FLEXSTONE PARTNERS 20 YEARS

AN AFFILIATE OF NATIXIS INVESTMENT MANAGERS

SUSTAINABILITY

NEWSLETTER – MAY 2025

CONTENT

SUSTAINABILITY REGULATION
MAY UPDATE – EUROPE

01 The ECB warns the EU against removing 80% of companies from mandatory sustainability reporting

On the 8th of May 2025, **The European Central Bank (ECB)** issued a strong warning to the European Commission regarding its proposed **Omnibus I package** – a proposal for postponement and amendments of the CSRD and CSDDD. While welcoming the goal of simplifying requirements for companies, the ECB warned that some of the Commission's plans could significantly increase risks for investors, the economy and the EU's sustainability goals. Contrary to the Commission's proposal, which removes 80% of companies in the CSRD's scope, **the ECB recommends mandatory sustainability reporting** requirements for companies with 500 or more employees.

The ECB suggested to retain the key data points related to climate change, biodiversity, and ecosystems, as these are particularly essential for assessing and managing physical and transition risks for companies and financial institutions. The ECB also called for retaining sector-specific ESG reporting guidelines and suggested maintaining mandatory disclosures for smaller companies under tailored frameworks.

The central bank concluded that ESG transparency and sustainability data are essential to meeting the EU's long-term climate goals and must not be compromised under the guise of regulatory simplification.

Go to the full opinion from the ECB

02 Flexstone's position on the SFDR Review

The European Commission launched a Call for Evidence to inform its impact assessment for the simplification and review of the SFDR, which closed on the 30th of May. Flexstone's position to ensure the success of the SFDR in scaling up sustainable finance is focused on:

- Ensuring a distribution process that makes sense for both asset managers and retail clients to drive inflows of capital to sustainable investment products:
  - The MiFID and IDD frameworks should be better suited to the realities of retail clients and are consistent with the reviewed SFDR product classification.
  - The MiFID/IDD questionnaires lead to the establishment of client ESG profiles based on each client's interest in ESG issues. The ESG profile can then be used to determine minimum portfolio allocations to new SFDR categories.
- Tailor the review of the SFDR to provide clarity to clients so that they can understand what each product is doing and make sound investment decisions. New product categories should be market and consumer tested, provide a transition category to address key challenges faced by the European economy, and take into consideration nuances between asset classes when defining product categories & minimum criteria (i.e., in the case of private assets).

Revision of EU rules on SFDR

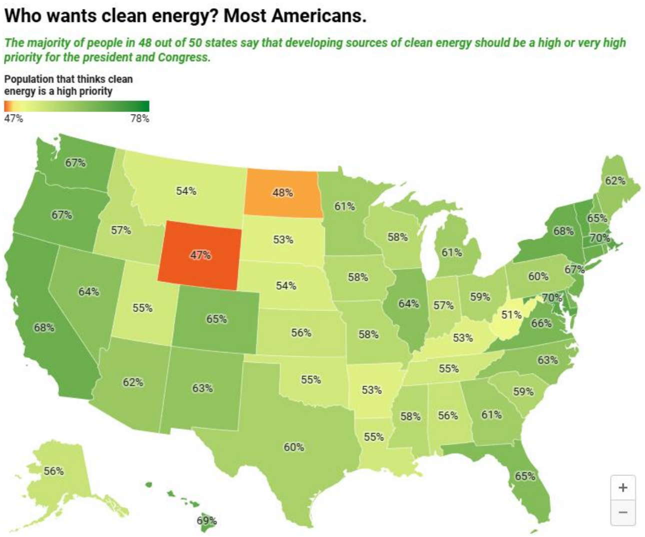
SUSTAINABILITY REGULATION
MAY UPDATE – US

03 Trump Administration Cancels $3.7 Billion Awards for Clean Energy Projects

The U.S. Department of Energy (DOE) on May 30, 2025, **canceled $3.7 billion** in awards from its Office of Clean Energy Demonstrations, mainly for **carbon capture and decarbonization projects** ($540 million in grants). Affected companies include PPL Corp., Ørsted and Exxon Mobil Corp according to DOE.

- The Office of Clean Energy Demonstrations was launched in 2021 by the DOE, aimed at supporting clean energy technology demonstration projects in areas including clean hydrogen, carbon capture, small modular reactors, and grid-scale energy storage, among others.
- The Trump administration has continued to reverse the Biden administration's efforts to invest in the energy transition and scale clean energy and is seen as a 'major step backward in the nationwide deployment of carbon management technologies' according to Jessie Stolark, the executive director of Carbon Capture Coalition.

However, **65% of Americans believe that developing clean energy sources should be high or very high priority** for the president and congress, including majorities in most red states (December 2024 poll by the Yale Program on Climate Communication).



Polling from August 2024 by the Yale Program on Climate Change Communication and the George Mason University Center for Climate Change Communication. Image Source: Yale Climate Opinion Maps, https://yaleclimateconnections.org/2025/06/clean-energy-is-popular-even-in-red-states-senators-might-block-it-anyway/

Go to the full article

SUSTAINABILITY REGULATION
MAY UPDATE – ASIA

04 India Launches New Regulations for Social, Sustainability, Sustainability-Linked Bonds

On June 5, 2025, **the Securities and Exchange Board of India (SEBI) has introduced a new framework for ESG debt securities**—excluding green bonds—to boost transparency, curb purpose-washing, and align with global standards. **Categories include social, sustainability, and sustainability-linked bonds (SLBs)**, with strict disclosure and reporting requirements for issuers. The new framework includes **disclosure requirements before and after issuance** of the securities, as well as **requirements for the use of third-party reviewers** for the disclosures and to assess alignment with standards. Under the new framework, bonds can only be labelled as Social, Sustainability, or SLBs if they fund projects **aligned with recognized standards** or fall under definitions set out by organizations such as the ICMA Principles or Climate Bond Standards. Core requirements for the three categories include:

Social Bonds: Debt securities whose net proceeds are exclusively applied to finance or refinance projects with positive social outcomes.

Typical Use Cases:

- Affordable and social housing developments
- Community health and telemedicine facilities
- Educational infrastructure in underserved regions
- Employment generation programs for marginalized groups

Example: A municipal authority issues a ₹500 crore social bond to build low-cost homes for urban migrant workers.

Sustainability Bonds: Hybrid instruments where proceeds are allocated to both environmental and social projects under a single issuance.

Typical Use Cases:

- Waste-to-energy plants that also create local jobs
- Solar-powered water purification systems in rural schools
- Public-private partnerships for sustainable agriculture and farmer welfare

Example: A corporation issues a ₹750 crore* sustainability bond, funding half the proceeds to a solar farm (green) and the remaining to vocational training centers (social).

(*) A crore is a unit in the indian numbering system equal to 10 million.

Sustainability-Linked Bonds (SLBs): Instruments whose financial or structural characteristics (e.g., coupon rate) vary depending on the issuer's achievement of predefined Sustainability Performance Targets (SPTs). **Key Features include:**

- **KPIs & SPTs:** issuers select KPIs and set measurable targets (e.g., carbon emissions)
- **Step-Up/Step-Down Clauses:** If targets are not met by specified dates, bond coupons may increase.
- **Reporting:** regular disclosure to monitor KPI performance and explain any deviation.

Example: A manufacturing company issues an SLB tied to a 20 percent reduction in water usage intensity over five years. If the target is missed, the coupon steps up by 25 basis points.

Go to the ESG framework of SEBI

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ESG MARKET INSIGHTS

01 Environmental concerns influence Gen Z and millennial behavior on shopping and working

Deloitte’s 2025 Gen Z and Millennial survey on growth and the pursuit of money, meaning, and well-being found that these generations want purpose-driven work, or the resources to drive change outside of work. **In 2030, Gen Z and Millennials will represent 74% of the workforce**, making it important for businesses to understand their values in order to reduce turnover and retain talent. Key findings from 2025 include:

- **Two-thirds** say that they have felt worried or anxious about the environment in the past month, with **65% of Gen Zs and 63% of millennials** saying that they are **willing to pay for more sustainable** products or services.
- Supporting the mental well-being of workers is should start with addressing the root causes of workplace stress. 40% of Gen Zs and 34% of millennials say **they feel stressed / anxious all the time** with one-third among them saying **their job is a major source of stress** due to long working hours, lack of recognition, and toxic workplaces.
- **The cost-of-living crisis** is driving financial insecurity among Gen Zs and millennials. More than half of both generations' live paycheck to paycheck.

Go to the full Deloitte survey

02 More than 99% of Walmart Shareholders voted to reject an Anti-DEI Proposal

Walmart shareholders voted to reject an anti-DEI proposal at their annual meeting few days ago. 100-0 percent, in round numbers. The proposal was brought by a conservative group called **the National Center for Public Policy Research (NCPPR)**, it asked Walmart to explain why the company didn't revise its DEI programs until activist Robby Starbuck confronted them in Nov 2024 about their "wokeness“. NCPPR claimed Walmart has not ended its DEI programs, but rather, repackaged them.

Following similar rejection results at major U.S. companies (Apple, Amazon, Deere and Goldman Sachs), the vote marked the latest in a series of anti-DEI proposal rejections in the US.

The retail giant continued its support for the LGBTQ+ community by selling merchandise for Pride month and remained on creating an environment for all of their associates and their customers, message from Donna Morris, Walmart EVP and Chief People Officer.

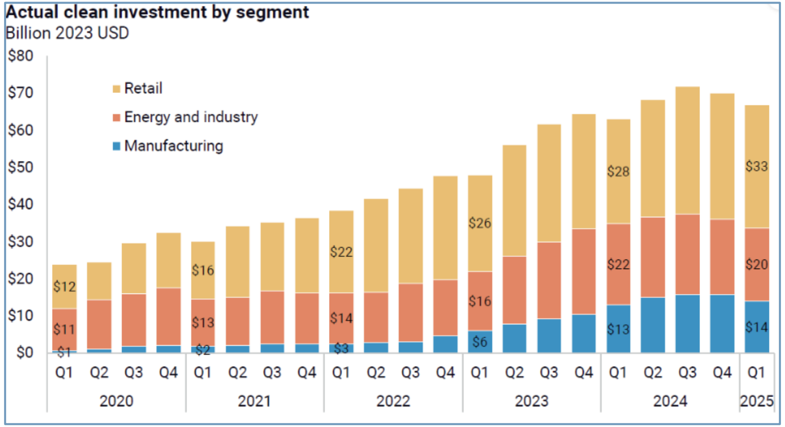
Go to the full Proposal

ESG MARKET INSIGHTS
CLEAN INVESTMENT MONITOR Q1 2025

03 Clean energy & transportation investment in the United States totaled $67.3 billion (1/2)

Clean investment continues to represent a significant share of US private investment, accounting for **4.7% of total private investment** in structures, equipment, and durable consumer goods in Q1 2025.

Nearly half of the total investment activity **($33.5 billion)** was driven by **retail consumer purchases and installations** of clean technology, this segment saw **17,4% growth** compared to Q1 2024, though investment declined 2.2% from the prior quarter. Investments in manufacturing were up 7.7% relative to Q1 2024 while investments in utility-scale **clean electricity** and **industrial decarbonization technologies declined by 7.7%** from Q1 2024, but stayed roughly flat compared to Q4 2024.

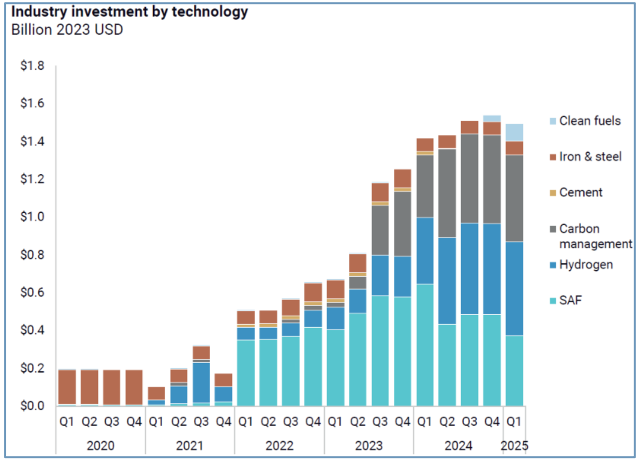


Source: Rhodium Group/MIT – CEEPR Clean investment Monitor

Go to the Q1 2025 Clean Investment Monitor

03 Clean energy & transportation investment in the United States totaled $67.3 billion (2/2)

Industrial decarbonization investment declined 3% quarter-on-quarter, but increased 5.4% relative to Q1 2024. Industry actual investment continues to represent a small fraction of the total value of announced projects, with most facilities not yet started and a small number of facilities moving into construction and operation. **Hydrogen** led actual investment in industry at **$0.5 billion**, **up 3.4%** from the previous quarter and 40.5% compared to Q1 2024. **Sustainable aviation fuel (SAF)** investment **dropped by 22.9%** quarter-on-quarter to **$0.4 billion**, a 42.1% decline from Q1 2024. The remainder of Q1 industry investment included **carbon management** at **$0.5 billion** and clean fuels at $0.1 billion, reflecting the highest quarter on record for the latter. Another $0.1 billion was invested in clean iron and steel production.



Source: Rhodium Group/MIT – CEEPR Clean investment Monitor

Go to the Q1 2025 Clean Investment Monitor

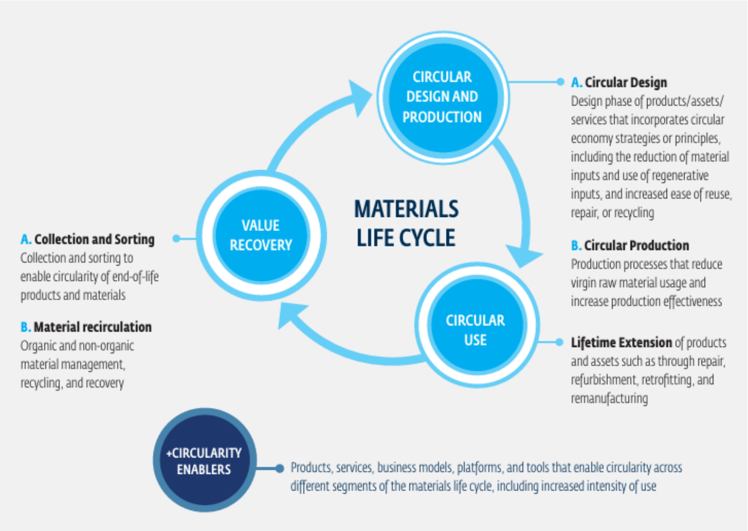
NEW IN RESEARCH
HARMONIZED CIRCULAR ECONOMY FINANCE GUIDELINES (IFC)

01 The IFC publishes new Harmonized Circular Economy Finance Guidelines (1/2)

On May 15, 2025, **the IFC (International Finance Corporation)** has officially launched its **Harmonized Circular Economy Finance Guidelines** – a major step forward in advancing sustainable capital flows globally. The guidelines aims to help investors, financial institutions and private companies identify and quantify opportunities to channel financing to projects that support a circular economy. It provides guidance to identify activities that are eligible for circular economy finance.

This initiative builds on previous sustainable finance taxonomies for **biodiversity, blue finance and green bonds** that helped create new asset classes and mobilize private capital to support sustainable development. The guidelines are sector-neutral, internationally relevant, and aligned with existing global frameworks such as **the EU Circular Economy Taxonomy** and the **ICMA - International Capital Market Association Green Bond Principles.**

Illustrative examples of project types are included across **six sectors**: electronics and appliances, packaging, textiles, construction and built environment, automotive and transportation, and agribusiness.



Source: Harmonized Circular Economy Finance Guideline

Go to the full report from IFC

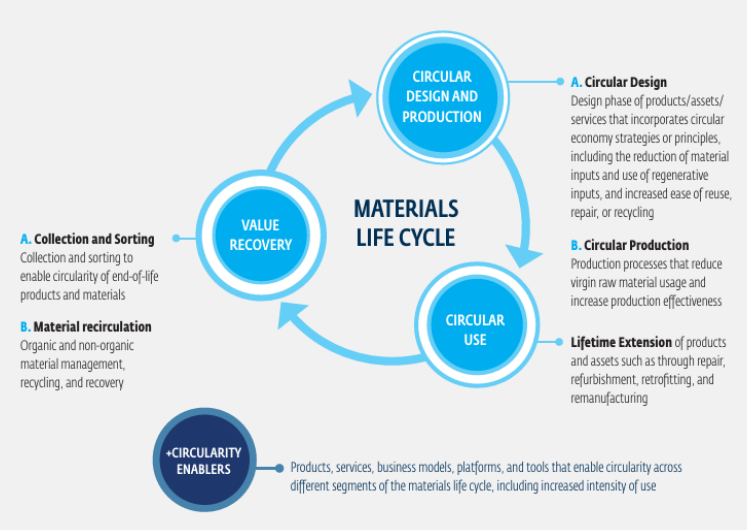
NEW IN RESEARCH
HARMONIZED CIRCULAR ECONOMY FINANCE GUIDELINES (IFC)

01 The IFC publishes new Harmonized Circular Economy Finance Guidelines (2/2)

Aligned with the Green Bond Principles, the Harmonized Circular Economy Finance Guidelines **complement guidelines for climate, biodiversity, blue, and social finance** to help investors target desired impacts.

The Guidelines serve as a practical tool for financial institutions and corporations to identify, evaluate and quantify financial flows for circular economy projects.

- **For treasury, loan or business development officers, and investment staff**, the Guidelines help identify qualifying assets within existing portfolios, identify new opportunities for circular economy finance products, and promote more circular economy investments within their client base.
- **For corporations and SMEs**, they can help unlock access to circular economy finance and potential new investors by adapting projects and activities to meet circular economy criteria.
- **For investors**, the Guidelines help identify and build confidence around qualified labeled finance products.



Source: Harmonized Circular Economy Finance Guideline

Go to the full report from IFC

FLEXSTONE PARTNERS

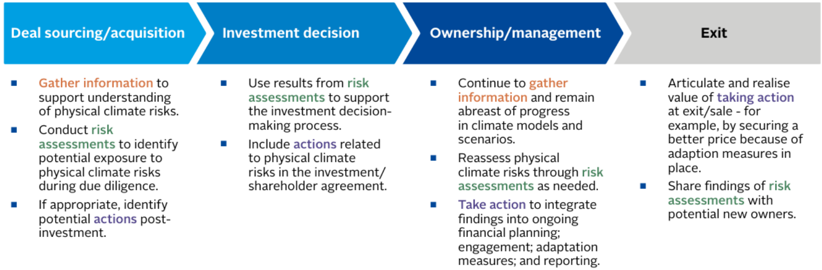
ASSESSING PHYSICAL CLIMATE RISKS (1/2)

02 UN PRI's technical guide on assessing physical climate risks in private markets

Physical climate risk assessments should aim to identify and analyse the potential risks associated with the physical effects of climate change. They can be conducted at different levels of granularity, including at the physical asset, investment, portfolio, or regional level and across a range of climate scenarios and time horizons. A process for assessing physical climate risks and taking action can be distilled into three key elements – Information gathering, Risk assessment, Taking action, which will be explored in greater detail throughout this guide.

These elements can be integrated into different stages of a typical investment process for private markets investors (see Figure 3).

Figure 3: Physical climate risk assessment in the private markets investment process



Source: PRI Reporting Framework 2024, Indicator PGS 45: During the reporting year, which of the following climate risk metrics or variables affecting your investments did your organisation use and publicly disclose? (Physical climate risk was among the answer options.)

Go to the guide from PRI

FLEXSTONE PARTNERS

NEW IN RESEARCH
ASSESSING PHYSICAL CLIMATE RISKS (2/2)

02 UN PRI's technical guide on assessing physical climate risks in private markets

Table 3: High-level or in-depth: Comparing two approaches to risk assessment

	High-level assessment	In-depth assessment
Use for...	▪ Single investment, subset of portfolio or whole portfolio	▪ Most likely for single investments or subset of portfolio
When conducted	▪ During due diligence ▪ Periodically during the holding period – either at set intervals or in response to specific events	▪ More often during the holding period ▪ Potentially pre-investment, particularly for higher-risk investments
How conducted	▪ Potential to develop in-house tools/ methodologies (likely with support of external consultants) ▪ External tool providers	▪ Likely led by specialist consultants ▪ Requires active input from investment and other relevant stakeholders
Core focus	▪ Exposure of investments to climate hazards (with vulnerabilities included to the extent possible)	▪ More nuance on exposure and hazard analysis ▪ In-depth vulnerability and impact analysis
Likely outputs	▪ Risk scores for each investment or other visual representation of risk (such as heat maps) ▪ Indicative financial metrics ▪ High-level recommendations for next steps	▪ Detailed recommendations on adaptation measures ▪ More accurate financial metrics and projections
Other considerations	▪ Likely first step for many investors, builds capabilities and awareness ▪ Less time- and resource-intensive	▪ In most cases, more realistic for majority or control investors to conduct

Source: PRI Reporting Framework 2024, Indicator PGS 45: During the reporting year, which of the following climate risk metrics or variables affecting your investments did your organisation use and publicly disclose? (Physical climate risk was among the answer options.)

Investors should consider what type of physical climate risk assessment – whether **high-level** or **in-depth** – may be most appropriate for the investments in scope. Table 3 on the left summarises the characteristics of these two approaches.

HIGH-LEVEL ASSESSMENT provides investors with a quick view of where and what key physical risks may arise for their investment(s). These assessments are often carried as part of the due diligence in the early stage of investment. These assessments use the available hazard, exposure, and vulnerability data previously gathered to determine the potential risks for each investment(s). The analysis should then be repeated using different climate scenarios and time horizons to give investors both a baseline view of current risks and projections of future risks. The external tool providers are commonly used by investors to conduct high-level physical climate risk assessments, however some investors seek to build in-house tools with the support of an external consultant.

IN-DEPTH ASSESSMENT is a more in-depth risk analysis of an investment or set of investments. These assessments focus on both a deeper evaluation of an investment's vulnerability to climate hazards, and a more granular assessment of how different hazards may impact an investment.

Go to the guide from PRI

IN FOCUS: OCEAN
SUSTAINABLE BLUE ECONOMY FINANCE INITIATIVE (COMMUNITY)

01 Ocean Finance for Sustainability

Sustainable Blue Economy Finance Initiative, a UN-convened global community focused on the intersection between private finance and ocean health, supporting the implementation of the Sustainable Blue Economy Finance Principles to ensure investment, underwriting and lending activities are aligned to **the UN Sustainable Development Goal 14** (SDG 14), 'Life Below Water' enabling financial institutions to rebuild ocean prosperity, restore biodiversity and regenerate ocean health.

The Ocean is the world's largest ecosystem, covering **70%** of the earths' surface and playing host to an estimated **80%** of the planet's biodiversity. These ocean-linked sectors include (among others) shipping, seafood, marine renewable energy, port construction, coastal tourism, coastal infrastructure, and the consumption and production of solid waste material such as plastic.

The Blue Economy with an annual economic value estimated at **USD$2.5 trillion**, ocean -linked sectors, or the 'blue economy' is equivalent to the world's 7th largest economy.

A Sustainable Blue Economy provides social and economic benefits for current and future generations; restores, protects and maintains diverse, productive and resilient ecosystems; and is based on clean technologies, renewable energy and circular material flows.

The Sustainable Blue Economy Finance Principles are the foundational keystone to invest in the ocean economy. Launched in 2018, they are the world's first global guiding framework for banks, insurers and investors to finance a sustainable blue economy. They promote the implementation of SDG 14 (Life Below Water), and set out ocean-specific standards, allowing the financial industry to mainstream sustainability of ocean-based sectors. The principles were developed by the European Commission, WWF, the World Resources Institute (WRI) and the European Investment Bank (EIB) and are hosted by UNEP FI as part of the Sustainable Blue Economy Finance Initiative.

Founders of the Sustainable Blue Economy Finance Principles

Go to the Sustainable Blue Economy of UNEP FI

IN FOCUS: OCEAN
TRANSFORMING OCEAN GOVERNANCE

02 The High Seas Treaty and UN Ocean Conference (UNOC)

High Seas Treaty: for nearly 20 years, governments, scientists and ocean advocates have worked toward securing a global treaty to protect marine life in the ocean areas that lie beyond countries' individual jurisdictions. These vast, mostly **unregulated waters**, known as the **high seas**, **hold huge importance to the health of the planet.** Finally, in June 2023, the 193 member states of the United Nations adopted the landmark Treaty but was still awaiting 60 countries to ratify it.

Around **two-thirds** of the ocean lies outside any single country's jurisdiction. Yet, **without a binding treaty**, the high seas are governed patchwork-style through regional fisheries agreements, shipping conventions and scattered marine protected areas. This leaves critical **gaps in protecting marine biodiversity or ensuring developing countries** are also benefiting from discoveries made in international water.

When ratified, the High Seas Treaty will fill critical regulatory gaps and complement national efforts. It will help to **guide regional cooperation** and **link seamlessly to sustainable ocean plans** for national waters already being delivered by member countries of the High Level Panel for Sustainable Ocean Economy (Ocean Panel) and future plans through the 100% Alliance.

The UN Ocean Conference (UNOC) invites world leaders, civil society, businesses and scientists to mobilize partnerships, commitments and solutions to address ocean challenges. The summit plays a vital role in activating **international cooperation** and securing progress for **ocean health and resilience**. The UNOC3 was organized in Nice, from 9 to 13 June 2025.

The conference seeks to support the implementation of SDG 14 **with three priorities,** in order to produce an ambitious draft agreement:

- Working towards completion of multilateral processes linked to the oceans, to boost ambition for their protection;
- Mobilizing sources of finance to conserve and sustainably use the oceans, seas and marine resources for sustainable development (SDG 14) and support the development of a sustainable blue economy;
- Strengthening and better disseminating knowledge linked to marine science to enhance policy-making.

"The Nice Ocean Agreements will provide a framework in which the scientific community will gather to inform and guide the climate action of Heads of States and Government, as is the case with the IPCC."- Emmanuel Macron.

Go to the insights from WRI

Go to France Diplomacy

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