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this industry is actually having on the world.*

## WITCH HUNT

In 1692, 13 women and 6 men fell victim to a mass hysteria that we know today as the Salem Witch Trials. And thanks to the magic of Ancestry.com, I recently learned my 8<sup>th</sup> great grandmother—a widow seeking to keep her land after remarrying an Irish immigrant, rather than ceding the land to her sons—was the first to die. Her actions were unusual for Puritanical Massachusetts, but certainly not worthy of death. So why did seemingly sane people get caught up in this witch hunt?

It's a story we've heard many times before, one of power under threat. The witch trials were in reaction to a larger socioeconomic shift, one where the dominant landowners of Salem Village felt their political and economic standing was threatened by the emerging mercantile class of Salem Town. And when people feel under threat, they try to take control, often by stoking fear in others. The insurrection of January 6<sup>th</sup> in the US Capitol is a perfect example. The overturning of *Roe v. Wade* is another. And now the progress sought through ESG (environmental, social, governance) investing is in the crosshairs.

## WHY SO SCARED?

The last 50-70 years has seen enormous social progress—advancing the rights of African Americans, women, and LBGQTQ people. And the United States is continuing to evolve, soon to become a majority-minority country. And yet the long arc of the moral universe that Martin Luther King spoke of is not currently bending toward justice. In fact, it is the reaction to the progress of the last century that threatens its undoing today. The popularity of white nationalist hate groups is at a historic high and a woman's right to autonomy over her body has been gutted. Some, like Illinois Representative Mary Miller, celebrate the two dynamics as mutually reinforcing, proclaiming the Supreme Court's decision on abortion as a "victory for white life."

But Miller is not alone. It is not simply extremist politicians rallying their base and disenfranchised white men leading the charge and storming the Capitol. As history shows us time and time again, it is those with money and power, the ultimate minority, that are preying on the fears of the 99%. In Salem, it was the wealthy landowners seeking to buttress their standing. Today, it is the billionaire class. And they are doing

it in ways that are both obvious and insidious. Undermining the legitimacy of ESG investing is the latest example of these efforts.

## ESG IS THE NEW CRT

For years, ESG investing was a niche part of the finance industry, seeking to uphold the values of its investors and pressing for positive change in the morally complex landscape that is our world. As such, it was ignored as an exercise in screening out "sin stocks" and undermined as a naïve, money-losing, endeavor. Having now spent 17 years in this industry, I have witnessed an enormous shift in this dynamic. There is ample evidence that ESG investing is not naïve at all, but a dynamic way to more fully understand material risk and opportunity, making space for unique insight, and therefore outperformance.

This understanding and/or reframing has attracted interest from large pools of institutional capital. And the pandemic and Black Lives Matter movement have only amplified that demand, as individuals more fully understand the role their money plays in the social and environmental outcomes in our society. \$100 billion flowed into ESG funds in 2021 (+33%), and ESG proposals at company annual meetings are now garnering unprecedented majority support from investors. Last November, for instance, our shareholder proposal pressing Microsoft for an independent investigation into sexual harassment garnered support from 78% of the company's investors, a \$2 trillion share block. So it's no surprise that ESG investing is attracting attention.

Barely a blip before the pandemic, Google searches for "ESG" hit an all-time high in May of this year, just as former Vice President Mike Pence penned an op-ed in the Wall Street Journal, seeking to discredit what he calls a "radical ESG agenda." A year earlier CRT (Critical Race Theory), the examination of racism, power, and structural inequality in our society, hit its own Google apex. Backed by billionaires including the Koch family, the well-funded anti-CRT "astro-turf" (fake grassroots) playbook was rolled out across the country from schoolboards to governorships. Acronyms apparently lend themselves to attack, as ESG has become the new CRT.

Pence calls on one and all to end the practice of ESG investing through regulation so that the free markets can thrive. Yes,

you read that piece of oxymoronic logic correctly: Pence believes investor demand for ESG investing is not the result of free market forces. So, he wants to push states to pass legislation to move state pension funds away from investment firms integrating ESG principles.

Calling out mega-investment firm Blackrock directly, Pence cuts to the heart of Blackrock CEO Larry Fink's newfound affection for ESG and "stakeholder capitalism." That is, capitalism that takes into account the mutually dependent nature of business, the planet, and the people who live on it. Fink weighed in in his annual letter in January:

*"Stakeholder capitalism is not about politics. It is not a social or ideological agenda. It is not "woke." It is capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to prosper."*

No doubt Fink's endorsement of ESG has contributed to increased fund flows, drawn some fair criticism, and made Fink an easy target. That's because not all ESG investing is created equal. There are examples of mutual funds where an ESG label is slapped on by a firm's marketing department, and then they are sold as genuine ESG products warranting higher fees. The results have been rightly pilloried for their obvious hypocrisy. How can a mutual fund claiming ESG bona fides invest in the prison industrial complex or fossil fuel industry for instance? So, it makes sense that regulators are looking to set clearer standards for this growing industry. But the sheer number of articles seeking to delegitimize ESG is not really about that. It's not about fees. And it's not a coincidence. ESG has raised the ire of those seeking to oppose the positive impact this industry is actually having on the world.

## A "PARALLEL ECONOMY"

Taking direct aim is Peter Thiel, a tech billionaire who has founded an asset management firm to pressure CEOs to "steer clear of environmental, social and political causes." Co-founder of PayPal with Elon Musk and long-time former Facebook board member and advisor to Mark Zuckerberg, Thiel has turned his attention to funding America's culture wars with an anti-woke, anti-ESG investing agenda. Rejecting "stakeholder capitalism" for what he calls "excellence capitalism," Thiel is seeking to create a "parallel economy" and one of his first plays is taking on the Big Three investment firms—Blackrock, Vanguard, and State Street (not exactly bastions of a liberal agenda).

Perhaps even more insidious, the Free Enterprise Project (FEP), rumored to be backed by the Koch family, has launched as a

parallel entity to the shareholder advocacy group, As You Sow (AYS). AYS is a non-profit that partners with investors to engage with corporations on ESG issues. The new group, FEP, has adopted a carbon copy of AYS's mission "to promote environmental and social corporate responsibility," but has set quite the opposite agenda. In explaining its strategy, FEP notes: "Why would a conservative organization engage in activity that is largely the province of liberal interest groups? It is precisely because the left has been so effective at moving corporate America." To that end, the organization filed 50 shareholder proposals in 2022 in direct opposition to AYS—for instance, filing "racial justice" proposals seeking to fight the oppression of white men.

Unfortunately, these bizarre, parallel realities are also playing out state by state for women with the overturning of Roe v. Wade. From Texas to Ohio, at least 12 states have already banned abortion, while only 21 have strong legal protections in place. This not only limits a woman's right to choose in certain states, but also her ability to participate in the workforce. One in four working women has an abortion at some point, whether it is an unplanned pregnancy, or something has gone wrong. We can be grateful to our friends at Rhia Ventures, who have been preparing for this moment by working with corporate America to protect female employees' reproductive health and fund their travel across state lines. This is work we will support and engage in at Arjuna over the next year.

## MASTER OF THE UNIVERSE

The story wouldn't be complete if we didn't mention the world's richest man, Elon Musk, who has taken to Twitter on the issue, as per usual. Musk's newly fashionable disdain for ESG investing was partly in response to Tesla's delisting from an ESG index, following a string of racial discrimination lawsuits at the automaker:

*"ESG is a scam. It has been weaponized by phony social justice warriors," Musk tweets, claiming a company's ESG score "determines how compliant your business is with the leftist agenda."*

Musk appears to oppose what ESG investing seeks to achieve—improved environmental, social, and governance outcomes. That's certainly what Arjuna Capital is looking for and why we have asked Tesla to address its racial discrimination problem head on, by increasing the diversity of its board. The proposal, opposed by Musk and the board, will go to a vote on August 4<sup>th</sup>. Musk, to rally support, tweeted: "Please vote your shares with Tesla!"

## HISTORY ECHOES

It's clear the powerful are taking a stand to fight the progress so many have worked so hard to achieve. Infamous lobbyist, pardoned criminal, and political consultant, Roger Stone, who is alleged to have contributed to the insurrection on January 6<sup>th</sup>, was recently seen taking the white nationalist Proud Boys Fraternity creed on video: "Hi, I'm Roger Stone. I'm a Western chauvinist, and I refuse to apologize for the creation of the modern world." It's true that if chauvinism is your goal, things haven't been going your way for a while. And so folks have been busy—working to undermine the rights of others and shore up their positions of power and privilege.

They say that history echoes. When my now 96-year-old grandmother (not the "witch," but my mom's mom) was a teenager in Brooklyn she had an illegal abortion and almost died. That is a situation many women will face again. Whether it's anti-abortion, anti-CRT, or anti-ESG, it's all part of a new witch hunt. We've seen this before. And we will overcome.

### Natasha Lamb, Managing Partner

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