Creators Of ESG Complain That Behavior Isn't Changing Fast Enough

Description

This offers a little insight to the genesis and history of ESG ideology to kill coal, oil and natural gas through behavior modification. As Technocracy was primarily defined in the 1930s as the "science of social engineering", ESG is a potent weapon but it is failing to live up to its original promises. Nevertheless, it will continue to create societal chaos until it is totally rejected by society. ? TN Editor

The story of how ESG investing began is almost as wonky as its name.

The intent of Environmental, Social and Governance, or ESG, investing wasn't to bring "woke capitalism" to Wall Street, its early proponents say.

Rather, ESG was designed to be another useful metric to help investors assess the health and future profitability of a company. If a company is too heavily invested in coal operations, for example, it's probably not going to do well long-term in a global economy that's cracking down on the dirty fuel.

Of course, ESG investing now is much, much more than that.

What started as a half-baked idea among low-level staffers at the United Nations has grown into the green Frankenstein of Wall Street. ESG investing is now worth nearly $2.8 trillion in assets worldwide, according to one estimate.

A big reason for the explosion is that the three-letter acronym has morphed into a vague symbol with few guidelines surrounding what it means. Put another way: It's as if farmers could market vegetables as organic but without restrictions on genetic engineering.

All of this surprises ESG pioneers.

The goal of ESG investing was "to try and create a positive virus that we could plant in mainstream finance and investment to start a different conversation that these issues are real, they're material, and they affect your long-term investments," said Paul Clements-Hunt, the former head of the U.N.

Environment Programme Finance Initiative, or UNEP FI, which played a crucial role in popularizing the idea.

“Little could we believe that ESG would end up where it’s ended up,” he added, “for good or for bad.”

Taking ESG to ‘the next level’

So how did it all start?

There’s no one clear answer. But generally speaking, experts say a key inception point was in the early 2000s, inside a bare-bones office at the United Nations.

As the head of UNEP FI, Clements-Hunt and his team had an ambitious idea: to mobilize the world’s largest investors to act on major global issues. The idea went that the priorities of the United Nations were actually aligned with the needs of long-term investors — insofar as a stable environment and world generally contribute to a more prosperous economy.

Already, there were niche investment companies, religious organizations and other groups that offered “socially responsible investment” options. Some of them worked by excluding particular sectors, such as weapons manufacturers, from investment funds.

But the U.N. team knew an ethical appeal would not be enough to attract the attention of the institutional investors that control trillions of dollars in assets — and are obligated to prioritize financial returns above all else.

“The challenge was, can we break out of what was then known as socially responsible investing, like SRI, ethical investing, which was this super-small, niche enterprise which was largely oriented to excluding stocks,” said Jacob Malthouse, who joined UNEP FI as an intern in 2000.

So they set out to make the case to the world’s largest pension funds that biodiversity, human rights abuses, planet-warming emissions and more are important not just from an ethical standpoint. They also wanted to prove that considering companies’ records on — and risk management practices around — environmental, social and governance issues, or ESG, can in fact improve investing, not thwart it.

Ignoring companies’ supply chains, labor practices and more isn’t just an incomplete investment process, they argued. It’s an inaccurate one.

It wasn’t long before they hit some roadblocks. For starters, the Finance Initiative had a big goal but a small team. Malthouse noted in an email that the bulk of their office was made up of consultants or interns “working on a shoestring.”

Another major hurdle: the financial sector itself.

Mainstream finance firms had yet to embrace the idea that companies’ performance on social and environmental issues could in fact affect their bottom lines. And pension funds cited concerns that their so-called fiduciary duty legally barred them from considering “nonfinancial” factors while investing.

So the Finance Initiative commissioned two landmark research papers from outside firms to address those concerns.

The first was a 2004 report from mainstream brokerage house analysts — including Goldman Sachs Global Energy Research, HSBC Asset Management and Deutsche Bank Global Equity Research — that made the case that long-term financial returns depend on the “rigorous integration of environmental, social and corporate governance issues” into the investment process.

The paper — titled “The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing” — is thought by some to be the first time the three words were used together in an official UN publication.

The second was a report by Freshfields Bruckhaus Deringer LLP, a leading institutional law firm. The firm said in its own 2005 paper that “integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”

That finding finally “allowed for many U.S. institutional investors that had been afraid to take this approach … to move forward in this direction,” said Carlos Joly, an ESG veteran who chaired the United Nations’ Asset Management Working Group for more than a decade.

Experts involved with the United Nations’ work at the time told E&E News that equally important was a landmark effort to gather the world’s largest pension funds to help draft and agree to “principles for responsible investment,” which would become the PRI.

The goal was to recruit the asset owners to commit to invest more responsibly by infusing their investment process with sustainability data — and even leveraging their shareholder power to push companies in a greener direction.

It worked. When the initiative was launched in 2006, the PRI yielded 63 signatories — including the California Public Employees’ Retirement System, BNP Paribas Asset Management and the Government Employees Pension Fund of South Africa — representing more than $6.5 trillion in assets. Those figure have ballooned since then. As of 2021, the effort had attracted nearly 3,900 investment institutions, representing more than $121 trillion in assets.

James Gifford, who said he pitched the idea for the PRI in his sixth week as an intern, attributed much of that growth to one factor. Once major pension funds got on board, other institutions competing for their business, such as asset managers, had to do the same.

In that way, the PRI was the “vehicle that took ESG to the next level,” said Gifford, who led the initiative for a decade and today is the head of sustainable and impact advisory at Credit Suisse.

featured image: Paul Clements-Hunt (center) was one of the first full-time staffers assigned to a U.N. effort that pioneered environmental, social and governance investing. Much of that team appeared here with Hunt in 2005 outside the U.N. Security Council Chamber. | Trevor Bowden

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