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2025: The Year Climate Finance Stops Pretending

Climate finance is entering a decisive phase. Setbacks such as the suspension in the US of flagship initiatives like the Net Zero Asset Managers Initiative (NZAM) have revealed the fragility of voluntary commitments, while regulators and markets are pressing asset managers to demonstrate measurable impact. *Pure green* strategies have often underperformed and failed to deliver systemic change, leaving the sector exposed to accusations of greenwashing. The transition now demands new approaches and engagement on the underlying substance: financing decarbonisation in hard-to-abate sectors, building transparent and evidence-based methodologies, and aligning investment mandates with the realities of systemic risk. For diversified asset managers, this is both a strategic challenge and an opportunity to redefine a role in the transition economy and deliver both impact and performance.

A background of turmoil in the ESG world

The recent transatlantic upheavals shaking the world's largest asset managers mark the end of a certain "innocence" in ESG. Against a backdrop of heightened politicisation of sustainability, several leading managers in the US now find themselves subject to litigation, compelled to demonstrate that ESG practices do not compromise shareholder returns. Some have adapted to the mood shift: a clear illustration of the change was provided by the suspension of the Net Zero Asset Managers Initiative (NZAM), precipitated by BlackRock's withdrawal[1]. More recently, the Net Zero Banking Alliance (NZBA), itself weakened by a wave of departures, announced a pause pending a global consultation. Both initiatives could considerably soften their requirements, reinforcing the voluntary nature of their recommendations and tolerating less ambitious scenarios.

The same uncertainty exists in the European market – and this challenge may over time prove beneficial to the sector as a whole. The focus on economic risk and impact forces stakeholders to focus on the economic substance of climate issues, as headline commitments have become politically contested. More importantly, it has sharpened awareness of a risk that had long remained intangible, especially for European investors: dependency on energy and raw-material supply. For example, green technologies such as renewables, not only drive decarbonisation but are also more localized, less exposed to geopolitical shocks and price volatility.

Leading institutional investors are not misled: they reaffirm the need for a patient, long-term reading of systemic risks[2,3]. More importantly, they are triggering a salutary reassessment: what can we truly retain from a decade of climate-finance experimentation? What must be urgently rethought in the relationship between climate objectives, methodological tools, and investment decisions?

Differences between listed and private markets

In private markets, the most sophisticated actors no longer content themselves signalling. They refine their strategies along two complementary lines: on the one hand, resolutely technical *pure green* strategies including batteries, storage, flexibility; on the other, sophisticated *brown-to-green*

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[1] Exclusive: Investor climate group suspends activities after BlackRock exit | Reuters
[2] State Street's Lost Mandates Expose Growing Risk in Europe - Bloomberg
[3] State Street perd un mandat au profit d'Amundi et Invesco concernant l'ESG - L'Agefi

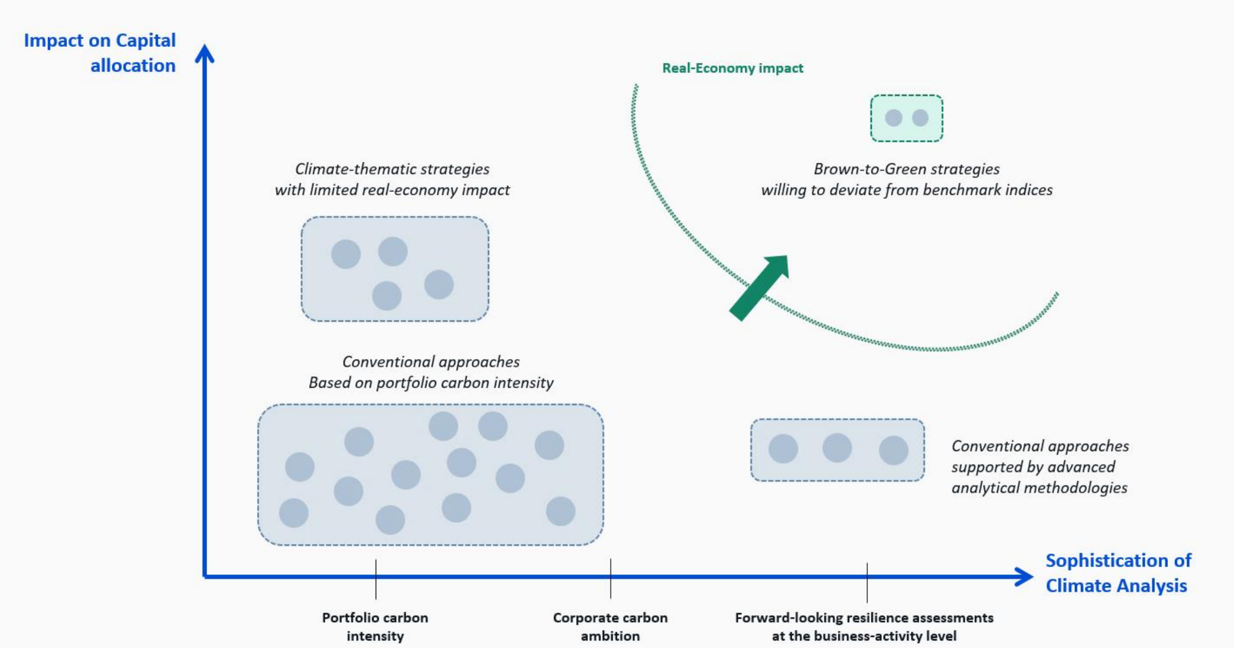

Figure 1: **Archetypes of Climate Investment Strategies in Europe**. The majority of climate strategies today struggle to generate real impact, constrained either by the lack of advanced analytical tools or by insufficient deviation from benchmarks to reflect strong capital-allocation convictions. Study conducted by Blunomy on a panel of 20 European asset managers

approaches focused on transforming existing assets. The narrative of the *all-green* fund is giving way to more diversified approaches, anchored in the complexities of the real economy transition. At the heart of this shift lies a crucial imperative: to see decarbonisation not as a simple cost, a constraint to be bypassed, but as a source of value, a structural driver of risk management and mid-term performance.

The next frontier is already taking shape: forging deeper alliances between funds and corporates to tackle value-chain decarbonisation. The challenge is immense: it compels asset managers and financiers to equip themselves methodologically and mobilise cross-functional expertise – technologies, cost structures, industrial feasibility, hybrid debt/equity arrangements – to meet the often complex and bespoke needs of transition. The most advanced players have developed new internal capabilities and built ecosystems of partners to effectively capture the value embedded in these challenges.

By contrast, many listed climate funds still favour often mechanical strategies. Rather than channelling capital where it could accelerate transition, they adjust listed-equity portfolios to reduce carbon intensity, excluding the heaviest emitters while typically limiting measurement to direct (Scope 1) and energy-related indirect (Scope 2) emissions, leaving aside Scope 3 – and ending up with portfolios that in practice deviate only marginally from traditional indices[4]. This approach risks missing the real risks and opportunities of the transition, and generates increasingly visible biases: overweighting low-carbon intensity sectors – technology, services – and underweighting, or excluding altogether, high-emitting sectors such as energy or materials. Analysis of low-carbon-labelled equity funds shows that they overwhelmingly favour tech and services, while utilities – critical to transition – represent less than 6% of average allocations[5]. It is clear that reducing financed emissions is not the same as financing emissions reduction[6].

[4] A study of green European equity fund portfolio allocations by Mark Sanctuary, Axel Lavenius, Giorgio Parlato, jan plue, Beatrice Crona :: SSRN
[5] In the Name of Climate: Private vs. Public Funds - MSCI
[6] The Net Zero Investment Framework 2.0 approach to financed emissions

Less alchemy, more evidence

While the diagnosis is well-established, recent months have created conditions for a decisive shift in the practices of asset managers and banks in listed markets.

ESG data providers are undergoing a pivotal transformation: refocusing on data that is actually reported. This inflection, driven by regulators and demanded by investors, seeks to restore what should always have been required: traceability, comparability, and robustness of the information used. It signals the end of an era of opaque modelling – such as some "temperature" methodologies[10] – in favour of transparency based on shared reference points. This does not mean abandoning forward-looking analysis, but rather grounding ambitions in an observable, traceable, and defensible base. For asset managers, this is a strategic opportunity: to turn convictions into proprietary methodologies and to rebuild client trust by relying on narratives they fully own, rather than outsourced signals.

Transition-support approaches are also gaining legitimacy and depth. The paradigm of pure exclusion is slowly giving way to a more demanding logic: supporting credible transformation often delivers greater impact than penalizing an initial state[11]. This evolution – at the very core of financial institutions' mission – rests today on three anchors:

- **Regulatory.** For example, in the UK the Financial Conduct Authority's Sustainability Disclosure Requirements (SDR) and the associated investment-label regime are reshaping the landscape, introducing clearer categories that recognise the benefit of investments in high-emitting companies that contribute to the transition, provided they commit to credible and measurable decarbonisation pathways.
- **Commercial.** In France, the third iteration of the *Investissement Socialement Responsible* (ISR) labelling scheme[12] follows a similar dynamic by strengthening accountability requirements: it now mandates an explicit assessment of the quality of transition plans, as well as tangible evidence of structured shareholder engagement, including escalation policies and long-term monitoring.
- **Voluntary.** The framework most widely adopted by signatories to the Net Zero Asset Managers initiative, the IIGCC's Net Zero Investment Framework 2.0[13], remains international in scope. It encourages investors to move beyond simple reduction of financed emissions, steering capital allocation and stewardship along a transition-maturity scale. Built on simple criteria, this scale enables identification of the most committed companies, assessment of their progress, and calibration of intervention levels. Designed as an open framework, it gives asset managers the flexibility to interpret criteria, while embedding them within a shared methodology.

Reclaiming a strategic role: three levers to accelerate

These converging signals demand a profound reconfiguration of climate-investment practices.

Innovation

Analysing corporate transition plans requires asset managers to deploy innovative tools capable of integrating strong industrial and technological convictions. They must be able to process massive volumes of quantitative data – mapping thousands of holdings – while also supporting analysts with actionable insights for engagement. Most importantly, these tools must deliver strategic judgment,

[10] Are Implied Temperature Rise Metrics as Inconsistent as ESG Ratings?: Examining Firm-Level Disagreement Among Data Providers by Lea Chmel, Manuel C. Kathan, Sebastian Utz :: SSRN
[11] New York State allows four coal miners back into portfolio
[12] Critères d'attribution : Label ISR
[13] Net Zero Investment Framework updated: NZIF 2.0

going far beyond distant, standardized analysis: which business models remain viable in a given sector? Which activities must be greened, and which should be wound down? Which technologies can be relied upon over a relevant timeframe? The most advanced managers are already deploying methodologies that estimate the future cost of decarbonization for each company, objectively assessing its impact on P&L – thus focusing engagement where it best preserves value and performance.

This analytical capacity opens the way to a broader and more differentiated financial product offering. Alignment with credible pathways, support for transition in hard-to-abate sectors, scaling climate solutions, financing adaptation – strategies can now reflect the full complexity of the change underway.

Organisation

Climate governance can no longer be confined to a specialized team: it must become transversal. Breaking down silos between ESG, investment, stewardship, and risk is no longer just a governance challenge but an operational necessity to ensure consistency in financial decision-making. As long as climate risks are escalated at the end of the chain as simple validation filters, they will remain marginal in strategic decisions. As long as shareholder engagement is disconnected from portfolio construction, it will remain ineffective.

Conviction

The transition demands a redefinition of the dialogue between asset managers and their institutional clients. Moving from execution to strategy is no longer optional. With institutional investors becoming increasingly sophisticated but still in need of clear markers, the era of 'one size fits all' is over. Credibility now rests on tailored solutions, underpinned by explicit trade-offs and explainable methodologies. It depends on renewed collaboration with asset owners, where the quality of dialogue and the ability to align investment strategy with decarbonisation objectives will become decisive markers in manager selection.

But it takes two to tango: delivering transformation mandates also requires asset owners to embrace change. As long as capital allocation remains tethered to narrowly-scoped benchmarks and constrained by the need to minimise deviations, the ability to finance genuine transformation will remain limited. Designing mandates aligned with a clear-eyed climate ambition requires accepting deviations, backing innovative trajectories, and managing the tensions they inevitably generate. One cannot accelerate the transition while anchoring investments in the economy as it is, rather than as it must become.

Strong impact and performance demand substantive engagement

In this pivotal moment, transition is no longer a matter of appearances. It once again becomes a source of differentiation for asset managers – and for their teams, an opportunity to reconnect with both purpose and performance.