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Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov

**Re: Proposed Rule
Investment Company Names (File No. S7-16-22)**

Secretary Countryman:

I write to submit additional comments on the proposed rules regarding Investment Company Names (Release No. 33-11067; 34-94981; IC-34593; File No. S7-16-22), this time to provide the Commission with an example of a fund that illustrates the need for the Commission to regulate the way “ESG funds” are named. This supports my suggestion on page 3 of my letter of August 16, 2022 that the Commission **require funds to have names that are more descriptive** with the goal of reducing the risk of product confusion.

I draw your attention to a fund currently named the “Total Return ESG Fund.”¹ This fund has been in the marketplace for over 30 years. Among other screens related to ESG issues commonly seen in ESG-based exclusion funds, this fund uses a screen based on religious beliefs to exclude companies in certain types of businesses, even though most potential investors would not assume this from the fund’s generic-sounding name or front-page disclosures.² The latest summary prospectus on Form 497K for this Total Return ESG Fund³ starts with its “Investment Objective,” which reads in its entirety:

The Fund seeks maximum total return, consistent with preservation of capital and prudent investment management.

¹ This fund was recently highlighted in a media article: “PIMCO ESG Fund’s Fine Print: No Abortion-Related Holdings,” by Miles Weiss and Silla Brush, *Bloomberg*, Aug. 26, 2022 (available at <https://www.bloomberg.com/news/articles/2022-08-26/pimco-esg-fund-has-unusual-screen-no-abortion-related-holdings>).

² I am citing this particular fund only to illustrate how the Commission’s current disclosure regime for investment funds is insufficient. I am not suggesting that this or any other fund is out of compliance with the current rules that apply to these types of investment products.

³ <https://www.sec.gov/Archives/edgar/data/810893/000119312522203844/d280256d497k.htm>

Further down the page, after a detailed description of the fund's fees, expenses, and turnover, the first sentence under the heading "Principal Investment Strategies" speaks to the words "Total Return" in the fund's name:

The Fund seeks to achieve its investment objective by investing under normal circumstances at least 65% of its total assets in a diversified portfolio of Fixed Income Instruments of varying maturities, which may be represented by forwards or derivatives such as options, futures contracts, or swap agreements.

The disclosures about the ESG aspects of this fund begin further into the "Principal Investment Strategies" section on the second page of the prospectus, where it lists the environmental and social issue screens used, the last one of which states:

In addition, the Fund will not invest in the securities of any non-governmental issuer determined by [the fund manager] to be engaged principally in the provision of healthcare services or the manufacture of pharmaceuticals, unless the issuer derives 100% of its gross revenues from products or services designed to protect and improve the quality of human life, as determined on the basis of information available to [the fund manager]. This generally prohibits investments in healthcare service and/or pharmaceutical manufacturing issuers that derive gross revenue from products or services related to abortion, abortifacients, contraceptives or stem cell research.

A reasonable investor would not assume that a fund named simply the "Total Return ESG Fund" uses screens based on religious beliefs to exclude companies. It is unlikely that an investor who is actively seeking a fund with this type of screen would be able to find it based on this name. Similarly, an investor who would be deterred by this type of screen would not have any hint to look for it in the disclosure based on this fund's name.

Basing investments on religious beliefs and values falls under the category of ESG investing, as it clearly follows the practice of focusing on particular social factors when making investment decisions. Thus, excluding religious values funds (also known as "faith-based" funds) from the ESG category or banning them from using the term "ESG" in fund names would not be the right solution. What we need are more words that describe in "plain English" what ESG approach a fund is taking. As we can see from this example, the "ESG" label alone does not tell a consumer enough about the product. Better names for this fund might be "Total Return Catholic Values ESG Fund" or "Total Return Pro-Life ESG Fund."⁴ These more descriptive names would make the nature of

⁴ Additional descriptive words would also help consumers distinguish this ESG fund from other funds that the same asset management company labels "ESG" but do not use an abortion/contraceptive/stem cell screen (e.g., "ESG Income Fund," "Enhanced Short Maturity Active ESG Exchange-Traded Fund").

this fund very clear for investors actively seeking this type of investment choice and those wishing to avoid them.

What I am raising here cannot be addressed in rules that use percentage thresholds for how the words in a fund's name connect to how or where the fund's assets are allocated. Even if it is only one small aspect of the fund's investment principles, the abortion/contraception/stem cell screen used in this fund is one that would likely lead many investors to decide to invest or not invest in the fund based *solely* on the existence of this screen. This highlights the importance of making fund names more descriptive and outlining material information like this in a summary table at the very front of fund prospectuses.

All investors should have choices for where they invest their money, and fund managers should be able to design specialized funds for those who wish to have their non-secular beliefs and values reflected in their investments. However, these and other ESG funds should be clearly labeled for everyone's benefit. This is not the case under today's regulatory regime, and that leaves too much room for misinterpretations and hidden surprises. Requiring additional descriptive words in fund names would help.

Respectfully,



Douglas K. Chia