The Role of ESG Narratives and Mandatory ESG Fund Disclosure in Sustainable Investing *

Frederik Kohl†

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Abstract

Investors have long been told that ESG investments outperform financially. I study the implications of this narrative and its interaction with mandatory ESG fund disclosure. Using novel data on private impact funds and ESG fund marketing, I find that funds claiming a positive link between ESG and financial returns dominate, absent widespread mandatory disclosure. These funds generally meet their return targets, but under-deliver on real impact. Mandatory ESG fund disclosure and related enforcement shift the prevailing ESG narrative. Asset managers are more likely to adopt an impact-focused narrative, make underlying portfolio changes that reflect this shift, and, in doing so, attract more capital. A field experiment in collaboration with the largest German investor association reveals the underlying mechanism. Without mandatory disclosure labels, investors adjust their return, but not their impact expectations to the ESG narrative conveyed because they do not trust funds' impact claims. Hence, narratives of ESG paying off crowd out impact-focused ones. Mandatory disclosure labels that classify funds depending on ESG focus achieve separation between funds based on the impact investors expect, thereby restoring some demand for impact-focused strategies.

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†London Business School, Regent's Park, London NW1 4SA, United Kingdom

1 Introduction

Sustainable investing beyond the integration of ESG information involves some sacrifice in long-run expected returns (Pedersen et al. 2021; Pástor et al. 2021). Yet, the prevailing narrative in research and practice has long been that sustainability improves, or at least does not harm, financial returns (Atz et al. 2022; Friede et al. 2015). This tension has raised concerns that asset managers' ESG narratives may mislead investors about how funds actually trade off between financial and ESG goals. In response, regulators have pushed for disclosure mandates intended to clarify fund managers' prioritization between these goals and help investors select funds whose stated goals match their preferences (Roisman 2020; Gensler 2022).

In this paper, I examine these capital allocation concerns arising from ESG narratives and their interaction with mandatory ESG fund disclosure. Combining hand-collected data on private impact funds, novel data on ESG fund marketing, and a randomized framed field experiment, I provide evidence on (i) how asset managers market their ESG funds to investors, (ii) how investors respond to ESG narratives in fund marketing, and (iii) how mandatory, enforceable disclosure affects asset managers' marketing and investors' choices.

Conceptually, I distinguish between two types of ESG-return narratives: (1) *financial-focused* funds, often also referred to as ESG value investing (Starks 2023), present ESG themes (e.g., climate change) simply as a means of generating financial returns, promising both ESG impact and financial outperformance, and (2) *impact-focused* funds formulate an explicit impact objective independent of financial return goals. I posit that asset managers of financial-focused ESG funds crowd out demand for impact-focused ESG funds that are willing to forego some financial performance for ESG impact. This is possible because financial return promises tend to be verifiable ex post, while ESG performance is often not, thereby enabling fund managers to mislead investors about their ESG claims. Voluntary certifications and ESG fund reporting are often insufficiently credible or comparable for distinguishing between ESG funds (Ramos et al. 2022). Instead, a mandatory sustainable fund disclosure

regime presumably limits crowding out by clarifying which funds credibly pursue impact and which pursue ESG solely for financial purposes through a standardized disclosure format. Its effectiveness, however, depends on investors' ability to infer impact and financial return implications from the disclosures. It also depends on sufficient enforcement of impact claims so that financial-focused ESG funds cannot mimic them at low cost. Accordingly, whether such regimes can correct any potential capital misallocation arising from ESG narratives is an open question.

To establish a baseline, I first document new stylized facts about the heterogeneity and role of financial return goals in impact investing before widespread mandatory disclosure. Based on hand-collected data on private impact funds, I find that only 26% adopt an impact-focused ESG narrative by accepting financial returns below market. The remainder claim a positive link between ESG impact and financial returns (i.e., financial-focused narrative) by targeting at least market-rate returns. Impact-focused narratives were more common in earlier phases of impact investing and among smaller funds with more concentrated investor bases.

Both financial- and impact-focused funds dedicate just as much of their capital to impact investments and make similar impact claims to investors. Consistent with a pooling equilibrium characterized by minimal return sacrifices and limited impact, however, financial-focused impact funds have historically met their financial return goals, but generated a 68% to 90% lower median impact in terms of the three most commonly reported impact metrics (jobs created, carbon emissions avoided, affordable housing developed) than impact-focused funds accepting below-market financial returns.

It is unclear, however, whether financial-focused ESG funds indeed drive out demand for impact-focused funds, or the observed mix of impact funds simply reflects a generally low underlying appetite for impact-focused strategies. To test these two competing explanations for the observable distribution between financial- and impact-focused ESG funds, I exploit the introduction of mandatory sustainable fund disclosure as a shock to the credibility of funds' impact claims. If investor uncertainty about the impact of different ESG narratives

partially explains low demand for impact-focused funds, disciplining funds' impact claims through stringent disclosure requirements should reallocate demand to these funds and thereby incentivize some asset managers to shift their ESG narrative accordingly.

I test this hypothesis in the context of the EU Sustainable Finance Disclosure Regulation (SFDR). While disclosure reforms for sustainable funds have been discussed in several major capital markets, the European Commission was the first to introduce such a mandate with the SFDR in March 2021. Under the SFDR, funds marketed in the EU must be classified into three categories at the product level: (1) Article 6 funds without any ESG considerations, (2) Article 8 ("light green") funds promoting ESG characteristics, and (3) Article 9 ("dark green") funds with an explicit sustainable investment objective such as climate change mitigation. Pre-contractual and periodic disclosure requirements increase with higher SFDR classification of a fund, and these requirements are enforced by national competent authorities that can charge penalties or order changes to fund marketing materials in case of non-compliance. Disclosure requirements were further tightened and clarified in 2022, which coincided with several high-profile enforcement cases of fund greenwashing.[1] This action led to widespread downgrades such that only 3.2% of all EU funds were classified as Article 9 compared with 34.6% as Article 8 by 2023 (Morningstar 2023b).

To examine supply-side responses to the SFDR, I exploit the fact that fund (share classes) marketed outside the EU are not subject to SFDR requirements, and I track funds' ESG narratives over time using a large historical archive of fund factsheets. Initially, even among the mutual funds that Morningstar identifies as targeting specific ESG themes (e.g., climate change), virtually all funds framed their ESG focus purely as a means of achieving financial performance. Around the introduction of the EU SFDR, however, the proportion of asset managers claiming an explicit impact objective rose sharply to more than 17%. A within-fund share class difference-in-differences (DiD) analysis shows that this shift in narrative is concentrated in share classes subject to the SFDR. This finding helps rule out that the shift

[1] Hence, the documented effects around the SFDR likely originate from the bundle of fund-level disclosure mandate and related enforcement changes.

in fund-level ESG narrative primarily reflects broader changes in how the investment case for ESG is perceived in research and practice. In fact, critical academic work pointing to a negative ESG-return relation and the underperformance of ESG funds appeared mostly after the rise in impact-focused funds I document (Quinson 2022; Morningstar 2023a; Mackintosh 2025).

From the prior analysis, I cannot disentangle whether asset managers have just reworded their fund marketing or have more fundamentally changed how they trade off between financial and non-financial objectives. To gain clarity on this point, I analyze changes in asset-weighted portfolio ESG risk scores when funds adopt an impact-focused ESG narrative and whether these changes differ after the introduction of mandatory ESG fund disclosures. While I find little evidence that funds exhibit lower ESG risk when adopting an impact-focused narrative prior to SFDR, impact-focused funds rebalance their portfolios and show a pronounced downward trend in their ESG risk afterward. Since ratings-based ESG risk data are difficult to interpret (Berg et al. 2022), I supplement my analysis with proprietary portfolio impact data aggregated from granular product-level estimates. Consistent with greater product differentiation, I find that impact-focused funds generate significantly more positive environmental impact post-SFDR than funds pursuing ESG for financial returns.

On the demand side, I examine whether the SFDR has triggered capital reallocation from financial-focused to impact-focused ESG funds owing to investors now being able to more clearly distinguish between the two. In the aggregate, I find that in the pre-period normalized fund flows were 7–11 percentiles lower for funds adopting an impact-focused narrative, but this difference in flows essentially disappeared after the reform. Importantly, the disclosure mandate more clearly reveals not only the expected impact, but also the required return sacrifice for impact-focused funds. Hence, the relative increase in demand for impact-focused funds should reflect better information about funds' expected impact rather than changes in expected returns, which should, if anything, reduce demand. However, although I control for concurrent and historical fund performance, the archival analysis does not allow me to

attribute the capital flows to the ESG narratives themselves or to understand why mandatory disclosure triggers the observed capital reallocation.

Therefore, in the last part of this study, I test one (non-exclusive) causal mechanism that explains these demand-side effects following the disclosure mandate: mandatory disclosure credibly differentiates impact-focused funds based on the impact investors expect relative to financial-focused funds. To test this, I run a preregistered framed field experiment in collaboration with the largest German association of private shareholders, which includes 30,000 members, and a major financial magazine with 550,000 weekly readers in Germany. The field experiment allows me to observe changes in demand for impact-focused funds depending on the menu of funds and specific pieces of ex ante information available to experienced investors, while holding other (ex post) performance information constant.

Based on responses from the survey part of my experiment, I first gather descriptive insights into retail investors' beliefs about ESG investing and the information frictions they encounter when investing in ESG funds. I find that retail investor expectations about the financial returns from ESG investing vary widely. The vast majority of my respondents show some agreement that ESG investing sacrifices returns in the long run, and only about a third somewhat disagree. This result contrasts with prior survey evidence that most ESG investors expect sustainable investments to financially perform as well or better than conventional investments (FINRA 2022; Morgan Stanley 2025). Regardless of investors' skepticism about the expected returns of ESG investing, however, the most salient friction preventing investors from making ESG investments is their mistrust of funds' ESG claims and their inability to distinguish between funds with different ESG profiles. Hence, mandatory ESG fund disclosure may primarily grant credibility to funds' ESG claims and thereby separate ESG funds based on expected impact. I test this idea directly in my information provision experiment.

My experimental design is inspired by recent work exploring investors' preferences for ESG investments (Heeb et al. 2023; Bonnefon et al. 2025). Specifically, my experiment follows a two-stage design. In the first stage, investors choose among funds without mandatory ESG

fund disclosure labels. In the second stage, the same investors repeat the fund choice with the mandatory labels displayed (within-subject manipulation). In each stage, investors are asked to choose between three investment options inspired by real funds with exactly the same features in a joint-evaluation discrete choice setup (J. J. Choi et al. 2010): a conventional fund and two ESG-themed funds that, depending on treatment, have the same or different ESG-return narratives. In the *even* ESG narrative condition, both ESG-themed funds convey an impact-focused ESG narrative; whereas, in the *uneven* ESG narrative condition, one of the two ESG funds conveys a financial-focused ESG narrative. The financial-focused ESG fund presents its ESG goals solely as a means of achieving financial outperformance. The impact-focused fund, in contrast, formulates an explicit ESG objective alongside a moderate financial return goal (akin to an impact fund targeting below-market returns).

Participants have incentives to report truthfully since they can make real money ($5 \times$ €1,000 investments) and generate real ESG impact. Further, a Becker–DeGroot–Marschak mechanism (Becker et al. 1964) ensures that it is in respondents' best interest to reveal their true willingness to pay (WTP) because they otherwise risk not receiving their preferred fund or overpaying for it. I randomly vary between participants whether and which ESG-return narratives they are shown in addition to other realistic fund information that is held constant and mirrors the standard information set retail investors face in practice. This setup specifically allows me to test whether investors buy more into some ESG narratives than others, especially when exposed to a menu of funds that pursue ESG for different motives.

Without provision of ESG-return narratives, investors have meaningful WTP for both ESG funds. However, when participants are shown funds' ESG narratives, WTP for the impact-focused fund drops significantly and about two thirds of investors express a preference for the conventional over the impact-focused fund. In fact, these effects are much more pronounced when investors are shown the *uneven* ESG narrative, consistent with financial-focused ESG narratives driving out demand for funds with impact-focused narratives. Participants adjust their return expectations for the impact-focused fund downward by around 1 percentage point

when they are shown the uneven ESG narrative, but they leave their impact expectations largely unchanged relative to the financial-focused ESG fund. In other words, investors respond strongly to ESG funds' financial goals but fail to infer or trust that sacrificing some return could plausibly yield greater impact.

Introducing mandatory disclosure labels in a second investment decision within subject partially reverses the prior treatment effects and restores about half of investors' full WTP for the impact-focused fund. This outcome is due to investors significantly revising their impact expectations for the impact-focused fund upward while leaving their expectations for the financial-focused fund largely unchanged. Hence, a standardized, mandatory disclosure framework from a central regulator achieves credible separation between ESG funds along their non-financial objectives that are otherwise hard to gauge for retail investors.

I contribute to three strands of the literature. First, I contribute to the emerging literature on voluntary and mandatory disclosure of funds' sustainability commitments. While studies of voluntary disclosure of funds' sustainability commitments (e.g., UN PRI signings) find little evidence of any improvements in ESG outcomes (Kim and Yoon 2023; Raghunandan and Rajgopal 2022; Brandon et al. 2022), mandatory sustainability disclosures appear to be associated with meaningful reductions in portfolio carbon emissions (Dai et al. 2026; Emiris et al. 2025). This study helps reconcile these mixed findings by identifying an underlying informational friction that mandatory disclosure alleviates: without enforceable mandatory sustainable fund labels, ESG funds face difficulty in credibly communicating (differences in) their sustainability focus to retail investors and thus compete primarily on expected returns, driving out impact-focused funds that actually follow through on ESG commitments.

Second, my paper speaks to the broad literature on sustainable investing. Much of this literature has focused on whether ESG investors must sacrifice financial returns to achieve ESG impact. Although the theoretical literature is clear in this regard (Oehmke and Opp 2025; Pedersen et al. 2021), the empirical evidence has long been mixed and remains unsettled (Barber et al. 2021; Jeffers et al. 2024). I show that investors respond strongly to how the

link between ESG and financial returns is presented in fund marketing. I also show that funds failing to convey a trade-off between these objectives systematically crowd out demand for impact-focused sustainable investments. The reason is that investors do not believe that by sacrificing some financial return, they can plausibly generate greater impact. This finding highlights that the long-standing dissent about the link between ESG and financial returns has shaped investors' beliefs and thereby limited the supply of capital to investments that explicitly (aim to) address social and environmental issues.

Finally, I contribute to the literature on whether and how mandatory non-financial disclosure disciplines entities' CSR stances and real outcomes (e.g., Christensen et al. 2017; Chen et al. 2018; Rauter 2020; Bettignies et al. 2024). Prior work often emphasizes that these disciplining effects arise through reputation and public awareness channels (Christensen et al. 2021). Less is known, however, about whether transparency mainly constrains behavior given fixed (corporate) objectives or instead shifts entities' underlying objectives to better align with stakeholders' preferences. This distinction is important given the continuing debate on corporate purpose and the need to better understand the rise of non-financial corporate goals alongside profit maximization (Hart and Zingales 2017, 2022; Rajan et al. 2023). I show that, at least in the mutual fund setting where objectives are directly observable, improving information about funds' non-pecuniary benefits to investors induces asset managers to increasingly differentiate their funds based on these non-financial attributes.

2 Institutional Background

Regulators in both the U.S. and Europe have long been concerned about ESG funds' claims in marketing materials (Gensler 2022; Roisman 2020), with two closely related concerns predominating. First, funds may exaggerate their ESG credentials or commit greenwashing; this concern has received the bulk of the attention. Second, ESG funds may overstate their financial return promises (Vermaelen 2022).

In response to these concerns, policymakers have proposed mandatory disclosure regimes that allow investors to better compare and differentiate funds with varying ESG strategies. The general idea that all these proposals have in common is that more stringent disclosure requirements discipline funds' ESG claims and thereby allow for better investor choices based on funds' specific ESG strategies (Shapiro 2023).

While the proposal in the U.S. was recently withdrawn by the SEC, the European Commission formally introduced the SFDR back in 2021. At the product level, this regulation includes a mandatory three-way classification of all financial products marketed in the EU. Product classification ranges from "brown" (Article 6) to "light green" (Article 8) and "dark green" (Article 9) depending on the level of ESG orientation (see Figure A6 for an example). Article 9 funds differ from Article 8 funds in having an explicit sustainable investment objective (e.g., emission reduction) that goes beyond ESG integration (i.e., incorporating ESG information solely for financial objectives). The EU legislator expects these harmonized sustainability disclosures to "enhance the comparability of financial products" and "mobilise capital" (Regulation 2019/2088, Recitals 8 and 9).

However, widespread concerns about the effectiveness and potential misuse of the classification framework were voiced shortly after the regulation came into effect (ESMA 2023). These concerns stemmed from the SFDR's lack of standardized definitions, its heavy reliance on asset managers' self-assessments, and, at least in early phases, the absence of formal enforcement (Pinsent Masons 2023). The effect of the SFDR on the market for sustainable investments is thus an empirical question.

3 Conceptual Underpinnings

Investors pursue ESG for a variety of reasons (e.g., Riedl and Smeets 2017). Many believe that integrating ESG information will improve financial returns or reduce risk (Hartzmark and Sussman 2019). Others have non-financial objectives and pursue ESG to align their

investment portfolio with their personal values (e.g., avoiding tobacco stocks) or to have a positive real impact such as decarbonizing the economy (Riedl and Smeets 2017; Bauer et al. 2021). Pedersen et al. (2021) present an ESG-efficient frontier that combines these different motivations and illustrates the trade-offs involved in sustainable investing. While incorporating ESG information into investment decisions tends to improve financial returns relative to a market portfolio M that deliberately ignores such information, any (further) improvements in ESG impact or values alignment entail a trade-off with financial returns/risk (see the downward-sloping part of the blue ESG-efficient frontier in Figure 1).

In principle, investors choose their preferred investment portfolio along the ESG-efficient frontier depending on (the relative strength of) their financial and non-financial preferences. A financial-motivated ESG investor who derives utility only from financial returns (as indicated by horizontal indifference curves) would simply pick the fund F with the highest Sharpe ratio that employs financially material ESG information, irrespective of whether it produces greater or lesser ESG impact than the market portfolio (see Figure 1, Panel (a)). Impact-motivated investors, however, are willing to trade off financial returns for ESG impact as illustrated by the downward-sloping, red dashed indifference curves in Figure 1, Panel (b). Their total utility is maximized at the point I tangential to the ESG-efficient frontier, which has a greater ESG impact level, but a Sharpe ratio that is lower by δ. Given the heterogeneity in investor preferences for ESG, in particular their willingness to trade off between financial and non-financial objectives, this fact should give rise to a variety of sustainable investment products with different fund objectives that investors can sort into according to their preferences.

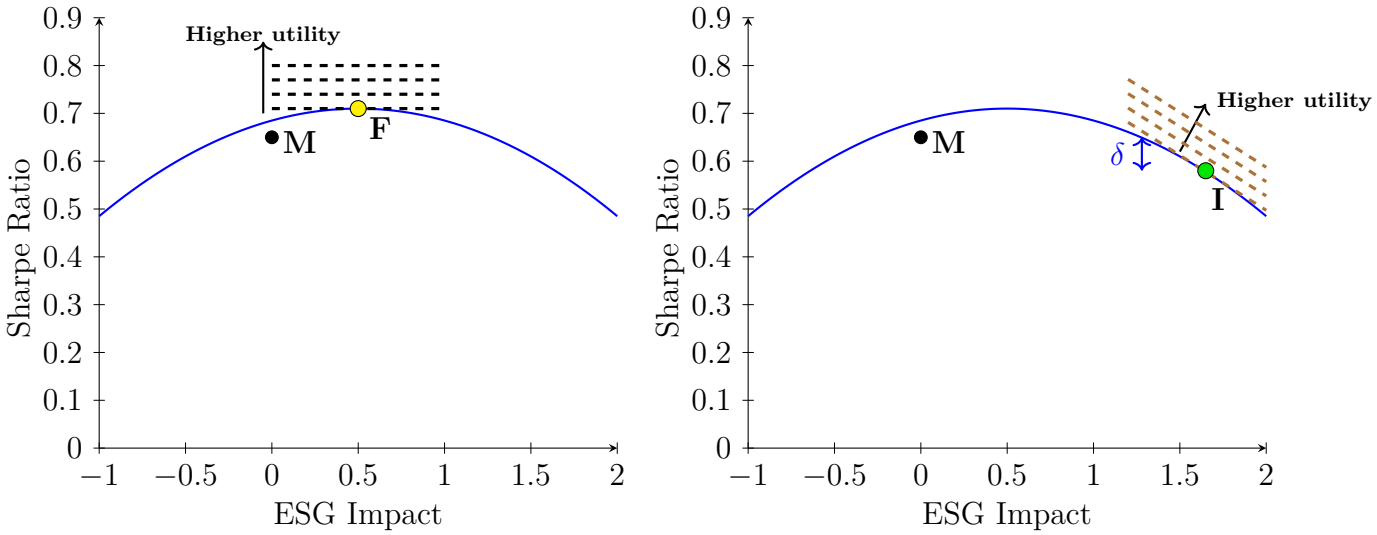
In practice, however, ESG impact is not readily observable ex ante or ex post, even for sophisticated investors.[2] Commercial ESG ratings vary widely and rely on largely opaque methodologies (Berg et al. 2022).[3] This lack of ex post verifiability enables fund managers to

[2] Financial return promises, on the other hand, are verifiable ex post, which is why impact-focused funds cannot overpromise returns in repeated interactions.

[3] In Online Appendix Figure A4, I show that even in the tightly defined private impact investing space, reported impact metrics are highly unstandardized, both in terms of the metrics funds report and the way they are measured (e.g., yearly vs. aggregate figures).

overstate (greenwash) a fund's ESG impact without acknowledging the required financial return sacrifice, effectively marketing an ESG-efficient frontier to investors that is flat (see the blue dotted frontier in Figure 2). As a result, impact-focused investors likely allocate their capital to ESG funds promising both market returns and their desired ESG level (I^{Wash}) that ultimately under-deliver the latter owing to the shape of the true ESG-efficient frontier. In the Online Appendix, I illustrate the potential welfare loss from capital misallocation to I^{Wash} rather than I. This loss has two components: (1) a reduction in investor surplus because impact-focused investors are pooled into financial-focused funds, and (2) a (social) deadweight loss because some of the accepted return concessions from impact-focused investors are left unextracted when they otherwise would have been applied toward financing higher-impact activities.

Disclosure about funds' ESG objectives and verifiable performance presumably makes it clearer to investors which funds actually generate the claimed ESG impact and which ones primarily pursue ESG for financial motives, thereby improving the assortative match between funds' true ESG profile and investors' preferences. However, the extent to which the disclosure mandate corrects any prior capital misallocation depends on several factors. First, investors must understand the mandatory ESG fund disclosures and their implications for the (relative) ESG impact that can plausibly be expected from each fund. Second, investors must have a reasonable understanding of the slope of the ESG-efficient frontier to be able to trade off between financial and non-financial objectives. Third, the disclosure requirements must be sufficiently enforced such that financial-focused ESG funds cannot continue to make false impact claims at no cost.



(a) Financial-Focused ESG Investor

(b) Impact-Focused ESG Investor

Figure 1: Investor Portfolio Choices—Case 1: Perfect Information

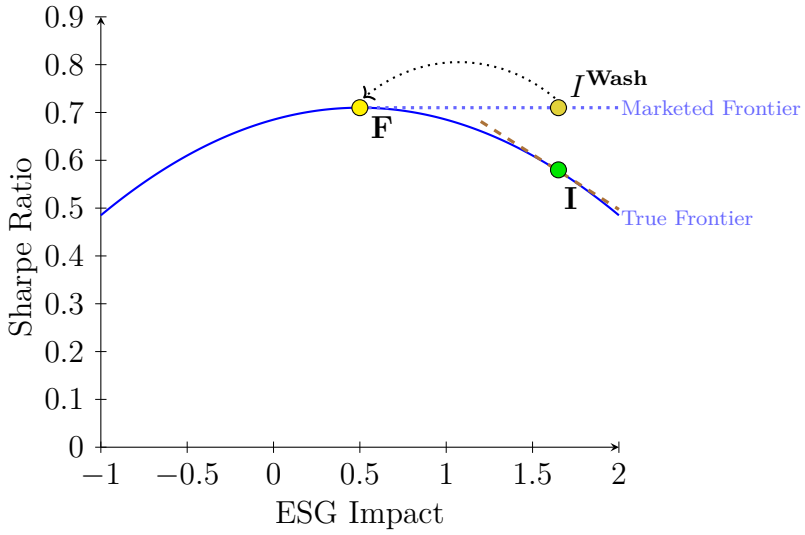


Figure 2: Investor Portfolio Choices—Case 2: Greenwashed Impact

4 Return Promises in Impact Investing—Stylized Facts

In this section, I present four main facts to characterize the variation in, and the role of, financial return promises in impact investing. Examining the private impact investing space serves two purposes. First, it allows me to examine the distribution of impact- and financial-

focused impact funds in a setting where mandatory sustainable fund disclosure rules are largely absent.[4] Second, I can directly test whether impact funds keep their impact and return promises because many private impact funds, in contrast to public ESG funds, report their performance on impact metrics even before specific disclosure requirements were in place.

My primary data on impact funds' financial return goals are hand-collected from the website of the IA50 impact fund database. The IA50 list is intended to be a representative database capturing the heterogeneity in the private impact investing space and is frequently used to identify impact funds (Geczy et al. 2021).[5] Burton et al. (2021) also find a high overlap between the IA50 list and other databases of impact funds (e.g., ImpactBase, Preqin). Table 1 shows summary statistics for the 164 impact funds included in the 2025 list. The target financial returns as well as all other data from the IA50 database is collected directly from fund managers via survey.

Fact 1

Impact-focused funds that accept financial returns below market rate are increasingly infrequent. Figure 3, Panel A shows the proportion of impact funds targeting at least market-rate returns versus those that do not for 2012 and 2025 separately. In 2012, the IA50 impact fund database was roughly evenly split between market-rate and below-market rate seeking funds. By 2025, the number of impact funds covered more than quadrupled, but much of this increase stems from market-rate seeking funds. Funds accepting below-market rate returns therefore account for only 26% of the overall impact investing space today.

[4] While private impact funds are in principle also subject to the EU SFDR, personal conversations with several asset managers revealed that widespread adoption was much slower in practice than for public funds. To further mitigate concerns about preexisting disclosure rules, I also employ a sample composed predominantly of non-EU-headquartered impact funds.

[5] While there is no comprehensive database of private impact funds, the ImpactAssets 50 list aims to be representative and capture the diversity of the impact investing market. In terms of sample size, the 2025 version of the list is considerably larger than other survey-based datasets employed in the literature (Geczy et al. 2021; Jeffers et al. 2024).

Fact 2

Impact-focused funds that accept financial returns below market rate are smaller and hold more concentrated capital. Figure 3, Panel B shows the distribution of impact funds by total assets under management, split by market-rate and non-market rate seeking funds. The size distribution is more heavily skewed towards smaller funds for below-market rate funds (see also Table 1).

I further characterize the role of financial return goals in impact investing by examining simple associations of funds' financial goals with their capital composition. In Table 2, I observe that financial-focused funds seeking market-rate returns tend to have a less concentrated capital base from a larger number of investors, even after controlling for size (assets under management, AUM) and asset class fixed effects.

Fact 3

Financial-focused impact funds seeking market-rate returns promise similar impact to investors as funds targeting lower financial returns. In Table 2, column (1) I find that market-rate funds dedicate just as much of their capital to impact investments as non-market rate seeking funds. Furthermore, I explore differences in fund descriptions and objectives across fund types in Online Appendix, Table A1. I do not find any evidence that market-rate funds set impact goals that differ from those of non-market rate seeking funds.

Fact 4

Financial-focused impact funds largely meet or exceed their initial financial return goals, but produce less social and environmental impact. Figure 4 shows the percentage of market- vs. below-market rate funds that failed to meet, met, or exceeded their initial financial return targets. Both types of impact funds largely met their financial return goals, and about 20% of market-rate funds even exceeded their initial target. Market-rate seeking funds, however, are less likely to obtain verification of their generated impact from third parties (see Table

2, column (3)). This finding is consistent with the scale of impact they ultimately generate. Using hand-collected data from funds' impact reports, I compare performance across the three most commonly reported impact measures: number of jobs created, metric tonnes of carbon emissions avoided, and the number of affordable housing units developed. Across all three measures, funds claiming both impact and market returns generate 68%–90% lower median impact than funds willing to make some financial return concessions (see Figure 5).

5 Mandatory Disclosure and ESG Narratives

The patterns in the previous section suggest that in the absence of mandatory ESG disclosure, the sustainable investing market is dominated by funds promising both impact and market returns that ultimately under-deliver in terms of impact. The central guiding question of the remainder of this paper will be whether such a low-impact market equilibrium reflects low investor demand for impact-focused strategies that sacrifice some financial return, or whether it results from market-rate funds driving out non-market rate seeking funds because investors cannot distinguish funds based on the actual impact they produce. In this section, I exploit the EU SFDR as a major shock to the credibility of funds' ESG claims to test these competing explanations. If the observable low-impact pooling equilibrium is driven primarily by information asymmetries, strict enforcement of funds' ESG claims may prompt some asset managers to pursue more impact-focused strategies if their ESG claims cannot be costlessly mimicked by others and there is sufficient underlying investor demand for such strategies.

5.1 Data

To test my conjecture, I combine archival data from three sources. First, I collect 450,000 historical factsheets for all actively managed open-ended funds and ETFs from the Morningstar Document Library. From these factsheets, I extract investment strategy sections, using both automatic PDF extraction techniques and a large hand-collection exercise, to create a panel

of investment strategies for each fund share-class, market, and effective date.

I then code each investment strategy based on how the asset manager frames the relation between the fund's ESG theme and financial returns on the effective date of each fund factsheet. In particular, I distinguish two types of ESG-return narratives (see Online Appendix Figure A5 for illustrative examples):

(1) *Financial-focused* funds present their ESG theme purely as a means of achieving financial returns.

(2) *Impact-focused* funds formulate an explicit impact objective either stand-alone or alongside a financial return objective.

To implement this classification, I feed each distinct strategy text into the OpenAI o3 model and use a few-shot prompt with about 10 examples for classification. I re-run the classification three times to avoid hallucination and manually check contradictory runs.

Second, I use monthly mutual fund data on fund sizes (TNA), dollar flows, returns, and ESG risk scores from Morningstar Direct for the sample period between January 2010 and December 2024. I winsorize flow variables at the 1% level and, following Hartzmark and Sussman (2019), employ an alternative, normalized flow variable based on flow percentiles within fund size deciles.

Third, I supplement asset-weighted averages of Sustainalytics' company-level ESG Risk Scores with proprietary impact data from the Upright project. Upright uses product-level impact estimates to obtain fund-level aggregations of portfolio impact. This latter data is only available in the cross-section.

5.2 Results

I begin my empirical analysis by examining descriptive trends in asset managers' ESG-return narratives around the introduction of mandatory sustainable fund disclosure. Figure 6 illustrates the monthly percentage of ESG-themed fund share-classes in my sample that

are classified as *impact-focused* (i.e., having an explicit sustainable impact objective). In the early and mid 2010s virtually all asset managers framed their ESG theme purely as a means for achieving financial returns. Around the introduction of the EU SFDR, however, the percentage of *impact-focused* funds in the following years increased to about 17% before slowly flattening out.

To attribute these changes in ESG narrative to the SFDR rather than general time trends observable in the years prior, in the following DiD specification I exploit the fact that a small subset of funds in my sample are not subject to SFDR requirements:

$$\mathbb{1}\{Impact\text{-}Focused\}_{i,t} = \beta_1 SFDR_i \times Post_t + \alpha_i + \alpha_t + \epsilon_{i,t}, \tag{1}$$

where α_i and α_t denote fund share-class and year-month fixed effects, respectively.

Figure 7, Panel A plots out yearly event-time DiD coefficients. In most years prior to the SFDR, I find no statistically significant difference in the probability of an impact-focused ESG-return framing between fund share-classes subject to the SFDR and those that are not. In contrast, just after the SFDR came into effect, an SFDR fund share-class has an almost 50 percentage-point higher likelihood of adopting an impact-focused ESG narrative relative to a fund share-class not subject to the SFDR.

Next, I explore whether asset managers' shifts in ESG narrative represent actual changes in underlying investment strategy rather than a simple labeling exercise. I do so by examining whether portfolio-weighted ESG risk scores differ when a fund adopts an impact-focused ESG narrative and whether this association changes after SFDR came into effect:

$$ESG\ Risk_{i,t} = \beta_1 \mathbb{1}\{Impact\text{-}Focused\}_{i,t} + \beta_2 \mathbb{1}\{Impact\text{-}Focused\}_{i,t} \times Post_t + \alpha_i + \alpha_{c,t} + \epsilon_{i,t}, \tag{2}$$

where α_i and $\alpha_{c,t}$ denote fund and fund-category-by-month fixed effects, respectively.

Table 3 shows that impact-focused funds generally reduced the ESG risk of their portfolio

after the SFDR came into effect, especially when focusing on within-fund variation of funds switching from a financial- to an impact-focused ESG narrative. Figure 7, Panel B plots out yearly coefficients of the interaction in event-time. While I only have comprehensive ESG risk data available from 2019 onwards, I do not find any evidence of differential trends in ESG risk scores between impact- and financial-focused ESG funds prior to SFDR adoption. In contrast, impact-focused funds exhibit an increasingly dissimilar ESG risk profile compared with financial-focused funds in the post-period. Since it is difficult to gauge whether these portfolio changes are consistent with asset managers' impact claims based on ESG risk scores alone (Berg et al. 2022), I also explore cross-sectional impact data of ESG-themed funds in the post-period. In Table 3, columns (3) and (4) I find that asset managers following an impact-focused narrative are associated with a higher net environmental impact and a smaller negative health impact produced by their portfolio companies.

This evidence suggests that the introduction of sustainable fund disclosure not only prompted asset managers to adopt more impact-focused ESG narratives (as opposed to narratives emphasizing the financial promises of ESG themes), but also disciplined these ESG claims, resulting in greater vertical product differentiation in terms of funds' ESG profile.

6 Mandatory Disclosure and Investor Responses to ESG Narratives—Archival and Field Evidence

In this section, I explore demand-side motivations behind the main result established in the previous section, namely, mandatory ESG fund disclosure inducing fund managers to shift from a financial- towards an impact-focused ESG narrative. More specifically, I combine archival evidence and a randomized field experiment with real-world investors to present evidence on investor responses to ESG-return narratives before examining how the introduction of mandatory sustainable fund disclosure moderates these responses.

6.1 Archival Evidence

I first estimate changes in aggregate fund flow responses to asset managers' ESG-return framing before and after the EU SFDR came into effect. Table 4 shows that ESG funds adopting an impact-focused ESG narrative attracted flows that were 7–11 percentiles lower prior to the SFDR than funds pursuing ESG themes solely for financial returns. This result is consistent with earlier descriptives from the private impact investing space, where market-rate seeking funds tended to have higher assets under management and to hold more dispersed investor capital (see Section 4). Once the SFDR came into effect, however, ESG-themed funds that had or adopted an impact-focused framing significantly caught up in terms of fund flows and attracted just as much capital as funds pursuing ESG themes for financial return purposes.

While I control for granular fund type-time fixed effects and historical fund performance in these fund flow regressions, estimating investor sensitivities to ESG-return narratives is inherently challenging in observational data because asset managers simultaneously report their ex ante ESG-return framing and ex post realizations of ESG and financial performance. This is particularly critical since the ESG-return framing is an endogenous choice that likely depends on the historical ESG and financial performance. Therefore, the main objective of my field experiment is to create a setting where I can randomize whether and which ESG-return narrative investors are shown while holding fixed other (ex post) fund characteristics. In addition, the experimental setting also allows me to identify the underlying mechanism driving (changes in) investor responses by eliciting retail investors' beliefs about funds' risk, returns, and ESG performance.

6.2 Field Experiment

6.2.1 Study and Randomization Design

The core part of this section is a framed field experiment with experienced real-world investors in collaboration with the largest association of private shareholders Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) in Germany with some 30,000 members. Participants are recruited via two channels between June and September 2025 (see Online Appendix Figure A7 for survey invitations):

(1) Member newsletter

(2) *Focus Money* (the largest retail investor magazine in Germany) with 550,000 weekly readers

Since the response rate turned out to be much lower than expected, I placed several reminders for survey participation in both channels and only concluded the data collection on September 30, 2025 rather than July 31, 2025 as pre-registered.[6] To ensure that each investor participates only once in the survey across all channels, I inform participants that multiple submissions will invalidate their entry into the lottery for 5 × €1000 investments and, after obtaining consent in accordance with local data-protection regulations, I record respondents' IP addresses. I find virtually no evidence of systematic multiple participation.

My experimental design follows recent literature exploring investors' preferences for ESG investments (Heeb et al. 2023; Bonnefon et al. 2025). Figure 8 summarizes the field experiment's two-step structure. I ask participants to choose between three investment options in a joint evaluation setup: a conventional large-cap equity fund and two ESG-themed funds that either have the same or different ESG-return framing. I randomize across subjects with equal probability which one of three information cards illustrated in Figure 9 the participant is shown. On all three information cards, all funds share the same fund category, 2024 return,

[6] The later survey end date was also chosen once it became clear that a third roll-out channel to investment clubs will not be enabled by DSW after all and hence the second criterion for the survey end date (i.e., "one month has passed since start of collection for each sub-sample") cannot be fulfilled.

and risk category. Each fund profile also shows an anonymized fund manager name that is held constant across treatment cards and is deliberately chosen to be orthogonal to any additional content displayed on the other treatment cards. All fund profiles also show whether or not the fund claims to have a positive ESG impact. If the participant is assigned to one of the two treatment groups, fund profiles additionally show the fund managers' ESG-return framing. The only difference between the two treatment profiles is whether both ESG-themed funds convey an impact-focused ESG narrative (*Even ESG-Return Narrative*) or one conveys a financial-focused ESG narrative and the other an impact-focused one (*Uneven ESG-Return Narrative*). This nuanced distinction allows me to separate whether investors respond to the ESG-return narrative per se or to the differential in ESG-return narratives, which more directly captures the idea that financial-focused ESG funds may crowd out impact-focused ones.

In Table 5, I present the covariate balance in respondents' sociodemographic and investment characteristics across all three information cards. The observed differences in means are mostly close to zero and statistically indistinguishable from zero, indicating largely successful randomization and ex post balance, at least on observable features of respondents. The sole exception is an imbalance in gender between subgroups. I therefore control for a series of personal characteristics and beliefs in specification 3 consistent with my pre-registration.

Investors then choose between the three funds presented in two randomly ordered rounds (each time relative to the conventional fund) and set the maximum annual fee for a €1000 investment that they would be willing to pay extra in order to have their preferred fund (see Online Appendix Figure A8 for an illustration of the WTP elicitation). Participants can choose an annual fee between €0 and €100 which is in line with the WTP ranges found in prior literature (e.g., Heeb et al. 2023). Funds are neutrally labeled as Fund A, B, C or Fund X, Y, Z, where Funds A and X always correspond to the conventional fund. To ensure that investors understand the implication of the annual fee they have set, I ask them to confirm their fund choice, with the displayed annual fee for their preferred fund increased by the

amount they have set. Respondents who contradict their prior choice are asked to reconsider their choice or re-set the annual fee once.

Respondents' choices are incentivized because each presented fund is backed by a real, investable fund with the same fund characteristics, and for five randomly chosen respondents, I make a real €1000 investment based on their investment decisions which is paid out after 1 year. At the start of the experiment, I inform participants about the Becker–DeGroot–Marschak mechanism (Becker et al. 1964) that will be applied to determine whether the investment will be made in their preferred fund and why it is in their best interest to reveal their true WTP. I also realize the real ESG impact of participants' chosen investment by purchasing Gold Standard project credits that target at least seven different United Nations Sustainable Development Goals (SDGs) at an amount that corresponds to funds' actual improvement in ESG scores over the investment period of 1 year.

After investors have completed their investment decisions, they are asked to answer a series of questions about their risk, return, and ESG impact expectations for each of the two ESG-themed funds relative to the conventional fund.

Next, investors repeat the same steps as before in a second investment decision where I introduce mandatory EU SFDR labels to the information cards. Figure 10 shows that the information and available funds presented to investors are identical to the first investment decision with the sole exception that the two ESG-themed funds now contain an SFDR label that corresponds to their ESG-return framing. The financial-focused ESG fund receives an SFDR Article 8 logo and the impact-focused ESG fund receives an SFDR Article 9 logo, both of which correspond to the actual classification of the underlying real funds. The information column on the right of each information card contains the regulatory description of each SFDR category and I include a separate question in the comprehension quiz to ensure that participants have read the novel piece of information.

In accordance with my preregistered procedure, I implement the following sample selection and data cleaning steps for my main analysis. I exclude participants who disagree that

climate change is a serious problem that needs to be solved (stating an agreement of 2 or less on a scale of 1–7) to focus on respondents not strongly opposed to ESG investing for reasons unrelated to the ESG narrative. In addition, I exclude those participants who took less than 4 minutes to complete the entire survey and those who failed either of the two comprehension quizzes. The average time to complete the experiment was about 20 minutes which explains the low response rate despite reasonably high incentivization. Lastly, I exclude WTP estimates of participants who explicitly disagree with their elicited WTP and follow Heeb et al. (2023) in winsorizing (truncating) all WTP and belief values at the 5% level.[7]

6.2.2 Descriptives on Information Consumption and Frictions to ESG Investing

As part of my survey experiment, I begin by gathering insights into investors' use of fund disclosures, their beliefs about the returns from ESG investing, and the challenges they encounter when investing in ESG funds. These descriptive insights are crucial for identifying informational frictions in (retail) ESG investing and for contextualizing the role that mandatory sustainable fund disclosures may play in alleviating them.

Contrary to frequently voiced concerns (Edelen 2021), the vast majority of my respondents are aware of the existence of mutual fund factsheets and 43% read them regularly before making an investment decision (see Figure 11, Panel A). This finding provides some plausibility for the notion that the mandatory disclosures contained in fund factsheets could influence retail investments.

Figure 11, Panel B shows that retail investor expectations about the financial returns from ESG investing vary widely. While the majority of respondents shows some skepticism toward the ESG investment proposition, about a third explicitly disagree that ESG investing produces lower financial returns in the long term.

When asked which sources of information shaped their expectations about the financial returns of ESG investments, most respondents point to the financial media more often than

[7] In untabulated analyses, I find that results are robust to variations in the winsorization/truncation level.

to their own investment experience. In fact, the results of academic studies appear almost as important as investors' own experience with ESG investments. In contrast, only 14% of investors cite company or fund marketing as an information source influencing their beliefs about ESG investing.

Despite investors' skepticism about the expected returns of ESG investing, Figure 11, Panel D shows that the most salient friction preventing investors from making more ESG investments is their mistrust of funds' ESG claims. Among respondents with prior ESG-investing experience, the lack of distinguishability between funds with different ESG profiles is also of greater concern than lower expected returns. Only about 25% of investors indicate that they do not care about ESG when investing.

Taken together, these descriptive results indicate that less than a third of experienced retail investors still subscribe to the narrative that ESG investing outperforms conventional strategies over the long run. Even these investors form their return expectations for ESG investing not on narratives contained in individual fund disclosures, but rather on general financial-media reports and their own investment experience. These findings cast doubt on regulators' concerns that asset managers' ESG narratives systematically lure retail investors into ESG investments, and they suggest that investor responses to ESG narratives are unlikely to operate along the extensive margin of participating in ESG investing.

Nevertheless, ESG narratives may still have important distributional effects when investors allocate capital across competing ESG investments, especially as many investors seem to find it challenging to distinguish among funds with differing ESG emphases and exhibit pervasive mistrust of funds' ESG claims. One function that mandatory sustainable fund disclosure may therefore perform is to grant credibility to funds' ESG claims, thereby enabling investors to distinguish among funds with different ESG narratives. In the following sections, I will test both the distributional effects of ESG-return narratives (Section 6.2.3) and the credibility-enhancing role of mandatory ESG fund labels (Section 6.2.4) through my survey experiment.

6.2.3 Investor Responses to ESG Narratives

In this section, I estimate investor responses to differences in ESG-return framings by observing investors' fund choices and WTP conditional on the exogenous assignment of information treatments described in Section 6.2.1. Specifically, I estimate OLS regressions of the following form:

$$Y_i = \beta_1 \, Even \; ESG\text{-}Return \; Narrative_i + \beta_2 \, Uneven \; ESG\text{-}Return \; Narrative_i + \beta_3 X_i + \epsilon_i, \tag{3}$$

where Y_i is either WTP_i, the investor's willingness-to-pay in terms of additional annual fees for their chosen fund, or an indicator variable whether the investor prefers the financial- or impact-focused over the conventional fund. The subscript i indexes investors. The independent variables *Even ESG-Return Narrative* and *Uneven ESG-Return Narrative* represent binary variables that take the value of one when the respondent is randomly assigned to the respective treatment and zero otherwise. X_i is a vector of controls, including categorical variables for age and gender as well as surveyed beliefs about climate change and the importance of ESG impact when investing on a 7-point Likert scale.

Table 6 reports main results from the experiment's first investment decision without mandatory ESG fund disclosure labels. First, I explore how investors respond when exposed to the ESG outperformance narrative by comparing demand for the financial-focused fund between control and uneven information treatment.[8] Consistent with prior descriptives, I find that respondents react only marginally to the financial-focused ESG narrative in their investment decisions. If anything, investors exhibit a lower WTP for the financial-focused fund and are less likely to choose the financial-focused ESG fund over a conventional fund. Investors' underlying beliefs reflect their skepticism towards the financial-focused ESG narrative, as it does not significantly affect their return expectations (see Table 6, Panel B).

Next, I analyze how investor demand for the impact-focused ESG fund responds to the

[8] I exclude the even information card from this comparison because the financial-focused ESG fund is not available for investors to choose from in that treatment.

even and uneven ESG-return framing. For both information treatments, WTP and choice probabilities decline, but these effects are much more pronounced when investors can also choose an ESG fund with a financial-focused ESG-return framing. In this case, the probability of choosing the impact-focused fund drops by 20 percentage points (more than a third of the unconditional mean likelihood in the control group). This finding suggests that the mere availability of a fund promising both financial outperformance and ESG impact crowds out demand for funds with an impact-focused narrative.

Participants' elicited beliefs reveal the underlying mechanism. Investors reduce their expected returns by about 1 percentage point when presented with an impact-focused narrative, yet they do not believe that the impact-focused narrative results in greater ESG impact relative to the control group.

6.2.4 Investor Responses to Mandatory ESG Fund Disclosure

Given investors' previously documented skepticism about the expected impact from an impact-focused ESG fund, I next examine whether mandatory sustainable fund labels grant credibility to such a narrative and help achieve separation (based on expected impact) between funds with varying ESG focus. Within each treatment group, I separately run the following OLS regression:

$$Y_{i,t} = \beta_1 \, \mathbb{1}\{Mandatory \ Label\}_{i,t} + \alpha_i + \epsilon_{i,t}, \tag{4}$$

where $Y_{i,t}$ is again either $WTP_{i,t}$, the willingness-to-pay in terms of additional annual fees for their chosen fund, or an indicator variable whether the investor prefers the financial- or impact-focused over the conventional fund. The subscript i indexes investors. The independent variable $\mathbb{1}\{Mandatory \ Label\}_{i,t}$ is an indicator that equals 1 when the information cards presented to respondents contain mandatory sustainable fund labels and zero otherwise. I include individual fixed effects α_i to compare changes in investment choices and beliefs within each responding investor before and after inclusion of SFDR labels. I cluster standard errors at the individual level.

Table 7 shows results for the uneven information treatment sample that most closely resembles the heterogeneity of ESG-return framings observed in practice. Providing differential labels for financial- and impact-focused funds increases WTP for the impact-focused fund by about €1.20, which corresponds to about a third of the prior negative treatment effect of disclosing an uneven ESG-return narrative. Along the extensive margin, the probability of choosing the impact-focused fund over a conventional fund increases by roughly 6 percentage points (a third of the prior treatment effect). In contrast, WTP for and propensity to choose the financial-focused ESG fund remain virtually unchanged.

Panel B in Table 7 presents changes in investors' beliefs following disclosure of mandatory ESG fund labels. Investors significantly revise their impact expectations for the impact-focused fund upward, while leaving their expectations for the financial-focused fund largely unchanged. I also find some evidence of an increase in investors' return expectations for impact-focused ESG funds once mandatory labels are displayed. While investors still expect impact-focused funds to generate lower financial returns than financial-focused funds (see Online Appendix Figure A12), the change in financial return expectations is consistent with at least part of the prior treatment effect reflecting investors' inference of lower general management quality from an impact focus (e.g., managers endogenously choosing an impact focus as an excuse for poor financial performance). A more formal commitment to the impact focus in the form of a mandatory label seems to mitigate this concern.

Overall, however, investors do not seem to interpret mandatory ESG fund labels solely as general quality signals for financial performance, as in Hartzmark and Sussman (2019), but instead specifically use them to update how much impact they can plausibly expect from each ESG-return framing. This finding is important as it implies that mandatory ESG disclosure shifts (back) demand to impact-focused ESG narratives *despite* continued expectations of lower financial performance.

A key concern in my experimental setup is that the color-coded SFDR labels may direct investors' responses toward funds with more visually appealing labels without respondents

actually understanding or caring about the underlying meaning (J. H. Choi et al. 2023). I exploit the heterogeneity in "labeling" effects across treatment arms to test this directly. If my results in the uneven ESG narrative condition are driven by an attention-grabbing effect of the SFDR logos, I should find similar treatment effects in the control and even ESG narrative conditions. Table 8 alleviates these concerns. I do not find any significant impact of the mandatory ESG fund labels on either WTP or the propensity to choose the impact-focused fund in either condition. Interestingly, the null result in the control condition implies that mandatory ESG fund labels only affect investor responses when combined with an impact-focused ESG narrative that is essentially backed by the corresponding mandatory label.

Lastly, while I find that mandatory ESG disclosure labels partially reverse the crowding-out effect of a financial-focused ESG-return framing, demand for impact-focused ESG funds remains over 50% lower than for funds without any ESG-return framing. Using participants' open-text reasoning for their investment choices, I find three equally important explanations for why investors with general preferences for ESG funds still prefer the conventional to the impact-focused fund. First, many investors express remaining concerns about the credibility of the EU SFDR classifications, referencing earlier issues with SFDR enforcement. Second, other investors explicitly state that they want to avoid impact-focused Article 9 funds because of concerns about lower diversification and expected returns. Third, there are some indications that investors anchor on their prior choice, suggesting that the treatment effects I estimate in my within-subject setup are likely conservative lower bounds.

7 Conclusion

Anecdotal evidence and white papers from the asset management industry often suggest that ESG investments outperform financially in the long term. I find systematic evidence in both private and public fund settings that this narrative has important implications for the scale

of impact that the sustainable investing space can generate to address real societal issues.

In particular, I find consistent archival and experimental results that the "ESG pays off" narrative significantly displaces demand for funds pursuing an impact-focused narrative. This outcome is due to retail investors not believing that an impact-focused narrative actually produces any greater non-pecuniary benefits. Mandatory disclosure that disciplines these narratives achieves separation between ESG funds based on the non-pecuniary benefits investors expect. As a result, asset managers increasingly switch to an impact-focused narrative and differentiate their portfolios accordingly.

Conversely, I do not find that the "ESG pays off" narrative expands participation in sustainable investing along the extensive margin. Retail investors are broadly skeptical about such claims and instead seem more concerned about the credibility of funds' ESG claims. Thus, current regulatory initiatives to review mandatory sustainable fund reporting should focus on enhancing the credibility of funds' impact rather than that of their financial claims.

My paper naturally has limitations that the reader should consider when interpreting the findings. First, the field experiment targets a subset of retail investors who are likely more sophisticated and information savvy than the broader retail population. Although my sample comprises both general magazine readers and members of the investors' association, both groups probably possess a higher propensity to acquire and process fund information than other retail segments. Second, my data on impact funds are based on selection criteria that may introduce endogeneity that I cannot fully observe or undo. In Online Appendix, Figure A3, I find similar (size-based) distributions of target financial returns in survey-based data from Geczy et al. (2021), but I cannot fully replicate my analyses because of data restrictions. Third, I deliberately hold historical performance information fixed to isolate the role of ESG narratives ex ante. However, both ESG narratives and investor responses thereto likely vary significantly depending on whether the narrative is in line with current market conditions or not. Hence, my results should be interpreted in light of the recent underperformance of sustainable investments (Gantchev et al. 2024).

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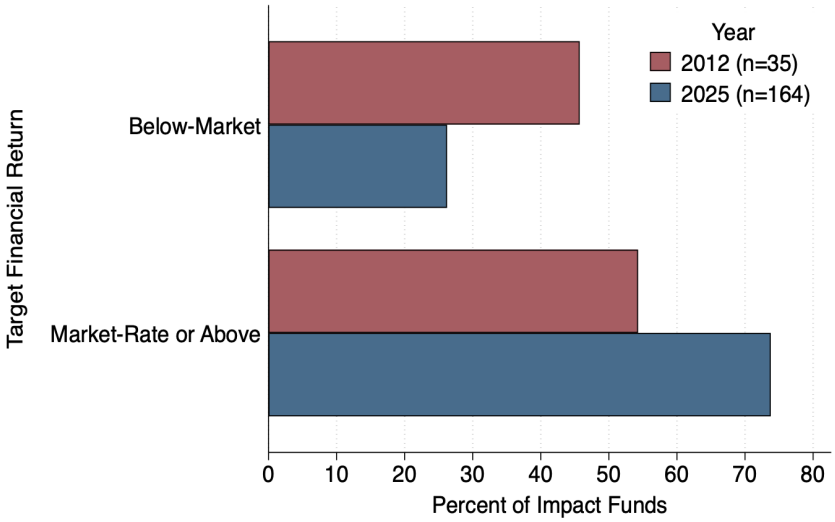
Panel A: Impact Funds by Financial Return Goal



Panel B: Impact Funds by Financial Return Goal and Total AUM

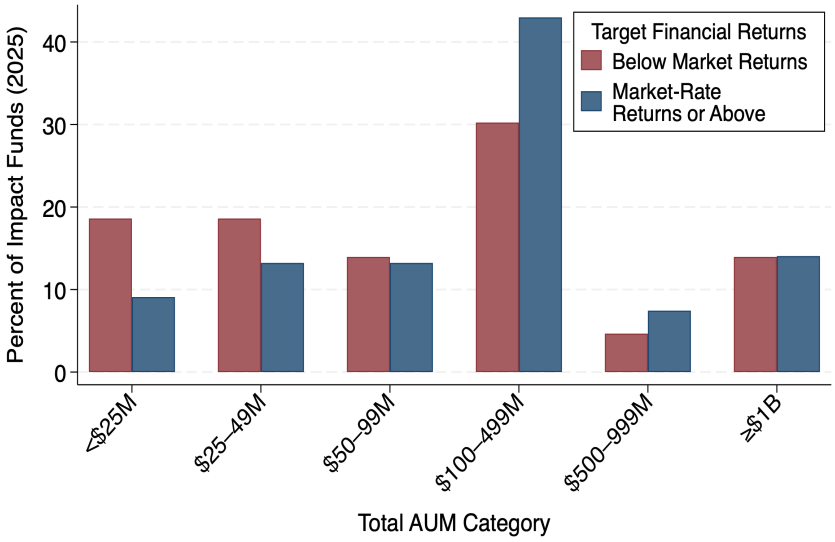


Figure 3: Distribution of Impact Funds by Target Return. The figure illustrates the distribution of impact funds included in the ImpactAssets IA50 list by their surveyed target financial returns. Panel A compares the distribution of funds in the 2012 and 2025 versions of the IA50 list using a historical archive of the 2012 version of the list from the Wayback Machine. Panel B shows the distribution of funds by their assets under management split by funds that target concessionary or near-market returns (below-market returns) and those that target market or above-market rate returns (market-rate returns or above).

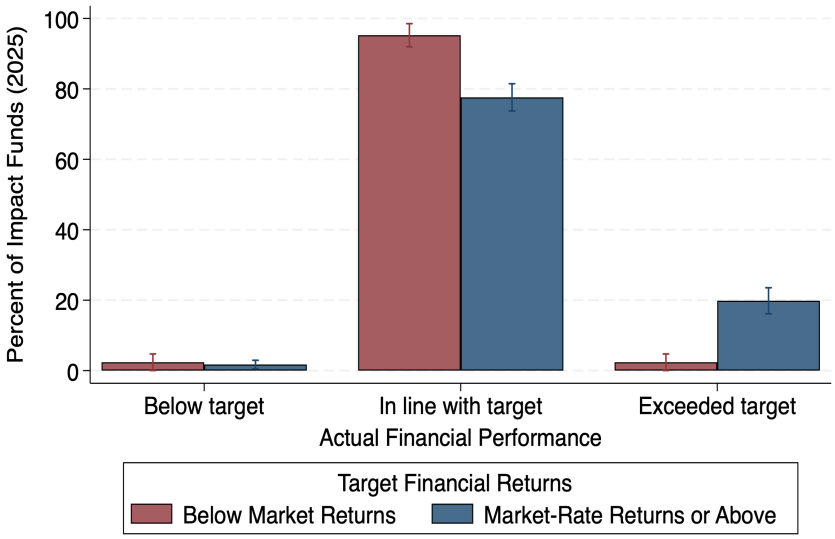


Figure 4: Distribution of Impact Funds by Actual Financial Performance. The figure illustrates the percentage of funds that failed to meet, met, or exceeded their initial target financial returns. The percentages are split by funds that target (slightly) below market-rate returns (dark red) and those that target at least market-rate returns (navy). Data are hand-collected from survey responses to the ImpactAssets IA50 2025 questionnaire.

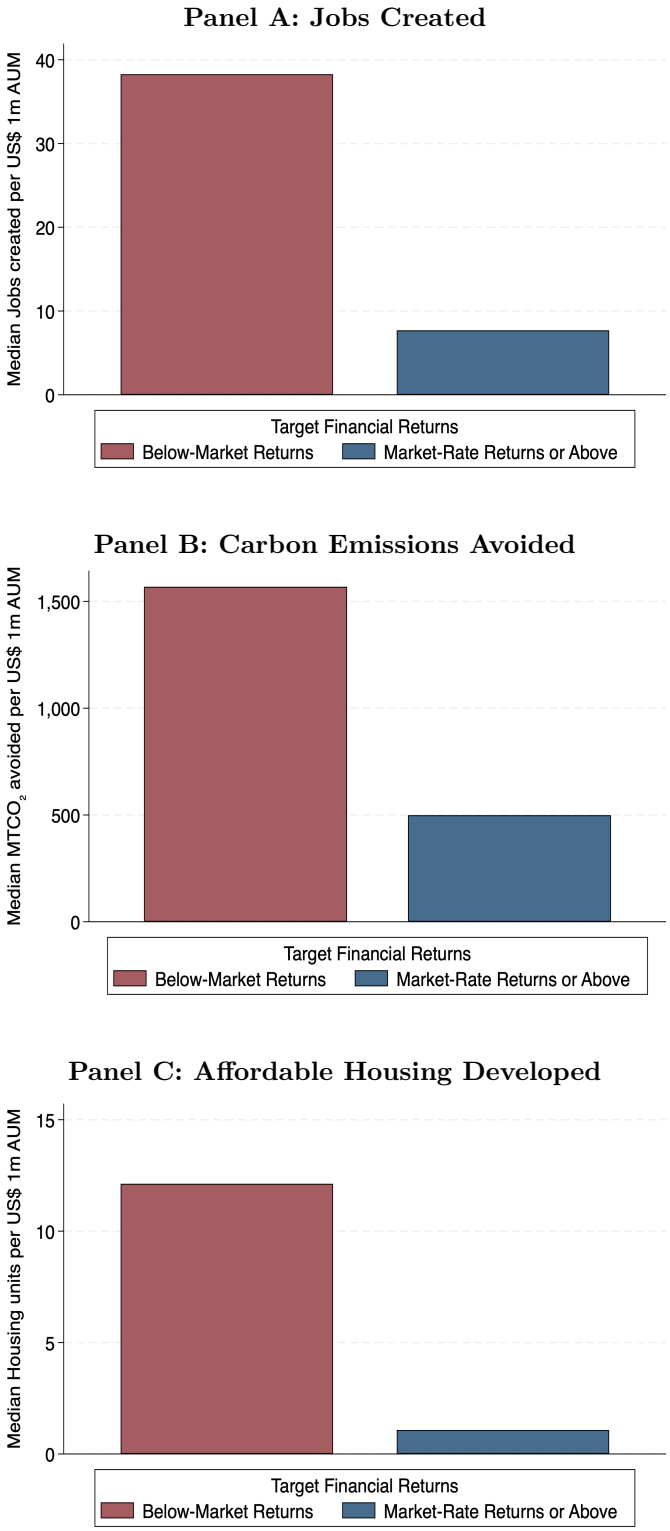


Figure 5: Impact Outcomes by Target Returns. The figure illustrates how the generated impact (jobs created, CO_2 emissions avoided and affordable housing units developed per US$ 1m AUM) vary by funds' target financial returns. When only cumulative figures were available, these were annualized by years of operation. Data are hand-collected from public impact reports of funds included in the ImpactAssets IA50 2025 list. See Online Appendix, Figure A4 for an overview of impact reporting and measurement by impact funds in the IA50 2025 list.

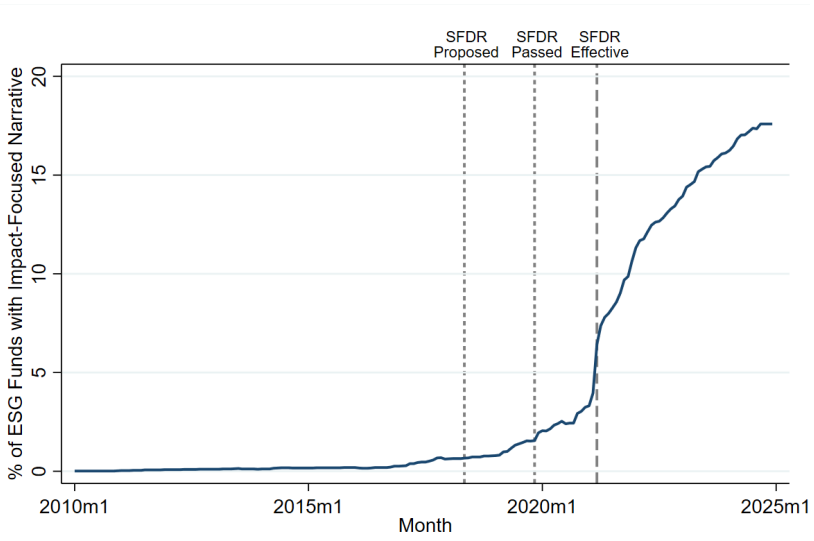
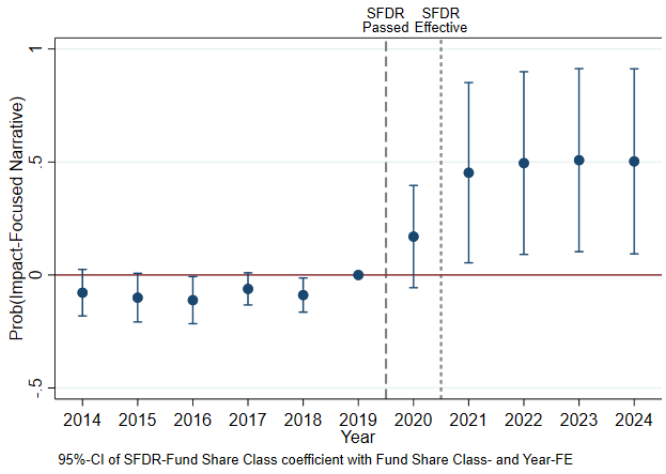
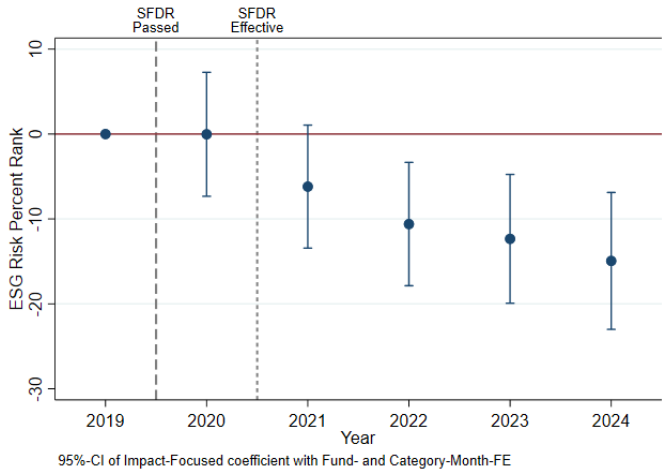


Figure 6: ESG-Themed Fund Share Classes with an Impact-Focused Narrative. The figure plots the fraction of ESG-themed fund share classes with an impact-focused ESG narrative (i.e., disclosing an explicit non-financial objective such as climate change mitigation) in their fund factsheets. ESG-themed funds are identified based on the sustainability-themed indicator in Morningstar Direct. ESG-themed funds without an explicit non-financial objective pursue ESG themes solely for financial return purposes (financial-focused ESG narrative). The vertical dashed lines mark the dates when the EU Sustainable Finance Disclosure Regulation was first proposed (May 2018), adopted (November 2019) and came into effect (March 2021). The classification is updated based on the last available factsheet in each month.

Panel A: Changes in ESG-Return Narrative



Panel B: Portfolio ESG Risk



Panel C: Normalized Fund Flows

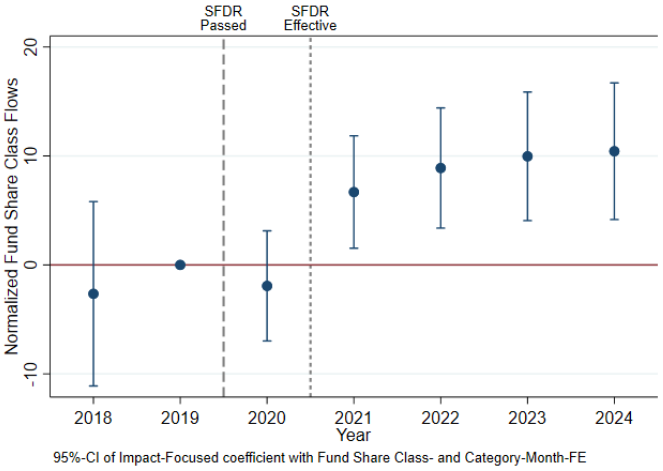


Figure 7: Event-Time DiD Plots of ESG-Themed Funds around SFDR. This figure plots out yearly coefficients from difference-in-differences regressions of public ESG-themed funds. Panel A plots out yearly differences in the probability of adopting an impact-focused narrative between fund (share classes) subject to the SFDR and those that are not. Panels B and C track differences in ESG risk and capital flows between impact- and financial-focused fund (share classes) before and after the SFDR was passed / came into effect.

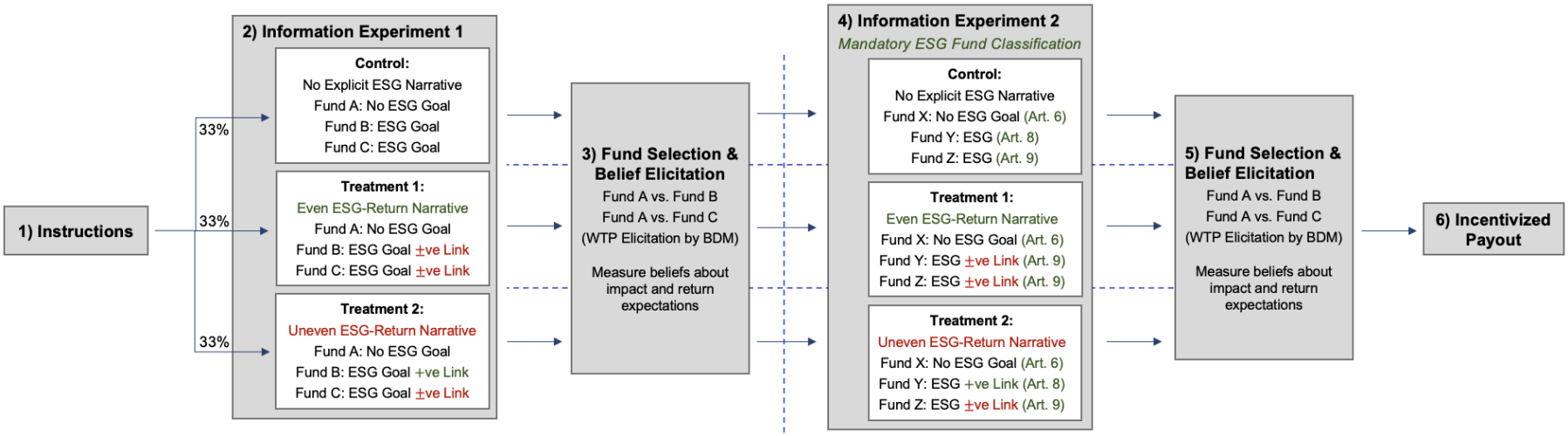


Figure 8: Experimental Design. This figure illustrates the experimental design of the framed field experiment and provides details on the randomization strategy employed. In the second step of the experiment participants are randomly assigned across subject either to the control condition (without explicit disclosure of the ESG-return narrative) or to one of the two treatment conditions in which participants are shown the specific link between ESG and financial returns conveyed by the fund manager. In information experiment 2, the mandatory SFDR disclosure label is added to each fund information card within subject.

	Fund A	Fund B	Fund C	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymized names of the responsible fund managers.

(a) Control (No ESG-Return Narrative)

	Fund A	Fund B	Fund C	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymized names of the responsible fund managers.
Financial Goal	Fund aims to outperform the market.	Fund aims to address ESG issues alongside a financial return.	Fund aims to address ESG issues alongside a financial return.	Statements showing how each manager balances financial return and ESG objectives.

(b) Even ESG-Return Narrative

	Fund A	Fund B	Fund C	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymized names of the responsible fund managers.
Financial Goal	Fund aims to outperform the market.	Fund aims to outperform the market by investing in companies that address ESG issues.	Fund aims to address ESG issues alongside a financial return.	Statements showing how each manager balances financial return and ESG objectives.

(c) Uneven ESG-Return Narrative

Figure 9: Information Treatments (Without Mandatory ESG Label). This figure presents the treatment cards used in the elicitation of WTP between funds in the first information experiment. All treatment cards display the fund category, the 2024 return before fees, the Morningstar risk category, the anonymized fund manager name, and whether the fund claims to have an ESG goal. Treatment and control conditions only differ in whether the treatment card contains a statement of how the fund manager trades off ESG and financial objectives. In the *even* ESG-return narrative treatment, both Funds B and C convey an impact-focused narrative by pursuing an explicit sustainable objective (i.e., impact-focused fund) alongside a moderate financial return objective. In the *uneven* treatment condition, Fund B now conveys a financial-focused ESG narrative by presenting ESG goals simply as a means of achieving financial outperformance (i.e., financial-focused fund), while Fund C remains unchanged. After reading the menu of available funds, participants choose between funds and set the maximum annual fee they are willing to pay to still prefer their chosen fund. Incentive compatibility is ensured by applying the Becker–DeGroot–Marschak mechanism (Becker et al. 1964).

	Fund X	Fund Y	Fund Z	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymised names of the responsible fund managers.
SFDR Classification		Promotes ESG characteristics ARTICLE 8	Sustainable investment objective ARTICLE 9	EU Sustainable Finance Disclosure Regulation Fund Categories: • **Article 8** ('light green') – Promotes environmental or social characteristics • **Article 9** ('dark green') – Has a sustainable investment objective

(a) Control (No ESG-Return Narrative)

	Fund X	Fund Y	Fund Z	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymised names of the responsible fund managers.
SFDR Classification		Sustainable investment objective ARTICLE 9	Sustainable investment objective ARTICLE 9	EU Sustainable Finance Disclosure Regulation Fund Categories: • **Article 8** ('light green') – Promotes environmental or social characteristics • **Article 9** ('dark green') – Has a sustainable investment objective
Financial Goal	Fund aims to outperform the market.	Fund aims to address ESG issues alongside a financial return.	Fund aims to address ESG issues alongside a financial return.	Statements showing how each manager balances financial return and ESG objectives.

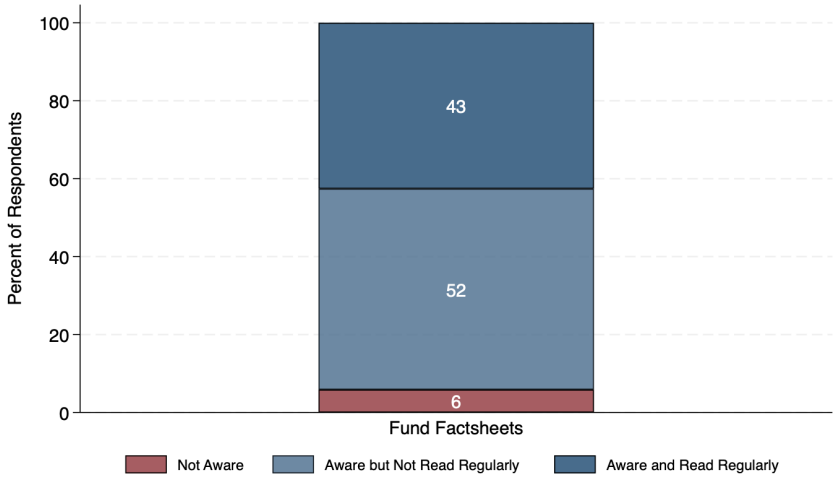
(b) Even ESG-Return Narrative

	Fund X	Fund Y	Fund Z	ⓘ
Fund Category	Global Equity Large Cap	Global Equity Large Cap	Global Equity Large Cap	Asset class in which the fund invests.
2024 Return	7%	7%	7%	The return on investment for 2024 without fees.
Risk	Average Low Average High	Average Low Average High	Average Low Average High	Assesses the volatility in a fund's monthly returns compared to similar funds.
ESG Goal	No ESG Goal	Positive ESG Impact	Positive ESG Impact	Some funds publicly claim to have a specific ESG goal (e.g., addressing climate change or social inequalities), others do not. The actually generated ESG impact by your chosen fund will be realized via an investment in Gold Standard Projects that target at least 7 different sustainable development goals.
Fund Manager	James Smith	David Williams	Jonathan Jones	Anonymised names of the responsible fund managers.
SFDR Classification		Promotes ESG characteristics ARTICLE 8	Sustainable investment objective ARTICLE 9	EU Sustainable Finance Disclosure Regulation Fund Categories: • **Article 8** ('light green') – Promotes environmental or social characteristics • **Article 9** ('dark green') – Has a sustainable investment objective
Financial Goal	Fund aims to outperform the market.	Fund aims to outperform the market by investing in companies that address ESG issues.	Fund aims to address ESG issues alongside a financial return.	Statements showing how each manager balances financial return and ESG objectives.

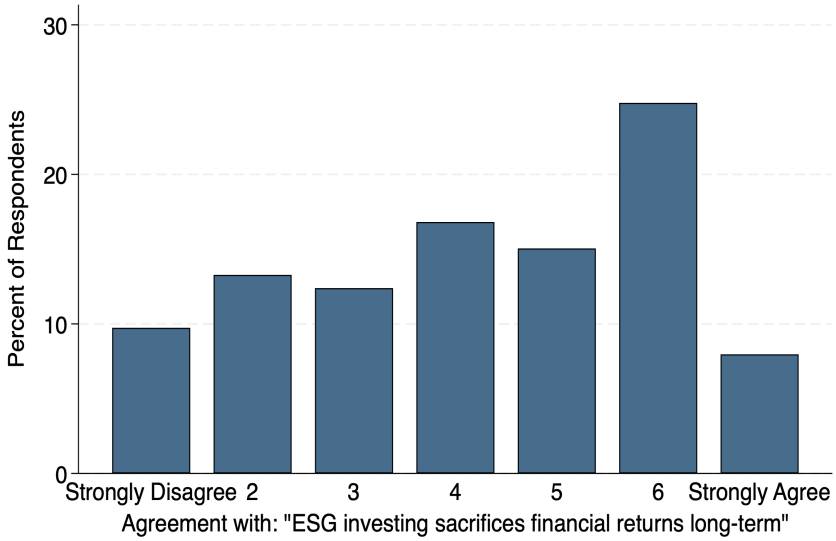
(c) Uneven ESG-Return Narrative

Figure 10: Information Treatments (With Mandatory ESG Label). This figure presents the treatment cards used in the elicitation of WTP between funds in the second information experiment. All treatment cards display the fund category, the 2024 return before fees, the Morningstar risk category, the anonymized fund manager name, and whether the fund claims to have an ESG goal. As opposed to the first information experiment, treatment cards also contain the SFDR label of each fund in all conditions. As before, treatment and control conditions only differ in whether the treatment cards contain a statement of how the fund manager frames the link between ESG and financial objectives.

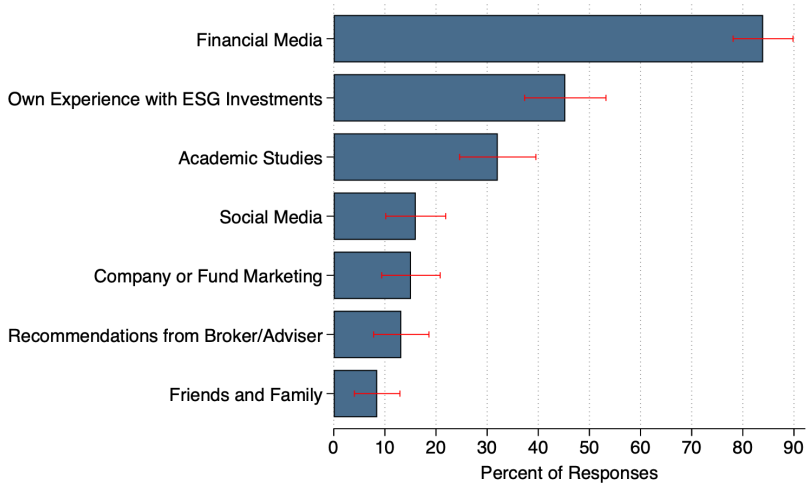
Panel A: Consumption of Fund Disclosures



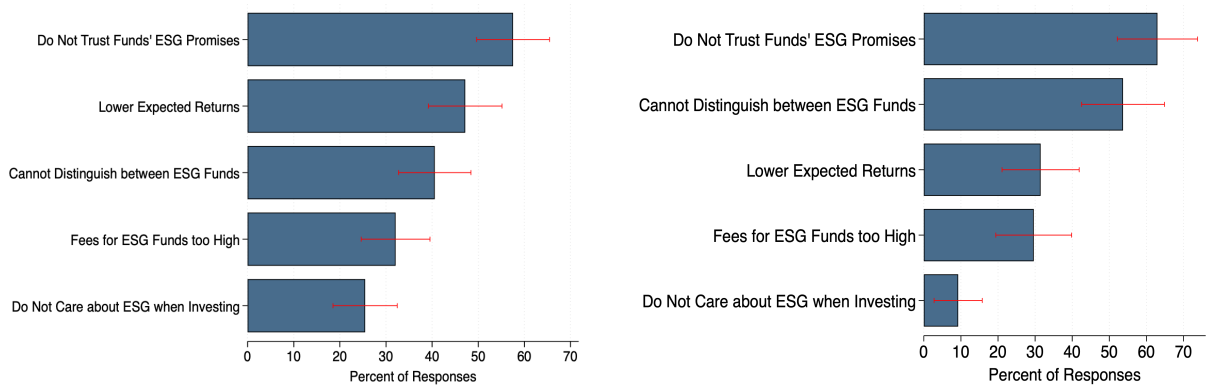
Panel B: Beliefs about Returns to ESG Investing



Panel C: Information Sources Shaping Beliefs about Returns to ESG Investing



Panel D: Frictions in ESG Investing



(a) Full Sample **(b)** ESG Investing Experience

Figure 11: Descriptive Survey Responses. This figure captures descriptives about investors' consumption of fund disclosures, their beliefs about returns from ESG investing and the informational frictions they face when investing in ESG funds. Panel A captures whether respondents are aware of mutual fund factsheets and read them regularly before making an investment decision. Panel B presents respondents' agreement with the statement "ESG investing sacrifices financial returns long-term" on a 7-point Likert scale. Panel C captures the information sources that have shaped participants' beliefs about the returns to ESG investing. Participants can select all sources that apply. The bars show the percentage of respondents selecting a given source and 90% confidence intervals. Panel D presents the frictions and concerns respondents face when considering investing into ESG funds. Participants are asked "Which of the following factors prevent you from investing (more) in sustainable funds? Please select all that apply." The bars show the percentage of respondents selecting a given factor and 90% confidence intervals. The Panel is split up into all respondents and those with prior ESG-investing experience.

Table 1: Impact Funds Sample by Financial Return Target. This table shows summary statistics for the impact funds collected from the IA50 list. The IA50 list is intended to be a representative database capturing the heterogeneity in the private impact investing space and is frequently used to identify impact funds (Geczy et al. 2021). *AUM* are assets under management in million USD obtained either from the mid-point of the AUM category range or the exact reported figure in fund documents. *Years of Operation* $\geq$ *5* is an indicator variable for whether the fund manager has an operating history of at least 5 years. *% Capital Top 3* $\geq$ *50%* is an indicator variable for whether the top 3 investors hold 50% or more of total fund capital. *No. of Investors* $>$ *25* is a dummy indicating whether the number of total fund investors is larger than 25. *Impact 3rd-Party Verified* is a dummy variable indicating whether the impact generated by the fund is verified by an independent third-party. *Jobs Created per USD 1m AUM*, *Housing Developed per USD 1m AUM* and *tCO_2 avoided per USD 1m AUM* are impact metrics scaled by USD 1m AUM and annualized by years of operation when only cumulative figures are available in impact reports.

	Target Financial Return:					
	Below-Market Returns			Market Returns or Above		
	Mean	Median	S.D.	Mean	Median	S.D.
AUM (USD m)	369.8	77.0	721.6	719.6	299.5	1768.5
Years of Operation $\geq$ 5	0.9	1.0	0.4	0.7	1.0	0.5
% Capital Top 3 $\geq$ 50%	0.3	0.0	0.5	0.2	0.0	0.4
No. of Investors $>$ 25	0.6	1.0	0.5	0.7	1.0	0.4
Impact 3rd-Party Verified	0.2	0.0	0.4	0.2	0.0	0.4
Jobs Created per USD 1m AUM	597.6	38.3	1430.3	289.5	7.7	993.4
Housing Developed per USD 1m AUM	44.1	12.1	96.3	2.4	1.1	3.3
tCO_2 avoided per USD 1m AUM	4789.3	1568.6	6102.0	3146.8	498.9	8937.1
Observations	43			121		

Market Returns or Above = funds targeting at least a market-rate financial return.

Table 2: Impact-Fund Characteristics and Market-Return Orientation. This table presents simple associations between impact fund characteristics and a binary variable set to 1 when the fund targets at least a market-rate financial performance (zero otherwise). *100% AUM Impact Inv.* is a binary variable indicating whether 100% of the impact fund's assets under management are dedicated to impact investments. *% Capital Top 3* $\geq$ *50%* is an indicator variable for whether the top 3 investors hold 50% or more of total fund capital. *No. of Investors* $>$ *25* is a dummy indicating whether the number of total fund investors is larger than 25. *Impact 3rd-Party Verified* is a dummy variable indicating whether the impact generated by the fund is verified by an independent third-party.

	100% AUM Impact Inv.	Top 3 Capital $\geq$ 50%	No. of Investors $>$ 25	Impact 3rd-Party Verified
	(1)	(2)	(3)	(4)
Market-Return Fund	-0.007	-0.227**	0.234**	-0.183**
	(0.066)	(0.109)	(0.109)	(0.090)
Asset Class FE	Yes	Yes	Yes	Yes
Total AUM Category FE	Yes	Yes	Yes	Yes
R-squared	0.121	0.144	0.131	0.173
Observations	154	154	154	153

Robust Standard errors in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 3: Changes in Fund-Level ESG Metrics Following SFDR. This table examines whether funds exhibit different ESG metrics when they adopt an impact-focused ESG narrative and whether this association changes after the Sustainable Finance Disclosure Regulation (SFDR) came into effect. after the SFDR classification has come into effect relative to funds pursuing ESG themes solely for financial purposes. The dependent variables are either raw ESG risk scores (column 1) or the ESG risk percentage rank within the Morningstar global broad category group (column 2). ESG risk score is the asset-weighted average of Sustainalytics' company-level ESG risk, measuring the degree to which a company's economic value may be at risk driven by ESG factors. *Post-SFDR* is an indicator variable equal to one after the SFDR has come into effect in March 2021. Fund-level controls include prior-month returns and the logarithm of fund size. The specifications for time-series ESG risk include Morningstar category × year-month fixed effects. Analysis is at the fund level retaining the oldest share class and restricted to years after 2018 because fund-level ESG data are only sparsely populated in Morningstar before. The specifications for cross-sectional impact of funds in the post-period include Morningstar category fixed effects. *Net. Environ.* is the net environmental impact and *Neg. Health* is the negative health impact associated with portfolio company activities aggregated from product-level impact estimates and provided on the Upright platform.

	ESG Risk		Impact	
	Score	Percent	Net Environ.	Neg. Health
	(1)	(2)	(3)	(4)
Impact-Focused	0.161	6.993**	0.238***	-0.096***
	(0.288)	(3.247)	(0.083)	(0.024)
Impact-Focused x Post-SFDR	-0.637**	-9.662***		
	(0.281)	(3.564)		
Cat by YM FE	Yes	Yes	No	No
Fund Category FE	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	No	No
Fund Controls	Yes	Yes	No	No
R-squared	0.983	0.855	0.385	0.622
Observations	9744	9757	205	205

Standard errors clustered by month and fund in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 4: Fund Flows in Response to Mandatory ESG Fund Disclosure under SFDR. This table shows how fund share classes experience different investor flows when they adopt an impact-focused ESG narrative and whether this association changes after the Sustainable Finance Disclosure Regulation (SFDR) came into effect. The dependent variable is normalized fund flows, which are obtained by sorting fund share classes into percentiles based on flows within each size decile (Hartzmark and Sussman 2019). Fund-level controls include prior-month returns and the logarithm of fund size. All specifications include Morningstar category × year-month fixed effects. Analysis is at the share class level. Column (1) through (2) include all fund share classes. Columns (3) and (4) include only non-institutional or institutional share classes, respectively.

	Normalized Flows			
	All	All	Non-Institutional	Institutional
Impact-Focused	-7.227**	-11.058***	-10.836***	-11.897**
	(3.139)	(3.143)	(2.977)	(4.917)
Impact-Focused x Post-SFDR	7.993***	10.047***	9.998***	10.117**
	(3.031)	(2.848)	(2.825)	(4.945)
Cat by YM FE	Yes	Yes	Yes	Yes
Fund Share Class FE	No	Yes	Yes	Yes
Fund Controls	Yes	Yes	Yes	Yes
R-squared	0.077	0.233	0.250	0.240
Observations	110857	110853	92168	17896

Standard errors clustered by month and fund in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 5: Covariate Balance. This table shows the covariate balance for the assignment of the information treatments to field participants. Demographics and personal attributes are collected from survey responses. Gender is a categorical variable (1 = female, 2 = male, 3 = non-binary). Statistically significant differences are marked by * p < 0.10, ** p < 0.05, ***p < 0.01 on the basis of a two-sample t-test with unequal variances.

	Control (1)	Even ESG Narrative (2)	Uneven ESG Narrative (3)	Diff (2)–(1)	Diff (3)–(1)
Gender	1.84	1.88	1.95	0.04	0.11**
	(0.37)	(0.36)	(0.23)	(0.05)	(0.05)
Investment Experience (1/0)	0.99	1.00	0.99	0.01	-0.00
	(0.10)	(0.00)	(0.12)	(0.01)	(0.02)
Age Group	5.10	5.34	4.95	0.25	-0.15
	(1.43)	(1.26)	(1.44)	(0.20)	(0.23)
ESG Fund Ownership	0.45	0.55	0.44	0.10	-0.01
	(0.50)	(0.50)	(0.50)	(0.07)	(0.08)
Climate Change Belief	5.97	6.05	5.81	0.09	-0.16
	(1.08)	(1.19)	(1.42)	(0.17)	(0.20)
Observations	91	93	73	184	164

Table 6: Fund Choice and Willingness to Pay in Response to ESG-Return Narratives. This table provides OLS regression results from the survey experiment's first investment decision where participants are either shown no ESG-return narrative (control group), an even ESG-return narrative where both ESG funds claim an impact-oriented narrative (treatment 1) or an uneven ESG-return narrative where financial- and impact-oriented narratives are mixed (treatment 2). *Even ESG-Return Narrative* and *Uneven ESG-Return Narrative* are indicators for each of the two treatment groups. The dependent variables differ between columns. *WTP Financial-Focused Fund* is the willingness to pay (in terms of additional annual fees) when choosing between the conventional and financial-focused fund. *WTP Impact-Focused Fund* is the willingness to pay (in terms of additional annual fees) when choosing between the conventional and impact-focused fund. *Choose Impact-Focused Fund* is a dummy variable indicating whether the participant preferred the impact-focused over the conventional fund. *Return Beliefs Impact-Focused Fund* and *Impact Beliefs Impact-Focused Fund* reflect participants' expectations about how much financial return or impact the impact-focused fund produces relative to the conventional fund. *Return Beliefs* are measured on a 21-point scale (from -5% to +5%) and *Impact Beliefs* are measured on a 7-point scale, each relative to the conventional fund. Individual-level controls include categorical age and gender variables as well as beliefs about the importance of climate change and positive ESG impact when investing on a continuous scale from 1 to 7. Robust Standard errors are in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Panel A: Investor Choices

	WTP Financial-Focused Fund	Choose Financial-Focused Fund	WTP Impact-Focused Fund	Choose Impact-Focused Fund
Even ESG-Return Narrative			-1.084	-0.107*
			(0.966)	(0.057)
Uneven ESG-Return Narrative	-1.513*	-0.108*	-2.943***	-0.197***
	(0.899)	(0.064)	(0.992)	(0.062)
p-value (Δ Coefficients)	-	-	0.095	0.154
Individual Controls	Yes	Yes	Yes	Yes
Adjusted R^2	0.252	0.350	0.239	0.413
Observations	146	164	228	255

Panel B: Investor Beliefs

	Return Beliefs Financial-Focused Fund	Impact Beliefs Financial-Focused Fund	Return Beliefs Impact-Focused Fund	Impact Beliefs Impact-Focused Fund
Even ESG-Return Narrative			-0.956*	-0.040
			(0.562)	(0.175)
Uneven ESG-Return Narrative	-0.502	-0.214	-1.783***	0.065
	(0.635)	(0.177)	(0.601)	(0.183)
p-value (Δ Coefficients)	-	-	0.177	0.582
Individual Controls	Yes	Yes	Yes	Yes
Adjusted R^2	0.144	0.040	0.183	0.035
Observations	154	160	244	245

Table 7: Fund Choice and Willingness to Pay With vs. Without SFDR Label. This table shows how participants' fund choices, willingness to pay, and beliefs change conditional on the availability of the SFDR label for each fund. The dependent variables differ between columns. *WTP Impact-Focused Fund* is the willingness to pay (in terms of additional annual fees) when choosing between the conventional and impact-focused fund. *Choose Impact-Focused Fund* is a dummy variable indicating whether the participant preferred the impact-focused over the conventional fund. *WTP Financial-Focused Fund* is the willingness to pay (in terms of additional annual fees) when choosing between the conventional and financial-focused ESG fund. *Impact Beliefs Impact-Focused Fund* and *Impact Beliefs Financial-Focused Fund* reflect participants' expectations about how much impact the impact-focused or financial-focused ESG fund produces relative to the conventional fund on a 7-point scale. *Return Beliefs Impact-Focused Fund* and *Return Beliefs Financial-Focused Fund* reflect participants' expectations about how much financial return the impact-focused or financial-focused ESG fund produces relative to the conventional fund on a 21-point scale (from -5% to +5%).

Panel A: Investor Choices

	WTP Impact-Focused Fund	Choose Impact-Focused Fund	WTP Financial-Focused Fund	Choose Financial-Focused Fund
Mandatory Label	1.158*	0.055**	0.475	0.000
	(0.579)	(0.027)	(0.570)	(0.039)
Individual FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.701	0.892	0.729	0.779
Observations	114	146	118	146

Panel B: Investor Beliefs

	Impact Beliefs Impact-Focused Fund	Impact Beliefs Financial-Focused Fund	Return Beliefs Impact-Focused Fund	Return Beliefs Financial-Focused Fund
Mandatory Label	0.197**	-0.014	0.773**	0.131
	(0.096)	(0.095)	(0.358)	(0.344)
Individual FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.704	0.705	0.727	0.657
Observations	142	140	132	122

Standard errors clustered by individual in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 8: Fund Choice and Willingness to Pay With vs. Without SFDR Label - Heterogeneity across Treatment Arms. This table shows heterogeneity across treatment arms in how participants' fund choices, willingness to pay and beliefs change conditional on the availability of the SFDR label for each fund. The dependent variables differ between columns. *WTP Impact-Focused Fund* is the willingness to pay (in terms of additional annual fees) when choosing between the conventional and impact-focused fund. *Choose Impact-Focused Fund* is a dummy variable indicating whether the participant preferred the impact-focused over the conventional fund.

	Treatment Arm:			
	Control Condition		Even ESG Narrative Condition	
	WTP Impact-Focused Fund	Choose Impact-Focused Fund	WTP Impact-Focused Fund	Choose Impact-Focused Fund
	(1)	(2)	(3)	(4)
Mandatory Label	0.427	-0.011	0.035	0.011
	(0.396)	(0.033)	(0.250)	(0.024)
Individual FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.844	0.795	0.956	0.892
Observations	164	182	170	186

Standard errors clustered by individual in parentheses. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$

Online Appendix

The Role of ESG Narratives and Mandatory ESG Fund Disclosure in Sustainable Investing

by

Frederik Kohl

September 2026

Online Appendix Figures and Tables

A Conceptual Framework Appendix

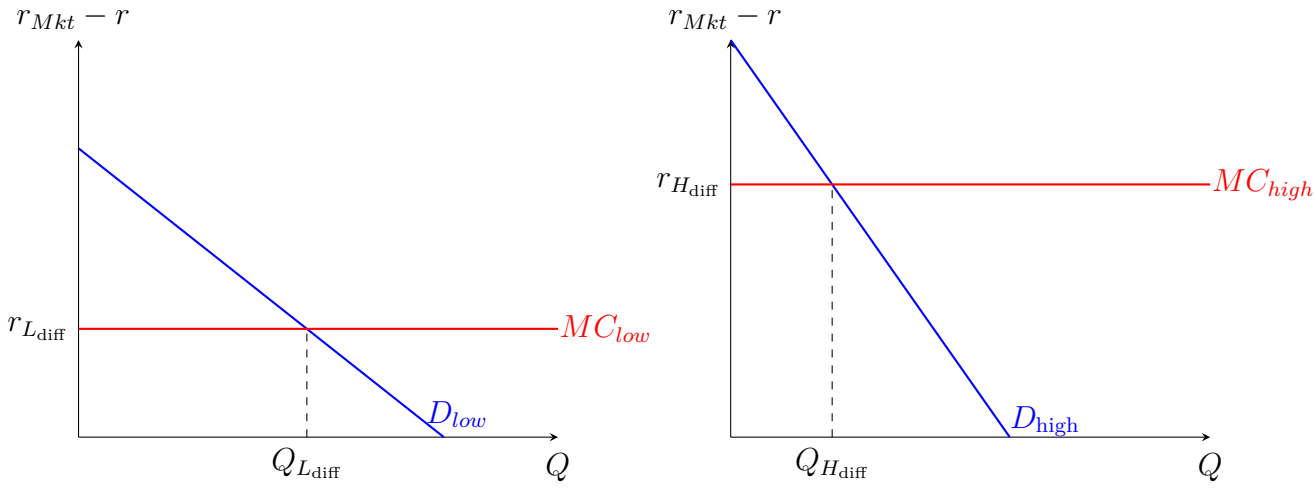
This section illustrates how funds claiming both ESG and financial returns can drive out demand for impact-focused ESG funds willing to sacrifice some financial returns and how mandatory sustainable fund classification may allow for some degree of vertical product differentiation through costly signaling (Spence 1973). Suppose there are two types of ESG funds that differ in the impact that they generate (see Figure A1). The marginal cost of achieving the intended impact in terms of the return concession required ($r_{Mkt} - r$) is greater for the high- than the low-impact ESG fund (Pedersen et al. 2021). Suppose also that the markets are competitive, so that asset managers set their "prices" equal to marginal costs of the respective fund. If the impact each fund generates were perfectly observable, "green" investors would have higher willingness to pay per unit for the high-impact fund than for the low-impact fund, as reflected in a more price-inelastic demand for the high-impact fund (Panel A).

Under imperfect information about the impact of each fund, however, investors cannot distinguish between funds with varying levels of impact ambitions. Hence, investors will pool demand for high- and low-impact funds and only exhibit willingness to pay for the average fund they are facing (r_{pool} in Figure A2). At this price, asset managers of the high type cannot offer the promised higher impact and must either reduce their impact goal or be driven out entirely (Akerlof 1970). Note that the same pooling equilibrium exists when funds can falsely advertise the impact they generate. In this case, investors cannot distinguish between a high-impact fund that is truthful and one that is not, and they may ultimately adversely select the latter.

As the market for high-impact funds eventually collapses, Panel b in Figure A2 highlights two gray areas that represent the loss in aggregate welfare. The dark gray-shaded triangle below the demand curve represents the loss in consumer surplus because some investors would have had a strong preference for the high-impact fund, but end up with the lower-impact fund in equilibrium. The light-gray shaded rectangle between MC_{high} and MC_{low} represents

the loss in total return concessions that are left unextracted in pooling equilibrium and could have been put toward generating greater societal impact.[9]

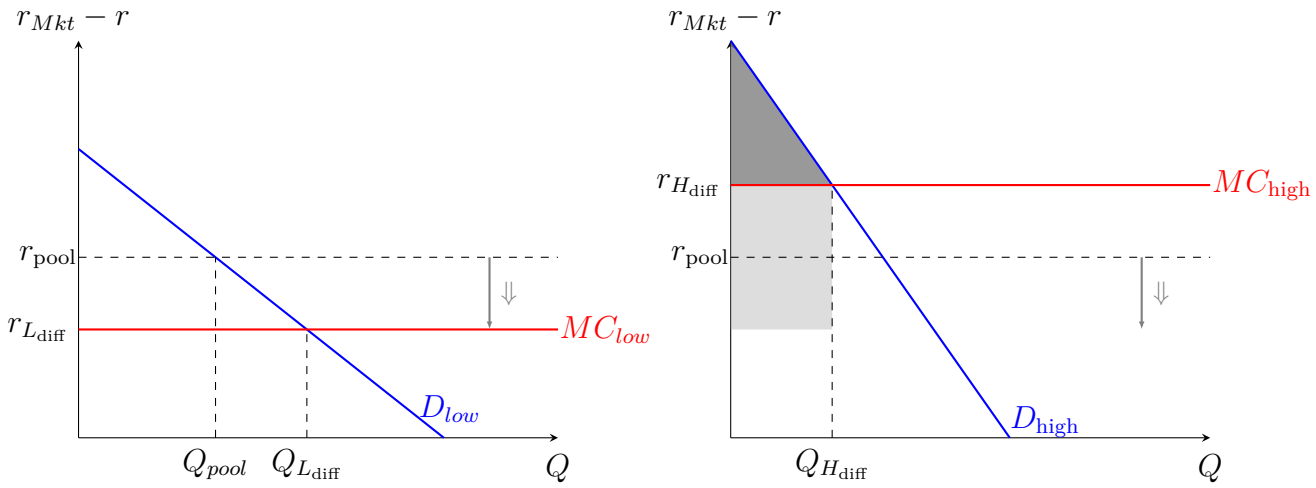
Suppose now that there is a signal that asset managers can send to credibly convey their type to investors. As long as signaling costs are sufficiently greater for the low- than the high-impact fund, this partially restores a separating equilibrium as in Figure A1 (Spence 1973). Signaling costs can either be direct costs from more stringent disclosure requirements of "greener" signals or indirect costs from greater enforcement risks when funds send false signals (e.g., low-impact funds claiming to generate high impact).



(a) Low-Impact fund **(b)** High-Impact Fund

Figure A1: Differentiated Market for Sustainable Investments—Case 1: Perfect Information

[9] Note that this simple welfare comparison presumes that the social value of return concessions is roughly equal to the private investor cost of the corresponding concession. In fact, theories of catalytic capital would predict that the social value far exceeds investors' private costs of return concessions. Hence, the welfare loss represented in Figure A2 is likely a lower bound.

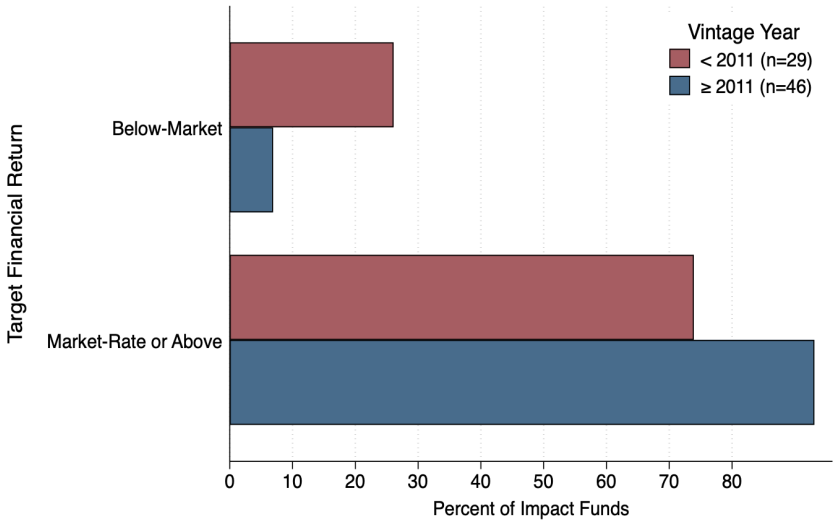


(a) Low-Impact fund

(b) High-Impact Fund

Figure A2: Pooled Market for Sustainable Investments—Case 2: Imperfect Information

Panel A: Impact Funds by Financial Return Goal (IFRC Data)



Panel B: Impact Funds by Financial Return Goal and Total AUM (IFRC Data)

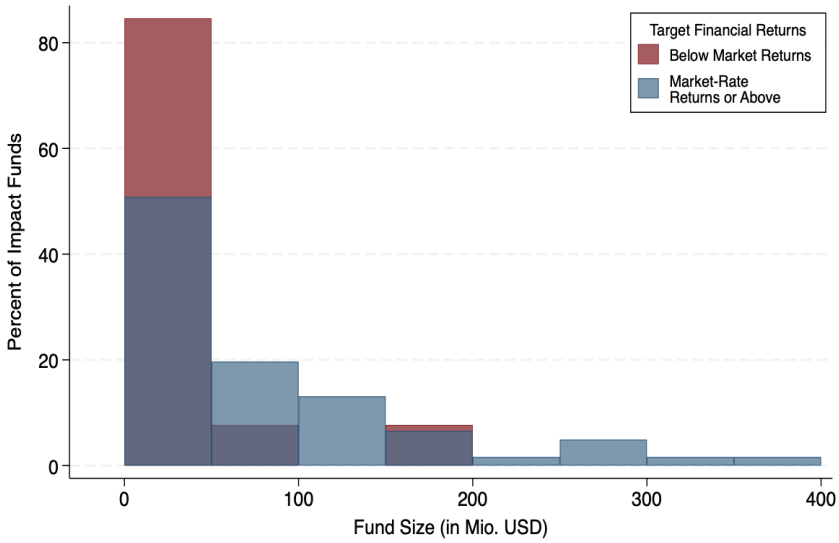


Figure A3: Distribution of Impact Funds by Target Return Using Alternative Data. The figure illustrates the distribution of impact funds included in survey data from the Impact Finance Research Consortium (IFRC) (Geczy et al. 2021). Panel A compares the distribution of funds by target financial returns for fund-vintage years before and after 2011. Panel B shows the distribution of funds by their assets under management split by funds that target concessionary or near-market returns (below-market returns) and those that target market or above-market rate returns (market-rate returns or above).

Table A1: Impact and Return Claims Across Asset Managers

Asset Manager	Target Financial Returns	Explicit Impact Claim	Explicit Return Focus	Implied Causal Link	Selected Language
Acre Impact Capital	Market rates	Yes	Yes	No Link	"The Fund **targets market-rate risk-adjusted returns**." "Acre Impact Capital is **intentional about impact** and invests across four themes: renewable power, health, food and water scarcity, sustainable cities and green transportation – **exclusively targeting deals which are climate-aligned** (NDC aligned) and provide services to the underserved bottom-of-the-pyramid." "By setting high standards for commercial and impact success, Acre seeks to prove that a **trade-off is unnecessary**."
Craft3	Market rates	Yes	No	No Link	"Craft3 **uses capital to help build a thriving, just, and empowered Pacific Northwest**." "Craft3 makes investments which **strengthen the economic, ecological and family resilience of Pacific Northwest communities**."
Finance in Motion	Market rates	Yes	No	Positive Link	"These private market funds **drive impact for people and planet** through regional financial intermediaries, direct investments, advisory, and capacity building." "Driven by the **belief that economic returns can go hand-in-hand with positive social and environmental results**, we design, manage and advise alternative investment funds." "We **specialize in green and social impact** through private and public debt, as well as private equity, with a strong alignment to the SDGs."
INOKS Capital	Market rates	Yes	Yes	Positive Link	"Financing solutions that **support positive impact in at least one of the 4 impact themes** (Food security, poverty reduction, woman empowerment and environmental quality." "Its unique approach **targets consistent, resilient returns and low volatility**. Through its low correlations to other traditional and alternative forms of investment, it is an attractive tool for enhanced portfolio diversification." "**Positive performance for the last +15 years** in the investment funds with little correlations and volatility for its investors."
MCJ	Above market rates	Yes	Yes	Positive Link	"This capital is dedicated to backing startups driving the transition of energy and industry and **solving the inevitable impacts of climate change**. The need for greater climate resilience drives us to seek solutions that make our infrastructure stronger and our world safer." "We **prioritize impactful investments without compromising financial returns**, believing each opportunity should be a **substantial value creator** in its sector."

Continued on next page

Asset Manager	Target Financial Returns	Explicit Impact Claim	Explicit Return Focus	Implied Causal Link	Selected Language
Nomadic Venture Partners	Above market rates	Yes	Yes	No Link	"Our **mission is to drive sustainable innovation** by backing diverse founders developing groundbreaking solutions to climate challenges." "Our mission is to **generate strong financial returns while making a lasting environmental and social impact**, fully aligning with global sustainability goals."
Rethink Capital Partners	Market rates	Yes	Yes	Positive Link	"Our complementary investment strategies **seek to deliver strong financial returns and contribute to the betterment of our society, communities, and planet**." "Mission driven investments **deliver more sustainable returns, both socially and financially**." "We **believe there is a direct connection between positive societal change and strong fiscal performance**. This guides our investment decisions, as we seek to form long-term relationships with all stakeholders."
SLM Partners	Market rates	Yes	Yes	Positive Link	"All our strategies **seek to generate positive impacts** on soils, water, biodiversity, carbon storage, and local communities, while building resilience to climate change and other risks." "Using investment capital to scale up regenerative and ecological land management systems that **deliver attractive financial returns and positive impacts** on soils, biodiversity and climate." "In many cases, they can also **generate better risk-adjusted economic returns**, because they are less exposed to volatile input costs, more resilient to a changing climate and can tap into higher value markets."
Sunwealth Power Inc.	Market rates	Yes	Yes	No Link	"We invest in that future by financing and managing high-performance solar plus storage projects in the built environment that **deliver clean power, cost savings and quality jobs to communities** across the U.S., with a particular focus on low-income communities and communities of color." "**Create meaningful economic and environmental benefits for underserved communities**, strengthen local businesses and increase resilience – **while delivering strong, stable, predictable financial returns** to investors."
XSML Capital	Market rates	Yes	Yes	Positive Link	"We partner with the best entrepreneurs in their industry who welcome also our support **to raise ESG standards and overall sustainability**, and with whom we can forge long-term relationships. **This generates attractive returns for our investors**." "Providing **access to essential goods** and **creating jobs in underdeveloped markets**."

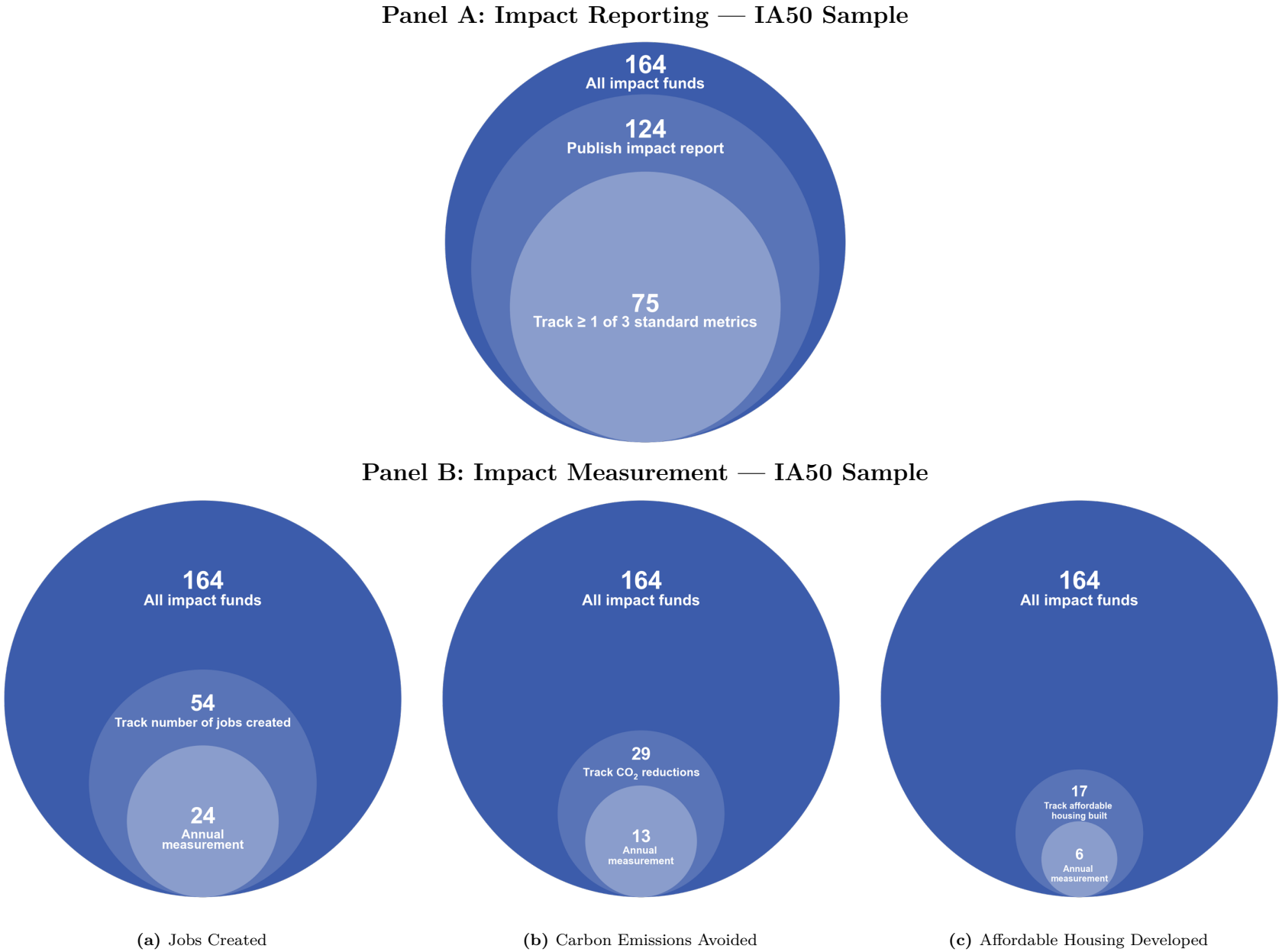
Continued on next page

Asset Manager	Target Financial Returns	Explicit Impact Claim	Explicit Return Focus	Implied Causal Link	Selected Language
Adjuvant Capital	Near-market rates	Yes	No	No Link	"We invest in innovative technologies to **address high-burden and neglected infectious diseases**, maternal and child health, and reproductive and sexual health." "The goal of **accelerating the availability of the most impactful medical innovations**, particularly in low- and middle-income countries."
Capital Impact Partners	Near-market rates	Yes	No	No Link	"**Break down systemic barriers to professional growth** (...) Impact investments for growth-stage businesses **creating social impact**." "Rooted in a social mission, we are a different type of financial services company - **driven by purpose, not profit**."
Enhanced Capital	Near-market rates	Yes	Yes	Positive Link	"Enhanced recognizes the value access to capital plays in **addressing the world's most important social, environmental, and economic needs**, by investing only in businesses and projects within our four core impact themes." "By **prioritizing generating returns for investors and simultaneously achieving maximum positive outcomes from our investments**, Enhanced invests to advance the UN Sustainable Development Goals." "Enhanced believes incorporating socially and environmentally responsible investment policies into our investment process **generates positive impact for communities and investors, alike**."
Incofin Investment Management	Near-market rates	Yes	Yes	No Link	"We are **determined to achieve impact** in emerging economies **combined with a healthy and sustainable return**." "Incofin is an impact investor with a belief that local entrepreneurship and investments rooted in people's reality create the best conditions for **sustainable and inclusive progress in developing economies**."
Local Enterprise Assistance Fund, Inc.	Concessionary rates	Yes	No	No Link	"Provides financing and development services to **increase wealth, health, and housing equity in low-income communities**." "This program offers a full-service suite of access to capital and capacity-building services for Minority- and Women-Owned Business Enterprises."
Medical Credit Fund	Near-market rates	Yes	No	No Link	"Medical Credit Fund (MCF) is a **not-for-profit foundation**." "PharmAccess has been committed to **increasing access to quality healthcare services for vulnerable groups** in sub-Saharan Africa, utilizing advancements in technology and connectivity." "Furthermore, MCF leverages innovative digital solutions to **scale its impact** in the healthcare sector and beyond."

Continued on next page

Asset Manager	Target Financial Returns	Explicit Impact Claim	Explicit Return Focus	Implied Causal Link	Selected Language
Platform for Social Impact	Near-market rates	Yes	No	No Link	"Our mission is to direct capital toward **high-impact, community-driven projects** that promote economic mobility and poverty eradication." "PSI's investment approach combines local expertise and **rigorous impact measurement**, aligning with UN Sustainable Development Goals."
Seed Commons	Concessionary rates	Yes	No	No Link	"Stable portfolio with **maximum impact** while maintaining deep, place-based roots." "This approach drives long-term wealth building **with impact and sustainability at its core**."
Third Derivative	Near-market rates	Yes	No	No Link	"We aim to balance the flow of capital toward solutions **addressing the hardest-to-decarbonize sectors**." "Third Derivative, RMI's global climate tech accelerator, is **accelerating the rate of climate innovation**."
Women's World Banking	Near-market rates	Yes	Yes	Positive Link	"**Achieve higher returns on investment** and **help to close the gender gap** in financial inclusion by investing in innovative financial service providers and guiding them to capture the sizable market share of **financially underserved women** while gaining a **competitive edge** by attracting female talent to all parts of their organizations."

Notes. "Implied impact–return link" is coded "Positive Link" when the selected language asserts that impact/sustainability practices increase (risk-adjusted) financial performance; otherwise "No Link". Quotes are verbatim excerpts from impact fund materials.



(a) Jobs Created **(b)** Carbon Emissions Avoided **(c)** Affordable Housing Developed

Figure A4: Heterogeneity in Impact Reporting and Measurement. This figure illustrates the heterogeneity in reporting and measurement of impact metrics among impact funds from the ImpactAssets IA50 list. Panel A shows the number of impact funds that have a public impact report and that track at least one of three standard metrics (jobs created, carbon emissions avoided and affordable housing developed). Panel B shows the number of impact funds that track each of these metrics individually and measure them on an annual basis.

ROBECOSAM

We are Sustainability Investing.

Factsheet | Figures as of 28-02-2019

RobecoSAM Sustainable European Equities IE EUR

The Strategy is based on the core conviction that sustainable companies will outperform over the long run and that the sustainability impact is under-researched, under-appreciated, and ultimately mispriced by capital markets. The Strategy combines proprietary ESG research and analysis within a disciplined and proprietary investment framework to determine a company's intrinsic value. Our rigorous valuation approach takes advantage of market mis-pricing, leading to a concentrated portfolio of attractively-valued, high quality stocks with a higher potential to outperform the benchmark across environmental and financial metrics. An in-house Sustainability Investing (SI) research team integrates financially-material sector and company-specific sustainability analysis into investment cases.

Kai Fachinger, CFA, Mathias Büeler, CFA
Fund manager since 15-01-2011

Current MIFID legislation prevents us from reporting performance data for funds with less than a 12 month track record.

Fund price

28-02-19	EUR 1,0042.91
High Ytd (27-02-19)	EUR 1,0077.14
Low Ytd (04-01-19)	EUR 9145.92

Index

In absolute terms, the fund was up again in the second month of the year, but it did not fully hold up

(a) Financial-Focused Narrative

ROBECO

Factsheet | Figures as of 31-01-2025

Robeco Biodiversity Equities D EUR

Robeco Biodiversity Equities is an actively managed fund that invests in stocks of companies in countries globally which support the sustainable use of natural resources and ecosystem services to help reduce Biodiversity loss. The selection of these stocks is based on fundamental analysis. The fund has sustainable investment as its objective, within the meaning of Article 9 of the Regulation (EU) 2019/2088 of 27 November 2019 on Sustainability-related disclosures in the financial sector. The strategy integrates sustainability criteria as part of the stock selection process and through a theme-specific sustainability assessment. The portfolio is built on the basis of an eligible investment universe that includes companies whose business models contribute to the thematic investment objectives. The assessment regarding relevant SDGs uses an internally developed framework, more information on which can be obtained at www.robeco.com/si. The fund also aims to achieve a better return than the index.

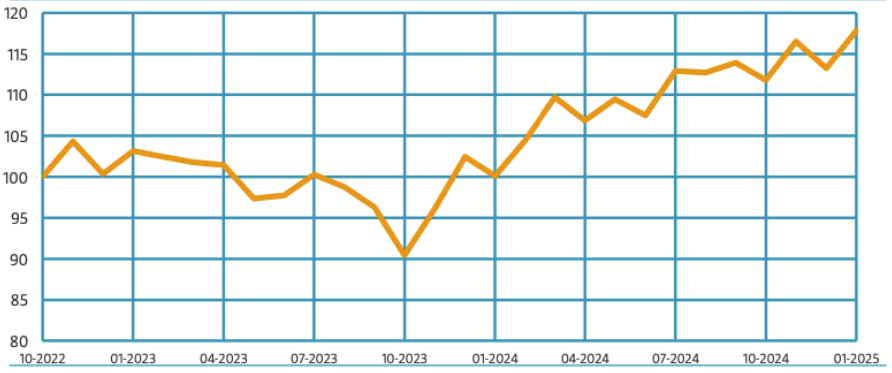
David Thomas
Fund manager since 31-10-2022

Performance

	Fund	Index
1 m	4.07%	3.13%
3 m	5.43%	10.13%
Ytd	4.07%	3.13%

Performance

Indexed value (until 31-01-2025) - Source: Robeco



(b) Impact-Focused Narrative

Figure A5: Examples of ESG-Return Narratives.

PICTET
1805
Asset Management

Monthly factsheet
Marketing material

Data as at 28.03.2024

Pictet - Nutrition - I EUR

INVESTMENT OVERVIEW

Objective
To increase the value of your investment while seeking to achieve a positive environmental and/or social impact.
Reference Index
MSCI AC World (EUR), an index that does not take into account environmental, social and governance (ESG) factors. Used for risk monitoring, performance objective and performance measurement.
Portfolio Assets
The Compartment mainly invests in equities of companies operating in the nutrition related sectors, especially those improving quality, access to, and sustainability of food production. The Compartment may invest worldwide, including in emerging markets and Mainland China.
Investment Process
In actively managing the Compartment, the Investment Manager uses a combination of market and fundamental company analysis to select securities that it believes offer favourable growth prospects at a reasonable price.
The Investment Manager considers ESG factors a core element of its strategy by seeking to invest mainly in economic activities that contribute to an environmental and social objective whilst avoiding activities that adversely affect society or the environment.
Voting rights are methodically exercised and there may be engagement with companies to positively influence ESG practices. For further information, please refer to our exclusion framework in the Responsible Investment policy*, SFDR product category Article 9.
The portfolio composition is not constrained relative to the benchmark, so the similarity of the Compartment's performance to that of the benchmark may vary.

At a glance

NAV/share	EUR 279.71
Fund size	EUR 902 mio
Positions	41

SFDR Classification[1]

Article 6	Article 8	Article 9

Risk category SRI[2]

1	2	3	**4**	5	6	7

Lower risk — Higher risk

General information

Open to Retail Investors	Yes
Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	28.05.2009

Figure A6: Fund Factsheet Excerpt.

Studie der DSW & Universität Mannheim:

Gewinnen Sie 1 von 5 Investments in Höhe von 1.000 €

Privatanleger sehen sich mit einer Vielzahl von Informationen bei der Auswahl von Investmentfonds konfrontiert, aber wie beeinflussen diese Informationen und deren Darstellung die Investitionsentscheidung konkret?

Diese Frage interessiert auch die europäische Finanzaufsichtsbehörde ESMA in ihrem Bestreben, den Investitionsprozess von Privatanlegern besser zu verstehen. Um die Bedürfnisse deutscher Privatanleger vor diesem Hintergrund zu untersuchen, möchten Forscher der Universität Mannheim gemeinsam mit der DSW Sie daher zur Teilnahme an einer Online-Studie einladen.

Die Befragung ist anonym, dauert rund 20 Minuten und lässt sich bequem am PC, Tablet oder Handy bearbeiten.

Unter allen Teilnehmenden werden fünf Investments im Wert von jeweils 1.000 € verlost. Sollten Sie gewinnen, wird auf Grundlage Ihrer im Rahmen der Studie getätigten Entscheidungen ein Investment getätigt und der Wert der Anlage nach einem Jahr ausgezahlt. Bitte beachten Sie, dass jede Person nur einmal an der Studie teilnehmen kann.

Über Ihre Teilnahme würden wir uns sehr freuen.

Hier geht es zur Studie.

Die DSW ist Mitglied von BETTER FINANCE

www.wertpapier.de

DSW Die Anlegerschützer

(a) Investor Newsletter

STUDIE DER DSW & UNIVERSITÄT MANNHEIM

Gewinnen Sie 1 von 5 Investments in Höhe von 1000 €

Privatanleger sehen sich mit einer Vielzahl von Informationen bei der Auswahl von Investmentfonds konfrontiert, aber wie beeinflussen diese Informationen und deren Darstellung die Investitionsentscheidung konkret?

Diese Frage interessiert auch die europäische Finanzaufsichtsbehörde ESMA in ihrem Bestreben, den Investitionsprozess von Privatanlegern besser zu verstehen. Um die Bedürfnisse deutscher Privatanleger vor diesem Hintergrund zu untersuchen, möchten Forscher der Universität Mannheim gemeinsam mit der DSW Sie daher zur Teilnahme an einer Online-Studie einladen.

Die Befragung ist anonym, dauert rund 20 Minuten und lässt sich bequem am PC, Tablet oder Handy bearbeiten.

Unter allen Teilnehmenden werden fünf Investments im Wert von jeweils 1000 € verlost. Sollten Sie gewinnen, wird auf Grundlage Ihrer im Rahmen der Studie getätigten Entscheidungen ein Investment getätigt und der Wert der Anlage nach einem Jahr ausgezahlt. Bitte beachten Sie, dass jede Person nur einmal an der Studie teilnehmen kann.

Über Ihre Teilnahme würden wir uns sehr freuen. Hier geht es zur Studie:

(b) Focus Money Magazine

Figure A7: Distribution Channels Survey Experiment.

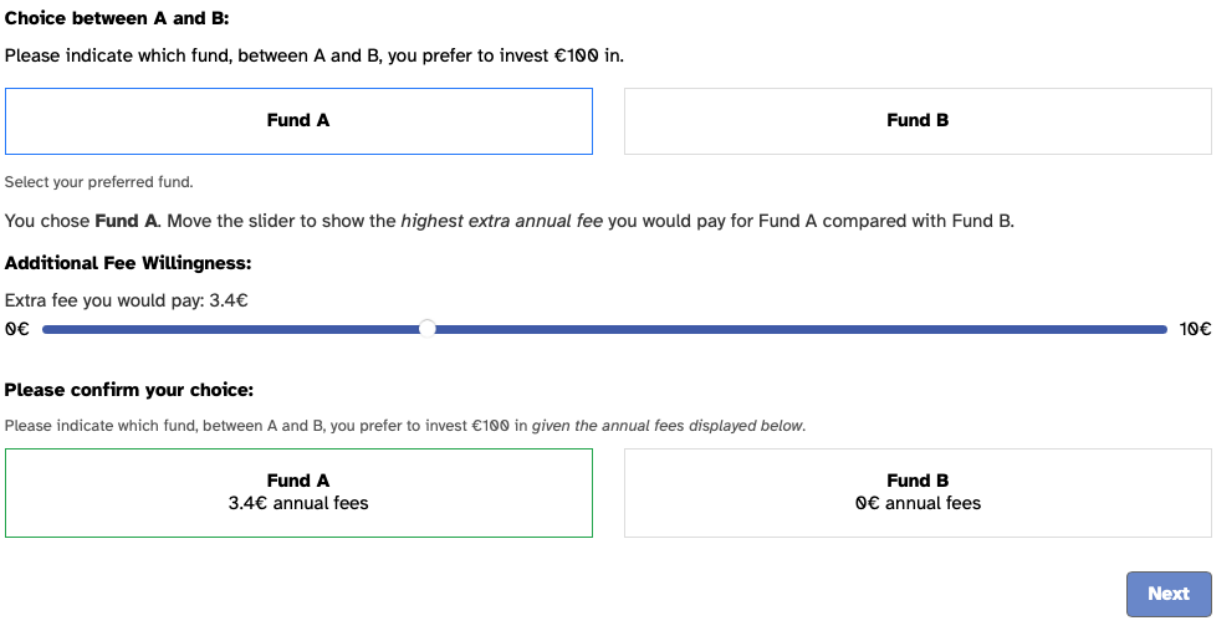
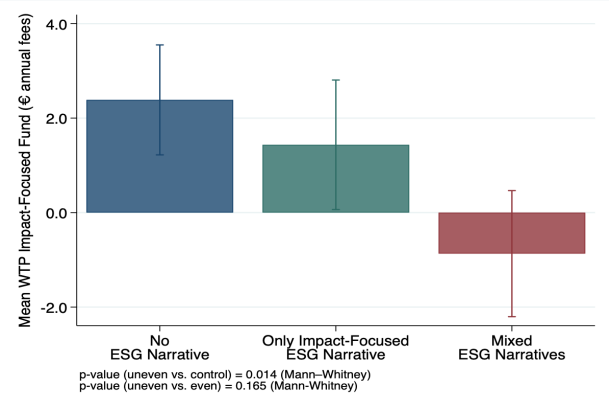
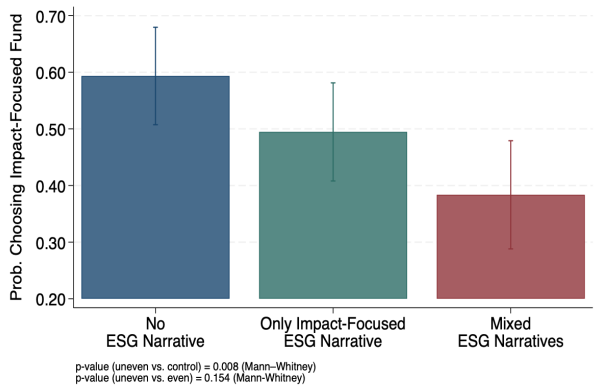


Figure A8: Example WTP Elicitation.

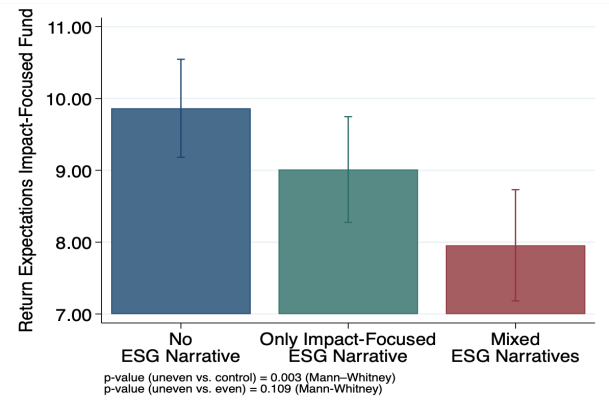


(a) WTP for Impact-Focused Fund C across Conditions

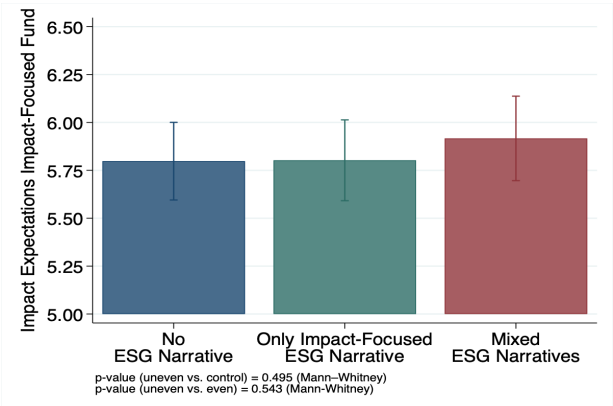


(b) Ext. Margin for Impact-Focused Fund C across Conditions

Figure A9: Willingness to Pay and Fund Choice across Treatment Conditions.

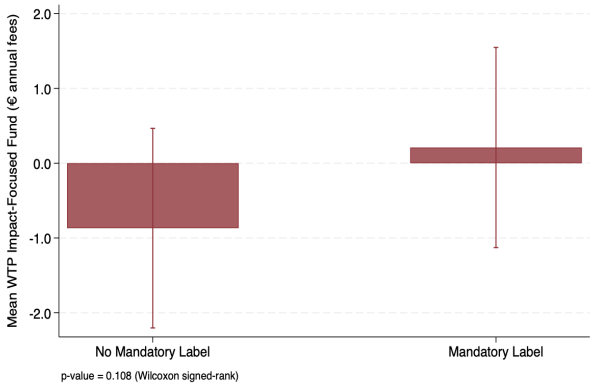


(a) Return Expectations for Impact-Focused Fund C

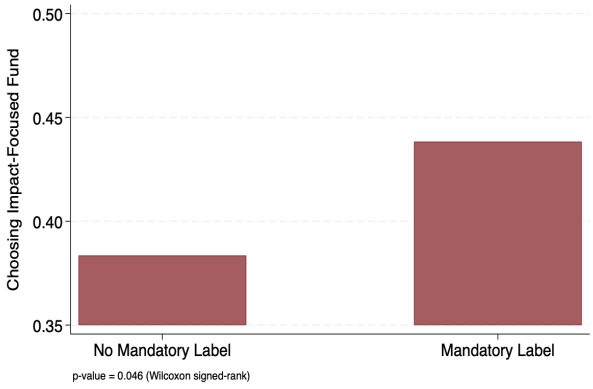


(b) ESG Impact Expectations for Impact-Focused Fund C

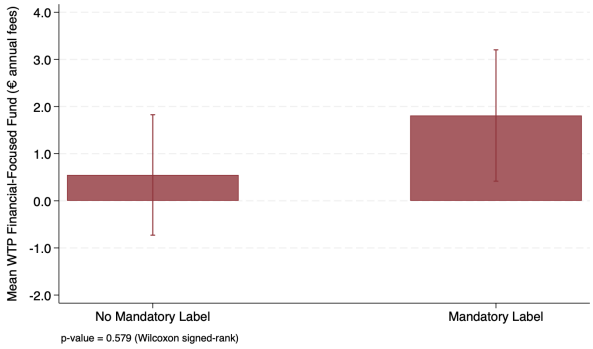
Figure A10: Return and Impact Beliefs across Treatment Conditions.



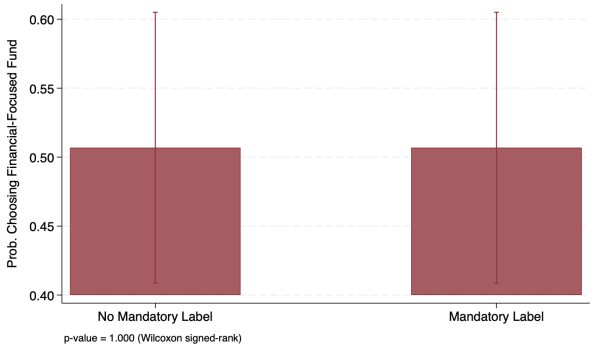
(a) Changes in WTP - Impact-Focused Fund



(b) Changes in Extensive Margin - Impact-Focused Fund

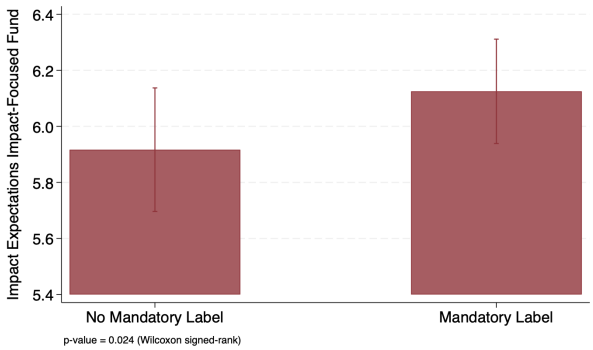


(c) Changes in WTP - Financial-Focused Fund

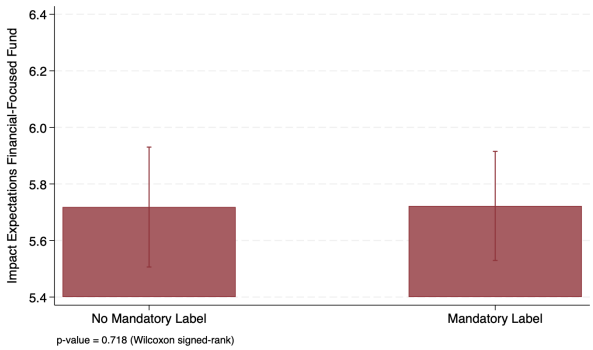


(d) Changes in Extensive Margin - Financial-Focused Fund

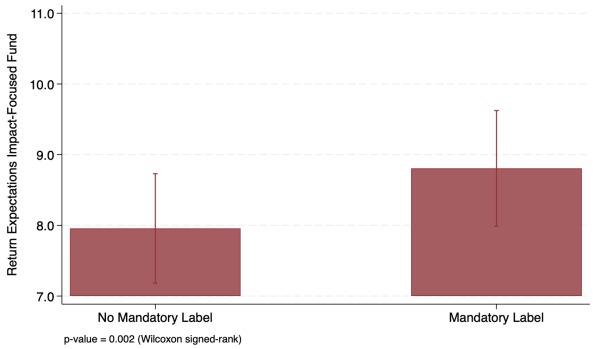
Figure A11: Within-Subject Changes in Willingness to Pay & Fund Choice to Mandatory Label.



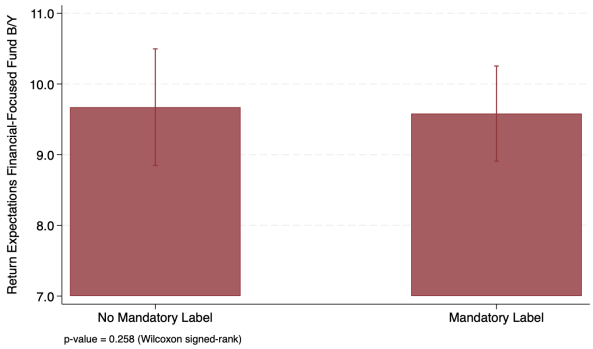
(a) Changes in Impact Expectations - Impact-Focused Fund



(b) Changes in Impact Expectations - Financial-Focused Fund



(c) Changes in Return Expectations - Impact-Focused Fund



(d) Changes in Return Expectations - Financial-Focused Fund

Figure A12: Within-Subject Changes in Return and Impact Beliefs to Mandatory Label.