

# Global Sustainable Fund Flows: Q2 2024 in Review

Recovery continues in Europe, but redemptions persist in other parts of the world.

## Morningstar Sustainalytics

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## Key Takeaways

- ▶ In the second quarter of 2024, the global universe of sustainable open-ended and exchange-traded funds attracted an estimated USD 4.3 billion of net new money, compared with restated outflows of USD 2.9 billion in the first quarter.
- ▶ European sustainable funds garnered USD 11.8 billion, up from the restated USD 8.4 billion in the previous quarter.
- ▶ In the US, investors continued to pull money out of sustainable funds, but less than in the previous quarter. Redemptions in the second quarter amounted to USD 4.7 billion, about half of the USD 9 billion registered in the first quarter.
- ▶ There were reduced outflows in Japan too, while sustainable funds in Asia continued to attract net new money.
- ▶ Supported by stock price appreciation, global sustainable fund assets stood steady at USD 3.1 trillion at the end of June 2024.
- ▶ Product development continued a downward trajectory, with 77 new sustainable fund launches in the second quarter. While this number is likely to be revised upwards, it confirms the normalization of product development activity in this space.

## The Global Sustainable Fund Universe

The global sustainable fund universe encompasses opened-ended 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.<sup>1</sup> (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, 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 level of assets.

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

<sup>1</sup> Note: Our definition of "sustainable fund" is not based on any regulatory framework, nor does it meet the criteria of any particular regulatory framework. See Appendix for further details.

**Exhibit 1** Global Sustainable Fund Statistics

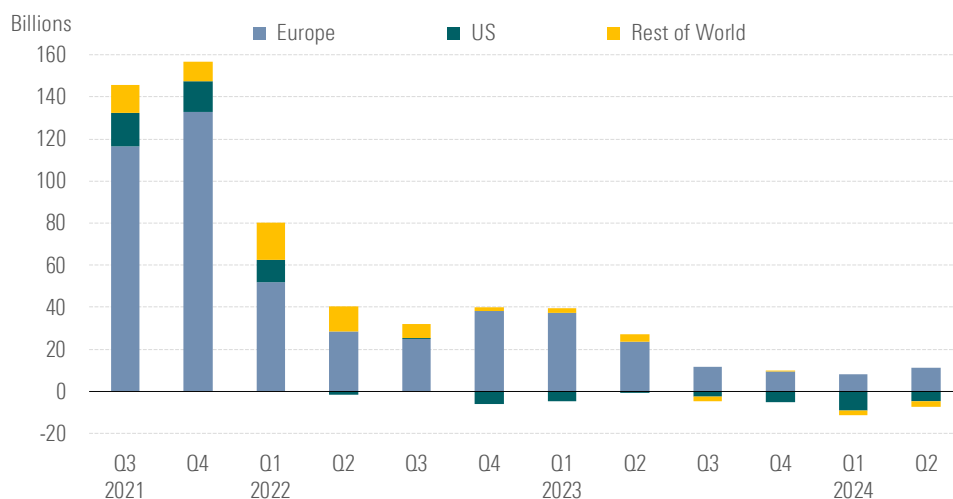
Region	Flows	Flows	Assets		Funds	
	Q1 2024	Q2 2024	USD Billion	% Total	#	% Total
<b>Europe</b>	8.4	11.8	2,605	84	5,609	73
<b>United States</b>	-9.0	-4.7	336	11	613	8
<b>Asia ex-Japan</b>	-0.7	0.7	62	2	612	8
<b>Canada</b>	0.1	-1.4	36	1	323	4
<b>Australia/New Zealand</b>	0.0	-0.8	30	1	271	4
<b>Japan</b>	-1.7	-1.3	23	1	231	3
<b>Total</b>	<b>-2.9</b>	<b>4.3</b>	<b>3,091</b>		<b>7,659</b>	

Source: Morningstar Direct. Data as of June 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 second quarter of 2024 showed a recovery of flows into the global universe of sustainable funds, netting almost USD 4.3 billion from the restated USD 2.9 billion outflows in the previous quarter.

Europe, by far the world's largest market for sustainable funds, attracted USD 11.8 billion in the second quarter, up from the restated inflows of USD 8.4 billion in the previous quarter. Conversely, US sustainable funds continued bleeding money, recording redemptions of USD 4.7 billion. These, however, amounted to half of the restated USD 9 billion outflows seen in the first 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 was 0.14% in the second quarter, a slight improvement on the 0.01% rate in the previous quarter. Yet, the aggregate growth of sustainable funds lagged that of the broader funds universe, which with USD 200 billion of inflows, recorded an organic growth rate of 0.4%.

**Exhibit 2** Quarterly Global Sustainable Fund Flows (USD Billion)

Source: Morningstar Direct. Data as of June 2024.

Meanwhile, investors in Canada pulled a record USD 1.4 billion from sustainable funds, but USD 1.3 billion is attributed to a single fund, namely **BMO MSCI USA ESG Leaders Index ETF**.

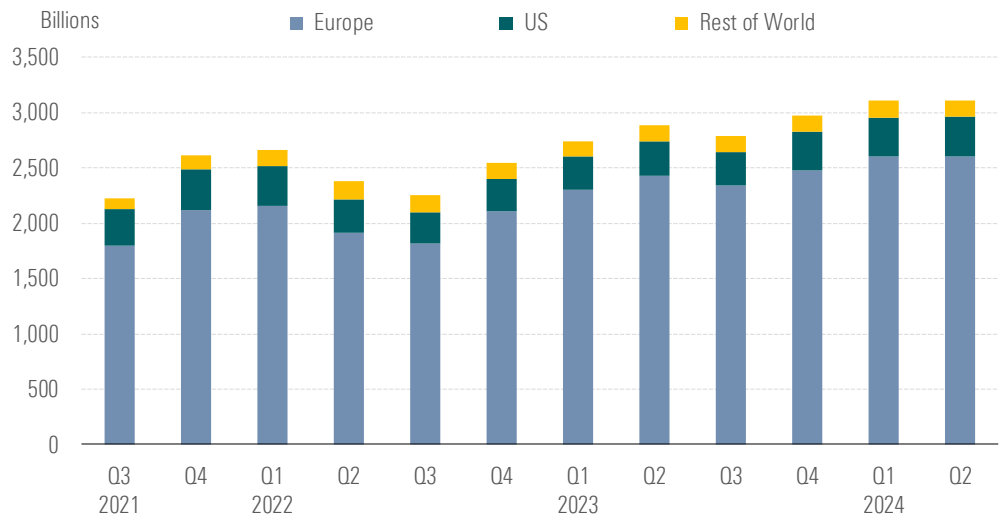
The Asia-Pacific universe of sustainable funds showed a mixed flow picture in the second quarter, with inflows of USD 2.5 billion into the Asia ex-Japan, ex-China region. Taiwan saw a staggering USD 2.7 billion in inflows. But in Japan, outflows continued, decelerating moderately, though, to USD 1.3 billion from the restated USD 1.7 billion in the first quarter. Finally, sustainable funds in Australia and New Zealand suffered outflows of almost USD 800 million.

**Global Assets Remain Steady at Over USD 3 Trillion**

Global sustainable fund assets leveled with the previous quarter at almost USD 3.1 trillion. For context, the Morningstar Global Market Index achieved a 2.6% gain in the second quarter, whereas the fixed-income markets, represented by the Morningstar Global Core Bond Index, slid by 1.2%.

Europe takes up 84% of global sustainable fund assets. The United States retained its status as the second-largest market. With total assets of USD 336 billion, it housed 11% of global sustainable fund assets, mirroring the distribution observed three months ago.

**Exhibit 3** Quarterly Global Sustainable Fund Assets (USD Billion)

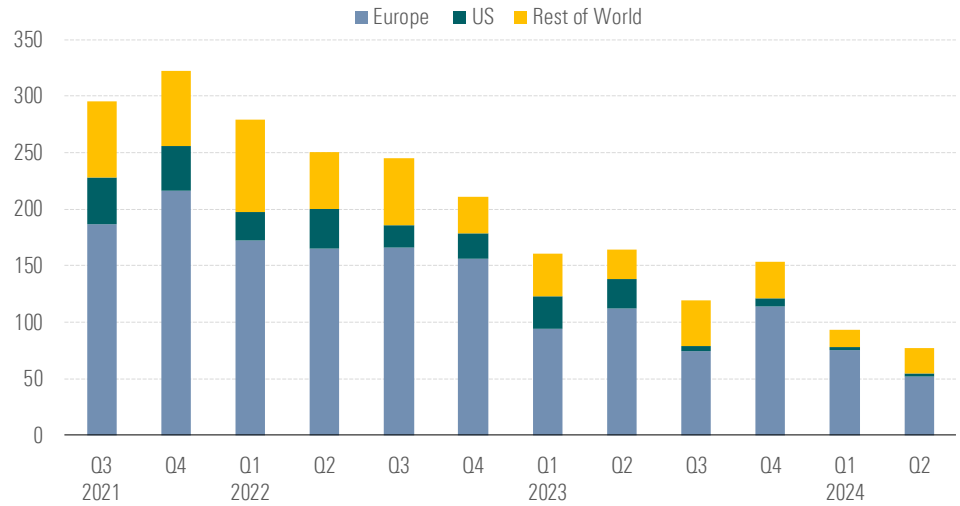


Source: Morningstar Direct. Data as of June 2024.

**Global Fund Launches**

The slowdown in product development extended into the second quarter of 2024, reaching a new low of 77 new sustainable funds introduced worldwide. This number, however, will likely be revised upwards in the next report as additional launches are identified.

**Exhibit 4a** Global Sustainable Fund Launches per Quarter



Source: Morningstar Direct. Data as of June 2024.

In the first six months of the year, approximately 170 new sustainable funds came to market, globally, compared with 325 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 their 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 SFDR, as these will determine the requirements for new sustainable strategies.

**BlackRock Tops the League Table Thanks to Its Passive Offering**

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 370 billion of assets in ESG-focused open-ended assets and ETFs. Behind BlackRock, Amundi (the largest European manager) reached USD 177 billion, almost level with the previous quarter.

**Exhibit 4b** Top Asset Managers by Global Sustainable Fund Assets

<b>Overall</b>		<b>Actively Managed</b>		<b>Passively Managed</b>	
<b>Firm</b>	<b>Total Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>
BlackRock (incl. iShares)	374.7	Amundi (incl. Lyxor)	82.2	BlackRock (incl. iShares)	301.7
UBS (incl. Credit Suisse)	177.3	Natixis	74.7	UBS (incl. Credit Suisse)	104.0
Amundi (incl. Lyxor)	174.2	BlackRock (incl. iShares)	73.0	Amundi (incl. Lyxor)	92.0
DWS (incl. Xtrackers)	101.4	UBS (incl. Credit Suisse)	73.3	Northern Trust	52.7
Swisscanto	91.8	Nordea	71.5	Vanguard	51.5
BNP Paribas	81.7	KBC	58.4	DWS (incl. Xtrackers)	43.6
Natixis	77.3	DWS (incl. Xtrackers)	57.8	Swisscanto	38.6
Nordea	71.5	Swisscanto	53.2	Handelsbanken	35.5
KBC	58.5	BNP Paribas	50.9	BNP Paribas	30.8
Northern Trust	57.1	Allianz Global Investors	48.1	State Street	26.3
Vanguard	54.7	Pictet	47.2	Länsförsäkringar	20.1
Royal London	51.2	Royal London	44.2	Legal & General	19.0
Pictet	48.6	Parnassus	39.1	Invesco	15.6
Allianz Global Investors	48.1	Union Investment	33.9	Eaton Vance	10.5
Handelsbanken	40.4	Goldman Sachs	31.5	Cathay Securities Investment Trust	9.5
Parnassus	39.1	AXA IM	31.0	HSBC	9.3
Eaton Vance	35.4	JPMorgan	30.6	Storebrand Fonder	8.3
JPMorgan	34.0	Vontobel	27.7	Scottish Widows	7.1
Union Investment	33.9	Robeco	27.2	Royal London	7.0
Goldman Sachs	31.6	Schroders	27.1	Mercer Global Investments	6.7

Source: Morningstar Direct. Data as of May 2024.

**Global Regulatory Update**

The International Sustainability Standards Board (ISSB) announced, in [its two-year work plan](#), that it will remain focused on the implementation of two initial standards, S1 (sustainability) and S2 (climate), knowing that several countries are considering only partially applying the standards. This is a cause for concern. Research on biodiversity and human capital will also start, but related standards seem unlikely to be launched before 2026.

The International Financial Reporting Standards, or IFRS, has also [agreed that it will host](#) disclosure-specific materials developed by the UK-focused Transition Plan Taskforce and promote further harmonization of reporting on that topic, but that it will not amend S2 immediately to integrate the Transition Plan Taskforce (TPT) guidance.

In parallel, ISO announced it is working on a [net zero standard](#), with an aim to finalize it by November 2025. "The standard is an evolution of the ISO Net Zero Guidelines, launched at COP27, into an independently verifiable international standard. The purpose of the guidelines was to help organizations create comprehensive net zero strategies by providing credible best practice. The standard will give the public greater confidence and guard against greenwashing."

While ISSB and ISO serve different purposes (reporting versus auditing) there is an obvious interaction between the two projects on transition plans. Fortunately, IFRS and ISO plan to reinforce their co-operation.

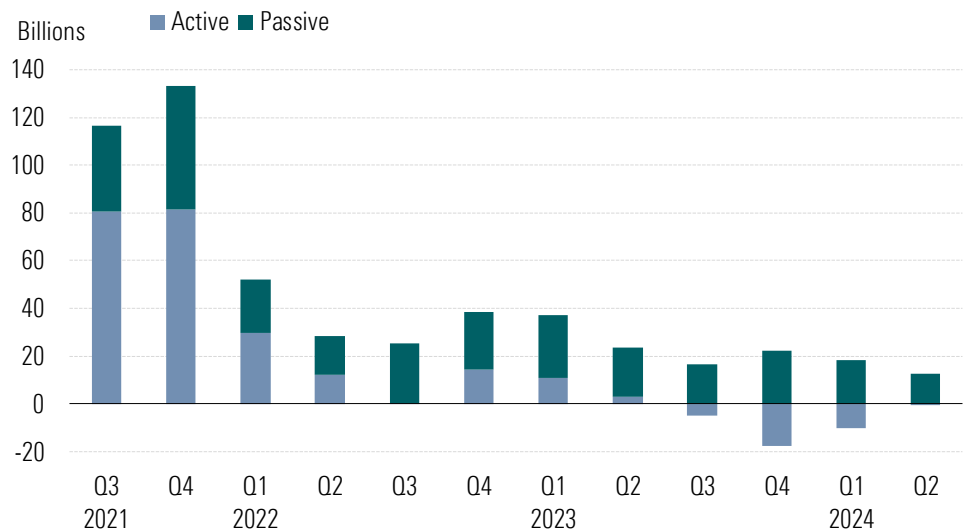
### Quarterly Statistics per Domicile

#### Europe

##### European Sustainable Fund Flows Continue Their Recovery

European sustainable funds saw a continued recovery in inflows during the second quarter of 2024 as they garnered USD 11.8 billion, up from the restated inflows of USD 8.4 billion in the first quarter and the inflows of USD 4.9 billion in the fourth quarter of 2023. Active sustainable funds recovered, although they still registered outflows, at around USD 620 million. Meanwhile, passive sustainable funds recorded their lowest quarterly inflows in years, at roughly USD 12.4 billion.

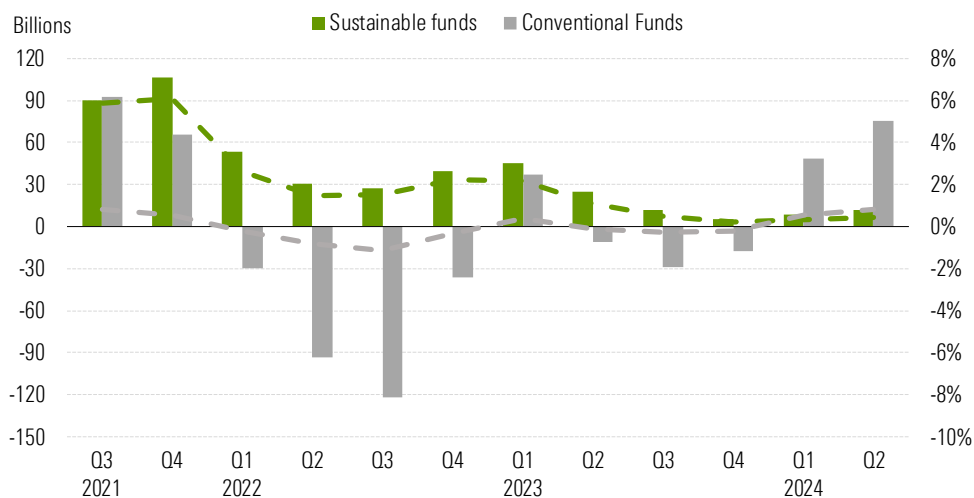
**Exhibit 5** European Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

The continued recovery of flows in the European sustainable fund universe translated to a moderate uptick in its organic growth rate<sup>2</sup> to 0.45% from 0.34% in the previous quarter. But this improvement should be viewed in the perspective of the overall market environment. In comparison, conventional funds collected almost USD 76 billion of net new money in the second quarter and experienced a higher organic growth rate of 0.82%.

<sup>2</sup> 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 June 2024.

**Exhibit 6b** European Sustainable Fund Flows Compared with Conventional Fund Flows by Asset Class

USD Billion	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
<b>Allocation</b>	-6.4	-4.4	-19.6	-10.9	-26.0	-15.3
<b>Alternative</b>	0.0	0.0	-6.1	-0.6	-6.2	-0.6
<b>Commodities</b>	0.0	0.0	-2.4	-2.4	-2.4	-2.4
<b>Convertibles</b>	-0.4	-0.6	-1.3	-0.9	-1.7	-1.5
<b>Equity</b>	-4.5	3.4	14.1	29.1	9.5	32.5
<b>Fixed Income</b>	20.5	14.2	67.5	62.9	87.9	77.0
<b>Miscellaneous</b>	-0.2	-0.2	-1.4	0.3	-1.5	0.0
<b>Property</b>	-0.5	-0.6	-2.1	-1.8	-2.7	-2.4
<b>Total</b>	<b>8.4</b>	<b>11.8</b>	<b>48.6</b>	<b>75.6</b>	<b>57.0</b>	<b>87.3</b>

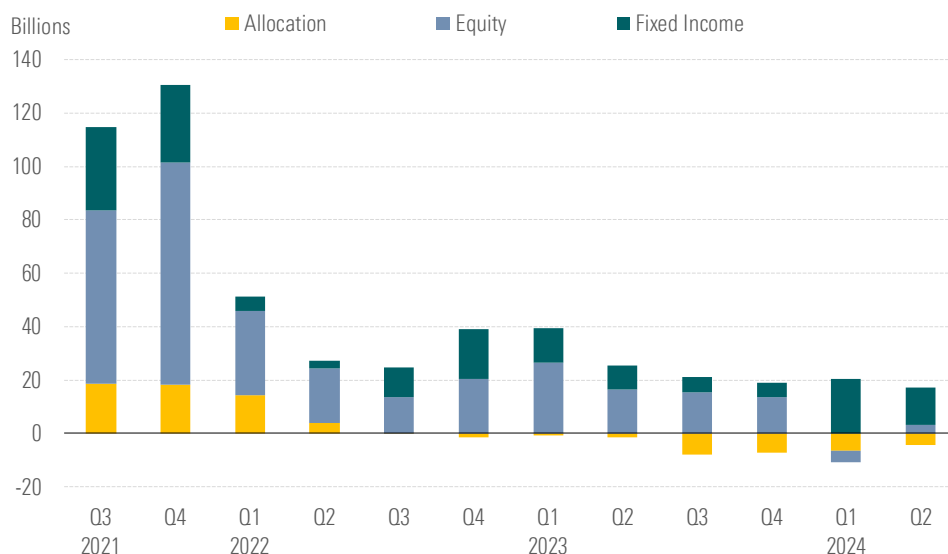
Source: Morningstar Direct. Data as of June 2024.

In the second quarter of 2024, sustainable funds displayed mixed flow performances across asset classes. Sustainable equity funds rebounded, with inflows of USD 3.4 billion from the restated USD 4.5 billion outflows in the previous quarter. But in comparison, conventional equity markets recorded much larger inflows, almost ninefold more. Investors continued to favor market exposures with a heavy US large-cap bias. The US equity market saw a poor start to the quarter, due to unexpectedly high inflation concerns, but it regained its poise to close the period on positive ground, driven by ongoing enthusiasm for technology stocks.

On the fixed income side, flows into sustainable funds declined to just over USD 14 billion from the restated USD 20.5 billion in the previous quarter. Flows into conventional bonds dropped too but proved more resilient. As anticipated, the European Central Bank cut rates in June but also sent a somewhat hawkish message to tone down expectations for further cuts. Meanwhile, the US Fed signaled that, at best, there would be a single rate cut in the latter part of the year.

Conversely, allocation funds maintained a trend of outflows, although the negative streak showed signs of mitigation. Outflows amounted to USD 4.4 billion, a slight improvement over the previous quarter.

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



Source: Morningstar Direct. Data as of June 2024.

### Leaders and Laggards

Among the bestselling sustainable funds in the second quarter of 2024, we find **iShares MSCI USA ESG Enhanced ETF**, which garnered USD 2.3 billion of net new money after suffering withdrawals of USD 919 billion in the first quarter.

**Exhibit 8a** Top 10 European Sustainable Fund Flows in Second Quarter 2024

Fund Name	Net Flows (USD Million)
iShares MSCI USA ESG Enhanced ETF	2,373
JPMorgan Global Research Enhanced Index Equity Paris Aligned Fund	1,555
Swisscanto Index Equity Fund Switzerland Total Responsible	1,491
Blackrock ACS North America ESG Insights Equity	1,457
DNCA Invest Alpha Bonds	1,451
JPMorgan US Research Enhanced Index Equity (ESG) ETF	1,353
Swisscanto Index Bond Fund Total Market AAA-BBB CHF Responsible	1,223
iShares MSCI USA ESG Screened ETF	1,120
Amundi MSCI World ESG Leaders ETF	980
Mercer Passive Sustainable Global Equity CCF	860

Source: Morningstar Direct. Data as of June 2024.

At the other end of the flow table, we find **Royal London UK Core Equity Tilt Fund**, which registered almost USD 1.76 billion of outflows. It is part of a range of funds that seek to achieve lower carbon intensity than the parent index.



Four other funds continued to suffer the largest withdrawals for the second consecutive quarter. Together, **iShares MSCI USA SRI ETF**, **Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF**, **Amundi MSCI World SRI Climate Net Zero Ambition PAB ETF**, and **BNP Paribas Easy MSCI USA SRI PAB** bled almost USD 5 billion in the second quarter, after suffering nearly USD 6.2 billion of outflows in the previous quarter.

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**Exhibit 8b** Bottom 10 European Sustainable Fund Flows in Second Quarter 2024

<b>Fund Name</b>	<b>Net Flows (USD Million)</b>
Royal London UK Core Equity Tilt Fund	-1,757
iShares MSCI USA SRI ETF	-1,744
Amundi MSCI USA SRI Climate Net Zero Ambition PAB ETF	-1,294
Handelsbanken USA Index Criteria	-1,220
L&G US ESG Exclusions Paris Aligned ETF	-1,213
BNP Paribas Easy MSCI Europe SRI S-Series PAB 5% Capped	-1,034
Nordea 1 Emerging Stars Bond Fund	-783
Amundi MSCI World SRI Climate Net Zero Ambition PAB ETF	-780
BlackRock Solutions Funds ICAV - Coutts UK ESG Insights Equity Fund	-704
BNP Paribas Easy MSCI USA SRI S-Series PAB 5% Capped	-699

Source: Morningstar Direct. Data as of June 2024.

In the second quarter of 2024, the top 10 bestselling firms collectively netted USD 26 billion in aggregate inflows, slightly surpassing the previous quarter's performance. Blackrock remains the leading flow gatherer, closely followed by Swisscanto, which made a significant leap from sixth to second place. JPMorgan also showed improvement, rising from fourth to third position.

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**Exhibit 9a** Top 10 European Sustainable Fund Providers by Flows in Second Quarter 2024

<b>Firm</b>	<b>Net Flows (USD Million)</b>
BlackRock (incl. iShares)	5,373
Swisscanto	5,294
JPMorgan	4,859
Nordea	2,087
Natixis	2,016
KBC	1,887
Northern Trust	1,548
Mercer Global Investments	977
Vanguard	864
Vontobel	826

Source: Morningstar Direct. Data as of June 2024.

Meanwhile, Amundi went from the top 10 leader board in the first quarter to the first place of the flow laggards in the second quarter, with redemptions totaling almost USD 2.8 billion. Meanwhile, Eurizon held the second position, with outflows of nearly USD 2.7 billion.

**Exhibit 9a** Top 10 European Sustainable Fund Providers by Flows in First Quarter 2024

Firm	Net Flows (USD Million)
Amundi (incl. Lyxor)	-2,780
Eurizon	-2,689
Candriam	-2,011
Pictet	-1,728
BNP Paribas	-1,494
Royal London	-1,431
Legal & General	-1,036
Danske Invest	-834
Robeco	-680
ABN AMRO	-643

Source: Morningstar Direct. Data as of June 2024.

**European Sustainable Fund Assets**

In the second quarter of 2024, assets in European sustainable funds totaled USD 2.6 trillion, almost levelling with the previous quarter's restated number. Passive strategies took up almost one-third of the regional sustainable fund space.

**Exhibit 10a** European Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 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 301 billion in ESG-focused open-ended assets and ETFs in Europe at the end of the second quarter of 2024, up 3.8% from the first quarter. UBS rose to second place, surpassing Amundi, which is now in third position. However, Amundi remains the top manager of actively managed sustainable funds in Europe with almost USD 76 billion of assets.

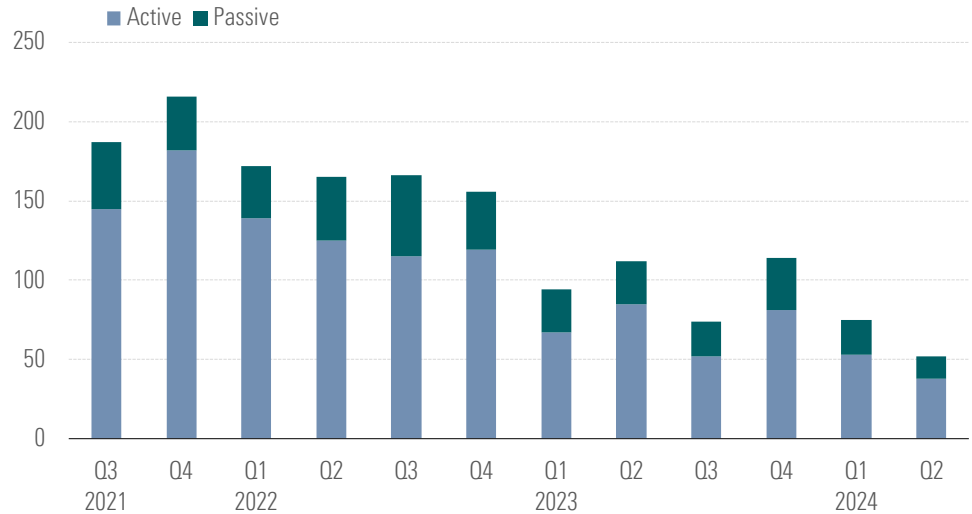
**Exhibit 10b** Top Asset Managers by Sustainable Fund Assets in Europe

<b>Overall</b>		<b>Actively Managed</b>		<b>Passively Managed</b>	
<b>Firm</b>	<b>Total Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>
BlackRock (incl. iShares)	300.9	Amundi (incl. Lyxor)	75.9	BlackRock (incl. iShares)	249.7
UBS (incl. Credit Suisse)	177.1	Natixis	73.3	UBS (incl. Credit Suisse)	104.0
Amundi (incl. Lyxor)	168.0	UBS (incl. Credit Suisse)	73.0	Amundi (incl. Lyxor)	92.1
DWS (incl. Xtrackers)	95.2	Nordea	70.2	Northern Trust	51.3
Swisscanto	92.5	DWS (incl. Xtrackers)	57.5	Swisscanto	38.6
BNP Paribas	80.8	Swisscanto	53.9	DWS (incl. Xtrackers)	37.8
Natixis	75.9	BlackRock (incl. iShares)	51.2	Handelsbanken	35.7
Nordea	70.2	BNP Paribas	50.1	BNP Paribas	30.7
Northern Trust	55.9	Allianz Global Investors	47.9	State Street	23.8
Royal London	51.2	Pictet	46.9	Länsförsäkringar	20.1
Pictet	48.3	Royal London	44.2	Legal & General	16.3
Allianz Global Investors	47.9	Union Investment	34.0	Vanguard	15.2
Handelsbanken	40.5	Goldman Sachs (incl. NNIP)	31.3	Invesco	9.5
Union Investment	34.0	AXA IM	30.6	HSBC	9.4
JPMorgan	33.2	KBC	30.6	Storebrand Fonder	8.3
Goldman Sachs (incl. NNIP)	31.4	JPMorgan	29.8	Scottish Widows	7.1
AXA IM	30.7	Robeco	28.0	Royal London	7.0
KBC	30.6	Vontobel	27.7	Mercer Global Investments	6.7
Eurizon	29.6	Eurizon	27.4	Cardano Asset	5.3
State Street	28.7	Schroders	26.2	OP	4.6

Source: Morningstar Direct. Data as of June 2024.

### Sustainable Fund Launches

The second quarter of 2024 registered the lowest number of new sustainable fund launches in recent years. With 52 new funds introduced during this period, there was a notable decline from the restated 75 funds launched in the previous quarter and from the 114 incepted in the second quarter of last year. As we continue to analyze the data and identify additional launches, we expect this number (52) to be adjusted upward in the next report.

**Exhibit 11a** European Sustainable Fund Launches

Source: Morningstar Direct. Data as of June 2024.

The continued slowdown in product development can be attributed partly to the overall market sentiment dampened by economic uncertainties, including diminishing growth in most major economies and high-standing funding costs. This is also reflected in the number of conventional strategy launches, which remain low by historical standards. Over the past three months, 292 conventional strategies were launched in Europe, down by 15% from the restated 345 for the previous quarter.

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. 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 SFDR, as these will determine the requirements for new sustainable strategies.

For more details on SFDR read: [SFDR Article 8 and Article 9 Funds: Q2 2024 in Review](#).

The table below shows the 10 largest new fund launches in the second quarter, with passive equity strategies dominating the list. However, among the wider sample of new sustainable launches in Europe, active strategies remained dominant, accounting for almost two-thirds (34) of the new offerings. The vast majority of the newly incepted sustainable funds in Europe are classified as Article 8 under the Sustainable Finance Disclosure Regulation, or SFDR.

**Exhibit 11b** Top 10 European Sustainable Fund Launches

<b>Fund Name</b>	<b>SFDR Fund Type</b>	<b>Size (USD Million)</b>
JPMorgan Global Research Enhanced Index Equity Paris Aligned Fund	Article 8	1,951
Schroder Wealth Management Global Sustainable Equity	Article 8	1,284
Barrow Hanley Global ESG Value Equity Fund	Article 8	800
DPAM L Equities US Sustainable	Article 8	376
Nordea 1 European Corporate Sustainable Labelled Bond	Article 9	301
Arcano European Senior Floating Rate Fund ESG Selection	Article 8	215
BlackRock Coutts Emerging Markets ESG Insights Equity Fund	Article 8	168
Global Opportunities Access Ocean Engagement	Article 8	161
abrdn Responsible Global High Yield Bond Fund	Article 8	137
BNP Paribas Funds Euro Government Green Bond	Article 9	131

Source: Morningstar Direct. Data as of June 2024.

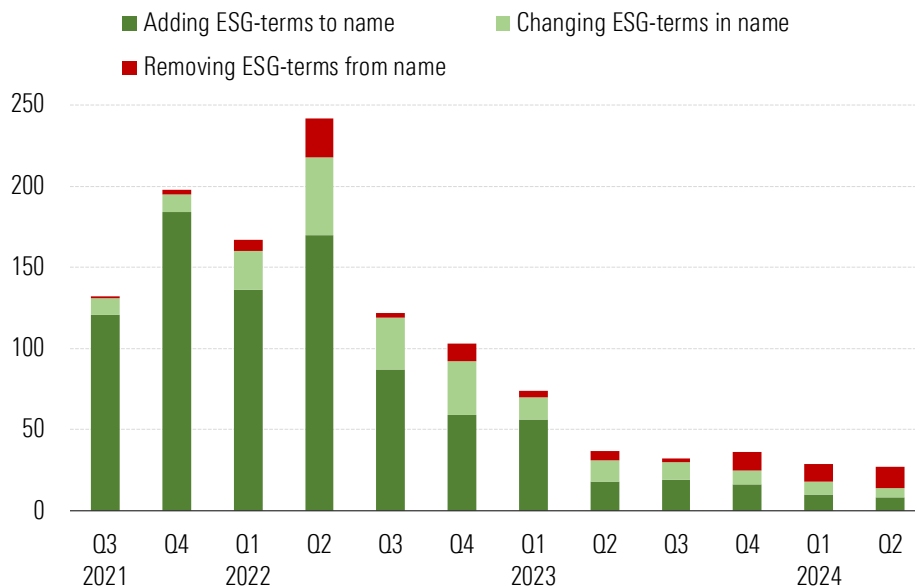
Among the top European sustainable funds, **JPMorgan Global Research Enhanced Index Equity Paris Aligned Fund** stood out, as we continued to see meaningful runway ahead for transition-labeled products. In the second position, **Schroder Wealth Management Global Sustainable Equity** recorded inflows of almost USD 1.3 billion, driven by a large client's transfer from a segregated mandate. The fund invests in companies that have high sustainability scores, as measured by Schroder's proprietary tool, which estimates the net "impact" that an issuer may create in terms of social and environmental "costs" or "benefits".

Also worth mentioning is **Global Opportunities Access Ocean Engagement**, an actively managed equity fund that commits to investing in companies that are engaged in fostering ocean conservation and sustainable use. This includes managing and protecting marine ecosystems from pollution, addressing ocean acidification, and ending overfishing and destructive fishing practices.

### **Sustainable Fund Rebranding**

Starting this quarter, we are more closely monitoring the rebranding activities in the European sustainable fund space. While investors' appetite for ESG and sustainable investments gave rise in the past to many conventional strategies repurposed into sustainable ones, tightening regulations, including [ESMA's recently finalized guidelines on ESG funds' names](#), are likely to stir a wave of funds that will either drop ESG-related terms from their names or change ESG-terms. This will be the case for those funds that are not able to comply with the new Paris-aligned exclusion rules and the minimum sustainable investment threshold.

For more details on the impact of the guidelines: [ESMA's Guidelines on ESG Fund Names | Morningstar](#).

**Exhibit 12a** European Sustainable Fund Name Changes

Source: Morningstar Direct. Data as of June 2024.

The first half of 2024 saw 56 European sustainable funds changing names, of which 18 were rebranded into ESG-focused strategies from conventional ones. These included **Amundi Index MSCI North America ESG Broad CTB Fund** (formerly known as **Amundi Index MSCI North America**), **Zurich Carbon Neutral US Corporate Bond Fund** (formerly **Zurich Invest US Corporate Bond Fund**), and **Templeton European Sustainability Improvers Fund** (formerly **Templeton European Dividend Fund**).

Since the beginning of the year, 24 funds that had sustainability or ESG-related terms in their names have removed these terms, including **Pictet Emerging Debt Blend** (formerly known as **Pictet Sustainable Emerging Debt Blend**), **State Street Pacific ex-Japan Screened Index Equity Fund** (formerly **State Street Pacific ex-Japan ESG Screened Index Equity Fund**), and **Swisscanto Bond Fund Corporate** (formerly **Swisscanto Bond Fund Sustainable Global Corporate**).

Meanwhile, 14 sustainable funds have just swapped ESG-related terms for others to reflect a new ESG strategy or better reflect their current ones. For example, **Vanguard SRI European Stock Fund** changed its name to **Vanguard ESG Developed Europe Index Fund** following the change of its underlying index. The new index screens out a wider range of companies, including companies in the non-renewable energy sector, i.e. nuclear power and power generation from oil, gas, and thermal coal.

**Vontobel Clean Technology** was renamed as **Vontobel Environmental Change** to encompass a broader range of impact pillars, including clean energy infrastructure, clean water building technology, low emission transportation, resource efficient industry, and lifecycle management.

Recognizing the significance and opportunities of transition finance, Robeco repositioned two sustainable bond funds into transition strategies. **Robeco Sustainable Asian Bonds** and **Robeco Sustainable Emerging Credits** became **Robeco Transition Asian Bonds** and **Transition Emerging Credits**

In 2022, many funds moved from including "SRI" in their names to "Responsible". Those funds that retained "SRI" in their name often added "PAB" or changed from "SRI Fossil Free" to "SRI PAB". Meanwhile thematic funds seemed to be less affected by these name changes. Another notable shift observed is funds moving from "ESG" to "Sustainable" and vice versa.

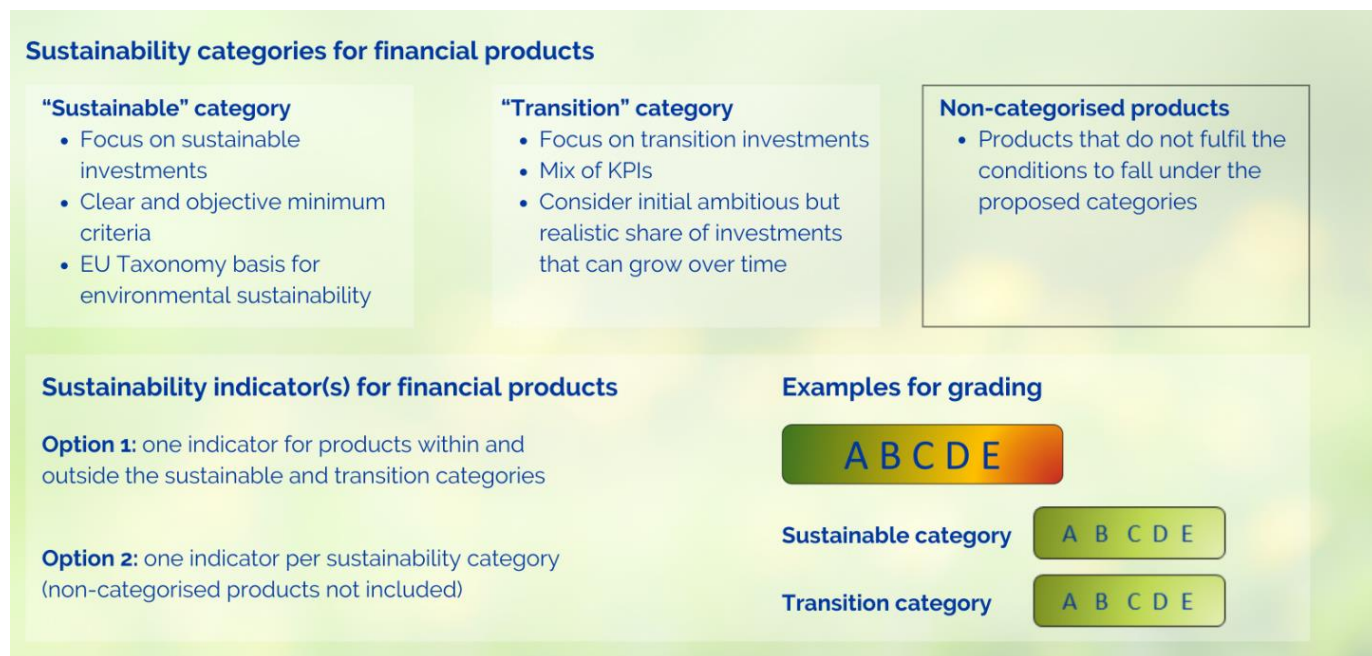
As shown above, the trend of ESG rebranding, adding ESG or sustainability-related terms to fund names, decelerated from the second quarter of 2022 after the implementation of the SFDR. 2022 alone saw over 450 conventional funds rebranded to ESG strategies. This number dropped to 109 in 2023.

### Regulatory Update

On May 14, the European Securities and Markets Authority (ESMA) published its [final guidelines on fund names using ESG or sustainability-related terms](#). The guidelines aim to protect investors from greenwashing risk and to provide minimum standards for funds available for sale in the EU that use specific ESG terms in their names. Funds will either need to comply with new portfolio requirements, as laid out in the guidelines, or change their names. The requirements include: (1) a minimum of 80% of investments that meet environmental or social characteristics or sustainable investment objectives; and (2) exclusions, as set by EU regulation for Paris-aligned benchmarks, or PABs, and climate-transition benchmarks, or CTBs. The PAB exclusions are particularly impactful, as they would rule out investments in companies deriving a certain level of revenue from fossil fuels. Additionally, funds with the key term "sustainable" in their name will need to invest "meaningfully" in sustainable investments, and funds using "transition" or "impact"-related terms are subject to specific qualitative requirements. 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.

For more details on the impact of the guidelines: [ESMA's Guidelines on ESG Fund Names | Morningstar](#).

Regarding the SFDR review, the European Commission published [a summary of the feedback](#) received from its public consultation and the European Supervisory Authorities (ESAs) released an [opinion](#) proposing improvements to the SFDR. Among others, the ESAs propose to simplify disclosure requirements and to create two sustainability categories for financial products, namely "sustainable" and "transition". Details are outlined in the exhibit below.

**Exhibit 12b** ESAs' Opinion on SFDR

Source: <https://www.esma.europa.eu/press-news/esma-news/esas-propose-improvements-sustainable-finance-disclosure-regulation#:~:text=The%20ESAs%20call%20for%20a,clear%20categories%20for%20financial%20products>

As a reminder, the SFDR review will need to go through the legislative process, involving the European Parliament and Council, and is therefore not expected to enter into application before at least 2027.

The ESAs have also published their Final Reports to the European Commission on greenwashing in the financial sector at large. [ESMA's report](#), which looks specifically at issuers, investment managers, benchmark providers, and investment service providers, mainly formulates recommendations for the National Competent Authorities to tackle greenwashing. ESMA indicates that, to date, NCAs have detected only a limited number of actual or potential occurrences of greenwashing but that it will continue to monitor greenwashing risks and supervisory progress.

This quarter is also marked by the publication in the Official journal of the EU of the Corporate Sustainability Due Diligence Directive (CSDDD), which sets due diligence requirements on human rights and environmental impacts (only upstream value chain for financial sector) and the execution of transition plans aligned with the 1.5 degrees Paris Agreement and the EU objective of climate neutrality by 2050. The CSDDD will come into effect in July 2027, and by 2029 will capture roughly 5,500 companies. While complementary to the Corporate Sustainability Reporting Directive (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.

For more details on the CSDDD: [The Corporate Sustainability Due Diligence Directive: A Step Towards Stronger Human Rights and Environmental Practice \(sustainalytics.com\)](#).



On the CSRD front, while companies are gearing up to publish their first report in 2025, the European Financial Reporting Advisory Group (EFRAG) published a series of non-binding documents supporting implementation ([materiality assessment](#), [value chain and list of data points](#), [Q&A](#)) and showing interoperability with other standards ([TNFD](#), [ISSB](#)).

In the UK, HM Treasury and the Financial Conduct Authority issued their Roadmap on the Overseas Funds Regime (OFR) on May 1, indicating a consultation on the extension of the Sustainability Disclosure Requirements (SDR) to funds subject to the Overseas Fund Regime (OFR) in the third quarter of 2024. So far, the SDR only apply to UK-domiciled funds. If the government decides to extend the SDR to overseas funds, it aims to introduce legislation this year and the FCA will then consult on its related rules and guidance in 2025.

For more details on SDR: [U.K. Sustainability Disclosure Requirements: An early analysis | Morningstar](#).

Regarding corporate disclosure, the UK government has indicated that it intends to make the UK-endorsed ISSB standards known as UK Sustainability Reporting Standards (UK SRS) available in the first quarter of 2025. Subject to a positive endorsement decision by the government, and following a consultation process, the FCA will be able to use the UK SRS to introduce requirements for UK-listed companies to report sustainability-related information. In Q2 2025, the government will consult on disclosure requirements against the UK SRS for UK companies that do not fall within the FCA's regulatory perimeter. Given that these commitments were made under the previous government, the timeline and policy outcome may differ under the new Labour government. We note, however, that under its Manifesto, the Labour party has clearly indicated [its intention to support sustainable finance](#), notably by endorsing ISSB standards.

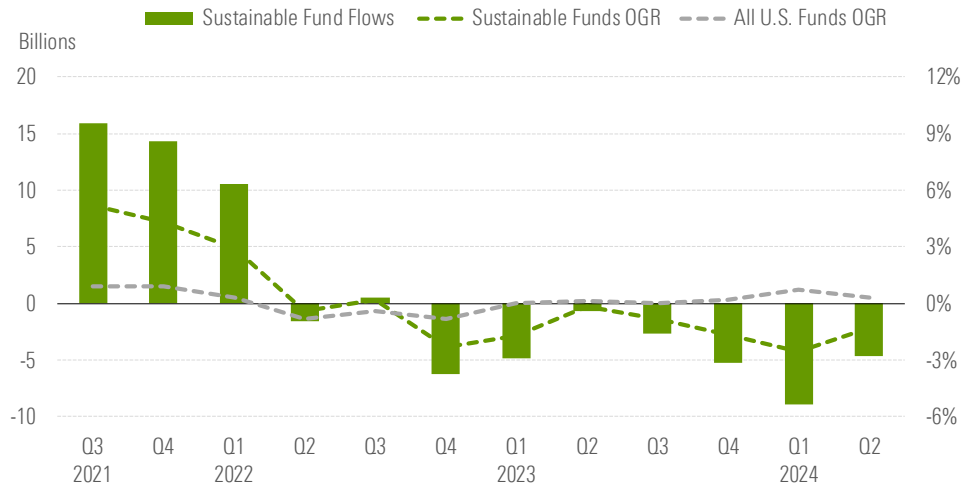
## United States

### Reduced Withdrawals from the US Sustainable Funds Universe

Investors pulled USD 4.7 billion from US sustainable funds in the second quarter of 2024, making it the seventh consecutive quarter of outflows. These outflows, however, were half of those experienced in the first quarter, which amounted to almost USD 9 billion.

Although the motivations behind outflows cannot be precisely quantified, several key factors contribute to this trend. These include high interest rates, which have made alternative investment options more appealing and diminish the attractiveness of sustainable funds. Additionally, the mediocre returns of sustainable funds in 2023 have led to investor dissatisfaction and subsequent withdrawals. Concerns about greenwashing have also contributed to reduced investor confidence, as skepticism grows regarding the genuine sustainability credentials of some funds. Furthermore, the increasing politicization and regulatory scrutiny of ESG investing have prompted some investors to re-evaluate their positions, resulting in further outflows.

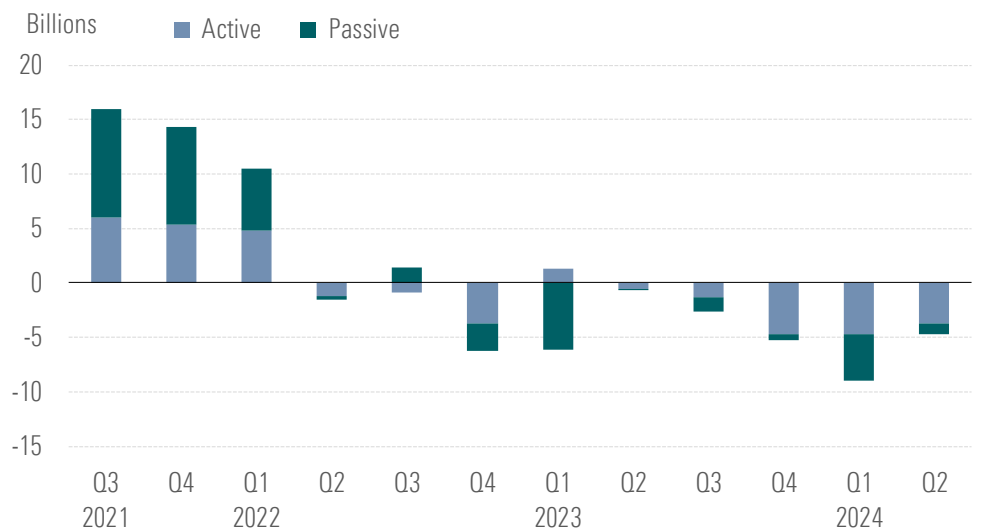
**Exhibit 12c** US Fund Flows: Sustainable Vs. All US Funds (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

The organic growth rate of sustainable funds, calculated as net flows over the period divided by total assets at the beginning of the period, provides insight into the magnitude of net flows and redemptions. In the second quarter of 2024, US sustainable funds experienced a contraction of 1.3%, versus a contraction of 2.6% in the previous quarter, whereas the overall US market of funds grew by 0.3% in the past three months, after expanding by 0.7% in the first quarter of the year. Meanwhile, active strategies experienced outflows of USD 3.7 billion in the second quarter, which is USD 1 billion less than the redemptions recorded in the previous quarter. Similarly, outflows from index-tracking products slid to USD 960 million from the restated USD 4.3 billion outflows in the first quarter.

**Exhibit 13** US Sustainable Fund Flows (USD Billion)

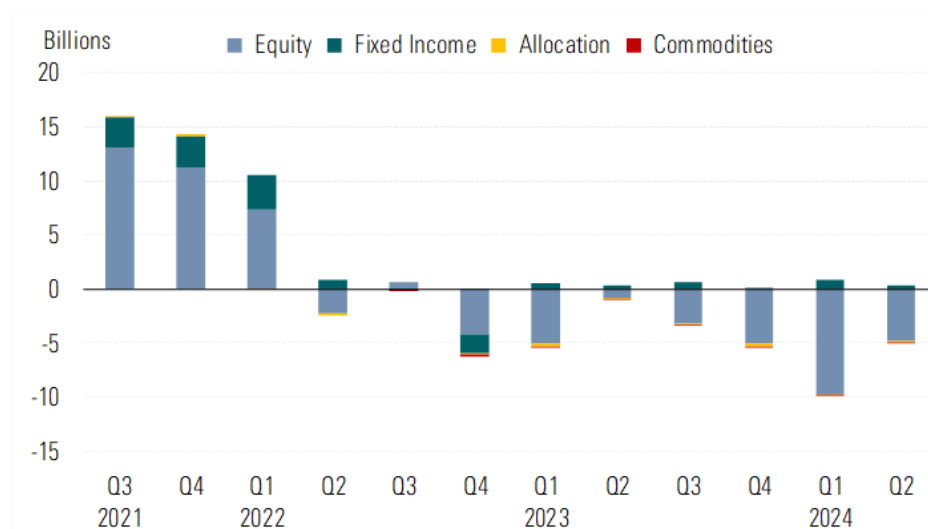


Source: Morningstar Direct. Data as of June 2024.

### Asset Classes

During the second quarter of 2024, sustainable bond funds kept positive momentum with a modest USD 320 million collection, a decline from the restated USD 868 million in the first quarter. Meanwhile sustainable equity funds shed USD 4.7 billion.

**Exhibit 14** US Sustainable Fund Flows by Asset Class (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

### Leaders and Laggards

In the second quarter of 2024, the standout performer was the **First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund**, which garnered USD 456 million. This fund employs a modified market-capitalization weighting methodology, emphasizing companies engaged in significant smart grid-related activities. Following, **Fidelity U.S. Sustainability Index Fund** secured the second position with USD 246 million in inflows.

**Exhibit 15** Top 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund	456
Fidelity U.S. Sustainability Index Fund	246
Vanguard ESG U.S. Stock ETF	160
Catholic Responsible Investments Bond Fund	146
Vanguard FTSE Social Index Fund	100
Calvert Bond Fund	98
Dimensional US Sustainability Core 1 ETF	88
Eventide Dividend Opportunities Fund	82
Calvert Core Bond Fund	73
iShares® ESG Advanced MSCI USA ETF	63

Source: Morningstar Direct. Data as of June 2024.

The roster of top 10 flow recipients also includes **Vanguard ESG US Stock ETF**, which brought in a total of USD 160 million over the period.

### The Largest Sustainable Funds Extend Their Outflows

**iShares ESG Aware MSCI USA ETF** remained in the list of worst-selling sustainable funds with net withdrawals of USD 439 million. However, topping the table was **Parnassus Core Equity Fund**, with outflows of USD 758 billion. The fund focuses on investing in large-cap US companies with sustainable competitive advantages, quality management, and positive ESG performance.

It is followed by **Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF**, which bled USD 484 million. The fund focuses on companies that operate in accordance with market standards on ESG controversy screens, emphasizing sustainability and climate improvement.

**Exhibit 16** Bottom 10 US Sustainable Fund Flows

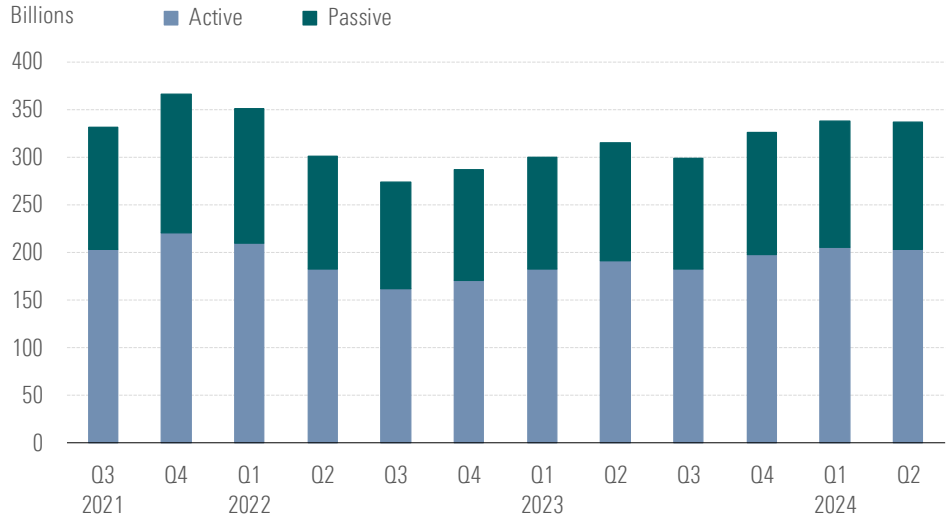
<b>Fund Name</b>	<b>Net Flows (USD Million)</b>
Parnassus Core Equity Fund	-758
Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF	-484
Parnassus Mid Cap Fund	-444
iShares ESG Aware MSCI USA ETF	-439
Calvert Equity Fund	-335
Eventide Gilead Fund	-237
Brown Advisory Sustainable Growth Fund	-225
Nuveen Large Cap Responsible Equity Fund	-223
iShares ESG U.S. Aggregate Bond ETF	-213
BlackRock U.S. Carbon Transition Readiness ETF	-204

Source: Morningstar Direct. Data as of June 2024.

### Assets

In the past three months, assets in US-domiciled sustainable funds remained roughly unchanged at USD 336 billion at the end of June 2024, helped by market appreciation.

**Exhibit 17** 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 are marketing sustainable funds in the US. BlackRock, the world's largest manager, tops the list, with USD 57 billion of assets in ESG-focused open-ended assets and ETFs, at the end of the second quarter. It is followed by Parnassus and Eaton Vance, which includes the Calvert brand, with approximately USD 39 billion and USD 36 billion, respectively.

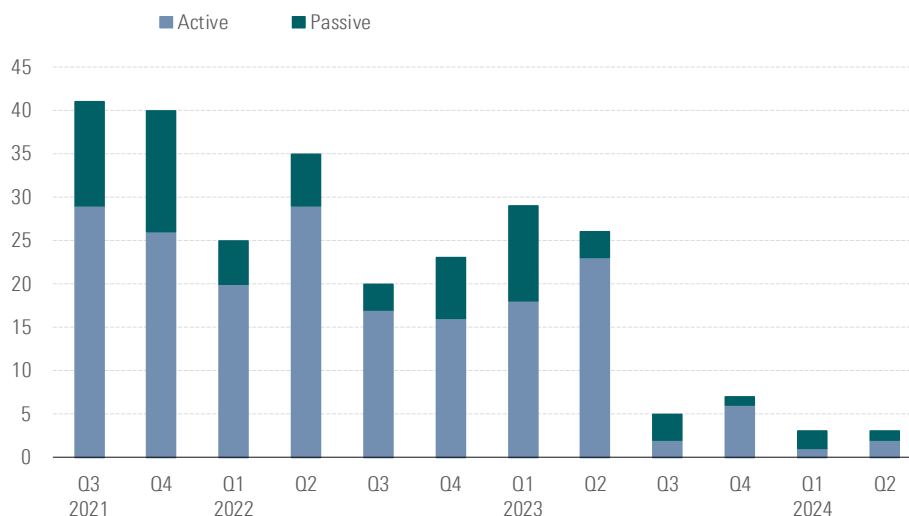
**Exhibit 18** Top Asset Managers by Sustainable Fund Assets in the US

<b>Overall</b>		<b>Actively Managed</b>		<b>Passively Managed</b>	
<b>Firm</b>	<b>Total Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>	<b>Firm</b>	<b>Net Assets (USD Billion)</b>
BlackRock (incl. iShares)	57.0	Parnassus	39.1	BlackRock (incl. iShares)	52.2
Parnassus	39.1	Eaton Vance	25.9	Vanguard	33.9
Eaton Vance	36.3	Dimensional	20.1	Eaton Vance	10.5
Vanguard	35.5	Nuveen	16.7	Nuveen	6.1
Nuveen	22.8	Franklin Templeton	11.3	Fidelity	5.1
Dimensional	20.1	Brown Advisory	11.0	DWS (incl. Xtrackers)	4.7
Catholic Responsible Investments Func	12.3	Impax	10.8	Catholic Responsible Investments Func	4.4
Franklin Templeton	11.4	Amundi (incl. Lyxor)	9.9	First Trust	4.0
Brown Advisory	11.0	Catholic Responsible Investments Func	7.9	Invesco	4.0
Impax	10.8	Eventide	6.5	Northern Trust	2.1
Amundi (incl. Lyxor)	9.9	American Century	6.4	State Street	1.8
Invesco	6.8	BlackRock (incl. iShares)	4.8	Praxis Mutual Funds	1.8
Fidelity	6.8	PIMCO	4.3	Global X	1.4
Eventide	6.5	Boston Trust Walden	4.1	Green Century	0.9
American Century	6.4	AllianceBernstein	3.9	New York Life	0.8
DWS (incl. Xtrackers)	5.0	Community Capital	3.6	TCW	0.7
PIMCO	4.3	Invesco	2.8	Kraneshares	0.6
Boston Trust Walden	4.1	Neuberger Berman	2.4	Flexshares	0.5
First Trust	4.0	Domini	2.2	Jackson	0.4
AllianceBernstein	3.9	Victory Capital	1.8	VanEck	0.4

Source: Morningstar Direct. Data as of June 2024.

**New Sustainable Fund Launches Remain Low**

The second quarter of 2024 mimics the launches of the first quarter, with three new sustainable fund launches.

**Exhibit 19** US Sustainable Fund Launches

Source: Morningstar Direct. Data as of June 2024.

**Carbon Collective Short Duration Green Bond ETF** focuses on sustainability by investing primarily in investment-grade green or sustainable corporate bonds with an average duration of five years or less. The fund includes bonds that are either self-labeled as green, in line with International Capital Markets Association (ICMA) guidelines or certified under the Climate Bond Standard (CBS).

**Invesco MSCI Global Climate 500 ETF** focuses on companies that minimize exposure to physical and transition risks associated with climate change, including those achieving benchmarks for yearly reductions in greenhouse gas emissions relative to their revenue.

Meanwhile, the second quarter saw 12 US sustainable funds being liquidated, including **BlackRock Global Impact Fund**, **JPMorgan Small Cap Sustainable Leaders Fund**, and **Xtrackers S&P Small Cap 600 ESG ETF**. The former focused on a wide range of SDG themes, including affordable housing, education and training, green energy, pollution remediation and prevention, as well as sustainable food. Furthermore, **ClearBridge All Cap Growth ESG ETF** and **abrdn Emerging Markets Sustainable Leaders Fund** have been merged with other ESG strategies offered by the same managers.

### Regulatory Update

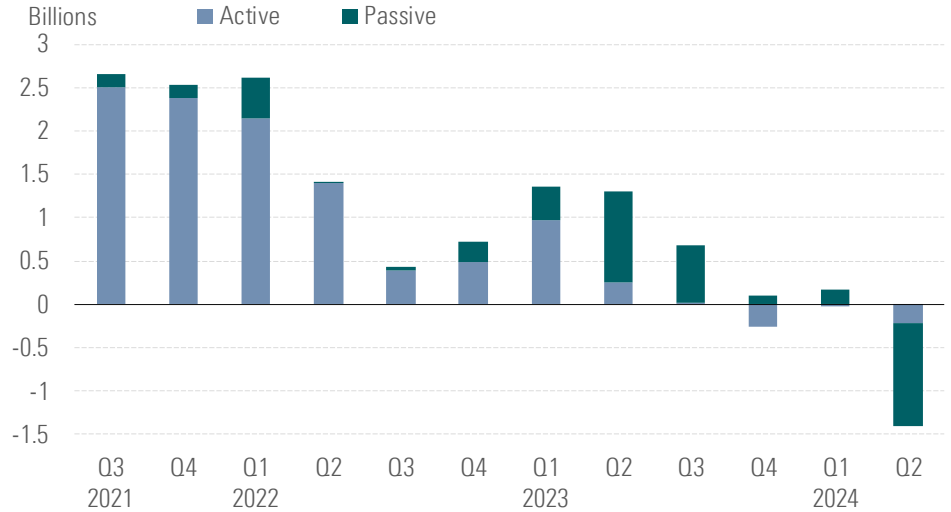
There are no regulatory developments in the United States to report in the second quarter. Climate disclosure regimes (California SB 253 and 261 and the SEC) litigation are still pending. As a reminder, in September 2023, the State of California passed two bills requiring public and private companies to disclose their greenhouse gas emissions (Senate Bill 253) and climate-related financial risks (SB 261) based on a company's size. While the requirements will not take effect until 2027, investor and regulatory groups have begun to file lawsuits seeking relief from the two bills. On January 30, 2024, groups such as the US Chamber of Commerce, the California Chamber of Commerce, and the American Farm Bureau Federation filed a complaint in the Central District of California against the two bills, arguing that the laws violate the First Amendment by forcing companies to engage in costly speech on climate change. Although these lawsuits seek to challenge only SB 253 and SB 261, the impending ruling may have a broader implication for the SEC's proposed climate disclosure rules.

## Canada

### Flows

Canada's sustainable funds universe experienced the highest outflows ever recorded to date of USD 1.4 billion. Active strategies bled about USD 200 million, while passive strategies' withdrawals reached USD 1.4 billion due to one ETF, namely **BMO MSCI USA ESG Leaders Index ETF**, which alone registered redemptions of USD 1.3 billion. At the same time, conventional funds registered very low inflows of USD 700 million in the last three months.

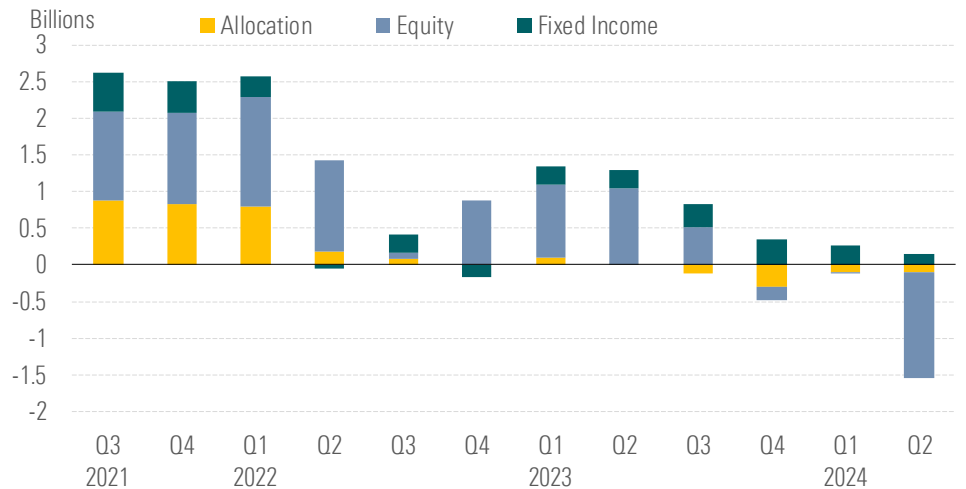
**Exhibit 20** Canada Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

Partly offsetting the BMO ETF's outflows, newly launched **Desjardins Sustainable Canadian Corporate Bond Fund** pooled USD 331 million, while **Aviva Investors Canadian Core Plus Climate Transition Pooled Fund** garnered USD 129 million. This fund excludes the most carbon-intensive fossil fuel companies and focuses on companies that are actively mitigating or adapting to climate change or are otherwise oriented towards a sustainable transition. The third largest flow recorded in the last three months was **BMO MSCI India ESG Leaders Index ETF**, with inflows of USD 121 million.

**Exhibit 21** Canada Sustainable Flows by Asset Class (USD Billion)



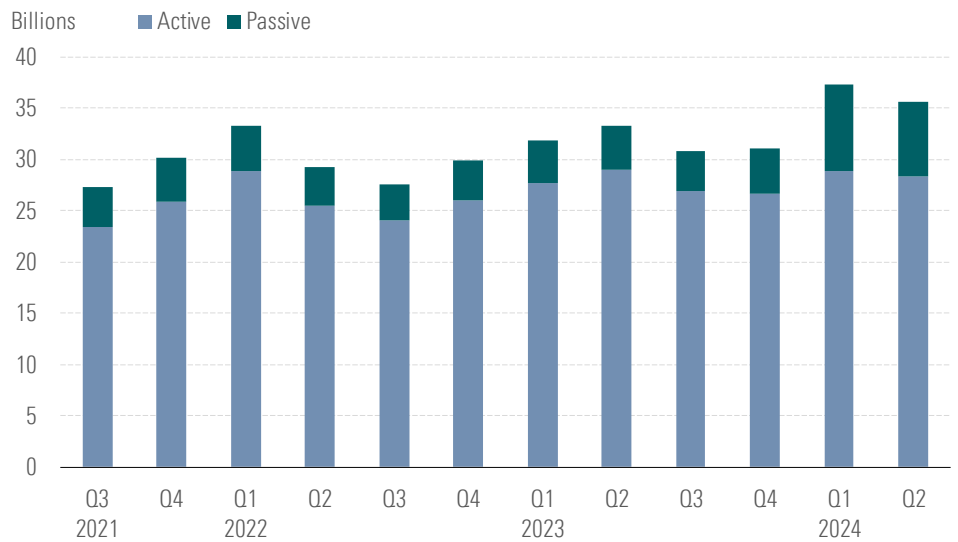
Source: Morningstar Direct. Data as of June 2024.



**Assets**

Assets invested in Canadian sustainable funds declined to almost USD 36 billion in the second quarter of 2024. Whilst active passive strategies were hit by a marginal decline in assets, assets of passive sustainable funds slid by almost 14%, largely explained by the significant outflows from **BMO MSCI USA ESG Leaders Index ETF**.

**Exhibit 22** Canada Sustainable Fund Assets (USD Billion)

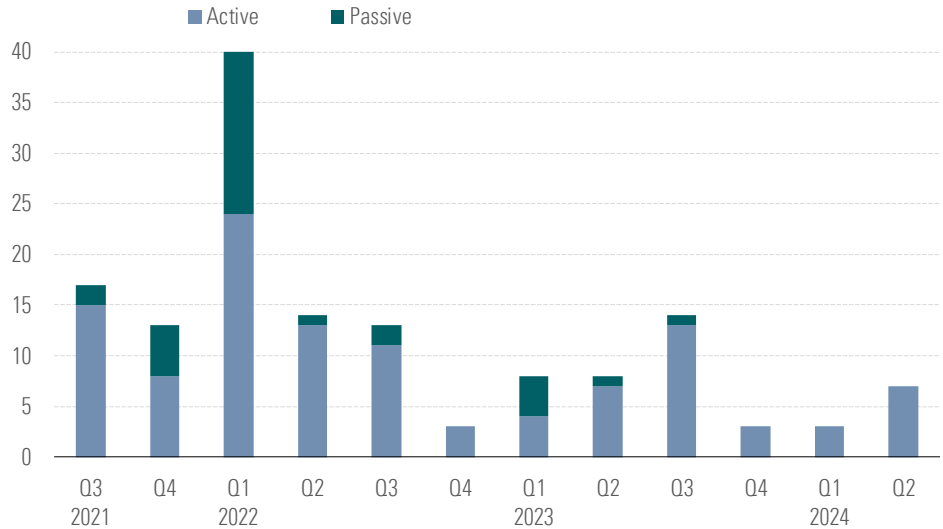


Source: Morningstar Direct. Data as of June 2024.

NEI Investments, a firm rooted in responsible investments, regained its title of largest provider of sustainable funds in Canada, with assets of USD 12 billion and a market share of 27% at the end of June 2024. Desjardins follows closely behind, with assets around USD 11 billion. National Bank ranks third, with assets of USD 5 billion.

**New Launches and Closures**

Product development in sustainable funds and ETFs in Canada experienced an uptick compared to the previous quarter, marked by the launch of seven new sustainable funds, including Desjardins Sustainable Canadian Corporate Bond Fund and a series of allocation funds offered by National Bank Investments. The funds use proprietary tools to assess the sustainability impact of potential investments, ensuring that each portfolio supports long-term growth while contributing positively to societal and environmental outcomes.

**Exhibit 23** Canada Sustainable Fund Launches

Source: Morningstar Direct. Data as of June 2024.

Conversely, in the second quarter, the Canadian sustainable fund universe witnessed the closure of five ETFs from TD Asset Management and Power Sustainable China Ascent Fund.

**Regulatory Update**

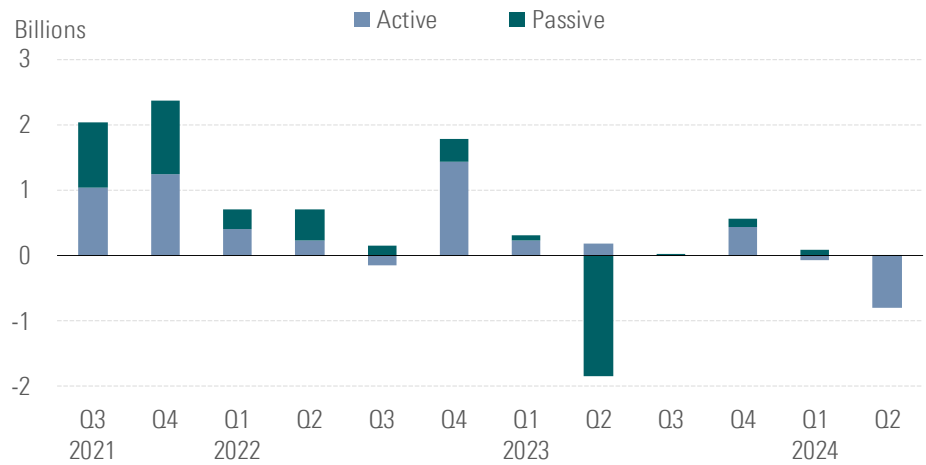
The Canadian Parliament introduced [amendments to the Competition Act](#) to tackle greenwashing in the corporate world. The Competition Act contains both criminal and civil provisions that address deceptive marketing. The amendments inexplicitly prohibit deceptive environmental claims, requiring that such claims be based on "adequate and proper tests" or "internationally recognized methodologies." They also expand the private rights of action available under the Act, making it easier for private parties to bring greenwashing claims before the Competition Tribunal.

**Australia and New Zealand****Flows**

In the second quarter of 2024, the Australasian (Australia and New Zealand) sustainable funds suffered outflows of almost USD 800 million<sup>3</sup>, after registering small inflows of USD 27 million in the previous quarter. Active strategies accounted for all the outflows in the past three months, while passive products garnered nearly USD 5 billion of net new money.

<sup>3</sup> As of 12 July, we have received around 75% of fund asset and flow data from the fund managers.

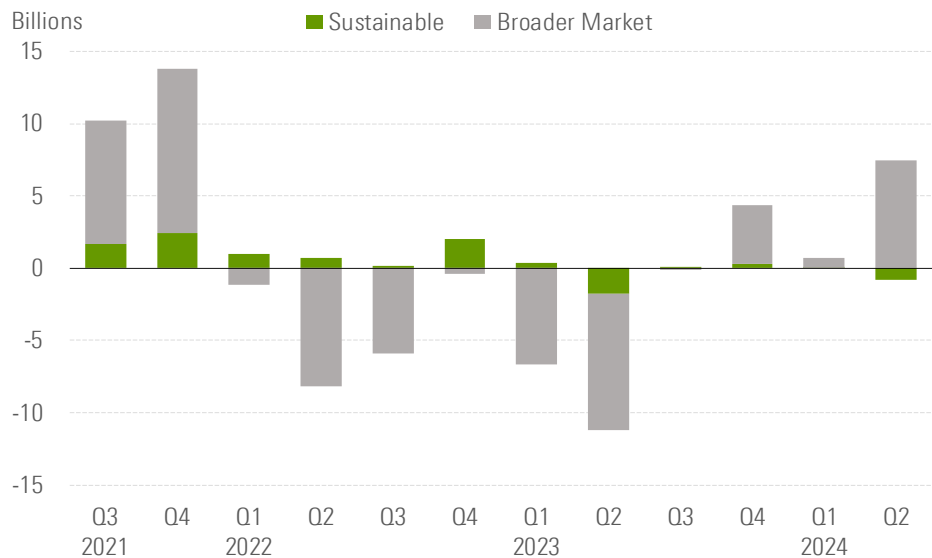
**Exhibit 24** Australia and New Zealand Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

This negative flow performance contrasts with the positive inflows of USD 6.6 billion into the overall Australasian fund universe driven by passive strategies.

**Exhibit 25** Australian and New Zealand Sustainable Fund Flows Compared with the Broader Market (USD Billions)

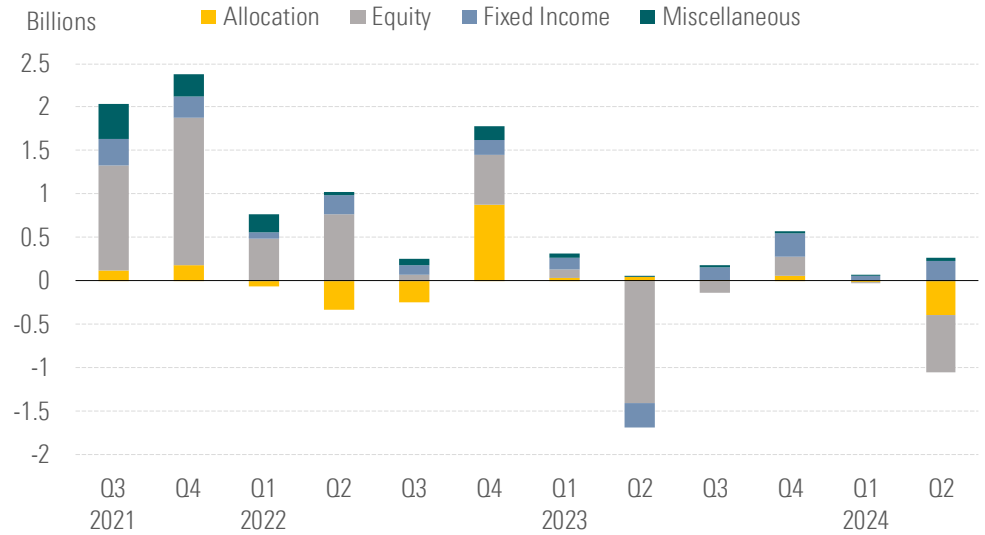


Source: Morningstar Direct. Data as of June 2024.

**Fixed Income Funds Still Gathering Money**

Fixed income strategies continued to gather money, with USD 230 million in net inflows, but equity funds and allocation funds experienced withdrawals of USD 670 million and USD 400 million, respectively.

**Exhibit 26** Australia and New Zealand Sustainable Flows by Asset Class (USD Billion)

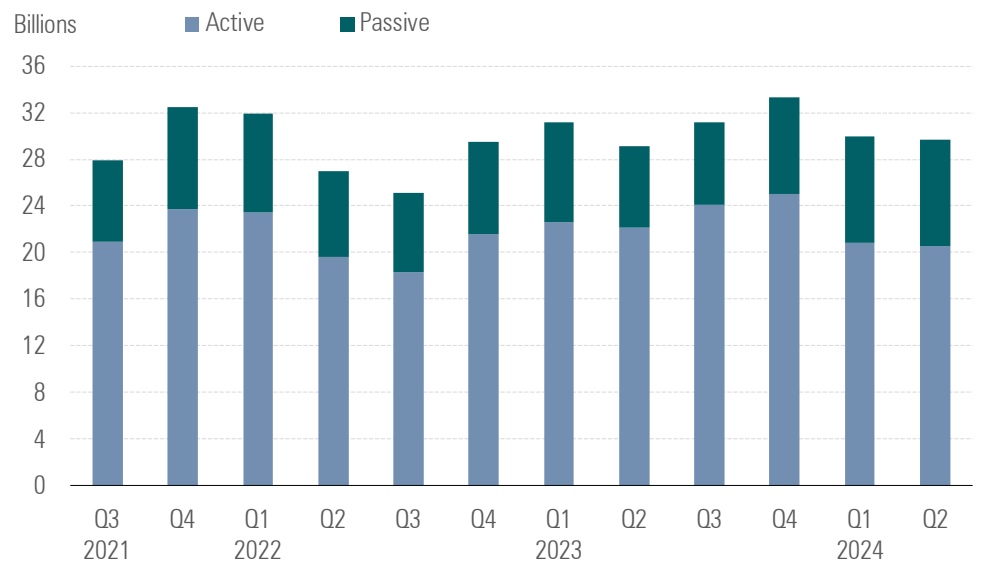


Source: Morningstar Direct. Data as of June 2024.

**Assets**

The size of the Australasian sustainable funds market is estimated at USD 30 billion as of June 30, 2024, which is USD 300 million lower than the assets at the end of March.

**Exhibit 27** Australia and New Zealand Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 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. This proportion has remained stable this year.

The top 10 fund houses by sustainable fund assets are listed below. Dimensional (DFA) has the highest market share, followed by Betashares and Vanguard.

**Exhibit 28** Top Australian and New Zealand Fund Houses

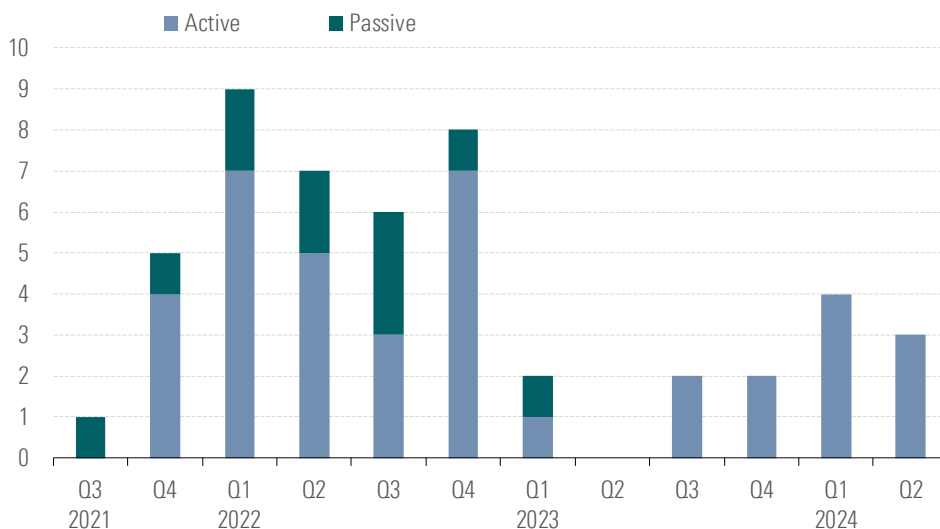
Sustainable Asset Market Share	% Market Share
DFA Australia Limited	14.6%
BetaShares Capital Ltd	12.1%
Vanguard Investments Australia Ltd	7.6%
Mercer Investments (Australia) Limited	6.1%
BlackRock Investment Mgmt (AUS) Ltd	5.1%
Australian Ethical Investment Ltd	4.8%
Pandal Institutional Limited	4.4%
U Ethical	3.2%
First Sentier Investors (Australia) Im Ltd	2.8%
Russell Investment Management Limited	2.7%

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

**Launches**

There were four new sustainable funds launched in the second quarter of 2024, fewer than in the previous quarter. As of the end of June 2024, we counted 271 strategies in our Australasian sustainable fund universe.

**Exhibit 29** Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2024.

### Regulatory Update

In Australia, the Treasury published its [Sustainable Finance roadmap](#), which includes plans for a sustainable product labelling regime (consultation in 2025), endorsement of ISSB Climate standard (final standard in August 2024), a local Taxonomy (final version by end of 2024), and guidance regarding disclosure on transition plans (guidance by end of 2025).

Regarding corporate disclosure, the Australian Accounting Standards Board (AASB), which had initially suggested a significant departure from ISSB S1 and S2, has indicated that it will, in the end, seek to align as closely as possible with these international standards. The first reports would be due in 2026, looking at financial year 2025.

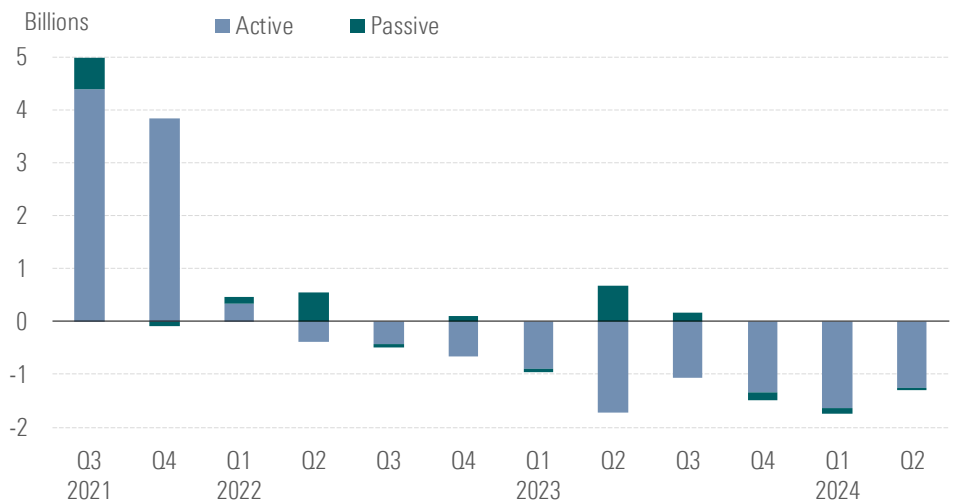
### Japan

#### Flows

In the second quarter of 2024, the Japanese sustainable funds landscape saw its eighth consecutive quarter of outflows, with net withdrawals amounting to USD 1.3 billion. This contrasts with the broader Japanese funds landscape, which registered inflows of USD 27 billion in the second quarter of 2024.

Both active and passive sustainable funds continue to bleed money. **AMOne Global ESG High Quality Growth Equity Fund UnHedged** was the top contributor to the outflows again, shedding USD 238 million. But this poor result needs to be put into perspective, as AMOne also introduced a new fund in April, namely **AMOne Mizuho Sustainable Fund series LO Circular Economy**, which attracted the most inflows in the same quarter, at USD 153 million, far ahead of **Nomura World ESG Equity Index Fund DC**, the second largest flow gatherer, with USD 14 million of net subscriptions.

**Exhibit 30** Japan Sustainable Fund Flows (USD Billion)

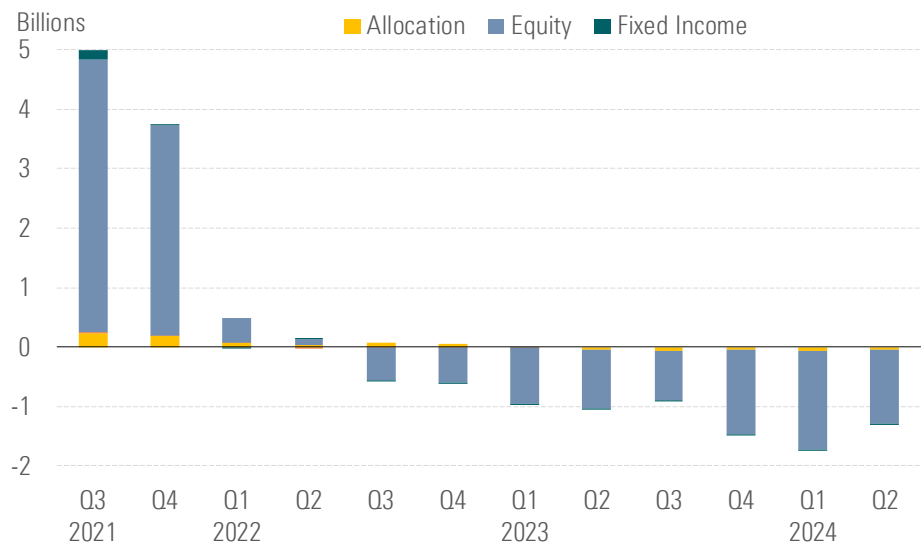


Source: Morningstar Direct. Data as of June 2024.

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 to better reflect the actual flow situation in the Japanese fund market, as many Japanese funds of funds are invested in European funds.

Japanese sustainable equity funds lost USD 1.2 billion during the second quarter of 2024, representing 96% of the quarter's outflows. This is in line with the representation of equity funds (96%) in the Japan-domiciled sustainable funds market.

**Exhibit 31** Japan Sustainable Fund Flows by Asset Class (USD Billion)

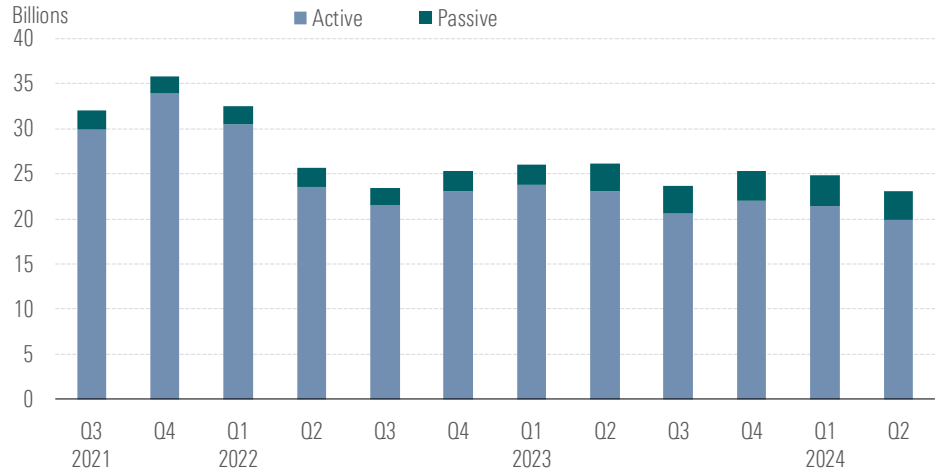


Source: Morningstar Direct. Data as of June 2024.

**Assets**

Total assets in Japan-domiciled sustainable funds totaled USD 23 billion at the end of the second quarter, down 7.7% from USD 24.8 billion three months earlier. Actively managed funds still represent the predominant share, accounting for 86% of total assets within the sustainable fund category.

**Exhibit 32** Japan Sustainable Fund Assets (USD Billion)

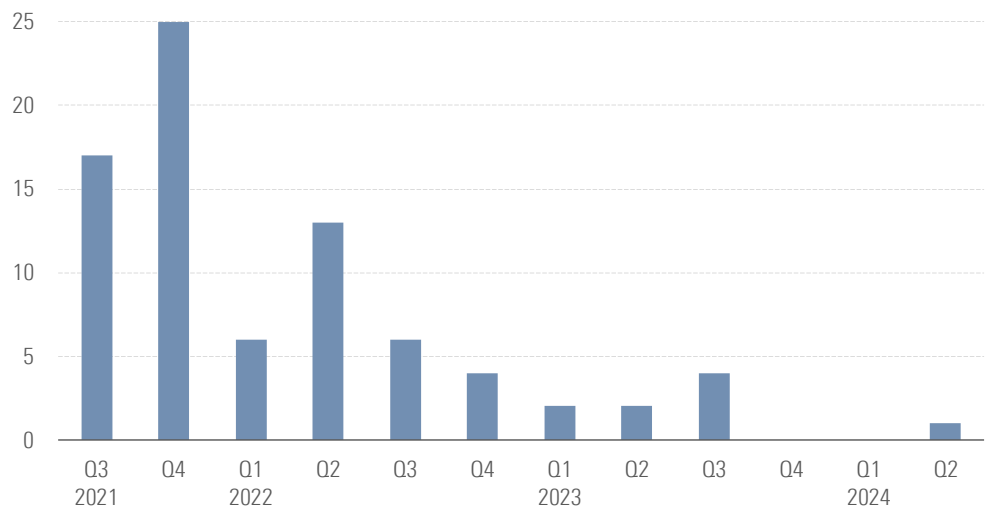


Source: Morningstar Direct. Data as of June 2024.

**Launches**

The Japanese sustainable funds market saw the inception of one new product in the past three months after two quarters with no launches. The aforementioned **AMOne Mizuho Sustainable Fund Series Fund Series LO Circular Economy** was incepted in April 2024, and attracted the largest inflow of USD 153 million. Asset managers have become more cautious about launching new ESG products after the Japanese Financial Services Agency revised its comprehensive [supervisory guideline](#) at the start of 2023 to prevent greenwashing.

**Exhibit 33** Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2024.



### Regulatory Update

On June 4, 2024, the Financial Services Agency (FSA) published a [Policy Package of Special Zones for Financial and Asset Management Business](#) as part of the “Policy Plan for Promoting Japan as a Leading Asset Management Center”, which was introduced in December 2023. In this new announcement, the FSA set Sapporo, Tokyo, Osaka and Fukuoka as special zones and each region is expected to develop an attractive environment for the financial and asset management sector. Though this announcement itself is targeted more for the general facilitation of asset management in the country, the new policy also intends to promote sustainable investment specifically. One of the special zones, Sapporo, is set as a special business zone to consolidate talent and capital for the Green Transformation, making use of its great potential for renewable energy, given its abundant resources. Tokyo is another special zone, where it will serve as a gateway to attract funds, talent, and Information Technology to facilitate the presence of more sustainable finance in the country. Tokyo will be collaborating with Japan’s first public-private partnership, the Organization of Global Financial City Tokyo, as well as other public and private players in finance and startups to facilitate more sustainable investing.

### 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 use first-quarter 2024 data as a proxy for second-quarter 2024 data in every exhibit of this section.

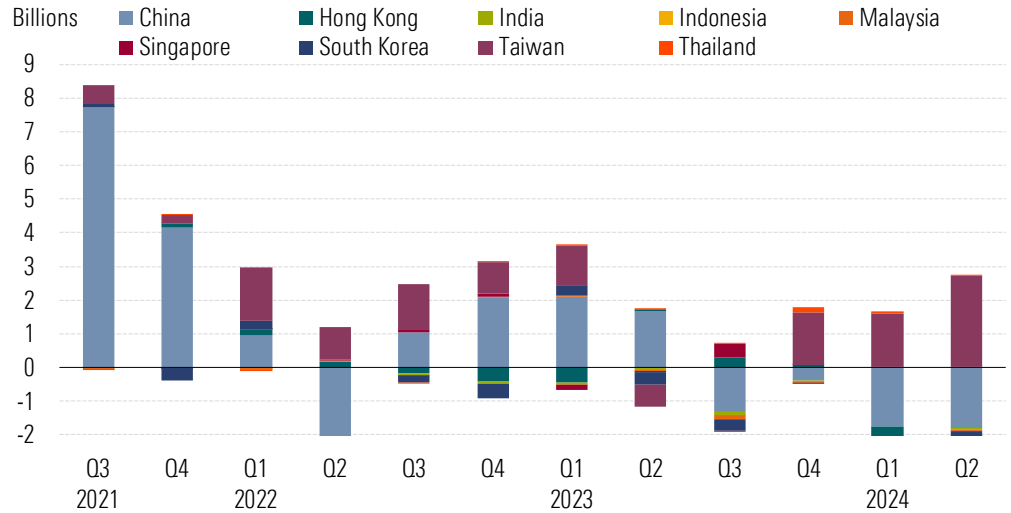
### Flows

In the first quarter of 2024, China-domiciled sustainable funds experienced their largest quarter of outflows in two years, totaling USD 1.8 billion. Passive funds accounted for roughly 40% of the outflows, with two thematic products, namely **ChinaAMC CSI New Energy Vehicles ETF** and **Ping An CSI New Energy Vehicles ETF**, experiencing the largest redemptions at USD 217 million and USD 109 million, respectively. Both funds track the CSI New Energy Vehicles Index, which has fallen by 50% over the past two years.

Excluding China, the Asia ex-Japan region attracted USD 2.5 billion of net new money during the second quarter of 2024, the vast majority of which went into Taiwan-domiciled sustainable funds, in line with the past two quarters. Despite most markets experiencing mild outflows, Taiwan saw a staggering USD 2.7 billion in inflows, the highest such amount since we began tracking this data in the third quarter of 2017. Similar to the first quarter, the flows were dominated by **Capital ICE ESG 20+ Year BBB US Corporate ETF**, which garnered another USD 1.9 billion in subscriptions in the last three months, contributing to its growth to USD 5.0 billion at the end of June 2024.

Elsewhere, South Korea-domiciled sustainable funds bled USD 128 million.

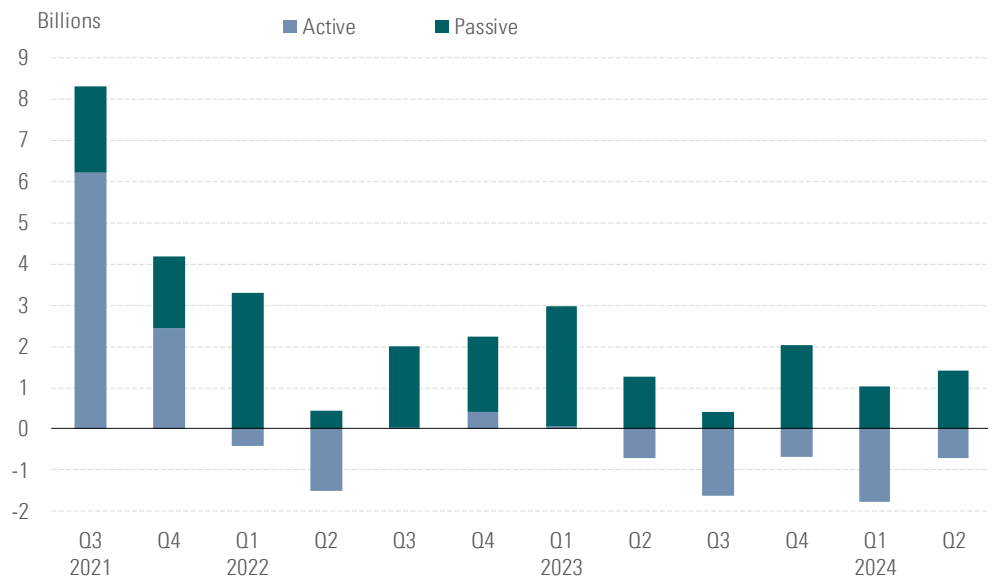
**Exhibit 34** Asia ex-Japan Sustainable Fund Flows by Country (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

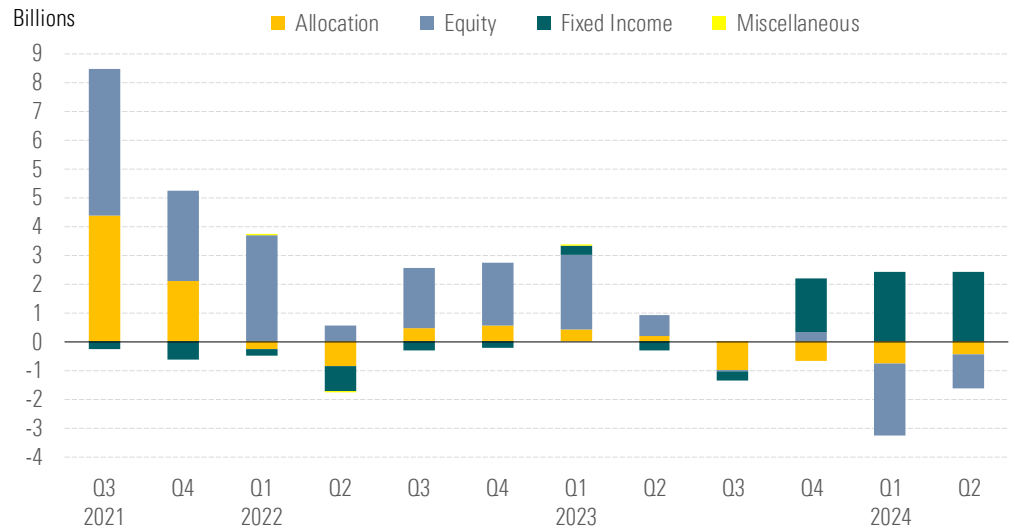
The outflows were driven by equity funds, while fixed income and allocation offerings attracted net inflows. **MIDAS Responsible Investing Securities Investment Trust – Equity** and **NH-Amundi Century Enterprise Green Korea Equity** saw the largest redemptions over the period at USD 60 million and USD 21 million, respectively. India-domiciled sustainable fund flows have also continued to see net outflows for the past three consecutive years ended June 2024.

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



Source: Morningstar Direct. Data as of June 2024.

**Exhibit 36** Asia ex-Japan Sustainable Fund Flows by Asset Class (USD Billion)



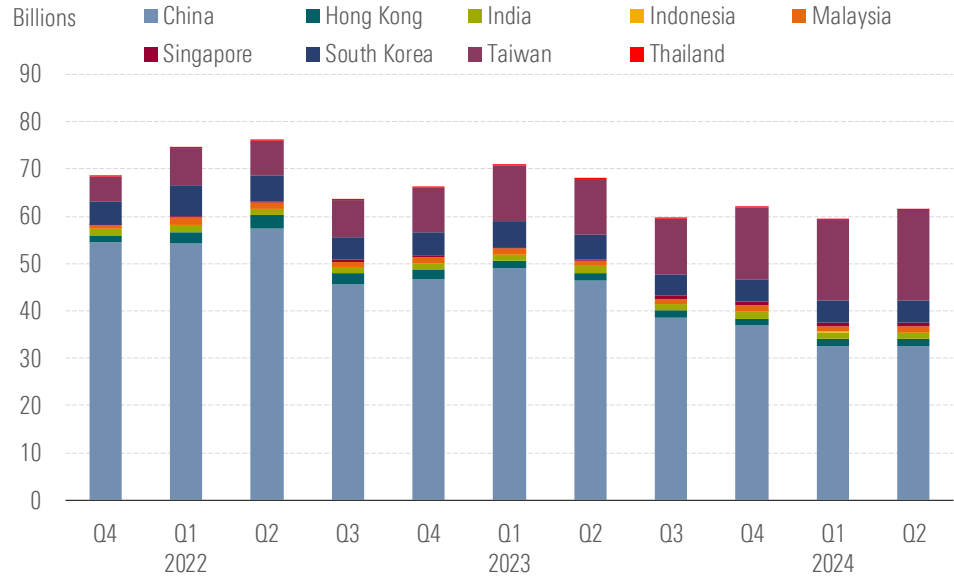
Source: Morningstar Direct. Data as of June 2024.

**Assets**

Total assets in sustainable funds across Asia ex-Japan increased by 3.5% in the second quarter of 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-fourth of the market share. Taiwan-domiciled sustainable fund assets jumped 12.8% quarter over quarter due in part to the heavy inflows discussed above. Hong Kong-domiciled sustainable fund assets, meanwhile, fell 4.2%. Assets in **Sun Life AM Hong Kong ESG Index Fund** dropped to USD 79 million from USD 103 million due in part to a loss of 9.4% over the period.

Equity funds remained the largest asset class in the region at 64% of Asia ex-Japan sustainable fund assets at the end of June, while allocation and fixed-income funds accounted for 20% and 15%, respectively. Passive fund assets surpassed active fund assets in the second quarter of 2024, with 52% of the market share as of the end of June. Their market share has risen steadily in recent years, having represented just 34% in the second quarter of 2022.

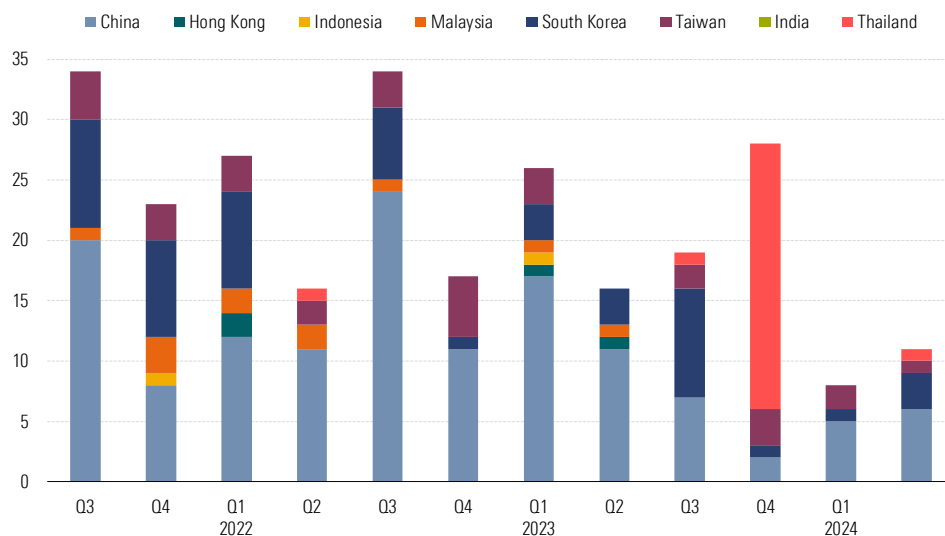
**Exhibit 37** Asia ex-Japan Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 2024.

**Launches**

From April through June 2024, there were 11 new sustainable funds launched across the Asia ex-Japan region. Six of the new launches were China-domiciled products, three were South Korea-domiciled, and there was one each in Taiwan and Thailand. Six of the launches were fixed income funds, four of which were China-domiciled index funds tracking the ChinaBond Green and Inclusive Finance Theme Bond Select Index. The sustainable fund launch in Thailand was also a fixed income product, **Bualuang Sovereign Instruments Thailand ESG Fund**, which invests in Thai sovereign green bonds, sustainability bonds, and sustainability-linked bonds. Three of the launches were equity funds in South Korea and the remaining two were allocation funds in China.

**Exhibit 38** Asia ex-Japan Sustainable Fund Launches

Source: Morningstar Direct. Data as of June 2024.

### Regulatory Update

Regulatory bodies in the Asia ex-Japan region continued to develop and launch ESG-related guidelines and tools relevant to the asset management industry.

In April, the Hong Kong Exchange and Clearing (HKEX) published [updates](#) to its climate-related disclosure requirements for listed companies that were initially proposed in April 2023, confirming that the requirements are aligned with ISSB standards and will be implemented in phases starting from January 2025. In the first phase, companies will be required to disclose scope 1 and scope 2 GHG emissions each financial year going forward. Elsewhere, Korea's Sustainable Sustainability Standards Board (KSSB) published draft sustainability disclosure standards based on the ISSB's global sustainability standards IFRS S1 and IFRS S2, but modified them for the local market. Details of scope 3 reporting will be established based on feedback from the four-month consultation period following the draft's publication.

In May, China's Ministry of Finance [published](#) (in Chinese) a draft of general requirements for corporate sustainability disclosures known as "Basic Standards". They are part of a broader framework that also includes "Specific Standards" and "Application Guidelines" and aims to form a unified national disclosure standard system for domestic companies by 2030.

In June, Bursa Malaysia [launched](#) a new sustainability reporting platform, "Centralised Sustainability Intelligence", in collaboration with London Stock Exchange Group. The platform seeks to help Malaysian companies integrate sustainability into their business strategies and streamline the production of ESG disclosures through automated tools. In the same month, the Stock Exchange of Thailand announced the development of the "SET Carbon System", which also aims to help streamline ESG data collection, such as GHG emissions, for companies. The first phase is focused on scope 1 and scope 2 data and is expected to be available in the first quarter of 2025.

## 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 that of the EU's Sustainable Finance Disclosure Regulation (SFDR), which defines "sustainable investments" at a holding level<sup>4</sup>. 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 for these, 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.

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<sup>4</sup> 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.

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