

How to Avoid Funding Treason

Adjusting ESG frameworks to deal with a new set of risks in the US.

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The siege on the US Capitol on January 6, 2021 shocked people around the world, but it also serves as a warning signal for asset owners. They now face the uncomfortable prospect that companies they invest in or work with could be funding extremist groups, some engaged in sedition. This presents real ethical, reputational, and financial risks for asset owners. To protect their organizations, their stakeholders, and their savers from such risks, asset owners should consider revising their ESG frameworks to include disclosure and accountability policies on corporate political spending.

Many asset allocators already have started this process. For example, over the last three years, nine of the world's largest asset allocators on [the Responsible Asset Allocator Initiative's Leaders List](#) voted in favor of [corporate resolutions for increased transparency](#) and accountability on political spending, including APG (AUM of \$683bn) BCI (\$136bn), CalPERS (\$326bn), CalSTRS (\$246bn), CPPIB (\$362bn), NYC Retirement System (\$225bn), NBIM (\$895bn) OTTP (\$160bn) and PGGM (329bn). In addition, more than twenty of the world's largest asset managers followed suit. Every asset allocator and asset manager should consider joining their colleagues in these efforts. [The Center for Political Accountability \(CPA\)](#), a nonpartisan and nonprofit advocacy organization working with investors to achieve corporate political disclosure and accountability, publishes data and guidelines on corporate political spending resolutions.

For asset owners, keeping a wary eye on the money trail is not only the right thing to do but also the sensible thing to do. Asset owners should require the companies and asset managers they work with to disclose corporate political spending to PACs, Super PACs, 527 groups, and trade associations and hold them accountable for donations to groups and individuals that undermine democratic institutions. The [Center for Responsive Politics \(Opensecrets.org\)](#), a nonpartisan and nonprofit research group that tracks money in U.S. politics and its effect on elections and public policy, publishes data on corporate donations to political groups and candidates. In the recent case, for example, groups that supported overturning the election include the Make America Great Again Committee, Save America, and the Republican Attorney's General Association and its affiliated Rule of Law Defense Fund.

Some of the largest donors in the last political cycle that provided capital to these groups include Las Vegas Sands (donated \$109mn) and Adelson Clinics (\$109mn), Uline (\$71mn), Blackstone (\$51mn), Citadel LLC (\$49mn) and Citadel Investment Group (\$12mn), Susquehanna International Group (\$30mn), Charles Schwab (\$23mn), TD Ameritrade (\$19mn), Wynn Resorts (\$14mn), Energy Transfer Equity (\$13mn), Intercontinental Exchange (\$13mn), Elliott Management (\$12mn) and Third Point (\$3.5mn).

Here are three ways asset allocators can use their ESG frameworks to take effective action:

1. **Revise ESG criteria to include screening information on political spending.** Responsible investors routinely use normative-based screening tools to check for human rights violations, corruption, the use of slave labor and other reprehensible practices. They should add criteria to their screening protocols and to their RFP process regarding corporate political spending policies, disclosures, and accountability.
2. **Engage with portfolio companies and asset managers on political spending issues.** Asset allocators should ask portfolio companies and asset managers to clarify political donation policies and to explain donations to extremist organizations. They should **engage** with companies and asset managers that lack constructive disclosure policies on political spending, and work with them to establish accountability. Responsible investors already engage with hundreds of companies every year on issues ranging from climate change to executive compensation.
3. **Advocate for better disclosure and accountability on political spending.** If shareholders are to act responsibly, they need to know how much their companies are spending on political donations, where the money is going and if their funds are being spent to undermine democratic institutions. Asset allocators should ask company [board directors to provide oversight on political spending](#), make regular reports to shareholders and adopt the [CPA-Wharton Zicklin Model Code of Conduct for Corporate Political Spending](#), published by the Center for Political Accountability and The Wharton School's Zicklin Center for Business Ethics Research. Asset allocators also should vote their proxies in favor of corporate resolutions for disclosure of political spending and encourage their asset managers to do the same.

The siege on the US Capitol on Jan 6, 2021 has been called [sedition](#) and even [treason](#) by legal experts. It was not a simple political protest, but rather a violent attempt to overturn an election, encouraged by the President of the United States with the help of outside funding and extremist groups. The event highlights real ethical, reputational, and financial risks for asset owners that may be exposed to working with or investing in companies that support extremism. We recommend that asset owners activate ESG frameworks to include disclosures on corporate political spending and accountability, to better understand and mitigate these risks.

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