SFDR Article 8 and Article 9 Funds: Q3 2023 in Review

Article 8 fund outflows continue, while Article 9 funds lose appeal amid market and regulatory turbulence.

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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.

This report provides an update on the landscape of Article 8 and Article 9 funds at the end of September 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. On Sept. 14, 2023, the European Commission published a consultation on the functioning and future of the SFDR. This represents the first step in a process that may lead to significant amendments to the current SFDR regime.

Key Takeaways

- Article 8 funds continued bleeding money amid persistent macroeconomic pressures. Investors withdrew EUR 20.5 billion in the third quarter after redeeming EUR 21.5 billion in the previous quarter. Funds with no commitment to sustainable investments were disproportionately affected.
- Article 9 funds attracted EUR 1.4 billion in the last three months, a new low.
- Reclassifications picked up again. We identified nearly 280 funds that altered their SFDR status, including 250 upgrades, in the third quarter. This compares with around 200 upgrades reported in the prior quarter. The vast majority moved to Article 8 from Article 6. Meanwhile, 11 funds downgraded to Article 8 from Article 9.
- Asset managers continued fine-tuning their measurement of sustainable investments in portfolios. In the third quarter, close to 300 Article 8 funds revised their minimum sustainable-investment commitment, a notable increase from the previous quarter's 190. The majority increased their sustainable investment commitment. Yet, a third of Article 8 funds target no sustainable investments.
- Article 8 funds with a higher focus on sustainability tend to exhibit lower negative impact on sustainability factors such as carbon footprint and gender pay gap, but the relationship between sustainability commitment and adverse impacts isn't always evident.
- Only 28% of Article 9 funds plan to make taxonomy-aligned investments.
- A Morningstar Sustainalytics survey following the Sept. 14 publication of the EC consultation on SFDR reveals that market participants are split on the future of Article 8 and Article 9. Fifty percent of respondents would like to see these classifications replaced by labels, 39% would prefer to keep Article 8 and Article 9 but introduce minimum standards, and 7% voted for the status quo.

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 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 Funds Suffer Continued Outflows, Performing Worse Than Article 6 Funds

Amid persistent macroeconomic pressures, including high interest rates and slowdown in some of the largest economies, investors continued to pull money from Article 8 funds as these registered outflows of EUR 20.5 billion in the third quarter of 2023, after bleeding EUR 21.5 billion in the previous quarter.

The redemptions in the last three months disproportionally affected the Article 8 funds with no commitment to sustainable investments[1] as these registered outflows of EUR 13 billion, representing almost 60% of the total Article 8 outflows over the period, while accounting for only one third of the Article 8 fund assets [2].

In contrast, Article 6 products continued gathering net new money, though the inflow momentum softened a bit, to EUR 17.8 billion from the restated EUR 19.8 billion in the previous quarter.

Meanwhile, inflows into Article 9 products shrunk to EUR 1.4 billion, from the restated EUR 3.7 billion in the second quarter. It represents the lowest level of subscriptions for Article 9 funds since the introduction of SFDR in March 2021. The dwindling inflows can be attributed to a combination of economic and regulatory factors, including the great reclassification between the last quarter of 2022 and the first quarter of 2023. Around 350 Article 9 funds were repositioned to the Article 8 category following the European Securities and Markets Authority's clarification of the EC's June 2021 Q&A last summer.[3] It specified that funds making Article 9 disclosures should hold only sustainable investments, except for cash and assets used for hedging purposes.

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

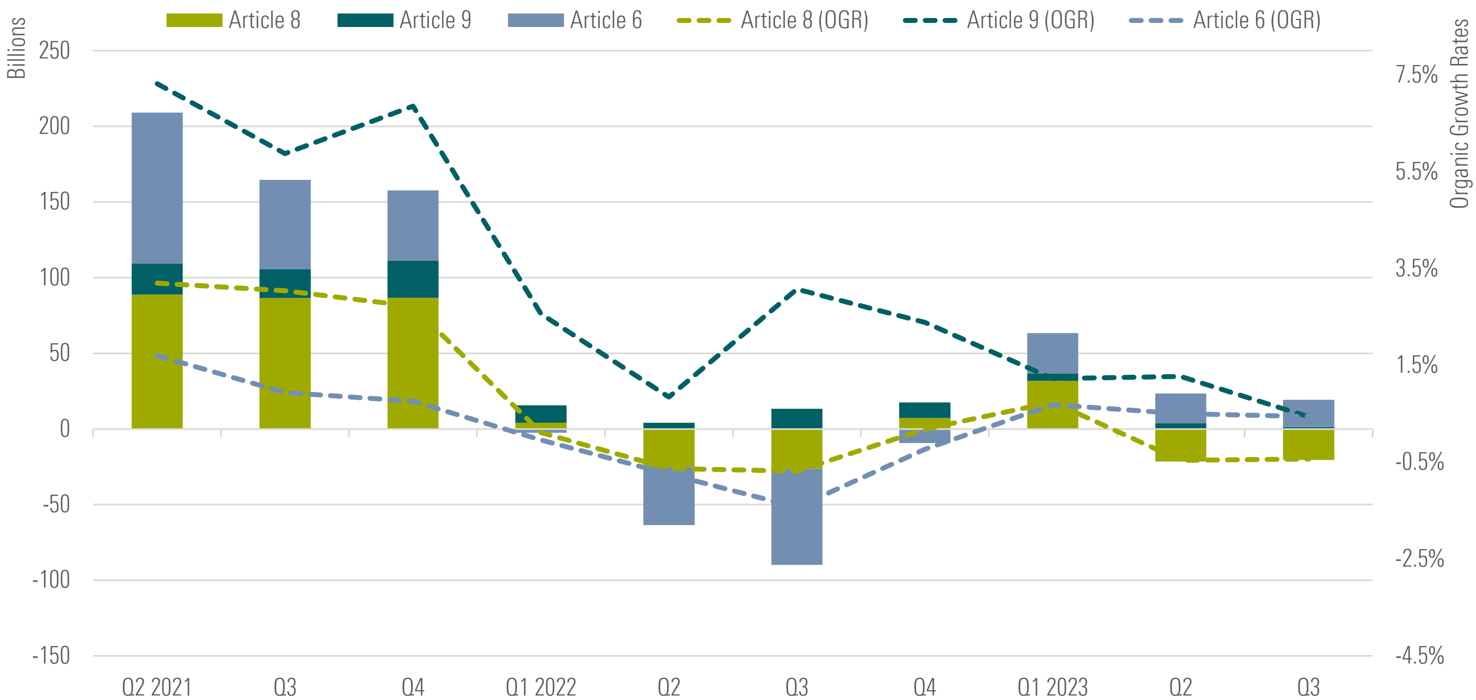
2 Based on assets at the end of September 2023.

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

SFDR Article 8 and Article 9 Funds: Q1 2023 in Review

SFDR Article 8 and Article 9 Funds: Q2 2023 in Review

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



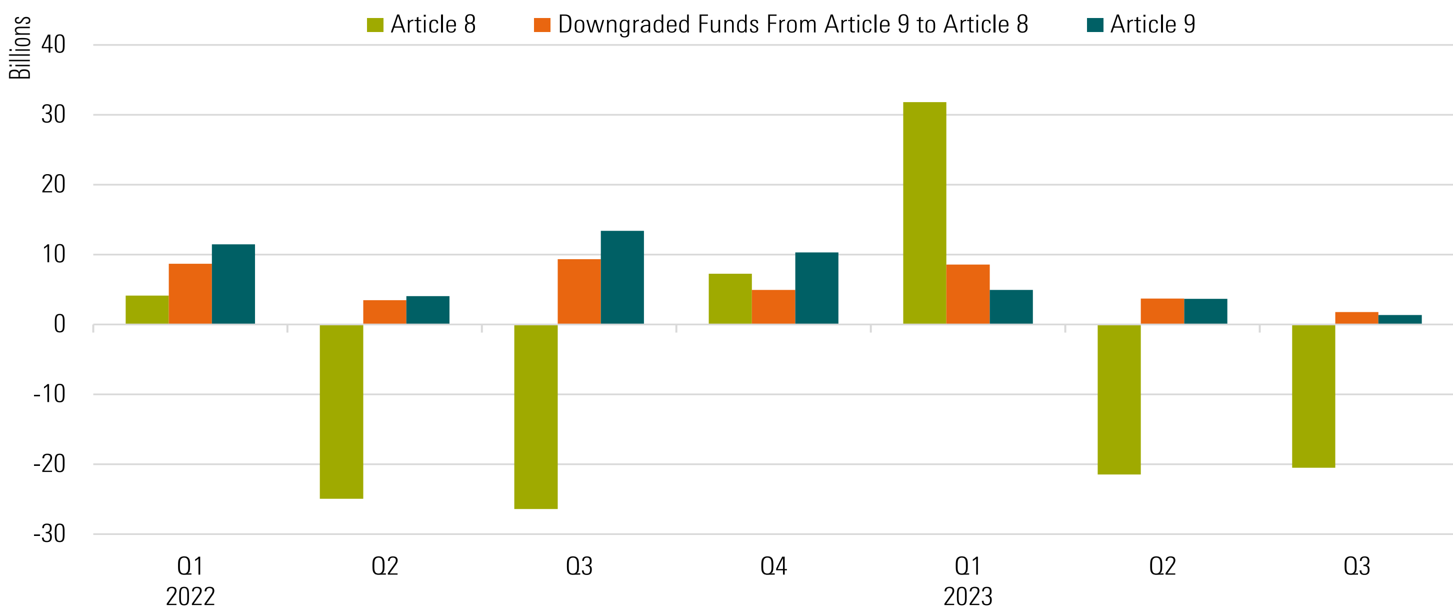
Source: Morningstar Direct. Data as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Organic growth rates almost mirror the findings above. Organic growth rates measure the growth of flows relative to assets.[4] Over the quarter, assets in Article 8 funds shrank organically by 0.5%, whereas the organic growth rates for Article 9 and Article 6 funds declined to 0.4% from 1.3% and to 0.4% from 0.5% in the previous quarter, respectively.

While, as previously mentioned, the redemptions from Article 8 funds disproportionally affected the Article 8 funds with no commitment to sustainable investments, the 350 funds downgraded[5] to Article 8 funds from Article 9 at the end of last year and early this year garnered EUR 1.8 billion in the third quarter. Since the beginning of the year, inflows into these funds have been 40% higher than those into Article 9 products.

4 Organic growth rate is calculated as current period flows divided by beginning-of-period net assets.
5 SFDR Article 8 and Article 9 Funds: Q4 2022 in Review
SFDR Article 8 and Article 9 Funds: Q1 2023 in Review
SFDR Article 8 and Article 9 Funds: Q2 2023 in Review

Exhibit 2 Quarterly Flows of Funds Downgraded From Article 9 to Article 8 during the Earlier Reclassification Wave (EUR Billion)

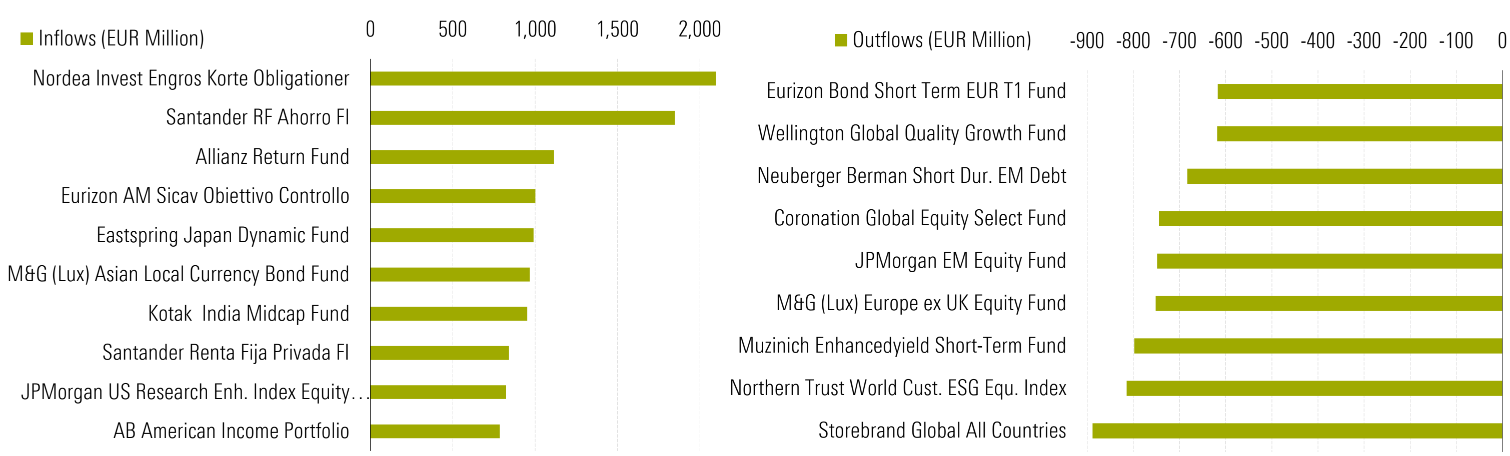


Source: Morningstar Direct. Data as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Flows—Leaders and Laggards

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

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



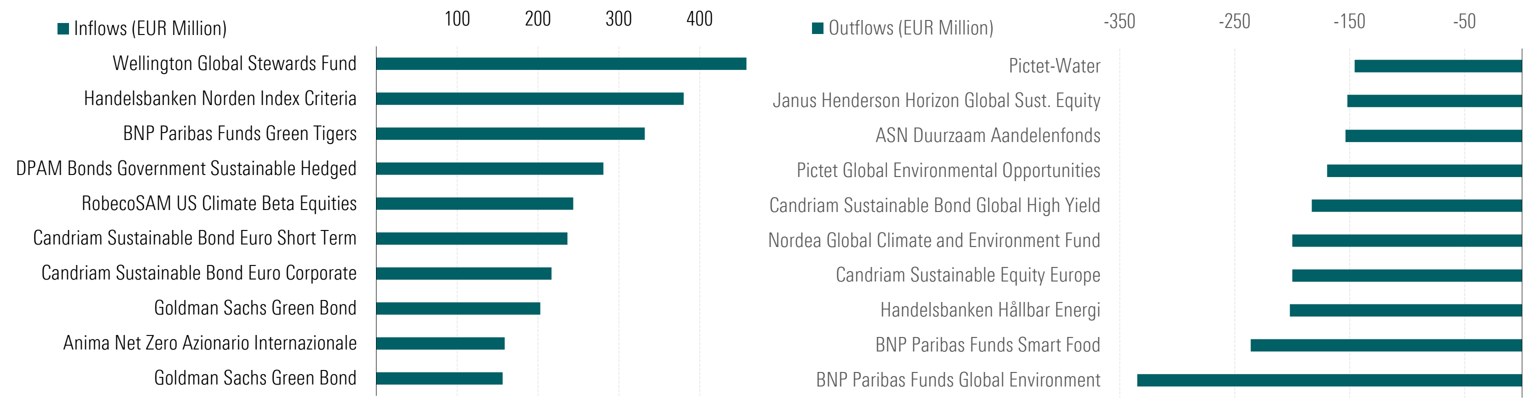
Source: Morningstar Direct. Data as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

This quarter sees a stronger presence of active strategies among the bestselling sustainable products relative to the previous quarter. **Nordea Invest Engros Korte Obligationer** hauled almost EUR 2.1 billion.

It primarily invests in Danish government and mortgage bonds with a short duration. The fund applies Nordea's Paris-Aligned Fossil Fuel Policy and Policy for Responsible Investment. Following closely are **Santander RF Ahorro FI**, which netted over EUR 1.8 billion. In a distant third place is another bond strategy, **Allianz Return Fund**, which captured EUR 1.1 billion in the third quarter.

Among the Article 8 funds registering the biggest outflows, we see a strong presence of equity strategies.

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



Source: Morningstar Direct. Data as of September 2023. 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.

Meanwhile, topping the list of Article 9 bestselling products in the second quarter was **Wellington Global Stewards Fund,** followed distantly by **Handelsbanken Norden Index Criteria** and **BNP Paribas Funds Green Tigers**. The BNP Paribas fund invests in companies that derive at least 20% of their revenue from the environmental markets in the Asian Pacific Region. Related sectors include renewable and alternative energy, energy efficiency, water infrastructure and technologies, pollution control, waste management and technologies, environmental support services, as well as sustainable food.

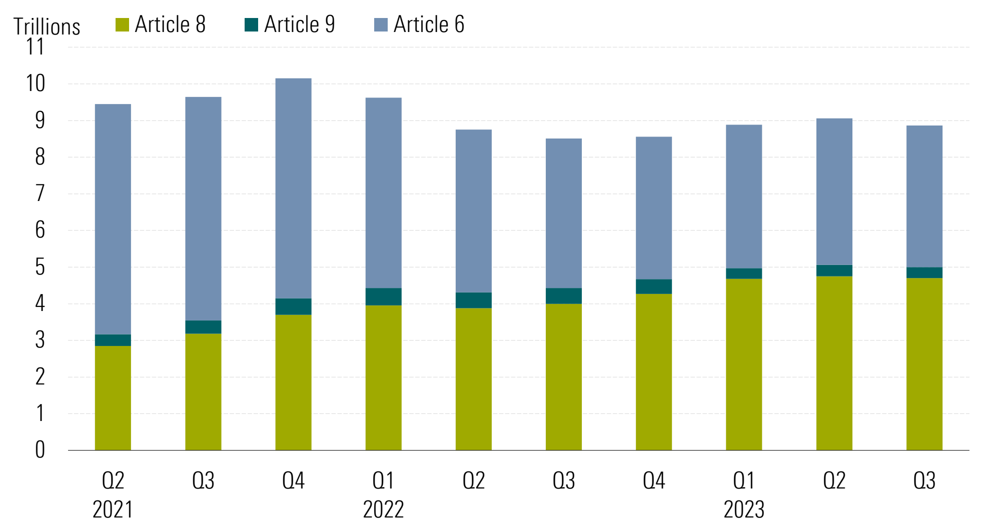
Wellington Global Stewards Fund invests in companies whose management teams and boards display exemplary "stewardship." The fund seeks to make a positive impact to climate change by actively engaging with companies to meet net-zero emissions by 2050, while maintaining a carbon footprint that is at least 50% lower than the reference benchmark.

Article 8 and Article 9 Fund Assets Shrank by 1.3%

Assets in Article 8 and Article 9 funds shrank by 1.3% over the third quarter of 2023, driven mostly by market depreciation and, to a lesser extent, the redemptions from Article 8 products. Article 6 fund assets also decreased by 3.3.% over the period. The previous quarter saw Article 6 fund assets surpass the asset growth rate of Article 8 and Article 9 funds for the first time since the enactment of SFDR in March 2021.

Article 8 and Article 9 fund assets managed to grasp the EUR 5 trillion milestone, reaching just below EUR 5 billion at the end of September from the restated EUR 5.1 trillion at the end of June. The two fund groups accounted for a constant share of the EU universe of 56.4%.

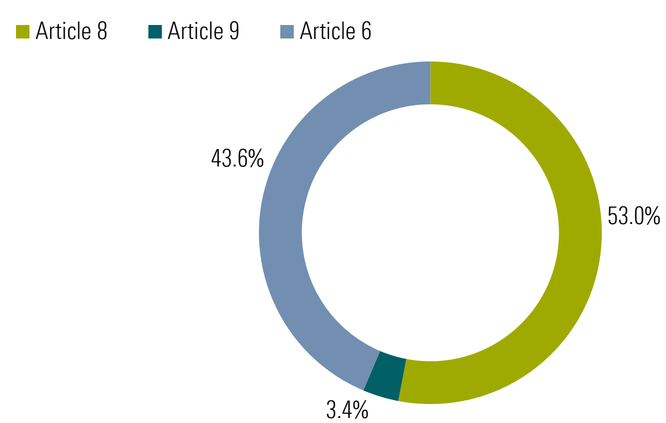
Exhibit 5 Quarterly Asset Breakdown by SFDR Classification (EUR Trillion)



Source: Morningstar Direct. Assets as of September 2023. 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.

Despite the continued redemptions, Article 8 funds maintained their market share at around 53% at the end of September. Assets in Article 9 funds slid by almost 4% to EUR 301 billion from last quarter's EUR 313 billion. However, the share of Article 9 product stayed at 3.4%, showing trivial change compared with the previous quarter.

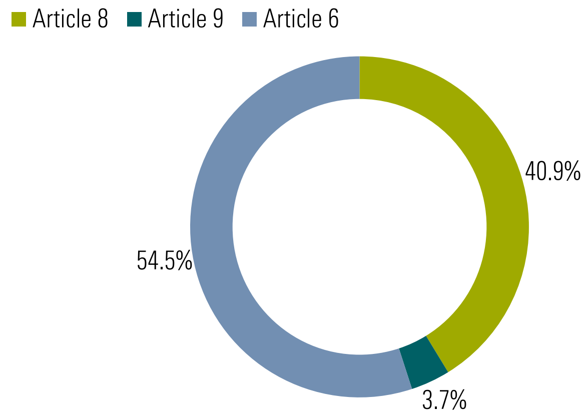
Exhibit 6a SFDR Fund Type Breakdown (by Assets)



Source: Morningstar Direct. Assets as of September 2023. 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.

Measured by number of funds,[6] the combined market share of Article 8 and Article 9 products declined slightly to 44.7% from the previous quarter's 45.5%, although the number of Article 9 funds increased to 1,003 from 947 three months earlier. This represents a market share of 3.7%, staying on par with the end of March. Meanwhile, the Article 8 category grew steadily to 10,988 at the end of September, taking up 41% of the market share.

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



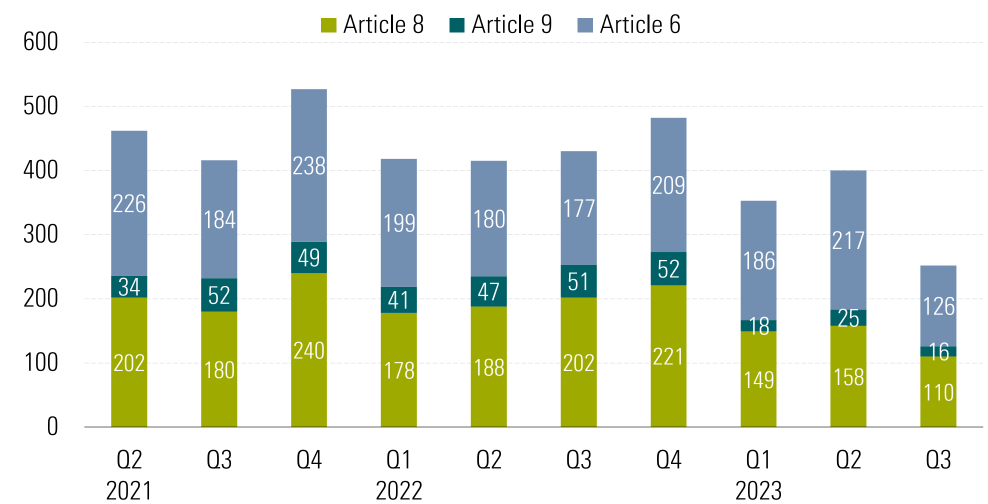
Source: Morningstar Direct. Assets as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds

Fund Launches

The number of newly launched Article 8 and Article 9 funds totaled 126 in the third quarter. While this number represented a 31% decline compared with the previous quarter's 186, it will likely be restated in future reports as we identify more launches and as additional ones are reported to Morningstar. Depending on the extent of the restatement, we may observe a continued slowdown in product development activity for Article 8 and Article 9 strategies.

6 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



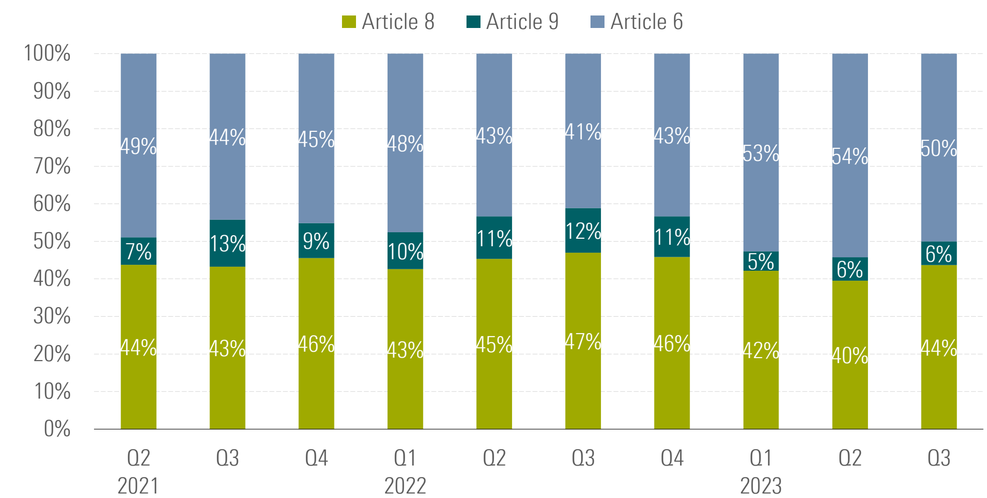
Source: Morningstar Direct. Data as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The decline in new products can be partly attributed to the overall market sentiment damped by the continued challenges from a macro environment that weighs on stock and bond markets, including the prospect of high 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.

On Sept. 14, 2023, the European Commission published 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.

In the third quarter of 2023, newly incepted Article 8 and Article 9 funds accounted for half of the total number of funds launched in the EU.

Exhibit 8a Quarterly Breakdown of Fund Launches



Source: Morningstar Direct. Data as of September 2023. 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.

Asset managers continued to expand the range of Article 8 and Article 9 options available to investors in terms of asset class, market exposure, investment style, and theme. Equity and fixed income represented the major source of the greatest product proliferation and with lower numbers of new offerings of 59 and 46, respectively, compared with previous quarters, followed by allocation (13), respectively. Alternatives, commodities, and miscellaneous made up the rest.

Examples of newly launched equity funds include **BNP Paribas Emerging Markets Climate Solutions** and **Amundi MSCI USA ESG Leaders ETF**. The former focuses on companies that are engaging in climate solutions across emerging markets. These companies provide through their products, services, or processes solutions to aquatic, terrestrial, and urban ecosystems, as well as renewable energy production, energy efficiency, energy infrastructure, and transportation.

JPMorgan Emerging Markets Social Advancement Fund, an Article 9 strategy, focuses on emerging-markets companies that have been identified as well positioned to develop solutions to drive the social economic empowerment of society. These companies are selected in relation to key subthemes of social advancement, which may evolve health and well-being, attainable financing, accessing the digital ecosystem, and essential products and services for the masses (such as food staples, household and personal hygiene products, water and electricity services, affordable housing, and education).

Reclassifications Pick Up Again

In the third quarter of 2023, reclassifications picked up again. We identified 279 funds that altered their SFDR status, including 250 upgrades. This compares with around 200 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 (232) moved to Article 8 from Article 6, while three upgraded to Article 9 from Article 6 and 15 funds moved to Article 9 from Article 8. Meanwhile, 10 funds downgraded to Article 8 from Article 9, along with18 Article 8 funds moved to Article 6.

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

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active/ Passive
Goldman Sachs Global Environmental Impact Equity Portfolio	Article 8	Article 9	699	Sector Equity Ecology	Active
Ossiam Bloomberg USA PAB UCITS ETF	Article 8	Article 9	472	US Large-Cap Blend Equity	Passive
Fidelity Funds - Sustainable Eurozone Equity Fund	Article 8	Article 9	451	Eurozone Large-Cap Equity	Active
Aviva Climate Transition Global Equity Fund	Article 8	Article 9	355	Sector Equity Ecology	Active
Deka MSCI Germany Climate Change ESG UCITS ETF	Article 8	Article 9	147	Germany Equity	Passive
Fidelity Sustainable US Equity Fund	Article 8	Article 9	108	US Large-Cap Blend Equity	Active
Swisscanto (LU) Bond Fund Sustainable Global Aggregate	Article 8	Article 9	107	Global Bond	Active
Manulife Sustainable Asia Bond Fund	Article 8	Article 9	91	Asia Bond	Active
Ossiam Bloomberg Canada PAB UCITS ETF	Article 8	Article 9	82	Canada Equity	Passive
Proclero	Article 8	Article 9	66	EUR Cautious Allocation	Active
Aviva Social Transition Global Equity Fund	Article 8	Article 9	31	Global Large-Cap Blend Equity	Active
Aviva Natural Capital Transition Global Equity Fund	Article 8	Article 9	29	Global Large-Cap Blend Equity	Active
Fidelity Sustainable Climate Solutions Fund	Article 8	Article 9	21	Sector Equity Ecology	Active
Ruth Core Nordic Credit	Article 8	Article 9	8	SEK Corporate Bond	Active
Fidelity Sustainable Biodiversity Fund	Article 8	Article 9	5	Sector Equity Ecology	Active

Source: Morningstar Direct. Assets as of September 2023. 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.

Of the 15 upgrades to Article 9 from Article 8 (Exhibit 8b), three were Aviva sustainability transition strategies focusing on climate, social, and natural capital themes, respectively. For example, **Aviva Natural Capital Transition Global Equity Fund** focuses on companies that either provide solutions to reduce biodiversity loss or are transitioning their business models to manage their impact on nature. With a similar thematic focus, **Fidelity Sustainable Biodiversity Fund** invests in companies enabling the stabilization or mitigation of biodiversity loss through technologies and solutions to reduce the impact of climate change, pollution, and overexploitation of natural resources.

Two Natixis Ireland-domiciled funds, **Ossiam Bloomberg USA PAB ETF** and **Ossiam Bloomberg Canada PAB ETF**, were reclassified to the Article 9 category following clarification from the European Commission in its answers to the European Supervisory Authorities' questions published in April 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. Ossiam plans to reclassify to Article 9 its remaining four (Luxembourg-domiciled) PAB ETFs, by the end of the year. Ossiam follows in the footsteps of Handelsbanken, which was the first this year to reverse the downgrades to Article 8 from Article 9 at the end of last year[7].

7 SFDR Article 8 and Article 9 Funds: Q4 2022 in Review
SFDR Article 8 and Article 9 Funds: Q1 2023 in Review
SFDR Article 8 and Article 9 Funds: Q2 2023 in Review

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

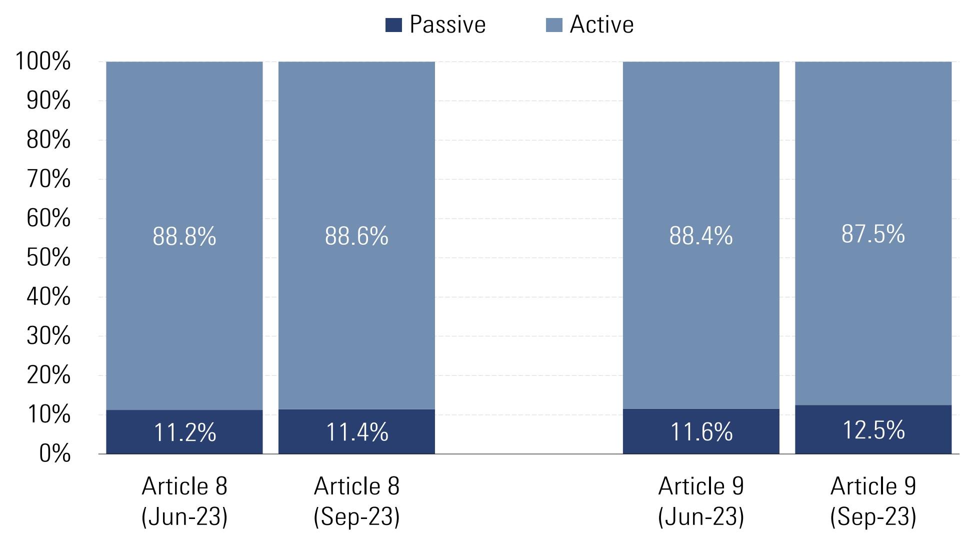
Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active/ Passive
CT SDG Engagement Global Equity	Article 9	Article 8	994	Global Flex-Cap Equity	Active
Schroder Healthcare Innovation	Article 9	Article 8	390	Sector Equity Healthcare	Active
AXA Climate Equity UCITS ETF	Article 9	Article 8	348	Global Large-Cap Blend Equity	Active
AXA Biodiversity Equity UCITS ETF	Article 9	Article 8	318	Other Equity	Active
Nordea Global Diversity Engagement Fund	Article 9	Article 8	307	Global Large-Cap Blend Equity	Active
NT Emerging Markets Green Transition Index Fund	Article 9	Article 8	246	Global Emerging Markets Equity	Passive
Carmignac Porfolio Climate Transition	Article 9	Article 8	239	Sector Equity Ecology	Active
AIS Schelcher Equity Convictions	Article 9	Article 8	189	Eurozone Large-Cap Equity	Active
Oaktree Global High Yield Responsible Fund	Article 9	Article 8	132	Global High Yield Bond - GBP Hedg	Active
The NT AC Asia ex Japan Green Transition Index Fund	Article 9	Article 8	21	Asia ex-Japan Equity	Passive

Source: Morningstar Direct. Assets as of September 2023. 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.

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 5.1% in December 2022 from 24.1% in September. But by the end of September 2023, this percentage inched to 12.5% from 11.6% three months earlier. As mentioned earlier, another 15 former Article 8 strategies were reclassified as Article 9 in this quarter. 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 September 2023. 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.

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 (13) of funds that target no or low (up to 10%) exposure to sustainable investments. Three funds have committed to a minimum of 20%, while **Pictet-Global Megatrend Selection** targets a 51% sustainable-investment allocation.

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 Multiple Opportunities	8	0	Flexible Allocation	24.7	Active	🌐🌐🌐
Morgan Stanley Global Brands Fund	8	10	Global Equity Large Cap	20.1	Active	🌐🌐🌐🌐🌐
DWS Top Dividende	8	15	Global Equity Large Cap	19.7	Active	🌐
AB American Income Portfolio	8	0	US Fixed Income	19.4	Active	🌐🌐
Deka-ImmobilienEuropa	8	0	Property-Direct	18.4	Active	—
JPMorgan Global Income Fund	8	10	Moderate Allocation	17.5	Active	🌐🌐
hausInvest	8	5	Property-Direct	17.4	Active	—
UniImmo: Deutschland	8	0	Property-Direct	16.6	Active	—
Fidelity Global Technology Fund	8	5	Technology Sector Equity	16.3	Active	🌐🌐🌐
UniImmo: Europa	8	0	Property-Direct	14.9	Active	—
DWS Concept Kaldemorgen	8	10	Flexible Allocation	14.2	Active	🌐🌐🌐🌐🌐
AB Global High Yield Portfolio	8	0	Global Fixed Income	12.6	Active	—
BlackRock World Healthscience Fund	8	0	Healthcare Sector Equity	12.3	Active	🌐🌐🌐🌐
DWS Vermögensbildungsfonds I	8	15	Global Equity Large Cap	12.3	Active	🌐🌐🌐
Mercer Multi Asset Growth Fund	8	20	Aggressive Allocation	12.1	Active	🌐🌐🌐🌐
Flossbach von Storch Multiple Opportunities II	8	0	Flexible Allocation	11.8	Active	🌐🌐🌐
iShares MSCI USA ESG Enhanced ETF	8	20	US Equity Large Cap Blend	11.3	Passive	🌐🌐🌐🌐
Fidelity Global Dividend Fund	8	20	Global Equity Large Cap	11.1	Active	🌐🌐🌐🌐🌐
Pictet-Global Megatrend Selection	8	51	Global Equity Large Cap	10.7	Active	🌐🌐🌐🌐
Swedbank Robur Technology	8	11	Technology Sector Equity	10.6	Active	🌐🌐🌐🌐🌐

Source: Morningstar Direct. Data as of September 2023. 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.

Since the return of the Handelsbaken PAB funds to the Article 9 category, the league of the largest Article 9 funds showed little change in the third quarter, apart from three new entries, including **Candriam Sustainable Equity Emerging Markets**, **BlueOrchard Microfinance Fund**, and **Goldman Sachs Green Bond**. After returning to the Article 9 category in the second quarter, the three largest funds of the Handelsbanken PAB funds reappeared in the top 20 Article 9 fund table.

As expected, all (but one) Article 9 funds in the table below have high sustainable-investment targets (above 75%), with the rest representing various allocations to cash and hedging instruments. Data is lacking for **BlueOrchard Microfinance Fund**.

Exhibit 11 The 20 Largest Article 9 Funds

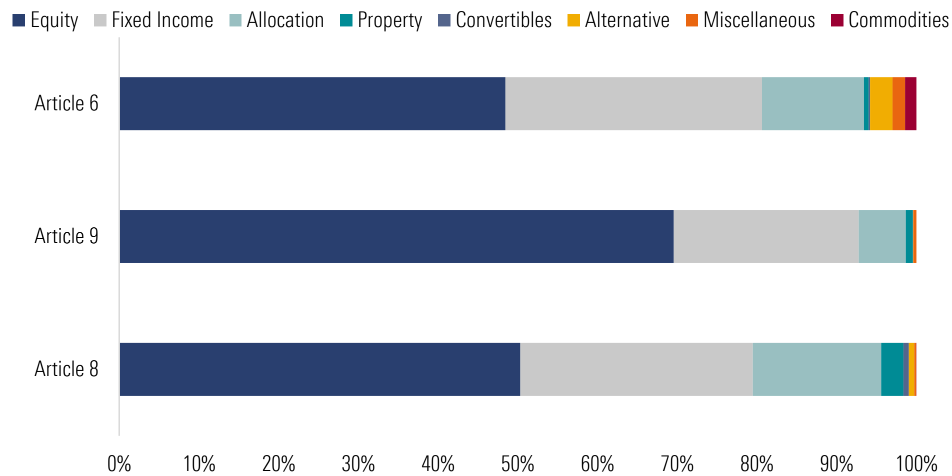
Name	SFDR Fund Type	Minimum % Sustainable Investments	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating
Nordea Global Climate and Environment Fund	9	85	Global Equity Mid/Small Cap	9.2	Active	🌐🌐🌐🌐
Pictet-Water	9	80	Equity Miscellaneous	7.6	Active	🌐🌐🌐🌐
Handelsbanken Global Index Criteria	9	90	Global Equity Large Cap	7.4	Passive	🌐🌐🌐
Pictet - Global Environmental Opportunities	9	80	Global Equity Large Cap	7.3	Active	🌐🌐🌐🌐🌐
BlackRock Sustainable Energy Fund	9	80	Energy Sector Equity	6.0	Active	🌐🌐🌐🌐🌐
Handelsbanken USA Index Criteria	9	90	US Equity Large Cap Blend	4.5	Passive	🌐🌐🌐🌐
Pictet-Clean Energy Transition	9	80	Energy Sector Equity	4.5	Active	🌐🌐🌐🌐🌐
Mirova Global Sustainable Equity Fund	9	90	Global Equity Large Cap	4.5	Active	🌐🌐🌐🌐🌐
RobecoSAM Smart Energy Equities	9	90	Energy Sector Equity	3.6	Active	🌐🌐🌐🌐🌐
Handelsbanken Norden Index Criteria	9	90	Europe Equity Large Cap	3.6	Passive	🌐🌐🌐
BNP Paribas Funds Aqua	9	85	Equity Miscellaneous	3.6	Active	🌐🌐🌐🌐
BNP Paribas Aqua	9	85	Equity Miscellaneous	3.4	Active	🌐🌐🌐🌐
RobecoSAM Sustainable Water Equities	9	90	Equity Miscellaneous	3.2	Active	🌐🌐🌐🌐
DPAM Bonds Emerging Markets Sustainable	9	80	Emerging Markets Fixed Income	3.1	Active	🌐🌐🌐🌐
BNP Paribas Funds Climate Impact	9	85	Global Equity Mid/Small Cap	2.8	Active	🌐🌐🌐🌐🌐
AB Sustainable Global Thematic Portfolio	9	80	Global Equity Large Cap	2.6	Active	🌐🌐🌐🌐🌐
Candriam Sustainable Equity Emerging Markets	9	75	Global Emerging Markets Equity	2.5	Active	🌐🌐🌐🌐
Impact ES Actions Europe	9	90	Europe Equity Large Cap	2.4	Active	🌐🌐🌐🌐
BlueOrchard Microfinance Fund	9	-	Fixed Income Miscellaneous	2.3	Active	—
Goldman Sachs Green Bond	9	90	Europe Fixed Income	2.3	Active	🌐🌐🌐🌐

Source: Morningstar Direct. Data as of September 2023. 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.

Article 8 and Article 9 Funds Per Broad Asset Class

While Article 8 funds resemble Article 6 funds in terms of asset-class distribution, Article 9 funds continue leaning more toward equity. Such funds account for 70% of Article 9 products as of September 2023, versus 50% and 48% in the Article 8 and Article 6 fund group, respectively.

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

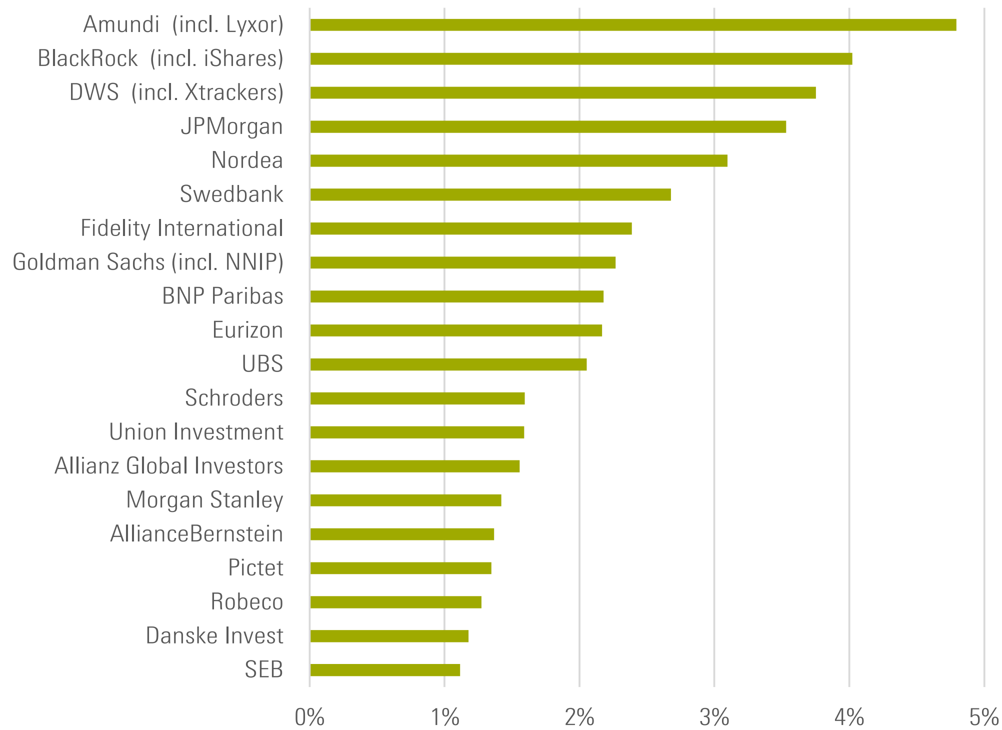


Source: Morningstar Direct. Data as of September 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

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 saw little change compared with the second quarter of 2023.

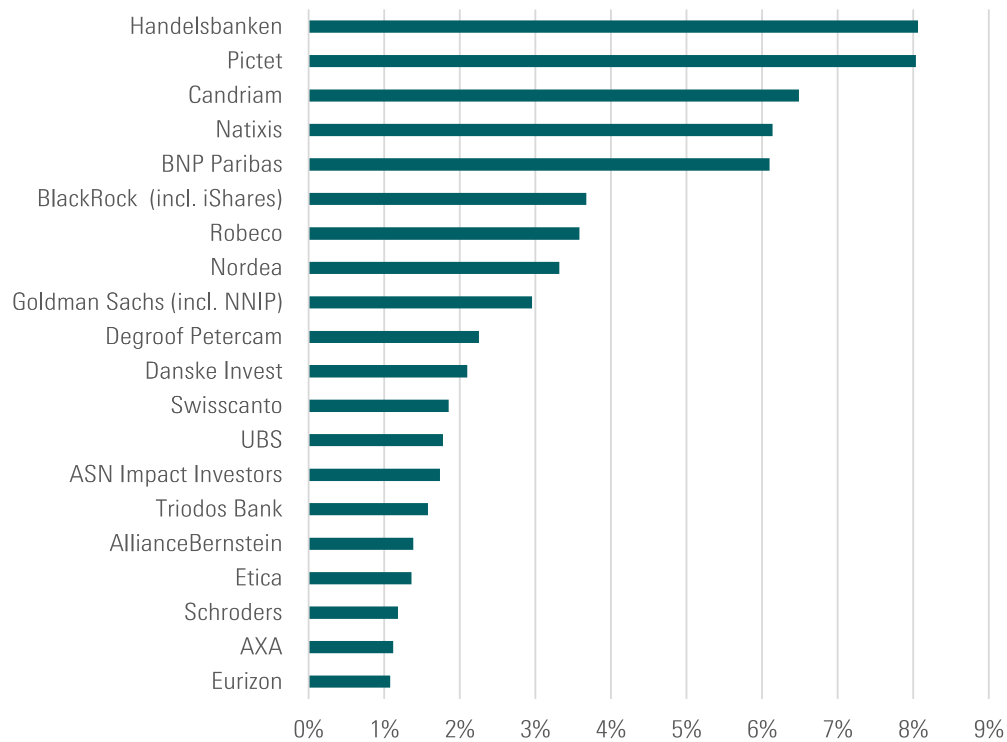
Exhibit 13 Top 20 Asset Managers by Article 8 Fund Assets



Source: Morningstar Direct. Assets as of September 2023 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. 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.

After reclassifying its range of Paris-aligned index funds in the previous quarter, Handelsbanken overtook Pictet to become the largest provider of Article 9 products at the end of September. Pictet saw its market share shrink further by 0.3 percentage points to 8% in the last three months. Candriam bypassed Natixis to take over third place, with a 6.5% market share. Meanwhile, Natixis, while losing one place, defended its Article 9 fund market share in the last three months at 6.1%.

Exhibit 14 Top 20 Asset Managers by Article 9 Fund Assets



Source: Morningstar Direct. Assets as of September 2023 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. 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 the end of September 2023, Morningstar had collected EET data on 124,616 share classes, accounting for 87% of all share classes in the scope of MiFID II. These represent 21,494 funds,[8] including 10,058 Article 8 funds and 846 Article 9 funds.

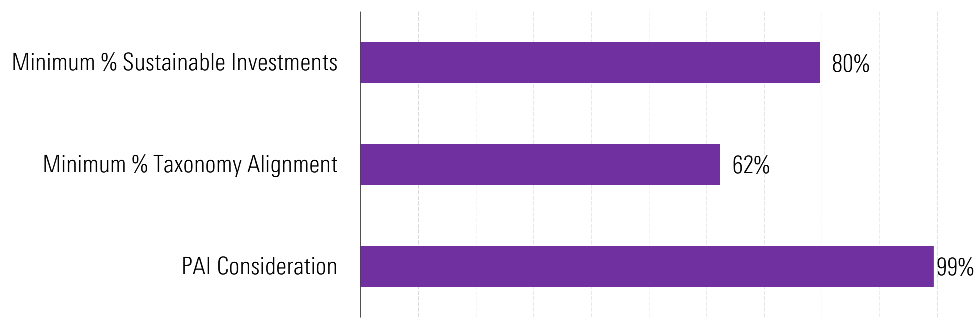
8 The number of funds and share classes estimated to be in the scope of the EET is 38,330 and 143,179, respectively. Money market funds, funds of funds, and feeder funds are included in this section on the EET.

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.[9]
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.[10]
3) **PAI Consideration**, indicating whether a product considers principal adverse impact in its investments. Answers are "Yes" or "No."[11]

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

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



Source: Morningstar Direct. Data as of September 2023. Based on 10,058 and 846 reported as Article 8 and Article 9 products, respectively.

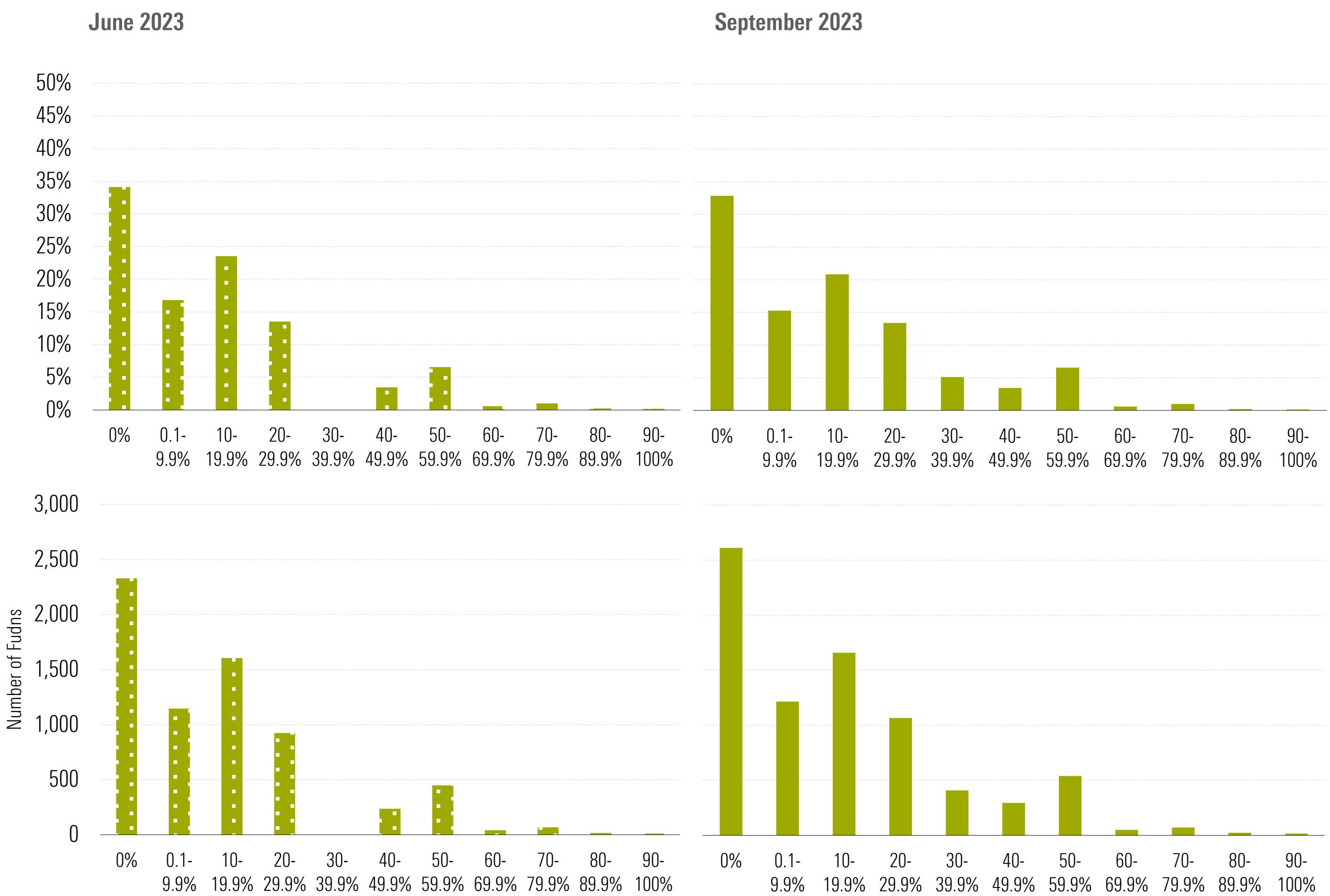
All Article 8 and Article 9 products are required to disclose whether they consider PAI indicators, explaining the high percentage (99%) of surveyed funds that populated the PAI Consideration field, as of the end of September. With the regulatory requirement since Jan. 1 of adding detailed SFDR annexes 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 September, 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 62% disclosed a minimum percentage of taxonomy-aligned investments, leveled with the previous quarter-end.

9 EET Name: 20420_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments
10 EET Name: 20450_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments_Taxonomy_Aligned
11 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 June and September 2023 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 September 2023. September 2023 data is based on 7,479 Article 8 funds that report the field. June 2023 data is based on 6,826 Article 8 funds that report the field.

A Third of Article 8 Funds Target No Sustainable Investments

The number of Article 8 funds with 0% values reached over 2,600 at the end of September, accounting for 33% of the sample Article 8 funds. This represented a marginal decline from the 34% in June given the expanded sample. Similarly, the percentage of Article 8 funds targeting up to 10% exposure dropped to 15% from 17% three months earlier, though the number rose from 1,147 at end of last quarter to 1,215.

The most evident change in percentage terms resided with Article 8 funds targeting sustainable-investment allocation between 30% and 40%, which accounted for over 5% of the sample Article 8 funds at the end of September, compared with almost zero three months earlier.

In the third quarter of 2023, about 294 Article 8 funds revised their minimum sustainable-investment commitment, a notable increase compared with the 190 recorded three months earlier. Among these, the vast majority (213) showed increased sustainable investment, with changes ranging from 2% to 70%.

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

Exhibit 17 Article 8 Funds With the Highest Increases 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
Portfolio Wachstum ZKB Oe	Article 8	70	0	86	EUR Corporate Bond
Portfolio Wachstum (Euro) Alternativ ZKB Oe	Article 8	90	30	493	Eurozone Large-Cap Equity
Portfolio Rendite ZKB Oe	Article 8	60	1	611	Global Corporate Bond
Amundi Ultra Short Term Bond SRI	Article 8	60	1	151	Global Corporate Bond - CHF Hedged
CIM Dividend Income Fund	Article 8	51	0	326	EUR Moderate Allocation - Global
JSS Sustainable Multi Asset - Global Income	Article 8	51	0	69	EUR Cautious Allocation
EdR SICAV - Equity Euro Solve	Article 8	51	0	54	Emerging Europe Bond
Edmond de Rothschild Fund - Global Convertibl	Article 8	51	0	43	EUR Flexible Allocation - Global
Edmond de Rothschild Fund - Strategic Emergi	Article 8	51	0	37	EUR Cautious Allocation - Global
Edmond de Rothschild Fund - Bond Allocation	Article 8	51	0	36	Other Equity
JSS Sustainable Bond - Total Return Global	Article 8	51	0	24	EUR Moderate Allocation - Global
SG Solidarité	Article 8	51	0	12	Europe Large-Cap Blend Equity
DWS Invest - CROCI Sectors Plus	Article 8	51	0	10	EUR Cautious Allocation - Global
Lyxor Index Fund - Lyxor ESG USD High Yield ([	Article 8	51	0	7	EUR Moderate Allocation
Amundi Responsible Investing - Just Transitior	Article 8	51	0	7	EUR Flexible Allocation - Global
LLB Aktien Global ESG	Article 8	51	0	6	Property - Indirect Europe
Macquarie Euro Corporate Bond Fund	Article 8	51	0	5	Other
Edmond de Rothschild Fund - Europe Convertib	Article 8	51	0	4	EUR Cautious Allocation - Global
Edmond de Rothschild Fund - Europe Synergy	Article 8	51	0	4	Other Equity
Lakeview Fund	Article 8	51	0	2	EUR Moderate Allocation

Source: Morningstar Direct. Data as of September 2023. Based on 294 Article 8 funds that revised their minimum sustainable investment between June and September 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.

There were also funds that reported lower sustainable-investment commitments in September compared with June 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 Q3 2023	Min % of Sustainable Investments in Q2 2023	Fund Size (EURO Mil)	Morningstar Category
Amundi Equity Japan Target	Article 8	0	96	5	EUR Government Bond - Short Term
Alken Absolute Return Europe	Article 8	0	95	56	EUR Diversified Bond
JSS Sustainable Equity Global Dividend	Article 8	30	100	9	EUR Flexible Allocation - Global
JSS Sustainable Equity USA	Article 8	30	100	105	Eurozone Large-Cap Equity
Portfolio Selektion ZKB Oe	Article 8	30	100	4	EUR Flexible Allocation - Global
SG Trésorerie 6 Mois	Article 8	20	75	41	Europe ex-UK Equity
La Française Carbon Impact Income	Article 8	20	75	101	Convertible Bond - Global, USD Hedged
PCI - Diversified Equity Income Fund	Article 8	20	75	27	Global Flexible Bond
MOZART one	Article 8	20	75	153	Europe Small-Cap Equity
LF - WHC Global Discovery	Article 8	20	75	109	Long/Short Equity - Europe
Mandarine Unique Small & Mid Caps Europe	Article 8	30	75	738	EUR Subordinated Bond
DWS Top Dividend	Article 8	60	100	9	Global Flexible Bond - EUR Hedged
Amundi Enhanced Ultra Short Term Bond SRI	Article 8	50	85	304	Global Large-Cap Blend Equity
EdR Financial Bonds	Article 8	0	34	33	France Small/Mid-Cap Equity
La Française Sub Debt	Article 8	0	34	48	France Small/Mid-Cap Equity
Edmond de Rothschild Goldsphere	Article 8	20	50	238	Global Emerging Markets Corporate Bond
Nordea Inst Aktie Världen	Article 8	20	50	334	Global Emerging Markets Corporate Bond
La Française Euro Souverains	Article 8	20	50	166	Global High Yield Bond
Portfolio Anleihen ESG	Article 8	20	50	123	Other Bond
LCL Europe Ecologie Equilibre	Article 8	10	40	281	EUR Diversified Bond - Short Term

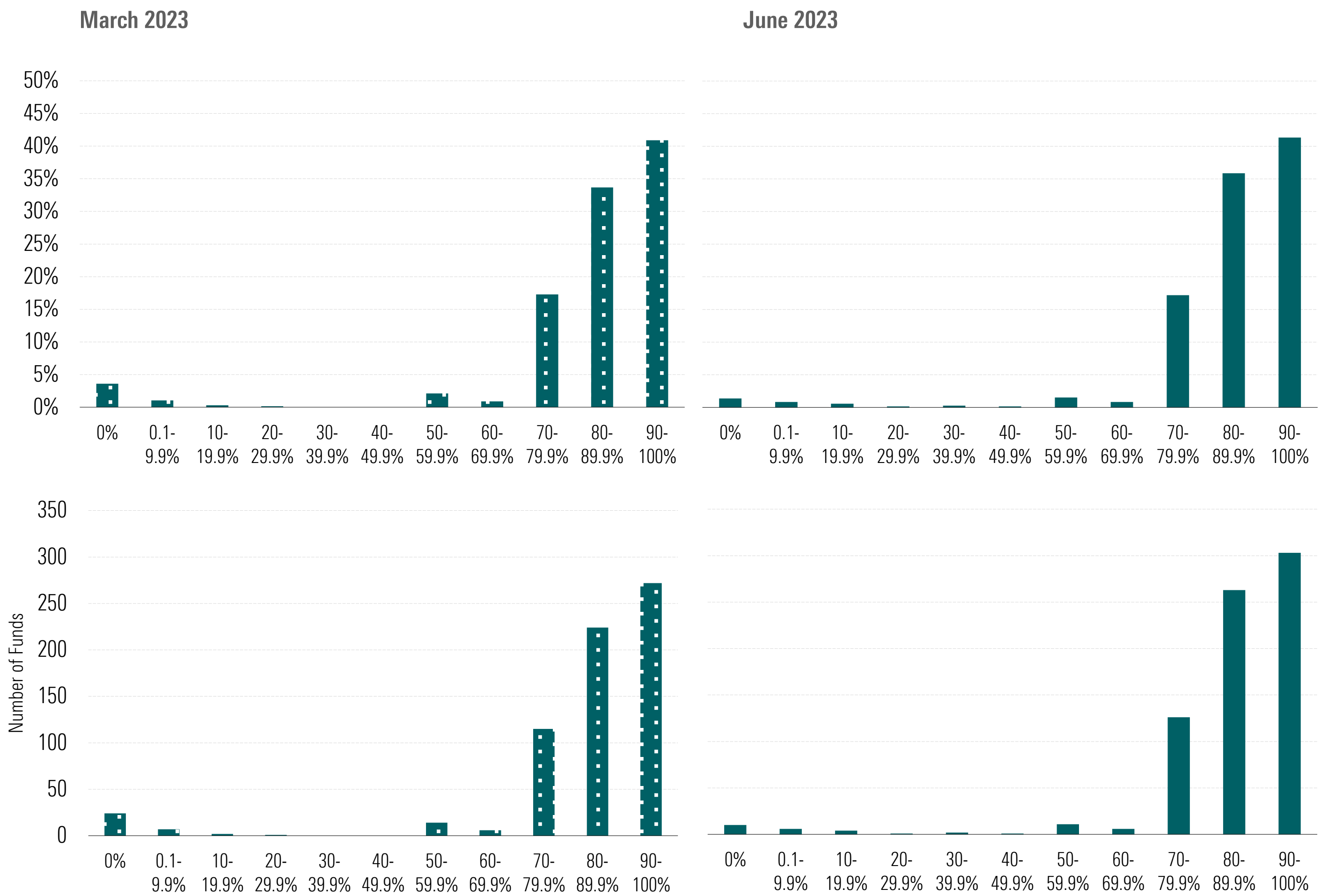
Source: Morningstar Direct. Data as of September 2023. Based on 294 Article 8 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

More Article 9 Funds Now Report Targeting at Least 80% of Sustainable Investments

Exhibit 19 compares the June and September 2023 distributions of "**Minimum Proportion of Sustainable Investments**" for surveyed Article 9 funds.

It shows the continued shift to the right of the Article 9 fund distribution of targeted sustainable investments. While the proportion of the Article 9 funds committing at least 80% exposure to sustainable investments showed only a moderate increase to 77% compared with 75% three months ago, the number rose to 566 from 496, representing a 14% growth from the end of June. Additionally, the proportion of the sample Article 9 funds targeting between 90% and 100% stayed at 41%, with a moderate increase of the fund number to 303 from previous quarter's 272. Among these funds, we identified 81 Article 9 funds targeting 100% exposure to sustainable investment, a significant increase from 60 three months ago.

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



Source: Morningstar Direct. Data as of September 2023. June 2023 data is based on 665 Article 9 funds that report the field. September 2023 data is based on 733 Article 9 funds that report the field.

Along with the growing commitment to sustainable investment by the Article 9 products, the proportion of the funds with low (less than 50%) sustainable-investment allocations slid to a new low of 3.3% from over 5% three months ago. This is explained by regulatory tightening including ESMA's clarification in the summer 2022 that Article 9 funds should hold 100% of sustainable investments, except for cash and assets used for hedging purposes. Following that clarification, asset managers downgraded funds they believed couldn't achieve that level of sustainable investment and simultaneously increased the level of commitments for funds they believed could meet the requirement, either through a change in portfolio holdings, a change in methodology, or by simply deciding to harmonize minimum sustainable investments across the range and "align with market practice."

It remains to be seen whether the Article 9 distribution of targeted sustainable investments will continue shifting toward the higher end of the spectrum. It may depend partly on the decision by managers to reclassify passive funds tracking EU climate benchmarks to Article 9 from Article 8 following the clarification from the European Commission in its answers to the European Supervisory Authorities' questions published in April that passive funds tracking Paris-aligned or climate-transition benchmarks automatically qualify for Article 9 and don't need to additionally ensure compliance with the Article 2(17) sustainable-investments test, and these products are not required to hold 100% of sustainable investments.

Another 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,[12] 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[13]. A change in methodology by an asset manager could lead to changes in reported sustainable-investment commitments.

Compared with three months ago, 31 Article 9 funds changed their minimum sustainable-investment commitment, of which 24 showed increases and seven decreases.

Exhibit 20a lists the Article 9 funds that saw the largest increases in minimum exposure to sustainable investments between June and September.

14 We previously reported that in addition to the different criteria used by asset managers to determine the sustainable nature of companies, there are two main ways that sustainable companies are counted in portfolios: The most common approach is the "pass-fail" approach, whereby the entirety of a sustainable company (beyond a certain level of revenue derived from sustainable activities) is counted; the other approach is revenue-weighted, whereby only the proportion of revenue generated from sustainable activities is counted as a sustainable investment. These two approaches could produce opposite results: high percentages of sustainable investments in the first case and much lower levels in the latter case.

Exhibit 20a Article 9 Funds With Increases 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
iShares $ Development Bank Bonds UCITS ETF (Acc)	Article 9	90	0	542	USD Government Bond
Swisscanto (LU) Portfolio Fund Sustainable Balanced (EUR)	Article 9	80	0	2,213	EUR Moderate Allocation - Global
Swisscanto (LU) Equity Fund Sustainable	Article 9	80	0	1,555	Global Large-Cap Blend Equity
Swisscanto (LU) Equity Fund Sustainable Emerging Markets	Article 9	80	0	497	Global Emerging Markets Equity
Swisscanto (LU) Equity Fund Sustainable Global Water	Article 9	80	0	377	Sector Equity Water
Swisscanto (LU) Portfolio Fund Sustainable Balance (CHF)	Article 9	80	0	313	CHF Moderate Allocation
Swisscanto (LU) Bond Fund Sustainable Global Credit	Article 9	80	0	159	Global Corporate Bond - CHF Hedged
Swisscanto (LU) Equity Fund Sustainable Global Climate	Article 9	80	0	153	Sector Equity Ecology
Swisscanto (LU) Portfolio Fund Sustainable Select (CHF)	Article 9	80	0	94	CHF Cautious Allocation
Swisscanto (LU) Bond Fund Sustainable Global High Yield	Article 9	80	0	57	Global High Yield Bond
Swisscanto (LU) Portfolio Fund Sustainable Ambition (CHF)	Article 9	80	0	39	CHF Aggressive Allocation
Swisscanto (LU) Portfolio Fund Sustainable Protection	Article 9	80	0	16	CHF Cautious Allocation
Swisscanto (LU) Equity Fund Sustainable Europe	Article 9	80	0	13	Europe Large-Cap Blend Equity
Länsförsäkringar Globala Mål Index	Article 9	90	15	181	Global Large-Cap Blend Equity
Amundi Crédit Green Bonds	Article 9	80	5	22	EUR Corporate Bond - Short Term
BFT LCR	Article 9	80	10	157	EUR Diversified Bond
Fidelity Sustainable US Equity Fund	Article 9	80	50	107	US Large-Cap Blend Equity
Fidelity Sustainable Climate Solutions Fund	Article 9	80	50	21	Sector Equity Ecology
Fidelity Sustainable Biodiversity Fund	Article 9	80	50	4	Sector Equity Ecology
Ossiam Bloomberg Canada PAB UCITS ETF	Article 9	40	20	80	Canada Equity
ODDO BHF Green Bond	Article 9	90	75	95	EUR Diversified Bond
JSS Sustainable Equity Green Planet	Article 9	90	80	341	Sector Equity Ecology
JSS Sustainable Bond Euro Broad	Article 9	90	80	148	EUR Diversified Bond
JSS Sustainable Equity Global Climate 2035	Article 9	90	80	86	Global Large-Cap Blend Equity
JSS Sustainable Equity SDG Opportunities	Article 9	90	80	63	Global Large-Cap Blend Equity

Source: Morningstar Direct. Data as of September 2023. Based on 24 Article 9 funds that revised their minimum sustainable investment. Funds are ranked first by change in sustainable-investment exposure and second by fund size.

As just mentioned, different interpretations of the regulation have led asset managers to adopt different approaches to the calculation of sustainable-investment exposure. This renders impossible the direct comparison of competing products. Products with similar mandates and portfolios can report divergent exposures to sustainable investments depending on the methodology chosen by their providers. To illustrate the wide range of numbers that investors should expect to see and changes in committed sustainable investment exposure over time, we have selected 10 global large-cap ETFs that track a Paris-aligned benchmark and have similar portfolios.

Exhibit 20b Min % of Sustainable Investments for A Sample of Funds Tracking Large-Cap Paris-Aligned Benchmarks

Fund Name	Min. % Sustainable Investments (Sep-22)	Min. % Sustainable Investments (Dec-22)	Min. % Sustainable Investments (March 23)	Min. % Sustainable Investments (Sept 23)	Latest SFDR Status
Handelsbanken Global Index Criteria			90%	90%	Article 9
Danske Invest Global Index Restricted			75%	80%	Article 9
Invesco MSCI World ESG Climate Paris Alignd			50%	50%	Article 8
BNP PARIBAS EASY - Low Carbon 300 World PAB	45%	50%	40%	40%	Article 8
BNP Paribas Easy MSCI World SRI S-Series PAB 5% Capped	45%	45%	35%	35%	Article 8
iShares MSCI World Paris-Aligned Climate ETF	10%	25%	25%	25%	Article 8
UBS MSCI World Climate Paris Aligned ETF	80%	20%	20%	20%	Article 8
UBS MSCI ACWI Climate Paris Aligned ETF	80%	20%	20%	20%	Article 8
HSBC MSCI World Climate Paris Aligned ETF	20%	20%	20%	20%	Article 8
Xtrackers World Net Zero Pathway Paris Aligned ETF	1%	10%	10%	10%	Article 8
Amundi Index MSCI World SRI PAB	10%	5%	5%	30%	Article 8
Amundi MSCI World Climate Paris Aligned Pab	5%	5%	5%	30%	Article 8

Source: Morningstar Direct. Data as of September 2023.

Out of the 10 products, three funds lifted their minimum proportion of sustainable investments in recent months, including two Amundi ETFs, which increased their SI commitment to 30%, from 5% previously. The move followed the EC's clarifications in April of what constitutes sustainable investments under SFDR. Similarly, Danske Invest Global Index Restricted increased its targeted SI allocation to 80%, from 75%. While representing a smaller increase, the commitment is much higher, probably reflecting the use of a different methodology for the calculation of SI. Additionally, the fund is classified as Article 9.

Exhibit 21 lists the seven Article 9 funds that saw a decrease in minimum exposure to sustainable investments between June and September.

Exhibit 21 Article 9 Funds With Decreases in Minimum Sustainable Investments

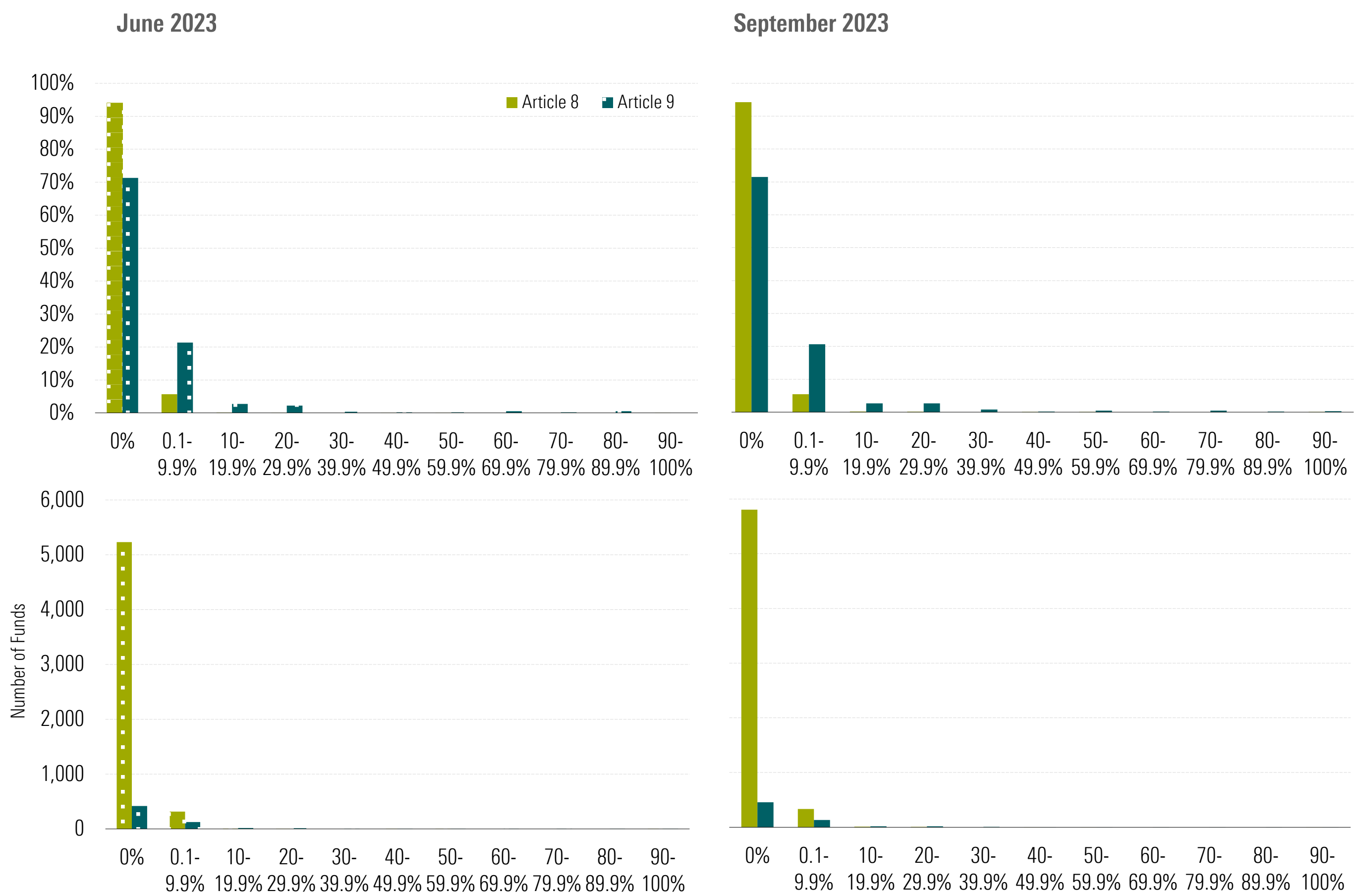
Fund Name	SFDR Type	Min % of Sustainable Investments in Q3 2023	Min % of Sustainable Investments in Q2 2023	Fund Size (EURO Mil)	Morningstar Category
La Française Carbon Impact Floating Rates	Article 9	80	100	158	EUR Corporate Bond - Short Term
La Française Carbon Impact 2026	Article 9	80	100	139	Fixed Term Bond
La Française Obligations Carbon Impact	Article 9	80	100	108	EUR Diversified Bond
Sustainable Alpha Fund	Article 9	70	90	10	EUR Aggressive Allocation - Global
La Française Inflection Point Carbon Impact Global	Article 9	90	100	276	Global Large-Cap Blend Equity
La Française Inflection Point Carbon Impact Euro	Article 9	90	100	27	Eurozone Large-Cap Equity
La Française Actions €CO2 Responsable	Article 9	90	100	15	Eurozone Large-Cap Equity

Source: Morningstar Direct. Data as of September 2023. Based on seven 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 September 2023, over 62% populated the Minimum or Planned Investments Sustainable Investments Taxonomy Aligned field, stagnant with the coverage rate reported in our last report. Exhibit 22 shows the distribution of reported values.

Exhibit 22 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 September 2023. June 2023 data is based on 5,564 Article 8 funds and 586 Article 9 funds that report the field. September 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 nearly 21% of Article 9 funds reported minimum taxonomy-aligned sustainable investments between 0% and 10%, almost unchanged compared with three months ago. However, almost 8% (50) of Article 9 funds (moderate increase from 6.8% [43] 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. It will become mandatory for companies to start disclosing the taxonomy alignment of their activities only from this year. To bridge the data gap, the ESAs and the EC 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 23 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. At the top is **Maj Invest Net Zero 2050 W** which invests both in companies that strive to reduce their C02 emissions through new products, more efficient production or new technologies and in companies that enable society to reduce C02 emissions by providing the resources, products or technologies.

Exhibit 23 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 W	Article 8	100	28.0	Global Flex-Cap Equity	Equity
S-Bank Forest	Article 8	50	220.2	Property - Direct Other	Property
S-Bank Housing	Article 8	40	285.3	Property - Direct Other	Property
Bantleon Immobilienaktien Asia Pacific ESG	Article 8	26	19.6	Property - Indirect Asia	Equity
PATRIZIA Capital Low Carbon Core Infrastructure Fund	Article 8	25	248.1	Sector Equity Infrastructure	Equity
Kempen (Lux) Eurp Property	Article 8	25	118.9	Property - Indirect Europe	Equity
Bantleon Immobilienaktien EMEA ESG	Article 8	22	13.8	Property - Indirect Europe	Equity
Kempen Profielfonds 5	Article 8	20	100.0	EUR Aggressive Allocation - Global	Allocation
Kempen Profielfonds 4	Article 8	20	55.8	EUR Moderate Allocation - Global	Allocation
Kempen Global Property Fund N.V. N	Article 8	19	53.9	Property - Indirect Global	Equity
3 Banken Mensch & Umwelt Mischfonds	Article 8	15	196.1	EUR Moderate Allocation - Global	Allocation
BNP Paribas Easy ECPI Global ESG Hydrogen Economy	Article 8	15	50.9	Other Equity	Equity
Kempen Profielfonds 3	Article 8	13	61.6	EUR Moderate Allocation - Global	Allocation
Swedbank Robur Fastighet	Article 8	10	743.2	Property - Indirect Global	Equity
Swedbank Robur Transition Energy	Article 8	10	491.5	Sector Equity Alternative Energy	Equity
WERTGRUND WohnSelect D	Article 8	10	463.4	Property - Direct Europe	Property
ERSTE GREEN INVEST MIX	Article 8	10	292.4	EUR Flexible Allocation - Global	Allocation
WisdomTree Battery Solutions UCITS ETF	Article 8	10	259.8	Other Equity	Equity
Carmignac Porfolio Climate Transition	Article 8	10	236.8	Sector Equity Ecology	Equity
Maj Invest Planet & People	Article 8	10	85.1	Other Equity	Equity

Source: Morningstar Direct. Data as of September 2023. Based on 6,161 Article 8 funds that report the field.

Exhibit 24 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 **Goldman Sachs Green Bond**. Along with the criteria articulated in the Green Bond Principles, the fund has in place an ongoing evaluation process to ensure the "green label" attached to an underlying project is aligned with the issuers' overall ESG policy and performance. As with the broader fixed-income universe, green bond investors have been switching to longer-duration exposures this year with the expectation that the current monetary tightening cycle is inching toward the end as inflation is reaching its peak.

Exhibit 24 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	102.8	Sector Equity Ecology	Equity
Stewart Investors Indian Subcontinent Sustainability Fund	Article 9	90	5.6	India Equity	Equity
Ålandsbanken Vindkraft Specialplaceringsfond	Article 9	80	248.8	Other	Miscellaneous
KlimaVest ELTIF	Article 9	75	1261.2	Other Allocation	Allocation
Triodos Energy Transition Europe Fund	Article 9	75	168.8	Other	Miscellaneous
Triodos Emerging Markets Renewable Energy Fund	Article 9	75	30.5	Other Allocation	Allocation
Assenagon Funds Green Economy	Article 9	65	30.6	Sector Equity Ecology	Equity
Triodos Groenfonds	Article 9	50	835.4	Other Bond	Fixed Income
Fondita Sustainable Europe	Article 9	50	104.4	Europe Flex-Cap Equity	Equity
Wealth Invest AKL TimeInvest Sustainable Opportunities	Article 9	50	12.6	Other Equity	Equity
Luxembourg Selection Fund Active Solar	Article 9	48	186.3	Sector Equity Alternative Energy	Equity
Man GLG Sustainable Strategic Income	Article 9	35	18.1	Global Corporate Bond - USD Hedged	Fixed Income
ERSTE WWF Stock Environment	Article 9	30	575.8	Sector Equity Ecology	Equity
Rize Environmental Impact 100 UCITS ETF	Article 9	30	80.0	Sector Equity Ecology	Equity
ERSTE STOCK ENVIRONMENT	Article 9	30	44.1	Sector Equity Ecology	Equity
Fisher Global Sustainable Equity Impact ESG Fund	Article 9	30	2.3	Global Large-Cap Blend Equity	Equity
Goldman Sachs Green Bond	Article 9	25	2231.4	Other Bond	Fixed Income
Goldman Sachs Corporate Green Bond	Article 9	25	1364.0	EUR Corporate Bond	Fixed Income
Goldman Sachs Green Bond Short Duration	Article 9	25	628.0	EUR Diversified Bond - Short Term	Fixed Income

Source: Morningstar Direct. Data as of September 2023. Based on 635 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[14] 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.

14 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. The 18 PAIs are outlined in the table below.

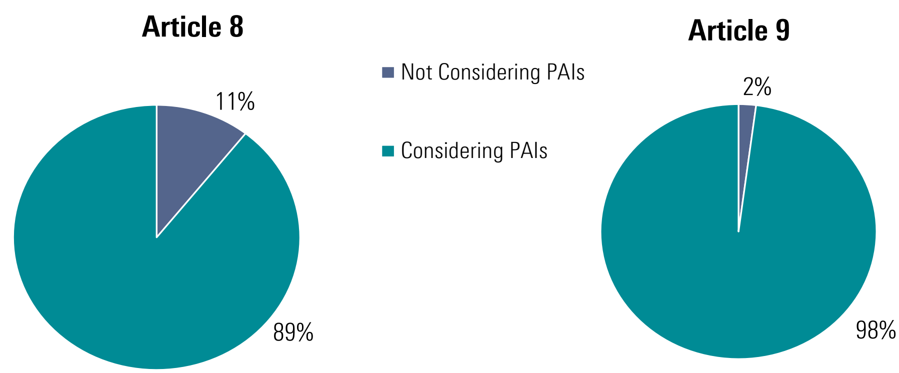
Exhibit 25 18 of the 64 PAI Indicators Under the EET

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 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 universe has populated the PAI Consideration field by September 2023. And among those, the vast majority stated they do consider PAIs (89% for the respondent Article 8 funds and 98% for the respondent Article 9 funds). The 11% 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 last year. 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.

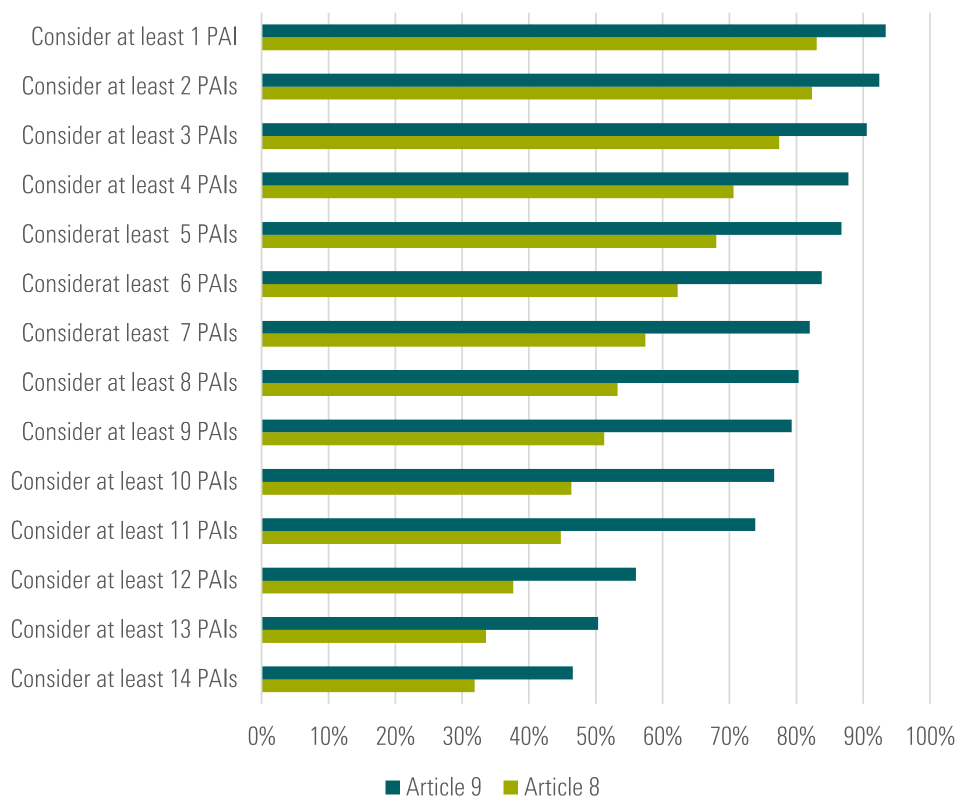
Exhibit 26 SFDR Product Type and PAI Consideration



Source: Morningstar Direct. Data as of September 2023. Based on 10,001 Article 8 funds and 834 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 27a Number of Article 8 and Article 9 Funds Considering Corporate PAIs

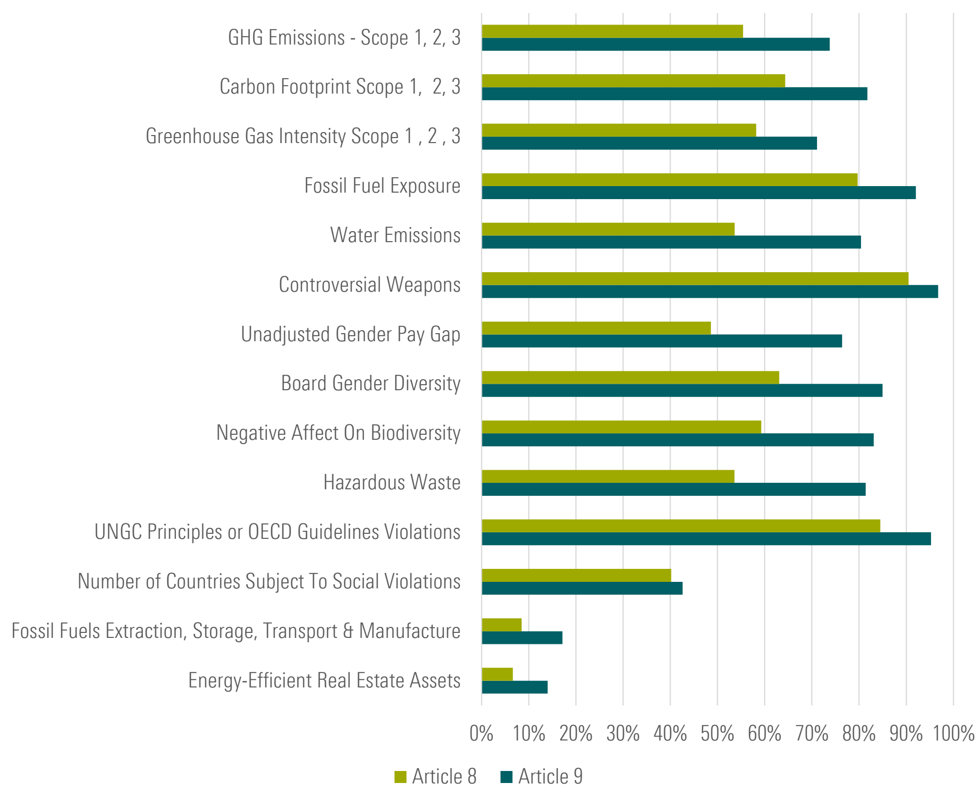


Source: Morningstar Direct. Data as of September 2023. Based on 10,058 Article 8 funds and 846 Article 9 funds that reported the field. Note that these numbers include funds for which corporate PAIs may not be relevant.

The table above reveals that the majority of Article 8 funds (more than 50%) consider at least seven of the 14 mandatory PAIs for corporates, while the majority of Article 9 funds (more than 55%) consider at least 11. However, less than 10% of Article 9 funds consider 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 27b Consideration of Mandatory PAIs for Corporates



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

Exhibit 27b 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. For certain PAIs, however, we find significant disparities of consideration between Article 8 and Article 9 products. For example, 75% of the Article 9 funds consider

"Hazardous Waste," whereas only less than half of the Article 8 funds do. As for social indicators, the percentage of the Article 9 funds considering "Unadjusted Gender Pay Gap" reaches almost 70%, compared with only 44% for Article 8 funds.

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. A Sustainalytics analysis in February revealed that there was no single company with available data across all mandatory PAIs. Furthermore, only 44 companies (0.4%) had relevant data that covered more than 90% of the mandatory indicators. Nevertheless, 90% of companies had data covering at least 50% of the mandatory PAIs.

Relationship Between PAI Performance and Minimum Sustainable Investment

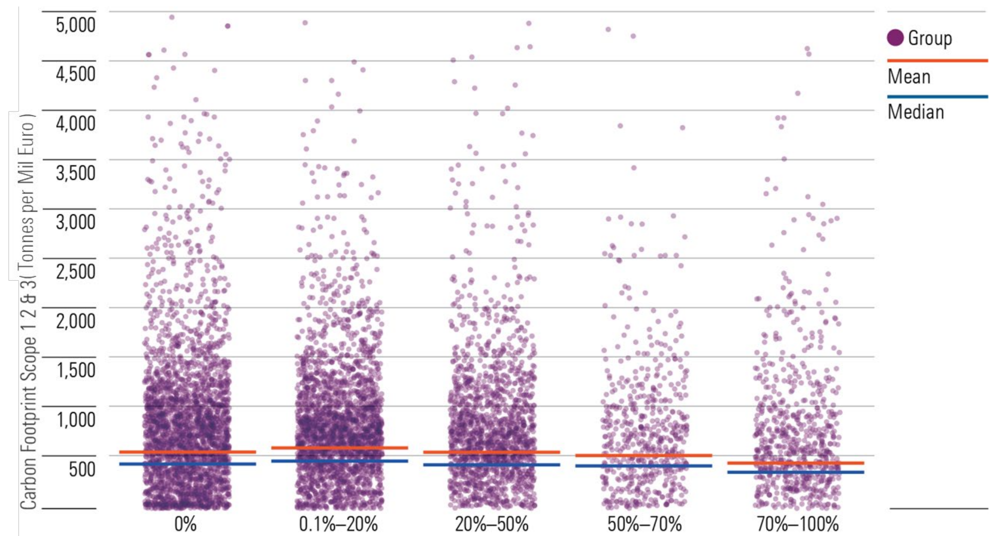
As disclosure by corporate issuers across PAI indicators remains mixed, financial market participants were stipulated to use a "best effort" approach to fill the gaps, such as resorting to external data providers or experts, or making "reasonable assumptions." The reporting landscape is, however, expected to improve with the implementation of the Corporate Sustainability Reporting Directive (CSRD), which will apply gradually starting in 2024.

The exhibits below represent a preliminary attempt to showcases the relationship between the values of five selected PAI metrics, as calculated by Sustainalytics, and minimum sustainable investments as reported by Article 8 funds in the EET.

The five PAI indicators tested here are: Carbon Footprint Scope 1, 2, 3, Percentage of Portfolio Involved in Fossil Fuel, Percentage of Portfolio Involved in Negative Biodiversity Impacts, Weighted Average of Gender Pay Gap, and Percentage of Portfolio Involved in UNGC or OCDE Guideline Violations. Definitions for each metrics are provided in the footnote section for corresponding exhibits.

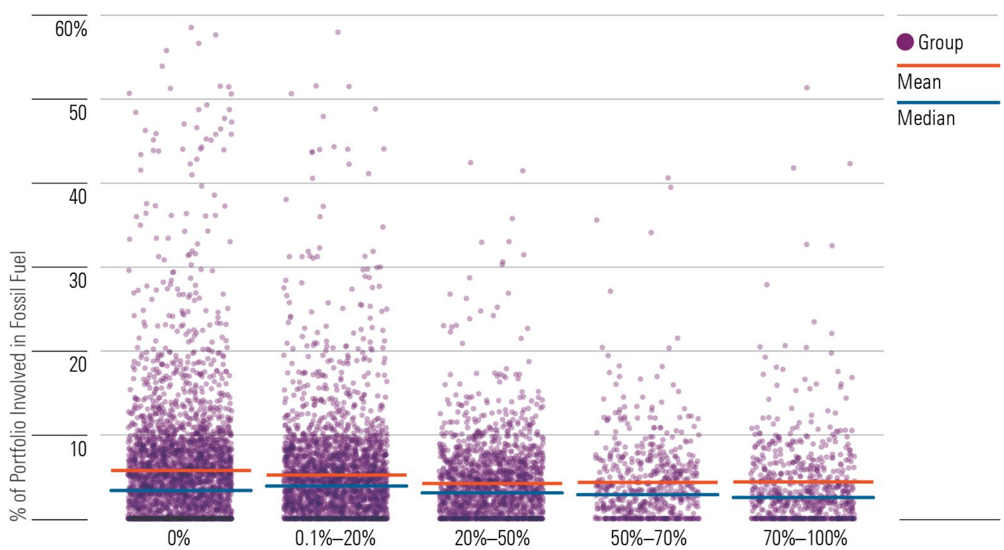
Looking at the five exhibits below, we can see a general decline in the average PAI values as minimum sustainable investment levels rise. This means that funds with a higher focus on sustainability tend to have lower negative impact on sustainability factors, on average. However, the relationship between the two metrics isn't always linear and clear, depending on the metrics. There are also many outlying data. Significant outliers or extreme values are more likely to be found in funds with committed sustainable investments below 10%.

Exhibit 27c Carbon Footprint Scope 1, 2, 3[15] as Calculated by Sustainalytics (Y-Axis) and Ranges of Minimum Sustainable Investments (X-Axis) For Article 8 Funds



Source: Morningstar Direct. Data as of September 2023.

Exhibit 27d Fossil Fuel Percentage of Covered Portfolio Involved[16] as Calculated by Sustainalytics (Y-Axis) and Ranges of Minimum Sustainable Investments (X-Axis) For Article 8 Funds

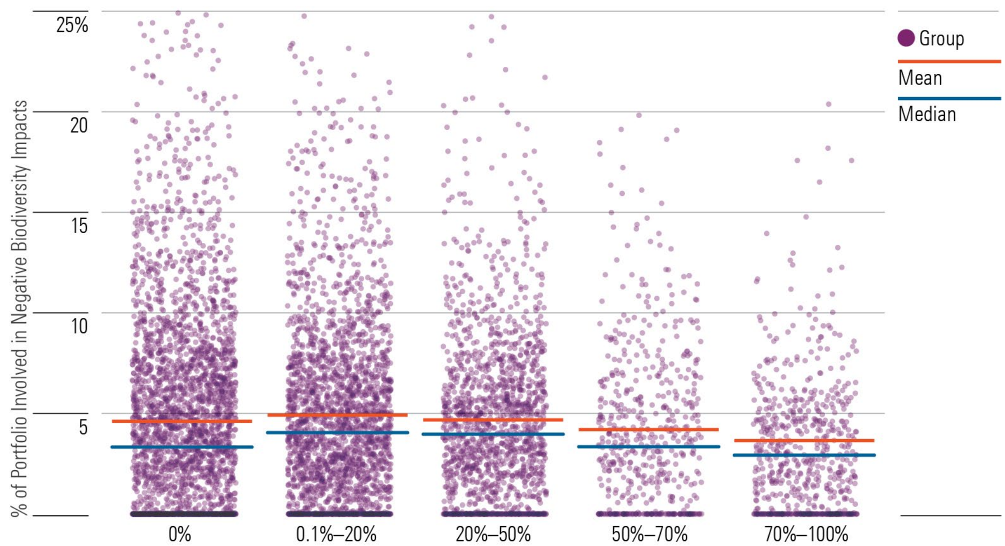


Source: Morningstar Direct. Data as of September 2023.

15 The amount in tons per million (Euro) invested for the Green House Gas (GHG) scope 1 and 2 emissions that are attributable to the portfolio. The amount of emission of GHG (in tons) divided by the amount invested (in Euros) is known as the Carbon footprint of a portfolio. Calculated by working out for each unique holding the percentage of that company that the portfolio owns. The portfolio is therefore responsible for that portion of the company's Greenhouse gas scope 1 and 2 emissions. Then each holdings' responsible share of the Greenhouse gas scope 1 and 2 emissions is summed to give an overall emissions in tons, divided by the millions (Euro) invested in total in those companies. This only includes the long portion of the holdings for which the data is available. As with other PAI metrics by Sustainalytics, the principal adverse impacts are defined by the European Union Sustainable Related Financial Disclosure (SFDR) regulation and are used to measure the adverse impacts of investments.

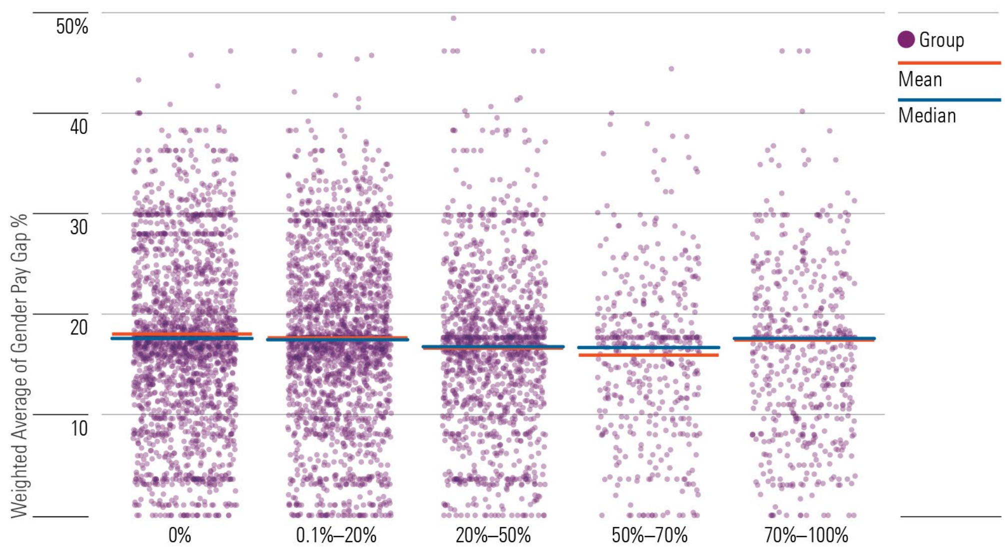
16 The percentage of the covered long only portfolio invested in corporate securities (i.e. where the relevant underlying data is available - eligible covered holdings) that is exposed to corporations that make any revenue from activities related to Fossil Fuels.

Exhibit 28 Negative Affect on Biodiversity Percentage of Covered Portfolio Involved[17] as Calculated by Sustainalytics (Y-Axis) and Ranges of Minimum Sustainable Investments (X-Axis) For Article 8 Funds



Source: Morningstar Direct. Data as of September 2023.

Exhibit 29 Weighted Average of Gender Pay Gap[18] as Calculated by Sustainalytics (Y-Axis) and Ranges of Minimum Sustainable Investments (X-Axis) For Article 8 Funds

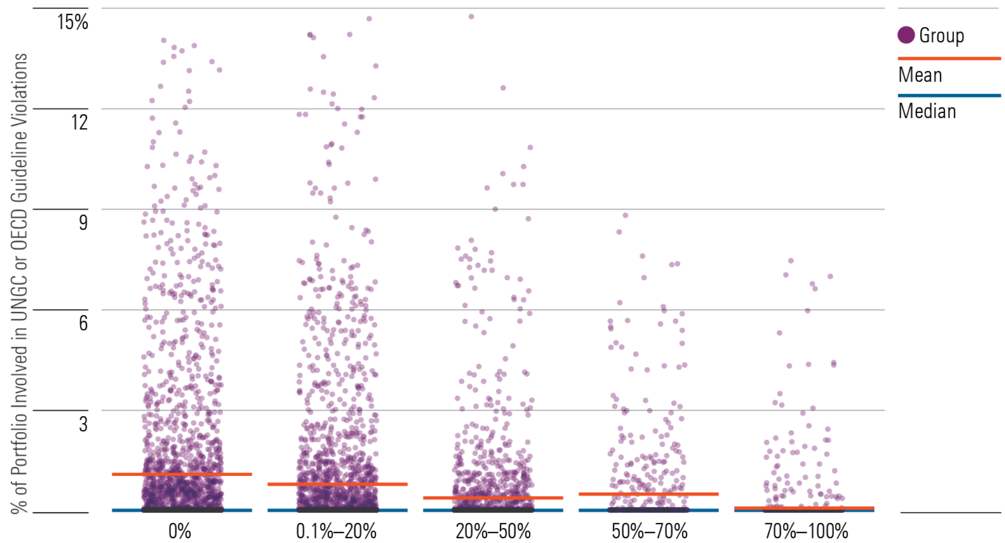


Source: Morningstar Direct. Data as of September 2023.

17 The percentage of the covered long only portfolio invested in corporate securities (i.e. where the relevant underlying data is available - eligible covered holdings) that is exposed to corporations that make any revenue from activities that negatively affect biodiversity.

18 The weighted average for the portfolio of the underlying holding's gender pay gap. The average only includes holdings for which the gender pay gap details are known. It is calculated only on the long holdings portion of the portfolio.

Exhibit 30 UNGC or OCDE Guideline Violations Percentage of Covered Portfolio Involved[19] as Calculated by Sustainalytics (Y-Axis) and Ranges of Minimum Sustainable Investments (X-Axis) For Article 8 Funds



Source: Morningstar Direct. Data as of September 2023.

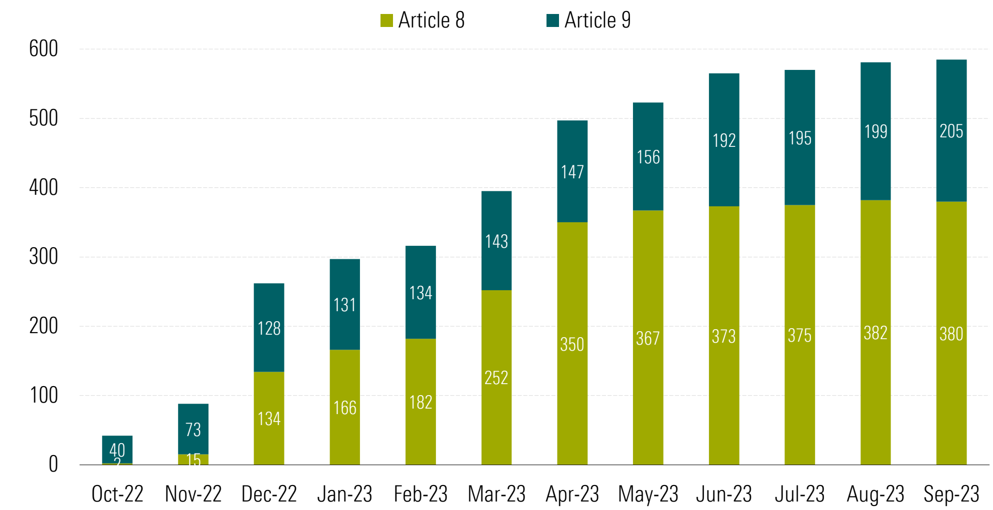
Carbon Emission Reduction Objectives

Another important field in the EET is "Carbon Emission Reduction Objective"[20], 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 June, 585 Article 8 and Article 9 funds reported having a carbon reduction objective—380 Article 8 funds and 205 Article 9 funds.

19 The percentage of the covered long only portfolio invested in corporate securities (i.e. where the relevant underlying data is available - eligible covered holdings) that is exposed to corporations that have violations of the United Nations Global Compact principles (UNGC) or Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

20 EET reference: 20570_Financial_Instrument_With_Objective_Of_A_Reduction_In_Carbon

Exhibit 31 Number of Article 8 and Article 9 Funds With Carbon Emission Reduction Objectives



Source: Morningstar Direct. Data as of September 2023, based on a total of 3,775 funds that populated the field, including 3,104 Article 8 funds and 671 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 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*."

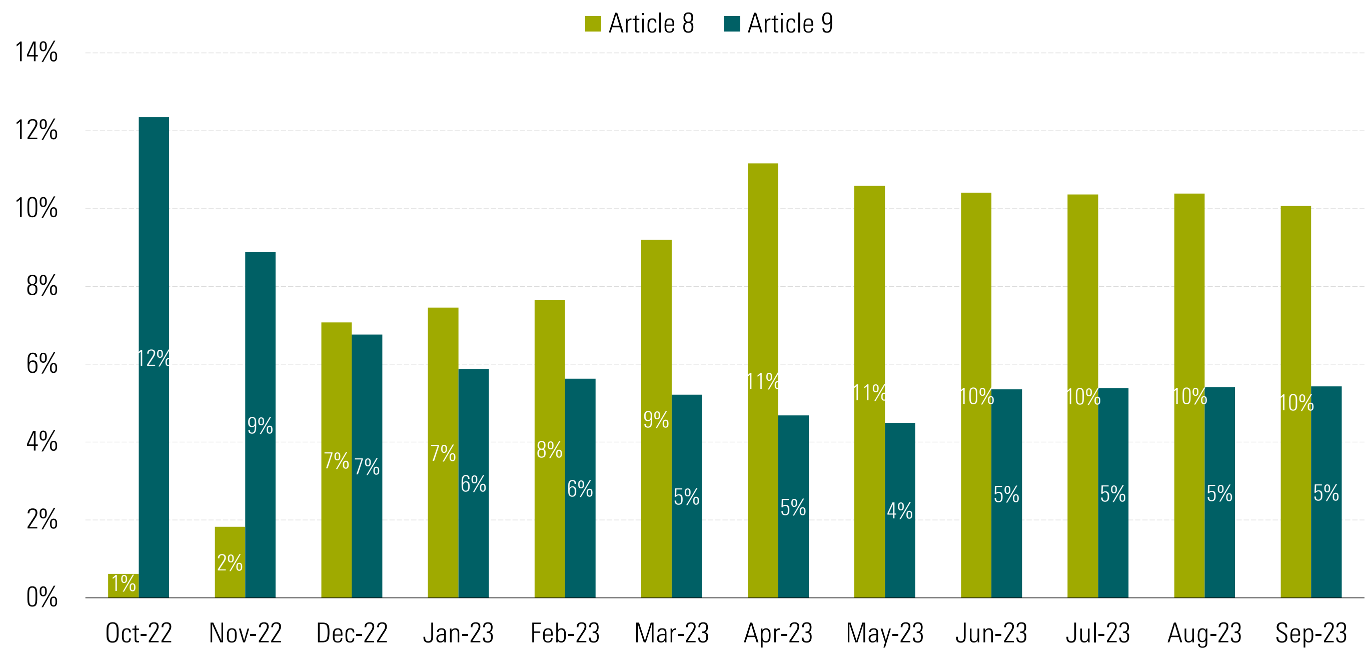
Other strategies offer a quantified emission reduction between 10% and 50%. Examples include **AXA World Funds - ACT European High Yield Bonds Low Carbon**, which "*seeks a high level of income from an actively managed bond portfolio whose carbon footprint, measured as carbon intensity, is at least 30% 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**, now 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 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 late last year to Article 8 from Article 9 has been the biggest contributor to this reversal.

Exhibit 32 Proportion of Article 8 and Article 9 Funds With Carbon Emissions Reduction Objectives



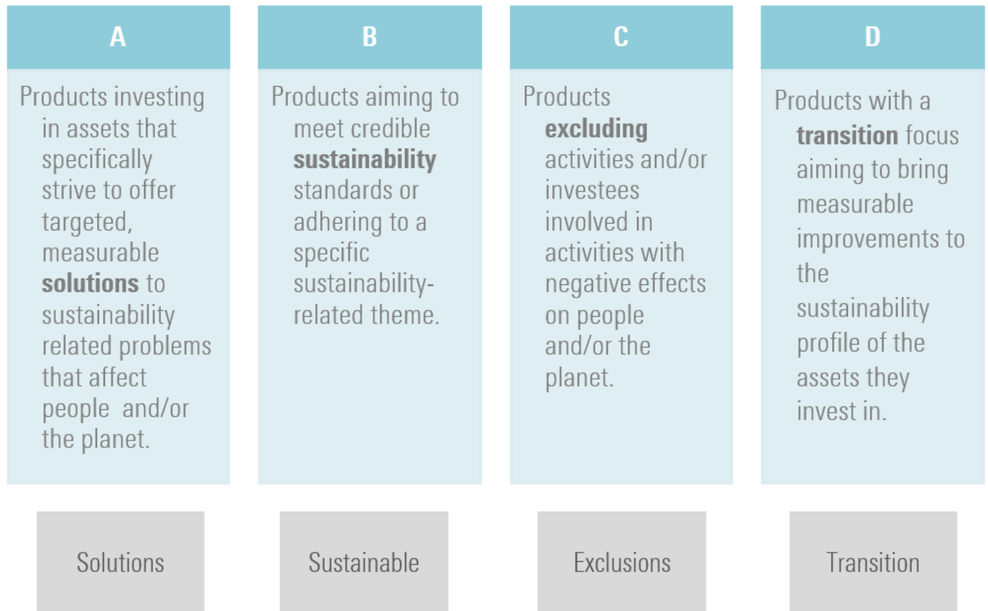
Source: Morningstar Direct. Data as of Oct. 18, 2023, based on a total of 3,775 funds that populated the field, including 3,104 Article 8 funds and 671 Article 9 funds

Regulatory Update

On Sept. 14, 2023, the European Commission published a consultation on the functioning and future of the 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.

The consultation focuses on legal certainty, the usability of the regulation, and its ability to play its part in tackling greenwashing. Under this document, the European Commission asks a wide range of questions, including the opportunity to replace Article 8 and Article 9 with new labels resembling the U.K. draft sustainable labels (see exhibit below), the relevance of PAI disclosures at entity level, and the opportunity to require sustainability disclosures for all products offered in the EU regardless of their sustainability claims. The EC has set a deadline of Dec. 15, 2023, for feedback and aims to publish a finalized report on the SFDR in second-quarter 2024.

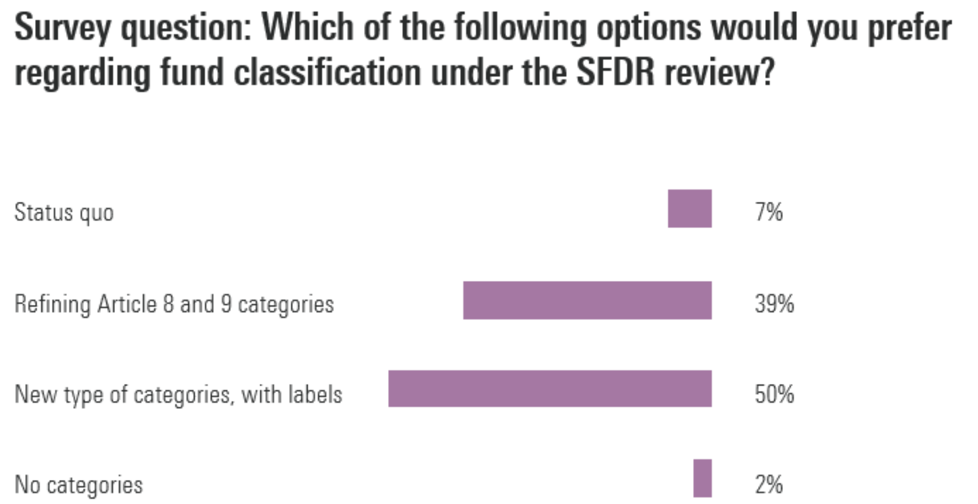
Exhibit 33 Proposed Categories of Sustainability Products in the EC's SFDR Consultation Paper



Source: Morningstar Research based on our interpretation of the TARGETED CONSULTATION DOCUMENT - IMPLEMENTATION OF THE SUSTAINABLE FINANCE DISCLOSURES REGULATION (SFDR) - Question 4.1.4., Page 32. The label's names are indicative and based on Morningstar's interpretation of the description of the categories.

A survey (see below) done during a Morningstar Sustainalytics webinar on Sept. 19 reveals that investment professionals are currently split on the course of action. To the question "Which option would you prefer regarding fund classification under the SFDR review?," 50% responded that they would like to see Article 8 and Article 9 categories replaced by labels, while 39% would prefer to keep Article 8 and Article 9 categories, and 7% voted for the status quo.

Exhibit 34 Survey Question Asked of Webinar Audience on Sept. 19



Source: Morningstar's webinar: EU Action Plan: Latest on SFDR Reporting Trends and Sustainable Fund Performance (brighttalk.com)—384 votes.

The SFDR consultation comes right after the one put forward by the European Supervisory Authorities on the delegated regulation of SFDR, which closed on July 4, 2023. The current EC is expected to leave it up to the next legislature to decide how to act on the findings of both consultations.

In the meantime, the Dutch Authority for the Financial Markets, or AFM, published Guidelines on Sustainability Claims for financial institutions and pension providers, describing the use of the SFDR classification as a means of promoting products "undesirable."

In the context of the broad SFDR consultation, it is unclear if ESMA will finalize the guidelines on the use of ESG-related terms[21]. A recent study by ESMA seems, however, to indicate that it could well be a possibility: '*Our findings support recent regulatory efforts – both in the EU and abroad – regarding disclosure requirements for investment funds. For example, the evolution of ESG language in fund names demonstrates the usefulness of ESMA's recent public consultation on guidelines to ensure fund names accurately reflect their portfolio from an ESG perspective*.'

On the issuer disclosure side, on July 31, the European Commission published the European Sustainability Reporting Standards, or ESRS, to implement the recently adopted Corporate Sustainability Reporting Directive, or CSRD. After having rebuffed a last-minute attempt to derail the standards, the EU will lead the way by mandating broad sustainability-related disclosures with first reports due for 2025. This proposal replacing the Non-Financial Reporting Directive is meant to further help investors and

21 For a reminder, ESMA had proposed to raise the bar for Article 8 funds:
- if the fund uses ESG-related words in its name, at least 80% of its investments should meet E/G characteristics;
- if the fund uses sustainability-related terms in its name, it should also have at least 50% of investments meeting the definition of sustainable investment;
- Funds using *ESG* or sustainable-related terms should comply with the exclusions set for EU Paris-aligned benchmarks (for example, controversial weapons, tobacco, UNGC and OECD Multinational Enterprises violators, coal, fossil fuels, and so on).

other stakeholders to evaluate the sustainability performance of companies, as part of the European Green Deal. It covers a broad of range of quantitative and qualitative information across a wide range of E, S, and G topics that needs to be disclosed against by issuers operating in the EU, subject to double materiality assessment. The CSRD requires “limited assurance” of compliance with reporting obligations under the CSRD (and ESRS) as well as EU Taxonomy Regulation disclosures. The EC originally estimated that, from 2024 onward, the new directive and standards should affect 50,000 companies. But the EC just announced as part of its 2024 working program that it will adjust the thresholds under the accounting directive, carving out a large part of small and medium-size enterprises that were intended to be captured by CSRD.

Investors were hoping the CSRD data points that companies are required to disclose would align with their own impact reporting obligations (i.e., principal adverse impact indicators) under the Sustainable Finance Disclosure Regulation (SFDR). Although similar, under CSRD the environmental, social and governance data points are also subject to double materiality assessments, resulting in a data gap for investor use. To alleviate implementation challenges, the European Sustainability Reporting Standards, or ESRS, requires issuers to explicitly mention when the data point in question is “not material,” allowing investors, in turn, to assume that the investee company does not contribute to the corresponding indicator of principal adverse impacts in the context of their own SFDR disclosures.

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