

MSU UC Should not Support ESG Investment Framework Resolution

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Social Conscious (ESG) investment framework

- Resolution brought to University Council (UC) by ad-hoc committee USIWG
 - University Sustainable Investment Working Group (USIWG)
- USIWG submitted [report](#)* with recommendations to MSU Trustees
 - USIWG made oral presentation to UC on 10/18/22
 - Promoted Environmental, Social Governance (ESG) investment framework
 - Named **ASU and UC Berkeley** as peer universities implementing ESG
 - Recommended that MSU Trustees invest MSU Endowment using ESG framework
- USIWG's resolution seeks UC's support for implementing ESG framework

* <https://tinyurl.com/2qd3ampj>

Reasons not to approve USIWG's ESG resolution

- Social conscious investment frameworks like ESG have many disadvantages
 - Are non-fiduciary*: investment decisions may not be in best interests of investors
 - Investment objectives are subjective, ill-defined, and politically motivated
 - Reduce diversity of investment options
 - Often have higher management fees
 - Have delivered lower return on investment (ROI) than conventional investments
 - Are used to force unwanted sociopolitical policies on companies and individuals
 - Many states have divested from ESG frameworks for the reasons listed above

* <https://www.investopedia.com/terms/f/fiduciary.asp>

Online evidence of ESG's disadvantages

- Former BlackRock senior executive Terrence Keeley's criticisms of ESG:^{1,2}
 - *"Despite tens of trillions of ESG investments, investors haven't done very well nor generated much good."*
- ESG managers force unwanted social policies on companies they invest in³
- Many states have divested from asset managers over ESG initiatives:⁴
 - Missouri, West Virginia, Louisiana, Texas, Kentucky, Oklahoma, Florida, South Carolina, **Arizona**, Idaho, Utah, Wyoming, Arkansas and North Dakota
- 19 state AGs asked SEC to investigate BlackRock over ESG practices⁵
- A corporate "Post-ESG Era" is emerging in opposition to ESG⁶
- Consumers Research just launched new organization to combat ESG⁷
 - Consumer's Defense, a 501(c) organization to protect investments from abuse

Example of low ROI by ESG Endowment Fund

California's Endowment Fund (CalPERS) that funds **UC Berkeley**

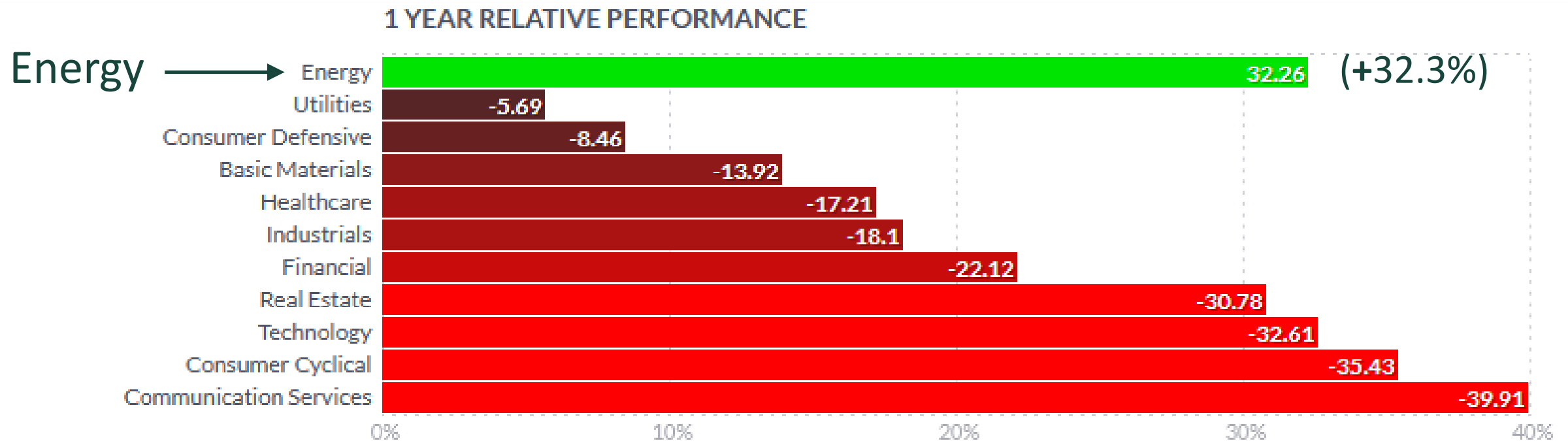
- *“CalPERS Announces Preliminary Net Investment Return of -6.1% for the 2021-22 Fiscal Year”*⁸
 - Public equity (stock) component of CalPERS investment gave ROI of -13.1%
 - Year ending June, 2022
- Energy Select Sector SPDR Fund gave ROI of +32.7% over same period⁹
 - XLE (a basket of energy stocks)
 - \$54.69 (June 27, 2021)
 - \$72.58 (June 26, 2022)
- ESG framework restricts energy investments, reducing CalPERS ROI

Energy was the best stock sector by far in 2022

Energy best one-year ROI: **+32.3%**

Utilities second best ROI: **-5.7%**

ROI for ESG investments suffered due to divestment of energy



Source: <https://finviz.com/groups.ashx> (Nov. 2022)

ROI of MSU's Endowment Fund (CIF) has been high

- MSU's endowment's net ROI was **28.1%** for year ending 12/31/21¹⁰

	Market Value (\$ millions)	Quarter	Trailing 1 Year	
MSU CIF as of 3/31/21	3,565.4	6.5%	44.8%	
<i>70/30</i>		<i>2.2%</i>	<i>36.4%</i>	
MSU CIF as of 6/30/21	3,926.1	9.4%	41.7%	
<i>70/30</i>		<i>5.7%</i>	<i>26.3%</i>	
MSU CIF as of 9/30/21	4,117.4	4.3%	37.5%	
<i>70/30</i>		<i>-0.7%</i>	<i>18.4%</i>	
MSU CIF as of 12/31/21	4,357.5	5.4%	28.1%	← MSU Endowment
<i>70/30</i>		<i>4.7%</i>	<i>12.2%</i>	← Benchmark

UC not authorized or qualified to manage endowment

- MSU's Bylaws authorize Trustees to manage its Endowment Fund¹¹
- UC criticized MSU Trustees for micromanaging university operations
 - MSU administrators are better qualified to manage university operations
 - Trustees lack the training & experience needed to make optimal decisions
- UC would be criticized for micromanaging Trustees' investment decisions
 - Trustees' investment managers are better qualified to manage MSU's endowment
 - UC members lack the training & experience needed to make optimal decisions

Benefits of MSU Endowment Fund's high ROI

- Example benefits from high MSU Endowment ROI
 - Faculty and staff salaries (e.g., raises, endowed chairs)
 - Student scholarships
 - Academic programs
 - New research, teaching, and service initiatives
- Implementing ESG investment framework would jeopardize these benefits

Excerpts from USIWG report*

- Make changes to MSU Endowment's investment advisors
 - ***“The Board should consider appointing additional advisors who have strong experience in ESG”***
- Impose ESG policies on companies in which MSU invests:
 - ***“The BOT should adopt a proxy vote policy that reflects a commitment to the principles of DEI and SRI/ESG practices and instruct that all proxies shall vote in a manner most likely to preserve or enhance the value of Diversity, Equity and Inclusion and Environmental, Social and Governance principles.”***
 - ***“The Board is more concerned with the financial value of the endowment rather than the environmental and social benefits produced from its investments.”***
- Solicit investment advice from “broader MSU community”
 - ***“We also encourage the board to seek the advice and guidance of the broader MSU community and articulate the statement of investment objectives.”***

* <https://tinyurl.com/2qd3ampj>

Communicating political stance demotivates workers

- Research findings from Vanessa Burbano, Columbia Prof. of Management*
- Studied effect of employer communicating socio-political stance on employees
- When employee disagrees with stance: result is significant demotivating effect
 - Lower quality of required work completed
 - Lower quantity of extra work completed for employer
- When employee agrees with stance: no significant effect
- Communicating political stance has net negative effect on worker productivity
- Lower worker productivity would reduce stock price over time
- Similar negative effect likely from proxy votes forcing ESG policy changes

* Burbano, V.C. (2021) [The Demotivating Effects of Communicating a Social-Political Stance: Field Experimental Evidence from an Online Labor Market Platform](#). *Management Science* 67(2): 1004-1025.

ESG political policies likely to demotivate workers

ESG

Environmental



No Oil
No Gas



Solar
Subsidies



Climate
Change
Disclosures

Social



Critical
Race
Theory



Pro-Abortion
Policies



Transgender
Activism

Governance



Employee
Race
Quotas



Compensation
Tied to
ESG Goals



Social
Credit
Scores

Conclusions

- MSU's Endowment provides broad financial benefits across the University
- MSU's Endowment has exhibited a high ROI without ESG restrictions
- ESG restrictions reduce diversification and are likely to reduce ROI
- ESG framework forces unwanted socio-political policies on others
- Imposition of unwanted ESG policies is likely to demotivate employees
- By demotivating employees, ESG can depress stock price and MSU's ROI
- MSU's UC is not authorized or qualified to set MSU's investment strategy
- USIWG resolution seems counterproductive to MSU's financial well-being

References

1. <https://www.wsj.com/articles/esg-does-neither-much-good-nor-very-well-evidence-composite-scores-impact-reports-strategy-jay-clayton-rating-agents-11663006833>
2. Kelley, Terrence (2022) “[Sustainable: Moving Beyond ESG to Impact Investing](#)”, Columbia Business School Publishing, 0231556667 (ISBN13: 9780231556668)
3. <https://www.foxbusiness.com/energy/oppose-esg-politics-free-markets-not-coercion>
4. <https://www.foxbusiness.com/politics/missouri-latest-state-divest-blackrock-esg-initiatives-woke-political-agenda>
5. <https://nypost.com/2022/08/16/blackrock-faces-scrutiny-from-19-state-ags-over-esg-investments/>
6. <https://www.foxnews.com/opinion/post-esg-era-corporations-investment-nears>
7. <https://consumersresearch.org/consumersfirst/>
8. <https://www.calpers.ca.gov/page/newsroom/calpers-news/2022/calpers-preliminary-investment-return-2021-22>
9. <https://finance.yahoo.com/chart/XLE>
10. <https://investments.msu.edu/endowment-performance.html>
11. <https://trustees.msu.edu/bylaws-ordinances-policies/policies/01-07-01.html>

Appendix: Text of Draft Resolution

- *Whereas*, The academic community at MSU shares and practices transparency in all that it does; and,
- *Whereas*, MSU has a longstanding history of using investments to support important societal values, for example the divestment in firms supporting South Africa during apartheid; and,
- *Whereas*, MSU supports the Board of Trustees' interest in promoting a program of sustainable stewardship that supports the **three E's of sustainability: Environment, Economics, and Equity**; therefore be it,
- *Resolved*, That the MSU Board of Trustees develop and adopt a social conscience framework in its investment policy statement to be transmitted and employed by the investment firms that manage MSU's endowment; and,
- *Resolved*, That the MSU Board of Trustees expand the network of investment firms that it uses for managing MSU's endowment to ensure a competitive approach to supporting the social conscience framework; and,
- *Resolved*, That where reasonable, the Board of Trustees make Budget & Finance Committee meetings and Investment Advisory Subcommittee (IAS) meetings open to the public in order to demonstrate the Board's commitment to transparency in all its deliberations.

What are the “Three E’s of Sustainability (EEE)”?

- Definition of EEE acronym is ambiguous and open to interpretation
 - Acronym as defined in resolution: “The 3 E’s of Sustainability: Environment, Economics, and Equity”
 - Acronym as defined elsewhere[#]: “The 3 E’s of Sustainability: Environmental, Economic, and Ethical”
 - Acronym as defined elsewhere^{##}: “The 3 E’s of Sustainability: Economy, Ecology and Equity”
- 5 different E’s in the three definitions of “The 3 E’s of Sustainability”
 - Environment(al), economy(ic), ecology, equity, ethical

[#] <http://statesustainabilityindex.com/three-es-of-sustainability/>

^{##} <https://sustainability-success.com/the-3-es-of-sustainability/>

Is “EEE” an established investment framework?

- “EEE Investment” framework has not been established in literature*
 - Only 14 *Web of Science* hits for “EEE investment*”
 - None of the 14 hits related to investments
- “ESG Investment” is well established in literature*
 - 1,128 *Web of Science* hits for “ESG investment*”
 - ESG mentioned 17 times in its report to the MSU Trustees**
- USIWG’s report** recommended “ESG” investments, not “EEE” or 3 E’s

* <https://www-webofscience-com.proxy1.cl.msu.edu/wos/alldb/basic-search>

** <https://tinyurl.com/2qd3ampj>

Why was “ESG”: replaced by “3 E’s” in resolution?

- USIWG [report](#)* used “ESG” 17 times, but it did not use “3 E’s” or “EEE”
- USIWG presentation to UC 10/18/22 only used “ESG”, not “3 E’s” or “EEE”
- Why was the nomenclature changed from “ESG” to “3 E’s” in resolution?
- Possible answers:
 - Disadvantages of “ESG” have been widely publicized recently
 - People might not realize that “ESG” disadvantages also apply to “3 E’s” or “EEE”

* <https://tinyurl.com/2qd3ampj>