COMMENTARY

Michael Frerichs and Nell Minow: Those who want to ban sustainability-focused investing are on the losing end

By Michael Frerichs and Nell Minow
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Republican presidential primary candidate Vivek Ramaswamy speaks at the Pray Vote Stand Summit in Washington on Sept. 15, 2023. Ramaswamy founded an anti-ESG investment firm and has made attacks on sustainability central to his campaign, yet financial disclosures show much of his personal investments are in pro-ESG companies. (Kenny Holston/The New York Times)

Listening to Republican lawmakers and conservative voices, you might think that the ESG investment movement — which focuses on environmental, social and governance factors — is coming to an end. Growing anti-ESG sentiment among lawmakers, they would argue, is reflective of how the public is rejecting “woke” sustainable investment practices.

We are here to tell you that this is simply not the case. Behind the smoke and mirrors of the anti-ESG fad lies a crumbling edifice with little support among investors, public fund managers or even other Republicans.

Let’s go through a few examples.

In September, U.S. District Judge Matthew Kacsmaryk, a far-right conservative who was appointed by then-President Donald Trump, rejected a challenge to a federal rule allowing employee retirement plans to consider ESG risk information in investment decisions.

In his ruling on the lawsuit, which was brought forward by 26 Republican attorneys general, Kacsmaryk acknowledged that the rule permits environmental and other risk factors to be considered in determining an investment’s risk and return while requiring pension investment firms to act “solely in the interest” of working people whose retirement they’re protecting. Unsurprisingly, none of the challengers was able to provide a single example of an investment decision that was not justified by strictly financial considerations.

Then there’s 2024 Republican presidential candidate Vivek Ramaswamy. He founded his own anti-ESG investment firm and has made attacks on sustainability central to his campaign. Yet he hasn’t put his money where his mouth is — financial disclosures show much of his personal investments are in pro-ESG companies.

Conservative legislatures across the country have tried to push anti-ESG bills, but they haven't been warmly received. This year, more than half of 165 bills failed, and only 20 became law. Many of them, nicknamed "boycott bills," restrict public fund managers from doing business with companies that consider sustainability factors.

Investment professionals, business groups and trade associations have been sharply critical of these bills. Pension funds in red states such as Oklahoma, Texas and Kentucky stood opposed, stating that the bills restrict fiduciary duty and cost significant taxpayer dollars. In testimony against anti-ESG legislation, the Arizona Bankers Association called the bill out as "anti-free market."

So where is this so-called support coming from?

Just follow the money. According to The New York Times, prominent conservative Leonard Leo has, largely through donations from wealthy conservatives, managed to pour millions of dollars into an extremist group with a misleadingly bland name, Consumers' Research, and its anti-ESG public relations campaign.

Additionally, the nonprofit State Financial Officers Foundation has urged Republican state treasurers to reject climate mitigation efforts and instead promote oil and gas industries. The SFOA has ties with notable conservative think tanks such as the Heritage Foundation and the Heartland Foundation, which in turn have ties to the oil and gas industry.

[Michael Frerichs: Climate change poses financial risks. Why would officials want investors to ignore that fact?]

Let's be clear: We welcome debate on investment strategies. What we don't welcome are the impulsive deployment of blacklists and politically motivated government mandates that force investment professionals to ignore decision-useful risk information, fundamentally misunderstand the role of fiduciaries and impose massive costs on taxpayers, pensioners and hardworking families.

The simple fact is that investors and firms have embraced ESG risk information out of a growing recognition that current financial reporting according to generally accepted accounting principles, or GAAP, is inadequate. The upheavals of the dot-com bubble, the Enron-era accounting scandals, the financial meltdown, the failed public offering of WeWork and more remind us how GAAP is less reliable in evaluating the worth of today's key assets like intellectual property and recognizing risks that are tied to sustainability factors.

Additionally, the effects from climate change are exerting greater influence over financial performance, and this is also increasing investor and public demand for companies to address climate mitigation.

I, Michael Frerichs, am Illinois state treasurer, and it's my job to seek the highest risk-adjusted returns over the long-term for working people, retirees and local government entities. And this anti-ESG fad isn't going to distract me from that mission. I remain as committed to sustainability as ever before.

It's why I spearheaded the Illinois Sustainable Investing Act, which provides that all state and local government entities that hold and manage public funds should integrate material, relevant and useful sustainability factors into their policies, processes and decision-making. And it's also why my co-author Nell Minow and I testified in front of Congress last summer in defense of ESG.

Don't believe the conservative hype. The anti-ESG campaign is nothing more than a poorly conceived scheme, propped up by special interest groups and the fossil fuel industry, with no future among investors, fund managers or anyone who wants to protect their money from foreseeable risks.

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