Nathan Hughes: Why ESG still matters

By Perpetual Asset Management

25 February 2026



ESG has become a less prominent investing label in recent years but remains a core part of fundamental investing, says Perpetual's Nathan Hughes.

- ESG label less prominent

- But core tenets still protect investors
- Find out about Perpetual ESG Australian Share Active ETF (ASX:GIVE)

Firstly, what is ESG?

ESG stands for environmental, social and governance and is a framework used to assess a company's sustainability and ethical impact.

The environmental pillar takes into account a company's impact on the planet with respect to its energy use, emissions, waste management, pollution, natural resource conservation and climate change mitigation.

The social pillar assesses a company's approach to the treatment of employees, customers, suppliers and communities, placing a lens over labour practices, diversity, human rights, health and community engagement.

The governance pillar, meanwhile, focuses on the corporate side, closely examining a company's board structure, executive pay, transparency, ethics and shareholder rights.

Hughes says governance, safety and sustainability risks have been big drivers of shareholder outcomes in recent years, despite the market's attention shift to technology, AI and energy.

And while old school rigid ESG exclusionary screens can be a blunt tool that misses opportunities, a nuanced approach to understanding risk is an important tool in protecting shareholder value.

"Last year was a cataclysm of governance failure across Australian boards and saw a lot of shareholder value destruction," says Hughes, who manages Perpetual's ESG Australian Share Active ETF (ASX:GIVE).

"It still amazes me that people don't consider these issues until after they happen. The consideration of all things ESG is fundamental to an investment case.



Governance failures

Governance can be the most significant channel through which ESG issues impact shareholder outcomes, says Hughes.

Decisions on capital allocation, accountability, controls, culture and remuneration can materially affect investment outcomes.

Hughes points to James Hardie's Azek acquisition – which included a large share issue without giving shareholders a vote – as an example of a governance failure that quickly destroyed shareholder value.

Judgement call

Hughes says social factors like safety incidents, staff turnover or supply-chain disruption can be overlooked until they show up in earnings reports.

"It's no secret that a business with highly motivated and engaged employees is going to have a better time of it than a business where employees are disengaged or fearful.

"A company that tries to shortcut one of its stakeholders eventually gets found out – and it costs."

And environmental analysis remains a critical part of assessing business durability, particularly for companies with materials intensive operations, constrained resources or high exposure to energy and input costs.

Hughes says the core question is whether a company is managing these risks in a way that protects its long-term competitiveness – through operating efficiently, reducing waste and managing energy consumption.

"It requires depth of work and – ultimately – a judgement call," Hughes says.

The risk of exclusionary ESG screening

Equities markets are forward looking – so taking an exclusionary and reactionary screening approach to ESG based on past behaviour can mean missing out on investment opportunities, says Hughes.

One example was the Medibank cyber hack that leaked the personal details of nearly 10 million customers.

"Our assessment was that it was unfortunate. There were some weaknesses in their systems, but they were attacked by a rogue actor, and they did their best to look after affected clients. There was accountability at an executive level, and they invested in some fixes.

“The share price reaction was disproportionate.

“Some with an ESG lens might have said data privacy is a big problem and the stock is uninvestable. But in our opinion, that was the greatest opportunity since it listed – and we bought accordingly.

“You can’t get too caught up in ESG on a backward-looking basis – without also looking toward the future.”

Glove maker Ansell is another business that warrants close analysis due to the risk of modern slavery in its heavily Asia-based supply chain.

“We own Ansell and are confident the company has taken appropriate steps to improve the resilience of their supply chain,” says Hughes.

“ESG is not easy – and it’s not a box ticking exercise.

“It requires holistic thought and looking at the bigger picture.

“Our analysts are responsible for their own ESG work. It’s part of the bigger picture. It’s part of the thesis on a company, so that we get into the weeds ourselves.

“And I think that’s really important because I think it gives us the best chance of making the right decision.”

About Nathan Hughes and Perpetual ESG Australian Share Active ETF (ASX:GIVE)

Nathan Hughes is a portfolio manager with Perpetual’s Australian equities team. He joined Perpetual in 2010 and has more than 20 years of investing experience.

Nathan manages the Perpetual ESG Australian Share Active ETF (ASX:GIVE), including its unlisted share class, as well as the Perpetual Income Share Fund.

Find out about Perpetual ESG Australian Share Active ETF (ASX:GIVE)
Browse Perpetual’s Australian equities capabilities
Want to know more? Contact a Perpetual account manager





This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 as the responsible entity of the Perpetual ESG Australian Share Fund (Managed Fund) (ASX: GIVE) (referred to below as “active ETF”). It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The product disclosure statement (PDS) for the Active ETF should be considered before deciding whether to acquire or hold units. The applicable PDSs and Target Market Determinations can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor’s capital.