August 15, 2022

Securities and Exchange Commission
Washington D.C.
Via rule-comments@sec.gov

RE: "ESG Disclosures for Investment Advisors and Investment Companies." (File Number S7-17-22)

Dear Commissioners:

Natural Investments appreciates the opportunity to comment on the Commission's proposed rule, "ESG Disclosures for Investment Advisors and Investment Companies" (File Number S7-17-22). Natural Investments is a federally Registered Investment Advisor that manages over $1.8 billion in assets for retail and institutional clients nationwide. Our advisors have exclusively managed ESG investments since 1985 and our principals have written three seminal books on the field in the past 30 years: *Investing from the Heart* (Crown, 1992), *Investing with Your Values: Making Money and Making a Difference* (Bloomberg, 1999), and *The Resilient Investor: A Plan for Your Life, Not Just Your Money* (Berrett-Koehler, 2015). We also developed in 1992 and still maintain the first ESG rating system of U.S. socially responsible investment funds (the Heart Rating, featured on our website: https://www.naturalinvestments.com/heart-rating/.

As pioneering experts in ESG, we have been well-immersed in the breadth and depth of ESG criteria used by advisors, money managers, and funds for decades. We are well aware of the nuanced approaches among these financial actors, and we have long highlighted the value of helping the public to understand the numerous approaches to how responsible investing in practiced in this country. For without universal standards regarding what is considered sustainable, responsible, or impact, financial firms have defined it unilaterally, which ultimately has confused investors who surely don't understand how varied the approaches truly are.

It is our view that investors should have greater clarity so they may discern the differences among varying ways managers use ESG criteria to exclude investments, seek them out, score or rate them, and/or assign words to describe their characteristics. The integrity of terms like "sustainable" and "responsible" is in serious question today given the manner in which these terms are interpreted and manipulated. The unsuspecting public can't tell the difference between advisors or investments products and programs that select the best companies in a given sector versus ones that meet thresholds for absolute exclusion or inclusion. Some approaches to selecting securities are comprehensive, some address only one or a few issues, some are sector-specific, and some address corporate practices across all sectors. More importantly, many firms won't commit by prospectus to a specific ESG methodology, leaving investors unsure about the level of ESG commitment firms are actually making. Many firms may give lip service to the approach using glossy terminology and broad concepts, but it can be difficult to ascertain precisely what they are doing.

How these approaches are characterized by the SEC then truly matters. If a registered investment advisor considers any ESG factors in its investment strategies, the proposed rule requires us to disclose them in Form ADV Part II, including the specific ESG factors we consider, what third-party ESG frameworks we, if any, and what specific strategies we use. However, these proposed rule changes are duplicative of

existing requirements. We already disclose our specific ESG approach in our ADV and investment brochure, in our view there is no need to enhance the requirements in this regard for advisors.

We say this is unnecessary because even conventional advisors will receive requests from a small portion of clients requesting socially responsible investments. There are thousands of such advisors who will attempt to provide what clients want in this regard, even if they are not holding themselves out to be ESG advisors. There is no point in requiring advisors to disclose their approach, because it is always the ***client*** who dictates the ESG criteria of their portfolio. Such criteria are personal and subjective, as the responsibility of selecting ESG filters rests with investors. While the ability of advisors to cater to such customized preferences may vary, the onus should not be placed on the advisors to justify their provision of services. Advisors are intermediaries connecting investors to available products, there is no need for them to justify their investment selection process any more than an advisor would need to justify why index, actively-managed, value, growth, or blend funds are being selected for a given portfolio.

We concur with your basis for this guidance that increased transparency from funds is essential to investors' understanding of what they own, and we support the SEC's impetus to ensure that advisors and money managers accurately describe how ESG criteria are utilized. However, we would be remiss if we did not encourage the SEC to take a stronger stand on what qualifies as ESG criteria, for the recent dumbing down of long-held standards by newer, more mainstream entrants into the field is affecting the integrity of the approach. This is a disservice to investors who deserve to know that when an investment strategy has the ESG label it means something.

Given the recent greenwashing trend, even by well-intentioned firms that likely believe they are offering "real" ESG, we wish to suggest that you remove "ESG Integration" as a category in this proposed rule. While "ESG Integration" is a popular term, it is what experienced ESG practitioners know is a very light touch on such issues. Such approaches may, for example, address E issues but not S or G issues, and even within E, they may only address a small subset of E issues. As such, an investor who may believe they are getting a comprehensive ESG strategy is not aware of what they're not actually getting because it is too difficult and time consuming for them to make ESG comparisons among advisors, funds, and managed programs. This is why we created the Heart Rating 30 years ago, but other more recent and well-known rating systems (e.g., MSCI, Morningstar®) don't quite make the comparisons investors want and need. Investors remain largely unaware of how "ESG Integration" is or is not actually ESG in nature.

More importantly, for many "ESG Integration "strategies, ESG is not the primary purpose of the product, as financial factors often weigh far more heavily on investment decision-making than ESG criteria. Or, the firm may simply decide to select the "best" ESG performer in each sector, which is the weakest standard in the industry and one that frankly doesn't advance the intent of sustainable, responsible, and impact investing to mitigate against certain company risks. For the "best" petrochemical or fossil fuel company, or the company with the fewest violations of labor and human rights standards, isn't necessarily one that should be defined as sustainable or responsible. Investors have greater understanding of what these terms mean and should not be manipulated by firms claiming that their selection of the "least bad" securities means the fund warrants the ESG label.

In our view, "ESG Integration" is not actually ESG and should therefore not be validated by the SEC just because it's a current reality. This approach may have an ESG leaning, flavor, or aspiration, or they

may view ESG issues as a component of their assessment of company risk, but this is not the sort of ESG/SRI strategy that responsible investors are actually seeking. As such, many investors are confused when they see holdings that don't compute in their minds as sustainable or responsible. This leads investors to question the veracity of the approach. "Integration" is not a reasonable minimum standard. ESG should be reserved for advisors and investment products that place equal to greater emphasis on ESG issues as they do financial issues. For this is what responsible investors are looking for when they choose advisors and funds claiming to be ESG, sustainable, responsible, or impact.

Legitimizing the "Integration" approach would continue to warrant the sort of scrutiny ESG is currently generating from politicians, state governments, companies, and the financial press. While it will likely always be true that the values used for including and excluding companies will be subjective, in our view the SEC's role is to declare a minimum standard in order to qualify an approach as ESG or sustainable, responsible, or impact. For all analysts at investment firms can surely look at company ESG-related self-disclosed filings on their Bloomberg terminal and claim that they "consider" ESG issues in the recommendations they make to portfolio managers. But this is not what true ESG analysts, advisors and managers do. There is a set of broad and deep ESG issues that financial professionals who are serious about ESG issues use in order to see if securities make the cut. These issues go well beyond the typical sin sectors or carbon emissions, they examine such issues as:

- Living wages and appropriate benefits
- Workplace conditions and safety
- Executive-worker pay ratios
- Community relations
- Procurement policies
- Management and board diversity and promotion opportunities
- Independent board chairs
- Political contributions
- Adherence to international human rights protocols
- Responsiveness to shareholders
- The use of toxic materials
- Respect for indigenous rights, names and imagery
- Support for women's reproductive rights

Many firms that claim to be providing ESG strategies do not conduct this sort of comprehensive analysis of what they own. But they should if they're going to be allowed to use the ESG label.

In addition, "ESG-Focused" is a broad category that actually does include what the proposed rule describes as "Impact Funds". A fund that has a single-issue focus or a theme is still ESG-focused, just not always in a broad manner. The important issue here is that the single issue needs to be a clear ESG issue, otherwise any sector fund in, say, renewable energy, could qualify. As such, the guidance needs to clarify the methodology being used to select the holdings so that ESG means more than a certain supposedly "E" sector. This is precisely how Tesla and other observers wondered why the company was removed recently from an ESG index, as they failed to grasp that battery power is not all that matters when assigning ESG ratings to a car company.

Finally, regarding the proposed rule's required disclosures regarding engagement practices, the rule should ask companies that participate in engagement to disclosure the breadth of their engagements, which may include company meetings, writing letters, filing resolutions, engaging regulators and policymakers, and educating shareholders. The disclosures should allow the fund managers to describe their engagement activities more broadly than the current proposal does.

Thank you for your consideration of these comments.

Sincerely,

Michael Kramer, Managing Partner
Natural Investments
www.naturalinvestments.com