Dear Chair Gensler and Commissioner Lee:

Would-be investors have a right to know how public companies do business. To that end, adding ESG-related disclosures to the many non-pecuniary disclosures already required from publicly held companies should be viewed as simply expanding the set of relevant information for investors. And, as a researcher within an organization focused on financial security in retirement, I see some benefit in the attempt to introduce standardized ESG disclosures that would allow for credible academic research into the relationship – if any – between ESG factors and stock performance (To date, there has been little to no evidence in the *academic* literature to prove ESG factors are related to better firm performance – although many asset management firms have released "white papers" promoting the performance of ESG investing.)

My main worry with ESG disclosures is that they would give credence to the army of asset managers currently promoting ESG investing to retail and institutional investors as a way to "make money by doing good." The recent hype around ESG investing has real implications for the retirement savings of everyday Americans. For example, the recently introduced Financial Factors in Selecting Retirement Plan Investment Act allows for an ESG fund to be the default investment option in a 401(k) plan, which is often the only vehicle through which workers save for their retirement. Similarly, a significant number of state and local pension funds have incorporated an ESG framework into their investment approach. The problem with most ESG investing is that once an asset manager begins the business of picking stocks, the price goes up. And study after study over decades has shown that, on average, active managers do not produce the returns to cover these fees. Recent ESG research by the CRR finds that the major state and local government pension plans that have incorporated ESG factors into their investment policies underperformed those that did not. The study also finds that most retail ESG funds have higher fees and worse performance than similar index funds.

At worst, ESG investing is a marketing ploy by financial services firms to repackage actively managed investments – which were becoming increasingly less appealing – in a trendy wrapper. At best, it is a way for certain investors to place their money with firms that align with their values. In either case, it is preposterous to suggest that the major challenges we face can be addressed through stock picking alone. And, this belief diverts attention from the real resource allocation decisions that must be made to achieve broad change. Climate change is a serious issue that requires thoughtful discourse on how to discourage carbon emissions, undertake major investments in energy R&D, and enable the government to address climate change as a major priority. So, while more information for would-be investors is a good thing, it is important to consider how the ESG disclosures could further validate the spurious narrative being promoted by Wall Street – a narrative that pushs investors into ESG funds that underperform and do little to bring about the broad changes that many ESG investors seek.

Sincerely,

Jean-Pierre Aubry
Assistant Director of Research