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States Turn Up the Heat on ESG Investing.

At issue is whether mandates about environmental, social and governance investment strategies infringe upon a state fiduciary's duty to maximize return

Environmental, social, and governance (ESG) investment strategies continue to gain popularity among investors and financial institutions, but with their rising prominence has come a growing divide in state attitudes about the ESG approach. ESG approaches consider the impacts that various investments have on people and the planet. They also can illuminate material risks and opportunities—such as a company's record on employee relations or compliance with environmental regulations—that should be considered as part of any financial decision-making.

In recent years, four states—Colorado, Illinois, Maine, and Maryland—enacted legislation encouraging public pension funds to include ESG factors in investment decisions, while in 2023 alone, 14 states adopted laws discouraging ESG considerations or banning ties to financial companies that do so. Most of this state legislation has focused on public pension investments, although some bills have encompassed other aspects of government finance, including banking, contracts, and borrowing.

Moreover, several states that have proposed but not passed ESG-related legislation—such as Arizona and Missouri—have introduced bills again in 2024. And lawmakers in California are still considering legislation that would require the state's pension systems to divest from fossil fuels by July 2031.

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Route Fifty

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