Embedding ESG Factors Into Strategic Decision Making

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Companies are increasingly embedding environmental, social, and governance (ESG) factors into their strategic decision making, and certain companies are generally more favorably exposed to these trends—including companies in the building materials and consumer-related industries.

Watch the video or read the recap below.

It's been exciting to witness the mainstreaming of sustainable investing over the past few years. There's been a lot of attention on positive fund flows and investor commitments to integrate ESG factors. But what's more interesting to us is how companies are increasingly embedding it into their strategic decision making.

This isn't just a function of investor demand for greater disclosure. We think it actually reflects the growing materiality of environmental and social issues in terms of their impact on value creation and the cost of capital.

The drivers of sustainable investing are structural in nature, whether it's changing consumer preferences, disruptive new technologies, or tightening regulations related to carbon emissions and financial reporting. These drivers represent emerging risks for companies across different industries, but also opportunities.

From an opportunity perspective, companies in the building materials and consumer-related industries are generally more favorably exposed to sustainability trends as demand for improved energy efficiency and health and wellness present opportunities to grow their addressable markets.

Looking ahead, the pandemic has highlighted the importance of social factors—including worker safety and diversity—and we expect investors to continue pressing companies on these issues as they're increasingly viewed as financially material.

On the environmental front, there's clearly more urgency to address climate change by investors, companies, and governments globally. From a policy perspective, the new administration in the U.S. brought a significant change in tone from day one, recommitting to the Paris Agreement and pledging to achieve net-zero emissions by 2050. Perhaps even more notable is China's commitment to halt its rise in emissions before 2030 and become carbon neutral by 2060. This would require an unprecedented shift in the energy mix as fossil fuels currently account for 85% of China's energy consumption.

Against this backdrop, we expect to see net-zero commitments become the norm for investors and companies seeking to demonstrate their green credentials.

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