

# How investors use sustainability information

Board Leadership Centre

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Sustainability information continues to be considered financially decision useful, not just reputational or a standalone ethical overlay. It is used to assess risk, resilience, strategy credibility and long-term value creation. While approaches vary by investor type and their mandates, sustainability data is routinely integrated into capital allocation, stewardship, voting and valuation decisions.

## Here are 5 key ways investors use it

### 01 Assessing financial risk and opportunity

Investors use sustainability information to understand how environmental, social and governance factors may affect a company's future cash flows, cost of capital, and valuation assumptions. Typical uses include:

#### Environmental

- Exposure to regulatory transition risk (e.g., carbon pricing, net-zero mandates)
- Physical climate risk (floods, storms, heatwaves) on assets and operations
- Energy efficiency and impact on operating costs

#### Social

- Workforce health, safety and retention (proxy for productivity)
- Labour practices and supply-chain resilience
- Customer trust

#### Governance

- Board oversight of sustainability risks
- Executive incentives linked to long-term value
- Internal controls over ESG data reporting

**Implication:** Companies with weak sustainability practices may face higher risk premiums and lower valuations, while stronger performers can benefit from a lower cost of capital. It's important to note, however, that investors do not apply a single, uniform set of decision-critical KPIs; material sustainability risks vary significantly by sector and investment mandate.

For example, in the energy sector, transition and physical risks are often most material, including exposure to carbon pricing, stranded assets, and future emissions trajectories over the next five years and their associated costs. In contrast, for technology companies, issues such as data privacy and security, as well as the energy intensity of AI, tend to be more relevant. Forward-looking considerations in this context may include the risk and cost of data breaches or the pace and expense of adapting to rapidly evolving technologies.

### 02 Portfolio construction and screening

Investors use sustainability information in a variety of ways. Asset owners such as pension funds and sovereign wealth funds tend to focus on long-term systemic risks, using sustainability information to inform strategic assets allocation, manager selection and stewardship priorities over extended time horizons. Asset managers, by contrast, tend to use this information for portfolio construction and performance assessment within shorter reporting cycles and mandate constraints. Both asset managers and owners are now increasingly integrating sustainability metrics into:

- Negative screening (e.g., excluding thermal coal, poor human-rights performers)
- Positive screening (e.g., companies with strong environmental innovation)
- ESG integration (where sustainability signals adjust risk and return forecasts)
- Impact investing (looking for quantifiable environmental or social outcomes)

**Implication:** Poorly disclosed sustainability metrics may result in exclusion from ESG-labelled funds, reduced index weightings or constrained demand from institutional capital.

## 03 Engagement and stewardship

Large investors use sustainability reports to:

- Identify areas for engagement with boards and executives
- Set voting stances for AGM resolutions
- Monitor progress against public commitments (net zero, diversity, water stewardship, etc.)
- Compare performance with peers and sector leaders

**Implication:** Companies may face stronger demands for transparency, strategic changes, or even board refreshment if investors perceive ESG shortcomings.

## 04 Benchmarking across peers

Capital-market participants compare sustainability metrics with sector peers to evaluate:

- Cost competitiveness (energy use, waste efficiency)
- Transition readiness (renewable energy, supply-chain resilience)
- Innovation leadership (low-carbon products, circularity)

**Implication:** Sustainability metrics increasingly feed into sell-side equity research, sector models, and long-term industry outlooks.

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## 05 Evaluating management quality

Investors see sustainability reporting as a signal of how well the company:

- Identifies long-term risks
- Embeds sustainability into strategy
- Links ESG performance to executive pay
- Manages complex, multi-stakeholder environments

**Implication:** Weak or boilerplate disclosures can reflect negatively on management credibility.

### What this means for boards

Sustainability information is embedded in the mechanics of capital markets and corporate governance. For boards, this means ESG data is not just about compliance or reputation - it is a lens through which investors judge resilience, leadership and long-term value creation. Companies that treat sustainability as integral to strategy, risk management and performance reporting will be better positioned to attract capital, maintain investor confidence and compete effectively in a rapidly evolving market.

## Contact us



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CREATE | CRT166390A | March 2026