Responsible Investing Regulations:
SFDR and EU Taxonomy

Recently, the investment management industry has been experiencing substantial regulatory changes within the responsible investment (RI) space. One of the most impactful initiatives taking place in the RI regulatory arena is the EU Sustainable Finance Action Plan (EU SFAP). The SFAP supports both the Paris Agreement and the UN 2030 Agenda for Sustainable Development. It endeavors to promote sustainable investment across the EU and includes the following two prominent initiatives; the EU Taxonomy and the EU Sustainable Finance Disclosure Regulation (EU SFDR). This paper will provide a simplified matrix and an applicable example, to help investors make sense of these two main pillars of the sustainable investing regulatory landscape.

Regulatory Frameworks:

Initiative		Purpose	Proponents
EU SFAP: Endeavors to promote sustainable investment across the EU	EU Taxonomy	Implement the EU SFAP and aims to eliminate green-washing of financial products. The program offers a classification system for what constitutes an environmentally sustainable activity.	An economic activity is classified as sustainable if it contributes to at least one of the following objectives while not doing significant harm (DNSH) to any of the other objectives and meets minimum social safeguards. Objectives include: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.
	EU SFDR	Improve transparency and comparability on how sustainability risks are incorporated into investments.	SFDR categorizes products into three major groups: a. Article 9 or 'dark green' funds have an objective of sustainable investment. These funds must DNSH, b. Article 8 or 'light green' funds generally promote environmental or social initiatives, c. Article 6 or 'other' funds do not promote environmental or social initiatives SFDR also discloses Principal Adverse Impacts (PAIs): which are negative effects investments have on sustainability factors.

Illustrative example of how a portfolio would comply with these two regulations:

Sustainable Finance Disclosure Regulation (SFDR) Categorization	
SFDR categorizes products into **three** major groups; funds classify themselves accordingly	a. Article 9 or 'dark green' funds, b. Article 8 or 'light green' funds, c. Article 6 or 'other' funds

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Once funds are categorized, Article 8 and Article 9 funds are now in scope to report Taxonomy *alignment*

Calculate a Portfolio's Taxonomy Alignment		
Portfolio Company 1; portfolio weight 10%	**Portfolio Company 2; portfolio weight 40%**	**Portfolio Company 3; portfolio weight 50%**
Produce a revenue breakdown of activities of the company	Produce a revenue breakdown o activities of the company	Produce a revenue breakdown of activities of the company

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Identify what % of revenue is:
1. "Making a substantial contribution to at least one environmental objective"; 2. "Complying with the technical screening criteria" (TSC)*; 3. "Doing no significant harm to any other environmental objective"; and finally, 4. "Complying with minimum social safeguards."

Please note, revenue that complies with #1 and has TSC available, are categorized as ***eligible*** to continue on with the process of reporting Taxonomy alignment; once revenue complies with all 4 items, the *eligible* revenue is considered aligned.

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45% of revenue is aligned	50% of revenue is aligned	35% of revenue is aligned

Calculate the portfolio's total alignment using weightings: Company 1 (10% * 45%) + Company 2 (40% * 50%) + Company 3 (50% * 35%) = **The portfolio is 42% Taxonomy-aligned**

*Technical Screening Criteria (TSC) offers an assessment to ensure minimum performance is reached.
Sources: Platform on Sustainable Finance, CFA's ESG Investing Official Training Manual Ed. 3.

Exhibit One: Ecofin SFDR Classification Progress: Why is this progress important to investors?

Although the majority of regulatory programs are currently focused in the EU, these changes mark the beginning of a transformative global shift toward standardizing the RI industry at large. Ecofin has three products that have been classified as Article 8, and two products that have been classified as Article 9, all across distinct strategies. These article disclosures are designed to equip investors with the necessary transparency tools to better align their investment objectives with more comparable ESG criteria. Conversely, proactively preparing for and adhering to these initiatives will be vital for asset managers and financial market participants to provide sustainable investing products that better help investors achieve sustainability objectives.

Fund	Primary Theme	Strategy	Fund Structure	SFDR Article Designation
Ecofin Energy Transition UCITS Fund	Climate Action	Energy Transition	UCITS	Article 8
Ecofin Global Renewables Infrastructure UCITS Fund	Climate Action	Global Renewables Infrastructure	UCITS	Article 9
RNEW - Ecofin U.S. Renewables Infrastructure Trust	Climate Action	Private Renewables Infrastructure	UK Investment Trust	Article 9
Ecofin Sustainable Listed Infrastructure UCITS Fund	Climate Action	Sustainable Listed Infrastructure	UCITS	Article 8
Ecofin Sustainable Global Water UCITS Fund	Water and Environment	Water	UCITS	Article 8

Exhibit Two: Ecofin Affiliations and Reporting Frameworks

In addition to the above regulatory frameworks, Ecofin has an extensive list of ESG network affiliations. Below please find a matrix detailing those relationships.

Organization	Description	Purpose	Notes
CDP and Non-Disclosure Campaign	CDP (formerly known as the Carbon Disclosure Project) is a not-for-profit that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.	Ecofin is active in the CDP Non-Disclosure Campaign which actively engages companies that have received the CDP disclosure request on behalf of investors but have not provided a response. Stakeholders can review public responses and scores from other companies on the CDP website.	Both Ecofin & Tortoise became members of CDP in 2022. Ecofin was an active participant of the NDC for several years before joining. Tortoise also participates in the NDC.
Ceres Foundation's Investor Network (Ceres)	Ceres is a collaborative investor network for investment managers and asset owners.	Ceres is designed for organizations focused on sustainability and climate action to work together to share best practices and research.	Ecofin is active in both the Ceres Paris Aligned Investment Working Group as well as the Ceres Investor Policy Working Group.
Climate Action 100+ (CA100+)	Climate Action 100+, an investor-led initiative, helps the largest corporate GHG emitters fight climate change.	Signatories agree to commitments regarding governance, GHG emissions, and provide corporate disclosure in-line with TCFD and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines, where applicable.	Ecofin joined in 2022.

Exhibit Two: Ecofin Affiliations and Reporting Frameworks (cont'd)

Organization	Description	Purpose	Notes
Net Zero Asset Managers Alliance	The Net Zero Asset Managers Initiative is a group of global investment managers who have pledged to support the goal of net zero emissions by 2050.	The initiative helps asset managers reach net zero, deliver on the Paris Agreement goals, while also aiming for a just transition.	Ecofin committed to Net Zero Emissions by 2050 as a signatory of the Net Zero Asset Managers Initiative.
Task Force on Climate-Related Financial Disclosures (TCFD)	The TCFD provides disclosures on climate-related financial risk for various financial market participants.	The TCFD is committed to market transparency and stability. Ecofin believes that better, more transparent and comparable, information will allow companies to incorporate climate-related risks and opportunities into their risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, empowering the markets to channel investment to sustainable and resilient solutions, opportunities, and business models. The system recommends firms to disclose against four categories: Governance, Strategy, Risk Management, and Metrics and Targets.	While reporting may primarily be done on the firm level - please also see TCFD reporting in the RNEW annual report.
UN Principles for Responsible Investment	The United Nations Principles for Responsible Investment (UN PRI) is the leading global network for financial industry participants and investors who are committed to integrating ESG considerations into their investment practices and ownership policies.	Reporting follows the PRI Reporting Framework which helps disclose RI activities.	We became a signatory in February 2019. The first mandatory PRI reporting was submitted in April 2021. Based on the latest information provided by the PRI, we expect to receive public scores and transparency reports from the PRI in the fall of 2022.

Source: Ecofin's Energy Transition and Sustainable Listed Infrastructure - 2022 Sustainability & Impact Reports