SFDR Article 8 and Article 9 Funds: Q3 2024 in Review

Article 8 funds register highest inflows since late 2021, but investors continue to favor Article 6 funds.

Morningstar Sustainalytics
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Executive Summary

Since the European Union's Sustainable Finance Disclosure Regulation came into force in March 2021, asset managers have been required to provide more information on the sustainability risks and impact of their investment products sold in the EU. The level of disclosure depends on the sustainability objective of the products—that is, whether these are classified as Article 8 or Article 9 under the SFDR. Funds with no environmental, social, and governance characteristics are classified as Article 6.

This report provides an update on the landscape of Article 8 and Article 9 funds at the end of September 2024, examining aspects such as flows, assets, launches, reclassifications, and name changes. We dive into the disclosure of sustainable investments, taxonomy alignment, and principal adverse impact indicators. We also provide a regulatory update.

Key Takeaways

- In the third quarter of 2024, Article 8 funds netted about EUR 38 billion of new money, the highest inflows since late 2021, up from EUR 26.5 billion in the previous quarter. But these pale in comparison to Article 6 fund flows of EUR 96 billion in the last three months.
- Redemptions from Article 9 funds continued for the fourth consecutive quarter as investors pulled EUR 2.2 billion out of these strategies. But this is much less than the previous outflows of EUR 6.5 billion.
- Actively managed Article 8 funds continued their flow recovery by garnering close to EUR 27 billion in the third quarter. Fixed income remains the key contributor to Article 8 inflows.
- Combined assets in Article 8 and Article 9 funds remain quasi-stable at EUR 6 trillion, accounting for 61% of the EU fund assets.
- Newly incepted Article 8 and Article 9 funds, although declining slightly, continue to represent more than half (56%) of the total number of funds launched in the EU.
- About 86 Article 8 and Article 9 funds closed in the third quarter, compared with 209 Article 6 funds. Fewer Article 8 and Article 9 funds tend to be merged or liquidated than Article 6 funds.
- Reclassifications over the quarter reached their lowest level, at just over 10, most to Article 8.
- So far this year, 104 Article 8 and Article 9 funds have changed names, of which 42 added ESG-key terms, 42 dropped ESG-key terms, and 20 swapped ESG-key terms.
- We expect changes to the universe of sustainable funds to intensify in the coming months ahead of looming deadlines for new anti-greenwashing regulations, including the EU's fund naming rules.
- About 75% of Article 8 funds report making some sustainable investments. More than half (52%) report holding at least 30% of sustainable assets but based on various methodologies.

The Article 8 and Article 9 Fund Universe

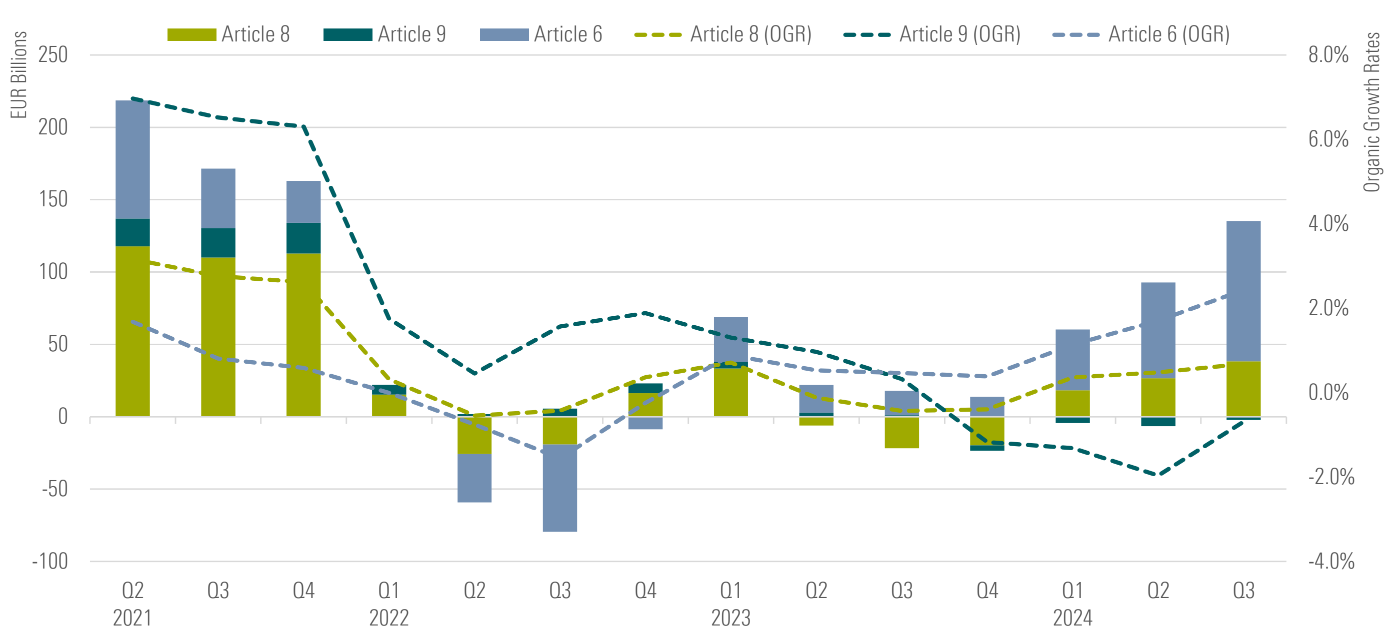
The Article 8 and Article 9 fund universe in this study encompasses open-end and exchange-traded funds in the scope of the SFDR that state in their prospectuses that they promote environmental and/or social characteristics (Article 8, "light green" funds) or they have a sustainable-investment objective (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 within 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 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 Funds Attract Record Inflows Since Late 2021

In the third quarter of 2024, Article 8 funds netted EUR 38 billion of new money, the highest inflows recorded since the fourth quarter of 2021. This compares with restated net subscriptions of EUR 26.5 billion in the previous quarter. Redemptions from Article 9 funds continued for the fourth consecutive quarter as investors pulled EUR 2.2 billion out of these strategies. The outflows, however, declined from EUR 6.5 billion in the previous three months.

Once again, Article 8 and Article 9 funds underperformed Article 6 funds in terms of flows. Article 6 funds attracted EUR 96 billion in net subscriptions during the third quarter, after garnering almost EUR 66 billion in the restated prior quarter, supported by improving economic prospects and market price appreciation. For context, both the Morningstar Global Markets Index and the Morningstar Global Core Bond Index gained 6.6% and almost 6.9%, respectively, in the past three months.

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



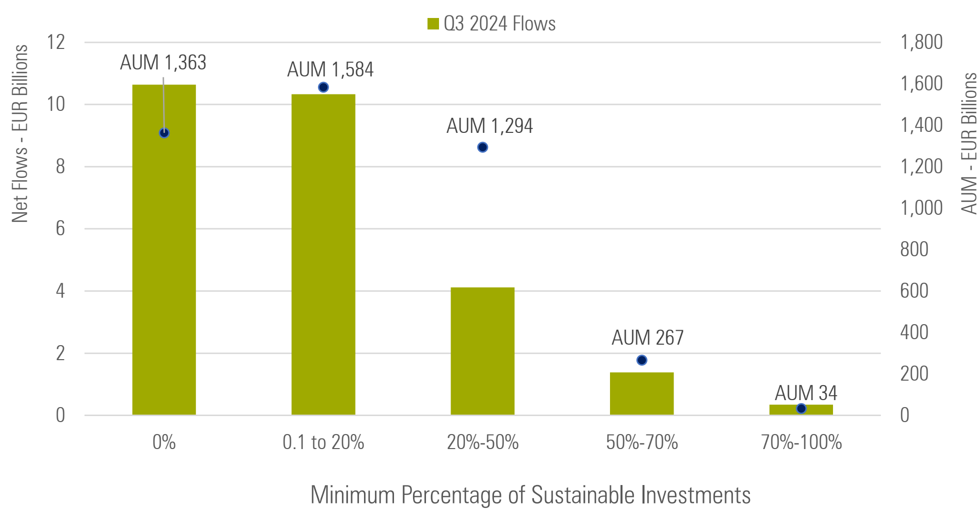
Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Calculated as net flows relative to total assets at the start of a period, the organic growth rate of the Article 8 universe showed a minor uptick to almost 0.7% over the last three months. But this is still lower than the organic growth rate of 2.4% for Article 6 funds.

Article 8 Funds With No Sustainable Investment Commitment Attract Most Money

The largest inflows last quarter were registered by the Article 8 funds with no commitment to sustainable investments, followed closely by those targeting sustainable investments between 0.1% and 20%, reaching EUR 10.6 billion and EUR 10.3 billion, respectively. Article 8 funds planning to hold sustainable investments of at least 20% garnered around EUR 5.8 billion.

Exhibit 2a Third-Quarter 2024 Net Flows Into Article 8 Funds Per Percentage of Minimum Sustainable Investments (EUR Billion)



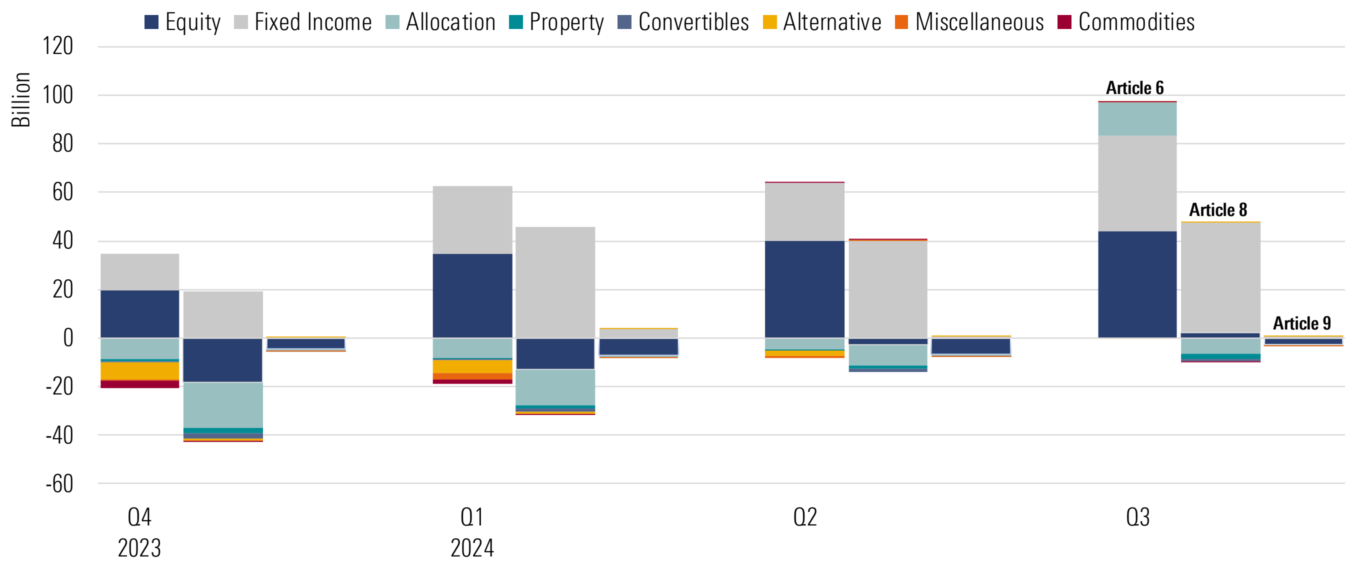
Source: Morningstar Direct. Data as of September 2024, including 8,587 Article 8 funds that reported the EU SFDR Minimum or Planned Investments Sustainable Investments field in the European ESG template (EET). Article 8 funds that didn't report the field amount to almost EUR 1,150 billion in assets and registered EUR 11.2 billion of inflows in the third quarter.

Fixed Income Remains the Key Contributor to Article 8 Fund Inflows

Looking at flows by asset class (Exhibit 2b), we see that fixed income continued garnering new money in the third quarter of 2024 across all SFDR classifications. Slower-than-expected disinflation and economic activity strength have given rise to a less hawkish pace of rate cuts, implying that there are still yield opportunities for bond investors. Fixed income has been the sole asset class showcasing notable flow recovery through the past three quarters of this year for both Article 8 and Article 9 funds, as investors rushed to lock in some attractive yields that offer sound downside protection against price changes. With bond market pricing now aligned with expectations of modest rate cuts and inflation appearing less of a risk, bond market offers a better trade-off between carry and potential yield volatility, keeping it a potentially favorable investment area.

Article 8 bond funds pulled in almost EUR 45 billion in the third quarter, again surpassing their Article 6 equivalents, which collected EUR 39 billion. As for Article 9 fixed-income funds, the positive flows rose to EUR 797 million from the restated EUR 752 million in the previous quarter, albeit less visible in the exhibit below.

Exhibit 2b Net Flows Into Article 8, Article 9, and Article 6 Funds Per Asset Class (EUR Billion)

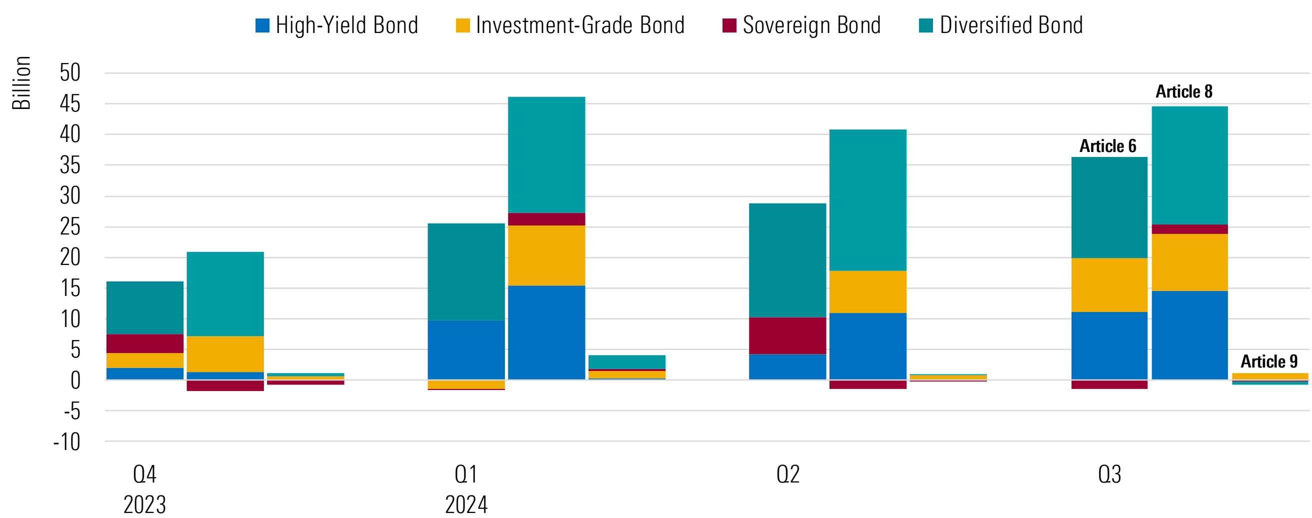


Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

In contrast, flows into Article 8 and Article 9 equity strategies continued to perform poorly compared with Article 6 equity products. While net flows into Article 8 equity funds improved to EUR 2 billion, redemptions from Article 9 equity funds extended into the third quarter after bleeding almost EUR 2.7 billion.

Zooming into the fixed-income space (Exhibit 2c), we saw the flow rebound in the high-yield category extend to the third quarter of this year, supported by strong credit fundamentals and a benign economic backdrop. Furthermore, investors continued to favor Article 8 funds for investment-grade bond investments over Article 6 funds.

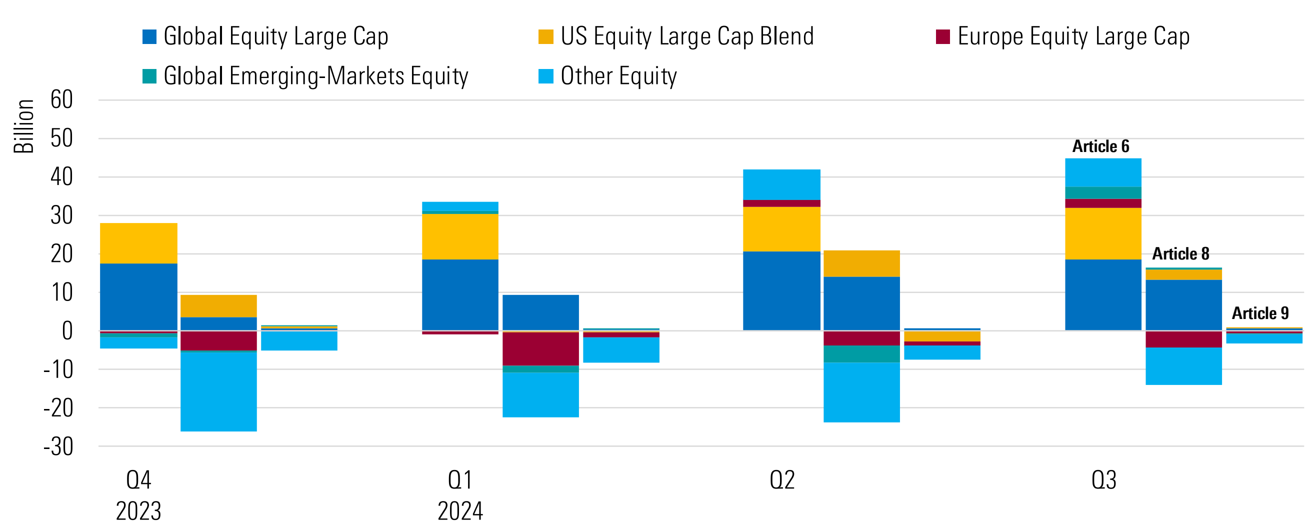
Exhibit 2c Net Flows Into Article 8, Article 9, and Article 6 Fixed-Income Funds Per Morningstar Global Category (EUR Billion)



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Looking into the equity space, we see that Article 8 funds continued to pull net new money into the global, US large-cap equity, and global emerging-markets space. These inflows were just not enough to offset the withdrawals from other equity funds and Europe large-cap equity funds, while Article 6 funds recorded inflows across all the major equity categories. Once again, for US large-cap equity, investors favored mainstream (Article 6) exposure rather than light green (Article 8) and dark green (Article 9) exposure.

Exhibit 2d Net Flows Into Article 8, Article 9, and Article 6 Equity Funds Per Morningstar Global Category (EUR Billion)

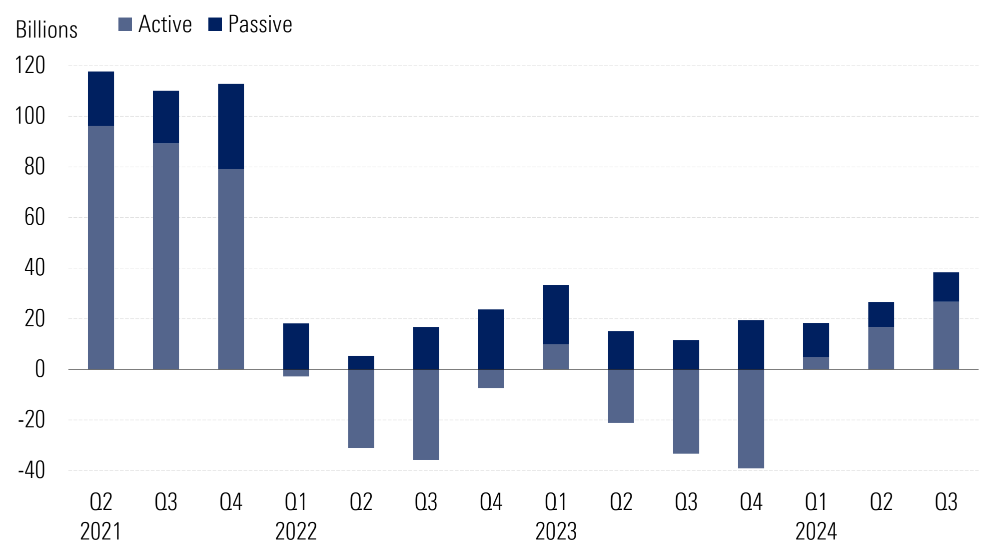


Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Active Strategies for Article 8 Funds Continue Their Recovery

Actively managed Article 8 funds continued their flow recovery, with more than EUR 26.7 billion of inflows in the third quarter of 2024, the highest inflows recorded by these strategies since the fourth quarter of 2021. Meanwhile, passive Article 8 funds attracted EUR 11.6 billion of net new money.

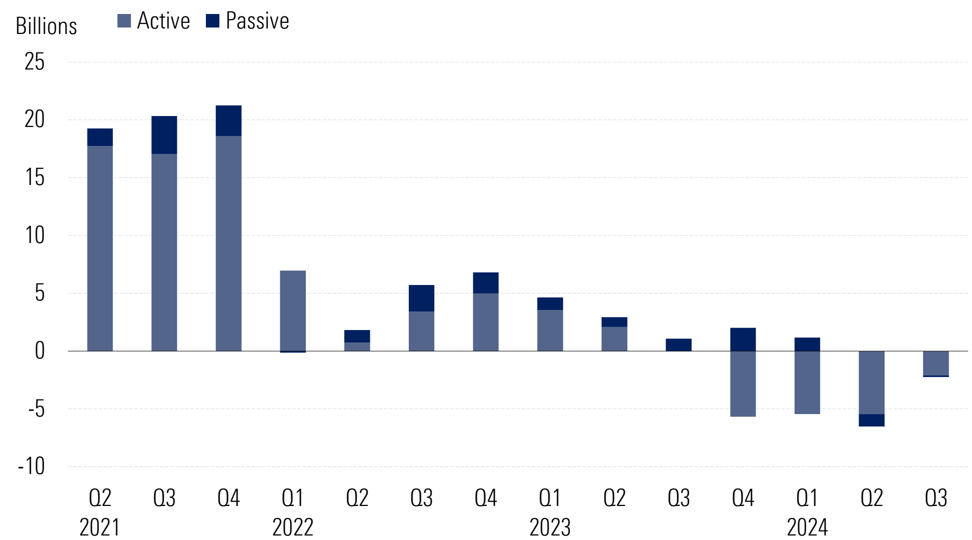
Exhibit 3a Net Flows Into Article 8 Funds Divided by Active and Passive (EUR Billion)



Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The Article 9 fund flow picture continued to look rather bleak, with redemptions from both active and passive funds totaling EUR 2.1 billion and EUR 128 million, respectively. This was a considerable improvement, though, compared with the previous quarter, when investors pulled EUR 6.5 billion.

Exhibit 3b Net Flows Into Article 9 Funds Divided by Active and Passive



Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Overall, actively managed Article 8 and 9 funds recorded substantial inflows of nearly EUR 24.5 billion, while passive Article 8 and Article 9 strategies attracted EUR 11.4 billion in inflows.

Flows—Leaders and Laggards

Below are the Article 8 and Article 9 funds that saw the largest inflows and outflows over the second quarter of 2024.

Exhibit 4 Article 8 Funds With the Largest Inflows and Outflows in the Third Quarter of 2024

Fund Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
AB American Income Portfolio	2,358	Coutts UK ESG Insights Equity Fund	-1,865
Coutts Global Credit ESG Insights Bond Fund	1,473	1895 Wereld Bedrijfsobligaties Fonds	-1,268
Mercer Passive Global Equity CCF Fund	1,459	Coutts US ESG Insights Equity Fund	-1,075
JPMorgan - US Research Enhanced Index Equity (ESG) ETF	1,456	Morgan Stanley Investment Funds - Global Brands Fund	-942
Intensity Crafted By Ruth	1,449	JPMorgan Funds - Emerging Markets Equity Fund	-863
Fidelity Funds - US Dollar Bond Fund	1,430	Mercer Multi Asset Growth Fund	-793
DNCA Invest Alpha Bonds	1,281	Flossbach von Storch SICAV - Multiple Opportunities	-767
Mercer Passive Global Equity Fund	1,147	State Street Euro Corporate Bond Screened Index Fund	-628
Xtrackers S&P 500 Equal Weight ESG ETF	1,119	Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF	-622
JPMorgan - Global Research Enhanced Index Equity (ESG) ETF	1,062	UBAM - Global High Yield Solution	-615

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Among the bestselling Article 8 funds in the third quarter of 2024, we find **AB American Income Portfolio** with inflows of over EUR 2.3 billion. The fund incorporates ESG factors into its investment process while excluding companies involved in controversial weapons. In second place, we find **Coutts**

Global Credit ESG Insights Bond Fund with EUR 1.3 billion inflows. The fund targets global credit investments, emphasizing issuers that demonstrate robust sustainability practices through rigorous ESG screening.

Also featuring in the table of bestselling Article 8 funds last quarter are **JPMorgan US Research Enhanced Index Equity (ESG) ETF** and **JPMorgan Global Research Enhanced Index Equity (ESG) ETF**, which are part of an ETF range for which J.P. Morgan recently decided to drop the "ESG" term from the name. These funds continue to consider ESG factors in their strategies.

At the other end of the flows list, we find **Coutts UK ESG Insights Equity Fund**, which saw redemptions of over EUR 1.8 billion. The fund invests in UK companies that meet specific ESG criteria, seeking to reduce carbon intensity and align its portfolio with climate goals.

Exhibit 5 Article 9 Funds With the Largest Inflows and Outflows in the Third Quarter of 2024

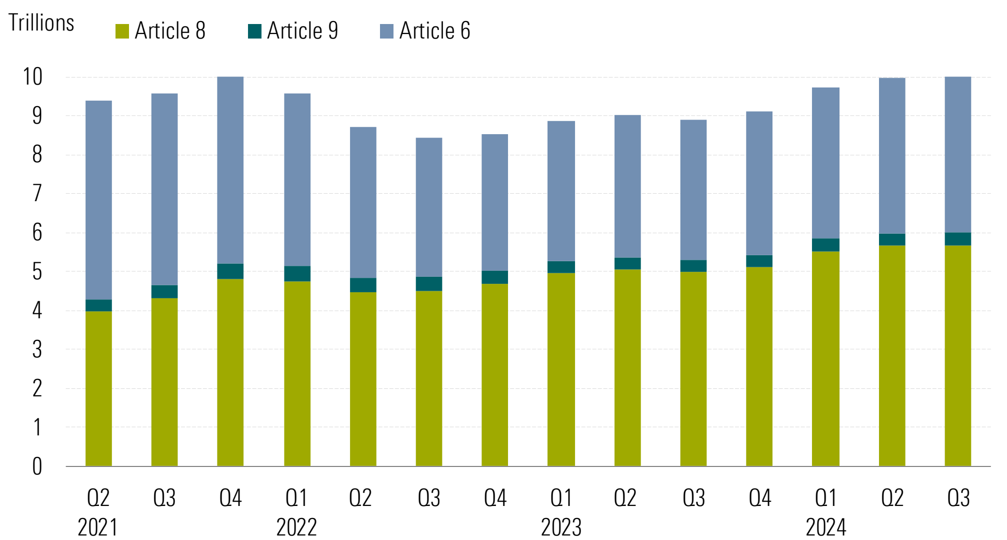
Fund Name	Inflows (EUR Million)	Name	Outflows (EUR Million)
Ruth Core Global Equities	667	Pictet - Clean Energy Transition	-620
Fidelity Sustainable USD Corp. Bond Paris Aligned Multifactor ETF	423	JPMorgan Carbon Transition Global Equity (CTB) ETF	-604
Wellington - Global Stewards Fund	276	Focused World Bank Long Term Bond USD	-469
Handelsbanken Global Småbolag Index Criteria	267	BlackRock Sustainable Energy Fund	-421
Fidelity Sustainable Global HY Bond Paris-Aligned Multifactor ETF	238	Nordea 1 - Global Climate and Environment Fund	-288
Fidelity Sustainable EUR Corp. Bond Paris Aligned Multifactor ETF	199	Focused SICAV - World Bank Bond USD	-285
Handelsbanken Global Index Criteria	184	Goldman Sachs Green Bond	-242
Kutxabank RF Objetivo Sostenible FI	179	AB Sustainable Global Thematic Portfolio	-206
Nuveen Global Credit Impact Bond Fund	162	L&G US ESG Exclusions Paris Aligned ETF	-195
Ruth Global Change Equities	161	Pictet - Global Environmental Opportunities	-192

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 and Article 9 Fund Assets Remain Constant at EUR 6 Trillion

Combined assets in Article 8 and Article 9 funds remained quasi constant at EUR 6 trillion, as of the end of September. Collectively, Article 8 and Article 9 funds maintained a market share of 59.2%.

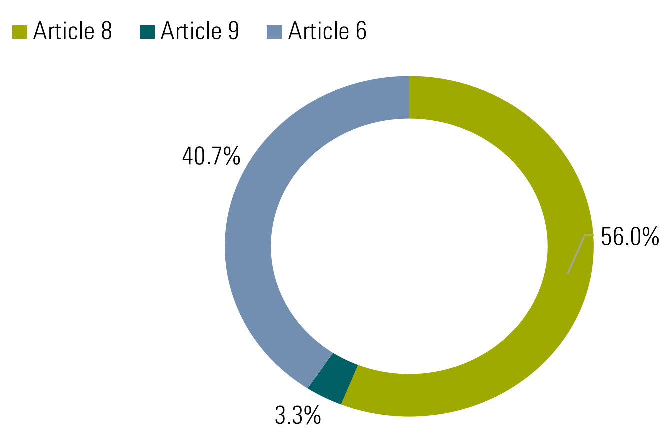
Exhibit 6 Quarterly Asset Breakdown by SFDR Classification (EUR Trillion)



Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Article 8 funds' market share declined slightly to 56.0% from 57.6%.

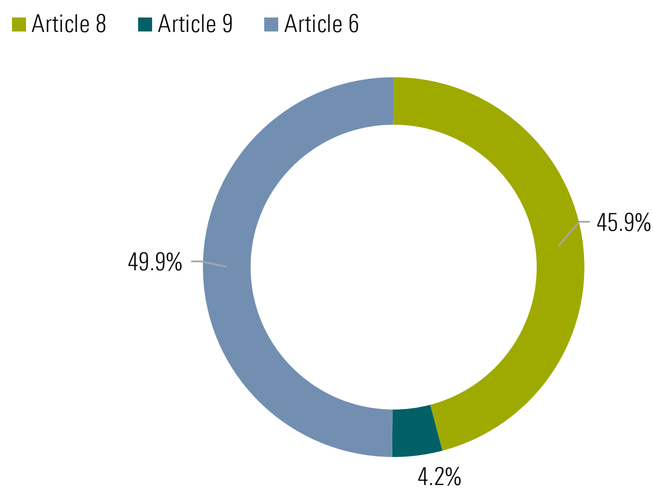
Exhibit 7a SFDR Fund Type Breakdown (by Assets)



Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Measured by number of funds,[1] the combined market share of Article 8 and Article 9 products exhibited almost no change compared with the previous quarter. The Article 8 category grew slightly to include 11,444 funds at the end of September, taking up 45.9% of the market. Meanwhile, for Article 9 funds, this represents a market share of 4.2%, showing almost no change compared with the previous quarter.

Exhibit 7b SFDR Fund Type Breakdown (by Number of Funds)



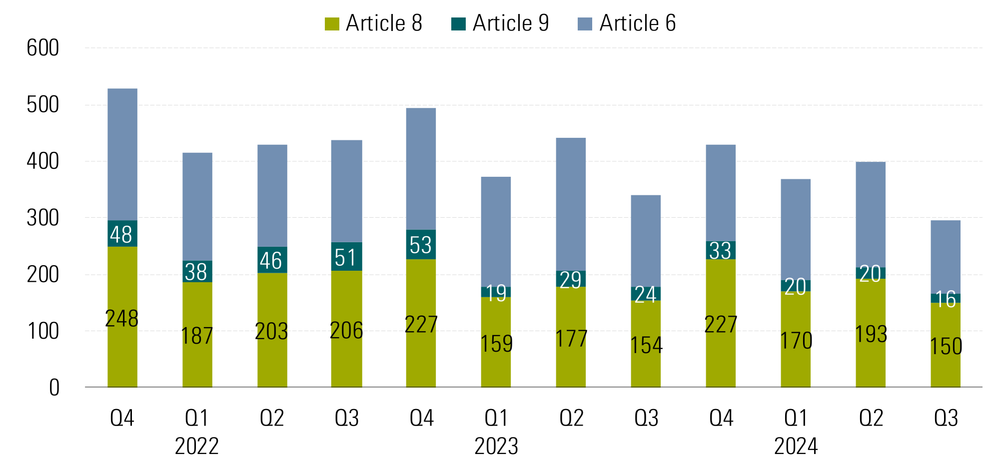
Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds

Product Development Declines, but New Article 8 and 9 Funds Maintain High Market Share

The number of newly launched Article 8 and Article 9 funds totaled a modest 166 in the third quarter. This number will likely be restated upward in future reports as we identify more launches and as additional ones are reported to Morningstar. We revised the number of new Article 8 and Article 9 fund launches in the second quarter to 213 (from 168), which represented an increase relative to the first quarter. The number of launches for the whole of 2024 may therefore not end up being significantly lower than last year's.

1 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.

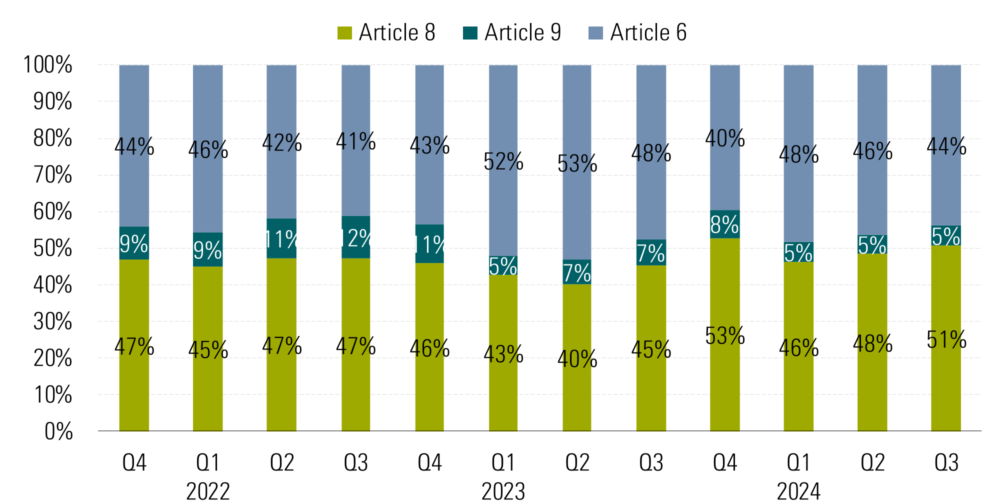
Exhibit 8a Quarterly Number of Fund Launches



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The slightly slower product development seen in the past few quarters is not limited to Article 8 and Article 9 funds. Fewer Article 6 funds have also been incepted, partly attributed to the overall market sentiment damped by the uncertain macro environment, including high inflation and interest rates. In the third quarter of 2024, newly incepted Article 8 and Article 9 funds accounted for 56% of the total number of funds launched in the EU, slightly higher than the first quarter of 2024.

Exhibit 8b Quarterly Breakdown of Fund Launches



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

As seen in past quarters, the new Article 8 and Article 9 products launched during the third quarter of 2024 encompass a variety of asset classes, market exposures, investment styles, themes, and ESG approaches. The following two exhibits show the largest new Article 8 and Article 9 fund launches over the last three months.

The table below features the dominance of fixed-income strategies among the largest newly launched Article 8 funds over the third quarter of 2024. **M&G (Lux) Asian Local Currency Bond Fund** topped the league, with total assets under management of EUR 7 billion at the end of September. The fund focuses on investing in bonds issued by Asian governments and companies integrating ESG factors to promote sustainable economic development and prioritize investments that contribute positively to local communities and the environment.

Kapital Plus stands out as the only new allocation strategy that incorporates various sustainability approaches including socially responsible investing, climate engagement, and strategies applied to green, social, sustainability, and sustainability-linked bonds.

Exhibit 8c Top 10 Newly Launched Article 8 Funds in Third-Quarter 2024

Name	SFDR Fund Type	Assets (EUR Million)
M&G (Lux) Asian Local Currency Bond Fund	Article 8	7036
Kapital Plus	Article 8	3210
BlackRock Sustainable Advantage World Equity Fund	Article 8	885
Eurizon Bilanciato 50 I	Article 8	704
Amundi Obbligazionario Euro 07/2029	Article 8	662
Amundi Obbligazionario Euro 06/2029	Article 8	538
Ruth Core Emerging Markets	Article 8	523
AXA Select Taux Court	Article 8	475
Amundi Obbligazionario Euro 08/2029	Article 8	459
Anima PicPac Megatrend People 2029	Article 8	376

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Nuveen Global Credit Impact Bond Fund led the largest Article 9 fund launches, with assets of EUR 161 million. The fund seeks to invest in global fixed-income securities focusing on issuers that support affordable housing, community development, renewable energy, and resource efficiency. It was followed by three Swisscanto Sustainable Equity thematic strategies targeting the digital economy, circular economy, and healthcare. Under the stock rally fueled by the artificial intelligence boom, **Swisscanto (LU) Equity Fund Sustainable Digital Economy** focuses on companies driving digital transformation, targeting businesses that leverage technology to create scalable solutions that address key sustainability challenges, such as carbon emissions, enhancing energy efficiency, optimizing resources, and promoting social inclusion.

Exhibit 8d Top 10 Newly Launched Article 9 Funds in Third-Quarter 2024

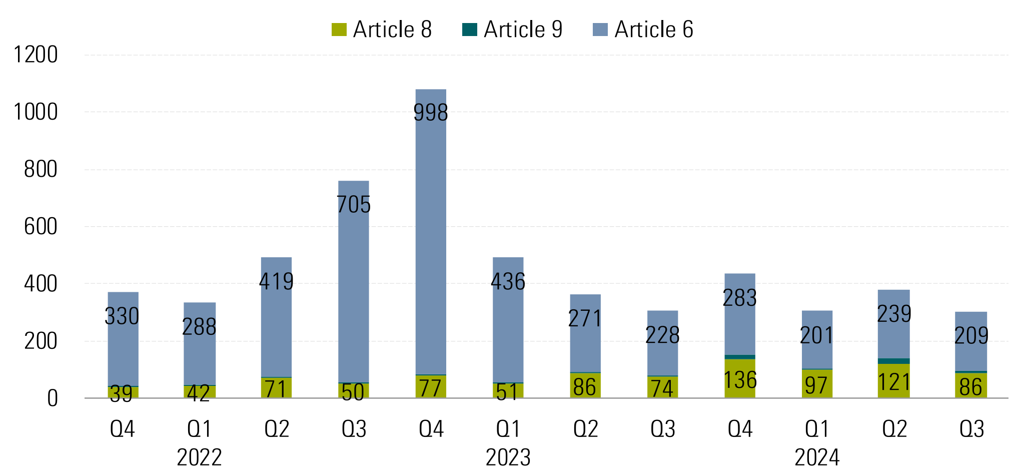
Name	SFDR Fund Type	Assets (EUR Million)
Nuveen Global Credit Impact Bond Fund	Article 9	161
Swisscanto (LU) Equity Fund Sustainable Digital Economy	Article 9	117
Swisscanto (LU) Equity Fund Sustainable Circular Economy	Article 9	71
Swisscanto (LU) Equity Fund Sustainable Healthy Longevity	Article 9	71
Fonditalia Clean Energy Solutions	Article 9	64
BCV Ethos Climate ESG Ambition	Article 9	32
3 Banken Verantwortung & Zukunft Aktienfonds	Article 9	24
UmweltBank ETF Global SDG Focus	Article 9	22
Oblig Impact 2029	Article 9	21
Robeco High Income Green Bonds	Article 9	10

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Fewer Article 8 and Article 9 Funds Close Than Article 6 Funds

The number of closed Article 8 and Article 9 funds totaled 86 in the third quarter. This is below what we saw in the previous quarter, and also lower than the number of closed Article 6 funds (209). As a reminder, as of end of September, Article 8 and Article 9 funds represented about half of EU funds, in terms of number of funds. We can therefore say that asset managers are less likely to merge or liquidate Article 8 and Article 9 funds than Article 6 funds, although there has been an increase this year. The past three quarters recorded a total of 337 Article 8 and Article 9 fund closures, compared to 225 fund closures seen over the same period of last year.

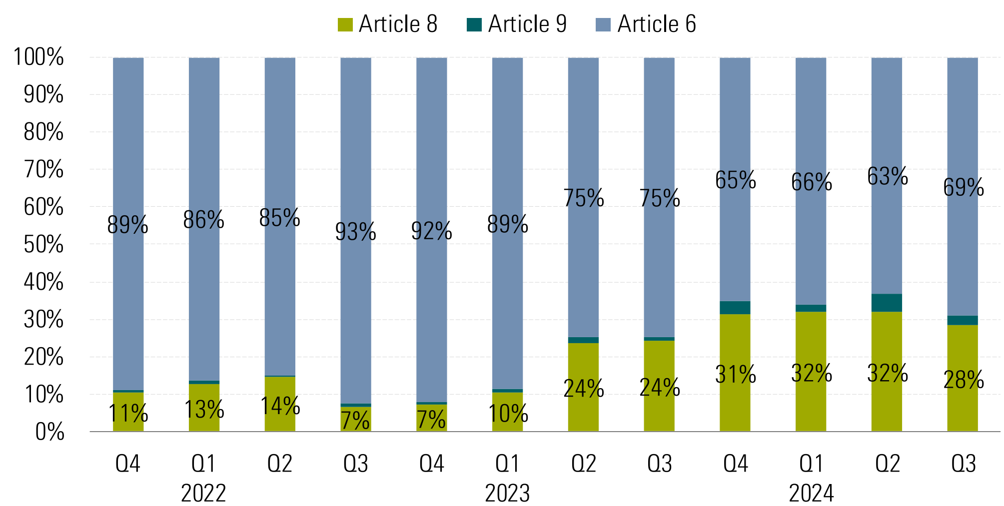
Exhibit 9a Quarterly Breakdown of Fund Closures



Source: Morningstar Direct. Data as of September 2024. Based on 6,209 Article 8, Article 9, and Article 6 funds that have merged or liquidated since April 2021.

As shown below, the share of Article 8 and Article 9 fund in the total number of EU fund closures dropped slightly to 28% in the third quarter from 32% in the two previous quarters. It is still higher than the average levels observed in 2022 and 2023.

Exhibit 9b Quarterly Breakdown of Fund Closures



Source: Morningstar Direct. Data as of September 2024. Based on 6,209 Article 8, Article 9, and Article 6 funds that have merged or liquidated since April 2021.

SFDR Reclassifications Dry Out

Reclassifications in the third quarter of 2024 reached their lowest level since the introduction of the SFDR in March 2021. Only 10 funds changed their SFDR product type, of which almost the entirety (nine) were upgraded to Article 8 from Article 6.

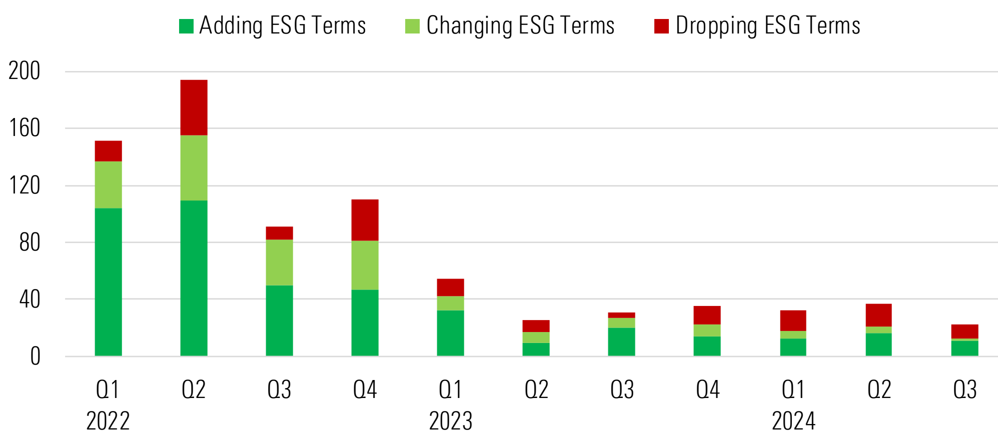
Reclassifications reached their zenith in the last quarter of 2022, with close to 420 funds altering their SFDR status. Out of these, 307 were downgraded to Article 8 from Article 9, representing a total size of EUR 175 billion at the time. The great reclassification wave was triggered by the clarification, provided by the European Securities and Markets Authority, of the EU Commission's June 2021 Q&A over the summer of 2021. It specified that funds making Article 9 disclosures may only invest 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.

At Least 100 Article 8 and Article 9 Funds With ESG Terms Have Rebranded So Far This Year

In addition to fund launches, closures, and reclassification, the landscape of Article 8 and Article 9 products have also been shaped by rebranding activity as indicated by changed fund names. Asset managers have been adding, dropping, and changing the names of existing funds, reflecting changes in investment objectives and/or portfolios. The strong activity of Article 8 funds adding ESG-key terms to their names seen in 2022 has subdued since mid-2023, giving way to a new trend of funds dropping ESG-key terms, which has become more pronounced since the fourth quarter of 2023.

For the year to date through September, 91 Article 8 funds have changed names, of which 39 added ESG-key terms, 40 dropped ESG-key terms, and 12 swapped ESG-key terms. In the third quarter alone, 10 Article 8 funds removed ESG-related terms from their names, 11 added, and 1 swapped. The former included **Fidelity Funds Emerging Markets Ex China Fund**, **Ninety One Global Macro Allocation**, and **Neuberger Berman Global Value Fund**, which had the term "Sustainable" removed. We expect these numbers to be reviewed upwards when the latest name changes get reflected in our database.

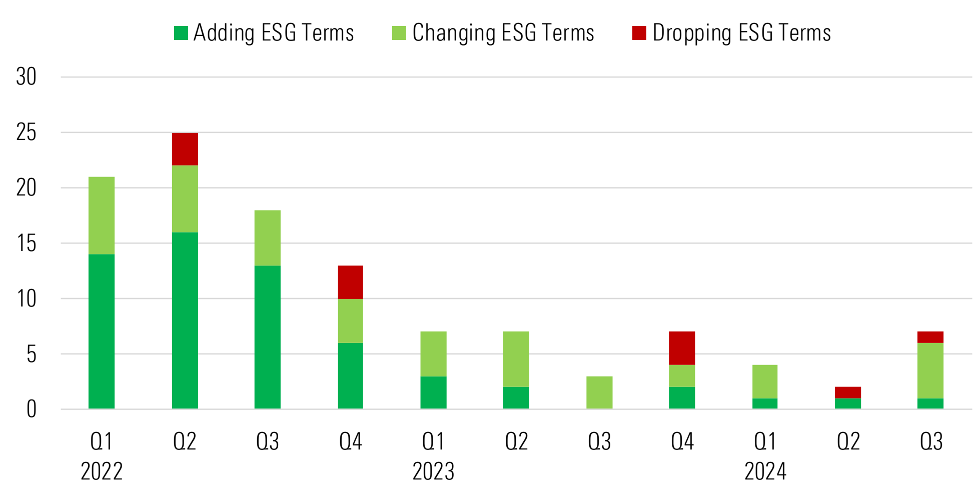
Exhibit 10a Article 8 Funds' Rebranding Activity



Source: Morningstar Direct. Data as of September 2024. Based on 782 Article 8 funds that have added, dropped, or changed ESG- and sustainability-related terms in the legal names.

Meanwhile, 2024 so far saw 13 Article 9 funds rebrand, including eight that swapped an ESG-related term for another, compared with 14 over the whole year of 2023. Three added ESG terms and two dropped ESG terms.

Exhibit 10b Article 9 Funds' Rebranding Activity



Source: Morningstar Direct. Data as of September 2024. Based on 114 Article 9 funds that have added, dropped, or changed ESG- and sustainability-related terms in the legal names.

For example, **Guinness Sustainable Energy ETF**, formerly known as **iClima Global Decarbonisation Enablers ETF**, has transformed to an active strategy focusing on companies engaged in the generation and storage of sustainable energy and the electrification of energy demand. In comparison, the previous fund tracked an index designed to offer exposure to five subsectors including green energy, green transportation, water and waste improvements, decarbonization-enabling solutions, and sustainable products.

While sticking to the original Article 9 SFDR classification, **Algebris Strategic Credit Fund** removed the term “Sustainable” from its name last quarter. The fund seeks to invest in companies contributing to one or several of the predefined ESG themes, ranging from clean energy and energy efficiency, clean water tech to protection of biodiversity and marine resources, as well as waste disposal and circular economy. Earlier this year, another Article 9 strategy, **ODDO BHF Global Target IG 2029**, dropped the term “Green” while continuing to apply its proprietary ESG analysis model for issuer selection, reporting, and engagement. As of September 2024, the fund remained under the Article 9 classification.

We expect an acceleration of rebranding activity among Article 8 and Article 9 funds over the next six months as asset managers marketing products in the EU are required to comply with the ESMA's guidelines on ESG funds' names. They have until May 2025 to do so. The aim of the guidelines is to protect investors against greenwashing risk and provide minimum standards for funds available for sale in the EU that use specific-ESG terms in their names. Last May, we identified around 4,300 EU funds with ESG- or sustainability-related terms in their names that may fall within the scope of the guidelines.

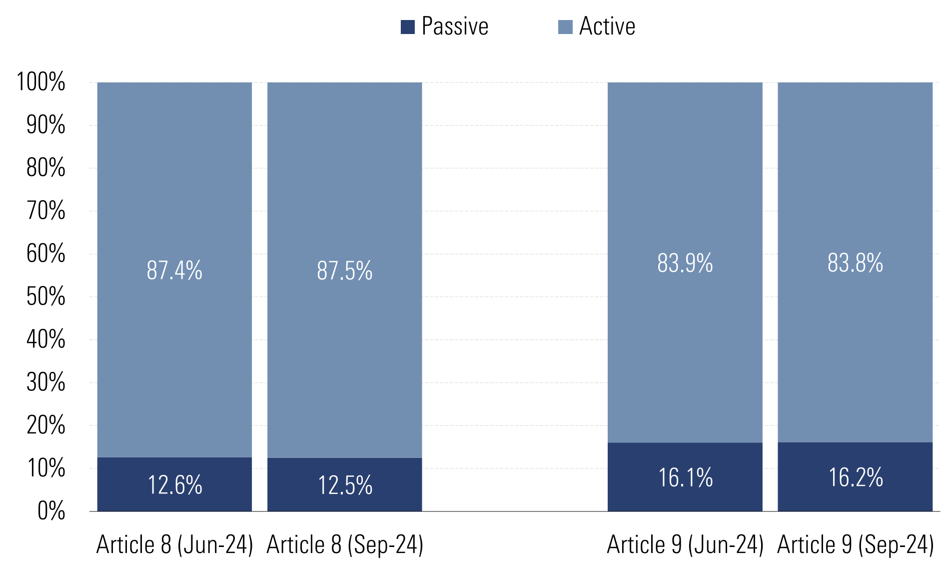
We expect more funds to drop the most popular terms “ESG” and “sustainable” in favor of other ESG-related terms or neutral terms with no connection to ESG or sustainability. This will occur because portfolio managers may not want or be able to meet the strict criteria set by the EU regulator. Among the several hundreds of additional funds that will drop ESG-related terms listed, we expect many to stop promoting their ESG characteristics through their names. For example, "ESG screened," "ESG filtered," and "ESG leaders" will become "screened," "filtered," and "leaders," respectively. This arguably will make it harder for investors to look for funds with ESG characteristics.

We anticipate an increase in the popularity of ESG-related key terms that emphasize transitional aspects. This shift will be driven by a growing number of investors seeking to align their portfolios with the evolving real world. Examples of funds that have swapped ESG-key terms include **Robeco Transition Emerging Credits** (formerly known as **Robeco Sustainable Emerging Credits**), **Pictet Clean Energy Transition** (formerly known as **Pictet Clean Energy**), **Cardano ESG Transition Enhanced Index Equity Global** (formerly known as **ACTIAM Sustainable Index Fund Equity World**), **Trium ESG Emissions Improvers** (formerly known as **Trium ESG Emissions Impact**), as well as **UBS MSCI Emerging Markets Climate Paris Aligned Index Fund** (formerly known as **UBS MSCI Emerging Markets Low Carbon Target Index Fund**).

Passive Article 9 Funds Continue to Gain Ground

The market share for passive funds remained quasi-stable for both Article 8 and Article 9 funds, at 12.5% and 16.2%, respectively.

Exhibit 11 Market Share of Active and Passive Funds Classified as Article 8 and Article 9



Source: Morningstar Direct. Assets as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The Largest Article 8 and Article 9 Funds

Over the past three months, the league table of the 20 largest Article 8 funds has remained relatively stable. We count a majority (11) of funds that target no or low (up to 10%) exposure to sustainable investments. Holding a commitment of 20%, as in the previous quarter, we find **Mercer Multi Asset Growth Fund** and **iShares MSCI USA ESG Enhanced ETF**.

At the top of the classification, we find **AP7 Aktienfond**, a well-known Swedish global large-cap equity fund that is part of the state pension system named AP7. It excludes companies involved in harmful activities like fossil fuels, controversial weapons, and severe human rights violations. It actively engages with companies to promote better sustainability practices and aligns its strategy with international standards such as the UN Global Compact and the Paris Agreement.

Exhibit 12 The 20 Largest Article 8 Funds

Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating	Minimum % Sustainable Investments
AP7 Aktiefond	8	Global Equity Large Cap	105.9	Active	–	0
AB American Income Portfolio	8	US Fixed Income	25.4	Active	🌐🌐	0
Flossbach von Storch Multiple Opportunities	8	Flexible Allocation	25.2	Active	🌐🌐🌐	0
Fidelity Funds - Global Technology Fund	8	Technology Sector Equity	22.1	Active	🌐🌐🌐	5
DWS Top Dividende	8	Global Equity Large Cap	20.3	Active	🌐🌐	15
Morgan Stanley Global Brands Fund	8	Global Equity Large Cap	20.1	Active	🌐🌐🌐🌐🌐	10
Deka-ImmobilienEuropa	8	Property-Direct	18.6	Active	–	0
JPMorgan Investment Funds - Global Income Fund	8	Moderate Allocation	17.7	Active	🌐🌐	10
iShares MSCI USA ESG Enhanced ETF	8	US Equity Large Cap Blend	16.8	Passive	🌐🌐🌐🌐	20
hausInvest	8	Property-Direct	16.6	Active	–	5
UniImmo: Deutschland	8	Property-Direct	16.5	Active	–	0
Swedbank Robur Technology	8	Technology Sector Equity	15.3	Active	🌐🌐🌐🌐	10
AB FCP I - Global High Yield Portfolio	8	Global Fixed Income	14.9	Active	🌐	0
DWS Vermögensbildungsfonds I	8	Global Equity Large Cap	14.7	Active	🌐🌐🌐	15
DWS Concept Kaldemorgen	8	Flexible Allocation	14.4	Active	🌐🌐🌐🌐	10
UniImmo: Europa	8	Property-Direct	14.3	Active	–	0
Capital Group New Perspective Fund (LUX)	8	Global Equity Large Cap	14.2	Active	🌐🌐🌐	0
Schroder EURO Corporate Bond	8	Europe Fixed Income	13.3	Active	🌐🌐🌐	10
BlackRock Global Funds - World Healthscience Fund	8	Healthcare Sector Equity	13.3	Active	🌐🌐🌐🌐	0

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The league table of the largest Article 9 funds also showed little change in the third quarter. As expected, all (but two) Article 9 funds in the table below have high sustainable-investment targets (above 80%), with the rest representing various allocations to cash and hedging instruments. Eight funds have a sustainable-investment target of 90%. A majority focus on an environmental theme such as climate, alternative energy, and water. Also featured is a handful of passive Paris-aligned strategies, including four offered by Handelsbanken.

Exhibit 13 The 20 Largest Article 9 Funds

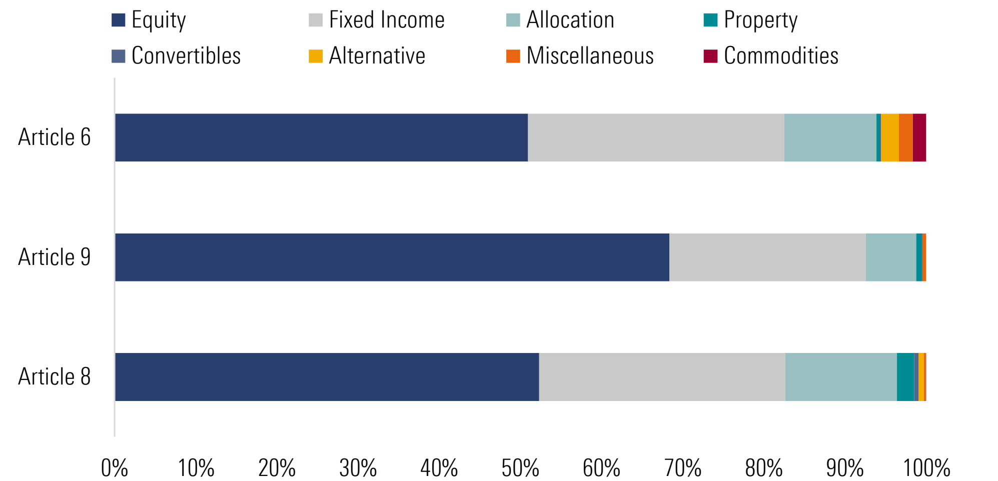
Name	SFDR Fund Type	Morningstar Global Category	AUM (EUR Billion)	Active / Passive	Morningstar Sustainability Rating	Minimum % Sustainable Investments
Handelsbanken Global Index Criteria	9	Global Equity Large Cap	11.4	Passive	🌐🌐🌐	90
Pictet-Water	9	Equity Miscellaneous	8.4	Active	🌐🌐🌐🌐	80
Nordea 1 - Global Climate and Environment Fund	9	Global Equity Mid/Small Cap	8.4	Active	🌐🌐🌐🌐	85
Pictet - Global Environmental Opportunities	9	Global Equity Large Cap	7.4	Active	🌐🌐🌐🌐🌐	80
Mirova Global Sustainable Equity Fund	9	Global Equity Large Cap	5.5	Active	🌐🌐🌐🌐🌐	90
Handelsbanken USA Index Criteria	9	US Equity Large Cap Blend	5.0	Passive	🌐🌐🌐🌐	90
Handelsbanken Norden Index Criteria	9	Europe Equity Large Cap	4.9	Passive	🌐🌐	90
BlackRock Global Funds - Sustainable Energy Fund	9	Energy Sector Equity	4.8	Active	🌐🌐🌐🌐🌐	80
BNP Paribas Funds Aqua	9	Equity Miscellaneous	3.7	Active	🌐🌐🌐🌐	85
Pictet - Clean Energy Transition	9	Energy Sector Equity	3.7	Active	🌐🌐🌐🌐🌐	80
DPAM L - Bonds Emerging Markets Sustainable	9	Emerging Markets Fixed Income	3.7	Active	🌐🌐🌐🌐	80
BNP Paribas Aqua	9	Equity Miscellaneous	3.6	Active	🌐🌐🌐🌐	85
Robeco Sustainable Water	9	Equity Miscellaneous	3.1	Active	🌐🌐🌐🌐	90
Robeco Smart Energy	9	Energy Sector Equity	3.0	Active	🌐🌐🌐🌐🌐	90
Candriam Sustainable Bond Euro Corporate	9	Europe Fixed Income	2.9	Active	🌐🌐🌐	80
Handelsbanken Developed Markets Index Criteria	9	Global Equity Large Cap	2.8	Passive	🌐🌐🌐🌐	90
Impact ES Actions Europe	9	Europe Equity Large Cap	2.8	Active	🌐🌐🌐🌐	90
L&G ESG Paris Aligned World Equity Index Fund	9	Global Equity Large Cap	2.7	Passive	🌐🌐🌐🌐	0
BlueOrchard Microfinance Fund	9	Fixed Income Miscellaneous	2.5	Active	—	0
Swisscanto Portfolio Fund Sustainable Balanced	9	Moderate Allocation	2.5	Active	🌐🌐🌐🌐🌐	80

Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% 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

Article 8 funds share a similar asset-class distribution with Article 6 funds, whereas Article 9 funds exhibit a stronger inclination toward equity. As of September 2024, equity funds constitute almost 70% of Article 9 products, in contrast to 52% and 51% observed in the Article 8 and Article 6 fund groups, respectively.

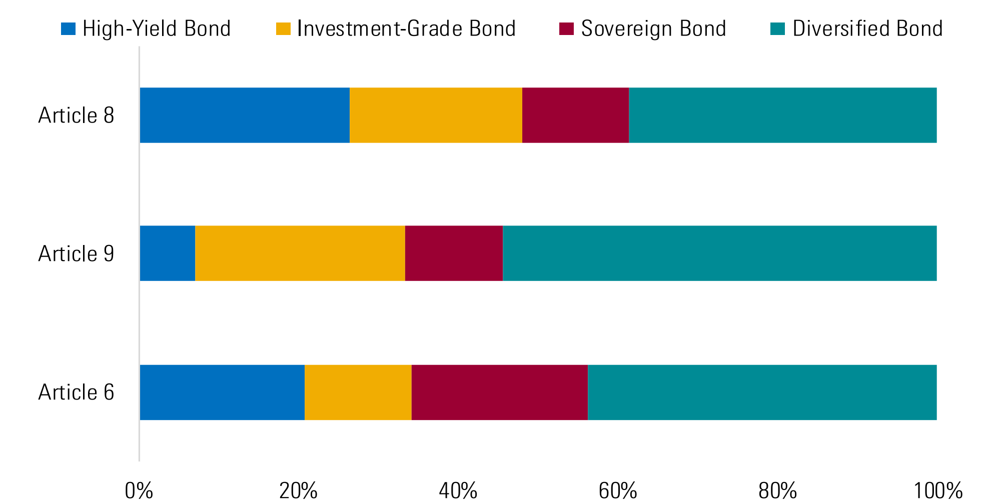
Exhibit 14a Article 8 and Article 9 Funds Per Broad Asset Class



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

Zooming into the fixed-income space, the exhibit below shows an underrepresentation of sovereign bonds in both Article 8 and Article 9 fund categories, relative to Article 6 products. This may not come as a surprise, given the challenges of incorporating ESG factors in that asset class. Meanwhile, investment-grade bonds are overrepresented in both categories, while diversified bonds make up the bulk of Article 9 fund assets (54%) at the expense of high yield (in addition to sovereign bonds). The significant market share for diversified bonds across the SFDR products is unsurprising, as that category encompasses a wide range of sectoral and geographical exposures.

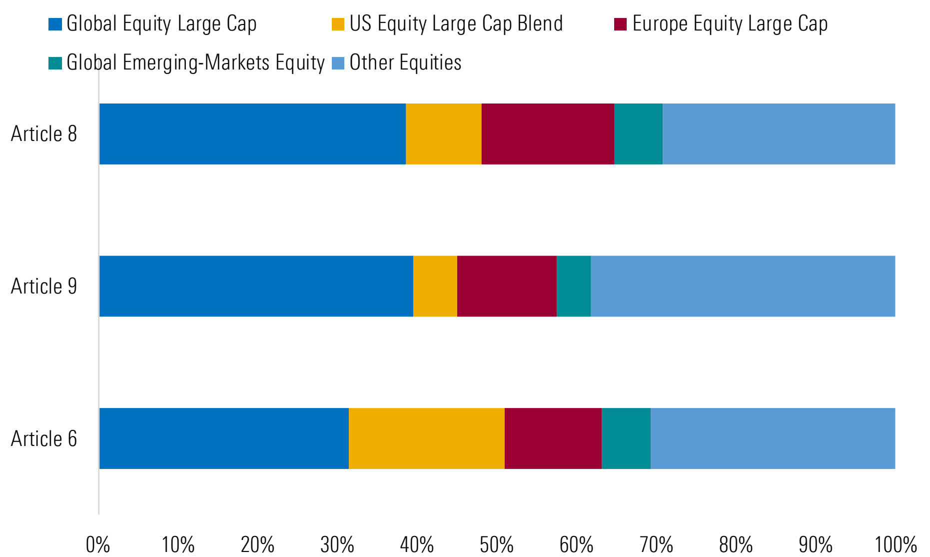
Exhibit 14b Article 8 and Article 9 Funds Per Broad Asset Class



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The exhibit below reveals an overrepresentation of global large-cap funds in the Article 8 and Article 9 categories, compared with Article 6 funds, as these represent 39% and 40% of equity funds in these categories, respectively (versus 31% for Article 6 funds). This reflects sustainability-focused investors' preference for broad, diversified investment strategies focused on global opportunities. US equity large-cap funds are underrepresented within both the Article 8 and Article 9 fund categories, while global emerging markets are underrepresented within the Article 9 fund category.

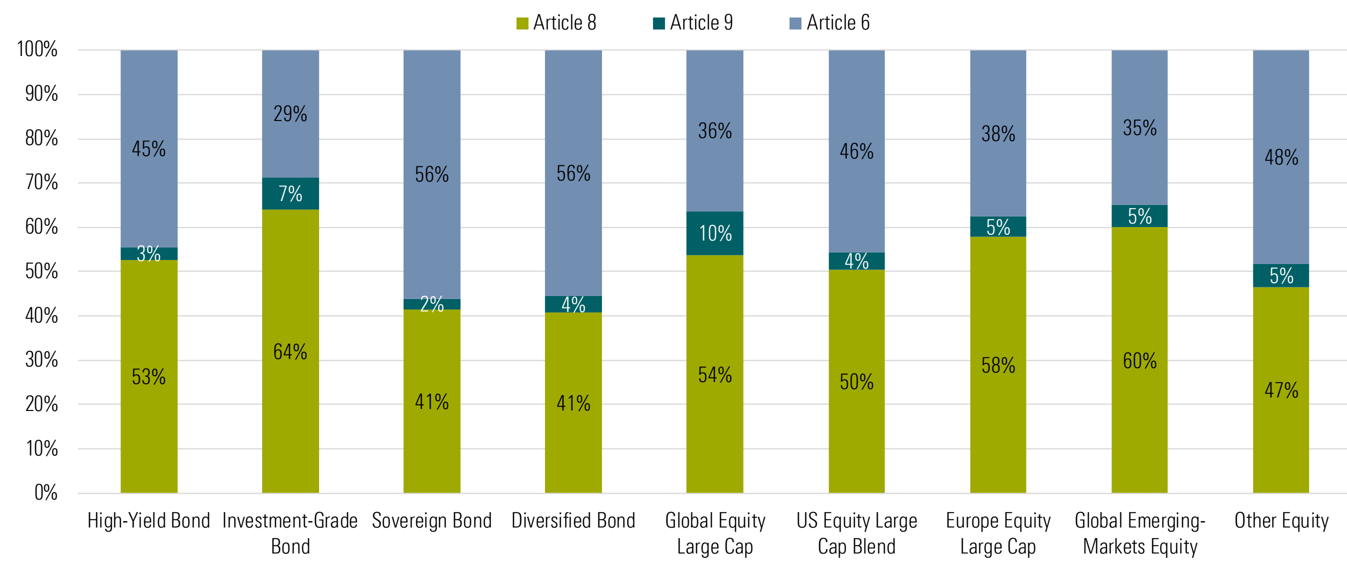
Exhibit 14c Article 8 and Article 9 Funds Per Broad Asset Class



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

The exhibit below confirms the underrepresentation of Article 8 and Article 9 funds in US equity large-cap and sovereign bond Morningstar Categories and their overrepresentation in the investment-grade bond and Europe equity large-cap categories, relative to Article 6 funds.

Exhibit 15 Most Popular Morningstar Categories Split Into Article 8, 9, and 6 Fund Assets



Source: Morningstar Direct. Data as of September 2024. Based on SFDR data collected from prospectuses on 98% of funds available for sale in the EU, excluding money market funds, funds of funds, and feeder funds.

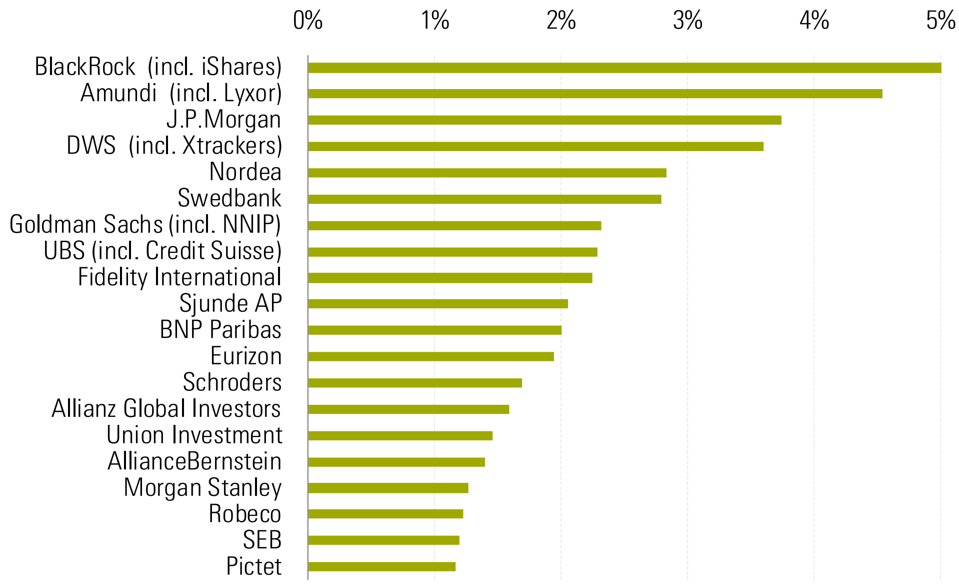
Provider League Tables

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

BlackRock consolidated its leading position of the Article 8 fund market, with a 5.1% share, surpassing Amundi by 0.6%. J.P. Morgan continues to be slightly ahead of DWS.

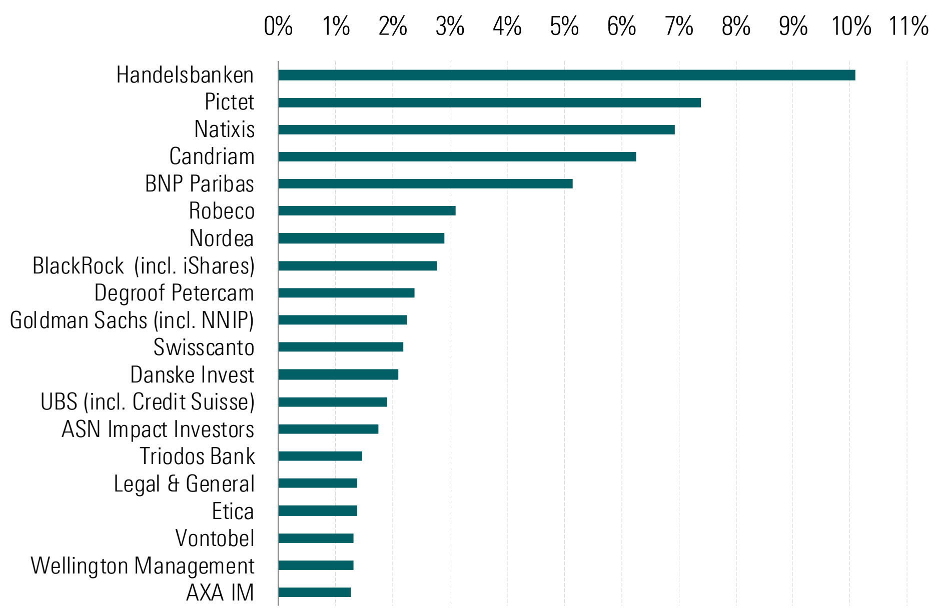
Meanwhile, thanks to its large range of passive Paris-aligned funds classified as Article 9, Handelsbanken also maintained its leading position in the Article 9 fund league table, even increasing its share to 10.1% from 9.8%. Pictet remains second, while Natixis keeps its third position with a market share of 6.9%.

Exhibit 16 Top 20 Asset Managers by Article 8 Fund Assets



Source: Morningstar Direct. Assets as of September 2024 on SFDR data collected from prospectuses on 98% 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 follows: manager's Article 8 fund assets divided by total market Article 8 fund assets.

Exhibit 17 Top 20 Asset Managers by Article 9 Fund Assets



Source: Morningstar Direct. Assets as of September 2024 on SFDR data collected from prospectuses on 98% 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 follows: manager's Article 9 fund assets divided by total market Article 9 fund assets.

Article 8 and Article 9 Funds Through the Lens of Sustainable Investments, Taxonomy Alignment, and Principal Adverse Impacts

Since August 2022, the amended MiFID II requires financial intermediaries to consider clients' sustainability preferences when conducting suitability assessments. If clients express an interest in making sustainable investments, financial intermediaries must accommodate. Depending on the specific client's preferences, financial intermediaries 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.

To facilitate this process, a European ESG template, known as the EET, was developed by industry representatives (FinDatEx) to ease the exchange of data between asset managers and distributors. Asset managers marketing their funds in the EU have been submitting EET data to third-party data organizations like Morningstar Sustainalytics on a voluntary basis since June 2022.

As of September 2024, Morningstar has collected EET data on 110,308 share classes, accounting for 75.4% of all share classes in the scope of MiFID II. These represent 22,612 funds,[2] including 11,475 Article 8 funds and 980 Article 9 funds.

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

- 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.[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.[4]
- PAI Consideration, indicating whether a product considers principal adverse impact in its investments. Answers are "Yes" or "No."[5]

The exhibit below shows the coverage of these three fields for the surveyed Article 8 and Article 9 funds at the end of September 2024.

2 The number of funds and share classes estimated to be in the scope of the EET is 34,474 and 145,263, respectively. Money market funds, funds of funds, and feeder funds are included in this section on the EET.

3 EET Name: 20420_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments

4 EET Name: 20450_Financial_Instrument_EU_SFDR_Minimum_Or_Planned_Investments_Sustainable_Investments_Taxonomy_Aligned

5 EET Name: 20100_Financial_Instrument_Does_This_Product_Consider_Principal_Adverse_Impact_In_Their_Investment

Exhibit 18 Coverage of Key EET Data Points for the Surveyed Article 8 and Article 9 Funds

Source: Morningstar Direct. Data as of September 2024. Based on 11,220 funds and 960 funds reported as Article 8 and Article 9, 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 September 2024. With the regulatory requirement, in place since January 2023, of adding detailed SFDR annexes to product disclosures, managers have stepped up their reporting through the EET, resulting in rising coverage of the two other metrics. By September 2024, over 86% of the surveyed Article 8 and Article 9 funds reported a minimum percentage of sustainable investments, significantly increasing from the 83% recorded three months earlier. Meanwhile, 66% of surveyed Article 8 and Article 9 funds disclosed a minimum percentage of taxonomy-aligned investments, which grew notably from 63% at the end of June. This improved coverage can be explained by some resubmitted data that were missing in the previous quarter.

Planned and Reported Sustainable Investments

The exhibits below compare the distribution of "Planned Minimum Sustainable Investments" and the "Last Reported Sustainable Investments" for the surveyed Article 8 and Article 9 funds, in terms of both count and percentage.

Exhibit 19 Count and Proportion of Article 8 and Article 9 Funds (Y-Axis) With Various Planned and Reported Sustainable Investments (X-Axis)

Source: Morningstar Direct. Data as of September 2024. Based on 9,750 Article 8 funds and 922 Article 9 funds that report Minimum or Planned Sustainable Investment, and 8,052 Article 8 funds and 733 Article 9 funds that reported Last Reported Sustainable Investment.

Seventy-Five Percent of Article 8 Funds End Up Reporting Some Sustainable Investments

Despite an increased sample size, the distribution of minimum or planned sustainable investment (charts on the left) exhibited little change compared with the previous quarter. The number of Article 8 funds with 0% values reached over 3,533 at the end of September, accounting for 36% of the sample Article 8 funds, showing trivial change compared with last quarter. In other words, 64% of Article 8 funds currently commit to make some sustainable investments.

However, we see that the proportion of funds that report making sustainable investments (charts on the right) is higher, about 75%, with the number of Article 8 funds that have 0% values accounting for only 25% of the sample Article 8 funds. This suggests that asset managers are cautious with their precontractual commitment to sustainable investments as they report higher exposure to sustainable investments than planned.

More than half (53%) of Article 8 funds reported holding at least 30% of sustainable investments, which is much higher than the 18% of Article 8 funds that originally planned to reach that minimum level. Meanwhile, Article 8 funds reporting over 60% of sustainable investments accounted for 22% of the sample compared with less than 2% for the planned minimum.

Examples of Article 8 funds that reported higher than planned sustainable-investment numbers include **HSBC Nasdaq Global Climate Tech ETF**, which tracks an index composed of companies that are developing innovative, cutting-edge products and services related to power generation and storage, infrastructure, agriculture, and fossil-fuel-free transportation. As of September 2024, this fund reported allocating over 80% of its assets to sustainable investments, versus the under 70% stated in the planned minimum. Another example is **T. Rowe Price Global Growth Equity Net Zero Transition Fund**, which aims to have at least 50% of the value of the fund's portfolio fulfilling the Achieving Net Zero or Aligned to Net Zero criteria by 2030. This target increases to 100% of the fund's portfolio by 2040. While the former implies a company is already achieving or close to achieving net zero while continuing its ongoing investment plan or business model, the latter means a company should exhibit greenhouse gas emissions intensity performance in line with its 1.5 degrees Celsius aligned short- and medium-term targets and demonstrate a credible decarbonization plan and capital expenditure alignment. Thus, the highest reported sustainable-investment figure may reflect the progress that certain portfolios, particularly those of a transitional nature, have achieved along their decarbonization journeys.

Meanwhile, Article 9 funds targeting at least 80% of sustainable investments rose moderately to 82%, from 81% three months ago, while the number of such funds populating the field grew to 755 from 625. The proportion of Article 9 funds targeting between 90% and 100% increased, accounting for slightly under 44% of the sample. Among these, we identified 103 Article 9 funds targeting 100% exposure to sustainable investment. The reported numbers were, however, higher. About 83% of Article 9 funds reported 90% of sustainable investments, compared with 43% seen in the planned minimum. Of these, 91 Article 9 funds reported 100% of sustainable investments.

It remains to be seen whether the Article 9 distribution of targeted sustainable investments will continue shifting toward the higher end of the spectrum. One factor that could affect 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 the distribution for Article 9 products, and could evolve over time. For example, a fund allowing itself to hold up to 30% of cash may revise this allocation down in the future if 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 investment may revise this number down to account for cash and hedging instruments.

Furthermore, as previously mentioned, sustainable-investment commitments depend on the way asset managers interpret the definition of a "sustainable investment," as defined under the SFDR,[6] 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 calculating sustainable-investment exposure. A change in methodology can lead to changes in reported sustainable-investment commitments, as discussed earlier.

In the third quarter of 2024, about 290 Article 8 funds revised their minimum sustainable-investment commitment, significantly fewer than the number (367) in the second quarter. The majority of these (250, or 86%) reported increased sustainable-investment targets, with changes ranging from 3% to 61%.

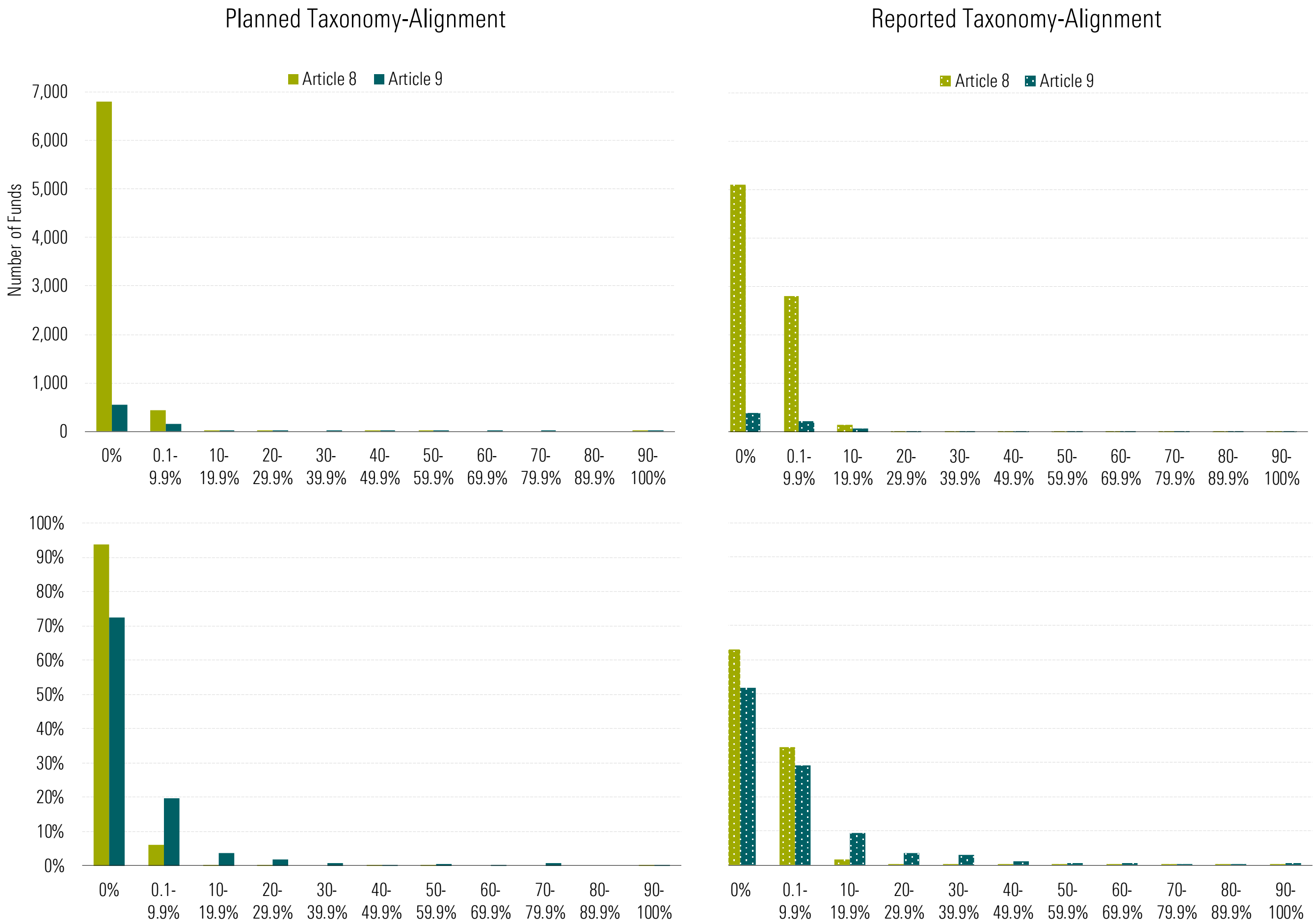
Planned and Reported Taxonomy-Aligned Investments

The exhibits below compare the distribution of "Planned Taxonomy-Aligned Sustainable Investments" and the "Last Reported Taxonomy-Aligned Sustainable Investments" for the surveyed Article 8 and Article 9 funds, in terms of both count and percentage.

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 20 Count and Proportion of Article 8 and Article 9 Funds (Y-Axis) With Various Planned and Reported Taxonomy-Aligned Sustainable Investments (X-Axis)



Source: Morningstar Direct. Data as of September 2024. Based on 7,264 Article 8 funds and 759 Article 9 funds that reported Planned or Minimum Taxonomy-Aligned Sustainable Investment, and 8,188 Article 8 funds and 771 Article 9 funds that reported Last Reported Taxonomy-Aligned Sustainable Investment.

Thirty-Seven Percent of Article 8 and 48% of Article 9 Funds Report Taxonomy-Aligned Sustainable Investments Above Zero

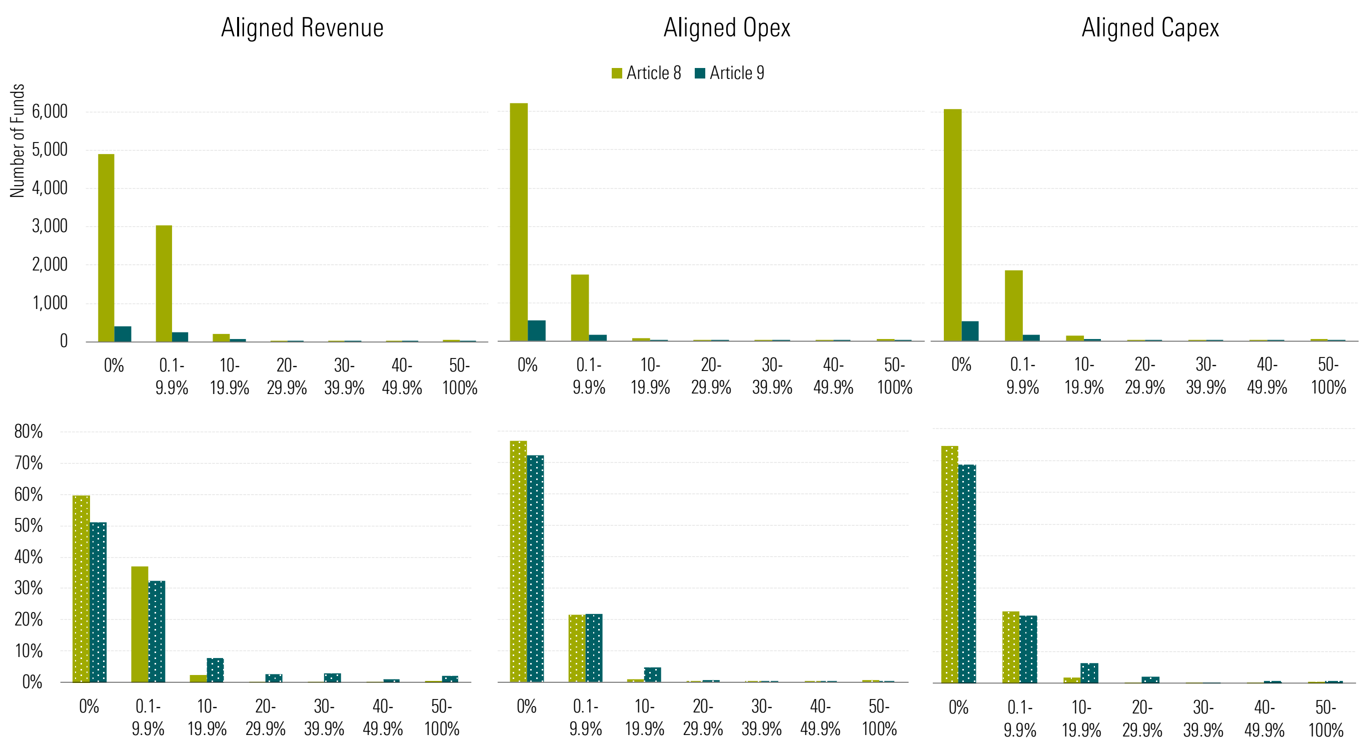
The proportion of funds planning taxonomy-aligned investments remains unchanged compared with the second quarter. The overwhelming majority of the funds populating the field (6,807, or 94%, for Article 8 funds and 550, or 72%, for Article 9 funds) showed 0% value at the end of September. Close to 20% of Article 9 funds planned minimum taxonomy-aligned sustainable investments between 0% and 10%, compared with under 18% three months ago. Almost 60 (8%) Article 9 funds target exposure of at least 10%. Seven funds committed exposure higher than 60%.

Looking at reported taxonomy-aligned investments, we can see a less skewed distribution for both Article 8 and Article 9 funds, which means that a higher number and proportion of funds report taxonomy-aligned sustainable investments than planned. About 37% of Article 8 funds and 48% of Article 9 funds report taxonomy-aligned investments above zero. The percentage of Article 8 funds with last reported taxonomy-aligned sustainable investments between 0% and 20% reached 36.4% (from 34% three months ago), compared with 6.2% for the planned data field.

We can expect both the planned and last reported figures to improve in the coming months, as last year it became mandatory for companies to start disclosing the taxonomy alignment of their activities. For more details on issuer-level taxonomy alignment, see the next section.

Reported Taxonomy-Aligned Revenue, Operational Expenditure, and Capital Expenditure
In this section, we look at how Article 8 and Article 9 funds report taxonomy-aligned revenue, capital expenditure, and operational expenditure. The number of surveyed Article 8 and Article 9 funds that have populated the three fields are 8,100 and 753, accounting for 71% (up from 66% three months ago) and 77% (up from 73% three months) of our sample, respectively. The exhibits below show the distribution of the reported values.

Exhibit 21 Proportion and Count of Article 8 and Article 9 Funds (Y-Axis) With Various Taxonomy-Aligned Revenue, Opex, and Capex (X-Axis)



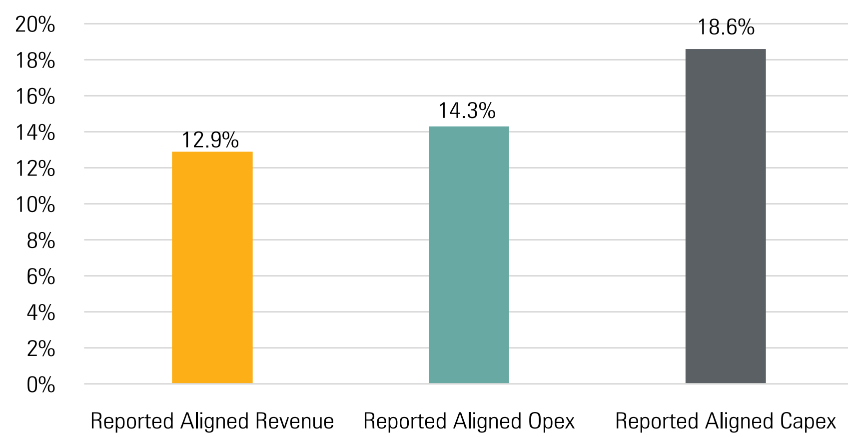
Source: Morningstar Direct. Data as of September 2024. Based on 8,226 Article 8 funds and 782 Article 9 funds that report Taxonomy-Aligned Revenue; 8,100 Article 8 funds and 753 Article 9 funds that reported Taxonomy-Aligned Operational Expenditure; and 8,148 Article 8 funds and 753 Article 9 funds that report Taxonomy-Aligned Capital Expenditure.

Overall, the number of Article 8 and Article 9 funds reporting taxonomy-aligned revenue above 0% totaled 3,326 and 362, respectively, accounting for almost 40% and 50% of the samples. About 37% of the surveyed Article 8 funds report values between 0% and 10%. This number was lower for the Article 9 funds reporting the same range of taxonomy-aligned revenue (33%).

The number and proportion of funds reporting taxonomy-aligned capex and opex above 0% were lower: Only 1,885, or 23%, of Article 8 funds and 209, or 28%, of Article 9 funds populated both fields at the end of September. Just 6%, or 45, Article 9 funds reported taxonomy-aligned opex higher than 10%. Meanwhile, the number of Article 9 funds reporting taxonomy-aligned capex higher than 10% rose to 75 from 45 three months ago, accounting for 10% of the sample funds that have populated the data field.

We expect these numbers to increase in the near future as more issuer-level taxonomy-alignment data becomes available. Based on data reported by companies under the EU Taxonomy in 2024 for the 2023 financial year, we calculated the overall average reported aligned capex and opex at just above 18.6% and 14.3%, respectively. These numbers are low, but they still surpass the average aligned revenue of 12.9%. This can be interpreted as a positive signal that companies are investing in environmental projects that are turning nonsustainable activities into sustainable ones.

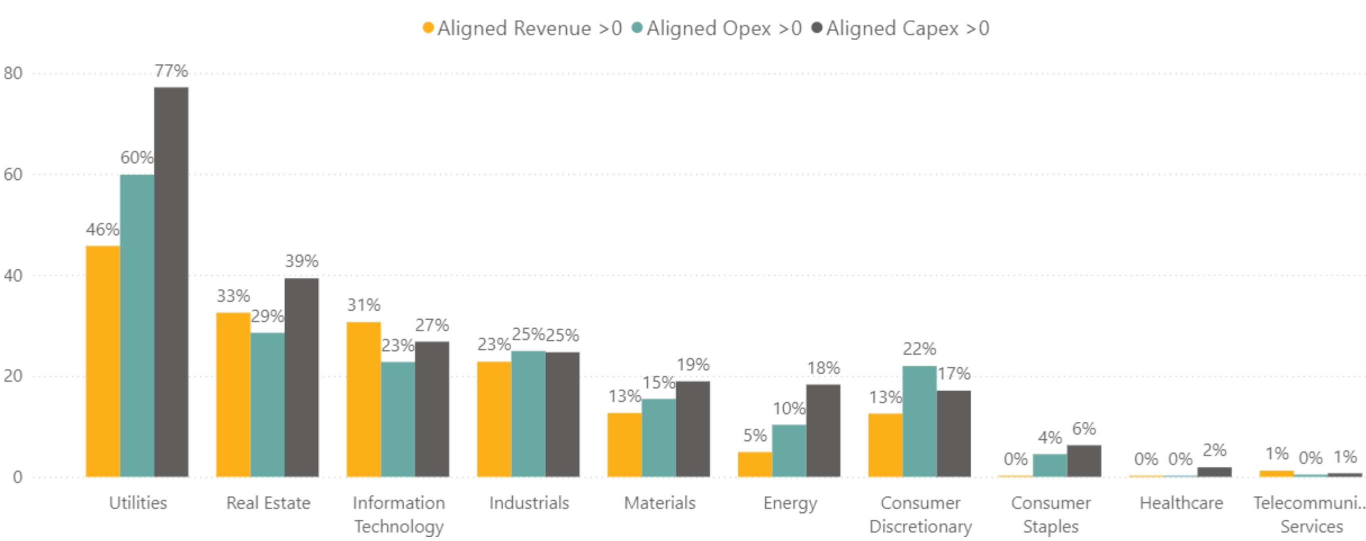
Exhibit 22 Issuer-Level Overall Percentage of Reported Taxonomy Alignment



Source: Morningstar Sustainalytics. Data as of September 2024. Based on 1,100 companies that have reported data for EU Taxonomy. Data for the 2023 financial year.

The numbers above show overall averages, but we observe wide disparities across sectors. Utilities stands out as the sector with the highest numbers across all three metrics. Utilities companies report an impressive 77% average capex alignment, while their average revenues are 45% aligned. This sector is pivotal in driving the energy transition toward low-carbon technologies. Meanwhile, other high-emitting sectors such as materials and energy exhibit low alignment figures, with only 18% of capex in these sectors being aligned with EU sustainable objectives. Meanwhile, healthcare companies report close to 0% alignment. Real estate, industrials, and materials companies report average aligned capex numbers of 39%, 25%, and 19%, respectively.

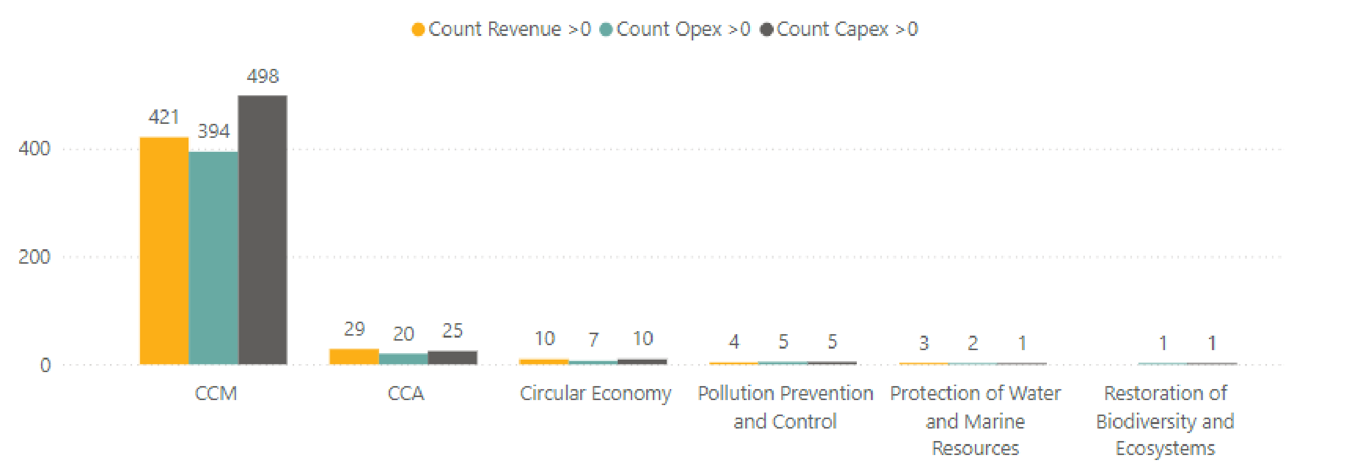
Exhibit 23 Taxonomy-Alignment Above-Zero Per Sector



Source: Morningstar Sustainalytics FY 2023.

In September, Morningstar Sustainalytics released fiscal-year 2023 reported data for the remaining four environmental objectives (pollution, water, circular economy, and biodiversity and ecosystems), as well as nuclear and gas data. But as shown in the exhibit below, the data remains limited at this point because alignment reporting on these objectives is currently voluntary, but it will become mandatory from 2025 (for the 2024 financial year) in a phaseout way.

Exhibit 24 Number of Companies Reporting Taxonomy-Alignment per Objective



Source: Morningstar Sustainalytics FY 2023. CCM: Climate Change Mitigation; CCA: Climate Change Adaptation.

Meanwhile, we can see that climate change mitigation remains the overwhelming focus. For fiscal-year 2023, out of 744 companies reporting on climate change mitigation, 498 reported above-zero alignment.

By contrast, of the 575 companies reporting on climate change adaptation, only 29 reported alignment above zero.

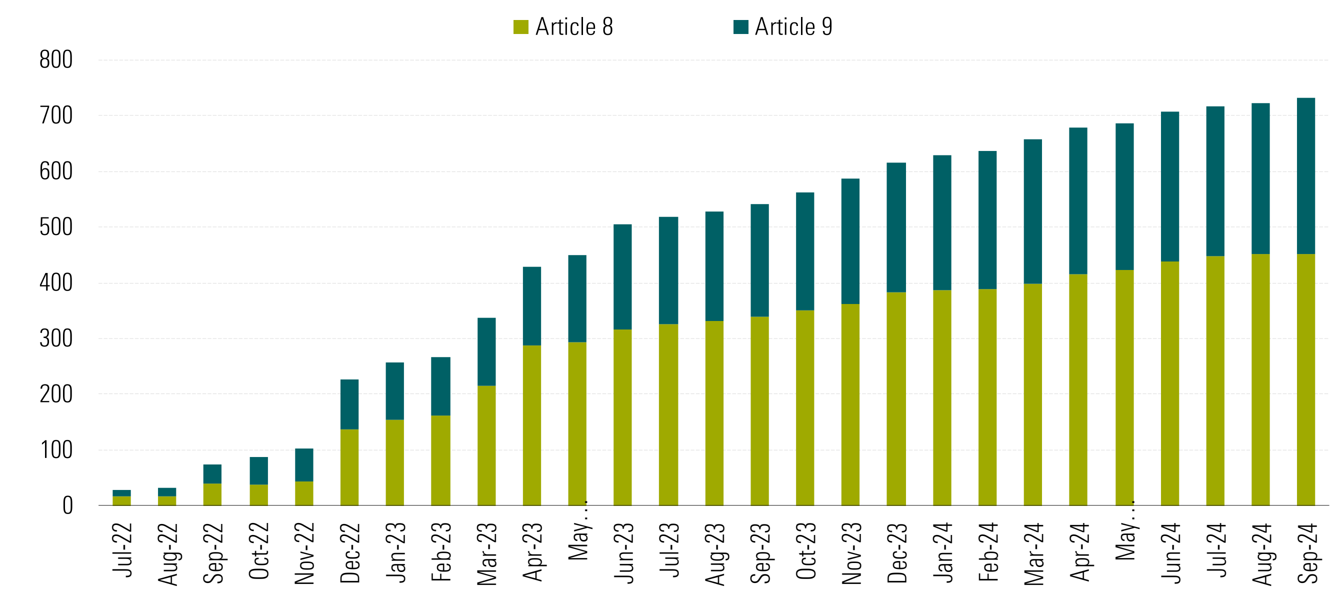
For more details on the state of the EU Taxonomy reporting: EU Taxonomy Reporting Review

More issuer-level taxonomy-aligned data will result in more funds reporting taxonomy-aligned revenue, opex, and capex. For investors, this should facilitate better comparison when selecting funds.

Carbon Emission-Reduction Objectives

Another important field in the EET is "Carbon Emission Reduction Objective,"[7] which asset managers are increasingly keen to add to their funds, as evidenced below by the growing number of funds responding "Yes" to the field. As of September 2024, 452 Article 8 funds and 280 Article 9 funds reported having a carbon-reduction objective, accounting for 11% of the Article 8 funds and 7% of the Article 9 funds that have populated the field, respectively. These percentages leveled with the 11% and 6% reported in the previous quarter for the Article 8 and Article 9 funds that have reported the field.

Exhibit 25 Number of Article 8 and Article 9 Funds With Carbon Emission-Reduction Objectives



Source: Morningstar Direct. Data as of September 2024, based on a total of 4,259 funds that populated the field, including 3,496 Article 8 funds and 7,638 Article 9 funds. The increase in the number of funds with carbon-reduction objectives also partly reflects the increase in EET coverage.

There is, however, a range of objectives represented in this universe of Article 8 and Article 9 funds with emissions-reduction objectives. The least constraining goal is to reduce a portfolio's carbon intensity relative to a benchmark or an investment universe. For example, **BNP Paribas Easy Sustainable EUR Corporate Bond** seeks to achieve a portfolio's greenhouse gas intensity lower than the GHG intensity of

7 EET reference: 20570_Financial_Instrument_With_Objective_Of_A_Reduction_In_Carbon

the benchmark. While targeting a lower average carbon intensity than the same index, **UBS Global Corporates Climate Aware Fund** is increasingly focused on companies' current and expected contributions to the transition to low carbon economy, in particular those in the renewable energy sector.

Other strategies offer quantified emissions reduction between 10% and 50%. Examples include **Abrdn Global Corporate Sustainable Bond Fund,** which sets a carbon intensity target with a phased reduction over time. Setting Dec. 31, 2019, as the baseline, the fund targets a portfolio level carbon intensity that is at least 25% lower than this baseline by Dec. 31, 2025, and at least 55% lower by Dec. 31, 2030.

Additionally, funds that track or reference themselves to Paris-aligned benchmarks and climate-transition benchmarks target emissions reduction of 50% and 30%, respectively. For example, **L&G RAFI Multi-Factor Climate Transition Index Fund** tracks an index designed to meet the standards of the EU Climate-Transition Benchmark, aiming to reduce the weighted average GHG intensity relative to the investable universe by 30% and reduce the weighted average GHG intensity by 7% on an annualized basis.

Meanwhile, certain active strategies focus on the contribution or emission reduction progress made by individual companies instead of a predetermined annual emission target at the fund level, such as **Swedbank Robur Transition Energy** and **SEB Global Climate Opportunity Fund.** The former is an active strategy that focuses on companies that contribute to the mitigation of, or adaption to, climate change, while closely monitoring scope 1 and 2 GHG emission intensity at the portfolio and holding levels. Investable companies include those involved in renewable energy generation and provision of energy efficiency technologies, as well as those engaged in significant carbon emission reduction efforts that are in line with the objective of the Paris Agreement.

Regulatory Update

The translation of the ESMA guidelines on ESG funds' names was published, triggering implementation deadlines. New funds must comply with the guidelines by Nov. 21, 2024, and existing funds will have until May 21, 2025. The guidelines aim to protect investors from greenwashing risk and provide minimum standards for funds available for sale in the EU that use specific ESG terms in their names. Funds will need to comply with new portfolio requirements, as laid out in the guidelines, or change their names.

For more details on the impact of the guidelines: ESMA's Guidelines on ESG Fund Names | Morningstar.

ESMA's guidelines constitute a significant additional requirement on top of the SFDR, which is expected to be reviewed once the new European Commission takes office. In the mission letter, commissioner-designate Maria Luís Albuquerque was asked to scale up sustainable finance, in particular transition finance, and to develop a new categorization of products with sustainability features, which is to be understood as a confirmation of the review of SFDR. The legal proposal is expected to be published in 2025 before it goes through the European Parliament and the Council and potential amendments.

In that context, the ESMA has published its long-term vision on the functioning of the Sustainable Finance Framework, where it calls for the European Commission to complete the EU Taxonomy and make it the sole common reference point for the assessment of sustainability. The paper also supports the establishment of a sustainable and transition category underpinned by clear product criteria and transparency requirements.

On July 25, 2024, the European Supervisory Authorities updated their consolidated Q&As on SFDR. Fifteen new Q&As have been added, covering a range of issues, including the calculation of principal adverse impact indicators being performed on a pass/fail basis, the calculation of the share of sustainable investment that qualifies as environmentally sustainable and its disclosure, and whether sustainable investment can also be made by investing in another financial product, such as a UCITS fund.

On the issuer sustainability reporting front, the European Commission has started infringement procedures for 17 member states that have missed the transposition deadline for the Corporate Sustainability Reporting Directive. It has also issued FAQs on the interpretation of certain provisions of CSRD, covering items such as the scope, application dates and exemptions, assurance regime, Article 8 Taxonomy Regulation disclosures, and interaction with the SFDR. On the latter, it is important to note a crucial change regarding PAI disclosure at the entity level. The CSRD FAQs now indicate that “may assume that any indicator reported as non-material by an investee company applying the European Sustainability Reporting Standards does not contribute to the corresponding indicator of principal adverse impacts in the context of the SFDR disclosures, i.e., the value of that investment does not need to be included in the numerator of the given SFDR principal adverse impact indicator." This goes against current market practice and the SFDR consolidated Q&A, which requires the inclusion of all investments for PAI reporting. It is also worth noting that on July 26, 2024, the European Financial Reporting Advisory Group expanded its explanations for the European Sustainability Reporting Standards underpinning the CSRD.

On July 25, 2024, the European Commission also published initial guidance on the Corporate Sustainability Due Diligence Directive in the form of FAQs, confirming the scope of application for financial undertakings: “While the personal scope of application of the Directive also covers financial undertakings, financial services provided in the context of relationships with clients are excluded from its material scope. The possible inclusion of the client relationships will be considered under a specific review clause within two years after entry into force of the Directive. Financial undertakings are nevertheless required to adopt and put into effect a climate transition plan, including absolute emission reduction targets for scope 3 greenhouse gas emissions, where appropriate." The Corporate Sustainability Due Diligence Directive will come into effect in July 2027 and by 2029 will capture roughly 5,500 companies. While complementary to the CSRD, the CSDDD constitutes a significant regulatory step up: It mandates the execution of certain sustainability practices, while the CSRD requires reporting on sustainability risks and impacts.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.sustainalytics.com.

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