SFDR Article 8 and Article 9 Funds: Q1 2024 in Review
Article 8 fund flows rebound, but Article 9 fund outflows continue.

Morningstar Manager Research
April 30, 2024

Contents

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Executive Summary

Since the European Union's Sustainable Finance Disclosure Regulation came into force three years ago, in March 2021, asset managers have been required to provide more information on the sustainability risks and impact of their investment products sold in the EU. The level of disclosure depends on the sustainability objective of the products—that is, whether these are classified as Article 8 or Article 9 under SFDR. Funds with no environmental, social, and governance characteristics are classified as Article 6.

This report provides an update on the landscape of Article 8 and Article 9 funds at the end of March 2024, examining aspects such as flows, assets, launches, and reclassifications. We dive into the disclosure of sustainable investments, taxonomy alignment, and principal adverse impact indicators. We also provide a regulatory update.

Key Takeaways

- In the first quarter of 2024, flows into Article 8 funds rebounded, netting EUR 14 billion of new money after three quarters of outflows. Inflows were driven by fixed income and passive strategies.
- Article 9 funds bled money for the second consecutive quarter, registering outflows of almost EUR 4 billion.
- By comparison, Article 6 funds collected EUR 43 billion of net subscriptions, representing a significant increase from the previous three quarters of small inflows. Once again over the past five quarters, Article 6 funds showed a better flow performance than Article 8 and Article 9 funds.
- Combined assets in Article 8 and Article 9 funds increased by more than 4% over the first quarter to a record EUR 5.5 trillion. Together, Article 8 and Article 9 funds' market share climbed further to nearly 60% of the EU fund universe primarily because of continued reclassification from Article 6 to Article 8 or Article 9.
- We identified about 220 funds that altered their SFDR status in the first quarter, including roughly 190 that upgraded to Article 8 from Article 6.
- More Article 8 and Article 9 funds commit to make environmental investments than social investments. Over one third of Article 8 funds and 77% of Article 9 funds target environmental investments, while 26% of Article 8 funds and 56% of Article 9 funds commit to hold social investments.

The Article 8 and Article 9 Fund Universe

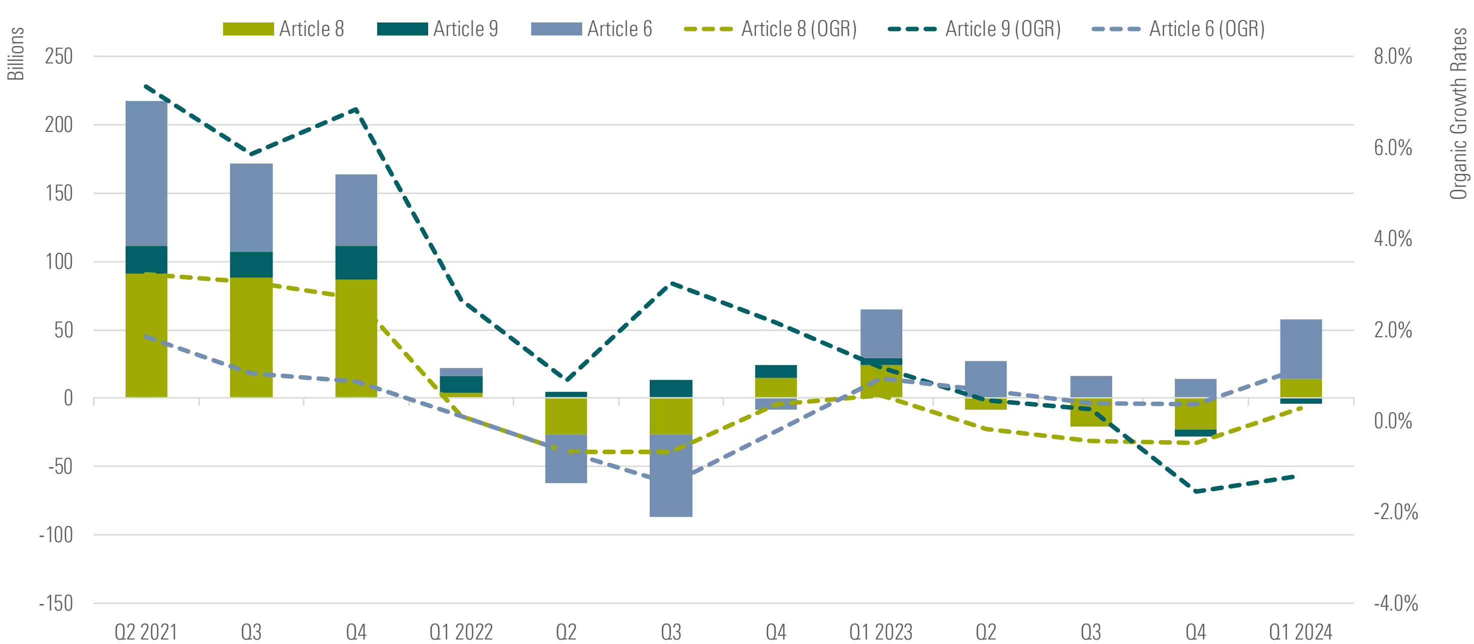
The Article 8 and Article 9 fund universe in this study encompasses open-end and exchange-traded funds in the scope of the SFDR that state in their prospectuses that they either promote environmental and/or social characteristics (Article 8, "light green" funds) or have a sustainable-investment objective (Article 9, "dark green" funds). We identified these funds using the EU SFDR Fund Type (Article 8 or Article 9) data point in the Morningstar Direct database. Funds in the scope of the SFDR that are neither Article 8 nor Article 9 are Article 6 funds (Not Stated in Morningstar Direct). This report uses SFDR disclosures collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 Fund Flows Turn Positive Again, While Article 9 Funds Keep Suffering Withdrawals

Flows into Article 8 funds turned positive in the first quarter of 2024, netting EUR 14 billion, after three quarters of redemptions totaling EUR 52 billion. However, investors continued to pull money out of Article 9 funds for the second consecutive quarter, as these registered net outflows of almost EUR 4 billion, after bleeding EUR 4.7 billion in the previous quarter.

Meanwhile, Article 6 funds collected EUR 43 billion of net subscriptions in the first quarter, representing a significant increase from the previous three quarters of small inflows. Once again over the past five quarters, Article 6 funds showed a better flow performance than both Article 8 and Article 9 funds.

Exhibit 1 Quarterly Flows Into Article 8 and Article 9 Funds Versus Article 6 Funds (EUR Billion) and Organic Growth Rates (%)

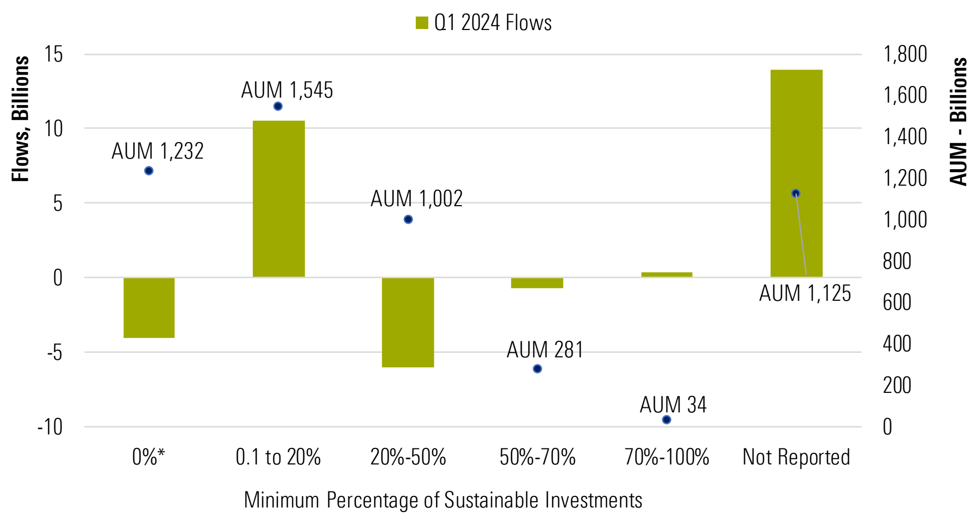


Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 Funds With 20% to 50% Commitment to Sustainable Investments Suffer Largest Outflows

In contrast with the trend observed in 2023, the first quarter of 2024 saw the largest redemptions impacting Article 8 funds with a commitment to sustainable investment between 20% and 50%, with outflows in that segment amounting to EUR 6 billion. Article 8 funds with no commitment to sustainable investments experienced outflows of only EUR 4 billion, compared with EUR 41 billion of outflows in the previous quarter. Meanwhile, Article 8 funds with a commitment to sustainable investments between 0.1% and 20% netted EUR 10 billion over the first quarter.

Exhibit 2a Net Flows Into Article 8 Funds Per Percentage of Minimum Sustainable Investments

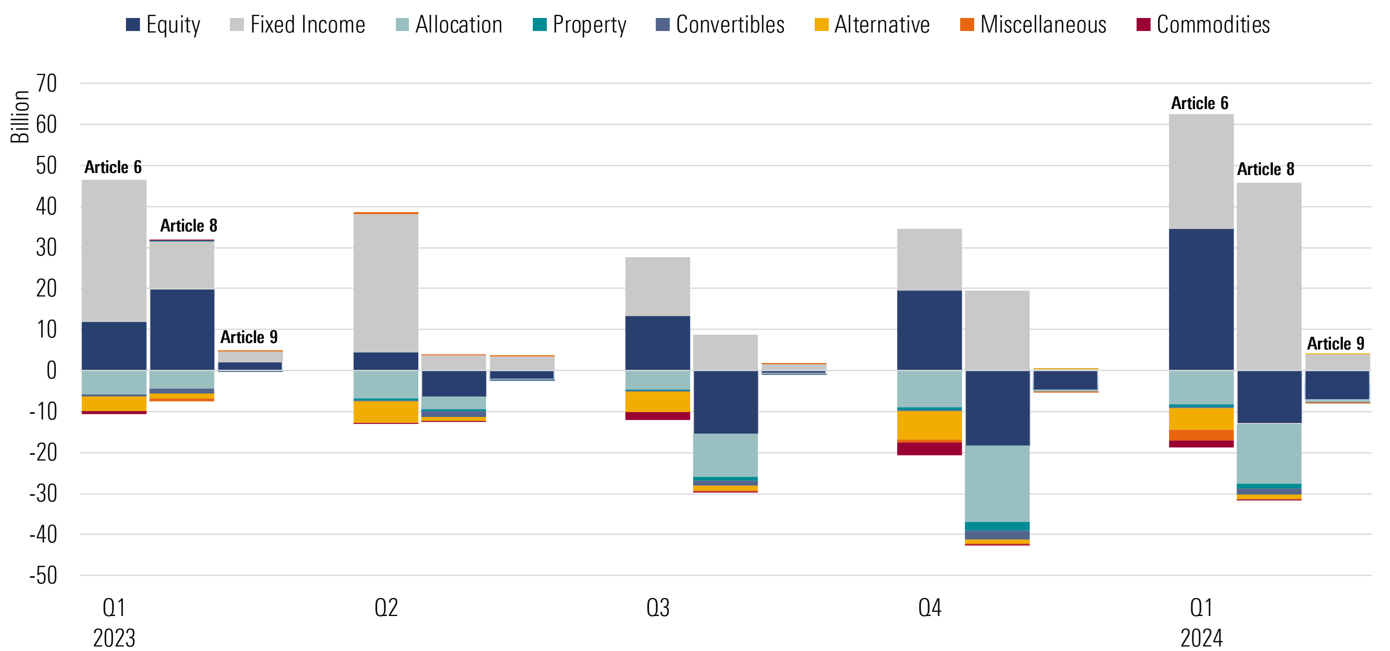


Source: Morningstar Direct. * This cohort consists of funds that report 0% in the EU SFDR Minimum or Planned Investments Sustainable Investments field.

Looking at flows by asset class (Exhibit 2b), we can see that fixed income remained resilient in the first quarter of 2024 across all SFDR classifications. In fact, fixed income remained the only asset class that contributed new subscriptions to the Article 8 category last quarter. Article 8 bond strategies collectively garnered EUR 46 billion. In comparison, flows into Article 6 fixed-income products reached EUR 28 billion. The higher inflows into Article 8 bond funds relative to Article 6 bond funds in the last three months may reflect investor expectations that the “higher for longer” interest-rate environment may favor investment-grade-type of bonds, which tend to make up ESG-oriented portfolios.

As for Article 9 funds, the positive flows into the fixed-income class, totaling EUR 3 billion, was offset by the significant redemptions from other asset classes, most notably the record-high of over EUR 7 billion from equity funds. Meanwhile, Article 8 equity funds also continued to bleed money, registering outflows of EUR 31 billion, while inflows into Article 6 equity funds kept rising, totaling EUR 34 billion, helped by a more positive macro backdrop and higher stock valuations. Allocation funds experienced outflows across all SFDR classifications, but the largest redemptions were registered by Article 8 funds, at EUR 14 billion.

Exhibit 2b Net Flows Into Article 8, Article 9, and Article 6 Funds Per Asset Class

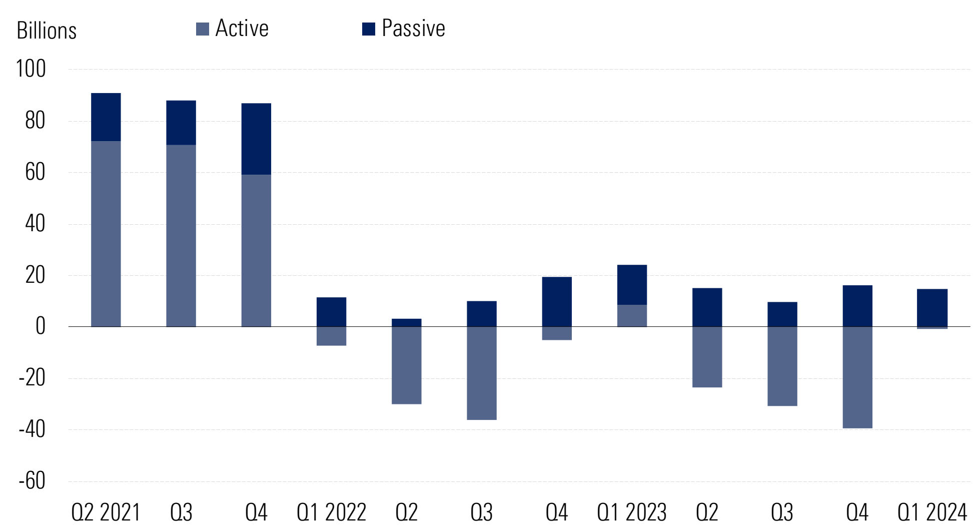


Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Active Funds Still Bleed Money, Passive Peers Hold Steady

Passive Article 8 funds sustained their momentum throughout the first quarter of 2024, while their active peers suffered withdrawals but not as significant as in previous quarters. These outflows declined to EUR 800 million from EUR 39 billion. Since the introduction of SFDR, active funds recorded only one quarter of positive flows (in the first quarter of 2023).

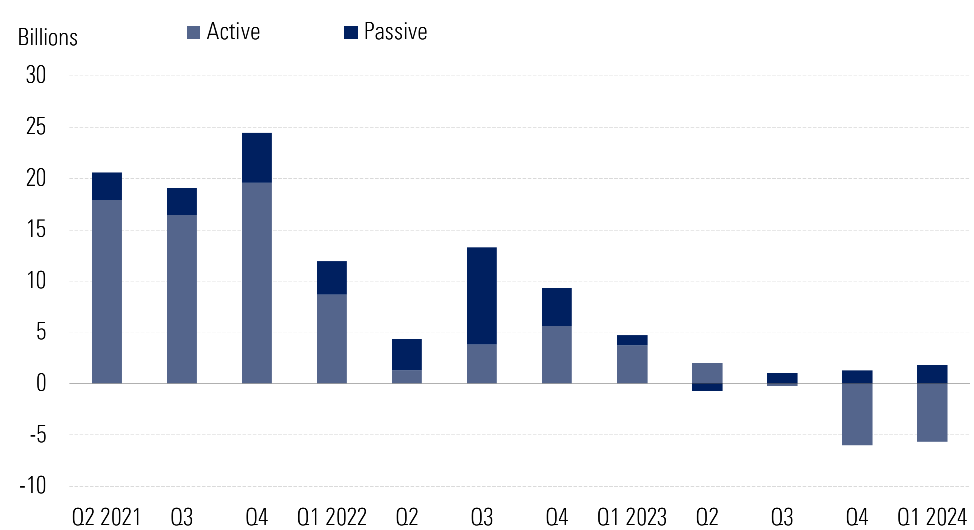
Exhibit 2c Net Flows Into Article 8 Funds Divided by Active and Passive



Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Meanwhile, passive Article 9 funds enjoyed a 40% inflow increase in the first quarter of 2024 from the previous quarter, garnering almost EUR 2 billion. Active Article 9 strategies registered redemptions of EUR 5 billion, which is similar to the previous quarter.

Exhibit 2d Net Flows Into Article 9 Funds Divided by Active and Passive



Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Overall, active Article 8 and 9 funds suffered losses of nearly EUR 6 billion in the first three months of the year, an improvement from the previous quarter's EUR 45 billion, while passive strategies remained relatively stable, similar to the previous quarter's figures.

Flows—Leaders and Laggards

Below are the Article 8 and Article 9 funds that saw the largest inflows and outflows over the first quarter of 2024.

Exhibit 3 Article 8 Funds With the Largest Inflows and Outflows in the First Quarter of 2024

Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
Amundi Index MSCI Europe SRI PAB	3,383	Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF	-1,937
AB FCP I - American Income Portfolio	2,492	iShares MSCI USA SRI ETF	-1,740
Cardano ESG Transition Equity Europe	1,796	Amundi MSCI USA ESG Leaders ETF	-1,384
Amundi MSCI USA ESG Climate Net Zero Ambition CTB ETF	1,697	Acatis Value Event Fonds	-1,122
AP7 Räntefond	1,692	BNP Paribas Easy MSCI USA SRI S-Series PAB 5% Capped	-1,066
Amundi Obbligazionario Euro 01/2029	1,585	Ossiam ESG Low Carbon Shiller Barclays CAPE® US Sector ETF	-849
DNCA Invest Alpha Bonds	1,270	iShares MSCI USA ESG Enhanced ETF	-848
DWS Floating Rate Notes	1,168	Neuberger Berman US Large Cap Value Fund	-836
JPMorgan US Research Enhanced Index Equity (ESG) ETF	1,151	Danske Invest Select Flexinvest Korte Obligationer	-799
AP7 Aktiefond	1,145	Amundi MSCI World SRI Climate Net Zero Ambition PAB ETF	-710

Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Amundi Index MSCI Europe SRI PAB hauled slightly over EUR 3.3 billion. The objective of the fund is to invest in companies with top ESG ratings within their sectors, aiming to include leading ESG performers. Moreover, it adheres to the minimum standards for EU Paris Aligned Benchmarks. It is followed by **AB FCP I - American Income Portfolio**, with EUR 2.4 billion inflows; the fund applies Alliance Bernstein's Responsible Investing policy. **Amundi MSCI USA SEI Climate Net Zero Ambition PAB ETF** and **iShares MSCI USA SRI ETF** saw the largest redemptions of EUR 1.9 billion and EUR 1.7 billion, respectively.

Exhibit 4 Article 9 Funds With the Largest Inflows and Outflows in the First Quarter of 2024

Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
DPAM L - Bonds Government Sustainable	1,815	Nordea 1 - Global Climate and Environment Fund	-928
Handelsbanken Developed Markets Index Criteria	1,749	BlackRock Global Funds - Sustainable Energy Fund	-556
Candriam Sustainable Bond Euro Corporate	494	RobecoSAM Smart Energy Equities	-470
DPAM L - Bonds Emerging Markets Sustainable	335	Danske Invest Index USA Restricted	-446
Handelsbanken Global Index Criteria	275	Handelsbanken Hållbar Energi	-421
JPM US Research Enhanced Index Equity SRI Paris Aligned ETF	184	Handelsbanken Europa Index Criteria	-392
JPMorgan ETFs (Ireland) ICAV - Carbon Transition Global Equity	155	Pictet - Global Environmental Opportunities	-357
Federal Indiciel PAB US ESG	146	BNP Paribas Funds Global Environment	-331
UBS (Lux) Fund Solutions – Sustainable Development Bank Bonc	140	BNP Paribas Funds Green Tigers	-301
Ossiam Bloomberg USA PAB ETF	138	BlackRock Global Funds - Future of Transport Fund	-285

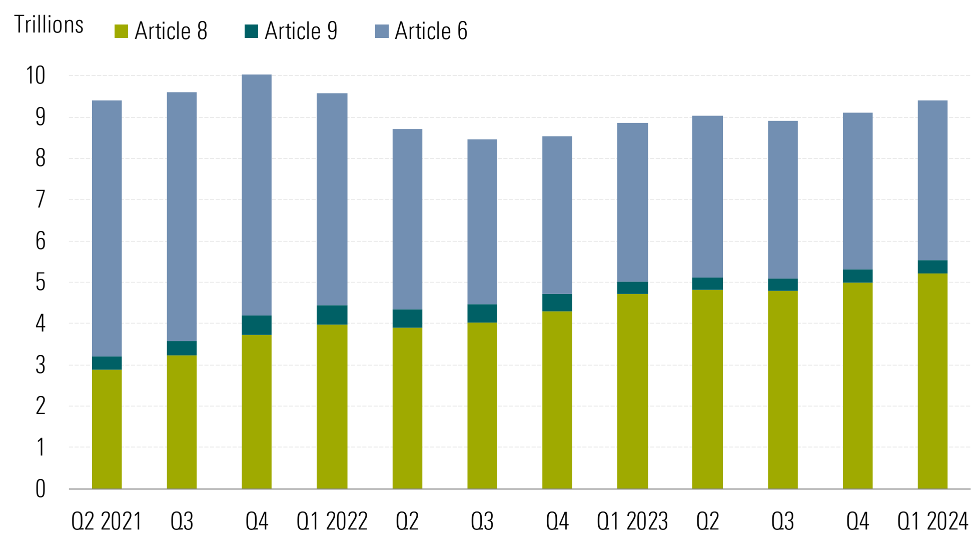
Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Meanwhile, topping the list of Article 9 bestselling products in the first quarter was **DPAM L - Bonds Government Sustainable**, followed by **Handelsbanken Developed Markets Index Criteria** and **Candriam Sustainable Bond Euro Corporate.** The former aims to invest in nations demonstrating the highest commitment or efforts toward sustainable development. This objective is pursued via ESG screening aligned with SDGs, promoting best practices, engaging with issuers, and investing in impact securities.

Article 8 and Article 9 Fund Assets Increase by 4%

Combined assets in Article 8 and Article 9 funds increased by more than 4% over the first quarter of the year to EUR 5.5 trillion, beating last quarter's record. On the other hand, Article 6 fund assets experienced a 2% growth. Collectively, Article 8 and Article 9 funds slightly expanded their market share to close to 60% of the universe of EU funds in scope for SFDR. This absolute and relative increase in Article 8 and Article 9 assets can be explained by the continued activity of product reclassification from Article 6 to Article 8 or 9 as well as market appreciation.

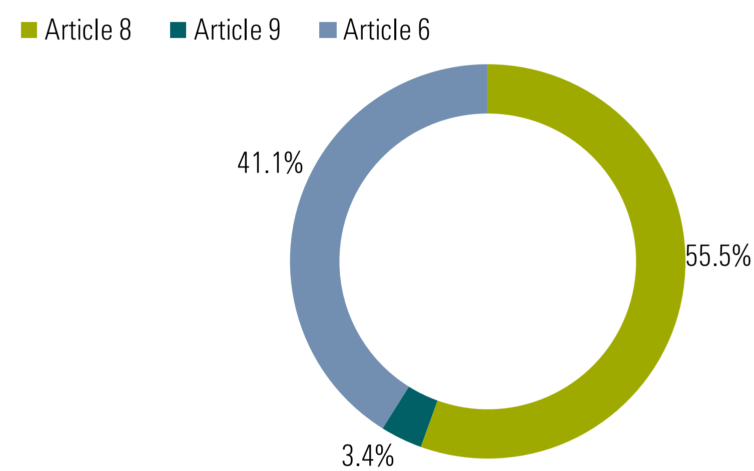
Exhibit 5 Quarterly Asset Breakdown by SFDR Classification (EUR Trillion)



Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 funds retained their market share, hovering around 55% as of March 2024. Meanwhile, Article 9 products remained steady at 3.4%, indicating minimal change from the previous quarter.

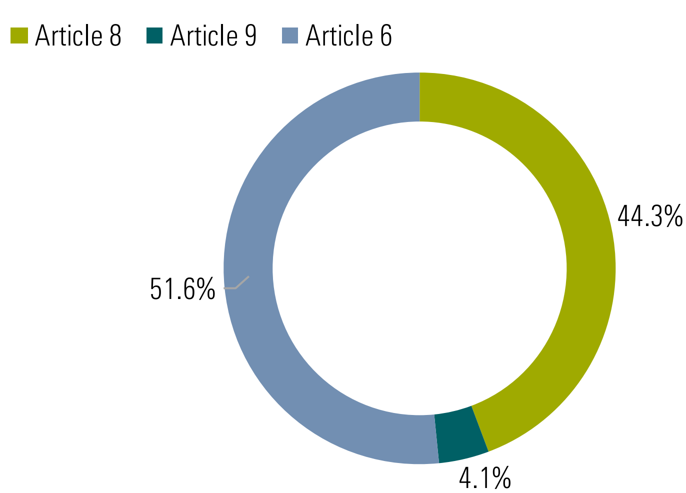
Exhibit 6a SFDR Fund Type Breakdown (by Assets)



Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Measured by number of funds,[1] the combined market share of Article 8 and Article 9 products exhibited a slight increase to 48.4% from the previous quarter's 47.4%, while the number of Article 9 funds rose to 1,024 from 997 three months earlier. This represents a market share of 4.1%, showing trivial change compared with the end of December. Meanwhile, the Article 8 category grew steadily to 10,964 at the end of March, taking up 44.3% of the market.

Exhibit 6b SFDR Fund Type Breakdown (by Number of Funds)



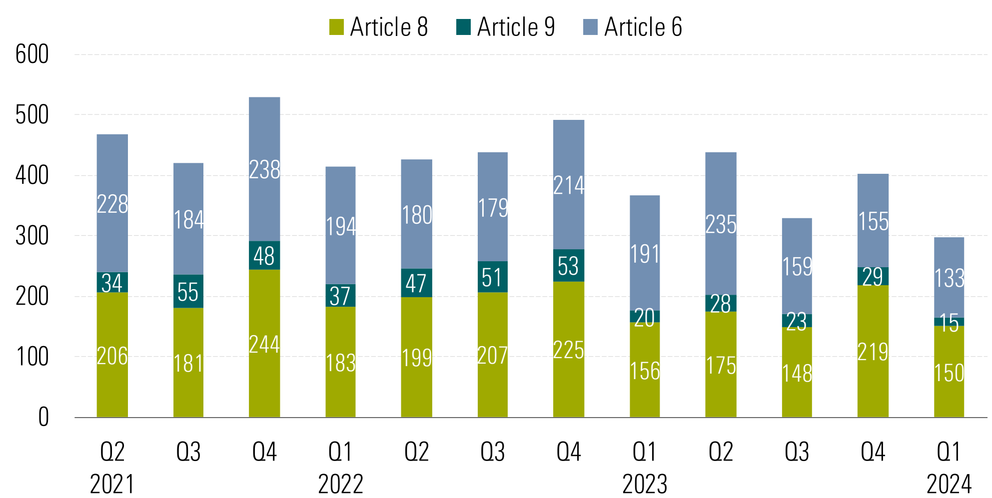
Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

1 Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Fund Launches

The number of newly launched Article 8 and Article 9 funds totaled a modest 165 in the first quarter. Although this number will likely be restated upward in future reports as we identify more launches and as additional ones are reported to Morningstar, it already represents a 33% decrease compared with the previous quarter's 248.

Exhibit 7 Quarterly Number of Fund Launches

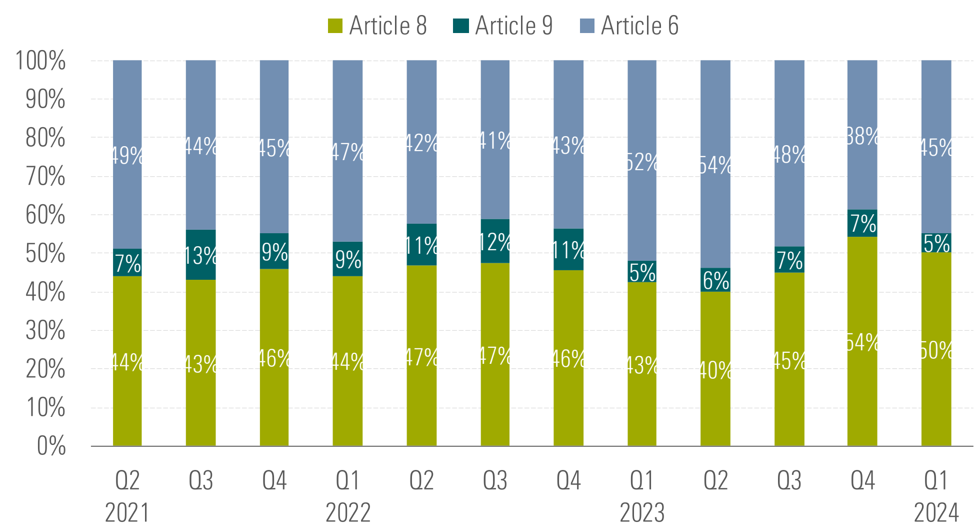


Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The decline in new products last year can be partly attributed to the overall market sentiment damped by the uncertain macro environment, including high inflation and interest rates for a foreseeable future and slowing growth across some of the largest economies.

Newly incepted Article 8 and Article 9 funds still accounted for 54% of the total number of funds launched in the EU, down from 61% in the last quarter of 2023. Additional factors potentially contributing to the slowing Article 8 and Article 9 product development activity are greenwashing accusations and the ever-evolving regulatory environment (see Regulatory Update section).

Exhibit 8 Quarterly Breakdown of Fund Launches



Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Asset managers persistently broadened the spectrum of Article 8 and Article 9 choices accessible to investors, encompassing diverse asset classes, market exposures, investment styles, and themes. Among these, transition funds are increasingly seen as offering attractive exposure to companies that are on long-term sustainability trajectories and have good investment potential as their ESG performance improves.

In addition to the Amundi PAB and CTB strategies mentioned earlier, other examples of newly launched transition strategies include **AXA MSCI Europe Equity PAB ETF** and **BNP Paribas Global Net Zero Transition Equity**. The latter represents one of the few active equity funds with net-zero alignment as a primary objective with a so-called "Just Transition" lens under which the transition process should be fair and inclusive and create decent work opportunities. The Article 8 fund consists of a high-conviction portfolio selected from more than 1,000 global companies that encompass both adopters and solutions providers contributing to the reduction of global greenhouse gas emissions.

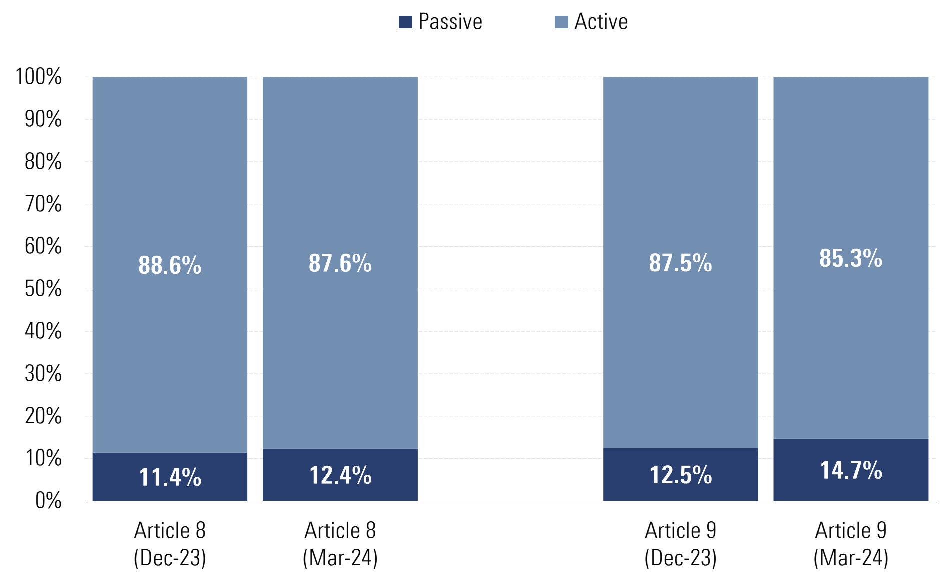
SFDR Reclassifications

Reclassification activities continued waning. We identified about 220 funds that reclassified their SFDR status in the first quarter, including roughly 190 that upgraded to Article 8 from Article 6. The remaining funds changed either to Article 6 from Article 8 or to Article 8 from Article 9 or to Article 9 from Article 8.

Passive Article 9 Funds Regain Ground on the Back of Fresh Upgrades

The market share of passive funds increased for both Article 8 and Article 9 funds of 1% and 2.2%, respectively. Around 20 Article 8 strategies were reclassified as Article 9 in the first quarter of 2024.

Exhibit 9 Market Share of Active and Passive Funds Classified as Article 8 and Article 9



Source: Morningstar Direct. Assets as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The Largest Article 8 and Article 9 Funds

Over the past three months, the league table of the 20 largest Article 8 funds has remained relatively stable. We count a majority (16) of funds that target no or low (up to 10%) exposure to sustainable investments. **Pictet-Global Megatrend Selection**, which had the highest minimum target of 51% of sustainable investment in the previous quarter, no longer ranks among the top 20, leaving **iShares MSCI USA ESG Enhanced ETF** and **Mercer Multi Asset Growth Fund** holding the highest commitment of 20%.

Exhibit 10 The 20 Largest Article 8 Funds

Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating	Minimum % Sustainable Investments
Flossbach von Storch SICAV - Multiple Opportunities	8	Flexible Allocation	25.4	Active	🌐🌐🌐	0
AB American Income Portfolio	8	US Fixed Income	22.7	Active	🌐🌐	0
Morgan Stanley Global Brands Fund	8	Global Equity Large Cap	21.4	Active	🌐🌐🌐🌐🌐	10
Fidelity Global Technology Fund	8	Technology Sector Equity	20.5	Active	🌐🌐🌐	5
DWS Top Dividende	8	Global Equity Large Cap	20.1	Active	🌐🌐	15
Deka Immobilien Europa	8	Property-Direct	18.3	Active	—	0
JPMorgan Global Income Fund	8	Moderate Allocation	17.2	Active	🌐🌐	10
hausInvest	8	Property-Direct	17.1	Active	—	5
UniImmo: Deutschland	8	Property-Direct	16.7	Active	—	0
UniImmo: Europa	8	Property-Direct	14.6	Active	—	0
Swedbank Robur Technology	8	Technology Sector Equity	14.5	Active	🌐🌐🌐🌐🌐	10
DWS Vermögensbildungsfonds I	8	Global Equity Large Cap	14.4	Active	🌐🌐🌐	15
DWS Concept Kaldemorgen	8	Flexible Allocation	14.3	Active	🌐🌐🌐🌐	10
iShares MSCI USA ESG Enhanced UCITS ETF	8	US Equity Large Cap Blend	14.1	Passive	🌐🌐🌐🌐	20
AB Global High Yield Portfolio	8	Global Fixed Income	13.8	Active	🌐	0
Mercer Multi Asset Growth Fund	8	Aggressive Allocation	13.3	Active	🌐🌐🌐🌐	20
BlackRock World Healthscience Fund	8	Healthcare Sector Equity	13.2	Active	🌐🌐🌐🌐	0
Capital Group New Perspective Fund (LUX)	8	Global Equity Large Cap	12.8	Active	🌐🌐🌐	0
Morgan Stanley Global Opportunity Fund	8	Global Equity Large Cap	12.7	Active	🌐🌐🌐	0
Flossbach von Storch Multiple Opportunities II	8	Flexible Allocation	11.9	Active	🌐🌐🌐	0

Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The league table of the largest Article 9 funds showed little change in the first quarter too. At the top of the table, we find passive PAB fund **Handelsbanken Global Index Criteria**, with the highest assets under management of almost EUR 10 billion and a 90% minimum commitment to sustainable investments.

As expected, all Article 9 funds in the table below have high sustainable-investment commitments (above 80%), with the rest representing various allocations to cash and hedging instruments. Eight funds have an SI target of 90%. A majority focus on an environmental theme such as climate, alternative energy, and water.

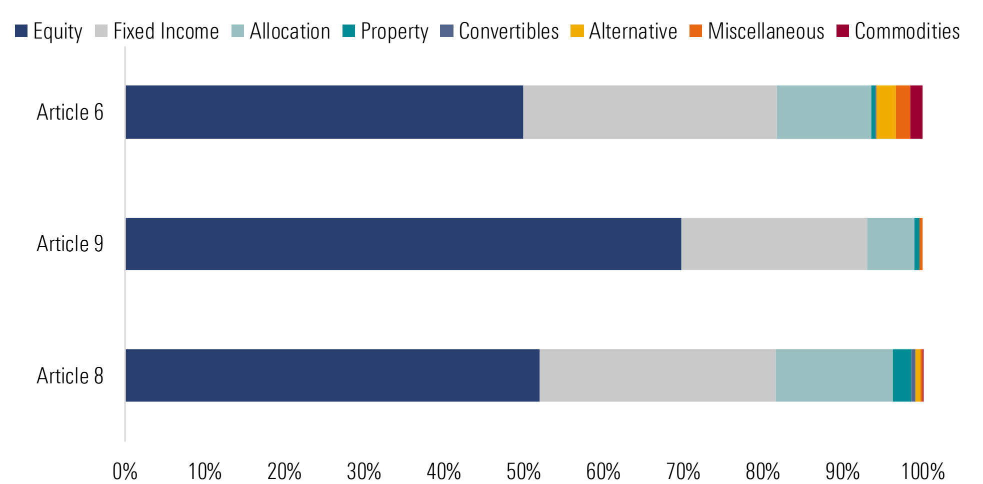
Exhibit 11 The 20 Largest Article 9 Funds

Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating	Minimum % Sustainable Investments
Handelsbanken Global Index Criteria	9	Global Equity Large Cap	9.9	Passive	🌐🌐🌐	90
Nordea Global Climate and Environment Fund	9	Global Equity Mid/Small Cap	8.9	Active	🌐🌐🌐🌐	85
Pictet Water	9	Equity Miscellaneous	8.7	Active	🌐🌐🌐🌐	80
Pictet Global Environmental Opportunities	9	Global Equity Large Cap	7.8	Active	🌐🌐🌐🌐🌐	80
Handelsbanken USA Index Criteria	9	US Equity Large Cap Blend	5.7	Passive	🌐🌐🌐🌐	90
BlackRock Sustainable Energy Fund	9	Energy Sector Equity	5.5	Active	🌐🌐🌐🌐🌐	80
Mirova Global Sustainable Equity Fund	9	Global Equity Large Cap	5.2	Active	🌐🌐🌐🌐🌐	90
Pictet Clean Energy Transition	9	Energy Sector Equity	4.7	Active	🌐🌐🌐🌐🌐	80
Handelsbanken Norden Index Criteria	9	Europe Equity Large Cap	4.1	Passive	🌐🌐🌐	90
BNP Paribas Funds Aqua	9	Equity Miscellaneous	3.8	Active	🌐🌐🌐🌐	85
BNP Paribas Aqua	9	Equity Miscellaneous	3.7	Active	🌐🌐🌐🌐	85
DPAM Bonds Emerging Markets Sustainable	9	Emerging Markets Fixed Income	3.5	Active	🌐🌐🌐	80
RobecoSAM Sustainable Water Equities	9	Equity Miscellaneous	3.2	Active	🌐🌐🌐🌐	90
RobecoSAM Smart Energy Equities	9	Energy Sector Equity	3.1	Active	🌐🌐🌐🌐🌐	90
Candriam Sustainable Bond Euro Corporate	9	Europe Fixed Income	2.9	Active	🌐🌐🌐	80
AB Sustainable Global Thematic Portfolio	9	Global Equity Large Cap	2.8	Active	🌐🌐🌐🌐🌐	80
BNP Paribas Funds Climate Impact	9	Global Equity Mid/Small Cap	2.8	Active	🌐🌐🌐🌐🌐	85
Impact ES Actions Europe	9	Europe Equity Large Cap	2.6	Active	🌐🌐🌐🌐	90
Goldman Sachs Green Bond	9	Europe Fixed Income	2.5	Active	🌐🌐🌐🌐	90
Swisscanto Sustainable Balanced (EUR)	9	Moderate Allocation	2.4	Active	🌐🌐🌐🌐🌐	80

Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 and Article 9 Funds Per Broad Asset Class

Exhibit 12 Article 8 and Article 9 Funds Per Broad Asset Class



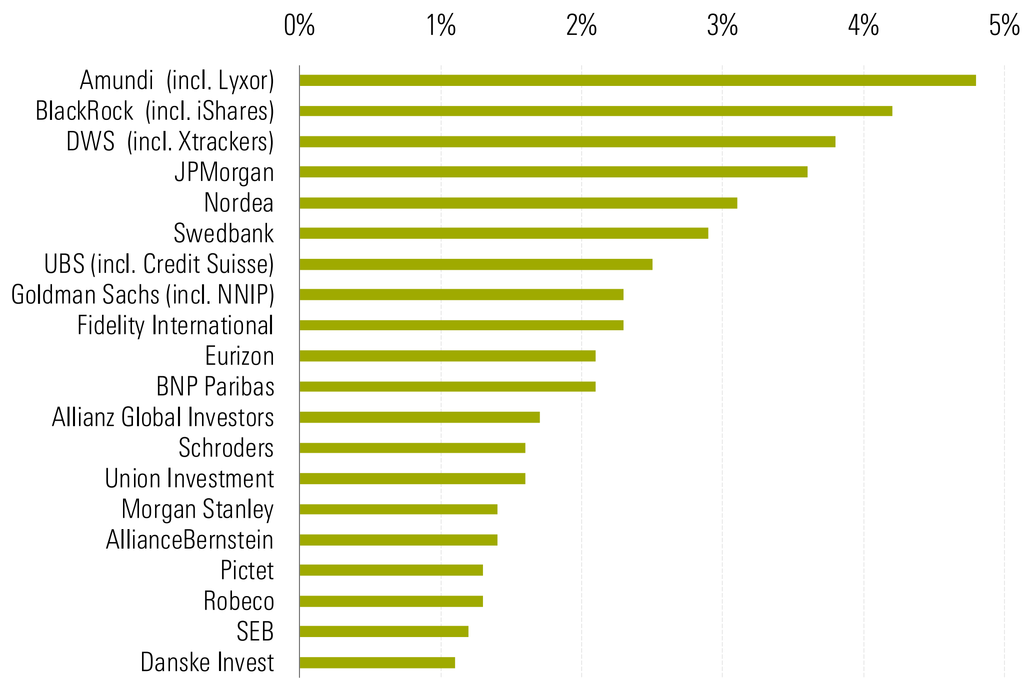
Source: Morningstar Direct. Data as of March 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 funds share a similar asset-class distribution with Article 6 funds, whereas Article 9 funds exhibited a stronger inclination toward equity. As of March 2024, these funds constituted 70% of Article 9 products, in contrast to 52% and 50% observed in the Article 8 and Article 6 fund groups, respectively.

Provider League Tables

Exhibits 13 and 14 show the 20 asset managers with the highest market share in Article 8 and Article 9 funds, ranked by assets. With reclassifications easing off, the Article 8 fund provider league table exhibited little alteration in comparison with the fourth quarter of 2023.

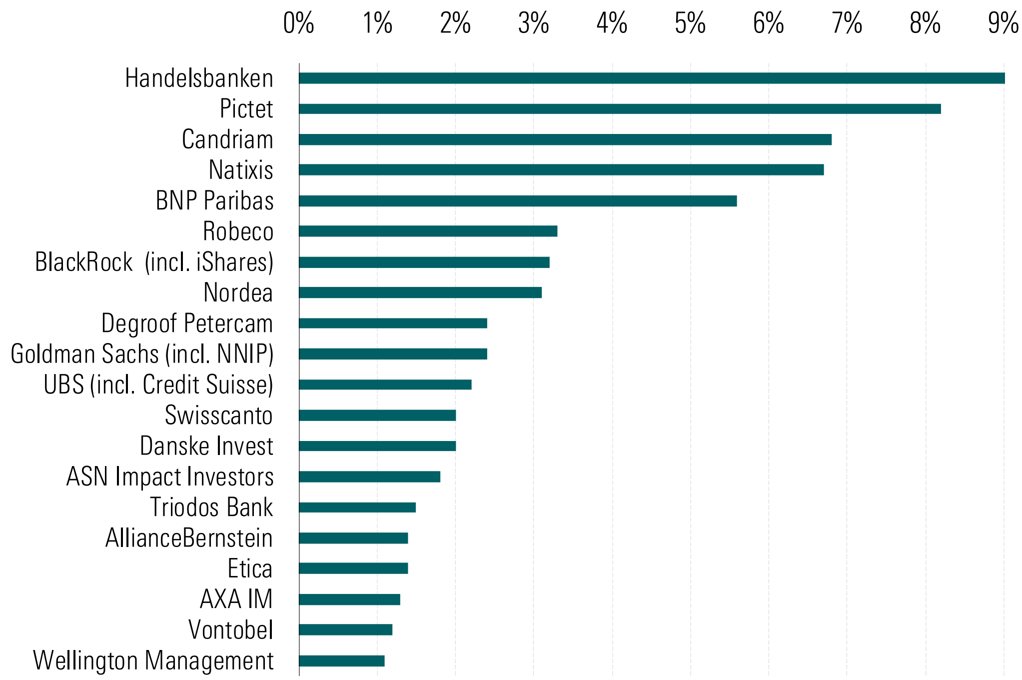
Exhibit 13 Top 20 Asset Managers by Article 8 Fund Assets



Source: Morningstar Direct. Assets as of March 2024 on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds. Using Branding Name in Morningstar Direct, a manager's market share is calculated as following: manager's Article 8 fund assets divided by total market Article 8 fund assets.

Amundi maintains its prominent position atop the chart, demonstrating stability with a consistent market share of 4.8% for Article 8 funds, with no change compared with the previous quarter. Meanwhile, Handelsbanken keeps a leading position in the market share of Article 9 funds, advancing from 8.5% to 9.6% in March 2024. Additionally, Pictet and Candriam observe incremental gains in market share for Article 9 funds, each advancing by 0.2%.

Exhibit 14 Top 20 Asset Managers by Article 9 Fund Assets



Source: Morningstar Direct. Assets as of March 2024 on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds. Using Branding Name in Morningstar Direct, a manager's market share is calculated as following: manager's Article 9 fund assets divided by total market Article 9 fund assets.

Article 8 and Article 9 Funds Through the Lens of the EET

Since August 2022, the amended MiFID II requires financial intermediaries to consider clients' sustainability preferences when conducting suitability assessments. If clients express interest in making sustainable investments, financial intermediaries have to accommodate. Depending on the specific client's preferences, financial intermediaries will have to source products that have a minimum proportion of sustainable investments as defined by the SFDR or the EU Taxonomy. Clients may also choose only investments that consider principal adverse impacts, or PAIs.

To facilitate this process, a European ESG template, or EET, was developed by industry representatives (FinDatEx) to ease the exchange of data between asset managers and distributors. Asset managers marketing their funds in the EU have been submitting EET data to third-party data organizations like Morningstar Sustainalytics on a voluntary basis since June 2022.

As of March 2024, Morningstar had collected EET data on 106,060 share classes, accounting for 74% of all share classes in the scope of MiFID II. These represent 21,356 funds,[2] including 10,778 Article 8 funds and 915 Article 9 funds.

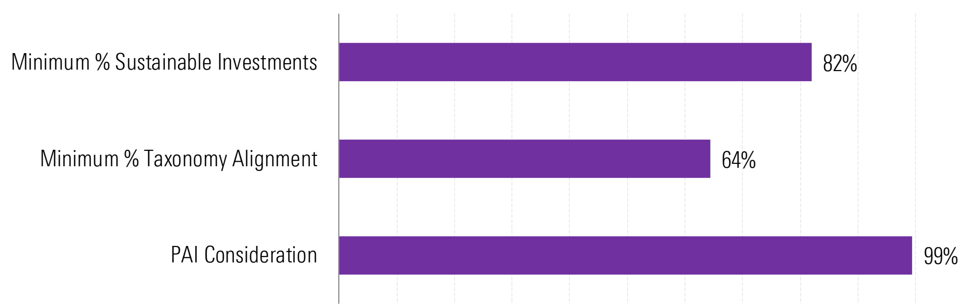
2 The number of funds and share classes estimated to be in the scope of the EET is 34,452 and 144,016, respectively. Money market funds, funds of funds, and feeder funds are included in this section on the EET.

In this section, we analyze the coverage and values of the three following EET fields, as featured in the Morningstar Direct database:

1. **EU SFDR Minimum or Planned Investments Sustainable Investments**, representing the minimum percentage of portfolio investments that are deemed sustainable but are not taxonomy-aligned. Answers are numerical values.[3]
2. **EU SFDR Minimum or Planned Investments Sustainable Investments Taxonomy Aligned**, representing the minimum percentage of the portfolio that is aligned with the EU Taxonomy. Answers are numerical values.[4]
3. **PAI Consideration**, indicating whether a product considers principal adverse impact in its investments. Answers are "Yes" or "No."[5]

Exhibit 15 shows the coverage of these three fields for the surveyed Article 8 and Article 9 funds at the end of March 2024.

Exhibit 15 Coverage of Key EET Data Points for the Surveyed Article 8 and Article 9 Funds



Source: Morningstar Direct. Data as of March 2024. Based on 10,425 funds and 877 funds reported as Article 8 and Article 9, respectively.

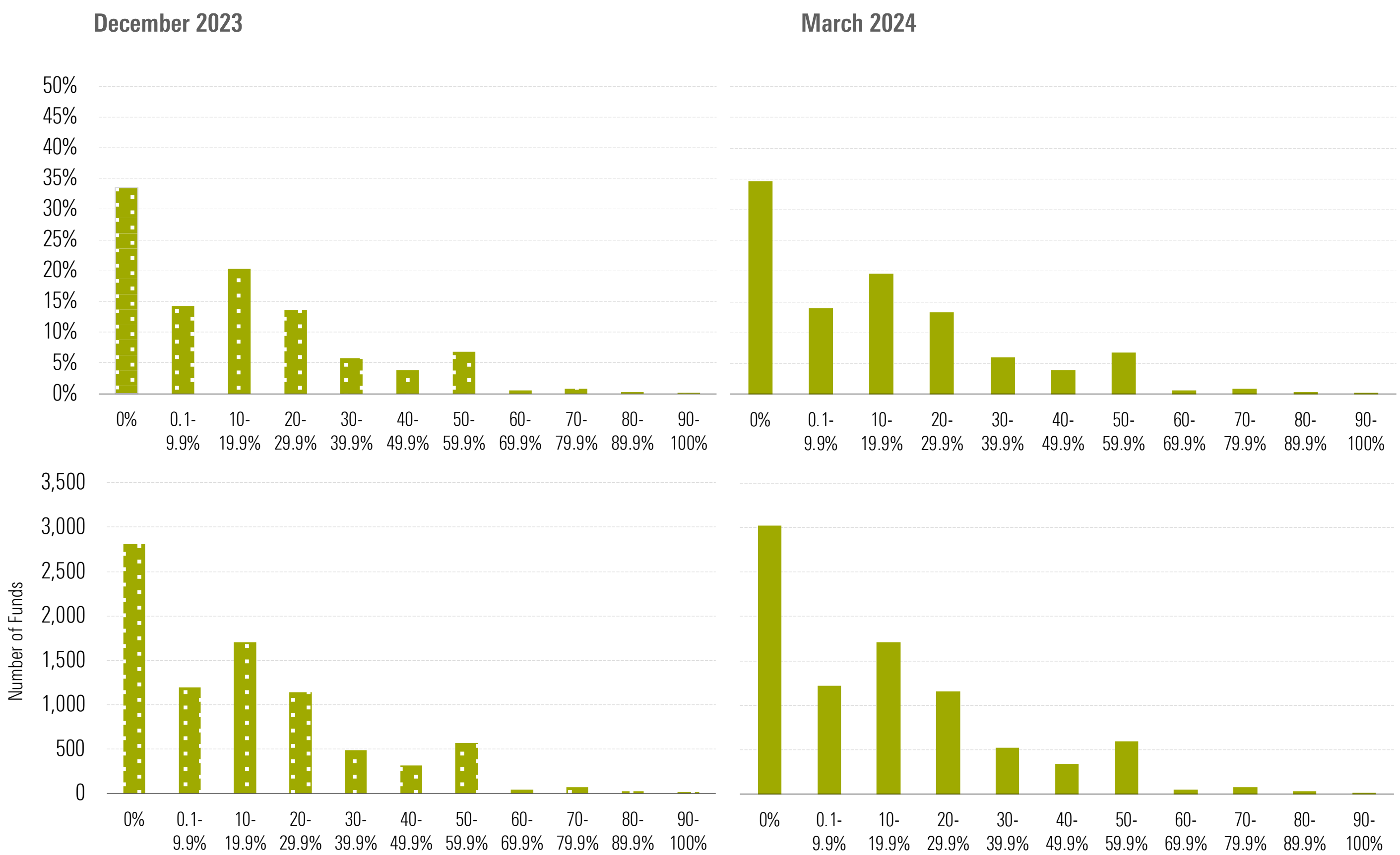
All Article 8 and Article 9 products are required to disclose whether they consider PAI indicators, explaining the high percentage (99%) of surveyed funds that populated the PAI Consideration field, as of the end of March 2024. With the regulatory requirement since January 2023 of adding detailed SFDR annexes to product disclosures, managers have stepped up their reporting through the EET, resulting in rising coverage of the two other metrics. As of the beginning of 2024, over 82% of the surveyed Article 8 and Article 9 funds reported a minimum percentage of sustainable investments, marginally increased from the 81% three months earlier, and 64% disclosed a minimum percentage of taxonomy-aligned investments, which almost leveled with the previous end of the quarter. Both **Minimum Proportion of Sustainable Investments** and **Minimum Sustainable Investments Aligned with the EU Taxonomy** showed minor increases compared with the previous quarter.

3 EET Name: 20420_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments
4 EET Name: 20450_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments_Taxonomy_Aligned
5 EET Name: 20100_Financial_Instrument_Does_This_Product_Consider_Principal_Adverse_Impact_In_Their_Investment

Sustainable Investments in Article 8 and Article 9 Funds

Exhibit 16 compares the December 2023 and March 2024 distributions of "Minimum Proportion of Sustainable Investments" for surveyed Article 8 funds.

Exhibit 16 Proportion and Count of Article 8 Funds (Y-Axis) With Various Commitments to Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 8,737 Article 8 funds that report the field. December 2023 data is based on 8,395 Article 8 funds that report the field.

Over One Third of Article 8 Funds Target No Sustainable Investments

Despite significantly increased sample size, the distribution of minimum sustainable investment exhibited little change compared with the previous quarter. The number of Article 8 funds with 0% values reached over 3,023 at the end of March, accounting for 35% of the sample Article 8 funds. This represented a marginal increase from the 34% last December. In other words, 65% of Article 8 funds now commit to make some sustainable investments.

In the first quarter of 2024, about 367 Article 8 funds revised their minimum sustainable-investment commitment, level with the number recorded three months earlier. More than half of these (192, or 52%) showed increased sustainable-investment targets, with changes ranging from 1% to 60%.

Exhibit 17 lists the Article 8 funds that saw the largest increases in minimum exposure to sustainable investments between January and March.

Exhibit 17 Article 8 Funds With the Highest Increases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q1 2024	Min % of Sustainable Investments in Q4 2023	Fund Size (EURO Mil)	Morningstar Category	Broad Category
Visionfund - Japan Equity Value	Article 8	65	0	472	Japan Large-Cap Equity	Equity
Invesco Sustainable Pan European Structured Equity Fund	Article 8	70	10	942	Europe Large-Cap Blend Equity	Equity
Invesco Sustainable Global Structured Equity Fund	Article 8	70	10	280	Global Large-Cap Blend Equity	Equity
FISCH Convertible Global Sustainable Fund	Article 8	50	0	282	Convertible Bond - Global, CHF Hedged	Convertibles
European Equity Green Technology	Article 8	60	10	193	Sector Equity Ecology	Equity
SG ERS Amundi Actions Europe Environnement ISR	Article 8	60	10	24	Eurozone Large-Cap Equity	Equity
BFT France Futur ESR	Article 8	60	10	3	France Small/Mid-Cap Equity	Equity
Amundi Net Zero Ambition Global Corporate Bond	Article 8	51	5	25	Global Corporate Bond - USD Hedged	Fixed Income
Amundi Multi-Asset Sustainable Future	Article 8	51	10	1,008	EUR Cautious Allocation - Global	Allocation
Amundi Net Zero Ambition Top European Players	Article 8	51	10	645	Europe Large-Cap Blend Equity	Equity
Ethik Mix Solide	Article 8	51	10	448	EUR Cautious Allocation - Global	Allocation
Ethik Mix Ausgewogen	Article 8	51	10	341	EUR Moderate Allocation - Global	Allocation
Amundi Net Zero Ambition Multi-Asset	Article 8	51	10	196	EUR Flexible Allocation - Global	Allocation
KEPLER Ethik Rentenfonds	Article 8	51	10	193	EUR Diversified Bond	Fixed Income
Ethik Mix Dynamisch	Article 8	51	10	21	EUR Aggressive Allocation - Global	Allocation
Amundi Oblig Euro	Article 8	50	10	289	EUR Diversified Bond	Fixed Income
LCL Obligations Euro	Article 8	50	10	153	EUR Diversified Bond	Fixed Income
Invesco Sustainable Allocation Fund	Article 8	50	10	62	EUR Moderate Allocation - Global	Allocation
BA³ Strategic Investment SICAV - BA³ Robeco Crescita Sostenibi	Article 8	75	40	18	EUR Moderate Allocation - Global	Allocation
Amundi Global Ecology ESG	Article 8	40	10	2,685	Sector Equity Ecology	Equity

Source: Morningstar Direct. Data as of March 2024. Based on 367 Article 8 funds that revised their minimum sustainable investment between December 2023 and March 2024. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

Some funds saw their minimum sustainable-investment exposure increase following the assessment of the actual share of sustainable investments in the portfolios. In some cases, the actual share was higher than expected, and portfolio managers felt comfortable with the higher commitment for the strategy. For others, minimum sustainable investment increased because the funds expanded their thematic focus.

The table above features a range of Amundi Net Zero and ESG strategies with an average increase in planned sustainable investments of over 40% to reach 51%. These arose from their revised investment process where the overall ESG score of the portfolio must be greater than that of the investment universe after 20% of the lowest ESG-rated securities have been excluded.

There were also funds that reported lower sustainable-investment commitments in March 2024 compared with last December because of a slight change in methodology or portfolio construction or for other reasons. Exhibit 18 lists the Article 8 funds that saw the largest decreases in minimum exposure to sustainable investments over the period.

Exhibit 18 Article 8 Funds With the Highest Decreases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q1 2024	Min % of Sustainable Investments in Q4 2023	Fund Size (EURO Mil)	Morningstar Category	Broad Category
WisdomTree Renewable Energy ETF	Article 8	0	90	1	Sector Equity Alternative Energy	Equity
Cape Capital Equity Fund	Article 8	2.4	90	433	Global Large-Cap Blend Equity	Equity
LLB Staatsanleihen EUR ESG	Article 8	0	75	46	EUR Government Bond	Fixed Income
LLB Aktien Global ESG	Article 8	0	75	33	Global Large-Cap Blend Equity	Equity
Portfolio Anleihen ESG	Article 8	0	75	16	EUR Diversified Bond	Fixed Income
LLB Strategie PKG ESG	Article 8	0	75	4	EUR Moderate Allocation - Global	Allocation
Metis Bond Euro Corporate ESG	Article 8	0	70	68	EUR Corporate Bond	Fixed Income
Sustainable Pension Income	Article 8	0	70	8	Other Allocation	Allocation
Thematics Climate Selection Fund	Article 8	30	90	0	Global Large-Cap Growth Equity	Equity
Portfolio Wachstum (Euro) Alternativ ZKB Oe	Article 8	0	51	404	Global Large-Cap Blend Equity	Equity
Portfolio Selektion ZKB Oe	Article 8	0	51	335	EUR Moderate Allocation - Global	Allocation
LGT PB Balanced (EUR)	Article 8	0	51	209	EUR Flexible Allocation - Global	Allocation
Lakeview Fund	Article 8	0	51	158	Global Large-Cap Blend Equity	Equity
Seilern Global Trust	Article 8	0	51	130	EUR Aggressive Allocation - Global	Allocation
Macquarie Bonds Europe	Article 8	0	51	124	EUR Diversified Bond	Fixed Income
Portfolio Wachstum ZKB Oe	Article 8	0	51	117	Global Large-Cap Blend Equity	Equity
LLB Strategie Total Return Ausgewogen ESG	Article 8	0	51	99	EUR Flexible Allocation - Global	Allocation
Portfolio Next Generation ZKB Oe	Article 8	0	51	90	Global Large-Cap Growth Equity	Equity
LGT PB Conservative (EUR)	Article 8	0	51	71	EUR Flexible Allocation - Global	Allocation
I-AM AllStars Conservative	Article 8	0	51	68	EUR Cautious Allocation	Allocation

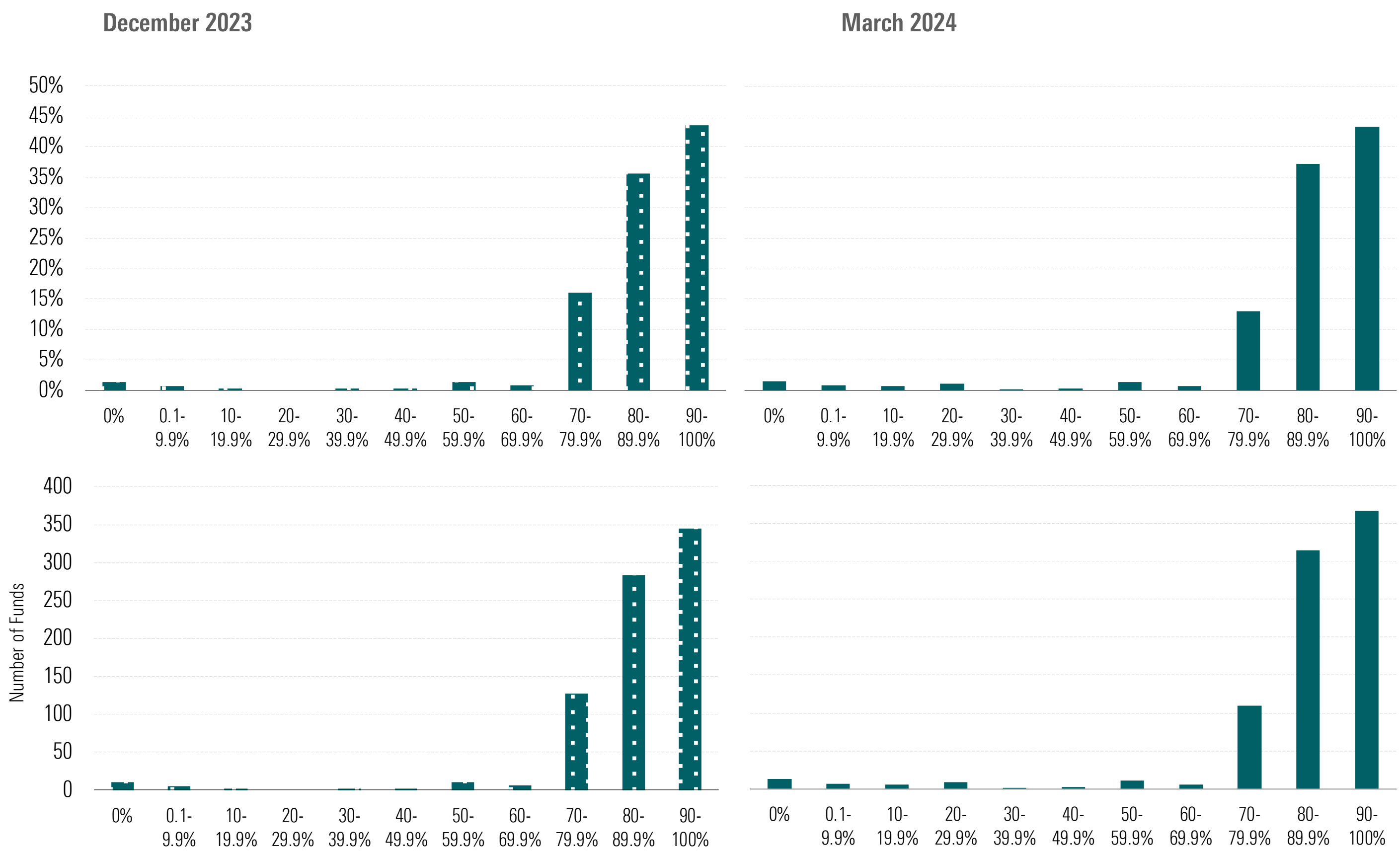
Source: Morningstar Direct. Data as of March 2024. Based on 367 Article 8 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

Article 9 Funds Targeting at Least 80% of Sustainable Investments Continue Growing

Exhibit 19 compares the December 2023 and March 2024 distributions of "Minimum Proportion of Sustainable Investments" for surveyed Article 9 funds.

The proportion of Article 9 funds committing at least 80% exposure to sustainable investments continued rising moderately to 81%, compared with 79% three months ago, while the number of such funds grew to 680 from 528, representing an 8% growth from the previous quarter. Alone, the proportion of Article 9 funds targeting between 90% and 100% increased to almost 44% of the sample. Among these funds, we identified 102 Article 9 funds targeting 100% exposure to sustainable investment, up from the 79 funds seen three months earlier.

Exhibit 19 Proportion of Article 9 Funds (Y-Axis) With Various Commitments to Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 794 Article 9 funds that report the field. December 2023 data is based on 733 Article 9 funds that report the field.

It remains to be seen whether the Article 9 distribution of targeted sustainable investments will continue shifting toward the higher end of the spectrum. One factor that could affect the distribution of sustainable-investment commitments for Article 9 funds is the way asset managers account for instruments held for hedging or liquidity purposes. When asset managers report commitments lower than 100%, the difference corresponds in practice to a maximum allocation to cash and hedging instruments. This allocation varies across funds, as evidenced by Exhibit 19, and could evolve over time. For example, a fund allowing itself to hold up to 30% of cash may review this allocation down in the future as it proves too conservative in practice. The fund would then report a higher minimum sustainable investment, to, say, 85%, from 70% currently. Conversely, a fund currently reporting to target 100% of sustainable investments may review this number down to account for cash and hedging instruments.

Furthermore, it's worth remembering that sustainable-investment commitments depend on the way asset managers interpret the definition of a "sustainable investment" as defined under SFDR,[6] and how they calculate sustainable investments in portfolios. As previously reported, different interpretations of the regulation have led asset managers to adopt different approaches to the calculation of sustainable-investment exposure. A change in methodology can lead to changes in reported sustainable-investment commitments, as discussed earlier.

Compared with three months ago, 46 Article 9 funds changed their minimum sustainable-investment commitment, of which only four showed decreases. Exhibit 20 lists the Article 9 funds that saw the largest increases in minimum exposure to sustainable investments between last December and March 2024.

Exhibit 20 Article 9 Funds With Increases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q1 2024	Min % of Sustainable Investments in Q4 2023	Fund Size (EURO Mil)	Morningstar Category
JSS Green Planet	Article 9	100	90	392	Sector Equity Ecology
JSS Euro Broad	Article 9	100	90	201	EUR Diversified Bond
JSS Global Climate 2035	Article 9	100	90	101	Global Large-Cap Blend Equity
JSS SDG Opportunities	Article 9	100	90	58	Global Large-Cap Blend Equity
Storebrand Global Solutions	Article 9	90	80	905	Global Large-Cap Blend Equity
Storebrand Global Solutions	Article 9	90	80	862	Global Large-Cap Blend Equity
Storebrand Renewable Energy	Article 9	90	80	108	Sector Equity Alternative Energy
Ostrum Global Sustainable Transition Bonds	Article 9	90	80	44	Global Bond - EUR Hedged
Storebrand Smart Cities	Article 9	90	80	18	Sector Equity Ecology
Storebrand Global Solutions Valutasikret	Article 9	90	80	8	Other Equity
Abanca Renta Fija Transición Climática 360 FI	Article 9	100	75	135	EUR Corporate Bond
Candriam Sustainable Bond Euro Corporate	Article 9	80	75	2,859	EUR Corporate Bond
Candriam Sustainable Equity Emerging Markets	Article 9	80	75	2,346	Global Emerging Markets Equity
Candriam Sustainable Bond Euro Short Term	Article 9	80	75	2,141	EUR Diversified Bond - Short Term
Candriam Sustainable Equity US	Article 9	80	75	1,844	US Large-Cap Blend Equity
BlueBay Impact-Aligned Bond Fund	Article 9	100	66	148	Global Corporate Bond - GBP Hedged
Ampega Global Green-Bonds-Fonds	Article 9	80	51	83	Global Bond
TwentyFour Sustainable Short Term Bond Income	Article 9	80	15	1,365	GBP Corporate Bond - Short Term
LF AI Impact Equity EU	Article 9	80	0	2	Europe Flex-Cap Equity
Mirabaud Global Climate Bond Fund	Article 9	75	0	39	Global Flexible Bond - EUR Hedged

Source: Morningstar Direct. Data as of March 2024. Based on 46 Article 9 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

6 Article 2(17) of SFDR defines the term *sustainable investment* as:

- An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy;
- Or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration, and labor relations, or an investment in human capital or economically or socially disadvantaged communities;
- Provided that such investments do not significantly harm any of those objectives;
- And [provided] that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff, and tax compliance.

Exhibit 21 lists the five Article 9 funds that saw a decrease in minimum exposure to sustainable investments between December 2023 and March 2024.

Exhibit 21 Article 9 Funds With Decreases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q1 2024	Min % of Sustainable Investments in Q4 2023	Fund Size (EURO Mil)	Morningstar Category
iMGP Sustainable Europe Fund	Article 9	0	80	98	Europe Large-Cap Blend Equity
Evli Green Corporate Bond	Article 9	70	100	123	EUR Corporate Bond
Ålandsbanken Vindkraft Specialplaceringsfond	Article 9	70	80	290	Other
Fondita Sustainable Europe	Article 9	90	100	86	Europe Flex-Cap Equity
Ålandsbanken Green Bond ESG	Article 9	70	75	97	EUR Diversified Bond

Source: Morningstar Direct. Data as of March 2024. Based on 46 Article 9 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

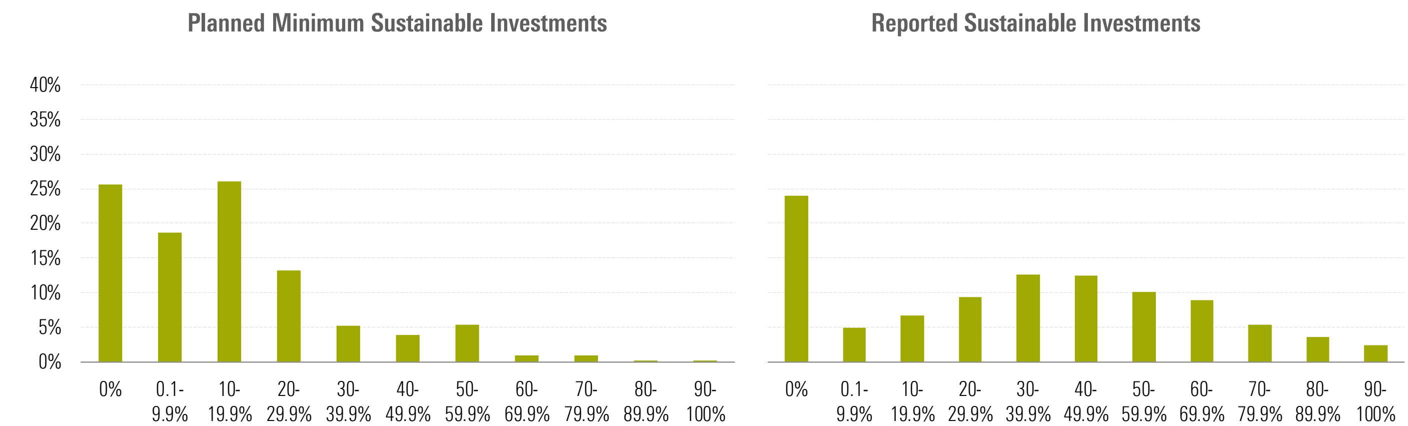
Comparison of Planned Minimum and Last Reported Sustainable Investments

Asset managers have been cautious with their pre-contractual commitment to sustainable investments as they reported higher exposure to sustainable investments than planned.

As shown below[7], the latest reported sustainable investments data among Article 8 funds displayed a less skewed and more dispersed distribution than the planned minimum, though funds without sustainable investments remained a significant (24%) proportion. Almost two thirds (65%) of the funds reported holding at least 30% of sustainable investments, which is much higher than the 30% that originally planned to reach that minimum level. Meanwhile, Article 8 funds with over 60% of AUM allocated to sustainable investments accounted for over 20% of the sample compared with 2% for the planned minimum sustainable investment.

7 To avoid bias caused by potential backfilling and ensure comparability, we only selected funds of which the dates of the last reported sustainable investments are later than the date of the planned minimum sustainable investment.

Exhibit 22 Proportion of Article 8 Funds (Y-Axis) With Various Planned and Reported Sustainable Investments (X-Axis)

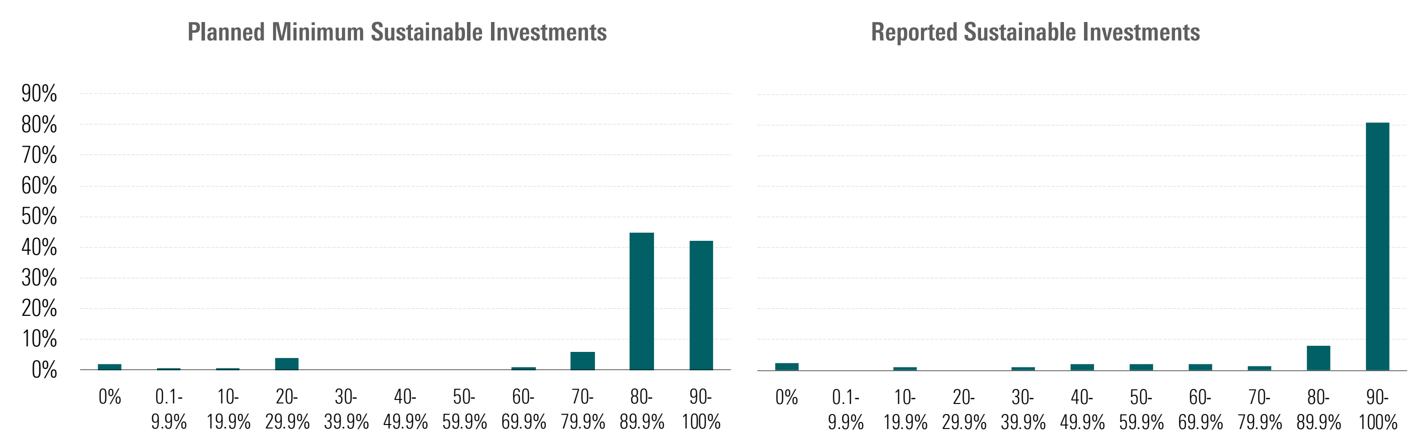


Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 2,973 Article 8 that report both fields.

Examples of Article 8 funds that reported higher than planned SI numbers include **Amundi MSCI Europe Climate Paris Aligned PAB** for which the reported sustainable investments (73%) significantly surpassed the precontractual planned figure of 30%. Meanwhile, **UBS MSCI Europe Climate Paris Aligned ETF** exhibited a slightly larger disparity between the two EET data fields, 67% versus 20%. Note that both funds track the same index, which illustrates again the different approached adopted by asset managers to the calculation of sustainable-investment exposure.

Among our sample of Article 9 products with reported sustainable investments figures after June 2023, 81% reported over 90% of AUM allocated to sustainable investments, compared with the just over 42% seen in the planned minimum. Meanwhile, 38% of funds reported 100% of sustainable investments.

Exhibit 23 Proportion of Article 9 Funds (Y-Axis) With Various Planned and Reported Sustainable Investments (X-Axis)

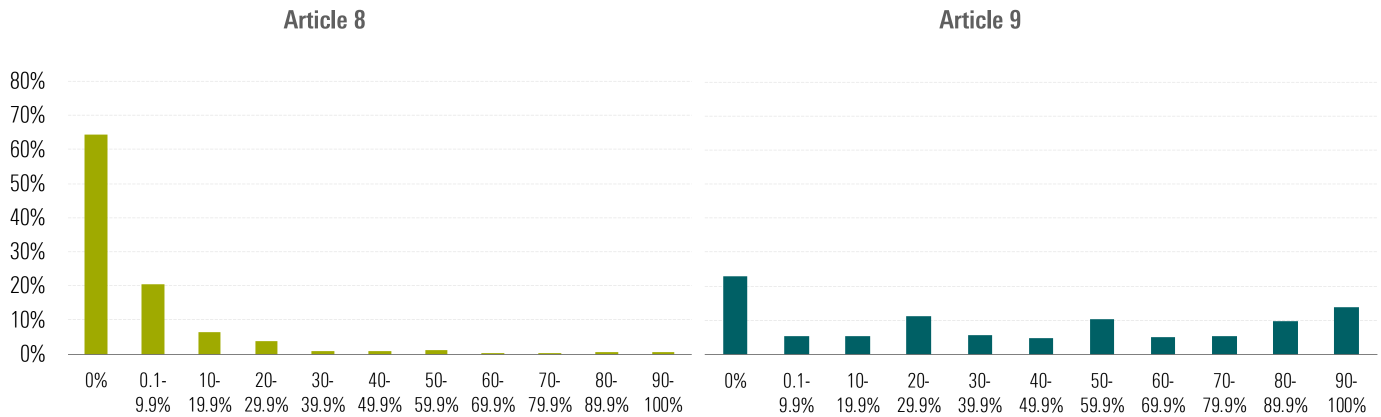


Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 214 Article 9 funds that report both fields.

36% of Article 8 Funds and 77% of Article 9 Funds Target Environmental Investments

Looking at the minimum percentage of environmentally sustainable investments[8], we find that 36% of Article 8 funds that report the field commit to hold some environmentally sustainable investments. About 64% of the sample reported targeting zero environmental investments at the end of March.

Exhibit 24 Proportion of Article 8 Funds (Y-Axis) With Various Commitments to Environmentally Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 6,926 Article 8 funds and 625 Article 9 funds that report both the fields of EU Sustainable Finance Disclosure Regulation Minimum or Planned Investments Sustainable Investments Environmental, and EU Sustainable Finance Disclosure Regulation Minimum or Planned Investments Sustainable Investments Other Environmental.

By comparison, 77% of Article 9 funds that report the field commit to hold some environmentally sustainable investments. This is in line with our observation of the top 20 Article 9 funds. Many Article 9 funds focus on the environmental theme. Only 23% of the sample reported targeting zero environmental investments at the end of March. The number of Article 9 funds targeting between 90% and 100% amounted to 87, accounting for 14% of the sample. Among these funds, we identified 38 Article 9 funds targeting 100% exposure to environmentally sustainable investments. Examples include **Echiquier Climate & Biodiversity Impact Europe**, **Vontobel Fund - Global Environmental Change**, and **BNP Paribas ESG Green Social & Sustainability IG EUR Bond**.

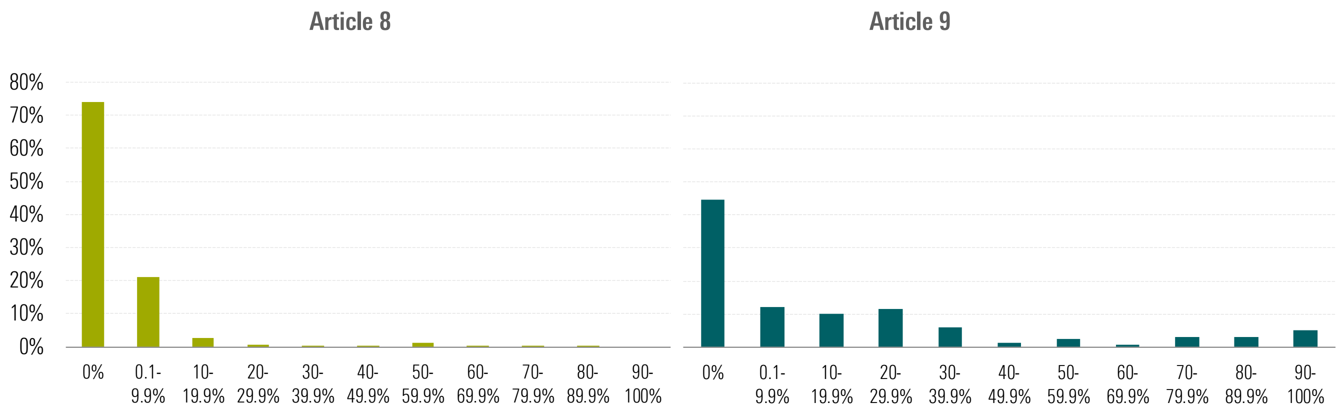
26% of Article 8 Funds and 56% of Article 9 Funds Target Social Investments

Looking at the minimum percentage of socially sustainable investments[9], we find that almost 26% of Article 8 funds that report the field commit to hold some socially sustainable investments. As expected, fewer Article 8 funds target social investments than Article 8 funds that target environmental investments. About 74% of the sample reported targeting zero social investments at the end of March.

8 The names of the data points in Direct are EU Sustainable Finance Disclosure Regulation Minimum or Planned Investments Sustainable Investments Environmental, and EU Sustainable Finance Disclosure Regulation Minimum or Planned Investments Sustainable Investments Other Environmental. The exhibit uses the sum of these two data points.

9 The name of the data point in Direct is EU Sustainable Finance Disclosure Regulation Minimum or Planned Investments Sustainable Investments Social.

Exhibit 25 Proportion of Article 8 and Article 9 Funds (Y-Axis) With Various Socially Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 6,390 Article 8 funds and 735 Article 9 funds that report the field.

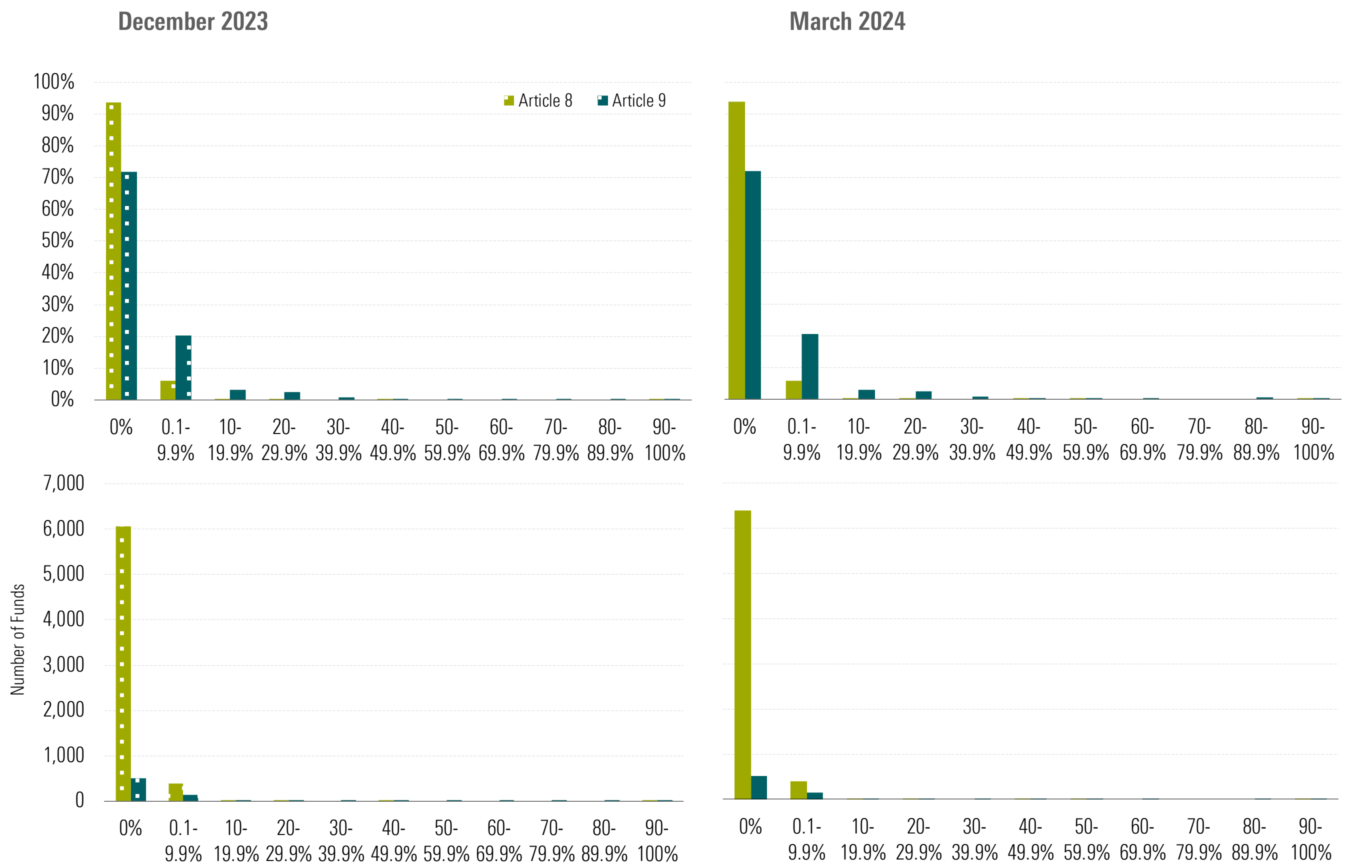
By comparison, almost 56**%** (408) of Article 9 funds that report the field commit to hold some socially sustainable investments. Still**,** 44% (327) of the sample reported targeting zero social investments at the end of March. Alone, the number of Article 9 funds targeting between 90% and 100% amounted to 60. Among these funds, we identified 15 Article 9 funds targeting 100% exposure to socially sustainable investments. For example, **Aviva Social Transition Global Equity Fund** represents a high-conviction active strategy that consists of companies providing solutions to tackle limited and unequal access to education, healthcare, and finance, as well as companies transitioning their business models to promote decent work and respectable corporate behaviors.

Minimum Proportion of Taxonomy-Aligned Investments

As previously mentioned, the number of surveyed Article 8 and Article 9 funds reporting minimum sustainable-investment exposure as defined under the EU Taxonomy has risen in the past three months. As of March 2024, over 58%, or 6,807, of the Article 8 funds in the sample populated the Minimum or Planned Investments Sustainable Investments Taxonomy Aligned field, a moderate decline from the coverage rate of 63% reported in our last report caused by the rapid expansion of the universe.

Meanwhile, close to 80% of Article 9 funds completed the same data field. Exhibit 26 shows the distribution of reported values.

Exhibit 26 Proportion of Article 8 and Article 9 Funds (Y-Axis) With Various Commitments to Taxonomy-Aligned Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of March 2024. March 2024 data is based on 6,807 Article 8 funds and 718 Article 9 funds that report the field. March 2024 data is based on 6,161 Article 8 funds and 635 Article 9 funds that report the field.

Only 28% of Article 9 Funds Target Taxonomy-Aligned Investments

Unsurprisingly, 0% values continue taking up the overwhelming majority of the responses received (94% for Article 8 funds and 72% for Article 9 funds), while just over 20% of Article 9 funds reported minimum taxonomy-aligned sustainable investments between 0% and 10%, almost unchanged compared with three months ago. Almost 54 (8%) of Article 9 funds target exposure of at least 10%. Seven funds reported exposure higher than 60%.

These low figures can be explained by the lack of issuer-level taxonomy-alignment data. These figures should start improving this year as in 2023 it became mandatory for companies to start disclosing the taxonomy alignment of their activities. To bridge the data gap, the ESAs and the European Commission have pushed asset managers to be conservative in their taxonomy disclosure (for example, by the prudent use of estimates for companies out of the scope of the nonfinancial reporting directive, or non-NFRD companies).

Exhibit 27 features the 20 Article 8 funds with the highest level of taxonomy-alignment ranked by fund size. The proportions fall to below 50% very quickly. **Maj Invest Net Zero 2050** and **Maj Invest Planet &**

People both align 100% of their sustainable investments toward the taxonomy. In a distant third place is **ATLAS Global Infrastructure Fund,** with a committed taxonomy-alignment level of 52%. In addition to a wide range of environmental indicators such as greenhouse emissions and resource depletion, this ATLAS Article 8 strategy takes into account social issues including health and safety, working conditions, and Indigenous communities that are of special relevance to the infrastructure sector.

Exhibit 27 Top 20 Article 8 Funds by Minimum % of Taxonomy-Aligned Investments

Fund Name	SFDR Type	Min % of Taxonomy Aligned Sustainable Investments	Fund Size (EURO Mil)	Morningstar Category	Broad Category
Maj Invest Net Zero 2050 KL	Article 8	100	87	Global Flex-Cap Equity	Equity
Maj Invest Planet & People	Article 8	100	66	Other Equity	Equity
ATLAS Global Infrastructure Fund	Article 8	52	1,841	Sector Equity Infrastructure	Equity
PATRIZIA Capital Low Carbon Core Infrastructure Fund	Article 8	25	188	Sector Equity Infrastructure	Equity
Kempen (Lux) Eurp Property	Article 8	25	138	Property - Indirect Europe	Equity
Kempen (Lux) Global Property Fund	Article 8	19	202	Property - Indirect Global	Equity
Kempen Global Property Fund N.V. N	Article 8	19	53	Property - Indirect Global	Equity
3 Banken Mensch & Umwelt Mischfonds	Article 8	15	200	EUR Moderate Allocation - Global	Allocation
BNP Paribas Easy ECPI Global ESG Hydrogen Economy	Article 8	15	64	Other Equity	Equity
Kempen (Lux) Global Small-Cap Fund	Article 8	13	1,787	Global Small/Mid-Cap Equity	Equity
Swedbank Robur Fastighet	Article 8	10	886	Property - Indirect Global	Equity
Swedbank Robur Transition Energy	Article 8	10	455	Sector Equity Alternative Energy	Equity
WERTGRUND WohnSelect D	Article 8	10	441	Property - Direct Europe	Property
ERSTE GREEN INVEST MIX	Article 9	10	313	EUR Flexible Allocation - Global	Allocation
Carmignac Porfolio Climate Transition	Article 8	10	207	Sector Equity Ecology	Equity
WisdomTree Battery Solutions ETF	Article 8	10	164	Other Equity	Equity
V&G1	Article 8	10	3	Global Large-Cap Blend Equity	Equity
Nykredit Invest Danske Aktier KL	Article 8	9	141	Denmark Equity	Equity
Sparinvest Danske Aktier KL	Article 8	9	185	Denmark Equity	Equity
Nykredit Invest Danske Aktier Akk KL	Article 8	9	285	Denmark Equity	Equity

Source: Morningstar Direct. Data as of March 2024. Based on 6,807 Article 8 funds that report the field.

Exhibit 28 features the 20 Article 9 funds with the highest minimum proportions taxonomy-aligned sustainable investments. Unsurprisingly, most focus on an environmental theme such as climate and alternative energy. We also see a number of fixed-income strategies investing in green bonds and other types of "impact" bonds for which it is easier to evidence the contribution to environmental objectives. The most sizable ones are **Goldman Sachs Green Bond** and **Goldman Sachs Corporate Green Bond**.

At the top of the list is **Thomas Lloyd Energy Impact Credit Fund**, which invests in debt instruments issued by unlisted sustainable energy infrastructure projects across emerging markets. Key investment themes cover renewable energy power generation, transmission infrastructure, energy storage, and sustainable fuel production.

Exhibit 28 Top 20 Article 9 Funds by Minimum % of Taxonomy-Aligned Investments

Fund Name	SFDR Type	Min % of Taxonomy Aligned Sustainable Investments	Fund Size (EURO Mil)	Morningstar Category	Broad Category
Thomas Lloyd Energy Impact Credit Fund	Article 9	100	143	Alternative Other	Alternative
Multiflex Carnot Efficient Energy Fund	Article 9	100	113	Sector Equity Ecology	Equity
Stewart Investors Indian Subcontinent Sustainability Fund	Article 9	90	6	India Equity	Equity
KlimaVest ELTIF	Article 9	75	1,347	Other Allocation	Allocation
Triodos Energy Transition Europe Fund	Article 9	75	173	Other	Miscellaneous
Triodos Emerging Markets Renewable Energy Fund	Article 9	75	34	Other Allocation	Allocation
Ålandsbanken Vindkraft Specialplaceringsfond	Article 9	70	290	Other	Miscellaneous
Assenagon Funds Green Economy	Article 9	65	31	Sector Equity Ecology	Equity
Triodos Groenfonds	Article 9	50	811	Other Bond	Fixed Income
Wealth Invest AKL TimeInvest Sustainable Opportunities	Article 9	50	14	Other Equity	Equity
Luxembourg Selection Fund Active Solar	Article 9	48	173	Sector Equity Alternative Energy	Equity
Fondita Sustainable Europe	Article 9	40	86	Europe Flex-Cap Equity	Equity
Man GLG Sustainable Strategic Income	Article 9	35	18	Global Corporate Bond - USD Hec	Fixed Income
ERSTE WWF Stock Environment	Article 9	30	554	Sector Equity Ecology	Equity
Rize Environmental Impact 100 UCITS ETF	Article 9	30	74	Sector Equity Ecology	Equity
ERSTE STOCK ENVIRONMENT	Article 9	30	40	Sector Equity Ecology	Equity
Fisher Investments Institutional Global Sustainable Equity Impact ESG Fund	Article 9	30	3	Global Large-Cap Blend Equity	Equity
Goldman Sachs Green Bond	Article 9	25	2,481	EUR Diversified Bond	Fixed Income
Goldman Sachs Corporate Green Bond	Article 9	25	1,463	EUR Corporate Bond	Fixed Income
Goldman Sachs Green Bond Short Duration	Article 9	25	638	EUR Diversified Bond - Short Tern	Fixed Income

Source: Morningstar Direct. Data as of March 2024. Based on 695 Article 9 funds that report the field.

Consideration of Principal Adverse Impacts

The principal adverse impact is a cornerstone of SFDR. It captures the second leg[10] of the regulation's double materiality concept: the potential negative impacts that a financial product may have on sustainability factors relating to environmental, social, and employee matters; respect for human rights; and anticorruption and antibribery matters.

SFDR requires financial market participants to disclose PAI information on a product level (Article 7) in precontractual financial product documentation, such as fund information memoranda or prospectuses.

SFDR outlines 64 adverse sustainability indicators to measure such PAIs. Of these, 14 are currently mandatory (on a comply-or-explain basis) for corporate investments, two for sovereign issuers, and two for real estate assets.

10 The first leg is sustainability risks, such as climate-related or social risks.

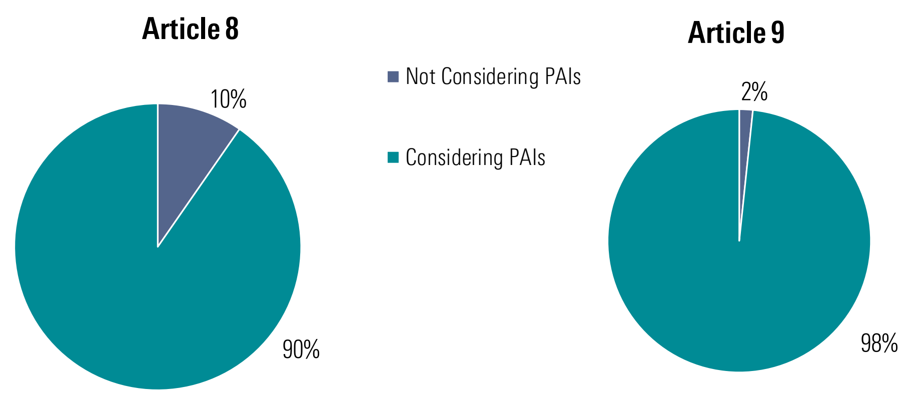
Exhibit 29 18 of the 64 PAI Indicators Under the EET

Corporate		
Greenhouse gas emissions	1	GHG emissions
	2	Carbon footprint
	3	GHG intensity of investee companies
	4	Exposure to companies active in the fossil fuel sector
	5	Share of nonrenewable energy consumption and production
	6	Energy consumption intensity per high impact climate sector
Biodiversity	7	Activities negatively affecting biodiversity-sensitive areas
Water	8	Emissions to water
Waste	9	Hazardous waste ratio
Social and employee matters	10	Violations of the UNGC principles and OECD Guidelines for Multinational Enterprises
	11	Lack of processes and compliance mechanisms to monitor compliance
	12	Unadjusted gender pay gap
	13	Board gender diversity
	14	Exposure to controversial weapons
Sovereign and supranational		
Environmental	15	GHG intensity of investee countries
Social	16	Number of investee countries subject to social violations
Real estate		
Fossil fuels	17	Exposure to real estate assets involved in the extraction, storage, transport of fossil fuels
Energy efficiency	18	Exposure to energy-inefficient real estate assets

Source: SFDR delegated regulation-annex I.

As previously mentioned, almost the entirety (99% for both) of the Article 8 and Article 9 universes had populated the PAI Consideration field by March 2024. And among those, the vast majority stated they do consider PAIs (90% for the respondent Article 8 funds and 98% for the respondent Article 9 funds). The 10% and 2% of Article 8 and Article 9 funds, respectively, that have reported not considering PAIs include funds that may not have updated this EET field since their last reporting date. Thus, it may not reflect their current process. If no PAI on sustainability factors are considered for a certain product, the precontractual information must include a statement to this effect, including the reasons for nonconsideration.

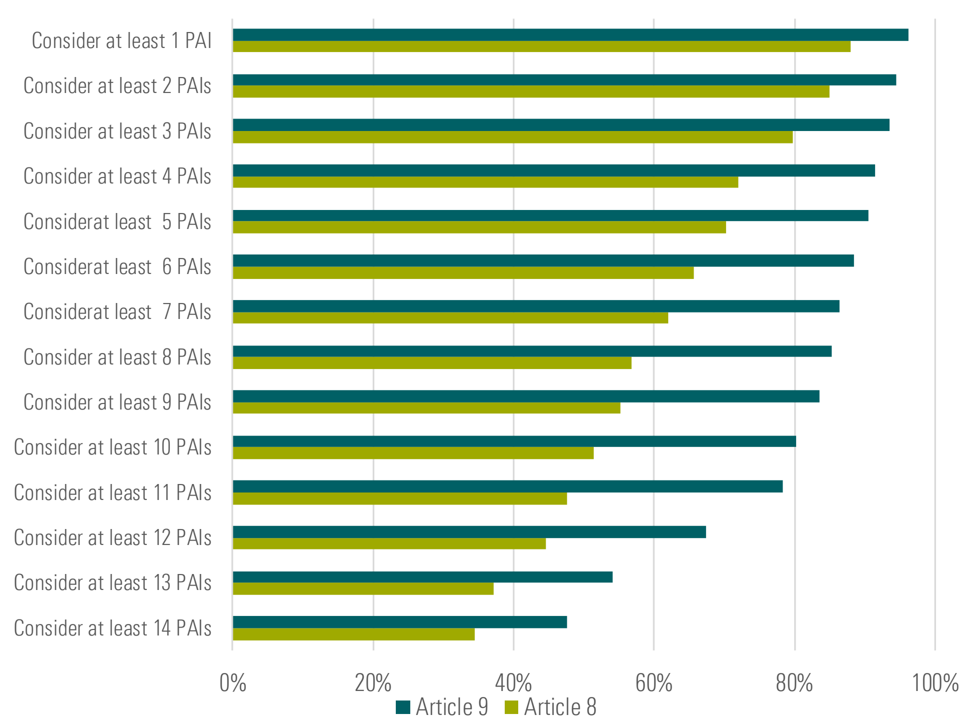
Exhibit 30 SFDR Product Type and PAI Consideration



Source: Morningstar Direct. Data as of March 2024. Based on 10,724 Article 8 funds and 904 Article 9 funds that reported the field.

The exhibit below shows the number of corporate PAIs considered by Article 8 and Article 9 funds.

Exhibit 31a Number of Article 8 and Article 9 Funds Considering Corporate PAIs



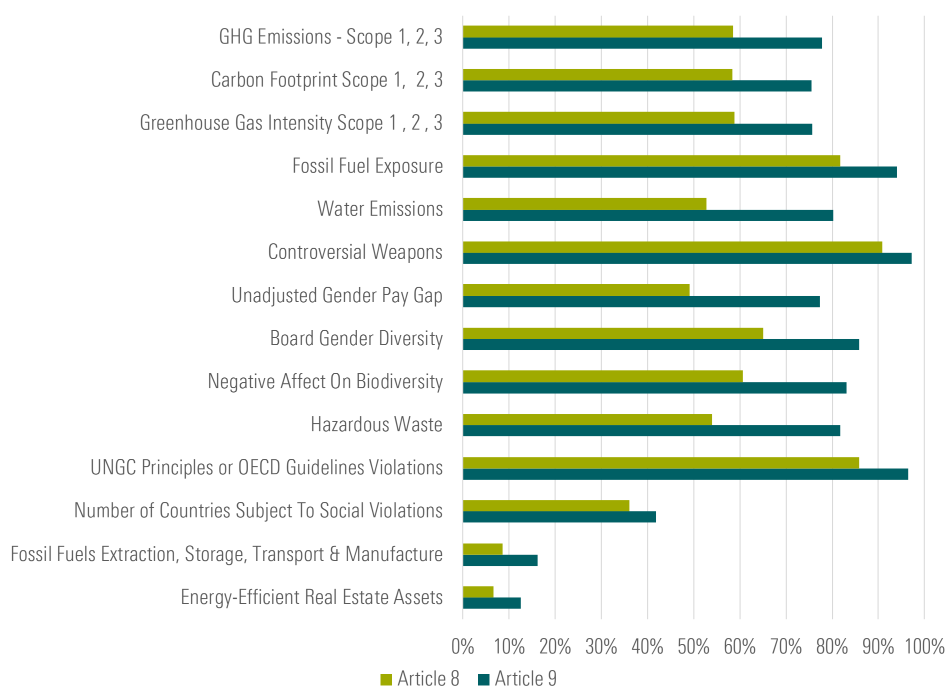
Source: Morningstar Direct. Data as of March 2024. Based on 10,778 Article 8 funds and 915 Article 9 funds that reported "Yes" under the selected PAIs. Note that these numbers include funds for which corporate PAIs may not be relevant.

The table above reveals that the majority of Article 8 funds (more than 50%) consider at least 10 of the 14 mandatory PAIs for corporates. This is an improvement relative to the previous quarter for which we reported that the majority of Article 8 funds considered only at least nine of the corporate PAIs.

Meanwhile, just about half of Article 9 funds considered all 14 PAIs. This may come as a surprise, given that Article 9 products should only hold sustainable investments, for which the "Do Not Significantly Harm" requirement applies. This, however, can be explained by the different interpretations that asset managers take of the definition of "sustainable investment" and the different criteria they use to assess "significant harm" to a sustainability objective. While some managers are indeed considering all PAIs for their Article 9 funds, others have taken a selective approach and are considering only the most relevant indicators for their strategies.

The exhibit below shows the level of consideration for the 14 mandatory corporate PAIs (in decreasing order).

Exhibit 31b Consideration of Mandatory PAIs for Corporates



Source: Morningstar Direct. Data as of March 2024. The exact numbers for Article 8 and Article 9 funds that reported each of the data fields vary.

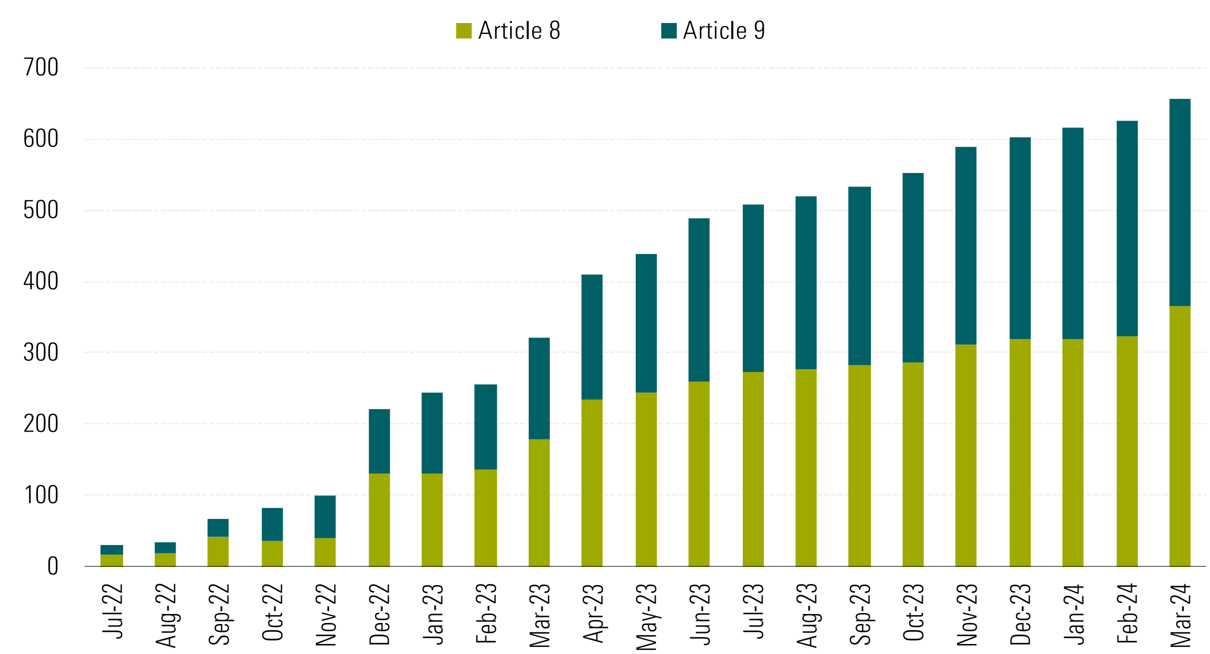
Exhibit 31b reveals a wide range of PAI consideration, with "Controversial Weapons," "UNGC Principles or OECD Guidelines Violations," and "Fossil Fuel Exposure" being the three most-considered metrics among both Article 8 and Article 9 funds. We find continued progress in the consideration of certain environmental PAIs, particularly among Article 9 products. For example, almost 13% of the sample Article 9 funds consider "Energy-Efficient Real Estate Assets," compared with the 10% reported three months ago. Article 9 funds considering "Greenhouse Gas Emissions Scope 1, 2, 3" also rose to 78% from 75% of the previous quarter. For certain PAIs, however, we continue seeing significant disparities of consideration between Article 8 and Article 9 products. For example, over 77% of the Article 9 funds considered "Unadjusted Gender Pay Gap," whereas still less than half the sample Article 8 funds do.

As previously discussed, these differences in consideration can be partly explained by the fact that not all PAIs may be relevant for all strategies. But the lack of consideration in many cases can also be explained by a lack of data availability and quality. Gaps in issuer-level reporting for mandatory PAIs are particularly notable.

Carbon Emission-Reduction Objectives

Another important field in the EET is "Carbon Emission Reduction Objective,"[11] which asset managers are increasingly keen to add to their funds, as evidenced below by the growing number of funds responding "Yes" to the field. As of March 2024, 657 Article 8 and Article 9 funds reported having a carbon-reduction objective—365 Article 8 funds and 292 Article 9 funds. These represent an increased percentage (25%, versus 17% three months ago) of the Article 8 and Article 9 funds that have reported the field.

Exhibit 32 Number of Article 8 and Article 9 Funds With Carbon Emission-Reduction Objectives



Source: Morningstar Direct. Data as of March 2024, based on a total of 3,948 funds that populated the field, including 3,125 Article 8 funds and 823 Article 9 funds. The increase in the number of funds with carbon-reduction objectives also partly reflects the increase in EET coverage.

There is, however, a range of objectives represented in this universe of Article 8 and Article 9 funds with emissions-reduction objectives. The least constraining goal is to reduce a portfolio's carbon intensity

11 EET reference: 20570_Financial_Instrument_With_Objective_Of_A_Reduction_In_Carbon

relative to a benchmark or an investment universe. For example, **Invesco Sustainable Multi-Sector Credit Fund** states in its prospectus that it "*aims to provide a positive total return over a full market cycle, while maintaining a lower carbon intensity than that of the fund's investment universe*."

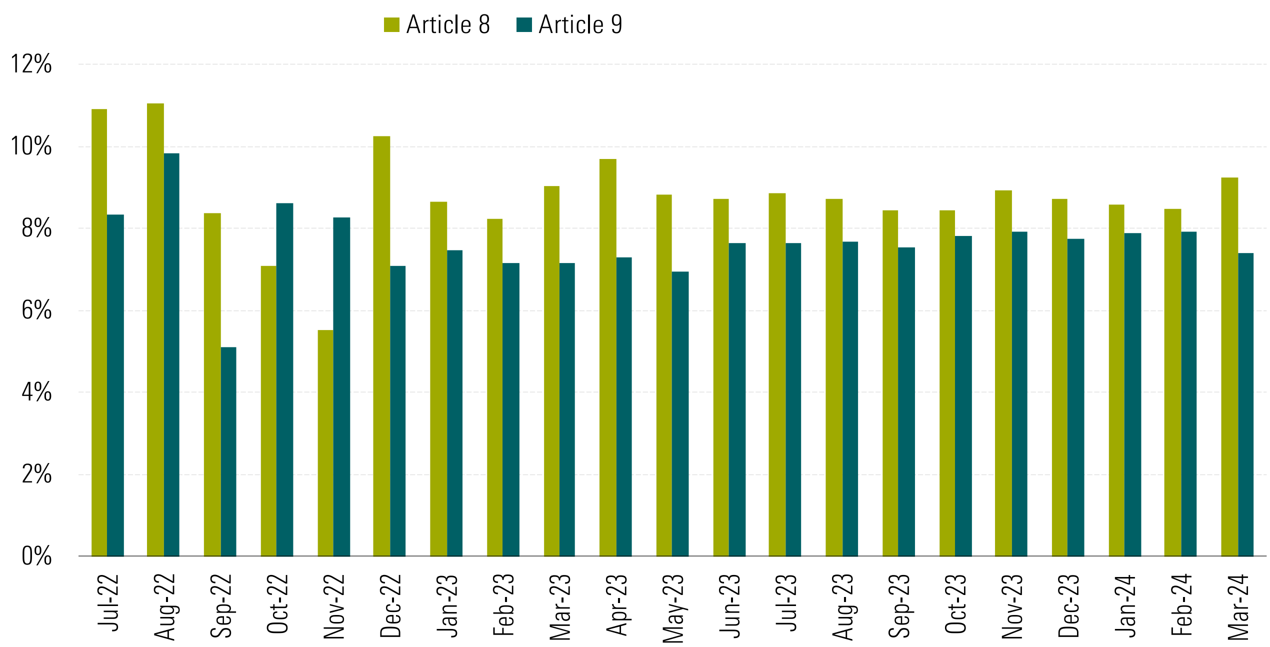
Other strategies offer a quantified emission reduction between 10% and 50%. Examples include **AXA World Funds - ACT European High Yield Bonds Low Carbon**, which "*seeks a high level of income from an actively managed bond portfolio whose carbon footprint, measured as carbon intensity, is at least 30% lower than that of the ICE BofA European Currency High Yield Hedged EUR index (the "Benchmark")*.

Additionally, funds that track or reference themselves to Paris-aligned benchmarks and climate-transition benchmarks target emission reduction of 50% and 30%, respectively. **Northern Trust World Natural Capital PAB Index Fund** tracks an index that is "*designed to meet the standards of the EU Paris Aligned Benchmark (PAB), aiming to reduce the weighted average greenhouse gas intensity relative to the MSCI World Index (the "Parent Index") by 50% and reduce the weighted average greenhouse gas (GHG) intensity by 7% on an annualized basis*." Funds tracking MSCI ESG-screened indexes, including **iShares MSCI World ESG Screened ETF**, also target a minimum 30% reduction in carbon intensity relative to the parent index.

While aligned with the overall carbon reduction goal under the Paris Agreement, certain active strategies focus on the emission reduction progress made by individual companies instead of a predetermined annual emission target at fund level. For example, for **M&G European Sustainable Paris Aligned Fund**, this is "*because most companies looking to cut GHG emissions will not experience a consistent, linear reduction year in and year out. Instead, there will be sharp jumps as the company makes changes, such as switching to renewable energy or acquiring another company. If the timing of such actions is wrong, the company could be removed from the portfolio before its good work comes into effect.*"

While a carbon-reduction objective was a more likely feature found in Article 9 funds two years ago, this has changed. About 9% of Article 8 funds now include this objective, compared with only 7% for Article 9 funds. The downgrades of the vast majority of PAB/CTB passive funds to Article 8 from Article 9 in late 2022/early 2023 has been the biggest contributor to this reversal.

Exhibit 33 Proportion of Article 8 and Article 9 Funds With Carbon Emissions-Reduction Objectives



Source: Morningstar Direct. Data as of March 2024, based on a total of 3,948 funds that populated the field, including 3,125 Article 8 funds and 823 Article 9 funds. The increase in the number of funds with carbon-reduction objectives also partly reflects the increase in EET coverage.

Regulatory Update

In the European Union, the outlook for SFDR remains uncertain. The European Commission confirmed in a public hearing in January that the publication in the Official Journal of revised SFDR regulatory technical standards[12] will be delayed and that the application date could be somewhere in 2025. But since then, several trade associations[13] have been pressing the commission to address the review of founding regulation and the technical standards jointly.

In parallel, the Platform on Sustainable Finance, the advisory body to the European Commission, is working on the feasibility of an alternative categorization system, considering among others the Financial Conduct Authority's labeling regime and the proposal made by the French supervisor AMF[14] (see overview below). Finally, the SFDR review will also need to factor in the final guidelines of the European Securities and Markets Authority on the use of ESG terms in fund names. In March 2024, ESMA announced it would postpone the publication of its final guidelines to the second quarter of 2024 (initially planned for the third quarter of 2023). However, ESMA already gave away some important information in its updated document, including portfolio requirements such as the percentage of assets aligned with claimed objective and mandatory sector exclusions (fossil fuel exclusions, for instance).

12 Revised RTS are meant to add social principal adverse impact, greenhouse gas, and "do no significant harm" disclosure requirements.
13 Joint letter on coordination of SFDR level 1 and level 2 reviews (efama.org).
14 Toward a review of SFDR | AMF (amf-france.org).

Exhibit 34 Overview of the AMF Proposal at the Product Level

"Environmental solutions" product category

Target: Clients interested in environmental topics and seeking to identify products that invest in activities that are already environmentally sustainable.

1st criterion: minimum proportion of Taxonomy-aligned investments (x%).

- x% should find the right balance between ambition and the reality of the alignment of the economy;
- x% should be dynamic and evolve upwards over time to take into account the evolution of the Taxonomy-alignment of the economy.

2nd criterion: exclusion of companies active in the fossil fuel sector.

3rd criterion: exclusions common to all categories:

- companies involved in the manufacture or selling of controversial weapons;
- companies involved in the cultivation and production of tobacco;
- companies that do not follow practices of good governance, provided that objective, precise criteria and/or thresholds are defined.

"Social solutions" product category

Target: Clients interested in social topics and seeking to identify products that invest in activities that are already socially sustainable.

Such a category should be established, provided that objective, precise and simple criteria are developed.

"Climate transition" product category

Target: Clients interested in transition and seeking to identify products that invest in companies in climate transition.

1st criterion: three approaches could be explored based on (i) decarbonisation trajectory of financial products, (ii) transition plans of investee undertakings and (iii) Taxonomy-aligned investments.

Additional thoughts on those approaches:

- under approach (i), the use of absolute greenhouse gas (GHG) emissions for investments in larger undertakings could be considered;
- a minimum proportion of investments should be made in high impact climate sectors;
- approach (ii) should not be restricted to investments in undertakings subject to CSRD, yet it should be ensured that the disclosures relating to transition plans are aligned with the European sustainability reporting standards;
- under approach (ii), a minimum proportion of investments should be made in undertakings whose transition plan is aligned with the 1.5°C objective;
- approach (iii) could refer to the CapEx KPI, which should be dynamic and evolve upwards over time.

2nd criterion: exclusions common to all categories.

"Non-financial filters" product category

Target: Clients interested in applying some non-financial filters to the selection of the assets they invest in.

1st criterion: objective non-financial filters in the selection of the assets. For public equity:

- non-financial analysis, indicator or rating should cover at least 90% of the portfolio of the product;
- the weight of each of the three pillars of the non-financial rating, namely E, S and G, should represent at least 20% of the rating;
- the product should meet one of these two conditions:
  - the non-financial analysis should lead to a 30% reduction in the product's investment universe, at least; or
  - the weighted average of the non-financial rating of the portfolio should be at least 30% higher than that calculated for the investable universe;
- other assets classes like private equity, real estate and infrastructure should have their own criteria.

2nd criterion: exclusions common to all categories.

Source: https://www.amf-france.org/en/news-publications/amfs-eu-positions/towards-review-sfdr.

In parallel to SFDR, a flurry of legislative initiatives was agreed upon before the EU elections, including new obligations for investors and other financial undertakings:

- Policymakers reached a deal on the Corporate Sustainability Due Diligence Directive. While the financials sector is only partially captured by due-diligence requirements regarding impacts on human rights (own operations and upstream business partners), it is required to adopt and implement a climate transition plan aligned with the Paris Agreement. This is a significant step up for investors, as CSDDD creates a private civil liability regime giving injured parties the right to use NGOs or other organizations to bring actions to enforce their rights. Only EU[15] and non-EU[16] financial undertakings will be captured as thresholds were raised threefold to secure a deal.
- Amendments to the Corporate Requirements Directive and Capital Requirements Regulation will also require banks to adopt climate transitions (subject to annual supervisory examination review), extend ESG risk disclosures requirements to all banks, and introduce favorable risk weight for a project with positive or neutral environmental impact.

15 EUR 450 million global net turnover and 1,000 employees.

16 EUR 450 million global EU turnover.

- The EU ESG rating regulation is setting transparency and governance obligations for providers. Investors are also captured by the transparency requirements to the extent that their internal ESG rating model is displayed in public-facing documents (for example, a fund factsheet). They will have to disclose among others the weights used for the E, S, and G factors. The proposed rules aim to strengthen the reliability and comparability of ESG ratings. Pending approval, the regulation will take effect 18 months after it enters into force.

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