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Financial Factors in Selecting Plan Investments

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Submitter Information

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General Comment

Office of Regulations and Interpretations
U.S. Department of Labor
Washington, DC 20210

Attention: Proposed rule on Financial Factors in Selecting Plan Investments (RIN 1210-AB95)

To whom it may concern:

My name is James Patrick Costello and I am a Certified Financial Planner. I published a book in 2013 and updated it in 2018, presenting ample evidence that funds that use socially responsible screening tools (Now called "ESG"), in addition to traditional investment analysis have shown, on average, equal or better long term performance than funds that do not. I based my conclusions on research and analysis by Morningstar.com, USSIF.org, and even the Wall Street firm "Morgan Stanley" (despite they themselves offering little in the way of ESG investment products when the study was completed). They published a research piece called "Sustainable Reality" which reviewed performance of nearly 1100 funds from 2004 to 2018 and concluded that "The returns of sustainable funds were in line with comparable traditional funds," and "Sustainable funds may offer lower market risk." But there is a larger point here - long term investors who give no consideration to the impact of their investments on the environment are blind, ignorant or both. The UN IPCC report warns us in no uncertain terms of the climate chaos that will ensue if the world is not able to drastically reduce its greenhouse gas emissions. As a result, more and more pension trustees and university endowment fund managers are working to reduce the

"carbon risk" of their investment portfolios - in many cases doing so by divesting from fossil fuel related industries. This has greatly enhanced comparative performance, given the woeful performance of the S&P 500 Index's energy sector. The real irony in this proposed rule is that most retirement plans have been slow to include ESG investment options in entity retirement plans. If anything, rules should be promulgated that rectify this shortsightedness. Fortunately passive investors are enjoying a new proliferation of low-carbon and ex-fossil fuel indexes that managers of large pools of money are switching to, increasingly abandoning the old fossil fuel laden indexes such as the S&P 500. The focus on fund fees is a bit of a red herring - internal fund fees are largely correlated to the size of the fund, as many fund management costs are somewhat fixed. Naturally gargantuan passive funds such as Vanguard's VFINX have lower internal fees as a percentage, compared to smaller, newer low-carbon and/or ex-fossil fuel funds that hold nowhere near the same amount of assets. That's like criticizing a mom and pop ice cream shop for having high prices compared to the lower quality ice cream offered by Walmart two doors down. Don't worry, mom and pop's prices will come down as people gravitate to them and stop eating the lower quality, lower cost fare. By the way, Socially Responsible Investing (ESG) is a rapidly growing trend that even you regulators in your ignorance cannot ignore. Already 1 out of every four dollars invested domestically (US) are invested with managers that use some type of socially responsible or ESG analysis to augment traditional security selection methodologies. Young people - folks just now entering the workforce - are absolutely concerned about the social and environmental impacts of their investments, so companies that seek to attract the best and the brightest are advised to INCREASE - NOT DECREASE the number of Socially Responsible, ESG funds available in their employee retirement plans.

I am writing to provide comments in response to the Department of Labor's proposed rule, "Financial Factors in Selecting Plan Investments," which relates to ERISA-regulated retirement plans. I believe this rule should be withdrawn, as it goes against the ethos of free and fair market principles to which the American Sustainable Business Council and Social Venture Circle subscribe. A free and fair competitive marketplace is crucial to a strong economy and strong society. Failure to allow fiduciaries to consider all material risk factors, including ESG criteria, would be to the detriment of plan participants.

Additionally, investment managers should be given the right to consider all dimensions associated with their plans, including ESG criteria. ESG criteria has been shown in numerous studies to produce investment performance superior or in line with non-ESG investments. This is because ESG criteria acts as a positive screen for superior funds and does not in any way dissuade from plan managers' pecuniary priorities. Managers should not be shut out from competitive opportunities in the marketplace.

I respectfully ask that the US Department of Labor withdraw this rule and continue to allow plan managers to operate within a free and fair marketplace.

Sincerely,