Equity Trustees

Date: 4 March 2025

RESPONSIBLE INVESTMENT DEVELOPMENTS TO WATCH IN 2025

The landscape for responsible investing continues to evolve as we move into 2025 driven by the impact of political events, the rollback of ESG initiatives in the US and the regulatory environment. Below we have outlined these themes and the potential implications in more detail.

THE IMPACT OF TRUMP PRESIDENCY ON THE CLIMATE POLICY AND THE ENERGY TRANSITION

This was one of the key areas of focus throughout Trump's election campaign as speculation grows on how his second term in office might impact clean energy subsidies in the Inflation Reduction Act (IRA) and energy transition related industries like wind, solar, clean hydrogen, and critical minerals.

- Since Trump's inauguration he has been very quick to sign a series of executive orders, some of which may have implications for responsible investment themes.
- One order is to pause and review the disbursement of funds through the IRA – a climate policy introduced by the Biden Administration to support investment in the energy transition.
    - It is speculated that tax subsidies supporting electric vehicles, energy/water efficient appliances and clean hydrogen are most likely at risk, as well as new offshore wind development.
    - The IRA is at low risk of being completely repealed given substantial investment has flowed Republican states and to repeal the IRA, a new bill would need to be passed which would require support from both houses.
    - The outcome of this review won't be known for months. How the IRA is treated and the implications on energy transition industries will be a key area to watch.
- At the same time, through executive order Trump has declared a "National Energy Emergency' which aims to increase energy supply and lower prices by expediating the production and approvals for US energy resources included fossil fuels and clean energy sources such as biofuels, geothermal, uranium and critical minerals.

Implications

- There is still a lot to play out in the roll out of Trump's energy policy and the review of the IRA, however despite the negative headlines, momentum behind the clean energy transition is still intact globally and a Trump Administration may not be as bad as originally speculated given clean energy investment increased during Trump's first presidency.
- We have exposure to this thematic through a position in Worley (WOR), an Australian based engineering and professional services company servicing the energy, chemicals, and resources sectors, while also expanding into sustainability related sectors. WOR are leverage to this thematic through their large exposure to the US where they could benefit from the speeding up of approvals to develop US energy resources.

TRUMPS ANTI-ESG AGENDA

The rollback of ESG initiatives post the US election may present some headwinds to responsible investing in 2025. In the US there has been pressure from Republican Parties for investment firms to not include ESG considerations in their investment decisions, plus we have seen Trump withdraw the US from the Paris Agreement (for the second time) and remove several federal diversity equity and inclusion (DEI) initiatives.

- This has been making news headlines around the world and resulted in several large companies and financial institutions in the US winding back on their climate and DEI commitments. There has been speculation on whether there could be contagion to Australia.

Implications

- We believe this is likely to lead to increased 'greenhushing' for companies with operations in the US where there is pull back on reporting of ESG information which could hinder sustainable investment.
- We expect these issues are front of mind for Australian boards and has been a key area of focus through the February 2025 reporting season.
    - We have mostly seen Australian companies push ahead with their climate and diversity policies and it is likely they will steer away from trend we have seen in the US given the distinctly different community and investor environment.
    - We have not seen many companies set new environmental targets due to the evolving US Policy and upcoming Australian federal election.

INCREASED DEMAND FOR CLEAN ENERGY

Another responsible investment theme in focus is the growing demand for electricity driven by increased electrification and the growth in data centres due to AI demand which requires power 24/7.

- It's recognised the increased demand for electricity could be a barrier to achieving climate goals, but it also creates opportunity to speed up the energy transition and drive development of clean energy sources as hyperscalers are willing to pay a premium for clean baseload power as they aim stay on track with their climate commitments.

Implications

- Global technology companies are increasingly looking to nuclear power to meet their clean energy goals given the intermittency of renewable energy sources like wind and solar. This along with a number of countries incorporating nuclear power into their energy mix (to enhance energy security and reduce emissions) may drive demand for uranium and benefit ASX listed miners.

ESG FUND LABELLING

We have seen significant growth in the number and type of responsible investment offerings available, with labels such as 'Sustainable', 'Responsible' or 'ESG' that can mean different things to different people. In Australia, the Federal Government is planning to introduce ESG labelling requirements to deter greenwashing and drive more funds into sustainable investments. Labelling will likely follow the requirements in the UK and EU and rollout is expected in 2027.

Implications

- At face value, it can be challenging to assess how an investment manager is incorporating responsible investment principles. Fund labelling will help to distinguish an investment manager's approach to responsible investing and how well it aligns with an investor's values and investment preferences.
- This will be a key area to watch over the next couple of years as the rules are developed, and could have implications listed companies and where investment flows.

  - For example, we could see a change in investment flow in/out of companies with strong/weak ESG performance that are more likely to be included/excluded Sustainable or Responsible investment offerings.

Equity Trustees Asset Management have strong belief in the connection between ESG factors the financial performance of a business. Our view is that companies managing ESG issues well prove to have more sustainable and robust business franchises over the long-term. Our objective is to better understand how the issues above evolve, and how they will impact on the companies we invest in.