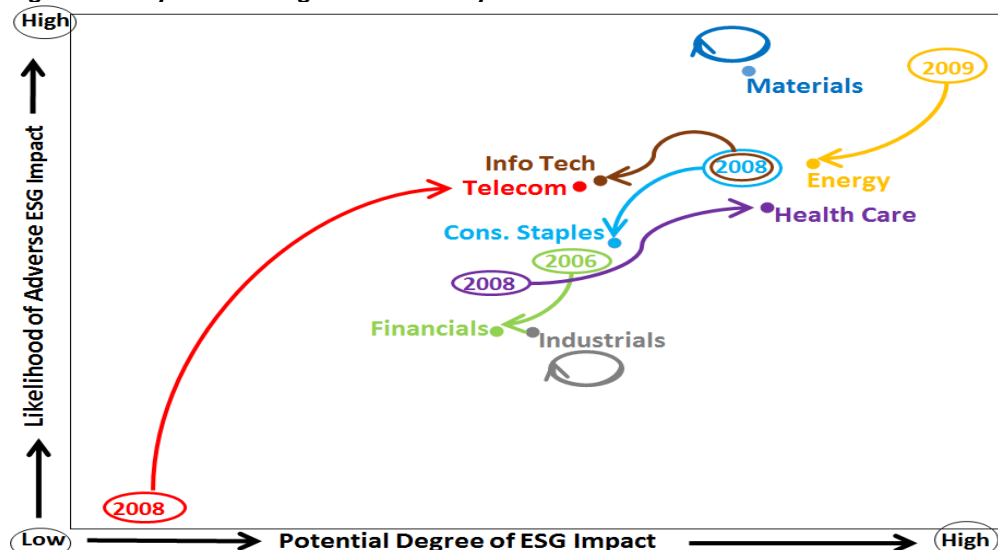


## A Shifting ESG Materiality Matrix: What Has Mattered, What May Matter

- **A More Nuanced View.** As we continue our research on sustainability factors that play a role in market outcomes, we embrace a more nuanced view. ESG factors that impact different sectors are not static, and are determined by a wide range of lifecycles.
- **An ESG Materiality Matrix.** In a recent report, [ESG in Sector Strategy: What's Material?](#), we plotted the likelihood of material sustainability issues against the potential financial impact of ESG events, creating a "Materiality Matrix." We now expand on that analysis.
- **An ESG Lifecycle.** Another Cornerstone report, [The Networked Corporation](#), introduced the concept of sustainability-related lifecycles. For most sectors, the likelihood of adverse ESG events and their potential financial impacts evolve through a lifecycle. ESG lifecycles determine the *time* it takes for a sustainability issue to become relevant to a sector as well as the *magnitude* of the financial impact.
- **A Shifting ESG Materiality Matrix.** Reflecting various ESG lifecycles, sectors move around the Materiality Matrix over time, which can draw attention to sustainability issues with investment significance, e.g., Financials prior to 2007-08 crisis.
- **Sector Strategy Implications.** Today, the risk is that the majority of sectors shift to, or remain at, unfavorable positions in the Materiality Matrix. Our Overweight of the Financials sector is reinforced by its current relatively favorable position in the Matrix.

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Figure 1: A Stylized Shifting ESG Materiality Matrix



Source: Cornerstone Capital Group



**Michael Geraghty** is the Global Markets Strategist for Cornerstone Capital Group. He has over three decades of experience in the financial services industry including working as an investment strategist at UBS and Citi.

[michael.geraghty@cornerstonecapinc.com](mailto:michael.geraghty@cornerstonecapinc.com)

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