Decoding Trump 2.0 and the impact on ESG investing

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US President Donald Trump has signed numerous executive orders, including the US withdrawal from the Paris Agreement, a repeal of elements of the *Inflation Reduction Act of 2022* (Inflation reduction Act), repeal of federal DEI (diversity, equity and inclusion) programs and changes to inclusion in the military, the instigation of a widespread deportation program, and the unleashing of US oil reserves in a pushback to fossil fuel to help redress energy inflation and provide stimulative support to the US economy.

Separately, the Net Zero Asset Management Initiative has stated that it is suspending its activities after several institutional investors withdrew and a number of companies received media attention after backing down from DEI initiatives.

Such outcomes were generally not unexpected, some being flagged by Trump ahead of time during his election campaign, and during Trump 1.0.

Impact of US withdrawal from the Paris Agreement

The US has already withdrawn from the Paris Agreement once in the past, under Trump in 2017, only for the membership to be reinvigorated by President Biden in 2021. Trump's first withdrawal did not lead to a capitulation on global decarbonisation. On this precedent, while there is a risk that other countries could follow, we do not expect that the US withdrawing once again will significantly derail longer-term global efforts to achieve decarbonisation.

At the time of writing, while the events in the US pose a risk to global decarbonisation efforts, other jurisdictions have not yet backed away from the Paris Agreement or country-specific targets.

More importantly, the global decarbonisation effort is driven by many factors, not just policy change and government commitments.

Private capital flows have been driving the energy transition to date. According to the International Energy Agency's (IEA) *World Energy Investment 2024* report: "The world now invests almost twice as much in clean energy as it does in fossil fuels." Further, it found that in 2024, global energy investment was set to exceed US$3 trillion, of which US$2 trillion was being invested in clean energy technologies and infrastructure. Whether or not there will be a change to this in 2025 remains to be seen and will be a key issue to monitor.

Clean energy has taken over from fossil fuels in attracting more investment over the last decade. In 2015, fossil fuel investment exceeded that of clean energy. From 2016 onwards, clean energy has outpaced fossil fuel in investment, with the difference increasing rapidly since the Biden administration from 2021.

So far, we have not seen any evidence of any capitulation or significant changes. Banks still see the funding of the energy transition as a major opportunity. In the past few years, they have progressively set targets for phasing out fossil fuel financing, particularly for thermal coal. They see opportunity in clean energy and are more averse now to the risks of climate change, fossil fuels, and the risk of stranded assets in the fossil fuel sector, such as financing thermal coal.

Global decarbonisation has not progressed as fast as many politicians had hoped, primarily due to a lack of technological breakthroughs and lack of commercially viable options. However, we have not seen a slowdown in investments in these technologies. For instance, direct air capture (DAC) [using chemical or physical processes to remove and capture CO2 from the air], while promising in theory, remains expensive. Even so, capital is being continually invested with the hope of one day making it commercially viable.

The majority of S&P/ASX 200 companies have net-zero ambitions and goals, but there is room for improvement. On our calculations, approximately 79% of S&PASX 200 companies have committed to net zero/carbon neutrality by 2050, or sooner, while 21% have no targets.

Decarbonisation strategies for some companies are either heavily back-ended (dependent on yet-to-be proven or commercialised technologies) and, in some cases, companies lack overall credibility. At this stage, unless things change, our hypothesis is that most companies will likely retain their targets.

The issue of climate change, including both physical and transition risks, has not gone away. As long as major investors' portfolios are at risk from the deleterious and sometimes terminal risks of climate change, we do not expect commitment to stop.

With regard to the US Inflation Reduction Act, it remains to be seen exactly how it will be impacted by the new US administration. We believe it is unlikely that the Act would be repealed in its entirety, given that a significant part of the investment is linked to Republican states. However, it is possible that clean energy tax credits could be repealed which, in turn, would slow down the clean energy rollout in the US. Again, we remain vigilant on this issue.

There is no evidence so far that institutional investors in Australia are backing down from climate change commitments. Globally, superannuation and pension funds are the largest holders of investment capital with over US$55.73 trillion in total assets, with this weight of capital largely committed to environmental, social and governance (ESG) values and approaches, and to climate change goals.

We do not expect this to change with President Trump, though we do expect some complication and potential ripple effects in the approach to climate change taken by other countries. 'Copycat policy' with Trump as a catalyst remains a live risk to climate change progress, and something we will be monitoring closely.

In addition, many companies have linked their executive remuneration to climate change targets, and companies have a financial incentive to reduce carbon emissions as this can reduce costs, particularly for companies subject to a price on carbon or the Safeguard Mechanism ["the Australian Government's policy for reducing emissions at Australia's largest industrial facilities"].

Trump 2.0 restricting renewables

The need for energy is significant. The problem of intermittency and storage for the rollout of renewables remains a key challenge to science and technology. Trump's approach on this problem is to unleash fossil fuels in America for base load [the minimum output a large power generation facility needs produce over a particular time period in order not to be switched off] energy.

However, we believe, base load energy demand will need to be met by both renewable energy and fossil fuel, like liquefied natural gas (LNG), but only for the period of transition. The costs of renewable energy are falling, which is one of the main reasons why the rollout of renewable energy to date has been strengthening. According to the International Renewable Energy Agency (IRENA), in 2023, 81% of renewable additions were cheaper than fossil fuel alternatives.

This fall in renewable energy costs is likely to continue as the economics and technology become more compelling. The big game changer will be when large-scale battery storage technology is commercially available. Until then, some fossil fuels, such as natural gas, particularly when combined with carbon capture storage (CCS), will naturally play a transitionary role in order to maintain baseload power capacity.

Overall, we think that the economics of renewable energy have improved to the stage that they are now a critical part of the overall energy complex, and an unstoppable inevitability. Understanding the shift to renewables that could help safeguard future earnings of companies is a key focus of our engagements. We will be watching for changes in companies' approaches related to the decrease in policy support for clean energy under the new administration.

Impact of changes on US policies

Trump has signed a number of socially impactful executive orders including limiting the definition of gender to male or female, cancelling DEI programs across federal government, and moves to limit and end gender reassignment. DEI is one change with widespread implications from a social viewpoint.

We have no doubt that DEI will be debated in Australia too following what has happened in the US. So long as there is a strong business case for DEI policies, which could include links to staff engagement, lower staff turnover, higher productivity, better decision-making, etc., we do not believe that there will be any major impact or change in corporate Australia.

In Australia, the majority of large, listed companies have set gender diversity targets and currently report on diversity metrics beyond gender, and there are still discrimination laws. Most ASX-listed companies are still mandated to report on diversity through the Workplace Gender and Equality Agency (WGEA), which includes data on gender equality metrics. The ASX corporate governance guidelines, which are currently being discussed for a revision, also include a number of recommendations around diversity.

The quote

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Måns Carlsson OAM, Ausbil Investment Management

Måns is head of ESG at Ausbil Investment Management, and a co-portfolio manager of its Active Sustainable Equity Fund. He has held senior ESG positions at AMP Capital, Carnegie Investment Bank, Macquarie Bank and Accenture, and is well known for his advocacy, research and leadership on key ESG issues. His industry leadership positions include director of the Responsible Investment Association Australasia, and steering committee member of Investors Against Slavery and Trafficking—Asia Pacific. Måns holds Bachelor of Science, Master of Finance, and an MBA.

In addition, we do not believe that investors will stop focusing on the topic either, as long as it is seen as a financially material issue and beneficial to the performance of corporates.

At Ausbil, listed company DEI programs are taken into account in our proprietary ESG research as part of a wider assessment of the human capital of a company. This is part of an assessment of a company's staff engagement and culture, ultimately trying to assess its ability to attract, develop and retain talent in order to avoid costly staff turnover and to drive profitable growth.

On social issues like modern slavery, if a company's earnings rely on the exploitation of workers or even illegal activities like slavery, earnings cannot be viewed as sustainable in a world with an increased focus on labour rights.

It is worth noting that it was under the previous Trump Administration that the U.S. Customs and Border Protection seized gloves made in Malaysia over allegations of labour rights violations, and it was during Trump's first presidential term that the *Uyghur Human Rights Policy Act of 2020* [which "imposes sanctions on foreign individuals and entities responsible for human rights abuses in China's Xinjiang Uyghur Autonomous region and requires various reports on the topic"] went from Bill into law.

A large number of shipments of goods allegedly made by forced labour were stopped during the Biden era. Under Trump 2.0, we think this will continue, especially as it ties in with protectionism and trade wars in general, and is supportive of Trump's rhetoric around placing America's interests first.

Other impacts, such as deportation of illegal immigrants, work from home, and exiting the World Health Organisation have received significant press. At the time of writing, we believe these changes are US-specific or will unlikely have a dramatic impact on corporate Australia. However, given that it is an election year in Australia, it is not unlikely that some of these topics will feature in terms of the political debate. Whether that will translate into actual policy change, however, is uncertain.

How Trump's geopolitical and trade announcements might impact ESG

A major platform for Trump's economic agenda is tariffs and 'America first' policies. So far, Trump has announced 25% tariffs to be placed on Canada and Mexico, and increased tariffs on China from 10% to 20%, effective 4 March 2025. The risks associated with trade wars and other forms of protectionism are systemic and difficult to predict.

The impact of tariffs could be disruption to supply chains. These disruptions are a risk in terms of transparency and tracking of human rights in supply chains and modern slavery. As part of Ausbil's proprietary ESG research, we do a deep dive into modern slavery and human rights risks and, as part of that, we map out company supply chains.

Based on our analysis, we expect that tariffs announced to date in relation to Canada and Mexico will have an insignificant impact on ASX-listed companies. Where there is Tier 1 level supplier exposure to Canada and Mexico for ASX-listed companies, this tends to be in relation to local offices, and only some of it relates to the sourcing of goods into the US.

This view has been corroborated in the engagements we have had with companies on this issue. Companies had largely diversified their supply chains and had started planning for the probability of tariffs before Trump's inauguration. In other words, they were not taken completely off guard. This remains a watching brief for our team.

Are changes under Trump 2.0 powerful enough to derail ESG as an approach to investing?

The short answer is 'no', as long as ESG can help investors to make better informed investment decisions and remains true to its purpose. Increasingly, research shows that the value of a company includes intangible drivers, that is, the market also puts a value on things other than net tangible assets.

Examples include a company's governance, its culture, its customer and supplier relationships, its brand, its reputation, its business model, and its intellectual property. Many of these are directly related to ESG and, therefore, it makes sense for investors to take into account these factors in investment decision-making.

That said, because of the changed rhetoric from the US, we believe investors and companies alike may contribute to a more nuanced approach, where they will focus more on the most material ESG topics and may not pay as much attention to other issues deemed as less material from an investor perspective.

Ausbil has not made any changes and does not foresee making any changes to its ESG integration approach, including its proprietary ESG research or ESG-related engagements. ESG integration can help investors to make better informed investment decisions, particularly in a world of more ESG-related regulation.

In corporate Australia, the latest data shows that demand for sustainability professionals is increasing, not decreasing. Also, it shows that executive remuneration structures in Australia frequently include ESG goals.

At the time of writing, we do not foresee any major impacts to any particular domestic sectors, but we will monitor developments, particularly in the upcoming reporting season, including engaging with companies to assess whether there has been a real shift in consumer/business customer demand around sustainability. A number of companies have embedded ESG and sustainability in their strategies to achieve a competitive advantage over peers, and we will discuss with those companies what trends they are seeing.

Conclusion

Wrapping up, we believe that ESG approaches are now deeply accepted across the investment market in terms of their contribution to overall risk reduction, and the value of ESG in active investment management.

The US election cycle has become somewhat partisan, and the issuing of executive orders has risen in number over the past few presidencies with one repealing the orders of the other in a tit-for-tat cycle.

From an ESG perspective, Trump's social, economic and political agenda, will keep the issues rich and complicated for companies and investors alike, and that means ESG remains as important as ever. FS