German Investment Funds Association

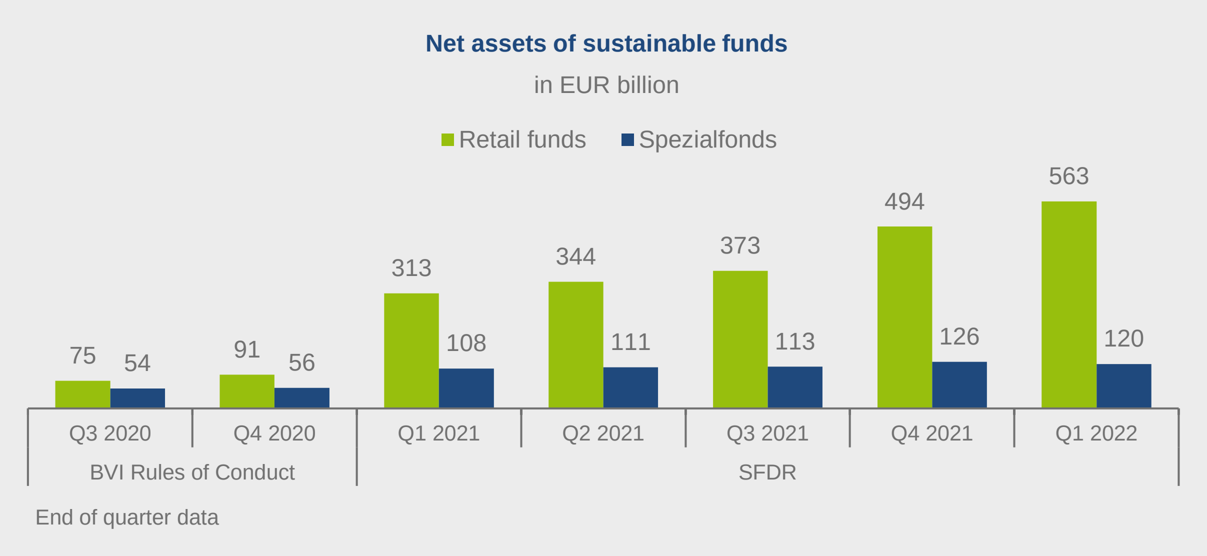
Snapshot Sustainability

THE GERMAN SUSTAINABLE FUND MARKET IN Q1 2022

Market for funds with sustainability features grows dynamically despite Ukraine war – distribution rulebook changes in August

Uncertainty on financial markets caused by the war in Ukraine has hardly affected retail funds with sustainability features so far. At the end of March 2022, they managed EUR 563 billion for German investors. This corresponds to 40 percent of all money invested in retail funds. Within twelve months, assets under management have increased by 80 percent. The main reason is the conversion of existing funds. Net inflows amounted to around five billion euros in the first quarter; after strong new business in January, sustainable retail funds suffered slight net outflows in February and March for the first time in two years.

Spezialfonds with sustainability features managed EUR 120 billion, which implies a decrease of EUR 6 billion compared to the end of the previous quarter. This is due to falling fund prices. After all, almost half of sustainable Spezialfonds' assets are accounted for by balanced funds investing in securities, and another 40 percent by bond funds. Therefore, they are disproportionately affected by falling bond prices caused by rising interest rates. Spezialfonds with sustainability features nevertheless attracted net new client money of around EUR 2 billion in the first quarter of 2022.



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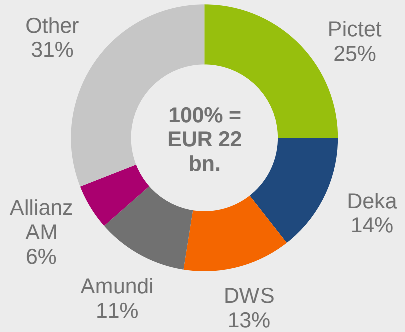
BVI currently collects data regarding which funds members classify as Article 8 funds (funds with environmental and/or social characteristics) and Article 9 funds (funds that contribute to at least one sustainability objective) according to the Sustainable Finance Disclosure Regulation (SFDR). The former account for more than 96 percent of sustainable retail fund and Spezialfonds assets. Article 9 funds only manage around EUR 22 billion. This is probably due to uncertainty regarding definitions, data and future regulatory requirements for impact-oriented and investments. Compared to other European countries, German fund houses are moreover cautious in their classification. German investors account for just under five per cent of the assets of Article 9 funds launched in the EU (according to Morningstar Direct). By comparison, the figure for all conventional and sustainable funds is 28 per cent. Nevertheless, 29 asset management groups offer funds that contribute to sustainability goals to German clients. Pictet, Deka, DWS, Amundi and Allianz Asset Management have a particularly large market share in Article 9 funds (see chart on the right).

This year, regulatory changes are on the horizon that will once again greatly change the market for sustainable funds. From 2 August 2022, additional product features will be relevant when advising clients with sustainability preferences. Advisors will then have to clarify whether investors either want a certain minimum share of sustainable investments or prefer investments in the sense of the EU taxonomy or want to reduce the most important adverse effects on sustainability (PAIs) with their investments. With the ESG target market concept, there is a German market standard regarding minimum qualitative requirements for products suitable for customers with sustainability preferences. The previous classification according to the Sustainable Finance Disclosure Regulation will no longer be decisive in sales. Many Article 8 funds can only be recommended to these investors if the investment strategy fulfils additional requirements, for example if it includes the PAIs in its ESG strategy (see chart below).

Article 9 funds held by German investors by asset management group



As of 31 March 2022

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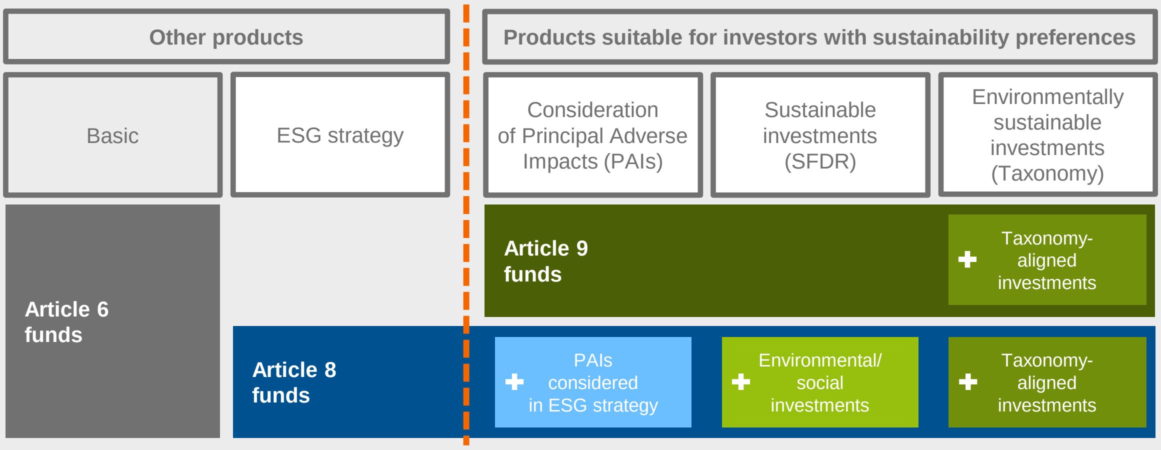
New rulebook for sustainable fund distribution (MiFID II): status as Art. 8 fund is not sufficient



Additional requirements from the German ESG target market concept are separately relevant for each product specification!