FLEXSTONE PARTNERS 20 YEARS

AN AFFILIATE OF NATIXIS INVESTMENT MANAGERS

SUSTAINABILITY

NEWSLETTER – DECEMBER 2025

CONTENT

SUSTAINABILITY REGULATION
A YEAR IN REVIEW

01 Backlash or momentum

While market sentiment in ESG has been plagued with the negative view of general backlash against sustainability in general, **2025 regulatory achievements present a more nuanced landscape.**
Trump's election and crusade on climate **"the greatest hoax in history",** and the heavily publicized rollback on the CSRD and CSDDD in Europe shaped public perception of the current state of sustainability.
However positive news for the climate on the sustainability front has largely outpaced the negative.

The policy rollback
Across the Atlantic, ESG regulation is shifting from acceleration to controlled slowdown. In the U.S., the SEC's decision to stop defending its climate-risk disclosure rule weakens what was meant to be the country's first mandatory climate framework.
In Europe, the Stop-the-Clock directive and the CSRD/CSDDD Omnibus packages delay timelines and narrow scopes to ease implementation pressure. Together, these moves reflect political pushback and operational fatigue, but they also show regulators trying to preserve the core of the sustainability agenda while making it more workable for companies. **The Omnibus I Directive, adopted on 16 December 2025, significantly reduces the scope and simplifies requirements for sustainability regulations in Europe.**

The policy development: Alongside signs of regulatory slowdown, 2024–2025 has also delivered a notable wave of climate-focused policy development that continues to raise the bar for sustainability standards worldwide.

The EU has been particularly active: it adopted new rules requiring all packaging to be fully recyclable by 2030, launched its Clean Industrial Deal to accelerate the decarbonization of energy-intensive sectors, and proposed a 90% emissions-reduction target for 2040, a trajectory that positions Europe at the forefront of global climate ambition.
National governments are reinforcing this momentum. France advanced legislation aimed at curbing the environmental footprint of fast fashion, signalling a shift toward regulating consumption patterns as well as production. Australia, for its part, introduced its first sustainable finance taxonomy to guide capital flows toward green and transition-aligned activities, strengthening the financial architecture of its climate strategy.

Global climate policy assessments echo this dynamic: while progress remains uneven, a growing group of jurisdictions is stepping forward with more assertive frameworks, shaping the next phase of climate action and influencing corporate expectations worldwide.

SUSTAINABILITY REGULATION
SPOTLIGHT ON THE OCEAN

02

2025, a positive year for the Ocean

What happened

Ocean and blue-economy policy saw major breakthroughs in 2024–2025, with a series of treaties, financial standards and global commitments reshaping the governance landscape.

- **Historic treaty progress:** Spain became the first European country to ratify the Global Ocean Treaty, contributing to the diplomatic momentum that led the High Seas Treaty to surpass the 60-ratification threshold required for its entry into force in September 2025. The UN Ocean Conference (UNOC) further amplified this shift, placing high-seas protection at the center of global negotiations.

- **Strengthening global ocean finance:** New financial frameworks emerged to scale investment in marine conservation. The *Ocean Finance for Sustainability* initiative advanced, Taiwan aligned its bond rules with global blue and biodiversity finance standards, and UNESCO's Intergovernmental Oceanographic Commission joined ORRAA with the goal of mobilizing $500 million for ocean and coastal natural capital by 2030.

- **Major regional commitments:** The European Commission launched the first-ever European Ocean Pact, a €1 billion investment package supporting conservation, marine science and sustainable fisheries — signaling Europe's intent to lead on ocean stewardship.

- **Together**, these developments mark one of the most active periods in recent years for ocean governance, signaling a more coordinated and financially supported approach to protecting marine ecosystems.

2025: A Turning Point for Ocean Governance

The milestones of 2025. From the High Seas Treaty entering into force to major EU and global blue-finance commitments. A structural shift: ocean protection is becoming regulated, financed, and enforceable.

Countries, institutions, and markets are aligning around clearer rules, dedicated capital, and stronger accountability. The ocean is no longer a peripheral ESG topic but a strategic governance and investment priority.

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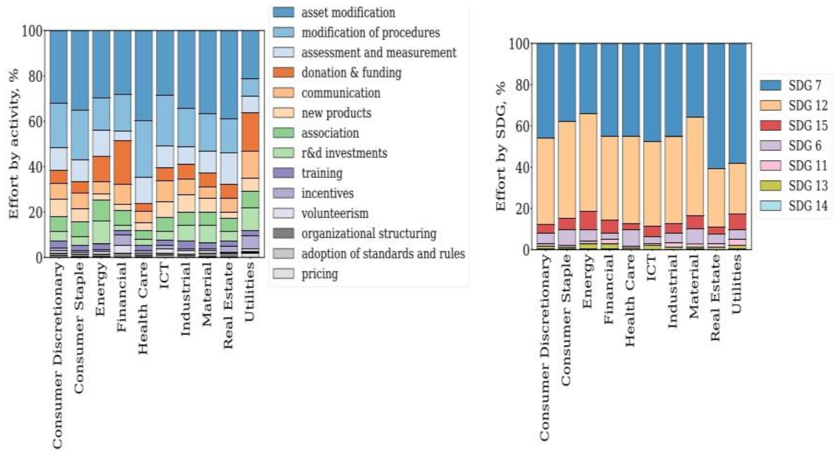
ESG MARKET INSIGHTS(1/2)
TRACKING CLIMATE TARGET ALIGNMENT

01 Multiple studies tracked and referenced company alignment with climate targets

On track with climate: A wave of studies released in 2024–2025 provides a clearer picture of how far companies really are from meeting global climate goals. The World Economic Forum reports that only **35% of companies** are currently on track with their climate targets, while early 2025 saw several major corporations and financial institutions **delaying or scaling back** their commitments, including exits from net-zero alliances.

There are encouraging signs within the trend: MSCI's *Transition Finance Tracker* shows continued growth in **Science-Based Targets**, even in markets facing regulatory uncertainty such as the United States. At the same time, broader sustainability progress remains off course; **none of the 17 UN SDGs** are on track for 2030, and global assessments confirm that the highest-emitting sectors are still far from a credible 1.5°C pathway. Overall, the data points to a climate landscape marked by uneven momentum, with ambition rising in some areas while implementation continues to lag.

The alignment of companies' sustainability behavior



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ESG MARKET INSIGHTS(2/2)
NEW DISCLOSURES FOR PRIVATE MARKETS

02 Independent organizations updated their disclosures

New standards tightened expectations for private-market reporting : Several major standard-setters introduced new guidance that is reshaping ESG reporting expectations in private markets. The IFRS Foundation released updated rules for **transition plan disclosures**, while the Basel Committee introduced a **voluntary climate-risk disclosure framework** for banks. The SBTi also simplified its Corporate Net-Zero Standard, giving companies **more flexibility and clearer pathways** for long-term targets &

In Europe, KPMG notes that delays to CSRD phases and the evolution of the CSDDD still point toward **more granular and enforceable ESG requirements**. The Conference Board highlights increasingly fragmented rules that push private-market firms toward higher transparency and more standardized reporting. CSO Futures adds that firms must now adapt to **more structured, comparable and data-driven frameworks** across major jurisdictions.

Overall, these updates reflect a tightening of ESG disclosure expectations and a clear shift toward more consistent reporting in private markets.

Entering 2026: When Disclosure Becomes Strategy

As we move into 2026, it’s becoming clear that private markets are entering a new phase. One where opacity simply won’t meet investor expectations anymore.

With transition-plan guidance, climate-risk frameworks and net-zero standards becoming more mature and precise, firms will be under increasing pressure to show credible plans, quantify their risks and provide data that investors can actually use.

Regulation is accelerating. From Europe to global standard-setters, the direction is the same: disclosures that are more comparable, and more forward-looking.

In this context, **transparency ceases to be an administrative formality and becomes a strategic capability** that influences access to capital, strengthens sponsor confidence, and enhances long-term competitiveness.

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NEW IN RESEARCH(1/3)
NEW TOOLS FOR THE PRIVATE MARKET

01 Tool list

A range of new tools and frameworks is expanding what private-market actors can use to operationalize sustainability. BCG and the BII released practical guidance for **scaling blended-finance structures**, while another framework outlines how to **drive financial value through sustainability**. The GHG Protocol opened consultations on updates to **Scope 2 reporting**, signaling methodological changes ahead.

The PRI developed a guide to help private market investors understand the essentials **of physical climate risk assessment,**

EFRAG launches the ESRS Knowledge Hub, a new digital gateway to sustainability reporting. The new **ESRS Knowledge Hub** further supports implementation by consolidating ESRS standards and guidance into a single platform. At launch, the platform integrates the adopted 2023 ESRS, the simplified ESRS approved on 28 November 2025, the VSME standard for smaller entities, as well as implementation guidance, supporting documents and historical material.

Together, these tools reflect a rapidly expanding ecosystem designed to help private-market firms strengthen sustainability reporting and value creation.

Why Does This Matter?

- All these new tools tell the same story: **in 2026, private markets will need to work with clearer, smarter and more reliable sustainability information**.
- Investors won't settle for vague claims or partial data anymore, they want to **understand real risks, real progress and real impact**.
- **With standards evolving and AI tools becoming easier to use**, reporting is shifting from a heavy compliance task to something that can genuinely help firms run better, make faster decisions and build trust with LPs.

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EFRAG – ESRS HUB

NEW IN RESEARCH (2/3)
ADAPTING TO A CHANGING CLIMATE

02 Social Dimensions of Climate Change

Climate change is accelerating, and harmful weather events—such as extreme storms, droughts, heat waves, or wildfires—are becoming more frequent and severe. **Lower-income countries suffer more deaths and lasting losses from disasters than richer countries**. Climate shocks push vulnerable households into poverty and cause small businesses to fail, reversing development gains.

The report argues that resilience—enabling people, firms, and governments to prepare for, absorb, and recover from climate shocks—should be the principal response for developing economies. **It proposes a five-part "5 I's"** strategy:

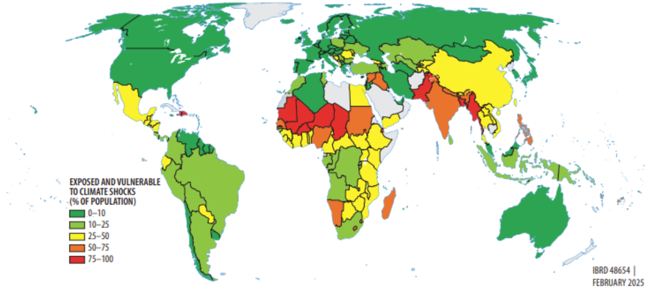
- Boosting incomes,
- Improving information,
- Expanding insurance,
- Investing in resilient infrastructure, and
- Designing targeted Interventions.

Empowering individuals and markets, not just relying on government programs, is essential for effective, scalable adaptation.

Why Resilience?

Poorer countries suffer far greater losses from climate disasters than wealthier ones, both in lives and economic damage. Climate shocks deepen poverty, slow development, and can erase decades of progress. **Building resilience is not just about government action; it requires mobilizing the ingenuity and resources of individuals, households, farms, and firms.**

MAP O.1 Poor countries have higher shares of population vulnerable to climate shocks



Source: World Bank calculations based on Doan et al. 2023.
Note: The gray areas indicate territories for which data are lacking or insufficient.

Full Article

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NEW IN RESEARCH (3/3)
SUSTAINABILITY AND STRATEGY

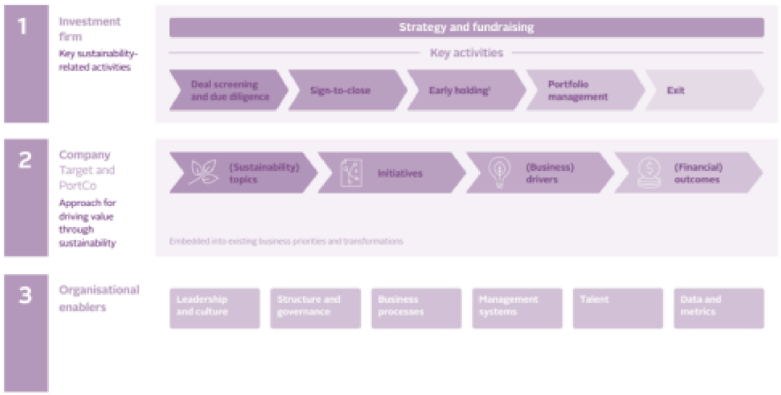
03 Private markets harnessed sustainability for value creation

Across 2024–2025, research shows that sustainability has become a central lever of value creation in private markets. A Workiva survey reports that **97% of executives** see strong sustainability reporting as a competitive advantage within two years, signaling a shift from compliance to strategic differentiation. BCG's latest analysis reinforces this view, arguing that sustainable finance is now integral to private-market performance.

New data backs this up: a global study by PRI, Bain & Company and NYU Stern finds that private equity firms using advanced ESG monitoring technologies can achieve **6–7% higher exit multiples** and **6% revenue growth** in portfolio companies. Schroders Capital similarly highlights that sustainable and impact investing is strengthening asset resilience and operational performance, even in volatile conditions. Novata's 2025 insights add that high-quality ESG data and transparency are becoming essential drivers of innovation, risk management and long-term value across private-market portfolios.

Together, **these findings show that sustainability is increasingly shaping how private markets generate and protect value.**

The **Sustainability Value Creation (SVC)** framework – a holistic approach for driving financial value through sustainability



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IN FOCUS: AI FOR CLIMATE ADAPTATION
HOW AI IS RESHAPING RESILIENCE IN A WARMING WORLD

01 Artificial Intelligence is becoming a key tool for climate resilience not just mitigation.

The global economy is grappling with intensifying environmental crises, including climate change, biodiversity loss, and pollution, which call for urgent systemic transformation and a surge in climate and nature-related investments. This transition requires significant investments – at least $4 trillion annually **by 2030 globally, including $2.4 trillion in emerging markets and developing economies (EMDEs)**, **where investment flows are lowest and potential for leapfrogging traditional technologies is greatest.**

Artificial Intelligence (AI), as a new, powerful, and dynamic general-purpose technology, is uniquely positioned to accelerate this transformation by scaling innovation and driving profound systemic change

What Needs to Happen Next?

- To make AI truly useful for climate adaptation, it needs to be easier to access, better shared and used responsibly. Scaling these tools will require collaboration and clear safeguards. Investors can help by backing solutions that bring real resilience where it's needed most.

The five key impact areas of AI on climate transition :

1. Transforming complex systems	2. Innovating technology discovery and resource efficiency	3. Nudging and behavioural change	4. Modelling climate systems and policy interventions	5. Managing adaptation and resilience
• More efficient cities, energy, transport, agriculture, water, and materials systems • AI-powered digital twins and simulations to optimise inter-systemic flows and cross-system interaction • Better prediction of risks to unlock investments	• Improving the competitiveness of low-carbon solutions • Accelerated scientific discovery and incubation of tech innovation at scale • Generating sustainable design options • Maximising asset use and efficiency over lifetime	• Social behaviour modelling, pattern analysis, and prediction • Incentives to promote and facilitate climate action (communication and capacity building) • More efficient markets and signals	• Extreme weather forecasting and climate change scenarios • Model the effects of climate change and the effectiveness of different policy scenarios	• Management of climate impacts via forecasting and early warning systems • Management of financial and human climate risk and impact towards more resilient systems • Strategic planning on climate adaptation

Full Report

OTHER KEY TOPICS

Stay tuned - exciting updates on 2026 Sustainability News coming in the next few weeks!

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