Global Sustainable Fund Flows: Q1 2024 in Review
Flows improve in Europe but worsen in the United States.

Morningstar Manager Research
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Contents

Corrections and Clarifications
Corrections issued April 29, 2024.

Key Takeaways

- In the first quarter of 2024, the global universe of sustainable open-end and exchange-traded funds rebounded slightly by attracting nearly USD 900 million of net new money, compared with small, restated outflows of USD 88 million in the fourth quarter of 2023.
- European sustainable funds registered almost USD 11 billion of inflows, more than double the subscriptions of the previous quarter.
- In contrast, the United States experienced its worst-ever quarter with record redemptions of USD 8.8 billion.
- Inflows in the rest of the world were subdued, while Japanese sustainable funds recorded outflows of USD 1.7 billion.
- Supported by stock price appreciation, global sustainable fund assets rose by 1.8% over the last quarter to just under USD 3 trillion at the end of March 2024. But the organic growth rate[1] was close to zero, while the broader funds universe had an organic growth of 0.5%.
- Product development continued its downward trajectory, with only 97 new sustainable fund launches in the first quarter of 2024.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-end funds and exchange-traded funds that, by prospectus or other regulatory filings, claim to focus on sustainability; impact; or environmental, social, and governance factors.[2] (See the Appendix for more details on how we define the global sustainable fund universe.)

The global universe is divided into three segments by domicile: Europe, United States, and Rest of World. There is more-granular data available in this report for Canada, Australia and New Zealand, and Japan. China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea are grouped under the Asia ex-Japan label because of their relatively low assets.

This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches for the first quarter of 2024. A summary is provided in Exhibit 1.

1 The organic growth rate is calculated as net flows relative to total assets at the start of a period.

2 Note: This is not the same as the definition under the European Union's Sustainable Finance Disclosure Regulation, which defines "sustainable investments" at a holding level.

Exhibit 1 Global Sustainable Fund Statistics

Q1 2024	Flows	Assets		Funds	
Region	USD Billion	USD Billion	% Total	#	% Total
Europe	10.9	2,513	84	5,581	73
United States	-8.8	335	11	630	8
Asia ex-Japan	0.2	63	2	606	8
Australia/New Zealand	0.0	30	1	261	3
Japan	-1.7	25	1	233	3
Canada	0.2	34	1	332	4
Total	**0.9**	**2,999**		**7,643**	

Source: Morningstar Direct. Data as of March 2024.

Global Sustainable Fund Experience Net Quarterly Slow Growth

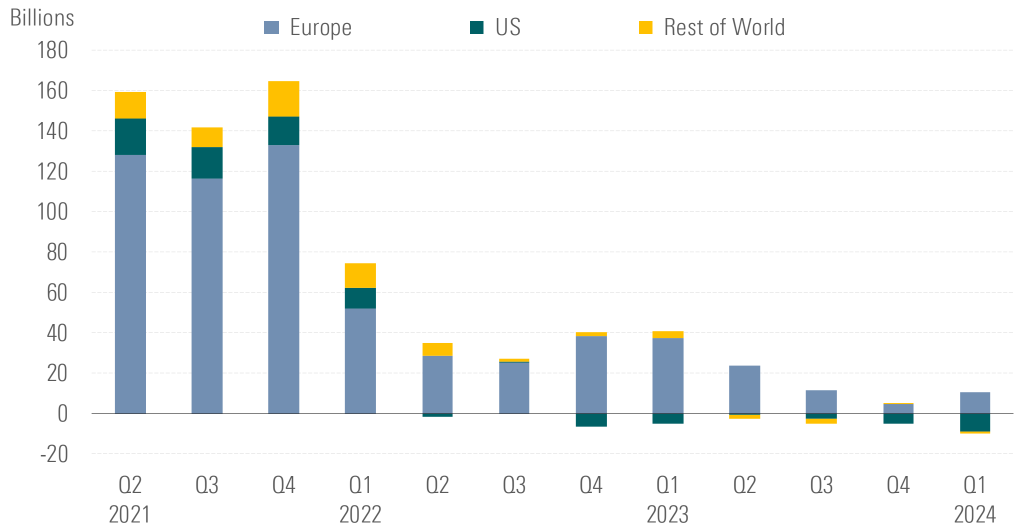
In the first quarter of 2024, the global universe of sustainable funds netted close to USD 900 million of inflows, compared to a small outflow of USD 88 million (restated from the previously reported USD 2.5 billion) in the fourth quarter of 2023.

Europe, the leading region in sustainability and by far the world's largest market for sustainable funds, attracted USD 10.9 billion in the first quarter, more than double the subscriptions of the previous quarter. Conversely, the United States experienced its worst-ever quarter, recording outflows of USD 8.8 billion.

The net inflows into sustainable funds echoed with the flow uptick into the overall fund universe from January to March. The global mutual fund and exchange-traded fund universe garnered over USD 52 billion over the past three months following the redemptions of USD 19 billion in the previous quarter.

Calculated as net flows relative to total assets at the start of a period, the organic growth rate of the global sustainable fund universe was still close to zero at 0.03% in the last quarter of 2023. By comparison, the organic growth rate for the broader funds universe rose to 0.5%, from the restated minus 0.2% in the previous quarter.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Registering a positive trend compared with the last quarter of 2023, Canada collected USD 188 million in the first quarter of 2024. Other markets marginally helping the recovery of sustainable fund flows globally were Asia ex-Japan, which garnered USD 243 million, while Australia and New Zealand registered a very meager USD 26 million of combined inflows.

On the other hand, redemptions from sustainable funds escalated in the US and Japan to USD 8.8 billion and USD 1.7 billion, respectively.

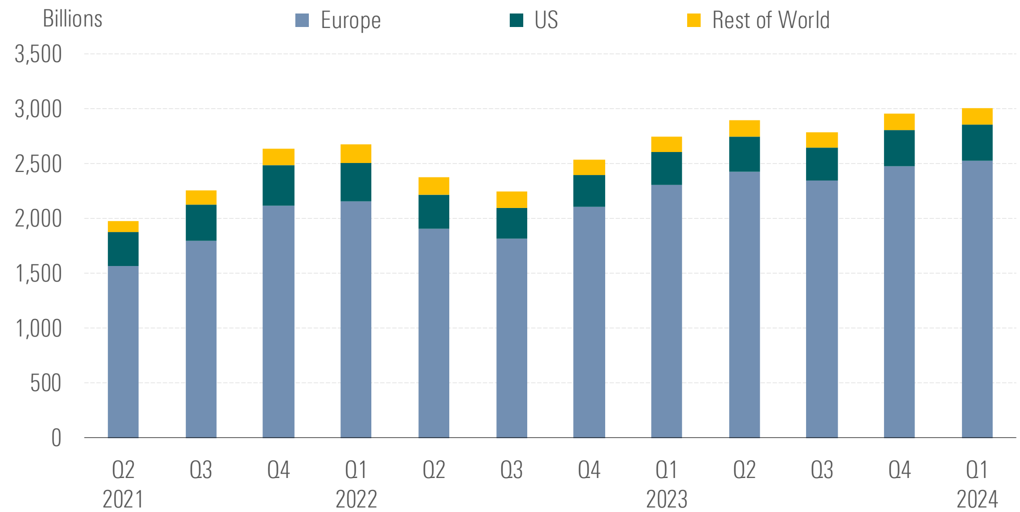
Global Assets Rise Against Mixed Macroeconomic Backdrop

Boosted mostly by the asset growth among European passive strategies, global sustainable fund assets inched by 1.8% to just under USD 3.0 trillion at the end of the first quarter, from the restated USD 2.9 trillion three months earlier, against a mixed macroeconomic backdrop, including the uncertain inflation and interest rates prospects, the artificial intelligence boom, as well as continued geopolitical risks. It also leveled with the growth rate for the broader global equity mutual fund and ETF market. For context, the Morningstar Global Market Index achieved a 7.9% gain in the first quarter, whereas the fixed-income markets, represented by the Morningstar Global Core Bond Index, slid by 2.1%.

In the first quarter of 2024, Europe maintained its dominant position in the sustainable fund landscape, comprising 84% of global sustainable fund assets. Similarly, the United States retained its status as the second-largest market, housing 11% of global sustainable fund assets, mirroring the distribution observed at the end of December 2023.

Asia ex-Japan, which constitutes only 2% of the global assets, keeps its third rank.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

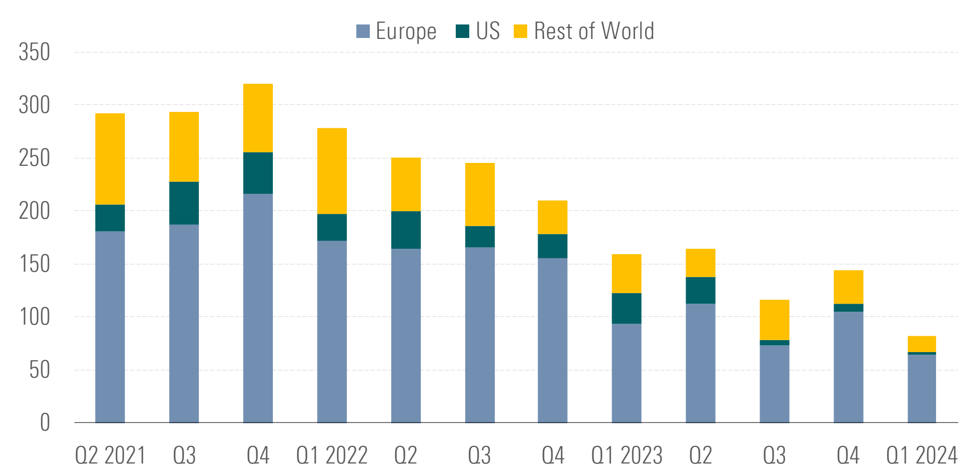


Source: Morningstar Direct. Data as of March 2024.

Global Fund Launches

In the first quarter of 2024, the decline in global fund launches continued, reaching an unprecedented low of 97 new sustainable funds introduced worldwide. This significant drop marks a decrease compared with the restated number of 176 in the fourth quarter of last year. However, the number of 97 will likely also be restated upward in our next report as we identify more launches and as additional ones are reported to Morningstar.

Exhibit 4a Global Sustainable Fund Launches Per Quarter



Source: Morningstar Direct. Data as of March 2024.

The significant reduction of new sustainable fund launches occurred in all regions.

BlackRock Tops the League Table Thanks to Its Passive Offering

Below we list the top asset managers that are marketing sustainable funds globally. BlackRock, the world's largest manager, is by far the leader in the sustainable investing space with USD 368 billion of assets in ESG-focused open-end assets and ETFs at the end of the first quarter of 2024, up from USD 318 billion in the previous quarter. Far behind, Amundi, the largest European manager, moved up a spot, closely followed by UBS.

Exhibit 4b Top Asset Managers by Global Sustainable Fund Assets

Overall

Firm	(USD Billion)
BlackRock (incl. iShares)	367.6
Amundi (incl. Lyxor)	177.2
UBS (incl. Credit Suisse)	171.2
DWS (incl. Xtrackers)	100.0
Swisscanto	85.7
BNP Paribas	85.0
Natixis	76.0
Nordea	61.3
KBC	55.6
Northern Trust	54.3
Vanguard	51.5
Pictet	50.9
Allianz Global Investors	48.1
Parnassus	40.4
Handelsbanken	38.9
Royal London	36.5
Eaton Vance	35.9
Union Investment	34.2
Eurizon	32.0
Goldman Sachs (incl. NNIP)	31.7

Actively Managed

Firm	(USD Billion)
Amundi (incl. Lyxor)	83.6
BlackRock (incl. iShares)	76.0
Natixis	73.3
UBS (incl. Credit Suisse)	67.1
Nordea	61.3
DWS (incl. Xtrackers)	57.9
KBC	55.6
BNP Paribas	53.5
Swisscanto	52.6
Pictet	50.9
Allianz Global Investors	48.1
Parnassus	40.4
Union Investment	34.2
Eurizon	32.0
Goldman Sachs (incl. NNIP)	31.6
Royal London	30.0
AXA IM	29.7
Robeco	27.5
Vontobel	26.5
Candriam	26.4

Passively Managed

Firm	(USD Billion)
BlackRock (incl. iShares)	291.6
UBS (incl. Credit Suisse)	104.1
Amundi (incl. Lyxor)	93.6
Northern Trust	50.4
Vanguard	48.4
DWS (incl. Xtrackers)	42.0
Handelsbanken	34.1
Swisscanto	33.1
BNP Paribas	31.6
State Street	25.3
Legal & General	19.8
Länsförsäkringar	18.5
Invesco	13.4
Eaton Vance	10.5
HSBC	9.1
Cathay Securities Investme	8.8
Storebrand Fonder	8.5
Scottish Widows	6.7
Royal London	6.4
Nuveen	6.1

Source: Morningstar Direct. Data as of March 2024.

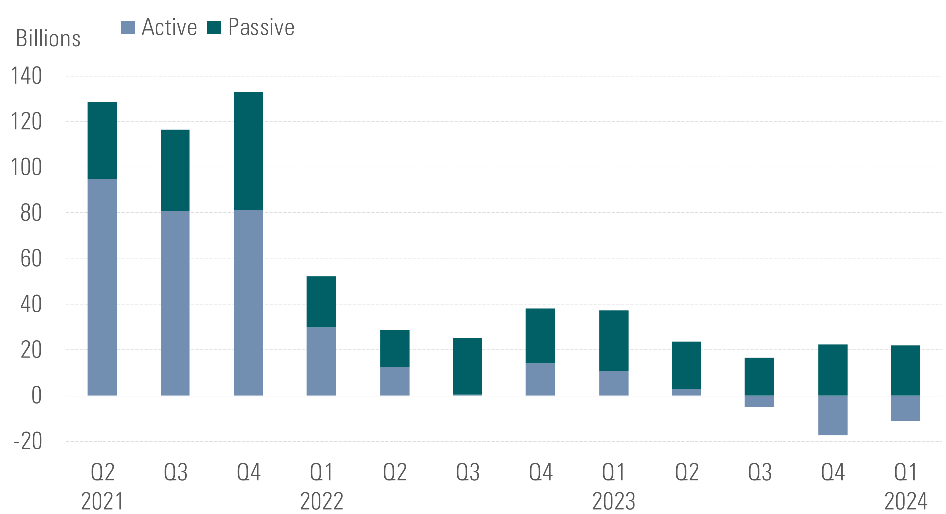
Quarterly Statistics Per Domicile

Europe

Active Funds Register Third Consecutive Quarter of Outflows

In the first quarter of 2024, European sustainable funds attracted more than double the subscriptions of the previous quarter, with inflows of USD 10.9 billion, compared with the restated USD 4.9 billion in the fourth quarter of 2023. Outflows among actively managed strategies extended into the first quarter of 2024 reaching USD 11 billion, albeit alleviated from the restated USD 17.5 billion outflows in the previous quarter. By comparison, flows to the passive space almost leveled with the previous quarter around USD 22 billion. The contrast highlights the continued preference for passive strategies, signaling investors' focus on cost-effectiveness and beta-like exposure.

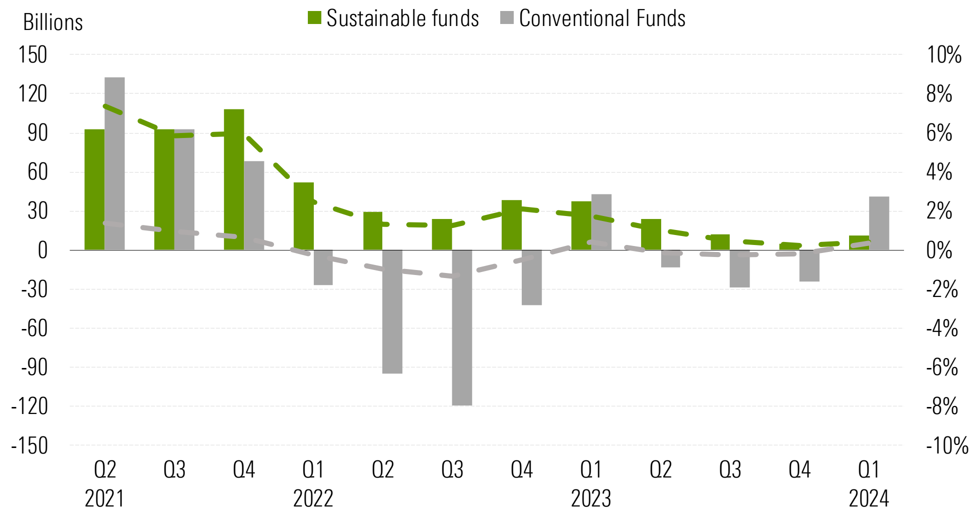
Exhibit 5 European Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

The rebound of the flows in the European sustainable fund universe translated to a moderate uptick in its organic growth rate, which surged to 0.44% from 0.21% in the previous quarter. This positive momentum was replicated in the European conventional funds, where the organic growth rate also increased, to 0.41%. Conventional funds attracted USD 45 billion of net new money. It is only the third time in the past three years that sustainable funds experienced a worse flow story than their conventional peers.

Exhibit 6a European Sustainable Fund Flows Compared With Conventional Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Exhibit 6b European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

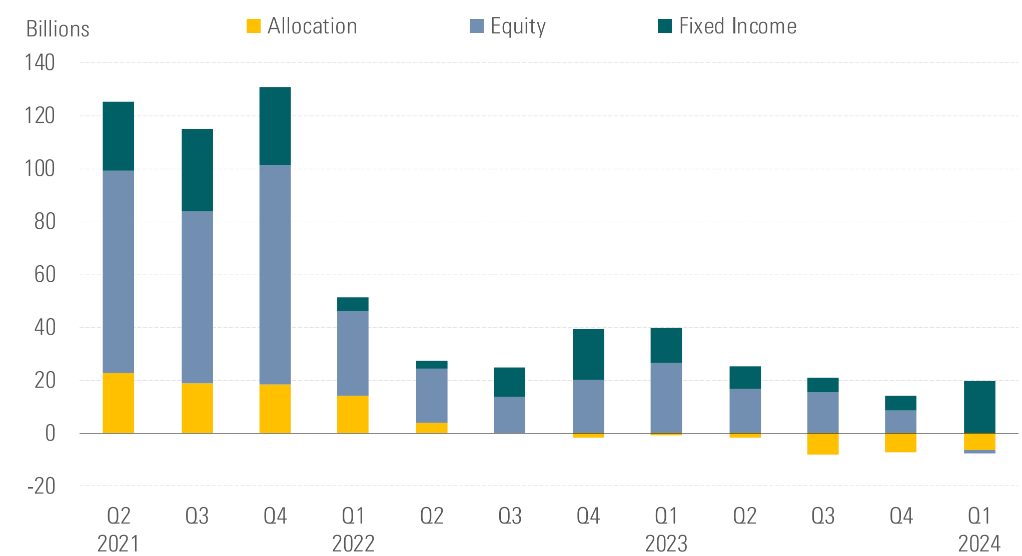
USD Billion	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q4 2023	Q1 2024	Q4 2023	Q1 2024	Q4 2023	Q1 2024
Allocation	-7.4	-6.3	-23.8	-18.8	-31.1	-25.1
Alternative	-0.1	0.0	-8.5	-6.8	-8.7	-6.9
Commodities	0.0	0.0	-5.2	-2.4	-5.2	-2.4
Convertibles	-0.5	-0.4	-2.1	-1.3	-2.6	-1.7
Equity	8.7	-1.3	-12.7	12.0	-4.0	10.8
Fixed Income	5.7	19.6	30.1	62.2	35.7	81.8
Miscellaneous	-0.1	-0.2	0.1	-1.7	0.0	-1.9
Property	-1.3	-0.6	-2.1	-1.9	-3.4	-2.5
Total	**4.9**	**10.9**	**-24.1**	**41.2**	**-19.2**	**52.1**

Source: Morningstar Direct. Data as of March 2024.

In the first quarter of 2024, the landscape of sustainable investments saw a mixed bag of performances across various asset classes. Equity, traditionally a stronghold, saw a downturn with outflows among sustainable equity funds totaling USD 1.3 billion. This contrasts with the rebound of flows into conventional equity funds, which attracted USD 12.0 billion of net new money in the first quarter of this year after losing USD 12.7 billion in the previous quarter.

On the bond front, sustainable bond funds experienced a significant increase in net inflows, totaling USD 19.6 billion, soaring by 244% from the previous quarter, despite investors lowering their expectations for rate cuts. Meanwhile, sustainable allocation funds continued their streak of outflows for the fifth consecutive quarter, recording withdrawals amounting to USD 6.3 billion.

Exhibit 7 European Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Despite the uptick, the small first-quarter net inflows show that investor appetite for ESG and sustainable funds in Europe remains weak by historical standards. The lower appetite can be attributed partly to the challenging macroenvironment, including high interest rates, inflation, and fears of recession in some parts of the world. Also, some investors are taking a more cautious approach to ESG investing in the wake of the underperformance of ESG and sustainable strategies in 2022 partly owing to their typical underweight in traditional energy companies and overweight in technology and other growth sectors. While the technology sector rebounded in 2023, other popular sectors in sustainable strategies continued to underperform. Renewable energy companies, for example, have been particularly affected by soaring financing costs, materials inflation, and supply chain disruptions, among other issues.

The more cautious approach taken by investors toward ESG funds has become particularly evident in the past three months when looking at the flows picture in the equity segment, as this is the asset class where ESG integration is much more advanced and easier to implement.

This is happening amid a complex interplay of economic and political factors. While regulatory and funding support across Europe will continue to boost demand for sustainable products and services in general, governments are facing competition in allocating scarce public budgets between the digital transition, military expenditures, and investment in social infrastructure. They must also balance high inflation and interest rates with higher costs in public debt management. The political and business will to invest in the green transition may fall short in light of these competing factors.

Leaders and Laggards

Among the bestselling sustainable products in the first quarter of 2024, **BlackRock ACS North America ESG Insight Equity** garnered significant attention with net flows of USD 4.80 billion. This passive fund emphasizes investments in companies with favorable ESG criteria, reduced carbon emissions, and increased green revenues. Following closely behind was **Amundi Index MSCI Europe SRI PAB**, drawing in net flows of USD 3.68 billion. This index fund invests in companies that have the highest ESG ratings, incorporates exclusion criteria, and meets the EU Paris-aligned benchmark, or EU PAB, regulation minimum requirements.

Exhibit 8a Top 10 European Sustainable Fund Flows in First-Quarter 2024

Fund Name	Net Flows (USD, Million)
Blackrock ACS North America ESG Insights Equity	4,800
Amundi Index Solutions - Amundi Index MSCI Europe SRI PAB	3,675
DPAM L - Bonds Government Sustainable	1,971
Handelsbanken Developed Markets Index Criteria	1,891
Amundi MSCI USA ESG Climate Net Zero Ambition CTB ETF	1,836
DNCA Invest Alpha Bonds	1,374
JPMorgan ETFs (Ireland) ICAV - US Research Enhanced Index Equity (ESG) ETF	1,246
Amundi S&P 500 ESG ETF	1,032
Amundi S&P 500 Climate Net Zero Ambition PAB ETF	936
iShares € Corp Bond ESG ETF	926

Source: Morningstar Direct. Data as of March 2024. Note some of these numbers may represent internal fund transfers.

In contrast, the first quarter of 2024 saw significant outflows from several funds, with **Amundi MSCI USA SRI Climate Net Zero Ambition PAB UCITS ETF** experiencing the largest net outflows at USD 2.1 billion, followed closely by **iShares MSCI USA SRI UCITS ETF**.

Exhibit 8b Bottom 10 European Sustainable Fund Flows in First-Quarter 2024

Fund Name	Net Flows (USD, Million)
Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF	-2,095
iShares MSCI USA SRI ETF	-1,881
Amundi MSCI USA ESG Leaders ETF	-1,498
BNP Paribas Easy MSCI USA SRI S-Series PAB 5% Capped	-1,153
Nordea 1 - Global Climate and Environment Fund	-1,005
iShares MSCI USA ESG Enhanced ETF	-919
Ossiam ESG Low Carbon Shiller Barclays CAPE® US Sector ETF	-918
Blackrock ACS World ESG Equity Tracker Fund	-813
Storebrand Global Plus	-708
Amundi MSCI World SRI Climate Net Zero Ambition PAB ETF	-703

Source: Morningstar Direct. Data as of March 2024. Note some of these numbers may represent internal fund transfers.

The aggregate inflows among the top 10 bestselling firms netted almost USD 25 billion in the first quarter of 2024, which surpassed the previous quarter by around USD 6 billion. While BlackRock continues to lead, Amundi and UBS also maintained their presence on the podium. Meanwhile, the entrance of Degroof Petercam into the top five displaced Swisscanto to the sixth position, marking a reshuffling in the rankings.

Exhibit 9a Top 10 European Sustainable Fund Providers by Flows in First-Quarter 2024

Firm	Net Flows (USD Million)
BlackRock (incl. iShares)	6,849
Amundi (incl. Lyxor)	3,685
UBS (incl. Credit Suisse)	3,575
JPMorgan	3,135
Degroof Petercam	2,395
Swisscanto	1,800
DWS (incl. Xtrackers)	1,480
Northern Trust	1,467
Handelsbanken	1,021
KBC	951

Source: Morningstar Direct. Data as of March 2024.

Exhibit 9b Bottom 10 European Sustainable Fund Providers by Flows in First-Quarter 2024

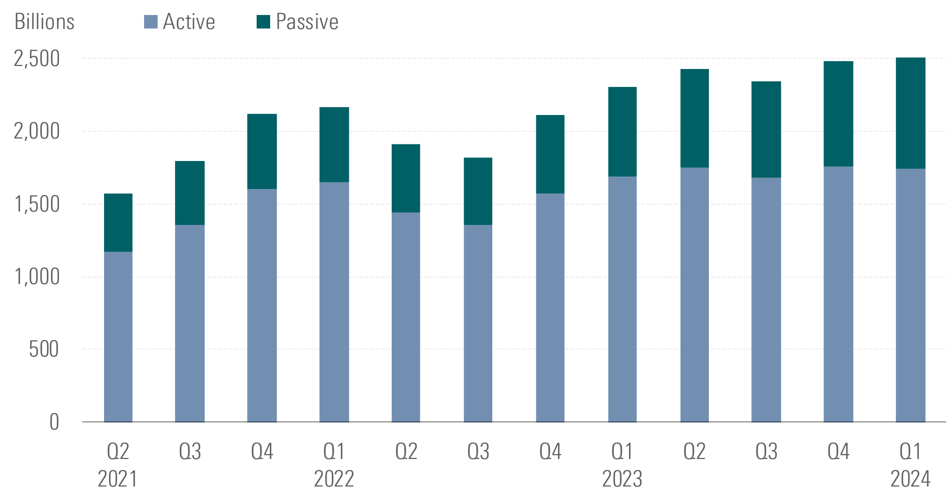
Firm	Net Flows (USD Million)
Eurizon	-2,853
BNP Paribas	-2,166
Pictet	-1,889
ABN AMRO	-1,691
LBP AM	-1,584
Legal & General	-1,313
Storebrand Fonder	-838
Fidelity International	-763
Baillie Gifford	-670
Danske Invest	-666

Source: Morningstar Direct. Data as of March 2024.

European Sustainable Fund Assets Rebound

In the first quarter of 2024, assets in European sustainable funds expanded by just 1.6% to reach USD 2.5 trillion at the end of March, supported by continued inflows and market appreciation. For context, the Morningstar Global and Developed Europe Target Market Exposure indexes achieved 7.9% and 5.5% gains, respectively, in the first quarter, whereas the fixed-income markets, represented by the Morningstar Global and Eurozone Core Bond indexes, slid by 2.1% and 2.6%, respectively.

Exhibit 10a European Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

BlackRock Maintains Dominance With Strong Performance in Passive Investments

Presented below are the foremost asset managers actively promoting sustainable funds across Europe. BlackRock, the global leader in asset management, dominates the sustainable investing arena with a substantial USD 290 billion in ESG-focused open-end assets and ETFs at the start of 2024. Following closely is Amundi, which has recently regained the second position from UBS. Amundi boasts a balanced portfolio, with USD 75 billion in active investments and USD 97 billion in passive assets.

Exhibit 10b Top Asset Managers by Sustainable Fund Assets in Europe

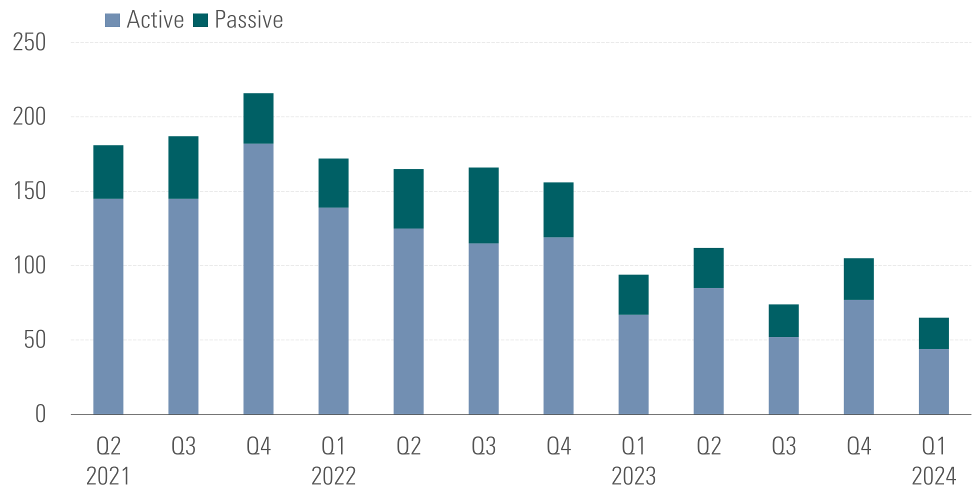
Firm	Total Assets (USD Billion)	Firm	Active Assets (USD Billion)	Firm	Passive Assets (USD Billion)
BlackRock (incl. iShares)	289.9	Amundi (incl. Lyxor)	75.3	BlackRock (incl. iShares)	239.4
Amundi (incl. Lyxor)	172.0	Natixis	71.8	UBS (incl. Credit Suisse)	104.1
UBS (incl. Credit Suisse)	170.9	UBS (incl. Credit Suisse)	66.8	Amundi (incl. Lyxor)	96.7
DWS (incl. Xtrackers)	94.4	Nordea	60.3	DWS (incl. Xtrackers)	36.9
Swisscanto	85.7	DWS (incl. Xtrackers)	57.5	Handelsbanken	34.2
BNP Paribas	85.0	BNP Paribas	53.5	Swisscanto	33.1
Natixis	74.5	Swisscanto	52.6	BNP Paribas	31.6
Nordea	60.3	Pictet	50.5	State Street	22.8
Pictet	50.5	BlackRock (incl. iShares)	50.5	Northern Trust	22.2
Allianz Global Investors	48.4	Allianz Global Investors	48.4	Länsförsäkringar	18.5
Handelsbanken	39.0	Union Investment	34.2	Legal & General	17.8
Royal London	36.5	Eurizon	32.3	Vanguard	14.2
Union Investment	34.2	Goldman Sachs (incl. NNIP)	31.3	HSBC	9.2
Eurizon	32.3	Royal London	30.0	Invesco	8.8
Goldman Sachs (incl. NNIP)	31.4	AXA IM	28.5	Storebrand Fonder	8.5
AXA IM	28.5	Robeco	28.2	Scottish Widows	6.7
Robeco	28.2	Candriam	26.5	Royal London	6.4
State Street	27.5	Vontobel	26.5	Mercer Global Investments	5.6
Candriam	27.1	Schroders	25.7	Swedbank	5.0
JPMorgan	27.1	LBP AM	24.4	Danske Invest	4.7

Source: Morningstar Direct. Data as of March 2024.

Declining Product Development Activity

The first quarter of 2024 registered the lowest number of new sustainable fund launches in recent years. With 65 new funds introduced during this period, there was a notable decline from the 105 funds launched in the previous quarter and from the 94 incepted in the first quarter last year. As we continue to analyze the data and identify additional launches, we expect this number (65) to be adjusted upward in the next report.

Exhibit 11a European Sustainable Fund Launches



Source: Morningstar Direct. Data as of March 2024.

The continued slowdown in new products can be attributed partly to the overall market sentiment damped by the challenging macro backdrop. This is also reflected in the number of new conventional strategy launches, which remains low. As of March 2024, 254 conventional strategies were launched in Europe so far this year, 27% down from the 348 for the previous quarter. But asset managers have also been more cautious in their development of new ESG and sustainable strategies because of greenwashing accusations and the uncertainties of the regulatory environment. Product development reached its zenith in 2021. Overall, it is fair to say ESG product development has bottomed out of the trough.

For further reading: SFDR Article 8 and Article 9 Funds: Q1 2024 in Review.

The table below shows the 10 largest new fund launches in the first quarter, with passive equity strategies dominating the list. However, among the wider sample of new ESG launches in Europe, active strategies remained dominant, accounting for almost two thirds (34) of the new offerings. The overwhelming majority of newly incepted funds distributed in Europe were classified as Article 8 under the Sustainable Finance Disclosure Regulation, or SFDR.

Exhibit 11b Top 10 European Sustainable Fund Launches

Fund Name	SFDR Fund Type	Fund Size (USD Million)
Northern Trust World Capital PAB Select Index II FGR Fund	Not Applicable	687
UBS Equities Switzerland Quantitative All Cap Sustainable	Not Applicable	544
Anima PicPac America 2029	Article 8	337
CCLA Better World Cautious Fund	Not Applicable	173
Swisscanto Bond Fund Responsible Short Duration	Not Applicable	148
BNP Paribas Cedola Futuro 2027	Article 8	103
Autofocus Transition Climat Février 2024	Article 8	101
Moorea Fund - SG Credit Millesime 2029	Article 8	83
Capital Group Sustainable Global Balanced Fund (LUX)	Article 8	67
HSBC FTSE EPRA NAREIT Developed Paris Aligned ETF	Not Applicable	61

Source: Morningstar Direct. Data as of March 2024.

In the first quarter of 2024, **Northern Trust World Capital PAB Select Index II FGR** emerged as a notable launch. The fund adheres to EU benchmark standards aligned with the Paris Agreement, striving for a 50% reduction in greenhouse gas intensity compared with the parent index, with an annual 7% reduction target. It also seeks to reduce exposure to companies with negative environmental impacts and increase exposure to those making positive contributions.

Ranking second in terms of size, the actively managed **UBS Equities Switzerland Quantitative All Cap Sustainable** invests primarily in companies with superior sustainability profiles based on ESG criteria, while also actively engaging with investee companies to address identified ESG risks and opportunities.

Regulatory Update

In the European Union, the outlook for SFDR remains uncertain. The European Commission confirmed in a public hearing in January that the publication in the Official Journal of revised SFDR regulatory technical standards[3] will be delayed and that the application date could be somewhere in 2025. But since then, several trade associations[4] have been pressing the commission to address the review of founding regulation and the technical standards jointly.

In parallel, the Platform on Sustainable Finance, the advisory body to the European Commission, is working on the feasibility of an alternative categorization system, considering among others the Financial Conduct Authority's labeling regime and the proposal made by the French supervisor AMF[5] (see overview below). Finally, the SFDR review will also need to factor in the final guidelines of the European Securities and Markets Authority on the use of ESG terms in fund names. In March 2024,

3 Revised RTS are meant to add social principal adverse impact, greenhouse gas, and "do no significant harm" disclosure requirements.
4 Joint letter on coordination of SFDR level 1 and level 2 reviews (efama.org).
5 Toward a review of SFDR | AMF (amf-france.org).

ESMA announced it would postpone the publication of its final guidelines to the second quarter of 2024 (initially planned for the third quarter of 2023). However, ESMA already gave away some important information in its updated document, including portfolio requirements such as the percentage of assets aligned with claimed objective and mandatory sector exclusions (fossil fuel exclusions, for instance).

Exhibit 11c Overview of the AMF Proposal at the Product Level

"Environmental solutions" product category

Target: Clients interested in environmental topics and seeking to identify products that invest in activities that are already environmentally sustainable.

1st criterion: minimum proportion of Taxonomy-aligned investments (x%).

- x% should find the right balance between ambition and the reality of the alignment of the economy;
- x% should be dynamic and evolve upwards over time to take into account the evolution of the Taxonomy-alignment of the economy.

2nd criterion: exclusion of companies active in the fossil fuel sector.

3rd criterion: exclusions common to all categories:

- companies involved in the manufacture or selling of controversial weapons;
- companies involved in the cultivation and production of tobacco;
- companies that do not follow practices of good governance, provided that objective, precise criteria and/or thresholds are defined.

"Social solutions" product category

Target: Clients interested in social topics and seeking to identify products that invest in activities that are already socially sustainable.

Such a category should be established, provided that objective, precise and simple criteria are developed.

"Climate transition" product category

Target: Clients interested in transition and seeking to identify products that invest in companies in climate transition.

1st criterion: three approaches could be explored based on (i) decarbonisation trajectory of financial products, (ii) transition plans of investee undertakings and (iii) Taxonomy-aligned investments.

Additional thoughts on those approaches:

- under approach (i), the use of absolute greenhouse gas (GHG) emissions for investments in larger undertakings could be considered;
- a minimum proportion of investments should be made in high impact climate sectors;
- approach (ii) should not be restricted to investments in undertakings subject to CSRD, yet it should be ensured that the disclosures relating to transition plans are aligned with the European sustainability reporting standards;
- under approach (ii), a minimum proportion of investments should be made in undertakings whose transition plan is aligned with the 1.5°C objective;
- approach (iii) could refer to the CapEx KPI, which should be dynamic and evolve upwards over time.

2nd criterion: exclusions common to all categories.

"Non-financial filters" product category

Target: Clients interested in applying some non-financial filters to the selection of the assets they invest in.

1st criterion: objective non-financial filters in the selection of the assets. For public equity:

- non-financial analysis, indicator or rating should cover at least 90% of the portfolio of the product;
- the weight of each of the three pillars of the non-financial rating, namely E, S and G, should represent at least 20% of the rating;
- the product should meet one of these two conditions:
  - the non-financial analysis should lead to a 30% reduction in the product's investment universe, at least; or
  - the weighted average of the non-financial rating of the portfolio should be at least 30% higher than that calculated for the investable universe;
- other assets classes like private equity, real estate and infrastructure should have their own criteria.

2nd criterion: exclusions common to all categories.

Source: https://www.amf-france.org/en/news-publications/amfs-eu-positions/towards-review-sfdr.

In parallel to SFDR, a flurry of legislative initiatives were agreed upon before the EU elections, including new obligations for investors and other financial undertakings:

- Policymakers reached a deal on the Corporate Sustainability Due Diligence Directive, or CSDDD. While the financial sector is only partially captured by due-diligence requirements regarding impacts on human rights (own operations and upstream business partners), it is required to adopt and implement a climate transition plan aligned with the Paris Agreement. This is a significant step up for investors as CSDDD creates a private civil liability regime giving injured parties the right to use NGOs or other organizations to bring actions to enforce their rights. Only EU[6] and non-EU[7] financial undertakings will be captured as thresholds were raised threefold to secure a deal.

6 EUR 450 million global net turnover and 1,000 employees.

7 EUR 450 million global EU turnover.

- Amendments to the Corporate Requirements Directive and Capital Requirements Regulation will also require banks to adopt climate transitions (subject to annual supervisory examination review), extend ESG risk disclosures requirements to all banks, and introduce favorable risk weight for a project with positive or neutral environmental impact.

- The EU ESG rating regulation is setting transparency and governance obligations for providers. Investors are also captured by the transparency requirements to the extent that their internal ESG rating model is displayed in public facing documents (for example, a fund factsheet). They will have to disclose among others the weights used for the E, S, and G factors. The proposed rules aim to strengthen the reliability and comparability of ESG ratings. Pending approval, the regulation will take effect 18 months after it enters into force.

In the UK, asset managers are gearing up to implement the Financial Conduct Authority's sustainability labels under the Sustainability Disclosure Requirements by July 31. The final anti-greenwashing guidelines,[8] which were part of the package, were finally published and the implementation date confirmed by the FCA (May 31). The FCA is also consulting on a potential extension of the SDR requirements (so far applicable to UK-domiciled funds) to discretionary portfolio management.

For more details on SDR labels, read UK SDR Through the Looking Glass, an early analysis of what the UK sustainability-labeled funds market may look like.

United States

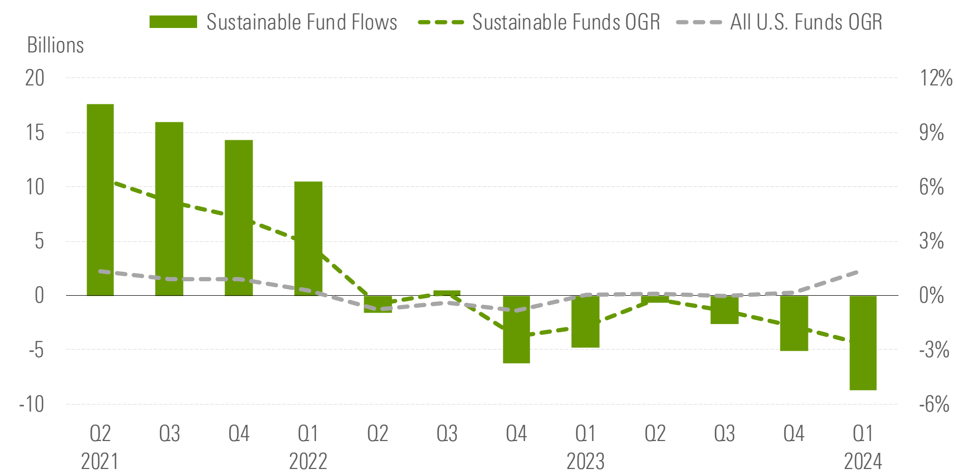
Sustainable Funds Register Highest Outflows on Record

Investors pulled a record USD 8.8 billion from US sustainable funds in 2024's first quarter, making it the sixth consecutive and highest quarter of outflows.

Although the motivations behind outflows cannot be perfectly quantified, many factors are in play. These include high interest rates, middling returns in 2023, greenwashing concerns, and the continued politicization of ESG investing.

8 The anti-greenwashing rule will apply to all FCA-authorized firms that make sustainability-related claims about products and services.

Exhibit 12 US Fund Flows: Sustainable vs. All US Funds (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

The weaker demand for sustainable funds in the past three months marked a notable departure from the total universe of US open-end and exchange-traded funds, which saw USD 188 billion in net inflows during the same period.

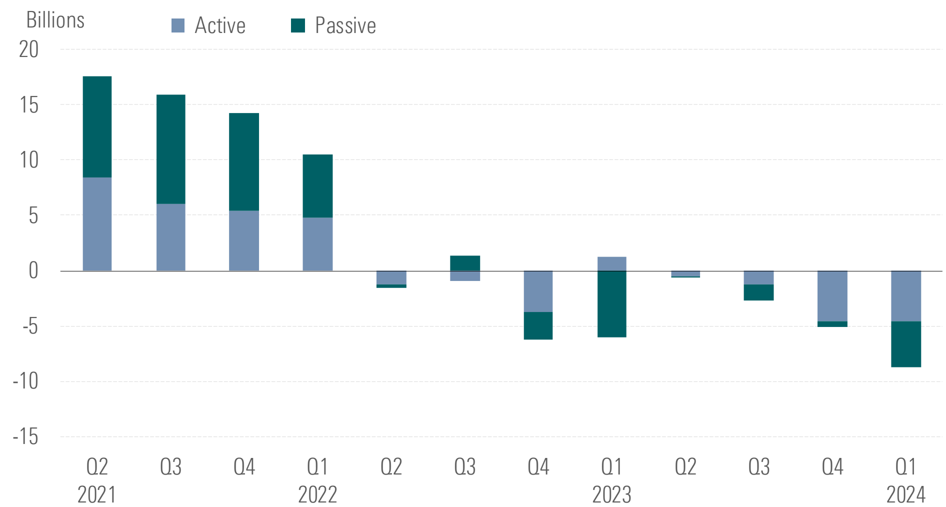
The organic growth rate of sustainable funds, which is calculated as net flows as a percentage of total assets at the start of a period, puts the magnitude of net flows and redemptions into perspective. During the first quarter, sustainable funds contracted by 3.0%. By comparison, overall US funds grew by 1.4% during the period.

Two iShares ETFs Account for Almost Half of the Outflows

Actively managed sustainable funds shed USD 4.6 billion during the first quarter, which accounted for roughly 50% of net withdrawals from sustainable funds. On the passive side, two iShares funds accounted for almost the entire remaining 50% of the outflows. Investors pulled close to a combined USD 4 billion from **iShares MSCI USA ESG Select ETF** SUSA and **iShares ESG Aware MSCI USA ETF** ESGU during the quarter. In 2023, ESGU experienced outflows of more than USD 9 billion. Without this fund, sustainable passive funds would have netted just a bit more than USD 1 billion over calendar-year 2023.

Parnassus saw two funds of its funds—**Parnassus Core Equity** PRBLX and **Parnassus Mid Cap** PARMX—rank among the worst for first-quarter withdrawals. The duo lost USD 2.3 billion together. Long known as the largest US sustainable fund, Parnassus Core Equity has been one of the 10 biggest losers in terms of flows for two years straight, shedding more than USD 4.3 billion over that period. Parnassus attributes a portion of the fund's outflows to the launch of a less-expensive collective investment trust and the subsequent conversion of investors from one vehicle to the other. Our data includes only open-end and exchange-traded funds.

Exhibit 13 US Sustainable Fund Flows (USD Billion)

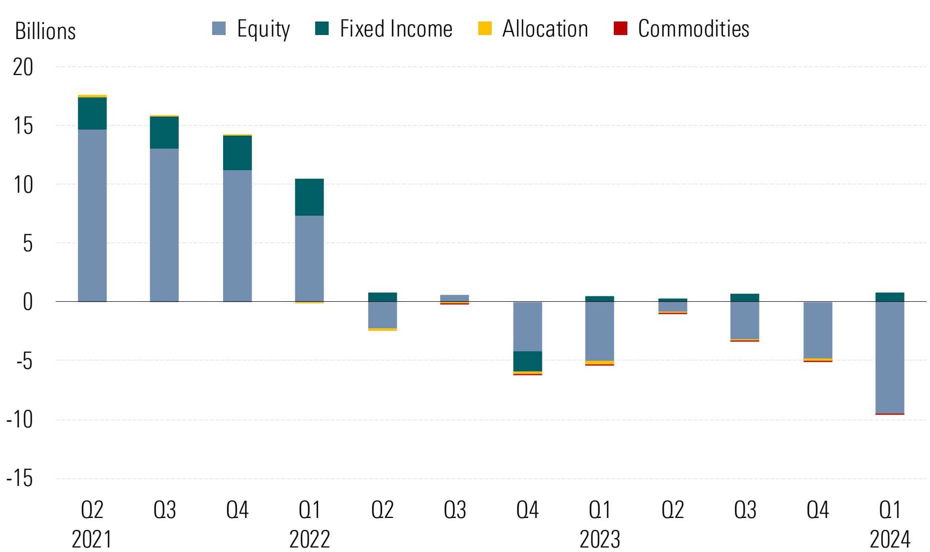


Source: Morningstar Direct. Data as of March 2024.

Sustainable Bond Funds Bounce Back

During the first quarter of 2024, sustainable bond funds boomeranged back into positive territory with a modest USD 774 million collection. Two funds—**Calvert Bond** CSIBX and **Calvert Short Duration Income** CSDAX—led the way, netting USD 270 million and USD 160 million, respectively. Meanwhile, sustainable equity funds shed USD 9.5 billion during the quarter. Here, too, iShares ESG Aware MSCI USA ETF and iShares MSCI USA ESG Select ETF drove the overall narrative.

Exhibit 14 US Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Barely visible in the exhibit above, sustainable commodities funds debuted in 2022’s third quarter and have suffered outflows in every quarter since. These funds lost nearly USD 65 million in the first quarter of 2024. **Harbor Energy Transition ETF** RENW stood apart from the crowd by collecting USD 300,000 in the first quarter. This fund was repurposed to adopt an ESG mandate in the third quarter of 2022, and it tracks an index composed of futures contracts on commodities such as copper, aluminum, nickel, and others that are expected to benefit from the transition to low-carbon energy sources, namely wind power and solar power.

Leaders and Laggards

The first quarter's biggest winner, **Fidelity U.S. Sustainability Index** FITLX, collected more than USD 432 million during the period. **Vanguard FTSE Social Index** VFTNX came in second place with inflows of USD 273 million.

Exhibit 15 Top 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
Fidelity U.S. Sustainability Index Fund	432
Vanguard FTSE Social Index Fund	273
Calvert Bond Fund	271
Vanguard ESG U.S. Stock ETF	237
Brown Advisory Sustainable Growth Fund	161
Calvert Short Duration Income Fund	161
CCM Community Impact Bond Fund	145
Dimensional US Sustainability Core 1 ETF	130
TIAA-CREF Core Impact Bond Fund	118
AB Sustainable International Thematic Fund	113

Source: Morningstar Direct. Data as of March 2024.

The roster of top 10 flow recipients also includes another Vanguard offering, **Vanguard ESG U.S. Stock ETF** ESGV, which brought in a total of USD 237 million over the period. All three funds earn a Morningstar Medalist Rating of Silver. The Medalist Rating uses both qualitative insights and quantitative measures to indicate a strategy’s likelihood of outperforming its respective Morningstar Category index and/or peers. The funds have a near-zero exposure to the energy sector and a sizable overweighting in the technology sector relative to the Morningstar US Large-Mid Cap benchmark. These weightings were the strongest drivers of the funds' outperformance in 2023 and in the first quarter of 2024 relative to the benchmark.

The Largest Sustainable Funds Extend Their Outflows

IShares MSCI USA ESG Select ETF collected USD 942 million during the last quarter of 2023. This boosted the fund's annual net inflows to USD 1.3 billion, which secured its place among the top 10 flow recipients for the year 2023. Things took a different turn for the fund in the first quarter of 2024. Topping the table as the worst-selling sustainable fund with net withdrawals of over USD 2 billion.

With USD 12.7 billion in assets, iShares ESG Aware MSCI USA ETF remains one of the largest funds in the US sustainable funds landscape. With more than USD 1.8 billion in outflows, the fund experienced outflows for a sixth consecutive quarter. The fund favors stocks with high ESG ratings and avoids stocks involved in controversial activities such as civilian firearms and thermal coal.

Exhibit 16 Bottom 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
iShares MSCI USA ESG Select ETF	-2,115
Parnassus Mid Cap Fund	-1,997
iShares ESG Aware MSCI USA ETF	-1,876
BlackRock Sustainable Advantage Large Cap Core Fund	-572
Calvert Emerging Markets Equity Fund	-449
iShares Global Clean Energy ETF	-335
Parnassus Core Equity Fund	-312
TIAA-CREF Social Choice Equity Fund	-290
Calvert Equity Fund	-279
Calvert Ultra-Short Duration Income Fund	-270

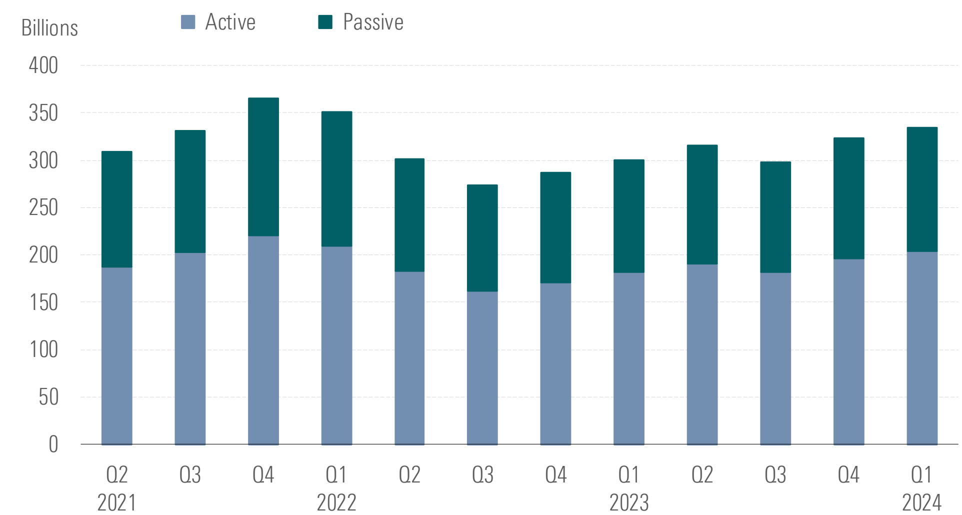
Source: Morningstar Direct. Data as of March 2024.

On a quarterly basis, Parnassus Mid Cap fell to second place in terms of the worst net withdrawals, shedding almost USD 2 billion during the period. Another offering from Parnassus has sustained outflows over multiple quarters. Parnassus Core Equity lost USD 312 million quarterly, marking its 11th consecutive quarter of outflows.

Rising Markets Lift All (Asset) Boats

Despite outflows, and although sustainable equity funds tended to lag their conventional peers in terms of 2023 returns, market appreciation carried sustainable fund assets higher to close out the year.

Exhibit 17a US Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Assets in sustainable funds climbed to USD 334 billion at the end of the first quarter. This represented a nearly 3% increase related to the previous quarter, but an 8% decline from the all-time high record at the end of 2021. By comparison, assets in the broader US funds landscape witnessed a modest 1 % increase compared with the peak in assets in 2021.

BlackRock, Parnassus, and Calvert Are the Top Managers in the Space

Below we list the top asset managers that are marketing sustainable funds in the US. BlackRock, the world's largest manager, tops the list, with close to USD 60 billion of assets in ESG-focused open-end assets and ETFs, at the end of the first quarter. It was followed by Parnassus and Calvert.

Exhibit 17b Top Asset Managers by Sustainable Fund Assets in the US

Overall

Firm	(USD Billion)
BlackRock (incl. iShares)	57.3
Parnassus	40.4
Calvert Research and Manag	35.9
Vanguard	33.8
TIAA Investments	15.9
Dimensional Fund Advisors	14.2
Brown Advisory Funds	10.8
Amundi US	9.3
Franklin Templeton Investme	9.2
Impax Asset Management	8.8
Invesco	7.3
Eventide Funds	7.2
Nuveen	7.0
Fidelity Investments	6.2
American Century Investmer	5.9
DWS (incl. Xtrackers)	5.4
Boston Trust Walden Funds	4.1
AllianceBernstein	3.9
First Trust Advisors L.P.	3.6
Community Capital Manager	3.6

Actively Managed

Firm	(USD Billion)
Parnassus	40.4
Calvert Research and Mana	25.4
TIAA Investments	15.9
Dimensional Fund Advisors	14.2
Brown Advisory Funds	10.8
Amundi US	9.3
Franklin Templeton Investm	9.2
Impax Asset Management	8.8
Eventide Funds	7.2
American Century Investme	5.9
BlackRock (incl. iShares)	4.9
Boston Trust Walden Fund	4.1
AllianceBernstein	3.9
Community Capital Manag	3.6
Invesco	2.8
PIMCO	2.6
Neuberger Berman	2.5
Domini	2.2
Victory Capital	1.8
RBC Global Asset Manager	1.7

Passively Managed

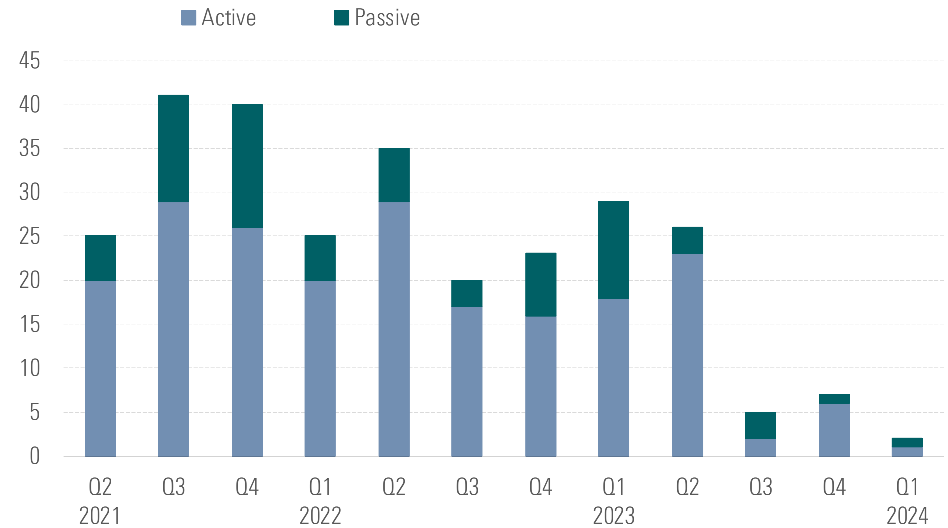
Firm	(USD Billion)
BlackRock (incl. iShares)	52.4
Vanguard	32.3
Calvert Research and Mana	10.5
Nuveen	6.1
DWS (incl. Xtrackers)	5.2
Fidelity Investments	4.7
Invesco	4.5
First Trust Advisors L.P.	3.6
Northern Funds	2.1
SPDR State Street Global A	1.7
Praxis Mutual Funds	1.7
Global X Funds	1.4
Green Century	0.8
IndexIQ	0.8
KraneShares	0.7
TCW ETF	0.6
Flexshares Trust	0.5
Jackson National	0.4
VanEck	0.3
Amplify ETFs	0.3

Source: Morningstar Direct. Data as of March 2024.

New Sustainable Fund Launches at Their Lowest Level

In the US, sustainability-focused product development stayed muted in 2024's first quarter. Fewer sustainable funds (including both new launches and repurposed funds) came to market than at any other point in the past three years. Just two new sustainable funds launched during the period, down from six in the fourth quarter of 2023.

Exhibit 18 US Sustainable Fund Launches



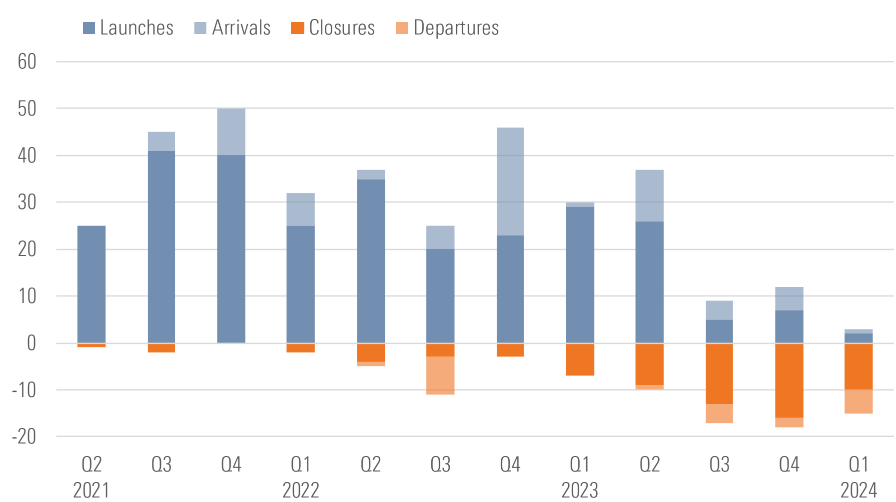
Source: Morningstar Direct. Data as of March 2024.

Of the two new offerings, **IShares Paris-Aligned Climate MSCI World ex USA ETF** PABD invests in names that have objectives compatible with the Paris Agreement. The iShares offering garnered USD 47 million in its first month since launching. **Nuveen Sustainable Core ETF** NSCR, on the other hand, invests in companies aligned with energy transition, innovation, inclusive growth, and strong governance.

Sustainable Fund Closures Continue

For the second consecutive quarter, US sustainable fund departures outpaced arrivals. In the first quarter of 2024, only two new sustainable funds launched, while 10 sustainable funds were liquidated.

Exhibit 19 US Sustainable Funds: New Arrivals and Departures



Source: Morningstar Direct. Data as of March 2024.

Out of the 10 sustainable funds liquidated and merged during the first quarter, the majority were equity funds. **CCM Core Equity Impact** had amassed nearly USD 72 million by the end of January 2024 before its closure.

The new offerings and repurposed funds brought the total number of sustainable open-end and exchange-traded funds in the United States to 630 at the end of the year.

Regulatory Update

In March 2024, the U.S. Securities and Exchange Commission adopted a rule to enhance and standardize climate-related disclosures for investors. Companies listed in the United States will need to start reporting climate-related risks and their plans to adapt to them. The rule will also require the disclosure of scope 1 (direct) and scope 2 (indirect) greenhouse gas emissions, as well as how severe weather events like hurricanes will affect company financial statements. The reporting guidelines will come into effect in several phases starting in 2025. However, several US states have already filed lawsuits to challenge the SEC rule. These numerous lawsuits have been combined into one case that will be heard in the Eight Circuit Court of Appeals.

In September 2023, the State of California passed two bills requiring public and private companies to disclose their greenhouse gas emissions (Senate Bill 253) and climate-related financial risks (SB 261) based on the company size. While the bills will not take effect until 2027, investor and regulatory groups have begun to file lawsuits seeking relief against the two bills. On Jan. 30, 2024, groups such as the U.S. Chamber of Commerce, the California Chamber of Commerce, and the American Farm Bureau Federation filed a complaint in the Central District of California against the two bills, arguing that the laws violate the First Amendment by forcing companies to engage in costly speech on climate change. Although these lawsuits seek to challenge only SB 253 and SB 261, the impending ruling may have a broader implication for the SEC's proposed climate disclosure rules.

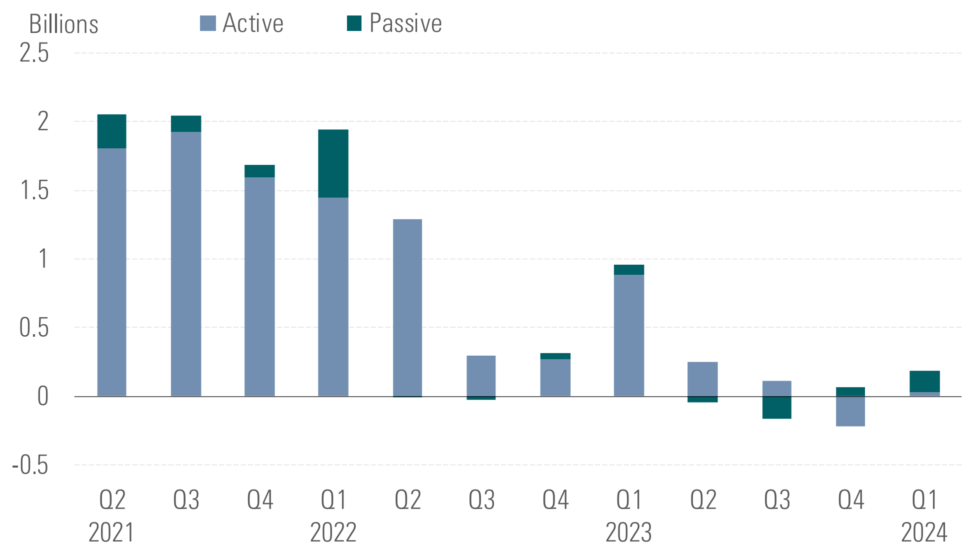
Canada

Flows

The first quarter of 2024 saw a rebound in flows into Canada-domiciled sustainable funds totaling USD 188 million. In absolute terms, this represents a 224% increase from the previous quarter, although flows were still down about 80% from the same period last year. Passive strategies represented the majority of the inflows this quarter.

In terms of organic growth, Canadian sustainable funds grew by a modest 0.5% in the first quarter, compared with a shrinkage of 0.4% in the previous quarter. In the first quarter, the broad Canadian market grew by 0.80%.

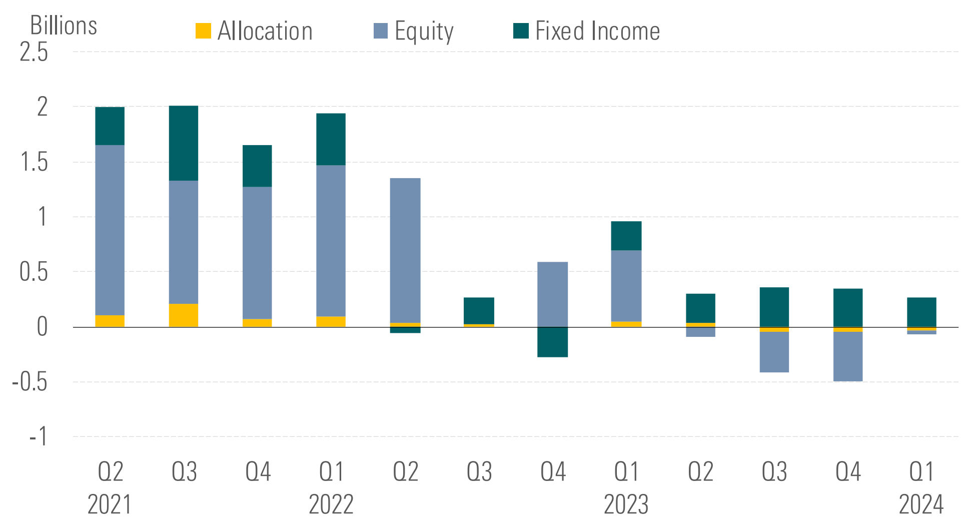
Exhibit 20 Canada Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

When looking at the breakdown of asset classes, fixed income accounted for most of the inflows at USD 260 million, while equity, allocation, and alternatives experienced outflows. This was consistent with previous quarters as investors tried to lock in attractive yields.

Exhibit 21 Canada Sustainable Flows by Asset Class (USD Billion)



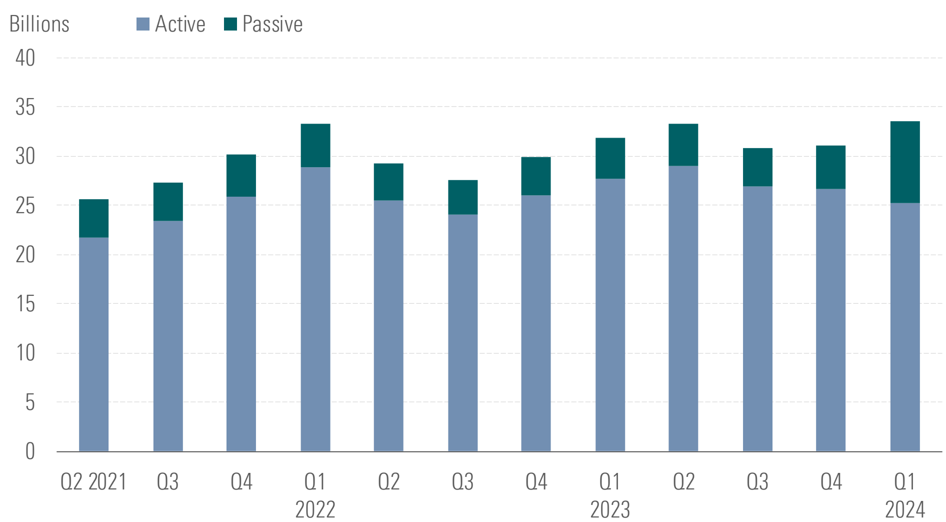
Source: Morningstar Direct. Data as of March 2024.

In the first quarter, **NEI ESG Canadian Enhanced Index** experienced the largest outflows, losing USD 117 million. This was followed by **RBC Vision Global Equity**, which bled USD 91 million.
However, National Bank Investments was the firm that attracted the largest portion of net new money, followed by iShares and Desjardins Global Asset Management. **NBI Sustainable Canadian Bond ETF** was the top flow-getter for a third consecutive quarter, collecting USD 149 million.

Assets Begin to Increase

Assets invested in Canadian sustainable funds grew by 7.8% to roughly USD 34 billion in the first quarter of 2024 when compared with the fourth quarter of 2023. Over the first quarter, active strategies experienced a marginal decline in assets whereas passive strategies experienced some growth. The broad Canadian funds market overall also grew but at a slower rate of 1.8%, to USD 1.24 trillion in the first quarter from USD 1.22 trillion in the previous quarter.

Exhibit 22 Canada Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

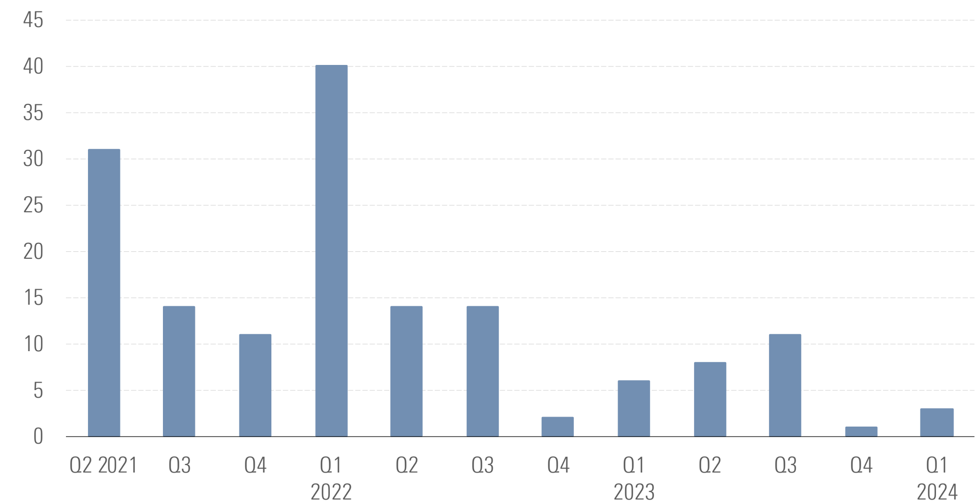
The distribution of funds across asset classes remained unchanged, with a greater percentage of assets allocated to equities (72%), followed by fixed income (23%), and the remainder to allocation funds. No asset class showed any significant changes in market share compared with the previous quarter.

New Launches and Closures

Product development in the sustainable funds and ETF market in Canada increased compared with the previous quarter. As of this writing, the first quarter of 2024 saw the launch of three new sustainable mutual funds, **Educators BrighterFuture Bond**, **Educators BrighterFuture Global Equity**, and **NEI Long Short Equity**.

However, ESG funds in Canada did witness three ETF closures over the period. These were the **Horizons Active ESG Corporate Bond**, **Black Diamond Impact Core Equity**, and **Purpose Energy Transition.**

Exhibit 23 Canada Sustainable Fund Launches



Source: Morningstar Direct. Data as of March 2024.

Regulatory Update

Canadian regulators and industry bodies continued to expand and refine their guidance for investment funds with regard to ESG disclosure. On March 7, 2024, the Canadian Securities Administrators revised the CSA Staff Notice 81-334 ESG Related Investment Fund Disclosure—guidance it originally published in January of 2022. Although the update does not change what was initially outlined, it does address matters not previously discussed and expands areas where developments have been seen since. Importantly, the update addresses the expectation for investment funds that do not reference ESG factors in their objectives but do incorporate ESG strategies.

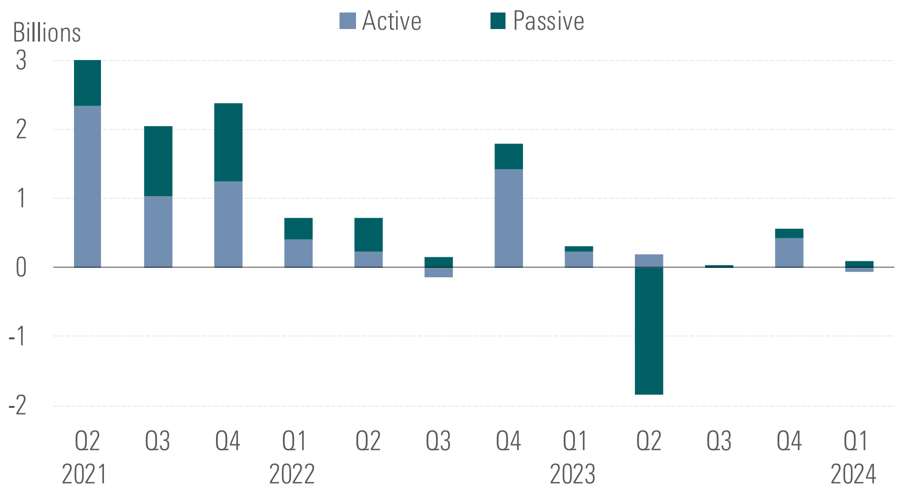
As a result of this publication, the Canadian Investment Funds Standards Committee is reviewing updates to the Responsible Investment Identification Framework that it proposed on Feb. 1, 2024, to ensure language aligns with the regulators' guidance. Disclosure standards for public companies in Canada have also seen developments. On March 13, 2024, the Canadian Sustainability Standards Board released its first proposed Canadian Sustainability Disclosure Standards, or CSDS, for public comment. These standards follow those released by the International Sustainability Standards Board in June 2023 and align CSDS 1 (general sustainability disclosures) and CSDS 2 (climate-related risks and opportunities) with IFRS S1 and S2 but with specific Canadian-specific requirements.

Australia and New Zealand

Flows

For the first quarter of 2024, net flows into the Australasian (Australia and New Zealand) sustainable funds universe were positive at USD 27 million, based on the available data up to 31 March 2024. This was driven by passive strategies, which saw net inflows of USD 92 million. Meanwhile, the Australasian active sustainable funds experienced net outflows of USD 65 million over the first quarter of 2024.

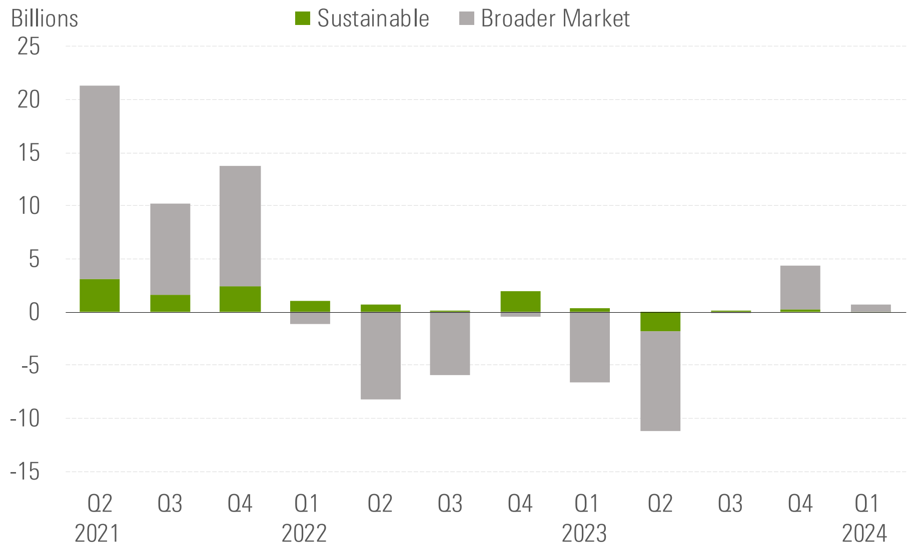
Exhibit 24 Australia and New Zealand Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

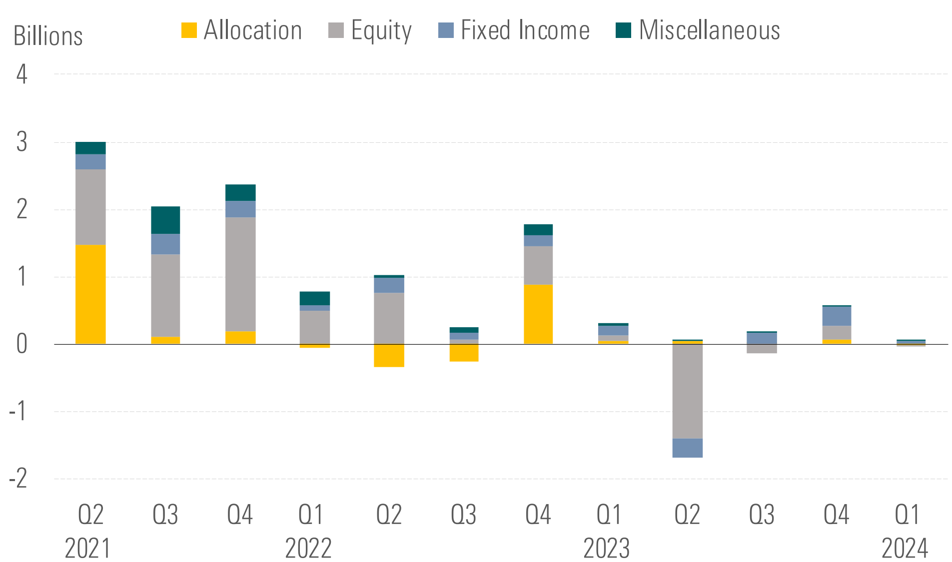
For the quarter ended March 31, 2024, the broader market also experienced net inflows of USD 662 million driven primarily by passive strategies, which had received net inflows of over USD 2.9 billion, while active strategies saw net outflows of USD 2.2 billion.

Exhibit 25 Australian and New Zealand Sustainable Fund Flows Compared with the Broader Market (USD Billions)



Source: Morningstar Direct. Data as of March 2024.

Exhibit 26 Australia and New Zealand Sustainable Flows by Asset Class (USD Billion)

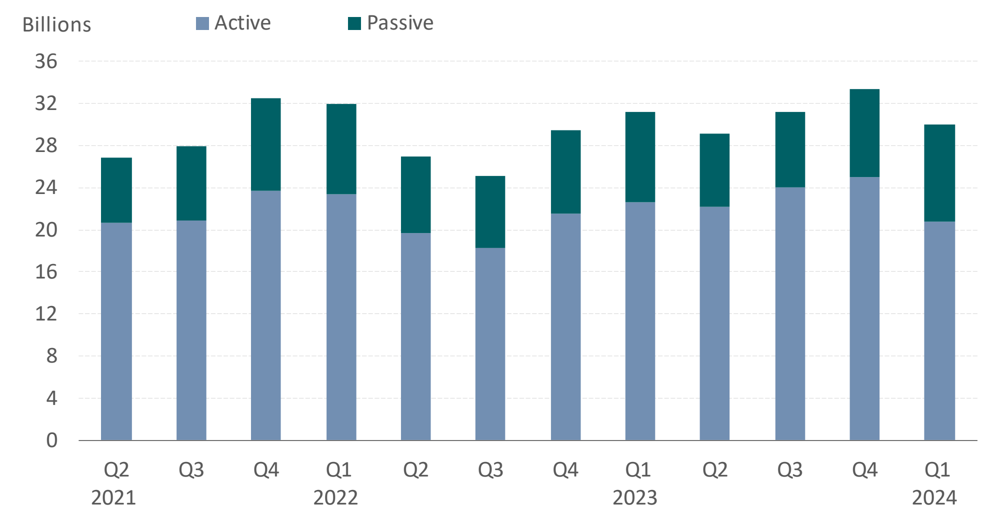


Source: Morningstar Direct. Data as of March 2024.

Assets

The total size of Australasian sustainable funds was an estimated USD 30 billion as of March 31, 2024, which was USD 3.3 billion lower compared with the assets as of Dec. 31, 2023. Approximately USD 2 billion of the decline was attributable to changes in the reported flows for **Australian Ethical Balanced**, which previously included other institutional assets as part of its reporting. The revised flows reporting only focuses on the retail and wholesale investments in the strategy of around USD 200 million.

Exhibit 27 Australia and New Zealand Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

The Australian sustainable funds market remains concentrated, with the top 10 firms accounting for more than two thirds of total sustainable fund assets, which has been stable since third-quarter 2023.

The top 10 fund houses by sustainable fund assets are listed below. The notable change was Australian Ethical moving to sixth place this quarter because of a reclassification of its fund sizes based on updated data feeds. DFA had the highest market share, followed by BetaShares and Vanguard.

Exhibit 28 Top Australian and New Zealand Fund Houses

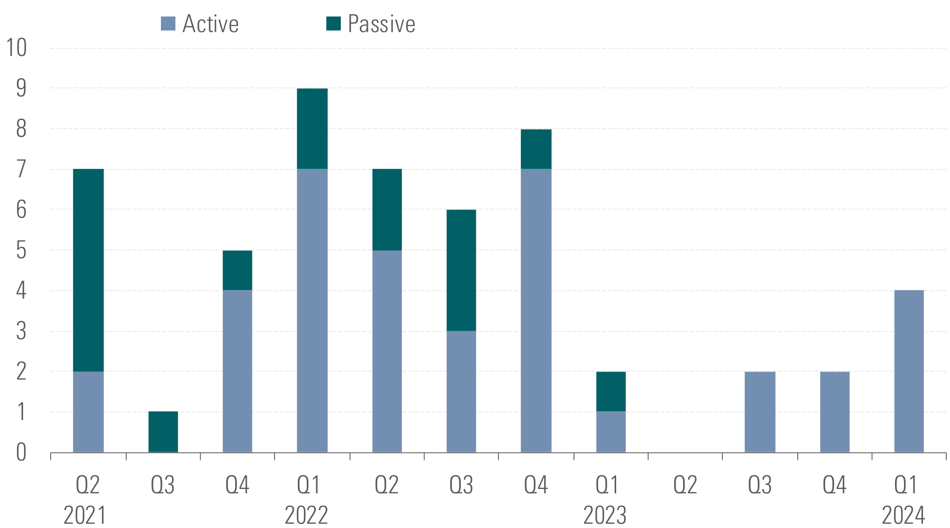
	% Market Share
DFA Australia	13.5
BetaShares Capital	12.8
Vanguard Investments Australia	7.9
Mercer Investments (Australia)	6.2
Pendal Institutional	5.5
Australian Ethical Investment	5.2
Russell Investment Management	4.9
BlackRock Investment Mgmt (AUS)	4.8
State Street Global Advisors (Aus)	3.2
U Ethical	3.1

Source: Morningstar Direct, Manager Research. Data as of March 31, 2024

Launches

There were four new active sustainable funds launched in the first quarter of 2024. Launches were significantly lower compared with 2022 but higher compared with the equivalent period last year. This can be only partly attributable to the challenging market conditions. As of the end of March 2024, we counted 261 strategies in the Australasian sustainable fund universe.

Exhibit 29 Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct. Data as of March 2024.

Regulatory Update

The Australian Government's continued focus on improving the quality and transparency of sustainability reporting has moved to the next stage, in the form of a new exposure draft legislation being released for comment.

The Exposure Draft legislation seeks to amend parts of the Australian Securities and Investment Commission Act 2001 and the Corporations Act 2001 (Cth) to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities.

The more detailed aspects of the sustainability and assurance standards will be made and maintained by the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board. A link to the policy position statement providing an overview of the reporting processes can be found here.

The mandatory reporting will see companies providing information on their climate-related risks and opportunities, which also includes governance, strategy, risk management, metrics, and targets relating to scope 1 and scope 2 greenhouse gas emissions. These will be part of the first year's set of reports. Scope 3 emissions would be required from the second year of reporting.

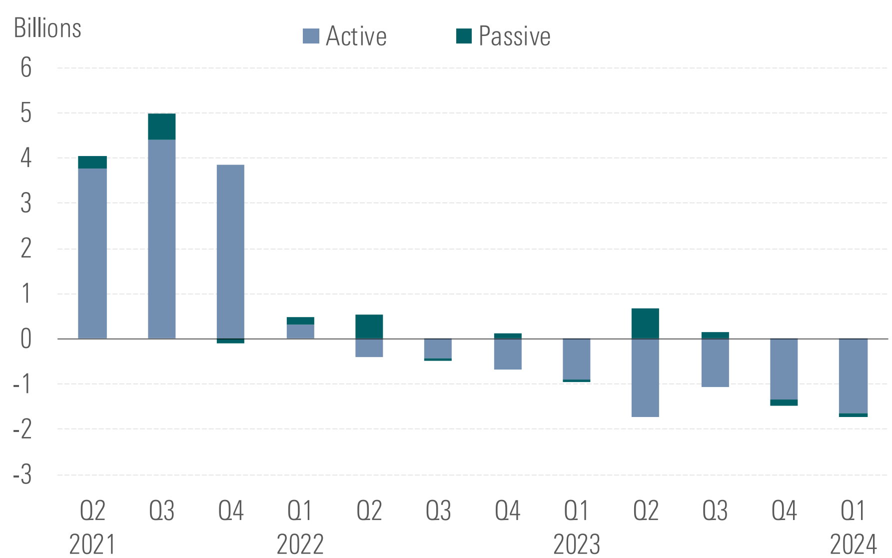
Japan

Flows

In the first quarter of 2024, the Japanese sustainable funds landscape saw its eighth consecutive quarter of outflows, with net withdrawals amounting to USD 1.7 billion. This contrasts with the broader Japanese funds landscape, which registered inflows of USD 35 billion in the first quarter of 2024.

Actively managed sustainable funds accounted for more than 94% of the quarter's redemptions and marked their eighth consecutive quarter of withdrawals. **AMOne Global ESG High Quality Growth Equity Fund Unhedged** was the top contributor to the outflows in the quarter, shedding USD 268 million. While the inflows observed in some funds were negligible by comparison, they reflected the long-term focus among emerging sustainability-conscious investors in Japan. Multiple defined-contribution funds and ETFs such as **Nomura World ESG Equity Index Fund DC** (USD 18 million) and **iShares Japan Green REIT ETF** (USD 13 million) made it to the list of funds managing to garner new subscriptions. The latter tracks an index that selects and weighs Japanese REITs based on green building certification, energy usage, and carbon emission intensity.

Exhibit 30 Japan Sustainable Fund Flows (USD Billion)

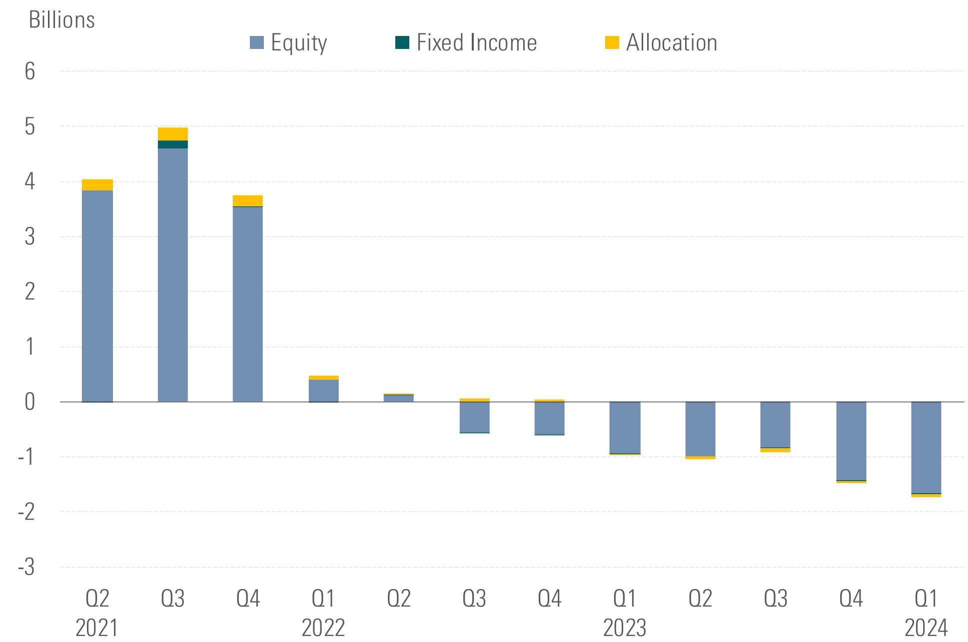


Source: Morningstar Direct. Data as of March 2024.

It should be noted that there is a possibility of double counting at the global level. We include Japan-domiciled funds of funds and feeder funds in this review to better reflect the actual flow situation in the Japanese fund market, as many Japanese funds of funds are invested in European funds.

Japanese sustainable equity funds lost USD 1.6 billion during the first quarter of 2024, representing 95% of the quarter's outflows. Of the 20 funds hit the worst by withdrawals, 19 were equity funds.

Exhibit 31 Japan Sustainable Fund Flows by Asset Class (USD Billion)

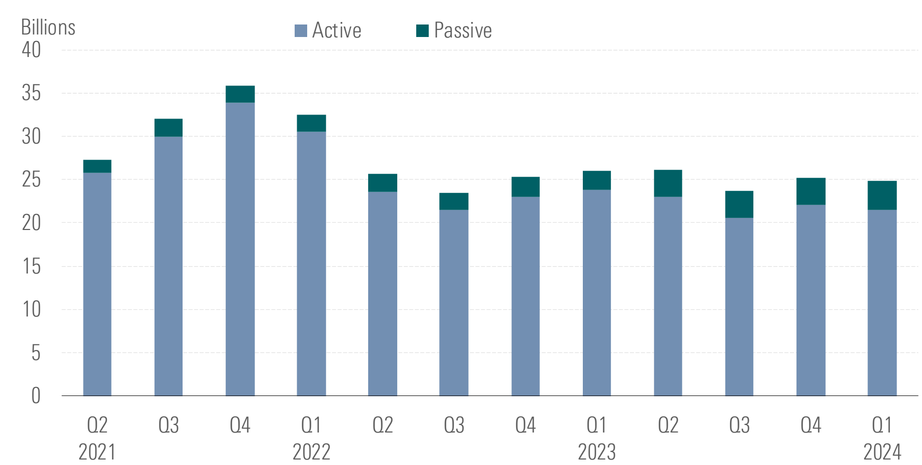


Source: Morningstar Direct. Data as of March 2024.

Assets

Total assets in Japan-domiciled sustainable funds slid marginally to USD 24.8 billion in the first quarter. Actively managed funds still represent the predominant share, accounting for 87% of total assets within the sustainable fund category, with equity funds constituting a substantial majority (96%) of the Japanese universe.

Exhibit 32 Japan Sustainable Fund Assets (USD Billion)

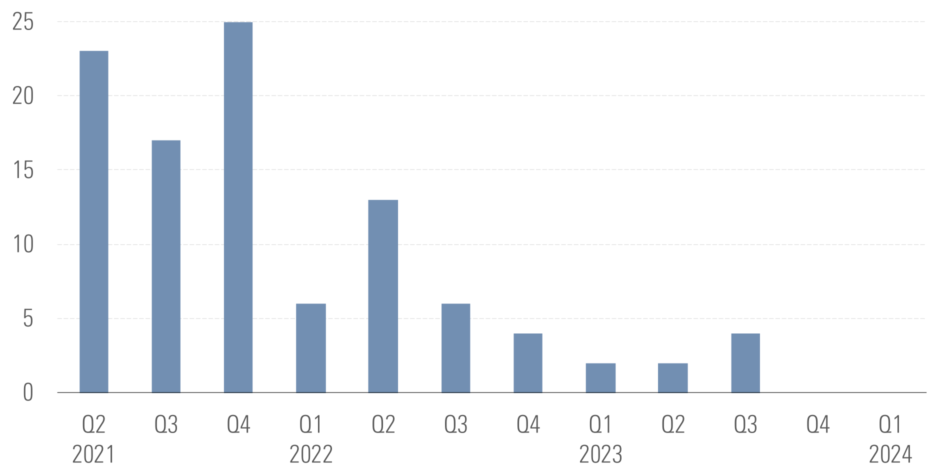


Source: Morningstar Direct. Data as of March 2024.

Launches

In the first quarter of 2024, similar to the fourth quarter of 2023, the Japanese market did not witness the introduction of any new sustainable funds, reflecting a relatively quiet period in terms of product development compared with the past couple of years. The Japanese Financial Services Agency revised its comprehensive supervisory guidelines to prevent greenwashing at the start of 2023, and since then asset managers have become more cautious about launching new ESG products.

Exhibit 33 Japan Sustainable Fund Launches

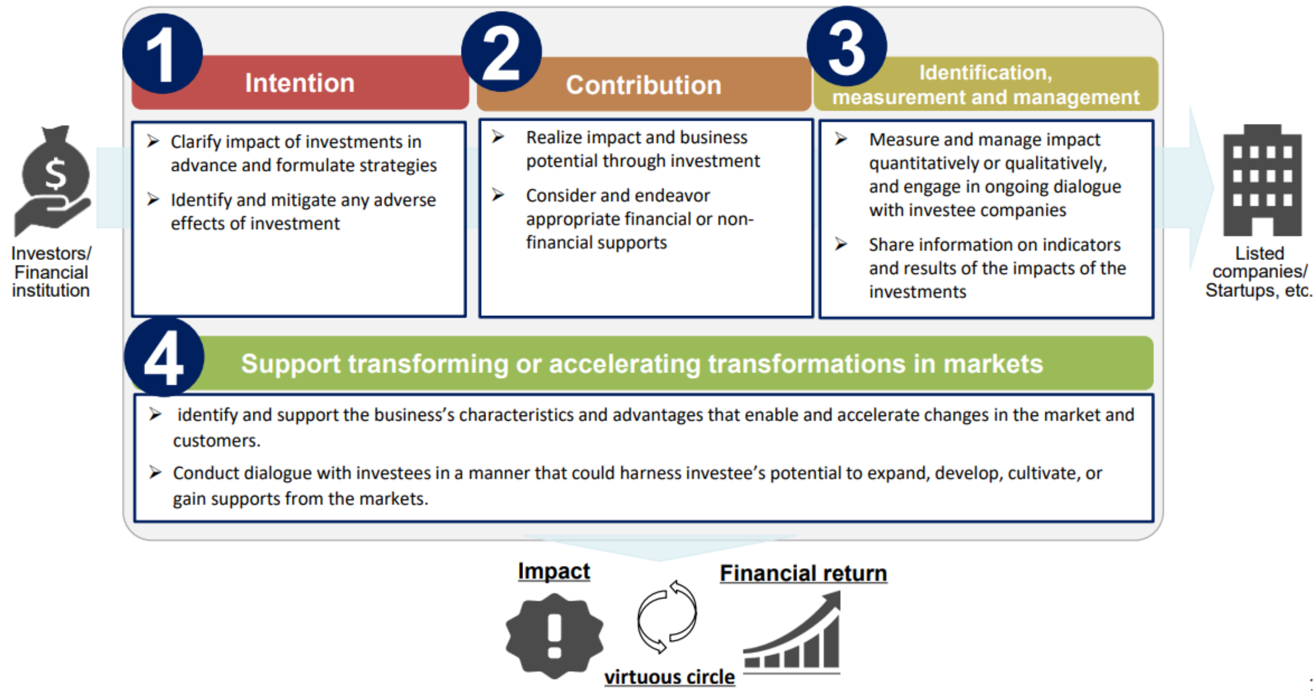


Source: Morningstar Direct. Data as of March 2024.

Regulatory Update

The Japanese FSA finalized its guidance on impact investing. The guidelines identify four qualitative elements (intention, contribution, measurement, and engagement) and are meant to "foster common understandings on basic concepts and processes for, and further elaborate markets and practices on impact investment." Like under the UK's FCA impact label, the concept of additionality is not explicitly mentioned but the guidance quotes the concept of theory of change as defined under SDR ("a comprehensive description and illustration of how and why a desired change is expected to occur").

Exhibit 34 Outline of Basic Guidelines on Impact Investment (Impact Finance)



Source: https://www.fsa.go.jp/singi/impact/siryou/20240329/05.pdf.

Asia ex-Japan

We used the most recent data available within the past quarter for funds whose full quarterly data was unavailable at the time of publication. Because China's data was not available at the time of publication, we used fourth-quarter 2023 data as a proxy for first-quarter 2024 data in every exhibit of this section.

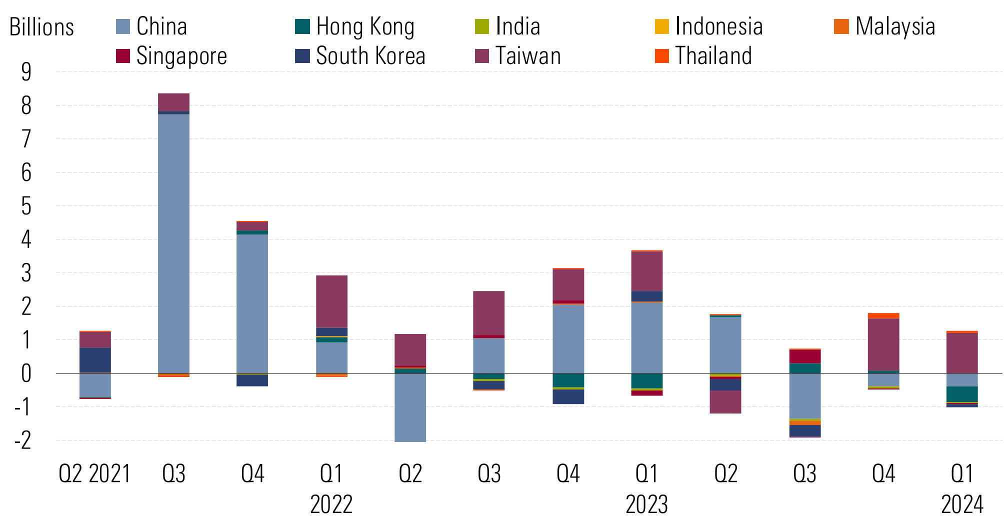
Flows

In the first quarter of 2024, China-domiciled sustainable funds experienced their third consecutive quarter of outflows, totaling USD 367 million. Similar to the previous quarter, the withdrawals were dominated mostly by actively managed funds, including **ABC-CA New Energy Theme Mix** and **China AMC Energy Innovation Equity**, which bled USD 48 million and USD 33 million, respectively, over the quarter.

Excluding China, the Asia ex-Japan region recorded net inflows of roughly USD 622 million over the first quarter of 2024, down from the restated USD 1.7 billion registered in the fourth quarter of 2023. Though most markets saw mild outflows, an influx of over USD 1.2 billion into Taiwan-domiciled sustainable funds over the first quarter pushed the region's total to net positive. The now second-largest passive fund in Taiwan, **Capital ICE ESG 20+ Year BBB US Corporate ETF**, saw USD 1.3 billion in subscriptions alone, continuing its momentum since its November 2023 launch.

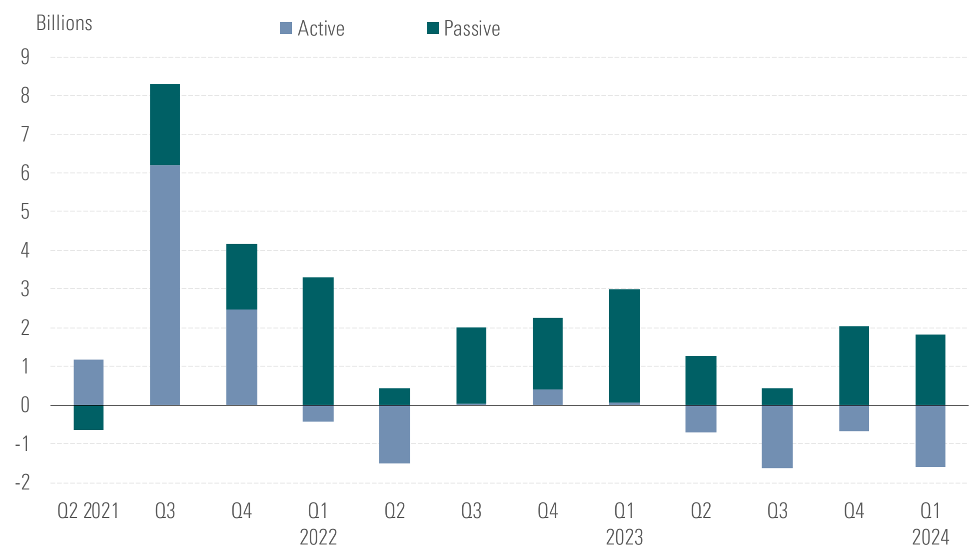
Conversely, Hong Kong-domiciled sustainable funds saw USD 472 million in net outflows over the quarter, the largest among single markets. Much of the flows were driven by **Sun Life AM Hong Kong ESG Index**'s USD 447 million in redemptions over the period, a sharp contrast to the collective USD 420 million in inflows it garnered over the preceding three quarters. India-domiciled sustainable fund flows also extended their streak of net outflows.

Exhibit 35 Asia ex-Japan Sustainable Fund Flows by Country (USD Billion)



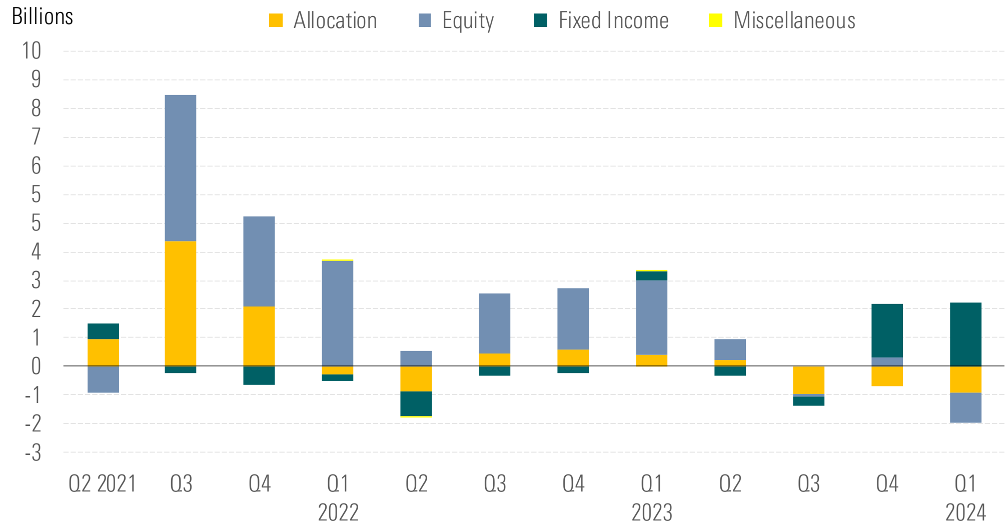
Source: Morningstar Direct. Data as of March 2024.

Exhibit 36 Asia ex-Japan Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of March 2024.

Exhibit 37 Asia ex-Japan Sustainable Fund Flows by Asset Class (USD Billion)



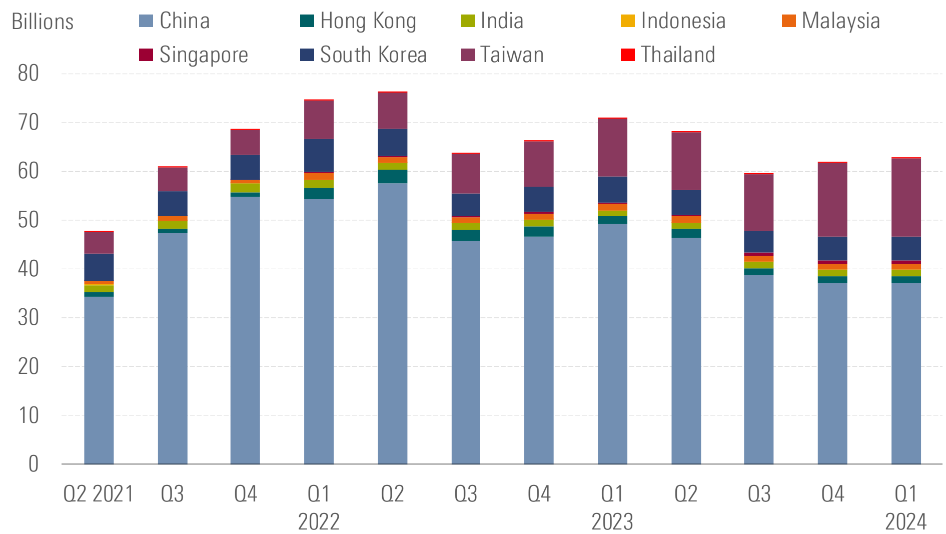
Source: Morningstar Direct. Data as of March 2024.

Assets

Total assets in sustainable funds across Asia ex-Japan were roughly flat, increasing 1.6% over first-quarter 2024. Outside of China (for which data was not available at the time of publication), Taiwan continued to be far and away the largest market in the region with 24% of assets. Singapore-domiciled sustainable fund assets fell 3.8% quarter over quarter. **IShares MSCI Asia ex Japan Climate Action ETF**, the largest sustainable fund in the country at USD 436 million in assets as of the end of March 2024, shed USD 31 million despite its underlying index returning 0.9% over the quarter.

Equity funds remained the largest asset class in the region at 67% of Asia ex-Japan sustainable fund assets at the end of March, while allocation and fixed-income funds accounted for 22% and 11%, respectively. Passive funds continued to attract investor interest and further narrow the gap between active sustainable funds, with inflows of USD 1.8 billion in first-quarter 2024, pushing their representation to 48% of assets as of the end of March 2024 from 40% in first-quarter 2023.

Exhibit 38 Asia ex-Japan Sustainable Fund Assets (USD Billion)

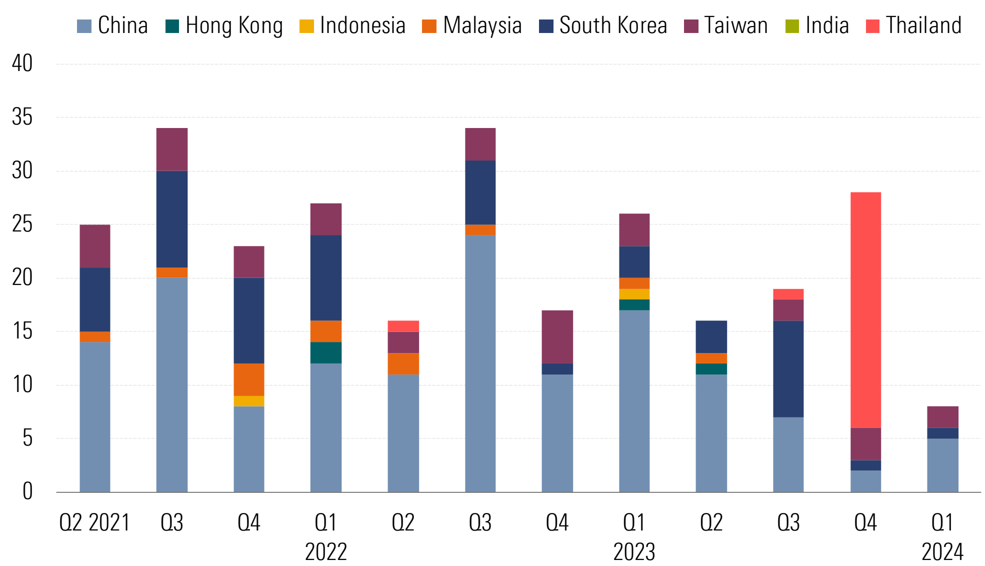


Source: Morningstar Direct. Data as of March 2024.

Launches

From January through March 2024, there were eight new sustainable funds launched across the Asia ex-Japan region, the lowest amount since fourth-quarter 2019. Five of the new launches were China-domiciled products, two were Taiwan-domiciled, and one was in South Korea (namely, **Daol Shareholder Return Equity).** In terms of asset classes, five were equity funds, two were allocation, and just one was fixed income—**Amundi Taiwan Net Zero Ambition Global Corporate Bond**, which was launched in January 2024. Meanwhile, Taiwan multi-asset fund **Neuberger Berman ESG Quality Select Balanced Securities Investment Trust** was launched in March 2024 and aims to invest in securities that comply with sustainability-related concepts as decided by in-house exclusion criteria and ESG analysis.

Exhibit 39 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of March 2024.

Regulatory Update

The Asia ex-Japan region continued to see substantial growth in ESG-related announcements and guidelines from regulatory bodies.

In January, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group published new sustainable finance initiatives, including the adoption of IFRS sustainability disclosure standards and enhancements to their data collection practices. Also in January, Hong Kong's Securities and Futures Commission released its 2024-26 priority action plan, which included goals of bridging the Mainland carbon markets with international investors, growing local ESG products and markets, stemming greenwashing, and nurturing sustainable finance talent.

The Stock Exchange of Thailand similarly released its new three-year strategic plan in January, with key objectives related to the promotion of ESG knowledge and the establishment of a climate care collaboration platform. The exchange also participated in a joint statement with Bursa Malaysia Berhad, Indonesia Stock Exchange, and Singapore Exchange Group announcing their collaboration and creation of the "ASEAN Interconnected Sustainability Ecosystem." The exchanges aim to advance sustainable development in the region by, among other deliverables, integrating standardized ESG metrics in their reporting platforms. The final implementation details are scheduled for issuance in July 2024.

Appendix—Defining the Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-end funds and ETFs that, by prospectus or other regulatory filings, claim to focus on sustainability; impact; or environmental, social, and governance factors.

Our universe of sustainable funds is based on intentionality rather than holdings. For example, a portfolio can score well on ESG metrics such as the Morningstar Sustainability Rating, but if ESG issues are not the focus of the fund's investment strategy, it will not be included in our universe. To identify intentionality, we relied on a combination of fund names (a strong indicator of intentionality) and information found in fund documents. The fund's documents should contain enough details to leave no doubt that ESG concerns figure prominently in the security-selection and portfolio construction process.

The global sustainable fund universe does not contain the growing number of funds often referred to as "ESG integrated funds," which formally consider ESG criteria in the investment process and engage with portfolio holdings but do not make ESG considerations the focus of the investment process.

Furthermore, the global sustainable fund universe doesn't include funds that employ limited exclusionary screens such as controversial weapons, tobacco, and thermal coal (combined with an ESG integration approach or not). We however include ESG-screened passive funds in our universe as, typically for these, the exclusions are the sole purpose of the strategy.

Finally, the global sustainable fund universe excludes money market funds, feeder funds, and funds of funds to avoid double counting and inflating flows and assets. We make an exception for Japan and South Korea to better reflect the actual flow situation there as many Japanese funds of funds are invested in European funds.

To identify sustainable funds in their respective regions analysts use the "Sustainable Investment–Overall" data point in Morningstar Direct. We also use the "Sustainable Investment Overall Start Date" data point to account for repurposed funds, where relevant.

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Corrections and Clarifications

Corrections

On Page 24, a previous version of this report stated that the broad Canadian funds market shrank by 0.01% in the first quarter of 2024. It increased by 0.80%.

On Page 26, the first-quarter asset growth figures for the overall Canadian fund market were corrected to 1.8% from 4.2% and to USD 1.24 trillion from USD 1.17 trillion.

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