

# Funds-of-funds and SFDR Article 9: a question of credibility

In a fragmented data environment, funds-of-funds must reconcile structural complexity with regulatory ambition. Can a fund-of-funds credibly meet the requirements of SFDR Article 9?

By *Natasha Franks* and *Emanuel Eftimiu*

The Sustainable Finance Disclosure Regulation (SFDR) seeks to regulate what qualifies as a sustainable investment. SFDR Article 9 funds are required to have sustainable investment as their core objective, supported by a tangible framework for measuring and demonstrating impact. At first glance, this appears incompatible with the reality of funds-of-funds investing in private markets, where data flows are often delayed, incomplete, or non-standardised. Yet with private equity representing the largest share of impact assets globally – 43% of all impact AUM, according to the Global Impact Investing Network – it is essential to offer investors multiple avenues for accessing impact investments, consistent with the range of options available across the broader private equity landscape.

A fund-of-funds structure sits at least two layers

removed from the underlying portfolio companies that generate impact. Rather than investing directly, the fund-of-funds manager selects external funds managed by general partners (GPs), who in turn deploy capital into portfolio companies. While this model offers diversification and additional protection from downside risk, it presents inherent challenges for impact monitoring and reporting. Each GP may use different definitions of materiality, apply divergent reporting frameworks, or operate in jurisdictions with limited regulatory pressure for disclosure. In case of the secondary market, older funds were not launched with regulatory sustainability requirements in mind and may not have the ability to provide the granular data required to align with today's standards.

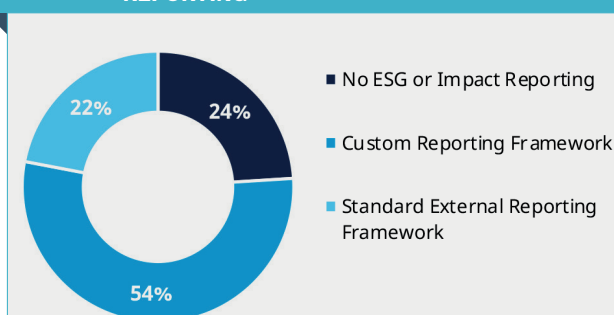
## Navigating the challenge of impact measurement and reporting

The lack of standardisation across impact measurement and reporting compounds the difficulty. According to PitchBook's 2024 Sustainable Investment Survey, only 22% of asset managers use a recognised external framework for ESG or impact reporting.

The rest rely on custom-built or hybrid frameworks, many of which are not designed with comparability in mind. Over half even use bespoke templates, developed to suit internal needs or local markets rather than to facilitate downstream reporting. This fragmentation makes it difficult to aggregate metrics or assess performance or coverage rates against uniform benchmarks, even when Principal Adverse Impact (PAI) indicators are involved. Collecting, harmonising, and interpreting these indicators across hundreds of underlying portfolio companies is no small task for a fund-of-funds manager.

And yet, some private equity funds-of-funds have been classified as Article 9 under the SFDR. This raises a more important question than whether a fund-of-funds is merely aligned with the regulation: is it operationally credible? A credible SFDR Article 9 classification cannot rely solely on downstream managers designating their funds as such. It requires active oversight, comprehensive monitoring, and a structured investment process that incorporates sustainability at every stage - from due diligence to reporting.

**FIGURE 1: FRAMEWORKS USED FOR ESG OR IMPACT REPORTING**



Source: Pitchbook

## ‘Funds-of-funds can meet the SFDR Article 9 standard, but only by moving beyond mere checkbox compliance and fully committing to rigorous look-through monitoring.’

One promising approach lies in the use of both direct and proxy data. In the absence of granular company-level data, managers can work with portfolio-level indicators, supplemented by modelled estimates. For example, calculating weighted emissions based on management company data and assets under management can provide directional insight into carbon intensity. ESG scores, policy assessments, and diversity metrics at the manager level can serve as useful, if imperfect, signals when fund-level transparency is unavailable. Proxy data should not replace proper measurement, but when combined with pressure for deeper disclosures and manager engagement, it can help close the gap.

Crucially, fund-of-funds managers must demonstrate a structured approach to impact monitoring. This does not mean flawless ‘look-through’ data received on a monthly basis. It means evidence that sustainability objectives are built into the investment process, that efforts are being made to collect relevant KPIs, and that results are reviewed, interpreted, and acted upon. The process matters as much as the outcome. Perhaps even more so at

this stage of the market’s development, it is important to recognise the importance of progress over perfection.

By carefully selecting underlying funds based on their impact capabilities, commitment to disclosure, and alignment with sustainability objectives, fund-of-funds managers can build portfolios that meet the spirit – as well as the letter – of SFDR Article 9. This may mean enacting more robust side letter clauses with GPs to ensure the data will be provided. It may require multi-year engagement to bring legacy funds closer to current standards. And it may involve reliance on estimated or proxy data while more advanced systems are developed. But it is possible.

### Progress over perfection

As impact investing matures, data shows that funds excelling financially often also outperform on impact. This link reflects shared drivers: sourcing, selection, and execution. According to Impact Capital Managers, 72% of impact managers cite access to the right opportunities as key to achieving both financial and impact goals<sup>1</sup> – a crucial point for funds-of-funds, where manager

selection is the primary lever for driving performance.

The SFDR regulation represents an important step forward for sustainable finance in Europe, yet regulation will always move faster than corporate infrastructure. For funds-of-funds, this means proving that despite their structural distance from the assets, they can still meaningfully influence, aggregate, and report on impact in a transparent and credible way that satisfies both regulators and investors.

SFDR Article 9 is not about perfection. It is about intentionality, transparency, and credibility. Funds-of-funds can meet this standard, but only by moving beyond mere checkbox compliance and fully committing to rigorous look-through monitoring. This requires a robust selection framework that integrates sustainability as a core investment principle rather than a reporting afterthought. It means embedding ESG and impact considerations into due diligence, systematically assessing manager practices, and developing internal systems that are capable of aggregating and interpreting the available data through a regulatory lens. By embracing this deeper commitment, funds-of-funds can credibly meet the expectations of SFDR Article 9 and provide investors with a diversified impact solution. ■

<sup>1</sup> Impact Capital Managers report, Alpha in Impact: Strengthening Outcomes, May 2023

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## SUMMARY

SFDR Article 9 sets high standards for sustainable investment classification.

Private equity impact funds-of-funds face structural challenges in order to meet the demands of this classification.

Most fund managers use non-standardised, custom impact reporting frameworks.

Proxy data, modelled estimates, and manager-level metrics can help bridge gaps in transparency while processes improve.

Rigorous selection, monitoring, and engagement make SFDR Article 9 status achievable for a committed fund-of-funds, even in a fragmented reporting landscape.