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SFDR ARTICLE 9: IS IT ALL ABOUT IMPACT?

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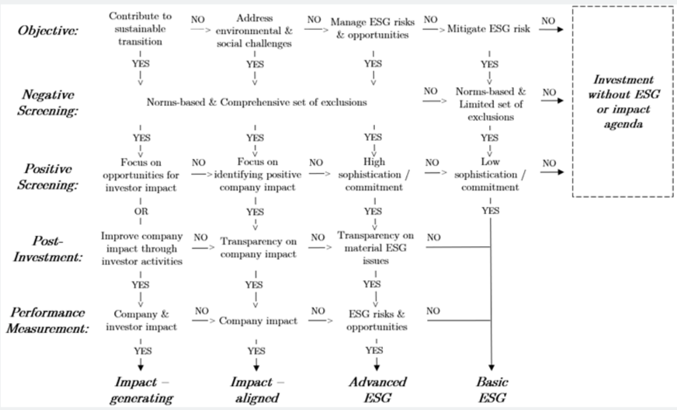
INTRODUCTION

- Since SFDR Article 9 funds have to pursue a sustainable investment objective, they are commonly referred to as “dark green” or impact-related.
- Our goal is to assess the ambition level of Article 9 funds, particularly with respect to investments that seek to achieve transformational change through the allocation of financial resources.
- Further, we aim to understand whether downgraded Article 9 funds, i.e. funds that changed SFDR status to Article 6 or Article 8, differ in terms of their investment approaches.
- Lastly, we examine whether there are differences in financial performance among Article 9 funds and how this relates to ESG- and impact-related investment strategies and fund downgrades.

METHODS

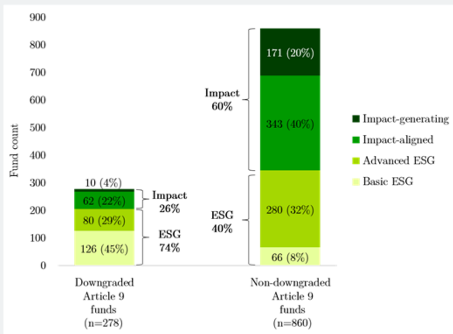
- We examine 1,138 funds that are classified as Article 9, whereof 278 funds were downgraded by January 2023.
- Based on publicly available fund information and the sustainable investment typology by the G7 Impact Taskforce, we assess the investment strategies of Article 9 funds.

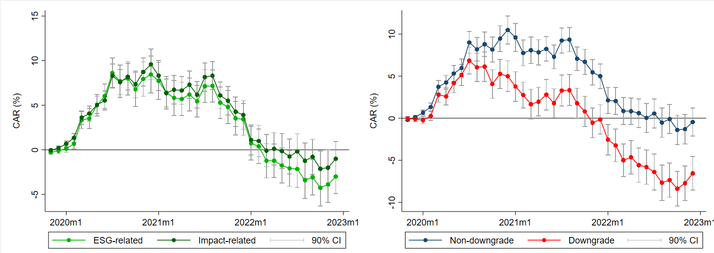


- Using a logit model, we estimate the odds of a fund being downgraded based on its investment strategy (ESG-related or impact-related), management style (passive or active), and sustainability performance (ESG and SDG impact scores).
- We compute abnormal returns using the Fama and French five-factor model and momentum factor.
- We test for significant differences in risk-adjusted returns by constructing monthly equal weighted portfolios for different Article 9 fund groups.

RESULTS

- Article 9 funds pursue varying degrees of ambition: 60% meet the requirements of impact-related investments whereas 40% fulfill the criteria of ESG-related investments.
- Downgraded funds exhibit a higher share of ESG-related investments than non-downgraded Article 9 funds.
- We do not find significant differences in ESG scores and returns between ESG-related and impact-related funds. Yet, impact-related funds have higher management fees and higher SDG impact scores than ESG-related funds.
- The odds of a fund being downgraded is three times higher for ESG-related funds than for impact-related funds.
- Downgraded funds realize lower returns than funds that maintained their SFDR status.





CONCLUSION

- Given the high degree of heterogeneity within Article 9 funds, the SFDR should not be treated as a labeling scheme for investment products.
- We recommend to adjust the SFDR criteria by differentiating between ESG-related investments for Article 8 and impact-related investments for Article 9.
- Another useful distinction within Article 9 could be achieved by differentiating between impact-aligned (“ordinary Article 9”) and impact-generating investments (“Article 9+”).

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