ESG in the US: We Need Rational Debate, Not Political Spin

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As we turned the corner into 2023, both the concepts embedded in ESG and the acronym itself became squarely part of the popular consciousness in the United States. With popularity comes challenges though, with one end of the spectrum grappling to understand the basics and the other yearning for much greater sophistication. In both instances, the *questioning* of ESG has intensified. This is a positive development as deliberate interrogation will ultimately be required for confidence building and genuine productivity[1].

To address the concerns of each extreme, we remind ourselves that our job as investors is to predict the future, and the motivation for including ESG information in company-level analysis is to produce a more robust, better-informed picture of how companies will thrive – or struggle - in a future that may look very different than the past or present. We reject the shorthand phrase, 'ESG investing', as there's really only… *investing*. We examine environmental, social and governance information within our investment practice, but at the end of the day, the use of that information complements an extraordinary amount of other fundamental and market information in the service of building the most accurate forecast of the threats and opportunities companies face. Over the last 10+ years, there has been an awakening among many investment managers to the fact that the information considered to be "ESG" is a powerful supplement to traditional financial statement information; that it is economic in nature and material. With this recognition, most managers have begun to incorporate ESG considerations into their processes – a lot or a little! – because they believe it will contribute – a lot or a little! – to their investment edge. Put simply, investment managers always want ***more- not less-*** information about how a company is competitively positioned relative to its peers.

Even among (or especially among!) active managers who have been using ESG information for years, there are many arguments we can and ought to have: the weight of ESG information relative to other types of information, all manner of investment horizon debates, the assumptions underlying quantitative models (with climate models being first on the list), which disclosures we should expect from companies, the efficacy of engagement. Rigorous debate over all of these ideas and more is absolutely necessary as we continue to push for better investment results, and simultaneously answer questions from those new to the subject matter as well as those with years of experience.

Our hope is that serious and public debate on ESG topics among professional investors will begin to drown out the deeply uninformed comments coming from some politicians and

[1] While we take the Gartner Hype Cycle with a grain of salt the size of a bathtub, it does seem to describe ESG's 'journey' to date. [Gartner hype cycle - Wikipedia] Sitting in what feels like the 'Trough of Disillusionment', we believe that we will collectively emerge toward a better, more nuanced understanding of ESG and impact thanks to thoughtful work that is being done by many practitioners today.

agitators. As has been noted by Harvard University and others[2], the pace of US states' passing of anti-ESG legislation and the inking of anti-ESG proposals has only increased, though with respect to the former, there is evidence of pushback from the actual investors that would have to implement the legislation[3], and there is no sign that the latter would garner any meaningful support if last year's results are indicative. But the larger point is that these politically motivated comments are purely a distraction from the real *investment* debates that need to take place.

In sum, there is much to debate about ESG on the part of investors. We encourage all market participants to engage in rigorous discussions, and for those whose savings are tied to our investment actions to pay close attention to those deliberations because they are deeply important. We will reveal our own view plainly: those provocateurs who would ignore, or worse, denigrate without factual basis the information contained within E, S, and G analysis as a scare tactic to inflame opinions may consign many participants to live with the consequences of investment decisions made with ***less- not more-*** information.

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[2] ESG: Trends to Watch in 2023 (harvard.edu) and 'Anti-ESG proposals' up 60 percent this year, despite low support in 2022 (responsible-investor.com)
[3] Wyoming Joins List of States Rejecting Anti-ESG Measures - ESG Today