

# Global Sustainable Fund Flows: Q4 2021 in Review

Flows and assets continue to grow at the end of a landmark year.

## Morningstar Manager Research

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### Contents

- 1 Key Takeaways
- 1 The Global Sustainable Fund Universe
- 7 Europe
- 16 United States
- 22 Canada
- 25 Australia and New Zealand
- 28 Japan
- 31 Asia ex-Japan

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## Key Takeaways

- ▶ Global sustainable fund assets expanded by 9% in the fourth quarter to USD 2.74 trillion at the end of December 2021.
- ▶ Inflows grew as well, driven by continued investor interest in environmental, social, and governance issues and by regulation. Investors poured USD 142 billion into sustainable funds globally, representing a 12% increase relative to the third quarter.
- ▶ Continuing to dominate the sustainable space, Europe accounted for close to 80% of fourth-quarter inflows, while the United States accounted for 10%. Flows clocked in at USD 15 billion for Canada, Australia, and New Zealand, Japan, and Asia combined.
- ▶ Product development remained strong, with 266 new sustainable fund launches globally in the fourth quarter. Asset managers also continued to repurpose and rebrand conventional products into sustainable offerings.
- ▶ On the regulatory front, a flurry of work was issued by various bodies, all of which will have implications for fund investors globally. In Europe, the sustainable fund universe is going through a significant transition following the introduction of the EU Sustainable Finance Disclosure Regulation in March.

## The Global Sustainable Fund Universe

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

Manager research analysts, authors of the quarterly global sustainable fund report, rely heavily—though not entirely—on the "Sustainable Investment–Overall" data point, and more generally the Sustainable Attributes data set, in Morningstar Direct to identify sustainable offerings in their respective regions. These data points are collected by Morningstar data analysts who analyze legal filings and assign attributes based on clearly defined standard operating procedure criteria scaled across the global universe of funds.

The global universe is divided here into three segments by domicile: Europe, United States, and Rest of World. There is more-granular data available in this report for Canada, Australia and New Zealand, and

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

This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches for the fourth quarter of 2021<sup>1</sup>. A summary is provided in Exhibit 1.

#### Exhibit 1 Global Sustainable Funds' Q4 2021 Statistics

Region	Q4 2021 Flows		Assets		Funds	
	USD Billion	% Total	USD Billion	% Total	#	% Total
<b>Europe</b>	113.1	79%	2,231.0	81%	4,461	75%
<b>United States</b>	14.2	10%	357.1	13%	534	9%
<b>Asia ex-Japan</b>	7.9	6%	63.2	2%	342	6%
<b>Australia/New Zealand</b>	2.3	2%	30.6	1%	152	3%
<b>Japan</b>	3.4	2%	35.2	1%	212	4%
<b>Canada</b>	1.5	1%	27.3	1%	231	4%
<b>Total</b>	<b>142.5</b>		<b>2,744.3</b>		<b>5,932</b>	

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

The number of sustainable funds globally reached 5,932 at the end of 2021, up 11% in the last three months of the year from 5,330 funds in the third quarter<sup>2</sup>. Europe continued to contribute the lion's share of the new offerings, but other regions also expanded, albeit to a lesser degree.

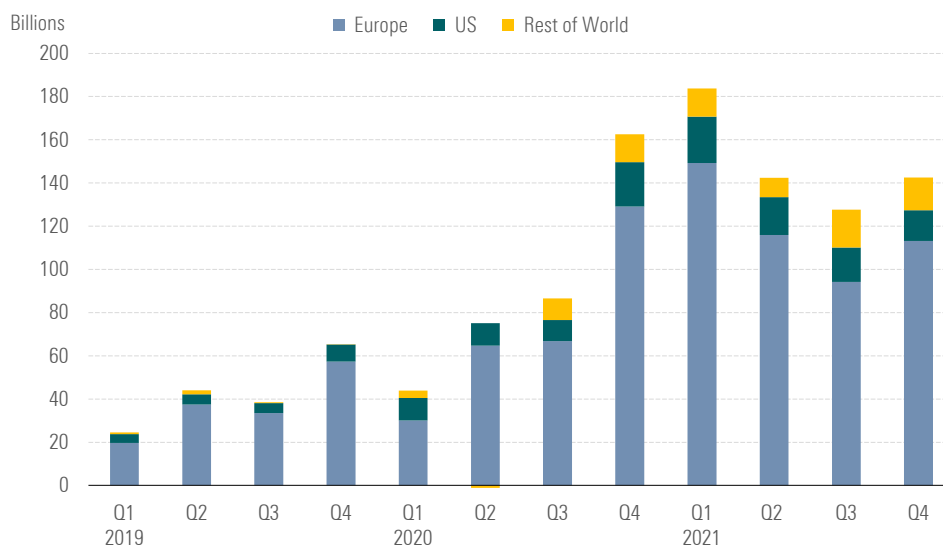
#### Global Inflows Up 12%

The global sustainable universe attracted USD 142.5 billion of net new money in the fourth quarter of 2021, representing a 12% increase relative to the revised USD 127.4 billion of inflows in the third quarter.

While lower than the record set earlier in the year, inflows into sustainable funds in the last quarter outpaced those in the overall global fund universe, which recorded a 6% drop in net new money over that period to USD 570 billion.

<sup>1</sup> In this report, consistent with previous reports, we have used the same definition of sustainable funds and the approach described above, but we have adjusted the European universe following an extensive review of fund documents in Europe. In the third-quarter 2021 report, we reported that the European fund universe had grown by 78%, from 3,444 at the end of March 2021 to 6,147 at the end of September, on the back of new ESG disclosures in fund documents following the introduction of SFDR in March. In recent months, however, Morningstar data analysts have revisited these disclosures and tightened their criteria to tag funds as sustainable investments in the database. As a result, over 1,000 European-domiciled funds, including many that listed ESG criteria to self-classify as promoting environmental and/or social characteristics under Article 8, have been "untagged," and more are expected to follow in the coming weeks as data analysts complete their extensive review.

<sup>2</sup> For this report, we have reverted to our pre-SFDR European universe of sustainable funds, to which we have added newly launched or repurposed funds with sustainability-related terms in their names and clear descriptions of their ESG-focused processes in Key Investor Information Documents. This universe is smaller than what we reported in the third-quarter 2021 report. For continuity and comparability purposes, we have revised the European universe for the second and third quarters.

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

Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated for Europe (for more details, see the Europe section).

The uptick in sustainable net flows was driven mainly by Europe, which accounted for 79% of the global flows in the last quarter of 2021. European sustainable funds attracted a total of USD 113.1 billion of net new money, a 20% improvement from three months prior. In contrast, all other regions, except Australasia (Australia and New Zealand), saw modest inflows. After a strong start to the year, net purchases of sustainable funds offered in the United States were USD 14.2 billion in the fourth quarter, lower than in the third quarter and about one third off their all-time high reached in 2021's first quarter.

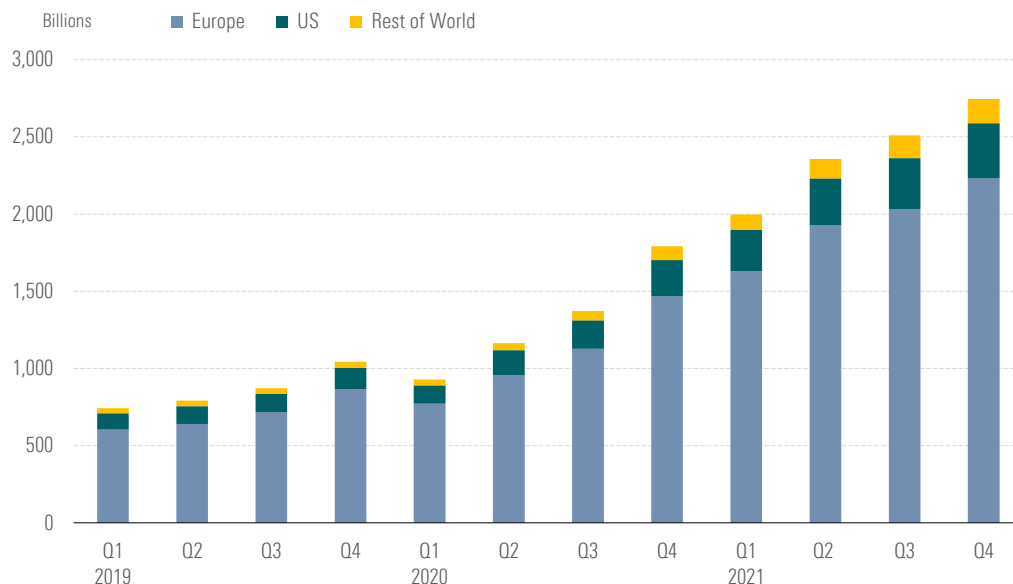
In aggregate, the rest of the world- Asia ex-Japan, Japan, Australasia, and Canada- drew USD 15.2 billion. Inflows receded by 13.5% quarter on quarter but were still up 17.6% year on year. Japanese sustainable fund inflows plummeted the most, by 32%, to their lowest level in six quarters, whereas inflows in Australasia rose by more than 10% to USD 2.3 billion.

### Global Assets Continue Their Upward Growth Trajectory

Global assets grew to USD 2.74 trillion as of December 2021 from the restated USD 2.51 trillion at the end of September. This represents a 9% quarterly increase. Year on year, the global sustainable fund universe expanded by 53%.

Europe continued to dominate the global sustainable fund landscape: 81% of sustainable fund assets were held in Europe, which also remains by far the most developed and diverse ESG market, followed by the US, which housed 13% of global sustainable fund assets through December 2021.

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



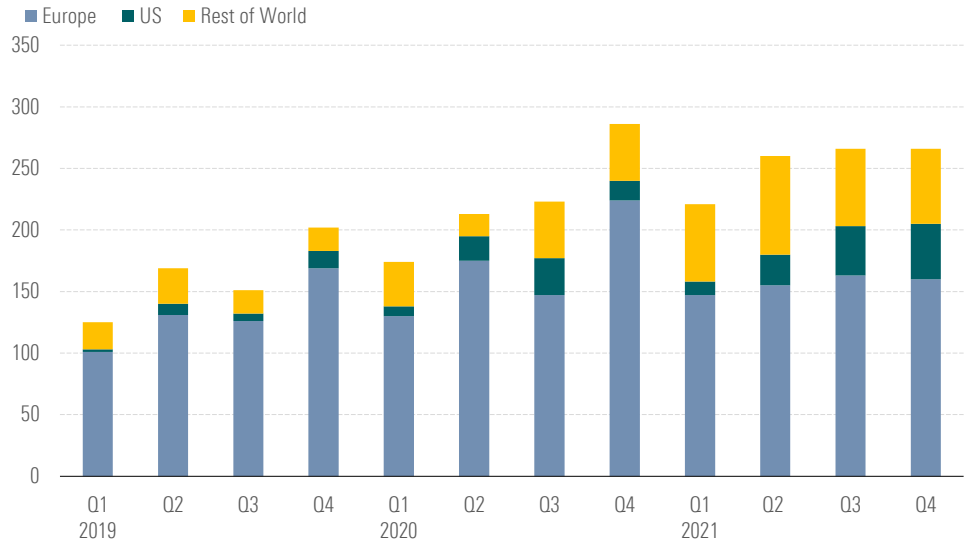
Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated for Europe (for more details, see the Europe section).

**Global Fund Launches**

Product development remained strong in the fourth quarter of 2021, with an estimated 266 new sustainable fund launches globally. This number is just slightly higher than that of the second quarter of the year but similar to the third quarter's<sup>3</sup>.

The majority of new launches (60%) in the fourth quarter took place in Europe, which also saw many strategies being repurposed over the same period. The US saw a record number of 45 new sustainable products hit the shelves, followed by Japan and Asia ex-Japan with 24 and 23 new sustainable fund launches, respectively.

<sup>3</sup> Note that the fourth-quarter 2021 number is likely to be restated in future reports as we identify more launches and as additional ones are reported to Morningstar in future reviews.

**Exhibit 4** Global Sustainable Fund Launches Per Quarter

Source: Morningstar Direct, Morningstar Research. Data as of December 2021. \*Q2 and Q3 data has been restated for Europe (for more details, see the Europe section)

### Regulatory Updates

A flurry of work was issued by various regulatory bodies, all of which could have implications globally.

The International Financial Reporting Standards Foundation announced the creation of a new standard-setting board in November — the [International Sustainability Standards Board](#) — to help deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Also in November, International Organization of Securities Commissions, the global standards setter, published its [Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management](#) as a template of factors for national regulators to consider in their rule-making.

In Europe, the last quarter of 2021 began with the publication of the final draft rules for financial product disclosures under the EU Sustainable Finance Disclosure Regulation, or SFDR. The rules aim to create a single rulebook for products' precontractual and periodic product sustainability disclosures, including taxonomy-related product disclosures. However, the European Commission stated in November that it will delay the rules' application by six months, until 1 Jan 2023.

The year concluded with the commission opening further taxonomy consultations, on the eve of the climate adaptation and climate mitigation taxonomy rules taking effect on 1 Jan 2022. The commission requested feedback from the Platform on Sustainable Finance on a draft text of a Taxonomy Complementary Delegated Act covering certain gas and nuclear activities. In the feedback, published as

this report went to press, the Platform concluded that gas and nuclear activities could not be considered sustainable within the meaning of the taxonomy regulation.

After Brexit, the United Kingdom's own sustainability rulebooks progressed, with enhanced climate-related disclosure rules applying from 1 Jan to both listed companies<sup>4</sup> and financial product providers<sup>5</sup>. Companies must include a statement in their annual financial reports setting out whether their disclosures meet the recommendations of the Taskforce on Climate-Related Financial Disclosures, and if not, an explanation why. Product providers must make disclosures about how they take climate-related risks and opportunities into account in managing investments and about the climate-related attributes of their products.

With SFDR not applicable in the UK, the Financial Conduct Authority also closed a comment period on initial proposals for a set of [UK sustainability-related disclosures and for a product labelling schema](#). Under the plans, funds would be classified as: not sustainable, responsible, transitioning, aligned, or impact, depending on their investment strategies. The last three of these categories would be considered sustainable.

Beyond Europe, the US Securities and Exchange Commission also closed a consultation about a proposed rule to enhance reporting of proxy votes by investment companies and of executive compensation votes by institutional investment managers. With an intention to require more substantive disclosures from funds and managers, and providing more consistent, comparable, and decision-useful information to investors, Morningstar's policy research team submitted a set of recommendations in a comment letter to the SEC<sup>6</sup>.

Australia enacted new laws<sup>7</sup> that require proxy advisers to have an Australian Financial Services License by 7 Feb 2022, to provide advice to Australian institutional shareholders. The license will impose requirements for advisers to be independent of their institutional clients by July and to share the corporate governance advice they give to institutional shareholder clients with the specific companies they are providing advice on. Moreover, from July, institutional shareholders must publish detailed data about their voting records at annual general meetings, including whether they received proxy advice and their voting position on each resolution.

The Canadian Securities Administrators is proposing that Canadian-listed issuers start disclosing greenhouse gas emissions, alongside climate-related risks in their financial reporting, and it has extended the comment period on the proposals into February.

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4 <https://www.fca.org.uk/publication/policy/ps21-23.pdf>

5 <https://www.fca.org.uk/publication/policy/ps21-24.pdf>

6 <https://www.sec.gov/comments/s7-11-21/s71121-20109508-263896.pdf>

7 <https://www.morningstar.com.au/stocks/article/changes-in-australian-proxy-advice-regulation/218072>

## Quarterly Statistics Per Domicile

### Europe

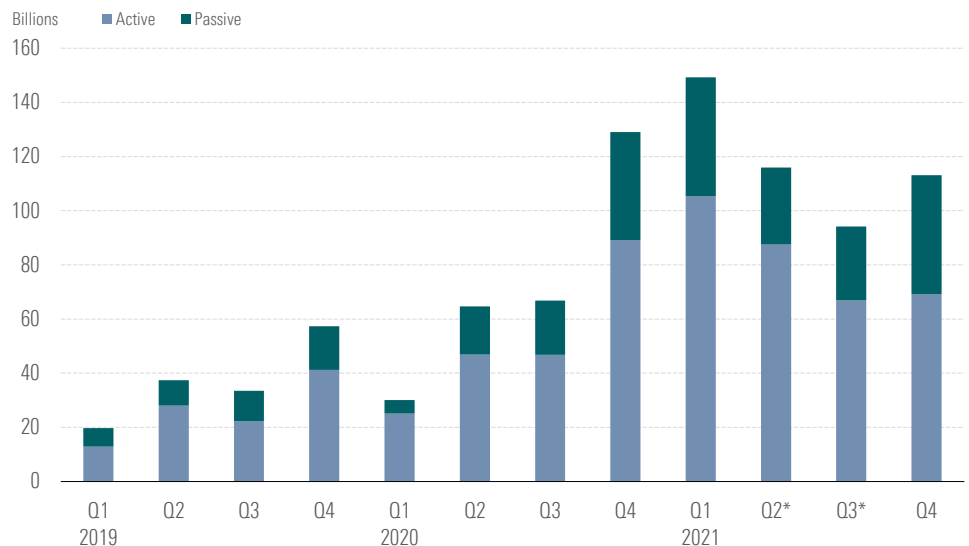
Identifying the European sustainable funds universe has always been a challenge, but it has become even greater since the introduction of the Sustainable Finance Disclosure Regulation on 10 March 2021. SFDR, which aims to increase transparency on the ESG risks and impact characteristics of investment products distributed in the European Union, has substantially increased the volume of ESG-related disclosures in legal documents, as intended. However, it has also led to confusion and suspicion of greenwashing. Many funds that place themselves into Article 8, for example, are not funds we would independently classify as sustainable funds.

Thus, in the fourth quarter of 2021, our European sustainable fund universe shrank by 27% relative to what we reported in our third-quarter review, to 4,461 funds. The number still represents a 40% increase compared with the 3,196 funds reported at the end of 2020.

### Flows

In the fourth quarter of 2021, the European sustainable fund universe as defined above saw USD 113.1 billion in net inflows, a 20% increase over the restated net inflows of USD 94.2 billion in the third quarter and just shy of the restated USD 116.0 billion reached in the second quarter.

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



Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated as explained above.

In comparison, European conventional fund flows tapered off, recording USD 82.2 billion of net inflows in the fourth quarter, which was 32% lower than the USD 121.1 billion of net inflows in the third quarter. As a result, sustainable funds accounted for 58% of the overall flows in European funds.

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

USD,Bn 2021	Sustainable Funds		Conventional Funds		Overall Fund Universe	
	Q3*	Q4	Q3*	Q4	Q3	Q4
<b>Allocation</b>	16.3	16.6	29.2	21.6	45.5	38.3
<b>Alternative</b>	0.1	0.4	5.3	4.4	5.4	4.9
<b>Commodities</b>	0.0	0.2	0.9	0.7	1.0	0.9
<b>Convertibles</b>	0.4	0.4	0.4	-0.5	0.8	-0.1
<b>Equity</b>	56.0	70.0	12.6	15.0	68.6	84.9
<b>Fixed Income</b>	20.9	24.7	70.8	38.0	91.7	62.6
<b>Miscellaneous</b>	0.5	0.7	-0.6	0.2	0.0	0.8
<b>Property</b>	-0.1	0.1	2.4	2.9	2.3	3.0
<b>Total</b>	<b>94.2</b>	<b>113.1</b>	<b>121.1</b>	<b>82.2</b>	<b>215.3</b>	<b>195.3</b>

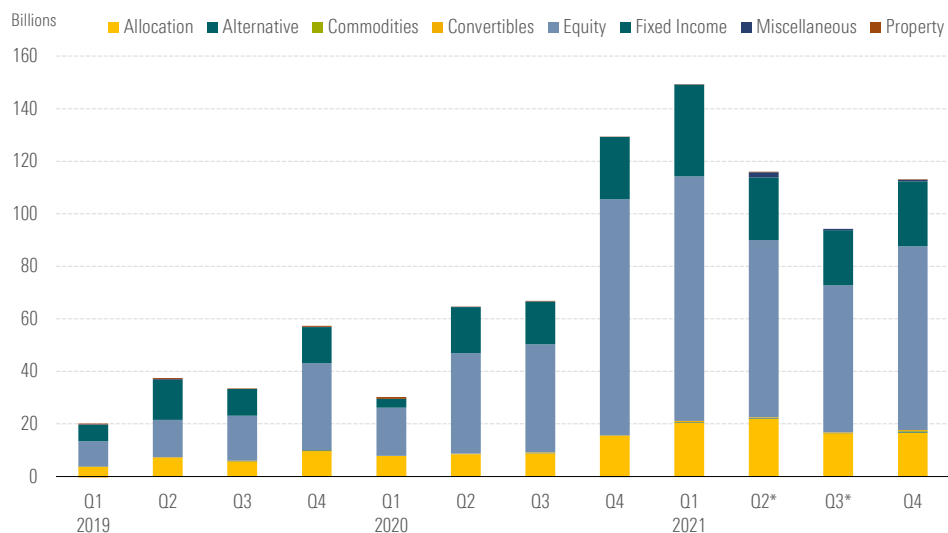
Source: Morningstar Direct, Manager Research. Data as of December 2021. \* Q3 data has been restated as explained above.

Sustainable strategies saw increased inflows across all asset classes. Equity remained the asset class of choice for ESG-oriented investors as they poured USD 70 billion into such funds in the fourth quarter, 25% more than in the previous quarter. By contrast, conventional equity funds recorded only USD 15 billion of net inflows in the fourth quarter.

Net inflows into sustainable fixed-income funds were more modest at USD 24.7 billion, but this still represented an 18% quarterly increase. Their conventional counterparts saw their net inflows contract by 46% to USD 38 billion amid ongoing concerns over rising inflation and uncertainty around future interest-rate hikes.

Meanwhile, inflows into sustainable allocation funds, which clocked in at USD 16.6 billion in the fourth quarter, were roughly in line with the previous three months, registering a 2.3% growth. This was again a better direction of travel than that of conventional allocation funds, which saw their net flows drop 26% to USD 21.6 billion.



**Exhibit 7** European Sustainable Fund Flows by Asset Class

Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated as explained above.

For the whole of 2021, European sustainable funds attracted USD 472 billion of net new money, which was 63% more than in 2020. In comparison, inflows for their conventional counterparts were USD 22.8 billion less in the fourth quarter, yet it was almost double the amount they pulled in a year ago.

**Leaders and Laggards**

Given the 60% jump in inflows garnered by passive funds in the fourth quarter, it's no surprise to see that half of the 10 best-selling funds were passive offerings. Two of them were launched less than a year ago, namely **NT World Sustainable Select SDG Index** and **Swisscanto Index Bond Fund TM AAA-BBB Responsible GT**.

**Exhibit 8.a** Top 10 Sustainable Fund Flows in Q4 2021

<b>Fund Name</b>	<b>Net Flows (USD, Million)</b>
DNCA SRI Euro Quality	2,246
Blackrock ACS World ESG Equity Tracker	1,299
Swisscanto Index Bond Fund TM AAA-BBB CHF Responsible GT	1,213
iShares MSCI World SRI ETF	1,175
NT World Sustainable Select SDG Index Fund	1,161
iShares MSCI USA SRI ETF	1,100
Eurizon Global Leaders ESG 50 No 2026 A	1,079
BGF ESG Multi-Asset	1,061
UBS (Lux) ES Global Impact	1,037
UBS (Lux) Bond SICAV - Green Social Sustainable Bonds	1,011

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

**Exhibit 8.b** Bottom 10 Sustainable Fund Flows in Q4 2021

<b>Fund Name</b>	<b>Net Flows (USD, Million)</b>
Swedbank Robur Ethica Obligation Utd	-1,110
NN Duurzaam Aandelen Fonds	-925
Amundi Ultra Short Term Bond SRI	-671
Amundi Enhanced Ult Sht Trm Bd SRI	-623
Amundi IS MSCI Emerging ESG Lds ETF	-575
UBS (Lux) Equity Fund - Global Sustainable	-482
Vontobel Fund - mtX Sustainable Emerging Markets Leaders	-402
Cameron Hume Global Fixed Income ESG	-384
Osmosis Resource Efficient Low Volatility Fund	-383
Oddo BHF Avenir Europe	-346

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

The top 10 asset managers that gathered the most flows over the quarter were dominated by passive fund providers. BlackRock ranked first with almost USD 17 billion of net inflows, followed from afar by UBS and Amundi, which garnered USD 8.7 billion and USD 6.4 billion, respectively. The remainder of the leaderboard averaged USD 2.9 billion in inflows.

**Exhibit 9.a** Top 10 European Sustainable Fund Providers by Flows in Q4 2021

<b>Firm</b>	<b>Net Flows (USD, Million)</b>
BlackRock (inc iShares)	16,904
UBS	8,678
Amundi	6,388
Credit Suisse	4,501
Swisscanto	4,304
Natixis	3,588
BNP Paribas	3,487
Lyxor	2,337
Eurizon	2,232
Handelsbanken	2,202

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

**Exhibit 9.b** Bottom 10 European Sustainable Fund Providers by Flows in Q4 2021

<b>Firm</b>	<b>Net Flows (USD, Million)</b>
Swedbank	-683
Alm. Brand	-681
State Street	-542
Prescient (Ireland)	-406
Warburg Invest	-396
Sanlam	-384
TOBAM	-262
SEB	-175
Ninety One	-163
CaixaBank	-162

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

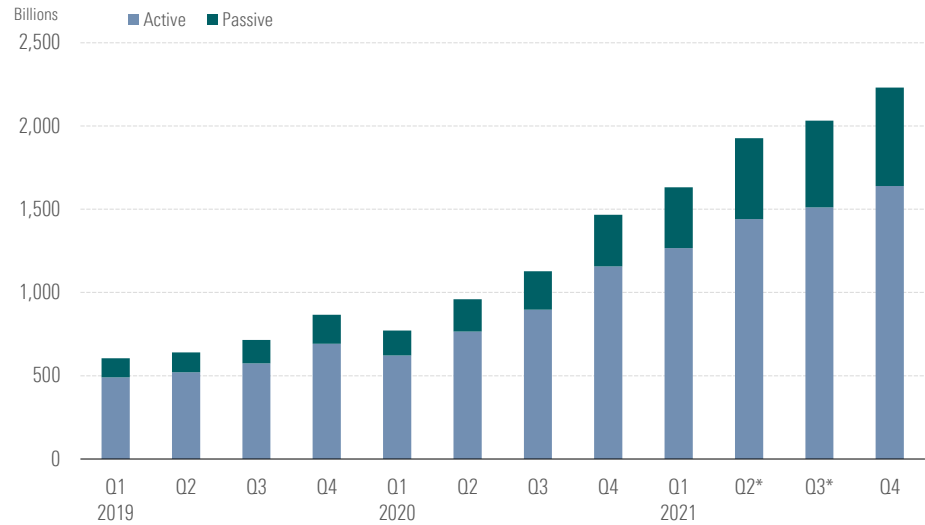
**Assets**

2021 will be remembered as a transition year for ESG and sustainable funds in Europe as asset managers worked their way through the necessary adjustments to comply with SFDR. This can be seen in the swelling of the European sustainable asset base. Assets in sustainable funds expanded by 52%, from USD 1.46 trillion a year ago to USD 2.23 trillion at the end of December 2021, boosted by record inflows (up 63% year to year), strong product development, and positive market performance.

Total sustainable assets rose 11.2% on average per quarter in 2021. This was a faster pace than the 4.4% average quarterly growth experienced by the overall European fund universe over the same period. The sustainable fund asset expansion was stronger for passive strategies: They registered a 91% increase in 2021, compared with 42% for active strategies.

Overall, sustainable funds accounted for about 18% of European fund assets at the end of December 2021. We expect this percentage to keep rising over the next quarters as asset managers launch additional sustainable offerings and repurpose existing conventional ones to meet continuous investor demand for investments that align with their ESG and sustainability preferences.

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

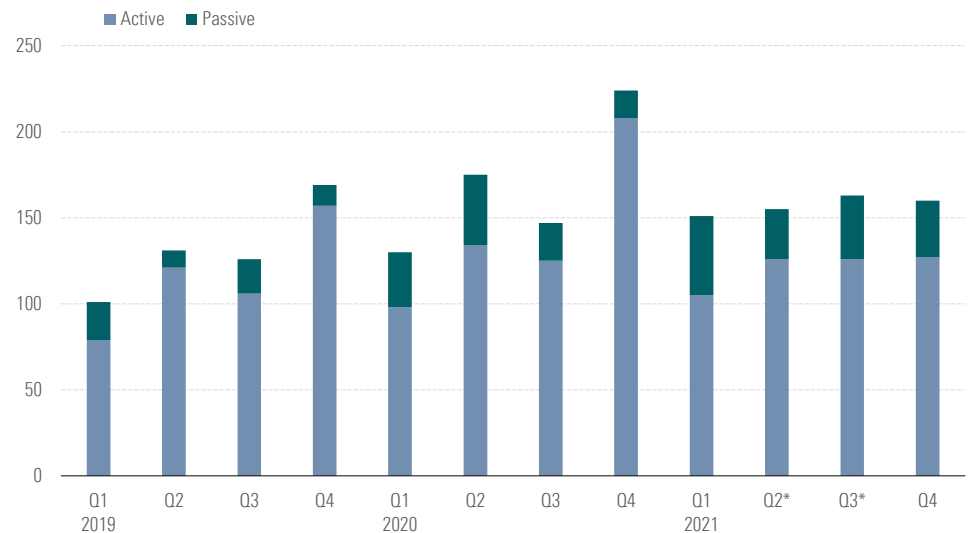


Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated as explained above.

**Launches**

Product development remained strong in the fourth quarter of 2021. We have so far identified 160 new sustainable fund launches in Europe. This was roughly in line with the restated third-quarter number of 163, but the fourth-quarter number is also likely to be restated in future reports as we identify more launches this last quarter and as additional ones are reported to Morningstar.

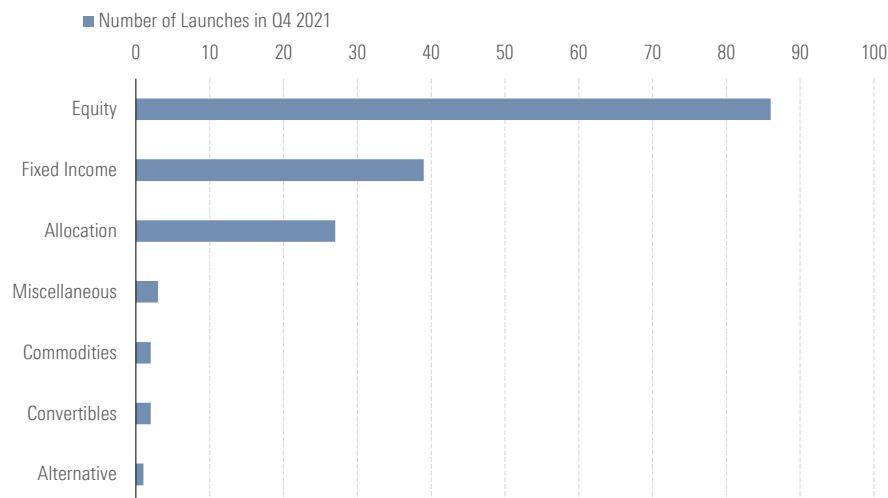
**Exhibit 11.a** European Sustainable Fund Launches



Source: Morningstar Direct, Manager Research. Data as of December 2021. \*Q2 and Q3 data has been restated as explained above.

Clocking at 80% of the new products, active strategies formed again the lion's share of product development in the ESG space. We identified 127 new sustainable active strategies in the last three months, roughly in line with the restated third-quarter number.

**Exhibit 11.b** European Sustainable Fund Launches in Q4 2021 by Broad Asset Class



Source: Morningstar Research. Data as of December 2021.

Equity funds continued to dominate sustainable fund launches, accounting for about 54% of total new sustainable offerings in the fourth quarter (86 funds), while fixed-income products and allocation funds accounted for around 25% and 17% of the new launches, respectively.

This quarter again, climate funds remained by far the most popular theme represented among new product launches. We counted 28 new climate funds spanning all climate-related themes: low carbon, climate transition, climate solutions, clean energy/tech, and green bonds. The largest of the kind was **UBS Global Corporate Bonds Climate Aware**, which factors in climate risks when weighting position holdings: Companies geared toward the transition to a carbon-neutral society are, for instance, overweight compared with the fund's benchmark.

On the passive side, we saw more funds come to market tracking the EU Paris-Aligned and EU Climate Transition benchmarks, including **Invesco MSCI Europe ESG Climate Paris Aligned** and **BNP Paribas Easy FTSE EPRA Nareit Global Developed Green CTB**. To achieve Paris-alignment classification, a fund must invest in companies that reduce their carbon intensity by an average of 7% annually—the pace of phasing-out of fossil fuels set out in the Paris Agreement—and the fund overall must have a carbon footprint (including scope 3 emissions) 50% below that of the investable universe. For EU Climate Transition Benchmarks, the carbon footprint must be only at least 30% lower.

A few new funds focus on social issues, such as **M&G Diversity and Inclusion**, which invests in companies that have demonstrable gender and/or ethnic diversity as well as firms that provide solutions

empowering social equality, and, which invests in corporate bonds of companies expected to contribute positively toward social development themes such as economic inclusion, health and well-being, or sustainable infrastructure.

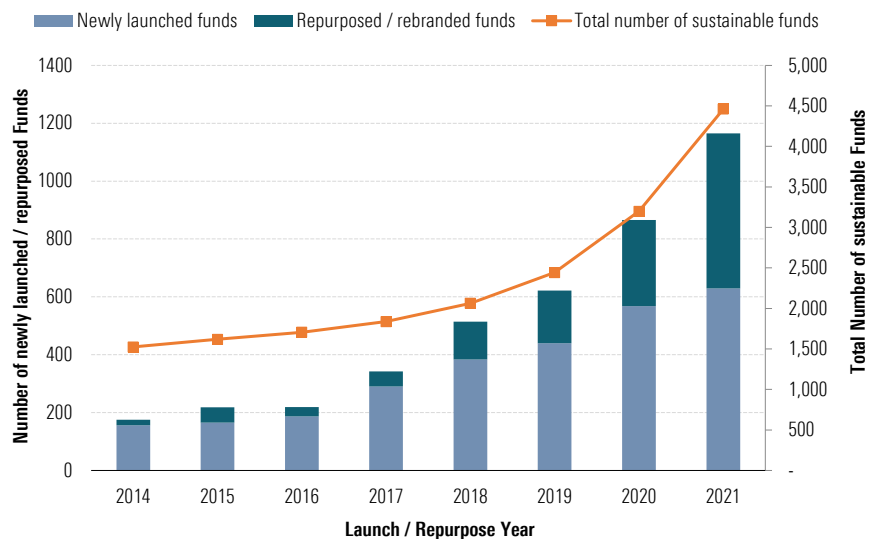
Others offer exposure to emerging markets through a broad ESG lens. Examples include Amundi MSCI China ESG Leaders Select ETF and State Street Emerging Markets ESG Local Currency Government Bond.

**Repurposed Funds**

Compliance with SFDR following its introduction on 10 March 2021 has led to an increase in ESG disclosure, though not yet in clarity. While our data team is still processing hundreds of newly updated legal documents and looking for funds that meet our criteria, based on our conservative sustainable fund definition, we have identified so far 536 funds that were repurposed in 2021, roughly double the number of 2020. This all-time high was reached as asset managers seized the opportunity of having to publish new SFDR-compliant prospectuses to review their offerings, add binding ESG criteria and exclusions, and, in many cases, rebrand their funds.

Transforming existing funds into sustainable strategies is a way for asset managers to leverage existing assets to build their sustainable-funds business, thereby avoiding having to create funds from scratch. This may also be a way for fund companies to reinvigorate ailing funds that are struggling to attract new flows. Others may choose to "green" their entire range of funds by, for example, expanding their exclusion policies and divesting from the biggest carbon emitters.

**Exhibit 12** Newly Launched and Repurposed Funds



Source: Morningstar Direct, Manager Research. Data as of December 2021. Numbers for 2021 have been restated as explained above.

Recently repurposed funds included **Aberdeen Standard–European Sustainable and Responsible Investment Equity**, which was rebranded from Aberdeen Standard–European Equity. The fund aims to invest in companies the investment team believes to be sustainable leaders or improvers.

Another example is **Vanguard SustainableLife 60-70% Equity**, previously called Vanguard Global Balanced. The fund added sustainability criteria to its policy (including a set of exclusions and a 2050 net zero target) that are not expected to have significant impacts on the current portfolio.

BNP Paribas Asset Management announced in December that it will integrate ESG criteria across its entire passive fund range by the end of 2022. BNP Paribas AM has been progressively repurposing its exchange-traded funds. Some recently were converted to broad ESG and Paris-aligned benchmarks.

Even post-SFDR, it remains a challenge for us to identify repurposed funds. We are able to pinpoint those that change names, as they appear in the Morningstar database under a new name that often includes ESG-related terms, but it's harder to identify those that add ESG constraints or switch to a sustainable mandate if they don't reflect the change in their name or clearly articulate it in the fund's description. Moreover, we continue to struggle to find the effective dates at which funds repurpose as prospectuses, fact sheets, and Key Investor Information Documents rarely indicate when the changes took place. This is an area for improvement.

### Regulatory Updates

In Europe, the last quarter of 2021 began with the publication of the final draft rules for financial product disclosures under the EU Sustainable Finance Disclosure Regulation (SFDR). The rules aim to create a single rulebook for products' pre-contractual and periodic product sustainability disclosures, including taxonomy-related product disclosures. However, the European Commission stated in November that it will delay their application by six months, until 1 Jan 2023.

Consequently, product providers face two sets of taxonomy disclosure rules—these SFDR-defined product disclosures plus those in respect of their firm-level, or entity disclosures, as defined by Article 8 of the taxonomy regulation. While the requirements for products to disclose their taxonomy alignment from 2022, the companies within their portfolios will not have to start disclosing their degree of alignment until 2024, disclosing only the proportions of their businesses that are taxonomy eligible until that time.

The new year saw the first of the taxonomy reporting obligations kick in, in respect of climate adaptation and climate mitigation, but on the eve of that, the European Commission opened further taxonomy consultations, requesting feedback from the Platform on Sustainable Finance on a draft text of a Taxonomy Complementary Delegated Act covering certain gas and nuclear activities. In the feedback, published as this report went to press, the Platform concluded that gas and nuclear activities could not be considered sustainable within the meaning of the taxonomy regulation.

Looking forward, the details of the other four taxonomy objectives—sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems—are expected in the second quarter, as well as further work on a possible social taxonomy.

Beyond SFDR and the taxonomy, further details of a proposed Ecolabel for financial products are expected. And in August, changes to MiFID II will take effect and require financial advisers to consider their clients' sustainability preferences as part of the advice process. This new piece of regulation has the potential to accelerate adoption of sustainable investments among retail investors.

## **United States**

### **Flows**

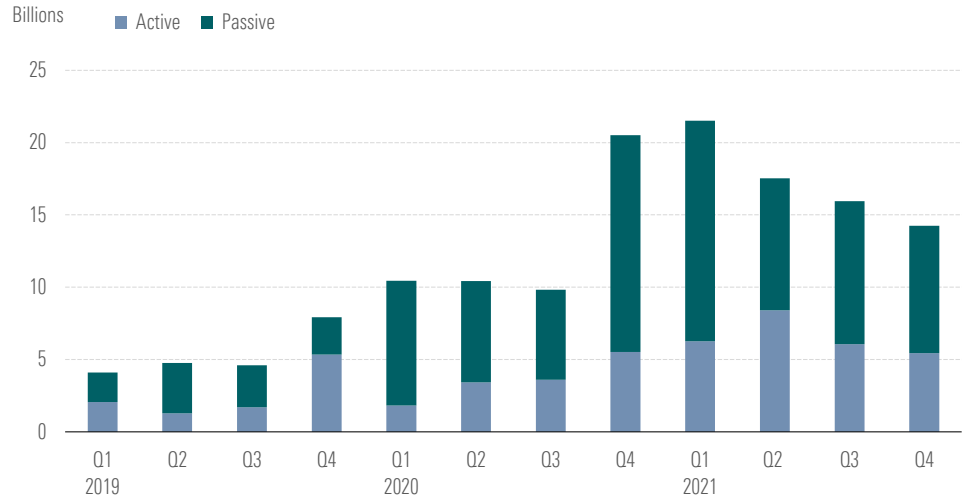
In the final quarter of 2021, the US sustainable fund landscape saw USD 14.2 billion in net inflows, the lowest quarterly amount for the year. This represents a 10% drop relative to third-quarter net inflows and a 34% drop relative to the record set in the first quarter of 2021. By contrast, flows into the broader US market rose by 7% relative to the third quarter of 2021.

For the sixth consecutive calendar year, sustainable funds set an annual record for net flows in 2021. The US sustainable fund landscape netted nearly USD 70 billion in net flows, a 35% increase over 2020's record. However, these new record inflows pale in comparison to the rest of the market. Traditional US fund flows set a record at more than \$1.1 trillion for the year, more than 6 times the total in 2020. Some of the strongest winners for US fund flows in 2021 were value stocks and fixed income. These asset classes include relatively few sustainable options for investors, especially considering factors such as track record and asset base, which may have contributed to this divergence.

Sustainable passive funds still dominated their active peers, albeit by a smaller degree than in the past. Passive funds attracted net inflows of USD 8.8 billion for quarter, representing 60% of all US sustainable flows. For the entire year, sustainable passive funds netted USD 43 billion, 62% of total flows for the year.



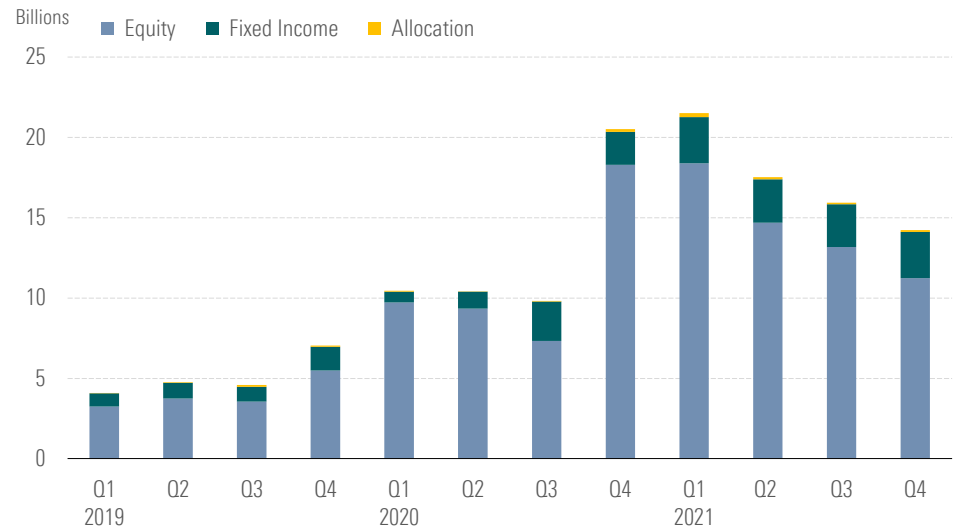
**Exhibit 13** US Sustainable Fund Flows (USD Billion)



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

Equity funds made up the lion's share of flows, as they typically do. In the fourth quarter, equity funds attracted USD 11.2 billion, or 79% of all sustainable fund flows.

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



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

Flows into sustainable fixed-income funds have been growing steadily. They crossed the USD 2.0 billion threshold for the first time in the third quarter of 2020, and they have stayed above that mark since. In the fourth quarter of 2021, they netted nearly USD 2.9 billion, a new record for the asset class. The best-

selling sustainable fixed-income fund was **Invesco Floating Rate ESG AFRAX**, which attracted USD 316 million for the period. In the face of rising interest rates, investors may seek to use floating-rate bonds as a hedge, helping this fund garner assets.

### Leaders and Laggards

Invesco Floating Rate ESG was the only nonequity fund to make the fourth-quarter leaderboard. Of the top 10 flow leaders, it was also the most recent fund to adopt a sustainable mandate, having transitioned its strategy in 2020.

Still, eight of the 10 funds attracting the most flows in the fourth quarter of 2021 were passive funds, and six were ETFs. Seven of those were also in the top 10 in the previous quarter: **iShares ESG Aware MSCI USA ETF ESGU**, **Vanguard ESG US Stock ETF ESGV**, **iShares ESG Aware MSCI EAFE ETF ESGD**, **iShares MSCI USA ESG Select ETF SUSA**, **Vanguard ESG International Stock ETF VSGX**, **Vanguard FTSE Social Index VFTNX**, and **Brown Advisory Sustainable Growth BAFWX**. Notably, despite suffering outflows in December, ESGU topped the list for the third consecutive quarter.

### Exhibit 15.a Top 10 Sustainable Fund Flows in Q4 2021

Name	Ticker	Q4 2021 Flows (USD Million)
iShares ESG Aware MSCI USA ETF	ESGU	1,973
Vanguard ESG US Stock ETF	ESGV	801
iShares ESG Aware MSCI EAFE ETF	ESGD	777
iShares MSCI USA ESG Select ETF	SUSA	731
Vanguard ESG International Stock ETF	VSGX	596
Vanguard FTSE Social Index I	VFTNX	566
Fidelity® U.S. Sustainability Index	FITLX	552
Brown Advisory Sustainable Growth I	BAFWX	425
iShares MSCI KLD 400 Social ETF	DSI	379
Invesco Floating Rate ESG A	AFRAX	316

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

### Exhibit 15.b Bottom 10 Sustainable Fund Flows in Q4 2021

Name	Ticker	Q4 2021 Flows (USD Million)
iShares® ESG MSCI EM Leaders ETF	LDEM	-739
iShares ESG Aware MSCI EM ETF	ESGE	-302
Parnassus Core Equity Investor	PRBLX	-283
Xtrackers MSCI USA ESG Leaders Eq ETF	USSG	-280
Calvert Emerging Markets Equity I	CVMIX	-221
Eventide Healthcare & Life Sciences I	ETIHX	-124
Putnam Sustainable Leaders A	PNOPX	-111
American Century Sustainable Equity A	AFDAX	-89
Invesco WilderHill Clean Energy ETF	PBW	-86
Invesco Solar ETF	TAN	-83

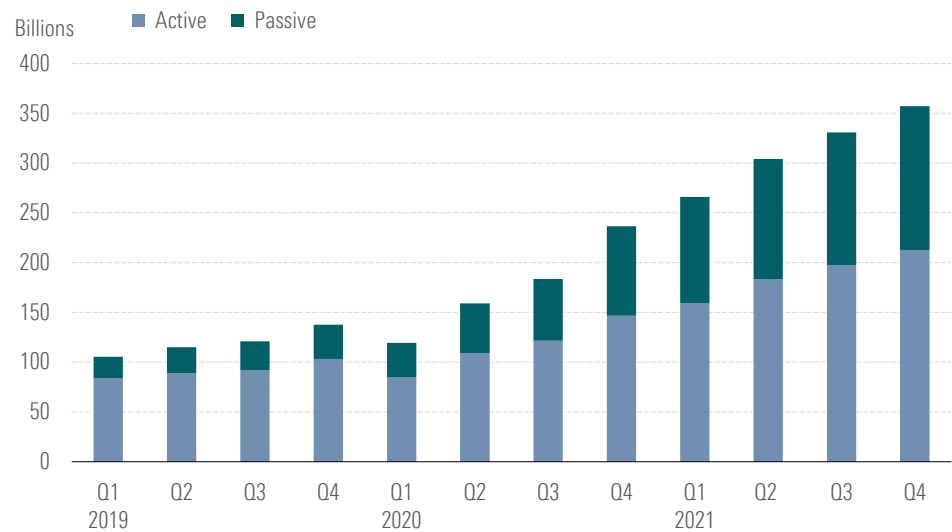
Source: Morningstar Direct, Manager Research. Data as of December 2021.

## Assets

Assets in US sustainable funds crossed a new high-water mark in the fourth quarter of 2021. As of December 2021, assets totaled USD 357 billion. That was an 8% increase over the previous quarter and 1.5 times the USD 236 billion record set one year ago. Yet, it still represents a tiny portion (roughly 1%) of the total US fund market.

Active funds retain the majority (60%) of assets, but their market share is shrinking. Three years ago, active funds held 80% of all US sustainable assets.

**Exhibit 16** US Sustainable Fund Assets (USD Billion)

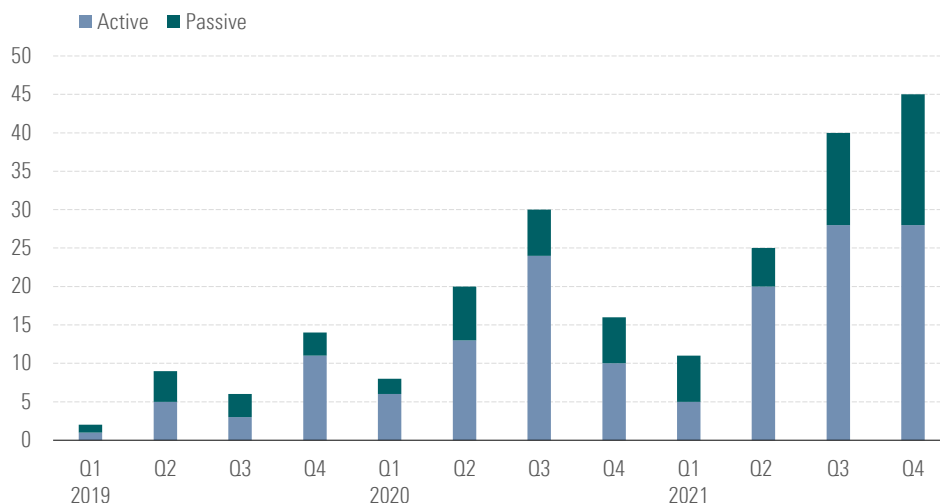


Source: Morningstar Direct, Manager Research. Data as of December 2021.

## Launches

As investor appetite for funds that focus on ESG and sustainability issues has grown, asset managers have responded by expanding their sustainable product lineups. In the fourth quarter of 2021, 45 funds with sustainable mandates were launched in the US. This is the US' highest number of sustainable funds launched in one quarter, handily beating the previous record of 40 funds set in the third quarter of 2021. Of those 45, 35 were equity funds, and 26 were ETFs.

Once again, most of the new sustainable funds available in the US are actively managed offerings. Eleven of the new funds focus on climate action, such as **JPMorgan Climate Change Solutions ETF TEMP**, which targets themes such as renewable energy and electrification, sustainable construction, and less carbon-intensive forms of agriculture. One of the new offerings focuses on plant-based innovation companies—**VegTech Plant-Based Innovation & Climate ETF EATV**—but it wasn't the first of its kind. **US Vegan Climate ETF VEGN** launched in 2019.

**Exhibit 17** US Sustainable Fund Launches

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

**Repurposed Funds**

Most of the new options available to investors were launched with sustainable mandates, but, increasingly, firms are changing the investment strategies of existing funds to target sustainable outcomes. In the fourth quarter of 2021, two equity, four fixed-income funds, and one allocation fund were repurposed to adopt sustainable mandates. The largest fund repurposed to incorporate sustainability was **AB Sustainable Thematic Balanced Portfolio** ABPYX, with USD 153 million in assets. The fund seeks to invest in companies that the firm believes are aligned with the United Nations Sustainable Development Goals, especially those focused on the themes of health and climate.

**Exhibit 18** US Repurposed Funds in Q4 2021

Name	Morningstar Category	Fund AUM (USD Million)
AB Sustainable Thematic Bal Port Advisor	US Fund Allocation--30% to 50% Equity	153
BlackRock Sustainable Em Mkts Eq Ins	US Fund Pacific/Asia ex-Japan Stk	130
Hartford Schroders Sustainable Cr Bd SDR	US Fund Intermediate Core Bond	82
BlackRock Sust Emerg Mkts Flex Bd CI K	US Fund Nontraditional Bond	31
BlackRock Sustainable Emerg Mkts Bd K	US Fund Emerging Markets Bond	23
Capital Link Global Green Energy Transport and Technology Leaders ETF	US Fund Technology	12
AdvisorShares Nrth Sqr McKee ESG CrBdETF	US Fund Multisector Bond	4

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

The new offerings and the repurposed funds brought the total number of sustainable open-end and exchange-traded funds in the US to 534 at the end of the quarter.

### Regulatory Updates

The US Labor Department proposed a new rule in October 2021 that should make it easier for employers to offer sustainable funds in their workplace retirement plans. This proposal would lift rules that made it difficult and risky for employers that wanted to use ESG-focused investment options as default investments for workers automatically enrolling in a qualified plan. If the rule is finalized, participants may have more opportunity to pick funds with ESG mandates. It may also nudge employers to integrate ESG considerations in making investment selections.<sup>8</sup>

This same proposal includes adjustments to Trump-era guidance on the fiduciary duty to vote proxies and exercise other shareholder rights. Among other things, the proposed rule would remove statements such as, "the fiduciary duty to manage shareholder rights appurtenant to shares of stock does not require the voting of every proxy or the exercise of every shareholder right" from the Labor Department's regulation. By doing so, the Biden-era Labor Department would encourage plans to exercise their rights as shareholders, which may increase participation in proxy voting activities on behalf of investors. The public comment period for these proposals closed in mid-December, and we expect the guidance to be finalized in early 2022.

The SEC's Division of Corporation Finance issued a staff legal bulletin in early November that reverses Trump-era guidance limiting the types of issues shareholders can address via corporate proxy ballots. The previous guidance led to the omission of several shareholder resolutions requesting climate change disclosures from energy companies. The division's new stance signals that, "... staff will no longer focus on determining the nexus between a policy issue and the company ... [rather], staff will consider whether the proposal raises issues with a broad societal impact, such that they transcend the ordinary business of the company." This opens the door for resolutions on climate change and social justice issues to make it to a vote in coming proxy seasons, which we see as a win for the end investor.<sup>9</sup>

In early 2022, we'll also keep an eye on the SEC's efforts to mandate disclosures related to climate risk and human capital. In September 2021, the Division of Corporation Finance shared a sample letter, thereby notifying public companies that the SEC may investigate discrepancies between their SEC filings and other public documents such as corporate social responsibility reports. Over time, this may lead public companies to expand the scope of their SEC filings. This development is a win for ESG investors who rely on public disclosures.

To read further analysis on this topic:

[Sustainable Funds U.S. Landscape Report](#)

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<sup>8</sup> <https://www.morningstar.com/articles/1070597/the-esg-advisor-heres-what-to-know-about-the-labor-depts-proposed-rule-to-ease-esg-investing-in-your-401k-plan>

<sup>9</sup> <https://www.morningstar.com/articles/1066160/sec-decision-will-strengthen-investor-proxy-action-on-companies-climate-targets>

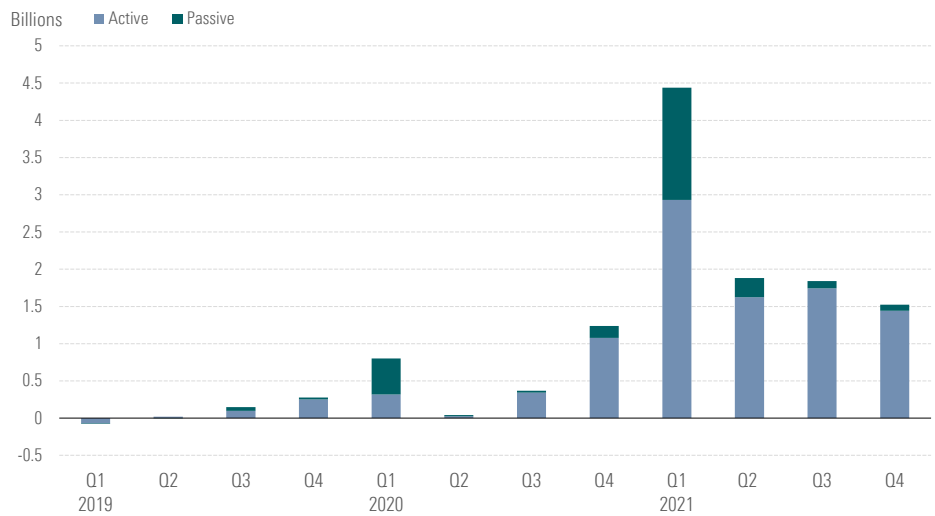
## Canada

### Flows

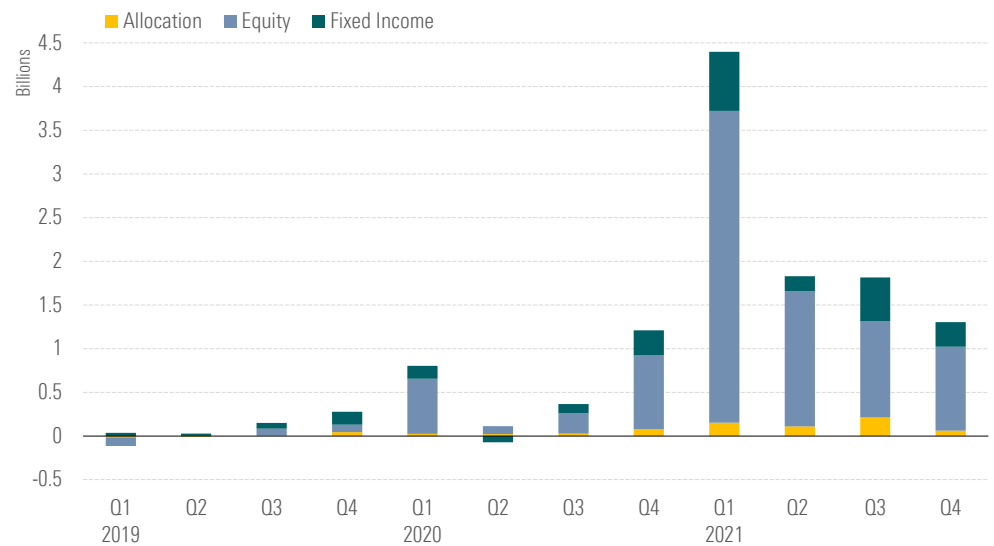
Given that Canadian households recorded elevated savings rates over the 2021 calendar year, it is no surprise that flows into investment funds in general, and sustainable funds in particular, were positive. Flows into sustainable funds and ETFs were positive in all four quarters, though the first quarter topped the others by a large margin. In comparison, the broader market saw higher inflows in the fourth quarter.

In the last quarter of 2021, Canada-domiciled sustainable funds saw inflows of USD 1.5 billion, which pales in comparison to the USD 4.4 billion of inflows in the first quarter. That said, inflows over each of the last three quarters of 2021 still outshine prior history. As a proportion, 77% of net inflows over 2021 went to equity funds, 18% to fixed income funds, and 6% to allocation funds.

**Exhibit 19** Canadian Sustainable Fund Flows (USD Billion)



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

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

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

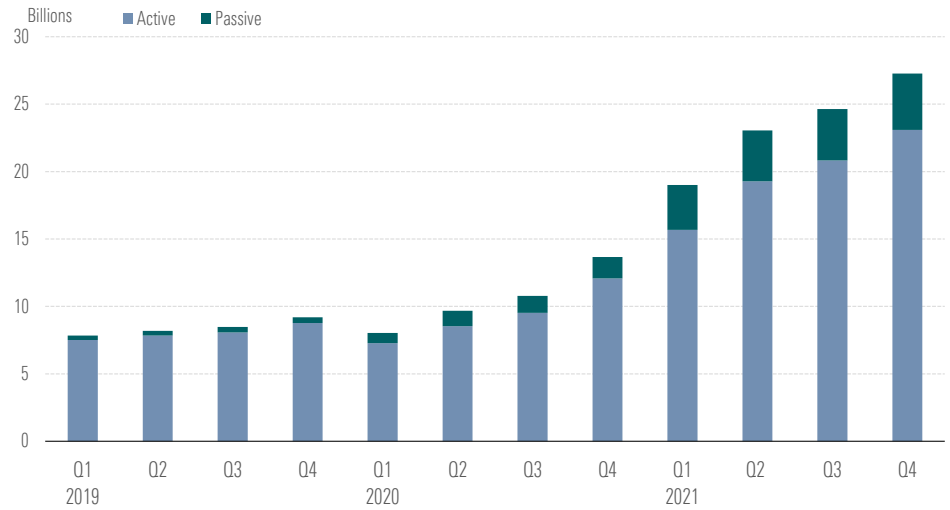
### Assets

Supported by positive inflows and upward markets, assets in sustainable funds doubled in 2021, from USD 13.6 billion to USD 27.3 billion. Over the fourth quarter, assets grew by 10%.

Unsurprisingly, the sustainable investment fund and ETF market continued to be dominated by a handful of heavyweights, including NEI Investments, RBC, Mackenzie, BMO, IA Clarington, Desjardins, and AGF Investments. Together, these seven firms make up over 80% of sustainable mutual fund and ETF assets from Canadian-domiciled fund providers.

Also, 85% of sustainable fund assets are actively managed, reflective of the broader Canadian fund landscape.

**Exhibit 21** Canadian Sustainable Fund Assets (USD Billion)

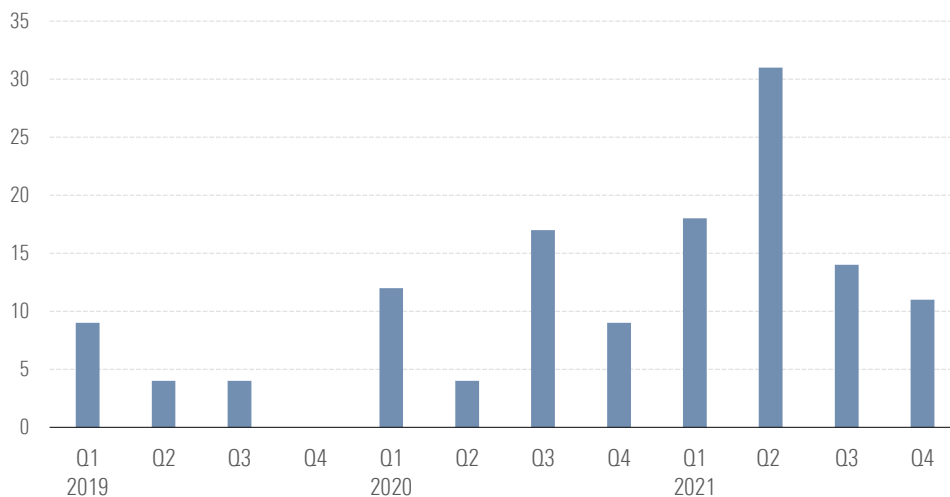


Source: Morningstar Direct, Manager Research. Data as of December 2021.

**Launches**

Over the fourth quarter of 2021, 11 new sustainable funds and ETFs were launched, bringing the year's total to 73 products. Comparatively, 42 sustainable funds and ETFs were launched in 2020. These products have garnered quite a bit of interest from investors already. In total, new products launched in 2021 collected USD 2.4 billion in assets under management, with **Fidelity Climate Leadership** garnering USD 430 million alone.

**Exhibit 22** Canadian Sustainable Fund Launches



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



## Performance

Sustainable funds exemplified performance similar to traditional funds over the calendar year. Across all asset classes, 49% (70 of 144) of sustainable funds outperformed their respective category averages. This was led largely by equity funds, where 59% (52 of 88) outperformed their peers. Sustainable allocation funds showed less-than-stellar performance over the year, with only 27% (10 of 37) outperforming their category averages. The picture improves when looking over a longer five-year trailing period. Over this time frame, 53% (31 of 59) of sustainable allocation funds outperformed their category averages.

## Regulatory Updates

As noted in the [Q3 Sustainable Fund Landscape for Canadian Fund Investors](#), the Canadian Securities Administrators released [its proposal](#) to require Canadian-listed issuers to disclose climate-related risks and greenhouse gas emissions. If executed, this would represent a welcome change in reporting requirements in this market, providing insightful information to investors through the proposed Task Force on Climate-Related Financial Disclosures framework, sans the requirement for scenario analysis. This likely signals additional sustainable investment products in the years ahead, as fund manufacturers would be able to access more complete and accurate climate-related information on issuers, ultimately adding to their ability to create new products for investors. The proposal landed in a year where the [newly created International Sustainability Standards Board](#) announced a primary office in Montreal, pointing to the government's support of the standard-setting body.

On the heels of this announcement, in early 2022, the CSA also issued a [staff notice](#) offering guidance to fund providers on how to appropriately disclose sustainable investment considerations. The intent of the guidance is ultimately to prevent misleading information on ESG-related practices of a particular fund, also known as greenwashing.

## Australia and New Zealand

### Flows

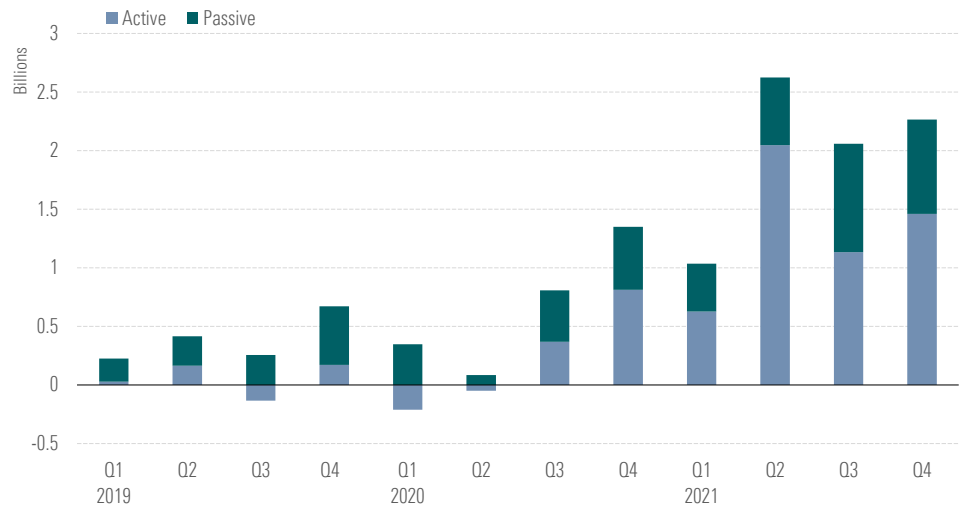
The Australasian (Australia and New Zealand) sustainable fund universe attracted inflows of USD 2.27 billion in the fourth quarter of 2021. This was 9% higher than the third-quarter inflows, and the second-largest inflow quarter on record.

Of inflows, 64% went into active products (USD 1.46 billion), with passive strategies (USD 805 million) receiving 36% of flows. The predominance of flows to active funds continued a trend seen in recent quarters, whereas previously flows to passive funds had long matched or exceeded those of their active rivals.

Five fund houses took in most of the fund flows, with Mercer (USD 341 million) atop the group, followed by BetaShares (USD 304 million), Vanguard (USD 236 million), Dimensional (USD 219 million), and Australian Ethical (USD 206 million). Mercer's inclusion was new and unexpected as the remaining four

had consistently been among the top four houses for fund flows. Schroders experienced an outflow of USD 19 million over the quarter, running against the broad trend of market inflows.

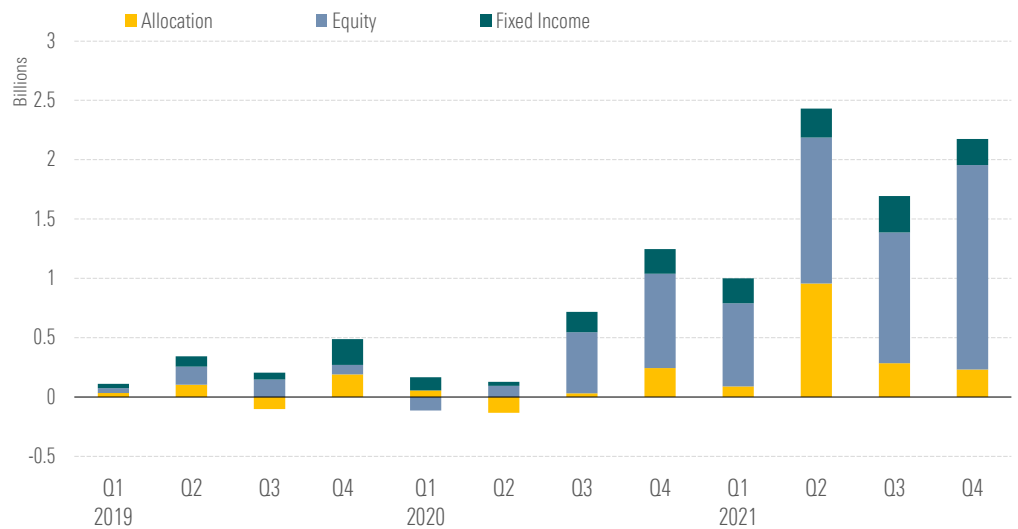
**Exhibit 23** Australian and New Zealand Sustainable Fund Flows (USD Billion)



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

Equity managers captured most of inflows over the quarter, with USD 1.72 billion, ahead of the USD 231 million accumulated by allocation strategies and the USD 220 million by fixed-income strategies.

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



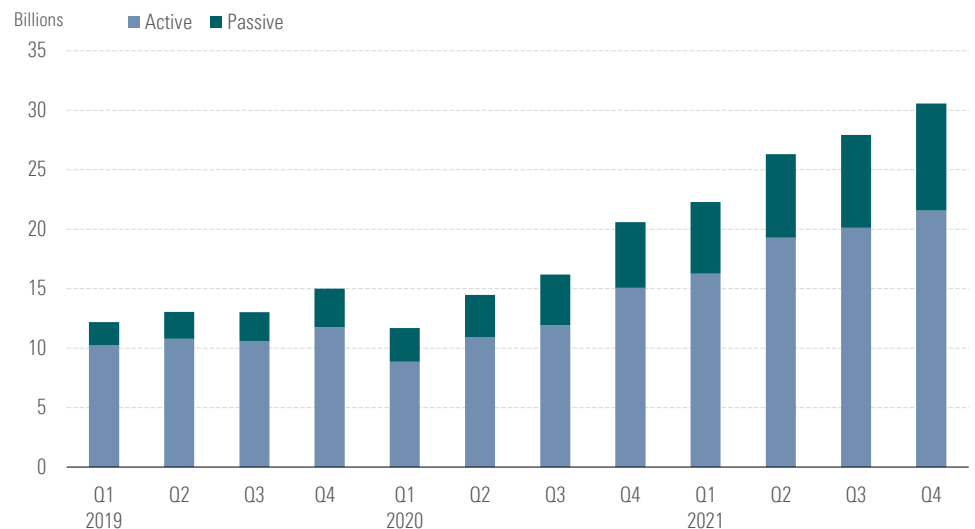
Source: Morningstar Direct, Manager Research. Data as of December 2021.

## Assets

Assets in Australasian sustainable funds increased in fourth quarter 2021, amounting to a record USD 30.6 billion, up from a previous record USD 27.9 billion at the close of third-quarter 2021, a 9% increase. Compared with the fourth quarter of 2020, total assets increased by almost 50%.

The Australian sustainable funds market remains quite concentrated, with the top 15 funds accounting for 45% of total assets in the sustainable fund universe. Australian Ethical remains the dominant Australasian provider of sustainable funds, with total assets of USD 5 billion. We now count 152 strategies in our Australasian sustainable fund universe.

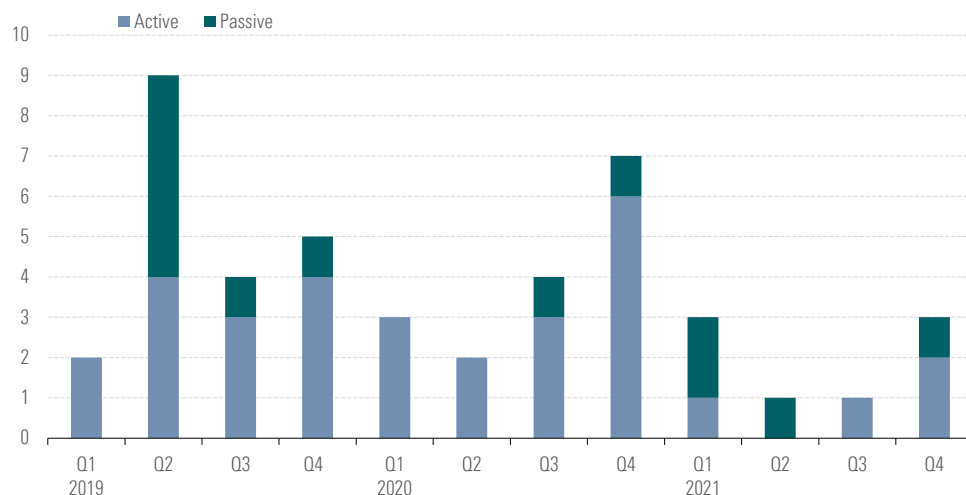
**Exhibit 25** Australian and New Zealand Sustainable Fund Assets (USD Billion)



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

## Launches

There were three new sustainable funds launched in the fourth quarter of 2021, two active and one passive. One of the new launches was **ETFS Hydrogen ETF**, and by the end of the quarter, it already had accumulated USD 72 million in assets since its October inception. Only one new fund launched in each of the previous two quarters. The sustainable fund universe does not contain the growing number of Australasian funds that now formally consider ESG factors in a nondeterminative way in their security selection (funds commonly known as ESG-integrated funds).

**Exhibit 26** Australian and New Zealand Sustainable Fund Launches

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

**Regulatory Updates**

Late in the quarter, the Australian government rushed through changes to proxy-advice regulations<sup>10</sup>. The reforms were made in the name of improved transparency and accountability. However, they have placed undue pressure on a sector that has been effectively highlighting corporate issues and helping institutional clients identify weaknesses, mitigate risks, and ultimately improve investor outcomes. Whilst there are similarities to the proxy adviser reforms that occurred in the US, the Australian reforms are more far-reaching, specifically the harsh civil penalties for delays in sharing information and the independence requirement. Proxy advice is important as it helps institutional investors make informed decisions. These changes seem to skew the balance of power in favor of companies, which is not necessarily in shareholders' best interests.

To read further analysis on this topic:

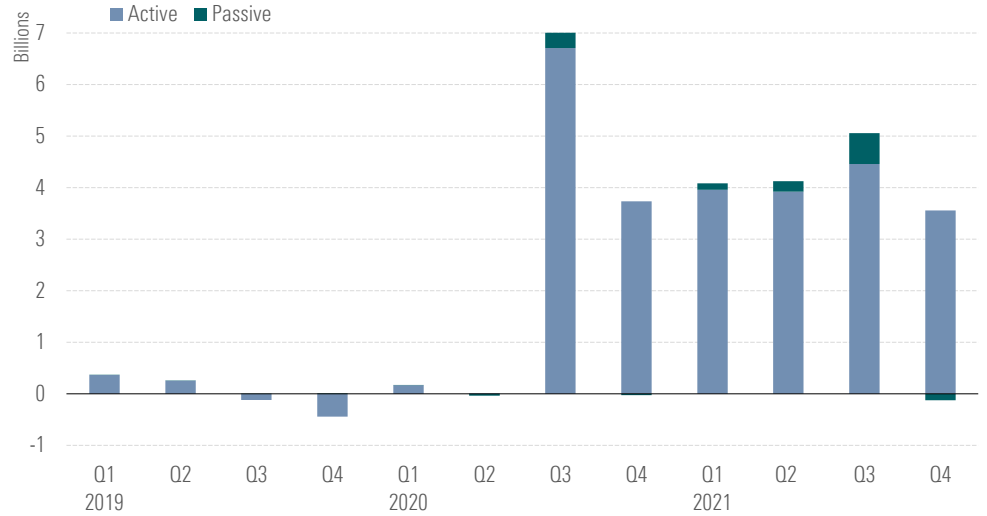
[Changes in Australian Proxy-Advice Regulation Will Not Improve Investor Outcomes](#)

**Japan****Flows**

The Japanese sustainable fund market recorded inflows of USD 3.4 billion in the fourth quarter of 2021, mainly driven by actively managed equity funds. About 94% of the net flows went into equity funds, while nine out of the top 10 funds in terms of inflows in the quarter were actively managed equity funds.

<sup>10</sup> <https://www.legislation.gov.au/Details/F2021L01801>

**Exhibit 27** Japanese Sustainable Fund Flows (USD Billion)

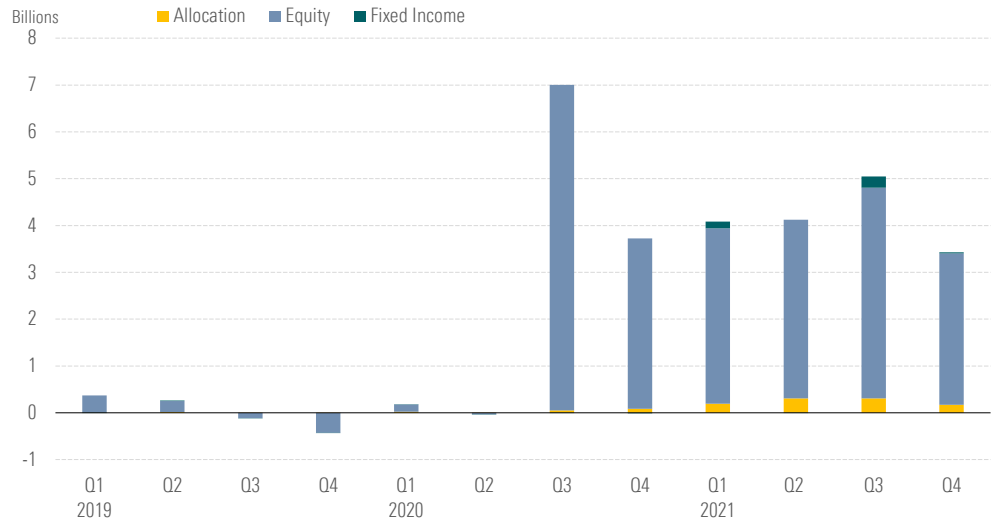


Source: Morningstar Direct, Manager Research. Data as December 2021.

New funds tend to drive inflows in Japan, and the fourth quarter of 2021 was no exception. Six out of the top 10 funds in terms of inflows were launched in 2021. **SMTAM Carbon Neutral Related World Equity Strategy Fund—Asset Growth Type**, which was launched in May 2021, gathered USD 441 million of inflows during the fourth quarter, the biggest among all funds.

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

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

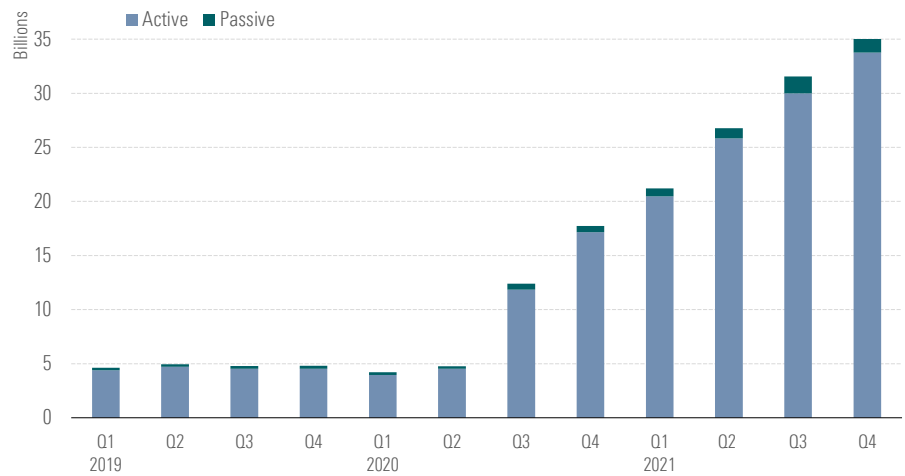


Source: Morningstar Direct, Manager Research. Data as of December 2021.

### Assets

Assets in Japan-domiciled sustainable funds increased by about 11% to USD 35.2 billion at the end of December 2021, compared with the previous quarter-end. The overwhelming majority of assets (92%) were in actively managed equity funds. Inflows into newly launched active equity funds during the past one-year period drove the increase in assets, together with the bullish equity market environment during the period.

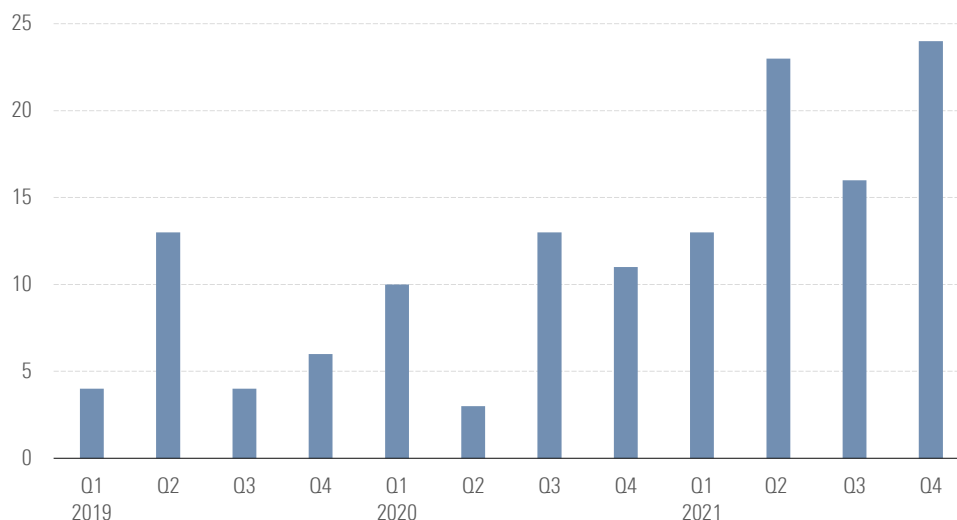
**Exhibit 29** Japanese Sustainable Fund Assets (USD Billion)



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

### Launches

Twenty-four new sustainable funds came to the Japanese market in fourth-quarter 2021: 18 active funds and six index funds. One of the index funds, **HSBC Climate Paris Aligned Equity Index**, aims to track the MSCI World Climate Paris Aligned Index. Flows into these newly launched funds were USD 355 million in total, contributing to about 10% of the entire inflows for Japanese sustainable funds.

**Exhibit 30** Japanese Sustainable Fund Launches

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

**Asia ex-Japan**

Since China's data was not available at the time of publication, we used last quarter's (third-quarter 2021) data as a proxy for this quarter's (fourth-quarter 2021) estimation.

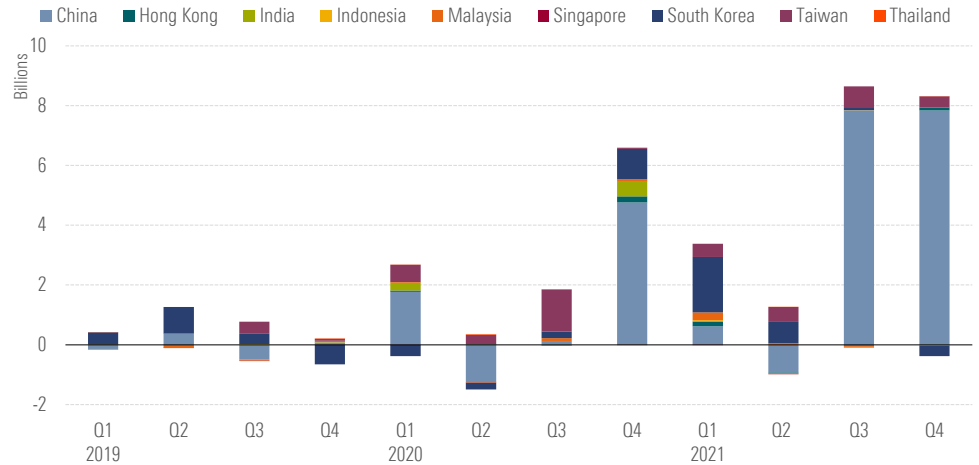
**Flows**

Outside of China, fourth-quarter fund inflows of USD 100 million were significantly lower than the USD 721 million inflows in the third quarter. Major markets such as Taiwan and South Korea had pronounced inflow declines over the quarter, while inflows in Hong Kong, Malaysia, Singapore, and Thailand increased.

Over the whole of 2021, net inflows into sustainable funds in Asia ex-Japan (excluding China's unavailable fourth-quarter data) amounted to USD 12.3 billion, which was 28% higher than the 2020 full-year inflow of USD 9.6 billion.

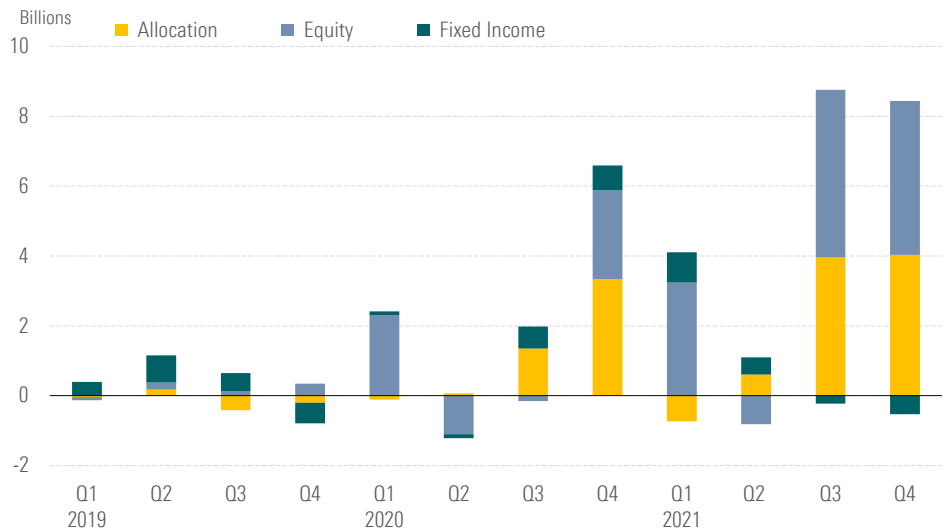
In South Korea, climate-related funds continued to lead the flow story in the fourth quarter of 2021. **Kindex US Green Theme Indxx**, **Tiger KRX Climate Change Solutions**, **Hanaro KRX Climate Change Solutions**, and **Kodex Europe Carbon Allowance Futures ICE (H)** experienced net inflows, while ESG bond funds, such as **KIM eShort-term ESG Bond CP**, also saw positive inflows. However, **KIM Credit Focus Feeder ESG Bond 1 Ce**, saw net outflows, mainly owing to investors' concerns about rising interest rates.

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



Source: Morningstar Direct, Manager Research. Data as of December 2021. China's data was not available at the time this report was published. The numbers in Q4 2021 use its Q3 2021 data as a proxy.

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



Source: Morningstar Direct, Manager Research. Data as of December 2021. China's data was not available at the time this report was published. The numbers in Q4 2021 use its Q3 2021 data as a proxy.

**Assets**

Asia ex-Japan sustainable fund assets grew last year to USD 63 billion, up 70% from USD 37 billion in 2020. [China remains the dominant market](#), representing 77% of sustainable assets in Asia ex-Japan in 2021.

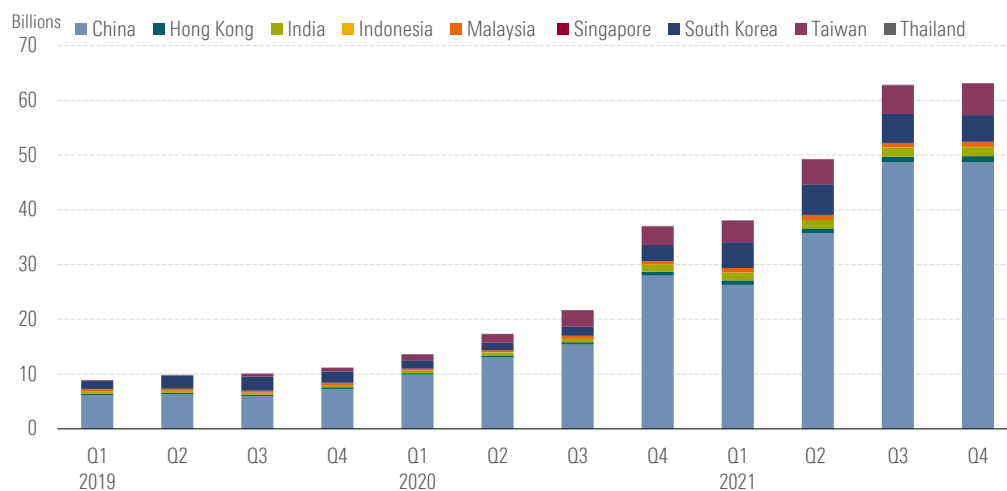
Taiwan was the second-largest Asia ex-Japan sustainable fund market with 9% of assets, followed closely by South Korea with 8%.



With a year-on-year growth of 86%, equity funds represented 59% of Asia ex-Japan sustainable fund assets, while allocation and fixed-income funds made up the remaining 35% and 6% of assets, respectively.

Passive ESG funds represented 21% of sustainable fund assets in 2021, which was a slight increase from 18% in 2020.

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



Source: Morningstar Direct, Manager Research. Data as of December 2021. China data was not available at the time this report was published. The numbers in Q4 2021 use Q3 2021's data as a proxy.

### Launches

There were 23 new sustainable fund launches in the fourth quarter, driven by eight new funds each from China and South Korea, three each from Taiwan and Malaysia, and one from Indonesia.

Equity dominated the new launches with 17 funds, while there were five allocation and one fixed-income funds. Out of the 23 new launches, 11 were passive funds, all of which were ETFs. The top three product launches by asset size were **China Southern CSI Yangtze River Protection**, **E Fund CSI Yangtze River Protection**, and **GF CSI Fully Electronic Power**—all Chinese equity ETFs.

The 118 sustainable fund launches in 2021 more than doubled those of 2020 (55 funds), propelled by the strong growth from China (49 funds) and South Korea (36 funds).

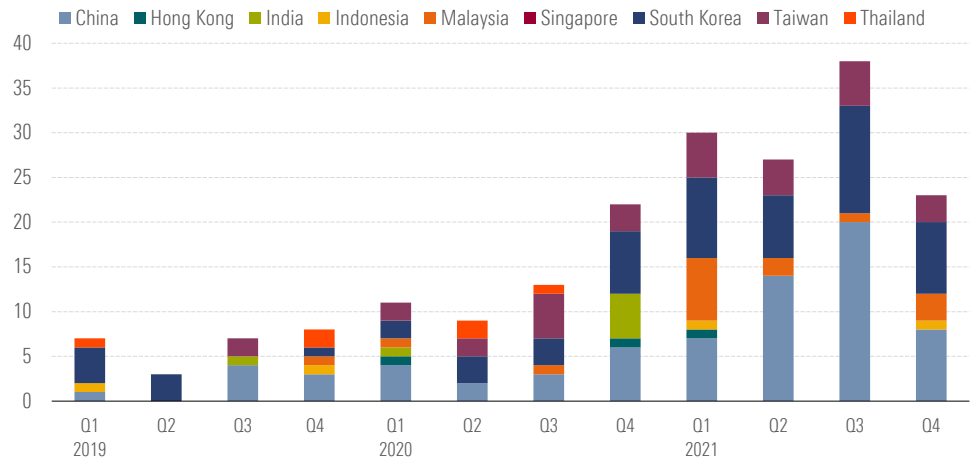
A majority of new launches in China in 2021 focused on a climate-related theme, including clean energy, spurred by the Chinese government's intent to target peak emissions by 2030 and reach carbon neutrality by 2060. There was also strong investor interest in the electric vehicle theme in China despite the reduction of subsidies by 20% in 2021 for new purchases.

In 2021, 68% of new launches were equity funds, while 20% were allocation funds, and the remaining 12% were fixed-income funds.

There were significantly more passive fund launches in 2021 (48 funds) compared with 2020 (11 funds), which were mostly ETFs for both years.

In South Korea, eight funds were newly launched in the fourth quarter, of which seven had a climate-related mandate.

**Exhibit 34** Asia ex-Japan Sustainable Fund Launches



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

**Regulatory Updates**

Some progress was made on the Korean ESG financial policy front in 2021. The Korean financial regulators (Financial Services Commission and Financial Supervisory Service) made a [declaration of support for the Task Force on Climate-Related Financial Disclosure](#). The Korean government declared its support for climate finance to achieve carbon neutrality by 2050. Also, it quit additional public financial support for overseas carbon development. ■■■

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