Proskauer

Q&A: What does 2025 have in store for sustainability in European infrastructure funds?

February 21, 2025

Within the investment industry, sustainability is an area that has evolved significantly over the past few years. For infrastructure funds, the regulatory environment and regional differences have created a complex landscape to navigate.

Natalie Sinha, Head of Sustainability, Infrastructure Investing at UBS Asset Management sits down with Peter Olds, Partner, and Rachel Lowe, Special Regulatory Counsel at Proskauer to discuss the current state of play for sustainability, and predictions for the year ahead.

Sustainability has had an eventful few years, with a wave of regulation now in place in the EU and beyond. What does all this mean for infrastructure funds?

Natalie Sinha (UBS): A few years ago, with the EU's Sustainable Finance Disclosure Regulations (SFDR) and the focus on Net Zero, sustainability was the new frontier. Since then, the space has evolved from understanding SFDR and infrastructure funds making ambitious commitments, to implementation, stabilization, and now potential revisions.

Infrastructure funds are now subject to a broad range of regulations, in line with other asset classes. The SFDR, launched with the EU Taxonomy, was the starting point. Now, other regulations like the EU's Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) are coming into force. Plus, climate risk disclosures are becoming mandatory in the EU, US[1], and APAC.

Apart from the US, the regulatory environment had shifted to a period of relative stability, with sustainability now more embedded in investment processes. Infrastructure funds generally have a clearer understanding of expectations and how sustainability is integrated, which would have been unimaginable a few years ago.

Rachel Lowe (Proskauer): Whilst SFDR and many industry standards have bedded in and become somewhat routine, sustainable finance regulation is rapidly evolving, creating some uncertainty for infrastructure funds as we look to the future. The EU's SFDR 2.0 consultation is set for June 2025, while the UK's Sustainability Disclosure Requirements is rolling out. In the U.S., Blue States are tightening investment climate criteria. Meanwhile, corporate sustainability reporting under CSRD (and ISSB) begins this year against the heated backdrop of the EU's search for simplification and competitiveness in corporate sustainability reporting requirements.

The EU's shift from "being green" to "becoming green" offers potential for infrastructure funds with transitioning assets. The EU Sustainable Finance Platform has proposed a "transition fund" category for real estate and infrastructure with a credible sustainability plan, though the criteria remain unclear. New infrastructure funds should ensure their net-zero plans are robust enough to secure this likely useful and sought after label if it's adopted.

Sustainability can have different meanings in regulations, and interpretations by investors vary. What tips do you have for making sense of all the sustainability regulations and reporting requirements?

Rachel Lowe (Proskauer): Regular horizon scanning with legal and regulatory advisers—at least monthly—keeps managers ahead of updates and new interpretations, while ensuring advisers are aligned with your pressure points and evolving strategies. A unified approach across legal, compliance, sustainability, and investment teams is key to consistently interpreting sustainability from a house perspective. This solid foundation helps in negotiating sustainability provisions with investors. Practical steps include creating a sustainability concept bank to ensure consistent terminology, establishing clear governance for sustainability materials, and offering tailored training from board level to junior staff.

Natalie Sinha (UBS): Navigating the complex landscape of sustainability regulations where acronyms abound can be challenging. However, these regulations share common goals: focusing on transparency around key impacts, risk mitigation, and sustainability performance. Energy, decarbonization, transition, and supply chain management are important themes.

A helpful approach is to use the principles of a Sustainability Management System (e.g., ISO 14001) and follow the ‘Plan, Do, Check, Act’ cycle. This starts with a materiality assessment, with stakeholder views helping prioritize key sustainability impacts. Develop a policy with specific targets and KPIs, supported by risk management controls. Implement sustainability programs with active stakeholder engagement, while regularly monitoring, measuring, and reporting progress. Ongoing audits and performance reviews are essential. The goal is to meet targets and drive long-term sustainability outcomes at both the fund and asset levels alongside financial performance.

How do you think regulation has impacted investor sentiment and capital allocation decisions?

Natalie Sinha (UBS): While sustainability disclosure regulations may not directly drive capital movement, policies with a direct financial impact like the US Inflation Reduction Act (IRA), Bipartisan Infrastructure Law (BIL), the European Green Deal, and Fit for 55 have played an important role in directing capital toward sustainable outcomes. Since the Bipartisan Infrastructure Law was introduced in 2021, there have been announcements of nearly $570 billion in funding for over 66,000 projects in road, rail, ports and airports, which have reached over 1,600 communities across the US.[2]

Investor sentiment toward sustainability remains strong when the investment case is solid. From a private equity perspective, most Limited Partners are increasingly prioritizing sustainability and may avoid investments if managers lack a clear commitment to it[3]. Climate change investments are a major focus, with LPs allocating capital to both climate solutions and efforts to decarbonize heavy-emitting industries. Sustainability related investments remain an important part of the overall picture, with some notable regional variations.

Peter Olds (Proskauer): SFDR's Article 6, 8, and 9 classifications (though typically Article 8 vs. Article 9 for infrastructure funds) have become a key focus in pre-launch planning, with many general partners seeing the fund's classification as influencing investor allocations. As SFDR has taken hold, the emphasis has shifted to reporting—specifically, whether regulatory periodic reports are sufficient or if investors require more comprehensive, timely, and detailed sustainability disclosures. Is the regulation a "deal breaker"? Not usually, but it often requires careful consideration and time to address during investor negotiations, alongside broader sustainability commitments and capabilities of the parties.

Greenwashing cases have been hitting the news, and there are an increasing number of high-profile greenwashing cases. Do you think this is impacting the way people are thinking about making (or not making) sustainability claims?

Natalie Sinha (UBS): The political landscape has shifted, moving away from overzealous sustainability commitments. Infrastructure funds now face increasing obligations and must clearly define their sustainability strategies, with solid implementation plans to avoid litigation and reputational risks. Some asset managers are reducing or relabeling their funds to manage these concerns, and better reflect what is being done. For those remaining committed to sustainability, many are adopting a quieter approach in discussing their efforts, reflecting the evolving environment for sustainability in investment.

Another headline hitting the news is that some prominent asset managers have left the Net Zero Asset Manager's Initiative, reflecting growing concern about political risks and potential litigation. The review of NZAMI is ongoing.

Rachel Lowe (Proskauer): Regulatory enforcement is rising, with the CSSF issuing its first SFDR-related sanction and activist groups like ClientEarth pushing for tougher standards on "sustainable investments." With 2025 and 2030 emissions targets looming and regulations evolving, caution is key when making sustainability claims. For now, infrastructure funds can still leverage the flexible but flawed Article 8 regime under SFDR, but managers should focus on the SEC's principle: "Say What You Do, Do What You Say.

What is your prediction for sustainability in 2025?

Natalie Sinha (UBS): In 2025, the outlook for infrastructure investment remains positive. In our view, investments in the energy transition will continue to dominate, with a shift beyond traditional renewables into energy storage, sustainable fuels, and low carbon transportation. Plus, data centres are attracting billions in investment, with AI supercharging the sector. We believe infrastructure debt markets will remain particularly attractive for lenders.

Beyond this, political pushback on ESG, especially in the US, will persist. Expect more greenwashing cases across sectors, alongside 'greenhushing' as companies stay quieter on sustainability. Sustainability will refocus itself towards commercial wins, value creation, economic opportunities, and job growth to stay relevant.

Peter Olds (Proskauer): 2025 is a pivotal year: Infrastructure funds that have closed are now required to report meaningfully on sustainability commitments, whether under SFDR or directly to investors, as investments have been made. Uncertainty looms—failure to meet targets or provide data could lead to regulatory or investor action, potentially reducing future allocations to funds which underperform versus their own sustainability goals.

For those fundraising, investors increasingly seek deeper involvement in sustainability, requesting site visits, meetings with senior management, and audits, pushing commitments beyond regulatory demands. This is set to continue apace in 2025.

[1] Note: in the US, disclosure rules are under review with the new administration.

[2] US Department of Transportation, November 2024.

[3] ‘Sustainability in Private Equity, 2024’ , BCG. The report draws on data from the ESG Data Convergence Initiative (‘EDCI’).

Related Professionals

- **Peter J. Olds**
  Partner
- **Rachel E. Lowe**
  Special Regulatory Counsel