REPORT

NEW CLIMATE INSTITUTE

GREEN MISSION & MONEY

How foundations can position endowments for climate impact

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GREEN MISSION & MONEY

How foundations can position endowments for climate impact

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SUMMARY

Foundations play a vital role in addressing the climate crisis, not only through their grant-making, but also via the investment strategies of their endowments. As climate change increasingly jeopardises long-term economic and social stability, foundations have both a fiduciary duty and a mission-aligned imperative to integrate climate considerations into their portfolios. Yet, most foundations have not developed coherent, climate-aligned investment strategies and often rely on vague or non-binding sustainability principles.

This report provides a framework to support foundations in navigating sustainable investing. It introduces a range of capital allocation and stewardship strategies and evaluates them not only by their impact on portfolio emissions but, importantly, by their potential to drive real-economy decarbonisation. → **Table 1** provides an overview of these strategies, their functions, as well as their impact on portfolio emissions and real-economy decarbonisation / transition.

The report underscores that cutting portfolio emissions does not automatically translate into real-world climate impact. Achieving meaningful progress requires investing in ways that actively support the transformation of the broader economy, even if that means staying invested in high-emissions sectors for now. While there is no future for fossil fuels, many emissions-intensive but hard-to-abate sectors will remain essential for our economies and abandoning them too early risks slowing the transition. Additionally, in areas where climate investments are still seen as too risky or low-return, public finance will be critical to attract private capital and close the investment gap.

Given their collective asset size and public-benefit mandates, foundations have both the means and the responsibility to act. Strategic use of the tools outlined in → **Table 1** allows foundations to move beyond risk mitigation towards actively shaping climate outcomes through their endowments. The report offers practical guidance for tailoring investment approaches across asset classes and organisational capacities, highlighting that no single instrument is sufficient alone. A well-considered mix of stewardship and capital allocation strategies can significantly enhance both climate alignment and societal impact.

Tab. 1

Framework of sustainable investing strategies for foundations

	Investing strategies & functions	Impact on portfolio emissions	Impact on real economy-emissions
	Corporate stewardship Steering investee companies and issuers on climate action.	Over time, where stewardship supports companies' and issuers' transition.	Over time, where stewardship supports companies' and issuers' transition.
Capital allocation	*Exclusionary policies* Limiting exposure to emissions-intensive assets and unsustainable activities.	Immediate reduction of portfolio emissions.	Uncertain impact, conditional on foundation's leverage and contextual factors.
	Transition finance Investing in assets and activities that are not yet green, but with the explicit objective of transitioning them onto a Paris-aligned pathway.	Immediate impacts unclear, with an initial increase in portfolio emissions possible.	Over time, as it enables real-economy transition and Paris-alignment.
	Green finance Investing in sustainable assets and activities to mitigate ESG risks.	Immediate reduction of portfolio emissions as share of green finance increases.	Uncertain additional impact but aligned with the transition of the real-economy.
	Impact investing Investing in assets and activities that create, measure, and manage impact.	Immediate impacts unclear, with an initial increase in portfolio emissions possible.	Over time, as it enables real-economy transition and Paris-alignment, including its social dimensions.

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/\ 01 INTRODUCTION

The climate crisis represents an existential threat to society and, by extension, to the objectives of most endowed foundations. Given their public-benefit mandate and long-term perspective, foundations bear a particular responsibility to contribute actively to sustainable solutions, also through their endowments. Specifically, foundations should adhere to Article 2(c) of the Paris Agreement, which calls for aligning financial flows with pathways towards low greenhouse gas emissions and climate-resilient development. Failing to account for climate risks in investment decisions may not only undermine foundations' financial resilience but also conflict with their overarching mission. As such, integrating climate considerations into investment strategies should be viewed as a minimum requirement to ensure alignment with foundation purposes (Facing Finance, 2022).

Most foundations lack investment strategies that are both aligned with their mission and resilient to climate-related financial risks. A survey of German foundations indicates that few institutions have established robust policies for sustainable asset management (Facing Finance, 2023). Environmental, social and governance (ESG) factors are rarely considered in a systematic manner. Many foundations either neglect sustainability aspects altogether or rely on vague, non-binding principles. This misalignment between long-term foundation goals and actual investment strategies presents a structural challenge that requires targeted solutions.

This report outlines sustainable investment strategies to help foundations align their endowment management with greater climate ambition and responsibility. This analysis begins by highlighting the responsibility that foundations bear for their financed emissions, even in the absence of direct managerial control over emissions-intensive assets. It challenges the prevailing focus on portfolio decarbonisation as a sufficient climate strategy and calls for a broader rethinking of how impact is defined and pursued. The report underscores the need to balance financial objectives, mission-driven impact and regulatory obligations. Within this field of tension, it identifies a set of levers that can support foundations in shifting from conventional investment approaches to strategies that proactively integrate environmental, social, and governance considerations. In doing so, foundations can not only fulfil their fiduciary duty to manage climate-related risks but also contribute meaningfully to real-economy decarbonisation and tangible climate impact.

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FINANCED EMISSIONS: WHAT RESPONSIBILITY DO FOUNDATIONS HAVE?

The finance sector continues to channel substantial funds into industries misaligned with the Paris Agreement, notably coal, oil, and gas. Approximately USD 3.7 trillion flows annually into fossil fuel infrastructure, including oil and gas extraction and coal production (World Economic Forum, 2023). Financial institutions, including foundations, that invest in or facilitate high-emission assets bear responsibility for their proportionate share of financed emissions (Scope 3, Category 15). Financed emissions make up the vast majority of financial institutions' total emissions, with investment, lending, and underwriting activities generating, on average, more than 700 times the emissions of their direct operations (CDP, 2021).

Financial institutions' reluctance to halt fossil fuel financing and reallocate capital to green and transitional measures appears paradoxical, given their inherent dependence on long-term economic stability. For foundations, this contradiction is even more pronounced, as their societal mission is increasingly jeopardised by climate change. Short-termism, combined with regulatory and market environments that fail to internalise negative externalities, drives financial institutions to continue funding environmentally harmful activities while allocating insufficient resources to green and transitional activities (Lütkehermöller, Marquardt and Kachi, 2023).

Financial institutions often have limited influence over their financed emissions, as they lack direct managerial control over emissions-intensive assets in their portfolios (Kachi and Marquardt, 2022). A foundation invested in a steel company, for example, has no direct managerial say on whether and how the steel company decarbonises. However, this lack of direct managerial control does not absolve the foundation of responsibility; rather, it underscores the need for foundations to closely evaluate their impact strategy. Through approaches such as corporate stewardship, exclusionary policies and sustainable finance provision, foundations can steer and support the decarbonisation of the assets they hold, and by extension, of the wider real economy. Some of these strategies may involve costs or potential trade-offs in financial returns. Others may be more effective at reducing portfolio emissions than achieving real-economy decarbonisation, or vice versa. This underscores the need for a clear, tailored investment strategy that reflects each foundation's objectives, risk tolerance, and capacity for implementation.

Portfolio decarbonisation alone does not necessarily translate into real-economy emissions reductions and may even lead to unintended negative impacts. The emphasis on net-zero portfolio targets, promoted through initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), has reinforced a strong focus on reducing financed emissions. However, net-zero portfolio targets have not demonstrated tangible impact to date and have attracted widespread criticism for their underlying impact logic, weak design, and lack of accountability

(Lütkehermöller, Marquardt and Kachi, 2023; Sachs, Mardirossian and Toledano, 2023; Stockholm Environment Institute, 2024). Instead, the focus should be on financing activities that lead to actual or future emissions reductions, particularly in sectors where abatement is difficult.

Foundations collectively own and manage substantial assets, granting them significant financial leverage to steer and fund transitions. As of 2023, public-benefit foundations in Germany managed EUR 68 billion in assets (Philea, 2023), a value close to the GDP of countries such as Slovenia or Luxembourg. Across 24 European countries, foundations collectively oversaw EUR 647.5 billion in assets. Globally, the ten largest foundations and endowments collectively managed over USD 563 billion in 2023 (Thinking Ahead Institute, 2024b). With their societal mandates, foundations have the capacity and the responsibility to deploy their endowments proactively to address the climate crisis.

/ Λ 03

BALANCING MOTIVES, REGULATORY AND MARKET ENVIRONMENTS

How foundations invest and manage their endowments is shaped by tensions between their impact and economic motive and influenced by market factors and regulatory requirements. Foundations must navigate these motives and factors to develop investment approaches that balance financial returns with their broader societal and legal responsibilities.

The financial motive is central and financial returns are fundamental even for foundations with a primary social mission (Facing Finance, 2022). Investment income is a key source of funding for grant-making and the preservation of endowments, and a legal requirement in some countries, such as Germany (Bundesamt für Justitz, 1990). Foundations must also manage financial risks, including those linked to carbon exposure and broader sustainability challenges. Climate change is increasingly amplifying both idiosyncratic risks at the firm level and systemic risks across the economy, making these factors highly relevant to long-term asset performance and, ultimately, to the preservation of foundation endowments.

The impact motive is increasingly important, as foundations seek to align their investments with their mission. At a minimum, foundations should ensure their investments do not contribute to environmental or societal harm, such as that perpetuated by the climate crisis. However, their mandate allows them to go further by actively using their capital to generate positive impact through investment strategies aligned with their mission. This often extends beyond simply excluding unsustainable activities to proactively targeting sustainable investment opportunities and, in some cases, engaging in impact investing.

Beyond financial and impact motives, the regulatory environment sets the boundaries for how flexibly foundations can shape their investment strategies. Contemporary interpretation of fiduciary duties is evolving to increasingly encompass environmental, social and governance (ESG) considerations, particularly within the European market (UNEP FI, 2019). In contrast, developments in the United States have taken a divergent path, with the rise of anti-ESG sentiment influencing regulatory and political dynamics. In the EU **(see → Table 2)**, the Sustainable Finance Disclosure Regulation (SFDR) and the phasing-in of the Corporate Sustainability Reporting Directive (CSDR) impose new mandatory disclosure and reporting requirements for financial institutions, including foundations.

Although the proposed Omnibus Package, introduced in February 2025, risks weakening the CSRD by narrowing its scope, simplifying reporting requirements, and removing sector-specific sustainability standards. It may also undermine the SFDR by delaying the revision of ESG disclosure rules and weakening the classification framework for sustainable investment funds (Kolmogorova, 2025).

Tab. 2

Regulatory environment defining foundations' investment landscape

Regulation	Region	Stringency	Description
Sustainable Finance Disclosure Regulation (SFDR)	EU	Legally binding	Requires EU asset managers and other financial market participants to disclose how they integrate sustainability risks and impacts in their investment decisions, including for Scope 3 emissions.
Corporate Sustainability Reporting Directive (CSRD)	EU	Legally binding	Expands EU rules on corporate ESG disclosure, requiring large and listed companies and financial institutions to report regularly on environmental and social risks and impacts, including in Scope 3 emissions.
EU Taxonomy Regulation	EU	Legally binding	Establishes a common classification system for environmentally sustainable economic activities, aligned with EU climate goals (net zero by 2050).
TCFD-Aligned Climate Disclosures	UK	Legally binding	The UK has mandated Task Force on Climate-related Financial Disclosures (TCFD)-aligned reporting for large companies and financial institutions (HM Treasury, 2024).
UK Stewardship Code 2020	UK	Voluntary framework	A voluntary set of principles for institutional investors and asset managers on responsible investing and engagement, with a focus on ESG (FRC, 2020).
SEC Climate Disclosure Rule	US	Legally binding	In 2024 the U.S. Securities and Exchange Commission finalised rules requiring public companies to disclose climate-related risks, financial impacts, and greenhouse gas emissions in their SEC filings (SEC, 2024).
Task Force on Climate-Related Financial Disclosures (TCFD)	Global	Voluntary framework	A private-sector led framework (endorsed by the G20) that developed recommendations for companies and investors to voluntarily disclose climate-related risks and opportunities in a consistent way.

/Λ 04 RETURN VERSUS IMPACT

The terminology used to describe sustainable, transition-aligned, or impact-driven investments is often vague, inconsistently applied and prone to misinterpretation. Reporting and disclosure requirements such as those listed in → **Table 2** have significantly improved the regulatory basis for accurate reporting, but available standards and guidance are still far from perfect. In the absence of robust regulatory frameworks and standards, financial institutions, driven primarily by return expectations, may market products as 'ESG-aligned', 'green', 'transitional' or 'impactful' without a clear basis, resulting in greenwashing, transition washing, or impact washing. This lack of clarity makes it difficult for foundations to distinguish between genuinely impactful investments and those that simply carry an appealing label. To support more informed decision-making, the following section examines how different types of investment balance financial returns and real-world impact, providing guidance on how to navigate this complex and at times misleading landscape.

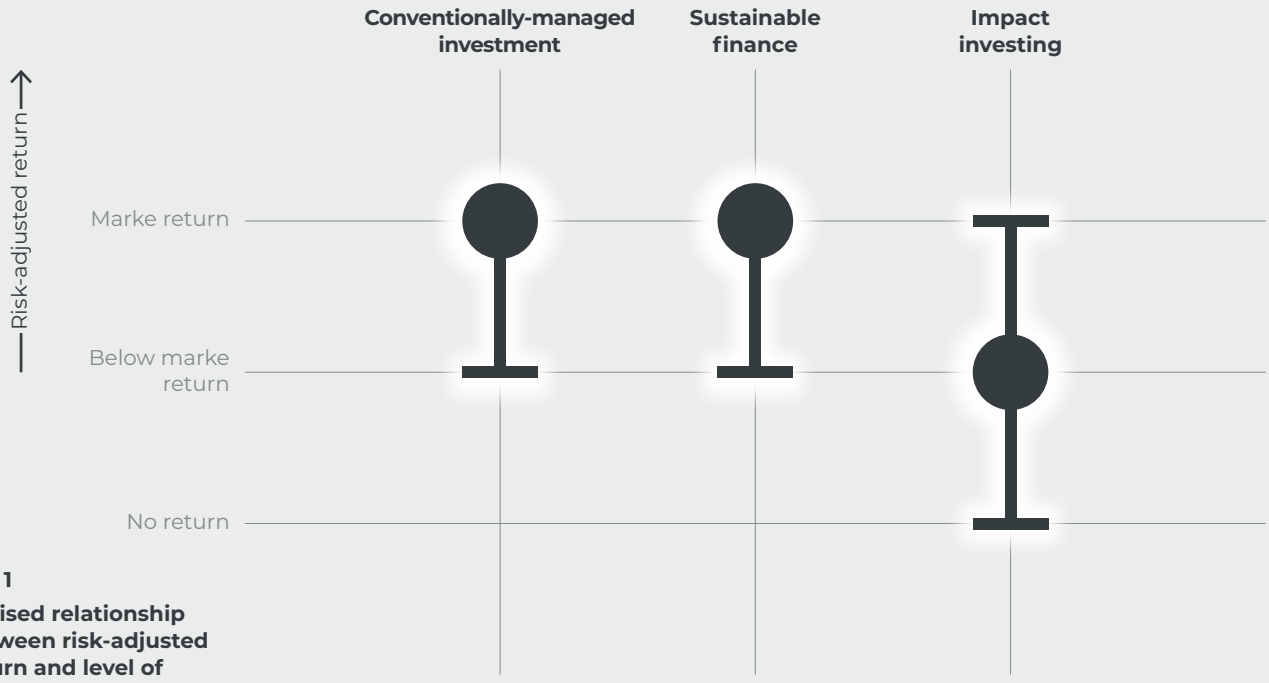

Fig. 1

Stylised relationship between risk-adjusted return and level of impact-orientation

While returns can vary significantly across investment types, the point-range plot provides a simplified illustration of the expected average return and its potential range.

Despite the generally increasing financial and regulatory pressure to integrate ESG factors, conventionally-managed assets still constitute the largest share of financial institutions' investments (Bundesinitiative Impact Investing, 2022; PwC, 2022). Traditional investing without ESG integration can generate market-rate returns, but ESG considerations are increasingly viewed as a fiduciary duty and a key risk management tool. Regulatory and market developments are amplifying both idiosyncratic (firm-level) and systemic (economy-wide) risks, which may compromise returns in the medium to long term if not adequately addressed through ESG integration (Doherty et al., 2023).

Sustainable finance can generate market-rate returns and, in some cases, even outperform conventional investments (IEEFA, 2024). However, the term encompasses a broad range of investment instruments, and risk, return, and impact appetites and expectations may vary significantly across investor types. Negative screening is a viable approach to manage ESG risks within market-oriented strategies. While this approach can enhance risk management, it may come at the cost of foregoing short-term gains, such as those seen during the recent oil and gas boom. A stronger focus on green finance is a more proactive approach, for example through thematic investments in renewable energy, which have in some cases outperformed the market (PRI, 2024a). Some investors may want to engage in transition finance, which, if applied with integrity, can be a highly impactful transition support instrument but may present a less attractive risk-return profile (Harnett, Elizabeth; Holland, Tricia; Crouch-Hess, 2024; Mak, Winnie; Vinelli, 2024).

Impact investing prioritises social or environmental benefits over financial performance (RSM, 2024). Because of its impact-first approach, impact investing strategies can involve higher costs, higher risks and lower returns in exchange for measurable impact. Ultimately, the greater the impact an investor seeks to achieve, the more financial trade-offs may be required, specifically when targeting activities and investments that would not attract private capital otherwise. That said, the industry largely expects impact investing to generate market-rate returns (GIIN, 2024) and frequently reports financial performance exceeding expectations (BlueEarth Capital, 2024). This could be explained by the expanding market for effective impact investing products and blended finance instruments, which can lower due diligence costs and mitigate risks, making market-rate returns achievable. However, expectations regarding impact investing returns may also be overstated due to inconsistent definitions of impact investing.

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INSTRUMENTS FOR CLIMATE IMPACT

Foundations can steer their capital allocation and corporate stewardship to ensure their endowments do not generate impacts misaligned with their mission while, in some cases, leveraging their portfolio to create mission-driven impact. Corporate stewardship should be an integral part of all investment strategies, but the way in which foundations can exercise it may be limited by their investment management approach. Capital allocation strategies vary in their function and impact on emissions, and foundations may face capacity or regulatory constraints that limit their ability to implement certain approaches. It is important to recognise that the extent to which foundations can effectively apply capital allocation and stewardship strategies varies, influenced both by their level of direct control (such as whether asset management is outsourced) and by the costs associated with implementation. In light of these differences, efforts should generally be directed where they are most likely to achieve meaningful impact and concrete results, while also recognising that a combination of different strategies is needed to maximise impact.

Where foundations outsource investment management, they must ensure that asset managers exercise corporate stewardship and capital allocation strategies aligned with the foundation's mission. While asset managers often have greater capacity and access to engage with investee companies, evidence shows that many continue to hold harmful industries, limit sustainability considerations to a small subset of funds, and fall short on responsible investment commitments (ShareAction, 2025). Foundations should therefore conduct thorough due diligence when selecting asset managers and engage actively with them on the stewardship and investment strategies described below.

Tab. 3
Framework of sustainable investing strategies for foundations

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	Impact investing Investing in assets and activities that create, measure, and manage impact.	Immediate impacts unclear, with an initial increase in portfolio emissions possible.	Over time, as it enables real-economy transition and Paris-alignment, including its social dimensions.

5.1 CORPORATE STEWARDSHIP

Corporate stewardship (engagement and voting) is among the most effective tools available to financial institutions for steering investee companies or issuers on climate action (Lütkehermöller et al., 2020; Kachi and Marquardt, 2022; NZAOA, 2024). For foundations, stewardship can serve as a tool to influence their investees and issuers to act in line with their mission, for example by driving corporate climate action, promoting responsible business conduct, or mitigating financial and reputational risks. Through engagement, voting, and advocacy, foundations or their asset managers can push companies to implement credible transition plans, disclose emissions and adopt policies that support broader societal objectives, ultimately aligning their investment strategies with their purpose.

Corporate stewardship can help lower portfolio emissions and support real-economy decarbonisation and transition, though progress is often gradual. Stewardship efforts should focus on influencing investee companies or issuers to decarbonise, but in hard-to-abate sectors, this process can be time-intensive and complex. Divesting from emissions-intensive companies to decarbonise a foundation's portfolio may be easier, but is not always the most responsible approach, as targeted engagement may more effectively support a credible and lasting transition of the investee company. When applied in a targeted and transition-oriented way, stewardship enables foundations to contribute to a broader economic transition beyond their investment portfolios.

Corporate stewardship is most effective when the timing, market context, level of control, and the credible threat of escalation provide the engaging party with leverage (Hoepner and Schneider, 2022; Kachi and Marquardt, 2022; Reclaim Finance, 2023a; Brown et al., 2024; NZAOA, 2024). However, corporate stewardship and specifically direct engagement can be resource-intensive and costly, leading many financial institutions, including large ones, to underutilise it (Heath, Macciocchi and Ringgenberg, 2024; Thinking Ahead Institute, 2024a). This does not mean that foundations, particularly smaller ones, should disregard engagement as a tool for influence. Instead, they should identify strategic pressure points where their efforts can yield the greatest impact, for example such as through their asset manager, bank or provider of investment products.

HOW FOUNDATIONS CAN EXERCISE IMPACTFUL CORPORATE STEWARDSHIP:

Stewardship policies of foundations, or their asset managers, should prioritise investee companies and issuers where support is needed and meaningful impact is achievable. It should include a framework for identifying promising engagement opportunities while also recognising cases where engagement is

unlikely to succeed due to fundamentally misaligned business models or unfeasible transition timelines (e.g. activities that should be excluded from the investment universe of foundations, see → **Table 4**). The stewardship policy should include a time-bound schedule for engagement activities, underpinned by a credible escalation strategy in cases of non-compliance, such as exclusions or divestment (Verney, 2024). Clear targeting and structured escalation help focus resources on activities with the highest potential to drive meaningful change. When asset management is outsourced, foundations should assess and actively engage with their asset managers to ensure the credibility and ambition of their stewardship policies.

Foundations, or their asset managers, should develop a stewardship strategy that tailors engagement tools to each asset class (UNPRI, 2025). For equity investments, they can leverage direct or collaborative engagement and shareholder rights to drive climate action. For passive investments, engagement should focus on influencing index providers, which have significant leverage (Heeb and Kölbel, 2024), and exercising voting rights on climate resolutions. In fixed income markets, where engagement is often more resource-intensive, influence should be applied strategically, particularly at key moments such as new issuances or debt rollovers. These moments provide critical leverage to set clear expectations on transition plans and emissions disclosure for both corporate and sovereign issuers. In private markets, where investors can have greater control, stewardship should emphasise aligning governance with net-zero pathways, transition plans and implementing decarbonisation initiatives. Outsourcing stewardship can be an option to broaden reach with limited resources, but this requires diligent monitoring to ensure no misalignment with objectives.

Stewardship strategies should be outcome-driven (UNPRI, 2024a). To ensure an outcome-driven stewardship strategy, foundations should establish clear metrics to monitor progress, regularly assessing investee company commitments and climate alignment. Transition plans can be a key vehicle for streamlining this. A structured escalation process should be defined, moving from direct engagement to shareholder resolutions or divestment if necessary. Transparent reporting is essential, with public disclosure of engagement objectives, actions and outcomes. Foundations should verify and monitor the stewardship activities of their asset managers by engaging them on their reporting.

Foundations can enhance their leverage and impact by engaging collaboratively with other investors (FAIRR, 2025). In the UK, for example, the Charities Responsible Investment Network (CRIN) supports charities on collective engagement through a platform that enables collaborative knowledge sharing and advocacy (ShareAction, 2024). This is particularly relevant for smaller foundations, which often lack the individual resources or leverage to drive meaningful impact.

5.2 EXCLUSIONARY POLICIES

Exclusionary policies are among the most effective tools for financial institutions to limit exposure to emissions-intensive companies with no feasible pathway to Paris alignment. A foundation may choose to exclude or divest from unsustainable technologies or business models to decarbonise its investment portfolio, align its portfolio with its mission and mitigate carbon risks. The threat of divestment from invested assets should also serve as a means of escalating engagement when other influence strategies prove ineffective. In fixed-income markets, denial of re-entry offers an additional mechanism, allowing foundations to withhold refinancing from misaligned companies by leveraging influence over maturing bond debt or other recurring investments.

"Exclusionary policies" as used in this report includes all forms of exclusionary or negative screening. Note that these types of policies are related to other forms of screening, such as positive screening, best-in-class approaches, or norm-based screening.

The impact of exclusionary policies on portfolio emissions is strong, but a causal link to real-economy emissions can be uncertain. For exclusionary policies to credibly influence real-economy emissions, they must effectively raise capital costs for targeted companies and signal market disapproval (Caldecott et al., 2022). If they fail to do so, divestment only results in the ownership of emissive assets and associated financed emissions being merely transferred, potentially to investors with less commitment to climate considerations. This can ultimately weaken pressure on investee companies or issuers, providing them with greater flexibility to disregard climate-related risks and transition efforts (Caldecott, 2024). While the foundation would decarbonise its portfolio, real-economy emissions may actually increase as a result.

The impact of exclusionary policies on capital costs for investee companies and issuers remains contested (Ansar, Caldecott and Tilbury, 2013; Berk and Binsbergen, 2021). Whether divestment or exclusion increases capital costs for a targeted company depends on factors such as the foundation's influence or size, asset class and market liquidity (Kachi and Marquardt, 2022). Generally, exclusion is most effective in less liquid markets, such as specific fixed-income segments, while its impact is more limited in highly liquid secondary equity markets. While large, coordinated exclusion or divestment announcements can send strong market signals with lasting impact, empirical evidence shows that individual exclusion or divestment decisions have limited impact (Plantinga and Scholtens, 2024). For small foundations seeking to create impact beyond portfolio decarbonisation, prioritising corporate stewardship and leveraging networks of like-minded investors **(see → Section 5.1)** is especially important, as exclusion and divestment alone often fail to deliver real-economy outcomes.

HOW FOUNDATIONS CAN EXERCISE IMPACTFUL EXCLUSIONARY POLICIES:

Foundations should begin developing their exclusionary policies by clearly defining their objectives. Whether the goal is portfolio decarbonisation, aligning investments with the foundation's mission, mitigating carbon risk as a fiduciary duty, using the threat of divestment as an engagement tool or influencing real-economy emissions, each objective requires a different policy design and implementation approach. While exclusionary policies may contribute to real-economy decarbonisation, foundations should critically assess their potential impact within the specific market context. Clarity on intent is also essential to prevent unintentional greenwashing, ensuring that policies, actions and expected outcomes are aligned with their actual impact. Where asset management is outsourced, foundations should engage their asset managers to ensure the use of credible exclusionary policies.

Comprehensive coverage and scope are crucial for an effective exclusionary policy but can be challenging to implement. Coverage refers to applying exclusions across all relevant asset classes with stringent materiality thresholds, ensuring that even minimal exposure to unsustainable activities is restricted. Scope defines which activities are classified as unsustainable and included in the exclusion list **(see → Table 4)**. When the objective is portfolio decarbonisation and eliminating exposure to unsustainable activities, a broad and stringent approach is preferable. If the goal is carbon risk reduction, a more targeted policy may be more cost-effective.

Technologies and activities warranting direct exclusion are those that cannot align with science-based benchmarks or pathways consistent with economy-wide decarbonisation by 2050. Exclusion lists should be seen as dynamic, with their scope and stringency expected to expand over time following science-based benchmarks and rationale **(see → Table 4)**. Exclusion lists should account for forward-looking assessments of transition feasibility, which foundations can operationalise through targeted engagement on transition plans, focusing on cases where time-bound engagement can credibly drive alignment with climate targets and ensure consistency with accepted temperature pathways.

Exclusionary policies must be binding and effectively enforced. Investors often view exclusionary policies as a last-resort escalation measure when corporate stewardship fails, but they tend to shy away from divestment (Finck et al., 2020). As a credible form of escalation, exclusion is only effective if the threat of divestment is real (i.e. foundations must adhere to a predefined timeline and act decisively when engagement does not lead to meaningful progress). Additionally, exclusionary policies should be designed without loopholes, such as broad exceptions or case-by-case evaluations, which could undermine their effectiveness of weaken their impact.

Tab. 4

Potential exclusion list elements, non-comprehensive list, taken from Reclaim Finance (2023b, 2023c, 2023d)

Exclusion lists should not be limited to fossil fuel exposure. Other unsustainable practices, such as deforestation, can also warrant exclusion. While there is currently less guidance on defining exclusion criteria beyond fossil fuels, resources such as Deforestation Free Finance (2023) and Forest 500 (2024) offer useful frameworks as starting points for deforestation-focussed due diligence by financial institutions.

Sector	Exclusionary scope	Rationale
Coal (Reclaim Finance, 2023b)	Stop support for all companies which participate in the expansion of the coal sector.	For a path to 1.5°C, no new coal mines, mine extensions or new unabated coal plants are needed (IEA, 2023).
	Stop support for companies which derive more than 10% of their revenues from coal mining, and of companies which produce annually more than 10 million tons of coal.	
Oil & gas (Reclaim Finance, 2023c)	Stop support for companies that are still involved in new upstream and midstream oil and gas projects (conventional and unconventional).	For a path to 1.5°C, no new long-lead time upstream oil and gas projects are needed (IEA, 2023).
	Make support to oil and gas companies conditional on a commitment to adopt: - Reduction targets by 2030 in oil AND gas production. - A comprehensive climate transition plan that allows investors to assess it against a 1.5 °C scenario as a benchmark. - This climate transition plan is submitted to an annual vote at the AGM.	
Power sector (Reclaim Finance, 2023d)	Stop support for companies which derive more than 10% of their power production or installed power capacity from coal, and of companies with more than 2.5 GW of coal-fired power capacity.	To align with a 1.5°C pathway, all unabated fossil fuel power projects need to close by 2040 worldwide (2030 for coal and 2035 for gas in OECD countries and Europe) (IEA, 2022; IISD, 2022; IEA, 2023; Reclaim Finance, 2023d).
	Make support to power companies conditional on a commitment to: - Bring their fossil fuel activities close to zero by 2035 in OECD and European countries, and by 2040 worldwide. - Allocate most of their CAPEX to renewable energy, excluding unsustainable energy sources. - A comprehensive climate transition plan that allows investors to assess it against a 1.5°C scenario as a benchmark and is subject to an annual consultative vote at the AGM.	
	Stop support for companies that sell any fossil fuel-fired plant, unless strong guarantees exist that the plants will be closed or converted in a sustainable and Paris aligned way.	

The appropriate timing for applying exclusionary policies varies by asset class. For publicly traded liquid assets, such as equities and bonds, screening rules are applied during portfolio construction and ongoing management (UNPRI, 2024b). Ongoing review can lead to further analysis or automatic inclusion/exclusion of securities. In contrast, for privately traded illiquid assets, such as real assets and private equity, screening occurs primarily pre-investment, as selling later is more complex. Here, exclusions are followed by detailed due diligence. Across all asset classes, effective monitoring, transparent reporting and regular reviews are essential to ensuring policy integrity.

5.3 TRANSITION FINANCE

Transition finance can be an effective tool to link investments in, or finance for, emissions-intensive companies to a science-based transition pathway. Transition finance thus supports high-emission sectors in shifting towards sustainability by financing transition activities, such as adopting cleaner technologies or reducing carbon intensity (European Commission, 2024). By supporting transition finance, foundations can direct capital towards the most challenging areas of decarbonisation, particularly hard-to-abate sectors.

While the ultimate goal is long-term decarbonisation, transition finance may initially lead to higher portfolio emissions. For example, if a foundation chooses to support transitional activities at a steel company, either by increasing its equity stake or by providing financing, its portfolio emissions may initially rise. Because of this, some argue that transition finance does not fit a sustainable finance definition that is grounded in the principle of 'Do No Significant Harm' (DNSH) (Glennon, 2024). Transition finance, however, is essential for enabling the transition of the real economy. Portfolio decarbonisation targets may disincentivize investors from allocating capital to transitional activities.

Commercially viable transition projects and companies remain scarce, creating a significant barrier to scaling transition finance (Harnett, Elizabeth; Holland, Tricia; Crouch-Hess, 2024; Responsible Investor, 2024). The private sector, without public support, tends to underinvest in this space. The complexity of identifying credible transition investment opportunities and the risk of transition washing can also be unattractive. Foundations, given their broader mandate beyond financial returns, are well positioned to take on a stronger role in bridging this investment gap and accelerating the transition, but cost and capacity barriers remain key limitations for most foundations.

HOW FOUNDATIONS CAN EXERCISE IMPACTFUL TRANSITION FINANCE:

Foundations, or their asset managers, need to operationalise a consistent definition and classification of transition finance. Some guidance and taxonomies are starting to emerge (see → **Table 5** for a non-comprehensive overview), but the concept of transition finance and guidance on implementation are mostly still in their infancy. Purpose, scope and credibility of transition activities are extremely difficult to define, and transition washing risks are significant (Harnett, Holland and Kessler, 2023). As such, effective management of transition finance can be resource-intensive, requiring investment teams to assess and validate the credibility of investee companies' transition plans. Effective monitoring and reporting of foundations' transition finance are also critical to mitigating the risk of carbon lock-in associated with it (OECD, 2023).

Tab. 5
Transition finance taxonomies and guidelines

Taxonomy	Description	Type
GFANZ Transition Finance Framework Glasgow Financial Alliance for Net Zero (GFANZ)	Industry-led definition of transition finance, proposing it as an umbrella covering already ''aligned'' green activities, ''aligning'' high-emitting firms, and managed phase-out of carbon-intensive assets.	**Focus:** Green and transition finance **Type:** Industry-led **Geography:** Global **Status:** In development
Climate Transition Finance Handbook International Capital Market Association (ICMA)	Guidance for bond issuers on aligning financing with credible climate transition plans.	**Focus:** Transition finance **Type:** Industry-led **Geography:** Global **Status:** Active
Frameworks to Assess Transition Climate Bonds Initiative	Offers methodologies for assessing and categorizing the credibility and maturity of corporate transition strategies. It aims to guide investors, asset owners, and policymakers in identifying credible transition activities within high-emitting sectors, facilitating the mobilization of capital towards genuine climate action.	**Focus:** Transition finance **Type:** Industry-led **Geography:** Global **Status:** Active
Canada Green & Transition Taxonomy Sustainable Finance Action Council (Gov. of Canada)	Taxonomy being developed to classify both green and transition activities to align financial flows with Canada's climate commitments.	**Focus:** Green and transition finance **Type:** Government/ industry collaboration **Geography:** Canada (closely aligned with US regulatory interest) **Status:** In development

Transition finance in the fixed income market is primarily delivered through sustainability-linked bonds (SLBs), transition bonds, sustainability-linked loans (SLLs) and transition loans. Sustainability-linked loans and bonds provide general-purpose financing that is tied to issuer-level sustainability targets (KPIs). In contrast, transition bonds and loans require that proceeds are allocated to specific transition-related activities. While green or sustainability bonds and loans can, in principle, also support the transition of emissions-intensive companies, their strict use-of-proceeds criteria, limited to clearly defined environmentally beneficial projects, may offer less flexibility, particularly for the types of transitional activities needed in hard-to-abate sectors (Riordan, 2019). Although the market for sustainability-linked and transition instruments has grown significantly since 2018, green bonds remain dominant, accounting for nearly 60% of all labelled bond issuances in 2024 (World Bank, 2025). Labelled transition bonds remain a niche instrument, with Japan emerging as a frontrunner in developing sovereign and corporate frameworks (Lester, 2025). Foundations can invest in sustainability-linked and transition instruments through active funds, passive funds as well as directly if they have the capacity to assess and monitor individual instruments.

In equity markets, scaling credible transition finance is more challenging than in debt markets, but it will be essential to enable the decarbonisation of high-emitting sectors. Private equity, particularly climate tech-focused venture capital, is currently the most relevant equity instrument for transition finance (OECD, 2022). Private equity firms are well positioned to drive transformation in investee companies by leveraging their strategic vision, operational expertise and hands-on management approach (Eisenberg, 2025). Foundations can access this space through transition-themed private equity funds, though the market remains nascent and relatively underdeveloped. In listed equity markets, foundations can exercise corporate stewardship to engage investee companies on transition activities, although their influence is generally more limited compared to the direct control possible in private equity settings. The effectiveness of such engagement depends heavily on the ability to understand credible transition pathways and monitor investee companies' progress along these pathways. In this context, company transition plans are essential, as they provide a structured basis for dialogue and enable investors to focus engagement on specific targets, milestones and actions needed to achieve net-zero alignment.

Transition plans are a prerequisite for investees and issuers to seek transition finance (Holland, Harnett and Thompson, 2024), and a key mechanism for foundations to target support towards transition activities. However, a significant challenge lies in assessing the often questionable credibility and robustness of investees' or issuers' transition plans (CDP, 2023), especially in the absence of third-party verification. Ensuring that these plans align with credible decarbonisation pathways, include clear interim targets and demonstrate measurable progress is critical. → **Table 6** provides an overview of the emerging guidance on how foundations can systematically evaluate transition plans to enhance the effectiveness of their sustainable finance strategies.

Tab. 6

Transition plan assessment guidance for financial institutions

Guidance	Description
Expectations for Real-Economy Transition Plans Glasgow Financial Alliance for Net Zero (GFANZ)	A blueprint distilling existing frameworks to help corporates develop credible net-zero transition plans. It outlines the critical components and key metrics companies should disclose so that financial institutions can evaluate the progress and credibility of those plans. By harmonizing what data financial institutions need (e.g. science-based targets, interim milestones, capital allocation), it enables financial institutions to assess whether a company's transition strategy is aligned with 1.5°C climate goals.
Transition Plan Taskforce (TPT) Disclosure Framework UK Transition Plan Taskforce	Official guidance setting out 'gold standard' for companies to develop and disclose robust transition plans. The Transition Plan Taskforce framework provides a comprehensive set of disclosure recommendations (built around principles of Ambition, Action, and Accountability) for what a credible climate transition plan should cover. This helps financial institutions evaluate corporate plans by standardizing expectations on targets, decarbonization strategies, financing actions, and governance of the transition.
Guidance to Assess Transition Plans Climate Bonds Initiative (CBI)	Provides a framework for evaluating the credibility of corporate transition plans, emphasizing the framework: Ambition, Action, and Accountability. It outlines five hallmarks of a credible transition plan, including clear performance targets, robust implementation strategies, and transparent reporting. This guidance assists financial institutions in assessing companies' commitments and actions towards achieving net-zero emissions.
Assessing the Credibility of a Company's Transition Plan: Framework and Guidance World Benchmarking Alliance	A harmonised framework for evaluating the credibility of corporate transition plans, aimed at financial institutions and other assessors. It provides criteria and indicators focused on ambition, feasibility, and alignment with the Paris Agreement, including sectoral and regional pathways. The guidance emphasises moving beyond disclosure to assessing the substance of plans, helping investors and lenders identify credible transition leaders and laggards.

5.4 GREEN FINANCE

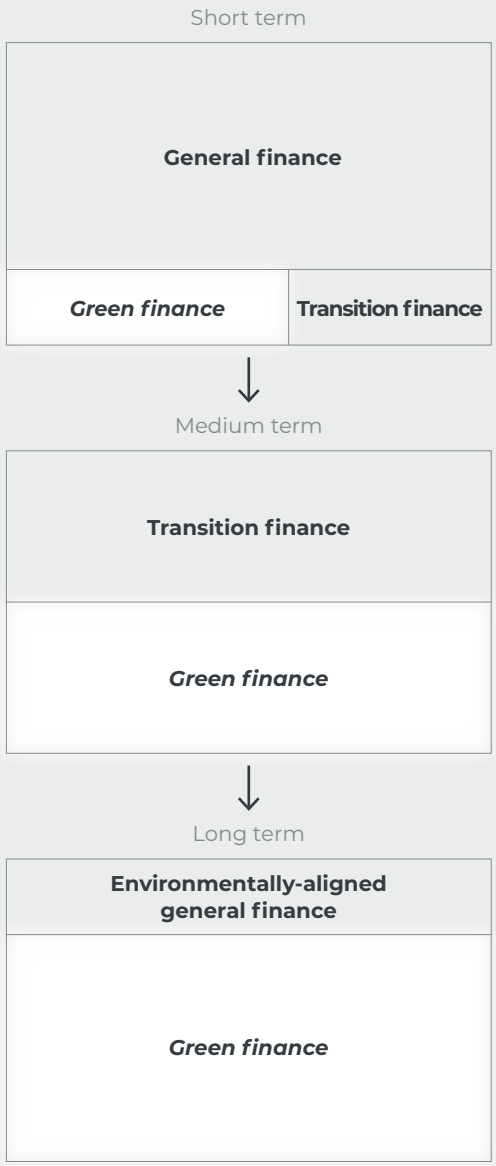


Fig. 2
Evolution of general, green, and transition finance, based on Leung (2024)

Green finance is among the most effective and proactive strategies to mitigate ESG risks by increasing capital allocation to sustainable assets. Compared to transition finance, green finance focuses on funding projects and activities that are already sustainable (European Commission, 2024). This includes investments that perform strongly on environmental criteria and contribute to the green economy, for example in sectors like renewable energy. When investors focus on financing a specific category of green activities, this approach is known as green thematic investing (PRI, 2024b).

By increasing the share of green finance, foundations can reduce the emissions intensity of their portfolios. For foundations, increasing the share of green finance in addition to taking a transition finance approach to investments in hard-to-abate sectors can combine portfolio emissions exposure reductions with a view to contributing to the real-economy transformation. Importantly, however, foundations should not claim avoided emissions from green investments as a means to offset emissions from high-emitting assets in their portfolios. Green finance must be assessed on its own merits and not used to justify continued exposure to unsustainable activities.

Green finance is expected to become the norm as the real economy undergoes structural transformation and emerging technologies enable economy-wide decarbonisation (see → Figure 2). In this context, transition finance should serve as an essential intermediate step, transforming general finance into environmentally aligned and green finance in the medium to long term. Specifically, by supporting high-emitting sectors in aligning with climate goals, transition finance facilitates the shift towards more sustainable financial systems. In the long term, all finance should either qualify as green or environmentally aligned general finance.

HOW FOUNDATIONS CAN EXERCISE IMPACTFUL GREEN FINANCE:

Foundations, or their asset managers, need to operationalise a consistent definition and classification of green finance. Classification tools can include taxonomies or customised positive screening lists based on established guidance as provided in → **Table 7**. However, these taxonomies and lists often present challenges, as they tend to be static, subject to interpretation and, in the absence of a standardised definition for green finance, vary in quality and ambition.

Tab. 7
Green finance taxonomies and guidelines

Taxonomy	Description	Type
EU Sustainable Finance Taxonomy EU Commission	Regulatory classification of environmentally sustainable economic activities in the EU, guiding green investment disclosure for companies, banks, and investors.	**Focus:** Green finance (includes some transitional activities) **Type:** Regulatory **Geography:** EU **Status:** Active
Common Ground Taxonomy International Platform on Sustainable Finance (IPSF)	Collaborative initiative by the EU and China to compare green taxonomies and identify overlapping environmentally sustainable activities.	**Focus:** Green finance **Type:** International collaboration **Geography:** Global **Status:** Active
UK Green Taxonomy HM Treasury / Green Technical Advisory Group (UK)	Post-Brexit sustainable finance taxonomy aligning broadly with EU Taxonomy to define green economic activities in the UK.	**Focus:** Green finance **Type:** Regulatory **Geography:** UK **Status:** In development
ISO 14030-3:2022 Green Taxonomy International Organization for Standardization (ISO)	An international standard defining a taxonomy of eligible categories and criteria for projects, assets, and expenditures that can be financed by green debt instruments (bonds or loans).	**Focus:** Green finance **Type:** Standards body **Geography:** Global **Status:** Active
Climate Bonds Initiative (CBI) Taxonomy Climate Bonds Initiative	Industry-led global taxonomy defining criteria for climate-aligned green finance, used as a reference in many regulatory frameworks worldwide.	**Focus:** Green finance **Type:** Industry-led **Geography:** Global **Status:** Active
Green Bond Principles (GBP) International Capital Market Association (ICMA)	Voluntary bond issuance guidelines for financing projects with clear environmental benefits. The Green Bond Principles promote transparency in use-of-proceeds reporting and integrity in the green bond market.	**Focus:** Green finance **Type:** Industry-led **Geography:** Global **Status:** Active

Fixed income markets offer some of the most accessible and standardised avenues for green finance. Green bonds and loans have become well-established instruments, offering liquidity, stable performance and transparency. Annual issuance reached USD 700 billion in 2024, driven by the mandated integration of ESG criteria into corporate strategies on the supply side and growing investor demand for sustainability and carbon risk mitigation on the demand side (BIS, 2025). These markets are increasingly supported by evolving certification frameworks, such as those developed by the Climate Bonds Initiative (CBI), which help guide investors and reduce greenwashing risks (CBI, 2025). For foundations, direct investment in fixed income instruments, or through active or passive funds, provides a relatively straightforward way to align portfolios with climate goals at market rates.

Equity markets offer accessible opportunities to support green finance, but not all investments labelled as ESG-compatible genuinely contribute to environmental goals (KPMG, 2024). For foundations, ESG-themed mutual funds and exchange-traded funds (ETFs) are among the most straightforward investment vehicles, more accessible than direct ESG-focused investments in listed or private companies. These funds have seen significant inflows in recent years, particularly in European markets, helping offset declining flows in the United States (Pucci, 2025). However, even ESG-labelled funds often fail to shield investors from fossil fuel exposure. An analysis of over 14,000 ESG funds traded on European markets found that more than one third held investments in companies either actively expanding fossil fuel operations or lacking credible Paris-aligned coal phase-out plans (Urgewald, 2025). Foundations should work closely with their asset managers to ensure that ESG funds genuinely reflect sustainability goals and avoid the risks of greenwashing.

5.5 IMPACT INVESTING

Impact finance is a powerful tool for financing and managing social and environmental objectives, as it intentionally seeks to generate positive, measurable outcomes alongside financial returns. Impact investing is sometimes viewed as a subset of sustainable finance; however, due to its impact-first approach, it differs from the finance-first orientation typically associated with green or transition finance. For foundations, incorporating impact investing into endowment strategies can meaningfully advance their mission, though it often involves higher costs and may require accepting lower financial returns.

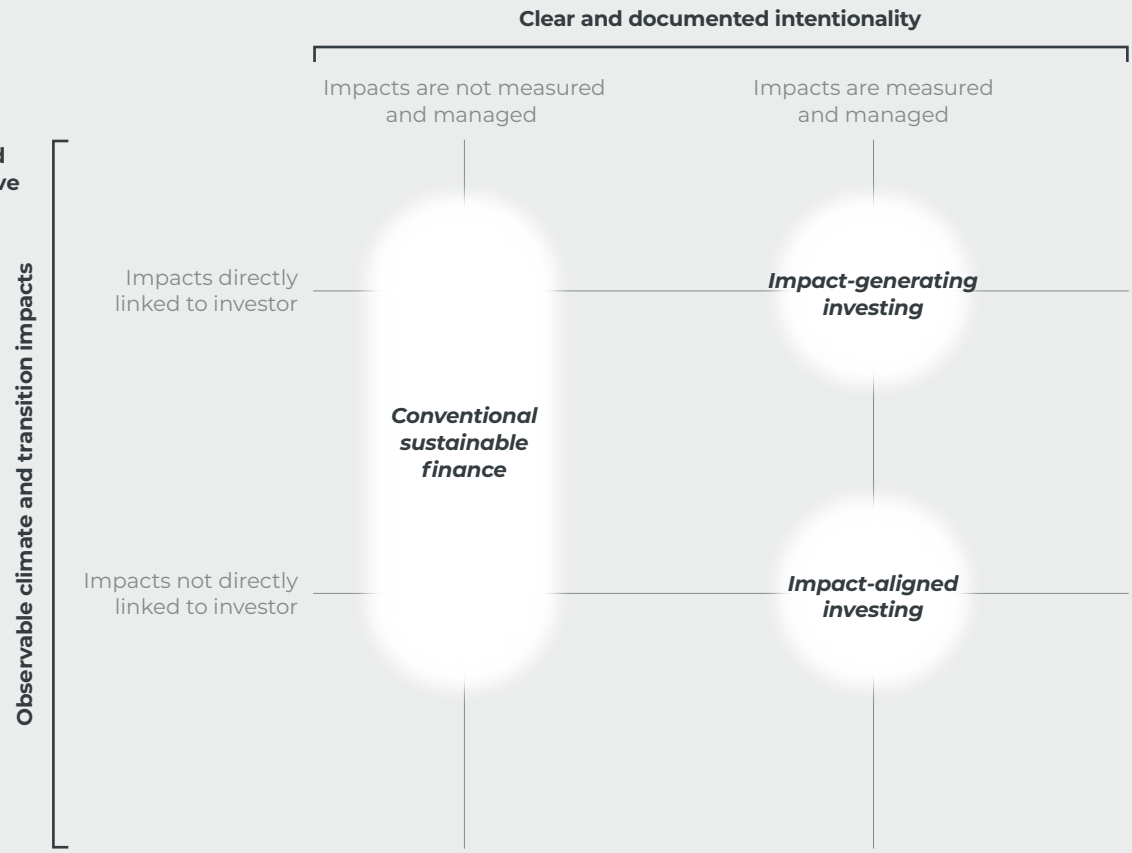
The effect of green impact investing on portfolio emissions is not always immediate or clear-cut. Like transition finance, impact investments may not lead to immediate reductions in portfolio emissions, for example when investments are provided in hard-to-abate sectors or where investments are provided for adaptation and resilience measures. Over the long term, green impact investing can contribute to the broader transition toward a sustainable economy, particularly by supporting the social dimensions of the transition that finance-first strategies often fail to address adequately.

A significant challenge for foundations engaging in impact investing is the lack of clear definitions and the associated risk of impact washing. The absence of standardised criteria can lead to investments being labelled as impactful without delivering genuine social or environmental benefits, undermining the credibility of such strategies. As a result, investors can too easily engage in impact washing, masking finance-first strategies with impact-oriented claims that lack genuine substance (McAteer and Lappin, 2024).

HOW FOUNDATIONS CAN ENGAGE IN IMPACT INVESTING:

Foundations, or their asset managers, must navigate the complex landscape of impact-oriented investments to ensure genuine impact investing. The term is often used interchangeably to describe other forms of sustainable investment practices, making it essential for foundations to establish clear distinctions. Core characteristics include a well-documented intent, observable climate or transition impact and a structured approach to measuring and managing outcomes **(see → Figure 3)**. The degree of direct causal linkage between the investor and the impact distinguishes impact-generating investments from impact-aligned investments. The key factor that sets impact investing apart from sustainable finance, such as thematic investments or transition finance, is the integration of robust impact measurement and management (IMM) strategies.

Fig. 3
Impact and sustainable investing orientation framework, based on Bundesinitiative Impact Investing (2023)



IMM frameworks and principles offer a valuable starting point for foundations looking to implement effective impact investing strategies (see → Table 8). Key elements typically include clearly defining investment objectives, balancing financial returns with impact goals, ensuring investments generate additional positive impact, establishing measurable outcomes and maintaining rigorous monitoring and reporting processes.

Impact investing for climate action remains largely concentrated in private markets, with both private equity and debt experiencing rapid growth (GIIN, 2024). While private equity offers significant impact potential, its illiquidity, extended investment horizons and risk profile may not be suitable for most investors. Private debt, by contrast, can deliver more predictable returns, particularly when deployed through blended finance structures that enhance impact potential while reducing risks. Both direct private equity and private debt require complex due diligence processes that may not be feasible for foundations. However, dedicated private equity and debt funds in the impact investing universe are becoming increasingly diverse and accessible, offering more viable investment options (WEF, 2023).

Tab. 8
Impact management and measurement guidance and principles

Principles & tools	Description
Operating Principles for Impact Management International Finance Corporation and Signatories	A set of nine principles providing an end-to-end framework of best practices for designing and implementing impact management systems across the investment lifecycle. Investors aligning with these global principles commit to integrate impact considerations from strategy to exit and undertake annual disclosure and independent verification of their impact management practices, bolstering transparency and accountability.
IRIS+ Global Impact Investing Network	The generally accepted system for impact investors to measure, manage, and optimise impact, making it easier to translate impact intentions into real results. IRIS+ provides a catalogue of standardised metrics (the IRIS Catalogue) and core metric sets, along with guidance aligned to the Sustainable Development Goals and other frameworks. By improving data clarity and comparability, IRIS+ enables investors and enterprises to use a common language for social and environmental performance and benchmark their impact performance.
Impact Management Platform (IMP) Collaborative Initiative by GIIN, IFC, and others	A forum and consensus-building effort that established shared norms for impact measurement and management. The Impact Management Platform defined impact in terms of five dimensions ('What', 'Who', 'How Much', 'Contribution', and 'Risk) to create a common logic for assessing effects on people and planet. This framework helps enterprises and investors understand, report, and manage their social and environmental impacts in a consistent way, aiming to increase positive outcomes and reduce negatives.
Impact Due Diligence Principles Bundesinitiative Impact Investing	A comprehensive framework for evaluating the potential social and environmental impacts of investments. By aligning with existing regulations such as ESG considerations, the CSRD and the SFRD, these principles ensure responsible and ethical investment practices. They guide investors in systematically assessing both the direct effects of potential investments and their contributions to overall portfolio impact, promoting a standardised approach to impact due diligence within the investment community.
The Charter of Investors for Impacts Impact Europe	Ten principles for impact define the distinctive characteristics that set impact investors (engaged in impact-generating investing) apart from other capital providers, including those involved in impact-aligned and sustainable investing.
Fund-level impact decision-making tools Global Impact Investing Network	Prototype fund-level impact decision-making tools that provide an analytical framework for investors to assess and compare potential positive impacts across sectors, geographies, and timeframes. These tools support informed decision-making on where and how to allocate capital for maximum impact.

Other asset classes also present opportunities for impact investing, though challenges such as impact washing and difficulties in proving additionality remain significant. Fixed income markets are saturated with green and sustainable bonds, which are generally accessible, transparent instruments for foundations. However, even when credible certifications are in place, these investment vehicles typically lack the impact management and measurement frameworks necessary for credible impact investing. Similarly, public equity offers high liquidity, broad diversification and opportunities for shareholder advocacy, yet well-managed impact frameworks are relatively uncommon.

/\ 06 CONCLUSION

Foundations must rethink their investment strategies to ensure the long-term economic sustainability of their endowments while navigating transition and climate-related risks. At a minimum, investments should align with their societal purpose by avoiding harm and, where feasible, they should actively contribute to real-economy impact, all while complying with regulatory requirements.

Crucially, impact should be understood as contributing to real-economy transition and decarbonisation, rather than merely reducing portfolio emissions. While portfolio-level decarbonisation may help mitigate risks and enhance reporting metrics, its effect on broader economic transformation is often limited or even counterproductive.

Given their constrained direct influence on real-economy emissions, foundations must effectively utilise the impact channels available to them. Corporate stewardship and asset allocation are the primary levers for reshaping investment strategies. However, effective implementation depends on various factors, including the investor's profile and market context. There is no single approach; instead, foundations must deploy a combination of tools to maximise impact.

Corporate stewardship is central, as it enables foundations or their asset managers to leverage their financial influence. While smaller foundations may find direct engagement challenging, they can exert pressure through fund providers, proxy service providers and asset managers or participate in collective engagement initiatives with other foundations. Networks of like-minded financial institutions can be a powerful platform to coordinate, exchange and catalyse collective action.

The expanding market for sustainable and impact investments offers a growing range of options, yet the lack of clear and standardised definitions complicates navigation. Greenwashing, transition washing and impact washing pose increasing risks. While sustainable finance and impact investing can be pursued at market rates or alongside viable financial returns, trade-offs exist, such as limited accessibility or less attractive risk-return profiles. Foundations must carefully assess these factors using existing and increasingly emerging guidance to develop investment strategies that are both impactful and financially sustainable.

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