



SFDR applicability - Methodology

1. Introduction
 2. Data sourcing and use of proxy data
 3. Scoring - **PAI level** - what do the colours mean?
 4. Scoring - **Company level** - Article 6/8/9 applicability
 5. Scoring - **Fund level** - overall classification as Article 6/8/9
-

1. Introduction

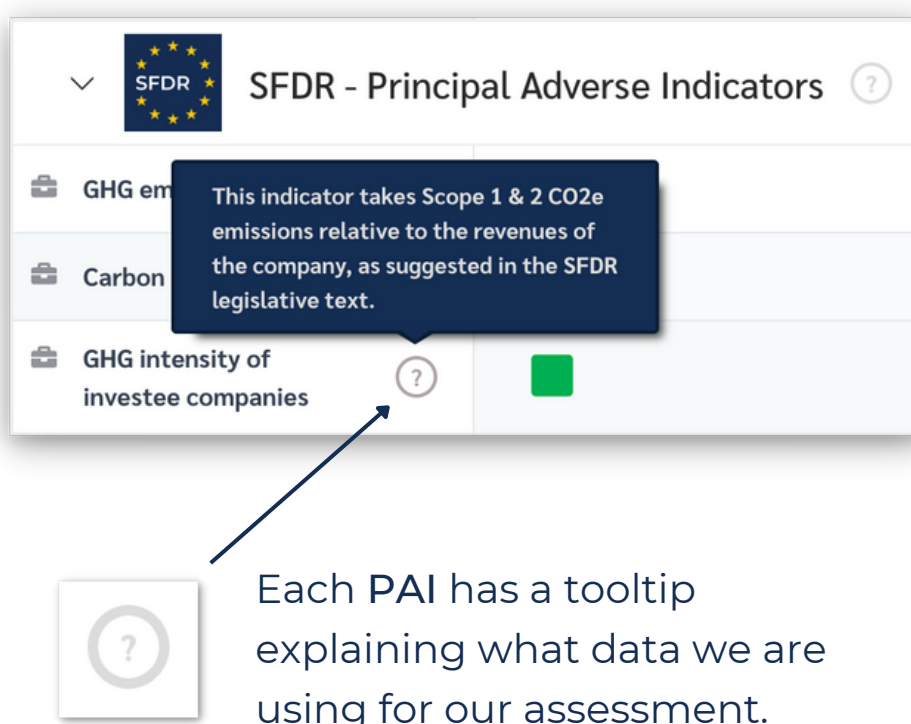
The SFDR legislation requires any fund marketed in Europe that aspires to Article 8 or Article 9 status to answer a specific set of questions on how ESG considerations are integrated into the management of the fund, but also to consider each holding against **14 mandatory PAIs – Principle Adverse Indicators**.

The purpose of this requirement is to make every fund that wants to market itself as 'sustainable' consider whether any of its investments are in fact hindering any of the EU's core environmental and social objectives.

Please find linked the relevant page from the European Commission website - [Sustainability-related disclosure in the financial services sector](#).

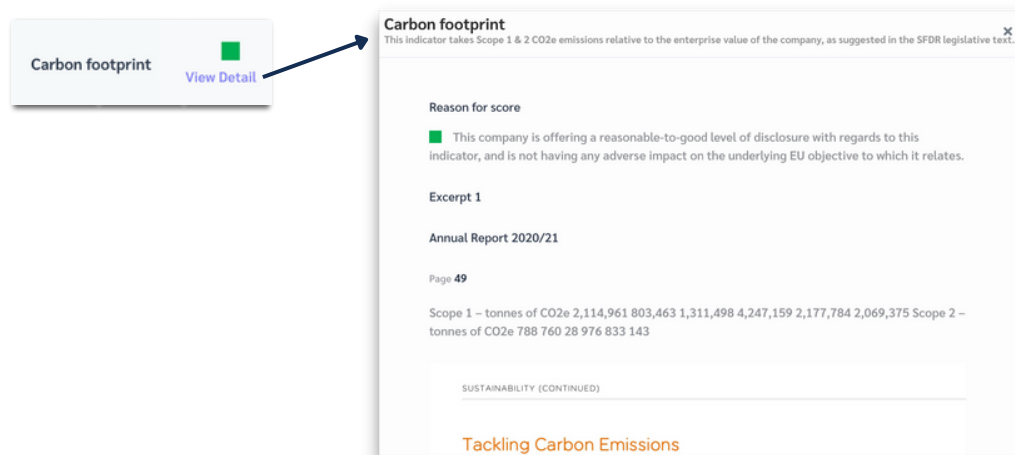
2. Data sourcing and use of proxy data

Many of the **PAIs** are directly comparable to data points already available on the Integrum ESG dashboard. Where the precise data specified in the SFDR text isn't available, we have used relevant, applicable proxy data as per [Article 7\(2\)](#) of the SFDR legislation which allows for reasonable assumptions.



For example, the PAI '*unadjusted gender pay gap*' needs to consider proxy data, simply because most companies around the world do not disclose their gender pay gap. Integrum ESG uses gender diversity in the workforce, and alignment to SDG 5, as proxy data, which we confidently argue captures whether harm is being done to the EU objective, which is in essence 'treating women in the workplace fairly'.

The data on the Integrum ESG dashboard is taken from company disclosures. When a company provides detail that we can use to assess any adverse sustainability impacts, this will be shown in a 'glass box'; a direct look-through to the company-level data. A user can reveal a glass box containing the underlying data, and a reason for our assessment, by clicking 'view detail' on any company-level PAI.



3. Scoring - PAI level - what do the colours mean?

We use a colour system to assess alignment with each PAI at the company level.

SFDR - Principal Adverse Indicators ?		
		Score
		Compatible with Article 6 fund
GHG emissions ?		Yellow square View Detail
Carbon footprint ?		Red square View Detail

PAI scores viewable in company and portfolio view.

PAI level colour system:

Green: Good disclosure

This company is offering a reasonable-to-good level of disclosure with regards to this indicator and is not having any adverse impact on the underlying EU objective to which it relates.

Yellow: Poor disclosure

Although this indicator is relevant for companies in this sector, this company does not sufficiently disclose the relevant metric. We regard this as poor disclosure, and think that if a company is an appropriate holding for an Article 8 or 9 fund, it should only have a minority of its PAIs marked as yellow.

Red: Poor performance

This company is performing poorly with regards to this indicator – to the extent that it could be regarded as significantly harming the underlying EU objective.

Grey: Not material

Neither we nor the ISSB regard this indicator as relevant for companies in this sector. We can therefore fairly assume that the company is not harming the underlying EU objective to which it relates.

4. Scoring – Company level - overall company Article 6/8/9 applicability

In order to assess overall funds, we first assign Article 6/8/9 alignment at the holding/company level. Although this is not required by the SFDR legislation, we regard it as an important ‘bridge’ between assessing PAIs at the holding level, and classifying the overall fund.

A company must have no more than 4 yellows or reds combined to be assigned Article 8 at the company level. Our rationale is that an investee company should disclose data for a majority of the 14 PAIs, in order to comply with what is after all a ‘Disclosure Requirement’. Moreover, although the legislation does not preclude holdings in companies that are performing poorly with regards to a sustainability indicator, providing that the fund manager engages with the company, an Article 8 fund must ‘promote’ sustainability characteristics. We have therefore concluded, unscientifically, that appropriate investee companies should not have more than 4 PAIs marked red. Furthermore, to be compatible, whilst the PAIs focus on sustainability objectives, there must be clear evidence that a company has good governance practices in place.

A company must have no yellows and no reds to be assigned Article 9 at the company level. Our rationale is that an investee company should disclose data for a majority of the 14 PAIs, in order to comply with what is a ‘Disclosure Requirement’. Moreover, an Article 9 fund must have sustainability as its ‘objective’; it should only be targeting investments in companies that do no significant harm to the EU environmental and social objectives. Therefore we will not classify any company with any PAIs marked red as suitable for an Article 9 fund. There is also a set of 12 specific sustainability objectives that a company must support if it is to be compatible with an Article 9 fund. Furthermore, to be compatible, whilst the PAIs focus on sustainability objectives, there must be clear evidence that a company has good governance practices in place.

If a company does not meet either of the classifications above, we classify it as [Article 6](#).

5. Scoring – Fund level – overall classification as Article 6/8/9

A fund manager must answer a specific set of questions on how ESG considerations are integrated into the management of the fund. These are the ‘SFDR policies for the fund’ shown on the Portfolio Overview page. The wording for these policies is taken directly from the SFDR legislative text.

- Fund managers must commit to policies 1-8 for [Article 8](#) status, and 1-10 for [Article 9](#) status.

▼ SFDR policies for the fund	
1. Does the manager of this fund consider the principle adverse impacts of its investment decisions on sustainability factors?	☒ Y ☐ N ☐ N/A
2. If the manager of this fund does not consider the principle adverse impacts of its investment decisions on sustainability factors, is there a publicly available statement of why not?	☒ Y ☐ N ☐ N/A
3. Does the manager of this fund have policies in place to assess the principle adverse sustainability impacts of its investment decisions?	☒ Y ☐ N ☐ N/A

The first 3 of the 9 SFDR fund policy questions.

In addition, we will only classify a fund as [Article 8 or 9](#) if at least 80% of its holdings (weighted by funds invested) are individually classified as suitable investments for an Article 8 or 9 fund, respectively (set out in section 4, above).

The SFDR legislation makes clear that not every holding in an Article 8 fund must be suitable, but clearly a majority must be. The precise hurdle of 80% has been set by Integrum ESG, not by the legislation. An 80% hurdle has been chosen to be consistent with the [SEC ‘naming rule’](#) - *"designed to increase investor protection by improving and clarifying the requirement for certain funds to adopt a policy to invest at least 80% of their assets in accordance with the investment focus that the fund's name suggests"*.



Any questions, please just email contact@integrumesg.com

Disclaimer

Please note that only financial regulators and market authorities can rule on whether an investment fund can be marketed in the EU as Article 6, 8 or 9. Integrum ESG believes its SFDR classification methodology, as set out above, to be consistent with the current legislative texts. However, an investment firm should take qualified legal advice before relying upon this methodology as proof of compliance with the SFDR legislation.