

# SUSTAINABLE INVESTMENT METHODOLOGY FOR SFDR

## Background

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This document applies to Artemis Funds (Lux), which operates separate funds which are distinguished by their specific investment objective and policy. Some of these funds fall within the scope of Article 8 and Article 9 of the Sustainable Finance Disclosures Regulation (“SFDR”). The Management Company for these funds is FundRock Management Company S.A., which is authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Management Company has appointed Artemis Investment Management LLP (“Artemis”) as the Investment Manager to manage the funds’ investments in accordance with their investment objectives and policies. This document is not a regulatory requirement for Artemis and we have published it on a voluntary basis.

The SFDR sets out the following definition of a “Sustainable Investment” in Article 2(17):

*“an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments **do not significantly harm** any of those objectives and that the investee companies **follow good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”.*

The concept of Sustainable Investments under SFDR is relevant for our Article 8 and Article 9 funds. Article 9 funds have Sustainable Investment as an objective and therefore all investments in an Article 9 fund must qualify as Sustainable Investments. Article 8 funds, which promote environmental or social characteristics but do not have Sustainable Investment as their objective, are permitted to invest in companies which are not classified as Sustainable Investments. All our Article 8 funds, however, have committed to invest a minimum proportion of assets in Sustainable Investments<sup>1</sup>. These minimum commitments represent binding obligations of these funds. The actual proportion of Sustainable Investments for each Article 8 fund is disclosed on an annual basis in the periodic reporting for the relevant fund.

The definition of Sustainable Investments in Article 2(17) of SFDR does not prescribe specific metrics or criteria for assessment of companies, leaving scope for individual firms to interpret and implement this definition in accordance with their own methodology. However, regulatory guidance states that firms should not interpret Article 2(17) differently for different financial products that it makes available<sup>2</sup>. This means that we are required to adopt a single framework that can be applied across the full range of Article 8 and Article 9 funds. For Artemis, this spans a broad range of strategies, asset classes and geographies including high yield fixed income funds and an emerging markets fund. The framework described below has been developed to ensure that our approach is suitable and appropriate for this wide range of different strategies which fall within the scope of SFDR.

## Artemis’ approach to identifying Sustainable Investments

The purpose of this document is to set out Artemis’ current approach to identifying Sustainable Investments for the purposes of Article 2(17) of the SFDR. Our methodology is detailed below.

There are 3 limbs to the definition of Sustainable Investment under Article 2(17) of SFDR:


1. Investment in an economic activity that contributes to an environmental or social objective (the “Positive Contribution Test”);
2. Such investments do not significantly harm any of those objectives (the “DNSH Test”); and
3. The investee companies follow good governance practices (the “Governance Test”).

<sup>1</sup> See individual fund documentation for the minimum % commitments applicable for each fund.

<sup>2</sup> See paragraph 6 of Part III of the ESMA Q&A document on SFDR published on 17 November 2022.



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Artemis' approach to each of these limbs is detailed below. An investment is deemed to be a Sustainable Investment if it satisfies the criteria for each of the 3 tests as set out below.

### Positive Contribution Test

A company/instrument is considered to satisfy this test if it meets one or more of the following criteria:

- Activities which make a material contribution to the achievement of any of the UN Sustainable Development Goals:<sup>3</sup>
  - Revenue of at least 25% which we have determined as contributing to any of the UN Sustainable Development Goals.
  - Where a company meets the revenue threshold above, we consider the entire company to satisfy the Positive Contribution Test.
- Activities which contribute to environmental impact solutions:
  - Revenue of at least 25% from environmental impact themes including alternative energy, energy efficiency, green building, pollution prevention, sustainable water, or sustainable agriculture.<sup>4</sup>
  - Where a company meets the revenue threshold above, we consider the entire company to satisfy the Positive Contribution Test.
- Activities which contribute to reducing greenhouse gas emissions:
  - A company that has achieved a reduction of carbon intensity (scope 1 and 2) of at least 5% per annum for 3 years, as measured by its 3-year trend (CAGR).<sup>4</sup>
- Fixed Income instruments which are deemed to be Sustainable Debt based on their *Use of Proceeds*, including Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-Linked Bonds and Transition Instruments.<sup>5</sup>

### DNSH Test (*Do no significant harm*)

A company is **excluded** from being classified as a Sustainable Investment if it fails **any** of the following DNSH screens:

- Companies that are deemed by Artemis to be in serious breach of UN Global Compact principles or OECD Guidelines for Multinational Enterprises.
- Companies that have any ties to controversial weapons (cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments).
- Companies that derive more than 1% of revenue from the mining of thermal coal and its sale to external parties.
- Companies that manufacture tobacco products or derive more than 5% of revenue from tobacco-related business activities.

We also consider principal adverse impacts (as defined in SFDR) of investment decisions on sustainability factors as part of our DNSH assessment for our Article 8 and Article 9 funds.

### Governance Test

An assessment of good governance practices is an integral part of our investment analysis for all investments. This is undertaken through our own fundamental analysis and via controversy screens. Any company that is subject to serious controversies relating to its business activities will be excluded from being considered a Sustainable Investment.

<sup>3</sup> The UN Sustainable Development Goals are 17 interlinked objectives adopted by UN Member States in 2015 as a universal call to action to address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice.

<sup>4</sup> Measured using data sourced from MSCI

<sup>5</sup> Measured using data sourced from Bloomberg



## Treatment of derivatives

In accordance with guidance provided in the Regulatory Technical Standards (RTS) supplementing SFDR, any investment positions which are held via derivatives are not included in our calculation and disclosure of the proportion of Sustainable Investments in a fund, due to the regulator considering these to be *indirect* exposures to the underlying issuer.<sup>6</sup> Only direct holdings can be classified as Sustainable Investments for the purposes of Article 2(17) of SFDR.

Our principal adverse impacts analysis, however, includes an assessment of all our long exposures, including derivative positions.

## Data limitations

It should be noted that limitations in ESG data availability may constrain the proportion of Sustainable Investments for some of our funds, particularly for fixed income funds. The calculation of the percentage of Sustainable Investments for each fund uses the market value of all investments as the denominator in all cases and is not adjusted to take account of issuers for which there is no data to assess the Positive Contribution test. This can negatively impact the proportion of Sustainable Investments disclosed for funds which have a lower level of ESG data coverage for the portfolio. We will provide further information relating to the data coverage for these funds in the annual periodic disclosures to ensure that clients have the context necessary to interpret these figures appropriately.

Regardless of data availability limitations, all our funds will maintain a proportion of Sustainable Investments above the minimum levels which have been committed to in the relevant fund documentation.

## Lack of comparability

The definition of Sustainable Investment in SFDR is very broad and open to interpretation, and the absence of clear regulatory parameters or prescribed criteria leaves significant scope for firms to interpret and apply this differently. Until there is greater clarity from the regulator or until the emergence of a consistent industry-wide standardised approach, disclosures of the proportion of Sustainable Investments will have limited comparability across different firms.

## Future updates to our Sustainable Investment methodology

This Sustainable Investment methodology will be reviewed on a regular basis. The SFDR regime is fast-evolving and subject to frequent regulatory updates and clarifications. Artemis commits to review this methodology as new regulatory guidance emerges and/or industry best practice evolves, and to revise or update our approach to take account of new developments as we deem appropriate.

We anticipate that we may also refine and evolve our approach to Sustainable Investments as we further develop our commitments under the Net Zero Asset Managers initiative (NZAMi) and other regulatory and industry frameworks or initiatives, and to take account of any improvements in data availability.

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### **Artemis Investment Management LLP**

Cassini House, 57 St James's Street, London SW1A 1LD  
6th floor, Exchange Plaza, 50 Lothian Road, Edinburgh EH3 9BY

Contact +44 207 399 6000

Website [www.artemisfunds.com](http://www.artemisfunds.com)

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<sup>6</sup> See paragraph 33 of the preamble to the RTS (Commission Delegated Regulation (EU) 2022/1288)