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Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights

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General Comment

I am submitting this letter to address the proposal from the U.S. Department of Labor (DOL) on removing barriers put in place by the prior administration that would have limited plan fiduciaries' ability to consider climate change and other environmental, social and governance (ESG) issues as risk factors affecting workers' financial security when fiduciaries select retirement plan investments and exercise shareholder proxy voting rights.

Background

I am a 32 year old and I consider climate change the biggest threat to my lifetime and that of my children. I would like to invest in my employers' retirement savings accounts but do not want to support a system that does not care about climate change. This is why I believe in ESGs.

ESG Investments are a Large and Growing Asset Class

According to Bloomberg, ESG investments are forecast to be a third of global assets under management by 2025.[5] In the U.S., we are already there. According the US SIF Foundation, as of year-end 2019, one out of every three dollars under professional management in the U.S—$17.1 trillion—was managed according to sustainable investing strategies.[6] And this category is growing: ESG funds got $51.1 billion of net new money from investors in 2020, a record and more than double the prior year, according to Morningstar.[7]

ESG Funds did Better in the Pandemic

Since fiduciaries need to consider financial performance of fund options in 401k plans they manage, it's clear that ESG factors are no longer optional. An article by Institutional Investor[8] notes:

In the first year of the pandemic, large funds with environmental, social, and governance criteria outperformed the broader market, according to a report published this week by S&P Global. It's the latest of such analyses to suggest that ESG risks matter for investment performance, at least during a pandemic.

S&P's analysis included 26 ESG exchange-traded funds and mutual funds with more than $250 million in assets under management. From March 5, 2020 to March 5, 2021, 19 of the funds grew between 27.3 percent and 55 percent, outpacing the S&P 500 index's 27.1 percent rise, according to S&P.

To me, this is evidence that fiduciaries should be required to consider ESG factors in fund selection, rather than seeing ESG as optional.

ESG Funds Should Be Among the Default Choices for 401(k) Plans

For all the above reasons, I support using ESG funds as Qualified Default Investment Alternatives (QDIAs) – i.e. the "default options" to pick from in a 401k in automatic enrollment 401(k)-type defined contribution plans.

In conclusion, climate change and other ESG factors are financially material, and, when they are, considering them will inevitably lead to better long-term risk-adjusted returns, protecting the retirement savings of America's workers.

I also encourage the DOL to work with the SEC and other market participants to facilitate more transparency, formalized standards, and higher accountability to those standards of reporting and disclosure. This will ensure the markets operate more efficiently and allow investors to pursue net-positive benefits for people, the planet, and trust, as well as risk-adjusted financial returns at the same time.

Thank you,

Alia