InfluenceMap

PRESS RELEASE

Substantial Net-Zero Misalignment Among EU Funds Despite Regulation

New analysis of the EU fund market shows that 89% of funds using ESG or climate-related names are misaligned with net zero and many are dependent on fossil fuel investments, despite increased regulation

New analysis by InfluenceMap of the European fund market shows that a third of funds using ESG or climate-related terminology in their names are more invested in fossil fuel companies than green companies. The report also reveals inconsistencies between funds' use of climate-related names and their level of disclosure under the Sustainable Finance Disclosure Regulation (SFDR)[1]. For example, 60% of funds identified as using climate-related terms in their name do not disclose under SFDR Article 9, the category designated for funds with a primary sustainability objective.

Recently, the European fund market has seen a significant increase in interest in 'sustainable' investing, providing a strong incentive for funds to use ESG and climate-related terminology in their names. In parallel, regulators have become increasingly concerned about the consistency and transparency of funds using these terms and have introduced regulation to limit the risk of greenwashing.

The findings of the report suggest that so far SFDR has not achieved its aim of limiting greenwashing in this market. The widespread misalignment identified between the climate performance of funds and the climate-commitments implied by their names is particularly concerning given that fund names are central to the proposed categorization system for the new ESMA regulations[2]. There appears to be a significant amount of work needed if funds are to meet ESMA's criteria by the time this regulation comes into force in May 2025.

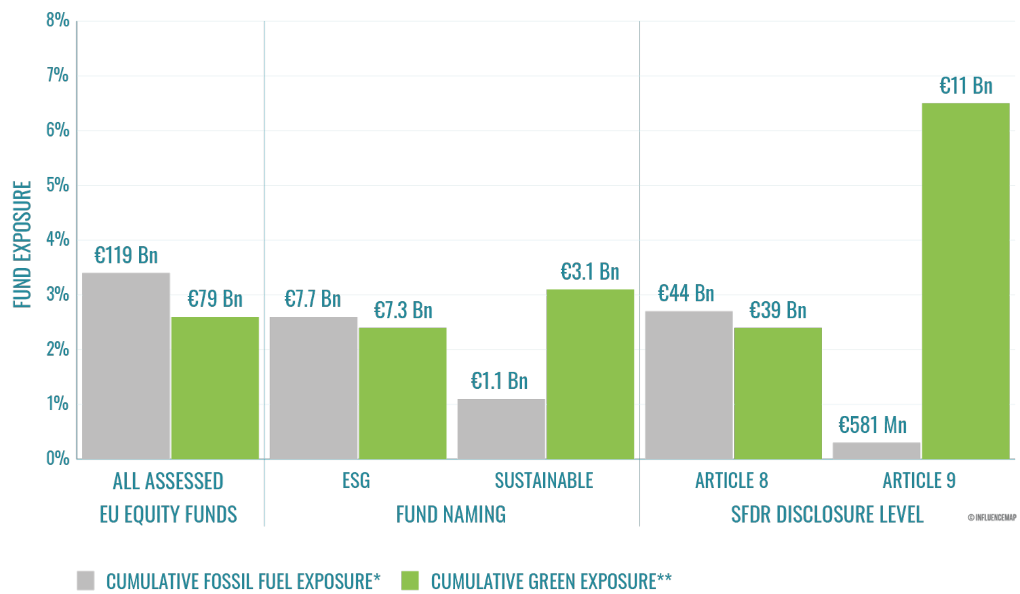
These findings are the result of analysis by InfluenceMap's FinanceMap platform of the climate performance of European equity funds, based on three metrics: fossil fuel investment, green investment, and net zero alignment[3]. In this analysis, fossil fuel companies are defined as companies primarily active in fossil fuel production value chains, while green companies are defined as those which derive at least 75% of revenue from EU taxonomy-aligned activities.

Key findings:

- Funds with 'ESG' in their name have cumulatively invested more in fossil fuel companies (2.6% of total fund value) than in green companies (2.4%).
- 38% of funds that disclose under Article 8 (described as for 'light-green' funds) are more invested in fossil fuel companies than in green companies. Of the €1.6 trillion assessed in Article 8 fund value, €44 billion (2.7%) is invested in fossil fuel companies compared to €39 billion (2.4%) in green companies.
- Article 9 funds are cumulatively 20 times more invested in green companies (6.5% of total fund value) than fossil fuel companies (0.3%). Nonetheless, 77% of these funds are misaligned with the IEA Net Zero by 2050 pathway, due to their investments in power companies misaligned with net-zero goals.
- Equity funds using 'Sustainability,' 'Environment,' 'Transition,' or 'ESG' terms in their naming are found to be on average misaligned with the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario. With the average 'ESG' fund being more misaligned with IEA Net Zero than the average EU fund, climate-related or not.

- The only naming category with funds that are on average aligned with IEA Net Zero is 'Impact.' Article 9 funds are cumulatively 20 times more invested in green companies (6.5% of total fund value) than fossil fuel companies (0.3%). Nonetheless, 77% of these funds are misaligned with the IEA Net Zero by 2050 pathway, due to their investments in power companies misaligned with net-zero goals.
- 71% of funds in the ESMA naming category of 'Sustainable' do not disclose under Article 9, the disclosure level designated for funds with a primary sustainability objective.

Fossil Fuel vs Green Investment by Fund Naming and SFDR Disclosure Level



* Fossil fuel companies are defined here as companies primarily active in fossil fuel production value chains

** Green companies are defined here as companies which derive at least 75% of revenue from EU taxonomy aligned activities

Tom Alcoran, Senior Analyst at InfluenceMap said:

"Thousands of funds are representing themselves as climate positive, either by using climate-related names or by disclosing under SFDR Article 8 or Article 9, despite their underlying investments painting a very different picture. This shows that the lack of consistency and transparency which has been a feature of sustainable funds over the past years continues to persist in the EU fund market. Without funds changing their portfolio allocation or rebranding to meet ESMA's incoming fund naming criteria, many risk non-compliance."

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Notes To Editors:

[1] SFDR attempts to provide a framework for consistent sustainability-related disclosure for financial products. It allows funds to self-report in one of three categories: Article 9, Article 8, or Article 6 – where Article 9 funds have a primary investment objective of sustainability, Article 8 funds promote environmental or social characteristics, and Article 6 have no environmental or social characteristics.

[2] The ESMA guidelines aim to give funds using 'sustainability-related' names related and consistent investment criteria to increase transparency and accountability – although currently these are guidelines and will only come into force for existing funds in May 2025.

[3] FinanceMap uses the PACTA tool to assess a portfolio's Net Zero Alignment based on its holdings in the power, upstream oil and gas, coal mining, and automotive sectors Alignment is calculated by comparing the forecast green and polluting production of portfolio companies in these sectors against the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario

About InfluenceMap

InfluenceMap is a non-profit think tank providing objective and evidence-based analysis of how companies and financial institutions are impacting the climate and biodiversity crises. Our company profiles and other content are used extensively by a range of actors including investors, the media, NGOs, policymakers, and the corporate sector. *InfluenceMap* does not advocate or take positions on government policy. All our assessments are made against accepted benchmarks, such as the Intergovernmental Panel on Climate Change. Our metrics for measuring corporate influence over climate policy are used by investors, including the global Climate Action 100+ investor engagement process. InfluenceMap is based in London, UK with offices in NY, Tokyo and Seoul. Our content is open source and free to view and use under our terms and conditions.