CADWALADER

Investing: State treasurers remove $1 billion from investment manager over ESG concerns

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Investing

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A large institutional investment manager has lost over $1 billion of assets under management in Republican-controlled states unhappy with the company's consideration of ESG issues in investment decisions and perceived activism in the space. South Carolina state treasurer, Curtis Loftis, stated his intention to withdraw $200 million from BlackRock by the end of the year. Louisiana treasurer, John Schroder, said last week he was withdrawing $794 million from BlackRock. Utah's treasurer, Marlo Oaks, stated he had already liquidated $100 million in BlackRock funds, and Arkansas reportedly pulled $125 million this year. BlackRock manages 5 of the top 20 US sustainable funds by assets. Loftis stated that "So much of it does not help the people it is supposed to help" and that "Poor people, historical minorities, are having money and services diverted from them for these globalist, leftist ideas." In a letter, Schroder stated that "I'm convinced that ESG investing is more than bad business; it's a threat to our founding principles: democracy, economic freedom, and individual liberty" and that "It threatens our democracy, bypasses the ballot box and allows large investment firms to push political agendas." BlackRock has responded with several open letters and also with the recent publication of a website page **'Setting the record straight'** where it states, among other things, "We do not dictate how clients should invest; we offer a wide array of choice."

Taking the Temperature: As noted in our first post today, the topic of ESG investing is increasingly becoming a political battleground, with primarily Republican state investment officials criticizing, and withdrawing funds from, fund managers who have supported taking ESG factors into account. But as Blackrock's Chairman Laurence Fink said in his 2022 letter to CEOs, consideration of climate change or social impact factors in making investment decisions is not "woke;" rather, "climate risk is investment risk," as are social impact considerations. "We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients." Indeed, as we have discussed, the asset management industry has been leading the charge for

greater issuer disclosure of climate risk because of the potential for such issues to have a material impact on the performance of a business. Putting aside the at-times political nature of the discussion, there is a real question whether it is even possible for investment managers to discharge their duties to clients without considering the potential impact of climate change.