

**MEMO# 33143**

March 2, 2021

## **SEC Investor Bulletin on ESG Funds**

[33143]

March 2, 2021 TO: ICI Members  
Investment Company Directors  
Chief Compliance Officer Committee  
Disclosure Working Group  
ESG Advisory Group  
ESG Task Force  
ICI Global Regulated Funds Committee  
SEC Rules Committee SUBJECTS: Disclosure  
ESG RE: SEC Investor Bulletin on ESG Funds

On February 26, 2021, the SEC's Office of Investor Education and Advocacy issued a bulletin to educate investors about environmental, social and governance ("ESG") funds.[\[1\]](#) The investor bulletin provides an overview of ESG funds and highlights considerations for investors, including suggested questions to ask to consider whether investing in the funds is right for them. The overview notes that ESG investing may be referred to in many different ways, such as sustainable investing, socially responsible investing, and impact investing.

The investor bulletin suggested the following things about ESG funds for an investor to understand:

- Some factors are not defined in federal securities laws, may be subjective, and may be defined in different ways by different funds or sponsors. There is no SEC "rating" or "score" of E, S, and G that can be applied across a broad range of companies, and while many different private ratings based on different ESG factors exist, they often differ significantly from each other.
- Some funds may focus on ESG investing, while others consider ESG factors alongside other more traditional factors.
- Some ESG fund managers may consider data from third party providers.

The investor bulletin highlighted the following things about ESG investment strategies for an investor to understand:

- ESG funds may perform differently than other funds without the ESG parameters.
- Companies which may score poorly on one ESG factor (such as carbon footprint) could be selected because they score well on another ESG factor (strong governance) or because the fund manager has plans to engage with the companies to improve their

performance on ESG issues.

- Some funds that consider ESG may have different expense ratios than other funds that do not consider ESG factors.

Finally, the investor bulletin suggested that investors ask questions, such as the following:

- Is ESG a core component of the investment selection process, or is it one of many factors that are considered to select investments?
- To what extent does the fund focus on ESG factors versus more traditional factors?
- How does the fund weight each of the three ESG factors within its ESG portfolio holdings?
- What specific criteria within a factor does the fund use when determining its portfolio holdings?
- How do the fund's fees and expenses compare to other investment options?
- What types of investments do you expect or desire the fund to be invested in, and what types of investments do you expect or desire the fund NOT to be invested in? Compare those expectations with published fund holdings to better understand whether the fund's investment strategy is consistent with your preferences.
- How does the fund explain and discuss its ESG practices, and how do those practices affect the performance and risk of the fund?
- Is the fund employing an ESG practice that is of importance to you, such as voting proxies in a certain manner or engaging with issuers to influence their ESG practices?

Annette Capretta  
Associate General Counsel

#### **endnotes**

[1] See SEC, Environmental, Social and Governance (ESG) Funds – Investor Bulletin (Feb. 26, 2021), *available at* <https://www.sec.gov/oiea/investor-alerts-and-bulletins/environmental-social-and-governance-esg-funds-investor-bulletin>.