

## Hello, we're Net Purpose.

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We're on a mission to make impact measurement effortless for all investors by 2025. We believe every investor should be able to measure their portfolio's social and environmental impact as effortlessly as financial return.

Founded in 2019, Net Purpose streams facts on companies' and investment portfolios' social and environmental performance and powers close to \$115 billion in sustainable funds. After just two years, Net Purpose was named Runner Up, [ESG Data Provider of the Year](#) in 2022 and called out for our focus on data quality and impact.

## Consultation Responses

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### Q1. Do you agree with the need to introduce quantitative thresholds to assess funds' names?

A: Yes, we agree in principle to introduce quantitative thresholds to assess funds' names based on their sustainability performance. We believe there exist significant risks of greenwashing in the current market that, if unaddressed, can be detrimental to investors' and consumers' confidence in sustainable products in the long run. We believe using and publicly reporting quantitative thresholds is the best way to compare funds and safeguard the integrity of sustainable financial products at this moment.

### Q2. Do you agree with the proposed threshold of 80% of the minimum proportion of investments for the use of any ESG-, or impact-related words in the name of a fund? If not, please explain why and provide an alternative proposal.

A: We agree in principle that setting a high enough threshold is vital to ensure the integrity of sustainable products in the financial market. We also acknowledge that the proposed 80% threshold is comparable to that of the proposed 80% threshold by the US Securities and Exchange Commission (SEC) in May 2022 (Page 1, [Link](#)) and that of the 70% threshold proposed by UK Financial Conduct Authority (FCA) in October 2022 (Page 32, [Link](#)). We would suggest that, as far as possible, these quantitative thresholds are consistent across geographies to enable cross-border comparison and reduce the burden of asset managers reporting in multiple jurisdictions.

Regarding the 80%: on the one hand, we believe that ESG or impact-related strategies should strive to invest 100% of their assets in qualifying assets and companies. On the other hand, as ESMA representatives have stated in the January 23rd, 2023, public consultation hearing, the 80% threshold may be a high enough bar today, and an unrealistic threshold for most funds in the current market. Indeed, per research conducted by ESMA's Risk Analysis and Economics Department, "only 0.5 % of the funds in our sample would meet the proposed minimum portfolio greenness threshold of 50 %" (Page 1, [Link](#)). At the current moment, setting unattainable thresholds may lead to the erosion of the ESG/impact product market, which may deter or discourage fund managers from pursuing ESG/impact-related strategies.

With regards to words in the name: per the ESMA Supervisory Briefing on Sustainability Risks and Disclosures in the area of investment management, ESG-related words include "'ESG', 'green', 'sustainable', 'social', 'ethical', 'impact'" (Page 10, [Link](#)). We encourage ESMA to provide a full list of ESG- or impact-related words, similar to that of the FCA SDR proposal 6.12 (Page 74, [Link](#)).

### Q3. Do you agree to include an additional threshold of at least 50% of minimum proportion of sustainable investments for the use of the word "sustainable" or any other sustainability-related term in the name of the fund? If not, please explain why and provide an alternative proposal.

A: In principle, we are supportive of this proposal. However, we encourage ESMA to further clarify Sustainability-related terms to alleviate potential confusion between the definitions of ESG and Sustainable. The definition of a "sustainable investment" is somewhat unclear, particularly when it comes to setting baseline expectations for fund managers.

SFDR Regulation (EU) 2019/2088 Article 2(17) prescribed that investments that contribute to environmental or social objectives are sustainable (Page 8, [Link](#)). But, the mechanism through which sustainable percentage figures are determined is varied and non-prescriptive. We encourage ESMA to be more prescriptive in recommended calculation mechanisms. We believe the existing SFDR frameworks of EU Taxonomy and PAI are excellent tools for calculating sustainable thresholds.

**Q4. Do you think that there are alternative ways to construct the threshold mechanism? If yes, please explain your alternative proposal.**

A: In the long term: we believe sustainable strategies should be assessed on their achievement of sustainability objectives. This would be more consistent with how we assess investors with financial objectives: based on the achievement of financial return. In this world, consumers could choose between a strategy that achieves a given environmental outcome or a given social outcome, just like they choose between strategies with different financial outcomes and risk/return. For example, a climate-focused consumer may choose to invest in products that achieve the best YOY reductions in GHG emissions. This would be an alternate mechanism to set objectives today: based on the absolute GHG reductions required to achieve climate goals for example. However, we recognise that this proposed method might not be feasible in the short term as data availability and disclosure evolves.

**Q5. Do you think that there are other ways than the proposed thresholds to achieve the supervisory aim of ensuring that ESG or sustainability-related names of funds are aligned with their investment characteristics or objectives? If yes, please explain your alternative proposal.**

A: Similar to our answer to Q4, an outcomes-driven approach on key ISSB metrics could inform whether a given fund is sustainable or not and mobilise capital to achieve the defined environmental and social objectives of the European Commission.

**Q6. Do you agree with the need for minimum safeguards for investment funds with an ESG- or sustainability-related term in their name? Should such safeguards be based on the exclusion criteria such as Commission Delegated Regulation (EU) 2020/1818 Article 12(1)-(2)? If not, explain why and provide an alternative proposal.**

A: Yes, we agree in principle with ESMA that minimum safeguards on investment funds are necessary and we broadly agree with the listed exclusion criteria listed in Commission Delegated Regulation (EU) 2020/1818 Article 12 (1)-(2).

**Q8. Do you agree that funds designating an index as a reference benchmark should also consider the same requirements for funds names like any other fund? If not, explain why and provide an alternative proposal.**

A: Yes, we agree on the principle that all financial products and guidelines, including indexes, should be subject to the same requirements for fund names. ESG indexes have served an instrumental role in helping fund managers identify the universe of potential investments. A recent study showed that certain ESG rating providers, who all create indexes based on their ratings, have an outsized impact on the stock selections in ESG or sustainability funds ([Link](#)). Given their influence on the investable universe for fund managers, it is vital to subject indexes to the same requirements for fund names as any other fund.

**Q10. Do you agree with having specific provisions for "impact" or impact-related names in these Guidelines? If not, please explain why.**

A: The ESMA Supervisory Briefing also made the distinction between the terms "ESG" and "Impact", with impact funds defined as "funds whose investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (Page 10, [Link](#)). We believe that this adequately describes impact funds. It is reasonable to expect impact funds to report their progress on these social and environmental outcomes, if not already covered under the requirements to report their compliance with ESMA thresholds.

**Q11. Should there be specific provisions for "transition" or transition-related names in these Guidelines? If yes, what should they be?**

A: "Transition" names, similar to that of the "sustainable improver" labels of the FCA SDR proposals (Page 34, [Link](#)), can enable capital allocation towards companies who are transitioning their assets to become more sustainable. We think it's worth calling these words out as words related to sustainable strategies that fall under the ESMA guidance. Transition strategies should be assessed on their ability to achieve measurable improvements in social and environmental outcomes over time, and investor stewardship is one way to achieve these results. It is

reasonable to expect transition funds to report their progress on these social and environmental outcomes, if not already covered under the requirements to report their compliance with ESMA thresholds.

**Q12. The proposals in this consultation paper relate to investment funds' names in light of specific sectoral concerns. However, considering the SFDR disclosures apply also to other sectors, do you think that these proposals may have implications for other sectors and, if so, would you see merit in having similar guidance for other financial products?**

A: We believe the proposed fund naming criteria is a constructive step towards improving consumer confidence in sustainable funds. The current proposal can certainly lead to increased pressure on the standardisation of other financial products that are marketed as sustainable. As the demand for and the variety of sustainable products increase, we believe all financial products should also be subject to similar guidance.

**Q13. Do you agree with having a transitional period of 6 months from the date of the application of the Guidelines for existing funds? If not, please explain why and provide an alternative proposal.**

A: Yes, we agree with the proposed transitional period of 6 months.

**Q14. Should the naming-related provisions be extended to closed-ended funds which have terminated their subscription period before the application date of the Guidelines? If not, please explain your answer.**

A: Yes, we agree on the principle that all financial products and funds should be subject to the fund naming criteria.