SFDR Article 8 and Article 9 Funds: Q1 2023 in Review
Article 9 fund downgrades dwindle to a trickle and are likely over.

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Executive Summary

Just over two years after the European Union's Sustainable Finance Disclosure Regulation came into force, the universe of funds classified as "light green" (Article 8) or "dark green" (Article 9) continues to evolve amid persistent greenwashing concerns and regulatory uncertainty.

The first quarter of 2023 was marked by the implementation of the SFDR Level 2's regulatory technical standards, or RTS, which require asset managers to disclose more information on their funds' environmental, social, and governance approaches, sustainability risks, and impact in precontractual documents and periodic reports. Ahead of this upgraded disclosure regime and following new regulatory guidance, managers reviewed their funds' classification and downgraded more than 300 Article 9 products to Article 8.

This report provides an update on the landscape of Article 8 and Article 9 funds at the end of March 2023, examining aspects such as flows, assets, product launches, fund reclassifications, sustainable investment targets, and other data from the European ESG Template, or EET.

Key Takeaways

- Article 8 funds gathered more than EUR 25 billion of net new money in the first quarter of 2023, double the inflows of the previous quarter, amid continued macroeconomic pressures.
- Article 9 funds, however, pulled in the lowest inflows on record, EUR 4 billion, largely owing to the recent wave of downgrades.
- Assets in Article 8 and Article 9 funds rose by more than 3% in the first quarter to EUR 4.9 trillion, pushing their combined market share higher to a record 57%.
- Product development slowed down, partly because of the challenging macro backdrop, but also regulatory uncertainty and fears of greenwashing accusations.
- About 330 products changed SFDR status since our January review, including more than 260 funds that upgraded to Article 8 from 6 and just about a dozen downgraded to Article 8 from 9.
- The wave of Article 9 fund downgrades, which started in the third quarter 2022, is likely over and could in fact now be reverted after the European Commission clarified in April that there won't be minimum requirements for sustainable investments.
- The quasi-totality of Article 9 funds now reports targeting at least 70% exposure to sustainable investments, the remaining assets representing cash and hedging instruments.

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.

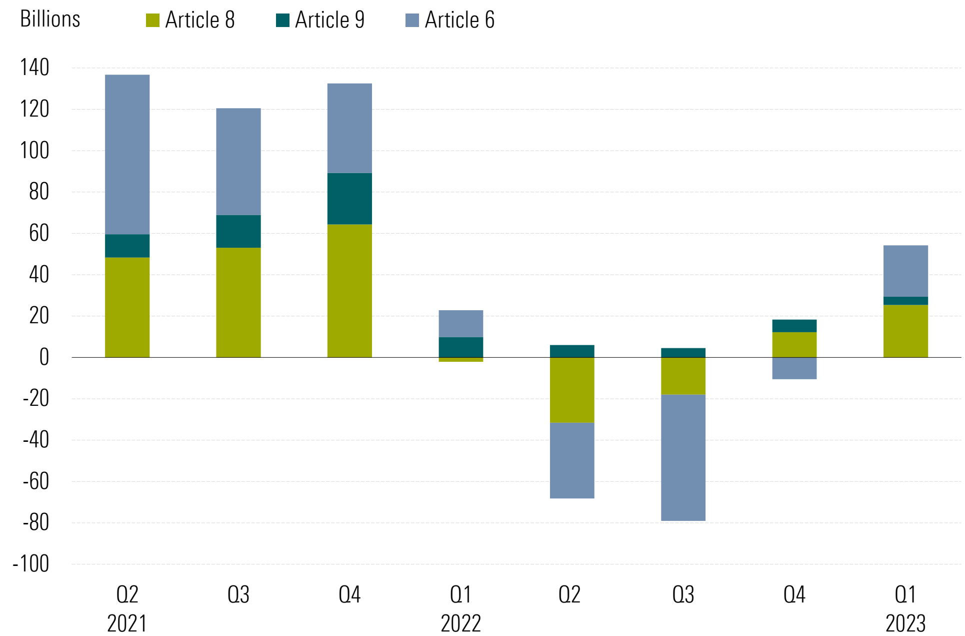
Article 8 Fund Flows Extend Recovery; Article 9 Funds Register Lowest Inflows

The recovery momentum for Article 8 funds extended into the first quarter of 2023 as they gathered EUR 25.4 billion of net new money, amid continued macroeconomic pressures, including rising interest rates, inflation, and a looming recession. This is more than double the restated EUR 12.2 billion inflow of the previous quarter.

Meanwhile, Article 9 funds attracted only EUR 4 billion of fresh capital in the first quarter, a third less than the restated EUR 6.2 billion for the last quarter of 2022 and the lowest inflows for Article 9 funds since the introduction of SFDR in March 2021. This substantial flow slump is largely attributed to the large number of funds that reclassified to Article 8 from Article 9 following ESMA's clarification of the EC's June 2021 Q&A last summer. It specified that funds making Article 9 disclosures should hold only sustainable investments, except for cash and assets used for hedging purposes.

Article 6 products started off the year with net inflow of EUR 24.8 billion, putting a halt to three consecutive quarters of outflows.

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



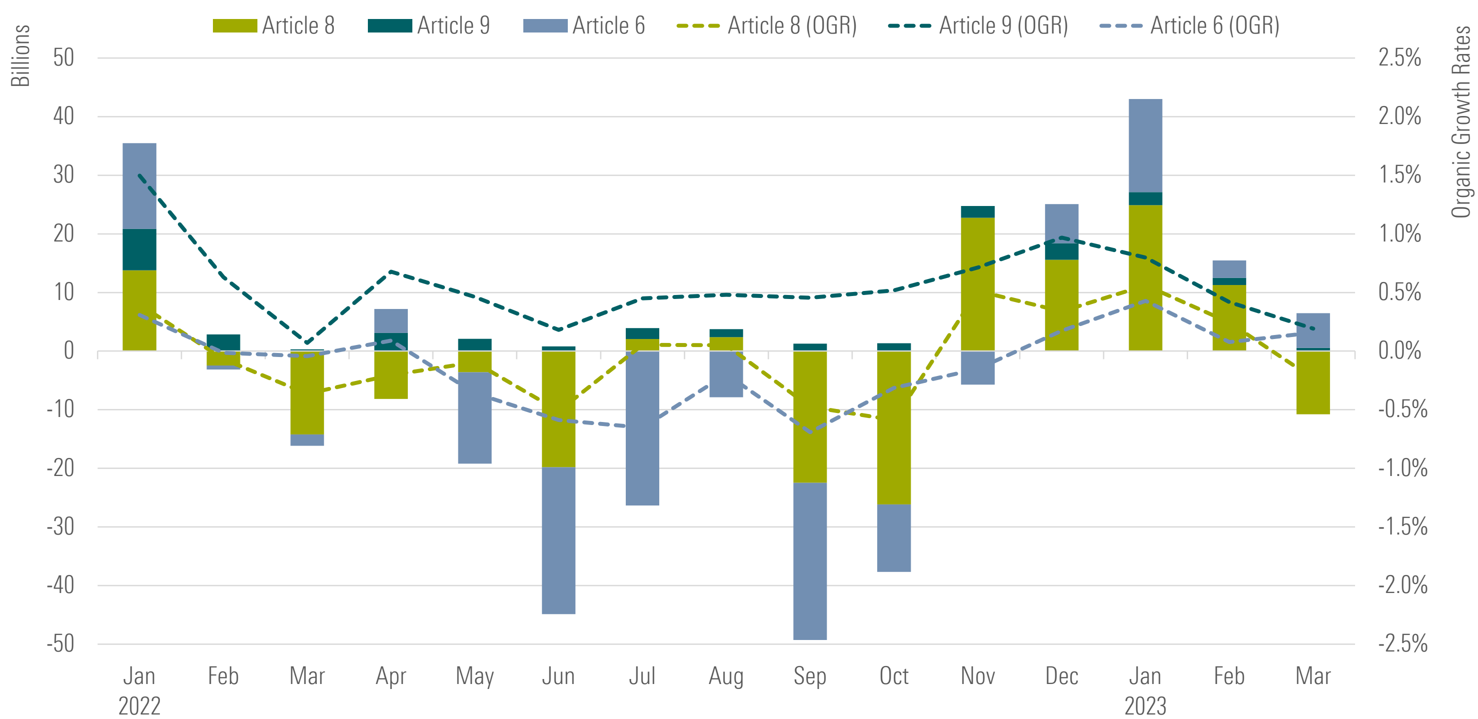
Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Organic growth rates almost mirror the findings above. Organic growth rates measure the growth of flows relative to assets.[1] Over the quarter, Article 8 funds grew organically by 0.6%, Article 9 by 1.4%, and Article 6 by 0.7%.

Monthly flow data shows that Article 8 funds winded down and even moved into negative territory towards the end of the quarter. Article 9 funds shared a similar story. Reclassifications pushed their OGRs to slump from December, but they remained positive at quarter end.

1 Organic growth rate is calculated as current period flows divided by beginning-of-period net assets.

Exhibit 2a Monthly Flows Into Article 8 and Article 9 Funds Versus Article 6 Funds (EUR Billion) and Organic Growth Rates (%)

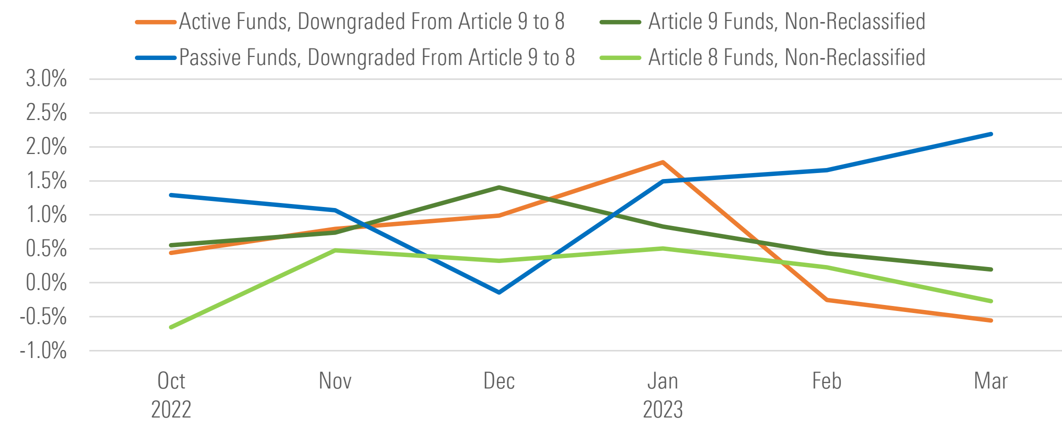


Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The exhibit below shows diverging flow performance among active and passive downgraded Article 9 funds in the first quarter, with the former suffering a deterioration in their OGRs. In contrast, passive downgraded peers exhibited higher OGRs. The observation period is very short, and further analysis would be necessary before drawing any conclusions[2], but this suggests that passive investors may be less concerned with the SFDR (re)classification chosen, given their commitment to specific index strategies. Meanwhile, the SFDR product type chosen for active strategies seems more likely to influence investor interests.

2 Further analysis of active and passive funds downgraded to Article 8 from 9 over a longer time period and at asset class level would be needed.

Exhibit 2b Monthly Organic Growth Rates for Active and Passive Funds Reclassified to Article 8 From Article 9



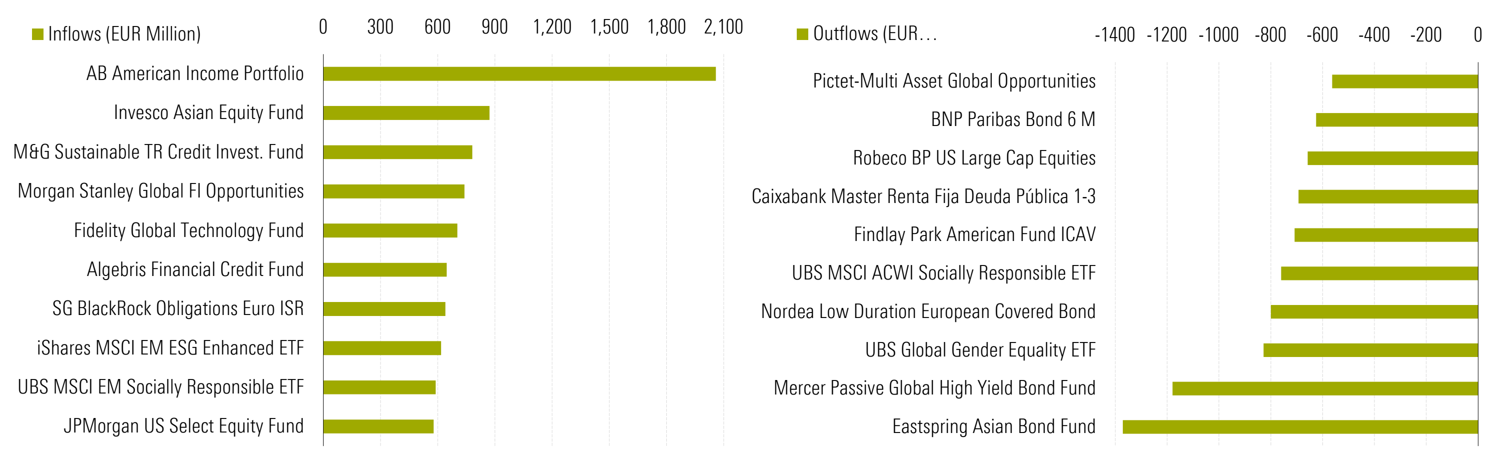
Source: Morningstar Direct. Data as of March 2023. Based on 363 funds reclassified to Article 8 from Article 9 between October 2022 and March 2023.

Flows—Leaders and Laggards

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

We see an even stronger presence of active strategies among the best-selling sustainable products than the previous quarter. **IShares MSCI Emerging Markets ESG Enhanced ETF** and **UBS MSCI Emerging Markets Socially Responsible ETF** are the only two passive strategies in the Article 8 leaderboard. **AllianceBernstein American Income Portfolio** topped the leaderboard, capturing an inflow of USD 2.1 billion alone. A distant second is **Invesco Asian Equity**, which pays special attention to controversy exposure and carbon intensity in comparison to the benchmark MSCI All Country Asia ex Japan Index.

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

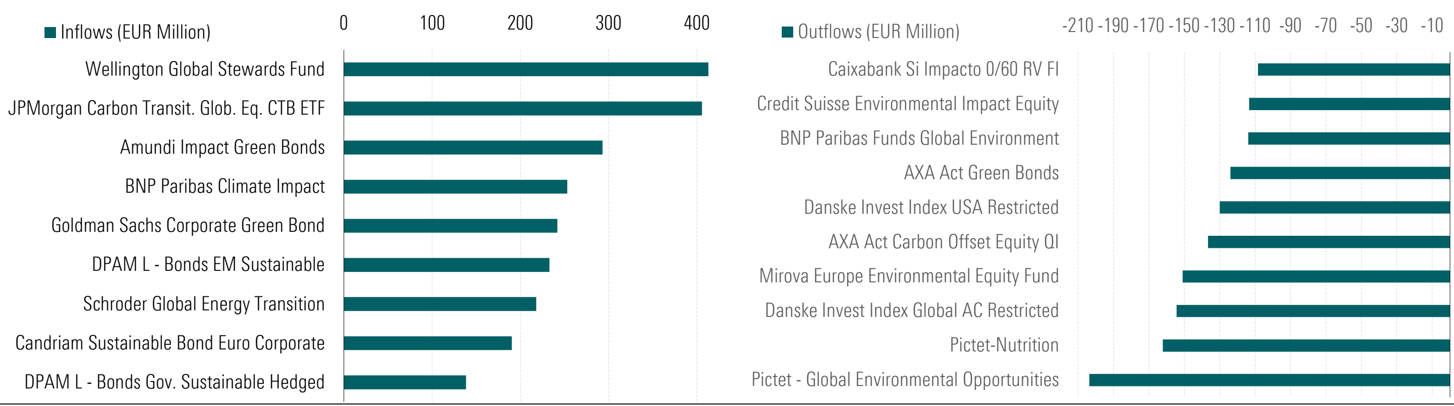


Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The biggest outflows from Article 8 funds were registered by two bond strategies, **Eastspring Asian Bond** (EUR 1.4 billion) and **Mercer Passive Global High Yield Bond** (EUR 1.2 billion). Sticky inflation and bond market volatility have led investors to readjust their duration exposure.

Meanwhile, **Wellington Global Stewards** topped the list of Article 9 best-selling products in the first quarter, followed closely by **JPMorgan Carbon Transition Global Equity (CTB) ETF**. The Wellington fund maintains a carbon footprint that is at least 50% lower than MSCI All Country World Index, while seeking to actively engage with companies to meet net zero emissions by 2050.

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



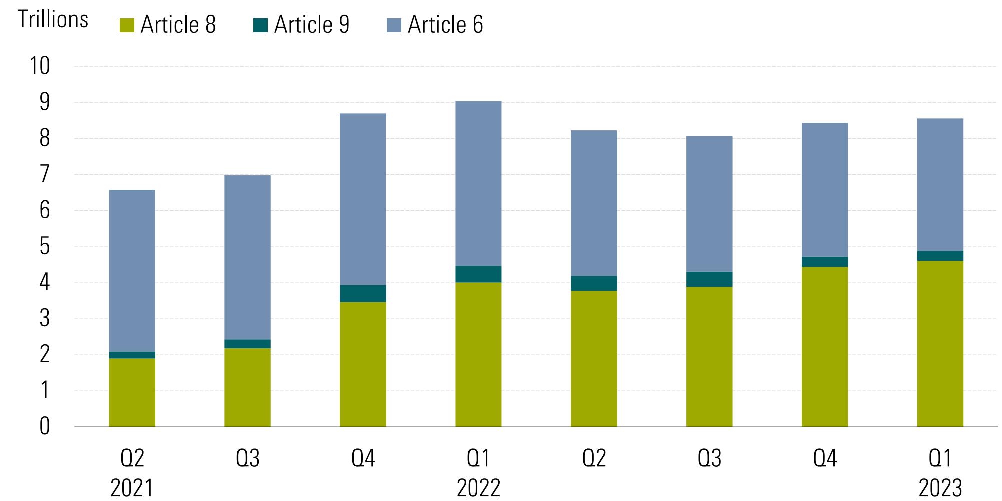
Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 and Article 9 Funds Grow to Represent a Record 57% of EU Fund Assets

Assets in Article 8 and Article 9 funds rose by 3.4% over the first quarter of 2023, driven by newly launched funds, products reclassified to Article 8 from Article 6, and to a lesser extent market appreciation. In contrast, Article 6 fund assets dropped by 1.1% over the period despite the substantial inflow.

Article 8 and Article 9 fund assets stood at EUR 4.9 trillion at the end of March, up from the restated EUR 4.7 trillion at the end of December 2022. As a result, the two fund groups accounted for an increased share of the EU universe of over 57%, an increase from 55.9% three months earlier.

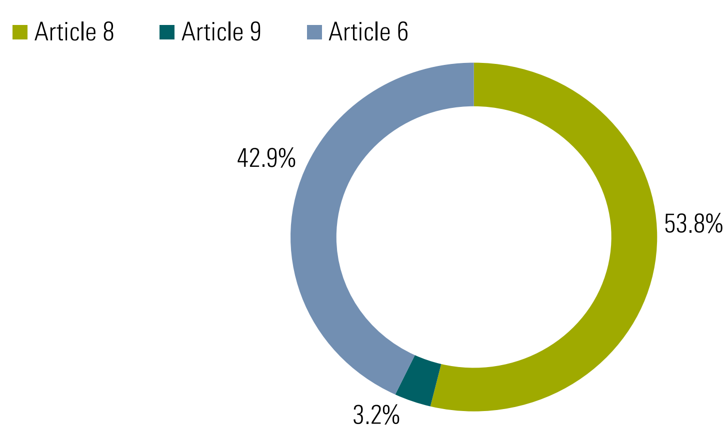
Exhibit 5 Quarterly Asset Breakdown by SFDR Classification (EUR Trillion)



Source: Morningstar Direct. Assets as of March 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.

Accounting for the downgrades from Article 9 and upgrades from Article 6, Article 8 funds saw their market share grow further to 53.8% at the end of March. The share of Article 9 products remained quasi-constant at 3.2%. Compared with the restated EUR 394 billion in the fourth quarter of 2022, Article 9 fund assets shrunk by about EUR 117 billion, or 30%, in three months.

Exhibit 6a SFDR Fund Type Breakdown (by Assets)



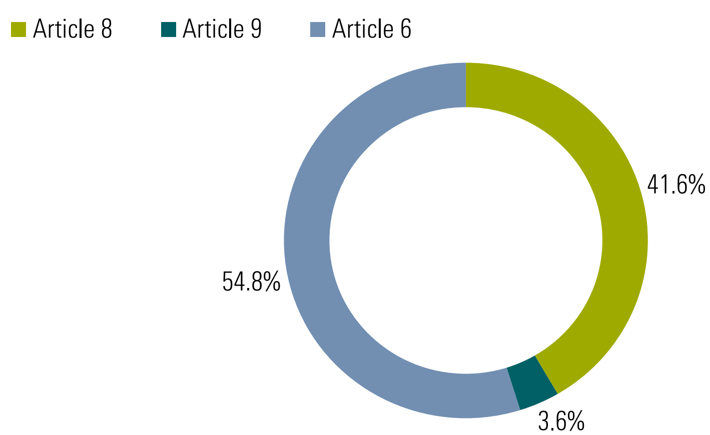
Source: Morningstar Direct. Assets as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Measured by number of funds,[3] the combined market share of Article 8 and Article 9 products jumped to 44.3%. The number of Article 9 funds increased to 887, representing a market share of 3.6%, from 3.2%

3 Based on SFDR data collected from prospectuses on 97.4% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

at the end of December 2022. Meanwhile, the Article 8 category grew steadily to 9,934 at the end of March, expanding its market share to 40.7%.

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



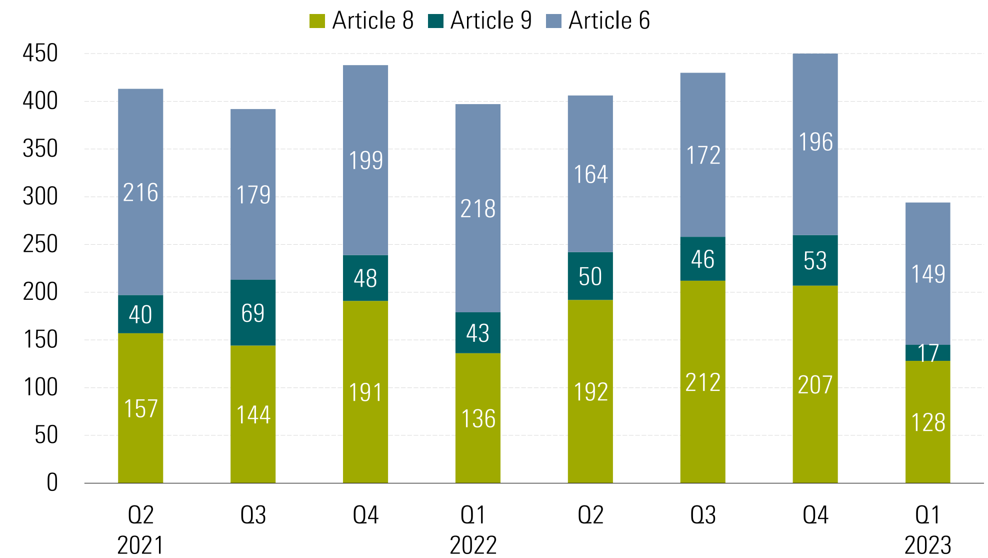
Source: Morningstar Direct. Assets as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Fund Launches: Product Development Slows Sharply

After the strong product development activity during the whole of last year, the number of newly launched Article 8 and Article 9 funds in the first three months of 2023 declined sharply to a historical low of 145, from 260 in the fourth quarter of 2022.

While the first quarter 2023 number will likely be restated in future reports as we identify more launches and additional ones are reported to Morningstar, we expect it to remain below the historical trend.

Exhibit 7 Quarterly Number of Fund Launches



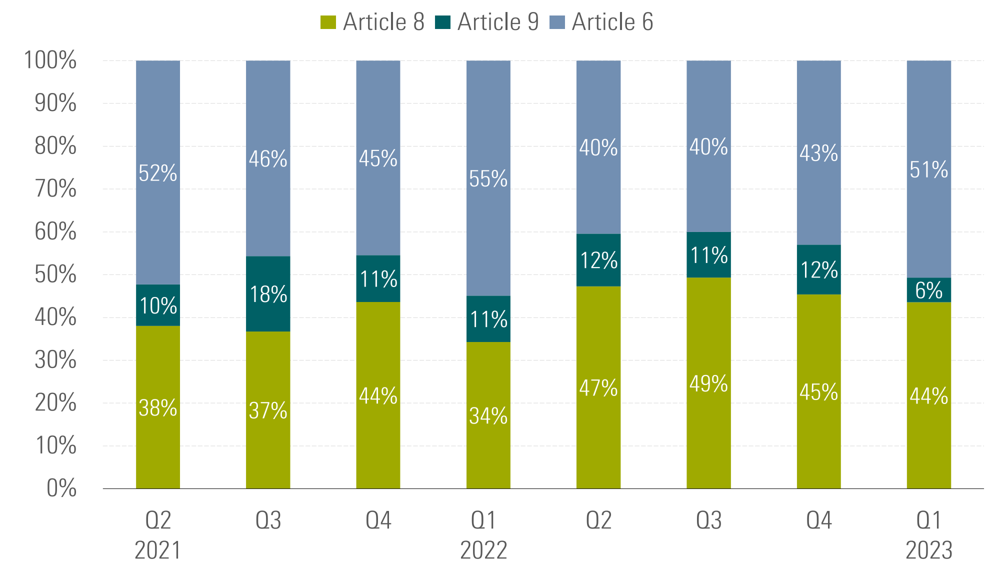
Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The decline in new products can be partly attributed to the overall market sentiment dampened by the challenging macro environment of high inflation and a possible recession, as Article 6 fund launches were also lower in the first quarter than in previous ones. Additional factors potentially contributing to the slow Article 8 and Article 9 product development activity are greenwashing accusations and the ever-evolving regulatory environment. A clarification by ESMA[4] last summer led many product manufacturers to downgrade Article 9 funds to Article 8 funds in the second part of the year, while waiting for further guidance on fund classification and how to interpret the definition of a "sustainable investment" provided by SFDR.

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

4 ESMA clarified the EC's June 2021 Q&A over the summer of 2022. It specified that funds making Article 9 disclosures may invest only in sustainable investments based on the definition provided by Article 2 No. 17 of the Disclosure Regulation, with the exception of cash and assets used for hedging purposes.

Exhibit 8 Quarterly Breakdown of Fund Launches



Source: Morningstar Direct. Data as of March 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 remained the source of the greatest product proliferation but with a lower number of new offerings (58) compared with previous quarters, followed by fixed income and allocation, with 52 and 30, respectively. Alternatives, convertibles, and miscellaneous made up the rest.

Examples of newly launched funds include **Amundi MSCI Pacific ESG Climate Net Zero Ambition CTB ETF**, which aims to reweight securities in the parent index based on the opportunities and risks associated with the climate transition to meet the EU Climate Transition Benchmark, or EU CTB,[5] regulation minimum requirements. The fund had gathered USD 190 million of assets at the end of March. Pictet launched Article 9-classified **Pictet China Environmental Opportunities**, which invests in companies involved in renewable energy, green transportation, industrial decarbonisation, resource efficiency, and environmental protection.

Furthermore, eight Xtrackers MSCI Global SDG ETFs came to market. The Article 8 funds cover a wide range of sustainability themes, including climate transition, healthcare, clean water, and sanitation. In addition to the common sectoral and norm-based exclusion, these funds invest in companies that must pass certain SDG criteria, including revenue and relevance thresholds from associated business activities.

5 EU Climate-transition benchmarks must have a carbon footprint (including scope 3 emissions) 30% below that of the investable universe. They are designed to be in line with the transition to a climate-resilient economy, while ensuring a yearly decarbonisation target of at least 7%, in line with the decarbonisation trajectory of the Intergovernmental Panel on Climate Change's 1.5°C scenario.

The Great Reclassification: Upgrades Continue, But Downgrades Dwindle to a Trickle

In the first quarter of 2023, asset managers continued to upgrade funds by enhancing ESG integration processes, adding binding ESG criteria (including carbon reduction objectives), or in some cases completely changing the mandate of the strategy.

Since our last report mid-January, we identified 332 funds that have altered their SFDR status: 273 were upgrades, the majority (263) of which moved to Article 8 from Article 6, while two upgraded to Article 9 from Article 6, and eight funds moved to Article 9 from Article 8.

Since reporting that 307 funds downgraded to Article 8 from Article 9 in the fourth quarter, we identified only 14 more Article 9 funds that reclassified to Article 8 in the first quarter. Also, 41 Article 8 funds switched to Article 6.

The exhibit below lists the largest funds that changed classification to Article 8 from Article 6 in the first quarter.

Exhibit 9 The 10 Largest Funds Upgraded to Article 8 From Article 6

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active / Passive
M&G European Credit Investment Fund	Article 6	Article 8	3,778	EUR Corporate Bond	Active
DNB Global	Article 6	Article 8	2,918	Global Large-Cap Blend Equity	Active
M&G (Lux) Dynamic Allocation Fund	Article 6	Article 8	2,239	EUR Flexible Allocation - Global	Active
OptoFlex	Article 6	Article 8	2,023	Options Trading	Active
Anima Alto Potenziale Europa	Article 6	Article 8	1,742	Long/Short Equity - Europe	Active
Redwheel Global Emerging Markets Fund	Article 6	Article 8	1,401	Global Emerging Markets Equity	Active
M&G Income Allocation Fund	Article 6	Article 8	1,101	EUR Moderate Allocation - Global	Active
Aperture Credit Opportunities Fund	Article 6	Article 8	876	Global Flexible Bond - EUR Hedged	Active
BNP Paribas Easy JPM ESG EMU Government Bond IG	Article 6	Article 8	754	EUR Government Bond	Passive
2Xideas UCITS - Global Mid Cap Library Fund	Article 6	Article 8	698	Global Flex-Cap Equity	Active

Source: Morningstar Direct. Assets as of March 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.

Following on from previous upgrades, three M&G funds feature among the top 10 products that changed SFDR status to Article 8 from Article 6. Until 15 Feb 2023, the three funds followed what the manager call an "ESG Integrated" approach. But from 16 Feb, they were recategorised as "Planet+/ESG Enhanced." The funds apply ESG exclusions, and from the narrowed investment universe, the managers perform further analysis, including consideration of ESG factors, to identify and take advantage of investment opportunities.

Exhibit 10 lists the largest funds that upgraded to Article 9 from Article 8 in the first quarter.

Exhibit 10 The 8 Largest Funds Upgraded to Article 9 From Article 8

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active / Passive
ODDO BHF Artificial Intelligence	Article 8	Article 9	245	Sector Equity Technology	Active
LFR Euro Développement Durable ISR	Article 8	Article 9	99	Eurozone Flex-Cap Equity	Active
Ålandsbanken Green Bond ESG	Article 8	Article 9	76	EUR Diversified Bond	Active
DNB Fund - Future Waves	Article 8	Article 9	44	Global Flex-Cap Equity	Active
Epargne Ethique Actions	Article 8	Article 9	24	Eurozone Large-Cap Equity	Active
Arca Blue Leaders	Article 8	Article 9	23	Global Large-Cap Blend Equity	Active
LFR Inclusion Responsable ISR	Article 8	Article 9	22	Eurozone Large-Cap Equity	Active
Pluvalca Health Opportunities	Article 8	Article 9	19	Sector Equity Healthcare	Active

Source: Morningstar Direct. Assets as of March 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.

Oddo BHF Artificial Intelligence is a global equity fund that uses artificial intelligence and quantitative analysis to invest in listed equities with exposure to the theme of artificial intelligence, through a selection of associated subthemes. The fund's sustainable investment objective is to contribute to carbon reduction and to seize opportunities arising from the transition to a low-carbon economy. In addition to sectoral, norms-based, and rating exclusions, the fund aims to achieve carbon intensity 30% lower than the benchmark.

Meanwhile, we identified only two funds that reclassified to Article 9 from Article 6 in the first quarter. These two Nordic funds were repurposed from LokalTapiola USA Marknad and LokalTapiola Europe Market to two index funds tracking Paris-aligned benchmarks.

Exhibit 11 The 3 Funds Upgraded to Article 9 From Article 6

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active / Passive
LähiTapiola USA Ilmastoindeksi	Article 6	Article 9	168	US Large-Cap Blend Equity	Passive
LähiTapiola Eurooppa Ilmastoindeksi	Article 6	Article 9	128	Europe Large-Cap Blend Equity	Passive

Source: Morningstar Direct. Assets as of March 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.

Finally, Exhibits 12 shows the largest downgrades implemented since our January review.

Exhibit 12 The 10 Largest Downgraded Funds to Article 8 From Article 9

Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active/ Passive
LUX IM ESG Pictet Future Trends	Article 9	Article 8	778	Global Large-Cap Blend Equity	Active
AXA World Funds - Global Sustainable Aggregate	Article 9	Article 8	665	Global Bond - USD Hedged	Active
Indosuez Objectif Terre	Article 9	Article 8	449	Sector Equity Ecology	Active
Plenum CAT Bond Fund	Article 9	Article 8	333	Other Bond	Active
ODDO BHF Algo Sustainable Leaders	Article 9	Article 8	297	Europe Large-Cap Blend Equity	Active
FFG - Global Flexible Sustainable	Article 9	Article 8	271	EUR Flexible Allocation - Global	Active
Lyxor MSCI EMU ESG Broad CTB (DR) - UCITS ETF	Article 9	Article 8	262	Eurozone Large-Cap Equity	Passive
LUX IM ESG Ambienta Alpha Green	Article 9	Article 8	183	Long/Short Equity - Europe	Active
Muzinich Global High Yield Low Carbon Credit Fund	Article 9	Article 8	168	Global High Yield Bond - EUR Hedged	Active
La Française Actions Euro Capital Humain	Article 9	Article 8	109	Eurozone Large-Cap Equity	Active

Source: Morningstar Direct. Assets as of March 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.

These reclassifications emerged as a result of the clarification provided by ESMA of the EC's June 2021 Q&A over the summer last year. It specified that funds making Article 9 disclosures may invest only in sustainable investments based on the definition provided by Article 2 No. 17 of the Disclosure Regulation,[6] with the exception of cash and assets used for hedging purposes. The "100% sustainable investments" requirement for Article 9 products is a clarification that many asset managers started acting on towards the end of 2022 as they prepared their precontractual documents for the 1 Jan deadline of the RTS.

In total, we identified more than 350 Article 9 funds that re-classified to Article 8 between July 2022 and March 2023, representing over EUR 200 billion in assets.

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

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

Exhibit 14 The 6 Funds Downgraded to Article 6 From Article 8

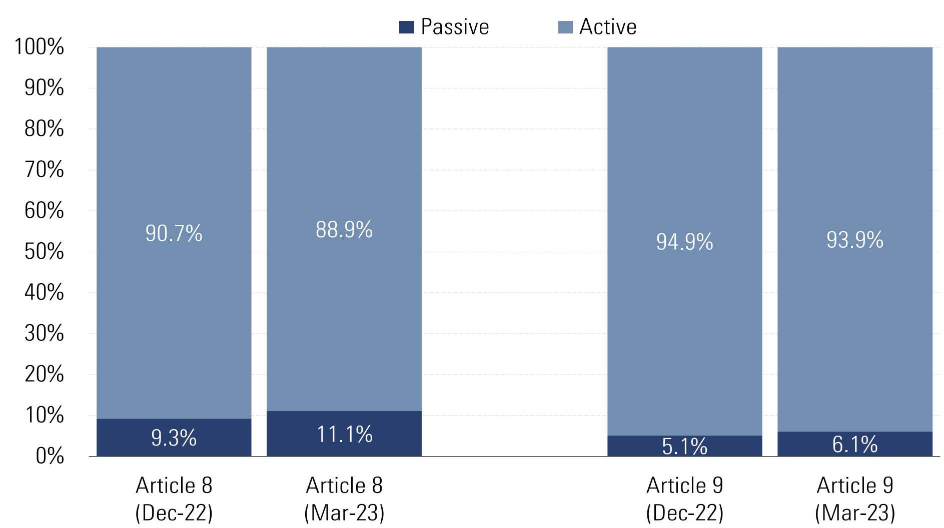
Name	Old SFDR Fund Type	New SFDR Fund Type	AUM (EUR Million)	Morningstar Category	Active / Passive
Horizon - KBC ExpertEase Dynamic Bal. Responsible Investing	Article 8	Article 6	1454	EUR Moderate Allocation - Global	Active
LLB SemperReal Estate	Article 8	Article 6	907	Property - Direct Europe	Active
Carnegie Corporate Bond	Article 8	Article 6	892	SEK Flexible High Yield Bond	Active
LUX IM - Goldman Sachs Global Equity Opportunities	Article 8	Article 6	503	Global Large-Cap Blend Equity	Active
NN (L) International Romanian Bond	Article 8	Article 6	325	Other Bond	Active
Fundsmith Sustainable Equity Fund	Article 8	Article 6	284	Global Large-Cap Blend Equity	Active
Seligson & Co North American Index Fund	Article 8	Article 6	275	US Large-Cap Blend Equity	Passive
Schroder International Selection Fund Indian Equity	Article 8	Article 6	255	India Equity	Active
Capitulum Weltzins-Invest Universal	Article 8	Article 6	249	Global EM Bond - Local Currency	Active
Seligson & Co Europe Index Fund	Article 8	Article 6	212	Europe Large-Cap Blend Equity	Passive

Source: Morningstar Direct. Assets as of March 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 Funds Gain Ground in Both Article 8 and Article 9

Following the Article 9 to Article 8 reclassification of sizeable index funds and ETFs tracking EU climate benchmarks, the market share of Article 9 passive funds shrunk significantly to 5.1% in December 2022 from 24.1% in September. Towards the end of the first quarter, this percentage rose slightly back up to 6.1%, while the market share of Article 8 passive funds grew as well, to 11.1% from 9.3%.

Exhibit 15 Market Share of Active and Passive Funds Classified as Article 8 and Article 9 for Q1 2023



Source: Morningstar Direct. Assets as of March 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 market share of Article 9 passive funds may continue to grow further in the coming months, partly depending on the decision of large asset managers to reclassify downgraded funds to Article 9 or not following the publication in April of the European Commission's answers to the European Supervisory Authorities' questions. The EC clarified that funds tracking Paris-aligned and climate-transition benchmarks qualify for Article 9 and are not required to hold 100% sustainable investments.

The Largest Article 8 and Article 9 Funds

Over the past three months, following the fourth quarter of 2022 wave of downgrades, the league tables of the largest Article 8 and Article 9 funds have remained relatively stable.

Exhibit 16 The 20 Largest Article 8 Funds

Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating
Flossbach von Storch Multiple Opportunities	8	EUR Flexible Allocation - Global	24.7	Active	🌐🌐🌐
Morgan Stanley Global Brands Fund	8	Global Large-Cap Blend Equity	19.8	Active	🌐🌐🌐🌐🌐
DWS Top Dividende	8	Global Equity Income	19.8	Active	🌐
JPMorgan Global Income Fund	8	EUR Moderate Allocation - Global	19.0	Active	🌐🌐🌐🌐🌐
Deka-ImmobilienEuropa	8	Property - Direct Europe	17.9	Active	—
hausInvest	8	Property - Direct Europe	17.5	Active	—
AB American Income Portfolio	8	USD Flexible Bond	17.4	Active	🌐🌐🌐🌐🌐
UniImmo: Deutschland	8	Property - Direct Europe	16.5	Active	—
UniImmo: Europa	8	Property - Direct Europe	15.0	Active	—
Fidelity Global Technology Fund	8	Sector Equity Technology	14.9	Active	🌐🌐🌐
LGT Premium Strategy GIM	8	Multistrategy EUR	14.0	Active	—
DWS Concept Kaldemorgen	8	EUR Flexible Allocation - Global	13.9	Active	🌐🌐🌐🌐🌐
BlackRock World Healthscience Fund	8	Sector Equity Healthcare	13.3	Active	🌐🌐🌐
AB Global High Yield Portfolio	8	Global High Yield Bond	12.7	Active	—
Flossbach von Storch Multiple Opportunities II	8	EUR Flexible Allocation - Global	12.1	Active	🌐🌐🌐
Fidelity Global Dividend Fund	8	Global Equity Income	11.3	Active	🌐🌐🌐🌐
Mercer Multi Asset Growth Fund	8	GBP Allocation 60-80% Equity	11.3	Active	🌐🌐🌐🌐
DWS Vermögensbildungsfonds I	8	Global Large-Cap Blend Equity	11.0	Active	🌐🌐🌐
Pictet-Global Megatrend Selection	8	Global Flex-Cap Equity	11.0	Active	🌐🌐🌐🌐
Muzinich Enhancedyield Short-Term Fund	8	Global Flexible Bond - EUR Hedged	10.5	Active	🌐🌐🌐🌐

Source: Morningstar Direct. Data as of March 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.

Exhibit 17 The 20 Largest Article 9 Funds

Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating
Nordea 1 Global Climate and Environment	9	Sector Equity Ecology	10.0	Active	🌐🌐🌐🌐
Pictet-Water	9	Sector Equity Water	8.1	Active	🌐🌐🌐🌐
Pictet - Global Environmental Opportunities	9	Sector Equity Ecology	7.5	Active	🌐🌐🌐🌐🌐
BlackRock Sustainable Energy Fund	9	Sector Equity Alternative Energy	6.6	Active	🌐🌐🌐🌐🌐
Mirova Global Sustainable Equity Fund	9	Global Large-Cap Growth Equity	4.5	Active	🌐🌐🌐🌐🌐
Pictet-Clean Energy Transition	9	Sector Equity Alternative Energy	4.4	Active	🌐🌐🌐🌐🌐
RobecoSAM Smart Energy Equities	9	Sector Equity Alternative Energy	3.8	Active	🌐🌐🌐🌐🌐
BNP Paribas Funds Aqua	9	Sector Equity Water	3.7	Active	🌐🌐🌐🌐
BNP Paribas Aqua	9	Sector Equity Water	3.4	Active	🌐🌐🌐🌐
RobecoSAM Sustainable Water Equities	9	Sector Equity Water	3.4	Active	🌐🌐🌐🌐
Handelsbanken Hållbar Energi	9	Sector Equity Alternative Energy	3.0	Active	🌐🌐🌐🌐
BNP Paribas Climate Impact	9	Sector Equity Ecology	3.0	Active	🌐🌐🌐🌐🌐
BNP Paribas Global Environment	9	Sector Equity Ecology	3.0	Active	🌐🌐🌐🌐🌐
AB Sustainable Global Thematic Portfolio	9	Global Large-Cap Growth Equity	3.0	Active	🌐🌐🌐🌐
DPAM Bonds Emerging Markets Sustainable	9	Global Emerging Markets Bond - Lo	2.8	Active	🌐🌐🌐🌐
Candriam Sustainable Equity EM	9	Global Emerging Markets Equity	2.8	Active	🌐🌐🌐🌐
Mirova Europe Environmental Equity Fund	9	Sector Equity Ecology	2.6	Active	🌐🌐🌐🌐
Impact ES Actions Europe	9	Europe Large-Cap Blend Equity	2.5	Active	🌐🌐🌐🌐
BlueOrchard Microfinance Fund	9	Other Bond	2.3	Active	–
Swisscanto Portfolio Sustainable Balanced	9	EUR Moderate Allocation - Global	2.2	Active	🌐🌐🌐🌐🌐

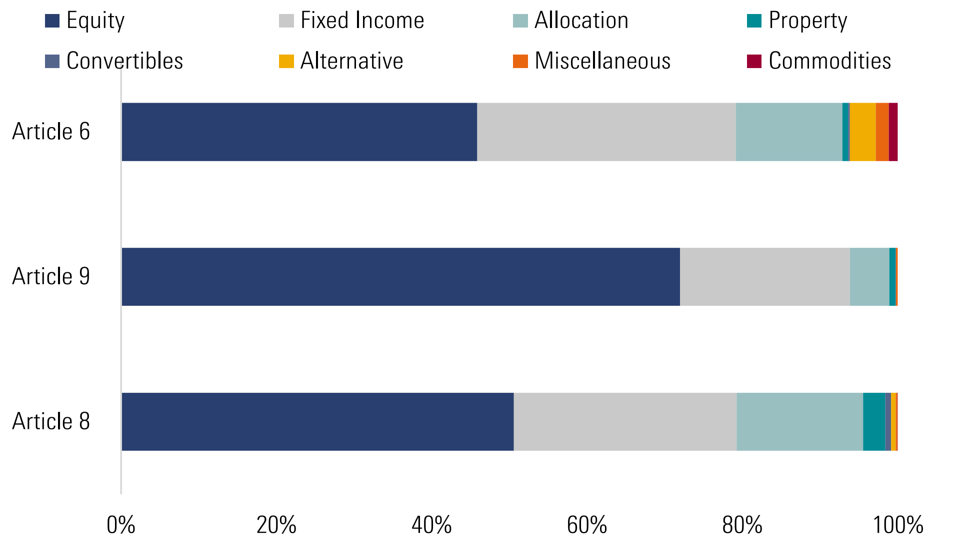
Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

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 lean more towards equity. Such funds account for 72% of Article 9 products as of March 2022, versus 51% and 46% in the Article 6 and Article 8 fund group, respectively. With the wave of Article 9 downgrades cooling off, fixed-income representation remained at the same level of 22% as three months ago.

It's worth noting that the quasi-totality of green-bond funds remain classified as Article 9, as green bonds are considered ideal instruments to help companies decarbonise their businesses and transition to greener products. There is, however, now a debate as to whether green bonds have a place in Article 9 portfolios given the nongreen nature of most issuers, which can be utilities companies with fossil activities or carbon-intensive industrial companies.

Exhibit 18 Article 8 and Article 9 Funds Per Broad Asset Class



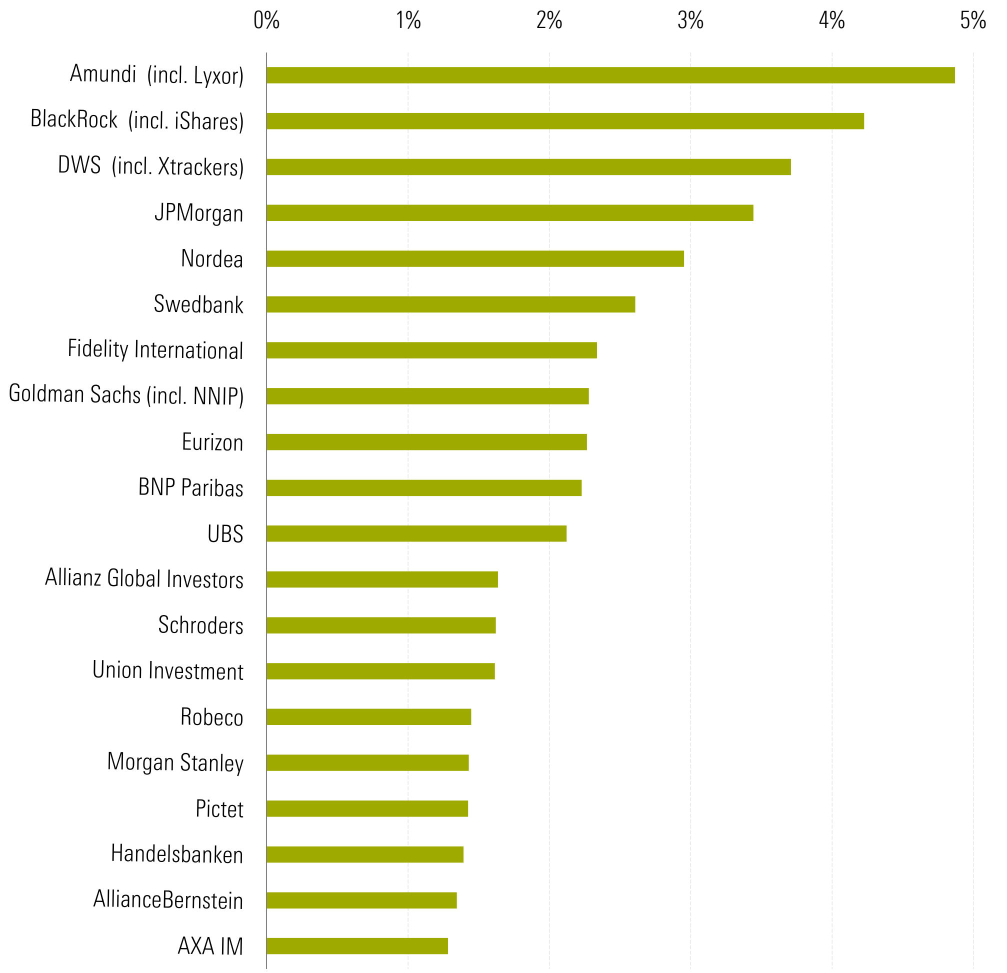
Source: Morningstar Direct. Data as of March 2023. Based on SFDR data collected from prospectuses on 97.6% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Provider League Tables

Exhibits 19 and 20 show the asset managers with the highest market share in Article 8 and Article 9 funds, ranked by assets.

The wave of Article 9 downgrades in the past few months has barely had an impact on the Article 8 provider league table. The top two managers, however, have seen their market share increase slightly in the past three months. Amundi's share of the Article 8 fund market rose to 4.9% in March from 4.4% three months earlier, while BlackRock's went up to almost 4.2%, from less than 4%.

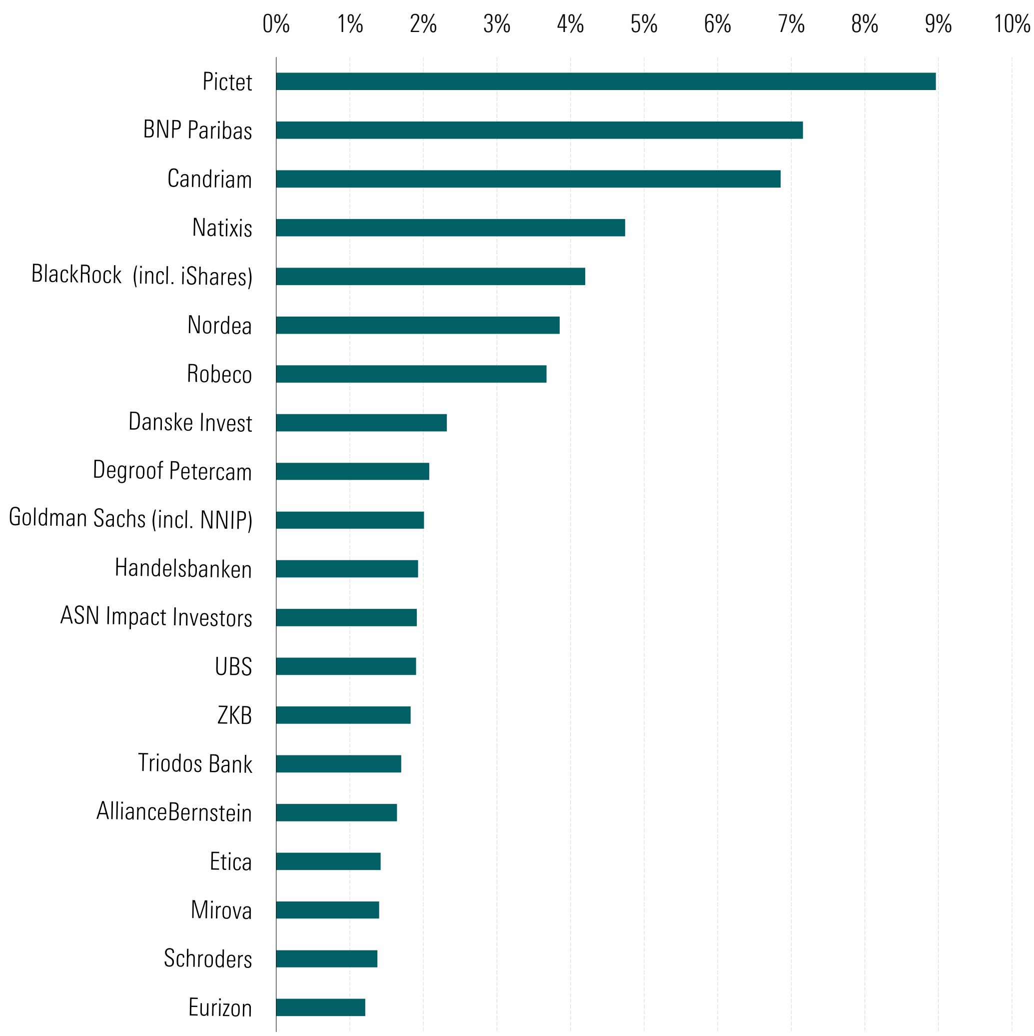
Exhibit 19 Top 20 Asset Managers by Article 8 Fund Assets



Source: Morningstar Direct. Assets as of March 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.

While the fourth quarter wave of downgrades had a significant impact on the Article 9 manager league table at the end of December, the most recent downgrades haven't changed the landscape. In March, Pictet continued topping the table, followed by BNP Paribas and Candriam.

Exhibit 20 Top 20 Asset Managers by Article 9 Fund Assets



Source: Morningstar Direct. Assets as of March 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 2 Aug 2022, the amended MiFID II requires financial advisors to consider clients' sustainability preferences when conducting suitability assessments. If clients express interest in making sustainable investments, advisors will have to accommodate. Depending on the specific client's preferences, advisors 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 new European ESG template, or EET, has been developed by industry representatives (FinDatEx) to ease the exchange of data between asset managers and distributors. Asset managers marketing their funds in the EU started to submit EET data on a voluntary basis from 1 June 2022.

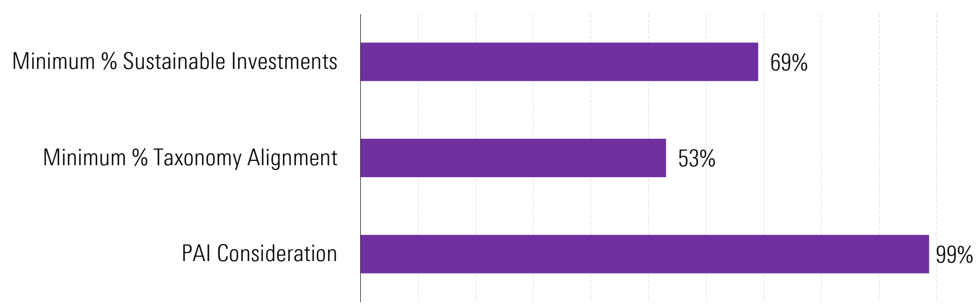
As of end of March, Morningstar collected EET data on 99,022 share classes, accounting for 69% of all share classes in the scope of MiFID II. These represent 19,865 funds,[7] including 9,022 Article 8 funds and 779 Article 9 funds.

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

1) **PAI Consideration**, indicating whether a product considers principal adverse impact in its investments. Answers are "Yes" or "No."[8]
2) **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]
3) **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]

Exhibit 29 shows the coverage of these three fields for the surveyed Article 8 and Article 9 funds.

Exhibit 29 Coverage of Key EET Data Points for the Surveyed Article 8 and Article 9 Funds



Source: Morningstar Direct. Data as of March 2023. Based on 9,022 and 779 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 March. With the regulatory requirement since 1 Jan of adding detailed SFDR annexes to product disclosures, managers have stepped up their reporting through the EET, resulting in higher

7 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.

8 EET Name: 20100_Financial_Instrument_Does_This_Product_Consider_Principal_Adverse_Impact_In_Their_Investment

9 EET Name: 20420_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments

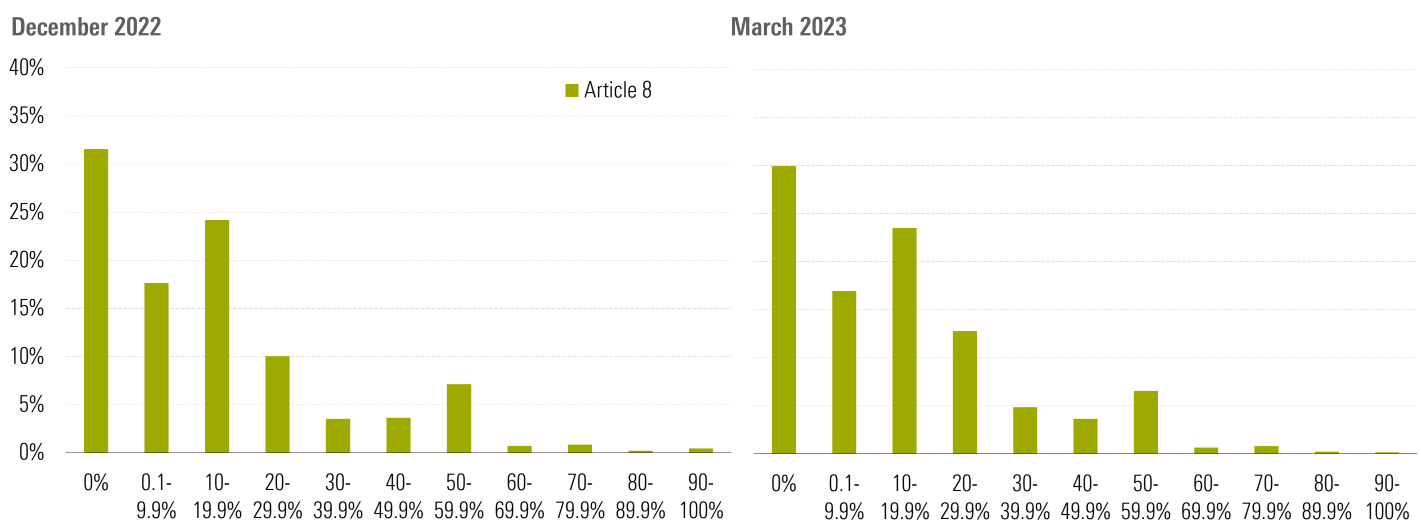
10 EET Name: 20450_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments_Taxonomy_Aligned

coverage of the two other metrics. As of end of March, more than 69% of the surveyed Article 8 and Article 9 funds reported a minimum percentage of sustainable investments, compared with 59% three months earlier, and 53% disclosed a minimum percentage of taxonomy-aligned investments, versus 41% previously.

Minimum Proportion of Sustainable Investments

Exhibits 30a and 30b compare the December 2022 and March 2023 distributions of "Minimum Proportion of Sustainable Investments" for surveyed Article 8 and Article 9 funds. We can see that over the past three months, both distributions have shifted to the right, meaning that Article 8 and Article 9 funds have increased their minimum exposure to sustainable investments, although the latter to a much greater extent than the former.

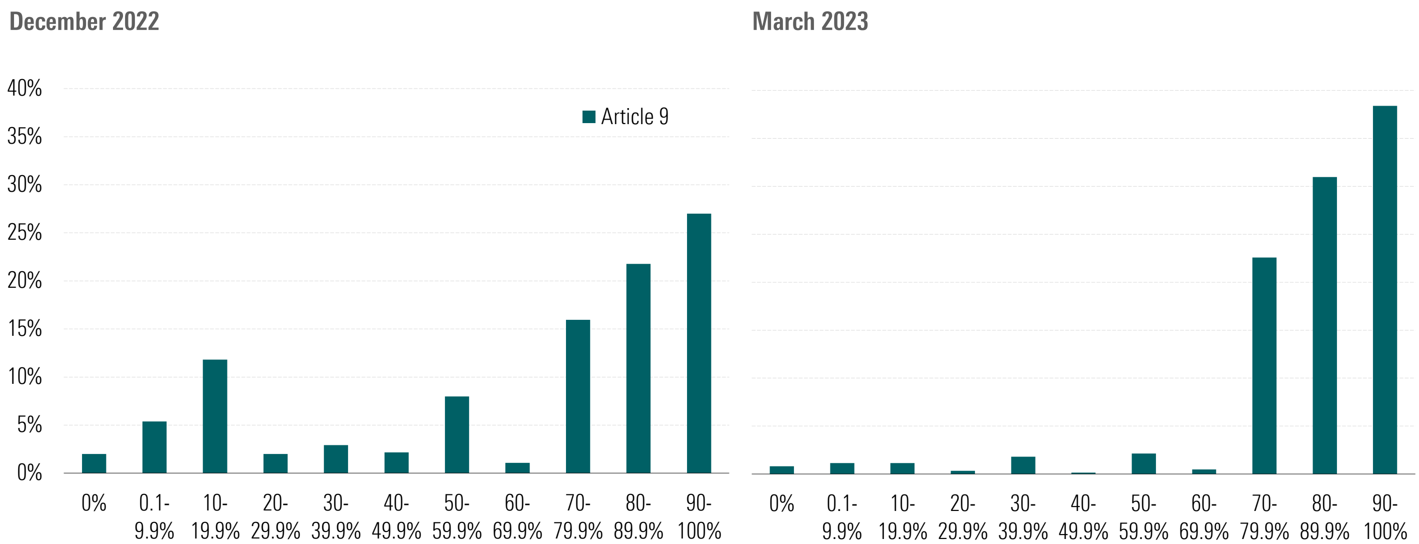
Exhibit 30a Proportion of Article 8 Funds (Y-axis) With Various Commitments to Sustainable Investments (X-axis)



Source: Morningstar Direct. Data as of March 2023. December 2022 data is based on 4,692 Article 8 funds that report the field. March 2023 data is based on 6,142 Article 8 funds that report the field.

The number of Article 8 funds with 0% values fell further to 30% at the end of March from 31.6% in December, while the number of funds targeting between 0.1% and 9.9% exposure declined to 16.9% from 17.7%. Meanwhile, the proportion of Article 8 funds targeting a sustainable investment allocation between 20% and 20.9% increased to 12.8% at the end of March, compared with 10% in December.

Exhibit 30b Proportion of Article 9 Funds (Y-axis) With Various Commitments to Sustainable Investments (X-axis)



Source: Morningstar Direct. Data as of March 2023. December 2022 data is based on 652 Article 9 funds that report the field. March 2023 data is based on 607 Article 9 funds that report the field.

Exhibit 30b shows a clear shift to the right of the Article 9 fund distribution of targeted sustainable investments. Fewer Article 9 funds (5.4% down from 26%) now plan to have less than 50% of sustainable investments, while a much higher proportion (92% versus 65%) report targeting at least 70% exposure to sustainable investments. Additionally, a higher number of Article 9 funds now report between 90% and 100%: more than 38% compared with 27% in December. We identified 62 Article 9 funds that report targeting 100% exposure to sustainable investment, up from 36 three months ago.

The reduced number of funds with low sustainable investment allocations is a direct result of the ESMA's clarification last summer 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 investments and simultaneously increased the level of commitments for funds they believed could meet the requirement, either through a change in portfolio holdings or by simply deciding to "harmonise" 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 remain as is. It will partly depend on asset managers' decision to reclassify downgraded funds to Article 9 or not. As previously reported, many downgraded products were passive funds tracking EU climate benchmarks with emission reduction objectives, and according to the EC's answers to the ESAs questions, these products are not required to hold 100% of sustainable investments.

Furthermore, sustainable investment commitments depend on the way asset managers interpret the definition of a "sustainable investment" as defined under SFDR,[11] and how they calculate a fund's minimum percentage of sustainable investments. As previously reported, different interpretations of the regulation have led asset managers to adopt different approaches to the calculation of sustainable-investment exposure, rendering it impossible to compare competing products directly. Products with similar mandates and portfolios can report different exposures to sustainable investments depending on the methodology chosen by their providers.

Another factor that could impact 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 30b, 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.

Exhibits 31 and 32 list the Article 8 and Article 9 funds that have seen the largest increases in minimum exposures to sustainable investments since December 2022.

12 See Footnote 5.

13 See Footnote 5.

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 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 31 Article 8 Funds With the Largest Increases in Minimum or Planned Investments Sustainable Investments

Fund Name	SFDR Type	Min % of Sustainable Investments in Q4 2022	Min % of Sustainable Investments in Q1 2023	Fund Size (EURO Mil)	Morningstar Category
Agipi Actions Europe	Article 8	10	50	693	Europe Large-Cap Blend Equity
AXA Valeurs Euro	Article 8	10	50	261	Eurozone Large-Cap Equity
KEPLER Umwelt Aktienfonds	Article 8	10	50	182	Sector Equity Ecology
iShares MSCI EMU Paris-Aligned Climate UCITS ETF	Article 8	10	40	556	Eurozone Large-Cap Equity
KEPLER Ethik Aktienfonds	Article 8	10	25	223	Global Large-Cap Blend Equity
Allianz Sustainable Multi Asset 75	Article 8	5	20	158	EUR Aggressive Allocation - Global
KEPLER Ethik Quality Aktienfonds	Article 8	10	25	55	Global Large-Cap Value Equity
AXA Optimal Income	Article 8	10	20	929	EUR Flexible Allocation
AXA World Funds - Global Sustainable Aggregate	Article 8	10	20	673	Global Bond - USD Hedged
BlackRock Sustainable Fixed Income Global Opportunities Fund	Article 8	10	20	520	Global Flexible Bond - EUR Hedged
BlackRock ESG Euro Bond Fund	Article 8	10	20	520	EUR Diversified Bond
BlackRock Sustainable EM Local Currency Bond Fund	Article 8	10	20	393	Global EM Bond - Local Currency
BlackRock Sustainable Emerging Markets Bond Fund	Article 8	10	20	339	Global Emerging Markets Bond
BlackRock Fixed Income Credit Strategies Fund	Article 8	10	20	263	EUR Corporate Bond
AXA Euro Short Duration Bonds	Article 8	10	20	195	EUR Diversified Bond - Short Term
BlackRock ESG Euro Corporate Bond Fund	Article 8	10	20	156	EUR Corporate Bond
AXA Euro Strategic Bonds	Article 8	10	20	153	EUR Diversified Bond
BlackRock ESG Euro Short Duration Bond Fund	Article 8	10	20	133	EUR Diversified Bond - Short Term
AXA Euro 7-10	Article 8	10	20	123	EUR Diversified Bond
BlackRock Sustainable Global Bond Income Fund	Article 8	10	20	107	Global Flexible Bond - USD Hedged

Source: Morningstar Direct. Data as of March 2023. Based on 391 Article 8 funds that revised the field. 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.

Exhibit 32 Article 9 Funds With the Largest Increases in Minimum or Planned Investments Sustainable Investments

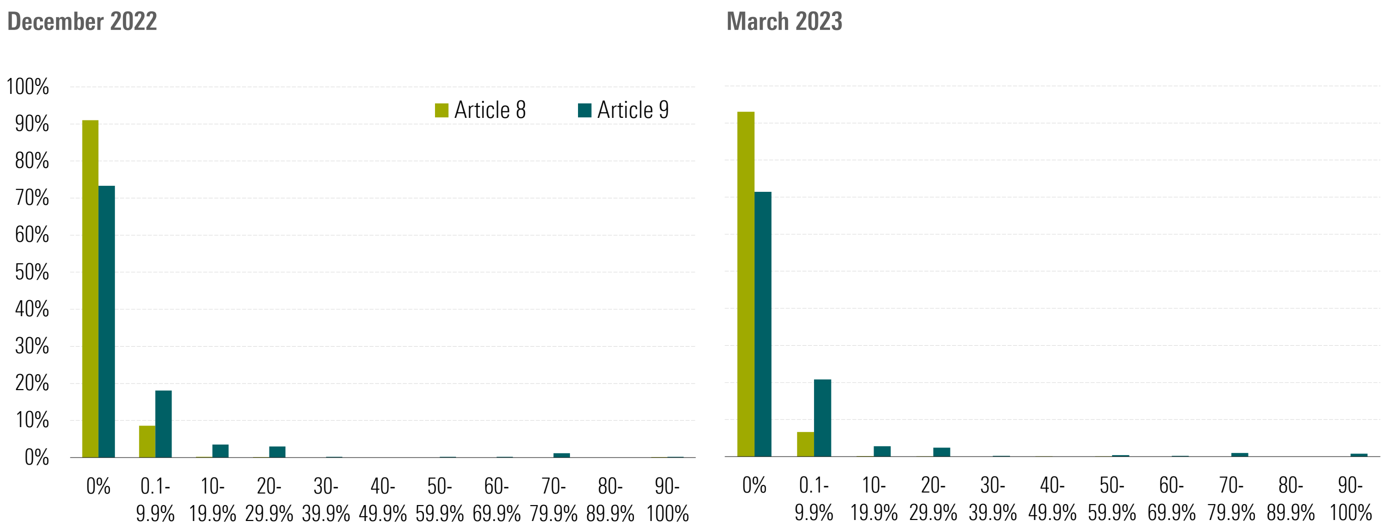
Fund Name	SFDR Type	Min % of Sustainable Investments in Q4 2022	Min % of Sustainable Investments in Q1 2023	Fund Size (EURO Mil)	Morningstar Category
GIB AM Sustainable World Fund	Article 9	10	100	38	Global Large-Cap Growth Equity
Macquarie Emerging Markets Debt Sustainable Opportunities Fund	Article 9	2	80	8	Global Emerging Markets Bond
UniInstitutional Green Bonds	Article 9	3	75	143	Global Corporate Bond - EUR Hedged
Tomorrow Better Future Stocks	Article 9	51	100	5	Sector Equity Ecology
Allianz Green Bond	Article 9	50	80	992	Global Bond - EUR Hedged
Carmignac Emergents	Article 9	50	80	850	Global Emerging Markets Equity
Carmignac Portfolio Grande Europe	Article 9	50	80	709	Europe Large-Cap Growth Equity
Carmignac Portfolio Emergents	Article 9	50	80	309	Global Emerging Markets Equity
Allianz Better World Moderate	Article 9	50	80	224	EUR Moderate Allocation - Global
Allianz SDG Euro Credit	Article 9	50	80	188	EUR Corporate Bond
Allianz Better World Dynamic	Article 9	50	80	151	EUR Aggressive Allocation - Global
Allianz Better World Defensive	Article 9	50	80	127	EUR Cautious Allocation - Global
Carmignac Portfolio Grandchildren	Article 9	50	80	78	Global Large-Cap Growth Equity
UniInstitutional SDG Equities	Article 9	50	75	274	Global Flex-Cap Equity
Salm Nachhaltige Wandelanleihen Global AK	Article 9	51	75	147	Convertible Bond - Global, EUR Hedged
SDG Evolution Flexibel	Article 9	51	75	10	EUR Moderate Allocation - Global
SDG Evolution Bonds	Article 9	51	75	5	EUR Corporate Bond
Arabesque Global Climate Pathway Equity	Article 9	75	90	1	Global Large-Cap Blend Equity
Echiquier Positive Impact Europe	Article 9	90	100	441	Europe Flex-Cap Equity
Echiquier Health Impact For All	Article 9	90	100	19	Sector Equity Healthcare

Source: Morningstar Direct. Data as of March 2023. Based on 37 Article 9 funds that revised the field. 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 that reported minimum sustainable-investment exposure as defined under the EU Taxonomy has risen in the past three months. As of March, over 53% populated the Minimum or Planned Investments Sustainable Investments Taxonomy Aligned field, a significant increase from the 41% coverage rate reported in our last report. Exhibit 34 shows the distribution of reported values.

Exhibit 36 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 Apr. 13, 2023. December 2022 data is based on 3,296 Article 8 funds and 430 Article 9 funds that report the field. March 2023 data is based on 4,641 Article 8 funds and 504 Article 9 funds that report the field.

Unsurprisingly, 0% values continue to account for the overwhelming majority of the responses received (93% for Article 8 funds and 71% for Article 9 funds), while 21% of Article 9 funds (up from 18% three months ago) reported minimum taxonomy-aligned sustainable investments between 0% and 10%. However, 7.7% of Article 9 funds (slightly down from 8.5% in the fourth quarter of 2022), target exposure of at least 10%. Eight funds reported exposure higher than 60%. These low figures can be explained by the fact that issuers will continue disclosing their level of taxonomy-alignment this year and that, in the meantime, the ESA and the EC have pushed asset managers to be conservative in their taxonomy disclosure (for example, by not allowing the use of estimates at all in the first place and then at a later stage allowing their prudent use for companies out of the scope of the non-financial reporting directive, or non-NFRD companies).

Exhibit 37 features the 20 Article 8 funds with the highest level of taxonomy-alignment ranked by fund size. The two funds at the top are property funds, with 50% and 40% taxonomy alignment. The proportions fall to below 10% very quickly. Only 13 Article 8 products reported exposure of 10% or greater.

Exhibit 37 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
S-Bank Forest	Article 8	50	220	Property - Direct Other	Property
S-Bank Housing	Article 8	40	285	Property - Direct Other	Property
WI Immobilienaktien Asia Pacific ESG TX	Article 8	26	20	Property - Indirect Asia	Equity
PATRIZIA Capital Low Carbon Core Infrastructure Fund	Article 8	25	267	Sector Equity Infrastructure	Equity
WI Immobilienaktien EMEA ESG TX	Article 8	22	24	Property - Indirect Europe	Equity
R-co Thematic Real Estate	Article 8	20	191	Property - Indirect Eurozone	Equity
3 Banken Mensch & Umwelt Mischfonds	Article 8	15	200	EUR Moderate Allocation - Global	Allocation
BNP Paribas Easy ECPI Global ESG Hydrogen Economy	Article 8	15	55	Other Equity	Equity
Swedbank Robur Fastighet	Article 8	10	768	Property - Indirect Global	Equity
Swedbank Robur Transition Energy	Article 8	10	588	Sector Equity Alternative Energy	Equity
WERTGRUND WohnSelect D	Article 8	10	461	Property - Direct Europe	Property
Assenagon Funds Value Size Global	Article 8	10	403	Global Flex-Cap Equity	Equity
R-co Opal 4Change Sustainable Trends	Article 8	10	90	Global Flex-Cap Equity	Equity
Assenagon Funds Asymmetric Beta US	Article 8	8	27	US Large-Cap Blend Equity	Equity
WI Global Challenges Index-Fonds	Article 8	7	346	Global Large-Cap Blend Equity	Equity
3 Banken Mensch & Umwelt Aktienfonds	Article 8	7	211	Sector Equity Ecology	Equity
Assenagon Funds Substanz Europa	Article 8	6	85	Europe Equity Income	Equity
WI Immobilienaktien America ESG TX	Article 8	6	26	Property - Indirect North America	Equity
hausInvest	Article 8	5	17,485	Property - Direct Europe	Property
Allianz Europe Equity SRI	Article 8	5	390	Europe Large-Cap Blend Equity	Equity

Source: Morningstar Direct. Data as of March 2023. Based on 3,296 Article 8 funds that report the field.

Exhibit 38 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 can see a large 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.

Exhibit 38 Top 20 Article 9 Funds by Minimum % of Taxonomy-Aligned Investments

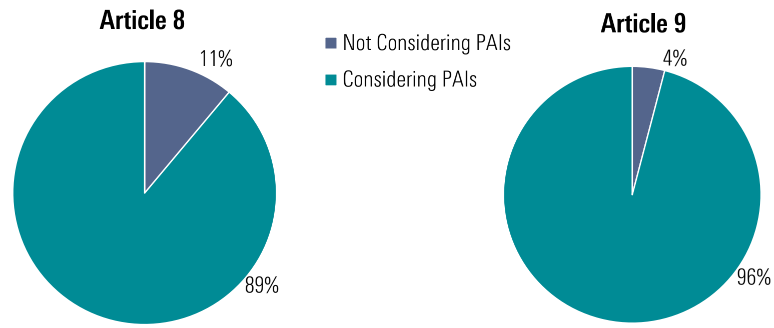
Fund Name	SFDR Type	Min % of Taxonomy Aligned Sustainable Investments	Fund Size (EURO Mil)	Morningstar Category	Broad Category
La Française Inflection Point Carbon Impact Global	Article 9	100	250	Global Large-Cap Blend Equity	Equity
Multiflex Carnot Efficient Energy Fund	Article 9	90	107	Sector Equity Ecology	Equity
Sustainable Alpha Fund	Article 9	90	10	EUR Aggressive Allocation - Global	Allocation
Stewart Investors Indian Subcontinent Sustainability Fund	Article 9	90	3	India Equity	Equity
KlimaVest ELTIF	Article 9	75	1,101	Other Allocation	Allocation
Luxembourg Selection Fund Active Solar	Article 9	75	286	Sector Equity Alternative Energy	Equity
Triodos Energy Transition Europe Fund	Article 9	75	181	Other	Miscellaneous
R-co 4Change Green Bonds	Article 9	75	107	Global Corporate Bond - EUR Hedged	Fixed Income
Triodos Emerging Markets Renewable Energy Fund	Article 9	75	35	Other Allocation	Allocation
Assenagon Funds Green Economy	Article 9	65	27	Sector Equity Ecology	Equity
Triodos Groenfonds	Article 9	50	872	Other Bond	Fixed Income
Wealth Invest AKL TimeInvest Sustainable Opportunities	Article 9	50	14	Nordic Equity	Equity
Rize Environmental Impact 100 UCITS ETF	Article 9	30	29	Sector Equity Ecology	Equity
Goldman Sachs Green Bond	Article 9	25	1,888	EUR Diversified Bond	Fixed Income
Goldman Sachs Corporate Green Bond	Article 9	25	1,223	EUR Corporate Bond	Fixed Income
Goldman Sachs Green Bond Short Duration	Article 9	25	794	EUR Diversified Bond - Short Term	Fixed Income
Raiffeisen-SmartEnergy-ESG-Aktien	Article 9	25	388	Sector Equity Alternative Energy	Equity
Goldman Sachs Sovereign Green Bond	Article 9	25	250	EUR Government Bond	Fixed Income
Invesco Energy Transition Fund	Article 9	25	51	Sector Equity Alternative Energy	Equity
GAM Sustainable Climate Bond	Article 9	25	16	EUR Subordinated Bond	Fixed Income

Source: Morningstar Direct. Data as of March 2023. Based on 430 Article 9 funds that report the field.

PAI Consideration

As previously mentioned, almost the entirety of the Article 8 and Article 9 universe—99% and 98%, respectively—has populated the PAI Consideration field by March 2023. And among those, the vast majority stated they do consider PAIs (89% for the respondent Article 8 funds and 96% for the respondent Article 9 funds). The 11% and 4% of Article 8 and Article 9 funds, respectively, that have reported not considering PAIs include funds that haven't updated this EET field since last year. Thus, it may therefore not reflect their current process.

Exhibit 39 SFDR Product Type and PAI Consideration



Source: Morningstar Direct. Data as of March 2023. Based on 8,905 Article 8 funds and 763 Article 9 funds that reported the field.

PAI indicators are intended to show investors what adverse impacts a financial product may have on sustainability factors relating to environmental, social, and employee matters; respect for human rights; and anticorruption and antibribery matters.

Exhibit 40 shows a sample of the PAIs that product manufacturers should disclose using the EET. The EET data fields cover the 64 PAI indicators designed under SFDR. The sample here includes 14 PAI indicators for corporates, two for sovereigns, and two for real estate assets.

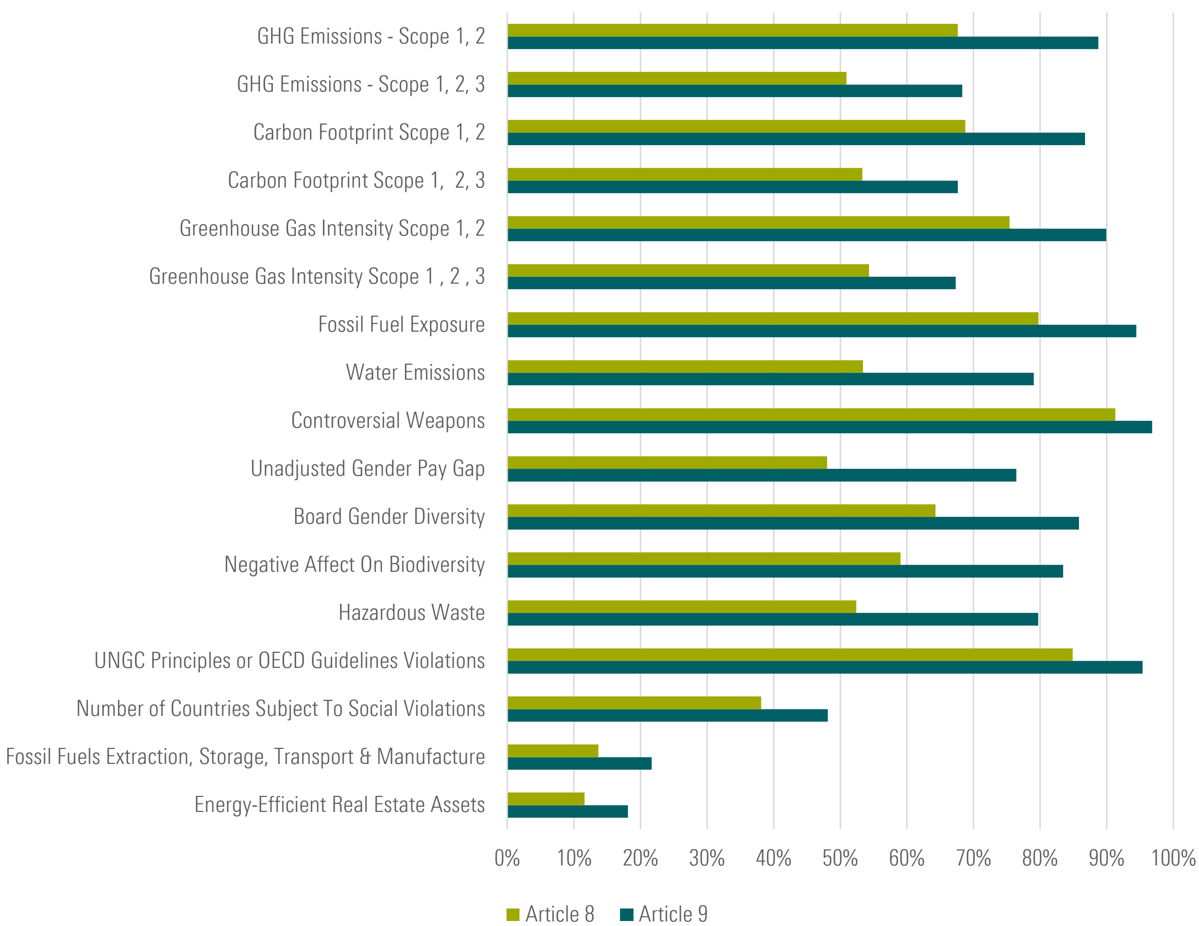
Exhibit 40 18 of the 64 PAI Indicators Under the EET

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.

Exhibit 41 shows the percentages of surveyed Article 8 and Article 9 funds that consider a sample of PAIs.

Exhibit 41 Consideration Levels for a Sample of PAIs



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

The exhibit reveals a wide range of PAI consideration, with the most considered PAIs, including "controversial weapons" and "UNGC principles or OECD guidelines violations," showing high consideration rates (97% and 95%, respectively, for Article 9 funds), followed by "fossil fuel exposure" (94%) and "greenhouse gas intensity of scope 1, 2" (90%). As for the two least considered PAIs, namely, "exposure to energy-efficient real estate assets" and "exposure to fossil fuels extraction, storage, transport, and manufacture," Article 9 funds exhibited a moderate increase to 22% and 18% from 18% and 14% at the end of 2022, respectively.

As expected, environmental impacts such as greenhouse gas emissions, carbon footprint and intensity, and fossil fuel exposure are currently being considered by more funds than social impact indicators such as gender pay gap and board gender diversity, although the consideration rate for both considerations show a moderate increase over the past three months.

It may come as a surprise to some that no PAI achieves a consideration rate of 100% and that not all Article 9 funds consider all PAIs given the definition of "sustainable investment" by SFDR and the "do not significantly harm" requirement that apply. This can be explained by the different interpretations asset managers are taking 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.

Regulatory Update

Once again, the first quarter of 2023 was not short of regulatory news relevant to SFDR.

The ESA's proposed amendments to SFDR regarding PAI indicators. In their consultation paper, the ESAs are proposing, among others, to:

- Extend the list of social indicators (most of them coming the from the European Financial Reporting Advisory Group, or EFRAG).
- Clarify the calculations of certain PAIs and underlying definitions.
- Consider several options regarding the DNSH assessment (currently at the discretion of asset managers) ranging from further disclosure (thresholds used for PAI) to standardisation (Taxonomy DNSH).
- Introduce a greenhouse gas emission reduction target disclosure in templates for Article 8 and Article 9 products.

The ESAs aims to finalise its report by the fall 2023. It’s unclear whether the EC will take this board immediately or it will be implemented after the EU election (May 2024).

In parallel, the EC intends to run a broader consultation on a potential review of SFDR. This is expected to be dealt with under the next term office.

In addition, the EC is currently consulting on criteria with respect to the remaining four Taxonomy objectives—water, circular economy, pollution prevention and control, biodiversity—as well as proposing targeted amendments to the Taxonomy Climate Delegated Act and to the Taxonomy Disclosures Delegated Act.

Meanwhile, the European Parliament and the Council found a political agreement on European Green Bond regulation. All companies choosing to use the standard when marketing a green bond will be required to disclose much information about how the bond’s proceeds will be used, as well as to show how those investments feed into the transition plans of the company as a whole. The adoption of the standard will also guarantee to investors that the bond is mainly taxonomy-aligned (85%). For more details, read: Anticipating the Inevitable: What to Expect from the European Green Bonds Regulation (sustainalytics.com).

In April, the long-awaited EC's clarifications on SFDR responding to a series of ESA's questions were finally published. Among others, the document:

- Confirms that market participants are free to use their own methodologies to identify and disclose their share of sustainable investments. In other words, there are no prescriptive thresholds or approach to assess the three components of the "sustainable investment" definition (contribution to environmental/social objective, DNSH, or good governance).
- Reaffirms that Article 9 funds are expected to be 100% sustainable investment, except for instruments held for hedging or liquidity purposes, which need to meet minimum environmental or social safeguards and be in line with the sustainable investment objective of the product.
- Clarifies that EU Paris-aligned and climate transition benchmarks' passive and active products are deemed to be contributing to an environmental objective and DNSH compliant; they are therefore eligible for Article 9 classification provided that good corporate governance (the third and last item of the "sustainable investment" definition) is observed.
- Reiterates that the prudent use of taxonomy estimates is allowed for non-NFRD companies.
- Introduces new expectation that investors should not only describe PAI but also disclose "the procedures put in place to mitigate those impacts."

These clarifications should allow asset managers to reclassify some products as Article 9 and incentivise them to be more transparent about their sustainability investment framework.

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