May 5, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

FILE NUMBER S7-04-20: REQUEST FOR COMMENT ON FUND NAMES

Dear Ms. Countryman,

The Principles for Responsible Investment ("PRI") welcomes the opportunity to submit comments on File No. S7-04-20: Request for Comment on Fund Names ("Request for Comment").

The PRI is the world's leading initiative on responsible investment.[1] It works to understand the investment implications of environmental, social, and governance (ESG) factors and support its international network of 3,000 investor signatories in incorporating these factors into their investment and ownership decisions. Launched in New York in 2006, the PRI's signatories manage over $90 trillion in AUM.[2] The US is the PRI's largest market, with over 550 signatories investing over $45 trillion AUM.[3]

Signatories to the PRI commit to six principles to advance their own responsible investing strategies that include the incorporation of ESG analysis into their investment decisions.[4] Signatories consistently voice that lack of access to consistent and comparable information on ESG factors is a barrier to their efforts to effectively integrate ESG factors into their investment decisions. The letter below regarding the Request for Comment that follows are guided by the PRI's efforts to advance policies that will improve signatories' access to such information.

SUMMARY

The PRI is generally supportive of the SEC's efforts to ensure that funds' names reflect their investments. The PRI's letter below is specifically focused on the portions of the Request for Comment that apply to funds integrating ESG factors. The letter is organized as follows:

First, the PRI believes a fund should not be required, as a blanket matter, to include "ESG", "sustainable", or related terms in their name pursuant to the Fund Names Rule *simply because* they

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[1] Principles for Responsible Investment (the PRI), *What are the Principles of Responsible Investment?* available at: https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment.

[2] As of March 30, 2020.

[3] As of March 30, 2020.

[4] The PRI, *What are the Principles of Responsible Investment?* available at: https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment.

consider ESG factors. Investment advisers should be already considering financially material factors, and as a wide body of evidence shows, ESG integration is material to long-term financial performance. While there are instances when a fund's name should appropriately reflect its investments, such as funds where advisers intend to follow a particular ESG goal, those should be carefully evaluated on an individual basis and their prospectuses should clearly explain the adviser's methodologies.

Second, to the degree the SEC is concerned that funds are marketing themselves as ESG but not truly following such a strategy—also known as "greenwashing"—the PRI suggests the SEC consider improving disclosure at the issuer and fund level. In that vein, the SEC should: (1) create a mandatory ESG disclosure regime for issuers; and (2) study whether existing fund disclosures on proxy voting policies and voting records could be improved. Enhanced transparency on these fronts would help combat greenwashing, better position institutional investors to evaluate their portfolios so that their investment strategies are in line with their marketing and help ensure end-investors' best interests are met.

I. The SEC Should Avoid a One-Size-Fits-All Approach When Considering the Fund Names Rule's Application to ESG Strategies

The PRI is supportive of the basic principle underlying the Fund Names Rule: to prohibit funds from using materially deceptive or misleading names. The PRI supports the effort to modernize the Rule. Indeed, the ESG market has grown dramatically since 2001—as of 2018, over a quarter of the $46.6 trillion in total US assets under professional management are committed to these strategies.[5]

There are a diverse number of ESG strategies that the SEC should be aware of as it considers modifying the Fund Names Rule. ESG integration typically is a combination of two approaches: ESG incorporation and ESG stewardship.[6] Under each of those are several sub-strategies:

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)			IMPROVING INVESTEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices.	
Integration	**Screening**	**Thematic**	**Engagement**	**Proxy voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics.	Seeking to combine attractive risk-return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

[5] *See* Meg Voorhes, *U.S. Sustainable, Responsible, and Impact Investing Trends*, Investments and Wealth Institute, United States Sustainable Investment Forum (Jan. 2019) at 1 ("The total U.S.-domiciled assets under management using SRI strategies grew from $8.7 trillion at the start of 2016 to $12.0 trillion at the start of 2018, nearly a 40% increase") available at: https://www.ussif.org/files/Article/IWM19JanFeb_US_SRITrends2018.pdf.
[6] The PRI, *What is Responsible Investment*, available at: https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment.

Because of the diversity of strategies, the PRI believes the SEC should not adopt a one-size-fits-all approach when considering whether and how to apply the Fund Names Rule to ESG funds. While a fund's name that reflects an ESG strategy could be appropriate in certain instances, not *all* funds that integrate ESG should be required to have a name that includes the term.

First, a fund should not be required to include "ESG", "sustainable", or a related term in their name pursuant to the Fund Names Rule *simply because* they integrate ESG factors. That's because ESG integration is less a product than it is part of the broader process and technology of investment analysis.[7] Investment advisers should be considering financially material factors—and as a wealth of evidence shows, ESG integration is material to long-term financial performance.[8] In other words, integration of material ESG factors should *already* be a part of risk management processes, and funds should not be required to alter their name when they're engaging what should be prudent risk management.

Second, some funds indeed invest to advance a certain goal, such as goals relating to climate neutrality or gender diversity (in addition to integrating financially material ESG factors). In these instances, the PRI believes it may be more appropriate that the fund's name reflect that strategy. The PRI acknowledges that the difference between funds that advance an ESG goal versus those that are integrating material ESG factors could be difficult to parse. Accordingly, the SEC should carefully evaluate the funds with stated ESG goals on a case-by-case basis before deciding that their name should expressly incorporate their ESG strategy. It is also critical that these funds' prospectuses and other disclosures clearly explain how the adviser arrived at a particular ESG investment strategy.

II. The SEC Should Evaluate How It Could Improve ESG and Proxy Voting Disclosure at the Issuer and Fund Level, Respectively

To the degree the SEC is concerned that funds are marketing themselves as ESG but not truly following such a strategy (often known as "greenwashing"), the PRI suggests the SEC consider how to improve ESG disclosure both at the issuer and fund level. Below, PRI offers a few suggestions for enhancing ESG transparency that would help ensure ESG funds are marketed in line with their strategies and their investors' best interests:

1. Issuer ESG Disclosure

The SEC should enact a comprehensive ESG disclosure rule for issuers, which would serve to empower institutional investors with critical new information to evaluate their portfolios. As many investors have noted to the SEC, there is increasing evidence of the importance of ESG integration to long-term financial performance.[9] Issuer ESG disclosures are currently relegated to a voluntary,

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[7] *See* The PRI, Fiduciary Duty in the 21st Century, available at: https://www.unpri.org/download?ac=4353.

[8] A meta-study by Deutsche Asset & Wealth Management and the University of Hamburg, found "62.6% of studies revealed a positive correlation between ESG investing and financial performance," nearly 30% had neutral performance and 8% under performed. *See* Deutsche Asset & Wealth Management, the University of Hamburg, and PRI, *ESG & Corporate Financial Performance: Mapping the global landscape* (Dec. 2015) available at: https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf; *see also* The PRI, *Financial performance of ESG integration* (Feb. 20, 2018) available at: https://www.unpri.org/investor-tools/financial-performance-of-esg-integration-in-us-investing/2738.article (including results from the CFA Institute survey).

[9] *See Comments on Request for rulemaking on environmental, social, and governance (ESG) disclosure*, File No. 4-730 (Oct. 2018) ("In recent years, there have been a number of significant petitions and other investor

privately-ordered disclosure system that has resulted in a patchwork quilt of disclosures that are unduly complex, lack comparability—and that undermine funds' ability to effectively integrate climate-related risks into investment processes and decisions.

The Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD) provides valuable examples of climate-related financial disclosures that the Commission could use to develop a disclosure framework for US issuers. The TCFD framework is the most used framework by US issuers.[10] This year, PRI signatories are also required to report on climate change using TCFD-based indicators,[11] and many US companies, including Exxon and Chevron, utilize the TCFD framework.[12]

Critically, an ESG issuer-disclosure rule would increase the disclosure of consistent, comparable material ESG factors—in turn, better positioning institutional investors to evaluate their portfolios so that their investment strategies are in line with how they market themselves to end-investors. This transparency would, in other words, help achieve similar goals as amending the Fund Names Rule.

2. Fund Proxy Voting Record Disclosure (Form N-PX)

The SEC should also study whether funds' disclosures on proxy voting policies and voting records could be updated to make them more easily understandable to end-investors. Since 2003, the SEC has required institutional investors to disclose on Form N-PX the policies and procedures that they use to determine how to vote their proxies and records of how they voted their securities.[13] As the SEC noted at the time, "[i]nvestors in mutual funds have a fundamental right to know how the fund casts proxy votes on shareholders' behalf."[14] The SEC also noted that "requiring greater transparency of proxy voting by funds may encourage funds to become more engaged in corporate governance of issuers held in their portfolios, which may benefit all investors and not just fund shareholders."[15]

Those core corporate governance tenets hold true today. Indeed, signatories of the PRI commit to a set of six Principles, the second of which states that they "will be active owners and incorporate ESG issues into our ownership policies and practices."[16] Successful active ownership depends on investors having access to information that can illuminate whether funds are voting consistent with investors' best interests. However, many PRI signatories find the data on Form N-PX hard to analyze, especially

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proposals seeking expanded disclosure of ESG information.") available at: https://www.sec.gov/rules/petitions/2018/petn4-730.pdf.

[10] TCFD, *TCFD Supporters* ("support for the TCFD has grown to over 1,027 organizations, representing a market capitalization of over $12 trillion" as of Feb. 2020) available at: https://www.fsb-tcfd.org/tcfd-supporters/.

[11] *See* PRI, *PRI FAQ on mandatory climate reporting for PRI signatories*, available at: https://www.unpri.org/reporting-for-signatories/faq-on-mandatory-climate-reporting-for-pri-signatories/5356.article.

[12] *See* Chevron, *Climate Change Resilience: A Framework for Decision Making* (March 2018) ("The table below shows how the disclosures in this report align with the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), as the TCFD has described the categories and where the relevant information can be found in this report") available at: https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf; *see also* Exxon, *2019 Energy & Carbon Summary* (June 2017) ("In addition, this year's report is further enhanced by aligning with the core elements of the TCFD framework") available at: https://corporate.exxonmobil.com/-/media/Global/Files/energy-and-carbon-summary/2019-Energy-and-Carbon-Summary_archive.pdf.

[13] *See* Securities and Exchange Commission, *Disclosure of Voting Policies and Proxy Voting Records by Registered Management Investment Companies*, File No. S7-36-02 (April 2003).

[14] *Id.*

[15] *Id.*

[16] The PRI, *What are the Principles of Responsible Investment?* available at: https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment.

the case for retail investors who lack the time and resources to evaluate these disclosures.[17] This makes it more difficult for signatories to understand whether funds marketing an ESG strategy are following investor interests with respect to stewardship—and more difficult for those investors to hold those advisers to account.

The PRI believes the SEC should make sure investors better comprehend how their securities are being voted in corporate elections.[18] The SEC could do so by studying ways which the information already disclosed on Form N-PX could be enhanced and presented in a way that more clearly shows, for example, historical proxy voting patterns and stewardship policies and procedures. Or, the SEC may decide after further study that a new mandatory rule requiring addition or more frequent disclosure is warranted.

To be sure, institutional investors have already put forth enhanced transparency measures with respect to their stewardship practices, publicly disclosing, in notable detail, their policies and procedures governing proxy voting.[19] In February 2017, the Investor Stewardship Group (ISG), a body of large US and international investors, launched a Stewardship Framework for Institutional Investors whereby ISG members commit to a set of stewardship principles, which include transparency regarding corporate governance guidelines and proxy voting.[20]

But that transparency varies across the landscape of funds, suggesting an updated disclosure rule may be necessary to level the playing field across the industry. Accordingly, the PRI suggests the SEC comprehensively study funds' disclosures on Form N-PX to determine whether modernization of the rule is due.

CONCLUSION

The PRI is supportive of the SEC's efforts to ensure that funds' names are consistent with their portfolio. But the PRI cautions that this approach should not be overbroad. That is, a fund should not be required to include "ESG", "sustainable", or a similar term in their name pursuant to the Fund Names Rule *simply because* those funds consider material ESG factors. While there are instances when a fund's name should reflect its investments, such as when the adviser intends to follow a stated ESG purpose, those should be carefully evaluated on an individual basis—and the fund's disclosures should clearly explain the adviser's methodologies.

In addition, to the degree the SEC is concerned that funds are marketing themselves as ESG but not actually following such a strategy (also known as "greenwashing"), the PRI suggests the SEC consider how to improve ESG disclosure both at the issuer and fund level. Accordingly, the SEC should: (1) create a mandatory ESG disclosure regime for issuers; and (2) study whether existing fund disclosures on proxy voting policies and voting history could be enhanced. This improved

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[17] *See* CNBC.com, Eric Rosenbaum, *Does index fund address social issues? SEC official seeks transparency* (April 15, 2019) ("'The N-PX are not well-structured disclosures,' said Jackie Cook, founder of FundVotes . . . 'Votes need to be disclosed at the individual fund level, ballot by ballot, and proxy by proxy.'") available at: https://www.cnbc.com/2019/04/14/does-index-fund-address-social-issues-sec-official-seeks-transparency.html.

[18] *See generally* Securities & Exchange Commission, Statement of Commissioner Robert Jackson before the Federal Trade Commission, *Common Ownership: The Investor Protection Challenge of the 21st Century* (Dec. 6, 2018) available at: https://www.sec.gov/news/testimony/jackson-testimony-ftc-120618 (suggesting improving Form N-PX disclosures and noting the lack of usability of Form N-PX).

[19] *See, e.g.,* BlackRock, *2019 Investment Stewardship Annual Report* (Aug. 2019) available at: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2019.pdf.

[20] *See* Investor Stewardship Group, *The Principles,* available at: https://isgframework.org/stewardship-principles/.

transparency would mitigate greenwashing, enhance institutional investors' ability to evaluate their portfolios so their strategies are consistent with their marketing, and help ensure end-investors' best interests are satisfied.

Thank you for the opportunity to share our views on the Request for Comment on the Fund Names Rule. For further conversation and follow up, please feel free to contact our policy team:

- Heather Slavkin Corzo, Head of US Policy: heather.slavkin.corzo@unpri.org.
- Colleen Orr, US Policy Analyst: colleen.orr@unpri.org.

Yours sincerely,

Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

cc. The Honorable Jay Clayton, Chairman
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison H. Lee, Commissioner