This rule must be reconsidered. The restrictions on utilizing environmental, social, and governance (ESG) factors simply make no sense. The factual basis of the rule is outdated and incorrect - more suited to 20th Century "socially responsible" investing than to ESG investing as it is currently practiced.

In fact, numerous studies by a wide range of organizations including Morningstar, Morgan Stanley, and many academic institutions show, at worst, no difference in financial performance by companies with strong ESG or funds that use ESG factors and those that don't and, in many cases outperformance. In fact, research conducted by the Intentional Endowment Network in 2016 showed that 89% of companies with strong ESG performance outperformed their industry peers ("The Business Case for ESG", IEN, 2016). In 2019 the Morgan Stanley Institute for Sustainable Investing published research covering 11,000 mutual funds showing that sustainable funds had no financial trade-off versus those that did not consider sustainability and the sustainable funds showed lower downside risk. Furthermore there was strong evidence that the sustainable funds were more stable during periods of market volatility. ("Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds, Morgan Stanley Institute for Sustainable Investing, 2019). Funds with comparable financial returns, lower downside risk, and lower volatility sound like ideal choices for retirement plans. The proposed rule would make fiduciaries less likely to include these funds as options, exposing plan participants to greater risk and higher volatility.

In fact, not only does the evidence clearly support that ESG funds don't underperform, the
evidence suggests that they may regularly outperform their peers. i. From 2014-2019, sustainable funds did well in both up and down markets relative to conventional peers. "When markets were flat (2015) or down (2018), the returns of 57% and 63% of sustainable funds placed in the top half of their categories. When markets were up in 2016, 2017, and 2019, the returns of 55%, 54%, and 65% of sustainable funds placed in the top half of their categories." ("US ESG Funds Outperformed Conventional Funds in 2019", Morningstar, 2020)

The proposed rule will materially narrow plan choices, exposing plan participants to increased risk while forcing plan fiduciaries to eliminate options which may actually provide better performance and lower risk for plan participants based on an outdated idea about the effects of considering environmental, social, and governance practices in investment decision making. A very substantial body of evidence shows that ESG investing can lead to better performance. It should be left to plan fiduciaries to make decisions that are in the best interests of their participants.