

PERSPECTIVES

SFDR: TWO MONTHS IN

Within two months of its application, the EU’s Sustainable Finance Disclosure Regulation (SFDR) has redefined the sustainable investing landscape in Europe. Asset managers have adopted the Article 8 / Article 9 segmentation as the new language of sustainable investing at a blistering pace. Indefi’s analysis of the open-ended fund market provides an indication of the state of play.

Blistering uptake

The first achievement of SFDR has been to provide a clear segmentation of sustainable investing products.

Article 8 of the Level I regulation applies to all products promoting ESG characteristics, while Article 9 is meant for products which have sustainable investment as a clear objective.

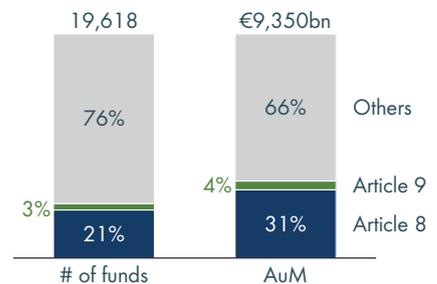
This segmentation has been embraced by the industry. As of the beginning of May, nearly a quarter of funds domiciled in the European Union have been categorized as Article 8 or Article 9, representing 35% of assets under management.

- The strong initial conversion to Article 8 reflects Indefi’s belief that, over time, it will become the baseline for fund selectors and distributors across Europe¹. We anticipate this proportion to rise further as asset managers pursue the conversion of their product range to ESG and overcome reporting requirements.

The SFDR segmentation not only provides the pulse of European sustainable investing, it also highlights its discrepancies across markets, asset classes and fund management groups.

- Article 9 products remain marginal to date, as anticipated. Less than 5% of AuM are currently reported as such. They include impact investment products, sustainability-themed strategies, and funds aiming for quantifiable contributions to the Sustainable Development Goals. They offer the true realm of differentiation for asset managers.

Figure 1. SFDR classification of European-domiciled funds.



Sources: Morningstar, Simfund, Indefi analyses.

Methodological note

Indefi’s analysis covers ~20,000 open-ended funds (incl. ETFs) for which Morningstar has gathered prospectus-based information on their SFDR classification. It covers products domiciled in Belgium, Denmark, Finland, France, Italy, Germany, the Netherlands, Norway, Spain, Sweden, as well as cross-border funds domiciled in Luxembourg and Ireland.

¹ Indefi, “The SFDR Reality Check”, March 10, 2021. Available at www.indefi.com.

Figure 2. The SFDR mosaic (AuM breakdown)



Notes: (*) Cross-border funds; (**) By assets held in European domiciled open-ended vehicles. Sources: Morningstar, Simfund, Indefi analyses.

Where next?

This first glimpse into the shifting European sustainable investing landscape hints at a new tipping point. Unit-linked insurance providers and private banks, in particular, are spearheading a move towards managed sustainability solutions, developing full Article 9 offers for retail differentiation and increasingly setting the third-party fund selection bar at Article 8 level. This trend is likely to permeate throughout European distribution markets as MiFID amendments will make ESG preferences a mandatory component of advisors' suitability assessments starting next year.

Discrepancies in product categorization are likely to fade as the Level 2 RTS enter into force in 2022. However, the reality check does not start at classification, but at comparison. Clients, both institutional and distributors, are becoming the true regulators of the post-SFDR order. As their appetite for sustainable products continues to grow, so will their expectations.

INDEFI, with headquarters in Paris and New York, is a leading strategy advisor for the global investment management business. Established in 2007, Indefi helps asset managers shape their business strategies and build a sustainable competitive advantage. The firm's expertise spans public and private markets, including infrastructure, private credit and equity, and real estate. A pioneer in advising asset managers on ESG development and integration strategies, Indefi is a PRI signatory. For more information, please visit www.indefi.com.