SFDR Article 8 and Article 9 Funds: Q4 2023 in Review

Investors pull record money from Article 8 funds, while Article 9 funds suffer first-ever quarterly outflows.

Morningstar Manager Research
Jan. 25, 2024

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Executive Summary

Since the European Union's Sustainable Finance Disclosure Regulation came into force 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 December 2023, 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 fourth quarter of 2023, Article 8 funds registered the largest quarterly outflows on record and Article 9 funds their very first quarterly outflows amid persistent macroeconomic pressures and waning investor appetite for ESG and sustainable products.
- Investors pulled EUR 26.7 billion from Article 8 funds in the last three months. Funds with no commitment to sustainable investments were disproportionately affected.
- Article 9 funds bled EUR 4.7 billion.
- The bleak picture for Article 8 and Article 9 funds last quarter contrasts with the positive momentum maintained by Article 6 funds, which attracted EUR 15.7 billion of net new money.
- Over the entirety of 2023, Article 8 funds registered net outflows of EUR 27 billion, while Article 9 funds collected EUR 4.3 billion and Article 6 funds garnered EUR 93 billion.
- Actively managed funds drove all the outflows in the fourth quarter as well as over the full year. Passive funds sustained their positive momentum.
- Assets in Article 8 and Article 9 funds rose by 1.7% over the quarter to a new record of EUR 5.2 trillion. Together, Article 8 and Article 9 funds saw their market share climb further to nearly 60% of the EU universe primarily due to continued reclassification from Article 6 to Article 8 or 9.
- We identified 256 funds that altered their SFDR status in the fourth quarter, including 218 that upgraded to Article 8 from Article 6, while only four funds downgraded to Article 8 from Article 9.

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 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

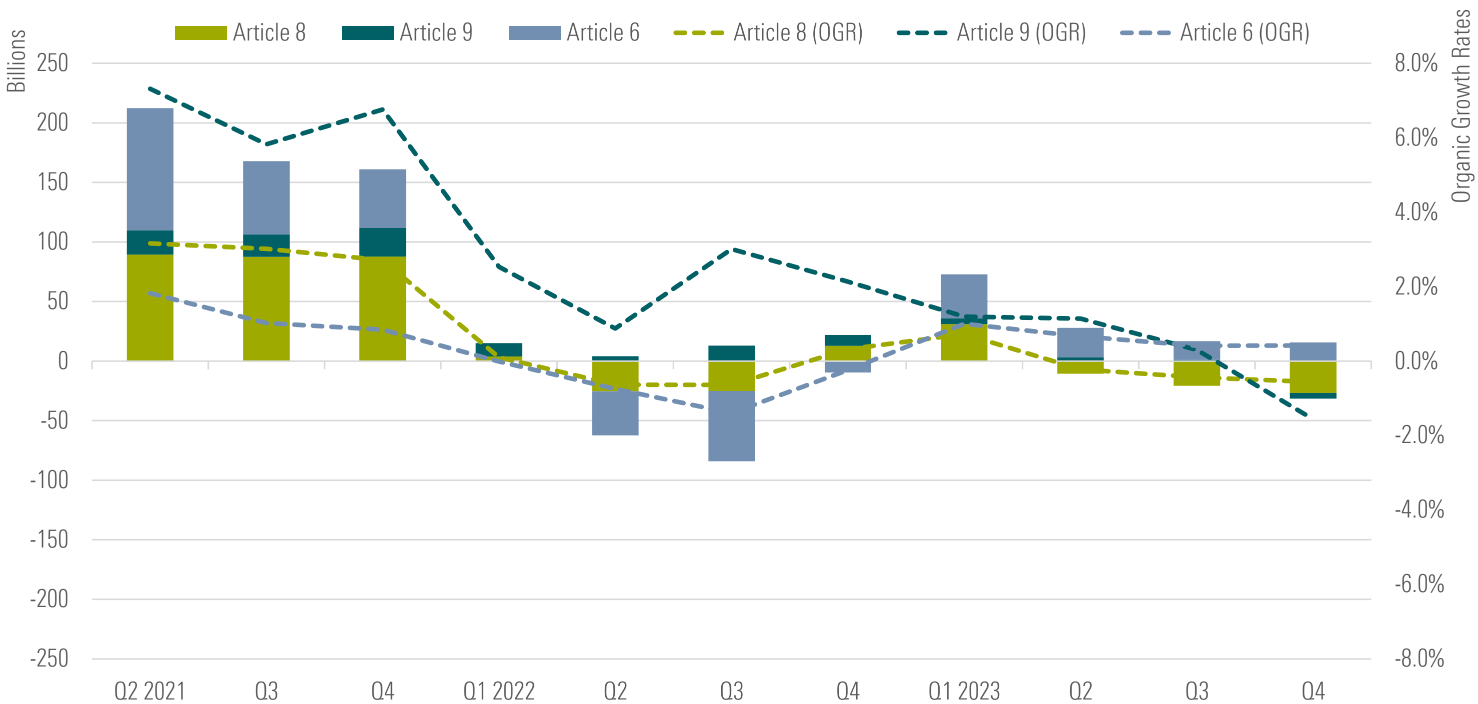
Article 8 Funds Experience Largest Outflows on Record, While Article 9 Suffer First Withdrawals

Investors continued to pull money from Article 8 funds for the third-consecutive quarter as these registered net outflows of EUR 26.7 billion in the fourth quarter of 2023, after bleeding almost EUR 21 billion in the previous quarter and EUR 10.6 billion in the second quarter. The fourth-quarter outflows were the highest on record, surpassing the previous largest quarterly withdrawals of EUR 25.3 billion in the second quarter of 2022. Over the full 2023, investors withdrew a total of EUR 27 billion.

Meanwhile, Article 9 funds incurred their very first quarterly net outflows, at EUR 4.7 billion, in the fourth quarter of 2023. Over the full year, net flows into Article 9 funds were still positive at EUR 4.3 billion.

The bleak picture for Article 8 and Article 9 funds in the last three months contrasts with the positive momentum maintained by Article 6 funds, which attracted EUR 15.7 billion in net new money, consistent with the figures observed in the preceding quarter. Over the full year, Article 6 funds registered EUR 93 billion of inflows.

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 December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

A few factors contributed to the waning investor appetite for Article 8 and Article 9 last year including macroenvironment, high interest rates, inflation, fears of recession among some major world economies, and geopolitical risks. Among other implications, this has led investors to favor government bonds, an area that has limited ESG products because ESG integration remains challenging in that corner of the fixed-income market—in fact it is not feasible in the case of single-country government funds like U.S. Treasuries or U.K. gilts.

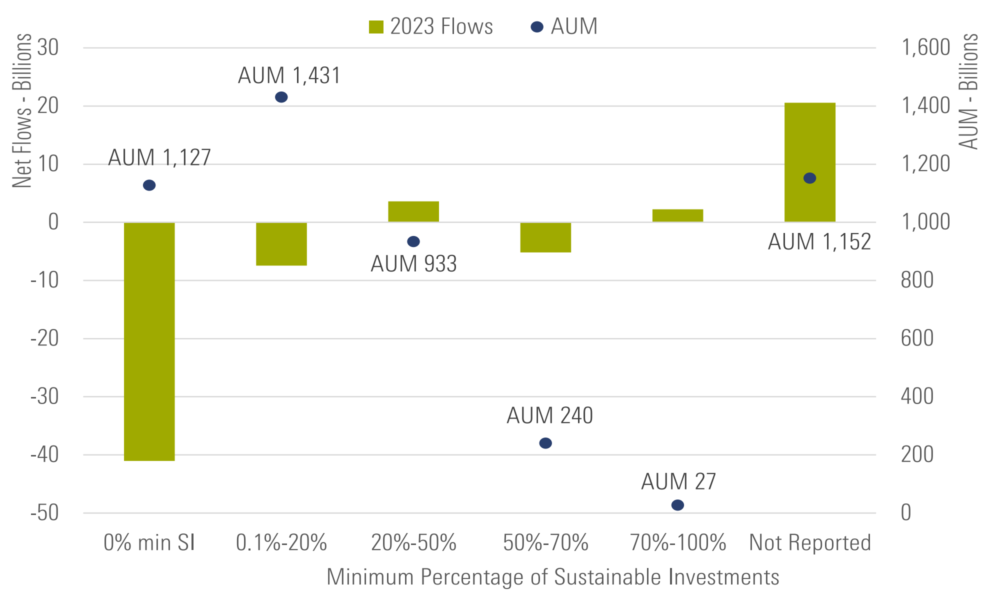
Also, it is fair to assume that some investors took a more cautious approach to ESG investing last year in the wake of the underperformance of ESG and sustainable strategies in 2022 partly due to their typical underweight in traditional energy companies and overweight in technology and other growth sectors. While the technology sector rebounded in 2023, other popular sectors in sustainable strategies continued to underperform. Renewable energy companies, for example, have been particularly affected by soaring financing costs, materials inflation, and supply chain disruptions, among other issues.

Additional factors weighing on investor demand for Article 8 and Article 9 products include greenwashing concerns and the ever-evolving regulatory environment. The wave of fund reclassifications to Article 8 from 9 in late 2022,[1] and other issues related to the implementation of SFDR, have caused confusion among market participants.

Article 8 Funds with No Commitment to Sustainable Investments Suffer Largest Outflows
Similar to the previous two quarters, the redemptions in the fourth quarter of 2023 disproportionally affected Article 8 funds with no commitment to sustainable investments[2] as these registered outflows of EUR 17 billion, representing two-thirds of the total Article 8 outflows over the period, while accounting for only one third of the Article 8 fund assets[2].

Over the full year, as seen in the exhibit below, Article 8 funds with no commitment to sustainable investments experienced EUR 41 billion of outflows, while those Article 8 funds with commitment to sustainable investments between 0.1% and 20%—a larger group of funds by assets—recorded outflows of only EUR 7.4 billion. The category of Article 8 funds with minimum percentages of sustainable investments between 20% and 50% (a similar group of funds in terms of assets) experienced inflows of EUR 3.6 billion.

Exhibit 2 2023 Net Flows Into Article 8 Funds Per Percentage of Minimum Sustainable Investments



Source: Morningstar Direct. Funds with a value equal to zero in the EU SFDR Minimum or Planned Investments Sustainable Investments field.

This analysis reveals that within the category of Article 8 products, investors still favor strategies with a commitment to sustainable investments over those with no commitment.

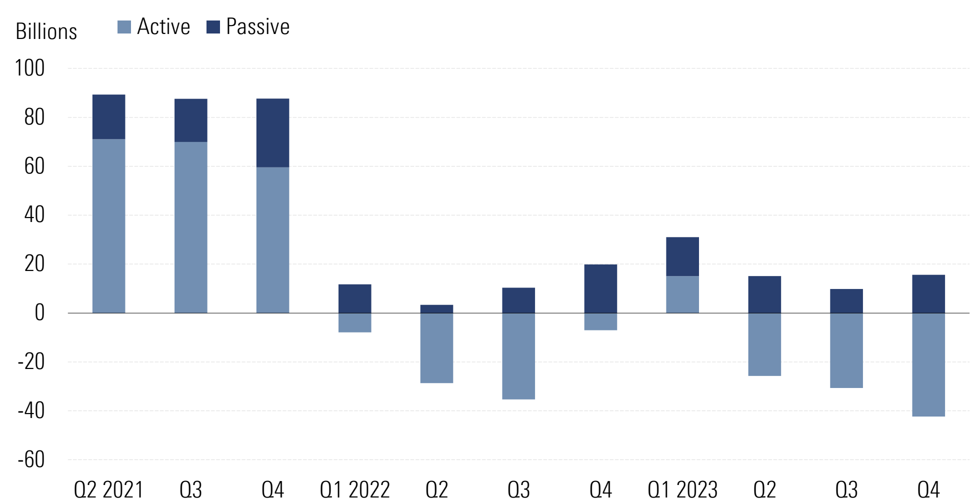
1 SFDR Article 8 and Article 9 Funds: Q4 2022 in Review

2 Funds with a value equal to zero in the EU SFDR Minimum or Planned Investments Sustainable Investments field in Morningstar Direct.

Active Funds Drive Outflows, While Passive Funds Sustain Momentum

Passive Article 8 funds sustained their momentum throughout 2023, contrasting with the challenges faced by their active peers. In fact, in the last two years, the sole instance of positive net flows for active Article 8 strategies occurred in the first quarter of 2023, registering EUR 15 billion, while the seven other quarters saw persisting withdrawals.

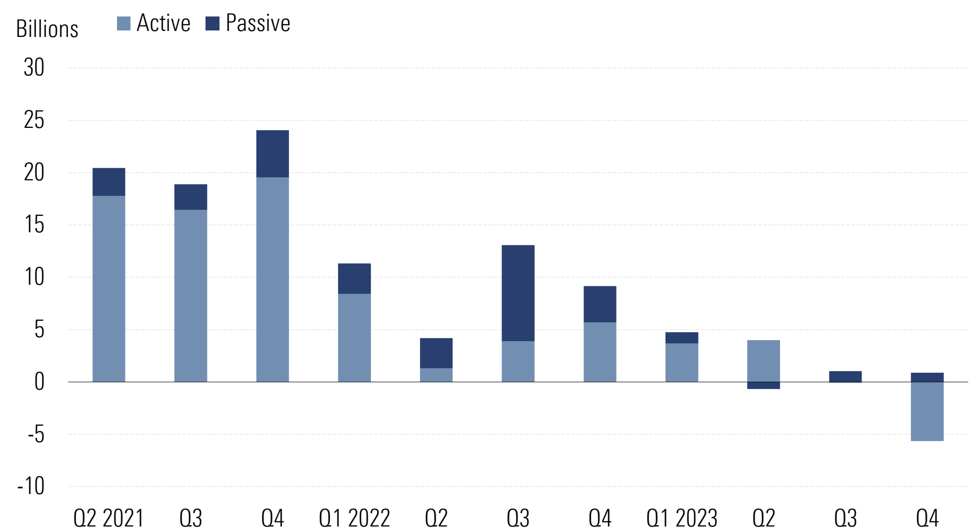
Exhibit 2a Net Flows Into Article 8 Funds Divided by Active and Passive



Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Meanwhile, active funds in the Article 9 category enjoyed continued inflows until last quarter, when they suffered EUR 5 billion of redemptions. Passive Article 9 strategies garnered positive net flows in all but one quarter. Inflows into this group of funds have significantly shrunk following the reclassification of many large ETFs and index funds tracking climate benchmarks in late 2022 and early 2023.

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



Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Flows—Leaders and Laggards

Below are the Article 8 and Article 9 funds that saw the largest inflows and outflows over the fourth quarter of 2023.

Exhibit 3 Article 8 Funds With the Largest Inflows and Outflows in the Fourth Quarter of 2023

Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
Amundi Obbligazionario Euro 09/2028	1,553	Capital Group New Perspective Fund (LUX)	-3,492
UBAM - Global High Yield Solution	1,281	Amundi MSCI World Climate Transition CTB	-997
iShares MSCI USA ESG Enhanced ETF	1,190	BNP Paribas Easy MSCI USA SRI S-Series PAB 5% Cap.	-884
Amundi Obbligazionario Euro 11/2028	1,135	iShares MSCI USA SRI ETF	-865
Amundi Obbligazionario Euro 10/2028	1,091	MM Emerging Markets Fund	-826
Amundi MSCI World ESG Climate NZ Ambition CTB ETF	1,013	Mercer Passive Global High Yield Bond Fund	-746
HSBC Global Government Bond	880	Muzinich Enhancedyield Short-Term Fund	-739
JPMorgan US Research Enhanced Index Equity (ESG) ETF	840	Danske Tactical Asset Allocation Danmark Akk	-696
DNB AM Kort Obligasjon 2	837	JPMorgan Global Income Fund	-639
iShares MSCI Europe ESG Enhanced ETF	832	Santander Gestión Global Equilibrado FI	-574

Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The fourth quarter saw a stronger presence of active strategies among the bestselling Article 8 products relative to the previous quarter. **Amundi Obbligazionario Euro 09/2028** hauled slightly over EUR 1.5 billion. It invests in a varied portfolio of corporate debt and related instruments, along with money market instruments. The fund applies Amundi group's sectoral exclusion on coal and tobacco, as well as excludes controversial weapons and companies in violations of the UN Global Compact principles, while also applying Amundi's Responsible Investment Policy. Following closely are **UBAM - Global High Yield Solution**, which netted nearly EUR 1.3 billion, and **iShares MSCI USA ESG Enhanced ETF**, which with almost EUR 1.2 billion of inflows in the fourth quarter continued to be the largest ESG ETF available to European investors, with more than EUR 13.3 billion in assets.

Exhibit 4 Article 9 Funds With the Largest Inflows and Outflows in the Fourth Quarter of 2023

Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
Handelsbanken Global Index Criteria	783	Nordea 1 - Global Climate and Environment Fund	-578
Goldman Sachs Global Social Impact Equity	344	UBS Sustainable Development Bank Bonds ETF	-446
Candriam Sustainable Bond Euro Short Term	338	Ircantec Green Bonds Amundi AM	-404
UBS Sustainable Development Bank Bonds 5-10 Index Fund	235	Pictet - Global Environmental Opportunities	-387
Candriam Sustainable Bond Euro Corporate	217	RobecoSAM Sustainable Water Equities	-381
Wellington Global Stewards Fund	162	RobecoSAM Smart Energy Equities	-376
Sparinvest Bæredygtige Aktier KL	160	BlackRock Global Funds - Sustainable Energy Fund	-334
UBS Sustainable Development Bank Bonds 1-5 Index Fund	155	Pictet - Clean Energy Transition	-287
Kutxabank RF Objetivo Sostenible FI	148	BNP Paribas Funds Green Tigers	-276
Candriam Sustainable - Equity World	140	Baillie Gifford Worldwide Positive Change Fund	-230

Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

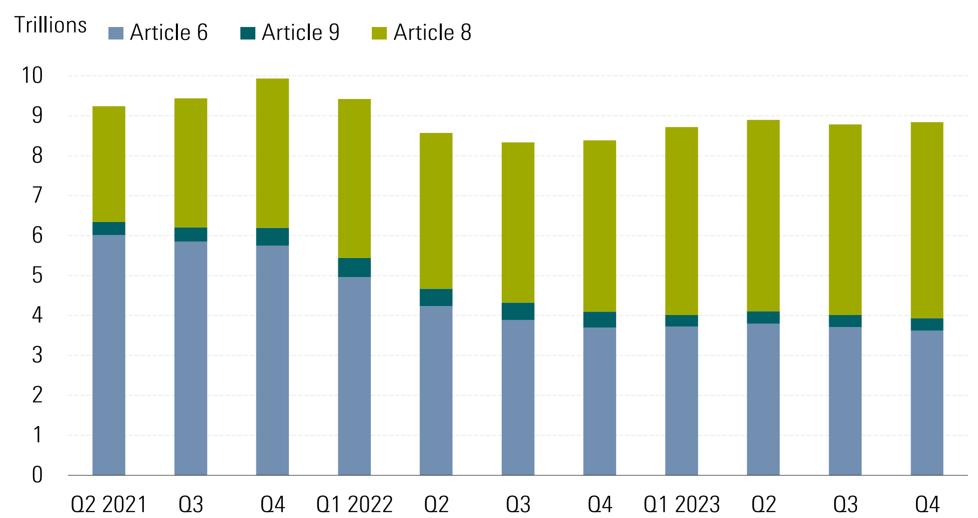
Meanwhile, topping the list of Article 9 bestselling products in the fourth quarter was **Handelsbanken Global Index Criteria**, followed distantly by **Goldman Sachs Global Social Impact Equity** and **Candriam Sustainable Bond Euro Short Term.** The Handelsbanken fund tracks a Paris-aligned benchmark.

Goldman Sachs Global Social Impact Equity seeks to promote inclusive growth, contributing to improve the quality of life and giving opportunities to people to participate to economic development. Its main objective is to realize a minimum of 50% sustainable investments with a social objective.

Article 8 and Article 9 Fund Assets Increased by 1.7%

Combined assets in Article 8 and Article 9 funds increased by 1.7% over the fourth quarter to EUR 5.2 trillion, a new record. Conversely, Article 6 fund assets declined by 2.4%. Together, Article 8 and Article 9 funds saw their market share rise further to 59% of the EU universe. In other words, almost 60% of the money invested in funds in the EU claim to have some ESG characteristics. 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.

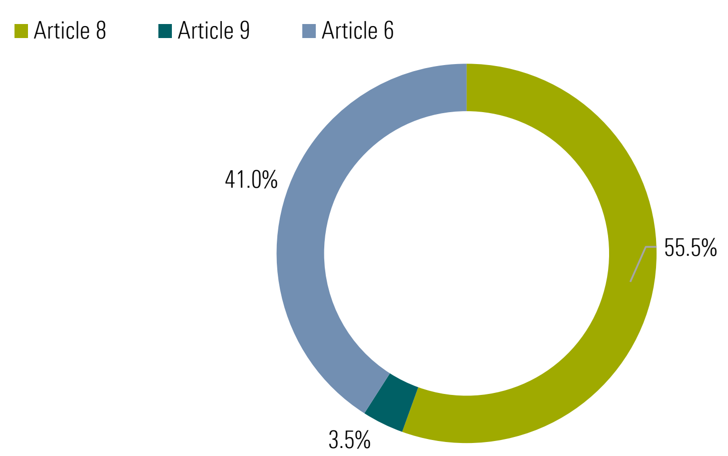
Exhibit 5 Quarterly Asset Breakdown by SFDR Classification (EUR Trillion)



Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Despite the continued redemptions, Article 8 funds maintained their market share at around 55% at the end of December 2023. The share of Article 9 products stayed at 3.5%, showing trivial change compared with the previous quarter.

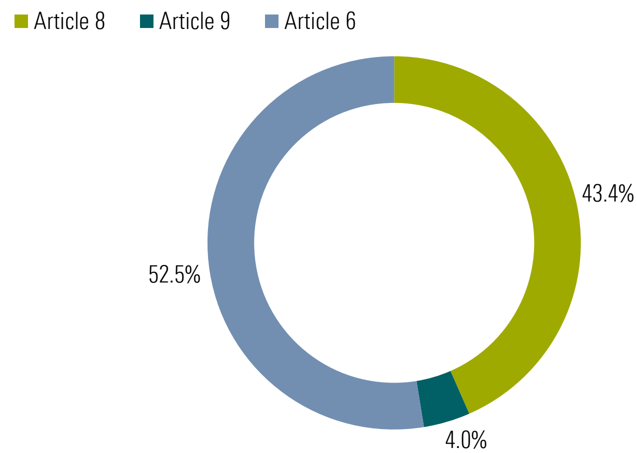
Exhibit 6a SFDR Fund Type Breakdown (by Assets)



Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Measured by number of funds,[3] the combined market share of Article 8 and Article 9 products exhibited a significant increase to 47.4% from the previous quarter's 44.7%, while the number of Article 9 funds rose to 994 from 976 three months earlier. This represents a market share of 4%, staying on par with the end of September. Meanwhile, the Article 8 category grew steadily to 10,678 at the end of December, taking up 43.4% of the market share.

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



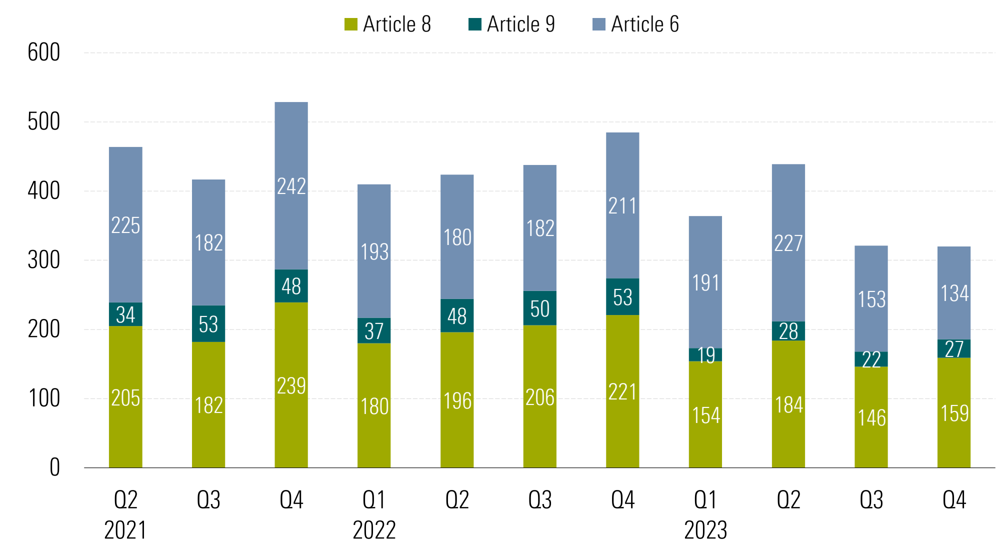
Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds

Fund Launches

The number of newly launched Article 8 and Article 9 funds totaled 186 in the fourth 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 10% increase compared with the previous quarter's 168. Over the full year, close to 740 new Article 8 or 9 funds were launched, accounting for 51% of all new funds marketed in the EU. This still represents a slowdown in product development compared with 2022 when 990 new Article 8 or 9 funds were incepted.

3 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.

Exhibit 7 Quarterly Number of Fund Launches

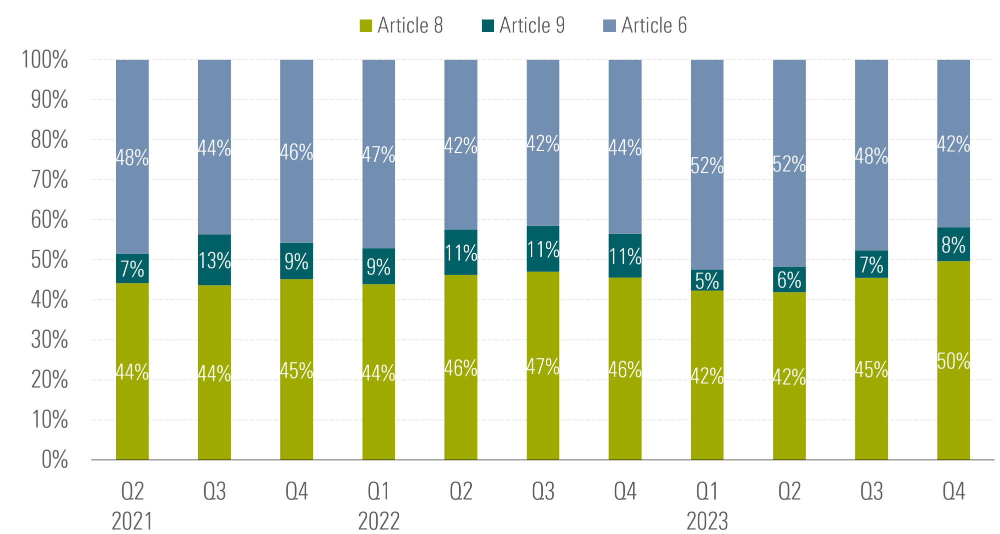


Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The decline in new products last year can be partly attributed to the overall market sentiment dampened by the challenging macro environment, including high inflation and interest rates for a foreseeable future and slowing growth across some of the largest economies. Additional factors potentially contributing to the slow Article 8 and Article 9 product development activity are greenwashing accusations and the ever-evolving regulatory environment (see regulatory section).

In the fourth quarter of 2023, newly incepted Article 8 and Article 9 funds accounted for 58% of the total number of funds launched in the EU, the highest proportion in any one quarter last year.

Exhibit 8a Quarterly Breakdown of Fund Launches



Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% 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. The proliferation of products was notably prominent in equity and fixed income categories, marked by a substantial increase in the introduction of 83 and 79 new offerings, respectively, compared with preceding quarters. Additionally, allocation witnessed a notable expansion with 21 new offerings. Commodities and miscellaneous categories accounted for the remaining additions to the product landscape.

Examples of newly launched funds include **Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF** and **Amundi S&P 500 ESG EFT**. The former adheres to the established criteria for EU Paris-Aligned Benchmarks, including a minimum 50% reduction in greenhouse gas intensity compared with the parent index and a 7% year-on-year decarbonization trajectory. On the other hand, **Amundi S&P 500 ESG EFT** utilizes ESG scores alongside sustainability exclusions to encompass 75% of market capitalization within each industry group.

Sycomore Environmental Euro IG Corporate Bonds is one of the recently launched funds classified under Article 9. Engaging in a thematic SRI strategy, the fund invests in companies whose business model, products, services, or production processes positively contribute to addressing the challenges of the energy and ecological transition.

Reclassifications Keep Momentum

In the last quarter of 2023, reclassifications continued. We identified 256 funds that altered their SFDR status, including 231 upgrades. This compares with 250 upgrades reported in the prior quarter. Asset managers upgrade funds by enhancing ESG integration processes, adding binding ESG criteria (including carbon reduction objectives—see the last section of this report), or in some cases completely changing the mandate of the strategy.

The majority of funds (218) moved to Article 8 from Article 6, while three upgraded to Article 9 from Article 6, and eight funds moved to Article 9 from Article 8. Meanwhile, four funds downgraded to Article 8 from Article 9.

Exhibit 8b Funds Reclassified to Article 9 From Article 8 in Fourth-Quarter 2023

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active/ Passive
Federal Indiciel PAB Europe ESG	Article 8	Article 9	35	Europe Large-Cap Blend Equity	Passive
KEPLER Umwelt Aktienfonds	Article 8	Article 9	178	Sector Equity Ecology	Active
BNP Paribas Obli Etat ISR	Article 8	Article 9	113	EUR Government Bond	Active
Rivertree Bond - Short Term Sustainable	Article 8	Article 9	182	Other Bond	Active
AXA Europe Equity	Article 8	Article 9	305	Europe Large-Cap Blend Equity	Active
AXA Europe Opportunités	Article 8	Article 9	27	Europe Large-Cap Blend Equity	Active
CT European Social Bond Fund	Article 8	Article 9	499	EUR Diversified Bond	Active
Bantleon Global Challlenges Paris Aligned Index Fonds	Article 8	Article 9	66	Global Large-Cap Blend Equity	Passive

Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Of the eight upgrades to Article 9 from Article 8 (Exhibit 8b), two track Paris-aligned indexes, namely **Federal Indicial PAB Europe ESG** and **Bantleon Global Challenges Paris Aligned Index Fonds**. The reclassification of PAB and CTB strategies (to Article 9 from Article 8) come as a result of a clarification from the European Commission in April 2023 in its answers to the European Supervisory Authorities' questions that funds tracking Paris-aligned and climate-transition benchmarks automatically qualify for Article 9 and don't need to additionally ensure compliance with the Article 2(17) sustainable-investments test.

Exhibit 8c Funds Reclassified to Article 8 From Article 9 in Fourth-Quarter 2023

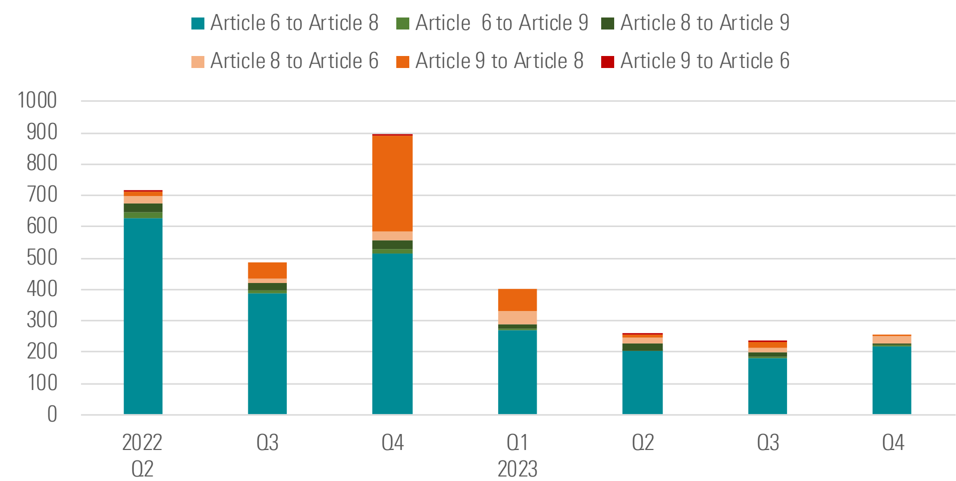
Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active/ Passive
4L Capital Werte-Fonds	Article 9	Article 8	11.16	Global Flex-Cap Equity	Active
BlackRock China Impact Fund	Article 9	Article 8	20.50	China Equity	Active
PhiTrust Active Investors Europe	Article 9	Article 8	1.54	Eurozone Large-Cap Equity	Active
Cape Capital Equity Fund	Article 9	Article 8	433.49	Global Large-Cap Blend Equity	Active

Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The exhibit below shows a history of reclassified funds. Compared with 2022, 2023 saw a deceleration of reclassification activity. Changes from Article 6 to Article 8 have continuously been the most common.

The wave of downgrades from Article 9 to Article 8 that occurred in the fourth quarter of 2022 and first quarter of 2023 is represented in orange.

Exhibit 8d Reclassified Article 6, 8, and 9 Funds

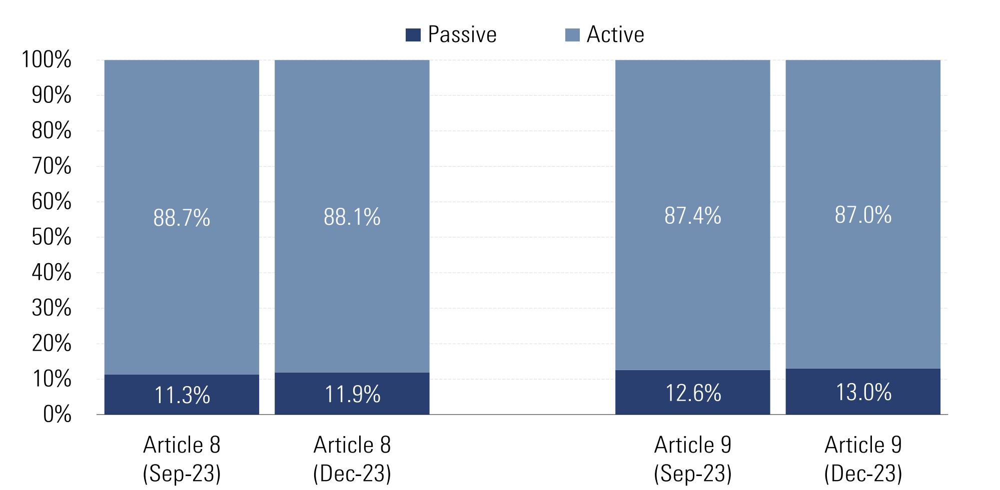


Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

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

Following the Article 9 to Article 8 reclassification of sizable index funds and ETFs tracking EU climate benchmarks, the market share of Article 9 passive funds shrank significantly to 5% in December 2022 from 24% in September. But by the end of December 2023, this percentage inched to 12.5% from 11.6% three months earlier. As mentioned earlier, another eight former Article 8 strategies were reclassified as Article 9 in the fourth quarter of 2023. Meanwhile, the market share of Article 8 passive funds almost leveled with the previous quarter, at 11.4%.

Exhibit 9 Market Share of Active and Passive Funds Classified as Article 8 and Article 9 for Third-Quarter 2023



Source: Morningstar Direct. Assets as of December 2023. Based on SFDR data collected from prospectuses on 97.8% 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 (14) of funds that target no or low (up to 10%) exposure to sustainable investments. **Pictet-Global Megatrend Selection** keeps its place in the top 20 with the highest minimum target of 51% of sustainable investment, followed by **iShares MSCI USA ESG Enhanced ETF** and **Mercer Multi Asset Growth Fund**, which both committed to a minimum of 20%.

Exhibit 10 The 20 Largest Article 8 Funds

Name	SFDR Fund Type	Minimum % Sustainable Investments	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating
Flossbach von Storch SICAV - Multiple Opportunitie	8	0	Flexible Allocation	24.9	Active	🌐🌐🌐
Morgan Stanley Global Brands Fund	8	10	Global Equity Large Cap	20.5	Active	🌐🌐🌐🌐🌐
AB FCP I - American Income Portfolio	8	0	US Fixed Income	20.2	Active	🌐🌐
DWS Top Dividende	8	15	Global Equity Large Cap	19.5	Active	🌐🌐
Fidelity Funds - Global Technology Fund	8	5	Technology Sector Equity	18.6	Active	🌐🌐🌐
Deka-ImmobilienEuropa	8	0	Property-Direct	18.5	Active	—
JPMorgan Global Income Fund	8	10	Moderate Allocation	17.5	Active	🌐🌐
hausInvest	8	5	Property-Direct	17.3	Active	—
UniImmo: Deutschland	8	0	Property-Direct	16.7	Active	—
UniImmo: Europa	8	0	Property-Direct	14.8	Active	—
DWS Concept Kaldemorgen	8	10	Flexible Allocation	14.0	Active	🌐🌐🌐🌐🌐
iShares MSCI USA ESG Enhanced ETF	8	20	US Equity Large Cap Blend	13.3	Passive	🌐🌐🌐🌐
DWS Vermögensbildungsfonds I	8	15	Global Equity Large Cap	13.0	Active	🌐🌐🌐
AB FCP I - Global High Yield Portfolio	8	0	Global Fixed Income	12.9	Active	—
Mercer Multi Asset Growth Fund	8	20	Aggressive Allocation	12.6	Active	🌐🌐🌐🌐
BlackRock World Healthscience Fund	8	0	Healthcare Sector Equity	11.9	Active	🌐🌐🌐🌐
Flossbach von Storch - Multiple Opportunities II	8	0	Flexible Allocation	11.9	Active	🌐🌐🌐
Swedbank Robur Technology	8	11	Technology Sector Equity	11.9	Active	🌐🌐🌐🌐🌐
Morgan Stanley Global Opportunity Fund	8	0	Global Equity Large Cap	11.6	Active	🌐🌐🌐
Pictet - Global Megatrend Selection	8	51	Global Equity Large Cap	11.3	Active	🌐🌐🌐🌐

Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% 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 fourth quarter. Amongst the new entries we find **Candriam Sustainable Bond Euro Corporate**, which aims to reduce greenhouse gases as outlined in the Paris Agreement, and **BNP Paribas Aqua**, which invests in the overall water value chain, including water-related infrastructure, services, and technologies.

As expected, all Article 9 funds in the table below have high sustainable-investment targets (above 80%), with nine funds reaching a target of 90%.

Exhibit 11 The 20 Largest Article 9 Funds

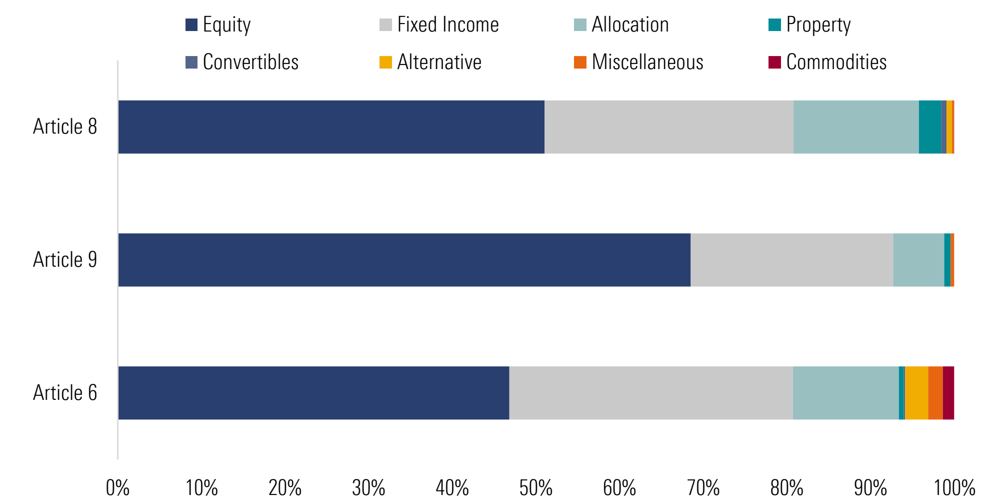
Name	SFDR Fund Type	Minimum % Sustainable Investments	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating
Nordea 1 - Global Climate and Environment Fund	9	85	Global Equity Mid/Small Cap	9.1	Active	🌐🌐🌐🌐
Handelsbanken Global Index Criteria	9	90	Global Equity Large Cap	8.7	Passive	🌐🌐🌐
Pictet-Water	9	80	Equity Miscellaneous	8.1	Active	🌐🌐🌐🌐
Pictet - Global Environmental Opportunities	9	80	Global Equity Large Cap	7.4	Active	🌐🌐🌐🌐🌐
BlackRock Global Funds - Sustainable Energy Fund	9	80	Energy Sector Equity	6.1	Active	🌐🌐🌐🌐🌐
Handelsbanken USA Index Criteria	9	90	US Equity Large Cap Blend	4.9	Passive	🌐🌐🌐🌐
Mirova Global Sustainable Equity Fund	9	90	Global Equity Large Cap	4.7	Active	🌐🌐🌐🌐🌐
Pictet - Clean Energy Transition	9	80	Energy Sector Equity	4.6	Active	🌐🌐🌐🌐🌐
Handelsbanken Norden Index Criteria	9	90	Europe Equity Large Cap	3.9	Passive	🌐🌐🌐
BNP Paribas Funds Aqua	9	85	Equity Miscellaneous	3.7	Active	🌐🌐🌐🌐
BNP Paribas Aqua	9	85	Equity Miscellaneous	3.6	Active	🌐🌐🌐🌐
RobecoSAM Smart Energy Equities	9	90	Energy Sector Equity	3.4	Active	🌐🌐🌐🌐🌐
RobecoSAM Sustainable Water Equities	9	90	Equity Miscellaneous	3.2	Active	🌐🌐🌐🌐
DPAM L - Bonds Emerging Markets Sustainable	9	80	Emerging Markets Fixed Income	3.2	Active	🌐🌐🌐
BNP Paribas Funds Climate Impact	9	85	Global Equity Mid/Small Cap	2.8	Active	🌐🌐🌐🌐🌐
AB SICAV I - Sustainable Global Thematic Portfolio	9	80	Global Equity Large Cap	2.8	Active	🌐🌐🌐🌐🌐
Impact ES Actions Europe	9	90	Europe Equity Large Cap	2.5	Active	🌐🌐🌐🌐
Goldman Sachs Green Bond	9	90	Europe Fixed Income	2.4	Active	🌐🌐🌐🌐
Goldman Sachs - Green Bond	9	90	Europe Fixed Income	2.4	Active	—
Candriam Sustainable Bond Euro Corporate	9	80	Europe Fixed Income	2.3	Active	🌐🌐🌐

Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% 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

Article 8 funds share a similar asset-class distribution with Article 6 funds, whereas Article 9 funds exhibit a stronger inclination toward equity. As of December 2023, these funds constitute 68% of Article 9 products, in contrast to 51% and 46% observed in the Article 8 and Article 6 fund groups, respectively.

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

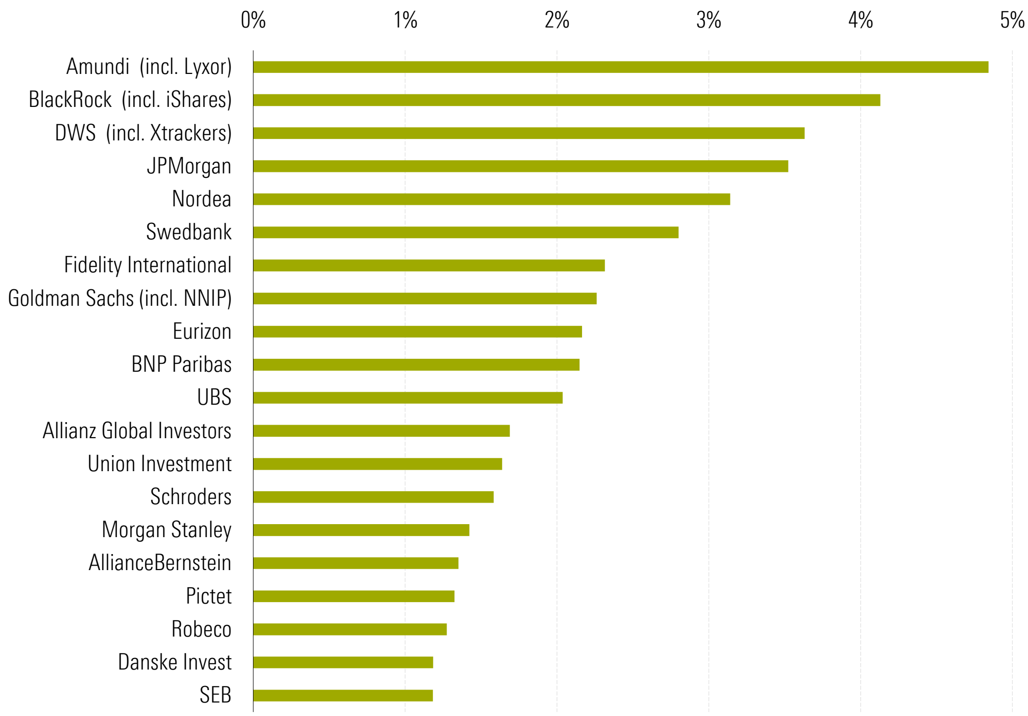


Source: Morningstar Direct. Data as of December 2023. Based on SFDR data collected from prospectuses on 97.8% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

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 third quarter of 2023.

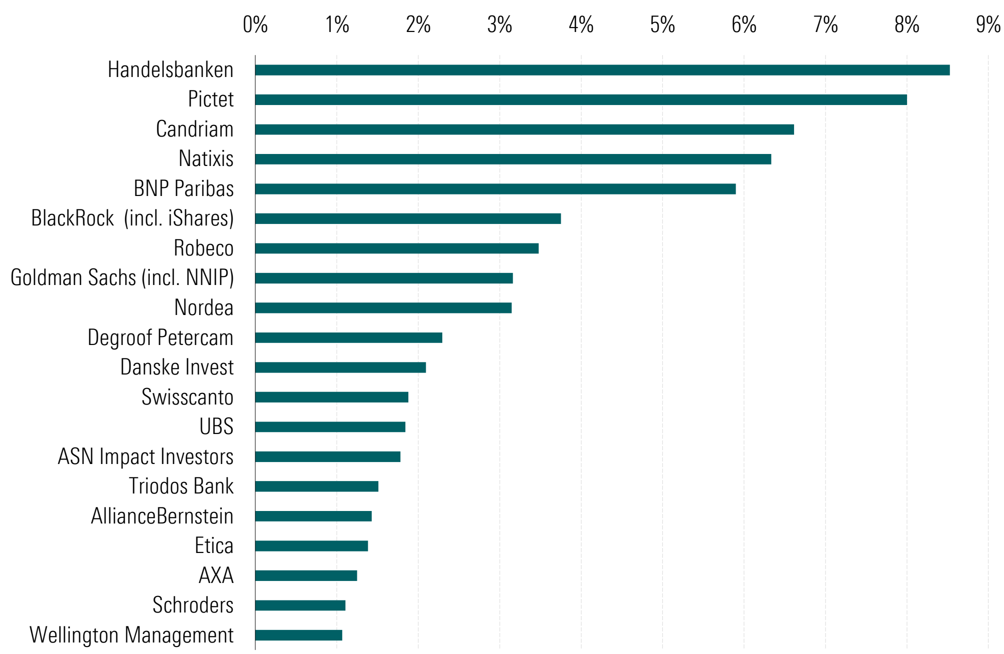
Exhibit 13 Top 20 Asset Managers by Article 8 Fund Assets



Source: Morningstar Direct. Assets as of December 2023 on SFDR data collected from prospectuses on 97.8% 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. DWS experiences a slight reduction of 0.2% in market share for Article 8 funds but maintains its third position. Handelsbanken secures a leading position in the market share of Article 9 funds, achieving 8.5%. Additionally, Candriam and Natixis observe incremental gains in market share for Article 9 funds, each advancing by 0.1% and 0.2%, respectively.

Exhibit 14 Top 20 Asset Managers by Article 9 Fund Assets



Source: Morningstar Direct. Assets as of December 2023 on SFDR data collected from prospectuses on 97.8% 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.

How Do Article 8 and Article 9 Funds Stack Up?

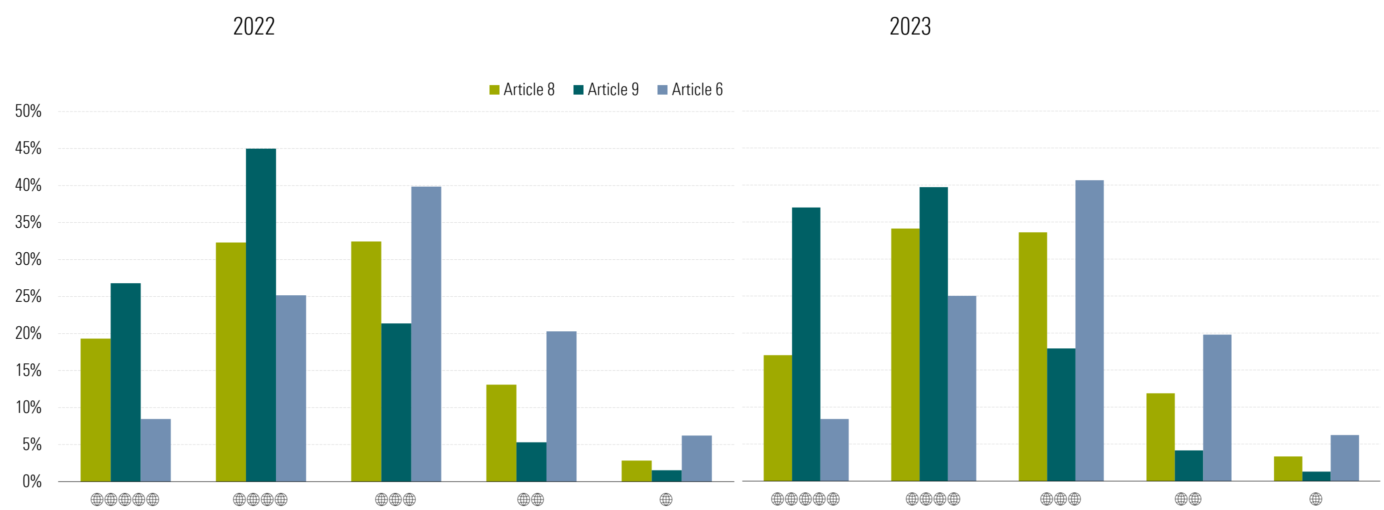
As done in previous reports,[4] we analyze the portfolio characteristics of Article 8 and Article 9 portfolios using a number of metrics. We're looking to assess whether Article 8 and Article 9 funds exhibit desirable ESG characteristics. For example, do they have a high exposure to companies with less ESG risk? Do they have low exposure to severe controversies? Do they invest in companies whose activities and products will help the transition to a low-carbon economy? In this section, we address these questions and compare the ESG characteristics of Article 8 and Article 9 funds and the extent to which they differ from Article 6 funds. We also compare ESG profiles between 2022 and 2023 to showcase how these funds have evolved over the past year.

Do Article 8 and Article 9 Funds Manage Their ESG Risks Better Than Article 6 Funds?

First, we examine the extent to which Article 8 and Article 9 funds are limiting their portfolios' exposures to ESG risk compared with peers. The Morningstar Sustainability Rating can help answer these questions. The Sustainability Rating is an asset-weighted roll-up of Morningstar Sustainalytics' company and sovereign ESG Risk Ratings based on the trailing 12 months of a fund's portfolios. Intuitively, we would expect Article 8 and Article 9 funds to be managing their ESG risks better than Article 6 funds.

4 SFDR: Four Months After Its Introduction (July 2021) and SFDR Article 8 and Article 9 Funds: 2021 in Review (February 2022)

Exhibit 15 Globe Distribution for Article 8 and 9 Funds Compared With the Overall Fund Universe



Source: Morningstar Direct. Assets as of December 2022 (for left side of the exhibit) and December 2023 (for the right side of the exhibit).

The exhibits above suggest that it is indeed the case. The ratings distribution is skewed toward higher Sustainability Ratings for both Article 8 and Article 9 funds. As of December 2023, 51% of Article 8 funds (52% one year ago) and 77% (72% one year ago) of Article 9 funds received the highest ratings, 4 or 5 globes, compared with 33.4% (33.6% one year ago) of Article 6 funds. It's worth noting that the number of Article 9 funds with 5-globe ratings has increased to nearly 37%, from 27% at the end of 2022.

Do Article 8 and Article 9 Funds Have Low Exposures to Controversial Activities?

A growing number of funds in Europe are adding exclusions to their investment policies in order to limit, or completely avoid, exposure to companies involved in activities such as controversial weapons, tobacco, oil & gas,[5] as well as companies facing severe controversies.

Here, using Morningstar Sustainalytics' underlying data rolled up to the portfolio level, we examine the Exposure of Article 8 and Article 9 funds to several controversial activities and sectors, including controversial weapons, tobacco, thermal coal, and fossil fuel. We also try and assess the impact of the recent wave of Article 9 downgrades.

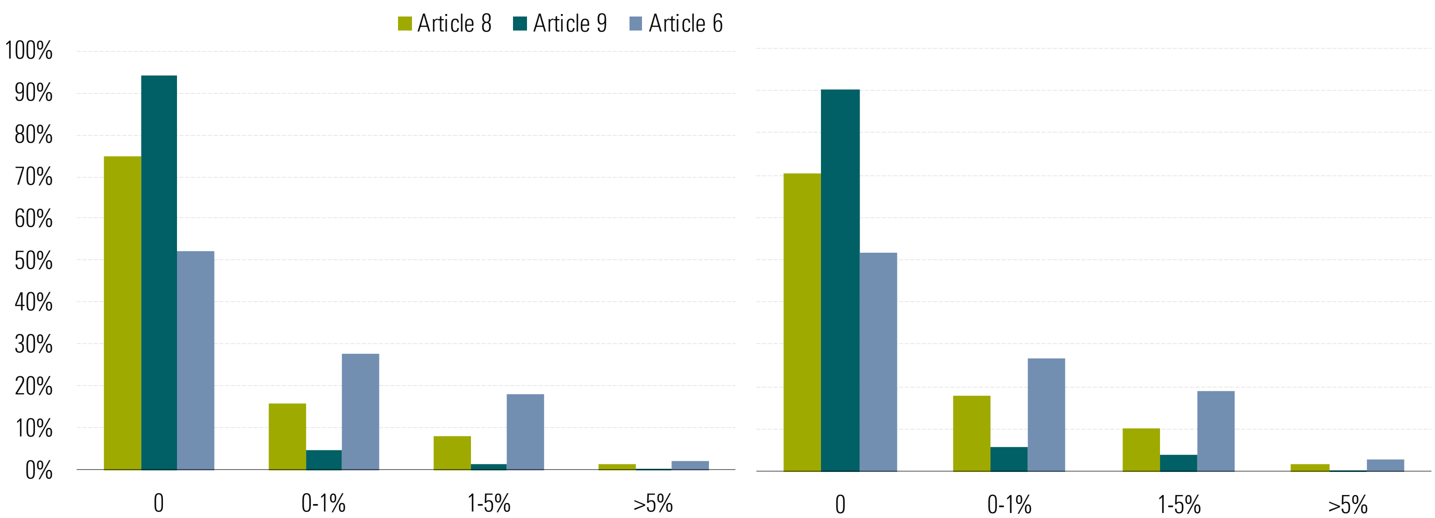
Controversial Weapons

First, we test the exposure of Article 8 and Article 9 funds to controversial weapons. For this, we use Morningstar's Product Involvement %—Controversial Weapons data point.[6]

5 From 2025, French ISR-labeled funds 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. For further details, read: French ISR Label Revamp Report

6 Product Involvement %—Controversial Weapons refers to the percentage of a fund's assets under management that is invested in companies that are classified as directly involved in the core weapon system that are considered tailor-made and essential for the lethal use of the weapon; indirectly involved by providing services for the core weapon system, which are either tailor-made or essential to the lethal use of the weapon. Product Involvement %—Controversial Weapons is binary, either yes or no.

Exhibit 16 Article 6, 8, and 9 Funds' Involvement in Controversial Weapons



Source: Morningstar Direct. Assets as of December 2023.

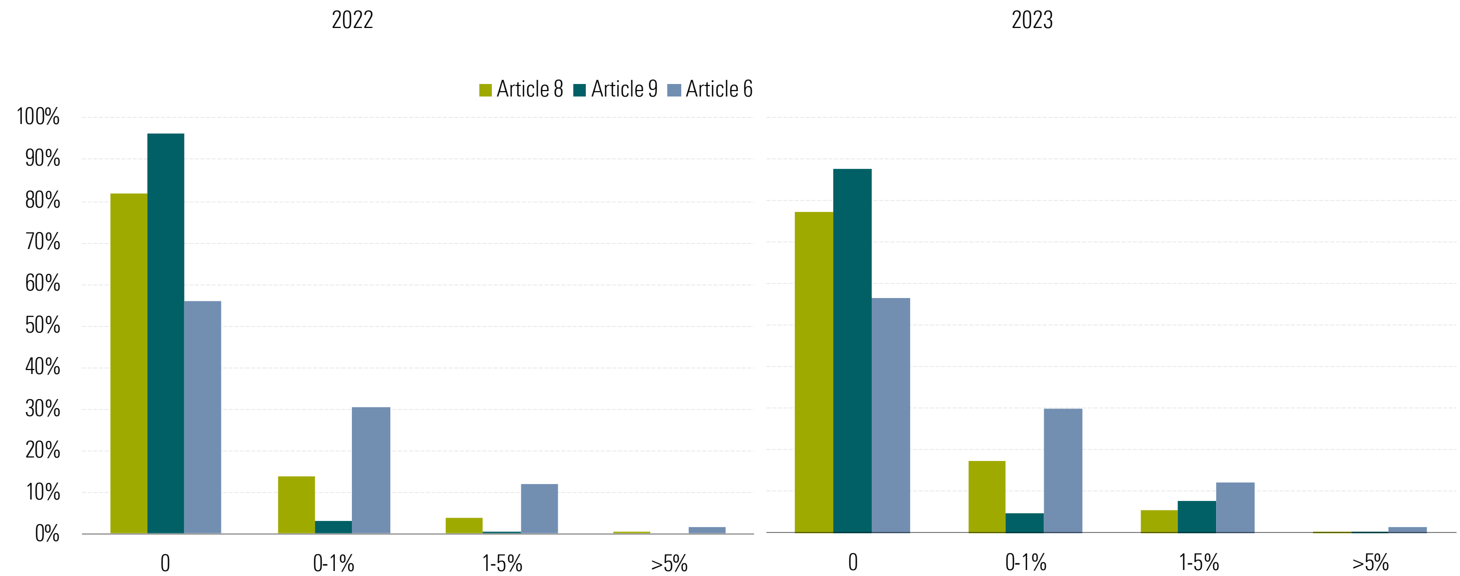
Article 8 and Article 9 funds continue to be less exposed to controversial weapons than Article 6 funds. About 70% (75% one year ago) of Article 8 products and 90% (94% six months ago) of Article 9 portfolios, had zero involvement in controversial weapons at the end of December 2023. This compares with 52% (also 52% one year ago) of Article 6 funds. Despite a minor decrease in percentages, the number of Article 9 funds without exposure to controversial weapons rose to 787 from 726 in 2022, whereas the number of such Article 8 funds dropped to 6,587 from 6,771 in 2022.

Tobacco

Next, we test the exposure of Article 8 and Article 9 funds to tobacco. For this, we use Morningstar's Product Involvement %—Tobacco data point.[7]

7 Product Involvement %—Tobacco refers to the percentage of a fund's assets under management invested in companies that are classified as directly involved in the manufacturing of tobacco products; indirectly involved by supplying tobacco-related products; or deriving 10% or more of revenue from the distribution/retail sales of tobacco products. The minimum revenue threshold to mark a company as involved are the following ranges: Manufacturing: 0.1%-4.9%; Related & Revenues: 10%-24.9%.

Exhibit 17 Article 6, 8, and 9 Funds' Involvement in Tobacco



Source: Morningstar Direct. Assets as of Dec. 31, 2022. SFDR status as of Jan.15, 2023, so January downgrades are accounted for. Based on SFDR data collected from prospectuses on 98.2% of funds available for sale in the EU, as well as January factsheets, KIIDs, PRIIP KIDs, and fund company websites, excluding money market funds, funds of funds, and feeder funds.

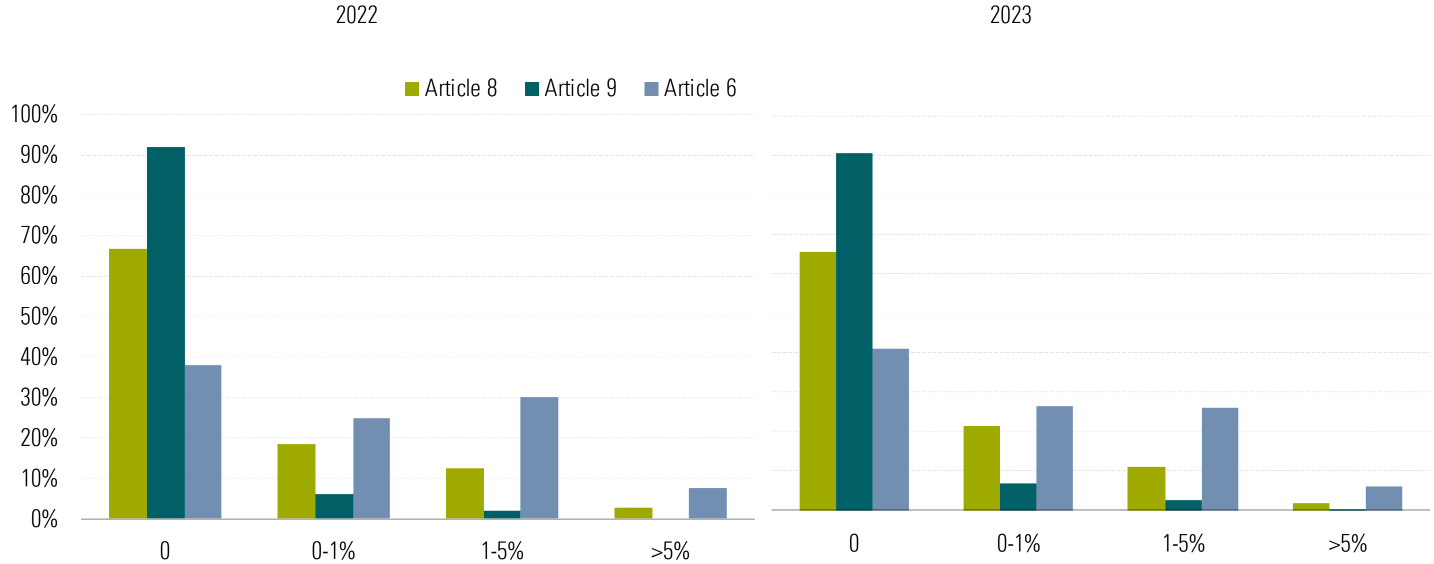
Article 8 and Article 9 funds also remain much less exposed to tobacco than Article 6 funds. About 77% (82% one year ago) and 88% (96 % one year ago) of Article 8 and Article 9 portfolios, respectively, had no involvement in companies that derive some revenues from tobacco manufacturing. Meanwhile, Article 6 with zero exposure to tobacco activities increased from 56% in 2022 to over 57% by the end of 2023.

Severe Controversies

We test the exposure of Article 8 and Article 9 funds to severe controversies. For this, we use Morningstar's Percent of AUM with Severe Controversies data point.[8]

8 Overall controversy assessments are assigned to companies using a five-point scale: Low, Moderate, Significant, High, Severe.

Exhibit 18 Article 6, 8, and 9 Funds' Involvement in Severe Controversies



Source: Morningstar Direct. Assets as of December 2023.

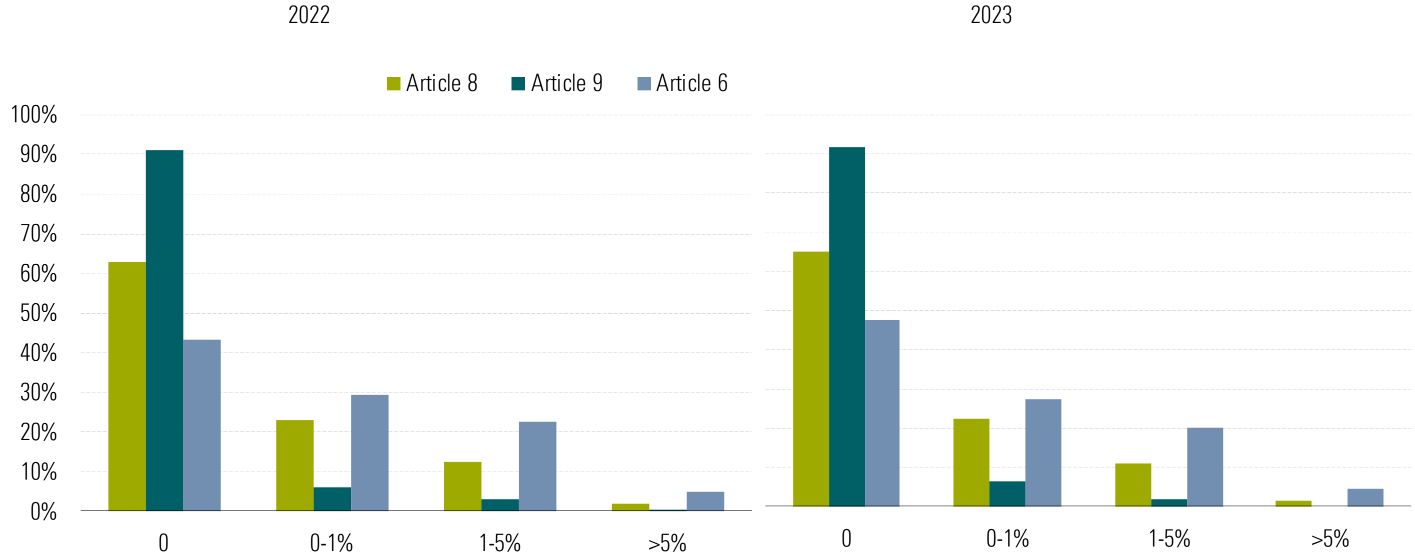
The proportion of Article 9 strategies exhibiting zero exposure to severe controversies decreased marginally from 92% in 2022 to just over 91% by the end of 2023. Meanwhile, Article 9 funds with exposure to severe controversies between 0% and 5% rose from 8.1% to 9.3% over the past year. Finally, 66% (from 67% one year ago) of Article 8 strategies have no exposure to severe controversies, compared with over 40% of Article 6 funds (up from 38% in 2022).

Thermal Coal Involvement

The exhibit below tests the exposure of Article 8 and Article 9 funds to one of the most carbon-intensive energy sources: thermal coal. We use Thermal Coal Extraction Percentage of Eligible Portfolio Involved data point.[9]

9 The data point represents the percentage of the long, eligible portfolio that is exposed to corporations that make any revenue (>0%) from thermal coal extraction. On a lifecycle basis, thermal coal is the most carbon-intensive fossil fuel source, while from an energy-generation perspective, it is easily substitutable.

Exhibit 19 Article 6, 8, and 9 Funds' Involvement in Thermal Coal



Source: Morningstar Direct. Assets as of December 2023.

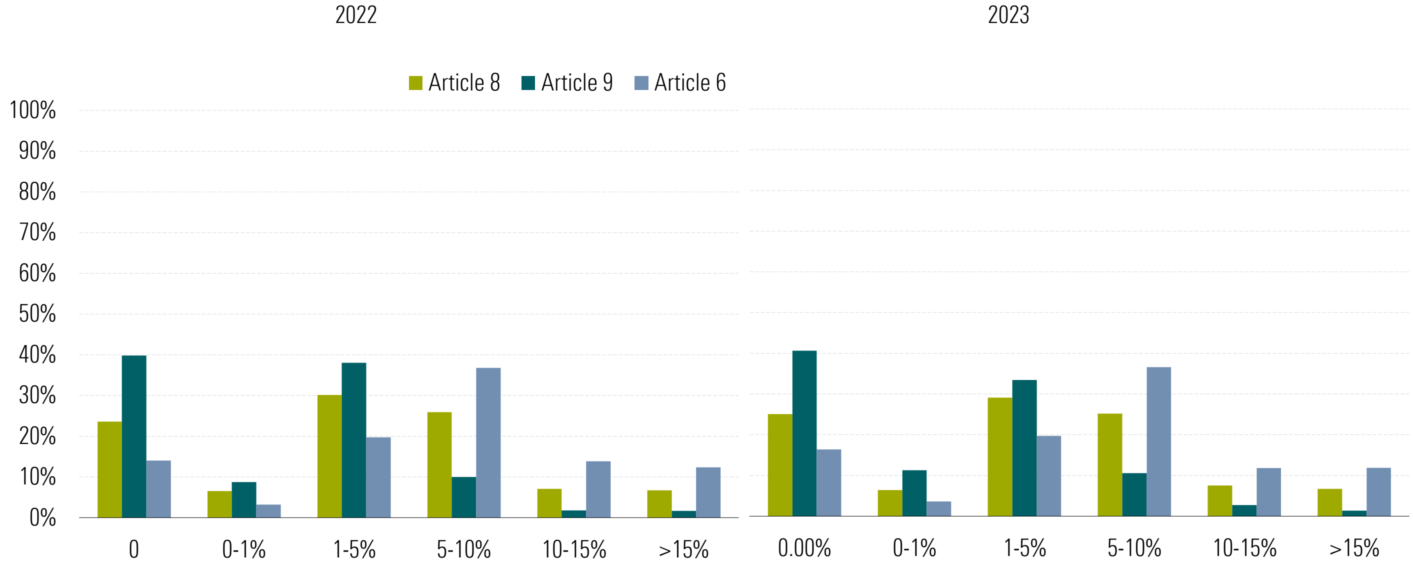
We found continued amelioration in the thermal coal involvement among Article 9 offerings. While Article 9 funds with zero thermal coal involvement stayed around 91% over 2023, the number of Article 9 funds without thermal coal extraction involvement increased noticeably form 718 in 2022 to 815 by the end of 2023. This number is expected to improve in the future because of the SFDR's "Do No Significant Harm" requirement that is meant to apply to the full portfolio. (See details below). Meanwhile, almost 65% of Article 8 exhibited no exposure to companies deriving some revenue from thermal coal at the end of December, compared with 63% one year ago. Both numbers remain better than the 48% (up from 43% one year ago) of Article 6 with no thermal coal involvement.

Oil and Gas Production

Now we compare the exposure of Article 8 and Article 9 funds to oil and gas production activities. For this, we use Morningstar's Oil and Gas Production Percentage of Covered Portfolio Involved. The metric is published on a monthly basis.[10]

10 The data point is defined as the percentage of the covered portfolio that is exposed to corporations that make any revenue (>0%) from oil & gas production. Involvement in oil & gas production includes involvement in exploration and production, refining, transportation, and storage.

Exhibit 20 Article 6, 8, and 9 Funds' Involvement in Oil and Gas Production



Source: Morningstar Direct. Assets as of December 2023.

While the majority of Article 8 and Article 9 funds have zero exposure to all the controversial activities previously mentioned, this is not the case for oil and gas production. Only a minority of Article 8 funds (25%) and Article 9 funds (41%) have no oil and gas involvement. These numbers have remained stable over the past year.

Additionally, as much as 39% (40% one year ago) of Article 8 products and 15% (13% one year ago) of Article 9 portfolios, had over 5% involvement to oil and gas companies as of the end of December 2023.

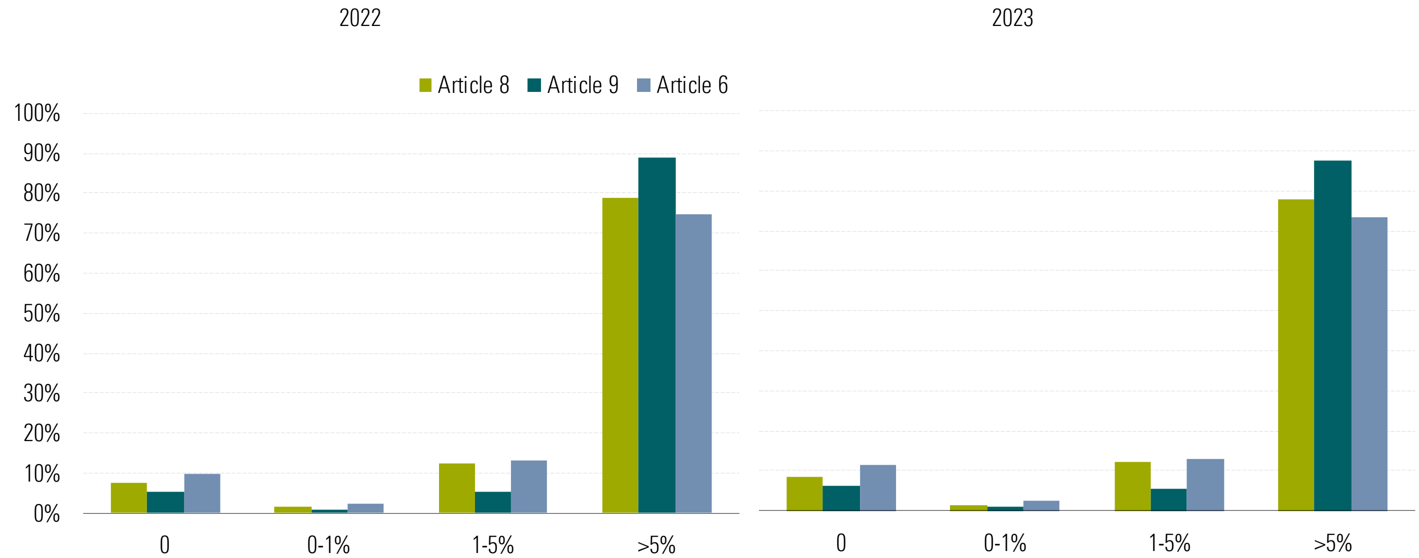
The involvement in oil and gas production activities for Article 9 funds may come as a surprise to some investors. But it would be because some of these funds invest in so-called transitioning companies. These typically are oil and gas or utilities companies that have made a commitment to transition away from their highly carbon-intensive activities and have set net-zero emissions targets. These companies are increasing their exposure to renewable energy but are still operating their legacy oil and gas businesses. Some funds investing in this type of companies would be holding green and/or social bonds whose proceeds are used to finance environmental or social projects.

Carbon Solutions

To compare the exposure to products and services contributing to decarbonization and energy efficiency among different SFDR product types, we use the Carbon Solutions Percentage of Covered Portfolio Involved metric.[11]

11 The metric represents the percentage of the covered portfolio that is exposed to corporations that make any revenue (>0%) from carbon solutions, including renewable energy generation, renewable energy supporting products/services, energy efficiency distribution and management, energy efficiency material, energy efficiency industrial systems and processes, energy efficiency consumer products, green buildings development, green buildings management, green buildings technologies and materials, green transportation vehicles, green transportation technologies, green transportation services, green transportation infrastructure involvement. A higher percentage is optimal.

Exhibit 21 Article 6, 8, and 9 Funds' Involvement in Exposure to Carbon Solutions



Source: Morningstar Direct. Assets as of December 2023.

Although the percentage of Article 9 funds with over 5% involvement in carbon solutions almost leveled with last year, the number of funds rose notably from under 790 in 2022 to almost 900 in 2023. Meanwhile, Article 9 funds with carbon solutions involvement between 0% and 5% improved marginally from under 6% in 2022 to 6.4% by the end of 2023. Involvement in carbon solutions among Article 8 and Article 6 funds showed little change compared to one year earlier.

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 the end of December 2023, Morningstar had collected EET data on 105,497 share classes, accounting for 74% of all share classes in the scope of MiFID II. These represent 20,988 funds,[12] including 10,425 Article 8 funds and 877 Article 9 funds.

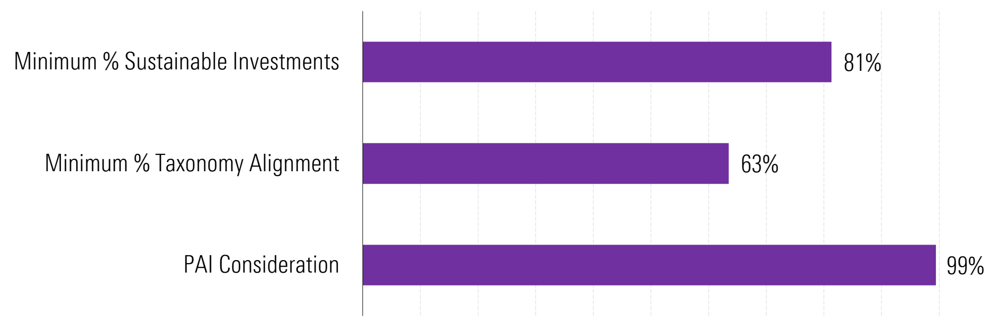
12 The number of funds and share classes estimated to be in the scope of the EET is 38,330 and 143,179, respectively. Money market funds, funds of funds, and feeder funds are included in this section on the EET.

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

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.[13]
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.[14]
3) **PAI Consideration**, indicating whether a product considers principal adverse impact in its investments. Answers are "Yes" or "No."[15]

Exhibit 15 shows the coverage of these three fields for the surveyed Article 8 and Article 9 funds at the end of December 2023.

Exhibit 22 Coverage of Key EET Data Points for the Surveyed Article 8 and Article 9 Funds



Source: Morningstar Direct. Data as of December 2023. Based on 10,425 and 877 reported as Article 8 and Article 9 products, 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 December. With the regulatory requirement since Jan. 1 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 end of 2023, over 80% of the surveyed Article 8 and Article 9 funds reported a minimum percentage of sustainable investments, marginally increased from the 79% three months earlier, and 63% disclosed a minimum percentage of taxonomy-aligned investments, which 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.

13 EET Name: 20420_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments
14 EET Name: 20450_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments_Taxonomy_Aligned
15 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 September and December 2023 distributions of "Minimum Proportion of Sustainable Investments" for surveyed Article 8 funds.

Exhibit 23 Proportion and Count of Article 8 Funds (Y-axis) With Various Commitments to Sustainable Investments (X-axis)

Source: Morningstar Direct. Data as of December 2023. December 2023 data is based on 8,395 Article 8 funds that report the field. December 2023 data is based on 7,479 Article 8 funds that report the field.

A 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 2,800 at the end of last year, accounting for 34% of the sample Article 8 funds. This represented a marginal increase from the 33% in September. Meanwhile, the percentage of Article 8 funds targeting up to 10% exposure dropped to 14% from 15% three months earlier, though the number rose from 1,215 at end of last quarter to 1,198.

In the fourth quarter of 2023, about 365 Article 8 funds revised their minimum sustainable-investment commitment, another notable increase compared with the 294 recorded three months earlier. More than half of these (54%) showed increased sustainable investment targets, with changes ranging from 2.5% to 60%.

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

Exhibit 24 Article 8 Funds With the Highest Increases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q4 2023	Min % of Sustainable Investments in Q3 2023	Fund Size (EURO Mil)	Morningstar Category
Ninety One Global Sustainable Equity Fund	Article 8	75	15	11	Global Large-Cap Growth Equity
FOS Performance und Sicherheit	Article 8	80	25	31	EUR Cautious Allocation - Global
Multipar Solidaire Dynamique Socialement Responsable	Article 8	50	0	954	EUR Aggressive Allocation
Natixis Loomis Sayles Sustainable Euro Credit Fund	Article 8	50	0	738	EUR Corporate Bond
BFT France Futur ISR	Article 8	60	10	363	France Small/Mid-Cap Equity
BFT France Emploi ISR	Article 8	60	10	54	France Equity
BFT France Obligations Durables ISR	Article 8	60	10	49	EUR Diversified Bond
LCL Compensation Carbone Actions Euro	Article 8	60	10	42	Europe Large-Cap Blend Equity
BFT France Solidaire ISR	Article 8	60	10	2	France Equity
Amundi Ethik Fonds	Article 8	51	5	1,423	EUR Cautious Allocation - Global
Multipar Actions Socialement Responsable	Article 8	45	0	460	Eurozone Large-Cap Equity
Amundi Ethik Fonds Evolution	Article 8	51	10	628	EUR Flexible Allocation - Global
Amundi Ethik Fonds ausgewogen	Article 8	51	10	336	EUR Moderate Allocation - Global
Amundi Ethik Plus	Article 8	51	10	222	EUR Moderate Allocation - Global
Amundi Öko Sozial Net Zero Ambition Bond	Article 8	51	10	131	EUR Corporate Bond
Invesco Quantitative Strategies ESG Global Equity Multi-Factor ETF	Article 8	50	10	241	Global Large-Cap Blend Equity
Multipar Solidaire Equilibre Socialement Responsable	Article 8	40	0	238	EUR Moderate Allocation
Invesco EUR Corporate Bond ESG Short Duration Multi-Factor ETF	Article 8	50	10	63	EUR Corporate Bond
Invesco Quantitative Strategies Global Equity Low Volatilit yLow Carbon ETF	Article 8	50	10	50	Global Large-Cap Blend Equity
Invesco EUR Corporate Bond ESG Multi-Factor ETF	Article 8	50	10	25	EUR Corporate Bond

Source: Morningstar Direct. Data as of December 2023. Based on 365 Article 8 funds that revised their minimum sustainable investment between September and December 2023. 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 expand their thematic focuses. For example, **Ninety One Global Sustainable Equity Fund** extended its Sustainable Solutions methodologies from a sole focus on decarbonization to six themes, including financial inclusion, healthcare impact, climate adaptation & water, digital inclusion, and access to education.

There were also funds that reported lower sustainable-investment commitments in December compared with September 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 25 Article 8 Funds With the Highest Decreases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q3 2023	Min % of Sustainable Investments in Q2 2023	Fund Size (EURO Mil)	Morningstar Category
Cape Capital Equity Fund	Article 8	2.4	90	433	Global Large-Cap Blend Equity
LLB Staatsanleihen EUR ESG	Article 8	0	75	46	EUR Government Bond
LLB Aktien Global ESG	Article 8	0	75	33	Global Large-Cap Blend Equity
Portfolio Anleihen ESG	Article 8	0	75	16	EUR Diversified Bond
LLB Strategie PKG ESG	Article 8	0	75	4	EUR Moderate Allocation - Global
Metis Bond Euro Corporate ESG	Article 8	0	70	68	EUR Corporate Bond
Sustainable Pension Income	Article 8	0	70	8	Other Allocation
Choice-Global Equity Fund	Article 8	0	51	6	EUR Flexible Allocation - Global
Spängler DLT MultiAsset 50	Article 8	0	51	6	EUR Flexible Allocation - Global
NOAH F22 Multi Asset Fonds	Article 8	0	51	5	EUR Flexible Allocation - Global
Constantia Multi Invest 5	Article 8	0	51	5	Other
Advisory One	Article 8	0	51	5	EUR Moderate Allocation - Global
Wiener Privatbank Premium Konservativ	Article 8	0	51	4	EUR Cautious Allocation - Global
ValueDO fund	Article 8	0	51	4	Global Large-Cap Blend Equity
Wiener Privatbank Premium Dynamisch	Article 8	0	51	4	Other Equity
Seven Reasons Base 1	Article 8	0	51	3	EUR Flexible Allocation - Global
PCI Diversified IQ Sustainable Equity Strategy	Article 8	0	51	3	Global Large-Cap Blend Equity
Fair Invest Balanced	Article 8	0	51	3	EUR Cautious Allocation - Global
Advisory Vorsorge Dachfonds	Article 8	0	51	2	EUR Moderate Allocation
Wealth Generation Fund	Article 8	0	51	1	EUR Moderate Allocation - Global

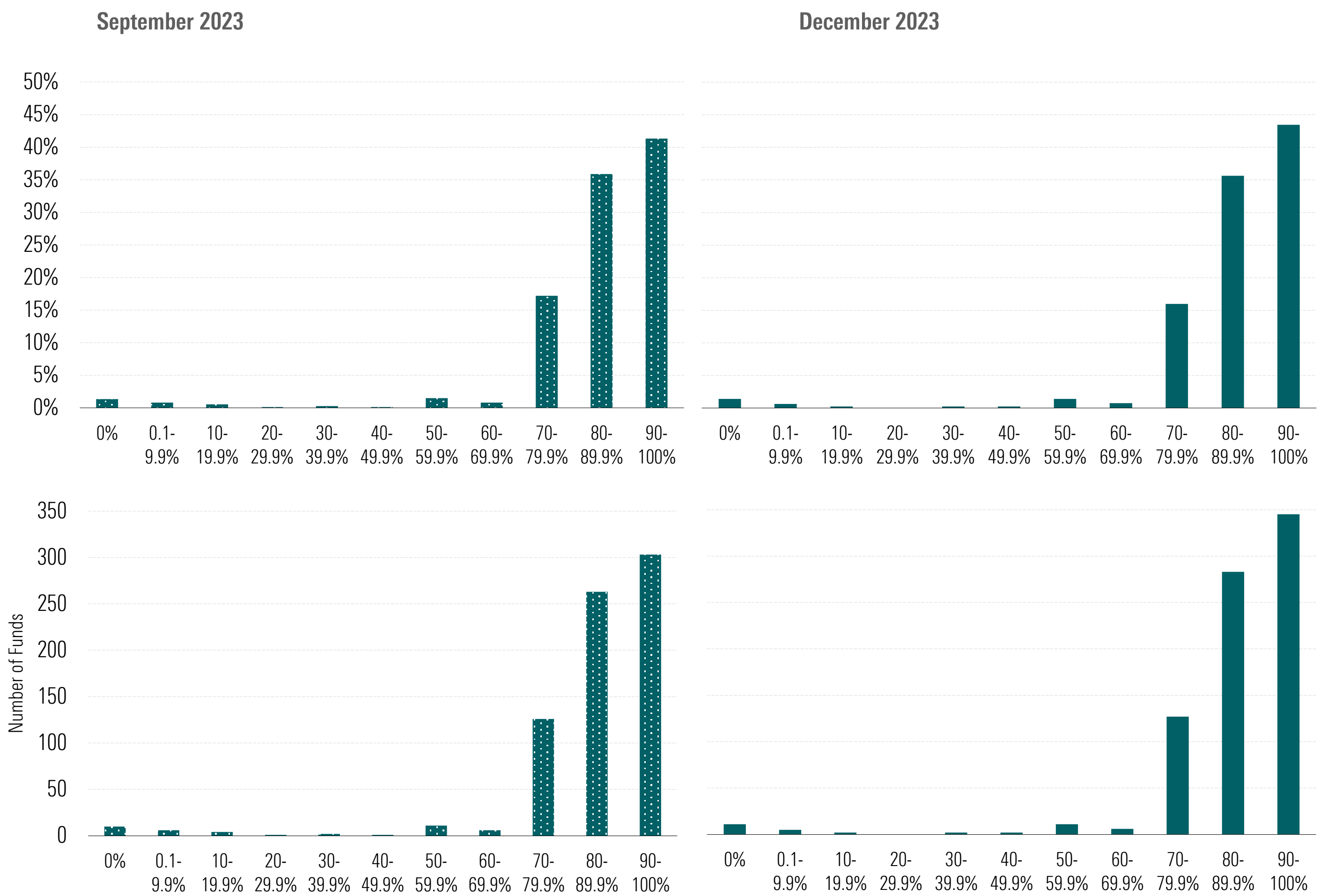
Source: Morningstar Direct. Data as of December 2023. Based on 365 Article 8 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

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

Exhibit 25 compares the September and December 2023 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 79%, compared with 77% three months ago, while the number of such funds grew to 628 from 566, representing an 11% growth from the end of the previous quarter. Alone, the proportion of Article 9 funds targeting between 90% and 100% increased to almost 44% of the sample, from 41%. Among these funds, we identified 79 Article 9 funds targeting 100% exposure to sustainable investment, almost level with the 81 funds seen three months ago.

Exhibit 26 Proportion of Article 9 Funds (Y-axis) With Various Commitments to Sustainable Investments (X-axis)



Source: Morningstar Direct. Data as of December 2023. September 2023 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,[16] 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, 25 Article 9 funds changed their minimum sustainable-investment commitment, of which only two showed decreases.

Exhibit 27a lists the Article 9 funds that saw the largest increases in minimum exposure to sustainable investments between September and December.

16 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 27 Article 9 Funds With Increases in Minimum Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q4 2023	Min % of Sustainable Investments in Q3 2023	Fund Size (EURO Mil)	Morningstar Category
Deka MSCI USA Climate Change ESG ETF	Article 9	95	5	880	US Large-Cap Blend Equity
Deka MSCI Europe Climate Change ESG ETF	Article 9	95	5	678	Europe Large-Cap Blend Equity
Deka MSCI World Climate Change ESG ETF	Article 9	95	5	648	Global Large-Cap Blend Equity
Deka MSCI EMU Climate Change ESG ETF	Article 9	95	5	230	Eurozone Large-Cap Equity
Deka MSCI Germany Climate Change ESG ETF	Article 9	95	5	164	Germany Equity
Deka MSCI Japan Climate Change ESG ETF	Article 9	95	5	111	Japan Flex-Cap Equity
CT European Social Bond Fund	Article 9	80	0	499	EUR Diversified Bond
Deka MSCI EUR Corporates Climate Change ESG ETF	Article 9	95	15	297	EUR Corporate Bond
CT Sustainable Outcomes Global Equity Fund	Article 9	80	0	131	Global Large-Cap Growth Equity
iMGP Sustainable Europe Fund	Article 9	80	0	110	Europe Large-Cap Blend Equity
LF AI Impact Equity US	Article 9	80	0	4	US Large-Cap Blend Equity
Swisscanto Bond Fund Sustainable Global Aggregate	Article 9	80	5	75	Global Bond
Privium Sustainable Impact Fund	Article 9	75	0.6	657	Other
CPR Allocation Thématique Responsable	Article 9	80	10	31	EUR Flexible Allocation - Global
Amundi Montpensier M Climate Solutions	Article 9	75	10	7	Sector Equity Ecology
BNP Paribas Obli Etat ISR	Article 9	80	20	112	EUR Government Bond
LF Global Multi Asset Sustainable	Article 9	80	25	95	EUR Flexible Allocation
S-Bank Climate Target World Equity	Article 9	90	40	85	Global Large-Cap Blend Equity
KEPLER Umwelt Aktienfonds	Article 9	90	50	177	Sector Equity Ecology
Fondita Healthcare	Article 9	90	50	46	Sector Equity Healthcare
Lord Abbett Climate Focused Bond Fund	Article 9	100	70	13	Global Flexible Bond - USD Hedged
Ossiam Bloomberg USA PAB ETF	Article 9	40	20	556	US Large-Cap Blend Equity
Goldman Sachs Global Environmental Impact Equity Portfolio	Article 9	90	80	683	Sector Equity Ecology

Source: Morningstar Direct. Data as of December 2023. Based on 25 Article 9 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

Exhibit 28 lists the seven Article 9 funds that saw a decrease in minimum exposure to sustainable investments between June and September.

Exhibit 28 Article 9 Funds With Decreases in Minimum Sustainable Investments

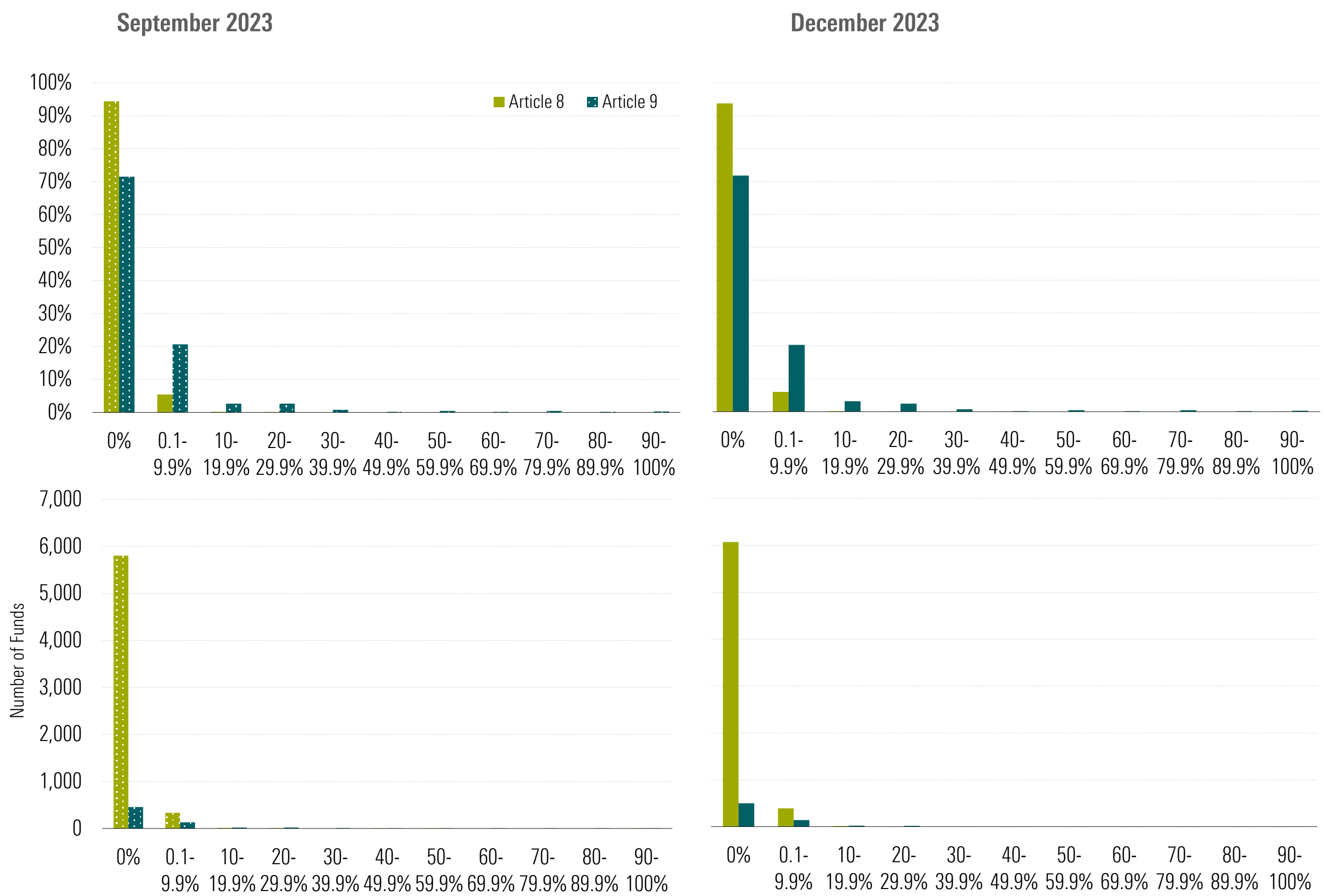
Fund Name	SFDR Type	Min % of Sustainable Investments in Q3 2023	Min % of Sustainable Investments in Q2 2023	Fund Size (EURO Mil)	Morningstar Category
Cape Capital Equity Fund	Article 8	2.4	90	433	Global Large-Cap Blend Equity
LLB Staatsanleihen EUR ESG	Article 8	0	75	46	EUR Government Bond
LLB Aktien Global ESG	Article 8	0	75	33	Global Large-Cap Blend Equity
Portfolio Anleihen ESG	Article 8	0	75	16	EUR Diversified Bond
LLB Strategie PKG ESG	Article 8	0	75	4	EUR Moderate Allocation - Global
Metis Bond Euro Corporate ESG	Article 8	0	70	68	EUR Corporate Bond
Sustainable Pension Income	Article 8	0	70	8	Other Allocation
Choice-Global Equity Fund	Article 8	0	51	6	EUR Flexible Allocation - Global
Spängler DLT MultiAsset 50	Article 8	0	51	6	EUR Flexible Allocation - Global
NOAH F22 Multi Asset Fonds	Article 8	0	51	5	EUR Flexible Allocation - Global
Constantia Multi Invest 5	Article 8	0	51	5	Other
Advisory One	Article 8	0	51	5	EUR Moderate Allocation - Global
Wiener Privatbank Premium Konservativ	Article 8	0	51	4	EUR Cautious Allocation - Global
ValueDO fund	Article 8	0	51	4	Global Large-Cap Blend Equity
Wiener Privatbank Premium Dynamisch	Article 8	0	51	4	Other Equity
Seven Reasons Base 1	Article 8	0	51	3	EUR Flexible Allocation - Global
PCI Diversified IQ Sustainable Equity Strategy	Article 8	0	51	3	Global Large-Cap Blend Equity
Fair Invest Balanced	Article 8	0	51	3	EUR Cautious Allocation - Global
Advisory Vorsorge Dachfonds	Article 8	0	51	2	EUR Moderate Allocation
Wealth Generation Fund	Article 8	0	51	1	EUR Moderate Allocation - Global

Source: Morningstar Direct. Data as of December 2023. Based on two Article 9 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

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 December 2023, over 63% populated the Minimum or Planned Investments Sustainable Investments Taxonomy Aligned field, stagnant with the coverage rate reported in our last report. Exhibit 29 shows the distribution of reported values.

Exhibit 29 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 December 2023. December 2023 data is based on 6,478 Article 8 funds and 695 Article 9 funds that report the field. December 2023 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 55 (8%) of Article 9 funds (marginal increase from 50 three months ago) 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 in the coming months as last year 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 30 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. Only 10 Article 8 products reported exposure of 20% or greater. Among the new entry of the top funds is **Maj Invest Planet & People** (formerly **Maj Invest Global Sundhed**), which invests in companies that are expected to benefit from certain structural changes, including population growth, rising living standards, growing middle class in emerging-markets countries, demographic developments in the West and Japan, global warming, rising energy prices, and resource pressures.

Exhibit 30 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	99.9	Global Flex-Cap Equity	Equity
Maj Invest Planet & People	Article 8	100	87.1	Other Equity	Equity
S-Bank Housing	Article 8	40	285.3	Property - Direct Other	Property
PATRIZIA Capital Low Carbon Core Infrastructure Fund	Article 8	25	191.3	Sector Equity Infrastructure	Equity
Kempen (Lux) Eurp Property	Article 8	25	138.0	Property - Indirect Europe	Equity
Kempen (Lux) Global Property Fund	Article 8	19	198.0	Property - Indirect Global	Equity
Kempen Global Property Fund N.V. N	Article 8	19	59.0	Property - Indirect Global	Equity
3 Banken Mensch & Umwelt Mischfonds	Article 8	15	201.9	EUR Moderate Allocation - Global	Allocation
BNP Paribas Easy ECPI Global ESG Hydrogen Economy	Article 8	15	72.7	Other Equity	Equity
Kempen (Lux) Global Small-Cap Fund	Article 8	13	1634.4	Global Small/Mid-Cap Equity	Equity
Swedbank Robur Fastighet	Article 8	10	895.3	Property - Indirect Global	Equity
Swedbank Robur Transition Energy	Article 8	10	489.2	Sector Equity Alternative Energy	Equity
WERTGRUND WohnSelect D	Article 8	10	458.6	Property - Direct Europe	Property
ERSTE GREEN INVEST MIX	Article 8	10	314.8	EUR Flexible Allocation - Global	Allocation
Carmignac Porfolio Climate Transition	Article 8	10	224.9	Sector Equity Ecology	Equity
WisdomTree Battery Solutions ETF	Article 8	10	207.1	Other Equity	Equity
V&G1	Article 8	10	3.3	Global Large-Cap Blend Equity	Equity
Nykredit Invest Danske Aktier KL	Article 8	9	135.9	Denmark Equity	Equity
Sparinvest Danske Aktier KL	Article 8	9	175.4	Denmark Equity	Equity
Nykredit Invest Danske Aktier Akk KL	Article 8	9	274.5	Denmark Equity	Equity

Source: Morningstar Direct. Data as of December 2023. Based on 6,478 Article 8 funds that report the field.

Exhibit 30 features the 20 Article 9 funds with the highest proportions of 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 one is **Triodos Groenfonds**.

Along with the green bond strategy, two Triodos equity funds, **Triodos Energy Transition Europe Fund** and **Triodos Emerging Markets Renewable Energy Fund**, made their first entries to the table. The former focuses on wind farms, solar photovoltaic, and solar thermal installations across Europe. The latter targets the much-needed energy transition in emerging markets by providing long-term senior debt to utility-scale wind, solar, and run-of-the-river hydro projects. It also finances commercial and industrial initiatives and innovative projects that reach small communities, such as mini-grids, as well as high-impact energy-transition funds with a strong focus on local social and economic development.

Exhibit 31 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
ThomasLloyd Energy Impact Credit Fund	Article 9	100	142.6	Alternative Other	Alternative
Multiflex Carnot Efficient Energy Fund	Article 9	100	116.3	Sector Equity Ecology	Equity
Stewart Investors Indian Subcontinent Sustainability Fund	Article 9	90	6.6	India Equity	Equity
Ålandsbanken Vindkraft Specialplaceringsfond	Article 9	80	265.3	Other	Miscellaneous
KlimaVest ELTIF	Article 9	75	1,266.8	Other Allocation	Allocation
Triodos Energy Transition Europe Fund	Article 9	75	166.4	Other	Miscellaneous
Triodos Emerging Markets Renewable Energy Fund	Article 9	75	33.5	Other Allocation	Allocation
Assenagon Funds Green Economy	Article 9	65	31.3	Sector Equity Ecology	Equity
Triodos Groenfonds	Article 9	50	851.6	Other Bond	Fixed Income
Fondita Sustainable Europe	Article 9	50	94.8	Europe Flex-Cap Equity	Equity
Wealth Invest AKL TimeInvest Sustainable Opportunities	Article 9	50	13.6	Other Equity	Equity
Luxembourg Selection Fund Active Solar	Article 9	48	211.8	Sector Equity Alternative Energy	Equity
Man GLG Sustainable Strategic Income	Article 9	35	19.7	Global Corporate Bond - USD Hedged	Fixed Income
ERSTE WWF Stock Environment	Article 9	30	634.8	Sector Equity Ecology	Equity
Rize Environmental Impact 100 ETF	Article 9	30	83.9	Sector Equity Ecology	Equity
ERSTE STOCK ENVIRONMENT	Article 9	30	48.4	Sector Equity Ecology	Equity
Fiher Investments Global Sustainable Equity Impact ESG Fund	Article 9	30	2.5	Global Large-Cap Blend Equity	Equity
Goldman Sachs Green Bond	Article 9	25	2,403.9	EUR Diversified Bond	Fixed Income
ERSTE GREEN INVEST	Article 9	25	538.6	Sector Equity Ecology	Equity
Goldman Sachs Sovereign Green Bond	Article 9	25	403.2	EUR Government Bond	Fixed Income

Source: Morningstar Direct. Data as of December 2023. 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[17] 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 a fund information memoranda or prospectuses.

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

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.

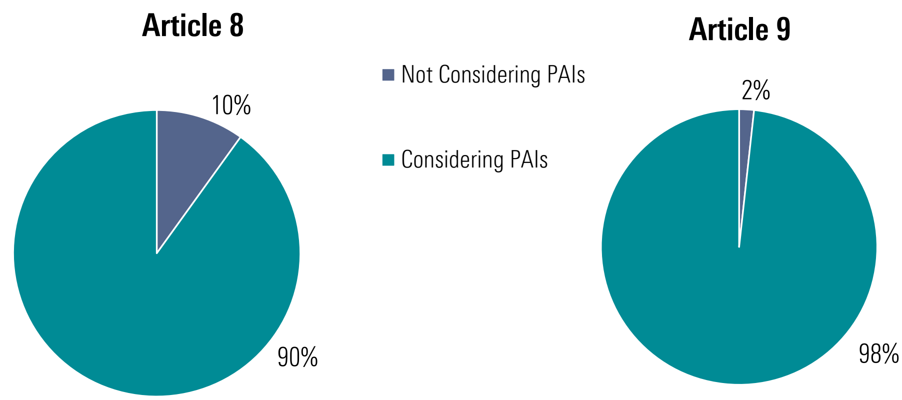
Exhibit 32 18 of the 64 PAI Indicators Under the EET

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 December 2023. 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.

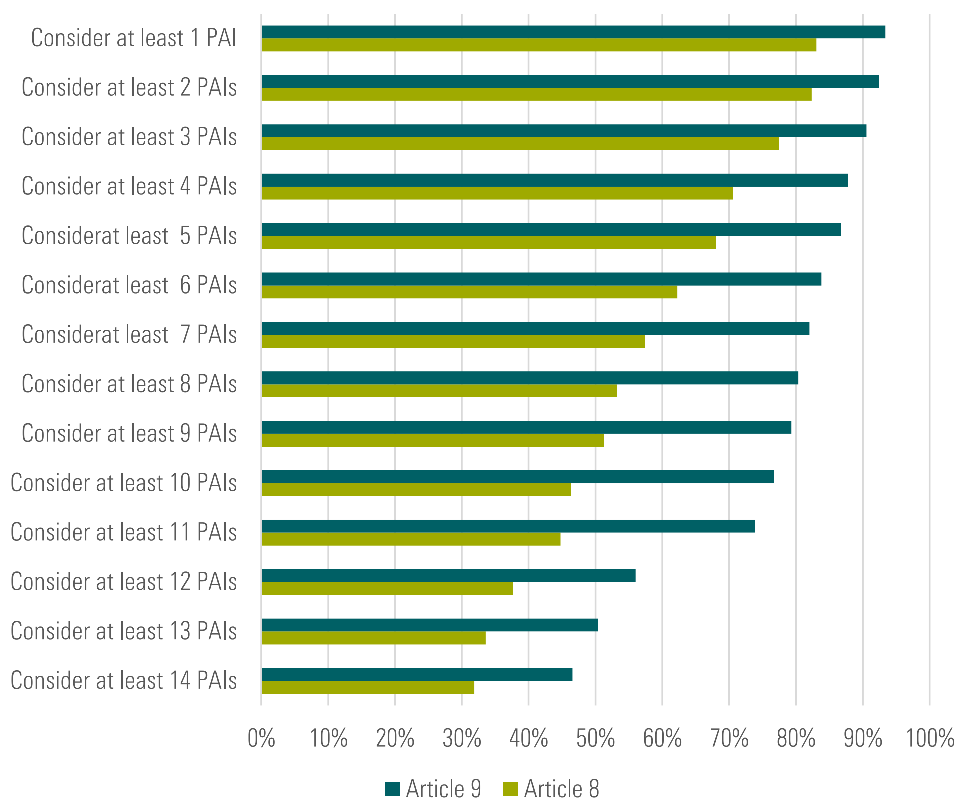
Exhibit 33 SFDR Product Type and PAI Consideration



Source: Morningstar Direct. Data as of December 2023. Based on 10,30 Article 8 funds and 866 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 34a Number of Article 8 and Article 9 Funds Considering Corporate PAIs

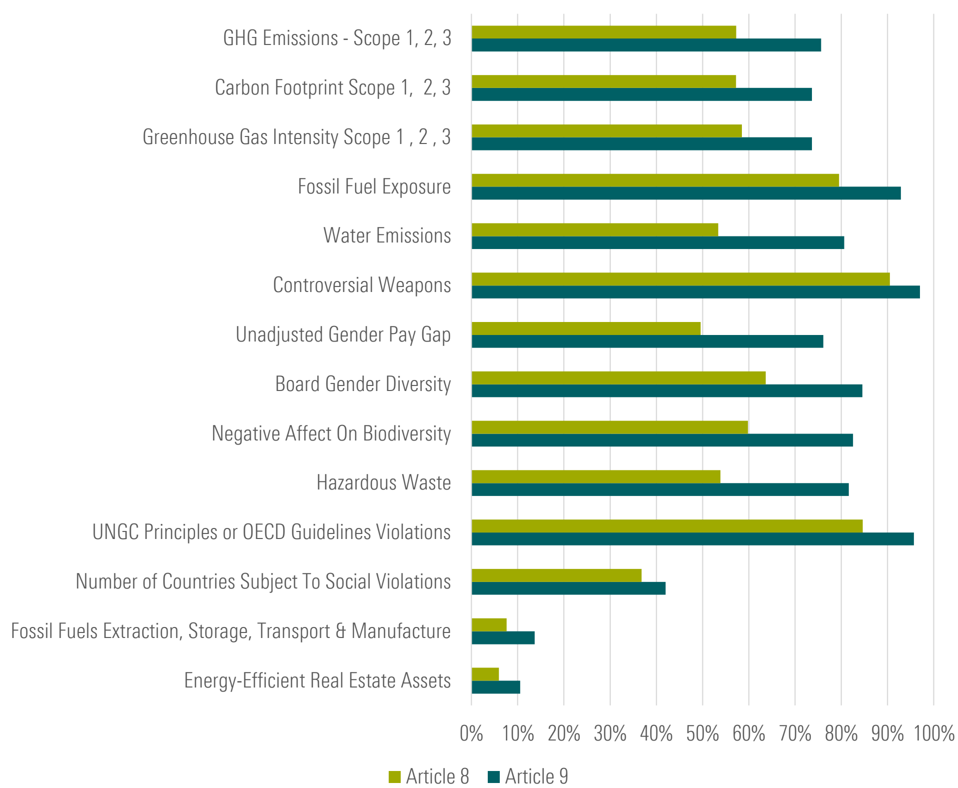


Source: Morningstar Direct. Data as of December 2023. Based on 10,058 Article 8 funds and 846 Article 9 funds that reported the field. Note that these numbers include funds for which corporate PAIs may not be relevant.

The table above reveals that the majority of Article 8 funds (more than 50%) consider at least nine 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 seven of the corporate PAIs. Meanwhile, the majority of Article 9 funds (more than 55%) considered at least 13 PAIs, compared with just 11 three months earlier. Also, less than half of Article 9 funds consider all 14 PAIs, a significant improvement compared with mid-2023 when only less than 10% of the sample Article 9 products were found. 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 34b Consideration of Mandatory PAIs for Corporates



Source: Morningstar Direct. Data as of December 2023. The exact numbers for Article 8 and Article 9 funds that reported each of the data fields vary.

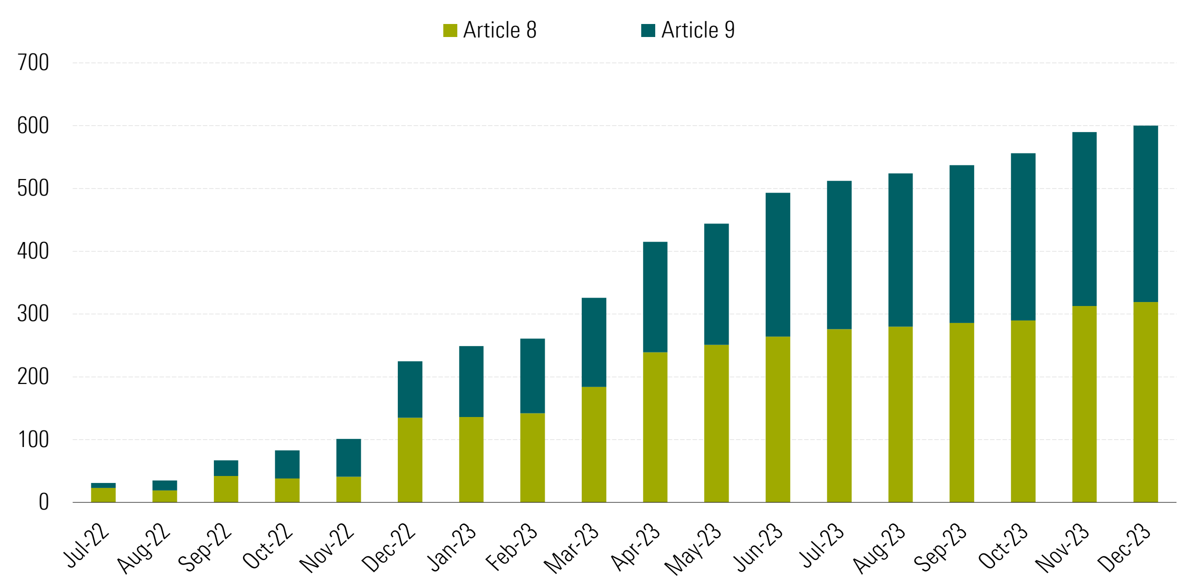
Exhibit 34b reveals a wide range of PAI consideration, with "Controversial Weapons," "UNGC Principles or OECD Guidelines Violations," and "Fossil Fuel Exposure" being the three most-considered metrics among both Article 8 and Article 9 funds. We find continued progress in the consideration of certain environmental PAIs, particularly among Article 9 products. For example, almost 83% of the Article 9 funds consider "Hazardous Waste," up from 75% seen in the previous quarter. For certain PAIs, however, we continue seeing significant disparities of consideration between Article 8 and Article 9 products. For example, over 76% of the Article 9 considered "Unadjusted Gender Pay Gap," whereas 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,"[18] 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. At the end of 2023, 600 Article 8 and Article 9 funds reported having a carbon-reduction objective, including 319 Article 8 funds and 281 Article 9 funds. These represent 17% of the overall universe of Article 8 and Article 9 funds.

Exhibit 35 Number of Article 8 and Article 9 Funds With Carbon Emission-Reduction Objectives



Source: Morningstar Direct. Data as of December 2023, based on a total of 3,617 funds that populated the field, including 2,835 Article 8 funds and 782 Article 9 funds. The increase in the number of funds with carbon-reduction objectives also partly reflects the increase in EET coverage.

18 EET reference: 20570_Financial_Instrument_With_Objective_Of_A_Reduction_In_Carbon

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 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*."

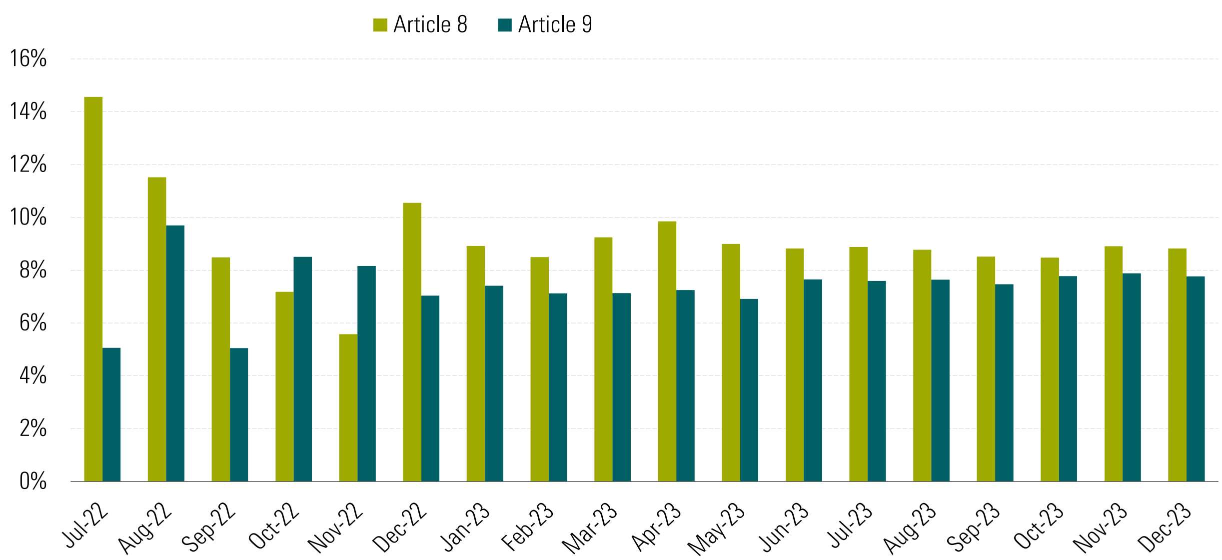
Other strategies offer a quantified emission reduction between 10% and 50%. Examples include **AXA World Funds - ACT European High Yield Bonds Low Carbon**, which "*seeks a high level of income from an actively managed bond portfolio whose carbon footprint, measured as carbon intensity, is at least 30% 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 a carbon-reduction objective was a more likely feature found in Article 9 funds a year and a half ago, this has changed. About 10% of Article 8 funds now include this objective, compared with only 5% for Article 9 funds. The downgrades of the vast majority of PAB/climate-transition benchmark passive funds in late 2022 to early 2013 to Article 8 from Article 9 has been the biggest contributor to this reversal.

Exhibit 36 Proportion of Article 8 and Article 9 Funds With Carbon Emissions-Reduction Objectives



Source: Morningstar Direct. Data as of December 2023, based on a total of 3,617 funds that populated the field, including 2,835 Article 8 funds and 782 Article 9 funds.

Regulatory Update

On Dec. 14, 2023, investors found out that European Securities and Markets Authorities postponed the publication of its final guidelines on the use of ESG-related terms in funds' names 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 that it intends to drop the 50% minimum sustainable-investment requirement for funds using sustainable-related terms in their names. The new likely criteria across categories of terms are summarized in the table below.

Exhibit 37 ESMA's Proposed Criteria for ESG Fund Names

	Criteria		
Words Used in Fund Name	Min 80% of investments meet characteristics or objectives	Exclusions	Invest meaningfully in sustainable investments as per SFDR
Sustainability	Yes	EU PAB	Yes but no min. prescribed
Transition	Yes	EU CTB	No
Environment	Yes	EU PAB	No
Social or Governance	Yes	Undecided	No
ESG	Yes	EU PAB	No
Impact	Yes	Unclear	No

Source: ESMA updated document. PAB: Paris-aligned benchmark. CTB: Climate transition benchmark.

It's interesting to note that while the first criteria (minimum 80% of investments must meet the extra-financial characteristics) is consistent with the recent SEC's amendment to "names rule" (80% as well) and the U.K. SDR (70%). The confirmation of mandatory exclusions across most terms is unprecedented and constitute a serious step up for most Article 8 and Article 9 funds using ESG-related terms. The guidelines would apply three months after the date of their publication on ESMA's website in all EU official languages. Managers of new funds would be expected to comply with the guidelines in respect to those funds from the date of application of the guidelines. Managers of funds existing before the date of application of the guidelines should become compliant six months after the application date.

On Dec. 4, 2023, the European Supervisory Authorities published their proposal to amend the Regulatory Technical Standards (RTS) of SFDR, suggesting among others to add new social Key Performance Indicators to the list of PAI, greenhouse gas disclosures in precontractual documents, and DNSH transparency. The ESAs wish for the reviewed SFDR RTS to apply as of 2025. But the application timeline is not in their control as certain steps need to happen before their publication in *The Official Journal of the EU*. The European Commission needs to first review the proposal and translate it into a legislative act. The EC may decide to amend the proposal. The European Parliament and Council then have at least three months to exercise its scrutiny right (it can only accept or veto the text as whole). Because the European Parliament's activities will be suspended during the EU elections between May and September, the scrutiny period may end in the third quarter of 2024 and the new RTS be published in the *Official Journal* in the fourth quarter. In this scenario, the industry would have only a few weeks to comply with the RTS, which seems unrealistic. The deadline for application is therefore more likely to be around mid-2025 or the beginning of 2026.

The Taxo4 delegated act (related biodiversity, pollution, water, and circular economy) and the amendments to the climate delegated act were published on Nov. 21 in *The Official Journal of the EU* expanding the list of activities eligible to taxonomy-alignment reporting at product and company level.[19] The beginning of 2024 also sets the start of the reporting at the company level for financial companies. Companies will need to consider the amendments to the climate delegated act mentioned above when issuing their first report. The Taxo4 delegated act will kick in later. In 2024, the eligibility reporting applies to all companies, while the alignment reporting applies to nonfinancial and financial companies in 2025 and 2026, respectively.

Moreover, labels linked to the EU Taxonomy are being explored after the publication of the EU Green Bond regulation in *The Official Journal* on Nov. 30, with the EC's Platform on Sustainable Finance proposing two taxonomy-aligned benchmarks (consultation closes on March 13, 2024).

As corporations gear up to issue their first report under the Corporate Sustainability Reporting Directive, or CSRD, in 2025 and consider the implementation measures just published in *The Official Journal*, the European Financial Reporting Advisory Group, or EFRAG, consults on guidance related to materiality

19 Driving ESG Transparency: Exploring the Role of Taxo4 in the EU Taxonomy (sustainalytics.com)

assessment, value chain, and data points. At the same time, the EC has proposed to reduce the scope of firms captured by the directive.

Going beyond CSRD, by mandating due diligence on environmental and human rights impacts, the agreement on the Corporate Sustainability Due Diligence Directive, or CSDDD, announced by EU co-legislators on Dec. 14 requires companies in scope to publish board-approved climate-transition plans (including financial sector) by 2026 and to conduct due diligence (financial sector excluded) on human rights and environmental negative impacts (up and downstream) in their value chains.

On Dec. 15, 2023, the European Commission closed a consultation on the functioning and future of the Sustainable Finance Disclosure Regulation, or SFDR. This represents the first step in a process that may lead to significant amendments to the current SFDR regime. The scope and detail of the questions asked in the consultation papers speak to Brussels' serious concerns about the implementation of the SFDR since its introduction in March 2021, as well as its increasing contemplation of an overhaul of the existing framework. While any proposed changes would not come into force for several years, asset managers and other financial market participants should expect continuing legal uncertainty as it relates to future obligations under the SFDR.

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