

# 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:<sup>1,2</sup>
  - *"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 in<sup>3</sup>
- Many states have divested from asset managers over ESG initiatives:<sup>4</sup>
  - 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 practices<sup>5</sup>
- A corporate "Post-ESG Era" is emerging in opposition to ESG<sup>6</sup>
- Consumers Research just launched new organization to combat ESG<sup>7</sup>
  - 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**

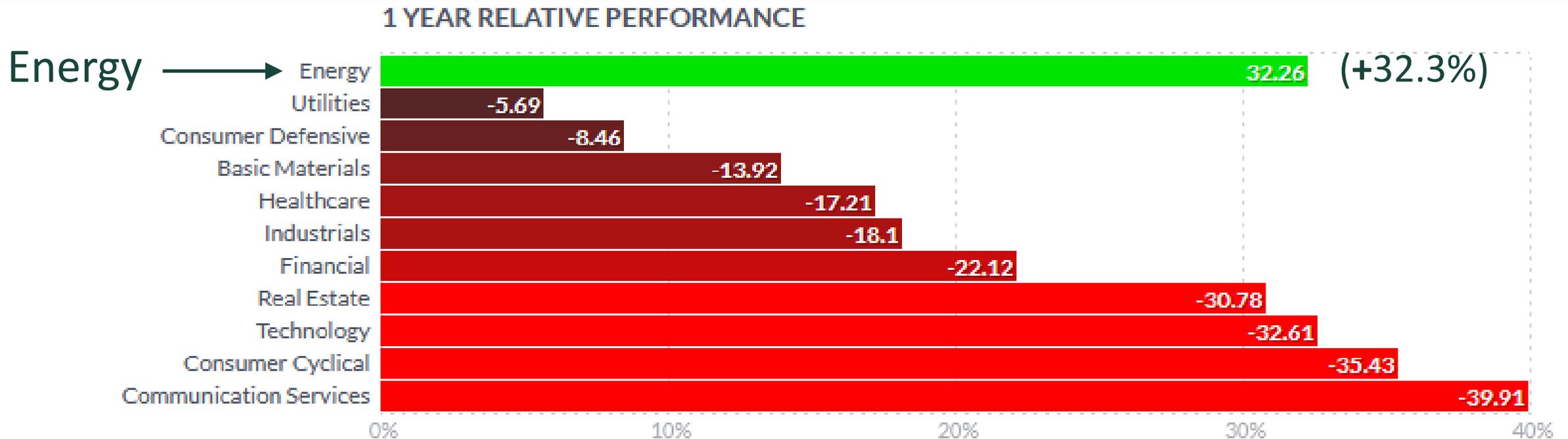
- *“CalPERS Announces Preliminary Net Investment Return of -6.1% for the 2021-22 Fiscal Year”<sup>8</sup>*
  - Public equity (stock) component of CalPERS investment gave ROI of -13.1%
    - Year ending June, 2022
- Energy Select Sector SPDR Fund gave ROI of +32.7% over same period<sup>9</sup>
  - XLE (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 12/31/21<sup>10</sup>

	<b>Market Value (\$ millions)</b>	<b>Quarter</b>	<b>Trailing 1 Year</b>	
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%	← <b>MSU Endowment</b>
<i>70/30</i>		<i>4.7%</i>	<i>12.2%</i>	← <b>Benchmark</b>

# UC not authorized or qualified to manage endowment

- MSU's Bylaws authorize Trustees to manage its Endowment Fund<sup>11</sup>
- 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<sup>#</sup>: “The 3 E’s of Sustainability: Environmental, Economic, and Ethical”
  - Acronym as defined elsewhere<sup>##</sup>: “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

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

<sup>##</sup> <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>