

## THOUGHT LEADERSHIP

# BlackRock avoids the politicization of ESG and gets back to investment basics

Top takeaways for investors and companies from the 2023 Chairman letter

By Chad Spittler, CEO and Founder, March 2023

Just as in years past, Larry Fink has chosen to leverage his [annual letter](#) to outline BlackRock's view on short and long-term economic trends. In 2023, this includes considering issues like inflation, human health, supply chains, global policy, bank crises, interest rates, war, climate change and migration patterns, amongst others, to avoid losses and maximize returns.

But notably different this year, Fink also uses his letter as an opportunity to educate readers on another key issue for BlackRock: fiduciary duty and the role of an asset manager. He outlines that while "there are many people with opinions about how we should manage our clients' money", "the money doesn't belong to these people...It belongs to our clients, and our responsibility and our duty is to them." While not explicitly calling out BlackRock's critics, Fink speaks directly to those who may doubt the manager's imperative to seek durable client returns with this statement. In the wake of mounting political pressure, the 2023 message is clear: let's get back to basics and leverage the tools at our disposal to create portfolios that meet investment goals and earn value. Clearly the message is succeeding based on BlackRock's continued capital inflows.

So, what does this year's analysis mean in practice? Read on for our top takeaways from this year's letter for both investors and companies.

## Investors

One subject that comes up time and time again in the text is *choice*.

As an asset owner, you have a choice in how you invest in two significant ways: 1) by deciding what to invest in (through tools like an investment policy or an asset allocation model aligned with investment



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products or accounts), and 2) through your engagement, proxy voting or stewardship activities (like Voting Choice, BlackRock's tool for clients to vote their proxies directly). Larry Fink encourages investors to take charge of their financial goals and consider the difference between seeking financial value and aligning assets with certain values, morals or ethics. In a noisy political environment, it's important to distinguish that the choice to align investments with values is not the same as the fiduciary duty to maximize financial value, though many investors may choose both. This concept is further supported by President Biden's [recent veto](#) of a resolution that would have limited investor choice in retirement plans – a resolution based on an inaccurate conflation of value and values.

But choice by itself doesn't make for a strong portfolio. Investors also need to define their terms and how they are applied, as the SEC has recently mandated for registered investment advisors. In practice, this could mean publishing a responsible investment policy that defines your terms and how they are deployed throughout your investment products or accounts. This kind of policy could help clients and prospects understand how within the investment process financial value and risk are assessed, and if there is an option to align to values. (*Don't know where to start? Check out Third Economy's [VIA3 framework](#) to dive into evaluation tools*).

## Companies

For companies, this year's letter focuses on two key themes: innovation and disclosure.

While Larry Fink does not explicitly signal his commitment to ESG principles, he references the importance of "identify[ing] short- and long-term trends in the global economy... including those that are essential to the future of the economy," in addition to reinforcing that climate risk is investment risk. BlackRock prizes innovation in its portfolio companies and rewards those that can successfully mitigate long-term investment risk and leverage unique opportunities (i.e., infrastructure, technology, carbon and energy, and health). To fully take advantage of today's trends, consider moving beyond risk assessment and think about innovation. How can you leverage these trends to advance products and services, to generate revenue? This is how to secure investment capital and put your company on track towards a grander future.

Second to an innovation mandate is Fink's call for more data from companies. As BlackRock's letter says, "better data is essential" and investors want to incorporate companies' material sustainability factors in their investment decisions. Without disclosures (and alignment against leading frameworks and standards), companies may miss out on support from investors who are seeking durable, long-term returns or innovative investment opportunities. To truly take advantage of our global economic trends, companies should report upon how they are managing risks, including climate, while also pursuing opportunities to leverage these trends and drive their business forward.

## Final Takeaways

While ESG may be under cover in this year's BlackRock Chairman's Letter, there is still a strong directive to take advantage of sustainability trends. These global trends encourage investors and corporations to define and develop their capabilities to help minimize risk, to seek future-driven opportunities, and to report upon advancements, all of which contribute to both client/beneficiary satisfaction and compelling returns.

BlackRock is the largest asset manager in the world. Whether or not they hold your company stock or manage your money, they are a north star to countless other investors and have enormous influence on how business is conducted. Our final message to all readers – you have the tools (and the encouragement from BlackRock!) to take advantage of sustainability trends and to create a portfolio or corporate sustainability program that works for your financial goals.

*Wondering how to evaluate which aspects of sustainability matter when constructing a portfolio or an ESG program? Check out Third Economy's VIA3 compass or reach out to chat with a member of our team.*



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