Global Sustainable Fund Flows: Q4 and Full-Year 2025 in Review

2025 closes with continued outflows amid persistent headwinds.

Morningstar Sustainalytics
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Key Takeaways

- Global sustainable open-end and exchange-traded funds recorded an estimated USD 27 billion in net outflows in the fourth quarter of 2025, compared with restated outflows of nearly USD 55 billion in the previous quarter. Redemptions by large UK institutional investors—reallocating from pooled ESG funds into bespoke ESG mandates—accounted for much of the outflow in both quarters. Yet the broader backdrop remained challenging, with persistent headwinds continuing to weigh on investor appetite.
- For the whole of 2025, global sustainable funds saw USD 84 billion in net outflows, in contrast to the USD 38 billion in inflows recorded in 2024.
- In the US, sustainable funds saw net outflows for the 13th consecutive quarter, totaling USD 4.6 billion in the fourth quarter of 2025.
- The rest of the world, in aggregate, recorded outflows too.
- 2025 was undeniably a challenging year for sustainable investing. Factors affecting investor appetite for sustainable funds included geopolitical tensions, anti-ESG sentiment, regulatory uncertainty, and mixed performance.
- Despite the outflows, global sustainable fund assets rose by about 4% in the fourth quarter to USD 3.9 trillion, supported by stock market appreciation. Since the end of 2018, global sustainable fund assets have grown more than sixfold from roughly USD 600 billion.
- Product development remained subdued in the last three months of 2025, with 40 new sustainable funds launched globally.

The Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-ended funds and exchange-traded funds that, through their prospectus or other regulatory filings, claim to focus on sustainability, impact, or environmental, social, and governance factors.[1] (See the Appendix for more details on how we define the global sustainable fund universe.) The global universe is divided into three segments by domicile: Europe, the US, and the Rest of the World. There is more granular data available in this report for Canada, Australia and New Zealand, and Japan. Meanwhile, China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, and South Korea are grouped under Asia ex-Japan because of their relatively low level of assets.

This report examines recent activity in the global sustainable fund universe and details regional flows, assets, and launches during the fourth quarter of 2025. A summary is provided in Exhibit 1.

1 Note: Our definition of "sustainable fund" is not based on any regulatory framework, nor does it meet the criteria of any particular regulatory framework. See Appendix for further details.

Exhibit 1 Global Sustainable Fund Statistics

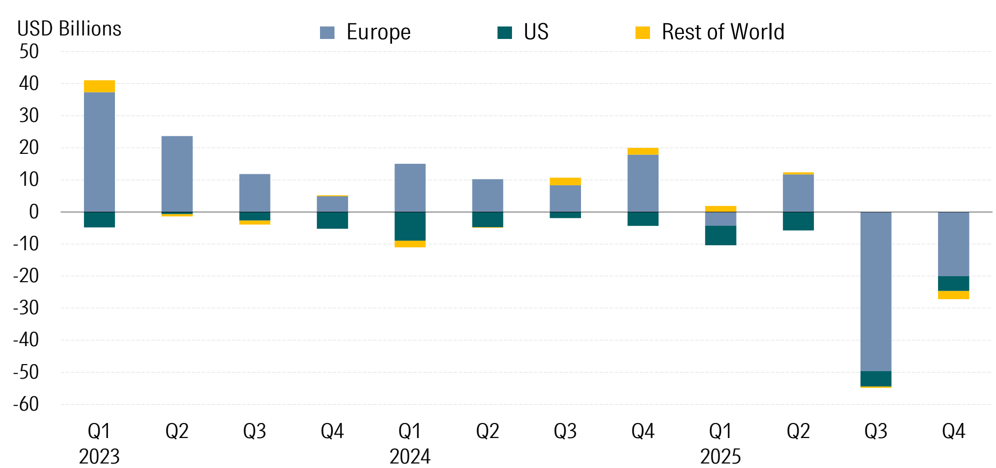
Region	Flows Q4 2025 USD Bn	Flows Q3 2025 USD Bn	Assets Q4 2025 USD Bn	Assets Q4 2025 % Total	Funds Q4 2025 No.	Funds Q4 2025 % Total
Europe	-20.0	-49.6	3,342	86	5,231	74
United States	-4.6	-4.8	368	9	454	6
Asia ex-Japan	-1.4	-0.5	90	2	662	9
Canada	-0.1	0.5	42	1	231	3
Australia/New Zealand	0.4	0.3	38	1	258	4
Japan	-1.5	-0.8	22	1	228	3
Total	**-27.2**	**-54.9**	**3,901**		**7,064**	

Source: Morningstar Direct. Data as of December 2025, excluding money market funds, funds of funds, and feeder funds. For Canada and the US, the number of live sustainable funds includes funds of funds and feeder funds (these are, however, excluded from flow and asset calculations). For Japan and South Korea, the number of sustainable funds, flows, and assets includes funds of funds and feeder funds.

Global sustainable funds recorded an estimated USD 27 billion in net outflows in the fourth quarter of 2025, compared with restated outflows of nearly USD 55 billion in the previous quarter. Europe posted net withdrawals of USD 20 billion in Q4, following the exceptionally large USD 49.6 billion in redemptions in Q3. Much of the outflow in both quarters stemmed from redemptions by large UK institutional investors shifting assets from pooled ESG funds into bespoke ESG segregated mandates, providing these investors more flexibility.[2]

Meanwhile, the US saw net outflows for the 13th consecutive quarter, totaling USD 4.6 billion in the fourth quarter, versus a restated USD 4.8 billion in the prior quarter. The rest of the world, in aggregate, likewise faced net redemptions, except for Australia and New Zealand, which sustained their positive momentum with inflows over two quarters amounting to a combined USD 730 million.

Exhibit 2a Quarterly Global Sustainable Fund Flows

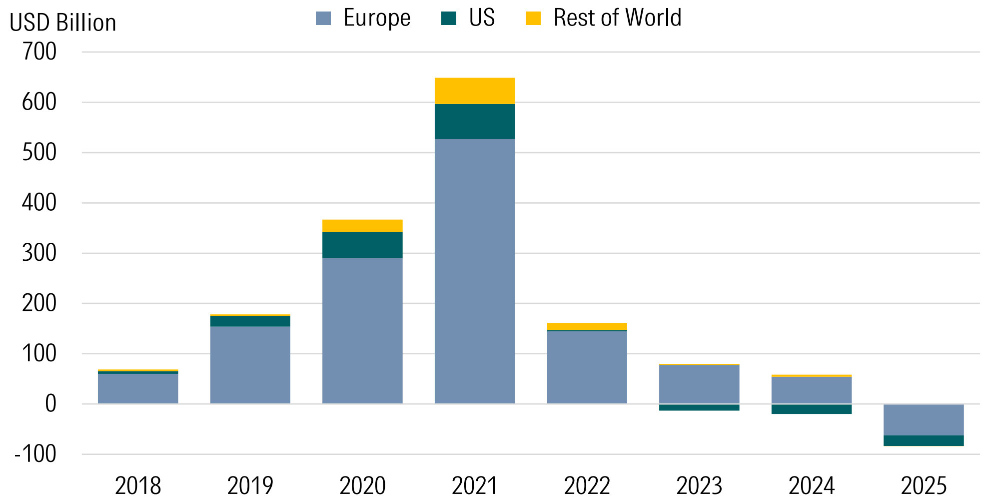


Source: Morningstar Direct. Data as of December 2025.

2 Morningstar does not collect data on segregated mandates. As a result, money moving out of our fund universe is recorded as a net outflow, even though in practice it is simply being transferred from one account to another within the same asset management firm.

For full-year 2025, global sustainable funds saw USD 84 billion in net outflows, contrasting with the USD 38 billion in inflows recorded in 2024. This made 2025 the first year of annual redemptions since Morningstar began tracking the segment in 2018. It was also the first year of outflows for Europe and the rest of world, while being the third for the US.

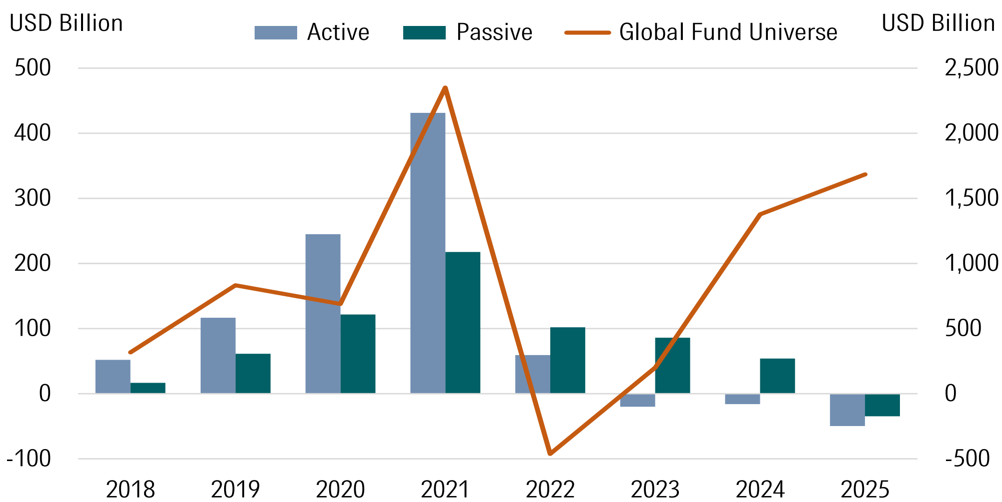
Exhibit 2b Annual Global Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025.

Both actively and passively managed sustainable funds experienced net redemptions over the full year. Passive ESG funds registered their first-ever annual outflows—almost USD 35 billion—while active sustainable funds faced record withdrawals of USD 49 billion. By contrast, the global open-end fund and ETF universe experienced inflows of almost USD 1.7 trillion over the same period.

Exhibit 2c Annual Global Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025.

2025 was undeniably a challenging year for ESG and sustainable investing, against a backdrop of geopolitical tensions, ESG backlash, and uneven policy progress. The incoming US administration marked a turning point with its explicit anti-ESG stance and shift toward deregulation. This, in turn, prompted Europe to scale back its ambitions related to sustainability-related disclosure regulations and to prioritize its growth and competitiveness. In this volatile political and policy environment, many investors questioned whether companies would stick to their sustainability commitments.

Performance was also an issue last year. In fact, comparing Morningstar sustainability indexes with Morningstar market cap indexes, 2025 was the second-worst year since 2018, behind only 2022. In a recent study, Morningstar shows that overall ESG index success rates declined in 2025, with only 26% of ESG indexes outperforming their non-ESG equivalents, versus 45% in 2024. Mega cap concentration, strong returns from carbon intensive sectors, and underexposure to defense were contributing factors, among others. Strategies with high relative active share struggled. (For more details on sustainable investment performance, read: In an AI-Led Stock Market, Sustainable Investments Struggle to Keep Up).

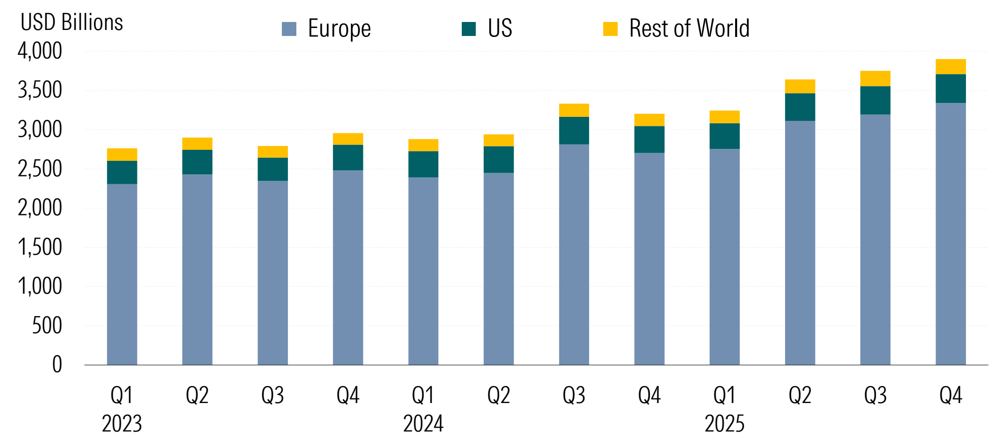
The outflows in 2025 and lower inflows experienced by sustainable funds in previous years contrast with several surveys showing continuous investor interest in sustainable investing. According to one conducted by the Morgan Stanley Sustainability Institute, 88% of global individual investors are interested in sustainable investing. Among these retail investors, the younger generation shows the greatest interest, signalling that sustainability will become an even stronger focus as their financial influence grows. Similarly, 86% of asset owners expect to increase allocations to sustainable investments in the next two years.

For more insights on sustainable investing, read: Sustainable Investing Trends to Watch in 2026.

Global Assets Edge Higher to USD 3.9 Trillion in an Up Market

In Q4 2025, global sustainable fund assets edged up by about 4% to over USD 3.90 trillion, compared with a restated USD 3.75 trillion three months earlier. The growth was primarily driven by stock market appreciation. For broader context, the Morningstar Global Market Index advanced 3.3% over the fourth quarter and the Morningstar Global Corporate Bond Index inched up by 0.17%.

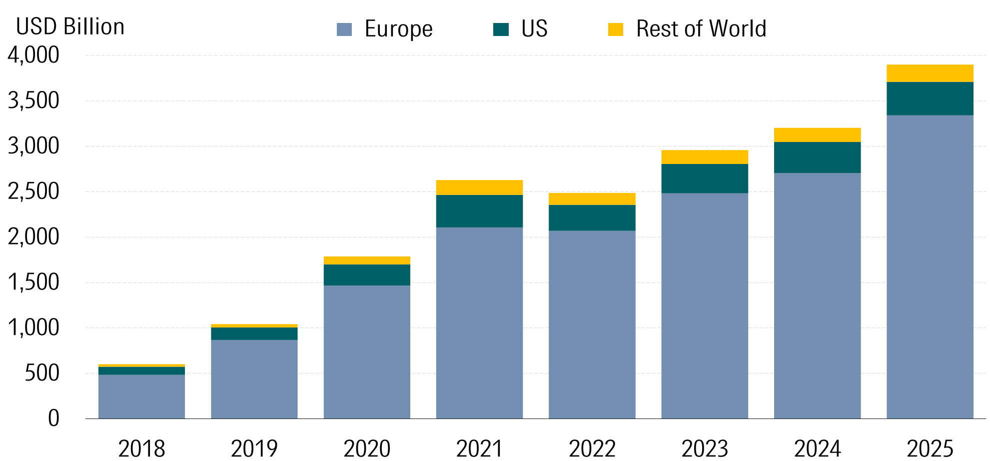
Exhibit 3a Quarterly Global Sustainable Fund Assets



Source: Morningstar Direct. Data as of December 2025.

Since the end of 2018, global sustainable fund assets have grown more than six-fold, rising from roughly USD 600 billion, to USD 3.90 trillion at the end of 2025, driven by growing investor interest in sustainability issues (particularly climate change), but also by supportive regulation (especially in Europe), improved ESG data, and product innovation.

Exhibit 3b Annual Global Sustainable Fund Assets



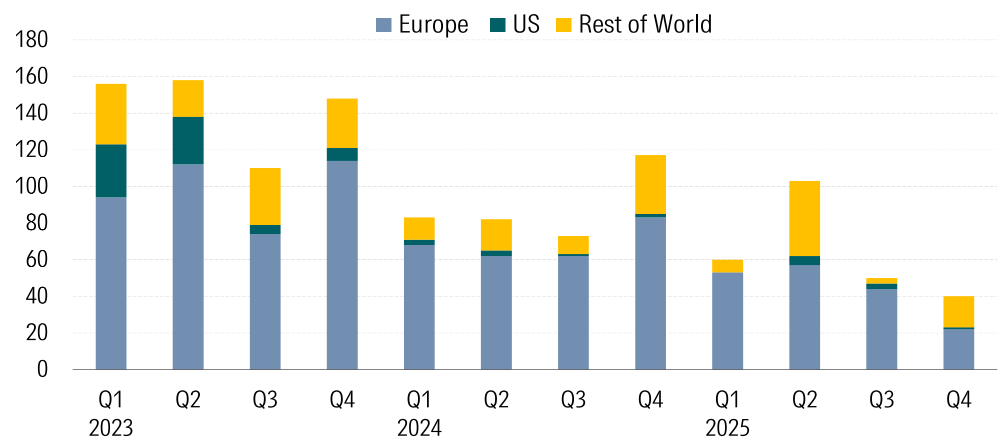
Source: Morningstar Direct. Data as of December 2025.

Europe accounts for almost 86% of global sustainable fund assets, followed by the US with 9%, and the rest of the world makes up the remainder. Sustainable funds represent approximately 20% of the overall European open-end fund and ETF universe, compared to just 1% in the US and varying shares across other regions.

Global Fund Launches

In the last quarter of 2025, product development activity in the sustainable open-ended fund and ETF space remained subdued. Only 40 new sustainable funds launched globally versus (a revised) 50 in the previous quarter; however, as we continue to analyze the data and identify additional launches, we expect the Q4 number to be adjusted upward in subsequent reports. The largest number of new funds came from Europe, New Zealand, and China.

Exhibit 4 Global Sustainable Fund Launches Per Quarter



Source: Morningstar Direct. Data as of December 2025.

BlackRock Tops the League Assets Table

Exhibit 5 lists the top asset managers that market sustainable funds globally. BlackRock, the world's largest manager, continues to dominate the sustainable investing space with about USD 453 billion of assets in ESG-focused and sustainable open-end funds and ETFs at the end of 2025. Amundi ranks second with approximately USD 216 billion in sustainable fund assets, whereas UBS concludes the year in third position with USD 208 billion in assets.

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

Overall			Actively Managed			Passively Managed		
Firm	Total Assets (USD Bil)	Flows (USD Mil)	Firm	Total Assets (USD Bil)	Flows (USD Mil)	Firm	Total Assets (USD Bil)	Flows (USD Mil)
BlackRock (incl. iShares)	452.6	-3,676	BlackRock (incl. iShares)	130.2	-4,278	BlackRock (incl. iShares)	322.4	602
Amundi (incl. Lyxor)	215.7	8,664	Natixis	106.9	5,406	Amundi (incl. Lyxor)	122.8	6,231
UBS (incl. Credit Suisse)	207.9	-578	Amundi (incl. Lyxor)	93.0	2,432	UBS (incl. Credit Suisse)	121.6	411
BNP Paribas	123.9	-1,854	Nordea	91.0	1,573	Vanguard	65.7	-51
Swisscanto	122.7	977	UBS (incl. Credit Suisse)	86.3	-989	Swisscanto	59.1	1,113
DWS (incl. Xtrackers)	116.4	-873	BNP Paribas	81.3	-3,162	Northern Trust	58.5	-706
Natixis	109.7	5,043	KBC	75.5	382	DWS (incl. Xtrackers)	55.4	160
Nordea	91.0	1,573	Swisscanto	63.6	-136	Handelsbanken	43.7	409
KBC	75.6	381	DWS (incl. Xtrackers)	61.0	-1,033	BNP Paribas	42.6	1,308
Vanguard	69.5	-174	Allianz Global Investors	59.0	240	Länsförsäkringar	27.4	195
Northern Trust	63.6	-747	Royal London	44.7	-93	Legal & General	25.6	-1,056
Allianz Global Investors	59.0	240	JPMorgan	43.5	-2,230	State Street	23.0	-2,210
Handelsbanken	49.8	640	Pictet	42.4	-1,721	Invesco	22.5	776
JPMorgan	47.5	-2,636	Union Investment	38.8	-168	Cathay Securities Invest. Trust	15.1	-284
Royal London	44.7	-93	Parnassus	34.1	-2,803	HSBC	12.5	78
Pictet	44.0	-1,790	Dimensional	33.9	-388	Morgan Stanley (incl. Calvert)	12.3	-93
Union Investment	38.8	-168	Goldman Sachs (incl. NNIP)	32.8	-1,115	Mercer Global Investments	11.4	564
Morgan Stanley (incl. Calvert)	36.5	-1,110	Robeco	31.1	-28	Storebrand Fonder	10.8	7
Parnassus	34.1	-2,803	LBP AM	30.6	796	Capital Investment Trust	9.3	82
Dimensional	33.9	-388	Vontobel	29.5	-336	First Trust	9.0	1,612

Source: Morningstar Direct. Data as of December 2025.

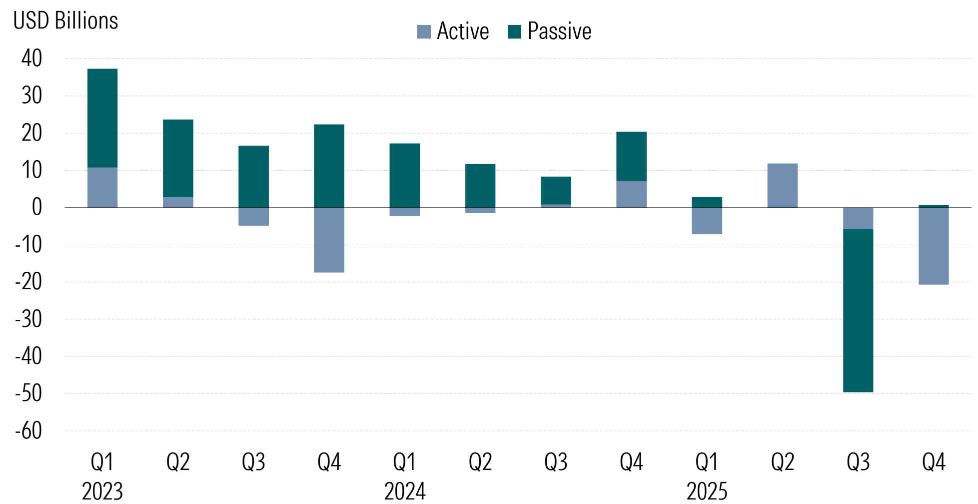
Quarterly Statistics Per Domicile

Europe

European Sustainable Funds Close 2025 With Further Net Redemptions

European-domiciled sustainable funds experienced another quarter of net redemptions, totaling USD 20.0 billion in the final three months of 2025, following restated record outflows of USD 49.6 billion in the preceding quarter. A substantial share of the outflows over the past two quarters came from large UK institutional clients—including BlackRock, Scottish Widows, and Northern Trust—redeeming from pooled ESG funds and reallocating into bespoke ESG mandates (which are not accounted for in the Morningstar database).[3] For example, most of the third-quarter outflows were driven by redemptions from four UK-domiciled BlackRock authorized contractual schemes, following a client pension fund's decision to transfer assets from these funds into BlackRock's custom ESG mandates. This trend continued in the fourth quarter, as Scottish Widows also moved money from a large, pooled fund to an ESG-tilted segregated mandate.

Exhibit 6a European Sustainable Fund Flows



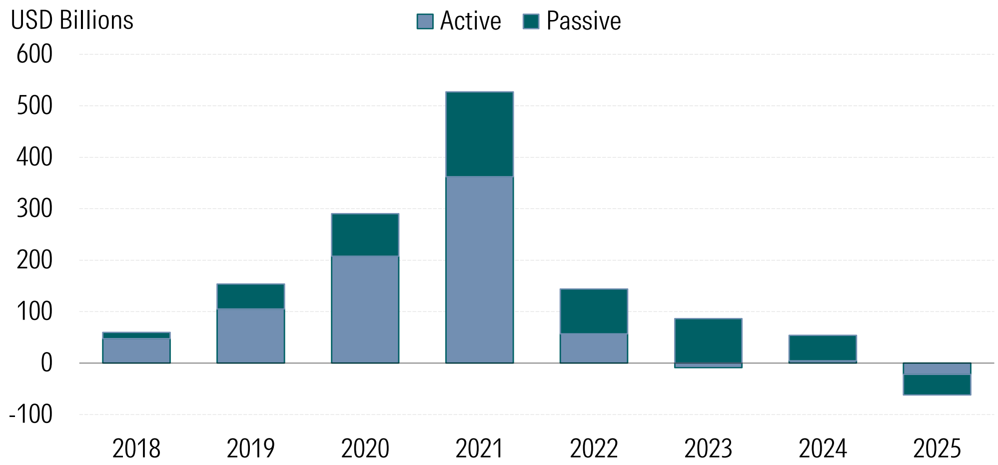
Source: Morningstar Direct. Data as of December 2025.

In the fourth quarter, the outflows were entirely attributable to actively managed funds. Passive sustainable funds garnered modest inflows of USD 685 million.

Over the whole of 2025, European sustainable funds registered their first annual outflows since Morningstar began tracking the segment in 2018, with redemptions reaching USD 62 billion. This marks a reversal from the USD 54 billion of inflows in 2024.

[3] Excluding the BlackRock funds in question, European sustainable funds still recorded estimated outflows of around USD 3.1 billion in the third quarter.

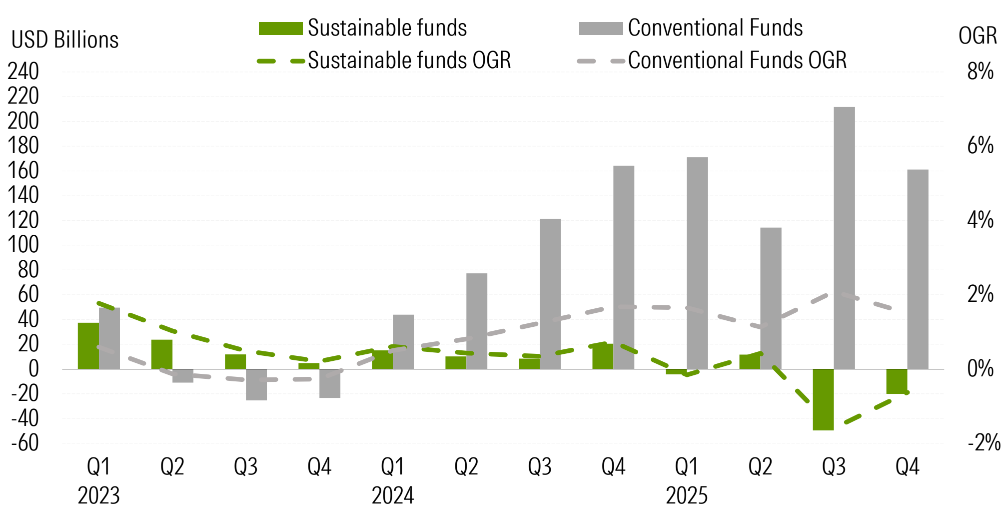
Exhibit 6b European Sustainable Fund Annual Flows



Source: Morningstar Direct. Data as of December 2025.

In the fourth quarter, the organic growth rate of sustainable funds was -0.6%, compared with the restated -1.6% in the previous quarter. Meanwhile, the broader conventional fund universe recorded an organic growth rate of 1.5% in the last quarter, as European conventional funds attracted approximately USD 161 billion in net new money, a decrease from the restated USD 212 billion in the prior quarter.

Exhibit 6c European Sustainable Fund Flows Compared with Conventional Fund Flows



Source: Morningstar Direct. Data as of December 2025.

In 2025, European sustainable funds faced significant headwinds amid a complex geopolitical environment, where sustainability concerns were overshadowed by priorities such as economic growth, competitiveness, and defense. The political backlash against ESG investing in the US — and its spillover effects in Europe —prompted asset managers to adopt a more cautious stance toward ESG initiatives, with some even scaling back their commitments. The situation was further complicated by lingering regulatory uncertainties amid an evolving policy landscape, including the EU Omnibus Package and the review of the Sustainable Finance Disclosure Regulation (SFDR). (For more details, see the regulatory update at the end of the Europe section).

Persistent performance challenges also dampened investor appetite for sustainability-focused strategies. However, there was one bright spot in 2025: renewable energy stocks, which rebounded, ranking among the best-performing sectors. The Morningstar Global Renewable Energy Index posted an annual gain of 24.8%, compared with a 17.4% return for the Morningstar Global TME index and a 13.8% rise for the Morningstar Global Energy Index. The best performance in the renewable energy fund sector was registered by **LSF Solar & Sustainable Energy**, with a gain of 73%, followed by **Fineco AM MarketVector Global Clean Energy Transition Sustainable ETF** (72%). Meanwhile, **BGF Sustainable Energy**, the largest European-domiciled renewable energy fund with USD 4.1 billion in assets (and an Article 9 fund), rose by over 33%. The renewable energy sector's outperformance in 2025 follows four years of poor stock returns, primarily due to elevated interest rates, materials inflation, and supply chain disruptions.

Flows by Asset Class

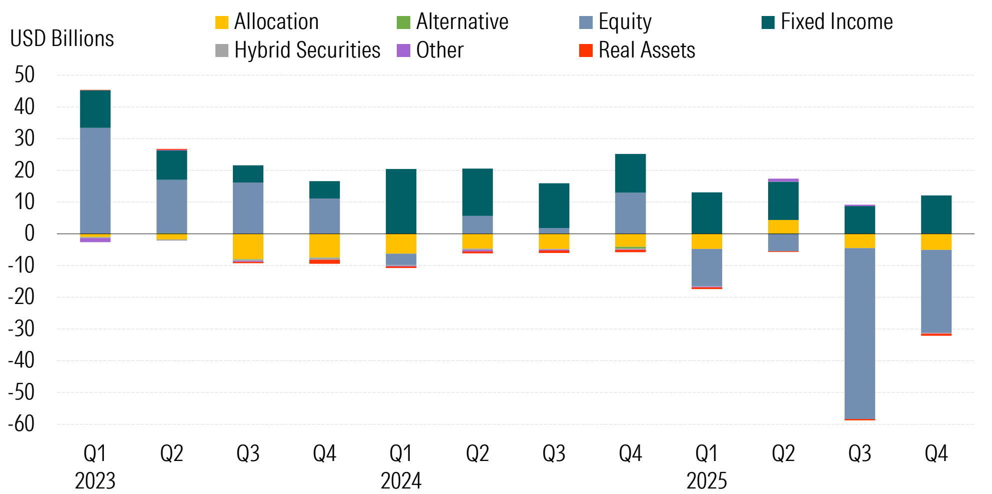
In the fourth quarter, outflows from sustainable equity funds narrowed but remained sizeable at USD 26.1 billion, down from a restated USD 53.9 billion. Sustainable fixed income funds, by contrast, posted USD 12.1 billion in net inflows, up from a restated USD 8.7 billion in the previous quarter. Investors' preference for bond funds over equities reflects a cautious stance amid ongoing economic uncertainty and rising geopolitical tensions. Meanwhile, allocation funds saw slightly higher redemptions than in the prior quarter, totaling USD 5.0 billion.

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

USD Billion	Sustainable Funds		Conventional Funds		Overall Universe	
	Q4 2025	Q3 2025	Q4 2025	Q3 2025	Q4 2025	Q3 2025
Allocation	-5.0	-4.4	23.3	8.4	18.2	4.0
Alternative Strategies	0.0	0.0	4.8	5.8	4.8	5.7
Equity	-26.1	-53.9	61.4	79.5	35.3	25.6
Fixed Income	12.1	8.7	75.1	110.6	87.2	119.3
Hybrid Securities	-0.2	0.0	-0.6	0.1	-0.8	0.1
Other	-0.1	0.5	-1.2	-0.3	-1.3	0.2
Real Assets	-0.7	-0.4	-2.2	7.5	-2.2	7.1
Total	**-20.0**	**-49.6**	**160.5**	**211.6**	**141.2**	**162.0**

Source: Morningstar Direct. Data as of December 2025.

Exhibit 8 European Sustainable Fund Flows by Asset Class



Source: Morningstar Direct. Data as of December 2025.

Flow Leaders and Laggards

Among the top 10 flow detractors in the fourth quarter of 2025, **Scottish Widows ESG-Tilted Sterling Corporate Bond Fund** saw the largest redemptions, totaling more than USD 8.5 billion. These significant outflows are due to Scottish Widows' repositioning of its default workplace pension option (Scottish Widows Lifetime Investment). The firm moved most of the fund's assets into an ESG-tilted segregated mandate. Morningstar doesn't collect data on segregated mandates.

Five BlackRock funds also appear in the laggard table, including **Blackrock ACS World ESG Insights Equity Fund**, which was the best-selling fund in the third quarter. The fund saw USD 2 billion in redemptions in the fourth quarter, partially offsetting the USD 4.3 billion of subscriptions recorded in the previous quarter. This actively managed fund aims to reduce its overall carbon emission intensity over time relative to its reference index and to have a higher percentage of revenues classified as green revenues.

Meanwhile, State Street Global Advisors' **World TPI Climate Transition Index Equity Sub-Fund**, which saw a similar number of redemptions in the final three months of 2025, tracks an index that adjusts constituent weights based on companies' performance and preparedness for the low-carbon transition. It considers five climate metrics, including green revenues, fossil fuel reserves, operational carbon emissions, climate governance quality, and forward-looking carbon reduction targets, aligned with 1.5°C–2°C pathways.

Exhibit 9 Bottom 10 European Sustainable Fund Flows in Q4 2025

Fund Name	Net Flows (USD Million)
Scottish Widows ESG-Tilted Sterling Corporate Bond Fund	-8,575
Blackrock World Low Carbon Screened and Optimised Equity Tracker Fund	-5,241
Blackrock UK Equity Tracker Fund	-2,202
World TPI Climate Transition Index Equity Sub-Fund	-2,138
Blackrock World ESG Insights Equity Fund	-2,050
Stewart Investors Asia Pacific Leaders Fund	-1,579
Northern Trust North America Screened Equity Index	-1,382
Rockefeller Global Equity Improvers	-1,237
Celsius Investment SICAV ESG Emerging Markets	-911
iShares MSCI World SRI ETF	-872

Source: Morningstar Direct. Data as of December 2025.

The table of best-selling sustainable funds in the fourth quarter (Exhibit 10a) includes the allocation strategy **DNCA Invest Alpha Bonds**, which also ranked among the top 10 in the previous quarter. Alongside carbon-footprint analysis and metrics aligned with the UN Sustainable Development Goals, this Article 8 fund applies a best-in-universe approach using DNCA's proprietary scoring model. These scores assess the performance of both private and public issuers across four key dimensions: shareholder, environmental, employer, and societal responsibility.

The top 10 best sellers also include three Amundi funds, among them **Amundi MSCI Europe Action ETF**. The fund invests in European companies leading their sectors in climate transition readiness and performance. The index methodology uses metrics such as carbon intensity, science-based targets, climate risk management and revenues to assess, rank and select the leading companies.

Exhibit 10a Top 10 European Sustainable Fund Flows in Q4 2025

Fund Name	Net Flows (USD Million)
DNCA Invest Alpha Bonds	5,177
Amundi EUR Corporate Bond 1-5Y ESG	5,028
iShares MSCI USA Screened ETF	2,221
Amundi MSCI Europe Action ETF	1,901
iShares MSCI USA CTB Enhanced ESG ETF	1,773
Amundi Ultra Short Term Bond Responsable	1,434
AXA IM MSCI World Equity PAB ETF	1,148
UBS Switzerland Sustainable (CHF)	1,130
Sparinvest INDEX Bæredygtige Global KL	853
iShares MSCI EM CTB Enhanced ESG ETF	787

Source: Morningstar Direct. Data as of December 2025.

The 10 best-selling asset managers collectively recorded USD 22 billion in net inflows in the fourth quarter, representing an improvement relative to the previous quarter. Amundi topped the leaderboard with USD 9 billion in inflows, followed by Natixis, buoyed largely by sustained investor demand for **DNCA Invest Alpha Bonds**.

Scottish Widows stands out on the other side of the table due to a single fund's asset transition to an ESG mandate, as previously mentioned. In second place is BlackRock, which maintains its presence among the worst-selling managers for the second consecutive quarter, partly reflecting similar reallocations.

Exhibit 10b Top and Bottom 10 European Sustainable Fund Providers by Flows in Q4 2025

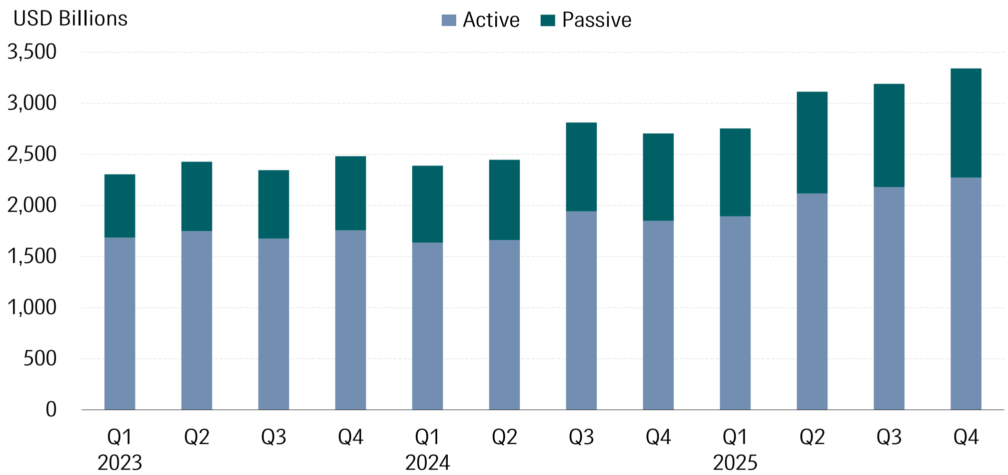
Firm	Net inflows (USD Million)	Firm	Net outflows (USD Million)
Amundi (incl. Lyxor)	9,017	Scottish Widows	-8,585
Natixis	5,033	BlackRock (incl. iShares)	-3,817
Nordea	1,610	First Sentier Investors	-3,433
UBS (incl. Credit Suisse)	1,230	JPMorgan	-3,175
ABN AMRO	1,228	State Street	-2,873
Swisscanto	1,049	Eurizon	-2,290
Handelsbanken	969	Pictet	-1,837
LBP AM	692	Rockefeller	-1,228
OP	639	CPR Asset Management	-1,085
Mercer Global Investments	577	Legal & General	-1,062

Source: Morningstar Direct. Data as of December 2025.

European Sustainable Fund Assets

European sustainable fund assets rose by 4.7%, ending the fourth quarter at USD 3.3 trillion, from a restated USD 3.2 trillion as of September. For context, the Morningstar Global Market Index grew by 3.3% during the fourth quarter, while the Morningstar Europe Index gained 6.1%, and the Morningstar Global Corporate Bond Index edged up by 0.17%. As of the end of December, sustainable funds accounted for about 20% of the overall European open-ended funds and ETF universe.

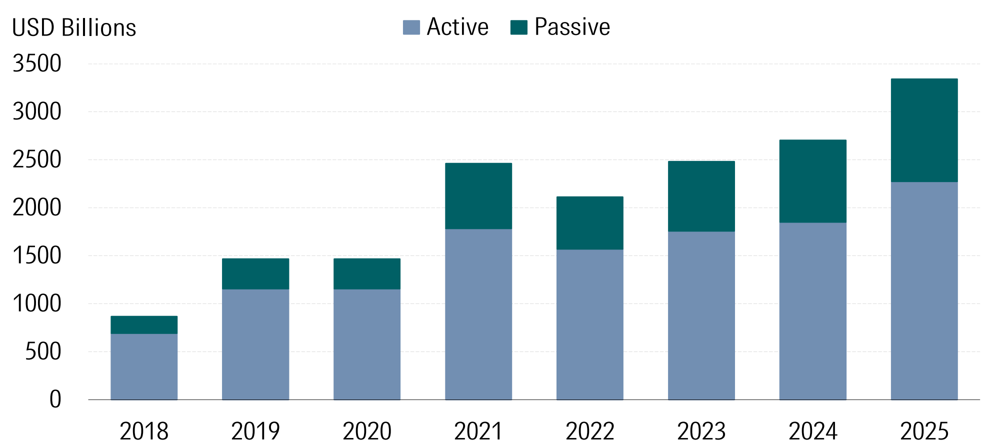
Exhibit 11a European Sustainable Fund Assets



Source: Morningstar Direct. Data as of December 2025.

Exhibit 11b shows the growth of the European sustainable fund assets since 2018. While flows steadily declined in the past four years, these fund assets expanded to reach a new record of USD 3.3 trillion at the end of 2025, up 23% from a year earlier and representing a tripling of assets since late 2018. Passive sustainable funds, after several years of growing market share, have stopped gaining ground and held steady at 32% as of December 2025.

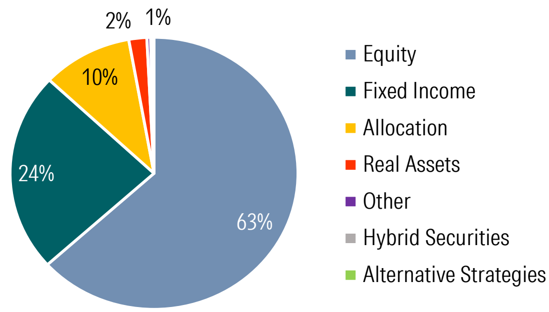
Exhibit 11b European Sustainable Fund Annual Assets



Source: Morningstar Direct. Data as of December 2025.

In terms of broad asset class, equity funds continued to dominate, representing 63% of European sustainable fund assets at the end of 2025. Sustainable bond funds accounted for almost one-quarter (24%), followed by allocation funds with 10%. By comparison, equity and fixed income strategies in the broader European fund universe accounted for 50% and 26%, respectively, as of December.

Exhibit 11b European Sustainable Fund Asset Breakdown



Source: Morningstar Direct. Data as of December 2025.

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

Exhibit 11c presents the foremost asset managers distributing sustainable funds in Europe. As of December 2025, BlackRock remained the leading manager of ESG-focused open-ended fund assets and ETFs in Europe, overseeing a substantial USD 448 billion — growing over the quarter, despite the quarterly outflows. UBS and Amundi followed in a distant second and third place, neck-and-neck with roughly USD 228 billion each in sustainable fund assets.

Exhibit 11c Top Asset Managers by Sustainable Fund Assets in Europe

Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)
BlackRock (incl. iShares)	448.6	BlackRock (incl. iShares)	157.5	BlackRock (incl. iShares)	291.1
UBS (incl. Credit Suisse)	228.9	Natixis	108.5	UBS (incl. Credit Suisse)	134.2
Amundi (incl. Lyxor)	227.8	Nordea	99.9	Amundi (incl. Lyxor)	128.1
Swisscanto	124.6	Amundi (incl. Lyxor)	99.8	Northern Trust	69.5
DWS (incl. Xtrackers)	111.7	UBS (incl. Credit Suisse)	94.8	Swisscanto	59.4
Natixis	111.3	KBC	67.7	Handelsbanken	48.4
BNP Paribas	104.4	Swisscanto	65.1	DWS (incl. Xtrackers)	48.3
Nordea	99.9	Royal London	63.9	BNP Paribas	44.3
Northern Trust	74.4	DWS (incl. Xtrackers)	63.4	Länsförsäkringar	26.8
KBC	67.8	Allianz Global Investors	62.1	Legal & General	26.1
Royal London	63.9	BNP Paribas	60.0	State Street	22.3
Allianz Global Investors	62.1	JPMorgan	42.8	Vanguard	20.9
Handelsbanken	54.5	Pictet	42.3	Invesco	12.7
JPMorgan	47.4	Union Investment	38.8	HSBC	12.7
Pictet	43.9	Glodman Sachs (incl. NNIP)	34.2	Mercer Global Investments	11.4
Union Investment	38.8	AXA IM	33.6	Storebrand Fonder	10.6
AXA IM	35.7	Schroders	32.0	Danske Invest	8.4
Glodman Sachs (incl. NNIP)	34.5	Robeco	32.0	VanEck	7.0
Legal & General	32.8	LBP AM	31.7	OP	6.8
Deka	32.6	Vontobel	29.6	Deka	5.2

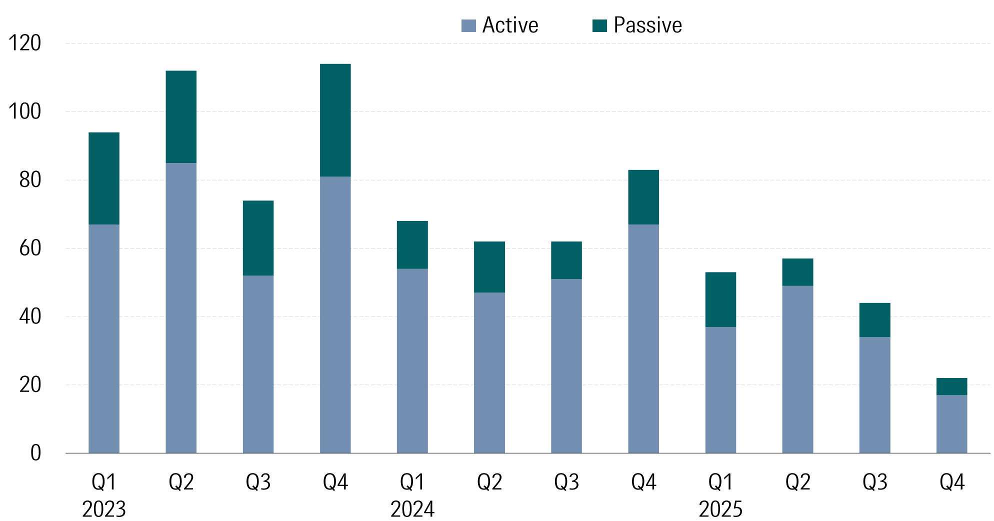
Source: Morningstar Direct. Data as of December 2025.

Sustainable Fund Launches at a New Low

Against a challenging backdrop for ESG and sustainable investments, the launch of sustainable funds domiciled in Europe reached a new low of 22 over the fourth quarter of 2025, down from the restated 44 seen in the previous quarter. As we continue to analyze the data and identify additional launches, we expect the fourth-quarter number to be adjusted upward in the next report.

The cooldown of sustainable fund launches since 2023, compared with previous years, reflects a normalization of product development activity after three years (2020-22) of high growth, during which many asset management firms hastened to build their core sustainable fund ranges to meet the growing demand. Asset managers have also become more cautious in their development of new ESG and sustainable strategies because of greenwashing accusations and uncertainty around regulations (see regulatory update section). Moreover, in 2025, asset managers were busy responding to the newly enacted European Securities and Markets Authority's (ESMA's) fund-naming guidelines, updating their fund ranges and implementing the necessary changes to ensure compliance with the new rules.

Exhibit 12 European Sustainable Fund Launches



Source: Morningstar Direct. Data as of December 2025.

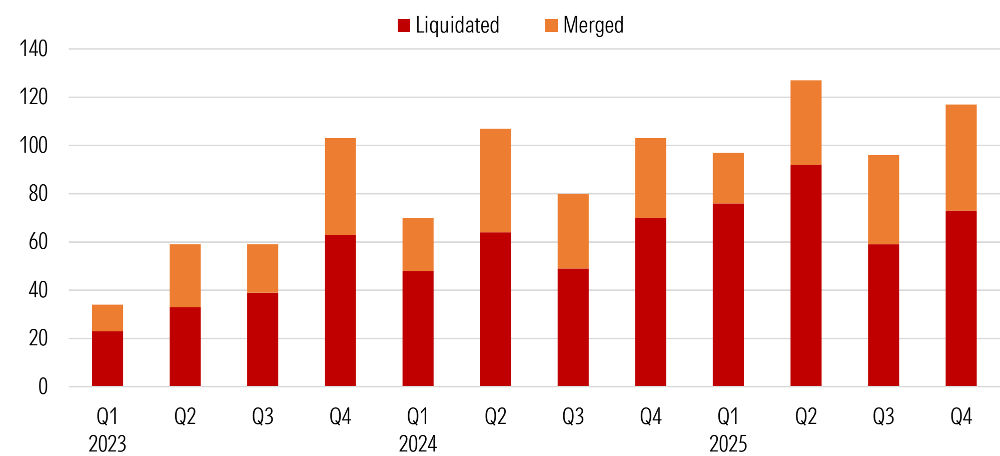
The largest fund to launch was **Fidelity Global Equity Research Enhanced PAB ETF**, with USD 358 million in assets under management by the end of December. This actively managed ETF aims to align with the Paris Agreement climate targets on greenhouse gas emission reduction. Fidelity also launched a smaller second fund, **Asia Equity ESG Fund**.

With USD 155 million in assets, **iShares MSCI ACWI Screened ETF** was the second-largest fund to launch in the last quarter of the year. The passive fund adopts an ESG optimization approach, which consists of outperforming a benchmark in terms of ESG score and carbon emissions, as well as applying a set of sector and norm exclusions, such as fossil fuels, tobacco, and palm oil.

Sustainable Fund Closures Trend Upwards

In the four quarter of 2025, 117 European sustainable fund share classes were closed, 73 of which were liquidations and 44 mergers. This represents an uptick from the restated closure count of 96 recorded three months earlier and above the level seen in previous years. This trend reflects the maturation of the sustainable fund market, which has grown and become more competitive. Funds that struggle to attract assets or deliver competitive returns are increasingly prone to closure, merger, or a reduction in the number of share classes. We view this as a natural evolution of the industry, where only the better-performing and popular strategies will survive.

Exhibit 13 European Sustainable Fund Closures

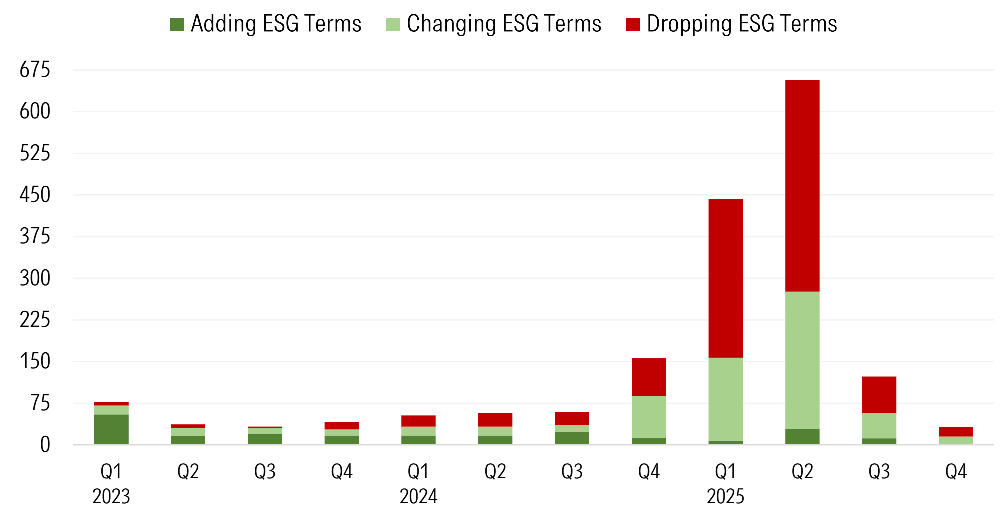


Source: Morningstar Direct. Data as of December 2025.

Renaming Activity Returns to Pre-ESMA Fund Naming Guidelines

After a busy first-half 2025, during which asset managers rushed to implement the EU's ESMA fund naming guidelines ahead of the May 21 deadline, fund renaming activity declined considerably. We identified 32 funds that were renamed between October and December, including 17 that dropped their ESG-related terms altogether, 13 that replaced an ESG-related term for another, and two that added ESG-related terms.

Exhibit 14 European Sustainable Fund Name Changes



Source: Morningstar Direct. Data as of December 2025. Excluding money market funds, funds of funds, and feeder funds.

In total, we estimate that close to 1,600 funds, or 29% of the Morningstar sustainable fund coverage universe,[4] representing more than USD 1 trillion in assets under management,[5] have been renamed since the beginning of 2024. Based on our assessment, alongside a survey conducted by Morningstar Manager Research, most of the funds that have changed names have not changed their underlying strategy. Among those that have, only a minority have completely dropped their ESG-focused mandate.

For more details and analysis on the impact of the ESMA fund-naming guidelines on renaming activity, read: SFDR Article 8 and Article 9 Funds_Q2 2025 and ESMA's Guidelines on ESG Fund Names | Morningstar.

UK SDR: Adoption of Sustainability Labels Muted

Alongside the EU's ESMA fund naming guidelines, the UK's Sustainability Disclosure Requirements (SDR) also played a key role in reshaping the European sustainable fund landscape in 2025. SDR introduced a set of measures designed to enhance the transparency of sustainable investment products and minimize greenwashing risk. As part of this package, a labelling regime was introduced, but its implementation proved challenging.[6] According to Morningstar Direct data and public announcements,[7] we identified 121 funds that have adopted a sustainability label, as of the end of December. Of these, 107 funds held a combined USD 62 billion (GBP 47 billion) in assets under management.[8]

4 At the start of 2024, our European sustainable fund universe included approximately 5,500 funds, many of which, but not all, had ESG-related terms in their names. We therefore estimate that the 1,600 funds that either dropped, changed or added ESG-related terms represent about 29% of the universe we had at the start of 2024. Our universe includes open-end funds and ETFs, and excludes money market funds, feeder funds, and funds of funds.

5 Using total number of sustainable funds as of December 2025.

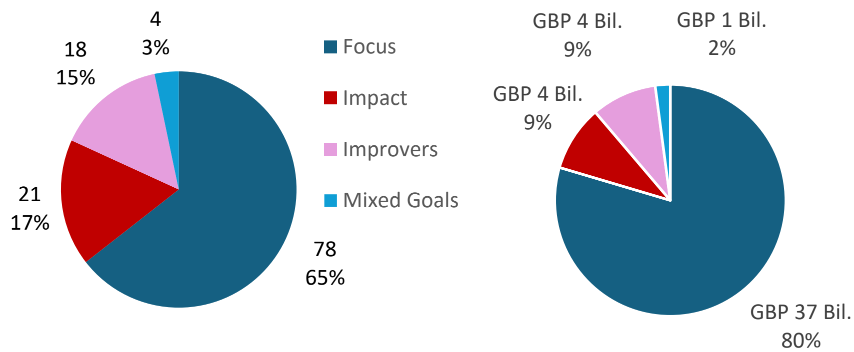
6 For more details, read: UK Sustainability Disclosure Requirements - Labelled and Non-Labelled Fund Landscape | Morningstar.

7 Labels have also been adopted by venture capital and pension funds. For example, Announcing the launch of the Sustainable Ventures EIS & SEIS funds — Sustainable Ventures.

8 AUM data is unavailable for 14 funds.

As shown in Exhibit 15a, “focus” is the dominant sustainability label, with 78 funds adopting it (representing 65% of all labeled funds). Housing USD 50 billion (GBP 37 billion) in assets, focus funds account for 80% of total labeled-fund assets. The second most adopted label is “impact,” which is used by 21 funds (20%), with USD 5.7 billion (GBP 4.3 billion) in assets. The last two labels, “improvers” (18 funds) and “mixed goals” (4 funds) account for 9% and 2% of the labeled-fund assets, respectively.

Exhibit 15a UK Sustainability-Labeled Funds Approved So Far, by Number (Left Chart) and Assets (Right Chart)

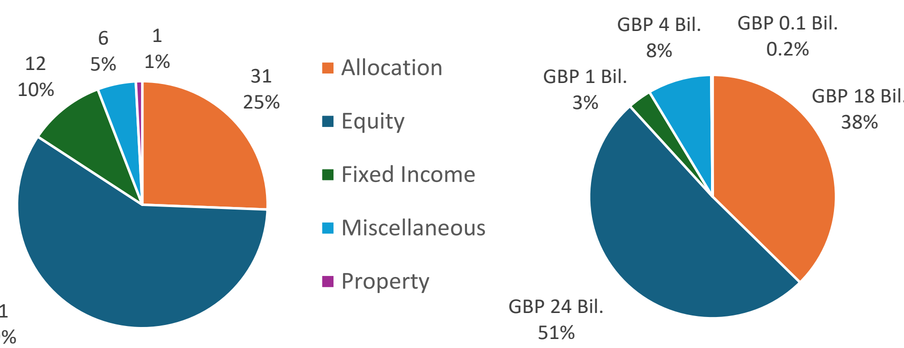


Source: Morningstar Direct. Data as of December 2025. Funds of funds are included.

The vast majority (113) of labeled funds are actively managed. Only eight, all offered by pension provider Standard Life and managed by Phoenix Unit Trust Managers (PUTM), are index-tracking funds.

In terms of asset class, the majority (71) of labeled funds consist of equity strategies, followed by allocation, with 31 funds. There is currently limited choice in the fixed-income space, with only 12 bond funds, representing just 3% of total labeled fund assets.

Exhibit 15b Asset Class Breakdown of UK Sustainability-Labeled Funds, by Number (Left Chart) and Assets (Right Chart)

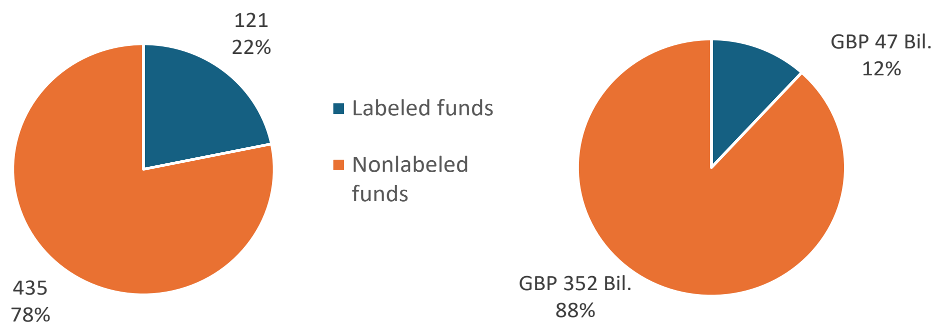


Source: Morningstar Direct. Data as of December 2025. Funds of funds are included.

Meanwhile, 435 UK-domiciled funds are classified in our database as "non-SDR labeled." These are funds with sustainability characteristics that have not opted for a label, but are required to publish a consumer-facing document in which they must disclose information about their investment policy and related metrics, and explain why they are not using a label (in most cases, they simply state that they do not pursue a sustainability goal).

Currently, the non-labeled fund universe is almost four times larger than the labeled-fund universe, and it offers a variety of strategies with sustainability characteristics. About half of non-labeled funds use ESG-related terms in their names, including ESG, responsible, and climate. Almost half (206 out of 435, or 47%) of UK non-labeled funds are included in Morningstar's sustainable fund universe.

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



Source: Morningstar Direct. Data as of December 2025. Funds of funds are included.

For more details and analysis of the UK SDR, read: UK Sustainability Disclosure Requirements—Labeled and Non-labeled Fund Landscape | Morningstar.

European Regulatory Update

In the EU, the fourth quarter saw significant developments regarding the Omnibus package, culminating in the passing of a trilogue agreement in mid-December. The final trilogue agreement sees changes to the timelines and threshold for the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). Specifically, the thresholds for applicability for CSRD were increased to 1,000 employees and EUR 450 million in net turnover. For CSDDD, the thresholds rose to 5,000 employees and EUR 1.5 billion in net turnover. Additionally, changes were made to the value-chain disclosure component of CSRD to allow companies out of scope of CSRD to refuse information requirements beyond the voluntary reporting standard. Elements of CSDDD were also amended, including the removal of the climate transition plan obligations and EU-wide civil liability.

In addition to finalizing the Omnibus, the EU also got a first view of the European Commission’s SFDR review in November. The Commission proposal largely met expectations in shifting SFDR to a product-level focus and emphasizing simplification. The new framework would be centered around three product categories: Transition, ESG Basics, and Sustainable.

According to our preliminary impact analysis, the Transition category (Article 7) will represent a niche segment of the EU fund market, with a share of up to 3% of assets under management. The Sustainable category (new Article 9) may double in size but remain small, reaching up to 7% of EU funds. The ESG Basics category (new Article 8) will shrink, as intended, and potentially represent 32%-41% of AUM, from 56% today. In aggregate, we predict that the number of EU funds categorized as sustainability-related (Article 7, 8, and 9) will be significantly lower than the current Article 8 and 9 categories. Funds not categorized as sustainability-related (Article 6) will dominate, representing between 52% and 70% of the EU fund market, from 41% today.

With the Commission's proposal published, the other EU institutions of the Council and Parliament will begin constructing their positions, with an expectation that meetings could begin towards the end of 2026 or early 2027.

In the UK, the Financial Conduct Authority (FCA) published a consultation paper in December outlining its proposed approach to regulating ESG ratings. This follows from HM Treasury legislation to bring ESG ratings into the scope of the FCA's oversight. The consultation is open for industry feedback through the end of March 2026. Following this process, the FCA is expected to publish a policy statement with final rules in the last quarter of 2026, in anticipation of the ESG ratings regime coming into effect in summer 2028.

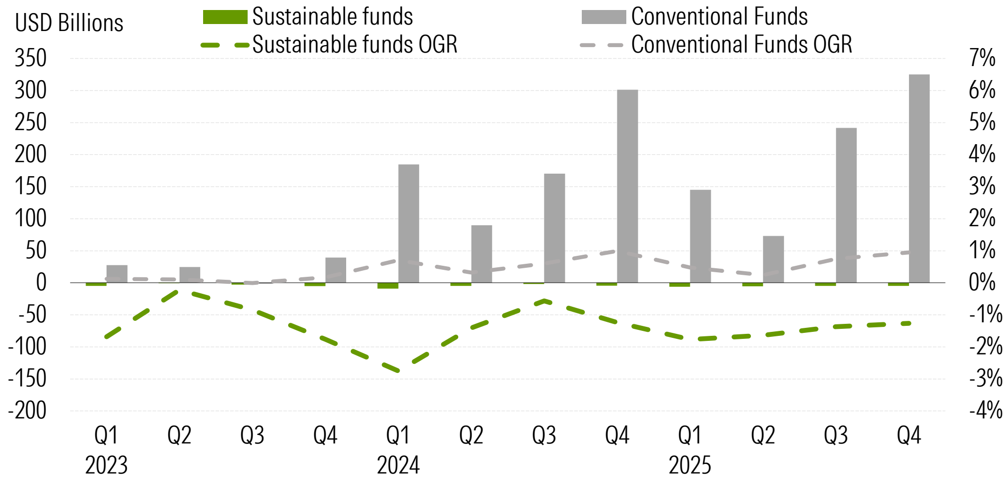
United States

Record Quarterly Outflows

Investors in the US continued to withdraw money from sustainable funds for the 13th consecutive quarter. Net redemptions reached USD 4.6 billion in the fourth quarter of 2025, following restated net outflows of USD 4.8 billion in the previous quarter and bringing the total annual outflows to USD 21 billion.

Consequently, the organic growth rate for these sustainable funds stood at negative 1.3%. In contrast, the conventional US fund market experienced estimated net inflows of USD 325 billion, a sharp increase from the restated USD 241 billion seen in the previous quarter. This surge translated into an organic growth rate of 0.9% for the conventional fund market.

Exhibit 16 US Funds' Quarterly Flows: Sustainable versus All US Funds

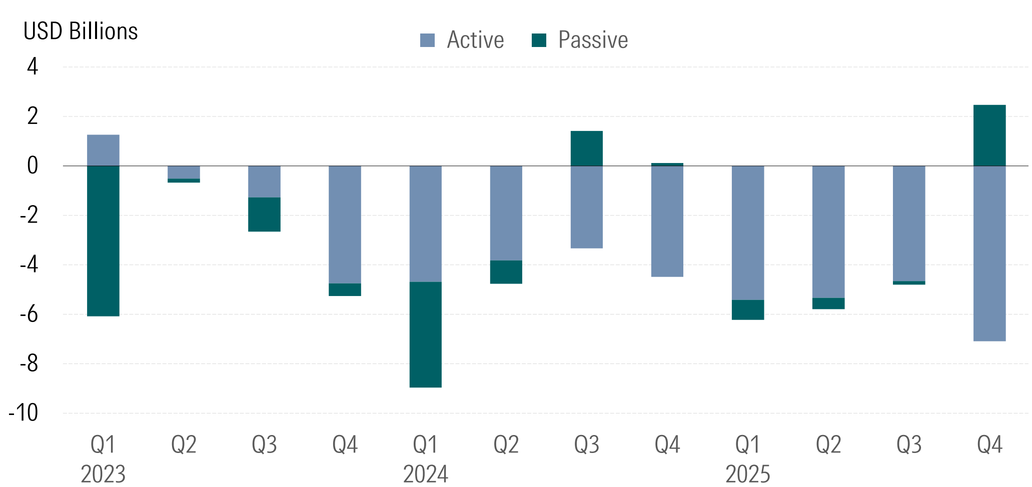


Source: Morningstar Direct. Data as of December 2025.

The reduced appetite among US investors for sustainable funds can be mainly attributed to anti-ESG sentiment, which appears to have intensified in the wake of the new administration. The US government has taken several actions that aim to eliminate or weaken climate change-related and ESG initiatives (see regulatory update at the end of the US section). In this environment, many US asset managers have scaled back their ESG commitments and adopted a more cautious approach to promoting their sustainability credentials and sustainable investment products.

Actively managed sustainable funds recorded their largest quarterly loss since Morningstar began reporting this data in 2018, with outflows totaling USD 7.1 billion. In contrast, passive funds saw their first positive flow of the year in Q4, attracting USD 2.5 billion.

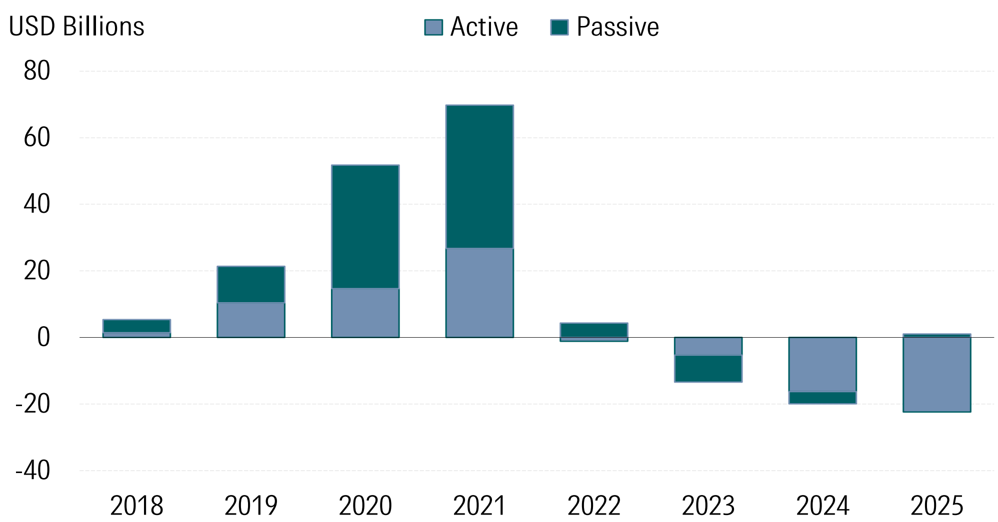
Exhibit 17a US Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025.

Closing in on annual flows since 2018, sustainable US funds experienced their third consecutive year of net outflows, peaking at USD 21 billion in 2025, compared to withdrawals of USD 20 billion in the previous year. The USD 1 billion inflows in 2025 from passive funds were far from offsetting the USD 22 billion withdrawn from active funds. The peak of sustainable fund inflows occurred in 2021, where investors poured USD 70 billion into this segment of the market.

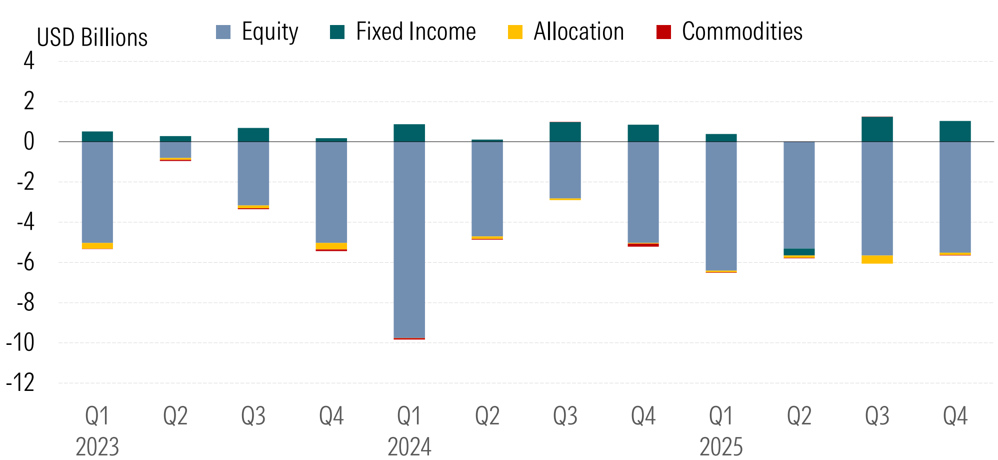
Exhibit 17b US Annual Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025.

At the asset class level, fixed income was the only category to register inflows in the fourth quarter of 2025, attracting USD 1 billion in net new money. Meanwhile, equity and allocation funds continued to see outflows, with investors withdrawing USD 5.5 billion and USD 120 million, respectively.

Exhibit 18 US Sustainable Fund Flows by Asset Class



Source: Morningstar Direct. Data as of December 2025.

Flow Leaders and Laggards

Parnassus Core Equity alone accounted for more than half of the Q4 total quarterly outflows, shedding another USD 2.5 billion, nearly double the USD 1.3 billion withdrawn in the previous quarter. While this brings the funds' annual net redemptions to USD 6.2 billion, it remains the largest sustainable fund in the US, with USD 26 billion in assets, supported by continued market appreciation. The fund invests in US large-cap companies with sustainable business practices, quality management, and positive ESG performance. **Brown Advisory Sustainable Growth** registered the second largest net outflow in Q4, losing USD 1.4 billion, also close to double the USD 730 million withdrawn in the previous quarter.

Exhibit 19a Bottom 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
Parnassus Core Equity Fund	-2,484
Brown Advisory Sustainable Growth Fund	-1,433
DFA U.S. Sustainability Core 1 Portfolio	-829
Calvert Equity Fund	-608
Global X Conscious Companies ETF	-453
Calvert Small-Cap Fund	-412
Xtrackers MSCI USA Climate Action Equity ETF	-410
Ishares Climate Conscious & Transition MSCI USA ETF	-378
American Century Large Cap Equity Fund	-306
Impax Global Environmental Markets Fund	-288

Source: Morningstar Direct. Data as of December 2025.

For the second consecutive quarter, **First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund** led inflows, attracting USD 1.3 billion. The fund invests in companies primarily involved in electric grid, electric meters and devices, networks, energy storage, and software used by the smart grid infrastructure sector. Boosted by the need to upgrade electric grids, the fund has grown significantly in recent years, overtaking all clean energy funds, with assets under management reaching USD 5.2 billion at the end of December 2025.

iShares ESG Aware MSCI EAFE ETF ranked a distant second, with USD 422 million in inflows, while **TCW Transform System**, which focuses on climate solutions, attracted USD 276 million.

Exhibit 19b Top 10 US Sustainable Fund Flows

Fund Name	Net Flows (USD Million)
First Trust NASDAQ® Clean Edge® Smart Grid Infrastructure Index Fund	1,321
iShares ESG Aware MSCI EAFE ETF	422
TCW Transform Systems ETF	276
iShares ESG Aware MSCI USA ETF	237
iShares ESG U.S. Aggregate Bond ETF	235
Vanguard ESG International Stock ETF	227
Invesco MSCI North America Climate ETF	212
Nuveen ESG Large-Cap Growth ETF	192
Avantis Responsible International Equity ETF	168
Invesco WilderHill Clean Energy ETF	154

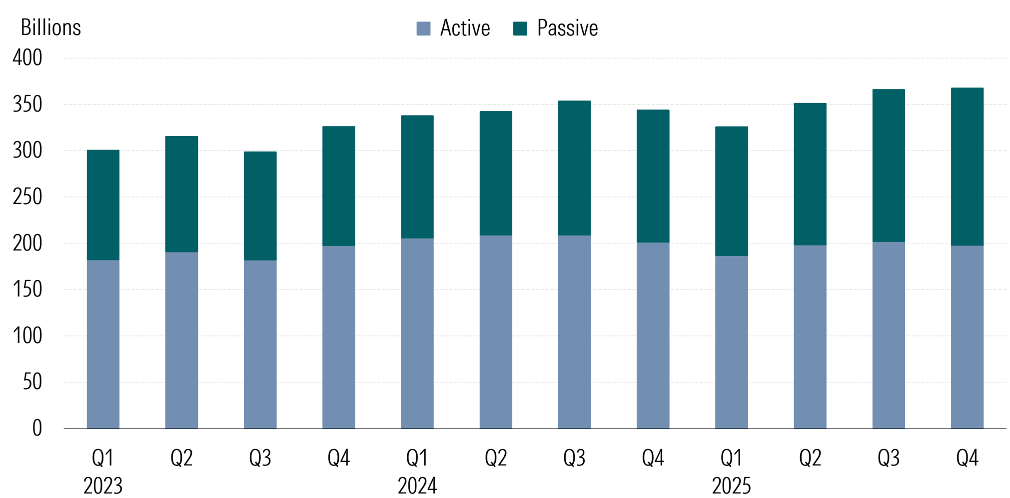
Source: Morningstar Direct. Data as of December 2025.

Assets Reach Record High, Driven by Market Appreciation

Despite continued capital withdrawals, total US sustainable fund assets increased to USD 368 billion at the end of December 2025, up slightly from the restated USD 366 billion at the end of September. Active strategies, representing 54% of the total assets, dropped slightly to USD 197 billion, while passive assets increased to USD 169 billion.

For context, the Morningstar US Markets Index gained 2.3% over the fourth quarter, while the Morningstar US Core Bond Index advanced by just under 1%.

Exhibit 20a US Sustainable Fund Assets (USD Billion)

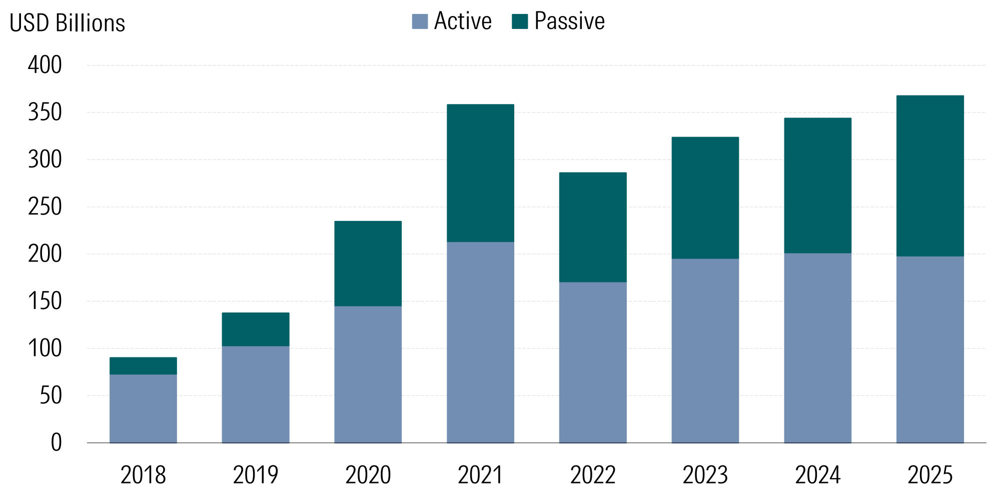


Source: Morningstar Direct. Data as of December 2025.

Despite investors withdrawing money for three consecutive years, assets in US sustainable funds reached a record high at the end of 2025, driven by stock market appreciation. The new record of USD

368 billion surpasses the previous peak registered in 2021. Asset growth in 2025 was primarily led by passive strategies, which grew by 19%, whereas active funds contracted by 2% over the same period.

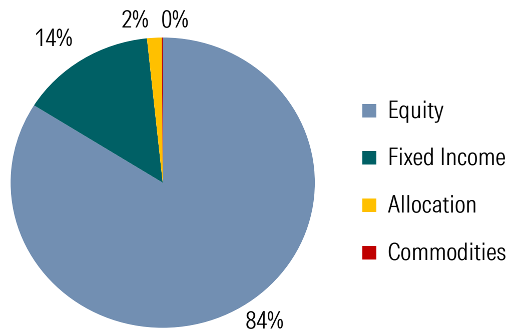
Exhibit 20b US Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of December 2025.

Equities dominate the asset mix at 84%, while fixed income contributes 14% and allocation funds represent just 2%, underscoring the equity-heavy profile of the segment.

Exhibit 21a US Sustainable Fund Asset Class Breakdown (USD Billion)



Source: Morningstar Direct. Data as of December 2025.

Despite significant outflows, **Parnassus Core Equity Fund** remains the largest US sustainable fund in our universe, with assets under management close to USD 26 billion. Consistent with last year, **Vanguard FTSE Social Index Fund** and **iShare Aware MSCI USA ETF** maintain their positions as the second- and third-largest sustainable fund in the US, with USD 25.7 billion and USD 15.5 billion in assets, respectively.

Exhibit 21b Top 10 US Sustainable Funds by Asset

Fund Name	Total Assets (USD Billion)
Parnassus Core Equity Fund	25.9
Vanguard FTSE Social Index Fund	25.7
iShares ESG Aware MSCI USA ETF	15.5
Vanguard ESG U.S. Stock ETF	11.8
iShares ESG Aware MSCI EAFE ETF	10.9
Victory Pioneer Fund	10.1
DFA U.S. Sustainability Core 1 Portfolio	8.0
Nuveen Core Impact Bond Fund	7.2
Brown Advisory Sustainable Growth Fund	6.6
Putnam Sustainable Leaders Fund	6.6

Source: Morningstar Direct. Data as of December 2025.

There was little movement among the leading global asset managers in the last quarter of 2025. Blackrock, Vanguard, and Morgan Stanley retained their positions as the three largest sustainable asset managers in the US, with USD 66 billion, USD 46 billion, and USD 36 billion in assets under management, respectively. Closing in on actively managed funds, Parnassus remains the fourth largest with USD 34 billion in assets, with **Parnassus Core Equity Fund** alone contributing 76% of the assets.

Exhibit 22 Top Asset Managers by Sustainable Fund Assets in the US

Overall		Actively Managed		Passively Managed	
Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)	Firm	Total Assets (USD Billion)
BlackRock (incl. iShares)	66.1	Parnassus	34.1	BlackRock (incl. iShares)	63.4
Vanguard	46.0	Morgan Stanley (incl. Calvert)	24.2	Vanguard	44.1
Morgan Stanley (incl. Calvert)	36.5	Dimensional	18.6	Morgan Stanley (incl. Calvert)	12.3
Parnassus	34.1	Nuveen	16.7	Invesco	8.6
Nuveen	24.3	Victory Capital	13.3	First Trust	7.9
Dimensional	18.6	Franklin Templeton	10.1	Nuveen	7.6
Victory Capital	13.3	Brown Advisory	8.7	DWS (incl. Xtrackers)	6.8
Invesco	10.9	Impax	7.8	Fidelity	6.5
Franklin Templeton	10.1	Eventide	6.8	Everence	2.0
Fidelity	9.5	American Century	5.5	Northern Trust	1.9
Brown Advisory	8.7	Community Capital	4.0	State Street	1.8
First Trust	8.0	Boston Trust Walden	3.9	TCW	0.9
Impax	7.8	AllianceBernstein	3.3	Green Century	0.9
DWS (incl. Xtrackers)	7.1	Fidelity	3.0	New York Life	0.7
Eventide	6.8	BlackRock (incl. iShares)	2.7	Kraneshares	0.6
American Century	5.5	PIMCO	2.6	Global X	0.6
Community Capital	4.0	Domini	2.4	Flexshares	0.5
Boston Trust Walden	3.9	RBC	2.3	Jackson	0.4
AllianceBernstein	3.3	Invesco	2.3	VanEck	0.4
Everence	3.3	Vanguard	1.8	Sprott	0.3

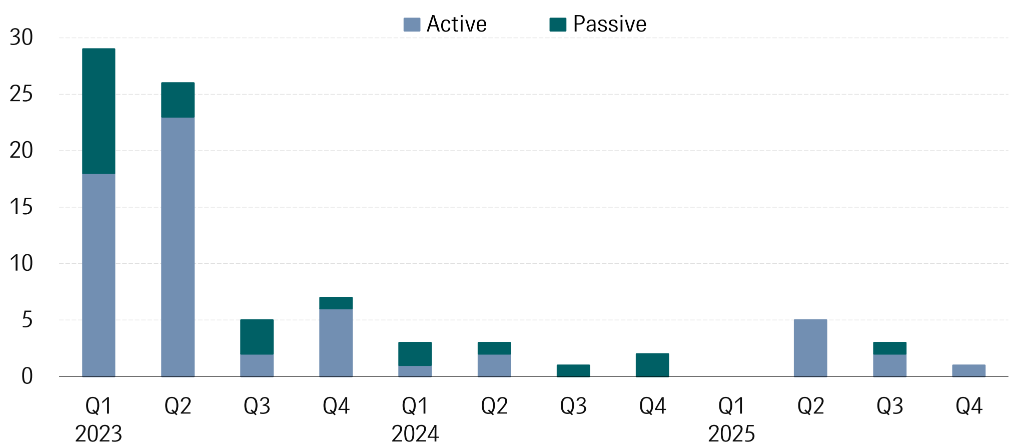
Source: Morningstar Direct. Data as of December 2025.

Subdued Product Development

Pictet Cleaner Planet ETF was the only new addition to the US sustainable fund universe in the last quarter of 2025, bringing the total number of launches for the year to nine. The Pictet fund targets climate solution themes, investing in clean energy, transition technologies, and enabling infrastructure.

In the previous quarter, another climate fund, namely **Invesco Global Equity Net Zero ETF**, was launched. With USD 150 million in assets at the end of December, this actively managed ETF invests in companies that seek to have a positive impact on the carbon economy through their existing and/or planned efforts to reduce global greenhouse gas emissions that in turn are anticipated to contribute to the overall transition to a “net zero” economy.

Exhibit 23 US Sustainable Fund Launches



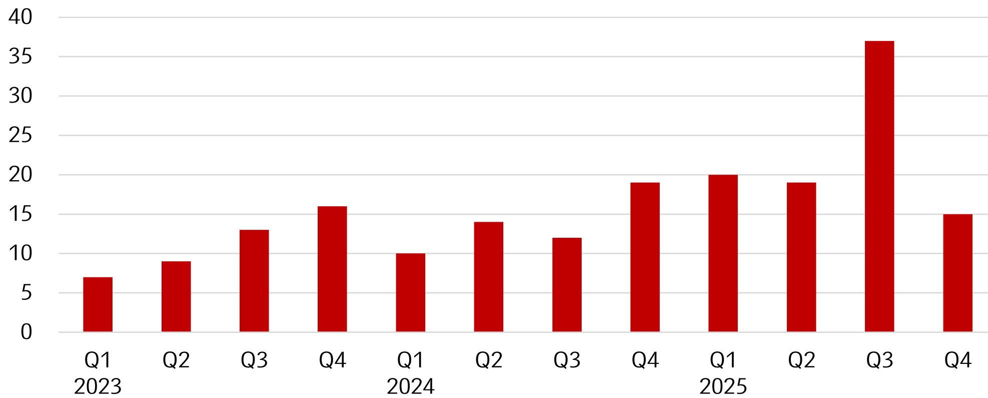
Source: Morningstar Direct. Data as of December 2025.

After a Surge, Fund Closures Slow

The fourth quarter saw 15 fund closures, bringing the total number of closures for 2025 to 97. Fidelity closed four sustainable offerings, namely **Fidelity Sustainable Core Plus Bond ETF**, **Fidelity Sustainable Low Duration Bond ETF**, **Fidelity Sustainable U.S. Equity ETF,** and **Fidelity Women's Leadership ETF**.

Humankind US Stock ETF was the largest fund to close, with USD 163 million in assets at the end of the previous quarter. This ETF aims to invest in companies assessed to contribute positively to society and the environment.

Exhibit 24 US Sustainable Fund Closures



Source: Morningstar Direct. Data as of December 2025.

US Regulatory Update

The SEC Division of Corporate Finance announced in November that it would not review no-action requests related to the exclusion of shareholder proposals, with one limited exception around interactions with state laws. This aligns with the earlier inclusion in the SEC's regulatory agenda of proposed rulemaking to modernize shareholder proposals, which could be formalized in 2026. In the statement, the SEC reaffirms that the existing rules, which allow companies to exclude shareholder proposals from proxy statements on several bases including relevance, do not require companies to seek the staff's view prior to excluding the proposal from proxy materials. While the practice had developed that companies would request no-action letters from the SEC concurring with their argument around the bases for exclusion, this is not formally required. The implications of this change are not yet clear. While it could lead to companies excluding proposals that they believe align with the regulations but would not have previously wanted to request SEC views on, it also creates more uncertainty for companies than under the previous practices.

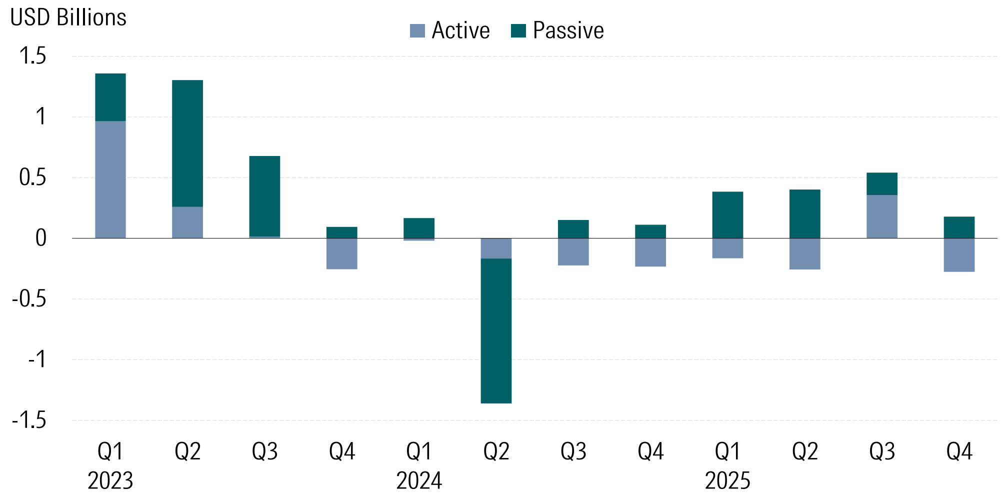
In the last quarter of 2025, legal actions related to California's SB 253 (GHG Emissions Reporting Requirements) and SB 261 (Climate-Related Financial Risk Disclosures) have created uncertainty around when the reporting requirements will fully come into effect. SB 261, which addresses climate-related financial risks, was slated to be effective the first of January 2026, but the Ninth Circuit court granted an injunction in November 2025, staying the enforcement of the law. The California Air Resources Board (CARB), which oversees the implementation and enforcement of both laws, published an enforcement advisory recognizing the court ruling. While the same lawsuit also sought an injunction for SB 253, this was not granted. SB 253 is on track to begin requiring reporting in 2026, which CARB expected to consult on details including deadlines in the first quarter of the year.

Canada

2025 Ends with Quarterly Outflows

In Canada, after three quarters of positive inflows, investors withdrew an estimated USD 98 million of capital from sustainable funds in the fourth quarter of 2025. Net gains of USD 179 million in passive products were insufficient to offset the USD 276 million withdrawn from actively managed funds.

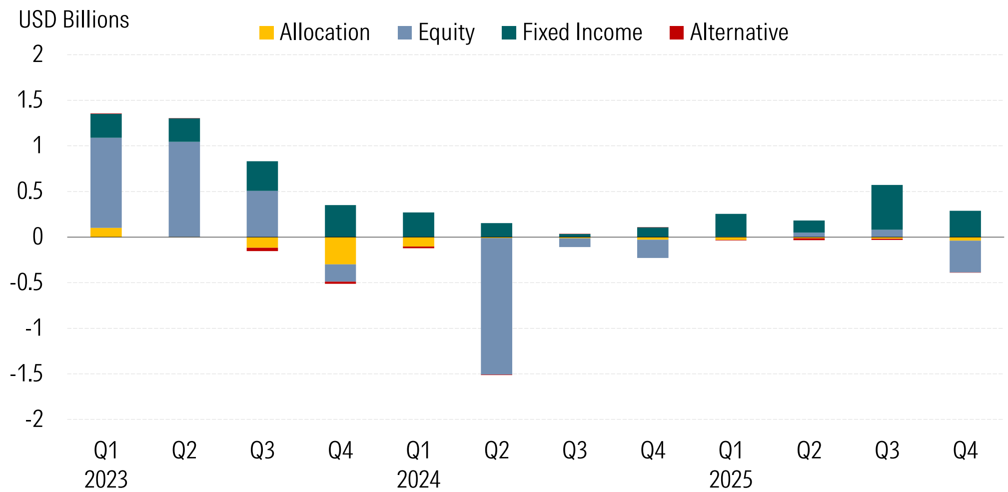
Exhibit 25a Canada Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025.

Like the European and US landscape, Canadian fixed income was the only asset class gathering net new money, with sustainable bond funds raising USD 290 million in the last quarter of the year. Conversely, sustainable equity funds saw USD 347 million withdrawn, more than offsetting the USD 133 million attracted previously throughout the year. Sustainable allocation also experienced outflows, with investors redeeming USD 40 million.

Exhibit 25b Canada Sustainable Flows by Asset Class

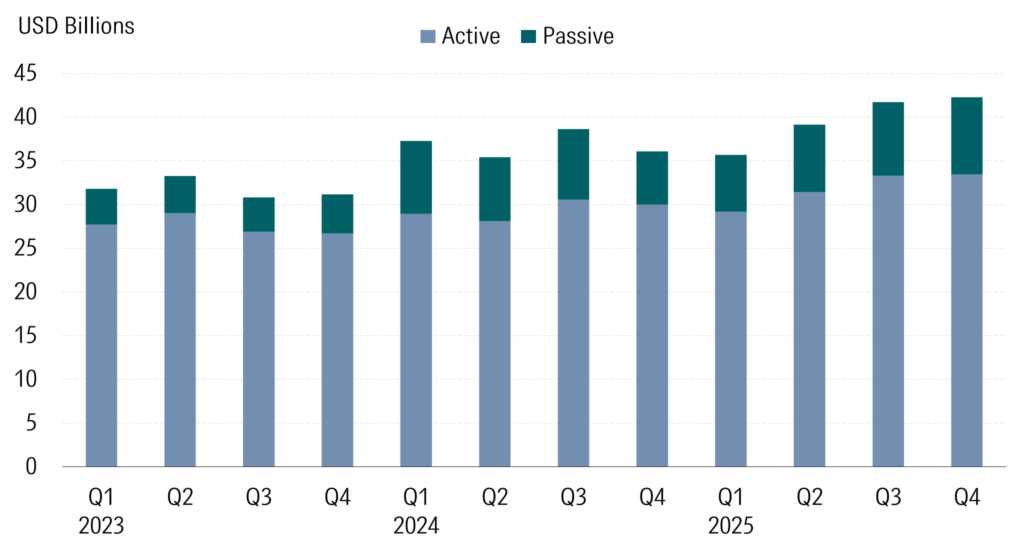


Source: Morningstar Direct. Data as of December 2025.

Modest Rise in Assets

Canadian sustainable fund assets rose by a modest 1.4% over the last quarter, reaching USD 42 billion at the end of December. This increase, however, pales in comparison with the broader market's performance, as the Morningstar Canada TME Index gained 7.6% over the same period.

Exhibit 26 Canada Sustainable Fund Assets



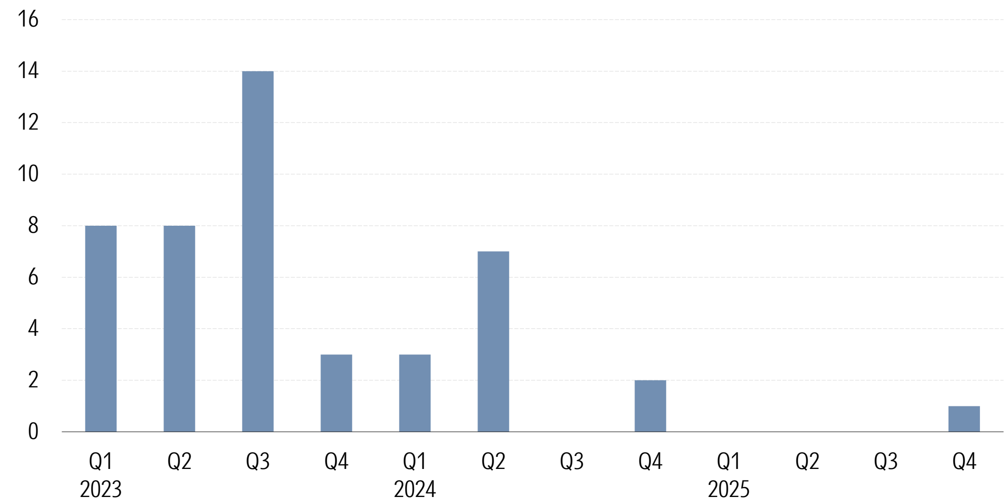
Source: Morningstar Direct. Data as of December 2025.

New Launches and Closures

Product development in Canadian sustainable funds was almost non-existent in 2025, while closures were widespread. In the fourth quarter of the year, Desjardin shut down three funds from its sustainable product lineup and launched just one new fund, **Desjardins Sustainable Canadian Equity Plus Fund**.

Following these changes, the firm now manages USD 6.6 billion across its remaining 29 sustainable funds. Meanwhile, Invesco closed eight ESG index funds, together holding USD 21 million in assets by the end of the previous quarter, while retaining 10 other ESG funds with a combined USD 1.3 billion in assets.

Exhibit 27 Canada Sustainable Fund Launches



Source: Morningstar Direct. Data as of December 2025.

Regulatory Update

As part of its 2025 budget, the Canadian government introduced Bill C-15, amending provisions introduced in the summer of 2024 that were intended to address greenwashing. The changes ease the standards imposed on firms when it comes to business-related environmental claims and private enforcement of these claims. This is intended to provide more certainty to the marketplace but does potentially reduce protections against false claims and greenwashing. Firms will no longer be required to substantiate their environmental benefit claims based on internationally recognized methodology standards. Furthermore, complaints about these claims must now go through the Competition Bureau.

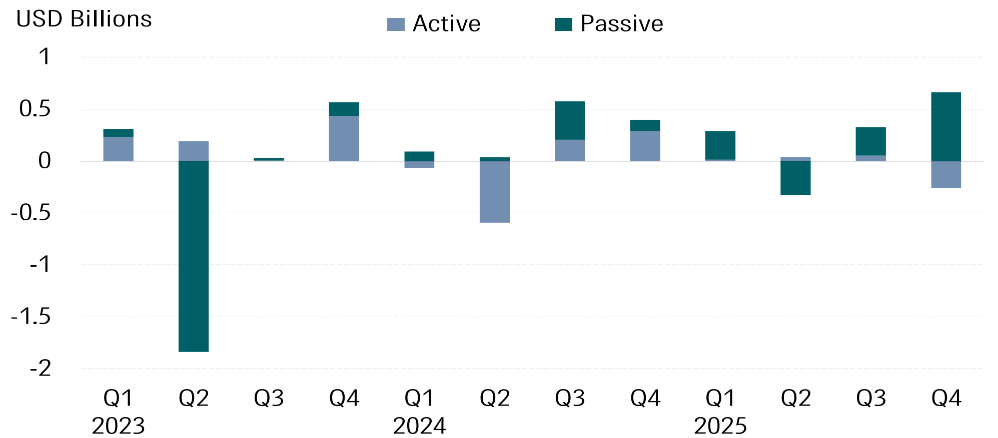
Australia and New Zealand

Continued Inflows

In the fourth quarter of 2025, the Australasian (Australia and New Zealand) sustainable funds universe attracted an estimated USD 400 million in net inflows. This continued the momentum from the third quarter's roughly USD 330 million, bringing total net inflows for 2025 to around USD 730 million.

Passive sustainable funds recorded over USD 660 million in net inflows, with most of the top-15 quarterly inflows going to passive global equity strategies. In contrast, Australasian active sustainable funds saw net estimated outflows of USD 260 million.

Exhibit 28 Australia and New Zealand Sustainable Fund Flows



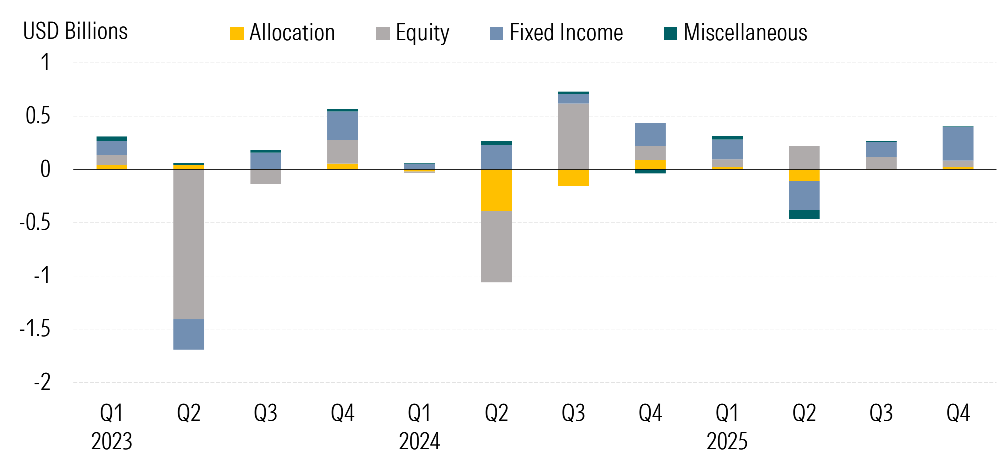
Source: Morningstar Direct. Data as of December 2025.

For comparison, the total open-end fund and ETF universes in Australia and New Zealand recorded almost USD 8.8 billion in net inflows in Q4. Passive strategies dominated with around USD 5.2 billion in net inflows, while active strategies added approximately USD 3.6 billion. This is building on the previous third-quarter strength of net inflows for 2025 of roughly USD 17.6 billion in net inflows.

Fixed Income Stands Out as the Largest Flow Contributor

In the Australasia region, flows in the fourth quarter of 2025 were positive across the four major asset class categories, led by fixed income with net estimated inflows of around USD 315 million, followed by USD 60 million in equities. Allocation funds received almost USD 25 million in net inflows while miscellaneous was up almost USD 5 million (this category saw positive inflows for real assets, but net outflows for other strategies).

Exhibit 29 Australia and New Zealand Sustainable Flows by Asset Class

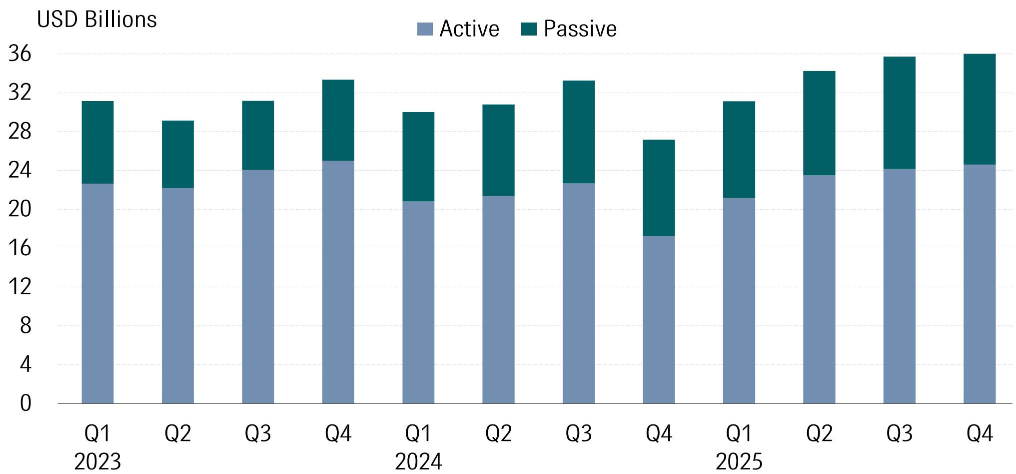


Source: Morningstar Direct. Data as of December 2025.

Assets Rise 5%, Bucking the Total Market Trend

The total size of Australasian sustainable investments is estimated at nearly USD 38 billion as of December 31, 2025, around 5% higher than at September 30, 2025. By contrast, the Australian shares index declined by 1% over the quarter.

Exhibit 30 Australia and New Zealand Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of December 2025.

The Australian sustainable funds market remains quite concentrated, with the top 10 firms accounting for approximately 71% of total assets in sustainable funds.

The top ten fund houses by sustainable fund assets are listed below, based on available data as of 31 December 2025. Dimensional (DFA) has the highest market share followed by BetaShares and Vanguard.

Exhibit 31 Top Australian and New Zealand Fund Houses by Sustainable Assets

Sustainable Asset Market Share	% Market Share
DFA Australia Limited	16.6%
BetaShares Capital Ltd	12.2%
Vanguard Investments Australia Ltd	8.6%
BlackRock Investment Management (Australia) Limited	7.6%
Russell Investment Management Limited	6.5%
Australian Ethical Investment Ltd	5.2%
Pendal Institutional Limited	4.6%
State Street Global Advisors (Aus) Ltd	4.2%
Mercer Investments (Australia) Limited	3.4%
Alphinity Investment Management Pty Ltd	2.6%

Source: Morningstar Direct. Data as of December 2025

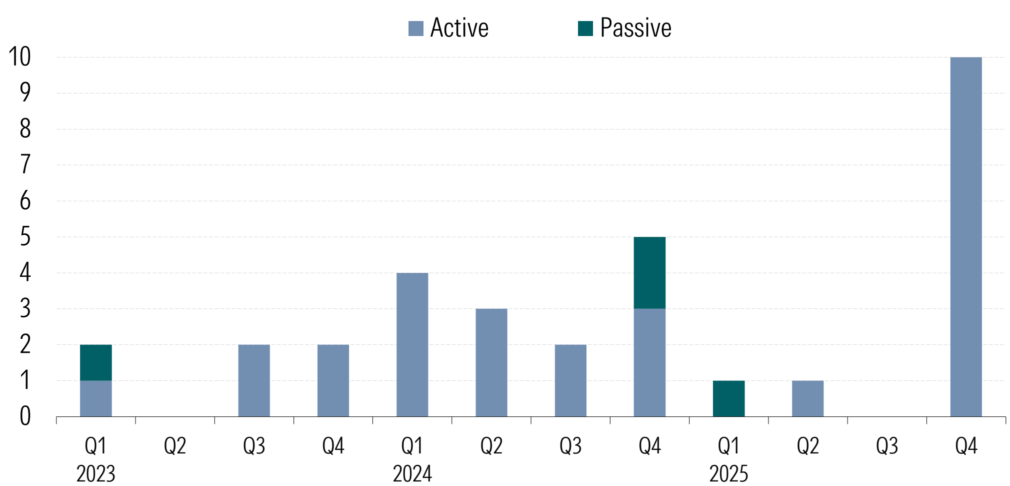
Launches

The fourth quarter of 2025 saw considerable activity in fund launches and closures. Ten new sustainable funds were launched, consisting of nine in New Zealand. Trust Management launched a suite of five ESG funds across asset classes, while Dimensional launched two sustainable fixed-interest NZ-PIE share classes. InvestNow launched two share classes for its Foundation Series global ESG offering. In Australia, Coolabah Capital launched its Coolabah Global Carbon Leaders Complex ETF targeting green bonds.

Notably, the four closures seen in the fourth quarter were all driven by the overnight closure of Stewart Investors, which saw its investment management responsibilities in emerging and worldwide equities transferred to FSSA Investment Management, together with the termination of the locally domiciled funds.

As of the end of December 2025, we counted 258 strategies in our Australasian sustainable fund universe, up from 253 at the end of September 2025.

Exhibit 32 Australia and New Zealand Sustainable Fund Launches



Source: Morningstar Direct. Data as of December 2025.

Regulatory Update

Australia's Department of the Treasury published responses to its consultation paper on sustainable investment product labels in November. This feedback was gathered between July 18 and August 29, 2025, with the proposed regime scheduled to commence in 2027.

Stakeholders broadly support a principles-based approach that gives product providers flexibility to apply their own methodologies, while cautioning against overly prescriptive definitions. Responses also emphasized coherence with the newly implemented Climate-Related Financial Disclosure framework. Although interoperability with the UK SDR and EU SFDR is not a priority, there is scope for alignment to enhance global comparability for cross-border investors.

In 2026, the Treasury is expected to release a refined framework for the labeling regime. This will outline which products must carry labels, define label categories and terminology, and set verification and disclosure requirements.

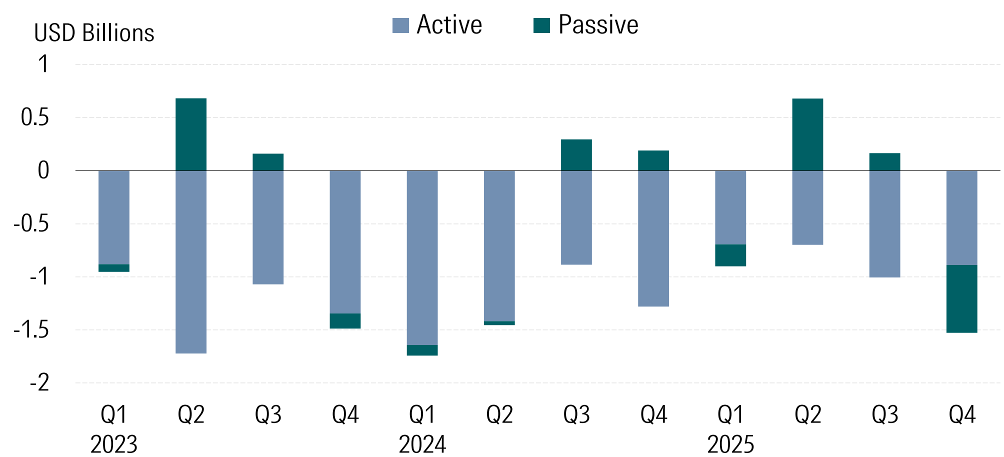
Japan

Outflows Persist

In the fourth quarter of 2025, Japanese sustainable funds extended their prolonged period of investor retrenchment, recording a 14th-consecutive quarter of net outflows. Net redemptions rose to USD 1.5 billion, nearly doubling the USD 840 million recorded in the previous quarter. This contrasts with the broader Japanese fund landscape, which registered inflows of USD 29 billion in the fourth quarter of 2025, more than double the inflows seen in the third quarter.

Actively managed sustainable funds extended their streak of net redemptions into a 15th consecutive quarter, with fourth-quarter outflows reaching close to USD 890 million. Passively managed sustainable funds also experienced weaker investor demand over the period, shifting from small net inflows in the previous quarter to net outflows of USD 640 million in the fourth quarter.

Exhibit 33 Japan Sustainable Fund Flows (USD Billion)

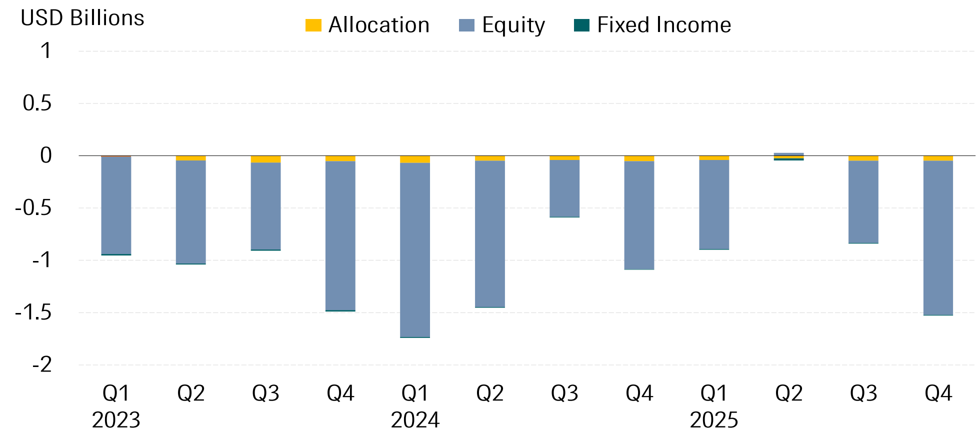


Source: Morningstar Direct. Data as of December 2025.

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.

NEXT FUNDS MSCI Global Climate 500 Japan Selection Index ETF shifted from being the largest contributor to net inflows in the third quarter to the largest detractor in the fourth quarter, with net outflows of approximately USD 483 million. This reversal accounted for three-quarters of total outflows from passively managed sustainable funds. The ETF invests in Japanese companies that aim to reduce their GHG emissions, while excluding companies with negative ESG impacts. Japanese sustainable equity funds, which make up 95% of the Japanese sustainable fund universe, recorded net outflows of USD 1.47 billion during Q4 of 2025, while sustainable fixed income funds posted net redemptions of just USD 6 million and sustainable allocation funds experienced withdrawals of USD 47 million.

Exhibit 34 Japan Sustainable Fund Flows by Asset Class (USD Billion)

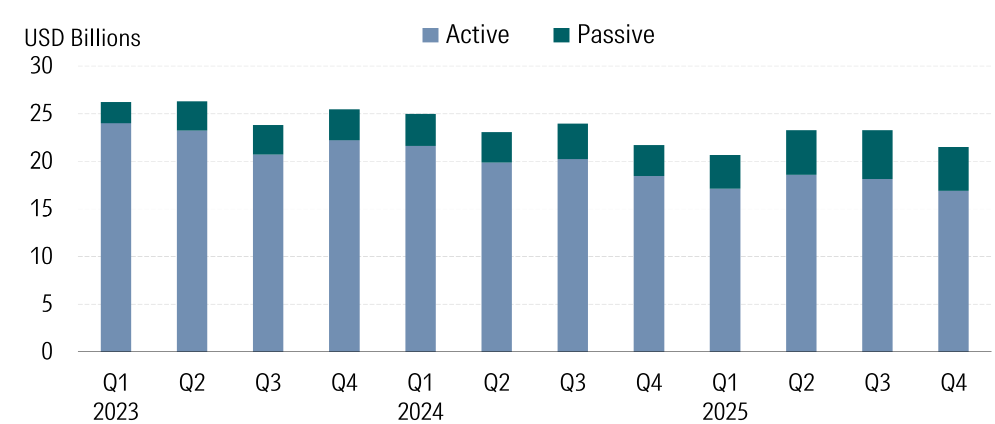


Source: Morningstar Direct. Data as of December 2025.

Assets Decline

Total assets in Japan-domiciled sustainable funds declined modestly by 7% quarter on quarter, standing at USD 21.5 billion at the end of December 2025, as persistent net outflows continued to weigh on asset levels. Over the same period, the broader Japanese equity market, measured by Morningstar Japan PR JPY Index, rose by 8.9%. Actively managed funds remain the dominant segment, accounting for around 80% of total sustainable fund assets, with equity funds making up the bulk of the universe (75%).

Exhibit 35 Japan Sustainable Fund Assets (USD Billion)

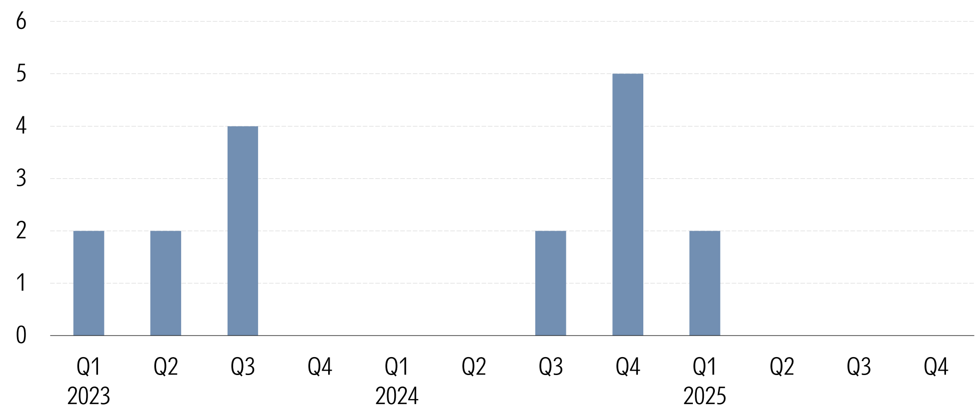


Source: Morningstar Direct. Data as of December 2025.

Product Development Activity Remains at a Standstill

Japan recorded no new sustainable fund launches in the last three months of 2025—a continuing trend since the first quarter of 2025.

Exhibit 36 Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of December 2025.

Regulatory Update

In October 2025, Japan's Financial Services Agency (FSA) and Japan Exchange Group (JPX) convened an expert panel to discuss the upcoming revision of Japan's Corporate Governance Code and Stewardship Code, scheduled for mid-2026. The revision is expected to place greater emphasis on enhanced disclosure of cash holdings usage and capital allocation policies, as well as the earlier release of financial information ahead of annual shareholders' meetings.

In November, the FSA published proposed amendments on Sustainability Disclosure and Assurance building on the interim report issued by the Financial System Council's Working Group. The proposal stipulates the mandatory adoption of standards issued by the Sustainability Standards Board of Japan (SSBJ) for companies listed on the Prime Market with an average market value exceeding Yen 1 trillion (USD 64 billion), while allowing voluntary application for companies below this threshold. In addition, the draft introduces safe-harbor provisions for scope 3 greenhouse gas emissions, aimed at mitigating legal and compliance risks associated with forward-looking and estimation-based disclosures.

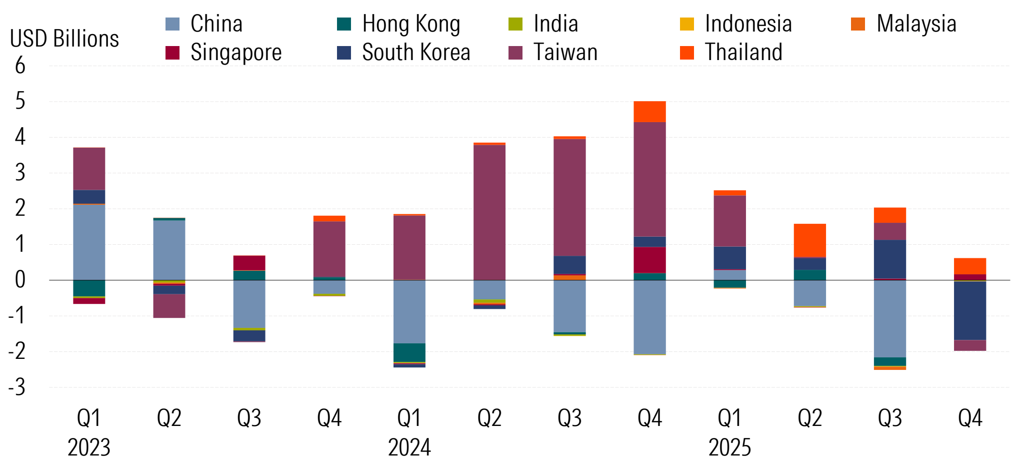
Asia ex-Japan

Third Net Outflows from Asia ex-Japan in Two Years

The Asia ex-Japan region posted USD 1.4 billion in net outflows in fourth-quarter 2025, marking the third quarterly outflows in two years. South Korea led the withdrawals with USD 1.6 billion in outflows, while Taiwan registered USD 300 million in outflows, its first negative quarter since third-quarter 2023. The market's largest sustainable fund, **Cathay Sustainability High Dividend ETF**, accounted for the largest single-fund outflow at USD 273 million. **Mega ESG Taiwan–U.S. Sustainable Double Profits Multi-Asset**, which splits its exposure between Taiwan and U.S. markets, experienced one of the largest outflows within the allocation category in the fourth quarter and saw consistent monthly net outflows throughout 2025. Launched in November 2024, it aims to deliver growth and income through equity and bond holdings that meet its sustainability criteria.

Thailand remained a bright spot, attracting USD 452 million in inflows, supported by ThaiESG sovereign bond funds such as **KKP Government Bond Thailand ESG** and **Bualuang Sovereign Instruments Thailand ESG**.

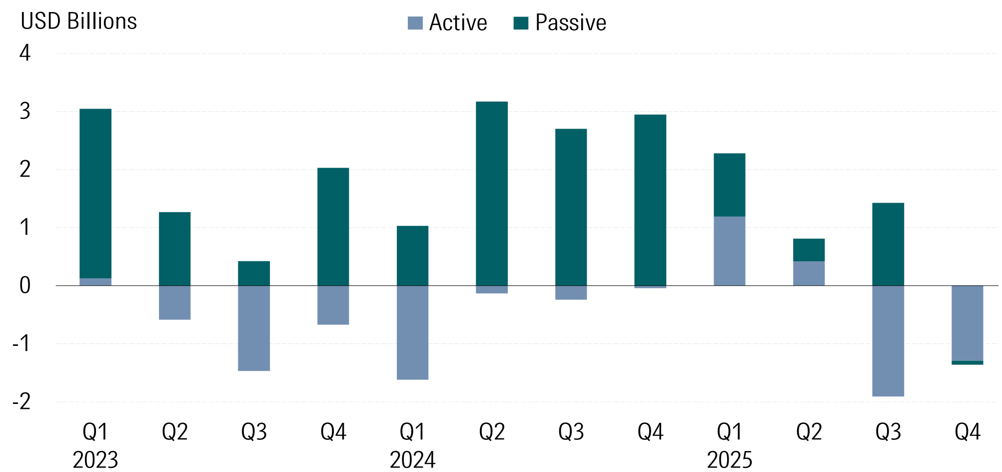
Exhibit 37 Asia ex-Japan Sustainable Fund Flows by Country



Source: Morningstar Direct. Data as of December 2025. China is not included in Q4 flows due to data unavailability.

Meanwhile, China-domiciled sustainable funds recorded USD 2.2 billion of outflows in the third quarter of 2025 (Q4 flow data was not available at the time of writing), their largest quarterly loss since the second quarter of 2022. The biggest single-fund outflow came from **Penghua Carbon Neutralization Thematic Mixed Fund**, an open-ended index fund tracking the CSI Mainland Low Carbon Economy Thematic Index, which saw USD 425 million in net redemptions during the third quarter.

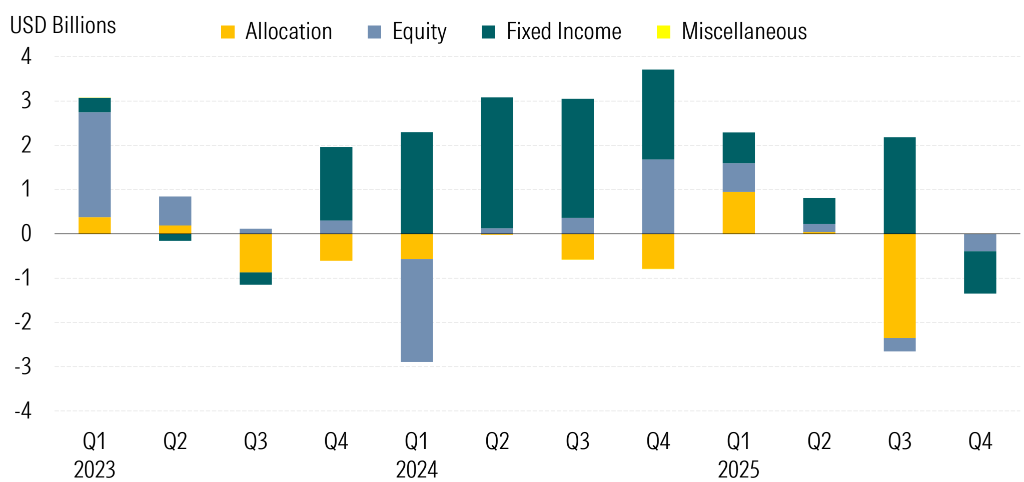
Exhibit 38 Asia ex-Japan Sustainable Fund Flows



Source: Morningstar Direct. Data as of December 2025. China is not included in Q4 flows due to data unavailability.

Over the full year, fixed income dominated with inflows of USD 2.3 billion, followed by equity (USD 1.0 billion) and allocation (USD 543 million). This continued the fixed income leadership trend from 2023 and 2024, driven by attractive yields and policy-supported green bond issuance amid market uncertainty.

Exhibit 39 Asia ex-Japan Sustainable Fund Flows by Asset Classes

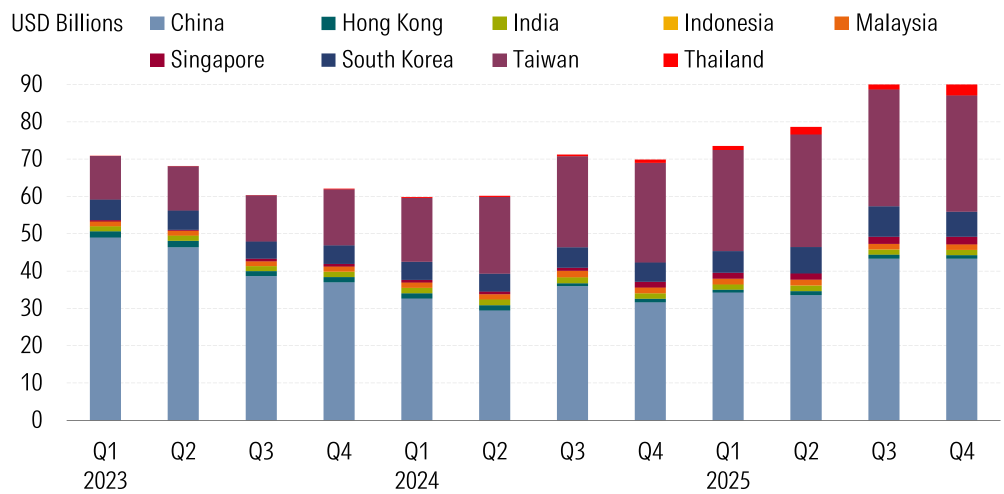


Source: Morningstar Direct. Data as of December 2025. China is not included in Q4 flows due to data unavailability.

Assets

Total sustainable fund assets in Asia ex-Japan (including China) closed fourth-quarter 2025 at approximately USD 90 billion, down 1.2% from the prior quarter's reconstituted AUM. Passive funds represented USD 52 billion (58%), while active funds accounted for USD 38.2 billion (42%).

Exhibit 40 Asia ex-Japan Sustainable Fund Assets (USD Billion)



Source: Morningstar Direct. Data as of December 2025. Because China's Q4 assets, we used third-quarter data as a proxy for fourth-quarter assets.

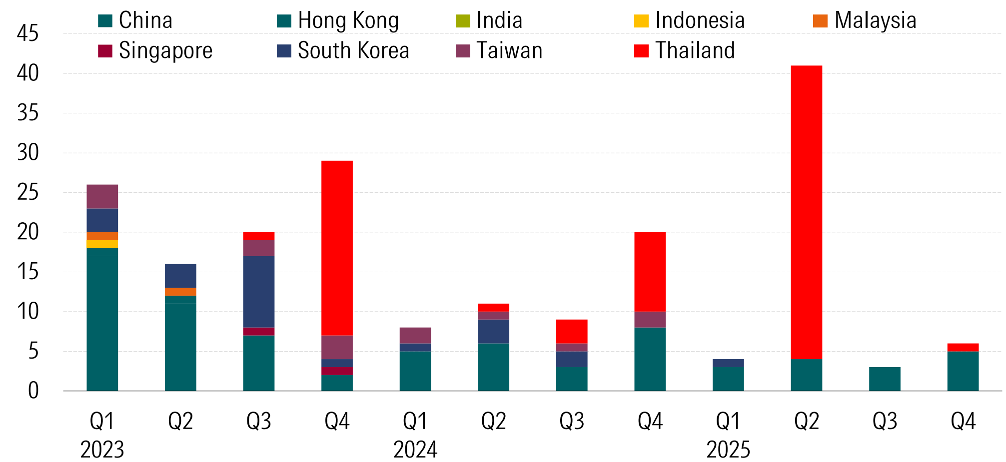
After China (for which up-to-date data was not available at the time of publication), Taiwan remains the second-largest market at roughly one-third of total Asia ex-Japan AUM or two-thirds of ex-China assets. South Korea followed at 7.4% of total Asia ex-Japan assets, with Southeast Asian markets Thailand (3.5%) and Singapore (2.2%) rounding out the top five. By asset class, regional AUM comprised USD 53.6 billion in equity, USD 21.3 billion in fixed income, and USD 15.3 billion in allocation strategies.

Fund Launches Saw an Uptick in 2025, Led by China

Six new sustainable funds debuted in Asia ex-Japan during the fourth quarter of 2025. Five launches were in China, including two focused on the low carbon economy theme, two on new energy, and one passive product—**Harvest CSI Photovoltaic Industry ETF**. The latter tracks the CSI Photovoltaic Industry Index, a free-float, market-cap-weighted benchmark that acts as a barometer for China A-share stocks in the solar power sector. The remaining launch was Thailand-domiciled **K ESG Bond –ThaiESG**, which invests in green, sustainability, or sustainability-linked bonds issued by sovereigns and corporates.

For full-year 2025, 54 new funds were launched in Asia ex-Japan, slightly above 2024 but well below peak volume in 2021-2023, when annual launches averaged nearly 100. 2025 launch activity was concentrated in Thailand (38) and China (15), with one launch in South Korea.

Exhibit 41 Asia ex-Japan Sustainable Fund Launches



Source: Morningstar Direct. Data as of December 2025.

Regulatory Update

In the final quarter of 2025, regulatory bodies and government-related agencies continued to roll out new sustainability initiatives and refine existing ones relevant to the asset management sector.

Hong Kong's Accounting and Financial Reporting Council (AFRC) released a consultation on a proposed sustainability assurance regime in late December. The framework aims to introduce standards for external verification of climate-related disclosures. Assurance requirements are expected to improve data reliability and reduce greenwashing risk, a priority for both regulators and investors.

The Hong Kong Monetary Authority (HKMA) also issued updated FAQs on the sale of green and sustainable investment products. These guidelines clarify distributor obligations around product due diligence, suitability assessments, and disclosure practices. For asset managers, this oversight into how ESG-labelled products are marketed and sold reinforces the need for robust internal governance and transparent labeling.

Meanwhile, Taiwan's Financial Supervisory Commission (FSC) confirmed the adoption of IFRS Sustainability Disclosure Standards (ISSB-aligned) starting in 2026. The FSC introduced new rules for TWSE- and TPEx-listed companies, requiring enhanced sustainability governance and third-party assurance for greenhouse gas reporting. These changes raise the compliance bar for firms and improve comparability of ESG disclosures across markets, benefiting investors who rely on consistent data for risk assessment.

In China, authorities issued the "Corporate Sustainability Disclosure Standard No. 1 - Climate Trial". While voluntary for now, the framework aligns with international best practices and sets the stage for mandatory requirements in the coming years.

South Korea continued to strengthen governance disclosure requirements, with the Korea Exchange highlighting (Korean) best practices in corporate governance reporting and announcing priority review items for 2026 reports, including shareholder meeting timing and dividend predictability.

Appendix—Defining the Global Sustainable Fund Universe

The global sustainable fund universe encompasses open-end funds and ETFs that, by prospectus or other regulatory filings, claim to focus on sustainability, impact, or environmental, social, and governance factors.

Our definition differs from the EU's Sustainable Finance Disclosure Regulation, which defines "sustainable investments" at a holdings level.[9] Our definition is not based on any regulatory framework, nor does it meet the criteria of any particular regulatory framework.

Our universe of sustainable funds is based on intentionality, rather than on holdings. To identify intentionality, we relied on a combination of fund names (a strong indicator of intentionality) and information found in fund documents. The fund's documents should contain enough details to leave no doubt that ESG concerns figure prominently in the security selection and portfolio construction process.

The global sustainable fund universe does not contain the growing number of funds often referred to as "ESG integrated funds," which formally consider ESG criteria in the investment process and engage with portfolio holdings, but do not make ESG considerations the focus of the investment process.

Furthermore, the global sustainable fund universe does not include funds that employ limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal (combined with an ESG integration approach or not). We, however, include ESG-screened passive funds in our universe, as the exclusions are typically the sole purpose of the strategy.

Finally, when calculating flows and assets, we exclude feeder funds and funds of funds to avoid double-counting. We make an exception for Japan and South Korea to better reflect the actual flow situations there, as many Japanese funds of funds are invested in European funds. Money market funds are excluded from all markets.

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

9 Article 2(17) of SFDR defines the term *sustainable investment* as:

- An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy.
- Or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration, and labor relations, or an investment in human capital or economically or socially disadvantaged communities.
- Provided that such investments do not significantly harm any of those objectives.
- And provided that the investee companies follow good governance practices, with respect to sound management structures, employee relations, remuneration of staff, and tax compliance.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. For more information, visit www.Sustainalytics.com.