

S&P Global Sustainable1 Investor Client Council

H2 2024 Briefing

From ESG to (Valuation) Impact: A Financially Material Lens on Sustainability



S&P Global

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Introduction and Welcome

Dear Council Members,

I am delighted to welcome you to another round of the Investor Client Council. On behalf of all of us at S&P Global, I would like to thank you for your continued support and willingness to contribute to this special forum. We truly value your contributions and refer to them regularly as a guiding force behind business decisions.

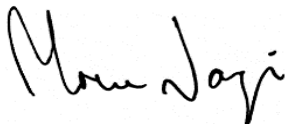
For our new members joining for the first time, hello and welcome! Our little community is not so little anymore, having now collectively surpassed one-third of global AUM, making it a powerhouse of expert leaders and industry influencers. We hope your participation affords you a deepened sense of community, valuable insights, and provides a source of ongoing inspiration — as it invariably does for us.

Together, we have tackled key issues affecting the landscape — from overcoming the ESG backlash, to making sense of new frontiers in nature and biodiversity, as well as the possibility of a universal climate index, how to scale transition financing and, most recently, outlooks on the future of energy and sustainable mobility. But no matter the topic, a common thread has weaved throughout; that is, **the perpetual quest for evidence of materiality**.

As fiduciaries, your mandate is clear. As a provider of intelligence, we recognize there is more we can do by working together to empower the markets of the future. With that, I am delighted to use these conversations to explore how we go **“From ESG to (Valuation) Impact: A Financially Material Lens on Sustainability,”** alongside experts from S&P Global Ratings and S&P Global Sustainable1 to additionally share their thoughts and plans.

Enclosed you will find more details about the agenda, topic briefings, and light pre-reading for you to kindly review ahead of our gathering. We hope you find your membership a rewarding and valuable experience. Thank you again for your participation and a warm welcome (back) to our community.

Sincerely,



Mona Naqvi
Chair of the Investor Client Council

S&P Global

Council Guidelines

The S&P Global Sustainable1 Investor Client Council (“Investor Council”) is a community of renowned industry experts, who meet regularly to discuss business challenges and opportunities arising from sustainability issues. Its members provide S&P Global with invaluable insights and expertise inform best practices and deepen our firm’s understanding to better serve the evolving needs of the market through the creation of relevant products and services.

The below Guidelines are established to ensure all members are engaged in conversations that are legally appropriate while promoting the sharing of insights and expertise relevant to the success of the Investor Council.

Each member of the Investor Council shall hold all information shared with and in connection with the Investor Council in strict confidence. Each member of the Investor Council shall only share such information with any persons or entities who are members of the Investor Council and shall only share such information with any persons or entities who have executed the appropriate Investor Council NDA with S&P Global.

S&P Global Sustainable1 produces a company’s S&P Global ESG Score in accordance with its published methodology. S&P Global is committed to the independence and objectivity of its products and services and has policies in place to help maintain an appropriate separation between its different business units, including S&P Global Sustainable1 which develops S&P Global ESG Scores. For the avoidance of doubt, the Investor Council shall not be involved and shall not influence or attempt to influence S&P Global Sustainable1’s methodologies, policies, or practices in connection with the S&P Global ESG Score and its related operations. Further, all parties involved with the Investor Council understand that any business relationships any Investor Council member has with S&P Global, and vice-versa, are separate and distinct from the Investor Council.

By participating in the Investor Council, each member of the Investor Council understands and agrees to the Guidelines set forth below.

Please contact us at InvestorClientCouncilAdmin@spglobal.com if you have any questions about the application of this guidance.

Permitted	Not Permitted
<ul style="list-style-type: none"> ✓ Discuss public or non-commercial matters: <ul style="list-style-type: none"> - market trends; - perspectives on ESG regulation; - industry studies - best practices - high-level product development evolution thought processes and concepts ✓ S&P Product launches or expansions, including standardized models and analytics, to the extent presented by S&P Global Sustainable in connection with the Investor Council 	<ul style="list-style-type: none"> ✗ Discuss non-public: <ul style="list-style-type: none"> - Pricing/commercial policy - Marketing efforts - Specific or granular cost information - Particular customers or vendors - No discussion on specificities of scores or methodologies except to the extent already publicly disclosed
<ul style="list-style-type: none"> ✓ Set an agenda for each meeting and review with Legal if any questions. 	<ul style="list-style-type: none"> ✗ Discuss specifics of how market trends affect each company or examples of customers ✗ Discuss product pipeline ideas, methodology changes, specific business strategies, specific intended developments, trade secrets, or know-how
<ul style="list-style-type: none"> ✓ Raise any concerns about discussion topics at a meeting. If discussions continue, leave the meeting and ensure that your departure is recorded in writing. Report any concerns to Legal. 	<ul style="list-style-type: none"> ✗ Allow any departures or deviations from the stated agenda. ✗ Allow analytical employees to attend without appropriate legal and compliance review and approval
<ul style="list-style-type: none"> ✓ Remember all written communications (including emails and notebooks) may be disclosable to a regulatory or legal authority (including without limitation a competition authority). ✓ Ensure the legitimate professional objective behind discussions is clear in any written communications. 	<ul style="list-style-type: none"> ✗ Apply different standards of behaviour to information sharing in a less formal or social setting.
<ul style="list-style-type: none"> ✓ Ensure discussions are accurately recorded. 	<ul style="list-style-type: none"> ✗ Use language which could be misinterpreted. ✗ Use language that is factually incorrect

S&P Global Sustainable1 Investor Client Council

Cycle: H2 2024

Location: Paris/NY/Dubai

Sponsor: Chris Heusler

Chair: Mona Naqvi

Secretariat: Myrna Ghanem

Secretariat: Rebecca Taylor

SESSION AGENDA

1:30 – 2:00: Registration & Refreshments

2:00 – 2:10: Welcoming Remarks

Chris Heusler, President of S&P Global Sustainable1

2:10 – 2:15: Purpose & Objectives

Mona Naqvi, Chair of the Investor Client Council

2:15 – 2:30: New Member Introductions

2:30 – 2:45: Keynote – Tipping Points: A Macroeconomic Lens on Sustainability

Dr Paul Gruenwald, Global Chief Economist at S&P Global Ratings

2:45 – 3:45: Sustainability Pathways to Credit Materiality (See Briefing)

Assessing transmission mechanisms for sustainability in credit, tools to assess near-term actions vs. long-term targets, and the interplay between them as part of a holistic toolkit.

- The credit materiality of ESG & sustainability megatrends
- Our approach to Climate Transition Assessments

3:45 – 4:00: Break

4:00 – 5:00: Are Investors Doubling Down on Double Materiality? (See Briefing)

Examining investor appetite for and approaches to ‘double materiality,’ the calculus of sustainability risks, opportunities, and valuation— and everything in between.

- The spectrum of sustainability finance-impact materiality
- Our approach to quantifying financial impacts & ideas for future development.

5:00: Concluding Remarks

Mona Naqvi, Chair of the Investor Client Council

(Optional) Networking Reception until 7:00pm

An evening of cocktails, conversation, and canapés

SUBJECT BRIEFING

Sustainability Pathways to Credit Materiality

Assessing transmission mechanisms for sustainability in credit, tools to assess near-term actions vs. long-term targets, and the interplay between them as part of a holistic toolkit.

Background

The impact of megatrends like climate change on creditworthiness is complex and non-linear. In the absence of perfect information, it can be difficult to assess the credibility of transition plans and commitments— and/or how these might influence an issuer's ability to withstand longtail risks and repay its debts. This is especially true in hard-to-abate sectors where regulatory, technological, and economic uncertainty persists. Though specific conditions must be met to “trigger” a rating impact, questions remain regarding the adaptive capacity of issuers as nonlinear risks unfold— and how investors, particularly those with low portfolio turnover, can shore up resilient investments.

Our Approach

ESG factors drove 13% of our corporate and infrastructure of rating actions since 2020. For an ESG factor to influence a rating it must: (1) be sufficiently clear how it impacts relevant credit factors under a given sector-specific methodology, and (2) the magnitude needs to be sufficiently high. When there is uncertainty, scenario analysis may be used to deepen our understanding of how risks transmit to credit factors over time. The credibility of firm strategy should also be considered. Our [Climate Transition Assessment \(CTA\)](#) examines the alignment of transition plans with climate goals and any blockers to implementation. We welcome the Council's guidance on this approach, how best to articulate the value to investors, and potential enhancements and linkages to consider.

Pre-Reading Materials

- [A Primer on Tipping Points](#)
- [Assessing How Megatrends May Influence Credit Ratings](#)
- [Scenarios Show Potential Ways Climate Change Affects Creditworthiness](#)
- [How S&P Global Ratings Supports Credibility and Transparency in Transition Financing](#)

Detailed Questions

1. Do we adequately capture sustainability megatrends in our ratings in your view?
2. Are there transmission channels we have not considered or should weigh differently?
3. Is it clear how we reconcile sustainability risks with the near-term demands of credit analysis? How do you approach this potential horizon mismatch in your strategy?
4. Do credit ratings and sustainable finance assessments such as the CTA fit together in investor workflows? Are they complementary or contradictory in some way?
5. What else may make tools like the CTA useful for your investment decision-making?
6. What role should rating agencies play in closing the transition finance gap, if at all?
7. Are there additional credit tools you need to support your sustainability objectives?

SUBJECT BRIEFING

Are Investors Doubling Down on Double Materiality?

Examining investor appetite for and approaches to ‘double materiality,’ the calculus of sustainability risks, opportunities, and valuation— and everything in between.

Background

Once an elusive concept, ‘double materiality’ now seems to be making headway in mainstream investment circles, in large part due to the CSRD. Referring to a more holistic approach to measuring risks and opportunities in financial performance— *and vice versa*— it attempts to remedy unpriced externalities in capital allocation. As such, it considers both financial and “non-financial” factors as relevant to investment decisions. However, even if investors hold CSRD-governed entities, not all necessarily share the same definition of ‘fiduciary duty’ or the same philosophy. Besides these limitations, data gaps may persist, especially among private companies and those of a smaller size.

Our Approach

Our solutions seek to enable investors along the complete spectrum of finance-impact materiality, whatever their objectives. Nonetheless, much of our work stems from first principles in environmental economics and natural capital valuation. Having conducted several of the world’s first such analyses— including the first [global sustainability benchmark](#) in 1999, the first [portfolio carbon footprint](#) in 2005, the first [environmental profit and loss account](#) in 2011, and the first [open-source tool](#) to assess operational water risk in 2014— we have a rich history in quantifying linkages between various forms of capital. Since then, we have continued to innovate ways to quantify the financial impact of climate change at the asset, company, and portfolio-level under different scenarios. Our ESG Scores also adopt double materiality based on industry-specific matrices. However, further evidence of materiality (in the traditional sense) and valuation impacts is in demand. We welcome the guidance of this Council to help us deliver this.

Pre-Read Materials

- [Unpriced Environmental Costs: The Top Externalities of the Global Market](#)
- [Developing industry materiality matrices for the S&P Global ESG Scores](#)

Detailed Questions

1. How do you perceive double materiality? Does it contradict your investment thesis?
2. Do you believe disclosure should identify ‘material’ risks/opportunities, provide a broader stakeholder lens on corporate responsibility, or both? Does a tradeoff exist?
3. Are investors willing to embrace double materiality if ‘non-financial’ issues are considered material for reasons other than direct valuation impacts? To what extent?
4. Could CSRD bias capital allocators at the expense of small or private companies?
5. What do you see as the ‘right balance’ between flexibility across jurisdictions for maximum uptake of CSRD & ISSB frameworks vs. universally standardized reporting?
6. What enhancements to our data would you like to see as evidence of materiality?

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