



Sustainable Finance in Europe and Luxembourg 2025

Navigating Recalibration



DISCLAIMER: This study covers public and private market funds at the global, European, and Luxembourg level. Funds of funds are excluded to avoid double counting, and money market funds are excluded from public market figures due to their limited sustainability integration capacity. European and Luxembourg figures are scoped to UCITS and their non-EU equivalents for public markets, and to private equity, private debt, infrastructure, and real estate funds for private markets. **As a result of the above, the totals presented may not reflect the full market size or align with other sources.** For further details, please refer to the ‘Methodology’ section of this study.

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FOREWORD

Sustainable finance has encountered headwinds over the past couple of years, mainly driven by escalating geopolitical tensions, increasing macroeconomic volatility, and the resulting shift in investment priorities and risk assessments.

However, our experience and ongoing work shows that sustainable finance has evolved into a core component of financial decision-making. It is increasingly propelled by growing awareness of climate change, biodiversity loss, social inequalities, and the long-term risks these challenges pose to economic stability and prosperity. In this evolving landscape, Luxembourg has firmly positioned itself as a leading international financial centre for sustainable finance.

The need for sustainable finance not only persists but is intensifying, as it serves as a key driver of resilience, strategic autonomy, and long-term value creation. Beyond addressing environmental and social challenges, sustainable finance strengthens the robustness and stability of financial systems, enhancing their capacity to withstand global shocks stemming from climate change, governance gaps and increasing social issues.

In this context, ensuring that capital flows are effectively channelled toward sustainable and transition activities is critical. The allocation decisions made today will determine the resilience of our economies, the pace of the transition to a low-carbon and nature-positive future, and the social cohesion of our societies.

For financial centres such as Luxembourg, sustainable finance represents a clear competitive advantage. Maintaining this leadership in a rapidly changing environment requires continued flexibility, innovation, and a forward-looking approach. The country's position as a global financial hub is underpinned by its leadership in UCITS and private assets, its long-standing expertise in cross-border fund structuring, its proactive engagement with European and international regulatory developments, and its strong ecosystem of financial institutions, service providers, and public stakeholders. Together, these strengths uniquely position Luxembourg to channel international capital toward sustainable investments.

As sustainable finance continues to mature, markets are pivoting toward a fundamental challenge: how to accurately measure, monitor, and demonstrate real-world impact. Reliable data, rigorous methodologies, and transparent reporting are essential to ensure that sustainable finance delivers on its promises and maintains the trust of investors, policymakers, and society at large. High-quality data serve as a powerful enabler of and catalyst for clarity, comparability, and confidence across jurisdictions and market segments.

This study seeks to contribute to this ongoing transformation by providing a comprehensive overview of the current state of sustainable finance in Luxembourg, Europe and globally. It identifies key developments and offers insight into prevailing trends, while underscoring our commitment to measuring and tracking progress over time. In doing so, it aims to support informed decision-making and foster constructive dialogue among market participants, public authorities, and other stakeholders committed to advancing sustainable finance with credibility, transparency, and tangible impact.

Nicoletta Centofanti, LSFI CEO

Serge Weyland, ALFI CEO

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- **Thomas Göricke**, Partner, Evinger Hoss Prussen
- **Maren Stadler-Tjan**, Partner, Clifford Chance
- **Jane Wilkinson**, Non-Executive Director, Sustainable Finance Expert, Founder at Ripple Effect

Moreover, we would like to thank the following professionals who participated in the interviews presented later in this study:

- **Baris Begburs**, Head ETF Structuring at UBS Asset Management
- **Guillaume Debauve**, Senior Regulatory Legal Officer at BNP Paribas
- **Gunter Fischer**, Principal Advisor at the European Investment Bank (EIB) and chair of the LSFI Impact Investing Advisory Board (IIAB)
- **Philip Kalus**, Managing Director at Acolin

GLOSSARY

CAGR	The Compound Annual Growth Rate (CAGR) measures the mean annual growth rate of an investment or business metric over a specific period, assuming steady, compounded growth.
Conventional Funds	Public or private market funds that do not primarily focus on sustainability in their investment processes.
Domicile	The country where a fund is registered and managed.
Exchange-traded Funds (ETFs)	Public market funds that trade on stock exchanges. ETFs aim to replicate the performance of specific market indices.
Money Market Funds	A type of public market fund that invests in cash, cash equivalents, and short-term debt securities.
Public Market Funds	Funds that invest in traditional instruments such as fixed income and equities, and can be distributed to both retail and institutional investors. In the EU, they are regulated by the UCITS Directive which establishes the framework under which funds domiciled in one EU member state can be marketed across all EU countries. The UCITS Directive aims to simplify investment regulations and enhance investor protection across EU borders.
Private Market Funds	Private market funds are investment vehicles that pool capital to invest in non-publicly traded assets, such as private equity, real estate, infrastructure, or private debt. These funds are generally illiquid, with long-term capital commitments, and are typically available only to institutional investors or accredited, high-net-worth individuals.
Sustainable Finance Disclosure Regulation (SFDR)	A European Union regulation designed to enhance transparency in the sustainability practices of financial market participants. It requires specific disclosures regarding the integration of ESG factors into investment strategies.
Sustainable Public Market Funds	Public market funds that incorporate ESG factors into their investment strategies or aim to generate positive societal and environmental impacts alongside financial returns. For the purpose of this study, whenever a reference is made to sustainable public market funds, the funds in question have been classified as 'sustainable' by Morningstar (see 'Methodology' section).
Sustainable Private Market Funds	Private market funds that incorporate ESG factors into their investment strategies or aim to generate positive societal and environmental impacts alongside financial returns. See the 'Note on sustainable private market fund data' in the Methodology section for more details.

KEY FINDINGS

EUR 1.6 trillion

AuM of sustainable public and private market funds in Luxembourg (2024)

EUR 2.6 trillion

AuM of sustainable public market funds in Europe as of end of 2025

EUR 1.1 trillion

AuM of sustainable private market funds in Europe as of end of 2024

12.6%

CAGR of the AuM of sustainable public market funds in Europe since 2020

41.8%

CAGR of the AuM of sustainable private market funds in Europe since 2020

49.7%

of AuM in European public market funds disclosing as per Article 8 or 9 of the SFDR

EUR 815.4 billion

AuM of sustainable public market funds in Luxembourg as of end of 2025

EUR 855.6 billion

AuM of sustainable private market funds in Luxembourg as of end of 2024

9.1%

CAGR of the AuM of sustainable public market funds in Luxembourg since 2020

2,327

Number of sustainable public market funds domiciled in Luxembourg

45.6%

CAGR of the AuM of sustainable private market funds in Luxembourg since 2020

EXECUTIVE SUMMARY

The Luxembourg Sustainable Finance Initiative (LSFI) and the Association of the Luxembourg Fund Industry (ALFI) decided to join forces and, with the support of PwC Luxembourg's Global AWM & ESG Research Centre, prepared this study which builds on previous research efforts carried out.

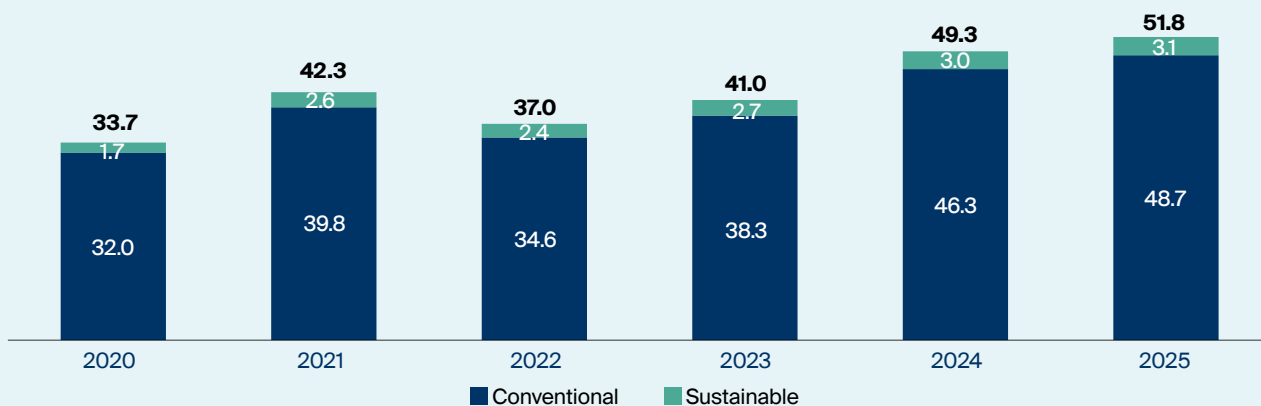
By using Morningstar's data and proprietary analysis of sustainable funds, this study provides a comprehensive analysis of the asset management industry at the global, European and Luxembourg levels. It highlights how sustainable finance is gradually becoming more ingrained within the industry's public and private segments, amidst a more challenging political and regulatory context.

The study's major findings are set out below:

At a **global level**, sustainable public market funds reached EUR 3.1tn in AuM at the end of 2025, representing 6.0% of total public market funds AuM. Their **AuM have grown steadily** from EUR 1.7tn in 2020, reflecting a CAGR of 12.5%.

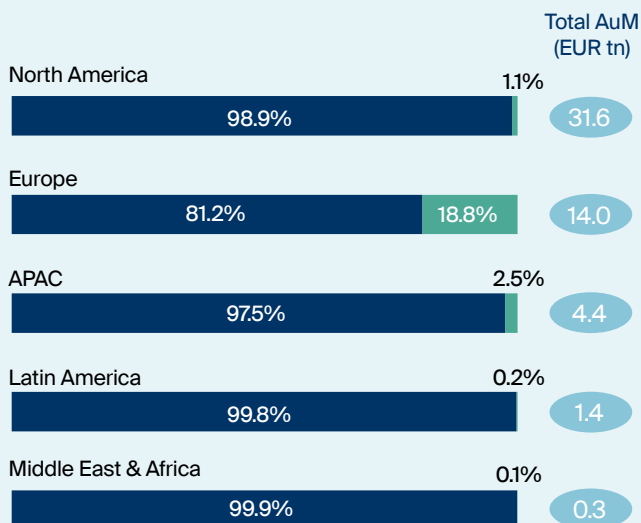
In **Europe, sustainable public market funds** accounted for EUR 2.6tn out of a total EUR 14.0tn (excluding money market funds), representing **18.8% of AuM**.

Conventional vs. Sustainable funds trajectory (EUR tn)

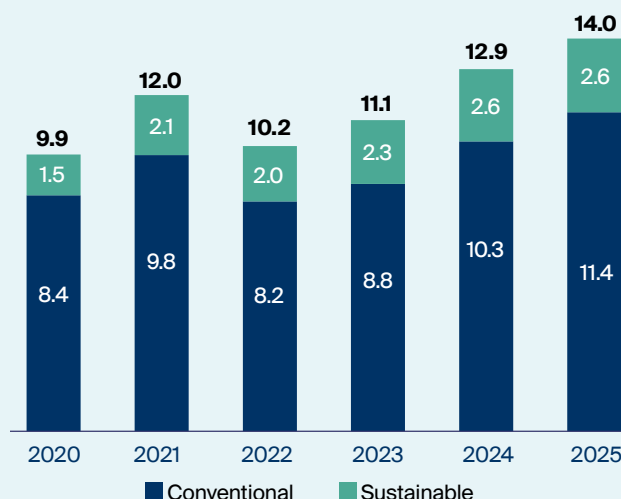


Note: Data excludes funds of funds, feeder funds and money market funds
Source: Morningstar

Share of sustainable funds AuM within each region



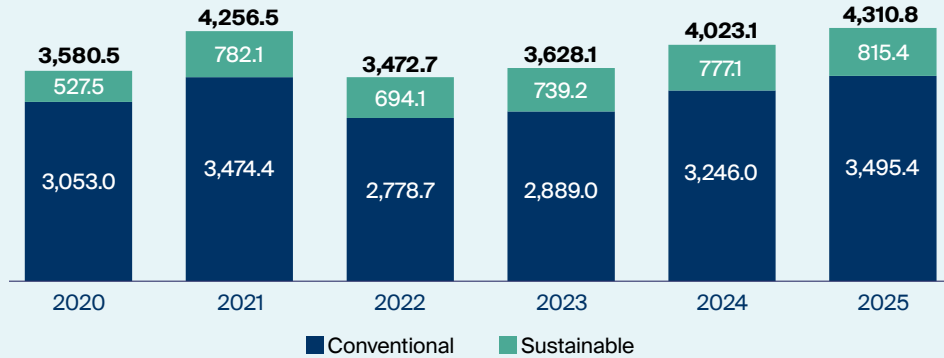
Conventional vs. Sustainable funds trajectory in Europe (EUR tn)



Note: funds of funds, feeder funds and money market funds
Source: Morningstar

As of the end of 2025, **Luxembourg-domiciled sustainable public market funds** held EUR 815.4bn in AuM, compared to EUR 3,495.4bn for conventional funds. Their AuM grew at a CAGR of 9.1% between 2020 and 2025, with their total number of funds reaching 2,327. **The Grand Duchy remains the leading domicile for European sustainable public market funds in terms of AuM**, representing 31.0% of the total sustainable public market funds AuM in Europe.

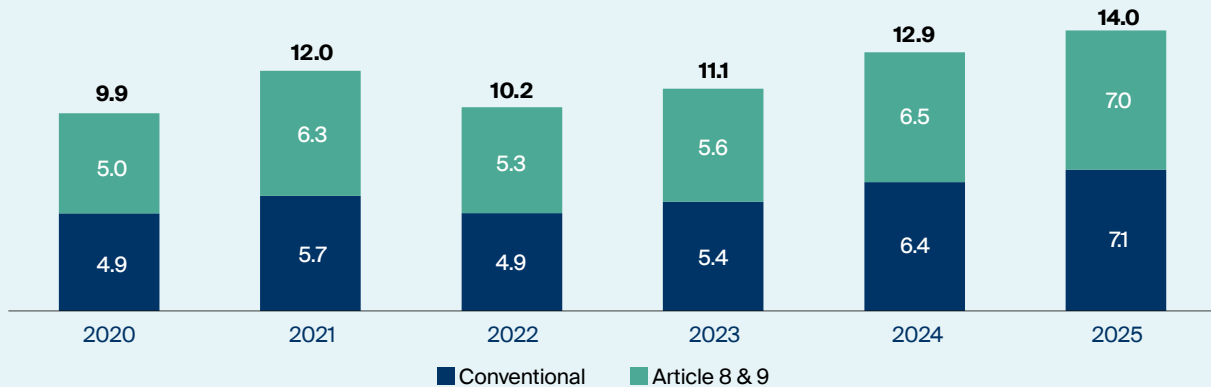
Conventional vs. Sustainable funds trajectory in Luxembourg (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds
Source: Morningstar

Regarding **the EU Sustainable Finance Disclosure Regulation**, there is an almost equal split: public market funds disclosing under Articles 8 and 9 held EUR 7.0tn in AuM at the end of 2025, nearly matching the EUR 7.1tn held by conventional funds. In Luxembourg, funds reporting under Articles 8 and 9 accounted for 71.5% of total AuM of public market funds domiciled in the country.

Conventional public market funds vs. Article 8 and Article 9 funds (EUR tn)

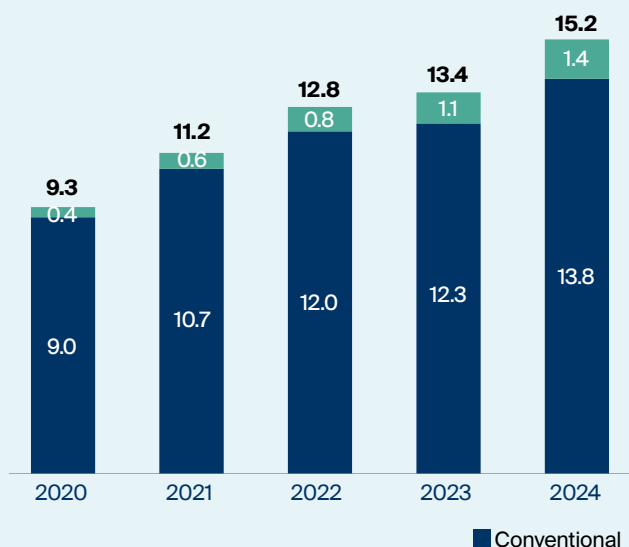


Note: Data excludes funds of funds, feeder funds and money market funds
Source: Morningstar

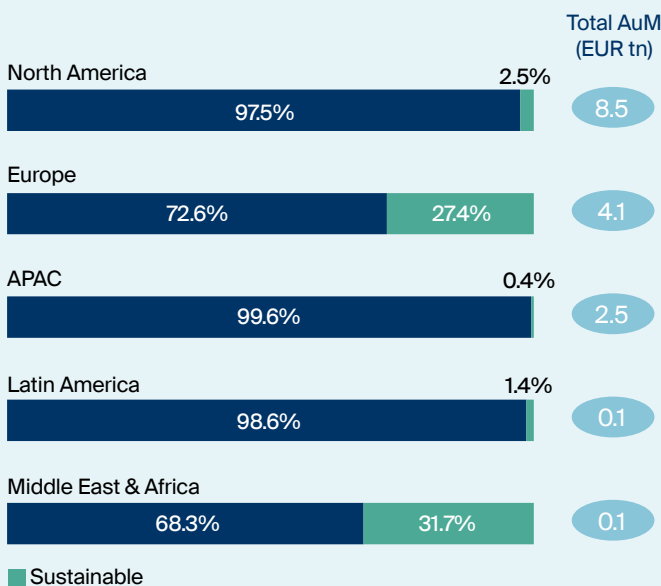
EXECUTIVE SUMMARY

Within the **global private markets universe**, sustainable private market funds represent approximately EUR 1.4tn out of EUR 15.2tn, or 9.0% of the total. **In Europe, sustainable private market funds** held EUR 1,110.8bn (27.4%) of total European private markets AuM as of the end of 2024. They recorded a CAGR of 41.8% since 2020.

Conventional vs. Sustainable private market funds trajectory (EUR tn)



Share of sustainable private market funds AuM within each region as of end-2024

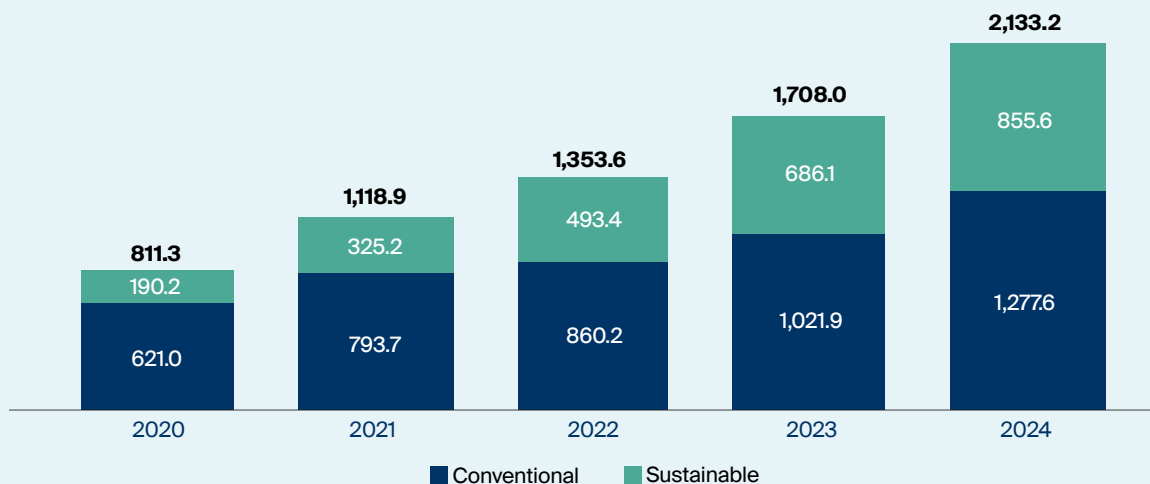


Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Sustainable private market funds domiciled in Luxembourg have been on a growth trajectory. By 2024, their AuM reached EUR 855.6bn – or 40.1% of the total private markets domiciled in the country. The Grand Duchy remains the leading domicile for European sustainable private market funds in terms of AuM, representing 77.0% of the total AuM in this cluster.

In terms of **asset classes**, private equity funds claim the top spot, with EUR 385.1bn (45.0% of AuM), followed by infrastructure funds with EUR 258.1bn (30.2% of AuM), real estate funds with EUR 107.5bn (12.5%) and private debt funds with EUR 104.9bn (12.2%).

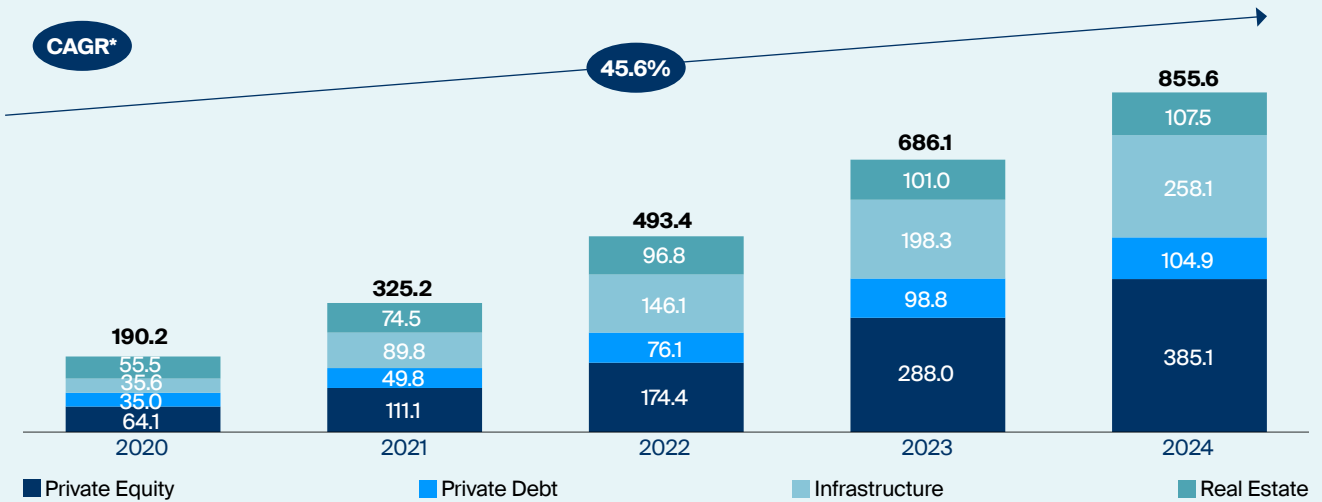
Conventional vs. Sustainable private market funds trajectory in Luxembourg (EUR bn)



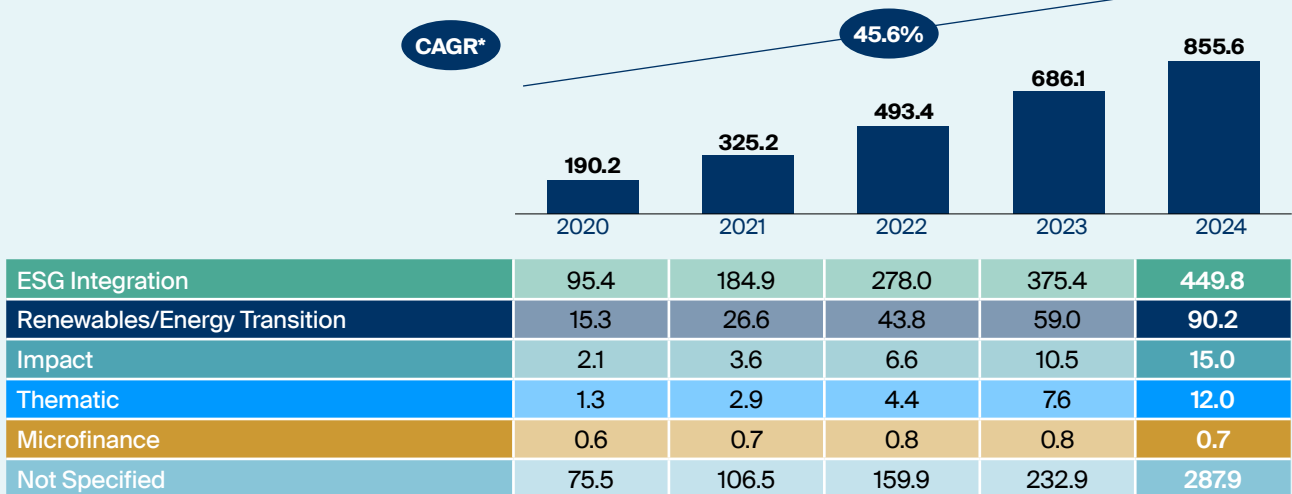
Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Regarding **sustainability strategies**, the ‘ESG Integration’ strategy claims the lead by a large margin, as funds following it account for EUR 449.8bn of AuM, or 52.6% of all sustainable private market funds AuM domiciled in the country. The ‘Renewables/Energy Transition’ strategy comes next with EUR 90.2bn in AuM, followed by the ‘Impact’ (EUR 15.0bn), ‘Thematic’ (EUR 12.0bn), and ‘Microfinance’ (EUR 0.7bn) sustainability strategies. Sustainable private market funds without a clearly defined ESG strategy account for EUR 287.9bn, or 33.6% of sustainable private market AuM in Luxembourg.

Sustainable private market funds AuM in Luxembourg: split by Asset Class (EUR bn)



Breakdown of sustainable private market funds by strategy (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process. *Compound Annual Growth Rate for the period 2020-2024. Numbers might not add up due to rounding.
Source: Preqin, Monterey Insight

Sustainable finance has come a long way since 2020, evolving from a period marked by regulatory uncertainty to one of greater maturity and clarity.

Despite recent regulatory recalibrations as exemplified by the Omnibus package, Europe stands at the forefront of this shift, driven by pioneering regulations and reinforced climate commitments. As the second largest fund domicile in the world, Luxembourg stands out as a key hub in the sustainable finance landscape.

While challenges persist, sustainability is becoming integral to financial decision-making. Luxembourg is continuously adapting to maintain its leadership through close-knit collaboration with all relevant stakeholders in the Luxembourg financial centre.

INTRODUCTION

Despite recent political headwinds, sustainability remains a cornerstone of global financial stability and long-term economic resilience.

At first glance, recent regulatory recalibrations in Europe – driven most notably by the European Commission's Omnibus package on sustainability, proposed in February 2025¹ – may signal a slowdown in ambition and political will. The proposed changes significantly reduce the scope of landmark sustainability regulations such as the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), among others. In November 2025, a majority of Members of the European Parliament (MEPs) voted in favour of the amendments,² and on 16 December 2025, the final vote formally confirmed the Omnibus.

Beyond Europe, the recent unravelling of a plethora of global net zero alliances has raised additional challenges on sustainability ambitions. Announced following COP26 in Glasgow, these alliances were intended to drive forward the investments needed to reach net zero and firmly embed sustainability considerations in financial institutions' modus operandi.³ However, some of these have formally stopped their activities over the last months.

Such developments do not diminish the fact that climate change and environmental breakdown continue to inflict widespread and escalating damage across ecosystems, economies, and societies.

From extreme weather events disrupting supply chains to biodiversity loss threatening food security, these shocks go beyond financial institutions' balance sheets, as they “move through intricate, interconnected nodes and networks,”⁴ posing acute material risks with profound macro-prudential implications. Indeed, short-term scenarios developed by the Network for Greening the Financial Sector (NGFS) indicate that extreme climate events could reduce Euro Area GDP by up to 5% by 2030.⁵ The urgency for promoting sustainable finance has therefore never been greater.

In its capacity as a supervisor over the Euro Area's banking sector, the European Central Bank (ECB) has consistently acknowledged the significance of climate and nature-related risks. Through its climate stress tests and integration of climate considerations into supervisory frameworks,⁶ the ECB has underscored that such risks are already affecting asset valuations, credit exposures, and systemic stability. Moreover, in its opinion on the Omnibus, the ECB emphasised that high-quality and widely-available sustainability data is essential for investors, financial institutions and supervisors to manage sustainability-related material risks. In fact, gaps in the availability of sustainability data ultimately undermine financial stability and clarity for supervisors.⁷

To protect investors from greenwashing, the European Securities and Markets Authority (ESMA) published its guidelines on funds' names using ESG or sustainability-related terms in August 2024 and which came into application for new funds as from 21 November 2024, while existing funds had a six-month transition period that ended on 21 May 2025.⁸

The European Banking Authority (EBA) has also been active, issuing comprehensive guidelines on the management of environmental, social and governance (ESG) risks in January 2025 which require credit institutions and investment firms authorised under the Capital Requirement Directive (CRD VI) to integrate ESG factors into their risk frameworks and governance structures.⁹

1. European Commission. 'Omnibus I package – Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief.' 26 February 2025. https://finance.ec.europa.eu/publications/omnibus-i-package-commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6_en

2. European Parliament. 'Sustainability reporting and due diligence: MEPs back simplification changes.' 13 November 2025. <https://www.europarl.europa.eu/news/en/press-room/20251106IPR31296/sustainability-reporting-and-due-diligence-meps-back-simplification-changes>

3. United Nations. 'COP26: Together for our planet.' <https://www.un.org/en/climatechange/cop26>

4. Horvath, M. 'Banks are sleepwalking into climate shocks.' *The Banker*. 11 August 2025. <https://www.thebanker.com/content/48af943c-3c5e-402f-aaee-b4a7e794db3e>

5. Mauderer, S. & Stracca, L. 'Climate risks: no longer the tragedy of the horizon.' 9 July 2025. <https://www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog20250709--aed804c955.en.html>

6. Walker, I. 'EU stress test reveals financial impacts of transition risks.' *Green Central Banking*. 9 December 2024. <https://greencentralbanking.com/2024/12/09/eu-stress-test-reveals-financial-impacts-of-transition-risks/>

7. European Central Bank. 'Opinion of the European Central Bank of 8 Ma 2025 on proposals for amendments to corporate sustainability reporting and due diligence requirements (CON/2025/10)'. May 2025. https://www.ecb.europa.eu/pub/pdf/legal/ecb.leg_con_2025_10.en.pdf

8. ESMA. 'Guidelines on funds' names using ESG or sustainability-related terms.' 21 August 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

9. European Banking Authority. 'Guidelines on the management of environmental, social and governance (ESG) risks.' 8 January 2025. <https://www.eba.europa.eu/sites/default/files/2025-01/fb22982a-d69d-42cc-9d62-1023497ad58a/Final%20Guidelines%20on%20the%20management%20of%20ESG%20risks.pdf>

As for the overarching European sustainable finance framework, the Commission recently published proposed amendments to the Sustainable Finance Disclosure Regulation ('SFDR 2.0'), aiming to enhance transparency and comparability via explicit product labels (including one for transition finance),¹⁰ tightening requirements for sustainability-related disclosures and addressing greenwashing concerns.

Such regulatory and supervisory developments collectively reflect that, despite political debates over sustainability regulations, the EU's regulatory and supervisory framework is moving towards deeper integration of sustainability-related matters into financial decision-making.

For financial institutions, this is not a peripheral concern, as climate and nature-related risks can be drivers of instability if left unmanaged. Conversely, proactive engagement in sustainability offers a pathway to mitigate these risks while unlocking opportunities for innovation, competitiveness, and growth – especially in the context of the Commission's Competitiveness Compass which places sustainability and decarbonisation firmly in the EU's growth agenda, and underscores the strategic importance of financing and accelerating the energy transition to reduce external energy dependencies and strengthen Europe's autonomy and sovereignty.¹¹

The Grand Duchy of Luxembourg has cemented its position as a leading global and European hub for sustainable finance, playing a key role in aligning capital flows with sustainability objectives, and helping to accelerate the transition to a climate-neutral, inclusive economy. However, the road to meet the UN Sustainable Development Goals (SDGs) and global net zero ambitions – such as the European Climate Law and its objective of turning Europe into the first climate-neutral continent by 2050¹² – remains long, and Luxembourg's role within this ecosystem will only grow in importance.

In 2022, the Luxembourg Sustainable Finance Initiative (LSFI) partnered with the Global AWM & ESG Research Centre at PwC Luxembourg to issue *'Sustainable Finance in Luxembourg: A quantitative and qualitative overview.'*¹³ The study was a fact-based, neutral assessment of the state of sustainable finance in the investment fund industry in Luxembourg, highlighting the key trends shaping the industry.

Two subsequent studies were prepared in 2023¹⁴ and 2024¹⁵ which not only provided up-to-date data, but also expanded on the findings by incorporating an analysis of sustainable finance among private market funds, as well as other findings such as climate initiatives adoption, disclosures on Principal Adverse Impact (PAI) indicators, the European ESG Template (EET), and stewardship activities.

As for the Association of the Luxembourg Fund Industry (ALFI), the third edition of its European Sustainable Investment Funds Study was published in February 2025,¹⁶ following the 2021¹⁷ and 2022¹⁸ editions. These studies provide a detailed overview of the sustainable funds landscape across Europe.

For the present study, the LSFI and ALFI joined forces to produce a single publication, supported by PwC Luxembourg, leveraging the latest available data to provide an unbiased, fact-based, and comprehensive overview of the sustainable finance landscape in the asset management industry globally, in Europe and in Luxembourg. Moreover, to complement the research efforts and the publication's insights, a series of interviews with industry experts on key sustainable finance topics were carried out and incorporated into the study.

Section 1 examines the development of the sustainable public market funds industry over the past five years at the global, European and Luxembourg levels, focusing on trends in assets under management (AuM), as well as net flows, performance and sectoral allocations. Section 2 provides an overview of SFDR disclosures in the EU and Luxembourg, before delving into conventional and sustainable private market funds in Sections 3 and 4, respectively.

10. The proposed categories are a) Transition Products, b) ESG Basics, and c) Sustainable Products. Please refer to the corresponding section in 'Methodology' for more details.

11. European Commission. 'Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: A Competitiveness Compass for the EU.' 29 January 2025 https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

12. European Commission. 'European Climate Law.' https://climate.ec.europa.eu/eu-action/european-climate-law_en

13. LSFI & PwC. 'Sustainable Finance in Luxembourg 2022: A quantitative and qualitative overview.' December 2022. <https://lsfi.lu/wp-content/uploads/2022/12/Sustainable-Finance-in-Luxembourg.pdf>

14. LSFI & PwC. 'Sustainable Finance in Luxembourg 2023: An expanded overview.' December 2023. <https://lsfi.lu/wp-content/uploads/2023/12/Sustainable-Finance-in-Luxembourg-An-expanded-overview.pdf>

15. LSFI & PwC. 'Sustainable Finance in Luxembourg 2024: A maturing overview.' December 2024. https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf

16. ALFI. 'European Sustainable Investment Funds Study 2024: Sustainable investing fuelling resilient growth for the future.' February 2025. <https://www.alfi.lu/getattachment/306a28d7-4d86-484d-9846-b6f8397d0ebf/european-sustainable-investment-fund-study-2024-research.pdf>

17. ALFI. 'European Sustainable Investment Funds Study 2021: Catalysts for a Greener Europe: Developments in the European Asset Management Industry and Luxembourg's Fund Hub.' July 2021. https://www.alfi.lu/getattachment/61aac91b-3179-469a-bc84-c0d8e780cb31/app_data-import-alfi-european-sustainable-investment-funds-study-2021.pdf

18. ALFI. 'European Sustainable Investment Funds Study 2022: Hitting the road to a greener future – Sustainable funds: from niche to mainstream.' June 2022. <https://www.alfi.lu/getattachment/d590f0cc-8141-402e-9df2-bff575382dbe/european-sustainable-investment-funds-study-2022.pdf>



Interview on transition finance with **Guillaume Debauve**, Senior Regulatory Legal Officer at BNP Paribas

Q: What does transition finance refer to and what investors shall currently comply with on the regulatory side?

A: Transition finance refers to financing that can support investments in technologies, assets or other activities not covered by green finance, but which can lower emissions and shift towards alignment with long-term climate and sustainability goals. Industry guidelines (ICMA, LMA) and EU regulations (Taxonomy, revised SFDR 2.0 with a “transition” category)

address this. One point of attention: any transition claims shall be substantiated and free of greenwashing.

Q: Transition finance has become a central theme in sustainable investing. From the perspective of public markets, how do you define an appropriate transition investment strategy today?

A: Transition finance requires:

- Long term climate ambition translated into credible and ambitious short-, mid- and long-term GHG reduction targets with clear and transparent implementation disclosure (strategy and decarbonization levers), including financial planning aligned with climate goals (CAPEX & OPEX plans),
- Strong Governance to ensure delivery of the commitments, and ideally
- Consistent lobbying practices.

Q: In equity and fixed income portfolios, how do you distinguish between companies that are genuinely transitioning and those that are merely adjusting disclosures or narratives in response to regulatory pressure?

A: On the investee side, assessing environmental and social impacts is key - using proprietary methodologies and public documents (e.g. regulatory reporting). Investors must verify if companies have robust and transparent ESG and transition methodologies or even appropriate transition plans, as detailed in the previous question. Transition, meaning enhancing, requires a frequent monitoring. Governance buy-in is also critical: they shall back and supervise this transition.

Q: What role do engagement and stewardship play in transition-oriented strategies, particularly when investing in hard-to-abate sectors?

A: Engagement and stewardship are core to transition strategies. It helps assess and understand investee companies' transition plans and, for large shareholders, encourages them in these efforts. If the investee company's transition strategy is not improving or transition strategies still lack credibility, investors can vote against key proposals or divest, ensuring accountability and driving genuine decarbonisation. Filing shareholder resolutions can also be part of the tools used.

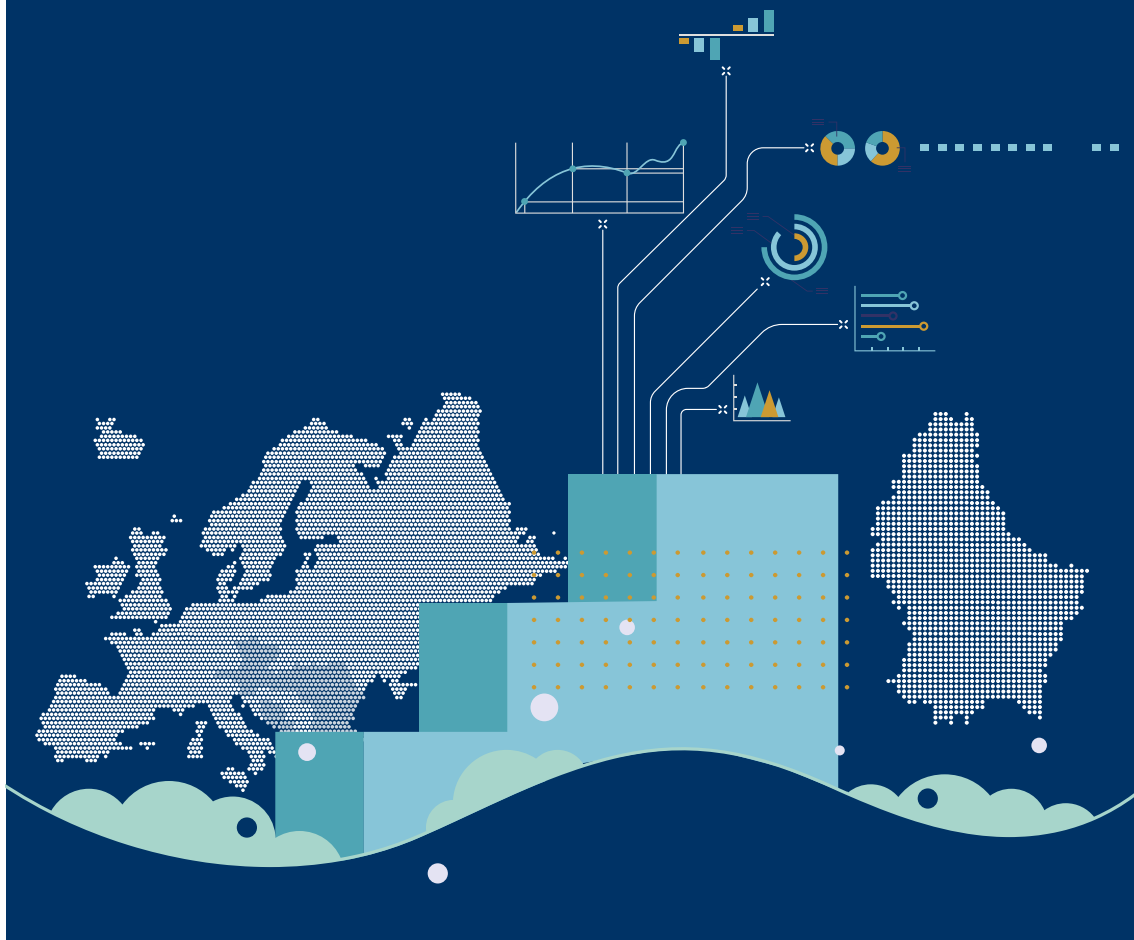
Q: Looking ahead, where do you see the most compelling transition finance opportunities in listed markets over the next few years – by sector, geography or asset class?

A: Transition finance is most critical in hard-to-abate sectors – steel, cement and natural gas - requiring heavy capital for near-zero technologies soon to be commercial or essential for energy transition. Geographically, EMEs lead – especially Southeast Asia and parts of Latin America, where financing demand is highest. Asset classes include equities, loans and transition-led bonds. For more details, you can refer to the recent IAE's “Scaling Up Transition Finance” report.



1.

DEVELOPMENTS IN THE SUSTAINABLE PUBLIC MARKET FUNDS INDUSTRY



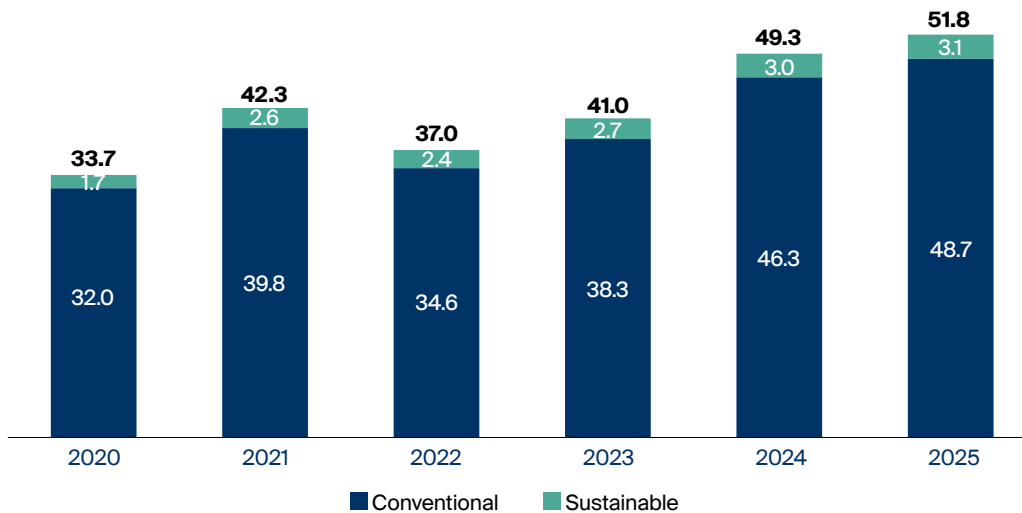
As sustainable investing gains momentum, this section examines the evolving landscape of sustainable public market funds at the global, European and Luxembourg levels, providing a comprehensive analysis of their growth, flow dynamics, and sectoral allocations.

By also zooming in on the sectoral exclusion policies employed by Luxembourg-domiciled sustainable public market funds, this section underscores the Grand Duchy's pivotal role within the broader context of sustainable finance.

1.1. GLOBAL SUSTAINABLE PUBLIC MARKET FUNDS

Despite the surge in popularity of sustainable public market funds since 2020, their AuM still represent a small share of the total AuM of public market funds. At the end of 2025, sustainable public market funds held EUR 3.1tn in AuM, representing 6.0% of the global public market funds AuM (excluding money market funds) (Figure 1).

Figure 1. AuM of global public market funds, conventional vs. sustainable split (EUR tn)

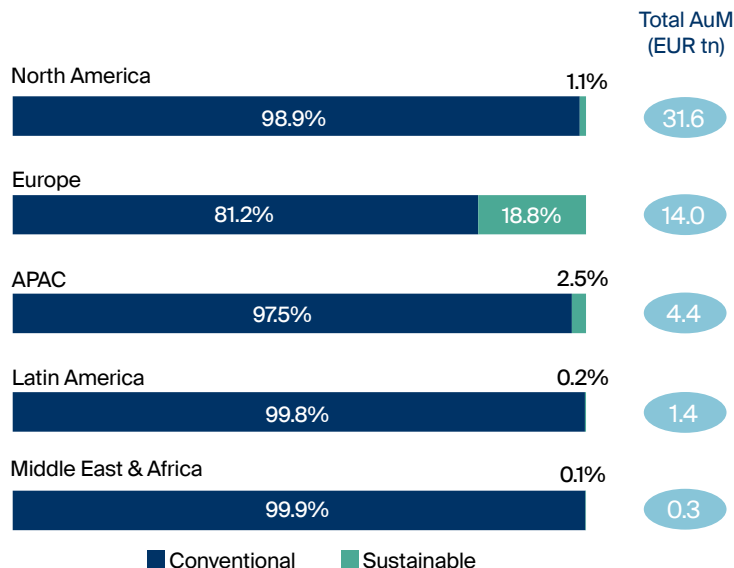


Note: Data excludes funds of funds, feeder funds and money market funds.
Sources: Morningstar

At the regional level, Europe leads the way, with sustainable public market funds representing 18.8% of the total public market funds AuM at the end of 2025 (Figure 2). Robust regulatory frameworks, combined with strong societal demand for climate action and corporate responsibility, have created both compliance incentives and reputational benefits, making ESG integration a strategic necessity rather than a choice.

In contrast, North America and the Asia-Pacific region show limited penetration at 1.1% and 2.5%, respectively, while sustainable public market funds have minimum presence in Latin America and the Middle East & Africa regions. This disparity underscores Europe's role as the global hub for sustainable investing.

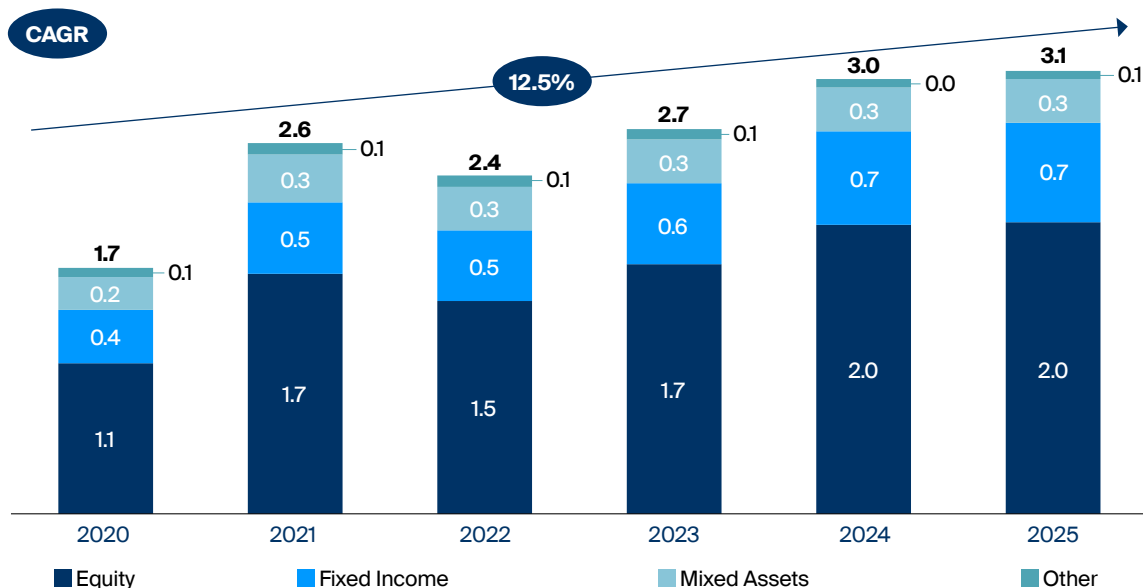
Figure 2. Global public market funds, share of sustainable funds AuM within each region as of end-2025



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

The AuM of global sustainable public market funds grew at a CAGR of 12.5% between 2020 and 2025, and equity remained the dominant asset class throughout this period, totalling EUR 2.0tn at the end of 2025, followed by fixed income at EUR 0.7tn (Figure 3).

Figure 3. AuM of global sustainable public market funds, split by asset class (EUR tn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Global net flows have fluctuated considerably since 2021, moving from positive flows of EUR 1,891.8bn in 2021 to negative flows of EUR -614.3bn in 2022, then recovering to positive levels in 2023 and 2024. This trend continued during 2025, as global net flows reached EUR 1,187.4bn as of year-end. While sustainable public market funds recorded strong inflows in 2021 (EUR 482.5bn), the net flows steadily weakened over time, turning negative during 2025 (Table 1).

Table 1. Global public market funds, net flows by fund category (EUR bn)

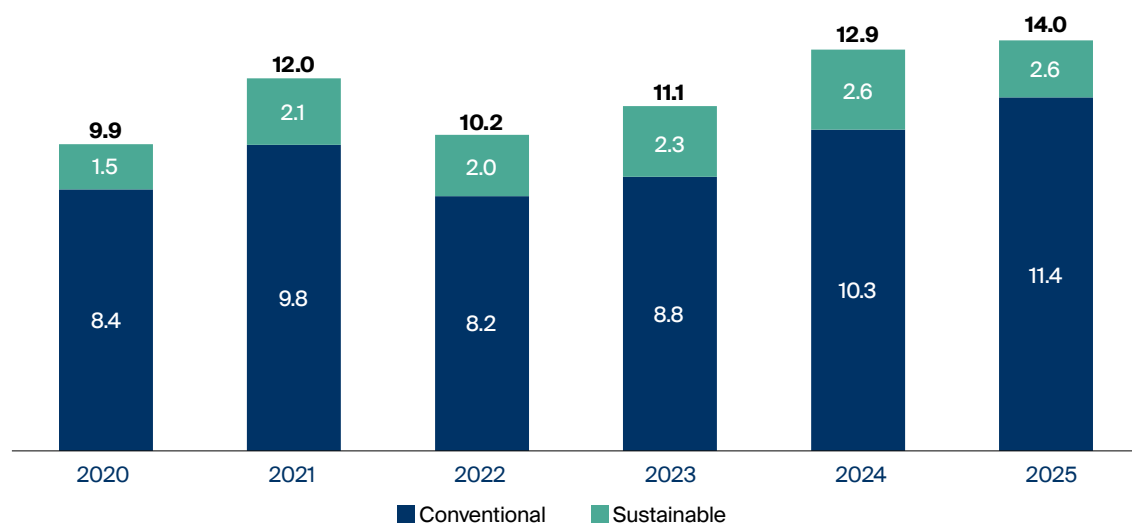
	2021	2022	2023	2024	2025
All public market funds	1,891.8	-614.3	55.0	1,216.7	1,187.4
Conventional public market funds	1,409.2	-771.0	-7.0	1,195.6	1,273.4
Sustainable public market funds	482.5	156.7	62.1	21.0	-86.0

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

1.2. EUROPEAN SUSTAINABLE PUBLIC MARKET FUNDS

Conventional public market funds continue to dominate the European market at the end of 2025, with total AuM of EUR 11.4tn. However, the AuM of sustainable public market funds grew consistently from EUR 1.5tn in 2020 to EUR 2.6tn in 2025 (Figure 4).

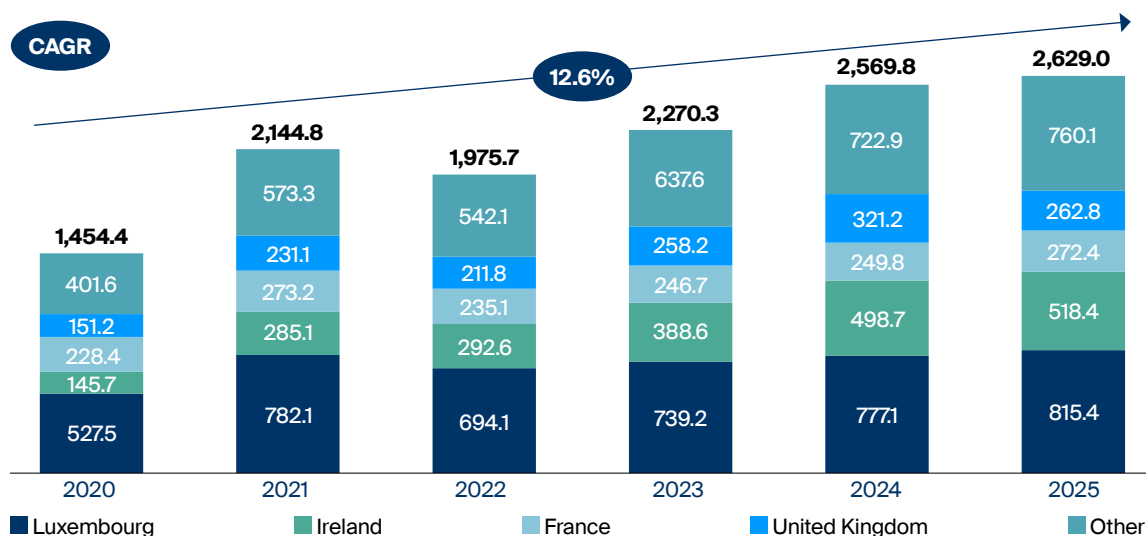
Figure 4. AuM of European public market funds, conventional vs. sustainable split (EUR tn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Indeed, as Figure 5 shows, AuM of European sustainable public market funds grew at a CAGR of 12.6% from 2020 to 2025, ultimately reaching EUR 2,629.0bn.












Figure 5. AuM of European sustainable public market funds, by country of domicile (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes all European domiciles not covered in the top 4. Source: Morningstar

Luxembourg is the leading domicile for European sustainable public market funds, with EUR 815.4bn in AuM, accounting for 31.0% of assets in this cluster. The other top domiciles for sustainable public market funds in Europe are Ireland with EUR 518.4bn (19.7%), France with EUR 272.4bn (10.4%), and the United Kingdom with EUR 262.8bn (10.0%) (Table 2).

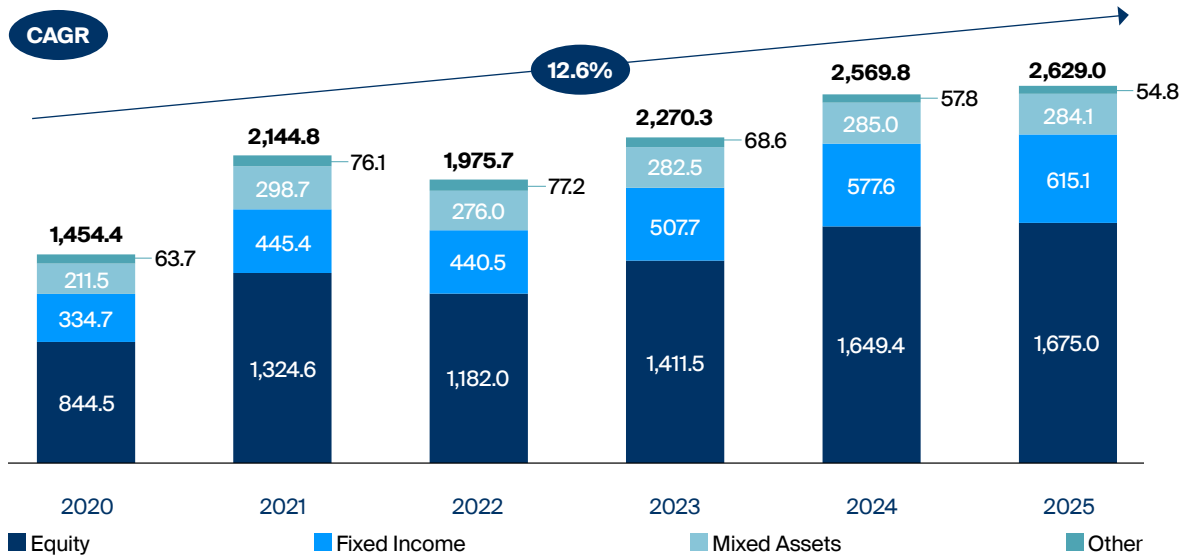
Table 2. Top domiciles of sustainable public market funds in Europe

Rank	Country	AuM 2025 (EUR bn)	Percentage share
1	 Luxembourg	815.4	31.0%
2	 Ireland	518.4	19.7%
3	 France	272.4	10.4%
4	 United Kingdom	262.8	10.0%
5	 Switzerland	221.8	8.4%
6	 Germany	117.9	4.5%
7	 Sweden	93.8	3.6%
8	 Belgium	87.4	3.3%
9	 Netherlands	82.3	3.1%
10	 Austria	36.9	1.4%
	 Other	120.1	4.6%
	Total	2,629.0	100%

Note: Data excludes funds of funds, feeder funds and money market funds. Source: Morningstar

In terms of asset classes, equity remained the leading one among European sustainable public market funds, reaching approximately EUR 1.68tn in AuM at the end of 2025. Fixed income continued its positive trajectory, with AuM rising to EUR 615.1bn, while mixed asset funds reached EUR 284.1bn (Figure 6).

Figure 6. AuM of European sustainable public market funds, split by asset class (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Unlike in the preceding four years, European sustainable public market funds recorded net outflows during 2025. In fact, 2025 marked the first year in the period under study in which European sustainable public market funds recorded negative net flows, with equity funds experiencing the largest outflows. Sustainable public market funds focused on fixed income, on the other hand, maintained positive net flows throughout the studied period (Table 3).

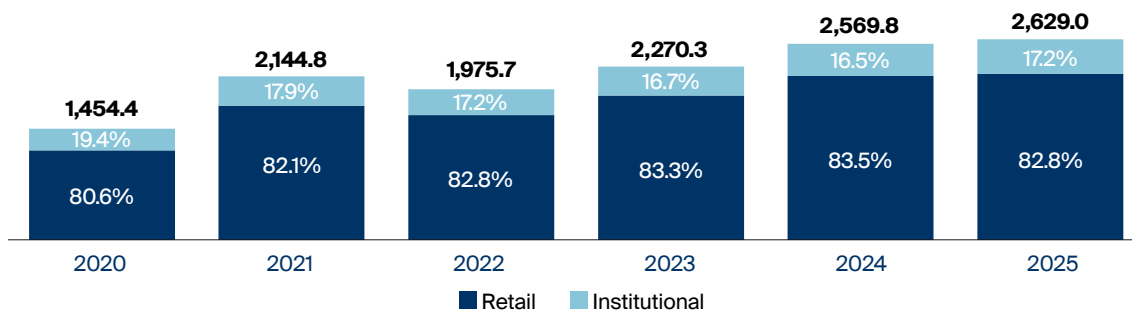
Table 3. Net flows of European sustainable public market funds (EUR bn)

Asset Class	2021	2022	2023	2024	2025
Equity	235.3	77.6	53.2	2.7	-96.0
Fixed Income	96.8	45.7	34.3	52.7	37.9
Mixed Assets	59.0	19.4	-13.7	-19.3	-9.1
Other	8.0	2.3	-4.8	-6.0	-3.2
Total	399.1	144.9	69.0	30.1	-70.4

Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Retail share classes remained the main market driver of European sustainable public market funds, representing 82.8% of total assets, broadly in line with previous years (Figure 7). However, retail net flows turned negative during 2025 (Figure 8).

Figure 7. Institutional vs. retail split, AuM of European sustainable public market funds (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

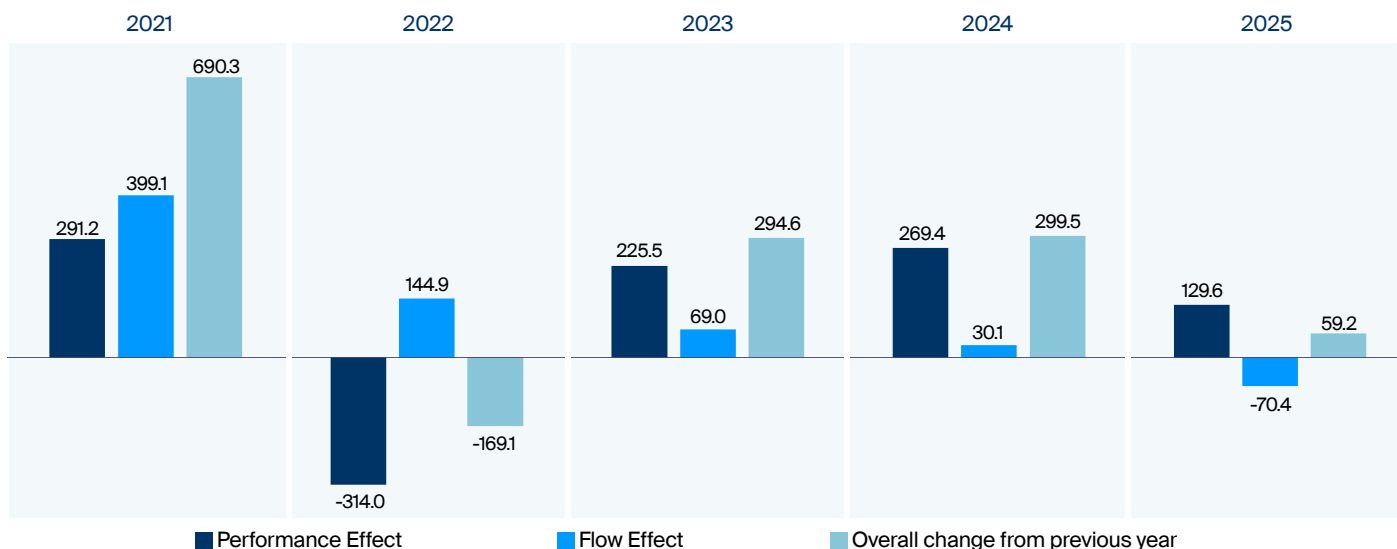
Figure 8. Institutional vs. retail split, net flows of European sustainable public market funds (EUR bn)

	2021	2022	2023	2024	2025
Institutional	53.8	7.5	2.7	0.8	4.5
Retail	345.3	137.5	66.4	29.2	-74.9
TOTAL	399.1	144.9	69.0	30.1	-70.4

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

As of end-2025, the overall AuM of European sustainable public market funds grew by EUR 59.2bn since 2024, marking a notable decline compared to the results recorded in 2023 (EUR 294.6bn) and 2024 (EUR 299.5bn). Indeed, the positive performance effect during 2025 (EUR 129.6bn) was partly offset by a negative flow effect (EUR -70.4bn) (Figure 9).

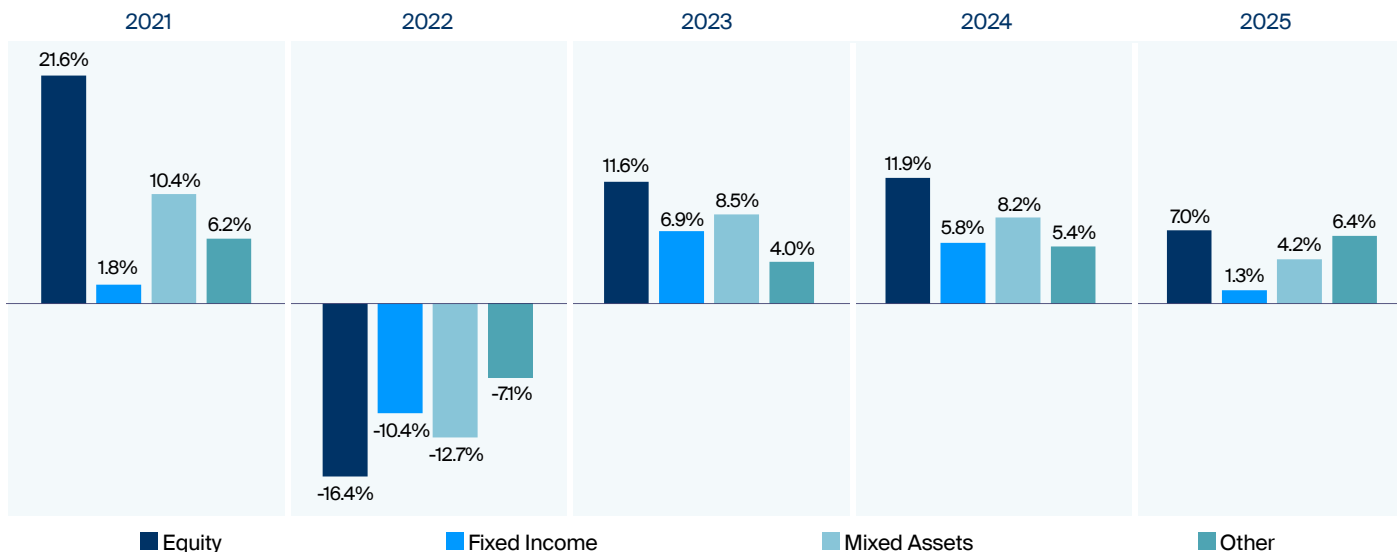
Figure 9. European sustainable public market funds breakdown between performance and flow effect (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

While European sustainable public market funds focused on equity recorded a performance of 7.0% in 2025, this paled in comparison with the performance recorded in 2024 (11.9%) and 2023 (11.6%). Sustainable public market funds in the “Other” category recorded the second highest (6.4%) performance among asset classes during 2025 (Figure 10). This moderation in returns reflects a wider industry trend, as conventional equity funds delivered strong results in 2024 but failed to sustain the same momentum in 2025.

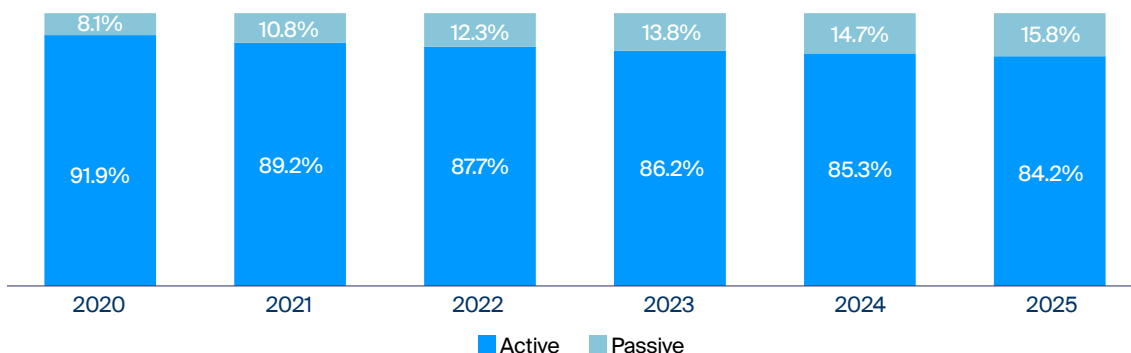
Figure 10. Average performance of European sustainable public market funds, by asset class



Note: Data excludes funds of funds, feeder funds and money market funds. “Other” includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

As for the investment strategy, the share of actively managed European sustainable public market funds stood at 84.2% as of end-2025, experiencing a gradual decline since 2020 where it stood at 91.9% (Figure 11).

Figure 11. European sustainable public market funds, share of active vs. passive (% of AuM)














Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Table 4 presents a breakdown of AuM of sustainable public market funds by the location of the headquarters of each asset manager. For instance, the AuM of a Europe-domiciled sustainable public market fund managed by a US-based asset manager would be included in the 'United States' row of the table.

As such, among European sustainable public market funds, the United States lead the ranking by manager HQs with EUR 636.6bn in AuM as of end-2025, representing 24.2% of total sustainable public market funds AuM. France and Switzerland complete the top three, with EUR 555.6bn (21.1%) and EUR 409.7bn (15.6%) in AuM, respectively.

Table 4. Asset manager HQ split for European sustainable public market funds

Rank	HQ Country	AuM 2025 (EUR bn)	Percentage share	Cumulative share
1	 United States	636.6	24.2%	24.2%
2	 France	555.6	21.1%	45.3%
3	 Switzerland	409.7	15.6%	60.9%
4	 Germany	243.3	9.3%	70.2%
5	 United Kingdom	232.9	8.9%	79.0%
6	 Belgium	98.4	3.7%	82.8%
7	 Finland	95.9	3.6%	86.4%
8	 Sweden	94.0	3.6%	90.0%
9	 Netherlands	90.8	3.5%	93.5%
10	 Italy	42.2	1.6%	95.1%
	 Other	129.5	4.9%	100.0%
	Total	2,629.0	100%	

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar



Interview on passive investments growth with **Baris Begburs**, Head of ETF Structuring at UBS Asset Management

Q: Over the past few years, global fund flows have increasingly favoured ETFs and indexed strategies across asset classes. What structural factors are, in your view, driving this continued shift towards ETFs at a global level?

A: The shift toward ETFs is fundamentally structural rather than cyclical. ETFs offer lower costs, intraday liquidity and full transparency. The creation/redemption mechanism improves trading efficiency, and in many markets, ETFs are more tax-efficient. Regulation has reinforced fee transparency (e.g., commission bans/MiFID II), encouraging advisors toward cost-efficient building blocks and model portfolios. Add digital channels/robo-advice and a generational move to self-directed investing

into the mix, and you get a self-reinforcing cycle of more assets, tighter spreads and even lower fees.

Q: Turning to sustainable investing, ETFs have captured a growing share of flows in sustainable funds. What explains this strong investor appetite for sustainable ETFs compared to active sustainable strategies?

A: Sustainable ETFs offer the benefits of the ETF wrapper, namely lower fees, daily transparency, and scalable liquidity. Within Europe, ESMA fund naming guidelines (as well as SFDR disclosures) have aligned labelling and disclosures, allowing investors to compare products and gain cost-efficient broad exposure, while reserving active budgets for high conviction themes. While there is no one definition of 'sustainable' across regulatory regimes, rules-based indices ensure holdings and screens can be audited.

Q: One recurring debate concerns the depth and credibility of sustainability integration in indexed products. How can sustainable ETFs effectively address issues such as index construction, data quality and real-world impact?

A: It requires a combination of design, governance and stewardship. On design, one answer could be clear tracking error controls and moving beyond simple exclusions to climate/transition benchmarks with measurable targets, e.g., Paris-aligned pathways or green-revenue tilts. On data, confidence is increased by providing transparency on data-providers, documenting assumptions on missing data, and publishing methodologies and rebalancing logic. Finally, the link to real-world outcomes can be better demonstrated through implementing impact-related investment criteria supported by engagement outcomes and portfolio metrics such as carbon removal or carbon avoidance.

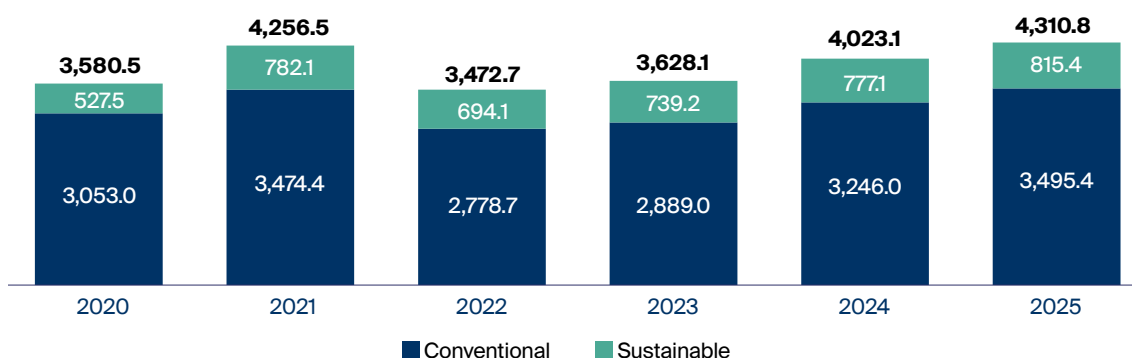
Q: Finally, we are seeing rapid growth in so-called "active ETFs". How do you see active ETFs reshaping the traditional distinction between active and passive investing, and what opportunities do they offer in the sustainable investing space?

A: Active ETFs show the wrapper is a delivery mechanism, not a 'passive' philosophy. They divide the traditional active/passive binary view into a spectrum of pure index, systematic strategies, and fundamental active. They have all the advantages of efficiency, transparency and intraday trading, while also allowing discretionary or systematic alpha. Active sustainable ETFs can be more forward-looking – for example, backing credible transition names, reacting quickly to controversies or building more concentrated exposures - while remaining tradable and transparent.

1.3. LUXEMBOURG SUSTAINABLE PUBLIC MARKET FUNDS

In Luxembourg, conventional funds held EUR 3,495.4bn at the end of 2025 – more than three quarters of total public market funds AuM in Luxembourg – while sustainable public market funds held EUR 815.4bn (Figure 12).

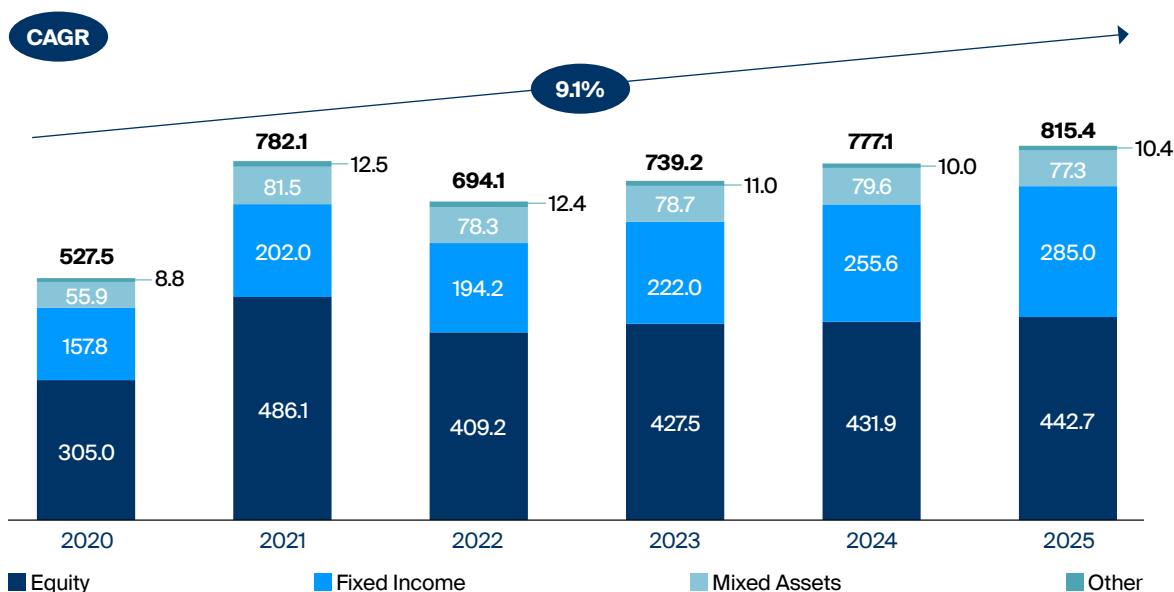
Figure 12. AuM of Luxembourg-domiciled public market funds, conventional vs. sustainable split (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Luxembourg-domiciled sustainable public market funds grew at a CAGR of 9.1% between 2020 and 2025, rising from EUR 527.5bn to EUR 815.4bn. Equity remains the largest asset class among these funds, with EUR 442.7bn in AuM as of end-2025, while fixed income continues to expand, rising from EUR 255.6bn in 2024 to EUR 285.0bn in 2025 (Figure 13).

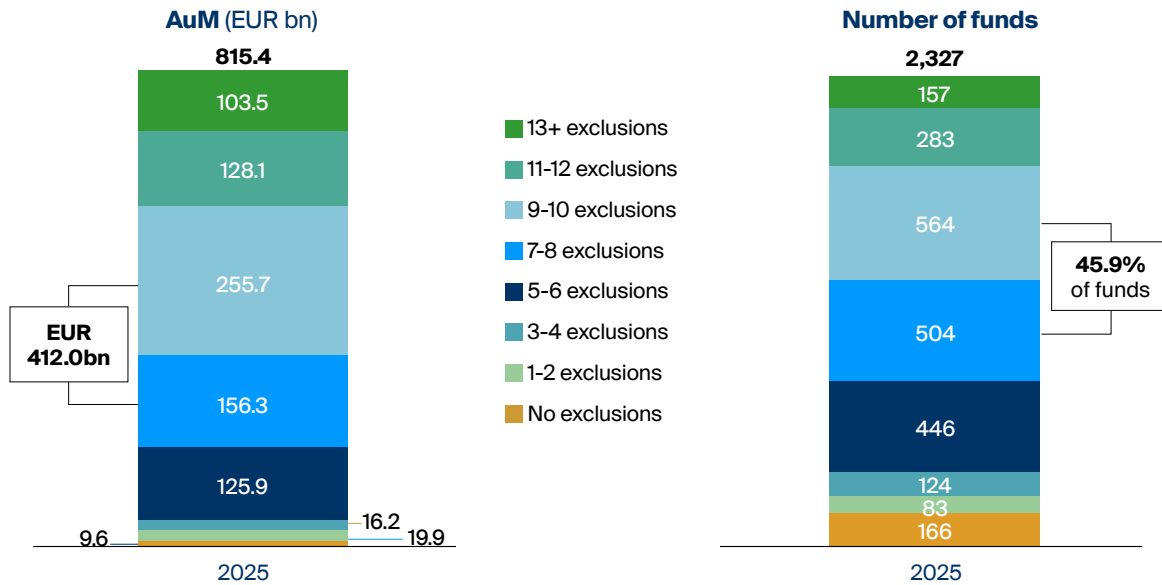
Figure 13. AuM of Luxembourg-domiciled sustainable public market funds, split by asset class (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

As of end-2025, the total number of sustainable public market funds in Luxembourg stood at 2,327. A total of 45.9% of these funds applied between 7 to 10 exclusions, with 504 funds applying 7-8 exclusions and 564 funds applying 9-10 exclusions, together representing EUR 412.0bn in AuM (Figure 14).


















Figure 14. AuM of Luxembourg-domiciled sustainable public market funds, by number of exclusions



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Controversial weapons¹⁹ remain the most common exclusion, applied by 2,130 funds (91.5% of funds), followed by tobacco (1,982 or 85.2% of funds) and thermal coal (1,971 or 84.7% of funds). A large number of funds (1,800+) also apply exclusions other than the ones covered and tracked by the database (Figure 15).

Figure 15. AuM and number of Luxembourg-domiciled sustainable public market funds, by excluded sector (2025)

	AuM (EUR bn)	AuM percentage 2025	Number of funds 2025
 Controversial Weapons	804.1	98.6%	2,130
 Thermal Coal	770.6	94.5%	1,971
 Tobacco	765.3	93.9%	1,982
 Fossil Fuel	732.8	89.9%	1,751
 Small Arms	617.3	75.7%	1,635
 Gambling	529.0	64.9%	1,203
 Adult Entertainment	470.5	57.7%	1,097
 Military Contracting	442.1	54.2%	1,007
 Alcohol	325.3	39.9%	669
 Nuclear	322.4	39.5%	744
 Palm Oil	271.0	33.2%	550
 Genetically Modified Organisms	205.5	25.2%	388
 Pesticides	146.8	18.0%	276
 Animal Testing	47.6	5.8%	126
 Fur and Specialty Leather	32.8	4.0%	114
 Abortion/Stem Cells	22.6	2.8%	75
 Other	773.3	94.8%	1,870

Note: Data excludes funds of funds, feeder funds and money market funds. As funds might apply multiple exclusions, the AuM does not add up to the total of the cluster.

Source: Morningstar

19. ESMA's Guidelines on funds' names using ESG or sustainability-related terms require investment funds that have such terms in their names to exclude "companies involved in any activities related to controversial weapons" (Article 12(a)(a) of CDR (EU) 2020/1818), which mainly covers anti personnel mines, cluster munitions, and chemical and biological weapons. Within the global asset management industry, the term "controversial weapons" is increasingly being replaced with "prohibited weapons," reflecting a growing need for clearer, more consistent terminology in response to regulatory pressure and evolving interpretations of sustainable finance rules. As geopolitical tensions have driven renewed interest in exposure to the defence sector, asset managers are confronting inconsistencies between ethical expectations,

regulatory exclusions, and permissible defence investments under the SFDR. The term "prohibited weapons" is increasingly preferred because it conveys a more explicit link to internationally banned weapon categories which may not necessarily be covered under the term "controversial weapons." This reduces interpretative uncertainty and supports more robust exclusion policies at a time when some managers are revising long standing restrictions on defence related investments.

Equity-focused sustainable public market funds domiciled in the Grand Duchy recorded negative flows of EUR -44.2bn in 2024, with this negative trend continuing in 2025 (EUR -20.1bn), as highlighted in Table 5. On the other hand, fixed income funds recorded the largest positive flows across all asset classes during both 2024 and 2025.

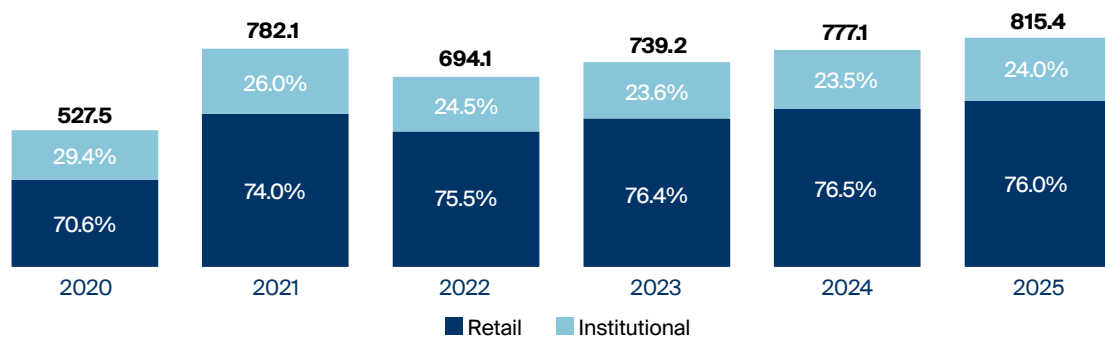
Table 5. Net flows of Luxembourg-domiciled sustainable public market funds (EUR bn)

Asset Class	2021	2022	2023	2024	2025
Equity	98.9	7.5	-11.9	-44.2	-20.1
Fixed Income	40.4	12.1	13.2	23.4	29.8
Mixed Assets	19.3	8.2	-5.4	-8.2	-4.1
Other	2.6	0.2	-1.1	-1.7	0.2
Total	161.3	28.0	-5.3	-30.8	5.8

Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Retail share classes represent 76.0% of the total AuM of Luxembourg-domiciled sustainable public market funds in 2025, maintaining a stable share compared to previous years (Figure 16). Both institutional and retail share classes recorded net inflows in 2025, reversing the negative figures observed during 2024 (Figure 17).

Figure 16. Institutional vs. retail split, AuM of Luxembourg-domiciled sustainable public market funds (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

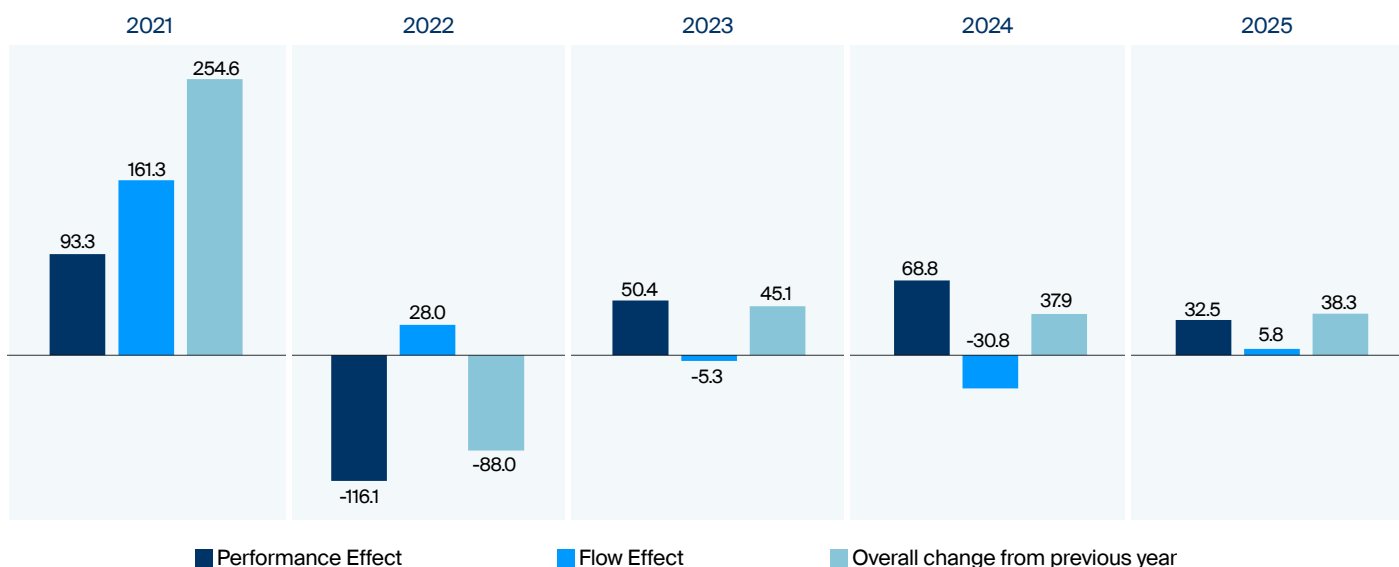
Figure 17. Institutional vs. retail split, net flows of Luxembourg-domiciled sustainable public market funds (EUR bn)

	2021	2022	2023	2024	2025
Institutional	26.2	-5.7	-10.5	-9.9	3.3
Retail	135.1	33.7	5.2	-20.9	2.5
TOTAL	161.3	28.0	-5.3	-30.8	5.8

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

During 2025, Luxembourg-domiciled sustainable public market funds had a positive performance of EUR 32.5bn, as well as a positive flows effect of EUR 5.8bn, bringing the total change to EUR 38.3bn in additional AuM (Figure 18).

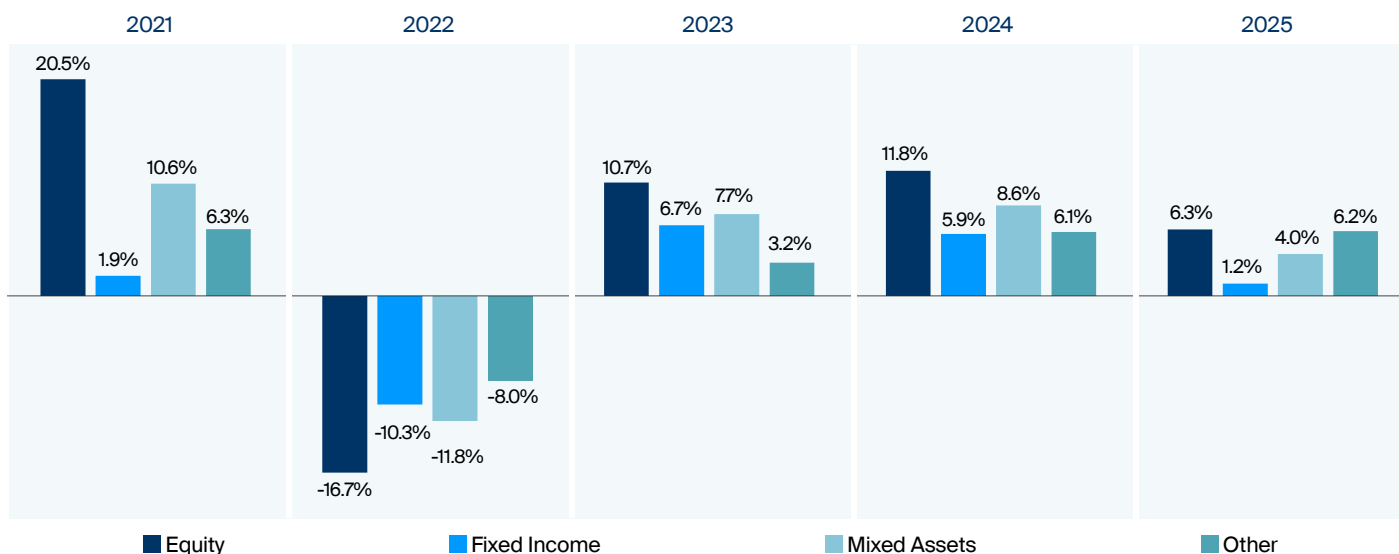
Figure 18. Luxembourg-domiciled sustainable public market funds breakdown between performance and flow effect (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Among the asset classes of Luxembourg-domiciled sustainable public market funds, equity funds achieved the highest average fund performance with 6.3% since the beginning of 2025, followed by funds in the “Other” category with 6.2% (Figure 19).

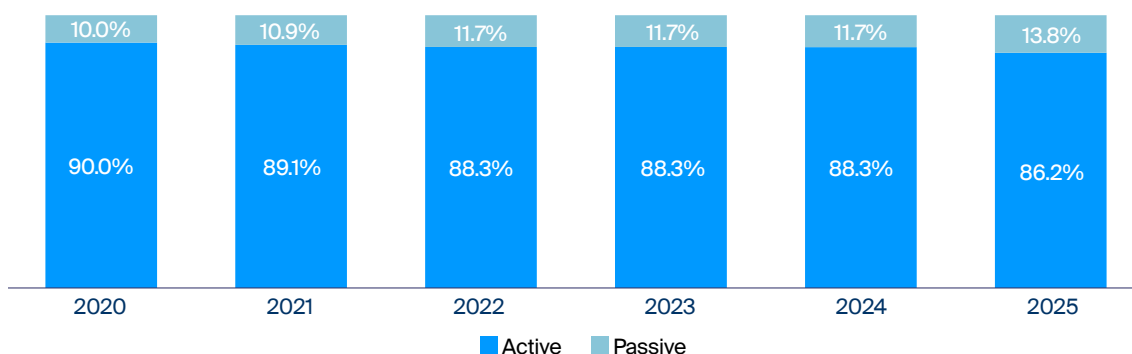
Figure 19. Average performance of Luxembourg sustainable public market funds, by asset class



Note: Data excludes funds of funds, feeder funds and money market funds. “Other” includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

When it comes to the investment strategy of Luxembourg-domiciled sustainable public market funds, actively managed funds represented 86.2% of AuM, a figure that has mildly dropped since 2020, where it stood at 90.0% (Figure 20).












Figure 20. Luxembourg-domiciled sustainable public market funds, share of active vs. passive (% of AuM)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

French asset managers stand at the helm of the Grand Duchy's sustainable public market funds landscape, with EUR 244.3bn in AuM, followed by Swiss asset managers with EUR 151.4bn and German asset managers with EUR 99.9bn (Table 6). This concentration underscores Luxembourg's role as a European hub attracting continental managers for sustainability-focused investment strategies.

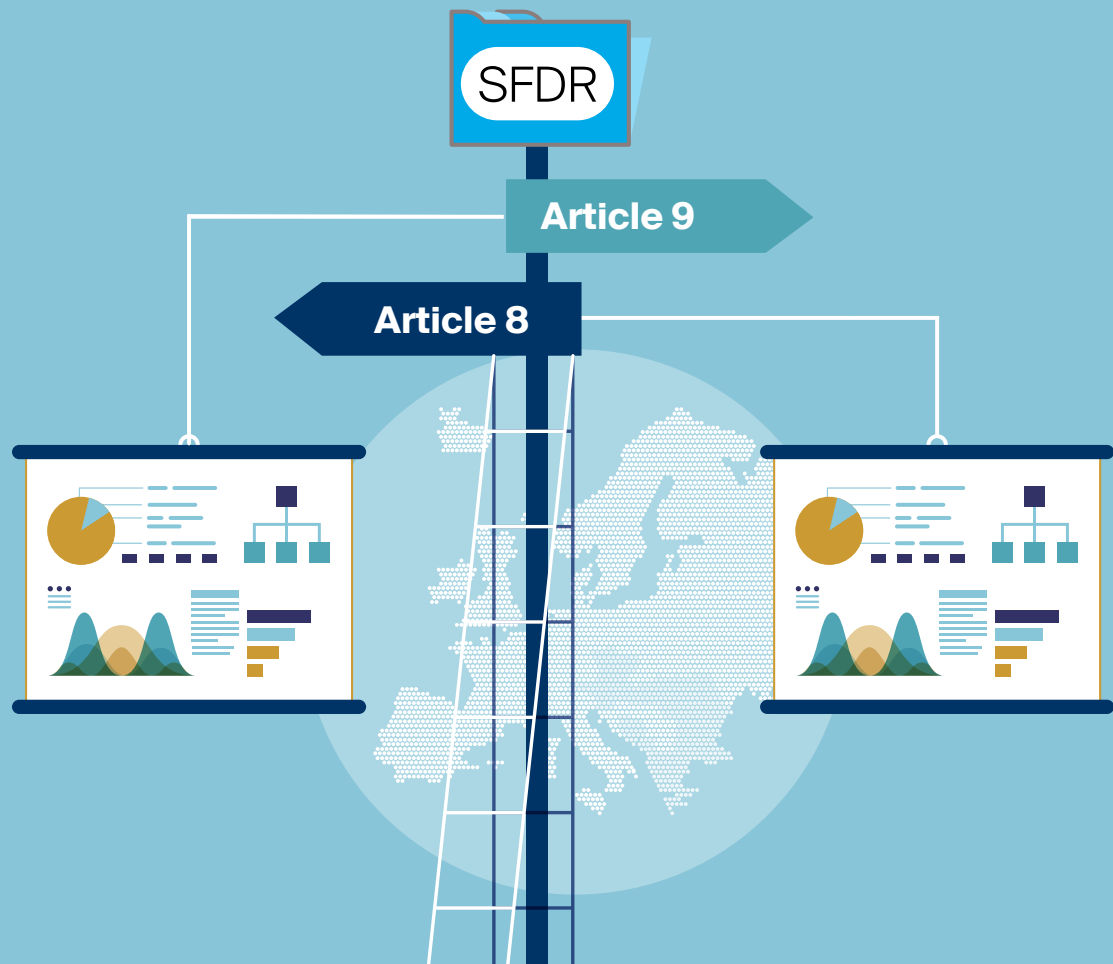
Table 6. Asset manager HQ split for Luxembourg-domiciled sustainable public market funds

Rank	HQ Country	AuM 2025 (EUR bn)	Percentage share	Cumulative share
1	 France	244.3	30.0%	30.0%
2	 Switzerland	151.4	18.6%	48.5%
3	 Germany	99.9	12.2%	60.8%
4	 United States	96.1	11.8%	72.6%
5	 United Kingdom	54.7	6.7%	79.3%
6	 Finland	53.7	6.6%	85.9%
7	 Netherlands	38.3	4.7%	90.6%
8	 Belgium	29.9	3.7%	94.2%
9	 Italy	16.8	2.1%	96.3%
10	 Luxembourg	11.6	1.4%	97.7%
	 Other	18.7	2.3%	100.0%
	Total	815.4	100.0%	

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

2.

DEVELOPMENTS IN THE EUROPEAN SUSTAINABLE FINANCE REGULATORY FRAMEWORK



Published in the Official Journal of the European Union in November 2019 and applying as of March 2021, the EU's Sustainable Finance Disclosure Regulation (SFDR) is a landmark framework designed primarily as a transparency regime, requiring financial market participants to disclose how sustainability risks and impacts are integrated into their investment decisions.

However, in practice, it rapidly evolved into a de facto labelling system, with market participants informally treating disclosures made by funds under Article 8 and Article 9 of SFDR as indicators of a fund's sustainability ambition, even though such a labelling was never intended to be behind the spirit of the SFDR. As such, the European Commission has recently proposed a significant overhaul of the regulation (see 'Methodology' section).

In this section of the report, we will present data illustrating how SFDR disclosure requirements have been applied across Europe and in Luxembourg, offering a clear view of the market's current landscape.



Interview on the SFDR with **Maren Stadler-Tjan**, Partner at Clifford Chance & ALFI/LSFI Study Advisory Committee member

Q: How can regulation effectively support the growth and credibility of sustainable finance investments?

A: By standardising sustainability-related disclosures made by financial products, the Sustainable Finance Disclosure Regulation (SFDR) has sought to improve the transparency and comparability of sustainability-related claims and reduce the risk of greenwashing towards investors.

Introducing a structure and rigour to these disclosures is intended to improve investor understanding of the sustainable impact of their investment choices and to support the transition to a more sustainable economy.

Q: What role should regulation play in driving real-economy transition, beyond improving disclosure, standardisation and risk management?

A: In order for the SFDR to achieve its goals, it is critical that sufficient flexibility is retained within the future SFDR 2.0 to, on the one hand, support meaningful and transparent investor communications on a complex and wide ranging topic and, on the other hand, leave sufficient space for the evolution of, and innovation in, sustainable finance practices, strategies and technologies across asset types, sectors and geographies.

Q: What tangible benefits or added value has the current EU sustainable finance regulatory framework brought in terms of data availability and quality, and which major gaps remain that forthcoming regulations aim to address?

A: Sustainability-related data and the use of estimates have been a recurring theme of industry discussions and are an element of the EU Commission's proposals for SFDR 2.0. It is important for investors to access decision-useful information that is meaningful and understandable. The challenge is to balance transparency and comparability with the complexity of sustainability-related factors and the availability of quality data, without placing a disproportionate burden on financial institutions.

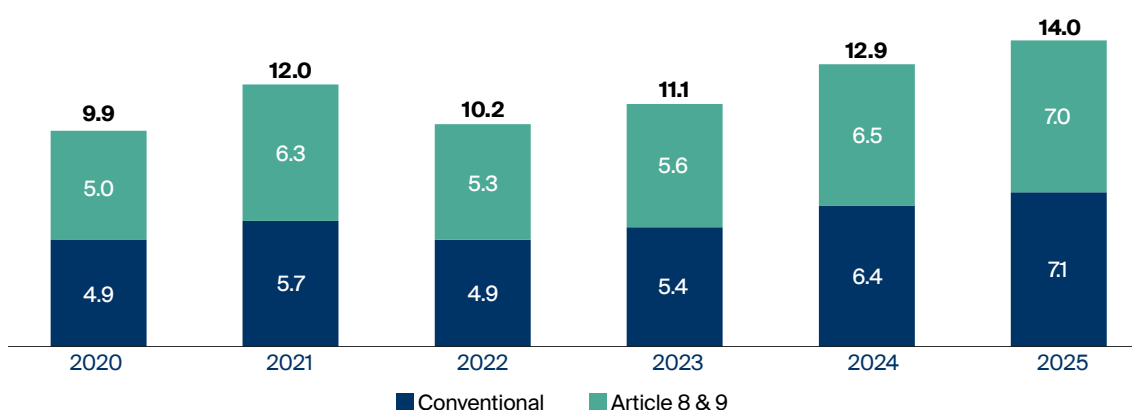
Q: What strategic guidance would you offer to financial institutions as they prepare for upcoming regulatory changes in the near future?

A: The details of SFDR 2.0 may change significantly over the coming months, it is therefore too early for financial institutions to start making concrete preparations for the rollout of SFDR 2.0. However, I encourage financial institutions to engage with their relevant industry associations and to follow the development of SFDR 2.0 as it goes through the legislative process to ensure that they are ready to act once the Level 1 and Level 2 texts are finalised.

2.1. SFDR ARTICLE 8 AND ARTICLE 9 DISCLOSURES

When looking at European public market funds through the SFDR lens, funds disclosing under Article 8 and 9 of the SFDR accounted for close to EUR 7.0tn or 49.7% of AuM in end-2025, while funds that do not disclose as per the two articles accounted for the remaining 50.3% (or EUR 7.1tn) (Figure 21).

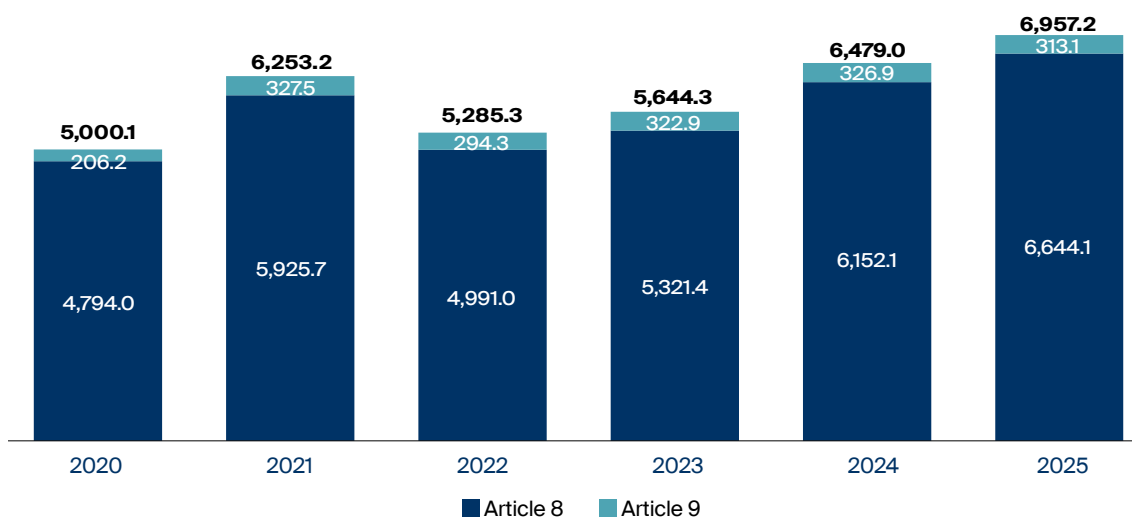
Figure 21. AuM of conventional public market funds in Europe vs. AuM of Article 8 and 9 public market funds (EUR tn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

When it comes to the AuM of European funds disclosing under Article 8 and 9, the vast majority (EUR 6,644bn) is held by funds disclosing under Article 8 of the SFDR, with the rest (EUR 313.1bn) held by funds disclosing under Article 9 (Figure 22).












Figure 22. AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Luxembourg is the top domicile when it comes to public market funds disclosing under Article 8 and 9 of the SFDR, with approximately EUR 3,083.8bn in AuM, accounting for 44.3% of all such funds. The other top domiciles for funds disclosing under Articles 8 and 9 of the SFDR are Ireland with EUR 1,137.2bn (16.3%), Sweden with EUR 722.4bn (10.4%), and France with EUR 490.8bn (7.1%) (Table 7).

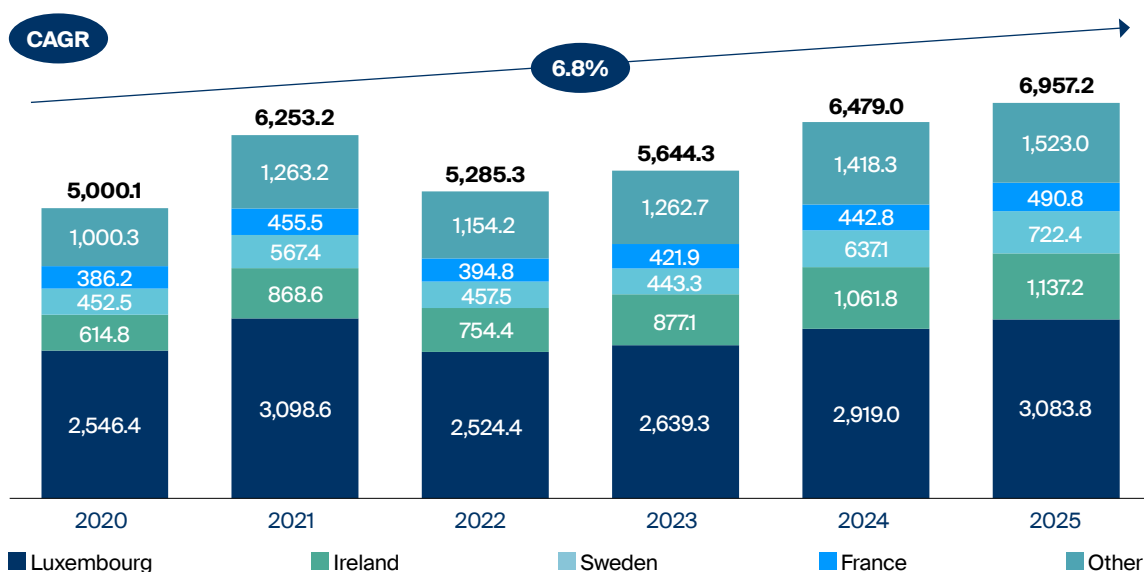
Table 7. Top domiciles of public market funds disclosing under Article 8 and Article 9 of the SFDR

Rank	Country	AuM 2025 (EUR bn)	Percentage share
1	 Luxembourg	3,083.8	44.3%
2	 Ireland	1,137.2	16.3%
3	 Sweden	722.4	10.4%
4	 France	490.8	7.1%
5	 Germany	328.9	4.7%
6	 Netherlands	235.2	3.4%
7	 Denmark	173.1	2.5%
8	 Norway	163.9	2.4%
9	 Spain	157.4	2.3%
10	 Italy	132.4	1.9%
	 Other	332.1	4.8%
	Total	6,957.2	100.0%

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

From 2020 to 2025, AuM of public market funds disclosing under Articles 8 and 9 of the SFDR grew at a CAGR of 6.8% to reach nearly EUR 7.0tn. Luxembourg has been consistently the largest domicile when it comes to these types of funds, followed by Ireland and Sweden (Figure 23).

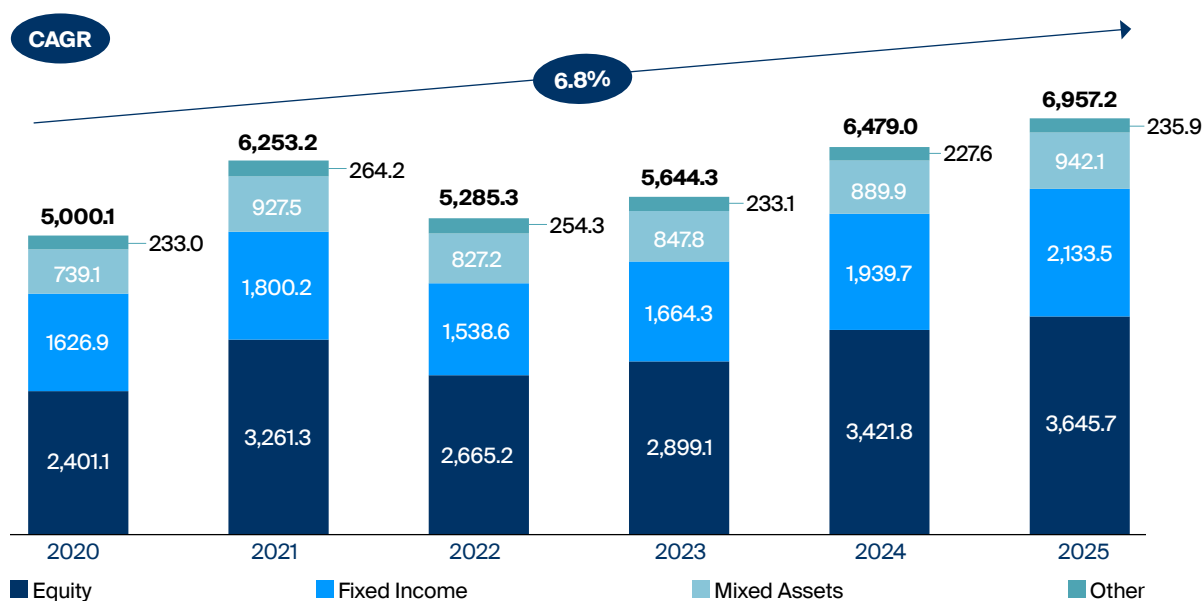
Figure 23. AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR, by country of domicile (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes all European domiciles not covered in the top 4.
Source: Morningstar

When it comes to the asset classes of public market funds disclosing under Article 8 and Article 9 of the SFDR, equity remained in the lead from 2020 to 2025 where it reached EUR 3,645.7bn in AuM, followed by fixed income with EUR 2,133.5bn (Figure 24). Moreover, these funds recorded net inflows of EUR 146.9bn during 2025, with fixed income funds claiming the lion's share of the positive net flows (Table 8).

Figure 24. AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR, by asset class (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

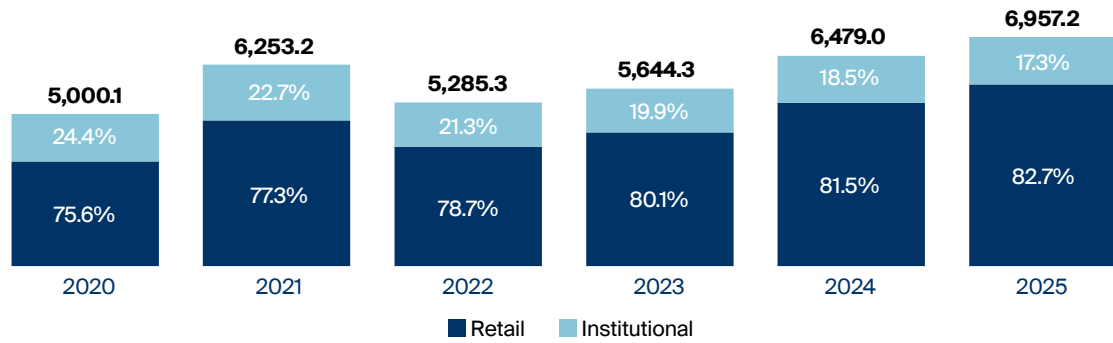
Table 8. Net flows of public market funds disclosing under Article 8 and Article 9 of the SFDR (EUR bn)

Asset Class	2021	2022	2023	2024	2025
Equity	282.9	-19.9	-56.1	-54.0	-32.7
Fixed Income	142.2	-76.9	40.7	167.7	165.7
Mixed Assets	92.4	11.6	-44.8	-36.6	10.3
Other	25.8	-2.3	-21.2	-10.2	3.6
Total	543.3	-87.4	-81.4	66.9	146.9

Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Retail share classes are the main market driver for public market funds disclosing under Article 8 and Article 9 of the SFDR, representing 82.7% of total assets in 2025, broadly in line with previous years (Figure 25). Net flows in these share classes remained positive during 2025, compared to institutional ones which faced net outflows (Figure 26).

Figure 25. AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR, institutional vs. retail split (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

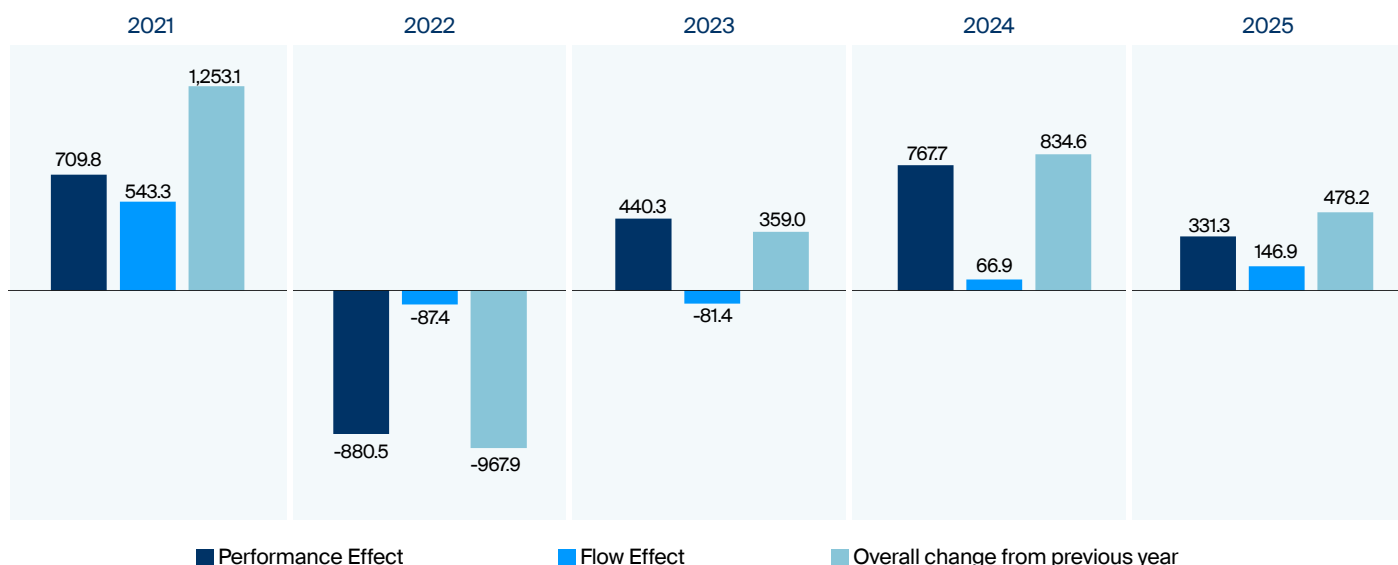
Figure 26. Net flows of public market funds disclosing under Article 8 and Article 9 of the SFDR, institutional vs. retail split (EUR bn)

	2021	2022	2023	2024	2025
Institutional	66.5	-107.8	-89.5	-53.8	-38.0
Retail	476.8	20.4	8.1	120.8	184.9
TOTAL	543.3	-87.4	-81.4	66.9	146.9

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

At the end of 2025, public market funds disclosing under Article 8 and Article 9 of the SFDR held EUR 478.2bn, marking a notable decline compared to the results recorded in 2024 (EUR 834.6bn). Both the performance and flow effects contributed to a positive overall change in AuM since the beginning of 2025, respectively with EUR 331.3bn and EUR 146.9bn (Figure 27).

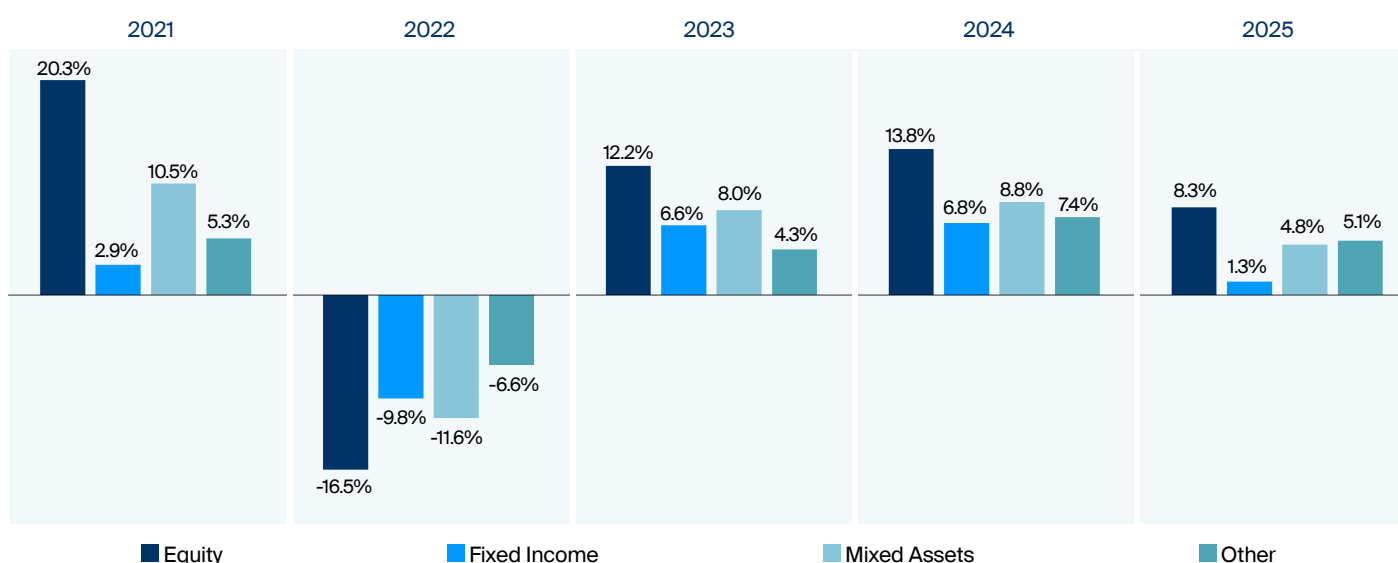
Figure 27. Public market funds disclosing under Article 8 and Article 9 of the SFDR, breakdown between performance and flow effect (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Equity funds outperformed all other asset classes during 2025 (8.3%), followed by funds in the “Other” category (5.1%) (Figure 28).

Figure 28. Average performance of public market funds disclosing under Article 8 and Article 9 of the SFDR, by asset class

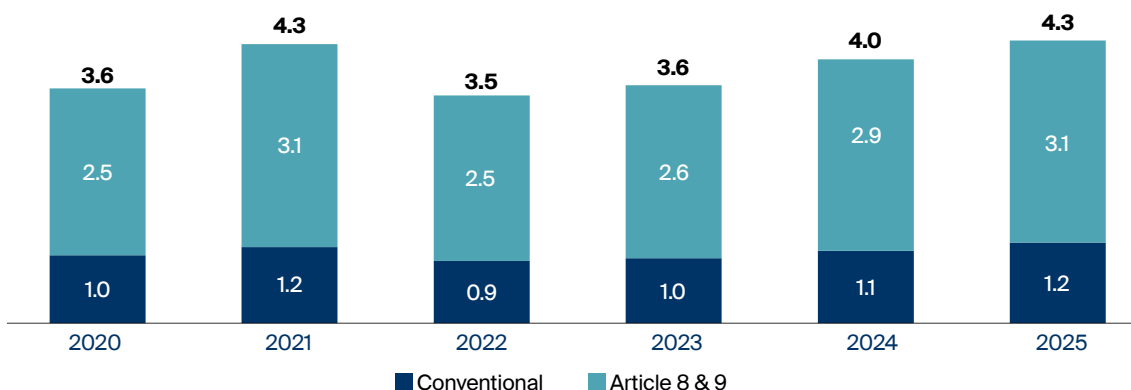


Note: Data excludes funds of funds, feeder funds and money market funds. “Other” includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

2.2. SFDR in Luxembourg

In Luxembourg, public market funds disclosing under Article 8 and Article 9 of the SFDR reached EUR 3.1tn in AuM in 2025 (or 71.5% of AuM) in end-2025, while those that do not disclose under either of the two articles held an AuM of EUR 1.2tn as (or 28.5% of AuM) (Figure 29).

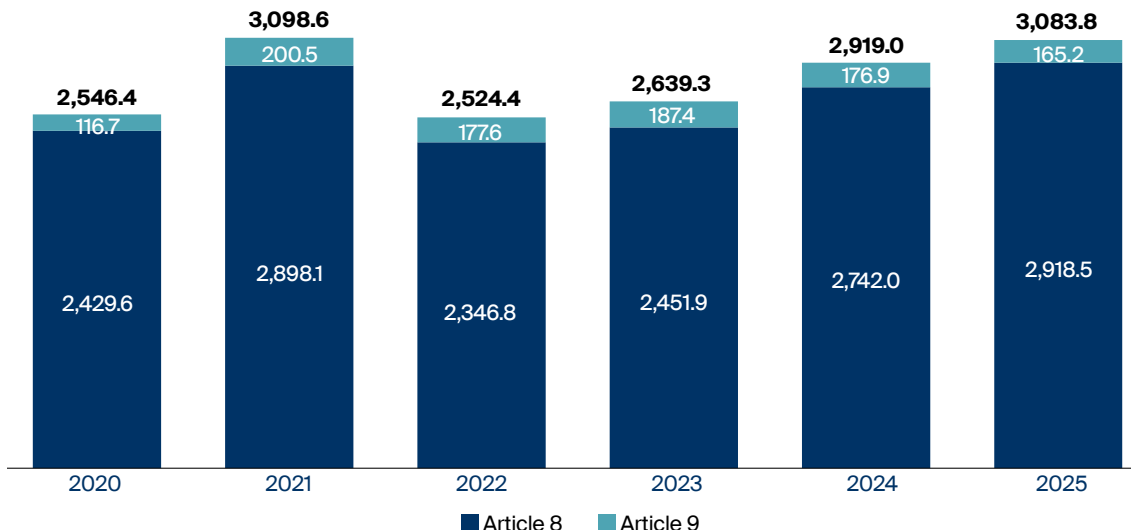
Figure 29. AuM of public market funds domiciled in Luxembourg, conventional funds vs. funds disclosing under Article 8 and Article 9 of the SFDR (EUR tn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

When it comes to the AuM of Luxembourg-domiciled funds disclosing under Article 8 and Article 9 of the SFDR, the vast majority (EUR 2,919bn) is held by funds disclosing as per Article 8 of the SFDR, while the rest (EUR 165.2bn) is held by funds disclosing as per Article 9 (Figure 30).

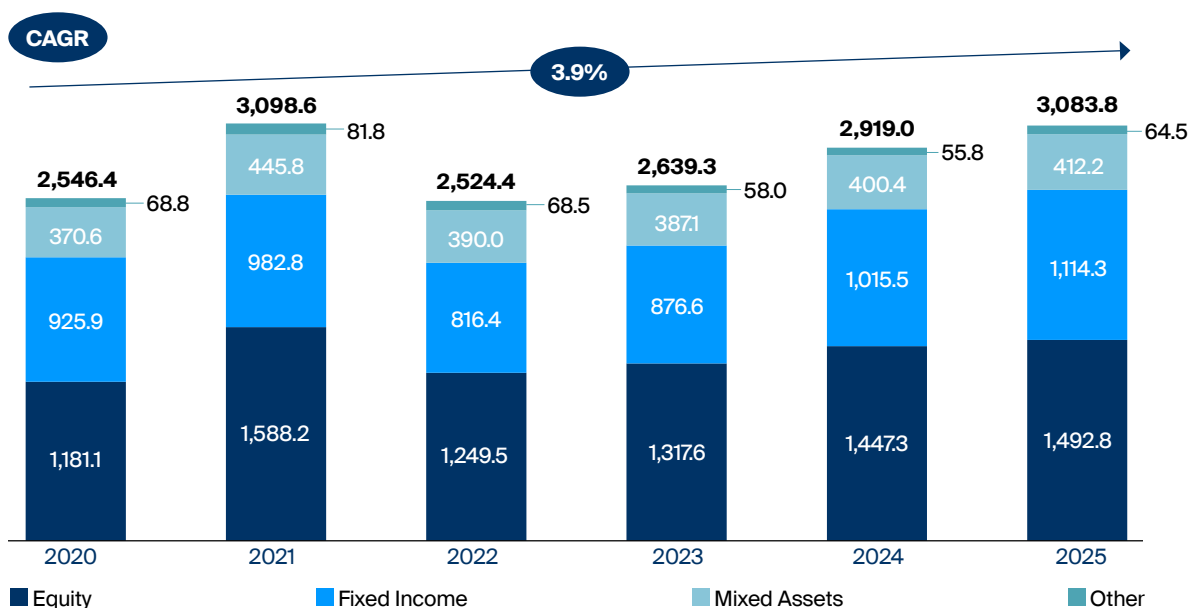
Figure 30. AuM of funds disclosing under Article 8 and Article 9 in Luxembourg, by SFDR category (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

The AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR marked a 3.9% CAGR since 2020, with equity remaining the largest asset class within them. However, fixed income continues to expand, rising from EUR 1,015.5bn in 2024 to EUR 1,114.3bn in 2025, while the AuM of mixed asset funds has remained rather steady during the period under study (Figure 31).

Figure 31. AuM of public market funds disclosing under Article 8 and Article 9 of the SFDR domiciled in Luxembourg, by asset class (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Luxembourg-domiciled equity-focused public market funds disclosing under Article 8 and Article 9 of the SFDR recorded negative flows of EUR 74.6bn in 2024, with this negative trend continuing through 2025 (EUR -52.2bn). On the other hand, fixed income funds recorded the largest positive flows across all asset classes during both 2024 and 2025 (Table 9).

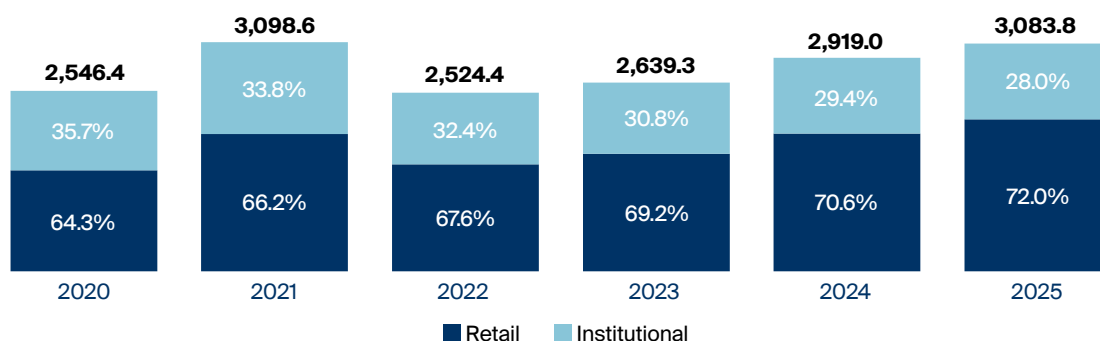
Table 9. Net flows of public market funds disclosing under Article 8 and Article 9 of the SFDR domiciled in Luxembourg (EUR bn)

Asset Class	2021	2022	2023	2024	2025
Equity	156.0	-56.5	-70.0	-74.6	-52.2
Fixed Income	43.5	-66.2	7.3	87.9	85.3
Mixed Assets	36.1	-0.9	-29.7	-23.5	-2.3
Other	10.3	-8.7	-13.8	-7.7	5.9
Total	245.9	-132.3	-106.2	-18.0	36.6

Note: Data excludes funds of funds, feeder funds and money market funds. "Other" includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar

Retail share classes represent 72.0% of total AuM in 2025, with their share slightly increasing from 64.3% of AuM in 2020 (Figure 32). Institutional ones recorded net flows of EUR -32.2bn during 2025, marking their fourth consecutive period of negative flows. On the other hand, retail share classes recorded net inflows during 2025 (Figure 33).

Figure 32. Institutional vs. retail split, AuM of Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

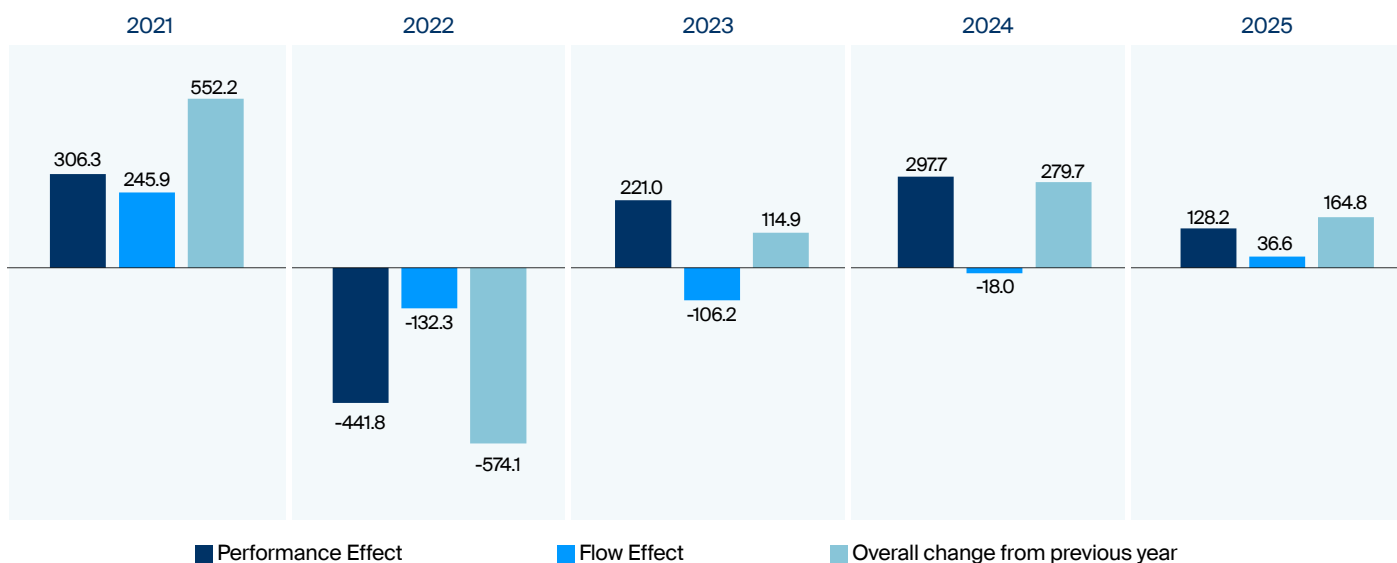
Figure 33. Institutional vs. retail split, net flows of Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR (EUR bn)

	2021	2022	2023	2024	2025
Institutional	40.5	-89.3	-80.7	-43.3	-32.2
Retail	205.4	-43.1	-25.5	25.3	68.8
TOTAL	245.9	-132.3	-106.2	-18.0	36.6

Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

During 2025, Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR had a positive overall effect of EUR 164.8bn, split between EUR 128.2bn in performance and EUR 36.6bn in net inflows. However, the total figure is roughly EUR 115bn less of what was observed in 2024, where funds disclosing under Article 8 and Article 9 recorded a yearly positive change of EUR 279.7bn (Figure 34).

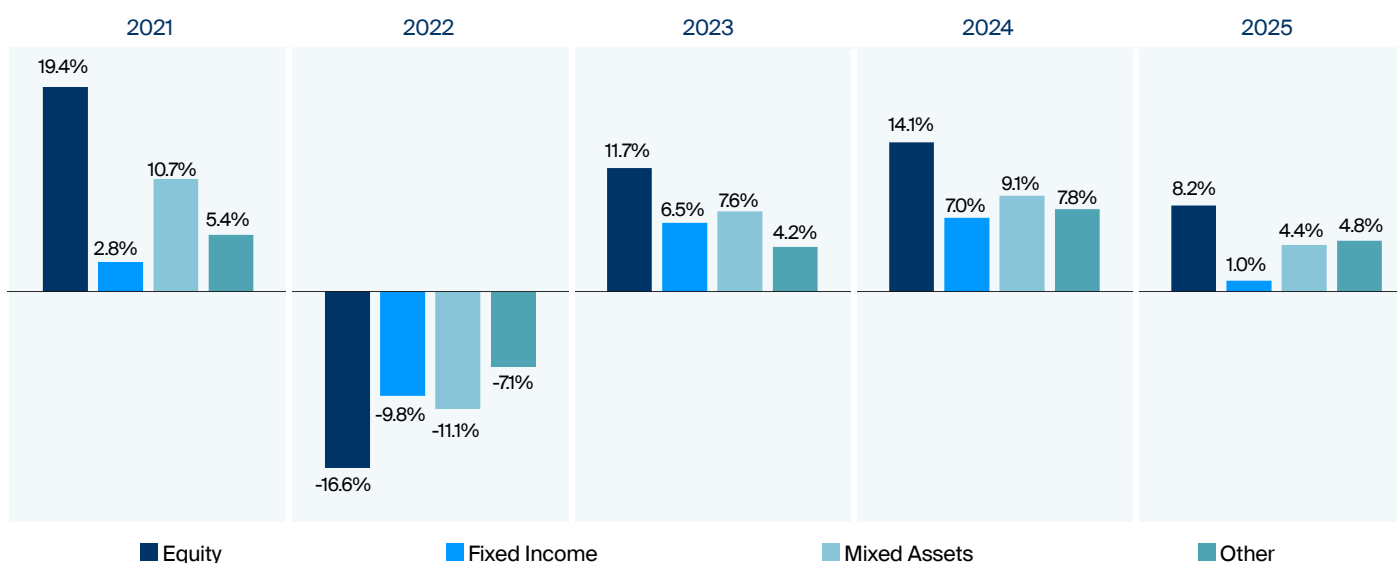
Figure 34. Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR, breakdown between performance and flow effect (EUR bn)



Note: Data excludes funds of funds, feeder funds and money market funds.
Source: Morningstar

Among asset classes within the universe of Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR, equity-focused public market funds achieved the highest average fund performance with 8.2% in 2025, followed by “Other” funds with 4.8% (Figure 35).

Figure 35. Average performance of Luxembourg-domiciled public market funds disclosing under Article 8 and Article 9 of the SFDR, by asset class



Note: Data excludes funds of funds, feeder funds and money market funds. “Other” includes public market funds that do not fall within the above categories (such as absolute return strategies and commodity funds, amongst others).
Source: Morningstar





Interview on sustainability regulations with **Thomas Göricke**, Partner at Elvinger Hoss Prussen & ALFI/LSFI Study Advisory Committee member

Q: From your perspective, how and to what extent can regulation act as a catalyst for sustainable finance investment?

A: A well-functioning and coherent sustainable finance framework, which manifests through well-drafted regulation, is without doubt a key catalyst for sustainable finance. The importance of state and supranational actors (European Commission) as the authors of such regulation is crucial when

it comes to correcting the “market failures” and imbalances of our financial system, when it comes to avoiding harm and directing financial flows to environmental and social causes. The aim continues to be to move away from a financial system which mainly focuses on corporate short-termism and shareholder value to one where ESG integration, the need to consider stakeholders (the environment and the wider society) and have a positive impact become mainstream. Regulation that is fit for purpose can help break down the numerous barriers to sustainable finance and create a strong incentive for change. It follows that there is a lot at stake in respect of the ongoing efforts to reform and complete the EU sustainable finance framework.

Q: What are the most significant regulatory gaps and challenges currently faced by financial institutions in the sustainable finance space, and how are upcoming or proposed regulations seeking to address them?

A: In the EU, the most significant challenge, and source of considerable legal uncertainty, is the proposed changes to the sustainability reporting requirements of EU companies (the Corporate Sustainability Reporting Directive). The EU Commission has proposed* significant changes to this directive both in terms of reporting in accordance with the European Sustainability Reporting Standards (ESRS) and scope, which would be considerably reduced as regards the number of EU companies that would need to comply with the reporting requirements. While political agreement on the proposed changes appears to have been reached, the uncertainty as to the requirements and timing has had a detrimental effect on the entire EU sustainable finance ecosystem.

Important gaps continue to exist when it comes to effectively linking the sustainable finance rules applicable to financial market participants (such as investment funds), notably around ESG disclosure, to the sustainability expectations of end-investors and consumers in the EU. The current requirements in this regard, establishing investors’ so-called “sustainability preferences”, do not effectively engage with investors on the subject of sustainability.

Q: In equity and fixed income portfolios, how do you distinguish between companies that are genuinely transitioning and those that are merely adjusting disclosures or narratives in response to regulatory pressure?

A: On the investee side, assessing environmental and social impacts is key - using proprietary methodologies and public documents (e.g. regulatory reporting). Investors must verify if companies have robust and transparent ESG and transition methodologies or even appropriate transition plans, as detailed in the previous question. Transition, meaning enhancing, requires a frequent monitoring. Governance buy-in is also critical: they shall back and supervise this transition.

Q: What internal capabilities do financial institutions need to build in order to implement sustainable finance regulation effectively?

A: Internal capabilities in terms of sustainability start at the very top. Without sufficient knowledge and buy-in from leadership, financial institutions will struggle to design a coherent approach to sustainability. In terms of policy, this requires a detailed analysis of sustainability-related risks and opportunities, and hiring or training people with the appropriate expertise.

Implementation of regulation and ensuring compliance requires impeccably good governance structures and effective control mechanisms, in particular, when certain key aspects of the business, such as portfolio management, have been delegated.

In addition, it is key that risk management has a concrete understanding of the meaning of sustainability risks and how these risks are relevant to that particular financial institution.

Q: What strategic advice would you give to financial institutions navigating the current regulatory uncertainty in sustainable finance?

A: Staying close to the fast-moving developments in the sphere of sustainable finance, to ensure sufficient time to analyse and adapt to change, is of the essence. The proposed changes to the Sustainable Finance Disclosure Regulation (SFDR 2.0) are an example of significant change and impact for financial institutions. Although the effective application of these changes is still seemingly far away, their impact will require considerable strategic planning to be ready.

* This is part of the so-called sustainability Omnibus package with which the Commission is targeting simplifications of a number of EU rules.

3.

PRIVATE MARKET FUNDS: A SNAPSHOT



Section 3 turns the spotlight to private market funds, a dynamic and increasingly influential component of the global asset management industry. As institutional and retail investors seek diversification and long-term value, private market funds of all asset classes have experienced robust growth across all major regions.

This section provides an overview of the evolution, scale, and composition of private market funds at the global, European, and Luxembourg levels, highlighting how private markets are evolving and becoming ever-more prevalent in the global asset management industry.

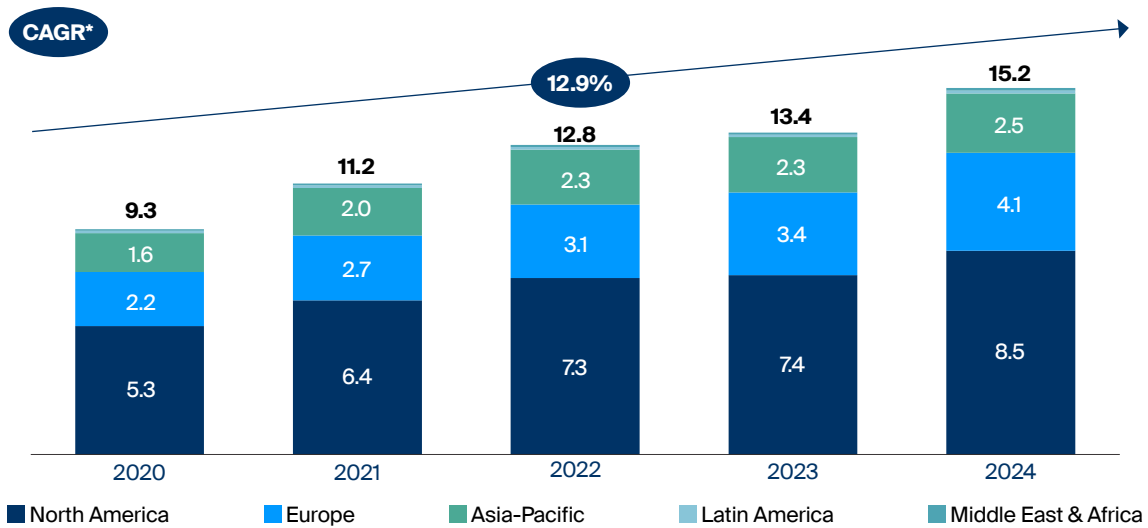
While this section offers a general overview of private market funds, a focus on sustainable private market funds will be presented in Section 4.

3.1. GLOBAL PRIVATE MARKET FUNDS

Global private market funds' AuM reached EUR 15.2tn in 2024, representing a CAGR of 12.9% since 2020. Geographically, North American-domiciled funds make up 55.6% of the total AuM, followed by European-domiciled funds at 26.7%. Funds domiciled in the Asia-Pacific region represent 16.2% of AuM, while those domiciled in Latin America and the Middle East & Africa regions account for 0.8% and 0.7%, respectively.

Over the last five years, European-domiciled funds achieved the highest CAGR at 16.0%, while North American funds recorded a CAGR of 12.2%. Funds from the Asia-Pacific and Middle East & Africa regions recorded a CAGR of 11.2%, while Latin American funds saw a CAGR of 6.8% (Figure 36).

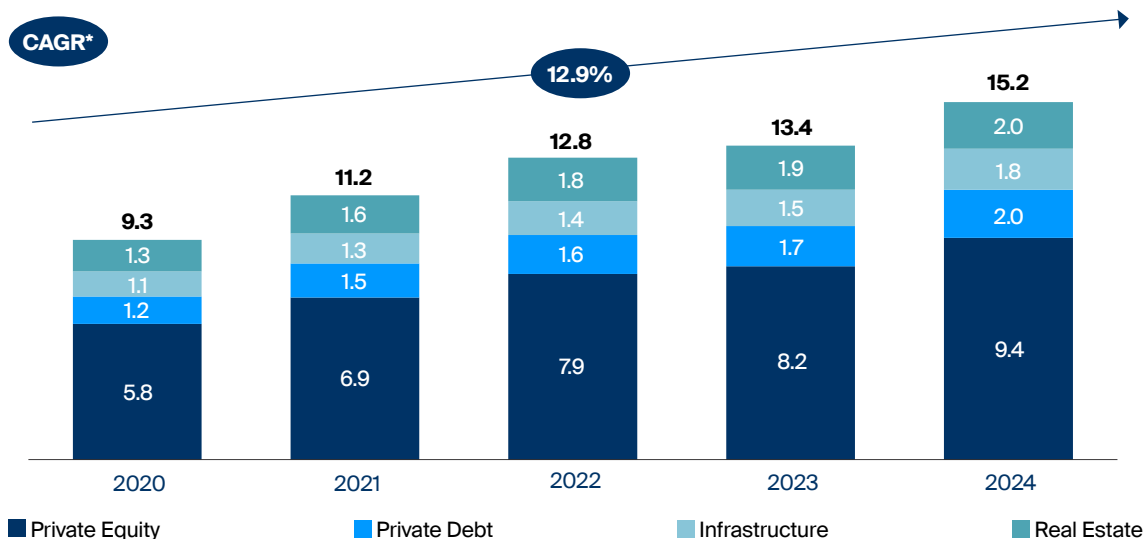
Figure 36. Global private market funds AuM, split by region (EUR tn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
 *CAGR for the period 2020-2024
 Sources: Preqin, Monterey Insight

Regarding asset classes, private equity made up over half of total AuM, with EUR 9.4tn in 2024, followed by private debt and real estate with EUR 2.0tn each, and infrastructure with EUR 1.8tn. However, private debt funds experienced the highest CAGR at 14.9%, followed by infrastructure funds with a CAGR of 13.2% and private equity funds at 13.1%. Real estate funds recorded a CAGR of 10.3% (Figure 37).

Figure 37. Global private market funds AuM, split by asset class (EUR tn)



Note: Data excludes funds of funds and funds that are in the fundraising process.

*CAGR for the period 2020-2024

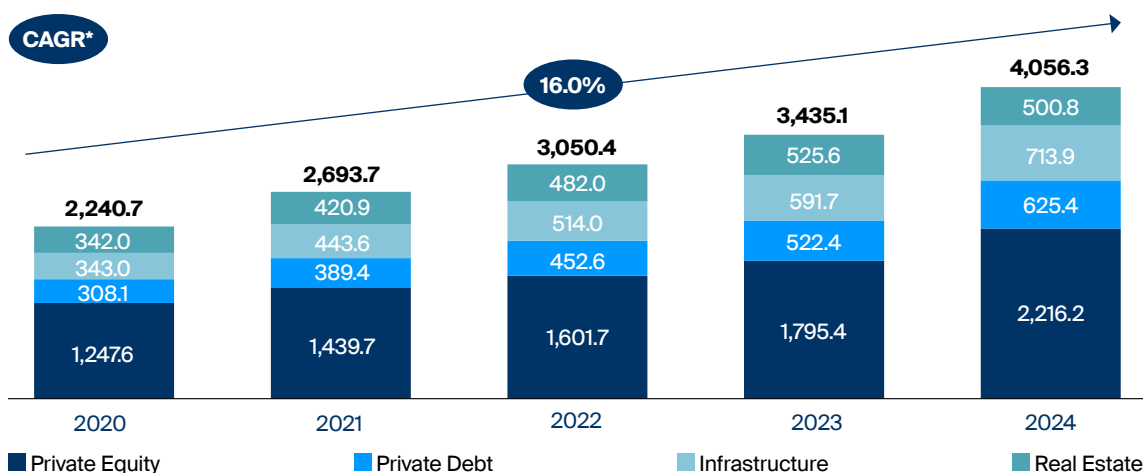
Sources: Preqin, Monterey Insight

3.2. EUROPEAN PRIVATE MARKET FUNDS

In 2024, AuM of European-domiciled private market funds reached EUR 4,056.3bn, reflecting an overall CAGR of 16.0% since 2020. Private equity funds made up 54.6% of this total, followed by infrastructure funds at 17.6% and private debt funds at 15.4%. Real estate funds represented the remaining 12.3%.

Regarding growth rates, infrastructure funds experienced the highest CAGR over the past five years (20.1%), followed by private debt funds with a CAGR of 19.4% and private equity funds at 15.4%. Real estate funds recorded the lowest CAGR of 10.0% during this period (Figure 38).

Figure 38. European private market funds AuM, split by asset class (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.

*CAGR for the period 2020-2024

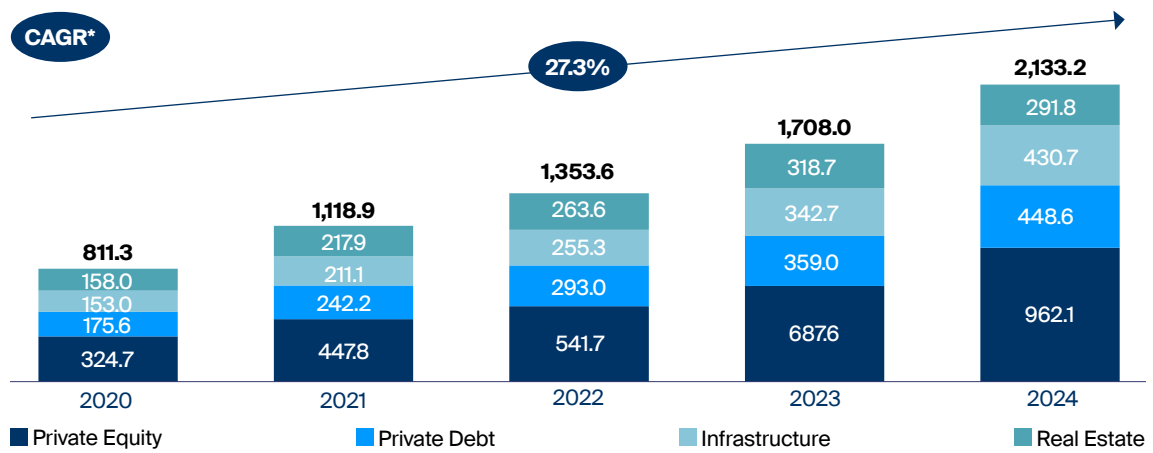
Sources: Preqin, Monterey Insight

3.3. LUXEMBOURG PRIVATE MARKET FUNDS

AuM of Luxembourg-domiciled private market funds exceeded EUR 2.1tn in 2024, reflecting a CAGR of 27.3% over the past five years.

Private equity funds experienced the highest growth, with a CAGR of 31.2% since 2020, followed by infrastructure funds at 29.5% and private debt funds at 26.4%. Real estate funds experienced the lowest growth rate, with a CAGR of 16.6% (Figure 39).

Figure 39. Luxembourg-domiciled private market funds AuM, split by asset class (EUR bn)



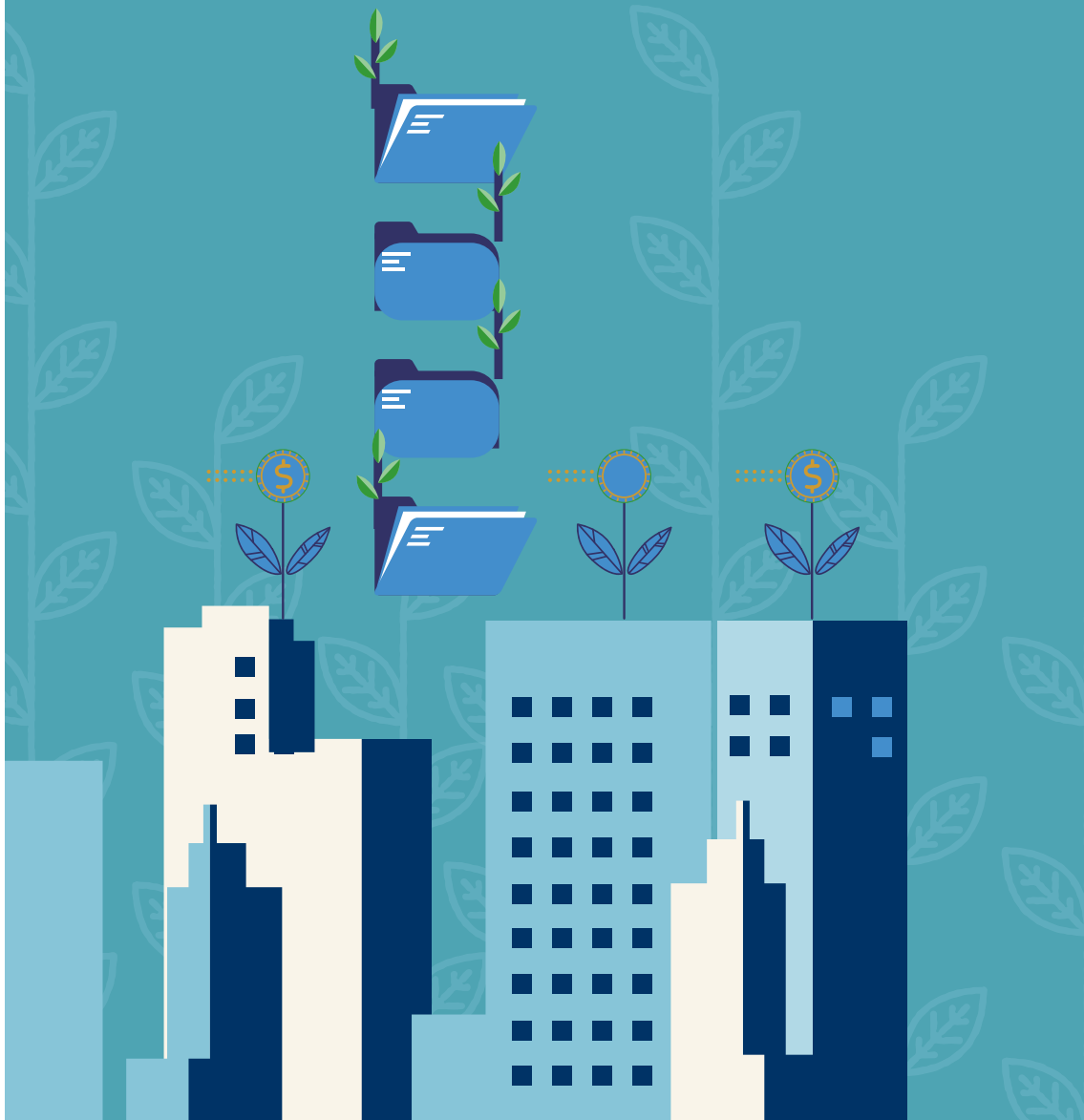
Note: Data excludes Funds of Funds and funds that are in the fundraising process,

*CAGR for the period 2020-2024

Sources: Preqin, Monterey Insight

4.

OVERVIEW OF SUSTAINABLE PRIVATE MARKET FUNDS



This section of the study shifts the focus to sustainable private market funds, a rapidly expanding segment within the broader sustainable finance landscape.

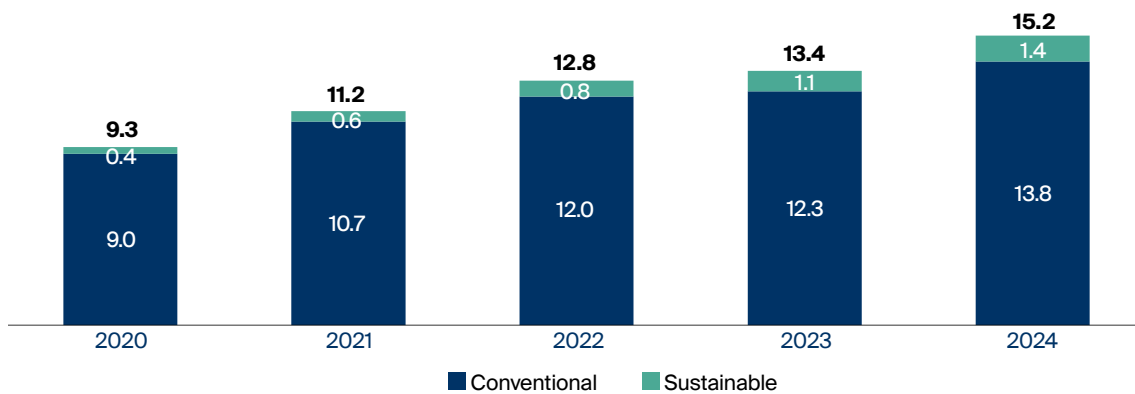
While much attention has traditionally centred on sustainable public market funds, private markets – including private equity, infrastructure, real estate, and private debt – are playing an increasingly important role in driving the transition toward a more sustainable economy.

This section provides a comprehensive overview of the size, growth, and characteristics of sustainable private market funds at the global, European, and Luxembourg levels. By analysing the latest data and applying a rigorous classification methodology, this section highlights the progress achieved, offering valuable insights into how private capital is being mobilised to support sustainability objectives.

4.1. GLOBAL SUSTAINABLE PRIVATE MARKET FUNDS

Within the global private markets universe, sustainable private market funds represent only a marginal amount of the total AuM of private market funds. Sustainable private market funds had around EUR 1,366.2bn in AuM as of the end of 2024, accounting for 9.0% of all private market funds AuM (Figure 40).

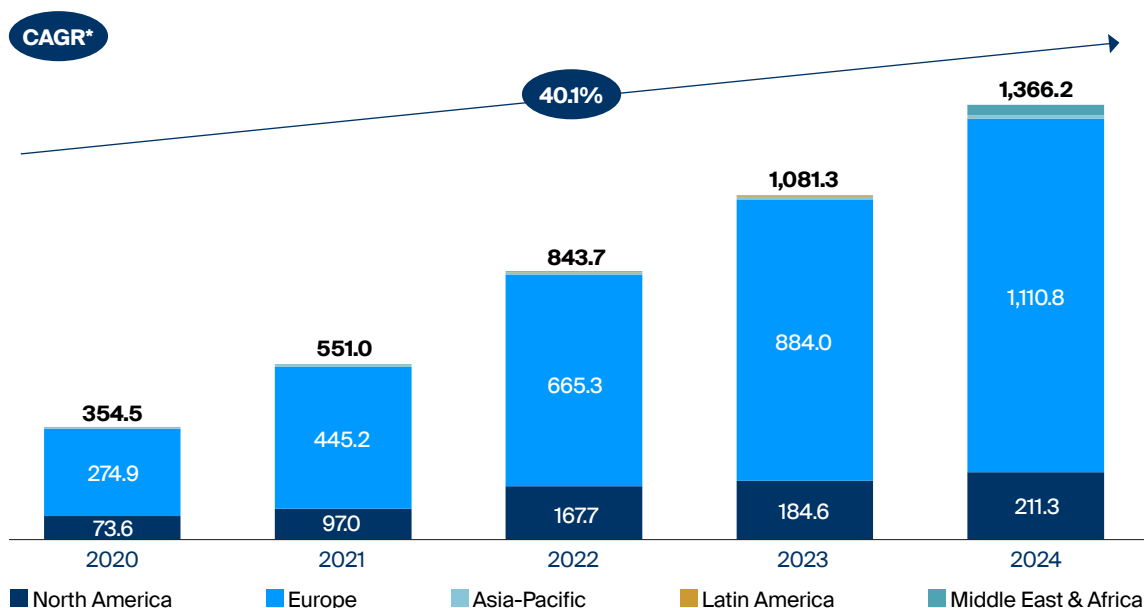
Figure 40. AuM of global private market funds, conventional vs. sustainable split (EUR tn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

When it comes to the regional breakdown of global sustainable private market funds, Europe is a clear leader in this cluster, accounting for EUR 1,110.8bn, or approximately 81.3%, of their AuM. North America follows, with EUR 211.3bn in AuM, or approximately 15.5% (Figure 41).

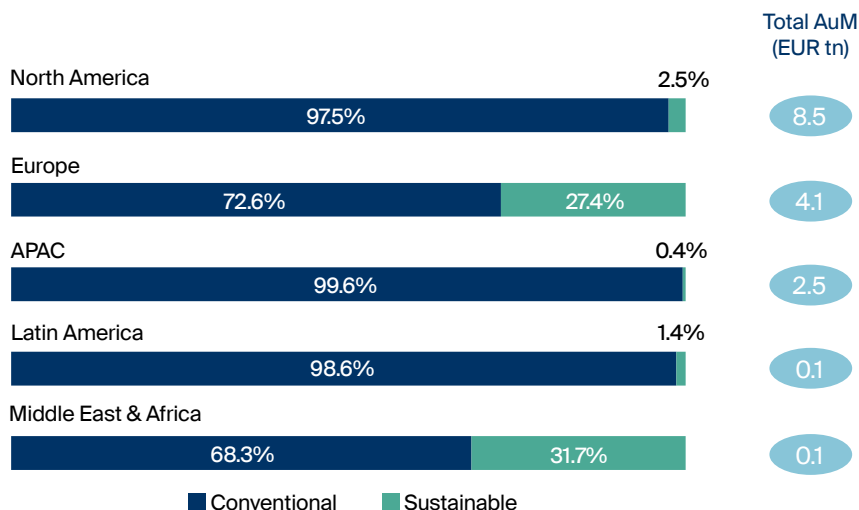
Figure 41. Global sustainable private market funds AuM, split by region (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
 *CAGR for the period 2020-2024
 Sources: Preqin, Monterey Insight

Examining the AuM split between conventional and sustainable private market funds within each region, the Middle East & Africa records the highest share (31.7%). However, the market remains comparatively small, with total private market funds AuM of EUR 0.1tn in 2024 compared to EUR 8.5tn in North America and EUR 4.1tn in Europe. Indeed, over a quarter (27.4%) of Europe’s EUR 4.1tn private market funds AuM is allocated to sustainable private market funds (Figure 42).

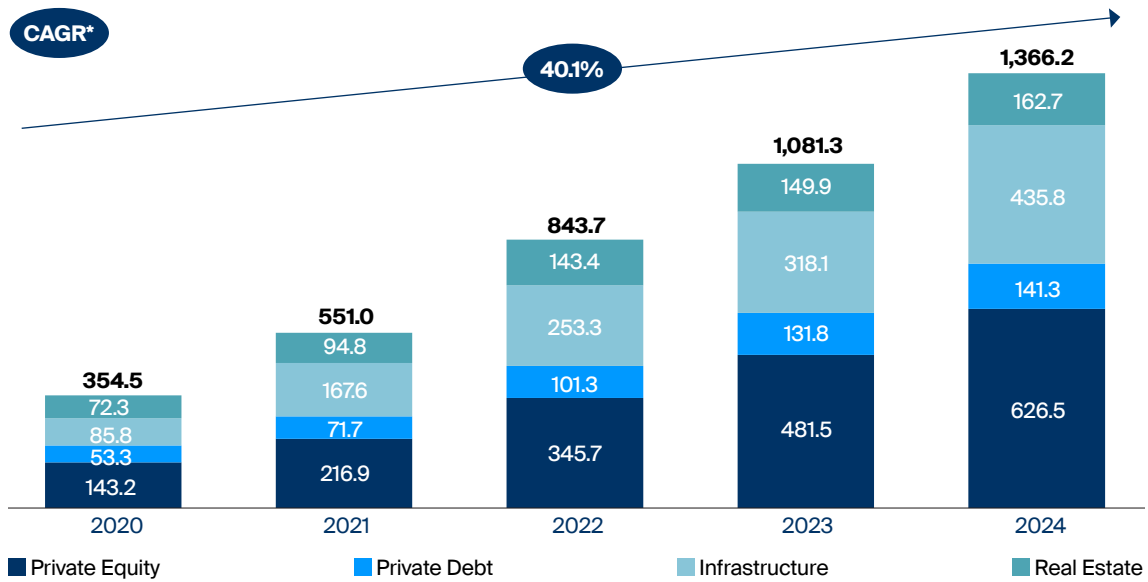
Figure 42. Share of sustainable private market funds AuM within each region, as of end-2024 (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
 Sources: Preqin, Monterey Insight

Across asset classes, private equity and infrastructure funds have taken the lead, together accounting for over EUR 1tn in 2024 of the global sustainable private market funds AuM. Real estate follows with EUR 162.7bn, while private debt accounts for EUR 141.3bn of the AuM of sustainable private market funds globally (Figure 43).

Figure 43. Global sustainable private market funds AuM, split by asset class (EUR bn)

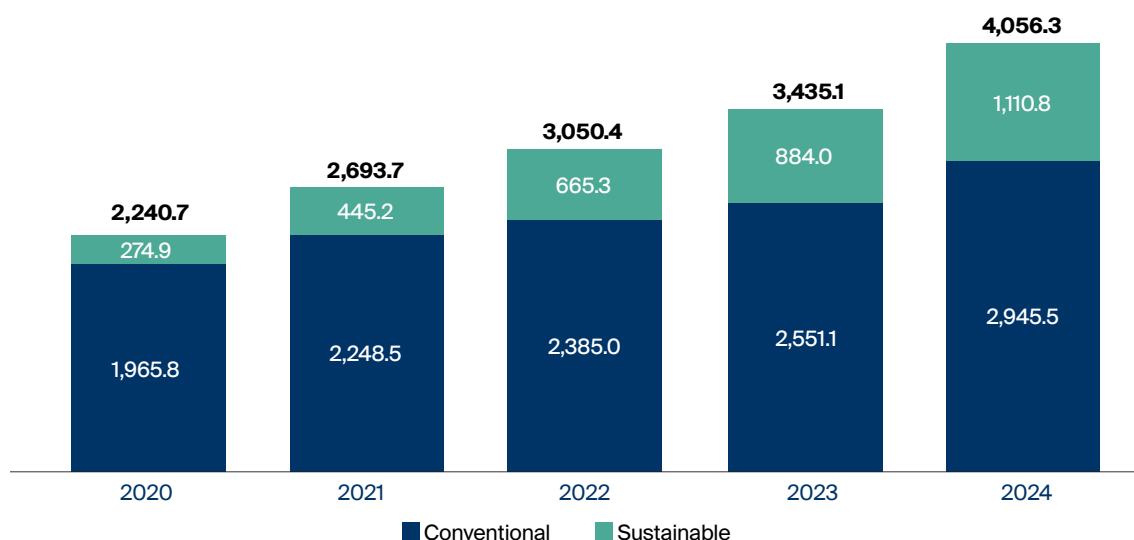


Note: Data excludes funds of funds and funds that are in the fundraising process.
 *CAGR for the period 2020-2024
 Sources: Preqin, Monterey Insight

4.2. EUROPEAN SUSTAINABLE PRIVATE MARKET FUNDS

Sustainable private market funds in Europe accounted for EUR 1,110.8bn (27.4%) of total European private markets AuM as of the end of 2024, with their share of AuM increasing since 2020 (Figure 44).

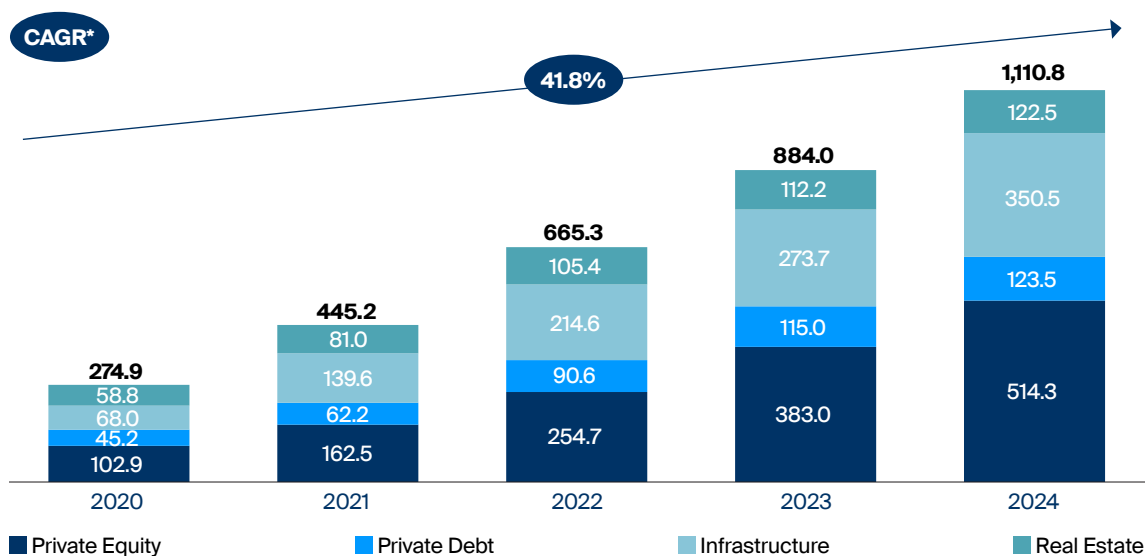
Figure 44. AuM of European private market funds, conventional vs. sustainable split (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Sustainable private market funds in Europe recorded a CAGR of 41.8% since 2020, while the overall market grew at a CAGR of 12.8%. Private equity represents the largest asset class in 2024, followed by infrastructure. Private debt and real estate, on the other hand, accounted for significantly smaller portions of the sustainable private market funds AuM (Figure 45).

Figure 45. AuM of European sustainable private market funds, split by asset class (EUR bn)

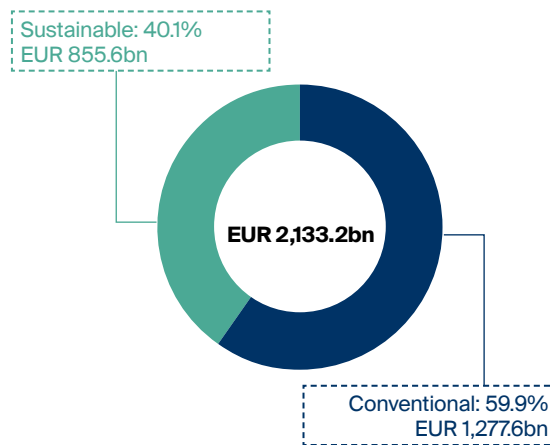


Note: Data excludes funds of funds and funds that are in the fundraising process.
*CAGR for the period 2020-2024.
Sources: Preqin, Monterey Insight

4.3. LUXEMBOURG SUSTAINABLE PRIVATE MARKET FUNDS

In 2024, sustainable private market funds accounted for 40.1% of the total private market AuM domiciled in Luxembourg, amounting to EUR 855.6 billion (Figure 46).

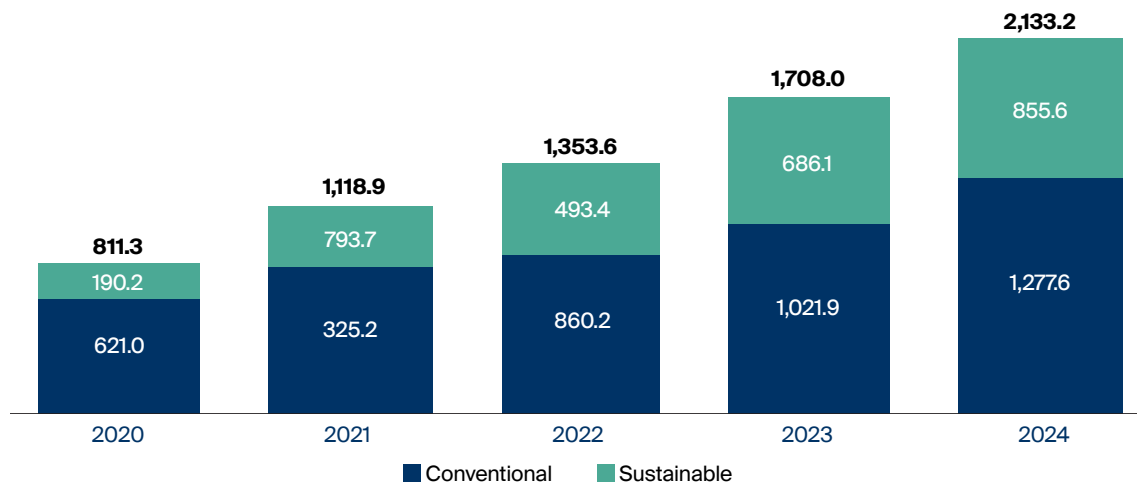
Figure 46. AuM of Luxembourg-domiciled private market funds, split by sustainable vs. conventional (2024)



Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Sustainable private market funds in the Grand Duchy have navigated on a strong growth trajectory, with AuM increasing from EUR 190.2bn in 2020 to EUR 855.6bn by the end of 2024 (Figure 47).

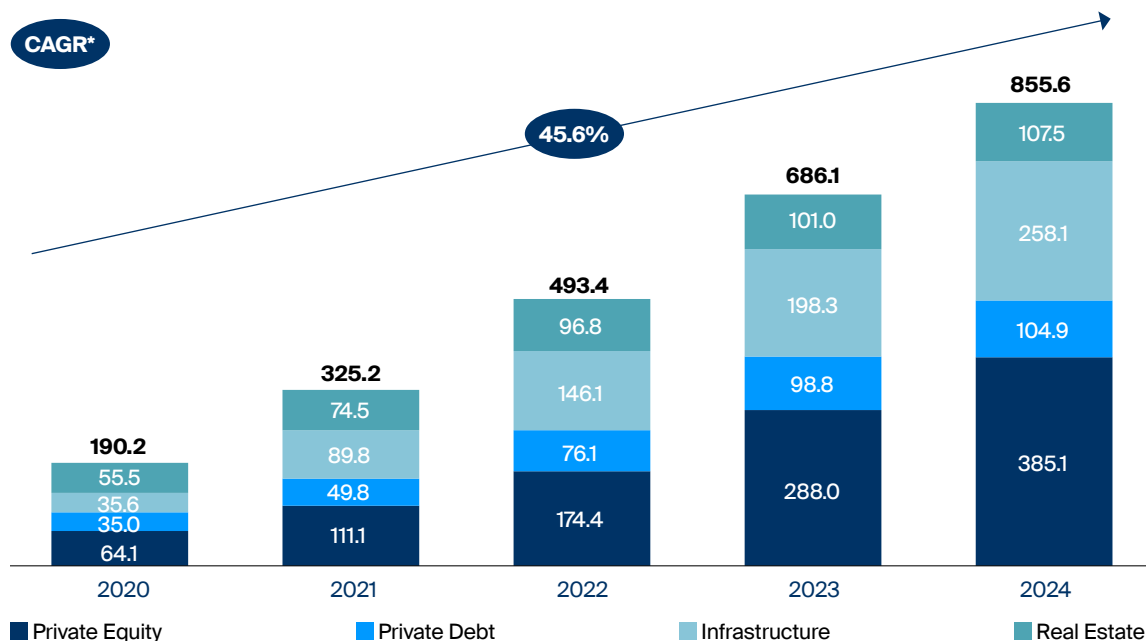
Figure 47. AuM of Luxembourg private market funds, conventional vs. sustainable split (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Private equity funds lead among sustainable private market funds domiciled in Luxembourg, reaching EUR 385.1bn in AuM in 2024 and representing 45.0% of the total Luxembourg-domiciled sustainable private funds market. This is followed by infrastructure funds with EUR 258.1bn (30.2% of AuM), while real estate and private debt funds account for a smaller share of this market segment (Figure 48).

Figure 48. AuM of Luxembourg-domiciled sustainable private market funds, split by asset class (EUR bn)



Note: Data excludes funds of funds and funds that are in the fundraising process.
 *CAGR for the period 2020-2024.
 Sources: Preqin, Monterey Insight

Among the sustainability strategies followed by private market funds in the Grand Duchy, the 'ESG Integration' strategy claims the lead by a large margin. Specifically, these funds account for EUR 449.8bn of AuM, or 52.6% of all sustainable private market funds AuM domiciled in the country. This is followed by the 'Renewables/Energy Transition' strategy, with EUR 90.2bn in AuM and implemented mostly by infrastructure funds.

The 'Impact' and 'Thematic' strategies follow, with EUR 15.0bn and EUR 12.0bn, respectively. 'Microfinance,' on the other hand, accounts for a very small portion of this market, with only EUR 0.7bn of AuM. Funds without clear ESG strategies account for EUR 287.9bn, or 33.6% of sustainable private market AuM in Luxembourg.²⁰

Table 10. AuM of Luxembourg-domiciled sustainable private market funds, split by strategy

	2020	2021	2022	2023	2024
ESG Integration	95.4	184.9	278.0	375.4	449.8
Renewables/Energy Transition	15.3	26.6	43.8	59.0	90.2
Impact	2.1	3.6	6.6	10.5	15.0
Thematic	1.3	2.9	4.4	7.6	12.0
Microfinance	0.6	0.7	0.8	0.8	0.7
Not Specified	75.5	106.5	159.9	232.9	287.9

Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

Table 11. AuM of Luxembourg-domiciled sustainable private market funds, split by strategy and asset class (as of end-2024)

	Private Equity	Private Debt	Real Estate	Infrastructure	Total
ESG Integration	228.0	48.1	49.3	124.6	449.8
Renewables/Energy Transition	7.4	1.0	0.4	81.3	90.2
Impact	8.8	1.7	0.1	4.3	15.0
Thematic	8.1	1.0	2.1	0.9	12.0
Microfinance	0.5	0.2	-	-	0.7
Not Specified	132.3	53.0	55.6	47.0	287.9

Note: Data excludes funds of funds and funds that are in the fundraising process.
Sources: Preqin, Monterey Insight

20. For details on the strategies and the methodology used throughout Section 4, please refer to the 'Note on sustainable private market funds' in the Methodology section.



Interview on impact investing with **Gunter Fischer**, Principal Advisor at the European Investment Bank (EIB) and chair of the LSFI Impact Investing Advisory Board (IIAB)

Q: How do you define the relationship between impact investing and sustainable finance, and why does impact investing play a critical role in today's financial system?

A: Sustainable finance is the broad framework for taking environmental, social, and governance (ESG) factors into account. Impact investing is a specific subset within that framework. Impact investing is about actively addressing an issue. It requires intentionality (you meant to do it) and measurability (you have evidence). With impact investing, you are evolving from a passive observer as an investor into a problem solver, showing "What your money can achieve."

Q: As Chair of the LSFI Impact Investing Advisory Board (IIAB), an independent think tank on impact investing, how can the IIAB strategically support the development and competitiveness of the Luxembourg financial sector?

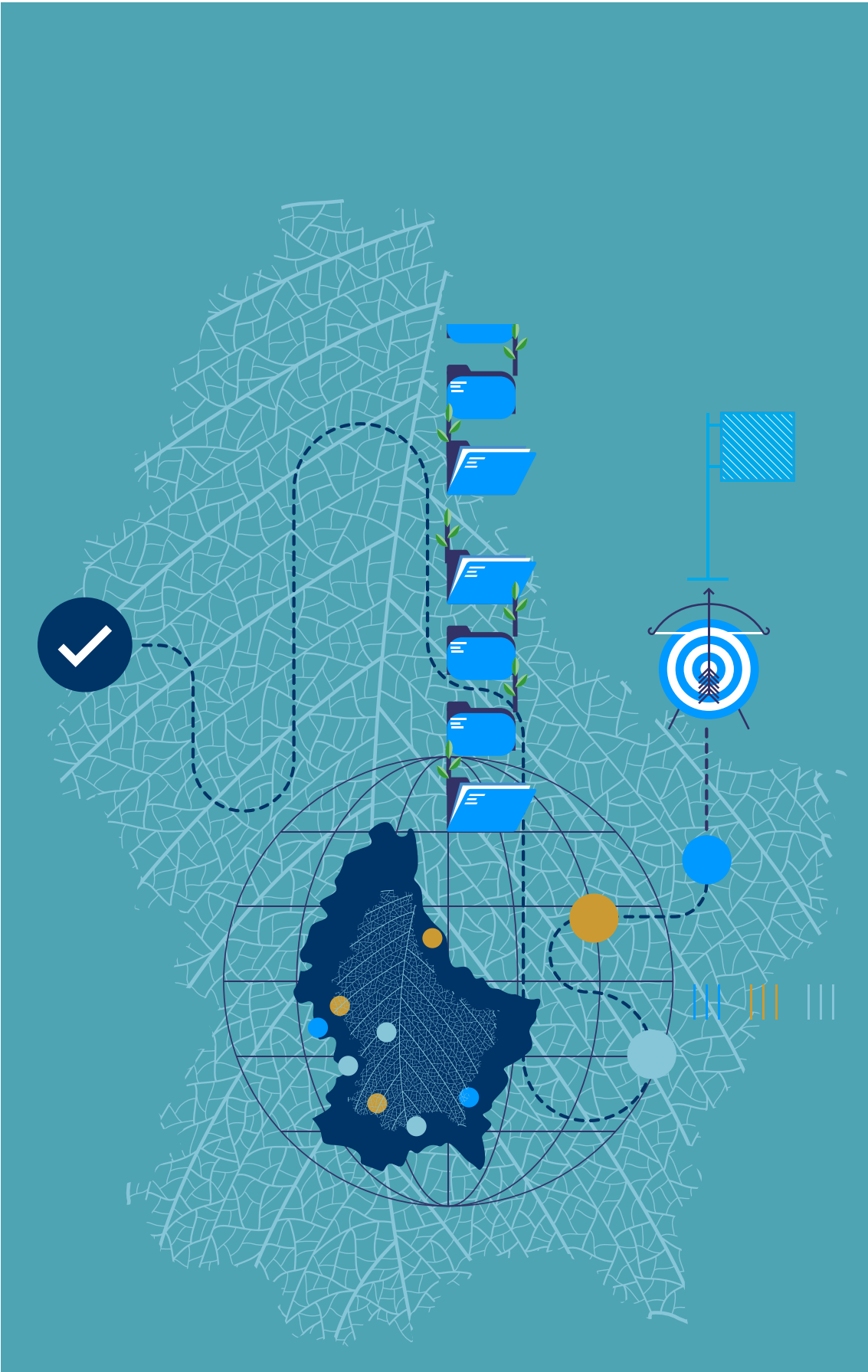
A: The IIAB helps define the standard for impact investing. It started by developing a definition for impact investing, taking into account the Luxembourg specificities. This and work on market sizing increases investor confidence. It can help attract institutional and retail capital to the sector. Work on the development of potential investment vehicles for impact investing and the integration into the international ecosystem supports Luxembourg's and Europe's competitiveness as impact investing hubs.

Q: What do you see as the most significant opportunities and risks for impact investing as it becomes more mainstream?

A: With impact investing maturing, there is a shift from virtue-based to value-based investing. This is an opportunity to transition impact investing from a moral obligation to an economic driver of long-term profitability and competitiveness. Impact washing still is a risk for the integrity of impact investing efforts. Europe can remain a leader in impact investing, e.g. through the revision of the Sustainable Finance Disclosure Regulation (SFDR) with the recognition of impact as a concept.

Q: What key strategic guidance would you give to financial institutions seeking to strengthen their impact investing approach?

A: The dual crises of climate change and social inequality are no longer 'future' risks. They are economic realities. To navigate this landscape, financial institutions must move beyond passive compliance toward active impact investing. Those that successfully integrate sustainability into their core commercial strategy will safeguard their portfolios against existential threats, and they will lead the next generation of global market growth.





Interview on market flows and 2026 outlook with **Philip Kalus**, Managing Director at Acolin

Q: Based on your data and market observations, how would you characterise fund flow dynamics in 2024 and 2025, particularly for sustainable and ESG-labelled strategies?

A: In spite of no shortage of investor concerns, ranging from geopolitics to AI valuations, etc., European fund flows provided not only a resilient, but also a very strong picture in 2025. Total inflows reached EUR 613 billion, making it the third best year since 2015, while assets under management rose by 11% percent from EUR 12.9 trillion to EUR 14.3 trillion.*

ETFs reached new records in AuM after 39 consecutive months of net inflows. However, in spite of omnipresent ETF talk and record numbers, active fund flows, more than doubling their 2024 net sales number to EUR 313 billion in 2025, actually beat their passive counterparts (EUR 300 billion, including EUR 278 billion in ETF net sales) last year. This marks a significant turning point.

The investment environment is changing. Fund selector appetite for active strategies experienced a significant increase in searches by European fund selectors. Supported by an increasingly unstable and volatile investment environment, this trend accelerated throughout 2025, and we expect it to manifest itself in 2026 flow numbers.

In terms of sustainable and ESG funds, in spite of political headwind in the US and asset managers having increasingly shied away from ESG-related campaigns, global sustainable assets closed 2025 again on a record level. Europe still represents the world's largest ESG fund market by a very large margin, with a market share of 86%, followed by the US with 9%.

Yet, ESG, SFDR or sustainable fund flows showed a very heterogeneous picture in 2025 and were also contorted by some large UK institutional investors redeeming from funds and reallocating into bespoke mandates. It is also vital to remember that sustainable flows are not evenly distributed across the universe, they are captured by a reduced number of large, very "ESG credible" products.

Q: Have you observed any significant changes in how investors allocate capital within sustainable funds, for example, between active and passive strategies, ETFs and mutual funds, or different SFDR categories?

A: Regulation is driving structural change across Europe's sustainable investment market, with rising compliance pressure and investor demand also constrained by geopolitical uncertainty. Nonetheless, don't assume sustainable investment is off the table. It isn't. Not at all.

In fact, for many European professional fund buyers, ESG assessments are deeply embedded in due diligence. It is not driven by SFDR classifications, but by the credibility, coherence and consistency of ESG integration at the holding and portfolio level. Depth varies by region and investor account. Among institutional investment consultants, credible ESG integration remains a baseline requirement, not a differentiator.

ESG in Europe remains dominated by active funds. In terms of classifications, Article 8, albeit very heterogeneous in itself, has consolidated its role as the default category. Compared with 2024, investors appeared more focused on environmental risks than social ones in 2025.

Q: Looking beyond headline inflows and outflows, what underlying signals or indicators should market participants pay closer attention to when assessing the health of the sustainable funds market?

A: Investors must be mindful about classifications, reclassifications, and also labelling and not take them at face value. As mentioned before, sustainable investment is less about classifications or labels, but about clarity, consistency and above all credibility of funds or asset managers under consideration.

Q: Finally, looking beyond 2026, what is your outlook for sustainable fund flows, and which factors are most likely to determine whether the market enters a new growth phase or remains in a period of consolidation?

A: The takeaway is unambiguous. ESG has not failed, potentially its packaging has. What selectors are rejecting is repetition without judgment, metrics without context, and sustainability presented as marketing rather than investment work.

Looking forward, in Europe, sustainable investment is here to stay. However, growth will depend much on regulatory clarity, reduced compliance friction and above all on the credibility of the underlying strategies and asset managers in scope.

There are numerous encouraging studies in the market. For instance, JP Morgan (the bank, not the asset manager) already suggested in a research note from June 2025 that the appetite among the world's largest asset owners for sustainable investments presents a EUR 6.3 trillion opportunity for asset managers, with European players well positioned to capitalise on it. "European players have a clearer and more credible basis for pitching their ESG products compared to the US, where regulatory guidance is less developed."

* The data provided in this interview has been extracted from Morningstar Direct as of 31.12.2025.

CONCLUSION



The global sustainable finance landscape has undergone significant shifts and transformations over the last five years, gradually heading from developing regulatory frameworks and heightened market activity, towards greater market maturity and regulatory clarity.

Across the world, the AuM of sustainable public market funds increased from EUR 1.7tn in 2020 to around EUR 3.1tn at the end of 2025, growing at a CAGR of 12.5%. Among private markets, the AuM of sustainable funds has increased from EUR 354.5bn in 2020 to EUR 1,366.2bn in 2024, growing at a CAGR of 40.1%.

Europe plays a preponderant role in both sustainable public and private market funds, reflecting the growing urgency of climate and sustainability challenges – regardless of the region's evolving regulatory frameworks and apparent shifts in market expectations.

While recent political and regulatory proposals – primarily under the guise of the European Commission's Omnibus package – might have potential implications, the fundamental drivers for sustainable finance remain robust. Climate change and environmental degradation continue to pose material risks to financial stability, and regulatory and supervisory authorities in Europe are not backing down.

Moreover, even if the Omnibus package might be perceived as a regulatory pause, the SFDR 2.0 proposal and its newly-suggested product labels opens up a whole host of new opportunities for sustainable finance.

Against this backdrop, by the end of 2025, Europe remains the region with the largest share of sustainable public market funds AuM (18.8%), significantly outpacing all other regions.

In fact, AuM of European sustainable public market funds increased from around EUR 1.5tn in 2020 to EUR 2.6tn by the end of 2025, growing at a CAGR of 12.6%. Growth in sustainable private markets has been even more pronounced. Indeed, European sustainable private market funds AuM rose from EUR 274.bn to EUR 1,110.8bn in 2024 – a growth marked by a remarkable CAGR of 41.8%.

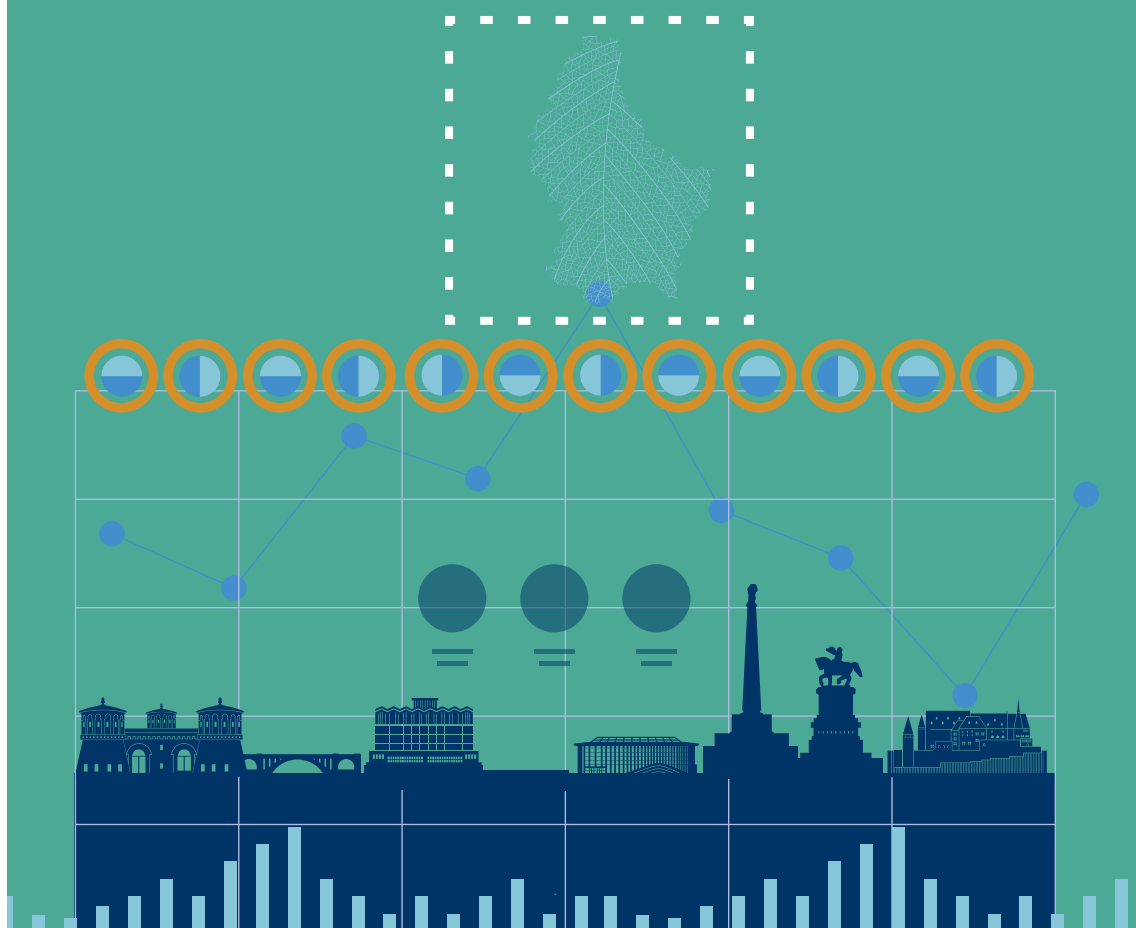
Luxembourg has been central to this growth. In 2025, sustainable public market funds domiciled in Luxembourg reached EUR 815.4bn, making the country the largest hub in Europe. This amount accounts for 31.0% of the total European and 26.4% of the global sustainable public market funds AuM, respectively.

Beyond sustainable public market funds, Luxembourg's sustainable private market sector has also experienced significant growth. Indeed, AuM of sustainable private market funds domiciled in Luxembourg increased from EUR 190.2bn in 2020 to EUR 855.6bn in 2024, growing at a CAGR of 45.6% and accounting for 77.0% of the European and 62.6% of the global sustainable private market funds AuM, respectively. Among the sustainability strategies employed, 'ESG Integration' dominates, with funds implementing it accounting for EUR 449.8bn in AuM in 2024, or 52.6% of all sustainable private market funds AuM domiciled in the country. This is followed by the 'Renewables/ Energy Transition' strategy, with EUR 90.2bn in AuM.

As a whole, the sustainable finance landscape – whether in Luxembourg, Europe or across the world – is evolving. Political realignments might present temporary challenges, yet the direction of travel is clear. Sustainability is only going to get more integrated within financial decision-making, both due to regulatory imperatives and the strategic necessity to ensure long-term resilience and growth.

The findings of this study demonstrate that Luxembourg continues to be at the forefront of sustainable finance, both in Europe and globally. Its asset management industry commands a significant share of sustainable fund assets, both among public and private market funds. Yet, Luxembourg must continue to advance its sustainable finance activities and efforts to maintain its leading position, as shifting investor expectations, market dynamics and regulatory developments necessitate ongoing vigilance and adjustments, supported by innovation and a renewed steady commitment. By fostering and actively promoting a culture of collaboration between stakeholders, Luxembourg can ensure that its position as a trusted and dynamic hub for sustainable finance will remain for the years to come.

METHODOLOGY



NOTE ON THE PUBLIC MARKET FUND DATA

Sections 1 and 2 of the study are based on data from the Morningstar Direct database in euros, extracted on 30 January 2026. This analysis includes only open-ended and exchange traded funds, excluding closed-ended funds, and covers the period from the end of 2020 to the end of 2025. For the European statistics, these encompass funds domiciled in the EU-27 countries, as well as in Switzerland, Liechtenstein, Norway, and the United Kingdom (excluding British Overseas Territories, crown dependencies etc.). To avoid double counting of fund assets, feeder funds and funds of funds were excluded from the analysed fund universe. Money market funds were also excluded from the core analysis as their capacity for material sustainability integration is restricted by their short-term, high-liquidity nature.

The Morningstar definition and classification of sustainable public market funds were applied for Section 1. Introduced in 2019, Morningstar's sustainable investment classification is aimed at helping investors identify funds for which sustainability features are central to the investment process. According to Morningstar's definition of sustainable investment products, a fund is considered sustainable if a primary focus on sustainability, impact, or ESG factors is described in its prospectus or other regulatory documents. Funds must claim to have a sustainability objective or use binding ESG criteria for their investment selection. Funds that only employ limited exclusions or consider ESG factors in a non-binding manner are not classified as sustainable investment products. In recent years, the coverage of funds for the sustainable classification by Morningstar has been continuously improved. Funds for which this information is not yet available are considered conventional funds in this study.

NOTE ON SUSTAINABLE PRIVATE MARKET FUND DATA

For Sections 3 and 4, which deal with private market funds, a different database has been used. In particular, in order to isolate sustainable funds within private markets, the study combines the output of two distinct databases:

Preqin	Monterey Insight
The Preqin database distinguishes between ESG and non-ESG funds by analysing (a) fund prospectuses, (b) self-reported data from GPs, and (c) direct engagement with GPs. However, the coverage of ESG funds remains low throughout this database. For this study, it is used for private market funds at global level and in Europe.	The Monterey Insight database includes an attribute regarding the SFDR disclosure basis of each fund, which gives a more detailed picture on the funds domiciled respectively in Europe and Luxembourg. For this study, it is used for private market funds in Luxembourg.

When it comes to global and European private markets, we use Preqin to obtain data for sustainable private market funds. Preqin classifies funds as sustainable if they have any characteristics of climate, energy transition, impact, ESG Integration, SDGs targets, or if they disclose under Article 8 or Article 9 of the SFDR (in the case of funds domiciled in the EU).

Given that there is no comprehensive database for the sustainability profile of Luxembourg-domiciled private market funds, our methodology focuses on manually screening all private market funds (approximately 8,500 funds) in the country, using the Monterey Insight database as a baseline, as it is the database with the most comprehensive coverage of the Grand Duchy. We screen all private market funds in the country disclosing under Article 8 and Article 9 of the SFDR, as well as funds that made changes to disclose only under Article 6 of the SFDR, which had previously disclosed under either Article 8 or Article 9 of the SFDR in 2024.²¹ We then manually screen each fund and assign one of the following categories:

<p>Impact</p>	<p>Thematic</p>	<p>ESG Integration</p>
<p>Funds in this category are focused on generating specific, positive and measurable goals that are beneficial to society or the environment, while still expecting financial returns.</p>	<p>Funds in this category focus on sustainable themes such as clean water, climate change etc.</p>	<p>Funds in this category do not have a clear ESG strategy that could fall in the clusters above, but still mention that they integrate ESG factors in their investment process.</p>
<p>Renewables/Energy Transition</p>	<p>Microfinance</p>	<p>Not Specified</p>
<p>Funds in this category invest in clean energy projects or projects related to the energy transition. Found mostly among infrastructure funds but could also relate to investments from private equity funds as well (e.g., in pioneering companies or startups).</p>	<p>Funds in this category invest in microfinance finance institutions and microfinance projects.</p>	<p>Funds in this category disclose under Article 8 or Article 9 of the SFDR but do not have a clearly defined ESG strategy. In most cases, the fund name also does not indicate any strategy.</p>

21. This means funds that disclosed under Article 8 or Article 9 of the SFDR in end-2023, but disclosed under Article 6 of the SFDR as of end-2024.

NOTE ON THE PROPOSED SFDR 2.0 AND THE NEW DISCLOSURE CATEGORIES

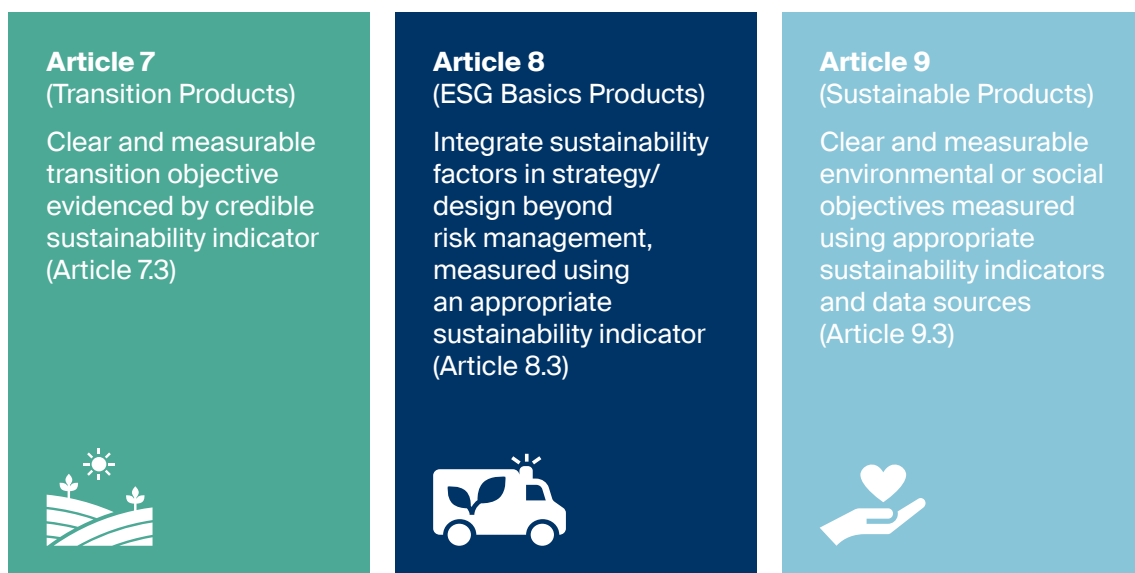
While this study does not use the EU SFDR disclosures to determine if a fund is sustainable, it does examine the evolution of funds disclosing under Article 8 and Article 9 of the SFDR since the regulation was introduced.

Despite being conceived as a disclosure regime, the SFDR quickly evolved into a de facto labelling system without clear, enforceable criteria. Articles 6, 8, and 9 became widely used labels in marketing documents even though SFDR was never meant to be a classification or label regime. Whilst the high proportion of funds disclosing under SFDR demonstrate high adoption rate, challenges were faced during implementation. For instance, disclosure templates were difficult for retail investors to understand. Moreover, data gaps – particularly for Principal Adverse Impact (PAI) indicators – added further operational burdens and costs.

Recognising the industry challenges, the European Commission proposed a significant overhaul of SFDR in November 2025,²² inspired by a report by the EU Platform on Sustainable Finance²³ from a year earlier. SFDR 2.0, as it is widely known, seeks to simplify the framework, by streamlining disclosures and introducing clear product categories with binding thresholds and exclusions.

As such, the SFDR 2.0 proposal introduces a fundamental redesign of how sustainability-related financial products are classified. The original Article 8 and Article 9 structure will be discontinued and replaced with a set of objective-based product categories. Although two article numbers remain the same, these should not be viewed as direct successors to the existing Article 8 and Article 9 disclosure framework. Moreover, the proposal removes the current principal adverse impacts (PAI) disclosure regime at entity-level.

Figure 49. Proposed disclosure categories in SFDR 2.0



22. European Commission. 'Commission simplifies transparency rules for sustainable financial products.' 20 November 2025. https://finance.ec.europa.eu/publications/commission-simplifies-transparency-rules-sustainable-financial-products_en.

23. EU Platform on Sustainable Finance. 'Categorisation of Products under SFDR: Proposal of the Platform on Sustainable Finance.' December 2024. https://finance.ec.europa.eu/document/download/8a3d0e56-4453-459b-b826-101b1067290f_en?filename=241217-sustainable-finance-platform-proposal-categorisation-products_en.pdf

