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Global Asset Manager Chief Executive Says Facts "Left Aside" in ESG Funds Pushback

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Just days after the Texas Senate questioned a global asset manager—among other major financial investment firms—about its ESG-related investing policies, its chief executive said in an interview for the Financial Times that Republican politicians "have left facts aside" when opposing ESG-focused investments. As one of the major targets of the anti-ESG agenda, State Street has received backlash from politicians who argue that asset managers should not consider ESG factors in making investment decisions. While some politicians call for an end to ESG-driven investment practices, on the other side of the spectrum, climate activists have also applied pressure to asset managers like State Street and BlackRock to do more to address climate change risks and to stop investing in fossil fuels.

In his interview, chief executive Ron O'Hanley focused on overall investment risk:"[f]or us it is a matter of value, not values. . . . No one seems to question us when we say interest rates going up or down or GDP going up is an investment risk." He also expressed confidence that people across the political spectrum would "welcome the associated jobs and economic impact" that ESG-related investing will have on the economy. In addition to the January 2023 hearings in Texas, certain Congressional Republicans are **zeroing in** on the investment industry's climate practices. According to O'Hanley, ESG "is not a political issue. It is nothing more than a proposition that climate needs to be incorporated into our investment risk framework."

Taking the Temperature: O'Hanley's sentiments echo those across the financial sector: considering ESG factors when making investment decisions is consistent with an asset managers' fiduciary duties to investors, just as they should asses any other material impact. Backlash and "political wrangling," as O'Hanley called it, only inhibit the

development of a potential source of positive economic impact and weakens the United States' foothold as a leader in the area of climate change. Nonetheless, as we have covered, pressure continues to be exerted on financial institutions from various corners of government, including Republican state attorneys general, who wrote to two proxy advisory firms claiming that their "climate and diversity, equity, and inclusion priorities" may conflict with the contractual agreements they have with states' investment vehicles; various Republican state finance officials, who have sought to penalize banks deemed insufficiently supportive of the fossil fuel industry by precluding participation in underwriting syndicates or withdrawing pension funds under management; and Republican members of Congress or their staff, who have inquired into various ESG-related issues on the part of financial-industry climate collaborations and ESG ratings providers. However, this is almost exclusively a U.S. phenomenon. Other jurisdictions by and large are free of this type of politically-driven debate. Even here, while "anti-ESG" political moves generate headlines, it is questionable whether these actions are having a major impact. For example, BlackRock's CEO Laurence Fink said that the firm actually took in $230 billion in 2022 from clients, while losing approximately $4 billion AUM as a result of state government reaction to ESG issues. Those results could be read as evidence that the market agrees with BlackRock and others on the need to responsibly consider climate risks when making investment decisions.