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How to decode Trump 2.0 and the impact on ESG

Research & Insights

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The election of President Trump – Trump 2.0 – has seen an eruption of debate on diverse ESG issues, with some executive orders changing US policy in relation to key ESG issues. Ausbil's Måns Carlsson, Head of ESG and Co-Portfolio Manager of Ausbil Active Sustainable Equity, responds to these changes and, in an environment of rapid and unpredictable change, seeks to add some insights on how to make sense of the Trump 2.0 changes.

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10 minute read

Key points

- President Trump has rapidly changed a number of US and global policies that significantly impact ESG.
- While it is too early to assess the full impact of these changes, it is a good time to consider the implications. New information continues to come to light, which means things can change quickly and require continuous monitoring, however, this paper outlines our current thinking. In addition, the outcomes and impact on Australia may also hinge on the upcoming Australian federal election outcome.
- In our view, rather than degrading the importance of ESG issues, the debate will likely lead to stronger focus on the financial materiality of ESG, which can vary from issue to issue; resulting in continued strong engagement on ESG topics that truly matter. In turn, this could have a voluminous impact on the demand for ESG and engagement in an issues rich environment
- On climate change, Trump's move to leave the *Paris Agreement* is reminiscent of the first time he made such an exit, in 2017, which was subsequently reversed by Biden in 2021.
- In Australia, the US and across Europe, superannuation and pension funds, the largest holders of investment capital globally with over US$55.7 trillion[1] in total assets, are largely committed to ESG values and approaches, and many to climate change goals.
- 2025 is shaping up to be a record year for Ausbil's ESG Team in terms of issues and engagement.

1. Source: WTW. 2024. Global Pension Assets Study – 2024. Retrieved from https://www.wtwco.com/en-au/news/2024/02/global-pension-assets-rebound-past-usd-55-trillion

Q: Let's begin with the Trump presidency. Can you summarise what the new administration's impact on ESG could be?

A: Trump has signed numerous executive orders, some of which are related to ESG. These include the US withdrawal from the Paris Agreement, a repeal of elements of the 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 push back 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 a number of 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.

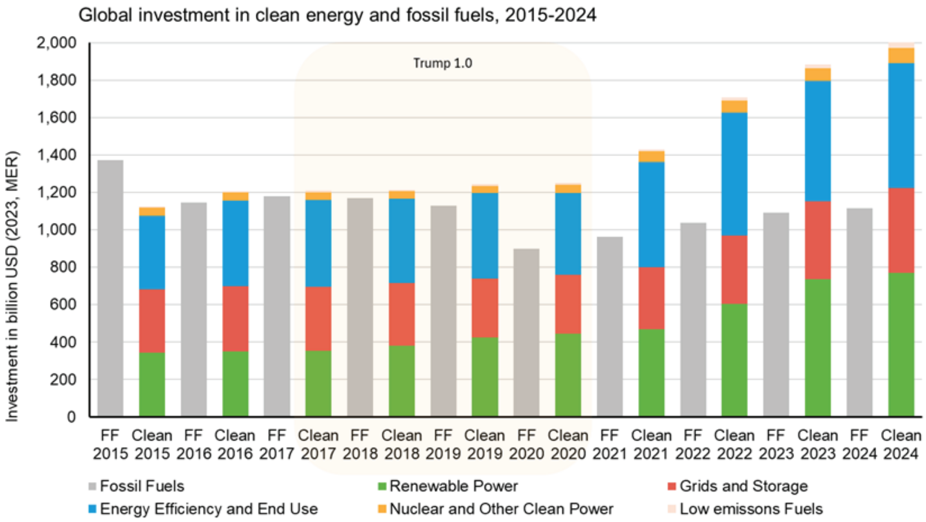
Q: What is the likely impact of the US withdrawal from the Paris Agreement?

A: On 20 January 2025, Inauguration Day, President Trump signed **an executive order to exit the Paris Agreement**. The US has already withdrawn from the Paris Agreement once in the past, under Trump in 2017, only for the membership 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 (IEA), 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, "the world now invests almost twice as much in clean energy as it does in fossil fuels." Whether or not there will be a change to this in 2025 remains to be seen and will be a key issue to monitor.

Chart 1: Global investment in clean energy and fossil fuels, 2015-2024



Source: IEA, 2024.

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly- owned subsidiary of New York Life Insurance Company. As at 31 January 2025, Ausbil manage over $20.3 billion in funds under management.

According to Chart 1, 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 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 and in the last 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 fuel, 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), whilst 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%[2] 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 and 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.

In 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$55.7[3] trillion in total assets, with this weight of capital largely committed to ESG values and approaches, and to climate change goals.[3] 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.

“The majority of S&P/ASX 200 companies have net zero ambitions and goals but there is room for improvement”

2. Source: Ausbil analytic work on the ASX 200, as at 31 January 2025.
3. Source: WTW press release 26 February 2024 referencing “Global Pension Assets Study – 2024”. Retrieved from https://www.wtwco.com/en-au/news/2024/02/global-pension-assets-rebound-past-usd-55-trillion

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.

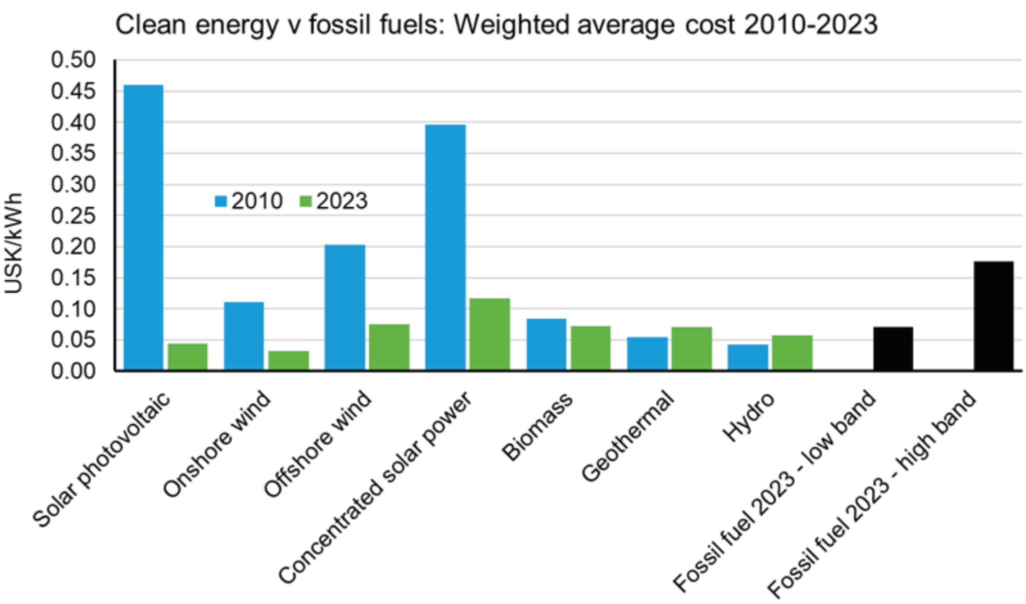
In summary, at the time of writing, there is no evidence that the US withdrawal from the Paris Agreement would halt or significantly slow down the global decarbonisation and energy transition effort.

> "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"

Q: Trump 2.0 is restricting renewables in favour of opening up major oil and gas volume in North America. Can you describe what impact you see from and ESG perspective?

A: 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 energy. However, we believe, base load energy demand will need to be met by both renewable energy and fossil fuel, like LNG, but only for the period of transition. The costs of renewable energy are falling (Figure 2), which is one of the main reasons why the roll-out of renewable energy to date has been strengthening. According to the International Renewable Energy Association (IRENA), in 2023, 81% of renewable additions were cheaper than fossil fuel alternatives.

Figure 2: Global weighted-average LCOE* from newly commissioned, utility-scale renewable power generation technologies, 2010-2023



*LCOE (Global Average Cost of Electricity). Source: IRENA, 2024. Note: These data are for the year of commissioning. The LCOE is calculated with project-specific installed costs and capacity factors.

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.

"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"

Q: What are the impacts of changes to governance policy like the recission of DEI (diversity, equity and inclusion) and moves to cancel work from home in the US?

A: 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. In Australia there are still discrimination laws, most ASX-listed companies are still mandated to report on diversity through WGEA (Workplace Gender and Equality Agency), 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. 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 US Customs 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 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 has 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.

Q: How might Trump's geopolitical and trade announcements impact ESG?

A: 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 effective 4 March 2025 and has threatened China with a 10% tariff. The risks associated with trade wars and other forms of protectionism are systemic risks 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.

> "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"

Q: Do you think the changes under Trump 2.0 are powerful enough to derail ESG as an approach to investing?

A: 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 investors and companies will focus more on the most material ESG topics while they may pay less 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 don't 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.

Q: Wrapping up, what is the key proposition of ESG that you think makes it resilient to changes like we have seen with the Trump administration?

A: 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.

"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"

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