Independent Women's Voice®

How to Talk About:

ENVIRONMENTAL SOCIAL AND GOVERNANCE OR ESG INVESTING

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Five Key Points About ESG

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1. **ESG (environmental, social and governance) is a leftist political agenda** masquerading as an investment strategy.

2. **ESG advocates manipulate markets to achieve political ends** that have failed to gain traction in Congress or the courts, such as deeply inaccurate anti-racism training, fossil energy divestment and meeting race- or gender-based hiring quotas.

3. **ESG forces companies to engage in controversial political issues,** cultivating division in the workplace and the marketplace.

4. **ESG investing generates lower returns than traditional investing,** harming American retirees and pensioners.

5. **ESG doesn't actually yield benefits for the environment or society.** ESG metrics rate certain foreign-owned energy companies tied to egregious human rights and environmental violations higher than U.S. oil and gas companies. For this reason, more and more Americans, including Elon Musk, are calling ESG a scam.

Misperceptions v. Facts

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MISPERCEPTION #1: ESG investing is good for society.

FACTS: ESG is good for advancing leftist policies, but many of the ideas ESG advocates push cause more harm than good to the average American.

- ESG is used by activists to defund and constrain the growth of politically disfavored companies, including firearms manufacturers, oil and gas companies, and animal agriculture.
- These subjective efforts create a range of perverse outcomes beyond the obvious lost jobs and economic growth to companies deemed "bad" by ESG standards.
- For example, the divestment from oil and gas companies is undercutting our grid stability and broader energy security, putting our families and communities at risk. It is forcing international allies to rely on unreliable—and even nefarious—countries, like Russia.
- ESG is a contributing factor to the high gas and electricity prices that hit low-income households the most, forcing many to choose between food or electricity.
- Divestment or financial bans from firearms and weapons manufacturing is undercutting military readiness at a time when global instability is increasing. It is making us all less safe.

MISPERCEPTION #2: ESG metrics are a good way to measure a company's moral compass.

FACTS: ESG metrics are a convoluted, subjective measurement set by high-end consultants that vary from firm to firm.

- High scores are more indicative of the amount a company spends on consultant fees and the use of favored verbiage within sustainability reports, rather than the standardized, measured outcomes of any objective good.
- This reality explains how Chinese companies that use forced labor and have horrific environmental records receive a higher ESG rating than U.S. energy companies. It's also why Russian state-owned energy firms scored higher than

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privately-owned American and Canadian oil and gas companies, despite Russia's violent Ukrainian invasion.

- Recent reports found ESG is increasingly used to justify poor business performance or cover for poor labor and environmental compliance records.

MISPERCEPTION #3: ESG investing is a legal way for investors to support causes they believe in.

FACTS: A growing number of legal experts are labeling ESG investing as illegal collusion against politically-targeted businesses that could violate antitrust laws.

- Some legal officers, including the Kentucky Attorney General, are also pushing back after finding that ESG investing practices, "which introduce mixed motivations to investment decisions, are inconsistent with Kentucky law governing fiduciary duties."
- More broadly, 44 states have adopted legislation built off of the Employee Retirement Income Security Act (ERISA) that makes it unlawful to sacrifice the financial interests of beneficiaries for other interests aimed at advancing a "particular social cause."
- The State Financial Officers Foundation, a coalition of 27 states' top financial leaders, offered support for state treasurers who push back on using tax dollars to fund ESG policies that harm the business and consumer interests in their respective states.
- Three states—West Virginia, Texas, and Idaho—found other ways to effectively push back:
  - West Virginia now requires the state treasurer to publish a Restricted Financial Institution List of companies that boycott energy companies.
  - Texas promised to bar investment firms from participating in their state pension fund if they engaged in discriminatory practices against lawful energy companies.
  - Idaho called out S&P 500 for its biased credit rating system.

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MISPERCEPTION #4: ESG investing is more profitable than non-ESG investing.

FACTS: ESG funds consistently **perform worse** than non-ESG funds, which is proving especially harmful for pensioners and retirees.

- One report by University of Chicago researchers **analyzed** the Morningstar sustainability ratings of more than 20,000 mutual funds representing over $8 trillion of investor savings. The report **found** that "although the highest rated funds in terms of sustainability certainly attracted more capital than the lowest rated funds, none of the high sustainability funds outperformed any of the lowest rated funds."
- Another **analysis** comparing one of the leading ESG funds to the S&P 500 found that, as of mid-2022, the ESG fund was down 23.7% vs. 20% for the S&P 500 index.

MISPERCEPTION #5: ESG is an important policy tool for fighting climate change.

FACTS: Climate change will continue to be addressed by technological breakthroughs, not complex accounting metrics advancing progressive agendas.

- Climate change is not a **serious threat** to the finance sector.
- The bigger threats to the financial sector include making decisions based on skewed financial models designed for **hyperbole** instead of plausible outcomes and the politicization of markets through ESG metrics.
- To the latter point, one current U.S. financial officer **warned** that ESG "can do real damage to the economy because it ends up making resource allocation decisions, not based on who can put those resources to the best use, but based on who can convince people that it satisfies someone else's political agenda."

MISPERCEPTION #6: My retirement plan is not impacted by ESG investing.

FACTS: Asset managers like BlackRock, Vanguard, and State Street, which collectively manage over $21 trillion, including a large portion of U.S. based retirement funds, **subscribe to ESG**.

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- As they prioritize politics over profits, these asset managers are producing lower returns for the retirees and pensioners that have been planning for them.
- One poll asking who—asset managers or individual investors—should decide whether retirement funds and pension plans are allocated towards ESG criteria **found** that 66% supported the right of individual investors to opt out of ESG-style investments. Only 20% supported deferring to asset managers.
- There are efforts on Capitol Hill, including the recently introduced **INDEX Act**, which would return the voting power in corporate governance to individual and active investors, not managers.

MISPERCEPTION #7: ESG is leading to more women in the workplace and better workplaces for women.

FACTS: Companies busy preaching politics in line with the "S" or social rubric of ESG in the workplace, rather than prioritizing their bottom line, are turning **serious female professionals off**.

- Gender-based board quotas reek of tokenism and affirmative action, which may worsen sexism by perpetuating the harmful stereotype that women are weaker and need special treatment to succeed.
- These quotas, first implemented in Norway, were **associated** with decreased stock prices and firm values, presumably because they resulted in the appointment of under-qualified or inexperienced female trustees.
- These quotas did **NOT** show any relationship to improved workplace policies for women, such as reduced gender wages gaps.
- This emphasis on social policies distracts companies from attracting workers back to the office, including the more than **two million women** who have checked out from traditional jobs.
- Many women are actively **seeking** freelancing options that provide more freedom to balance work-family life, flexible work hours, and higher wages. Companies will struggle to compete with flexible work options if they focus on social policy.

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MISPERCEPTION #8: ESG metrics help developing countries grow their economies in an environmentally-friendly way.

FACTS: Countries with the highest ESG scores are either in the midst or on the verge of economic collapse.

- **Sri Lanka** has a nearly perfect ESG score, in part because it banned the use of chemical-based fertilizers in 2021. This led to a dramatic drop in crop yield and famine, resulting in economic collapse and a presidential resignation.
- The best way to support better environmental futures around the globe is to set up affordable, reliable energy grids upon which robust economies can be built. The wealthiest **countries** are also the cleanest.

MISPERCEPTION #9: The "E" preferences are vital to our nation's environmental improvements.

FACTS: ESG investing is designed to shift investments away from the fossil-fuel industry and curb related industrial development. This flawed approach ignores the reality that we lead the world in overall emissions reductions because of advancements in the oil and gas industry that make up **80%** of the energy we need to fuel our economy and modern way of life.

MISPERCEPTION #10: ESG-supported energy sources are being underutilized.

FACTS: ESG investing ignores the reality that the ESG preferred technologies, like wind and solar, are not technically capable of meeting current energy needs, much less future energy growth. Both wind and solar have become larger parts of our energy supply but they still only produce a small fraction of our total energy needs. Wind provides around **9%** of U.S. electricity and solar a mere **2.8%**.

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MISPERCEPTION #11: The "S" and "G" push policies that most Americans already support.

FACTS: ESG investing has become a tool to advance the Left's broader agenda which has become trendy among increasingly progressive corporate leaders but that is not supported by most Americans.

- These policies include measuring the number of non-gendered bathrooms in the workplace, meeting race-specific hiring quotas, teaching critical race theory (CRT) sessions with management, as well as support for liberal campaigns, such as defunding the police, and progressive politicians.
- Example: Investors have **revealed** a standing policy at Goldman Sachs' that they will not take a company public in the United States if its board isn't sufficiently diverse in regard to race, sexual orientation, and gender.
- Polling reveals the majority of Americans oppose these policies:
  - 51% of Americans believe bathroom use should match one's biological sex.
  - 43% of Americans believe CRT will worsen race relations compared to 23% that don't; Latinos and Asians oppose Critical Race Theory by a **two-to-one margin**.
  - 73% of Americans oppose racial quotas in hiring.
  - 58% of Americans oppose defunding police.

MISPERCEPTION #12: The "G" preferences for "stakeholder capitalism" are an important way to make capitalism fairer and more inclusive.

FACTS: One analysis **found** that ESG metrics limit employees' freedoms and privacy ultimately reducing viewpoint diversity.

- As "G" or governance policies prioritize checking boxes, a **2022 Business Index** analysis found evidence of decreased viewpoint diversity within top corporations. Out of a possible 100, 50 of the largest U.S. corporations scored an "**abysmal**" 12.
- Some companies incorporate diversity language solely for **marketing** benefit. Two high profile cases exposed this practice:
  - Wells Fargo employees **interviewed** "diverse" candidates after the position had already been filled.

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- A former Miami Dolphins head **coach** has alleged the New York Giants attempted to circumvent a diversity requirement in the Rooney Rule by holding a "sham interview" with him three days *after* it was promised to another candidate.

- One **analysis** found the diversity business is booming, but diversity within corporations is not. Google for example reportedly spent $114 million on its diversity program in 2014, but its diversity report in 2019 showed that blacks made up just 3.3% of the workforce and held 2.1% of tech and 2.6% of leadership roles.

MISPERCEPTION #13: ESG has no effect on our national security.

FACTS: ESG efforts to curb U.S. oil and gas development weaken America and empower our enemies.

- A robust oil and gas industry is **key to national security** and has served as an important diplomatic tool in the past.
- ESG standards have diminished the strength of U.S. oil and gas making American consumers vulnerable to global price hikes while also undermining our ability to protect allies abroad from authoritarian leaders who use energy as a geopolitical weapon.
- One **report** estimates that in 2021, oil and gas production remained 23% below the pre-pandemic level of $525 billion, while investment slumped by 30% in 2020 due, in large part, to ESG investing.
- The retraction of U.S. energy has empowered Putin to **inflict pain** on Ukrainian allies by shutting off or severely limiting access to Russian gas.
- As the Biden administration has embraced ESG policies and an anti-fossil energy stance in America, they have begged for oil from authoritarian regimes, like **Venezuela**, known for committing humanitarian crimes and disastrous environmental standards.

Quiz

Take this quiz and find out what you know about ESG.

1 ESG metrics measure how well a company does the following:

A. Maximizes value for shareholders
B. Complies with labor and environmental standards
C. Aligns with left-wing values and virtue
D. Helps create a better future

2 True or False: The majority of investors support integrating ESG metrics into investment decisions.

A. True
B. False

3 ESG investing promotes the following:

A. Environmental progress
B. Productive workplaces
C. A stronger economy
D. All of the above
E. None of the above

4 The negative consequences of ESG investments are most prominently felt by:

A. Elon Musk
B. Retirees/Pensioners
C. BlackRock
D. The President
E. The Fed

5 True or False: ESG investing produces a range of unintended consequences like unreliable energy grids and undercutting military readiness.

A. True
B. False

Quiz Answers

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Q1 ANSWER: C

Aligns with left-wing values and virtue. ESG has become a tool to advance the Left's view of virtue and social social good, which typically includes:

- switching to wind and solar energy to pursue "net zero" standards
- divestment from politically disfavored industries
- diversity, Equity, and Inclusion initiatives
- gender- and/or race-based quotas for leadership

Q2 ANSWER: B

False. American investors—by an overwhelming margin—want companies they invest in to stop preaching and pursue profits, and they want no part of the Environmental, Social, and Governance (ESG) movement. Among 1000 polled investors, only 29% viewed social and political investing as "good" while 58% viewed it as "bad" making it a clear two to one preference among investors that companies steer clear of ESG investing.

Q3 ANSWER: E

None of the Above. ESG policies cause more harm to the environment by shutting down the development of fossil-based energy, like natural gas, that has been a key driver of modern environmental progress. ESG forces divisive politics into workplaces and encourages employee training that divides colleagues based on race or gender. Finally, environmental policies pushed under the ESG rubric are worsening inflation, which is undermining our economy. Referred to as "greenflation," the ESG-driven push away from fossil fuels, notably in the form of advancing net-zero policies, "created a chain reaction resulting in higher energy prices and, ultimately, higher consumer costs," according to the Chief Global Strategist of Principal Global Investors, LLC.

Q4 ANSWER: B

Retirees/Pensioners. Advocates pushing ESG investing are largely insulated from the resulting financial consequences. Large asset managers like BlackRock, Vanguard, and State Street that prioritize ESG investing on behalf of retirement funds have produced low returns, forcing retirees to figure out how to get by during an especially volatile economy. Regardless of whether these companies deliver any of their promises for the environment, social justice, or financial stability, they still get paid their premium fees.

Q5 ANSWER: A

True. ESG metrics aim to shift capital investment away from companies that engage in politically disfavored industries including military contracts or traditional energy such as coal, oil, or natural gas. The prevalence of this effort in the European Union has caused Sweden's largest banks to refuse to finance arms production for years, undercutting military readiness. Given the war in Ukraine, they are now proposing to **rethink** these metrics as defense and security is prioritized over social outcomes. Efforts to defund fossil energy are a **contributing factor** to high gas and electricity prices today and setting us up for **major shortages** in the future.

ESG in 60 Seconds

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What is ESG?
Traditionally, the goal of investing is to maximize *value* for shareholders. ESG is a new form of investing by the Left. It stands for environmental, social and governance.

An ESG rating is a politically-based metric for how well a company or investment aligns with the Left's view of virtue and social good:

- Switching to wind and solar energy
- Divestment from politically disfavored industries (such as firearms)
- Diversity, Equity, and Inclusion initiatives (hiring quotas/mandates)
- Proxy voting or other "stakeholder-focused" initiatives

Why Does ESG Matter?
ESG investing is causing harm to retirees, pensioners, our economy, our national security and many industries we depend on everyday.

- ESG investing is reducing returns for retirees's pension plans and 401Ks.
- Low ESG scores result in pressures that limit growth and put companies out of business, resulting in lost jobs and reduced tax revenue.
- If ESG standards are mandated across the federal government, it will **deter innovation and entrepreneurship**.
- ESG standards often unfairly punish American companies while turning a blind eye to humanitarian and environmental atrocities in places like China. They weaken America and empower our enemies.

A Better Way Forward:
The U.S. market must remain accessible for any entrepreneurial-minded person or industry, regardless of political ideology or affiliation.

We must prevent ESG alignment from becoming a mandatory standard for market participation.

When large investors make decisions on behalf of smaller investors, especially ones that impact retirement savings and plans, they must focus on maximizing value instead of bending to the whims of trendy politics.