

# US Sustainable Funds Landscape 2024 in Review

Investor appetite for sustainable funds continues to wane amid ESG backlash

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## Key Takeaways: Flows and Assets

In 2024, **outflows from US sustainable funds deepened** to reach \$19.6 billion, up from \$13.3 billion in 2023.

- By contrast, investors poured about \$740 billion of net new money into conventional funds.
- Passive funds bled less money than last year.

### Sustainable funds faced continued headwinds in 2024

Returns lagged those of conventional peers, political scrutiny persisted, and greenwashing concerns endured.

- High interest rates continued to penalize some areas of the market, such as clean energy stocks.

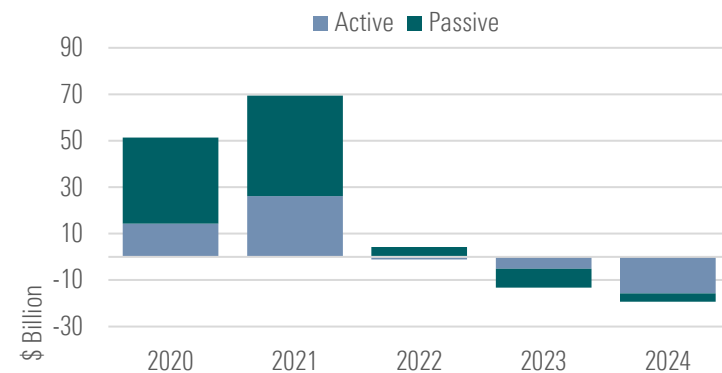
While sustainable equity funds faced record redemptions of \$21.8 billion, **sustainable fixed income registered inflows of \$2.7 billion**.

- The largest sustainable funds suffered the most withdrawals, including Parnassus Core Equity Fund (\$3.7 billion) and iShares ESG Aware MSCI USA ETF (\$2.9 billion).
- **Two climate funds were the best-selling funds**, namely Invesco MSCI Global Climate 500 ETF and First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund.

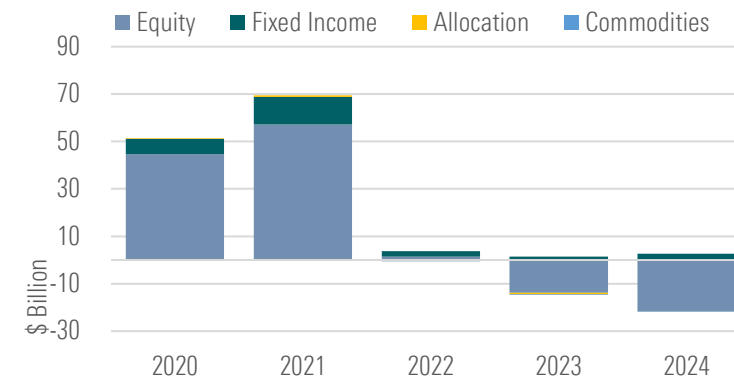
Despite the outflows, **assets in sustainable funds rose last year to \$344 billion**, supported by market price appreciation.

- This represents **6.3% annual growth**, but a 6% decline from the all-time record seen at the end of 2021.
- Actively managed funds still dominate the sustainable funds landscape, **but low-cost passive funds continue gaining in popularity**, reaching over 40% of US sustainable fund assets at the end of 2024.

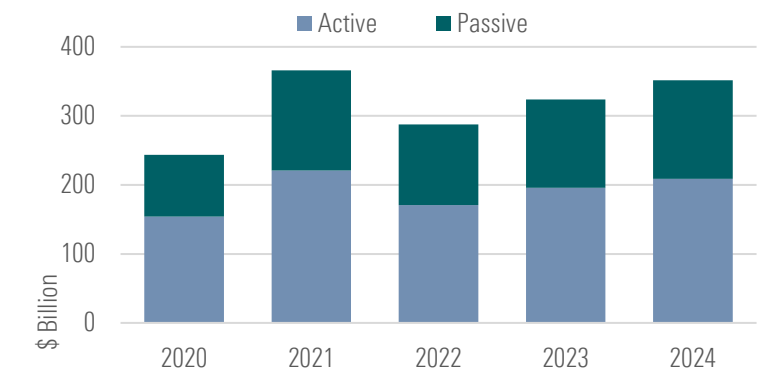
### Sustainable Fund Flows



### Sustainable Fund Flows by Broad Asset Class



### Sustainable Fund Assets



Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Key Takeaways: Flows, Assets, and Product Development

**Top manager BlackRock was the second-worst selling firm of sustainable funds**, suffering withdrawals of \$6.6 billion in 2024. But it remains the largest asset manager, with sustainable fund assets of more than \$58 billion.

- **Parnassus**, the third largest manager of sustainable funds, faced the worst redemptions, totaling \$7.3 billion.
- Meanwhile, **Vanguard**, the second largest manager of sustainable funds, was the best-selling firm last year with \$1.8 billion of subscriptions.

**Climate funds experienced their first year of outflows.**

- Redemptions reached \$2 billion in 2024, driven by Clean Energy/Tech funds which experienced their third consecutive year of net withdrawals, reflecting continued investor pessimism about the sector’s profitability.
- Climate Transition funds attracted the most new money, with a modest \$330 million, followed by Green Bond funds, with \$150 million of subscriptions.
- **Assets in US climate funds** declined by 11%, amounting to **\$28.3 billion** as of the end of 2024.

**Product development dried up as only 10 new sustainable funds hit the shelves in 2024.**

- This is the lowest level seen in 10 years.

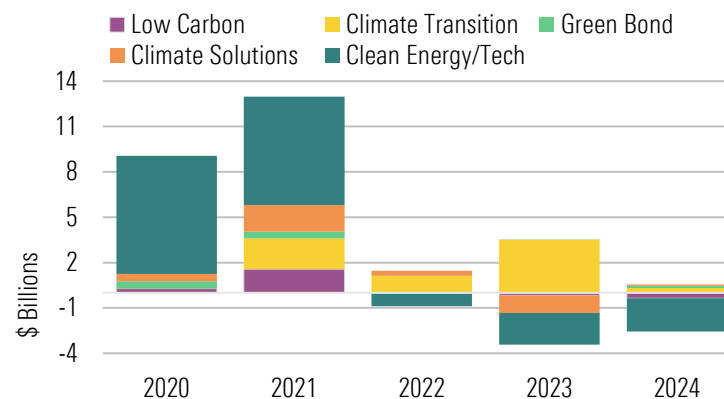
For the first time, US sustainable fund closures and departures outpaced new launches.

- Closures and departures reached an all-time high: **71 sustainable funds closed**, and **24 funds moved away from ESG mandates**, mostly by dropping ESG-related terms from their names.

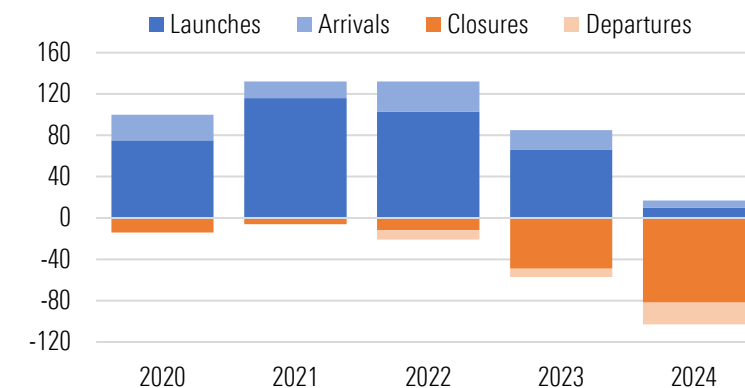
### Asset Managers’ Largest Outflows/Inflows in 2024

Largest Outflows (\$Mil)		Largest Inflows (\$Mil)	
Parnassus	-7,315	Vanguard	1,769
BlackRock (incl. iShares)	-6,657	Fidelity	1,414
Morgan Stanley	-2,120	Dimensional	885
American Century	-923	Invesco	877
Impax	-854	First Trust	809

### Flows into US Climate Funds



### Launches, Closures, Arrivals, and Departures



Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Key Takeaways: Investment and Sustainability Performance

Sustainable funds underperformed in 2024, on average.

- On the whole, **sustainable funds lagged their conventional peers**, with only 42% of sustainable funds landing in the top half of their respective Morningstar Categories.
- Equity funds suffered the most, with just 38% of sustainable equity funds found in the top half of their respective categories. Sustainable fixed-income funds performed better. 48% finished in the top half of their respective Morningstar Categories.

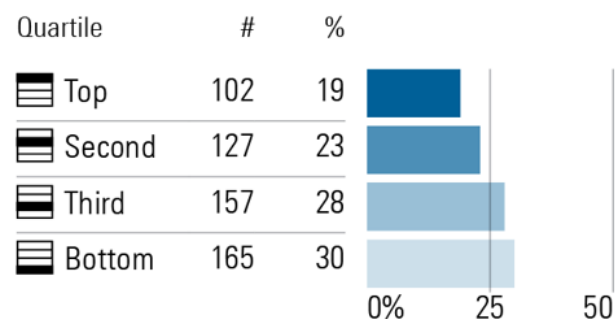
**More than 240 sustainable funds scored higher** under our Morningstar Medalist Rating system (Gold, Silver, Bronze). Of those, 10 are offered by sustainability leading asset managers.

- Launched in 1992, **Parnassus Core Equity PRBLX leads the pack in terms of assets** and earns a Leader status under the ESG Commitment Level and Gold under the Morningstar Medalist Rating.

**Sustainable funds were less exposed to ESG risk** compared with peers, as expected.

- At the end of 2024, nearly **three-fourths (72%) of sustainable funds received the highest ratings** (4 or 5 globes, out of 5), compared with 27% of funds overall. A higher sustainability rating means lower ESG risk relative to peers.
- At the other end of the scale, **less than one-tenth of sustainable funds received the lowest ratings** (1 or 2 globes), compared with 29% of funds overall.

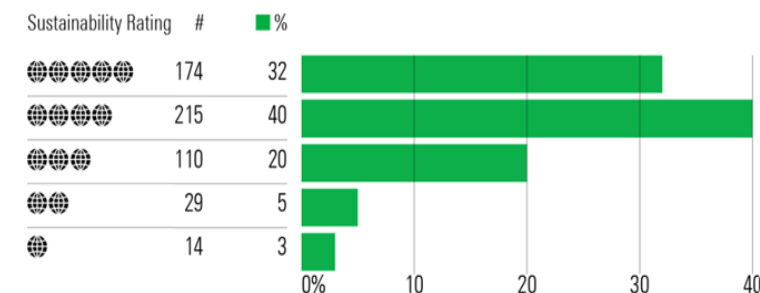
### Performance: Sustainable vs. Conventional Funds



### Silver and Bronze Sustainable Funds

Name	Ticker	Morningstar Medalist Rating	2024 Return (%)
Parnassus Core Equity Fund	PRBLX	Silver	18.5
Brown Advisory Sustainable Growth	BAFWX	Silver	20.4
Nuveen Core Impact Bond Fund	TSBIX	Bronze	2.6
Parnassus Mid Cap Fund	PARMX	Silver	10.0
Impax Global Environmental Markets	PGINX	Bronze	5.1

### ESG Risk in Sustainable Funds



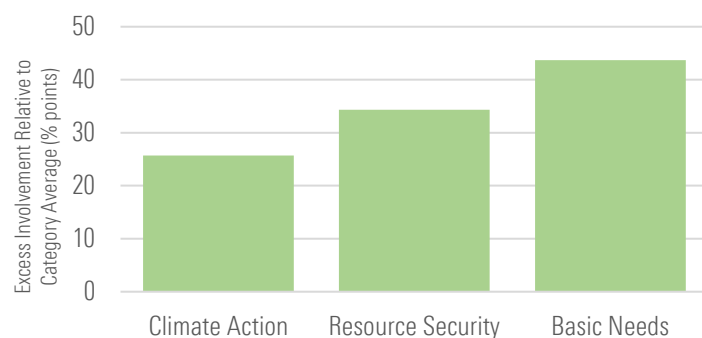
Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Key Takeaways: Investment and Sustainability Performance (continued)

Some sustainable funds target specific sustainability themes, such as Climate Action, Resource Security, and Basic Needs. As one would expect, **these funds delivered greater exposure to environmental and social impact** associated with their themes, compared with peers.

- The excess was greatest among Basic Needs funds, but the sample size was small.
- **Climate Action-focused funds had 26 percentage points more involvement in companies with products and services that contribute to addressing climate change** (on average and compared with peers).

### Sustainability-Themed Funds' Exposure to Impact

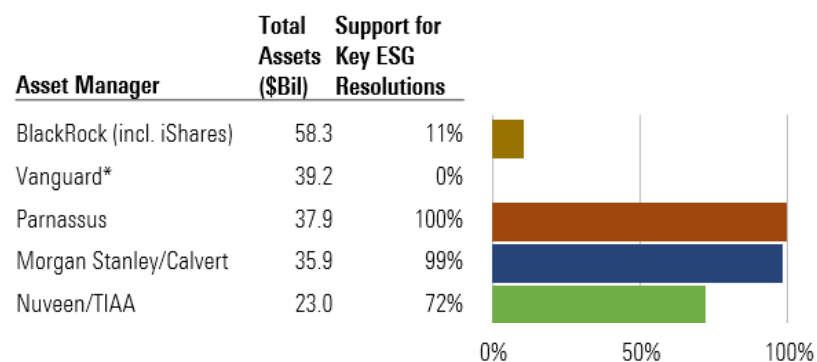


Source: Morningstar Direct. Data as of Dec. 31, 2024.

### Resolutions focused on environmental and social topics increased in 2024, but support continued to decline.

- We identified 400 E&S resolutions in 2024, up 11% from the 360 seen in 2023.
- On average, support for pro-ESG resolutions gained support from 20% of shareholders, down slightly from the 22% average support seen in 2023.
- **Parnassus** and **Impax** supported 100% of key ESG resolutions for three consecutive years.
- **BlackRock** backed 11% and **Vanguard** 0% of key ESG resolutions for their U.S. sustainable fund range, both sharply down from 2021 levels.

### How the Largest Managers Voted for Sustainable Funds



## Introduction – A Contrasted Picture

**2024 was a turbulent year for US sustainable funds.** Sustainable funds continued to lag conventional peers, on average. High interest rates continued to penalize some areas of the market such as clean energy stocks and other green stocks. In a critical election year, the anti-ESG backlash intensified and political scrutiny reached new heights. Some individual states took legal action to limit the incorporation of environmental, social, and governance (ESG) criteria in investment decisions. Moreover, greenwashing concerns remained a persistent concern for investors.

**As a result of these headwinds, outflows deepened.** Sustainable funds suffered their second year of redemptions in more than a decade. By contrast, conventional peers enjoyed significant inflows, supported by interest rate cut expectations and an AI-related stock rally. Also, for the first time, the number of funds that closed or dropped their ESG mandates exceeded the number of new fund launches, leading to a contraction of the US sustainable funds universe. Despite this and the outflows, assets in sustainable funds still expanded last year by over 6%, supported by market price appreciation.

The outflows experienced by US sustainable funds in the past couple of years **contrast with surveys showing continuous investor interest in sustainable investing.**

According to a widely watched survey by Morgan Stanley published a year ago, 54% of individual investors planned to increase their sustainable investments in 2024, and 77% were interested in sustainable investing. According to the [Voice of the Asset Owner](#) survey conducted by Morningstar Sustainalytics in the first half of last year, investors are increasingly considering ESG factors in their investment decisions. Sixty-one percent of asset owners in North America said that ESG has become more material in the past five years. For a majority of them, ESG considerations go hand-in-hand with fulfilling their fiduciary duty.

In a more recent [survey](#) published in December 2024, almost eight in 10 asset managers (78%) and asset owners (80%) expect sustainable assets under management and allocations to rise in the next two years, though lack of data and greenwashing will continue to be challenges. A new source of uncertainty is the incoming Trump administration, which may create further stumbling blocks for sustainable investing in the US.

\*For more on how we define the US sustainable funds landscape, please refer to slide 8 in this presentation and definitions listed in [Morningstar Sustainable Attributes: Frameworks & Definitions](#)

# The Number of Sustainable Fund Offerings Decline for the First Time

For the first time, **the number of sustainable open-end funds and exchange-traded funds available to US investors shrank in 2024**, as the number of fund closures and funds dropping ESG mandates exceeded the number of new fund launches.

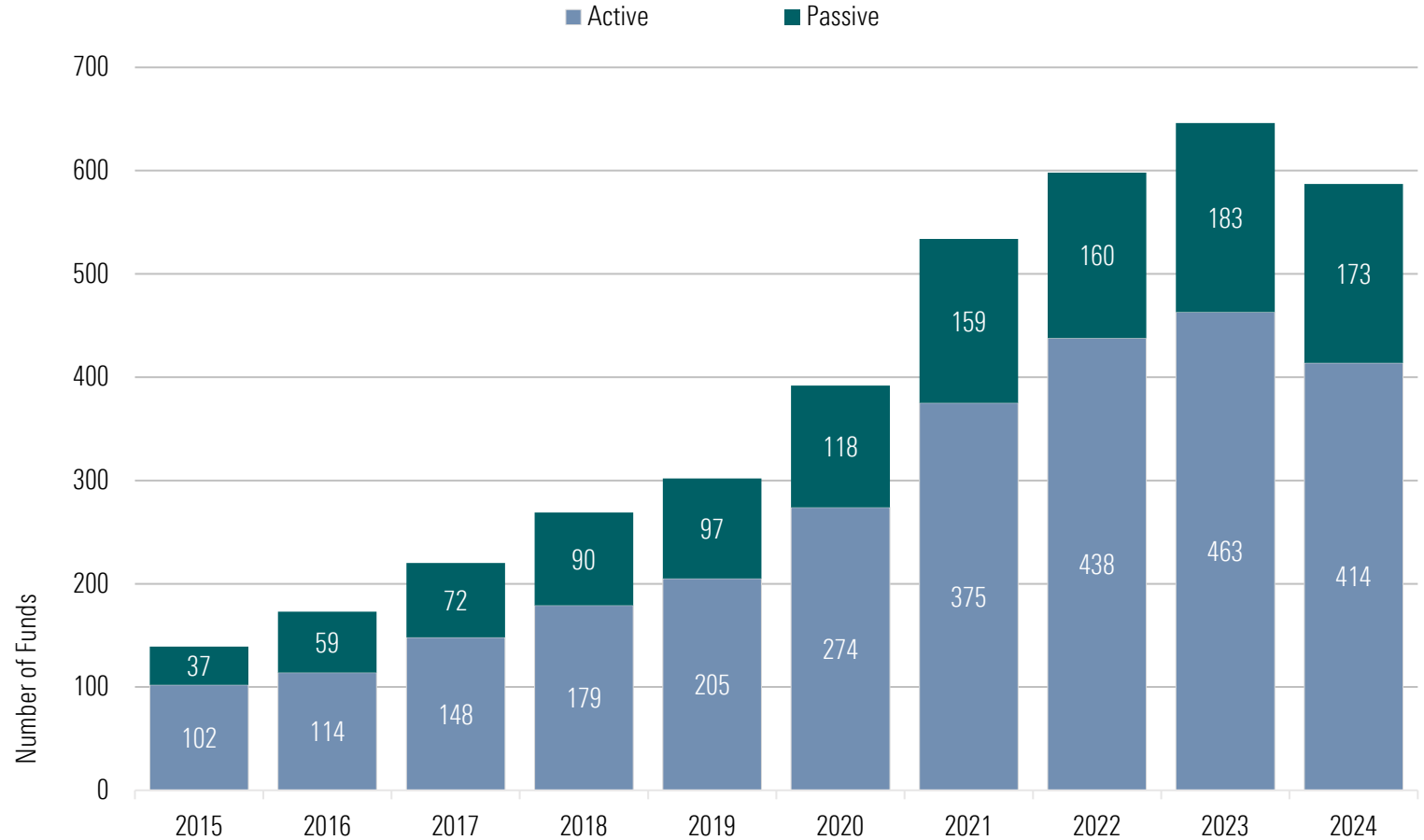
➤ **There were 587 sustainable open-end funds and ETFs\* at the end of 2024**, down 9% from 2023. Both active and passive funds were affected.

## How We Define the US Sustainable Funds Universe

The US sustainable funds universe encompasses open-end funds and ETFs that focus on sustainability, impact, or ESG factors (per the prospectus). While many funds now consider ESG criteria as one factor in the security-selection process, those included in our sustainable funds universe make their commitment clear and prominent, usually through binding criteria. For more details, see [Morningstar Sustainable Attributes: Frameworks & Definitions](#)

\*Funds of funds and feeder funds are included in the count of funds but excluded from flows and assets calculations. Money market funds are excluded from this report.

## The US Sustainable Funds Universe



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated or merged until their obsolete dates.



# US Sustainable Funds: Flows

Sustainable funds register their second annual outflows, but bond funds stay afloat

# Sustainable Funds Register Their Second Annual Outflows

US sustainable funds recorded their second year of net outflows in 2024, **shedding \$19.6 billion, after bleeding \$13.3 billion in 2023.**

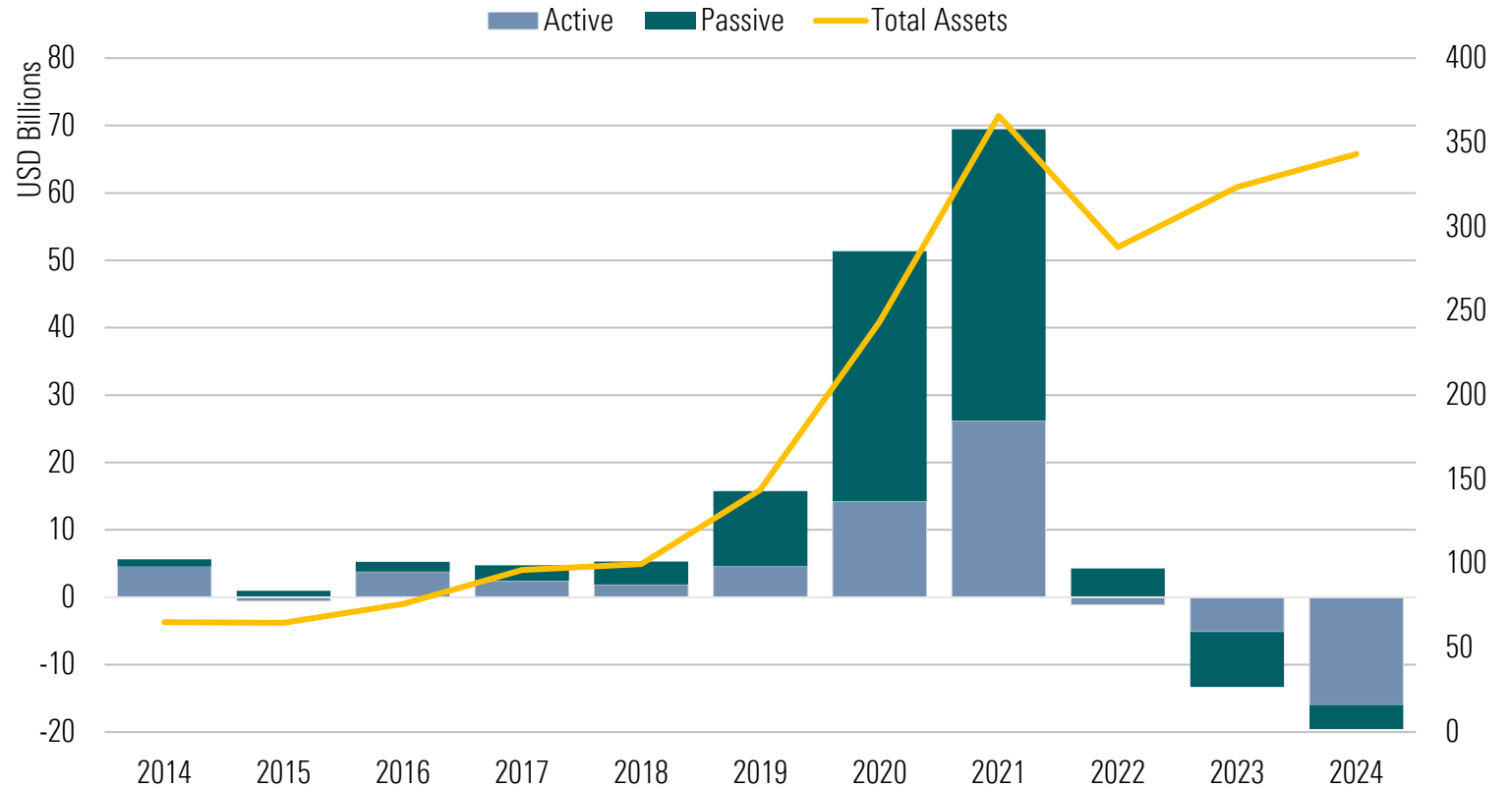
Neither active nor passive funds were spared, but passive funds suffered less than their actively managed counterparts.

- **Index-tracking options gave up \$3.6 billion**, less than the \$8.2 billion redemptions experienced in 2023.
- **Active funds bled \$16 billion** over the course of the year.

In spite of the net outflows, **assets in sustainable funds rose on the back of market appreciation** in 2024, totaling \$344 billion at the end of 2024.

- This represents a 6.3% increase over assets at the end of 2023 but also a 6% decline from their all-time high at the end of 2021.

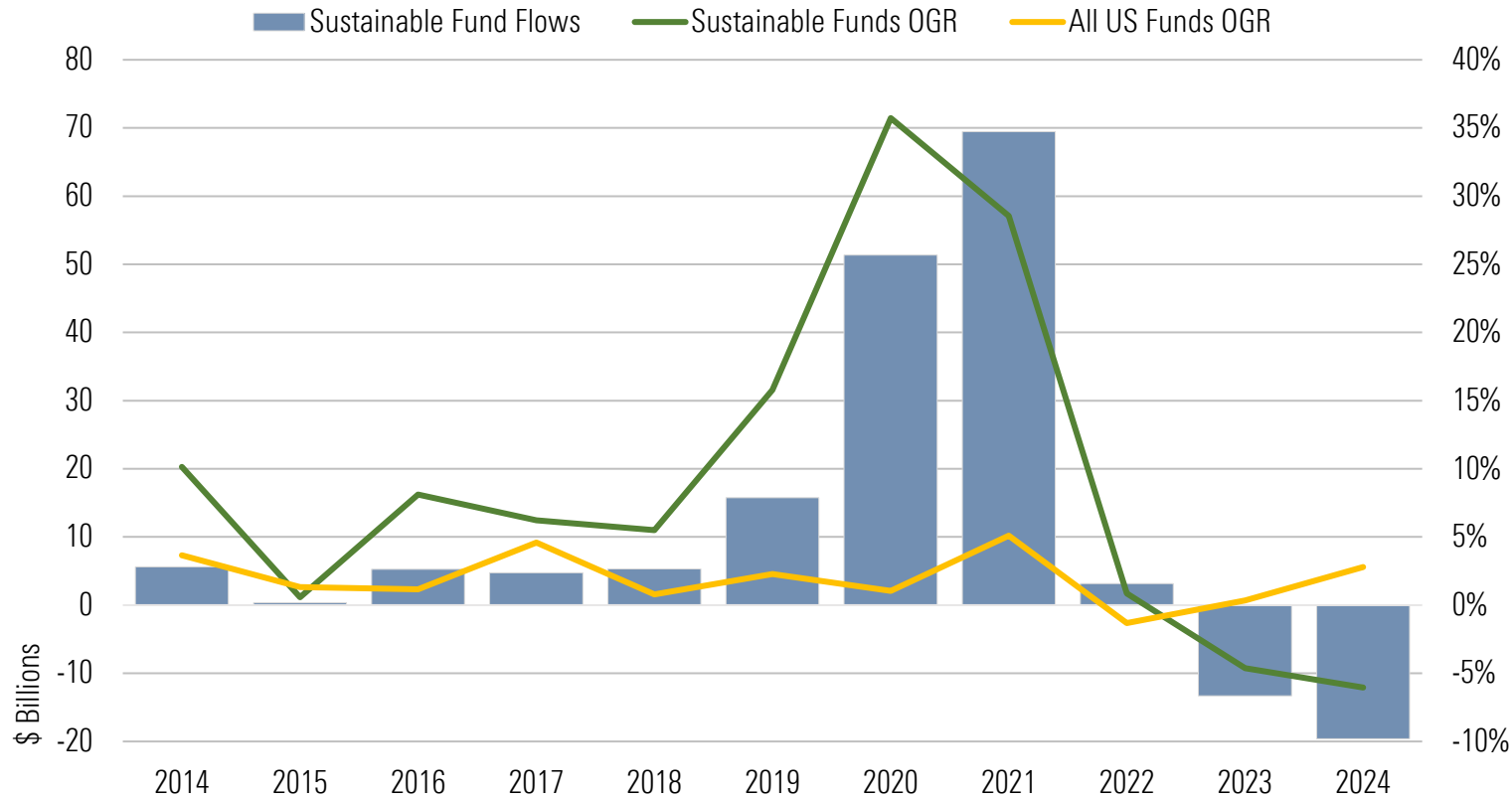
**Sustainable Fund Flows and Assets**



Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds and feeder funds.

# Sustainable Funds' Outflows Contrast With Significant Inflows Into Conventional Peers

## Sustainable Fund Flows Relative to Overall Fund Flows



For the second consecutive year, sustainable funds saw significant outflows, while their conventional counterparts attracted new capital.

➤ Though sustainable funds gave up \$19.6 billion during the year, the overall market of US open-end and ETFs collected an extraordinary amount of about \$740 billion, supported by interest rate cuts expectations and an AI-related stock rally.

Sustainable funds constitute a small portion of the overall US fund universe, so the organic growth rate (OGR, calculated as net flows as a percentage of total assets at the start of a period) puts the magnitude of fund flows into perspective.

➤ **In 2024, the sustainable fund universe suffered an organic contraction of 6%**, while the overall US fund universe had an organic growth of 2.8%. At its peak in 2020 and 2021, the sustainable funds universe swelled by 36% and 29%, respectively.

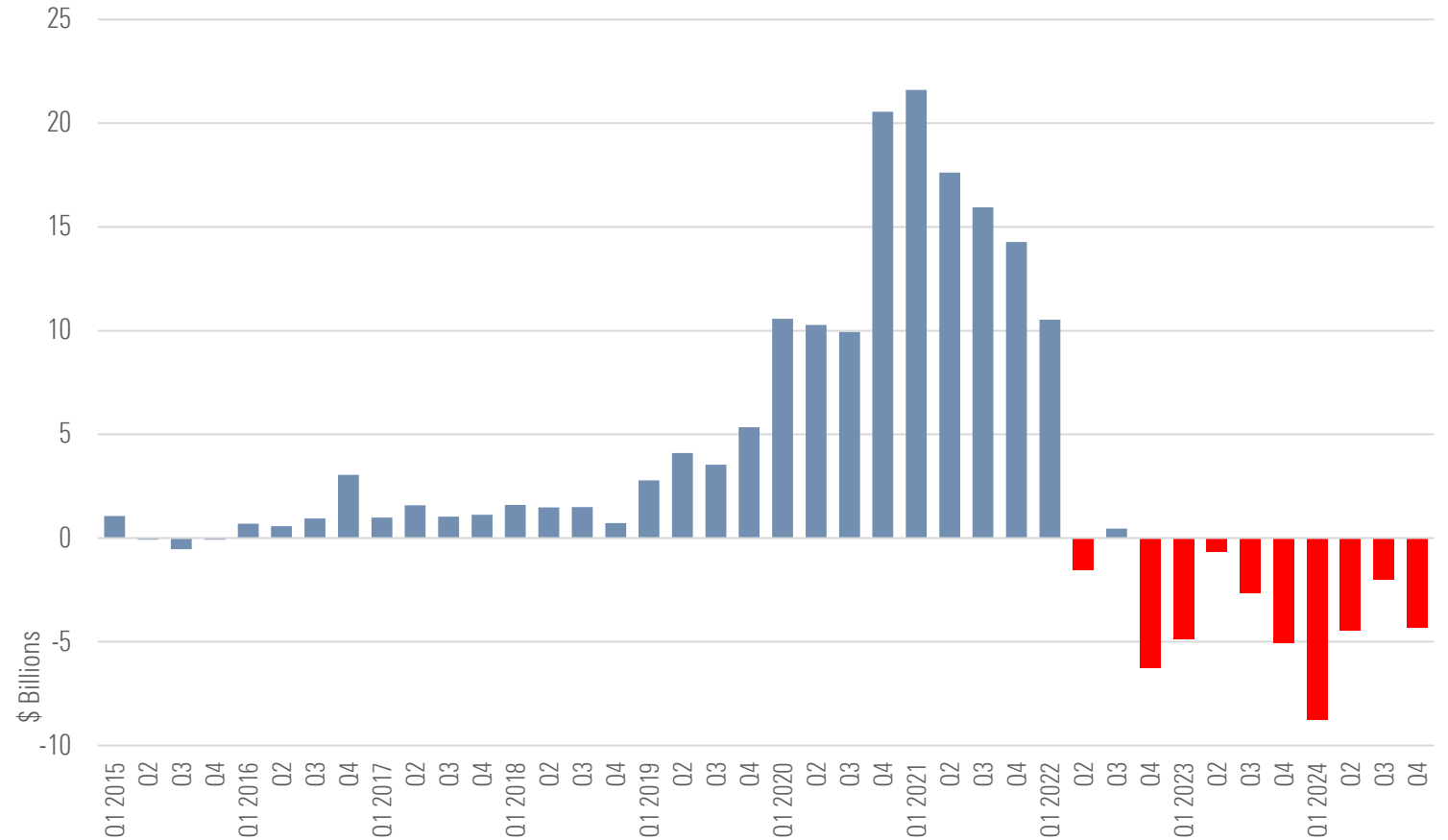
Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

# Sustainable Funds Bled in Every Quarter of 2024

For the second year in a row, **sustainable funds suffered net outflows in every quarter.**

- The first quarter of 2024 was the worst, with almost \$9 billion of redemptions. Though the second and third quarter saw reduced outflows, withdrawals picked up again in Q4, amounting to \$4.3 billion.
- The fourth quarter's biggest loser was Parnassus Core Equity PRBLX, which shed \$1.8 billion million during the period. Over the full year, the fund bled \$3.7 billion, in addition to the \$4.3 billion outflows suffered in the previous two years. Despite this, Parnassus Core Equity PRBLX remains the largest sustainable fund in the US, with assets of \$29 billion at the end of 2024.

**Sustainable Funds Quarterly Flows**



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

## Sustainable Bond Funds Stayed Afloat

Over the course of 2024, sustainable equity funds recorded \$19.6 billion in net outflows.

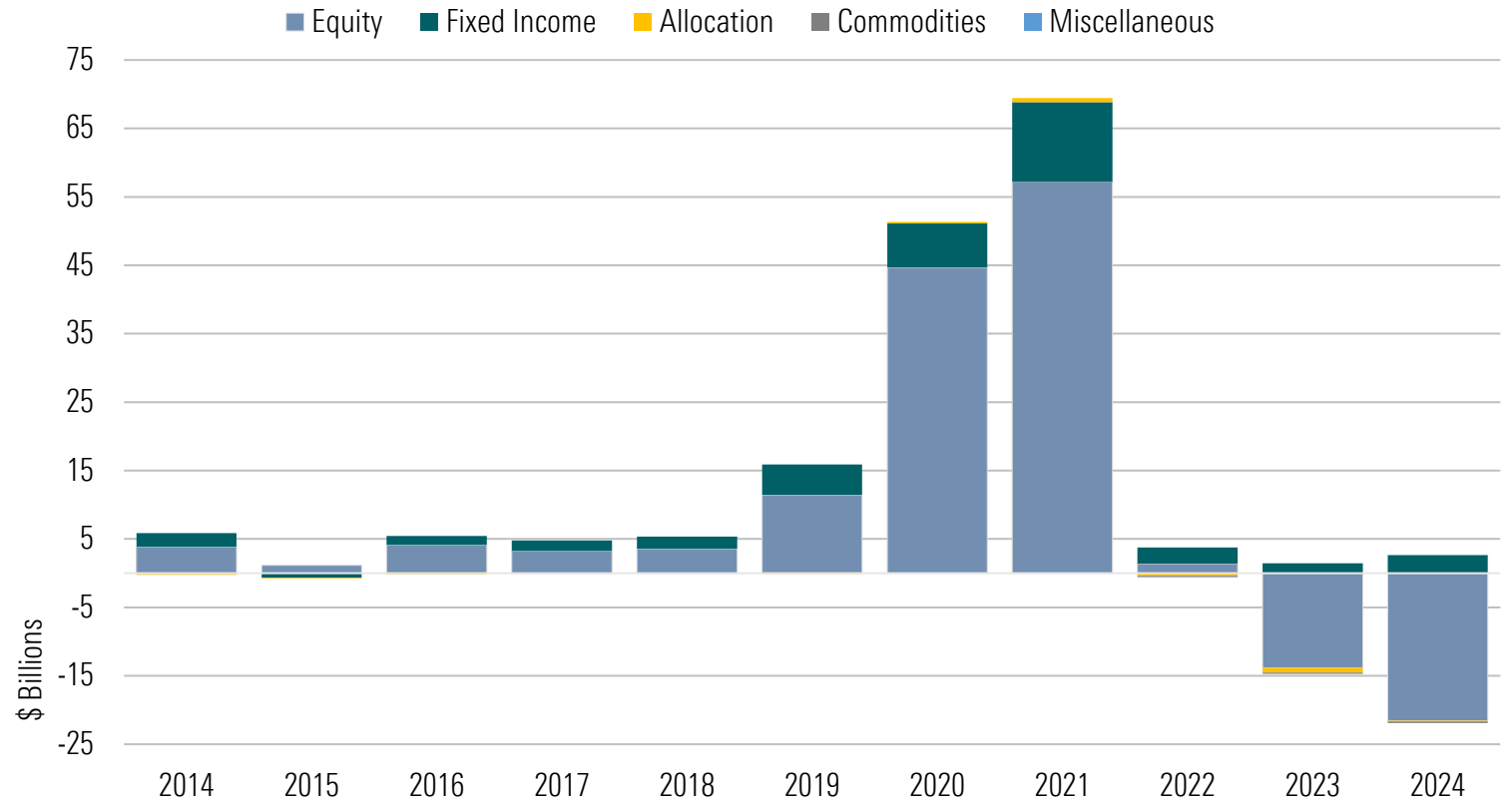
- **Large-cap equity funds were the worst hit**, shedding nearly \$14 billion during the year. Two of the largest sustainable funds — Parnassus Core Equity (PRBLX) and iShares ESG Aware MSCI USA ETF (ESGU)— sit in the large-blend Morningstar Category and were among the hardest hit during 2024.
- **Large-growth funds were not spared**, with combined redemptions of \$2.2 billion in 2024, led by Calvert Equity Fund (CSIEX), which bled \$1.3 billion over the year.

Equity funds remain the largest grouping within the US sustainable funds landscape, representing 85% of total assets.

**Sustainable bond funds stayed above water** in 2024 as investors sought to lock in attractive yields.

- Led by intermediate core-bond strategies — especially Calvert Bond Fund (CSIBX) and Nuveen Core Impact Bond (TSBIX)— sustainable fixed-income offerings brought in \$2.7 billion over the year.

### Sustainable Fund Flows by Asset Class



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

## The Largest Sustainable Funds Face the Largest Withdrawals

Two of the largest sustainable funds in the US landed among the hardest hit in terms of net annual outflows.

- **Parnassus Core Equity Fund** (PRBLX) experienced **\$3.7 billion in net withdrawals**, marking it as the largest outflow among ESG funds in 2024. The fund remains **the largest US sustainable fund**, closing the year with \$29.1 billion in assets.
- **iShares ESG Aware MSCI USA ETF** (ESGU) saw continued redemptions, losing \$2.9 billion in 2024, following heavy outflows in previous years. The fund's total assets stand at \$13.3 billion, down from its peak following strong ESG inflows between 2019 and 2021.
- In third place, **Parnassus Mid Cap Fund** (ARMX) also suffered \$2.8 billion in outflows.
- **iShares MSCI USA ESG Select ETF** (SUSA) and **Calvert Equity Fund** (CSIEX) faced net redemptions of \$2.3 billion and \$1.3 billion, respectively, while **Nuveen Large Cap Responsible Equity Fund** (SCX) lost \$1.1 billion.
- **iShares Global Clean Energy ETF** (ICLN) shed money for the third consecutive year, while its assets tumbled to \$1.4 billion, from \$6.8 billion in late 2021.

### Sustainable Funds With Largest Outflows in 2024

Fund Name	Ticker	Inception Date	Net Flows (\$ mn)	Assets (\$ bn)
Parnassus Core Equity Fund	PRBLX	31/08/1992	-3,764	29.1
iShares ESG Aware MSCI USA ETF	ESGU	01/12/2016	-2,895	13.3
Parnassus Mid Cap Fund	PARMX	29/04/2005	-2,857	2.9
iShares MSCI USA ESG Select ETF	SUSA	24/01/2005	-2,284	3.8
Calvert Equity Fund	CSIEX	24/08/1987	-1,350	6.2
Nuveen Large Cap Responsible Equity Fund	TISCX	01/07/1999	-1,077	7.1
American Century Large Cap Equity Fund	AFDAX	30/11/2004	-963	4.2
Calvert Emerging Markets Equity Fund	CVMIX	31/10/2012	-953	1.2
iShares Global Clean Energy ETF	ICLN	24/06/2008	-953	1.4
Eventide Gilead Fund	ETGLX	08/07/2008	-878	3.0

Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.

## Some of the Oldest Sustainable Funds Attract the Largest Flows

- At the top of the list of the best-selling sustainable funds in 2024, we find **Invesco MSCI Global Climate 500 ETF** (KLMT). It was launched in June with an initial investment of \$1.6 billion from Finland's Varma Mutual Pension Insurance Company. The ETF focuses on companies with greenhouse gas emissions (GHG) reduction targets.
- **First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund** (GRID) attracted \$1.1 billion of net new money last year. The fund invests in companies involved in smart grid technologies and infrastructure, capitalizing on the modernization of electrical grids to enhance efficiency and sustainability.
- In third place, **Vanguard ESG US Stock ETF** (ESGV), which has received regular subscriptions since its inception in 2018 helping it to reach \$10.2 billion in assets, garnered a total of \$788 million last year.
- **Calvert Bond Fund** (CSIBX) secured the fourth place in the 2024 flow league table, having featured among the top 10 in each of the past six years. One of the oldest sustainable fixed-income offerings in the US, Calvert Bond Fund integrates ESG factors into its bond selection process.
- **Dimensional US Sustainability Core 1 ETF** (DFSU) is the youngest fund in this table, being launched just over two years ago. The fund seeks to invest in companies with positive environmental impacts, considering factors like land use, water use, and biodiversity.

### Sustainable Funds With Largest Inflows in 2024

Fund Name	Ticker	Inception Date	Asset (\$ bn)	Net Flows (\$ mn)
Invesco MSCI Global Climate 500 ETF	KLMT	26/06/2024	1.7	1,622
First Trust NASDAQ ClnEdge Sm. Grid Infra. Ind. Fund	GRID	16/11/2009	2.1	1,116
Vanguard ESG US Stock ETF	ESGV	18/09/2018	10.2	788
Calvert Bond Fund	CSIBX	24/08/1987	3.7	776
Fidelity US Sustainability Index Fund	FITLX	09/05/2017	4.4	694
Xtrackers S&P 500 ESG ETF	SNPE	25/06/2019	1.6	438
Xtrackers MSCI EM Climate Selection ETF	EMCS	04/12/2018	.4	429
Dimensional US Sustainability Core 1 ETF	DFSU	01/11/2022	1.3	419
Nuveen Core Impact Bond Fund	TSBIX	21/09/2012	6.7	394
SPDR® S&P 500® ESG ETF	EFIV	27/07/2020	1.7	369

Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.

## Vanguard Holds onto the Crown for Inflows, but Behemoth BlackRock Faces Continued Outflows

With just seven sustainable funds, **Vanguard stayed in first place in terms of net annual flows** last year. Its \$1.7 billion haul was significantly weaker than the record \$7.4 collection in 2021, but it was enough to outdo passive-management rivals iShares, State Street, and Xtrackers.

- In 2024, **Vanguard ESG US Stock ETF** (ESGV) was the firm’s most popular sustainable fund, collecting nearly half of the firm’s total sustainable fund flows.
- The fund features a straightforward approach to portfolio construction, screening out companies involved in fossil fuels, weapons, gambling, and other controversial industries, while maintaining broad exposure to US equities. The fund’s popularity is largely driven by its low fee of just 0.09%.

**Fidelity was the second firm registering inflows into sustainable funds** in 2024, mainly driven by Fidelity US Sustainability Index (FITLX), which garnered \$720 million over the course of the year.

Meanwhile, **BlackRock**, the largest asset manager of US sustainable fund assets and largest recipient of US sustainable fund flows from 2019 through 2021, **faced some of the largest redemptions for the second consecutive year**.

- BlackRock’s sustainable fund offerings shed \$6.6 billion in 2024, which is still lower than the \$8.7 billion outflows suffered in 2023. A significant portion (43%) of the 2024 outflows came from one fund — iShares ESG Aware MSCI USA ETF — which gave up \$2.9 billion.

### Asset Managers With Largest Sustainable Funds’ Inflows/Outflows in 2024

Largest Outflows		Largest Inflows	
	(\$ mn)		(\$ mn)
Parnassus	-7,315	Vanguard	1,769
BlackRock (incl. iShares)	-6,657	Fidelity	1,414
Morgan Stanley	-2,120	Dimensional	885
American Century	-923	Invesco	877
Impax	-854	First Trust	809
Eventide	-686	RBC	275
Brown Advisory	-681	Community Capital	259
Nationwide	-594	Horizon Investments	145
Nuveen	-419	TCW	96
PIMCO	-361	Jackson	84

Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.



# US Sustainable Funds: Assets

The largest funds and asset managers stay at the top

## Assets Rose on the Back of Market Appreciation

Despite the net outflows, **assets in sustainable funds rose to \$344 billion** at the end of 2024.

- This represents a **6.3% increase** over assets at the end of 2023, but a 6% decline from the all-time record seen at the end of 2021.

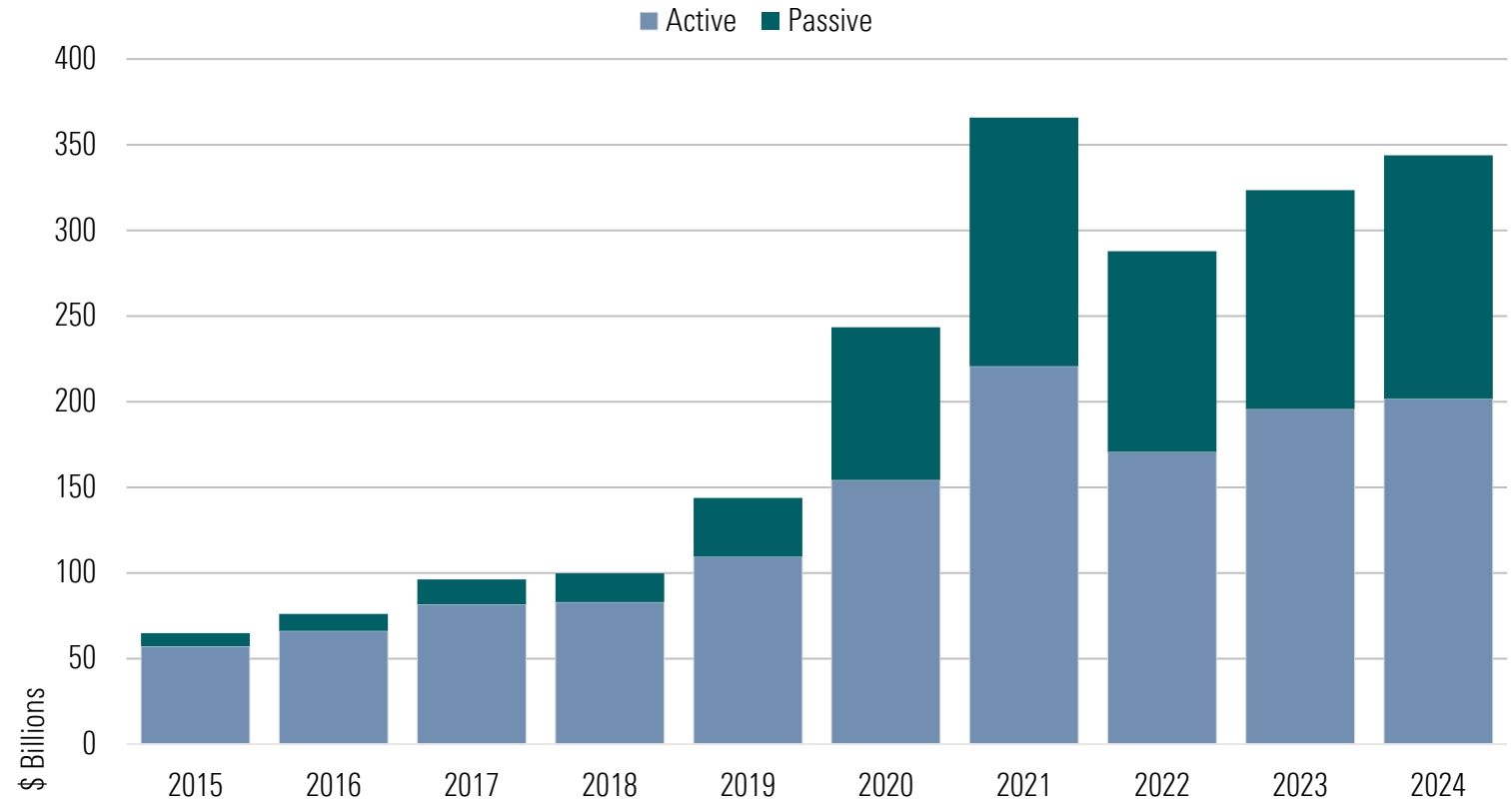
**The US sustainable funds landscape is more than five times larger than 10 years ago.** This is a result of growing investor demand as well as market appreciation.

- Investors have deposited nearly \$130 billion into sustainable funds over the past decade.

Actively managed funds continue to dominate the sustainable funds landscape, but **low-cost passive funds have gained in popularity** during recent years. As a result, active funds' market share has been on the decline.

- In 2015, active funds claimed nearly 88% of sustainable assets; that portion has hovered around 60% since 2021.

### Sustainable Fund Assets



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

## Parnassus Dominates the List of Actively Managed Sustainable Funds

### Parnassus only offers six funds, but those offerings have a strong grip on US

**investor appetite.** Standing at \$29 billion in assets at the end of 2024, Parnassus Core Equity (PRBLX) has been the largest US sustainable fund for more than 10 years.

- Parnassus has been fully dedicated to responsible and sustainable investing since the shop’s founding in the 1980s. In addition to excluding fossil fuels, the funds rely on proprietary evaluations of ESG criteria to inform investment decisions. Furthermore, Parnassus has long been active in ESG-focused engagement and stewardship, using its status as a shareholder to encourage more sustainable practices among investee companies.
- The firm’s process drives relatively concentrated portfolios, and at the end of 2024, Parnassus Core Equity, Parnassus Mid Cap PARMX, and Parnassus Value Equity PARWX each held fewer than 50 stocks.

It has not been easy for new active funds to break into the top 10 in terms of assets. Most of the largest active sustainable funds have held these spots for multiple years.

- TIAA-CREF Core Impact Bond (TSBIX) was renamed **Nuveen Core Impact Bond Fund**. The fund continues to be the only bond offering to reach the top 10 largest active funds.
- Also, in December, Nuveen Social Choice Low Carbon Equity Fund was merged into **Nuveen Large Cap Responsible Equity Fund** (TISCX) to streamline the offerings. The fund has ESG and low-carbon features.

### 10 Largest Actively Managed Sustainable Funds

Name	Ticker	Inception Date	Total Assets (\$ bn)
Parnassus Core Equity Fund	PRBLX	31/08/1992	29.0
Brown Advisory Sustainable Growth Fund	BAFWX	29/06/2012	9.8
Pioneer Fund	PIODX	2/10/1928*	9.0
DFA US Sustainability Core 1 Portfolio	DFSIX	12/03/2008	7.6
Nuveen Large Cap Responsible Equity Fund	TISCX	01/07/1999	7.1
Nuveen Core Impact Bond Fund	TSBIX	21/09/2012	6.7
Putnam Sustainable Leaders Fund	PNOPX	31/08/1990	6.5
Calvert Equity Fund	CSIEX	24/08/1987	6.2
Parnassus Value Equity Fund	PARWX	29/04/2005	4.8
American Century Large Cap Equity Fund	AFDAX	30/11/2004	4.2

Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.

\*Pioneer launched in 1928 and adopted a sustainable mandate in July 2021.

## BlackRock and Vanguard Traded Places but Stayed on Top

iShares (BlackRock) and Vanguard are the incumbents when it comes to passive sustainable investing in the US.

- iShares claimed five of the top 10 spots for largest passive sustainable funds, and Vanguard claimed three, at the end of 2024.
- **Vanguard FTSE Social Index** (VFTNX) remains the largest passive sustainable fund, ahead of **iShares ESG Aware MSCI USA ETF** (ESGY), which took the former’s place in 2021. Outflows from the latter gave Vanguard the lead once more in 2024.
- From its inception in 2016, **iShares ESG Aware MSCI USA ETF** was on a rocket-launch growth trajectory. Looking at year-end assets, the fund nearly decupled (grew by 10 times) between 2019 and 2020. This matches the timing that it was added to BlackRock’s Target Allocation ETF model portfolios. The fund nearly doubled again to reach \$25.7 billion at the end of 2021. However, market declines in 2022 and steep outflows in 2023 hit assets to decline to \$13.4 billion at the end of 2023. Despite further outflows in 2024, market appreciation supported the fund’s assets, which ended the year at \$13.2 billion.

Sustainable-investing specialist Calvert claims the oldest fund on the list. **Calvert US Large-Cap Core Responsible Index** (CISIX) is the only other fund—aside from Vanguard FTSE Social Index—to have landed among the top 10 largest passive sustainable offerings in each of the past 10 years.

**Fidelity U.S Sustainability Index Fund** (FITLX) made its first entry into this league table thanks to its inflows of close to \$700 million last year.

### 10 Largest Passive Sustainable Funds

Name	Ticker	Inception Date	Total Assets (\$ bn)
Vanguard FTSE Social Index	VFTNX	14/01/2003	22.4
iShares ESG Aware MSCI USA ETF	ESGU	01/12/2016	13.2
Vanguard ESG US Stock ETF	ESGV	18/09/2018	10.1
iShares ESG Aware MSCI EAFE ETF	ESGD	28/06/2016	8.0
Calvert US Large-Cap Core Responsible Index	CISIX	30/06/2000	5.7
iShares MSCI KLD 400 Social ETF	DSI	14/11/2006	4.8
Fidelity US Sustainability Index Fund	FITLX	09/05/2017	4.4
iShares ESG Aware MSCI EM ETF	ESGE	28/06/2016	4.3
Vanguard ESG International Stock ETF	VSGX	18/09/2018	3.9
iShares MSCI USA ESG Select ETF	SUSA	24/01/2005	3.7

Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.

## BlackRock, Vanguard, and Parnassus Are the Top Sustainable Fund Managers

BlackRock's dominance in the sustainable-investing landscape is something to behold.

- In total, offerings from BlackRock and iShares gave up almost \$6.7 billion in outflows in 2024, but these barely made a dent in the shop's sustainable fund assets. BlackRock kept a \$19 billion lead over the runner-up.
- BlackRock has held first place since it passed Parnassus and Morgan Stanley/Calvert in 2020. At the end of 2019, BlackRock had just 16 sustainable funds in the US. One year later, it offered 44 sustainable strategies.
- Although sustainable funds comprise less than 1% of BlackRock's assets in US open-end and exchange-traded funds, its influence on the US sustainable-investing landscape cannot be overstated, but only in the passive space, where more than 90% of its sustainable fund assets are held.
- In the actively-managed sustainable fund space, Parnassus is the unbeaten leader, enjoying a \$13 billion lead over Morgan Stanley/Calvert.

### Top Asset Managers By Sustainable Fund Assets

Total Assets		Active Assets		Passive Assets	
Firm	(\$ Billion)	Firm	(\$ Billion)	Firm	(\$ Billion)
BlackRock (incl. iShares)	58.3	Parnassus	37.9	BlackRock (incl. iShares)	53.8
Vanguard	38.8	Morgan Stanley	24.9	Vanguard	37.2
Parnassus	37.9	Nuveen	16.6	Morgan Stanley	11.0
Morgan Stanley	35.9	Dimensional	15.9	Nuveen	6.5
Nuveen	23.0	Brown Advisory	10.9	DWS (incl. Xtrackers)	5.8
Dimensional	15.9	Amundi (incl. Lyxor)	9.9	Invesco	5.5
Brown Advisory	10.9	Franklin Templeton	9.9	Fidelity	5.5
Amundi (incl. Lyxor)	9.9	Impax	8.3	First Trust	4.5
Franklin Templeton	9.9	Eventide	6.2	State Street	2.3
Impax	8.3	American Century	6.0	Northern Trust	2.0
Invesco	8.1	BlackRock (incl. iShares)	4.5	Praxis Mutual Funds	1.8
Fidelity	7.6	Boston Trust Walden	4.4	Global X	1.1
Eventide	6.2	Community Capital	3.7	Green Century	0.9
DWS (incl. Xtrackers)	6.0	AllianceBernstein	3.6	New York Life	0.8
American Century	6.0	Invesco	2.6	TCW	0.7
First Trust	4.5	Neuberger Berman	2.5	Kraneshares	0.7
Boston Trust Walden	4.4	PIMCO	2.3	Jackson	0.5
Community Capital	3.7	Domini	2.2	Flexshares	0.4
AllianceBernstein	3.6	Fidelity	2.2	VanEck	0.3
Praxis Mutual Funds	2.8	RBC	1.9	Amplify	0.2

Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated. Excludes funds of funds.

# US Sustainable Funds: Launches, Closures, and Rebranding

Launches dry up, while closures and funds that dropped ESG mandates pick up

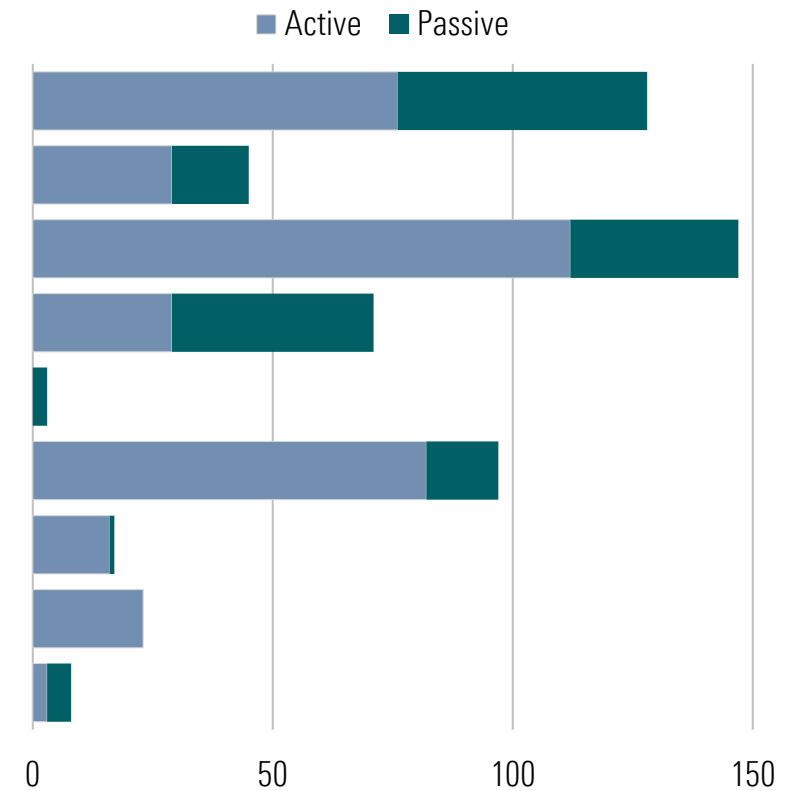
## Sustainable Funds Appear in a Variety of Asset Classes

Of the 587 sustainable funds on offer at the end of 2024, 392 are equity funds, 114 are fixed-income funds, and 25 are allocation funds. Commodities entered the stage in 2022 and counted eight. Overall, investors can find sustainable funds in 77 Morningstar Categories.

- US Large-Cap Equity leads with 76 active and 52 passive funds, showing a balanced mix of strategies.
- International Equity stands out with 112 active funds and 35 passive funds, reflecting investor preference for actively managed global exposure over passive approaches. Taxable Bonds are also heavily active-driven, with 82 active vs. 15 passive funds, aligning with \$38 billion in active assets, far outweighing passive holdings (\$9 billion).
- Sector Equity is the opposite, favoring passive strategies, with 42 passive vs. 29 active funds, and \$11 billion in passive assets, nearly quadrupling that of active holdings (\$3 billion).

### Sustainable Funds by Asset Class

US Category	Active	Passive
US Large-Cap Equity	76	52
US Small & Mid-Cap Equity	29	16
International Equity	112	35
Sector Equity	29	42
Nontraditional Equity	0	3
Taxable Bond	82	15
Municipal Bond	16	1
Allocation	23	0
Commodities	3	5



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds of funds.

## Product Development Dries Up

Sustainable fund launches dropped significantly in 2024, with **only 10 new sustainable funds hitting the shelves**.

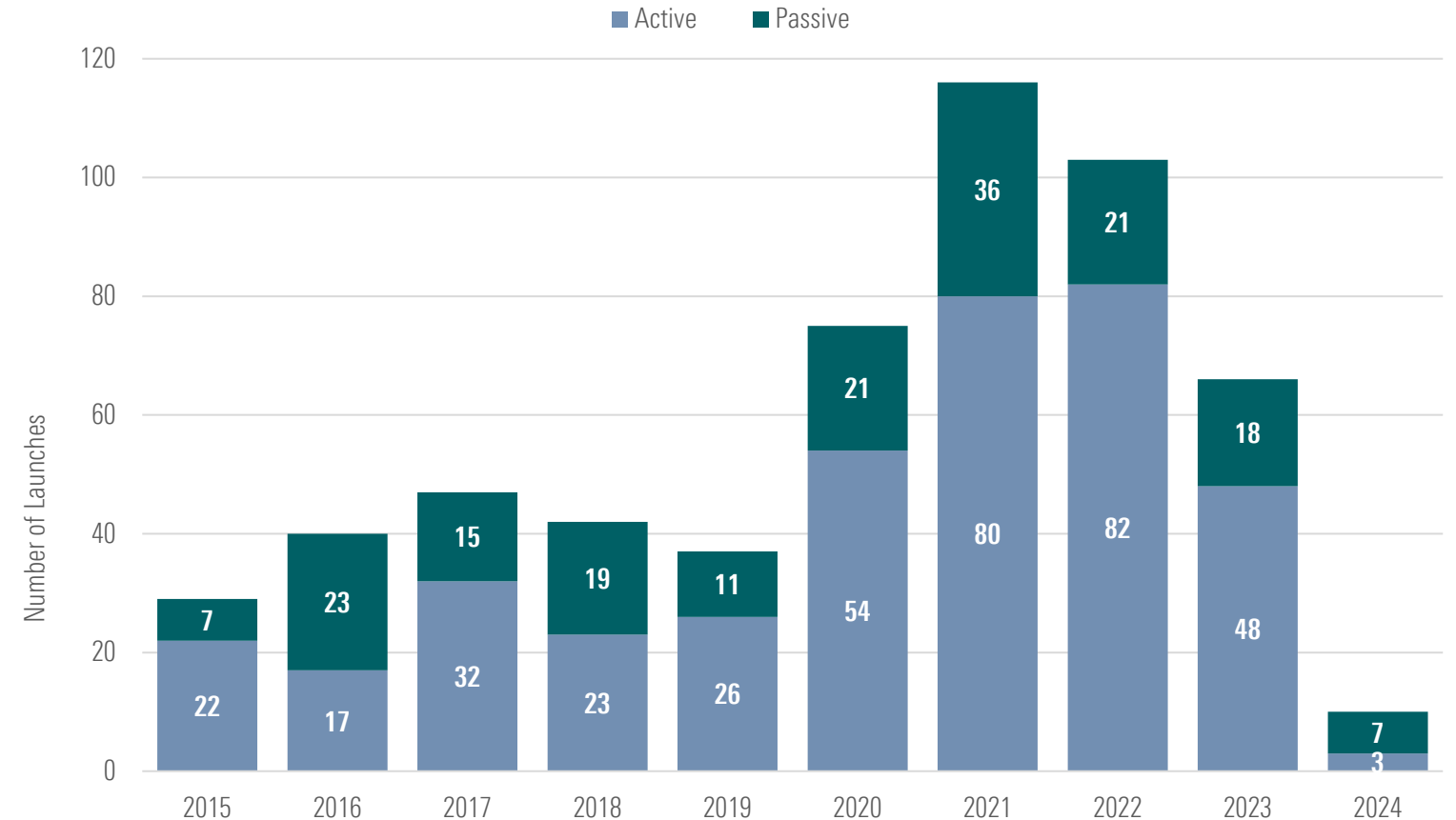
This is the lowest level seen in 10 years and pales in comparison of the 100-plus funds launched in 2021 and 2022.

It was also the first year that the number of new passive sustainable funds exceeded the number of new active sustainable funds.

Meanwhile, unlike previous years, in 2024, we did not identify any existing conventional funds that changed their investment strategies to become sustainable. In the past, converting funds into sustainable offerings was an alternative to launching new funds for asset managers keen to meet the growing investor demand for sustainable strategies.

- **The abrupt slowdown in product development can be directly explained by the lower investor demand for new sustainable strategies** in the ongoing ESG backlash context.

### Sustainable Fund Launches



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds that have liquidated.



## Invesco offers Largest New Sustainable ETFs, Focusing on Climate

Invesco led the pack as the provider of the two largest new offerings, with **Invesco MSCI North America Climate ETF** (KLMN) and **Invesco MSCI Global Climate 500 ETF** (KLMT), garnering more than \$4 billion in combined assets at the end of 2024. Both ETFs invest in leading companies in terms of carbon reduction and climate-focused business practices.

**Kraneshares Sustainable Ultra Short Duration Index ETF** (KCSH) was the third largest new offering, reaching \$224 million in assets at the end of 2024. The fund invests in investment-grade corporate bonds from issuers committed to net-zero emissions by 2050, while excluding companies involved in fossil fuels and unsustainable activities.

The 10 new funds were placed in seven Morningstar Categories. Six new launches are equity funds. Eight are ETFs.

➤ **Increasingly, fund managers have looked to ETFs to house actively managed strategies**, too. Two of last year’s new ETF launches are actively managed. These are Carbon Collective Short Duration Green Bond ETF and Nuveen Sustainable Core ETF.

### New Sustainable Funds Launched in 2024

Name	Ticker	Morningstar Category	Inception Date	Fund Size (\$ mn)
Invesco MSCI North America Climate ETF	KLMN	Global Large-Stock Blend	09/12/2024	2,343
Invesco MSCI Global Climate 500 ETF	KLMT	Global Large-Stock Blend	26/06/2024	1,700
Kraneshares Sustainable Ultra Short Duration Index ETF	KCSH	Ultrashort Bond	22/07/2024	224
iShares Paris-Aligned Climate MSCI World Ex USA ETF	PABD	Foreign Large Blend	17/01/2024	46
Stance Sustainable Beta ETF	STSB	Large Blend	14/11/2024	17
Carbon Collective Short Duration Green Bond ETF	CCSB	Short-Term Bond	11/04/2024	16
iShares Energy Storage & Materials ETF	IBAT	Miscellaneous Sector	19/03/2024	6
Nuveen Sustainable Core ETF	NSCR	Large Blend	05/03/2024	6
BlackRock LifePath® ESG Index 2070 Fund	LEYIX	Target-Date 2065+	24/09/2024	2
Fidelity Sustainable Target Date 2070 Fund	FRCVX	Target-Date 2065+	28/06/2024	1

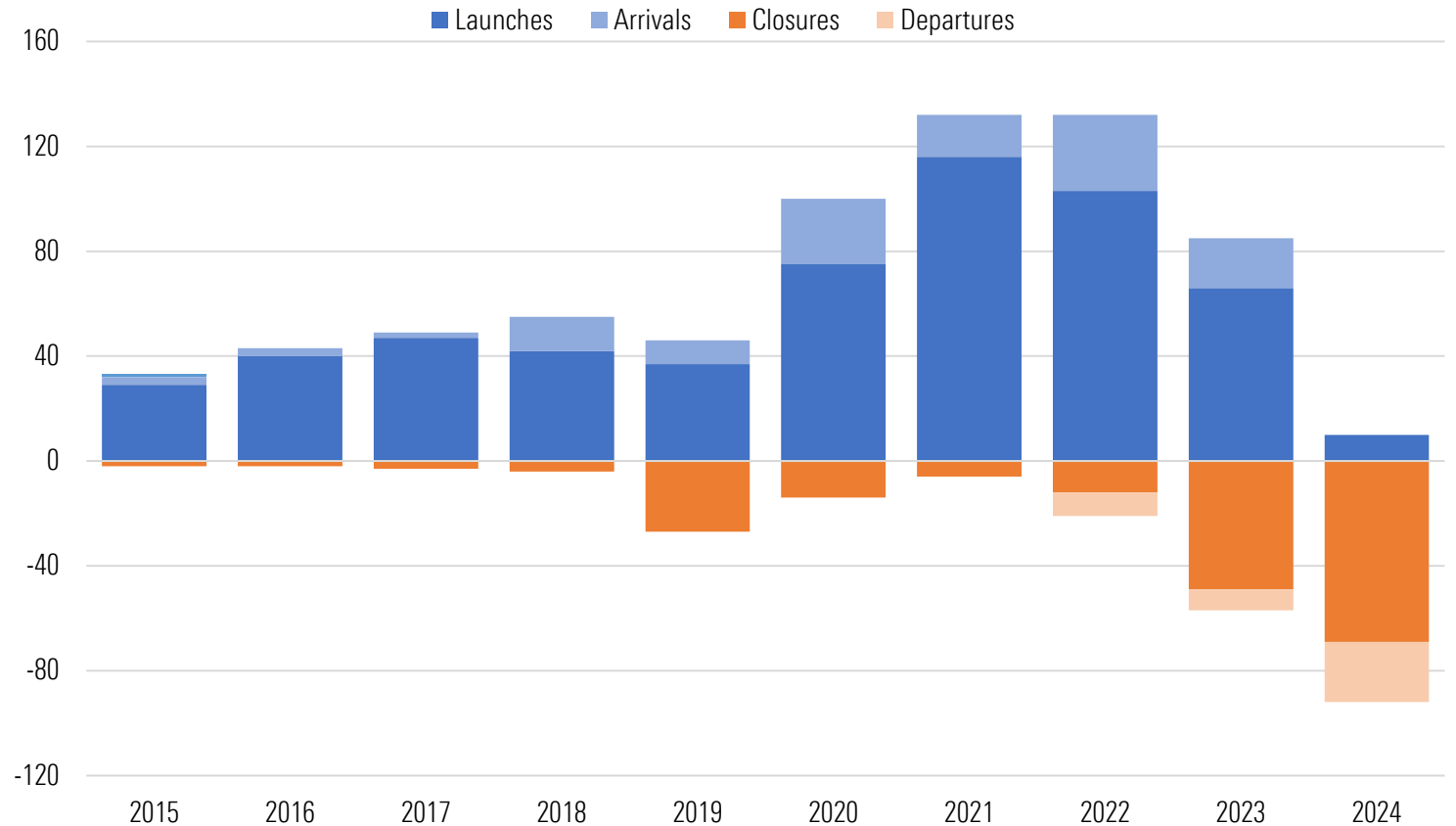
Source: Morningstar Direct. Data as of Dec. 31, 2024. Excludes funds of funds.

## Closures and Departures Exceed Launches and Arrivals

For the first year, US sustainable fund closures outpaced new launches in 2024.

- Only 10 new funds came to market and **no existing conventional fund was added to the sustainable funds** landscape (labeled “Arrivals” in the exhibit to the right).
- Meanwhile, a total of **71 sustainable funds were either merged or liquidated** in 2024, while **24 dropped their ESG-focused mandates** (labeled “Departures”).

**Sustainable Funds: New Arrivals & Departures**



Source: Morningstar Direct. Data as of Dec. 31, 2024. Includes funds of funds and feeder funds.

## Examples of Sustainable Funds That Closed

Of the 71 funds that closed last year, **60 were liquidated** while **11 were merged** into other existing funds.

- The largest funds (in terms of assets at the end of 2023) was **Nuveen Social Choice Low Carbon Equity Fund**, which merged into Nuveen Large Cap Responsible Equity Fund in December 2024 to streamline the number of offerings. The two strategies were managed by the same team and had the same ESG and low-carbon criteria.
- The list of fund closures encompasses a variety of strategies, including some targeting sustainability outcomes such as JPMorgan Small Cap Sustainable Leaders Fund, while others, such as Ninety One Global Environment Fund and Veridien Climate Action ETF, had a climate-focused mandate.

A number of funds that closed had been repurposed into ESG-focused strategies a few years ago but failed to attract flows.

### Largest Sustainable Funds That Closed in 2024

Name	Inception Date	Obsolete Date	Obsolete Type	Total Assets Dec 2023 (\$Mil)
Nuveen Social Choice Low Carbon Equity Fund	07/08/2015	13/12/2024	Merged	1,221
ClearBridge All Cap Growth ESG ETF	03/05/2017	14/06/2024	Merged	111
Sterling Capital Diverse Multi-Manager Active ETF	13/12/2021	12/01/2024	Liquidated	101
WCM International Equity Fund	31/03/2020	07/10/2024	Merged	87
abrdn Emerging Markets Sustainable Leaders Fund	30/08/2000	21/06/2024	Merged	75
Angel Oak Financials Income Impact Fund	03/11/2014	24/05/2024	Liquidated	74
CCM Core Impact Equity Fund	25/11/1996	23/02/2024	Merged	73
WisdomTree U.S. ESG Fund	23/02/2007	05/02/2024	Liquidated	68
Virtus NFJ Global Sustainability Fund	09/12/2014	20/12/2024	Liquidated	56
BlackRock Sustainable Low Duration Bond Fund	18/10/2021	13/08/2024	Liquidated	47
BlackRock Sustainable Advantage CoreAlpha Bond Fund	23/08/2016	13/08/2024	Liquidated	41
AMG GW&K Enhanced Core Bond ESG Fund	02/01/1997	11/09/2024	Liquidated	40
JPMorgan Small Cap Sustainable Leaders Fund	31/12/1996	21/05/2024	Liquidated	39
Fidelity SAI Sustainable Future Fund	14/04/2022	15/11/2024	Merged	36
Janus Henderson Sustainable & Impact Core Bond ETF	08/09/2021	21/02/2024	Liquidated	36
Angel Oak Total Return Bond Fund	04/06/2021	16/02/2024	Merged	31
Ninety One Global Environment Fund	30/08/2021	30/10/2024	Liquidated	30
Direxion Hydrogen ETF	25/03/2021	29/07/2024	Liquidated	29
Allspring Municipal Sustainability Fund	28/02/2020	09/10/2024	Liquidated	28
Veridien Climate Action ETF	08/05/2023	20/08/2024	Liquidated	25

Source: Morningstar Direct. Data as of Dec. 31, 2024. Some of these funds were repurposed into ESG-focused strategies a few years ago.

## Examples of Sustainable Funds That Dropped ESG Mandates

Of the 24 funds that removed their ESG-dedicated mandates in 2024, the largest (in terms of assets) was **NYLI MacKay ESG Core Plus Bond ETF** (CPLB), which became NYLI MacKay Core Plus Bond ETF.

**Janus Henderson Sustainable Corporate Bond ETF** (JLQD), now called Janus Henderson Corporate Bond ETF, dropped its ESG-dedicated mandate after three years of activity during which it struggled to attract assets. However, ESG has remained a core part of the overall evaluation process for credit. This is illustrated by the very limited turnover within the portfolio post rebranding.

**The Natixis Target Retirement fund range removed the term “sustainable” from its name**, although the investment strategy as described in the prospectuses does not seem to have changed.

Meanwhile, two abrdn funds experienced radical changes. **abrdn International Sustainable Leaders Fund** was renamed as abrdn Emerging Markets Dividend Fund, while **abrdn US Sustainable Leaders Smaller Companies Fund** became abrdn Focused US Small Cap Equity Fund. The strategies are new and managed by different investment teams.

### Sustainable Funds That Rebranded and Dropped Their ESG Mandate in 2024

Name	Ticker	Inception Date	Total Assets (\$ mn)
NYLI MacKay Core Plus Bond ETF	CPLB	29/06/2021	316
Columbia U.S. Equity Income ETF	EQIN	13/06/2016	116
VictoryShares THB Mid Cap ETF	MDCP	04/10/2021	112
abrdn Emerging Markets Dividend Fund	JIEIX	17/11/1999	76
Hartford Strategic Income ETF	HSUN	21/09/2021	73
Dana Epiphany Equity Fund	ESGIX	13/02/2008	68
Morgan Stanley Global Stars Portfolio	MGQIX	30/08/2013	67
AQR Trend Total Return Fund	QNZR	16/12/2021	51
Dana Epiphany Small Cap Equity Fund	DSCIX	03/11/2015	35
Janus Henderson Corporate Bond ETF	JLQD	08/09/2021	32
Natixis Target Retirement 2040	NSFH	28/02/2017	28
Natixis Target Retirement 2050	NSFK	28/02/2017	27
Columbia International Equity Income ETF	INEQ	13/06/2016	26
Natixis Target Retirement 2045	NSFJ	28/02/2017	26
Clough Select Equity ETF	CBSE	12/11/2020	22
Natixis Target Retirement 2055	NSFL	28/02/2017	22
Natixis Target Retirement 2035	NSFG	28/02/2017	20
Natixis Target Retirement 2030	NSFF	28/02/2017	20
Natixis Target Retirement 2060	NSFM	28/02/2017	19
abrdn Focused U.S. Small Cap Equity Fund	GGUI	29/06/2004	14
Natixis Target Retirement 2025	NSFE	28/02/2017	10
Natixis Target Retirement 2020	NSFD	28/02/2017	5
Natixis Target Retirement 2015	NSFB	28/02/2017	5
Natixis Target Retirement 2065	NSFO	15/12/2021	5

Source: Morningstar Direct. Data as of Dec. 31, 2024.

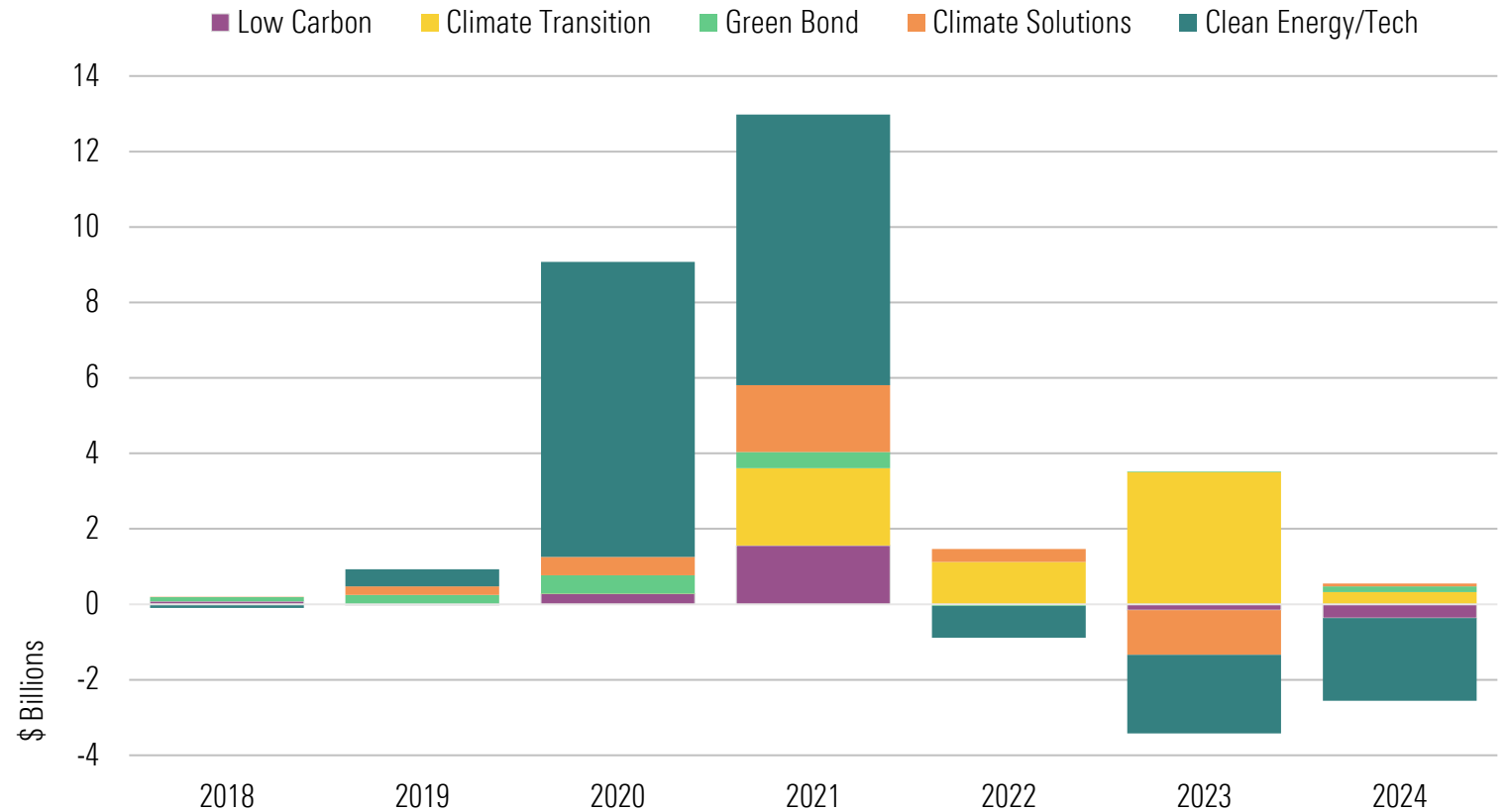
# A Challenging Year for Climate Funds

# Clean Energy/Tech Funds Bleed Money for the Third Consecutive Year

**US-domiciled climate funds\* suffered annual redemptions for the first time**, at almost \$2 billion in 2024, following small inflows of \$560 million in 2023.

- Clean Energy/Tech funds recorded their third consecutive year of outflows (\$2.2 billion), reflecting continued investor pessimism over the sector mainly due to high financing costs and squeezed margins.
- Climate Solutions funds saw modest inflows of \$80 million, after net withdrawals in 2023, suggesting selective investor confidence in the performance of climate-focused innovation, especially in the current high interest rates environment.
- Meanwhile, Climate Transition funds attracted \$330 million in net new capital, maintaining their position as the most resilient climate category as investors slowly warm up to decarbonization strategies.
- Green Bond funds remained stable, with \$150 million in new subscriptions, while Low Carbon funds experienced \$360 million in outflows.

## Flows into US Climate Funds



Source: Morningstar Direct. Data as of Dec. 31, 2024.

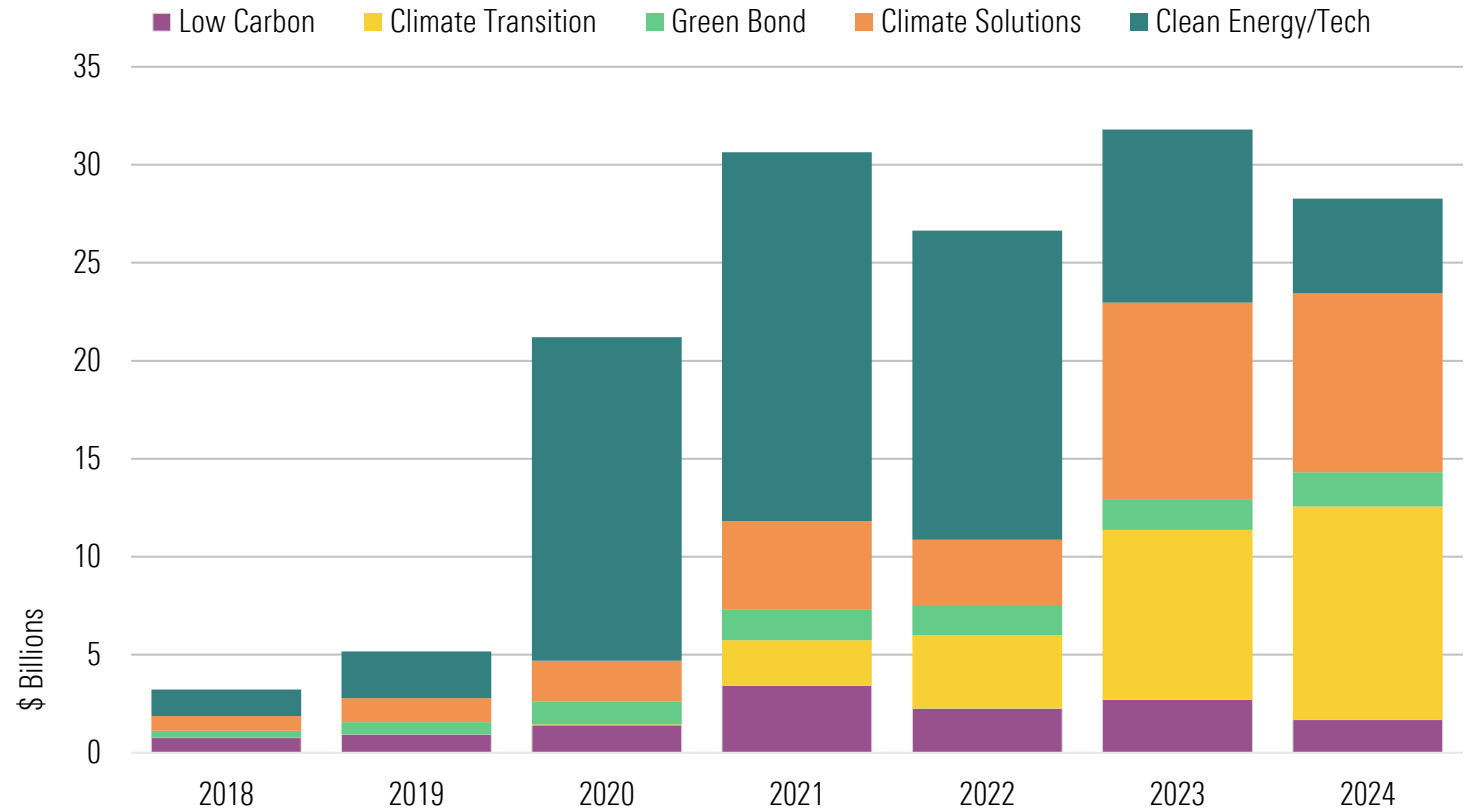
Our definition of climate funds can be found here: [Investing in Times of Climate Change](#)

## Overall Climate Fund Assets Decline, but Climate Transition Strategies Gain in Prominence

**Assets in US climate funds declined by 11% from their record-high levels in 2023**, amounting to \$28.3 billion as of the end of 2024.

- However, **assets in Climate Transition funds rose by 26%** last year to \$10.9 billion, boosted by product launches and market price appreciation.
- Affected by stock price declines and policy uncertainty, Climate Solutions funds and Clean Energy/Tech fund assets shrank by 9% and 45% to \$9.1 billion and \$4.8 billion, respectively.
- Green Bond funds continued their slow growth, reaching \$1.7 billion at the end of 2024, benefiting from the growing investor appetite for instruments that support companies in their decarbonization efforts.

**Assets in US Climate Funds**



Source: Morningstar Direct. Data as of Dec. 31, 2024.

# US Sustainable Funds: Investment Performance

Sustainable funds lagged peers, while some stood out on multiple Morningstar metrics



## Sustainable Funds Delivered Subpar Returns in 2024

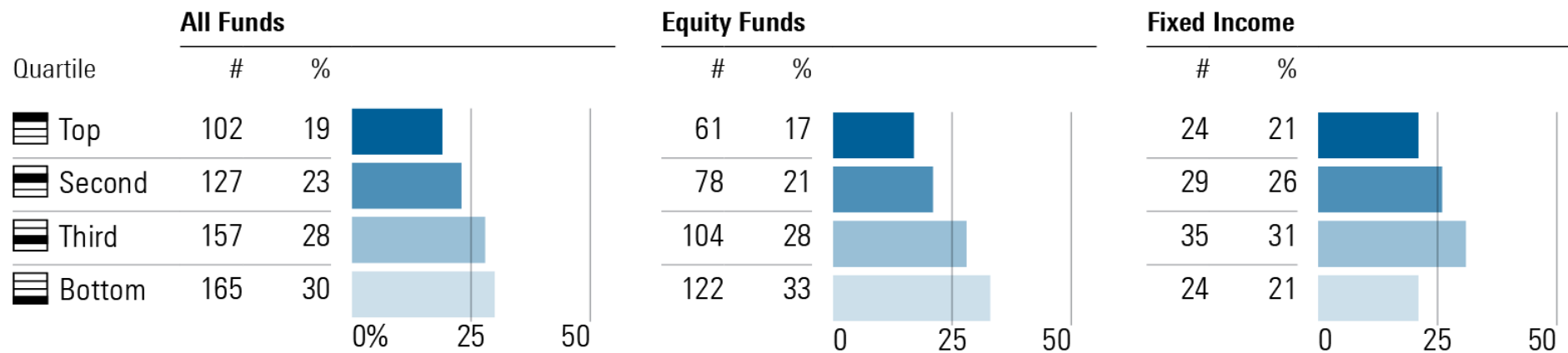
To evaluate the investment performance of sustainable funds, we can compare how their returns rank relative to their respective Morningstar Category peers. In terms of total returns, sustainable funds lagged their conventional peers in 2024, with **only 42% of sustainable funds landing in the top half of their respective Morningstar Categories.**

**Equity funds suffered the worst of the underperformance**, with just 38% of sustainable equity funds in the first or second quartile of their respective Morningstar Categories.

- Among large-blend equity funds (the largest grouping within the US sustainable funds landscape), the median return for sustainable funds was 20.7% in 2024. This is lower than the 21.5% median gain for conventional funds and fell further behind the 24.1% gain for the Morningstar US Market Index.

**Fixed-income funds performed better**, with almost 48% of sustainable bond funds in the top and second quartiles of their respective Morningstar Categories.

### Sustainable Funds 2024 Return Rank by Morningstar Category Quartile



Source: Morningstar Direct. Data as of Dec. 31, 2024.

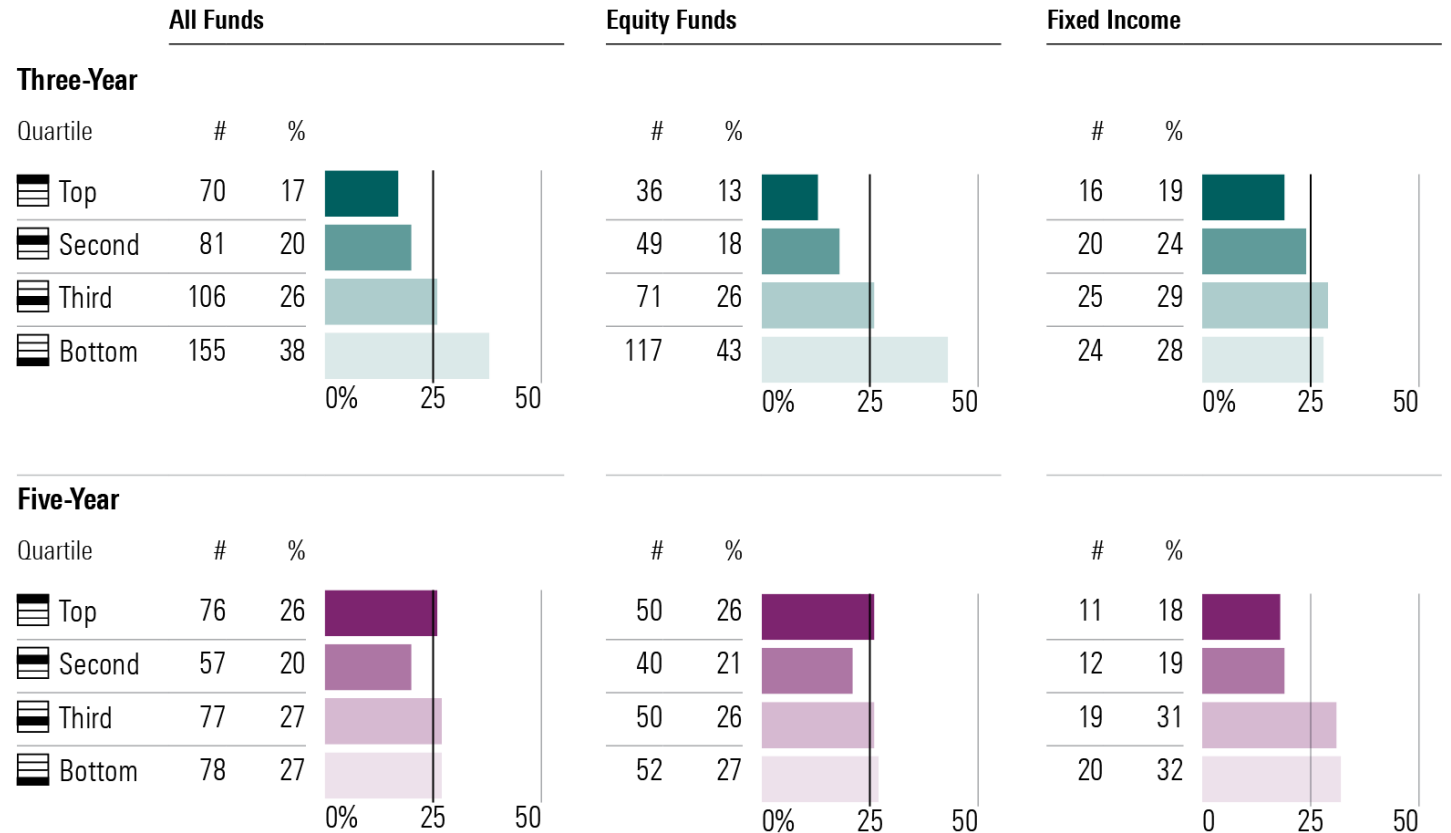
## Sustainable Equity Funds Stood Out in the Intermediate Term

Similarly, sustainable funds delivered subpar performance over three and five years, where only 37% and 46%, respectively, of sustainable funds landed in the top half of their categories in terms of trailing three-year returns.

Although sustainable equity funds lagged conventional peers in terms of total returns over the trailing three-year period, their fortunes improved when including 2020 and 2021 (as shown in the trailing five-year period).

On the other hand, over the trailing three-year and five-year periods, sustainable bond funds found themselves in the bottom half of their respective categories more often than not.

### Sustainable Funds Three- and Five-Year Trailing Performance by Morningstar Category Quartile

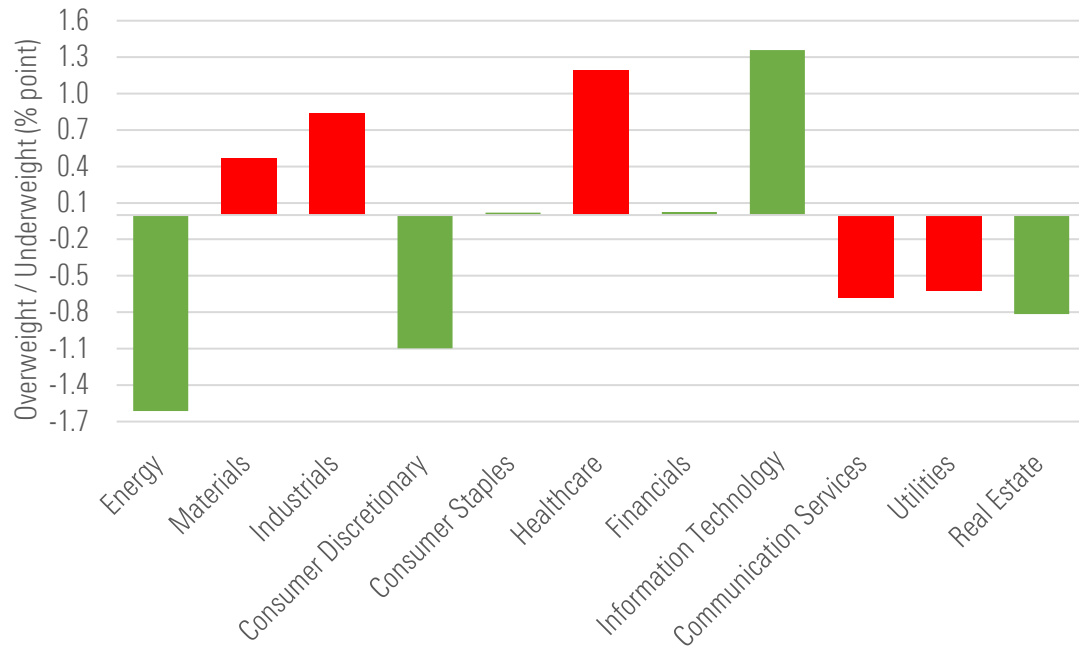


Source: Morningstar Direct. Data as of Dec. 31, 2024.

# Technology Overweightings and Energy Underweightings Supported Returns, Healthcare Overweightings Hurt

The median sustainable large-blend equity fund (20.7%) lagged conventional peers (21.5%). To understand what drove these returns, we compared the sector profiles for nearly 85 sustainable large-blend equity funds with that of the Morningstar US Market Index (the average over- and underweighting's are shown in the exhibit on the left). Entering into 2024, the average sustainable large-blend equity fund held relative overweightings to technology, which contributed positively to these funds as technology trounced all other sectors with its 36% gain in 2024. On the other hand, the average sustainable large-blend equity fund maintained an overweighting to healthcare stocks, which hurt its annual return. Healthcare was the second-worst performing sector in 2024, returning only 2.7%. By comparison, the Morningstar US Market Index returned 24.1% in 2024.

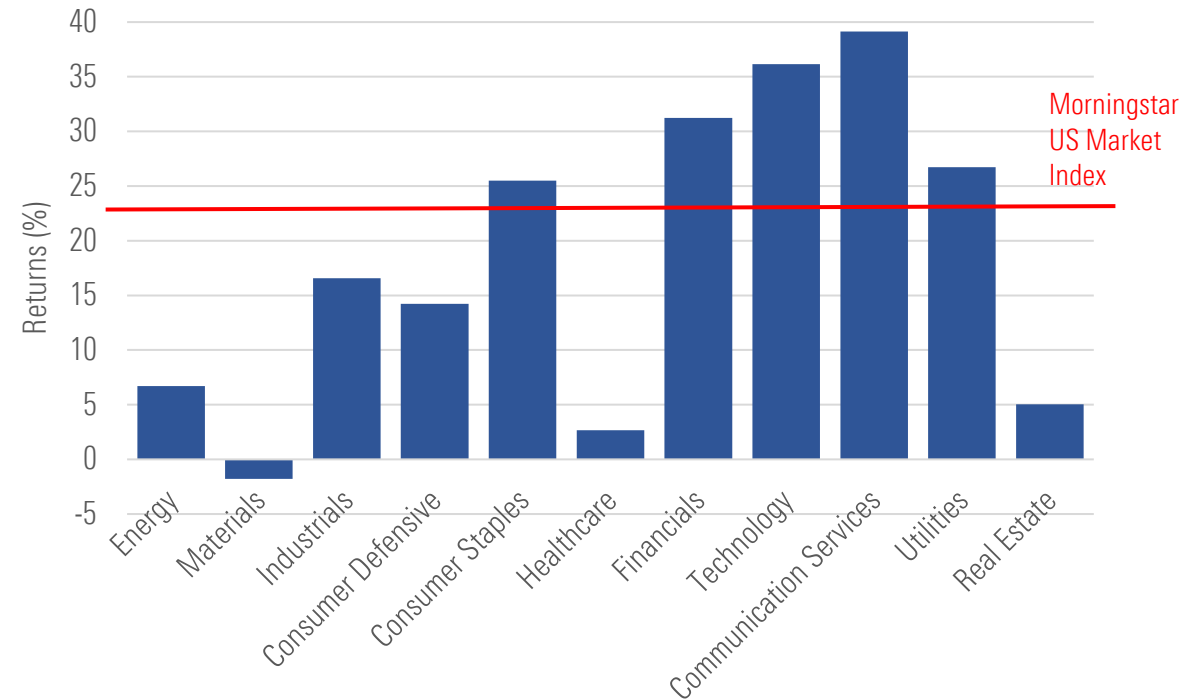
**Sustainable Funds' Average Sector Exposure vs. Morningstar US Market Index**



Green indicates that the sector over/underweight contributed positively to performance. Red indicates that the sector over/underweight contributed negatively to performance.

Source: Morningstar Direct. Data as of Dec. 31, 2023. Returns reflect Morningstar sector indexes, whose parent index is the Morningstar US Market Index.

**US Equity Sector Annual Returns in 2024**



Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Best-Performing Sustainable Funds in 2024

- At the top of the league table, we find **Newday Ocean Health ETF**, which delivered a return of 122% last year. This fund focuses on companies that promote ocean sustainability through clean water technologies, marine conservation, and sustainable fisheries. It aligns with UN SDG 14 – Life Below Water, to protect marine biodiversity. However, the fund was liquidated at the end of the year, likely due to low assets.
- In second place with gains of 34%, **Xtrackers S&P 500 Growth ESG ETF** tracks an index that excludes companies with poor ESG scores and provides higher exposure to companies with stronger ESG practices.
- Of the top 15 best performing funds, nine are classed as large growth strategies. We also find funds that support the clean energy transition, including **Neuberger Berman Energy Transition & Infrastructure ETF** with annual gains of 31%, and infrastructure transformation initiatives **Xtrackers MSCI USA Climate Action Equity ETF**, which returned 27%, and **TCW Transform Systems ETF** (28%).

### Best-Performing Sustainable Funds

Name	Ticker	Morningstar Category	Total Return 2024 (%)	Inception Date	Fund Size (\$ mn)
Newday Ocean Health ETF	AHOY	Large Blend	122.3	06/06/2022	3
Xtrackers S&P 500 Growth ESG ETF	SNPG	Large Growth	34.1	08/11/2022	16
Praxis Growth Index Fund	MMDEX	Large Growth	33.4	01/05/2007	679
Ishares ESG Aware MSCI USA Growth ETF	EGUS	Large Growth	32.9	31/01/2023	11
Neuberger Berman Energy Transition & Infrastructure ETF	NBET	Global Small/Mid Stock	31.0	06/04/2022	15
Nuveen Winslow Large-Cap Growth ESG Fund	NVLIX	Large Growth	29.3	15/05/2009	991
Nuveen Winslow Large-Cap Growth ESG ETF	NWLG	Large Growth	29.2	04/08/2021	10
TCW Transform Systems ETF	NETZ	Large Blend	28.6	02/02/2022	338
Neuberger Berman Sustainable Equity Fund	NBSRX	Large Blend	28.2	16/03/1994	1,589
Calvert US Large-Cap Growth Responsible Index Fund	CGJIX	Large Growth	27.8	19/06/2015	725
Transamerica Sustainable Growth Equity	TSGMX	Large Growth	27.5	31/03/2023	8
Parnassus Growth Equity Fund	PFPGX	Large Growth	27.1	28/12/2022	64
Xtrackers MSCI USA Climate Action Equity ETF	USCA	Large Blend	27.0	03/04/2023	2,419
Ishares Climate Conscious & Transition MSCI USA ETF	USCL	Large Blend	27.0	06/06/2023	2,294
American Century Large Cap Growth ETF	ACGR	Large Growth	26.7	29/06/2021	17

Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Worst-Performing Sustainable Funds in 2024

Among the worst-performing funds, we find a concentration of sector funds, including many focused on solar and clean energy. In 2024, renewable energy stocks continued to face headwinds, such as high financing costs and project delays.

- **Direxion Daily Electric and Autonomous Vehicles Bull 2X** plunged 50.52%. This leveraged ETF suffered massive losses due to the slowdown in EV demand, supply chain disruptions, and rising interest rates.
- **Invesco Solar ETF**, the second worst performer with a loss of 37.1%, invests in global solar companies, including panel manufacturers, solar farm developers, and energy storage firms.
- The largest of all, **iShares Global Clean Energy ETF** slid by almost 26%.
- Hydrogen, solar, and electric vehicle sectors require significant infrastructure investment, making these funds vulnerable to high interest rates and financing challenges.

### Worst-Performing Sustainable Funds

Name	Ticker	Morningstar Category	Total Return 2024 (%)	Inception Date	Fund Size (\$ mn)
Direxion Daily Electric and Auto. Vehicles Bull 2X	EVAV	Trading--Leveraged Equity	-50.5	10/08/2022	7
Invesco Solar ETF	TAN	Miscellaneous Sector	-37.1	15/04/2008	862
Global X CleanTech ETF	CTEC	Global Small/Mid Stock	-35.9	27/10/2020	33
Global X Hydrogen ETF	HYDR	Miscellaneous Sector	-32.7	12/07/2021	40
Defiance Next Gen H2 ETF	HDRO	Equity Energy	-32.3	09/03/2021	21
Global X Solar ETF	RAYS	Miscellaneous Sector	-31.0	08/09/2021	6
Invesco WilderHill Clean Energy ETF	PBW	Small Growth	-30.6	03/03/2005	330
ALPS Clean Energy ETF	ACES	Miscellaneous Sector	-26.7	27/06/2018	124
GMO Resource Transition Fund	GMOYX	Natural Resources	-26.2	15/02/2023	108
Invesco Global Clean Energy ETF	PBD	Global Small/Mid Stock	-26.2	13/06/2007	85
iShares Global Clean Energy ETF	ICLN	Miscellaneous Sector	-25.8	24/06/2008	1,470
GMO Climate Change Fund	GCCHX	Global Small/Mid Stock	-25.6	05/04/2017	604
Global X Renewable Energy Producers ETF	RNRG	Utilities	-22.1	27/05/2015	29
Regnan Global Equity Impact Solutions	REGIX	Global Small/Mid Stock	-22.0	23/08/2021	1
Global X Wind Energy ETF	WNDY	Miscellaneous Sector	-21.8	08/09/2021	2



















Source: Morningstar Direct. Data as of Dec. 31, 2024.

## A Sample of Sustainable Funds That Stack Up Well on Multiple Morningstar Metrics

Looking ahead, we can consult forward-looking ratings to identify those funds that Morningstar’s manager research team believes will outperform. Under the Morningstar Medalist Rating system, more than 242 sustainable funds earn our higher ratings (Gold, Silver, or Bronze). Of those, 10 are offered by asset managers that earned top marks on the Morningstar ESG Commitment Level. The ESG Commitment Level, discontinued in 2024, was a qualitative measure of the extent to which asset managers incorporate ESG considerations into their investment processes.

- All but two—Nuveen Core Impact Bond TSBIX and Nuveen Green Bond TGRNX—of the top 10 are equity funds. **Parnassus Core Equity** PRBLX leads the pack in terms of assets and earns a Silver rating. Small but mighty **Boston Trust Walden Small Cap** BOSOX also fairs well, with a Gold rating. In terms of sustainability performance, eight of the top 10 earn High or Above Average Morningstar Sustainability Ratings, a sign that their portfolios are exposed to lower ESG risk compared with peers.

### Top Sustainable Gold, Silver, and Bronze Funds

Name	Ticker	Morningstar Category	Inception Date	Morningstar Medalist Rating	Fund Size \$ Billion	Morningstar Sustainability Rating™	2024 Total Return	2024 % Rank Category	Prospectus Adjusted Expense Ratio (%)
Parnassus Core Equity Fund	PRBLX	Large Blend	31/08/1992	 Silver	28.6		18.5	73	0.82
Brown Advisory Sustainable Growth Fund	BAFWX	Large Growth	29/06/2012	 Silver	9.7		20.4	85	0.61
Nuveen Core Impact Bond Fund	TSBIX	Intermediate Core Bond	21/09/2012	 Bronze	6.6		2.6	11	0.36
Parnassus Mid Cap Fund	PARMX	Mid-Cap Blend	29/04/2005	 Silver	2.8		10	82	0.96
Impax Global Environmental Markets Fund	PGINX	Global Large-Stock Blend	27/03/2008	 Bronze	2.3		5.1	90	0.91
Boston Trust Walden Small Cap Fund	BOSOX	Small Blend	16/12/2005	 Gold	1.4		12.6	30	1
Parnassus Mid Cap Growth Fund	PARNX	Mid-Cap Growth	27/12/1984	 Bronze	0.8		10.6	74	0.8
Nuveen Green Bond Fund	TGRNX	Intermediate Core-Plus Bond	16/11/2018	 Silver	0.2		3.1	23	0.45
Impax Global Opportunities Fund	PXGOX	Global Large-Stock Growth	27/06/2018	 Bronze	0.1		6.4	87	0.98

Source: Morningstar Direct. Data as of Dec. 31, 2024.

# US Sustainable Funds: Sustainability Performance

Sustainable funds delivered on multiple sustainability characteristics

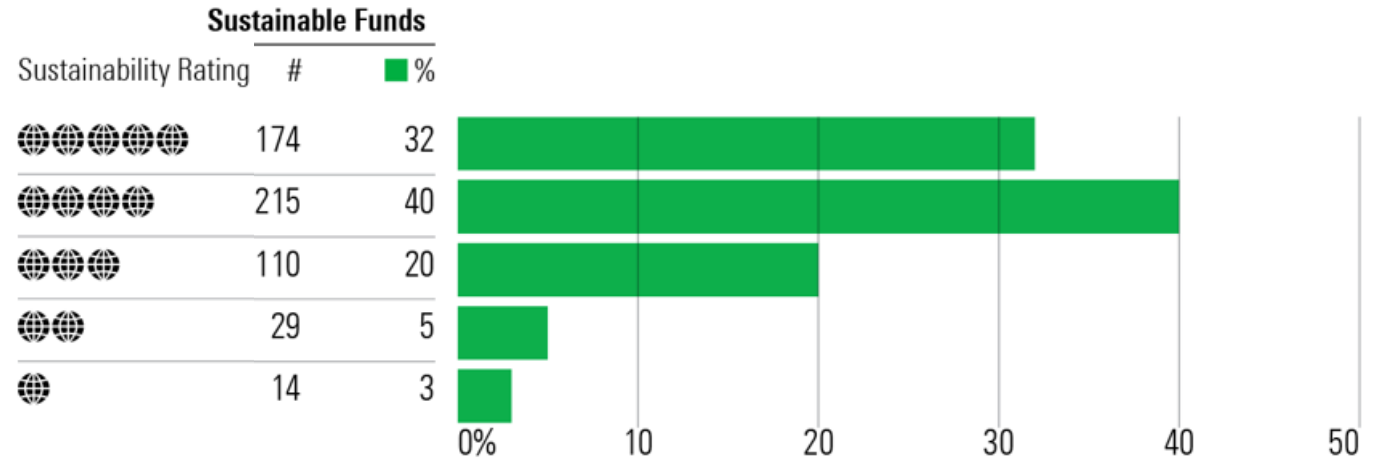
# Sustainable Funds Delivered Lower Exposure to ESG Risk

How well do sustainable funds limit exposure to ESG risk, compared with peers? The Morningstar Sustainability Rating can help answer this question.

The Morningstar Sustainability Rating is an asset-weighted roll-up of Sustainalytics' company and sovereign ESG Risk Ratings based on the trailing 12 months of a fund's portfolios. Each sleeve (corporate or sovereign) of the fund's portfolio is ranked within the global peer category group, and 1 to 5 globes are assigned. Each sleeve's rating is multiplied by its respective globe rating to arrive at the fund's overall globe rating.

Although the consideration of material ESG risks has become common in traditional investment management, sustainable funds continue to deliver lower levels of ESG risk, compared with peers. **Nearly three-fourths (72%) of sustainable funds receive the highest ratings, 4 or 5 globes, compared with 27% of funds overall.** At the other end of the scale, less than one-tenth of sustainable funds receive the lowest ratings, 1 or 2 globes, compared with 29% of funds overall.

## ESG Risk in Sustainable Funds

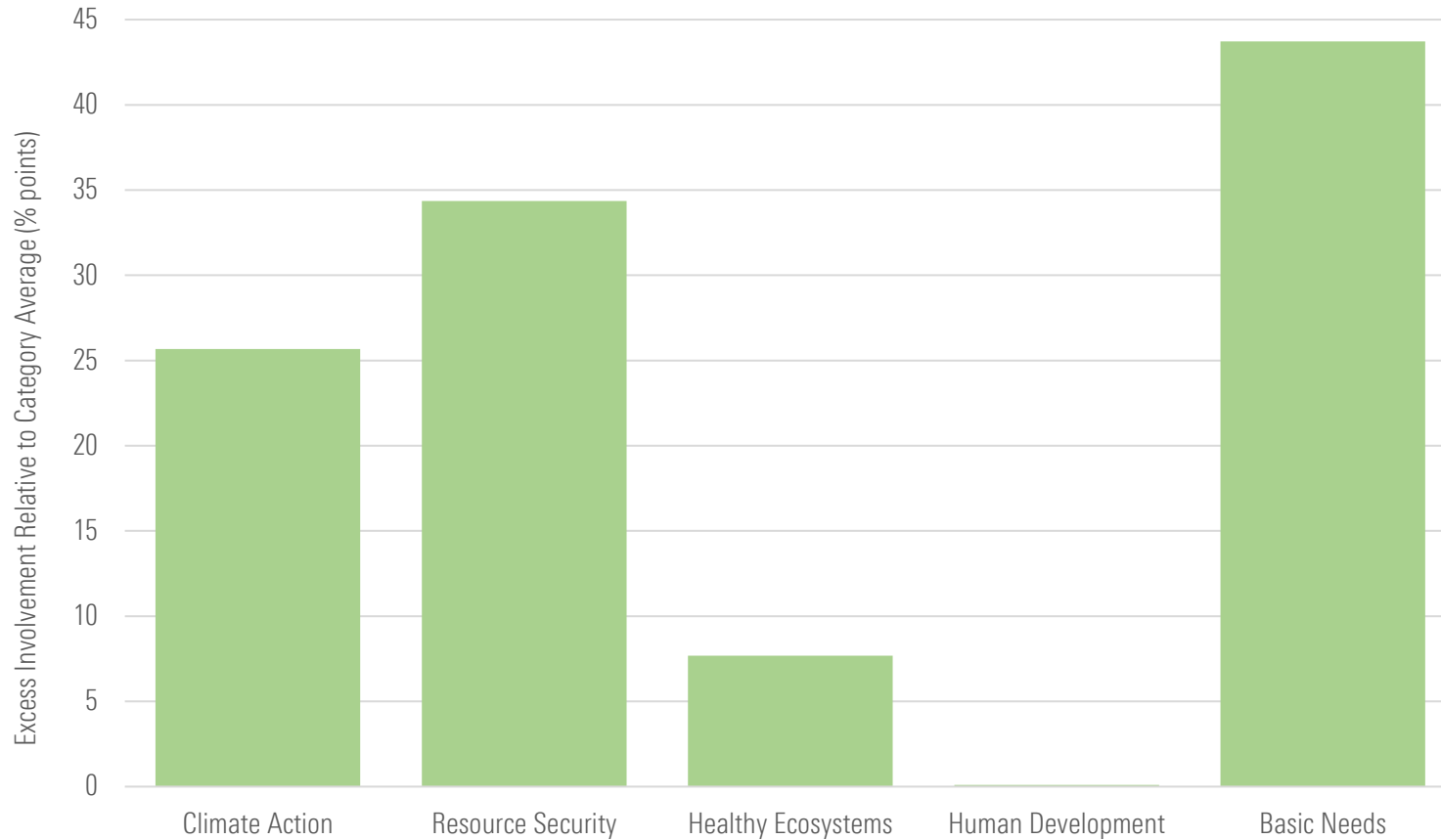


Source: Morningstar Direct. Data as of Dec. 31, 2024. Does not include obsolete funds. Overall universe includes the oldest share class of all US-domiciled funds. In the Morningstar Sustainability Rating, 5 globes are equivalent to a High Sustainability Rating, and 1 globe is equivalent to a Low Sustainability Rating.



# Sustainable Funds Delivered Greater Exposure to Environmental and Social Impact

## Sustainability-Themed Funds’ Average Excess Involvement Relative to Impact, Compared With Category Peers



How much exposure do sustainability-themed funds have relative to positive impact, compared with peers? Morningstar’s Sustainable Attributes and Portfolio Impact Metrics can help answer this question.

The Sustainable Attributes include subcategories that highlight funds focused on five environmental and social themes: Climate Action, Resource Security, Healthy Ecosystems, Human Development, and Basic Needs. These classifications are not mutually exclusive—for example, funds included under Climate Action may also be included under Healthy Ecosystems. Morningstar rolls up Sustainalytics’ company-level metrics to the portfolio level. In the exhibit to the left, we compared the average sustainability-themed portfolio’s involvement in each theme with that of its category peers.

In all five groups, sustainability-themed funds exhibited greater involvement in environmental and social impact themes, compared with peers. The excess was greatest among Basic Needs-focused funds, but the sample size was small. **Climate Action-focused funds had, on average and compared with peers, 26 percentage points more involvement in companies with products and services that contribute to address climate change.**

Source: Morningstar Direct. Data as of Dec. 31, 2024. Does not include fixed income funds investing in bonds with use of proceeds, such as green bonds. Sample includes 74 Climate Action, 17 Resource Security, 14 Healthy Ecosystems, 17 Human Development, and 9 Basic Needs funds.

## Support for Environmental and Social Shareholder Proposals Fell Dramatically in 2024

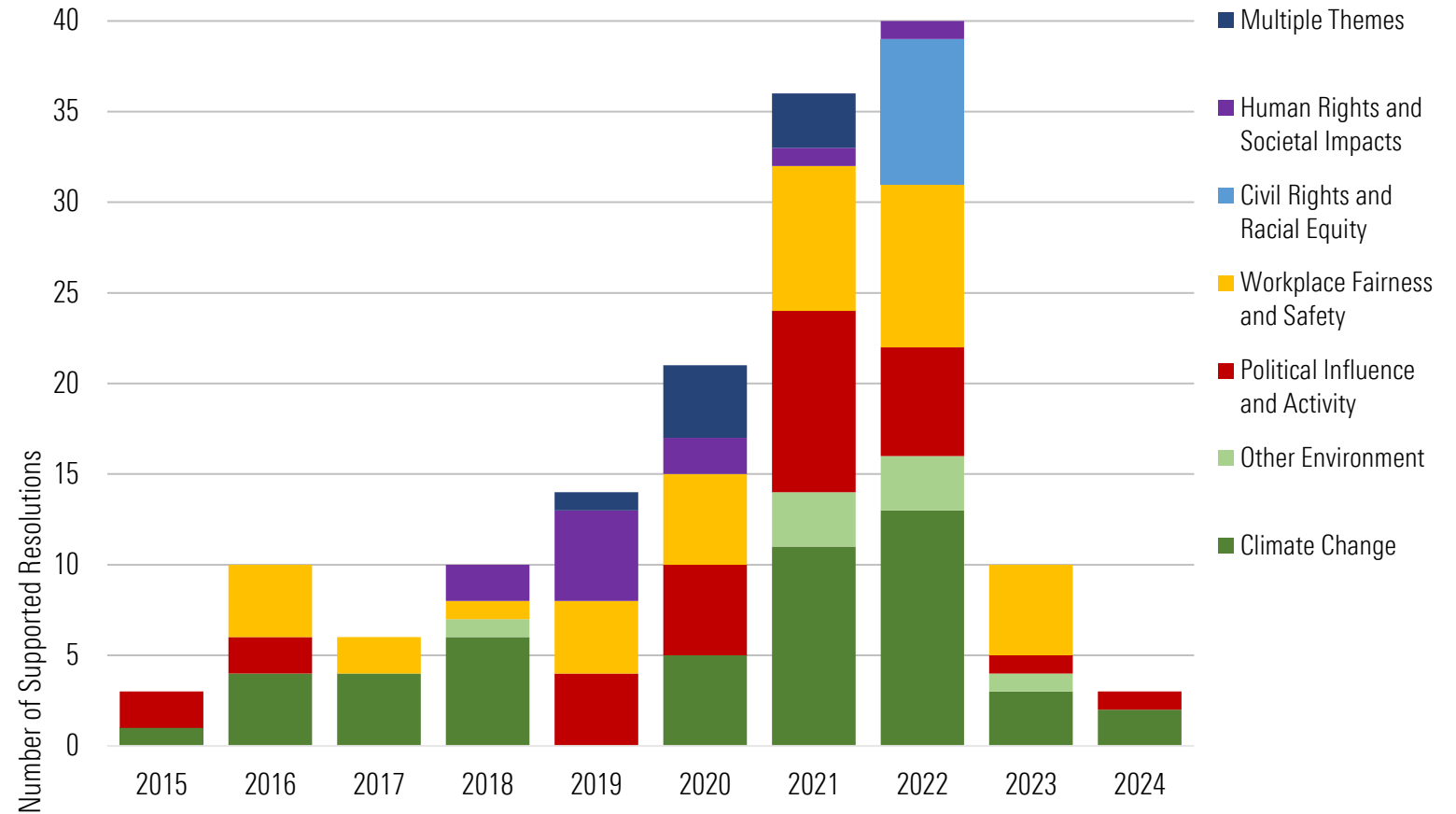
An increasingly important dimension of sustainable investing is stewardship: how a fund engages with the companies it owns and vote proxies to seek specific outcomes. Here we assess the extent to which sustainable equity funds use their proxy votes to support progress on key sustainability initiatives.

**The number of resolutions focused on environmental and social topics increased in 2024, but [support for these resolutions continued to decline](#).**

- In the 2024 proxy year, Morningstar identified 400 such **resolutions, up 11%** from the 360 seen in 2023. 316 of the 2024 proxy year in E&S resolutions were pro-ESG resolutions, compared with 305 the previous year.
- On average, the 316 pro-ESG resolutions in the 2024 proxy year gained **support from 20% of shareholders, down slightly from the 22% average support** in 2023.

In the 2024 proxy year, just three E&S resolutions gained outright majority support, down from 10 in the 2023 proxy year and 40 in 2022. Two of the majority-supported resolutions in 2024 requested GHG emissions disclosures at restaurant chains.

### Majority-Supported Environmental and Social Shareholder Resolutions



Source: Morningstar Proxy-Voting Database. Data as of Jan. 16, 2024. Years represent proxy-voting years ended June 30.

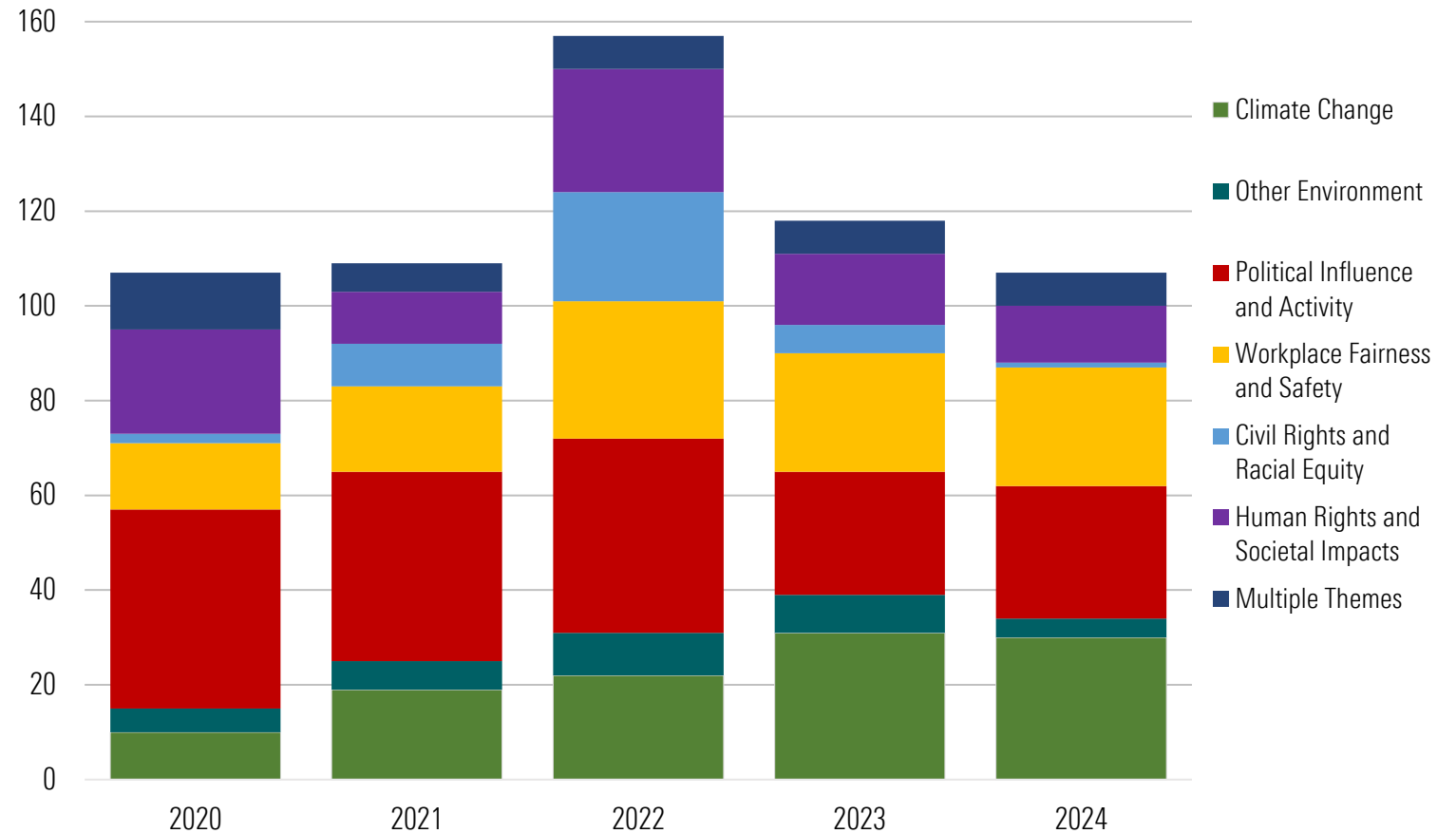
## Well-Supported Shareholder Resolutions Focused on Social Topics

The number of environmental & social shareholder resolutions that are well supported by shareholders independent of the company.

- There were 107 such resolutions in the 2024 proxy year, compared with 118 in 2023 and 157 in 2022.
- Morningstar’s definition of “E&S resolutions with significant independent support” includes proposals that gain 30% support from shareholders who are independent of the company and its management. (Our prior key resolutions model set the threshold at 40%. See our [September 2024 research paper](#) for further information.)

**Climate change, political influence, and workplace issues** have consistently represented a large and growing proportion of well-supported resolutions. In the 2024 proxy year, these three topics comprised 78% of resolutions with significant shareholder backing.

Environmental and Social Shareholder Resolutions with Significant Independent Support



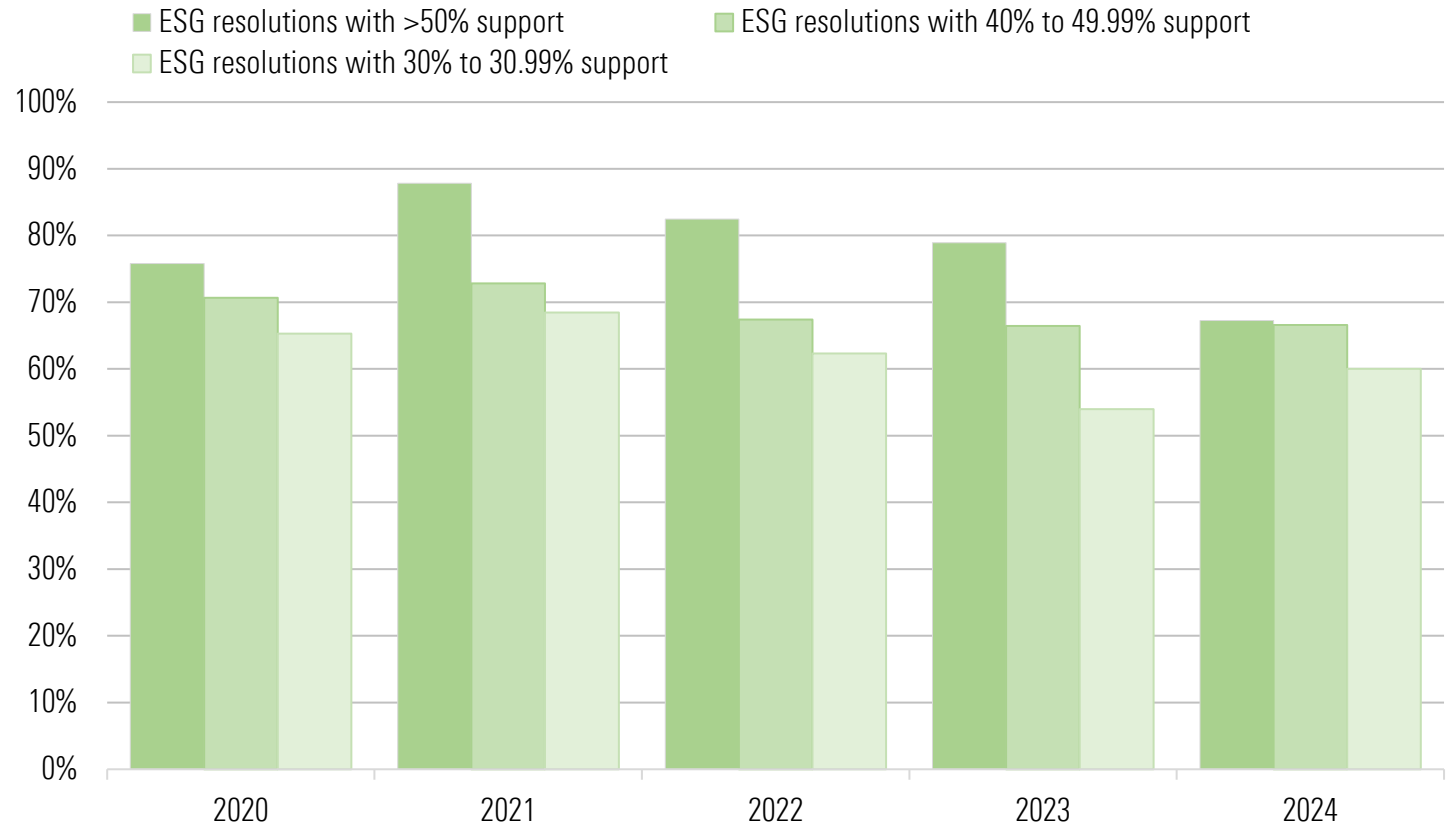
Source: Morningstar Proxy-Voting Database. Data as of Jan. 16, 2024. Years represent proxy-voting years ended June 30. Past data is adjusted for the 30% support level.

# Sustainable Funds Lowered Their Support for Well-Supported ESG Resolutions

**Sustainable funds have consistently shown strong support for key ESG resolutions** across three groups of supported ESG resolutions.

- However, the data reveals **a downward trend in support since its peak in 2021**.
- In 2024, the best-supported resolutions (those that received backing from more than half of independent shareholders) saw support from sustainable funds drop to 67.2%, from 87.8% in 2021. A similar decline is evident across the resolutions that received moderate or lower support, reflecting a broader decrease in alignment with sustainability-related shareholder proposals. This shift suggests that many **sustainable funds in the US are becoming more selective in their voting decisions on E&S resolutions**.
- However, it is also important to remember that voting decisions by sustainable funds at some of the largest firms reflect a *firmwide* voting policy that has become more circumspect on ESG matters. **BlackRock** and **Vanguard** are two prominent examples.

## Sustainable Fund Support for Key ESG Resolutions



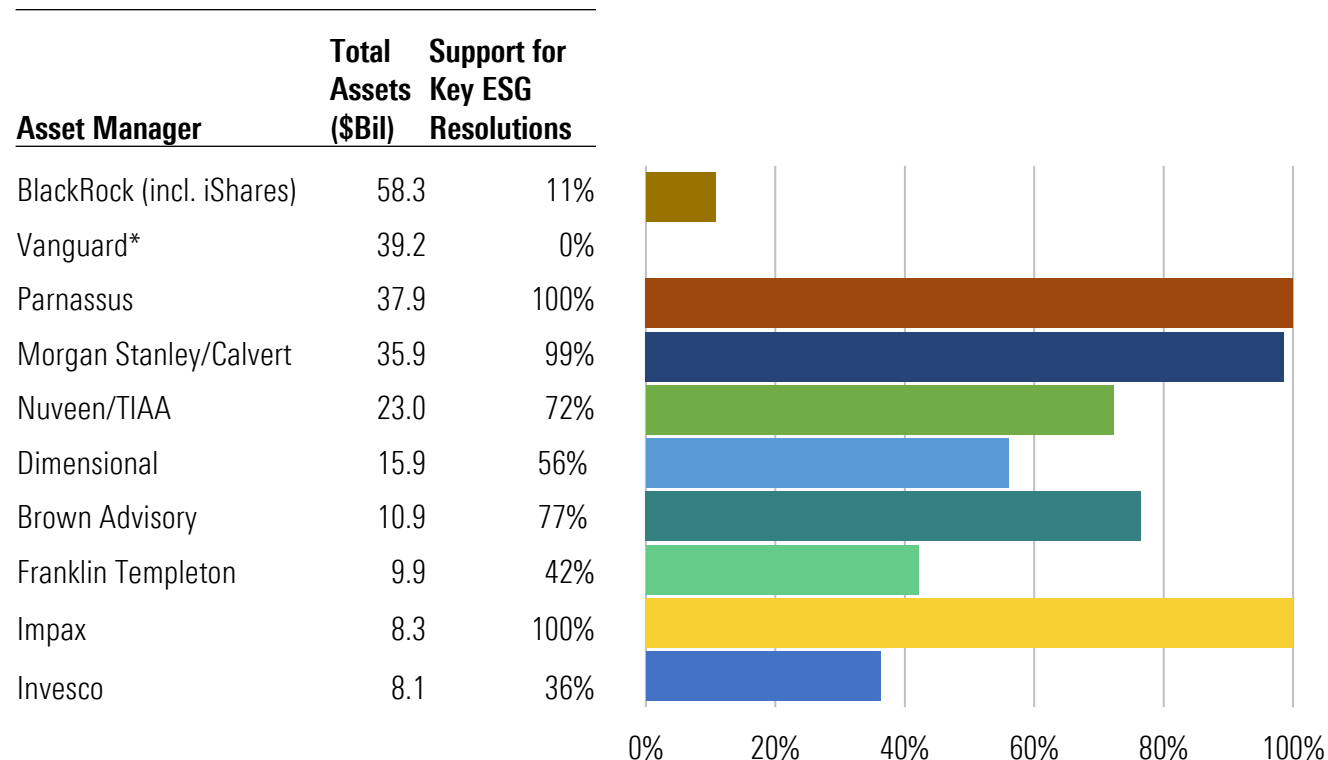
Source: Morningstar Proxy-Voting Database. Data as of Jan. 16, 2024. Includes funds voting on at least 10 key ESG resolutions.

## The Largest Fund Shops Often Voted Against Key Environmental and Social Proposals

In our analysis from 2024, we changed methodology to a new three-tier model we have named E&S Resolutions With Significant Independent Support (ERSIS), extending coverage to resolutions with at least 30% adjusted support. By extending our analysis to proposals with at least 30% adjusted support, we see greater stability, even growth, among resolutions with 30%-30.99% support that are more consistently backed by other asset managers.

- **Parnassus and Impax are fully committed to sustainable investing and have supported 100% of key ESG resolutions** in each of the past three years.
- The largest asset managers are among **the least supportive of key ESG resolutions. BlackRock** and **Vanguard\*** stand out with a respective 11% and 0%.
- **Invesco significantly reduced its support** from 2023 (81.3%) to currently 36.2%.

### How the Largest Fund Shops in Terms of Sustainable Fund Assets Voted on 2024's Key ESG Resolutions



\* Vanguard's figure of 0% exclude sub-advised sustainable funds.

Source: Morningstar Proxy-Voting Database. Data as of Jan. 16, 2024. Includes funds voting on at least 10 key ESG resolutions, with methodology changes reflected as of September 2024.

# Regulatory Update

US sustainable funds face challenges through litigation, legislative initiatives, and regulatory decisions

## Regulatory and Policy Challenges

In 2024, ESG investing remained at the center of political contention in the US, facing challenges through litigation, legislative initiatives, and regulatory decisions.

At the federal level, none of the anti-ESG bills managed to pass the legislative process, largely due to the Senate's Democratic majority. However, several Republican-led states passed dozens of additional anti-ESG laws and pursued lawsuits against asset managers based on their consideration of ESG factors.[1]

The political climate impacted SEC activities. Notably, the SEC disbanded its Climate and ESG Taskforce (but still pursued anti-greenwashing enforcement[2]), refrained from finalizing its proposal for ESG fund labelling and, in April 2024, faced immediate legal challenges from states after adopting a rule to enhance and standardize climate-related disclosures for investors. These lawsuits led the SEC to pause the implementation of the rule.

With the result of the 2024 presidential election adding uncertainty to the SEC's rulemaking, state laws such as California's SB 253 and SB 261 could emerge as the primary climate-related mandates in the near term. Despite ongoing litigation, these laws remain in effect, and businesses are expected to prepare for compliance by 2026.

Looking ahead, anti-ESG efforts are likely to intensify at the federal level. Bills that previously failed in Congress are expected to be reintroduced in 2025, reigniting the legislative debate. These could include for instance a bill constraining pension fund managers from considering non-financial factors when making investment decisions ("Protecting Americans' Investments from Woke Policies Act") and a bill reducing the SEC's authority on climate-disclosure ("Prioritizing Economic Growth Over Woke Policies Act").

The continued rollback of ESG initiatives and the prevailing anti-ESG sentiment and litigation pressure will further exacerbate "greenhushing," where companies and investors present more modestly their consideration of ESG factors, as recently exemplified by the recent departures of large banks and asset managers from net zero alliance groups hosted by the [Glasgow Financial Alliance for Net Zero](#) (GFANZ).

[1] <https://www.pleiadesstrategy.com/pleiades-anti-esg-bill-tracker-state-legislation-attacks-on-responsible-investing>

[2] <https://www.sec.gov/files/litigation/admin/2024/ia-6753.pdf>

\*The duty of prudence is a retirement plan fiduciary's responsibility to make investment decisions based on financially material factors.



### **About Morningstar Sustainalytics**

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