

Climate-friendly investments – An advisory check at Luxembourg banks

RESULTS AND IMPLICATIONS OF A MYSTERY SHOPPING

NEXTRA CONSULTING GMBH



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Nextra Consulting GmbH is a strategy consulting company based in Hamburg. The consulting focus is on the Green Transition - the accompaniment of companies on their way to a sustainable future. The service portfolio ranges from status quo analysis to strategy and implementation.

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1 Management Summary

Sustainable investing is "trendy". More and more bank clients want to invest their money sustainably. "Green finance" and "sustainable finance" are increasingly developing from a market niche into the mainstream. At the same time, however, it is becoming clear that many "green" financial products do not deliver what they promise. The industry is increasingly being accused of greenwashing.

Greenpeace investigated how well Luxembourg banks advise their clients on climate-friendly investments. To find out, Greenpeace carried out Mystery Shopping at six banks based in Luxembourg. The result: The test clients were recommended investment products as climate-friendly, which are not compatible with the goals of the Paris Climate Agreement. In addition, considerable weaknesses were found regarding the transparency of the products offered and the expertise of the advisors.

According to an opinion poll commissioned by the Luxembourg Sustainable Finance Initiative (LSFI), Fondation ABBL and the financial supervisory authority CSSF and published in September 2022, not even half of Luxembourg citizens currently know what sustainable finance is. According to LSFI, Fondation ABBL and CSSF, one priority now is to educate bank customers about sustainable investing.

Looking at the results of the Mystery Shopping, Greenpeace concludes that it is

first and foremost the banks themselves that must do their homework. The training of bank staff regarding sustainable financial products, competent advice to clients based on maximum transparency regarding the investment options offered, as well as a range of products that are in line with the Paris climate goals, must become the standard for Luxembourg banks.

So far, European legislation has not been able to put a stop to greenwashing in the financial sector. Greenpeace therefore expects the Luxembourg government to set ambitious requirements for climate-friendly investments. The financial support for financial products that are not in line with the Paris climate goals or run counter to other sustainability goals must also be stopped.

Time is pressing, given the accelerating pace of global warming. Greenpeace demands that Luxembourg banks immediately develop and offer products that actually redirect capital into a climate-friendly economy and thus contribute to solving the climate crisis.

Martina Holbach

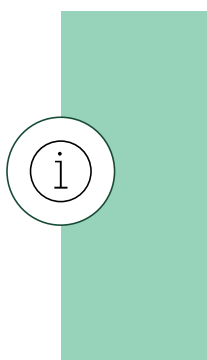
Sustainable Finance Campaigner
Greenpeace Luxembourg

2 Overview of methodology

This analysis assesses the quality of advisory on sustainable financial products in Luxembourg banks. To obtain a sound overview of the current advisory practice, we used the methodological approach of Mystery Shopping.

Mystery Shopping is a market research instrument:

Test customers or test shoppers who do not identify themselves as such (*Mystery Shoppers*) carry out test purchases on behalf of companies or market research institutes or test service offers, e.g., advisory services.



A total of 19 Mystery Shoppers attended 27 consultation interviews in six different financial institutions. These included:

- Banque de Luxembourg
- Banque Internationale à Luxembourg
- Banque et Caisse d'Épargne de l'État (Spuerkeess)
- Banque Raiffeisen
- BNP Paribas
- ING Groep

All Mystery Shoppers chose the financial institution individually. Greenpeace Luxembourg only acted as a coordinator to ensure that a sufficient number of different financial institutions were visited. Eight Mystery Shoppers carried out two consultation appointments at different financial institutions. Prior to the consultation interviews, all Mystery Shoppers received a

comprehensive briefing on how to conduct the Mystery Shopping. The briefing also included guidelines for answering certain standard questions from the bank advisors (e.g., information on the investment horizon, risk affinity or return expectations). This ensured that the Mystery Shoppers were offered fund-based investment products.

Following the consultation session, all Mystery Shoppers shared their experiences in a standardised questionnaire. The product information on various capital investments offered by the financial institutions in the consultation interviews was collected and then evaluated based on a set of assessment criteria. The evaluation of the customer journey and the assessment of the products was carried out by Nextra Consulting.

The criteria considered in the evaluation of the products are explained in more detail in Chapter 4.1 and in the Annex 6.2. A five-level colour scale was developed for all nine criteria. Depending on the level of ambition or depth of detail of the investment criteria analysed, a corresponding colour coding was deposited in the fund evaluation. If funds selected certain investment approaches, then clear qualitative criteria for the implementation of these approaches were assessed.

Although the Mystery Shoppers were primarily acquired via the various networks of

Greenpeace Luxembourg, a possible bias in the sample resulting from this approach can be largely neglected. Whilst it is very likely that Mystery Shoppers with an intrinsic dedication and commitment to sustainability and climate protection were found, these characteristics are not decisive for the course of the consultation interview. Instead, the respective prior knowledge about financial investments and capital markets plays a role here. On average, it can be assumed that the general population does not have comprehensive prior knowledge in this regard. The questionnaire therefore asked the Mystery Shoppers' respective prior knowledge about financial markets and capital investments in general. Among the Mystery Shoppers this prior knowledge varied significantly. Half of the Mystery Shoppers had not yet invested in capital

investments and little or no involvement with financial markets. The other half already possesses over first experiences with capital investments or invests regularly and knows financial markets well to very well. More than half of the Mystery Shoppers had never invested in sustainable or climate-friendly capital investments. It can therefore be assumed that the group of Mystery Shoppers was diversified and – to a large extent – participated the consultation interview without any specific prior knowledge. We thus consider the results of the Mystery Shopping to be essentially representative. The sample is also diverse in terms of age structure and gender distribution and as such – in our opinion – quite representative.¹

¹ Further details on the characteristics of Mystery Shoppers can be found in Appendix 6.1.

3 Assessment of the consultation quality

Consultation sessions are for the most part standardised and follow a clear process. This starts with the scheduling of the appointment – the potential first direct contact between the client and the bank. The consultation appointment itself begins with a so-called qualification phase. Here, the bank advisors first ask targeted questions about the client's investment preferences. Based on the gathered information, the most suitable product suggestions for the respective customer can be presented in the ensuing phase. There concrete products are proposed, and outstanding questions can be addressed. In this Mystery Shopping, the consultation ended with the provision of further information that could subsequently be used to make a purchase decision. The results of the analysis along this customer journey are summarised below.

3.1 Results along the customer journey

3.1.1 Making the Appointment

Scheduling the appointment is of great importance for the sale of sustainable investments. It is not only the potentially first direct contact between the customer and the bank, but it also offers the opportunity to identify specific customer wishes (e.g., sustainability) before the actual

meeting. In this way, clients can be referred directly to qualified advisors. However, the experience of our Mystery Shoppers shows that this referral to corresponding experts in the respective financial institution did not work properly. For instance, one mystery shopper stated after the advisory meeting:

"In my opinion, the advisor did not have enough experience in advising on climate-friendly products."

3.1.2 Qualification

In this phase of the consultation interview, the bank advisors first ask for all essential client information as a sound basis for the subsequent presentation of corresponding financial products. A new regulation within the framework of the Financial Markets Directive MiFID II² stipulates that as of August 2022, advisors must also gather sustainability preferences of their respective customers. Considering this, all Mystery Shoppings were conducted after the 2nd of August 2022.

In contrast to current regulations, the advisors only actively enquired about the sustainability preferences of the Mystery Shoppers in one third of the conducted consultation interviews.

The recording of investor preferences for sustainable or climate-friendly products did not take place by default as a part of

² See EUROPEAN COMMISSION (2021).

the Mystery Shoppings. Since sustainability is a very complex topic, a more specific questioning of the Mystery Shoppers should have been carried out at the latest after the corresponding indication by the Mystery Shoppers. This is also required by law.

Even after a respective remark by the mystery shoppers, the advisors did not ask further questions about sustainability preferences in 37% of the consultation interviews.

Without a corresponding remark from more than half of the Mystery Shoppers, sustainable and climate-friendly products would probably not have been offered during the consultation at all. This practice ignores the increasing demand for sustainable financial products and slows down investments in sustainable capital investments. It can be assumed that proactively offering sustainable investment options would have a positive influence on sales as well.

In practice, the sale of sustainable investment products in accordance with the investment preferences of the customers thus fails due to a lack of identification of the preferences.

The reasons for this may be multi-layered. Possible causes are a lack of knowledge of the legal requirements and limited advisory competence, as well as a lack of product alternatives for very specific sustainability needs.

"What I noticed negatively is that the advisors are not experts."

3.1.3 Product presentation

After all Mystery Shoppers had informed the advisors about their desire to invest in a climate-friendly way, the advisors identified the products they considered most suitable for the Mystery Shoppers and presented them in more detail.

In the survey following the Mystery Shopping, the Mystery Shoppers stated that despite the expressed investment preferences, the main part of the product presentation was spent on the classic questions about return and risk.

In less than 50% of the cases, the sustainability of the investments was discussed in detail and in not even 20% of the interviews was a detailed discussion of climate compatibility. One Mystery Shopper appropriately described:

"The advisor didn't give me any explanation about green funds: for her, a fund is green if it says ESG on the fund sheet."

Accordingly, advisors do not take enough time to explain the sustainability characteristics of the offered products.

In some cases, considerable gaps in knowledge about the characteristics of sustainable investments were reported. For example, one Mystery Shopper described in view of the scope of application of sustainability criteria:³

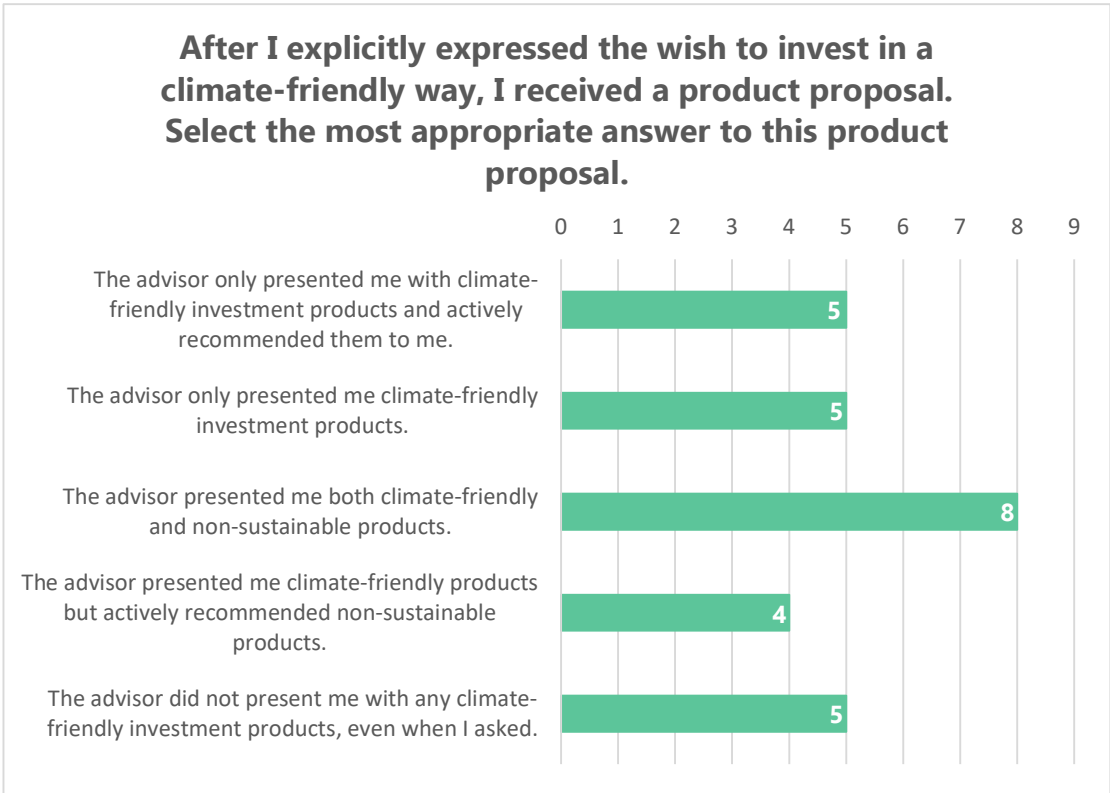
"The advisor believes that 70% of assets that meet the ESG criteria are sufficient for sustainable investment. More than that is not possible."

Overall, in 52% of the conducted interviews, the investment strategy of the offered capital investments was not

transparent in terms of climate compatibility, even after the explanations of the advisors.

In about half of the consultation interviews, conventional products were (additionally) offered despite the expressed preference for climate-friendly capital investments, which is a clear contradiction to the current legal situation.

"The advisor replied that the product range at the moment in the bank is neither very broad nor very sustainable."



³ The definition of the scope of application is a weak spot of many investment products. In the case of high-quality products, 100% of the securities contained in

the fund should be analysed from a sustainability perspective. See also chapters 4.1 and 6.2.

3.1.4 Provision of information

The last step of the customer journey, that we are looking at, includes the provision or use of information materials by the advisors. These are utilized by customers as a support during the consultation interview, as well as in the decision-making process afterwards.

In 25 of the 27 interviews, information material was used and partially handed out to the Mystery Shoppers. In about 60% of the Mystery Shoppings, the Mystery Shoppers found the information materials utilized in the consultation interview helpful in assessing the product suggestions. In more than one third of the consultation interviews (9), the used or handed out documentation was not considered helpful for the assessment of the product suggestions.

"I also found it unfavourable that I wanted a climate-friendly product and was then sent an email with 10 attachments that I, as a layman, am overwhelmed with."

For example, banks regularly fail to support or instruct bank advisors with target group-specific information materials for counselling.

3.2 Conclusion

The above analysis results show that there are currently considerable deficits in the provision of advice on sustainable or climate-friendly capital investments. Already during the appointment scheduling, the opportunity is missed to specifically assign clients to bank advisors who have the corresponding expertise in the field of sustainability.

In the following qualification process, the sustainability preferences are often not asked for consistently. At present, there are obviously still considerable deficits regarding the implementation of the MiFID II requirements that have been in force since 2 August 2022.

Contrary to the legal requirements, sustainably oriented clients are momentarily regularly offered conventional products as well. Moreover, advisors still focus strongly on the traditional topics of return and risk during the consultation and only marginally consider sustainability- or climate-related product features in most cases. This seems to be mainly due to a lack of advisory competence, as on one hand the Mystery Shoppings revealed considerable knowledge gaps on the part of the advisors and on the other hand more than half of the Mystery Shoppers stated that they were unable to comprehend the presented investment strategy.

The often-used information materials do not enable customers to make a qualified decision on the offered products. In the

end, they are left alone with the task of evaluating the sustainability of different investment products.

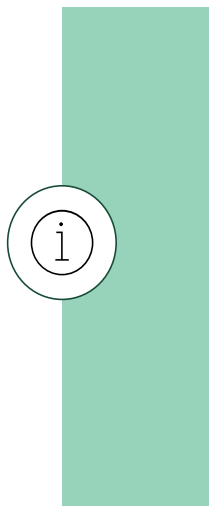
"Despite my beginner level, the advisor had the opinion that I had to take certain steps myself: Monitor investments, re-search myself whether an investment is sustainable or not."

Overall, despite the described deficits, 50% of the Mystery Shoppers rated the consultation interview as good or very good. Above all, the often very open and honest tone of the bank advisors regarding the fulfilment of investment preferences was positively emphasised by several Mystery Shoppers.

4 Assessment of the product quality

Sustainable investments have been one of the core trend topics in the financial sector for several years. For a long time, there were no clear guidelines based on which the sustainability of funds could be assessed. As a result, an increasing number of cases occurred, where financial institutions chose investment approaches with minimal sustainability value, while advertising their products as sustainability funds.

A study commissioned by Greenpeace Switzerland and Greenpeace Luxembourg from the Swiss rating agency Inrate in the summer of 2021 also showed that sustainable funds in the countries mentioned do not sufficiently support the redirection of capital into sustainable activities. Although it was shown that sustainable capital investments can usually achieve a significantly lower exposure to environmental controversies, the experts from Inrate found hardly any significant differences to conventional funds, especially with regard to the sustainability impact.



The EU has also recognised that guidelines are needed to prevent greenwashing in relation to sustainable investments and defined disclosure requirements in spring 2021. These requirements seek to enable a clear distinction between "light green" and

"dark green" funds versus conventional funds.⁴

A recent analysis by Morningstar found that the financial industry has now adapted to the new requirements. Figures from Q2 2022 show that more than half of the capital invested in funds in the EU is currently invested in products categorised as light green or dark green.⁵

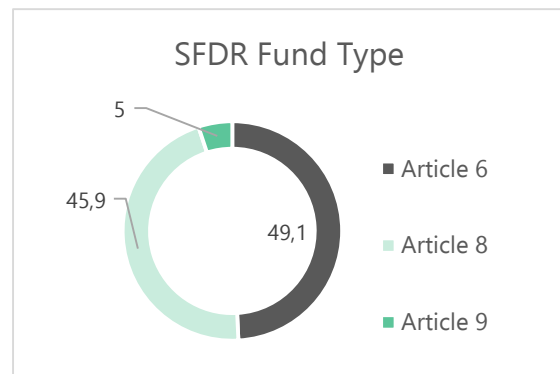


Figure 1: Share of total invested capital in the EU per SFDR Fund Type in Q2 2022

In the case of new funds coming onto the market, the proportion of sustainably classified products is even higher (approx. 60%).

However, a deeper look into the investment approaches of the supposedly sustainable products reveals that there are considerable differences in the design and on the level of ambition.

⁴ According to the EU Sustainable Finance Disclosure Regulation (SFDR), conventional funds are referred to as Article 6 funds, whereas light green funds fall under Article 8 and dark green funds under Article 9 of the SFDR. Light-green financial products take environmental or social criteria into account when making

investment decisions, while dark-green funds pursue a sustainable investment objective (e.g., the reduction of emissions or the creation of affordable housing).

⁵ See *MORNINGSTAR (2022)*. In total, this represents an investment volume of more than four trillion euros.

The clear recommendation for sustainably oriented investors is as follows:

Before making an investment, the quality of the respective investment approach should be prioritised and checked thoroughly.

Otherwise, there is a great danger that the money will not be used solely to finance sustainable activities.

The central question is: How can (marginally) more sustainable fund products be distinguished from truly sustainable ones?

Although the EU's SFDR disclosure obligation is aimed at precisely this demarcation, it currently falls short with its guidelines on "dark green" Article 9 funds. For example, Article 9 requires that a fund must pursue at least one specific sustainability goal and may not cause "significant harm" regarding other sustainability dimensions ("Do no significant harm"). Conversely, this means: Damage to other sustainability dimensions is thus permissible in principle, it must just not be significant. What exactly "significant harm" means remains to be defined by the EU within the next few years. At present, the responsibility lies with the product suppliers, who are developing their own definitions, which provides considerable room for manoeuvre in this respect.

4.1 Criteria for climate-friendly investment products

Regarding social and governance issues in the context of sustainable investment⁶, the complex discussion regarding hard boundaries for "significant harm" is quite understandable. For instance, the perceived harm in both categories is in part decisively shaped by changing value concepts over time. However, with regard to ecological aspects and especially with regard to climate aspects, these boundaries are scientifically justifiable and quantifiable: Ecological sustainability can be defined as economic activity that simultaneously preserves the natural regenerative capacity of the ecosystems involved.

This regenerative capacity of ecosystems has been the focus of extensive research for several years. It is largely undisputed in the scientific community that, regarding climate change for example, a limitation of global warming to well below 2 degrees – ideally 1.5 degrees – must be achieved to keep the planet in balance and avert the most serious consequences of climate change.

Sustainable investments must therefore be in line with the Paris climate goals if they – in addition to social and governance aspects – address environmental aspects and particularly when they are described as "climate-friendly".

⁶ ESG, E = environmental, S = social, G = Governance

To make fund portfolios more sustainable, however, fund providers use a variety of different investment approaches – often in combined form. Assessing the added value of individual approaches is by no means trivial. However, very few of these approaches are actually able to achieve Paris compatibility:

For instance, the vast majority of sustainability funds use **exclusion criteria** to remove investments that are exposed to activities that are particularly harmful to the climate from their investment portfolio. This is undoubtedly a sensible approach from a climate perspective. Ideally, attention should be paid to ensuring that these exclusions for coal, oil and gas are in line with the requirements of Paris-compatible transition scenarios.⁷ Nevertheless, the 1.5-degree compatibility cannot be achieved by excluding individual particularly critical, non-transformable companies⁸ or states alone.

In addition to the exclusion of non-transformable companies, a holistic transformation of the economy and thus of all companies in the fund portfolio is needed.

Furthermore, so-called **positive criteria** are regularly applied as well. In doing so, companies are identified that contribute to solving the sustainability or climate problems of specific sectors. Although the definition of positive criteria should overall

make an amplifying contribution towards a more sustainable orientation of the fund portfolio, positive criteria alone cannot ensure Paris compatibility either. This is partly due to the fact that fund providers already include companies in the potential investment portfolio if a relatively small share of turnover (e.g., 10%) is achieved with products that contribute to solving climate or sustainability problems, without checking the climate compatibility of the company's other products and services.

Moreover, to achieve 1.5-degree compatibility, it is not only the nature of a company's products and services that is crucial. The emissions intensity of the company and its value chains, which should evolve over time according to the emission reduction requirements of a <1.5-degree climate change scenario, are part of this nature as well.

Another approach that attempts to consider the sector-specific climate or sustainability performance of companies is the so-called **best-in-class approach**. With this approach, the companies of a sector are evaluated relative to each other based on a specific criterion (e.g., emission intensity or an ESG rating). The worst companies in the sector are then removed from the potential investment spectrum. If this approach is applied ambitiously, then a targeted investment in the most sustainable companies within a sector is possible.

⁷ e.g., the IEA NET Zero scenario

⁸ Assumption: Pure players, e.g., in the coal industry, will hardly be able to transform their entire business model in the shortest possible time.

Although this approach does not rule out the possibility that the entire sector is too emissions-intensive, it does increase the probability that more climate-friendly companies can be found within the investment portfolio. In practice, however, the approach is mostly used to exclude only the worst companies (e.g., the worst 20%). If applied in such an unambitious way, it is not suitable to ensure Paris-compatible investing.

The **best-in-progress approach** is based on a similar understanding. Here, however, the companies are evaluated based on their speed of transformation. On this, it is important that the fund manager should only compare companies in one sector as well, as emissions can be reduced very easily in some sectors, whereas in other sectors even small emission reductions require large investments.

While the best-in-class approach, if applied correctly, would in principle be suitable for identifying current climate pioneers in a sector, the best-in-progress approach enables the identification of transformation leaders.

Both approaches do not align their investment strategy with clear reduction or sustainability targets, but rather evaluate their investment decisions along the relative sustainability performance of different companies in a sector. If climate-friendly investing is to succeed, however, it is

necessary to select companies that reduce their greenhouse gas emissions at least as much as a 1.5-degree scenario would require within their sector.

Other approaches frequently used in sustainable capital investments are, for example, **engagement** and the **active exercise of voting rights**. In the engagement approach the fund manager regularly addresses the issue of sustainability or climate compatibility with the companies in the investment portfolio (e.g., in individual discussions or in writing). Thus, fund managers can use their mandate and given voting rights, e.g., in the context of general meetings, to influence the future direction of the company through their voting behaviour. Although both approaches have their *raison d'être*, an actual sustainability performance can only be proven in very few cases. Additionally, fund providers lack clear sanction mechanisms for unsuccessful engagement in most cases. For example, there would need to be a clear guideline stating that after three years without remedying or adequately addressing the existing deficit, a divestment⁹ of the fund is mandatory.

Consequently, engagement approaches alone are unsuitable for Paris-compatible, climate-friendly investing and should only be understood as a positive add-on.

Finally, due to its frequency, the approach of so-called **ESG integration** is also worth

⁹ The sale or renunciation of investments in one or more companies.

mentioning. Here, sustainability ratings are used for the companies in the fund. Climate aspects play a subordinate role in these ratings as a sub-area of the environmental dimension, which is why the investment on the basis of such ratings can certainly bring sustainability advantages, but no Paris compatibility is guaranteed. This shows that:

Paris-compatible, climate-friendly investing can only succeed if a fund's investment approach addresses the development of companies' emission intensity over time while taking into account the company's sector affiliation and the emission reduction requirements of a 1.5-degree scenario.

4.2 Results of product analysis

Against the background described above, all eleven of the fund products offered as climate-friendly in the 27 Mystery Shopping sessions were subjected to a more detailed analysis.

The small number already shows that there was a certain sensitivity on the part of most bank advisors with regard to making ambitious climate performance promises for the products.

Nevertheless, in the detailed analysis we found that products were advertised as climate-friendly that either have no climate focus or no sustainability focus at all.

The Lux Portfolio Growth fund offered by Spuerkeess should be emphasised here, as the fund provider, Spuerkeess Asset Management, believes that this is a product that does not pursue a goal linked to sustainability factors.¹⁰

All products advertised as climate-friendly are listed in the table below:

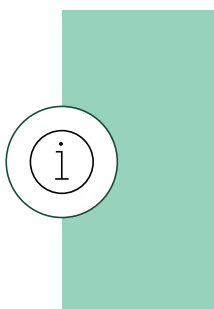
Bank	Product	ISIN
BNP Paribas	BNP Paribas Climate Impact CI C	LU0406802339
BNP Paribas	BNP Paribas Energy Transition C	LU0823414635
BNP Paribas	Smart Food CI Cap	LU1165137149
Spuerkeess	Lux Portfolio Growth	LU0091958313
Spuerkeess	Lux Equity Green	LU2173353967
Spuerkeess	Lux Bond Green	LU2065937091
Banque Internationale à Luxembourg	Invest Patrimonial Low	LU0049911091
Banque Raiffeisen	UniNachhaltig Aktien Global	DE000A2H9AX8
Banque Raiffeisen	Vontobel Clean Technology B	LU0384405600
Banque de Luxembourg	BL Sustainable Horizon	LU0093570173
ING	Aria Lion Balanced R	LU1014948613

Table 1: Products offered as climate-friendly

¹⁰ This indicates an advisory error on behalf of the bank advisor.

The detailed analysis of the products showed that none of them fully met the requirements for a truly climate-compatible capital investment.

The limitation of the scope of application creates considerable leeway for fund managers. For instance, a fund manager could exclude investments in coal for 75% of the fund volume, but invest the remaining 25%, to which the sustainability criteria do not apply, entirely in coal. In sum, this results in a sustainably labelled fund portfolio with a very high exposure to the coal sector.



The assessment of the scope of criteria for sustainability already showed that 90 % of the funds limit the scope of the applied sustainability criteria (sometimes considerably). Only one¹¹ of the eleven products advertised as climate-friendly prescribed the application of sustainability criteria for 100% of the securities in the fund.

This aspect is even more problematic when funds are based on the fund-of-funds concept and thus reinvest their capital in other allegedly sustainable funds.¹² A fund that invests 75% of its investments in other sustainability funds, which in turn limit the scope of application of the sustainability criteria to 75%, can in the worst case consist of almost half (44%) of highly problematic investments (see figure 2).

Moreover, with such "nested" investment approaches, it is hardly possible for private investors to obtain an overview of the sustainability criteria that actually apply, since theoretically the investment approaches of each individual sustainability fund in the fund portfolio would have to be examined.

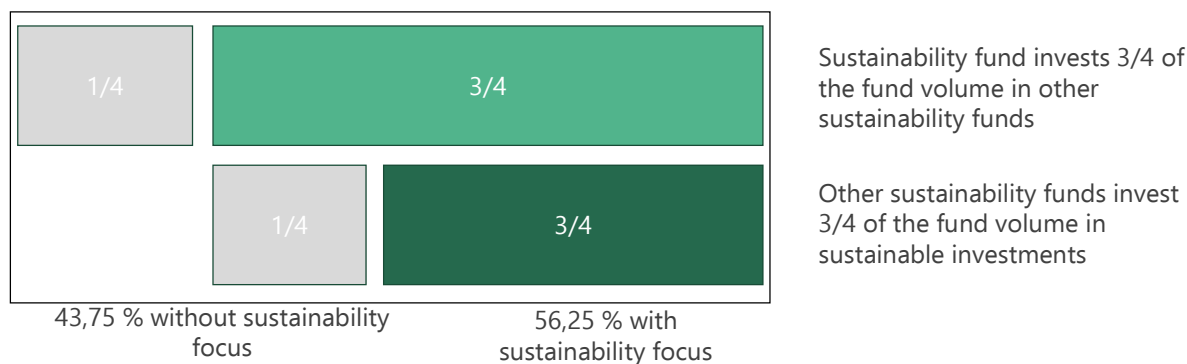


Figure 2: Sustainability in the fund-of-funds concept

A more in-depth analysis of the funds' investment objectives also shows that in most cases they have no clear reference to the Paris Climate Agreement. Only four of

the eleven funds state in the definition of the investment objective that they want to contribute to achieving the Paris climate goals. In none of these funds, however, is

¹¹ Vontobel Clean Technology B

¹² See, for example, the concept of ING's Aria Lion Balanced R fund, which is advertised as climate friendly.

this equated with the ambition level of a 1.5-degree scenario. Vontobel, one of the best-performing fund providers in this criterion, writes in this regard:

„... the Vontobel Fund – Clean Technology portfolio [...] is aligned with a 2 °C trajectory, in accordance with the Paris Agreement.“¹³

The analysis of the investment strategies developed to achieve the goals of the Paris Agreement shows that climate criteria are often unsuitable to ensure that investments support the implementation of the Paris climate goals.

For example, exclusion criteria, one of the most common approaches, are applied in eight of the eleven funds. However, these are never in accordance with a 1.5-degree scenario. Additionally, several fund providers do not allocate any further information on turnover thresholds. This is problematic as an unambitious interpretation of these turnover thresholds can quickly lead to the inclusion of highly diversified companies such as Glencore (at the same time one of the largest coal companies in the world) in the investment portfolio, although the sustainable investment strategy explicitly excludes coal companies.

Engagement or the active exercise of voting rights is carried out by eight of the eleven funds. In none of the funds, however, solid guidelines could be found for the exclusion of companies in the case of

unsuccessful engagement. Often the wording in the corresponding guidelines remain rather vague:

“Where these engagements do not progress in the direction that the investment team believe is in the best interests of shareholders or the shareholding is insufficient for an effective escalation on a standalone basis, other options are considered including, but not limited to: Voting against resolutions at shareholder meetings; Collaborating with other institutional investors; and/or Selling some or all of the investment in the context of the value proposition of the investment as a whole.“¹⁴

Although some funds provided transparency on the number of engagements in the fund portfolio as well as the thematic allocation (ESG), concrete objectives or more in-depth information on the successes and failures of the engagement were mostly not accessible.

ESG integration was also used by almost all funds (ten out of eleven providers). In general, however, no further information on the utilized ESG scores was made available. In this way, it remains completely non-transparent for the investor on which logic companies were classified as investible or not investible. In most cases, the approach was designed rather unambitiously. In fact, five of the eleven funds filtered out only the worst 20% of companies from the potential investment

¹³ See VONTOBEL ASSET MANAGEMENT AG (2021). p. 23.

¹⁴ See VONTOBEL (2020). p.4.

universe. A best-in-progress approach was not used in any of the funds.

On top, five of the eleven funds provide information on their climate impact via various climate indicators. Two of the funds even state that they have aligned their portfolio with a <2-degree scenario:

Product	Path in °C
Spuerkeess Lux Equity Green	1,98
Vontobel Clean Technology B	1,9

Table 2: Products with stated temperature path

Even though the transparency of the calculation logic of these indicators is largely lacking and should be compulsorily established, it is fundamentally commendable that funds report these metrics.

(Potential) Avoided Emissions are intended to quantify how great the contribution to the avoidance of greenhouse gases is made by companies that offer solutions in the fight against climate change. The basic idea is that by producing a wind turbine, for example, less fossil energy tends to be generated and thus the avoided emissions from fossil energy production can be attributed to the wind turbine producer and ultimately also to the shareholder (investor). The main problem here is that there are no standards for calculating such avoided emissions and that there is a great danger of double counting. The avoided emissions could ultimately be attributed not only to the wind turbine producer, but also to the energy supplier operating the wind farm or the railway company that ultimately consumes this wind energy.



With its Clean Tech Calculator, Vontobel also delivers promises that are difficult to comprehend. For example, it suggests that an investment of one million euros will supply 35 people with clean energy and 113 people with drinking water, or that emissions equivalent to the annual emissions of 1,343 cars will potentially be avoided. We consider the concept of Potential Avoided Emissions (PAE) to be

It is also positive to note that some fund providers¹⁵ publish quite comprehensive "performance reports" on an annual basis by now to describe the sustainability impact of their products.

However, we are critical of the fact that some of the effects promised to customers can hardly stand up to a reality check.

For instance, BNP Paribas states that by investing one million euros in the BNP Energy Transition Fund compared to an investment in a benchmark fund¹⁶, investors avoid emissions equivalent to 3,900 tonnes which corresponds to the annual emissions of 848 cars.

problematic due to numerous methodological weaknesses. Appropriately, the rating agency ISS ESG, which was commissioned by Vontobel to calculate the avoided emissions, states:

"...it is important to note that ISS ESG's PAE methodology does not allow for any claims about direct investor impact. [...] Consequently, an investment in a

¹⁵ The reports by Vontobel and BNP Paribas in particular provided extensive information for our analysis.

¹⁶ Meant here is an MSCI ACWI fund.

company whose products deliver PAE may not necessarily translate into a reduction in emissions to the extent claimed¹⁷

In general, the desire of providers to quantify the positive impacts associated with "green" products is understandable.

However, statements on the impact of investments, as those found in the impact reports of BNP Paribas and Vontobel, cannot be proven on a regular basis and have already led to various lawsuits in other countries.¹⁸

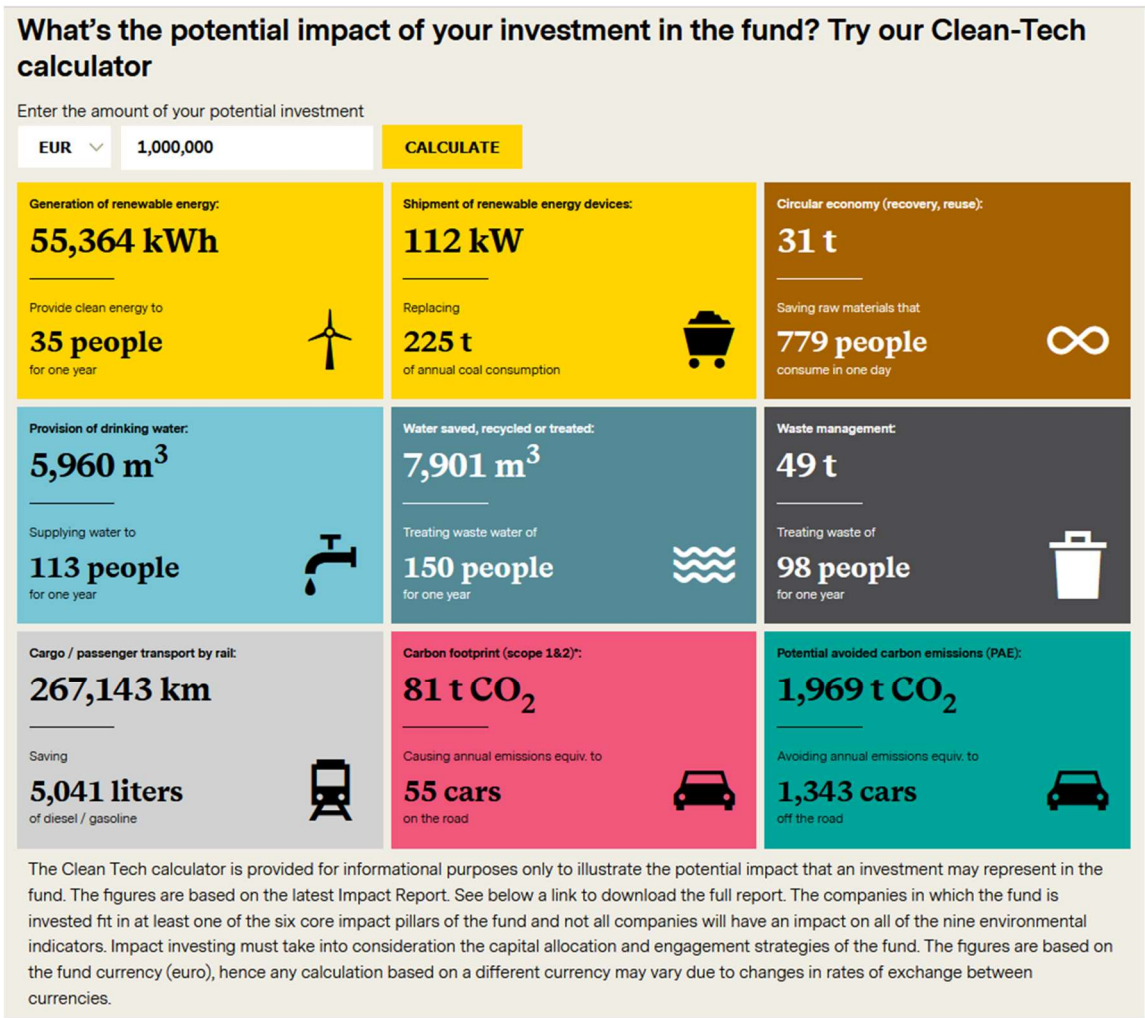


Figure 3: Vontobel Clean-Tech Calculator¹⁹

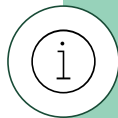
¹⁷ See VONTOBEL ASSET MANAGEMENT AG (2021), p. 31.

¹⁸ See HANDELSBLATT (2022).

¹⁹ See VONTOBEL HOLDING AG (2022).

Moreover, the analysis of the funds revealed that fund providers are currently facing considerable problems in applying the EU taxonomy.

The EU Taxonomy is a list of sustainable economic activities that contribute to the achievement of six EU environmental goals. The climate criteria in the taxonomy are mostly in line with the Paris climate goals. In future, large companies must disclose which of their activities fit the taxonomy, and providers of sustainable funds must in turn disclose how high the proportion of taxonomy-compliant investments in the fund portfolio is. In this way, greenwashing shall be avoided and investments in ecologically sustainable activities are to be pushed.



According to the SFDR, providers of dark green Article 9 funds must disclose how high the current proportion of taxonomy-compliant investments in the fund is. However, as data on the taxonomy compliance of companies is only very rarely available at the moment, fund providers developed their own workarounds to implement the taxonomy concept. Thus, information on taxonomy compatibility is vague at best. This also explains why 90% of the Article 8 and Article 9 funds reporting on the taxonomy currently report an alignment of 0%.²⁰

Overall, our analysis revealed not only shortcomings regarding the implementation of disclosure obligations.

In general, it can be stated that for most products advertised as climate-friendly, there is a considerable lack of transparency regarding the concrete design of sustainability approaches and criteria.

Nowadays, it is hardly possible for investors to assess the level of ambition of the approaches for most products, even with a high search effort. For example, BIL describes its ESG integration approach as follows:

*"The contribution of each investment to the Sub-Fund's overall ESG score will be taken into account prior to investment, with the value determined using an internally developed methodology."*²¹

However, BIL Invest does not provide in-depth information on its internal methodology in the fund documents. The analysis showed as well that the search for information on the sustainability criteria of individual funds can be very time-consuming. In addition to sales brochures, some of which are several hundred pages long, important customer information, websites, sustainability reports and, in some cases, guidelines and methodology documents must be perused to get the best-possible overview of the fund approach. As a result, the selection of a fund becomes a lengthy procedure.

In summary, it can be said that nowadays investors have hardly any chance of obtaining a well-founded estimate of the level of ambition of the investment

²⁰ See *MORNINGSTAR* (2022).

²¹ See *BIL INVEST* (2021). p. 56.

approaches with a manageable amount of effort. Even if they are prepared to work their way through the various available documents, many questions remain unanswered about the concrete design of the investment approach.

4.3 Conclusion

The detailed analysis of the offered products during the Mystery Shopping revealed that none of them sufficiently fulfilled the requirements for climate compatibility of capital investments. Instead, some products were offered as climate-friendly in the consultation interview, although they did not have a climate focus and in some cases not even a sustainability focus.

Considerable shortcomings exist especially regarding the Paris-compatibility – none of the offered funds specifically refers to the 1.5-degree reduction pathway. Two investment products with a <2-degree temperature path were identified. However, transparency regarding the calculation methods behind the pathways were not established.

The analysis of the funds revealed that fund providers are currently facing

considerable problems in the application of the EU taxonomy. Most of them are far from being able to provide reliable information on the taxonomy compliance of their investment portfolio.

The product analysis revealed that some funds are advertised with impact promises that will hardly pass a reality check.

Overall, a significant lack of transparency can be observed in a large number of the offered products. Although the provided information material was a helpful support for the Mystery Shoppers, the detailed analysis, however, revealed that in most cases only few conclusions can be drawn from the material regarding the concrete sustainability aspects or the climate performance of the respective investment strategy.

There is also a frequent lack of appropriate reporting that would provide a sounder basis to assess the level of ambition of the investment strategy and the actual climate performance. Based on the information that is currently available, it is difficult for customers to understand sustainability approaches or the climate compatibility of financial products.

5 Implications

The following implications can be derived from the results of the Mystery Shopping on the quality of advice and products for sustainable and climate-friendly financial products.

1. Luxembourg banks must implement Mi-FID II consistently.

The analysed banks have only inadequately implemented the law (MiFID II) on the mandatory enquiry of sustainability preferences in consultation interviews so far – the regulation has been in force since August 2022. Most clients' sustainability preferences are recorded insufficiently or not at all. Greenpeace sees a need to improvement on this matter and calls on the banks to comply with the legal requirements. It is not permissible to offer conventional products without a focus on sustainability, contrary to investor preferences.

2. Luxembourg banks must ensure professional expertise for the implementation of the regulatory requirements under MiFID II.

Bank advisors lack the professional expertise to offer appropriate advice on sustainability or climate compatibility. Currently, there is a knowledge deficit and advisors are neither able to understand sustainability approaches in investment strategies nor to explain them to clients. Greenpeace calls on the banks to train their employees accordingly.

3. Information materials must be designed in a comprehensible way.

The banks' information material lacks target-group-oriented information on sustainable or climate-friendly investment strategies. Therefore, bank advisors lack the foundation in the consultation interview to communicate sustainable investment strategies of fund products in a comprehensible way. Appropriately prepared information materials, in conjunction with staff training, could reduce the identified deficits in advisory skills on sustainable or climate-friendly investments and improve the overall quality of the consultation interview.

4. Investment approaches for fund products advertised as climate-friendly must follow an emissions reduction path in line with the Paris climate goals.

Paris-compatible, climate-friendly investing can only succeed if the respective investment approach addresses the development of companies' emissions intensity over time while considering the company's sector affiliation and the emissions reduction requirements for a 1.5-degree scenario.

5. Financial institutions should refrain from making promises regarding the climate performance of their funds.

Promises about potential impacts through making an investment do not

stand up to a reality check and are misleading for customers. For banks, promises about impacts can also lead to reputational and legal risks. Thus far, numerous lawsuits from other countries show that caution is advisable. Initially, clear cross-institutional standards should be developed as a solid basis for reporting on positive sustainability impacts of the companies in the portfolio.

6. Fund providers should make transparent that their information on taxonomy compatibility currently remains very imprecise.

The analysis of the funds also revealed that fund providers are facing considerable problems at the moment in the application of the EU taxonomy. They are far from being able to provide reliable information on the taxonomy compliance of their investment portfolio. Some workarounds, as identified in the analysis, tend to lead to an overvaluation of the taxonomy-compatible parts of the investment portfolio.

7. Banks must apply transparent criteria for sustainable and climate-friendly financial products.

For most products, it is hardly possible for investors to find out about the level of ambition and the sustainability or climate compatibility of investment strategies, even with a great deal of research. Hence, there is a lack of suitable reporting

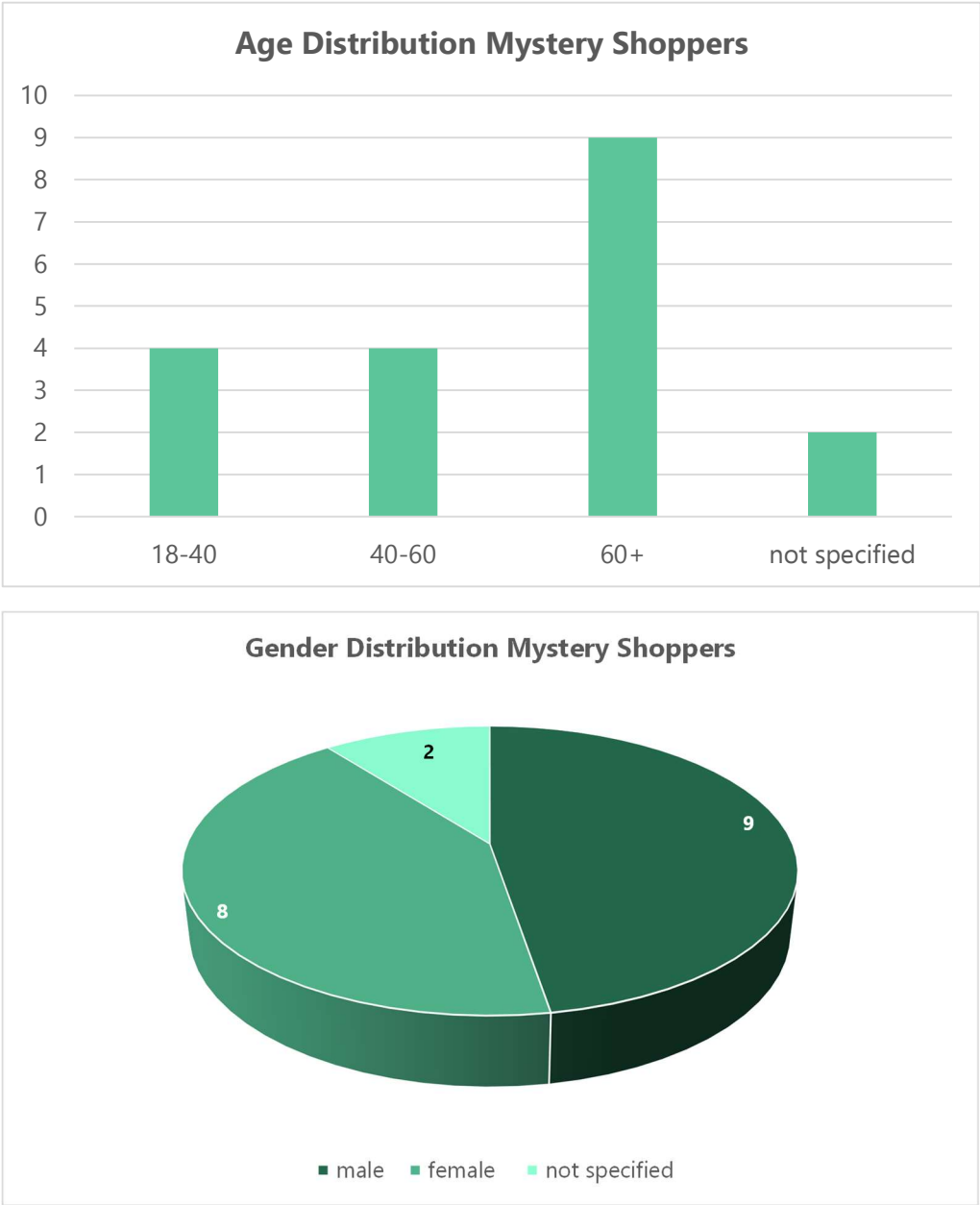
facilitate the assessment of the actual climate performance.

8. Investors should therefore ask themselves the following questions when evaluating fund products:

1. Do the sustainability criteria fully cover the securities in the fund?
2. Is there a target formulation in the sense of the Paris Climate Agreement or the EU taxonomy, e.g., by anchoring the 1.5-degree target for the entire investment portfolio?
3. Are there low turnover thresholds (ideally in line with Paris-compatible scenarios) for exclusion criteria for fossil energy sources such as coal, gas or oil?
4. Are specific details provided on the design of sustainable investment approaches?
5. Is a regular report (ideally once a year) on the climate performance of the fund published?
6. Additional question for more sustainability:
Are further exclusion criteria defined for controversial weapons, arms, nuclear energy, tobacco, alcohol and violations of the UN Global Compact?

6 Annex

6.1 Characteristics of the Mystery Shoppers



6.2 Detailed assessment of the Mystery Shopping products

The assessment of the proposed fund products was conducted along nine key sustainability criteria for financial products. Each one of these criteria was assessed on a scale of five ambition levels. The top level for each ambition level of the nine key sustainability criteria is outlined below.

1. Formulation of goals

Top level: Anchoring the 1.5-degree goal of the Paris Climate Agreement for the entire investment portfolio.

2. Existence of exclusion criteria for fossil energy sources, such as coal, gas or oil.

Top level: Exclusion criteria are in line for coal, gas, and oil with IEA Net Zero scenario.

3. Existence of further exclusion criteria.

Top level: For full points, exclusion of investments in armaments, tobacco, alcohol, nuclear energy, and companies that violate the guidelines of the UN Global Compact or the OECD.

4. Engagement

Top level: Full transparency on active engagement, including historical results and target setting for future engagement activities.

5. Carbon footprint

Top level: Carbon footprint of the entire portfolio volume is transparently disclosed, including both past and target figures.

6. ESG integration

Top level: ESG integration for the area of climate as well as complete transparency on climate criteria.

7. Existence of temperature pathways

Top level: Temperature pathways are in line with the 1.5-degree target.

8. Best-in-Class / Best-in-Progress

Top level: Financial product demonstrably performs best regarding the transformation to more sustainability or already belongs to the best products in the area of climate (best-in-progress or best-in-class).

9. Regular Reporting

Top level: There is regular reporting (at least once a year) on the sustainability and climate performance of the investment.

Ultimately, the scope of the applied sustainability criteria was assessed within the respective investment portfolio – with 100 % coverage constituting the top level. A five-level colour scale was developed for all nine criteria (see table 3).

Climate-friendly investments – An advisory check at Luxembourg banks

Financial Institution	Fund name	ISIN	Portfolio share covered by sustainability criteria	focus of investment target	exclusion of fossil fuels [coal, oil, gas]	Additional exclusions	Engagement	Disclosure of Carbon Footprint	ESG Integration	Alignment with climate transition scenarios	Best-in-Class/ Best-in-Progress	Reporting on Sustainability / Climate Impacts
BNP Paribas	Climate Impact CI C	LU0406802339										
BNP Paribas	Energy Transition C	LU0823414635										
BNP Paribas	Smart Food CI Cap	LU1165137149										
Spuerkeess	Lux Portfolio Growth	LU0091958313										
Spuerkeess	Lux Equity Green	LU2173353967										
Spuerkeess	Lux Bond Green	LU2065937091										
BIL Invest	Invest Patrimonial Low	LU0049911091										
Raiffeisen	UniNachhaltig Aktien Global	DE000A2H9AX8										
Vontobel	Clean Technology B	LU0384405600										
Banque de Luxembourg	BL Sustainable Horizon	LU0093570173										
ING	Aria Lion Balanced R	LU1014948613										

Table 3: Detailed assessment of the Mystery Shopping products

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