



Gender Differences in Sustainable Investment Choices: Implications for the EU's Reform of the SFDR

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Executive Summary

Why credible transition finance matters now

The EU Commission's proposed SFDR reform replaces transparency-based fund classifications with sustainability-related product categories. New experimental evidence from Bohnet et al. (2025) shows that these categories influence retail investment decisions at least as much as disclosure scopes and prove more decisive than disclosure scopes when investors are exposed to both simultaneously. Women respond particularly strongly to sustainability-related labels, suggesting that clearer categories could both boost sustainable investment and narrow gender gaps in market participation. However, investors consistently prefer 'Sustainable' over 'Transition' funds, raising credibility concerns for transitioning industries that are arguably most in need of capital.

Key Findings and Policy Implications

1) Product categories dominate investor attention.

When choosing between funds, retail investors assign at least as much weight to sustainability product categories as to how extensively a fund discloses its sustainability activities – and when the two signals coexist, the category label proves more important. This finding supports the EU's proposed shift away from disclosure-focused classifications.

→ Anchor the 'Sustainable', 'Transition' and 'ESG Basics' labels in strict, transparent and intuitive portfolio criteria and enforce them consistently to prevent greenwashing.

2) Women respond more strongly to sustainability labelling.

Women place greater value on sustainability product category labels compared to men. Given that financial literacy and confidence are key determinants of female market participation (Bucher-Koenen et al., 2025), clearer labeling may also lower barriers to market entry for women – though this participation effect requires empirical validation.

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→ **Combine SFDR 2.0 with targeted financial and sustainable finance literacy programs, especially for women and first-time investors, to maximize inclusion benefits.**

3) Investors prefer 'Sustainable' over 'Transition' funds.

This persists no matter how transparently a fund reports its sustainability activities, posing a credibility challenge for transitioning industries that are in need of additional capital to drive real-world decarbonization.

→ **Strengthen the credibility of the 'Transition' label through clearer transition-pathway requirements, intermediate targets, and disclosure of real-world impact to counter investor scepticism.**

Context

Retail investors are becoming an increasingly important source of capital for Europe's sustainability transition. Ensuring that these investors can easily identify genuinely sustainable or transition products has therefore become a regulatory priority. Under the current SFDR framework, funds are classified mainly through disclosure requirements (Articles 6, 8 and 9). In practice, Articles 8 and 9 have often been interpreted as quality stamps or labels for sustainability ('Light Green' and 'Dark Green'), even though they were designed as transparency labels rather than sustainability labels. In a recent study, Allcott et al. (2026) show that the introduction of the current SFDR neither shifted fund flows nor materially changed the sustainability of funds by shifting their investments towards more sustainable holdings. The authors argue that this is largely because investors already anticipated the funds' sustainability (independent of the labels). Furthermore, they demonstrate experimentally that current SFDR disclosures have minimal impact on investor decisions potentially because they are not intuitive enough, which in turn underscores the need for clearer, criteria-based product categories.

To address these shortcomings, the European Commission published its proposal for an 'SFDR 2.0', introducing a three-way categorization of ESG financial products ('Sustainable', 'Transition' and 'ESG Basic'), and explicitly incorporating impact investing. Products claimed to fall within these categories must meet defined eligibility criteria, including a minimum requirement that at least 70% of the portfolio is aligned with the relevant sustainability strategy, as well as mandatory exclusion criteria.³ The 'Sustainable' category is intended for products contributing to environmental or social objectives, the 'Transition' category targets investments supporting credible sustainability improvements or transition pathways, and the ESG Basics category covers products that integrate ESG considerations but do not meet the criteria for the other two categories.

A recent discrete choice experiment with a representative sample of about 1,500 participants in Germany by Bohnet et al. (2025) examines how investors value two distinct fund attributes: sustainability-related product category labels and transparency labels ('disclosure scope'). Product category labels, which signal whether a fund is already 'Sustainable' or on a 'Transition' path, are valued by investors similarly to disclosure scopes (the extent of sustainability reporting a fund is required to provide). Women respond more strongly to product category labels than men, who in turn place greater weight on financial returns. Once a product category label is present, participants show little sensitivity to whether a fund discloses under a 'Light Green' or 'Dark Green' (most transparent about sustainability) scope.

³ "for example, companies in violation of human rights standards as well as those involved in tobacco, prohibited weapons and fossil fuels above certain limits [depending on the category]." (European Commission. "Commission simplifies transparency rules for sustainable financial products." Press release, 20 November 2025)



Across the full sample, 'Sustainable'-labeled funds attract stronger investor preference than 'Transition'-labeled ones, irrespective of reporting requirements. Brief written explanations of what environmental or social sustainability means in an investment context did not measurably shift participants' fund selections, suggesting that simple awareness raising alone is insufficient to shift behavior. Taken together, these findings indicate that introducing credible and intuitive product categories has the potential to reduce information frictions for retail investors, support more gender-inclusive participation in sustainable finance, and better align household capital with sustainability objectives, but only if the categories are robustly defined and effectively enforced.

Evidence and Policy Recommendations

The study tests how retail investors choose between funds that differ in expected returns, risk, sustainability disclosure scope/transparency (aligned with SFDR Articles 8 and 9, although defined as purely disclosure-based), and sustainability-related product categories ('Sustainable', 'Transition', or none). This design enables the identification of the separate and combined effects of sustainability-related transparency and product category labels on participants' fund choices, thereby assessing what influences selection toward sustainable products the most. The results provide several insights that are directly relevant for the ongoing SFDR reform:

1. **Investors trade returns for sustainability:**

Participants are on average willing to sacrifice around 0.6 percentage points (pp.) of annual return in exchange for greater sustainability. Notably, they initially value both sustainability-related disclosure scopes and product categories to a similar degree. This suggests ambiguity in how these features relate to real sustainability performance and highlights the risk of greenwashing.

Policy recommendation: SFDR 2.0 should distinguish more clearly between disclosure obligations and sustainability signaling by reserving investor-facing labels for products that satisfy defined portfolio-alignment thresholds.

2. **Product categories matter at least as much as disclosure scope, and dominate investor attention:**

Funds labeled as 'Sustainable' or 'Transition' are consistently preferred over unlabeled funds, while differences between Article 8 ('Light Green') and Article 9 ('Dark Green') disclosures within the same product category have little effect.

Policy recommendation: Sustainability-related categories under SFDR 2.0 should be enforced through periodic eligibility checks, mandatory reclassification in case of non-compliance, and independent verification, so product categories act as credible signals rather than marketing claims.

3. **'Sustainable' category is preferred over 'Transition':**

Investors placed a clear premium on sustainability-related product categories. Compared with a 'Grey' fund carrying no such category, participants were willing to forgo around **2 pp.** of annual return for a 'Sustainable' fund and **1.6 pp.** for a 'Transition' fund — both of which also carry a 'Light Green' or 'Dark Green' disclosure scope. Disclosure scope alone, however, matters far less: funds labelled only as 'Light Green' or 'Dark Green', but lacking any product category, commanded a sacrifice of just **0.25 to 0.5 percentage points.**

These results suggest that retail investors value perceived end-states of sustainability slightly more than transition pathways. This preference gap creates both an opportunity and a risk: while it may incentivize firms to achieve full sustainability, it also risks stigmatizing transition-labeled products. This could be concerning given that



transitioning industries – those not yet sustainable but actively working towards it – are important to drive real-world decarbonization.

Policy recommendation: The Commission should establish strict, transparent criteria for the ‘Transition’ category to strengthen its credibility and channel capital toward genuine transition pathways.

4. **Product categories are more important for women than for men:**

In the hypothetical investment experiment, women display a significantly higher willingness to pay for sustainability-related product categories, being willing to sacrifice approximately 0.15 pp. more of a fund's annual return than men. Among women who are already active investors, this suggests that clearer and more standardized sustainability labels could help direct their capital towards sustainable and transitioning funds – though how large an effect this would have on overall sustainable capital flows would depend on a range of other factors. Increasing women's participation in financial markets could additionally help reduce the gender investment gap, potentially improving women's financial security, especially in retirement. Policies aimed at increasing women's participation in financial markets could thus carry both environmental and social benefits, a promising avenue that future research should explore further.

Policy recommendation: SFDR 2.0 should be complemented by measures to broaden investor participation, particularly among currently underrepresented groups such as women. Financial incentives for pension investment and community-based initiatives that help people navigate saving and investing decisions could help close the gender investment gap. Given women's stronger stated preference for sustainability-labelled products, increased female participation may also support sustainable capital allocation goals.

5. **Additional sustainability information has no effect:**

Brief written passages describing what environmental or social dimensions of sustainability mean in practice did not shift fund selections, and no gender differences emerge.⁴ Simply raising awareness beyond the sustainability disclosure of specific funds seems insufficient to change behavior.

Policy recommendation: Prioritize a coherent, consistently enforced labeling system of categories over general sustainability awareness campaigns. Clear minimum criteria with trustworthy labels can reduce investors' reliance on supplementary information, and reduce the effort required for individual research.

6. **Higher sustainable finance literacy increases the likelihood of choosing sustainable funds:**

Filippini et al. (2024) show that educational training aimed at increasing sustainable finance literacy (SFL) raised the likelihood of investing in 'Dark Green' funds (Art. 9) by approximately 6%. Given the documented financial literacy gap between women and men (Bucher-Koenen et al., 2025), SFL educational programs are likely to be of particular importance for female retail investors.

Policy recommendation: SFDR 2.0 should be supported by targeted financial and sustainability literacy programs to strengthen the impact of product categories and enable particularly women to confidently make informed sustainable investment decisions.

The evidence summarized under points 1-5 is based on an experimental investment survey capturing stated preferences rather than revealed investment behavior. As a consequence, real-world investment decisions may respond differently. Moreover, the sustainability-related product categories used in the study by Bohnet et al.

⁴ Those explanatory texts were independent of specific funds and generally described how companies that prioritise environmental or social aspects might behave (e.g. avoid emissions, support gender equality).



(2025) do not perfectly match the definitions proposed under SFDR 2.0, which may affect how investors interpret and respond to them. This underscores the need for post-implementation evaluation to assess whether SFDR 2.0 mobilizes new capital for sustainable activities or primarily reclassifies existing investment flows.

Conclusion

As the EU is currently revising the existing SFDR, the evidence from Bohnet et al. (2025) underscores the importance of credible and intuitive sustainability-related product categories for retail investors. Such categories seem to play a more important role than purely transparency-related fund attributes in guiding investment decisions, resonate particularly strongly with women, and have the potential to improve both investor outcomes and societal impact. At the same time, their effectiveness will depend on robust regulatory design, strong enforcement, and close alignment with real-world sustainability outcomes. If implemented effectively, such measures can represent an important step toward reducing information frictions, fostering more inclusive participation in financial markets, and increasing retail capital to support Europe's sustainable transition.

References

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