Florida's Ron DeSantis declares war on ESG

written by Melissa (Mel) Sanderson | August 29, 2022

So, Florida Governor Ron DeSantis announced last week that he was, via executive fiat through the State Board of Administration, ordering that "social, political or ideological interests" be banned from consideration when making decisions for the State's pension fund. Now, this is noteworthy for several reasons, but before I get to those, let me just quote the astonishing insight behind this decision. Here it is:

"Corporate power has increasingly been utilized to impose an ideological agenda on the American people through the perversion of financial investment priorities under the euphemistic banners of environmental, social and corporate governance and diversity, inclusion and equity."

Some might say that other institutions, such as the Supreme Court, are doing a much more direct and vigorous job of imposing an ideological agenda on the American people than corporations – but, laying that aside, let's take a look into a couple of aspects here.

At least the Governor knows his enemy, correctly spelling out what ESG and DEI stand for. But does he know what they represent?

E is for Environment. Increasingly fragile in the Southern Coastal States, where rising oceans, more deadly hurricanes and more prolonged and destructive rainfall are imposing billions of dollars in actual costs and threatening to create a tide of "climate refugees" forced to relocate from formerly prime real estate. Seems like a responsible political leader would laud

corporate efforts to reduce the climate impact of operations, especially if your state has 1,350 miles of coastline.

S is for Social, i.e., people (otherwise known as voters or constituents, in this context). To save time, and because they flow together, let's also discuss diversity, inclusivity and equity (DEI) in this space. Aside from the human impacts mentioned above under environment, all these elements taken together represent important decisions by businesses to try, within reasonable constraints, to ensure that their workforces more closely resemble the faces seen in America – and other countries – in all their varied skin hues, genders and philosophies. In other words, to value and respect each human individual for what they contribute to advancing the business. Funny – seems like a politician or a political leader should be very interested in a bigger tent filled with more – and more diverse – supporters.

G is for governance. Following laws, doing the right thing, having clear procedures, and being bound by ethics and morality… seems like those all are good things. Or maybe not, for some.

If nothing else, however, Governor DeSantis also may be threatening the well-being of State retirees with this decision, by reducing the return on the State's investment portfolio. Why? Studies have shown a positive relationship between ESG and financial performance. In other words, ESG-conscious companies earn more returns for investors.

One such study, conducted in 2021 by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management, looked at performance metrics from 2015-2020 and found a 58% positive relationship between ESG and financial performance. This study also notes: "In addition, in a recent study by Rockefeller, top quintile ESG improvers (based on Rockefellers' proprietary ESG

Improvers Score) outperformed bottom quintile ESG decliners by 3.8% annualized from 2010 to 2020."

Large institutional investment houses such as Schwab also recently have developed ESG investment portfolio recommendations for their clients, as well as establishing its own ESG ETF. This is unlikely to happen unless ESG investing is at least potentially profitable and provides individual as well as institutional investors the option of allocating investments in a way aligned with their personal or corporate values. Nothing about that seems to smack of "corporate imposition" to me.

But then, what can you expect from a man who has gone to war with Mickey Mouse?