2025 – juggling elephants

Julia Dreblow explains that the sustainable investment community, and others with a solid understanding of sustainability, have had to juggle some heavy issues during 2025

It is not fashionable to talk about sustainability right now, but market research continues to indicate that the public are as concerned about the planet – and other people – as they have been for many years.

Examples include DESNZ research carried out this summer which found that 79% of people are 'very or fairly concerned about the impact of climate change' and '49% expected the impact of the UK's transition to Net Zero on the UK economy to be positive', versus 22% who expected the impact to be negative.

And while market research and real life decision making are not necessarily the same, the gap between the FCA's most recent Financial Lives Survey which indicates that 72% of the public were interested in investing to 'make money and do good' – and the IA's research that shows only around 7% actually do so – is pretty stark – and begs lots of questions.

ELEPHANT 1 – Media

Some of the criticism of ESG may be reasonable, there has been greenwash, opinions and priorities vary and putting aside the fact that many people are uncomfortable investing in certain assets - some commonly excluded assets have done particularly well.

However, the fact the terms like 'ESG' and 'Net Zero' - have been weaponised is also notable. The pendulum has swung from these areas being 'all the rage' to 'deeply unfashionable' over the last couple of years.

A sensible middle ground appears hard to settle on. Yet it is the ferocity of some of the attacks that has surprised many, particular those newer to the area. I'd suggest this ferocity might be understandable given what is at stake. There are businesses and individuals with clear interests in maintaining the old equilibrium, and slowing the pace of change. The 'new normal' is indeed a threat to some.

ELEPHANT 2 – The need for change

Those intentionally undermining sustainability initiatives, conferences and legislative changes are of course aware that change brings winners and losers. Some refer to this as 'transition risk'.

In most instances it is, however, more likely to be 'physical risks' that are of greater concern to the public, and therefore end investors and scheme members.

They will have seen the many 'once in a lifetime' catastrophic extreme weather events that took place during 2025, as we hover around +1.5C degrees. Examples include devastating hurricanes (Jamaica), floods (Pakistan) and fires (EU, California). This pattern is now on repeat - and points to literally unsustainable activities and the need for an accelerated transition.

ELEPHANT 3 – Quantifying risks

The interconnected climate and nature crises present immense risks for insurers and investors, as well as individuals.

The latest UNEP Emissions Gap report indicated that we are on course for +2.8 C degrees by 2100 – which is widely regarded as catastrophic.

And worryingly, COP30 appears to have changed little. The EU media release on 23 November, entitled: 'COP30 outcome: slow progress, but insufficient to meet climate crisis urgency' started with the following lines: "At COP30, despite our persistent efforts and the European Parliament's clear mandate on mitigation and the phase-out of fossil fuels, we faced a unified BRICS–Arab front and a Presidency unwilling to match our level of ambition, and we must regret that the final outcome did not go further..."

The work of the Institute and Faculty of Actuaries / University of Exeter, mentioned previously, is an excellent resource for those who need to quantify risks. Sandy Trust, one of the authors of the 'Planetary Solvency' report that sits alongside their 'dashboard', warned earlier this year that: "The risk led methodology, set out in the report, shows a 50% GDP contraction between 2070 and 2090 unless an alternative course is chartered."

This work also pointed to a mortality risk of 50%, indicating that four billion people, could die if our current trajectory continues.

In the nearer term, there are warnings of a19% GDP drop by 2050 - or more - if (likely) tipping points are breached. Example tipping points include the Amazon rainforest dying back, ice sheets and permafrost melting, and changing ocean currents.

These are not good numbers.

ELEPHANT 4 – Change is well underway

These immense risks, some of which people have been known about since the1970s, are why change is now well underway in many businesses, yet few are aware of what is going well.

Example successes, published by Ember in their latest 'Insights', include:

- renewable energy overtook coal as the leading electricity source in the first half of 2025
- 80 countries generated more than 50% of their electricity from clean sources in 2024, including 47 countries that reached more than 75%.
- the share of fossil fuels (in the energy mix) also dropped below 60% that year - for the first time since the 1940s
- three-quarters of electricity demand growth was met by renewables in 2024.

The EIA's Global EV Outlook 2025 report also indicated that electric vehicles are expected to account for in excess of 25% of total car sales in 2025.

It has also been widely reported that greenhouse gas emissions in China have been flat or falling for the last 18 months (eg FT, Carbon Brief).

These can only be assumed to be fuelling the ESG / sustainability backlash as practices change.

They also point to investment opportunities well beyond the areas that have boomed over recent years – as more questions are asked about climate and biodiversity practices and innovative solution providers grow in number. (It is also why we talked about 'Reasons to be Cheerful' at our last conference, as stories such as these are largely being drowned out.)

ELEPHANT 5 – Regulation

The fact regulation is continuing to evolve in this area should therefore surprise no one.

The UK's SDR regime is playing a part in ensuring investors take sustainability more seriously, with its focus on disclosure, ending greenwashing, and the naming and marketing rules.

Our database, Fund EcoMarket currently lists around 120 funds that are actively using sustainability labels. The labels are designed to make UK retail funds that focus on sustainability outcomes easier to find. Around 200 additional UK funds are also currently marketed as having sustainability characteristics, and there are a few other grey areas also, such as funds keeping quiet about their status.

We are also waiting to hear how SDR will apply to EU domicile funds and portfolios.

The just published proposed SFDR 2.0 rules may shed some light on this. It is early days, however, the proposals have a stated aim of reducing complexity and introducing new client friendly labels (ie less technical sounding) - both of which sound positive.

The proposed new EU labels (from the EU media release) are:

- **'Sustainable category'**: products contributing to sustainability goals (e.g. climate, environment or social goals), such as investments in companies or projects that are already meeting high sustainability standards;
- **'Transition category'**: products channelling investments towards companies and/or projects that are not yet sustainable, but that are on a credible transition path, or investments that contribute toward improvements in e.g. climate, environment or social areas;
- **'ESG basics category'**: other products that integrate a variety of ESG investment approaches but do not meet the criteria of the above-mentioned sustainable or transition investment categories (e.g. focusing on best-in-class performers on a given ESG metric, pursuing financial returns while excluding the worst ESG performers).

If agreed by the EU Parliament and Council these may bring the EU closer to the UK regime – which might help reduce confusion.

ELEPHANT 6 – Communication skills

Maximising the benefits presented by innovation, rule changes and public opinion in ways that are firmly in line with science and risk requires careful communication.

Solitaire Townsend (co-founder of Futerra), a keynote speaker at our recent conference, spoke to this point, noting that media topics swing in and out of fashion in 'waves'. Her view is that we are likely to see a further 18 months of negativity before the pendulum reverses.

She also introduced delegates to the concept of 'punctuated equilibrium' – where real world change tends to be very sudden, rather than being gradual or linear as many believe. (This is an important message for those who hope to time markets.) She also encouraged better and more positive communication and story telling, conveying scientific facts with care and compassion – in adding that activism is not working right now. The sustainable investment community was also encouraged to be more like Madonna – using rebranding and reinvention to enthuse and attract new audiences.

Delegates were also encouraged to keep terms like 'ESG' on a tight leash - as they are poorly understood and so can be twisted, weaponised and given meanings that were never intended. Words like 'safer', 'healthier' and 'good for the planet' work far better. (There is a link to our event videos below.)

This all sounds like good advice to me.

More science, less jargon, less about possible sacrifices, and dare I add - less 'Papa (Mama) don't preach' – while talking more about how investors can help shape a brighter future?

Doing so should make dealing with some of 'elephants in the room' easier.

Opinions may vary – including between clients and advisers. Identifying and understanding issues, risks and opportunities need not.

Might better communication and addressing the elephants in the room be the magic formula for 2026 and beyond?

Julia Dreblow, Founder SRI Services and Fund EcoMarket Vice chair of the FCA established Adviser Sustainability Group and DLAG member

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