German Investment Funds Association

Snapshot Sustainability

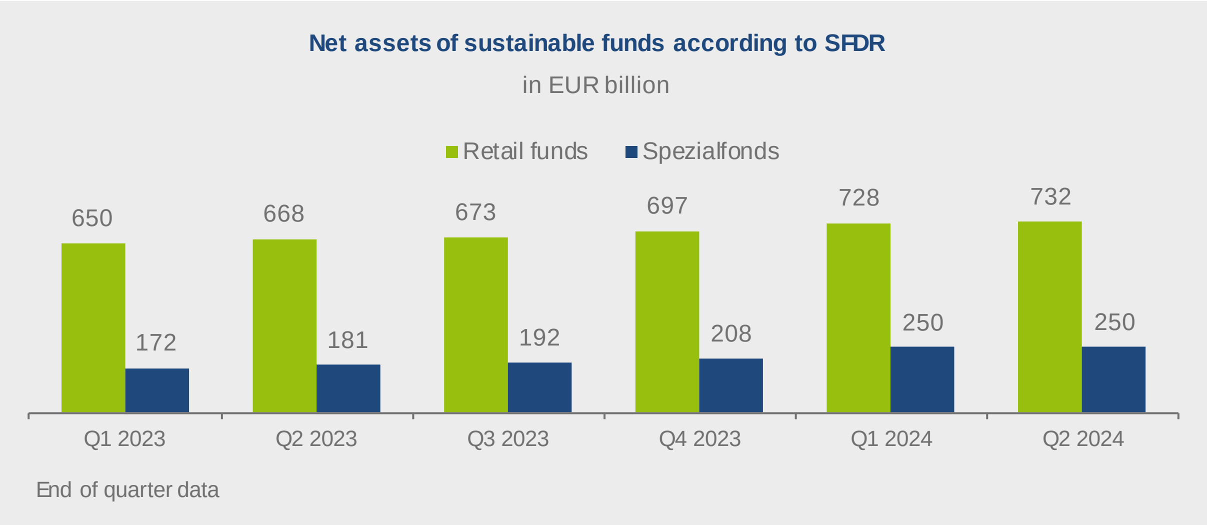
THE GERMAN SUSTAINABLE FUND MARKET IN Q2 2024

Asset growth for funds with sustainability features weakens significantly

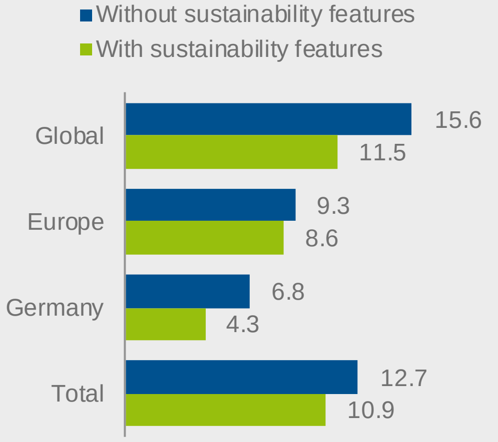
During the second quarter of 2024, total assets managed for German investors in funds with sustainability features have hardly changed. The segment of retail funds in accordance with Articles 8 and 9 SFDR grew slightly from EUR 728 billion to EUR 732 billion. Spezialfonds with sustainability features managed EUR 250 billion, the same amount as in the previous quarter. Due to the stronger growth of Article 6 funds, the market share of Article 8 and 9 funds fell marginally for the first time since the introduction of the SFDR. As at 30 June, 49 percent of retail funds' assets and 11 percent of Spezialfonds' assets were attributable to products with sustainability features.

One reason for the comparatively weaker growth is the decline in new business for retail funds with sustainability features. In the second quarter of 2024, they recorded net outflows of around EUR 4.5 billion. By comparison, Article 6 funds saw net inflows of EUR 12.3 billion. Spezialfonds achieved positive new business regardless of their sustainability status.

In addition, many retail funds with sustainability features performed well in absolute terms the first two quarters of 2024, yet below average when compared to the market as a whole. This is shown by an analysis of the returns of open-ended equity retail funds by sustainability status: while share prices of



Return of equity retail funds by investment area



Asset-weighted return in the first six months of 2024
Source: Morningstar Direct

Article 6 funds increased by an average of 12.7 percent in the first six months of the year, the figure for funds with sustainability features was 10.9 percent. The shortfall was particularly pronounced for global equity funds, the category with the highest assets under management.

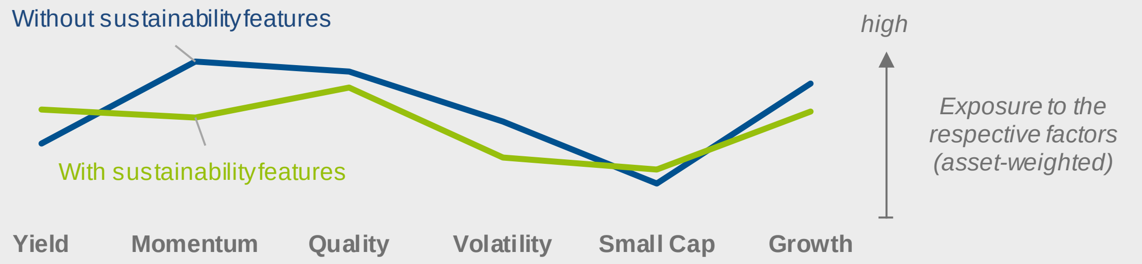
What is causing the weaker performance of global equity funds with sustainability features? Contrary to what is often suggested, the main reason is unlikely to be the underweighting of companies from the energy or defence sectors due to sustainability considerations, as their returns were not even above the market average in the first two quarters of the year. The strategic positioning of investors and portfolio managers in active funds plays a greater role. This is shown by the so-called 'factor exposure' - i.e. the degree to which portfolios are exposed to certain return factors. They help to explain portfolio returns in certain market phases.

It is striking that German investors primarily hold those funds with sustainability characteristics that invest little in very profitable ('quality') growth stocks with high recent returns ('momentum'). These include, in particular, technology stocks such as the parent companies of Google and Facebook or the chip manufacturer Nvidia. Instead, they are focusing on funds that overweight companies with high dividend payments ('yield'). In the first six months of 2024, however, the favourable macroeconomic environment continued to drive up the prices of growth stocks: The 'momentum' stocks within the MSCI World index rose by 26.3 percent, compared to just 4.5 percent for dividend stocks.

In part, this positioning is due to the investment strategies and therefore not at the discretion of the portfolio manager. For example, the proportion of dedicated dividend funds in Article 8 products is 23 percent of assets under management. For Article 6 funds, on the other hand, it is only 15 percent. At the same time, some managers have deliberately decided to limit the proportion of large technology companies in their portfolios to prepare for a possible change in market sentiment.

Contact
markus.michel@bvi.de
+49 69 15 40 90 242

Factor profile for active global equity funds in the first six months of 2024



Yield	Momentum	Quality	Volatility	Small Cap	Growth	
4.5	26.3	18.2	5.1	3.0	15.7	*Return of the MSCI World factor indices*

Sources: Morningstar Direct (Morningstar Factor Profiles), MSCI