

# French ISR Label Revamp

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

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## Morningstar Manager Research

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## Executive Summary

The ISR label,<sup>1</sup> 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 Nov. 7, 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 already using the ISR label will be banned from investing 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.

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## Key Takeaways

- ▶ Out of around 1,200 ISR-labeled funds identified in Morningstar Direct, 45% have some exposure to the traditional energy sector, totaling around EUR 7 billion in assets.
- ▶ The top three funds with the highest exposure to the oil and 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% to 14% and holding values between EUR 49 million and EUR 62 million.
- ▶ The top three funds with the highest oil and 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 energy stocks held in ISR-labeled funds that will be affected by the new fossil fuel exclusion rule include TotalEnergies, Neste, Eni, Repsol, Galp Energia, BP, Shell, and OMV. It remains to be seen if the exclusion rule will extend to enabling actors, including oil and gas equipment and services companies Technip and Gaztransport et technigaz.
- ▶ TotalEnergies is currently held by 161 ISR-labeled funds for an aggregate value of EUR 2.4 billion, representing 1.6% of the company's market capitalization.
- ▶ The universe of ISR-labeled 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 offered by BlackRock and Amundi will align with the new criteria.

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<sup>1</sup> ISR stands for investissement socialement responsable in French, which is socially responsible investment, or SRI, in English. <https://www.lelabelisr.fr/>

## Background

The ISR label, created in 2016 by the French Ministry of the Economy and Finance, is Europe's largest environmental, social, and governance label and has become a major tool for savings products and sustainable finance in France. Nearly 1,200 funds are currently certified, representing around EUR 770 billion of assets under management.

In October 2021, France's Finance Minister 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, and so on), 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 Nov. 7, 2023, Le Maire [announced](#) his support for the committee's proposal for a more ambitious and demanding label, in line with its final proposal.

## Enhanced Eligibility Criteria

The new criteria focus on three key areas:

- ▶ The integration of a climate policy in the management of all labeled 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 will have to 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 with 20% previously.
- ▶ Labeled funds will be required to consider the impact of investments on ESG factors (double materiality), using principal adverse impact indicators, or PAIs, as defined by the 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 go into effect 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 labeled 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 European Union has initiated a complete review of its SFDR. The European Commission launched a consultation in September, which could lead to the replacement of the Article 8 and Article 9 designations with labels. For further details, read [SFDR Article 8 and Article 9 Funds: Q2 2023 in Review](#).

### What Will Be the Impact on the ISR-Labeled Fund Universe?

While it is premature to estimate the full impact of the updated eligibility criteria on the current universe of ISR-labeled funds, we can provide a sense of the scope of changes that funds may need to make regarding the fossil fuel sector, which was the most controversial and impactful proposed change.

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

**Exhibit 1** ISR-Labeled Funds With the Highest Percentage Exposure to the Energy Sector

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

Source: Morningstar Direct. Data as Nov. 8, 2023.

Below are the ISR-labeled 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 three funds with the

highest oil and 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 represent between 2.8% and 3.9% of the funds' assets.

For the two iShares ETFs, switching to indexes that align with the new rules or dropping the label are two options BlackRock will need to consider carefully given the large size of the funds (EUR 8.3 billion and EUR 7.5 billion, respectively) and their reach (the funds are distributed in many European countries).

#### Exhibit 2 ISR-Labeled Funds With the Highest Euro Exposure to the Energy Sector

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

Source: Morningstar Direct. Data as of Nov. 8, 2023.

In examining ISR-labeled 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 stock, currently being held in 161 ISR-labeled portfolios, followed by Neste from Finland, and French company Gaztransport et technigaz.

All the integrated oil and gas companies listed in the table below have plans to expand their oil and gas operations. For example, among other expansion projects, TotalEnergies is planning the development of a new oil field in Uganda that will turn the East African nation into a significant crude exporter.

**Exhibit 3a** The Most Commonly Held Energy Stocks in ISR-Labeled Funds

<b>Company</b>	<b>Domicile</b>	<b># ISR funds holding the stocks</b>	<b>Average weight in funds</b>	<b>Total Market Cap (€Mil)</b>	<b>Stock Holding Value in Funds (€Mil)</b>	<b>ISR funds weight in Stock's Market Cap</b>	<b>Industry</b>
TotalEnergies SE	France	161	3.6%	149,068	2,405	1.6%	Oil & Gas Integrated
Neste Corp	Finland	110	1.0%	25,635	564	2.2%	Oil & Gas Refining & Marketing
Gaztransport et technigaz SA	France	87	1.9%	4,479	389	8.7%	Oil & Gas Equipment & Services
Eni SpA	Italy	65	1.2%	49,465	389	0.8%	Oil & Gas Integrated
Technip Energies NV	France	59	1.9%	3,842	317	8.3%	Oil & Gas Equipment & Services
Repsol SA	Spain	46	0.9%	17,107	149	0.9%	Oil & Gas Integrated
Galp Energia SGPS SA	Portugal	35	0.7%	11,302	113	1.0%	Oil & Gas Integrated
BP PLC	UK	32	1.3%	94,391	180	0.2%	Oil & Gas Integrated
Shell PLC	UK	32	1.7%	200,760	208	0.1%	Oil & Gas Integrated
OMV AG	Austria	30	0.5%	14,037	41	0.3%	Oil & Gas Integrated

Source: Morningstar Direct. Data as of Nov. 8, 2023.

While we don't have specific information or data to share about other energy companies' expansion plans, it is fair to assume that virtually every company focused on oil and gas exploration, production, and refining is continuously looking to expand its oil and gas activities. Investors would be hard-pressed to find an oil and gas company that doesn't plan to replace its declining production from old fields by developing new fields, be they on the oil side or the gas side (liquified natural gas, for example). Similarly, it can be assumed that companies in the oil and gas equipment and services business, such as Technip and Gaztransport et technigaz, are also involved in new projects related to the exploration, exploitation, and refining of fossil fuels as they enable their clients (oil and gas explorers, producers, and refiners) to develop new fields. They are part of the value chain.

The description of banned companies provided by Finance Minister Le Maire last week is quite broad, and market participants will have to wait for the publication of the final criteria at the end of November to better understand the type of fossil fuel companies that will be affected by the new exclusionary rule. Note that if Technip and Gaztransport et technigaz fall within the scope, the impact on their market values would be significant as ISR-labeled funds currently hold 8.3% and 8.7%, respectively, of the companies. The impact on other companies, including BP and Shell would be insignificant, with labeled funds representing only 0.2% and 0.1%, respectively, of their market capitalization.

### **All Fossil Fuel Companies Are Highly Misaligned to a 1.5-Degree Celsius Pathway**

Meanwhile, it's worth highlighting that all fossil fuel companies held by ISR-labeled funds are currently highly misaligned to a 1.5-degree Celsius pathway, despite some, like TotalEnergies, having strong management of carbon transition issues.

**Exhibit 3b** The Most Commonly Held Energy Stocks in ISR-Labeled Funds

Company	Domicile	Implied Temperature Rise			
		ITR (°C)	Industry % Rank	Management Quality	ESG Risk Rating
TotalEnergies SE	France	3.9	26	Strong	🌍🌍🌍
Neste Corp	Finland	3.6	46	Strong	🌍🌍🌍🌍
Gaztransport et technigaz SA	France	3.7	91	Weak	🌍🌍🌍🌍
Eni SpA	Italy	3.1	5	Strong	🌍🌍🌍
Technip Energies NV	France	5.4	94	Average	🌍🌍🌍
Repsol SA	Spain	3.0	1	Strong	🌍🌍🌍
Galp Energia SGPS SA	Portugal	4.3	51	Strong	🌍🌍🌍
BP PLC	UK	3.4	12	Strong	🌍🌍
Shell PLC	UK	3.9	22	Strong	🌍🌍
OMV AG	Austria	5.2	79	Average	🌍🌍🌍

Source: Morningstar Direct, Morningstar Sustainalytics. Data as of Nov. 8, 2023.

TotalEnergies has an implied temperature rise<sup>2</sup> of 3.9 degrees, according to Morningstar 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 preindustrial levels. TotalEnergies scores 26th out of 100 in its sector.

TotalEnergies is currently held by 161 ISR-labeled funds for an aggregate value of about EUR 2.4 billion. Below we list the 20 labeled funds most exposed to TotalEnergies in both percentage and euro terms.

**Exhibit 4** The ISR-Labeled Funds Most Exposed to TotalEnergies (in Percentage Terms)

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

Source: Morningstar Direct. Data as of Nov. 8, 2023.

<sup>2</sup> The implied temperature rise is part of Sustainalytics' [Low Carbon Transition Rating data](#).

Centifolia, a French equity fund offered by Natixis, currently has the highest exposure in percentage 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. **III**

**Exhibit 5** The ISR-Labeled Funds Most Exposed to TotalEnergies (in Euro Terms)

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

Source: Morningstar Direct. Data as of Nov. 8, 2023.

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