

French ISR Label Revamp

Stricter rules may force up to 45% of ISR funds to divest EUR 7 billion-worth of oil & gas companies.

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Executive Summary

The ISR label¹, created in 2016, has become a major tool for sustainable finance in France, with nearly 1,200 funds currently certified, representing about EUR 770 billion in assets under management.

On 7 Nov. 2023, Finance Minister Bruno Le Maire announced he would support the label committee's proposal for a more ambitious and demanding label, and, among other things, the expansion of the scope of exclusion. From 2025, funds that use the French ISR label will not be allowed to invest in companies involved in new projects related to the exploration, exploitation, and refining of fossil fuels, whether conventional or unconventional. In addition, high carbon-emitting companies will be required to gradually adopt transition plans that align with the Paris Agreement.

According to Le Maire, the stricter eligibility criteria are “essential” to combating global warming and will make it easier for sustainability-oriented investors to know what they’re really getting.

Key Takeaways

- ▶ Out of around 1,200 ISR-labelled funds identified in Morningstar Direct, 45% have some exposure to the traditional energy sector, totaling around EUR 7 billion in assets.
- ▶ The top 3 funds with the highest exposure to the oil & gas sector in percentage terms are Tocqueville Value Europe ISR, CM-AM Europe Value, and DNCA Invest Archer Mid-Cap Europe, with weights of 13-14% and holding values between EUR 49 million and 62 million.
- ▶ The top 3 funds with the highest oil & gas exposure in euro terms are iShares MSCI USA SRI ETF (EUR 324 million), iShares MSCI World SRI ETF (EUR 208 million), and Eleva European Selection (EUR 171 million).
- ▶ The top 10 energy stocks held in ISR-labelled funds which will likely be affected by the new fossil fuel exclusion rule are TotalEnergies, Neste, Gaztransport et technigaz, Eni, Technip Energies, Repsol, Galp Energia, BP, Royal Dutch Shell, and Equinor.
- ▶ TotalEnergies is currently held by 176 ISR-labelled funds for an aggregate value of about EUR 2.4 billion, representing 1.6% of TotalEnergies' market capitalisation.
- ▶ The universe of ISR-labelled funds will likely shrink as portfolio managers who find the new criteria too constraining will drop the label. It remains to be seen if large passive funds will align with the new criteria.

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¹ Label ISR - Pour des placements durables et responsables (lelabelisr.fr)

Background

The ISR label, created in 2016, is Europe's largest ESG label and has become a major tool for sustainable finance in France, with nearly 1,200 funds currently certified and around EUR 770 billion of assets under management. The ISR label is used for savings products in France.

In October 2021, the Minister of Economy and Finance Bruno Le Maire asked the label committee to propose a new reference framework better suited to the challenges faced by asset managers in a rapidly evolving social and environmental transition context. After 18 months of work and consultations with various stakeholders in the industry (asset management companies, ESG and climate experts, rating agencies, regulators, etc.), the ISR label committee submitted [its final proposal](#) for the overhaul of the reference framework to the Minister of Economy, Finance, and Industrial and Digital Sovereignty in July 2023.

On 7 November 2023, Le Maire [announced](#) its support for the committee's proposal for a more ambitious and demanding label, in line with its final proposal. The final eligibility criteria will be published by the end of November and become effective from March 2024.

Enhanced Eligibility Criteria

The new criteria focus on three key areas:

- ▶ The integration of a climate policy in the management of all labelled funds. The scope of exclusion will be expanded to include all new projects related to the exploration, exploitation, and refining of fossil fuels, whether conventional or unconventional. In addition, portfolio managers must ensure that high carbon-emitting companies gradually adopt transition plans that align with the Paris Agreement.
- ▶ The best-in-class approach is maintained with increased selectivity resulting in a 30% reduction of the investment universe, compared to 20% previously.
- ▶ Labelled funds will be required to consider the impact of investments on ESG factors (double materiality), using Principal Adverse Impact indicators (PAIs) as defined by SFDR (Sustainable Finance Disclosure Regulation). Moreover, funds must commit to achieving better performance than their initial investment universe on two indicators that are most closely aligned with their ESG objectives.

The final eligibility criteria will be published by the end of November and the updated framework will enter into force on March 1, 2024, for new candidate funds. Existing funds with the label will have one year to comply with the new criteria. It remains to be seen how many of the 1,200 currently labelled funds will choose to do so. Some managers may find the new criteria too constraining and choose to drop the label as a result.

With the exclusion of fossil fuel companies, the ISR label follows in the footsteps of the Belgian label, Towards Sustainability (EUR 500 billion in assets), which was also recently revised.

The stricter criteria also come as the EU has initiated a complete review of its Sustainable Finance Disclosure Regulation (SFDR). The European Commission launched a consultation in September, which

could lead to the replacement of Article 8 and Article 9 with labels. For further details: Read [SFDR Article 8 and Article 9 Funds: Q2 2023 in Review](#).

What will be the impact on the SRI-Labelled Fund Universe?

While it is premature to estimate the full impact of the updated eligibility criteria on the current universe of ISR-labelled funds, we can provide an idea of the scope of changes that funds will need to make as it pertains to the fossil fuel sector, which was the most controversial proposed change.

Below are the ISR-labelled funds with currently the highest exposure (in percentage terms) to the traditional energy sector. The vast majority of the funds are focused on European equities. The top 3 funds, including Tocqueville Value Europe ISR, CM-AM Europe Value, and DNCA Invest Archer Mid-Cap Europe, have exposure to oil & gas stocks between 13-14% and holding values between EUR 49 million and 62 million.

Exhibit 1 Top 20 ISR-labelled funds with the highest exposure (in % terms) to the energy sector

Name	Net Exposure to Energy Sector (%)	Total Fund Assets (€ Mil)	Energy Holdings Value (€ Mil)	Morningstar Category	SFDR Fund type	Asset Manager
Tocqueville Value Europe ISR P	13.8	453	62	Europe Large-Cap Value Equity	Article 8	La Banque Postale
CM-AM Europe Value RC	13.6	361	49	Europe Large-Cap Value Equity	Article 8	Crédit Mutuel Alliance Fédérale
DNCA Invest Archer Mid-Cap Europe I EUI	13.4	365	49	Europe Mid-Cap Equity	Article 8	Natixis
BNPP Sustainable Europe Value Cl C	13.3	482	64	Europe Large-Cap Value Equity	Article 8	BNP Paribas
BNP Paribas Deep Value ISR Classic	13.1	108	14	Eurozone Flex-Cap Equity	Article 8	BNP Paribas
Covéa Solis I	12.4	160	20	Sector Equity Ecology	Article 8	Covéa
G Fund Opportunities Europe IC	11.5	200	23	Europe Large-Cap Value Equity	Article 8	Groupama
29 Haussmann Actions Europe D	11.3	86	10	Europe Large-Cap Blend Equity	Article 8	Societe Generale
DNCA Value Europe C	11.2	372	42	Europe Large-Cap Value Equity	Article 8	Natixis
CM-AM Europe Dividendes RC	11.1	109	12	Europe Equity Income	Article 8	Crédit Mutuel Alliance Fédérale
Tocqueville Value Euro ISR MH	11.0	1,014	112	Eurozone Large-Cap Equity	Article 8	LBP AM
Centifolia C	11.0	883	97	France Equity	Article 8	Natixis
DNCA Invest Value Europe I EUR	10.8	427	46	Europe Large-Cap Value Equity	Article 8	Natixis
Pluvalca Small Caps A	10.5	108	11	France Small/Mid-Cap Equity	Article 8	Financière Arbevel
Tocqueville Dividende ISR C	10.1	198	20	Eurozone Large-Cap Equity	Article 8	La Banque Postale
SG DNCA Actions Euro ISR C	9.9	326	32	Eurozone Large-Cap Equity	Article 8	Societe Generale
LBPAM ISR Actions Europe 50 GR	9.8	522	51	Europe Large-Cap Blend Equity	Article 8	LBP AM
LBPAM ISR Actions France C	9.8	196	19	France Equity	Article 8	LBP AM
Etoile Actions Rendement ISR D	9.7	114	11	Eurozone Large-Cap Equity	Article 8	Societe Generale Gestion
DNCA Opportunités Zone Euro I	9.7	808	79	Eurozone Flex-Cap Equity	Article 8	Natixis

Source: Morningstar Direct. Data as 08/11/2023.

Below are the ISR-labelled funds with currently the highest exposure (in euro terms) to the traditional energy sector. A majority of these funds are focused on Eurozone equities. The top 3 funds with the highest oil & gas exposure in euro terms are iShares MSCI USA SRI ETF (EUR 324 million), iShares MSCI World SRI ETF (EUR 208 million), and Eleva European Selection (EUR 171 million). Energy stocks in these funds represent between 2.8% and 3.9%.

Exhibit 2 Top 20 ISR-labelled funds with the highest exposure (in EUR terms) to the energy sector

Fund Name	Energy Holdings Value (€ Mil)	Net Exposure to Energy Sector (%)	Total Fund Assets (€ Mil)	Morningstar Category	SFDR Fund type	Asset Manager
iShares MSCI USA SRI ETF USD Acc	324	3.9	8,374	US Large-Cap Blend Equity	Article 8	BlackRock
iShares MSCI World SRI ETF USD Dis	208	2.8	7,514	Global Large-Cap Blend Equity	Article 8	BlackRock
Eleva European Selection	171	3.7	4,635	Europe Large-Cap Blend Equity	Article 8	Eleva Capital
Amundi MSCI EMU ESG Ldrs Sel IE-C	158	8.5	1,858	Eurozone Large-Cap Equity	Article 8	Amundi
CM-AM France RC	127	8.1	1,559	France Equity	Article 8	Crédit Mutuel Alliance Fédérale
Afer Actions Euro ISR A	121	5.9	2,040	Eurozone Large-Cap Equity	Article 8	Ofi Invest
Tocqueville Value Euro ISR MH	112	11.0	1,014	Eurozone Large-Cap Equity	Article 8	LBP AM
Eurose C	109	4.3	2,553	EUR Cautious Allocation	Article 8	Natixis
SG Actions Euro Sélection C	108	8.1	1,324	Eurozone Large-Cap Equity	Article 8	Societe Generale Gestion
DNCA SRI Euro Quality RC	104	5.0	2,107	Eurozone Large-Cap Equity	Article 8	Natixis
Centifolia C	97	11.0	883	France Equity	Article 8	Natixis
ALM Actions Zone Euro ISR IC	86	3.7	2,337	Eurozone Large-Cap Equity	Article 8	AG2R La Mondiale
BNPP Best Sélection Actions Euro ISI	84	8.6	984	Eurozone Large-Cap Equity	Article 8	BNP Paribas
BL-Global Flexible EUR A	84	5.9	1,428	EUR Flexible Allocation - Global	Article 8	Banque de Luxembourg Invest.
DNCA Invest Eurose I EUR	84	3.9	2,146	EUR Cautious Allocation	Article 8	Natixis
DNCA Opportunités Zone Euro I	79	9.7	808	Eurozone Flex-Cap Equity	Article 8	Natixis
Amundi France Engagement PC	74	7.5	982	France Equity	Article 8	Amundi
Tocqueville Euro Equity ISR C	68	5.5	1,242	Eurozone Large-Cap Equity	Article 8	LBP AM
AXAWF Fram Sus Europe I Cap EUR	67	5.3	1,263	Europe Large-Cap Blend Equity	Article 8	AXA
SG Amundi Actions France ISR C	64	9.0	718	France Equity	Article 8	Societe Generale Gestion

Source: Morningstar Direct. Data as of 08/11/2023.

Drilling into ISR-labelled funds, we found more than 150 companies involved in the exploration, exploitation, and refining of fossil fuels (oil, gas, and thermal coal). Below we list the 10 most commonly held energy stocks in these funds and which will likely be affected by the new fossil fuel exclusion rule. France's TotalEnergies is by far the most popular energy stocks, currently being held in 161 ISR-labelled portfolios, followed by Neste from Finland, and other French company Gaztransport et technigaz.

Exhibit 3 The 10 most commonly held energy stocks in ISR-labelled funds

Company	Domicile	# ISR funds holding the stocks	Average weight in funds	Holding Value (€Mil)	Industry	Implied Temperature Rise			
						ITR (°C)	Industry % Rank	Management Quality	ESG Risk Rating
TotalEnergies SE	France	161	3.6%	2,405	Oil & Gas Integrated	3.9	26	Strong	🌍🌍🌍
Neste Corp	Finland	110	1.0%	564	Oil & Gas Refining & Marketing	3.6	46	Strong	🌍🌍🌍🌍
Gaztransport et technigaz SA	France	87	1.9%	389	Oil & Gas Equipment & Services	3.7	91	Weak	🌍🌍🌍🌍
Eni SpA	Italy	65	1.2%	389	Oil & Gas Integrated	3.1	5	Strong	🌍🌍🌍
Technip Energies NV	France	59	1.9%	317	Oil & Gas Equipment & Services	5.4	94	Average	🌍🌍🌍
Repsol SA	Spain	46	0.9%	149	Oil & Gas Integrated	3.0	1	Strong	🌍🌍🌍
Galp Energia SGPS SA	Portugal	35	0.7%	113	Oil & Gas Integrated	4.3	51	Strong	🌍🌍🌍
BP PLC	UK	32	1.3%	180	Oil & Gas Integrated	3.4	12	Strong	🌍🌍
Shell PLC	UK	32	1.7%	208	Oil & Gas Integrated	3.9	22	Strong	🌍🌍
OMV AG	Austria	30	0.5%	41	Oil & Gas Integrated	5.2	79	Average	🌍🌍🌍

Source: Morningstar Direct. Data as of 08/11/2023. Morningstar Sustainability.

We don't currently have readily available data to share about energy companies' expansion plans, Sustainalytics research shows that none of these companies are on a 1.5-degree Celsius global warming trajectory.

TotalEnergies SE has an implied temperature rise of 3.9 degree, despite the company's strong management of low-carbon transition issues according to Sustainalytics. This means that if all companies had the same investment alignment and transition preparedness as TotalEnergies, it is estimated that the world would warm by 3.9 degrees above pre-industrial levels. TotalEnergies scores 26th out of 100 in its sector.

TotalEnergies is currently held by 176 ISR-labelled funds for an aggregate value of about EUR 2.4 billion. Below we list the top 20 labelled funds most exposed to TotalEnergies in both percentage and euro terms, respectively.

Exhibit 4 The 10 ISR-labelled funds most exposed to TotalEnergies (in % terms)

Fund Name	ISIN	Weight (%)	Market Value (€, Mil)	Morningstar Category	Asset Manager
Centifolia	FR0007076930	9.8	91.1	France Equity	Natixis
LBPAM ISR Actions Focus France	FR0000286304	8.4	45.2	France Equity	LBP AM
Tocqueville France ISR	FR0010546960	8.2	18.6	France Equity	La Banque Postale
DNCA Engage	FR0013248424	8.0	17.1	Europe Large-Cap Blend Equity	Natixis
CPR Actions France ESG	FR0011354646	7.1	13.6	France Equity	CPR AM
Tocqueville Value Euro ISR	FR0007074166	7.0	84.1	Eurozone Large-Cap Equity	LBP AM
Conservateur Emploi Durable	FR0000930471	6.9	5.9	Eurozone Large-Cap Equity	Banque Palatine
LBPAM ISR Actions Diversifié	FR0000286296	6.9	52.6	EUR Aggressive Allocation	LBP AM
BNP Paribas Valeurs Françaises ISR	FR0010028902	6.5	20.1	France Equity	BNP Paribas
Palatine Europe Sustainable Employment	FR0010915207	6.4	5.8	Europe Large-Cap Growth Equity	Banque Palatine

Source: Morningstar Direct. Data as of 08/11/2023.

Centifolia, a French equity fund offered by Natixis, currently has the highest exposure (in % terms) to TotalEnergies, with a 9.8% weight, representing a market value of EUR 91 million. Meanwhile, Eleva European Selection, which invests in European large-cap equities, has the largest allocation (in monetary terms) to TotalEnergies. The fund has nearly EUR 120 million, or 2.4% of the portfolio, invested in the stock.

Exhibit 5 The 10 ISR-labelled funds most exposed to TotalEnergies (in EUR terms)

Fund Name	ISIN	Market Value (€ Mil)	Weight (%)	Morningstar Category	Asset Manager
Eleva European Selection	LU1111643042	119.6	2.4	Europe Large-Cap Blend Equity	Eleva Capital
Amundi MSCI EMU ESG Leaders Select	LU0389810994	106.8	5.6	Eurozone Large-Cap Equity	Amundi
Amundi France Engagement	FR0000944696	99.3	5.0	France Equity	Amundi
Eurose	FR0007051040	96.5	3.7	EUR Cautious Allocation	Natixis
Centifolia	FR0007076930	91.1	9.8	France Equity	Natixis
Tocqueville Value Euro ISR	FR0007074166	84.1	7.0	Eurozone Large-Cap Equity	LBP AM
Afer Actions Euro ISR	FR0007024393	80.7	4.0	Eurozone Large-Cap Equity	Ofi Invest
DNCA Invest Eurose	LU0284394151	80.4	3.7	EUR Cautious Allocation	Natixis
BNP Paribas Best Sélection Actions Euro ISR	FR0010116541	57.8	5.7	Eurozone Large-Cap Equity	BNP Paribas
LBPAM ISR Actions Diversifié	FR0000286296	52.6	6.9	EUR Aggressive Allocation	LBP AM

Source: Morningstar Direct. Data as of 08/11/2023.



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