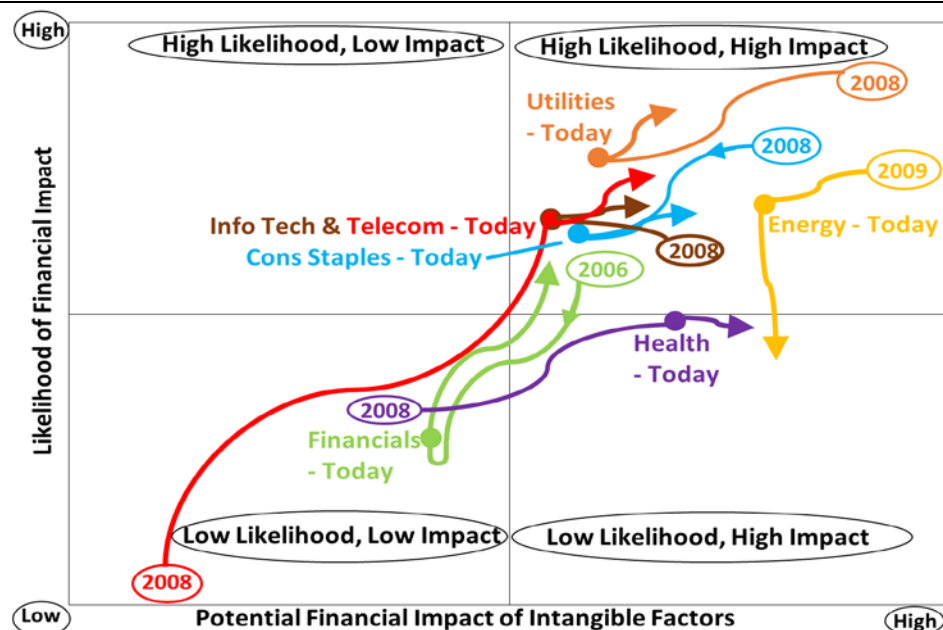


Evolving Lifecycles in An ESG Materiality Matrix

- **Evolving ESG 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. We believe the ability to anticipate ESG lifecycles can enhance the investment decision-making process.
- **A Shifting ESG Materiality Matrix.** Reflecting various ESG lifecycles, sectors move around the Materiality Matrix over time. Previously, we estimated the ESG lifecycles of MSCI ACWI sectors for the period 2006-14.
- **How Might Lifecycles Evolve?** Based on an analysis of intangible factors, we estimate how the lifecycles of seven major sectors might evolve over the next few years.
- **Sector Strategy Implications.** ESG risks for Financials seem to be rising given that major governance issues are not receding. By contrast, risks for the Energy sector look set to decline further.

Figure 1: Evolving Lifecycles in an ESG Materiality Matrix
Sectors' Current Plot Points with Estimated Past and Future Positions





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