

Global Sustainable Fund Flows: Q1 2021 in Review

ESG Fund Assets Climb to Shy of USD 2 Trillion Boosted by Record Inflows

Morningstar Manager Research

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Key Takeaways

- ▶ Continued interest in environmental, social, and governance issues drives global sustainable fund assets 19% higher to shy of USD 2 trillion at the end of the first quarter of 2021.
- ▶ Global sustainable flows reach all-time highs for the fourth quarter in a row.
- ▶ Continuing to dominate the space, Europe accounted for over 79% of these flows, while the U.S. accounted for 11.6% of it. Flows in the rest of the world clocked in at USD 17 billion for Canada, Australia and New Zealand, Japan, and Asia combined.
- ▶ Product development in the first quarter hit 169 new offerings, including an all-time high of 47 launches in countries outside of Europe and the United States.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-end funds and exchange-traded funds globally that, by prospectus, factsheet, or other available resources, claim to have a sustainability objective and/or use binding ESG criteria for their investment selection. The sustainable funds 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 excluded.

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 because of the relatively low assets. This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches for the first quarter of 2021. A summary is provided in Exhibit 1.

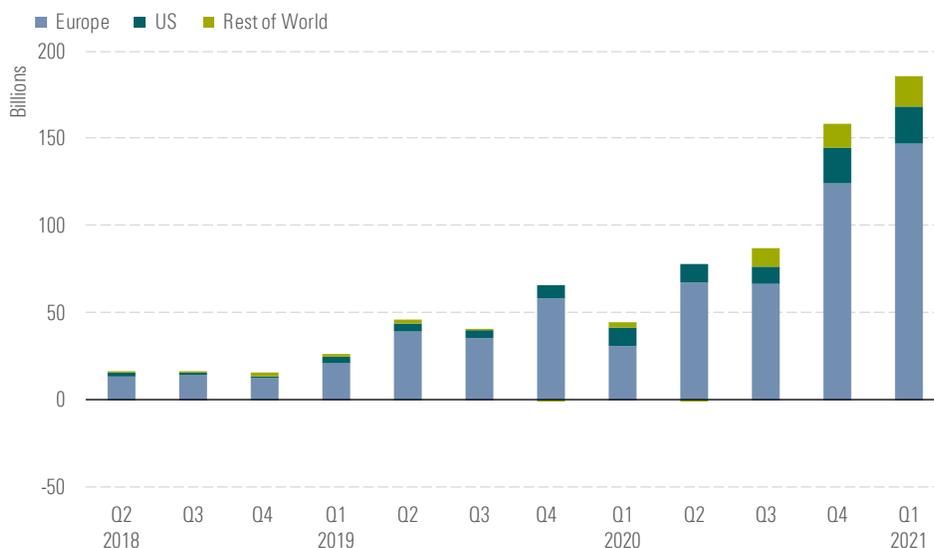
Exhibit 1 Global Sustainable Funds 1Q 2021 Statistics

Region	Q1 2021 Flows		Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
Europe	146.7	79.2	1,625.3	81.9	3,444	76.1
United States	21.5	11.6	265.8	13.4	409	9.0
Asia ex-Japan	7.8	4.2	36.7	1.8	237	5.2
Australia/New Zealand	1.1	0.6	21.2	1.1	129	2.9
Japan	4.1	2.2	21.2	1.1	149	3.3
Canada	4.1	2.2	14.2	0.7	156	3.4
Total	185.3		1,984.5		4,524	

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

Global Flows

The global sustainable universe attracted USD 185.3 billion in net inflows in the first quarter of 2021, up 17% from USD 158.3 billion in the prior quarter. Europe took in the bulk of it (79.2%), while the U.S. accounted for 11.6% of it. Flows in the rest of the world were considerably higher than in previous quarters, clocking in at USD 17.1 billion for Canada, Australia and New Zealand, Japan, and Asia combined. This is compared with USD 13 billion in the fourth quarter of 2020. This spike can be largely attributed to an uptick in flows in Japan and China.

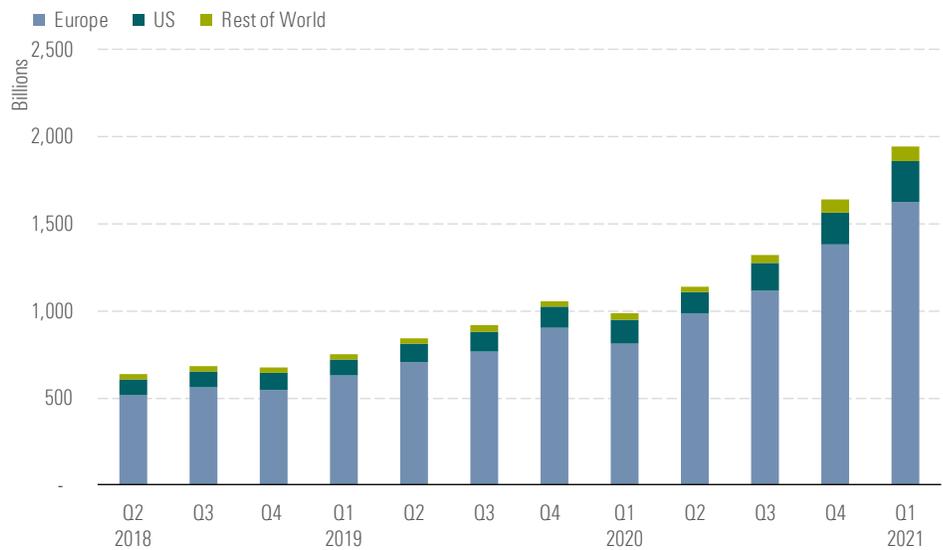
Exhibit 2 Quarterly Global Sustainable Fund Flows (USD Billion)

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

Global Assets Climb 18% to Shy of USD 2 Trillion

Supported by strong inflows in Europe, global assets neared the USD 2 trillion mark, up 17.8% on last quarter. Europe accounts for 83% of global assets, followed by the United States with 12%. The past three years have seen a steady increase in assets in sustainable funds globally. With currently 4,523 sustainable funds available and many more that now formally consider ESG factors in a nonconstraining way to better manage risks and improve returns, Europe is by far the most developed and diverse ESG market.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

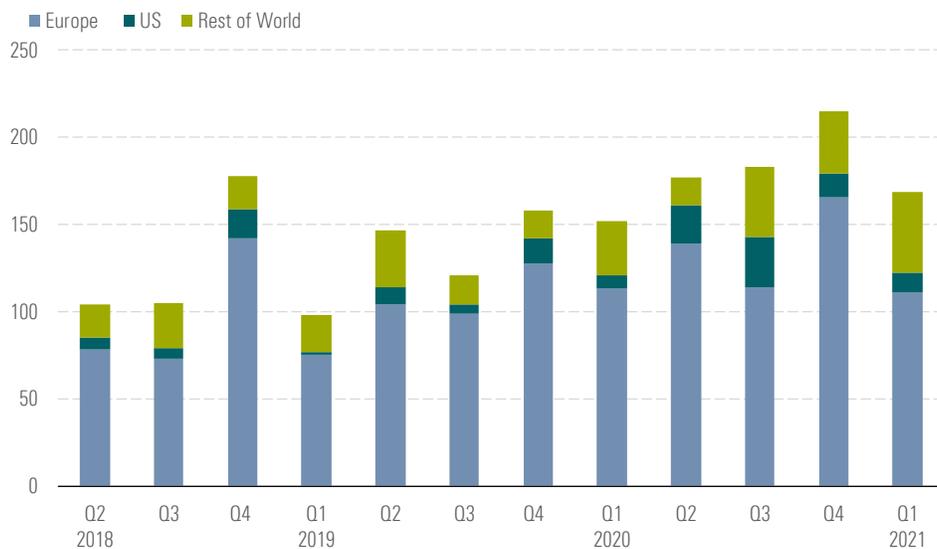


Source: Morningstar Direct, Manager Research. Data as of March 2021.

Global Fund Launches

Product launches globally remained strong, with 169 new products entering the market. This is down from the all-time record set in fourth-quarter 2020 with 215 launches but up from the first quarter of 2020. Product development always slows down in the first quarter relative to the fourth quarter. The majority of the launches (65.6%) took place in Europe. Canada and Asia ex-Japan both saw the launch of 17 products, followed by Japan with 13 and U.S. with 11.

Exhibit 4 Global Sustainable Fund Launches Per Quarter



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

Quarterly Statistics Per Domicile

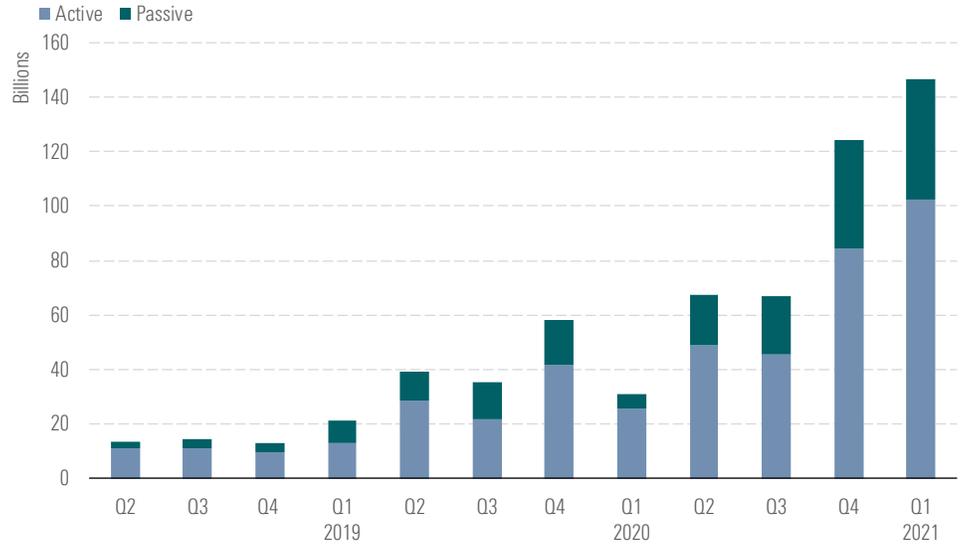
Europe

Flows

In the first quarter of 2021, European sustainable fund flows went up by almost 18% compared with December 2020, continuing the strong recovery after the meltdown caused by the coronavirus pandemic in the first quarter of last year. Sustainable funds attracted inflows of an all-time high of USD 146.7 billion, versus roughly USD 124.4 billion in the previous quarter.

Index funds and exchange-traded funds garnered USD 44.5 billion in sustainable fund flows, accounting for 30% of first-quarter flows, up from USD 40 billion in the previous quarter.

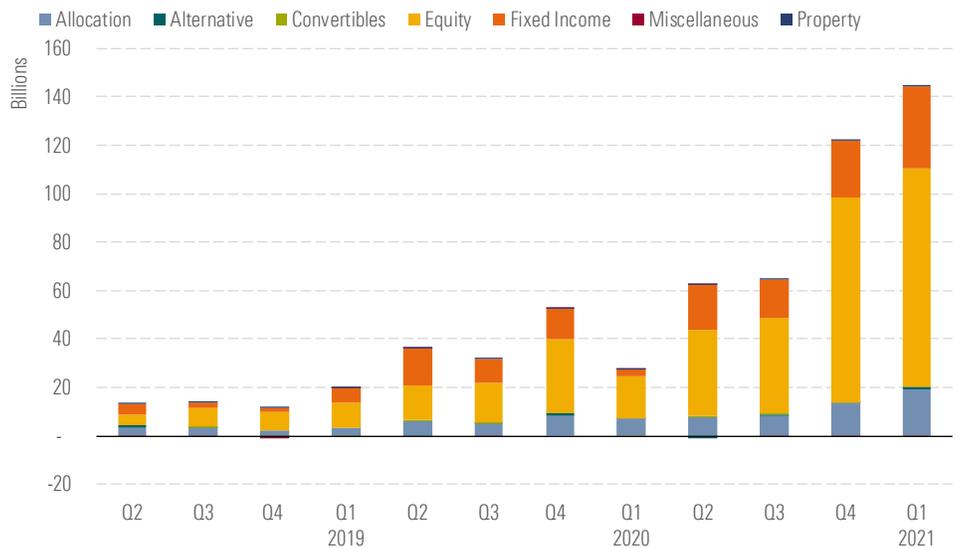
Exhibit 5 European Sustainable Fund Flows (USD Billion)



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

For the second quarter in the past year, sustainable funds garnered more money than their conventional peers, capturing 51% of net inflows into the overall European fund universe. Funds with an environmental or climate theme were among the best-selling products.

Exhibit 6 European Sustainable Fund Flows by Asset Class



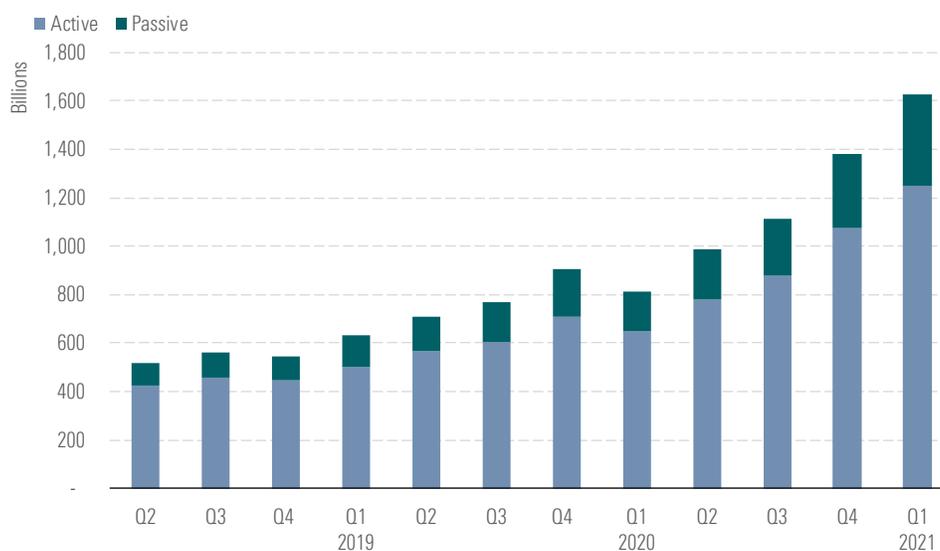
Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Equity funds took the majority of flows with USD 89.8 billion, followed by fixed-income offerings with USD 33.7 billion. Allocation funds drew a distant third, aligning with USD 19 billion in inflows.

Assets

Assets in European sustainable funds rose in the first quarter to USD 1,625 billion, up from USD 1,382 billion as of December 2020, a 17.5% increase. This compares with just a 5.6% increase in assets for the overall European fund universe. Sustainable fund assets account for roughly 12% of total European assets. Passive funds accounted for 23% of the European sustainable fund market.

Exhibit 7 European Sustainable Fund Assets (USD Billion)

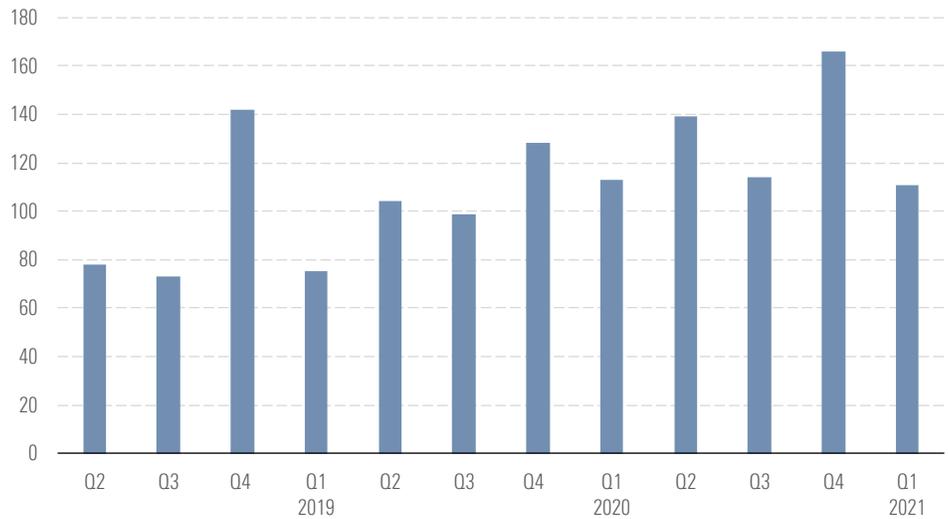


Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Launches

Product development in the first quarter of 2021 remained high. We have so far identified 111 new sustainable fund launches, which is in line with the number of launches in the first quarter of 2020. This represents the funds currently on the Morningstar Direct database as of March 23, 2021. This number may change in the coming quarters as more funds are reported to Morningstar.

The year 2020 set a record, with a total of 532 new sustainable offerings hitting the shelves. And we expected more of the same in 2021 as this high level of sustainable product development continues to be spurred by the European regulator, which aims to divert even more money into sustainable products to meet Europe's Paris Agreement targets. With its Sustainable Finance Action Plan, the European Commission aims to reorient capital toward sustainable activities and align to the EU goal of being net zero carbon emission by 2050.

Exhibit 8.a European Sustainable Fund Launches

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

For more insights on European Sustainable funds:

[European Sustainable Fund Flows: Q1 2021 in Review](#)

[SFDR: The First 20 Days](#)

[European Sustainable Funds Landscape: 2020 in Review](#)

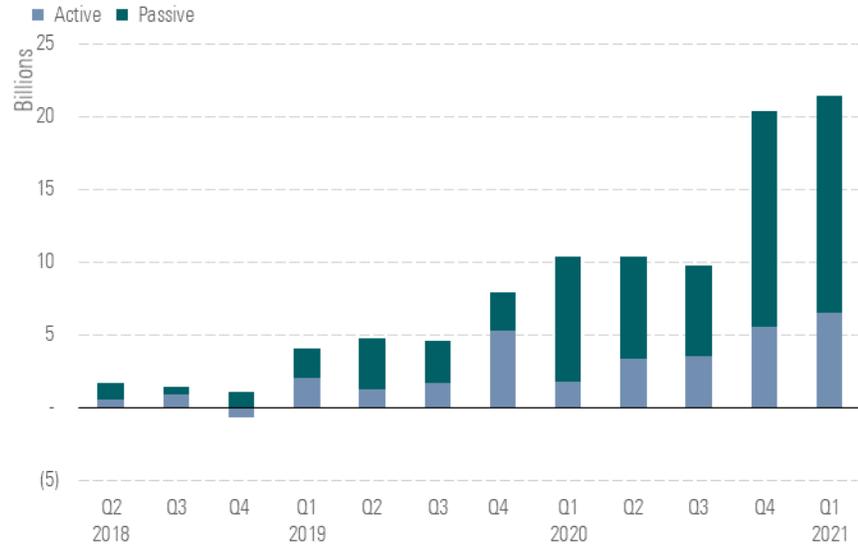
United States

Flows

Once again, sustainable funds in the United States attracted an all-time record level of flows in the first quarter of 2021. In the first three months of 2021, U.S. sustainable funds saw nearly USD 21.5 billion in net inflows. That's slightly more than the previous record, USD 20.5 billion, set in the fourth quarter of 2020, and more than double the USD 10.4 billion seen one year ago, in the first quarter of 2020. It was also about 5 times greater than first-quarter flows in 2019.

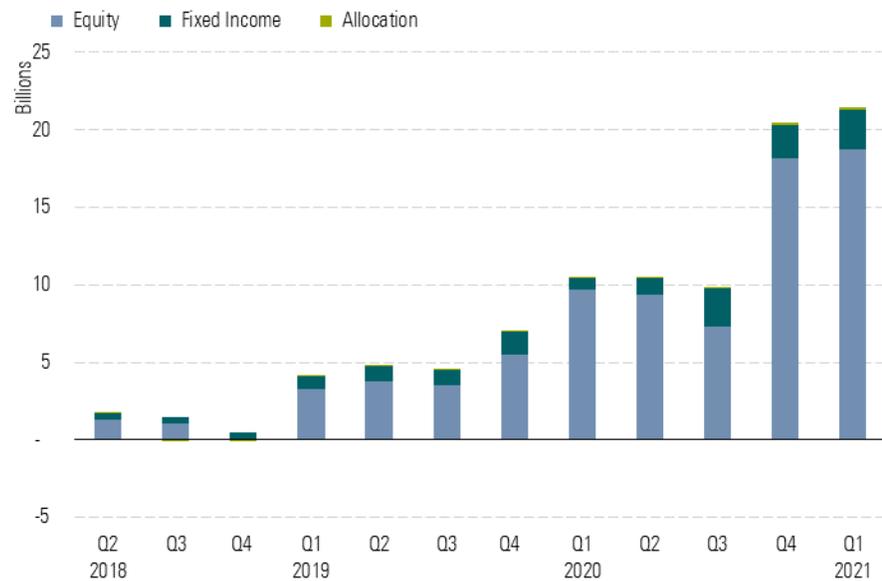
Once again, sustainable passive funds dominated their active peers in attracting flows. During the first quarter of 2021, passive funds claimed nearly USD 15 billion, or 70% of all U.S. sustainable flows. That split is fairly consistent with the average for 2020.

Exhibit 9 U.S. Sustainable Fund Flows (USD Billion)



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

Exhibit 10 U.S. Sustainable Fund Flows by Asset Class (USD Billion)



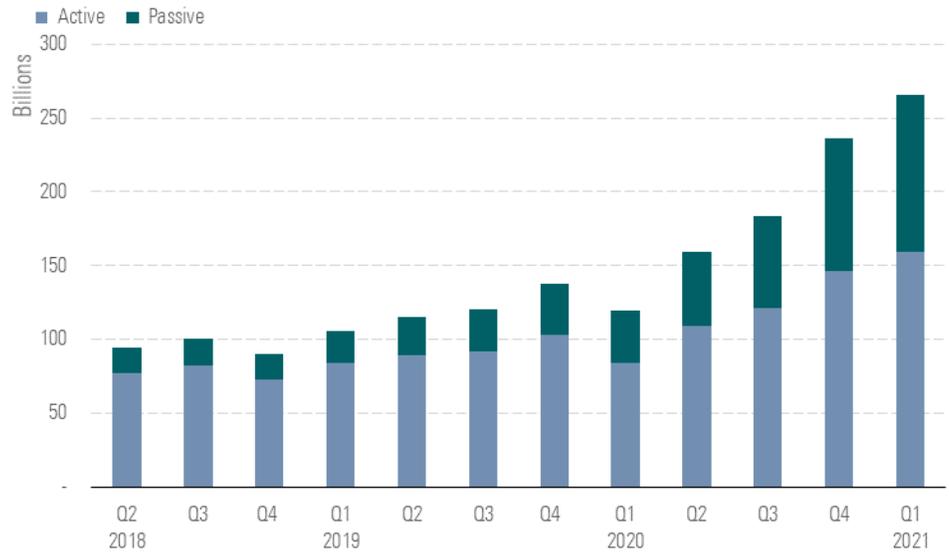
Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

The five funds attracting the most flows in the first quarter of 2021 were all passive equity funds. Four of those were also in the top five for the fourth quarter of 2020: iShares Global Clean Energy ETF ICLN, iShares ESG Aware MSCI USA ETF ESGU, First Trust Nasdaq Clean Edge GreenEnergy ETF QCLN, and iShares ESG Aware MSCI EM ETF ESGE. Once more, iShares dominated the top five, with four funds collectively netting more than USD 5 billion in the first quarter.

Assets

Assets in U.S. sustainable funds have stayed on a steady growth trajectory. As of March 2021, assets totaled nearly USD 266 billion. That’s a 12% increase over the previous quarter and a 123% increase year over year. Active funds retained the majority (60%) of assets, but their market share is shrinking. Three years ago, active funds held 82% of all U.S. sustainable assets.

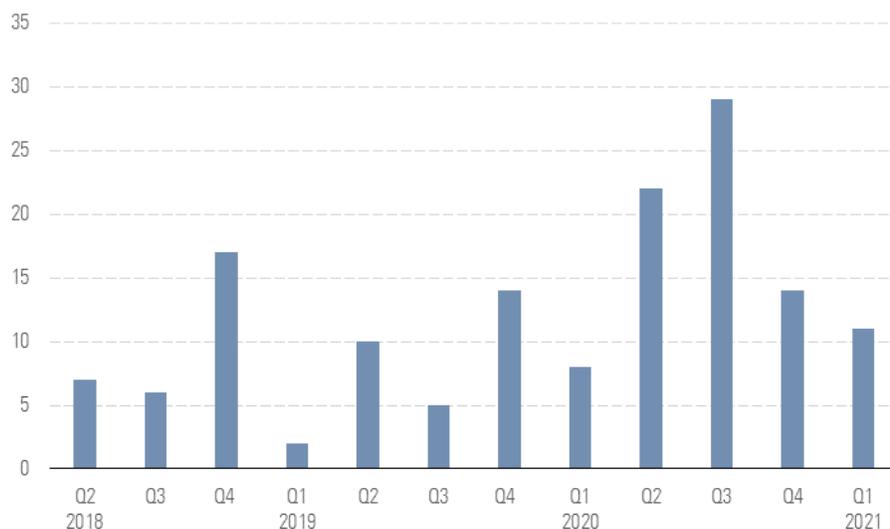
Exhibit 11 U.S. Sustainable Fund Assets (USD Billion)



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

Launches

As U.S. flows into sustainable funds have gained traction, asset managers have responded by growing their sustainable fund lineups. In the first quarter of 2021, 11 funds with sustainable mandates were launched in the U.S. Of those 11, 10 were equity funds and eight were ETFs. Once again, most of the new sustainable funds available in the U.S. are actively managed offerings. Two of the new funds target hydrogen power, an emerging focus for renewable energy investors: Direxion Hydrogen ETF HJEN and Defiance New Gen H2 ETF HDRO.

Exhibit 12 U.S. Sustainable Fund Launches

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

Most of the new options available to investors were launched with sustainable mandates, but firms also occasionally change the investment strategies of existing funds to target sustainable outcomes. In the first quarter of 2021, three AMG funds were repurposed to coincide with subadvisor changes on the funds. The largest fund repurposed in the first quarter was the USD 1 billion AMG GW&K ESG Bond MGFIX, formerly AMG Managers Loomis Sayles Bond Fund.

The new offerings and the repurposed funds brought the total number of open-end and exchange-traded funds in the U.S. to 409 at the end of the quarter.

For more insights on the U.S. Sustainable Funds Market:

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

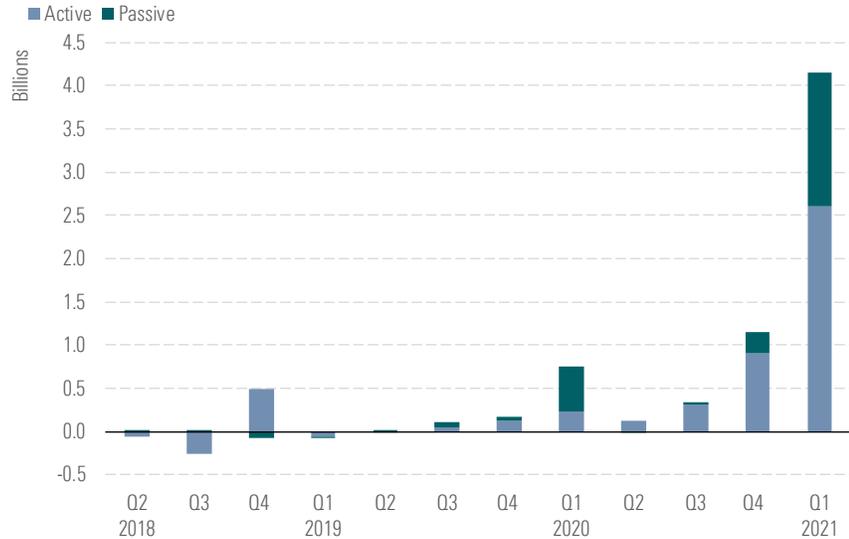
Canada

Flows

The first three months of the year saw estimated net inflows of USD 4.1 billion. As can be seen in Exhibit 13, these record inflows have substantially surpassed any observed flows over the prior three years among sustainable funds in Canada.

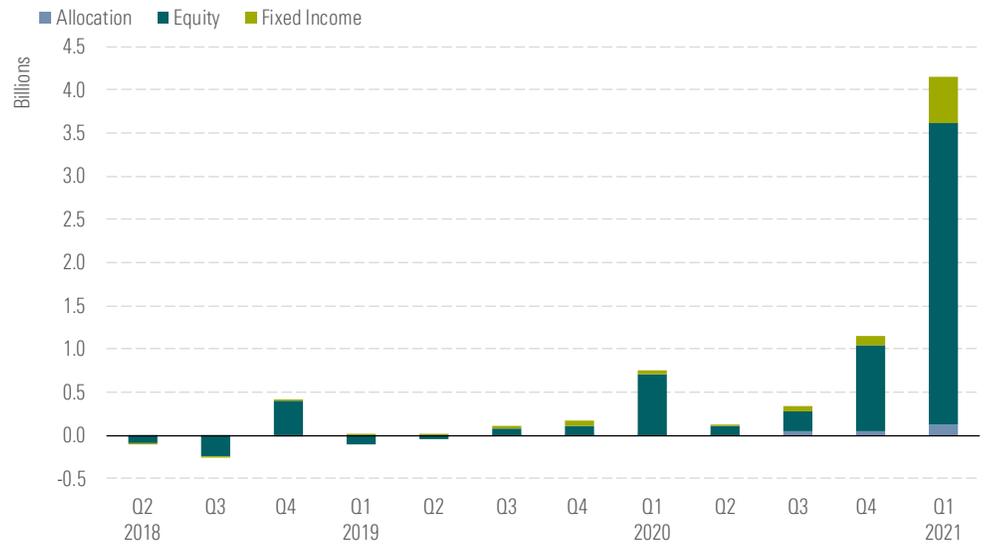
The flows observed over the first quarter saw contributions from Canada's sustainable heavyweights. Funds from Mackenzie, National Bank of Canada, Desjardins, RBC, and NEI Investments were among the top contributors to net inflows over this time frame. Moreover, the net inflows primarily fell into equity funds, largely matching with the relative abundance of available funds in this space.

Exhibit 13 Canadian Sustainable Fund Flows (USD Billion)



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

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



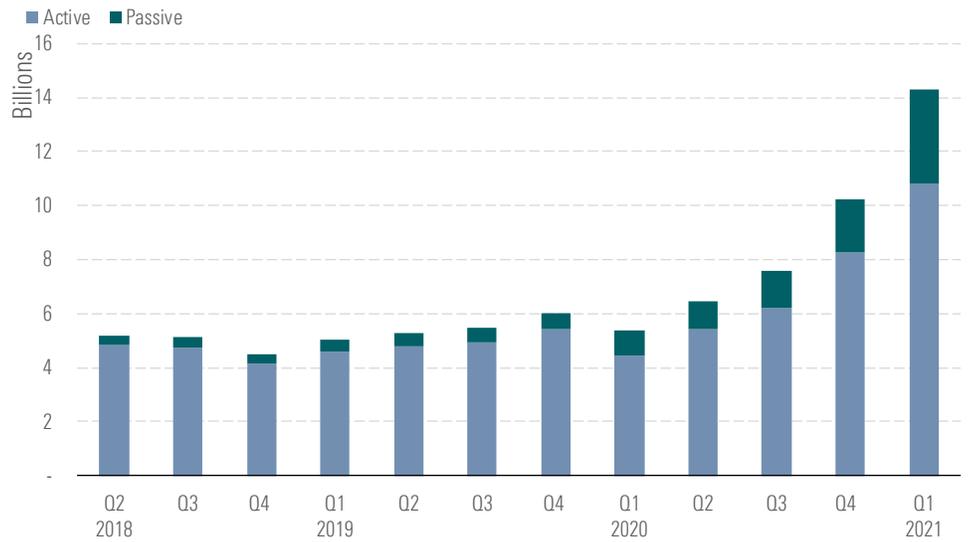
Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Assets

The first quarter saw explosive growth in assets invested in sustainable products from Canada-domiciled fund managers. Morningstar's data show these assets grow to a total of USD 14.2 billion at the end of the quarter, representing a quarter-over-quarter growth rate of 51% and a year-over-year growth rate of whopping 160%. Notably, passive assets grew by 105% over the first quarter, while active assets grew by 40%.

Along a similar vein, the distribution of sustainable assets continues to skew heavily toward equity products, which grew by 51%. Fixed-income products continue to represent a smaller piece of the sustainable fund landscape, but even these assets grew by 59% over the first quarter despite the continued ultra-low interest-rate environment.

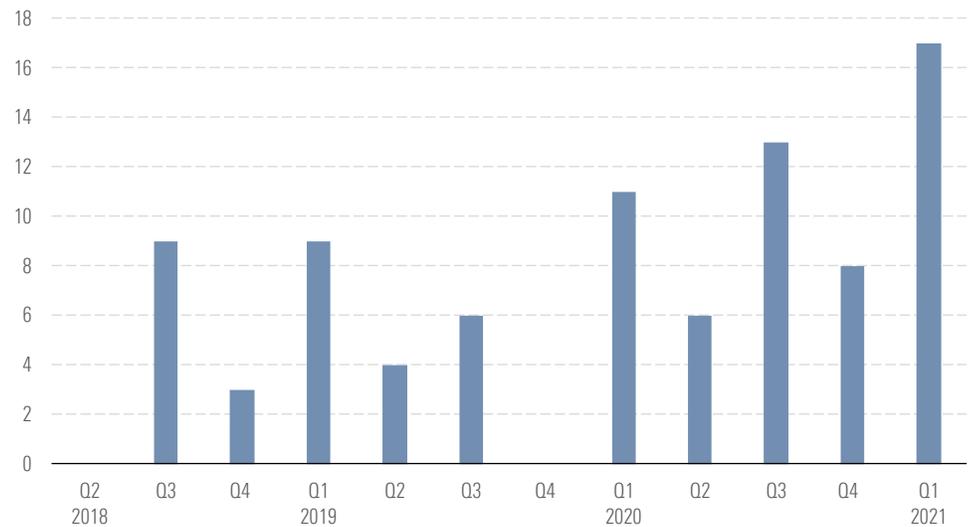
Exhibit 15 Canadian Sustainable Fund Assets (USD Billion)



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

Launches

The start of 2021 seemed to showcase further accelerated growth in the launch of new sustainable products to market. In the past quarter, 17 new sustainable products were brought to market, which is already just shy of half the number launched over the whole of last year. Of these 17 new products launched, seven were passive products—echoing a similar split seen over the prior calendar year, with roughly half of new launches in 2020 coming to market as indexed products.

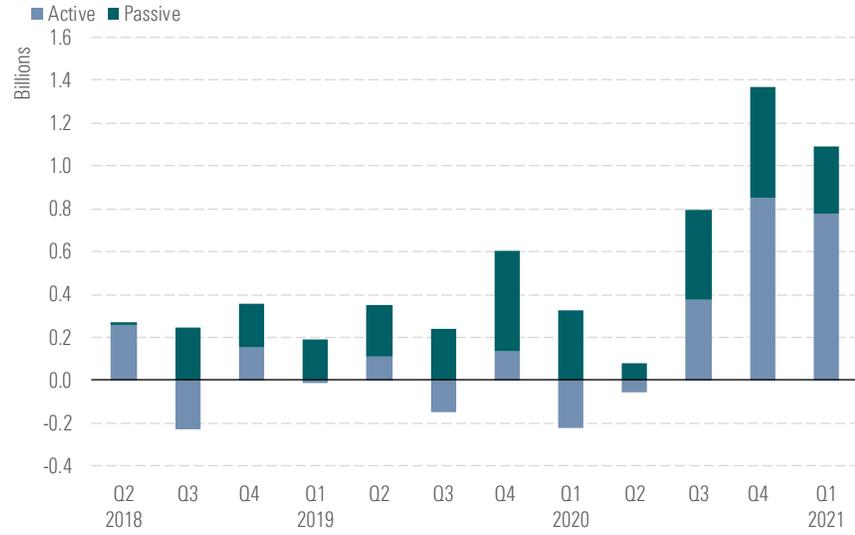
Exhibit 16 Canadian Sustainable Fund Launches

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

Australia and New Zealand**Flows**

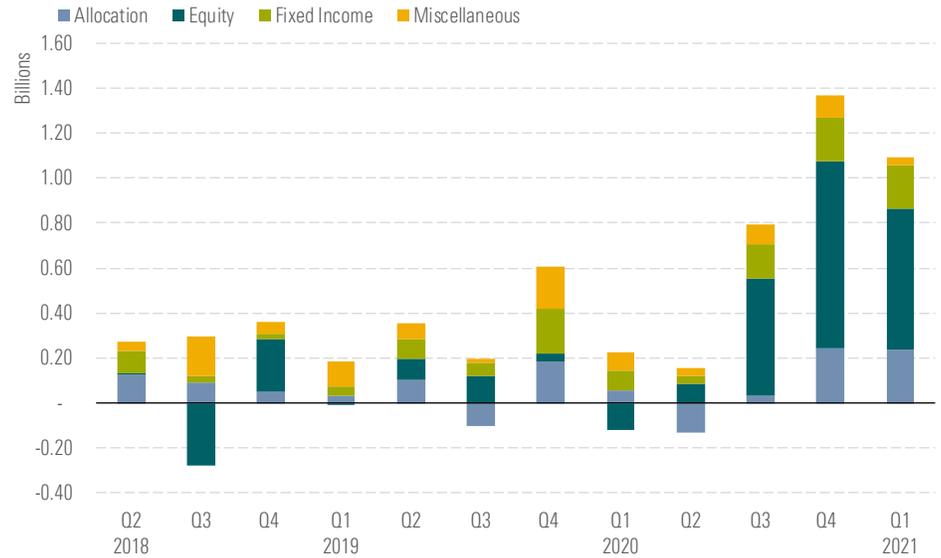
The Australasian (Australia and New Zealand) sustainable funds universe attracted inflows of USD 1.09 billion in the first quarter of 2021. This represents a greater than 20% reduction in quarterly flows from those experienced in fourth-quarter 2020. Of inflows, 71% went into active products (USD 774 million), with passive strategies (USD 315 million) receiving 29% of flows. The predominance of flows to active funds is a departure from recent quarters, when passive flows have matched or exceeded those of active managers. Five fund houses dominated fund flows, with BetaShares (USD 169 million), Dimensional (USD 147 million), Australian Ethical (USD 138 million), Pandal (USD 136 million) and Vanguard (USD 109 million) accounting for the majority of inflows for the quarter. Equity managers captured the bulk of inflows over the quarter, with USD 622.8 million, well ahead of the USD 240 million accumulated by allocation strategies and the USD 192 million by fixed-income strategies.

Exhibit 17 Australian and New Zealand Sustainable Fund Flows (USD Billion)



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

Exhibit 18 Australian and New Zealand Sustainable Fund Flows by Asset Class



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

Assets

Assets in Australasian sustainable funds increased in first-quarter 2021, amounting to a record USD 21.19 billion, up from a revised USD 20.02 billion at the close of fourth-quarter 2020, a 6% increase. The Australian sustainable funds market remains quite concentrated, with the top 15 funds accounting for 51% of total assets in the sustainable fund universe. Australian Ethical remains the dominant Australasian provider of sustainable funds, with total assets of USD 4 billion on the Morningstar database. With more intensive data collection, we now count 130 strategies in our Australasian sustainable fund universe.

Exhibit 19 Australian and New Zealand Sustainable Fund Assets (USD Billion)

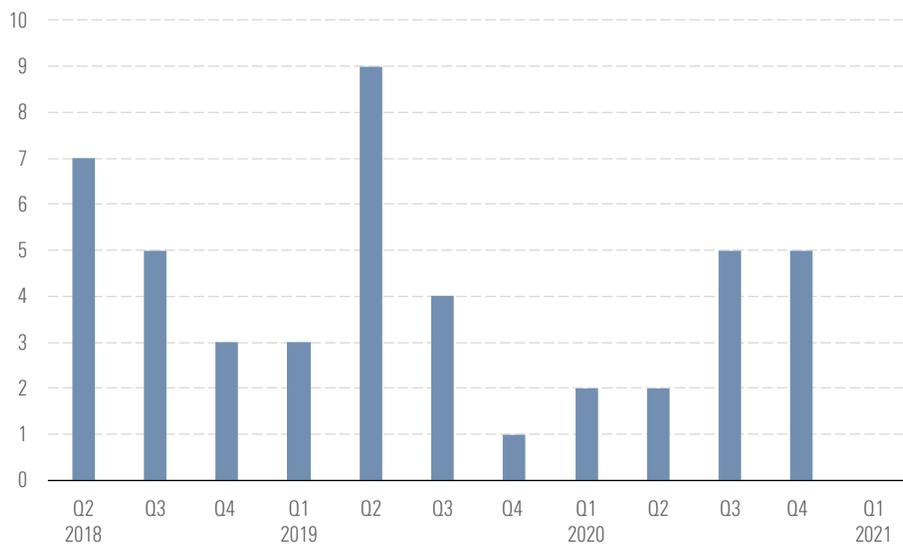


Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Launches

There were no new sustainable funds launched in first-quarter 2021. The **Regnan Global Equity Impact Solutions** strategy has raised USD 108 million since its launch in fourth-quarter 2020. The launch of the Regnan fund was a positive development, given the lack of Impact investment options in the Australasian market. The sustainable funds universe does not contain the growing number of Australasian funds that now formally consider ESG factors in a nondeterminative way in their security selection (funds commonly known as *ESG-integrated funds*).

Exhibit 20 Australian and New Zealand Sustainable Fund Launches



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

Japan

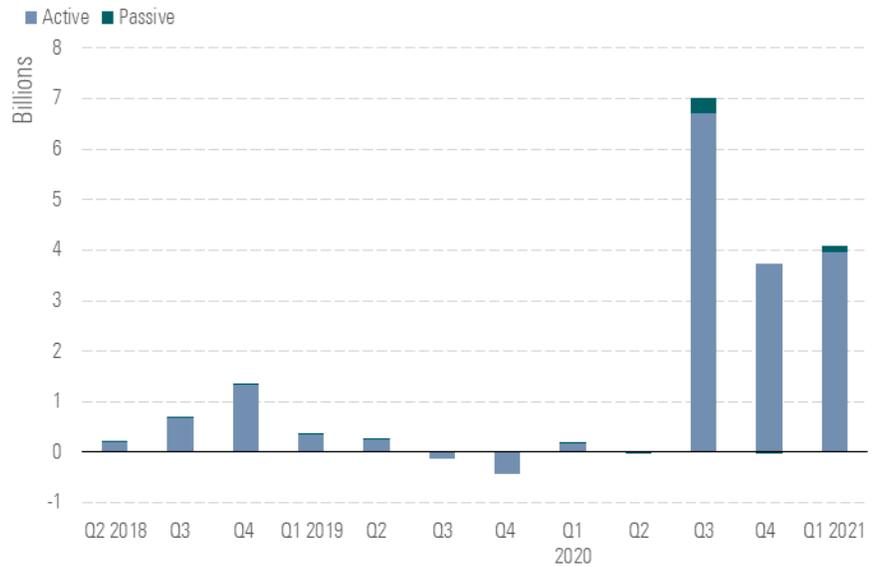
Flows

The Japanese sustainable fund market recorded inflows of USD 4.1 billion in the first quarter of 2021. Actively managed equity funds continued to be the main driver of inflows, where 97% of inflows came from active funds. In terms of asset class, 92% of inflows tumbled into equity funds. Nine out of the top 10 funds in terms of inflows in the quarter were actively managed equity funds.

New funds tend to drive inflows in Japan, and the first quarter of 2021 was no exception. Six out of the top 10 inflows funds in the quarter were launched in the past one-year period, including three funds launched in first quarter of 2021. Inflows continued to the actively managed **AMOne Global ESG High Quality Growth Equity Fund**, launched in July 2020, which gathered USD 1.2 billion of inflows during the quarter.

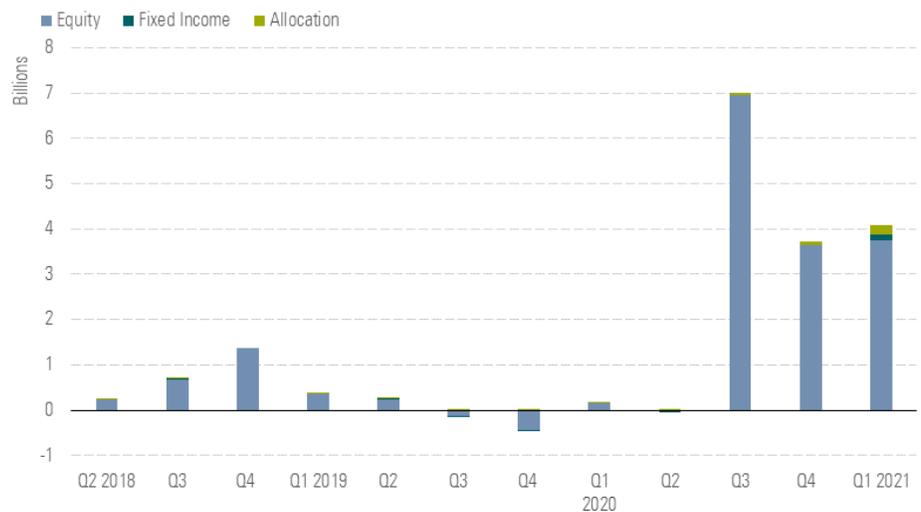
It should be noted that there is a possibility of double-counting here. We include Japan-domiciled funds of funds and feeder funds in this review to better reflect the actual flow situation in the Japanese fund market, as many Japanese funds of funds are invested in European funds.

Exhibit 21 Japanese Sustainable Fund Flows (USD Billion)



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

Exhibit 22 Japanese Sustainable Fund Flows by Asset Class (USD Billion)

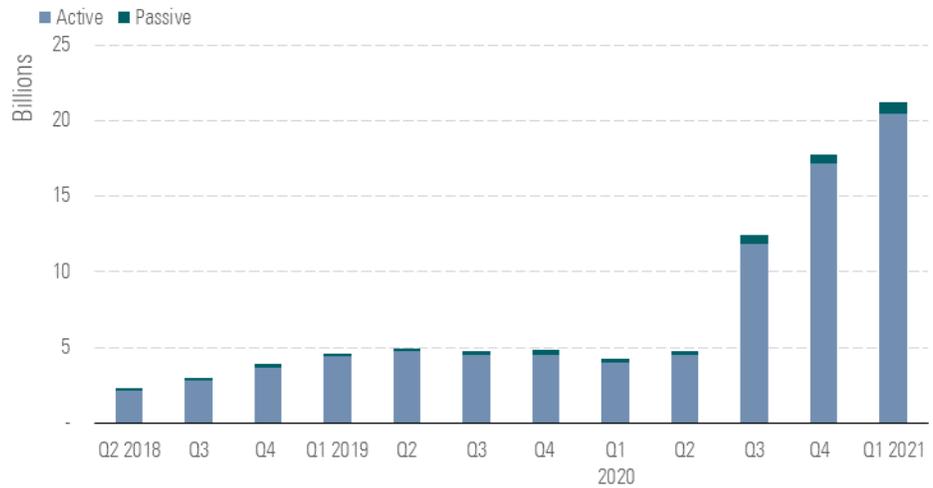


Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Assets

Assets in sustainable funds increased by 20% to USD 21.2 billion as of March 2021 compared with the previous quarter-end. Ninety-seven percent of sustainable funds were equity funds and 97% were actively managed funds. Inflows to 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 23 Japanese Sustainable Fund Assets (USD Billion)

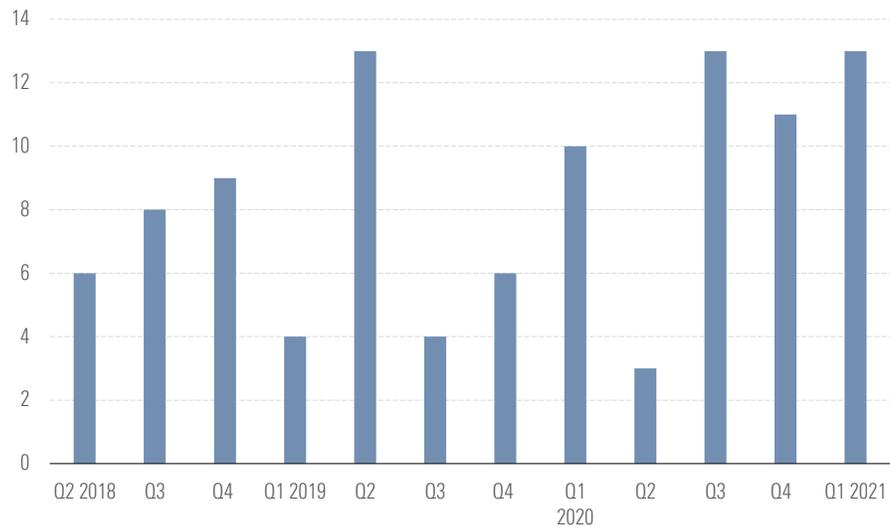


Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Launches

Thirteen new sustainable funds came to the Japanese market in first-quarter 2021, including 10 active funds and three index funds. Flows into these newly launched funds were USD 959 million in total, contributing to the overall inflows. Two **Alliance Bernstein World SDGs Equity Funds** were launched in January 2021. The funds gathered USD 520 million of inflows in total, contributing to over half of the inflows to newly launched funds.

Exhibit 24 Japanese Sustainable Fund Launches



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

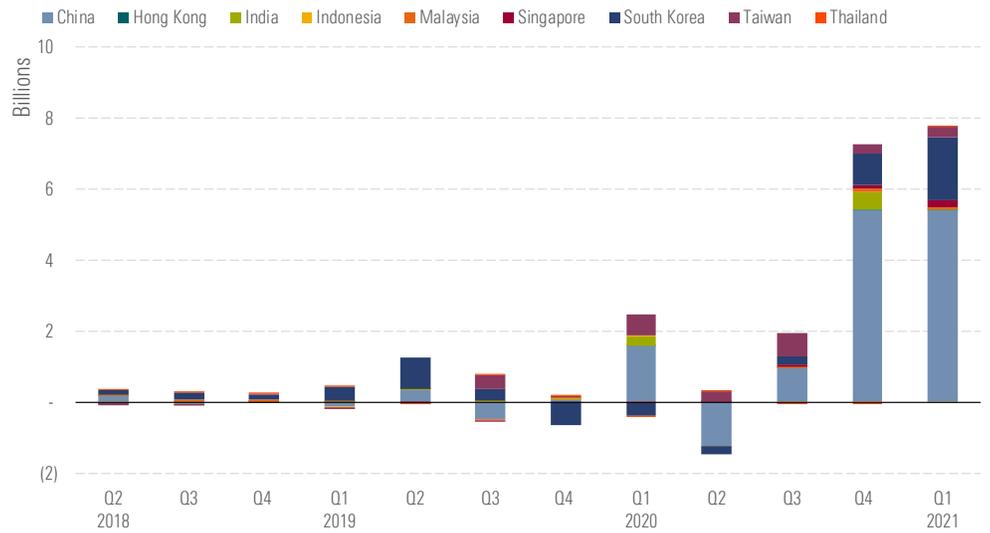
Asia ex-Japan

As China data is not available, we have used last quarter’s (fourth-quarter 2020) data as a proxy for this quarter’s estimation.

Flows

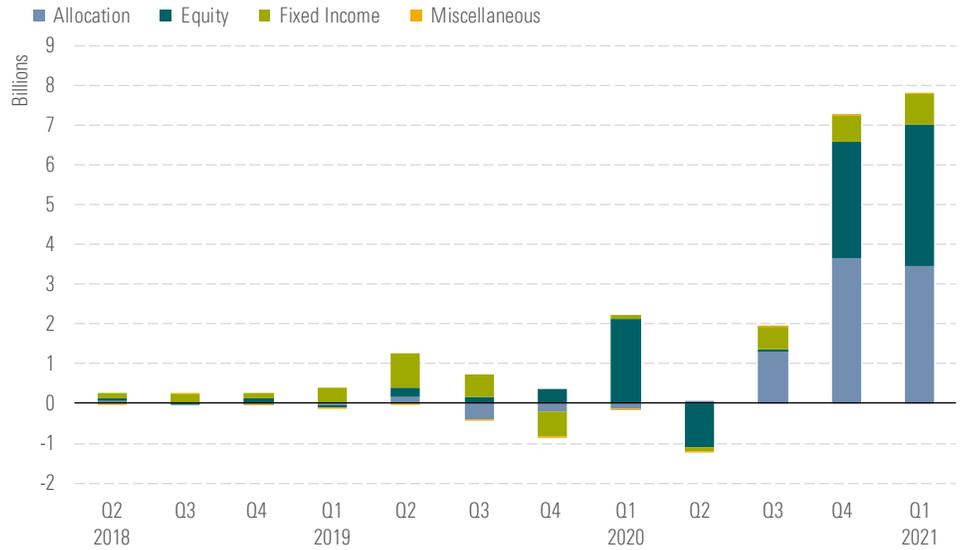
Besides China, South Korea experienced strong inflows of USD 1.8 billion, which helped raise the rest of Asia, excluding China inflows, by 27% in the first quarter of 2021.

Exhibit 25 Asia ex-Japan Sustainable Fund Flows (USD Billion)



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

Exhibit 26 Asia ex-Japan Sustainable Fund Flows by Asset Class (USD Billion)

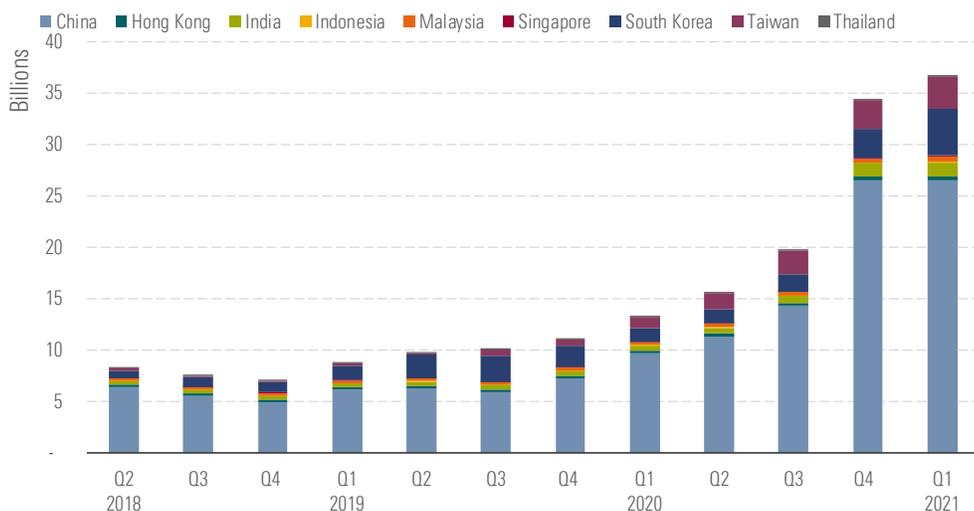


Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Assets

Outside of China, South Korea was the second-largest market by asset size in the first quarter of 2021, with a growth of 59% over the previous quarter as interest in sustainability investment increased significantly since the South Korean government declared the "2050 Carbon Neutralization Strategy" in December 2020. Taiwan, Malaysia, and Singapore also recorded strong steady growth. Excluding China, the rest of Asia witnessed asset growth of 28% over the previous quarter, leading to assets worth USD 10 billion at the end of the first quarter of 2021.

Exhibit 27 Asia ex-Japan Sustainable Fund Assets (USD Billion)



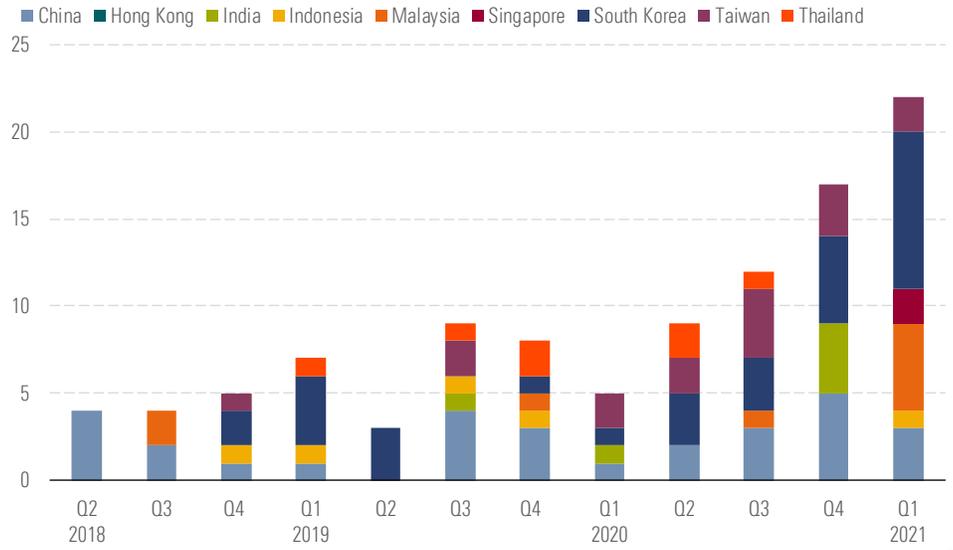
Source: Morningstar Direct, Morningstar Research. Data as of March 2021.

Launches

In total, the new launch pipeline for the first quarter of 2021 remained robust, with 17 funds across the region. South Korea led the region with a total of nine new ESG fund launches, four of which were ETFs with a focus on climate change, namely **Carbon Efficient Green New Deal Tracking KRX** and **Carbon-Efficient Green New Deal Index**. The Korean Stock Exchange developed the carbon-efficient Green New Deal in November 2020 in collaboration with S&P Dow Jones Indices. It consists of 260 KOSPI and 223 KOSDAQ stocks encouraged to cut carbon emissions.

Malaysia saw a significant amount of new launches, too, with five new ESG funds for the quarter. Although Malaysia raised USD 105 million from these new launches, the bulk of it (USD 80 million) was from one of Malaysia’s largest asset-management firms, Public Mutual, with its Public e-Carbon Efficient product. The remaining new launches in the region were three from China, two fixed-income funds from Taiwan, two from Singapore, and one from Indonesia.

Exhibit 28 Asia ex-Japan Sustainable Fund Launches



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



About Morningstar Manager Research

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