Press release

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Luxembourg-domiciled ESG funds reach EUR2.8tn in assets but challenges concerning data standardisation and availability prevail in the sustainable finance domain

- Environmental, Social and Governance (ESG) funds account for 67.3% of the assets under management (AuM) of Luxembourg's overall Undertakings for Collective Investments in Transferable Securities (UCITS), reaching EUR 2.8tn in assets by the end of June 2023;
- A significant proportion (67%) of the AuM of UCITS domiciled in Luxembourg report under Article 8 or Article 9 of the Sustainable Finance Disclosure Regulation (SFDR). In terms of number of funds, those reporting under Article 8 represent 43% of Luxembourg-domiciled UCITS funds – an increase from the 34% recorded in June 2022;
- ESG Exclusion remains the most common strategy employed, making up 59.1% of ESG UCITS assets;
- Among the management companies (ManCos), banks and insurance companies analysed, slightly more than half (57.2%) fulfilled the SFDR's "comply or explain" obligation in relation to reporting on the Principal Adverse Impacts (PAIs) of their investment decisions on sustainability factors, while a little over a third (35%) published a declaration not to report on the PAIs.

Press Release, Luxembourg, 14 December, 2023

Luxembourg, 14 December 2023 – The Luxembourg Sustainable Finance Initiative (LSFI), in collaboration with PwC Luxembourg, has published the second edition of its Sustainable Finance study, *"Sustainable Finance in Luxembourg 2023: An expanded overview"*.

The study presents an analysis of the current status of the sustainable finance universe within the Luxembourg financial industry. In particular, it provides a comprehensive data-driven analysis looking at the primary ESG strategies employed, through sectoral analysis and asset classification breakdowns, with a focus on the investment funds industry. In addition, this year's edition expands its scope as it also delves into how sustainable finance regulations at the European Union (EU) level have been implemented by financial market participants (asset management, banking, and insurance segments) in the Grand Duchy. Besides, it provides an overview of how key players in the Luxembourg financial centre have positioned themselves with respect to global climate initiatives and tools – also a new development compared to last year's edition.

The key findings are as follows:

- **General remarks:**
  - The investment fund industry remains the only sector for which (paid) consolidated and aggregated data is publicly available.
  - ESG dimensions and data evaluated across industry studies heavily depend on data providers which typically have exclusive control over the collection and classification of ESG data.
- **ESG funds overview:**
  - ESG funds account for 67.3% of Luxembourg's overall UCITS AuM, reaching EUR 2.8tn in assets by the end of June 2023 and rebounding from the previous year.
  - In 2022, ESG funds showed greater resilience than non-ESG funds, as the former saw net outflows of EUR 76.9bn, while the latter saw net outflows of EUR 98.6bn. However, in the first half of 2023, ESG funds registered EUR 21.3 bn net outflows while non-ESG registered EUR 20.7 bn net inflows.
  - Asset managers headquartered in the United States and France remain the top ESG managers in Luxembourg, with US-based asset managers accounting for EUR 756.6bn in AuM.
- **ESG Strategies:**
  - The majority (59.1%) of ESG UCITS assets belonged to funds that only applied the ESG Exclusions strategy. Of these, 72.8% applied at least three exclusions, predominantly to the weapons, tobacco, and fossil energy sectors.
  - The vast majority of ESG Involvement funds (82%) strictly adhere to a single sub-strategy. Notably, the Best-in-Class and Sustainable Development Goals (SDG) sub-strategies were the most common within the ESG Involvement cluster, representing 37.7% and 37.5% respectively.

- Best-in-Class funds saw the most net inflows from investors of all the sub-strategies in 2022 (EUR 3.5bn) and H1 2023 (EUR 2.5bn).
  - Microfinance was the least common sub-strategy, representing only 2% of ESG Involvement funds.

- **SFDR and mandatory PAI reporting:**
  - A significant proportion (67%) of the AuM of UCITS domiciled in Luxembourg report under Article 8 or Article 9 of the Sustainable Finance Disclosure Regulation (SFDR). In terms of the number of funds, those reporting under Article 8 represent 43% of Luxembourg-domiciled UCITS funds – an increase from the 34% recorded in June 2022;
  - The proportion in terms of AuM of ESG Involvement funds reporting under Article 9 compared to Article 8 decreased from 43% in Q2 2022 to 20% in Q2 2023, reflecting the wider shift from Article 9 to Article 8 disclosure.
  - Only 57.2% of management companies, banks, and insurance companies analysed fulfilled the SFDR's "comply or explain" obligation in relation to reporting on the PAIs of their investment decisions on sustainability factors. Of these, only 22% published a PAI report, with significant discrepancies in the type and quality of data used.

- **Adherence to climate initiatives and tools:**
  - A small proportion of Luxembourg-based firms adhere to one of the following climate initiatives or tools: The Glasgow Financial Alliance for Net Zero (GFANZ), the Partnership for Carbon Accounting Financials (PCAF) and the Science-Based Targets Initiative (SBTi).
  - From the analysed initiatives and tools, PCAF is the least popular, with only 8% of all entities adhering to this. Given that the outcome report of the LSFI Working Group on Climate Measurement and Reporting has unambiguously recommended the adoption of PCAF by financial institutions to reach net zero objectives, future editions of the study will continue to monitor this data point.

Commenting on the report, Nicoletta Centofanti, CEO of the LSFI said: *The "Sustainable Finance in Luxembourg" study is part of our mission and efforts to assist the Luxembourg financial sector navigate the path toward sustainability. The second edition underscores the sustained growth and evolution of sustainable finance. Despite the current status of development, the efforts undertaken by financial market participants and the various global policies being introduced, this journey is only in its initial stages. Challenges and limitations persist, with a notable focus on data, standardisation and disclosure. Moving forward, crucial steps include further data availability and comparability. These are vital measures for the industry's development, as well as to effectively measure and monitor progress.*

Frédéric Vonner, Sustainable Finance and Sustainability Leader at PwC Luxembourg also said: *"In recent years, a significant paradigm shift has taken place, particularly following the official adoption of the United Nations' Sustainable Development Goals and the Paris Agreement. European Union policymakers have been at the forefront of* *advocating for sustainability, spearheading initiatives like the EU Action Plan on Sustainable Finance and the groundbreaking European Green Deal. These initiatives aim not only to position Europe as the inaugural climate-neutral continent, but also to play a pivotal role in fostering the worldwide shift toward a sustainable economy."*

-ENDS-

[**Access the full study here.**]

Notes to Editors

- When analysing Luxembourg's financial industry on a product level, the study is restricted to Luxembourg-domiciled UCITS and excludes Alternative Investment Funds (AIFs) and other types of investment vehicles given this is the only sector for which publicly available data exists.
- The study also focused on a sample of 485 financial institutions in Luxembourg (including ManCos, banks and insurance companies), utilising data from Refinitiv Lipper and the PwC Global AWM & ESG Research Centre, to analyse their adherence to the SFDR's PAI-related requirements.[1]
- The study defines ESG strategies as follows:
  - ESG Screening – All ESG-flagged funds which apply ESG factors into their overall screening process and cannot be explicitly included in either of the two following categories.
  - ESG Exclusion – This method excludes certain sectors, subsectors, countries and securities from an investment universe based on specific ESG-related criteria.
  - ESG Involvement – This method proactively invests in companies or sectors considered to be more effective in the management of ESG risks, including those demonstrating meaningful improvement in the management of those risks and includes funds that apply one or more of the following sub-strategies: Best-in-Class, Positive Tilt, Thematic, Microfinance, SDGs, and Sustainable Bonds funds.

About LSFI

The Luxembourg Sustainable Finance Initiative (LSFI) (www.lsfi.lu) is Luxembourg's coordinating entity on Sustainable Finance. Our objective is to **raise awareness, and support the transition of the financial sector in Luxembourg towards sustainability.**

The LSFI was founded in January 2020 by the Luxembourg Government (Ministry of Finance and Ministry of the Environment, Climate and Biodiversity), Luxembourg for Finance (the agency for the development of the financial centre) and the High Council for Sustainable Development (Conseil Supérieur du Développement Durable), an independent advisory body to the Luxembourg Government about sustainable development matters that represents the civil society.

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[1] The investment fund industry remains the only sector for which accessible (paid) data is available.

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About PwC

1. PwC Luxembourg (www.pwc.lu) is the largest professional services firm in Luxembourg with over 3,700 people employed from 94 different countries. PwC Luxembourg provides audit, tax and advisory services including management consulting, transaction, financing and regulatory advice. The firm provides advice to a wide variety of clients from local and middle market entrepreneurs to large multinational companies operating from Luxembourg and the Greater Region. The firm helps its clients create the value they are looking for by contributing to the smooth operation of the capital markets and providing advice through an industry-focused approach.
2. At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 364,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com and www.pwc.lu .