US|SIF
Sustainable Investment Forum

ESG Key Messages: A Foundation for Responding to and Addressing ESG Backlash

Below, please find a series of key messages that can be leveraged in response to common critiques of – and to amplify important points about – ESG measurement, disclosure and investing. Responses to common critiques are on pages one and two, and additional pro-ESG messages are on page three.

These key messages are meant to serve as a foundation and can be tailored to suit specific audience needs (the framing or argument that resonates most with one group may not work well for another). Please feel free to adapt or add to them as you see fit.

Top ESG Counter Arguments and Responses

Criticism: Implementing additional ESG regulations will hurt local economies.

Key message: ESG investing can help insulate local, national and global economies from risk and generate more sustainable returns in the long term. ESG measurement and disclosure standards will help verify that companies and funds are good stewards of the communities and natural resources they impact and promote a healthier free market for all.

Criticism: The current methodology, metrics and standards used to measure ESG practices are inconsistent and unclear across organizations, producing unreliable data and a lack of standardization.

Key message: There are various approaches to measuring ESG performance, and different investors place different emphasis on the "E," the "S" and the "G" – just like different investors pursue different strategies to achieve financial return. Standardizing ESG measurement and disclosure is key to holding major players in our economy accountable, helping investors make informed decisions about their capital and promoting a healthier free market.

- **Additional point about bottom-up desire for standardization**: Investors want clearer information about how companies manage their workforce, impact the environment and make political contributions. Investors will benefit from having consistent ESG disclosures, just like they benefit from having a standardized approach to financial reporting. That's why they've asked the government to set ESG disclosure standards, just as the government sets standards for corporations' financial statements.
- **Additional point clarifying the distinction between disclosure and investment decisions**: ESG is a disclosure framework. Standardization will help companies disclose their environmental and social impact in a consistent way, so analysts and investors can evaluate the information and make decisions that are right for them.

Criticism: ESG measurement and regulation facilitates greenwashing and therefore is a "scam."

Key message: Measurement and disclosure drive transparency. Standardizing ESG data will shed light on which enterprises harm or support their communities, workers and the environment. This will empower investors to make more informed decisions and hold companies accountable for their impact on the world around them.

Criticism: ESG investments yield concessionary returns.

Key message: Many investors believe that companies that measure, manage and reduce their environmental and social risks will be the most profitable over the long term, benefitting businesses, shareholders, workers and the public. Many investors also believe that incorporating ESG considerations is less risky than ignoring ESG considerations. The performance of any investment depends on a number of factors, including the timeframe in which it is being measured.

- **Consideration for institutional investors and fiduciaries**: This is an important consideration for institutional investors, who have a fiduciary duty to act in their clients' best interests, maximizing returns and minimizing risks over an agreed upon time horizon.
- **Example if needed to directly address critiques of fossil fuel-free funds**: Some critics equate ESG with fossil fuel-free funds, even though many ESG investment strategies do not take this approach. Recently, some fossil fuel-free funds have not performed as well as comparable funds that include fossil fuels; however, when viewed over a longer period, such as over the past five years, fossil fuel-free funds have often performed better. Also, some ESG funds may have significant fossil fuel holdings because they want to help fossil fuel companies transition to renewables over time and participate in the long-term value generated during the transition.

Criticism: ESG funds are "Woke Capitalism" in action, working to advance the liberal agenda.

Key message: ESG funds are growing in popularity because most Americans with money in the stock market want companies to be good corporate citizens. In fact, ESG screening as an investment strategy has bipartisan support among voters. Consumers, investors and workers want companies to be more transparent about and improve their environmental and social performance, from reducing their carbon emissions to ensuring workers' health and safety.

Additional Pro-ESG Messages

Key message: Most companies want to do right by their stakeholders. ESG measurement and disclosure allow businesses to create higher quality jobs, reduce their environmental impact, improve transparency with stakeholders and foster a more diverse and equitable economy for all.

Key message: ESG is a business imperative. Workers, consumers and investors want companies to improve their environmental and social performance. Standards for ESG measurement and disclosure will help companies be more transparent about their impact and help people make more informed decisions about the businesses they support.

Key message: ESG encourages worker-friendly, fair-labor policies that benefit everyone. Uplifting workers is critical to fostering a more inclusive capitalism, and improving job quality has been proven to be good for business.

Key message: ESG benefits investors, the public and businesses. Companies that do well by their workers, reduce their environmental impact, offer quality products and services, and are transparent with stakeholders see better outcomes over the long term because they have more satisfied customers, workers and communities.

Key message: Our economy works better for everyone — from CEOs to investors to people like you and me — when we can make more informed decisions about where we work, invest and shop. More transparency will help make our economy stronger.

Key message: Each ESG fund should be evaluated for its underlying strategy, and investors should pick the strategy that fits their risk appetite and holding period preference.

Key message: ESG is a disclosure framework that offers investors more transparency into companies' actions, so they can decide which businesses to support.

- **Supporting point to distinguish between disclosure and ratings, if needed:** ESG disclosure informs ESG ratings. Just like investors, raters place different emphasis on the "E," the "S" and the "G." It's important to consider how ratings are approaching ESG when evaluating their efficacy.