S&P Global Ratings

Asset Managers Look to Up Investments in Companies with Clear Energy Transition Plans and Strong Preparedness, According to Poll at Ratings' ESG Leadership Council

Companies with clear energy transition plans and a strong level of preparedness are expected to benefit from increased capital allocations by asset managers as they minimize their portfolios' exposure to physical climate risks, according to a poll of participants at S&P Global Ratings' most recent ESG Leadership Council.

Preparedness is the capacity of a company, government, financial institution, or other financial entity to anticipate and adapt to a variety of long-term plausible disruptions. One standardized measurement of preparedness is a component of the ESG Evaluation, S&P Global Ratings' analytically-driven assessment of a company's ESG strategy and ability to prepare for potential future risks and opportunities.

Assessing the credibility of target companies' net-zero transition plans is seen as the greatest challenge facing ESG Leadership Council members and their firms following the recent COP 26 Conference in Glasgow. Shorter time horizons – over the rest of this decade rather than through 2050 – and divestment pressures for hard-to-abate industry sectors are the other top issues identified.

The ESG Leadership Council is composed of senior heads of sustainability at buy-side investment firms and is organized by S&P Global Ratings' Americas Market Outreach team.

Additional topics of discussion at the Council included:

-Takeaways on Climate Finance from COP 26, focusing on the components of Mitigation, Adaptation, and Finance.

-Addressing the credibility of corporate transition plans and targets (including scope, detailed strategy, timing, engagement, and impact) in light of investor concerns over various forms of "-washing" (such as green-, social-, sustainability-, SDG-, transition-, Net-Zero-, and ESG-washing).

-The role of external reviews and opinions to help build investor understanding of the net environmental impact of green initiatives, alignment of sustainability financing with ICMA principles, and SDG alignment and transition impact. External reviews such as these are conducted by S&P Global Ratings and other providers.

-S&P's framework for evaluating climate and future physical risks within Impact Groups like Water Scarcity and Drought and Increased Flooding, within Systems like Health, Agriculture and Natural Capital, and within Transmission Pathways (Biophysical, Trade, Finance, and People).

The ESG Leadership Council was moderated by Pamela Snyder of the S&P Global Ratings' Market Outreach team.

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