Clarification of Sustainability Terms for Swesif's Hållbarhetsprofilen

The EU's Sustainable Finance Disclosure Regulation (SFDR)

The SFDR stipulates that financial market participants (fund companies, insurance companies and financial advisors) must provide information about their sustainability work and their financial products.

All fund managers must disclose certain information according to SFDR in a specific regulated format, which varies depending on how sustainability is taken into account by the fund (see further below). As an investor, you may need to examine how the boundaries and definitions have been formulated to gain a better understanding of a fund's sustainability focus and how funds can be compared with each other. To obtain a complete picture, you should also read the information that fund managers themselves publish on their website and in the fund's prospectus in accordance with SFDR, which is referred to at the end of the fund's Hållbarhetsprofil.

The Fund's disclosure in accordance with SFDR

According to SFDR, each fund is required to provide the following information:

Article 6 – Integrates sustainability risks

As a general rule, fund managers are required to describe how sustainability risks are integrated into investment decisions. Funds that integrate sustainability risks but do not report according to Article 8 or 9 below are also referred to as "grey" funds. Managers who consider sustainability risks not to be relevant should instead clearly and concisely disclose the reasons for this, but the fund is not referred to as an "Article 6 fund".

Article 8 – Promotes environmental or social characteristics

The majority of Swedish funds promote environmental or social characteristics in their management and therefore report according to Article 8. Such funds are often referred to as "light green" funds. Currently, there are no thresholds for the proportion of investments in a fund that must "promote" such characteristics, and therefore funds reporting under this provision can vary significantly in their level of ambition regarding sustainability. However, the investment objects in an Article 8 fund should always adhere to best practices for good governance. Common methods used to promote environmental or social characteristics can include positive screening, negative screening, and/or exerting influence on companies in which the fund invests.

Another method to demonstrate that the fund's investments promote environmental or social characteristics can be to measure various indicators of the investments' principal adverse impacts, also known as "PAI indicators." An Article 8 fund can make "sustainable investments" (see below), but it is not mandatory to do so.

Article 9 – Sustainable investment as objective

Funds that have sustainable investment as their objective are required to report according to Article 9 and are also referred to as "dark green" funds. These funds aim to, for example, accelerate the transition to a sustainable society and commit to making sustainable investments, with a few exceptions.

A sustainable investment (according to the SFDR)

A "sustainable investment" is an investment in an economic activity that contributes to an environmental or social objective, or in human capital or economically or socially disadvantaged groups, provided that the investment does not cause significant harm to any such objective and that the investment objects adhere to best practices for good governance. Fund managers of funds disclosing in accordance with Article 8 and 9 mentioned above are required to disclose/inform about the minimum proportion of sustainable investments in the fund and annually monitor and inform about the actual proportion of sustainable investments made.

Currently, it is up to the fund manager to determine what is required for an investment to be considered as "contributing" and "not causing significant harm." For example, the fund manager decides the proportion of the economic activity in a company that must meet the requirement of "contribution" for the investment to be considered a sustainable investment. In this assessment, the entire investment can be classified as sustainable, even if only a part of the activities of the company in which the fund has invested contributes to the sustainability objective.

What is a sustainability risk?

Sustainability or ESG (Environmental, Social, Governance) risks are risks from an environmental, social, or governance perspective. In this context, sustainability risks are solely related to whether an ESG-related event can have a negative impact on returns.

What are principal adverse impacts?

Principal adverse impacts refer to how the operations of a company negatively impact the environment, working conditions, and social conditions. For example, a company's operations may result in carbon dioxide emissions, impact biodiversity, or violate OECD guidelines for multinational enterprises, such as child labor or poor working conditions. Taking into account principal adverse impacts means that the asset management company takes measures to reduce the negative impact caused by the operations of the companies in which the fund has invested.

What are international standards?

International standards refer to international conventions, laws, regulations, and agreements such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises, which cover areas such as the environment, human rights, child labor, labor rights, corruption, and controversial weapons.