Post-ESG era for corporations, investment nears

By Allen Mendenhall

Published September 26, 2022

Fox News

By now you've heard about Environmental Social and Governance, or ESG. But do you know why it's controversial?

If you haven't researched asset management, the answer is probably no.

The role of asset managers is to invest people's money – their assets – in mutual funds, securities or exchange-traded funds that yield good returns. Why would you entrust an investor with your money if not for the expectation that its investment on your behalf will appreciate in value or generate income?

Traders work the floor of the New York Stock Exchange. (Spencer Platt/Getty Images/File)

Under this arrangement, the asset manager isn't the beneficiary of the holdings it manages. You are. The asset manager has a fiduciary duty to you – and must act with good faith, candor and heightened caution – because it controls your money. It's unethical to use someone's money in ways he or she doesn't like, or in ways he or she doesn't agree to. Individuals, by contrast, are free to indulge ESG goals when investing their own money.

WOKE WALL STREET IS IN FOR A RECKONING

These are basic principles – yet many asset managers and mutual funds seem to have forgotten, ignored or neglected them.

Many investment companies have used ESG criteria to screen corporations for inclusion or exclusion. Rather than investing assets where they will yield the most returns, or on the basis of financial performance, these investment companies invest assets in funds consisting of corporations that meet certain ESG criteria. Under the guise of stewardship, they're expanding their fiduciary responsibilities to include climate change and using their proxy power to strongarm companies at the board level.

Two problems: First, corporations easily game the system, figuring out how to meet the ESG criteria and improve their public image and reputation without actual commitments to any one of the three ESG prongs; second, the investment companies are mismanaging people's money and leveraging their proxy power to intimidate company boards.

Top executives and board members at major asset management companies have done a great disservice to investors by pursuing ESG objectives over fiduciary duties. Large investment companies have gotten wealthy investing state pension money in underperforming ESG funds – at the expense of the beneficiaries. To the extent that public pension fund managers are responsible for this situation, they have vastly increased risks to taxpayers who could be expected to bail out these funds if they fall short of the returns necessary to pay retirees.

FORMER BLACKROCK EXECUTIVE ARGUES ESG IS BAD FOR SOCIETY AND YOUR WALLET IN WSJ OP-ED

To make matters worse, the biggest asset managers – companies like BlackRock, Vanguard and State Street – have gained voting rights in publicly traded companies and are pushing those companies into "wokeness." Rather than divesting from the corporations that don't satisfy vague ESG standards, the asset managers use their proxy power to change the corporations in leftward directions.

This raises troubling questions: Aren't the true owners of these companies the clients of the asset managers, the people whose money the asset managers are investing and supervising? When an asset manager aggregates hundreds of funds, which include companies in which it enjoys voting rights and companies that directly compete, how can the asset manager vote in the best interests of any one of these companies? Aren't there conflicts of interest?

The unethical character of companies like BlackRock is finally coming to light.

Responding to warnings from Republican state attorneys general, BlackRock, earlier this month, denied that it "dictated" specific emissions targets to companies. Now New York Comptroller Brad Lander, the custodian and delegated investment adviser to the New York City Retirement Systems and a man of the left, decries the apparent contradiction: "BlackRock cannot simultaneously declare that climate risk is a systemic financial risk and argue that BlackRock has no role in mitigating the risks that climate change poses to its investments by supporting decarbonization in the real economy."

There's hope. People are pushing back.

The Manuel H. Johnson Center for Political Economy at Troy University, which I direct, has launched a Free Enterprise Scholars program to teach undergraduates the sound business ethics that are sadly and profoundly lacking among large investment companies. Our numbers are small, but we hope to inspire faculty at other colleges and universities to be courageous, and to provide a forum for those who are aware of the dangers presented by ESG.

The Heritage Foundation has launched a digital campaign called "ESG Hurts" that's an indispensable resource for anyone hoping to learn more about ESG. The Heartland Institute has tip sheets and other valuable information about ESG for lawmakers.

Also, 2ndVote Advisers creates indexes and exchange-traded funds and asset management services grounded in the conviction that investors should enjoy alternatives to ESG and other left-leaning social trends in asset management. It uses the proprietary scoring research of 2ndVote Analytics, which rates companies on their political and social leanings. Then, 2ndVote Advisers uses financial and economic analysis to incorporate eligible companies into portfolios with high-return prospects.

CLICK HERE TO GET THE OPINION NEWSLETTER

Strive Asset Management is a new financial firm delivering a post-ESG message to corporate America. It offers index funds on the New York Stock Exchange that mirror those offered by large asset managers like BlackRock. The difference is that, when Strive invests in companies, it doesn't seek to coerce them into political positions or "woke" policies.

A street sign for Wall Street outside the New York Stock Exchange. (AP Photo/Mark Lennihan)

Strive just released three letters to the CEOs of Chevron, Apple and Disney. The message: your embrace of ESG and related political moves are not just bad for business, but breaches of fiduciary duty.

We need more asset managers like Strive that won't preach to corporate America about fighting climate change or demand racial equity audits as conditions for doing business. We need investment companies that encourage corporations to focus exclusively on their core mission.

CLICK HERE TO GET THE FOX NEWS APP

A pharmaceutical company should concentrate on developing important medicines; oil companies on producing energy; solar companies on manufacturing better panels; and so forth. The goal is to maximize long-term financial results for shareholders, not to bully companies into social causes with which their consumers and investors may disagree.

There's still a long way to go, but we're starting to see the stirrings of a post-ESG era in which companies can be liberated to just do business again. The post-ESG era draws nigh.

CLICK HERE TO READ MORE BY ALLEN MENDENHALL

Allen Mendenhall is associate dean and Grady Rosier Professor in the Sorrell College of Business at Troy University, where he directs the Manuel H. Johnson Center for Political Economy. Visit his website at AllenMendenhall.com.

This material may not be published, broadcast, rewritten, or redistributed. © FOX News Network, LLC. All rights reserved. Quotes displayed in real-time or delayed by at least 15 minutes. Market data provided by Factset. Powered and implemented by FactSet Digital Solutions. Legal Statement. Mutual Fund and ETF data provided by Refinitiv Lipper.Do Not Sell my Personal Information - New Terms of Use - FAQ