



# ESG Mid-Year Update

## Who Still Cares, and Why You Should

At the midpoint of 2025, the ESG landscape continues to evolve amid rising political rhetoric and regulatory change. While some believe that ESG is losing momentum, the reality is that the business case for ESG remains strong. This is driven by three critical stakeholder groups — investors, regulators and issue-focused parties — who maintain significant influence and should not be underestimated as the space continues to evolve.

### — THE KEY TAKEAWAY FOR BUSINESS LEADERS

The key takeaway for business leaders: Regardless of political winds, the stakeholders who ultimately determine your company's market value, operational license and competitive position continue to prioritize ESG performance. Understanding and responding to their expectations isn't about political positioning; it's about sound business strategy.

### The Investor Imperative: ESG Moves from Blunt Tool to Specialized Instrument

#### Public Markets Maintain Focus

Despite some high-profile retreats from ESG terminology — particularly in how 'ESG' and 'DEI' are used in public reporting — global institutional investors controlling trillions of dollars in assets continue to integrate sustainability factors into their investment decisions. Why? Because they show strong results, often outperforming traditional funds.<sup>1</sup>

For this reason, major pension funds, sovereign wealth funds and asset managers are not abandoning their ESG frameworks — they're refining them. The focus has shifted from broad ESG expectations to specific, material factors that drive long-term returns. While this was often the case before, recent anti-ESG rhetoric has prompted these investors to sharpen their pencils and become more specific about the value proposition.

Recent data shows that ESG-focused funds, while experiencing some outflows in certain regions — mainly the United States — continue to attract significant capital globally.<sup>2</sup> More importantly, mainstream investment strategies increasingly incorporate ESG analysis as a risk management tool rather than a separate investment category. This evolution suggests permanence rather than retreat.

### Private Capital Doubles Down

Private equity and private credit investors have also become more sophisticated in their ESG approach in recent years. Limited partners — particularly European institutional investors — continue to demand comprehensive ESG due diligence and company-level portfolio improvement plans. In a recent [FTI Consulting survey](#) of more than 500 global PE leaders, 64% reported seeing ESG as a viable value lever, either significantly or situationally.<sup>3</sup> Private capital will use all attractive tools to drive value. When buyers are increasingly sophisticated about utilizing ESG screens to determine valuation, ESG factors can have a material impact on a successful transaction, including an exit. This fact appears to be immune to short-term political cycles.

### Regulatory Reality: Disclosure Becomes the New Normal

#### International Momentum Unchanged

The European Union's Corporate Sustainability Reporting Directive ("CSRD"), while paused, will re-emerge in a streamlined process. The key concepts of double materiality and formal assessment of climate-related financial risk will remain intact. Not to mention disclosures related to the International Sustainability Standards Board ("ISSB") in countries such as Australia, Brazil and Mexico that are creating a global regulatory web that transcends any single jurisdiction's political changes.

These regulations are not going away. They represent years of policy development, stakeholder consultation and international coordination. Companies operating globally must navigate this regulatory reality regardless of domestic political sentiment.

### U.S. Compliance Landscape Evolving

While federal ESG regulations are unlikely in the near term, state-level requirements continue to expand around climate-related disclosures and Extended Producer Responsibility ("EPR") requirements. California's climate disclosure laws, New York's pension fund investment requirements and various state-level environmental regulations create compliance obligations that affect companies nationwide.

The EU and seven U.S. states have EPR laws, which aim to curb plastic waste. Compliance requires detailed SKU-level analysis, and penalties can be significant.

Regulatory development around green claims will also be important to watch. Greenwashing and other forms of ESG misrepresentation carry real legal and financial risks, regardless of broader political sentiment toward ESG initiatives.

#### Issue-Focused Parties: Pressure Points Remain

A complex web of stakeholders with issue-specific requirements continues to drive focus on ESG. One of the most significant forces is customer demand across complex value chains, particularly in healthcare, consumer products and manufacturing. Large companies have not retreated from demanding that their suppliers focus on initiatives including decarbonization, waste reduction and human rights transparency.



## Strategic Implications for Corporates: Navigate with Nuance

The ESG evolution presents both challenges and opportunities for business leaders. While blanket commitments to ESG or a leadership team's favorite causes will no longer engage — and may alienate — influential stakeholders, current market conditions present a massive opportunity. Three themes define the opportunity ahead:



### Focus on Materiality

The most successful companies are those that identify which ESG factors truly matter to their business model, stakeholders and competitive position. This materiality-focused approach allows organizations to allocate resources effectively while building stakeholder confidence in their strategic direction. In addition to traditional materiality assessments, many companies are conducting sophisticated polling to better understand what issues are important enough to influence purchasing, investment or divestment decisions.



### Communicate with Precision

The current environment rewards companies that can articulate their ESG strategies clearly, connect those strategies to their broader business objectives and demonstrate tangible progress when specific targets are set. Vague commitments and buzzword-heavy communications increasingly face skepticism from all stakeholder groups. Precise, data-driven communication builds credibility across diverse audiences.



### Embed Rather Than Bolt-On

Organizations that integrate ESG considerations into core business processes — rather than treating them as separate initiatives — build the foundation of resilience against political and market volatility. This integration can create sustainable competitive advantages that transcend regulatory or political cycles. This integration weaves ESG into decision-making, operations and strategy, building resilience from the inside out.

ESG will continue to evolve — it will never be static. For that reason, in a world of accelerating climate risks, rising stakeholder expectations and disruptive policy swings, ESG must be treated as a strategic lens, not a compliance checkbox. Companies that embed ESG create durable competitive advantages, better anticipate regulatory shifts and inspire trust from investors, employees and customers alike. It's not just about doing good — it's about doing smart business that lasts.



## The Path Forward

As we move through the second half of 2025, business leaders must distinguish between political rhetoric and stakeholder reality. The companies that will thrive are those that recognize this continuity while adapting their strategies to address real obstacles. This means focusing on material issues, demonstrating measurable progress and communicating with transparency and precision. The question isn't whether ESG matters — it's whether your organization can navigate the evolving expectations skillfully enough to capture the value at stake.



- 1 Giese and Shah, "MSCI ESG Ratings in Global Equity Markets: A Long-Term Performance Review," March 1, 2024, <https://www.msci.com/research-and-insights/paper/msci-esg-ratings-in-global-equity-markets-a-long-term-performance-review>; Smith, "How ESG Can Enhance Portfolios – The Evidence," August 16, 2023, <https://www.aberdeeninvestments.com/en-sg/institutional/insights-and-research/esg-performance-evidence>,
- 2 Morningstar Sustainalytics - Global Sustainable Fund Flows: Q1 2025 in Review, April 2025: [https://marketing.morningstar.com/content/cs-assets/v3/assets/b1t9415ea4cc4157833/b1tfe8ef6bf6de598ea/68099b79f9cea7e1bd3d359e/Global\\_ESG\\_Q1\\_2025\\_Flows\\_Report.pdf](https://marketing.morningstar.com/content/cs-assets/v3/assets/b1t9415ea4cc4157833/b1tfe8ef6bf6de598ea/68099b79f9cea7e1bd3d359e/Global_ESG_Q1_2025_Flows_Report.pdf); Morgan Stanley Institute of Sustainable Investing, Sustainability Reality Full Year 2024, March 2025: [https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan\\_Stanley\\_Institute\\_for\\_Sustainable\\_Investing\\_Sustainable\\_Reality\\_2024.pdf](https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_Institute_for_Sustainable_Investing_Sustainable_Reality_2024.pdf).
- 3 <https://www.fticonsulting.com/insights/reports/private-equity-report>.

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