German Investment Funds Association

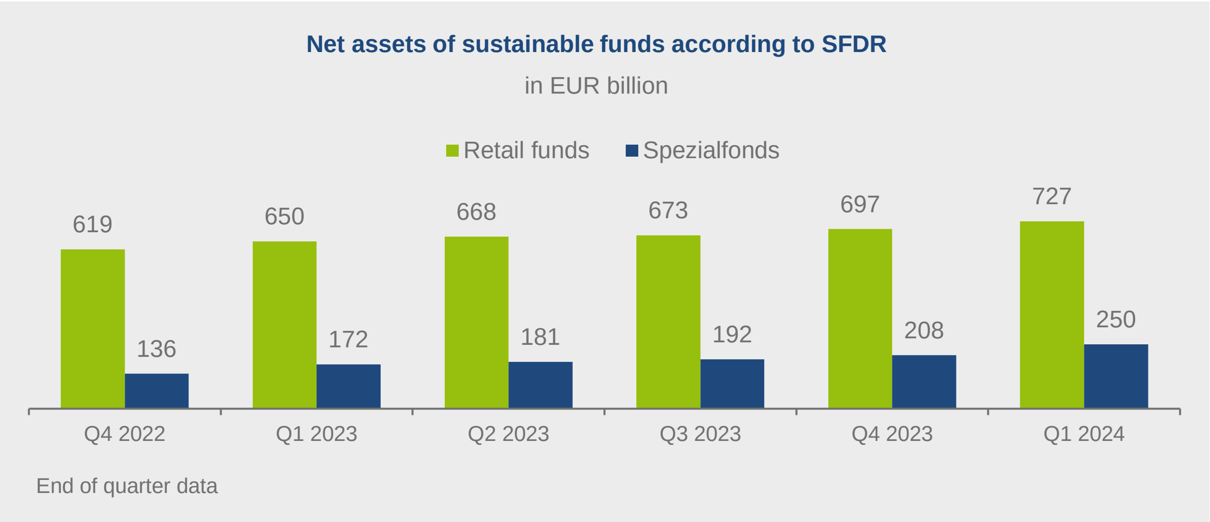
Snapshot Sustainability

THE GERMAN SUSTAINABLE FUND MARKET IN Q1 2024

Despite weak net inflows, funds with sustainability features manage almost EUR 1 trillion

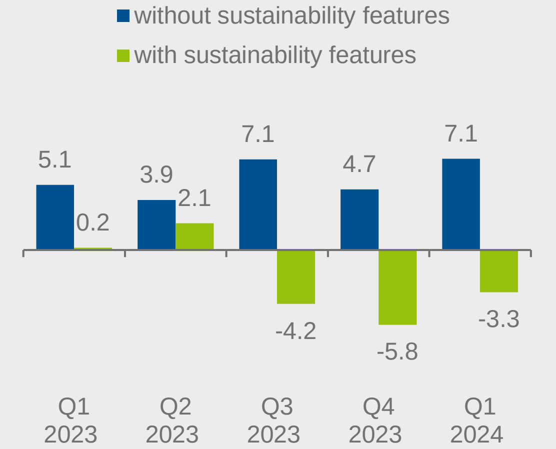
As at 31 March 2024, German investors had invested almost EUR 1 trillion in funds in accordance with Articles 8 or 9 of the EU Sustainable Finance Disclosure Regulation. At EUR 727 billion, retail funds managed around three quarters of the total volume. The segment of Spezialfonds with sustainability features is still significantly smaller at EUR 250 billion. However, it is growing at a much faster rate. In the last twelve months alone, growth amounted to around 45 per cent. The corresponding figure for retail funds was 12 per cent.

In both segments, the increase in assets is primarily due to reallocations of existing products and price increases in equities and bonds. By contrast, new business was again weak in the first quarter of 2024. While Spezialfonds recorded a modest net inflow of new money, retail fund investors withdrew a total of EUR 3.3 billion from products with sustainability features. Balanced and equity funds were particularly affected by the redemptions. As a result, net inflows into retail funds with sustainability features have been well below the figure for non-sustainable products in every quarter since the beginning of 2023. Overall, Article 8 and 9 funds experienced a net outflow of over EUR 11 billion within the last five quarters – while inflows into Article 6 funds amounted to almost EUR 28 billion.



Net inflows of retail funds

in EUR billion



The EU regulation of retail distribution is likely to be one of the main reasons for this development: retail investors often indicate ‘no’ when being asked about their sustainability preferences in order to retain full flexibility when selecting products. In addition, even interested investors struggle due to the complexity of mandatory questions, such as the desired minimum proportion of environmentally sustainable investments or adverse impacts that they would like to take into account. Moreover, the lack of definitions and standards means that required disclosures on sustainability features are often not comparable. This leads to additional uncertainty for many retail clients.

Due to these weaknesses in the EU's regulatory approach, the European Commission has launched a fundamental review of the Sustainable Finance Disclosure Regulation in 2023. As part of this, a new product classification system for sustainable products is being discussed, which could replace or supplement the existing transparency requirements. Clearer sustainability standards and easily understandable product categories could provide a basis for restoring trust in sustainable products.

Another aspect of retail investor’s reluctance could be that funds with and without sustainability features obviously favour different sectors in their investment strategy. Equity funds in accordance with Article 8 and 9, for example, invest heavily in industrial goods producers – including manufacturers of wind turbines or railway technology. Consumer goods producers (including food and personal care products) and technology stocks also make up an above-average proportion of their portfolios. In contrast, companies from the basic materials industry or the oil and gas sector are heavily underweighted. The same applies to the aerospace and defence industry. However, due to the geopolitical situation, many observers consider these sectors to be particularly attractive at present.

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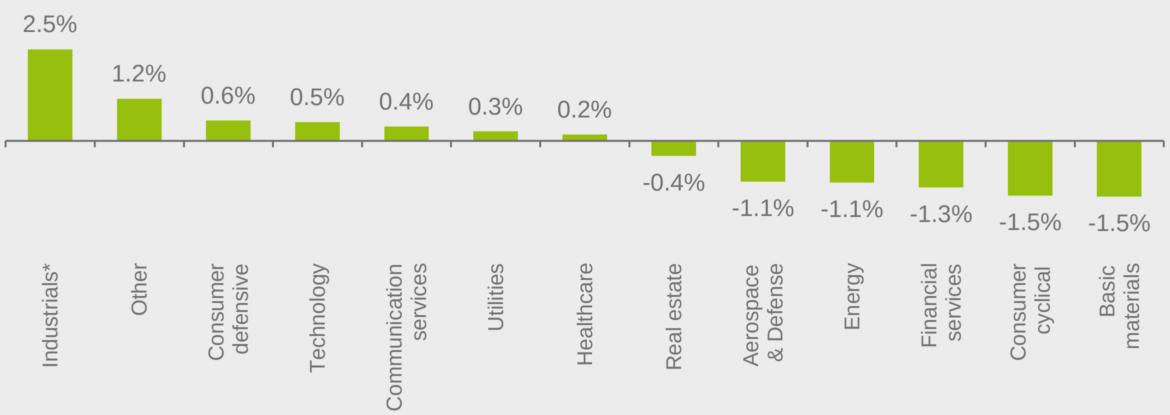
Sector overweight/underweight for equity funds with sustainability features compared to equity funds without sustainability features



* excluding aerospace and defense. As of 31 December 2023. Source: Morningstar Direct