



# Unlocking transition finance

What transition funds want from debt issuers

February 2026

Tomorrow begins today



NatWest

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# Welcome

The potential scale of the transition finance market is significant. At the recent UN Climate Change Conference (COP30) in Belém, Brazil, delegates advanced a roadmap on how to mobilise \$1.3trn a year to support the climate transition by 2035 for developing countries alone. The Climate Policy Initiative<sup>1</sup> estimates that annual global climate transition finance requirements could reach up to \$10trn a year from 2031 to 2050. Yet, in 2024, only \$2trn was invested leaving a significant gap, a particular challenge given the time required to bring the underlying projects on stream to be investable.

Meanwhile, assets managed by ‘transition’ funds – which invest in companies committed to decarbonisation – across all asset classes rose 16% during the first half of 2025<sup>2</sup>. Research from MSCI<sup>3</sup> suggests that “transition-labelled funds have become the fastest-growing category of climate funds” – and that Europe leads the way in this market. Data from Blackstone<sup>4</sup> reveals that demand from transition funds for capital is outpacing supply, underlining the level of activity in the space.

Analysis conducted by the European Securities and Markets Authority (ESMA)<sup>5</sup> across the funds spectrum found actively managed transition funds now manage approximately €30bn across all asset classes, representing about 5% of the 1,400 actively managed funds using environmental-related words in their names; this has risen from just 2% three years ago.

These transition funds provide a rapidly expanding pool of capital for a broad range of companies and organisations. These investors offer funding – as

well as support, experience and expertise – that is tied to transition objectives and timescales such as decarbonisation targets or capacity metrics, rather than financial targets alone.

There is a clear opportunity for issuers to raise debt capital from these transition funds. However, the landscape is evolving rapidly, and the existence of emerging transition definitions and frameworks has resulted in ambiguity and uncertainty for issuers. This makes it harder for issuers to structure debt instruments or ensure that their disclosures meet the expectations of these transition investors.

This report, based on research and interviews conducted with fixed-income transition funds, provides issuers with actionable insights into how funds may assess the eligibility and the credibility of their transition plans – and addresses an environment characterised by evolving definitions, frameworks and data. These funds invest across the debt capital structure, as well as in both investment-grade and high-yield issuers. Our conclusions thus apply across the debt capital markets.

Our report also shares the latest thinking on principles and best practices for organisations seeking to attract investment from these funds, alongside practical perspectives on what transition funds value today and where the market is heading.

In short, the report aims to show how issuers can maximise their opportunities to access the up to \$10trn transition finance market and play a role in advancing the climate transition in the real economy.



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## Notes:

- [1. Global Landscape of Climate Finance, Climate Policy Initiative, 2025](#)
- [2. Transition funds drive record climate assets, Funds Europe, November 2025](#)
- [3. Olive is the new black: the rise of transition funds, MSCI, 2025](#)
- [4. Demand from transition funds for capital is outpacing supply, says Blackstone, Environmental Finance, December 2025](#)
- [5. Emerging trends in transition fund strategies, ESMA, October 2025](#)

# Executive summary

The transition finance market is expanding rapidly, driven by global decarbonisation imperatives and investor demand for credible pathways to net zero.

Transition funds represent a growing opportunity for corporates and financial institutions seeking to raise finance through debt. These funds pursue investment strategies, often actively managed, that allocate capital to issuers or activities on a credible, forward-looking decarbonisation pathway, including those in hard-to-abate sectors. They prioritise transition readiness and entity-level credibility (for example, science-based targets, transition plans) and do not solely focus on green taxonomies or instrument labels. They typically combine analysis with active engagement.

However, bond issuers face challenges due to fragmented definitions and evolving frameworks. In this context, NatWest analysed public disclosures made by more than 60 fixed-income funds and interviewed leading managers of such transition funds. Our key findings are:

## **Investors' approaches to reviewing climate transition are broadly aligned**

There is broad consensus that transition funds should seek to invest in issuers able to articulate a clear and credible vision of how they will decarbonise and/or are active in areas that support real-world decarbonisation. "We don't want to define the transition through narrow labels and a tick-box approach," says Kate McGrath, ESG Senior Investment Manager, Aberdeen Investments. "It's more about enabling the real economy to decarbonise."

## **Investors prioritise issuer over instrument structures**

Transition fund managers primarily focus on the issuer or activity itself, rather than the nature of the issuance, when considering whether a bond is investible. However, most managers do not publish granular detail of their requirements for issuers. "We assess companies at each level of their net zero strategy, and our methodology is principles-based; it's important that our criteria are relevant to the nature of each sector," says

Thomas Coudert, Head of Sustainability, Core Investments, AXA Investment Managers.

## **Transition plans are a principal disclosure**

Transition funds need to see clearly articulated transition plans backed by credible mechanisms for execution and accountability, with robust data that provides funds with a means to assess credibility. "It's surprising how many organisations have ambitious plans but lack the passion and commitment to deliver them," says Alexander Temple, Senior Portfolio Manager, Allspring Global Investments. Investors see the case for greater alignment on data, but do not believe there would be value from a prescriptive universal definition of 'transition' as "the ability to be innovative, flexible and able to develop new products is really important", says Ritchie Thomson, Senior Responsible Investment Associate, Aegon Asset Management.

## **Engagement matters**

Fund managers want an ongoing relationship with issuers and expect to regularly check on progress and discuss the next phases of decarbonisation. Issuers committed to transition welcome the opportunity to share best practice and pool expertise. "We want to engage to support companies as they move forward," says Yasutoshi Miyamoto, General Manager, Finance & Investment Planning Department and Responsible Investment Strategy Office at Nippon Life.

## **Transitions funds are an important source of capital**

Our research suggests transition funds will be significant providers of vital capital for issuers that can successfully demonstrate a credible path to transition. To achieve that, issuers must now make transition planning a key part of strategic planning, identify the metrics that really show genuine action and ambition, embrace engagement with investors and avoid relying too heavily on instruments and labels.



## Chapter 1

# Making the cut

# Making the cut

## How transition fund investors assess whether debt issuers qualify for potential inclusion in their portfolios

In our quantitative analysis, based on a sample of 60 fixed-income funds in Europe describing themselves as ‘transition funds’ or as ‘supporting the transition’, we found that funds do not universally publish definitions of ‘transition’. Even where they do, the detail of these definitions varies significantly – and they may still not disclose the extent to which their investment decision-making is aligned to this definition.

ESMA’s research found that while all transition funds primarily define their ambition in terms of portfolio exposure, the granularity of that definition varies enormously. For example, 62% of funds in ESMA’s analysis set their ambition in dynamic terms, aiming for a change over time, but 29% of funds have non-dynamic goals. Additionally, 43% of funds also express an ambition to foster a real economy outcome.

### Transition standards in use today

Our analysis reveals that in their public literature only half of the funds analysed make reference to use of specific standards in assessing issuers. Of the 50% that do reference standards, the UN Global Compact is cited by the highest number of funds (29%). The popularity of this standard may reflect its longevity and general usability – the Compact is

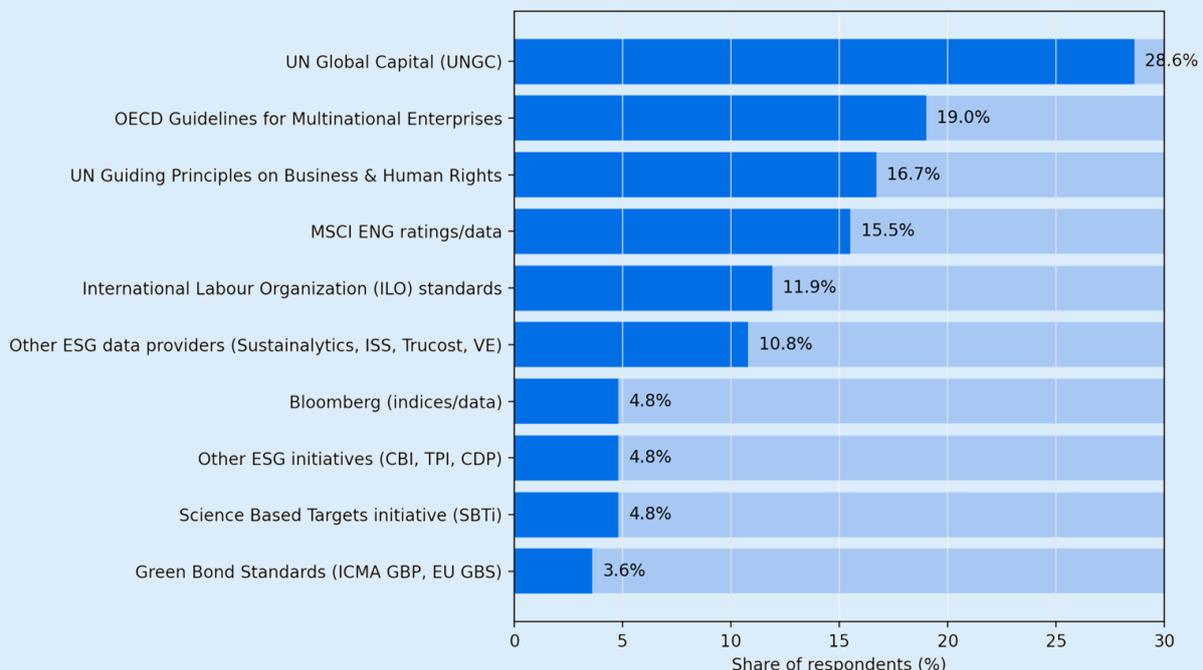
not specific to the transition– and it may be that other standards gain traction over time. For example, Thomson, of Aegon Asset Management, says: “We find the Carbon Disclosure Project (CDP) immensely useful in terms of helping us to score issuers with greater consistency.”

Transition funds have developed their own internal processes for assessing issuers; however, these are typically bespoke. Interviews with investors showed they will often make use of similar information used by the CDP and the Transition Pathway Initiative (TPI), as well as other organisations and agencies, without directly relying on those entities’ scores.

“We are looking for a very wide range of forward-looking indicators, and we also use an award-winning credibility assessment tool we developed in-house,” explains McGrath of Aberdeen Investments. “Every issuer that we hold under the strategy will have been subjected to that level of detail.”

Thomas Coudert at AXA Investment Managers puts it this way: “We look to invest in firms that have a long-term net zero ambition – a long-term goal to reduce emissions, with credible targets and intermediary targets, and a focus on all scopes across their value chains.”

## Standards used to assess issuers



“I think the market agrees on the fundamental elements of transition but then differs on the underlying metrics we use to assess them,” adds Xuan Sheng Ou Yong, Client Portfolio Manager, Sustainable Investing, at Robeco. “We apply different thresholds and metrics relative to other peers to arrive at our conclusions.”

In other words, every issuer committed to decarbonisation – and able to clearly explain what that commitment looks like in practice – is a potential portfolio holding for the transition fund sector with a growing focus on future investment into their decarbonisation pathway. But individual funds then apply their own criteria in order to build their portfolios.

#### Leaders and laggards: how funds build portfolios over time

Most funds explicitly or implicitly divide issuers into groups, identifying leaders, laggards and those in between on the basis of their transition plans and performance. Their portfolios are then pivoted towards those issuers assessed as top performers – and will increasingly tilt this way over time. However, they may still hold bonds regarded as underperformers – not least to achieve their investment return goals, but also with the expectation that engagement can help move all issuers towards improving their transition plans and decarbonisation performance.

This analysis is typically undertaken by teams that bring expertise in both credit and sustainability analysis, and the level of prescription varies. Some funds are relatively formulaic, applying their investment frameworks algorithmically to assess issuer eligibility, based on integrating third-party metrics such as TPI scores and the Science Based Targets Initiative (SBTi), as well as their own work (see Information commonly used table below). More detailed abatement curve analysis is being incorporated into specific sectors to determine issuer performance relative to peers.

“Our methodology is principles-based. The methodology doesn't define which element each company needs to implement or which actions they need to undertake; this is the role of our analysts who know their sector, who know the company and who can assess whether their actions and strategy are aligned with their decarbonisation targets.”

**Thomas Coudert, AXA Investment Managers**

### Information commonly used

#### TPI scores<sup>1</sup>

TPI scores assess companies on their management of climate risks and their alignment with the transition to a low-carbon economy. TPI assesses governance, carbon performance and future targets against benchmarks like the Paris Agreement.

#### SBTi<sup>2</sup>

The SBTi checks whether a company's emissions reduction targets are consistent with climate science and aligned with limiting global warming to 1.5°C. It involves validating targets, monitoring progress and ensuring credibility in climate commitments.

1. <https://www.transitionpathwayinitiative.org/>  
2. <https://sciencebasedtargets.org/>

### Data availability: an evidence-based approach to assessing credibility

The availability of data is another key consideration for transition funds, which draw on a range of both issuer disclosures and third-party inputs, as well as direct issuer engagement.

Where data is not available, either directly or via third-party data providers, transition funds may find it harder to assess issuers' qualification for investment. But managers accept some companies are at an earlier stage of data collection and reporting. In these circumstances, issuers can expect to be asked more exacting questions on their past performance on emissions, as well as on their future plans for decarbonisation with a particular emphasis on capital expenditure over a two- to three-year period.

In the end, says Alexander Temple, Senior Portfolio Manager at Allspring Global Investments, issuer eligibility comes down to the fundamentals. "Our analysts look to answer two essential questions: what is the company's contribution to decarbonisation, and how will decarbonisation affect the fundamental strength of the company?"

### Sector exclusions: balancing transition with risks and regulation

Transition funds' policies on sector exclusions also vary. As a general rule, funds focus on the

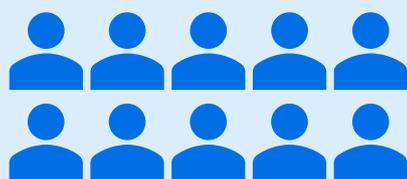
transition journey, not whether issuers have arrived at a low-carbon destination. Portfolios may often include top performers in hard-to-abate and high-influence sectors, albeit with more demanding criteria.

Expectations are adjusted accordingly. "Our approach has to be dynamic and fluid," says Aberdeen Investments' McGrath. "We need to look at each sector and region differently – every sector and every region has a very different looking route to net zero."

Still, 23% of the funds in our sample explicitly ruled out issuers where the underlying business is heavily reliant on polluting or carbon-intensive activities. Their approach often mirrors the exclusions outlined in regulation such as the EU's Climate Transition Benchmarks<sup>8</sup>. Issuers may be excluded if they earn a high proportion of their revenues from coal production, for example. The 'do no harm' principle, sometimes applied in ESG funds more broadly, can also be relevant.

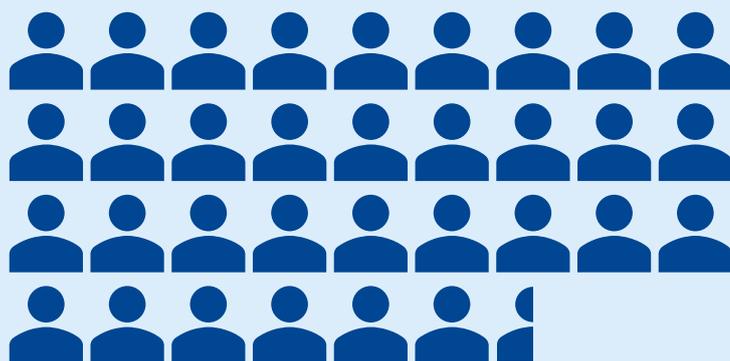
The transition strategy is putting some pressure on previously accepted broader exclusions, such as fossil fuels and nuclear. Over the past 18 months, the appetite for nuclear has increased – and given the role that fossil fuel companies will play in the transition, wider blanket exclusions are being reconsidered.

### Transition funds publishing explicit fossil/carbon intensive exclusions



publish explicit exclusions

23%



do not publish explicit exclusions

77%

<sup>8</sup>. [EU Climate Benchmarks](#). UNEPI

### **Instrument labels: secondary to issuer credibility**

One question for transition-focused organisations is whether they should focus on instruments such as green bonds and sustainability-linked bonds – or, indeed, transition bonds as this market evolves – or utilize general corporate proceeds instruments. In practice, our research suggests transition funds are largely agnostic. “We would prefer to buy a conventional bond from a green issuer than a green bond from a brown issuer,” says Aberdeen Investments’ McGrath.

This view is common. While transition funds are certainly happy to consider holding labelled instruments, their focus tends to be on assessing how companies are using capital overall to achieve their transition objectives, rather than seeking out individual labelled issuances geared towards this purpose.

Still, it is possible that developments such as the ICMA Climate Transition Bond Guidelines will stimulate increased interest in such instruments over time. Investors are certainly interested to see how the market evolves – they look forward to seeing more labelled issuance over time but accept this will not happen immediately.

Robeco’s Ou Yong sums up that feeling: “Our transition funds would love to invest in more green bonds and sustainability-linked bonds if they could find them across all issuers and across all durations, but the problem is they can’t,” he says. Some managers point out that one advantage of these labelled instruments is that they explicitly require issuers to provide detail on some of the qualitative information and many of the metrics that matter most to transition funds; and facilitate the downstream consumption to asset owners.

For now, however, the nature of the bond instrument is very much a secondary consideration. What matters most to transition funds is their assessment of the eligibility of the issuer and potentially the underlying activity that is being financed.

“ We would prefer to buy a conventional bond from a green issuer than a green bond from a brown issuer. ”

**Kate McGrath**  
**Aberdeen Investments**





## Chapter 2

# A question of credibility

# A question of credibility

## How fund managers assess the credibility of issuers' transition plans

Critically, transition funds are not solely focused on progress made on transition to date. Just as important is their assessment of an issuer's future roadmap for decarbonisation, and whether it is realistic. The ability and willingness of issuers to fulfil the transition pledges they make today are crucial considerations for transition fund managers, who pay particular attention to the capital expenditures to which issuers are committed.

## No one-size-fits-all approach to issuer eligibility

There is no one-size-fits-all approach to issuer eligibility and credibility. Not least, this is because the nature of organisations raising debt finance for transition activity varies enormously – from companies in hard-to-abate sectors to those engaged in less carbon-intensive businesses, and from corporates to financial institutions raising money to support their own customers' transition projects.

Financial institutions – including banks – may face more detailed and exacting requirements in relation to bond issuance as investors will want to understand their disclosures on financed emissions and portfolio alignment. These issuers will be expected to set out clear governance and risk frameworks tied to their transition strategies.

For corporate issuers, investors, including transition funds, will be looking for disclosures that go beyond regulatory commitments. Credible capital

expenditure plans and interim targets will be important, along with strong signals on governance, such as board oversight of transition plans and executive remuneration links. Funds accept that smaller issuers may have less such data to provide – and that this is a work in progress at many organisations – but will nonetheless be pushing for improvements over time.

## Assessing credibility: beyond targets and into execution

“We start by focusing on the transition plan at the entity level, which needs to include a future pathway to net zero, setting out how greenhouse gas emissions will reduce to net zero over a set time frame,” explains Miyamoto of Nippon Life. Moreover, transition funds will assess the question of credibility related to transition strategies on an ongoing basis. Credit and ESG analysts review issuers regularly, using both third-party data – TPI and CDP are often cited as useful sources – and their own research, to assess whether issuers are delivering on their current commitments, and whether they are on target to meet their future goals.

“Just because a company has set what looks to be credible targets, it doesn't mean necessarily they're going to score particularly well through our framework,” notes Aegon Asset Management's Thomson. “Linked to that credibility point is, do you have the next step? Have you developed realistic strategies for decarbonisation? Do you have plans at the asset [or activity] level?”

“

We assess the credibility of that transition path based on the specific initiatives planned and the organisation's expected revenues over the long term.

Yasutoshi Miyamoto, Nippon Life

”

Inevitably, assessing credibility involves an element of subjective judgement but transition funds point to a broad range of metrics they apply to assess progress over time (see example criteria tables below).

Commonly cited examples include the amount of capital expenditure devoted to transition projects and the financial viability of issuers' plans. Equally, it is important for issuers to recognise that while transition funds may not explicitly scrutinise them on all these criteria, they will nonetheless be looking for data that provides evidence of credibility. "We're really focused on shorter-term pathways and intermediary targets," says Aegon Asset Management's Thomson. "That is often more important than the stand-out, long-term commitment."

These investors may also pay close attention to the extent to which issuers include transition metrics in executive remuneration; they also focus on issuers' public statements, including the lobbying activity they undertake. Governance and risk management

questions are also important – whether issuers have made provisions for systemic risks and dependencies, for example. "Management and governance is a key consideration," adds Aegon Asset Management's Thomson. "Their approach to remuneration, say, and whether they have board oversight, guides the way we think about whether they will meet their targets."

Issuers should expect investors to make detailed requests for data and insight in many of these areas. In deals where NatWest has acted as a bookrunner in recent months, such questions have proved to be wide-ranging. Some were very specific: a leading mobility company was asked to provide details of its transition investment plans and a timeline for its switch to electric vehicles. Others were more generalised: a well-known telecoms company was asked to describe its role as an enabler of carbon transition.

#### Example criteria used to assess 'credible ambition'

Criterion	Expectation
Paris Agreement alignment	Pathway compatible with 'well below 2°C' (ideally 1.5°C).
Interim targets	Quantified short/medium-term targets (Scope 1 & 2; Scope 3 preferred).
Long-term net zero ambition	Public long-term ambition.
Carbon lock-in avoidance	No investment in high-emitting assets (unless mitigated).
Strategic integration	Ambition reflected in value, risk management and just transition.

#### Example criteria to assess 'transparent accountability'

Criterion	Expectation
Governance oversight (policy-level)	Governance policy applied to issuers.
Disclosure cadence	Annual reporting; alignment with Transition Plan Taskforce/Task Force on Climate-related Financial Disclosures equivalents.
Role clarity	Clear responsibility for delivery and oversight of transition plans.
Remuneration linkage	Incentives tied to transition milestones.

#### Example criteria used to assess 'action into progress'

Criterion	Expectation
Implementation actions	Time-bound actions aligned with interim targets.
Milestone tracking	Annual progress updates; non-linear progress with justification.
Financial viability	CapEx/OPEX aligned; stranded-asset risk managed.
Dependencies management	Mitigation plans for material dependencies.

#### Example criteria to assess 'addressing dependencies'

Criterion	Expectation
Dependency mapping	Identify sector/jurisdiction dependencies.
Mitigation actions	Engagement/operational plans to address dependencies.
Materiality judgement	Explain if a dependency limits ambition/progress.
Contextual factors	Consider emerging markets/developing markets constraints, social risks and nature impacts.

## The role of engagement: assessing credibility on an ongoing basis

Engagement activity is a critical task for transition funds – many express a determination to hold. At Allspring Global Investments, for example, Temple underlines the importance of engagement in its ongoing governance process for evaluating portfolio investments on transition.

“Every engagement is formally written up in our systems and scored,” he explains. “I try to attend all of those meetings, and then we’ll also have an analyst and someone from our broader stewardship team.”

Many transition funds have also developed escalation policies that take effect in the event of an issuer falling behind on its commitments. At Nippon Life, for example, investment agreements with issuers set out an annual programme of monitoring. “If the company’s actual greenhouse gas emissions fail to meet its transition plan, we ask the investee company to modify its plans to get back on track,” says Miyamoto. “If the company cannot renew its plan, we withdraw its status as a transition company.”

At AXA Investment Managers, Coudert also flags the importance of clear escalation procedures. “Our analyst teams refresh their assessments of issuers on a monthly basis so we can identify

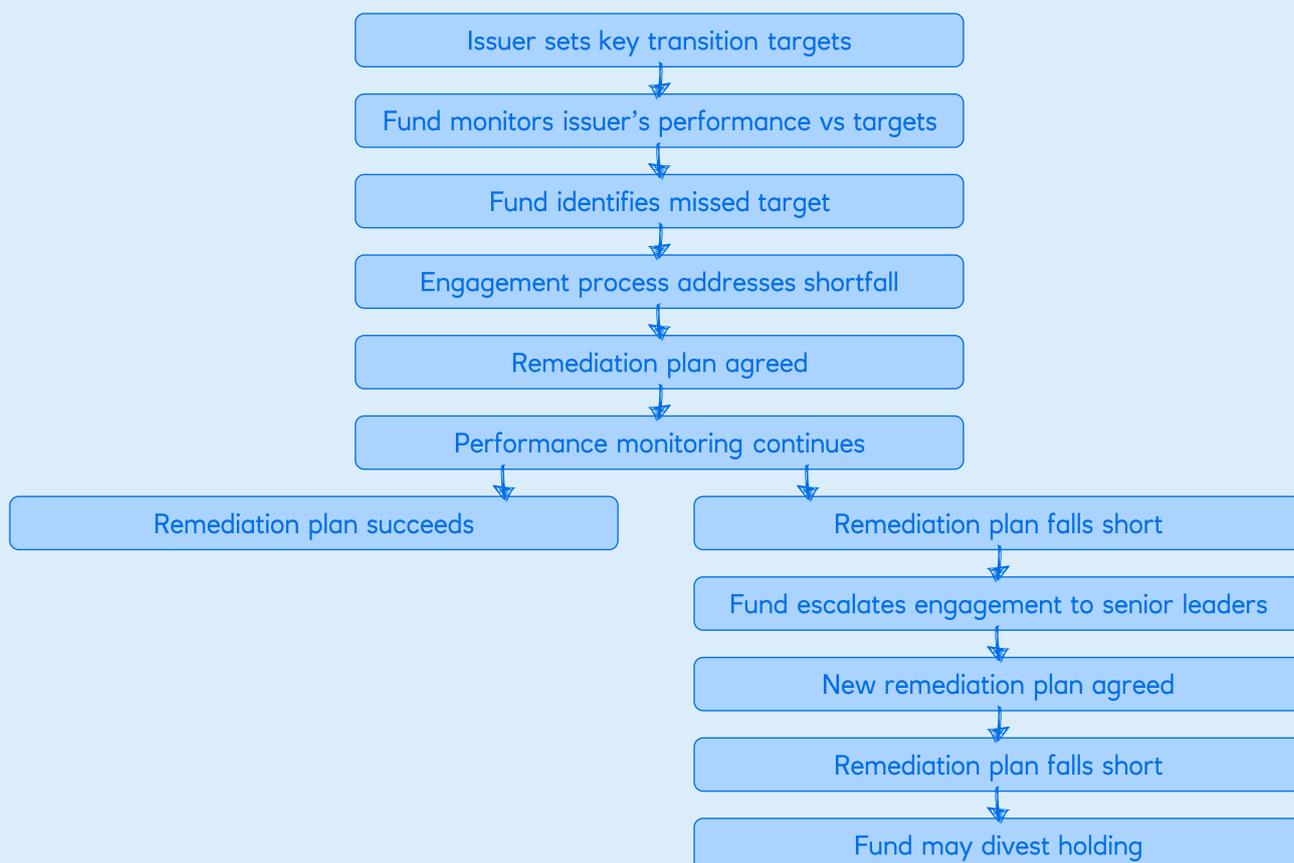
issuers in our funds where a change may have an impact,” he explains. “We are then committed to engaging with issuers who have been downgraded during an internal assessment. We reiterate our expectations regarding their transition plans and we may seek to engage with more senior leaders if we’re not getting the response we want. Ultimately, we have the option of divestment.”

The goal here is for transition funds to understand what has hindered progress and to work with the issuer to help it get back on track, with both intermediate and longer-term targets. Fund managers accept engagement exercises may take as long as two to three years to bear fruit. “Change cannot happen overnight – companies need time to implement changes,” adds Coudert.

Indeed, divestments of issuers falling short are relatively rare, though managers point out that fixed-income funds see natural turnover of holdings as bonds mature. In some cases, funds have divested disappointing holdings on the grounds that their transition failures are likely to translate into adverse financial consequences.

“Divestments will often be investment decisions,” says Allspring Global Investments’ Temple. “Where companies are slipping up, that will feed through into their results pretty quickly – the climate lens and the financial lens are very closely linked.”

## Engagement to escalation process





## Chapter 3

# Transparency builds trust

# Transparency builds trust

## Transition funds also require data to report back to their own investors

Transition funds themselves are also under pressure on transparency: their own investors look for increasingly detailed reporting. This will inevitably have an impact on the data and insight they expect issuers to provide. In this sense, the evolving disclosures made by transition funds provide issuers with a richer perspective of where and how they may need to step up data collection and reporting activity.

Funds analysed in this research report on an increasingly broad range of metrics, as the table below shows. Their goal is to provide a data-driven account of the aggregate decarbonisation trajectory of the issuers held within their portfolio. In this context, funds most commonly disclose emissions intensity data, as the table shows.

Many funds also report a significant level of information about portfolio constituents, including details of which 'bucket' specific issuers sit within. That is, where funds classify their holdings by transition performance – into leaders and laggards, for example – they may disclose where issuers sit on this scale.

Reporting of this type will vary according to the approach taken by the fund. AXA Investment

Managers, for example, assesses potential portfolio issuers by comparing their transition plans with a benchmark for their sector, rating each issuer in one of five categories ranging from aligned to misaligned. “We quantify and break down portfolio allocations across each of these five categories,” says Coudert.

Engagement activity is another area of focus in many transition funds' reporting. “We talk to issuers rather than taking them at face value, so we engaged directly with 46% of issuers in the Climate Transition Bond Fund this year alone,” says Aberdeen Investments' McGrath. The fact that investors demand more detail of this type – a clearer picture of how funds actively work with issuers to support and encourage progress on transition – suggests issuers can expect engagement activity to continue to step up.

It's also important not to lose sight of transition funds' investment return objectives. At Aegon Asset Management, for example, Thomson explains that while its transition funds publish a bi-annual ESG report, providing investors with detailed data on a range of carbon metrics, investors are also demanding about financial disclosures. “Few investors are willing to sacrifice financial return to support climate transition,” he says.

## Carbon-intensity evaluation metrics reported by funds



8.3%

GHG Emissions Intensity / Carbon Intensity



6.0%

Fossil Fuel Exposure / Reserves



4.8%

Portfolio Carbon Footprint



4.8%

EU PAB / CTB Decarbonisation Rate (≥ 7% pa)



3.6%

Non-renewable Energy Consumption / Production (PAI)



2.4%

Scope 1 Emissions



2.4%

Green Bond Exposure (share of portfolio)



2.4%

Carbon Intensity vs Benchmark (e.g. ≥30% lower)



2.4%

Implied Temperature Rise (ITR)



1.2%

PAI Emissions / Intensity Indicators



1.2%

Weighted Average Carbon Intensity (WACI)

\*all share of sample (%)

### **A work in progress: why and how reporting must evolve**

Fund managers often make the valid point that their reporting work is evolving, just as issuers themselves are coming under pressure to disclose more.

For example, some funds are now trying to provide more detail on avoided emissions – how portfolio constituents are performing in terms of emissions avoided because of their transition activity.

“Avoided emissions is something we’re working on but haven’t yet implemented,” says Robeco’s Ou Yong. “Investors in these funds want to know what’s the benefit to the world?”

One challenge for issues is that transition fund reporting is typically bespoke. Funds report against the principles and pillars that define their portfolios, which naturally vary. This may result in issuers receiving requests for different data points from different funds – or for similar data points presented in different ways.

The advice from Robeco’s Ou Yong is to go back to basics. “While managers will always want to differentiate from peers, the focus for issuers should be to ensure the targets they've set are in line with their peer groups or their sector pathways, and that they can show their plans are backed up credibly with key action and governance,” he says.

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Xuan Sheng Ou Yong  
Robeco





## Chapter 4

# New transition frameworks emerge

# New transition frameworks emerge

## A growing number of regulator- and policymaker-led initiatives on transition finance

While all stakeholders may struggle with the apparent lack of consensus on transition definitions, emerging transition finance frameworks could provide critical support.

In particular, many transition funds welcome the November 2025 launch of draft Climate Transition Bond Guidelines (CTBG) by the International Capital Market Association (ICMA). The guidelines were published shortly after the Loan Market Association issued its Transition Loans Guide.

ICMA’s voluntary guidelines aim to support the funding of climate transition projects, particularly in high-emitting sectors. Key elements include the introduction of a ‘climate transition bond’ label for bonds where the proceeds are used for such projects, and recommendations for issuers of transition-themed sustainability-linked bonds.

The CTBG also provide a preliminary list of eligible ‘climate transition projects’ such as carbon capture, early retirement of high-emission assets and lower-carbon fuel infrastructure. And they set out credibility safeguards, requiring issuers to provide detail in areas such as the feasibility of low-carbon alternatives. “It’s helpful that the guidelines focus on the scientific rationality of projects,” says Nippon Life’s Miyamoto. “Our view is that guidelines need to be as quantitative as possible – rather than qualitative – to make it clear what is good and bad.”

Elsewhere, the European Supervisory Authorities’ proposals for an update of the EU’s Sustainable Finance Disclosure Regulation (SFDR) also attract

interest. It suggests replacing the current Article 8 and 9 classifications under SFDR with a three-tier system. This would include a ‘transition’ label for funds investing in companies judged to be on a credible path to sustainability. This new label would identify funds investing in companies and projects with the potential for improvement, possibly providing issuers with a roadmap for eligibility. Funds would have to allocate at least 70% of their portfolio to transition investments to qualify.

“The label could create new opportunities if issuers that have not previously published a climate transition plan use it to clearly communicate their transition strategy to the market,” says Aberdeen Investments’ McGrath. “This is particularly relevant given that the guidance requires issuers to link transition issuance to their overall sustainability strategy; this is already a key part of our fund’s approach.”

In the UK, meanwhile, the Transition Finance Council has published draft Transition Finance Guidelines, aimed at creating consistent minimum expectations for transition finance and supporting a practical assessment of credible transition. In this research, our quantitative analysis included a study of 26 transition funds’ alignment to these guidelines – and identified a significant degree of full or at least partial overlap.

Issuers may therefore find it useful to pay close attention to the four principles of the Transition Finance Guidelines (see table below). Our analysis highlights that transition funds exhibit a significant degree of alignment on the first three of these principles, albeit with less alignment on the final point, as this is challenging to assess.

### The transition finance guidelines in detail

Credible ambition	Action into progress	Transparent accountability	Addressing dependencies
The extent of clear emissions reduction targets aligned with a Paris Agreement – compatible pathway.	Evidence of feasible, time-bound implementation actions supported by financial viability.	Where governance, disclosure and reporting are integrated into business processes.	The identification and management of external and internal dependencies that could affect delivery.



## Chapter 5

# Conclusion & actions for issuers

# Conclusion

The imperative for issuers is clear: transition funds represent a significant and growing source of capital, but to improve their chances of being able to tap into that pool, they must be able to articulate a clear, evidence-based story about their transition pathway. Above all, the need to establish credibility is paramount.

This is an evolving field. And while issuers hoping for the emergence of a single common definition of transition are likely to be disappointed, there is demand for standardisation and rationalisation of the metrics – both qualitative and quantitative – applied in the climate transition space. There is agreement that the proliferation of data and regulatory standards is challenging for issuers, investors and other stakeholders alike.

Frameworks such as the ICMA guidelines and the Transition Finance Council's work in the UK represent a useful advance. However, it is unlikely that multiple players in different jurisdictions will reach consensus views on a unitary framework for assessing issuers on transition. Further proliferation

is likely, many managers say, and they believe it would prove impossible to agree a common definition of transition even if doing so was desirable.

For issuers, the approach must therefore be to focus on broad, general principles rather than a single gold-standard definition, framework or metric. Amid the nuances, there is philosophical agreement that the transition debate centres on the path to decarbonisation that companies have embarked upon and the credibility of that path. Issuers should therefore frame their data collection and reporting in this context.

Above all, transparency is critical – both now and in the future. Issuers will naturally vary in the progress made to date on developing a transition roadmap – and on embarking on that pathway – but they can still be open with investors about where they stand today and their timelines for next steps. Indeed, such clarity will increase their chances of attracting transition finance and accelerating their decarbonisation journey.

## Transition finance: the issuer's imperative



### The opportunity

Transition funds are a significant and growing source of capital for issuers.



### The challenge

Issuers must articulate a clear, evidence-based transition pathway to access these funds.



### The landscape

No single definition of 'transition'. Demand for standardisation and rationalisation of metrics, but proliferation of data and standards creates challenges.



### Transparency

Transparency is critical. Issuers should be open about their current position and future plans to attract transition finance and accelerate decarbonisation.



### The approach

Focus on broad principles, not a single gold-standard metric. The debate centres on the credibility of the decarbonisation pathway.

Transition finance is evolving. Credibility, clarity and transparency are key to unlocking capital and driving the decarbonisation journey.

# Actions for issuers

Transition funds are actively looking to invest in issuers with clear and credible plans for decarbonisation. The following actions will help ensure issuers are able to capitalise on that opportunity – and to raise the transition finance they now need.

Action	Why it matters	Practical steps
<p><b>Make transition planning part of strategic planning</b> Publishing a transparent transition plan – a minimum requirement for issuers.</p>	<p>Financial goals and transition goals at every organisation are now inextricably linked.</p> <p>Therefore, investors look for issuers able to frame the transition debate in the context of their long-term viability and resilience.</p>	<p>Comprehensive details on the transition plan, implementation and oversight will help investors better understand how the transition strategy aligns with the business overall.</p> <p>For example, include forward-looking details such as interim targets that align with the business’s strategy and details on governance, oversight, etc. This is essential for meeting investors’ information needs.</p>
<p><b>Identify the metrics that really matter</b> Issuers can continue to produce accurate data and disclosures in their reporting but can also share qualitative information on why these metrics are reported, their performance and future outlook.</p>	<p>The work that issuers do to identify and source critical data points will help them comply with regulatory reporting requirements as well as to meet transition investors’ bespoke data needs. Investors request different types of data and in different formats. It can also show where issuers rank against their peers.</p>	<p>Issuers’ transition pathways will vary by industry and by the individual characteristics of the business.</p> <p>By identifying sectoral benchmarks, regulatory frameworks and third-party assessment frameworks, issuers can consider useful reference points.</p>
<p><b>Make actions speak louder than words</b> Document process and the building blocks that show how transition strategies will be achieved, from planned investments to the impact on executive pay of underperformance.</p> <p>Provide detail of how this is being overseen, managed and governed.</p>	<p>Investors are focused on execution rather than ambition and need to understand the ‘how’ which will inform decision-making and engagement approaches.</p>	<p>Build visibility of what has been achieved so far and provide hard evidence to support claims about what will be achieved in the future.</p> <p>Investors want to support businesses delivering on their transition objectives rather than those making unsupported lofty commitments.</p>

Action	Why it matters	Practical steps
<p><b>Embrace engagement with investors</b></p> <p>Increased disclosures help issuers focus on engagement as a dialogue with investors and opportunity to accelerate transition, with multiple stakeholders.</p> <p>This enables collaboration towards the path to net zero, rather than just being a data sharing exercise.</p>	<p>This mindset shift provides an incentive to bring key teams together to discuss the challenges faced with informed and supportive investors.</p>	<p>To help ensure engagement is a positive exercise approaches such as an FAQ document can help proactively answer investor questions.</p>
<p><b>Don't get hung up on instruments and labels</b></p> <p>Focus on the overall transition plan and its implementation; identify where bond labels can support and enhance financing.</p> <p>The disclosure requirements for some labels could include the information that investors want, so compliance with label requirements can enhance issuer credibility regarding its transition approach.</p>	<p>While the relationship with investors will not be diminished by not using a label, it could be enhanced by utilising a label if relevant and a good fit with the issuer's wider financing and transition strategy.</p>	<p>While issuance of green bonds and other sustainability instruments is growing, transition investors remain largely instrument-agnostic.</p> <p>Issuers, however, can identify where labelled instruments align with their existing financing strategy.</p>

### Methodology and sample

In autumn 2025, we analysed the public disclosures of 60 fixed-income transition funds active in the UK and continental Europe. In addition, we conducted in-depth interviews with six management teams from these funds.

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