



# ESG in the Aerospace & Defense Industry

In the face of global disruption caused by climate change, natural resource scarcity, social volatility, technological innovation, and geo-political uncertainty, Environmental, Social and Governance (ESG) factors and the actions organizations are taking to address these issues have never been more important. Companies in Aerospace and Defense (A&D) are not immune to these factors and, in fact, have relatively high exposure to material ESG risk due to their concentration in highly regulated markets with high degrees of regulatory scrutiny. Industry participants would be well-served to take a proactive and integrated approach to communicating with multiple stakeholder groups about ESG progress and initiatives, particularly given the increasing focus of the Biden Administration and relevant government agencies. Doing so would ensure A&D companies are well-positioned to both manage and mitigate risk and capitalize on opportunities.

## 36.5

A&D averages an ESG Risk Rating score of 36.5, ranking 37th out of 42 industries.<sup>1</sup>

## When developing an ESG communications strategy, A&D companies should be thinking about the following near-term trends:

### 1 Rule-Based Approach to ESG and Climate Risk Disclosures

Given the increase in ESG investing in recent years, the Securities and Exchange Commission (SEC) is currently developing rules for public companies' ESG and climate risk disclosures.<sup>2</sup> Solidifying disclosures now will help A&D companies get ahead and maintain a competitive advantage as regulatory changes manifest. It will also help A&D companies better understand and assess performance in a more standardized manner, informing business decisions and maintaining a positive relationship between companies and their stakeholders.



"Now more than ever, investors are considering climate-related issues when making their investment decisions. It is our responsibility to ensure that they have access to material information when planning for their financial future."

- Allison Herren Lee, Acting Chair, SEC on 2.24.21



### 2 Increased Pressure on Government Contractors Around ESG

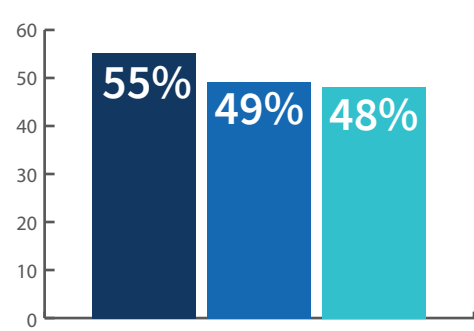
It is likely there will be increased pressure on government contractors when it comes to ESG, and the Biden Administration will use its purchasing power to spur more responsible actions and environmental commitments from A&D companies. Currently, the U.S. Military emits more carbon dioxide than many nations,<sup>3</sup> and so the "E" will be a particular focus to reach the Administration's climate change goals. In addition to public disclosures related to "E", A&D companies can get ahead by proactively communicating to key stakeholders about how they are working to be a better steward of the environment.

### Under the Biden Administration, the U.S. has:

- Officially rejoined the Paris Climate Agreement on Climate Change
- Set a goal of zero economy-wide emissions by 2050
- Pledged to create a cross-agency Advanced Research Projects Agency on Climate (ARPA-C), which would invest in research on decarbonization and other environmental innovations

### 3 Diversity & Inclusion as a Key Part of ESG

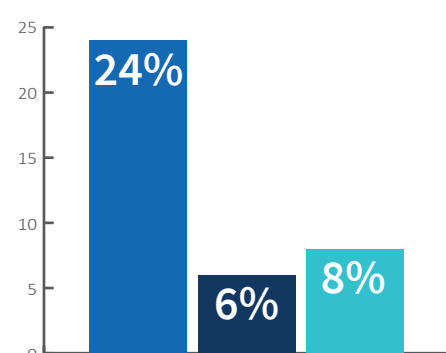
D&I initiatives have many benefits to businesses – all of which impact the bottom line and long-term sustainability. As the demand for transparency around ESG continues to grow, D&I will continue to be an important part of the "S" and the "G". For companies in A&D that have historically dealt with issues related to diversity of talent and leadership, ensuring D&I is core to the business strategy and bringing it to life for employees and other key stakeholders will be paramount.



55% of Black students, 49% of Hispanic or Latino students and 48% of female students registered their interest in a career in A&D.<sup>4</sup>

↑ 5%

Between 2017 and 2020, the percentage of female and minority executives in A&D each increased by roughly 5%, respectively.<sup>6</sup>



The percentage of women in A&D has remained around 24% of the total workforce over the past five years, identified as only 6% of workers less than 8% as Hispanic or Latino.<sup>5</sup>

## Where to go from here?

There are undoubtedly ESG risks for companies in the A&D space, but also clear opportunities for companies to prioritize, invest in and proactively demonstrate the ways they are good corporate stewards – across E, S, and G. This requires a multi-stakeholder, integrated sustainability strategy that helps advance business objectives and enhances reputation.

FTI offers a holistic point of view on how companies in A&D can manage the risk and capitalize on the opportunity of ESG from a regulatory, financial, political, and marketplace perspective.



We have extensive and leading capabilities in sustainability and ESG



Our multidisciplinary team has decades of experience working with A&D companies



Our unique platform ensures seamless advocacy across a broad array of important stakeholders (e.g., policymakers, regulators, investors, employees, customers)

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<sup>1</sup> Morningstar, Sustainalytics ESG Report, July 2020, <https://www.morningstar.in/posts/60819/esg-investors-invest-defense-stocks.aspx>

<sup>2</sup> SEC Statement on the Review of Climate-Related Disclosure, Feb. 24, 2021, <https://www.sec.gov/news/public-statement/lee-statement-review-climate-related-disclosure>

<sup>3</sup> ETF Trends, December 2020, <https://www.etftrends.com/esg-channel/esg-case-study-northrop-grumman/>

<sup>4</sup> Aviation Week Network's Workforce Study, September 2019, <https://pgs.aviationweek.com/19WFRSUMMARY?em=16142&code=AIWFR>

<sup>5</sup> Aerospace Industries Association, Aviation Week Network's Survey of A&D end-use manufacturers, 2020, [https://pgs.aviationweek.com/19WFRSUMMARY?em=16142&code=AIWFR](https://www.aia-aerospace.org/diversity-equity-inclusion/ber-2019)

<sup>6</sup> Aviation Week Network's Workforce Study, September 2020, <https://pgs.aviationweek.com/20WFRSUMMARY?em=25393&code=WAWNRR>