ASSET
MANAGEMENT

Paint the Shed Green

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Introduction

We're all familiar with those pictures in CSR (Corporate Social Responsibility) Reports of over-eager young financiers in their matching corporate tee shirts participating in Employee Volunteering (EV) schemes in their local community. Images in CSR Reports such as these are produced professionally to maximise reputational benefits for the employer. There's many a dilapidated shed housing football gear for under privileged youth in communities, such as Tower Hamlets in London. While these may well be an eyesore for those living in the gentrified parts of the borough, they do serve a societal purpose. "Saving the shed" by painting it green can become a compelling mantra for a CSR initiative. It is green (check the E box), it's beneficial to the community (check the S box) and representative of employee empowerment (check the G box). But CSR isn't ESG and not all EV is valid CSR. The shed can be left unlocked and the gear go missing. The shed can become more expensive to maintain taking more money from Tower Hamlets Council's already challenged budget.

As sustainability increasingly becomes a public and private policy imperative, the risks of merely creating an ESG bandwagon increase. As a result, the bandwagon cheerleaders are under political attack for greenwashing. Yet those attacks can undermine the very real foundations for well-considered sustainable investment programmes. But using "greenwashing" and "ESG" just as labels for a political position trivializes the very real substance of the issue. At the time of writing the world is accepting that we face real challenges (climate change, wealth disparity, food security, and access to healthcare, among others) such that it is important to understand who is actually making a positive difference and those just greenwashing. This paper addresses just that.

ESG investing is greenwashing, or so they say...

We frequently hear ESG critics claim that "ESG" is merely a "euphemistic banner" (Florida Governor Ron DeSantis[1]); a symbolic marketing ploy used strategically by asset managers to justify higher fees. They argue that there is no extra skill involved in the investment process to consider or embed ESG factors into their strategies and funds, and this itself is greenwashing. Essentially, by putting "ESG" in the names of their funds and strategies, asset managers can charge higher fees for these products without making any meaningful changes to their value chain.

In his Bloomberg article titled "Many ESG Funds Are Just Expensive S&P 500 Indexers", Aaron Brown, the former Chief Risk Manager at hedge fund AQR Capital Management, argued that a number of ESG exchange-traded funds (ETFs) are not meaningfully aligned with ESG goals or sustainable values. Further, Brown argues that sustainable managers charge "outrageous fees" for their ESG ETFs, which are in fact similar to the S&P 500. He specifically calls out Vanguard's ESG US Stock ETF, which had a 0.9974 correlation to the S&P 500 fund since its inception in September 2018. Brown's argument is that the alleged premium charged by asset managers for sustainable funds is not justified, as by and large, managers do not truly factor ESG considerations into investment decisions. The bottom line of Brown's argument is that the "ESG" label is merely a symbolic marketing tool that has no material effect on the process, and this act of greenwashing, could mislead investors into paying a higher price for a "sustainable" product that isn't much different to a non-ESG fund. There are many critics out there that share Brown's view.[2]

A comparison of universes: ESG ETF expense ratios vs. non-ESG ETF expense ratios

Rather than cherry-pick a specific fund to make a point about an entire fund universe, we looked at the entire fund universe. There are 9,180 ETFs with quoted expense ratios listed on Bloomberg. Of this universe, 942 are listed as ESG and Sustainability Themed ETFs (including the aforementioned Vanguard US Stock ETF). The expense ratio breakout for these universes are as follows.

Table 1:

Expense Ratio (%p.a.)	Total ETF Universe	ESG ETF Universe
Average	0.49%	0.35%
Median	0.40%	0.29%
Maximum	10.07%	2.00%
Minimum	0.00%	0.00%

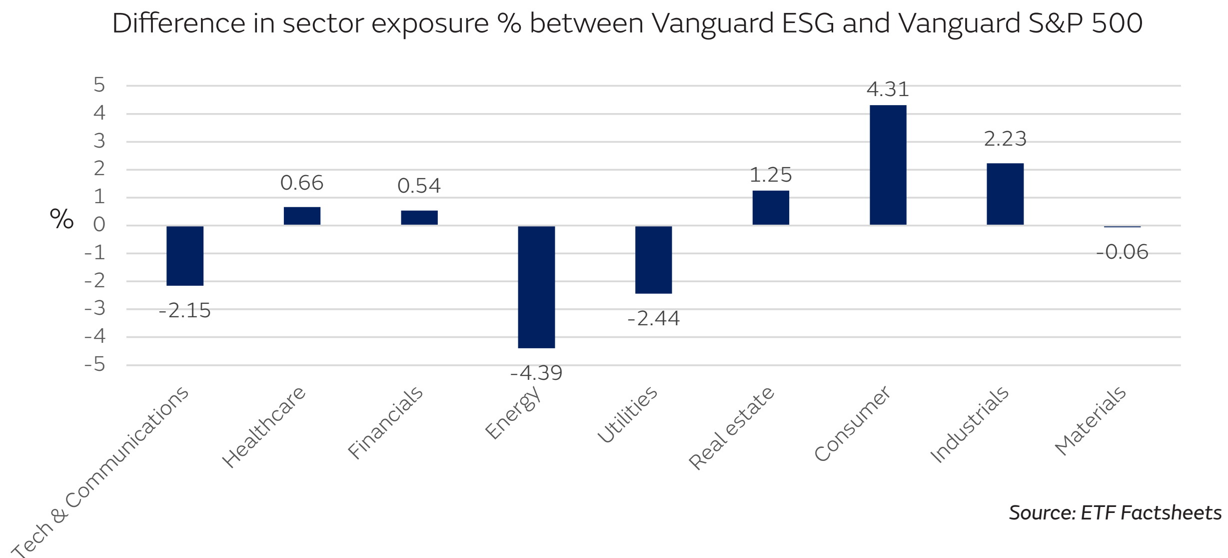
Source: Bloomberg, GIB AM Analysis

[1] https://www.flgov.com/2022/08/23/governor-ron-desantis-eliminates-esg-considerations-from-state-pension-investments/
[2] https://www.bloomberg.com/opinion/articles/2021-05-07/many-esg-funds-are-just-expensive-s-p-500-indexers

Exposures: ESG ETFs

We note that the Vanguard ESG US Stock ETF tracks the FTSE USA All Cap Choice Total Return Index with a full replication strategy. This Index is constructed differently than the S&P 500 by excluding companies involved in vice products, non-renewable energy and weapons. The construction difference provides investors with a different exposure than the Vanguard S&P 500 ETF as shown in Chart 1.

Chart 1:



Source: ETF Factsheets

So while we agree that there is a highly correlated return across the two different products, we believe this may well be more coincidence than causation. We have no comment on the justification or otherwise of an expense ratio of 0.09% for the Vanguard ESG ETF versus the 0.03% for the Vanguard S&P 500 ETF although we note the considerable asset size difference ($5.45 billion versus $249 billion). So while fees differ across different strategies, more importantly, we conclude that there is not sufficient evidence to say that ESG-themed ETFs charge higher fees than their non-ESG themed counterparts.

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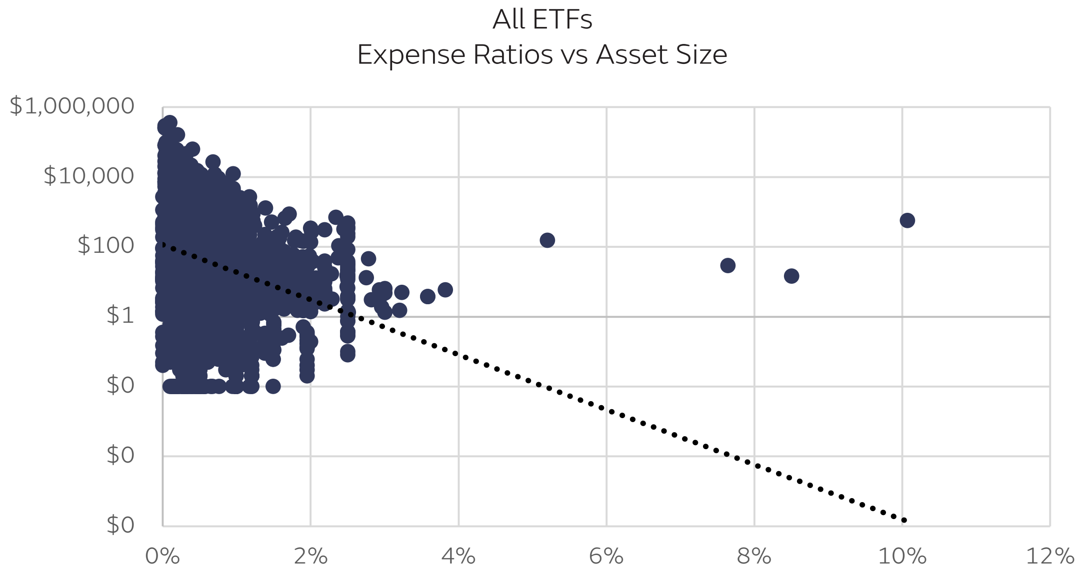
Expense ratio benchmark: ESG ETFs

There are, of course, multiple factors determining fee / expense ratio levels across different funds: asset class (private credit to large cap equity); style (passive to levered long-short); administrative cost (custody and index costs); geography (global to local); liquidity (trading costs); and size. Accordingly the notion of benchmarking ESG-themed funds to fee levels for giant domestic public equity ETFs such as iShares Core S&P 500 (total assets $287 billion) or the Vanguard S&P 500 ETF (total assets $253 billion), both at 0.03%[3i], simply misses the point when the median for all ETFs is 0.40%. Instead we would suggest that the more appropriate benchmark would be a global large cap equity ETF, i.e. the iShares MSCI ACWI ETF, which has an expense ratio of 0.32%[3ii]. Thus the average expense ratio for the ESG-themed universe at 0.35% represents a premium of just 0.03% for investors to get the exposure they want.[4]

[3i]https://www.ishares.com/us/products/239726/ishares-core-sp-500-etf
[3ii] https://www.ishares.com/us/products/239600/ishares-msci-acwi-etf
[4]Source: Table 1, Bloomberg and GIB Analysts

The one factor that we would expect always to hold true is that fees for funds within a particular category should be lower the larger the size of the fund. This is true for the majority of the ETF universe (see Chart 2).

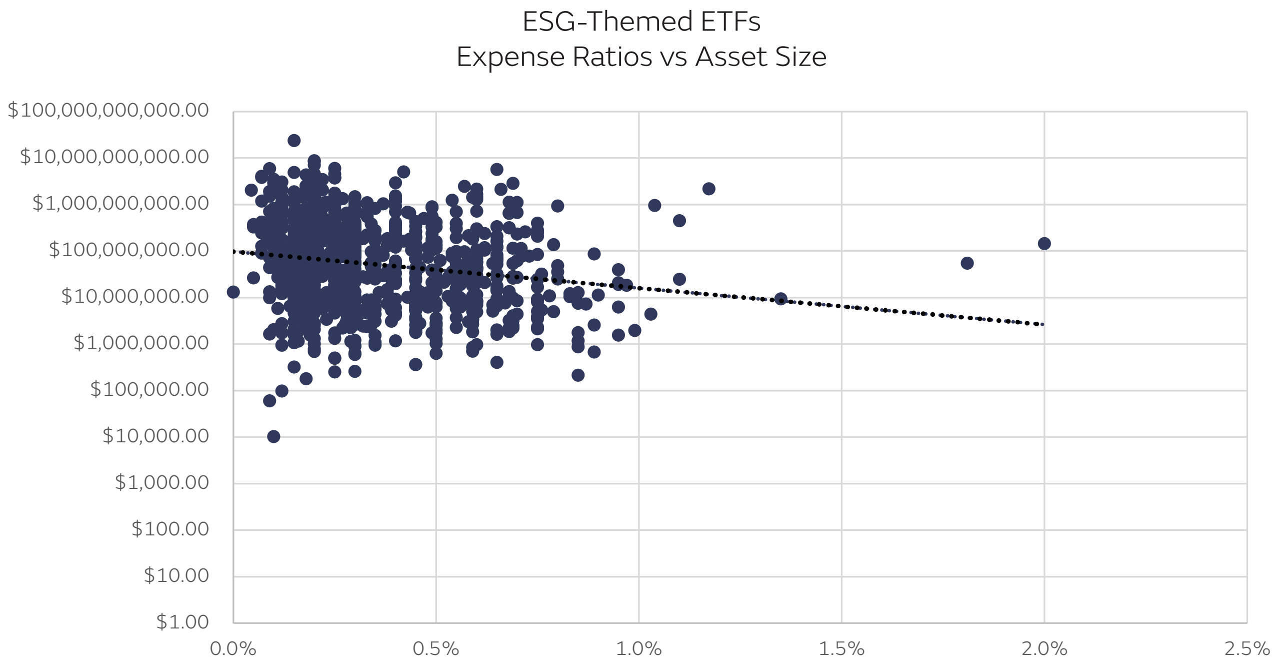
Chart 2:



Source: Bloomberg, GIB AM analysis

Does the same relationship exist for ESG-themed ETFs or are ESG fund managers simply out to charge more by painting their fund green? Chart 3 tells us that generally the same relationship exists.

Chart 3:



Source: Bloomberg, GIB AM analysis

Asset allocation: ESG ETFs

So while we are satisfied that ESG-themed funds overall aren't greenwashing in terms of their fees, is it true that the ESG-theme is purely symbolic, the green paint if you will? To assess this we looked at the asset allocations of three ESG-themed ETFs (one with the highest expense ratio, iShares Dow Jones Eurozone Sustainability Screened UCITS ETF "SUBEEX", one with the average expense ratio, iShares Edge MSCI World Minimum Volatility ESG UCITS ETF "MVEC" and one with the median expense ratio, Desjardins RI USA – Low CO2 Index ETF "DRMU") and compared their sector allocations to a global universe as represented by iShares MSCI ACWI ETF.

Table 2:

Allocation %	ACWI	DRMU	MVEC	SUBEEX
Banks	7.62%	5.09%	2.93%	15.09%
Internet	7.48%	6.44%		4.46%
Software	6.58%	13.40%	6.60%	6.15%
Pharmaceuticals	6.30%	6.31%	8.60%	6.58%
Computers	6.14%	12.20%		
Semiconductors	4.77%	5.20%		16.10%
Oil & Gas	4.18%	3.82%		
Retail	4.16%	7.17%	4.24%	2.45%
Insurance	3.71%		4.65%	6.19%
Diversified Fin Services	3.28%			
Healthcare products		4.12%		
Auto manufacturers		3.74%	3.43%	3.43%
Telecommunications			12.37%	
Food			7.16%	
Electric			6.56%	9.99%
Biotechnology			5.95%	
Misc industrial				5.49%

Source: Bloomberg

What this tells us is that each discrete ETF has very different allocations, both to each other and to a global benchmark, in order to gain the exposures each fund wants for its investors. So if they are painting the shed, each has a different paint colour.

The importance of due diligence

As with all fund investing, investors should consider many factors beyond the colour or label of the fund; manager experience, fund objectives and guidelines, manager track record, fund position limits and risk management and performance against stated objective. Thus the recent elimination by Governor DeSantis of ESG considerations from Florida State Pension investments suggests that the State Board of Administration is unable to perform a proper due diligence[5]. Not all managers will pass the due diligence screening process of major investors, such as Florida's $240 billion pension and disaster funds. But one thing we can say is that the good outweighs the bad. There are plenty examples of good actors out there. One example being Stewart Investors, who was rated as Leader on a firm and fund level by Morningstar (2021)[6].

[5] https://www.flgov.com/2022/08/23/governor-ron-desantis-eliminates-esg-considerations-from-state-pension-investments/
[6] https://www.morningstar.co.uk/uk/news/216217/top-rated-sustainable-funds.aspx

In particular, Stewart Investors' Asia Pacific Sustainability fund was ranked highest Analyst Rating (Gold), Sustainability Rating (5 globes) and ESG Commitment Level (Leader) for 2021[7]. In 2020, the H&K Responsible Investment Brand Index report listed the top 10 asset managers leading the way in the responsible investment space. Hirschel and Kramer, the report's authors, assessed asset managers' commitment in two key areas: 1) commitment to responsible investing via "concrete actions" such as participation in collective initiatives on sustainable development or publishing proxy voting activity (e.g. quality of listed equity voting, strategy and governance of responsible investment), 2) how the company's intentions were communicated via their brand (e.g. including purpose statements, how value systems are expressed which aim to make a positive difference to society).[8] The index's top 10 asset managers are listed below:

- AXA Investment Managers
- Federated Hermes
- Candriam
- Degroof Petercam Asset Management
- Sycomore Asset Management
- Etica SGR
- Mirova
- BNP Paribas Asset Management France
- Le Banque Postale Asset Management
- MFS Investment Management

Managers that don't manage in a manner consistent with a fund objective will of course either not receive any funding at all or ultimately be defunded. Investors, aren't stupid. Nonetheless, despite this auto-correct market mechanism, there are fund managers, such as Bank of New York Mellon (BNYMIA) who had failed to match their guidelines and objectives[9]. The consequences though can be severe.

The cost(s) of greenwashing

Recently, in May 2022 the SEC filed a lawsuit against Bank of New York Mellon which stated that the firm knowingly made material misstatements and omissions concerning the application of ESG principles to make investment decisions for certain mutual funds (Overlay Funds) advised by BNYMIA. The prospectus of BNYMIA's Overlay Funds stated that all investments in the Overlay Funds had undergone an ESG quality review which, according to the SEC, was not the case. In fact, as of 31 March 2021, 67 out of 185 of the numerous equity and corporate bond investments held by the Overlay Funds did not have an ESG quality review score at the time of investment, amounting to 25% of the fund's net assets[10.] Subsequently, the SEC served BNYMIA with a penalty of $1.5m. Another example is the SEC's investigation of Goldman Sachs over the rebranding of its "Blue Chip Fund" to the US Equity ESG Fund in June 2020. The investigation is ongoing as of time of writing.

The BNYMIA greenwashing case was a major blow to the industry, particularly with the firm being the 12th [11]largest asset manager in the world by AUM. However, it set an important precedent and should be viewed as a positive step forward for sustainable investing.

Of course, the sad reality is that on the whole bad press attracts more attention, hits harder, and provokes greater discussion.

[7] https://www.morningstar.co.uk/uk/news/216217/top-rated-sustainable-funds.aspx
[8]https://ri-brandindex.org/downloads/H&K_RIBI_Report_2020.pdf
[9&10]https://www.sec.gov/litigation/admin/2022/ia-6032.pdf
[11] https://www.advratings.com/top-asset-management-firms

According to the BBC, traffic data suggests a viewer/reader preference for stories with a negative tone, e.g. set-backs, hypocrisy, corruption, etc. rather than positive stories[11]. Unfortunately, this suggests that bad press about ESG investing will get more hits than positive news. That doesn't mean that industry isn't doing great things to mobilise capital in support of sustainable development, just that from a psychological standpoint, we're not as interested in hearing or reading about it.

FINANCE AND INVESTING

ESG Investing Is The World's Biggest Scam

Environmental, Social, and Governance principles sound nice, but here's why the entire sector is built on pillars of false virtue.

Opinion Unhedged

The ESG investing industry is dangerous

A BlackRock dissident speaks truth

ROBERT ARMSTRONG + Add to myFT

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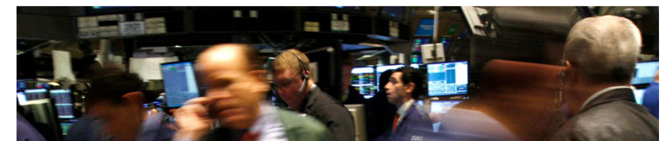
Why ESG Is Bad for the Economy



ESG makes promises it can't keep...

The argument that sustainable investing requires sacrificing or compromising returns is one that is commonly made by ESG critics. In particular, they disagree with the notion that sustainable funds outperform non-ESG funds because they invest in companies deemed to be on the "right side of history".

Their criticism boils down to this: those companies are only considered to be on the right side of history because Wall Street managers have decided they are. It is entirely subjective, and skewed towards the perspective of Wall Street managers, and what they believe "good" companies look like. Further, these investment managers are also the managers of non-ESG funds. Therefore, should these individuals assume the role of the virtuous decision-makers we can trust to identify the companies on the right side of history?

Tariq Fancy, former CIO of Sustainable Investing at BlackRock, says we cannot. In a 2021 essay, Fancy stated: "They [ESG proponents and leaders] must know that they're exaggerating the degree of overlap between purpose and profit... These leaders must know that there is no way the set of ideas they've proposed are even close to being up to the challenge on solving the runaway long-term problems... And right now all of the other stuff they're saying – the marketing gobbledegook – is actively misleading people"[12].

The rise of green talent

It is fair to say that no one believes that Wall Street players are the "virtuous ones" who will, singlehandedly, save People and Planet. The need for collaboration with governments, NGOs, supranational entities, regulators etc. is accepted and acknowledged. What ESG critics overlook is the value of **intention**; the industry's desire to do the right thing. The evidence supporting this is overwhelming. Globally, "green talent" has grown almost 40%[13] in the last seven years, with finance being one of the fastest growing sectors for employing ESG professionals.

Investors are engaging with issuers to unlock ESG related benefits over the medium term. This is the fundamental factor in medium term investing and research by Dalbar, Inc., among others, suggests this will outperform a churn and burn reaction to short-term market volatility. Climate-related risks and opportunities are deemed material by market regulators, market participants around the world almost without exception. There is no single magic bullet but investing in those issuers and sectors who are addressing the world's greatest challenges creates an attractive opportunity set. This is not exaggerated marketing gobbledegook or greenwashing.

[11] https://www.bbc.com/future/article/20140728-why-is-all-the-news-bad
[12] https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable-investor-part-1-70b6987fa139
[13] https://news.linkedin.com/2022/february/our-2022-global-green-skills-report#:~:text=Green%20talent%20rising%3A%20green%20talent,cumulative%20growth%20rate%20of%2038.5%25.

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This is not exaggerated marketing gobbledegook or greenwashing

ESG: A factor in investment performance

Investment performance comprises several factor groups (volatility, yield, quantity, momentum, value, size, growth and liquidity) and as ESG metrics become increasingly standardised and quantified they provide increasingly important input to multi-factor models (see our paper: Materiality its a big deal). ESG is not a single factor but a framework for assessing multiple ESG metrics (MSCI uses over 200) in order to quantify expected returns and risks associated with those metrics. ESG critics revel in the fact that an ESG factor cannot be proven to produce superior risk adjusted or absolute returns. They miss the point: better companies outperform their peers. To illustrate, we created a hypothetical portfolio of the 166 issuers in the MSCI ACWI Index with a MSCI ESG AAA rating as of 30 June 2022. This hypothetical portfolio generated a return of 18.63% p.a. over 5 years from 30 June 2017 to 20 June 2022 (USD)*. That compares to the ACWI ETF return of 7.15% p.a. (net) over the same period. *Past perfomance is not a guide to future results.

Of course there is no guarantee that this hypothetical portfolio will generate superior returns going forward. Indeed the range of returns of individual issuers in this hypothetical portfolio range from a high of 53.87% p.a. to a low of -23.81% p.a. reflecting the range of factors driving total returns. Nonetheless it is illustrative to see the 11.48% p.a. outperformance of our hypothetical portfolio. We can't "prove" that ESG aligned investing produces better returns; we can't disprove it either. The more factors considered in investment decisions makes better investment decisions in the same way that diversification generates better risk-adjusted returns. Asset owners want their managers to make better investment decisions and then judge them on actual performance results. Incorporating better informed factors into investment decisions isn't greenwashing.

Incorporating better informed factors into investment decisions isn't greenwashing

As noted above, different asset managers will construct different portfolio exposures in order to meet their specific investment objectives; ESG-aligned investing is not a one size fits all game any more than is non-ESG-aligned investing. As a result actual performance will show considerable variance. While, on average, the ESG-aligned ETF universe (104 ESG-aligned ETFs with 5 year track-records) generated a five-year total return (net) of 6.72% p.a., the returns fall in a range of a high at 31.77% p.a. to a low of -5.21% p.a.. Is there a correlation between 5 year performance and expense ratios – is there a notion of paying more for less, as critics would contend?[14]

[14]Source: Chart 4

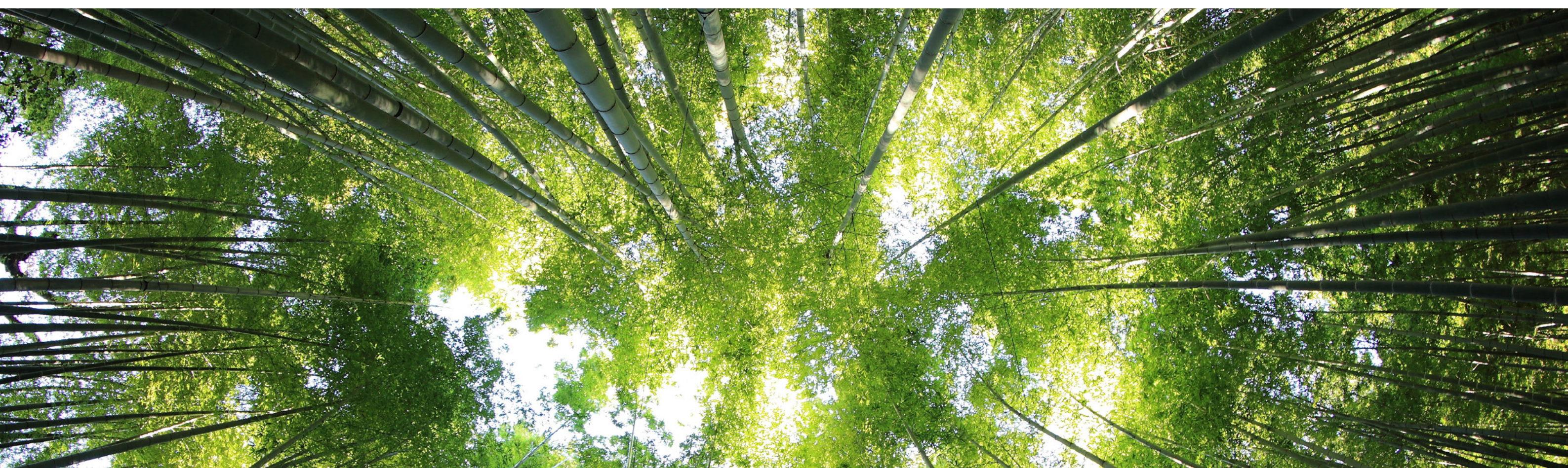


Chart 4:

Source: Bloomberg, GIB AM analysis

The graph shows that the blanket statement that ESG-aligned ETFs charge higher fees for less performance cannot be proved with the available data. If this statement were true, the trendline would be negatively sloping. Indeed, the R-squared value of 0.0004 indicates virtually no correlation between higher expense ratios for ESG funds and lower returns. In fact, on the basis of this data we can assert that, in aggregate, ESG ETFs exhibit due responsibility to their investors with regards to fees and returns in line with an overall benchmark, ACWI. This ultimately suggests that blanket assertions like Aaron Brown's do not hold true against the available data. Blanket assertions based on cherry-picked data is just as misleading as the "marketing gobbledegook" critics falsely assert.

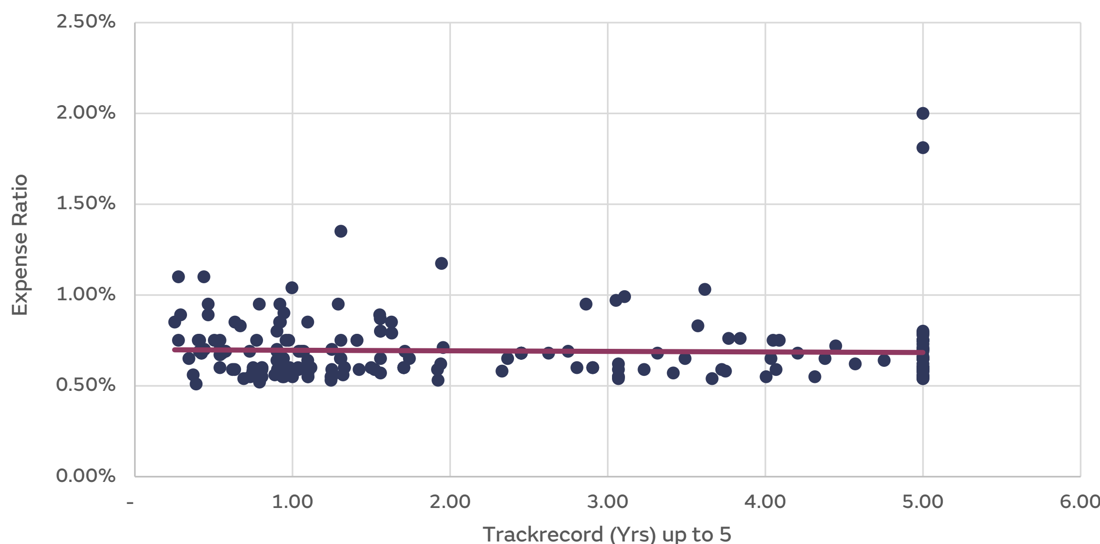
ESG ETFs exhibit due responsibility to their investors

ESG investing is jumping on a bandwagon

According to Deloitte ESG-mandated assets are on track to represent half of all professionally managed assets globally by 2024. The growth in ESG investing is well documented and needs no re-documenting here. There is no doubting the increased demand for ESG-themed investment products by investors; investor appetite for ESG, measured by flows into sustainability ETFs has increased 56 times during the past 3 years.[15] Governor Ron DeSantis believes this represents "the leveraging of corporate power to impose an ideological agenda... from Wall Street banks to massive assets managers" using "their economic power"[16]. DeSantis and his peers do have a responsibility to protect investors from industry greenwashers. That said, it is the politicisation that we're critical of. If DeSantis' view was grounded in evidence, we would not only expect ESG-aligned ETFs to charge more (the evidence suggests they do not) but also to exhibit a bandwagon trend of taking advantage of this demand growth to increase fees. If this were the case, then we would expect newer ESG-aligned ETFs charging a bandwagon fare higher than those with longer track records.

[15]https://www2.deloitte.com/uk/en/insights/industry/financial-services/esg-investing-and-sustainability.html
[16]https://www.nytimes.com/2022/08/24/business/dealbook/desantis-florida-esg-investing.html

Chart 5:



Source: Bloomberg, GIB AM analysis

While the chart above illustrates a slight trend line supportive of higher fees for shorter track records, its R-squared value of 0.0092 is insufficient to support a blanket assertion that ESG is the latest Wall Street bandwagon.

Insufficient correlation to support a blanket assertion that ESG is the latest Wall Street bandwagon

While we might argue that market regulators have been slow to protect investors from Wall Street avarice in the name of ESG, the Sustainable Finance Disclosure Regulation (SFDR) adopted by the EU in 2021 and the ESG Disclosure Rule proposal from the SEC in May this year give us confidence that any bandwagon effect is likely to be short lived.

ESG as a label of shame

Today, the term "ESG" has become weaponised. This is true for those sitting on both sides of the table. On the critics' side, the term "ESG" has become synonymous with so-called "wokeness", "woke capitalism" and "virtue signalling". ESG critics will use the term "ESG" to ridicule the alleged puritanism of its proponents, as well to call out their "hypocrisy" when they fail to meet the unattainable moral standards set for them by their critics. The emergence of millennial-focused advertising campaigns, which generally hold more socially liberal views than their predecessors, are often perceived as insincere and inauthentic. Actual cases of greenwashing in the industry fuels the fire of these claims, generating distrust and hostility.

The aggression that some critics have towards ESG has led them to go as far as linking ESG investing with authoritarianism. This is a sentiment expressed by former Vice President Mike Pence in an op-ed in May 2022 ripping into ESG investing[17]. Pence specifically cites proxy voting activism which, according to Pence, amounts to authoritarianism as it undermines capitalism and the economic growth of the United States.

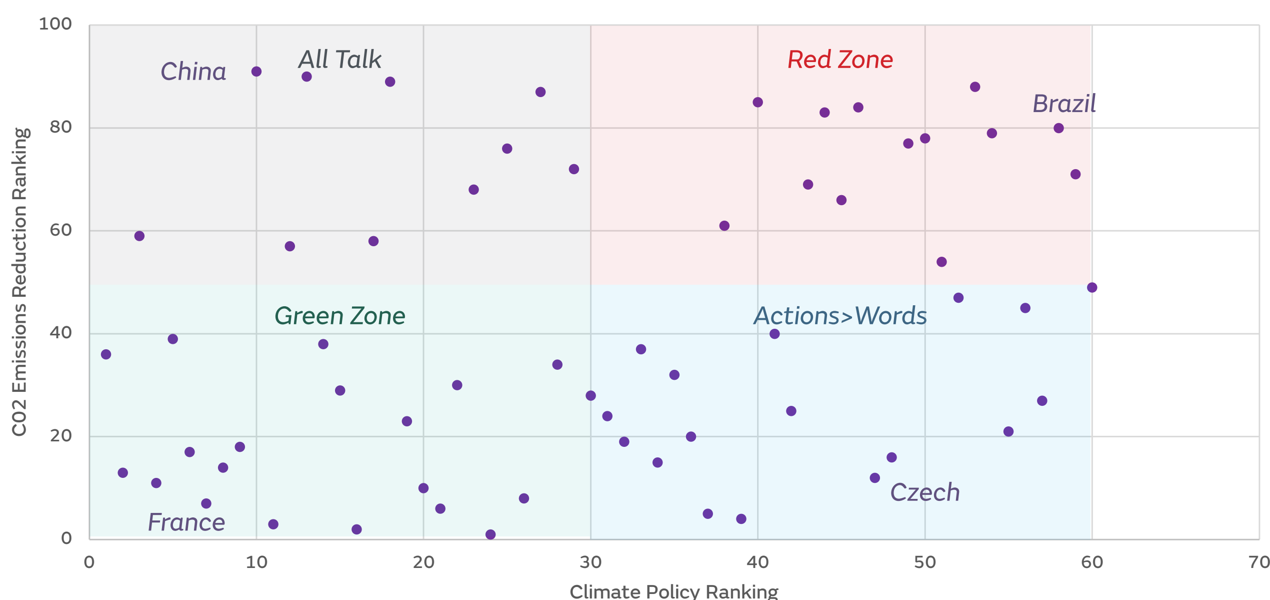
[17] https://www.wsj.com/articles/only-republicans-can-stop-the-esg-madness-woke-musk-consumer-demand-free-speech-corporate-america-11653574189

As climate change and sustainable investing have become ever more politicised, it is interesting to observe "econowashing" (the opposite of greenwashing) being used to label climate change legislation. As pointed out by Impact Investor[18] the most significant piece of climate change legislation was labelled the Inflation Reduction Act. We would observe that the one thing the Inflation Reduction Act won't do is reduce inflation.

Policymakers throwing shade

It is not just individuals that take part in the shame game. Chart 6 highlights that countries also engage in shaming each other through their climate policies.

Chart 6:



Source: GIB AM analysis & https://ccpi.org/download/climate-change-performance-index-2022-2/

Some countries tout their actions and others tout their policies. Policies without actions are really all talk. While actions speak louder than words, the true "green zone" is made of countries with a strong climate policy and actual emission reductions. The greenwashers are the 'all talk' brigade while the red zone are the naysayers. In order to establish this framework we ranked all the countries in the world by their actual CO2 20 year emission reduction against their climate policy rating[19]. Rather than label every country, in order to avoid controversy, we simply highlight one country in each quadrant. The names are not surprising. The framework is not definitive but it provides a useful reference for discussion of greenwashing at a sovereign level.

The greenwashers are the 'all talk' brigade

With the future of the world at stake, the risk is that the blame game can cause an unproductive global spiral. Countries would grow more hostile to each other, and the necessary collaboration needed to save People and Planet would collapse. Elisa Aaltola, senior researcher at the University of Turku, Finland, has argued that "climate shame" can be used as a method of moral cultivation[20]. Renée Lertzman, a climate psychologist, in response to Aaltola, argues that no meaningful change and transformation will be generated through the blame game. We agree with her.

[18] https://impact-investor.com/analysis-impact-investors-cheer-bidens-inflation-reduction-act/
[19] https://ccpi.org/download/climate-change-performance-index-2022-2/
[20] https://abcnews.go.com/Technology/shaming-mitigate-climate-crisis-experts-offer-mixed-views/story?id=88098042

ESG investing won't produce better real world outcomes

"Society receives no benefit from a Panglossian do-well-by-doing-good story. It only helps fund managers sell products and companies polish their reputations, while avoiding hard choices"[21]. This is the fallacy of ESG investing, according to Robert Armstrong. Armstrong argues that the view that ESG achieves better profits and better social returns is false.

Armstrong concedes that sustainable funds have done well in recent years. An argument that our data analysis supports. Armstrong also concedes that sustainable investing can promote greater good. It is the so-called 'win-win' fallacy of sustainable investing that Armstrong disputes.

In his article in the Financial Times, Armstrong references a letter released by BlackRock which states that "sustainability-and climate-integrated portfolios can provide better risk-adjusted returns to investors." Armstrong interprets this to mean that over time, more virtue equals more money. Armstrong is missing the point. The language here is key. "Sustainability-and climate-integrated portfolios can provide better risk-adjusted returns to investors." Can, not will.

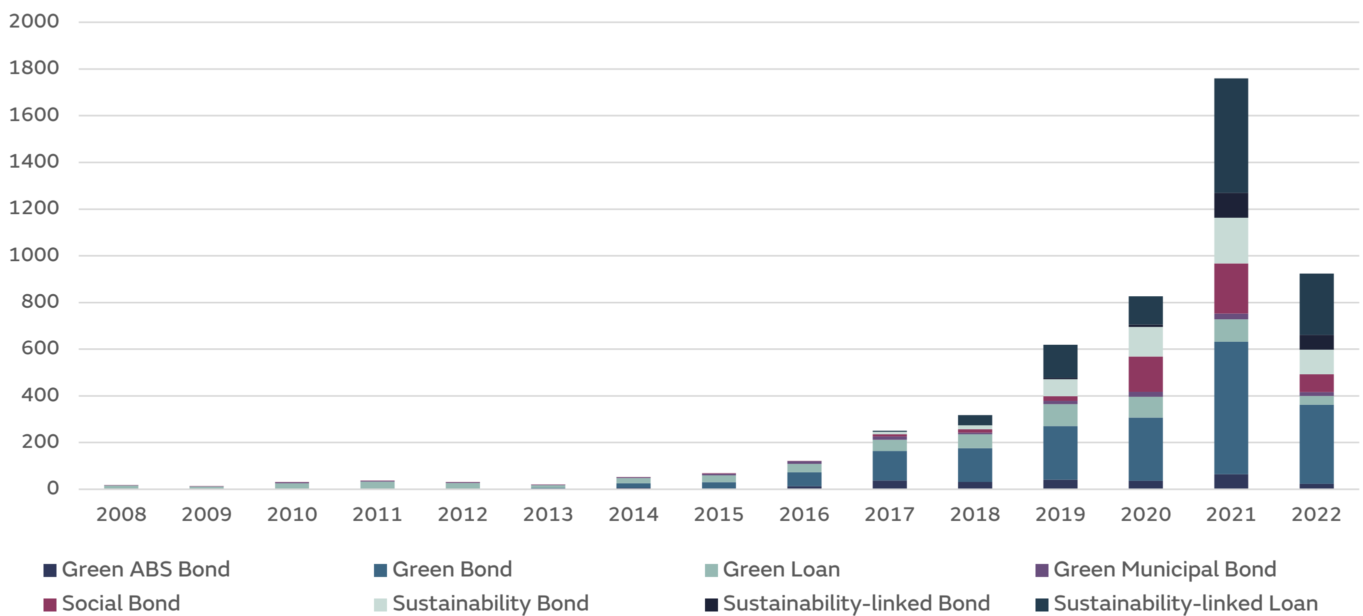
We commend Armstrong for his view that sustainable investing can produce better societal outcomes. As noted earlier, Tariq Fancy, on the other hand, believes that sustainable investing alone won't be able to achieve this goal. The ultimate inference from Fancy's argument would be to do nothing. While we accept that there is no investment magic bullet, progress is measured one step at a time. "If you can't feed a hundred people, feed just one", Mother Teresa.

"If you can't feed a hundred people, feed just one"

Size matters

The amount of sustainability-linked financial assets ten years ago was disproportionally small relative to the magnitude of sustainability issues they sought to address. This is no longer true. As of Q4 2020 there are $35 trillion of ESG-linked assets under management. We recognise that not every dollar of this AUM will fund change. However, there are subsets of ESG assets that are specifically targeted at change. Many managers, including ourselves[22], employ engagement strategies to unlock value. Impact investments, for example, amount to $2.28 trillion of global ESG AUM. Further, since 2016 there has been $1.06 trillion of issuance of sustainability-linked loans with specific KPIs addressing solutions. Indeed the growth in recent years of sustainability-linked issuance gives confidence that private debt and equity can fund meaningful progress such that sustainable development is no longer the exclusive purview of the public and philanthropic sectors.

Chart 7:



Source: Bloomberg, GIB AM analysis

[21]https://www.ft.com/content/9e3e1d8b-bf9f-4d8c-baee-0b25c3113319
[22]https://gibam.com/strategies/gib-am-emerging-markets-active-engagement-fund

Back to basics: risk management

Despite the headlines focused on States such as West Virginia, Idaho, Oklahoma, Texas and Florida banning ESG considerations as part of manager selection, the simple reality is that the majority of major public pension funds totally reject such bans. In September several states went on the record[16] to state "despite ample evidence and scientific consensus to the contrary, that poor working conditions, unfair compensation, discrimination and harassment, and even poor governance practices do not represent material threats to the companies in which they invest. They refuse to acknowledge, in the face of sweltering heat, floods, tornadoes, snowstorms and other extreme weather, that climate change is real and is a true business threat to all of us".

Climate change is real and is a true business threat to all of us

Chart 5:

$ Billion	Assets
California	1,237
Colorado	64
Delaware	16
Illinois	216
Maine	19
Massachusetts	110
Nevada	59
New Mexico	34
New York	692
Oregon	96
Rhode Island	13
Vermont	6
Washington	144
Wisconsin	153
Total	2,858

Source: nasra.org, public pension statistics

The signatories of this comment represent $2.9 trillion of pension assets.

When, how or if the solution to "runaway long-term problems" will materialise is not known. That doesn't mean it won't happen. Responsible capitalism, combined with public sector collaboration, is the solution. It is the aggregate that matters, the power of collaboration, which will ultimately save People and Planet.

[16] https://www.forthelongterm.org/current

Conclusion

- Intentions matter: the intention of the trillions of ESG-linked investment assets can make a meaningful difference to aggregate outcomes (value and purpose).
- ESG investing has, historically, generated good returns for investors relative to the market.
- ESG critics have loud voices, but their blanket statements do not hold true given the available data.
- The good work that is being done by industry players should not be overshadowed by the bad actors who take a symbolic "paint the shed green" approach to ESG investing.
- Greenwashing is a valid issue being addressed by the financial services sector.

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