

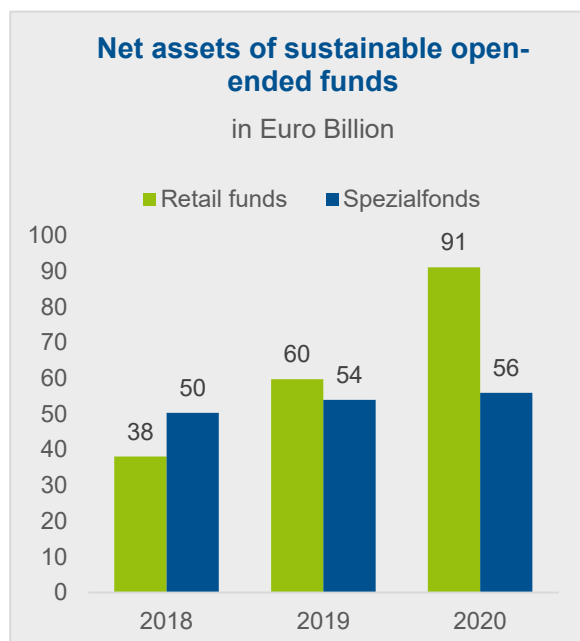


# Snapshot Sustainability

## THE GERMAN SUSTAINABLE FUND MARKET IN Q4 2020

### Sustainable fund assets grew by almost a third in 2020 thanks to record mutual fund inflows

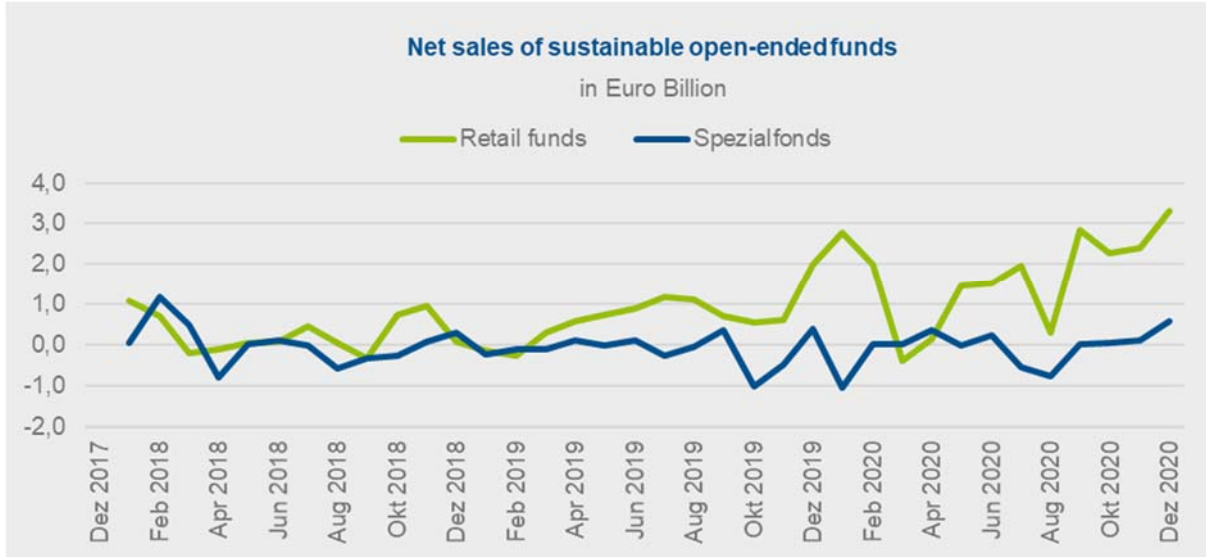
Despite the Corona virus pandemic, 2020 ended with a new high in assets under management by sustainable funds. At the end of the year, the total invested in sustainable funds was 147 billion euros. This represents a growth of 33 billion euros (29 percent) compared with the end of the previous year. The volume of mutual funds rose by as much as 52 percent to 91 billion euros. By comparison, the increase for conventional funds was just under 3 percent. The assets of sustainable special funds stood at 56 billion euros at the end of 2020, corresponding to a growth of around 4 percent.



The main driver of the positive development in sustainable mutual funds was the large amount of new investment. With inflows of around 21 billion euros, 2020 was by far the most successful year to date. Sustainability funds are also playing an increasingly important role in the overall market: their share of new business in all retail funds was around 48 percent last year while in 2018, it was only 16 percent.

It is noteworthy that even in March sustainable mutual funds hardly recorded any net outflows, whereas 21 billion euros flowed out of conventional funds. Since then, monthly net inflows into ESG funds have grown rapidly to three billion euros in December. The rapid market dynamics are also reflected in the fact that more and more sustainable products are being launched. Currently, German investors can choose from a range of 878 share classes (including 44 ETFs). This is 242 more than in the previous year.

In the case of sustainable special funds, however, the net volume of funds fluctuated around zero. In our opinion, two factors are currently holding back sales: On the one hand, many institutional investors, such as churches and foundations, have been investing according to environmental or social criteria for many years. On the other hand, there seems to be a tendency for the time being not to formally classify



special funds as sustainable because of the uncertainty surrounding future regulatory requirements - even if some of the funds already take sustainability aspects into account in their investment decisions.

Last year's strong performance is also likely to have supported demand for ESG funds. The table below shows the average return of the five main groups of sustainable mutual funds (by number of products) for the calendar year 2020 compared to conventional funds of the same group. In all five groups, including global equity funds and corporate bond funds,

sustainable funds showed higher returns. Taking volatility into account, the risk-adjusted return is 0.1 to 0.2 points higher than that of conventional funds. However, other factors like sector and factor mix of many sustainable strategies, which was advantageous during the Corona crisis, may also have played a role<sup>1</sup>.

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**Performance of the most important groups of sustainable mutual funds (by number of products) in 2020 relative to conventional mutual funds**

Fund group	Return p.a. in percent		Return difference in percent	Difference of risk-adjusted return <sup>2</sup> in percent points
	sustainable	conventional		
Balanced funds, moderate equity exposure, global	3,2	2,3	0,9	0,2
Equity funds global	7,1	3,4	3,8	0,2
Fixed income funds corporate bonds	4,6	2,0	2,6	0,2
Balanced funds, large equity exposure, global	5,3	1,4	3,9	0,1
Balanced funds, large bond exposure, global	3,1	0,7	2,5	0,1

<sup>1</sup> See, for example, Hasaj, Milot, and Bernhard Scherer (2021). "Covid-19 and Smart-Beta: A Case Study on the Role of Sectors." EDHEC Risk Working Paper.

<sup>2</sup> Measured as the difference in the respective "sharpe ratio", i.e. the excess return (compared with a risk-free interest rate) taking volatility into account. Values above zero indicate a better risk-adjusted performance of sustainable funds.

## ANNEX: SUSTAINABLE FUNDS IN THE BVI STATISTICS

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### 1. What are the criteria to classify a 'sustainable fund' according to the BVI statistics?

The definition of 'sustainable funds' in the BVI statistics corresponds to the requirements of the BVI Rules of Conduct<sup>3</sup>: according to them, funds may only describe themselves as 'ecological', 'social', 'ethical' or similar if their investment policy follows sustainable strategies that are set out in the fund documents (for example in the sales prospectus). The approach (e.g. exclusions, best-in-class) according to which ESG criteria or special ESG topics are implemented in the fund portfolio is irrelevant for the definition. It is decisive that the strategy is set out clearly and that the fund documents provide more detailed explanations. For Spezialfonds, this applies to comparable documents, in particular the investment guidelines or the information document. We will align our definition of 'sustainable funds' with the requirements of EU regulation, as soon as these are finalised.

### 2. Which categories of 'sustainable funds' are distinguished in the BVI statistics?

We distinguish between two forms of 'sustainable funds': if a fund follows ESG criteria in a broad, general approach, it is labelled 'Sustainability, ESG funds'. If the fund primarily pursues a specific topic within an ESG approach, it is regarded as a thematic fund and labelled 'Sustainability, thematic fund'. Thematic funds can be derived from one of the 17 goals of the United Nations' Sustainable Development Agenda (UN SDG), such as 'Education and Knowledge', 'Water' or 'Renewable Energies'. Funds that support charitable purposes or whose investment policy follows certain ethical or religious principles are classified as thematic funds as well.

### 3. Which funds and asset managers are included in the BVI statistics?

The coverage corresponds to that of the overall BVI statistics universe. We cover German and foreign retail funds and Spezialfonds (UCITS and AIF) that are sold in Germany. BVI members send data on net sales and net assets as part of their regular reporting.

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<sup>3</sup> BVI Rules of Conduct (link to PDF)