



**FMA MARKET STUDY ON
SUSTAINABILITY ASPECTS OF
AUSTRIAN RETAIL FUNDS**

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EXECUTIVE SUMMARY

- This FMA Market Study on Sustainability Aspects of Austrian Retail Funds is addressed towards investors with the objective of placing them in the position of obtaining a better understanding about various facets of funds that take sustainability- or ESG-related features into account in investment.
- As of 30.06.2024, 477 Austrian retail funds take sustainability or ESG-related features into account in their investment (net asset value of € 70.2 bn), with some 191 retail funds also using such terms in the name of the fund (net asset value of € 38.5 bn). The consideration of sustainability or ESG-related features in investment has achieved a prevailing market share in the Austrian retail fund sector in recent years and now accounts for 60 % of the aggregated net asset value managed by retail funds. In so doing, such funds do not have higher fee structures compared against the market overall.
- A significant reason for the increase in net asset values of retail funds that consider sustainability- or ESG-related features in investment, in both relative and absolute terms, are the net inflows of funds witnessed in this market segment. While the entire Austrian retail fund market has posted cumulative net outflows of funds of € 3.4 bn since the start of 2022, in contrast funds with sustainability- and ESG-related features considered in investment have posted a € 2.7 bn net inflow of funds.
- While there is a growing market for funds that consider and advertise using sustainability- and ESG related features, there is also an increase in the risk of greenwashing. To prevent “greenwashing”, the FMA conducts targeted supervisory activities for checking disclosures as well as for checking actual compliance with the disclosed investment strategy. The FMA makes use of a greenwashing analysis framework for retail funds for this purpose, which also uses automatic text analysis methods and artificial intelligence.
- The results of the FMA’s analysis show that the degree of sustainability in the investment of funds is also reflected in their disclosure. The more sustainable a fund is declared to be and described as such in disclosure, the more sustainable the fund’s investments also are.
- However, a broad range of sustainable funds exist, which underpins the focus of the FMA’s analysis for potential greenwashing, while also shows the necessity for investors to consider this issue about whether the fund’s specific sustainability aspects also match their own sustainability preferences in greater depth prior to investing in a fund.

1 INTRODUCTION

This FMA Market Study on Sustainability Aspects of Austrian Retail Funds¹ is aimed at investors with the objective of provide them with a better understanding about various facets of funds that take sustainability- or ESG-related features into account in investment. It contributes towards improving market transparency regarding retail funds in the interests of collective consumer protection.

As of 30.06.2024, some 1,005 Austrian retail funds with an aggregated net asset value of € 116.88 bn were managed by 15 management companies (KAGs; Kapitalanlagegesellschaften), three real estate investment fund management companies (ImmoKAGs) as well as two foreign KAGs by means of management company passports. Out of these, 477 retail funds take sustainability or ESG-related features into account in their investment (net asset value of € 70.2 bn), with some 191 retail funds also using such terms in the name of the fund (net asset value of € 38.5 bn). The consideration of sustainability or ESG-related features in investment has development into a prevailing market share in the Austrian retail fund sector, and now accounts for 60 % of the aggregated net asset value managed by retail funds.

The various aspects and developments for the consideration of sustainability aspects in retail funds are covered in Chapter 2. Chapter 3 focuses on the FMA's greenwashing analysis of retail funds. Finally, statistical analyses regarding the consideration of sustainability based on data obtained from a text-based and portfolio analysis are presented in Chapter 4.

2 OVERVIEW ABOUT THE CONSIDERATION OF SUSTAINABILITY IN RETAIL FUNDS

As at 30.06.2024 there were a total of 477 Austrian retail funds in accordance with the Investment Funds Act 2011 (InvFG 2011; Investmentfondsgesetz 2011) and under the Real Estate Investment Fund Act (ImmoInvFG; Immobilien-Investmentfondsgesetz) with a managed net asset value of € 70.2 bn that considered sustainability- or ESG-related features in their investment (funds in accordance with Articles 8 and 9 SFDR²). This represents a 60 % market share of all retail funds in terms of managed net asset value. 13 management companies (KAGs; Kapitalanlagegesellschaften), two real estate management companies (ImmoKAGs; Immobilien-Kapitalanlagegesellschaften) and one

¹ This FMA Market Study classifies the following legal fund categories as retail funds: UCITS under the InvFG 2011, pension investment funds pursuant to Article 48 AIFMG in conjunction with Article 168 InvFG 2011, other assets (where approved for distribution to retail clients) pursuant to Article 48 AIFMG in conjunction with Article 166 InvFG 2011, and real estate retail funds pursuant to Article 48 AIFMG in conjunction with the ImmoInvFG.

² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

foreign KAG operating under a management company passport currently manage Austrian retail funds.

Of these, a large proportion are funds in accordance with Article 8 SFDR (464 retail funds, with a managed net asset value of € 67.6 bn), which consider ecological or social features, but which do not pursue sustainable investment as defined in Article 9 SFDR (13 retail funds with managed net asset value of € 2.6 bn). Of these, 112 retail funds (with managed net asset value of approx. € 28 bn) invest in accordance with the Austrian Ecolabel 49 for Sustainable Investment Products (UZ49).³

2.1 DEVELOPMENT OF RETAIL FUNDS NET ASSET VALUE THAT CONSIDER ESG OR SUSTAINABILITY FEATURES

While the total managed net asset value of Austrian retail funds has displayed sideways movement (€ 120.6 bn as at 30.01.2022 vs. € 116.9 bn as at 30.06.2024), the distribution of the net asset value of funds of funds taking sustainability and ESG-related features into account in their investment (Articles 8 and 9 SFDR) has changed materially in the last two and a half years.⁴ While the proportion of the net asset value of such funds to all retail funds stood at just under 40% as at 31.01.2022, as at 30.06.2024 it now stands at over 60%. Consideration of sustainability- or ESG-based features in investment has therefore clearly arrived in the mainstream of the Austrian retail fund sector. In the meantime, the largest Austrian fund, which had a managed net asset value of over € 5 bn as at 30.06.2024, is a retail fund that takes sustainability- or ESG-related features into account in investment (and also has a sustainability-related fund name).

³ For details about Ecolabel 49 for sustainable financial products: <https://www.umweltzeichen.at/en/products/sustainable-finance>

⁴ Standardised data regarding the categorisation of funds in accordance with the SFDR have only been available to the FMA since January 2022.

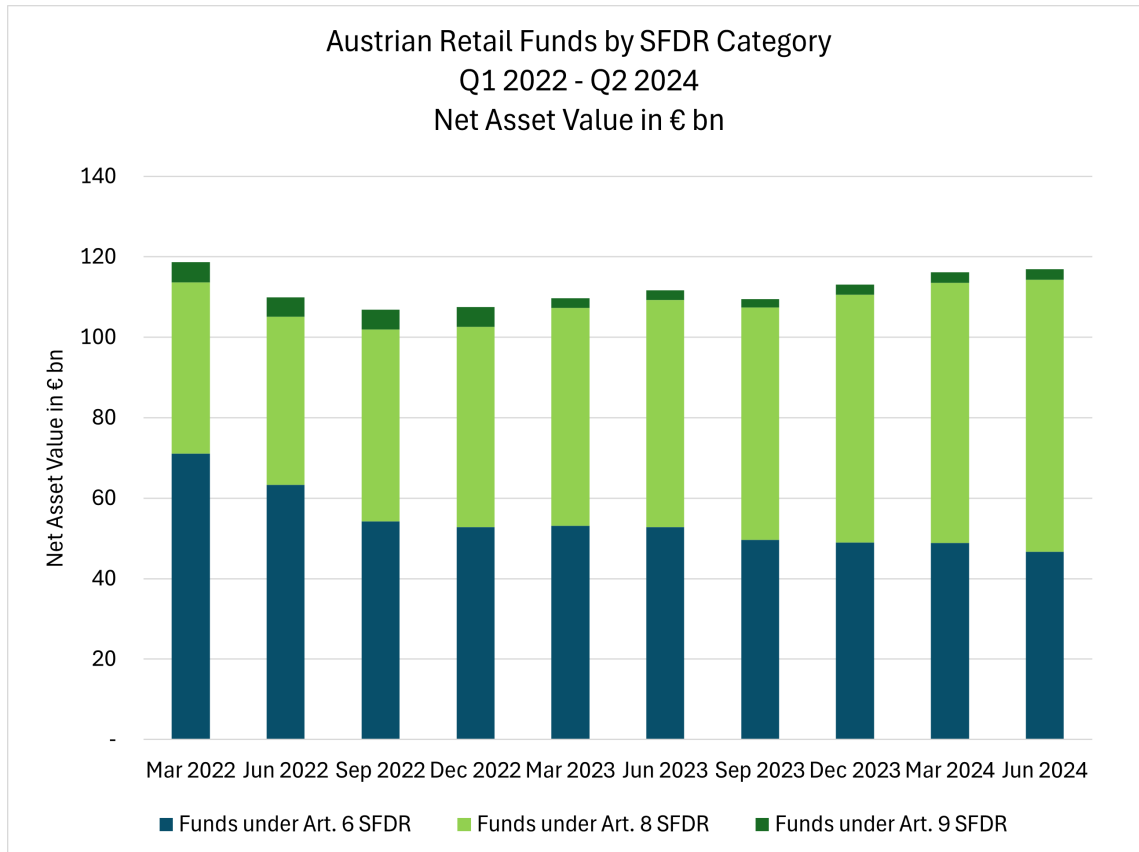


Figure 1: Development of net asset value in € bn of Austrian retail funds by SFDR categorisation, March 2022 - June 2024

2.2 DEVELOPMENT OF NET FLOWS OF FUNDS OF RETAIL FUNDS THAT CONSIDER ESG OR SUSTAINABILITY FEATURES

Net growth of funds in this market segment is the significant reason for the increase in the net asset volume of retail funds that take into account sustainability- or ESG-related features in both relative and absolute terms, especially until 2023. While the Austrian retail funds market as a whole had observed cumulative net outflows of funds of € 3.4 bn since January 2022, funds with sustainability- or ESG-related features in investment (Articles 8 and 9 SFDR) have witnessed net inflows of funds of € 2.7 bn, compared with net outflows of funds of € 6.1 bn for funds that do not consider sustainability- or ESG-related features in investment (Article 6 SFDR).

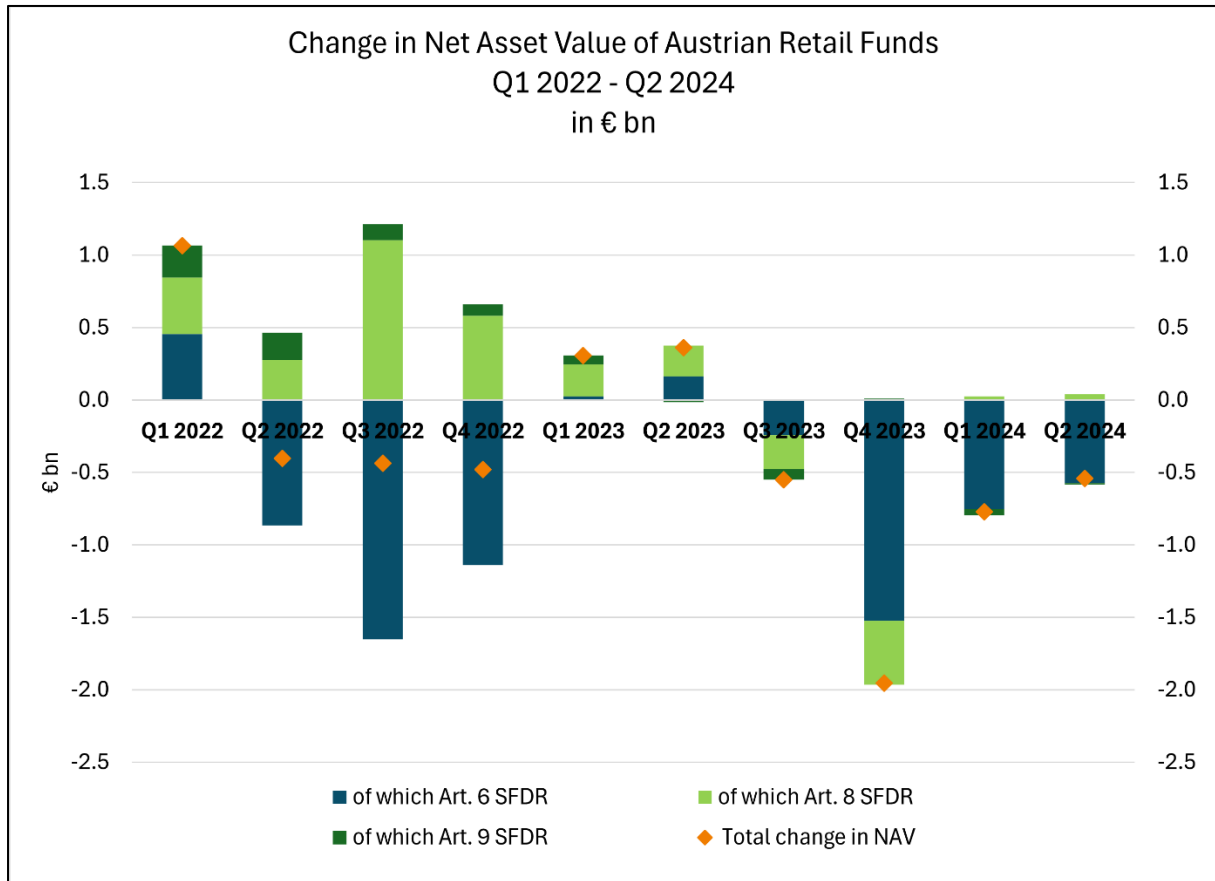


Figure 2: Development of net flows of funds in € bn of Austrian retail funds by SFDR categorisation, Q1 2022 - Q2 2024

2.3 FEE STRUCTURE OF RETAIL FUNDS THAT CONSIDER ESG AND SUSTAINABILITY FEATURES

The annual FMA Market Study on Fees charged by Funds for Austrian Public Funds⁵ also presents and analyses sustainability aspects in relation to fund fees. In the 2024 edition of the market study, the FMA shows that there are no statistically significant differences in the funds fees of Austrian retail funds that consider ESG and/or sustainability aspects in their investments (Article 6 SFDR vs. Articles 8 and 9 SFDR), although retail funds that consider the sustainability criteria in accordance with the Austrian EcoLabel 49 (Umweltzeichen 49; UZ49) for sustainable financial products have slightly lower fees. Consideration of ESG and/or sustainability aspects in investment therefore do not imply higher fee structures.

⁵ FMA Market Study on Fees charged by Funds for Austrian Public Funds 2024, June 2024, <https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=6841>.

2.4 RETAIL FUNDS THAT CONTAIN ESG AND/OR SUSTAINABILITY-RELATED TERMS IN THE FUND NAME

Article 8 SFDR in the case of funds permits a broad range of consideration of sustainability features, since the differentiation between Articles 8 and 9 SFDR constitutes a categorisation for special disclosure requirements and does not reach any direct conclusion regarding the material “sustainability” of a fund. The European regulatory framework under the SFDR that has applied to date primarily focuses on disclosure and transparency. Until now, regulatory product categories for “sustainability funds” have not been legally prescribed.

On 21.11.2024 European ESMA Guidelines on Funds’ Names⁶ entered into force for new funds and stipulate specific requirements for funds that advertise by using ESG or sustainability-related terms in the fund name. These Guidelines apply for all existing funds from 21.05.2025. For the first time on a Europe-wide level, the Guidelines state that when using such terms in funds’ names, an 80% minimum threshold in terms of the proportion of investments must be met to satisfy the environmental or social characteristic or sustainable investment objectives. The Guidelines also exclude certain investments where ESG terms are contained in funds’ names. Depending on the ESG-related term contained in the fund’s name, investments in companies in the areas of coal, oil gas and emissions-intensive generating of electricity (specific respective thresholds for the company’s revenues in these areas apply), controversial weapons, the tobacco industry and companies failing to observe specific good governance principles.

⁶ ESMA Guidelines on funds’ names using ESG or sustainability-related terms, 21.08.2024. https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657_Guidelines_on_funds_names_using_ESG_or_sustainability_related_terms.pdf

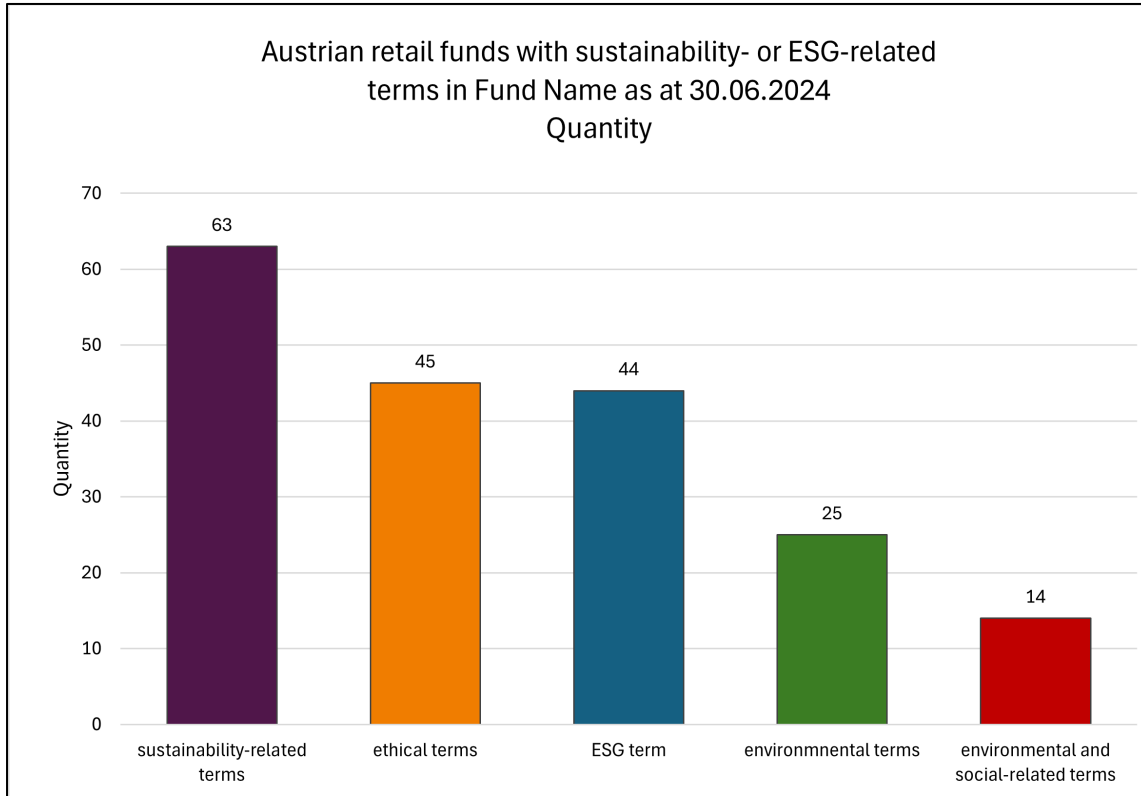


Figure 3: Number of Austrian Retail Funds containing ESG or sustainability-related terms in the fund's name, as of 30.06.2024

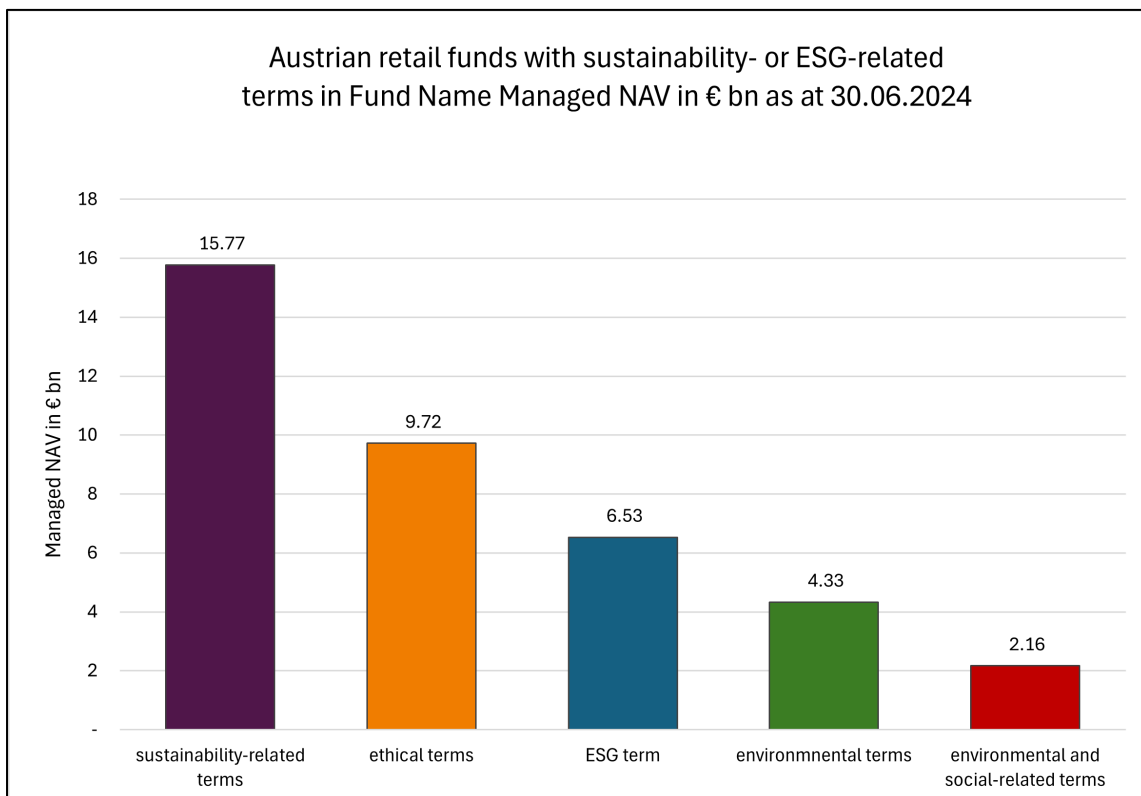


Figure 4: Managed Net Asset Value in € bn by Austrian Retail Funds contain ESG or sustainability-related terms in the fund's name, as of 30.06.2024

As of 30.06.2024 a total of 191 Austrian retail funds, managing a net asset value of € 38.5 bn, had funds names containing ESG- and sustainability-related terms. Broken down by groups of terms⁷ sustainability-related terms are explicitly used for 63 funds (€ 15.77 bn), while environment-related or environment and social-related terms are used in the names of 25 (€ 4.33 bn) and 14 (€ 2.16 bn) funds respectively. The term "ESG" is used in the name of 44 funds (€ 6.53 bn). In addition, 45 funds (€ 9.72 bn) use ethical terms in the fund name.⁸

3 THE FMA'S ANALYSES REGARDING GREENWASHING IN RETAIL FUNDS

As the market for funds that consider and advertise using sustainability- and ESG related features grows, there is also an increased risk of greenwashing. This is understood under the European Supervisory Authorities⁹ understanding to mean a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial service. This practice may be misleading to consumers, investors, or other market participants.

It should be noted that the term "greenwashing" primarily relates to environmental (E) aspects. However, this is only a single constituent part of the broader term of sustainability/ESG. Where social and/or governance criteria (S and G) are involved, then the term greenwashing could be replaced by social washing (or governance washing), ESG washing or sustainability washing. However, using such terms is somewhat unusual, resulting in the European Supervisory Authorities understanding the term "greenwashing" as not only relating explicitly to E aspects, but encompassing all sustainability/ESG aspects.

The combating of greenwashing and the promotion of the transparency of sustainable financial products have been integral parts of the FMA's priorities for supervision and inspections to date regarding sustainability.¹⁰ Greenwashing constitutes a high risk for investor protection and may assume many different forms. A significant focus is placed on the adequate disclosure of sustainability-related information. Under supervisory law, in the event of greenwashing, breaches

⁷ "E" covers terms that only contain environmental aspects. E.g. environment, eco, green, climate, ecology, climate, nature;

"E+S" covers terms that include both environmental and social aspects. E.g. Mankind and environment, eco and social;

"Ethics" covers terms that include ethical aspects, e.g. ethical, responsibility, fair.

⁸ Regarding the categorisation of terms in the ESMA Guidelines, there are no exclusively governance-related or solely social-related terms in fund names among Austrian mutual funds. Furthermore, there are also a very small number of retail funds that also use transformation or impact-related terms in their fund names together with other terms and are subsumed in the categorisations presented.

⁹ Cf. EBA, EIOPA and ESMA Progress Reports on Greenwashing, May 2023, <https://www.esma.europa.eu/press-news/esma-news/esas-put-forward-common-understanding-greenwashing-and-warn-risks> as well as EBA, EIOPA and ESMA Final Reports on Greenwashing, May 2024, <https://www.esma.europa.eu/press-news/esma-news/esas-call-enhanced-supervision-and-improved-market-practice-sustainability>

¹⁰ See FMA Facts and Figures, Trends and Strategies, <https://www.fma.gv.at/en/publications/facts-and-figures-trends-and-strategies/>

of special disclosure obligations set out in the SFDR/Taxonomy Regulation or a breach of the principle that information towards investors is required in any case to be fair, clear and not misleading (cf. Article 128 para. 2 and Article 134 para. 2 InvFG 2011, Article 4(1) of Regulation (EU) 2019/1156) may exist. In addition to greenwashing risks under supervisory law, civil law risks also exist in particular that might be associated with potential greenwashing. Even potential greenwashing practices may lead to legal and reputational risks.

To prevent the occurrence of “greenwashing”, the FMA conducts targeted supervisory activities for checking disclosures as well as for checking actual compliance with the disclosed investment strategy. To do so, the FMA uses a greenwashing analysis framework for retail funds, which also makes use of automatic text analysis methods and artificial intelligence. Based on the European supervisory authorities' understanding of greenwashing, analysis is conducted about whether the coherence of the description of the consideration of sustainability-related aspects of the investment strategy with the fund's name and the fund documents (image of sustainability) and whether its suggested extent corresponds to the actual investment strategy pursued (investing of sustainability).

Quantitative greenwashing screening is used to take risk-based and targeted supervisory measures. This consists of two modules: firstly, the scope and content of ESG or sustainability-related texts in fund documents is automatically analysed (text analysis) using NLP (natural language processing) techniques. In parallel, the assets invested in the fund are analysed from the perspective of Austrian retail investors (portfolio analysis) based on several sustainability criteria. Analysis data from the commercial data provider ESG Plus GmbH is used for this purpose. Applied sustainability criteria include, for example, investments in coal, oil, gas, impact on biodiversity, or investments in nuclear energy. Social and ethical criteria also apply in addition to environmental criteria: e.g. investments in tobacco, alcohol or weapons. The results of both parts are then compared against the disclosed investment strategy and the funds' name on a rule-based basis, to identify potential cases of greenwashing.

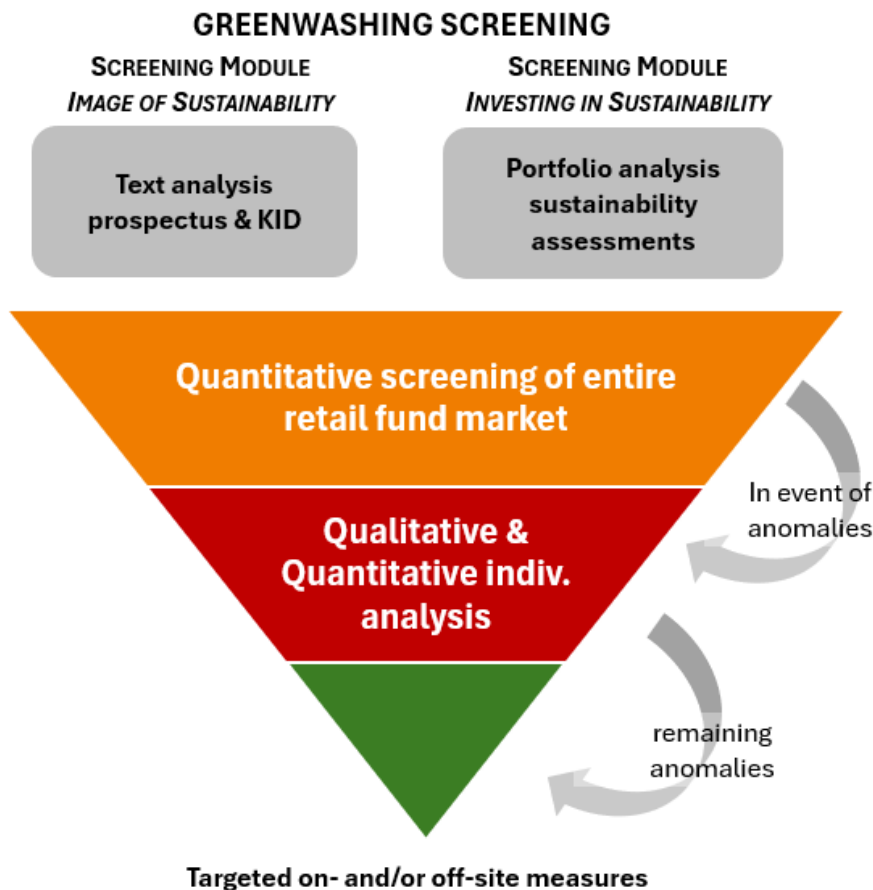


Figure 5: Schematic depiction of the FMA's greenwashing screening for retail funds

Due to the nature of an automated and quantitative screening, this only constitutes an initial assessment, but is not sufficient in its own right to deliver a full verdict in relation to greenwashing. In a next step, the identified anomalies from the quantitative screening are analysed in greater detail, by means of an individual quantitative and qualitative analysis using large language model-based technology. Where individual analyses confirm the suspicion of potential greenwashing, then these remaining cases are addressed by means of targeted on- and/or off-site measures.

No suspicion of (intended) greenwashing has been identified in the Austrian retail fund market to date. From the FMA's greenwashing analyses and supervisory measures conducted to date for retail funds, observations of missing or ambiguous disclosures regarding the investment strategy as well as about necessary information under the SFDR in pre-contractual documents (especially the fund prospectus) have only been identified for a few funds. The FMA's supervisory measures have led to amendments to and the improvement of sustainability-related disclosures of these funds.

4 STATISTICAL ANALYSES FOR CONSIDERATION OF SUSTAINABILITY IN RETAIL FUNDS

Based on the data gathered during the FMA's greenwashing screening on ESG- or sustainability-related texts in fund documents (prospectuses and funds' key information documents (KIDs)) as well as data from the assessments of investments by funds based on various sustainability criteria (CLEANVEST data by ESG Plus GmbH) several analytical findings are able to be derived about the consideration by ESG- or sustainability aspects in the Austrian fund market (reporting date of data used: 31.12.2023).

The relative number of ESG and sustainability-related terms in the investment strategy section of the prospectus were used to analyse the text of the fund documents regarding their intended consideration of sustainability in investment. The figures about retail funds in Figure 6 show that SFDR categorisations (Articles 6/8/9 SFDR), the use of ESG or sustainability-related terms in the fund name and an Austrian Ecolabel 49 (UZ49) for sustainable financial products are associated with increased disclosure of ESG or sustainability-related terms in the investment strategy section of the prospectus. The more sustainable a fund is declared to be, the more sustainability aspects are described in the investment strategy in the prospectus.

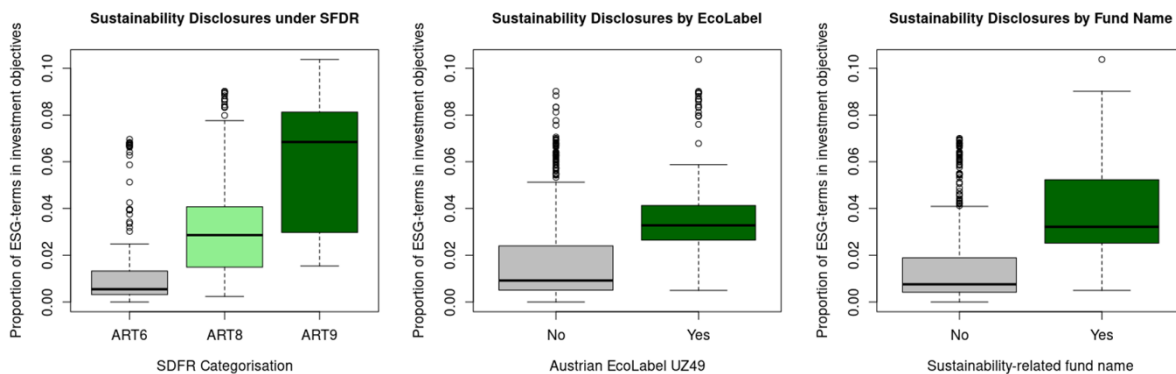


Figure 6: Distribution (box plots) of the relative number of ESG- or sustainability-related terms in the section on investment strategy in the prospectus for retail funds

A total sustainability score by ESG Plus GmbH (CLEANVEST-Score from 0 to 10, with higher scores reflecting greater sustainability) was applied to the portfolio analysis of the retail fund's sustainability assessment based on the individual criteria of the invested assets. The illustrations of the retail funds in Figure 6 suggest the same trend as the text analysis, namely that SFDR categorisations (Art. 6/8/9 SFDR), the use of ESG or sustainability-related terms in the fund name and an Austrian Ecolabel 49 (UZ49) for sustainable financial products positively influence a fund's sustainability assessment. Those retail funds categorised under Art. 8 or even Art. 9 SFDR, having ESG or sustainability-related terms in their fund name and investing in accordance with the Austrian Ecolabel 49 (UZ49) for sustainable financial products, are on average rated better in the overall

sustainability assessment. In summary, the more sustainable a fund is declared to be, the more sustainable its fund investments also are.

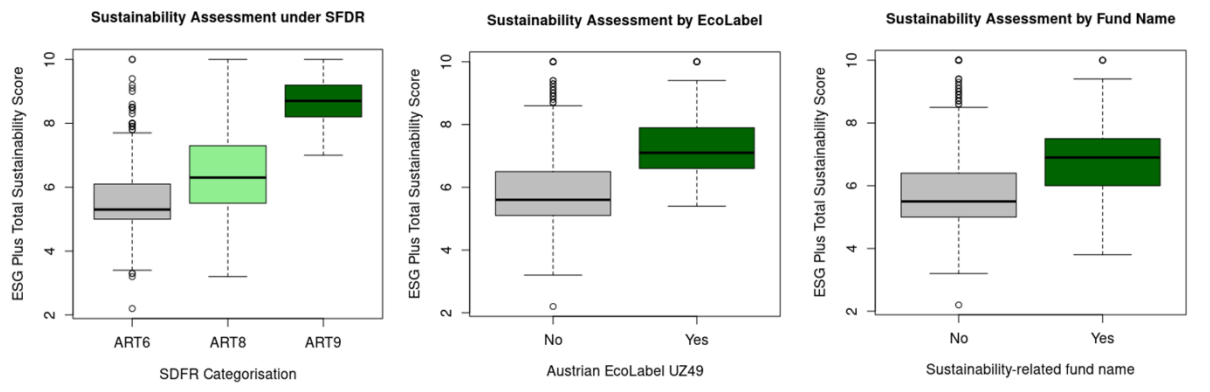


Figure 7: Distribution (box plots) of sustainability assessment based on ESG Plus GmbH's overall sustainability score for retail funds

However, the broad range within these categories should be noted - both in terms of disclosure about sustainability aspects and the sustainability assessment of the invested assets - which underpins the FMA's need to focus analyses on potential greenwashing.

The data and categorisations should not be considered in isolation from each other. For this purpose, a statistical regression model was identifying for conducting more precise analysis to estimate relevant factors of retail funds' sustainability rating, which considers the economic fund categorisations by asset class as control variables. The sustainability rating (ESG Plus GmbH's overall sustainability score) was estimated jointly using a linear regression model with the following explanatory variables for determining significant influencing factors (p-value <0.05). The baseline in the model refers to a mixed fund in accordance with Art. 6 without an ESG or sustainability-related fund name and without an UZ49 EcoLabel (fund does not take any ESG or sustainability-related aspects into account in the investment).

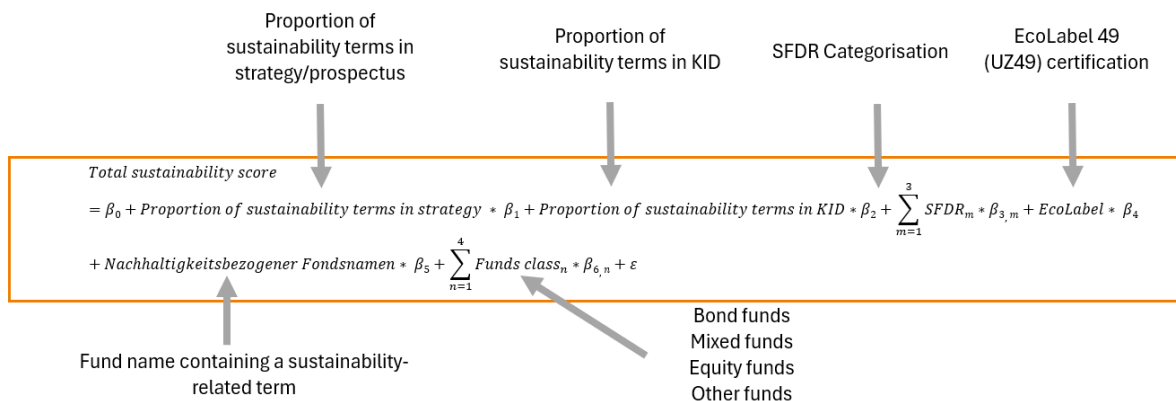


Figure 8: Regression model of the relevant influence factors on the sustainability assessment of retail funds

The results estimating the relevant factors influencing the sustainability assessments of retail funds confirm that the categorisations according to SFDR, UZ49, and the sustainability descriptions of the investment strategy in the prospectus and the key information document are statistically significant positive factors for the sustainability assessment of the funds. The economic fund categories by asset classes also play a statistically significant role as control variables. However, an ESG or sustainability-related fund name does not constitute an additional statistically significant factor and may already be taken into account by other factors, although a regression analysis using this factor alone yield positive and statistically significant results.¹¹

| Factors for the regression on the Overall Sustainability Score | Estimated coefficients |
|--|------------------------|
| Baseline (Art. 6 mixed funds) | 4,97* |
| Proportion of sustainability terms strategy/prospectus | 0,07* |
| Proportion sustainability terms KID | 0,96* |
| Art. 8 SFDR | 0,29* |
| Art. 9 SFDR | 1,51* |
| EcoLabel UZ49 | 0,77* |
| Sustainability-related fund name | -0.3 |
| Asset class equity funds | 1,00* |
| Asset class bond funds | 0,61* |
| Asset class other funds | 1,93* |

* statistically significant, $R^2=0.35$. Baseline is Art. 6 SFDR mixed funds

Figure 9: Estimated influence factors of the regression model on the sustainability evaluation of retail funds

Due to the broad distribution of the consideration of sustainability in disclosure and funds' investments within the relevant factors and categories, investors should therefore always consider whether the individual fund's sustainability aspects are in line with their own sustainability preferences in further detail prior to investing in a fund.

¹¹ Cf. the analytic results in a study conducted by ESMA, although the regression model does not estimate the influence factors of the sustainability evaluation of the fund, but instead estimates the relative ESG or sustainability-related terms in funds documents: ESMA TRV Risk Analysis, ESG names and claims in the EU fund industry, October 2023, https://www.esma.europa.eu/sites/default/files/2023-10/ESMA50-524821-2931_ESG_names_and_claims_in_the_EU_fund_industry.pdf