

European Sustainable Fund Flows: Q2 2020 in Review

ESG fund flows and assets hit new highs as markets recover from the COVID-19 sell-off.

Morningstar Manager Research

July 2020

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Key Takeaways

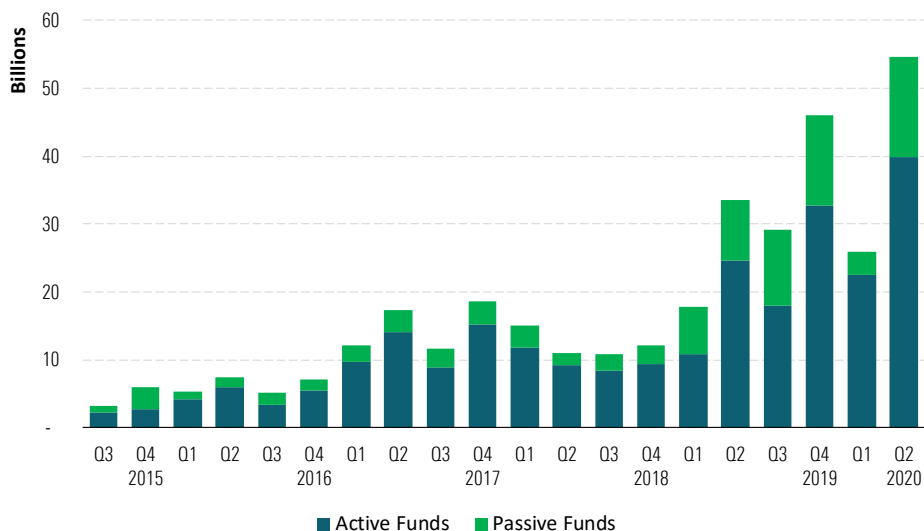
- ▶ European sustainable funds¹ attracted record inflows of EUR 54.6 billion in the second quarter of 2020, double the inflows registered in the tumultuous first quarter of the year.
- ▶ Sustainable fund flows accounted for almost a third of overall European fund flows, while sustainable equity funds continued to outpace their traditional equivalents.
- ▶ Assets recovered from the market disruption caused by the coronavirus pandemic in the first quarter, increasing by 22% to EUR 774 billion at the end of June.
- ▶ Product development showed a continued rise consistent with previous quarters, with the launch of 107 new funds focused on environmental, social, and governance factors, including 27 passive products. These bring the total of European sustainable fund universe to 2,703.
- ▶ Asset managers continued "greening" their offerings by converting 40 traditional funds into sustainable funds. Thirty of these were also renamed. Repurposed funds now account for 21% of the European sustainable fund universe.
- ▶ Meanwhile, progress was made on many fronts of the Sustainable Finance Action Plan, with notable milestones, including the final text of the Taxonomy of sustainable activities.

Quarterly Flows More Than Double

In the second quarter of 2020, European sustainable fund flows rebounded sharply from the market meltdown caused by the COVID-19 pandemic in the first quarter of the year. Sustainable funds attracted inflows of EUR 54.6 billion, up from just under EUR 26 billion in the previous quarter. This represents a quarter-on-quarter growth of 110%. The quarterly organic growth, which measures the growth in flows between the first and second quarters excluding flows into newly launched and repurposed funds, was 58%.

Index funds and exchange-traded funds garnered nearly EUR 15 billion in sustainable fund flows, accounting for 27% of second-quarter flows, up from just EUR 4 billion, or 15%, in the previous quarter.

¹ The European sustainable funds universe encompasses mutual funds and ETFs domiciled in Europe that state, by prospectus, that they use environmental, social and governance criteria as a key part of their security-selection process and/or indicate that they pursue a sustainability-related theme and/or seek a measurable positive impact alongside financial return. The sustainable funds group does not contain funds that employ only limited exclusionary screens without a broader emphasis on ESG, nor does it contain the growing number of funds that now formally consider ESG factors in a non-determinative way in their security selection. Money market funds, feeder funds, and funds of funds are excluded.

Exhibit 1 Quarterly European Sustainable Fund Flows (EUR Billion)

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

The flow data encompasses 2,703 mutual funds and ETFs domiciled in Europe that state, by prospectus, that they use environmental, social and governance criteria as a key part of their security-selection process and/or indicate that they pursue a sustainability-related theme and/or seek a measurable positive impact alongside financial return. The sustainable funds group does not contain funds that employ only limited exclusionary screens without a broader emphasis on ESG, nor does it contain the growing number of funds that now formally consider ESG factors in a nondeterminative way in their security selection. Money market funds, feeder funds, and funds of funds are excluded.

Key Drivers of Q2 Flows

The record second-quarter inflows were driven by growing 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 multi-stakeholder 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 from 2,584 to 2,703. The second quarter saw the launch of 107 funds, which garnered EUR 7.0 billion of new money, and the conversion of 40 traditional offerings into sustainable funds. Those pulled in EUR 6.5 billion of inflows. Rounding things up, the 28 sustainable funds that closed over the quarter registered EUR 0.5 billion of outflows.

Flows by Asset Class

Equity remained the asset class of choice for ESG-minded investors as they poured EUR 31.3 billion into sustainable equity funds in the second quarter. It was 63% more than the flows into traditional equity funds. Flows into sustainable fixed-income funds were also positive but lagged their traditional equivalent. This can be attributed to the more limited number of sustainable bond strategies.

Exhibit 2 Flows by Asset Class for Sustainable Funds vs. Traditional Funds (EUR Billion)

	Sustainable Funds				Traditional Funds				Overall Fund Universe
	Apr	May	Jun	2020	Apr	May	Jun	2020	2020
Allocation	1.5	2.1	3.8	7.3	-0.4	2.6	6.6	8.8	16.1
Alternative	-0.1	-0.4	-0.5	-1.0	-6.7	-3.6	-4.2	-14.5	-15.5
Commodities	0.0	0.0	0.0	0.0	2.9	3.4	0.4	6.7	6.7
Convertibles	0.0	0.1	0.0	0.2	-0.4	-0.3	0.2	-0.5	-0.3
Equity	7.8	9.8	13.6	31.3	14.2	-0.6	6.6	20.2	51.5
Fixed Income	3.7	6.0	6.8	16.6	25.8	32.3	30.3	88.5	105.1
Miscellaneous	0.0	0.0	0.2	0.1	-0.2	0.2	-0.4	-0.4	-0.3
Property	0.0	0.0	0.0	0.1	0.4	0.4	0.8	1.5	1.6
Total	13.0	17.5	24.1	54.6	35.8	34.1	39.2	110.3	165.0

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

Overall, sustainable funds gathered a third of the inflows into the overall European fund universe (EUR 54.6 billion out of EUR 165.0 billion).

Leaders and Laggards

Four bond funds, **Quaestio Solutions Funds Global Macro Bond**, **UBS (CH) Bond Fund–Bonds CHF Sustainable**, **Focused SICAV–US Corporate Bond Sustainable**, and **SEB Sustainable High Yield**, were among the best-selling sustainable funds in the second quarter. The large inflow into Quaestio Solutions Funds Global Macro Bond, offered by Italian asset manager Quaestio, was due to a single institutional client switching money from a segregated mandate run by the manager to the fund.

Exhibit 3 Top 10 Sustainable Fund Flows in Q2 2020

Fund Name	Net Flows (EUR, Million)
Quaestio Solutions Funds Gb Mcr Bd I Acc	2,150
UBS (CH) BF -Bonds CHF Sust. CHF P	1,411
Blackrock ACS World ESG Eq TrkrX1JGBPAcc	852
Royal London Sustainable Leaders A Inc	789
ING Select Duurzaam Neutral B EUR Acc	747
KLP AksjeGlobal indeks 1 A	739
UBS (CH) IF Eqs Gbl Clmt Awr II I-A1	670
NT Europe Sust Sel SDG Idx A EUR Inc	654
Focused SICAV USCorpBdSust(\$)F USD Acc	613
SEB Sustainable High Yield B EUR	577

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

Unlike in the previous quarter when five environment- and climate-related offerings made it to the top of the league table, only one made it this quarter, the recently launched **UBS (CH) Investment Fund–Equities Global Climate Aware II**.

Exhibit 4 Bottom 10 Sustainable Flows in Q2 2020

Fund Name	Net Flows (EUR, Million)
Handelsbanken R�ntestategi A1 SEK	- 994
JSS Sustainable Equity CH P CHF dist	- 507
ACTIAM Resp. Index Fund Eq. Pacific	- 455
State Street Em Mkts SRI Enh Eq I USD	- 375
UBS ETF MSCI ACWI ESG Unvsl H EUR A Acc	- 346
MDPS TOBAM AntiBench Emerg Mkts Eq A1	- 309
BNP Paribas Sus Enh Bd 12M CI EUR Acc	- 299
BNP Paribas US Mul-Ftr Eq CI Acc	- 276
Northern Trust Europe Value ESG A EUR	- 258
Allianz Euro Oblig Court Terme ISR I C/D	- 240

Source: Morningstar Direct, Morningstar Research. Data as of June 2020.

Provider Rankings

Among sustainable fund providers in Europe, BlackRock continued to top the leader board in the second quarter with over EUR 5 billion in flows, followed by UBS and Credit Suisse.

Exhibit 5 Top 10 European Sustainable Fund Providers by Flows in Q2 2020

Branding Name	Net Flows (EUR, Million)
BlackRock	5,006
UBS	4,718
Credit Suisse	2,225
Quaestio	2,216
Amundi	1,828
ING Group	1,535
Candriam	1,491
Royal London	1,419
KBC	1,206
SEB	1,182

Source: Morningstar Direct, Morningstar Research. Data as of June 2020.

Exhibit 6 Bottom 10 European Sustainable Fund Providers by Flows in Q2 2020

Branding Name	Net Flows (EUR, Million)
J. Safra Sarasin	- 420
State Street	- 283
InsingerGilissen	- 132
ABN AMRO	- 132
BlueOrchard	- 120
Russell Investments	- 61
Jyske Invest	- 46
Ruffer	- 43
AllianceBernstein	- 42
First State	- 40

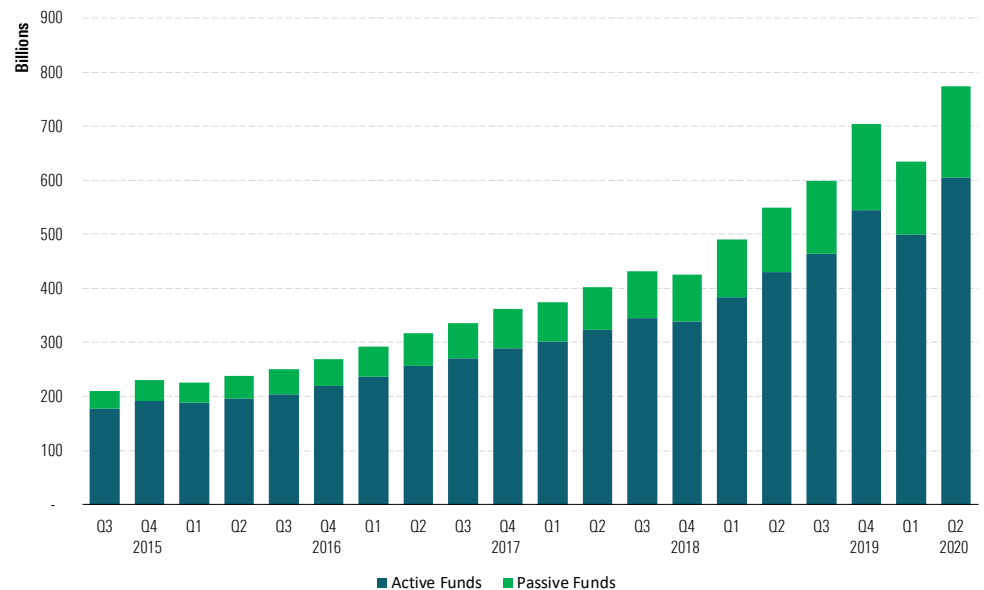
Source: Morningstar Direct, Manager Research. Data as of June 2020.

Assets Recover Amid COVID-19 Crisis

Assets in European sustainable funds rose in the second quarter to EUR 774 billion, up from EUR 645 billion at the close of the first quarter, a 20% increase. This compares with an 11% increase in assets for the overall European fund universe.

Passive funds now represent 25% of the European sustainable fund market, which is up from just 14% five years ago.

Exhibit 7 Quarterly European Sustainable Fund Assets (EUR Billion)



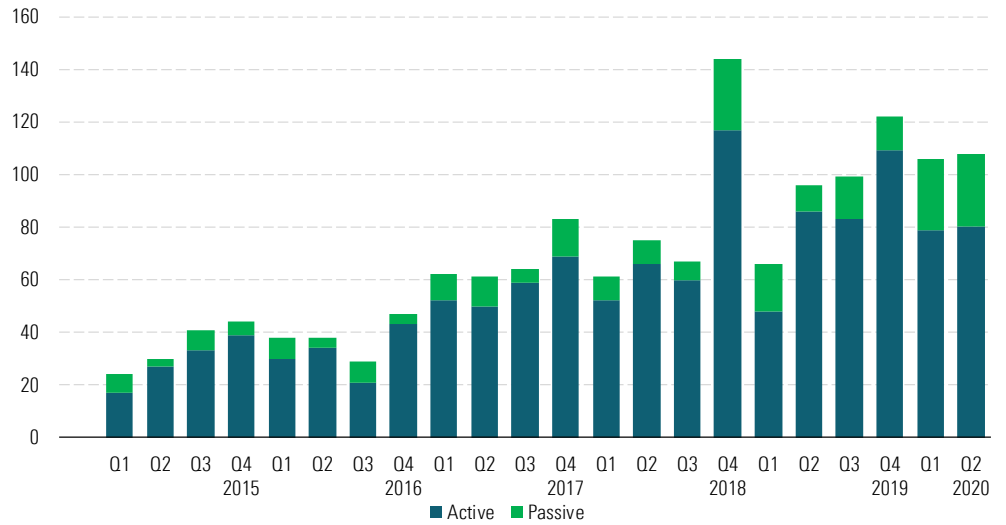
Source: Morningstar Direct, Morningstar Research. Data as of June 2020.

Fund Launches

Product development in the second quarter of 2020 showed a continued rise consistent with previous quarters. No fewer than 107 new sustainable funds came to market, drawing level with the 106 launches in the first quarter. Several offer exposure to a theme such as climate change or resource efficiency. Examples include **RobecoSAM Global Green Bonds**, **DNCA Invest Beyond Climate**, or **Raiffeisen-SmartEnergy-ESG-Aktien**.

On the passive side, Lyxor launched a suite of Climate Change ETFs that are compliant with the European Union's Paris Aligned Benchmark regulation, as well as thematic ETFs, including **Lyxor MSCI Millennials ESG Filtered (DR) UCITS ETF** and **Lyxor MSCI Smart Cities ESG Filtered (DR) ETF**. In total, passive funds accounted for 26% of new launches. iShares and Amundi launched three ETFs a piece, including **iShares Edge MSCI Europe Minimum Volatility ESG ETF** and **Amundi IS MSCI Emerging ESG Leaders ETF**.

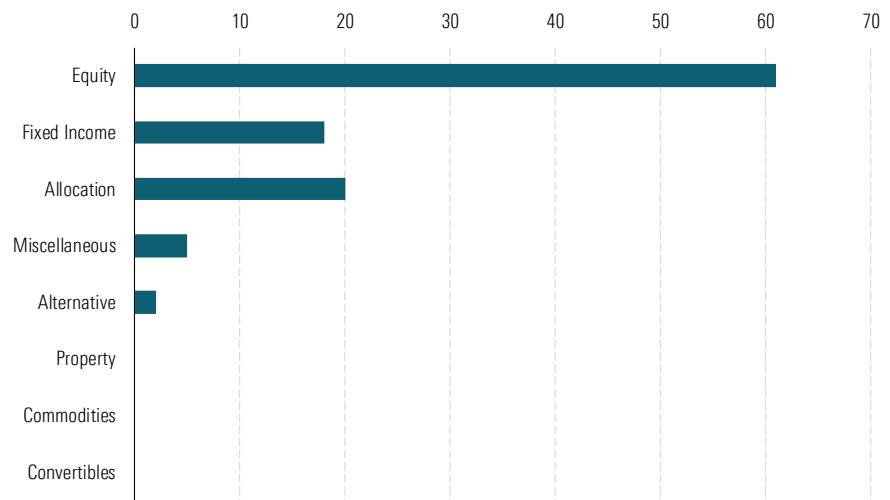
Exhibit 8 European Sustainable Fund Launches Per Quarter



Source: Morningstar Direct, Morningstar Research. Data as of June 2020.

In terms of broad asset class, the allocation and fixed-income universes continued to expand with 20 and 18 new sustainable funds launched in the second quarter, respectively. Examples of new allocation funds include **HSBC Global Sustainable Multi-Asset**, with three more offerings from ING Group and three from Natixis. But equity was still the source of the most proliferation with 61 new launches. Investors can enjoy increasing choice when constructing sustainable portfolios.

Exhibit 9 European Sustainable Fund Launches Per Broad Category Group



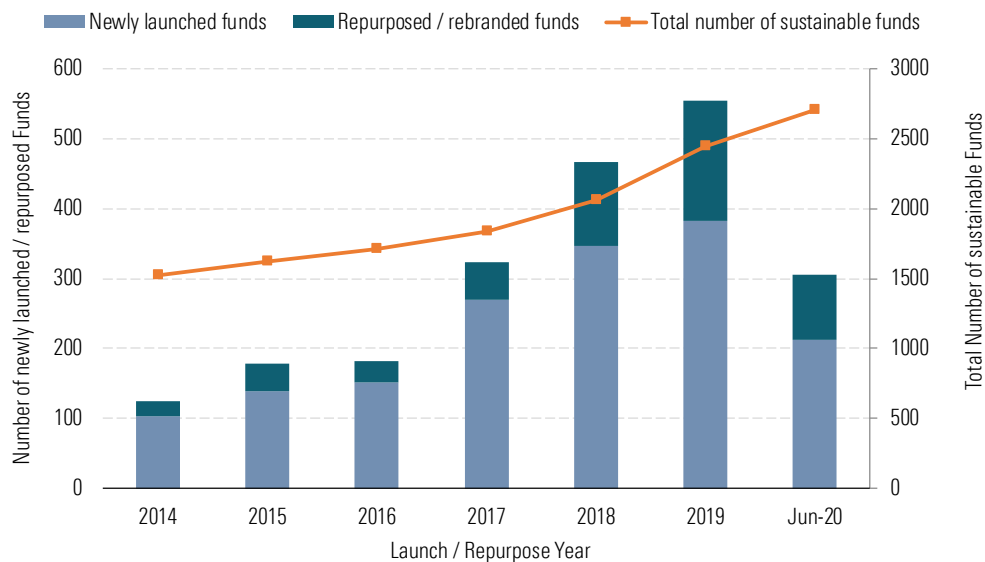
Source: Morningstar Research. Data as of June 2020.

Repurposed Funds

Launching new funds is not the only way that asset managers have been offering more choices to investors. They have also been converting traditional funds into sustainable funds by adding specific ESG criteria to their investment objectives or policies and, in many cases, by also changing fund names to reflect their new mandates.

As shown in Exhibit 10, a third of the recent additions to the European sustainable fund market were repurposed ESG funds. Repurposing existing funds into sustainable offerings provides a way for asset managers to leverage existing assets when building their sustainable-funds businesses, thereby avoiding having to create funds from scratch and, in some cases, accelerating the time frame required to reach scale. Others have decided to "green" their entire range of funds by, for example, reducing exposure to companies with the highest carbon footprint, or completely divesting from fossil fuel.

Exhibit 10 Recent Additions to the European Sustainable Fund Universe by Newly Launched and Repurposed Funds



Source: Morningstar Research. Data as of June 2020.

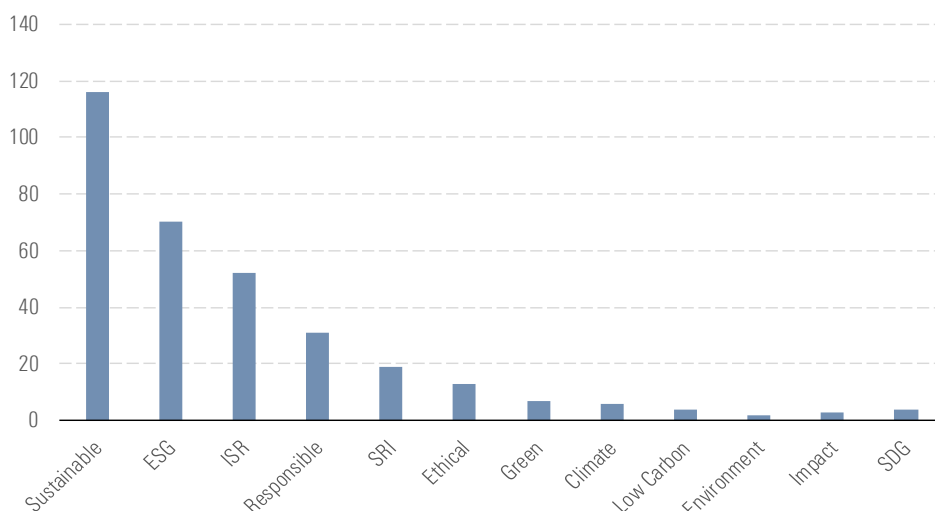
The second quarter of 2020 saw 40 traditional funds repurposed into sustainable offerings, 30 of which also changed names. Exhibit 11 provides a sample list of the latest makeovers we have identified based on legal documents and manager information.

Exhibit 11 Examples of Recently Repurposed/Rebranded Sustainable Funds

New Name	Old Name	Language Addition	Inception Date	Estimated Rebranding Date	AUM (EUR Mil)
Allianz Euro Short Term Bonds SRI	Allianz Euro Short Term 12 mois	SRI	18/02/2009	01/04/2020	62
BMO LGM Responsible Asian Equity Fund	BMO LGM Asian Growth and Income Fund	Responsible	28/11/2013	15/05/2020	1
BNP Paribas Easy ECPI Global ESG Infrastructure	BNP Paribas Easy NMX® 30 Infrastructure Global	ESG	05/02/2016	01/04/2020	22
HGA Transition Climat	FGF Cristallin EURO Equities	Climate	16/07/1990	09/06/2020	38
LBPAM ISR Actions Amérique	LBPAM Actions Amerique	ISR	10/04/1997	01/05/2020	240
Metropolitan Rentastro Sustainable Growth	Metropolitan Rentastro Growth	Sustainable	15/01/1987	15/05/2020	936
Schroder Intern. Selection Fund Sustainable Swiss Equity	Schroder Intern. Selection Fund Swiss Equity Opp.	Sustainable	31/08/2005	01/04/2020	35
Stewart Investors Worldwide Leaders Sustainability Fund	Stewart Investors Worldwide Select Fund	Sustainable	30/07/1999	04/06/2020	36
VP Bank Risk Optimised ESG Equity Switzerland	VP Bank Best Manager Swiss Equities	ESG	17/09/2002	01/05/2020	30
VR Westmünsterland Aktiv Nachhaltig	VR Westmünsterland Aktiv	Sustainable	29/10/2010	01/06/2020	48

Source: Morningstar Research. Data as of June 2020.

Adding a term such as *sustainable*, *ESG*, *green*, or *SRI* to a fund's name is a marketing decision that helps to increase its visibility among investors who are looking to invest more sustainably. As shown in Exhibit 12, *sustainable* has been by far the most commonly adopted term among European repurposed funds in the past three years, followed by *ESG*, and *ISR* (*SRI* in French), which is increasingly used in France by funds that have received the French ISR label².

Exhibit 12 Most Common Terms Added to Names of Repurposed Funds Since 2017

Source: Morningstar Research. Data as of June 2020.

Thus far, we have identified 586 live traditional funds in Europe that have repurposed into ESG-focused strategies in the past decade, including 477 (81%) that changed names to reflect their new sustainable

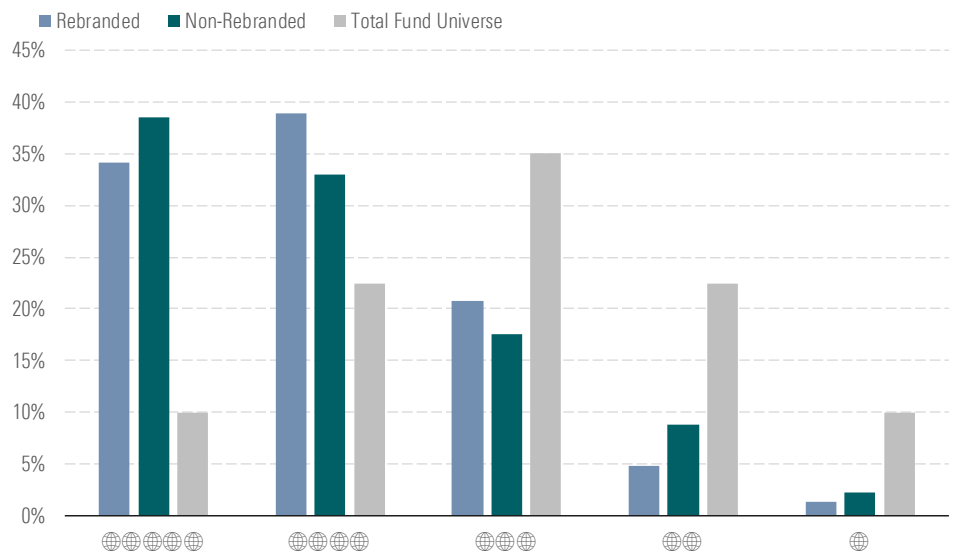
² <https://www.lelabelisr.fr/en/funds/>

mandate. These funds currently account for 21.7% and 17.6% of the European sustainable fund universe, respectively. Most of these transformations have occurred in the past three years.

One would be forgiven for assuming that repurposed funds are simply greenwashed and/or there hasn't been a complete revamp of the holdings or strategy. It is true that some funds do not make many changes. This could be because ESG factors are already extensively incorporated into the investment process and only a few exclusions are added to the strategy. But many others undergo a total overhaul, and some even change managers.

To assess the sustainability profile of repurposed funds, we looked at their Morningstar globe ratings³, distinguishing between funds that rebranded and those that didn't. As shown in Exhibit 13, we found that the majority of repurposed funds carry either 4 or 5 globes. About 73% and 71% of rebranded and non-rebranded funds, respectively, are awarded Morningstar's highest Sustainability Ratings of 4 or 5 globes, compared with just 32.5% for the overall universe. These figures should help to alleviate greenwashing concerns.

Exhibit 13 Globe Ratings Distribution for Repurposed Funds vs. the Total Fund Universe



Source: Morningstar Direct, Morningstar Research. Data as of June 2020.

To read more about repurposed funds: [Surge in Funds Rebranding as Sustainable.](#)

Regulatory Update

Progress has continued on many fronts of the Sustainable Finance Action Plan with notable milestones, including the final text of the Taxonomy of sustainable activities, to which companies and funds must start reporting their degree of alignment at the end of 2021; new obligations on benchmark providers to

³ [Morningstar Sustainability Rating Methodology](#)

explain if and how ESG factors are considered in each benchmark; and new requirements for credit rating agencies to explain how ESG considerations impacted rating changes.

Disclosures are a core component of the Action Plan, and the extension of reporting to more companies and the increased standardisation thereof were the subjects of a recently closed consultation. While significant new fund disclosure requirements will commence as soon as March 2021, the finer details are the subject of another currently open consultation.

Despite these activities, the European Commission asserts that "a more comprehensive and ambitious strategy is needed, because while progress has been made, the financial system is not transitioning fast enough." In mid-July, it closed a wide-ranging consultation on a Renewed Sustainable Finance Strategy, which will predominantly focus on three areas:

- 1) Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures, and reducing financial and nonfinancial companies' focus on short-term financial performance.
- 2) Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates, by using regulatory frameworks and tools to "finance green."
- 3) Reducing the exposure to climate and environmental risks and further contribute to "greening finance."

To read more about European Sustainable Finance Regulation:

[EU Sustainability Disclosures](#)

[EU Taxonomy of Sustainable Activities](#)

[Regulating ESG Investing the EU Way](#)



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