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ClimVest — Climate Impact Investing

Research Platform Sustainable Finance

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Towards Granular Climate Transparency in Mutual Funds: Informing the SFDR Review

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At a glance

- Climate-oriented mutual funds apply heterogeneous climate approaches, from Paris Alignment and CO_2 reduction targets to SDG13 and EU Taxonomy orientation, each linked to different investment strategies and climate metrics.
- The Sustainable Finance Disclosure Regulation (SFDR) lacks granularity, failing to distinguish between these different approaches. This hampers informed decision-making for investors.
- To support climate action and protect investors, the SFDR should require more differentiated disclosures that clearly communicate the fund's climate approach and underlying metrics.
- Climate approaches that finance transition in high-emission sectors can play a critical role in climate mitigation. SFDR must recognize and accommodate such transition strategies.

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Introduction

Capital markets are supposed to play a central role in closing the climate investment gap (European Commission 2018; Andersen 2022). Mutual funds, as widely used investment products, are increasingly expected to channel capital towards closing the finance gap to achieve the goals of the Paris Agreement (Andersen 2022). Recent regulatory initiatives such as the SFDR aim to enhance transparency around the sustainability information of such funds, thereby empowering investors to make informed decisions and ensuring that capital is steered towards the transition to a net-zero economy.

However, despite these efforts, the current disclosure regime does not sufficiently reflect the diversity and complexity of climate approaches employed by climate-oriented mutual funds. Investors might face challenges in understanding what a fund's climate approach actually implies (Andrikogiannopoulou et al. 2022). This lack of granularity, also found as a general research restriction in sustainability (Edmans 2023), is particularly problematic in light of the heterogeneity among climate-oriented funds, which differ substantially in terms of their strategic approach (Popescu et al. 2021), e.g., Paris-aligned, CO_2 reduction-focused, SDG13-driven, or EU Taxonomy-based

This policy brief summarizes key findings from a recent empirical study on 622 European climate-oriented mutual funds, which identifies four dominant climate strategies and analyzes their relationship with specific climate metrics and financial performance. The findings provide timely and policy-relevant insights for the ongoing revision of the SFDR. They underline the importance of recognizing transition-oriented investment strategies and advocate for a more differentiated disclosure framework that enables investors and regulators alike to distinguish between distinct climate approaches within the fund universe.

What distinguishes one climate-oriented mutual fund from another?

Research Approach

To investigate how climate-oriented mutual funds differ in the way they implement specific climate approaches, Dobrick, Klein, and Knob (2025) conducted a quantitative study based on fund-level data from 622 European equity mutual funds. These funds were identified through the Refinitiv Eikon database implementing at least one self-declared climate approach: (1) alignment with the Paris Agreement, (2) adoption of CO_2 reduction targets, (3) alignment with SDG13, and (4) orientation toward the EU Taxonomy.

The authors applied a two-stage empirical approach. In the first step, they analyzed how different climate approaches of climate-oriented mutual funds are associated with specific climate-related metrics. The authors used granular portfolio-level data from Refinitiv to aggregate key climate-related firm-level indicators to the fund level using holding weights. To assess the research question, they estimated four separate multiple logistic regression models, one for each strategy. This setup allowed the authors to examine which specific climate metrics are significantly related to each self-declared fund approach.

In a second step, they examined the financial performance of the identified approaches. For this, they constructed portfolios for each climate approach and estimated risk-adjusted returns using the Fama-French five-factor model, based on daily return data from 2021 to 2022.

Research Results

The findings from Dobrick, Klein, and Knob (2025) highlight substantial heterogeneity in climate-oriented mutual funds:

- **Each climate approach is associated with a different set of climate metrics:** Paris-aligned funds tend to invest in companies that report transition plans. Carbon funds overweight companies with high total emissions, but also with explicit reduction targets and high innovation scores. SDG13-oriented funds are characterized by a focus on firms offering eco-friendly products, while taxonomy-oriented funds invest in emission-intensive sectors.

- **Transition finance plays a central role in certain strategies.** Funds pursuing Paris alignment or emission reductions often invest in currently high-emitting companies with forward-looking targets, highlighting their role in supporting transition pathways.
- **No significant financial trade-offs between strategies.** Risk-adjusted performance does not differ significantly across the four strategy types. This suggests that different climate approaches can be pursued without compromising financial returns.

Interpretation of Results

The findings underscore the need to better capture the heterogeneity of climate approaches of sustainable investment products. They reveal that climate-oriented mutual funds encompass different investment logics, from selecting low-carbon firms, to supporting transitions, to emphasizing sustainable products.

We recommend that EU regulators take the following actions

- **Introduce a mandatory disclosure of climate strategy type:** Require fund managers to explicitly state which climate approach (e.g., Paris-aligned, CO_2-reduction, SDG13, Taxonomy) a fund follows and what metrics they use.
- **Distinguish between sustainability and transition strategies**: Fund managers should at least clarify whether the fund pursues a transition strategy, aiming to support companies in their decarbonization path, or a sustainable strategy that targets already sustainable assets.[1]
- **Promote greater transparency regarding selection criteria and underlying data sources:** Fund managers should be required to disclose more clearly which specific criteria guide their investment decisions and what data sources underpin them. This would improve comparability and credibility, while reducing the risk of selective metric use or vague claims of alignment with climate goals.
- **Promote climate literacy among investors and advisors:** Support EU-wide climate investing literacy initiatives to raise awareness of the differences

[1] For a more detailed presentation of this distinction, see Busch and Pruessner (2023).

between various fund strategies, especially the role of transition finance. Advisors should be trained to explain these concepts effectively to non-professional clients.

Implications and Future Steps

Implementing the recommendations outlined above can help ensure that both retail and institutional investors receive sustainability disclosures that accurately reflect the climate approaches pursued by investment funds. This is crucial for supporting informed investment decisions. European regulators have already recognized the need for more targeted disclosures for sustainable investment strategies. For example, in its Joint Consultation Paper JC 2023 09, ESMA proposed that financial products with greenhouse gas (GHG) emissions reduction targets should be required to disclose whether and how such targets are pursued (e.g. through divestment, forward-looking investments, or engagement)[2], what share of the portfolio is covered by the target, and what intermediate milestones and actions are planned. Such disclosures would significantly improve the ability of investors to understand and assess the climate ambition and credibility of individual funds (Joint Committee of the ESAs 2023). In a more recent proposal, JC 2024 06, the ESAs suggest that sustainability-related products could be classified into at least two overarching categories: “sustainability” products, targeting already sustainable assets or outcomes, and “transition” products, which invest in assets or activities that are not yet sustainable, but are improving over time (Joint Committee of the ESAs 2024). For transition products in particular, ESMA highlights the relevance of using forward-looking indicators, including EU taxonomy KPIs, transition plans of portfolio companies, product-level decarbonisation trajectories, and mitigation of principal adverse impacts (PAIs). These elements align strongly with the empirical insights from this study, which show that different climate approaches are linked to these climate metrics.

Throughout 2025, the European Commission and ESMA are expected to publish additional guidance on the future structure of SFDR disclosures (EU Commission 2025). These should explicitly include the question of how to distinguish between

[2] For an overview of impact channels of investment funds see Wilkens et al. (2024)

different climate approaches at product level. A formalized strategy-based disclosure regime could improve both market transparency and regulatory coherence, while also enhancing trust in climate-related product claims.

Further research could investigate whether investors are able to understand and differentiate between various climate approaches, and whether alternative disclosure formats such as simplified visual scales, narrative summaries, or ambition indicators may prove more effective than current technical terminology.

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About the projects

CLIMVEST (Climate Impact Investing) is a research project under the funding measure "Climate Protection and the Financial Sector" (KlimFi) of the **German Federal Ministry of Education and Research (BMBF)**.

In this project, the partners – University of Kassel, Potsdam Institute for Climate Impact Research, and University of Augsburg – investigate the impact that sustainable investments (impact investing) can have.

More information on the research project can be found on the project's website: climvest-projekt.de/

More information research initiative "Climate Protection and the Financial Sector" (KlimFi) can be found here sfcp-network.de/en/about-us/

The **Sustainable Finance Research Platform** is a joint project between five German research institutions conducting research on different aspects of Sustainable Finance, e.g. sustainable investments, sustainability risks and chances, and sustainability reporting. With their independent research, the project partners aim to support stakeholders in politics, the financial sector, and the real economy in understanding and shaping the central role of capital markets in achieving a net-zero economy. The researchers involved answer social, political, and business-related questions, provide established and new research findings, and participate in political and public debate. They also want to establish sustainable finance as a topic in the German research landscape and secure connections with international institutes and processes.

More information can be found on the project's website wpsf.de/en/.

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