Trump 2.0 and the ESG backlash – how should responsible investors respond?

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Navigating a shifting ESG landscape

The landscape of ESG and responsible investment is facing fresh challenges. The so-called 'ESG backlash', already testing the convictions of responsible investors, has further intensified following the 2024 re-election of President Trump. The discussion sought to unpack the drivers of the backlash and explore the strategies asset owners can adopt to remain on course to meet their specific responsible investment objectives, despite growing scrutiny and politicisation on all things ESG.

Moderated by Joey Alcock, Head of Responsible Investment at Frontier Advisors, the panel featured Angela Emslie (Chair, Frontier Advisors), Estelle Parker (Co-CEO, RIAA), and Chris Nicholson (Head of Research, at US-based Strive Asset Management), who brought a genuinely diverse range of perspectives to the discussion.

Drivers of the ESG backlash

The session kicked off with a brief retrospective on the history of ESG in investing, which highlighted that its evolution has been, and continues to be, shaped by both its advocates and its opponents. Further, it was noted that ESG has become a term with no single definition, meaning investors should aim to be as specific as they can on what they mean by, and seek to achieve with their responsible investment strategies. Not doing so is likely to lead to confusion and frustration among and between portfolio decision-makers, fertile ground for a backlash.

To really understand the nature of the ESG backlash (and therefore how to engage with it), it was important to hear about it from an appropriate source. In this case, the source was Chris Nicholson representing Strive Asset Management, an investment manager founded by prominent anti-woke capitalism advocate and entrepreneur, Vivek Ramaswamy. While noting his firm had become the poster child for anti-ESG investing, Nicholson argued their investment philosophy is not so much about being anti-ESG, but pro-investor choice. In particular, Strive caters to investors that believe superior financial performance will be generated by companies that pursue pure capitalism, which involves explicitly putting shareholder interests above those of other stakeholders (such as customers and the wider community).

Nicholson suggested the ESG backlash has been fuelled, to some degree, by the responsible investment movement's tendency to become overbearing and emotive, particularly when it views issues such as climate change as existential. He noted that "if you believe the world is going to end because of climate change, you may impose your own beliefs on others at times. That's kind of the heart of the backlash. People rebel against being controlled."

Balancing risk, returns and purpose - the ongoing case for ESG

In articulating how asset owners with long-term objectives navigate the current obstacles being thrown up by the ESG backlash, Angela Emslie responded by emphasising the importance of holding firm to long-term investment beliefs and purpose, especially as climate-related risks become more systemic and less diversifiable. Emslie noted that "We can't diversify away from systemic risks like climate change. We have an obligation to our members, not just to generate returns, but to consider the world they retire into," she said.

Estelle Parker echoed this view, noting that based on feedback from RIAA's asset owner members, Australian investors remain broadly committed to ESG, with strong demand for ethical investment options. To illustrate this, Parker observed a shift in language around ESG topics in response to political pressures arising from the ESG backlash, particularly in the U.S. For example, some ESG practitioners now use alternative terminology around investment risks like "insurability", "asset continuation" or "energy security" instead of the traditional "climate change". Another example is the use of terms like "workforce composition" in place of "diversity, equity and inclusion". The objective of changing such wording is to avoid getting caught in unproductive debate around nomenclature which has become politicised. This enables the practitioner to continue integrating material ESG considerations into investment decision-making in a meaningful way, albeit under a different name. While some would argue this is a form of so-called 'greenhushing', it highlights the practical steps long-term investors are taking to stay on course with their portfolios in contrast to the noise of partisan, political dialogue.

Finding common ground

Despite some differing viewpoints, all the panellists did accept that ESG factors such as occupational health and safety, climate risk, and cyber security, are valid considerations as part of robust investment decision making. Alcock reflected, "We're agreed that material ESG factors can and do impact financial performance. And those need to be identified, assessed and managed." He added that this "foundational element of risk management and identification of opportunities though an ESG lens" remains critical even when there are different views on ESG's broader role with respect to ethical and impact objectives.

Nicholson qualified this perspective by cautioning against blind acceptance of research on ESG-related drivers of investment performance. He stressed the importance of ensuring the investment case being argued for a given ESG factor was sufficiently supported by credible academic evidence.

Parker emphasised that ESG should be understood as a practical investment tool, not a political position or ideology. "It's an investment strategy, not a movement," she said, pointing to the competitive performance of RIAA-certified responsible investment products and pushing back on the characterisation of ESG as a belief system.

The path forward

The panel wrapped up with a shared call for asset owners to remain authentic to their purpose around ESG, align internally, and engage openly with stakeholders. Responsible investment, while currently challenged by political headwinds, continues to be a necessary part of managing long-term investment risks and opportunities, with the added scope of being an agent for positive social and environmental change, if this is within the mandate of the individual investor.

Emslie viewed the ESG backlash as natural point in the evolution of responsible investment. "It's probably a predictable stage…we've mobilised capital and created change and that's brought resistance. But the key now is to go back to the 'why', communicate simply, and stay the course." Like any concept which has gained wide acceptance, it is appropriate the thesis is tested for durability and changes made where necessary. This opens the possibility to ESG evolving to an even more impactful version for institutional investors in the future.

Next steps

Frontier supports asset owners in navigating the complexities of ESG through training, responsible investment belief articulation, implementation support, and progress measurement. As a signatory to the Principles for Responsible Investment and the Net Zero Investment Consultants Initiative, Frontier is committed to supporting long-term sustainable investment strategies.

For more information on how we can help with your responsible investment needs, contact Joey Alcock, Head of Responsible Investment at jalcock@frontieradvisors.com.au.