SFDR 9 in Climate Venture Capital: Essential Guide or Unnecessary Burden?

Observations on the application of the SFDR regulation by Climate Venture Capital funds in Europe

Rethinking SFDR 9 through the lens of Climate VC

The Sustainable Finance Disclosure Regulation (SFDR) was designed to bring transparency and accountability to sustainable investing in Europe. Yet today, its most ambitious category (SFDR 9) faces mounting scrutiny and potential revision, creating uncertainty for investors and fund managers alike. Some argue that SFDR 9 is too rigid, others say it lacks clarity, and many fear that regulatory changes could weaken its impact.

At Telos Impact, we believe this is the perfect moment to take stock of how SFDR 9 is being applied in practice. As one of the first VC-dedicated climate fund-of-funds in Europe, we have built a unique dataset covering over 250 fund managers investing in green innovations across Europe.

While not exhaustive to date, this dataset provides critical insights into how climate-focused venture capital funds operate within the SFDR framework and how they are shaping the future of sustainable finance.

Our goal is two-fold:

- To bring objectivity to the discussions around SFDR's implementation by presenting real-world data and trends
- To inspire fund managers to strengthen their engagement with sustainable investment strategies and adapted tools that align with the Paris Agreement ambition—and beyond !

Key insights from our Dataset

Climate fund strategies are allocated as such:

- Sector-agnostic Climate Tech funds are the more numerous, representing more than 25% of funds
- The other dominant strategies in climate tech are specialist funds in Ag-Food Tech, Industrial Cleantech and Energy Tech.
- As compared to their relative share of global greenhouse gas emissions, this allocation shows that other sectors like Transportation and Building remain relatively underinvested by European VC managers.

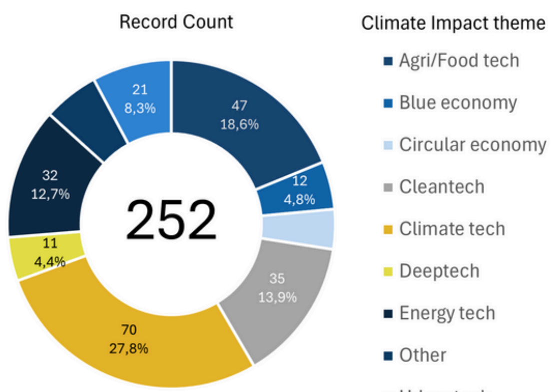

Figure 1: Targeted dealflow per strategy

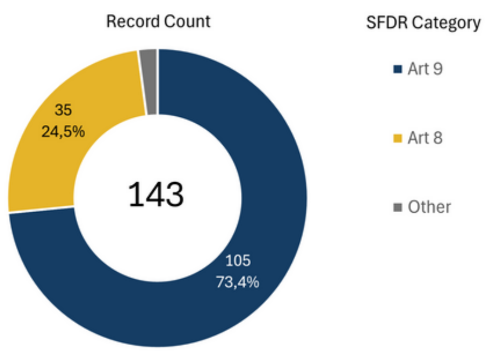

Figure 2: SFDR allocation

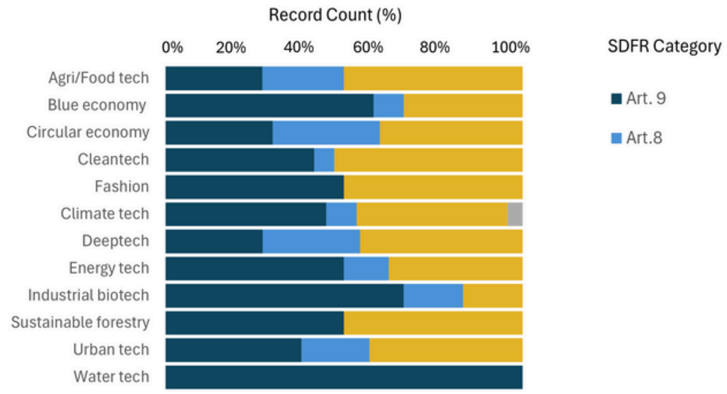

Figure 3: Share of Art. 9 funds per strategy

On the compliance with the SFDR framework, our dataset of respondents shows that Ag-Food and Deeptech funds are less likely to register under SFDR Article 9. Based on our discussions with them, this trend stems from challenges specific to each strategy:

- For Ag-food fund managers: The EU Taxonomy does not yet directly cover this sector, making it more difficult for fund managers to report comprehensively on the non-financial performance of their portfolio companies.

- For Deeptech fund managers: Investments in this field often involve technologies with multiple applications, which do not easily fit within the rigid classification framework of the EU Taxonomy. That would be a speculation to seek a specific alignment on those types of technologies (thinking of AI or climate data technologies).

SFDR 9 vs. SFDR 8: Why the Distinction Matters

- SFDR 9 funds typically have structured governance and rigorous impact measurement frameworks. Their portfolios consist of innovations with well-defined and measurable positive environmental impacts. This demonstrates that SFDR 9 requirements are generally applied rigorously by fund managers.

- SFDR 8 funds, on the other hand, vary widely in their commitments towards sustainable objectives. While some apply impact criteria similar to SFDR 9 funds, others leave room for interpretation, raising concerns about the impact intentionality and credibility of fund managers vis-à-vis the pursued sustainable objectives.

- For the SFDR 8 funds applying best-in-class impact practices – often first mandates dedicated to impact investing – they would choose to register under SFDR 8 despite some strong impact intentions in order to avoid being stuck in a strict regulatory framework.

- This means that the SFDR compliance is not to be viewed as a silver bullet, but instead impact investors should continue to review critically the impact practices at play within fund managers and across portfolios, if they do not want to miss hidden gems by overlooking SFDR 8 funds.

For investors like us, who select environmental fund managers, the SFDR 9 framework is a real marker of intentionality and good practices in the pursuit of environmental objectives, but is not sufficient as such to evaluate the impact potential of one proposal.

Telos Impact's perspective: Strengthening SFDR 9 for the future

The conversation around SFDR is far from over. While debates often highlight its complexity and administrative burden, our experience and data suggest a different reality. Reporting under SFDR 9 is not merely a bureaucratic hurdle—it serves as a crucial tool for investors committed to channeling capital into truly sustainable investments. By setting clear standards and reinforcing accountability, SFDR 9 provides an essential framework for those, like us, who seek to drive meaningful environmental impact. Strengthening this regulation will be key to ensuring that sustainable finance continues to evolve with integrity and ambition.

Want to know more ? Don't hesitate to reach out to our team

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This article was co-written by several members of our Impact Investing team, with Flavie Gayet leading the effort to consolidate our insights and perspective.

Disclaimer: All data presented in this article comes from Telos Impact's proprietary database, built from information collected from over 250 fund managers across Europe. These observations are based on our analysis and do not claim to be exhaustive.