

# More than half of funds have a sustainability focus

## Overview of SFDR and Scope fund classification

**Driven by climate change and more stringent regulation to deal with its effects, sustainability is of vital importance to investors. This study provides a detailed overview of the sustainable fund universe available to German investors.**

The Sustainable Finance Disclosure Regulation (SFDR) is one of the cornerstones of EU sustainable investment regulation. In force since March 10, 2021, the SFDR differentiates funds according to their sustainability aspects:

- Article 6 funds do not have a sustainability focus. Managers must explain how sustainability risks are considered in their investment decisions or justify why they do not consider these risks to be relevant.
- Article 8 (light green) funds are those that promote environmental and/or social characteristics.
- Article 9 (dark green) funds are those that explicitly pursue sustainability goals along with an index aligned with their targets as a benchmark.

Scope classifies sustainable investments according to asset classes, regions, sectors and themes, with the investment strategy and investment objective as the basis. For example, funds that invest in equities worldwide are categorised into one of three peer groups depending on their sustainability approach:

- Equity Global: funds that invest at least 90% of their assets in equities worldwide.
- Equity Sustainability/Ethics Global: funds investing in companies which, according to the fund manager, meet sustainability and ethical standards that promote sustainable and socially responsible business practices.
- Equity Ecology Global: funds that invest at least 50% of their assets in companies whose products and/or services, according to the fund manager, meet minimum environmental standards and/or contribute to climate protection. A significant contribution to at least one environmental objective of the EU Sustainable Taxonomy must be embedded in the fund strategy.

The main difference between the SFDR and Scope classification is that the SFDR requires the fulfillment of certain criteria while Scope considers the objectives and strategy of the fund management as the decisive factors. For this reason, Article 8 and Article 9 products are not automatically assigned to a sustainable peer group but we examine the investment objectives and make the assignment accordingly. Nevertheless, there is considerable overlap between sustainable funds according to the SFDR classification and the Scope's sustainable peer groups.

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## The fund universe according to SFDR

Roughly 6,200 Article 8 funds with assets under management (AUM) of EUR 4.4trn are licensed in Germany, alongside 613 Article 9 funds with total AUM of EUR 224bn. Both the number and the AUM of Article 8 and 9 products has increased in 2024 over last year.

**Table 1: Development of the number and AUM of funds under Articles 8 and 9**

Funds	28.02.2022		28.02.2023		29.02.2024	
	Number of funds	AUM (EUR billion)	Number of funds	AUM (EUR billion)	Number of funds	AUM (EUR billion)
Article 8	3572	2693	5522	3601	6204	4396
Article 9	541	286	563	214	613	224

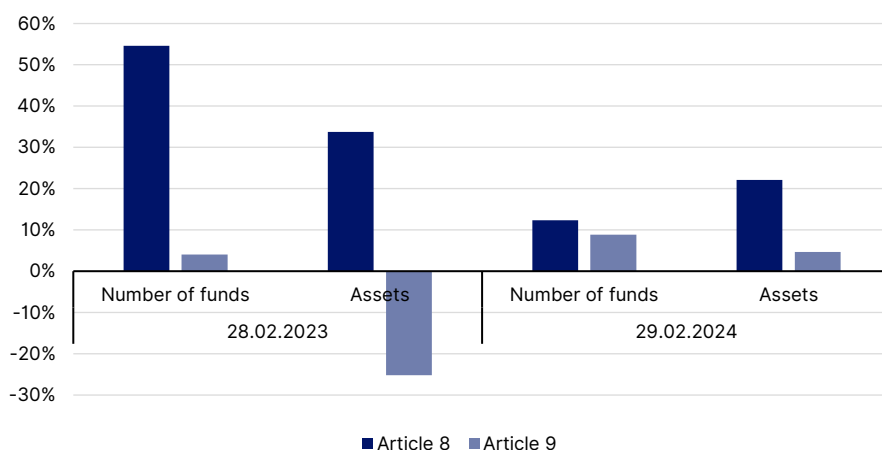
Source: ScopeExplorer, Date: 29.02.2024

SFDR Level 2, which came into force in January 2023, had a strong impact on the number and AUM of SFDR-compliant products. In anticipation of stricter regulations, fund companies downgraded many Article 9 products to Article 8 in the fourth quarter of 2022. This slowed the year-on-year growth in the number of Article 9 funds and led to significantly lower AUM between February 2022 and February 2023). In February 2024, there was a slight recovery: the number of Article 9 products increased by 8.9% and their AUM by 4.7% (see Figure 1).

This increase in assets under management is largely due to the upswing in financial markets during this period. Asset inflows and outflows for Article 9 funds are likely to have been roughly balanced year-on-year.

The opposite is true for Article 8 products, where the number and AUM grew very strongly in February 2023 compared to 2022 but significantly less so in February 2024. The stronger increase in Article 8 products compared to Article 9 funds up to February 2023 was due mainly to fund downgrades but also to the less stringent criteria.

**Figure 1: SFDR allocation (annual change in %)**



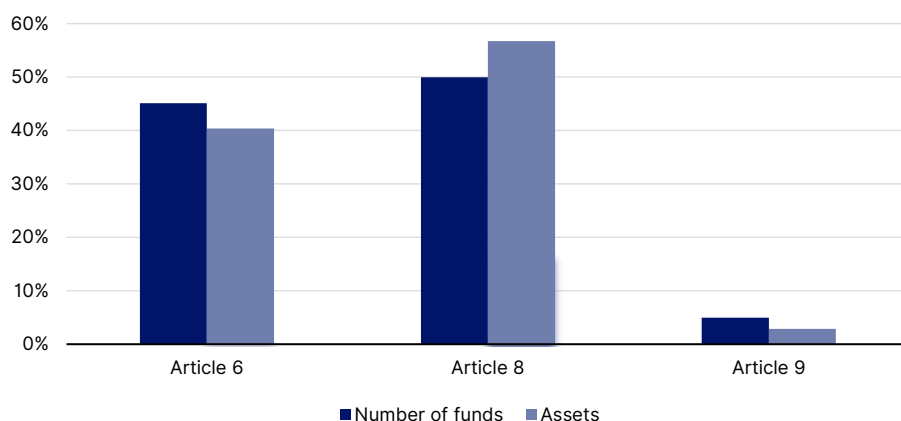
Source: ScopeExplorer, Date: 29.02.2024

Although the year-on-year growth in Article 8 funds is currently lower than a year ago, the momentum is higher than for Article 9 funds. The number of Article 8 products increased by 12.4% and AUM by 22.1% in February 2024 compared to February 2023. The higher momentum can be explained by the potential for Article 8 funds to be better marketed – provided that investors are

satisfied with ESG characteristics being promoted and do not require an explicit focus on these characteristics.

Sustainable funds under SFDR accounted for 55% of the number of funds and for 60% of total assets under management at the end of February 2024. This means that larger funds are more likely to be classified as Article 8 or 9 than smaller ones. Article 9 products make up a very small proportion: 5% in terms of number and 3% in terms of AUM. Dark green funds are therefore smaller on average, which makes sense given the thematic approach that focuses on ESG issues.

**Figure 2: Fund universe by number and assets under management**

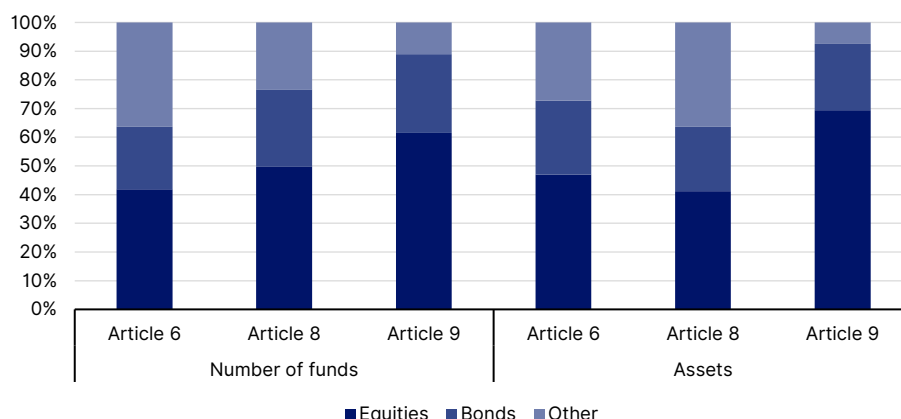


Source: ScopeExplorer, Date: 29.02.2024

### Light and dark green products by fund type

Almost half of Article 8 funds are equity funds (3,080 products). These account for the largest share of the asset classes by number of products. Bond funds follow with 1,676 products, which corresponds to around 27%. All other asset classes account for 1,448 funds, or 23%.

**Figure 3: Number and AUM by asset class**



Source: ScopeExplorer, Date: 29.02.2024

The sequence is the same for Article 9 products, where equity funds account for 62%. The proportion of bond funds is almost the same as for Article 8 funds, with other asset classes accounting for only 11%. In the case of Article 6 funds, the share of equities is still the highest at 42%, followed by other asset classes at 36% and bond funds at 22%.

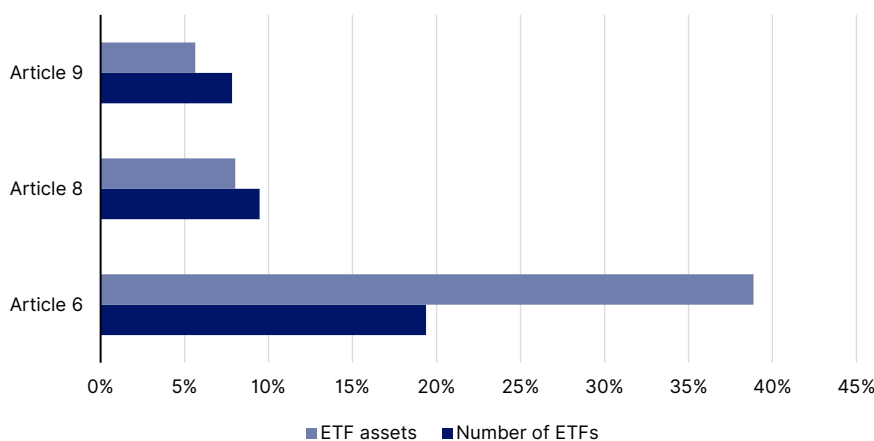
Based on assets under management, it is noticeable that the proportion of equity and bond Article 8 funds is lower and the proportion of other funds higher than by number of funds. Among Article 9 funds, equity funds have a higher weighting than by number, while other funds play almost no role in terms of AUM. The proportion of equity and bond funds is higher for Article 6 funds.

## Role of ETFs in the sustainable fund universe

ESG strategies can be implemented not only in actively managed funds, but also in ETFs and other passive strategies. The weighting of ETFs differs depending on the SFDR classification. They have the largest share among Article 6 funds: there are 1,086 ETFs in this group, which corresponds to 19% of all Article 6 funds. In terms of AUM, the proportion is significantly higher: ETFs manage around EUR 1.2trn so represent 39% of all Article 6 assets under management.

This is in strong contrast to the importance of ETFs in Article 8 and 9 funds. Here, ETFs only account for a single-digit share by number and AUM. However, as sustainable investing is more relevant for active fund managers, it is not surprising that ETFs are under-represented in sustainable products according to SFDR. In addition, investors often choose ETFs for diversification, to enable broad market exposure. As many ETFs track broader indices that are not explicitly geared towards sustainable goals, the lower proportion of light and dark green products is understandable.

**Figure 4: ETF proportions**



Source: ScopeExplorer, Date: 29.02.2024

## SFDR classification of products by peer group

Scope currently has five sustainability-oriented equity peer groups:

- Equity Alternative Energy
- Equity Sustainability/Ethics Europe
- Equity Sustainability/Ethics Global
- Equity Ecology Europe
- Equity Ecology Global.

Although Scope's peer groups are not structured according to the SFDR, there is considerable overlap. In all five Scope peer groups, the proportion of sustainable funds according to the SFDR classification is over 97% by number and over 99% by fund volume. Two peer groups, Equity Ecology Europe and Equity Sustainability/Ethics Europe, exclusively contain Article 8 and 9 funds. In the five peer groups, there are a total of 483 Article 8 and 232 Article 9 products, i.e. 715 of a total of 726 funds are considered green according to the SFDR.

**Table 2: Sustainable peer groups - number of funds and AUM**

Peer group	SFDR	Number of funds	AUM (EUR billion)
<b>Equity Alternative Energy</b>	Article 8	19	5.96
	Article 9	19	18.00
	Article 6	1	0.02
<b>Equity Sustainability/Ethics Europe</b>	Article 8	111	53.45
	Article 9	27	6.99
<b>Equity Sustainability/Ethics Global</b>	Article 8	263	179.74
	Article 9	101	30.55
	Article 6	6	1.58
<b>Equity Ecology Europe</b>	Article 8	24	7.26
	Article 9	5	3.49
<b>Equity Ecology Global</b>	Article 8	66	27.22
	Article 9	80	41.78
	Article 6	4	0.15

Source: ScopeExplorer, Date: 29.02.2024

There are also Article 8 and 9 funds in peer groups that Scope does not explicitly classify as sustainable. All rated non-sustainable peer groups that contain at least 10 Article 9 funds were evaluated as part of this study. These include two equity, four bond and one multi-asset fund peer groups.

These seven peer groups contain a total of 2,008 products with a total volume of EUR 1,576bn. The largest peer group, Equity North America, comprises 451 funds with EUR 625bn under management. In all the peer groups listed, Article 9 funds have the smallest share, which reflects the wave of downgrades and the stricter criteria for this classification. Article 9 funds have the lowest average fund volumes in six of the seven peer groups, which confirms that funds explicitly pursuing

sustainability objectives tend to be small. Other reasons for this are the comparatively short history of these products and the relatively low proportion of ETFs among the Article 9 funds.

### Comparison of costs

We also evaluated cost structures. In the three bond fund peer groups and the multi-asset (balanced) fund peer group, the Article 9 fund charges are lower than those of Article 6 funds. In the bond peer group Euro Corp. Inv. Grade, Article 6 fund charges are only lower due to the high proportion of ETFs. ETFs generally have lower costs due to their passive strategies, which reduces average costs accordingly.

**Table 3: Other peer groups with at least 10 Article 9 funds**

Peer group	SFDR	Number of funds	AUM (EUR billion)	Ongoing charges
<b>Equity Emerging Markets</b>	Article 8	229	120.95	1.40%
	Article 9	19	6.22	1.71%
	Article 6	100	95.31	1.23%
<b>Equity North America</b>	Article 8	232	261.94	1.14%
	Article 9	19	7.27	1.23%
	Article 6	200	356.57	0.95%
<b>Balanced Global balanced</b>	Article 8	190	103.64	1.54%
	Article 9	12	3.66	1.50%
	Article 6	171	59.48	1.63%
<b>Bonds EUR</b>	Article 8	101	52.20	0.79%
	Article 9	15	1.98	0.77%
	Article 6	74	13.24	0.96%
<b>Bonds EUR Corp. Inv. Grade</b>	Article 8	151	114.03	0.76%
	Article 9	20	8.44	0.67%
	Article 6	54	50.82	0.63%
<b>Bonds EUR Global</b>	Article 8	67	32.35	0.96%
	Article 9	28	12.25	0.95%
	Article 6	37	4.22	1.09%
<b>Bonds Global Currencies</b>	Article 8	144	81.54	1.03%
	Article 9	21	4.69	0.86%
	Article 6	124	184.88	1.13%

Source: ScopeExplorer, Date: 29.02.2024

There are various reasons for the lower costs of Article 9 bond funds, including intense competition in recent years, which requires competitive pricing. Another explanation is the traditionally weaker yields of Article 9 bond funds compared to Article 6 products, as the credit risk is generally

lower (due to decreased climate, governance and regulatory risks) and fund managers partially compensate for the weaker yields with lower fees. In addition, there is the option of investing in green bonds, which are explicitly intended to finance sustainable projects and investments and can therefore contribute to Article 9 classification. With the option to invest in green bonds, certain funds can focus their selection process on these investments, which can lead to lower research costs.

The picture is different for the two groups of equity funds. Here, the costs of Article 9 funds are significantly higher than Article 6 products, even when ETFs are excluded from the comparison. This is because asset managers have to use various external ESG data providers and build up internal resources to differentiate ESG capabilities. These costs are ultimately passed on to investors.

### Conclusion

As sustainability criteria are becoming increasingly important for investors alongside increasing regulation and environmental and demographic trends, classifying the fund universe around ESG is helpful. As an important reference point for investors, the SFDR dictates the categorisation of products according to sustainability. Scope, however, primarily considers the investment manager's investment strategy for its peer group classification, with certain peer groups explicitly including sustainability aspects. From a regulatory perspective, sustainability is reflected in the fund classification under Article 8 or Article 9, which can help investors in their product selection.

Despite different approaches, there is a large overlap between the sustainability-oriented Scope peer groups and Article 8 and Article 9 products, amounting to more than 97% in terms of both number and fund volume.

The number and AUM of light and dark green products has increased again so far in 2024. Although growth rates have slowed recently, Article 8 and 9 funds already account for most products and fund volumes. Equity funds have the highest share in terms of number and AUM. The greener the product category, the greater the proportion of the number of equity funds. The opposite is true for ETFs: the greener the product category, the lower the share of ETFs in terms of number and AUM.

## Related research

[Scope ESG Insight - September 2023](#)

[ESG Quarterly Q2 2023 – fund downgrades largely unnecessary](#)

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