

Are All ESG Funds Created Equal? Only Some Funds Are Committed

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Abstract

Environmental, social, and governance (ESG) funds have heterogeneous incentives to engage with portfolio firms. If funds view ESG as a value driver, then these incentives will affect funds' behavior and thus their impact on firms. We compare ESG funds with similar levels of ESG investments but different incentives to engage. Funds with higher incentives to engage, that is, committed ESG funds, conduct more ESG-related information acquisition, pursue longer term investment strategies, engage more intensely on ESG issues, and have greater real impacts. Moreover, committed ESG funds have outperformed other ESG funds within subportfolios with higher and more effective ESG engagement.

Keywords: mutual funds, ESG, incentives, Shareholder voting

JEL Classifications: G11, G30

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Abstract

Environmental, social, and governance (ESG) funds have heterogeneous incentives to engage with portfolio firms. If funds view ESG as a value driver, then these incentives will affect funds' behavior and thus their impact on firms. We compare ESG funds with similar levels of ESG investments but different incentives to engage. Funds with higher incentives to engage, that is, committed ESG funds, conduct more ESG-related information acquisition, pursue longer term investment strategies, engage more intensely on ESG issues, and have greater real impacts. Moreover, committed ESG funds have outperformed other ESG funds within subportfolios with higher and more effective ESG engagement.

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Large investor flows into the environmental, social, and governance (ESG) space reflect a belief that sustainability should be prioritized. ESG funds typically advertise ESG as a value driver and claim to deliver both financial returns and ESG outcomes. However, regulators, academics, and industry experts question whether these claims represent greenwashing. The view is well expressed by Tariq Fancy, former head of BlackRock's sustainable investing: "The major problem that I have is that even if they're [ESG funds] marketed correctly, they actually have no demonstrable impact."¹

We argue that only some ESG funds should be expected to have an impact. Our main hypothesis is the Value-Driven ESG Engagement Hypothesis, which posits that ESG fund managers view ESG policies as a value driver; therefore, funds with higher incentives to engage will devote time and attention to these issues. Ultimately, engagements by these ESG funds, which we refer to as committed funds, will lead to improvements in the ESG performance of the underlying firms. Such value-driven engagements and associated ESG improvements will lead these funds to earn higher returns on their investment positions. We test this Value-Driven ESG Engagement Hypothesis against the null that ESG funds do not perceive ESG issues to be a value driver, meaning that funds' incentives to engage would not affect their behavior on ESG-related issues or their impact on underlying firms. That is, we will not observe significant differences within ESG funds, along these dimensions of engagement and impact.

Our focus on ESG engagement is motivated by key points of debate. First, Krueger, Sautner, and Starks (2020)'s survey of institutional investors indicates that investors deem ESG-related risks to be financially material, but there remains a striking lack of consensus regarding this issue. Second, Lewellen and Lewellen (2022) show that institutional investors vary in their incentives to engage with portfolio firms, but generally it can be difficult to identify both the topics on which various funds engage and the extent of the impact among portfolio firms.

ESG is a long-term strategy, suggesting that long-term engagement will be more effective than short-term investment strategies. Krueger, Sautner, and Starks (2020), Berk and Van Binsbergen (2025), and Broccardo, Hart, and Zingales (2022) highlight the potential value of engagement, as opposed to exit, which generally has a relatively small effect on firms' cost of capital.² To identify ESG funds with high

¹<https://www.greenbiz.com/article/blackrocks-former-head-sustainable-investing-says-esg-and-sustainability-investing-are>.

²Heath et al. (2023) and Hartzmark and Shue (2023) similarly show that divestment has little impact on firms' cost of capital or ESG practices. In contrast, Gantchev, Giannetti, and Li (2022) find that small share sales lead firms to improve

incentives to engage, which we refer to as committed ESG funds, we employ the Lewellen and Lewellen (2022) (LL) “Incentive to Engage” proxy. This measure captures the extent to which increases in firm value contribute to higher management fees, through both increases in fund value and higher fund flows.

Holding constant portfolio weight on high-ESG stocks, we categorize ESG mutual funds as *Committed ESG funds* if their incentive measure is above-median, and *Other ESG funds* otherwise.³ By design, both sets of ESG funds invest the same portion of net asset value in high-ESG firms.⁴ Yet, under the Value-Driven ESG Engagement Hypothesis, their different incentives to engage cause variation in their commitment to ESG related issues and thus in their impacts on firms’ ESG policies.

We conduct several validation exercises, which confirm that our incentive-to-engage measure captures variations in fund commitment to ESG-related issues. Compared to other ESG funds, committed funds have a greater tendency to discuss ESG related issues in the Principal Investment Strategies (PIS) section of their fund prospectuses. Our classification also matches well with the newly introduced Morningstar ESG Commitment Level measure, with key components of the United Nations Principles of Responsible Investment (UNPRI) assessment metrics that capture organizations’ processes for identifying and prioritizing engagements, and with CDP’s Climetrics fund-level rankings of asset managers’ engagement initiatives around climate change.

Our main empirical tests of the Value-Driven ESG Engagement Hypothesis focus on funds’ ESG-related information acquisition, investment strategy, engagement, and impact. We first analyze funds’ information acquisition, as this is a prerequisite to any engagement. If ESG fund managers view ESG as a value driver, then those with higher incentives to engage will be incentivized to conduct more research on ESG-related issues. This is precisely what we find. Committed ESG funds are significantly more likely to view a firm’s regulatory filings when the firm is exposed to heightened ESG risk. We do not find similar patterns among other ESG funds.

Next, we turn to funds’ investment strategies. Committed funds should have a longer term strategy toward their portfolio firms’ material issues, as effective engagement necessitates a long-term perspective. Consistent with this, committed funds are significantly less likely to sell firms following negative ESG their ESG policies.

³Our data are publicly available: https://github.com/pinglewang/committed_esg_funds.

⁴Following an extensive literature, we define ESG funds based on the value-weighted ESG ratings of the funds’ holdings.

risk events, compared to other ESG funds. This suggests that committed funds rely less on negative screening as they aim to improve firms' ESG practices.

To more directly test the extent to which committed ESG funds work with firms to achieve change, we turn to our engagement tests. First, we analyze the Q&A section of firms' earnings conference calls. Within the same call, analysts from committed fund families are 54% more likely than other ESG fund families to ask an ES-related question. These findings provide further evidence that committed funds consider ESG as a value driver, given that these calls are mainly platforms for discussing firms' financial performance and business prospects. Second, we measure funds' engagement via voting. Following Iliev and Lowry (2015), we employ two proxies: the tendency of a fund to vote independently from Institutional Shareholder Services (ISS) and the tendency of a fund to not vote in a one-size-fits-all manner. Both measures lead to the same conclusion: committed funds are significantly more likely than other ESG funds to devote resources to ESG-related voting. In economic terms, committed ESG funds are 20% more likely than other ESG funds to independently vote. Firms' abnormal returns around close votes suggest that committed funds' engagement (via voting) is motivated by their belief in the value effects of ESG policies.

According to the Value-Driven ESG Engagement Hypothesis, committed funds' engagement should drive real changes in firms' ESG policies as they view ESG as a value driver. We employ two measures of impact. First, we use the RepRisk Index (RRI) measure, which relies on real-time ESG risk events to assess firms' ESG profiles. Second, we use a narrower but more direct measure, emissions, to isolate environmental-related impact.

We find that firms bought by committed funds and intensively engaged by them following severe ESG incidents subsequently experience a 33% reduction in their risk index, relative to the base case in which these firms are neither intensely bought nor sold by ESG funds. Importantly, these findings cannot be explained by funds' ability to select good ESG firms. Following Hartzmark and Sussman (2019), we use the 2016 initiation of Morningstar Sustainability Ratings as a shock to flows into high-ESG funds. This shock led to greater investments in existing portfolio firms (in addition to any investments in new firms) by ESG funds. This greater ownership increases funds' ability to influence firms' policies and thus increases the potential benefit of engagement. Under the premise that this shock is exogenous to funds' pre shock

investment choices, this enables us to shut down the selection effect and focus on the engagement channel. Consistent with engagement driving the results, firms overweighted by committed funds prior to the shock experience significant decreases in both their ESG risk index and their emissions. Further, these findings are driven by cases where committed funds have exhibited a high level of engagement with the firms and cases where committed fund families are among the largest investors, suggesting their engagement will be more influential.

Can funds do well by doing good? The Value-Driven ESG Engagement Hypothesis predicts that committed ESG funds' engagement is motivated by the belief that ESG is a value driver; therefore, engagement can contribute to higher investment returns. To test this prediction, we compare performance between committed and other ESG funds. First, based on the premise that engagement takes time, we divide the funds' portfolios into subsets based on investment holding period. Second, we form subportfolios based on the level of engagement. Third, among firms with high engagement, we form subportfolios based on whether firms experienced ESG-related improvements, defined as declines in the RRI or declines in emissions.

Consistent with predictions, committed ESG funds outperform other ESG funds within longer held positions and within positions with more intense engagement. Moreover, within the high-engagement subportfolio, committed funds' abnormal returns are concentrated among those firms that experienced ESG-related improvements, with abnormal returns as high as 1.5% – 1.7% per year. These findings highlight the role of the engagement channel, and they mitigate concerns that other fund characteristics such as activeness or information advantages drive performance differences.⁵

In aggregate, our findings provide strong support for the Value-Driven ESG Engagement Hypothesis. Heterogeneity in fund incentives affects ESG funds' engagement on ESG issues, and such engagement impacts portfolio firms' ESG policies. ESG funds with high incentives to engage perceive these issues to be a value driver, and the higher returns they earn from engaging on these issues validate this perception.

Our paper contributes to several streams of literature. First, our analysis furthers our understanding of mutual funds' engagement on ESG issues. Funds will engage on ESG issues if they perceive ESG to

⁵As discussed in more detail in the body of the paper, committed funds have higher portfolio concentration, which could be correlated with fund activeness or information advantages. We conduct multiple analyses to test the effects of engagement per se.

be a value driver. Relative to prior literature, which provides contradictory evidence on the effects of ESG-related engagement (see, e.g., Broccardo, Hart, and Zingales 2022; He, Kahraman, and Lowry 2023; Li, Naaraayanan, and Sachdeva 2023; Atta-Darkua et al. 2023, among others), our paper highlights the influence of incentives to engage. Our findings also relate to Dimson, Karakaş, and Li (2015) and Hoepner et al. (2024), which both analyze ESG-related engagements but focus solely on one large institutional investor. Here, our study provides a key advantage: it does not suffer from any selection bias arising from the fact that funds whose engagement activities have been successful may be more willing to share their data. Our paper thus provides a unique strategy for investors to tell which funds are more likely to have impacts.

Second, our paper relates to the growing literature on ESG funds' true objectives: actual ESG improvements versus greenwashing. In contrast to studies that characterize greenwashing according to portfolio firms' ESG scores (see, e.g., Liang, Sun, and Teo 2020; Gibson Brandon et al. 2022; Kim and Yoon 2023), our empirical tests go one step further by focusing on ESG funds' investment and engagement strategies. We find that conditional on the dollars invested in high-ESG firms, the distribution of these dollars and the associated effects on funds' incentives to engage play a critical role. Ultimately, whether impact investments touted by ESG funds would have any impact on firm policies depends on whether these funds consider ESG as a value driver and have incentives to engage portfolio firms to improve their ESG performance.

Lastly, our study complements recent studies suggesting that investor divestiture might not be the most effective way to influence corporate ESG conduct (see, e.g., Atta-Darkua et al. 2023; Edmans, Levit, and Schneemeier 2023; Hartzmark and Shue 2023; Heath et al. 2023; Berk and Van Binsbergen 2025; Cohen, Gurun, and Nguyen 2025). Our finding that committed funds influence firm behavior without relying on negative screening suggests that the divestment-oriented strategies of many institutional campaigns, including those led by the UNPRI, may be misguided.

1 Data and Methodology

1.1 Description of data sources

We use MSCI ESG Ratings data to assess firm-level ESG ratings.⁶ MSCI is the largest provider of ESG ratings (Eccles and Strohle 2018); its ratings are industry adjusted and are considered less noisy than those of other vendors (Berg et al. 2021). We place stocks into deciles by their ESG scores each quarter and classify those within the top three deciles as high-ESG stocks. Since MSCI did not start covering small U.S. stocks until late 2012, our sample period is January 2013 to December 2020. We use Center for Research in Security Prices (CRSP) and Compustat for data on stock returns and financial characteristics.

Our sample of mutual funds includes actively managed U.S. domestic equity mutual funds (excluding ETFs). We rely on the CRSP Survivor-Bias-Free Mutual Fund Database to extract monthly fund characteristics and net-of-fees returns. We obtain funds' quarterly equity holdings from the Thomson/Refinitive S12 database and merge them with the CRSP Mutual Fund data using the MFLINKS tables available via Wharton Research Data Services (WRDS) (Wermers 2000).

Our first proxy for funds' engagement is buy-side analysts' questions concerning ES issues during firms' earnings conference calls. We obtain conference call transcripts from the Capital IQ Transcripts database. After merging with Compustat and CRSP, we have 121,129 transcripts on 5,711 unique firms. We match analysts' self-identified affiliations with CRSP fund family names. Similar to Jung, Wong, and Zhang (2018), we find that 19% of the earnings calls have at least one question from buy-side institutions.

Our second measure of funds' engagement is votes on shareholder proposals, obtained from the ISS Voting Analytics database. We match ISS fund IDs to the CRSP mutual fund database by ticker, using the N-PX header. We identify the proposals on environmental and social (ES) issues (following He, Kahraman, and Lowry 2023) and governance (G) issues. There are 732 firm-years with 973 ES proposals, and 1,673 firm-years with 2,122 G proposals.

We use several measures of firms' ESG risk exposures. We employ RepRisk daily news counts to capture negative ESG incidents, Ravenpack News Analytics for nonESG related news, and the RRI to

⁶As stated on MSCI's website, the MSCI ESG Ratings "are designed to measure companies' resilience to financially relevant, industry-specific sustainability risks and opportunities."

measure a firm's overall ESG risk (Dai, Liang, and Ng 2021; Houston and Shan 2022; Lin et al. 2023; Newton et al. 2024).⁷ RRI is based on ESG risk events reported in the media and stakeholder sources; it is incident driven, more objective than other sources, and captures high frequency changes in ESG risk.⁸ To measure environmental activities at a micro level, we use each firm's carbon emissions as provided by Trucost.⁹

1.2 Committed versus other ESG funds

We begin by classifying all actively managed equity funds into ESG versus nonESG funds, according to the asset-weighted MSCI ESG scores of their holdings. Similar to the Morningstar Sustainability Rating (which was introduced in 2016), we calculate a fund's quarterly ESG score as the weighted average of its trailing four quarters' MSCI ESG scores, with recent quarters weighted more heavily.¹⁰ Our fund-level ESG score has a correlation of 0.86 with the Morningstar Sustainability Score. Each quarter, funds with ESG scores ranked within the top tercile are classified as ESG funds while the rest are classified as nonESG funds.¹¹

Within the set of ESG funds, we classify funds into two groups according to the LL "Incentive-to-Engage" measure. This measure is based on the premise that funds are more likely to engage with firms when the potential increase in firm value would significantly increase fund assets under management (AUM). As discussed by Ibert et al. (2018), Ma, Tang, and Gomez (2019), and Cen et al. (2024), fund managers' compensation is directly related to AUM. To capture these dynamics, the LL measure includes two components: the direct component, which is each stock's weight in the fund portfolio, and the flow

⁷Many studies have employed RepRisk risk incidents to proxy for ESG risk events (see, e.g., Li and Wu 2020; Gantchev, Giannetti, and Li 2022; Graham et al. 2022; He, Kahraman, and Lowry 2023). To avoid double counting, we consider only Ravenpack news that is not released on the same day as RepRisk incidents concerning the same firm.

⁸Internet Appendix Figure IA1 shows firms' RRI scores in the months around severe RepRisk ESG events. Firms' RRI scores increase in the months leading up to a severe ESG event and spike in the month of the event; there are no significant changes of firms' RRI around severe, nonESG news events.

⁹Trucost emissions data are sourced from regulatory data, company financial reports, company corporate social responsibility and sustainability reports, Carbon Disclosure Project (CDP) reports, and EPA filings (see, e.g., Bolton and Kacperczyk 2023; Zhang 2025).

¹⁰We adopt the weighting scheme of the Morningstar Sustainability Rating. To receive a fund-level ESG score, at least 67% of a portfolio's AUM must have an MSCI ESG score. Further detail can be found at https://www.morningstar.com/content/dam/marketing/shared/research/methodology/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf.

¹¹Because MSCI's ESG ratings represent industry-adjusted metrics, high-ESG funds do not necessarily exclude firms in brown industries.

component, which is the product of flow-to-performance sensitivity and the deviation of the stock's weight in the fund from that in the fund's portfolio benchmark. Intuitively, the direct component captures the direct impact of a holding's performance on a fund's AUM and thus on management fees, and the flow component captures the indirect impact from performance-related fund flows. The weighted average of this stock-level measure across all stocks in a fund's portfolio each quarter measures each fund's overall incentives to engage.

Specifically, a fund's LL incentive-to-engage measure is calculated as follows:

$$\text{Incentive to Engage}_{f,t} = \sum_{i \in E} w_{i,t} [w_{i,t} + \beta(w_{i,t} - v_{i,t})], \quad (1)$$

where E is the set of stocks in fund f 's portfolio, $w_{i,t}$ is the weight of each stock i in the fund's portfolio, $v_{i,t}$ is the weight of stock i in the benchmark portfolio, and β is the flow-to-performance sensitivity.

Flow-to-performance sensitivity (that is, β) is estimated following LL. In the first step, each quarter we estimate 12 cross-sectional regressions, where the dependent variable is net fund inflows in quarter $t+1$, quarter $t+2$, ..., quarter $t+12$. The independent variable in each regression is fund benchmark-adjusted returns in quarter t .¹² Second, we calculate the time-series average of each of these 12 coefficients across all of our sample quarters, thus generating one estimate for each of the 12 flow horizons. The estimates are all positive, indicating that, on average, higher returns in quarter t are associated with greater inflows in subsequent quarters. Third, the flow-performance sensitivity (that is, β) is the sum of these 12 coefficient estimates.

We then use the four-quarter moving average of the fund-level LL measure to classify ESG funds.¹³ To capture heterogeneity in ESG funds' incentives to engage while holding the weight of high-ESG stocks constant, we rank all *ESG funds* into terciles by their ESG scores and classify each ESG fund as committed (other) if its incentive to engage is above (below) the median within the tercile.¹⁴ On average, committed

¹²We consider the aggregated holdings of all index funds within the same Morningstar style category as a fund's benchmark portfolio.

¹³Our data on the classification of committed versus other ESG funds each quarter are available at: https://github.com/pinglewang/committed_esg_funds.

¹⁴The median LL measure is relatively constant throughout our sample period. Although the LL incentive-to-engage measure captures the benefits of engagement, the characteristics of committed funds suggest they also have lower costs of engagement: committed funds have more concentrated holdings and lower turnover (see, e.g., Iliev and Lowry 2015). While committed funds are, on average, smaller (suggesting higher costs of engagement), our results are robust to excluding funds

ESG funds' incentive to engage equals 8.7%, compared to 3.5% for other ESG funds, indicating that dollar increases in portfolio firms have a significantly larger effect on committed funds' AUM. An ESG fund's commitment status is highly persistent, likely reflecting a systematic investment strategy. The probability of an ESG fund remaining in the same group, that is, either committed or other, four quarters later is 94%.

An analysis of the PIS sections of funds' prospectuses confirms that our approach captures fundamental differences between funds' investment focuses. Relying on Gantchev, Giannetti, and Li (2024) and Michaely, Ordonez-Calafi, and Rubio (2024) for ESG keywords, we find that 6.56% of nonESG funds have ESG-related discussions in PIS. This proportion increases to 12.43% among committed ESG funds, compared to only 9.84% among other ESG funds.¹⁵

The economics of engagement suggest that some engagement should be at the family level and some at the fund level, and the literature provides evidence consistent with this (see, e.g., Iliev and Lowry 2015). To facilitate analyses at the family level, we classify ESG families using an approach similar to that at the fund level. First, each quarter we classify a family as an ESG family if the fraction of total net assets (TNA) held by ESG funds over all funds in the family is in the top tercile. Second, within ESG families, a family is committed (other) if the fraction of TNA held by committed ESG funds—over all ESG funds in the family—is above (below) median. As shown in Internet Appendix Figure IA2, families are clustered in each tail of the distribution, suggesting that incentives to engage are shared across funds within a family. Within our sample, 58% of firms have a committed fund family among their top ten investors (as defined across all mutual fund families), highlighting these funds' ability to influence firm policies.

1.3 Summary statistics

Table 1 shows summary statistics for committed ESG funds, other ESG funds, and nonESG funds. Both committed and other ESG funds allocate 39% of their TNA to high-ESG stocks, compared to 28% for nonESG funds. Both groups of ESG funds outperform nonESG funds during our sample period, and ranked below the 10th or 20th percentiles in terms of TNA.

¹⁵The average percentage of funds indicating a sustainability focus in their prospectuses is 7.92%, roughly consistent with what is reported in Gantchev, Giannetti, and Li (2024).

both groups have lower turnover, which is consistent with Pástor, Stambaugh, and Taylor (2022) and Starks, Venkat, and Zhu (2024). Despite their relatively lower turnover, committed funds appear to be more active as indicated by their higher Industry Concentration Index and their higher Active Share, compared to either other ESG funds or nonESG funds (Kacperczyk, Sialm, and Zheng 2005; Cremers and Petajisto 2009). Finally, both groups of ESG funds have similar performance, flows, family size, and proportion of load funds, although committed funds tend to be somewhat younger and smaller.

1.4 Validation of ESG fund classification

By definition, the LL incentive-to-engage measure is correlated with fund characteristics, including the concentration of funds' investments and the deviation of a fund's holdings from the benchmark portfolio, which may be correlated with funds' activeness or information advantage (see, e.g., Kacperczyk, Sialm, and Zheng 2005; Cremers and Petajisto 2009). In this subsection, we provide several validation exercises to ensure that our classification effectively captures funds with high incentive to engage. In subsequent sections we conduct additional analyses to mitigate concerns that our findings are driven by information advantage as opposed to engagement.

Our first validation is based on fund families' Morningstar ESG Commitment Level measure, which was introduced in 2020. Unlike the quantitative Morningstar Sustainability Rating, which measures the extent to which funds invest in firms with low ESG risk, the Morningstar ESG Commitment Level is based on the investment process and active engagement on ESG issues (Morningstar 2020). Among the short list of asset managers with a Morningstar ESG Commitment Level of Leader or Advanced in 2020, the only two U.S. companies (Calvert and Parnassus) are classified as committed ESG fund families under our classification. Moreover, 10 of the 12 U.S. asset managers that are rated as having a Commitment Level of Basic or Low are classified as other (i.e., noncommitted) ESG families.

Second, we compare the responses of signatories to the UNPRI mandatory reporting requirements that concern engagement. We mainly rely on 2020 reporting data, since UNPRI's coverage of our sample fund families is much lower in earlier years. Questions within the "Organizational Overview" and the "Strategy and Governance" frameworks represent the core modules that are mandatory for all signatories

to complete.¹⁶ Within these modules, we focus on questions related to engagement and voting. As shown in panel A of Figure 1, we find that committed ESG families score higher than other ESG families across both core modules.

Our third validation test employs the 2020 CDP Climetrics ratings, which range from 1 to 4, with 4 indicating the highest environmental performance relative to peer funds in the same market segment. Climetrics ratings are based on funds' ESG investment policies and the level of public action taken by the asset manager to support global transparency and engagement around climate change. As shown in panel B of Figure 1, other ESG funds are more likely to have a rank of 1 or 2, whereas committed ESG funds are more likely to have a rank of 3 or 4.¹⁷

Our fourth validation is based on the premise that engagement requires time. A fund seeking to increase firm value through engagement will tend to hold that firm longer. Therefore, we expect committed funds' trades to be less sensitive to recent performance. We regress trades of each fund in each firm on dummy variables indicating *Committed ESG fund* and *Other ESG fund*, and the interactions of each with *Poor firm performance*, defined in terms of earnings surprise or 3-month stock returns in the prior quarter. Consistent with expectations, we find that committed funds pursue a longer term investment strategy, compared to other ESG funds, which behave like momentum traders, selling after poor performance. This evidence is novel as it cannot be explained by potential endogenous matching between investors' and portfolio firms' horizons (Starks, Venkat, and Zhu 2024), given that both committed and other ESG funds invest heavily in high-ESG firms. The results are shown in Internet Appendix Table IA2.

2 Comparing Investment Strategies across Different ESG Fund Types

If managers of committed funds perceive ESG to be a value driver, as posited by the Value-Driven ESG Engagement Hypothesis, then these funds' higher incentives to engage should manifest in their monitoring of ESG risks and their longer term approach toward the related risk events. We examine these issues in

¹⁶In 2020, 62 of our sample fund families are UNPRI signatories as compared to only 20 in 2015 and 7 in 2014. The specific questions we rely on are shown in Internet Appendix Table IA1.

¹⁷Seven ESG families in our sample can be matched to the Climate Action 100+ data, the world's largest investor engagement initiative on climate change. Reassuringly, of these seven families, six are classified as committed.

subsections 2.1 and 2.2.

2.1 Evidence on funds' research of ESG risk events

Gargano, Rossi, and Wermers (2017), Wang (2019), and Crane, Crotty, and Umar (2023), among others, show that sophisticated investors collect information from financial filings to improve performance. We compare views of SEC financial filings by committed versus other ESG fund families.¹⁸ To measure portfolio firms' ESG risk events, we rely on time-stamped RepRisk ESG news.

Figure 2 illustrates the probability of each family type viewing firm financial statements on EDGAR, during the ten days around each negative ESG news announcement. Panel A focuses on severe ESG news events, defined as cases in which the three-day cumulative abnormal returns (CAR) around the news announcement fall into the bottom quintile among all risk events during the quarter. All other ESG news events are considered nonsevere, and these are shown in panel B.

Committed ESG fund families increase attention to firms around severe ESG risk events, while other ESG families' attention does not vary with event severity. Committed funds' attention is significantly higher than that of other ESG funds on the first two days following the announcement of a severe ESG event. There is also some indication that committed funds' heightened interest begins prior to the news announcement, potentially reflecting awareness of the issue before it is covered widely by the news media.

In panels A – C of Internet Appendix Figure IA3, we separately examine attention around severe E, S, and G incidents. E and S issues differ from G issues in their lack of standardized disclosure. Also, there is less consensus regarding the effects of E and S issues on shareholder value. Consistent with E and S issues being costlier to evaluate, we find that the difference between committed and other ESG funds is greatest among these issues.

¹⁸We employ the SEC EDGAR server log and IP demographic data to examine asset managers' views of their portfolio firms' filings around ESG news events. Following Wang (2019) and Gibbons, Iliev, and Kalodimos (2021), we match the IP addresses from EDGAR to the institution that holds a block of corresponding IP addresses. Using the EDGAR server log data (which is available up to June 2017), the identity of downloading institutions can only be determined at the fund family level.

2.2 Evidence from trading activities

Severe ESG risk events (by definition) are accompanied by negative market reactions, and they sometimes result in downgrades of firms' ESG ratings. If committed funds have a better understanding of the value effects of these events and greater incentives to engage with portfolio firms to help them improve, as posited by the Value-Driven ESG Engagement Hypothesis, these funds will be less likely to indiscriminately divest following these events. In contrast, other ESG funds would be more likely to sell shares, that is, to engage in negative screening.

We examine fund trading during the quarter in which a firm experiences an ESG risk event.¹⁹ We control for nonESG news, as captured by Ravenpack News Analytics, and we subset both types of news, ESG-related and nonESG-related, into severe versus nonsevere. One key distinction between these sources is that RepRisk ESG news includes only adverse incidents, whereas Ravenpack includes all news (both positive and negative). As a result, the *Other ESG negative news* category includes only negative news, whereas the *Other nonESG news* category includes both positive and small negative news. All of our news variables represent the natural logarithm of the number of news articles, of the designated type, during the quarter. To capture additional factors that potentially influence fund trading, we control for stock characteristics measured the quarter before the event: the natural logarithm of market capitalization, book-to-market ratio, stock performance, and Amihud illiquidity.

The results are shown in Table 2. We estimate fund-security level regressions where the dependent variable is the fund's *Net trade*, in percent, with standard errors clustered by stock and fund. Looking at columns 1 and 2, we find significant differences in trading across the fund types. Committed ESG funds do not exhibit more negative trades following severe ESG events, despite the risk of firms' ESG rating downgrades. This may reflect these funds' strategy to improve firms' ESG policies through engagement, a point we examine directly in Section 4. In comparison, other ESG funds' net trades are significantly lower. While Chen et al. (2024) and Gantchev, Giannetti, and Li (2022) conclude that institutional investors, and particularly ESG-conscious investors, are more likely to sell after ESG incidents, our findings show that this effect is limited to the subset of ESG funds with weak incentives to engage.

¹⁹Within our sample, we find that downgrades among portfolio firms rarely cause funds' classifications to change from ESG to nonESG, largely because an event in one firm rarely has a substantial effect on the ESG rating of the entire fund portfolio.

The finding from the fund-security level regressions that only noncommitted ESG funds are significantly more likely to sell around severe ESG negative news implies that the ownership composition of the stocks may change during these times. Regression analyses of the total changes of shares held, aggregated to the security level, show that this is the case.²⁰ As shown in columns 3 and 4, the ownership of committed ESG funds significantly increases following these events, whereas the ownership of other ESG funds significantly decreases. These findings are consistent with committed ESG funds, in aggregate, providing liquidity to the other ESG funds, which are more likely to sell.

Consistent with the higher information asymmetry of ES issues compared to G issues, and with committed funds' greater information acquisition efforts concerning ES-related issues, Internet Appendix Table IA4 indicates that the funds' contrasting investment strategies are focused around ES risk incidents as opposed to G incidents.

3 Funds' ESG Engagement Activities

Our findings that committed and other ESG funds demonstrate distinct information acquisition and investment strategies toward ESG risk events provide preliminary evidence in support of the Value-Driven ESG Engagement Hypothesis. In this section, we directly examine ESG-related engagement. Engagement occurs at both the fund and the family level, and we analyze two types of engagement to capture each of these influences: questions during conference calls, which focus on family-level effects, and voting on ESG issues, which focus on fund-level effects.

3.1 Fund attention to ESG issues during earnings conference calls

To proxy for engagement, we first examine fund families' questions during the Q&A section of firms' earnings conference calls. Following existing studies, we focus on ES issues, as conference call discussions concerning G issues tend to be generic and difficult to quantify. Moreover, our findings to this point highlight the influence of ES issues in driving the differences in fund behavior. Several factors motivate the use of conference calls as a setting for examining engagement. First, Li et al. (2021) and Cen, Han, and

²⁰For security-quarter level regressions (columns 3 and 4), we limit the sample to stocks held by both committed and other ESG funds, thus mitigating sample selection concerns. As reported in Internet Appendix Table IA3, we do not find divestments by either committed or other ESG funds before ESG risk events.

Harford (2022) show that call participants' questions often reveal their interest and expertise in specialized areas. Second, any ES questions signal a belief that these issues are material, particularly given buy-side institutions' low overall participation rate in these calls (Jung, Wong, and Zhang 2018). Third, these discussions reflect "soft" information, beyond what can be deciphered from financial statements. Lastly, since earnings calls are mainly designed to discuss firms' financial performance and business prospects, ES questions arguably reflect a fund's belief in ES as an essential value driver.

We employ two sets of keywords to conduct textual analyses of earnings call transcripts. First, we utilize a comprehensive set of environmental keywords derived from earnings call transcripts as employed in Sautner et al. (2023).²¹ A key benefit of this source is that it captures the context-specific jargon used in earnings conference calls. Second, we follow Chava, Du, and Malakar (2021) and Li et al. (2021) to identify the five most frequently mentioned social impact keywords based on key sustainability standards and documents.²² The keywords are "human rights," "discrimination", "gender equality", "racial ethnic", and "employee engagement". Following Li et al. (2021), we use these as seed words and apply a machine-learning model, *word2vec*, to these sustainability documents. We compute the cosine similarity between word vectors containing the seed words and other word vectors to generate a social impact directory.

After constructing ES dictionaries, we measure the occurrence of these issues in the conference call Q&As. Analyses are at the fund family-firm-quarter level, consistent with buy-side analysts representing fund families (rather than specific funds). For each conference call, we classify buy-side analysts into two groups: those from committed versus other ESG families.

In Table 3, we examine the relation between ES questions and committed ESG family status. The dependent variable in columns 1 and 2 is a dummy variable indicating at least one ES question during the call. The dependent variable in columns 3 and 4 captures the intensity of ES issues within the question, measured as the ratio of ES keywords over the total word count of the analyst's question. The independent variable of interest is a committed family indicator variable.

As Jung, Wong, and Zhang (2018) discuss, buy-side analyst participation in conference calls is deter-

²¹We thank Zacharias Sautner for generously sharing this list of keywords. As described in more detail in Sautner et al. (2023), this list is generated via the keyword discovery algorithm proposed in King, Lam, and Roberts (2017).

²²This includes Sustainability Accounting Standards Board (SASB); United Nations Global Compact's guide to corporate sustainability; 2022 S&P Global Corporate Sustainability Assessment; and data manuals of MSCI KLD, RepRisk and Sustainalytics.

mined by many firm- and institution-specific factors. Also, the earnings call data only identify cases in which a fund family asks at least one question; they do not differentiate between calls in which a fund family did not participate, remained silent, or intended to ask questions but was not selected to speak. To mitigate such concerns, in columns 1 and 3, we limit the sample to family-firm pairs in which the fund family asked at least one question about the firm in the past year, indicating some level of attention to the firm. To account for firm-specific factors that trigger analyst questions, we include firm fixed effects, a dummy variable indicating whether the firm is currently held by the family's ESG funds, and control variables that proxy for the uncertainty of earnings, past performance, and firm size, all measured as of the prior-quarter end. In columns 2 and 4, we adopt the stricter criteria of focusing on conference calls in which analysts from both committed and other ESG families asked at least one question, and we include conference call fixed effects to control for factors such as firm performance and the tone of management discussion that may affect the level of engagement from buy-side institutions. Standard errors are clustered at both the fund family and firm level.

Columns 1 and 2 indicate that analysts from committed ESG families are significantly more likely to ask ES questions during firms' earnings calls, relative to other ESG families, for the same firm or call. In economic terms, their likelihood is 3.5 percentage points higher, which represents an increase of 54% relative to the unconditional likelihood of 6.5% across all ESG families. Moreover, columns 3 and 4 provide some evidence that committed ESG families ask more intense ES-related questions. Although the power of this analysis is weak due to a low unconditional probability of questions from buy-side analysts, the results indicate a positive relation. In column 4, which includes earnings call fixed effects, the coefficient on *Committed ESG family* is significant at the 5% level.

3.2 Fund voting on ESG proposals

Our second set of engagement-related tests of the Value-Driven ESG Engagement Hypothesis focuses on shareholder voting. Mutual funds have a fiduciary duty to vote, but funds differ in how they fulfill this duty (Couvert 2021). We predict that committed ESG funds will devote more attention to voting on ESG proposals, compared to other ESG funds.²³

²³Dikolli et al. (2022), Li, Naaraayanan, and Sachdeva (2023), and Michaely, Ordóñez-Calafi, and Rubio (2024) find that voting by ESG funds is affected by the fund family to which an ESG fund belongs, whether the fund is active or passive,

Committed funds' incentives to engage with portfolio firms are based on fund managers' perceived financial gains from engagement. If these funds view ESG issues as a value driver, then they should take an informed approach toward voting on ESG proposals. Following Iliev and Lowry (2015), we test two predictions. First, compared to other ESG funds, committed funds tend to independently assess items up for vote, rather than indiscriminately following the advice of a proxy advisory service company such as ISS. Second, committed funds are more likely to discerningly assess the issue up for vote for each portfolio firm, rather than adopting a one-size-fits-all strategy of always supporting or rejecting certain agenda items.

In Table 4 we estimate regressions where the dependent variable is an indicator equal to 1 if the fund's vote differs from ISS's recommendation and 0 otherwise. Independent variables of interest include committed ESG fund and other ESG fund indicator variables. Because the net benefits of actively engaging in voting are greater for larger funds and funds with longer investment horizons (Iliev and Lowry 2015), we include the logarithm of fund size and fund turnover. We additionally control for fund ownership of the firm, the firm's portfolio weight in the fund, and agenda item, industry, and year fixed effects. We focus on the subsample of proposals that have a positive historical passing rate to increase the power of our tests.²⁴ Columns 1 – 2 (columns 3 – 4) focus on ES (G) proposals. We estimate the regressions based on all funds (odd-numbered columns) and based only on ESG funds (even-numbered columns).

Among the ES proposals, committed ESG funds are significantly more likely to come to a different conclusion than ISS, compared to either nonESG or other ESG funds. Relative to the 34.7% unconditional probability of disagreeing with ISS on ES proposals, the results in column 1 suggest that committed ESG funds are 20% more likely to vote against ISS. Consistent with the results from prior analyses, we find that differences between the two types of funds are slightly weaker among G proposals. Overall, results are consistent with committed ESG funds taking a more active role in voting, rather than indiscriminately following ISS. This is precisely what one would expect if they viewed these issues as value drivers, as stated by the Value-Driven ESG Engagement Hypothesis.²⁵

and whether the proposal relates to ES versus G issues.

²⁴Of 973 ES proposals, 370 have a positive historical passing rate, defined as having passed at least once previously; 1,950 of 2,122 governance proposals have a positive historical passing rate.

²⁵The conclusions are similar if we instead estimate regressions where the dependent variable is 'Vote For', thus enabling

We also analyze funds' independent voting across subportfolios of stocks. The Value-Driven ESG Engagement Hypothesis predicts that committed funds should concentrate their engagement within firms where improved ESG policies could contribute to the greatest value increases. For a firm with strong ESG policies, the additional value improvements are likely to be relatively small. Consistent with predictions, we find that effects are significantly greater among low-ESG stocks. The results are shown in Internet Appendix Table IA5. This finding provides added confidence that the results are driven by funds' incentives-to-engage, rather than other fund characteristics that are potentially correlated with the LL incentive-to-engage measure.²⁶

In Table 5, we examine funds' propensity to take a blanket approach toward voting. To construct a one-size-fits-all measure of voting, for each fund $\times$ agenda item $\times$ year, we calculate the absolute difference in the number of proposals the fund supports versus the number it opposes during the following 5-year period, divided by the total number of proposals voted by the fund during the period. Funds that exhibit more discretionary voting will have a smaller one-size-fits-all measure. Similar to Table 4, we focus on those proposals with a positive historical passing rate and include the same set of fund-level control variables.

The results provide further support for committed funds being more active voters: they are significantly less likely to follow one-size-fits-all strategies. For the same ESG agenda item, they are more likely to vote yes for some firms and no for others, whereas other ESG funds follow a more passive voting strategy. Differences are again most pronounced among ES issues.

Additional analyses indicate that the tendency to independently vote is driven by both fund-level and family-level dynamics. First, as shown in panel A of Internet Appendix Table IA6, among the ESG proposals voted upon by multiple funds within the same family, the rate of disagreement (defined as funds within the same family voting differently) is 11.39%. Second, as shown in panels B and C, when we reestimate the Tables 4 and 5 regressions with family fixed effects, most of the coefficients remain statistically significant and decrease in magnitude.

us to control for factors that influence support for a proposal. Here, we capture the tendency to disagree with ISS by separately examining proposals in which ISS recommends "For" or "Against".

²⁶If the different voting behavior between committed and other ESG funds was driven by committed funds' information advantage as proxied by their more concentrated holdings, then we would expect similar results across both high- and low-ESG stocks, as committed funds have higher concentrations of investments across both sets of stocks.

3.3 Relation between fund engagement and firm value

The main premise of our analysis is that ESG funds with higher incentives to engage will devote more resources to portfolio firms' ESG-related factors if they view ESG as a value driver. This generates the further prediction that committed ESG funds' voting on ESG-related issues should be value enhancing. To examine this, we analyze CARs over the three days surrounding the meeting date. We classify ESG proposals along two dimensions: whether they passed or failed, and whether committed funds voted for or against. If engagement by committed funds is value enhancing, then CARs should be negative when committed funds' assessment of the issue, as reflected in voting, differs from the vote outcome.

The results are consistent with predictions, as shown in Internet Appendix Table IA7. Rows 1 and 2 show CARs around meetings with failed ESG proposals. Among the subset of meetings in which committed funds disagreed with the vote outcome, as indicated by more than 50% of these funds voting for, CARs equal -0.29%. This increases in magnitude to -1.29%, significant at the 1% level, among cases where the vote outcome was more of a surprise, measured as failing within a 5% margin. An analysis of passed proposals generates similar conclusions, as shown in rows 3 and 4. In contrast, when we conduct similar analyses but focus on other ESG funds' voting, we do not find similar effects.²⁷

In sum, committed funds' engagement with firms on ESG issues, as proxied by their propensity to devote resources toward independent voting, leads firms to adopt value-increasing ESG policies. More broadly, while the literature frequently focuses on funds' propensity to vote for ESG proposals, our findings highlight that this may fail to identify those institutional investors who are skillful in evaluating value-enhancing ESG policies.

4 Real Impacts on Firms' ESG Performance

4.1 Changes in ESG performance following ESG risk incidents

Findings to this point regarding the attention, investment strategy, and ESG engagement of committed versus other ESG funds suggest that different incentives to engage lead to different investment and

²⁷To isolate the differential effects of other ESG funds' votes, we focus on cases where other ESG funds' votes do not overlap with those of committed ESG funds.

engagement behavior. It follows that investments by ESG funds should differentially impact portfolio firms. We therefore examine how changes in firm ownership by different types of ESG funds relate to firms' subsequent ESG risk profiles. As shown in Table 2, committed ESG funds tend to maintain their investments in firms following negative ESG events, whereas other ESG funds are more likely to at least partially divest during such times.

We examine changes in firms' ESG performance following the quarter of a severe negative ESG incident (which we refer to as quarter t), conditional on funds' trading in the stock. As shown in Table 6, we estimate regressions in which the dependent variable represents the change in the RRI over the one to four subsequent quarters (i.e., $\Delta RRI_{t,t+1}$, $\Delta RRI_{t,t+2}$, $\Delta RRI_{t,t+3}$, and $\Delta RRI_{t,t+4}$, respectively). We classify a stock as subject to intensive buy (sell) by committed ESG funds if the stock is in the top (bottom) quintile among committed funds' trading during quarter t . We label these cases *Committed ESG buy* and *Committed ESG sell*, respectively. *Other ESG buy* and *Other ESG sell* are defined analogously. To mitigate endogeneity concerns, we limit the sample to firms held by both types of funds. The baseline case represents stocks not intensively traded by any ESG funds.

To test the Value-Driven ESG Engagement Hypothesis, we interact *Committed ESG buy* with measures of funds' engagement on each firm. We categorize a fund as having strong engagement with a firm if it has demonstrated less tendency to indiscriminately follow ISS. We calculate the percentage of issues on which a fund has come to a different decision from ISS over the prior two years, and we classify the fund as having 'High (Low) Engagement with Firm' if it exhibits above-median (below-median) abnormal disagreement with ISS. Abnormal disagreement is defined as disagreement relative to the industry and ISS agenda item mean. Our main prediction is that firms in which committed ESG funds purchase high numbers of shares and demonstrate high levels of engagement should be more likely to experience subsequent decreases in risk. Consistent with this prediction, the coefficient on *Committed ESG buy* $\times$ *High engagement with firm* is significantly negative at each horizon, indicating decreases in a firm's subsequent ESG risks. Taking quarter $t + 3$ as an example, firms that are bought by committed ESG funds and intensively engaged by them following a severe ESG risk incident experience a 33% larger reduction in their RRI.²⁸ In contrast, coefficients on *Committed ESG buy* $\times$ *Low engagement with firm*

²⁸When all dummies (committed and other, buy and sell) are set to 0, the average change in RRI from t to $t + 3$ is -19.5%. The coefficient on *Committed ESG buy* $\times$ *High engagement with firm* of -6.378% indicates that the total change in RRI

are insignificant. Moreover, the difference between the two coefficients is statistically and economically significant at the $t + 2$, $t + 3$, and $t + 4$ horizons.

Although other ESG funds tend to sell firms experiencing severe ESG risk incidents (as shown in Table 2), this exit strategy does not have significant disciplinary effects on firms' ESG performance, as indicated by the coefficients on *Other ESG sell*. This finding echoes the view that divestiture is unlikely the most effective way to influence corporate ESG conduct (see, e.g., Edmans, Levit, and Schneemeier 2023; Heath et al. 2023; Berk and Van Binsbergen 2025).

4.2 The causal impact of investments by committed funds

Findings in the prior section suggest that committed funds influence portfolio firms' ESG policies via the engagement channel. While the specifications of these tests mitigate many endogeneity concerns, in this subsection, we use a natural experiment to isolate the engagement channel more precisely.

Broadly, endogeneity stems from the possibility that the positive relation between fund buying and subsequent decreases in a firm's ESG risk reflects both: fund engagement that causes the firm to modify its behavior in ways that lower risk (engagement channel), and the fund predicting changes in risk and buying on that information (selection channel). Hartzmark and Sussman (2019) find that after the introduction of the Morningstar Sustainability Rating in 2016, funds ranked as low sustainability experienced net outflows while those categorized as high sustainability attracted large inflows.²⁹ Importantly, the additional inflows are unrelated to fund performance and the fundamentals of fund holdings, and both committed and other ESG funds receive similarly large inflows. As such, these inflows represent an exogenous shock to ESG funds' TNA, which will, on average, lead to increased positions within the portfolio firms. The funds' increased ownership (as a percent of firm market capitalization) enhances the funds' ability to influence firm policies, and thus raises the expected benefits of active engagement.

To shut down the selection channel and focus solely on the engagement channel, we fix the portfolios of firms held by each fund as of the quarter prior to the shock. We then examine whether those firms that were already part of an ESG fund's portfolio before the shock subsequently experience significant

when committed funds purchase is -25.9% ; $(25.9-19.5) / 19.5 = 33\%$.

²⁹Internet Figure IA4 replicates this finding within our sample, specifically showing that ESG funds experience significant inflows relative to nonESG funds after the introduction of the Morningstar rating in March 2016.

changes in their ESG performance.

The results are shown in Table 7. We estimate annual regressions, which enables us to examine outcome measures that are not available at the quarterly interval. Our measures of firms' ESG performance include: RRI and annual Trucost emissions. The former provides an overall assessment of each firm's ESG performance, while the latter provides a more precise measure of each firm's environmental practices.

Our first step is to isolate the effects of the exogenous fund flows on ESG funds' additional investments into portfolio firms. We follow the approach of Doshi, Elkamhi, and Simutin (2015). Focusing on the last quarter of 2015, we create an aggregate portfolio representing the sum of all company shares held by committed ESG funds. For each company, we calculate its weight in this "committed" portfolio minus its weight in the market portfolio. This difference represents an estimate of the stock's overweighting by committed ESG funds. The dummy variable *High committed ESG overweight* equals 1 if this measure is in the top quintile. We employ an analogous approach to define the *High other ESG overweight* dummy.

We regress the logarithm of RRI and the logarithm of emissions on the interaction terms *High committed ESG overweight* $\times$ *Post* and *High other ESG overweight* $\times$ *Post*, where *Post* is a dummy variable equal to 1 in the post2015 period. These interaction terms capture the extent to which an exogenous increase in funds' ownership of high-ESG stocks leads to subsequent changes in firm operations, specifically to a decrease in ESG-related risk or to a decrease in emissions. As such, they isolate the effects of the engagement channel. We predict a significant negative coefficient on these interaction terms.

The results using RRI (emissions) are shown in column 1 of panel A (panel B). Across both specifications, greater overweighting by committed ESG funds leads to significant improvements in ESG-related outcomes, specifically to decreases in the RRI and in emissions. Firms that are overweighted by committed funds experience a 20.6% reduction in their RRI after the shock, relative to other firms. In contrast, although firms heavily overweighted by other ESG funds also receive additional investments, there is no significant change in either of these ESG performance metrics. These findings suggest that committed funds' higher incentives to engage and their resulting greater information acquisition and longer term investment strategy have real effects.

To better ascertain the influence of the engagement channel, we show that the results vary by the intensity and efficacy of committed ESG funds' engagement. In columns 2 and 3, we proxy for the

intensity of engagement based on each committed fund's propensity to independently vote on a firm, as previously described in Table 6. In columns 4 and 5, we proxy for efficacy of engagement based on whether committed ESG fund families are among the firm's largest investors, defined as being one of the top ten mutual fund families in terms of holdings. The firm's largest investors are better able to influence vote outcomes and more frequently engage with firms through private meetings.³⁰

We reestimate the regressions shown in column 1, within each of these subsamples. Consistent with predictions, the reductions in RRI and emissions are concentrated among firms in which committed funds are more likely to independently vote and among firms in which committed fund families are among the firm's top investors. Moreover, the difference between the two subsamples is statistically significant in all cases except for one. These findings provide added confidence that the observed impacts on firms' ESG profiles are driven by engagement.

We also estimate regressions using yearly indicator variables, instead of the *Post* indicator. Consistent with expectations, we find that the interactions between *High committed ESG overweight* and the 2016, 2017, and 2018 dummies are significantly negative, whereas the interactions with the 2013 and 2014 dummies are insignificant at conventional levels.³¹ The results are shown in Internet Appendix Table IA8.

We additionally use the nominal change in Sustainalytics' ESG ratings as a quasi-exogenous shock to address endogeneity.³² In October 2019, Sustainalytics disseminated a new ESG-ratings methodology, which altered the observed numeric value but not the actual risk factor of many firms. Rzeźnik, Hanley, and Pelizzon (2024) show that uninformed investors are 'fooled' by this rating change, leading to downward price pressure and liquidity driven purchases by informed investors. We use these shock-induced trades and the resulting changes in committed ESG fund ownership to overcome endogeneity stemming from the selection channel. As described in more detail and tabulated in Internet Appendix Table IA9, other ESG funds sell stocks that are affected by the pseudo downgrades, whereas committed ESG funds do not. An examination of the ESG performance of the stocks bought by committed

³⁰As discussed by Iliev and Lowry (2015), firms frequently have Investor Relations departments that directly reach out to such investors to communicate relevant information.

³¹The coefficient on *High committed ESG overweight* $\times$ *Year 2015* is negative and weakly significant in explaining RRI. The weak significance on these coefficients is consistent with the fact that the Morningstar Sustainability Rating was announced in July 2015 (and then implemented in March 2016).

³²We obtain historical Sustainalytics ESG ratings from Morningstar Direct.

ESG funds for liquidity-related reasons suggests that their investments have a causal effect on firms' ESG-related outcomes.

Overall, the results show that different types of ESG funds employ different strategies toward ESG issues. Committed ESG funds employ more sophisticated investment strategies and rely more on independent research, and their associated engagement is more effective in improving firms' ESG performance.

5 ESG Fund Performance and Flows

5.1 ESG fund performance

Prior studies find mixed evidence regarding the performance of ESG investments. There is no consensus on whether funds can “do well by doing good” (see, e.g., Barber, Morse, and Yasuda 2021; Baker, Egan, and Sarkar 2023; Yang and Yasuda 2024; Gantchev, Giannetti, and Li 2024; Oehmke and Opp 2025). In contrast to prior literature that considers ESG funds as a whole, we hypothesize that ESG funds are heterogeneous in their incentives to engage. The Value-Driven ESG Engagement Hypothesis posits that committed ESG funds' incentives to engage stem from an effort to maximize fund value, and their focus on ESG-themed engagement is based on their belief that ESG is a value driver. As such, the hypothesis predicts that committed ESG funds should earn higher returns on their investment positions, in particular within certain subportfolios. First, committed funds' superior performance should be concentrated within the firms that experienced more intense engagement. Second, within the set of engaged firms, returns should be greatest within the subset of firms where this engagement is more successful. We test these predictions in Table 8.

We begin by examining whether committed ESG funds have outperformed other ESG funds, across all firms in their portfolios. Since we are interested in the role of ESG engagement across portfolio firms, we measure the Daniel, Grinblatt, Titman, and Wermers (1997; DGTW hereafter) characteristics-adjusted returns of various engagement-related subportfolios of fund holdings, calculated over a 12-month horizon. We control for fund characteristics that have been shown to affect fund performance, including the expense ratio, the turnover ratio, the natural logarithm of fund TNA, the industry-concentration index (ICI) as in Kacperczyk, Sialm, and Zheng (2005), active share as in Cremers and Petajisto (2009),

past-year return and flow volatility, and past-year performance.

Looking first at column 1 of panel A, we find no evidence that committed ESG funds have outperformed other ESG funds, on average, suggesting that they do not possess superior investment skill despite having greater portfolio concentration. To provide more direct evidence on our main question, whether committed ESG funds' distinct investment philosophy manifests in differential returns, we calculate performance on subsets of funds' portfolios. Our first prediction is based on the premise that engagement takes time: if committed funds' engagement contributes to higher returns, then these higher returns should be concentrated within longer held positions. For each stock in a fund portfolio, we calculate its holding period following Cremers and Pareek (2016), and we categorize stocks with a holding period of more than (less than) two years as long (short) holding-period stocks.³³ In columns 2 and 3, the sample consists of ESG funds' long and short holding-period positions, respectively. Consistent with the premise that engagement takes time to pay off, we find that committed ESG funds significantly outperform other ESG funds on long holding-period positions, with an economic magnitude of approximately 1.0% abnormal return per year. In contrast, we find no significant difference among short holding-period positions.

In columns 4 and 5, to more directly capture the financial benefit of engagement, we form subportfolios based on a fund's independent voting in the past two years. The results again highlight the value of committed funds' engagement. Committed ESG funds significantly outperform other ESG funds on their subportfolio of high, but not low, independent voting stocks.

Turning to panel B, we predict that the positive value effects of engagement should be greater when this engagement is more effective. We limit the sample to the high-engagement subportfolio examined in panel A, and we separately examine stocks with ESG related improvements versus those without. In columns 1 and 2 (3 and 4), the engagement subportfolio is divided into stocks with an RRI reduction (with a decrease in emissions) versus those without.

Consistent with predictions, we find that committed ESG funds' higher returns are significantly greater among the stocks that experienced ESG-related improvements. Committed ESG funds outperform other ESG funds by 1.5% – 1.7% a year in terms of DGTW characteristics-adjusted abnormal returns among

³³We choose a 2-year cutoff because the average holding period is close to 2 years.

those portfolio firms that they heavily engage with and that subsequently significantly reduce their carbon emissions. In contrast, the outperformance drops by about half among firms without large ESG-related improvements. These differences in outperformance are statistically significant at the 10% level or better.

We conduct additional tests to ensure that the documented performance differences are not driven by investor preferences for green stocks (Pástor, Stambaugh, and Taylor 2022). This concern is largely mitigated by our construction of committed and other ESG funds, as each is constrained to have the same portion of AUM in high-ESG stocks (described in Section 1.2). To address any remaining concerns, we estimate the sensitivity of committed versus other ESG funds to a green minus brown factor. We find no evidence that committed funds have a higher loading on this factor.³⁴ Therefore, it is unlikely that the performance difference between the two types of ESG funds can be attributed to their differential exposure to investors' green preferences.

Our finding that committed funds outperform other ESG funds only on these subsets of stocks is striking. First, even though committed funds hold more concentrated portfolios that facilitate their engagement efforts, they do not outperform other ESG funds as a whole. Rather, the outperformance is concentrated within subportfolios with more intense engagement, and it is greater when engagement is more effective. Second, committed funds' outperformance cannot be attributed to them being more active — attributes that could be related to managerial skill — as we explicitly control for this (Kacperczyk, Sialm, and Zheng 2005; Cremers and Petajisto 2009; Choi et al. 2017).

More broadly, our findings highlight how different fund strategies to increase AUM can differentially affect performance. Gantchev, Giannetti, and Li (2024) show that funds increase the weight of high-ESG stocks in their portfolios following the introduction of Morningstar Sustainability Ratings due to a perception that investors valued sustainability. However, this strategy was ineffective: upward price pressure around these purchases led to underperformance, and high sustainability ratings stopped attracting investor flows. In contrast, we find that ESG funds' incentives to increase AUM via engagement result in greater investment performance. Our results are consistent with differential incentives to engage leading to differences in portfolio composition, information discovery, engagement, real impacts, and ultimately performance, as predicted by the Value-Driven ESG Engagement Hypothesis.

³⁴The results are reported in Internet Appendix Table IA10.

5.2 ESG fund flows

Our findings raise the question of whether investors are aware of the differences between committed and other ESG funds. That is, are committed funds rewarded in terms of higher fund flows? We calculate fund flows as the quarterly changes in fund TNA, adjusted for fund returns. We regress fund flows on *Committed ESG fund* and *Other ESG fund*. We measure fund performance as either raw, net-of-fee returns or the Carhart (1997) four-factor alpha estimated using monthly fund returns over the past 36 months, and we control for key fund characteristics. Since investor awareness of sustainable investments has increased significantly in recent years, particularly after the introduction of the Morningstar Sustainability Ratings, we examine flows separately for the pre2016 and post2016 periods.

As shown in Internet Appendix Table IA11, we find no evidence that conditional on performance, committed ESG funds are rewarded for their greater impact, compared to other ESG funds. Therefore, average mutual fund investors cannot differentiate between sustainable investments that are positioned to have social impacts and opportunistic window dressing behavior that aims to attract investor flows. Our evidence calls for greater investor awareness of the heterogeneity across ESG funds.

6 Alternative Measure of Incentives to Engage

Although the LL measure provides an intuitive measure of funds' incentives to engage, we recognize that no single measure perfectly captures such incentives. To check the robustness of the findings, we reestimate our main results, using an alternative proxy of funds' incentives to engage that is based on the cost of exit, as motivated by the portfolio liquidity measure in Pástor, Stambaugh, and Taylor (2020). Since a fund's portfolio liquidity depends on both the liquidity of the stocks held in the portfolio and the degree to which the portfolio is diversified, we construct a reduced form portfolio measure, equal to the portfolio-weighted Amihud illiquidity multiplied by the Herfindahl-Hirschman Index of portfolio weights. Funds with high portfolio illiquidity are more likely to choose engagement over exit if they want to influence firm policies. Internet Appendix Tables IA12 – IA14 present results relating to committed funds' engagement strategies, their real effects on portfolio firms, and their performance on key subportfolios. In all cases, the results are qualitatively similar, using this alternative measure of incentives to engage.

7 Conclusion

Both regulators and academic studies often measure sustainable investments by asset managers' dollar investments in high-ESG firms. Yet, several recent studies find no evidence that funds engaging in sustainable investments exert material impacts on firms' cost of capital or improve corporate conduct. We argue that only ESG funds that consider ESG as a value driver and have incentives to engage with portfolio firms should be expected to have an impact.

We find that committed ESG funds, which have higher incentives to engage, monitor ESG-related issues more intensely, have a longer term investment strategy, and devote more resources to engagement on ESG-related issues. This strategy is effective: engagement by committed funds contributes to improvements in firms' ESG performance. Committed funds also outperform other ESG funds on their investments in firms that have been held in the portfolio for a long time, those they have heavily engaged with, and those that improved their ESG performance following such engagement.

In contrast, other ESG funds' strategies are more like those of nonESG funds. Our findings raise questions regarding the true motivation of these funds. Are they undertaking actions we cannot observe, or are they engaging in greenwashing? Although they hold a similar percent of AUM in ESG firms as committed funds, their investments do not appear to have any impact on underlying firms.

While committed funds' greater attention to ESG issues generates value, we find no evidence that average investors are sophisticated enough to identify these impactful funds. Conditional on performance, we find no evidence that committed funds attract higher flows. Our study highlights the importance – for both investors and regulators – of understanding funds' incentives to engage firms on ESG-related issues. Not all ESG funds are created equal; committed ESG funds are significantly more likely to pressure firms into improving their environmental and social impacts. Our paper also suggests that engagement, as opposed to divestiture, is likely to be a more effective mechanism to influence corporate ESG conduct.

Code Availability: The replication code is available in the Harvard Dataverse at <https://doi.org/10.7910/DVN/FTPRYX>.

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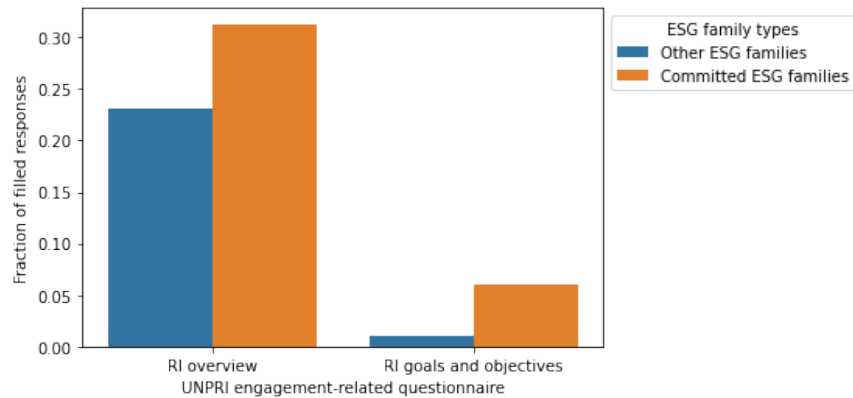
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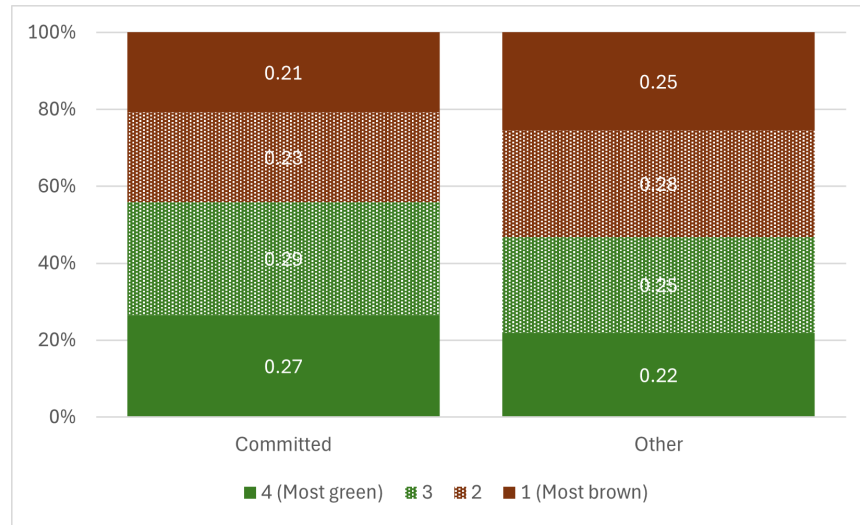
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A. Family-level UNPRI responses



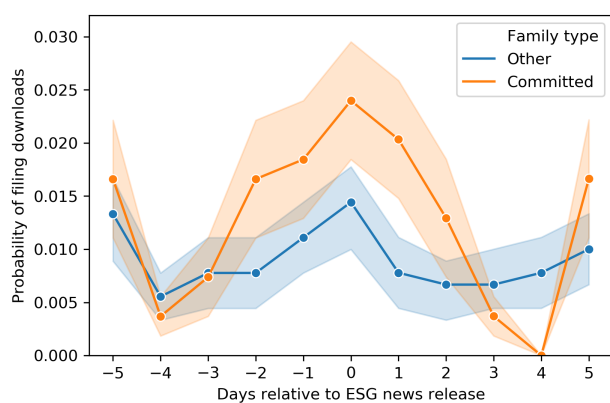
B. Fund-level Climetrics rating distribution

Figure 1

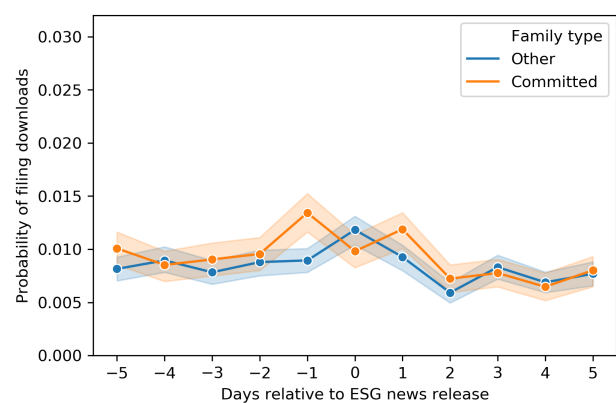
Validation of committed fund classification

Panel A of the figure plots ESG families' reporting assessments based on the UNPRI questions concerning engagement-related activities. From the UNPRI reporting framework in 2020, we select the questions pertaining to engagement, and we list these questions in Internet Appendix Table A1. Following UNPRI's reporting assessment methodology, for each core category, we first calculate the fraction of filled binary responses (0/1) for each family and then separately calculate the average for committed and other ESG families. For questions concerning reporting frequency, we set the response to 1 if the organization reports quarterly or annually, and 0 if the report period is longer. Panel B of the figure plots the distribution of the fund-level Climetrics Ratings across the four rating categories ranging from 4 (Most green) to 1 (Most brown), separately for committed versus other ESG funds. The proportions of committed and other ESG funds, falling into individual rating categories add up to 100%. Source: *Authors' calculation*.

ALT TEXT: Graphs showing validation of committed fund classification.



A. Severe ESG negative news



B. Other ESG negative news

Figure 2

Filing downloads around ESG negative news

This figure plots the probability of a committed (other) ESG fund family downloading a firm's filings on EDGAR during the days surrounding ESG negative news. For each ESG news event, we calculate the three-day market-adjusted CAR of the firm around the news release and consider an ESG news event as a severe ESG negative news event if its CAR is ranked in the bottom quintile in a given quarter, and other ESG negative news event otherwise. The x-axis shows the days relative to the news release ($t = 0$). The shaded area plots the 95% confidence interval. Source: *Authors' calculation*.

ALT TEXT: Graphs showing that committed ESG families are more likely to download firms' filings on EDGAR during the days surrounding severe ESG negative news.

Table 1
Fund characteristics

	Committed ESG	Other ESG	NonESG	Committed - Other	Committed - NonESG
Weight on high ESG stocks	0.39	0.39	0.28	0.00	0.11***
Expense ratio (%)	1.12	1.00	1.08	0.12***	0.04
Turnover ratio (%)	55.79	60.44	72.83	-4.65	-17.04***
Age (year)	20.80	22.78	19.70	-1.98**	1.10
Load	0.71	0.69	0.72	0.02	-0.01
TNA (billion)	1.55	3.01	2.13	-1.46***	-0.58**
Family TNA (billion)	158.28	196.56	195.53	-38.28	-37.25
Quarterly return (%)	3.07	3.31	2.60	-0.24	0.47***
Carhart 4-factor alpha (%)	-0.51	-0.43	-0.78	-0.08	0.27***
Quarterly flow (%)	-1.41	-1.31	-1.43	-0.10	0.02
Industry Concentration Index	0.27	0.19	0.22	0.08***	0.04***
Active share	0.85	0.75	0.82	0.10***	0.03***

This table compares fund characteristics of committed ESG funds, other ESG funds, and nonESG funds. *Weight on high ESG stocks* is the weight of high-ESG stocks in a fund portfolio. *Expense ratio* is the annual operating expenses relative to AUM in percentage. *Turnover ratio* is the annual fund turnover ratio. *Age* is the number of years since fund inception. *Load* is a dummy variable indicating funds charging front or rear load fees. *TNA* is the total net assets of a fund in billion dollars. *Family TNA* is the total net assets of all funds in the fund family in billion dollars. *Quarterly Return* is the quarterly return net of fees in percentage. *Carhart 4-factor alpha* is estimated from 36-month rolling regressions. *Quarterly flow* is quarterly fund flow in percentage, estimated as TNA at the end of the quarter minus last quarter's TNA times this quarter's return, divided by last quarter's TNA. *Industry Concentration Index* is as defined in Kacperczyk, Sialm, and Zheng (2005). *Active share* is as defined in Cremers and Petajisto (2009). The last two columns report differences in fund characteristics (1) between committed and other ESG funds, and (2) between committed and nonESG funds. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 2
Fund trading following ESG risk incidents

	Dep var = Net trades		Dep var = Δ shares by fund type / shares outstanding	
	Committed ESG (1)	Other ESG (2)	Committed ESG (3)	Other ESG (4)
Severe ESG negative news	0.002 (0.13)	-0.013** (-2.22)	3.655** (1.96)	-4.532** (-1.96)
Other ESG negative news	0.013 (0.63)	0.003 (0.77)	-0.029 (-0.03)	1.208 (1.01)
Severe nonESG negative news	0.018 (1.30)	-0.008 (-1.29)	0.252 (0.35)	-2.549*** (-2.89)
Other nonESG news	-0.015 (-0.87)	0.007 (1.45)	0.692 (1.01)	4.032*** (4.78)
Sample	Fund-security	Fund-security	Security	Security
FE	Fund-time	Fund-time	Time	Time
Controls	Y	Y	Y	Y
N	118,535	368,318	21,902	21,902
Adjusted R-squared	.090	.033	.173	.179

This table examines how funds trade stocks experiencing ESG negative news. Committed and other ESG funds are classified using the LL incentive-to-engage measure. In columns 1 and 2, the regressions are estimated at the fund-security level with fund-time fixed effects. Dependent variable $Net\ trades_{ijt}$ is the dollar amount of fund i 's trading of stock j from quarter $t - 1$ to quarter t , scaled by the fund's portfolio value in quarter $t - 1$, expressed in percentage. In columns 3 and 4, fund trades are aggregated to the security level, and the dependent variable is the change in the number of shares held by a particular fund type from quarter $t - 1$ to quarter t , scaled by the number of shares outstanding in basis points. ESG negative news is collected from RepRisk ESG risk incidents, and nonESG related news is collected from Ravenpack. We define a news event concerning a stock as severe if the stock's three-day market-adjusted CAR surrounding the event day is ranked in the bottom quintile in a given quarter. The independent variables include *Severe ESG negative news*, *Other ESG negative news*, *Severe nonESG news*, and *Other nonESG news*, all measured as the natural logarithms of the number of news in each category. All regression specifications control for stock characteristics including the natural logarithm of market capitalization, book-to-market, past stock performance, and Amihud illiquidity, measured as of the quarter before the news event. Standard errors are two-way clustered at the fund and stock levels in columns 1 and 2 and at the stock level in columns 3 and 4. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 3
E&S questions in earnings conference calls

	(1) E&S question	(2) E&S question	(3) Intensity	(4) Intensity
Committed ESG family	0.025** (2.23)	0.035** (2.25)	0.006 (0.85)	0.021** (2.59)
ESG fund holding	0.017* (1.94)	0.047** (2.27)	0.000 (0.09)	0.004 (0.41)
Analysts' forecast dispersion of earnings	-0.003 (-0.47)		-0.001 (-0.44)	
Absolute value of stock returns	0.006 (0.22)		-0.015 (-0.84)	
Firm size	-0.004 (-0.40)		0.003 (0.59)	
Book-to-market	0.009 (0.36)		0.005 (0.67)	
Absolute value of SUE	0.164 (0.94)		-0.028 (-0.95)	
Sample	Criteria 1	Criteria 2	Criteria 1	Criteria 2
Firm FE	Y	N	Y	N
Quarter FE	Y	N	Y	N
Earnings call FE	N	Y	N	Y
N	3,846	978	3,846	978

This table examines whether committed families are more likely to ask questions regarding E&S issues during earnings conference calls. In columns 1 and 2, the dependent variable is a dummy variable that is equal to 1 if analysts from a fund family ask an E&S question during an earnings call, and 0 if they ask no E&S question or no question at all. In columns 3 and 4, the dependent variable is the intensity of E&S keywords, measured by the frequency of E&S keywords in a question normalized by the total number of words in the question. The independent variables include a dummy variable indicating committed ESG families classified based on LL classification, a dummy indicator that is equal to 1 if the firm is held by ESG funds of the analyst's affiliated fund family, prior quarter analyst forecast dispersion, absolute value of prior quarter stock returns, firm size, book-to-market ratio, and absolute value of standardized unexpected earnings (SUE) as of the prior quarter end. We employ two alternative sampling criteria. Under sampling criteria (1), we limit the analyses to those family-firm pairs where the fund family has asked questions about the firm at least once in the past 1-year period. If the family does not ask any questions during the current earnings call, the dependent variables are set to 0. Under sampling criteria (2), we zoom in on a set of conference calls where both committed and other ESG families have each asked at least one question during the call. Models 1 and 3 control for firm fixed effects and quarter fixed effects. Models 2 and 4 control for earnings call fixed effects. Standard errors are two-way clustered at the family and firm level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 4
Independent voting

	Dep var = $\mathbf{1}_{\text{fund vote against ISS}}$			
	E&S proposals		Governance proposals	
	(1)	(2)	(3)	(4)
Committed ESG fund	0.031* (1.88)	0.059*** (2.75)	0.014 (0.89)	0.042* (1.95)
Other ESG fund	-0.032** (-2.07)		-0.022 (-1.25)	
Fund expense ratio	-1.488 (-0.49)	-0.631 (-0.17)	-1.102 (-0.37)	-4.102 (-0.96)
Fund turnover ratio	-0.005 (-0.61)	0.007 (0.59)	0.027*** (2.62)	0.028* (1.90)
Log(TNA)	0.019*** (3.92)	0.006 (0.93)	0.029*** (5.12)	0.018* (1.84)
Fund ownership of firm	0.025** (2.15)	0.049*** (2.68)	0.013 (1.26)	0.045** (2.32)
Firm weight of fund	-0.192 (-0.84)	-0.736** (-1.99)	0.353 (1.25)	-0.262 (-0.72)
Sample	All funds	ESG funds	All funds	ESG funds
Firm controls	Y	Y	Y	Y
Agenda item FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
N	26,043	8,202	149,449	47,638
Adjusted R-squared	.224	.185	.116	.089

This table examines the likelihood of fund voting against ISS recommendations. Committed and other ESG funds are classified using the LL measure. The sample includes ESG agenda items with a positive historical passing rate. The dependent variable is a dummy variable that equals 1 if a fund votes against the ISS recommendation. The independent variables include ESG fund type dummies, along with firm-level control variables, including the natural logarithm of firm size, book-to-market, return-to-assets, leverage, and past-year returns, and fund-level control variables, including expense ratio, turnover ratio, the natural logarithm of fund TNA, the fund's ownership of the firm, and the firm's portfolio weight in the fund's portfolio. It also includes agenda item fixed effects, firm's industry fixed effects, and year fixed effects. Columns 1 and 2 examine E&S proposals, and columns 3 and 4 examine governance proposals. The odd (even) columns include all (ESG) funds. Standard errors are clustered at the fund level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 5
One-size-fits-all voting

	Dep var = $\left \frac{\# \text{vote for} - \# \text{vote against}}{\# \text{proposals}} \right $			
	E&S proposals		Governance proposals	
	(1)	(2)	(3)	(4)
Committed ESG fund	-0.034*** (-3.14)	-0.032*** (-2.60)	-0.021*** (-3.48)	-0.015** (-2.16)
Other ESG fund	-0.009 (-1.26)		-0.010** (-2.32)	
Expense ratio	-0.802 (-0.78)	6.595*** (3.21)	-5.532*** (-8.91)	-5.019*** (-4.52)
Turnover ratio	0.003 (0.65)	-0.005 (-0.68)	0.016*** (5.78)	0.016*** (3.17)
Log(TNA)	0.023*** (12.70)	0.025*** (7.91)	0.000 (0.27)	-0.007*** (-3.66)
Sample	All funds	ESG funds	All funds	ESG funds
N	10,362	3,450	25,984	8,682
Adjusted R-squared	.021	.020	.005	.004

This table examines funds' tendency to vote in a one-size-fits-all manner. Committed and other ESG funds are classified using the LL measure. For each fund-agenda item-year pair, we calculate the absolute difference in the number of proposals a fund votes for and against the agenda item, scaled by the total number of proposals, during the following 5-year period. When the measure is higher, the fund is more likely to vote in a one-size-fits-all manner. We then regress this measure on ESG fund type dummies, and a set of fund characteristics as defined in Table 1. The sample includes ESG agenda items with a positive historical passing rate. Columns 1 and 2 examine E&S proposals, and columns 3 and 4 examine governance proposals. The odd (even) columns include all (ESG) funds. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 6
ESG performance changes following severe ESG risk incidents

	(1)	(2)	(3)	(4)
	ΔRRI_{t+1}	ΔRRI_{t+2}	ΔRRI_{t+3}	ΔRRI_{t+4}
Committed ESG buy $\times$ High engagement with firm	-3.669** (-2.17)	-7.234*** (-3.89)	-6.368*** (-2.95)	-4.747** (-1.99)
Committed ESG buy $\times$ Low engagement with firm	-1.661 (-1.12)	-1.870 (-1.09)	-1.791 (-0.82)	0.749 (0.31)
Committed ESG sell	-1.932 (-1.54)	-2.503* (-1.70)	-3.498* (-1.93)	-2.591 (-1.27)
Other ESG buy	-2.457* (-1.88)	-0.768 (-0.56)	-0.437 (-0.26)	1.614 (0.80)
Other ESG sell	-1.670 (-1.37)	0.571 (0.36)	2.069 (1.16)	3.226 (1.52)
Time FE	Y	Y	Y	Y
Firm controls	Y	Y	Y	Y
N	1,926	1,811	1,746	1,658
Adjusted R-squared	.084	.135	.189	.203
p-value of high - low	.243	.015**	.074*	.067*

This table examines whether committed funds' engagement helps improve ESG performance following severe ESG risk incidents. Committed and other ESG funds are classified using the LL measure. For each proposal j of firm i , we calculate committed funds' average likelihood of voting against the ISS recommendation. We then calculate proposal j 's abnormal likelihood of independent voting by committed funds relative to all proposals in the same industry with the same agenda type in the past 2 years. The average of this abnormal independent-voting measure across all proposals of firm i in the past 2 years is used to measure committed funds' level of engagement with the firm. Firms with above-median levels of engagement by committed funds are coded as under "*High engagement with firm*"; otherwise, under "*Low engagement with firm*". The dependent variables are changes of RRI, in percent, from quarter t to quarter $t + k$, where k ranges from 1-4 quarters. The independent variables include indicator variables *Committed ESG buy*, its interaction terms with *High engagement with firm* and *Low engagement with firm*, *Committed ESG sell*, *Other ESG buy*, and *Other ESG sell*. *Committed ESG buy (sell)* is a dummy variable indicating intensive buy (sell) by committed ESG funds if the stock is in the top (bottom) quintile among committed ESG funds' trading of all stocks during quarter t . *Other ESG buy* and *Other ESG sell* are defined analogously. Control variables include firm size proxied by the logarithm of market capitalization, book-to-market, and stock returns during quarter t . All regressions include time fixed effects. Standard errors are clustered at the firm level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 7
Real effects of investments by ESG funds

A. Using RepRisk

	(1) Full sample	(2) High engagement	(3) Low engagement	(4) Committed top investor	(5) Other top investor
High committed ESG overweight $\times$ Post	-0.206* (-1.81)	-0.260** (-2.50)	-0.192 (-1.11)	-0.339** (-2.48)	0.040 (0.18)
High other ESG overweight $\times$ Post	-0.113 (-1.08)	0.085 (0.92)	-0.235 (-1.47)	-0.136 (-1.00)	-0.125 (-0.78)
Controls	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y
N	5,113	2,396	2,340	3,115	1,998
Adjusted R-squared	.493	.512	.477	.475	.526
p-value of the difference	.578	.020**	.861	.323	.584

B. Using Trucost Emission

	(1) Full sample	(2) High engagement	(3) Low engagement	(4) Committed top investor	(5) Other top investor
High committed ESG overweight $\times$ Post	-0.071** (-1.99)	-0.139** (-2.52)	0.002 (0.05)	-0.140** (-2.57)	0.033 (0.69)
High other ESG overweight $\times$ Post	0.039 (1.10)	0.005 (0.09)	0.076 (1.62)	0.170*** (2.74)	-0.065* (-1.67)
Controls	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y
N	4,451	2,171	2,170	2,089	2,362
Adjusted R-squared	.973	.968	.977	.957	.983
p-value of the difference	.040**	.079*	.311	.000***	.133

This table examines whether investments by ESG funds help improve portfolio firms' ESG performance using the introduction of the *Morningstar Sustainability Rating* as an exogenous shock to firms' investments by ESG funds. Committed and other ESG funds are classified using the LL measure. The unit of observation is at the stock-year level. The dependent variables are the natural logarithm of the RRI (panel A) and the natural logarithm of a firm's onsite release from the Trucost Environmental emission data (panel B). For each stock held by ESG funds as of the last quarter of 2015, we calculate the stock's portfolio overweight by committed (other) ESG funds as the stock's weight in committed (other) ESG funds' aggregate portfolio relative to its market portfolio weight. The dummy variable *High committed (other) ESG overweight* is equal to 1 if the stock is ranked in the top quintile by the overweight measure. The dummy variable *Post* is equal to 1 for years after 2015, and 0 otherwise. Column 1 examines the real effects on all firms. In columns 2 and 3, we examine heterogeneity in the level of engagement by committed ESG funds, where *High engagement* is defined as firms with above-median abnormal independent voting by committed funds as described in Table 6. In columns 4 and 5, we examine heterogeneity in terms of committed fund families being top-10 investors of the firm. Column 4 includes firms with committed ESG families in their top-10 investor list, and column 5 includes all other firms. The p-values of the tests of the difference in coefficient estimates are reported at the bottom of each panel. All regressions control for the logarithm of market capitalization, book-to-market, 12-month returns during the year, firm and time fixed effects. Standard errors are clustered at the firm level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table 8
ESG fund performance

A. DGTW characteristics-adjusted abnormal returns of fund portfolios

	All stocks (1)	Long holding-period stocks (2)	Short holding-period stocks (3)	High engagement stocks (4)	Low engagement stocks (5)
Committed ESG fund	0.084 (0.74)	1.002*** (4.89)	0.010 (0.07)	0.677*** (3.25)	-0.092 (-0.85)
Fund controls	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y
N	9,866	8,951	9,831	8,998	8,934
Adjusted R-squared	.042	.021	.043	.028	.023

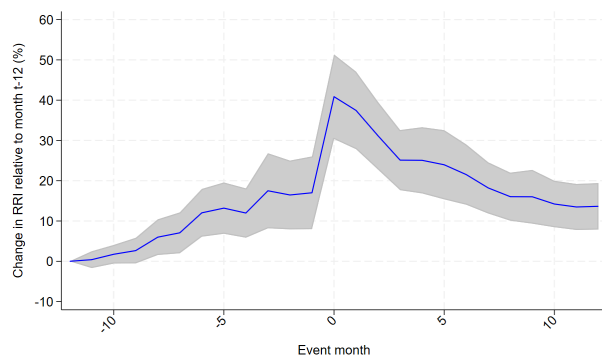
B. Performance effects of engagement and ESG improvement

	High engagement with RRI improvement (1)	High engagement without RRI improvement (2)	High engagement with Trucost improvement (3)	High engagement without Trucost improvement (4)
Committed ESG fund	1.546*** (3.66)	0.778** (2.17)	1.712*** (3.74)	0.834** (2.36)
Fund controls	Y	Y	Y	Y
Time FE	Y	Y	Y	Y
N	8,334	8,274	7,019	7,174
Adjusted R-squared	.056	.048	.059	.042

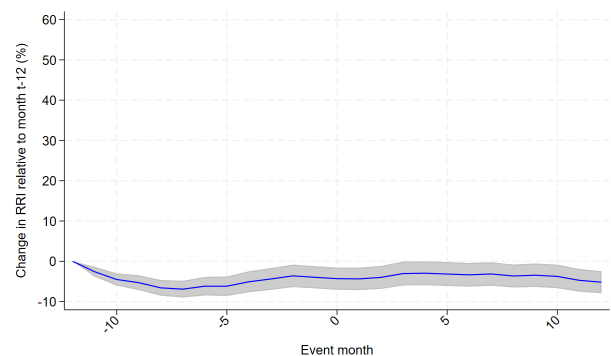
This table analyzes ESG fund performance. The dependent variable is the DGTW characteristic-adjusted abnormal returns of fund portfolios over the next year, following Daniel et al. (1997). Committed and other ESG funds are classified using the LL measure. In column 1 of panel A, we compare the performance of committed and other ESG funds across all holdings. In columns 2 and 3, we separately calculate the DGTW characteristic-adjusted abnormal returns of long versus short holding-period portfolios of each fund and compare fund performance within each subportfolio. For each stock in a fund's portfolio, we calculate its holding period following Cremers and Pareek (2016), and stocks with a holding period of over 2 years are denoted as long holding-period stocks. In columns 4 and 5, we partition a fund's portfolio firms into high- and low-engagement groups. For each proposal of firm i , we calculate fund j 's abnormal independent voting relative to the average likelihood of independent voting across all proposals in the same industry and with the same agenda type in the past 2 years. We then aggregate this abnormal independent-voting measure across all of firm i 's proposals voted by fund j in the past 2 years as a proxy for the fund's level of engagement with firm i . In panel B, we focus on firms heavily engaged by committed funds and split them into those experiencing reductions of their RRI (columns 1 and 2) or Trucost emissions (columns 3 and 4), and other stocks. We then compare the performance between committed and other ESG funds within each subportfolio. Independent variables are the *Committed ESG fund* dummy, the expense ratio, the turnover ratio, the natural logarithm of fund TNA, the ICI, active share, past-year return and flow volatility, and past-year performance. All regressions include time fixed effects. Standard errors are clustered at the fund level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Are All ESG Funds Created Equal? Only Some Funds Are Committed
Internet Appendix

Michelle Lowry, Pingle Wang, and Kelsey D. Wei



A. Severe ESG news



B. Severe nonESG news

Figure IA1

RRI around severe ESG risk incidents

This figure plots the RRI around severe ESG (nonESG) news, 12 months before and 12 months after the news event. We normalize a firm's risk index relative to its value during month $t - 12$ with month t being the month of a news event. ESG news is collected from RepRisk ESG risk incidents, and nonESG related news is collected from Ravenpack. We define a news event concerning a stock as severe if the stock's three-day market-adjusted CAR surrounding the event day is ranked in the bottom quintile in a given quarter. The shaded area plots the 95% confidence interval. Source: *Authors' calculation*.

ALT TEXT: Graphs showing RRI spikes around severe ESG news.

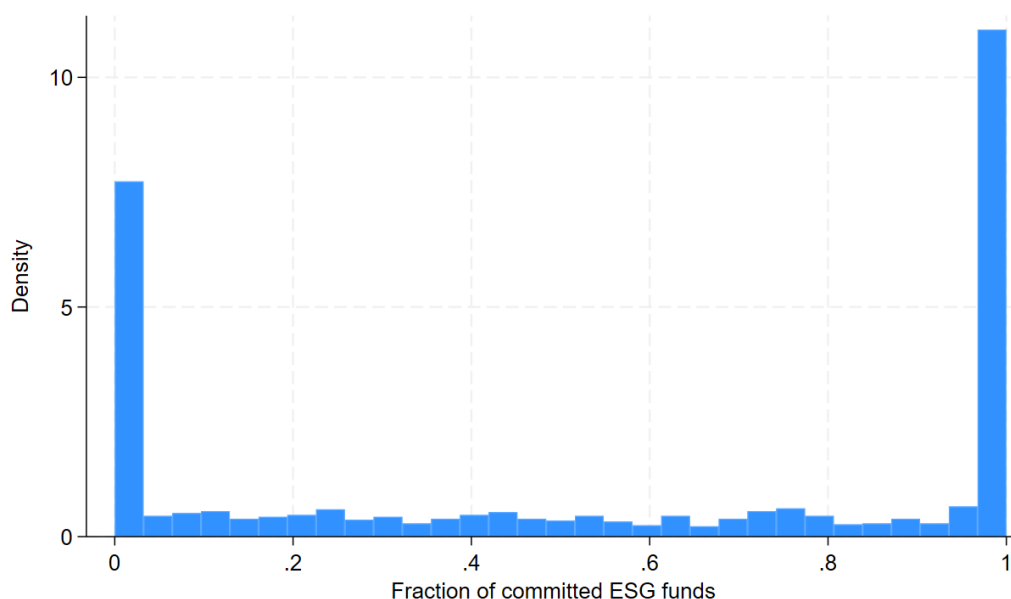


Figure IA2

Histogram of the fraction of assets held by committed ESG funds in ESG families

This figure plots the histogram of the fraction of assets held by committed ESG funds in ESG families. A fund is defined as an ESG fund if its asset-based ESG score is ranked in the top tercile in a quarter. Among ESG funds, a fund is classified as a committed (other) ESG fund if its four-quarter moving average of *Incentive to Engage* measure is in the above-median (below-median) group. A fund family is classified as an ESG family if the fraction of its ESG funds by total assets is ranked in the top tercile in a quarter. Lastly, within each ESG family, we calculate the fraction of the total net assets of committed ESG funds relative to those of all ESG funds, and plot the histogram. Source: *Authors' calculation*.

ALT TEXT: Graphs showing the distribution of the fraction of assets held by committed ESG funds within ESG families. Families are clustered in each tail of the distribution, suggesting that incentives to engage are shared across funds within a family.

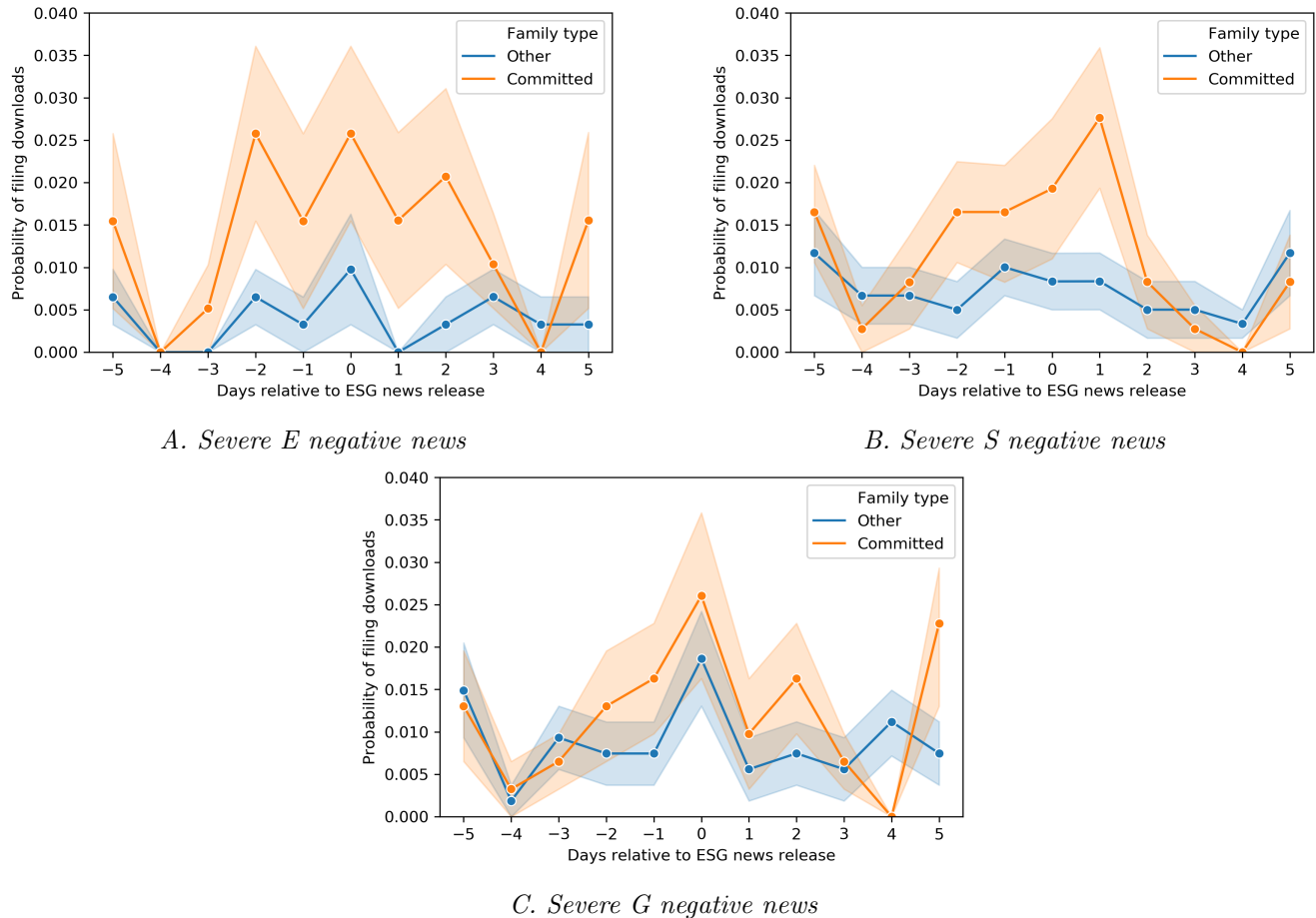


Figure IA3

Filing downloads around severe E vs S vs G negative news

This figure plots the probability of a committed (other) ESG fund family downloading a firm's filings on EDGAR during the days surrounding severe ESG negative news. For each ESG news event, we calculate the three-day market-adjusted CAR of the firm around the news release and consider an ESG news event as a severe ESG negative news event if its CAR is ranked in the bottom quintile in a given quarter. We separately examine downloading activities for E, S, and G news. The x-axis shows the days relative to the news release ($t = 0$). The shaded area plots the 95% confidence interval. Source: *Authors' calculation*.

ALT TEXT: Graphs showing that committed ESG families are more likely to download firms' filings during days surrounding severe environmental and social negative news than other ESG families.

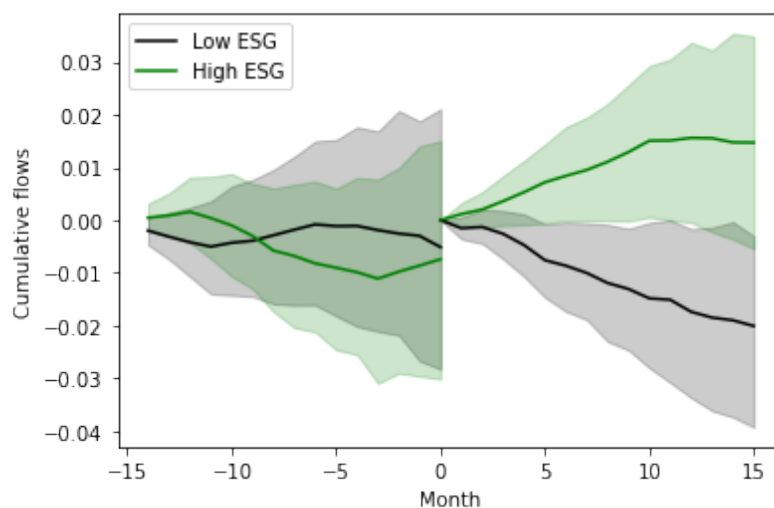


Figure IA4

Flows to ESG funds around the introduction of Morningstar Sustainability Rating

This figure plots funds' cumulative flows around the introduction of Morningstar Sustainability Rating, separately for high- (top tercile) and low- (bottom tercile) ESG funds as determined by their asset-based ESG score tercile rankings in December 2015. The x-axis denotes the number of months relative to the month of the introduction, March 2016. The y-axis denotes cumulative fund flows. Following Hartzmark and Sussman (2019), we accumulate fund flows after removing year-by-month fixed effects for 15 months before and after the introduction. Cumulative flows are set to 0 both in month -15 and in month 0. Shaded areas indicate the 95% confidence interval. Source: *Authors' calculation*.

ALT TEXT: Graphs showing that high-ESG funds receive abnormal inflows following the introduction of the Morningstar Sustainability Rating.

Table IA1

List of engagement-related questions from UNPRI reporting framework

A. Organizational Overview module 10: Responsible investment activities for listed equity - engagement

We engage with companies on ESG factors via our staff, collaborations or service providers.
We require our external managers to engage with companies on ESG factors on our behalf.

B. Strategy and Governance modules 5 and 6: Responsible investment goals and objectives

Indicate if and how frequently your organisation sets, and reviews objectives for its responsible investment activities.
List the main responsible investment objectives that your organisation set for the reporting year
Provide training on ESG incorporation
Provide training on ESG engagement
Improved communication of ESG activities within the organisation
Improved engagement to encourage change with regards to management of ESG issues
Improved ESG incorporation into investment decision making processes
Increased portfolio performance by consideration of ESG factors
Over or underweight companies based on ESG characteristics
Improved ESG ratings of portfolio
Setting carbon reduction targets for portfolio
Joining and/or participating in RI initiatives
Encouraging others to join a RI initiative
Documentation of best practice case studies
Using case studies to demonstrate engagement and ESG incorporation to clients

This table shows the list of UNPRI questions concerning engagement-related activities. From the core modules of the UNPRI reporting framework in 2020, we select the questions pertaining to engagement, and we list these questions here. Panel A lists the two questions from *Organizational Overview* module 10, and panel B lists the 15 questions from *Strategy and Governance* modules 5 and 6. Detailed module descriptions can be found through the following link: <https://www.unpri.org/reporting-and-assessment/reporting-and-assessment-archive/6567.article?adredir=1>

Table IA2
Fund trading in response to poor firm performance

	Dep var = Net trades	
	(1)	(2)
Poor firm perf	-0.008*** (-5.40)	-0.008*** (-4.34)
Committed ESG fund $\times$ Poor firm perf	0.009* (1.83)	0.018** (2.06)
Other ESG fund $\times$ Poor firm perf	-0.002 (-0.83)	-0.009** (-2.38)
Past performance measure	Lag SUE	Lag 3-month return
Fund-time FE	Y	Y
Stock controls	Y	Y
N	3,238,712	3,471,788
Adjusted R-squared	.038	.038

This table examines whether ESG funds' trading responses to poor past performance differ across fund types. Committed and other ESG funds are classified using the LL measure. The dependent variable $Net\ trades_{ijt}$ is the dollar amount of fund i 's trading of stock j from quarter $t - 1$ to quarter t , scaled by the fund's portfolio value in quarter $t - 1$, expressed in percentage. The dummy variable $Poor\ firm\ perf$ is equal to 1 if a stock is ranked in the bottom quintile by either prior-quarter earnings surprise (column 1) or three-month stock returns (column 2), and 0 otherwise. We estimate a pooled regression of all funds, where the dependent variable is $Net\ trades$, and independent variables include $Poor\ firm\ perf$, dummies indicating committed and other ESG funds, respectively, and their interaction terms. All regressions control for the natural logarithm of the stock's market capitalization, book-to-market, stock returns, and Amihud illiquidity measure in quarter $t - 1$, and include $fund \times time$ fixed effects. Standard errors are two-way clustered at the fund and stock levels. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA3
Fund trading before ESG risk incidents

	(1) Committed ESG	(2) Other ESG
Severe ESG news	0.743 (0.47)	0.506 (0.25)
Other ESG negative news	-0.072 (-0.08)	-0.555 (-0.48)
Severe nonESG negative news	-0.324 (-0.51)	1.095 (1.25)
Other nonESG news	0.365 (0.60)	0.124 (0.14)
Time FE	Y	Y
Controls	Y	Y
N	21,839	21,839
Adjusted R-squared	.168	.176

This table examines whether funds sell stocks that subsequently have ESG negative news. Committed and other ESG funds are classified using the LL measure. The dependent variable is the change in the total number of shares held by each group of funds from quarter $t - 2$ to quarter $t - 1$ with t being the quarter a news event occurs, scaled by the number of shares outstanding in basis points. ESG negative news is collected from RepRisk ESG risk incidents, and nonESG related news is collected from Ravenpack. We define a news event concerning a stock as severe if the stock's three-day market-adjusted CAR surrounding the event day is ranked in the bottom quintile in a given quarter. The independent variables include *Severe ESG negative news*, *Other ESG negative news*, *Severe nonESG news*, and *Other nonESG news*, all measured as the natural logarithms of the number of news events in each category. All regression specifications control for stock characteristics including the natural logarithm of market capitalization, book-to-market, past stock performance, and Amihud illiquidity, measured as of the quarter before the news event. Standard errors are clustered at the stock level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA4

Fund trading following ESG risk incidents — decomposing severe ESG negative news

	Dep var = Net trades		Dept var = Δ shares by fund type / shares outstanding	
	Committed ESG (1)	Other ESG (2)	Committed ESG (3)	Other ESG (4)
Severe E&S negative news	0.003 (0.29)	-0.016** (-2.11)	3.724* (1.86)	-5.882* (-1.91)
Severe G negative news	0.010 (0.41)	-0.002 (-0.27)	1.132 (0.29)	-3.190 (-0.63)
Other ESG negative news	0.032 (1.28)	0.004 (1.32)	0.336 (0.31)	1.879 (1.33)
Severe nonESG negative news	0.021 (1.61)	-0.008 (-1.33)	0.863 (1.14)	-3.165*** (-3.22)
Other nonESG news	-0.021 (-1.30)	0.015*** (3.66)	0.542 (0.71)	3.946*** (4.01)
Sample	Fund-security	Fund-security	Security	Security
FE	Fund-time	Fund-time	Time	Time
Controls	Y	Y	Y	Y
N	118,535	368,318	21,902	21,902
Adjusted R-squared	.090	.033	.200	.204

This table examines how funds trade stocks experiencing ES versus G related negative news. negative news. Committed and other ESG funds are classified based on the LL Incentive to Engage measure. In columns 1 and 2, the regressions are estimated at the fund-security level with fund-time fixed effects. The dependent variable $Net\ Trades_{ijt}$ is the dollar amount of fund i 's trading of stock j from quarter $t - 1$ to quarter t , scaled by the fund's portfolio value in quarter $t - 1$, expressed in percentage. In columns 3 and 4, fund trades are aggregated to the security level, and the dependent variable is the change in the number of shares held by a particular fund type from quarter $t - 1$ to quarter t , scaled by the number of shares outstanding in basis points. ESG negative news is collected from RepRisk ESG risk incidents, and nonESG related news is collected from Ravenpack. We define a news event concerning a stock as severe if the stock's three-day market-adjusted CAR surrounding the event day is ranked in the bottom quintile in a given quarter. The independent variables include *Severe E&S negative news*, *Severe G negative news*, *Other ESG negative news*, *Severe nonESG news*, and *Other nonESG news*, all measured as the natural logarithms of the number of news in each category. All regression specifications control for stock characteristics including the natural logarithm of market capitalization, book-to-market, past stock performance, and Amihud illiquidity, measured as of the quarter before the news event. Standard errors are two-way clustered at the fund and stock levels in columns 1 and 2 and at the stock level in columns 3 and 4. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA5
Independent voting for high versus low ESG stocks

	Low ESG stocks		High ESG stocks	
	E&S (1)	Governance (2)	E&S (3)	Governance (4)
Committed ESG fund	0.065*** (2.95)	0.042* (1.92)	0.029 (0.93)	0.039* (1.73)
Firm and fund controls	Y	Y	Y	Y
Agenda item FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
N	6,427	32,287	1,770	15,351
Adjusted R-squared	.186	.085	.376	.111

This table examines the likelihood of fund voting against the ISS recommendation, separately for high versus low ESG stocks. Committed and other ESG funds are classified using the LL measure. The sample includes ESG agenda items voted by ESG funds and have a positive historical passing rate. The dependent variable is a dummy variable that equals 1 if a fund votes against the ISS recommendation. The independent variables include the *Committed ESG fund* dummy, along with firm-level control variables, including the natural logarithm of firm size, book-to-market, return-to-assets, leverage, and past-year returns, and fund-level control variables, including expense ratio, turnover ratio, the natural logarithm of fund TNA, the fund's ownership of the firm, and the firm's portfolio weight in the fund's portfolio. It also includes agenda item fixed effects, firm's industry fixed effects, and year fixed effects. Columns 1 and 2 examine low-ESG stocks, and columns 3 and 4 examine high-ESG stocks. Standard errors are clustered at the fund level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA6

Voting decisions at fund versus family levels

<i>A. Fund disagreement within a family</i>		
Type of proposals	% of cases funds disagree	
E&S proposal	10.30%	
Governance proposal	12.00%	
ESG proposal	11.39%	
Director election proposals	0.98%	
Say-on-pay proposals	2.60%	
<i>B. Independent voting</i>		
Dep var = fund vote against ISS		
	E&S (1)	Governance (2)
Committed ESG funds	0.026* (1.75)	0.021** (2.54)
Fund and firm controls	Y	Y
Agenda item FE	Y	Y
Industry FE	Y	Y
Family-Year FE	Y	Y
N	8,039	47,542
Adjusted R-squared	.406	.344
<i>C. One-size-fits-all voting</i>		
Dep var = $\left \frac{\# \text{vote for} - \# \text{vote against}}{\# \text{proposals}} \right $		
	E&S (1)	Governance (2)
Committed ESG funds	-0.031** (-2.07)	-0.007 (-0.86)
Fund controls	Y	Y
Family FE	Y	Y
N	3,427	8,649
Adjusted R-squared	.293	.164

This table examines within-family variations of voting independence concerning ESG proposals. Panel A shows the percentage of cases in which funds in a family disagree on a proposal by proposal types. Panel B re-estimates the likelihood of fund voting against ISS recommendations as in Table 4 with family-year fixed effects. Panel C re-examines funds' tendency to vote in a one-size-fits-all manner as in Table 5 with family fixed effects. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA7
Committed funds' voting and market reactions

Vote result	Committed ESG funds' votes	
	Against	For
All fail cases	-0.0025 (-0.67)	-0.0029 (-0.51)
Fail within 5% margin	-0.0066 (-1.42)	-0.0129*** (-3.52)
All pass cases	-0.0132*** (-3.83)	-0.0001 (-0.06)
Pass within 5% margin	-0.0131** (-2.96)	-0.0058* (-1.67)

This table examines the relation between committed funds' voting behavior and market reactions around the meeting date. Committed and other ESG funds are classified using the LL measure. For each ESG proposal, we calculate the firm's three-day market-adjusted CAR around the meeting date. The average CAR is then tabulated, conditioned on the outcome of the proposal and the voting behavior of committed funds (for or against the proposal). A proposal is classified as being supported by committed funds (i.e., voting "for") if over 50% of committed funds vote in its favor, and "against" otherwise. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA8

Real effects of investments by ESG funds — Year-by-year analyses

	log(Annual RRI)			log(Trucost Emission)		
	(1) Full sample	(2) High engagement	(3) Committed top investor	(4) Full sample	(5) High engagement	(6) Committed top investor
High committed ESG overweight $\times$ Year 2013	0.019 (0.19)	0.092 (0.65)	0.044 (0.34)	-0.025 (-0.37)	0.019 (0.20)	0.004 (0.04)
High committed ESG overweight $\times$ Year 2014	-0.095 (-0.69)	-0.151 (-0.87)	-0.107 (-0.63)	-0.070 (-1.06)	-0.008 (-0.08)	-0.041 (-0.41)
High committed ESG overweight $\times$ Year 2015	-0.277* (-1.75)	-0.352* (-1.69)	-0.334* (-1.70)	-0.129* (-1.96)	-0.143 (-1.43)	-0.080 (-0.80)
High committed ESG overweight $\times$ Year 2016	-0.332** (-2.02)	-0.438** (-1.99)	-0.483** (-2.39)	-0.101 (-1.54)	-0.106 (-1.06)	-0.075 (-0.75)
High committed ESG overweight $\times$ Year 2017	-0.313* (-1.89)	-0.448** (-2.01)	-0.450** (-2.23)	-0.135** (-2.04)	-0.181* (-1.81)	-0.188* (-1.87)
High committed ESG overweight $\times$ Year 2018	-0.246 (-1.47)	-0.356 (-1.50)	-0.389* (-1.94)	-0.147** (-2.22)	-0.211** (-2.11)	-0.248** (-2.46)
High other ESG overweight $\times$ Post	-0.112 (-1.07)	-0.017 (-0.13)	-0.135 (-1.00)	0.039 (1.10)	0.001 (0.02)	0.170*** (2.74)
Controls	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y	Y
N	5,113	2,396	3,115	4,451	2,171	2,089
Adjusted R-squared	.493	.541	.476	.973	.973	.957

This table examines whether investments by ESG funds help improve portfolio firms' ESG performance using the introduction of the Morningstar Sustainability Rating as an exogenous shock to firms' investments by ESG funds. The unit of observation is at the stock-year level. The dependent variables are the natural logarithm of RRI (columns 1-3) and the natural logarithm of a firm's on-site release from the Trucost Environmental emission data (columns 4-6). Individual firms' RRI is measured as of December of each year. We include the same set of control variables and fixed effects as in Table 7 but replace the interaction term between *High committed ESG overweight* and the dummy variable indicating post-2015 years, *Post*, with interaction terms between *High committed ESG overweight* and a set of dummy variables indicating individual years during the 2013 to 2018 period. Year 2012 serves as the baseline year. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA9
Effects of Sustainalytics ESG rating inversion

<i>A. Fund trading following rating inversion</i>		
	(1)	(2)
	IHS(Trading)	IHS(Trading)
Pseudo downgrades	-3.557 (-1.03)	-22.60*** (-3.64)
Sample	Committed ESG	Other ESG
N	2,044	2,044
Adjusted R-squared	.080	.136
<i>B. Real impacts of funds' buys following rating inversion</i>		
	(1)	(2)
	Change in RRI	Change in RRI
IHS(Trading)	-0.013** (-2.06)	-0.006 (-1.32)
Sample	Committed ESG	Other ESG
N	310	310
Adjusted R-squared	.014	.006

This table examines ESG funds' trading responses to the inversion of the Sustainalytics ESG ratings in 2019 and the impact of their trades. In October 2019, Sustainalytics disseminated a new ESG-ratings methodology, which inverted the observed numeric value but not the actual risk factor of many firms. As a result, some stocks received pseudo-downgrades and experienced downward price pressure (Rzeknik et al., 2024). Panel A examines trades by committed versus other ESG funds in response to the rating inversion where the dependent variables in columns 1 to 2 are the inverse hyperbolic sine of fund trades (measured as the changes in each group of ESG funds' holdings of a stock between Q3 and Q4 of 2019) relative to the stock's shares outstanding. The independent variable is a dummy variable that equals 1 if a firm received a pseudo-downgrade due to the Sustainalytics methodology change. In panel B, we limit the sample to firms with pseudo-downgrades. The dependent variables in columns 1 to 2 are the change in a firm's RRI between Q4/2019 and Q1/2020. The independent variables are the inverse hyperbolic sine of fund trades made by each group of ESG funds. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA10
Comparing loadings on the green-minus-brown factor

	All stocks	Long holding-period stocks	Short holding-period stocks	High engagement stocks	Low engagement stocks
Other ESG funds	-0.016	0.070	-0.073	0.035	-0.018
Committed ESG funds	-0.042	0.027	-0.080	0.015	-0.006
Committed - other	-0.026* (-1.80)	-0.043* (-1.86)	-0.007 (-0.42)	-0.020 (-0.94)	0.012 (0.57)

This table shows the green-minus-brown (GMB) factor loadings of committed versus other ESG funds as well as various subportfolios. The GMB factor is defined as returns of a portfolio that is long in stocks in the top tercile and short in stocks in the bottom tercile based on their MSCI industry-adjusted ESG scores. For each stock, we then estimate its GMB factor loading by regressing its excess monthly returns over the risk-free rate on the returns of the Carhart (1997) four factors and the GMB factor, using a 36-month rolling window. We then compute the portfolio weighted average GMB loading across all of a fund’s holdings and report the average portfolio exposure to the GMB factor separately for other and committed ESG funds, as well as their subportfolios. Differences in GMB factor loadings between committed and other ESG funds, along with corresponding t-statistics, are reported at the bottom of the table. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA11
Flows to ESG funds

	Dep var = Flow _{t+1}					
	Pre2016			Post2016		
	(1)	(2)	(3)	(4)	(5)	(6)
Committed ESG fund	-0.133 (-0.57)	-0.062 (-0.26)	-0.261 (-1.12)	0.930*** (3.12)	0.554* (1.94)	0.604** (2.10)
Other ESG fund	0.199 (0.40)	0.356 (0.77)	0.199 (0.43)	0.868*** (2.99)	0.572* (1.94)	0.575** (1.98)
Performance		7.771*** (7.45)	14.05*** (6.25)		8.376*** (9.35)	11.95*** (4.87)
Expense ratio	-1.050*** (-2.75)	-0.787* (-1.92)	-0.692* (-1.70)	-1.302*** (-3.73)	-1.429*** (-4.20)	-1.226*** (-3.57)
Turnover ratio	1.461** (2.08)	1.521** (2.15)	1.702** (2.38)	0.799* (1.78)	0.810* (1.79)	0.891* (1.90)
Log(TNA)	-0.418*** (-3.98)	-0.524*** (-4.36)	-0.567*** (-4.78)	-0.227*** (-3.32)	-0.377*** (-4.99)	-0.375*** (-5.04)
Log(fund age)	-0.491** (-2.46)	-0.847*** (-4.55)	-0.368** (-2.20)	-0.778*** (-3.61)	-1.157*** (-5.38)	-0.485** (-2.35)
Style flow	-0.022 (-0.55)	-0.117** (-2.09)	-0.128** (-2.29)	-0.000 (-0.06)	0.000 (0.11)	0.000 (0.33)
Flow	0.432*** (16.42)	0.418*** (15.82)	0.399*** (14.91)	0.376*** (12.44)	0.374*** (12.99)	0.364*** (12.68)
Performance measure	N/A	Return	FF4	N/A	Return	FF4
Style FE	Y	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y	Y
N	16,903	16,903	16,903	17,735	17,735	17,735
Adjusted R-squared	.072	.083	.087	.075	.091	.093

This table examines net flows into ESG funds, after controlling for fund performance and characteristics. We regress a fund's quarterly net flows, in percentage, on dummy variables indicating committed and other ESG funds classified based on the LL measure. Regressions are estimated separately for two subperiods, before and after year 2016. The independent variables include fund performance measured by past 36-month net-of-expense returns (columns 2 and 5) or Carhart four-factor alphas (columns 3 and 6), expense ratio, turnover ratio, the natural logarithm of fund TNA, the natural logarithm of fund age, total quarterly flows into a fund's Morningstar style category, and quarterly fund flows, all measured as of the prior quarter. All regressions include style and time fixed effects. Standard errors are clustered at the fund level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA12
Engagement of ESG funds — Cost-of-exit based classification

<i>A. Earnings conference calls</i>		
	E&S question	Intensity
	(1)	(2)
Committed family	0.046** (2.36)	0.016* (1.93)
ESG fund holding	0.043* (1.92)	0.003 (0.27)
Earnings call FE	Y	Y
N	978	978
Adjusted R-squared	.497	.474
<i>B. Independent voting</i>		
	E&S proposals	Governance proposals
	(1)	(2)
Committed ESG fund	0.048** (2.46)	0.021 (0.89)
Sample	ESG funds	ESG funds
Firm and fund controls	Y	Y
Agenda item FE	Y	Y
Industry FE	Y	Y
Year FE	Y	Y
N	8,202	47,638
Adjusted R-squared	.184	.088

This table examines ESG funds' engagement activities. Committed and other ESG funds are classified using the cost-of-exit incentive measure. Panel A replicates columns 2 and 4 of Table 3 on E&S questions during earnings conference calls. We control for earnings call fixed effects, and standard errors are two-way clustered at the family and firm level. Panel B replicates columns 2 and 4 of Table 4 on funds' independent voting. The independent variables include the *Committed ESG fund* dummy along with firm-level control variables including the natural logarithm of firm size, book-to-market, return-to-assets, leverage, and past-year returns, and fund-level control variables including expense ratio, turnover ratio, the natural logarithm of fund TNA, the fund's ownership of the firm, and the firm's portfolio weight in the fund's portfolio. It also includes agenda item fixed effects, firm's industry fixed effects, and year fixed effects. Standard errors are clustered at the fund level. For brevity, we only report the estimates of main variables of interest. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA13
Real effects of investments by ESG funds — Cost-of-exit based classification

	log(Annual RRI) (1)	log(Trucost Emissions) (2)
High committed ESG overweight $\times$ Post	-0.243** (-2.18)	-0.081* (-1.91)
High other ESG overweight $\times$ Post	-0.051 (-0.51)	0.024 (0.73)
Controls	Y	Y
Firm FE	Y	Y
Time FE	Y	Y
N	5,778	4,705
Adjusted R-squared	.489	.970
p-value of the difference	.081*	.074*

This table examines whether investments by ESG funds help improve portfolio firms' ESG performance using the introduction of the *Morningstar Sustainability Rating* as an exogenous shock to firms' investments by ESG funds. Committed and other ESG funds are classified using the cost-of-exit incentive measure. The unit of observation is at the stock-year level. The dependent variables are the natural logarithm of a firm's RRI (column 1) and the natural logarithm of a firm's on-site release from the Trucost Environmental emission data (column 2). For each stock held by ESG funds as of the last quarter of 2015, we calculate the stock's portfolio overweight by committed (other) ESG funds as the stock's weight in committed (other) ESG funds' aggregate portfolio relative to its market portfolio weight, following Doshi, Elkamhi, and Simutin (2015). The dummy variable *High committed (other) ESG overweight* is equal to 1 if the stock is ranked in the top quintile by the overweight measure. The dummy variable *Post* is equal to 1 for years after 2015, and 0 if otherwise. p-values of the tests of the difference in coefficient estimates are reported at the bottom of the table. All regressions control for the logarithm of market capitalization, book-to-market, 12-month returns during the year, firm and time fixed effects. Standard errors are clustered at the firm level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

Table IA14
ESG fund performance — Cost-of-exit based classification

A. DGTW characteristics-adjusted abnormal returns of fund portfolios

	All stocks (1)	Long holding-period stocks (2)	Short holding-period stocks (3)	High engagement stocks (4)	Low engagement stocks (5)
Committed ESG fund	0.263** (2.32)	0.937*** (4.59)	0.052 (0.38)	0.889*** (4.38)	0.044 (0.19)
Fund controls	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y
N	9,866	8,894	9,857	8,967	8,895
Adjusted R-squared	.043	.020	.043	.029	.024

B. Performance effects of engagement and ESG improvement

	High engagement with RRI improvement (1)	High engagement without RRI improvement (2)	High engagement with Trucost improvement (3)	High engagement without Trucost improvement (4)
Committed ESG fund	1.172*** (2.84)	0.572* (1.73)	1.957*** (2.88)	0.378 (0.94)
Fund controls	Y	Y	Y	Y
Time FE	Y	Y	Y	Y
N	8,234	8,221	7,019	7,187
Adjusted R-squared	.054	.030	.037	.041

This table analyzes ESG fund performance. The dependent variable is the DGTW(1997) characteristic-adjusted abnormal returns of fund portfolios over the next year. Committed and other ESG funds are classified using the cost-of-exit incentive measure. In column 1 of panel A, we compare the performance of committed and other ESG funds across all holdings. In columns 2 and 3, we separately calculate the DGTW characteristic-adjusted abnormal returns of long versus short holding period portfolios of each fund and compare fund performance within each subportfolio. For each stock in a fund's portfolio, we calculate its holding period following Cremers and Pareek (2016), and stocks with a holding period of over two years are denoted as long-holding period stocks. In columns 4 and 5, we partition a fund's portfolio firms into high and low engagement groups. For each proposal of firm i , we calculate fund j 's abnormal independent voting relative to the average likelihood of independent voting across all proposals in the same industry and with the same agenda type in the past two years. We then aggregate this abnormal independent voting measure across all of firm i 's proposals voted by fund j in the past two years as a proxy for the fund's level of engagement with firm i . In panel B, we focus on firms heavily engaged by committed funds and split them into those experiencing reductions of their RRI indexes (columns 1 and 2) or Trucost emissions (columns 3 and 4), and other stocks. We then compare the performance between committed and other ESG funds within each subportfolio. Independent variables are the *Committed ESG fund* dummy, expense ratio, turnover ratio, the natural logarithm of fund TNA, industry-concentration index, active share, past-year return and flow volatility, and past-year performance. All regressions include time fixed effects. Standard errors are clustered at the fund level. t-statistics are in parentheses. * $p < .1$, ** $p < .05$, *** $p < .01$

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