

# NAVIGATING THE ANTI-ESG BACKLASH

Environmental and social issues can pose material financial risks over both the short and long term – risks that are incumbent on fiduciaries to consider. Yet debate on these topics has become increasingly polarised and ideological, rather than grounded in evidence or prudent risk management.

Nowhere is this more evident than in the US. Companies have experienced consumer boycotts and large asset managers have faced litigation relating to the consideration of ESG-related risks in decision-making processes and the exercise of stewardship – often in ways that are being demanded by investors. As a result, companies are bending to this pressure by weakening their stance on 'woke' topics such as climate and diversity, while asset managers neuter their stewardship teams that might challenge corporate shifts. The recent change in US administration is expected to foster a regulatory environment that amplifies this pressure. The role of long-term investors as active stewards of capital is more important than ever in the face of these pressures.

### ESG backlash

The broad concept of ESG has recently faced considerable opposition, particularly in the US. This resistance primarily stems from ideological differences, with a significant faction of investors opposing the integration of ESG factors into investment strategies and stewardship that seeks to make progress on issues such as climate change. Consideration of ESG-related risks had been supported as a means of prudent risk management and long-term value creation, recognising that companies exist in a wider natural and societal ecosystem.

This is being increasingly challenged by views that such considerations may detract from financial performance and shareholder value, are politically motivated (leading to resistance from conservative groups) or impose unnecessary burdens and regulations (particularly on industries such as oil and gas) that interfere with free capital markets. Such opposition is not limited to ESG investing. Consumer boycotts in recent years have threatened companies that if they "go woke [they will] go broke". This view represents a shift in social appetite for progressive – or what critics term 'woke' – policies, encompassing areas like climate action and diversity, equity and inclusion (DEI).

The change in the US administration marks this shift as a new prevailing view. It has amplified these sentiments, encouraging companies and asset managers to scale back or abandon various ESG and DEI commitments, even where well founded, to avoid political, legal and financial repercussions. For example, Meta's Chief Diversity Officer has transitioned to the role of Vice President of Accessibility and Engagement, and the company has dropped initiatives related to hiring, training and supplier diversity. Companies may be dialling back initiatives that were performative or not meaningfully implemented, but investors who encourage corporate action on environmental and social issues will question whether their long-term interests are being properly served.

### What are asset managers doing?

As companies themselves, asset managers recognise changes in appetite for their products. The asset managers who advertised their ability to integrate ESG considerations in investment strategies have faced substantial outflows from some investors. Investor needs are increasingly divergent, which has seen asset managers build greater choice in the investment products and stewardship arrangements that they offer. Their benchmark stewardship activity, representing the vast majority of assets under management, has seen fewer votes cast in support of environmental and social-related resolutions at AGMs, resulting in fewer resolutions being passed or gaining meaningful support. There's also evidence of softening stewardship policies and the consequent lowering expectations of investee companies on these issues. And commitments and participation in initiatives such as Climate Action 100 have been paused or ended.

This ideological shift, including opposition to ESG investing, is influencing the policies and ambitions of asset managers, with implications for long-term investors who value active stewardship and progressive policies.

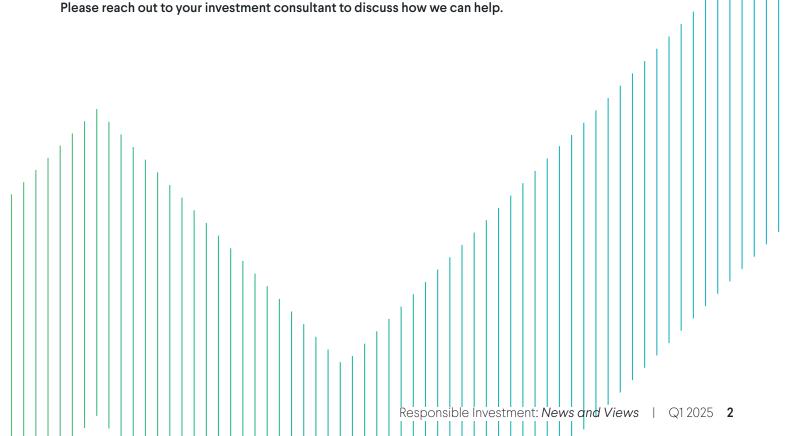
As asset managers face competing interests of client demand while acting as their clients' agents, so investors are being asked to consider whether the managers they have appointed can support their long-term objectives. To that end, it is important that investors take time to understand their asset managers' stances on issues they consider important, question the activity of their managers and consider whether they are willing and able to robustly challenge management of investee companies on changes to corporate policy and risk management.

### What can investors do?

We can cut through political developments and headlines by focusing on what matters. Asset owners must ensure they know what they're trying to achieve and why. While the asset community is shifting in a similar direction regarding these pressures, most investors will continue to select pooled investment vehicles and entrust others to act on their behalf. It's therefore more important than ever to scrutinise the activity of asset managers and be a proactive steward of capital that provides oversight of delegated responsibilities.

We believe investors should:

- > Establish what outcomes they're trying to achieve, and why.
- Scrutinise changes in stewardship activity from their investment managers, such as departure from initiatives, and ask "What's been done instead?"
- Consider whether their asset managers are aligned with their expectations and objectives.



## REFLECTING ON THE PROXY VOTING SEASON AS WE LOOK AHEAD TO 2025

Shareholder resolutions have the potential to ignite corporate change. However, only the most carefully executed resolutions are effective. While the number of environmental and social shareholder resolutions has increased over recent years, support for them has been decreasing. 2023 saw a sharp drop in the average support for shareholder resolutions to 21.5% from 30% in 2022. The decline was less pronounced in 2024 and, while support was not as high as in 2022, support for ESG proposals remained fairly consistent at 20.6%.

Over the year, there were three shareholder proposals that received majority support and were thus passed. Of these, two (filed at restaurant chains in the US: Jack in the Bod and Wingstop) were related to climate change and focused on GHG emissions. The third was related to election spending disclosure at US medical device firm, Dexcom.

Further notable trends over 2024 included an increase in nature and biodiversity-related resolutions and the introduction of the first Al-related resolutions.

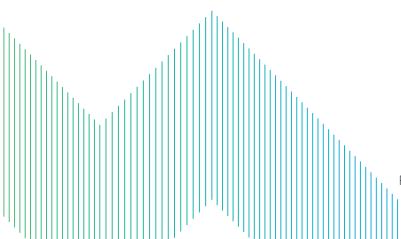
## Change in administration

As we look towards the 2025 proxy voting season, the recent Trump administration and subsequent change in SEC Commissioner should be acknowledged given the potential impact these changes might have on the nature of shareholder proposals and how they are filed.

In a recent speech at the Northwestern Securities Regulation Institute, SEC Commissioner Hester M Peirce commented that the increase in environmental and social proposals has imposed a "significant monetary cost" for companies and a "much larger opportunity cost as management and the board of directors divert their attention away from the day to day business of maximising corporate value to deal with the often picayune issuers at the heart of shareholder proposals."

In light of this, Peirce suggested that the SEC re-examine the ownership thresholds and other tools available to shareholders to ensure that only large shareholders are able to file shareholder proposals.

Shareholder resolutions support communication between investors and corporate leaders. They allow shareholders to exert influence on the strategies and actions being taken by the companies in which they have invested. Going into 2025, investors seeking to get their resolutions passed to achieve material change should focus on the quality of the resolutions to avoid recent criticism that shareholder asks are 'overly prescriptive'. Should it become more difficult to file shareholder resolutions, we may see a rise in investors considering other tools within the stewardship toolkit - for example, voting against directors and board members.



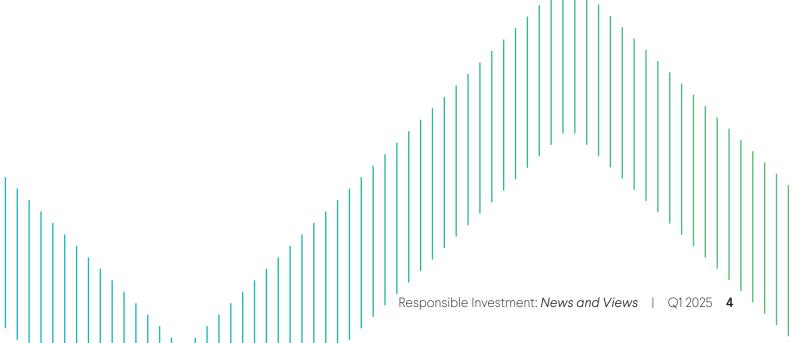
### A focus on 2025

Going into 2025, we expect many of the trends present in 2024 to persist, with expected themes of importance continuing to be climate change, Al and biodiversity.

There have already been several resolutions filed related to these themes over the upcoming season, outlined below:

Company	Resolution	Filer	Date of AGM
Al			
Apple	Report on Ethical AI Data Acquisition and Usage Prepare a report to assess the risks to Apple's operations and finances and to the greater public health, safety and welfare presented by the use of external data in the development and training of AI.	The National Legal and Policy Center (NLCP)	25 Feb 2025
BIODIVERSITY			
McDonalds	Report on Risks Related to Biodiversity and Nature Loss Report assessing the extent to which the company's supply chains and operations impact biodiversity and are vulnerable to biodiversity loss.	BNP Paribas Asset Management	2025
Target	Deforestation  Report on the effectiveness of the company's due-diligence policies to ensure supplier compliance with local laws, such as illegal deforestation.	As You Sow	2025
CLIMATE CHANGE			
Alphabet	Climate Transition Plan for Data Centers  Disclose how Alphabet will meet its 2030 climate goals given growing GHG emissions.	Trillium Asset Management	2025
Amazon	Disclose Scope 3 emissions  Disclose all material Scope 3 GHG emissions associated with retail sales.	Green Century Bank and Amalgamated Bank	2025

The filing of thoughtful and considered shareholder proposals, as well as voting, continue to be critical stewardship tools for investors to communicate their expectations of a company, and should be consistent with the investors' engagement asks. Alignment between asset owners and managers is essential in achieving responsible investment aims, and asset owners should engage with their managers to determine how they have voted on topics of priority.



# **ESG SNIPPETS**

## Trump takes the throne

With a flurry of executive orders on his first day back in office, the scale of changes that a full-blown Trump administration could introduce was exemplified. A decision to withdraw the US from the Paris Agreement arrived alongside various pro-fossil-fuel policies seeking to achieve American energy dominance. Biden's electricvehicle mandate was targeted, as were other climate policies from the previous administration. Trump lifted the restrictions on liquified natural gas exports, is looking to boost drilling in Alaska and is halting the development of the country's offshore wind projects.

In response to Trump's actions, world leaders globally have reaffirmed their commitment to the Paris Agreement. This renewed focus on climate action underscores the importance of asset owners engaging with their asset managers to ensure portfolios are managed in alignment with their ambitions. However, asset owners should also consider how the changing geopolitical environment could impact climate pathways, and the different risks and opportunities that could consequently arise.

## Nature in focus

The Principles for Responsible Investment (PRI) has published a framework to assess the progress of companies targeted by its spring engagement initiative, which focuses on engagement with companies on their impacts and dependencies on nature. The Taskforce on Nature-related Financial Disclosures (TNFD) also published a draft roadmap outlining key priorities as part of its work to upgrade market access to nature-related data.

It is essential for companies to recognise their impacts and dependencies on nature. Asset managers can play a vital role in encouraging and supporting this understanding through active engagement. We urge asset owners to proactively assess the nature-related dependencies and impacts within their portfolios to effectively manage the systemic risks involved.

### EU hits snooze on deforestation rules

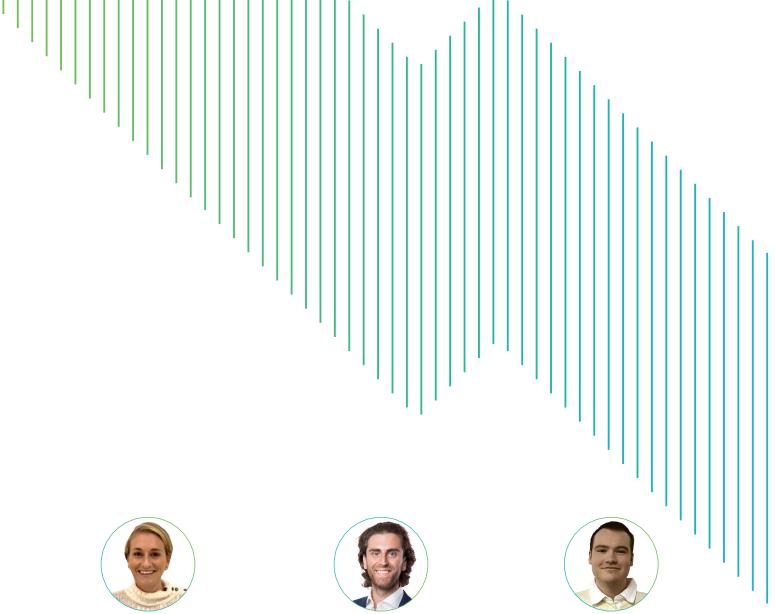
The European Union has postponed the implementation of its new deforestation regulation, which requires companies to conduct extensive diligence on their value chains to ensure their goods don't result from recent deforestation, forest degradation or breaches of local environmental and social laws. The law will now be applicable from December 2025 for large and medium companies, and June 2026 for small companies.

Deforestation continues to present reputational risks to companies and portfolios. Investments in natural capital solutions such as timber can support efforts to reduce deforestation through their focus on producing wood from sustainably managed, commercial forests.

## Support for sustainability impact investing

The PRI, United Nations Environmental Program Finance Initiative (UNEP FI) and The Generation Foundation have published guidance to support the growing number of asset owners and managers investing for sustainability impact (IFSI). The guide introduces a four-part framework and considers the degree of influence different actions can achieve.

The four steps outlined in the report ask investors to determine their intention, set real-world sustainability goals, take action through a combination of tools and measure progress. We believe this approach carries merit and would encourage asset owners to implement similar ideas as part of their stewardship.



Jaid Longmore Responsible Investment Consultant

jaid.longmore@hymans.co.uk 0207 082 6103



Chris O'Bryen **Investment Associate** Consultant

chris.obryen@hymans.co.uk 0131 656 5219

Andrew McCollum **Investment Research** Analyst

andrew.mccollum@hymans.co.uk 0141 566 7776

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T 020 7082 6000 | www.hymans.co.uk

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