
Public Pensions and a Chance to Damp Down the ESG Wars.

After a decade of increasing popularity among endowment funds and pensions, its use in investment decisions is coming under increasing political attack. Financial analysts — and perhaps AI — may be able to point the way to a safer middle ground.

The culture wars have invaded public pension boardrooms. What began as a somewhat benign but unproven concept of thinking long-term about the sustainability of portfolio companies' business models in light of environmental, social and governance concerns has hit a brick wall across a swath of red states. A hardball backlash against so-called "woke" ESG investing that ostensibly ignores economic fundamentals and free-market securities valuations has taken hold in conservative corners of many state capitals, with impacts on pension funds and even the otherwise unrelated municipal bond market.

It's increasingly dangerous terrain for pension professionals and muni bond underwriters, although there is now a glimmer of hope on the horizon that a defensible screening process is achievable. And maybe artificial intelligence models can someday help replace doctrinaire belief systems with expert statistical forecasts. But first, some historical context.

Ever since the 1970s' political movements for pension and endowment funds to divest from companies doing business in apartheid South Africa, the concept of social investing has been contentious. In addition to ideological disputes, there was uncomfortable end-game evidence that many public pension funds undertaking "Free South Africa" divesting shot themselves in the foot: When the regime changed, those divestiture stock prices recovered faster than the pension funds were able to reverse their policies, resulting in underperformance relative to their benchmark indexes.

Continue reading.

governing.com

OPINION | Nov. 5, 2024 • Girard Miller