

European ESG Money Market Funds: 4Q21

39% of AUM Are Classified as Article 8

Fitch Ratings estimates that assets under management (AUM) in money market funds (MMFs) classified under Article 8 (A8) of the EU's Sustainable Finance Disclosure Regulation (SFDR) reached EUR600 billion at end-2021, increasing its share of total European MMF AUM to 39% from 36% at end-3Q21. Fitch is aware of several planned or pending fund conversions to A8 and therefore expects the A8 share to increase in the near term. Short-term MMFs have a lower proportion of A8 funds (29%) than standard MMFs (58%). As of end-2021, 65% of euro-denominated MMFs by AUM classified as A8, compared with 21% of sterling and 17% of US dollar MMFs. A8 funds are defined as funds that promote environmental and/or social factors, provided the companies in which the investments are made follow good governance practices.

Article 9 MMFs Are Far Less Prevalent: Article 9 (A9) MMF AUM totalled just EUR1.5 billion at end-2021, distributed across three funds. Two of these funds are domiciled in Luxembourg – one denominated in US dollars and one in euros – and the other is domiciled in France in euros. A9 funds are defined as funds that have a specific sustainable investment objective, indicating a more comprehensive designation than A8 funds.

French Funds Are the Largest Adopters: In France, 79% of MMF AUM is classified as A8, which compares to 42% for Ireland-domiciled MMFs and 17% for Luxembourg-domiciled, as of end-2021. Since 2016, France's financial industry has had access to a government-sponsored ESG certification, the SRI label. To achieve the SRI label, fund managers must disclose their ESG methodology and specific ESG indicators, demonstrating their familiarity with ESG disclosure requirements. According to information from the SRI label's organisation and Lipper, we estimated EUR238 billion of MMF AUM was under the label at end-February 2022, which represented about 70% of France-domiciled MMFs AUM.

What to Watch

Heightened Regulatory Oversight: Regulatory scrutiny is likely to be heightened despite the postponement of the final regulatory technical standards, or RTS, to January 2023 as evidenced by the European Securities and Markets Authority's (ESMA) Sustainable Finance roadmap published in February 2022. ESMA noted it was prioritising the issue of greenwashing. While a fund's classification under SFDR is not directly relevant to ratings, mis-classification or regulatory sanction could affect ratings if these events lead to material outflows affecting fund liquidity.

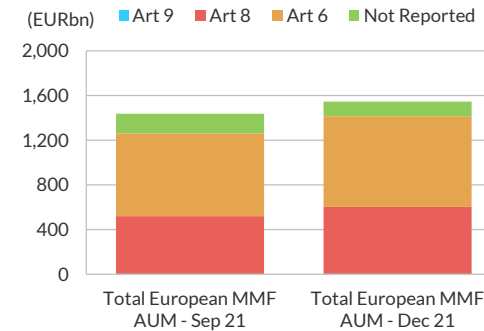


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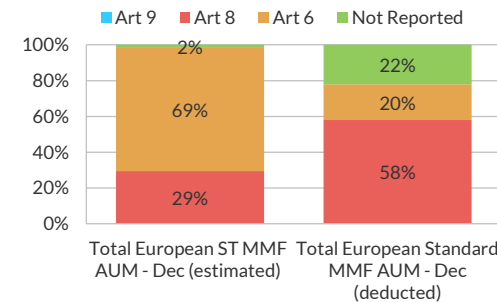
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A8 MMF AUM Grew by 4% in 4Q21



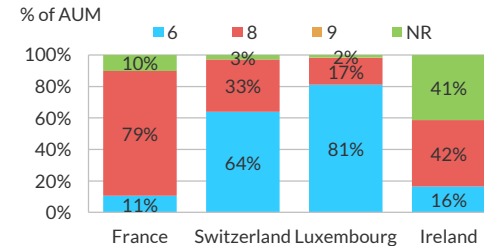
Source: Fitch Ratings, Lipper

ST MMFs Have a Lower Proportion of A8 Classified AUM



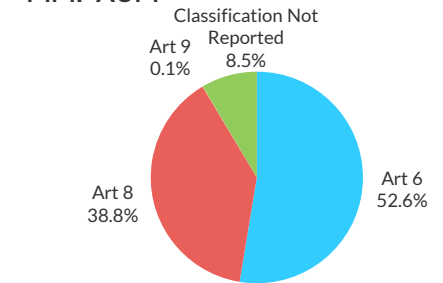
Source: Fitch Ratings, Lipper

France-Domiciled MMFs Favour A8 Classification



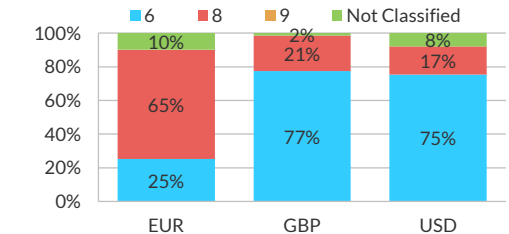
At end-2021, A8 MMFs domiciled in France, Switzerland, Luxembourg and Ireland had AUM of EUR300bn, EUR10bn, EUR70bn and EUR202bn, respectively
Source: Fitch Ratings, Lipper

A8 MMFs Represent 39% of all European MMF AUM



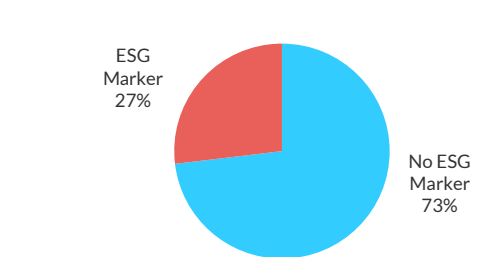
Figures do not add to 100% due to rounding
Source: Fitch Ratings, Lipper

Euro-Denominated MMFs Are Predominantly A8 Classified



At end-2021, A8 Euro-, sterling- and US dollar-denominated MMFs had AUM of EUR413bn, EUR74bn and EUR80bn, respectively
Source: Fitch Ratings, Lipper

27% of A8 MMFs Contain ESG Language in their Investment Objective



As of September 2021, by number of funds
Source: Fitch Ratings, Lipper

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