German Investment Funds Association

Snapshot Sustainability

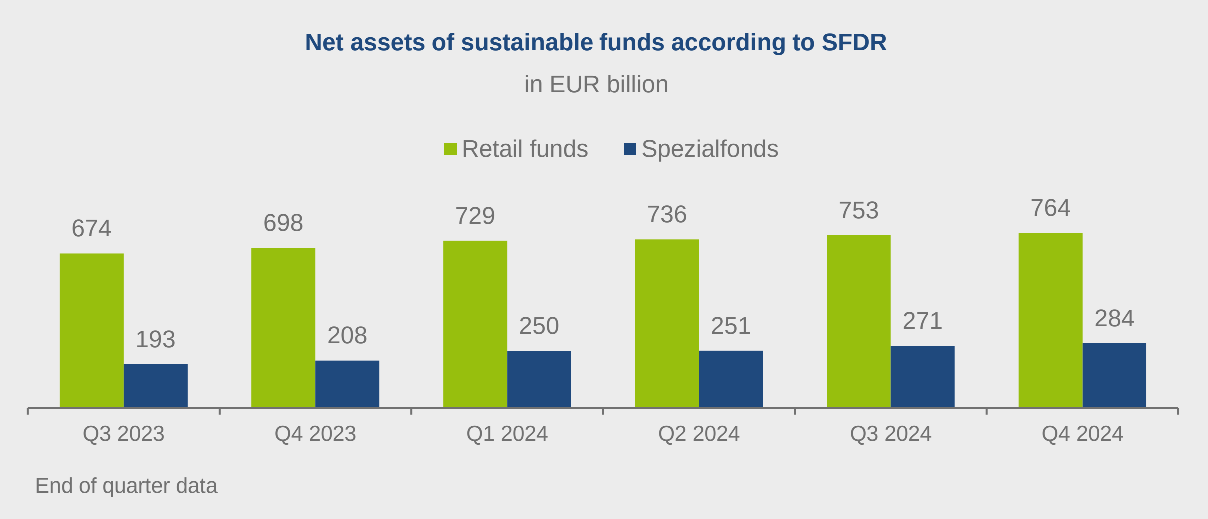
THE GERMAN SUSTAINABLE FUND MARKET IN Q4 2024

Market performance drives assets of funds with sustainability features to new record level – net inflow negative

At the end of the year, funds with sustainability features managed the record volume of just under EUR 1,050 billion for investors in Germany. Over the course of the year, assets under management of products in accordance with Articles 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) grew by 16 per cent. At EUR 764 billion (+9 per cent year-on-year), retail funds accounted for just under three quarters of assets under management, while Spezialfonds for institutional clients managed more than EUR 280 billion (+36 per cent).

The strong growth in Spezialfonds in 2024 was partly due to the reclassification of existing products. In addition, they received net new investor money totalling EUR 5.6 billion. Private non-profit organisations such as churches and foundations (EUR 2.7 billion) as well as banks (EUR 1.6 billion) accounted for the majority of new business. In addition, net asset values (NAVs) of Spezialfonds in accordance with Article 8 or 9 SFDR also increased against the backdrop of rising equity and bond prices.

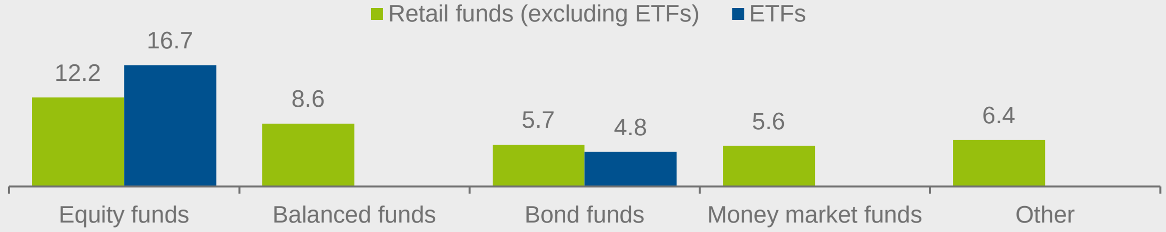
Retail funds with sustainability features also benefitted from the favourable market conditions. On average, NAVs of equity funds rose by 12.5 per cent. The figure was 8.6 per cent for balanced funds and 5.7 per cent for bond funds. Money market funds



Snapshot Sustainability

Average performance of open-ended retail funds with sustainability features by asset class and investment type in 2024

in percent

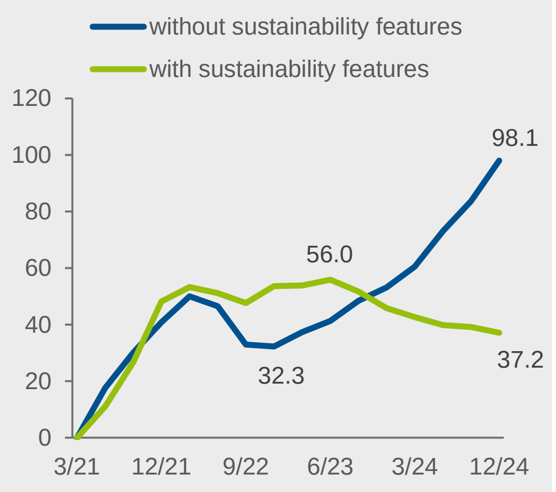


Data for open-ended retail funds held by German investors. At the end of 2024, only equity and bond ETFs were available.
Sources: BVI, Morningstar Direct

also recorded an unusually strong performance in 2024. This was primarily due to high returns on debt securities denominated in US dollars, which benefited from exchange rate effects in the last quarter. While exchange-traded index funds (ETFs) achieved higher average returns than actively managed products in the equity segment, the opposite was true for bond funds. Interestingly, despite their overall positive returns, Article 8 and 9 funds underperformed their peers in the last year: Compared to the average performance of all products with the same investment focus, they lagged by around 0.5 percentage points on average. However, comparatively lower returns are not primarily due to the integration of sustainability features, according to our analysis (see Snapshot Sustainability Q2, 2024).

Cumulative net inflows of retail funds since 31/3/2021

in EUR billion



New business for retail funds with sustainability features was under pressure in 2024. Investors withdrew a total of around EUR 9 billion. This continues a trend that has been ongoing for some time: After investors put fresh money in Article 8 and 9 funds in the first few months after the introduction of the Sustainable Finance Disclosure Regulation (during a time of high net inflows into funds overall), new business began to move sideways as early as the end of 2021. It has even been negative since mid-2023. The cumulative net inflow into retail funds with sustainability features since SFDR came into force totalled just EUR 37.2 billion at the end of 2024. By comparison, the figure for funds without sustainability features was EUR 98.1 billion.

The main reason for the decline in interest is likely to be a re-evaluation of sustainability in the context of political crises such as the Ukraine conflict, economic weakness and high inflation rates. In addition, regulatory barriers to the distribution of sustainable funds, such as the mandatory assessment of investors' sustainability preferences, are also curbing demand. That said, the EU Commission recently presented initial steps to reduce bureaucracy in sustainability reporting as part of the package of measures to simplify EU rules and strengthen competitiveness. A serious shift towards regulations that are practicable for regulators, the industry and investors would make sustainable investing more attractive again.

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