ESG issues prompt stiff criticism of the US-based investment manager as a major competitor drops out of a key industry net zero alliance.

The E in the well-worn ESG acronym (environment, social, and governance) has been prompting increasing controversy and conflict worldwide, at least according to numerous highly placed corporate finance experts and M&A lawyers worldwide.

Blackrock, the world's largest investment manager, is emblematic of the challenges many are facing, with many believing that it isn't doing anything right by anybody.

Both anti-ESG voices in republican-led US states and their polar opposites, activist investors, have publicly accused CEO Larry Fink of hypocrisy when it comes to sustainable investing.
Blackrock's Larry Fink Forced to Run a Sustainability Gauntlet

Category: Finance Monday, 12 December 2022 14:33

Large Influence

It is clear that Blackrock is by no means in a position to ignore the burning question of climate change and the general issue of environmental risk.

As a major investor, it has the ability to influence the actions of countless companies and ensure that they implement and adhere to key ESG principles.

But whatever step it takes is shadowed by one controversy after another, with the current threat du jour being the very public, and provocative threats, by conservative American politicians to withdraw billions in investments.

Enter Florida

At the start of December, the state of Florida withdrew $2 billion, with its chief financial officer vocally declaring at the time that using state money to finance a Blackrock-instigated social engineering project was nothing it had ever signed up for.

Louisiana, Missouri, South Carolina and Utah have either taken similar steps or threatened to do so. Texas has also chosen to pick a fight.

As with UBS, the state put the investment manager on a blacklist for allegedly boycotting the local oil industry, as finews.com recently reported.

Another Congressional Investigation

Last week, a report from the banking committee of the US House of Representatives drafted by the Republican Party accused it of abusing its voting power as a shareholder and requested that an investigation be undertaken to see the level of influence that it exerts on corporate climate change plans.

Besides Blackrock, politicians also called out State Street and Vanguard, saying that they are also using their shareholder voting rights to promote liberal social objectives.

That and similar events like it prompted Blackrock to take a more active stance to defend itself in order to protect its reputation on climate change.

Activists Disavow Fink
But the other camp is also not at all happy about what is going on. In the UK, activist shareholder Bluebell Capital Partners publicly called for Fink to resign.

They claim the institute is falling behind in terms of sustainability given its constantly changing stance on coal investment.

Bluebell has also put Swiss luxury goods concern Richemont under pressure and successfully led a campaign against consumer goods multinational Danone that subsequently led to the resignation of the chairman because of sustainability issues.

New York Critics

Although Blubell is a relatively small Blackrock shareholder, many others like them threaten to head for the exit as they become disquieted by what is going on. The state of New York warned it might withdraw billions of investments because it was not doing enough to prompt companies to cut emissions.

Blackrock is the largest asset manager for three of New York's pension funds. It managed about $43 billion at the end of August and all three funds have targeted a Net Zero portfolio by 2040.

The problem for the ESG crowd? Blackrock is by far the largest institutional investor in the fossil fuel industry as it owns more than $130 billion in investments in the world's largest oil and gas companies, and it also has significant investments in coal.

Climate Change Debacle

The debate over climate change is becoming increasingly uncomfortable for Fink as he comes under fire from all sides. The hope is that Blackrock has more stamina than that of Vanguard, one of its main competitors.

The world's second-largest asset manager recently announced that it was exiting the Net Zero Asset Managers alliance. Its members have committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner. But by quitting the industry's most important alliance, Vanguard is very clearly, and publicly, abdicating a leadership role when it comes to climate change.