

# *Vanguard's CEO Bucks the ESG Orthodoxy*

Tim Buckley pulls out of the Net Zero Managers initiative and affirms his fiduciary duty to clients.

By

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Vanguard CEO Tim Buckley

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Vanguard's Tim Buckley is having a Copernican moment. Like the famous Renaissance polymath who challenged conventional wisdom about celestial

movement, the 54-year-old CEO is challenging the asset-management industry's environmental, social and governance orthodoxy.

“Our research indicates that ESG investing does not have any advantage over broad-based investing,” Mr. Buckley said in a recent interview with the Financial Times. Matching word to deed, his comments came after he had withdrawn his firm from the \$59 trillion Net Zero Asset Managers initiative, an organization that is part of the \$150 trillion United Nations-affiliated Glasgow Financial Alliance for Net Zero. Both alliances are committed to restricting their investments over time to companies that are compliant with the Paris Agreement's objective of net-zero greenhouse gas emissions by 2050. Mr. Buckley claims the financial world, swept up in climate-change fervor, can't make such commitments without renegeing on its fiduciary duties.

Mr. Buckley's assertions would be innocuous if he were a small hedge-fund manager or a climate-change denier. He is neither. Depending on how and when you measure, Vanguard is the largest or second-largest asset manager in the world. Pulling his firm out of the world's largest association of financial institutions dedicated to net-zero goals should have seismic implications. What is it that Mr. Buckley knows that so many others don't?

For one thing, he understands that it's difficult for active managers to beat broad indexes, as most ESG funds promise. “In investing, you get what you don't pay for,” as Vanguard founder John C. Bogle observed. “Intelligent investors will use low-cost index funds to build a diversified portfolio, . . . and they won't be foolish enough to think that they can consistently outsmart the market.”

Mr. Buckley effectively claims that ESG managers are playing the fool and taking their clients' money with them. Fewer than 1 in 7 active equity managers [outperform](#) the broad market in any five-year period. Over the past five years, not one relied exclusively on a net-zero investment methodology. Outperforming the market is even more difficult over longer time horizons—only 1 in 10 over 10 years, and 1 in 20 over 20 years, ever do.

Last year, tech stocks fell by more than 30% while the energy sector, including oil and gas firms, gained nearly [60%](#). Yet because of their net-zero pledge, ESG funds continue to overweight the former and underweight the latter. Rather than embrace diversification and own a market-weighted amount of everything, ESG funds practice “deworsification,” clinging to a restricted list of companies and hoping for the best.

Mr. Buckley also knows that Vanguard can’t promise to be a fiduciary to its clients while also committing to align its assets with the 2050 net-zero target. Signatories to such initiatives effectively commit to reducing their volume of investments in companies not aligned to the Paris Agreement without ever knowing how much of the global economy will be compliant or investable. In other words, being a member of a net-zero alliance requires clairvoyance—something Mr. Buckley, in good conscience, can’t promise. If acts of war or nature force a sudden rethink of the priority given to carbon reduction over energy affordability and reliability, as they’ve done in the past year, the investment universe would no longer reflect how the real economy operates.

Finally, Mr. Buckley knows that the largest index manager in the world isn’t qualified to tell individual companies how to set their ESG priorities. “It would be hubris to presume we know the right strategy for the thousands of companies that Vanguard invests in,” he told the FT. “We just want to make sure that the risks are being appropriately disclosed, and that every company is playing by the rules.”

Most important, Mr. Buckley understands that progress toward net-zero emissions doesn’t depend on how people invest: “Politicians and regulators have a central role to play in setting the ground rules to achieve a just transition.” Betting his clients’ money on politicians and regulators consistently doing the “right” thing would be irresponsible. There is a receding chance the globe will be at net zero by 2050. No one should promise to base his entire investment strategy on such odds.

If Mr. Buckley is right, then hundreds of other financial institutions with trillions of assets under management are wrong. Asset managers who promise to prioritize investment performance should reject shoe-horning their clients' capital into an unknown and unknowable future. They should also stop pretending they know more about how to run companies than full-time corporate boards whose sole job is to maximize their shareholders' long-run interests.

Rejecting prevailing beliefs is hard. Al Gore called Mr. Buckley's decision "irresponsible and shortsighted." Freeing the asset-management industry from a prevailing orthodoxy that promises wealth and environmental sanctity while delivering neither requires monumental fortitude.

It took some 360 years before the Vatican formally acknowledged its error in rejecting Copernicus's theory of heliocentrism. Let's hope Mr. Buckley's critics won't wait three centuries before admitting he was right.

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