

THE SFDR FUND MARKET

LATEST MARKET TRENDS AND THE UPCOMING SFDR REVIEW

INTRODUCTION

This Market Insights is the third one focusing on the latest trends in the Sustainable Finance Disclosure Regulation (SFDR) Article 8 and Article 9 fund markets. The first sections centre on recent trends in these markets, focusing on evolutions in 2024, which was marked by net outflows from Article 9 funds. They also shed light on evolutions at a country level and, for the first time, provide a breakdown of Article 8 and 9 fund net assets and net sales into UCITS and AIFs. The final section examines the upcoming SFDR review in greater detail and offers some recommendations for its future success.

Table of Contents

- Introduction
- SFDR data collection - Overview
- Latest SFDR market developments
 - Article 8 funds
 - Article 9 funds
- Upcoming SFDR review
- Concluding remarks

SFDR DATA COLLECTION – OVERVIEW

The SFDR came into effect in March 2021 and put in place a set of sustainability-related disclosure obligations for fund managers. Among other obligations, the SFDR requires asset managers to make specific sustainability-related disclosures across their product range. These were specified in Articles 6, 8 and 9 of the Regulation. Although it was not the EU regulators' intention for these Articles to be treated as product labels, the application of SFDR has, de facto, split the EU fund universe into three categories.

- **SFDR Article 6** requires all fund managers to make disclosures on the integration of sustainability risks and their likely impact on the returns of the financial products they make available. Funds that have Article 6 disclosures, but do not adhere to those of Articles 8 or 9 are therefore called Article 6 funds and are generally considered to be funds with no binding environmental, social or governance characteristics.
- **SFDR Article 8** requires funds that promote environmental and/or social characteristics to specify in pre-contractual disclosures how they will attain the promoted environmental or social characteristics, or a combination of both, and that the companies in which the investments are made follow good governance practices. Article 8 funds are consequently considered as funds with binding environmental and/or social characteristics.

- **SFDR Article 9** requires funds with a sustainability objective to specify in pre-contractual disclosures how they will attain this objective and whether an index has been designated as a reference benchmark. Article 9 funds are for that reason considered as funds with an explicit sustainability objective.

The added value of EFAMA’s data collection compared to data from commercial data providers is that it provides a more complete coverage of Article 8 and 9 fund markets, in particular in the Alternative Investment Fund (AIF) space across most European countries.¹ Whereas commercial data tends to have good coverage of the UCITS market, their coverage of the AIF market, which includes mostly institutional funds, is generally more limited. EFAMA data also provides a more complete picture of the European market as it covers a number of smaller, mostly Eastern European countries, which are not covered by commercial data.

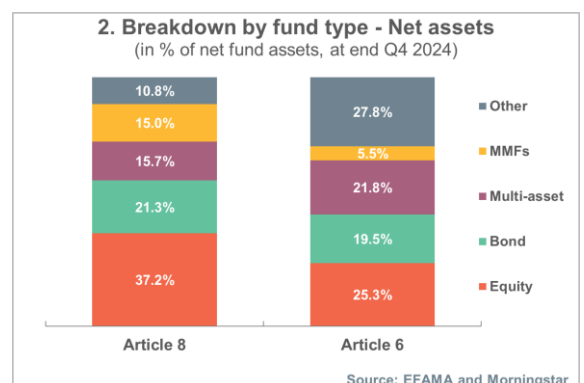
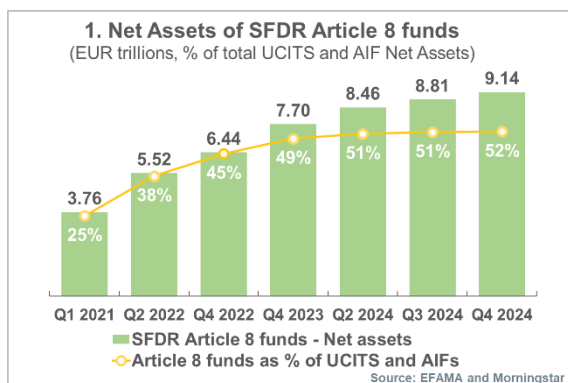
LATEST SFDR MARKET DEVELOPMENTS

Article 8 funds

At end 2024, net assets of Article 8 funds amounted to EUR 9.14 trillion.² Net assets grew from EUR 3.76 trillion at the inception of the SFDR in Q1 2021 to EUR 6.44 trillion at end 2022 to EUR 7.7 trillion at end 2023, with these funds representing a steadily increasing proportion of the total UCITS and AIF market (chart 1). During 2024, the share of Article 8 funds remained broadly stable at 51% of the total. In terms of growth rates, Article 8 fund net assets increased by just under 20% in 2023 and by 18.5% in 2024. The 2023 growth rate was significantly higher than the 8.2% overall growth in the UCITS and AIF market, whereas the 2024 growth was only marginally higher.

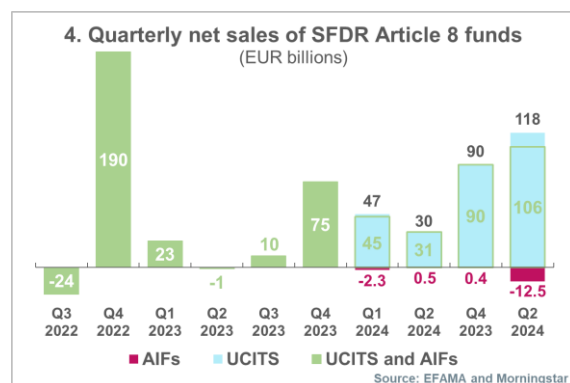
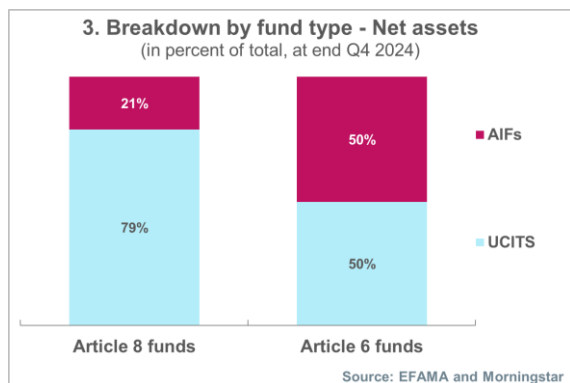
The stabilisation of the net asset market share of article 8 funds during 2024 is explained by the relatively low level of reclassifications from Article 6 to Article 8. Morningstar identified 52 funds in Q2 2024, 97 funds in Q3 2024 and 87 funds in Q4 2024 that were reclassified from Article 6 to Article 8.³ However, compared to previous years, these were relatively low numbers of reclassifications since the introduction of the SFDR, indicating that the market, in terms of SFDR Article 6, 8 and 9 funds breakdown, is stabilising.

Broken down by fund type (chart 2), Article 8 funds have a different structure than Article 6 funds or the overall fund market. Bond and multi-asset funds represent roughly similar percentages. However, the percentage of money market funds (MMFs) is significantly higher for Article 8 funds (15% compared to 5.5%). A large majority of all European MMFs, about three-quarters, are now classified as Article 8. The reverse is true for ‘Other funds’, which account for a significantly lower percentage of Article 8 funds as the alternative assets and hedge funds included in this category are primarily Article 6.

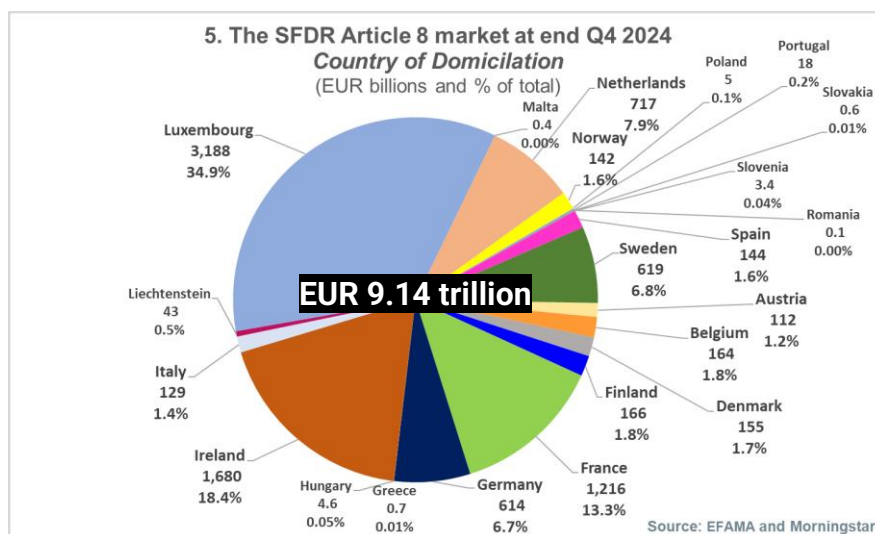


Article 8 funds have a significantly lower share of AIFs compared to Article 6 funds (21% versus 50%). A sizable portion of AIFs are labelled as Article 6, either because they are hedge or ARIS⁴ funds, making it harder to be labelled as Article 8 or 9, or because they are targeted at specific institutional investors and sustainability-related disclosure information is often not readily available for these funds (chart 3).

Looking at net sales of Article 8 funds in recent quarters (chart 4), the exceptionally high net inflows in Q4 2022 (EUR 190 billion) were predominantly driven by UK pension funds that flocked into Article 8 MMFs during the October 2022 Gilt crisis. Article 8 fund flows were more muted in the first three quarters of 2023, only to pick up in Q4 2023 and especially the last two quarters of 2024. This was mainly thanks to strong net inflows into Article 8 MMFs and bond funds. Bond funds drew net inflows as investors anticipated rate cuts, whereas the inverted yield curve for much of 2024 ensured investors bought MMFs. The positive 2024 net sales of Article 8 funds were mainly concentrated in the UCITS market; Article 8 AIFs registered net sales that were mostly flat, with outflows during Q4 2024.⁵



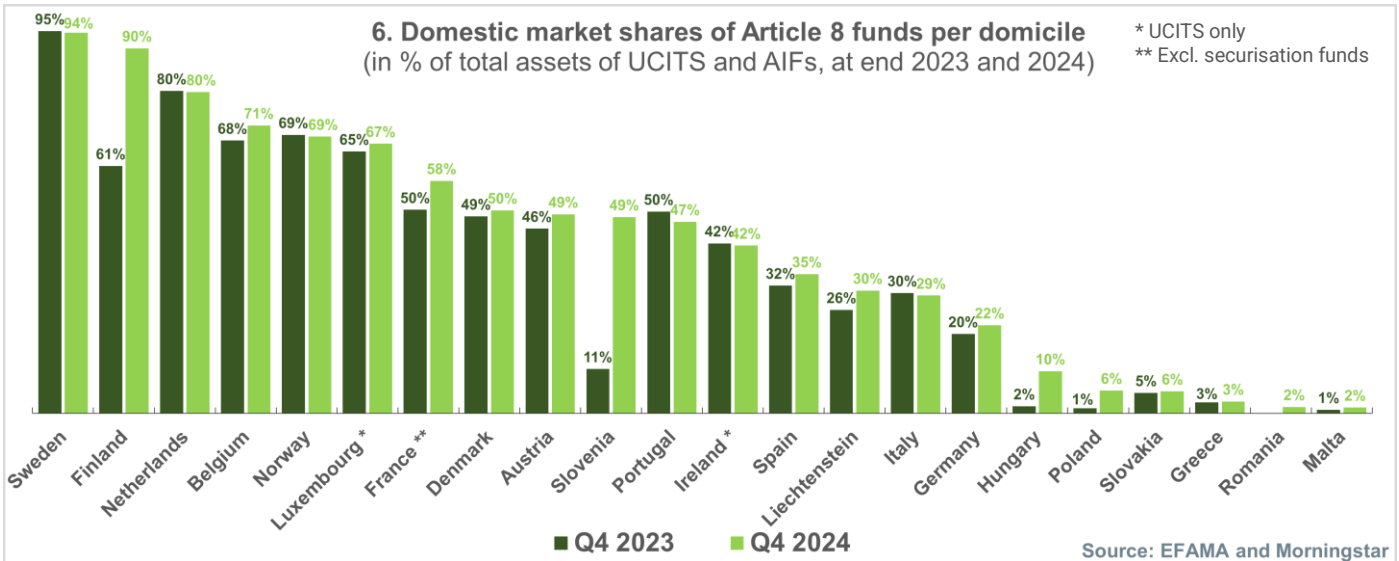
In terms of country breakdown, chart 5 below shows net assets of Article 8 funds by country of domiciliation at the end of Q4 2024. The six main domiciles were Luxembourg (35%), Ireland (18%), France (13%), the Netherlands (8%), Sweden (7%) and Germany (7%). Almost 90% of the total net assets of Article 8 funds were domiciled in these six countries. These market shares have remained relatively stable since the end of 2022, suggesting that growth was broadly equal across European countries.



Another way of looking at domestic Article 8 markets, is by measuring it as a percentage of the total net assets of UCITS and AIFs domiciled in each country. Chart 6 on the next page shows how these market shares have changed between end 2023 and end 2024.⁶ The following points are worth highlighting:

- Domestic market share of Article 8 funds grew in 15 countries in 2024, whereas it only decreased in six countries. The growth in market share was primarily due to market appreciation of Article 8 assets, in combination with reclassifications and net sales.
- Market share changes in 2024 were relatively small in most domiciles, indicating that in many countries, the Article 8 fund market reached a degree of stability and reclassifications to Article 8 slowed down significantly.

- Nordic countries, the Netherlands and Belgium have a long tradition in ESG investing, and hence, have the highest shares of Article 8 funds in Europe.
- In Luxembourg, Article 8 funds represented circa 67% of the net fund assets of UCITS at the end of 2024, with a market share that rose slightly. In Ireland, Article 8 funds accounted only for 41% and this market share even dipped a little in 2024. This difference reflects the fact that ETFs are significantly more predominant in Ireland than in Luxembourg. ETFs, which are often passive index funds tracking a wide variety of stocks or bonds, are still primarily Article 6 funds and less so Article 8 or 9.
- The ESG market is still in development in the Eastern European domiciles for which data is available. Except for Slovenia, the Article 8 market shares in these countries remain relatively low. However, most Eastern European domiciles did see the market share of Article 8 funds increase over 2024.

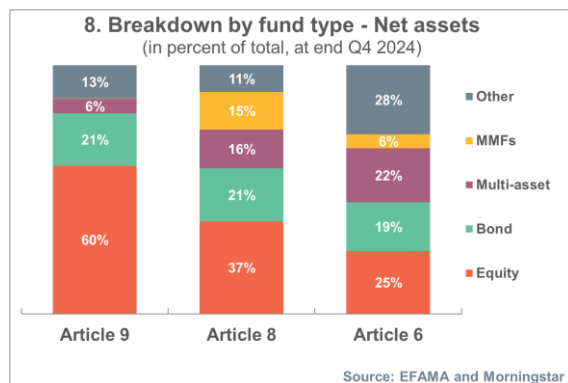
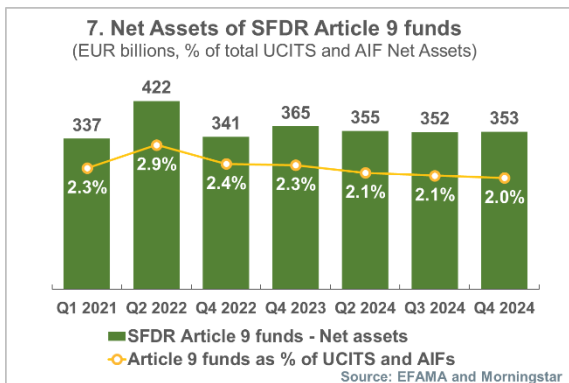


Article 9 funds

Article 9 fund net assets amounted to EUR 353 billion at the end of 2024, or about 2% of the European fund market.⁷ These assets declined by 3.3% compared to the end of 2023. As a percentage of the total fund market, Article 9 fund assets have been steadily declining from close to 3% in Q2 2022 (chart 7). The largest drop in net assets took place in the second half of 2022. This was caused by a flood of fund reclassifications from Article 9 to Article 8. Morningstar identified about 350 Article 9 funds that were reclassified as Article 8 over the last six months of 2022.⁸ These ‘downgrades’ occurred due to the fund industry’s cautious interpretation of a clarification by ESMA in June 2022, of the EC’s July 2021 Q&A, stating that the portfolio of Article 9 funds should exclusively consist of sustainable investments (100%). Up until then, many market participants were under a ‘good faith assumption’ that a small portion of the portfolio of an Article 9 fund could also be invested in ‘non-sustainable investments’.

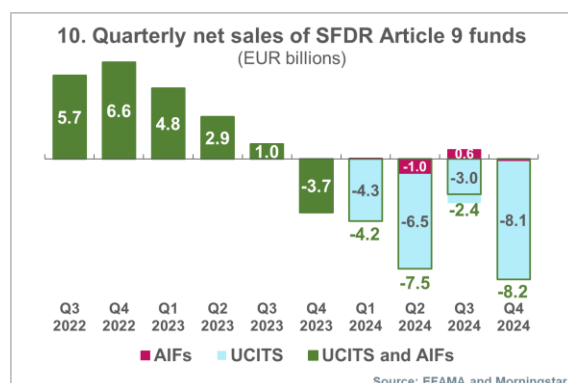
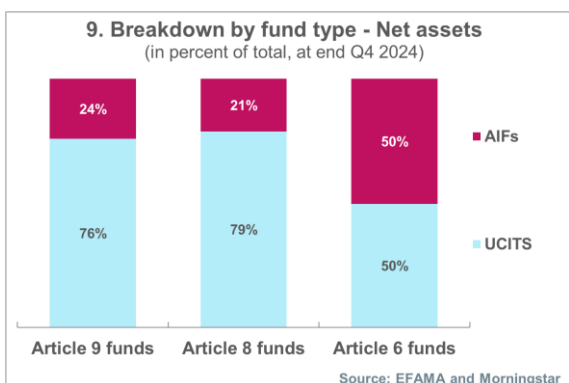
Net assets, but not market share, of Article 9 funds edged up again in 2023 as a result of the overall rise in stock and bond markets that year. AuM stayed broadly stable for much of 2024, resulting in further declining market share mainly caused by negative net sales and a small number of reclassifications.

Looking at the breakdown by fund type (chart 8), equity funds dominate the SFDR Article 9 fund market, accounting for almost 60% of the total at the end of 2024. This is almost twice as high as the share of equity funds in Article 8 (37%) and substantially more than Article 6. Bond funds accounted for 21%, similar to their share in the other SFDR fund categories. All other Article 9 fund types (e.g. multi-asset funds, other funds and especially MMFs) have significantly lower market shares.



Regarding the breakdown of the Article 9 fund market between UCITS and AIFs (chart 9), the shares are quite similar to the Article 8 fund market, with UCITS accounting for about 76% at the end of 2024. French and Dutch AIFs account for the vast majority of all Article 9 AIFs. These two countries have a large institutional investor market, mainly insurers in France and pension funds in the Netherlands, and some of those institutional clients have stringent ESG demands.

Net fund flows of Article 9 funds have shifted markedly in recent years (chart 10). In 2022, when the overall fund markets registered large net outflows, net sales of Article 9 funds proved remarkably resilient and remained positive. However, net sales slowed down in 2023 and turned negative in the last quarter of that year. 2024 has also been marked by four quarters of net outflows from Article 9 funds. Q4 2024 registered the most significant quarterly net outflows from Article 9 funds to date (EUR 8.1 billion). The bulk of the 2024 net outflows were concentrated in Luxembourg, the main Article 9 fund domicile (see chart 11 below), but net outflows were seen across most European domiciles.



The reasons behind the net outflows are connected to evolutions in the overall fund markets. In 2023 and 2024, investors shifted their fund preferences, flocking into bond funds and equity ETFs, whereas they disinvested from active equity funds.⁹ The sustained inflows into bond funds were related to investor preferences in a higher interest rate environment. Article 9 bond funds continued to receive net fund inflows in recent quarters.

However, Article 9 equity funds, which account for 60% of the total Article 9 fund market, suffered from higher net outflows in recent quarters. These are due to overall disinvestment from active equity funds and a general shift into passive and ETF equity funds observed in 2023 and 2024. ETFs are increasingly the preferred investment vehicle for investors seeking exposure to US and global stock markets due to their ease of access and low cost.¹⁰

This is a major disadvantage for the Article 9 equity fund market since it predominantly consists of active, non-ETF funds, with ETFs currently only accounting for 4%. The low ETF share can be explained by the nature of ETFs, which mainly track an index of a wide variety of stocks or bonds. Many financial assets tracked by an ETF do not align with the SFDR Article 9 sustainability objectives, which often prevents these funds from receiving an Article 9 classification. Most of the Article 9 equity fund net outflows in 2024 were indeed from non-ETFs. However, the net sales of Article 9

ETFs were also negative for most of 2024, indicating that outflows could be related to differences in performance.

As can be seen in chart 11 below, the SFDR Article 9 market remains highly concentrated. Measured by country of fund domicile, Luxembourg accounted for over half (54%) of total net assets at the end of 2024, followed by France (15%), Ireland (9%), and Sweden (6%). Other domiciles accounted for less than 5% each.

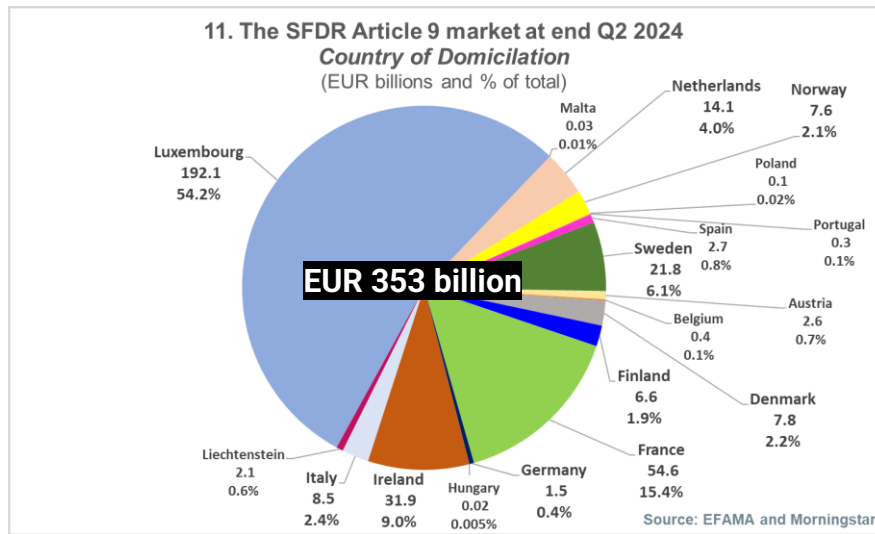
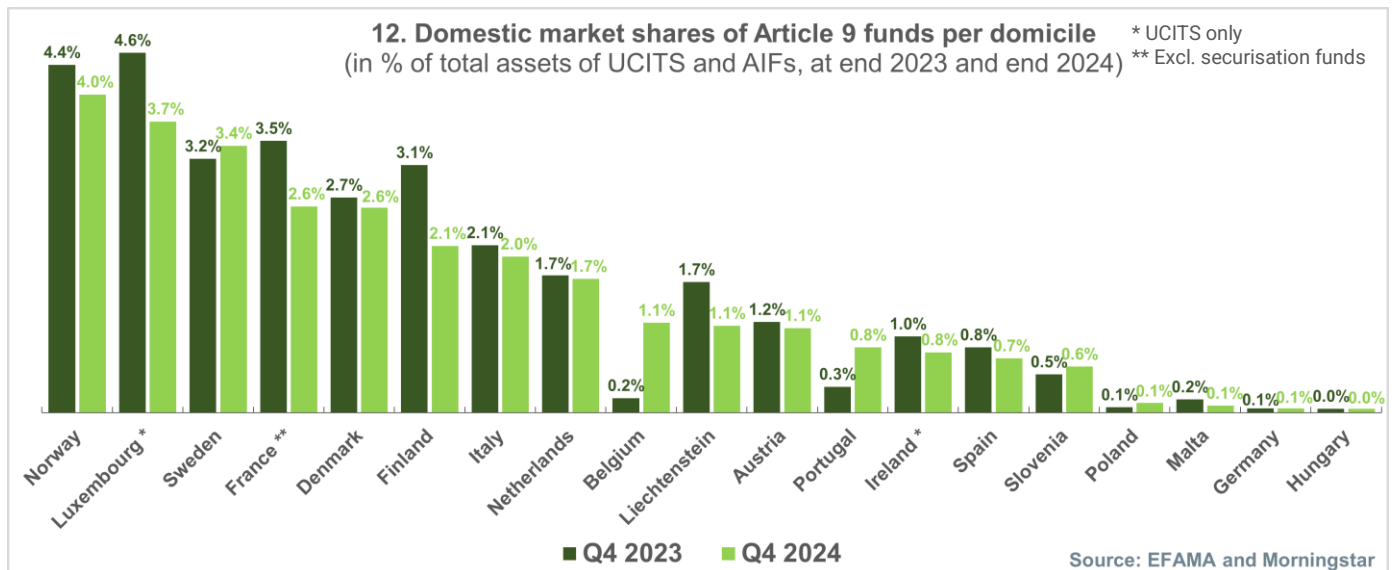


Chart 12 illustrates the market share of SFDR Article 9 funds across different EU countries, measured as a percentage of the total net assets of UCITS and AIFs domiciled in these countries and the evolution of this market share between the end of 2023 and the end of 2024.¹¹



Looking at the country-level figures, we can see that the overall market shares of Article 9 funds remain relatively low, with Article 9 funds making up less than 5% of nationally domiciled funds in all countries.

Analysing the changes in market share throughout 2024, we can note the following:

- Domestic market share of Article 9 funds dropped in 13 domiciles over 2024, and it increased only in six.
- The three largest domiciles saw decreased market shares of Article 9 funds. In Luxembourg, it declined from 4.6% at the end of 2023 to 3.7% by the end of 2024. In France, the Article 9 share dropped from 3.5% to 2.6% over the same period, whereas in Ireland, the market share dipped from 1% to 0.8%.

- In smaller domiciles, the evolution over 2024 was more mixed. Market shares of Article 9 funds dropped in Norway, Denmark, Finland, Italy, the Netherlands, Liechtenstein, Austria, Spain, Malta and Hungary. On the other hand, they rose in Sweden, Belgium, Portugal, Slovenia, Poland and Germany.
- Market share changes between 2023 and 2024 were relatively low in most domiciles, apart from Finland and Belgium. Just like for Article 8 funds, this could indicate that the Article 9 fund market reached a degree of stability in many European countries.
- Luxembourg and the Nordic countries have the highest market shares of Article 9 funds among European countries. The Nordics have a long tradition of ESG investments, and most cross-border Article 9 funds appear to be domiciled in Luxembourg.
- The difference between the two cross-border fund domiciles is more striking for Article 9 funds than for Article 8 funds. Article 9 funds account for 3.7% of Luxembourg-domiciled UCITS but only for 0.8% of Irish UCITS. The prevalence of ETFs and MMFs in Ireland is the main reason behind this difference. Due to their nature and asset allocation, it is much less common for either ETFs or MMFs to be classified as Article 9 funds.

UPCOMING SFDR REVIEW

Articles 8 and 9 became shorthand for EU funds with sustainability features in the financial market, allowing us to track their progress over the last three years. However, the European Commission and lawmakers did not intend for the SFDR to become a labelling regime.

The European Commission is currently reviewing the SFDR to update it for current market needs and to ensure it aligns better with other components of the EU's Sustainable Finance framework. Their proposal is expected in Q4 2025. In advance of this, the European Commission recently published the ["Omnibus Simplification" Package](#), which aims to simplify (corporate) sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD). This simplification initiative and the upcoming SFDR review are inherently interconnected, as CSRD governs the amount and quality of company-level ESG data asset managers receive. Therefore, any modifications to (corporate) reporting requirements necessitate corresponding updates to the SFDR to ensure consistency and alignment across the regulatory framework. More importantly though, it remains to be seen whether the Omnibus will further aggravate the ESG data gap asset managers are currently facing.

Leaving aside the implications of the Omnibus proposal, the SFDR review intends to revisit the original aims of the Regulation and transform it into a proper categorisation regime that classifies funds according to their sustainability features. While the European Commission's intentions are not yet clear, its Platform on Sustainable Finance has recently published a [report on categorising products under the SFDR](#). The Platform recommends categorising products with sustainability strategies into three new categories: Sustainable, Transition, and ESG Collection.

Both the European Commission and the asset management industry agree that the SFDR review must make the framework more transparent and accessible for retail investors. This will require far better aligning the sustainability preference regimes in the Markets in Financial Instruments Directive (MiFID) and the Insurance Distribution Directive (IDD) with the SFDR. This alignment will help retail investors make more informed decisions.

For the review to be successful, effectively communicating sustainability information to retail investors is crucial. The messaging should be tailored to enhance understanding and engagement, enabling investors to make choices that reflect their sustainability preferences without feeling overwhelmed by jargon and excessive paperwork. Any potential changes to the framework must be evaluated carefully for their effectiveness.

Before implementing any changes, a thorough market impact analysis is essential. This analysis should focus on whether the amendments will increase consumer empowerment, encourage product innovation, and respect the diversity of existing ESG strategies.

CONCLUDING REMARKS

This Market Insight examines the evolution of the SFDR fund market three years after its implementation. The research reveals the continuous growth of Article 8 fund net assets and the high share of MMFs within the Article 8 fund market. It shows how Article 8 and 9 funds have a markedly higher share of UCITS than Article 6 funds. Article 9 fund net assets show a steady decline in net assets which, in recent quarters, was mainly a result of net outflows. The negative net sales were due to the relatively high share in the Article 9 market of non-ETF equity funds. These types of funds saw a sell-off over the past two years as investors shifted en masse into ETFs.

Regarding the upcoming SFDR review, we emphasise the need for regulatory adjustments and alignments across all components of the EU's Sustainable Finance framework to strengthen market resilience and maintain investor confidence. We recommend that all potential changes to the SFDR framework be carefully evaluated for their effectiveness via a thorough market impact analysis.

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Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities.

EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

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EU transparency register: 3373670692-24

ENDNOTES

¹ EFAMA data is collected from member associations representing Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Liechtenstein, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Sweden, and Spain. The reported data covers both UCITS and AIFs (Securitisation funds were excluded in France). To make an estimation of the overall size of the European market, we used Morningstar Direct to include data on the Article 8 and Article 9 UCITS domiciled in Ireland and Luxembourg.

The UK and Switzerland are not covered as these countries did not implement the SFDR, even though a very small number of Swiss and UK funds are classified as SFDR Article 8 funds.

² For comparability across the time series, only UCITS are considered for Ireland and Luxembourg, Swiss and UK funds are excluded.

³ See: [SFDR Article 8 and Article 9 Funds: Q4 2024 in Review](#).

⁴ ARIS (Absolute Return Innovative Strategies) funds are typically managed with the objective of generating a positive return over a specific cash benchmark, irrespective of market movements. These funds are likely to make extensive use of derivatives to short/long specific securities or the market as a whole.

⁵ Net sales data for Article 8 AIFs is incomplete as data for LU and IE domiciled AIFs is unavailable.

⁶ To compare like with like we only included countries for which we have data available at end Q4 2023 and end Q4 2024. As mentioned in endnote 1, data on the net assets of Article 8 funds in Ireland and Luxembourg was sourced from Morningstar Direct, since the coverage of the AIF market segment is limited in this database, only UCITS data was used. The market shares of Article 8 funds in these two countries are thus calculated as a percentage of the UCITS market only.

⁷ Only UCITS are considered for Ireland and Luxembourg.

⁸ See again: [SFDR Article 8 and Article 9 Funds: Q4 2024 in Review](#).

⁹ See [EFAMA Fact Book 2024](#).

¹⁰ See [EFAMA Monthly Fact Sheet for December 2024](#).

¹¹ We follow the same approach as explained in endnote 6.