# ESMA Guidelines on ESG Funds' Names

## Early insights into rebranding activity and portfolio impact.

**Morningstar Sustainalytics**
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### Executive Summary

In May 2024, the European Securities and Markets Authority issued its final guidelines for funds marketed in the European Union that use ESG- or sustainability-related terms in their names. The guidelines, which aim at protecting investors against greenwashing risk, set minimum requirements. Fund managers had until May 21, 2025, to either align with the requirements or change fund names to ensure compliance.

In this report, we look at how the universe of open-end and exchange-traded funds in scope of the ESMA fund naming guidelines has changed in the past 12 months. We analyze rebranding activity and assess the impact of the requirements—primarily exclusions—on fund portfolios using Morningstar Sustainalytics' company ESG research.

### Key Takeaways

- One year after the release of the final ESMA fund naming guidelines, the universe of EU open-end funds and ETFs with ESG-related terms in their names has dropped by only about 8% to an estimated 4,220.
- We estimate that at least 880 funds, or 19% of in-scope funds, have rebranded so far, including 508 that have dropped ESG terms, 304 that have replaced one ESG-related term with another, and 68 that have added an ESG term. Passive funds have been disproportionally affected.
- Among those that dropped ESG-related terms, about 200, or 40%, adopted non-ESG alternatives such as "screened", "select", or "committed", suggesting that managers remain keen to signal ESG characteristics through fund names.
- The most frequently removed terms are "ESG" and "sustainable," while terms such as "transition," "climate," and "screened" have gained in popularity.
- Asset managers have taken various approaches to comply with the guidelines. Some have made minor adjustments, such as divesting from companies that don't meet the requirements. Others have rebranded funds by replacing or removing ESG-related terms, with or without corresponding portfolio changes. Regardless of the approach, investors should reassess their funds to ensure they still align with their preferences.
- Looking at March 2025 portfolios, the impact of the guidelines' exclusion rules on in-scope funds is already evident. The number of funds holding contentious stocks has declined compared with a year ago. While some of the stocks are likely to be further divested, others may remain due to differing interpretations of the rules and variations in data sources.

## Introduction

Fund names are important signals of a fund's investment strategy and portfolio composition. They are also a powerful marketing strategy. ESMA recently published a study confirming previous research that shows that adding an ESG term to a fund's name has generally led to increased net inflows.

With that in mind, on May 14, 2025, ESMA released its final report[1] on guidelines on funds' names using ESG or sustainability-related terms to protect investors against greenwashing risks. Consistent with the scope of the Sustainable Finance Disclosure Regulation, the guidelines are directed at fund managers marketing funds in the EU[2]. These managers had until May 21, 2025, to either align with the new requirements or change fund names to ensure compliance.

The key provisions of the guidelines[3] include:

- An 80% threshold linked to the proportion of investments used to meet the ESG characteristics or sustainability objective of the fund;
- Exclusions of companies involved in controversial weapons, the cultivation and production of tobacco, or in violation of the UN Global Compact Principles or Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. These exclusions are those of the climate-transition benchmark;
- For funds using environmental, impact, or sustainability-related terms, exclusions of companies deriving a share of their revenues from fossil-fuel-related activities above specific thresholds. These exclusions are those of the Paris-aligned benchmark. Funds using sustainability-related terms specifically must also commit to invest "meaningfully" in sustainable investments (i.e. >50%).

Below is a summary of the requirements.

1 The guidelines follow an interim update in December 2023. https://www.esma.europa.eu/sites/default/files/2023-12/ESMA34-1592494965-554_Public_statement_on_Guidelines_on_funds__names.pdf

2 The guidelines apply to fund managers who promote UCITS and alternative investment funds that use ESG- or sustainability-related terms in their names.

3 Exclusions for EU Paris-aligned benchmarks include:

(a) companies involved in any activities related to controversial weapons;

(b) companies involved in the cultivation and production of tobacco;

(c) companies that benchmark administrators find in violation of the United Nations Global Compact principles or the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises;

(d) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution, or refining of hard coal and lignite;

(e) companies that derive 10% or more of their revenues from the exploration, extraction, distribution, or refining of oil fuels;

(f) companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing, or distribution of gaseous fuels;

(g) companies that derive 50% or more of their revenues from electricity generation with a greenhouse gas intensity of more than 100 g CO2 e/kWh.

For the purposes of point (a), controversial weapons shall mean controversial weapons as referred to in international treaties and conventions, United Nations principles, and, where applicable, national legislation.

**Exhibit 1** Summary of the Categories of Terms and Related Requirements

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

Source: Morningstar Sustainalytics Research, based on ESMA34-472-440 Final Report on the Guidelines on Funds' Names (europa.eu). PAB stands for Paris-aligned benchmarks; CTB stands for climate-transition benchmarks.

Exclusions related to the Paris-aligned benchmark[4], which environmental, ESG, sustainable, and impact funds are required to apply, are particularly significant as they rule out investments in companies that derive a certain proportion of their revenues from fossil fuels. As we will explore later, varying interpretations and data sources have resulted in differing levels of exclusions, especially concerning fossil-fuel-related activities.

## Rebranding Activity

### The Universe of Funds With ESG-Related Terms in Their Names Dropped by Only 8%

Since the final ESMA guidelines were published in May 2024, the number of open-end funds and exchange-traded funds with ESG- or sustainability-related terms in their names dropped by only approximately 8%, to an estimated 4,220 in early May from 4,570 funds in May 2024[5]. This decline can be explained mostly by rebranding activity (funds removing ESG terms from their names) but also fund mergers and liquidations. For context, in-scope funds currently represent approximately 14% of the about 29,800 open-end funds and ETFs in scope of SFDR.

Below is a sample of the most commonly used ESG- and sustainability-related terms, comparing their frequency today with last year's.

4 ESMA34-472-440 Final Report on the Guidelines on Funds' Names (europa.eu), P. 55.

"Environmental"-related terms mean any words giving the investor any impression of the promotion of environmental characteristics, for example, "green," "environmental," "climate," and so on. These terms may also include the "ESG" and "SRI" abbreviations.

"Sustainability"-related terms mean any terms only derived from the base word "sustainable," for example, "sustainably," "sustainability," and so on.

"Impact"-related terms mean any terms derived from the base word "impact," for example, "impacting," "impactful," and so on.

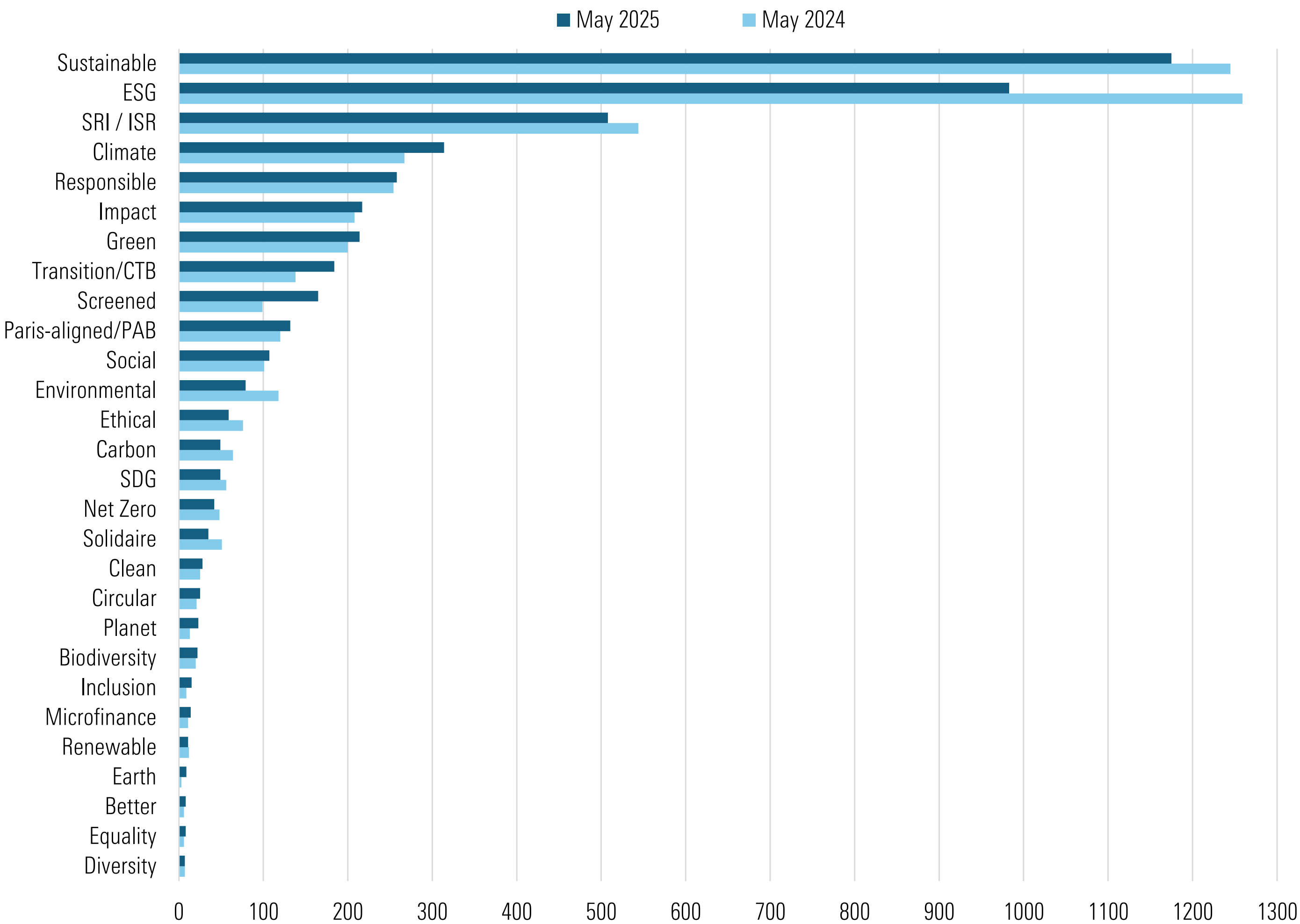
"Social"-related terms mean any words giving any impression of the promotion of social characteristics, for example, "social," "equality," and so on.

"Governance"-related terms mean any words giving any impression of a focus on governance, for example, "governance," "controversies," and so on.

"Transition"-related terms encompass any terms derived from the base word "transition," for example, "transitioning," "transitional," and so on, and those terms deriving from "improve," "progress," "evolution," "transformation," "net zero," and so on.

5 We used a list of environmental, social, sustainability-related, and ethical words and acronyms in English and other European languages. In our May 2024 study, we had identified 4,300 funds out of 4,570 that were in scope of ESMA's fund naming guidelines after removing those passive funds tracking PAB and CTB indexes. Here, we added these funds back to better illustrate the full landscape of funds with ESG-related terms in their names and the extent of the rebranding activity. Money market funds, feeder funds, and funds of funds are included.

**Exhibit 2** Most Commonly Used Sustainability-Related Terms and Number of Occurrences for In-Scope Funds




Source: Morningstar Sustainalytics Research. Morningstar Direct. Money market, funds of funds, and feeder funds are included. Numbers include ESG or sustainability-related terms in English and non-English languages. Funds can be counted multiple times. This list is not comprehensive. Additional terms were included in our search and our analysis but do not appear here.

We observe a clear drop in the most frequently used terms, namely “ESG,” “sustainable,” and “SRI/ISR.” The greater reduction in the use of “ESG” (983 from 1,260) can be attributed to the large number of passive funds that removed the term in line with the underlying index.

Meanwhile, more funds relative to last year employ the terms “climate,” “transition,” “screened,” and “Paris-aligned” (314 from 267, 184 from 138, 165 from 99, and 132 from 120, respectively).

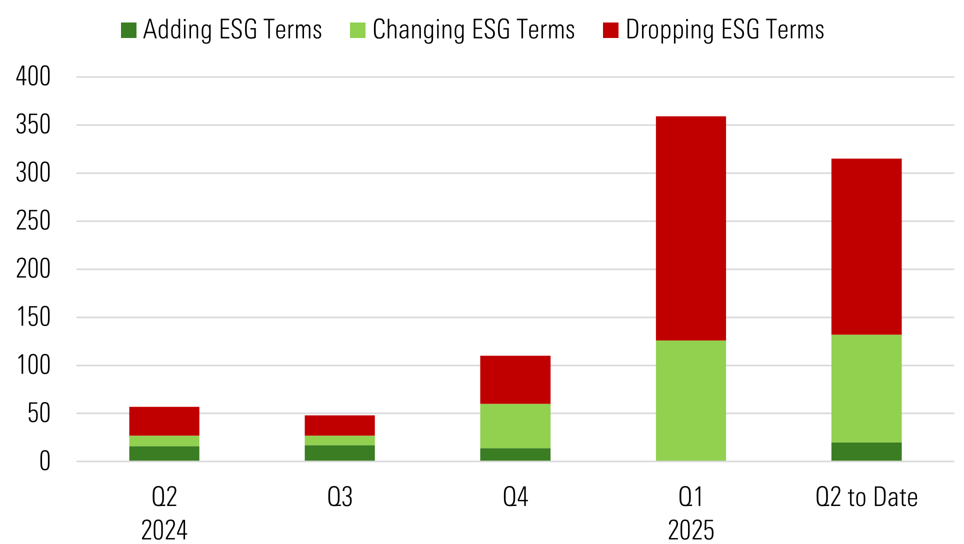
## Analysis of Fund Name Changes

Between May 14, 2024, and May 16, 2025, approximately 880 funds using ESG- or sustainability-related terms in their names have rebranded—that is, have dropped, changed, or added ESG terms in their names. This represents about 19% of the funds that were in scope of the ESMA guidelines one year ago.

Rebranding activity increased from the fourth quarter of 2024 to reach approximately 359 in the first quarter of 2025. The second quarter could mark the peak, with 315 funds already rebranded between April 1 and May 16.

In the past year, we estimate that 508 funds have dropped ESG terms, 304 have replaced one ESG-related term with another, and 68 have added an ESG term. We anticipate these numbers will increase beyond the May 21 deadline due to lags in data collection and reporting.

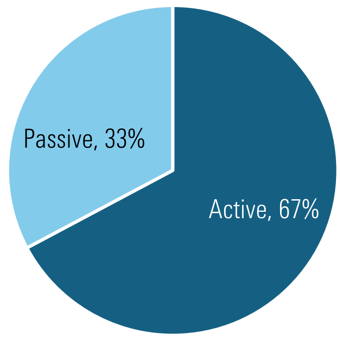
**Exhibit 3** In-Scope Rebranded Funds




Source: Morningstar Direct. Data as of May 16, 2025. Based on 880 funds that have added, dropped, or changed ESG- and sustainability-related terms in the legal names from May 14, 2024. Including money market funds, funds of funds, and feeder funds.

Article 8 funds make up the majority of rebranded products (89%), followed by Article 9 funds (8%) and Article 6 funds (3%). Meanwhile, passive funds are disproportionately represented, accounting for one third of rebranded products, more than triple their presence in the SFDR fund universe. Many passive funds that dropped the term “ESG” from their names have replaced it with alternative wording that still signals the funds’ ESG characteristics—particularly exclusions—in order to distinguish them from non-ESG counterparts.

**Exhibit 4** In-Scope Rebranded Funds (Active Versus Passive)

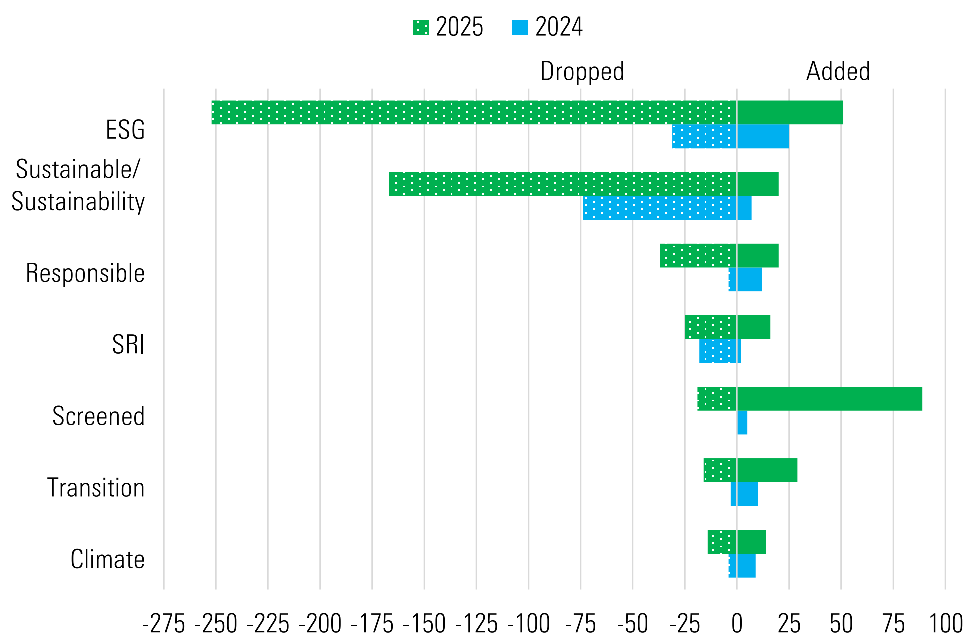



Source: Morningstar Direct. Data as of May 16, 2025. Based on 880 funds that have added, dropped, or changed ESG- and sustainability-related terms in the legal names from May 14, 2024. Including money market funds, funds of funds, and feeder funds.

### 'ESG' and 'Sustainable' Top the Most Popular Key Terms Removed

Confirming our earlier observation, the exhibit below shows that "ESG" has been by far the most dropped or replaced term by rebranded funds in the past 12 months, followed by "sustainable." At the same time, "ESG" has also been the second most frequently added term to fund names during this period, coming after "screened" and just before "transition."

**Exhibit 5** ESG-Related Terms With the Most Frequent Changes in the Past 12 Months




Source: Morningstar Direct. Data as of May 14, 2025. Based on 880 in-scope funds between May 2024 and May 2025. The count of "Added" funds doesn't include newly launched funds. Funds that dropped ESG key terms include those that removed the terms and funds that swapped their original ESG terms for other terms. Data includes money market funds, funds of funds, and feeder funds.

Examples of funds that removed ESG-related terms altogether include a range of JPMorgan Research Enhanced Index Equity ETFs. For example, **JPMorgan Europe Research Enhanced Index Equity (ESG) ETF** became **JPMorgan Europe Research Enhanced Index Equity Active ETF**, highlighting the "active" management style of the strategy rather than the ESG exclusions, which remain unchanged. The fund "applies values and norms based screening."

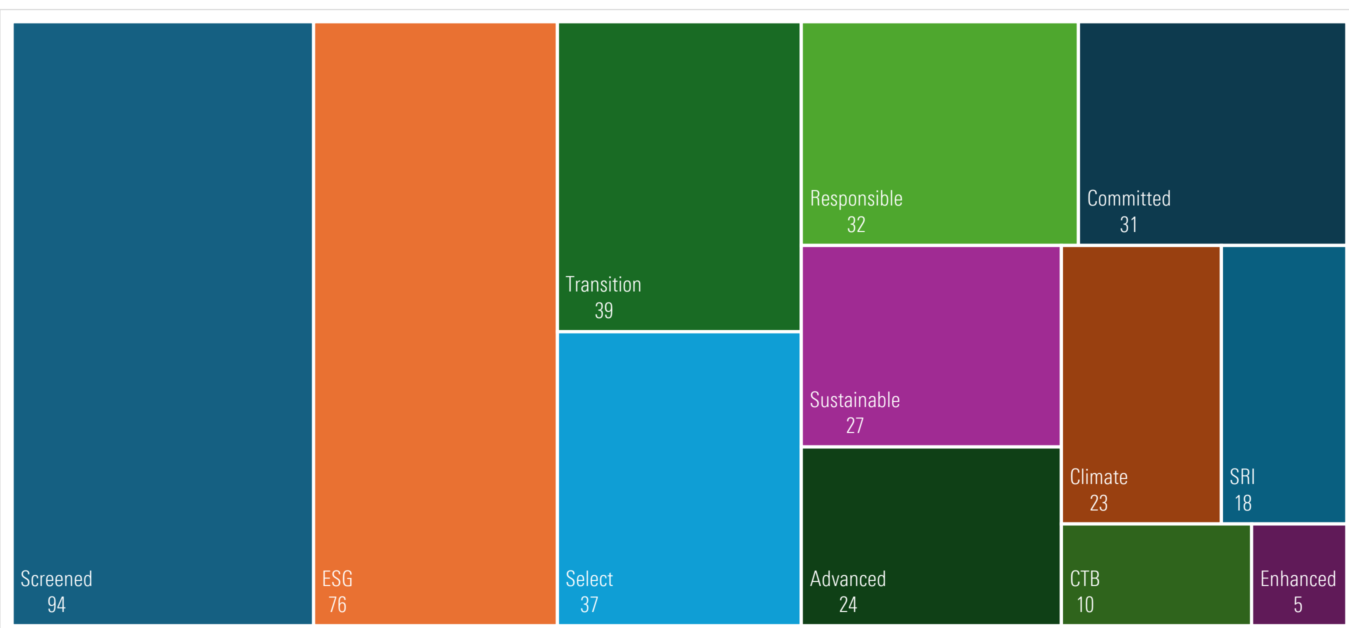
Similarly, **DWS ESG Defensiv** has been renamed **DWS CIO View Defensiv**, reflecting a lighter ESG approach, as outlined in its regulatory documents. Previously, the fund stated that ESG factors were "of key importance for the implementation of the fund's sustainable investment strategy." It now states that "the fund promotes environmental and social characteristics or a combination of these characteristics without pursuing an explicit ESG and/or sustainable investment strategy."

### Contentious ESG-Related Terms Replaced by Vaguer Alternatives

We previously reported that more funds (508) had removed ESG-related terms from their names than had replaced ESG terms with others. However, this number hides the fact that many funds, primarily passive ones, have retained or introduced alternative, often vaguer, terms such as "screened," "select," "committed," or "advanced." This suggests that managers remain keen to signal ESG characteristics—primarily exclusions—through fund names. These substitutions indicate a shift in language, as managers adjust their wording to comply with regulatory requirements, while continuing to respond to investor preferences. Strategies based solely on exclusions continue to appeal to certain investors. We identified more than 200 products that replaced contentious words such as "sustainable" and "ESG" with non-ESG alternatives.

Below, we show some of the most common terms added to fund names over the past 12 months.

**Exhibit 6** A Sample of ESG-Related Terms Most Frequently Added by In-Scope Funds That Changed Names in the Past Year




Source: Morningstar Direct and Morningstar Sustainalytics Research. Data as of May 16, 2025.

Examples of funds that replaced “ESG” with “screened” include **NT Emerging Markets Screened Equity Index Fund** (formerly known as **NT Emerging Markets Custom ESG Equity Index Fund**). The fund applies an "exclusion of companies not considered to meet socially responsible principles identified by applying criteria that refer to the UN Global Compact Ten Principles, in addition to its sector policy targeting areas such as fossil fuels, tobacco, and weapons.

Other screened funds, which previously used the term “ESG” in their names, go further. For example, in addition to activity- and controversy-based exclusions, **iShares MSCI USA Screened ETF** tracks an index that targets a minimum 30% reduction in carbon emissions intensity relative to the underlying parent index.

Meanwhile, **Fidelity Asia Equity ESG Fund** is an example of fund that swapped “sustainable” for “ESG,” although the strategy, as defined in regulatory filings, doesn’t seem to have changed. “The fund invests at least 80% of its assets in securities of issuers with high ESG ratings. The fund may invest in securities of issuers with low but improving ESG characteristics. The fund aims to achieve an ESG score of its portfolio greater than that of its investment universe, after excluding 20% of securities with the lowest ESG ratings.”

## Focus on Funds With ‘Climate’ or ‘Transition’ in the Name

As previously mentioned, an increased number of funds have incorporated a climate focus into their strategies in the past year, as evidenced by the growing use of terms such as “climate” and “transition” in fund names.

For example, **BFT Crédit Opportunités ISR** was rebranded as **BFT Crédit Opportunités ISR Climat**, reflecting the fund’s new carbon emissions reduction strategy aligned with a “Net Zero by 2050” target. The carbon intensity trajectory is based on the methodology of the Climate Transition Benchmark indexes, which stipulates that the 7% annual decarbonization path is calculated from the carbon intensity level as of 2019, after applying a 30% reduction.

Meanwhile, **Federated Hermes Global Equity ESG Pathway Fund** (formerly known as **Federated Hermes Global Equity ESG Fund**) and **Nordea Global Climate Transition Engagement Fund** (formerly known as **Nordea Global Climate Engagement Fund**) chose to position themselves under the new "transition" category as both continued to feature engagement and monitoring of material environmental and social issues as well as improving trajectories.

Below are further examples of funds that have added transition-related terms to their names in the recent past. Some have replaced the term “sustainable” with “transition” to reflect a greater focus on the latter. Examples of these include **Robeco Transition Asian Bonds** (formerly known as **Robeco Sustainable Asian Bonds**). The newly rebranded fund “aims to make investments in assets with a sustainable objective as well as investments in assets that contribute to a transition.” These are “companies that have credible emission reduction targets, entities that provide solutions to enable climate change mitigation and bonds to finance sustainability transformation or refinance, in part or in full, new and/or existing projects with an environmental and/or social objective."

Another example is Article 9 **Invesco Transition Global Income Fund**, previously called **Invesco Sustainable Global Income Fund**. The fund "invests in securities issued by companies or governments that have reduced or committed to reduce their greenhouse gas emissions to net zero by 2050, debt instruments with sustainable characteristics, including, but not limited to, green bonds, sustainability-linked bonds and transition bonds, and securities linked to climate solution activities (including, but not limited to, renewable energy, electrification, and low carbon transport)."

Some other funds below were already focused on transition, but the term was added to the name or used as a replacement for other related terms such as "net zero," "2 degree," or "CTB" to make the "transition" element clearer. This is the case of a series of iShares Enhanced ETFs, including **iShares MSCI USA ESG Enhanced CTB ETF**, and **Allspring ClimateTransition Global Equity Fund**.

**Exhibit 7** A Sample of Funds That Added 'Transition' to Their Names

| Previous Name | New Name | SFDR Fund Type |
|---|---|---|
| Neuberger Berman Sustainable EM Corporate Debt Fund | Neuberger Berman EMD Corp. Social and Environmental Transition Fund | Article 8 |
| Robeco Sustainable Emerging Credits | Robeco Transition Emerging Credits | Article 8 |
| Robeco Sustainable Asian Bonds | Robeco Transition Asian Bonds | Article 8 |
| Robeco Net Zero 2050 Climate Equities | Robeco Global Climate Transition Equities | Article 8 |
| Invesco Sustainable Eurozone Equity Fund | Invesco Transition Eurozone Equity Fund | Article 8 |
| Invesco Sustainable Global Income Fund | Invesco Transition Global Income Fund | Article 9 |
| BlackRock Climate Action Multi-Asset Fund | BlackRock Climate Transition Multi-Asset Fund | Article 8 |
| Fidelity Sustainable Climate Bond Fund | Fidelity Climate Transition Bond Fund | Article 8 |
| Man GLG Global Climate Impact Bond | Man Global Climate Transition Impact Bond | Article 9 |
| GMO Climate Change Investment Fund | GMO Climate Change Transition Investment Fund | Article 8 |
| GMO Climate Change Select Investment Fund | GMO Climate Change Select Transition Investment Fund | Article 9 |
| Neuberger Berman Asian Responsible Debt - Hard Currency Fund | Neuberger Berman Asia Responsible Transition Bond Fund | Article 8 |
| Amundi MSCI USA ESG Climate Net Zero Ambition CTB ETF | Amundi MSCI USA ESG Broad Transition ETF | Article 8 |
| Amundi MSCI Europe ESG Broad CTB | Amundi MSCI Europe ESG Broad Transition | Article 8 |
| Allspring (Lux) Worldwide Fund - 2 Degree Global Equity Fund | Allspring (Lux) Worldwide Fund - Climate Transition Global Equity Fund | Article 8 |
| iShares MSCI USA ESG Enhanced ETF | iShares MSCI USA ESG Enhanced CTB ETF | Article 8 |
| iShares MSCI Pacific ex-Japan ESG Enhanced ETF | iShares MSCI Pacific ex-Japan ESG Enhanced CTB ETF | Article 8 |

Source: Morningstar Direct and Morningstar Sustainalytics Research.

Conversely, other firms have taken the opposite approach. For instance, Northern Trust replaced the term "green transition" with "climate" for a couple of funds. For example, Northern Trust World Green Transition Index Fund became **NT World Climate Equity Fund**. The change aims to better reflect the fund's strategy, which itself remains unchanged. The fund tracks "an index that (i) excludes certain companies not considered to meet sustainability principles, (ii) excludes certain companies with heavy exposure to carbon; and (iii) increases exposure, when compared to the parent index, to companies deriving revenue from climate–friendly or focused (green) products or services and which have a robust carbon reduction strategy." The strategy, which also applies PAB exclusions, results in 70% lower carbon.

Contrary to expectations, the adoption of the term "transition" remains limited. We had anticipated a wider uptake, given the less restrictive CTB exclusions compared with the more stringent PAB rules, as well as the growing investor focus on aligning portfolios with net zero commitments. But providers of transition funds must also demonstrate a clear, measurable path toward social or environmental transition, which can prove challenging. For investors, transition remains a relatively new and ill-defined concept, requiring additional due diligence. In particular, it demands an understanding—and acceptance—that these portfolios can hold companies with currently poor ESG credentials and be heavily weighted toward high emitters.

## Focus on Funds With 'Sustainable' in the Name

In this section, we examine the funds that previously included the term "sustainable" in their names and later removed it, as well as those that chose to retain it.[6]

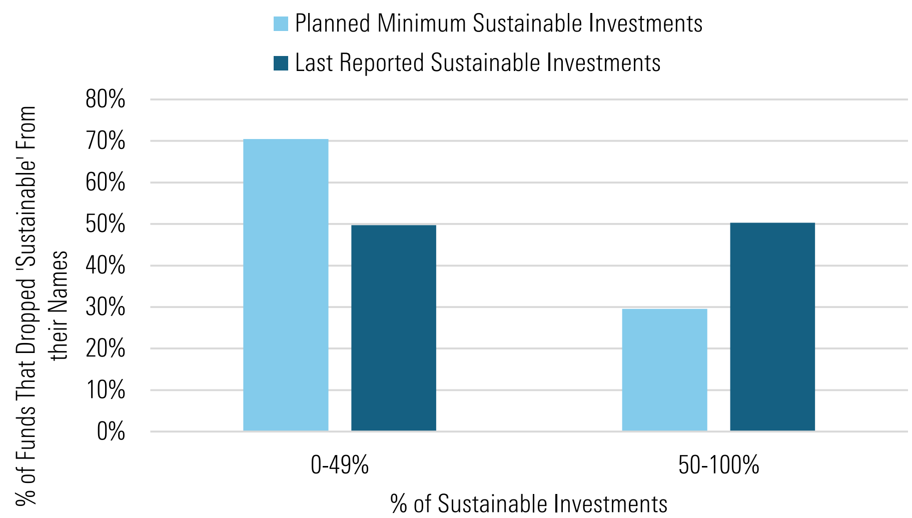
We identified 241 that dropped or replaced the term, out of the 1,245 that employed the term in May 2024. Several factors may have motivated managers to make this change, including a desire to adjust the investment objective to align with evolving investor preferences. In some cases, the portfolio may not have been able to meet the ESMA requirement for a meaningful allocation to sustainable investments—i.e. >50% of portfolio[7].

As seen in the exhibit below, 70% of the funds that dropped "sustainable" from their names previously failed to target at least 50% of sustainable investments as indicated in their precontractual documents, although 50% effectively reported a minimum of 50% of sustainable investments in their annual reports. Managers of these funds chose to not further constrain their strategy by committing to a high level of sustainable investments.

6 Or derivatives in English such as "sustainability" and "SDG" as well as "sustainable" in non-English languages.

7 "While national competent authorities should carry out a case-by-case analysis of how any sustainability-related term is used in the name of a fund, they may find that investment funds with "sustainable" terms in their names investing less than 50% of the proportion of investments in sustainable investments are not "meaningfully investing in sustainable investments". That amount could be higher, subject to the circumstances of the case." https://www.esma.europa.eu/publications-data/questions-answers/2373

**Exhibit 8a** Funds That Dropped 'Sustainable' From Their Names (Distribution of Sustainable Investments %)




Source: Morningstar Direct. Data as of May 16, 2025. Based on 241 funds that have dropped or changed "sustainable" from their names. Including money market funds, funds of funds, and feeder funds.

As examples of funds that recently removed "sustainable" from their names, we can highlight a range of four Article 9 TCW funds, including **TCW Emerging Markets Income Fund** and **TCW High Yield Bond Fund**. In the process, TCW dropped the funds' sustainable objectives, reduced their sustainable investment targets to 20% from 80%, downgraded the strategies to Article 8, and limited their ESG approaches to ESG assessments, negative screening, and corporate engagement.

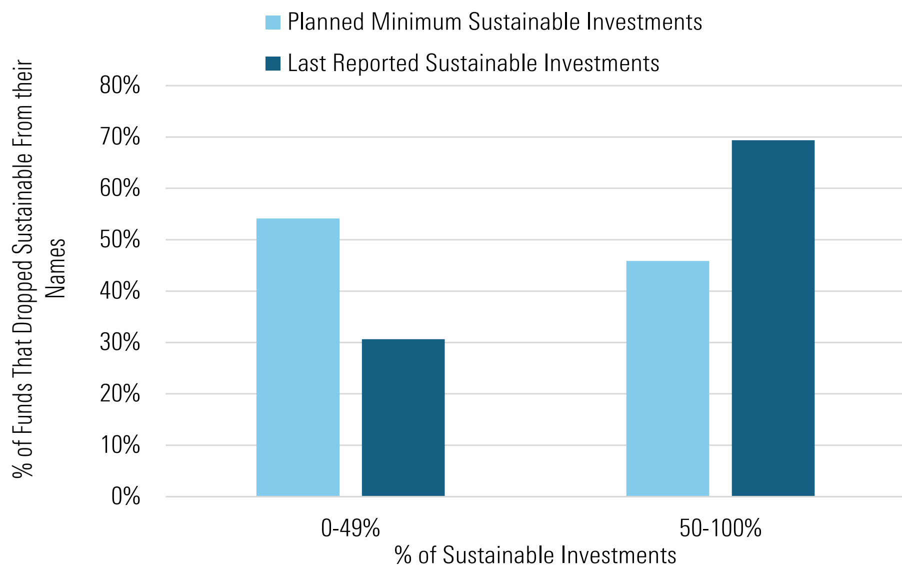
**BNP Paribas Asia Ex-Japan Equity** also dropped "sustainable" from its name but doesn't seem to have changed its investment process, which was previously limited to ESG assessments, negative screening, and stewardship activities. The strategy's minimum level of planned sustainable investments remains 20%.

Furthermore, **Guinness Global Quality Mid Cap Fund**, formerly known as **Guinness Sustainable Global Equity**, substituted the term "sustainable" for "quality" and "mid cap" with no change to the planned sustainable investment from the last reported 0%. According to the manager, this was a commercial decision unrelated to the ESMA rule changes, intended to emphasize the fund's financial characteristics and improve comparability with peers after switching to a mid-cap index. In contrast, **Guinness Sustainable Energy Fund** retained the term "sustainable" as it was already fully compliant with the guidelines' criteria. The Article 9 strategy maintained its target of 80% sustainable investments, unchanged from the previous year.

This Guinness fund is part of a group of funds that chose to retain "sustainable" in their names. Among those, some opted to increase their level of commitment in precontractual documents.

Below, we show the distribution of sustainable investments (both committed and reported) of those funds that have retained the term "sustainable" in their names. Comparison with the previous sample suggests a greater proportion targeting sustainable investments above the 50% threshold. While not all currently exceed that threshold, all are expected to do so. As of now, nearly 70% have reported a minimum of 50% sustainable investments in their annual reports.

**Exhibit 8b** Funds That Retained 'Sustainable' in Their Names (Distribution of Sustainable Investments %)




Source: Morningstar Direct. Data as of May 6, 2025. Based on 1,175 funds that retained "sustainable" in their names. Including money market funds, funds of funds, and feeder funds.

It's worth noting that although the ESMA clarified last December that a "meaningful" allocation to sustainable investments should be at least 50%, regulators in some jurisdictions such as Sweden and Denmark impose even higher thresholds of 80% and 85%, respectively.

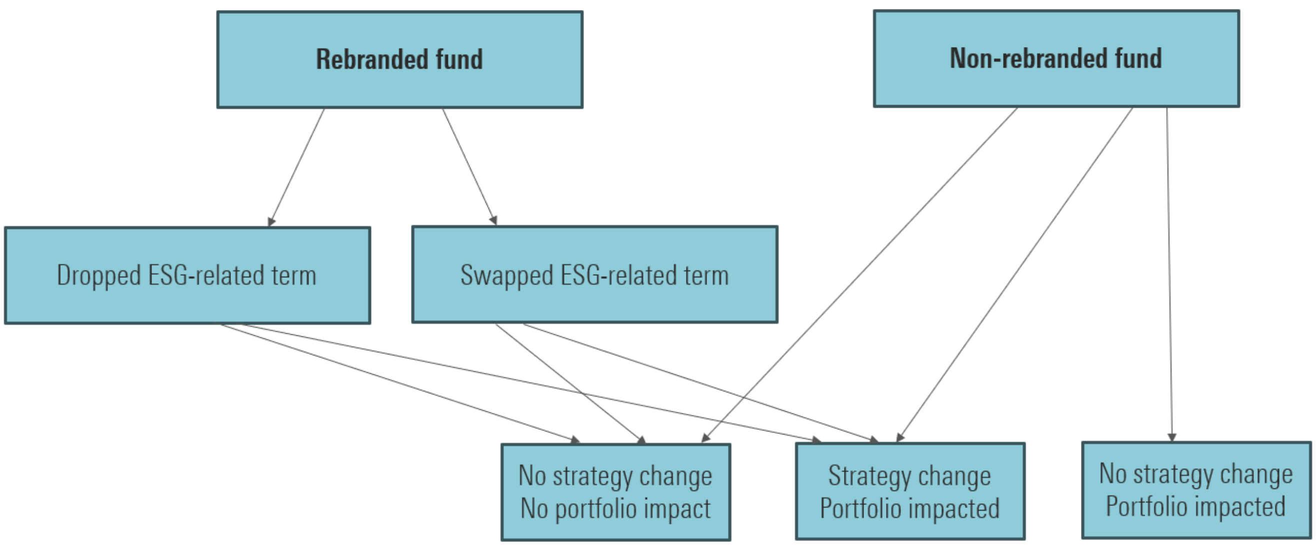
In practice, asset managers are able to adapt their methodologies for measuring sustainable investments to comply with regulatory expectations. This flexibility stems from the current definition of "sustainable investment" under Article 2(17) of the SFDR, which still allows for broad interpretation. As highlighted in our periodic SFDR research, differing interpretations of the regulation have led asset managers to adopt varying approaches to calculating sustainable-investment exposure. As a result, funds with similar portfolios and exposures have reported significantly different sustainable-investment allocations.

On the back of the ESMA's clarification, some asset managers chose to add the term "sustainable" or "sustainability" to fund names. For example, Nordea added "sustainable" to its range of Star funds, most of which already met all the required criteria to use the term, including a sustainable-investment allocation target of at least 50%. The funds, including **Nordea North American Sustainable Stars Equity**, aim to identify companies living up to high ESG standards based on fundamental research and creating impact. Additionally, the fund has a 20% carbon emission reduction objective relative to its reference benchmark.

## A Summary of Various Approaches and Expected Portfolio Impact

As seen from the examples provided above, asset managers have adopted various approaches to comply with the ESMA guidelines. Over the past year, they assessed which funds within scope could retain their ESG-related terms based on the underlying strategies and portfolios. Some made minor adjustments, such as divesting from companies that breach PAB or CTB exclusion rules. Others refined the funds' investment objectives and policies. For funds requiring more extensive changes, managers opted to rebrand, either by replacing the ESG-related term or removing it altogether. However, even some rebranded funds underwent adjustments to the strategy and/or portfolio. All of this means that, whether rebranded or not, funds within the scope of the guidelines may require investors to reassess the funds they hold to ensure they still align with their preferences.

**Exhibit 9a** Possible Changes to Fund Names and Expected Impact on Portfolios




Source: Morningstar Direct and Morningstar Sustainalytics Research.

## An Early Assessment of Portfolio Impact

In this section, we provide an early assessment of the impact of the guidelines' exclusion rules on fund portfolios at the end of March 2025.

To that purpose, we first identified the companies that should be excluded under the CTB and PAB exclusion rules, using Morningstar Sustainalytics' product involvement and controversies research to build the exclusion lists.

It is important to understand that PAB/CTB exclusion lists may vary from asset manager to asset manager and also from data provider to data provider. The scope of exclusions may differ depending on the consideration of certain activities, such as supporting products and services related to fossil fuels (transportation and consulting services, for example). The PAB rules' reference to the exploration, extraction, manufacturing, or distribution of fossil fuels leaves room for varying interpretations.

Other differences across PAB/CTB exclusion lists may arise from variations in thresholds for company ownership and value chain exposure—for instance, how deep into a company's value chain should one go to assess its involvement in controversial sectors? Finally, differences may also stem from discrepancies in data sources, methodologies, estimates, coverage, and data timeliness.

Through our interviews of asset managers, we learned that some use a single PAB/CTB exclusion list consistently across all funds managed by the firm. Others apply different lists depending on the funds' management styles. Passive funds typically follow the exclusions set by the index provider, while for active funds, managers may apply different lists based on refined criteria and data sources. Investors should consider all these factors when evaluating a fund's compliance with the ESMA guidelines. They should also be aware that the more stringent the criteria, the narrower the investable universe.

**Exhibit 9b** Reasons Behind Variations in PAB/CTB Exclusion Applications Across Funds and Managers

| Why PAB/CTB Exclusions Vary Across Funds and Managers | Examples |
|---|---|
| **Different interpretations of certain activities** | Different considerations of certain activities<br>For instance: Should a company involved in coal supporting products and services such as transportation and consulting services be excluded? |
| **Varying ownership thresholds** | Variations in thresholds for company ownership and value chain exposure<br>For instance: How deep into a company's value chain should one go to assess its involvement in controversial sectors? |
| **Discrepancies in data sources** | Discrepancies in data sources, methodologies, estimates, coverage, and data timeliness<br>For instance: A company many not publicly report the percentage of revenue from a specific activity, but it can disclose this information through engagement. |

Source: Morningstar Sustainalytics Research.

Once we identified the companies that should be excluded under the CTB and PAB exclusion rules based on Morningstar Sustainalytics' company ESG research, we selected a sample of 2,320 in-scope funds with complete portfolio equity holdings[8] for both May 2024 and March 2025. The exhibit below highlights 25 of the most commonly held "contentious" companies in these portfolios between the two dates, showing the number of funds holding each stock, their average portfolio weight, the aggregate holding value, and the main reasons for exclusion.

8 We focus on equity holdings of the in-scope funds in this impact analysis.

**Exhibit 10** Changes Among 25 Stocks Commonly Held by a Sample of In-Scope Funds in May 2024 (Ranked by Number of Funds Holding the Stocks)

| | | Number of Investing Funds | | Average Weight (%) | | Market Value (USD Mil) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Country** | **May 2024** | **March 2025** | **May 2024** | **March 2025** | **May 2024** | **March 2025** | **Industry** | **Main Reason for Exclusion** |
| TotalEnergies | France | 280 | 214 | 2.2 | 1.5 | 3,094 | 2,062 | Oil & Gas Integrated | Oil & Gas Production |
| Neste | Finland | 242 | 143 | 0.4 | 0.3 | 413 | 242 | Oil & Gas Refining & Marketing | Oil & Gas Production |
| Quanta Services | US | 236 | 242 | 0.6 | 0.5 | 763 | 744 | Engineering & Construction | Oil & Gas Supporting Prod/Serv |
| Emerson Electric | US | 202 | 191 | 0.6 | 0.5 | 818 | 749 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| Intertek Group | UK | 196 | 185 | 0.5 | 0.5 | 353 | 305 | Specialty Business Services | Thermal Coal Supporting Prod/Serv |
| Wartsila | Finland | 194 | 106 | 0.3 | 0.4 | 327 | 109 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| Baker Hughes | US | 185 | 178 | 0.3 | 0.4 | 801 | 967 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |
| The Toronto-Dominion Bank | Canada | 182 | 141 | 0.5 | 0.5 | 856 | 660 | Banks - Diversified | Non-Compliant with UNGC |
| Grupo ACS | Spain | 177 | 176 | 0.3 | 0.4 | 339 | 358 | Engineering & Construction | Thermal Coal Supporting Prod/Serv |
| Tencent Holdings | China | 153 | 152 | 3.3 | 4.0 | 2,717 | 3,350 | Internet Content & Information | Non-Compliant with UNGC |
| Schlumberger | US | 152 | 130 | 0.5 | 0.4 | 624 | 534 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |
| Cheniere Energy | US | 150 | 138 | 0.3 | 0.4 | 446 | 639 | Oil & Gas Midstream | Oil & Gas Production |
| Yokogawa Electric | Japan | 150 | 133 | 0.2 | 0.1 | 112 | 92 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| Equinor | Norway | 150 | 123 | 0.5 | 0.4 | 302 | 244 | Oil & Gas Integrated | Oil & Gas Production |
| Albemarle | US | 148 | 104 | 0.5 | 0.3 | 263 | 146 | Specialty Chemicals | Oil & Gas Supporting Prod/Serv |
| LyondellBasell Industries | US | 141 | 111 | 0.3 | 0.2 | 260 | 151 | Specialty Chemicals | Oil & Gas Production |
| Valero Energy | US | 137 | 111 | 0.3 | 0.2 | 341 | 241 | Oil & Gas Refining & Marketing | Oil & Gas Production |
| Oneok | US | 136 | 122 | 0.3 | 0.3 | 383 | 507 | Oil & Gas Midstream | Oil & Gas Production |
| OMV | Austria | 133 | 92 | 0.3 | 0.3 | 164 | 113 | Oil & Gas Integrated | Oil & Gas Production |
| Anglo American | UK | 130 | 104 | 0.7 | 0.6 | 336 | 250 | Other Industrial Metals & Mining | Thermal Coal Extraction |
| Repsol | Spain | 130 | 100 | 0.4 | 0.4 | 295 | 201 | Oil & Gas Integrated | Oil & Gas Production |
| Galp Energia | Portugal | 130 | 106 | 0.3 | 0.2 | 193 | 132 | Oil & Gas Integrated | Oil & Gas Production |
| Daikin Industries | Japan | 129 | 107 | 0 | 0.5 | 647 | 370 | Building Products & Equipment | Controversial Weapons |
| Halliburton | US | 126 | 107 | 0 | 0.1 | 416 | 240 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |
| Kinder Morgan | US | 121 | 81 | 0 | 0.3 | 310 | 190 | Oil & Gas Midstream | Thermal Coal Supporting Prod/Serv |

Source: Morningstar Sustainalytics and Morningstar Direct. Data as of May 2024. Based on the equity holdings of 2,320 in-scope funds that have complete holding records in both May 2024 and March 2025, including 1,867 equity strategies and 451 allocation strategies.

Overall, we can see that the number of funds holding these stocks declined from May 2024 to March 2025, accompanied in many cases by a decrease in both average portfolio weight and aggregate holding value. It is fair to assume that part of the decline can be attributed to stock divestments made to comply with the ESMA guidelines.

At the top, **TotalEnergies**—the most widely held stock among our sample of 2,320 funds in May 2024—saw the number of portfolios holding it fall by 24%, from 280 to 214 by March 2025. Its average portfolio weight also declined, to 1.5% from 2.2%, although part of the decrease may be attributed to the 6% drop in TotalEnergies' stock price over the period. As a result, the French energy giant slipped to the second most popular holding in the table, overtaken by **Quanta Services**.

The second most popular holding was **Neste**, whose number of investing funds decreased by 41%, to 143 from 242. The Finnish company operates in oil refining and renewable solutions. For context, Neste's stock price also experienced a significant decline of approximately 52% between May 2024 and March 2025, due to a combination of operational challenges, market dynamics, and strategic uncertainties.

Among our sample of 3,100 funds with full portfolio holdings, we identified 73 passive funds that still held **TotalEnergies** and **Neste** at the end of March. Thirty-one of these funds recently changed or removed ESG-related terms from their names and therefore won't be required to divest from these stocks. Others will, and, as a result, we expect to see the number of funds holding these energy stocks decline further in April and May portfolios.

Other energy stocks also experienced a decline in the number of the sample funds holding them, though to a lesser extent. These include **Baker Hughes** (to 178 from 185), **Cheniere Energy** (to 138 from 150), and **Schlumberger** (to 130 from 152)[9]. Schlumberger provides technology, integrated project management, and information solutions for the oil and gas industry. In addition to software-integrated solutions and monitoring services, the company offers exploration and production measurement tools, drilling solutions, and well completion services and equipment.

Meanwhile, funds holding **The Toronto-Dominion Bank** fell to 141 in March 2025 from 180 in May 2024. The Canadian bank is considered to be in violation of international norms for its branch employees' involvement in money laundering and bribery. Another company considered by Sustainalytics to be noncompliant with the UN Global Compact principles is **Tencent Holdings**. The Chinese internet company is reported to engage in widespread censorship and surveillance of platform users without adequate management systems and disclosure to ensure the right to freedom of expression and privacy. **Tencent** was found among 152 sample funds at the end of March, showing virtually no change in presence compared with 2024. This stability likely reflects differing assessments of the company's activities among data providers and asset managers[10].

Last year, we captured **BYD Co.** among the most common holdings under the CTB exclusion rules due to the firm's involvement in electronic cigarettes through its subsidiary **BYD Electronic**. Since the company exited electronic cigarette production—a decision reportedly influenced by the new ESMA regulations[11]—it no longer appears among the common holdings this year.

### Impact Analysis of the Exclusion Rules on Non-Rebranded Funds

Here, we focus on the funds in our sample (as defined above) that have retained ESG-related terms in their names. This reduced universe of approximately 2,590 funds is required to completely divest from stocks in breach of the ESMA guidelines. While we can expect some of the stocks listed below to no longer feature in these portfolios going forward, others may remain due to differing interpretations of the rules and variations in data sources, as explained earlier.

9 For context, stocks of Baker Hughes, Cheniere Energy, and Schlumberger returned 33%, 47%, and negative 6%, respectively, between May 2024 and March 2025.

10 For context, stocks of The Toronto-Dominion Bank and Tencent Holdings returned 11.4% and 43%, respectively, between May 2024 and March 2025.

11 "Investors hail impact of EU ESG rules in BYD exit from e-cigarettes"

**Exhibit 11** Changes Among 25 Stocks Commonly Held by a Sample of Non-Rebranded Funds (Ranked by Number of Funds Holding the Stocks)

| | | Number of Investing Funds | | Average Weight (%) | | Market Value (USD Mil) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Country** | **May 2024** | **March 2025** | **May 2024** | **March 2025** | **May 2024** | **March 2025** | **Industry** | **Main Reason for Exclusion** |
| TotalEnergies | France | 210 | 139 | 2.2 | 1.3 | 2,088 | 1,249 | Oil & Gas Integrated | Oil & Gas Production |
| Neste | Finland | 192 | 102 | 0.4 | 0.3 | 338 | 199 | Oil & Gas Refining & Marketing | Oil & Gas Production |
| Quanta Services | US | 186 | 198 | 0.7 | 0.6 | 611 | 623 | Engineering & Construction | Oil & Gas Supporting Prod/Serv |
| Intertek Group | UK | 152 | 135 | 0.5 | 0.5 | 287 | 228 | Specialty Business Services | Thermal Coal Supporting Prod/Serv |
| Emerson Electric | US | 147 | 136 | 0.6 | 0.6 | 625 | 547 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| Wartsila | Finland | 146 | 81 | 0.4 | 0.4 | 248 | 81 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| The Toronto-Dominion Bank | Canada | 142 | 117 | 0.4 | 0.4 | 603 | 501 | Banks - Diversified | Non-Compliant with UNGC |
| Baker Hughes | US | 132 | 128 | 0.4 | 0.4 | 589 | 673 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |
| Grupo ACS | Spain | 132 | 128 | 0.4 | 0.4 | 262 | 266 | Engineering & Construction | Thermal Coal Supporting Prod/Serv |
| Tencent Holdings | China | 118 | 113 | 3.1 | 4.1 | 1,437 | 1,726 | Internet Content & Information | Non-Compliant with UNGC |
| Yokogawa Electric | Japan | 114 | 102 | 0.2 | 0.2 | 72 | 59 | Specialty Industrial Machinery | Oil & Gas Supporting Prod/Serv |
| Cheniere Energy | US | 107 | 91 | 0.3 | 0.4 | 273 | 443 | Oil & Gas Midstream | Oil & Gas Production |
| Albemarle | US | 106 | 76 | 0.6 | 0.4 | 206 | 118 | Specialty Chemicals | Oil & Gas Supporting Prod/Serv |
| Schlumberger | US | 99 | 78 | 0.4 | 0.3 | 288 | 283 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |
| Repsol | Spain | 99 | 69 | 0.4 | 0.4 | 206 | 124 | Oil & Gas Integrated | Oil & Gas Production |
| Valero Energy | US | 96 | 73 | 0.3 | 0.2 | 236 | 147 | Oil & Gas Refining & Marketing | Oil & Gas Production |
| Galp Energia | Portugal | 95 | 66 | 0.4 | 0.2 | 143 | 101 | Oil & Gas Integrated | Oil & Gas Production |
| Daikin Industries | Japan | 94 | 77 | 0.6 | 0.4 | 499 | 287 | Building Products & Equipment | Controversial Weapons |
| Equinor | Norway | 94 | 78 | 0.4 | 0.4 | 149 | 139 | Oil & Gas Integrated | Oil & Gas Production |
| Anglo American | UK | 93 | 67 | 0.7 | 0.6 | 200 | 142 | Other Industrial Metals & Mining | Thermal Coal Extraction |
| Oneok | US | 91 | 78 | 0.2 | 0.3 | 195 | 211 | Oil & Gas Midstream | Oil & Gas Production |
| LyondellBasell Industries | US | 91 | 67 | 0.3 | 0.2 | 160 | 95 | Specialty Chemicals | Oil & Gas Production |
| OMV | Austria | 89 | 54 | 0.4 | 0.4 | 103 | 76 | Oil & Gas Integrated | Oil & Gas Production |
| Eni | Italy | 85 | 47 | 0.7 | 0.5 | 236 | 89 | Oil & Gas Integrated | Oil & Gas Production |
| Halliburton | US | 85 | 70 | 0.1 | 0.1 | 245 | 129 | Oil & Gas Equipment & Services | Oil & Gas Supporting Prod/Serv |

Source: Morningstar Sustainalytics and Morningstar Direct. Data as of May 2024. Based on the equity holdings of 2,589 in-scope funds that have complete holding records in both May 2024 and March 2025 and have not added, dropped, or swapped any ESG-related terms, including 1,504 equity strategies and 401 allocation strategies.

Here, as expected, we're seeing more divestments (in relative terms) among our sample of funds that retained their ESG-related terms in their names, albeit to varying degrees. For example, the number of funds holding **TotalEnergies** shares dropped by 34% between May 2024 and March 2025 (to 139 from 210), compared with the 24% decrease seen earlier among the full sample of funds with complete portfolio holdings over the observation period. Similar divestment outcomes were found in other energy stocks including **Neste** (47% versus 41%, previously), **Repsol** (30% versus 23%), **Galp Energia** (30% versus 18%), and **Eni** (45% versus 28%).

There was only one exception. **Quanta Services** saw a minor growth in the number of funds holding its stock (to 198 from 186). Quanta Services is a specialty contractor that provides fully integrated infrastructure solutions for electric power, underground utility, and communications industry. For the oil and gas industry, the company provides design, installation, repair, and maintenance of pipeline transmission and distribution and production systems, compressors, pump stations, storage tanks, and others. Sustainalytics estimates that oil and gas supporting products and services revenues represent approximately 10% of the company's total revenue (10% is the regulatory threshold).

**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. With 17 offices globally, Morningstar Sustainalytics has more than 1,800 staff members, including more than 800 research analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.