Global Sustainable Fund Flows
ESG funds show resilience during COVID-19 sell-off.

Key Takeaways
► Sustainable funds showed resilience during the coronavirus pandemic market sell-off. Driven by growing investor interest in environmental, social, and governance issues, the global sustainable fund universe pulled in USD 45.6 billion in the first quarter of 2020. This compares with an outflow of USD 384.7 billion for the overall fund universe.
► Global sustainable fund assets stood at USD 841 billion as of the end of March, down 12% from an all-time high of USD 960 billion at the close of 2019. Assets in the global fund universe took a greater hit, declining by 18%. Bucking the overall trend, sustainable fund assets in Asia ex-Japan were up 21% to USD 7.7 billion, bolstered by new fund launches.
► Europe continued to dominate the space, housing 76% of the global sustainable offerings and 81% of the assets, but investor interest in other regions is growing. The United States accounted for a higher proportion of global inflows compared with previous quarters.
► Product development in the first quarter of 2020 stood strong, with 102 new offerings. Asset managers also continued to repurpose conventional products into sustainable funds. In Europe, 24 funds converted and rebranded over the quarter to make their new sustainable mandates more visible to the public.

The Global Sustainable Fund Universe
The flow data encompasses 3,297 open-end funds and exchange-traded funds globally that use ESG criteria as a key part of their security-selection process and/or indicate that they pursue a sustainability-related theme and/or seek a measurable positive impact alongside financial return. The sustainable funds group does not contain funds that employ only limited exclusionary screens without a broader emphasis on ESG, nor does it contain the growing number of funds that now formally consider ESG factors in a nondeterminative way in their security selection. For this review, 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 funds universe and details regional flows, assets, and launches for the first quarter of 2020. A summary is provided in Exhibit 1.
Exhibit 1  Global Sustainable Funds Statistics

<table>
<thead>
<tr>
<th>Region</th>
<th>Q1 2020 Flows</th>
<th>Total Assets</th>
<th>Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD billion</td>
<td>USD billion</td>
<td>#</td>
</tr>
<tr>
<td></td>
<td>% Total</td>
<td>% Total</td>
<td>% Total</td>
</tr>
<tr>
<td>Europe</td>
<td>33.14</td>
<td>683.87</td>
<td>2,528</td>
</tr>
<tr>
<td></td>
<td>72.4</td>
<td>81.7</td>
<td>76.7</td>
</tr>
<tr>
<td>United States</td>
<td>10.45</td>
<td>119.33</td>
<td>307</td>
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<tr>
<td></td>
<td>22.8</td>
<td>14.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Japan</td>
<td>0.17</td>
<td>13.52</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td>0.4</td>
<td>1.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
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<td>7.94</td>
<td>86</td>
</tr>
<tr>
<td></td>
<td>0.7</td>
<td>0.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Canada</td>
<td>0.77</td>
<td>5.26</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>1.7</td>
<td>0.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>0.90</td>
<td>7.46</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>2.0</td>
<td>0.9</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45.76</strong></td>
<td><strong>837.37</strong></td>
<td><strong>3,297</strong></td>
</tr>
</tbody>
</table>


Global Flows

The global sustainable universe attracted USD 45.6 billion in net flows in the first quarter of 2020. Europe took in the bulk of it (72.5%) but less (in both amount and percentage terms) than in previous quarters. The U.S. accounted for close to 23% of first-quarter 2020 inflows. Flows in the rest of the world were considerably lower, clocking in at only USD 2.1 billion, but equally represented a higher proportion of global flows compared with previous quarters.

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

Global inflows were down 27% from fourth-quarter 2019 but still up 90% on first-quarter 2019. Also, these inflows compare with outflows of USD 384.7 billion for the overall fund universe.
Global Sustainable Fund Flows
May 2020
See Important Disclosures at the end of this report.

Global Assets Drop Amid COVID-19 Crisis
As a result of the COVID-19 market shock, assets in global sustainable funds fell 12% to USD 837 billion at the end of first-quarter 2020, from a record high of USD 960 billion at the close of 2019. But assets in the global fund universe took a greater hit, declining by 18%.

The continued inflows in first-quarter 2020 speak of the stickiness of ESG investments. Investors in sustainable funds are typically driven by their values, invest for the long term, and seem to be more willing to ride out periods of bad performance.

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

![Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)](image)


The past three years have seen a steady increase in assets in sustainable funds. Assets remain dominated by Europe, accounting for over 80% of the global sustainable fund universe owing to its long history of responsible investing and its favorable regulatory environment. With currently 2,528 sustainable funds available and many more that now formally consider ESG factors in a non-constraining way to mitigate risk and/or find opportunities, Europe is by far the most developed and diverse ESG market.

Global Fund Launches
Product development in the first quarter of 2020 stood strong, despite the lower number of sustainable funds brought to market relative to the previous quarter. The 102 new offerings in first-quarter 2020 compares positively with the 85 fund launches in first-quarter 2019.

The launches in countries outside of Europe and the U.S. (Rest of World in Exhibit 4) took up a larger proportion when compared with assets, indicating an increased desire from asset managers to promote sustainable investing outside of the two largest markets.
Despite the COVID-19 market sell-off in March, the European sustainable funds universe attracted inflows of USD 33 billion in the first quarter of 2020 (Exhibit 5). This contrasts with the USD 163 billion in outflows suffered by the overall European fund universe.

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Five environment- and climate-related offerings — BlackRock ACS World Low Carbon Equity Tracker, Pictet - Global Environment Opportunities, Anima Investimento Circular Economy, Eurizon Absolute Green Bonds, and Nordea 1 - Global Climate & Environment were among the best-selling sustainable funds in the first quarter, claiming USD 3.8 billion in combined flows. This is testament to the growing awareness among investors of the risks and opportunities arising from climate change. We expect flows into climate-aware funds to continue their upward trajectory in the coming years, supported by significant regulatory developments, including the EU Action Plan on Sustainable Finance.
Exhibit 5 European Sustainable Fund Flows (USD Billion)


Assets
Assets in European sustainable funds dropped in first-quarter 2020, amounting to USD 684 billion, down from a record high of USD 779 billion at the close of 2019, a 12% decline. This compares with a 16.2% reduction in assets for the overall European fund universe.

Exhibit 6 European Sustainable Fund Assets (USD Billion)

Launches
Product development in the first quarter of 2020 showed a continued rise consistent with the first quarter of 2019, with 72 new sustainable funds coming to market, although down from 120 in the previous quarter. A dozen new offerings relate to the climate change theme. Examples include Lyxor MSCI USA Climate Change ETF, NN (L) Corporate Green Bond I Cap EUR, and Pimco GIS Climate Bond.

Exhibit 7 European Sustainable Fund Launches


Meanwhile, asset managers continued to convert existing funds to sustainable investment offerings and incorporate new specific ESG criteria into their investment objectives. In the first quarter of 2020, 24 funds rebranded to make their new or not-so-new sustainable mandates more visible to the public. Examples include Schroder Sustainable Strategy Fund, previously named Schroder Strategy Fund, which states in its prospectus that the fund's investments as a whole are characterized by good corporate governance, responsible management, and adequate consideration of social and ecological factors. Amundi Funds European Equity Target Income was changed to Amundi Funds European Equity Sustainable Income and now aims for an improved environmental footprint and sustainability profile compared with the MSCI Europe Index by integrating ESG factors.

To read more on European sustainable funds:
European Sustainable Funds Prove Resilient Amid COVID-19 Sell-Off in Q1
European Sustainable Funds Landscape
Surge in Funds Rebranding as Sustainable
United States

Flows
Despite the sudden descent of equities into a bear market halfway through the quarter, flows into open-end and exchange-traded sustainable funds domiciled in the U.S. reached USD 10.5 billion in the first quarter, easily eclipsing the previous quarterly record set in 2019’s fourth quarter.

The global pandemic did have an impact, as flows moderated over the course of the quarter. In January, flows were USD 5.2 billion, an all-time monthly record. In February, flows cooled to USD 3.7 billion. And in March, which began with the market meltdown more than a week old, flows slowed further but remained positive at USD 1.6 billion.

Close to 80% of net flows went to passive funds. That is up from last year's 60%.

While equity fund flows stayed positive all three months, fixed-income funds experienced outflows in March, mirroring the overall trend for fixed-income funds, which may have been driven by factors like quarter-end rebalancing after the sharp decline of equities and the need to raise cash in the new environment.

Assets
Assets in U.S. sustainable funds dropped in first-quarter 2020, amounting to USD 119 billion, down from USD 137 billion at the close of 2019, a 13% decline. This compares with a 17.4% reduction in assets for the overall U.S. fund universe.
Launches
Product development in the United States continued with six sustainable funds launched in the first quarter of 2020. These include the iShares ESG MSCI EM Leaders ETF, which garnered an astonishing USD 634 million, Direxion MSCI USA ESG Leaders vs Laggards ETF, and Ashmore Emerging Markets Equity ESG.

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


Exhibit 10 U.S. Sustainable Fund Launches

To read more on U.S. sustainable funds:

*Despite the Downturn, U.S. Sustainable Funds Notch a Record Quarter for Flows*

*Sustainable Funds Weather the First Quarter Better Than Conventional Funds*

*Sustainable Funds U.S. Landscape Report*

**Canada**

**Flows**

Flows into sustainable funds domiciled in Canada were positive in all three months in the first quarter, with an exceptional inflow of USD 500 million in March alone. Desjardins Global Asset Management, in particular, had the highest net inflows in March.

Similar to the U.S., Canada’s first-quarter inflows were dominated by passive funds. ESG ETFs and index funds attracted about two thirds of the total quarterly inflows.

**Exhibit 11** Canadian Sustainable Fund Flows (USD Million)

![chart]

*Source: Morningstar Direct, Manager Research. Data as of March 2020.*

**Assets**

Net assets in Canadian sustainable funds peaked in January, hitting USD 5.9 billion before falling slightly to USD 5.3 billion after the influence of the pandemic. This 10.2% decline compares with the larger slump of 14.4% for the overall Canadian fund market.

Although sustainable fund assets are still small in Canada, representing less than 1% of the open-end investment space, they are held largely by three firms: NEI Investments, RBC Global Asset Management, and Desjardins. Together, these firms control 70% of assets invested in sustainable products.
Performancewise, the majority of sustainable funds in Canada outpaced their peers over the first quarter. Of the 86 funds identified by Morningstar, a whopping 66 placed in the top half of their respective category peers.

Launches
New fund launches were damped in the first quarter of the year by the unexpected impact of the coronavirus. This said, there were 12 new sustainable fund launches over the first quarter, which actually made up the majority of new funds launched in Canada over this period. Notably, BMO launched a suite of seven ESG-focused ETFs in the first quarter to append to its existing arsenal.
Australia and New Zealand

Flows
The Australasian (Australia and New Zealand) sustainable funds universe attracted inflows of USD 319 million in the first quarter of 2020 (Exhibit 14). These inflows were split roughly evenly between active and passive strategies. Two fund houses, Russell Investments (Russell Inv Australian Responsible Investment ETF and Russell Investments Low Carbon Global Shares A) and Australian Ethical (Australian Ethical Balanced, Australian Ethical Income, and Australian Ethical Intl Share) accounted for most of the inflows for the quarter.

Exhibit 14 Australian and New Zealand Sustainable Fund Flows (USD Million)

Assets
Assets in Australasian sustainable funds dropped in first-quarter 2020, amounting to USD 7.94 billion, down from USD 10.27 billion at the close of 2019, a 23% decline. This compares with a 17% reduction in equity assets (the vast majority of sustainable funds being equity-focused) for the overall Australasian fund universe.

With only 75 sustainable funds domiciled in Australia, that market remains quite concentrated. The top 10 funds account for 54% of total assets in the sustainable fund universe. The largest three funds are the Australian Ethical Balanced fund at just over USD 1 billion, the AMP Capital Ethical Leaders Balanced fund at USD 482 million, and the Australian Ethical Australian Shares funds with USD 439 million. There are only 11 sustainable funds domiciled in New Zealand, the largest being the AMP Capital Ethical Leaders Global Shares fund with USD 39 million in assets.
The market share of passive sustainable funds has slightly decreased to 16% from 17.3% at the end of 2019. It remains higher than 12% from three years ago.

Launches
After a flurry of sustainable fund launches in 2018 and the first half of 2019, launches have dried up in the Australasian market, with no sustainable fund launches in first-quarter 2020. The sustainable funds group does not contain the growing number of Australasian funds that now formally consider ESG factors in a nondeterminative way in their security selection.
Japan

Flows
Following two quarters of outflows, the Japanese sustainable fund market recorded inflows of USD 174 million, driven by new product launches. USD 166 million flowed into 10 newly launched funds during this period. Namely, the SMDS Food Innovation Selected Equity Fund garnered USD 73 million when it was launched in February 2020. The fourth quarter of 2018 marked the biggest fund flows in a single quarter with nearly USD 1.4 billion, bolstered by Nomura Asset Management’s newly launched ACI AdvMed Impact fund series, which alone pulled inflows of USD 1.1 billion during the quarter.

Exhibit 17 Japanese Sustainable Fund Flows (USD Million)

Assets
Assets in sustainable funds declined by 8% to USD 13.5 billion as of March 2020, from a record high of USD 14.7 billion at the end of 2019. Most of the Japanese sustainable funds are actively managed, consisting over 90% of total sustainable fund assets.
Launches

Product development picked up in first-quarter 2020, with 10 new sustainable funds coming to the Japanese market. These include the Daiwa Clean Tech Eq Green Bond Asset Growth, MAXIS Carbon Efficient Japan Equity ETF, and the Nomura MS Global Sustainable Strategy Fund. In Japan, new fund launches tend to drive positive fund flows, and the consistent new sustainable fund launches since 2017 have been the main drivers of fund flows and asset growth.

Exhibit 18 Japanese Sustainable Fund Assets (USD Billion)


Exhibit 19 Japanese Sustainable Fund Launches

Asia ex-Japan

Flows
The rest of Asia saw record inflows in the first quarter of 2020, driven by Taiwan, and one fund in particular: Taiwan’s PineBridge Global ESG Quant Bond fund, which garnered USD 429 million in new money.

Indian funds experienced record inflows of USD 507 million in first-quarter 2020, supported by Axis ESG Equity, which received USD 239 million in inflows. Equally, China and South Korea registered positive flows, pulling in USD 61 million and USD 14.5 million, respectively, after two quarters of outflows.

Exhibit 20 Asia ex-Japan Sustainable Fund Flows (USD Million)

Assets
Bucking the trend in other parts of the world, sustainable fund assets in Asia ex-Japan grew in first-quarter 2020. Assets were up 21%, from USD 6.3 billion at the close of 2019 to USD 7.7 billion at the end of March.

The Asia ex-Japan sustainable fund landscape remains dominated by China, which represents 74% of total assets in the region. Its top three sustainable funds are Ping An-UOB CSI New Energy Car Ind ETF, AEGON-Industrial Social Responsible Fund, and IGW Environment Advantage Stock Fund, with combined assets of USD 2,093 million. Thematic investing is popular among Chinese investors. Thus, of the 45 sustainable funds domiciled in China, 33 offer exposure to a theme such as renewable energy, low carbon, environmental protection, and green transport.
Both Taiwan and India, the second- and third-largest hubs for Asia ex-Japan sustainable funds, also reached new highs in assets at the end of first-quarter 2020 to USD 885 million and USD 507 million, respectively, supported by recently launched PineBridge Global ESG Quant Bond and Axis ESG Equity, which held assets of USD 407 million and USD 205 million, respectively, at the end of March.

Hong Kong and Singapore represent a fraction of the Asia ex-Japan sustainable fund universe, with only USD 234 million and USD 6 million domiciled in these two hubs, respectively. However, these numbers are probably not representative of the growing investor interest in ESG in these two markets. Moreover, it is common for Hong Kong and Singapore investors to buy European UCITS funds. These investors buy not only HKD and SGD-denominated share classes but also those denominated in USD and EUR. It is therefore a challenge to determine how much money in sustainable funds is held by investors in these two markets.

Affected by the COVID-19 crisis, South Korean sustainable fund assets fell by a fifth in first-quarter 2020 to USD 272.2 million. The South Korean sustainability retail fund market is very small, accounting for a mere 0.2% of the overall Korean fund market. But sustainable investing is gaining ground there, too, as evidenced by the announcement by the National Pension Services in November 2019 of a plan to apply responsible investment policies to all of its funds by 2022, commencing with domestic and foreign stocks and bonds. It is therefore anticipated that ESG in South Korea will grow. Barriers remain, including a lack of consensus on definition of sustainable investing and investment infrastructure, such as research and data.
Launches
Sustainable fund launches in Asia ex-Japan were limited to four in the first quarter of 2020. They included Fullgoal Clean Energy Industry Allocation in China.

In Taiwan, PineBridge Global ESG Quant Bond and TCB 6 Year ESG Senior EM Bond hit the shelves, with a combined USD 486 million in inflows, while Axis ESG Equity made its debut in India with USD 240 million seed capital.

**Exhibit 22** Asia ex-Japan Sustainable Fund Launches

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