

Leveraging Corporate Transition Plans for Investment Decision-Making

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Introduction

A credible net zero transition should include a science-aligned emission reduction target and supporting metrics, decarbonization strategies, capital allocation, governance, aligned policy and advocacy activities, and considerations for nature and a just transition. Elements vary somewhat between frameworks like Glasgow Financial Alliance for Net Zero (GFANZ)¹, the International Sustainability Standards Board (ISSB)², the UK Transition Plan Taskforce (TPT) (now incorporated into ISSB)³, and the European Sustainability Reporting Standards (ESRS)⁴, but share broadly consistent guiding themes. For a more detailed comparison of real-economy standards and the state of transition planning see: Corporate Low-Carbon Transition Planning: Best Practices & Recommendations to Support Credible Action⁵.

Achieving Paris alignment for a portfolio requires investors to seek information from companies on their climate targets and strategies. A transition plan is a ready-made encapsulation of all the elements investors need for due diligence of a prospective transition aligned investment. As institutional investors commit to aligning portfolios with the Paris Agreement's 1.5°C goal, corporate transition plans also serve as essential tools for analyzing strategy. A credible transition plan sets out how a company intends to navigate the transition to a low carbon economy, capturing all relevant disclosures⁶. These plans provide critical insights into how companies intend to navigate the risks and opportunities associated with the transition.

This brief examines how investors can effectively use corporate transition plans to:

- **Manage climate-related risks and opportunities**
- **Guide real-economy asset transitions**
- **Optimize capital allocation decisions**

Risk Management

Credible transition plans are a key resource that aids investors looking to assess their portfolio's exposure to transition risks by encapsulating information needed to:

- Evaluate alignment of holdings with sectoral decarbonization pathways
- Identify leaders and laggards in corporate transition strategies
- Quantify potential financial impacts across different climate scenarios
- Assess expected emissions reductions
- Analyze exposure to transition-vulnerable assets and technologies
- Identify opportunities in climate solutions and transition-aligned business models

For example, an investor might use transition plan data to identify which power generation companies in their portfolio have credible plans to phase out coal generation by 2030 in advanced economies and 2040 globally, in line with IEA's Net Zero by 2050 scenario. Investors can benchmark a company's commitments against these science-based timelines to assess transition risk exposure, identify potential stranded assets, and evaluate whether corporate strategies adequately address the required pace of decarbonization⁷.

Asset Transition

Investors can leverage transition plans to guide real-economy asset transitions through several approaches:

Engagement prioritization can be informed by transition plan maturity, allowing investors to focus resources on companies where intervention can have the greatest impact. Collaborative engagement initiatives support this approach by helping investors engage with holdings that account for a significant portion of financed emissions. Active ownership decisions, including voting on climate-related resolutions, can also be guided by assessments of transition plan credibility and implementation progress.

Strategic acquisition of carbon-intensive assets or companies allows investors to implement more ambitious transition plans than would have occurred pre-acquisition. This "transition investing" approach involves acquiring emissions-intensive ("brown") assets and actively transforming them to low-carbon ("green") assets through support for activities like enhanced management practices, technology upgrades, and operational improvements to accelerate their decarbonization trajectory. By applying transition expertise and capital to transform these assets, investors can generate both environmental impact and financial returns.

Transition financing can be structured to support technological integration and operational changes that reduce emissions for emissions-intensive assets with viable decarbonization pathways.

Managed phaseout planning helps investors develop strategies for assets that cannot be viably transitioned, ensuring an orderly wind-down that minimizes both economic and social disruption.

When engaging with companies from high emitting sectors, investors can develop specific asks around operational emissions, planned fossil fuel production capacity, and procurement strategies that can be benchmarked against climate scenarios. This targeted approach ensures engagement is focused on material transition issues that will drive meaningful decarbonization.

Capital Allocation

Transition plans provide valuable inputs for investment decision making, offering forward-looking information on how companies are positioning themselves for a net-zero future. Leading investment frameworks now encourage investors to focus on “financing reduced emissions” rather than simply “reducing financed emissions,” promoting a more comprehensive perspective on portfolio decarbonization. As financial institutions’ expectations for transition plan quality evolve, they increasingly emphasize the importance of regularly updated plans that show measurable progress toward climate commitments and details on plan enhancements and strategy changes. There is also increased demand for information on how companies are managing risks related to nature and just transition.

Portfolio Construction can integrate transition plan assessments into investment selection, building portfolios that strategically allocate capital based on climate performance criteria. This approach allows investors to maintain diversification across sectors while incorporating companies with credible and ambitious transition strategies as core holdings, thereby incentivizing improved climate performance while managing risk and return expectations.

Product Development enables investors to create products that reward transition performance and identify sectoral leaders with competitive advantages in a decarbonizing economy. These might include transition-focused thematic funds, climate-aligned indices, or structured products that incorporate transition metrics into their selection methodology. Financial institutions are increasingly developing specialized investment platforms that target opportunities in the transition to net-zero, combining traditional financial analysis with sophisticated climate and nature metrics.

Spotlight

A prime example is the FTSE Russell TPI Climate Transition Index Series, launched in partnership by the Church of England Pensions Board and the Transition Pathway Initiative. The index uses a sophisticated methodology that adjusts constituent weights based on five key climate considerations: fossil fuel reserves, carbon emissions, green revenues, management quality, and carbon performance. This pioneering approach delivers a forward-looking equity index that enables passive funds to capture company alignment with climate transition while maintaining portfolio diversification⁸. Companies scoring poorly on TPI's Carbon Performance assessments are excluded but remain eligible for inclusion if they improve their disclosures and carbon performance targets, creating a powerful engagement mechanism. This demonstrates how transition plan assessments can be embedded in investment products that simultaneously address climate goals and financial objectives, driving capital toward companies making credible progress on their climate transition journeys.

Investment Analysis can leverage climate-aligned capital expenditure plans to assess whether a company is positioning itself competitively for the transition. Companies that disclose detailed transition financing strategies, including specific dollar amounts allocated to decarbonization efforts and clear timelines for implementation, provide investors with greater confidence in their ability and ambition to navigate the transition. These insights are particularly valuable in sectors undergoing significant transformation, where the ability to adapt to changing market conditions and regulatory requirements will be a key determinant of long-term financial performance.

Enhancing Decision-Usefulness

For transition plans to effectively support investment decisions, they should have:

- **Short and long-term targets:** Fully specified short and long-term targets with accompanying strategy and interim milestones
- **Comparability:** Standardized metrics and disclosures across companies to enable benchmarking
- **Forward-looking:** Time-bound implementation milestones that enable progress and alignment tracking
- **Iterative enhancements:** Regular updates to reflect internal and external developments affecting strategy
- **Financial relevance:** Clear articulation of financial impacts on revenues, costs, and asset values
- **Sector-appropriateness:** Metrics that reflect material transition challenges for specific industries
- **Verification:** External verification of key components to enhance credibility
- **Performance-focus:** Information on performance against metrics and targets

The Net Zero Investment Framework (NZIF) provides a structured approach to assess transition plan credibility, using a multi-criteria maturity scale methodology to classify companies into alignment categories (Not Aligned, Committed to Aligning, Aligning, Aligned, or Achieving net zero)⁹.

Implementation Approaches

Investors can implement transition plan assessments through a comprehensive approach to integration within their investment processes. Modern investment frameworks are designed to be implemented flexibly on an 'implement or explain' basis, allowing investors to adapt them to their unique circumstances and strategies.

Developing standardized assessment frameworks creates consistency across the investment process. Creating transition plan scorecards for investment committee decisions brings climate considerations directly into the capital allocation process. Training investment professionals on evaluating transition plan quality and credibility ensures widespread integration across the organization. Incorporating transition metrics into existing risk management systems makes climate considerations a regular part of risk assessment. Finally, setting portfolio coverage targets based on companies' alignment status drives progress toward portfolio-level climate goals.

Conclusion

Corporate transition plans serve as critical bridges between climate ambition and action. The overarching goal for investors should be to support real economy decarbonization and increase investment in climate solutions, rather than simply focusing on reducing financed emissions.

By incorporating specific, comparable, and forward-looking metrics into their assessments, investors can effectively integrate climate considerations into their decision-making processes. This enables them to both protect portfolio value and contribute to achieving global climate goals through data-driven investment strategies.

The most useful transition plans go beyond target-setting, offering detailed roadmaps with quantified actions, aligned capital expenditure, and clear governance mechanisms. These plans should also incorporate considerations for nature impacts and a just transition, recognizing that effective climate action must address biodiversity preservation and ensure fair treatment of affected communities and workers. Nature considerations help identify additional risks and opportunities, while just transition elements ensure social equity is maintained throughout the decarbonization process, reducing implementation barriers and social resistance.

As disclosure standards and assessment methodologies mature, transition plans will increasingly become essential components of the investment toolkit for navigating the climate transition. Investors who develop capabilities to effectively evaluate these plans will be better positioned to manage climate-related risks and opportunities in a rapidly decarbonizing global economy.

Endnotes

- 1 Glasgow Financial Alliance for Net Zero (GFANZ), "About Us," Glasgow Financial Alliance for Net Zero, accessed May 5, 2025, <https://www.gfanzero.com/about/>
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- 3 International Transition Plan Network, "TPT Legacy," accessed May 5, 2025, <https://transitiontaskforce.net/>
- 4 European Commission, "Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 Supplementing Directive 2013/34/EU of the European Parliament and of the Council as Regards Sustainability Reporting Standards," Official Journal of the European Union, December 22, 2023, <https://xbrl.efrag.org/e-esrs/esrs-set1-2023.html>
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- 8 London Stock Exchange Group, "FTSE TPI Climate Transition Index Series," accessed May 5, 2025, <https://www.lseg.com/en/ftse-russell/indices/tpi-climate-transition>
- 9 Institutional Investors Group on Climate Change, "Net Zero Investment Framework 2.0," June 24, 2024, <https://www.iigcc.org/hubfs/NZIF%202.0%20Report%20PDF.pdf>