PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT

# TOWARDS TRANSITION INTELLIGENCE: NAVIGATING A MULTI-SPEED TRANSITION THROUGH INVESTOR TRANSITION PLANNING

## Investor Briefing

**January 2026**

An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact

UN environment programme | finance initiative

United Nations Global Compact

# ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of sustainability and governance-related issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating sustainability and governance-related issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. For more information, visit www.unpri.org.

# ABOUT THIS BRIEFING

This briefing highlights the value of transition planning as a tool for investors navigating the complexities of the economic transition to net zero. It builds on an earlier PRI briefing which assessed how investors could respond to evolving climate risks as the world approaches the 1.5C limit of the Paris Agreement, and draws on insights gathered during 2024–2025 from PRI signatories and expert stakeholders.

This briefing examines how a forward-looking approach to transition planning can benefit asset owners and investment managers as they navigate the complexity and uncertainty of the economic transition towards net zero. Following an overview of the economics of the transition, the paper proposes a clear distinction between the formalised disclosures of transition plans – with which many investors are now familiar – and the iterative process of transition planning which is still emergent. The briefing articulates five ways through which professionals in sustainability, risk and investment teams can advance their transition planning through a strategic and iterative approach.

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# EXECUTIVE SUMMARY

Ten years on from the signing of the Paris Agreement, a global economic transition to net zero is well underway, with record investments in clean energy now outpacing investments in fossil fuels. In this transition, pension funds, insurers, other asset owners and their managers play a key role in managing climate-related risks to their portfolios and the systems within which investment operates. Today, worsening climate extremes, the threat of accelerated warming beyond the 1.5C limit of the Paris Agreement and geopolitical tensions, coupled with fast-moving technological changes, continue to reshape the landscape of risk and opportunities for institutional investors.

To deliver on their obligations to protect investments and create value for the long-term, it is essential for institutional investors to understand the dynamics at play in the transition. Making the distinction between transition plans—the formal output—and transition planning—the ongoing process—this briefing articulates five ways through which professionals in sustainability, risk and investment teams can advance their transition planning through a strategic and iterative approach.

- **The transition to a net zero economy is now a defining force shaping global investment flows.** In 2024, investment in the energy transition hit a record US$2.1trn, up 11% from the previous year, while investment in oil, gas and coal totalled US$1.1trn. Wind and solar are the fastest growing electricity sources in recent history, outpacing growth in conventional fossil fuels.
- **Transition capital is being allocated where policy certainty is highest.** Today, the transition is progressing unevenly, slowed by policy volatility in some regions that could delay decarbonisation. In recent years, some key markets – notably the US – have weakened earlier policies supportive of the transition. Levels of climate policy activity remain high in other major markets.
- **Transition planning has emerged as a key tool for entities to respond to, participate in and contribute to the transition to a net zero economy**. Building on the well-established investor practice of building long-term strategies for future risks and opportunities, transition planning can support investors in developing their strategies to navigate the transition. An iterative and dynamic approach to transition planning enables investors to progress while navigating the ongoing uncertainties of complex system change in interdependent financial and economic systems.
- **Investors can benefit from transition planning as a strategic tool, not simply for reporting.** When done well, transition planning is considered by investors to be useful in shaping their strategic ambition, maximising risk-adjusted returns and contributing to system-level stability.
- There are five ways through which professionals in sustainability, risk, and investment teams can deepen their organisation's transition intelligence and enhance their transition planning:

1. **Develop a high-conviction view of how the transition my unfold**
2. **Integrate scenario analysis into investment decision-making**
3. **Consider implementation strategies that support emissions reductions in the real economy**
4. **Focus on value creation and opportunities in the transition**
5. **Engage with policy makers on delivering NDCs and a whole of economy transition**

# INTRODUCTION

The climate crisis poses a material risk to institutional investors. As part of their fiduciary and regulatory obligations, asset owners and investment managers identify, assess and manage climate-related and cross-cutting risks, at the company and system level.[1] The economy-wide transition to net zero is also creating opportunities for companies and sectors that are enabling decarbonisation, adaptation and resilience responses. In response, some institutional investors are examining how the transition is unfolding and how they can position themselves strategically to mitigate risks and generate value in the coming years.

This briefing explores transition planning as a tool for managing the complexity and uncertainty of the global net zero transition. Assessment of market practice suggests that well executed forward-looking transition planning can support investors strategic thinking and action as they prepare for, respond and contribute to the transition to a net zero economy.

Today, investors and companies benefit from a wealth of resources to support them as they develop transition plans. Moving forward, it will be important to ensure transition planning is harnessed as a strategic process – not only as a reporting or compliance exercise – to ensure that investors and investees realise the full potential of this work. For investment professionals considering their organisation's approach to the transition, a strategic approach means using and refining key tools including transition forecasting and scenario analysis and mobilising these as inputs into decision-making. It also means harnessing levers for driving decarbonisation in the real economy, including through asset allocation and stewardship.

Given the dependencies between investors and the economies in which they operate, investor engagement with policy makers is also an essential component of transition planning. Without decisive action from governments to reduce system-level risk by committing to and implementing national policy in line with 1.5C pathways, the transition to net zero – already manifesting unevenly across different markets – will be further delayed, locking in potentially catastrophic levels of risk.

Institutional investors depend on policy makers to implement ambitious NDCs – and the policy frameworks, implementation plans and sectoral roadmaps underpinning these – in order to be able to take actions that mitigate system-level risks, seize the opportunities of the transition and deliver on their core business of creating and protecting value for clients and beneficiaries.

The PRI offers signatories a range of opportunities to deepen their engagement with policy makers in support of the transition and encourages continued focus in this area of responsible investment.

**Defining Transition Planning**

**Transition Planning:**
A dynamic, iterative process through which an entity develops an organisation-wide approach to the broader economic transition to net-zero. This includes defining how they will adapt or transform operations, strategies and business models to align with their stated goals, and integrating these goals across the organisation. Investors' approach to transition planning may cover how they make investment or capital allocation decisions, undertake stewardship and stakeholder engagement, conduct business operations, embed governance and more. Transition planning is not a standalone, compliance exercise. It is an ongoing process, which includes monitoring progress and necessarily requires an active approach to updating and reevaluating approaches over time.

**Transition Plans:**
The formal output – often a public disclosure – which details how the entity plans to achieve its stated goals. Established frameworks for disclosing transition plans include the formalised pillars of (1) outlining the strategic ambition, (2) setting metrics and targets, (3) developing the implementation strategy, (4) designing the engagement strategy and (5) establishing governance processes.

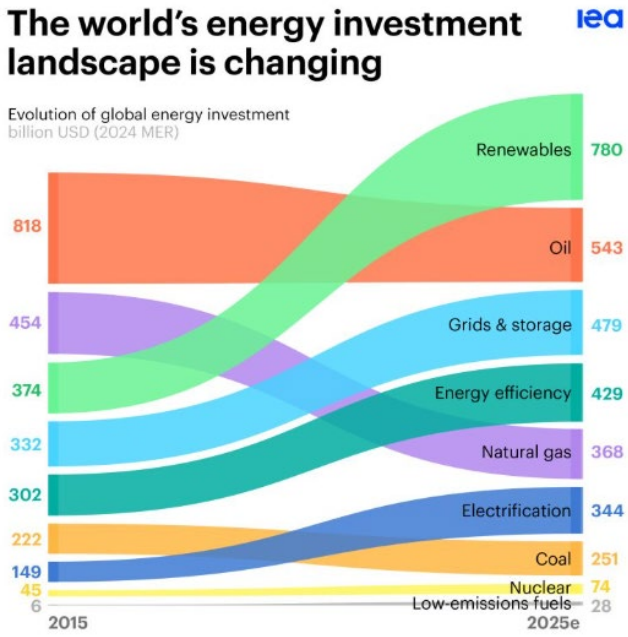
[1] Cross-cutting risks refer to the interconnected risks across social, nature, climate and other sustainability issues.

# THE ECONOMIC TRANSITION TO NET ZERO

**The transition to a net-zero economy is well under way, although progress is uneven and propelled by multiple complex dynamics.**

The transition to a net zero economy is now a defining force shaping markets and investment flows. Following the 2015 Paris Agreement, the transition accelerated markedly. In 2024, global investment in the energy transition hit a record US$2.1 trillion, climbing 11% from the previous year.[2] This was almost twice as much as went to conventional oil, natural gas and coal. Renewables are now viewed in some contexts as lower risk than fossil fuels for reasons of energy security and independence. Renewable growth has also been an important factor in powering economic growth sectors including electric vehicles (EVs) and artificial intelligence (AI) in recent years.[3,4]

**Figure 1. The evolution of global energy investment, 2015–2025**




IEA (2025), World Energy Investment 2025

While growth in renewables outpaces that seen in conventional fossil fuels, new low-emission energy sources have generally supplemented the energy mix as total energy demand increases, rather than displacing fossil fuel sources. Despite projections that global coal consumption is likely to plateau and begin its decline in 2026, emissions from coal are currently at an all-time high, inconsistent with low-carbon transition pathways. Greater efforts will be needed to reduce the contribution of high-carbon energy sources to the energy mix.[5]

Further challenges in the energy transition relate to the energy grid and sector deployment. Investments in the energy grid have struggled to keep pace with the rise in power demand and the deployment of renewables.

Meanwhile a "two-speed transition" is emerging. Capital is flowing rapidly to mature sectors, such as renewable energy and electrified transport, where technology is proven, commercially scalable and business models are established. By contrast, emerging sectors, including CCS, clean industry and hydrogen, face challenges around affordability, technology maturity and commercial scalability and attracting less investment as a result.[6]

Real economy government policy remains a critical driver of market confidence. In the US, the 2022 Inflation Reduction Act (IRA) catalysed record investment and job creation in clean and transition industries, but recent announcements halting federal funding for green infrastructure have introduced uncertainty and risks of asset devaluation.[7] In the EU, ambitious decarbonisation policies remain intact, though proposals to dilute disclosure requirements could weaken transparency, making it more challenging for investors to assess progress on climate risk and transition by portfolio companies. In other major markets, progress continues, with India, Japan and China rapidly scaling the deployment of clean energy.[8]

[2] BloombergNEF (2025), Global investment in the energy transition exceed $2 trillion for the first time in 2024

[3] Smith School of Enterprise & Environment (2024), Energy transition well underway despite interest rate setbacks

[4] IEA (2025), World energy investment 2025

[5] IEA (2025), Coal – Latest findings

[6] BloombergNEF (2025), Energy transition investment trends 2025

[7] Financial Times (2025), Donald Trump halts more than $300billion in US green infrastructure funding

[8] UN (2025), Secretary-General's Press Encounter on Climate

# WHY TRANSITION PLANNING?

**Transition planning can serve as a tool for responding to, participating in and contributing to the transition to a net zero economy. An iterative and dynamic approach to transition planning enables investors to progress while navigating the ongoing uncertainties of complex change in interdependent financial and economic systems.**

For investors, planning for the transition is an extension of the established investment practice of developing long-term strategies based on views regarding future risks and opportunities. As such, transition planning sits within the ordinary exercise of an investor's fiduciary obligations to identify, assess and manage risks. These may be physical and transition risks that can pose a material threat to protecting and creating value over the short-, medium- and long-term, as well as system-level risks which can compound, cascade or aggregate to affect financial and economic systems.

Informed consideration of the transition can support investors in safeguarding performance and maintaining system-level stability. Investors may use transition planning when developing key elements of their strategy, including asset manager selection and mandates, strategic asset allocation, investment decision-making and stewardship activities.

Specifically, investors can use the transition plans of portfolio companies to take advantage of emerging opportunities. Doing so allows investors to identify companies and sectors providing innovative climate solutions and supports investor understanding of firm-level progress and preparedness for what is ahead. Investors operate in an interdependent system in which they influence and are influenced by the transition planning of investees and the policies set by regional and national governments. Accordingly, investors' own transition planning is subject to dependencies.[9]

Investors can undertake transition planning as a means of being "flexible, iterative, dynamic, and responsive to new information and external developments."[10] An iterative approach to transition planning enables entities, including investors, financial institutions and non-financial companies, to make progress in implementing their plans, even while navigating ongoing uncertainties associated with external dependencies.

**There has been continued momentum behind the uptake of transition planning in major markets and sectors over recent years.**

Between 2022 and 2024, there was a 53% increase in the number of major financial institutions with published formal transition plans.[11] Uptake is also growing among institutional investors: 56% of institutional investors surveyed for the Global State of Investor Climate Action report said they disclose transition plans or specific elements of their plans.[12] At the company level, one in four companies reporting to CDP disclosed having a transition plan.[13]

Beyond the disclosure of formal transition plans, financial institutions are undertaking a wide range of activities to prepare for the transition. The growth of transition planning in the market has been supported by the development of voluntary frameworks, as well as the maturation of transition-related reporting in major jurisdictions.[14]

The adoption of transition planning has also, in part, been driven and supported by policy developments. For instance, the EU has implemented mandatory requirements for companies to adopt and disclose climate transition plans as part of the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). While the CSRD sets a disclosure requirement (i.e. publish the plan), the CSDDD sets a behavioural obligation for in-scope financial and non-financial companies to adopt and put into effect plans to ensure their strategy is compatible with the Paris Agreement goal of limiting warming to 1.5C (i.e. strategic planning exercise).[15]

[9] World Business Council for Sustainable Development (2025), A practical guide on transition plan dependencies

[10] Transition Plan Taskforce (2024), Transition planning cycle

[11] RMI (2024), We reviewed the climate disclosures of the world's 100 largest financial institutions

[12] The Investor Agenda (2025), The global state of investor climate action

[13] CDP (2024), 1.5C still the goal: Businesses disclosing climate transition plans jumps nearly 50%

[14] Taskforce on Net Zero Policy Matters (2024), Net Zero Policy Matters

[15] At the time of drafting, these requirements are currently subject to revision under the ongoing Omnibus I amendments, which propose to remove the requirement to implement the plans from the CSDDD legislation.

Canada, India, Japan, South Africa and the UK have also introduced policies for voluntary adoption of transition plans, and consultations on the adoption of mandatory requirements are underway.[16,17,18] Beyond their effects on disclosures, these regulatory developments have also contributed to the rise in transition planning activity more generally.

# TRANSITION PLANNING AS A TOOL FOR NAVIGATING THE COMPLEXITY AHEAD

## KEY COMPONENTS OF TRANSITION PLANS

**As work on transition planning has matured, a growing consensus has emerged on the key components of transition plans.**

In recent years, financial and non-financial companies have benefited from an increasing number of resources designed to support the development and disclosure of transition plans, including sector-agnostic and sector-specific guides. While frameworks vary by sector, there are commonalities among the key components of transition plans and the underlying processes.[19]

**Strategic ambition** – The preparer establishes its objectives and priorities for responding and contributing to the transition to a net zero economy. The strategic ambition provides a clear picture of the preparer's vision on the trajectory of the transition, and whether and how it is preparing for and contributing to it. This step in the process is also where the preparers will consider the key assumptions and dependencies shaping their strategic ambition.

**Metrics and targets** – The preparer develops transparent, measurable and robust metrics and targets to drive and monitor progress toward its strategic ambition, such as targets for reducing greenhouse gas emissions or increasing climate-aligned portfolio allocation.

**Implementation strategy** – The preparer defines the actions being taken to deliver on the organisation's strategic ambition, identifying key decarbonisation levers, such as within business operations, products and services.

**Engagement strategy** – The preparer describes how it will engage with peers within the sector, companies within its portfolio and/or value chain and relevant government and public sector bodies, communities and civil society to achieve strategic ambition.

**Governance** – The preparer identifies how it will embed the transition plan within its governance and organisational structures.

For investors, asset owner and investment manager guidance from the Transition Plan Taskforce identifies the specific considerations and implementation approaches for their business activities.[20,21] While the guidance on transition plans issued in recent years has defined the characteristics of meaningful disclosures, more work is needed to support investment professionals with the strategic transition planning process.

## TRANSITION PLANNING AS A STRATEGIC TOOL

**Transition planning is best understood as a strategic tool, not a compliance exercise.**

Some institutional investors are now prioritising and taking a strategic and iterative approach to transition planning even as the reporting of transition plans remains voluntary. A driving factor behind this is the belief that good transition planning is a prudent strategic and risk management exercise, rather than just a disclosure and compliance exercise. Viewed in this way, transition planning is a part of wider strategic process, wherein investors and investees assess the drivers of value in a changing global economy and determine approaches for maximising value across a range of time horizons. Done well, investors consider this process to be useful in shaping their strategic

[16] Taskforce on Net Zero Policy Matters (2024), Net Zero Policy Matters

[17] UK Government Department for Energy Security and Net Zero (2025), Transition plan requirements

[18] International Transition Plan Network (2025), Global transition plan requirements

[19] Assessing Transition Plans Collective (2024), Framework and Guidance V1

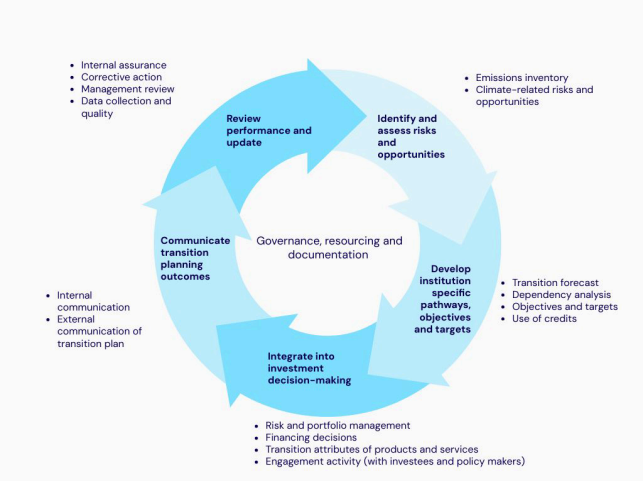
[20] IFRS, Transition plan taskforce resources

[21] In 2024, the IFRS Foundation has assumed responsibility for the TPT's disclosure-specific resources and has drawn on these to develop guidance on disclosing information about transition plans in accordance with IFRS S2: IFRS (2025), IFRS Foundation publishes guidance on disclosures about transition plans

ambition, maximising returns and contributing to the management of system-level risks.

New guidance under consultation from the International Standards Organisation (ISO) seeks to complement and support existing practice with specific recommendations on credible transition planning in the financial sector, establishing the key features of transition planning for financial institutions and affirming the iterative, strategic nature of this work (Figure 2).

**Figure 2. Net zero transition planning for financial institutions – key features**




Adapted from ISO/DIS 32212 Sustainable Finance – Net Zero Transition Planning for Financial Institutions[22]

# TOWARDS TRANSITION INTELLIGENCE: 5 KEY CONSIDERATIONS FOR A STRATEGIC APPROACH

Building on the foundation set by established frameworks, many investors are now deepening their own approaches to transition planning, signalling the emergence of a more sophisticated form of 'transition intelligence,' designed to help navigate the complex, interdependent risks and opportunities on the path to net zero. This is based on the notion that beyond developing and disclosing transition plans—which are widely recognized as useful—there is value in taking a strategic and comprehensive approach to understanding how the transition will unfold and how to respond or contribute.

The following section explores emerging insights from market practice, including from PRI signatories. It proposes five key considerations through which investment leaders can develop this transition intelligence and benefit from a strategic approach to transition planning.

1. **Develop a high-conviction view of how the transition my unfold**
2. **Integrate scenario analysis into investment decision-making**
3. **Consider implementation approaches that support real economy decarbonisation**
4. **Focus on value creation and capturing the opportunities of the transition**
5. **Engage with policy makers on delivering NDCs and a whole-economy transition**

## DEVELOP A HIGH-CONVICTION VIEW OF HOW THE TRANSITION MAY UNFOLD

**Developing a high-conviction view on how the transition may unfold is key to determining strategic ambition at the organisational level, and allows investors to allocate capital with confidence amidst change and complexity. A high-conviction view can be informed by forecasts of key trends such as sectoral supply and demand shifts, as well as anticipated changes in policy direction and implementation.**

Developing a high-conviction view of the transition requires building informed expectations about how structural economic changes, policy shifts and technological developments will reshape markets and value chains. Transition forecasts can feed into this by providing a structured framework for anticipating energy system transformation and sectoral changes, supporting investment planning.

Indeed, evidence from the past five years reveals that having a well-defined base case, or forecast, is good practice that can lead to improved risk management, capital allocation and long-term investment performance. For example, in portfolio construction, the forecasting of developments in climate policy and energy transition has been shown to improve portfolio allocations and allow asset managers to prepare for

[22] ISO (2025), ISO/DIS 32212: Sustainable finance – net zero transition planning for financial institutions

transition risks while capturing upside opportunities.[23] Further, transition investments using deep-learning model forecasts in some cases outperform traditional heuristics in predicting profitable projects in the power sector.[24] Most recently, portfolios integrating transition forecasts have been shown to have lower volatility than those that do not.[25]

The Inevitable Policy Response (IPR) has developed the Transition Forecast which can be used alongside quarterly tracking to support the development of a high-conviction view of the transition. IPR has broadened investor forecasting to cover the transition as a whole, including comprehensive assessments of policy and technology developments across both energy and land systems. The 2025 IPR forecast represents the median outlook of around 250 transition experts across 15 transition sectors and 21 countries. Investors are using these insights to develop their own beliefs on the transition and influence strategy. Quarterly tracking by IPR further supports investors in this work by tracking policy announcements to help build an understanding of the speed and scale of the energy, land and nature transition as it unfolds.

## INTEGRATE SCENARIO ANALYSIS INTO INVESTMENT DECISION-MAKING

**Long-term investors can benefit from integrating climate scenario analysis into the investment process to build agile, informed strategies to better navigate the uncertainty of the transition. Following several years of experience in doing, or using, climate scenario analysis, a growing number of investors are working to more fully integrate insights from scenario analysis in their investment processes.**

Climate scenario analysis helps investors prepare for a range of potential futures. Already a well-established tool in investment risk assessments, scenario analysis works best as a means to "prepare, not predict". It is used to explore key drivers of potential future scenarios across a range of financial and non-financial themes.

Using scenarios which account for the nuances of potential physical and transition risks, while being sensitive to ways in which markets may price in such risks – or correct through potential market shocks – enables investors to build agile, informed strategies to better navigate the uncertainty of the transition.[26]

Scenarios can be used to stress test investor strategy, with the aim of developing resilience across most or all scenarios.[27] Specifically, climate scenario analysis can be used to adjust company earnings projections and cash-flow outlooks to account for evolutions in physical and transition risks – such as extreme weather events, carbon pricing or technological change. Climate scenario analysis can also be applied to the sizing of new markets emerging from the transition, assessing long-term demand sensitivity to decarbonisation trends, exploring geographical exposure to climate risks and informing macroeconomic views under different climate futures.[28]

In addition, bespoke, qualitative climate scenarios can complement decision-making by incorporating non-marginal change and addressing a broader range of risks and opportunities.[29] Such scenarios also present the opportunity for investors to include their own views on the trajectory of the transition, including by developing forward-looking measures of transition risk and opportunity, such as through the use of in-house scenarios based on carbon earnings-at risk[30] and third-party scenarios, for example those provided by service providers.[31]

A growing number of investors are working to integrate insights from climate scenario analysis in their decision-making processes, by developing approaches combining climate and other macro drivers, and developing frameworks to integrate climate scenario analysis into the investment process.[32] This integration is intended to better account for future climate-related risks and opportunities in investment strategy.

[23] Benedetti et al (2021) Climate change investment risk: optimal portfolio construction ahead of the transition to a lower-carbon economy

[24] Wang et al (2024), Deep neural network for investment decision planning on low-carbon transition in power grid

[25] Ciner and Karagozoglu (2025) Climate Change Uncertainty and Volatility of Clean Energy Portfolios: An Asset Pricing Perspective | Portfolio Management Research

[26] World Economic Forum (2023), How climate scenarios can help investors build portfolio resilience

[27] PRI (2024), Climate Scenario Analysis: Overview for PRI signatories

[28] Morgan Stanley (2023), Integrating climate scenario analysis into the investment process

[29] Economics of Energy Innovation and Systems Transition (2023), Net-zero transition planning for pension funds and other asset owners

[30] Which estimates risk to the portfolio posed by future carbon prices.

[31] FCLTGlobal (2025), Ahead of the curve: Factoring the cost of carbon into long-term decision making

[32] USS Pension (2023), TCFD Report 2023

## CONSIDER IMPLEMENTATION STRATEGIES THAT SUPPORT EMISSIONS REDUCTIONS IN THE REAL ECONOMY

**System-level climate risks are managed where the real economy is decarbonised. Stewardship tools can be central in supporting the implementation of real economy decarbonisation. In designing implementation strategies, including stewardship approaches, it is useful to consider companies' capital expenditure (CapEx), operational expenditure (OpEx) and research and design (R&D) budgets, in addition to forward-looking targets and plans.**

Investors can benefit from transition-related activity that prioritises emissions reductions in the real economy. This is because decarbonisation in the real economy helps to reduce system-level risk and improve returns and resilience. Investors may therefore benefit from transition planning approaches which embrace financing reduced emissions, rather than reducing financed emissions. Some approaches to target-setting and implementation strategy risk overemphasising portfolio decarbonisation, which occurs when targets rely on shifting portfolios away from high-emitting sectors rather than financing the companies and sectors undergoing the transformations necessary to transition to a net zero economy. Portfolios that are decarbonised only on paper are likely to remain exposed to system-level financial risks.

In pursuit of a reduction in emissions, investors can undertake stewardship with investees regarding their corporate strategy and governance. Stewardship tools – including nominating and voting on directors, filing and voting on shareholder resolutions, engaging management and negotiating terms during debt refinancing – can enable investors to support companies in achieving emissions reductions.[33]

Importantly, this engagement can help investors understand how portfolio companies are positioned to perform under the conditions of a dynamic transition to net zero amid worsening impacts of accelerating climate change and biodiversity loss. Some investors are making progress in this regard, often supported by resources such as the Climate Action 100+ company benchmark,[34] Science Based Targets Initiative (SBTi) corporate net-zero standard[35] and Transition Pathway Initiative carbon performance assessments.[36] Others are designing their own assessment indicators to capture the climate transition readiness of companies in their portfolio.[37] To do this, investor transition planning is reliant on the transition planning process – and formal disclosures included in transition plans – of their portfolio companies. Where investors find companies are unable to demonstrate effective management of climate risks, or to articulate a credible vision for transitioning their business in line with net zero, they can determine appropriate steps for engagement, including the potential to reduce exposure where deemed necessary.

When it comes to evaluating the transition plans of portfolio companies, many PRI signatories find that that while forward-looking targets and plans are important, it is paramount to see capital flowing in the right direction.[38] To assess the credibility of portfolio companies' transition plans, investors examine financial figures, such as CapEx, OpEx and research and development (R&D) budget directed towards transition activities, and revenue generation from low-carbon or transition-related activities.[39] This information enables sectoral or peer-level benchmarking and provides investors with decision-useful data which goes beyond the information provided through forward-looking targets.

By understanding how companies are allocating capital and generating revenue from transition-related activities, investors can more effectively steward investee companies, encouraging greater alignment with pathways toward net zero. This, in turn, allows investors to make more informed investment decisions that support real economy decarbonisation and help mitigate system-level climate risks. Ultimately, such insights can support long-term value creation and returns.

[33] Sierra Club (2025), The long term will be decided now: Why climate risk demands system-level action from investors

[34] Climate Action 100+, Company benchmark

[35] Science Based Targets Initiative, The corporate net zero standard

[36] Transition Plan Initiative, Sectors

[37] PRI (2025), Neuberger Berman: How to identify companies that are making progress to net zero

[38] Based on feedback and discussions with PRI signatories in the development of this paper.

[39] Consistent with the emphasis investors place on this information, the Assessing-Transition Plans Collective, which develops guidance for assessing the credibility of company transition plans, lists unclear or limited information regarding current and future financial resource allocation as a 'red flag' which assessors should consider.

## FOCUS ON VALUE CREATION AND OPPORTUNITIES IN THE TRANSITION

**Transition planning can support investors in capturing new growth opportunities, including through climate solutions, transition and adaptation finance and opportunities in emerging markets and developing economise (EMDEs). Global allocations to climate solutions have been accelerating across a range of asset classes and a growing universe of transition-critical technologies and nature and adaptation solutions.**

Capital allocations to climate solutions are on the rise globally. By late 2023, members of the UN-convened Net Zero Asset Owners Alliance, had invested US$555bn in climate solution investments, up from US$380bn the year before – a 46% increase in just 12 months.[40] Major pension funds in most markets are expanding investments in climate solutions across equity and fixed-income portfolios, targeting companies, products and technologies that contribute to emissions reductions by decarbonising high-carbon sectors or producing zero carbon energy.[41]

Some investors are also seizing opportunities in private markets, committing billions to private-market climate solutions. Many long-term investors see promise in private markets due to their long-term investment horizons and growth potential.[42] Targeted private equity funds, such as those focused on companies supporting decarbonisation, are on the rise, attracting record investments across different types of investors across markets.[43]

The investment theme of climate solutions is broad by design, but predominantly targets companies, products and technologies that either reduce the emissions profile of current production methods – such as hydrogen-based steel manufacturing – or are inherently low-carbon – such as renewable energy. Among the major investors embracing private markets as a vehicle for investing in climate solutions is the California Public Employees' Retirement System (CalPERS), which expanded its US$100bn climate solutions investment strategy by an additional US$9.7bn, a significant portion of which is in private markets.

Beyond mitigation investments, there has also been significant acceleration in private finance for nature and biodiversity, with an elevenfold increase between 2020 and 2024, to reach US$102 billion.[44] In adaptation and resilience, in which private sector finance for adaptation-relevant activities was estimated to be US$4.7 billion between 2019 and 2022, growing market demand is creating investment opportunities, including in resilient infrastructure, drought-resistant agriculture, urban cooling solutions and early warning systems. [45,46]

Investors are also looking to emerging markets, where opportunities are being driven by economic growth, rising energy demand and the need for large-scale investment in renewable energy, climate resilience and transition-critical low-carbon technologies. In these markets, where country-specific risk and high external financing costs often constrain investor appetite, blended finance can play a role in bridging the interests of public and private capital. Such vehicles help de-risk investments in EMDEs where emission reductions will contribute to curbing the majority of future global emissions.[47] Encouragingly, international investors continue to demonstrate interest in supporting the transition in EMDEs, supported by a range of financing mechanisms.[48]

## ENGAGE WITH POLICY MAKERS ON DELIVERING NDCS AND A WHOLE-ECONOMY TRANSITION

**Investors can support an orderly transition to net zero by engaging with policy makers to deliver stable and ambitious policy frameworks. National plans provide key information about whether governments are prepared for – and enabling – the transition to net zero, and where engagement can support stronger ambition and implementation. Engagement between policy makers and investors is key for both financial and real economy reforms.**

[40] UN AOA (2024), Demonstrating 1.5C-aligned decarbonisation

[41] Net Zero Investor (2024), Why are asset owners opting for climate investments in private markets?

[42] Net Zero Investor (2024), Why are asset owners opting for climate investments in private markets?

[43] Reuters (2024), Verdane raised about $750 million for energy transition fund

[44] UN Environment Programme Finance Initiative (2024), Private finance for nature surges to over $102 billion

[45] Boston Consulting Group (2025), Investment Opportunities in the Climate A&R Market

[46] Climate Policy Initiative (2024), Tracking and Mobilizing Private Sector Climate Adaptation Finance

[47] Network for Greening the Financial System (2025), Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies

[48] Organisation for Economic Cooperation and Development (2025), Mobilising private finance for development, climate and biodiversity in emerging markets and developing economies

Investors seeking to manage system-level risks and safeguard the long-term interests of beneficiaries benefit from engagement with policy makers in support of an enabling policy environment. This includes stable and ambitious policy frameworks to delivering an orderly transition to net zero. In the context of investor transition planning, these enabling policies strengthen investor confidence in the trajectory of the transition and support alignment in the private sector. As such, investors benefit from engaging with policy makers to support credible, country-level strategic actions on climate change, biodiversity loss and enabling a just transition.

As with corporate transition plans, investors can use national transition strategies and plans as a tool for engagement as they provide information about governments' preparedness for and efforts to enable the transition to net zero, and where engagement can support stronger ambition and implementation. Just as investors rely on an enabling policy environment, policy makers need confidence that their reforms can attract private capital. Investor–policy maker engagement is particularly relevant to the development of transition scenarios and forecasts, where investors and policy makers can build shared conviction about the trajectory of the transition in specific sectors.

Policy interventions, including legislated carbon prices, regulations or incentives for low-carbon economic activity, among others, can inform and facilitate corporate plans, and give investors the confidence that these plans can be delivered. Furthermore, company-level actions often rely on evolutions outside of their sector and core activities. For example, entities may rely on emissions reductions achieved through a transition to renewable energy, but this is dependent on grid expansion and modernisation, which falls outside of their own operations and is dependent on action in other sectors, often spurred by government intervention. Therefore, clarity on sectoral pathways and roadmaps can provide important decision-useful information: sectoral transition plans from national governments can help support investment by providing policy direction, inform investor and company-level transition planning, and support more nuanced assessments of transition plans.[49]

In high-emitting and hard-to-abate sectors, this work is particularly important, and such plans can attract transition-capital from investors bolstered by the support of state-level investments. This is already underway in some markets; a key pillar of the UK Transition Finance Council's playbook is the bringing together of investors, businesses and policy makers to co-create system solutions.[50] The direction offered by sectoral plans and pathways, combined with engagement between public and private actors, are key aspects of the integrated transition planning ecosystem, which can help to deliver a whole-system response.[51] Coordination architecture is being developed to support this kind of connection across the system – a key element in managing the interdependencies of different actors in the transition.[52]

Of particular relevance to investor transition planning are investible NDCs (national transition targets, strategies or related policy architecture), which send clear signals to global markets and facilitate capital flows toward the economic transition to net zero.[53,54] Specifically, where governments complement national transition plans with investment plans, they may attract and raise public and private capital to support the implementation of NDCs and seize the opportunities of the transition. In this way, governments can send clear, long-term signals on their commitment to the transition and help the private sector assess the long-term viability of investment opportunities—critical information for investors making investment and capital allocation decisions.[55,56]

Another important lever for investors is engagement with sovereign issuers. Sovereign and sub-sovereign bond investors play a pivotal role in driving national transition pathways, as their engagement can influence fiscal policy, climate commitments and the credibility of net zero strategies. Instruments such as green, sustainability-linked and transition bonds issued by sovereigns tie borrowing costs to measurable targets, effectively locking in forward-looking policy and investment planning consistent with

[49] ITPN (2025), Sector Transition Plans: A bridge between national ambition and company transition plans

[50] Transition Finance Council (2025), Sector Transition Plans: The finance playbook

[51] Centre for Economic Transition Expertise (2024), Taking the lead on climate action and sustainable development

[52] Manning, Jahn (2025), How can we Coordinate the Low Carbon Transition? Building a Global Information and Engagement Architecture

[53] Smith School of Enterprise & Environment (2024), Credible firm-level transition plans need credible national actions

[54] PRI (2024), Will the next round of NDCs accelerate the net zero transition?

[55] Aviva (2023), The tipping point for climate finance

[56] PRI (forthcoming), Making the transition investable: Investor priorities for financing the Clean Industrial Deal

the transition to net zero. These hold promise for emerging markets, where such vehicles can signal national commitments and support capital mobilisation.

Without decisive action from governments to reduce system-level risk by committing to and implementing national policy in line with 1.5C pathways, the transition to net zero – already evolving unevenly across different markets – will be further delayed, locking in potentially catastrophic levels of climate disruption and risk.

At COP30 in November 2025, a clear direction was set by the Brazilian Presidency towards implementation of national transitions, as many countries submit revised national climate plans and develop investment plans underpinning them. Brazil has proposed to carry toward efforts to develop global roadmaps to support the transition away from fossil fuels and ending deforestation, which may yield further signals for investors examining the speed and trajectory of the journey to net zero. In this crucial window for implementation, the role of investors in supporting the enabling environment is more important than ever.

The PRI will continue to support meaningful engagement with policy makers and regulators to help signatories to navigate a dynamic and evolving range of risks. The annex to this briefing includes information on a range of PRI initiatives through which signatories can strengthen their policy engagement efforts and build the necessary capabilities to manage the climate-related risks and opportunities that they face in the critical years ahead.

# ANNEX: ADDITIONAL RESOURCES

Further information is provided below on selected resources that signatories can use to enhance their capabilities to manage the climate-related risks and opportunities in the years ahead.

## Advisory committees and working groups

Advisory committees and working groups help to guide the PRI's work, and many of them support the PRI's efforts on climate change. A Climate Reference Group, launched in 2025, aims to build investor awareness, capacity and interaction by sharing good practice and thought leadership on climate mitigation and resilience strategies. Further information on committees and groups is available on the PRI website.

## Collaborative initiatives

PRI-led and supported initiatives create opportunities to protect and enhance long-term value for clients and beneficiaries, address system-level issues, demonstrate commitment and progress, learn from other responsible investors and engage with investees, policy makers and others. Signatories might advance their work on climate risk by participating in a range of PRI-led and PRI-supported initiatives including:

- UN-Convened Net Zero Asset Owner Alliance
- Net Zero Asset Managers Initiative
- Net Zero Investment Consultants Initiative
- Net Zero Financial Service Providers Alliance
- Initiative Climat International (iCI)
- Climate Engagement Canada (CEC)
- China Climate Engagement Initiative (CCEI)
- Climate Action 100+
- Collaborative Sovereign Engagement on Climate Change
- Spring

Information on joining and participating in initiative-related activities is available on the PRI website.

## Public policy engagement

Public policy critically affects institutional investors' ability to generate sustainable returns and create value. It also affects the sustainability and stability of financial markets, as well as social, environmental and economic systems. The PRI actively engages with public policy where relevant to promote our principles and mission across major markets and jurisdictions, including through responding to consultations and making recommendations to policy makers grounded in high-quality research. The PRI involves signatories when developing new policy research, analysis and positions through dedicated reference groups, the collaboration platform and direct signatory engagement. Further information on how to contribute to policy analysis and positions is available online.

## The Inevitable Policy Response (IPR)

The IPR is a transition forecasting consortium commissioned by the PRI that aims to prepare institutional investors for the portfolio risks and opportunities associated with an acceleration of policy responses to climate change.

## Tools and guidance

The PRI produces a range of tools and guidance on how to incorporate climate change into investment decisions and ownership practices in a systematic way, within each asset class. These include introductory and technical guides for investors at all stages of responsible investment.

## Pathways

Pathways is our flagship educational tool offering practical, tailored guidance to help strengthen responsible investment approaches over time. Through Pathways, signatories can access the most relevant resources to advance from foundational steps to leading market practices.

## PRI Academy

The PRI Academy is at the forefront of training and education in the global investment sector. Since 2014, the Academy has transformed the careers of nearly 30,000 professionals across 90 countries, creating a global community of responsible investment leaders.