**Audio Transcript – In search of an ethical 401k**

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**Nate Hegyi:  I hate to break it to you, buddy, but we BOTH are fast approaching middle age. How are you feeling these days? Do you have any new pains?**

**Felix Poon: My lower back is always hurting me. And any time I try to take up any new hobby it’s like I immediately get injured. So I’m starting to do tai chi and pickleball.**

**Nate Hegyi:  Pickleball, really?!.**

**Felix Poon: I’m starting to lean into my later decades of life.**

**MUX**

**Nate Hegyi:  Another thing that worries me as we’re getting older…  is retirement. Like, I don’t have a lot saved. How are you doing on that front?**

**Felix Poon: I kind of ignored it completely during my twenties and thirties.**

**Nate Hegyi:  I’m in the same boat. Like, I need to take it more seriously.**

[mux swell and fade]

**So the other day  I hopped online to take a look at my retirement portfolio – and I was surprised at the sheer number of companies that NHPR’s retirement firm had invested my money in.**

**I have dollars in Hennessey…**

**Felix Poon: Hennessey, what?**

**Nate Hegyi:  Costco…**

**Felix Poon: I guess these are things that are in your everyday life that you don’t think about as being on the stock market.**

**Nate Hegyi:  Right, including gasoline, because I have money invested in some of the biggest polluters in the world. Exxon Mobil. Chevron. Did you notice that when you looked at yours?**

**Felix Poon: I just assumed that I’m funding fossil fuel companies.**

**Nate Hegyi:  Right, because that’s the way retirement works. Our money is spread out over hundreds of different bonds and companies on the stock market. History says that’s the safest way to build our savings and make sure we don’t run out of cash after we stop working.  But it’s also kind of weird, right?**

**Felix Poon: Yeah.**

**Nate Hegyi:  All across the country, there are climate activists… invested in fossil fuel companies. Climate *deniers* invested in solar panel companies and Tesla. Right now, there are staunch vegans putting some of their hard-earned income into Tyson foods.**

**Felix Poon: That’s nuts.**

**Nate Hegyi: No, that’s chicken.**

**Felix Poon: [laughs] That’s a good one.**

THEME MUX

**Nate Hegyi:  This is O/I, I’m Nate Hegyi here with producer Felix Poon.**

**And today on the show, we are going to give you the Outside/Inside angle on investing.**

**Felix Poon: Outside/Inside, really?**

**Nate Hegyi:  C’mon, give me a break, Felix!**

**And we’re find out whether you can save for retirement in a way that’s both good for the planet and good for your pocket book.**

**Stay tuned.**

[MUX SWELL AND FADE]

**So before we get into retirement savings… I wanna wanna talk about our age one more time. You and I, we were both born in the 1980s… what was your favorite cartoon growing up?**

**Felix Poon: Teenage Mutant Ninja Turtles.**

**Nate Hegyi:  Yeah, Mine was He-Man.**

**Felix Poon: ooh.**

**Nate Hegyi:  But if we were old enough to watch the evening news… we might be paying attention to some really awful stuff that was happening back then.  In particular, we’d probably hear a lot about the systemic racism in South Africa. Apartheid.**

*Joe Biden: Our* [*loyalty*](https://www.youtube.com/watch?v=0_v00iGJCLY) *is not to South Africa, it’s to South Africans.*

**Joe Biden was railing against it in the Senate**

*Joe Biden: And they are majority black and they are being excoriated.*

**Denzel Washington starred in a movie about it.**

*Movie clip: A* [*South Africa*](https://www.youtube.com/watch?v=XtA1elHEpM8) *for equals…*

**And on college campuses all across the United States, student activists were pushing their universities to *stop investing* in companies that did business with South Africa.**

*Timothy Yee: So by pulling money away… by depriving somebody of essential oxygen… money in this case, you are sending a very strong signal that their actions need to change.*

**This is Timothy Yee. He was one of those student activists back in the 1980s… at the University of California – Berkeley.**

*Timothy Yee: Go Bears!*

**Nate Hegyi:  And this movement – actually worked! Schools and later, banks, divested from companies who did business in South Africa. The economy there tumbled… helping usher in the end of apartheid.**

*Nelson Mandela [speech]: This is one of the most important moments in the life of our country.*

**It was one of the most successful examples of Americans essentially protesting with their wallets to bring about a big change in policy. But this wasn’t the first time we’ve done this “responsible investing”.**

*Timothy Yee: In the 1600s, the Quakers said they would not buy slave -made products, so they were voting with their dollars. Fast forward to the 1920s...*

*Socially responsible investing said, do not invest in tobacco, gambling, and alcohol. Now, I don't know about your listeners, but mea culpa, guilty as charged, I do enjoy an occasional glass of red wine at night. So I'm glad the definition has changed and it's evolved. Now we're into sustainability.*

MUX

**This is where Timothy comes in. Nowadays, he’s a financial advisor who helps people manage their retirement portfolio with a specific eye on what’s called SUSTAINABLE INVESTING.**

*Timothy Yee: So sustainable investing or green investing can be looked at in several different ways. One of the ways though is you are avoiding fossil fuel companies.*

**We know that this can have an impact on the environment.**

**A study this year from the Harvard Business School found that the divestment strategies alone reduced the coal industry’s carbon emissions by one gigaton.**

**That’s the equivalent of** [**20 million cars**](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4090974) **getting off the road… forever.**

**The question is, is that kind of divesting *also* good for your retirement? Are fossil fuel companies a risky bet?**

*Timothy Yee: If you have a company that is polluting the environment, mistreating its employees, you run the risk of lawsuits, political activism. Well, you could also say you're polluting your own environment. You run the risk of running yourself out of business.*

[mux swells and fades]

**Studies are mixed on whether cutting out fossil fuels from your portfolio will help or hurt your retirement. Some say yes… some say no. Coal is probably a bad long-term bet, but what about natural gas?**

**The market is just super volatile right now.**

**Either way, these fossil fuel companies are known in the financial world as BROWN FIRMS. Big carbon emitters. The idea with sustainable investing is to take your money from brown firms and put them into green firms. Low carbon emitters.**

*Timothy Yee: Perhaps you would look at solar or at wind, geothermal. Somebody tried to explain algae to me as a source of energy and I made it two sentences into the conversation.*

**Felix Poon: Good ol’ algae.**

**This all might sound simple to do, but there are over two thousand companies in the stock market. And they aren’t all devoted to energy.**

**There’s insurance. Mining. Luxury goods. Costco. Frickin’ gamestop. How are you - the average Joe, or maybe I should say the average Felix with a retirement portfolio - supposed to figure out whether all these companies are green or brown?**

MUX

**That’s where ESG comes in.**

*Timothy Yee: ESG is environmental, social, and governance.*

**ESG is a set of scores, developed a couple decades ago, to help us figure out how good a company is. Not only when it comes to their pollution, but also social responsibility:**

*Timothy Yee: How are you doing in regards to your community, for example? Are you hiring local? Are you giving back to the community? Are you trying to do some sort of social good?*

**And also… governance. Are their leaders being shady?**

*Timothy Yee: I would simply say Enron. There's an example of not doing it right.*

**Nate Hegyi:  You and I are actually old enough to know Enron.**

**Felix Poon: There was some shady deals at the top.**

[mux swell and fade]

**Nate Hegyi:  Right now, 96 percent of companies on the S&P 500 publish annual ESG reports.**

**But that… right there… is also the problem with ESG.**

**ESG is mostly *self-reported*… It’s not determined by an official third party, like fair-trade certifications or USDA organic labels.**

**Felix Poon: Are you saying that basically companies can simply just make up whatever their environmental impact is and no one would know the better? It’s just… the honor system?**

**Nate Hegyi:  Honor system. Exactly.**

*Clara Vondrich: there's been so much greenwashing and investors clearly haven't had the information they've needed to make good decisions.*

**This is Clara Vondrich. She’s with the non-profit government watchdog Public Citizen. She says there aren’t *strong* mandatory guidelines for ESG reporting.**

*Clara Vondrich: So for a long time, funds have been able to sort of count themselves as ESG while simultaneously investing in things that don't match those criteria. So if you look under the hood of a lot of these ESG funds on Wall Street, you'll actually find the chevrons, the exons, the shelves.*

**Clara is referring here to mutual funds…. They’re like pre-cooked dinners of the stock market world… instead of investing in the individual companies – the ingredients – you’re investing in the whole meal… a bunch of different ingredients put together on a prepared plate.**

[mux]

**So, One of these mutual funds is Vanguard ESG. It’s right there in the name. ESG.**

**But look at the ingredients of this mutual fund… and they’ve got more than $12 billion dollars invested in Chevron.**

**That’s like going to a vegan restaurant… and getting served a chicken burrito.**

**Felix Poon: Do they tell you that there’s chicken in the burrito or do you only find out once you take a bite into it?**

**Nate Hegyi:  Well it’s on the menu but in small print.**

[MUX SWELL AND FADE]

**Clara says this happens because there are no strong rules. But, a couple of years ago… the powers that be tried to change this.**

*Gary Gensler:* [*Hi, this is Gary Gensler and welcome to office hours*](https://www.youtube.com/watch?v=xjSk7wWJG6o)*…*

**So this is a video of  Gary Gensler, he is the head of the SEC. The securities and exchange commission – which is the governing body of the U.S. stock market.**

**Gary kind of looks like a middle-aged Mark Zuckerberg…**

**Felix Poon: Yeah, this is what Mark Zuckerberg would look like… older and balding.**

**Nate Hegyi:  He even has the Zuck’s awkward energy… and he has all these cheesy educational videos on YouTube called Office Hours.**

*Gary Gensler: What does the SEC have to do with climate? Why is the chair of the SEC talking about climate?*

**And in this one… he is explaining a proposal for a new climate disclosure rule.**

*Gary Gensler: This will be good for the economy. It helps companies raise money. It will promote economic activity. And yes - it helps investors put their money in companies that fit their needs.*

**Essentially, what the SEC wanted to do was give the“E” in ESG some real teeth.**

**This proposed climate disclosure rule, it would force publicly-traded companies to honestly disclose their greenhouse gas emissions… including what’s known as their scope 3 emissions.**

*Clara Vondrich: These are the emissions at every stage of a company's value chain. So this is upstream emissions. For example, if you're an auto manufacturer, all the transportation of parts to your factory, all those emissions would be counted as well as those emissions downstream of your core business. So the actual cars that people drive and scope three emissions for carbon intensive companies like oil companies are the lion's share of emissions. 80 to 95 percent of oil companies emissions are scope three.*

**Felix Poon: So for an automaker, for example, scope 1 is like at their manufacturing plant, the emissions they directly emit into the atmosphere when they are making cars, where as scope 3 is all those cars out on the road, burning gas, emitting CO2 into the air, that’s scope three?**

**Nate Hegyi:  Exactly.**

**And, this rule – which I should say was first proposed back in 2022 – it would also force companies to disclose how much risk climate change poses to their business. And if they don’t disclose all this accurately? The SEC has a special department:**

*Clara Vondrich: that will go after those companies and basically ask them to first justify or explain why their numbers aren't adding up. And if that fails, then fines, significant fines can be leveled.*

MUX

**Nate Hegyi:  Holding giant companies accountable for pollution and climate risk. Sounds almost too good to be true, right?**

**Felix Poon: Don’t burst my bubble, Nate!**

**Nate Hegyi:  Consider bubble burst.**

**Felix Poon: No!**

**Nate Hegyi:  Because… it was. Stay tuned.**

**BREAK**

**Hey this is Outside/In, I’m Nate Hegyi. Here with Felix Poon. You remember Vivek Ramaswamy?**

**Felix Poon: Oh yeah, the Republican candidate, big fan of a Trump.**

**Yeah. He was a flash in the pan.**

**Well he was recently in a YouTube video… slamming ESG.**

*Vivik Ramaswamy: That’s a fancy way of saying actually, certain progressive political agendas… how do we weave that in to our allocation of capitol itself, not necessarily through government…*

**He’s not the only one. Trump said the same thing though a little more… bluntly.**

*Donald Trump: The entire ESG scheme is designed to funnel your retirement money to the maniacs on the radical Left.*

[MUX]

**This anger towards ESG… it was also aimed at the SEC’s proposed climate disclosure rule… The one that would make ESG have some actual enforcement power.**

**There was a hearing recently in Congress where Republicans and industry groups railed against it.**

**They had a particular ire for its requirement that companies disclose scope 3 emissions – the ones that come from a company’s supply chain or their customers.**

**These industry groups… they used a… pull at the heart strings of the heartland… argument.**

*Bill Shultz: From weather extremes to challenging markets, from labor struggles to maintaining profitability. A life in agriculture is not for the faint of heart.*

**This is Bill Shultz. He is a fruit farmer from Michigan. He testified at the hearing.**

*Bill Shultz: Unfortunately. We now face a new and crushing regulation to this list of our challenges.*

**He said this rule would eventually hurt *small* businesses, ranchers and farmers because they are a part of the supply chain, and so it will force *them* to track their emissions data.**

*Bill Shultz: On top of the resources needed to collect this data, growing an apple is not like making a widget. Weather events or plant pests and diseases that create hurdles that would deeply complicate the reporting process, and it’s clear that the SEC did not account for these complexities and nuances of farms when writing this rule.*

*Clara Vondrich: This is nonsense.*

**Clara Vondrich with the government watchdog group Public Citizen.**

*Clara Vondrich: The first of all, the SEC rule has a safe harbor and explicitly excludes small businesses and small farmers from being burdened by the rule. Second, the rule also provides that companies can use reasonable estimates and assumptions.*

**But all this pressure… had an impact.**

*[Sound of guy listing names]*

**In early March…. I sat down at my computer to watch the SEC commissioners *vote* on the rule. Very boring.**

**Think suits. Glasses. Frowns.  A guy who spent five minutes to thank every single person who worked on the rule.**

*[Guy lists names]*

**But once I got through the drabness and formalities… I quickly realized that the SEC had bowed to pressure and drastically weakened the rule. Here’s Gary Gensler.**

*Gary Gensler: Based on public feedback, we’re not requiring scope 3 emission disclosure at this time.*

**So that whole thing about car companies counting the gas that’s burned in cars?**

**Off the table.**

[mux here]

**And if emissions are below a certain threshold they don’t even have to track it at all.**

**Now, they did keep the requirement that public companies disclose how climate change poses a risk to their business…**

**But that WHOLE lack of robust emissions data…**

**It’s a shame for guys like Timothy Yee… the investment advisor. He says getting frustrated at the climate disclosure rule or ESG is like getting angry at the nutrition facts on a box of cereal.**

**Or the directions your GPS gives you.**

*Timothy Yee: My GPS is giving me additional data. I wasn't doing woke driving. Same with ESG. It's simply giving you additional data, more research to make a decision. You are the one who decides, do I buy, do I sell, do I do this, do I do that? So that's all ESG is. It's more data, more insight beyond the bottom line.*

*[mux swell and fade]*

**But even if you had all that data… some experts think the entire concept is kind of flawed.**

*Kelly Shue: So let me start with my co -author Sam Hartsman and I, we actually consider ourselves to be environmentalists. We are very concerned about the risks of global climate change.*

**This is Kelly Shue. She’s a finance professor at Yale. And if she sounds like she’s hedging her bets, it’s because she published a white paper recently that goes against the prevailing ideas about divesting from brown companies.**

**It all started with a worry.**

*Kelly Shue: Let's suppose sustainable investors avoid investing in all brown firms, and this succeeds in punishing them, moving them closer to bankruptcy. What we were worried about is, to the extent that we have observed, firms being financially distressed in the past, they actually avoid investing in any project that takes a long term time to pay off. And projects that involve transitioning toward greener production tend to be pretty capital intensive upfront, very expensive. And firms that are worried about generating cash right now don't tend to take on those investments.*

*So then we started looking in the data.*

**And this is what they found. Many of the brown firms, when they were doing well, were on a natural path toward lower greenhouse gas emissions.**

*Kelly Shue: Now, perhaps we all wish they would move faster, and I share those concerns. But what we see in the data is when these firms have difficulty accessing outside capital, when they're strapped for cash, they actually tend to slow down these clean energy transitions.*

MUX

**She says this might not be a big problem for dying industries like coal. She’s not saying… that giving money to Chevron is good for sustainability.**

**But what about, say, a concrete company? Big tech and data centers. A car company like Ford. If they are working to reduce their greenhouse gas emissions even by a little bit… Kelly says it actually has a bigger impact on the planet than investing in some so-called green firms.**

*Kelly Shue: And what we found is that because the set of green firms currently classified as green tend to be service sector firms, again, insurance, healthcare, financial services firms that don't pollute much by the nature of their business, they really have maxed out on how much they can help the environment in terms of minimizing their emissions. that actually matters less for the environment than a similarly sized brown firm reducing their emissions by a mere 1%.*

**Felix Poon: Wait, is Kelly saying, let’s give more money to the fossil fuel companies that’s how we are going to fight climate change ?**

**Nate Hegyi:  I think she’s saying… instead of completely divesting, Felix… maybe we should be, uh, try-vesting?? Looking for brown companies that have a solid path towards a more sustainable future.**

*Kelly Shue: So you could consider a manager of a brown firm thinking, well, if I were to clean up my act and become more green, maybe investors will like me, reward me with cheap access to capital. So I'm willing to do this because of the carrot that's in place from sustainable investors.*

**Nate Hegyi:  The problem I see is… it’s really hard for someone with a 401k to tell the difference between greenwashing and actual plans for transition. A lot of companies understand they need to pay lip service to climate concerns. But which ones are B.S.?**

**Felix Poon: It seems like you need to know a lot of what’s going on under the hood of a company.**

**Nate Hegyi:  You can do it on your own, or a financial advisor could do it on their own, with data, and that’s where something like the climate disclosure rule might actually help. Even though the rule got pared down… the EU recently passed similar, tougher regulations… ones that include scope 3 emissions… which means that roughly 3,000 U.S. businesses who operate in Europe are still going to have to disclose more about their climate risk.**

**And this is gonna help folks like Timothy Yee, the financial advisor, sift through which firms are serious about transition… and which ones aren’t.**

*Timothy Yee: Market forces will dictate which companies survive and which don't. I could be, excuse the expression, hell bent on making buggy whips and I make the best buggy whip. But when the automobile came around, well, I could keep making buggy whips and mine were the best, but nobody was buying buggy whips because the horse and carriage was gone.*

[MUX]

**Nate Hegyi:  All of this is a gamble. Right? There are no guarantees. No sure bets. Brown can become green…. Green can become brown… green can become… well, red.**

**A few years ago I put some money into a Chinese electric car company I thought might take off… it never did. It was on robinhood, did you ever use robinhood?**

**Felix Poon: No… we’re using a lot of color metaphors here.**

**But bottom line, if the market is a gamble… I think you have to ask yourself…. You know… what kind of future do you want to gamble on?**