Driving positive change

2025 Sustainable Trends Outlook

February 2025

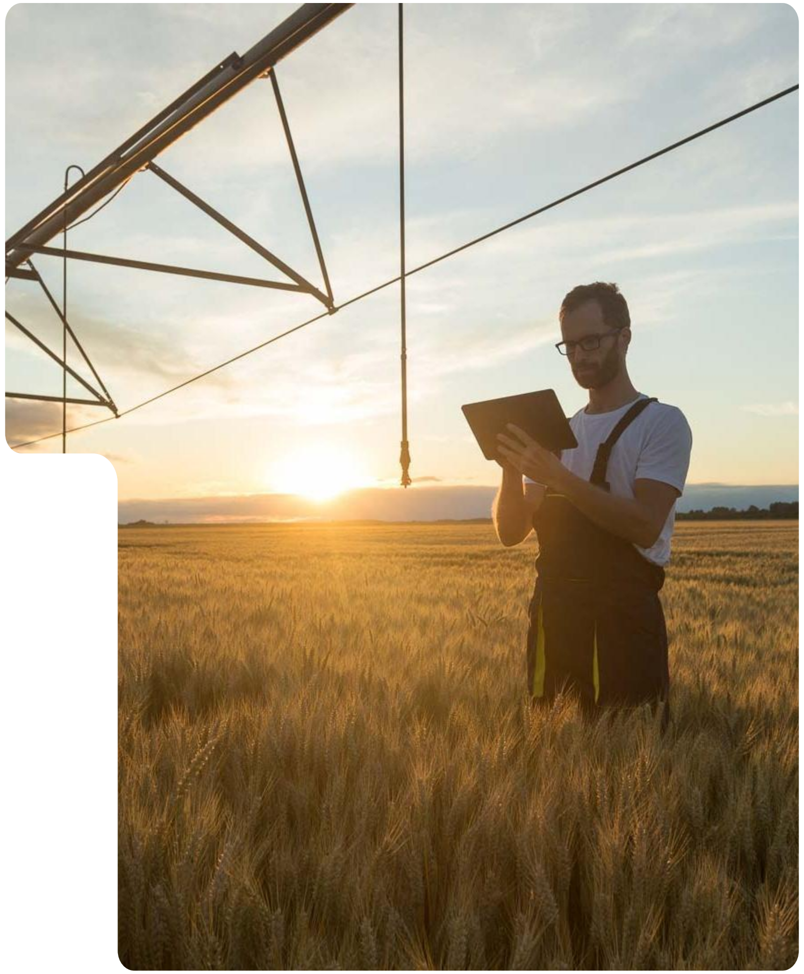
APEX | Holtara

2025: A pivot point for sustainability

2025 will be a milestone year for sustainable finance. After assessing incoming headwinds and tailwinds, our team is **positive about the direction of travel**—even if the year turns into a roller coaster.

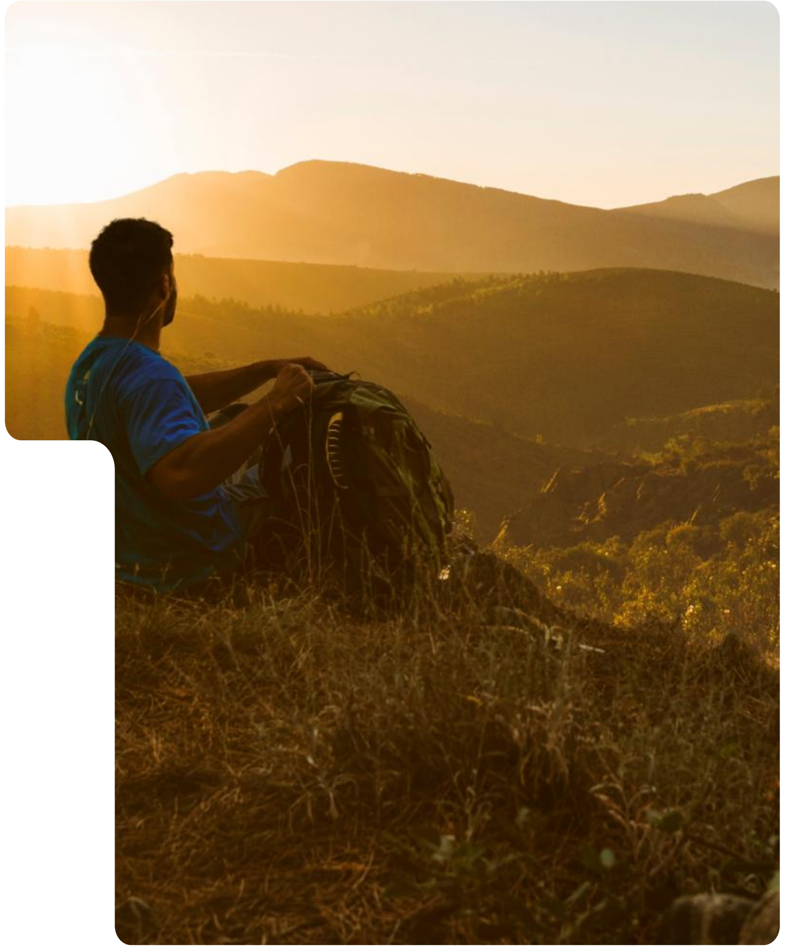
Holtara's sustainability experts looked at the evolving geopolitical landscape, intertwined energy demand and decarbonisation imperatives, the radical power of AI, and insights from investor conversations to separate true signal from noise. We identified **eight key trends** that we think will impact private market investors and companies. These fall into three broader categories:

1. **Headwinds or tailwinds?** The political situation in the US and the simplification agenda in the EU could lead to a re-focus on sustainability action by corporates and investors alike, regardless of which acronym is used to define it
2. **Investors** will respond by sharpening the link between sustainability and financial value creation
3. **New frontiers** will open due to the power that AI, tech, and new financial instruments have to advance financially impactful sustainability goals



Simpler EU sustainability reporting will drive greater corporate sustainability ambition

The ESG Omnibus Simplification Package is an EU proposal to streamline ESG-related rules, including CSRD, SFDR, and the EU Taxonomy. While there are concerns that this could reduce sustainability ambitions, simplification could potentially drive more action, for example, through more straightforward adherence to the EU Taxonomy.



We offer complete CSRD services from initial training and scoping through to double materiality assessments and reporting.

More on Holtara's **CSRD solutions**.

Contact us:
sales@holtara.earth

The simplification will present both benefits and complications

Simplifies reporting efforts, reducing the administrative burden for businesses and freeing resources for action

Eliminates overlaps and contradictions between CSRD, SFDR, and EU Taxonomy, facilitating alignment

Could drive focus from regulatory compliance to value creation, with greater emphasis on sustainable finance instruments (EU Green Bonds)

Creates **uncertainty**, posing challenges to businesses aligning with current deadlines

Delays implementation, **disrupting ongoing sustainability efforts**

Risks **diluting sustainability requirements**, weakening climate and human rights protection

We will be following: the final language of the Omnibus Regulation, whether companies stay the course or hold off on their report preparation, and the data quality produced by early reports

New SFDR categories: short-term confusion, medium-term global alignment

The European Commission is reviewing the Sustainable Finance Disclosure Regulation (SFDR). Proposals have introduced a product categorisation scheme that appears to align more closely with the UK's SDR. A change of this magnitude will cause confusion initially, but the streamlining of EU regulation will ultimately make SFDR more useful.

Our regulatory hub team can support you in navigating and preparing for this upcoming regulatory change by crafting future-proof strategies tailored to investment needs.

More on Holtara's **regulatory team**.

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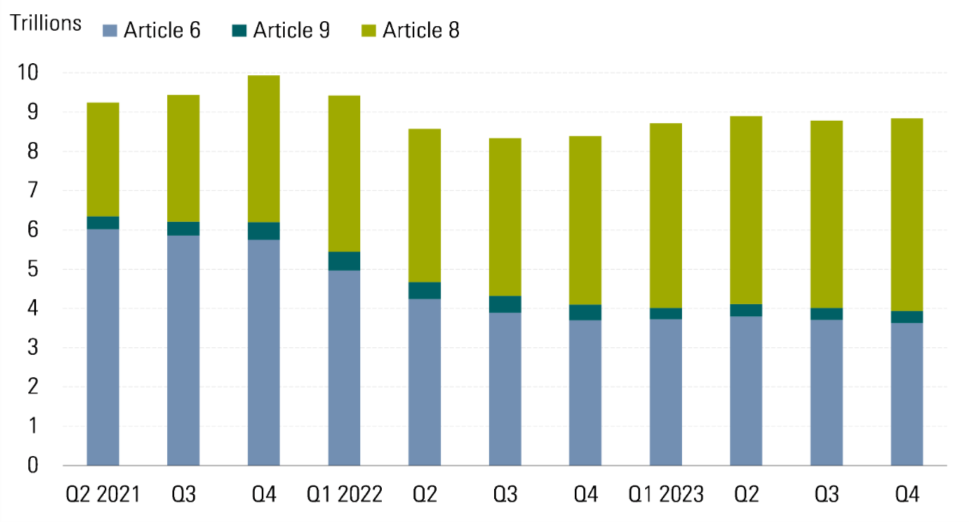
Trillions in investment will be affected[1]



[1] Morningstar

Proposed categories

Sustainable:
Contributions through taxonomy-aligned investments or sustainable investments with no significant harmful activities

Transition:
Investments or portfolios supporting the transition to net zero and a sustainable economy

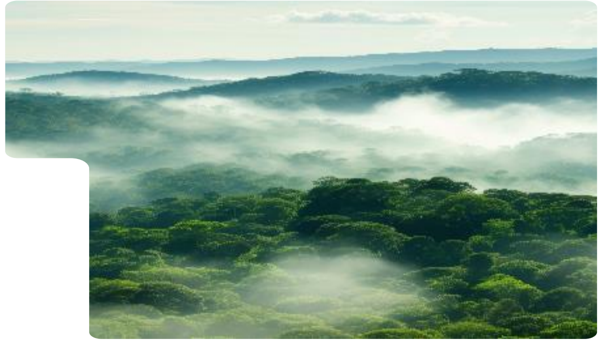
ESG collection:
Excluding significantly harmful investments/activities, investing in assets with better environmental and/or social criteria

Unclassified products:
All other products

We will be following: the European Commission's new proposal to reform the SFDR framework by the close of Q2 2025, level of inflows and outflows into sustainable funds, and the changing EU political environment

Climate initiatives will advance in the US

The new US administration may not have carbon emissions reductions on the mind, but related trends reveal that emissions cuts remain possible and even likely. These initiatives will not be driven by environmental objectives but rather by business opportunities and market realities.



Our climate experts can support you in understanding this complex landscape, explore decarbonisation pathways, and analyse the implications of new technologies.

More on Holtara's **climate and carbon solutions**.

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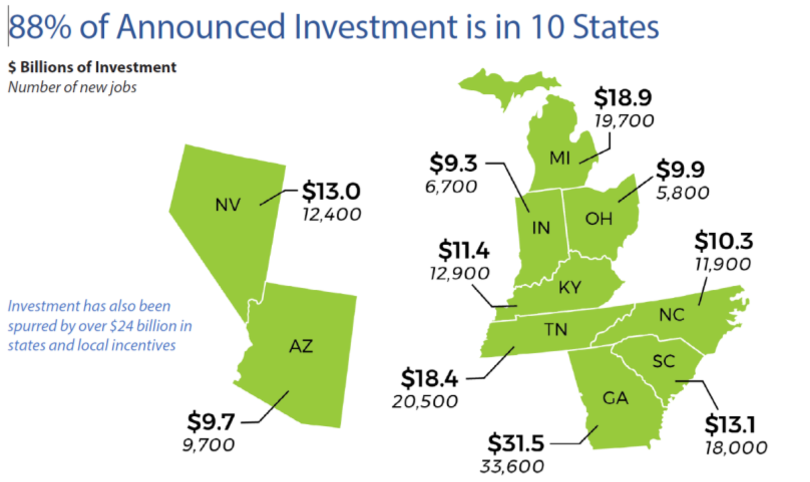

Inflation Reduction Act electric vehicle Investment is concentrated in states Trump won in 2024[1]

[1]Environmental Défense Fund [2]McKinsey [3] Tim McDonnell and Joseph Zeballos-Roig, Semafor

- AI will shape all sectors in 2025, as evidenced by the Stargate initiative. This will drive data centre energy demand up by 6x by 2030.[2] Renewable will be needed to fill the gap
- AI solutions will have exciting and profitable applications like data processing, energy, and supply chain efficiency
- Efforts to onshore driven by tariffs and protectionist policy will reduce transport distances and bring more business to comparatively efficient US manufacturing
- Congressional Republicans will want to keep Inflation Reduction Act investments in their districts, where the money is concentrated
- The Carbon Border Adjustment Mechanism (CBAM), in place in the EU, has fans in the US Senate and fossil fuel industry[3]

We will be following: the pace of increased US energy demand and implications for investor and corporate sustainability initiatives, the speed of legislative action given a razor-thin Republican majority in Congress, and whether the private and public sectors can coordinate effectively on AI

LPs will drive advancing ESG efforts despite changes to GP approaches

In 2025, ESG faces ongoing scrutiny, challenging its role in delivering measurable value creation and impact. This means holding GPs accountable, not based on virtue signaling, but on meaningful connection to financial value.

We can help guide LPs as they build and strengthen ESG strategies as well as GPs looking to collect and report on information in line with LP needs.

More on Holtara's **LP data solutions**.

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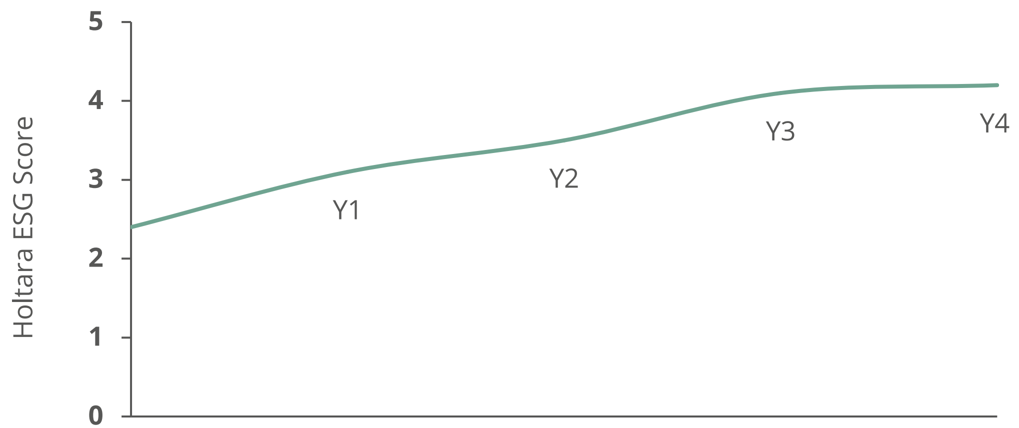
LP Sees Improvement of EP ESG Performance over Time[1]



In a time of ESG skepticism, LPs will be making the case for the value of ESG performance

[1]Holtara analysis

- ESG backlash is increasing, with sceptics questioning its financial relevance
- Heightened scrutiny over "greenwashing" calls for transparency and measurable outcomes
- LPs will more proactively evaluate GP performance annually to address scrutiny and foster progress
- Engagement with GPs will provide actionable feedback and set expectations for tangible results
- Strengthened LP oversight reinforces ESG's credibility and ensures long-term benefits for both investors and society

We will be following: whether asset owner industry cooperation continues to exceed asset manager efforts, which frameworks have staying power with LPs, and the continued ability of GPs to provide useful data to LPs

The number of companies using an internal carbon price will double, strengthening the link between sustainability and value creation

Over 1,000 companies currently set an internal carbon price. Driven by CSRD disclosures, we expect to see this increase rapidly in 2025. By incorporating emissions into decision-making, climate will move higher on the CFO agenda.

We have a dedicated carbon and climate team that can support you in footprint assessments, net zero strategies and climate risk analysis, all fully aligned to latest regulation and frameworks.

More on Holtara's
Climate and carbon services

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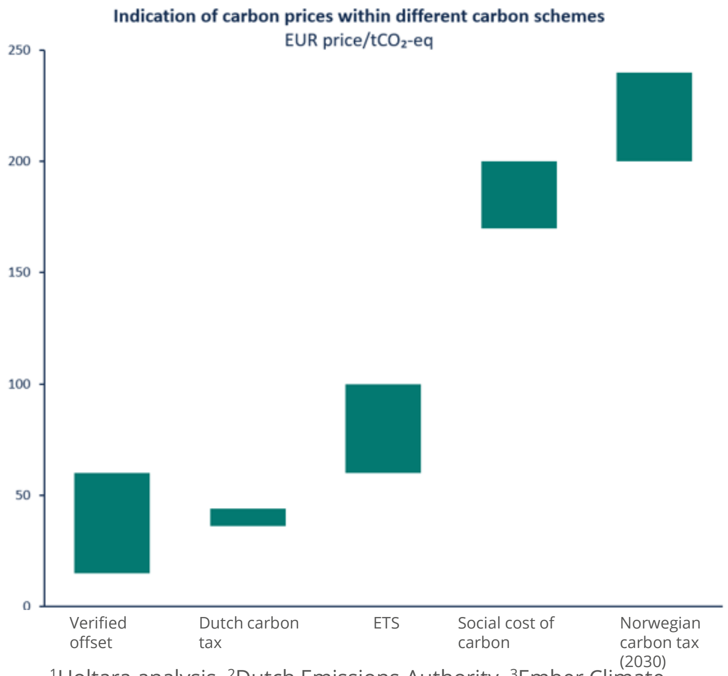
Carbon prices under various schemes



Notes:

Verified Offset[1]: in general, verified carbon offsets cost between 15-60 EUR/tCO_2. The average price of verified offsets is around 22 EUR/ tCO_2.

Dutch carbon tax: in 2022, the CO_2 price in the Dutch system is set at around 42 EUR/tCO_2.

EU ETS[3]: the CO_2 price in the ETS has fluctuated from 60 – 100 EUR/tCO_2 over the course of 2022.

Social cost of carbon (SCC)[4]: a recent publication in Nature estimated the social cost of carbon at around 180 EUR/tCO_2-eq.

Norwegian carbon tax[5]: The Norwegian government proposed a carbon tax that will gradually increase to 220 EUR/tCO_2 in 2030.

[1]Holtara analysis, [2]Dutch Emissions Authority, [3]Ember Climate, [4]Comprehensive Evidence Implies a Higher Social Cost of CO2

- The 'internal tax' on carbon will create a strong financial incentive to decarbonise, both operationally and through supporting carbon dioxide removal (CDR) programmes
- While carbon prices can differ significantly (see figure), we typically observe prices between 50-150 EUR/USD per ton
- Ultimately, the precise price is less important than the fact carbon will increasingly have real financial impact for companies

We will be following: the number of companies in scope for 2025 CSRD reporting publishing a carbon price and governance mechanism, how companies begin allocating the costs associated with emissions to operational decarbonization initiatives and/or offsets, and uptake across non-CSRD eligible companies (e.g., in Asia, the US, and smaller European firms)

Transition finance accelerates to reach at least 10% of the sustainable finance market by year-end

Companies around the world are decarbonising but are still a long way from being green. Helping them transition requires capital access, but so far, dedicated debt instruments have focused on already green activities. Transition finance instruments aim to fill this gap, and 2025 could be their breakout year.

Our team can help design and implement bespoke sustainable finance instruments tailored to specific investor needs.

More on Holtara's **sustainable finance services**.

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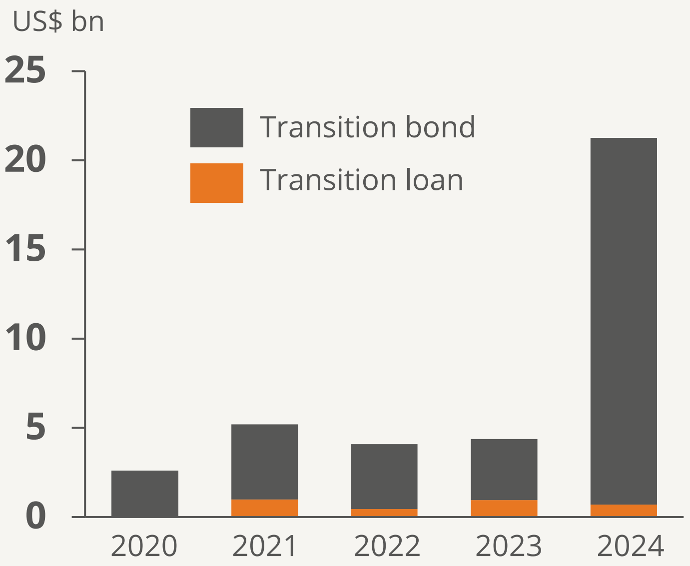
Transition instruments grew 5x in 2024



[1]Environmental Finance Data

- The EU will reform the SFDR regulation to include a "transition" labelling for funds
- The UK published its "Transition Finance Market Review" in October 2024, identifying a potential £1tn benefit to the UK economy from transition activities
- Japan issued the world's first sovereign transition bond in Feb 2024 and is planning ~130bn US of issuance in 10 years
- The International Capital Markets Association (ICMA) published a paper on transition finance in debt capital markets in 2024, highlighting it as a future growth area
- The Loan Markets Association (LMA) is working on a Transition Loan Principles document to be published in early 2025

We will be following: issuance volume of transition finance instruments, including transition loans and bonds, as well as the publication of relevant standards by ICMA, LMA and others

More funds will integrate nature risk into investment decisions

About 50% of the world's GDP depends directly on nature, according to the World Economic Forum. With climate change already firmly in the spotlight, nature, and biodiversity are rapidly emerging as critical issues in the financial sector.

Holtara can assist in setting a nature strategy, identifying risks, and creating transition plans for funds and companies.

More on Holtara's **nature-focused thought leadership**.

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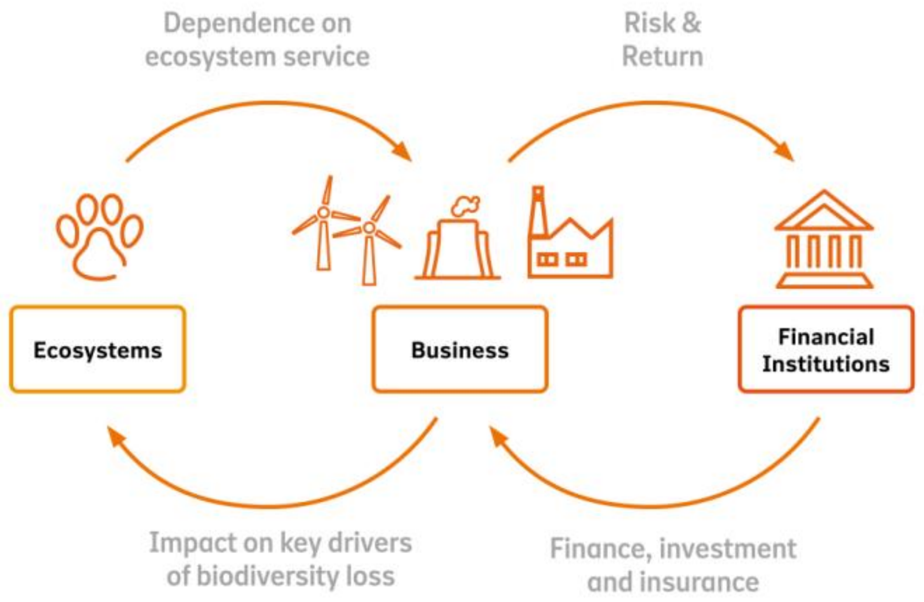
Nature-related dependencies and risks



[1] NN Group, 2024

- Financial institutions are beginning to recognise the importance of addressing nature-related risks. Many are engaging with clients to assess the impact of biodiversity and natural capital on their portfolios
- There is $44 trillion of economic value at risk
- Companies need to know their risks and dependencies on nature
- Regulation (CSRD) and guidance (TNFD) are putting the spotlight on nature and biodiversity
- 194 financial institutions have committed EUR 23 trillion in combined assets to be monitored on nature risk and impact

We will be following: financial impact of natural disasters on portfolios, the quality of early TNFD-aligned reporting, and corporate approaches to nature-related risk mitigation planning

AI and Tech developments will improve sustainability data

Linking sustainability and value creation, growing and shifting assurance/regulatory requirements, and greenwashing risks will usher in the next leg of the sustainability journey: auditable data quality. AI and tech developments will make the collection and validation of data easier and more seamless.

Our platform offers a comprehensive "frictionless" ESG data collection and validation offering.

More on Holtara's **platform solutions**.

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- Sustainability data is still often stuck in isolated spreadsheets and questionnaires, with the collection process creating friction across stakeholders
- Accelerating sustainability assurance requirements and regulatory/reputational risk management raise the bar on data quality. The link between investable and financially impactful data and data quality is intensifying
- AI is poised to revolutionise the ESG data space—but still can't be relied upon for accuracy. Sustainability data experts work with AI to produce better outcomes faster

We will be following: the increased use of integrated ESG data lakes, how AI-enabled capabilities work together with human subject matter expertise, and whether AI regulation can keep up with the pace of change

Thank You!

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