



The Financial Materiality of Sustainability Issues

Superannuation funds are obliged to act in the best financial interests of their members. The 'best financial interests duty' requires that trustees' duties and powers must always be exercised in accordance with the [best financial interests of beneficiaries](#), including acting to enhance the long-term value of the savings entrusted to them to manage.

Financially material sustainability risks and opportunities affect the retirement savings of members. However, not all sustainability risks are material for all companies. As [a 2019 study noted](#), modern investors "focus only on 'material' ESG [environmental, social and governance] issues that impact a firm's valuation".

ACSI considers financially material issues to be those that could be reasonably expected to affect the company's financial performance, whether over the short, medium or long term. This report summarises existing research on the financial benefits of managing material sustainability issues. It includes academic studies, specific research studies and meta studies, research from investment or governance advisors and insights into the systemic risks sustainability issues can cause.

Sustainability issues are linked to long-term value

Financially material sustainability issues may impact investment outcomes in many ways, including through governance failures, poor risk management or questionable capital allocation decisions.

Many global studies demonstrate the financial relevance of sustainability issues both collectively and in relation to individual issues. Some assess a particular scenario or sustainability factor, while others are meta studies, which consider the results of multiple individual studies to reach overall conclusions about the financial impact of sustainability issues.

Overall, the evidence supports sustainability issues being financially material and their incorporation into investment practice. While some studies do not support the same conclusions, there are fewer of them. Evidence also points to investor engagement with companies on sustainability issues being financially beneficial, reinforcing this as a key approach to protecting and enhancing value for superannuation members.

Overview of research

Research on all sustainability factors

- A [2021 meta study](#) consolidated evidence from over 1,000 separate studies. It identified a positive or neutral correlation between ESG factors and financial performance in 71% of the studies analysing corporate performance measures such as return on assets or stock performance. Of studies assessing risk-adjusted measures such as the Sharpe ratio, researchers identified that 59% found a positive relationship, with only 14% demonstrating negative results. This research also found performance improvement is more pronounced over the longer term and that ESG integration performs better than other strategies.
- A [2015 meta study](#) aggregated more than 2000 studies and found a positive or neutral relationship between ESG integration and financial performance in 90% of them. Very few studies were found to display a negative relationship between sustainability criteria and company financial performance (between 4% and 9%).
- A [2014 meta study](#) analysed results of more than 190 underlying studies, and found “88% of the research shows that solid ESG practices result in better operational performance of firms.”
- A [2019 study](#) found that top ESG-ranked companies outperformed equal weighted S&P500 companies. It also identified that ESG can be a strong measure for signalling future earnings risk.
- A [2021 study](#) found that value-weighted US and EU portfolios with a greater number of negative ESG incident rates (such as environmental pollution or poor employment conditions) underperformed by 3.5% and 2.5% per year, respectively.
- Another [study from 2021](#) merged a range of ESG ratings to make its own ESG factor. Investing according to this ESG factor generated positive alpha, with an accumulated alpha above 1% per year for the E and S pillars.
- [Another 2021 study](#) found that as a company's sustainability quality improves (as evidenced by achieving certification), the value created from resource utilisation surpasses investment costs of these changes.
- This [2021 study](#) found that incorporating ESG information resulted in an 11% higher realised Sharpe Ratio than that experienced by investors otherwise seeking only to maximise mean-variance utility.

- In a [2020 assessment](#), an investment strategy incorporating protective characteristics (known as a 'moat'), with low sustainability risk delivered a cumulative return of 50% over the three-year investment period, outperforming the S&P 500 (34.3%) and a "Wide Moat Only" strategy (39.7%).

Research on governance factors

Good governance requires boards to consider and oversee material sustainability risks at the company, sector and market-wide level. It can concern issues such as risk management and capital allocation, or relate to board composition, skills and experience.

- A [2016 study](#) assessed the effect of changes to executives' long-term remuneration incentives due to shareholder proposals. Such changes, not put forward by the company, were found to lead to an increase in firm value and operating performance.
- A [2019 study](#) assessed the corporate governance 'rankings' of companies against performance and found that applying the UK Corporate Governance Code drives value. Companies with stronger governance generated and retained more value and corporate governance improvements translated to positive changes in operational and financial performance.
- A [2013 study showed](#) that good governance results in positive long-term outcomes for firms of all sizes, with positive shorter-term performance also accruing to smaller companies.
- Long-running [research](#) on global corporate gender diversity found that companies with one or more female board directors outperform those with none on a sector-adjusted basis. It found an even stronger correlation between performance and higher proportions of women in management. In the Australian context, [2020 research](#) found that boards with more than 90% male directors have underperformed compared to boards with at least one woman since 2011.
- [Another study in 2019](#) assessed company performance corresponding to MSCI's 'AGR' governance rating, which incorporates financial statements information alongside other governance attributes. The study found that a "portfolio going long shares of better governed firms with high AGR scores and shorting shares of poorly governed firms with low AGR scores generates a risk-adjusted return of approximately 5% per year".
- A [2016 multi-country research paper](#) used data from 3,876 listed companies to assess the effect of diversity on performance. It found gender-diverse boards result in better performance on both risk-adjusted return and corporate performance measures such as return on assets.

- [2024 research on CEO succession](#) found that the costs associated with CEO turnover are substantial and many companies do not have succession plans in place. However, it found “mandating succession plans would increase shareholder value by 3%”.

Research on environmental factors

Environmental risks and opportunities differ by company, however climate change and the associated transition entail significant risks. Nature and biodiversity are emerging issues and likely to impact investments into the future.

- A [2019 climate-related study](#) analysed measures of heat exposure across 13,000 firms in 93 countries from 1995 to 2019. The study found increasing exposure to extremely high temperatures reduces revenues and operating income.
- [A 2020 study](#) reviewed 59 studies on climate change and its financial impact. Studies focused on corporate performance measures such as stock performance reported 57% positive outcomes and only 6% negative. Among studies focusing on investment-relevant measures such as risk or return metrics, 65% demonstrated positive or neutral performance compared to traditional investments, with only 13% showing negative results.
- [A study from 2021](#) assessed sustainability factors individually and cumulatively. It found the time horizon for investment strongly affects the importance of each of the elements, with environmental factors more important over the longer term.

Beyond the influence of specific environmental factors on investment outcomes, environmental issues also pose systemic risk. For example, [it has been estimated](#) that the likely damage to Australia's economy of leaving climate change risks unchecked is a reduction in GDP of 6% by 2070; and, based on [current estimates](#), biodiversity loss could wipe up to US\$20 billion from the Australian economy annually by 2050. Another [recent study](#) found that unprepared companies risk 5% to 25% of EBITDA in 2050, in addition to the effects of other risks, such as the impact of slowing GDP on consumption and growth.

Research on social factors

With significant overlap between ESG factors, there is no standard definition for what constitutes the 'social' factor. This wide-ranging scope incorporates issues such as workforce issues, corporate culture, safety and diversity.

- A [study from 2012](#) found companies listed in the "100 Best Companies to Work For in America" benchmark generated 2.3-3.8% per year higher stock returns than peers. The study analysed the period 1984 to 2011 and controlled for risk, firm characteristics, industry performance, and outliers.
- Building on this work, a [2017 study](#) used lists of 'Best Companies to Work For' in 14 countries to study the relationship between employee satisfaction and firm performance. The results show that in some markets, such as the UK and USA, employee satisfaction is associated with superior long-term returns, current valuation ratios and future profitability. A [2024 assessment](#) of a hypothetical portfolio of companies from the UK's Best Workplaces Lists displayed a return of more than four times the equivalent return of the FTSE All-Share Index from 2001 to 2023.
- A [2024 study](#) found that companies with the greatest degree of LGBTQ+ transparency had an average 'profit as a percentage of revenue' more than double that of the companies with the lowest scores.
- A [2021 study](#) assessed LGBT-friendly policies at US firms between 2003 and 2016, and found that 'LGBT friendliness' is positively associated with firm performance, including higher profitability.
- The Impax Corporate Culture Indicator is composed of different workplace factors such as employee turnover and diversity statistics. A [2024 study](#) found that companies scoring highly on the indicator delivered superior total shareholder returns.
- A [2015 report](#) review of 92 studies measuring performance such as total shareholder return, return on assets and return on capital found that in most of the studies, human capital management policies were associated with better financial performance.

Beyond direct studies of social factors' influence on financial performance, these also pose wider systemic risks. A [2022 study](#) found that Australia's economy would generate on average an additional 1.6% of GDP if work-related injuries or illnesses were eliminated. In addition, [an Inquiry in 2019](#) estimated that mental ill health costs the Australian economy \$200-220 billion per year; and [workplace sexual harassment has been estimated](#) to cost \$2.6 billion in lost productivity.

Active ownership on financially material issues

Strong stewardship supports a well-functioning financial system. It involves engaging on financially material issues, and protecting or enhancing returns through encouraging better management of risks and opportunities.

- A [2024 study](#) reported a link between engagement on sustainability issues and a decrease in downside risk. It used proprietary data from a large UK investor and found a decrease in downside risk at target engagement companies. Relative to control companies, the value-at-risk of engagement targets decreased by 9% of the standard deviation after successful engagements.
- A [2015 study](#) analysed the outcomes of investor engagements with US public companies from 1999 to 2009 and found that successful engagements generated 'cumulative size-adjusted abnormal return' of 7.1% in the year following the engagement. There was no market reaction to unsuccessful engagements.
- A [2025 study](#) assessed returns for responsible investors who may be aiming to enhance upside potential while reducing downside risk. Using an option pricing test, the researchers assessed the attributes which make it more likely an asset manager will achieve both aims. Overall, it found firms with highly-rated responsible investment processes can enhance upside potential and protect from downside risks.
- [Another 2025 study](#) identified that collaborative engagement of the form undertaken in many international initiatives improves annual abnormal stock performance (as measured over a three-year period) and accounting performance such as return on assets. This is not otherwise explained by factors such as mean reversion, and success rates are increased when lead investors of the initiatives are credible.

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