

**SUSTAINABLE FUNDS MORE THAN DOUBLED IN LAST THREE YEARS  
SIGNALLING A GREENER EUROPE – STUDY BY MORNINGSTAR, ZEB AND ALFI**

- Sustainable fund products attracted 52% of all net new flows in 2020, and reflected 11% of total net assets domiciled in Europe at the end of 2020;
- Luxembourg was highlighted as the leading domicile, with sustainable funds accounting for EUR 371 billion by the end of 2020 and capturing 44% of total net flows made across all European domiciles in 2020 ;
- Equity remains the top asset class of sustainable funds across all European domiciles amounting for more than 60% of sustainable assets managed by funds. Inflows into impact funds are also rising at the expense of less ambitious sustainable strategies;
- Passive investments also rose in the period, constituting 21% of the net assets in the European sustainable fund universe by the end of 2020;
- Share of sustainable assets in UCITS and regulated open-end AIFs has risen significantly since 2018, accounting for 11% and 9% of total assets in each sub-segment respectively;
- Sustainable funds market continued to be dominated by a few large asset managers, with more than 50% of net assets in sustainable funds in Europe launched by the top 20 providers.

Sustainable funds represent a rapidly growing segment of investment solutions in Europe, according to the first annual **European Sustainable Investment Funds Study** by Morningstar and zeb, powered by the Association of the Luxembourg Fund Industry (ALFI). The study found that net assets in sustainable fund products have more than doubled since 2018, attracting 52% of all net new flows and reflecting 11% of total net assets domiciled in Europe at the end of 2020.

**Marc-André Bechet, Deputy Director General of ALFI**, commented: “This study contains a wealth of information on sustainable funds in Europe, and is a must-read for anyone interested in sustainable finance. Despite differences and nuances of approach across jurisdictions, asset classes and investment styles, the trend towards sustainable funds has reached a point of no return, with sustainable funds attracting more than half of net new flows in 2020. Thanks to its ecosystem and its long-standing expertise in sustainable finance, Luxembourg appears as a market leader with EUR 371 billion net assets and capturing 44% of net new flows in sustainable funds in 2020.”

**Hortense Bioy, Global Director of Sustainability Research, Manager Research at Morningstar** said: “The European sustainable investment landscape continues evolving extremely rapidly. Record ESG fund flows, assets, and product development activity, combined with the most ambitious regulatory agenda, all herald a new era for sustainable investing in Europe. ESG funds can no longer be seen as a niche area of the European funds landscape. Asset managers have started reporting high numbers of ‘green’ funds in accordance with the Sustainable Finance Disclosure Regulation (SFDR). Interpretations of the new regulation vary and the debate around what constitutes a sustainable investment is far from being settled. But we can confidently expect that, from 11% today, ESG funds will be representing a much larger share of the overall fund market in the coming years.”

**Dr. Carsten Wittrock, Partner at zeb**, added: “The governments’ and regulators’ objective of using the fund industry as a catalyst to create a greener Europe seems to be working. The sustainability trend has taken off and will continue to intensify – although numerous topics still need to be clarified, such as the inhomogeneous

interpretation of the criteria that qualify a fund as sustainable in a regulatory sense. The hope is that ratings and other tools will allow for a more differentiated view and transparency in order to ensure that capital is allocated in the right direction in a sustainable sense.”

Other topics and findings of the research were:

- **A transition to a more regulated sustainable finance marketplace:** Legislators have taken aim at addressing challenges such as the lack of common definition of ESG criteria or the lack of transparency on how sustainability risks and targets are managed by corporations and how ESG factors are incorporated in financial organisations’ investment decisions. The report assesses the impact of the SFDR, Taxonomy Regulation and other initiatives to support increasing investment in sustainability by retail and institutional investors;
- **The need for methodological standardisation and transparency of ESG ratings:** The report highlights the need for transparency of rating methodologies and suggestions by the European Securities and Markets Authority (ESMA) to the European Commission to take legislative action to regulate ESG ratings in the future, given the disparity between different ratings providers leading to a risk of ‘greenwashing’;
- **Competitive factors of Luxembourg’s financial ecosystem:** Luxembourg’s position as the leader in sustainable funds is driven by its successful track record, its unique standing for fund servicing, a supportive regulatory environment and the ability to be a hub for novel sustainable finance initiatives. The hub has experienced steady growth in the past few years and sustainable funds’ net assets already represent approximately 10% of total net assets in Luxembourg.

The study aims to provide a snapshot on how sustainability objectives and the respective legislative interventions have shaped the fund industry in Europe in the last years with a particular focus on the role, competitiveness and positioning of the Luxembourg fund hub. It was supported by a number of interviews and contributions from leading representatives of the fund industry.

The rapidly growing demand for sustainable investing from society and the asset management industry, supported by regulations, means the market share of sustainable funds will only further increase. Eventually, sustainable funds will become the norm rather than the exception.

## ENDS

Please get in touch if you would like to speak to ALFI about the study. The full **European Sustainable Investment Funds Study 2021** will be available at the beginning of July 2021.

For more information, please contact:

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### Notes to editors:

#### About ALFI

The [Association of the Luxembourg Fund Industry \(ALFI\)](#) is the face and voice of the Luxembourg asset management and investment fund community, championing mainstream, private assets and sustainable investing. ALFI seeks to promote Luxembourg’s fund sector internationally, and to cultivate for the benefit of its members a collaborative, dynamic and innovative ecosystem underpinned by the most robust regulatory framework. ALFI’s ambition is to empower investors to meet their life goals.

Created in 1988, the Association today represents over 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide range of businesses that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialist IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg-domiciled investment funds are distributed in more than 70 countries around the world. For further information, do not hesitate to consult [www.alfi.lu](http://www.alfi.lu).

To keep up with all the news from ALFI and the fund industry in Luxembourg, follow us on [LinkedIn](#), [Twitter](#) (@ALFI-funds), [YouTube](#) and [Flickr](#).

### **About Morningstar**

Morningstar is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The Company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the debt and private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, debt securities, and real-time global market data. The Company has operations in 29 countries.

Morningstar and its subsidiary Sustainalytics deliver a combined suite of ESG solutions to meet regulatory demands with a coherent and consistent approach at the fund and company level. Sustainalytics is a global leader in ESG with over 25 years' experience in developing innovative ESG research solutions (in 2020, Sustainalytics was acquired by Morningstar). Several of its established, high-quality ESG products are already well aligned to the EU Taxonomy's criteria. The combined power of Sustainalytics and Morningstar accelerates their ability to provide meaningful ESG insights. Together, with Morningstar's scale and Sustainalytics' specialty expertise, they are able to develop ESG content, build ESG products and deliver ESG data specifically with the goal of empowering investor success at all levels.

### **About zeb**

zeb is a leading European strategy and management consultancy specialising in the financial services sector with more than 1,000 employees in 13 countries and 17 offices throughout Europe. zeb has been offering strategy support and transformation expertise along the entire value chain in the financial services sector in Europe since 1992. With dedicated practice groups zeb has a strong focus on asset management and capital markets, supporting its clients in aligning and optimising their business and operating models against current and future challenges, from strategy definition to conceptual design and implementation.