

Sustainable Finance & Advisory

Top 10 sustainability trends of 2025



Looking into sustainability themes for 2025, companies and policymakers are reevaluating strategies to not only manage increasing risks, but also capture opportunities for long-term growth. This dual imperative – strengthening resilience while unlocking value – will define the business landscape in the coming year.

Several forces are converging to reshape this environment. From the anticipation of reduced regulatory expectations in the U.S. to the rise of nuclear power, the energy sector offers new avenues for investment and operational stability. Demand for power is growing rapidly, but artificial intelligence and scientific advancement are creating potential pathways to improved efficiency and opportunity.

The housing market and broader infrastructure sectors remain at the epicenter of climate-related challenges, highlighting the need for greater resiliency. Rising construction costs, frequent climate disasters,

and escalating insurance premiums will demand innovative approaches to financing and risk mitigation.

At the same time, sustainability reporting requirements may see some signs of easing as policymakers in certain jurisdictions look to apply evolving global frameworks. Businesses will need to navigate the interplay of regulatory shifts, competitive pressures, and technological advancements to build resilience and capitalize on new growth frontiers.

Global sustainable issuance will likely maintain momentum across U.S. and European markets, while investors focused on sustainability may double down to offset potential political headwinds. Meanwhile, the 2025 outlook for energy transition corporate dealmaking is positive for companies with solid value propositions and strategic financial backing.

If one thing is clear, 2025 promises to be another transformative year with no shortage of challenges and opportunities.

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Summary of top 10 sustainability trends for 2025

1

Financing resiliency for long-term value

Targeted investments in mitigation and resiliency are critical to strengthening U.S. infrastructure, securing access to water and natural resources, and preserving long-term value

2

Competition grows more intense and complex

The quest to secure energy transition and strengthen technology supply chains is increasingly impacted by the geopolitics of global competition

3

Anticipated deregulation in the U.S. will shift priority to all energy sources

Likely regulatory rollbacks in the U.S. will shift focus from reducing emissions to supporting all energy sources, leading to increased fossil fuel production and de-emphasis on low-carbon technologies

4

A nuclear renaissance

Nuclear presents a differentiated value proposition for decarbonizing the grid, complementing renewables while powering energy growth and enhancing load stability

5

Artificial intelligence drives data center growth and efficiency

Data center capacity and power demand driven by AI continues to exceed the supply of carbon-free energy, leading to a focus on efficiency measures and technological advancements

6

Dealmaking in the energy transition

A backlog of investments made during 2020-2021 combined with the new U.S. administration's expected focus on deregulation is expected to foster more favorable corporate dealmaking

7

Climate risk contributes to housing burden

The combination of elevated construction cost, scarcity of inventory, frequent and intense climate disasters, and rapidly increasing insurance premiums create a perfect storm for housing in the U.S.

8

Maintaining momentum in global sustainable debt markets

Sustainable debt markets maintain steady growth, supported by strong investor demand, with need for infrastructure resiliency presenting further upside potential

9

Sustainable investing: Indexes recover in 2024, but face uncertainty in 2025

The changing political climate could weigh on the market, but thematic investors focused on sustainability and quantifiable strategies may offset policy and regulatory headwinds

10

Sustainability reporting continues to evolve

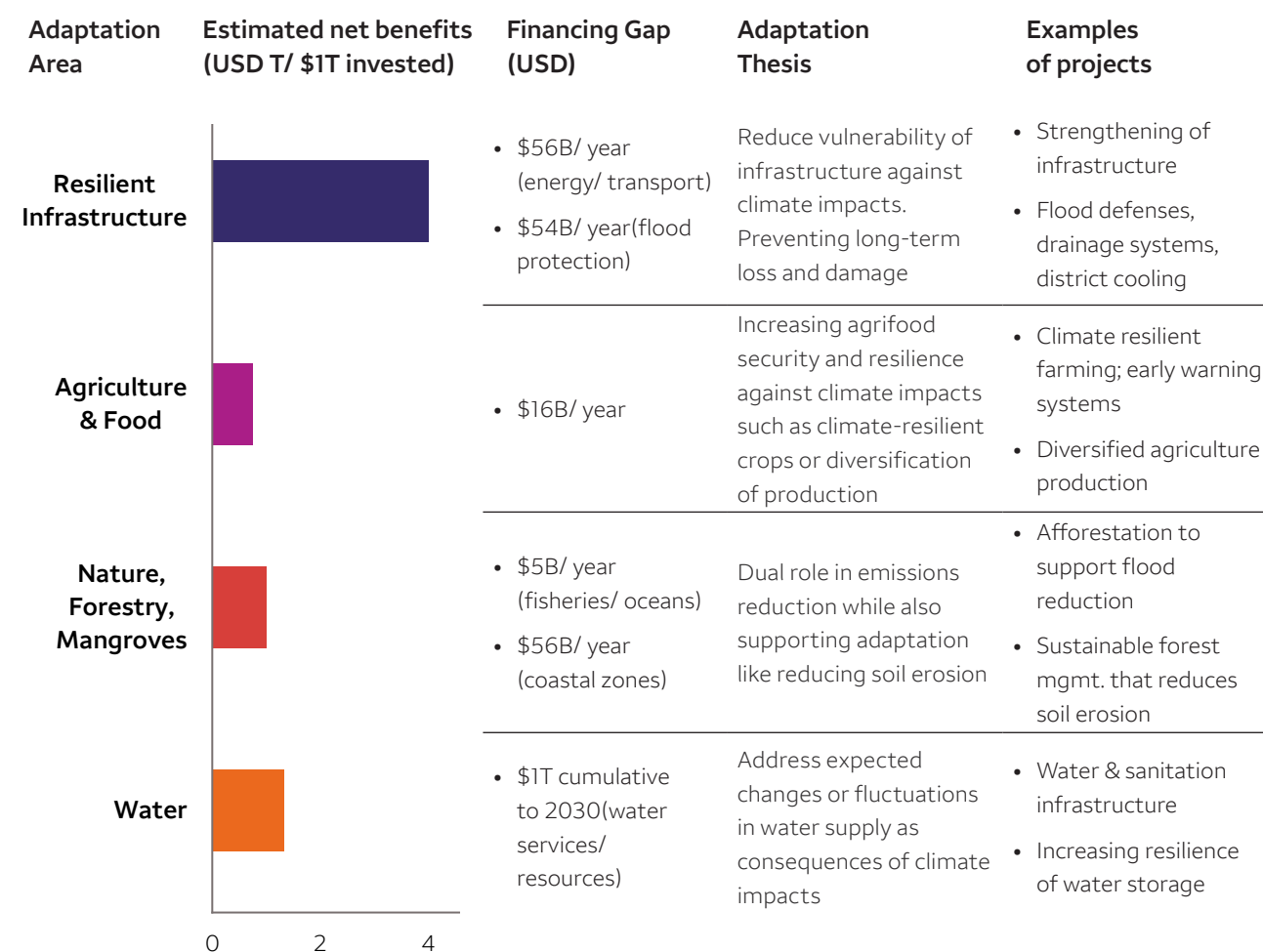
The pendulum might swing back on global sustainability disclosures, finding equilibrium between the perceived over-reporting requirements of the EU and the paused federal U.S. requirements

1. Financing resiliency for long-term value

As extreme weather events intensify and global losses mount, the need for infrastructure resiliency investment has emerged as a critical imperative for long-term economic stability and growth. The unprecedented scale of recent disasters has significantly heightened the focus on climate adaptation and resiliency financing. A microcosm of global trends, the one-two punch of Hurricane Helene followed by Hurricane Milton caused an estimated \$300 billion in damage, much of which was uninsured.⁰¹ The economic devastation has

highlighted the urgent need for targeted investments in mitigation and resiliency financing, such as undergrounding utilities and strengthening roads and bridges. Similarly, new building standards and weather-resilient construction materials are critical to strengthening domestic infrastructure. Businesses, governments, and investors must shift focus to innovation-driven solutions, ensuring that economies can adapt to climate volatility while unlocking new opportunities for generating long-term value.

Figure 1: Adaptation Financing Sector Opportunities



Source: Invesco

Extreme weather is not the sole risk factor to consider – changing climate patterns are also stressing water availability and ecosystems. The World Wildlife Fund estimates the global economic use value of water at \$58 trillion, equivalent to the combined GDP of China,

Germany, India, Japan, and the U.S.⁰² Almost 70% of companies in the S&P Global Broad Market Index have significant dependencies on nature within their direct operations,⁰³ highlighting the growing criticality of securing water infrastructure and availability.

Dependency on water and nature underscores the financial and economic imperative for businesses to proactively understand and manage their environmental risks to safeguard long-term stability.

Resiliency financing offers a strategic pathway to safeguard not only financial returns, but also the natural systems that underpin economies. To date, green bonds have predominantly focused on greenhouse gas mitigation efforts with a lesser emphasis on resilience. However, robust criteria for resilience have been developed under the Climate Bond Standard for select sectors and can be further integrated into taxonomies, unlocking capital flow

across all sectors.⁰⁴ Momentum is also growing around investments in the water sector, driven by several investor-led initiatives that prioritize valuing and safeguarding water resources. For instance, the *Valuing Water Finance Initiative*, a global effort engaging over 100 members managing \$17.6 trillion in assets, identifies water as a critical financial risk and calls for proactive investment in solutions that enhance water resilience.⁰⁵ By leveraging innovative financial structures, cross-sector collaboration, and public-private-partnerships, businesses and governments can mitigate risks, minimize losses, and strengthen resilience.

2. Competition grows more intense and complex

While cooperation is touted as the key to advancing complex transformative change, the quest to secure energy transition and strengthen technology supply chains is increasingly impacted by global competitive forces.

The energy transition has exacerbated historically tenuous competitive dynamics around energy and national security, industrial protectionism, and durable economic growth. The industrial transformation under way globally has highlighted key “flashpoints,” as described by the Lawrence Livermore National Laboratory’s Center for Global Security Research.⁰⁶ Notably, the energy transition is increasing competition to acquire critical minerals required for electrification and semiconductors, emphasizing Chinese dominance of low-carbon technology manufacturing, accelerating the race for nuclear capabilities, amplifying risks of cyber threats, and adding to trade finance tensions between developed and developing nations.

China remains a critical piece of the energy transition puzzle. Putting aside its emissions profile, China dominates low-carbon manufacturing. It is the world’s single largest manufacturer of solar panels, wind turbines, lithium-ion batteries, electrolyzers, EVs, permanent magnets, and more. China’s particular dominance in EVs has already created global trade tensions.⁰⁷ In May 2024, the United States increased tariffs on Chinese-made EVs from 25% to 100%.⁰⁸

Canada followed suit increasing its 6.1% import tariff on Chinese EVs to 100%, citing issues relating to Chinese industrial policies and subsidies which cause overcapacity and unfair competition.⁰⁹ Later in 2024, the European Union concluded a trade investigation in October which will increase tariffs to as much as 45.3%.¹⁰ We can expect more tariff action for years to come.

As the energy transition locks arms with the growth of advanced computing, critical minerals will gain increasing attention.¹¹ Geographic concentrations of key minerals in countries like Chile (copper), China (graphite), South Africa (iridium), and Australia (lithium), to name a few, may yield new trade alliances. Scarcity will drive technological advances and a jockeying for resources. There will also be new developments – such as the recent discovery of sizeable lithium deposits in Arkansas – which will keep the landscape fluid.¹²

As focus remains high across the world on sustainable sourcing and the impact of climate-related risks on supply chains, the competitive pressures around low-carbon manufacturing will add complexity. Companies will need to develop a deep understanding of their supply chains, including geographic exposures and trade policies, and ensure economic return models are attuned to the geopolitics of global competition.

3. Anticipated deregulation in the U.S. will shift priority to all energy sources

Aligned with a classic conservative agenda, President-elect Trump's return to the White House will likely bring a wave of deregulation across sectors in the U.S. Consistent with his first term, the Trump administration will likely look to roll back a variety of environmental regulations, thereby shifting focus from emissions reductions to the enablement of energy development in all forms. Speculation abounds regarding the fate of Inflation Reduction Act (IRA) provisions through budget reconciliation, and many will be watching. However, with a Republican trifecta across the White House, Senate and House of Representatives, deregulation generally will likely impact a broad swath of industries, and while specific actions are still unclear, methane, liquified natural gas (LNG) production, power plant emissions, and the auto sector are all poised for change.

The Biden administration previously implemented rules targeting methane emissions from the energy sector,¹³ including limits on emissions¹⁴ and infrastructure upgrades. However, a deregulatory focus could reduce or roll back these requirements, potentially easing operational burdens for energy producers despite environmental concerns.

Similarly, prior restrictions on liquified natural gas (LNG) infrastructure and exports could be lifted, leading to increased U.S. LNG production to meet growing global demand, particularly in Europe and Asia amid geopolitical shifts.

For the power sector specifically, President Trump is expected to rescind¹⁵ the Environmental Protection

Agency's (EPA's) new regulations on GHG emissions from power plants, which were designed to accelerate coal plant retirements and spark adoption of carbon capture at both coal and natural gas facilities.¹⁶ If the rules are eliminated or paused, coal-fired power plants may operate for longer, potentially shifting demand away from renewables. Similarly, weakened emissions requirements could impact overall development and cost reduction pathways of carbon capture technologies.

Finally, deregulation within the transportation sector may prove most impactful to the U.S. economy. In addition to the expected elimination of the consumer EV tax credit,¹⁷ the Trump administration may weaken both fuel economy and emissions standards for cars.¹⁸ A full retreat of federal EV regulation could threaten auto electrification for the next decade. That being said, emissions standards remain throughout the world and auto manufacturers will need to carefully evaluate the business case presented by U.S. deregulation versus staying the course to maintain global market share. Complicating the economic and policy calculus is China's competitive position within the energy transition value chain (see Trend 2), raising questions about the U.S.'s long-term role in the global auto market.

Ultimately, the direction of these changes will require a balance between economic opportunity, environmental considerations, and long-term strategic competitiveness.

4. A nuclear renaissance

After decades out of the spotlight, nuclear is experiencing a renaissance. In hindsight, the conflict in Ukraine served as a catalyst, shifting the paradigm for sustainable energy from one rooted in the replacement of fossil fuel sources with non-emitting renewables to now something far more complex. Three key issues must now be balanced: 1) surging demand growth, 2) energy security and affordability, and 3) low-emitting technologies. Experts have argued that nuclear has a critical role in achieving this precarious balance.¹⁹

U.S. nuclear power currently accounts for about 20% of total production, and capacity has the potential to triple from ~100 GW in 2024 to ~300 GW by

2050, per the Department of Energy.²⁰ A widespread surge in electricity demand after decades of stasis has increased interest in nuclear. While the built environment and transportation have contributed to growing power demand, manufacturing and data centers have led the nuclear resurgence in the U.S. given nuclear power's ability to provide carbon-free 24/7 generation concentrated in a limited footprint (see Trend 5). This shift is exemplified by numerous recent partnership announcements, such as those between Google and Kairos,²¹ Microsoft and Constellation,²² Dow and XEnergy,²³ and Nucor and Helion,²⁴ to name a few.

Along with the realities of providing clean power to a growing and complex world, nuclear technology itself has evolved. Today, the World Nuclear Institute indicates that over 85% of the world's nuclear electricity is generated by reactors derived from designs originally developed for naval use, and they are being superseded by better designs.²⁵ What is often referred to as “advanced nuclear” or “Gen III+ and Gen IV reactors” encompass scientific breakthroughs and a range of possible system configurations. Notably, the new technology seeks to 1) standardize and simplify design to make nuclear reactors easier to build and operate, 2) increase availability, efficiency, and operating life, 3) reinforce designs against terrorist threat, and 4) further reduce the possibility of core melt accidents. Water also plays a crucial role in nuclear power generation, as it is essential for cooling reactors and maintaining operational safety. Sustainable water management practices will be vital as the nuclear sector expands, ensuring resilience amid rising climate risks.

Despite all the advancement and optimism, critics have long opposed nuclear for concerns about radioactive waste, accidents, and association with nuclear weapons. There may be tradeoffs to nuclear energy, as much as there are tradeoffs for other forms of energy. A series of factors must come together to realize the potential of nuclear, including a need to scale the value chain, corporate partnerships that aggregate demand and alleviate “first mover disadvantage,” and the enhancement of large-scale project development expertise.²⁶

Despite the challenges, progress in advanced nuclear is already being made in the U.S. TerraPower, led by

Bill Gates, broke ground this summer on the first ever advanced nuclear Sodium plant in Kemmerer, Wyoming. Construction will continue over the years ahead, with an expected completion date in 2030, serving as a model for others.

“I believe that the next-generation nuclear power plant that TerraPower is building will power the future of our nation—and the world.”

— Bill Gates, from GatesNotes

From a policy standpoint, nuclear energy has bipartisan support in the U.S. In July 2024, President Biden signed into law bipartisan legislation called the ADVANCE Act that provides a boost to the future of nuclear energy in America and recognizes its importance to energy security and environmental stewardship.²⁷

In 2025 and beyond, nuclear will present a differentiated value proposition for a decarbonizing grid, where it can serve as a complement to renewables and provide a unique solution to power growth and load stability. Supportive energy policies, corporate partnerships, responsive value chains, and scientific advancement will be key to moving new technology into the mainstream. It will only be a matter of time before capital follows.

5. Artificial intelligence drives data center growth and efficiency

The rapid expansion in digitization and Artificial Intelligence (AI) has led to a surge in demand for data center capacity and power to drive them. A single large data center facility can demand a gigawatt or more of power, twice the residential electricity consumption of Pittsburgh in 2023.²⁸ Data center* power needs are expected to triple from 4% of total U.S. power demand today to nearly 12% in 2030.²⁹

The power ecosystem faces significant challenges in meeting the growing energy demands of data centers, including constraints on reliable power sources, sustainability, upstream infrastructure, on-site power equipment, and the availability of skilled workers to support infrastructure development.

Most large data center operators have public goals to reduce emissions and operate on carbon-free energy. However, data center operators do not control the pace of grid decarbonization and can experience long delays in carbon-free energy projects. Data center operators are instead focusing on efficiency measures within their control and using AI to drive advancements in cooling, resource allocation, and energy source optimization.

In 2025, as data center capacity and power demand driven by AI continues to exceed the supply of carbon-free energy, we expect the efficiency of data centers to become increasingly under the spotlight and for AI to continue to drive many of those efficiency gains.

Figure 2: AI efficiency measures implemented in data centers

AI Use Case	Example
Cooling	Meta has leveraged AI to optimize the amount of airflow supply into data centers for cooling purposes, reducing average energy consumption by 20% and water usage by 4% across various weather conditions ³⁰
Resource Allocation	Microsoft uses AI to dynamically adjust server usage, storage, and network resources based on real-time demand, creating efficient handling of AI workloads. This has increased efficiency across Azure to 80%-90% utilization at scale (from 50%-60% historically) ³¹
Energy Source Optimization	Google uses AI to shift the timing and data center location of non-urgent computing tasks so that more work is done when and where carbon-free energy is available or, in the case of demand response, away from when and where there is stress on a local power grid ³²

6. Dealmaking in the energy transition

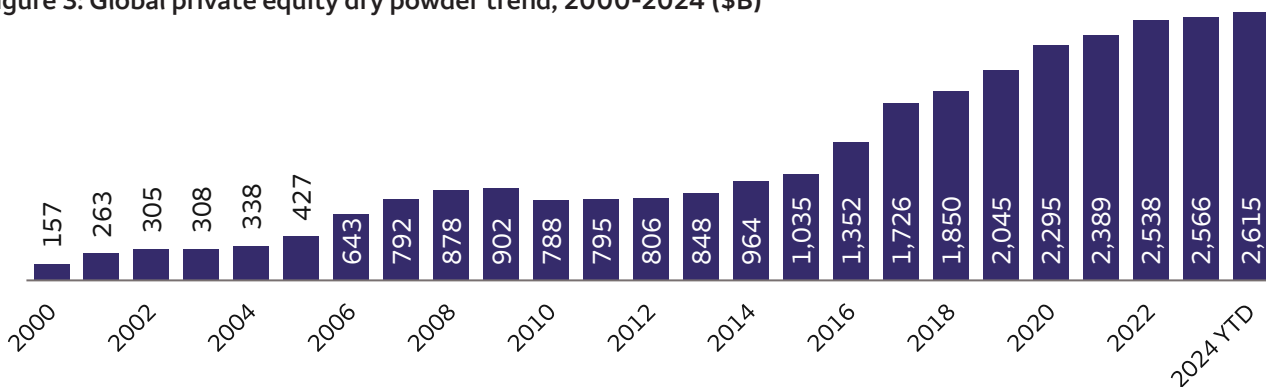
Despite slower activity in 2024, the 2025 outlook is positive for strong companies to enter into transactions with and succeed under larger corporate ownership, while capital markets also offer accessible exit strategies.³³

Corporate dealmaking activity in energy transition sectors in 2024 continued its slowdown compared to prior years as measured by deal count and total investment.³⁴ Companies across the sector have been facing persistent challenges brought on by the relatively cheap capital and inflated valuations of 2020-2021. While the Infrastructure Investment and Jobs Act (2021) and Inflation Reduction Act (2022) signaled that robust government support was forthcoming, delays in regulatory clarity and a high interest rate environment created concern for capital-intensive sectors. Post-pandemic supply chain disruptions further hindered their ability to meet high-growth forecasts. In response, many companies adopted more conservative growth strategies, though securing capital was still critical for survival. Successfully completed private capital raises were often led by existing investors tolerating flat or down

rounds. New money became increasingly elusive as investors prioritized risk mitigation and profitability.

Looking ahead, while some energy transition companies may face financial distress, others will hold more favorable prospects. The most resilient companies share common traits: cost-competitive and differentiated technologies, strong management teams experienced in navigating volatile economic cycles, and strategically aligned financial backing. Such companies are likely to find success under the ownership of larger industry players, which can provide warranties and assurances increasingly demanded by customers. Private equity firms, armed with record levels of dry powder, are also eyeing opportunities.³⁵ The wave of investments made during 2020-2021 has created a significant backlog of companies seeking public monetization, presenting another potential exit path. Additionally, the new U.S. administration's expected focus on deregulation, domestic manufacturing, and energy security is seen as a tailwind by many within the energy transition, fostering a more favorable corporate dealmaking outlook for 2025.

Figure 3: Global private equity dry powder trend, 2000-2024 (\$B)



Sources: Bloomberg, Sightline Climate, S&P Global

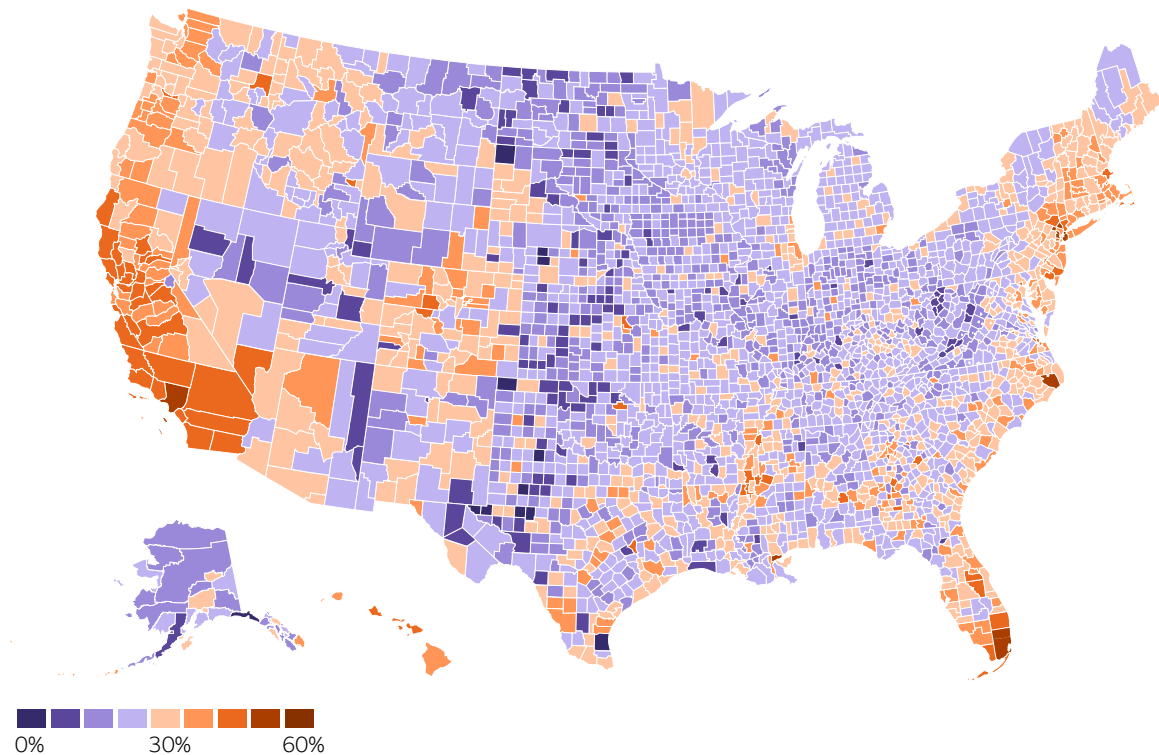
7. Climate risk contributes to housing burden

From 2019 to 2023, the cost of natural disasters in the U.S. totaled over \$603 billion.³⁶ The increasing frequency and severity of climate-related catastrophes are each driving higher insurance premiums and reduced coverage levels across the U.S., exacerbating the housing affordability crisis.

In 2023, nearly half (49.7%) of the 42.5 million renter households in the U.S. were considered housing burdened, meaning more than 30% of income is used for mortgage or rent costs.³⁷ While renters had a higher median housing cost as a percentage of income (31%) compared to homeowners (21.1% with a

mortgage and 11.5% without a mortgage), 18.8 million homeowners were considered housing burdened.³⁸ The affordability challenge is particularly acute in urban and coastal regions, where the proportion of households that are housing burdened in some instances exceed 50% (see chart below). These areas often face elevated climate risk exposure due to high population density, natural disaster hotspots, and infrastructure vulnerability. Regions with the highest housing burden rates overlap with states where homeowners' insurance premiums increased the fastest in 2023.³⁹

Figure 4: Map of housing burdened households in the United States



Sources: U.S. Census Bureau and S&P Global Ratings

Rising insurance premiums are a tangible way climate change directly strains household finances. According to an NYU Stern School of Business research paper, the impact of climate change on mortgage delinquency, which constitutes 72% of household debt, is troubling. When insurance premiums increase by one standard deviation, the probability of mortgage delinquency rises by 16%; the effect is three times larger for non-jumbo compared to jumbo mortgages.⁴⁰

These challenges have also extended towards the multifamily property sector. Between 2020 and 2023,

multifamily insurance rates increased by an average of 12.5% annually.⁴¹ Stewards of Affordable Housing for the Future, a coalition of twelve of the U.S.'s leading affordable housing providers, saw their members' insurance premiums rise 10% to 40% year-over-year during that same period.⁴² Escalating insurance costs reduce net operating income, leading to lower property values and fewer new housing starts, especially for affordable housing where owners in many cases cannot increase rents commensurately. A 2023 National Multifamily Housing Council survey found that over 90% of affordable housing providers indicated they

would need to adjust their operations to manage rising insurance costs, with more than half saying they would decrease or postpone investments in both existing housing stock and new housing projects.⁴³

The combination of elevated construction cost, scarcity of inventory, frequent and intense climate disasters, and rapidly increasing insurance premiums is a perfect storm for housing in the U.S.

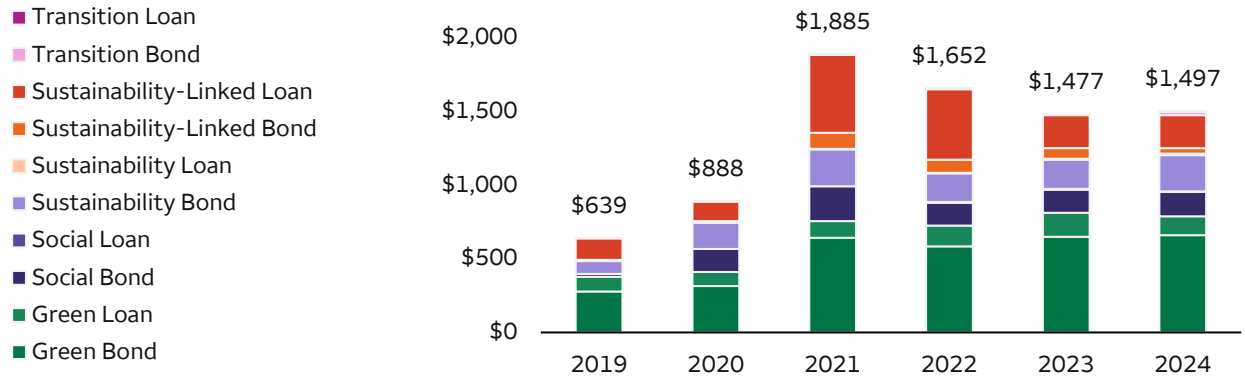
8. Maintaining momentum in global sustainable debt markets

Despite the shifting political pendulum in the U.S., global sustainable debt markets have demonstrated steady growth as investor demand continues to present upside to labeled funders. Total issuance is on pace to exceed \$1.6 trillion in 2024, surpassing 2023 volumes, reflecting resilient market demand (see Trend 9 for investor commentary). The Americas

region and the U.S. specifically recorded robust year-over-year growth of 3% and 16%, respectively, while the EMEA market saw a modest decline driven by a drop in sustainability-linked structures and energy deals but supported by increased activity in green bonds and from utilities.

Figure 5: Global sustainable debt issuance (2019-2024)

Global Sustainable Debt Issued (\$bn) by Format

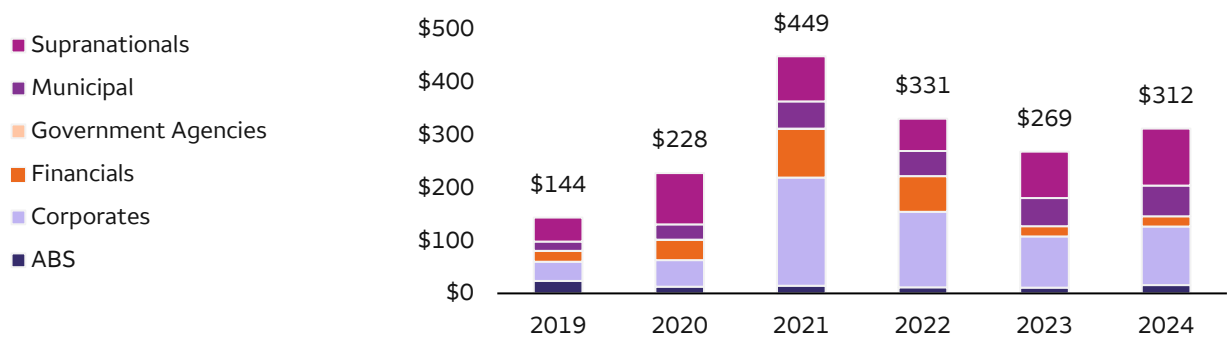


Source: BloombergNEF as of November 30, 2024

Green bonds continue to dominate the market, accounting for 38% of total sustainable debt supply. Sustainability-linked lending has remained steady, expected to close flat year-over-year.

Figure 6: U.S. sustainable debt issuance (2019-2024)

U.S. Sustainable Debt Issued (\$bn) by Issuer Parent Subsidiary



Source: BloombergNEF as of November 30, 2024

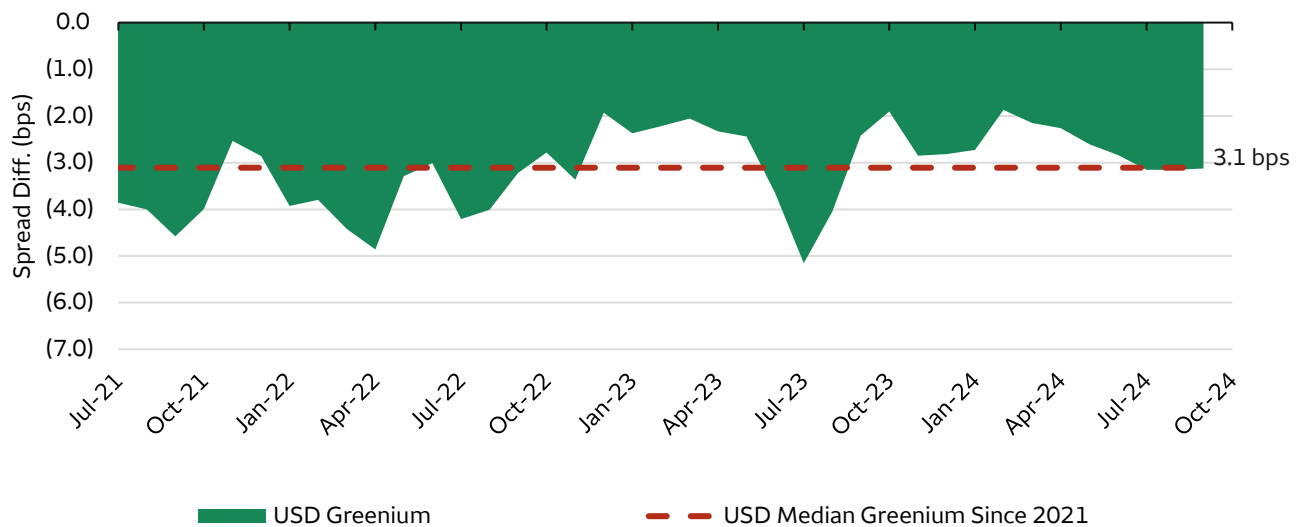
In the U.S., sustainable debt issuance has exceeded \$210 billion, marking an 8% increase over 2023 levels.⁴⁴ Growth was driven largely by corporates, asset-backed securities, and municipal issuers, each posting a 9% year-over-year increase. Investment Grade labeled corporate issuance showed notable strength, with bond supply growing by 15% year-over-year, supported by industrials and a return of utilities to the U.S. market. In Europe, EUR-labeled IG issuance

saw a 10% increase year-over-year, largely driven by real estate and the utility sector.

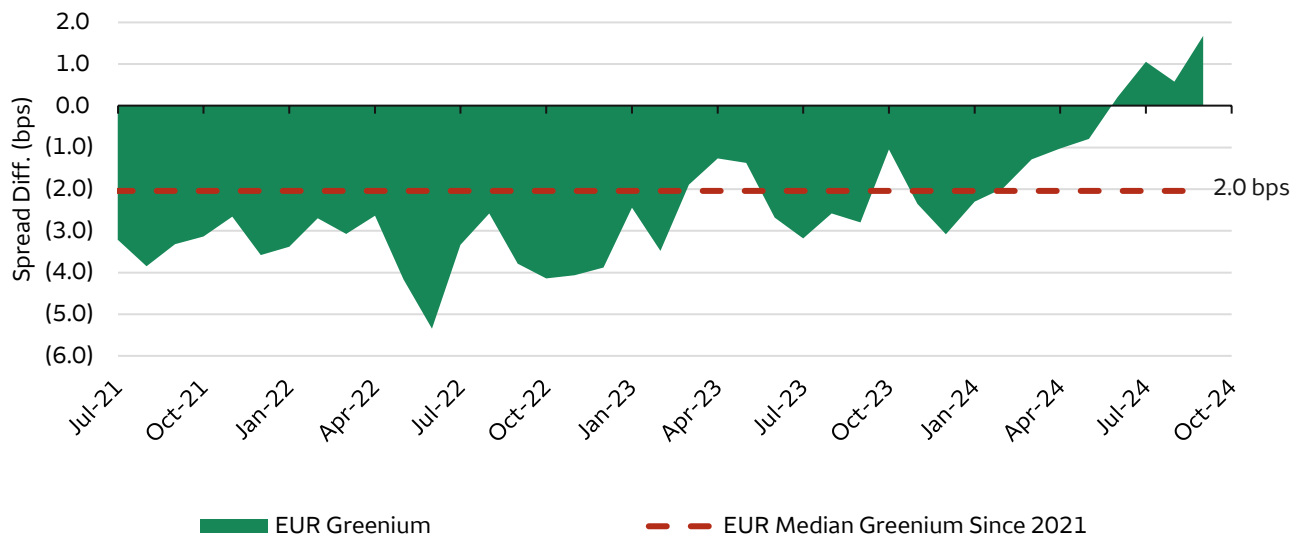
Secondary market performance revealed a regional divergence in the “Greenium” or trading advantage of labeled green bonds relative to their conventional equivalent, with the USD Greenium widening to 3 basis points, and the EUR advantage compressing during the same period. This difference may be explained by the “scarcity premium” of USD labeled deals relative to the EUR market.

Figure 7: “Greenium” Trading Advantage (2021-2024)

USD IG Corp. “Greenium” – Secondary Trading Advantage of Paired Green vs. Conventional Bonds



EUR IG Corp. “Greenium” – Secondary Trading Advantage of Paired Green vs. Conventional Bonds



Sources: Bloomberg and Wells Fargo Securities, LLC | Based on 112 & 238 pairs of USD & EUR IG Green Bonds and “like” conventional bonds | Trading data as of November 30, 2024

In 2025, sustainable debt issuance is expected to maintain its current trajectory, representing about 3% of USD and 25-30% of EUR investment-grade market totals. Persistent investor interest and favorable policy frameworks will continue to support market growth.

Infrastructure investment presents upside potential for global volumes as growing energy demand will require a diverse set of funding sources and technologies, including nuclear (see Trend 4) and an overall focus on resiliency and security (see Trend 1).

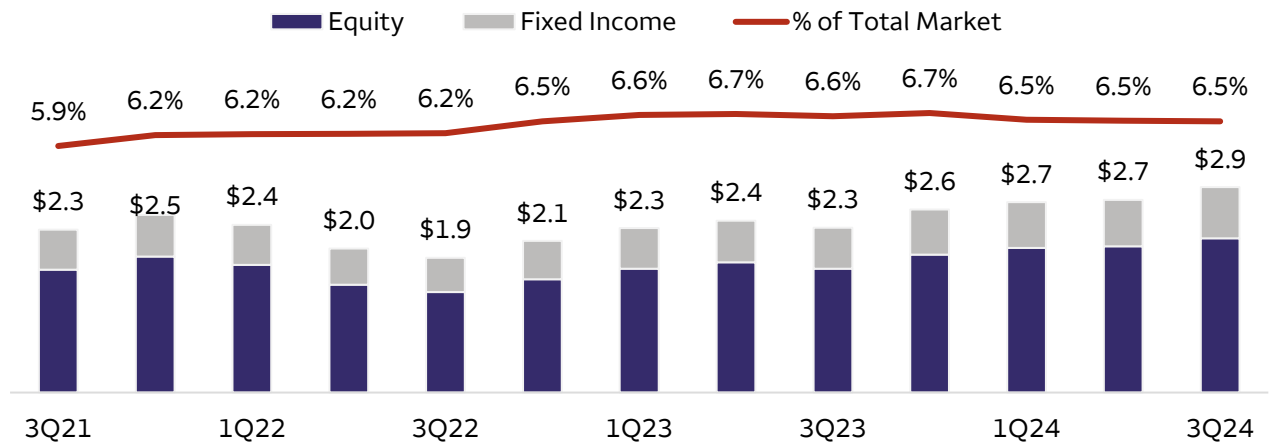
9. Sustainable investing: indexes recover in 2024, but face uncertainty in 2025

Global sustainable funds achieved record assets under management (AUM) in 2024, reflecting net inflows and overall value appreciation.⁴⁵ After a choppy 2023, flows recovered globally through much of 2024, as outflows decelerated in the U.S., Japan, and Canada. Europe remains the world's largest market for sustainable funds, and the U.S. market appears to

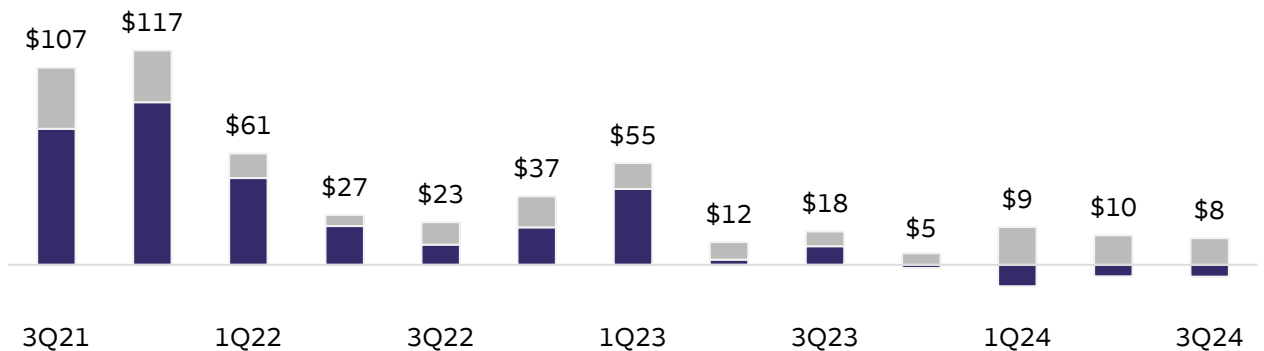
be moving toward market stabilization. In the third quarter, sustainable assets across Equity and Fixed Income totaled \$2.9Tn, representing a record high for this asset class and 6.1% of total market assets. Between new guidelines coming into effect for ESG fund names and concerns around greenwashing, volumes in Europe could face some pressure in

Figure 8: Sustainable Asset Trends (2021-2024)

Net Sustainable Assets (\$ in Trillions)



Net Sustainable Asset Fund Flows (\$ in Billions)



Source: Morningstar as of December 13, 2024

2025. In the U.S., however, sustainable investing is projected to increase, driven by a combination of new mandates and higher allocations from existing asset owner clients.⁴⁶ The changing political climate could weigh on the market, but retail investors focused on sustainability may double down to offset a potential pullback by the government.

The phase-in period for new requirements on the use of ESG-related terms in fund names in the UK and EU end in April and May 2025, respectively, and Morningstar has identified ~4,300 EU funds that may fall within scope. The guidelines are expected to drive more funds to rename or remove reference to ESG concepts altogether.

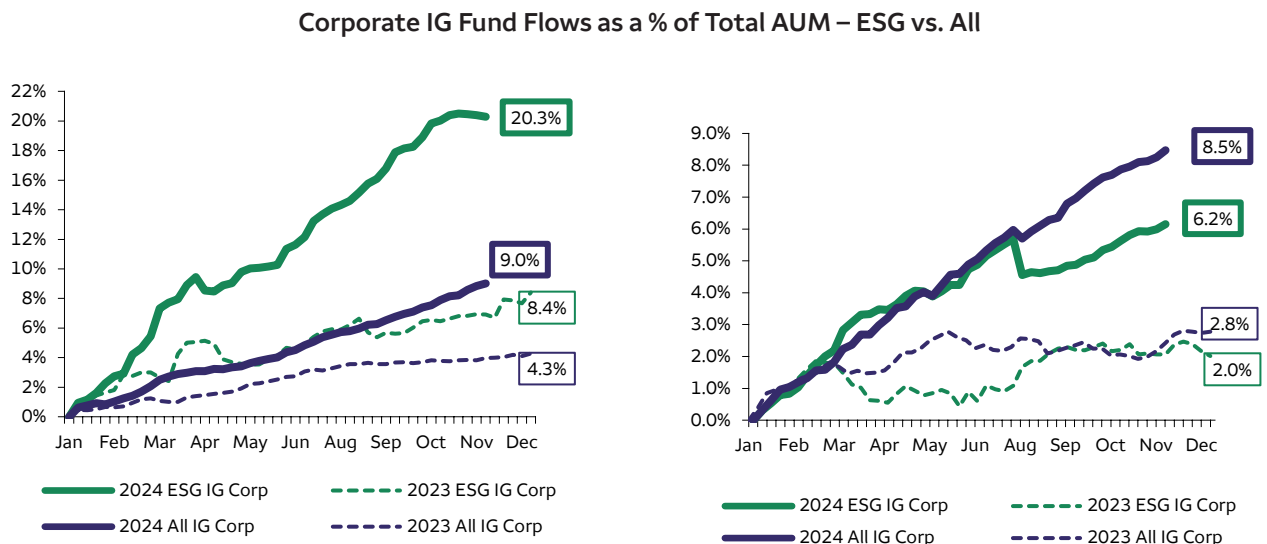
Sustainable investment has evolved from exclusionary/negative screens to thematic and is now shifting

toward a greater focus on net zero alignment. AUM in sustainability-themed equity ETFs grew 18% through the end of November 2024, similar to 2023. While ESG ratings will remain a common screen, particularly for the passive portion of the market, we also see a growing shift by investors to seek quantifiable environmental and social impact, sound corporate risk management, and practical, strategically aligned transition pathways.

On the debt side, sustainable fixed income flows have remained robust, outpacing broader market flows on a relative basis in North America.⁴⁷ This continued demand from the buy-side supports positive execution dynamics for labeled bond issuers.

Sustainable investment offerings are seen as a key differentiator by asset managers as they seek

Figure 9: Corporate IG Fund Flow Trends



Sources: Bloomberg and Wells Fargo Securities, LLC | Trading data as of December 4, 2024

mandates from asset owners. According to Morgan Stanley’s Institute for Sustainable Investing, more than 80% of global asset owners surveyed say they require asset managers to have a sustainable investing policy or strategy in place. Nearly 90% of institutional investors stated that their sustainable investing

activities are driven by client and external stakeholder demand. Other drivers for asset managers to adopt such policies or strategies include reducing portfolio risks, addressing long-term challenges, and unlocking opportunities for financial performance.

10. Sustainability reporting continues to evolve

Information for stakeholders has been long viewed as a key cog in the sustainability engine. A pivot from a pure, perhaps Friedman-based view of capitalism, towards a form of ‘conscious capitalism’ was expected to step up a gear with the right information in the right hands. Friedman himself noted that a corporate executive is responsible for making as much money as possible while conforming to the basic rules of society.⁴⁸ If those rules require consideration for environmental and human rights impacts, then the stakeholders of society, shareholders, and employees should want to know how the corporate is conforming.

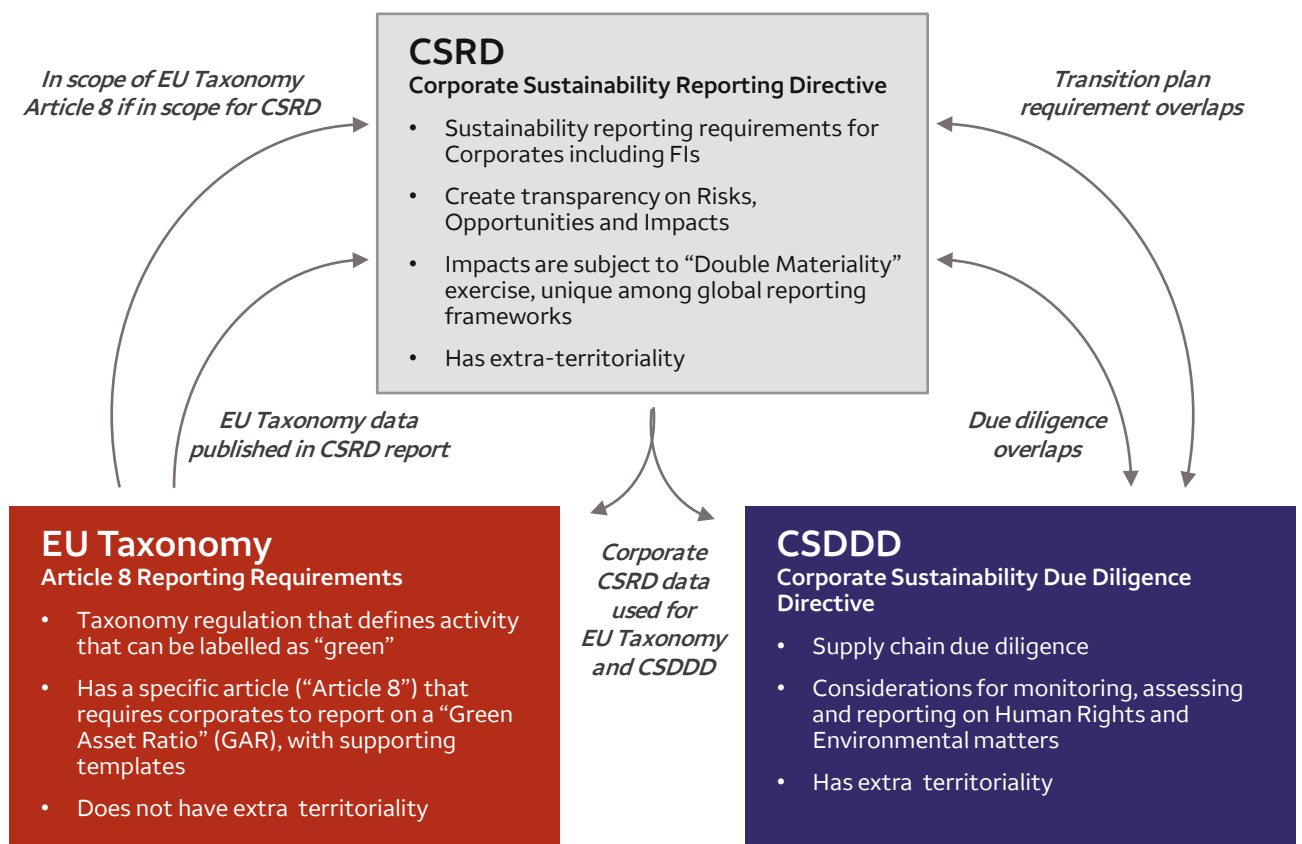
In the U.S., we have approached the starting gate with the SEC adopting – then pausing – disclosure requirements on climate for public companies and public offerings. In launching the proposals, Gary

Gensler as SEC Chair cited what Franklin Roosevelt called “complete and truthful disclosure.”⁴⁹ For a topic that has been politically polarized, that progression appears to have stalled.

The European Union has taken the boldest and deepest steps and appears to have now hit the realization that endless reporting is not the answer. Supported by a balancing block of 15% Green party representation, the last EU administration created an acronym soup of requirements. SFDRⁱⁱ created labels for funds, the EUTⁱⁱⁱ engaged over 200 industry specialists to technically define activity that is green for reporting, while CSRD^{iv} requires firms to assess and report their external impacts on society and the environment, and finally CSDDD^v requires supply chain due diligence and reporting of that work.

Figure 10: Potential Sustainability Omnibus Regulation

Sustainability Omnibus Regulation



Sources: European Commission and Wells Fargo Securities, LLC

ⁱⁱ SFDR = Sustainable Finance Disclosures Regulation

ⁱⁱⁱ EUT = European Union Taxonomy Regulation

^{iv} CSRD = Corporate Sustainability Disclosures Regulation

^v CSDDD = Corporate Sustainability Due Diligence Directive

Global competitiveness (see Trend 2) is now potentially a bigger driver towards electrification than political posturing, and against this, the EU appears to be realizing that it is losing the game. Mario Draghi (former President of the European Central Bank) has bluntly put on paper what many have realized before: the EU is becoming bureaucratic and creating burdens that hold innovation back.

As the new EU administration settles in, the Commission President, Ursula von der Leyen, is

seeking ways to keep everyone onside. Ursula von der Leyen has said the EU will look to reduce reporting burdens, evaluate what “is agreed is too much today” and specifically cited “the triangle of Taxonomy, CSRD and CSDDD,”⁵¹ for which she described creating an omnibus regulation sitting above all three and rationalizing the overlap. The intervention in the short term may not help companies already navigating and implementing these existing complex requirements, but rather signals the inflection.

“We claim to favour innovation, but we continue to add regulatory burdens onto European companies.”⁵⁰

— **Mario Draghi**
(former President of the European Central Bank)

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