Snapshot Sustainability

THE GERMAN SUSTAINABLE FUND MARKET IN Q3 2023

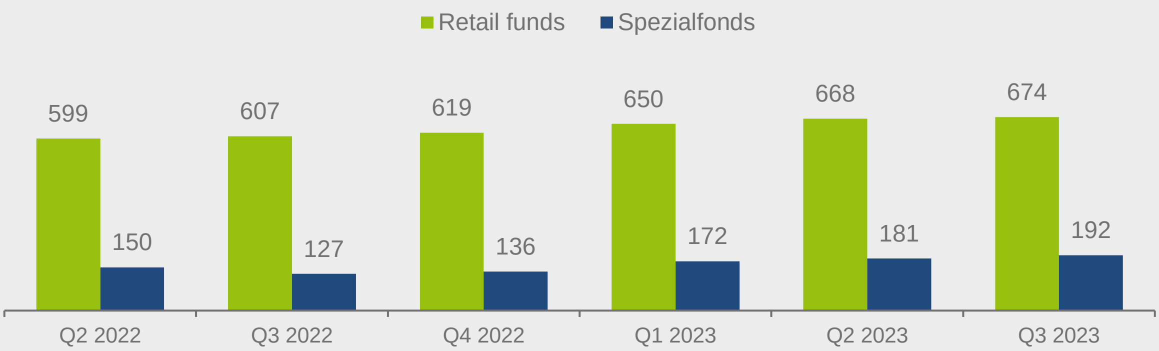
Growth in Spezialfonds with sustainability features; groundwork laid for higher taxonomy ratios of retail funds

At the end of the third quarter of 2023, German investors held funds with sustainability features worth EUR 866 billion. Retail funds accounted for more than three quarters of total assets. Although the segment of Spezialfonds with sustainability features is significantly smaller at EUR 192 billion, it has grown strongly recently. In the third quarter alone, the increase amounted to around six percent, and since the beginning of the year it has been over 40 percent. By comparison, retail funds only grew by eight percent. The main reason for the increase was the reclassification of existing products. By contrast, new business was negative in the third quarter: while there was a net outflow of around 0.3 billion EUR from Spezialfonds with sustainability features, retail fund investors withdrew almost four billion EUR - primarily from equity and balanced funds.

The EU taxonomy is a key component of investing sustainably. It classifies economic activities based on their contribution to the EU's climate and environmental goals. Since the beginning of 2023, funds with sustainability features have been required to provide information on the proportion of taxonomy-aligned

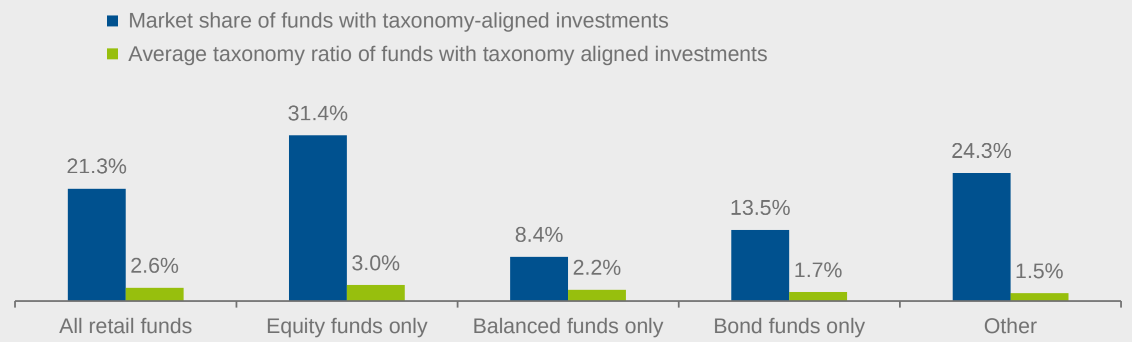
Net assets of sustainable funds according to SFDR

in EUR billion



End of quarter data

Taxonomy-aligned investments of open-ended retail funds (last reported)



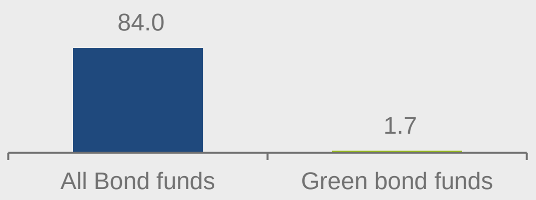
Asset weighted shares. Only funds with sustainability features and reported or positive taxonomy ratio, respectively.
As of 30.9.2023. Source: BVI, Morningstar Direct

investments in their portfolios as part of their periodic reporting. As at the end of September, data on this was available for 44 percent of retail funds with sustainability features held in Germany. As more annual reports are published in the coming months, coverage will gradually increase.

It is already becoming evident that taxonomy-aligned investments only make up a small proportion of portfolios in all asset classes. For four out of five funds that actually report ratios, it is even zero - and when it comes to funds that do report a positive taxonomy ratio, it averages just 2.6 percent.

The main reason for this is that the EU taxonomy is still incomplete. Around one third of the non-financial companies in the DAX reported a taxonomy ratio of less than one percent for the 2022 financial year. Especially service companies are often by their very nature unable to make a significant contribution to the already operationalised objectives of "climate change mitigation" and "climate change adaptation". It was only this year that additional guidance and further technical screening criteria were published, including

Assets of Bond funds with sustainability features
in Euro billions



As of 30.9.2023

for the additional environmental objectives of "sustainable use and protection of water and marine resources", "transitioning to a circular economy", "pollution prevention and control" and "protection and restoration of biodiversity and ecosystems". A social taxonomy, on the other hand, is still a long way off. The availability and quality of company data also remains a problem. According to a recent ESMA study published this October, in 30 to 40 percent of cases the reports were not filled in completely or not in the required manner.

It is striking that reported taxonomy-alignment is particularly low for bond funds - at just 1.7 percent. This is also due to the low availability of Green Bonds - meaning there are hardly any funds available that specialise in them: At the end of the third quarter of 2023, German investors held only 46 products with a total value of around EUR 1.7 billion, according to BVI investment statistics. This corresponds to a market share of two percent of all bond funds with sustainability features. The recently adopted EU regulation on European Green Bonds could now give the segment a boost. It sets a voluntary standard for Green Bonds issued by corporations and sovereigns that are offered on the market as European Green Bonds. These should as a rule use their issue proceeds in a taxonomy-aligned manner. The regulation creates a high standard of quality and transparency and raises expectations of increased issuance of taxonomy-aligned bonds. However, the first effects are not expected until 2025 at the earliest.

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