Policy Liaison Group
Sustainable Growth

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Investor perspectives towards sustainability

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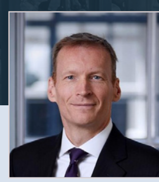
Westminster



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Introduction

Investor attitudes towards sustainability are changing. Environmental, social and governance (ESG) considerations continue to influence investment decisions, but the language and frameworks through which investors assess risk are evolving. Growing geopolitical instability, energy security concerns, technological disruption and economic uncertainty have broadened the discussion beyond ESG as a standalone concept towards wider questions of resilience and long-term value creation.

At the same time, the underlying risks that gave rise to ESG frameworks have not disappeared. Investors and corporates alike recognise the material risks posed by climate change, supply chain vulnerabilities, resource constraints, cyber threats and social pressures. The challenge is therefore not whether these risks matter, but how investors and businesses factor them into their decision-making. In turn, policymakers face the task of creating clear and proportionate frameworks that help economic actors manage long-term risks, while intervening where market incentives alone are insufficient to protect wider economic, social, and environmental interests.

The discussion explored how investors are approaching long-term risk in a more uncertain world, the role of government in creating the conditions for investment, and how regulatory frameworks can support resilience and growth without imposing unnecessary complexity.

Key takeaways

Regulation — "different principles, different frameworks"

- More coherent and consistent regulatory frameworks are essential for long-term investment and effective risk management, as well as providing clarity and flexibility while reducing unnecessary compliance burdens.
- Fragmented reporting requirements and overlapping standards create complexity and do not fully address risk and resilience – "everyone was trying to have their own gold standard."
- Principle-based regulation, supported by practical guidance and examples of best practice is a more effective approach than prescriptive reporting requirements. Policymakers need to think about the end-user from the outset.
- “I can understand how rules grow from five pages to 500 pages over time, but the idea that you begin by writing 600 pages is unlikely to work."

"Resilience is the name of the game."

- Resilience increasingly provides a common language through which investors, businesses and policymakers can address climate, security, supply chain and geopolitical risks.
- "Energy and security have to be the two key themes that we need to focus on for the next four or five years."
- Energy security, cyber security, defence, climate adaptation and economic competitiveness are increasingly viewed as interconnected challenges rather than separate policy agendas.
- Several participants argued that "resilience is the name of the game at the moment", noting that the concept provides a more practical and inclusive way of discussing long-term risks.

Markets are increasingly pricing in sustainability-related risks

- "Climate risk is a financial risk."
- Long-term investors are increasingly treating environmental, social and geopolitical risks as material business risks rather than separate sustainability considerations.
- Businesses are often willing to adopt more sustainable solutions where they make economic sense, reducing the need for direct intervention – "long-term investing by definition is sustainable investing."
- However, not all risks are easily captured by market incentives alone, raising questions about the role of government in addressing market failures and long-term externalities.

The focus is shifting from disclosure towards implementation

- "Everybody has beautiful shiny reports", however, reporting remains important where it helps organisations understand and manage material risks.

- The challenge is ensuring disclosures lead to practical action rather than becoming an end in themselves – "now we need to move into the 'so what'."
- There was strong interest in approaches that encourage implementation, including investment in resilience, adaptation measures, supply chain management and technological innovation.
- Reporting frameworks can provide useful information without becoming overly burdensome

Issues raised

Government needs to address risks that markets cannot fully price

While markets are increasingly incorporating environmental, social and geopolitical risks into investment decisions, some costs remain difficult to quantify or allocate. Long-term environmental degradation, national security concerns and other systemic risks often extend beyond normal investment horizons or affect society more broadly than individual market participants. The discussion raised questions about the role of government in pricing externalities, addressing market failures and creating incentives that support long-term resilience where market signals alone may be insufficient.

The trade off between resilience and efficiency

Building resilience often requires spare capacity and long-term investment, which can appear inefficient in the short term. Yet many financial markets continue to reward optimisation, cost reduction and operational efficiency. This creates a potential tension between the resilience required to manage future shocks and the incentives that drive capital allocation today. The discussion explored how policymakers and investors can better align these objectives, particularly in areas such as critical infrastructure and supply chains.

Geopolitical fragmentation

Geopolitical instability is reshaping patterns of trade, investment and international cooperation. New requirements relating to economic security and trade standards are increasing complexity for businesses operating across multiple jurisdictions, while growing competition between major powers is creating new strategic considerations for investors. At the same time, geopolitical developments are generating significant opportunities in areas such as energy infrastructure, defence, industrial capacity and strategic resilience, raising questions about how governments can support investment while maintaining international competitiveness.

Recommendations

- Simplify overlapping regulatory frameworks while maintaining strong standards and accountability.
- Provide greater policy certainty and consistency to support long-term investment decisions.
- Embed resilience considerations across industrial strategy, energy policy, infrastructure planning and financial regulation.
- Focus reporting requirements on decision-useful information that supports action and risk management.
- Promote examples of best practice to support implementation and reduce unnecessary compliance burdens.
- Strengthen collaboration between government, investors and industry to identify and address long-term risks.
- Use incentives and market signals wherever possible, while recognising the need for intervention where market failures persist.
- Monitor emerging risks, including climate, cyber, supply chain and geopolitical threats, through a resilience-focused policy framework.

We would like to thank the members of our Advisory Board for their contributions and continuing support.

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