



Snapshot Sustainability

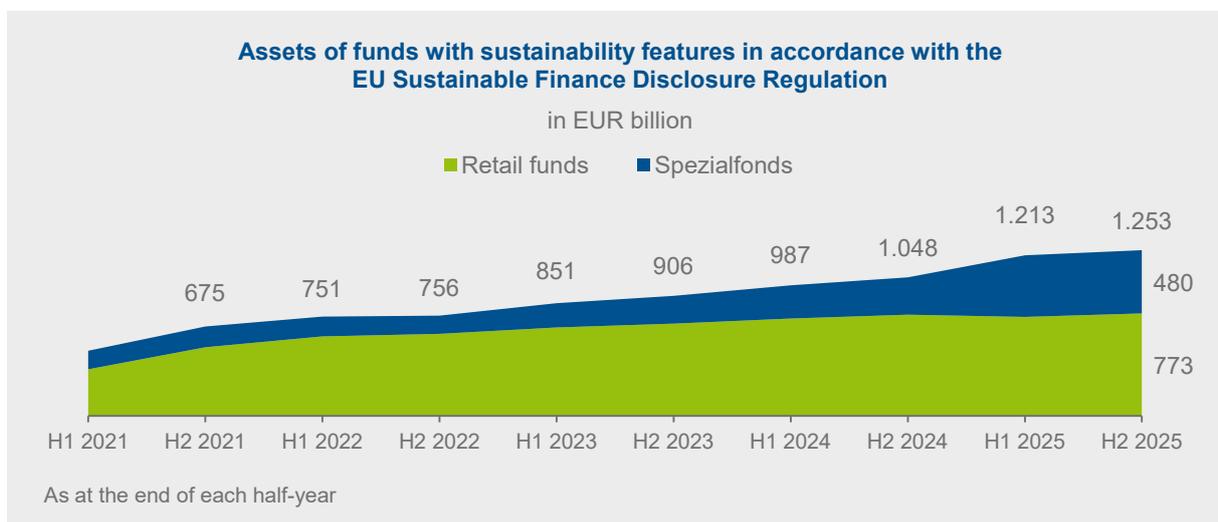
THE SUSTAINABLE FUND MARKET IN THE SECOND HALF OF 2025

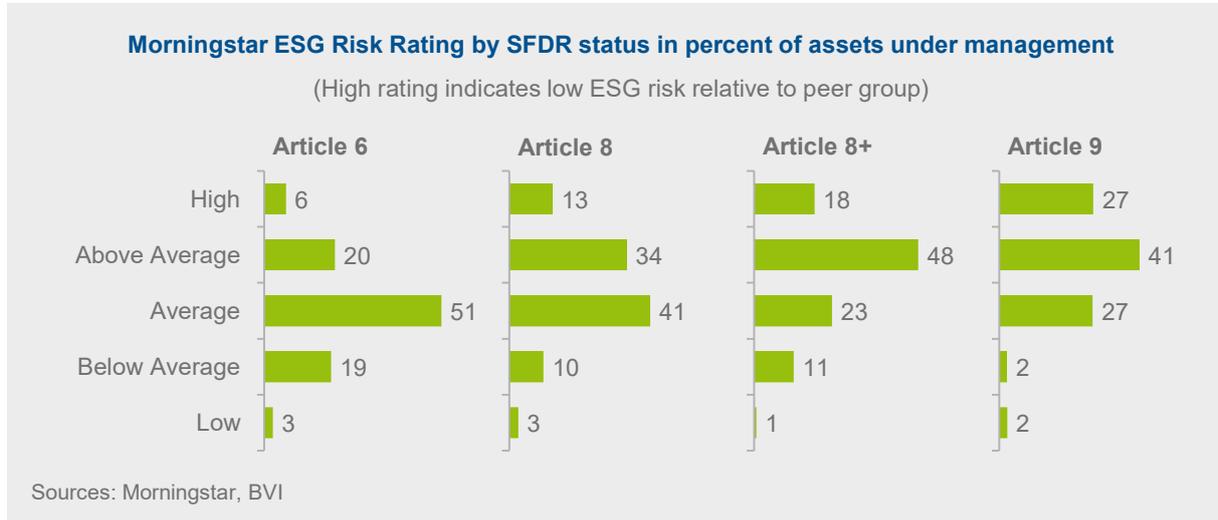
Article 8 and Article 9 funds are associated with lower ESG risks, but the categories need reform

The market for funds with sustainability features remained largely flat in the second half of 2025: as at the end of December, funds falling under Articles 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) managed a total of around EUR 1,250 billion on behalf of investors in Germany. Following extensive retrospective notifications of reclassifications in the first half of the year, the volume of Spezialfonds with sustainability features rose by only a further 2.8 per cent to EUR 480 billion. Assets under management in retail funds also grew moderately by 3.6 per cent to EUR 773 billion. A large part of this growth can be attributed to the positive performance of the capital markets.

In terms of new business, however, the period of weakness that had been ongoing since the end of 2021 continued. On balance, retail funds with sustainability features recorded outflows of EUR 6.2 billion in the second half of 2025, while Spezialfonds achieved net inflows of just EUR 7.8 billion. By way of comparison, conventional retail funds and Spezialfonds recorded net inflows of around EUR 45 billion each over the same period.

The sharp slowdown in the momentum of sustainable investing is not solely due to a shift in investors' priorities. It is also because sustainability regulation in the EU is creating uncertainty and unnecessary





complexity in distribution and reporting. The existing categories have, in some cases, been used in the market as product labels, even though they were originally intended merely to define transparency requirements. Furthermore, their interpretation continues to vary significantly between countries and supervisory authorities.

Despite its obvious shortcomings, classification under the SFDR has nevertheless proved useful. This is because investors with a sustainability preference can reduce ESG risks by investing in Article 8 and Article 9 funds. ESG risks are financially relevant risks arising from environmental, social or governance factors – such as reputational damage, operational disruptions (for example, due to climate change) or regulatory intervention. A focus on issuers with low sustainability risks can increase the stability of a portfolio, as they are, on average, less affected by such events.

An analysis based on Morningstar data shows that funds with sustainability features held by German investors do, on average, have a significantly lower ESG risk than Article 6 products. The Morningstar ESG Risk Rating employed is based on sustainability risks associated with corporate and sovereign issuers and compares funds with products having the same investment focus. A 'high' rating therefore indicates that the portfolio carries lower potential sustainability risks relative to comparable funds.

While funds without sustainability features have a balanced risk profile, the ratings for Article 8 funds are significantly more positive: almost half of the segment consists of products with at least an above-average rating. For Article 8+ funds as defined by the German ESG target market concept – i.e. Article 8 products that cover at least one of the three sustainability preferences (PAIs, a minimum proportion of sustainable investments or of EU Taxonomy-aligned investments) – this effect is even more pronounced at 66 per cent. For Article 9 funds, only 4 per cent of funds exhibit an above-average ESG risk. This shows that, although the categories are vague in terms of content, in practice they reflect a differentiated risk spectrum.

The existing categories therefore have real informational value, despite their limitations. The planned SFDR reform can build on this. It is intended to replace the current transparency rules with clearly defined product categories that meet minimum criteria. The aim is to create a consistent, comprehensible and EU-wide framework for transition products (Article 7), products integrating sustainability factors (new Article 8) and products contributing to sustainability objectives (new Article 9). This is expected to increase the benefits for investors. Furthermore, product information is to be streamlined and focused on essential aspects, thereby helping to reduce unnecessary bureaucracy.

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