



GF SF Funds – Article 9 and proud

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European regulation in the form of the Sustainable Finance Disclosure Regulation (SFDR) has had a big impact on disclosure requirements for funds domiciled in Europe. These SFDR regulations have left many feeling confused and unsure about what they mean, particularly the classifications of funds, their sustainability objectives and whether they are classified as Article 6, Article 8 or Article 9 funds. Here we summarise what these regulations mean and explain why the Liontrust GF Sustainable Future Funds are classified as Article 9.

The EU SFDR has come to mean many different things to different people. These regulations are designed to give greater transparency and more consistent disclosure to enable clients to better compare funds while preventing funds overstating their sustainability credentials (also known as greenwashing).

SFDR is not a labelling regime, although it is sometimes misinterpreted as such. There are many articles within this regulation (twenty of them in the core legislative text) that relate to transparency for all the different aspects of the regulations – including pre-contractual disclosures (prospectus and KIID), periodic reporting, website disclosures, and marketing about the approach to sustainability.

What appears to cause most confusion around this EU regulation is how a fund is classified, namely is it: Article 6; Article 8 or Article 9. Here we focus on Article 9 where a fund has “sustainable investment as its objective” and which carry the greatest level of disclosure requirements (Article 6 and 8 are positioned as having fewer sustainability ambitions, with Article 6 funds having the smallest number).

Article 9 funds must have a “sustainable investment” objective – but what does this mean in the context of these regulations?

A fund must invest in economic activities which:

- contribute to either a social or environmental objective (or both)
- do no significant harm
- and investee companies must follow good governance practices

In contrast to what many believe, there is no requirement for an Article 9 fund to be an “impact” fund – i.e a fund which strives to achieve measurable social or environmental goals through its investments while also making a profit.

While many funds have recently changed their SFDR classifications from Article 9 to Article 8, we are confident that our funds meet with the spirit and letter of the EU regulations consistent with Article 9 and will therefore continue to be Article 9 funds.

Key to our decision is the vast experience we have gained since launching the SF funds in 2001. Through investing in sustainable companies for a long time, we have built up an investment process and ways of analysing companies that is very specialised. Our investment team does all the sustainability and fundamental research to inform our investment decisions. This is very different

from many funds that have a separate sustainability or outsourced research function which has different shades of effect on the investment decision.

We value third-party data providers but we use their analysis as a starting rather than end point and maintain our discretion so we can ensure we weight the aspects we believe most important for any given business to come to our own sustainability conclusions. We run relatively focused portfolios of around 35-50 companies in our equity portfolios and 50-70 issuers in our fixed income funds. This enables us to focus our research on a relatively small number of companies where we have conviction, as opposed to covering a much larger number of companies in less detail.

We believe our specialised approach and considerable experience is a positive attribute in a world where sustainability ratings and analysis become more commoditised. We are confident in our ability to analyse and deliberate on what are sometimes nuanced aspects of sustainability and come up with good sustainability conclusions which we apply to our investment decisions.

The SFDR does not provide a list of companies deemed as being ‘sustainable investments’, instead the rules are interpreted by asset managers who choose which classification their fund fits into. They then have to meet with the regulatory criteria on transparency and disclosure for that type of fund.

The table below shows how our investment process satisfies the requirements of Article 9 funds.

EU SFDR requirement	Liontrust SF investment process
Contribute to either a social or environmental objective (or both)	Our sustainable investment themes are aligned with sustainability objectives. Resource efficiency themes are assigned as environmental and our Improving health and Safety and resilience themes are assigned as social.
Do no significant harm	Our negative screening criteria as well as our bespoke sustainability analysis on the company in our Sustainability matrix capture this.
Investee companies must follow good governance practices	Included in our Sustainability matrix analysis is an assessment of whether the company has good governance practices which enable it to adequately manage the aspects specified in the regulation.
Disclosure requirements	We continue to disclose our proprietary sustainability analysis of our funds which include: 1/Fund exposure to sustainability themes 2/Fund alignment with UN Sustainable Development Goals 3/Fund’s carbon emissions, in multiple indicators 4/The % of investments from the investment universe removed (for sustainability reasons) 5/Number of votes and engagements 6/Consideration of principal adverse indicators Additional disclosures required by this regulation will be sourced from reputable third parties and disclosed as required.

These aspects of a sustainable investment are further broken down into:

- **Do no significant harm (DNSH)** has a set of **principal adverse indicators (PAIs)** which need to be considered in the investment decision-making process
- **EU Taxonomy** is a way of classifying the proportion of a business that is aligned with sustainable environmental objectives. Funds have been required to report on this before the

disclosure requirement has come in for companies, so there is a lack of available data currently. Funds can choose whether they will commit to alignment with the EU Taxonomy or not. We will wait until more meaningful data coverage is available before deciding to do this or not. Being aligned with the EU Taxonomy is not mandatory for Article 9 funds.

- Minimum levels of exposure to environmental or social objectives have to be stated.

For more insights and views from Liontrust visit: <https://www.liontrust.co.uk/insights/ourinsights>

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

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The decision to invest in a fund should take into account all the characteristics and objectives of the fund (inclusive of sustainability features) as described in the prospectus. Further information can be found here:

<https://www.liontrust.co.uk/sfd>

