

ESG May Be Eating Away at Your Investments

di Phil Gramm e Jeb Hensarling

President Trump recently signed an executive order that aims to end a 20-year experiment in backdoor socialism usurping private wealth to serve special interests. It affirms fiduciary responsibility and extends it to proxy advisers “that prioritize radical political agendas over investor returns.” Fiduciary responsibility requires investment managers and advisers to act in “the best interest of the investor,” and it applies even when the investor is seeking nonfinancial outcomes such as environmental, social, faith-based or humanitarian gains.

Securities and Exchange Commission Chairman Paul Atkins’s recent announcement that the commission is reviewing Biden-era rules governing so-called environmental, social and governance funds affirms this point. Fiduciary duty requires investment managers and advisers to exercise loyalty and care to ensure that investment objectives, whether financial or nonfinancial, are fulfilled.

Pursuing ESG objectives without the investor’s expressed consent has been part of a thinly veiled attempt by progressives to coerce investment managers and private corporations to advance their political goals and not the investors’ interest. This process began in 2006 when United Nations Secretary-General Kofi Annan announced the Principles for Responsible Investment initiative. Loud activists with anticarbon and pro-DEI agendas have colluded with asset managers to push through hundreds of corporate stockholder resolutions contrary to the financial interests of general investors.

As investors have noticed that ESG constraints produce lower returns while delivering few environmental or social benefits, opposition to ESG has grown. While the Biden administration used the same government agencies charged with protecting fiduciary responsibility to promote ESG, investor support for ESG stockholder resolutions fell

from 33% in 2021 to 13% in 2025. The number of ESG proposals voted on in the last proxy year dropped 33% from the previous year. Support for ESG resolutions by asset managers, voting the shares of their investors, has dropped from 46% in 2021 to 18% in 2025.

Investment firms are backing away from imposing ESG constraints on general investments and are tailoring offerings to target investors who actually want to promote nonfinancial objectives. U.S. investors have poured \$6.6 trillion into achieving partially nonpecuniary results, according to the US Sustainable Investment Forum. And 48% of U.S. investors remain “very interested” in sustainable investing, with support even higher among younger investors, according to a 2025 survey conducted by [Morgan Stanley](#). If idealism outlives youth, ESG investing will grow significantly.

ESG investment funds have often fostered the illusion that investors are supporting more “sustainable” environmental outcomes while earning similar risk-adjusted returns. Rarely is that the case over extended periods. ESG investment funds routinely rely on unproven and inconsistent analytics. Weighting investments in companies based on carbon or DEI metrics means, logically, that more important factors of financial performance are underweighted. The predictable financial underperformance of ESG funds is made worse by higher management fees.

In most ESG investing, no systematic effort is made to verify the claimed nonpecuniary impact of the investment, and government regulators have, as far as we can tell, assumed impact investors have opted out of fiduciary protections. Conflicts of interest among advisers are rampant. Proxy adviser Institutional Shareholder Services, for example, advises companies on shareholder ESG proposals and then turns around and sells the same companies ESG ratings. Mr. Trump’s executive order correctly raises “significant concerns about conflicts of interest and the quality of their recommendations.” In a survey article in the Harvard Business Review, Sanjai Bhagat finds that ESG investments are “not making much difference to companies’ actual ESG performance” and that they “perform poorly in financial terms.”

Investors, investment advisers and government agencies charged with enforcing fiduciary responsibility need reliable independent data to ascertain whether investments achieve their noneconomic goals and promised rates of return. The University of Utah has spearheaded an effort to provide investors with financial and nonfinancial measures to determine whether their investments are delivering on their goals. These analytics measure the authenticity of investments, whether they achieve investors' nonfinancial objectives, and whether they yield promised rates of return. A high score would provide evidence that an ESG-minded firm is fulfilling its fiduciary responsibility and possibly even meeting the requirements of the 2019 SEC Regulation Best Interest rule.

The Trump administration's executive order on fiduciary duties is one of its most important pro-market actions. It should end ESG piracy by extending the standards of fiduciary duty to investors who want their money to achieve nonpecuniary as well as pecuniary goals. Greater transparency and clarity are urgently needed to disinfect the greenwashing fraud of many ESG initiatives. Instead of helping investors to do good while doing well, ESG investing too often delivers on neither promise. Government enforcement of our fiduciary laws can bring an end to such abuse.

Mr. Gramm, a former chairman of the Senate Banking Committee, is a visiting scholar at the American Enterprise Institute. Mr. Hensarling, a former chairman of the House Financial Services Committee, is an economics fellow at the Cato Institute. Mike Solon contributed to this article.