Global Sustainable Fund Flows: Q3 2024 in Review

The flow recovery continues but remains timid.

Morningstar Sustainalytics
24 October 2024

Contents

Hortense Bioy, CFA
Head of Sustainable Investing Research
Morningstar Sustainalytics

Boya Wang, Ph.D.
ESG Analyst, Morningstar Sustainalytics

Noemi Pucci
ESG Quantitative Associate Analyst
Morningstar Sustainalytics

Arthur Carabia
Director of Policy Research, Morningstar

Shamir Popat
Senior Analyst, Morningstar Manager Research

Hunter Beaudoin
Analyst, Morningstar Manager Research

Risa Mizuta
Analyst, Morningstar Manager Research

Biddappa A R
Senior Quantitative Analyst, Morningstar

Key Takeaways

- In the third quarter of 2024, the global universe of sustainable open-end and exchange-traded funds attracted an estimated USD 10.4 billion of net new money, a notable uptick from the restated inflows of USD 6.3 billion in the second quarter.
- European sustainable funds garnered almost USD 10.3 billion, slightly down from the restated USD 11.1 billion in the previous quarter.
- In the US, redemptions from sustainable funds in the third quarter amounted to USD 2.3 billion, half of the USD 4.7 billion registered in the second quarter.
- There were reduced outflows in Japan, too, while sustainable funds in the rest of Asia continued to attract new money.
- Supported by stock price appreciation, global sustainable fund assets expanded by 6% to almost USD 3.3 trillion at the end of September 2024, boosted by market price appreciation.
- Global product development continued on a downward trajectory with 57 new sustainable fund launches in the third quarter. While this number is likely to be revised upward, it confirms the normalization of product development activity in this space.
- Meanwhile, fund closing and rebranding activity continued. In Europe, 102 sustainable funds closed or merged in the third quarter, bringing the total to 349 so far this year. Also, 113 products changed names, 50 of which dropped ESG key terms. In the US, a total of 12 sustainable funds were liquidated, outpacing new launches for the fifth consecutive quarter.
- We expect changes to the universe of sustainable funds to intensify in the coming months ahead of looming deadlines for new anti-greenwashing regulations, including the EU's fund naming rules.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses opened-end funds and exchange-traded funds that, through their prospectus or other regulatory filings, claim to focus on sustainability, impact, or environmental, social, and governance factors.[1] (See the Appendix for more details on how we define the global sustainable fund universe.) The global universe is divided into three segments by domicile: Europe, the United States, and Rest of World. There is more granular data available in this report for Canada, Australia and New Zealand, and Japan. Meanwhile, China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea are grouped under Asia ex-Japan because of their relatively low levels of assets.

1 Note: Our definition of "sustainable fund" is not based on any regulatory framework, nor does it meet the criteria of any particular regulatory framework. The term "sustainable" in Morningstar products is currently under review to align with market expectations. See Appendix for further details.

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

Exhibit 1 Global Sustainable Fund Statistics

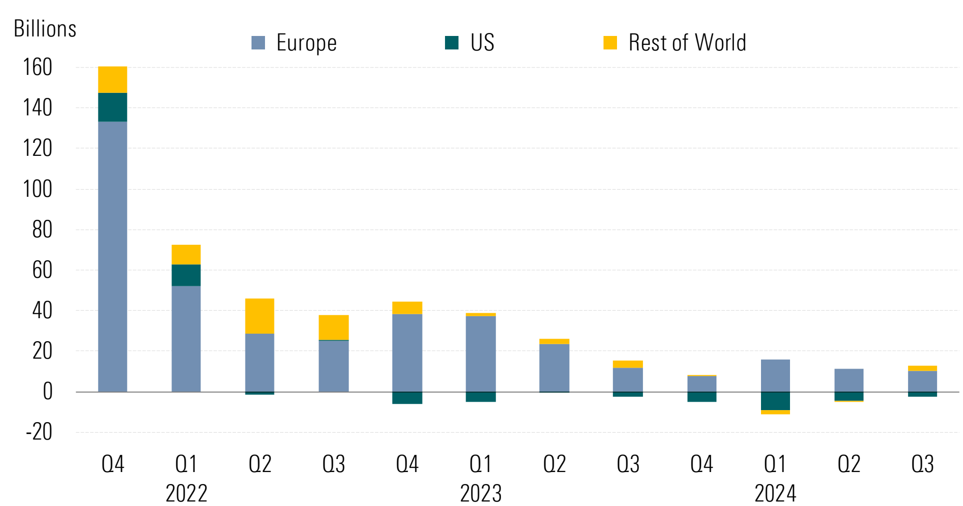
	Flows Q2 2024	Flows Q3 2024	Assets		Funds	
Region	USD Billion	USD Billion	USD Billion	% Total	#	% Total
Europe	11.1	10.3	2,775	84	5,498	72
United States	-4.7	-2.3	353	11	595	8
Asia ex-Japan	3.1	2.5	64	2	619	8
Canada	-1.4	-0.1	37	1	324	4
Australia/New Zealand	-0.6	0.6	34	1	267	4
Japan	-1.3	-0.6	24	1	306	4
Total	**6.3**	**10.4**	**3,287**		**7,609**	

Source: Morningstar Direct. Data as of September 2024, excluding money market funds, funds of funds, and feeder funds. For Canada and the US, the number of funds includes funds of funds and feeder funds (these are, however, excluded from flow and asset calculations). For Japan and South Korea, the number of funds, flows, and assets includes funds of funds and feeder funds.

The flow recovery of the global universe of sustainable funds extended to the third quarter of 2024, netting USD 10.4 billion, compared with the restated USD 6.3 billion inflows in the previous quarter. The recovery benefited mostly from the decelerated outflows in the US, Japan, and Canada, while Europe registered slightly lower inflows compared with the previous quarter.

Calculated as net flows relative to total assets at the start of a period, the organic growth rate of the global sustainable fund universe inched higher to 0.33 % in the third quarter, from the restated 0.20% three months ago. This is much lower than the 0.77% organic growth experienced by the broader funds universe, which posted aggregate inflows of USD 373 billion.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

Europe, by far the world's largest market for sustainable funds, attracted USD 10.3 billion in the third quarter, a marginal decrease compared with the restated inflows of USD 11.1 billion in the previous quarter. Meanwhile, the US market continued bleeding money but redemptions halved to USD 2.3 billion from the restated USD 4.7 billion in the second quarter, indicating a potential move toward market stabilization.

Redemptions decelerated in Canada, too, as it experienced outflows of just USD 69 million compared with the USD 1.4 billion of the previous quarter.

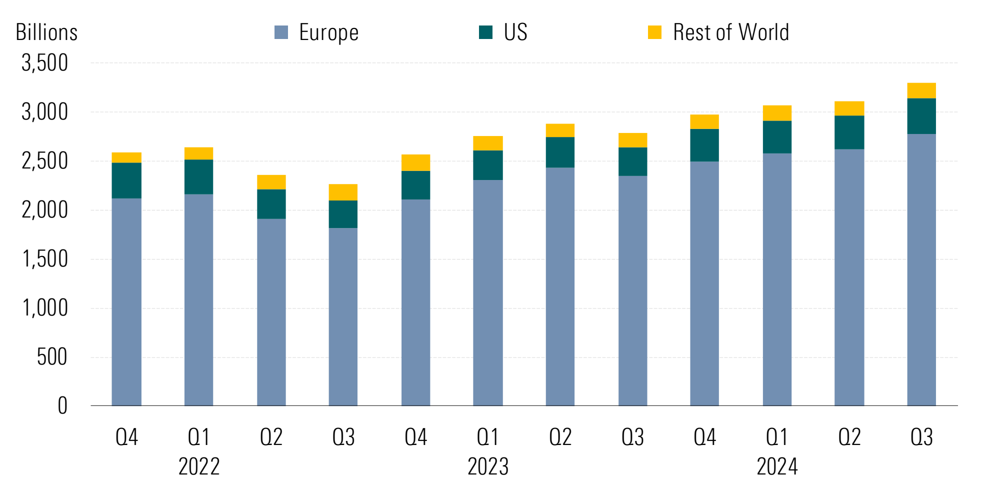
The Asia-Pacific universe of sustainable funds showed a mixed flow picture in the third quarter, with inflows of USD 3.1 billion into the Asia ex-Japan ex-China region. Taiwan contributed greatly to these subscriptions with inflows of USD 2.4 billion. In Japan, redemptions were reduced to USD 590 million, from USD 1.3 billion for the second quarter. Meanwhile, investors in Australia and New Zealand allocated USD 640 million to sustainable strategies in the third quarter of 2024.

Global Assets Rose to New High

Following two quarters of almost stagnant growth, global sustainable fund assets rose by 6% to USD 3.3 trillion from the restated USD 3.1 trillion in the previous quarter. This aggregate growth was roughly in line with the performance of the market. For context, both the Morningstar Global Market Index and the Morningstar Global Core Bond Index gained 6.6% and almost 6.9%, respectively.

Europe takes up 84% of global sustainable fund assets, followed by the United States at 11%.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

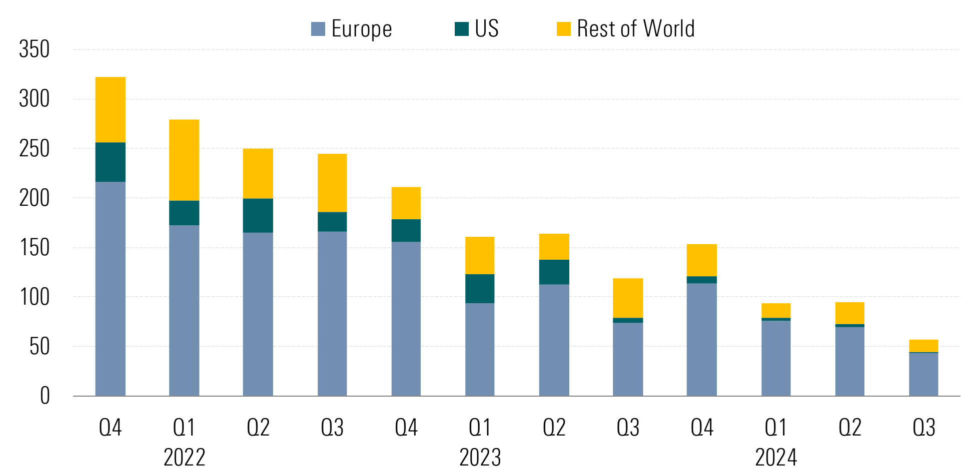


Source: Morningstar Direct. Data as of September 2024.

Global Fund Launches

Product development slid to a new low in the third quarter of 2024, with only 57 new sustainable funds introduced worldwide. This number, however, will likely be revised upward in the next report as additional launches are identified.

Exhibit 4 Global Sustainable Fund Launches Per Quarter



Source: Morningstar Direct. Data as of September 2024.

The first three quarters of 2024 saw 246 new sustainable funds come to market globally, compared with 444 over the same period last year. The cooldown reflects a normalization of the sustainable product development activity after three years of high growth, during which almost every asset-management firm hastened to build core sustainable fund ranges to meet the growing demand. Managers are now more selective and tactical in their approach to product launches. Many are also waiting for the finalization and implementation of European regulations, such as the UK's Sustainability Disclosure Requirements and the EU's Sustainable Finance Disclosure Regulation, as these will determine the requirements for new sustainable strategies.

BlackRock Tops the League Assets Table

Below we list the top asset managers marketing sustainable funds globally. BlackRock, the world's largest manager, dominates the sustainable investing space, with over USD 423 billion of assets in environmental, social, and governance-focused open-end funds and ETFs. UBS was a distant second with a total AUM of USD 192 billion, closely followed by Amundi's USD 187 billion.

Exhibit 5 Top Asset Managers by Global Sustainable Fund Assets

Overall

Firm	(USD Billion)
BlackRock (incl. iShares)	423.3
UBS (incl. Credit Suisse)	191.5
Amundi (incl. Lyxor)	187.4
DWS (incl. Xtrackers)	107.1
Swisscanto	102.0
BNP Paribas	88.1
Nordea	85.5
Natixis	83.8
KBC	61.0
Northern Trust	60.6
Vanguard	58.8
Allianz Global Investors	51.1
Pictet	49.7
Handelsbanken	43.6
Parnassus	40.3
JPMorgan	38.5
Royal London	37.9
Eaton Vance	37.2
Union Investment	36.0
Goldman Sachs (incl. NNIP)	33.6

Actively Managed

Firm	(USD Billion)
BlackRock (incl. iShares)	103.8
Amundi (incl. Lyxor)	85.5
Nordea	85.5
Natixis	81.0
UBS (incl. Credit Suisse)	79.0
KBC	60.9
DWS (incl. Xtrackers)	59.4
Swisscanto	57.5
BNP Paribas	55.0
Allianz Global Investors	51.1
Pictet	48.3
Parnassus	40.3
Union Investment	36.0
JPMorgan	35.3
Goldman Sachs (incl. NNIP)	33.5
AXA IM	32.5
Royal London	30.2
Vontobel	30.0
Robeco	29.8
Schroders	28.8

Passively Managed

Firm	(USD Billion)
BlackRock (incl. iShares)	319.5
UBS (incl. Credit Suisse)	112.5
Amundi (incl. Lyxor)	101.9
Northern Trust	55.9
Vanguard	55.3
Blue Horizon	47.8
DWS (incl. Xtrackers)	47.8
Swisscanto	44.5
Handelsbanken	38.4
BNP Paribas	33.1
State Street	27.9
Länsförsäkringar	22.2
Legal & General	20.2
Invesco	17.0
Eaton Vance	11.2
Cathay Securities Investme	10.6
HSBC	9.9
Scottish Widows	7.9
Royal London	7.7
Capital Investment Trust	7.7

Source: Morningstar Direct. Data as of September 2024.

Quarterly Statistics Per Domicile

Europe

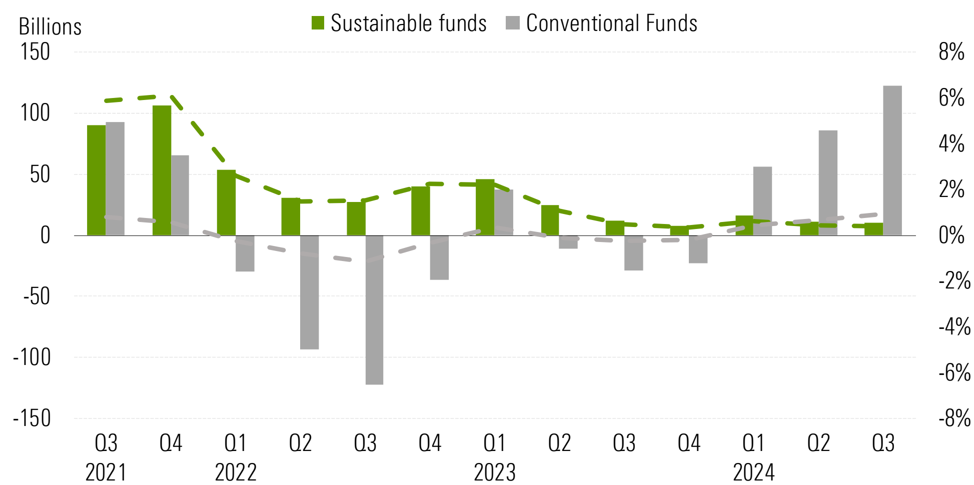
European Sustainable Fund Flows Continue Their Downward Trend

European-domiciled sustainable funds garnered USD 10.3 billion in the third quarter of 2024, falling short of the restated inflows of USD 11.1 billion in the second quarter and the restated inflows of USD 16.0 billion in the first quarter of 2024. In the first nine months of the year, European sustainable funds garnered just over USD 37 billion compared with USD 73 billion in the first nine months of 2023.

The minor decrease of inflows in the European sustainable fund universe translated into a lower organic growth rate[2] of just under 0.40% from the 0.43% of the previous quarter. This flow deceleration compares unfavorably to the increased organic growth rate of 0.67% for the conventional fund universe, which garnered over USD 122 billion, up from the restated USD 85 billion in the previous quarter.

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

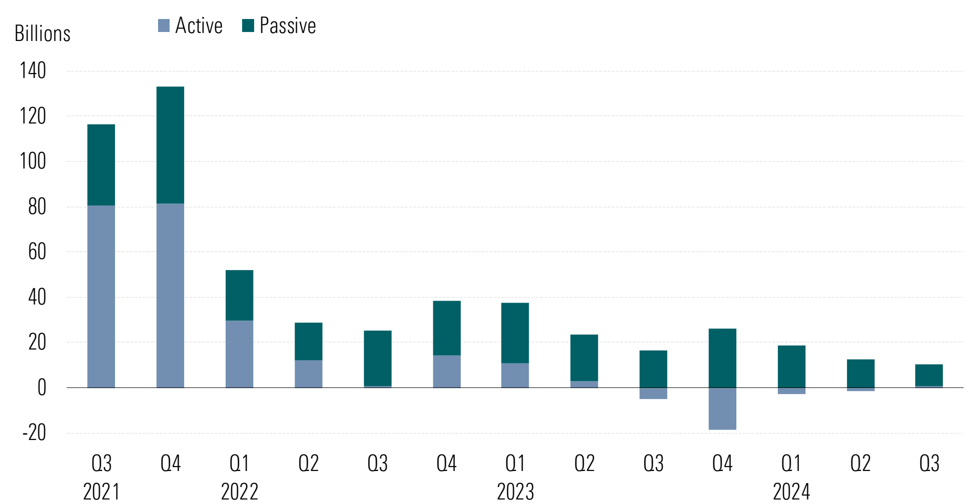
Exhibit 6a European Sustainable Fund Flows Compared With Conventional Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

For the first time in five quarters, European active sustainable funds registered an inflow. The almost USD 508 million was a notable uptick from the restated USD 1.5 billion redemptions seen in the previous quarter. Meanwhile, the USD 10.0 billion flow into passive sustainable funds was an all-time low, down from the restated USD 12.6 billion in the second quarter.

Exhibit 6b European Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

The third quarter of 2024 continued seeing mixed flow performances across asset classes. Flows into sustainable equity funds rose to USD 3.2 billion from the restated USD 2.4 billion inflows in the previous quarter, keeping pace with the broader conventional equity universe, which also registered an expansion of inflows in the same quarter. But this new inflow of USD 3.2 billion paled in comparison to the large inflows of USD 42.7 billion for conventional equity funds.

Exhibit 7 European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

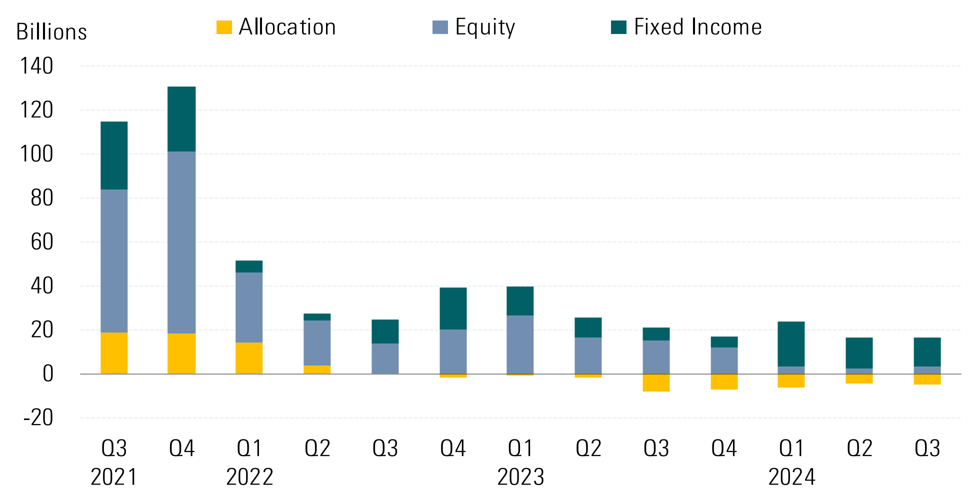
USD Billion	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q2 2024	Q3 2024	Q2 2024	Q3 2024	Q2 2024	Q3 2024
Allocation	-4.3	-4.9	-11.3	-2.2	-15.6	-7.1
Alternative	0.0	0.1	-0.5	0.8	-0.5	0.9
Commodities	0.0	0.0	-2.5	-0.5	-2.5	-0.5
Convertibles	-0.5	-0.3	-1.1	-0.9	-1.6	-1.2
Equity	2.4	3.2	29.0	42.7	31.4	45.9
Fixed Income	14.3	13.4	72.5	83.4	86.8	96.7
Miscellaneous	-0.2	-0.2	1.4	1.7	1.2	1.5
Property	-0.6	-0.9	-2.0	-2.5	-2.6	-3.4
Total	**11.1**	**10.3**	**85.6**	**122.4**	**96.7**	**132.7**

Source: Morningstar Direct. Data as of September 2024.

On the fixed-income side, flows into sustainable funds were USD 13.4 billion, slightly lower than the previous quarter. In comparison, conventional bond strategies brought in USD 83.4 billion as investors rushed to lock in attractive yields that offer sound downside protection against price changes. With bond market pricing now aligned with expectations of modest rate cuts and inflation appearing as less of a risk, the bond market offers a better trade-off between carry and potential yield volatility, keeping it a potentially favorable area.

Conversely, allocation funds maintained a trend of outflows, at USD 4.9 billion.

Exhibit 8 European Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

Leaders and Laggards

Among the bestselling sustainable funds in the third quarter of 2024, we find a couple of **BlackRock ESG Insights Equity** funds, which tilt toward companies with higher ESG scores (relative to other companies in the same or similar industries).

Exhibit 9a Top 10 European Sustainable Fund Flows in Q3 2024

Fund Name	Net Flows (USD, Million)
BlackRock World ESG Insights Equity Fund	2,380
JPMorgan US Research Enhanced Index Equity (ESG) ETF	1,601
BlackRock Global Credit ESG Insights Bond Fund	1,593
DNCA Invest Alpha Bonds	1,408
Xtrackers S&P 500 Equal Weight ESG ETF	1,239
JPMorgan Global Research Enhanced Index Equity (ESG) ETF	1,174
Blackrock North America ESG Insights Equity	1,118
Nordea Global Developed Responsible Enhanced Equity Fund	1,096
Northern Trust World Custom ESG Equity Index Fund	1,031
Nordea Global Stars Equity Fund	966

Source: Morningstar Direct. Data as of September 2024.

At the other end of the flow table, we also find another two BlackRock ESG Insights strategies, which together saw more than USD 3 billion in redemptions over the past three months. Meanwhile, **Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF** and **Amundi MSCI World Climate Paris Aligned PAB** combined to bleed over USD 1.3 billion in the third quarter. The former suffered nearly USD 1.3 billion of outflows in the previous quarter. **Royal London UK Core Equity Tilt** remained in the table after the outflows reduced to less than USD 700 million from the previous quarter's USD 1.76 billion.

Exhibit 9b Bottom 10 European Sustainable Fund Flows in Q3 2024

Fund Name	Net Flows (USD, Million)
Blackrock US Equity Tracker Fund	-3,739
BlackRock Coutts UK ESG Insights Equity Fund	-2,019
1895 Wereld Bedrijfsobligaties Fonds	-1,373
iShares ESG Overseas Corporate Bond Index Fund (UK)	-1,250
BlackRock Coutts US ESG Insights Equity Fund	-1,162
Pictet Clean Energy Transition	-683
Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF	-680
Royal London UK Core Equity Tilt Fund	-672
JPMorgan Carbon Transition Global Equity (CTB) ETF	-655
Amundi MSCI World Climate Paris Aligned Pab	-649

Source: Morningstar Direct. Data as of September 2024.

In the third quarter of 2024, the top 10 bestselling firms collectively netted USD 17.6 billion in aggregate inflows, significantly lower than the previous quarter's performance of USD 26.0 billion. Nordea was the leading flow gatherer at over USD 3 billion. J.P. Morgan came in second after surpassing Swisscanto.

Exhibit 10a Top 10 European Sustainable Fund Providers by Flows in Q3 2024

Firm	Net Flows (USD Million)
Nordea	3,121
JPMorgan	2,717
Swisscanto	2,506
Northern Trust	2,301
Natixis	1,899
Ruth Asset Management	1,235
Cardano Asset Management	1,229
Handelsbanken	1,048
Fidelity International	808
Länsförsäkringar	762

Source: Morningstar Direct. Data as of September 2024.

BlackRock went from the top 10 leaderboard in the second quarter to second place among the flow laggards in the third quarter with redemptions of USD 2.2 billion. It was the first time BlackRock didn't feature in the bestselling firm table. Meanwhile, Eurizon continued as the top flow laggard after bleeding over USD 2.4 billion in the third quarter. KBC moved from the top-10 leaderboard last quarter to third place of the flow laggards this quarter with redemptions totaling almost USD 1.8 billion. Pictet's redemptions marginally moderated to USD 1.6 billion from last quarter's USD 1.7 billion.

Exhibit 10b Bottom 10 European Sustainable Fund Providers by Flows in Q3 2024

Firm	Net Flows (USD Million)
Eurizon	-2,401
BlackRock (incl. iShares)	-2,203
KBC	-1,780
Pictet	-1,608
LBP AM	-1,047
Sienna Gestion	-701
abrdn	-682
Candriam	-656
Liontrust	-511
Ninety One	-494

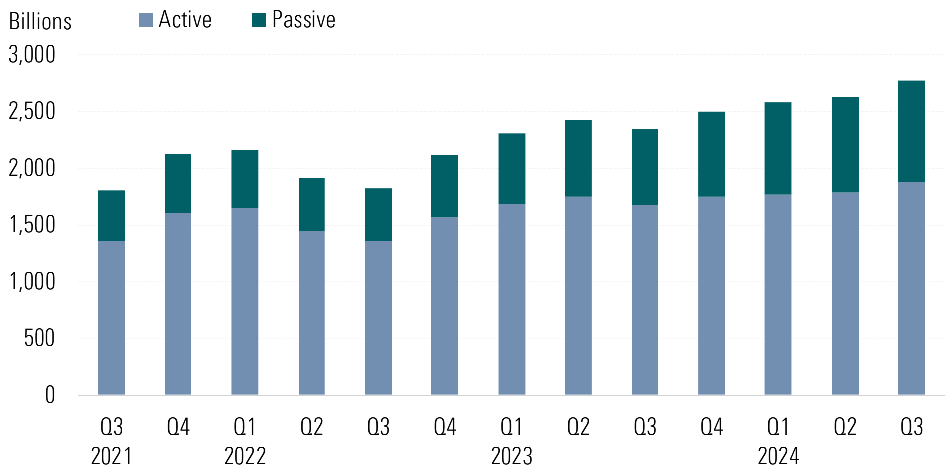
Source: Morningstar Direct. Data as of September 2024.

European Sustainable Fund Assets

Despite minor changes in net flows, assets in European sustainable funds rose by almost 6% to USD 2.8 trillion from the previous quarter's restated USD 2.6 trillion. This aggregate growth was roughly in line

with the performance of the market. For context, the Morningstar Global Market Index and the Morningstar Global Core Bond Index gained 6.6% and almost 6.9%, respectively.
Passive strategies take up almost one third of the regional sustainable fund space.

Exhibit 11a European Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

BlackRock, UBS, and Amundi Dominate the Sustainable Fund Landscape

Presented below are the foremost asset managers distributing sustainable funds across Europe. BlackRock, the global leader in asset management, continues to dominate the sustainable investing arena, managing a substantial USD 349 billion in ESG-focused open-end assets and ETFs in Europe at the end of the third quarter of 2024, a 16% growth compared with the second quarter. In a distant second was UBS, which overtook Amundi in the previous quarter, with a total AUM of over USD 190 billion.

While Amundi remains a top manager of actively managed sustainable funds in Europe, its leadership was taken by BlackRock, whose AUM rose to USD 82 billion. In the passive space, the top three positions stayed unchanged.

Exhibit 11b Top Asset Managers by Sustainable Fund Assets in Europe

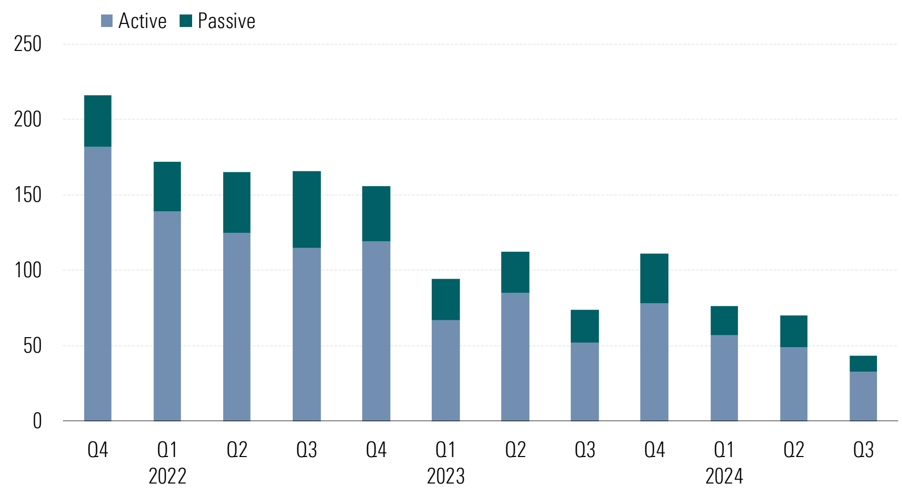
Overall		***Actively Managed***		***Passively Managed***	
Firm	**Total Assets (USD Billion)**	**Firm**	**Total Assets (USD Billion)**	**Firm**	**Total Assets (USD Billion)**
BlackRock (incl. iShares)	348.7	BlackRock (incl. iShares)	81.9	BlackRock (incl. iShares)	266.9
UBS (incl. Credit Suisse)	190.8	Natixis	79.4	UBS (incl. Credit Suisse)	112.2
Amundi (incl. Lyxor)	180.6	UBS (incl. Credit Suisse)	78.6	Amundi (incl. Lyxor)	102.0
Swisscanto	102.0	Amundi (incl. Lyxor)	78.5	Northern Trust	53.1
DWS (incl. Xtrackers)	101.2	Nordea	64.7	Swisscanto	44.5
BNP Paribas	87.7	DWS (incl. Xtrackers)	58.8	DWS (incl. Xtrackers)	42.5
Natixis	82.2	Swisscanto	57.5	Handelsbanken	38.6
Nordea	64.7	BNP Paribas	54.6	BNP Paribas	33.1
Northern Trust	57.3	Allianz Global Investors	50.9	State Street	24.9
Allianz Global Investors	50.9	Pictet	48.0	Länsförsäkringar	22.2
Pictet	49.4	KBC	37.9	Legal & General	18.0
Handelsbanken	43.7	Union Investment	36.0	Vanguard	16.4
KBC	37.9	JPMorgan	34.7	Invesco	10.3
Royal London	37.9	Goldman Sachs (incl. NN	33.3	HSBC	9.9
JPMorgan	37.8	AXA IM	32.1	Scottish Widows	7.9
Union Investment	36.0	Royal London	30.2	Royal London	7.7
Goldman Sachs (incl. NNIP)	33.4	Vontobel	30.0	Mercer Global Investmen	7.4
AXA IM	32.3	Robeco	29.8	Cardano Asset Managem	6.6
State Street	30.4	Schroders	28.3	OP	5.0
Vontobel	30.0	Eurizon	26.5	VanEck	4.7

Source: Morningstar Direct. Data as of September 2024.

Sustainable Fund Launches and Closures

The third quarter of 2024 registered the lowest number of new sustainable fund launches in recent years, 43 from the restated 70 funds launched in the previous quarter and from the 76 incepted in the third quarter of last year. As we continue to analyze the data and identify additional launches, we expect this number to be adjusted upward in the next report.

Exhibit 12a European Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

The continued slowdown in product development is also reflected in the number of conventional strategy launches, which remain low by historical standards. Over the past three months, 270 conventional strategies were launched in Europe, down also from the restated 350 for the previous quarter, but as with sustainable funds, this number of 270 will likely be adjusted upward as we continue to analyze the data and identify additional launches.

Additionally, the cooldown reflects a normalization of the sustainable product development activity after three years of high growth, during which almost every asset-management firm hastened to build their core sustainable fund ranges to meet the growing demand. Asset managers have also become more cautious in their development of new ESG and sustainable strategies because of greenwashing accusations and uncertainty around regulations. Many are waiting for the finalization and implementation of European regulations, especially the EU's SFDR, as the result of its review, expected by the end of the year, will determine the requirements for new sustainable strategies.

For more details on SFDR read: SFDR Article 8 and Article 9 Funds: Q3 2024 in Review.

The table below shows the 10 largest new fund launches in the third quarter. The vast majority of the newly incepted sustainable funds in Europe are classified as Article 8 under the SFDR.

Exhibit 12b Top 10 European Sustainable Fund Launches in Q3 2024

Fund Name	SFDR Fund Type	Size (USD Million)
Kapital Plus	Article 8	3,582
BlackRock Sustainable Advantage World Equity Fund	Article 8	988
Ruth Core Global Equities	Article 9	760
Natixis Loomis Sayles Sustainable Global Corporate Bond Fund	Article 8	199
BNP Paribas Easy Sustainable Japan ETF	Article 8	192
Ruth Global Change Equities	Article 9	182
Nuveen Global Credit Impact Bond Fund	Article 9	180
Ruth Core Nordic Small Cap	Article 9	163
Ruth Core Global Small Cap	Article 9	144
Swisscanto (LU) Equity Fund Sustainable Digital Economy	Article 9	130

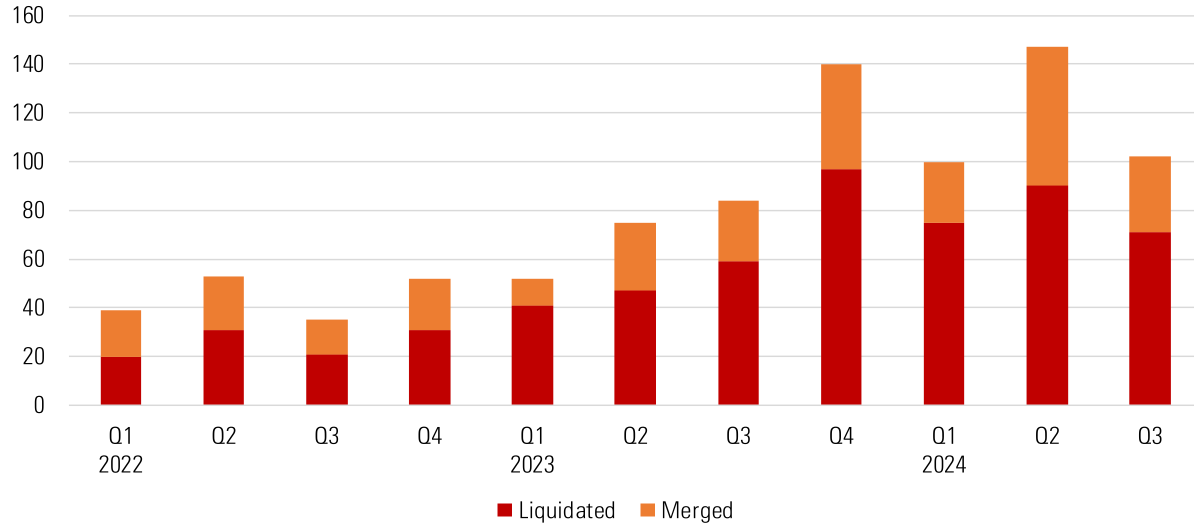
Source: Morningstar Direct. Data as of September 2024.

Among the top European sustainable funds, **Kapital Plus** stands out not only as the largest but also the only new allocation strategy to incorporate various sustainability approaches, including socially responsible investing, climate engagement, and strategies applied to green, social, sustainability, and sustainability-linked bonds.

Included in the table were six Article 9 strategies, including four **Roth Core** equity funds and **Swisscanto (LU) Equity Fund Sustainable Digital Economy**. The latter focuses on companies contributing to the Sustainable Development Goals by offering technologies, products, or services related to agriculture technology, healthcare or life sciences, cybersecurity, digital banking, cloud computing, and IT services. The Article 9 strategy also considers the so-called digital economy adopters based on their levels of investment to promote digital transformation, the integration of digital strategies into entire business models, and the degree of process automation in customer and employee activities.

Meanwhile, 102 sustainable funds were closed or merged in the third quarter, including 71 liquidated funds and 31 merged ones. Since the beginning of the year, we have identified 349 sustainable funds that closed, of which 236 were liquidations and 113 were mergers. Thus, this year's sustainable fund closures are on course to surpass the 351 closures for the whole of last year, which saw the highest closure activity since the last quarter of 2023.

Exhibit 13 European Sustainable Fund Closures

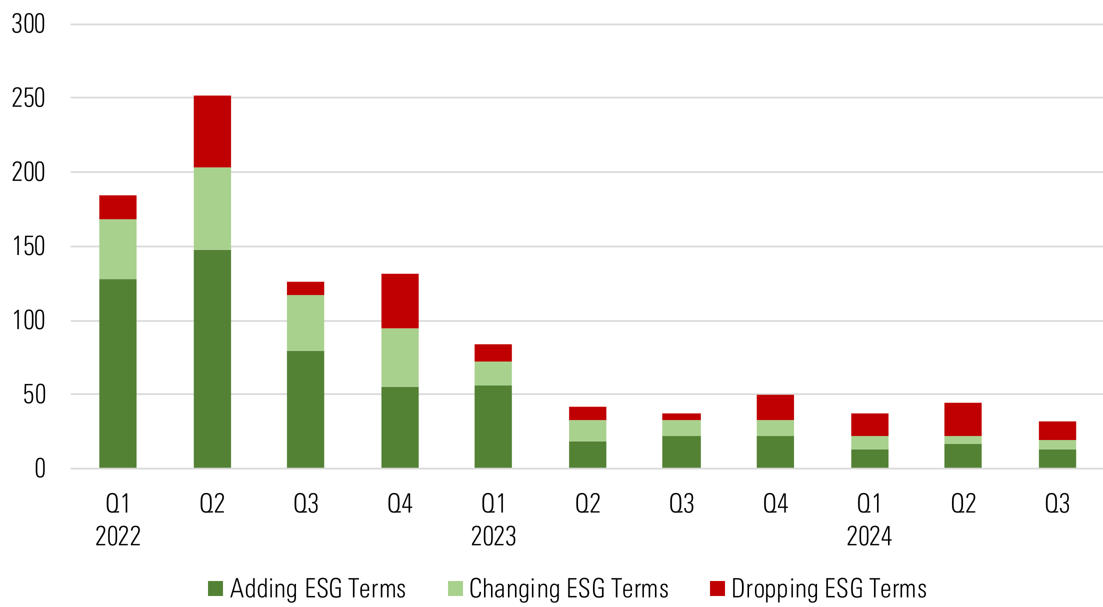


Source: Morningstar Direct. Data as of September 2024.

Sustainable Funds Rebranding

Fund launches and closures are not the only activities shaping the landscape of sustainable funds. Asset managers have also been adding, dropping, and changing the names of existing funds, reflecting changes in both investment objectives and portfolios. The strong activity of adding ESG-related terms to fund names observed between 2019 and 2022 slowed down in 2023 to give way to a new trend of funds dropping ESG terms, which has become more pronounced since the fourth quarter of 2023.

Exhibit 14 European Sustainable Fund Name Changes



Source: Morningstar Direct. Data as of September 2024. Based on 1,132 European ESG funds adding, dropping, or changing sustainability- or ESG-related terms in their names between 2022 and 2024.

For the year to date through September, 113 European sustainable funds have changed names, of which 43 added ESG-key terms, 50 dropped ESG-key terms, and 20 swapped ESG-key terms.

In the third quarter alone, 13 funds added ESG terms to their names, including **Baillie Gifford Worldwide Responsible Global Alpha Paris-Aligned** (formerly known as **Baillie Gifford Worldwide Global Alpha Choice**), **BNY Mellon Sustainable Global Multi-Asset** (formerly known as **BNY Mellon Global Unconstrained**), and **Amundi MSCI Europe ex EMU ESG Leaders ETF** (formerly known as **Amundi ETF MSCI Europe ex EMU ETF**).

Meanwhile, 13 sustainable funds dropped ESG key terms from their names in the third quarter. Examples include **Neuberger Berman Global Value** (formerly known as **Neuberger Berman Global Sustainable Value**), **Fidelity Emerging Markets Ex China** (formerly known as **Fidelity Sustainable Emerging Markets Ex China**), and **Ninety One Global Macro Allocation** (formerly known as **Ninety One Global Multi-Asset Sustainable Growth**).

Finally, five sustainable funds swapped ESG-key terms in the past three months to reflect a new ESG strategy or better reflect their current ones. For example, **UBS MSCI World Low Carbon Target Index** changed its name to **UBS MSCI World Climate Paris Aligned Index** following a change in underlying index. The new index focuses on achieving a maximum implied temperature rise of 2 degrees Celsius by shifting the index weight from companies facing climate transition risks to companies having climate transition opportunities.

We expect an acceleration of rebranding activity among sustainable funds over the next six months as asset managers marketing products in the EU are required to comply with the European Securities and Markets Authority's guidelines on ESG funds' names. They have until May 2025 to do so. The aim of the guidelines is to protect investors against greenwashing risk and provide minimum standards for funds available for sale in the EU that use specific ESG terms in their names. Last May, we identified around 4,300 EU funds with ESG or sustainability-related terms in their names that may fall within the scope of the guidelines.

Additionally, managers of UK-domiciled sustainable funds also must comply with the naming and marketing rules of the UK Sustainability Disclosure Requirements by April 2025. Last January, we identified more than 400 UK funds with ESG-key terms in their names, about half of which had the key terms "sustainable/sustainability" or "impact." Keeping these terms would require the funds to apply for one of the four sustainability labels.[3] As of this writing and to our knowledge, nine funds were reported to have been approved a label, while only one had already published a client-facing disclosure document.

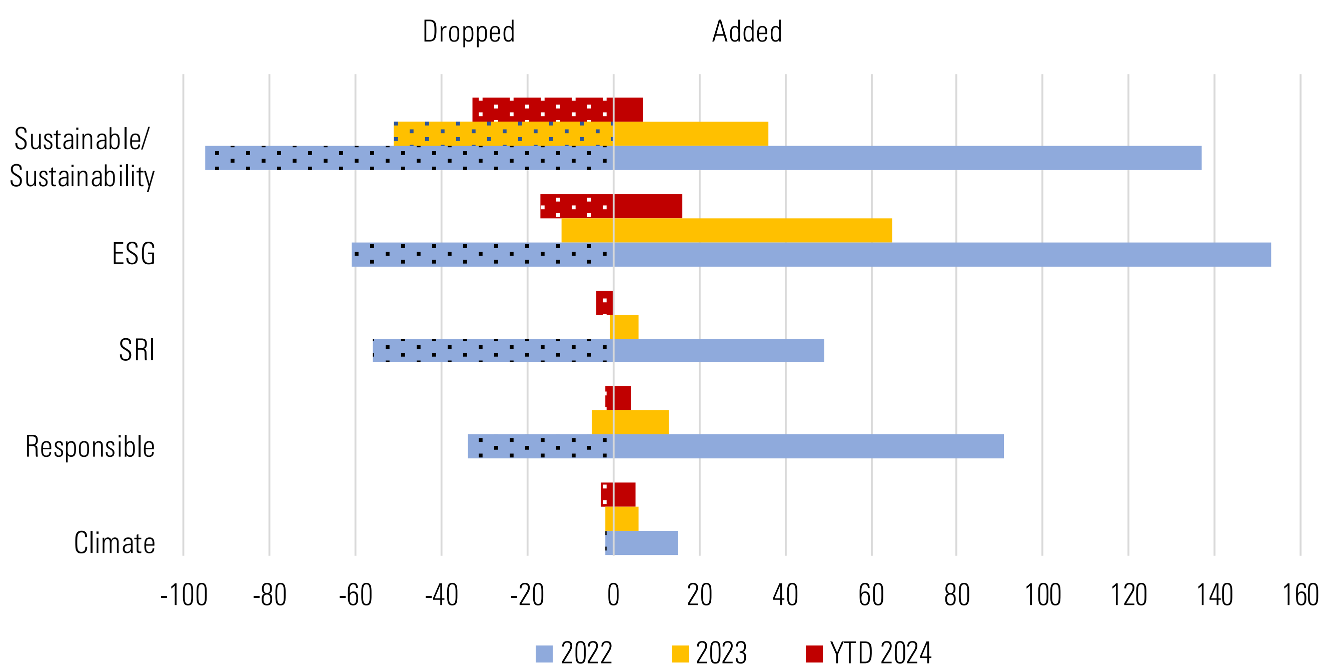
Analysis of ESG Key Terms Being Added and Dropped From Fund Names

In this section, we dive into the changes in ESG and sustainability-related terms that we identified to find out which ones are gaining popularity and which ones are losing ground. As shown below, "sustainable" and "sustainability" are the key terms removed the most since 2022, while ESG was the most popular term added to fund names. The first nine months of 2024 saw "sustainable"/"sustainability" and "ESG" dropped by 33 and 17 funds, respectively, while they have been added by six and 16 funds, respectively.

Meanwhile, this year, like in previous years, there have been more additions than removals of the word "climate," although fund name changes involving this word remain very limited compared with the other terms listed here.

3 The four labels are Sustainability Focus, Sustainability Improvers, Sustainability Impact, and Sustainability Mixed Goals.

Exhibit 15 Sustainability and ESG-Related Terms With Most Frequent Changes



Source: Morningstar Direct. Data as of September 2024. Based on 1,132 European ESG funds adding, dropping, or changing sustainability- or ESG-related terms in the fund names between 2022 and 2024. Among funds that added ESG key terms, we included those that were not launched as ESG funds but became ESG funds after they added ESG terms as well as funds that began as ESG funds but swapped their original ESG terms for other ESG-related terms. Similarly, funds that dropped ESG key terms include those that removed key terms and funds that swapped their original ESG terms for other terms.

We expect more funds to drop the most popular terms listed above in favor of other ESG-related terms or neutral terms with no connection to ESG or sustainability. This will occur because portfolio managers may not want or be able to meet the strict criteria set by the EU and UK regulators. Among the several hundreds of additional funds that will drop ESG-related terms listed, we expect many to stop promoting their ESG characteristics through their names. For example, "ESG screened," "ESG filtered," and "ESG leaders" will become "screened," "filtered," and "leaders," respectively. This arguably will make it harder for investors to look for funds with ESG characteristics.

A firm that has recently announced changes to the names of its funds is Stewart Investors[4]. The term "sustainability" will be removed from its UK funds as the company has chosen not to seek a label for any of its funds. This decision is in line with SDR, which prohibits the use of terms such as sustainable, sustainability, and impact without one of the four SDR labels. Additionally, Stewart Investors has decided to eliminate the term "sustainability" from its product offerings outside of the UK. No changes will be made to the investment process.

We anticipate an increase in the popularity of ESG-related key terms that emphasize transitional aspects. This shift will be driven by a growing number of investors seeking to align their portfolios with the evolving real world. Examples of funds that have swapped ESG-key terms include **Robeco Transition**

4 Client letter: Why change a name?

Emerging Credits (formerly known as **Robeco Sustainable Emerging Credits**), **Pictet-Clean Energy** (formerly known as **Pictet-Clean Energy Transition**), **Cardano ESG Transition Enhanced Index Equity Global** (formerly known as **ACTIAM Sustainable Index Fund Equity World**), and **Trium ESG Emissions Improvers** (formerly known as **Trium ESG Emissions Impact**).

In the upcoming months, Morningstar Sustainalytics will be conducting a thorough review of its sustainable funds universe to identify any changes in names or strategies. Our objective is to determine which funds no longer meet the criteria for inclusion in our universe. It's important to note that the removal of an ESG term from a fund's name won't automatically result in the fund being removed from our universe. Our criteria for inclusion consider factors beyond just the fund name, such as the investment objective and policy. While we anticipate that many funds will remove ESG terms from their names, we expect only a limited number of funds to be removed from our universe. Additionally, we anticipate that some funds without ESG terms may also be removed due to a lack of strong sustainability focus.

Regulatory Update

The translation of the ESMA guidelines on ESG funds' names was published, triggering implementation deadlines. New funds must comply with the guidelines by Nov. 21, 2024, and existing funds will have until May 21, 2025. The guidelines aim to protect investors from greenwashing risk and provide minimum standards for funds available for sale in the EU that use specific ESG terms in their names. Funds will need to comply with new portfolio requirements, as laid out in the guidelines, or change their names.

For more details on the impact of the guidelines: ESMA's Guidelines on ESG Fund Names | Morningstar.

ESMA's guidelines constitute a significant additional requirement on top of the SFDR, which is expected to be reviewed once the new European Commission takes office. In its mission letter, commissioner-designate Maria Luís Albuquerque was asked to scale up sustainable finance, in particular transition finance, and to the develop a new categorization of products with sustainability features, which is to be understood as a confirmation of the review of SFDR. The legal proposal is expected to be published in 2025 before it goes through the European Parliament and the Council and potential amendments.

In that context, the ESMA has published its long-term vision on the functioning of the Sustainable Finance Framework, where it calls for the European Commission to complete the EU Taxonomy and make it the sole common reference point for the assessment of sustainability. The paper also supports the establishment of a sustainable and transition category underpinned by clear product criteria and transparency requirements.

On July 25, 2024, the European Supervisory Authorities updated their consolidated Q&As on SFDR. Fifteen new Q&As have been added covering a range of issues, including the calculation of principal adverse impact, or PAI, indicators being performed on a pass/fail basis, the calculation of the share of sustainable investment that qualifies as environmentally sustainable and its disclosure, and whether sustainable investment can also be made by investing in another financial product, such as a UCITS fund.

On the issuer sustainability reporting front, the European Commission has started infringement procedures for 17 member states that have missed the transposition deadline for the Corporate Sustainability Reporting Directive, or CSRD. It has also issued FAQs on the interpretation of certain provisions of CSRD, covering items such as the scope, application dates and exemptions, assurance regime, Article 8 Taxonomy Regulation disclosures, and interaction with the SFDR. On the latter, it's important to note a crucial change regarding PAI disclosure at the entity level. The CSRD FAQs now indicate that "may assume that any indicator reported as non-material by an investee company applying the European Sustainability Reporting Standards does not contribute to the corresponding indicator of principal adverse impacts in the context of the SFDR disclosures, i.e., the value of that investment does not need to be included in the numerator of the given SFDR principal adverse impact indicator." This goes against current market practice and the SFDR consolidated Q&A, which requires the inclusion of all investments for PAI reporting. It's also worth noting that on July 26, 2024, the European Financial Reporting Advisory Group expanded its explanations for the European Sustainability Reporting Standards underpinning the CSRD.

On July 25, 2024, the European Commission also published initial guidance on the Corporate Sustainability Due Diligence Directive in the form of FAQs, confirming the scope of application for financial undertakings: "While the personal scope of application of the Directive also covers financial undertakings, financial services provided in the context of relationships with clients are excluded from its material scope. The possible inclusion of the client relationships will be considered under a specific review clause within two years after entry into force of the Directive. Financial undertakings are nevertheless required to adopt and put into effect a climate transition plan, including absolute emission reduction targets for scope 3 greenhouse gas emissions, where appropriate." The Corporate Sustainability Due Diligence Directive, CSDDD, will come into effect in July 2027, and by 2029 will capture roughly 5,500 companies. While complementary to the CSRD, the CSDDD constitutes a significant regulatory step up: It mandates the execution of certain sustainability practices, while the CSRD requires reporting on sustainability risks and impacts.

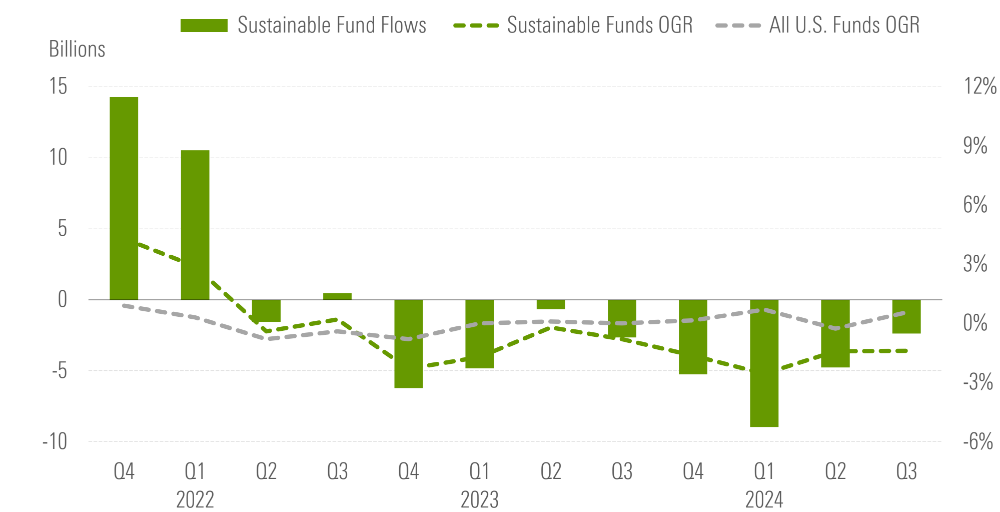
Finally, in the UK, the Financial Conduct Authority announced that it is offering limited temporary flexibility, until April 2, 2025, for firms to comply with the "naming and marketing" rules under the Sustainability Disclosure Requirements. These provisions constitute the most salient part of the SDR regime as it essentially requires professional investors to either use one of the four labels established by the regulatory regime (Sustainability Focus, Sustainability Improvers, Sustainability Impact, or Sustainability Mixed Goals) or drop terms such as "sustainable" or "impact" in funds' names. The uptake of SDR labels (on a voluntary basis, so far) reportedly has been slow until now.

United States

Reduced Withdrawals from the US Sustainable Funds Universe

US investors pulled money out of sustainable funds for the eighth consecutive quarter, but the net outflows in the past three months (USD 2.3 billion) were the lowest registered in the past five quarters. They represented almost half of the outflows recorded in the second quarter when USD 4.7 billion was withdrawn. The numbers suggest a steady reduction in outflows.

Exhibit 16a US Fund Flows: Sustainable vs. All US Funds (USD Billion)

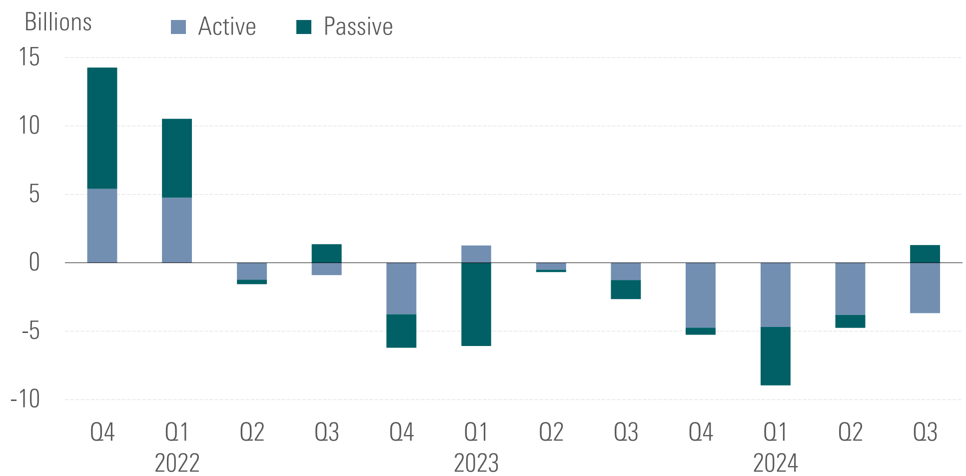


Source: Morningstar Direct. Data as of September 2024.

In the third quarter of 2024, US sustainable funds experienced an organic contraction of 1.4%, almost identical to the previous quarter, whereas the overall US market of funds grew by 0.6%. The organic growth rate, calculated as net flows over the period divided by total assets at the beginning of the period, provides insight into the relative magnitude of net flows.

Meanwhile, active sustainable strategies experienced outflows of USD 3.6 billion, again very similar to what was recorded in the second quarter of 2024. Conversely, index-tracking sustainable products recovered and registered inflows of USD 1.3 billion.

Exhibit 16b US Sustainable Fund Flows (USD Billion)

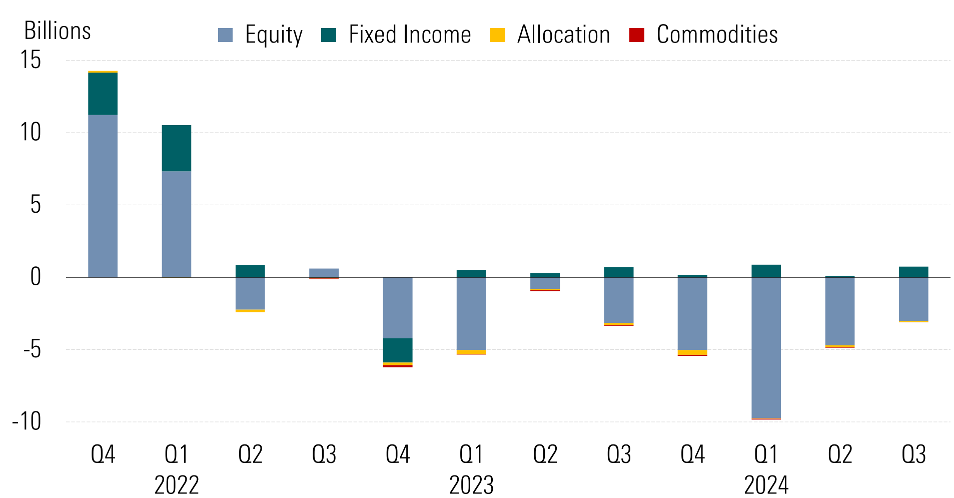


Source: Morningstar Direct. Data as of September 2024.

Asset Classes

During the third quarter of 2024, sustainable bond funds kept positive momentum with a net collection of USD 724 million, representing an increase from the restated USD 103 million from the previous quarter. Conversely, sustainable equity funds continued to bleed money. They shed USD 3 billion over the quarter. Elevated interest rates make fixed-income investments more attractive as they offer better returns with lower risk compared with equities.

Exhibit 16c US Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

Leaders and Laggards

In the third quarter of 2024, the standout performer in terms of inflows was **SPDR S&P 500 ESG ETF**, which garnered USD 254 million. This ETF aims to provide exposure to companies that meet certain sustainability criteria while maintaining similar overall industry group weights as the parent index. **First Trust Nasdaq Clean Edge Smart Grid Infrastructure Index** and **Xtrackers S&P 500 ESG ETF** came in second and third place with net subscriptions of USD 243 million and USD 242 million, respectively.

Exhibit 17a Top 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
SPDR® S&P 500® ESG ETF	254
First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund	243
Xtrackers S&P 500 ESG ETF	242
Calvert Bond Fund	229
Vanguard ESG U.S. Stock ETF	209
Kraneshares Sustainable Ultra Short Duration Index ETF	198
Nuveen Core Impact Bond Fund	172
iShares ESG Aware MSCI EAFE ETF	160
iShares ESG U.S. Aggregate Bond ETF	125
Invesco Solar ETF	104

Source: Morningstar Direct. Data as of September 2024.

The Largest Sustainable Funds Extend Their Outflows

Among the largest net withdrawals, again we find **Parnassus Core Equity**, which shed USD 855 million. The fund focuses on investing in large-cap US companies with sustainable competitive advantages, quality management, and positive ESG performance. It is followed by **Calvert Equity** and **Calvert Small-Cap**, with USD 317 million and USD 312 million of net outflows, respectively.

Exhibit 17b Bottom 10 US Sustainable Fund Flows

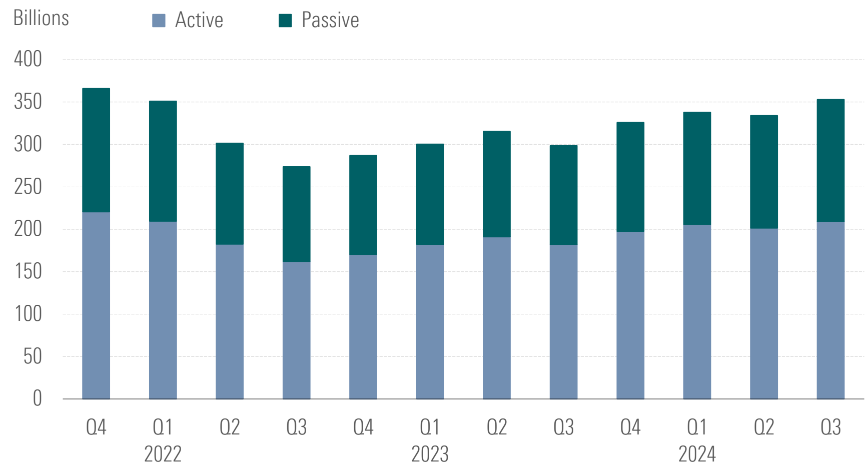
Fund Name	Net Flows (USD Million)
Parnassus Core Equity Fund	-855
Calvert Equity Fund	-317
Calvert Small-Cap Fund	-312
Nuveen Large Cap Responsible Equity Fund	-295
Eventide Gilead Fund	-256
Parnassus Mid Cap Fund	-236
Nationwide BNY Mellon Core Plus Bond ESG Fund	-231
Brown Advisory Sustainable Growth Fund	-196
Calvert Emerging Markets Equity Fund	-190
Northern Global Sustainability Index Fund	-188

Source: Morningstar Direct. Data as of September 2024.

Assets

In the past three months, assets in US-domiciled sustainable funds increased by 5.6% to USD 352 billion at the end of September 2024 from a revised USD 333 billion three months earlier, helped by market appreciation. The asset growth was on par with the Morningstar US Market Index, which gained 5.7% over the same period.

Exhibit 18 US Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

BlackRock, Parnassus, and Eaton Vance Are the Top Managers in the Space

Below we list the top asset managers that market sustainable funds in the US. BlackRock, the world's largest manager, tops the list, with more than USD 60 billion of assets in ESG-focused open-end assets and ETFs, at the end of the third quarter. It is followed by Parnassus and Eaton Vance, which includes the Calvert brand, with approximately USD 40 billion and USD 38 billion, respectively.

Exhibit 19 Top Asset Managers by Sustainable Fund Assets in the US

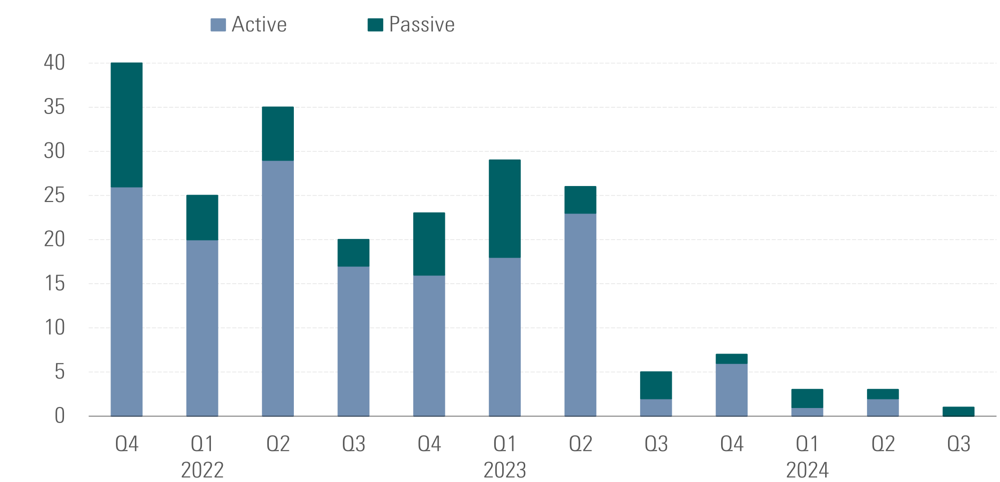
Firm	Total Assets (USD Billion)	Firm	Active Assets (USD Billion)	Firm	Passive Assets (USD Billion)
BlackRock (incl. iShares)	60.5	Parnassus	40.3	BlackRock (incl. iShares)	55.8
Parnassus	40.3	Eaton Vance	27.0	Vanguard	36.1
Eaton Vance	38.2	Nuveen	17.3	Eaton Vance	11.2
Vanguard	37.8	Dimensional	15.8	Nuveen	6.6
Nuveen	23.9	Franklin Templeton	12.1	Invesco	6.1
Dimensional	15.8	Impax	11.2	DWS (incl. Xtrackers)	5.3
Franklin Templeton	12.1	Brown Advisory	11.1	Fidelity	5.3
Impax	11.2	Amundi (incl. Lyxor)	10.3	First Trust	4.6
Brown Advisory	11.1	Eventide	6.7	State Street	2.2
Amundi (incl. Lyxor)	10.3	American Century	6.5	Northern Trust	2.0
Invesco	8.8	BlackRock (incl. iShares)	4.7	Praxis Mutual Funds	1.8
Fidelity	7.3	Boston Trust Walden	4.5	Global X	1.2
Eventide	6.7	AllianceBernstein	4.0	Kraneshares	1.0
American Century	6.5	Community Capital	3.8	Green Century	0.9
DWS (incl. Xtrackers)	5.6	Invesco	2.7	New York Life	0.8
First Trust	4.6	Neuberger Berman	2.5	TCW	0.7
Boston Trust Walden	4.5	PIMCO	2.5	Flexshares	0.5
AllianceBernstein	4.0	Domini	2.3	Jackson	0.5
Community Capital	3.8	Fidelity	2.0	VanEck	0.4
Praxis Mutual Funds	3.1	Victory Capital	1.9	Amplify	0.3

Source: Morningstar Direct. Data as of September 2024.

New Sustainable Fund Launches Remain Low

The third quarter of 2024 saw the launch of only one sustainable fund, **KraneShares Sustainable Ultra Short Duration Index ETF**. The fund targets investment-grade corporate bonds with very short maturities issued by companies that are making progress toward reducing their carbon emissions in line with the goals of the Paris Agreement and that are adopting sustainable practices.

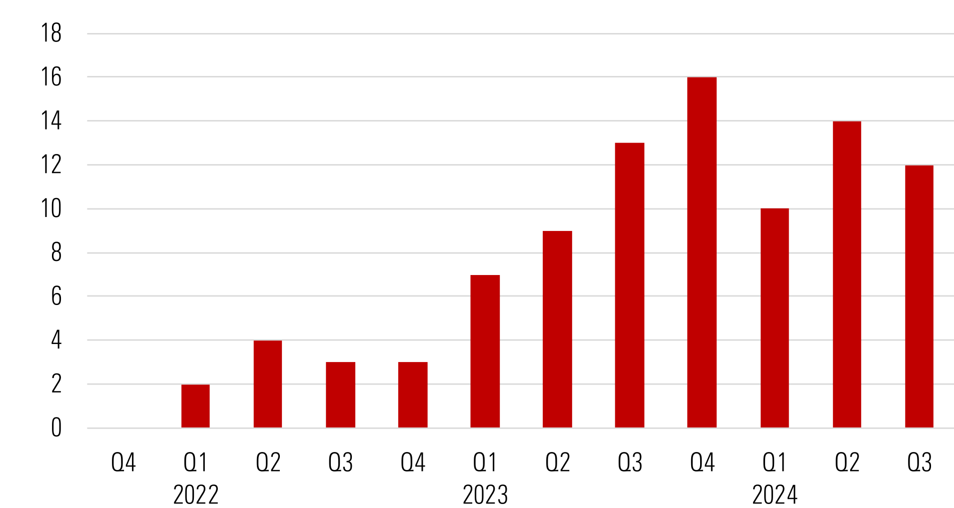
Exhibit 20 US Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

For the fifth consecutive quarter, US sustainable fund closures significantly outpaced new launches. A total of 12 sustainable funds were liquidated.

Exhibit 21 US Sustainable Fund Closures



Source: Morningstar Direct. Data as of September 2024.

The 12 US sustainable funds that were liquidated include five managed by **BlackRock** (**Sustainable Advantage CoreAlpha Bond**, **Sustainable International Equity**, **Sustainable Low Duration Bond**, **BlackRock Future Climate and Sustainable Economy ETF**, and **Sustainable U.S. Growth Equity**), in addition to **AMG GW&K Enhanced Core Bond ESG, Ashmore Emerging Markets Corporate Income ESG, Blue Horizon BNE ETF, Direxion Daily Global Clean Energy Bull 2X Shares, Direxion Hydrogen ETF, Templeton International Climate Change**, and **Veridien Climate Action ETF.**

The new offerings and repurposed funds brought the total number of sustainable open-end and exchange-traded funds in the United States to 595 at the end of the third quarter.

Regulatory Update

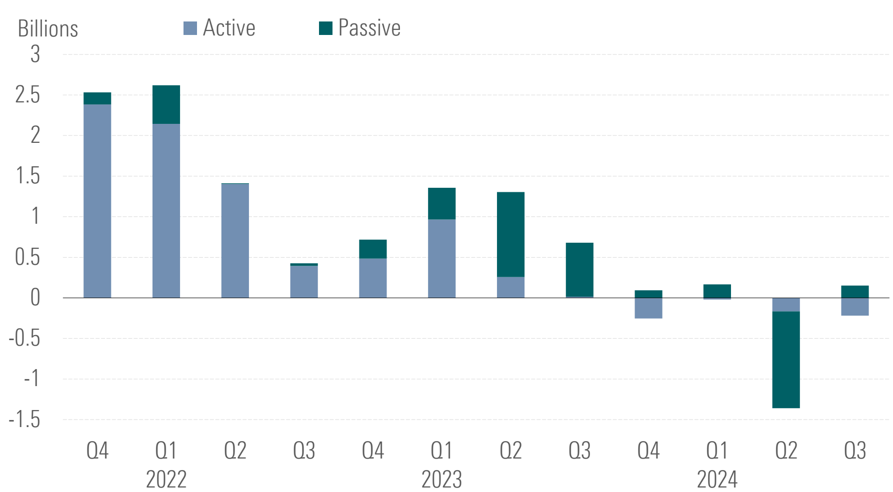
California has signed a new bill into law, slightly delaying but confirming the promulgation of the rules requiring large companies doing business in the state to disclose their greenhouse gas emissions. Most importantly, 2026 remains the proposed start date for reporting to begin. The new laws (SB 253 and SB 261), subject to legal challenges, would effectively introduce climate-reporting obligations aligned with the Task Force on Climate-Related Financial Disclosures for most large businesses in the US, considering the $1 billion in total annual revenue threshold that sets the scope.

Canada

Flows

Canada's sustainable fund universe experienced milder outflows of USD 69 million compared with the USD 1.4 billion of the previous quarter, the majority of which (USD 1.3 billion) came from the net redemption of one ETF, **BMO MSCI USA ESG Leaders Index ETF**.

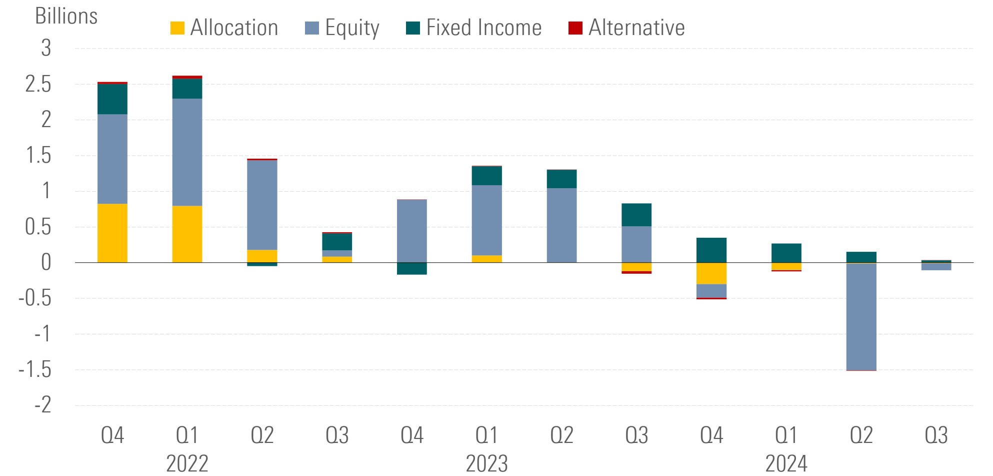
Exhibit 22a Canada Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

Since the start of 2023, fixed income has been the only asset class consistently recording inflows, demonstrating its resilience. In third-quarter 2024, it had inflows of USD 33 million, although this was the smallest inflow in this time frame. Meanwhile, equity registered outflows for the past four quarters.

Exhibit 22b Canada Sustainable Flows by Asset Class (USD Billion)

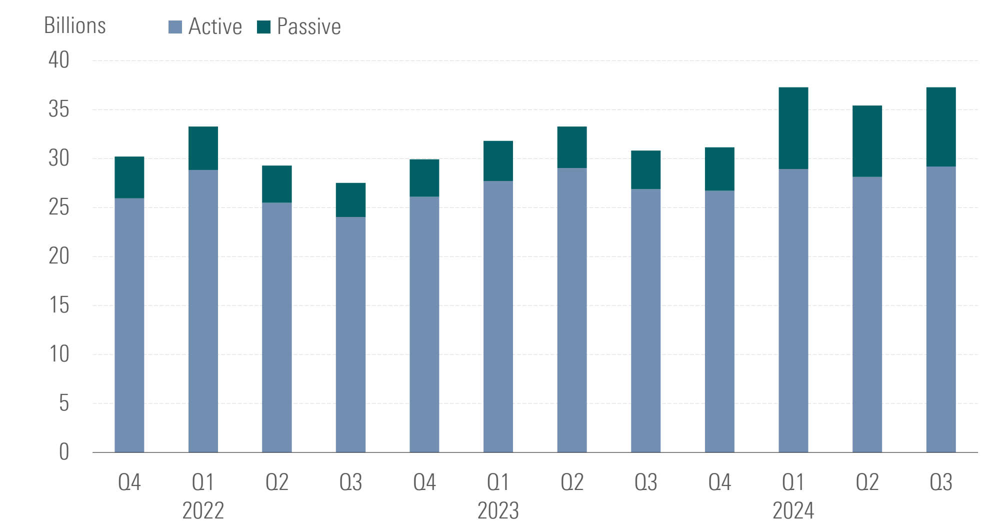


Source: Morningstar Direct. Data as of September 2024.

Assets

Assets that are invested in Canadian sustainable funds increased to USD 37 billion in the third quarter of 2024, driven by a 3.8% increase in active strategies from the restated USD 28 billion of the second quarter and a 10.7% increase for passive strategies.

Exhibit 23 Canada Sustainable Fund Assets (USD Billion)



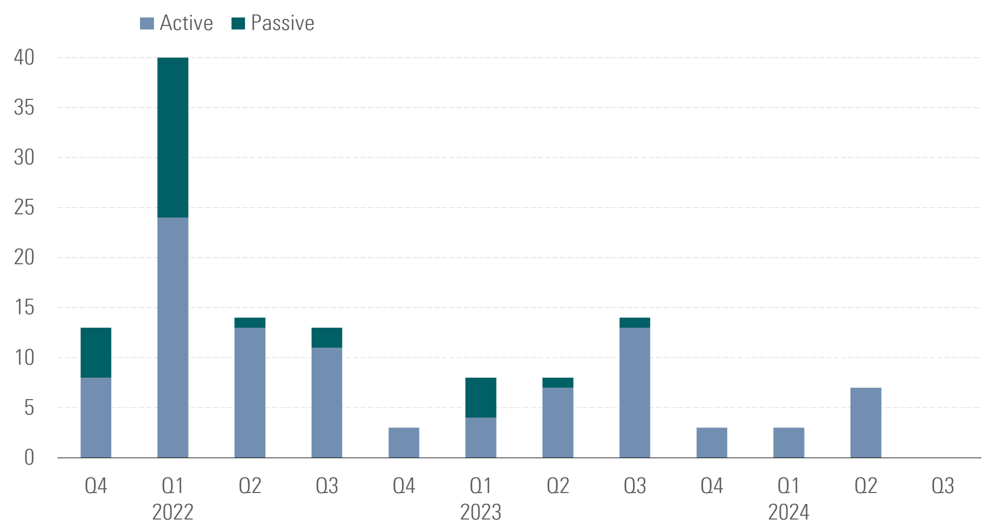
Source: Morningstar Direct. Data as of September 2024.

NEI Investments kept its title of largest provider of sustainable funds in Canada, with assets of USD 8 billion, almost identical to the restated previous quarter with a 0.50% increase. Desjardins follows closely behind, with assets around USD 6 billion. National Bank ranks third, with assets of USD 5 billion.

New Launches and Closures

No new sustainable funds or ETFs were developed in Canada during the last three months. The absence of product development highlights a pause in the growth of sustainable investment offerings.

Exhibit 24 Canada Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

The Canadian sustainable fund universe witnessed the closure of only one fund, **BMO Sustainable Opportunities China Equity**, in the quarter. There were six fund closures in the second quarter.

Regulatory Update

On Oct. 9, 2024, the Government of Canada outlined a plan to develop a new sustainable investment taxonomy. The development of the metrics-based Canadian taxonomy would first focus on the following sectors: electricity, transportation, buildings, agriculture and forestry, manufacturing, and extractives, including mineral extraction and processing, and natural gas. A taxonomy for two to three priority sectors will be released within 12 months of the arm's-length, third-party organization(s) beginning its work. Once finalized, the Canadian taxonomy would be available for financial institutions, lenders, and companies to use on a voluntary basis.

On July 22, 2024, the Competition Bureau launched a public consultation on the new provisions aimed at greenwashing that will inform its future enforcement guidance about environmental claims. On June 20, 2024, new provisions were added to the Competition Act that explicitly target greenwashing.

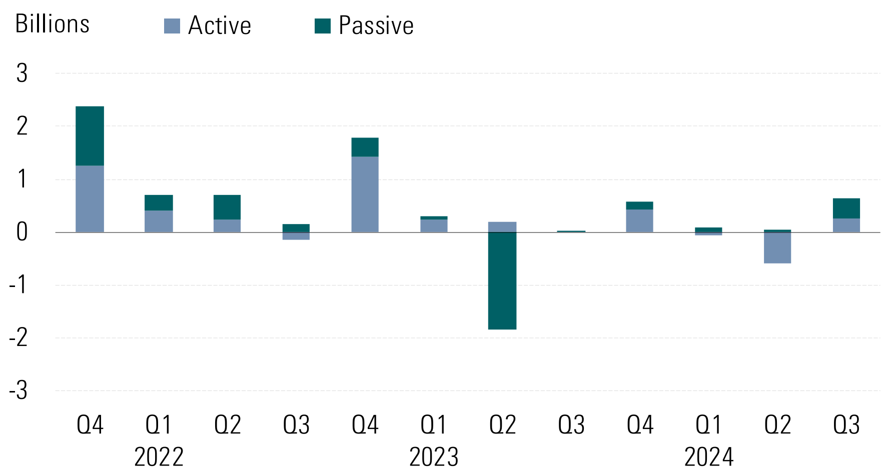
Investors reportedly raised concern over recent ESG disclosure removal and called for legal clarity to avoid such unintended consequences.

Australia and New Zealand

Flows

For the third quarter of 2024, there were positive net flows into the Australasian (Australia and New Zealand) sustainable funds universe of USD 640 million based on the available data up to Sept. 30, 2024.[5] This follows revised outflows of USD 555 million in the second quarter. Flows into active strategies resurged, netting almost USD 267 million. Meanwhile, flows into passive sustainable funds continued to be positive in 2024, garnering USD 373 million over the third quarter of 2024.

Exhibit 25 Australia and New Zealand Sustainable Fund Flows (USD Billion)

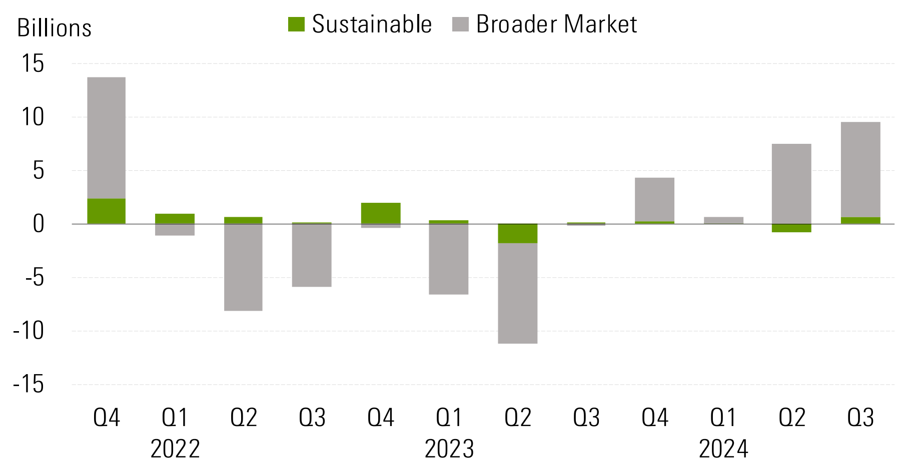


Source: Morningstar Direct. Data as of September 2024.

The uptick of flows into sustainable funds mirrors the continued recovery in the broader fund market in the region. For the quarter ended Sept. 30, 2024, the total fund and ETF universes for Australia and New Zealand experienced net inflows of USD 9.52 billion, driven primarily by passive strategies, which received net inflows of USD 6.73 billion, while active strategies saw net inflows of USD 2.80 billion.

5 As of Oct. 14, 2024, we received around 63% of fund sizes and flow data from the fund managers.

Exhibit 26 Australian and New Zealand Fund Flows in Broader Market (USD Billions)

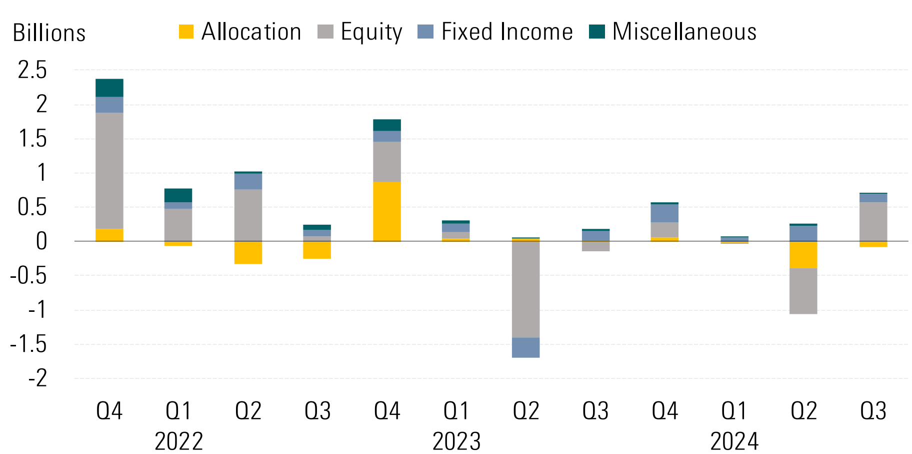


Source: Morningstar Direct. Data as of September 2024.

Fixed-Income Funds Still Gathering Money

In the Australasia region for the third quarter of 2024, equity strategies gained around USD 570 million in net inflows, followed by inflows into fixed-income strategies of approximately USD 125 million. However, allocation funds registered another quarter of outflows, albeit smaller compared with the previous quarter.

Exhibit 27 Australia and New Zealand Sustainable Flows by Asset Class (USD Billion)

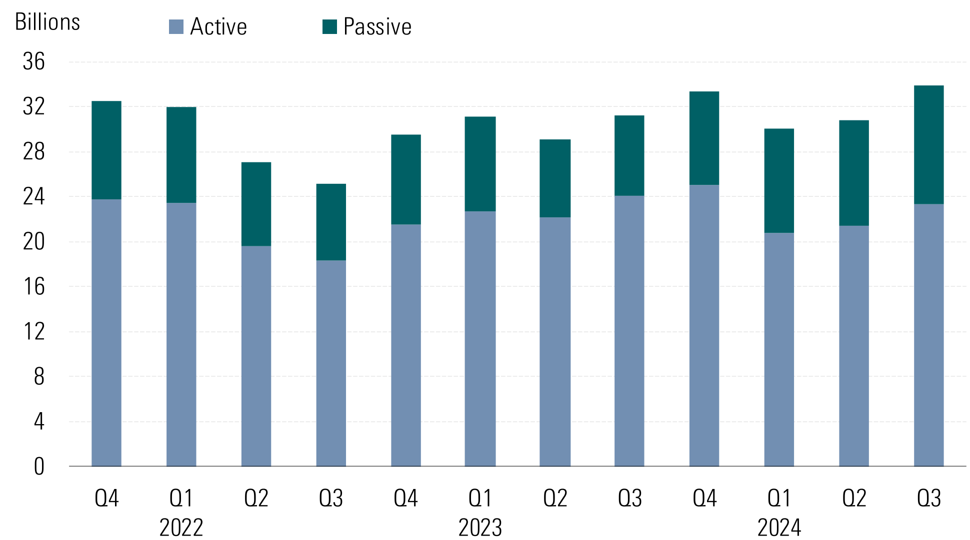


Source: Morningstar Direct. Data as of September 2024.

Assets

The total size of the Australasian sustainable open-end fund and ETF universe was estimated to be around USD 34 billion as of Sept. 30, 2024, which was 10% higher than the assets three months earlier.

Exhibit 28 Australia and New Zealand Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of September 2024.

The Australian sustainable funds market remains quite concentrated, with the top 10 firms accounting for almost two thirds of total assets in sustainable funds, which has been stable this year. The top 10 fund houses by sustainable fund assets are listed below. Dimensional Fund Advisors has the highest market share followed by Betashares and Vanguard.

Exhibit 29 Top Australian and New Zealand Fund Houses

Sustainable Asset Market Share	% Market Share
DFA Australia Limited	14.6%
BetaShares Capital Ltd	11.9%
Vanguard Investments Australia Ltd	8.6%
Mercer Investments (Australia) Limited	5.9%
BlackRock Investment Management (Australia) Limited	5.3%
Australian Ethical Investment Ltd	4.5%
Pendal Institutional Limited	4.5%
State Street Global Advisors (Aus) Ltd	3.4%
U Ethical	2.8%
First Sentier Investors (Australia) Im Ltd	2.8%

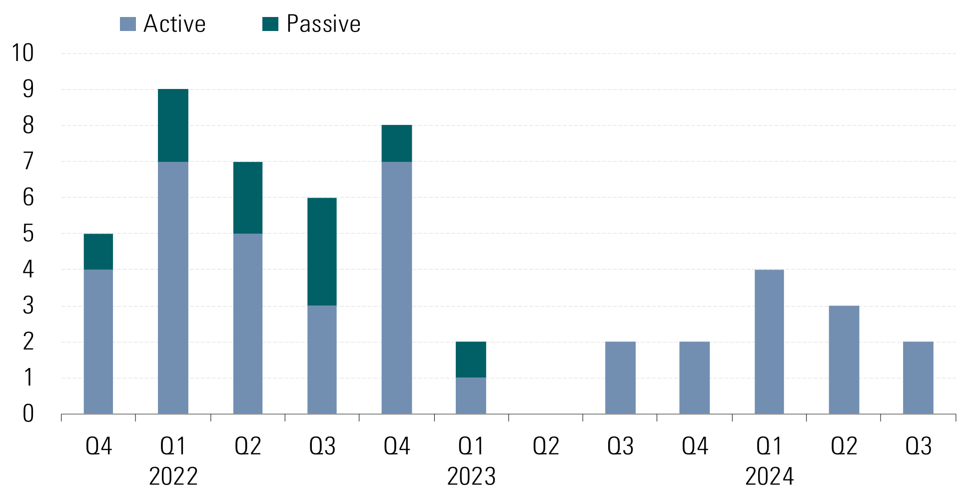
Source: Morningstar Direct, Morningstar Manager Research. Data as of Sept. 30, 2024

Launches

Two new sustainable funds were launched in the third quarter of 2024: **Altor Social Infrastructure** and **Macquarie Energy Transition Infrastructure**.

The nine fund launches so far this year consist entirely of active strategies, a significantly lower number compared with prior years, particularly from 2020 to 2022. Also, there were five confirmed closures at the end of the third quarter. Interest-rate regime changes in 2022 have put active asset managers under profit-margin pressures caused by rising cost bases and limited revenue growth. Limited demand and underperformance in sustainable strategies have been key drivers behind the closure decisions. As of the end of September 2024, we counted 267 strategies in our Australasian sustainable fund universe.

Exhibit 30 Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

Regulatory Update

The latest developments in the sustainable finance arena in Australia saw the National Treasury seeking consultations on the "Front Door" paper for the government's Future Made in Australia agenda. In achieving the modernization of the industrial base and the transition toward net zero, estimates of around AUD 625 billion are required to decarbonize industrial and energy sources. Most notably addressed in the paper are the challenges in coordinating and directing investments in an effective manner: "The Front Door would address key coordination challenges, including providing concierge and facilitation services to navigate Australia's comprehensive regulatory frameworks, and a clear entry point for complex, major transformational investment proposals."

The Australian Parliament passed a bill, including mandatory climate-related reporting requirements for large and medium-size companies, including disclosures on climate-related risks and opportunities, and on greenhouse gas emissions across the value chain, starting as soon as 2025 for the largest companies (revenue over $500 million or assets over $1 billion, as well as asset owners with more than $5 billion). For small and medium-size enterprises, the reporting obligation will start in July 2026 (250-plus employees, $200 million-plus revenue, $500 million assets), or July 2027 (100-plus employees, $50 million-plus revenue, $25 million-plus assets). Following the vote, the Australian Accounting Standards Board published a voluntary AASB S1, "General Requirements for Disclosure of Sustainability-Related

Financial Information," and a mandatory AASB S2, Climate-Related Disclosures," based on International Sustainability Standards Board guidelines.

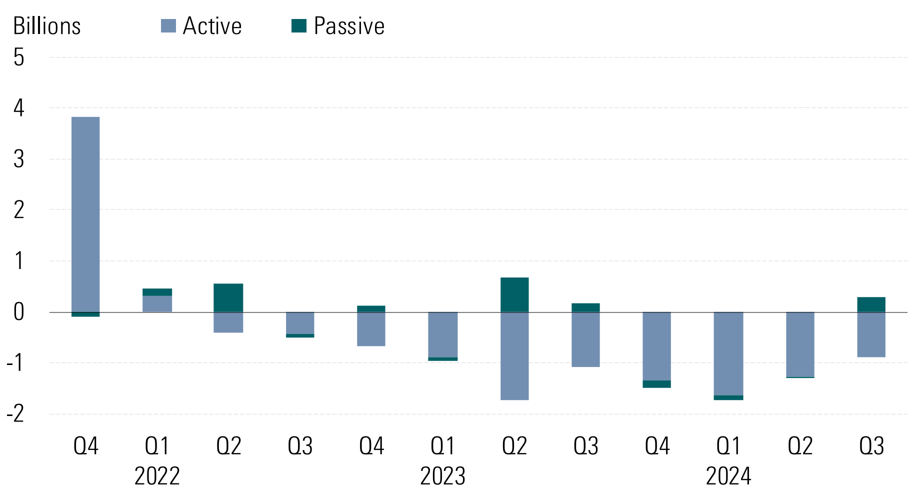
Japan

Flows

The third quarter of 2024 saw decelerated net outflows among the Japanese sustainable funds, as net withdrawals were USD 590 million, half the restated USD 1.3 billion outflows seen in the previous quarter. This still contrasted with the broader Japanese funds landscape, which registered inflows of USD 40 billion in the third quarter of 2024.

While actively managed sustainable funds marked their 10th consecutive quarter of withdrawals, passive sustainable strategies saw net inflows for the first time in four quarters (almost USD 300 million). **Global X Japan Global Leaders ETF** topped the inflow contributors, pocketing close USD 290 million. Meanwhile, **AMOne Global ESG High Quality Growth Equity Fund Unhedged** remained the top outflow contributor, shedding more than USD 220 million. It was followed by another two active equity strategies, **MUAM Baillie Gifford Impact Investment** and **SMDS Innovative Decarbonization Strategy**, which bled USD 55 million and USD 49 million, respectively.

Exhibit 31 Japan Sustainable Fund Flows (USD Billion)

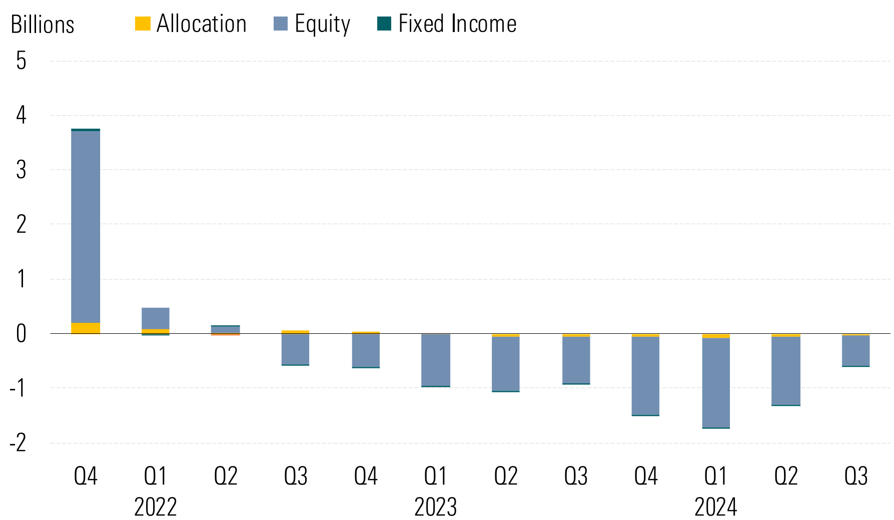


Source: Morningstar Direct. Data as of September 2024.

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

Equity remained the most affected asset class as Japanese sustainable equity funds lost USD 540 million during the third quarter of 2024, representing almost the entirety of the quarterly outflows, similar to what we saw in previous quarters. But this makes sense as equity funds constitute an overwhelming majority (92%) of Japan-domiciled sustainable funds.

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

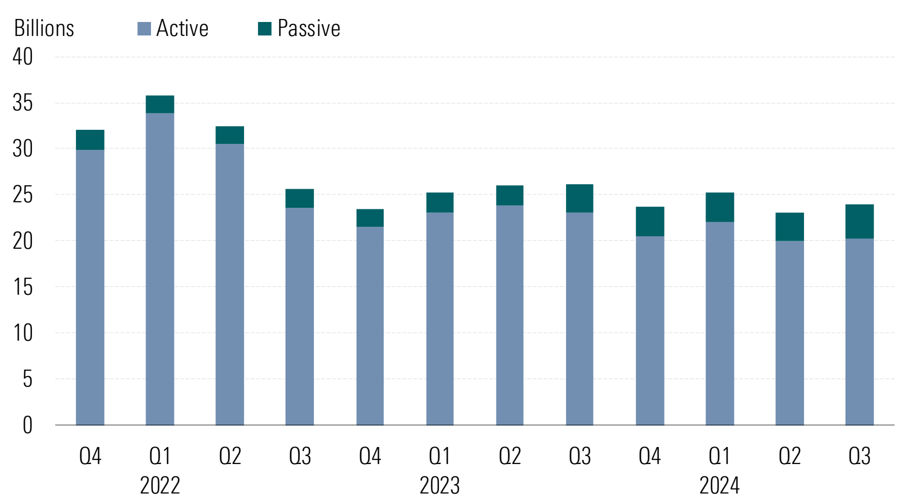


Source: Morningstar Direct. Data as of September 2024.

Assets

Assets in Japan-domiciled sustainable funds totaled USD 24 billion in the third quarter. Actively managed funds still represent the predominant share, accounting for 84% of total assets within the sustainable fund category. As previously mentioned, most are equity funds. Fixed-income sustainable strategies are an underdeveloped market, with only USD 171 million in assets.

Exhibit 33 Japan Sustainable Fund Assets (USD Billion)

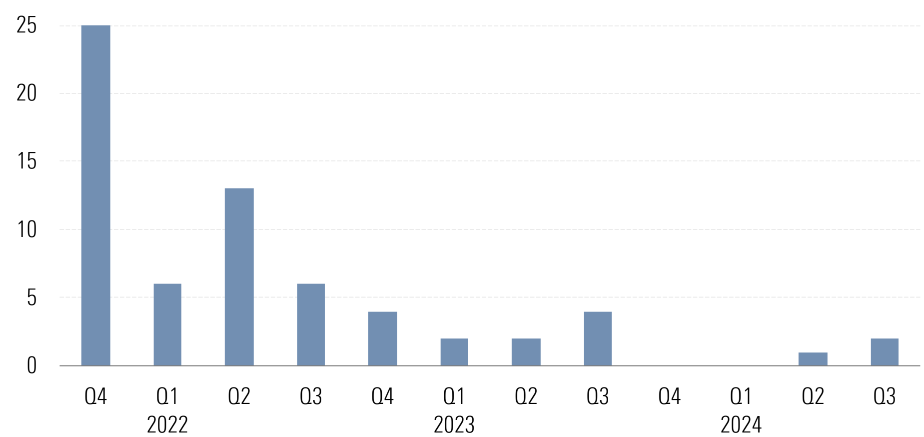


Source: Morningstar Direct. Data as of September 2024.

Launches

The Japanese sustainable funds market saw the inception of two new products in the past three months. **Nomura Corporate Value CoCreation World Equity Fund A SMA/EW** and **Nomura Corporate Value CoCreation World Equity Fund B SMA/EW** are two funds that follow the same strategy of investing in **Nomura Money Mother** as well as **Wellington Global Steward**. The latter invests in companies whose management teams and boards display superior stewardship to sustain high returns over time. The fund defines stewardship as the way companies balance the interests of all stakeholders in the pursuit of profits and how they incorporate material ESG risks and opportunities in their corporate strategies.

Exhibit 34 Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

Regulatory Update

There are no regulatory developments in Japan to report in the third quarter. The Financial Services Agency continues to host working groups regularly to engage stakeholders about the sustainable funds landscape.

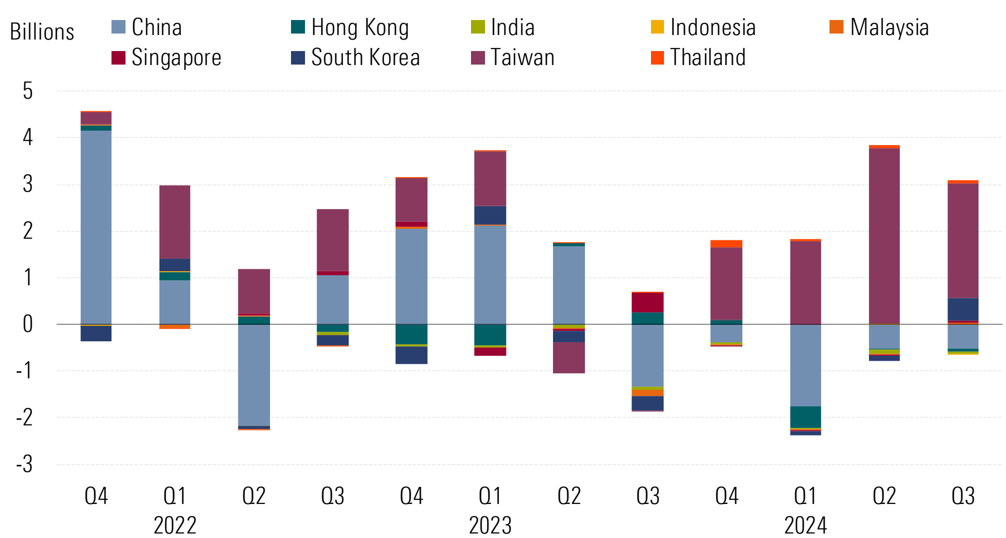
Asia ex-Japan

We used the most recent data available within the past quarter for funds whose full quarterly data was unavailable at the time of publication. Because China's data was not available at the time of publication, we used second-quarter 2024 data as a proxy for third-quarter 2024 data in every exhibit of this section. The recent stock market rally in China, driven by the government's new stimulus policies, may show a more positive picture for the third quarter than what is reported here. In the second quarter of 2024, China-domiciled sustainable funds experienced USD 530 million in outflows, the fourth consecutive quarter of outflows for the market. Active funds accounted for 82% of the outflows, and the largest redemption from a single strategy was USD 67 million from **Invesco Great Wall Environmental Advantage Equity**.

Flows

Excluding China, the Asia ex-Japan region saw close to USD 3.1 billion of net inflows during the third quarter of 2024, compared with restated inflows of USD 3.6 billion in the second quarter. Taiwan-domiciled sustainable funds continued to attract the most capital, accounting for over 80% of this quarter's inflows at USD 2.4 billion, and **Capital ICE ESG 20+ Year BBB US Corporate ETF** continued to garner the most subscriptions within. The ETF saw USD 958 million in inflows over the past three months, increasing its assets from USD 1.1 billion at the end of 2023 to USD 6.6 billion at the end of September 2024. South Korea saw the second-largest influx of capital among Asia ex-Japan markets at USD 505 million for the quarter. **KIM Credit Focus ESG Feeder Bond 1**, which uses in-house ESG assessment models to invest in bonds issued by companies with high ESG standards, saw the most inflows at USD 487 million.

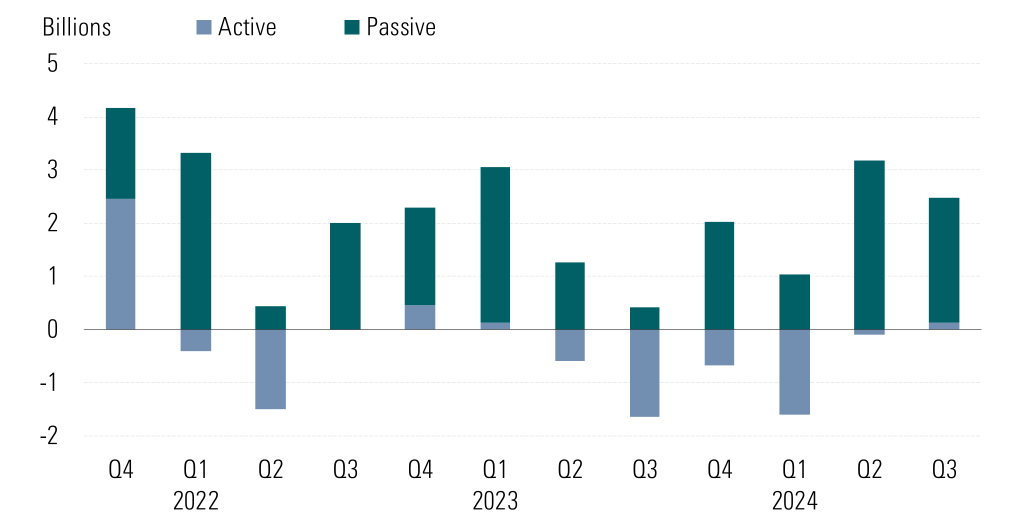
Exhibit 35 Asia ex-Japan Sustainable Fund Flows by Country (USD Billion)



Source: Morningstar Direct. Data as of September 2024. For China's Q3 flows, we used Q2 flows.

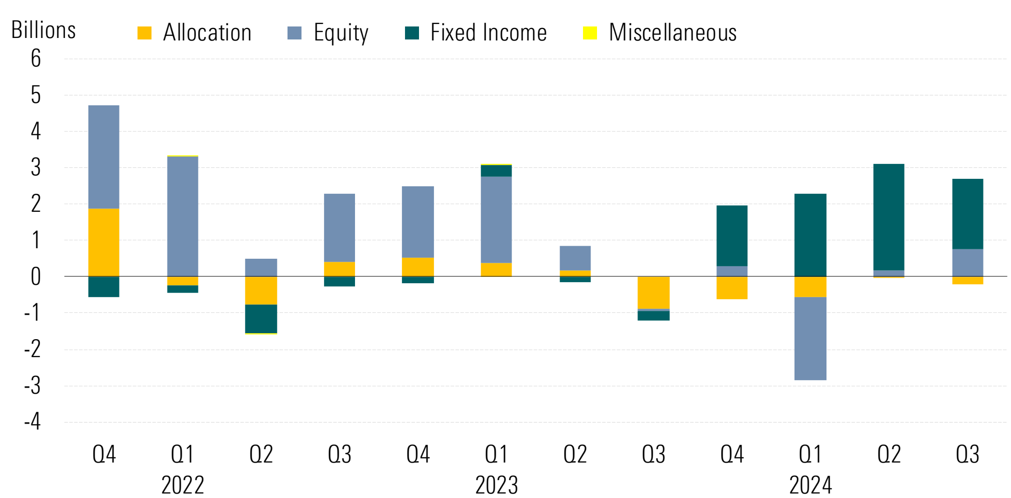
Over the quarter, Hong Kong- and India-domiciled sustainable funds experienced net outflows of USD 56 million and USD 35 million, respectively. Allocation funds accounted for 60% of the outflows within the former, with **JPMorgan Future Transition Multi-Asset** seeing the largest redemptions of USD 35 million, the strategy's 10th consecutive quarter of bleeding money.

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



Source: Morningstar Direct. Data as of September 2024.

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



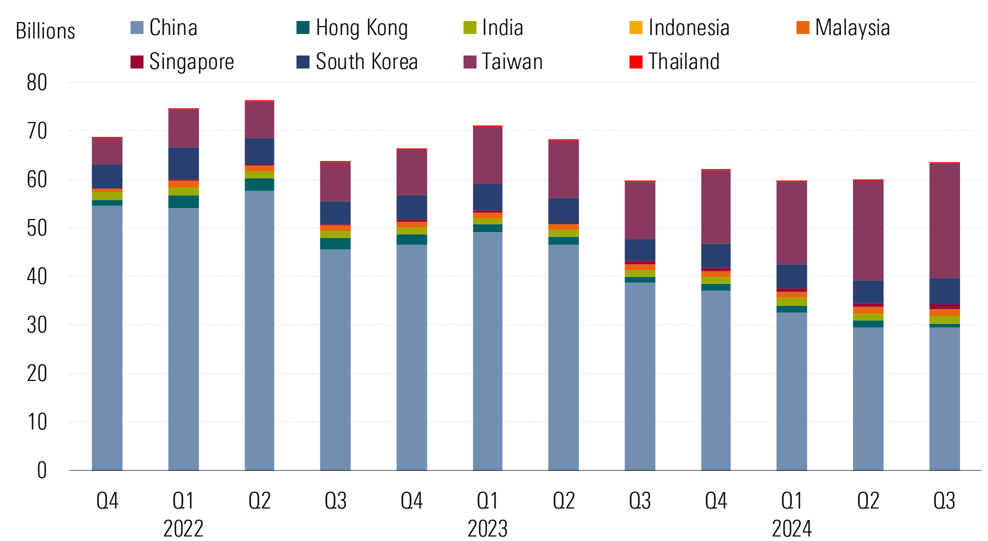
Source: Morningstar Direct. Data as of September 2024.

Assets

Total sustainable fund assets in Asia ex-Japan increased by 6% over third-quarter 2024. Outside of China (for which data was not available at the time of publication), Taiwan continued to hold the most assets in sustainable funds with over one third of the market share. **Cathay Sustainability High Dividend ETF** saw the second-largest growth in the market behind the aforementioned Capital ICE ESG 20+ Year BBB US Corporate ETF, its AUM increasing by USD 864 million to a whopping USD 9.9 billion. Assets in Singapore-domiciled sustainable funds jumped 19.3% partly because of inflows into funds such as **CSOP CGS-CIMB FTSE Asia Pacific Low Carbon ETF** and the solid performance of funds such as **iShares MSCI Asia ex Japan Climate Action ETF**, which returned 13.3% over the quarter.

Equity funds remained the dominant asset class within the region at 61% of Asia ex-Japan sustainable fund assets at the end of third-quarter 2024. The market share of fixed-income funds overtook allocation funds last quarter, accounting for 20% and 18%, respectively, versus 6% and 25%, respectively, at the end of September 2023. Fixed income was the only asset class with net positive inflows over the trailing year ended September 2024. Passive funds, meanwhile, continued to gain prominence, reaching 55% of total Asia ex-Japan sustainable fund assets in third-quarter 2024 compared with 44% in third-quarter 2023.

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

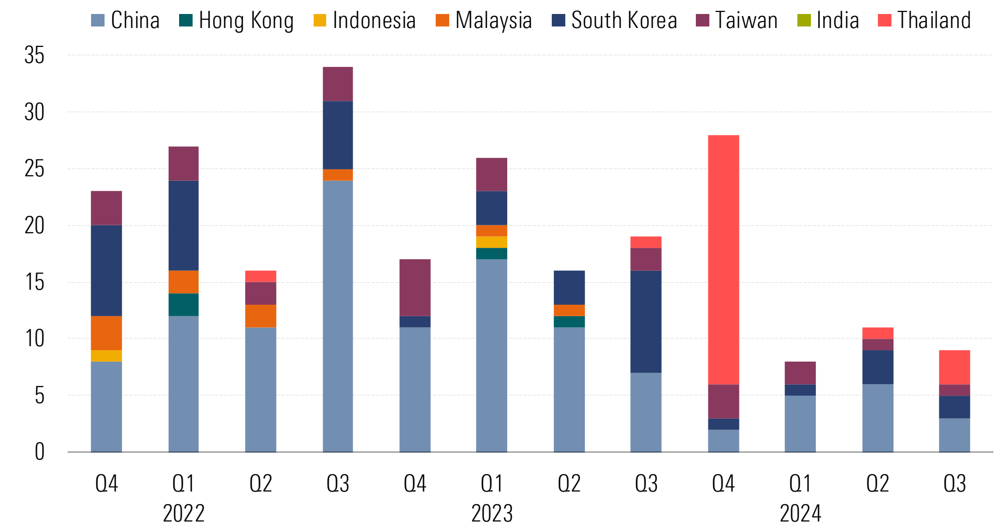


Source: Morningstar Direct. Data as of September 2024.

Launches

From July through September 2024, there were nine new sustainable funds launched across the Asia ex-Japan region. China and Thailand each saw a third of the launches, while two were South Korea-domiciled sustainable funds and the remaining launch was in Taiwan. Fixed-income funds accounted for four of the new launches, while three were equity funds and two were allocation funds. All three of the Thailand-domiciled funds were fixed-income products, namely **SCB Thai Sustainability Bond**, **Krungsri Government Bond Thailand ESG**, and **K ESG Sovereign Instruments**. The sole launch in Taiwan was a passive fund from SinoPac tracking the ICE 15+ Year Investment Grade US Banking ESG Index.

Exhibit 39 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of September 2024.

Regulatory Update

Asia ex-Japan regulatory institutions continued to develop and roll out ESG-related initiatives pertinent to asset managers within the region.

On Sept. 23, 2024, the Singapore Exchange Regulation published amendments to the SGX-ST Listing Rules to incorporate the International Sustainability Standards Board guidelines into its sustainability reporting rules.

On Sept. 16, 2024, the Hong Kong Institute of Certified Public Accountants, the sustainability reporting standard setter in Hong Kong that is developing local sustainability disclosure standards aligned with the ISSB, published the Exposure Drafts for HKFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information and HKFRS S2 Climate-Related Disclosures.

Regulatory bodies in Thailand were especially active in the third quarter of 2024. In August, the Stock Exchange of Thailand, or SET, and FTSE Russell announced a partnership that will result in the replacement of the SET ESG ratings model with FTSE Russell's ESG data model by 2026. The same month, the cabinet of Thailand approved amendments to the tax incentive program for locally domiciled ESG funds with the aim of promoting greater retail investment. Among other changes, the maximum tax deduction for individual investors in approved ESG funds was increased from THB 100,000 (around USD 3,000) to THB 300,000 (around USD 9,000) per year and the lock-up period for purchases made between January 2024 and December 2026 was lowered from eight years to five years. Concurrent with these developments, Thailand's Security and Exchange Commission amended its regulations to allow local ESG funds to invest in companies with ESG ratings from providers other than the SET.

Also in August, the Securities and Exchange Board of India proposed to expand its sustainable finance framework through the formation of a new category of financial instruments known as ESG Debt Securities– adding social bonds, sustainable bonds, and sustainability-linked bonds to the existing Green Debt Securities category. The change is meant to incentivize sustainable debt financing and support a wider breadth of sustainable offerings within the country's debt markets.

In July, Taiwan's Financial Supervisory Commission announced draft guidelines allowing actively managed ETFs to be added to the fast-growing local ETF market at the earliest next year. This represented another bid by the commission to help fulfill a major policy proposal made by the Economic Development Commission earlier this month to develop Taiwan into an asset-management center in Asia. The introduction of active ETFs in Taiwan could open the door for global asset managers to enter the booming local ETF market, which has grown rapidly compared with active funds in recent years. As of September 2024, 24 out of the 59 sustainable funds in Taiwan were ETFs, accounting for over 90% of the AUM of the local sustainable fund market.

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 definition differs from the EU's Sustainable Finance Disclosure Regulation, which defines "sustainable investments" at a holdings level.[6] Our definition isn't based on any regulatory framework, nor does it meet the criteria of any particular regulatory framework.

Our universe of sustainable funds is based on intentionality rather than holdings. To identify intentionality, we relied on a combination of fund names (a strong indicator of intentionality) and information found in fund documents. The fund's documents should contain enough details to leave no doubt that ESG concerns figure prominently in the security selection and portfolio construction process.

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

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

Finally, when calculating flows and assets, we exclude feeder funds and funds of funds to avoid double counting. 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. Money market funds are excluded in all markets.

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

---

6 Article 2(17) of SFDR defines the term *sustainable investment* as:

- An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy;
- Or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration, and labor relations, or an investment in human capital or economically or socially disadvantaged communities;
- Provided that such investments do not significantly harm any of those objectives;
- And provided that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff, and tax compliance.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.sustainalytics.com.