Impact of ESMA Guidelines on the use of ESG or sustainability-related terms in fund names

Webinar, 20 January 2026

- Introduction
- Fund managers' communication to investors
- Focus on fossil fuel exclusions
- Conclusions and policy outcome

Introduction

ESMA analyses on fund names

- October 2023: Growing share of EU funds use ESG-related terms in their names
- April 2025: Funds adding ESG terms in their names get 9% more inflows (16% for environmental terms)
- December 2025: How did fund managers react to ESMA's fund naming guidelines? What is the policy outcome?

Guidelines' group of terms

ESG terms used in fund names	Guidance associated with term
No ESG-related term	-
Social or governance-related terms + 'transition' (425 EU funds)	- Minimum 80% of investments used to meet 'E' or 'S' characteristics or sustainable inv. objective - Climate Transition Benchmark (CTB) exclusions: exclusion of controversial weapons, tobacco and companies violating social safeguards - For 'transition' terms: clear and measurable path to transition
Environment-related terms + 'impact' (2,472 EU funds)	- 80% investment threshold (as above) - Paris-Aligned Benchmark (PAB) exclusions: CTB exclusions + exclusion of fossil fuel activities - For 'impact': positive and measurable impact
Sustainable-related terms (1,062 EU funds)	- 80% inv. threshold and PAB exclusions (as above) - Minimum 50% in sustainable investments

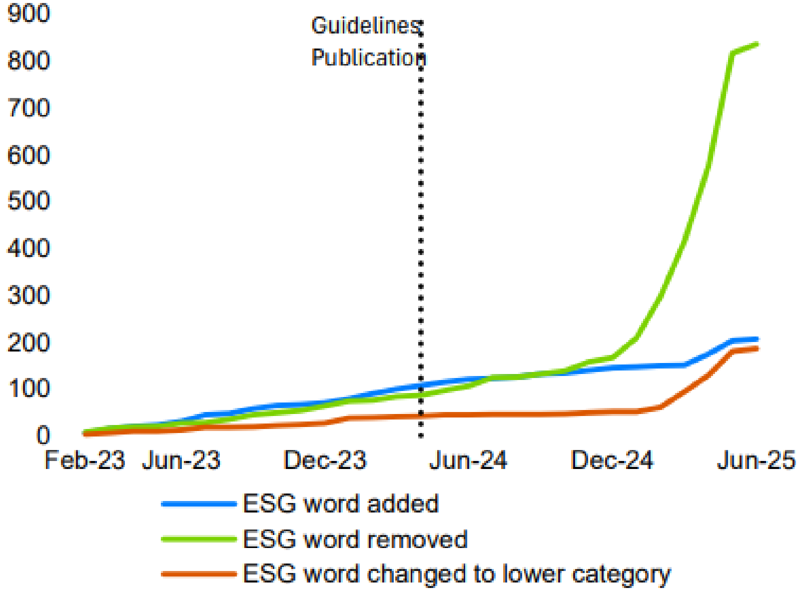
Note: Number of funds impacted as of 1Q24 with portfolio holdings data available in Morningstar.

Introduction

Strong market reaction to policy action

Cumulative number of ESG-related name changes

Growing number of funds removing ESG words



Note: Cumulative number of fund adding an ESG word to their name, fund removing an ESG word to their name and fund changing their name to include an ESG word in a lower Guidelines' category
Sources: ESMA, Morningstar

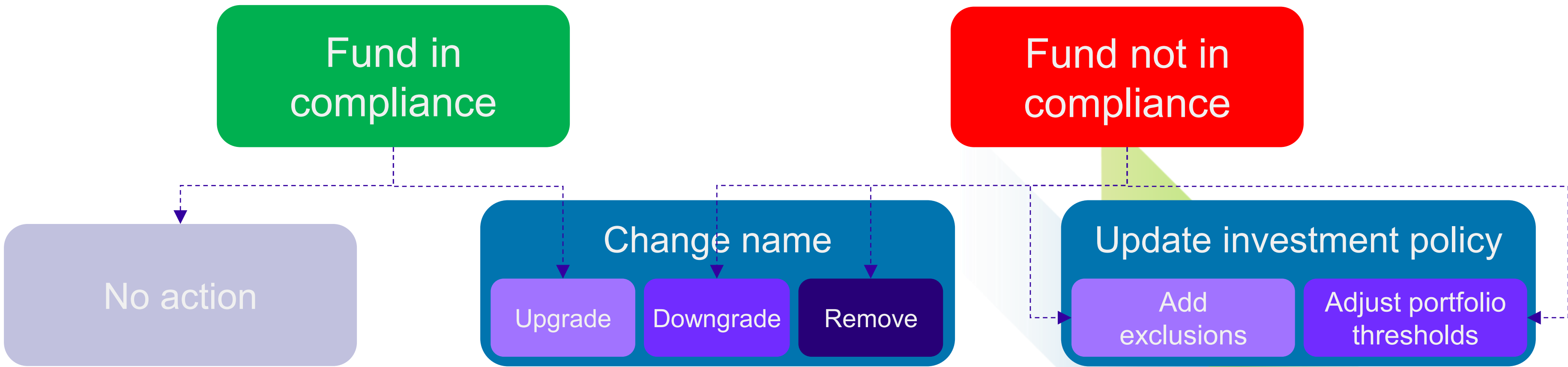
- Many funds changed their name ahead of Guidelines' application deadline… but changing names is just one way to comply with supervisory expectations
    - The number of funds in our sample using ESG-related terms in their names decreased from 4,000 in 1Q24 to 3,300 in 3Q25
- Our analysis focuses specifically on fund managers' reactions to the PAB exclusions (fossil fuel)

Data

- Shareholder notifications
  - Manual collection of shareholder notifications making explicit reference to the ESMA Guidelines from the websites of the 25 largest EU fund managers
- Morningstar portfolio holdings
  - Monthly data on portfolio composition of EU funds using ESG terms in their names
- Urgewald
  - List of companies involved in fossil fuel activities and PAB assessment at company level

Stylised overview of fund managers’ options

- Fund managers not in compliance faced with two main options with respect to their public communication:
  a. Change name (no need to meet the new guidance)
  b. Update investment policy (comply with supervisory expectations)



Assessment based on 924 funds mentioned in the shareholder notifications from the largest 25 EU managers referring to the Guidelines

- 65% of funds mentioned in the notifications changed their name (600)
- 57% of funds mentioned in the notifications updated their investment policy (530)

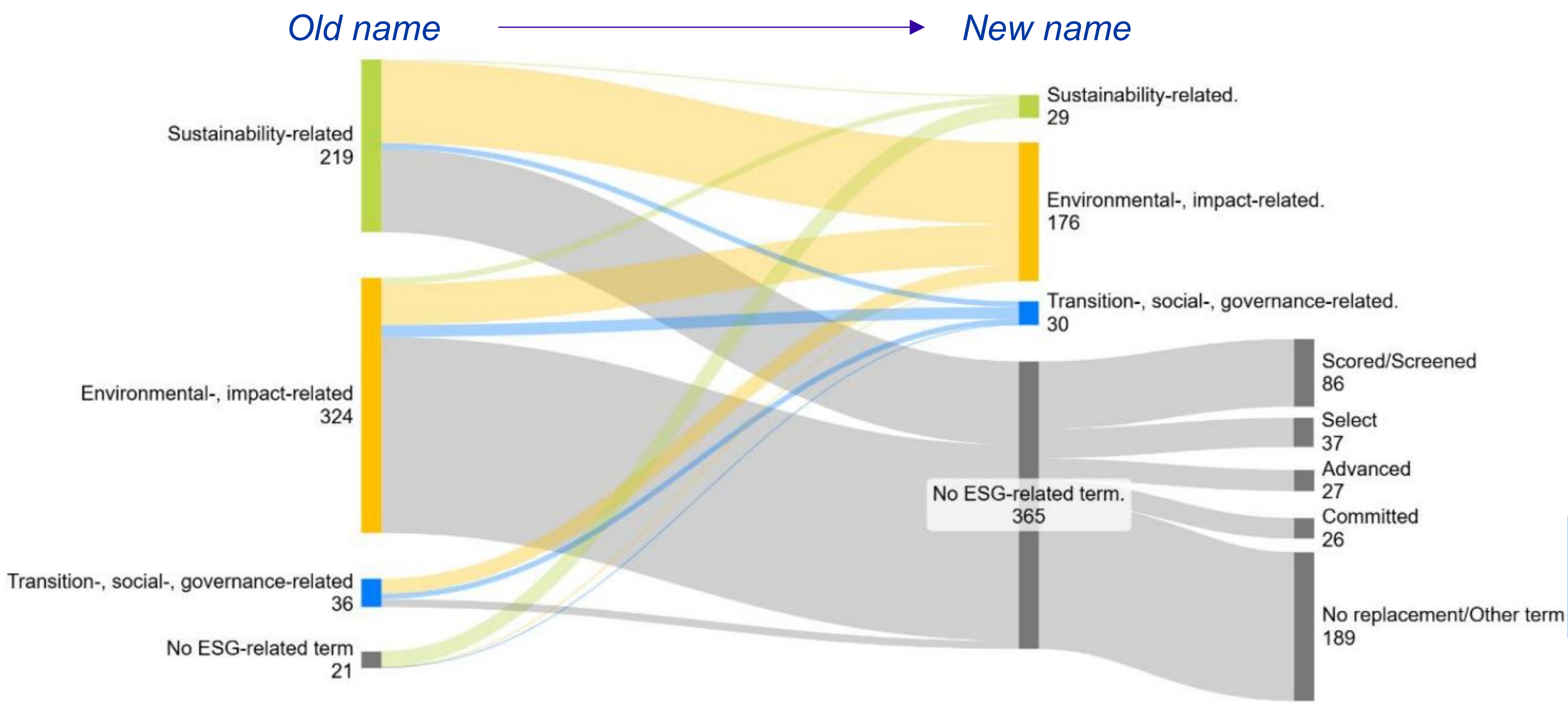
Funds most frequently removed ESG terms

- Most frequently observed name changes are ESG term removals or ‘downgrades’
  - 61% of the funds changing name removed all ESG-related terms; 21% moved to a ‘lower category’
- Name change patterns differ between actively managed and index-tracking funds
  - Majority of index tracking funds removed ESG terms
  - Relatively larger share of active funds ‘downgraded’ to a lower category

Fund managers' communication to investors

Fewer ESG terms but new signals

- Environmental terms: Out of the 365 funds mentioned in the notifications that removed ESG terms, the majority were using environmental terms (249), including 'ESG'.
- Sustainability terms: Two thirds of funds using sustainability-related terms changed name (219). Most dropped the term (106) or replaced 'Sustainable' with 'ESG' (104).
- New signals: Almost half of the funds removing all ESG-related terms replaced them with *Scored*, *Screened*, *Select*, *Advanced*, or *Committed*. This is mainly driven by index tracking funds.



Notes: Nodes to the left split funds by Guideline category before name change, nodes to the right split funds by Guideline category after name change. Flows are coloured according to Guideline category of the new fund name. 'No replacement/Other term' mostly includes ESG term removals with no replacement.
Source: Shareholder notifications, ESMA.

Fund managers' communication to investors

Funds mainly added new exclusions

- Exclusions were the most frequently observed inv. policy update
  - 475 funds updated their investment policy changes to include new exclusions, large majority of which are PAB exclusions
  - 179 funds made adjustments to minimum investment thresholds
- Most investment policy updates for actively managed funds
  - In line with pattern observed for name changes and consistent with many index-tracking funds removing all ESG terms

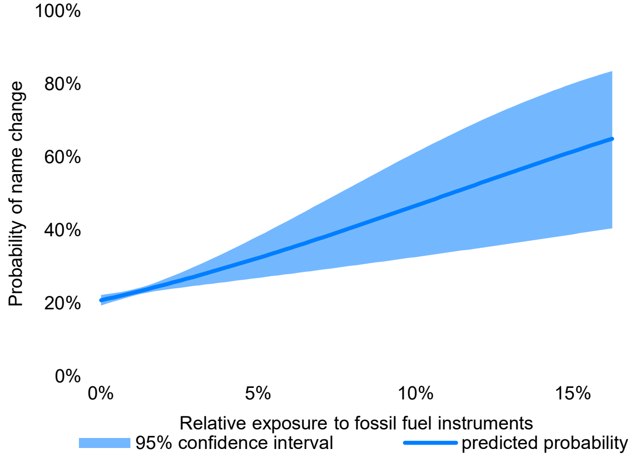
Estimating the compliance gap

- Focus on funds' fossil fuel exposures breaching PAB revenue thresholds in funds
  - Portfolio snapshot (as of 2Q25) for ~4,000 funds using ESG terms in their names
  - 'Compliance gap' proxy based on % share of portfolio invested in companies breaching PAB revenue thresholds (as per Urgewald lists)
  - More than 50% of funds with ESG terms are not exposed to fossil fuel activities breaching PAB revenue thresholds (i.e. assumed to comply with PAB exclusions)
- Compliance gap and impact on fund manager decision
  - Logistic regression to test predictors of fund managers' decision to comply through name change

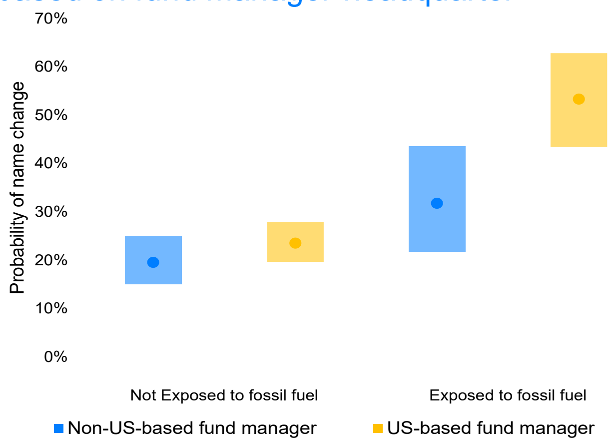
Focus on fossil fuel exclusions

Likelihood of name change increases with compliance gap

Predicted probability of name change related to relative exposure to fossil fuel instruments



Predicted probability of name change differs based on fund manager-headquarter



Likelihood of fund name change

- Positive relationship between compliance gap and the probability of rebranding
- Each additional percentage point of compliance gap raises the likelihood of a name change by about 1.8 percentage points, holding other factors constant.

US-headquartered fund managers more likely to rebrand

- Focus on whether fund manager is headquartered in the US to test for influence of anti-ESG sentiment on manager's decision
- Funds of US-HQed managers reacted more strongly to policy action; they were about twice as likely to change their name as other funds with comparable fossil fuel exposure, holding other factors constant

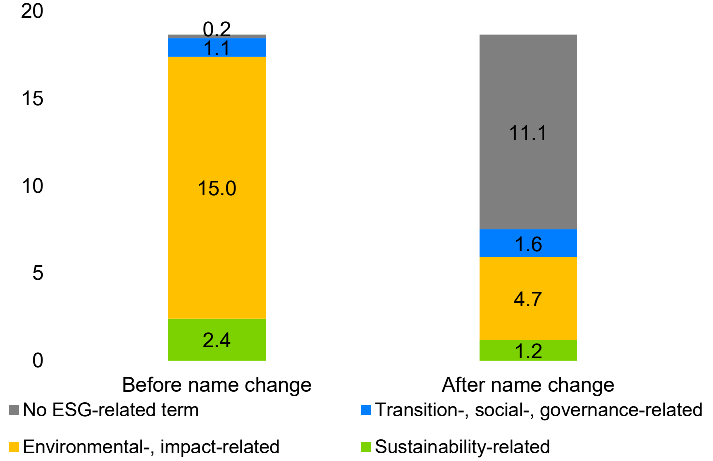
Notes: Upper panel depicts likelihood of funds changing name based on the % portfolio exposure to companies breaching PAB revenue thresholds. Bottom panel distinguishes between funds of US and non-US headquartered managers.
Sources: Morningstar Portfolio Holdings, Urgewald, ESMA.

Focus on fossil fuel exclusions

Guidelines' impact on fossil fuel exposures

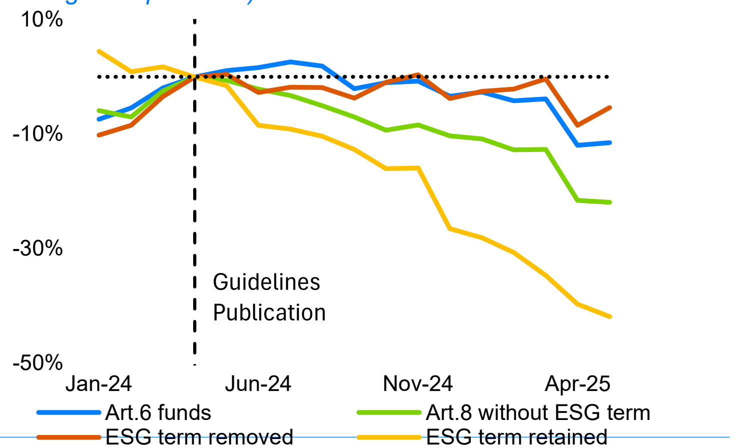
More exposed funds removed ESG terms

(Fossil fuel exposures of funds using ESG terms, in bn EUR)



Funds retaining ESG terms divest faster

(Cumulative change in fossil fuel holdings, as % of fossil fuel holdings in April 2024)



Main impact from fund renaming

- Funds with the highest exposure to fossil fuel activities breaching PAB revenue thresholds removed all ESG terms
- Through name changes only, the exposure of funds using sustainability or E terms to fossil fuel activities breaching PAB revenue thresholds decreased from EUR 17 bn to EUR 6 bn

Gradual impact from portfolio divestment

- Since GL publication, funds retaining ESG terms reduced their exposure to fossil fuel activities breaching PAB revenue thresholds by 40%
- On aggregate, all EU funds have actively reduced their exposure to fossil fuel activities breaching PAB revenue thresholds since 2024
- Funds retaining ESG terms divested a higher relative share of their portfolio compared with other funds

Notes: Upper panel consists of a sample of 4,017 funds using ESG terms in their name with Morningstar Portfolio Holdings data available. Lower panel consists of the entire EU fund universe with Morningstar Portfolio Holdings data available.
Source: Morningstar Portfolio Holdings, Urgewald, ESMA.

Conclusions

Key takeaways

1. Funds changing names mainly dropped ESG terms or ‘downgraded’ (e.g. replaced ‘Sustainable’ with ‘ESG’). The number of funds in our sample using ESG terms decreased from ~4,000 in 1Q24 to ~3,300 in 3Q25.

2. Many funds also updated their investment policy, mostly by adding PAB exclusions; others adjusted minimum investment thresholds.

3. Funds with larger compliance gaps (i.e. higher exposures to fossil fuel activities breaching PAB revenue thresholds) were more likely to remove ESG terms from their name

4. Funds keeping ESG terms in their name divested more actively from companies involved in fossil fuel activities breaching PAB revenue thresholds than other funds

Conclusions
Policy outcomes

- The guidelines have increased market convergence by introducing common, clearly defined guidance for the use of ESG terms
- They should help reduce potential greenwashing perceptions by preventing funds using sustainability or environmental terms to invest in fossil fuel activities
- They have improved portfolio greenness by leading funds retaining sustainability or environmental terms to actively divest from polluting firms

ESMA
European Securities and Markets Authority

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Consumers, Sustainability and Innovation analysis unit

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