

ACATIS FAIR VALUE SPECIAL

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PAIs - the litmus test for sustainability funds

In the chemical industry, litmus tests are carried out to determine the state of a solution. The Principle Adverse Impact Indicators (PAIs) are accorded a similar function with respect to sustainability funds, if the providers have declared the funds as Article 8 or 9 funds in accordance with the requirements of the Sustainable Finance Disclosure Regulation (SFDR).

However, a classification according to Article 8 or 9 by the fund providers themselves leaves some leeway for minimum and maximum solutions for implementing sustainability in the fund concept. Only the development of objective indicators makes it possible to compare different sustainability funds. And this is exactly where the PAIs are supposed to come in. Note the wording "supposed to". Opinions differ as to whether the mandatory PAIs defined by the SFDR actually live up to this claim.

Some of the examples noted in this document are supposed to highlight solutions and the problems with regard to the PAIs. For example, PAI 2 and PAI 3 "Carbon footprint" (invested greenhouse gas emissions / EUR million company value) or "GHG intensity" (tonnes of CO₂ equivalent / EUR million sales revenues) are very informative and easily comparable indicators of the greenhouse gas intensity of a portfolio. PAI 5 "Share of non-renewable energy consumption and production" is difficult to ascertain because many companies simply do not have the relevant data, which means that it cannot offer any informative value with respect to a portfolio. The same applies to PAI 12 "Unadjusted gender pay

gap". Here too, the informative value is often limited due to an inaccurate or missing data basis. Similarly, the contents of PAI 14 "Exposure to controversial weapons" do not go far enough, since in general, sustainability funds should exclude all types of controversial weapons.

The lack of valid data and inadequately defined PAIs can dilute the validity of PAI statements. Thus it will take years until all companies in the EU will be required to comment on the PAIs in their CSR reports as a result of the legal requirements in the Corporate Sustainability Reporting Directive (CSRD). But what is the situation with regard to American or Chinese companies? They are not subject to the EU reporting requirements, and it cannot be assumed that they will automatically comply with the same in the future.

Nonetheless, it is worth taking a look at the imminent litmus tests for the Article 8 and 9 sustainability funds, in order to get a better picture of the situation. All Article 8/9 funds must publish a PAI Statement by the end of June 2023. The PAI indicators provide additional reliable investor information. Labels such as the FNG seal or the Austrian environmental label provide transparency about the criteria and methods that are used to implement sustainability aspects in investments. Therefore it pays to look carefully at the investments in sustainability funds.

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