

Global Sustainable Fund Flows: Q3 2021 in Review

New disclosure rule in Europe drives global sustainable fund assets to almost USD 4 trillion.

Morningstar Manager Research

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Key Takeaways

- ▶ Global sustainable fund assets almost doubled in the past six months to reach USD 3.9 trillion at the end of September, mainly driven by new disclosure rules in Europe.
- ▶ New environmental, social, and governance language added to fund prospectuses following the introduction of the EU Sustainable Finance Disclosure Regulation in March has led to an increase in the number of products included in our universe of sustainable funds.
- ▶ Restated figures show that inflows and assets of global sustainable funds continue to outpace the market. In the third quarter, global sustainable fund inflows declined by 11%, but the global fund universe overall recorded 20% lower inflows. Global sustainable fund assets increased 8% over the same period, while the overall fund market remained stable.
- ▶ Europe's dominance of the sustainable fund space has increased as its ESG-focused universe expanded after the introduction of SFDR. In the third quarter, Europe accounted for 77% of the quarter's net inflows, while the United States accounted for 11%. Flows in the rest of the world clocked in at USD 17 billion for Canada, Australia and New Zealand, Japan, and Asia combined.
- ▶ Product development in the space remained strong, with 270 new sustainable fund launches globally in the third quarter. Asset managers also continued to repurpose and rebrand conventional products into sustainable offerings.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-end funds and exchange-traded funds globally that, by prospectus, fact sheet, or other available resources, claim to have a sustainability objective and/or use binding environmental, social, and governance criteria for their investment selection. The sustainable funds group does not contain funds that employ only limited exclusionary screens such as controversial weapons, tobacco, and thermal coal, nor does it contain the growing number of funds that now formally integrate ESG considerations in a nondeterminative way for their investment selection. Money market funds, feeder funds, and funds of funds are excluded.

The global universe is divided here into three segments by domicile: Europe, United States, and Rest of World. There is more granular data available in this report for Canada, Australia and New Zealand, and Japan. China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea are grouped because of the relatively low assets. This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches for the third quarter of 2021. A summary is provided in Exhibit 1.

Exhibit 1 Global Sustainable Funds Q3 2021 Statistics

Region	Q3 2021 Flows		Assets		Funds	
	USD Billion	% Total	USD Billion	% Total	#	% Total
Europe	108.7	77%	3,431.6	88%	6,147	82%
United States	15.7	11%	330.7	8%	484	6%
Asia ex-Japan	8.1	6%	61.3	2%	308	4%
Australia/New Zealand	1.9	1%	27.2	1%	144	2%
Japan	5.1	4%	31.6	1%	237	3%
Canada	1.7	1%	22.2	1%	166	2%
Total	141.2		3,904.5		7,486	

Source: Morningstar Direct, Manager Research. Data as of September 2021. Figures include final Q3 data for China and updated inflow data for Taiwan.

The number of sustainable funds captured in our global sustainable universe has grown by more than 51% over the third quarter, reaching 7,486 funds at the end of September 2021.

The growth in our universe was mainly due to a significant increase in the number of funds meeting our "sustainable investment" criteria in Europe following the introduction of the Sustainable Finance Disclosure Regulation on March 10. At the end of the second quarter, as our data team was still working its way through the thousands of new prospectuses, we limited the scope of our second-quarter review to funds launched or repurposed with "ESG" or related terms in their names and, as such, clearly marketed as sustainable strategies. As of this writing, our data team has finished reviewing the vast majority of updated prospectuses in response to SFDR and found thousands of funds that now meet our criteria for inclusion. The latest review has prompted us to readjust flows, assets, and fund numbers for second-quarter 2021 to include funds that repurposed during that quarter but that had not been reviewed in time for the second-quarter report.

Other regions have also contributed to the expansion of our global sustainable universe albeit to a lesser degree. Japanese and Canadian sustainable fund counts have increased meaningfully in the course of the third quarter, with roughly 40% and 20% additional offerings, respectively, identified through September 2021.

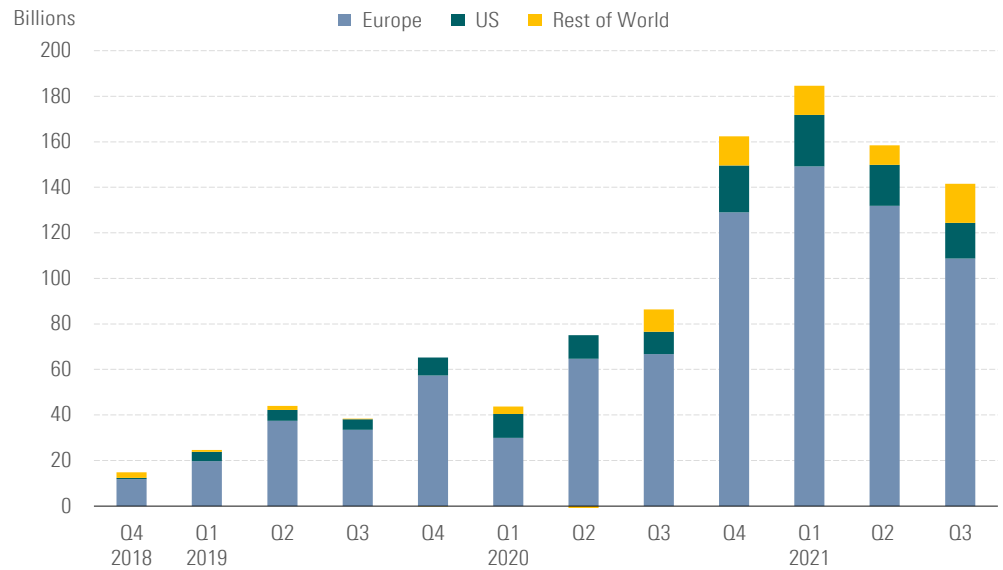
Global Inflows Down 11%

The global sustainable universe attracted USD 141 billion in net inflows in the third quarter of 2021. These are higher than a year ago but down 11% from a revised USD 158 billion in the second quarter. Sustainable fund inflows in the third quarter still outpaced the overall global fund universe, which recorded a 20% drop in inflows over the same period.

The slowdown in sustainable net flows was driven by Europe and the United States: Both saw their sustainable inflows decline by 17% and 12%, respectively, to USD 108.7 billion and USD 15.7 billion, respectively. Asia marginally made up for these lower figures with Asia ex-Japan registering a third-quarter growth of net inflows of 2,232% to USD 8.1 billion, while Japan's inflows into sustainable funds

grew by 22% to USD 5.1 billion. Canada's net inflows increased as well in the third quarter, by 5%. On the other hand, inflows in Australasia (Australia and New Zealand) declined by 28%.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



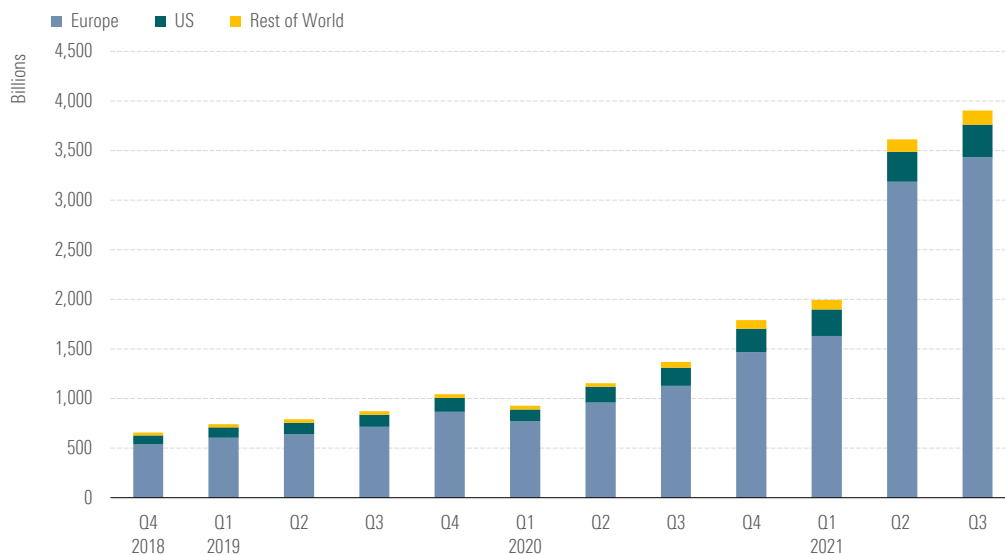
Source: Morningstar Direct, Manager Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10. Figures include final Q3 data for China in Asia ex-Japan.

Global Assets Swell to USD 3.9 Trillion Following SFDR Implementation in Europe

Global assets in sustainable funds reached USD 3.9 trillion at the end of September as the number of funds in scope in Europe increased by two thirds following the introduction of the EU Sustainable Finance Disclosure Regulation on March 10.

The bulk of the asset growth was registered in the second quarter, which we restated (see details in the Europe section), while the third quarter saw a more modest growth of 7.8%. Europe's dominance in the sustainable fund landscape has, as a result, increased: 88% of sustainable fund assets are now held in Europe (versus 82% prior to SFDR). Europe also remains by far the most developed and diverse ESG market, followed by the United States, which houses 8% of global sustainable fund assets.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

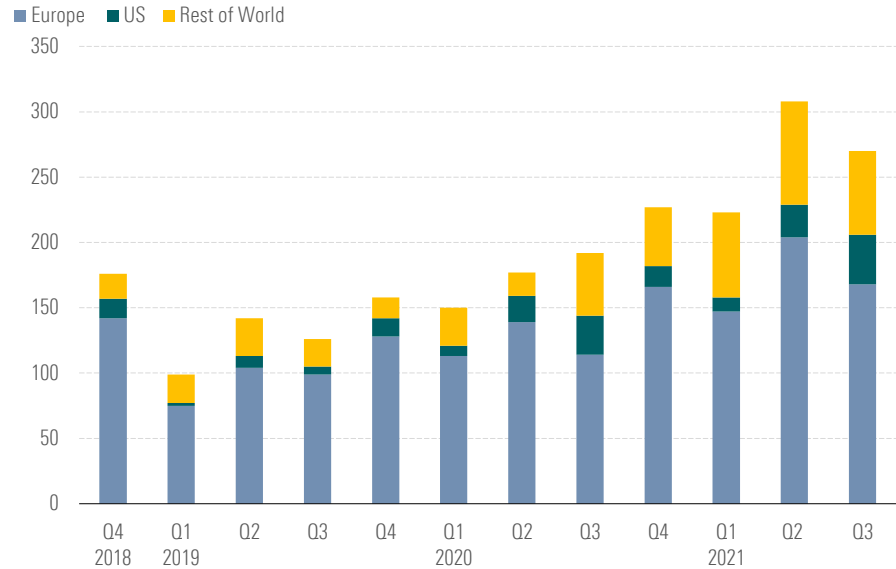


Source: Morningstar Direct, Manager Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10. Figures include final Q3 data for China in Asia ex-Japan.

Global Fund Launches

Product innovation globally remained strong, with 270 new sustainable fund launches in the third quarter of 2021. This is down from a readjusted number of 308 new products in the second quarter but ahead of the 223 new inceptions of the first quarter. Note that third-quarter numbers are also likely to be restated in future reports as we identify more launches this last quarter and as additional ones are reported to Morningstar.

The majority of new launches (63%) in the third quarter took place in Europe, which also saw many strategies being repurposed or rebranded over the same period. The U.S. saw a record number of 38 new sustainable products hit the shelves, closely followed by Asia ex-Japan, with 34 new sustainable fund launches.

Exhibit 4 Global Sustainable Fund Launches Per Quarter

Source: Morningstar Direct, Morningstar Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

Quarterly Statistics Per Domicile**Europe**

The European sustainable fund universe continued to evolve following the introduction of the Sustainable Finance Disclosure Regulation¹ on March 10. SFDR requires asset managers to provide detailed ESG information on their strategies. As a result, the volume and quality of ESG-related disclosures in legal documents have substantially increased.

New ESG language meeting our criteria to classify a strategy as sustainable has led to an increase in the number of funds included in our universe, which at the end of September was composed of 6,147 sustainable products, up from the 3,730 funds we originally reported at the end of June. This represents a 65% growth.

This growth is mainly due to a significant increase in the number of funds meeting our "sustainable investment" criteria following the introduction of the SFDR. At the end of the second quarter, as our data team was still working its way through the thousands of new prospectuses, we limited the scope of our second-quarter review to funds launched or repurposed with "ESG" or related terms in their names and, as such, clearly marketed as sustainable strategies. As of this writing, our data team has finished reviewing the vast majority of new prospectuses. The latest review has prompted us to readjust flows,

1 - To read more about European Sustainable Finance Regulation: [EU Sustainability Disclosures](#); [SFDR Article 8 and Article 9 Funds: Q3 2021 in Review](#); [SFDR: Four months After its Introduction](#); [EU Taxonomy of Sustainable Activities](#); [Regulating ESG Investing the EU Way](#)

assets, and fund launches for the second quarter to include funds that repurposed during that quarter but that had not been reviewed in time for the second-quarter report.

We are likely to report on a larger sustainable universe going forward as our data team continues to review ESG disclosures with language that now aligns with our criteria after SFDR, especially as our analysis has revealed a high level of overlap between our eligibility criteria and those for Articles 8 and 9 of SDR.

To read the latest analysis on SFDR Article 8 and Article 9 Funds:

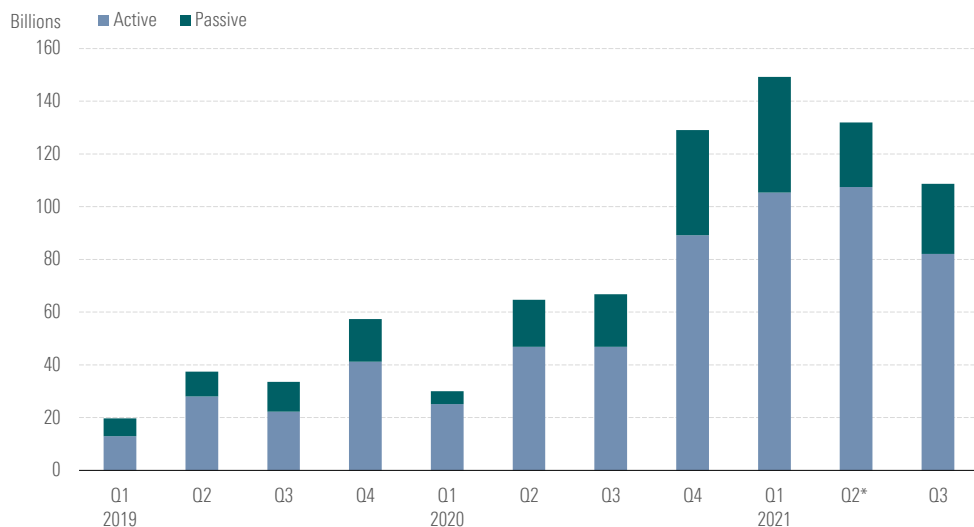
[SFDR Article 8 and Article 9 Funds: Q3 2021 in Review](#)

[SFDR: Four months After Its Introduction](#)

Flows

In the third quarter of 2021, the European sustainable fund universe as delineated above saw USD 108.7 billion in net inflows. That is 17.6% less than the restated amount of USD 131.9 billion hit in the second quarter. In comparison, conventional funds recorded a smaller dip of 15.5% in inflows relative to the second quarter. But sustainable fund flows still represented nearly half of overall fund flows in Europe in the third quarter.

Exhibit 5 European Sustainable Fund Flows (USD Billion)



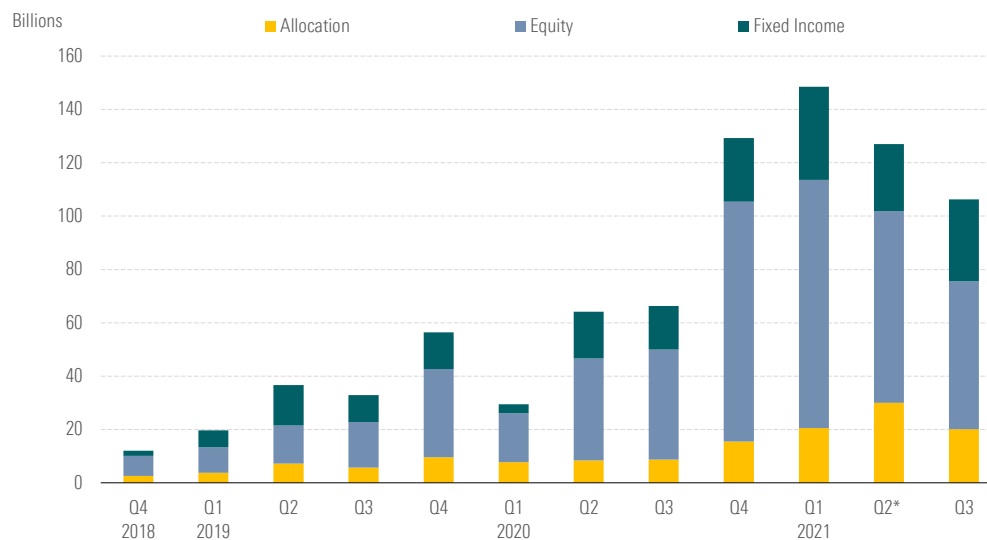
Source: Morningstar Direct, Manager Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

Inflows into passive ESG funds remained strong in the third quarter, at USD 26.7 billion. This represents a 9% growth relative to the second quarter.

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

2021	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q2*	Q3	Q2	Q3	Q2	Q3
Allocation	30.0	20.1	21.8	22.8	51.8	42.9
Alternative	1.2	1.0	4.8	5.3	6.0	6.3
Commodities	-0.1	0.0	2.6	0.9	2.5	0.9
Convertibles	0.4	0.1	1.4	0.7	1.8	0.8
Equity	71.8	55.4	42.0	13.8	113.8	69.2
Fixed Income	25.2	30.8	61.6	66.5	86.8	97.2
Miscellaneous	2.2	0.9	-3.1	-1.3	-0.9	-0.4
Property	1.1	0.4	-0.5	1.7	0.6	2.1
Total	131.9	108.7	130.6	110.3	262.5	219.0

Source: Morningstar Direct, Morningstar Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

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

Source: Morningstar Direct, Morningstar Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

While all asset classes saw positive inflows in the third quarter, these were lower than in the second quarter, with the exception of sustainable fixed-income funds. The latter registered a 22% growth in net inflows to USD 30.8 billion amid concerns over rising inflation and uncertainty around future interest-rate hikes. In comparison, fixed-income funds in the broader European market only attracted 15% more inflows relative to the second quarter. The reason that sustainable funds' overall inflows were below those of funds overall was because investors focused flows on fixed-income funds during the third quarter but had far fewer options in the sustainable fixed-income space.

Meanwhile, sustainable equity fund flows receded by 23%. It is still less than the 38% lower inflows recorded by the overall equity fund market. Inflows into sustainable allocation funds dropped by 33%, which is more than the 15% decline registered by the broader European allocation fund market.

Leaders and Laggards

In line with the overall flow story depicted above, the third-quarter leaderboard looks more diverse than usual in terms of asset class, with five equity funds, three fixed-income funds, and two allocation funds, including UniRak Nachhaltig Konservativ, which regularly appears in this list, and a newcomer, BGF ESG Multi-Asset.

Unlike in previous quarters, only one environmental-themed fund features among the best-selling products: Nordea 1 - Global Climate and Environment Fund, which ranks in the 10th position, with USD 745 million in inflows.

Exhibit 8.a Top 10 Sustainable Fund Flows in Q3 2021

Fund Name	Asset Class	Net Flows (USD Million)
Swisscanto (CH) Index Bond Fund Corp. CHF Responsible GT	Fixed Income	1,816
ASI Sustainable Index World Equity Fund X5 Acc	Equity	1,525
Nordea 1 - Low Duration European Covered Bond Fund	Fixed Income	1,072
UniRak Nachhaltig Konservativ	Allocation	1,016
Pictet-Biotech	Equity	836
BlackRock ACS World Small Cap ESG Screened Equity Tracker Fund	Equity	798
BlackRock Global Funds - ESG Multi-Asset Fund	Allocation	795
Amundi Index Solutions - Amundi Index Euro Corporate SRI	Fixed Income	784
Baillie Gifford Worldwide Positive Change Fund Class	Equity	763
Nordea 1 - Global Climate and Environment Fund	Equity	745

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Exhibit 8.b Bottom 10 Sustainable Fund Flows in Q3 2021

Fund Name	Asset Class	Net Flows (USD Million)
Focused SICAV - US Corporate Bond Sustainable	Fixed Income	-1,988
UBS (Lux) Equity Fund - China Opportunity	Equity	-1,887
Ninety One Global Multi-Asset Sustainable Growth Fund	Allocation	-953
RobecoSAM Euro SDG Credits	Fixed Income	-839
Janus Henderson INTECH All World Minimum Variance Core Fund	Equity	-752
Vontobel Fund - mtx Sustainable Emerging Markets Leaders	Equity	-717
Storebrand Global ESG Plus	Equity	-703
NT World ESG Leaders EQ Indx Fund	Equity	-591
Carmignac Patrimoine	Allocation	-444
Nikko AM ARK Disruptive Innovation Fund	Equity	-430

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Meanwhile, the top 10 asset managers that gathered the most flows over the quarter is still largely dominated by BlackRock and Amundi: The two firms attracted USD 11.7 billion and USD 8.0 billion, respectively. In comparison, the remainder of the leaderboard averaged USD 3.5 billion in inflows.

Exhibit 9.a Top 10 European Sustainable Fund Providers by Flows in Q3 2021

Firm	Net Flows (USD,Million)
BlackRock	11,710
Amundi	7,980
Swisscanto	4,038
Nordea	3,970
Union Investment	3,924
DWS	3,886
BNP Paribas	3,814
Pictet	3,154
Schroders	2,661
Goldman Sachs	2,614

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Exhibit 9.b Bottom 10 European Sustainable Fund Providers by Flows in Q3 2021

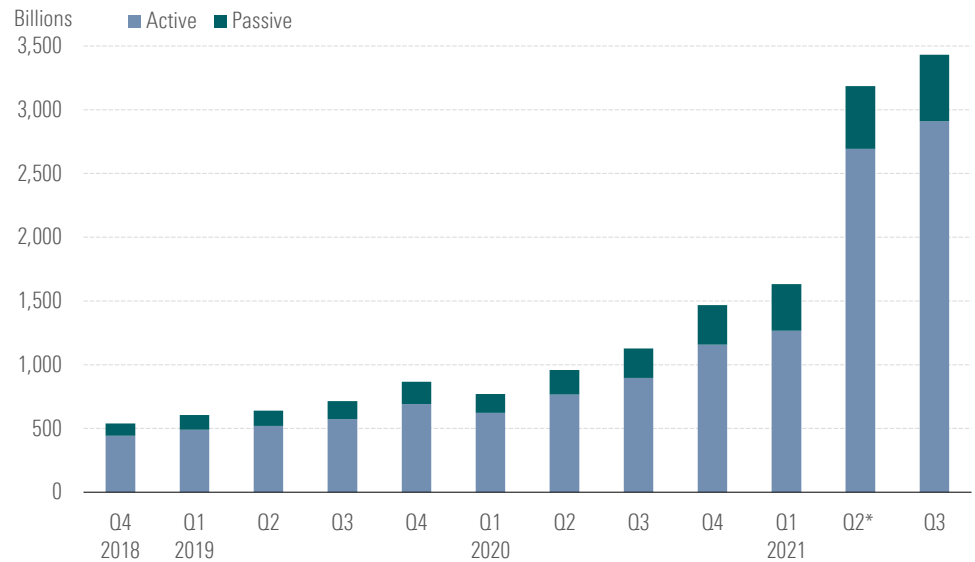
Firm	Net Flows (USD, Million)
Fidelity	-606
Janus Henderson	-449
Storebrand	-394
Unigestion	-312
MainFirst	-308
ACTIAM	-273
Carmignac	-258
Alger	-198
Lannebo	-190
Ninety One	-189

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Assets

The year 2021 stands out as a transition year for sustainable funds in Europe as asset managers work their way through the necessary adjustments to comply with SFDR. This can be seen in the swelling of the European sustainable asset base. Mainly driven by the 65% increase in the number of funds captured in our European sustainable universe in the third quarter, total assets rose to a whopping USD 3,431 billion as of September 2021: This is a staggering 88% surge compared with the USD 1,830 billion asset size previously reported at the end of June.

As of September 2021, sustainable fund assets accounted for roughly 25% of total European fund assets. We expect this percentage to continue to increase over the next quarters as our universe captures more funds with ESG disclosure that meet our criteria to define a sustainable offering.

Exhibit 10 European Sustainable Funds Assets (USD Billion)

Source: Morningstar Direct, Morningstar Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

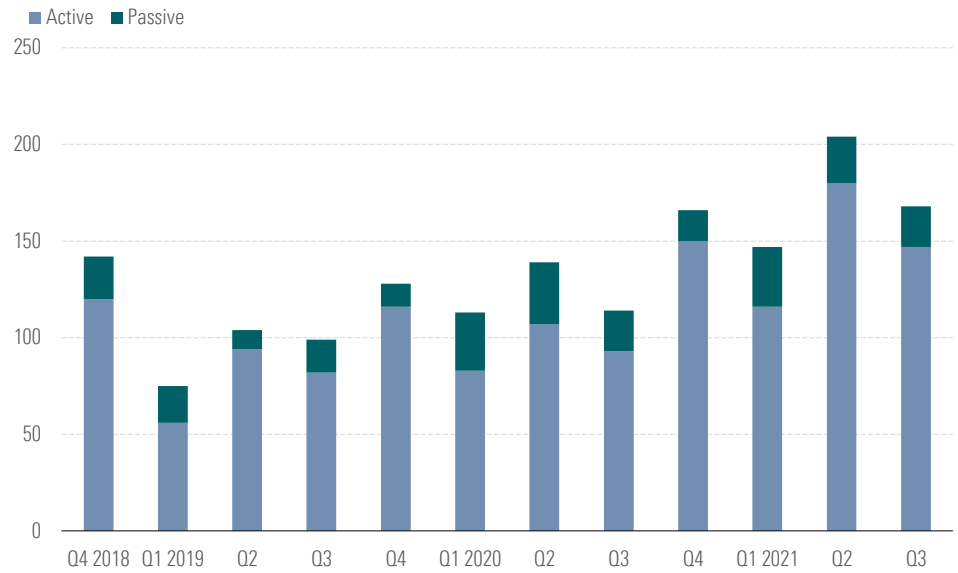
Launches

Product development remained high in the third quarter of 2021. We have so far identified 168 new sustainable fund launches in Europe. This is lower than the restated second-quarter number of 204, but the third-quarter number is also likely to be restated in future reports as we identify more launches this last quarter and as additional ones are reported to Morningstar.

Recently launched funds included climate-themed strategies such as AXAWF Act Factors Climate Equity, Wellington Climate Market Neutral, Swedbank Robur Climate Impact, and Amundi Funds Impact Green Bonds. Impact funds with a specific thematic or regional focus were also well represented among the new inceptions in the third quarter. Examples include ACTIAM Impact Financial Inclusion and BGF Emerging Markets Impact Bond.

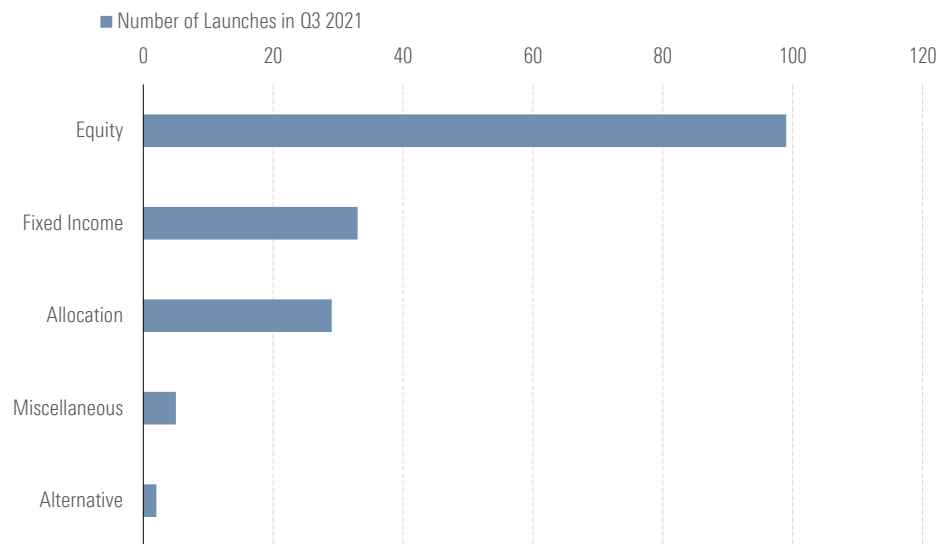
Equity funds continue to dominate sustainable offering launches, accounting for about 60% of total new sustainable launches (99 funds) in the third quarter, with the remainder almost equally divided between fixed income and allocation funds. Active strategies accounted again for 88% of new sustainable offerings.

Exhibit 11.a European Sustainable Fund Launches



Source: Morningstar Direct, Morningstar Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10.

Exhibit 11.b European Sustainable Fund Launches by Broad Asset Class



Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Repurposed Funds

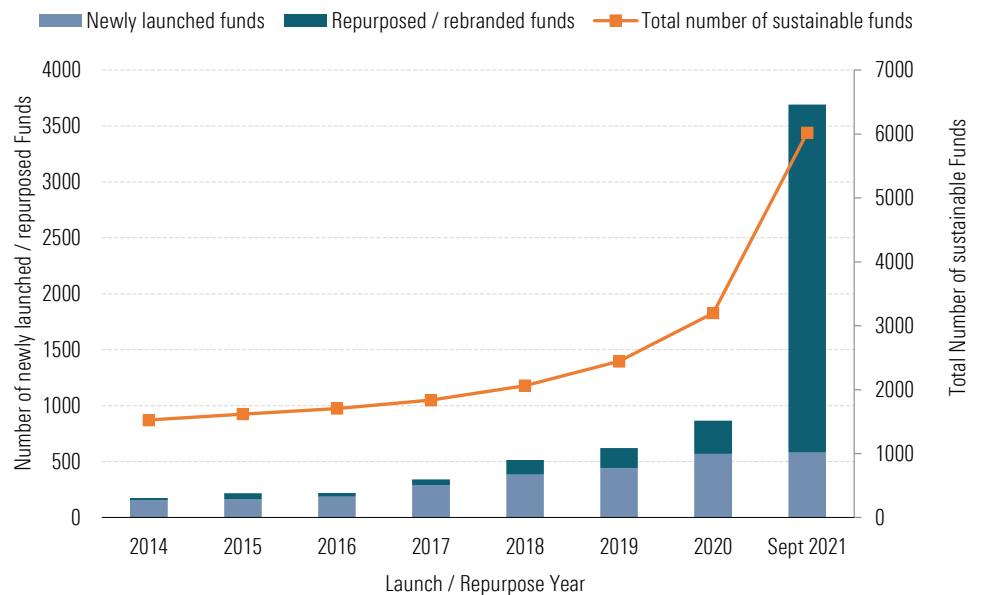
Compliance with SFDR following its introduction on March 10 has led to an increase in both quantity and quality of ESG disclosure in fund prospectuses. This, in turn, has led to an increase in the number of

funds that we classify as "repurposed." While our data team is still processing hundreds of newly updated legal documents on the lookout for funds that meet our criteria, it has so far this year identified as many as 3,111 additional products with qualifying language.

Asset managers seized the opportunity of publishing new SFDR-compliant prospectuses to enhance their funds' ESG integration strategies, add exclusions, switch funds to ESG-focused mandates, and, in some cases, rebrand existing strategies.

Examples include Lazard Sustainable Euro Short Duration fund, which was rebranded from Lazard Euro Short Duration to account for its new best-in-universe selection approach and recent integration of ESG criteria in the investment process. AXA Framlington European Fund was rebranded to AXA ACT Framlington Clean Economy Fund and became an Article 9 fund in August. The new fund aims to deliver positive and measurable impact on environmental issues and align with the UN Sustainable Development Goals. Another example is Seeyond Euro Sustainable Minvol, which was repurposed in July. It went from being a traditional minimum variance strategy to an SRI one that takes into account, in a binding fashion, ESG criteria in its investment universe definition, portfolio construction, and risk monitoring.

Exhibit 12.a Newly Launched and Repurposed Funds

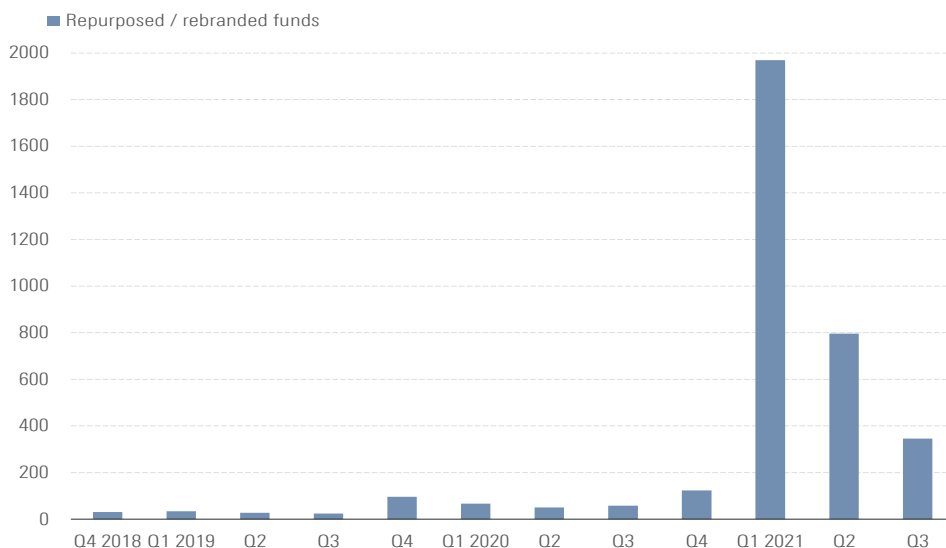


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

As shown in Exhibit 12.b., the bulk of new qualifying language appeared in fund prospectuses in the first quarter, just after the introduction of SFDR on March 10, but we took it into account for the asset and flow calculation only from April, in line with our methodology. We identified as many as 1,969 funds with new qualifying language in the first quarter solely. While the number of repurposed funds has

since fallen from its all-time high, the numbers have remained well-above pre-SFDR levels: 346 funds were repurposed in the third quarter of 2021, versus 123 in the fourth quarter of 2020.

Exhibit 12.b European Sustainable Repurposed / Rebranded Funds



Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Regulatory Update

In a relatively quiet quarter by EU regulatory standards, clarification remains pending on implementation details of both the disclosure (SFDR) and taxonomy regulations. As we go to press, the final draft rules for financial product disclosures under the SFDR were published by the European Supervisory Authorities in its "Final Report on Draft Regulatory Technical Standards."² These aim to create a "single rulebook" for sustainability-related disclosures for SFDR precontractual and periodic product disclosures including taxonomy-related product disclosures.

The corresponding taxonomy disclosure rules remain under scrutiny of the EU Parliament and Council, while the Platform on Sustainable Finance published a draft report on preliminary recommendations for technical screening criteria for the taxonomy, to which Morningstar and Sustainalytics provided feedback.

The European Commission also adopted a comprehensive review package of Solvency II rules. The overall aim is to ensure that insurers and reinsurers in the EU keep investing and to support the political priorities of the EU, including channeling funds to implement the European Green Deal. The reforms will include a requirement for a long-term climate change scenario analysis to consider climate change-related risks that may not always be captured when calculating capital requirements.

² A fuller analysis of the draft standards will be published on the Sustainalytics Resource Centre. <https://www.sustainalytics.com/esg-research/in-category/categories/type/blog>

Meanwhile, the UK Government published its [Sustainable Finance Roadmap](#) in October. With parallels to the EU Sustainable Finance Action Plan, further direction is provided about a UK taxonomy, disclosure requirements, a labeling scheme, and engagement practices.

The start point of the taxonomy will be the EU taxonomy and use the same six categories of objectives. The detailed criteria for the first two, climate change adaptation and climate change mitigation, will be consulted on in April 2022, with the aim of completing the criteria before 2023. The remaining four objectives will follow a year later.

The Sustainability Disclosure Requirements, or SDRs, promise the same framework and metrics across the economy, from businesses through to investors and with timelines that dovetail across the different parties. Further details will emerge in November consultations about the disclosures and the labeling scheme which will be supported by the underlying SDRs. Subsequent consultations will follow next year about both further extending mandatory disclosures and more consumer-facing product disclosures.

The Responsible Stewardship section encourages asset owners to actively monitor, encourage, and challenge companies by using their rights and direct/indirect influence to promote long-term, sustainable value generation.

To read more about SFDR:

[EU Sustainability Disclosures](#)

[SFDR Article 8 and Article 9 Funds: Q3 2021 in Review](#)

[SFDR: Four months After Its Introduction](#)

[EU Taxonomy of Sustainable Activities](#)

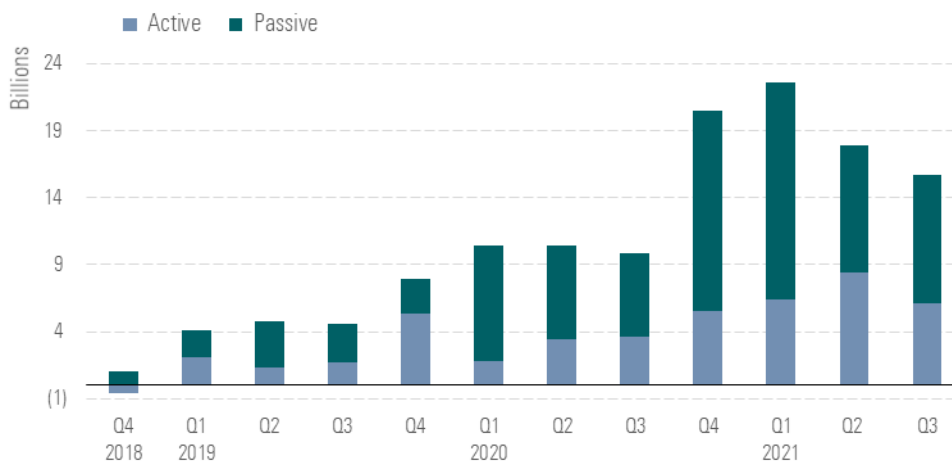
[Regulating ESG Investing the EU Way](#)

United States

Flows

In the third quarter of 2021, the U.S. sustainable fund landscape saw USD 15.7 billion in net inflows, the lowest quarterly amount in the last year. This also represents a 12% drop relative to second-quarter net inflows. However, to put it into perspective, inflows into the broader U.S. market registered a steeper dip of 29%. Notably, nonsustainable actively managed U.S. equity funds have seen outflows for each quarter over the three years ended September 2021. Meanwhile, their sustainable counterparts have seen positive quarterly inflows since 2019's fourth quarter, signaling greater resilience among actively managed sustainable fund flows in this category.

Sustainable passive funds still dominated their active peers, albeit by a smaller degree than in the past. Passive funds attracted net inflows of USD 9.6 billion for the period. This represented 61% of all U.S. sustainable flows, compared with the record 83% in the first quarter of 2020.

Exhibit 13 U.S. Sustainable Fund Flows (USD Billion)

Source: Morningstar Direct, Manager Research. Data as of September 2021.

Still, seven of the 10 funds attracting the most flows in the third quarter of 2021 were passive funds, and all 10 were equity funds. Six of those were also in the top 10 in the previous quarter: iShares ESG Aware MSCI USA ETF ESGU, Parnassus Core Equity PRBLX, iShares ESG Aware MSCI EAFE ETF ESGD, Vanguard FTSE Social Index VFTNX, Vanguard ESG US Stock ETF ESGV, and Parnassus Endeavor PARWX. Notably, iShares ESG Aware MSCI USA ETF topped the list for the second consecutive quarter.

Exhibit 14 Top 10 Sustainable Fund Flows in Q3 2021

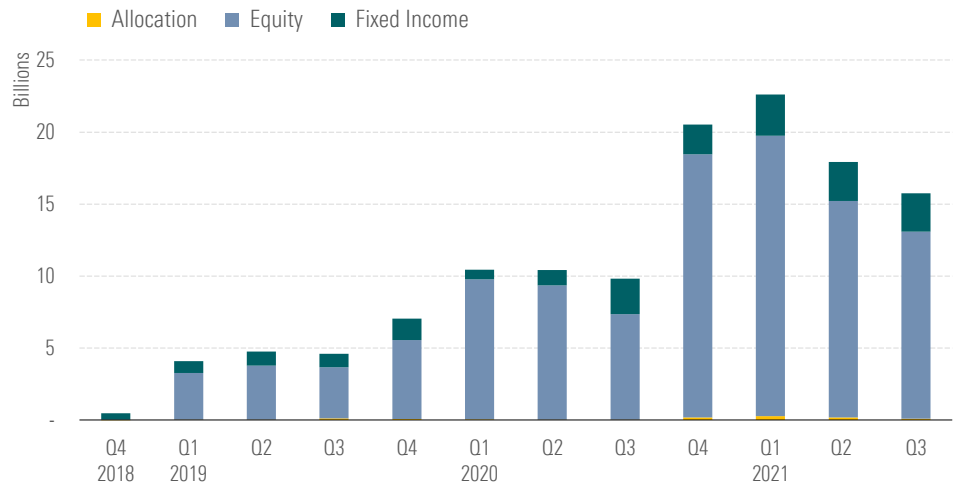
Name	Flows (USD Million)
iShares ESG Aware MSCI USA ETF	3,378.50
Parnassus Core Equity Investor	982.40
iShares ESG Aware MSCI EAFE ETF	833.90
Vanguard FTSE Social Index I	740.60
Brown Advisory Sustainable Growth I	476.10
Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF	473.40
Vanguard ESG US Stock ETF	384.90
iShares MSCI USA ESG Select ETF	384.40
Vanguard ESG International Stock ETF	361.80
Parnassus Endeavor Investor	325.80

Source: Morningstar Direct, Manager Research. Data as of September 2021.

Equity funds made up the lion's share of flows, as they typically do. In the third quarter, equity funds attracted USD 13 billion, or 83% of all sustainable fund flows.

Flows into sustainable fixed-income funds have been growing steadily. They crossed the USD 2 billion threshold for the first time in the third quarter of 2020, and they have stayed above that mark since. In the third quarter of 2021, they netted USD 2.7 billion. The best-selling sustainable fixed-income fund was TIAA-CREF Core Impact Bond TSBIX, which attracted just over USD 299 million for the period.

Exhibit 15 U.S. Sustainable Fund Flows by Asset Class

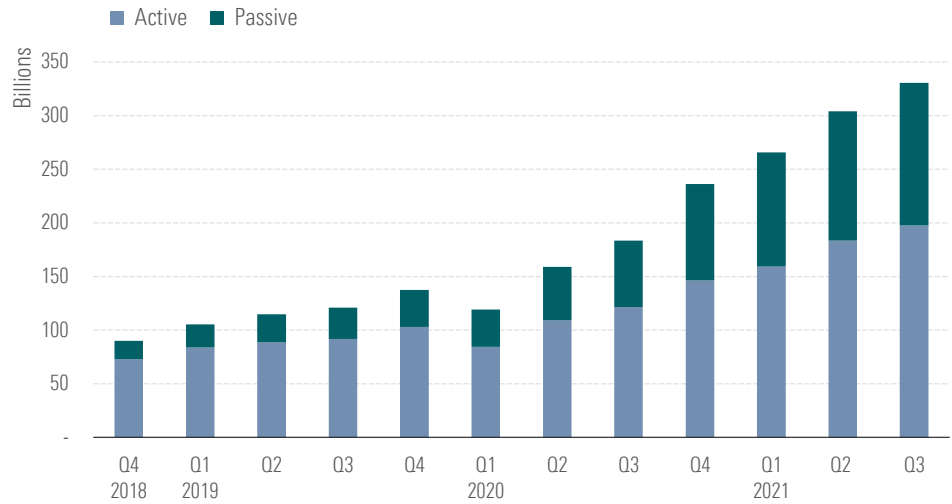


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Assets

Assets in U.S. sustainable funds have stayed on a steady growth trajectory. As of September 2021, assets totaled more than USD 330 billion. That is a 9% increase over the previous quarter and 1.8 times the USD 183 billion record set one year ago in the third quarter of 2020. Active funds retain the majority (60%) of assets, but their market share is shrinking. Three years ago, active funds held 81% of all U.S. sustainable assets.

Exhibit 16 U.S. Sustainable Fund Assets (USD Billion)

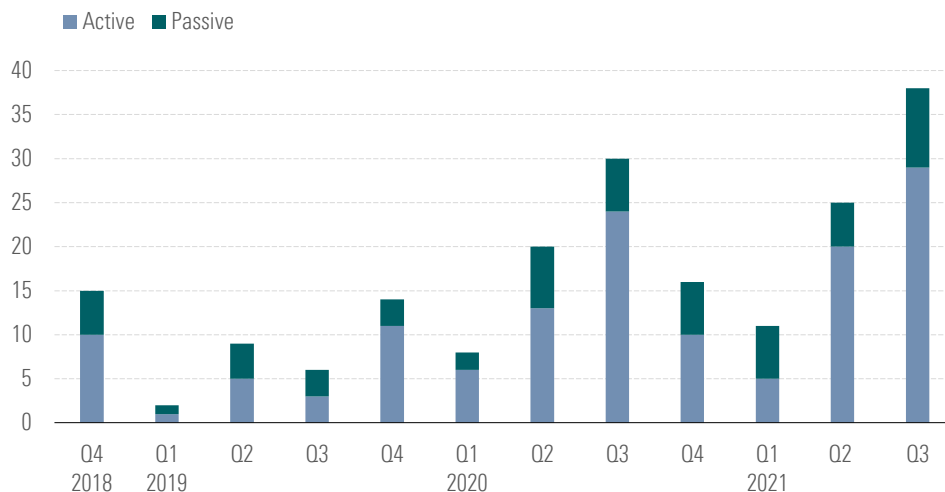


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Launches

As U.S. flows into sustainable funds have gained traction, asset managers have responded by expanding their sustainable fund lineups. In the third quarter of 2021, 38 funds were launched in the U.S. with sustainable mandates. This is the highest number of sustainable funds launched in one quarter, handily beating the record of 30 funds set in the third quarter of 2020. Of those 38, 29 were equity funds, and 25 were ETFs.

Once again, most of the new sustainable funds available in the U.S. are actively managed offerings. Fifteen of the new funds focus on climate action, such as Goldman Sachs Future Planet Equity ETF GSFP, which targets environmental sustainability themes including clean energy, resource efficiency, sustainable consumption, the circular economy, and water sustainability. Two of the new offerings focus on the theme of affordable housing: Impact Shares Affordable Housing MBS ETF OWNS and MetWest ESG Securitized MWESX.

Exhibit 17 U.S. Sustainable Fund Launches

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Repurposed Funds

Most of the new options available to investors were launched with sustainable mandates, but firms also occasionally change the investment strategies of existing funds to target sustainable outcomes. In the third quarter of 2021, four equity and two fixed-income funds were repurposed to adopt sustainable mandates. The largest fund repurposed to incorporate sustainability was JPMorgan Small Cap Sustainable Leaders VSSCX, with \$318 million in assets. The fund seeks to invest in companies that are sustainable leaders according to the firm's proprietary qualitative framework.

Exhibit 18 U.S. Repurposed Funds in Q3 2021

Name	Ticker	Morningstar Category	Fund AUM (USD Million)
JPMorgan Small Cap Sustainable Leaders	VSSCX	US Fund Small Blend	318
RBC BlueBay High Yield Bond	RGHYX	US Fund High Yield Bond	236
ClearBridge All Cap Growth ESG ETF	CACG	US Fund Large Growth	219
Martin Currie International Sustainable Equity	LUISX	US Fund Foreign Large Growth	27
American Beacon TwentyFour Sustainable ST Bond	TFBRX	US Fund Short-Term Bond	10
Clearbridge Focus Value ESG ETF	CFCV	US Fund Large Value	4

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

The new offerings and the repurposed funds brought the total number of sustainable open-end and exchange-traded funds in the U.S. to 484 at the end of the quarter.

Regulatory Update

The U.S. Department of Labor proposed a new rule in October that should make it easier for employers to offer in their workplace retirement plans investments that take environmental, social, and governance information into account. This proposal would lift rules that made it difficult and risky for employers that wanted to use investment options with ESG considerations as default investments for workers automatically enrolling in a qualified plan. If the rule is finalized, it seems likely that more investment managers will consider ESG risks as part of the effort to maximize long-term risk-adjusted returns. Further, participants may have more opportunity to pick funds with ESG mandates. This new regulation may nudge employers to consider ESG factors in making investment selections. We expect the proposal to be finalized in early 2022.

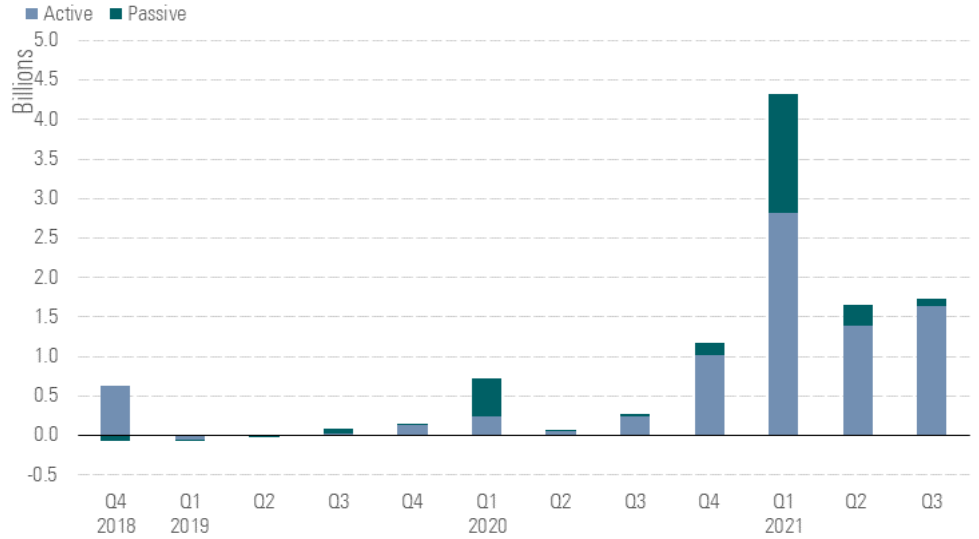
Meanwhile, the SEC began its efforts to update reporting requirements for issuers to consistently disclose comparable and reliable information on climate change. A public consultation closed in June, with further information expected later in the year. In September, the SEC's Division of Corporation Finance shared a sample letter outlining comments related to climate change disclosure, which the division may issue to a public company after reviewing its SEC filings. The comments indicate that the SEC may request explanations of any differences between a company's SEC filings and that company's Corporate Social Responsibility or ESG report, among other things. Over time, this may lead public companies to expand the scope of their SEC filings, a win for ESG investors who rely on public disclosures.

Canada

Flows

Flows into sustainable funds and ETFs in the third quarter were similar to those in the prior quarter, summing to roughly USD 1.7 billion. The majority (94%) of these flows went into actively managed funds, with the remainder going into passive, largely as a result of the sheer number of actively managed products available to investors. Across asset classes, 62% of inflows went into equity funds, 25% went into fixed-income funds, and the remainder into allocation funds.

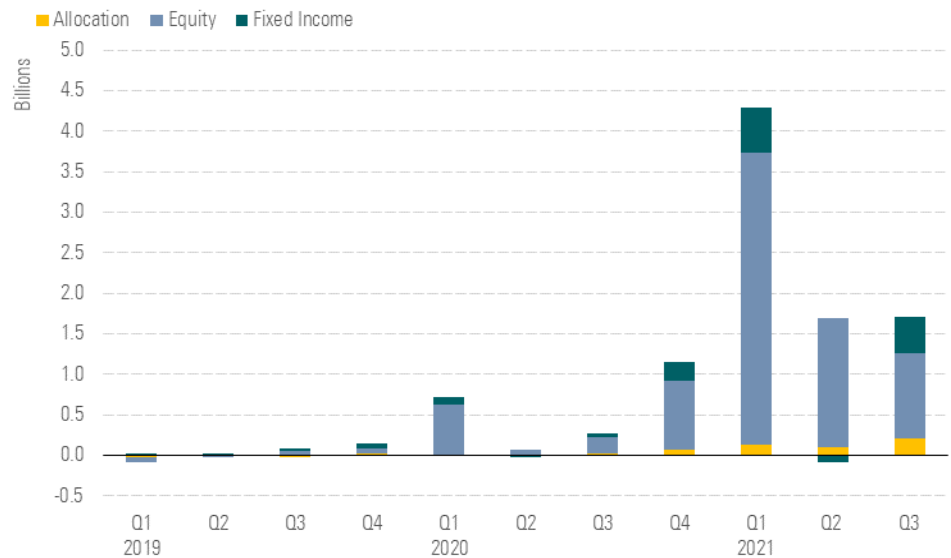
Exhibit 19 Canadian Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of September 2021.

Six funds saw inflows exceeding USD 100 million over the third quarter alone, represented largely by sustainable heavyweight providers. These funds were Fidelity Climate Leadership, Mackenzie Global Sustainable Bond ETF, Desjardins SocieTerra Balanced Fund, RBC Vision Balanced Fund, RBC Vision Global Equity Fund, and the Mackenzie Greenchip Global Environmental All Cap fund.

Exhibit 20 Canadian Sustainable Fund Flows by Asset Class (USD Billion)

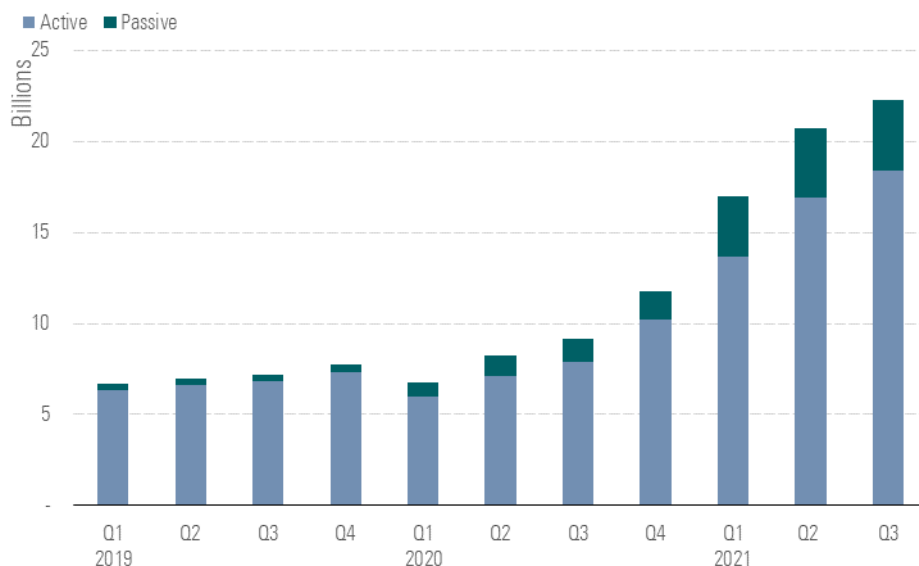


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Assets

Canadian assets invested in sustainable funds and ETFs continued to grow over the third quarter but with less enthusiasm than in the first two quarters of 2021. By assets under management, sustainable funds and ETFs topped USD 22.2 billion, representing a quarter-over-quarter growth rate of 7% and a year-over-year growth rate of 143%. Actively managed sustainable investment assets grew by 9% over the quarter, while passively managed assets remained relatively flat.

Exhibit 21 Canadian Sustainable Fund Assets (USD Billion)

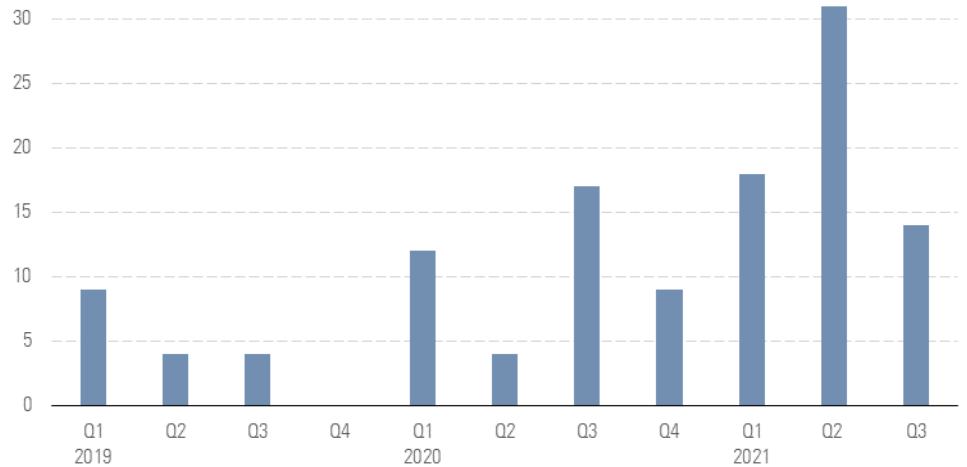


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Unsurprisingly, the Canadian sustainable fund universe continues to be top-heavy, with seven firms (NEI, RBC, Mackenzie, BMO, Industrial Alliance, Desjardins, and AGF) controlling 80% of sustainable assets, a distribution that reflects similarly in prior quarters. That said, firms that have not previously appeared in the top seven in terms of assets have shown exponential growth over the trailing 12 months including the likes of TD, National Bank, and Fidelity.

Launches

Fourteen new sustainable funds were launched in the third quarter, bringing the year’s total thus far to a whopping 63 new products, exceeding 2020’s product launches (of which there were 46). Of the 14 new products, six were launched as ETFs. So far this year, it seems that Franklin Templeton has been the most aggressive in terms of new fund launches by count, bringing to market nine new products co-branded with subadvisors Clearbridge, Martin Currie, and Brandywine.

Exhibit 22 Canadian Sustainable Fund Launches

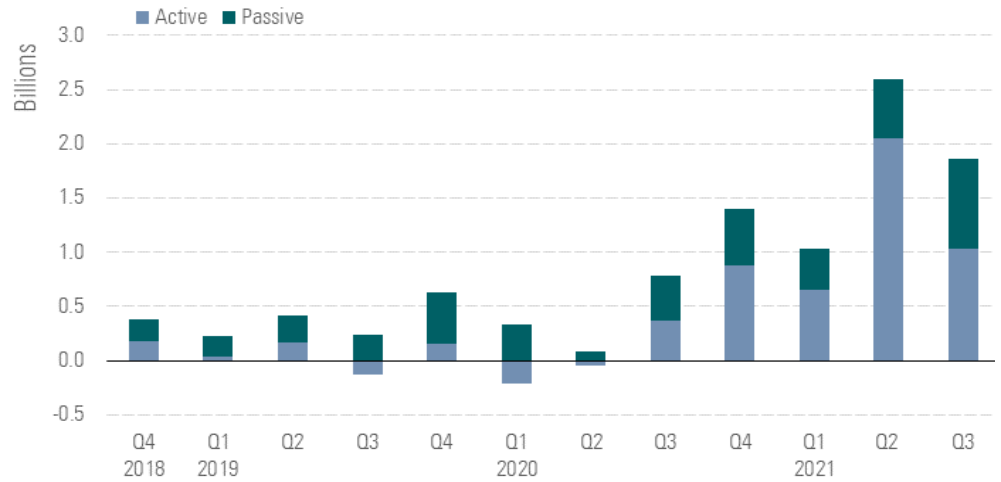
Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Australia and New Zealand**Flows**

The Australasian (Australia and New Zealand) sustainable funds universe attracted inflows of USD 1.86 billion in the third quarter of 2021. While this is a 28% reduction from the record second-quarter inflows, this is still the second-largest inflow quarter on record. Of inflows, 56% went into active products (USD 1,032 million), with passive strategies (USD 824 million) receiving 44% of flows. The predominance of flows to active funds continues a trend seen in recent quarters, whereas passive flows had long matched or exceeded those of active managers.

Four fund houses took in most of the fund flows, with Vanguard (USD 455 million) atop the group, followed by BetaShares (USD 329 million) and Dimensional (USD 273 million). Australian Ethical (USD 172 million) remained in our top four houses for fund flows, continuing two years of strong inflows. AMP Capital continues to struggle, with fund outflows of USD 50 million over the quarter, running against the broad trend of market inflows.

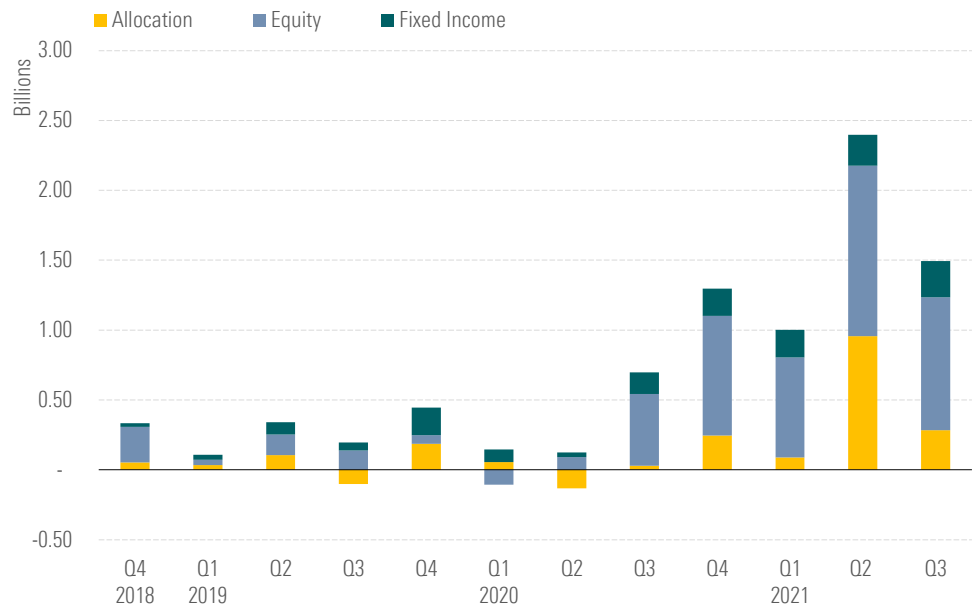
Exhibit 23 Australian and New Zealand Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of September 2021.

Equity managers captured most of the inflows over the quarter, with USD 952 million, ahead of the USD 283 million accumulated by allocation strategies and the USD 258 million by fixed-income strategies.

Exhibit 24 Australian and New Zealand Sustainable Fund Flows by Asset Class (USD Billion)

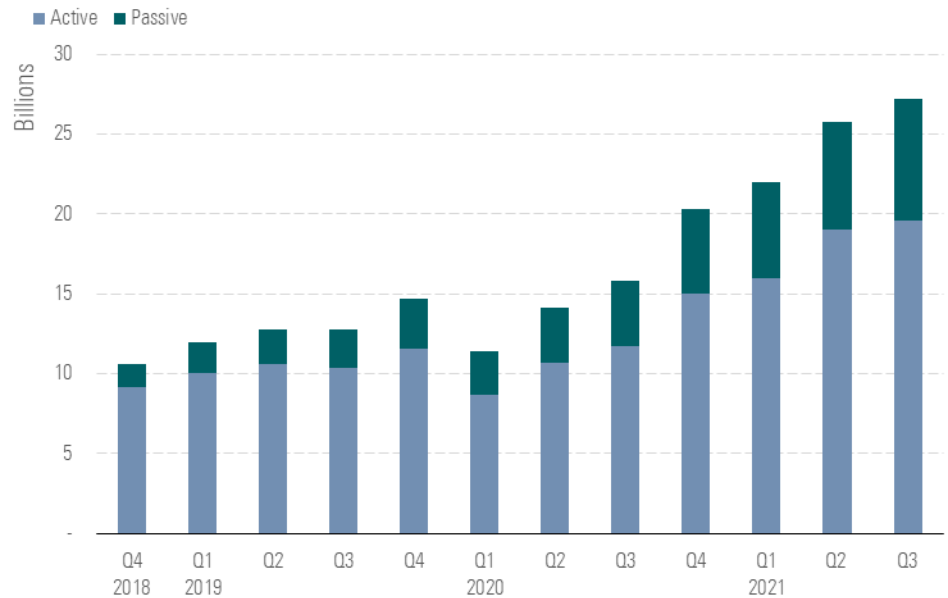


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Assets

Assets in Australasian sustainable funds increased in second-quarter 2021, amounting to a record USD 27.2 billion, up from a previous record USD 25.8 billion at the close of second-quarter 2021, an 6% increase. The Australasian sustainable funds market remains quite concentrated, with the top 15 funds accounting for 49% of total assets in the sustainable fund universe. Australian Ethical remains the dominant Australasian provider of sustainable funds, with total assets of USD 4.8 billion on the Morningstar database. With more intensive data collection, we now count nearly 144 strategies in our Australasian sustainable fund universe.

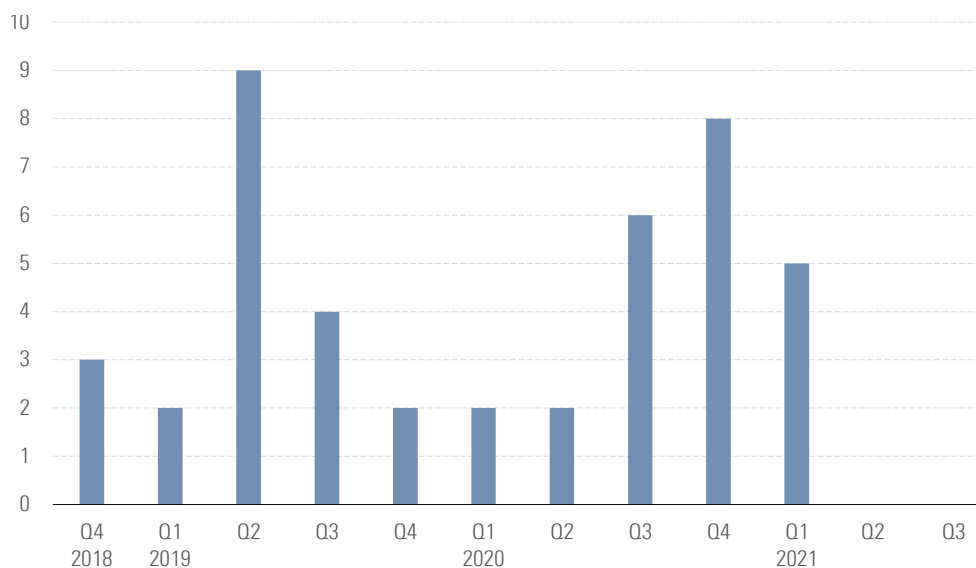
Exhibit 25 Australian and New Zealand Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Launches

There were no new sustainable funds launched in either the second or third quarter of 2021. This is a somewhat surprising development, give the double-digit launches experienced in 2019 and 2020. The sustainable funds universe does not contain the growing number of Australasian funds that now formally consider ESG factors in a nondeterminative way in their security selection (funds commonly known as "ESG-integrated funds").

Exhibit 26 Australian and New Zealand Sustainable Fund Launches

Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

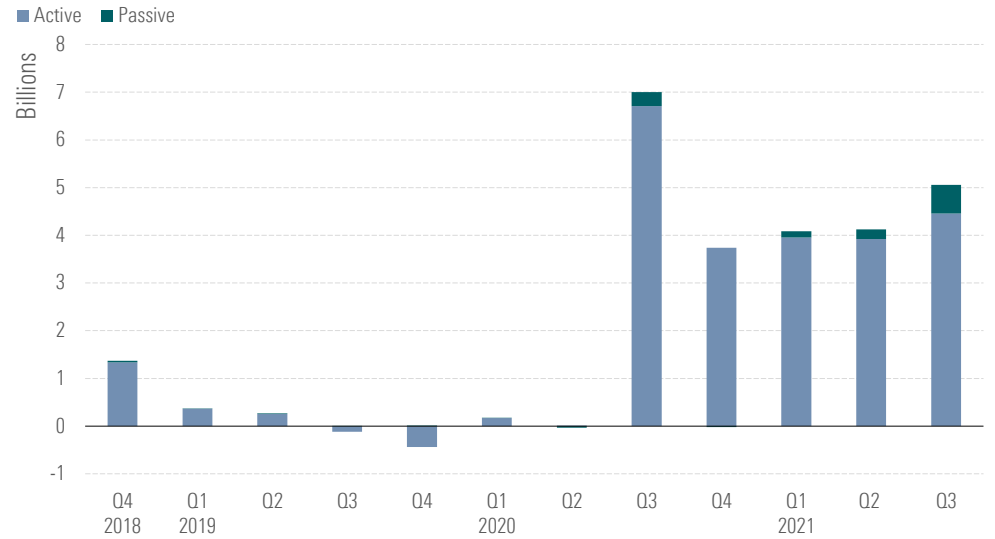
Regulatory Update

The Australian Securities and Investments Commission announced a greenwashing-related review in July 2021, in an effort to ensure financial products and investment strategies adhere to their green or ESG claims. The ASIC's review of the extent to which greenwashing may be evident in the fund management space follows on from the ASIC's review of climate risk disclosures by large listed Australian companies. That review found improved standards of climate-related disclosure, including significant voluntary uptake by listed companies of the recommendations of the Australian Financial Stability Board's Task Force on Climate-Related Financial Disclosures. However, it also found instances where sustainability-related disclosure by several companies carried a "marketing" feel.

Japan**Flows**

The Japanese sustainable fund market recorded inflows of USD 5.1 billion in the third quarter of 2021. Actively managed equity funds continued to be the main driver of inflows. About 89% of the net flows went into equity funds, while seven out of the top 10 funds in terms of inflows in the quarter were actively managed equity funds.

Exhibit 27 Japanese Sustainable Fund Flows (USD Billion)

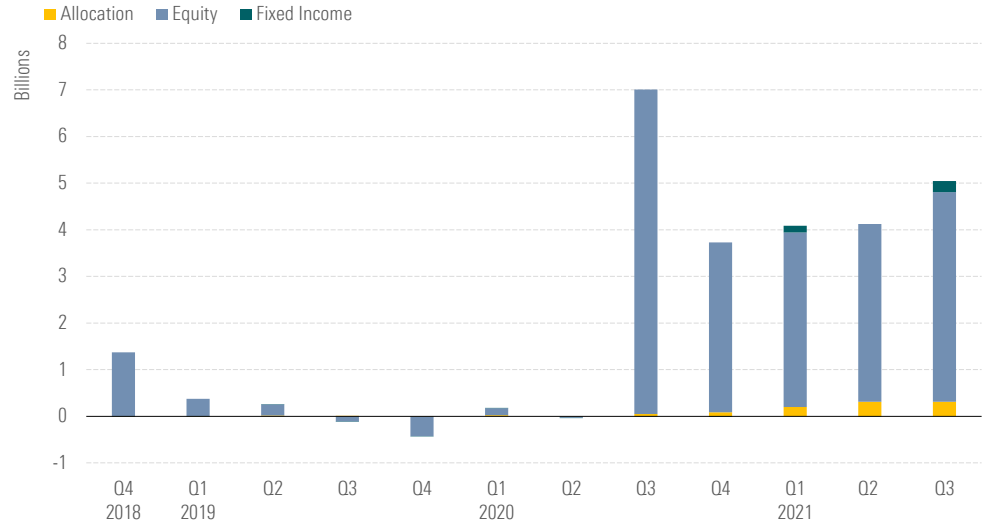


Source: Morningstar Direct, Manager Research. Data as September 2021.

New funds tend to drive inflows in Japan, and the third quarter of 2021 was no exception. Five out of the top 10 funds in terms of inflows were launched in the past year, including two products launched in the third quarter of 2021. Daiwa Carbon Neutral Technology Equity Fund, which was launched in July 2021, gathered USD 491 million of inflows during the quarter, the biggest among all funds.

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

Exhibit 28 Japanese Sustainable Fund Flows by Asset Class (USD Billion)

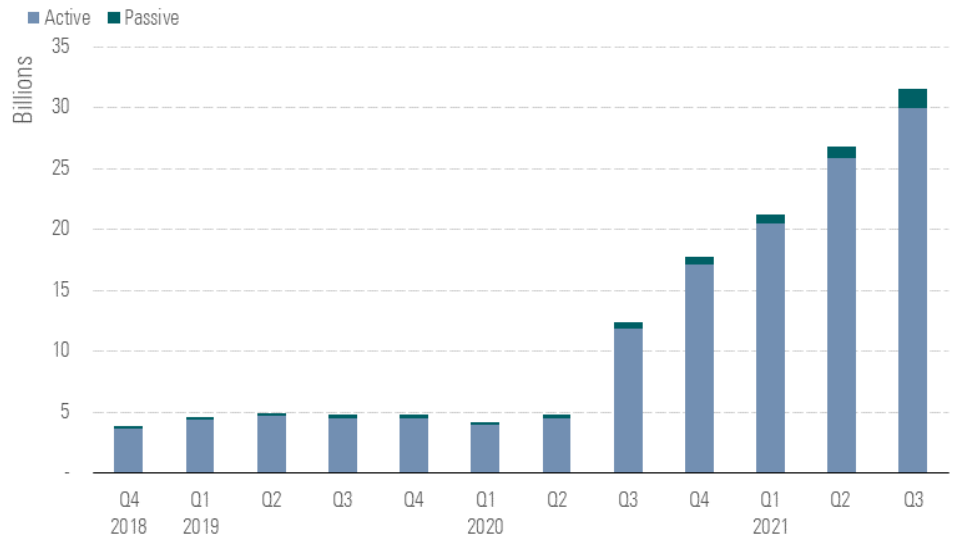


Source: Morningstar Direct, Manager Research. Data as September 2021.

Assets

Assets in Japan-domiciled sustainable funds increased by 18% to USD 31.6 billion at the end of September 2021 compared with the previous quarter-end. The overwhelming majority (90%) are actively managed equity funds. Inflows into newly launched active equity funds during the past one-year period drove the increase in assets, together with the bullish equity market environment during the period.

Exhibit 29 Japanese Sustainable Fund Assets (USD Billion)

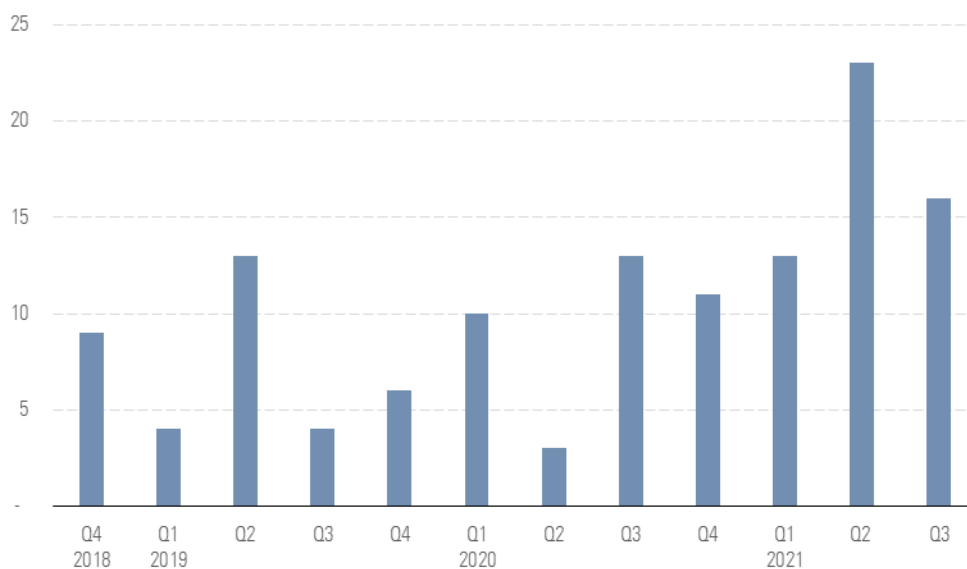


Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

Launches

Sixteen new sustainable funds came to the Japanese market in third-quarter 2021: 11 active funds and five index funds. One of the index funds, SMTAM DC Foreign Equity ESG Leaders Index Fund, is a fund dedicated for defined-contribution pension and aims to track the MSCI KOKUSAI ESG Leaders Index. Flows into these newly launched funds were USD 1.2 billion in total, contributing to almost a fourth of the entire inflows for Japanese sustainable funds. UBS Environment Long Short Fund - Hedged/Unhedged, a long-short global equity strategy, is the first alternative ESG fund in Japan, launched at the end of September.

Exhibit 30 Japanese Sustainable Fund Launches



Source: Morningstar Direct, Morningstar Research. Data as of September 2021.

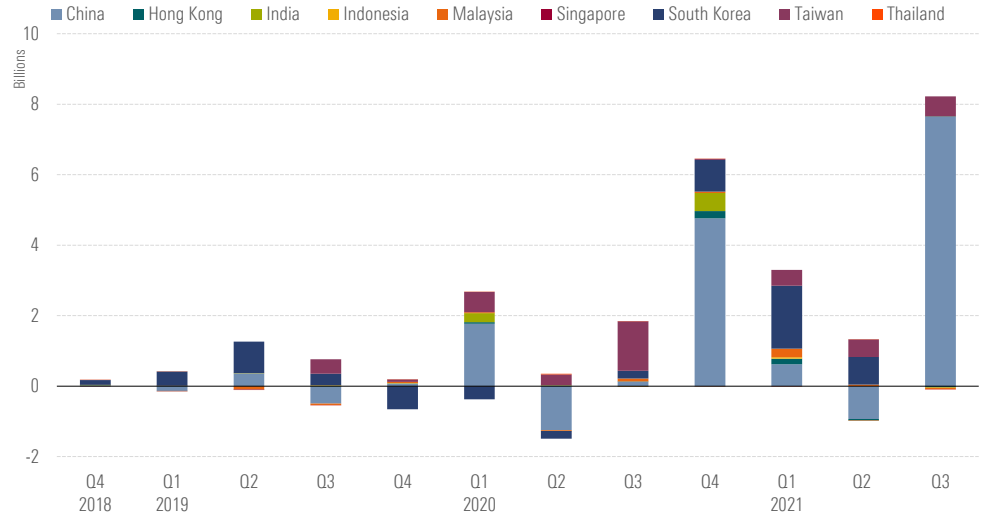
Asia ex-Japan³

Flows

Asia ex-Japan posted a strong third quarter net inflow of USD 8.1 billion propelled by the USD 7.6 billion net inflow from China. New funds launched in China pulled net new money of USD 1.2 billion, while two existing Chinese allocation funds (Orient Secs Green Energy Car Allocation and UBS SDIC New Energy Mix) attracted over USD 1 billion in flows each in the third quarter on the back of investor interest in renewable energy products. Apart from China, net flows were positive in Taiwan, South Korea, and Indonesia, while the other countries saw net outflows for the third quarter.

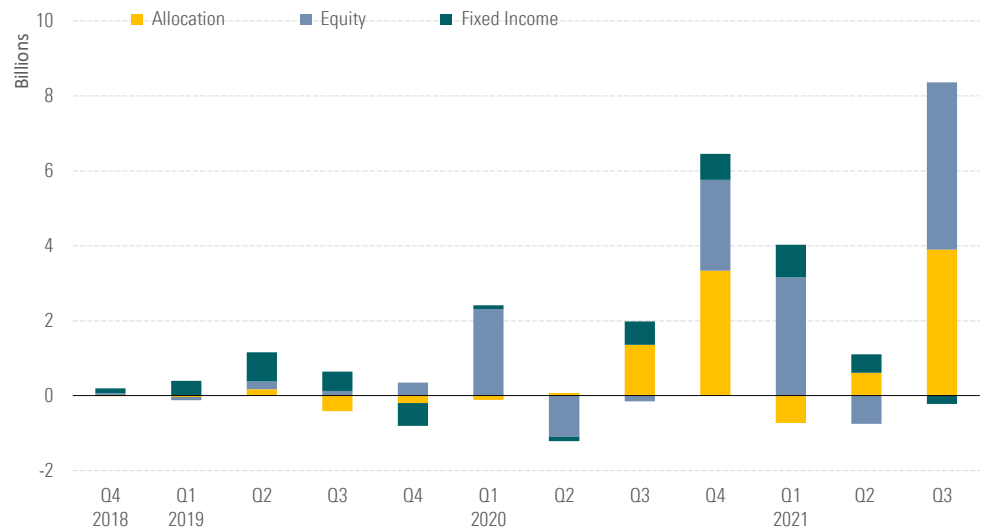
³ In this section, we have added third quarter data for China and corrected Taiwan inflows from USD 1.9 billion to USD 557 million.

Exhibit 31 Asia ex-Japan Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of September 2021. Figures include final Q3 data for China and corrected data for Taiwan. Taiwan inflows were updated down from USD 1.9 billion to USD 557 million.

Exhibit 32 Asia ex-Japan Sustainable Fund Flows by Asset Class (USD Billion)



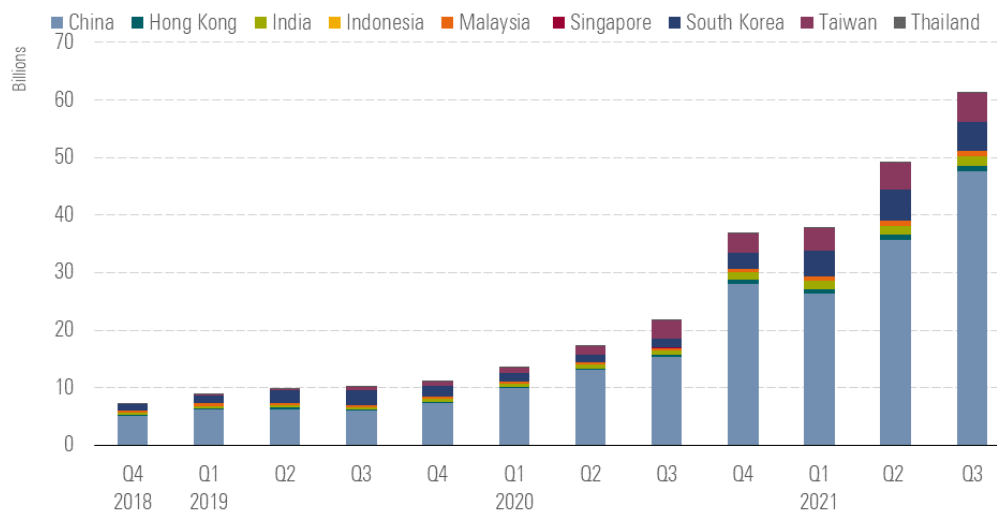
Source: Morningstar Direct, Morningstar Research. Data as of September 2021. Figures include final Q3 data for China and corrected data for Taiwan. Taiwan inflows were updated down from USD 1.9 billion to USD 557 million.

Assets

Sustainable fund assets in Asia ex-Japan grew by 25% in the third quarter, reaching USD 61.3 billion at the end of September. China recorded an even stronger growth of 33%, hitting USD 47.6 billion in sustainable fund assets at the end of Q3. Taiwan overtook South Korea as the second largest Asia ex-Japan market with USD 5.1 billion in sustainable fund assets, driven by four new launches in the third

quarter. Markets that saw single digit asset growth were Hong Kong, India and Indonesia, while South Korea, Singapore, Malaysia and Thailand had quarter-on-quarter single digit percentage drop in sustainable fund assets.

Exhibit 33 Asia ex-Japan Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct, Morningstar Research. Data as of September 2021. Figures include final China's data for Q3 2021.

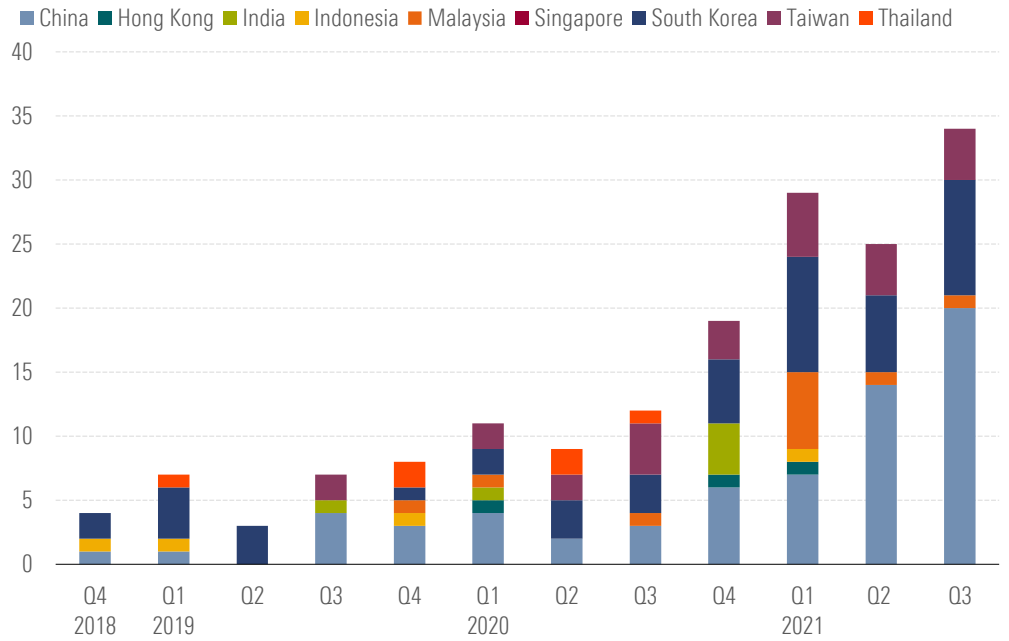
Launches

There were 34 new launches in the third quarter, with 20 from China, nine from South Korea, four from Taiwan and one from Malaysia. A majority of the new launches were equity products, while there were only three fixed-income and nine allocation products. Nine out of the 20 new ESG launches from China were equity ETFs, which reflects the rapid development of passive investing in China. The majority of sustainable fund launches in China focuses on climate-related themes; this is in line with the government's efforts to meet its carbon emission reduction targets (commitments to hit peak emissions by 2030 and achieve carbon neutrality by 2060), which included the initiation of a national carbon trading market in July 2021. This resulted in strong investor interest in new energy and low carbon products in China.

Seven out of the nine funds launched in the Korean market in the third quarter were equity funds. Five of these have an environmental theme. Environment-related funds have been on the rise since October 2020, when President Moon committed to carbon neutrality by 2050.

One particularity of the Korean sustainable fund market is that money tends to flow into bond funds, an investment vehicle for institutional investors. However, there are not many sustainable bond funds available, so in the last quarter, inflows were concentrated into newly launched bond fund KB Star ESG Bluechip Mid STFd C-F.

Exhibit 34 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct, Morningstar Research. Data as of September 2021. Figures include final China's data for Q3 2021.



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