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Global Sustainable Fund Flows: Q2 2025 in Review

Flows recover despite a challenging geopolitical and regulatory environment

Morningstar Sustainalytics
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Key Takeaways

- Global sustainable open-end and exchange-traded funds recorded an estimated net USD 4.9 billion in the second quarter of 2025, a notable rebound from the record-high restated redemptions of USD 11.8 billion in the first quarter.
- This turnaround was driven by a recovery in fund flows in Europe, despite geopolitical and regulatory uncertainties. European investors poured USD 8.6 billion of net new money into sustainable funds over the past three months, after redeeming USD 7.3 billion in the prior quarter.
- Sustainable funds in the United States bled money for the 11th consecutive quarter, with withdrawals of USD 5.7 billion. The rest of the world, in aggregate, attracted USD 2 billion.
- Global sustainable fund assets rose by 10% in the second quarter to USD 3.5 trillion, supported by stock market appreciation.
- Product development activity picked up, with 72 new sustainable funds launched globally over the quarter. This was boosted by the rollout of a new incentive scheme in Thailand.
- Renaming activity in Europe reached a record high in the second quarter, as asset managers rushed to implement the EU's ESMA fund naming guidelines. Close to 600 funds[1] were renamed last quarter. In total, we estimate that at least 1,346 funds[2], or 24% of our European fund universe, representing about USD 1 trillion in assets, have been renamed over the past 18 months. These include 785 that dropped ESG-related terms, 458 that changed ESG-related terms, and 103 that added ESG-related terms.
- In the UK, 110 funds have so far adopted one of the four official sustainability labels, representing USD 62 billion of assets. These account for about 20% of UK-domiciled funds claiming sustainability characteristics.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-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.[3] (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 the Rest of the World. There is more granular data available in this report for Canada, Australia and New Zealand, and Japan. Meanwhile, China, Hong Kong, India, Indonesia,

1 Excluding money market funds, funds of funds, and feeder funds

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3 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.

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 during the second quarter of 2025. A summary is provided in Exhibit 1.

Exhibit 1 Global Sustainable Fund Statistics

	Flows Q2 2025	Flows Q1 2025	Assets Q2 2025		Funds Q2 2025	
Region	USD Bn	USD Bn	USD Bn	% Total	No.	% Total
Europe	8.6	-7.3	3,004	85	5,448	73
United States	-5.7	-6.5	355	10	498	7
Asia ex-Japan	2.0	2.3	78	2	666	9
Canada	0.2	0.2	41	1	304	4
Australia/New Zealand	-0.2	0.3	34	1	288	4
Japan	0.0	-0.9	23	1	222	3
Total	**4.9**	**-11.8**	**3,535**		**7,426**	

Source: Morningstar Direct. Data as of June 2025, 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.

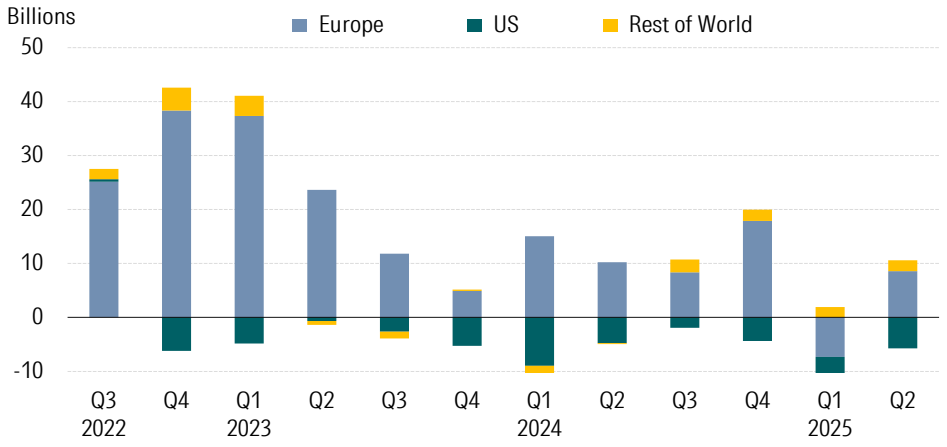
Global sustainable funds netted over USD 4.9 billion in the second quarter of 2025 — a notable rebound from the record-high restated outflows of USD 11.8 billion in the first quarter. This turnaround was driven by a recovery in fund flows in Europe and a lower level of redemptions in the United States.

Europe attracted USD 8.6 billion in net new money in the past three months, contrasting with the restated USD 7.3 billion outflows in the previous three months. The United States continued to experience net withdrawals for the 11th consecutive quarter, totaling USD 5.7 billion in the second quarter.

Flows into Asia ex-Japan declined slightly to USD 2 billion, down from a restated USD 2.3 billion in the previous quarter. Japan recorded modest inflows of USD 13 million, marking a reversal of fortune after having seen uninterrupted outflows since mid-2023. Investors in Canada continued to pour net new money into sustainable funds, generating inflows of around USD 162 million, whereas Australia and New Zealand recorded minor outflows of USD 166 million.

Calculated as net flows relative to total assets at the beginning of the period, the organic growth rate of the global sustainable fund universe for the second quarter was 0.15%, up from a restated negative 0.37% for the previous quarter. In comparison, the broader global fund universe posted an organic growth rate of 0.44% in the second quarter, down from a restated 0.79%. Net global fund flows totaled an estimated USD 240 billion, a sharp decline from the restated USD 403 billion recorded in the prior quarter. Investor sentiment was dampened by uncertainty surrounding US tariffs and geopolitical tensions.

Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)



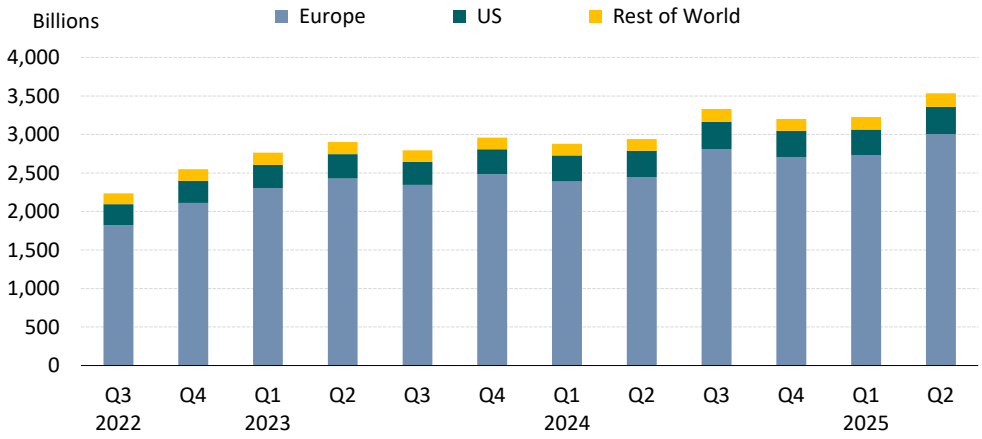
Source: Morningstar Direct. Data as of June 2025.

Global Assets Edge Higher to USD 3.5 Trillion in an Up Market

As of June 2025, global sustainable fund assets edged up by almost 10% to USD 3.5 trillion from the restated USD 3.2 trillion three months earlier. Asset growth was supported by stock and bond market appreciation. The Morningstar Global Market Index gained 11.5% over the second quarter, while the Morningstar Global Core Bond Index rose by 4.3%.

Europe takes up 85% of global sustainable fund assets, followed by the United States with 10%, and the rest of the world making up the remainder. Sustainable funds represent approximately 19% of the overall European open-end funds and ETF universe, compared to just 1% in the US.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

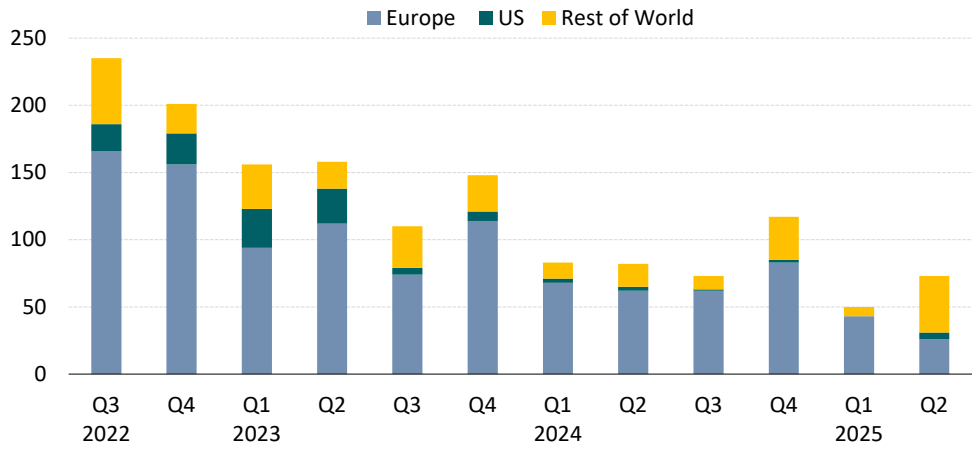


Source: Morningstar Direct. Data as of June 2025.

Global Fund Launches

Product development activity in the sustainable funds space saw a modest uptick in the second quarter of 2025, with 72 new sustainable funds launched globally—up from a revised 57 in the previous quarter. Asia ex-Japan was the main driver, accounting for over 40 new launches, compared to just four in the prior quarter, boosted by the rollout of a new incentive scheme in Thailand.

Exhibit 4 Global Sustainable Fund Launches Per Quarter



Source: Morningstar Direct. Data as of June 2025.

BlackRock Tops the League Assets Table

In Exhibit 5, we list the top asset managers that market sustainable funds globally. BlackRock, the world's largest manager, dominates the sustainable investing space with about USD 466 billion of assets in ESG-focused and sustainable open-end funds and ETFs. UBS is in a distant second with total AUM of USD 186 billion, closely followed by Amundi, with USD 185 billion.

Exhibit 5 Top Asset Managers by Global Sustainable Fund Assets and Second-Quarter Flows

Overall			Actively Managed			Passively Managed		
Firm	Total Assets (USD Bn)	Flows (USD Mn)	Firm	Total Assets (USD Bn)	Flows (USD Mn)	Firm	Total Assets (USD Bn)	Flows (USD Mn)
BlackRock (incl. iShare)	466.7	6,951	BlackRock (incl. iShare)	143.3	2,739	BlackRock (incl. iShare)	222.9	944
UBS (incl. Credit Suisse)	186.1	-2,607	Natixis	94.4	3,853	UBS (incl. Credit Suisse)	109.1	-610
Amundi (incl. Lyxor)	184.9	-3,153	Nordea	81.3	1,186	Amundi (incl. Lyxor)	104.7	-2,897
Swisscanto	116.9	2,025	Amundi (incl. Lyxor)	80.2	-255	BlackRock	100.5	3,269
DWS (incl. Xtracker)	107.9	-1,718	UBS (incl. Credit Suisse)	77.0	-1,997	Vanguard	59.7	135
Natixis	97.5	3,925	KBC	66.5	7,294	Northern Trust	57.0	762
BNP Paribas	85.7	865	Swisscanto	63.7	425	Swisscanto	53.1	1,600
Nordea	81.3	1,186	DWS (incl. Xtracker)	59.9	-695	DWS (incl. Xtracker)	48.1	-1,023
KBC	66.6	7,275	Royal London	58.5	-1,634	Handelsbanken	39.2	-238
Vanguard	63.5	178	BNP Paribas	50.6	-274	BNP Paribas	35.1	1,139
Northern Trust	62.8	582	Allianz Global Investors	43.4	317	State Street	28.3	-876
Royal London	58.5	-1,647	Pictet	43.2	-1,148	Legal & General	25.4	-88
JPMorgan	45.2	245	JPMorgan	41.3	23	Länsförsäkringar	23.9	-462
Pictet	44.7	-1,054	Union Investment	37.7	240	Invesco	19.5	158
Handelsbanken	43.9	-159	Parnassus	36.6	-1,466	Cathay Securities Investment Trust	15.5	746
Allianz Global Investors	43.4	317	Goldman Sachs (incl.NN IP)	33.0	-500	HSBC	10.8	157
Union Investment	37.7	240	Dimensional	31.0	452	Eaton Vance	10.8	-266
Parnassus	36.6	-1,466	AXA IM	30.1	-531	Mercer Global Investments	9.8	738
Eaton Vance	35.5	-991	Vontobel	27.3	674	Storebrand Fonder	9.3	218
Goldman Sachs (incl.NN IP)	33.2	-486	Schroders	26.5	-415	Scottish Widows	8.7	-139

Source: Morningstar Direct. Data as of June 2025.

Quarterly Statistics Per Domicile

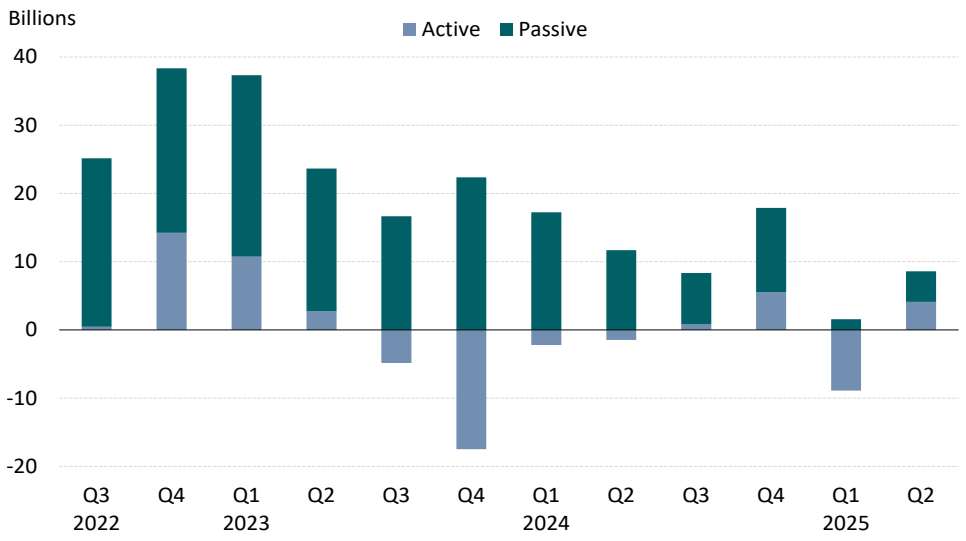
Europe

European Sustainable Fund Flows Recover

European-domiciled sustainable funds returned to positive flows in the second quarter of 2025, netting an estimated USD 8.6 billion. This marks a notable rebound from the restated USD 7.3 billion in outflows recorded in the previous quarter.

The recovery was partly driven by USD 4.1 billion in subscriptions to active strategies, recouping a significant share of the earlier redemptions. Passive funds also rebounded, attracting USD 4.5 billion, lifted from the all-time low of USD 1.6 billion in the first quarter.

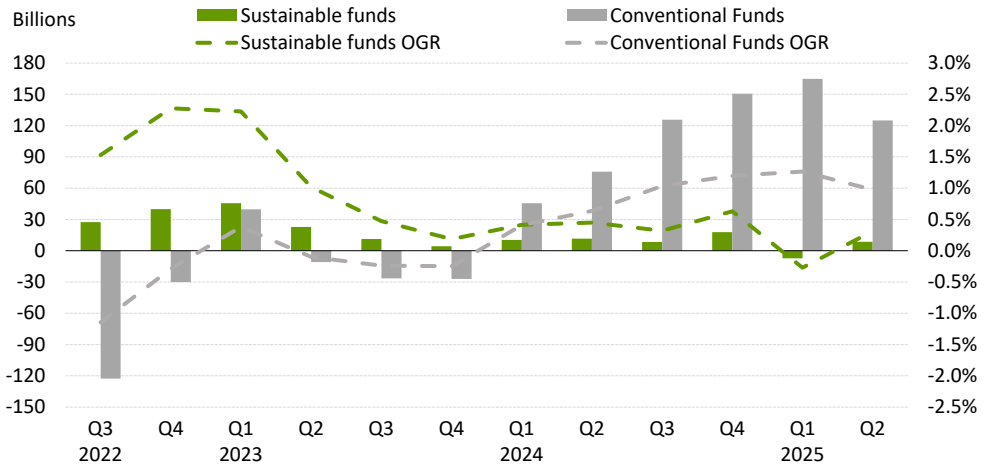
Exhibit 6a European Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

Thanks to the improved flows, the organic growth rate[4] of sustainable funds returned to positive territory, reaching 0.31%, up from the restated negative 0.19% seen three months earlier. However, this modest recovery was outpaced by the broader conventional fund universe, which posted a higher organic growth rate of 0.97% over the same period. European conventional funds attracted USD 125 billion in net new money, a lower amount than the restated USD 165 billion in the previous quarter.

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



Source: Morningstar Direct. Data as of June 2025.

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

In the first quarter, we outlined several factors behind the outflows observed at the time. These include a complex geopolitical environment that has contributed to a deprioritization of sustainability issues in Europe, with attention shifting toward economic growth, competitiveness, and defense. In parallel, the US administration's anti-climate and anti-ESG policies have led companies and asset managers to approach ESG initiatives more cautiously, and, in some cases, to scale back their commitments. For European investors, the situation has been further complicated by an evolving regulatory landscape, including the Simplification Omnibus Package, the ongoing Sustainable Finance Disclosure Regulation (SFDR) review, and changes within the ESG fund universe. Persistent performance concerns have also continued to dampen investor appetite for sustainability strategies.

In the second quarter, despite continued geopolitical complexities, escalating trade tensions, and further ESG rollbacks, uncertainty for European investors around the impact of anti-greenwashing measures began to ease as the ESMA fund naming guidelines approached their implementation deadline. As detailed later, a record number of funds in Europe were renamed in the second quarter to comply with the regulatory requirements.

Additionally, European sustainable strategies have kept pace with the broader equity and bond markets when looking at index performance. In the second quarter, the Morningstar Global Markets Sustainability Index and Morningstar Global Corporate Bond Sustainability Index rose by 12.6% and 4.5%, respectively. These figures compare with gains of 11.5% and 4.3% for the broader Morningstar Global Markets Index and Morningstar Global Corporate Bond Index, respectively. Meanwhile, clean energy stocks outperformed fossil fuel and traditional energy sectors. The Morningstar Global Renewable Energy Index posted a strong gain of 13.6% in the second quarter, while the Morningstar Global Energy Index dropped by 2.6%.

Flows By Asset Class

In the second quarter, sustainable fixed income funds continued to see positive momentum, netting over USD 10.1 billion, although this marked a moderate decline from the restated USD 12.8 billion of inflows during the first quarter. Outflows from sustainable equity funds narrowed significantly to USD 2.4 billion, down from the restated USD 14.3 billion in the first quarter of the year. An overall preference for bond funds compared to equity funds underpins investors' cautious tone around economic uncertainty and increasing geopolitical tensions. Meanwhile, allocation funds garnered USD 1.6 billion, recovering from the net redemptions of USD 5 billion registered in the previous quarter.

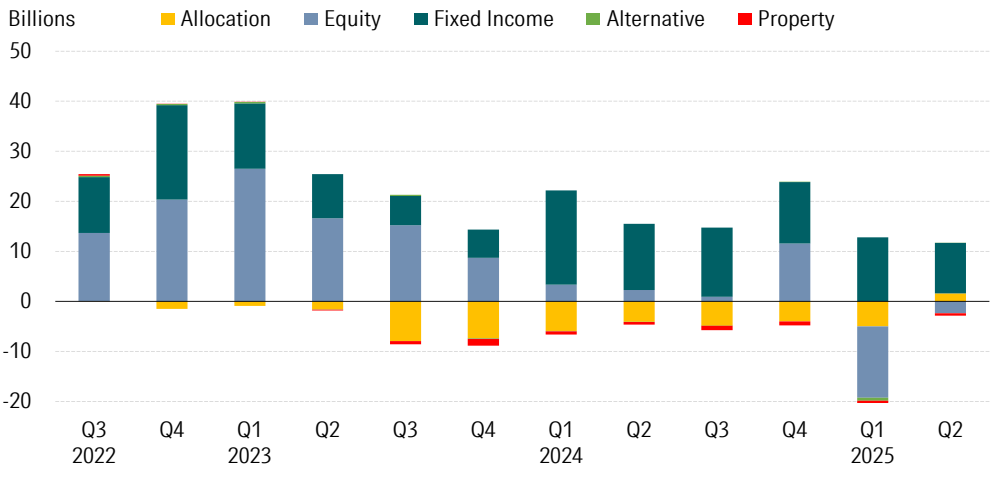
Exhibit 7 European Sustainable Fund Flows Compared With Conventional Fund Flows by Asset Class

USD Billion	Sustainable Funds		Conventional Funds		Overall Universe	
	Q2 2025	Q1 2025	Q2 2025	Q1 2025	Q2 2025	Q1 2025
Allocation	1.6	-5.0	1.3	1.7	2.9	-3.3
Alternative	0.0	0.0	8.4	3.0	8.5	3.0
Commodities	0.0	0.1	3.4	5.0	3.4	5.1
Convertibles	0.1	-0.1	-0.7	-1.1	-0.6	-1.2
Equity	-2.4	-14.3	56.0	85.8	53.6	71.5
Fixed Income	10.1	12.8	55.9	69.4	66.0	82.2
Miscellaneous	-0.4	-0.2	1.0	2.5	0.5	2.3
Property	-0.5	-0.6	-1.3	-1.9	-1.8	-2.5
Total	**8.6**	**-7.3**	**124.0**	**164.4**	**132.6**	**157.1**

Source: Morningstar Direct. Data as of June 2025.

The directional changes in European sustainable fund flows over the past three months closely mirrored those in the conventional fund market, where most asset classes also saw modest declines in net new subscriptions.

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



Source: Morningstar Direct. Data as of June 2025.

Leaders and Laggards

At the top of the biggest money gatherers in the second quarter, we find **KBC Dynamic Responsible Investing**, which attracted an eye-watering USD 5.3 billion. In addition to favoring companies with stronger ESG risk scores, the portfolio's weighted average GHG intensity will be constrained to follow a decarbonization pathway targeting a 50% reduction by 2030, relative to the benchmark as of the end of 2019. This pathway incorporates an immediate 30% reduction in 2019, followed by an annual decrease of 3% thereafter.

In a distant second – but still noteworthy given its USD 2.5 billion net subscriptions – was **Blackrock US Equity Tracker Fund**. The fund tracks an index that screens out companies involved in sectors or business activities deemed to have negative environmental or social outcomes (including controversial weapons, tobacco, thermal coal, and oil sands) as well as companies deemed to be violating the UN Global Compact principles.

This was closely followed by allocation strategy **DNCA Invest Alpha Bonds**, which netted another USD 2.2 billion after registering USD 1.4 billion subscriptions in the previous quarter. Along with carbon footprint and revenue share linked to the UN SDGs, this Article 8 strategy applies a best-in-universe approach based on its proprietary 'Above and Beyond Analysis' scores. These scores assess the performance of both private and public issuers across four key dimensions: shareholder, environmental, employer, and societal responsibility.

Exhibit 9a Top 10 European Sustainable Fund Flows in Q2 2025

Fund Name	Net Flows (USD Million)
Horizon - KBC Dynamic Responsible Investing	5,328
Blackrock ACS US Equity Tracker Fund	2,508
DNCA Invest Alpha Bonds	2,211
1895 Euro Obligaties Index Fonds	1,741
UBS MSCI ACWI Universal UCITS ETF	1,511
Blackrock ACS North America ESG Insights Equity	1,234
iShares MSCI USA Screened UCITS ETF	1,064
Blackrock ACS World ESG Screened Equity Tracker Fund	971
BNP PARIBAS EASY MSCI EUROPE MIN TE	885
Vontobel Fund (CH) - Sustainable Swiss Equity Income Plus	875

Source: Morningstar Direct. Data as of June 2025.

Meanwhile, **iShares Environment & Low Carbon Tilt Real Estate Index (UK)** was the biggest flow detractor for the second consecutive quarter. The fund bled USD 1.62 billion in the past three months, after losing USD 1.42 in the first quarter. The passive strategy weighs companies based on factors including green building certification, energy usage, and carbon emissions intensity.

In a close second was another BlackRock fund, namely **1895 Wereld Investment Grade Obligaties Fonds**, with net redemptions of USD 1.38 billion. This actively managed fund applies a series of sector-, activity- and controversy-based screens. The fund also commits to hold at least 10% in sustainable investments.

Exhibit 9b Bottom 10 European Sustainable Fund Flows in Q2 2025

Fund Name	Net Flows (USD Million)
iShares Environment & Low Carbon Tilt Real Estate Index Fund (UK)	-1,626
1895 Wereld Investment Grade Obligaties Fonds	-1,376
Xtrackers S&P 500 Equal Weight ESG ETF	-997
Blackrock World Low Carbon Screened and Optimised Equity Tracker Fund	-899
UBS MSCI USA Selection ETF	-763
Swedbank Robur Access Edge Emerging Markets	-726
iShares MSCI Europe ESG Enhanced CTB ETF	-699
UBS MSCI USA Socially Responsible ETF	-683
L&G MSCI Europe Climate Pathway ETF	-681
Swedbank Robur Access Edge Sweden	-653

Source: Morningstar Direct. Data as of June 2025.

The 10 best-selling asset managers collectively netted USD 28.3 billion in aggregate inflows in the second quarter, almost double the subscriptions seen in the previous quarter. KBC tops the leaderboard, thanks largely to the stellar inflows into its **KBC Dynamic Responsible Investing** product. BlackRock returned to the top of the leaderboard, posting aggregate inflows of nearly USD 5.7 billion over the past three months. In contrast, Eurizon was the worst-selling firm in the second quarter, with total redemptions approaching USD 3.8 billion, followed by Amundi and DWS. Notably, the same trio also topped the list of net outflows in the first quarter.

Exhibit 10 Top and Bottom 10 European Sustainable Fund Providers by Flows in Q2 2025

Firm	Net inflows (USD Million)	Firm	Net outflows (USD Million)
KBC	7,241	Eurizon	-3,765
BlackRock (incl. iShares)	5,690	Amundi (incl. Lyxor)	-2,896
Natixis	4,221	DWS (incl. Xtrackers)	-2,277
Northern Trust	2,165	UBS (incl. Credit Suisse)	-1,410
Swisscanto	2,078	Royal London	-1,366
BNP Paribas	2,067	Swedbank	-1,057
Nordea	1,770	Pictet	-978
Allianz Global Investors	1,584	Kempen	-717
Mercer Global Investments	853	ABN AMRO	-654
Fidelity International	655	Degroof Petercam	-639

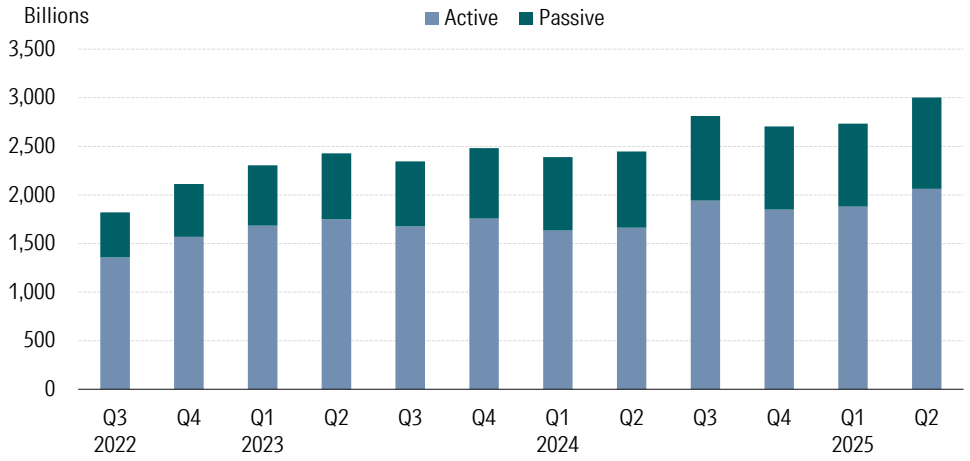
Source: Morningstar Direct. Data as of June 2025.

European Sustainable Fund Assets

The total assets of European sustainable funds were up, ending the first half of 2025 at USD 3.0 trillion, from a restated USD 2.7 trillion as of March, representing an increase of almost 10%. For context, the Morningstar Global Market Index grew by 11.5% over the second quarter, while the Morningstar Europe Index gained 12.0%, and the Morningstar Core Bond Index edged up by 4.3%.

As of the end of June, sustainable funds accounted for about 19% of the overall European open-end funds and ETF universe, and passive strategies represented almost one-third of these assets, as shown in the exhibit below.

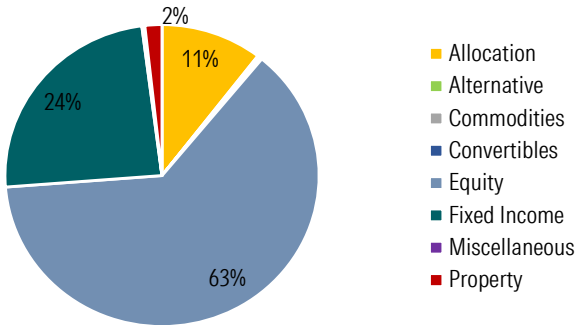
Exhibit 11a European Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

In terms of broad asset class, equity funds continue to dominate, representing 63% of European sustainable fund assets at the end of June. Sustainable bond funds take up almost one quarter (24%), followed by 11% for allocation funds. By comparison, equity and fixed income strategies in the broader European fund universe accounted for 54% and 30%, respectively, as of June.

Exhibit 11b European Sustainable Fund Asset Breakdown



Source: Morningstar Direct. Data as of June 2025.

BlackRock, UBS, and Amundi Continue to Dominate the European Sustainable Fund Landscape

Presented below are the foremost asset managers distributing sustainable funds in Europe. As of June 2025, BlackRock remained the leading manager of ESG-focused open-end assets and ETFs in Europe, overseeing a substantial USD 399 billion — growing 14% from the previous quarter. In a distant second was UBS, with its sustainable fund assets growing by 13% to USD 197 billion. It was closely followed by Amundi, which also recorded 11% growth in assets.

Exhibit 11c 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)	399.3	BlackRock (incl. iShares)	143.2	BlackRock (incl. iShares)	256.1
UBS (incl. Credit Suisse)	197.1	Natixis	95.6	UBS (incl. Credit Suisse)	113.4
Amundi (incl. Lyxor)	195.0	Amundi (incl. Lyxor)	87.8	Amundi (incl. Lyxor)	107.2
Swisscanto	117.2	Nordea	84.8	Northern Trust	65.6
DWS (incl. Xtrackers)	103.6	UBS (incl. Credit Suisse)	83.7	Swisscanto	53.4
Natixis	98.7	Swisscanto	63.8	DWS (incl. Xtrackers)	41.9
BNP Paribas	97.3	DWS (incl. Xtrackers)	61.7	Handelsbanken	41.4
Nordea	84.8	BNP Paribas	57.7	BNP Paribas	39.6
Northern Trust	71.0	Allianz Global Investors	57.2	State Street	25.8
Allianz Global Investors	57.2	Royal London	56.5	Legal & General	25.7
Royal London	56.5	Pictet	43.3	Länsförsäkringar	23.9
Handelsbanken	46.1	JPMorgan	40.7	Vanguard	19.0
Pictet	44.8	Union Investment	37.7	Invesco	11.0
JPMorgan	44.6	KBC	36.6	HSBC	11.0
Union Investment	37.7	Goldman Sachs (incl. NNIP)	33.7	Mercer Global Investments	9.8
KBC	36.7	Vontobel	31.1	Storebrand Fonder	9.3
Goldman Sachs (incl. NNIP)	34.0	AXA IM	29.9	Scottish Widows	8.7
State Street	31.5	Robeco	29.5	OP	5.6
Vontobel	31.1	LBP AM	28.1	VanEck	5.4
AXA IM	30.5	Schroders	27.4	Deka	4.6

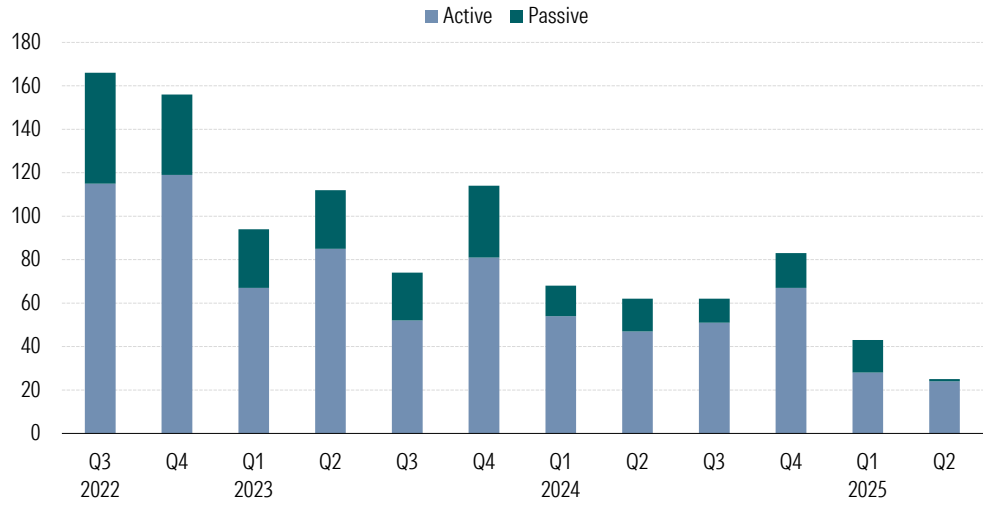
Source: Morningstar Direct. Data as of June 2025.

Sustainable Fund Launches

Facing headwinds from rising trade tensions and regulatory uncertainties, launches of sustainable funds in Europe reached a new low of 25 over the past three months, almost halved from the restated 43 seen in the previous quarter. As we continue to analyze the data and identify additional launches, we expect this number to be adjusted upward in the next report.

The cooldown of sustainable fund launches in recent quarters, compared with previous years, reflects a normalization of product development activity after three years (2020-22) of high growth, during which many asset management firms 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. The European Union's Sustainable Finance Disclosure Regulation, or SFDR, is still under review. Meanwhile, asset managers have been busy assessing the impact of the ESMA fund-naming guidelines on their fund ranges and implementing the necessary changes to comply with the new rules.

Exhibit 12 European Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2025.

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

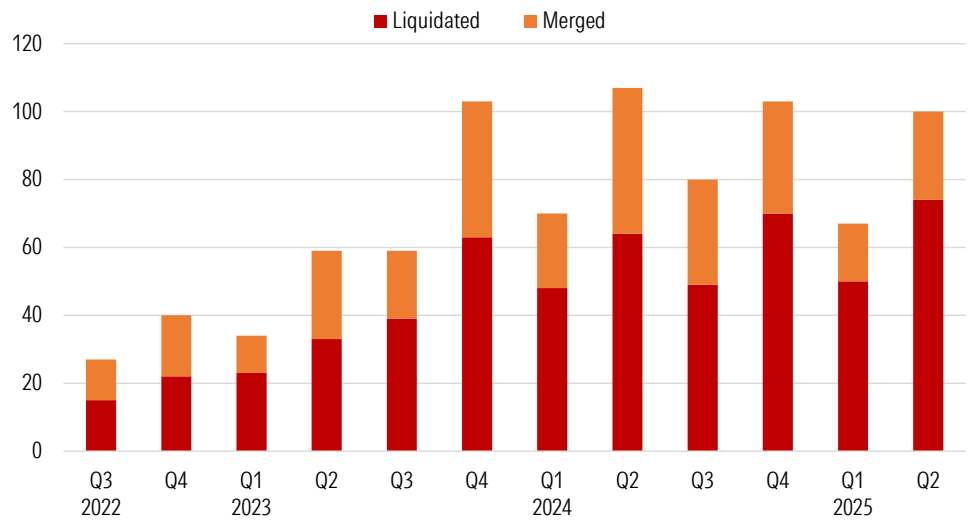
New sustainable funds launched in the second quarter include **Comgest Growth America ESG Plus**, **Aktia Prosperity**, and **Arca Obiettivo Futuro USA 50 2030**. The former aims for a weighted greenhouse gas (GHG) footprint from Scope 1 and 2 emissions that is at least 15% lower than the GHG footprint of the S&P 500.

Meanwhile, several newly launched funds focus on the climate theme, including **Zurich Global Green Bond Fund**, **IIV Solar Electrification Debt ELTIF**, **AZ High Yield Target 2028 Climate Transition**, **Portzamparc Carbone Solutions 2030**, and **Aviva Climate Transition EURO Infrastructure Fund**. The latter aims to offer diversified exposure to infrastructure assets that not only provide solutions for a transition toward a low-carbon economy, but are also inherently low-carbon themselves.

Sustainable Fund Closures

In the second quarter of 2025, 100 European sustainable funds were closed: 74 were liquidated and 26 were merged. This represented a significant uptick from the restated closure count of 67 seen three months earlier, and in line with the level recorded a year ago. This trend reflects a maturation of the sustainable fund market. The sustainable fund industry has grown and become more competitive. Funds that struggle to attract assets or to deliver good returns are increasingly prone to closing. We view this as a natural evolution of the industry, where only the better-performing and popular strategies will survive.

Exhibit 13a European Sustainable Fund Closures



Source: Morningstar Direct. Data as of June 2025.

Renaming Activity Reaches a Record High, With Most Funds Dropping ESG-Related Terms

After an already busy first quarter, fund renaming activity reached a new high in the second quarter as asset managers rushed to implement the EU's ESMA fund naming guidelines ahead of the May 21 deadline. The guidelines are aimed at introducing minimum standards for funds that use ESG- or sustainability-related terms in their names. Asset managers had until May 21 to align with the new requirements[5] or change their name to ensure compliance. Below is a summary of the requirements.

Exhibit 13b Summary of the Categories of Terms and Related Requirements

Fund Category	Requirement
No ESG word in name	
Social/Governance term or "transition" in name	Minimum 80% of investments used to meet E or S characteristics or sustainable investment - CTB exclusion: exclusion of controversial weapons/companies violating social safeguards - If "transition": clear and measurable path to transition
Environmental word or "impact" in name	Same as #1 + PAB exclusion: fossil fuel sector exclusion If "impact": positive and measurable impact
"Sustainable" word in name	Same as #2 + invest 'meaningfully' in sustainable investments

Source: Morningstar Sustainalytics Research, based on ESMA34-472-440 Final Report on the Guidelines on Funds' Names (europa.eu). PAB stands for Paris-aligned benchmarks; CTB stands for climate-transition benchmarks.

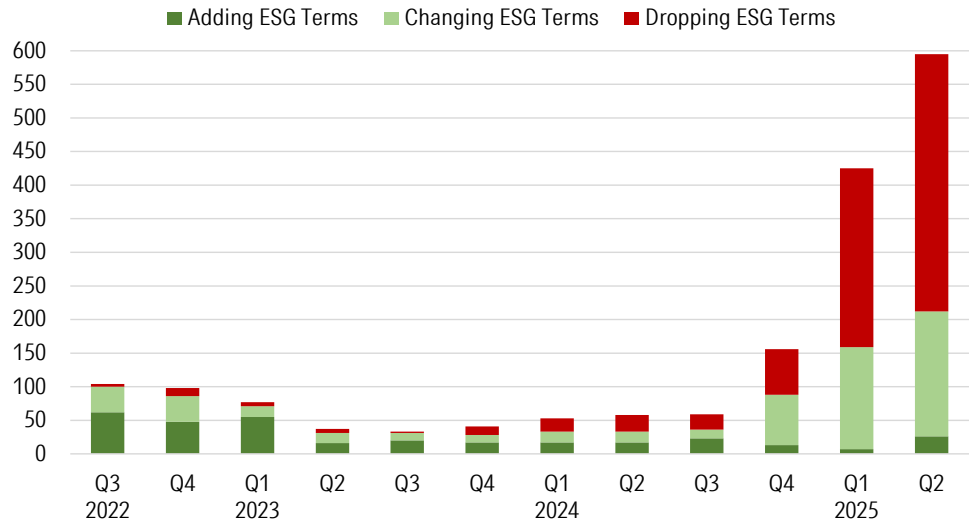
5 The requirements for funds using ESG or sustainability terms in their name include (1) a minimum of 80% of investments that meet environmental or social characteristics or sustainable investment objectives and (2) exclusions as set by EU regulation for Paris-aligned benchmarks, or PABs, and climate-transition benchmarks, or CTBs.

Exclusions related to the Paris-aligned benchmark[6], which environmental, ESG, sustainable, and impact funds[7] are required to apply, are particularly significant, as they rule out investments in companies that derive a certain proportion of their revenues from fossil fuels.

For more details and analysis on the ESMA fund naming guidelines, read: ESMA's Guidelines on ESG Fund Names | Morningstar

In the second quarter of 2025, we identified almost 600 funds that were renamed, including 383 that dropped their ESG-related terms altogether, 186 that replaced an ESG-related term for another, and 26 that added ESG-related terms.

Exhibit 14 European Sustainable Fund Name Changes



Source: Morningstar Direct. Data as of June 2025. Based on 2,119 European ESG funds adding, dropping, or changing sustainability- or ESG-related terms in their names between 2022 and Q2 2025. This excludes money market funds, funds of funds, and feeder funds.

6 Exclusions for EU Paris-aligned benchmarks include:

(a) companies involved in any activities related to controversial weapons;

(b) companies involved in the cultivation and production of tobacco;

(c) companies that benchmark administrators find in violation of the United Nations Global Compact principles or the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises;

(d) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution, or refining of hard coal and lignite;

(e) companies that derive 10% or more of their revenues from the exploration, extraction, distribution, or refining of oil fuels;

(f) companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing, or distribution of gaseous fuels;

(g) companies that derive 50% or more of their revenues from electricity generation with a greenhouse gas intensity of more than 100 g CO2 e/kWh.

For the purposes of point (a), controversial weapons shall mean controversial weapons as referred to in international treaties and conventions, United Nations principles, and, where applicable, national legislation.

7 ESMA34-472-440 Final Report on the Guidelines on Funds' Names (europa.eu), P. 55.

"Environmental"-related terms mean any words giving the investor any impression of the promotion of environmental characteristics, for example, "green," "environmental," "climate," and so on. These terms may also include the "ESG" and "SRI" abbreviations.

"Sustainability"-related terms mean any terms only derived from the base word "sustainable," for example, "sustainably," "sustainability," and so on.

"Impact"-related terms mean any terms derived from the base word "impact," for example, "impacting," "impactful," and so on.

"Social"-related terms mean any words giving any impression of the promotion of social characteristics, for example, "social," "equality," and so on.

"Governance"-related terms mean any words giving any impression of a focus on governance, for example, "governance," "controversies," and so on.

"Transition"-related terms encompass any terms derived from the base word "transition," for example, "transitioning," "transitional," and so on, and those terms deriving from "improve," "progress," "evolution," "transformation," "net zero," and so on.

In the past three months, an estimated 383 funds removed ESG-related terms from their names, compared with the restated 266 in the previous quarter. Examples include **Nuveen Global Infrastructure Fund**, which dropped the term "impact", but maintained its strategy. The Article 9 fund, formerly known as Nuveen Global Infrastructure Impact Fund, offers exposure to clean infrastructure companies that are seeking to mitigate environmental challenges and improve operational characteristics "to achieve intentional, positive and measurable real-world outcomes".

Another example is Article 8 fund **Robeco Global Stars Equities Fund** (formerly known as Robeco Sustainable Global Stars Equities Fund), which also left its investment strategy unchanged. The fund continues to "incorporate sustainability into its investment process through the application of exclusions, ESG integration, target setting (ESG and environmental footprint), and voting." Robeco's decision to remove "sustainable" from that fund's name contrasts with its choice to retain the term in its Sustainable Multi-Asset funds, where PAB exclusions were added to the investment universe and the sustainable investment allocation was increased to 50% to meet regulatory requirements.

Additionally, a group of Article 8 Legal & General bond index strategies, including **L&G Global Corporate Bond Screened Index Fund** (formerly known as L&G ESG Global Corporate Bond Index Fund) and **L&G Emerging Markets Government Bond Screened Index Fund** (formerly known as L&G ESG Emerging Markets Government Bond Index Fund), removed the term "ESG" from their names and replaced it with the word "screened". The underlying indexes continue to apply an ESG scoring and screening methodology to tilt toward issuers ranked higher on ESG criteria and green bond issuers, while underweighting or removing issuers that rank lower.

Out of the 383 funds that dropped ESG-related terms in the past three months, 100 (26%) were passively managed.

Meanwhile, the number of funds that replaced ESG-related terms with others rose moderately from three months earlier, most (134 out of 186) being active strategies. In this category, we include funds that replaced, added, or removed certain ESG-related terms in combination (or not) with others. For example, the fund now called **Zurich Climate Focus US Corporate Bond Fund** replaced "carbon neutral" with "climate focus" (it was previously called Zurich Carbon Neutral US Corporate Bond Fund). The active strategy places particular emphasis on achieving an overall carbon footprint aligned with the Paris Agreement, and prioritizes companies that are pioneering clean technology solutions to tackle climate change.

Nordea Global Climate Transition Engagement Fund (formerly known as Fund Nordea Global Climate Engagement Fund) added the term **"transition"** to reflect the managers' belief that today's high-emissions companies play a crucial role in the shift toward a low-carbon economy. The fund emphasizes that active engagement is essential to driving the strategic and operational changes required for these companies to decarbonize—unlocking long-term alpha potential in the process.

As for passive strategies, several Invesco ESG fixed income strategies, including **Invesco EUR IG Corporate Bond ESG Climate Transition ETF** and **Invesco Global High Yield Corporate Bond ESG Climate Transition ETF** replaced "ESG" with "Climate Transition" (they were previously named Invesco Euro IG Corporate Bond ESG ETF and Invesco Global High Yield Corporate Bond ESG ETF), to underscore the existing decarbonization elements aligned with the requirements of Climate Transition Benchmarks.

Finally, 26 funds added the terms "ESG" or "sustainable" to their names, including 17 Nordea strategies, such as **Nordea Global Sustainable Stars Equity Fund** (formerly known as Nordea Global Stars Equity Fund) and **Nordea Global High Yield Sustainable Stars Bond Fund** (formerly known as Nordea Global High Yield Stars Bond Fund). Along with a Paris-aligned fossil fuel exclusion policy, both strategies focus on companies with favorable ESG scores.

We may identify more renamed funds over the next few months due to delays in data collection.

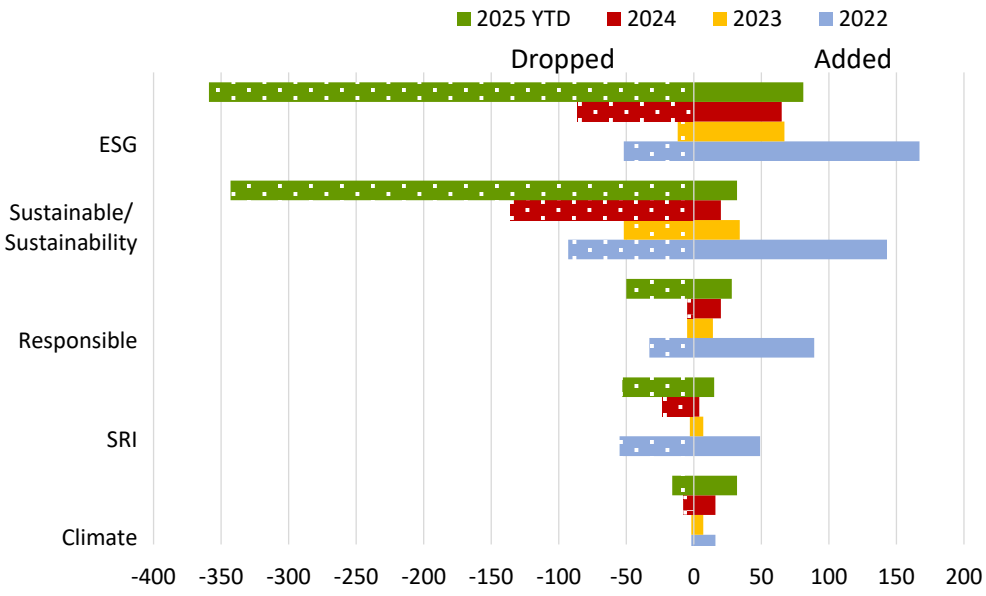
"ESG" and "Sustainable" Were the Key Terms Removed Most

This section looks more closely at the evolution of the ESG- and sustainability-related terms used in European fund names in recent years and months to find out which ones have gained popularity and which ones have lost ground.

In the second quarter of 2025, "ESG" remained the most removed term, but also the most added. Almost half (93 out of 197) of the funds dropping the acronym "ESG" in the second quarter were active strategies. Examples include **Storebrand Global Plus** (formerly known as Storebrand Global ESG Plus), **LUX IM UBS Global Equity Change** (formerly known as LUX IM ESG UBS Global Climate Change), and **BlackRock Global Credit Insights Bond Fund** (formerly known as BlackRock Global Credit ESG Insights Bond Fund). Despite dropping ESG-related terms from their names, none of these three funds has changed their strategy. The ESG-related language provided in their prospectus remains the same. By contrast, **DWS Invest Critical Technologies** (formerly known as DWS Invest ESG Smart Industry Techs LC), changed its sustainability-related language in its prospectus and, among other changes, dropped its sustainable investment commitment and was reclassified to Article 6 from Article 8.

At the same time, the words "sustainable" and "sustainability" were dropped by almost 240 funds and added by 29 other funds during the second quarter. The word "climate" saw nine additions, compared with only three removals during the same period. Terms related to the transition theme, including "transition", "pathway", "CTB", "improver", and "evolution", also gained popularity, as over 20 funds adopted such terms.

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



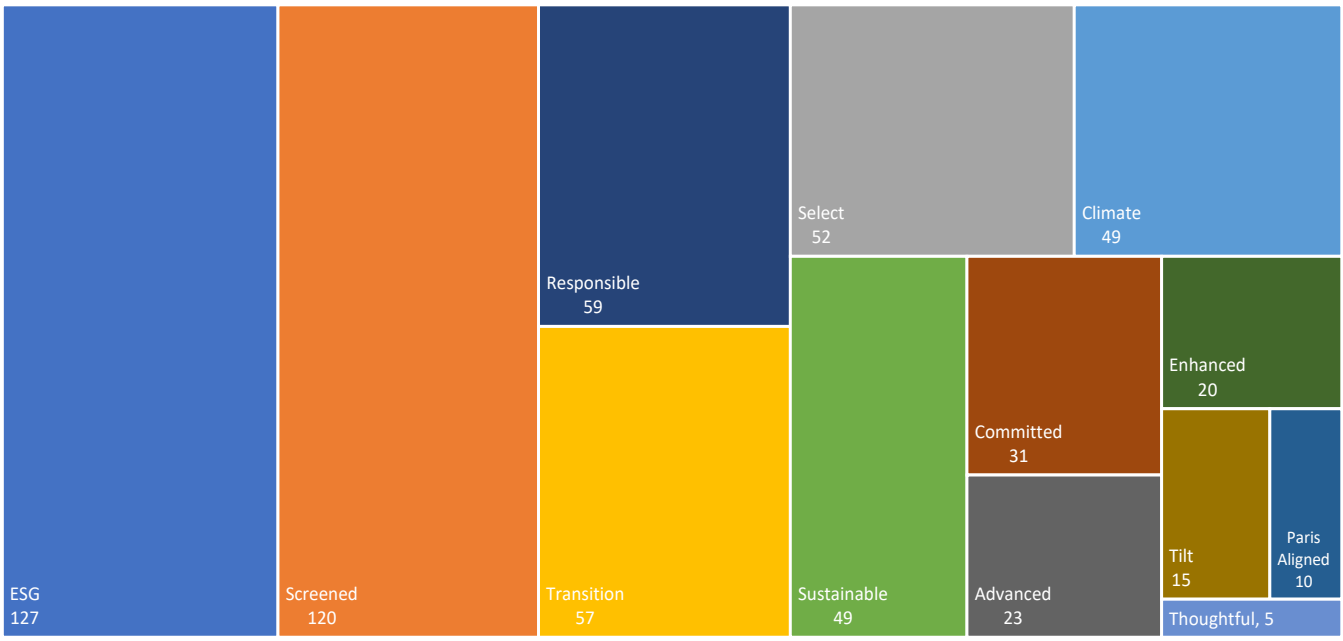
Source: Morningstar Direct. Morningstar Sustainalytics Research. Data as of June 2025. Based on 2,119 European ESG funds adding, dropping, or changing sustainability- or ESG-related terms in their names between 2022 and Q2 2025. This excludes money market funds, funds of funds, and feeder funds. Among funds that added ESG-related terms, we include 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 terms. Similarly, funds that dropped ESG terms include those that removed ESG terms and funds that swapped their original ESG terms for other terms.

Contentious ESG-Related Terms Replaced by Vaguer Alternatives

Further analysis reveals that "ESG" and "screened" were the most popular additions for renamed funds between January 2024 and June 2025, followed by "responsible" and "transition".

Meanwhile, new words have emerged to replace contentious terms and signal differentiation and, in practice, ESG considerations. These words include "select" (or selection), "committed", "advanced", "leaders", "tilt" (or tilted), "thoughtful", and "enhanced". The vast majority of these terms have been added to passive fund names, mostly to signal ESG-based exclusions, which continue to appeal to certain investors.

Exhibit 15b A Sample of ESG-Related Terms Most Frequently Added by European Funds That Changed Names Between January 2024 and June 2025



Source: Morningstar Direct and Morningstar Sustainalytics Research. Data as of June 2025. Funds included in this sample may use multiple terms. Newly incepted funds are excluded.

About USD 1 Trillion in European ESG Fund Assets Were Renamed in the Past 18 months

In total, we estimate that at least 1,346 funds, or 24% of our universe[8], representing about USD 1 trillion in assets under management[9],have been renamed over the past 18 months. These include about 785 that have dropped ESG-related terms, 458 that changed ESG-related terms, and 103 that have added ESG-related terms.

As of this writing, Morningstar's data analysts are still assessing the impact of this large number of name changes on our universe of European sustainable funds. Based on what we have seen, and also a survey done by Morningstar Manager Research, we do not expect significant changes to our universe. Many funds that have changed names have not changed their underlying strategy, and among those that have, a minority have completely dropped their ESG-focused mandate.

SDR's Sustainability Labels Face a Laborious Start

Alongside the EU's ESMA fund naming guidelines, the UK's Sustainability Disclosure Requirements (SDR) have also played a key role in reshaping the European sustainable fund landscape this year. SDR introduced a set of measures designed to enhance the transparency of sustainable investment products and minimize greenwashing risk. Asset managers had until April 2, 2025, to comply with the SDR's

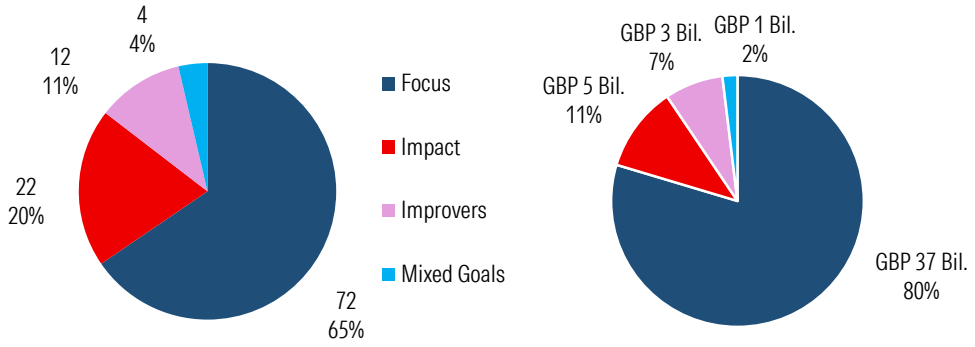
8 At the start of 2024, our European sustainable fund universe included approximately 5,500 funds, many of which, but not all, had ESG-related terms in their names. We therefore estimate that the 1,346 funds that either dropped, changed or added ESG-related terms represent about 24% of the universe we had at the start of 2024. Our universe includes open-end funds and ETFs and excludes money market funds, feeder funds, and funds of funds.
9 Using AUM as of June 2025.

naming and marketing rules. Since July 31, 2024, managers have also had the option to use one of four sustainability labels created by the regulator.

The labeling regime has proved challenging to implement and has had a low initial uptake[10]. As of June 2025, 110 funds have adopted a sustainability label, according to Morningstar Direct data and public announcements[11]. These represent about USD 62 billion (GBP 46 billion) of assets under management.

As shown in the exhibit below, focus is the dominant label, with 72 funds adopting it (representing 65% of all labeled funds). Housing USD 49 billion (GBP 37 billion) in assets, focus funds account for 80% of total labeled-fund assets. The second most adopted label is impact, which is used by 22 funds (20%), with USD 6.7 billion (GBP 5 billion) in assets. The last two labels, improvers (12 funds) and mixed goals (four funds) account for 7% and 2% of the labeled-fund assets, respectively.

Exhibit 15c UK Sustainability-Labeled Funds Approved So Far, by Count (Left Chart) and Assets (GBP Million, Right Chart)



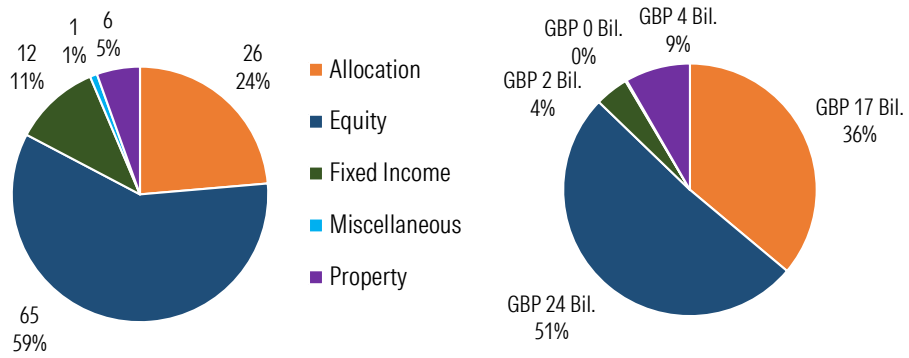
Source: Morningstar Direct, Morningstar Sustainalytics Research. Data as of June 2025.

All labeled funds are actively managed. There are no labeled index-tracking funds. In terms of asset class, the majority (65) of labeled funds are equity strategies, followed by allocation, with 26 funds. Choice in the fixed-income space is currently limited, with only 12 bond funds, representing just 11% of total labeled fund assets.

10 For more details, read: UK Sustainability Disclosure Requirements - Labelled and Non-Labelled Fund Landscape | Morningstar

11 Including only open-end and closed-end funds. Labels have also been adopted by venture capital and pension funds. Standard Life Leads Pensions Industry by Investing in Labelled Funds under SDR Regime; Announcing the launch of the Sustainable Ventures EIS & SEIS funds — Sustainable Ventures

Exhibit 15d Breakdown of UK Sustainability-Labeled Funds by Broad Asset Class (Count)

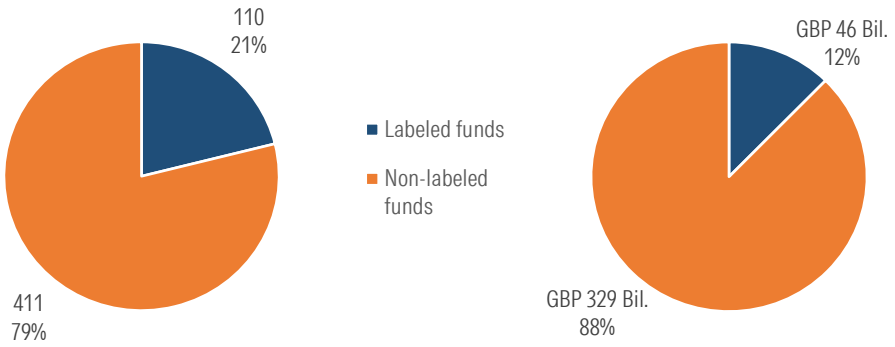


Source: Morningstar Direct, Morningstar Sustainalytics Research. Data as of June, 2025.

Meanwhile, 411 UK-domiciled funds are classified in our database as "non-SDR labeled". These are funds with sustainability characteristics that have chosen not to opt for a label, but that are required to publish a consumer-facing document, in which they disclose information about their investment policy and related metrics, and explain why they are not using a label (in most cases, they just say it's because they don't pursue a sustainability goal).

Currently, the non-labeled fund universe is four times larger than the labeled-fund universe and it offers a variety of strategies with sustainability characteristics. About half of non-labeled funds use ESG-related terms in their names, including ESG, responsible, and climate. Examples include **Xtrackers Emerging Markets Climate Transition ET F**and **Robeco US SDG & Climate Beta Equities**. More than half (218 out of 411, or 53%) of UK non-labeled funds are included in Morningstar's sustainable fund universe.

Exhibit 15e UK Funds With Sustainability Characteristics, Labeled vs. Non-labeled (Number of Funds and AUM)



Source: Morningstar Direct, Morningstar Sustainalytics Research. Data as of June 2025. Funds of funds are included in the non-labeled fund universe.

For more details and analysis on the UK SDR, read: UK Sustainability Disclosure Requirements—Labeled and Nonlabeled Fund Landscape | Morningstar

Regulatory Update

Following the publication of the European Commission's Omnibus package in February, the Council of the European Union agreed on its position in June. This sets the Council's negotiating mandate as it relates to scaling back the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). The mandate does not address the Council's position on changes to the EU Taxonomy, which was mentioned in the Commission's package.

- While the Commission's proposed amendments to the CSRD would narrow the scope of entities from the directive by increasing the employee threshold to 1,000 and removing listed Small and Medium-sized Enterprises (SMEs), the Council added a net turnover threshold of over EUR 450 million.
- In regard to the CSDDD, the Council similarly proposed increased thresholds, which would limit the scope of the directive. The Council amendments would raise the employee threshold to 5,000 and the net turnover threshold to EUR 1.5 billion.

The European Parliament is expected to adopt its position on these issues in October 2025. Once this has been published, trilogue negotiations will begin, with a final agreement on changes to the CSRD, EU Taxonomy, and CSDDD expected towards the end of 2025, or early 2026.

As foreshadowed by its earlier White Paper for European Defence - Readiness 2030, the European Commission published its Defence Readiness Omnibus in June, aiming to establish a defense-readiness mindset across the European Union and laying the groundwork for significant investment in the defense sector. With portions dedicated to defense-specific and non-defense specific legislation, the package includes clarifications on the treatment of the defense sector for ESG-related investments.

In particular, the Commission published a notice on the application of the sustainable finance framework and the corporate sustainability due diligence Directive to the defense sector. This communication highlights the specific language in existing sustainability-related regulations, such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, and the Benchmark Regulation (BMR), that could be perceived as a barrier to investing in the defense sector, and clarifies the scope of restrictions around controversial weapons and the "do no significant harm" (DNSH) principle. In particular, the communication notes that considerations around weapons are focused on controversial weapons, specifically anti-personnel mines, cluster munitions, chemical weapons, and biological weapons, and that the DNSH principle do not preclude investment in the defense sector. For example, implementation of the principle in the EU Taxonomy is specifically connected to the SFDR. In the technical standards for the SFDR, there is a provision for a statement on principal adverse impacts, with one indicator being exposure to controversial weapons.

For additional information on the Defence Readiness Omnibus, watch our webinar replay: Navigating EU ESG Rules and Defense Financing Priorities.

In the UK, the government launched a trio of consultations related to the UK's sustainable finance framework. One contains exposure drafts for the UK Sustainability Reporting Standards, another

consults on assurance of sustainability reporting, and the third seeks feedback on climate-related transition plan requirements. The exposure drafts for the UK Sustainability Reporting Standards incorporate recommendations from the UK Sustainability Disclosure Technical Advisory Committee and the UK Sustainability Disclosure Policy and Implementation Committee. The consultation periods for all three will close in mid-September. Additionally, the Financial Conduct Authority (FCA) is expected to consult on rules for listed entities in relation to the disclosure and implementation of the sustainable finance framework.

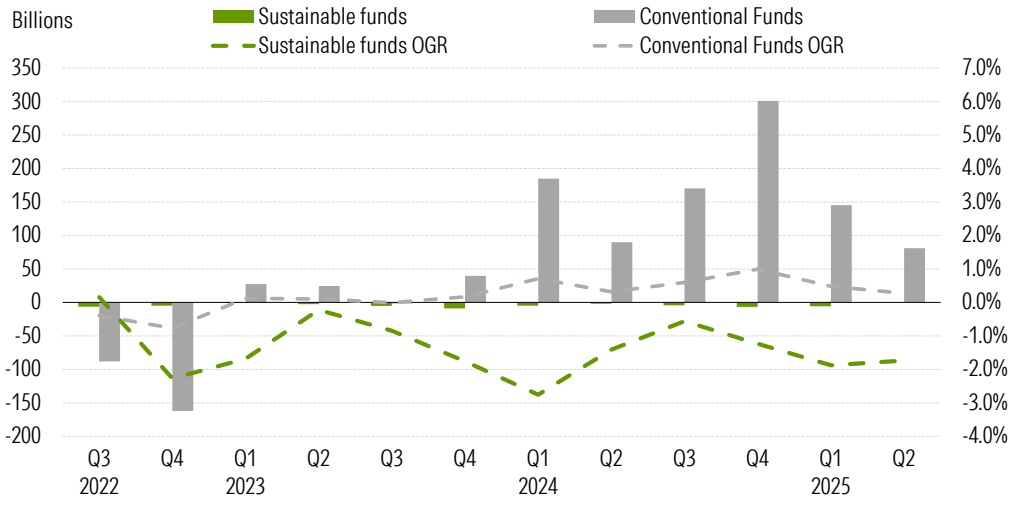
United States

Withdrawals Continue for the 11th Quarter in a Row

For the 11th consecutive quarter, US-domiciled sustainable funds continued to bleed money. Although the loss was smaller than in the previous quarter, investors withdrew a total of USD 5.7 billion in the second quarter of 2025. This compares with the USD 6.5 billion of outflows in the previous quarter.

As a result, the organic growth rate of US sustainable funds was negative 1.7%, compared with the previous quarter's negative 1.9%. In comparison, the broad US fund market registered inflows of USD 75 billion, compared with USD 139 billion in the previous quarter, representing a reduced organic growth rate of 0.27% from 0.48%.

Exhibit 16a US Funds' Quarterly Flows: Sustainable versus All US Funds (USD Billion)



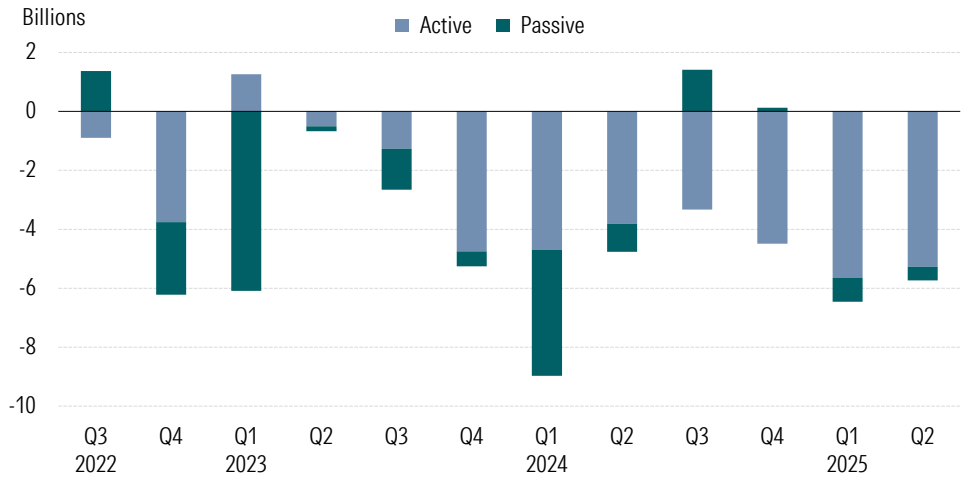
Source: Morningstar Direct. Data as of June 2025.

The reduced appetite among US investors for sustainable funds can be partly attributed to an anti-ESG backlash, which has intensified under the Trump administration. Since January, the administration has taken a number of actions that aim to eliminate or weaken climate change-related and ESG initiatives. For example, one executive order issued in April directs the Attorney General to identify and stop state policies that seek to address climate change or involve ESG initiatives. In this environment, many US

asset managers have scaled back their ESG commitments and adopted a more cautious approach to promoting their sustainability credentials and sustainable investment products.

In the second quarter, actively managed sustainable funds accounted for USD 5.3 billion in outflows, while passive funds saw redemptions of USD 462 million, representing a reduction in outflows compared to the previous quarter.

Exhibit 16b US Sustainable Fund Flows (USD Billion)

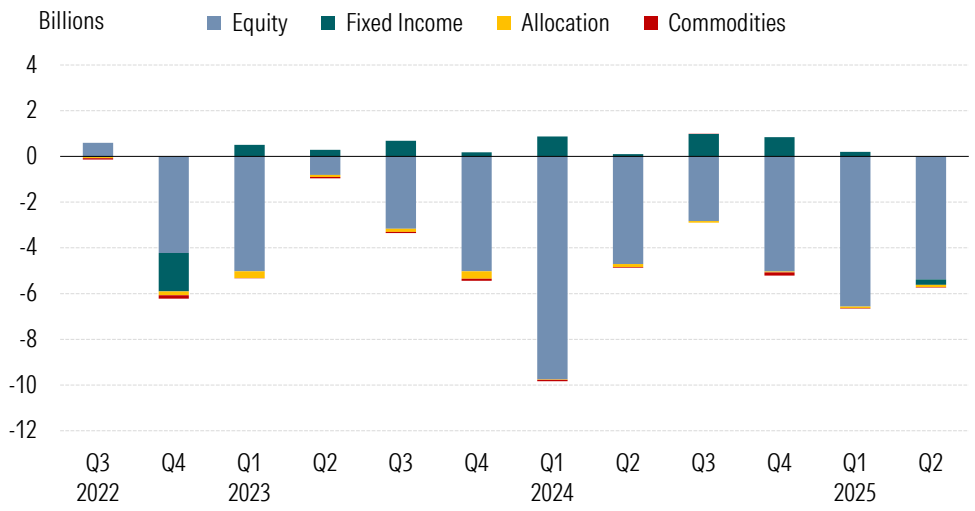


Source: Morningstar Direct. Data as of June 2025.

Flows by Asset Classes

Sustainable bond funds saw their first — albeit small — quarterly outflows in more than two years, losing USD 236 million after nine consecutive quarters of inflows. Meanwhile, sustainable equity funds continued to bleed money, suffering redemptions of USD 5.4 billion.

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



Source: Morningstar Direct. Data as of June 2025.

Flow Leaders and Laggards

In the second quarter of 2025, once again, **Parnassus Core Equity** topped the list of the largest outflows, shedding USD 800 million. While this marks a reduction from the USD 1.6 billion withdrawn in the first quarter and brings total outflows to nearly USD 10.5 billion since the start of 2022, the fund continues to hold its position as the largest sustainable fund in its category, managing USD 28.6 billion in assets as of the end of June. The fund focuses on investing in US large-cap companies with sustainable competitive advantages, quality management, and positive ESG performance.

Brown Advisory Sustainable Growth and **SPDR® S&P 500® ESG ETF** took second and third place, respectively, in terms of outflows, bleeding USD 558 million each.

Exhibit 17a Bottom 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
Parnassus Core Equity Fund	-800
Brown Advisory Sustainable Growth Fund	-558
SPDR® S&P 500® ESG ETF	-558
iShares ESG Aware MSCI USA ETF	-350
Nuveen Large Cap Responsible Equity Fund	-337
Victory Pioneer Fund	-335
Impax LARGE CAP FUND	-292
Impax Global Environmental Markets Fund	-288
Nuveen Core Impact Bond Fund	-280
Parnassus Value Equity Fund	-263

Source: Morningstar Direct. Data as of June 2025.

Meanwhile, DWS's **Xtrackers MSCI Emerging Markets Climate Selection ETF** was the standout performer in terms of inflows in the past three months, with USD 554 million in net new money. The ETF seeks to passively invest in large and mid-cap companies in emerging markets that demonstrate strong sustainability performance, with a particular focus on reducing greenhouse gas emissions intensity and increasing exposure to companies with science-based climate targets approved by the Science Based Targets initiative (SBTi).

The second-best money gatherer, with USD 479 billion in net new subscriptions, was another climate strategy, **Invesco MSCI North America Climate ETF**. The ETF invests in US and Canadian large and mid-cap companies, combining a sector and normative exclusion approach and positive selection to "minimize exposure to physical and transition risks of climate change", which involves a 10% yearly GHG emissions reduction target.

Exhibit 17b Top 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
Xtrackers MSCI Emerging Markets Climate Selection ETF	554
Invesco MSCI North America Climate ETF	479
iShares ESG U.S. Aggregate Bond ETF	201
First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund	171
Vanguard ESG International Stock ETF	162
Impax U.S. Sustainable Economy Fund	147
Xtrackers S&P 500 ESG ETF	136
Nationwide Invesco Core Plus Bond Fund	124
Vanguard FTSE Social Index Fund	113
Touchstone Non-US Equity Fund	108

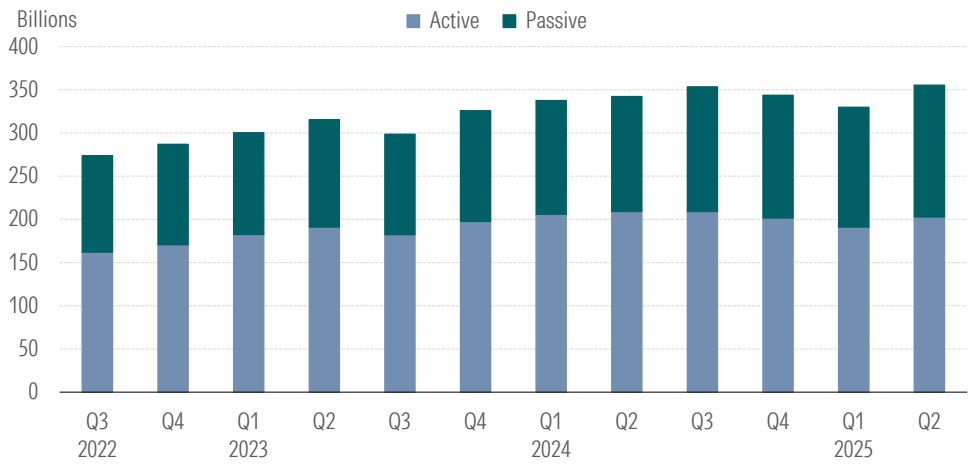
Source: Morningstar Direct. Data as of June 2025.

Assets

Despite the outflows, assets in US sustainable funds resumed their growth over the past three months, reaching USD 355 billion at the end of June. This increase was supported by positive equity market performance. For context, the Morningstar Global Market Index gained 11% over the second quarter, while the Morningstar Core Bond Index rose by 4.1%.

As of the end of June, sustainable funds accounted for only about 1% of the overall US open-end funds and ETF universe, and passive strategies represented 43% of these assets, while active funds accounted for the remaining 57%, as shown in the exhibit below.

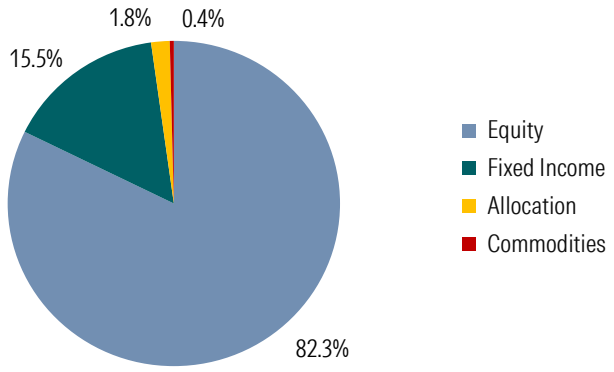
Exhibit 18a US Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

In terms of broad asset class, equity funds overwhelmingly dominate the US sustainable fund landscape, accounting for 87% of total assets. Fixed income funds follow, with 14% market share. Allocation funds represent less than 2% of the market.

Exhibit 18b US Sustainable Fund Asset Class Breakdown (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

At the end of June, **Parnassus Core Equity Fund** retained its position as the largest sustainable fund, with assets totaling USD 28.6 billion, despite experiencing USD 10.5 billion in outflows since the beginning of 2022. The **Vanguard FTSE Social Index Fund** ranked second, managing USD 23.8 billion in assets. The fund invests in US large- and mid-cap companies, excluding sector and normative controversies, such as adult entertainment, gambling and non-renewable energy, while also screening out companies with controversial conduct or poor diversity practices to prioritize positive social and environmental practices.

Exhibit 18c Top 10 Sustainable Funds

Fund Name	Total Assets (USD Billion)
Parnassus Core Equity Fund	28.6
Vanguard FTSE Social Index Fund	23.8
iShares ESG Aware MSCI USA ETF	13.8
Vanguard ESG U.S. Stock ETF	10.6
iShares ESG Aware MSCI EAFE ETF	9.8
Victory Pioneer Fund	9.3
Brown Advisory Sustainable Growth Fund	9.0
DFA U.S. Sustainability Core 1 Portfolio	7.9
Nuveen Large Cap Responsible Equity Fund	6.8
Nuveen Core Impact Bond Fund	6.5

Source: Morningstar Direct. Data as of June 2025.

BlackRock and Vanguard Remain at the Top

BlackRock, the world's largest manager, continues to lead the list of asset managers marketing ESG and sustainable open-end funds and ETFs, with almost USD 61 billion under management. Vanguard stands in second position with USD 42 billion, after overtaking Parnassus and Morgan Stanley (which owns the Calvert brand) in the fourth quarter of 2024.

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

Overall		Actively Managed		Passively Managed	
Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)
BlackRock incl. iShares	60.7	Parnassus	36.6	BlackRock incl. iShares	57.7
Vanguard	42.1	Morgan Stanley (incl. Calvert	24.9	Vanguard	40.0
Parnassus	36.6	Dimensional	17.4	Morgan Stanley (incl. Calvert	11.6
Morgan Stanley (incl. Calvert)	36.5	Nuveen	16.3	Invesco	7.5
Nuveen	23.1	Victory Capital	12.1	Nuveen	6.8
Dimensional	17.4	Brown Advisory	10.8	DWS (incl. Xtrackers)	6.4
Victory Capital	12.1	Franklin Templeton	9.9	Fidelity	5.6
Brown Advisory	10.8	Impax	8.1	First Trust	5.0
Invesco	10.0	Eventide	6.1	Northern Trust	2.0
Franklin Templeton	9.9	American Century	6.0	Everence	1.9
Fidelity	8.3	Boston Trust Walden	4.3	State Street	1.7
Impax	8.1	Community Capital	3.8	Global X	1.1
DWS (incl. Xtrackers)	6.7	AllianceBernstein	3.5	Green Century	0.9
Eventide	6.1	BlackRock incl. iShares	3.0	TCW	0.8
American Century	6.0	Neuberger Berman	2.8	New York Life	0.8
First Trust	5.1	Fidelity	2.7	Kraneshares	0.6
Boston Trust Walden	4.3	Invesco	2.5	Jackson	0.4
Community Capital	3.8	PIMCO	2.5	Flexshares	0.4
AllianceBernstein	3.5	Domini	2.3	VanEck	0.4
Everence	3.0	RBC	2.1	Amplify	0.2

Source: Morningstar Direct. Data as of June 2025.

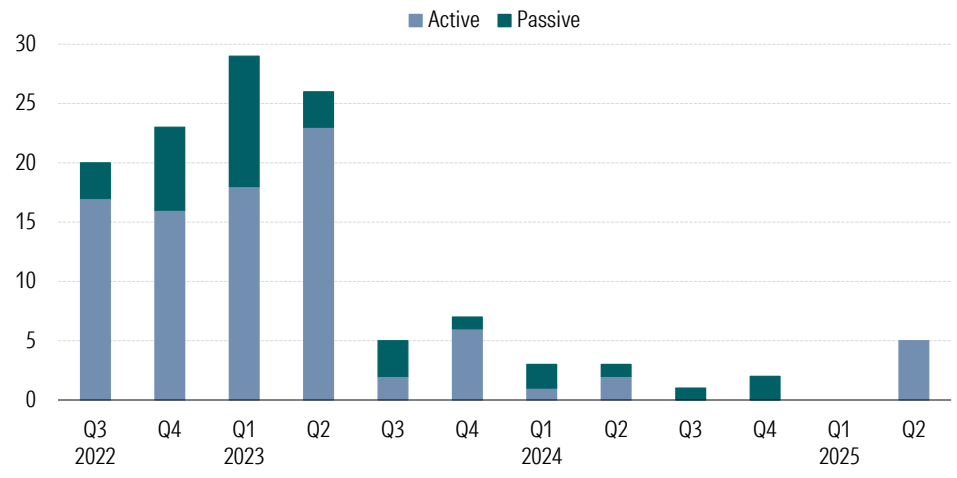
Slight Rebound in New Sustainable Fund Launches

In the second quarter of the year, five new US sustainable funds were added to the universe. Products initiated by Brown Advisory and Everence accounted for four of the new launches, while Dimensional launched the fifth one.

Brown Advisory Sustainable Value ETF invests primarily in US large-cap companies that are undervalued and demonstrate strong cash flow and sustainable business practices, with a focus on companies managing sustainability-related risks through their people, processes, or products. It seeks firms with long-term financial and ESG advantages, including those offering environmental or social solutions. **Brown Advisory Sustainable Growth ETF** invests in US companies that demonstrate Sustainable Business Advantages, such as improved financial performance through sustainability-driven strategies, resource-efficient products, or solutions to global sustainability challenges, while it actively manages ESG-related risks and integrates sustainability factors into its investment decisions and due diligence process. Additionally, the two funds "pursues strategic engagement with companies and other stakeholders in an effort to enhance due diligence and monitor the investment thesis".

Meanwhile, Everence's **Praxis Impact Large Cap Value ETF** and **Praxis Impact Large Cap Growth ETF** invest in US large-cap companies that align with the Praxis Stewardship Investing core values, applying ESG-related proprietary screens and impact strategies known as ImpactX. These strategies support principles such as environmental stewardship, human dignity, justice, and responsible corporate practices, guiding the funds to avoid misaligned companies and favor those contributing positively to people, communities, and the planet. Finally, **Dimensional World ex U.S. Sustainability Targeted Value Portfolio** integrates sustainability considerations into its investment strategy by adjusting its portfolio composition to favor companies with lower carbon intensity and fewer ESG-related risks, while excluding firms involved in harmful businesses and practices, such as tobacco, coal and severe human rights or environmental controversies.

Exhibit 20 US Sustainable Fund Launches

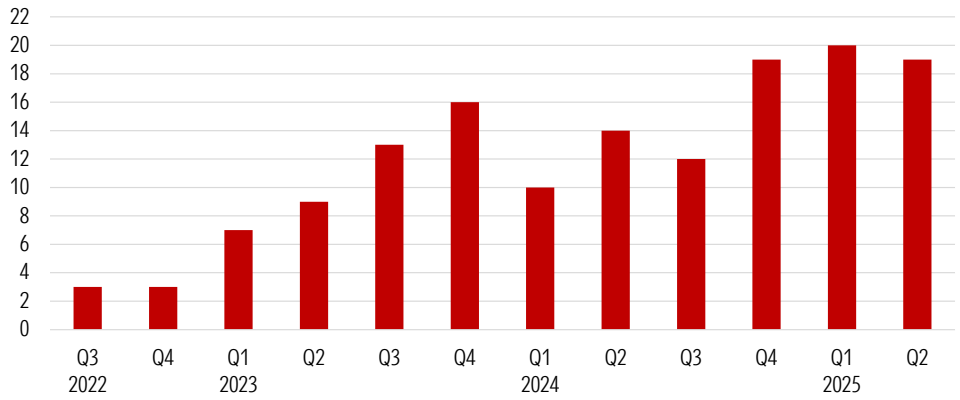


Source: Morningstar Direct. Data as of June 2025.

Fund Closures

The second quarter of 2025 saw a continued wave of shutdowns in the US sustainable fund universe, with 19 new closures. The list of closures includes a mix of exposures across ESG topics, including broad sustainability, climate transition, renewable energy, and sustainable infrastructure. Notable closures include **Parnassus Fixed Income Fund**, which held USD 193 million as of March 2025. Natixis liquidated **Mirova Global Green Bond Fund**, with USD 34 million in assets by June 2025. Simultaneously, Defiance closed its last remaining US sustainable fund, **Defiance Next Gen H2 ETF**, which held USD 14 million before being liquidated.

Exhibit 21 US Sustainable Fund Closures



Source: Morningstar Direct. Data as of June 2025.

In addition to sustainable fund closures, four funds dropped their ESG-focused mandates in the last three months, bringing the total number of sustainable open-end and ETFs in the United States to 498 at the end of the second quarter, compared to 510 in the first quarter.

Funds that were recently repurposed into conventional funds include **Janus Henderson International Dividend Fund** (formerly Janus Henderson Responsible International Dividend Fund) and **BlackRock Balanced Fund** (formerly BlackRock Sustainable Balanced Fund). Both funds revised their legal disclosures and removed substantial indications of pursuing a dedicated ESG strategy. Previously, the Janus Henderson fund integrated ESG considerations to manage risks and identify sustainability-related opportunities, considering factors such as board diversity, community relations, and biodiversity, as well as applying values- and climate-related exclusions. While some ESG elements remain, the removal of "responsible" from its name, combined with significantly revised legal filings, signals a clear shift away from positioning the fund as a sustainability-focused product. Similarly, the BlackRock fund distanced itself from pursuing its "better than the benchmark" ESG approach, which targeted investments with stronger ESG profiles, lower carbon emissions, and issuers viewed as better positioned to capitalize on climate-related opportunities.

While several other funds, including **Sprott Critical Materials ETF** (formerly Sprott Energy Transition Materials ETF), **Cromwell Foresight Global Infrastructure Fund** (formerly Cromwell Foresight Global

Sustainable Infrastructure Fund) and **Cromwell Tran Focus Fund** (formerly Cromwell Tran Sustainable Focus Fund), removed ESG-related terms from their names, their underlying investment strategies remain unchanged and continue to reflect a pronounced sustainability focus, allowing them to remain within our universe of US sustainable funds.

Regulatory Update

Following its decision in March not to defend the 2024 climate disclosure rule in court, the US Securities and Exchange Commission (SEC) withdrew proposed rulemaking related to ESG disclosure for investment advisers and investment companies. While this rule was never finalized, removing the proposed rule means that any future regulatory action in this area, such as by future administrations, would need to start anew.

At the state level, California's Senate Bill 253 and Senate Bill 261 are scheduled to come into effect in 2026, although ongoing legal challenges and executive orders may yet change this. For SB 253, the California Air Resources Board (CARB) must develop and adopt regulations to require the reporting of greenhouse gas emissions, with scope 1 and 2 emissions expected to be reported on in 2026 and scope 3 set to follow in 2027. To this end, CARB held a virtual public workshop on May 29 to share initial proposals relating to and addressing the timing of compliance. CARB indicated that it is working to develop regulations for SB 253 by the end of the year. Additionally, CARB is open to feedback on how it can help implement SB 261, which covers the disclosure of climate-related financial risks, as there is no legislative mandate for CARB in the same way as there is for 253. It has raised the possibility of regulation, guidance or other approaches. As the effective dates of the legislation approach, further workshops and engagement opportunities are expected.

On the federal legislative front, the US House introduced the Protecting Prudent Investment of Retirement Savings Act, aimed at codifying a pecuniary-only within Employee Retirement Income Security Act (ERISA). Aligning with the 2020 DOL "Financial Factors in Selecting Plan Investments" rule issued in the first Trump administration, the legislation would amend ERISA to limit the consideration on non-pecuniary factors. This would essentially override the 2022 DOL "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights" rule, which remains the subject of litigation.

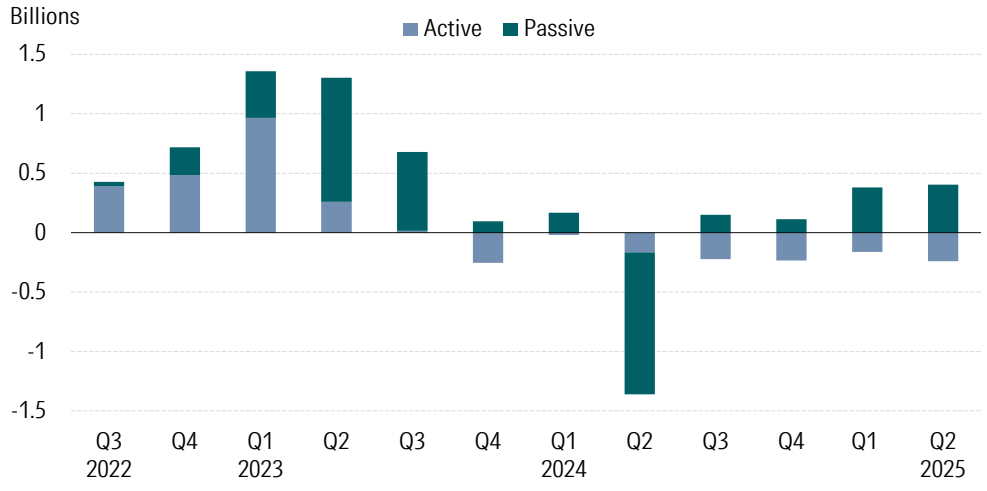
In connection with that litigation, the Department of Labor (DOL) informed the courts that it is considering rescinding the 2022 rule. In that letter, the DOL requested a 30-day pause in the case. At the end of this period, the DOL stated in a subsequent letter that it will issue a new rule to replace the Biden-era rule.

Canada

Flows

Canada recorded a second consecutive quarter of positive flows into sustainable funds, with net subscriptions totaling USD 162 million. While this marks a decline from the restated USD 217 million in the previous quarter, it represents a significant rebound from the USD 1.4 billion in net outflows seen in the same period last year. Passive strategies attracted USD 403 million in inflows, more than offsetting the USD 241 million in outflows from active funds.

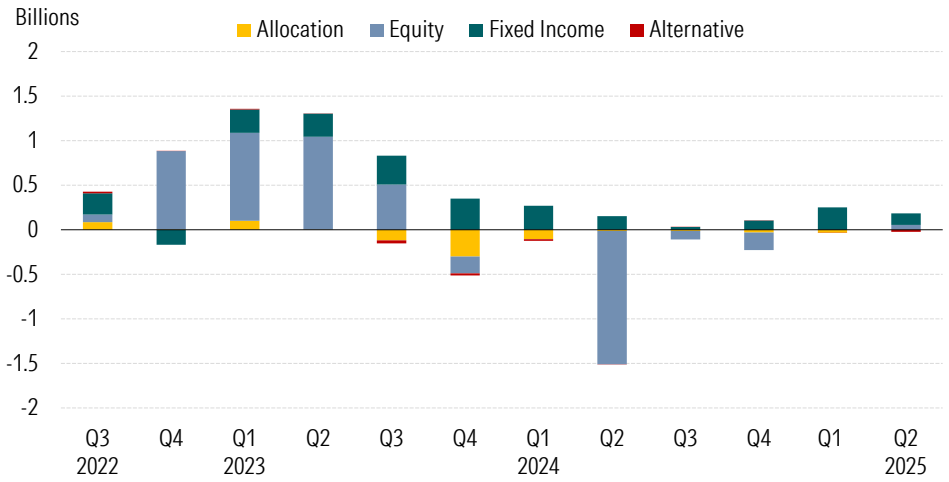
Exhibit 22a Canada Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

Fixed income dominated the inflows, attracting USD 130 million in net new money, although this was down from the restated USD 251 million in the previous quarter. Flows into sustainable equity funds were positive, at USD 55 million, after five consecutive quarters of outflows. In contrast, allocation and alternative funds experienced outflows of USD 86 million and USD 23 million, respectively.

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

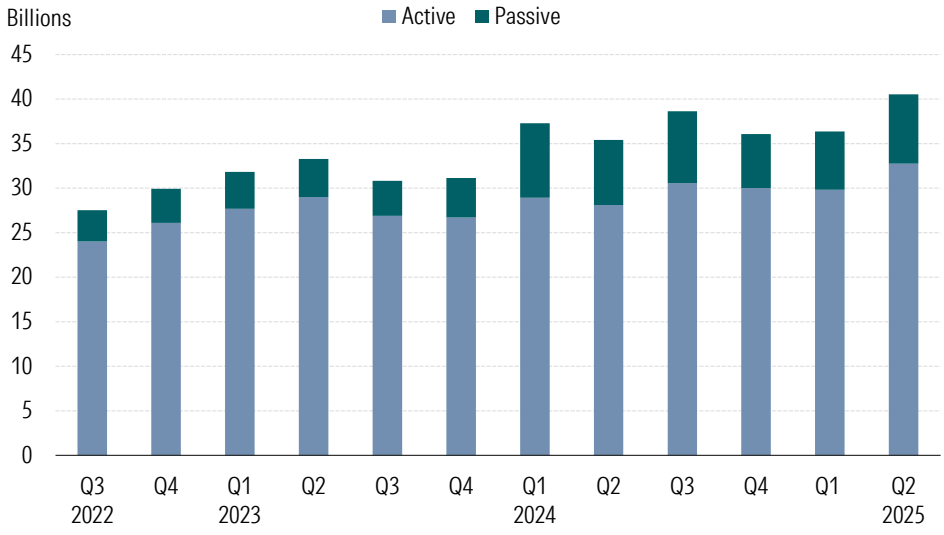


Source: Morningstar Direct. Data as of June 2025.

Assets

Supported by the positive inflows and market price appreciation, Canadian sustainable fund assets grew by 11% in the second quarter, reaching USD 40.5 billion at the end of June. By comparison, the Morningstar Canada Index gained 14.4%.

Exhibit 23 Canada Sustainable Fund Assets (USD Billion)



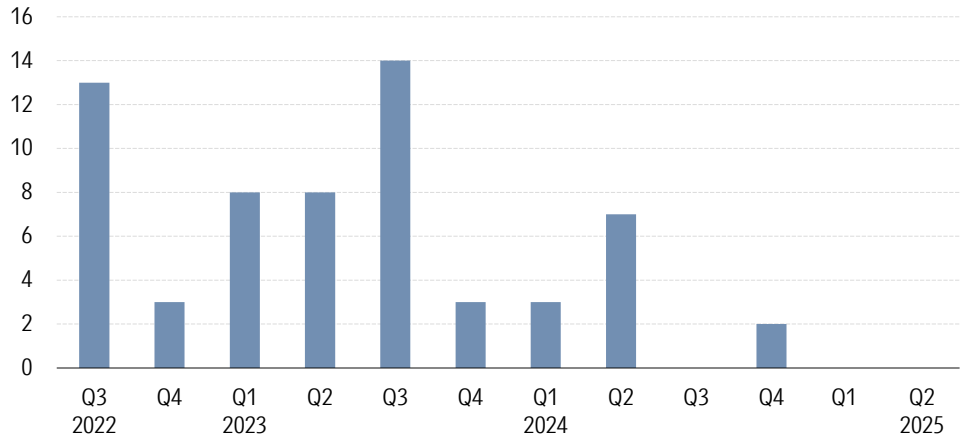
Source: Morningstar Direct. Data as of June 2025.

New Launches and Closures

For the second consecutive quarter, Canada saw no new launches of sustainable funds. Meanwhile, the active thematic **Franklin Martin Currie Improving Society Fund** was liquidated. The fund sought to

"contribute to the narrowing of the equality gap and the fairness of social opportunity by investing in issuers whose products or services improve well-being, improve inclusion, or support a just transition toward a sustainable economy." Simultaneously, two passive strategies, **BMO ESG High Yield US Corporate Bond Index ETF** and **Mackenzie Global Sustainable Dividend Index ETF**, which both aimed at replicating sustainability focused indexes, were closed.

Exhibit 24 Canada Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2025.

Regulatory Update

In April, the Canadian Securities Administrators (CSA) announced a pause in their development of a mandatory climate-related disclosure rule and amendments to existing diversity-related disclosure requirements. While the Canadian Sustainability Standards Board (CSSB) issued its inaugural sustainability disclosure standards in December 2024, with them coming into effect for reporting periods starting in 2025, reporting according to these standards is currently voluntary. In terms of diversity-related disclosure, this announcement does not change the existing requirement for non-venture issuers to report the representation of women on their boards and in executive officer positions. The CSA indicated that it expects to return to both climate- and diversity-related disclosures in the future to finalize requirements for issuers, with appropriate notice to be provided ahead of any changes.

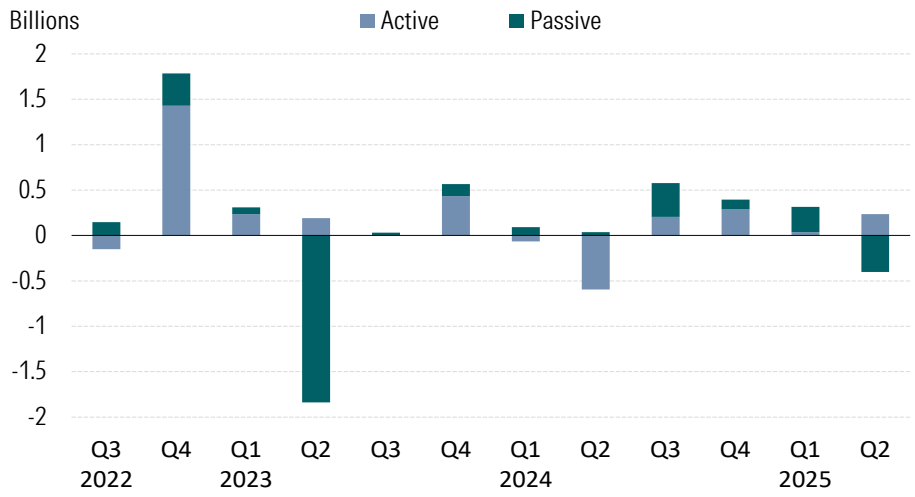
Australia and New Zealand

Flows

In the second quarter of 2025, the Australasian (Australia and New Zealand) sustainable funds universe recorded outflows of approximately USD 165 million, a reversal from the USD 315 million in net inflows seen in the previous quarter. The second quarter's outflows were driven by passive strategies, which saw net redemptions of USD 400 million. Notably, **Vanguard Ethically Conscious Global Aggregate**

Bond (NZD-hedged) saw redemptions of around USD 418 million, accounting for most of the passive fund outflows. Meanwhile, active strategies attracted net inflows of USD 235 million during the quarter.

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



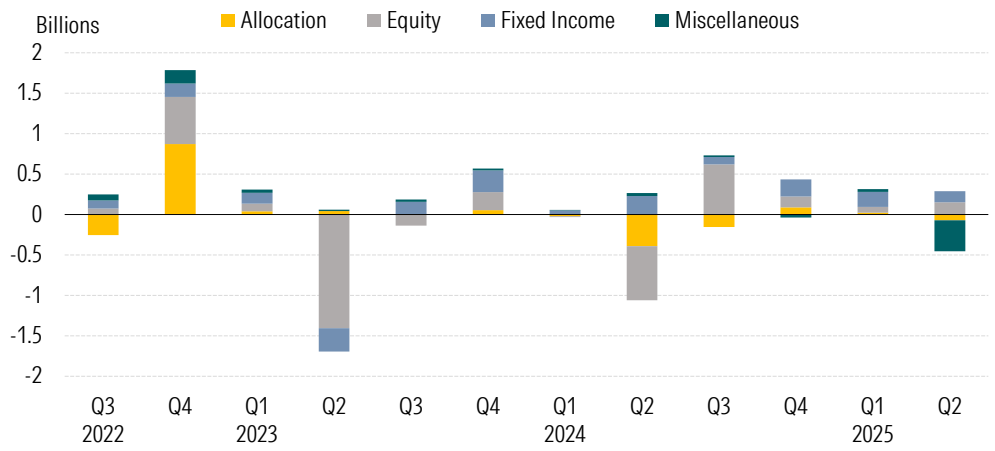
Source: Morningstar Direct. Data as of June 2025.

By comparison, the broader open-end fund and ETF universe in Australia and New Zealand saw net inflows of over USD 7.5 billion in the second quarter, an increase from the restated USD 6.9 billion in net inflows recorded in the first quarter of 2025.

Flows by Category

In the Australasia region, for the second quarter of 2025, equity strategies saw net inflows of USD 151 million, followed by miscellaneous strategies (infrastructure, property, alternatives, commodities, etc.) which saw net inflows of USD 36 million. Fixed Income and Allocation funds registered net outflows of USD 281 million and USD 72 million, respectively.

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

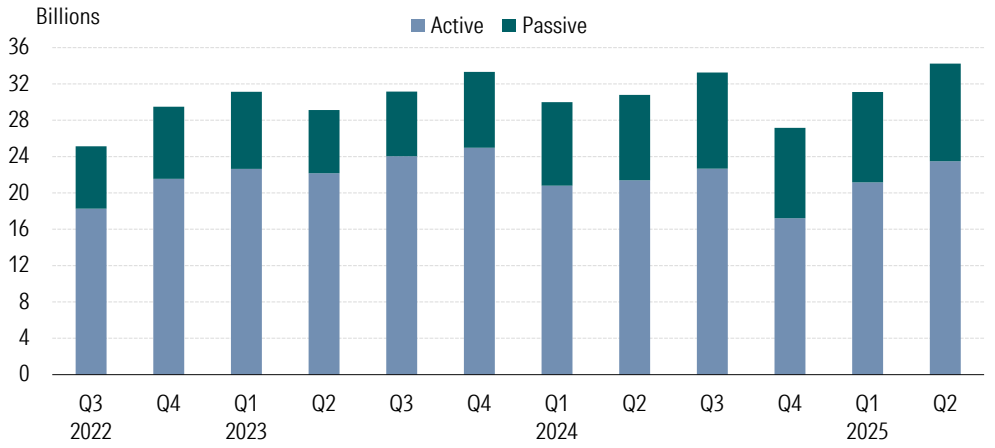


Source: Morningstar Direct. Data as of June 2025.

Assets

The total size of the Australasian sustainable fund market is estimated to be USD 34.2 billion as of June 30, 2025, up 10% from three months earlier. By comparison, the Australian Share Index gained 9.2% over the period.

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



Source: Morningstar Direct. Data as of June 2025.

The Australian sustainable funds market remains quite concentrated, with the top 10 firms accounting for approximately 70% of total assets in sustainable funds-- a level that has remained stable over the past year. The top 10 fund houses by sustainable fund assets are listed below, based on available data as of June 2025. Dimensional (DFA) has the highest market share, followed by BetaShares and Vanguard.

Exhibit 29 Top Australian and New Zealand Fund Houses by Sustainable Assets

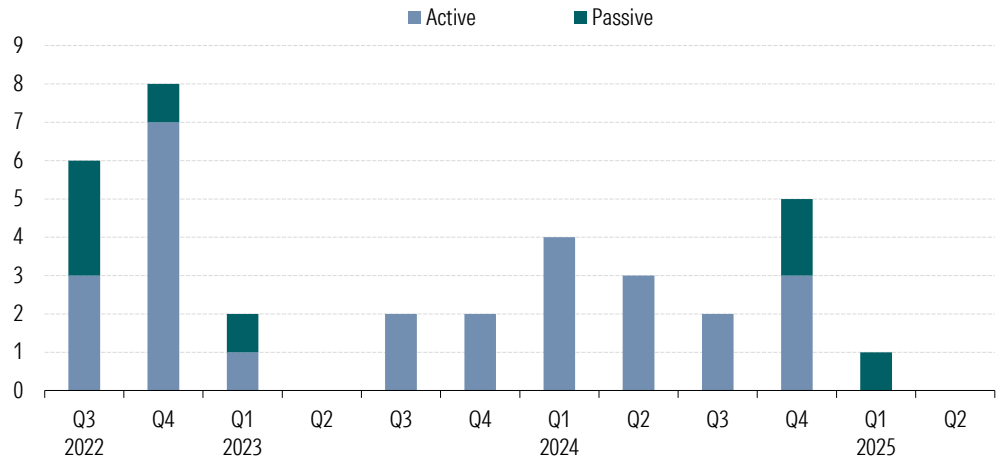
Sustainable Asset Market Share	% Market Share
DFA Australia Limited	17.4%
BetaShares Capital Ltd	12.4%
Vanguard Investments Australia Ltd	8.7%
BlackRock Investment Management (Australia) Ltd	5.5%
Australian Ethical Investment Ltd	4.9%
Pendal Institutional Limited	4.6%
Russell Investment Group Limited	4.4%
Mercer Investments (Australia) Limited	4.1%
U Ethical	2.8%
State Street Global Advisors (Aus) Ltd	2.5%

Source: Morningstar Direct. Data as of June 2025

Launches

No new sustainable fund was launched in the second quarter of the year in Australia or New Zealand. Meanwhile, two sustainable funds closed, namely **Kernel S&P Kensho Electric Vehicle Innovation Fund** and **Warakirri Ethical Global Equities Fund**.

Exhibit 30 Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2025.

As of the end of June 2025, we counted 262 funds in the Australasian sustainable fund universe.

Regulatory Update

As of January 1, 2025, new climate reporting requirements have come into effect for large Australian companies and financial institutions. These rules mandate the inclusion of climate-related disclosures in annual sustainability reports, the first of which will be filed in 2026. The reporting framework is based on international standards and is supported by a new Australian Accounting Sustainability Standard.

Although the reports are referred to as "sustainability reports", the focus is primarily on climate-related risks and opportunities, rather than on broader environmental, social, and governance (ESG) issues.

Many companies are still preparing for the new requirements. Challenges include difficulties in collecting the necessary data, a shortage of qualified professionals to compile the reports, and the need for directors and investors to develop a better understanding of climate-related financial disclosures. The implementation is being phased in over three years. Initially, the rules apply to the largest entities. By 2027–28, they will extend to medium and smaller companies that meet certain thresholds, such as having at least AUD 50 million in revenue, AUD 25 million in assets, or more than 100 employees.

In June, the Australian Sustainable Finance Institute (ASFI) released the Australian sustainable finance taxonomy. This initial phase of the taxonomy focuses on climate change mitigation criteria for six priority sectors, the development of a Do No Significant Harm (DNSH) framework and Minimum Social Safeguards (MSS). The taxonomy covers sectors that are of key importance to Australia, such as mining, critical minerals, and agriculture, and defines two labels, "green" and "transition", for covered activities. ASFI also announced a program to pilot the taxonomy with a group of financial institutions to across a variety of use cases.

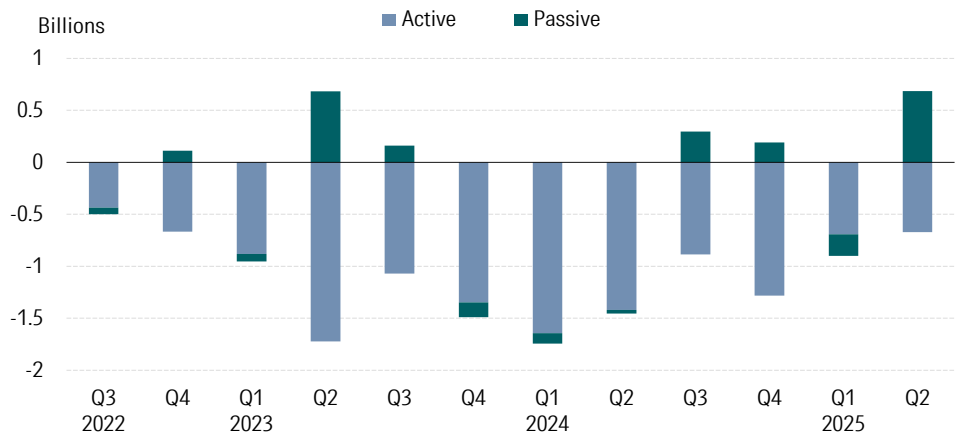
Japan

Flows

In the second quarter of 2025, Japanese sustainable funds saw a shift, recording net inflows of approximately USD 13 million after 11 consecutive quarters of outflows. While this is positive, these net flows remain modest, and significantly lower than the USD 11.2 billion inflows recorded by the broader Japanese funds market during the same period.

Actively managed sustainable funds continued to bleed money for the 13th consecutive quarter, although their second-quarter outflows of USD 672 million were the smallest since the fourth quarter of 2022. Meanwhile, passively managed sustainable funds recorded net inflows of USD 685 million, the highest since 2021. **NEXT FUNDS MSCI Global Climate 500 Japan Selection Index ETF**, launched by Nomura at the end of last year, emerged as the top contributor to the inflows for the second quarter, attracting USD 559 million. The ETF invests in Japanese companies that aim to reduce greenhouse gas, while excluding companies with negative ESG impacts.

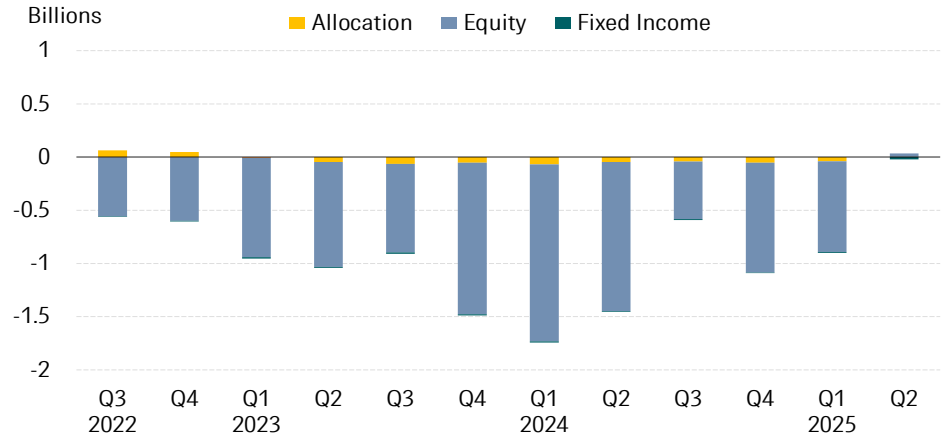
Exhibit 31 Japan Sustainable Fund Flows (USD Billion)



Source: Morningstar Direct. Data as of June 2025. Including funds of funds and feeder funds to better reflect the actual flow situation in the Japanese market. Many Japanese funds of funds invest in European funds. This introduces the potential for double counting at the global level.

Japanese sustainable equity funds experienced net inflows of USD 32 million during the second quarter of 2025, whereas sustainable fixed income funds saw net outflows of USD 21 million. Notably, 19 out of the 20 funds most affected by withdrawals were equity funds.

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

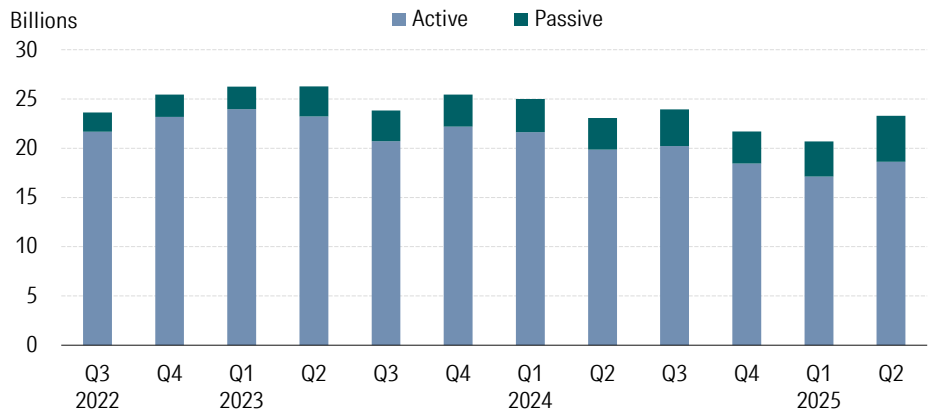


Source: Morningstar Direct. Data as of June 2025.

Assets

Total assets in Japan-domiciled sustainable funds totaled more than USD 23.3 billion in the second quarter. Actively managed funds represent the predominant share, accounting for 80% of total assets within the sustainable fund category, with equity funds comprising a substantial majority (97%) of that universe.

Exhibit 33 Japan Sustainable Fund Assets (USD Billion)

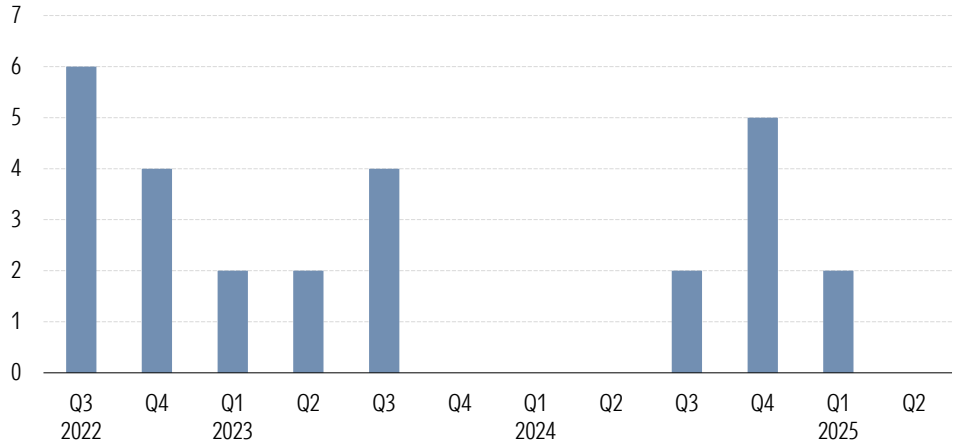


Source: Morningstar Direct. Data as of June 2025. Including funds of funds and feeder funds to better reflect the actual flow situation in the Japanese market. Many Japanese funds of funds invest in European funds. This introduces the potential for double counting at the global level.

Launches

There were no new sustainable funds launched in Japan over the past three months.

Exhibit 34 Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2025.

Regulatory Update

On June 26, 2025, Japan's Financial Services Agency (FSA) released the third revision of its Stewardship Code, signaling a significant move towards more meaningful corporate governance reform, a decade after its initial introduction. This latest revision seeks to transcend mere formal compliance, advocating for a return to a principle-based approach by streamlining and simplifying existing provisions. Notable changes include the promotion of "collaborative engagement", which encourages constructive dialogue between institutional investors. They are required to update their public disclosures in accordance with the revised code by the end of December 2025.

Also in June, the FSA Working Group on Disclosure and Assurance of Sustainability-related Financial Information discussed delaying the implementation of the recently launched sustainability disclosure standards in response to the EU Omnibus. While the Sustainability Standards Board of Japan announced standards in March, it has not set the timing for listed companies to report in accordance with them. In 2024, the FSA suggested a phased-in approach that would see the first mandatory reporting for the fiscal year ending March 2027. While delaying could align reporting for Japanese companies with timelines in other markets, companies also provided feedback to the FSA working group that certainty on the timing was a must, considering the compliance requirements.

Asia ex-Japan

We used the most recent data available within the past quarter for funds whose full quarterly data were unavailable at the time of publication. Because China's data was not available, we used first-quarter 2025 data as a proxy for second-quarter 2025 data in every exhibit of this section. In first-quarter 2025, China-domiciled sustainable funds registered its first quarter of inflows since second-quarter 2023. **Penghua Carbon Neutralization Thematic Mixed** saw the largest single-fund inflow during the quarter at USD 1.3 billion. Investors may have been attracted by its strong performance – the fund generated a staggering 61% gain in first-quarter 2025. The fund uses a combination of top-down and bottom-up approaches to identify and invest in high-quality, carbon neutrality-themed stocks.

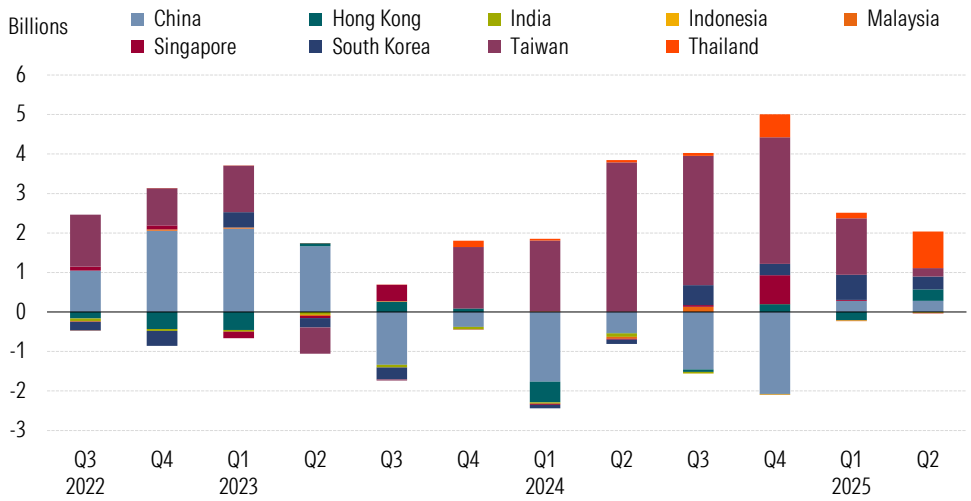
Flows

Excluding China, the Asia ex-Japan region experienced USD 1.7 billion in net inflows during the second quarter of 2025. The top three markets by inflows were Thailand, South Korea, and Hong Kong. Most of Thailand-domiciled funds' USD 924 million in net inflows were directed into a slew of May 2025 launches discussed later in this section.

South Korea's largest sustainable fund, **KIM Credit Focus ESG Feeder Bond**, attracted USD 460 million in inflows over the quarter, continuing to represent most of the market's sustainable fund inflows. Most of Hong Kong-domiciled sustainable fund inflows, meanwhile, were directed into **Sun Life AM Hong Kong ESG Index Fund**. This passive fund invests in the largest 50 stocks listed in Hong Kong with the highest sustainability performance scores.

Taiwan-domiciled sustainable funds registered inflows of USD 217 million, a modest volume relative to an average of nearly USD 3 billion in inflows over the previous four quarters. In fact, most Taiwan-domiciled sustainable funds were in outflows during the quarter, though the total flows were net-positive thanks to around USD 750 million of net inflows into the largest sustainable fund, **Cathay Sustainability High Dividend ETF**.

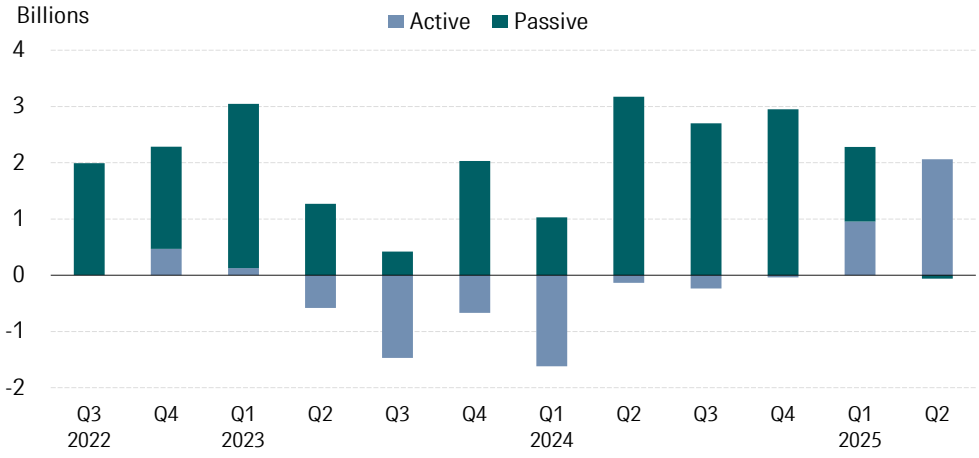
Exhibit 35 Asia ex-Japan Sustainable Fund Flows by Country (USD Billion)



Source: Morningstar Direct. Data as of June 2025.

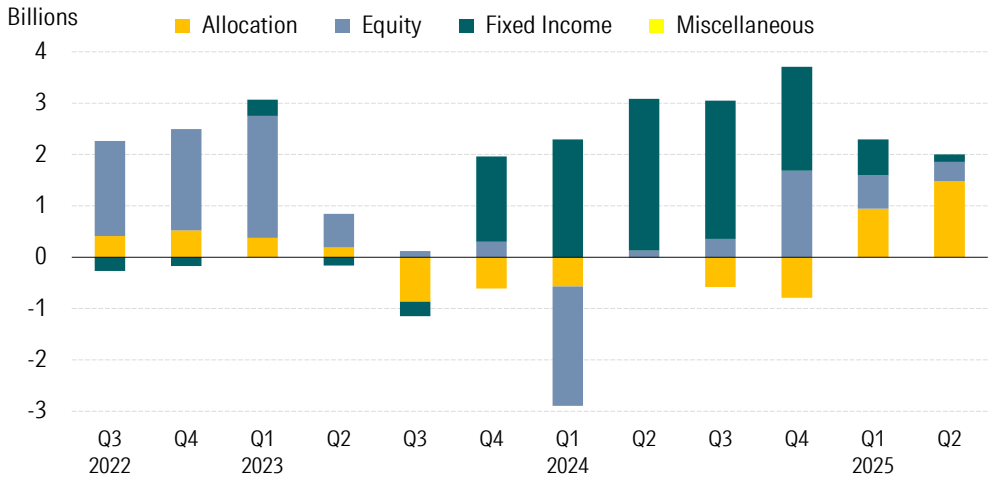
As a whole, Asia ex-Japan passive funds saw their first quarter of net outflows, albeit modest. Within Asia ex-Japan, the second-largest passive sustainable fund, Taiwan-listed **Capital ICE ESG 20+ Year BBB US Corporate ETF**, faced redemptions for the first quarter since its November 2023 launch.

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



Source: Morningstar Direct. Data as of June 2025.

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



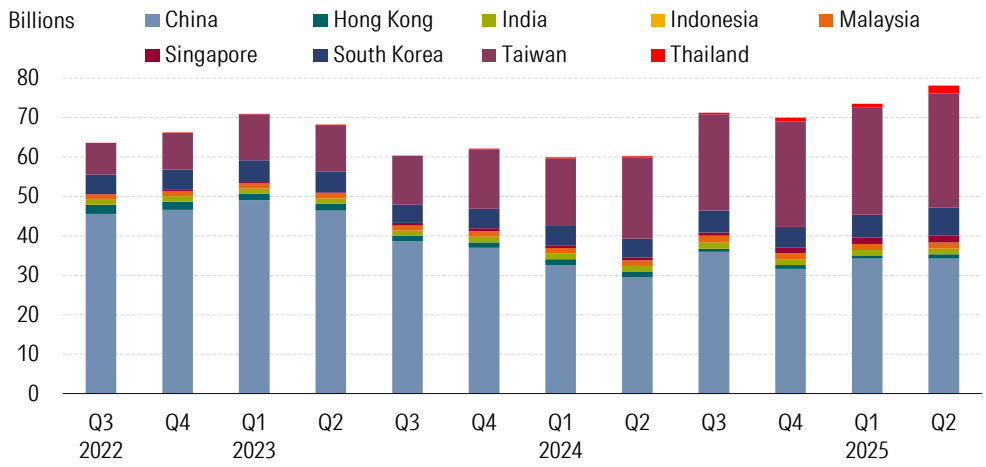
Source: Morningstar Direct. Data as of June 2025.

Assets

Total sustainable fund assets in Asia ex-Japan (including China) expanded by about 6% over the second quarter of 2025 to USD 78.1 billion. The composition of the Asia ex-Japan sustainable funds market remained largely unchanged quarter-over-quarter, with the largest three markets being China at 44% of total assets, Taiwan at 37%, and South Korea at 9%.

Thailand saw its share of assets rise to 2.6%, with USD 2 billion of assets, surpassing peers in Southeast Asia such as Malaysia and Singapore. In the latter market, **iShares MSCI Asia ex Japan Climate Action ETF** continues to dominate locally domiciled sustainable fund assets. The ETF has a Morningstar Medalist Rating of Bronze. The underlying index screens out companies from the parent index on ESG controversies, business involvement, emissions intensity, and climate risk management. It selects 50% of the companies within each sector with the lowest carbon intensity. Despite holding around half the holdings of its parent index, the portfolio remains reflective of the investment opportunity set and similarly diversified thanks in part to absolute weighting caps on individual securities and relative weighting caps on sector exposures.

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



Source: Morningstar Direct. Data as of June 2025.

Both active and passive Asia ex-Japan sustainable fund assets grew in the second quarter of 2025. Active fund market share rebounded slightly to 45% of total Asia ex-Japan sustainable fund assets from 42% over the first half of 2025 after multiple years of steady quarterly declines.

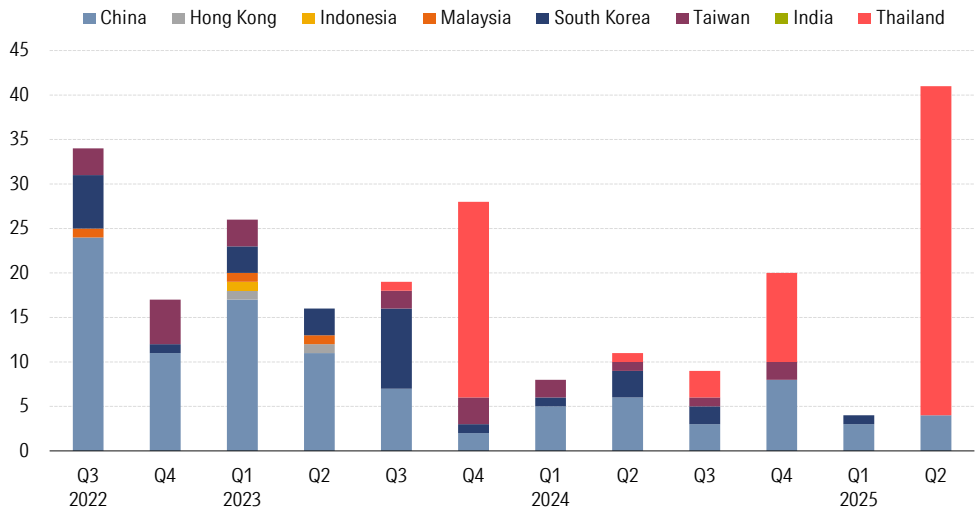
Launches

A record number of 41 funds were launched in the Asia ex-Japan region in the second quarter of 2025, the most since we began tracking this data in 2021. The vast majority of these launches, 37, were Thailand-domiciled funds rolled out as part of a new scheme known as Thai ESG Extra. The scheme offers special tax deductions for local investors in sustainability-focused funds known as Thailand ESG Extra Funds, which are part of a broader effort to revive the domestic stock market. Thai ESG X funds are required to have a minimum of 80% of assets in Thai securities with sustainability or environmental attributes, 65% of which must be in Thai ESG stocks.

The launches included 21 equity funds and 16 allocation funds. The largest launch was **Krungsri 70/30 Thailand ESG Extra Fund-68** with USD 130 million in net new assets. The fund invests primarily in stocks that have strong ESG characteristics, are addressing greenhouse emissions, and/or exhibit excellent corporate governance, as well as in Thai government bonds that are green bonds, sustainability bonds, or sustainability-linked bonds.

The remaining four launches in the last three months were China-domiciled passive funds. Two – **Penghua ChiNext New Energy ETF** and **Guotai ChiNext New Energy ETF** – track the same index, namely SZSE ChiNext New Energy Index, while the other two track green bond indexes.

Exhibit 39 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of June 2025.

Regulatory Update

During the second quarter of 2025, regulatory and governmental organizations further progressed ESG-related initiatives pertinent to asset managers in the Asia ex-Japan region.

In April, China authorities published a draft of climate disclosure standards, building on the release of the Basic Standards (Trial) for Sustainability Disclosures in late 2024. The standards require companies to disclose information on governance and climate-related risks. The requirements are part of a broader initiative to develop national sustainability disclosure standards based on those of the International Sustainability Standards Board (ISSB), while customizing them to reflect the country's unique circumstances.

Meanwhile, South Korea's FSC announced a delay in its highly anticipated ESG disclosure roadmap, which was originally set for release in second-quarter 2025. Officials from the ESG Finance Promotion Task force recently cited regulatory adjustments in the EU and the ongoing development of similar systems in other global markets like the US. As a result, the implementation of the roadmap for KOSPI-listed companies with assets over KRW 2 trillion was postponed to 2026 with possible further delays.

In Thailand, the Ministry of Finance, the Securities and Exchange Commission, the Association of Investment Management Companies, and the Stock Exchange of Thailand collaborated to launch a new category of funds that primarily invest in environment- or sustainability-oriented assets in Thailand. These funds, called Thailand ESG Extra Funds or Thai ESGX, must average at least 80% of NAV in such investments, with at least 65% in sustainability-focused stocks. The creation of this investment category was accompanied by the announcement of two tax deductions, incentivizing investment in these products.

In May, the Securities and Exchange Board of India (SEBI) commenced a review, led by recently appointed chairman Tuhin Kanta Pandey of their ESG disclosure requirements for listed companies, though details on what will be changed remain limited at this stage. The following month, SEBI announced a new Framework for ESG Debt Securities (other than green debt securities). The framework includes stipulations on the frequency of disclosures and the use of an independent reviewer.

Also in June, public consultation on the Ministry of Finance's draft framework for a climate finance taxonomy closed. The stated objective of the framework is threefold: (1) to facilitate greater resource flow to climate-friendly technologies and activities in alignment with a goal to achieve net zero by 2070; (2) to prevent greenwashing; and (3) to be consistent with the vision to be Viksit, or developed, by 2047. In the context of the proliferation of sustainable finance taxonomies, it is promising that one principle of the draft framework is interoperability and consistency with international frameworks.

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.[12] 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 situations there, as many Japanese funds of funds are invested in European funds. Money market funds are excluded from all markets.

To identify sustainable funds in their respective regions, analysts use the ESG Intentional Investment - Overall datapoint (formerly known as Sustainable Investment-Overall in Morningstar Direct. We also use the ESG Intentional Investment Overall Start Date data point to account for repurposed funds, where relevant.

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12 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.

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