



## **Zanetti Monday Missive 2022.12.12 The Problem With ESG Investing**

**"Nothing so needs reforming as other people's habits."  
~ Mark Twain**

Happy Monday Everyone!

If you're new to us, you might not have read my missive this summer on the Dutch Parliament's crackdown on farming as they attempt to reduce the greenhouse gases associated with livestock. You might have seen it in the news though.

Farmers were taking over the streets and marketplaces in protest over the government's interventions.



Well, the protests didn't slow the Dutch government down. If anything, it has given them more focus on the objective of slashing nitrogen emission by 50-90%.

Christianne van der Wal, the Dutch Nitrogen Minister (yes, that is really her title), spoke to the Dutch Parliament recently telling them "there will be a stopping scheme that will be as attractive as possible." She said farmers will be offered 100% value for their land, but if voluntary efforts fail, farmers may be forced to sell their land.

She added, "There is no better offer coming."



(Pictured: Christianne van der Wal)

By following through with this green agenda, the Netherlands may jeopardize the nation's food supply – and put the world's supply at risk. The country, which is roughly the size of Maryland, is Europe's largest exporter of agriculture products.

Not sure how far this Dutch movement will go, but in the meantime, I don't expect the Dutch Farmer protests to slowdown anytime soon.

But here's the thing, as we've seen food supply shrink, the prices at the grocery stores go up, but so do our food-based investments.

And now, as I watch the politics boil over, I see the investment world starting to wake up.

Over the last several years, the ESG Investing movement has picked up steam. ESG stands for: Environmental, Social, and Governance.



ESG is an investing philosophy where concerned citizens can invest in companies deemed environmentally, socially, and corporately responsible. Of course, that is a subjective concept that might vary from person to person.

Some may consider electric cars environmentally responsible. And what car company do you think of when it comes to electric cars? Tesla is the answer for most folks.





You may recall that back in May, Tesla was booted from the S&P 500's ESG index. Why was it booted?

I don't know for sure, but at that point in time Elon Musk (Tesla's CEO) started making noise about buying out Twitter in an effort to empower free-speech.

Coincidence? Hmmmm.

The ESG Investment philosophy has been lauded as "equitable" by the politicians who know very little about economics. The politics have pushed their way into board rooms and political pressure has pushed financial firms to "buy-in."

Well, in the game of capitalism, buying-in is easy when there are profits to be made. But when the profits are the same or worse than the alternatives without as much bureaucracy, buying-in is harder to justify.

Especially when ESG starts to look less about philosophy and more about politics.

Well, last week, Vanguard seemed to do an about-face when it comes to ESG.

Vanguard (the largest provider of mutual funds in the world) had previously joined BlackRock (the largest provider of ETFs in the world) and other asset managers in committing to the Net Zero Asset Managers (NZAM) pledge “to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C” and to “support investing aligned with net zero emissions by 2050 or sooner.”

The NZAM initiative is part of the United Nations’ “Glasgow Financial Alliance for Net Zero” to conscript private capital to drive certain politically based climate goals. Former Bank of England Governor Mark Carney cajoled most of the largest banks and investment managers to join the alliance last year.

It looks like Vanguard has discovered that climate virtue-signaling doesn’t come without costs.

As you all know, investors want returns. And when the stock market was climbing double digits with the Fed dumping \$6 Trillion into the market, ESG (or NZAM) was easy.

Now that the stock market has started its correction, and economic fundamentals are coming back into fashion (Go figure!), ESG doesn’t look quite as appealing.

So, back to the Dutch Farmers. I don’t know what the

Netherlands will do in terms of their government intervention. Or any nation of the world for that matter. But I do know that virtue-signaling is no way to invest your money and so we don't. We invest to make you money. Simple as that.

Your-Washington-DC-Has-No-Nativity-Scenes-Because-They-Can't-Find-Three-Wise-Men Financial Advisor,

Walt

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