Fund ESG name changes and net flows

Adrien AMZALLAG, Nils BROUWER, Julien MAZZACURATI, Federico PIAZZA

ESMA Webinar – 24 April 2025

ESMA50-524821-3560

Background - Fund Names and Investor Behaviour

Why study ESG-related fund name changes:

- **Fund names influence investor behaviour** by signalling themes and investment strategies.

- **Adopting a word related to a 'hot topic' attracts additional inflows.** Cooper (2005): during the dotcom bubble, adding innovation related words lead to additional inflows

- **Adding an ESG-related term to name leads to additional inflows—** Cochard et al. (2023)

Cooper, M. J., H. Gulen, and P. R. Rau (2005), Changing names with style: Mutual fund name changes and their effects on fund flows. The Journal of Finance, 60(6), 2825–2858.

Cochardt, A., Heller, S., & Orlov, V. (2023). Do Mutual Funds Greenwash? Evidence from Fund Name Changes. Evidence from Fund Name Changes (March 27, 2023). Swiss Finance Institute Research Paper, (23-64).

Policy background

- **On 14th May 2024 ESMA published final report for GL on funds' names using ESG or sustainability-related terms.**

- **Reason for developing GL**
    - Asset managers face competitive pressures to include attractive terminology in fund names to draw investor money.

    - This demand raises concerns about misleading sustainability claims, e.g. when fund name has "green" or "socially sustainable" but portfolio not aligned

GL on Fund Names - recap

#	Fund Category	Requirement
0	**No ESG word in name**	
1	**S/G word or "transition" in name**	- Min. 80% of investments used to meet E or S characteristics or sustainable investment - CTB exclusion: exclusion of controversial weapons/companies violating social safeguards - If "transition" -> clear and measurable path to transition
2	**E word or "impact" in name**	Same as #1 + PAB exclusion: fossil fuel sector exclusion If "impact" -> positive and measurable impact
3	**Sustainable word in name**	Same as #2 + invest "meaningfully" in sustainable investments

Why study ESG-related fund name changes?

Objectives of the Study:

- Measure the extent of **ESG name changes** in the EU fund market

- Analyse whether name changes **impact investor flow**

- Check if effect of adding ESG terms depends on ESG category
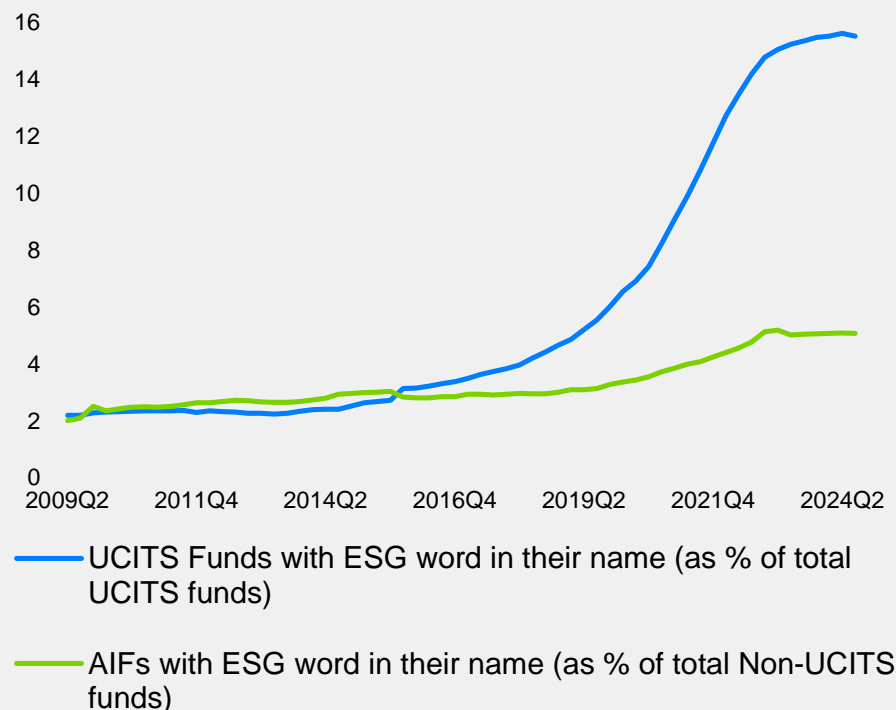
Data & Methodology

Dataset & Scope:

- **ECB dataset** tracking 71,000+ funds quarterly

- Covers **EU-domiciled UCITS and AIFs** from 2009 to 2024

Methodology:

1. **Identify ESG terms in fund names:** use automatic text-mining methods

2. **ESG terms categorisation:**

   - **Social-, governance- or transition-** related words: e.g. "social", "equality", "governance"

   - **Environmental- or impact-**related words: e.g. "green", "environmental", "climate"

   - **Sustainability**-related words: e.g. "sustainable", "sustainability"

3. **Match with Fund Flow Data:**

   - Use Morningstar Direct data to track **fund inflows and outflows.**

   - Analyse the **impact of ESG name changes** on changes in investor flows

Growth of ESG Fund Names

Share of funds with ESG terms in fund name

Legend:
— UCITS Funds with ESG word in their name (as % of total UCITS funds)

— AIFs with ESG word in their name (as % of total Non-UCITS funds)

- **Before 2015**, <3% of funds had ESG-related names.

- By mid-2024, **~10%** of all funds included ESG terms.

- **UCITS funds led the trend**: 14% had ESG-related names in 2024.

- **Surge** in ESG terms in fund name **between 2018-2021**

- Growth **slowed down** in the latest periods
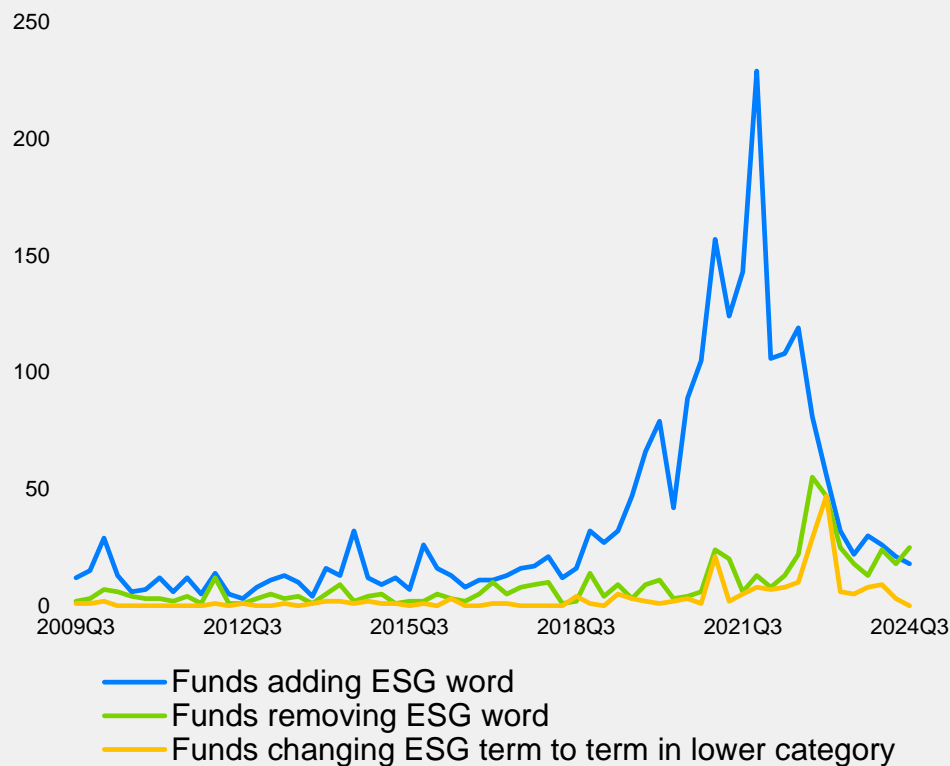
Breakdown of ESG Terms by Category

Number of fund names with specific ESG word

Legend:
- fund name with S/G words
- fund name with E words
- fund name with sustainability words
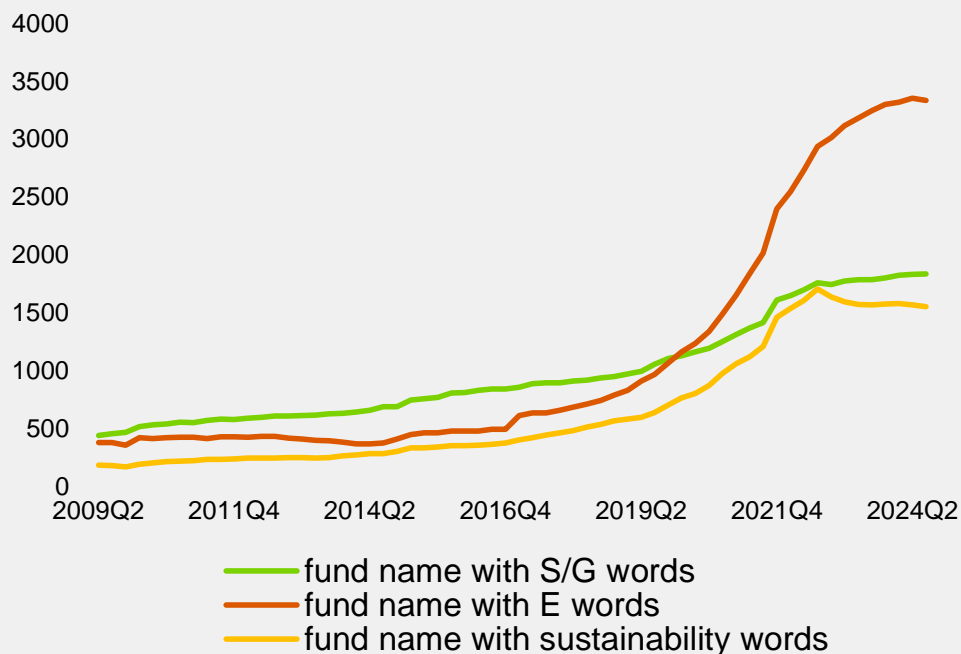
- Fund names with **E-words** experiencing the **most pronounced growth**

- Fund with **sustainability words** in their name only category with decreasing trend from 2022 onwards

Funds adding or removing ESG terms

ESMA
European Securities and Markets Authority

Number of funds adding/removing ESG word per quarter

Legend:
- Funds adding ESG word
- Funds removing ESG word
- Funds changing ESG term to term in lower category

- Significant increase of existing funds adding an ESG word to their name from 2018 onwards

- Slowdown in the most recent quarters with parallel increase of funds removing an ESG word
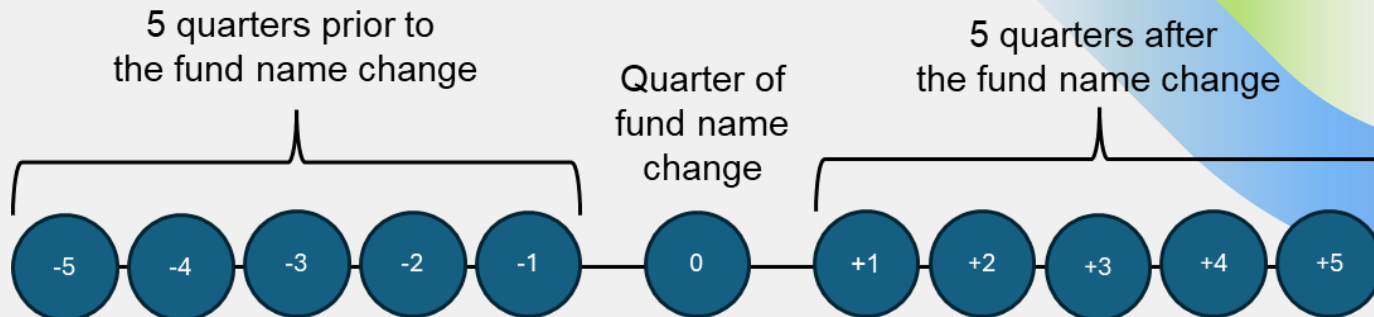
Which ESG Terms Are Most Common?

ESG term use as % total ESG fund name changes
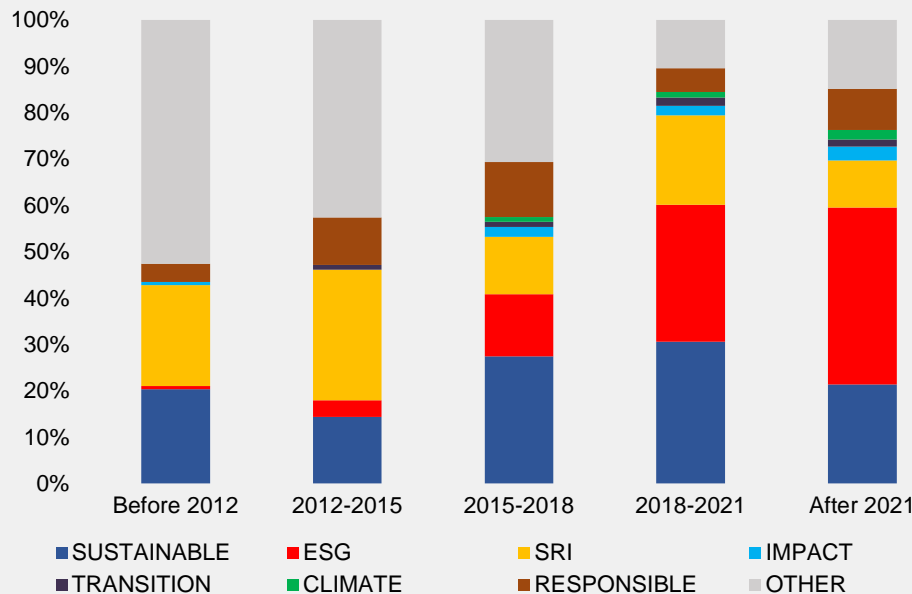
- **Early years (before 2015):** Wide range of terms, including "Ecology," "Ethical," and "Solidarity."

- **Post-2021:** "ESG" became the dominant term, appearing in 40% of renamed funds.

- Terminology **more standardised** with "ESG" and "sustainable" accounting for 2/3 of all fund name changes

Impact of ESG Naming on Net Flows

- **Dependent variable:** Net quarterly fund flows (as % of AuM)

- **Independent variable of interest:** 11 quarterly dummies (incl. 1 for quarter of the fund name change)—see illustration below

- **Control variables:** fund performance, size, age, country of domicile, sustainability char.s (e.g. MS Carbon Risk Score)

- **Specification:** OLS with time and fund fixed effects using robust standard errors.

5 quarters prior to the fund name change | Quarter of fund name change | 5 quarters after the fund name change

-5 | -4 | -3 | -2 | -1 | 0 | +1 | +2 | +3 | +4 | +5

Impact of adding ESG terms on flows

Impact of adding an ESG-related term on net inflows
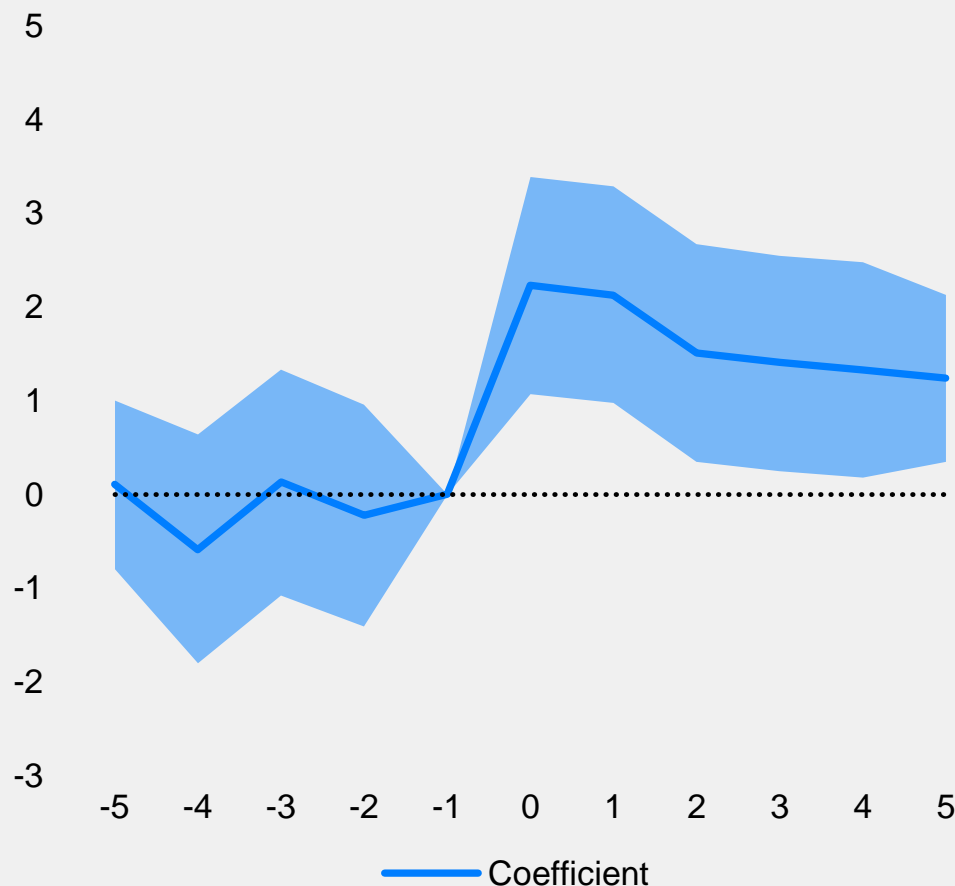
— Coefficient

- **Coefficient Representation:**

  - **Dark blue-line**: coefficients for impact of ESG-related name change on fund net inflows

  - **Light blue area**: 95% confidence intervals; intervals above zero indicate significant net inflows.

- **Impact of Adding ESG term:** results in a significant increase in net inflows: +2.2% of AuM both in Q0 and Q1, and +1.3-1.4% in subsequent quarters.

- **Robustness check**: Similar results for regressions on 2016-2020 and 2020-2024 sub-samples or when in/excluding the term "ESG" from the name changes.

Which ESG Terms most drive inflows? ESMA
European Securities and Markets Authority

Impact most pronounced for E words

Number of quarters after name change	Adding S or G terms	Adding E terms	Adding ESG terms
Quarter of name change	0.99	3.66***	1.78
	(1.08)	(0.97)	(1.03)
+ 1 quarter	1.63	3.46***	1.09
	(1.08)	(0.96)	(1.03)
+ 2 quarters	-0.62	3.67***	0.90
	(1.09)	(0.97)	(1.03)
+ 3 quarters	-0.51	2.80**	1.47
	(1.08)	(0.96)	(1.02)
+ 4 quarters	0.13	1.69*	1.96*
	(1.07)	(0.97)	(1.02)
+ 5 quarters	0.35	2.08**	0.95
	(0.82)	(0.76)	(0.78)

Note: Estimated coefficients and standard errors from an OLS regression using an event study approach assessing the impact of adding various ESG-related terms in a fund name on net flows during the subsequent quarters (social or governance terms, environmental terms, or sustainability-related terms, respectively). ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels. There are 426, 585, and 380 instances, respectively, of adding terms in the categories of social/governance, environmental, and sustainability.

- **Refinement**: Distinguish 3 categories: ESG-related, E, and S/G terms.

- **Dominant Impact of Environmental Terms**: Funds adding E terms exhibit a significant, continuous net inflow increase: 16% cum. increase in bet inflows 4 quarters after the change.

- **Insignificance of S/G and ESG Terms**: Adding S/G and ESG-related terms does not significantly impact fund inflows.

Key Findings

ESG-related fund name changes:

- Strong increase in the **use of ESG-related terms** in fund names since 2009, esp. UCITS funds (14% of UCITS use ESG term in name).

- E terms dominate, "ESG" most common term post-2021.

Impact on Fund Flows

- Adding ESG terms in general: **+8.9% cum. inflows in first year**

- Strongest impact **in same quarter (Q0) and Q1** (+2.2%); remains positive in subsequent quarters.

- **E terms drive these results** (+16% cum. inflows in the first year)

- Little or no effect from adding S/G or sustainability-related terms.

Discussion

Guidelines on funds' names: Goals and intended outcomes

Protection of investors from misleading use of ESG and sustainable terminology in funds' names

Investors' perspective vs. market perspective

Identification of circumstances where the name of a fund is unclear, unfair, or misleading

Convergence on minimum standards

Market reaction: a short analysis

Major growth of number of funds adding ESG terms occurred between mid-2019 to mid-2021

Behavioural change after initial discussions on introducing guidelines on funds' names (Consultation paper: November 2022)

Decrease of sustainability-related terms – more stringent requirements vs. no added value

Q & A