# Conservatives Have a New Rallying Cry: Down With ESG

WSJ wsj.com/articles/conservatives-have-a-new-rallying-cry-down-with-esg-2ef98725

February 26, 2023

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Feb. 26, 2023 5:30 am ET

WASHINGTON—Conservative activists are coordinating a multimillion-dollar national campaign to make ESG the next CRT.

Their goal: Transform the acronym for environmental, social and corporate-governance investing into a rallying cry against "woke capitalism," much the way critical race theory became shorthand for broader criticisms about how race is taught in schools. The same conservative money is behind both efforts, documents and interviews show.

ESG investments consider a company's climate-change initiatives, diversity and corporate transparency as financial factors. Some of the largest asset managers, including BlackRock Inc., BLK 3.05%increase; green up pointing triangle have said that taking such things under consideration is good business.

A growing collection of conservatives disagrees. They argue that the people whose retirement plans the big firms handle never consented to having their money tied up in what they consider to be liberal causes. Investments, they say, should be based solely on returns.

Opposition to ESG is about to get more national attention. The Republican-led House of Representatives plans hearings to highlight what the conservative groups and some GOP members view as the politicization of investments. And already, potential GOP presidential candidates, including former Vice President Mike Pence and Florida Gov. Ron DeSantis, are talking about how Democrats have forced their agenda on companies through ESG requirements.

A conservative nonprofit called Marble Freedom Trust and its consulting firm, CRC Advisors, are leading the anti-ESG push and have spent more than $10 million on the effort so far, mostly through the group Consumers' Research, people familiar with the spending said.

The trust is overseen by Leonard Leo, a longtime leader at the Federalist Society, a network of lawyers that grooms conservative scholars, officials and judges. Mr. Leohelped former President Donald Trump choose conservative Supreme Court justices.

Formed in 2020, Marble Freedom Trust has received $1.6 billion in funding from Chicago billionaire and former manufacturer Barre Seid. Since then, it has distributed money to groups fighting some of the top conservative causes, including limits on abortion and opposition to critical race theory, according to tax records, advertisements and interviews.

Also on that list is pushing back on ESG.

"The ESG movement is polluting our culture and assaulting the dignity and worth of people," Mr. Leo said. "Our enterprise stands with a growing group of Americans who are fighting to crush leftist dominance in this arena."

Some of the major voices in the debate, including Consumers' Research, the Heritage Foundation, the State Financial Officers Foundation and the American Accountability Foundation, all received grants from entities related to Marble Freedom Trust, according to tax filings.

Those groups are distributing model legislation in state capitals and providing talking points to state and federal lawmakers. They are funding ads attacking companies that support ESG principles.

A digital ad by the Heritage Foundation's political-action committee portrays an oil-and-gas driller being denied a small-business loan in part because he has never "identified as a woman or even nonbinary."

The current ESG model has critics across the political spectrum. Some investment managers who had embraced ESG say they still believe it is a good idea in theory but that it has failed to live up to its promises. A former BlackRock executive wrote a book arguing that ESG has proved to be neither a reliable generator of returns nor a real catalyst for change.

There is also growing concern about what companies might do to "greenwash," or make themselves look more environmentally friendly than they really are. Some question the accuracy of the ESG scores that ratings firms give companies.

BlackRock, the world's largest asset manager, is a prominent target of the anti-ESG movement. The company and Chief Executive Larry Fink have promoted ESG investing, saying it is good business to consider these factors when putting money to work. "Climate risk is investment risk," Mr. Fink said in his 2020 annual letter to CEOs.

Consumers' Research made a website, whoislarryfink.com, deriding Mr. Fink as "woke."

Republican officials in Florida, Texas, Louisiana and South Carolina pulled more than $4 billion in pension and investment funds from BlackRock starting last year. BlackRock brought in $230 billion from U.S. clients in 2022.

BlackRock is fighting back. The firm spent $3.5 million on federal lobbying last year, more than in any previous year, lobbying records show. Its political-action committee made more contributions to candidates ahead of last year's midterms than in any previous cycle, including presidential-election years. The contributions were to both Republicans and Democrats.

Mr. Fink has acknowledged that BlackRock never had to pay much attention to political outreach in the past, according to people familiar with his thinking.

He and other BlackRock executives became more directly involved with the lobbying effort, making more visits to Washington last year than ever before to meet with senators and representatives about ESG, according to people familiar with the matter.

Last month, Mr. Fink made a trip to Capitol Hill to see Rep. Andy Barr (R., Ky.), chairman of the House Financial Services subcommittee on financial institutions and monetary policy, and one of BlackRock's top antagonists when it comes to ESG.

Mr. Barr described the meeting as cordial and candid. BlackRock's "extracurricular errands into politics—I don't think it speaks well for a great American company," Mr. Barr said.

As the political fight intensifies, BlackRock and other financial firms have recalibrated how they talk about climate and social factors—sometimes drawing sharp criticism from Democrats.

"This is a political tightrope for companies," said Ken Spain, a Republican corporate consultant in Washington whose firm researched ESG messaging last fall.

At the World Economic Forum's annual meeting in Davos, Switzerland, last month, Mr. Fink called the attacks against him and BlackRock demonizing and personal, and said he would like to "address the misconceptions." He went on to highlight that BlackRock is one of the biggest investors in the global fossil-fuel industry.

Vanguard Group announced in December it would pull out of the Net Zero Asset Managers initiative. Signatories commit to supporting the goal of net zero greenhouse-gas emissions by 2050.

The move came days after Consumers' Research and 13 Republican state attorneys general complained to the Federal Energy Regulatory Commission about what it called the firm's environmental activism.

Vanguard said its decision to leave the initiative was prompted by a need for independence on how it discusses matters such as climate-related risks with its investors.

A dozen states considered anti-ESG legislation last year, and at least 16 are doing so this year, according to conservative groups tracking the states' efforts. The Heritage Foundation and the American Legislative Exchange Council—the conservative group known as ALEC—are among the national groups shopping the effort to state legislatures. ALEC and Heritage also back bills to limit classroom discussions about race.

State bills this year would prohibit state agencies and managers of state funds from considering ESG factors in their investments, and bar state agencies from awarding contracts to companies that have ESG policies that the state views as penalizing fossil fuels, mining, firearms and other industries. Those proposals are highlighted on Heritage and Consumers' Research websites as model legislation.

GOP House committee leaders are planning hearings that they say will probe the extent to which federal regulators such as the Securities and Exchange Commission are pressuring the private sector to adopt ESG principles.

In November, the Labor Department under the Biden administration issued a rule that allows federal retirement-plan managers to factor ESG into investment decisions. A congressional effort to repeal the rule is under way—supported by Democratic Sen. Joe Manchin of West Virginia in the narrowly divided Senate.

This month, the House Financial Services Committee announced an ESG working group to combat what it calls a "threat to our capital markets."

Rep. Sean Casten (D., Ill.), a member of the financial services committee who recently helped start a congressional caucus on sustainable investment, said Republican opposition to ESG is rooted in fear of a world less dependent on oil and gas producers.

"When you're not happy with how capitalism is working, you tend to call it 'woke,'" he said.

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Appeared in the February 28, 2023, print edition as 'Conservatives Go After ESG Investing in 'Woke' Battle'.