Ukraine. Fossil fuel equities outperformed handsomely as energy prices soared. But, since many labelled funds enforce strict fossil fuel exclusion policies, they necessarily underperformed compared to this market as a whole. For example, over these two years, the performance of the STOXX Europe 600 SRI, which excludes fossil fuels, was closer to that of labelled funds.

Performance of labelled equity funds (in %)

YEAR	QUARTER	PERFORMANCE OF LABELLED EQUITY FUNDS	MSCI EUROPE NR
2022	Q1	-8.17	-5.32
	Q2	-11.34	-9.00
	Q3	-3.46	-4.11
	Q4	5.00	9.55
TOTAL 2022		-17.42	-9.49
2023	Q1	6.44	8.61
	Q2	2.24	2.31
	Q3	-4.22	-2.06
	Q4	7.19	6.44
TOTAL 2023		11.86	15.83
2024	Q1	6.80	7.63
	Q2	0.25	1.32
	Q3	2.69	2.35
	Q4	-0.69	-2.72
TOTAL 2024		9.30	8.59

Scope: 734 funds invested in equity, excluding "allocation" and feeder funds.

Source: Novethic / Morningstar

[27] https://www.esma.europa.eu/sites/default/files/2024-08/ESMA50-524821-3444_TRV_2_2024.pdf

[28] This is a broad and representative index of 430 large and mid caps headquartered in 15 developed markets in Europe. This makes it suitable for assessing the relative performance of labelled funds invested in European equity markets.

A similar trend can be observed for bond funds, this time comparing performance against the Bloomberg Euro Aggregate index. Compared to equity funds, 2022 was a less difficult year.

Performance of labelled bond funds (in %)

	2022	2023	2024
Performance of labelled bond funds	-11.06	6.61	4.60
Bloomberg Euro Aggregate TR	-17.17	7.19	2.64

Scope: 339 funds invested in bonds, excluding “allocation” and feeder funds.

Source: Novethic / Morningstar

Greenfin funds under the microscope

In the context of these last three years, the performance of Greenfin-labelled equity funds did not match up to other labelled funds in 2023 and 2024. When compared to a green index like the MSCI Europe Select Green 50, these funds nevertheless outperformed the index in two out of three years, despite stricter exclusions than those applied by MSCI for this index. It should also be noted that the stock market performance of “pure player” companies in the renewable energy sector, overrepresented in Greenfin portfolios, had experienced a phase of euphoria in 2020 and during part of 2021, before a form of “correction” observed in the opposite figures for 2022-2024.

As for Greenfin-labelled green bond funds, they beat the Bloomberg Euro Green Bond index in 2022 and 2024.

Performance of Greenfin-labelled funds (in %)

	EQUITY		BONDS	
	Greenfin (15 funds)	MSCI Europe Select Green 50	Greenfin (27 funds)	Bloomberg Euro Green Bond TR
2022	-17.35	-21.10	-17.68	-21.42
2023	2.97	13.15	6.95	8.38
2024	0.32	-6.17	3.46	2.67

Source: Novethic / Morningstar (excl. feeder funds)

05.25

Overview of European sustainable finance labels:

RECALIBRATION OR IDENTITY CRISIS?

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