

Canada Sustainable Funds Landscape 2023 in Review

Sustainable funds continue to be a priority for asset managers and investors alike.

Morningstar Manager Research

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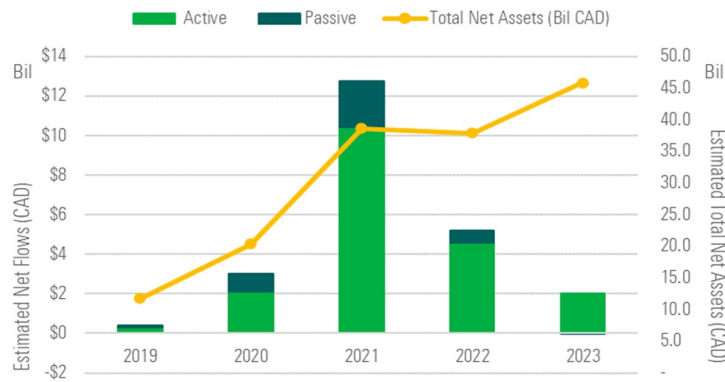
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Key Takeaways: Flows, Assets, & Product Development

Canadian sustainable funds' assets **resumed growing in 2023 despite inflows continuing to slow from their 2021 peak.**

- Market appreciation made up for diminished inflows in 2023 and **pushed sustainable fund assets to a new all-time high, surpassing CAD 45 billion.**
- Although overall flows were positive, **sustainable exchange-traded funds saw their first annual period of outflows and lost CAD 45 million.** This is meaningfully different from the all-time highs of 2021 when they brought in over CAD 2 billion in new money.

Sustainable Fund Flows & Assets



Source: Morningstar Direct. Data as of Dec. 31, 2023.

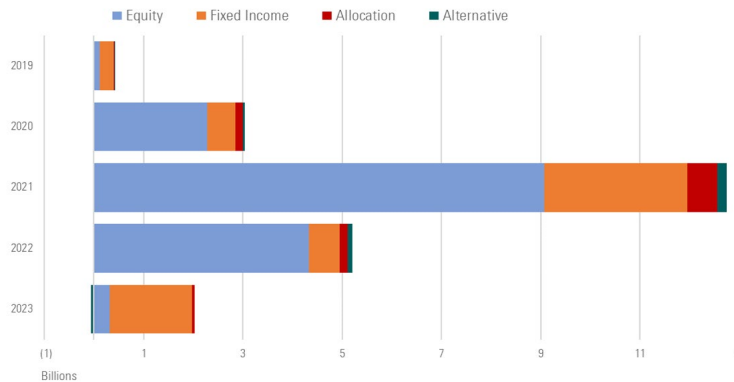
While NEI Investments remains the largest firm in terms of sustainable fund assets, its market share dropped significantly over the last five years because of growing competition.

- Inflows into sustainable products offered by **National Bank Investments represented over 57% of all new sustainable investment assets.**

Sustainable funds had their most successful year relative to peers: For the first time, over 30% of sustainable funds ranked in the top quartile of their respective peer groups.

- Despite peer-relative success, sustainable funds had mixed results relative to their benchmarks.

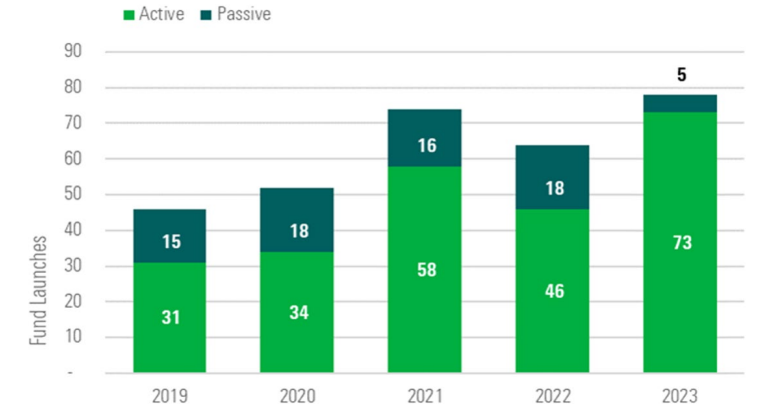
Sustainable Funds Flows by Asset Class



In 2023, fund development continued to be strong as **78 new sustainable funds** launched compared with 64 in 2022.

- Over **93% of fund launches were actively managed funds**, the go-to structure for product development teams.
- **Just five new sustainable ETFs launched**, the fewest in five years.
- **Global and international equity funds continue to be sustainable funds' most popular asset class:** 31 of them launched in 2023.

Fund Launches



Key Takeaways: Investment Performance

Sustainable funds held up much better in 2023 than 2022.

- **Sustainable funds beat their conventional peers by a small margin**, with 55% of sustainable funds landing in the top half of their respective categories.

Energy, which sustainable funds typically underweight, continues to influence performance, whether it is up or down.

- When energy rallied in 2022, sustainable funds lagged. When it fell in 2023, they benefited.

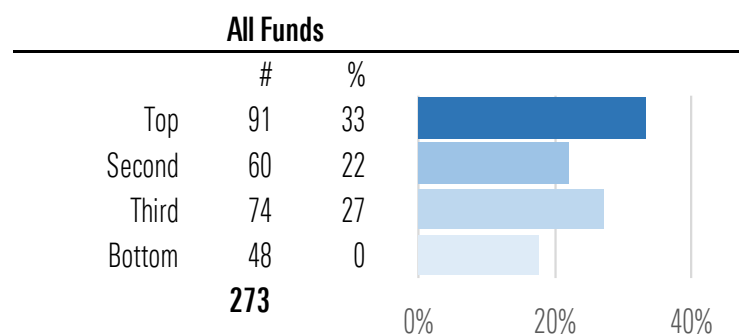
Within the Canadian equity category, sustainable funds' performance in 2023 was dramatically better than it has been over the last three- and five-year periods.

- In 2023, **46% of sustainable Canadian equity funds landed in their peer groups' top quartile**.
- **Desjardins RI Canada Multifactor - Net-Zero Emissions Pathway ETF DRFC**, was the top performer, with a 16.4% gain that beat 93% of its peers and its benchmark by more than 4 percentage points.

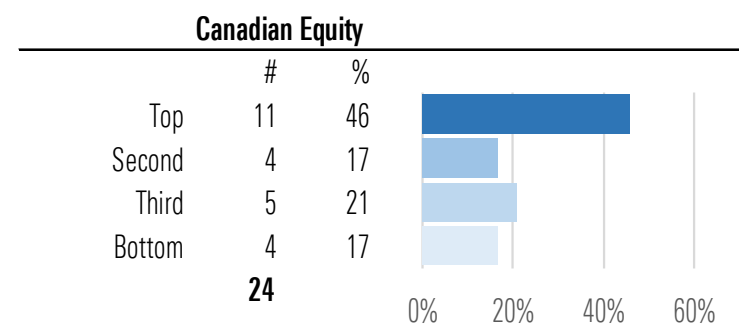
Sustainable allocation funds also beat their conventional peers. **Almost two thirds of sustainable allocation funds ranked in their respective peer groups' top halves**.

- **All three global allocation categories posted strong results**: 32% of sustainable global equity balanced, 41% of sustainable global neutral balanced, and 47% of sustainable global fixed-income balanced ranked in their categories' top quartile.

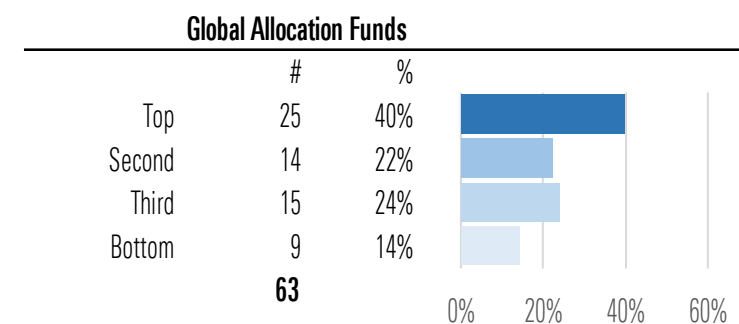
Performance: All Sustainable Funds, 2023



Performance: Sustainable Canadian Equity Funds, 2023



Performance: Sustainable Global Allocation Funds, 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023.

Key Takeaways: Sustainability Performance

Sustainable funds delivered lower levels of ESG risk compared with peers.

- In 2023, nearly **three fourths of sustainable funds** had Morningstar Sustainability Ratings of 4 or 5 globes, compared with less than one third of conventional funds.
- **Less than one tenth of sustainable funds** received Sustainability Ratings of 1 or 2 globes, compared with close to one third of funds overall.

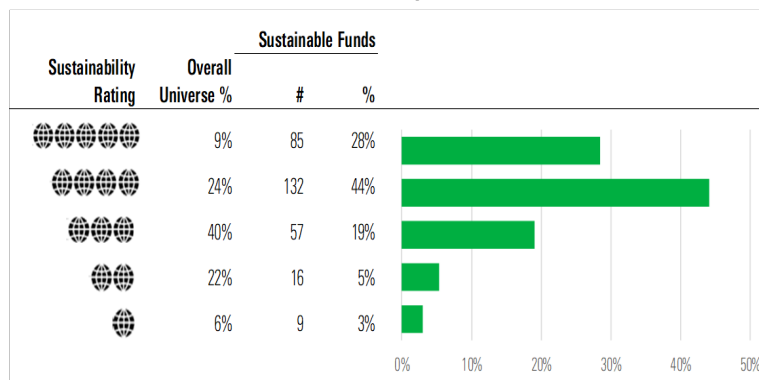
New regulations made sustainable investing clearer and more accountable. **More than 300 funds earned at least one responsible investing flag** from the Canadian Investment Funds Standards Committee's new Responsible Investment Framework, which launched in February 2023.

- **ESG Integration and Evaluations** was the most common designation.
- Few funds earned the **ESG Impact Investing** mark because of its more-stringent requirements.

Sustainable funds charge lower fees than their conventional peers across all distribution channels except institutional, where fees are not always publicly available.

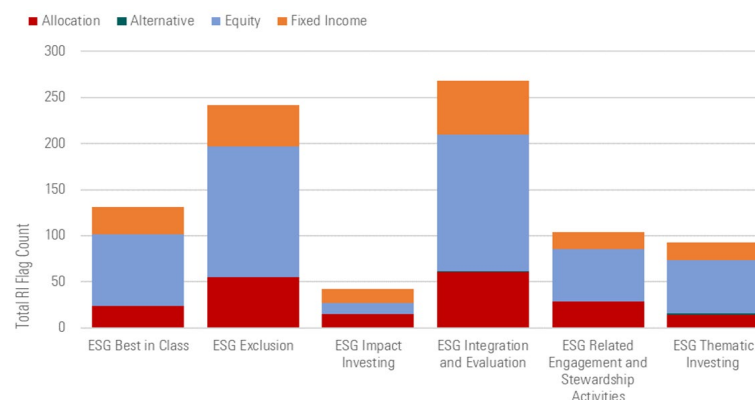
- **Sustainable ETFs charge 0.23 percentage points less than conventional ETFs.**
- Among fee- and commission-based funds, the most common distribution channels, **sustainable equity, fixed-income, and allocation funds, are cheaper, while alternative funds are slightly more expensive.**

ESG Risk in Sustainable Funds, 2023

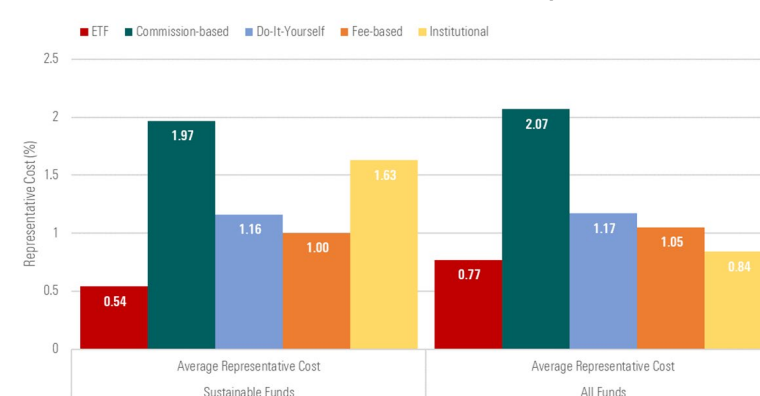


Source: Morningstar Direct. Data as of Dec. 31, 2023.

Sustainability-Themed Fund's CIFSC RI Flags, 2023



Sustainable Fund Fees vs. All Fund Fees, 2023



Sustainable Fund Offerings Have Tripled in the Past Five Years

The number of Canadian sustainable open-end and exchange-traded funds increased 22% to 32 in 2023, and more than tripled over five years.

This Report's Definition of the Canadian Sustainable Funds Universe

Since the start of 2023, the Canadian sustainable funds universe includes funds whose investment objectives meet at least one of the Canadian Investment Funds Standards Committee's six responsible investment approaches.

Prior to 2023, the sustainable universe included funds aligned with Morningstar's sustainable attributes — those with binding guidelines that make their commitment clear and prominent.

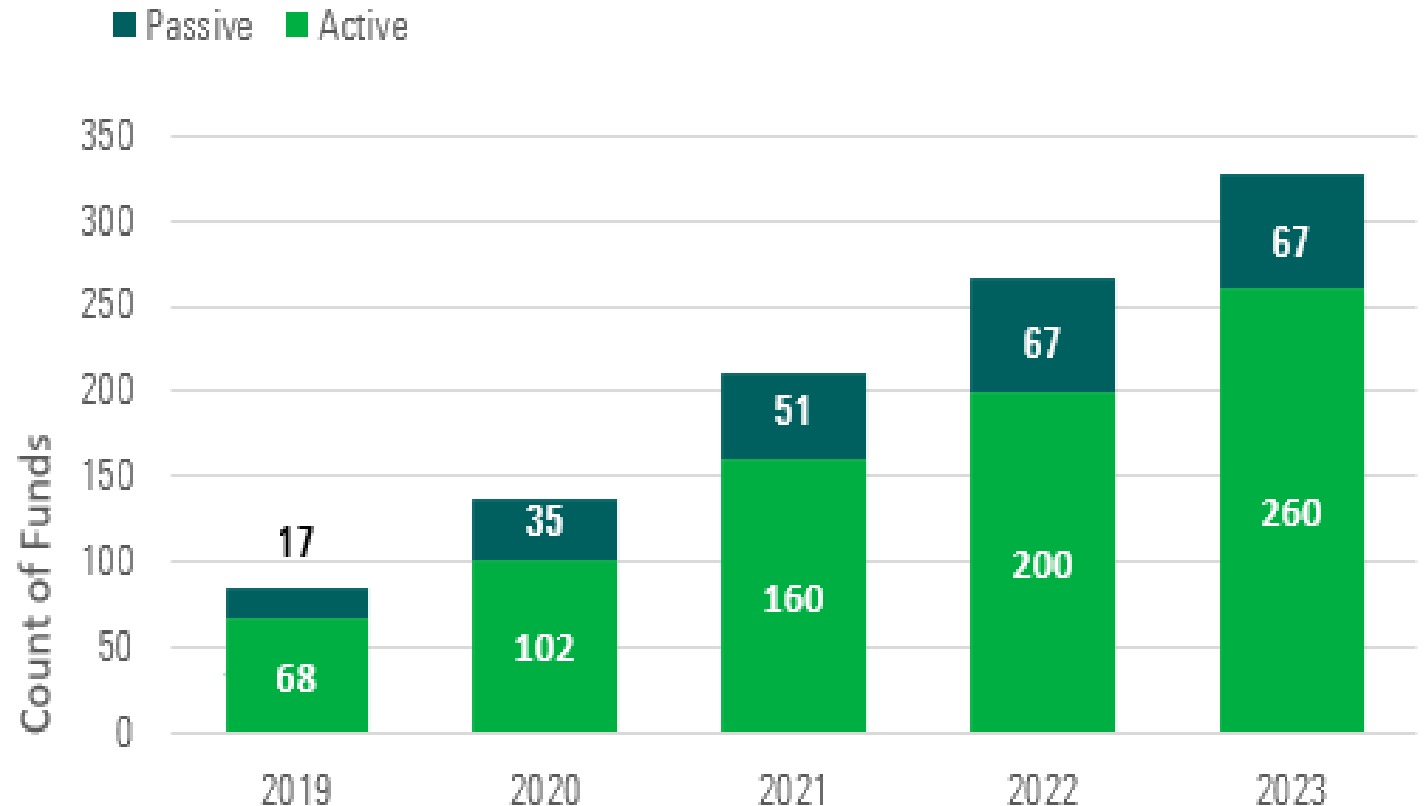
There are some small differences between the two similar frameworks.

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

For more on CIFSC's Responsible Investment Identification Framework, see: [CIFSC RI Identification framework](#). For more on Morningstar's Sustainable Attributes, see [Morningstar Sustainable Attributes: Frameworks & Definitions](#)

See Important Disclosures at the end of this report.

The Sustainable Funds Universe



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated.

Canada Sustainable Funds: Flows

Sustainable funds remain positive, but passive funds saw their first annual outflows in five years.

Sustainable Funds Remain in Net Inflows, but Passive Funds Registered First Annual Outflows

Canadian sustainable funds added almost CAD 2.0 billion in 2023, despite a second straight year of more sluggish flows.

- Flows remained positive, but well below their 2021 peak of CAD 12.7 billion, and sustainable index funds saw small outflows.

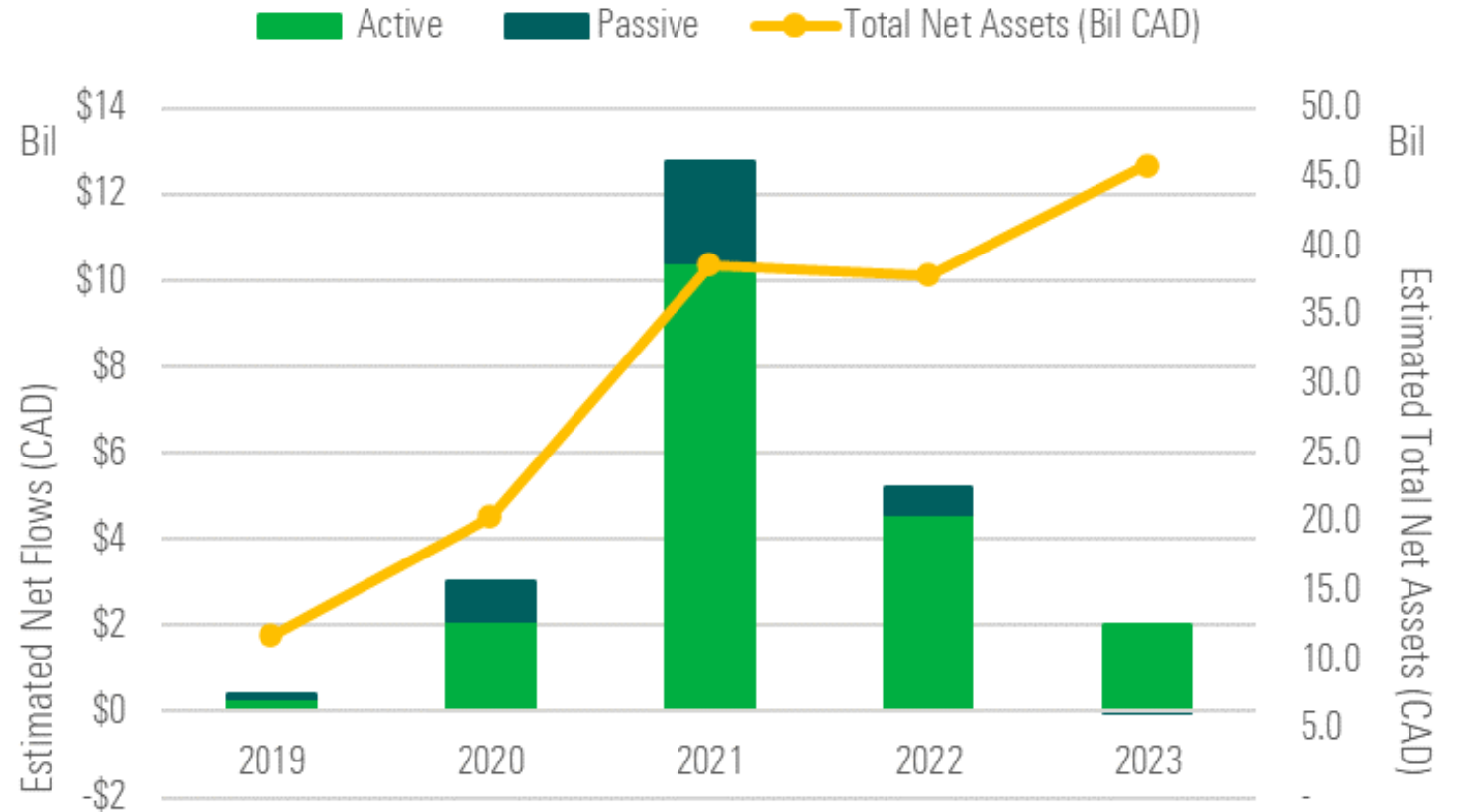
Active registered the largest flows again—CAD 2.0 billion in net new assets. Passive funds posted their first period of net outflows, shedding CAD 45.9 million.

- Index-tracking funds have struggled to gain market share relative to active funds.
- Passive funds' share of flows have fallen to negative 2.3% from 29.9% since 2020.

Despite slowing flows, sustainable funds' assets recovered with the market in 2023 to hit a new high of more than CAD 45 billion.

- This represents a 21% increase since 2022 and a 290% increase since 2019.

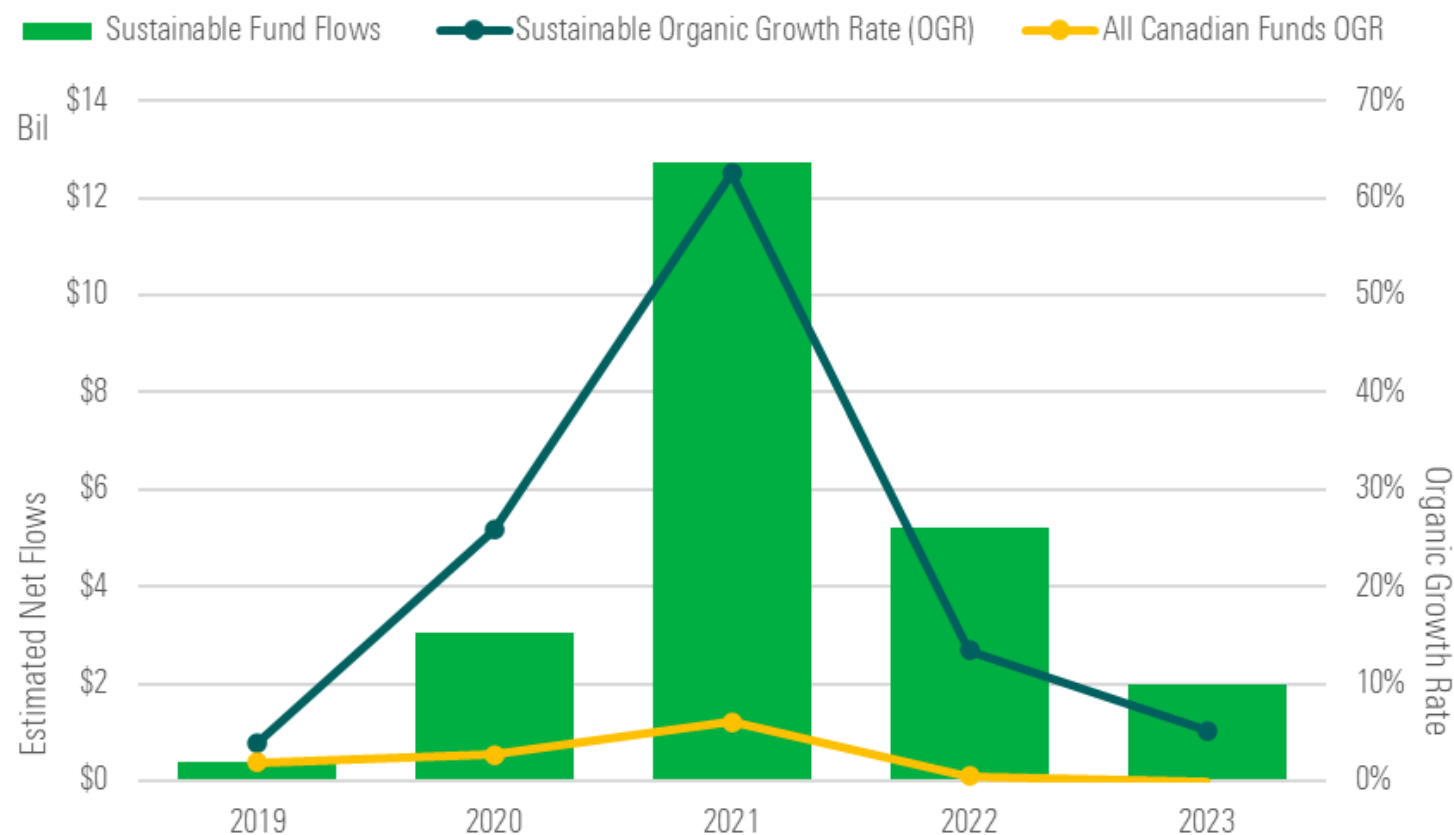
Sustainable Fund Flows & Assets



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Excludes funds of funds. All data reported in CAD.

Sustainable Funds' Flows Slow but Stay Positive, Unlike Their Conventional Peers

Sustainable Fund Flows Relative to Overall Fund Flows



Although they continued to slow, sustainable fund flows remained positive.

- Sustainable funds' inflows shrank to about CAD 2.0 billion last year but were better than those of conventional Canadian open-end and exchange-traded funds, which had CAD 1.6 billion in outflows in 2023.
- Flows for all Canadian funds—sustainable and conventional—have dwindled from the high of CAD 98 billion in 2021 but haven't turned negative since 2018. Similarly, sustainable funds' organic growth rate, or net flows as a percentage of a fund's total assets at the start of a measuring period, has slowed but remained positive.
- Sustainable funds grew by 5.2% in 2023, down from nearly 63% in 2021.
- The conventional Canadian fund universe shrank slightly—negative 0.1%—in 2023 and has more or less held steady over the last five years.

Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Excludes funds of funds. All data reported in CAD.

Sustainable Funds Lost Assets in the Last Quarter of 2023

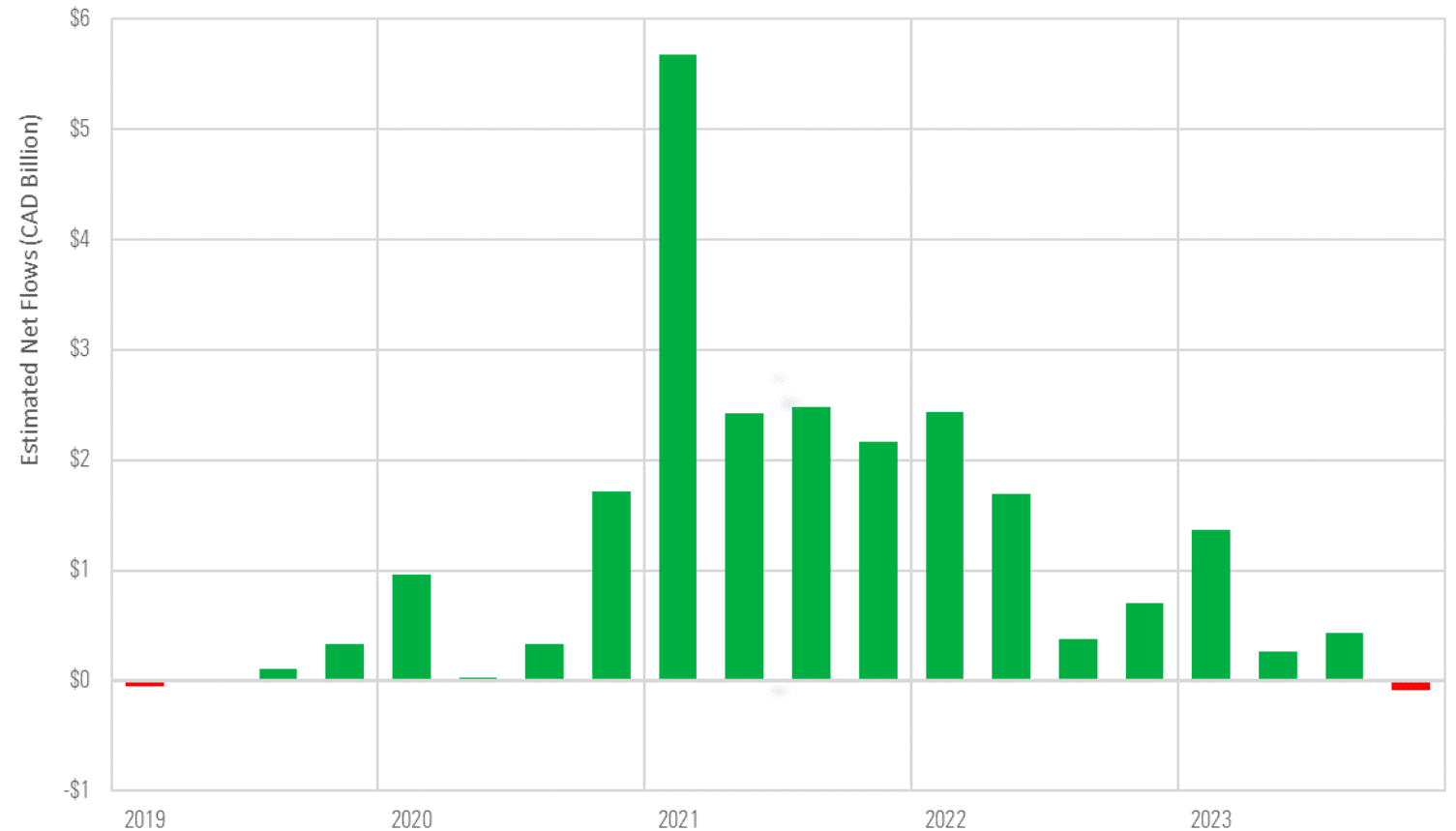
For the first quarter since 2019, sustainable funds had net outflows in 2023's final frame.

- In 2023's first three quarters, sustainable funds recovered from a weak second half of 2022. Nearly 60% of funds had inflows.
- Then the trend reversed. More than half of the funds had outflows in the fourth quarter of 2023.

Balanced fund allocation shifts may have contributed to the flow trends.

- Desjardins SocieTerra Balanced Fund reduced its helping of Desjardins SocieTerra Canadian Bond Fund to 28% from 32% during 2023. The bond fund, which was the balanced fund of funds' largest holding, had the most outflows of any fund in 2023.
- Similarly, the stakes of some of NBI's managed solutions funds in NBI Sustainable Canadian Bond ETF NSCB grew throughout the year, helping it top the inflow charts.

Sustainable Funds Quarterly Flows



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Excludes funds of funds. All data reported in CAD.

Sustainable Bond-Fund Flows Led the Group

Sustainable equity funds' flows stayed positive in 2023 but posted their weakest year since 2019.

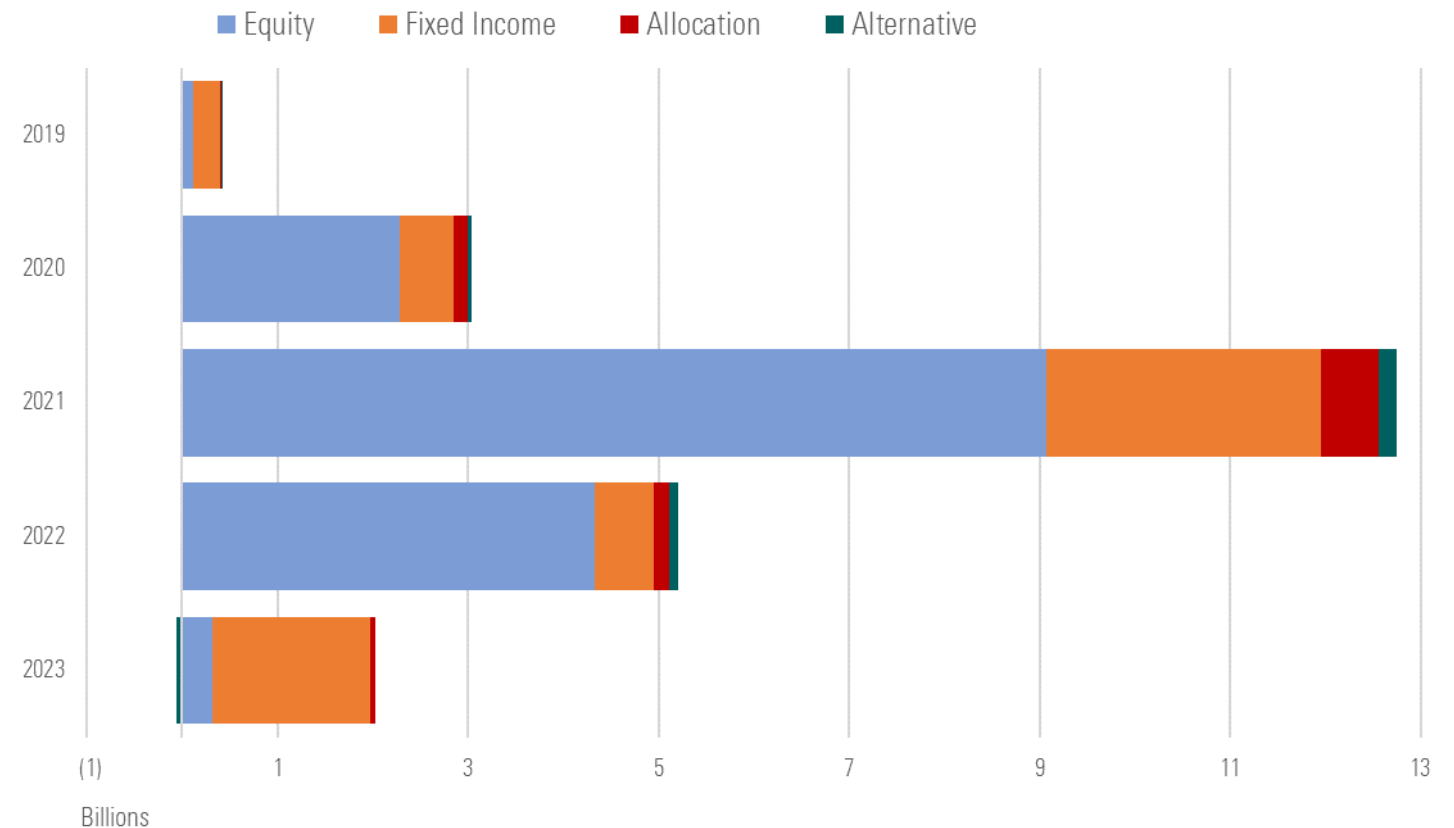
- Global and US equity funds had the worst years, shedding almost CAD 530 million and CAD 337 million, respectively. BMO MSCI USA ESG Leaders ETF ESGY and RBC Vision Global Equity Fund recorded some of the biggest equity outflows in 2023.
- International equity and US small/mid-cap equity funds gathered the most new assets. Canadian equity funds were not far behind.

Equity funds remain the largest Canadian sustainable funds group, representing more than 70% of total assets.

Sustainable bond funds had their best year of flows since 2021.

- Canadian fixed-income strategies like NBI Sustainable Canadian Bond ETF NSCB, which brought in CAD 1.9 billion, led the way.

Sustainable Fund Flows by Asset Class



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Excludes funds of funds. All data reported in CAD.

Sustainable Funds With Largest Inflows—2023

The top 10 recipients of sustainable flows in 2023 represent a diverse set of asset classes and investment managers. NBI Sustainable Canadian Bond ETF NSCB dominated, gaining more assets than its next four peers combined. Although notable, the fund's inclusion in at least one of National Bank's managed solutions demonstrates the impact of funds of funds on overall flows. Similarly, growth of the Sun Life Acadian International Equity Fund, a fund only launched in July 2023, was potentially aided by its inclusion in Sun Life's managed solutions suite.

Desjardins SocieTerra funds are well represented on the list. The SocieTerra lineup has had a long history in Canada, but the three funds on this year's list are relatively new, launched in 2022 or 2023. Mackenzie Greenchip Global Environmental All Cap Fund, Canada's largest non-fund-of-funds sustainable offering, and Templeton Emerging Markets Fund round out the list.

Top 10 Sustainable Fund Flows in 2023

Name	Ticker	Estimated Net Flow (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
NBI Sustainable Canadian Bond ETF	NSCB	\$1,926			Yes	Yes		Yes
Sun Life Acadian International Equity Fund		\$708				Yes		Yes
Mackenzie Greenchip Global Environmental All Cap Fund		\$625		Yes		Yes		Yes
NBI Sustainable Canadian Equity Fund		\$266		Yes		Yes		
NBI Sustainable Canadian Equity ETF	NSCE	\$254		Yes		Yes		
Desjardins SocieTerra Low Volatility Global Equity Fund		\$99	Yes	Yes		Yes	Yes	
Desjardins SocieTerra Global Dividend Fund		\$97	Yes	Yes		Yes	Yes	
Desjardins SocieTerra Global Corporate Bond Fund		\$89	Yes	Yes		Yes	Yes	
Mackenzie Greenchip Global Environmental Balanced Fund		\$80			Yes	Yes		Yes
Templeton Emerging Markets Fund		\$71		Yes		Yes	Yes	

Source: Morningstar Direct, Manager Research. Data as of Dec. 31, 2023. Excludes funds of funds. All data reported in CAD.

Sustainable Funds With Largest Outflows—2023

The 10 funds with the most outflows in 2023 also came from diverse asset classes, but few firms. BMO, Desjardins, and RBC dominate this list, with outflows across multiple funds. BMO MSCI USA ESG Leaders Index ETF ESGY stands out as the only ETF that made this list. The fund accounted for 12% of total passive outflows, more than any strategy. It is, however, Canada's largest sustainable passive fund and 3 times larger than its closest peer.

RBC Vision, a lineup of funds that apply exclusionary screens, struggled in 2023. Five of the lineup's 10 funds were in net outflows, including the three listed below. While three Desjardins SocieTerra funds made the year's biggest outflows list, three also made the biggest inflows list. Portfolio repositioning by Desjardins SocieTerra investors may account for the dichotomy.

Top 10 Sustainable Fund Flows in 2023

Name	Ticker	Estimated Net Flow (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
Desjardins SocieTerra Canadian Bond Fund		-\$314	Yes	Yes		Yes	Yes	
BMO MSCI USA ESG Leaders Index ETF	ESGY	-\$248	Yes			Yes		
RBC Vision Global Equity Fund		-\$244		Yes		Yes		
RBC Vision Fossil Fuel Free Global Equity Fund		-\$174		Yes		Yes		
Desjardins SocieTerra Emerging Markets Equity Fund		-\$164	Yes	Yes		Yes	Yes	
BMO Brookfield Global Renewables Infrastructure Fund		-\$152			Yes			Yes
Desjardins SocieTerra American Equity Fund		-\$87	Yes	Yes		Yes	Yes	
BMO Sustainable Opportunities Global Equity Fund		-\$77	Yes	Yes		Yes		Yes
RBC Vision Canadian Equity Fund		-\$69		Yes		Yes		
Dynamic Energy Evolution Fund		-\$68						Yes

Source: Morningstar Direct, Manager Research. Data as of Dec. 31, 2023. Excludes funds of funds. All data reported in CAD.

Sustainable Equity Funds With Largest Inflows — 2023

Unlike conventional equity funds, which saw significant outflows in 2023, sustainable equity funds eked out net inflows. Sun Life Acadian International Equity Fund's inclusion in the firm's managed solutions offerings helped the fund claim the top spot. Investors continued to show confidence in Mackenzie Greenchip Global Environmental All Cap Fund, Canada's largest sustainable fund.

Eighth-place NEI Clean Infrastructure Fund is the only fund to have earned CIFSC's ESG Impact Investing identifier.

Top 10 Sustainable Equity Fund Flows in 2023

Name	Ticker	Estimated Net Flow (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
Sun Life Acadian International Equity Fund		\$708				Yes		Yes
Mackenzie Greenchip Global Environmental All Cap Fund		\$625		Yes		Yes		Yes
NBI Sustainable Canadian Equity Fund		\$266		Yes		Yes		
NBI Sustainable Canadian Equity ETF	NSCE	\$254		Yes		Yes		
Desjardins SocieTerra Low Volatility Global Equity Fund		\$99	Yes	Yes		Yes	Yes	
Desjardins SocieTerra Global Dividend Fund		\$97	Yes	Yes		Yes	Yes	
Templeton Emerging Markets Fund		\$71		Yes		Yes	Yes	
NEI Clean Infrastructure Fund		\$53		Yes	Yes	Yes	Yes	Yes
NBI Sustainable Global Equity Fund		\$51		Yes		Yes		
Wealthsimple Developed Markets ex NA Socially Responsible Index ETF	WSRD	\$45		Yes				

Source: Morningstar Direct, Manager Research. Data as of Dec 31, 2023. Excludes funds of funds. All data reported in CAD.

Sustainable Fixed-Income Funds With Largest Inflows — 2023

Sustainable fixed-income funds had positive net inflows in 2023, but they were concentrated. NBI Sustainable Canadian Bond ETF NSCB gathered almost 80% of all flows into sustainable fixed-income funds. Over 50% of fixed-income funds had at least some inflows last year, though.

Particularly notable on this list is the amount of funds that earn a CIFSC ESG Impact Investing identifier. Although two funds—Nuveen Global Green Bond Fund and Wealthsimple North American Green Bond Index ETF WSGB—explicitly emphasize green bonds, four other funds with more general impact investing goals also saw notable inflows. ETFs are also more strongly represented on this list compared with the equity list on the previous slide, with four fixed-income ETFs gaining assets in 2023.

Top 10 Sustainable Fixed-Income Fund Flows in 2023

Name	Ticker	Estimated Net Flow (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship	CIFSC ESG Thematic Investing
NBI Sustainable Canadian Bond ETF	NSCB	\$1,926			Yes	Yes		Yes
Desjardins SocieTerra Global Corporate Bond Fund		\$89	Yes	Yes		Yes	Yes	
NBI Sustainable Canadian Bond Fund		\$53			Yes	Yes		Yes
Nuveen Global Green Bond Fund		\$49			Yes			Yes
Desjardins SocieTerra Environmental Bond Fund		\$40	Yes	Yes	Yes	Yes	Yes	Yes
RBC Vision Fossil Fuel Free Bond Fund		\$33		Yes		Yes		Yes
Wealthsimple North American Green Bond Index ETF	WSGB	\$27		Yes	Yes			
RGP Impact Fixed Income Portfolio		\$24		Yes	Yes	Yes		
Invesco ESG Global Bond ETF	IWBE	\$24		Yes		Yes		
iShares ESG Aware Canadian Aggregate Bond Index ETF	XSAB	\$22	Yes	Yes		Yes		

Source: Morningstar Direct, Manager Research. Data as of Dec. 31, 2023. Excludes funds of funds. All data reported in CAD.

National Bank Was a Clear Investor Favorite, and Historical Leaders Fell Off

Sustainable investors' clear favorite firm was National Bank. Its offerings took almost 60% of sustainable net inflows.

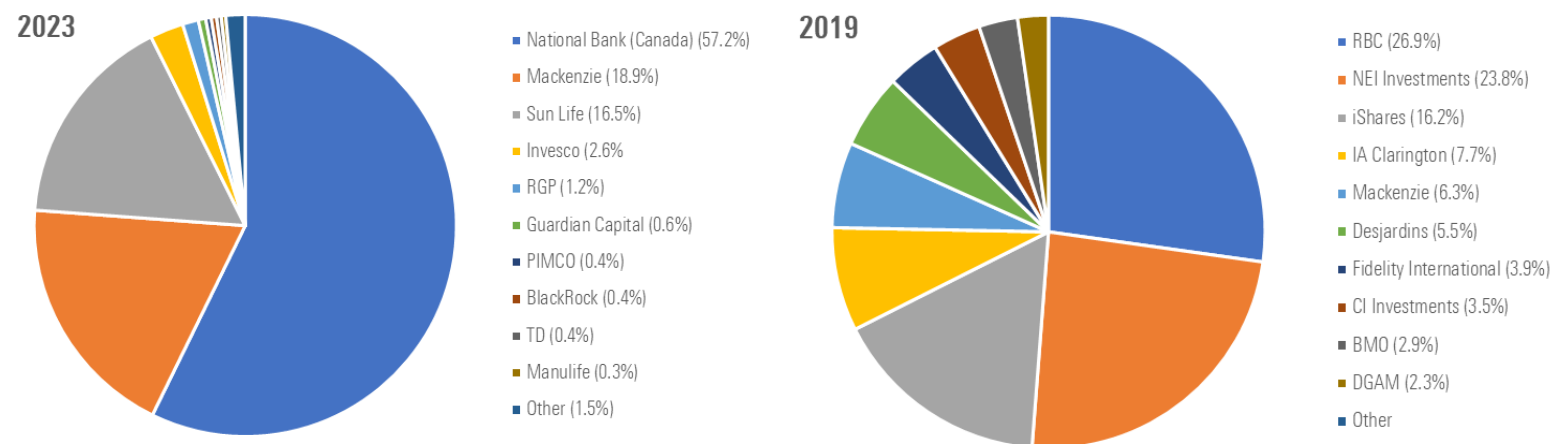
- Two of the first three sustainable ETFs the firm launched in January 2020—NBI Canadian Sustainable Bond ETF NSCB and NBI Canadian Sustainable Equity ETF NSCE—contributed strongly to its 2023 flows.
- Since 2020, National Bank has also added another sustainable ETF and four sustainable mutual funds.

New entrants continue to disrupt the Canadian sustainable funds market. Only one firm—Mackenzie—made both the 2019 and 2023 lists of 10 firms with the most sustainable fund inflows.

- Top inflow firms in 2019, RBC and NEI Investments, both saw more than CAD 400 million in net outflows in 2023.

Asset Managers With Largest Flows Into Sustainable Funds

Annual Flows into Sustainable Funds	2023 Net Flow (CAD Mil)	2022 Net Flow (CAD Mil)	2021 Net Flow (CAD Mil)	2020 Net Flow (CAD Mil)	2019 Net Flow (CAD Mil)
National Bank (Canada)	2,487	2,410	834	35	-
Mackenzie	822	772	1,944	519	34
Sun Life	715	28	5	-	-
Invesco	112	169	(39)	171	-
RGP	53	67	162	13	-
Guardian Capital	25	14	-	-	-
PIMCO	18	42	18	-	-
BlackRock	18	-	-	-	-
TD	16	(15)	154	49	-
Manulife	15	12	14	-	-



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Does not include original launches of funds that have subsequently repurposed. Excludes fund of funds. All data in CAD.

Canada Sustainable Funds: Assets

Competition increased as assets hit all-time highs.

Assets Rose on the Back of Market Appreciation and Positive Flows

Positive inflows helped grow assets in 2023, but most growth occurred in the first quarter.

- Assets reached a new all-time high of CAD 45.8 billion, a 21% increase since the end of 2022.

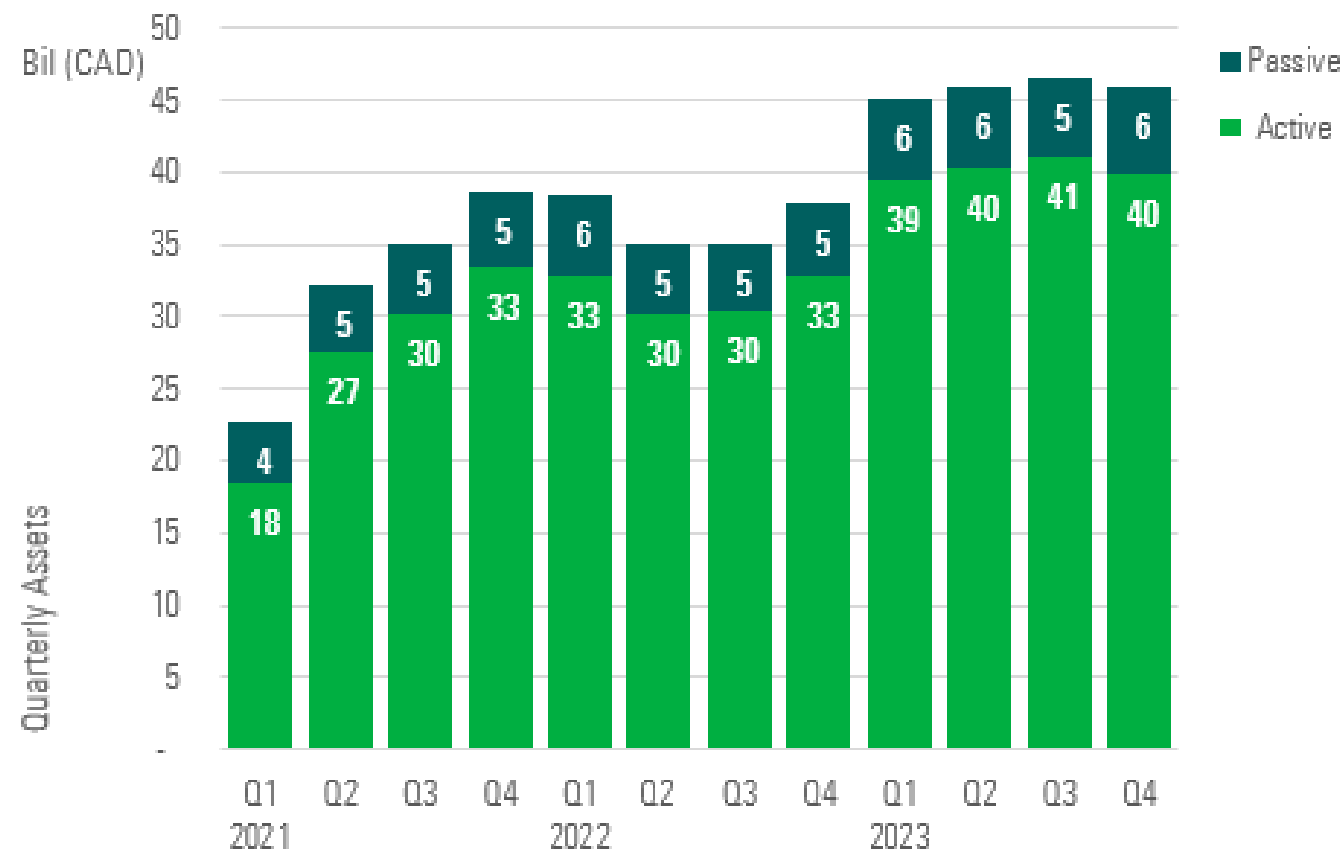
Canadian sustainable fund assets have doubled since 2020 because of investor demand, strategy launches, and market appreciation.

- Investors have deposited nearly CAD 125 billion into sustainable funds over the past three years.
- Over the same period, the global equity markets have risen by 7.1%, driving assets higher.

Actively managed funds continue to dominate, and low-cost passive funds have lost market share.

- Active funds' share of sustainable assets has climbed to 86% last year from 80% in 2021.

Sustainable Fund Assets



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Excludes funds of funds.

Mackenzie Still Leads, but National Bank Is on Its Heels

For the second year in a row, Mackenzie Greenchip Global Environmental All Cap Fund took the crown as Canada's largest active sustainable fund, with \$2.9 billion CAD in assets. Market appreciation and healthy flows—it ranked third on the top inflows list—helped it retain the prize. National Bank's NBI Sustainable Canadian Bond ETF NSCB, which doubled its size to CAD 2.3 billion in 2023, was on the leader's heels, though.

For the first time, all 10 funds on the list topped the 1-billion-in-assets mark.

10 Largest Actively Managed Sustainable Funds, 2023

Name	Ticker	Total Assets (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
Mackenzie Greenchip Global Environmental All Cap Fund		\$2,876		Yes		Yes		Yes
NBI Sustainable Canadian Bond ETF	NSCB	\$2,343			Yes	Yes		Yes
Desjardins SocieTerra Canadian Bond Fund		\$1,839	Yes	Yes		Yes	Yes	
NBI Sustainable Canadian Equity ETF	NSCE	\$1,827		Yes		Yes		
NEI Environmental Leaders Fund		\$1,466		Yes	Yes	Yes	Yes	Yes
RBC Vision Global Equity Fund		\$1,290		Yes		Yes		
NEI Canadian Bond Fund		\$1,206		Yes		Yes		
NBI Sustainable Canadian Equity Fund		\$1,127		Yes		Yes		
Desjardins SocieTerra Canadian Equity Fund		\$1,113	Yes	Yes		Yes	Yes	
Desjardins SocieTerra American Equity Fund		\$1,015	Yes	Yes		Yes	Yes	

Source: Morningstar Direct, Manager Research. Data as of Dec. 31, 2023. Excludes funds of funds. All data reported in CAD.

Despite Outflows, BMO Holds Top Spot Among Sustainable Passive Funds

BMO MSCI USA ESG Leaders ETF ESGY remained the largest passively managed sustainable fund in Canada, despite suffering CAD 248 million in outflows, the most of any sustainable index fund, in 2023. Four Wealthsimple funds from different asset classes—green bonds and North American, ex-North American, and Shariah-compliant equity—made the list, the most from any firm. NEI Investment’s lone passive fund, NEI ESG Canadian Enhanced Index Fund, cracked the top 10, probably because it is a fund-of-funds holding in offerings like NEI’s Select suite.

The list is dominated by equity funds, likely because of their relatively longer history in the market.

10 Largest Passively Managed Sustainable Funds, 2023

Name	Ticker	Total Assets (CAD Mil)	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
BMO MSCI USA ESG Leaders Index ETF	ESGY	\$1,802	Yes			Yes		
Wealthsimple North America Socially Responsible Index ETF	WSRI	\$593		Yes				
Wealthsimple Developed Markets ex NA Socially Responsible Index ETF	WSRD	\$564		Yes				
NEI ESG Canadian Enhanced Index Fund		\$341	Yes	Yes		Yes	Yes	
Desjardins RI Canada Multifactor - Net-Zero Emissions Pathway ETF	DRFC	\$310				Yes		Yes
Wealthsimple North American Green Bond Index ETF	WSGB	\$222		Yes	Yes			
Wealthsimple Shariah World Equity Index ETF	WSHR	\$194		Yes				
Desjardins RI USA Multifactor - Net-Zero Emissions Pathway ETF	DRFU	\$144				Yes		Yes
iShares ESG Aware Canadian Aggregate Bond Index ETF	XSAB	\$134	Yes	Yes		Yes		
Desjardins RI USA Net - Zero Emissions Pathway ETF	DRMU	\$133				Yes		Yes

Source: Morningstar Direct, Manager Research. Data as of Dec. 31, 2023. Excludes funds of funds. All data reported in CAD.

The Concentration of Assets Has Broadened With a Dominant Player No Longer Apparent

The dominance of NEI Investment, a firm rooted in responsible investments, has decreased as competitors have gained ground.

- NEI Investments is Canada’s oldest responsible investment firm and continues to offer a wide range of sustainable funds, but its market share has dropped to 22% in 2023 from 55% in 2019.
- National Bank and Mackenzie continue to present the stiffest competition.

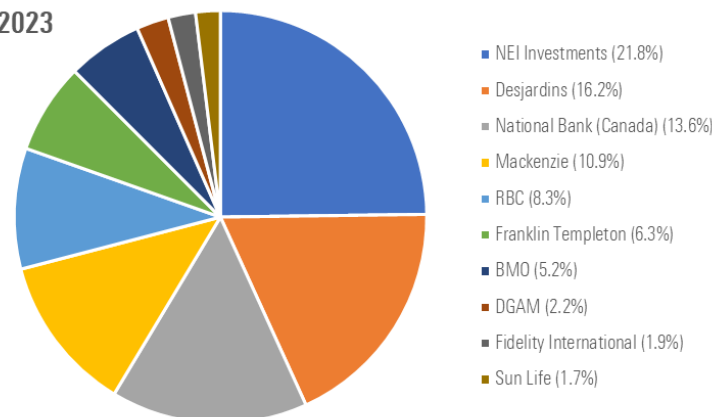
Although capital appreciation played a role in the increased assets under management, increased fund launches continue to drive growth.

- In 2019, there were 85 sustainable funds in Canada—68 active and 17 passive. In December 2023, there were 260 active and 67 passive funds.

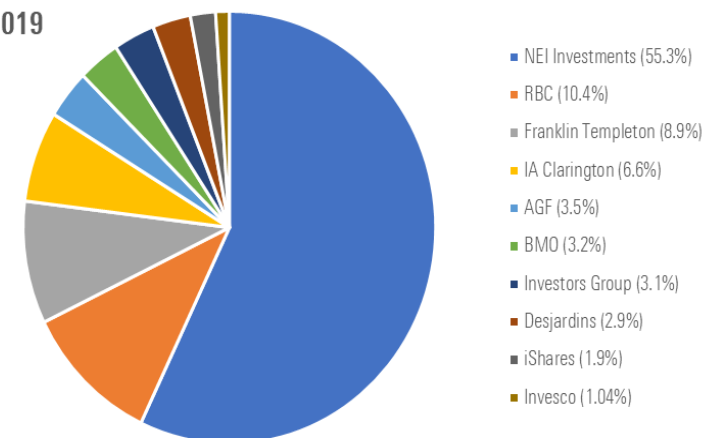
Top 10 Asset Managers by Fund Assets

Total Assets in Sustainable Funds	2023 Assets (Bil CAD)	2022 Assets (Bil CAD)	2021 Assets (Bil CAD)	2020 Assets (Bil CAD)	2019 Assets (Bil CAD)
NEI Investments	10.01	9.06	9.87	7.18	6.50
Desjardins	7.43	7.63	8.17	4.82	0.34
National Bank (Canada)	6.23	3.24	0.97	0.04	-
Mackenzie	4.97	3.79	3.33	1.11	0.08
RBC	3.82	2.34	2.79	1.78	1.22
Franklin Templeton	2.87	1.19	1.37	0.77	1.04
BMO	2.38	3.34	3.54	0.72	0.38
DGAM	1.02	0.91	1.07	0.76	0.08
Fidelity International	0.87	0.70	0.80	0.10	0.04
Sun Life	0.78	0.03	0.00	-	-

2023



2019



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Does not include original launches of funds that have subsequently repurposed. Excludes fund of funds. All data in CAD.

Canada Sustainable Funds: Fund Launches

The number of fund launches hit all-time highs in 2023.

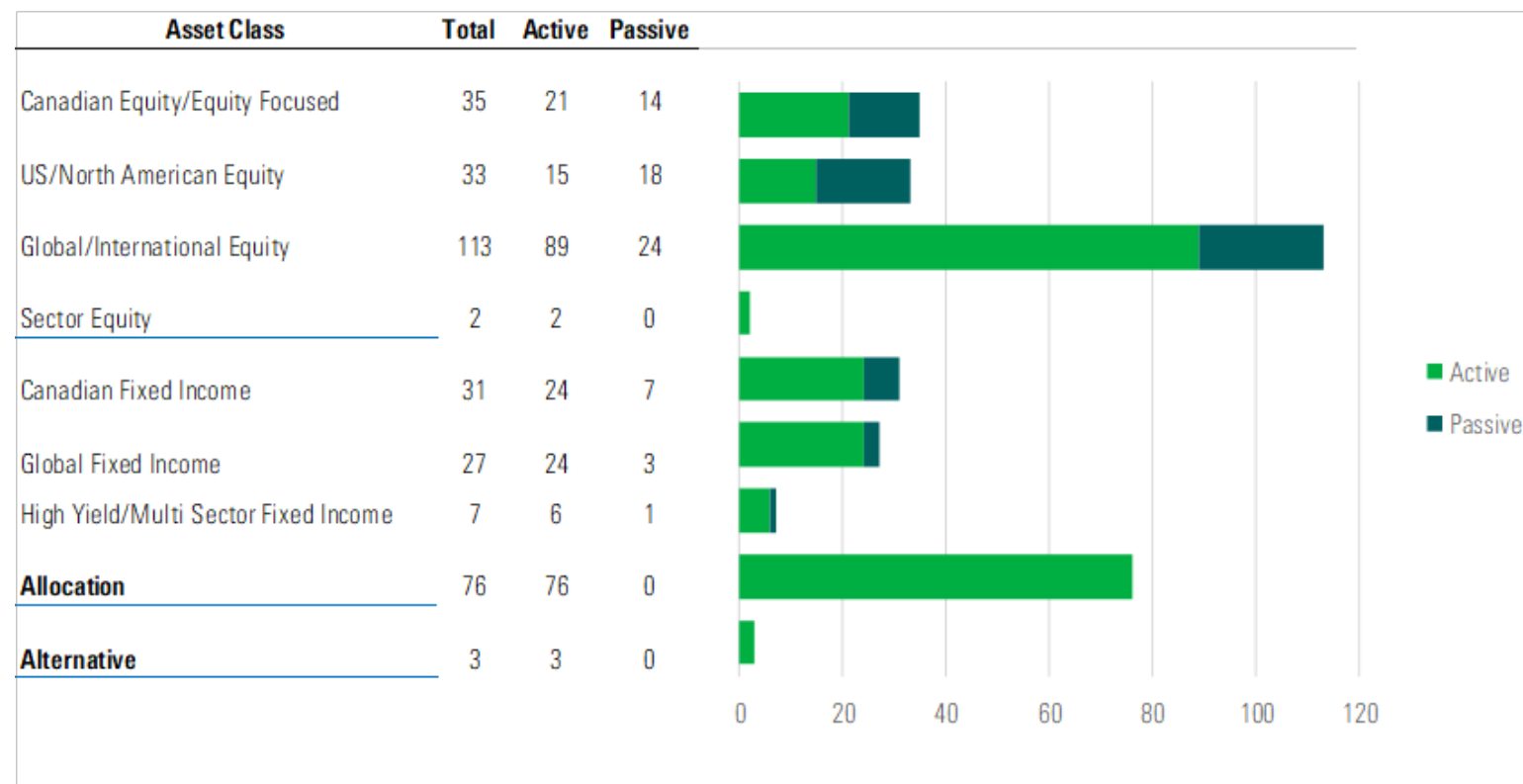
Global and International Equity Remain the Most Popular Asset Class for Sustainable Funds

Of the 327 sustainable funds, 183 are equity, 76 are allocation, 65 are fixed-income, and three are alternatives. Investors can find sustainable funds in 31 Morningstar Categories.

Global and international equity offer the most choices — 113 funds. Canadian equity has 35 offerings. Canadian and global fixed-income funds lean toward those focused on corporate debt because ESG data tends to be more available for corporates. Allocation funds, the most popular asset class among Canadian conventional investors, includes 76 sustainable funds of funds or other multi-asset funds.

Two of the three alternative sustainable funds are in the alternative equity focused category, while the third is in the alternative other category.

Sustainable Funds by Asset Class, 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Does not include obsolete funds.

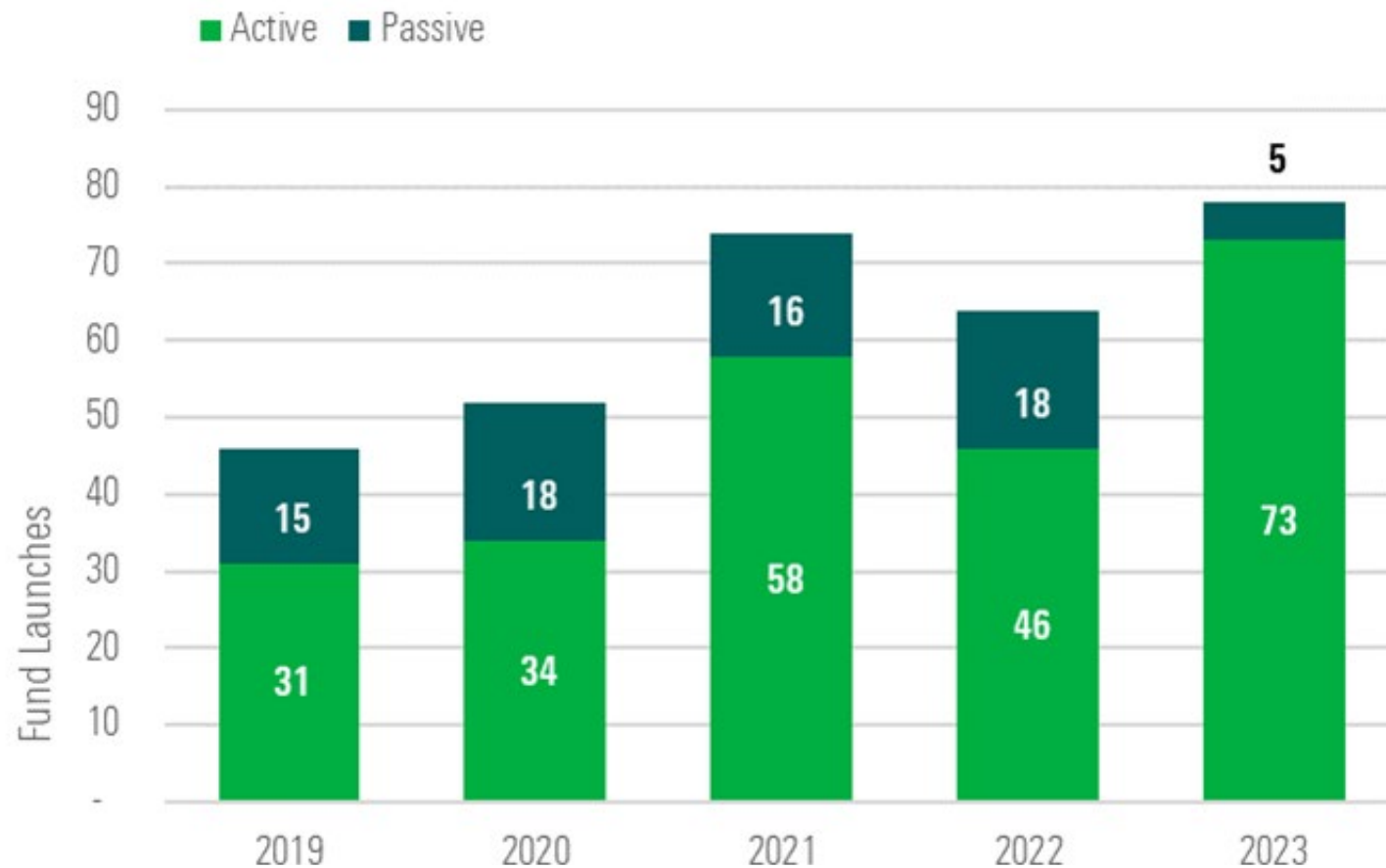
Record Year for Active Sustainable Fund Launches

A record number of active fund launches helped make 2023 a record year for new sustainable funds. The 73 active funds launched in 2023 exceeded 2021's 58 and made up more than 93% of last year's new funds, the highest percentage in five years..

More than half of 2023's new launches came to market during the first half.

- This number does include 32 active and one passive fund identified as sustainable under CIFSC's framework that was not previously identified under Morningstar's methodology.
- Prominent groups of funds such as the now-closed Emerge EMPWR and RBC Vision Fossil Fuel Free lineups added 11 to the overall count.

Sustainable Fund Launches



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes funds that have liquidated. Does not include original launches of funds that have subsequently repurposed.

Most New Sustainable Offerings Were Equity Funds

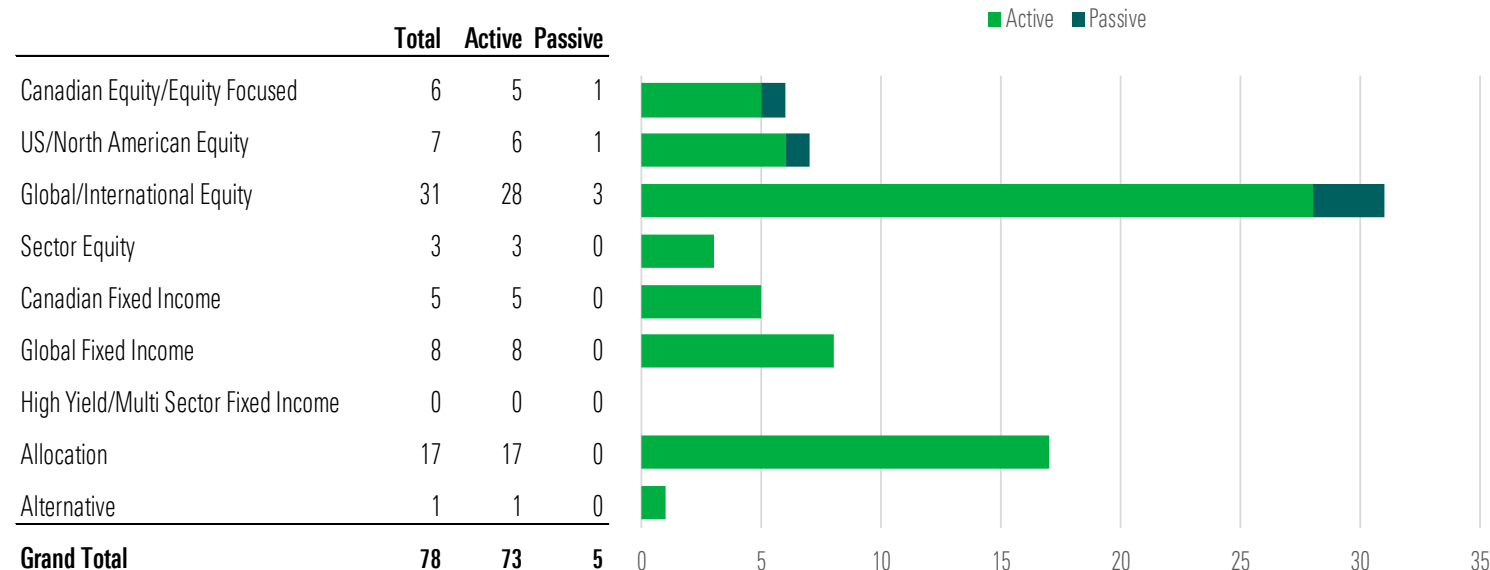
Over three fourths of new launches were equity funds. Global and international equity funds increased by 31.

Here are a few highlights:

- Sun Life Acadian International Equity Fund, launched in July, builds a portfolio of non-Canadian, non-US companies trying to achieve global net zero greenhouse gas and carbon emissions by 2050.
- A slew of NEI Investments funds, including seven equity offerings, earned CIFSC Responsible Investment flags in 2023's third quarter after the firm clarified in its prospectuses how it integrates ESG into its processes.
- Mackenzie launched a USD version of its popular Mackenzie Greenchip Global Environmental All Cap Fund in October.

Allocation fund categories added 17 new sustainable funds. All but one were in global categories. NEI Income Private Portfolio, a Canadian fixed-income balanced category fund, was the sole Canada-tilted new addition.

Sustainable Fund Launches in 2023 by Category Group



Source: Morningstar Direct. Data as of Dec. 31, 2023.

Open-End Was the Most Popular Vehicle for Sustainable Funds

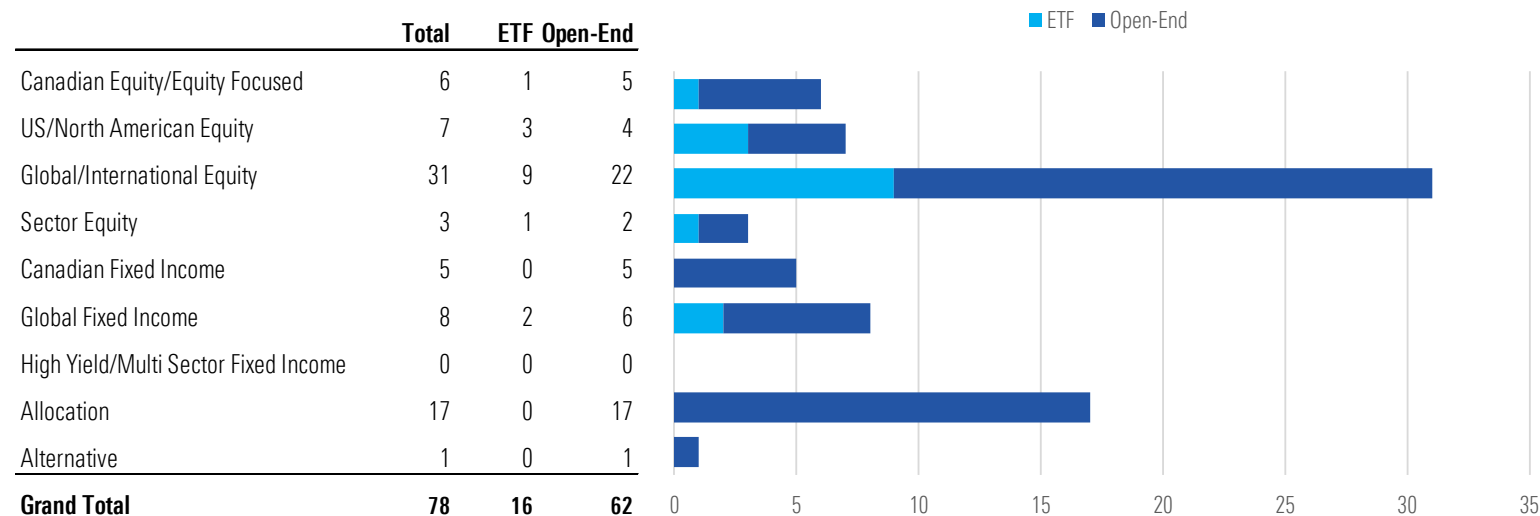
Long a Canadian responsible investing pioneer, NEI Investments launched three new funds in 2023 and earned the CIFSC Responsible Investment identifiers on 16 other open-end funds.

Similarly, CIFSC’s framework recognized the RBC Vision Fossil Fuel lineup as responsible investments, which added all six funds to the count for open-end funds.

Sustainable ETFs have not been as popular in Canada as they have in the US. They represent only 21% of newly launched funds in 2023.

- The most notable lineup of sustainable ETFs launched by Emerge in late 2022 were added to the list in January 2023 but also closed as of Dec. 31, 2023, after the firm closed its doors.
- Invesco launched three sustainable ETFs in 2023: Invesco S&P International Developed Dividend Aristocrats ESG Index ETF IIAE, Invesco S&P U.S. Dividend Aristocrats ESG ETF IUAE, and Invesco S&P/TSX Canadian Dividend Aristocrats ESG Index ETF ICAE. These ETFs were launched in consultation with NEI.

Sustainable Fund Launches in 2023 by Category Group



Source: Morningstar Direct. Data as of Dec. 31, 2023.

Canada Life Commands the List of Largest New Sustainable Funds

Sun Life Acadian International Equity Fund led the pack as the largest new offering, with CAD 720 million in assets at the end of 2023. The fund provides an ex-North American fund focused on reducing carbon emissions and contributing to the global mission of achieving net zero by 2050.

Canada Life was the most prominent asset manager on the list, with three new funds successfully gathering assets.

- Canada Life Sustainable Global Bond Fund was the only fixed-income fund from the firm to make the list and topped CAD 115 million in assets.
- Its two equity funds launched with a global and US focus combined for over CAD 127 million for the firm.

NEI Canadian Impact Bond Fund, TD North American Sustainability Bond Fund, and Nuveen Global Green Bond Fund round out the list. Each fund also earned CIFSC's rare ESG Impact Investing flag, the least common flag award to sustainable funds in Canada.

New Sustainable Funds With More Than CAD 50 Million at the End of 2023

Fund Name	Inception Date	Fund Size (CAD Mil)
Sun Life Acadian International Equity Fund	2023-07-12	719.84
Canada Life Sustainable Global Bond Fund	2023-07-18	115.45
NEI Canadian Impact Bond Fund	2023-07-17	112.23
Canada Life Sustainable Global Equity Fund	2023-07-18	77.25
TD North American Sustainability Bond Fund	2023-03-09	51.57
Canada Life ESG US Equity Fund	2023-07-18	50.59
Nuveen Global Green Bond Fund	2023-09-11	50.53

Source: Morningstar Direct. Data as of Dec. 31, 2023. Excludes funds of funds. Does not include repurposed funds. All data in CAD.

Canada Sustainable Funds: Investment Performance

Sustainable funds beat peers, and Canadian equity funds stood out.

Sustainable Funds Delivered Good Returns in 2023

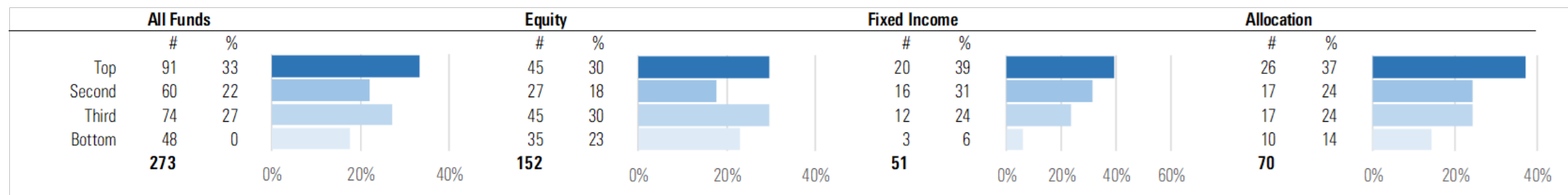
In terms of total returns, sustainable funds beat their conventional Morningstar peers slightly in 2023, with 55% of sustainable funds landing in the top half of their respective Morningstar Categories.

Fixed income posted the strongest outperformance, with 39% of sustainable fixed-income funds ranking in the top quartile relative to peers.

- Among global fixed-income funds (the largest Canadian sustainable bond fund group), the oldest share class of the median sustainable fund gained 7.1% in 2023, beating the entire category's 5.5% and the Morningstar Global Core Bond Index's 2.4%.

Allocation funds posted equally strong results, with 37% of sustainable funds ranking in their peer group's top quartile. Equity funds showed mixed results, with an equal amount ranking in the top and third quarters of their respective peer groups. This was driven by mixed results from sustainable global equity funds, while sustainable Canadian equity funds posted notable outperformance—63% of sustainable Canadian equity funds ranked in the top half of the peer group.

Sustainable Funds 2023 Return Rank by Morningstar Category Quartile



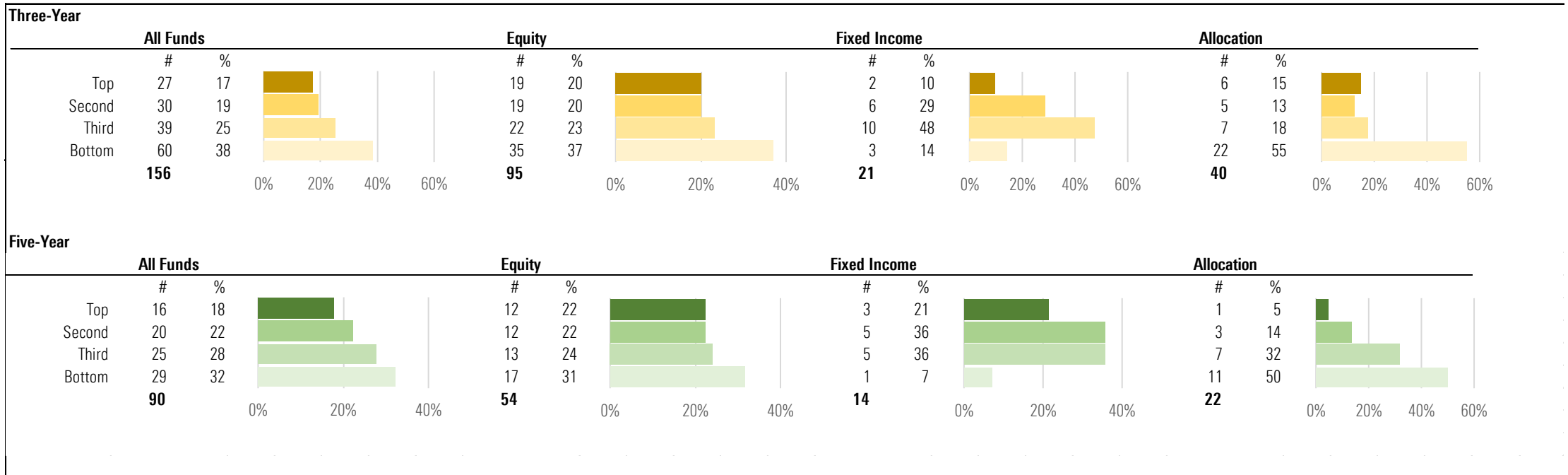
Source: Morningstar Direct. Data as of Dec. 31, 2023. Oldest share class.

Intermediate-Term Results Are Dramatically Different

Overall, the distribution of sustainable funds across their respective categories looks vastly different in the trailing three- and five- year periods compared with 2023. Over both time periods, sustainable funds underperformed their peers, with over half ranking in the bottom half of their respective peer groups.

This trend is most prominent in equity and allocation funds, while fixed-income funds have generally hovered around category medians.

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



Source: Morningstar Direct. Data as of Dec. 31, 2023. Oldest share class.

Sustainable Canadian Equity Funds Turned Things Around in 2023

Although funds in the Canadian equity category only represent 8% of all sustainable funds, these funds play an important role in Canadian investors' portfolios.

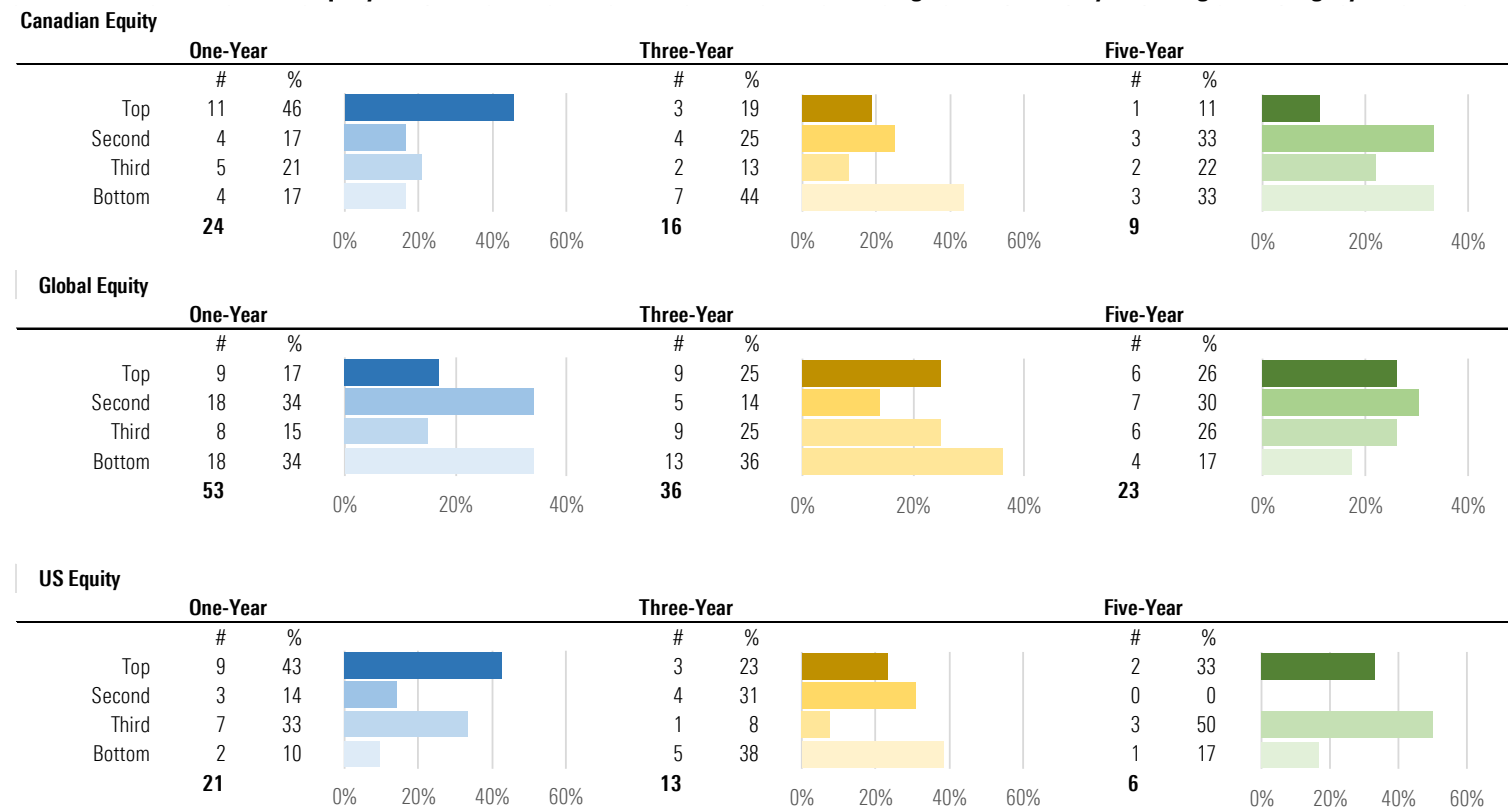
- In 2023, sustainable Canadian funds bounced back from poor performance in years prior. More than half of sustainable Canadian equity funds landed in the top half of the overall Canadian equity category.
- Medium-term returns were noticeably weaker, with most funds ranking in the bottom half of the peer group on a three- and five-year basis.

Global equity funds, the most popular of all sustainable funds, showed mixed results over all time periods.

- Over five years, most funds finished in the top half of the peer group; over three years, they finished in the bottom half; and last year, they were evenly split between the second and fourth quartiles.

US equity funds show similar mixed results although they did show stronger returns in 2023, with almost half the group landing in the US equity category's top quartile.

Canadian, Global, and US Equity Sustainable Funds Three- and Five-Year Trailing Performance by Morningstar Category Quartile



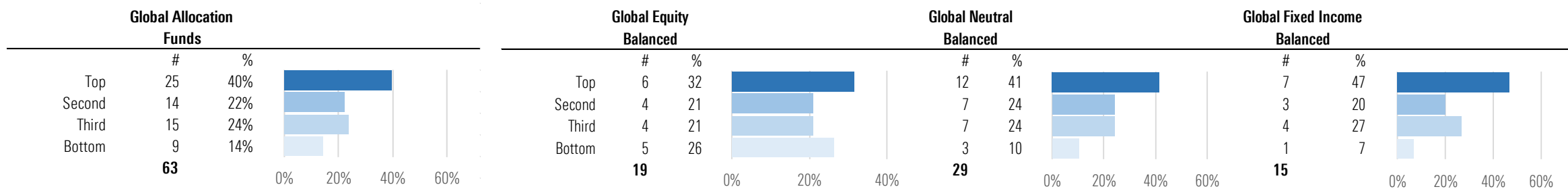
Source: Morningstar Direct. Data as of Dec. 31, 2023. Oldest share class.

Sustainable Balanced Fund Performance Aligns With Broad Sustainable Market Trends

Sustainable allocation fund category rankings followed the same pattern as the rest of the sustainable fund market in 2023. Global fixed-income balanced funds, the smallest global allocation category, fared slightly better than more-aggressive groups, with 67% in the top half of the peer group. The category also had the fewest sustainable funds ranking in its bottom quartile of any allocation peer group.

- Funds in the global neutral balanced category, the most popular sustainable and conventional fund category in Canada, also showed strong results. Sustainable global equity balanced funds fared the worst, with 26% of funds in the bottom quartile of the peer group. This could be a reflection of the mixed results seen in global equity funds in general, as these funds require at least a 60% allocation to stocks.

Sustainable Funds in Global Balanced Categories Deliver Good Returns vs. Category Peers, 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Includes fund of funds.

Some Sustainable Funds Stack Up Well on Multiple Morningstar Metrics

The Morningstar Medalist Rating tries to identify funds that will outperform their peers and benchmarks over a full market cycle. More than 100 sustainable funds earn Bronze, Silver, or Gold Medalist Ratings, which can be assigned by either Morningstar Manager Research Analysts or an algorithm intended to extend their research to uncovered strategies. Below is a list of funds whose ratings are at least 50% analyst-driven. It includes funds from nine asset managers and seven asset classes.

For more information on Morningstar’s Medalist Rating, please see this [link](#).

Top Sustainable Gold, Silver, and Bronze Funds, 2023

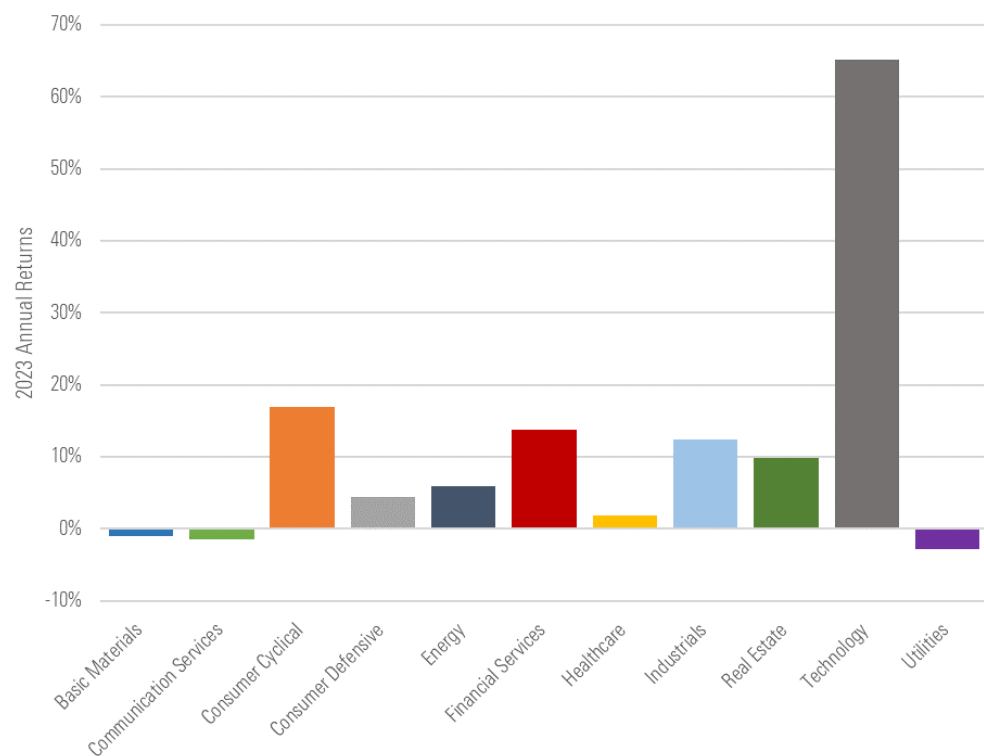
Ticker	Morningstar Category	Morningstar Medalist Rating	Inception Date	Fund Size (CAD Mil)	Total Return 2023	% Rank Category 2023	CIFSC ESG Best in Class	CIFSC ESG Exclusion	CIFSC ESG Impact Investing	CIFSC ESG Integration and Evaluation	CIFSC ESG Related Engagement and Stewardship Activities	CIFSC ESG Thematic Investing
iShares ESG Aware MSCI USA Index ETF	US Equity	Silver	2019-03-18	396.54	21.85	38	Yes	Yes	Yes			
iShares ESG Aware MSCI EAFE Index ETF	International Equity	Silver	2019-03-18	176.24	14.89	44	Yes	Yes	Yes			
Invesco S&P 500 ESG Index ETF Fund	US Equity	Silver	2021-01-28	23.19	26.18	17	Yes	Yes	Yes			
Franklin Western Asset Core Plus Bond Fund	Global Fixed Income	Silver	2022-01-11	193.66	6.05	31	Yes	Yes	Yes		Yes	
Manulife Climate Action Bond Fund	Global Fixed Income	Silver	2022-08-05	0.79	10.58	1		Yes				Yes
Mackenzie Global Sustainable Bond ETF	Global Fixed Income	Silver	2021-09-23	188.14	7.13	13	Yes	Yes	Yes		Yes	
Manulife Climate Action Fund	Global Equity	Silver	2021-05-04	36.37	18.64	26	Yes	Yes	Yes			Yes
Fidelity Climate Leadership Fund	Global Equity	Silver	2021-05-18	574.95	25.00	9	Yes			Yes		Yes
iShares ESG Aware MSCI Emerging Markets Index ETF	Emerging Markets Equity	Bronze	2019-03-18	2,666.58	6.53	61	Yes	Yes	Yes			
FÉRIQUE Global Sustainable Development Equity Fund	Global Equity	Bronze	2021-01-29	155.40	12.47	67		Yes	Yes			
Mackenzie Global Green Bond Fund	Global Fixed Income	Bronze	2021-10-19	6.90	6.04	31			Yes	Yes		
NBI Sustainable Global Equity Fund	Global Equity	Bronze	2021-06-28	232.08	12.89	63		Yes	Yes			
Fidelity Climate Leadership Bond Fund	Global Fixed Income	Bronze	2021-05-18	75.72	8.80	2	Yes			Yes		Yes
Fidelity Climate Leadership Balanced Fund	Global Neutral Balanced	Bronze	2021-05-18	170.17	18.36	1				Yes		Yes
PIMCO ESG Income Fund (Canada)	Multi-Sector Fixed Income	Bronze	2021-02-26	N/A	3.63	94	Yes	Yes	Yes			
Mackenzie Global Sustainable Bond Fund	Global Fixed Income	Bronze	2021-04-09	15.02	7.12	13	Yes	Yes	Yes		Yes	

Source: Morningstar Direct. Data as of Dec. 31, 2023. Oldest share class. List includes only funds with ratings that include at least 55% analyst-driven input.

In 2023, Technology and Energy Overweightings Boosted Sustainable Canadian Equity Funds

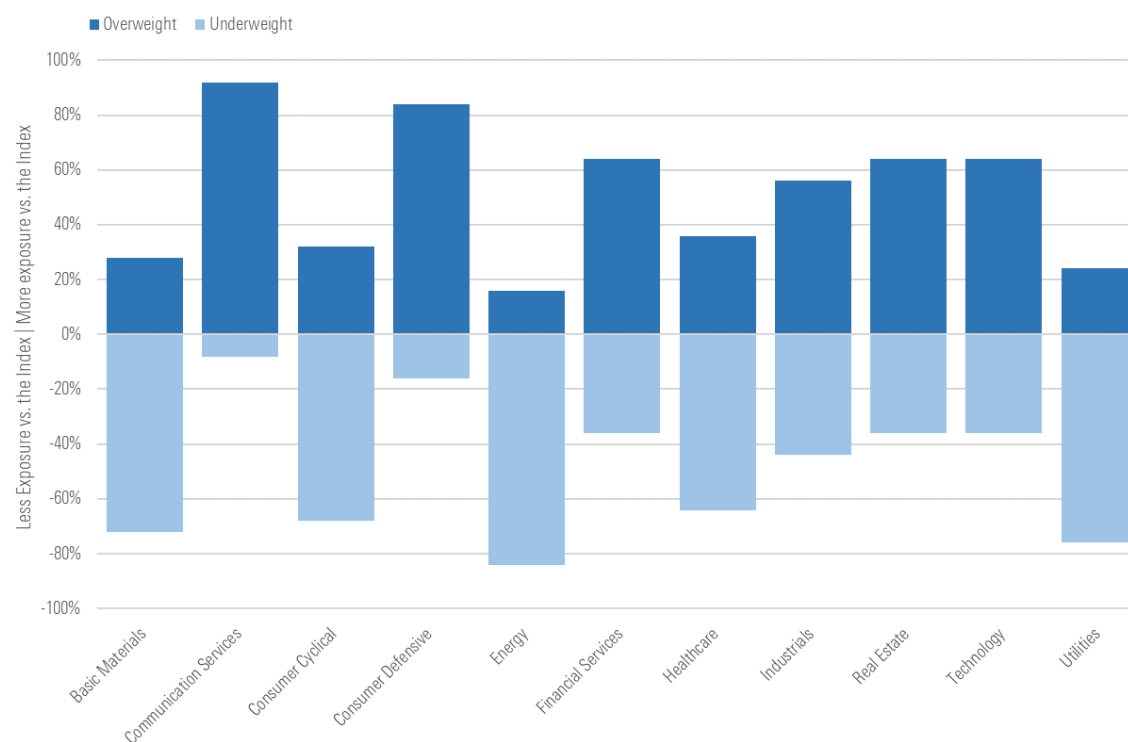
The median sustainable Canadian equity fund outperformed conventional peers but slightly underperformed the Morningstar Canada Index in 2023. To understand what drove these returns, we compared the sector profiles for 25 sustainable Canadian equity funds with that of the Morningstar Canada Market Index (over- and underweightings are shown in the exhibit on the right). Entering 2023, two thirds of the universe held relative overweightings to technology, which trounced all other sectors with its 65% gain. Additionally, over 80% of funds had relative underweightings to energy, where middling results weighed on the index, given it is the second-largest sector. Large consumer sector overweightings hurt.

Equity Sector Annual Returns in 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Returns reflect Morningstar sector indexes, whose parent index is the Morningstar Canada Index. All returns in CAD.

Sustainable Funds Sector Exposure vs. the Morningstar Canada Index Going Into 2023

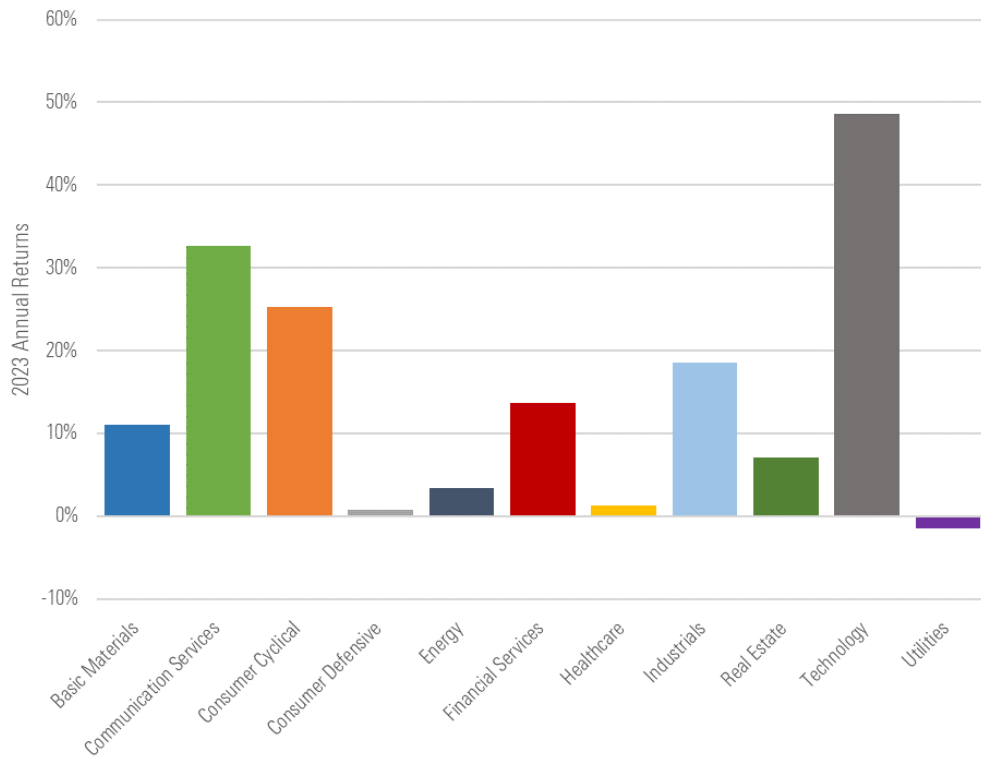


Source: Morningstar Direct. Data as of Dec. 31, 2023. Sample includes 25 Canadian equity funds. Sector exposures reference portfolios from December 2022 (before the start of the 2023 annual return period).

In 2023, Technology Overweightings Helped; Healthcare Exposure Hurt Sustainable Global Equity Funds

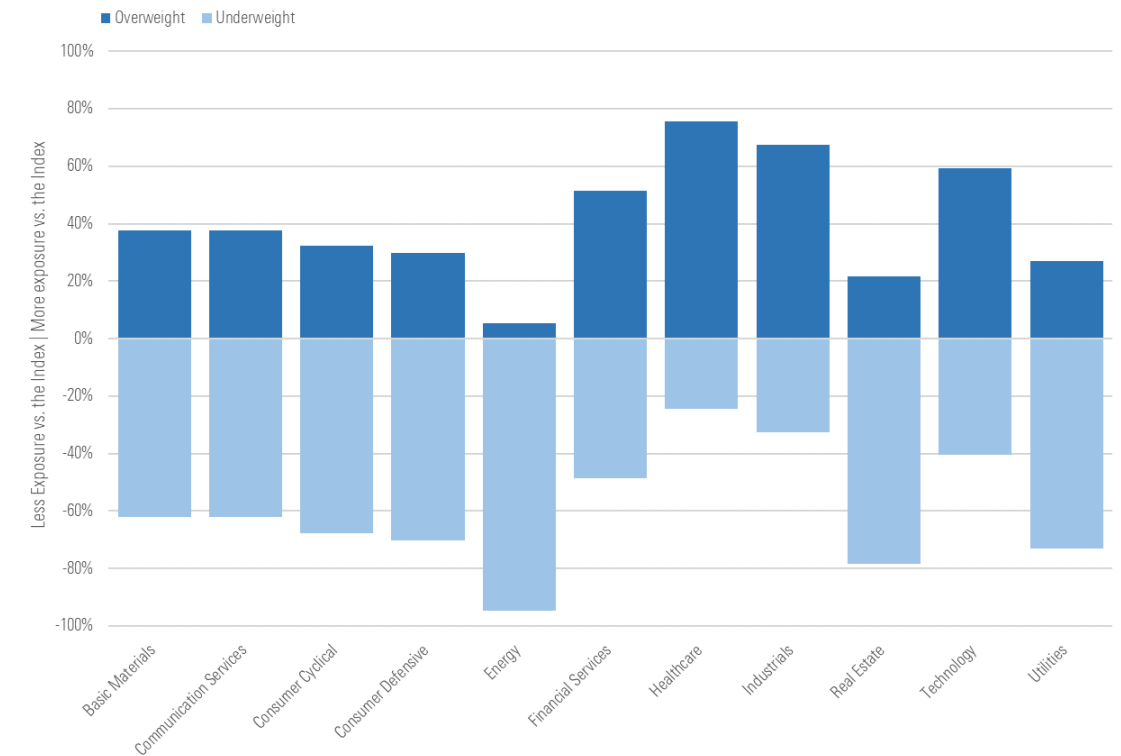
The median sustainable global equity fund lagged conventional peers and the Morningstar Global Markets Index in 2023. To understand what drove these returns, we compared the sector profiles for nearly 37 sustainable large-blend equity funds with that of the Morningstar Global Markets Index (over- and underweightings are shown in the exhibit on the right). Funds benefited from a relative overweight position to technology. Healthcare, where almost 80% of funds were overweight, weighed the most on funds' results.

Equity Sector Annual Returns in 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Returns reflect Morningstar sector indexes, whose parent index is the Morningstar Global Market Index. All returns in CAD.

Sustainable Funds Sector Exposure vs. the Morningstar Global Markets Index Going Into 2023

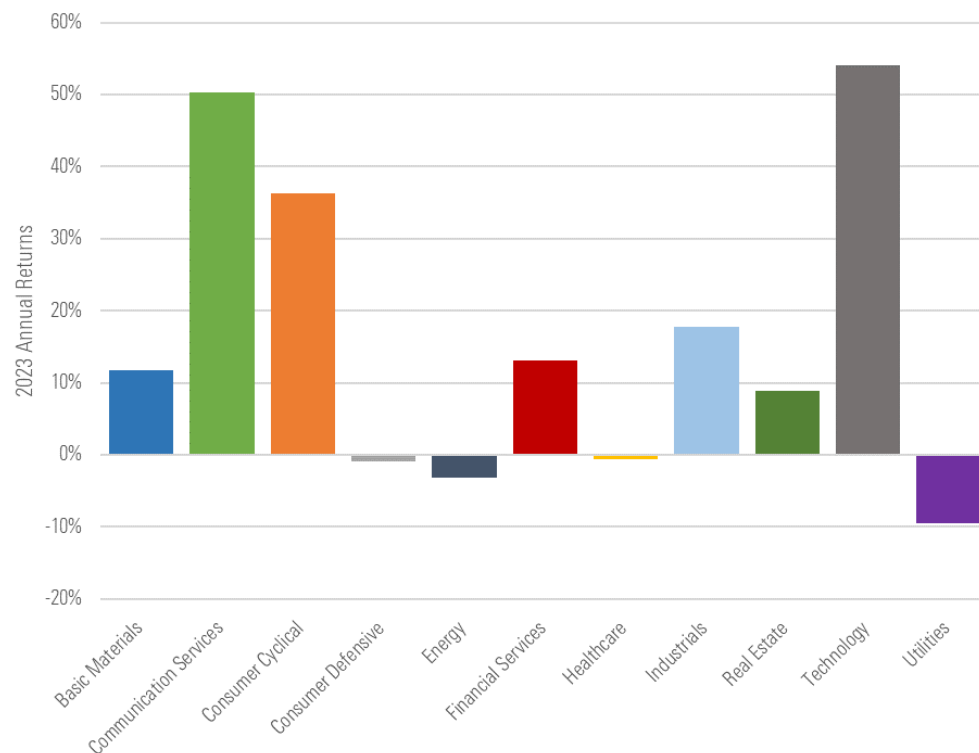


Source: Morningstar Direct. Data as of Dec. 31, 2023. Sample includes 37 global equity funds. Sector exposures reference portfolios from December 2022 (before the start of the 2023 annual return period).

In 2023, Sustainable US Equity Funds Were Well Positioned Sectorwise but Failed to Beat the Index

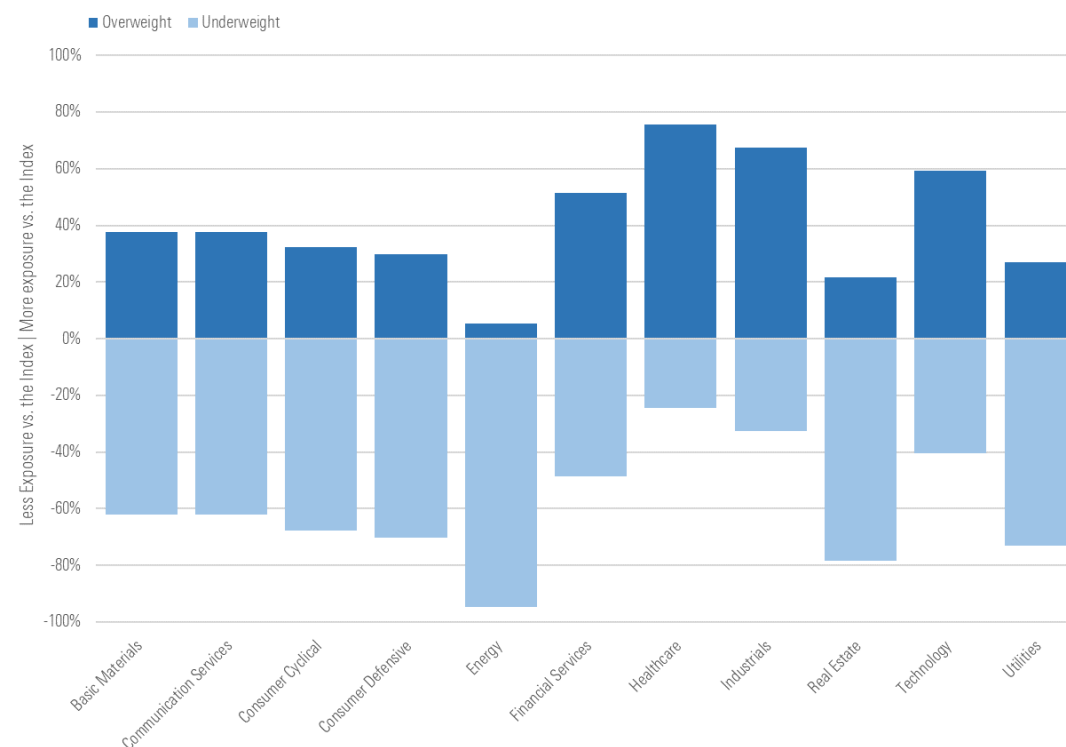
The median sustainable US equity fund outperformed conventional peers but lagged the Morningstar US Market Index in 2023. To understand what drove these returns, we compared the sector profiles for nearly 24 sustainable US equity funds with that of the Morningstar US Market Index (over- and underweightings are shown in the exhibit on the right). As with other asset classes, an overweighting to technology and underweighting to energy and utilities boosted returns for sustainable funds. Almost 80% of funds had an overweighting to healthcare, however — one of four sectors that posted negative returns and hurt fund results relative to the index.

Equity Sector Annual Returns in 2023



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

Sustainable Funds Sector Exposure vs. the Morningstar Global Markets Index Going Into 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Sample includes 24 US equity funds. Sector exposures reference portfolios from December 2022 (before the start of the 2023 annual return period).

Canada Sustainable Funds: Sustainability Performance

Sustainable funds delivered on multiple sustainability characteristics.

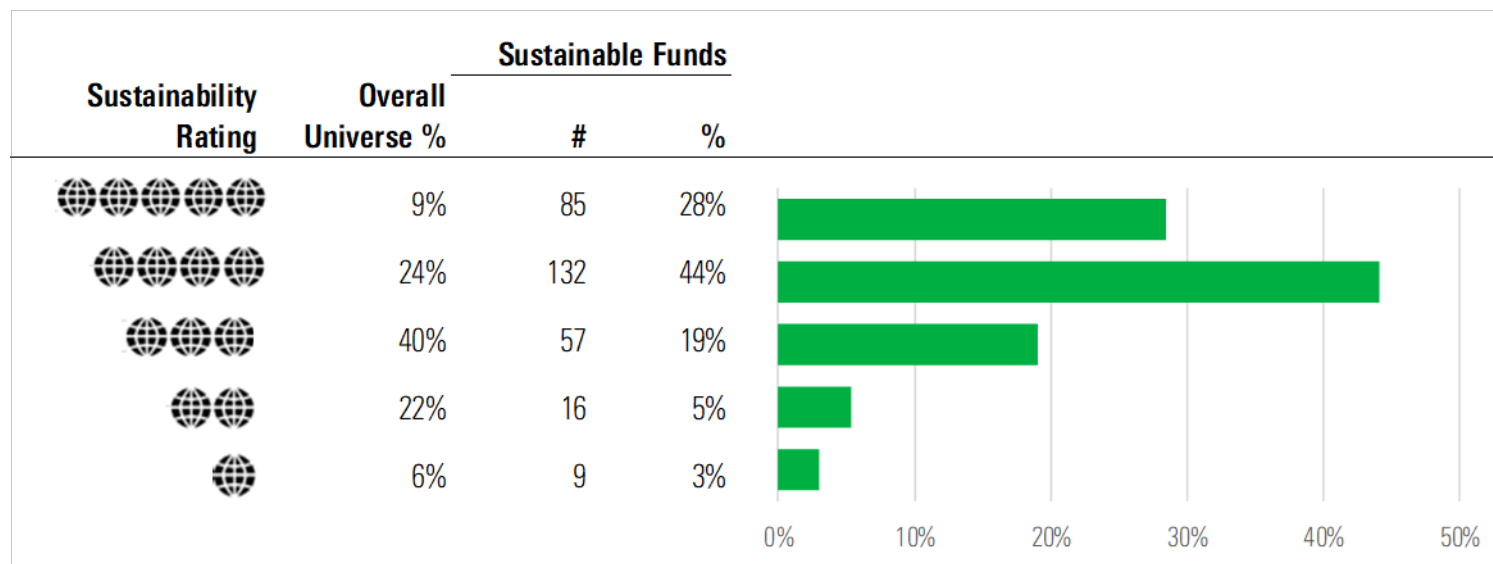
Sustainable Funds Delivered Lower Exposure to ESG Risk

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 is becoming more common in traditional investment management, sustainable funds continue to deliver lower levels of ESG risk, compared with peers. Nearly three fourths of sustainable funds receive the highest ratings, 4 or 5 globes, compared with 33% 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 close to one third of funds overall.

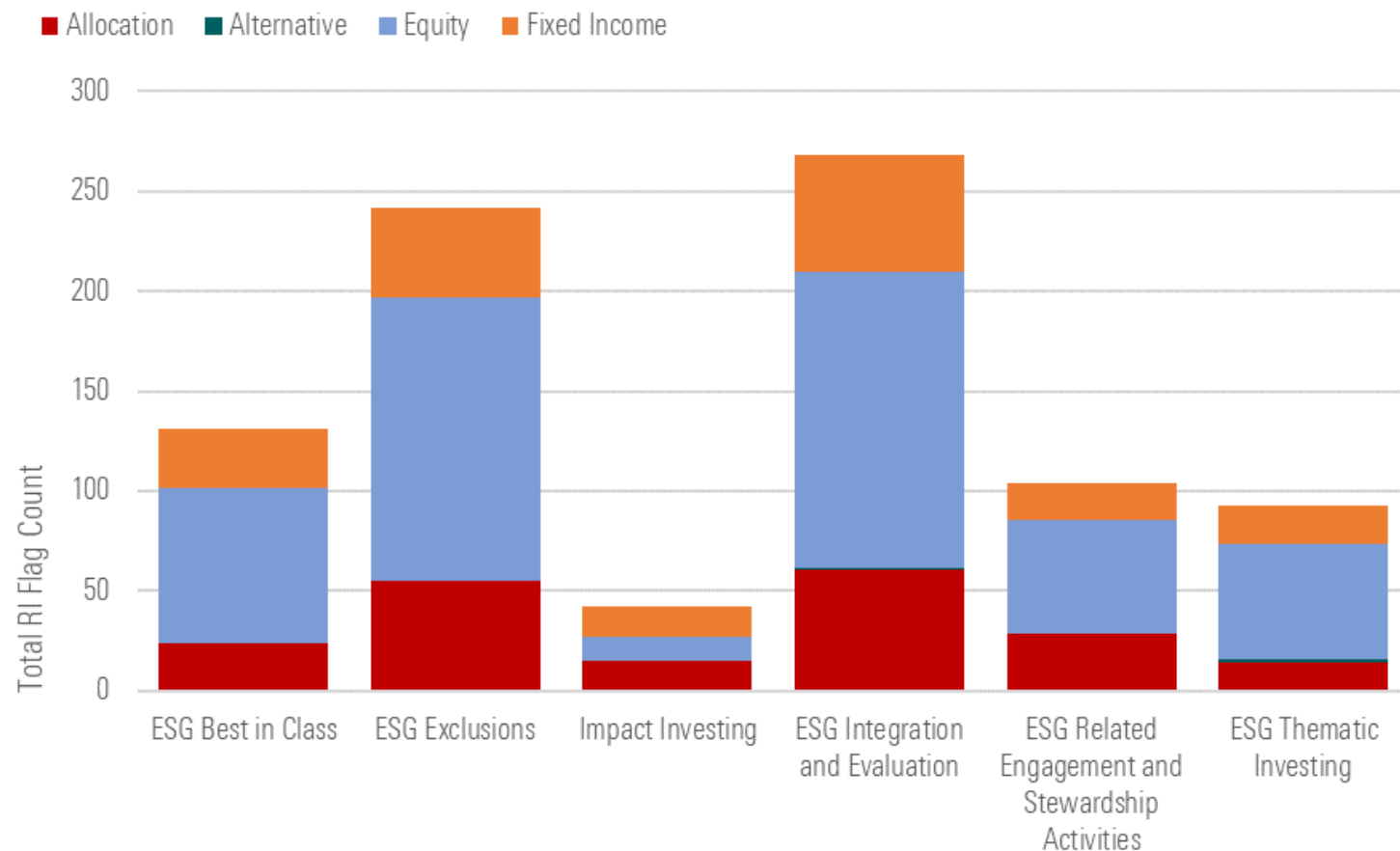
ESG Risk in Sustainable Funds, 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023. Does not include obsolete funds. Includes fund of funds. Overall universe includes the oldest share class of all Canada-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.

CIFSC Responsible Investing Framework—ESG Integration and Evaluation Remains the Dominant Approach

Number of CIFSC ESG Flags as of December 2023



In 2023, CIFSC launched a Responsible Investment Identification Framework as a way for Canadian investors to find investment products that claim to use a responsible investment approach.

The framework outlines six nonmutually exclusive approaches, and multiple funds have earned more than one identification flag. The six approaches—ESG Best in Class, ESG Exclusions, Impact Investing, ESG Integration and Evaluation, ESG Related Engagement and Stewardship Activities, and ESG Thematic Investing—must be delineated in a fund’s investment objectives to be recognized.

Four of the approaches have been identified on over 100 funds each, with ESG Integration and Evaluation the most common. ESG Exclusions saw the largest increase in new flags awarded in 2023 for 36 different funds, while Impact Investing remains the least common flag, likely because of the more stringent expectations for measurable impact goals.

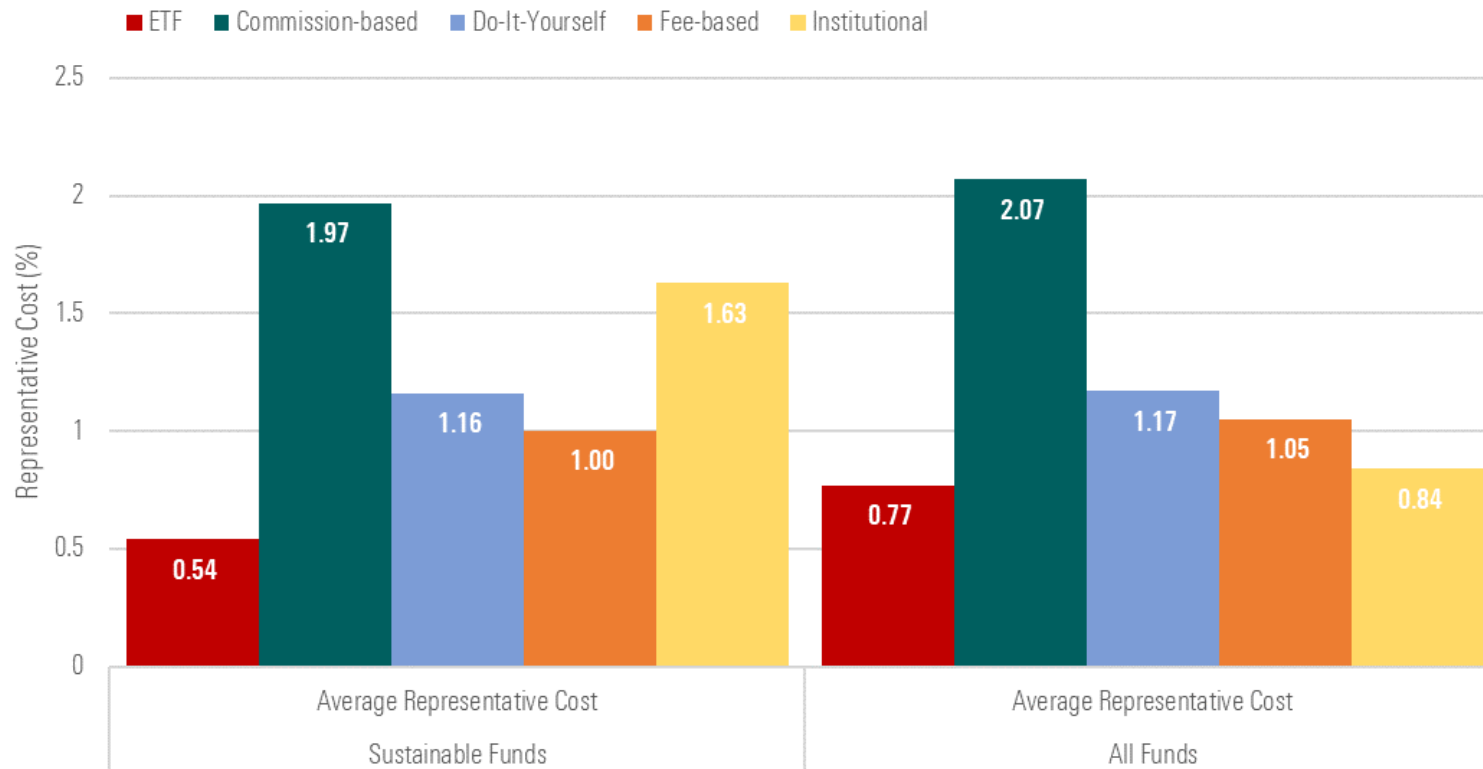
Source: Morningstar Direct. Data as of Dec. 31, 2023. Does not include obsolete funds. Sample includes fund of funds. For more information on CIFSC’s identification framework, please consult the [CIFSC Website](#).

Canada Sustainable Funds: Fees

It costs less to invest in sustainable funds.

Sustainable Fund Fees Are Generally Cheaper Than Their Conventional Peers

Average Representative Cost ex Transaction Fees: Sustainable vs. All Canadian Funds, 2023



Morningstar’s Representative Cost ex Transaction Fees provides an indication of the known reoccurring costs for the share class, which includes management expense ratio. The data is annualized and indicates the fees that would be payable over a year.

Using this metric, the average sustainable fund is cheaper than the average fund across all distribution channels except institutional share classes. The most significant discount is noted in ETFs, where sustainable funds save investors an average 0.23%. Although notable, this is likely driven by market dynamics such as the larger presence of actively managed and alternative ETFs in the broad market.

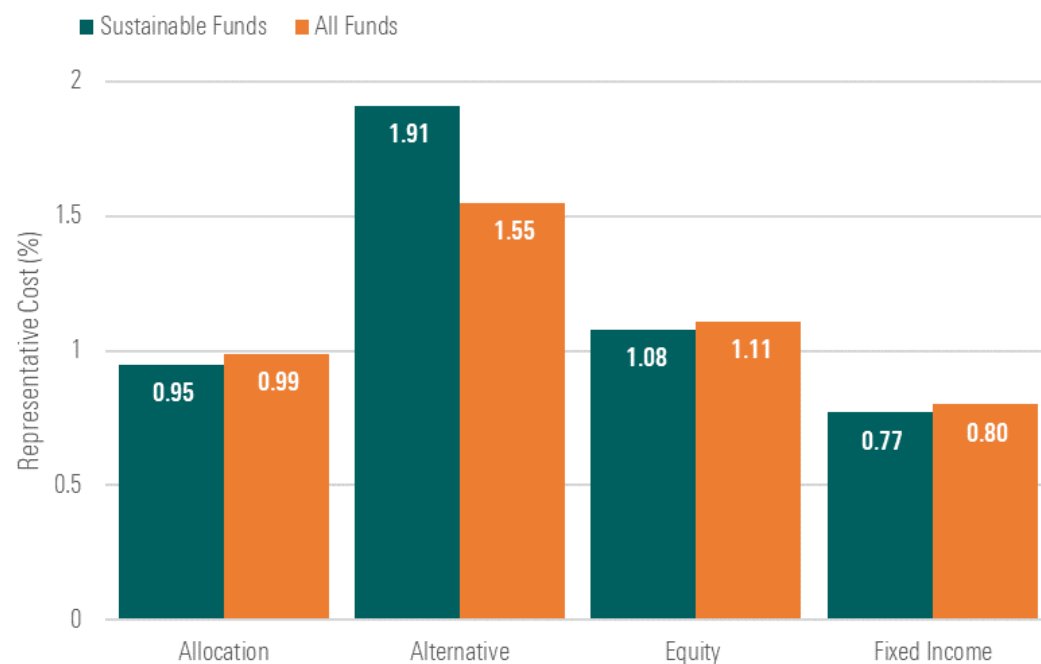
Fee-based and commission-based funds, the most common share class types in Canada, have a more muted advantage.

Source: Morningstar Direct. Data as of Dec. 31, 2023. Does not include obsolete funds. Sample includes fund of funds. Representative Cost ex Transaction Fees must meet a minimum established by asset class: allocation = >0.30%, equity = >0.25%, fixed income = >0.20%.

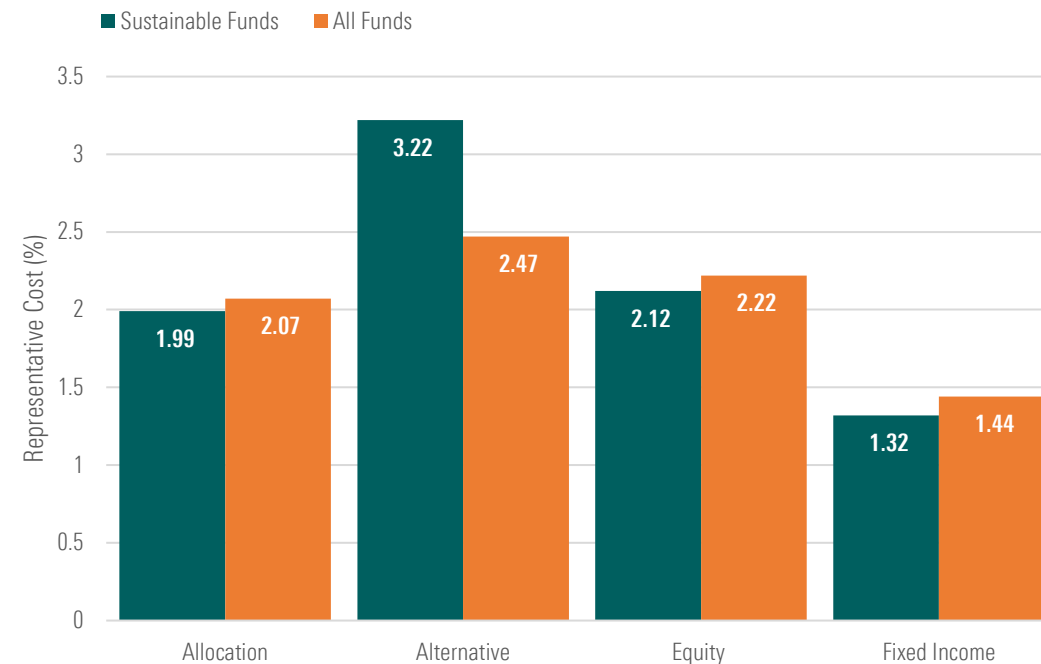
Fee-Based and Commission-Based Discounts Available Outside of Alternatives

Fee-based share classes are share classes that exclude the cost of advice. Commission-based share classes have a bundled fee structure, which includes the cost of advice. We have noted over the past several years that fee-based share classes are gaining ground, particular since the Client Focused Reforms were implemented in 2021-22, but commission-based funds still hold most of the fund assets in Canada. Sustainable funds offer lower costs in all asset classes except alternatives in these channels.

Fee-Based Share Class: Sustainable Fund Fees vs. All Fund Fees



Commission-Based Share Class: Sustainable Fund Fees vs. All Fund Fees



Source: Morningstar Direct. Data as of Dec. 31, 2023. Does not include obsolete funds. Sample includes fund of funds. Representative Cost ex Transaction Fees must meet a minimum established by asset class: allocation = >0.30%, equity = >0.25%, fixed income = >0.20%.

Canadian Sustainable Funds: Regulatory Developments

A focus on taxonomy was a priority in 2023.

Slowly but Steadily, Common Responsible Investing Taxonomy Is Emerging

Updates

CIFSC Responsible Identification Framework

- In February 2023, the Canadian Investment Funds Standards Committee published its inaugural list of mutual funds and ETFs that fall under its Responsible Investment Framework.
- The framework was created with input from the industry and fund manufacturers with the intent to provide a standard by which funds are identified in Canada.
- The framework cites six nonmutually exclusive sustainable-investment approaches: ESG Best in Class, ESG Exclusions, Impact Investing, ESG Integration and Evaluation, ESG Related Engagement and Stewardship Activities, and ESG Thematic Investing. It is a disclosures-based framework whereby approaches must be described in the investment objectives of the fund to be considered.

Global Standardization of Terminology Apparent

- In response to the November 2021 International Organization of Securities Commission publication "[Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management](#)," the CFA Institute, the Global Sustainable Investment Alliance, and the Principles for Responsible Investment [came together to provide common definitions for key responsible investment](#) terms such as: Screening, ESG Integration, Thematic Investing, Stewardship, and Impact Investing.

Still in the Works

CIFSC Responsible Identification Framework: Review

- The [CIFSC released revisions for public comment](#) on Feb. 1, 2024, regarding its Responsible Identification Framework to ensure alignment with the guidance provided by the CFA and its partners regarding common terminology. The revisions are not expected to result in any changing of flags and instead focus on revising language. The finalized revisions are expected in the second quarter of 2024.

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