

Debunking 5 Anti-ESG Myths

Don't be fooled by alarmist headlines about ESG investing—there's more good here than critics want you to believe. *By Anya Crittenton*

Environmental, social, and corporate governance (ESG) is an approach to investing that is becoming more common and increasingly attacked by right-wing foes. With ESG dominating headlines, it's important to understand what it is and what it's not.

ESG criteria considers three issues before investing in a company:

- **Environmental:** A company's greenhouse gas emissions, its use (or not) of renewable energy, etc.
- **Social:** How employees are treated, benefits packages, engagement in diversity, equity, and inclusion practices, etc.
- **Governance:** Construction and management of a company's personnel, from diversity within the board of directors to a fair pay scale; protection from corruption; etc.

To stay informed amidst the onslaught of misinformation about ESG and other socially responsible investing practices, we're debunking some myths:

Myth #1: ESG investing is a passing fad and a political football.

The first myth about ESG investing is that this type of investing is a temporary strategy, or something newly created by the left to push a political agenda.

As former Vice President Mike Pence opined for the Wall Street Journal, it is not “consumer demand” that is driving this “new trend of woke capitalism,” but rather “large and powerful Wall Street financiers promoting left-wing ... goals.”

ESG Truth: It's tried, true, and here to stay.

In fact, responsible investing has been around for centuries and isn't going away.

Quakers and Methodists in the 1700s launched early ethical investing strategies, avoiding investments that went against their religious and moral views, such as the slave trade and gambling.

Since then, ESG investing has only increased—not due to a left-wing agenda, but because of learned strategies to avoid risks from company lapses. According to a 2022 Capital Group study, “ESG adoption is now widespread, with ... ESG users jumping to 89%, up from 84% in 2021.” A 2022 Bloomberg Intelligence report further reported global ESG assets surpassed \$35 trillion in 2020 and could soar past \$50 trillion by 2025.

Myth #2: ESG investing is only about the climate crisis.

ESG and climate headlines go hand in hand, leading many to believe ESG is strictly about the environment.

Some Republican politicians also perpetuate this myth through their attack on the climate crisis, falsely equivocating the two in political soundbites and muddying the public's understanding of both.

ESG Truth: ESG investing spans industries.

As Brandon Wester, director of investment research at Longwave Financial{GBN}, points out: “The other two major considerations are in the name.”

“The social and governance factors reveal costs the company will bear directly if it misbehaves,” Wester says. “When a company gets sued for misleading consumers or an executive gets litigated for bad behavior, it hurts the bottom line.”

The public is more directly affected by environmental considerations, which is why it's a better news story, but every factor of ESG is important. Also, Anti-ESG strategies are designed to protect and largely funded by fossil fuel interests.

Myth #3: ESG investing sacrifices portfolio performance.

This is a favorite talking point of critics—that ESG portfolios don't provide returns or positive performance.

In 2023, Rep. Andy Barr (R-KY), described ESG investing as “a cancer and a fraud within our capital markets, steering retail investors, sometimes unwittingly, into lower-performing, less diversified and higher-fee funds,” to CNBC—yikes.

ESG Truth: Numbers don't lie—ESG investing is a success for portfolios.

Wester suggests looking up stock indexes: “You will see right away that [poor performance with an ESG portfolio] is not true.”

He points to the ACWI index, which tracks the world's investible public equity securities and shows the ESG index performing better than the main index over the past 10 years.

A 2021 NYU study confirms this, finding that 59% of ESG investments between 2015 and 2020 performed similar or better to conventional investments.

Acknowledging Barr's point about fees, Wester says if a portfolio is managed in a “fundamentally sound way,” including limiting fees, “there is no argument to make towards it underperforming.”

In fact, *not* participating in ESG investing has a more negative impact. Gary Retelny, CEO of Institutional Shareholder Services group



of companies (ISS), warns ignoring ESG factors that “can drive long-term financial impact... could result in imprudent risk-taking to the detriment of the retirement savers and other investors our clients serve.”

The costs could go far beyond the individual, too. In Kansas, a bill to prohibit state contracts and retirement investments with companies that use ESG criteria would cost \$1.1 billion in divestment costs and \$3.6 billion in lowered returns over the next 10 years. Several other states are contending with this possibility as bankers and others push back against anti-ESG legislation.

Myth #4: Participating in ESG investing means eliminating entire sectors and screening only “sin” stocks.

This myth was truer decades ago, when religious institutions followed the Quakers and Methodists' strategy and refused to invest in bad actor sectors (or “sin” stocks) like gambling, tobacco, and more.

Screening is the process of using filters to determine which companies are eligible or ineligible for a portfolio based on the investor's preferences, values, or ethics. Negative screening excludes bad actors, while positive screening chooses only qualifying companies.

ESG Truth: ESG includes different sectors.

Investing has changed over the years and just as the environment is not the

only concern of ESG, financial institutions don't screen only “sin” stocks anymore.

Now, says Wester, ESG index funds “will tend to hold similar weights in each industry as the market benchmark, but will aim to invest more in the top actor.”

Investors are taking a less exclusionary route with ESG investing these days and screening based on values and ESG criteria.

Myth #5: ESG information isn't reliable or accurate.

As a (falsely labeled) “newer” investment strategy, critics of ESG question its reliability or accuracy.

The ESG Working Group, an association of eight House Republicans, cited in a 2023 report their “significant doubts about the credibility and efficacy of the ESG movement.”

ESG Truth: As with any investing, new information is always being learned, but ESG is solid.

Many ESG investing analytics are available now, allowing investors to more accurately see how ESG portfolios are performing and assess ESG factors.

Wester recommends resources like Morningstar's “sustainalytics” and YourStake.org to find data on mutual funds. YourStake relies only on information from third-party watchdogs, nonprofits, and government regulator documents.

The US lags the EU and other countries in ESG disclosures, but there is still “more than enough information for make informed investment decisions around ESG factors.” 🌟