

Five Sustainability Risks Affecting Financial Performance

Sustainability risk is increasingly shaping portfolio performance. Staying ahead requires a structured approach to identifying, comparing, and prioritizing sustainability risks across investments.

This guide introduces five categories of sustainability exposures shaping today's business landscape, from reputational and cyber to physical climate, transition, and geopolitical. Novata's AI-powered Risk Atlas and Advisory experts provide comprehensive monitoring and intelligence to help investors and companies stay ahead of the issues that affect their business. Read on to learn what each risk category means, why it matters, and potential impacts.

01 Reputational Risk

WHAT IS IT?

Reputational risk is the potential for events or controversies to damage customer trust, investor confidence, or brand value.

WHY IT MATTERS NOW

News, regulatory actions, litigation, and social media can reshape public perception before a company has time to formally respond.

Research cited in Novata's [Managing Sustainability Risks Across the Portfolio](#) webinar found ESG controversies can erase approximately 20% of market value in a short period.

POTENTIAL IMPACTS

- ✓ Lost revenue and customers
- ✓ Lower company valuations
- ✓ Increased regulatory scrutiny
- ✓ Reduced access to capital
- ✓ Higher remediation costs

NEXT STEPS FOR INVESTORS

- 1 Build a process to flag emerging reputational hotspots before they escalate.
- 2 Quantify the financial impact of exposure alongside the PR risk.
- 3 Close governance gaps, such as weak whistleblower protections or unclear escalation processes.
- 4 Standardize how reputational risk is reported across the portfolio.

HOW DOES NOVATA HELP?

Risk Atlas continuously monitors news, regulatory filings, and enforcement actions with the help of AI, making it easy for investors to track reputational signals and compare exposure across portfolio companies.

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[Managing Sustainability Risks Across the Portfolio](#) →

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Cyber Risk

WHAT IS IT?

Cyber risk covers the financial and operational damage caused by ransomware, data breaches, and system outages.

WHY IT MATTERS NOW

Cyber incidents continue to grow in scale and cost as more businesses move online. [WTW's Cyber Claims in Focus 2026](#) found the average ransomware demand reached \$5 million.

POTENTIAL IMPACTS

- ✓ Business interruption
- ✓ Regulatory penalties
- ✓ Intellectual property theft
- ✓ Increased insurance costs
- ✓ Reputational damage and loss of customer trust

NEXT STEPS FOR INVESTORS

- 1 Require portfolio companies to quantify cyber risk in financial terms to set a baseline for decision-making.
- 2 Prioritize high-impact interventions that reduce the most material risks.
- 3 Ask companies for evidence of monitoring practices that stay ahead of evolving threats and reduce response times.
- 4 Assess whether companies have established organization-wide controls that go beyond written policies.

HOW DOES NOVATA HELP?

Risk Atlas screens portfolio companies against more than 20,000 breach datasets, helping investors identify cyber exposures across an entire portfolio using a consistent methodology. Investors can also go deeper with Searchlight Cyber, integrated into Risk Atlas, to assess relative cyber risk using a world-leading database of cyber attacker activity. Beyond breached records, Searchlight Cyber tracks dark web activity targeting organizations directly and in real time.

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[Cybersecurity as a Driver of Value Creation](#) →

03

Physical Climate Risk

WHAT IS IT?

Physical climate risk measures how much exposure a business carries from flooding, drought, wildfires, heat stress, and other climate hazards that disrupt business operations.

WHY IT MATTERS NOW

Extreme weather continues to intensify. [The World Economic Forum](#) ranks extreme weather among the most significant global risks, while [Everstream Analytics](#) reported a 24% year-over-year increase in physical climate risk intensity.

POTENTIAL IMPACTS

- ✓ Damage to facilities and infrastructure
- ✓ Supply chain disruption
- ✓ Increased insurance premiums
- ✓ Operational downtime
- ✓ Higher resilience investment costs

NEXT STEPS FOR INVESTORS

- 1 Map physical risks across the portfolio to get a full picture of which companies carry the highest risk.
- 2 Watch supply chains as well as owned facilities.
- 3 Price climate exposure into cost-of-capital conversations.

HOW DOES NOVATA HELP?

Risk Atlas maps exposure across multiple climate hazards, warming scenarios, and time horizons, helping investors identify where physical climate exposure is greatest across their portfolios.

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[Climate Risk as Financial Risk:
How Are Private Markets Responding?](#) →

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Transition Risk

WHAT IS IT?

Transition risk arises from the shift to a lower-carbon economy through changing regulation, carbon pricing, technology, and market expectations.

WHY IT MATTERS NOW

Organizations face mounting regulatory and market pressures as they transition to a lower-carbon economy. Research published in [Nature Climate Change](#) estimates approximately \$1 trillion in global assets could become stranded.

POTENTIAL IMPACTS

- ✓ Increased compliance costs
- ✓ Carbon pricing exposure
- ✓ Asset impairment
- ✓ Competitive disruption
- ✓ Lower long-term valuations

NEXT STEPS FOR INVESTORS

- 1 Establish a clear baseline of Scope 1, 2, and 3 emissions data to assess which portfolio companies carry the most stranded asset exposure.
- 2 Review portfolio companies in carbon-intensive sectors.
- 3 Track regulatory exposure across jurisdictions.
- 4 Reward portfolio companies further along in their decarbonization journey that carry less transition risk.

05

Geopolitical Risk

HOW DOES NOVATA HELP?

Risk Atlas translates estimated Scopes 1, 2, and 3 emissions into projected carbon costs under the NGFS Net Zero scenario, helping investors compare transition exposure consistently across companies.

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[A Practical 5-Step Guide to Climate Risk Implementation](#) →

WHAT IS IT?

Geopolitical risk refers to political instability, conflict, trade disputes, sanctions, and changing international relations that affect business performance.

WHY IT MATTERS NOW

The [World Economic Forum](#) ranked geoeconomic confrontation as the top short-term global risk in 2026, while geopolitical crises remain a leading source of supply chain disruption.

POTENTIAL IMPACTS

- ✓ Supply chain disruption
- ✓ Market access restrictions
- ✓ Increased operating costs
- ✓ Revenue volatility
- ✓ Delayed investment decisions

NEXT STEPS FOR INVESTORS

- 1 Build an internal process to continuously monitor geopolitical disruptions across the portfolio.
- 2 Track sanctions and regulatory requirements across jurisdictions to understand exposure in high-risk regions.

HOW DOES NOVATA HELP?

Risk Atlas can map geopolitical risks across headquarters, suppliers, and customer markets using the Fragile States Index and Worldwide Governance Indicators, helping investors identify portfolio companies operating in higher-risk regions.

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[From ESG to Risk Intelligence](#) →

Bringing sustainability risks into one portfolio view

Each risk affects financial performance differently. Investors need a consistent way to compare exposures, prioritize action, and monitor risk across their portfolios.

NOVATA'S RISK ATLAS:



One connected view across five sustainability risk categories



Unified methodology across portfolio companies



Continuous monitoring as conditions change



Custom weighting aligned with your priorities

Risk Atlas shows you where risk is concentrated across your portfolio. This single view makes it easier to see and understand where exposure runs highest and decide where to act first.

Move from Fragmented Signals to Clear Decisions

Sustainability risks are becoming increasingly interconnected with financial performance.

Risk Atlas brings reputation, cyber, climate, transition, and geopolitical risk into one connected view, so investors can spot emerging exposures, compare risks consistently, and act on what matters most.

SEE RISK ATLAS IN ACTION

