

SUSTAINABLE FINANCE

MARKETS

Ratings companies come under fire in the anti-ESG crusade

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Greetings from New York, where the temperatures remain sultry — and large European and American financial companies are starting to sweat about the problems of navigating the ESG minefield in America. See our article below, which outlines the public attacks being lobbed against large financial groups such as BlackRock and Morningstar by Republican leaders.

However, these public rows reflect only part of the tale. The bigger story now is that American states are becoming so bifurcated that the leaders of large investment companies tell me they are increasingly worried about how to create a single strategy for the American market. No wonder: some states (such as California) now require ESG commitment from funds handling public money; others (like Texas) are refusing to invest in entities that have that ESG stamp. Where this goes next is hard to tell. But the one thing that can be predicted with confidence is that financial groups need to give far more attention to state-level politics and legislatures in the months ahead — and hurry to find lawyers who understand oft-ignored state-level rules.

Meanwhile, today's newsletter looks at another controversial issue: what companies are (or are not) doing in terms of denouncing Russia's invasion of Ukraine. No, this is not quite classic ESG. However, it is now deemed an important area of ethics by some investors. Tell us what you think about this — and the civil war around ESG in America. As always, you can reach us at mormalmoneyreply@ft.com. (*Gillian Tett*)

Morningstar finds itself in the Republican crusade against ESG

The US Republican party's attack on environmental, social and governance (ESG) investing is broadening. Already, BlackRock has borne the brunt of the attacks. Now, Morningstar, the Chicago-based data provider, is in the crosshairs due to its Sustainalytics division.

Last year, Sustainalytics started to face criticism from Jewish groups and the Illinois state pension fund for adverse ratings for Israeli companies that they linked to the Boycott, Divestment, Sanctions (BDS) movement, which aims to punish Israel for the occupation of Palestinian territories.

While it denied any connection between its ratings and the BDS campaign, Morningstar has apologised, saying its initial review of these bias concerns "was overly dismissive" and promised to take action.

But Republican state treasurers are not satisfied. In an August 25 letter to Morningstar, 18 states urged the company to terminate all research and ratings products that "treat Israel-connected companies differently".

This includes ending any automatic incident reporting related to companies operating in disputed territories controlled by Israel, among other things.

The treasurers used this issue at Morningstar to stomp on ESG. "It is clear to us that ESG research and ratings products offered by Sustainalytics are deeply infused with anti-Israel bias," the group of treasurers wrote.

A spokeswoman for Morningstar said the company "does not support the anti-Israel BDS campaign".

What is interesting is that this letter to Morningstar was sent by the State Financial Officers Foundation, a conservative-leaning non-profit that has gone hostile against ESG. Notably, the SFOF is funded in part by Federated Hermes, Fidelity, Invesco, KKR and other investment managers — all of whom have touted their own ESG and sustainable investing products.

Federated Hermes, which is a gold sponsor of the SFOF, said: "We work with a range of clients who hold different views on ESG. Some embrace ESG integration and others do not."

On August 24, the same day that Texas treasurer Glenn Hegar pledged to rid the state's pension funds of BlackRock shares, he **was tweeting about** the drought in his state.

"For the farmers and ranchers who have been struggling through this drought, the challenges continue," he said.

From the Republicans' perspective, before anything is done to address global warming, oil and gas companies must be protected. If ESG in any way affects the oil industry's share prices, then Republicans will continue to vilify it. (*Patrick Temple-West*)

Pressure continues on companies operating in Russia

It has been six months since Vladimir Putin's invasion of Ukraine put a spotlight on foreign companies with operations in Russia. Some dogged researchers are trying to make sure the pressure doesn't ease.

At Yale University, a team of researchers led by management professor Jeffrey Sonnenfeld has been maintaining a continuously updated list of more than 1,200 companies, giving each a grade from A (a full halt of operations in Russia) to F (continuing business in the country as usual). Well over 200 companies get Yale's lowest grade, including the restaurant chains Carl's Jr and Hard Rock Cafe, and the consumer product companies Asics, Clarins, Giorgio Armani, Lacoste and Philips.

Another team seeking to put the heat on companies operating in Russia is the Moral Rating Agency, a new body set up this year by London-based mergers and acquisitions consultant Mark Dixon. Its newest report focuses on the public statements made by foreign companies on the invasion, highlighting the gulf between the stiff condemnation made by some businesses, and the limp waffle offered by others.

The report looked at statements made by the 122 largest international corporations with operations in Russia when the war began. Of these, only 34 seriously denounced Putin's invasion, according to the MRA. Those included tech companies such as Apple and Alphabet, consumer businesses like Johnson & Johnson and Unilever, and energy companies such as BP, ExxonMobil and Shell. It contrasted these with "mealy-mouthed" statements from companies including HSBC, Dell and Chevron, which lamented the situation while avoiding outright criticism of Russia.

While Microsoft, for example, attacked the "unjustified, unprovoked and unlawful invasion by Russia", HSBC merely said its "thoughts are with all those impacted by the continuing conflict in Ukraine".

As Dixon suggests, some companies may be worried about the consequences for their long-term business interests if they alienate Russia's government with strong public criticism. But as this horrific conflict rumbles on, corporate silence and inaction will come with its own risks. (*Simon Mundy*)

Smart read

- Fifteen years ago, a New York Times investigation shone a light on the stark decline in care standards at some nursing homes acquired by profit-hungry private equity groups. Have things improved since? In this deeply reported piece in The New Yorker, Yasmin Rafiei looks into the record of the Portopicolo Group, which controls dozens of elderly-care homes in the US. Rafiei's report is frequently upsetting but deeply informative and well worth your time.

Moral Money Summit Asia

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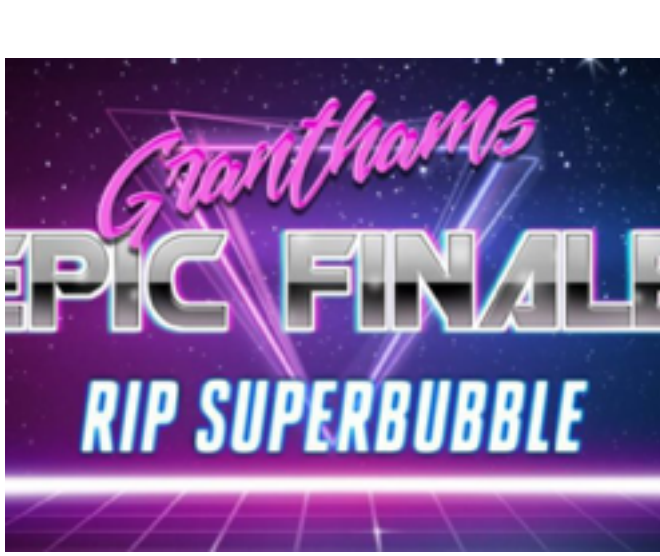
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