XPS Group

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Investment Briefing

Trump, NZAMI, and what it all means for investors thinking about climate change

Key Takeaways

- Sustainable investing is evolving and sustainability risks remain critical to understand and address within portfolios.
- We expect a continued divergence in approach by investment managers on climate issues.
- There is now a greater responsibility on asset owners to scrutinise and instruct their managers on climate investment or engagement matters.

Introduction and background

Climate change has been high on the agenda for investors for several years, with the physical impacts of climate change being seen in real-time – for example, the LA wildfires in January 2025 and the record heatwave in India which has seen temperatures exceed 50°C.

However, in recent months there have been several high-profile steps back from companies and governments around the world. In the US, climate sceptic President Donald Trump pulled the US out of the Paris Agreement for the second time. At a corporate level, a number of high profile names have weakened their climate commitments.

A key outcome of the political opposition for climate-aware investing is the temporary suspension of activities of the Net Zero Asset Managers' Initiative (NZAMI) in January 2025, following the withdrawal of several large US-based asset managers. NZAMI is now under review, and we expect a revised framework to be launched later this year. Many managers have also pulled out of the engagement initiative Climate Action 100+, and several big US banks have withdrawn from the Net Zero Banking Alliance – this is all largely a function of litigation pressure over allegations of "collusion" from being in the collective initiatives.

This note summarises our observations to date and how we see the investment landscape evolving.

Impact on the climate transition

The pull back on climate commitments from the US will undoubtedly have a negative impact through the loss of a key source of global support for climate solutions. It remains to be seen exactly how much impact Trump can have, as many of the green commitments previously set out are already in place (and benefiting Red states), but there are certain things Trump has pulled back on, such as halting offshore wind leasing, slashing clean energy credits and lifting limits on emissions. Government support in the form of blended finance or regulation to make a given investment case more viable is important to create opportunities for the private sector to participate in necessary climate transition solutions (e.g. renewable energy, carbon capture, battery storage, other low carbon technology in aviation or steel manufacturing etc.)

Outside the US, the commitment to addressing climate change remains strong. The other highest global emitters like China and India are continuing to invest heavily in renewable energy and other transition technologies, even if the expectation is they will increase the use of fossil fuels in the short/medium term.

Despite the recent rhetoric, it's important to remember that financial and political efforts to date have proven reasonably successful, with long-term global warming expectations falling significantly in the last 5 years, even if they are still off-track against the goals of the Paris Agreement.

We expect a divergence in approach from investment managers, and more responsibility on asset owners to scrutinise their managers' approach

Investment managers under pressure

Prior to temporary cessation of its activities, NZAMI was important in encouraging asset managers to set net-zero targets and drive engagement between investors and businesses. All managers we've spoken to that have withdrawn stated that nothing has changed what they are doing in practice.

However, we have observed that, whether in NZAMI or not, very large managers have typically faced practical constraints when setting a single firm-level net-zero target because of the huge range of client preferences they need to cater for. The suspension of NZAMI reinforces the importance of institutional investors providing clear instructions to their investment managers. Where institutional investors want climate change risks to be managed, and for their engagement activity to support the low carbon transition, they must tell their managers to do so, otherwise it won't be done for them by default.

It's possible that there may be spillover from the US into Europe. We have seen some Europe/UK based asset managers with large US presence being affected. XPS carried out a poll of asset managers and the results showed of the 90 attendees who responded to a poll, over half (52.2%) of fund managers expect the US pushback on ESG and climate change initiatives to spill over to European markets.

How are asset owners responding?

As above, a key consequence of NZAMI temporarily ceasing its activities is that investors will need to apply more scrutiny to their managers to understand their commitments and targets, as they can no longer rely on the "hygiene-test" of being in NZAMI.

Most investors in the European and UK market are clear that climate change and ESG risks are financial risks and will therefore continue to be taken into account (in the UK for example, XPS research suggests 75% of large pension schemes have already set a Net Zero target – you can read our full report **here**).
This sentiment may also be true of many US investors, but the issue has just become so highly politicised there it's hard for them to be vocal about that. We expect UK and EU investors to continue to allocate to climate solutions and invest with strong focus on ESG integration. XPS have minimum standards on ESG in our fund manager research so it's inherent in the advice we're providing.

Furthermore, in our view the steps back from companies or governments on issues like Diversity & Inclusion and climate change make these even more pressing risk issues for investors. From a financial risk perspective, thinking about the basics of what ESG is all about, positive Diversity & Inclusion in an organisation and good treatment of the environment are just examples of well-run companies, and have been shown in research to contribute to value creation. Our view is that companies pulling back on those things could represent less attractive long-term investment opportunities, and therefore there is a need to apply even more scrutiny to investment managers to ensure they are fulling incorporating ESG risk considerations into their investment and engagement approach.

Next steps

With asset owners not changing their approach, the step back from some asset managers may lead to more scrutiny on asset managers at the very least, and possibly more rotation into managers which better align to the views and policies of investors – this has already happened with high profile names like the People's Pension in the UK and the PME Fund, PGGM Group and AkademikerPension in Europe all dropping their investment managers over climate change.

The pull-back from initiatives like NZAMI and CA100+ does reinforce the importance of governments stepping up and setting clear top-down requirements for companies and investment markets to contribute to a successful low carbon transition. Without a clear mandate from governments and regulators, even those managers who really want to address climate change risks face opposition.

We believe the long-term case for sustainability remains strong, and that short term political sentiment does not change the direction of travel.

Asset owners should consider the following steps:

1. **Review beliefs in light of the latest market context, which will underpin investment and stewardship strategy.**
2. **Review funds and engage with investment managers to understand their specific firm-level targets, and how this is applied within the given investment mandate.**
3. **Measure and report exposure to climate change risks as a means of identifying laggard holdings and using these as the basis for targeted engagement.**

Find out more

If you'd like to speak to us about how you can enhance your approach towards ESG and sustainability, please get in touch with Alex Quant, Rebecca Helme, or speak to your usual XPS contact.



Alex Quant
Head of ESG Research
alex.quant@xpsgroup.com



Rebecca Helme
Deputy Head of ESG Research
rebecca.helme@xpsgroup.com

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We also provide wider ranging support to insurance companies in the life and bulk annuities sector.

Our investment team advises over 350 clients with assets of over £100bn.

Award winning

Pensions advisory

Professional Pensions UK Pensions Awards 2024 – WINNER – Actuarial/Pensions Consultancy of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2024 – WINNER – Sponsor Covenant / IRM Adviser of the Year – XPS Pensions Group/Penfida

Pensions Age Awards 2024 – WINNER – Sponsor Covenant Provider of the Year

AP Awards – Software of the Year 2024

Professional Pensions 25 Anniversary UK Pensions Awards 2022 – WINNER – Actuarial/Pensions Consultancy of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2021 – WINNER – Actuarial/Pensions Consultancy of the Year – XPS Pensions Group

Corporate

Corporate Adviser Awards 2023 – WINNER – Best Pension Adviser

Investment consulting

Professional Pensions UK Pensions Awards 2023 – WINNER – Fiduciary Evaluator of the Year – XPS Pensions Group

Professional Pensions 25 Anniversary UK Pensions Awards 2022 – WINNER – Investment Consultancy of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2021 – WINNER – Investment Consultancy of the Year – XPS Pensions Group

Administration

Professional Pensions UK Pensions Awards 2023 – WINNER – Third-Party Administrator of the Year – XPS Pensions Group

Professional Pensions 25 Anniversary UK Pensions Awards 2022 – WINNER – Third-Party Administrator of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2020 – WINNER – Third-Party Administrator of the Year – XPS Pensions Group

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Culture and Sustainability

UK Company Culture Awards 2024 Winner – Best Diversity, Equality and Inclusion (DEI) Initiative

Professional Pensions Rising Star Awards 2024 – WINNER – Organisational Award: Award for Supporting Development – XPS Group

Business Culture Awards – Winner 2024 – Working Environments & Practices

Professional Pensions UK Pensions Awards 2023 – WINNER – Diversity & Inclusion Excellence Award – XPS Pensions Group

UK Employee Experience Awards 2024 – Gold Award Winner – Employee Engagement

Stewardship Code

disability confident LEADER

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