

The Tollbooth moat: Why some of the most important ESG investments may be the least visible

There is a quiet paradox at the heart of ESG investing.

As responsible investment increasingly emphasises visible environmental and social outcomes, the essential financial infrastructure supporting the global economy can receive comparatively little attention.

Solar panels, electric vehicles, and green hydrogen projects dominate the imagination. Meanwhile, some of the most structurally essential, capital-efficient, and system-stabilising businesses in the global economy sit almost invisibly in the background simply because they don't manufacture a visible green product.

Viewed through the lens of systemic resilience, efficient capital allocation, and long-term stewardship, a different set of companies warrants consideration: exchanges, index providers, rating agencies, and payment networks.

Or more precisely: tollbooths on global capital flows.

The mispricing of invisible ethical value

Traditional ESG narratives have often emphasised visible, measurable outcomes, potentially understating the broader contribution of essential financial infrastructure.

While carbon intensity, diversity and supply chain metrics can be quantified, the infrastructure through which capital moves is often treated as background plumbing.

Yet the modern financial system is a highly engineered network of protocols, benchmarks, clearing systems, and payment rails, supported by a small number of embedded, systemically important firms.

U Ethical Investors' International equity portfolio holdings, including CME Group, London Stock Exchange Group (LSEG), S&P Global, Mastercard and Visa Inc., do not merely participate in markets; they help establish the infrastructure through which markets function.

And that infrastructure is extraordinarily difficult to displace.

The Tollbooth moat: Where capital light meets system critical

These businesses serve as essential infrastructure within the global financial system, enabling economic activity at scale.

- **CME** clears derivatives that hedge global energy, rates, and agricultural exposure;
- **LSEG** operates exchange and data infrastructure that underpins capital formation;
- **S&P Global** defines the benchmarks through which trillions of dollars in passive capital is allocated; and
- **Mastercard and Visa** process payments that function as the backbone of global consumer commerce.

Each acts as a tollbooth by charging for access to infrastructure that is difficult to replicate.



The economic characteristics are remarkably consistent.

Network-driven entrenchment: Liquidity, benchmarks, and payment acceptance are self-reinforcing systems. Greater participation strengthens the network and raises switching costs.

Regulatory embeddedness: These businesses operate within deeply established regulatory frameworks, creating substantial barriers to entry.

Capital-light scalability: Incremental transactions generally require limited additional capital, supporting high margins and attractive returns on investment.

Together, these advantages support durable earnings compounding with relatively modest reinvestment requirements.

ESG through an integrated lens: Reframing "G" as the core risk variable

For financial infrastructure companies, governance is not simply another ESG consideration. It is fundamental to the integrity, resilience and sustainability of the franchise.

Not governance merely as board composition or disclosure policy, but as a guarantor of systemic integrity.

The critical questions become:

- Can the firm maintain uninterrupted market operations under stress?
- Can it secure highly sensitive, systemically critical data?
- Can it preserve trust in benchmarks that allocate trillions of dollars?
- Can it withstand cyber risk without systemic contagion?

A governance failure here is not merely reputational; it can become a market event.

These businesses operate under extensive regulatory supervision, with operational resilience, market integrity and systemic safeguards central to their responsibilities.

In effect, governance is not the tablecloth finishing the company's presentation – it is the table itself, holding up systemic integrity.

Why ESG portfolios may overlook tollbooth assets

There is an aesthetic bias within some forms of ESG investing.

Impact is often associated with visible transformation. A wind farm is intuitive. A payment routing network is not.

Yet, financial infrastructure reduces friction in capital allocation across all sectors—including green energy, healthcare innovation, and infrastructure development.

Because these businesses lack a singular environmental narrative, their contribution to economic efficiency and financial stability can be underappreciated.

This does not mean systemic importance automatically confers ESG credentials. Market concentration, pricing power and regulatory influence also create responsibilities around access, fairness and conflicts of interest.

Nor is facilitating financial activity equivalent to delivering measurable positive impact. Nevertheless, the integrity and efficiency of financial infrastructure represent an important dimension of responsible investment.

The defensive asymmetry: Resilience across market environments

One of the most underappreciated characteristics of tollbooth businesses is their resilience across different economic environments.

Their earnings drivers are varied:

- Derivatives exchanges can benefit from greater volatility and hedging activity.
- Financial data and risk analytics remain essential across market conditions.
- Payment networks benefit from long-term growth in consumption and nominal economic activity.
- Index providers earn recurring revenues from deeply embedded benchmarks.

While these businesses are not immune to economic cycles, their essential role in financial markets can make earnings more resilient than those of conventional cyclical companies.

Importantly, these complementary earnings drivers can provide valuable diversification within an equity portfolio.

The ethical reframe: Infrastructure as social utility

The responsible investment case for financial infrastructure does not depend on environmental labels. It rests on systemic contribution.

Financial infrastructure firms:

- enable price discovery across essential commodities.
- support capital formation in both developed and emerging markets.
- facilitate global payments and financial inclusion.
- maintain benchmark integrity across asset classes.
- reduce settlement and counterparty risk in global markets.

In this sense, they share characteristics with public utilities, providing essential services that support economic participation, financial stability and the efficient functioning of markets.

Portfolio philosophy: The case for systemic compounding

From a portfolio construction perspective, the attraction extends beyond defensiveness to the combination of durable competitive advantages, capital efficiency and attractive long-term return potential.

These businesses combine predictable demand linked to economic activity, high incremental margins, pricing power, regulatory barriers and diversified revenue streams across data, transactions, and clearing.

The result is a distinctive combination of resilient business models, systemic importance and long-duration compounding potential.

Names like CME Group, LSEG, S&P Global, Mastercard and Visa are not "defensive" in the traditional sense. They are essential financial infrastructure franchises underpinned by trust and reinforced by powerful network effects.

Of course, exceptional business economics do not guarantee exceptional investment returns. Valuation discipline remains essential.

Encouragingly, however, these five financial infrastructure franchises currently trade on an average forward PE ratio below MSCI ACWI ex-Australia*, despite their durable competitive advantages, attractive returns on capital and relatively modest reinvestment requirements.

This suggests investors can gain exposure to some of the world's highest-quality compounding businesses without necessarily paying a premium to the broader market.

*As at the end of 3Q26

Beyond Green: The Case for Systemic Sustainability

When ESG is interpreted narrowly, financial infrastructure can appear peripheral. When viewed through systemic resilience, governance integrity and long-term capital efficiency, its importance becomes much clearer.

The tollbooth moat captures this distinction.

These businesses are not green in the traditional sense, nor are they conventional impact investments.

But they support a central objective of sustainable capitalism: a financial system that allocates capital efficiently, operates reliably under stress and creates the foundations for durable economic value.

In a world increasingly shaped by volatility, fragmentation and data dependency, that contribution may be among the most enduring forms of sustainability.

Not visible.

But indispensable.

Summary



Network effects + regulation = Durable tollbooth moat
Self-reinforcing networks, high switching costs and regulatory barriers create deeply entrenched competitive advantages. As participation grows, these businesses become increasingly difficult to replicate or displace.



Capital-light scale compounds earnings
Once established, financial infrastructure can support growing transaction volumes with relatively little incremental investment. This scalability drives high margins, strong returns on capital and durable long-term earnings compounding.



From 'non-impact' to essential infrastructure
Financial infrastructure may lack the visibility of traditional ESG investments, but its contribution to efficient capital allocation, financial inclusion and market stability is fundamental to a functioning economy.



Governance is the core risk variable
Trust, operational resilience and market integrity underpin the value of these franchises. Governance failures can extend beyond reputational damage, potentially disrupting financial markets and undermining systemic confidence.



What to watch
Exceptional competitive advantages do not guarantee exceptional investment returns. Valuation discipline remains essential, alongside monitoring regulatory intervention, market concentration, cybersecurity and the continued integrity of these critical networks.

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Information is current as at 11 November 2026. This information is provided by Uniting Ethical Investors Limited (ABN 46 102 469 821) (AFSL 294147), trading as U Ethical. U Ethical can be contacted on 1800 996 888 or by mail and in person at Level 6, 130 Lonsdale Street, Melbourne VIC 3000.

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