European Sustainable Fund Flows: Q1 2021 in Review
Half of new money goes into ESG funds.

Morningstar Manager Research
April 2021

Contents

Hortense Bioy, CFA
Global Director of Sustainability Research
hortense.bioy@morningstar.com

Elizabeth Stuart
Analyst
Sustainability Research, EMEA
elizabeth.stuart@morningstar.com

Samiya Jmili
Analyst
Sustainability Research, EMEA
samiya.jmili@morningstar.com

Andy Pettit Director
Policy Research
andy.pettit@morningstar.com

Key Takeaways

- European sustainable funds attracted inflows of EUR 120 billion in the first quarter of 2021. This is 18% higher than in the previous quarter, and it represents 51% of overall European fund flows.
- The strong inflows were driven by continued investor interest in environmental, social, and governance issues and in climate change in particular. Climate-change-themed funds were again among the best-sellers.
- BlackRock continued to top the leader board in the first quarter of 2021, with over EUR 17.1 billion in net new money, followed at a distance by UBS and Amundi.
- Sustainable fund assets increased by 17.5% over the quarter, reaching a record high of EUR 1.3 trillion.
- Product development remained strong, with the launch of 111 new sustainable funds.
- The focal point of the EU regulatory landscape in the first quarter was the Sustainable Finance Disclosure Regulation, which took effect on 10 March. Based on preliminary data, funds classified as Article 8 and 9 represent close to 24% of total European funds. Classification approaches vary, resulting in a wide range of investment products considered 'green'.

The European Sustainable Fund Universe

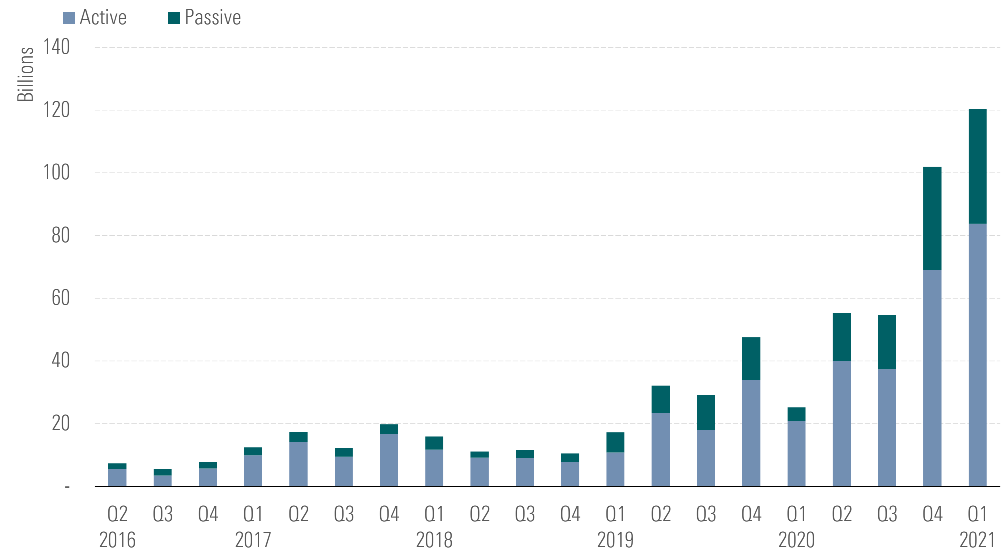
The European sustainable fund universe encompasses open-end funds and exchange-traded funds domiciled in Europe that, by prospectus, fact sheet, or other available resources, claim to have a sustainability objective and/or use binding ESG criteria for their investment selection. The sustainable funds 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.

Quarterly Inflows Continue Their Upward March

In the first quarter of 2021, European sustainable fund flows went up by almost 18% compared with the last quarter of 2020, continuing the strong recovery after the meltdown in the first quarter of last year caused by the coronavirus pandemic. Sustainable funds attracted all-time high inflows of around EUR 120 billion, versus 102 EUR billion in the previous quarter.

Index funds and ETFs garnered EUR 36.5 billion in sustainable fund flows, accounting for 30% of first-quarter flows, up from EUR 32.8 billion in the previous quarter.

Exhibit 1 Quarterly European Sustainable Fund Flows (EUR Billion)



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

Key Drivers of First-Quarter Flows

The steady first-quarter inflows were driven by continued investor interest in ESG issues, especially in the wake of the COVID-19 crisis. The disruption caused by the pandemic has highlighted the importance of building sustainable and resilient business models based on multistakeholder considerations. Another contributing factor to the strong inflows was the continued growth of the sustainable fund universe, in terms of number of products. It grew to 3,444 through March 2021 from 3,196 as of the end of 2020.

Sustainable Funds Garnered More Inflows Than Conventional Peers in the Main Asset Classes

For the second time in the past year, sustainable funds' net flows were ahead of their conventional peers'. The first time was a year ago, in the first quarter of 2020, when the COVID-19 crisis started. At that time, conventional funds registered heavy outflows, while sustainable funds attracted positive inflows. In the first quarter of 2021, sustainable funds once again garnered more money than their conventional peers, capturing 51% of new flows into the overall European fund universe (EUR 119.6 billion out of EUR 233.5 billion).

Exhibit 2 Sustainable Fund Flows Compared With Conventional Fund Flows (EUR Billion)

	Sustainable Funds				Conventional Funds				Overall Fund Universe
	Jan	Feb	Mar	1Q21	Jan	Feb	Mar	1Q21	1Q21
Allocation	4.8	5.4	5.7	16.0	0.7	2.7	7.7	11.1	27.1
Alternative	0.3	0.4	0.1	0.7	-0.1	2.3	-0.5	1.7	2.4
Convertibles	0.1	0.2	0.1	0.4	0.6	1.6	0.2	2.4	2.8
Equity	27.0	21.3	26.3	74.6	23.8	26.6	21.0	71.4	145.9
Fixed Income	6.5	13.1	8.4	28.0	22.4	12.3	-7.1	27.6	55.6
Miscellaneous	0.0	0.0	0.0	0.0	-0.2	-0.9	-1.0	-2.0	-2.1
Property	0.1	0.0	-0.1	0.0	0.5	0.6	0.6	1.7	1.7
	38.8	**40.3**	**40.5**	**119.6**	**47.8**	**45.1**	**21.0**	**113.8**	**233.5**

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

Equity remained the asset class of choice for ESG-oriented investors as they poured almost EUR 75 billion into sustainable equity funds in the first quarter. It is EUR 3.2 billion more than the net flows into conventional equity funds and represents almost 32% of the inflows in the overall European fund universe. Flows into sustainable fixed-income funds were also positive, pulling in EUR 28 billion. While this was slightly above their conventional counterparts' net flows over the quarter (which stand at EUR 27.6 billion), it is noteworthy that sustainable fixed-income funds continued to sport positive net flows throughout the first quarter, even as their conventional peers saw outflows (of EUR 7.1 billion) in March. Meanwhile, sustainable allocation funds attracted 44% more money (EUR 4.8 billion) than their counterparts over the period.

Leaders and Laggards

In the first quarter, two passive funds, **SPDR Bloomberg SASB U.S. Corp ESG ETF** and **Developed World Sustainable Equity Index Fund**, were among the best-selling sustainable funds. The former garnered an unprecedented EUR 4.53 billion.

Exhibit 3 Top 10 Sustainable Fund Flows in Q1 2021

Fund Name	Net Flows (EUR, Million)
SPDR® Bloomberg SASB U.S. Corp ESG ETF	4,530
Developed World Sust Eq Idx Acc T GBP	2,394
ACS Climate Transition World Equity T0	1,750
Blackrock ACS Wld ESG Scd Eq Trkr T0	1,747
Pictet - Global Envir Opps I USD	1,681
BGF Sustainable Energy A2	1,493
BNP Paribas Energy Transition C D	1,418
UBS ETF MSCI ACWI ESG Unvsl H EUR A Ac	1,400
Pictet-Clean Energy I USD	1,355
Nordea 1 - Global Climate & Envir BI EUR	1,327

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

The environment—climate and energy transition, in particular—remains a strong theme in Europe, with six funds among the top 10 catering to environment-aware investors. These are **ACS Climate Transition World Equity Fund, Pictet - Global Environmental Opportunities, BGF Sustainable Energy Fund, BNP Paribas Energy Transition, Pictet - Clean Energy,** and **Nordea 1 - Global Climate and Environment Fund.** They each garnered more than EUR 1.3 billion of inflows.

To read more about climate-aware funds:
Investing in Times of Climate Change

Exhibit 4 Bottom 10 Sustainable Flows in Q1 2021

Fund Name	Net Flows (EUR, Million)
ACTIAM Duurzaam Index Aand. Europa	-964
ACTIAM Duurzaam Idx Aand. Noord-Amerika	-948
Candriam Sst Bd Em Mkts I $ Inc	-728
Fidelity Sust Water & Waste Y Acc USD	-350
ACTIAM Duurzaam Idx. Aand. Pacific EUR	-328
Lyxor MSCI Eurp ESG Ldrs (DR) ETF AccEUR	-314
Handelsbanken Korträn SEK (A1 SEK)	-310
Invesco Sus Pan Eurp Stu Eq C Acc EUR	-258
Danske Invest Euro Sust. HY Akk DKK h	-248
BlackRock Systmtc ESG Em Mkts Flex Acc	-247

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

Provider Rankings

Among sustainable fund providers in Europe, BlackRock continued to top the leader board in the first quarter of 2021, with over EUR 17.1 billion in net new money, followed at a distance by UBS and Amundi.

Exhibit 5 Top 10 European Sustainable Fund Providers by Flows in Q1 2021

Firm	Net Flows (EUR,Million)
BlackRock	17,118
UBS	6,964
Amundi	6,382
BNP Paribas	6,118
State Street	4,665
Eurizon	4,307
Credit Suisse	4,245
Pictet	4,137
Nordea	3,554
HSBC	2,786

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

Exhibit 6 Bottom 10 European Sustainable Fund Providers by Flows in Q1 2021

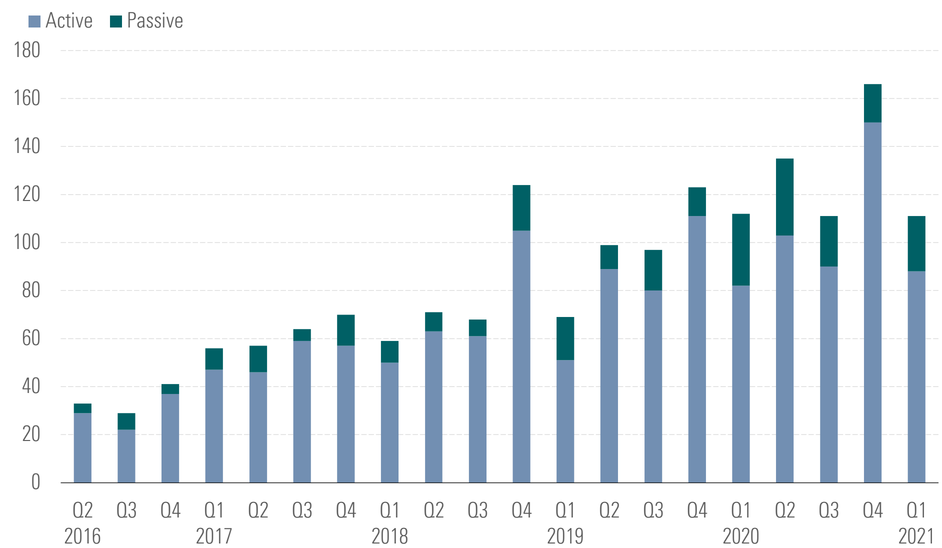
Firm	Net Flows (EUR, Million)
ACTIAM	-2,226
Unigestion	-455
Aviva	-269
La Banque Postale	-248
TOBAM	-187
LLB	-182
Prescient (Ireland)	-99
Kempen	-98
Ecofi	-94
AG2R La Mondiale	-91

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

Fund 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 23 March 2021. This number may change in the coming quarters as more funds are reported to Morningstar.

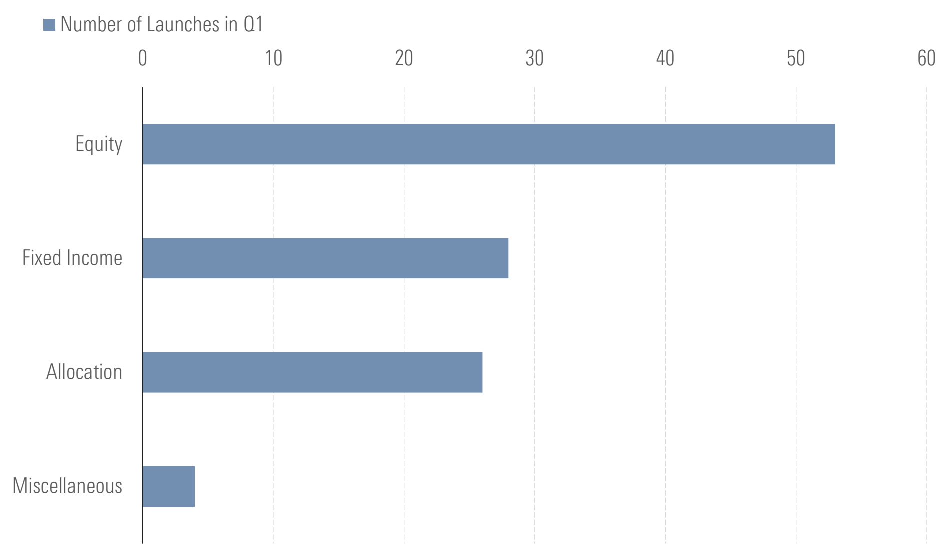
Exhibit 7 European Sustainable Fund Launches Per Quarter



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

The year 2020 set a record, with a total of 532 new sustainable offerings hitting the shelves last year. We can expect more of the same this year, supported by favourable regulation. With its Sustainable Finance Action Plan, the European Commission aims to reorient capital towards sustainable activities and align to the EU goal of being net zero carbon emission by 2050.

Exhibit 8 European Sustainable Fund Launches Per Broad Category Group



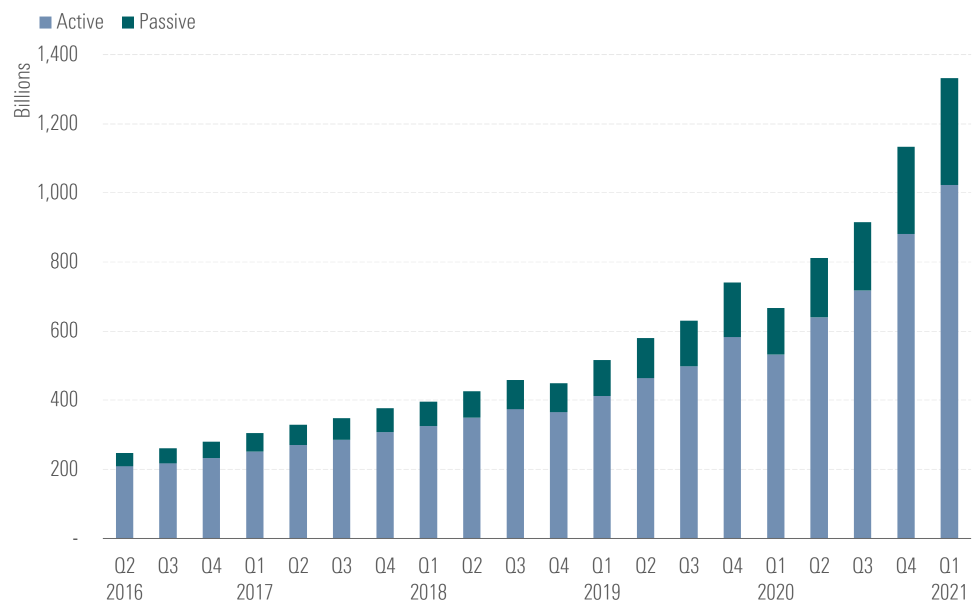
Source: Morningstar Research. Data as of March 2021.

In terms of broad asset class, fixed-income and allocation universes continued to expand, with 28 and 26 new sustainable funds launched in the first quarter, respectively. The newly launched fixed-income funds included nine passive funds of which the largest, **CSIF (CH) Bd Switzerland AAA-BBB ESG Blue,** saw net inflows of around EUR 525 million. The two largest allocation funds launched in the first quarter were **Amundi Elite Thematic Multi Asset** and **Eurizon Global Leaders ESG 50 - Giugno 2026**. But equity was still the source of the most proliferation, with 53 new launches. Investors can enjoy increasing choice when constructing sustainable portfolios.

Assets Above the EUR 1.3 Trillion Mark

Assets in European sustainable funds rose in the first quarter to EUR 1,332 billion, up from EUR 1,133 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 more than 12% of total European assets.

Exhibit 9 Quarterly European Sustainable Fund Assets (EUR Billion)



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

SFDR

The focal point of the EU regulatory landscape in the first quarter was the Sustainable Finance Disclosure Regulation, which took effect on 10 March. Under SFDR, the entire universe of European funds is being classified by their managers into one of three categories, Article 6, 8, or 9. The nomenclature derives from the regulatory text, and all funds will be required to provide some ESG disclosure, as per Article 6, while Article 8 and Article 9 funds will be required to provide more detailed ESG information to investors. (See the exhibit below and the next section for details on the first few weeks of implementation of the regulation).

Exhibit 10 SFDR Classification

Source: Morningstar Research.

In February, draft rules were unveiled that defined the next set of more-detailed disclosures that must follow in 2022. These prescribe set short templates of specific information that will be inserted into prospectuses and annual reports and supplemented with further data on websites, for all Article 8 and 9 products.

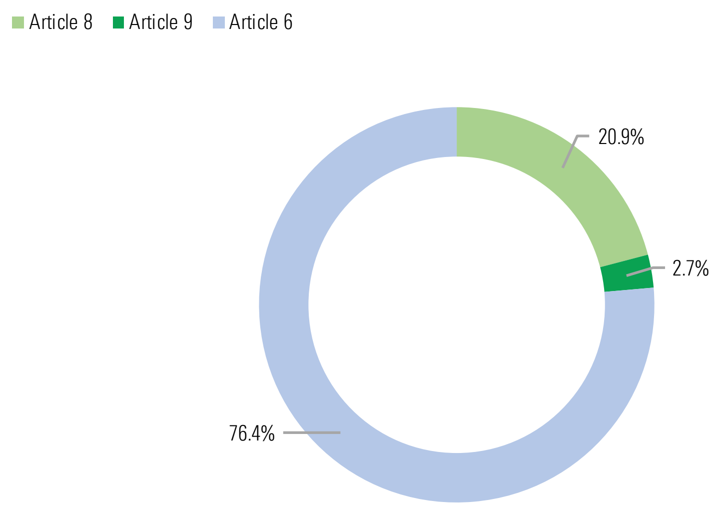
How SFDR Has Been Implemented So Far

In this section of the report, we provide an update on the European sustainable funds universe as per the new SFDR Article 8 and 9 classification.

On 29 March, Morningstar released Article 8 and 9 SFDR datapoints in its database, Morningstar Direct, to allow clients to identify these funds. As of 27 April, Morningstar has collected SFDR data on about 52% of the European investments universe (over 150,000 investments), including about 85% of the funds domiciled in Luxembourg, 60% of the funds domiciled in Germany, 42% of the funds domiciled in France, and more from other domiciles, including the Netherlands, Spain, and the Nordics.
Of all the funds reviewed so far, 20.9% and 2.7% are classified as Article 8 and Article 9, respectively, representing combined assets of EUR 2.16 trillion. Note that this universe includes money market funds, funds of funds, and feeder funds.

Note also that the percentage of Article 8 and Article 9 funds has increased since our previous report (SFDR: The First 20 Days) because of the recently initiated coverage of Nordic funds. As previously reported, Nordic countries house higher proportions of Article 8 and 9 funds than other parts of Europe.

Exhibit 11 SFDR Article Breakdown



Source: Morningstar Direct. Data as of 27 April 2021.

By extrapolating the data collected so far and excluding money market funds, funds of funds, and feeder funds, we estimate that the European ESG and sustainable funds market, based on Article 8 and 9 definitions, could be worth as much as EUR 2.5 trillion, twice as large as our universe of sustainable funds as identified by Morningstar analysts. And we expect this number to increase in the coming months as managers enhance strategies, reclassify funds, and launch new ones that meet Article 8 or 9 requirements.

What's the difference between the SFDR universe and the Morningstar sustainable funds universe?

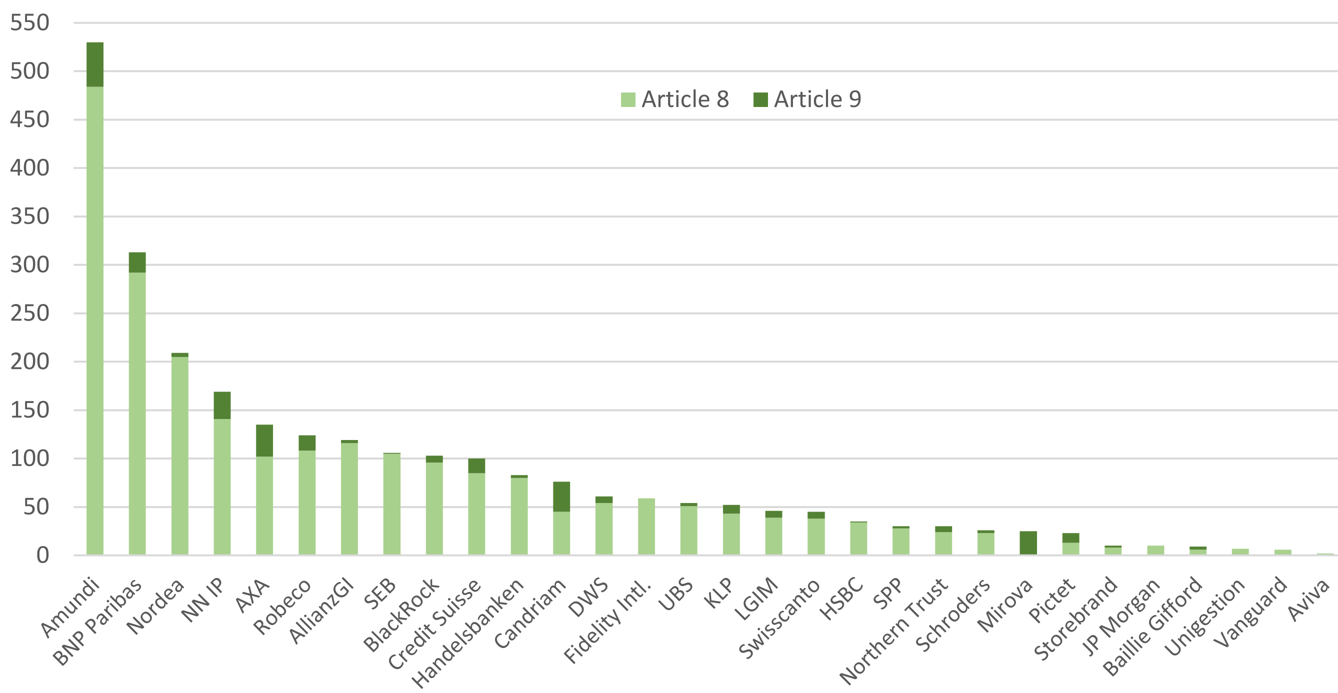
The difference between the two universes can be explained by three main points:

1. Morningstar applies a stricter definition of a 'sustainable investment' and excludes from its universe funds that employ only light exclusions as well as funds that say they formally integrate ESG considerations but in a nondeterminative way for their investment selection.
2. Morningstar identifies sustainable funds based mainly on fund prospectuses and KIIDs; thus, some funds may have been missed because of poor disclosure. As disclosure improves thanks to SFDR, we will be able to identify more funds that meet our criteria.
3. The Morningstar funds universe excludes money market funds, feeder funds, and funds of funds.

Findings From Our Survey of 30 Asset Managers

Separately from the data collection work carried out by the Morningstar Data team, Morningstar Manager Research surveyed 30 asset managers and requested their full lists of Article 8 and 9 funds (across all domiciles) as of the end of March. The surveyed asset managers were of various locations and sizes, ranging from large European and US firms such as Amundi, UBS, BlackRock, and JPMorgan to boutique and sustainability-focused firms such as Candriam and Mirova. Exhibit 12 shows the number of Article 8 and 9 funds per fund manager surveyed.

Exhibit 12 Number of Article 8 and Article 9 Funds of 30 Surveyed Asset Managers

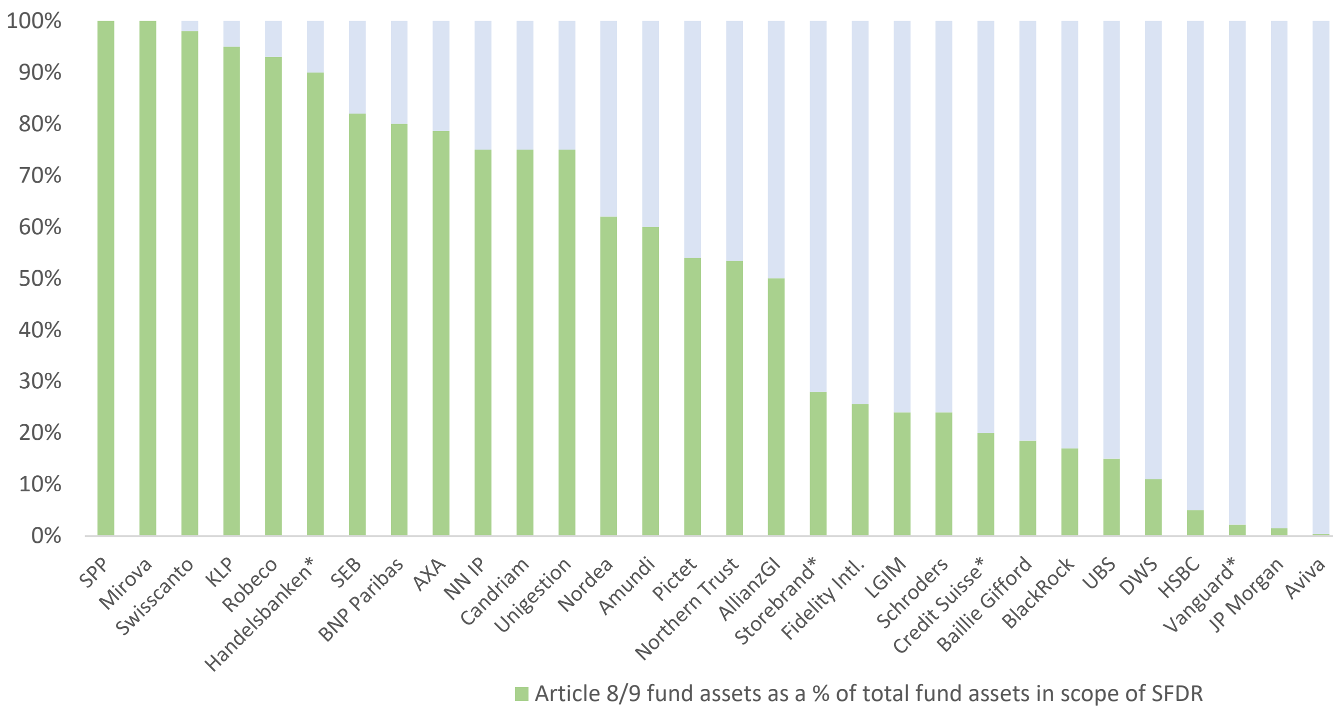


Source: Asset Managers. Data as of March 2021.

Following the first classification exercise, we found that French managers Amundi and BNP Paribas offer some of the largest ranges of investment products classified as Article 8 or 9, with 529 and 310 funds, respectively. Other managers have chosen to classify far fewer funds as Article 8 or 9. It is the case even for firms of similar size or bigger, such as BlackRock, which has 103 classified products. UBS and JP Morgan have classified 54 and 10 of their funds as Article 8 or 9 products.

On an asset-relative basis, so correcting for size, the picture looks slightly different from when we look at absolute number of funds. Exhibit 13 shows the assets in Article 8 and 9 funds of the surveyed managers as a percentage of their total fund assets in scope of SFDR. Many of these percentages were provided to us by the asset managers, while the rest were calculated using the Morningstar Direct database and are therefore estimated.

Exhibit 13 Article 8 and 9 Fund Assets as a Percentage of Total Fund Assets in Scope of SFDR



Source: Asset Managers. (*) Estimated using Morningstar Direct. Data as of March 2021.

Exhibit 13 reveals a wide range of outcomes, with, at one end, managers who have parked their entire or nearly entire offerings in Article 8 and 9 categories, and, at the other end, firms that have less than 1% of their fund assets in these categories.

Looking at how funds have been classified so far, we can see a variety of approaches, with some asset managers saying they preferred to take a conservative approach for fear of having to downgrade funds later. Asset managers have categorised their products based on their own interpretation of the regulation, resulting in a wide range of investment products classified as Article 8 and 9. The Article 8 category represents the largest and most diverse group of funds, from 'ESG integrated' (very light green) to sustainable (dark green) strategies.

To read more about the initial implementation of SFDR:
SFDR: The First 20 Days

SFDR Fund Ranking Survey

As of this writing and based on the data collected so far, two of Alliance Bernstein's fixed-income funds top the chart. **AB American Income** and **AB Global High Yield** promote environmental and/or social characteristics through the consideration of material ESG factors and through engagement, with no explicit binding constraints.

Exhibit 14 Largest Funds per SFDR Classification

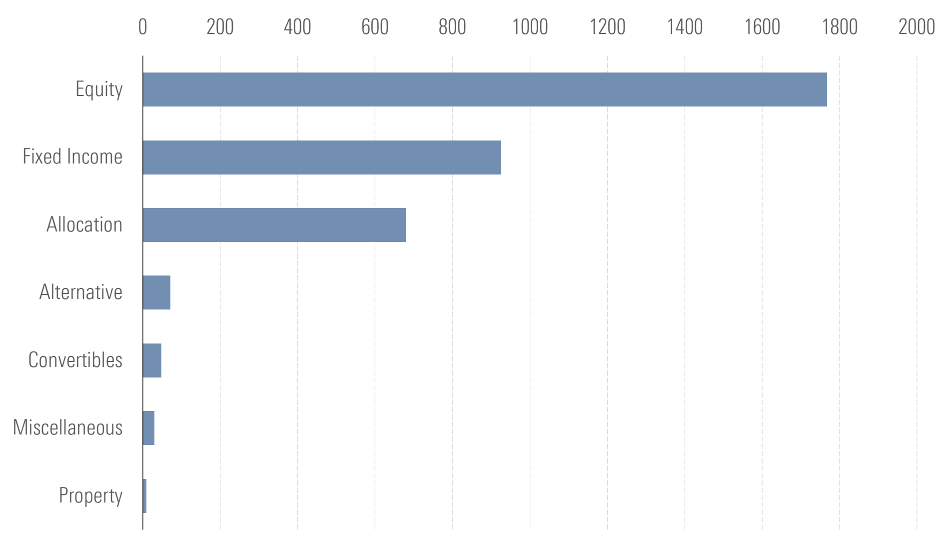
Name	SFDR Fund type	Asset Class	AUM (EUR billion)
AB American Income C Inc	Article 8	Fixed Income	21.2
AB Global High Yield I Inc	Article 8	Fixed Income	16.9
hausInvest	Article 8	Property	16.2
Pictet-Global Megatrend Sel I USD	Article 8	Equity	11.3
Fidelity Global Technology A-Dis-EUR	Article 8	Equity	11.2
Schroder ISF EURO Corp Bd C Acc EUR	Article 8	Fixed Income	10.6
Robeco High Yield Bonds DH €	Article 8	Fixed Income	9.9
Allianz China A Shares AT USD	Article 8	Equity	9.8
Fidelity Global Dividend I-Acc-EUR	Article 8	Equity	8.3
Opcimmo LCL Opcimmo	Article 8	Property	8.2

Source: Morningstar Direct. Data as of 27 April 2021. This table excludes money market funds, feeder funds, and funds of funds.

Article 8 and 9 Funds per Broad Asset Class

Based on the data collected so far, equity funds dominate the Article 8 and 9 universe, representing 50% of it in terms of number of funds. That is 10 percentage points more than what we see in the overall equity funds universe. Fixed-income funds and allocation funds follow, with 26% and 19%, respectively.

Exhibit 15 Article 8 and 9 Funds per Broad Asset Class



Source: Morningstar Direct. Data as of 27 April 2021. This table excludes money market funds, feeder funds, and funds of funds.

Other Regulatory Update

In the rest of the regulatory agenda, March saw the drafts amended to incorporate specific disclosure of the degree of alignment that fund portfolios have with the EU Taxonomy of Sustainable Activities. Also published was the EU Taxonomy Climate Delegated Act, defining the final sets of criteria about climate adaptation and climate mitigation activities, the first elements of the taxonomy that companies and funds must start reporting on in 2022.

In the early part of the second quarter, the European Commission released a further package of ESG rules encompassing draft amendments to the AIFMD, UCITS, Solvency II, IDD, and MiFID rulebooks that will incorporate ESG into risk management, product governance, and target market processes. The delegated acts will also govern the inclusion of sustainability preferences into the suitability process conducted by financial advisors.

Lastly, a consultation was also launched into a new Corporate Sustainability Reporting Directive. The CSRD will see the existing nonfinancial reporting requirements extended from just the largest companies with over 500 employees to large private companies and all listed companies, including non-EU companies listed in the EU.

More broadly on this topic of corporate reporting, the International Financial Reporting Standards Foundation announced a working group to accelerate global convergence of reporting standards focused on enterprise value and to undertake technical preparation for a potential international sustainability reporting standards board under the governance of the IFRS. The International Organisation of Securities Commissions is also pushing this agenda and announced its intention to work with the IFRS.

To read more about European Sustainable Finance Regulation:
EU Sustainability Disclosures
EU Taxonomy of Sustainable Activities
Regulating ESG Investing the EU Way

About Morningstar Manager Research

Morningstar Manager Research provides independent, fundamental analysis on managed investment strategies. Analyst views are expressed in the form of Morningstar Analyst Ratings, which are derived through research of five key pillars—Process, Performance, Parent, People, and Price. A global research team issues detailed Analyst Reports on strategies that span vehicle, asset class, and geography. Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. An Analyst Rating is an opinion, not a statement of fact, and is not intended to be nor is a guarantee of future performance.

About Morningstar Manager Research Services

Morningstar Manager Research Services combines the firm's fund research reports, ratings, software, tools, and proprietary data with access to Morningstar's manager research analysts. It complements internal due-diligence functions for institutions such as banks, wealth managers, insurers, sovereign wealth funds, pensions, endowments, and foundations. Morningstar's manager research analysts are employed by various wholly owned subsidiaries of Morningstar, Inc. including but not limited to Morningstar Research Services LLC (USA), Morningstar UK Ltd, and Morningstar Australasia Pty Ltd.

For More Information

Michael Laske
Product Manager, Manager Research
+1 312 696-6394
michael.laske@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA