German Investment Funds Association

Snapshot Sustainability

THE GERMAN SUSTAINABLE FUND MARKET IN Q4 2023

Regulation of sustainable funds drives demand for ESG specialists and burdens smaller fund providers disproportionately

At the end of 2023, German investors held funds with sustainability features worth more than EUR 900 billion. Compared to the end of September 2023, this was an increase of 4.6 percent. About the half of all assets managed by retail funds were classified as Article 8 and 9 funds, equalling almost EUR 700 billion.

Over the course of the fourth quarter 2023 retail funds with sustainability features recorded net outflows of EUR 5.8 billion, of which EUR 3.6 billion have already been attributable to balanced funds. This reflected the overall development of the market: Article 6 balanced funds faced net outflows as well. Additionally, looking at annual data, retail funds with sustainability features had a negative new business of EUR 7.8 billions in 2023. In 2022, these retail funds had sold a total EUR 5.4 billion in new shares.

Recently, investors across Europe redeemed fund shares with sustainability features. In the forth quarter of 2023, Article 9 funds did not achive a positive new business for the first time ever.

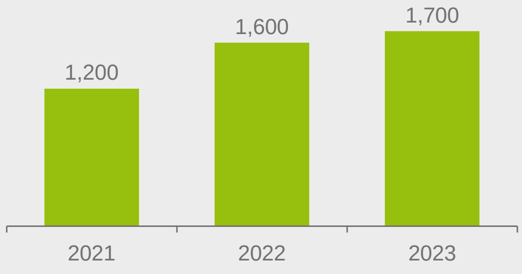
Net assets of sustainable funds according to SFDR

in EUR billion

End of quarter data

Snapshot Sustainability

ESG-Research-Analysts within the EU



Each as of mid June.
Source: FONDSprofessionell, own calculations
Not all fund managers contributed

Even though new business of sustainable funds weakened recently, the demand for ESG research analysts continues to increase unchanged. As a survey under asset managers selling funds in Germany and Austria indicates: From mid 2021 to mid 2023, the number of ESG analysts climbed by more than 40 percent to over 1,700 experts. The result of the BVI Business Climate Survey for the second half of 2023 backs it: Almost a third of all specialst and managers surveyed plans new positions, more than one in two of whom also want to expand the ESG team.

Continuously new and sometimes uncoordinated enactment of rules by the EU legislators drives the need for additional staff. The initial as well as the on-going ESG rating and monitoring of securities is costly, in both, financial and personal terms.

Fund managers are required to source their sustain-ability data for these proccesses. They have to almost always rely on expensive external data providers. A single provider, however, seldomly ensures sufficient market coverage with the latest data. While each additional data vendor does not only rise the budget needed, it does also increase the complexity of the managers operations: barely comparable rating scales, conflicting data points, missing observations, internal quality checks.

A recently published market study by BaFin illustrates the mismatch between costs and quality of external ESG data providers. According to BaFin, four in five managers perceive the pricing as not reasonable, at the same time only a third of all managers would consider the quality of the data provided as constantly high. One fifth of the respondents even terminated the contract with their ESG data provider. It is also possible to quantify the challanging use in objective scales: more than every sixth fund manager found implausible data as part of their internal data quality checks. Nevertheless, all fund managers are dependent on a high level of data quality to fulfil their transparency obligations for their products.

The political agreement on the regulation of ESG ratings is a major step towards improving the transparency and quality of ESG ratings. There are, however, still deficits with respect to ESG data, which is not covered by the agreement reached.

Especially smaller fund managers are significantly challenged by the costs of a growing EU regulation. These managers are less able to compensate the increasing burden by their economics of scale.

Contact
jan.simanovski@bvi.de
+49 69 15 40 90 237

Issues of external ESG data

Source: BaFin