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ESG Investing

Report

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Introduction

Environmental, social and governance (ESG) investing peaked in popularity in 2021 as trillions of corporate and investor dollars flowed into companies and funds that meet certain criteria. Government regulators in Europe and the United States are formalizing how to report some ESG elements, such as greenhouse gas emissions, labor and diversity practices and board structure. That has spawned a backlash in the United States, mostly from elected Republican officials who object to what they call “woke” policies and federal overreach they say stifles some industries while diverting focus from shareholder gains. Proponents, including many Democrats, say climate change and labor issues make it impossible to ignore the elements of ESG when assessing risk to a company's profit. Though the term may go away, increasing government regulation, extreme weather stemming from climate change and workforce issues may mean investors will not give up the underlying elements of considering ESG factors in investing anytime soon.



A mobile billboard calls out House Republicans for opposing investment strategies that consider risks from climate change, labor rights and diversity issues. ESG supporters say environmental, social and governance factors should be considered in today's changing world, while opponents say such “woke” policies may not provide the best return on investment.

(Getty Images/Congressional Integrity Project/Jemal Countess)

Overview

Allison Kade discovered climate change as a 6-year-old watching her favorite cartoon, “Captain Planet and the Planeteers.” At 35, she uses ESG principles to invest, a strategy that screens metrics of companies and funds for environmental, social and governance issues.

“This feels like the adult manifestation of my childhood passion,” she said. “I can do something systematically that goes beyond the standard consumer fare, like changing out my light bulbs.”^{[1](#)}



A California plant generates clean energy using geothermal heat from deep underground. Many investors, especially young people, want to put their money into companies that promote beneficial environmental and management policies and fair labor practices.

(Getty Images/Corbis Historical/Nik Wheeler)

Kade's investing strategy may seem straightforward. But today, it is part of the U.S. culture wars.

ESG is an umbrella term. The environmental element may include factors such as sustainability and greenhouse gas reduction goals as well as preparedness for fires and floods tied to climate change. Social considerations may encompass goals such as ethical supply chains, a diverse workforce, labor and fair wage policies. Governance may cover the company's management practices, including board elections, executive pay levels and shareholder voting policies.[2](#)

Many shareholders and fund managers use ESG principles to identify investments they feel address these issues over the long term. In 2021, some 86 percent of companies listed in the S&P 500 index regularly issued some kind of ESG report, up from 35 percent in 2010, according to one study. Until recently, most ESG disclosure has been voluntary with few government regulations, but that is changing.[3](#)

Increasing Government Regulation

Today, ESG discussions have spread from Wall Street and the investing world to Congress, the White House and state legislatures. Internationally, governments are moving to formalize pieces of ESG investing metrics and data disclosure through regulation.[4](#)

In the United States, increasing government ESG regulation has ignited a backlash, mostly from Republicans who object to what they say are policies that inappropriately expand government oversight and restrict key industries including oil and gas, while straying from the previous focus on purely shareholder gains.[5](#)

Advocates of considering ESG factors in investing decisions say investors and managers alike should have a clear understanding of the risk to the bottom line that can accrue from climate change, social policies such as wage levels in labor contracts or diversity hiring goals as well as how company executives and boards operate, including executive compensation. These factors are key in deciding whether a company or fund will perform well over the long term, advocates say.



Former House Speaker Kevin McCarthy, R-Calif., signs a resolution March 9 to block a Biden administration rule encouraging retirement managers to consider ESG factors when making investment decisions. Biden vetoed the measure.

(Getty Images/Drew Angerer)

As federal rules are formalized, Republicans in Congress and in some states have introduced — and in some cases passed — laws and policies that limit or ban public officials and money managers from considering ESG factors when making investment and some contract decisions. They argue investment decisions should be based solely on financial returns. In turn, some Democrat-led states have formalized allowing ESG as a factor in investing decisions. For example, California legislators in September voted to require that some companies disclose their greenhouse gas emissions, or GHG. Cutting back on emissions is one key to slowing climate change, according to scientific consensus.[6](#)

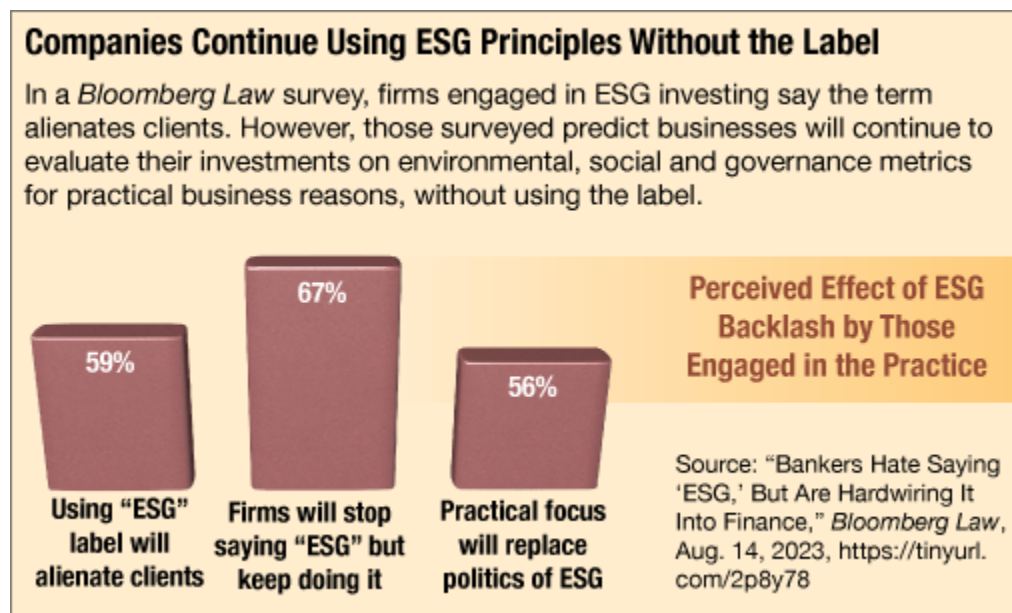
“ESG has been caught in the culture war cross hairs in the U.S.,” said Alexandra Mihailescu Cichon of RepRisk, which follows ESG goals for companies. “It’s become a liberal versus conservative, Democrat versus Republican issue.”[7](#)

Trillions may be at stake. In the United States, assets under management (AUM) by private firms such as Blackrock and State Street — stocks, bonds and other investments — explicitly labeled ESG are forecast to more than double to \$10.5 trillion in 2026 from \$4.5 trillion in 2021. Global ESG assets will pass \$40 trillion

this year, reaching \$50 trillion by 2025, *Bloomberg Intelligence* estimates. That amounts to roughly one-third of all assets worldwide. Assets under management are largely retirement plans including pension funds and 401(k) plans managed by professional investors and analysts.⁸

Because the term ESG is broad, measuring what is included in fund titles or company marketing materials and reports can be confusing. That makes the need for clarity on what — and what does not — count as ESG more imperative, experts say.

“ESG measurement, analysis, management, and communication is a process that the financial industry has turned into a product, resulting in many investment funds using the ESG label,” wrote George Serafeim, a professor of business administration at Harvard Business School, in a June preliminary research paper. “This has caused confusion, generating demand for a framework that defines the objectives and characteristics of ESG investment products.”⁹



Until the 2020s, governments generally did not regulate what companies or funds said or disclosed in their reports when it came to ESG principles. Instead, investors and managers relied on standards set by a network of corporate coalitions, commitments and nonprofit disclosure standard-setting groups such as the Task Force on Climate-Related Disclosures (TCFD). While many fund managers and companies pledged to follow versions of these standards, they do not all match. The disparate pledges also left room for exaggerating cli-

mate efforts without good documentation, or “greenwashing.” That is where standardizing disclosure by governments comes in.[10](#)

“If you were to go back three years ago, ESG was uniformly viewed as a good and important thing,” says Michael Littenberg, a partner with law firm Ropes & Gray. “Where we are today is in a very different place. There is a lot more regulation than there used to be around disclosure, around substantive management of different types of ESG issues.”

Systemic Risks Threaten Profits

Some systemic risks, such as costs to mitigate the impact of rising temperatures that interfere with working conditions, diversify a workforce or resolve labor disputes worsened by the disparity between top-tier executive compensation and what the average worker earns are making headlines. In August, United Parcel Service (UPS), the biggest package courier, warned that its labor agreement with the Teamsters' union would add to costs, cutting into profit. The contract includes more paid vacation and air conditioning installation in vehicles amid extreme heat. In July, temperatures across the globe reached the highest since records began in 1880, according to NASA.[11](#)

The UPS near-strike falls under both the E and the S in ESG: The union demanded higher wages, while heat in delivery trucks intensified amid the hottest-ever global temperatures recorded in July and August. Governance issues also came into play this summer: In September, the United Auto Workers Union, while executing a limited strike, cited a 40-percent pay increase for the CEOs of automakers Ford, GM and Stellantis in recent years in demanding the same raise for rank-and-file workers, an expense that would eat into company profits. Corporate boards set and approve executive pay, a governance issue.[12](#)



A UPS driver makes a delivery in June in Miami. A last-minute July 25 deal averted a planned Aug. 1 strike by 300,000 UPS drivers seeking higher wages and air-conditioned trucks.

(Getty Images/Joe Raedle)

“There’s still this cognitive dissonance between using the label ‘ESG’ and accounting for the business impacts from these real-world issues,” said Rob Du Boff, senior ESG analyst at *Bloomberg Intelligence*. “People see ESG as bad, but when you say that wildfires have financial risks, they’ll agree with you.”^{[13](#)}

On the international front, other governments are also moving forward with new ESG rules, some now legally binding. In July, the European Commission approved a checklist requiring companies that do business in the EU to disclose policies and risk tied to climate change, as well as social factors such as human rights violations and gender parity. Canada, India, Nigeria and Singapore are also moving ahead with rules mandating companies disclose and report on ESG issues.^{[14](#)}

As the Biden administration took office in 2021, the U.S. Securities and Exchange Commission (SEC) formed a task force to crack down on ESG statements they say mislead investors. The United Nations (U.N.) called on governments, companies and banks globally to do the same.^{[15](#)}

The SEC in 2022 enacted new disclosure rules tied to ESG. An August 2022 final rule required companies to include a table in regulatory filings that links executive pay to shareholder return, an added requirement tied to governance. In September, the agency issued a regulation for labeling funds, called the Names rule. It requires funds with names that suggest a particular investment strategy, such as ESG, allocate at least 80 percent of their assets accordingly.[16](#)

Additional rules are expected this year, including one requiring companies to report greenhouse gas emissions. The agency may also require updated disclosure rules for “human capital,” or the economic value of a worker's experience and skills.[17](#)

Like standard financial statements, climate disclosures should be uniform to be useful to investors, says Steven Rothstein, managing director of the Accelerator for Sustainable Capital Markets at Ceres, a nonprofit organization founded by investors and environmentalists.

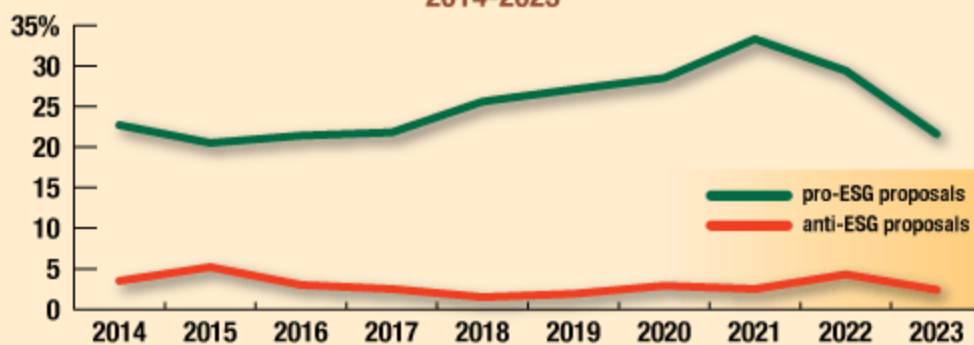
“Having a common set of rules will give people apples to apples,” Rothstein says. “Right now if you're an investor, and you say ‘I'm investing in five cement companies or restaurant companies or hotels’ or whatever it is and you want understand the climate impact, without a common set of rules, it's hard to compare.”

In 2023, House Republicans formed the ESG Working Group along with a plan to combat state and federal rules that allow or require consideration of ESG factors in making investment decisions. Their efforts coincide with a rise in anti-ESG proposals before company shareholder meetings. Democrats formed their own group called the Congressional Sustainable Investing Caucus to counter Republican moves against ESG investing.[18](#)

Anti-ESG Proposals Fail to Gain Traction with Shareholders

The number of anti-ESG shareholder proposals — recommendations requiring a vote of those who own shares in a company — has grown in recent years. However, support for such proposals remains low and pales in comparison to support for pro-ESG proposals. Over the last decade, support of ESG investing by shareholders has ticked up and down. While there has been a decline in votes for pro-ESG proposals since 2021, shareholder views have ultimately remained in favor of pro-ESG measures.

Average Percentage of Shareholder Support of Pro- and Anti-ESG Proposals, 2014-2023



Source: “Key Findings: Environmental & Social Issues in the 2023 U.S. Proxy Season,” Sustainable Investments Institute via Proxy Preview, July 27, 2023, <https://tinyurl.com/ytss3pj7>

In March, Biden used his first veto as president to kill legislation that would have prohibited investment rules set by the Department of Labor (DOL) in January. A reversal of a Trump administration policy, the rule allows investment managers who oversee 401(k) and other retirement plans under the Employee Retirement Income Security Act (ERISA) to consider ESG factors when making investment decisions.¹⁹

The bill, which made it through the Senate with votes from two Democrats before reaching Biden's desk, “put at risk the retirement savings of individuals across the country,” Biden said. House Republicans did not have enough votes to override his veto.²⁰

Twenty-six state attorneys general, largely from Republican-controlled states and led by Utah, sued the Labor Department in January over the changes. Several of those states earlier withdrew funds and canceled fund management contracts from large banks and investment firms such as Blackrock because they use ESG factors when making investment decisions. Blackrock says it is now pulling back from using the term ESG to characterize its investment strategies because of the political firestorm.²¹

“For generations, federal law has required that fiduciaries place their clients' financial interests at the forefront, and I intend to fight the Biden Administration in court to ensure that they cannot put hard-working Americans' retirement savings at risk,” said Attorney General Ken Paxton of Texas, one of the plaintiffs. A federal judge in Amarillo, Texas, on Sept. 21 sided with the Department of Labor, saying the final rule did not violate ERISA.[22](#)

Separately, House Republicans held eight congressional hearings starting in May, six of them in July, dubbing it “ESG month.”[23](#)

“Now, due to Democrats' ESG push, asset managers are prioritizing ESG goals over profit and risking Americans' hard-earned money,” said Rep. Pat Fallon, R-Texas, at the June 6 hearing. “With ESG investing, businesses are now tasked with accounting not only for their own carbon footprints, but maybe the footprint of their contractors and suppliers, the race and gender of their corporate boards, instead of the merit and performance of those same corporate board members.”[24](#)

Many Democrats objected.

“Today is the first of six hearings this month where Republicans will partner with a network of dark-money climate deniers and conspiracy theorists to wage their latest culture war against responsible investing and divert attention away from what really matters in people's lives,” Rep. Maxine Waters, D-Calif., said in opening remarks. “The Republican effort to dismantle ESG is integral to their agenda to gut diversity and inclusion across the board.”[25](#)

At the end of the hearings, Republicans led by House Financial Services Committee Chairman Patrick McHenry, R-NC, filed four bills, including one that limits the SEC's regulatory power over shareholder proposals. Another curbs the SEC's ability to compel disclosure.[26](#)

Amid tightening government regulations for ESG corporate metrics and investing, the financial industry is watching a second year of attacks on the strategy in the United States.

“When it comes to the three-letter acronym ‘ESG’ — people don't want to talk about it as much because of the news flow from the U.S.,” said Alex Bibani, a senior portfolio manager at Allianz Global Investors in London. “But from an investment perspective, and what we do internally, it has never been more important.”[27](#)

Background

The Emergence of ESG Principles

Modern ESG principles entered the investing world more than 20 years ago, stemming in part from the 2000 Global Compact between the United Nations, business and other entities such as NGOs to come to agreement on environmental, human rights and labor issues.[28](#)

The compact marked the beginning of a broadening from the philosophy of the late economist and Nobel laureate Milton Friedman, published in 1970, which defined profit and shareholder value as a businesses' primary responsibility.[29](#)



Economist Milton Friedman said in 1970 that corporations' primary responsibility should be profits and shareholder value.

(Getty Images/Alex Wong)

By 2006, the U.N. had unveiled its Principles for Responsible Investment. It provided six steps for institutional

investors to integrate ESG, known then as “sustainable investing,” into financial analysis.[30](#)

As the global economy emerged from the Great Recession of 2007-09, investors became even more concerned with “systemic risk,” or the pressure systems such as banking, the global workforce and climate change put on markets and investments as a whole, says Jon Lukomnik, co-author of *Moving Beyond Modern Portfolio Theory* and founder of investor advisory firm Sinclair Capital LLC.

Global concern about the environment has grown as more extreme events, such as floods, fires and record high temperatures, occur with more frequency. In 2015, the U.N. member states adopted 17 sustainable development goals requiring billions in investment from private investors. Separately, the U.N. held a conference resulting in the Paris Agreement, where countries agreed to take steps to limit climate change. It required all parties to “regularly” report on their emissions and efforts to curb them.[31](#)

President Donald Trump withdrew the United States from the Paris Agreement in 2017, saying it would undermine the U.S. economy. At the same time, 92 percent of U.S. companies surveyed by global accounting firm KPMG reported on “corporate responsibility” including ESG items that year, up from 87 percent in 2015. Globally, 75 percent did the same. Some 51 percent did not yet cite climate change as a financial risk.[32](#)

In 2018, Larry Fink, CEO of Blackrock, the world's biggest asset manager with \$9.2 trillion under management, put the corporate world on notice in his annual letter to CEOs. Blackrock would vote its holdings against managers and board directors that did not pay attention to long-term trends tied to ESG principles.

“A company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process,” Fink wrote.[33](#)

In 2019, Business Roundtable members — 181 CEOs of the largest U.S. companies — shifted from Freedman's philosophy of managing purely for shareholder gain. Instead, firms must also invest in employees, protect the environment and be fair with suppliers, they said.[34](#)



In 2005, former U.N. Secretary-General Kofi Annan urged the world's largest institutional investors to develop responsible investing principles to help address social and economic challenges in the world's poorest countries.

(Getty Images/LightRocket/Thierry Falise)

The start of the COVID-19 pandemic in 2020 and protests that followed the murder of George Floyd that year brought other social and economic issues, such as labor and diversity, to the fore, and joined climate change as issues the investing world began to assess as systemic risk.

“Basically, it’s ‘what does the company do to the environmental, social and financial systems,’ on whose health the capital markets rely, became an issue, primarily post the global financial crisis,” Lukomnik, of Sinclair Capital, says. “Because we all realized, wait a second ... we also have this global climate crisis and social issues that affected, ultimately, capital markets. So that’s why ESG is a systemic risk issue.”

A flood into ESG assets in the United States — stocks, bonds and other investments — peaked at about \$4.5 trillion in 2021, just as Biden rejoined the Paris Agreement, and the Labor Department reversed changes to allow ESG considerations in investing. Globally, ESG-related assets reached \$18.4 trillion.[35](#)

Chronology

1900–1990s

Investors and economists debate a company's purpose.

1928

A Boston group forms the Pioneer Fund, the first public offering with restrictions on so-called “sin stocks” such as tobacco, alcohol and firearms.

1932

A Harvard Law Review debate between Columbia University professor Adolf A. Berle and Harvard's E. Merrick Dodd debates whether a firm's purpose is to maximize profit for shareholders or operate in the interest of all stakeholders.

1962

Milton Friedman's *Capitalism and Freedom* is published; the economist argues a company's sole aim should be to maximize shareholder profit.

1970

Consumer advocate Ralph Nader successfully gets two socially based resolutions on the annual meeting proxy ballot of General Motors, then the country's largest employer; while both fail, it is the first time the Securities Exchange Commission permits social responsibility issues to appear on a proxy ballot.

1971

Socially responsible investing funds the Pax World Fund and the First Spectrum Fund are established in 1971, followed by the Dreyfus Third Century Fund.

1978

Michigan State University's board of regents votes to stop investing in companies that do business in apartheid South Africa.... Other higher ed institutions, such as Columbia University, follow.

1990

The Domini Social Index, made up of 400 mostly large-capitalization U.S. corporations, launches.

2000s–2010s

Global actions popularize investing under the ESG umbrella.

2000

United Nations (U.N.) Global Compact aims to win institutional investor support for efforts to limit climate change.

2004

A group of roughly 20 financial firms, backed by the Swiss government and the U.N., asks companies to consider sustainable principles when investing.

2005

U.N. Secretary-General Kofi Annan invites the world's biggest institutional investors to develop responsible investing principles. Legal analysis prepared for the U.N. concludes responsible investment analysis "is clearly permissible and is arguably required."

2006

The U.N. unveils its Principles for Responsible Investment, providing six steps for institutional investors to integrate responsible investing into financial analysis.

2008

Insurer AXA releases a survey of 350 investment professionals who say they prefer the term "ESG" to sustainability when integrating "new data" into mainstream research.

2011

The Sustainability Accounting Standards Board forms to establish voluntary accounting standards for some ESG issues such as greenhouse gas emissions.

2015

A U.N. special assembly adopts 17 sustainable development goals to curb climate change, slash inequalities and slow poverty.... The Financial Stability Board (FSB), an industry group that assesses risk, announces its Taskforce on Climate-related Financial Disclosures (TCFD), which sets volunteer parameters for greenhouse gas disclosures from companies.

2016

The Paris Agreement on climate change, which calls on countries to slash greenhouse gas emissions to curb global warming, takes effect.

2017

U.S. President Donald Trump withdraws the United States from the Paris Climate Accord.

2018

Larry Fink, CEO of Blackrock, the world's biggest asset manager, tells company chiefs to use ESG factors in long-term corporate planning or risk losing support.

2019

Business Roundtable members — 181 CEOs of the largest U.S. companies — abandon philosophy of managing solely for “shareholder value” to prioritize customers, employees and suppliers as well.

2020–Present

Global regulators form more definitive ESG policies.

2020

George Floyd is killed by police in Minneapolis, unleashing a social justice movement that reaches boardrooms; many companies pledge to address Diversity, Equity and In-

clusion (DEI) issues.... SEC updates its human capital rules, requiring firms to describe goals for the workforce and management that may impact the company's finances, such as diversity efforts.

2021

President Biden re-joins Paris Accord.... ESG-based fund inflows peak.... Texas passes a law prohibiting state entities from investing in or contracting with companies that divest from fossil fuel firms.

2022

Department of Labor issues a rule making it easier for private employers to consider ESG factors when picking investments for retirement plans.

2023

Twenty-six state attorneys general sue the Department of Labor over its new ESG rule (January).... Congress passes a law repealing the new Labor Department rule on ESG investing; Biden vetoes the legislation, and the rewritten rule stays in effect (March).... The Republican-led U.S. House of Representatives forms an “ESG Working Group,” holding eight hearings during what they call “ESG month” (July).

Current Situation

Government Actions

In 2022, the SEC proposed ESG disclosure rules including requiring companies to report greenhouse gas emissions, with the final rule expected in 2023. In September, the agency issued a final regulation for labeling funds called the Names Rule. Under it, funds must allocate at least 80 percent of assets to match the strategy the fund's name suggests, such as ESG.

“The SEC has no role as to climate risk itself,” SEC Chairman Gary Gensler said in July. “But we do have an important role in helping to ensure that public companies make full, fair, and truthful disclosure about the material risks they face.”[36](#)



Securities and Exchange Commission Chair Gary Gensler says the commission has a duty to ensure public companies are transparent regarding corporate risks caused by ESG-related issues. Republican lawmakers largely disagree and have been proposing anti-ESG disclosure legislation.

(Getty Images/Kevin Dietsch)

The SEC is working to coordinate more disclosure standards with those now mandated in Europe. In July, the European Union released a new set of ESG disclosure rules, important for U.S. companies because many do business in countries governed by the EU or buy from European suppliers. The rules formalize some disclosure standards set up by private coalitions and nonprofit groups crafted over the past two decades for climate and some social issues. For climate, the EU coordinates with the International Sustainability Standards Board (ISSB), formed in 2021 by the International Financial Reporting Standards (IFRS) Foundation, which oversees accounting standards in more than 140 nations, mostly in Europe and Asia.[37](#)

Republicans are fighting ESG formalization in the U.S., an effort that has intensified since early 2022.

During the 2023 congressional hearings, House Republicans sought to block the SEC's push for more transparent corporate-disclosure requirements for ESG-related issues. They also want more oversight of firms that advise shareholders on proxy proposals and to prohibit ESG considerations from funds governed by the ERISA Labor Department rule.[38](#)

Republicans filed four anti-ESG bills at the end of the hearings. Though widely considered unlikely to become law in this congressional session, experts see the bills as laying policy groundwork should Republicans win the White House in 2024 or a wider majority in Congress.

States are enacting their own policies. In 2023, at least 25 Republican-controlled states enacted anti-ESG bills or policies, according to a tracker maintained by the law firm Ropes & Gray. As of Aug. 25, several were still pending.[39](#)

That has put some public pension fund managers in a precarious position. A 2021 Texas law banning municipalities from doing business with banks and investment managers that consider ESG factors, for instance, raised borrowing costs by an estimated \$300 million to \$500 million, according to a preliminary study from

researchers at the University of Pennsylvania's Wharton School of Business and the Federal Reserve Bank of Chicago. Similar laws are in effect in other states.[40](#)

“The introduction of anti-ESG legislation in states like Arizona will push numerous bidders out of the process entirely,” said Coconino County Treasurer Sarah Benatar during one of the House hearings. “At best counties like ours would have one option to select from and would have to suffer higher costs.”[41](#)

Through June, at least 165 anti-ESG bills were introduced in 37 states, though many have been rewritten or withdrawn. Democrat-led states such as Illinois and Colorado, meanwhile, passed regulations requiring disclosures on investment risks tied to ESG factors including sustainability.[42](#)

Many state anti-ESG bills have been written using model policy language from the American Legislative Exchange Council (ALEC), a group of state legislators “dedicated to the principles of limited government, free markets and federalism.” Jonathan Williams, ALEC's chief economist, said he expects the push to be “a multiyear effort.”[43](#)

Industry Actions

ESG funds are still drawing in billions globally, even as some managers change labels to avoid the political fray.

In the United States, investors pulled \$635 million from sustainable investments from April to June, according to figures from Morningstar, a financial services firm that recommends and rates mutual funds. European sustainable funds attracted \$20 billion of new funds, down from \$34 billion in the first three months of the year. Globally, the value of sustainable fund assets rose to \$2.8 trillion at the end of June.[44](#)

Anti-ESG funds have not drawn major investor interest, peaking at \$377 million in the three months ending September 2022, according to Morningstar. However, fewer companies are mentioning ESG on earnings calls, where investors and analysts typically ask questions of management, according to figures from FactSet, a research firm used by financial professionals.[45](#)

Blackrock's Fink, fed up with the political rhetoric and personal attacks, said he has given up using the term ESG. Though Texas pulled \$2 billion from Blackrock, some \$200 billion flowed into ESG-related funds last

year, Fink said.

The investor and CEO letters “were written to identify long term issues to our long-term investors,” Fink said in June. “I’m not going to use the word ESG because it’s been misused by the far left and the far right.”[46](#)

Support for resolutions through July 13 on climate change, labor issues, diversity and corporate governance dropped by about one-third for the 2023 annual meeting season from a 2021 peak, according to the Sustainable Investments Institute (Si2), a nonprofit research firm in Washington.[47](#)

There was scant support for explicitly anti-ESG shareholder proposals with the 52 proposals drawing less than 3 percent of shareholder votes, fewer than needed to resubmit the proposals, according to Si2.[48](#)

Some companies are backpedaling to stay out of the U.S. fracas. Of 1,200 firms that set climate targets, one in four are not planning on publicizing them, reports South Pole, a climate consultant.[49\(See Short Feature.\)](#)

Short Features

Scrutiny, New Regulations Lead to Rise of Greenhushing

More companies keep quiet about climate initiatives.

Amid Republican pressure to exclude environmental, social and governance (ESG) factors from new regulations on ESG investing in the United States, a new buzzword emerged last year: “greenhushing.”

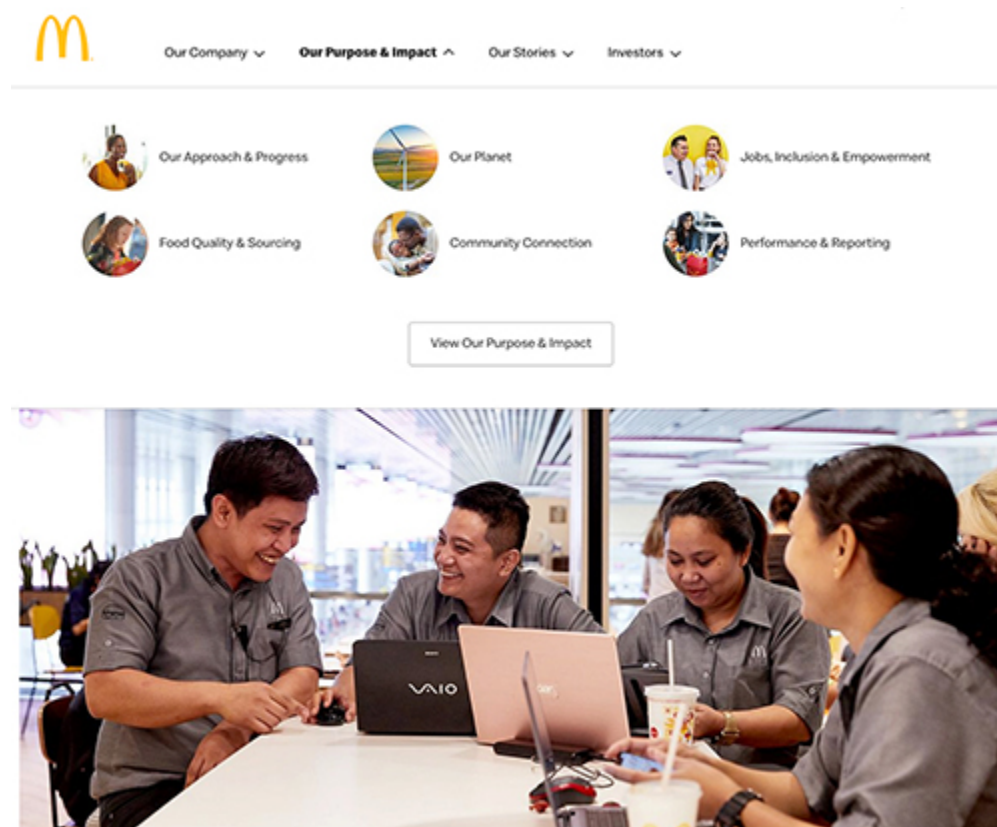
While it sounds like the more well-known “greenwashing” — when a company makes misleading, exaggerated or outright false claims about its climate or environmental policy — greenhushing may be considered the opposite. It means when a company pushes policies to combat climate change but does not publicize, or deliberately hides, those actions.[1](#)

Emerging regulations in countries such as Canada, the European Union, India, Japan and the United States to curb greenwashing has led to some companies throttling back statements they cannot prove.

“Greenhushing’ gained traction in fall 2022 in response to the groundswell of scrutiny [by governments] of companies’ ESG commitments and disclosures,” said Lisa Sachs, director of the Columbia Center on Sustainable Investment, a joint group formed by Columbia University’s law and climate schools.[2](#)

For instance, in August, fast food giant McDonald’s removed the term “ESG” from parts of its “Purpose & Impact” website.[3](#)

McDonald’s is not alone. Of 1,200 firms in 12 countries that set climate targets, such as how they will reach net zero greenhouse gas emissions, one in four are not planning on publicizing those plans, according to an October 2022 report from South Pole, a climate consultancy and carbon offset developer.[4](#)



McDonald's, along with some 1,200 companies, is working to meet certain ESG goals, but the company has removed the term from its corporate materials. Such “greenhushing” has resulted from a political backlash against ESG in the United States.

(Screenshot/Corporate McDonald's)

"It is really, for us, highly concerning," said Nadia Kähkönen, global director of communications at South Pole, a Swiss climate consultancy and carbon offset developer. "Now is not the time to stay tight-lipped on how we're progressing."

ESG mentions during earnings calls for companies that are components of the S&P 500 index, a time when investors and analysts often directly question top management about strategy and results, dropped to their lowest level since the second quarter of 2020, according to FactSet, a research firm used by financial professionals. Some 74 companies uttered the ESG acronym between March 15 and June 9, down from a high of 156 times during 2021's first quarter, FactSet found.[5](#)

South Pole's report points to France as an example of new regulations driving the decline in corporate materials with mention of ESG goals. The country is one of a handful of governments that have a specific regulation to curb greenwashing. Companies based there were among the least likely to talk publicly about their goals. They may want to avoid lawsuits over inaccurate statements, the authors wrote.[6](#)

The threat of fines and lawsuits is real. In September, the Deutsche Bank's DWS asset management unit agreed to pay a fine of \$25 million to settle SEC allegations of greenwashing and anti-money laundering missteps.[7](#)

Companies that rate funds are also looking more closely at the ESG label. In February 2022, Morningstar removed the ESG label from roughly 1,200 funds because they were not meeting their stated ESG goals under Europe's regulations. The largest fund managers — Blackrock, State Street and Vanguard — all made tweaks to their public-facing websites.[8](#)

In August, S&P Global stopped including ESG scores with its bond assessments, breaking with rivals Moody's Investors Service and Fitch Ratings.[9](#)

"I applaud S&P's public comments indicating they are changing course and following the [existing] law by putting its shareholders before a political agenda," said Missouri Attorney General Andrew Bailey in a statement. He also called ESG "illegal, woke investing."[10](#)

S&P Global said the decision was "an independent, analytical decision."[11](#)

"We can see how firms are maybe caught in the trap between appearing not green enough or too green at the same time," said Mirko S. Heinle, an associate professor of accounting at the Wharton School of

Business. “It’s just a matter of who you want to make angry a little bit.”[12](#)

Precision will be increasingly important as new government regulations emerge, such as the U.S. Securities and Exchange Commission’s (SEC) proposed greenhouse gas emissions rule that may require companies based in the United States to precisely disclose how much greenhouse gas (GHG) they emit. The SEC also issued a final rule in September that requires 80 percent of a fund’s components to match their label’s name, including those that call themselves ESG funds. In Europe, new ESG-related regulations require GHG emissions disclosure as well as social metrics, including human rights violations and bribery policies.[13](#)

“Greenhushing suggests that companies are burying information, whereas I think there’s just a lot more intentionality and an attempt to be a lot more precise in what companies are talking about publicly,” says Michael Littenberg, a partner with law firm Ropes & Gray who advises companies on ESG matters. “And making sure communications are just well thought through as opposed to burying communications or not speaking publicly.”

Greenhushing may be a “short-term phenomenon,” says Steven Rothstein, managing director of the Accelerator for Sustainable Capital Markets at Ceres, a nonprofit organization founded by investors and environmentalists.

“We hope and believe that is a short-term phenomenon, but that is a real concern in the United States,” Rothstein says. “Companies need to be clear about their goals. You want public statements to help create momentum — if company X says they’re doing this — they’re competitive.”

Paul Clements-Hunt, who led the United Nations group responsible for the ESG acronym, said the whole point of ESG was to shift from the socially responsible investing label to profit and risks tied to the specifics with greater precision, such as measuring greenhouse gas emissions and disclosing those measurements to investors. The attacks, he said, mean ESG gets more time in the public eye.[14](#)

In turn, investors are likely to demand more specifics they can compare with like investments before putting funds into a company, fund or strategy.

“That’s exactly what we want,” Clements-Hunt said. “What took them so long?”[15](#)

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- Rachel Layne

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Pro/Con

Should states ban environmental, social and governance (ESG) factors from investment decisions?

Pro

Marlo Oaks

State Treasurer of Utah. Written for *CQ Researcher*, October 2023

ESG is an alternative economic system that is far less benign than it sounds. Short for environmental, social and governance, ESG is a scheme that is incompatible with our free market system.

Proponents of the framework argue ESG is designed to provide investors with more information to make better-informed decisions. Under U.S. law companies are already required to disclose financially material risks to investors. There isn't a need for a separate ESG rating.

In reality, ESG isn't about investing. On the surface, the E is focused on pushing net-zero carbon emissions. But proponents of climate initiatives want to [transform the global economy](#). Christiana Figueres, who oversaw the writing of the Paris Climate Agreement, said in 2015 [the true goal](#) of pursuing climate change initiatives is to abandon the economic model that has been the engine of global growth for 150 years.

The U.S. economic system places consumers at the center. Conversely, ESG places elites such as the United Nations, large government investment pools and the World Economic Forum and their demands at the center of its system. Apparently, citizens aren't smart enough to know what's in their best interest.

For example, the Netherlands, the world's second-largest exporter of agricultural goods, is trying to close 3,000 farms due to climate change concerns. But those concerns aren't shared by most consumers, who haven't stopped buying Dutch agricultural products. In the United States, despite government incentives and high-profile company commitments, vehicle manufacturers' [electric cars sit unsold on dealership lots](#).

The S in ESG focuses on diversity, equity and inclusion. Except those terms don't mean what most people think they mean. Today, diversity means demographic only and ideological purity. Equity means equal outcomes. Inclusion means only for those in the chosen demographics and excluding all others.

The G in ESG was added to lend credibility. Governance in shareholder capitalism refers to such things as board independence and tying CEO pay to shareholder value. But ESG governance is stakeholder capitalism, in which companies ultimately must serve society. Efforts include pushing companies to adopt employee and board demographic quotas and tying management pay to ESG metrics.

Researchers [recently surveyed](#) over 1,000 studies published between 2015 and 2020. They found a statistically significant *negative* relationship between ESG strategies and investor returns.

More and more people are waking up to the realities of ESG. And they don't like it.

Con

Michael Frerichs

Illinois State Treasurer. Written for *CQ Researcher*, October 2023

Most people have a difficult time understanding what is meant by the term “ESG.” Simply put, ESG is data. ESG is information investment professionals use to assess risk and prospective investment returns. ESG is about value, not values.

Banning an investment professional's ability to consider relevant and material factors is dangerous and irresponsible. To tell a professional to ignore information that they can use to do their jobs better shows a fundamental misunderstanding of the role of a fiduciary and imposes real costs on taxpayers, pensioners and hard-working families. It is like telling a truck driver to do their job but not to use their mirrors when hauling heavy machinery — it's downright dangerous.

In my role as Illinois state treasurer, I am responsible for investing not just for the next quarter, but the next quarter century. As a fiduciary, I am required to act in the best interests of beneficiaries and to put them first by fulfilling my proper duty of care and exercising prudence. Duty of care requires that we take into consideration all material information reasonably available with the highest degree of care, caution and skill to inform our investment decision making.

To maximize returns, an investor must be able to manage and mitigate risk. The more data we have, the better investment decisions we make. Integrating ESG factors as part of a broader investment pantheon is purely about looking at a wider range of risks and strategic growth opportunities that can have a financial impact on investment performance. At its core, ESG assessment is about evaluating a company's development of long-term strategic plans, identifying and mitigating material risks and recognizing growth opportunities.

The end objective of integrating ESG factors in investing is to optimize risk and return as a part of a long-

term investing strategy. This approach is backed by [academic research](#). Companies that value their workers have less turnover and higher productivity. Companies that build a strong governance structure are in a better position to be more resilient and valuable over the long-term. Companies that can build durable and sustainable economic value over time are more likely to be successful in the future.



Discussion Questions

Here are some issues to consider regarding ESG investing:

- Why are governments around the world enacting stronger ESG regulations?
- What factors have contributed to the rise of greenhushing?
- How have the U.S. culture wars impacted ESG investing?
- Proponents of ESG investing maintain the practice will continue, even if the label disappears. Do you agree? Why or why not?
- In your opinion, what are some of the benefits of ESG investing? What are some of the drawbacks?

Outlook

ESG Label Fades

The term ESG will likely continue to fade from company earnings calls, investment reports and marketing materials, but focus on its components may only sharpen as government regulations globally take shape in coming years, experts say.[50](#)

“There's a growing sense that ESG is a terrible term because it covers way too much,” said David Meadvin, CEO of Day One, a corporate strategy company. “What you'll see is a lot of companies and CEOs try to unpack that term with more focus on specific, highly defensible, highly beneficial efforts.”[51](#)

In a survey conducted by Bloomberg, about two-thirds of respondents said the anti-ESG movement will force

them to stop using the acronym in conversations. But they will keep incorporating environmental, social and governance principles in their businesses.[52](#)

The ultimate outcome of both pro- and anti-ESG efforts may depend on the 2024 U.S. election.

Though few expect the anti-ESG bills filed in July to gain traction in this legislative session or with Biden as president, “they serve as a roadmap for what is intended should a Republican win the 2024 election,” says Heidi Welsh, Si2's executive director.

About 61 percent of U.S. companies in an August survey from the Conference Board, a New York-based think tank, said they expect the U.S. backlash to continue over the next two years, driven by “emotionally charged topics, such as hot-button social issues and the transition to more sustainable forms of energy that raises fear of job losses.”

Firms should use the backlash as an “opportunity to clarify their ESG strategy and communications,” the report states.[53](#)

What is less certain is how other U.S. regulations will evolve.

As the SEC seeks to issue new rules, thousands of U.S. firms doing business in Europe are preparing to abide by new ESG regulations starting in 2024 and 2025. Companies will have to answer questions about “materiality” on climate and social issues, an accounting principle that requires items that impact on investors' decision making to be recorded in detail. When something is material, that means it impacts a firm's financial results.[54](#)

“The international collaboration that's going on, particularly in climate risk, is very significant,” SEC Chairman Gensler said. “All these discussions are very helpful in our key aim, which is trying to help issuers as well as investors to have comparability and consistency.”[55](#)

Even if the ESG label disappears globally, investing strategies tied to its principles will survive, said Carla Nunes, a managing director at financial advisor Kroll. In a study released in September, Kroll found companies with high ESG ratings “generally outperformed” those with lower ratings over a nine-year period ending in December 2021.[56](#)

“While time will tell whether the ESG label ultimately prevails, it doesn't really matter because the premise

behind the strategy isn't going away," Nunes said.[57](#)

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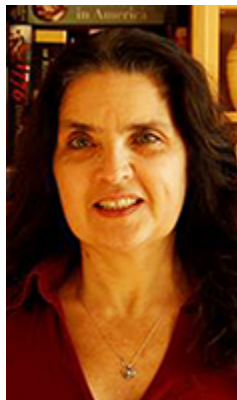
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