Global Sustainable Fund Flows: Q2 2022 in Review

Flows and assets fall further but hold up better than the broader market.

Morningstar Manager Research
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Contents

Key Takeaways

- Global sustainable funds attracted USD 32.6 billion of net new money in the second quarter of 2022, representing a fall of 62% relative to the revised USD 87 billion of inflows in the first quarter.
- Amid investor concerns over a global recession, inflationary pressures, rising interest rates, and the conflict in Ukraine, sustainable funds still held up better than the broader market, which experienced USD 280 billion of net outflows over the period.
- Global sustainable fund assets slipped to USD 2.47 trillion. The 13.3% quarterly fall was less pronounced than the 14.6% decline for the broader market.
- Product development ticked up compared with the previous quarter, with 245 new sustainable funds launched globally. Asset managers continued to repurpose conventional products into sustainable offerings.

The Global Sustainable Fund Universe

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

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/New Zealand, and Japan. China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea are grouped under the Asia ex-Japan label because of their relatively low assets.

This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches for the second quarter of 2022. A summary is provided in Exhibit 1.

Exhibit 1 Global Sustainable Funds' Q2 2022 Statistics

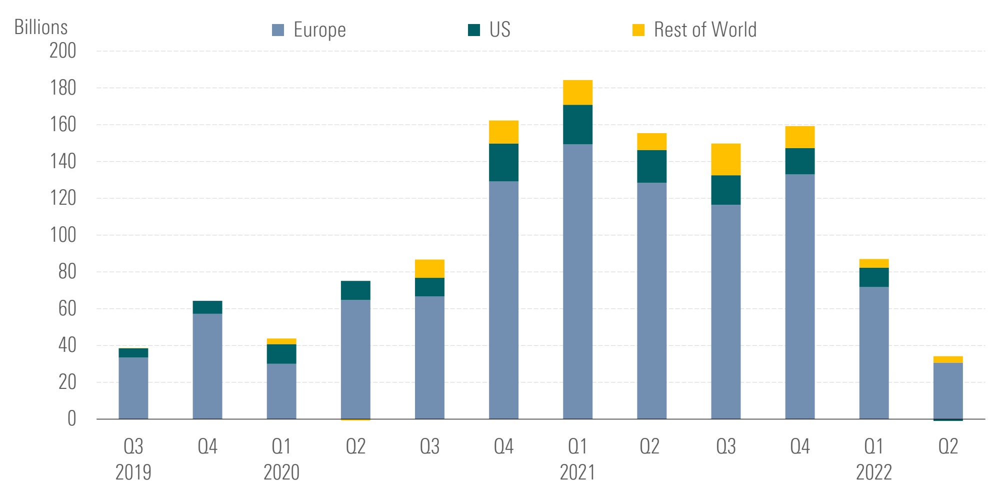
Region	Flows		Assets		Funds	
Q2 2022	USD Billion	% Total	USD Billion	% Total	#	% Total
Europe	30.7	94%	2,033	82%	5,112	76%
United States	-1.6	-5%	296	12%	588	9%
Asia ex-Japan	1.1	3%	61	2%	386	6%
Australia/New Zealand	0.6	2%	26	1%	178	3%
Japan	0.2	1%	25	1%	228	3%
Canada	1.5	5%	24	1%	217	3%
Total	**32.6**		**2,465**		**6,709**	

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Sustainable Fund Inflows Plummet but Once Again Hold Up Better Than Their Conventional Peers

The global universe of sustainable funds attracted USD 32.6 billion of net new money in the second quarter of 2022, representing a fall of 62% relative to the revised USD 87 billion of inflows in the first quarter. The organic growth rate of this universe contracted, too. Calculated as net flows relative to total assets at the start of a period, the global sustainable funds' organic growth rate declined to 1.3% in the second quarter from roughly 3% in the first quarter. Nonetheless, flows in sustainable funds held up better than those in the broader market. In comparison, the overall global fund universe suffered outflows of USD 280 billion in the second quarter of 2022, after registering net inflows of USD 141 billion in the first quarter. Macroeconomic headwinds, including inflationary pressures, rising interest rates, a global energy crisis, and a looming global recession became more acute in the second quarter, spelling trouble for global fund markets.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

The slump of net new money into sustainable fund was felt in all regions. Some parts of the world even experienced outflows. US-domiciled sustainable funds bled USD 1.6 billion, their first quarter of outflows in more than five years.

Europe, the biggest market for sustainable funds, registered a 57% drop in net new money. The USD 31 billion that European investors put into sustainable products in the second quarter was the lowest quarterly net purchase of sustainable funds since the first quarter of 2020 when the coronavirus struck.

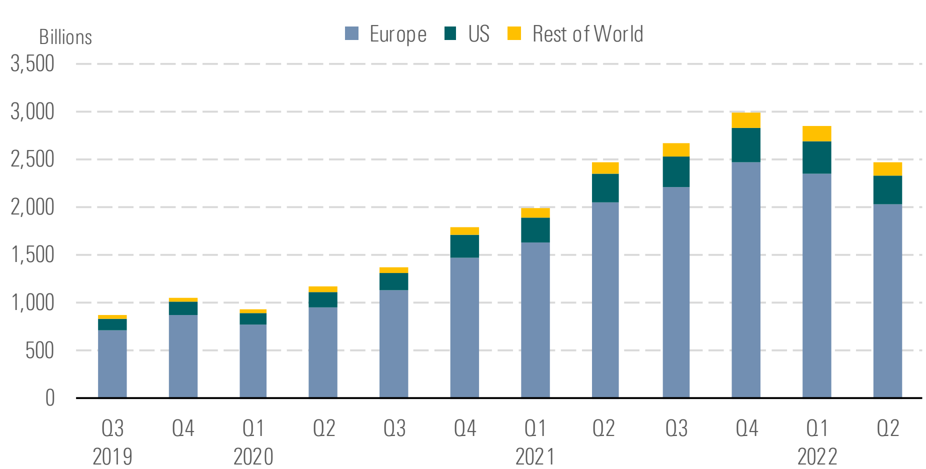
In Japan, sustainable fund flows fell almost 60% in the second quarter of 2022, down to USD 0.2 billion. Australasia and Asia ex-Japan came next with 30.8% and 23.1% contractions as net inflows amounted to USD 0.6 billion and USD 1.1 billion, respectively. Canada, which is the smallest sustainable fund universe in this study by assets, was the least affected: net inflows clocked at USD 1.5 billion, roughly 20% less than the USD 1.9 billion recorded in the first quarter.

Global Assets Down 13% but Still Above the USD 2 Trillion Mark

Amid inflation and recession fears, global sustainable fund assets slipped 13.3% to USD 2.47 trillion as of June 2022 from the restated USD 2.84 trillion at the end the first quarter. This was the largest drop since the first quarter of 2020 and was roughly in line with the net asset base of a year ago. Nevertheless, sustainable fund assets held up better than the overall global fund market, which saw its assets shrink 14.6% in the three months through June 2022.

Europe continued to make up the lion's share of the sustainable fund landscape with 82% of global sustainable fund assets. It also remained by far the most developed and diverse ESG market, followed by the United States, which housed 12% of global sustainable fund assets through June 2022. Asia ex-Japan, of which China is the biggest sustainable market with more than 75% of the region's asset base, ranked third in terms of sustainable fund market size.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

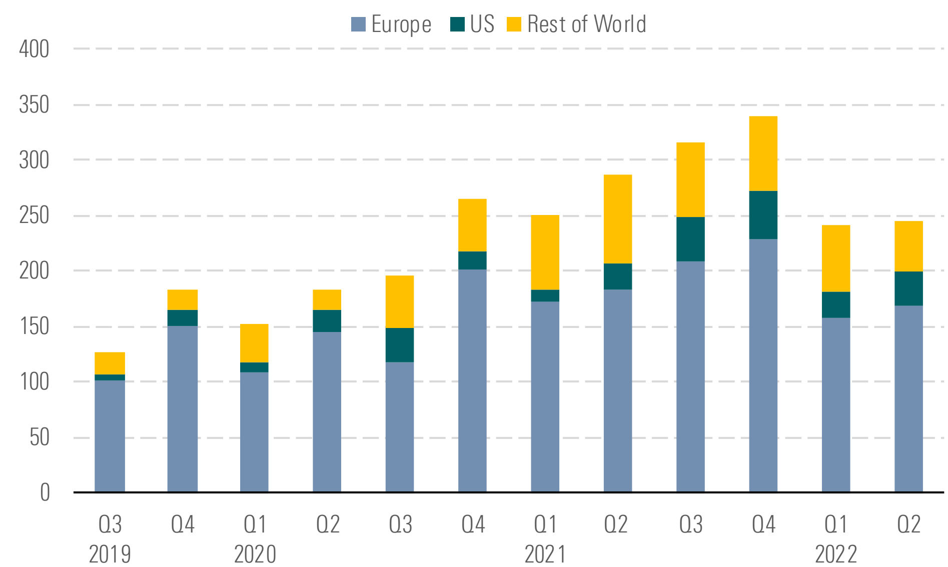


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Global Fund Launches

Product development stabilized in the second quarter of 2022. An estimated 245 new sustainable funds hit the shelves globally, which was roughly in line with the first quarter's restated number of 242. However, it is likely that the number of newly incepted funds for the second quarter will be restated upward in future reports as we identify more launches and additional ones are reported to Morningstar.

Exhibit 4 Global Sustainable Fund Launches Per Quarter



Source: Morningstar Direct, Morningstar Research. Data as of 30 June 2022.

Europe and the US saw more new sustainable funds hit the shelves last quarter than in the previous quarter. In the rest of the world, fund launches picked up as well in Japan and Australia after the slump of the first quarter. However, Canada and Asia ex-Japan experienced a slowdown in product development activity. In these two countries, fewer sustainable funds came into the market over the past three months after intense product development in previous quarters.

Regulatory Updates

During the second quarter, the International Sustainability Standards Board consulted on its draft sustainability standard and draft climate risk standard.

Regional regulatory updates are available in each regional section below.

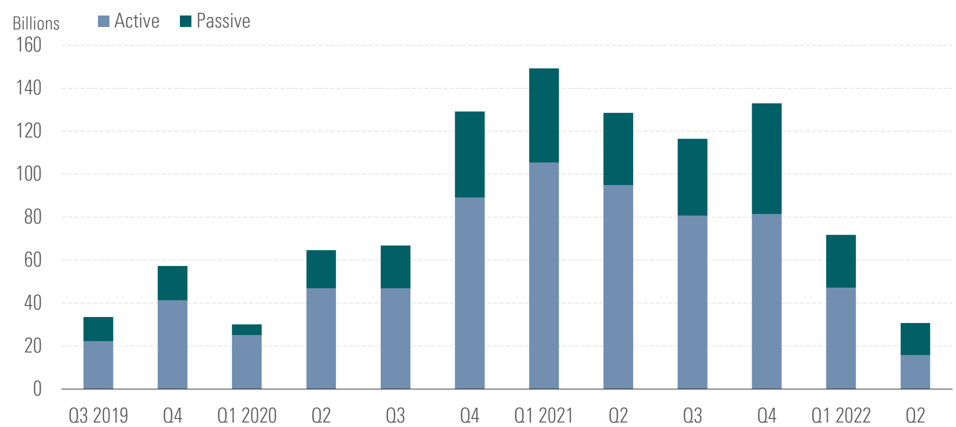
Quarterly Statistics Per Domicile

Europe

Flows Continue Their Downward Spiral but Remain Positive

In the second quarter of 2022, the European sustainable fund universe (as defined in the Appendix) attracted close to USD 31 billion in net inflows, which represented a 57% drop over the readjusted USD 71.7 billion net inflows of the first quarter. This was the lowest quarterly net purchases of sustainable funds since the first quarter of 2020 when the COVID-19 pandemic started.

Exhibit 5 European Sustainable Fund Flows (USD Billion)



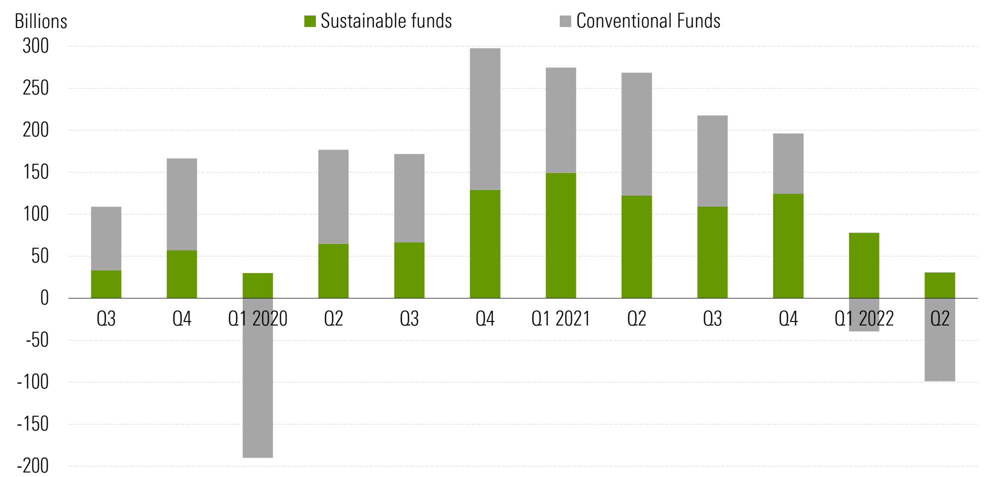
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

The year-to-date downward trend is further confirmed when looking at the organic growth rates. Calculated as net flows relative to total assets at the start of a period, European sustainable funds saw its organic growth rate decline to 1.3% in the second quarter of 2022 from 2.9% in the previous quarter. Until the end of last year, quarterly organic growth rates were consistently above 5% (except in first-quarter 2020 when it fell to roughly 3.5%).

However, once more, European sustainable products held up better than their conventional peers. Against a backdrop of continued geopolitical concerns with the Russian invasion of Ukraine, high inflation, interest-rate hikes, and the perspective of a global recession, European conventional funds suffered almost USD 100 billion of net outflows, which was 2.5 times more than the outflows they experienced in the first quarter. Overall European fund flows' organic growth rate went from negative 0.3% in the first quarter to negative 0.5% in the second quarter as net positive flows in sustainable funds were no longer strong enough to counterbalance heavy outflows from conventional funds.

As demonstrated in the past two quarters, as well as in 2020 at the start of the COVID-19 pandemic, sustainable fund flows seem to be more resilient in times of market volatility than their traditional peers as ESG-focused investors—who are typically more values-driven and long-term-oriented—are slower to pull money from the funds they are invested in.

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



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

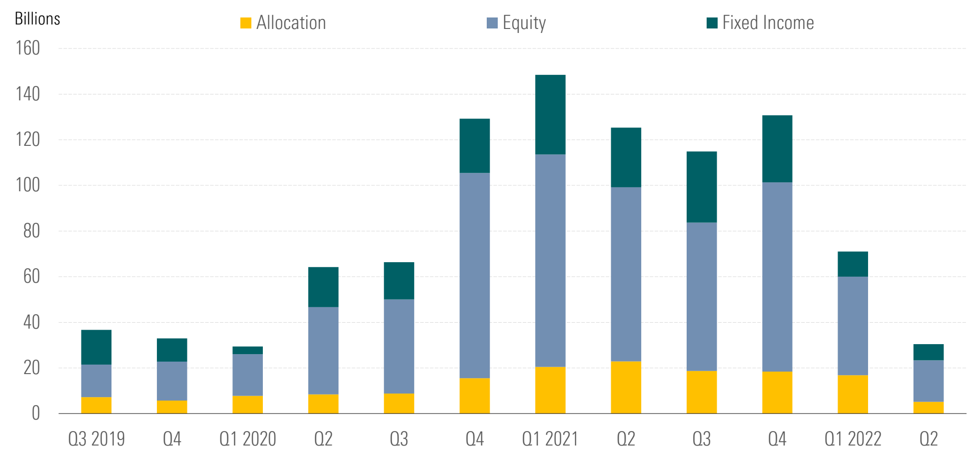
Exhibit 6b European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class (USD Billion)

USD,Bn	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q1 2022	Q2 2022	Q1 2022	Q2 2022	Q1 2022	Q2 2022
Allocation	16.9	5.2	10.1	1.2	27.0	6.4
Alternative	0.3	0.2	2.3	-0.3	2.6	-0.1
Commodities	0.1	-0.2	7.8	-2.5	7.9	-2.7
Convertibles	-0.1	-0.3	-2.2	-3.5	-2.3	-3.8
Equity	43.2	18.2	-0.9	-36.9	42.3	-18.7
Fixed Income	11	7.1	-51.2	-57.4	-40.2	-50.3
Miscellaneous	0.2	0.4	-2.5	-1.0	-2.3	-0.6
Property	0.1	0.1	3.3	1.7	3.4	1.8
Total	**71.7**	**30.7**	**-33.2**	**-98.9**	**38.5**	**-68.2**

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

As Exhibits 6b and 7 show, the three main asset classes, namely equity, fixed income, and allocation, registered lower inflows, while the latter suffered the biggest decrease. Sustainable allocation funds garnered USD 5.2 billion in the second quarter, one third of first-quarter inflows. Nevertheless, these inflows were more than 4 times the net new money attracted by their conventional counterparts over the period.

Exhibit 7 European Sustainable Fund Flows by Asset Class



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Equity funds, which still capture the bulk of sustainable fund purchases, attracted USD 18.2 billion last quarter, down from USD 43.2 billion in the first quarter. Yet, this slump still betters the staggering outflows of USD 36.9 billion that their conventional equity counterparts endured. China, Nordic, as well as global equity-income and equity infrastructure funds were noticeably popular with ESG investors this quarter.

Fixed income is another area where sustainable fund flows were a lot more resilient than their conventional counterparts. While the latter continued to spiral downward to reach USD 57.4 billion in outflows as investors were discouraged by interest-rate hikes, ESG-focused investors still poured USD 7.1 billion into sustainable fixed-income strategies. Investors allocated more net new money than in the first quarter to Chinese and Nordic bond exposure and have also unsurprisingly favored global inflation-linked bond and global flexible-bond strategies, given the volatile and inflationary economic backdrop.

Leaders and Laggards

Unlike in the past few quarters when newly launched products were often among the 10 best-selling sustainable funds, there was only one such offering in this quarter's top 10 league table: **BlackRock ACS World ESG Equity Tracker**, which captured USD 1.4 billion in net flows. The fund tracks the MSCI World ESG Focus Low Carbon Screened Index, which not only focuses on companies with lower carbon emissions but also targets a reduction in carbon emission intensity and carbon reserves intensity of at least 50%.

BNP Paribas Easy JPM ESG EMU Government Bond IG 3-5 Y ETF topped the leaderboard with USD 1.5 billion of inflows. It tracks an ESG index that adopts a "best effort" approach and gives priority to sovereign issuers that demonstrate strong or improving ESG credentials and performance over time.

Most of the top sellers (six out of 10) are passive offerings.

Exhibit 8a Top 10 Sustainable Fund Flows in Q2 2022

Fund Name	Net Flows (USD, Million)
BNPP E JPM ESG EMU Govt Bd IG 3-5Y ETF	1,487
Blackrock ACS World ESG Equity Tracker	1,363
ACS World ESG Insights Equity	1,092
M&G (Lux) Global Listed Infras	985
Nordea 1 - European Stars Equity	857
L&G Future World ESG Developed Index Fund	852
Amundi IS MSCI World SRI PAB ETF	741
UBS ETF Global Gender Equality	720
Bonds CHF Inland ESG Passive	688
MM Access II European Multi Credit Sustainable	606

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Meanwhile, the biggest outflow was registered by **NN Duurzaam Aandelen Fonds** after institutional investors withdrew money from the fund to transfer it to similar internal mandates.

Exhibit 8b Bottom 10 Sustainable Fund Flows in Q2 2022

Fund Name	Net Flows (USD, Million)
NN Duurzaam Aandelen Fonds	-2,763
KLP AksjeGlobal Indeks	-1,344
Amundi IS MSCI USA SRI PAB	-716
BlackRock CCF Dev Wld ESG Screened Index	-688
Amundi Ultra Short Term Bond SRI	-626
KLP AksjeNorge Indeks	-589
Vontobel mtx Sust EM Mkts Leaders	-573
State Street Wld ESG Screened Index Equity	-543
AXAWF Euro Buy and Maintain Sustainable Credit	-511
Carmignac Patrimoine	-504

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

The top 10 best-selling firms saw their aggregated net inflows almost cut in half in the second quarter amid market uncertainty and volatility. BlackRock, which routinely tops the leaderboard, registered its lowest sustainable fund inflows over the past two years at USD 5.9 billion. It was followed by UBS and BNP Paribas, which experienced a similar business slowdown.

Exhibit 9a Top 10 European Sustainable Fund Providers by Flows in Q2 2022

Firm	Net Flows (USD,Million)
BlackRock (inc iShares)	5,925
UBS	3,434
BNP Paribas	2,922
Swisscanto	1,814
Schroders	1,378
M&G	1,361
Nordea	1,237
Amundi (inc Lyxor)	1,123
Natixis	1,045
Legal & General	943

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

KLP and **Goldman Sachs** topped the rankings of the worst-selling asset managers in the second quarter. The former suffered heavy outflows in eight out of its 10 sustainable funds referenced in our fund list; **KLP AksjeGlobal Indeks** alone bled USD 1.3 billion. Goldman Sachs was affected by the previously mentioned outflows from **NN Duurzaam Aandelen Fonds**.

Exhibit 9b Bottom 10 European Sustainable Fund Providers by Flows in Q2 2022

Firm	Net Flows (USD, Million)
KLP	-3,315
Goldman Sachs (in NN IP)	-2,606
Carmignac	-739
ODDO BHF	-725
J. Safra Sarasin	-658
SEB	-603
Alfred Berg	-391
T. Rowe Price	-387
State Street	-288
AXA	-288

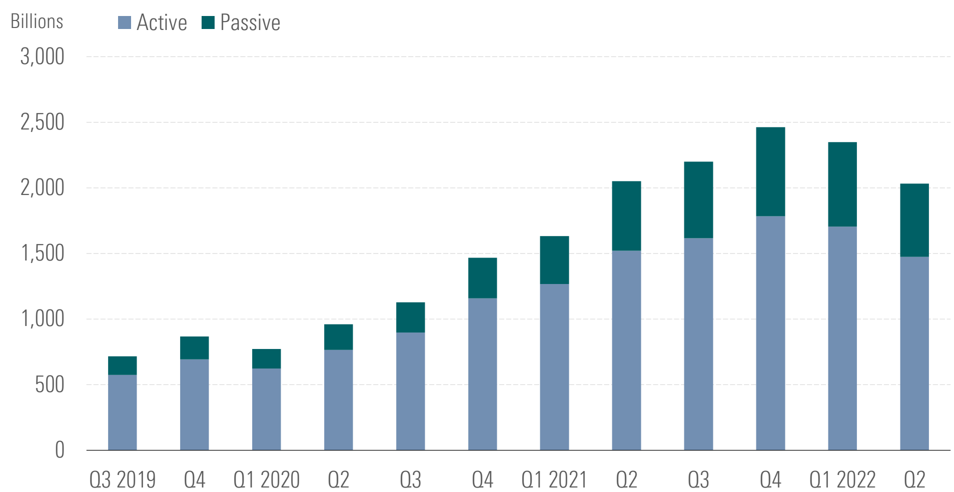
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Assets Dwindle Further Against a Challenging Macro Backdrop but Remain Above USD 2 Trillion

Supported by its strong regulatory agenda, and the EU's Sustainable Financial Disclosure Regulation since March 2021, Europe has seen steady growth in sustainable fund assets over the past couple of years. Yet, sustainable fund assets have dwindled this year, a trend that accelerated in the second quarter. As of June 2022, assets in European sustainable funds amounted to USD 2.03 trillion, down 13.5% from a restated USD 2.33 trillion at the end of March. Assets in the overall European fund universe took a greater hit, though, declining by 15%, which suggests that sustainable fund assets were more resilient in the face of growing concerns over a looming economic recession, strong inflationary pressures, interest-rate hikes, and the Russian-Ukrainian conflict.

Overall, sustainable funds accounted for more than 18% of European fund assets at the end of June 2022, up 1 percentage point quarter to quarter. We expect this percentage to keep rising in subsequent quarters as investors' demand for strategies that align with their sustainability preferences continues to grow, prompting asset managers to launch additional sustainable products and repurpose existing conventional ones. The MiFID II amendment coming into effect on 2 Aug 2022, which will require financial advisers to consider their clients' sustainability preferences, has the potential to accelerate adoption of sustainable investments among retail investors despite macroeconomic headwinds.

Exhibit 10 European Sustainable Fund Assets (USD Billion)

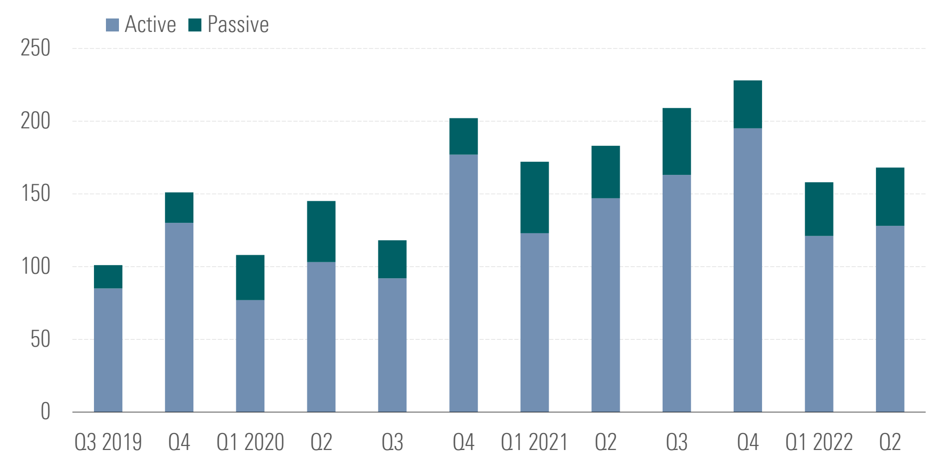


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Launches

Second quarters typically see a pickup in product development, and this year was no exception: We have so far identified 168 new sustainable funds that hit the shelves in the past three months. This represents a 6% increase over the first quarter's readjusted number of 158 launches, but an 8% drop year to year. (Please note that this quarter number is also likely to be restated in future reports as we identify more sustainable product inceptions in second-quarter 2022 and additional ones are reported to Morningstar.)

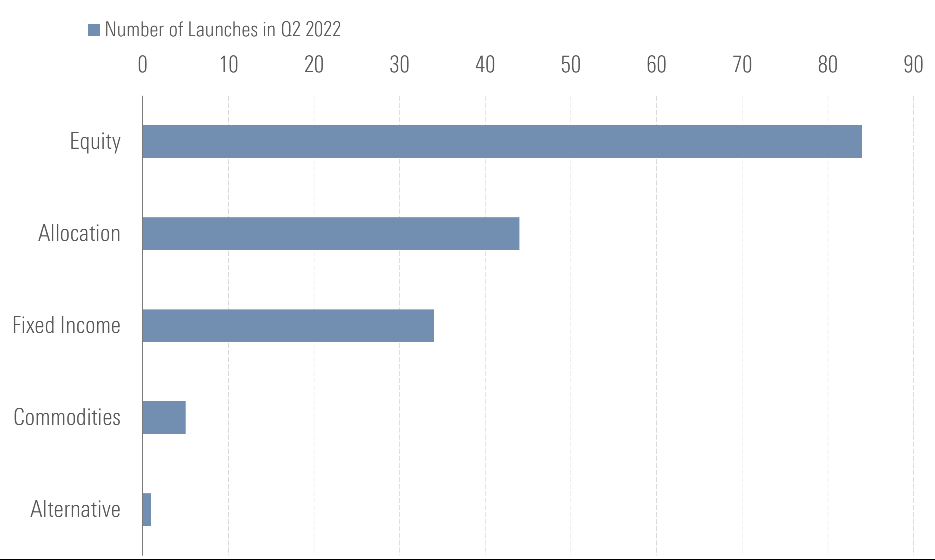
Exhibit 11a European Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

With 128 product launches over the past three months, active strategies accounted for slightly more than 76% of product development in the European ESG space. In comparison, the number of new passive offerings reached 40, which is three more than the previous quarter's readjusted number.

Exhibit 11b European Sustainable Fund Launches in Q2 2022 by Broad Asset Class



Source: Morningstar Research. Data as of 30 June 2022.

Powered by the inception of 34 global equity large-cap funds, equity offerings continued to dominate product development, making up half of sustainable fund launches in the second quarter (84 funds). However, this proportion has steadily declined over the past couple of years to the benefit of fixed-income and allocation products as asset managers seek to diversify their sustainable offerings to cater to ESG-focused investors' needs. In the second quarter, we identified 44 new allocation fixed-income and 34 new fixed-income sustainable funds.

The largest fund launched in the second quarter of 2022 was a passive fund: **BlackRock ACS World ESG Equity Tracker**, which totaled USD 8.3 billion in net assets through the end of June 2022.

While general ESG-focused offerings continued to account for the majority of product development, this quarter again, climate funds remained by far the most popular theme represented among new product launches. Thirty-nine new climate funds spanning all climate investment approaches[1] came to market, which represent a 44% increase compared with the previous quarter. Eleven of these where Paris-aligned and net-zero strategies, of which nine were exchange-traded funds, including **Amundi IS MSCI EUROPE SRI PAB ETF** and **iShares € Corporate Bond ESG Paris-Aligned Climate ETF**[2].

On the active side, **Pictet Climate Government Bond** was launched. This Paris-aligned sustainable strategy invests in bonds issued by countries that are reducing their greenhouse gas emissions and carbon intensity (net of land and forestry management) or ones that are taking steps to implement policies and regulations that are meant to reduce their carbon emissions. Another example of a climate-themed fund is **BNP Paribas Emerging Climate Solutions**. The fund targets companies in emerging markets that provide solutions to preserve aquatic, terrestrial, and urban ecosystems, as well as renewable energy production, energy efficiency, energy infrastructure, and transportation.

Other new entrants included a few UN Sustainable Development Goals-aligned funds, a couple of environmental- and social-themed strategies, including biodiversity fund **AXA WF ACT Biodiversity,** as well as broad impact offerings.

Repurposed Funds

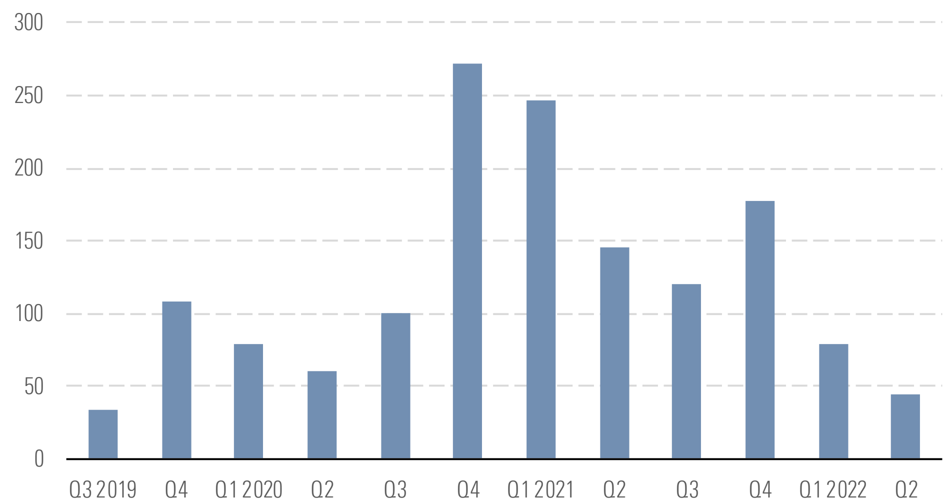
Launching new sustainable funds has been a key priority for asset managers in Europe. But it's not the only way they are responding to the growing investor demand for sustainable investment options. They are also repurposing existing conventional funds into ESG and sustainable strategies by changing the investment objectives or by adding ESG criteria and exclusions to the investment policies. And many reflect these changes by rebranding the funds to increase their visibility among investors who are looking to invest more sustainably.

In the last quarter, we have identified 45 repurposed funds, which represents the second-lowest number in the past three years. However, this quarter's number is likely to be restated upward in future reports as we identify more repurposed funds in future reviews.

1 For more information on climate strategies, read Investing in "Times of Climate Change—A Global View."

2 To achieve Paris-alignment classification, a fund must invest in companies that reduce their carbon intensity by an average of 7% annually—the pace of phasing-out of fossil fuels set out in the Paris Agreement—and the fund overall must have a carbon footprint (including scope 3 emissions) 50% below that of the investable universe.

Exhibit 12 Estimated Number of Repurposed Funds by Quarter



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Recently repurposed funds included the iShares quality factor ETF range. In June, **iShares MSCI Europe Quality Dividend ESG ETF**, **iShares MSCI USA Quality Dividend ESG ETF**, and **iShares MSCI World Quality Dividend ESG ETF** switched to MSCI High Dividend ESG Reduced Carbon Target Select indexes, which focus on high-dividend-yielding companies with a better carbon reduction and ESG score improvement than in the past.

Other examples include **AXA ACT Carbon Transition Sterling Buy and Maintain Credit**, which was repurposed into a climate-transition fund in June following the adoption of a new criteria where it is required to maintain a lower carbon intensity than that of a customized climate-transition benchmark. The latter is defined as an initial 30% reduction of the weighted average carbon intensity of the ICE Bank of America Sterling Non-Gilts benchmark, followed by a further 7% reduction year on year.

Neuberger Berman Global High Yield SDG Engagement was recently transformed from a plain-vanilla global high-yield strategy into one that aims at better aligning debt issuers with the UN Sustainable Development Goals through active engagement.

Meanwhile, we also identified last quarter a number of funds that removed sustainability-related keywords from their names. Examples include a range of Goldman Sachs fixed-income funds, including **Goldman Sachs ESG-Enhanced Europe High Yield Bond**, **Goldman Sachs ESG-Enhanced Euro Short Duration Bond Plus, Goldman Sachs ESG-Enhanced Global Income Bond**, and **Goldman Sachs ESG-Enhanced Sterling Credit**, whose legal names haven't referenced any ESG language since late May. According to the firm, the names were changed in response to the evolving market environment on ESG naming convention[3], but no changes were made to the investment strategy of the portfolios. The funds

3 Both the European and US regulators have recently issued guidelines and rules on the use of sustainability-related terms in funds' names.

continue to integrate ESG considerations into the fundamental investment process. They also incorporate the GSAM proprietary ESG scores as an element of portfolio construction, apply ESG screens, and set portfolio-level ESG targets.

Other funds that dropped ESG-related language from their names in the first half of 2022 include **Kairos International SICAV–Europa ESG** and **Öhman Företagsobligationsfond Hållbar**, which rebranded into **Kairos International SICAV–European Long Only** and **Öhman Investment Grade**, respectively.

Regulatory Updates

In the European Union, the European Financial Reporting Advisory Group, mandated by the European Commission, is consulting on its draft sustainability standards which, once finalised and endorsed by the European Commission will underpin the Corporate Sustainability Reporting Directive that will govern the disclosures required by EU listed companies.

Other aspects of the EU's Sustainable Finance Action Plan continue to see goal posts moving in areas of regulations both already in effect and soon to be so. The European Commission's controversial Taxonomy Delegated Act to include specific nuclear and gas energy activities, under certain conditions, in the list of environmentally sustainable economic activities covered by EU Taxonomy passed through the Parliament and Council and will take effect on 1 Jan 2023. Consequently, certain fossil gas and nuclear energy activities will be classified as transitional activities contributing to climate change mitigation.

The European Securities and Markets Authority, or ESMA, together with the European Banking Authority and European Insurance and Occupational Pensions Authority, issued clarifications on the draft regulatory technical standards issued under the SFDR. The statement covered areas including the calculation of principal adverse impact indicators, or PAIs; the use of sustainability indicators; and taxonomy-related and "do not significantly harm" disclosures. At the same time, the supervisory authorities have been tasked by the European Commission to review and potentially extend the entire PAI framework as well as assess financial product disclosure requirements, particularly around decarbonization targets.

Separately, ESMA also published a supervisory briefing to ensure convergence across the EU in the supervision of investment funds with sustainability features, and in combating greenwashing by investment funds. The briefing provides guidance for the supervision of fund documentation and marketing material, as well as guiding principles on the use of sustainability-related terms in funds' names and guidance for convergent supervision of the integration of sustainability risks by alternative investment fund managers and UCITS managers.

All of these developments will be relevant to firms planning for the August MiFID II changes that will require sustainability preferences of investors to be incorporated into the suitability process. On a related note, ESMA has kicked off a review of its guidelines on MiFID II product governance requirements, and in particular a proposed addition to specify any sustainability-related objectives a product is compatible.

Meanwhile, in the United Kingdom, the Financial Conduct Authority has delayed by around three months its consultation paper about the UK's post-Brexit sustainable disclosure requirements and product label proposals. The Department for Business, Energy and Industrial Strategy has published a call for evidence in relation to updating the UK's Green Finance Strategy, which will assess progress against the 2019 objectives and set out how the UK can better ensure the financial-services industry is supporting the UK's energy security, climate, and environmental objectives.

United States

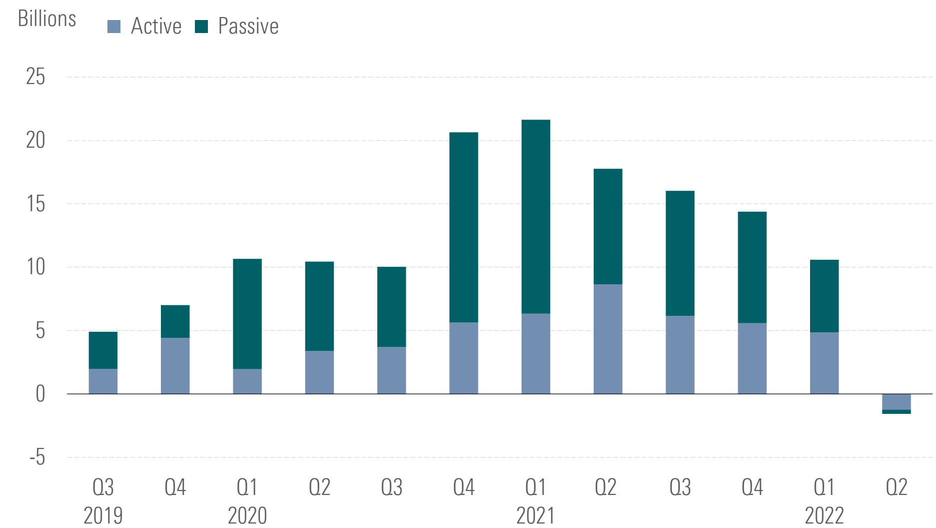
In a Brutal Second Quarter, Sustainable Funds Battle the Bear

US sustainable funds shed USD 1.6 billion during the second quarter of 2022 amid fears of recession, inflation, rising interest rates, and a global energy crisis. This was the first quarter of outflows in more than five years, before sustainable funds made it to the mainstage.

Still, the outlook for sustainable funds remains bright. Though down from last quarter's record, flows into sustainable fixed-income funds stayed positive. This was a notable departure from the total US market, where taxable and municipal-bond funds bled USD 150 billion during the quarter.

Furthermore, the US sustainable funds market sustained a higher organic growth rate than the overall US market. Calculated as net flows relative to total assets at the start of a period, the organic growth rate puts the magnitude of fund flows into perspective. During the second quarter, the sustainable funds market shrunk by 0.45% (in terms of the organic growth rate), but the overall market shrunk by 0.74%. On an annual basis, the divergence grows larger; the sustainable funds market grew by 13.0%, and the total market grew more modestly by 1.4%. This continued growth even during a period of poor performance could signal that investor demand for sustainable funds is more "sticky" than broader US demand.

Exhibit 13 US Sustainable Fund Flows



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Investors Flee Renewable Energy Funds

Sustainable active funds bore the brunt of the second quarter's outflows, shedding USD 1.2 billion during the period. Sector equity funds, including many clean energy/tech climate funds, were the hardest hit. Against the backdrop of the ongoing volatility in energy markets and record high gasoline prices in the US, investors shied away from downtrodden renewable energy funds. This was compounded by rising commodities prices, since energy stocks (especially oil and gas) are often used as a hedge against inflation.

Still, passive funds were not immune to investor flight. Index-based sustainable funds netted USD 8.4 billion on average during the preceding four quarters but bled USD 337 million during 2022's second quarter. In the longer term, investor preference has shifted steadily toward passive options. Over the past three years, an average 60% of quarterly flows went to index-based offerings.

Floating-Rate Bond Funds Stay on Top

Investors continued pouring money into **Invesco Floating Rate ESG** AFRAX, landing it in second place on the league table, with USD 381 million in net flows for the quarter. This strong demand boosted the fund's total year-to-date flows to USD 1.6 billion, nudging it ahead of peers to secure the lead for the first half of 2022. Invesco Floating Rate ESG also topped the chart for net flows in 2021; investors may use floating-rate bonds as a hedge in the face of rising interest rates.

Exhibit 14a Top 10 US Sustainable Fund Flows in Q2 2022

Name	Q2 2022 Flows (USD Million)
iShares ESG Aware MSCI USA ETF	477
Invesco Floating Rate ESG	381
Vanguard ESG US Stock ETF	283
iShares ESG Aware MSCI EAFE ETF	238
iShares Paris-Aligned Climate MSCI USA ETF	199
Xtrackers MSCI USA ESG Leaders Equity ETF	177
Nuveen ESG Large-Cap Value ETF	172
SPDR® MSCI ACWI Climate Paris Aligned ETF	149
Vanguard ESG International Stock ETF	135
iShares MSCI KLD 400 Social ETF	132

Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

The other two funds topping the chart for second-quarter flows were familiar faces. **IShares ESG Aware MSCI USA ETF** ESGU, despite a USD 490 million outflow in May, has stayed on the league table in every quarter for nearly three years. **Vanguard ESG US Stock ETF** ESGV was fifth on last quarter's top-10 list and was one of the few funds on this chart to sustain positive inflows in each of the first six months in 2022.

Amid a growing focus on climate investing, one fund changed its name and changed its fortune. Until Earth Day 2022 (April 22), **SPDR MSCI ACWI Climate Paris Aligned ETF** NZAC was known as **SPDR MSCI ACWI Low Carbon Target ETF** LOWC. During the month of April, the fund netted USD 149 million, more than 6 times the fund's total flows in 2021. At the same time, the fund's mandate evolved to become more robust. It tracks an index that excludes fossil fuel companies, targets an overall greenhouse gas intensity that is 50% lower than the parent index, and seeks to reduce this intensity year over year in line with the objective of the Paris Agreement.

A Shift in a Model Portfolio Series Drives Sustainable Fund Outflows

IShares ESG Aware MSCI Emerging Markets ETF ESGE bled USD 1.3 billion and topped the list for worst outflows in the second quarter. The fund's assets totaled USD 4.4 billion at the end of the quarter, down 31% from the previous quarter. One factor driving these outflows was a change in BlackRock's recommendations for the Target Allocation ETF model portfolio series, which had nearly USD 40 billion in assets under advisement as of March 2022. In May 2022, the firm reduced exposure to ESGE across the model portfolio series; for example, in the 60/40 equity/bond portfolio, the firm revised the recommended exposure to 0% from 3% in April.

Exhibit 14b Bottom 10 US Sustainable Fund Flows in Q2 2022

Name	Q2 2022 Flows (USD Million)
iShares ESG Aware MSCI EM ETF	-1265
Parnassus Core Equity	-557
Calvert US Large Cap Core Responsible Index	-331
Calvert Emerging Markets Equity	-269
iShares ESG MSCI USA Leaders ETF	-244
iShares Global Clean Energy ETF	-207
Vanguard FTSE Social Index	-200
Invesco Solar ETF	-190
Parnassus Endeavor	-174
iShares MSCI USA ESG Select ETF	-173

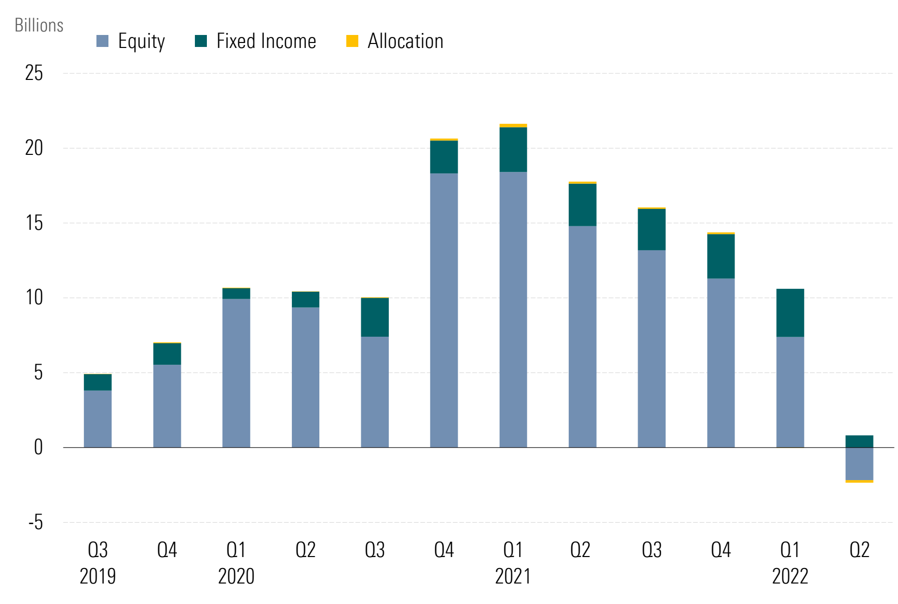
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Sustainable Bond Funds Shine a Light in a Dim Quarter

Flows into sustainable equity funds have declined steadily since their USD 18.4 billion record inflow in 2021's first quarter and suffered the worst of this quarter's outflows. In contrast, sustainable fixed-income funds were one of the few bright spots in an otherwise dim quarter.

Led by Invesco Floating Rate ESG and **iShares ESG USD Corporate Bond ETF** SUSC, sustainable bond funds netted USD 804 million during 2022's second quarter. While down significantly from their USD 3.2 billion record take in 2022's first quarter, flows stayed positive, a notable departure from the total US market, where taxable and municipal-bond funds bled USD 150 billion during the quarter.

Exhibit 15 US Sustainable Fund Flows by Asset Class



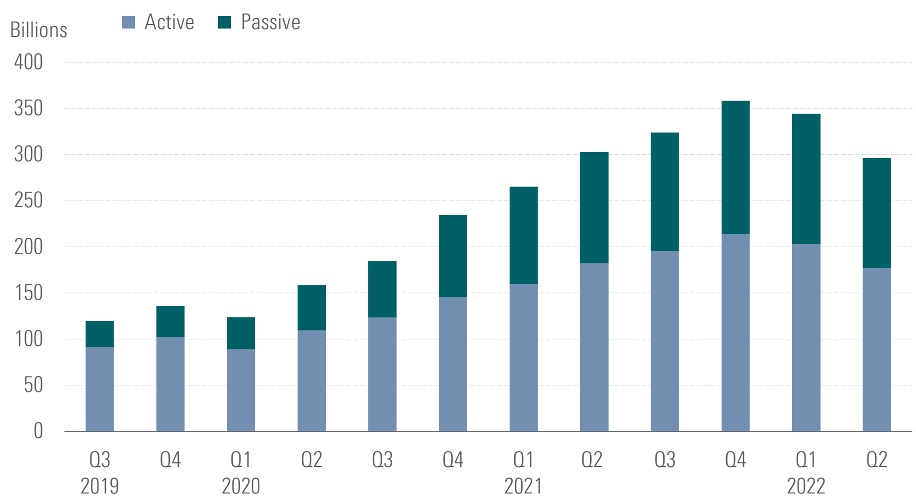
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Longer-term signals indicate the second quarter might be a small blip on the radar for sustainable bond funds. Demand for sustainable fixed-income strategies has grown steadily in recent years, blowing past the USD 2 billion mark in 2020's third quarter and staying above that level since (until this quarter). The number of sustainable fixed-income funds has increased substantially in the last three years, to 116 from 46. More fixed-income choices help investors fill their bond allocations, making ESG-focused multi-asset portfolios more viable and ultimately helping drive more flows.

Assets in US Sustainable Funds Dip to the Lowest Level in One Year

Together with market depreciation, sustainable funds' net outflows drove assets in these funds to USD 296 billion, their lowest point since the first quarter of 2021. This represents a 17% decline from the record of USD 358 billion at the end of 2021. By comparison, assets in the broader US market also peaked at the end of 2021 (at USD 28 trillion) and slid by 19% to USD 22.8 trillion at the end of 2022's second quarter.

Exhibit 16 US Sustainable Fund Assets

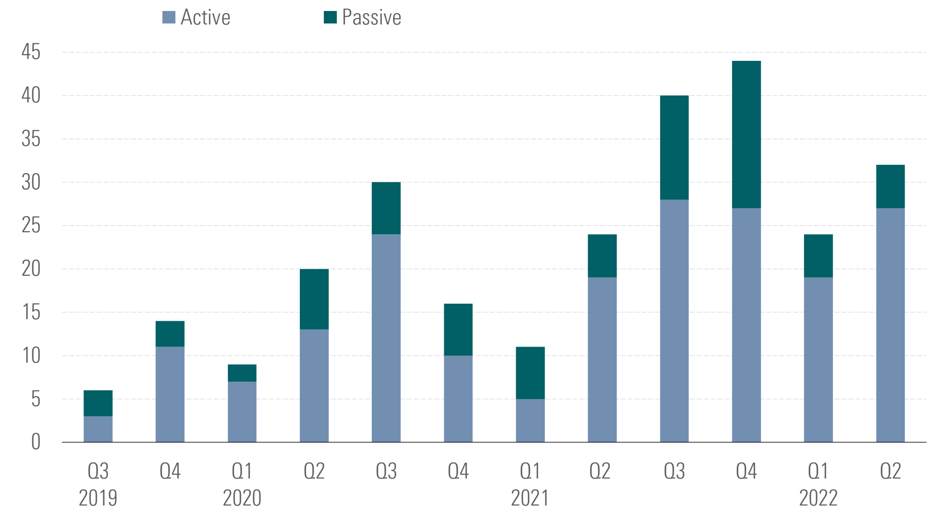


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

New Launches

In response to investor demand for sustainable offerings, asset managers continued to expand their sustainable fund lineups. In the second quarter of 2022, 32 funds, including 12 ETFs, were launched in the US with sustainable mandates. Of those, 20 were equity funds.

Exhibit 17 US Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Once again, most of the new sustainable funds available in the US were actively managed offerings. On average over the past three years, active funds have accounted for 70% of sustainable fund launches, and this quarter's 84% exceeded that trend.

Fidelity significantly expanded its sustainable fund lineup with 14 new actively managed funds (two of which are ETFs) during the second quarter. These launches boosted Fidelity's overall US sustainable fund offerings to 31, tied with Calvert for second place behind BlackRock with 62 sustainable funds.

Investment options for climate-focused investors continue to grow. Of the 32 sustainable funds launched in the second quarter, six target climate mandates. For example, winning the trophy for largest new US sustainable fund is **SPDR MSCI USA Climate Paris Aligned ETF** NZUS, the US-focused sibling of SPDR MSCI ACWI Climate Paris Aligned ETF NZAC. One component of the strategy is to reduce the fund’s greenhouse gas intensity by an average 10% each year relative to the parent index. This exceeds the minimum ask of Paris-aligned benchmarks, which require a 7% year-on-year decarbonisation rate.

Exhibit 18 Largest New US Sustainable Funds Launched in the Second Quarter

Name	Ticker	Inception Date	Fund AUM (USD Million)
SPDR MSCI USA Climate Paris Aligned ETF	NZUS	21/04/2022	131
Xtrackers Net Zero Pathway Paris Aligned US Equity ETF	USNZ	27/06/2022	50
Nia Impact Solutions	NIAGX	10/05/2022	36
SPDR® Nuveen Municipal Bond ESG ETF	MBNE	04/04/2022	32
Calvert Mortgage Access	CMMIX	29/04/2022	25
Fidelity Advisor® Sustainable Core Plus Bond	FIALX	13/04/2022	25
PGIM ESG Short Duration Multi-sector Bond	PGIGX	25/05/2022	25
Fidelity SAI Sustainable Core Plus Bond	FIABX	13/04/2022	24
Fidelity® Sustainable Core Plus Bond ETF	FSBD	19/04/2022	12
Fidelity Advisor® Sustainable Intermediate Municipal Income	FASUX	13/04/2022	10

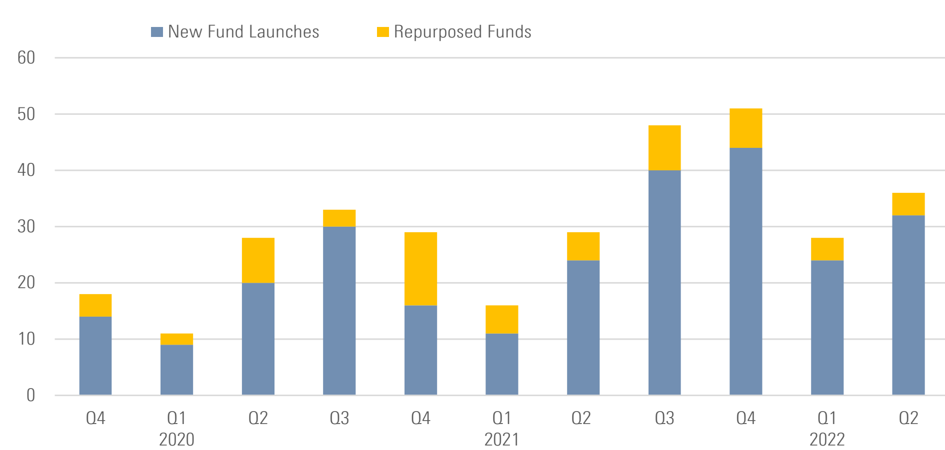
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Firms Continue to Repurpose Funds for Sustainable Outcomes

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 second quarter of 2022, four funds were repurposed and renamed to adopt sustainable mandates. The largest of these was **BlackRock Sustainable Balanced** MACPX, previously known as **BlackRock Balanced Capital**, with USD 1.6 billion in assets. The fund targets a better aggregate ESG score and lower carbon emissions intensity than the benchmark. Additionally, the fund may prioritize investments that management views as better positioned to capture climate opportunities than their peers.

Other repurposed funds over the quarter include **ALPS/Kotak India ESG** INDIX, **Franklin Municipal Green Bond ETF** FLMB, and **HSBC RadiantESG US Smaller Companies** RESCX, which rebranded from ALPS/Kotak India Growth, Franklin Liberty Federal Tax-Free Bond ETF, and HSBC Opportunity, respectively.

Exhibit 19 New and Repurposed Sustainable Funds



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

The new offerings and repurposed funds brought the total number of sustainable open-end and exchange-traded funds in the US to 588 at the end of the quarter.

Regulatory Updates

During the quarter, the Securities and Exchange Commission closed its consultation on a new rule that would require public companies to enhance and standardize the disclosure of climate-related risks and opportunities. Although this rule would only apply to company-level climate risk disclosures, this data would enable funds to provide greater transparency into their climate risk-management strategies, a win for investors. More information about the views of, and suggestions to, the consultation that Morningstar submitted can be found in this article.

Moreover, the SEC proposed two additional rules aimed at helping investors better identify, understand, and compare funds that feature environmental, social, and governance criteria in their investment process. One proposal would require funds with "ESG," "sustainable," or related terms in their names to commit at least 80% of assets to investments that meet their ESG criteria. The proposal would expand the existing names rule that requires a similar commitment from funds with names suggesting a focus on a particular type of investment (such as "stock," "bond," or "tax-exempt").

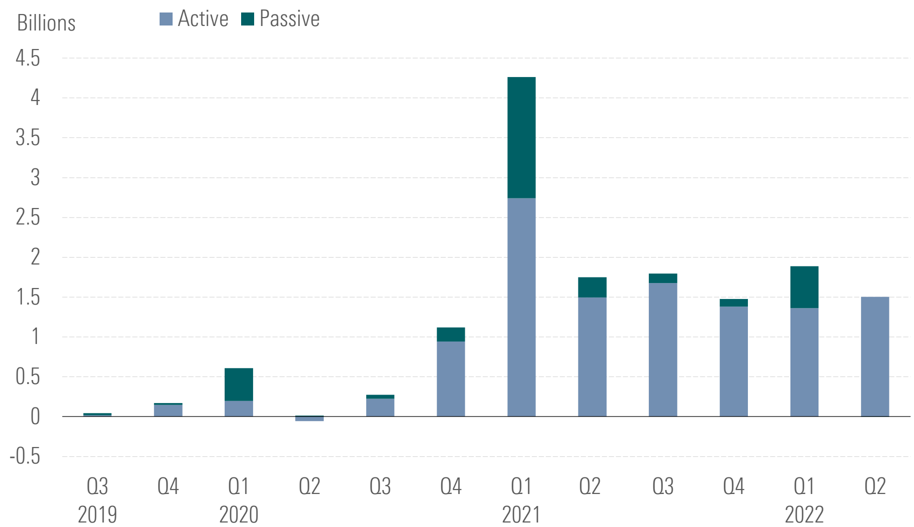
The second proposal would require funds that use ESG criteria in their investment process to disclose more about how they do so in their prospectuses and annual reports. The proposal identifies and defines three broad types of ESG funds: ESG integration, ESG focused, and impact. The first, and most common cohort, would be required to describe how they incorporate ESG into their process. The disclosure requirements escalate for ESG focused funds to describe the approaches they use in an “ESG Strategy Overview” table, as well as how the fund votes proxies and/or engages with companies about ESG issues. Impact funds would have to disclose how they measure progress toward the stated impact, the relevant time horizon, and any expected trade-off between the targeted impact and investment returns. The comment period for these proposals will conclude during the third quarter.

Canada

Flows

Flows into Canada-domiciled sustainable funds and ETFs declined in the second quarter of 2022 but were still positive, at roughly USD 1.5 billion. The largest inflows were in April, almost entirely from active strategies. Flows into passive strategies were slightly negative for the quarter with USD 3.8 million in outflows.

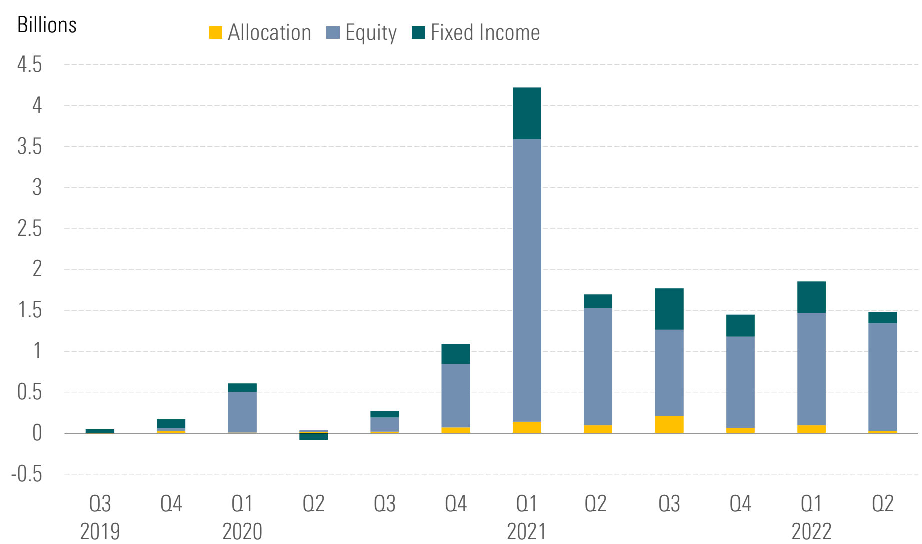
Exhibit 20 Canadian Sustainable Fund Flows



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Flows by broad categories were skewed toward equities throughout the quarter, with the heaviest load at the beginning of the period. The preference for equity sustainable funds remained strong, largely because of the sheer number of actively managed products available to investors. Across asset classes, 88% of inflows went to equity funds, 9% went to fixed income, and the remainder to allocation and alternative funds.

Exhibit 21 Canadian Sustainable Flows by Asset Class



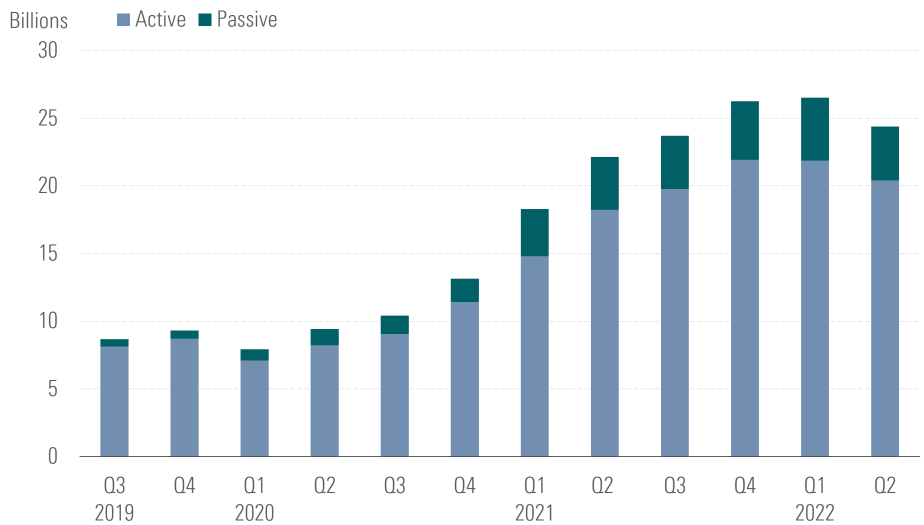
Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Assets

Assets invested in Canadian sustainable funds also declined in the second quarter. Sustainable funds stood at USD 24.4 billion at the end of June, representing a decline of 8.0% relative to the previous quarter. This decline, however, is smaller than that of the overall market, which experienced a 13.4% drop in assets over the second quarter.

Assets in actively managed sustainable funds slipped 6.6% over the quarter, while the slump in passively managed assets was much steeper at 15.0%.

Exhibit 22 Canadian Sustainable Fund Assets



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

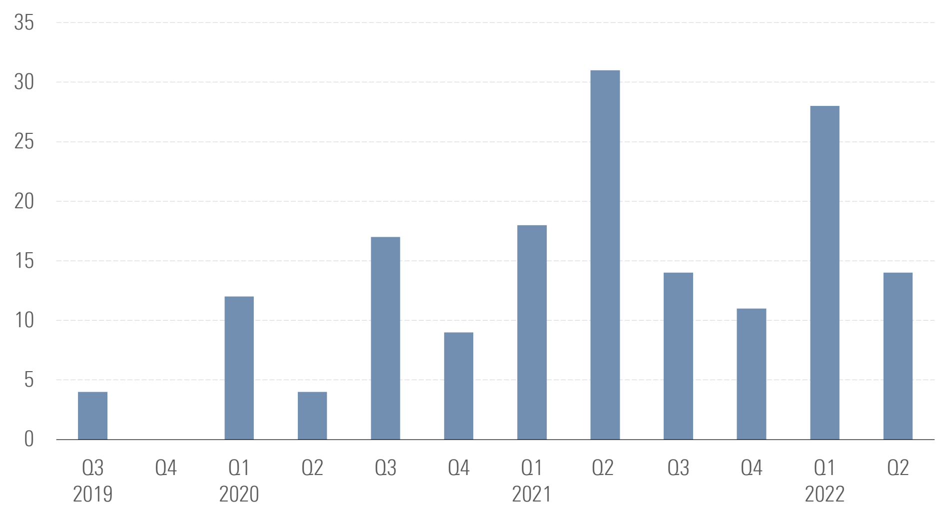
The distribution of funds across asset classes remained unchanged, with a greater percentage of assets allocated to equities (71%), followed by fixed income (23%) and the remainder to allocation funds.

New Launches

Canada saw slow growth in new sustainable funds in the second quarter of 2022. There were only 14 new sustainable products brought to market. That's half the number of launches in the first quarter of 2022, while we saw 31 new sustainable product launches in the second quarter of last year.

The rocky market environment impeded product development last quarter. There was a muted ETF launch with **iShares Global Clean Energy ETF CAD**, and the top funds in size were brought to market by only one asset manager: Desjardins. In aggregate, Desjardins' new products collected USD 772 million in the second quarter, with **Desjardins SocieTerra Global Corporate Bond** and **Desjardins SocieTerra Emerging Markets Bond** collecting USD 372 million.

Exhibit 23 Canadian Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Performance

The performance of sustainable investment funds continued its dismal trend in the second quarter. Seventy-six percent of sustainable equity funds underperformed the average fund in their respective Morningstar Category, while 53% of fixed-income and 78% of allocation funds also lagged their peers. This could be attributed to the underweight in oil and gas companies, which outperformed the market for the year to date. In Canada, very few sustainable products invest in the oil and gas sector.

Regulatory Update

The Canadian Securities Administrators's recent guidance under staff notice 81-334 provided clarity on how fund manufacturers should disclose sustainable investment objectives and strategies within prospectuses.

Additionally, in July 2022, the Canadian Investment Funds Standards Committee approved its Responsible Investment Identification Framework for the Canadian investment funds market. Like the traditional category system in Canada, the committee believes that having an open-source category system to identify sustainable funds will greatly aid investors in finding appropriate investments, in this case for the purposes of aligning nonfinancial preferences to available products. The CIFSC RI Identification Framework aims to identify funds that use one or more of the following six sustainable investment approaches: ESG exclusions, ESG best-in-class, ESG integration and evaluation, ESG thematic investing, ESG engagement and stewardship activities, and impact investing. In its development, the committee worked purposefully to ensure that the approaches outlined in the framework are complementary to CSA staff notice 81-334 as well as the CFA Institute's Global ESG Disclosure

Standards for Investment Products. Once implemented, these six approaches will be available to users of Morningstar's products via six nonmutually exclusive binary flags.

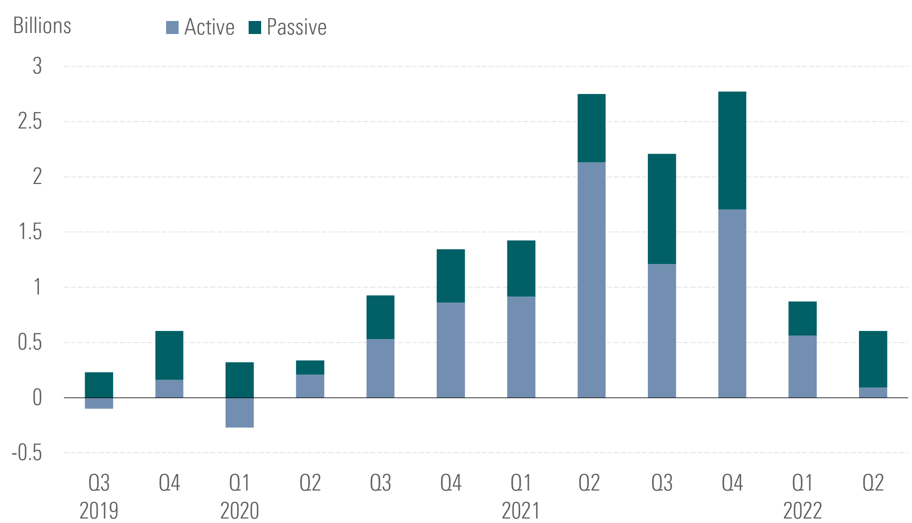
Australia and New Zealand

Flows

The Australasian (Australia and New Zealand) sustainable funds universe attracted inflows of USD 603 million in the second quarter of 2022. This is one third lower than the previous quarter's inflows which were already significantly lower than fourth-quarter 2021 inflows. 2021 had been an extraordinary year, attracting the highest inflows we had seen since we started collecting sustainable data.

Passive products attracted the vast majority of the inflows: USD 511 million, representing 85% of the total net inflows in the second quarter. Active funds registered low net inflows of USD 92 million. The predominance of inflows to passive funds reversed the trend toward active investments that had been in place since Q4 2020. The top five fund houses as measured by market share are Vanguard with 17%, Australian Ethical with 15%, BetaShares with 9%, Dimensional with 7%, and Pendal with 5%.

Exhibit 24 Australia and New Zealand Sustainable Fund Flows

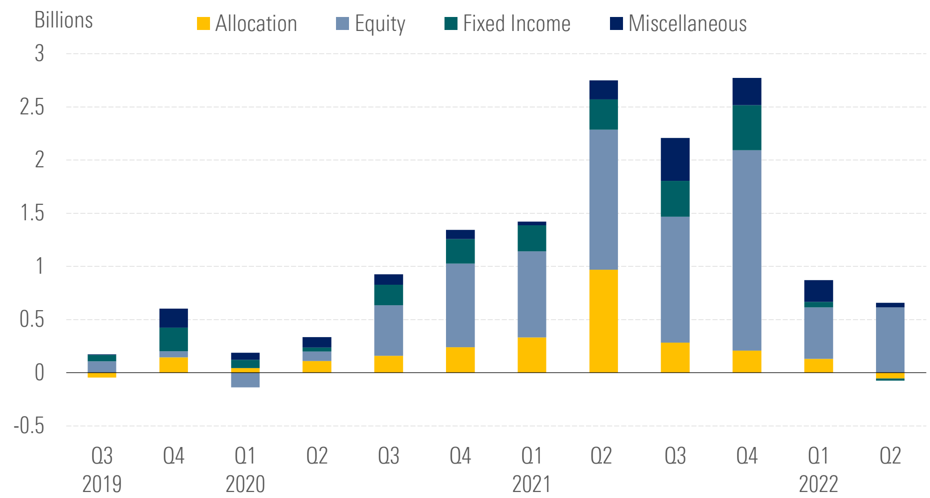


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Flows by Category

Equity managers captured most of inflows over the quarter, with USD 614 million, while allocation and fixed-income strategies had outflows at USD 53 million and USD 20 million, respectively.

Exhibit 25 Australia and New Zealand Sustainable Flows by Asset Class

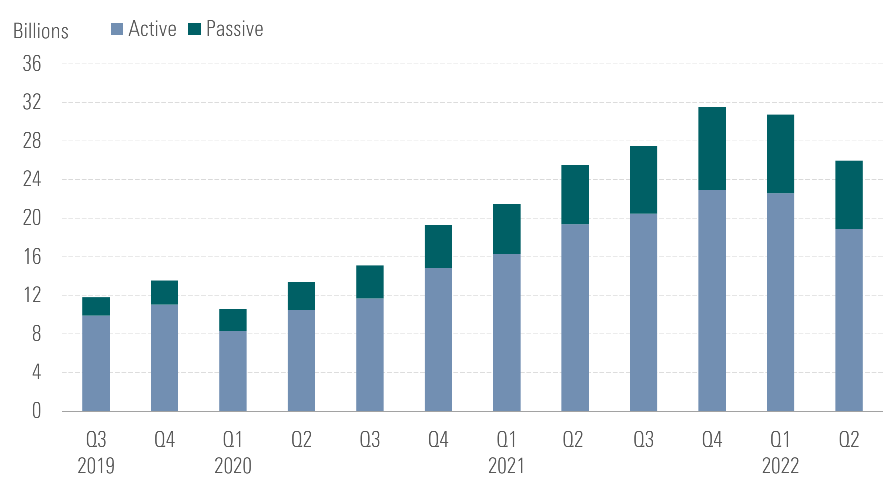


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Assets

Assets in Australasian sustainable funds declined further in the second quarter of 2022 against a backdrop of challenging market returns. Assets were down 15%, totaling USD 26 billion at the end of June. The Australian sustainable funds market remains quite concentrated, with the top 10 funds accounting for 69% of total assets in the sustainable fund universe. Vanguard, with total assets of USD 4.4 billion, is the dominant Australasian provider of sustainable funds, closely followed by Australian Ethical with USD 4.0 billion.

Exhibit 26 Australia and New Zealand Sustainable Fund Assets

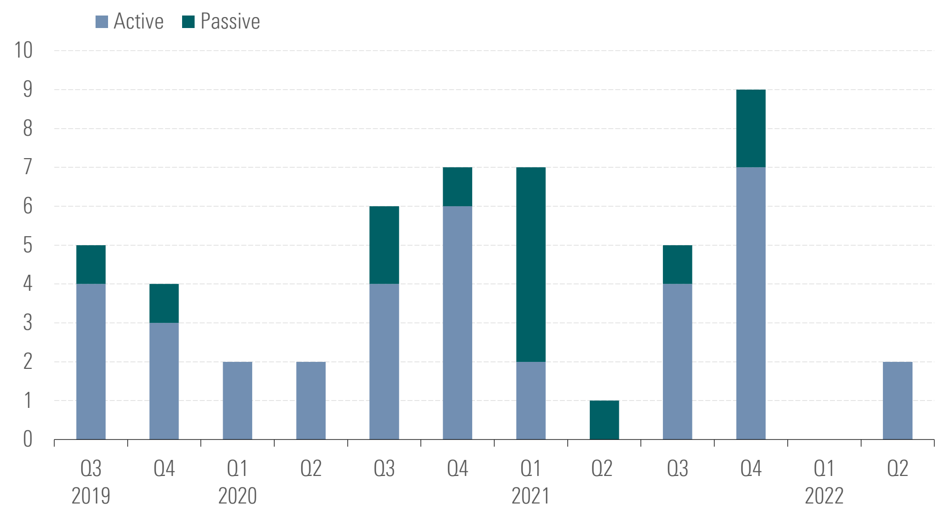


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Launches

Two new sustainable funds came to the Australasian market in the second quarter of 2022, both actively managed and launched by First Sentier; a global property fund (unhedged) and a responsible listed infrastructure hedged fund. These two new strategies bring the total number of sustainable funds in Australasia to 178. 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 27 Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Greenwashing: Regulatory Action

The Australian Competition and Consumer Commission, or ACCC, and Australian Securities and Investment Commission, or ASIC, have identified greenwashing as a top priority for 2022.

ASIC undertook a review of a sample of superannuation and investment products sustainability claims and identified some areas for improvement. On the 14 June 2022, ASIC released an information sheet targeted at superannuation and managed fund issuers to provide clear guidance on how to avoid greenwashing when offering or promoting sustainability-related products.

The regulator outlined nine key questions and provided practical examples of what constitutes poor practice that could be deemed misleading. In particular, the information sheet highlighted that issuers in their disclosure and promotions need to use clear labels; define the sustainability terminology they use; and clearly explain how sustainability considerations are factored into their investment strategy.

ACCC flagged that it would be focusing on ESG claims under Australian Consumer Law. At the National Consumer Congress on 16 June 2022, ACCC chair Gina Cass-Gottlieb said: "As part of our compliance and enforcement priorities we will be looking closely at greenwashing and sustainability claims by businesses. This priority is aimed at addressing concerns that businesses are falsely promoting environmental or green credentials to unfairly capitalise on increasing consumer demand for products or services with these benefits. It can be difficult for consumers to determine the veracity of a product or businesses' green credentials. Businesses making false or misleading claims betrays consumer trust and creates an unfair advantage for those businesses doing the wrong thing. We will take enforcement action where we find deliberate deception. It is essential that consumers can have trust in green claims."

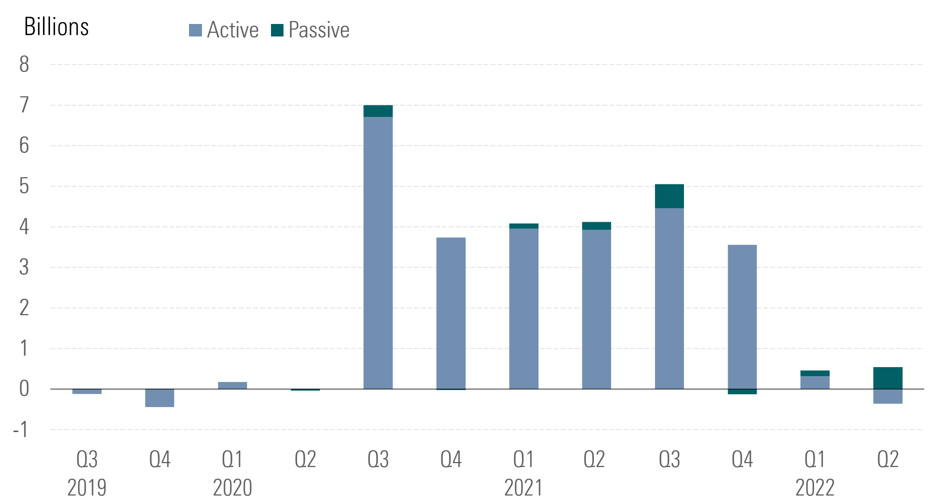
Japan

Flows

The Japanese sustainable fund market recorded falling net inflows for the second quarter in a row. Net flows amounted to USD 183 million in the second quarter of 2022, including inflows of USD 541 million for passive funds and outflows of USD 358 million for active funds.

New funds tend to drive inflows in Japan, and this quarter was no exception. The top fund in terms of net inflows was **NEXT FUNDS Solactive Japan ESG Core Index ETF**, a newly launched passively managed ETF with USD 428 million in net inflows. On the other hand, eight out of top 10 funds in terms of net outflows were actively managed equity funds launched in the past couple of years.

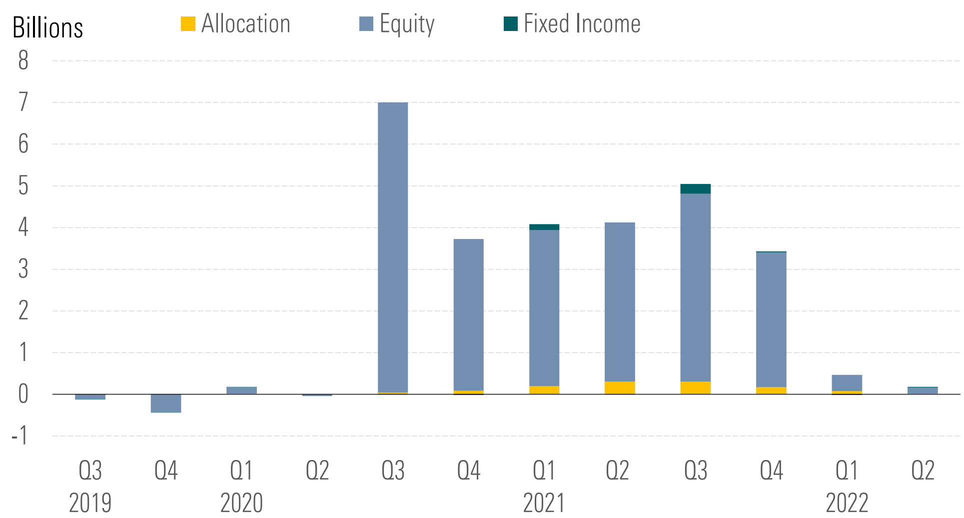
Exhibit 28 Japanese Sustainable Fund Flows



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

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 29 Japanese Sustainable Fund Flows by Asset Class

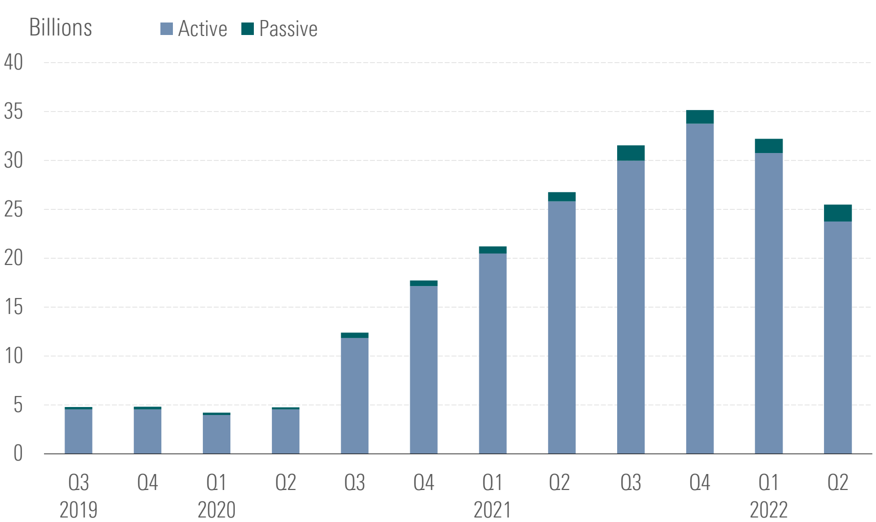


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Assets

Total assets in Japan-domiciled sustainable funds continued their decline in the second quarter, falling 21% to USD 25 billion at the end of June 2022. With equity funds constituting an overwhelming majority (95%) of Japan-domiciled sustainable funds, mostly global equities, a double-digit decrease in global equity markets (16% for the MSCI World) and the 12% depreciation in Japanese yen against the US dollar during the second quarter contributed to the decline in US-dollar-based sustainable fund assets.

Exhibit 30 Japanese Sustainable Fund Assets

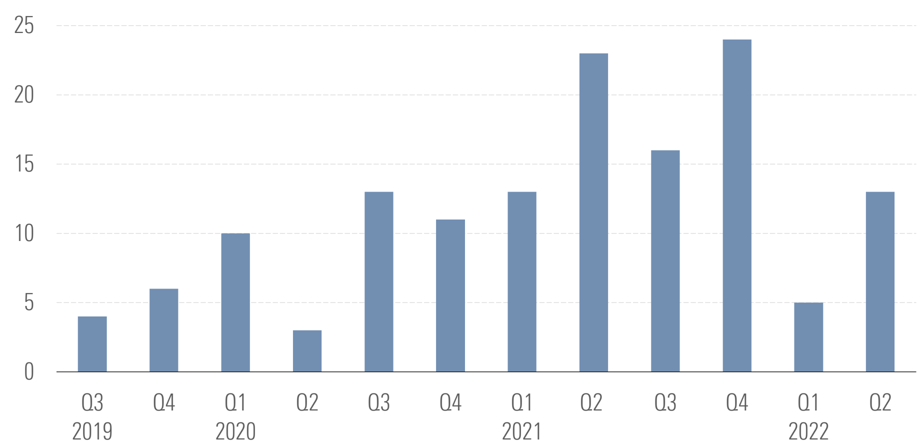


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Launches

More new sustainable funds came to the Japanese market in the second quarter 2022 relative to the previous quarter (13 versus 5). These included seven active funds and six passive funds. Among the new launches, **Next Funds Solactive Japan ESG Core Index ETF** recorded the largest net inflows (USD 428 million). This ETF managed by Nomura Asset Management invests in Japanese large- and mid-cap companies that meet the ESG standards set by Solactive, the provider of the fund's underlying index. Net inflows into newly launched funds in the quarter were USD 609 million in total, a main driver of inflows during the quarter.

Exhibit 31 Japanese Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Regulatory Update

In Japan, the Financial Services Agency published new supervisory expectations for asset-management firms providing ESG funds. An overarching principle requires investment processes to be strengthened on a continuous basis, and for clear explanations and disclosures that enable investors to make appropriate investment decisions. The expectations extend to strengthening the organizational structure around ESG research and investment as well as increased stewardship activity. Disclosures are also covered, particularly fund names, a necessity to explain and disclose more clearly how products meet the characteristics implied by the names including references such as "ESG," "SDG," and "impact."

Asia ex-Japan

For funds of which full quarterly data was unavailable at the time of publication, we used the most recent data available within the past quarter. Since China's data was not available at the time of publication, we used first-quarter 2022 data as a proxy for a second-quarter 2022 data.

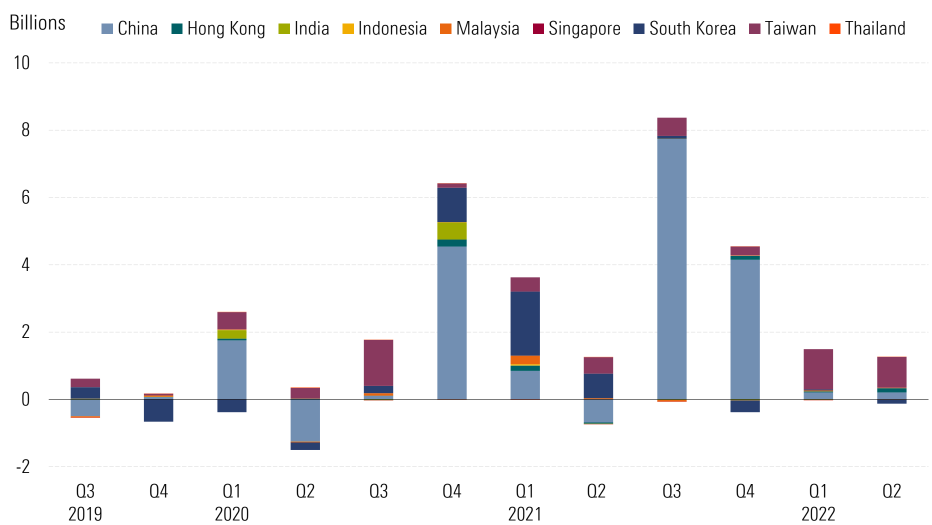
Flows

Excluding China, the Asia ex-Japan region recorded net flows of USD 929 million into sustainable funds during the second quarter of 2022. This is lower than the USD 1,271 million in net inflows in first-quarter 2022.

Sustainable fund flows in Taiwan continued to be the highest i the region, reaching USD 911 million over the second quarter. Hong Kong recorded USD 129 million of inflows, while flows in Thailand increased from negative USD 2 million to positive USD 0.8 million. By contrast, South Korea, India, and Indonesia experienced net outflows over the quarter.

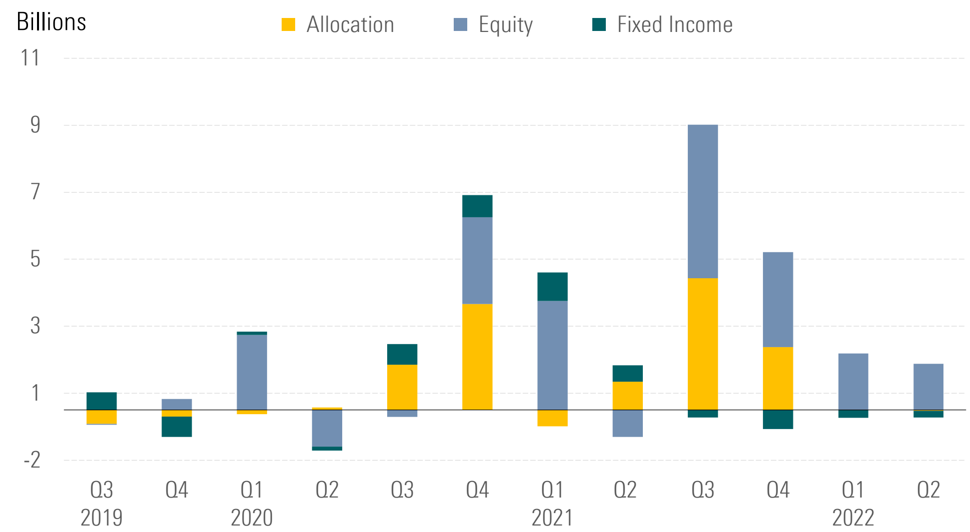
South Korea saw USD 123 million in net outflows. The largest outflows occurred in fixed-income funds, including **Woori High Plus Short-Term Feeder Superior ESG Bond**, **KIM Credit Focus Feeder ESG Bond**, and **KIM e Short-Term ESG Bond**. On the other hand, some equity funds, including **Tiger Innovator ESG30 ETF** and **Midas SRI Equity**, continued to experience net inflows.

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



Source: Morningstar Direct, Manager Research. Data as of w0 June 2022.

Exhibit 33 Asia ex-Japan Sustainable Fund Flows by Asset Class (USD Billion)

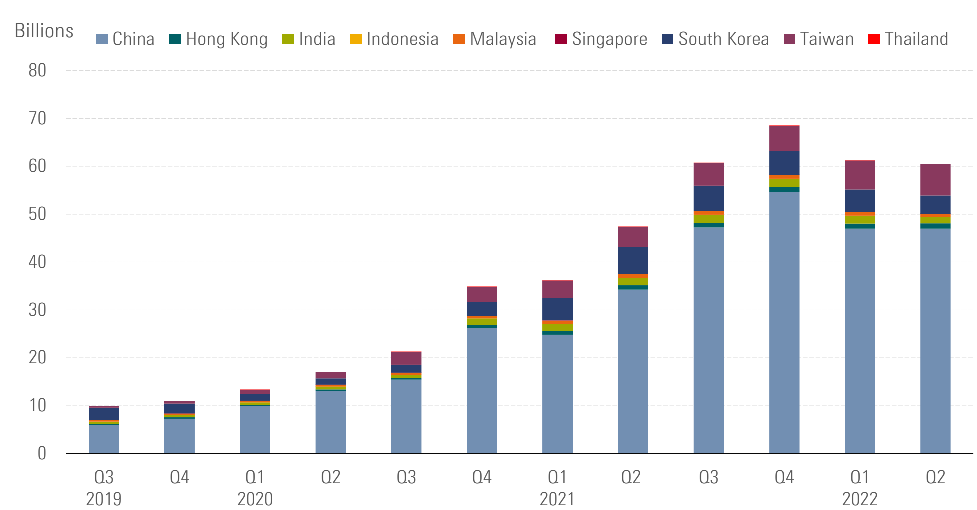


Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Assets

Total assets in Asia ex-Japan sustainable funds were slightly down at the end of June 2022, at USD 61 billion in second-quarter 2022, registering a decrease of just 1.3% quarter over quarter. Outside of China (for which data was not available at the time of publication), Taiwan and South Korea remained the two largest markets by asset size, accounting for 10.8% and 6.3% of the region's assets, respectively. However, South Korea's sustainable fund assets continued their tumble from last quarter, losing 18.7% in the second quarter, and a whopping 32.1% since they peaked at USD 5.6 billion in the second quarter of 2021.

Exhibit 34 Asia ex-Japan Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Following a quarter-over-quarter decline of 13.5% in assets, the fixed-income asset class represented 4.7% of Asia ex-Japan ESG assets in second-quarter 2022, while equities composed 60.9% and allocation funds made up the remaining 34.4%.

Passive ESG funds accounted for 26.6% of Asia ex-Japan sustainable fund assets in second-quarter 2022, which was a slight increase from 25.2% in first-quarter 2022.

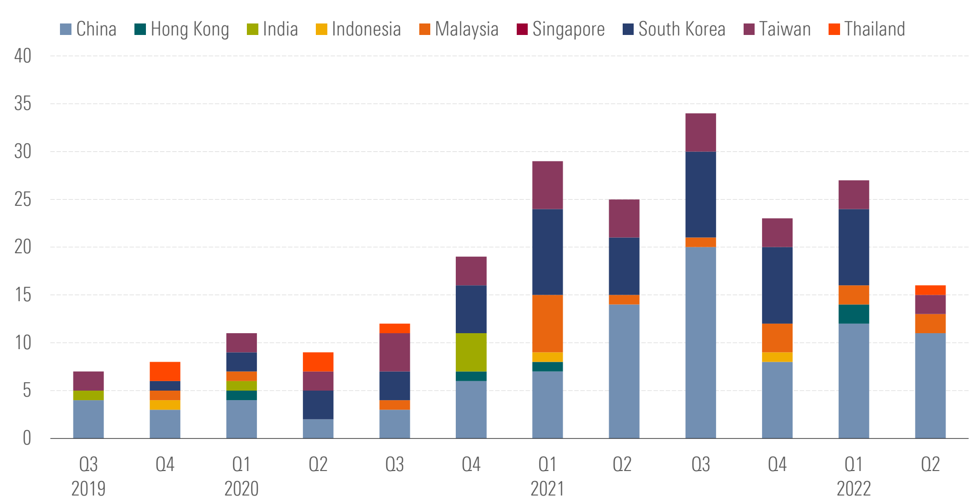
Launches

Product development slowed down in the second quarter. There were 16 new sustainable fund launches in Asia ex-Japan in the second quarter, including 11 in China, two in Malaysia, two in Taiwan, and one in Thailand. Interestingly, South Korea experienced zero new sustainable fund launches this quarter, the first such instance since fourth-quarter 2019.

Similar to last quarter, allocation and equity funds dominated the new launches, constituting 10 and six each, respectively. Out of the 16 new launches, just two were passive funds, **AXA SPDB CSI Photovoltaic Industry ETF** (a thematic solar energy industry ETF), and **Harvest CNI Green Electricity ETF**. Climate-related fund launches continued to be popular in China, with four new clean energy-themed active strategies and two low-carbon themed launches, including **ChinaAMC Low-Carbon Economy One-Year Holding Balanced** and **Tianhong Low-Carbon Economy Blend Equity Investment**.

Of the launches with fund size data available, the Taiwan-domiciled **CTBC ESG Carbon Transition Multi-Asset** was the largest, amassing over USD 53 million in assets by the end of June 2022. Other launches in the region included the Malaysia-domiciled **Hong Leong Global ESG** and Thailand-domiciled **Principal Global Equity ESG**.

Exhibit 35 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of 30 June 2022.

Regulatory Updates

New ESG regulations continued to be rolled out across the Asia ex-Japan region. In May 2022, the China Securities Regulatory Commission issued new investor relations guidelines to improve corporate governance and strengthen company communications with investors, including increased ESG-related disclosures. As another step in improving ESG disclosure in the country, in June, the China Enterprise Reform and Development Society introduced new standards that include an indicator system for the disclosure of scientific and measurable ESG information. Also in June, the Taiwan Stock Exchange established a new ESG disclosure platform as part of its road map for sustainable development published by Taiwan's Financial Supervisory Commission last quarter.

Elsewhere in Asia, the Hong Kong Stock Exchange launched a public repository on issue board diversity and the Singapore Stewardship Principles for Responsible Investors were updated to reflect capital market developments and ESG considerations. In Thailand, the SEC partnered with the non-profit Carbon Disclosure Project to develop a program to improve environmental disclosures and the Stock Exchange of Thailand published a new sustainability reporting guide in May 2022.

Authors of This Report

Hortense Bioy, CFA
Global Director of Sustainability Research,
Manager Research

Europe
Samiya Jmili
ESG Analyst, Manager Research

Andy Pettit
Director, Policy Research

North America
Alyssa Stankiewicz
ESG Analyst, Manager Research

Abdulai Mohamed, CFA
Manager Research analyst

Australia
Erica Hall
ESG Analyst, Manager Research

Asia
Hiroaki Sato, CFA
Associate Director, Manager Research

Andy Seunghye Jung, CFA
Director, Manager Research

Hunter Beaudoin
Manager Research Analyst

With the contribution of
Marta Jimenez
Data Research analyst

Amrutha Alladi
Quantitative analyst, Quantitative Research

Appendix—Defining the Global Sustainable Fund Universe

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

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

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

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

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

To identify sustainable funds in their respective regions, manager research analysts rely heavily on the "Sustainable Investment–Overall" data point in Morningstar Direct. For Europe, the largest and fastest evolving ESG market, research analysts have, for the past two quarterly reviews, used natural-language-processing technology to facilitate the timely identification of new and repurposed funds that meet our criteria. As a result, the European sustainable fund universe as reported in this paper likely differs from the universe of European funds tagged as sustainable in the Morningstar Direct database.

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Morningstar Manager Research Services
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MORNINGSTAR®

22 West Washington Street
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