

Transition
Finance
Council



THE
GLOBAL
CITY

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Four policy briefs for scaling transition finance flows

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Foreword

The pace of the UK's transition to a net-zero economy will depend on whether capital can flow at scale into the sectors where emissions – and opportunities for decarbonisation – are greatest. Transition finance is central to this challenge: directing investment that supports the real-world decarbonisation of high-emitting industries, supporting credible transition pathways, and enabling the technologies and infrastructure required for long-term competitiveness.

As part of its work over the past year, the Transition Finance Council has examined how transition finance is operating in practice across asset classes, drawing on real-world case studies and engagement with market participants. Our work has reinforced the view that the policy environment remains one of the most important levers for unlocking capital flows. Regulators, government and industry all recognise the opportunity, but gaps in clarity, consistency and market confidence continue to inhibit capital deployment where it is most needed.

These policy briefs set out four targeted, market-led recommendations to the UK Government to help address those barriers. They focus on: clarifying the duties pension scheme trustees have to enable long-term investment; accelerating the uptake of credible transition-labelled instruments; building co-creation processes that turn sector transition plans and roadmaps into investable pipelines; and expanding the strategic use of guarantees to crowd-in private capital at scale. Together, these interventions aim to strengthen the UK's position as a global leader in transition finance by improving bankability, reducing risk, and signalling clear, durable policy intent.

With coordinated action – across government, finance and the real economy – the UK can mobilise the investment required for a competitive, credible and orderly transition. The Transition Finance Council remains committed to supporting this effort, and we are grateful to our members, partners and the UK Government for their continued collaboration.

| The Rt Hon. the Lord Sharma KCMG, *Chair of the Transition Finance Council*
| Councillor Irem Yerdelen, *Deputy Chair of the Transition Finance Council*

Introduction

The Transition Finance Council – policy briefs to scale transition finance

Launched in February 2025 by the City of London Corporation and the UK Government, the Transition Finance Council (the Council) – chaired by the Rt Hon. the Lord Sharma KCMG, with Deputy Chair Councillor Irem Yerdelen – aims to build on the foundation of the Transition Finance Market Review (TFMR)¹ and establish the UK as the global hub for raising and deploying transition finance.²

One of the Council's core objectives is to support the scaling of transition finance, including through the identification of practical solutions that address barriers and increase the flow of finance into real economy transition³.

Increasing these flows is contingent on a supportive policy and regulatory environment. The Council has, therefore, developed four policy briefs setting out targeted recommendations to the UK Government to address priority policy and market barriers. Each brief identifies solutions and delivery channels, assesses expected outcomes, and is supported by real-world case studies showing how practical action can unlock transition finance in the UK and internationally. The briefs were developed collaboratively with a range of stakeholders, including financial institutions, real economy actors and civil society organisations. They were further refined through iterative engagement with the UK Government to maximise their relevance and practicality.

In developing these briefs, the Council has aimed to keep the content concise and action-focused. Consequently, the briefings assume a degree of familiarity with the subject matter and key concepts across each of the topics explored.

Selecting the four policy briefs

The Council adopted a structured, qualitative and evidence-led approach to identify four policy briefs from a broader long-list of potential options. This initial long-list was developed using several inputs, namely:

- Assessment of the TFMR recommendations, and progress made to date,
- Feedback and submissions from members of the Council and the wider stakeholder group,
- Insights from Council members' case studies detailing barriers to scaling transition finance, and
- Links to the Council's broader work programme, ensuring coherence with other outputs.

¹ Transition Finance Market Review (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*.

² See the [Transition Finance Council](#) website for more information.

³ See the [Transition Finance Council](#) website for the Council's other key objectives and outputs to-date, including the *Transition Finance Guidelines & Implementation Handbook*, *Sector Transition Plans: The Finance Playbook*, *LDES: Technology and Finance Scale-Up Roadmap for the UK LDES Sector*.

The long-list was reviewed through iterative, expert-led discussions among Council members, with prioritisation guided primarily by the following qualitative considerations:

- Materiality of the barrier to transition finance flows,
- Feasibility of near-term progress or ability to build on existing policy or market momentum,
- Strength of supporting evidence from case studies and member submissions, and
- Alignment with the expertise and focus areas of the Council members leading the drafting.

The Council acknowledges that the four policy briefs taken forward in this initial phase are not exhaustive. The briefs' modular design is intended to support their replicability, with the view that a range of other topics could be explored by the Council, the UK Government, or other stakeholders in future cycles.

While the Council considered overall feasibility when selecting these policy briefs, detailed assessments of implementation costs and granular delivery models were outside the scope of this phase. The briefs were designed with this in mind and, as a next step, the Council is open to working with the UK Government to explore feasibility considerations in greater depth and to shape practical implementation pathways, subject to capacity and appetite.

The four policy briefs and their interdependencies

Policy Brief 1 |

Clarifying and promoting links between UK pension fund trustees' fiduciary duties and scaling transition finance flows

Policy Brief 2 |

Supporting the uptake of transition-labelled instruments

Policy Brief 3 |

Establishing co-creation processes across a range of sectors and technologies critical for the transition

Policy Brief 4 |

Continuing the rollout of government-backed guarantees to de-risk private investment

Fig. 1 – The four policy briefs

The four policy briefs are designed to be interdependent, illustrating selective examples across three levels of a pathway for unlocking capital and scaling transition finance flows – **allocate, align, activate** – as shown in the diagram below (Fig. 2). Scaling transition finance requires more than isolated interventions: long-term capital must be able to be allocated by addressing investment- and finance-related barriers, markets must provide consistent definitions and signals to align it, and investment-ready transition pathways must be de-risked to activate real-economy decarbonisation at scale. The briefs therefore highlight complementary policy approaches across these levels, demonstrating how progress at each stage reinforces the others along the finance pathway – with market feedback effects flowing back through all three levels, amplifying impact across the system.

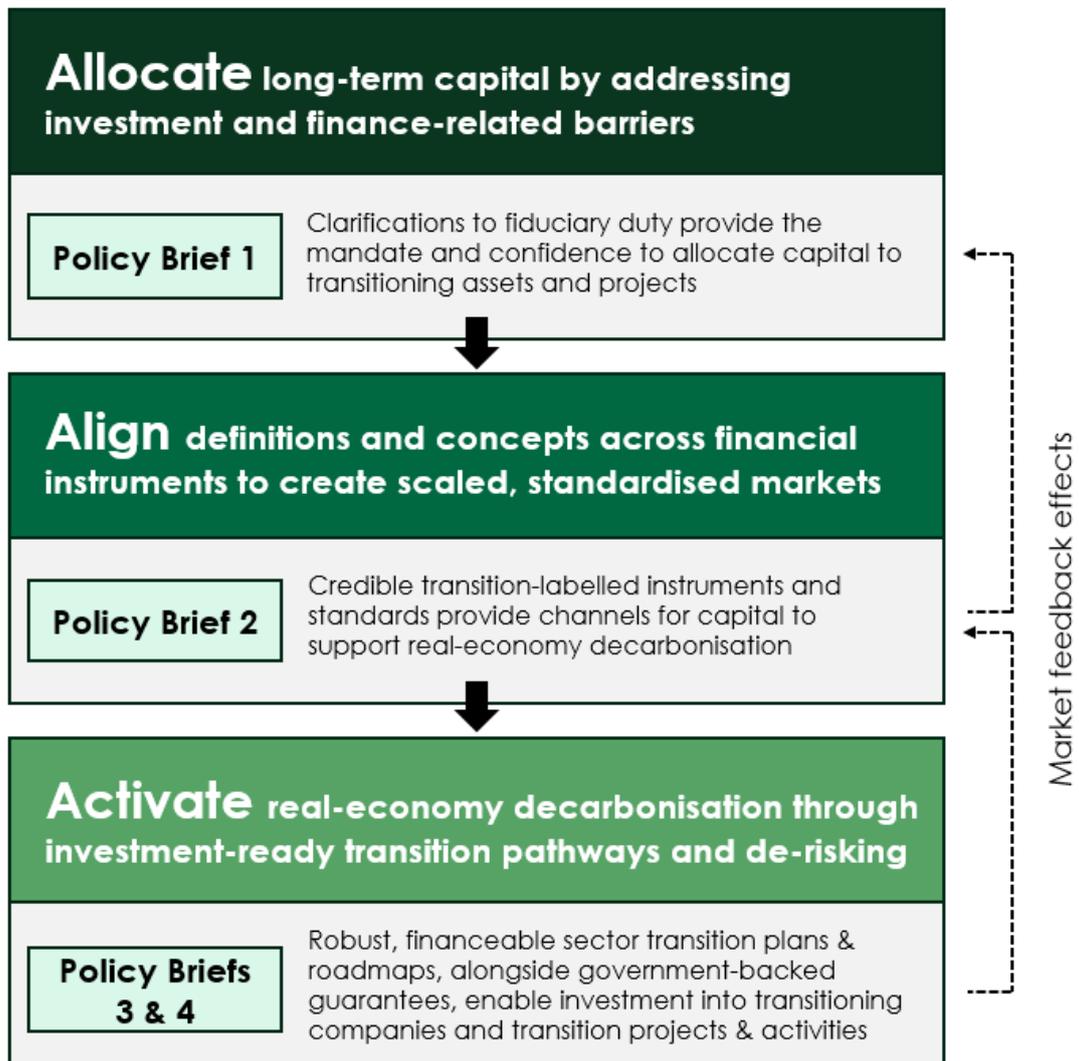


Fig. 2 - Allocate-Align-Activate: Three levels for scaling transition finance

Taken together, addressing all three levels will significantly strengthen the scale, speed and durability of transition finance flows that the UK needs.

Policy brief 1: Clarifying and promoting links between UK pension fund trustees' fiduciary duties and scaling transition finance flows

Executive Summary:

*This policy brief sets out how clarifying UK pension trustees' fiduciary duties can unlock significantly greater flows of transition finance and support investment in productive assets. Despite £3.2 trillion in UK pension savings and growing evidence of material climate-related financial risks, many trustees – particularly outside the largest pension funds – remain uncertain or unaware about how systemic climate risks and real-world impacts fit within fiduciary duty. This results in a diffusion of responsibility, leading to performative climate risk management, limited real-world risk reduction and investment allocations that fall short of those desired by policymakers. **Therefore, this brief calls for: formal government endorsement of the FMLC report; clarification of fiduciary duty in relation to transition finance through forthcoming DWP statutory guidance; strengthened trustee knowledge and understanding; and practical tools and guidance to help trustees and their advisers make use of the additional flexibility.** Clear, consistent fiduciary expectations would enable more trustees to act, improving member outcomes while advancing the UK's net-zero ambitions through greater scaling of transition finance.*

Overview

The total value of UK pensions is currently estimated to be around £3.2 trillion.⁴ The opportunity to invest with financial returns and positive social impact, including through the climate transition, is acknowledged amongst larger funds, with some anticipating increases in asset allocations to these areas including to renewable infrastructure and nature-based investments.

This policy brief provides insights as to how to maximise the effectiveness of the Pensions Schemes Bill and forthcoming statutory guidance aimed at clarifying trustee investment duties in setting a framework for scaling transition finance (while the guidance addresses the spectrum of trustee investment duties, we focus specifically on fiduciary duty as the relevant component for the purposes of this brief). The same actions would also support increased investment by pension funds into 'productive assets',⁵ therefore contributing to the UK Government's growth agenda and complementing existing initiatives such as the Mansion House Accord.

⁴ Pensions Policy Institute (PPI) (2025), *Pension scheme assets – how is asset allocation changing and why?*

⁵ Productive assets are investments in real-economy activities – such as research and development, technology, and infrastructure – that support the supply of long-term capital, contribute to financial stability, and help drive the transition to net zero. (Bank of England (2023), *Productive Finance Working Group*.)

As demonstrated by the Mansion House Accord,⁶ allocations to 'productive assets' can be small, even by the largest UK pension funds, resulting in a material financing gap in delivering both the UK's and global goals of achieving net-zero and climate resilience. This is coupled with growing evidence that financially-related climate risks are both under-considered and underestimated by UK pension fund trustees. The Pension Regulator's (TPR) own 2024 survey revealed only 54% of pension trustees dedicated time to considering climate-related risks and opportunities, albeit this was a modest increase from 2021.⁷ And whilst the survey stated that most trustees feel confident in their understanding of such risks (81%), this drops to 49% for those who have not devoted time and resources to assessing risk. The Institute and Faculty of Actuaries (IFoA) and University of Exeter's series of reports have consistently criticised current climate risk models, used to provide climate risk assessments to pension trustees, for grossly underestimating financially-related climate risk and have said GDP damage could be in the range of 50% by 2070-90, well within the lifetimes of many pension fund beneficiaries.⁸

Since October 2022, all private sector funds with over £1bn of relevant assets have been required to report in line with the Taskforce for Climate-related Financial Disclosures (TCFD). However, as useful as TCFD has been in moving things forward, it is designed as a governance, risk-management, and reporting framework, rather than a mandate for action, as evidenced by the finance delivery gap. In 2024, TPR's General Code of Practice confirmed that trustees of all but the very smallest pension funds should oversee, assess, and manage climate-related risks and opportunities.⁹

Why then, with this apparent evidence, do pension funds still not take more action to address climate risk? One answer might lie in that the requirements on pension funds to address climate risk and opportunity, without the clarity of expectations required to fulfil their fiduciary duty, results in a *diffusion of responsibility*. This occurs when each party assumes that others will take the appropriate level of action, reducing their own imperative to do so, resulting in performative climate risk management, limited real-world risk reduction and investment allocations that fall short of those desired by policymakers. And whilst expanding the pipeline of investable low-carbon assets is important, it is not sufficient on its own to overcome trustees' natural inertia as the 'no change' option can misleadingly look lower risk. Furthermore, the structural changes taking place in the UK pensions market make it even easier for climate responsibility to be pushed onto others – which only increases the urgency of clearly defining the responsibilities of actors who remain in control today, particularly as the next decade remains critical for action.

The DWP's commitment to produce statutory guidance aimed at clarifying trustee investment duties – including how factors such as systemic risk and impacts on member's long-term standards of living can be considered when investing in members' best financial interests (fiduciary duty) – is a welcome development. In addition to ensuring similar provisions are made to cover other parts of the pension's ecosystem, e.g. contract-based schemes and Local Government Pension Schemes (LGPS), we recommend the exploration of whether a regulatory underpin is needed and that this is actively consulted upon soon.

⁶ The Global City UK (2025), *The Accord: Mansion House Accord*

⁷ OMB Research (2025), *Defined benefit trust-based pension schemes research. Report of findings from the 2024 survey Prepared for The Pensions Regulator by OMB Research*

⁸ IFoA (2026), *Parasol Lost: Recovery plan needed. Global risk management for human prosperity.*

⁹ TPR (2024), *General Code of Practice – Climate change.*

Appropriate clarifications of fiduciary duty, as outlined in this recommendation, would encourage the active consideration of climate-related risks and opportunities by the 46% of UK pension trustees not currently doing so. This would be expected to increase allocations of UK pension fund assets towards transition finance – as well as other forms of ‘productive assets’ – and thus support the UK in its goals of achieving net-zero and climate resilience.

"Amidst the legitimate concern over unintended consequences of new proposals [to clarify fiduciary duty], we should not forget that the status quo has unintended consequences – fiduciary confusion, unintended regulatory burdens, regulatory risk and costs to schemes, member outcomes and economic growth."

Fiduciary duty clarification Q&A document, ShareAction, 2025¹⁰

Fig. 3 - Fiduciary duty clarification Q&A document

The barriers:

- **Differing understandings of fiduciary duty** – There are a range of different views among pension trustees and their advisers about how, and the extent to which, climate-related factors can be considered in investment decisions, particularly portfolio-level considerations, systemic risks and the real-world impacts of investments. Arguably, concerns about potential conflicts with fiduciary duty – particularly among smaller funds – may make trustees cautious about investing in transitioning assets¹¹, both in relation to those who may underestimate climate risk as well as those with high-ambition climate objectives. This is exacerbated by inconsistent legal advice arising from the tension between the interpretation of fiduciary duty related case law from over 40 years ago and more recent legal guidance¹². We believe trustees would welcome greater clarity over the scope and factors that should inform financial materiality and investment decision-making.
- **Uncertainty over time horizons** – When making investment decisions, trustees (and those acting in a similar capacity) are uncertain as to the appropriate time horizons to consider. For example, defined benefit (DB) pension funds planning to buy out benefits with an insurer, or defined contribution (DC) pension funds planning to transfer into a master trust, may have a remaining fund lifetime of only a few years. Many climate-related impacts – including the benefits of investing in transitioning assets – may fall beyond this time horizon, yet within fund members’ lifetimes. The time horizon appropriate for acting in the best interests of the fund members – including with respect to future standard of living – will, in many cases, be considerably longer than the lifetime of the fund itself, yet currently regulations direct trustees to focus on the period of the fund’s investments.¹³ In contrast, LGPS funds

¹⁰ ShareAction (2025), *Fiduciary duty clarification Q&A document*

¹¹ Examples include companies within a high-emitting sector that are undergoing a transformation to align its operations with net-zero emissions targets.

¹² Travers Smith (2022), *Sustainable Investing by Occupational Pension Scheme Trustees: Reframing the Fiduciary Duty*. Trust Law International (Bloomsbury Professional)

¹³ The Occupational Pension Schemes (Investment) Regulations 2005, as amended, define ‘appropriate time horizon’ as the length of time that the trustees of a trust scheme consider is needed for the funding of future benefits by the investments of the scheme.

have liabilities stretching beyond 2100, but their triennial valuations present a nearer-term financial focus that does not fully take account of longer-term climate-related financial risks.

- **Gaps in trustees' climate knowledge and understanding** – Under current regulatory requirements, trustees are expected to identify, assess and manage climate-related risks and opportunities relating to their fund. However, trustees may not fully appreciate the potential severity of climate-related impacts on financial markets in higher-warming scenarios. The limitations of portfolio decarbonisation to manage real economy climate-related risks, the importance of transition finance in reducing the likelihood of higher-warming scenarios, and the role that trustees can play in supporting the transition are key issues. These issues are exacerbated by rapidly evolving scientific and technological developments, ineffective risk models, and a lack of oversight of the gaps in the skills and knowledge of trustees' professional advisors.
- **Low allocations to, and limited uptake of, products and instruments with transition finance components** – The uptake of products and instruments with objectives to provide transition finance, *may* be constrained by the perception that fiduciary duty considerations mean trustees cannot set investment objectives that explicitly pursue positive environmental and/or social outcomes alongside financial objectives, including with respect to the provision of transition finance. The increase in labelled product frameworks helps to enhance the credibility of those products, but lack of clarity on how such targeted objectives are compatible with the execution of fiduciary duty will frustrate deployment of transition finance at scale. Clearly, a pension fund investing in such products alone will not address the systemic risks to that pension fund, but it can form a useful part of a climate risk mitigation strategy.
- **Unintended consequences of portfolio decarbonisation objectives** – Trustees looking to manage climate risk via portfolio decarbonisation objectives may be unintentionally obstructing finance flowing to those companies with credible transition plans and that need it to transition their business. More generally, the requirement for trustees of large pension funds to report on emissions-related metrics can make them reluctant to invest in higher-emitting assets and Emerging Markets and Developing Economies (EMDEs), particularly if this would result in an increase in reported emissions. The range of indicators available to manage climate risk has increased in range and sophistication, allowing greater focus on real-world risk reduction. However, regulation, guidance and many products still have undue focus on overly simplified, uncontextualised carbon emissions.¹⁴

¹⁴ The Climate Financial Risk Forum (CFRF) has recently established a new working group to deliver a suite of transition finance metrics in line with the recommendations made by the Transition Finance Market Review, which may support in addressing this barrier.

The solutions & delivery channels:

- 1 **Formally endorse the Financial Markets Law Committee (FMLC) report** – the report, *Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change*,¹⁵ published in February 2024, provided welcome clarity, but awareness among UK pension trustees and their advisers remains low. Endorsement by DWP and TPR, for example in the forthcoming statutory guidance and General Code of Practice respectively, would address this by increasing its status and profile.¹⁶

FMLC Guidance: Shifting from asset to portfolio and systems-level thinking and stewardship across asset owners, their managers and advisors

The FMLC report and related parliamentary evidence emphasise that climate risk is systemic, non-diversifiable, and evolves over time.

Fiduciary duty applies to the entire pension fund, not just individual mandates or securities. The FMLC guidance clarifies that trustees should consider systemic risks at the total fund level, including economy-wide impacts (e.g. stranded assets, macroeconomic disruption), and treat climate change as a risk to member outcomes.

This guidance empowers trustees to reconcile their climate change rhetoric with investment manager behaviour. Trustees can set clearer climate change expectations in mandates, escalate stewardship where managers' voting or capital allocation increases long-term risk, and reconsider mandates where managers consistently fail to manage systemic climate change risks. It is particularly relevant for UK pension schemes to ensure global asset managers remain committed to climate change-related allocations and stewardship.

Fig. 4 – FMLC Guidance overview

- 2 **Clarify fiduciary duty through upcoming DWP statutory guidance.**
 - Clarify that trustees can take into account portfolio-level considerations and systemic risks that cannot be managed through diversification alone.
 - Ensure the guidance focuses on ensuring trustees consider the real-world impacts of investments when making investment decisions, as opposed to simply avoiding carbon-intensive industries, and consider factors that are relevant during members' remaining lifetimes (not just the fund's lifetime).
 - Explicitly clarify that aiming to finance real-world decarbonisation and investing in products with an objective to provide transition finance – including Sustainability Disclosure Requirements (SDR)-labelled products – can be compatible with trustees' fiduciary duty.

¹⁵ FMLC (2024), *Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change*.

¹⁶ In a recent DWP roundtable (*Ministerial Roundtable on Trustee Fiduciary/Investment Duties and Statutory Guidance*, Feb 2026), there was strong support voiced for adopting the FMLC as a foundational reference.

- Publish mirroring guidance by the Ministry of Housing, Communities and Local Government for LGPS and Financial Conduct Authority (FCA) for contract-based schemes to ensure consistency and regulatory impact across the whole pension provision eco-system. To this aim, we recommend DWP engage expertise relevant to LGPS and contract-based schemes in the development of the guidance.
- We also recommend the exploration of whether the guidance needs to have a regulatory underpin, for example to remove any potential conflicts with the bullets above and existing law, and that this is actively consulted upon soon.

3 Strengthen trustee knowledge and understanding.

- In conjunction with the statutory guidance, take steps to improve the knowledge of trustees and their advisers in relation to climate change, fiduciary duty and what actions can support delivery of real-world emission reductions. This could include:
 - Enhancements to TPR's Trustee Toolkit.
 - Educational material published by a DWP-supported working group.
 - Plenary sessions at major industry conferences.
 - Clarity that systemic risk considerations, including but not limited to climate change, need to be cascaded into investment mandates.

4 Provide practical tools and guidance.

- Provide tools and guidance to help trustees and their advisers make use of the additional flexibility arising from clarification of fiduciary duty. This could include:
 - Case studies that demonstrate how trustees can invest in transitioning finance (including examples in both the UK and EMDE). There are various industry groups with relevant expertise and interests that could support the development of case studies.
 - Example Investment Management Agreement guidelines for the management of climate-related risks and opportunities, taking account of portfolio-level considerations, systems-level considerations and real-world impact over an appropriate range of time horizons.
 - The Council's *Transition Finance Guidelines* (the Guidelines), with a suggestion that trustees require investment managers to use them to identify and seek to finance companies with a credible transition plan that can contribute to system-level risk reduction.

Outcomes

Common understanding of fiduciary duty	If our proposed solutions are implemented effectively, pension trustees and their advisers would have a clear and consistent understanding of how, and the extent to which, climate-related factors can be taken into account in investment decisions.
Certainty over time horizons	This common understanding would include that a range of time horizons are relevant to investment decisions, including the lifetimes of, and financial obligations to, beneficiaries, even when these extend beyond the lifetime of the fund structure.
Improved trustee knowledge and understanding	Trustees and their advisers would appreciate the potential severity of climate-related impacts on pension funds, the importance of transition finance in managing real economy climate-related risks and understand how they can support the transition.
Higher uptake of products and instruments with transition finance components	Legal clarity would allow more trustees to allocate capital to transition finance. Investment managers would respond to this demand by creating more products with transition finance components, including investments in companies with credible transition plans. These companies would benefit from a lower cost of capital as a result.
Focus on real-world decarbonisation objectives	With the development of sophisticated frameworks, such as the Council's Guidelines, trustees looking to manage climate risk will require investment managers to adopt approaches that seek to provide capital to companies with credible transition plans that can contribute to system-level risk reduction and avoid the unintended consequence of potentially depriving capital from a company that needs it to carry out that plan.

Legal clarity around fiduciary duty, and the unlocking of sustainable finance flows as a result, would provide compelling evidence supporting the UK's claim to be the sustainable finance capital of the world. Other jurisdictions where a lack of clarity around fiduciary duty presents similar barriers could look to the UK as an example for how to accelerate the provision of sustainable finance.

We note that clarification of fiduciary duty will need to be accompanied by help and encouragement for trustees to invest in the transition (hence the inclusion of trustee and adviser training, and practical tools and examples above). Notwithstanding this, other barriers to scaling transition finance will remain, including inadequate risk models underestimating climate risk, the lack of risk appetite for occupational DB pension funds, cost pressures for DC pension funds, and other priorities (including structural reorganisation) for LGPS. We encourage continued efforts to address these other barriers, drawing upon expertise from across and beyond the financial sector.

Case Study 1: Trustee justification for transition-focused allocation

- A trustee can select a product that explicitly aims to improve or pursue positive environmental and/or social outcomes or has an objective to provide transition finance if the trustee's motive for selection is to manage financial risk or enhance financial return (FMLC 5.6 & 5.7).¹⁷
- Trustees can consider system-level risks and view investment decisions 'in the context of a wider strategy aimed at tackling a sustainability risk to financial performance of all or part of the pension fund' (FMLC 6.8 II¹⁸).
- They can therefore allocate to a labelled product with an objective to improve environmental outcomes (e.g., by allocating to companies with credible transition plans) as this objective serves the financial purpose of managing non-diversifiable portfolio-wide climate risk. This can even be applied if the positive impact may reduce short-term mandate-level financial returns (FMLC 6.8 III¹⁹), so long as 'both financial return and risk would be the considerations, and at the level of the investment, at a portfolio level, and at the level of whole economies material to the pension fund' (FMLC 6.11).²⁰

Case Study 2: Addressing systemic risks within a fiduciary framework – examples from pension funds

These examples can support TPR in wider trustee capacity building by demonstrating the importance of long-term systemic risks – such as climate change – within a fiduciary framework. They also highlight the significant resource requirements and need for deep expertise to navigate these challenges effectively. Greater clarity on trustee duties can further help schemes meet these demands and respond appropriately to systemic risks.

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**People's Partnership
UK Master Trust**

¹⁷ FMLC (2024), *Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change*. p.6

¹⁸ Ibid. p.8

¹⁹ Ibid. p.8

²⁰ Ibid. p.8

"We believe that trustees need support from the wider financial ecosystem in embedding climate risks into investment decision-making as this would drive quantity and quality market-led tools, analysis and professional advice that support pension funds investment decision-making cost effectively."

Leanne Clements, Head of Responsible Investment, People's Partnership

As a long-term asset owner, we recognise that systemic risks such as climate change can materially impact the stability and performance of our portfolio. Our diversified global exposure means these risks may affect multiple markets, sectors, and asset classes in different ways. Addressing climate change is therefore both consistent with our sustainability objectives and essential to protecting long-term value for our beneficiaries.

To ensure our climate-related strategies align with fiduciary duties, we apply a disciplined internal governance process that requires robust analysis and cross-functional input before any proposal proceeds. All decisions must be evidence-based, demonstrate clear financial materiality, and support long-term risk-adjusted returns. Our approach incorporates external challenge from leading academics and is grounded in market data, including pricing signals and prevailing trends. While this governance framework demands significant time, expertise, and resources, it provides the necessary rigor, transparency, and accountability for managing complex systemic risks. By treating climate change as a material investment risk and applying a structured, fiduciary-led decision-making process, we aim to strengthen portfolio resilience and support the long-term sustainability of the financial system in which we operate.

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**Brunel Pension Partnership
LGPS Asset Pool**

Our aim is to forge better futures by investing for a world worth living in. We do this by making long-term, sustainable investments on behalf of our clients. This includes funds with a strong focus on transition finance opportunities through Global Sustainable Equities (GSE) as well as managing climate risk in broader market portfolios such as Global High Alpha (GHA).

Sustainable equity funds with a transition finance focus often have higher allocations to carbon-intensive sectors like industrials and chemicals, so when viewed through the lens of carbon intensity or financed emissions metrics, they can appear higher risk from a climate perspective compared with a broader market portfolio. However, using additional metrics such as green revenues (a proxy for how a company is pivoting toward the transition) can reverse this assessment of climate transition risk.

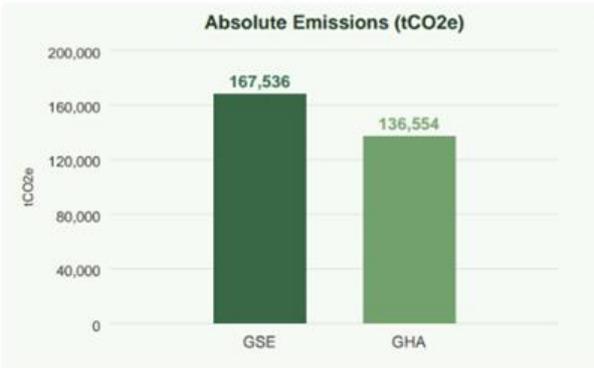
The bar charts below show that the equity fund most focused on transition finance (GSE) is almost 50% more carbon-intensive than its broad market peer (GHA). These real portfolio examples show how without appropriate knowledge and understanding, these metrics can be misinterpreted, and why informed interpretation is crucial for investment decisions.

Section 1 — GSE vs GHA: Carbon Intensity & Financed Emissions



WACI — Carbon Intensity: GSE vs GHA

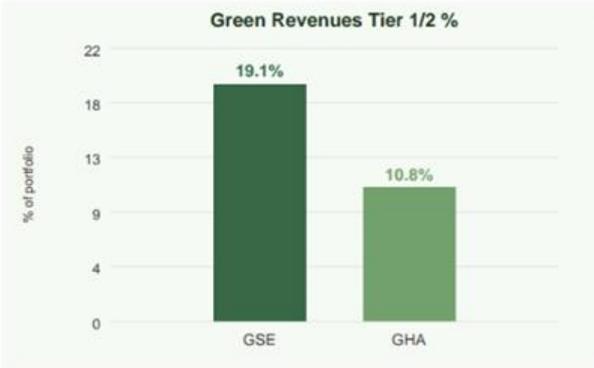
GSE records a WACI of 238, approximately 49% higher than GHA's 159. This suggests that on a revenue-weighted carbon intensity basis, GSE's holdings are meaningfully more carbon-intensive — a reminder that a 'sustainable' label does not automatically equate to lower emissions intensity across all metrics.



Absolute Financed Emissions: GSE vs GHA

GSE's absolute financed emissions of 167,536 tCO₂e exceed GHA's 136,554 tCO₂e by around 23%. Absolute emissions are heavily influenced by portfolio size and sector weights, limiting their usefulness as a standalone transition metric without normalisation.

Section 2 — Green Revenues: Forward-Looking Transition Alignment



Green Revenues (Tier 1/2 %): GSE vs GHA

GSE allocates 19.1% to green revenues versus GHA's 10.8% — nearly double. This forward-looking metric captures exposure to climate solutions and transition enablers, painting a very different picture of GSE's climate positioning than WACI or absolute emissions alone.

Fig. 5 – Brunel Equity Portfolios, carbon metric data from 31/12/2025

A similar pattern is seen in emerging markets, where structural factors – such as greater reliance on coal and other fossil fuels, along with lower data quality and transparency – result in portfolios that are more carbon-intensive than their developed market peers. However, Brunel has demonstrated that strong portfolio construction can materially reduce carbon intensity. Its emerging markets (EM) portfolio is over 62% more carbon-efficient than its benchmark, while maintaining high exposure to transition finance opportunities.

Section 3 — Emerging Markets: Portfolio vs Benchmark

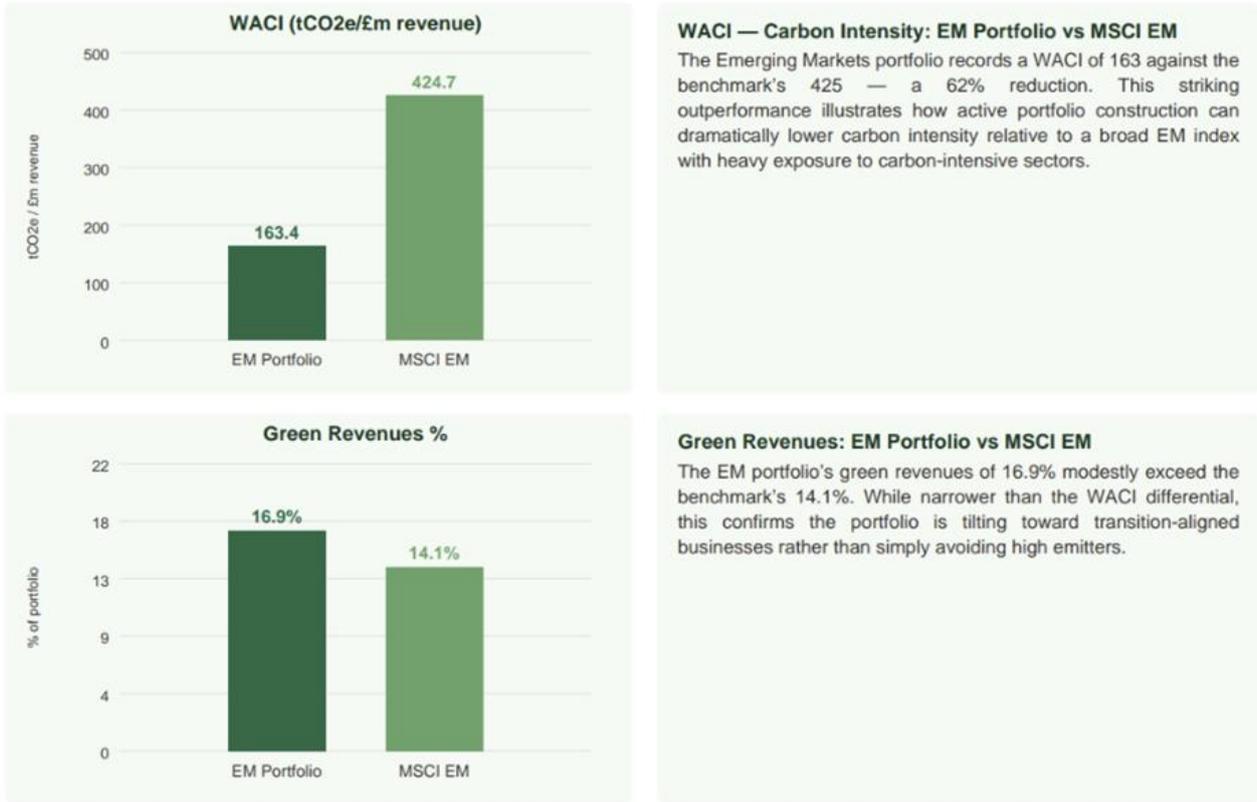


Fig. 6 – Brunel Equity Portfolios, carbon metric data from 31/12/2025

Brunel reinforces the need to balance real-world emissions reductions with portfolio targets. As noted in its Climate Policy:

Note on targets: Brunel has adopted a clear hierarchy of its targets to prioritise real economy changes that will support the net-zero transition. Priority is given to alignment, although current data availability limits scope of assessment. We also stress the need to look at performance across multiple metrics, as no one metric will be useful in isolation.

Accordingly, portfolio alignment is ranked highest and portfolio decarbonisation lowest, ensuring a focus on genuine climate risk reduction across all portfolios.

Policy brief 2: Supporting the uptake of transition-labelled instruments

Executive Summary:

Transition-labelled instruments are starting to gain traction in sustainable debt markets, operating at the issuance-level to drive transition finance via standardised transparency, verification and progress tracking. This reduces investor risk and improves comparability, while enabling high-emitters to raise capital for decarbonisation in a credible way. Simultaneously, asset managers are also incorporating transition strategies into portfolios and mandates, supported by evolving SDR and SFDR guidelines.

Market growth has remained constrained by the relative immaturity of this category of instruments. This has been reflected by a lack of common definitions and eligibility criteria; with low confidence in credibility and limited incentives on both the supply and demand side. Recent formal guidance from ICMA and the LMA is beginning to address these gaps, prompting issuers to update internal frameworks and helping lay the foundations for more consistent market activity. The Council has also published complementary Guidelines in exposure draft, that provide an assessment framework for use by capital providers in assessing entity transition planning and implementation.

This brief calls for the UK Government to encourage coalescence around, and piloting of, these market-led transition finance frameworks to align expectations across issuers and capital providers, reduce fragmentation and build confidence. It also sets out further targeted levers – across demand, supply and fund-level regimes – to accelerate the scaling of transition-labelled debt, and recommends consideration of UK sovereign transition issuance to anchor credibility and provide a clear reference point for the market.

Overview

Progress is being made in developing tools to scale transition finance and mobilise capital towards credible decarbonisation pathways where activities and entities are not yet 'green' but are on a clear trajectory toward being 'green'.

These developments span both labelled and unlabelled finance. For example, in the labelled-debt market, both the International Capital Markets Association (ICMA)²¹ and the Loan Markets Association (LMA)²² have recently produced new transition-related guidance. Labelled transition finance is applicable at instrument level and operates in respect of projects or defined activities through use-of-proceeds (UoP) loans and bonds, and at entity level through sustainability-linked loans and bonds.²³

²¹ ICMA (2025), *Climate Transition Finance Handbook*

²² APLMA, LMA, LSTA (2025), *Guide to Transition Loans*

²³ Sustainability-linked bonds and loans remain an important tool in supporting transition objectives and are recognised as contributing to the broader transition finance landscape, even though this brief focuses primarily on dedicated transition-labelled instruments.

At a different level of the market, sovereign transition bond programmes – most notably in Japan – have attracted investor interest and helped encourage issuance with a transition label by corporates and financial institutions.

Beyond issuance-level labelling, fund-level mechanisms are also emerging. The UK now has a broad ‘sustainable improvers’ fund label under the SDR which can include transition-focused funds. Similarly, the EU’s Sustainable Finance Disclosure Regulation (SFDR) 2.0 proposes a transition fund label. These frameworks are helping shape demand for transition-labelled instruments by embedding investor appetite for ‘improver’ or ‘transition’ categories.²⁴

The Council’s Guidelines sit alongside this landscape by providing a practical tool for investors and lenders to evaluate the credibility of transition planning and implementation by real economy companies for the purposes of entity-level investment. They are intended for use primarily in relation to unlabelled general equity and debt investment and general-purpose finance. They can support transition-themed products or funds. They may also be used as an additional evaluation tool for labelled sustainability-linked instruments where desired, for example, if the entity is in a high-emitting sector and the credibility of its transition planning is a relevant factor.²⁵

The focus of this brief is on transition-labelled instruments at the issuance level. While fund-level labels influence investor demand,²⁶ the most direct point of current market development remains this category of issuance-level instruments. The brief therefore covers these two types of transition-related financing at this level:

1. *Financing of transitioning entities* (i.e. sustainability-linked loans and bonds)
2. *Financing of transition projects and activities*²⁷ (i.e. particularly through UoP instruments)

Looking across labelled instruments more broadly – particularly green-labelled instruments – markets have grown significantly. According to research from London Stock Exchange Group, annual green bond issuance reached a record approximately US\$572 billion in 2024, up around 10% from 2023, with total outstanding green bonds exceeding US\$3 trillion for the first time by the end of Q3 2025.²⁸ Green loan markets have also expanded (see Fig. 8),²⁹ although their dynamics vary by region and instrument type.³⁰ And while year-on-year issuance declined in several major regions, overall green bond issuance levels have remained robust.³¹

²⁴ Although transition funds also invest in equity, the investment decisions and capital allocation is generally taken at an entity-level versus instrument-level, hence the market for labelled equity does not really exist.

²⁵ For more information on interoperability between the Guidelines and the labelled-debt market, please see Section 6.6 of the Council’s Implementation Handbook. (Transition Finance Council (2026), *Implementation Handbook: How to apply the Transition Finance Guidelines*).

²⁶ The FCA details the intended policy objective of the UK SDR. (FCA (2023), *Policy Statement PS23/16, Sustainability Disclosure Requirements (SDR) and investment labels*. p.16).

²⁷ See the Transition Finance Classification System for more detail (TFMR (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*. p.27)

²⁸ London Stock Exchange Group (LSEG) (2025), *Green debt market passes \$3 trillion milestone*

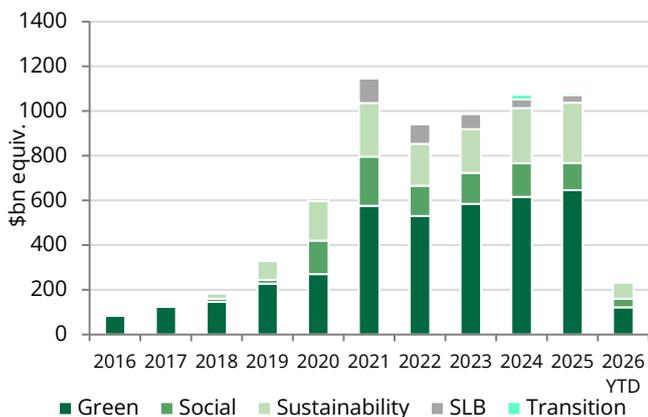
²⁹ Dealogic (2026), [5th January 2026]

³⁰ Natixis CIB (2025), *Sustainable Debt in Focus: 2024 Summary and 2025 Outlook*

³¹ Bloomberg (2026), [1st March 2026]

GSS/S Bond Market Overview³²

GSS/S Supply Development



GSS/S Supply split by Label and Currency

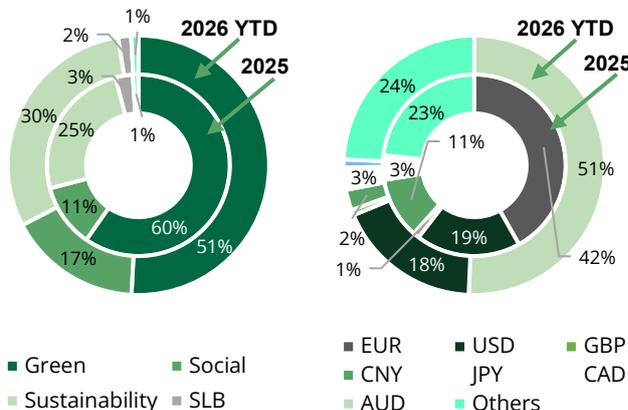
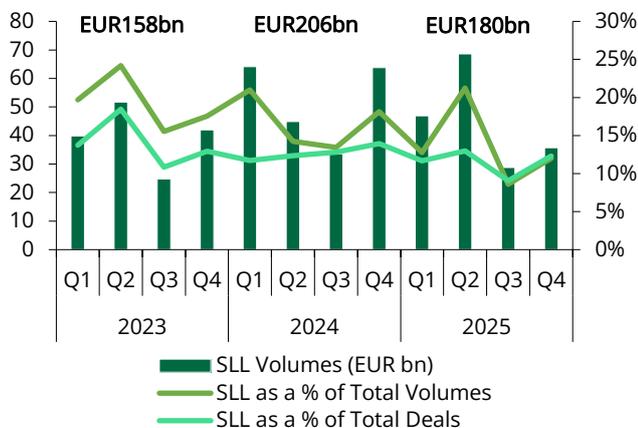


Fig. 7 – Bloomberg, 1st March 2026

Sustainable Loan Market Overview³³

Sustainability-Linked Loan issuance



Green & Social UoP Loan issuance

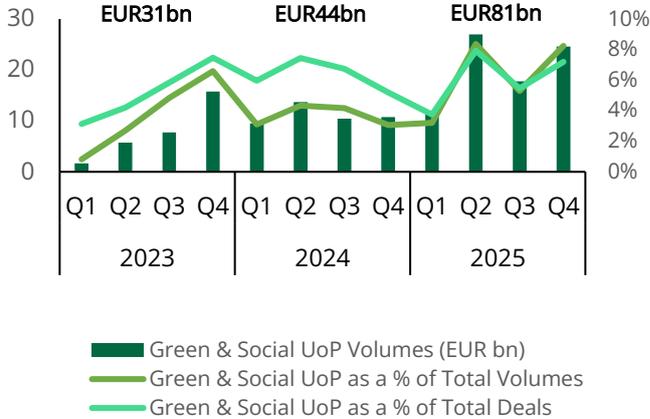


Fig. 8 – Dealogic, 5th January 2026

³² 2025 marked another trillion-dollar year for GSS supply, signalling strong momentum and market resilience, with Green format maintaining its long-standing dominance with 60% share of the labelled market.

³³ In 2025, sustainability-linked loan (SLL) issuance totalled EUR180bn (PY EUR206bn), representing 14% of total volumes (PY 17%). We also continue to see an increase in the uptake of Green and Social UoP structures, particularly in sectors where significant amounts of capex are required to meet climate transition targets. UoP loan volumes increased by 83% in 2025, to EUR81bn, representing 6% of the total market.

Turning specifically to transition-labelled debt, issuance of transition bonds and loans has generally trended upward from an initial low base,^{34,35} though activity dipped in 2025³⁶ as issuers largely paused activity amid the development of guidance. As market-led frameworks take hold, capital providers are aligning internal policies, laying a clearer foundation for future issuance, and boosting confidence in transition investments.

Nevertheless, barriers still remain to scaling transition-labelled debt instruments. In addition to operational and financial issues, a persistent challenge is perception: sustainable finance has often been framed around reducing exposure to high-emitting sectors rather than supporting their transition. This creates hesitation around explicitly labelled ‘transition’ products. Some market participants also prefer to issue transition-focused debt and instruments under a broader green umbrella, including for the purpose of preserving liquidity. However, within this umbrella, it should be acknowledged that a) not all activities can reach net zero, and b) they can still play a credible and significant role in decarbonisation pathways.³⁷

To label or not to label?

With unlabelled transition finance already in use (in the form of asset financing or general corporate purpose financing), the question stands as to why to promote the uptake of issuance-level labels.

Transition-labelled instruments operate at the issuance-level, driving transition finance by providing standardised transparency, verification, and progress tracking.³⁸ This reduces monitoring risks for capital providers while enabling high-emitting issuers to raise capital for decarbonisation in a credible way.

On the *supply side*, labelling expands access to capital by adding transparency on what is being financed, how and why certain projects and activities were selected and what impact is being achieved, thus making it easier for lenders and capital providers to assess and monitor over time.

On the *demand side*, while capital is deployed through individual instruments, financing decisions are primarily shaped at the portfolio or fund level – through sustainable fund mandates in the capital markets and through banks’ sustainability frameworks and balance-sheet commitments. Transition labels can support eligibility within these mandates and frameworks and help aggregate instrument-level data for impact and progress reporting to asset owners. In turn, by providing standardised, comparable information, this reduces information asymmetries, enabling investors and banks to better assess issuance credibility and price transition-related risks. This can increase appetite for holding such debt, support more accurate price discovery, and, over time, lower funding costs for issuers managing transition risk effectively.

The barriers:

Supply-side (issuers)

- **Fear of scrutiny and liability** – Fragmented expectations around credible transition, a growing appreciation of the value of regional and national sector plans and pathways but gaps in availability

³⁴ Environmental Finance (2026), *Environmental Finance Data Dashboard*

³⁵ This issuance reflects *self-labelled* transition bonds and loans, issued prior to ICMA and LMA guidance.

³⁶ Environmental Finance (2026), *Environmental Finance Data Dashboard*

³⁷ Although we have predominantly focused on bonds and loans, these labelling conventions can be incorporated into securitisation – both cash and synthetic; however, the base concept is still maturing before applying to the second order; over time, this would be a natural evolution, as we have seen in green and social securitisation and money market instruments.

³⁸ Project or use-of-proceeds transition-labelled instruments typically involve fewer complexities than entity-level finance instruments such as sustainability-linked bonds and loans.

and understanding of these, combined with the lack of widely adopted verification frameworks, all make it harder to benchmark plans and measure progress. This creates uncertainty for issuers and capital providers and raises concern that transition claims could be challenged or perceived as greenwashing, discouraging potential issuance.

- **Cost and complexity of issuance** – Issuers face additional costs and burden in disclosing and assuring labelled instruments, that may sometimes undermine the economics and corporate appetite for undertaking a labelled transaction.³⁹ This is particularly amplified as one moves from large corporates to the mid-market or developing world. Third party verification has become increasingly more expensive given greenwashing concerns.
- **Limited readiness of transition projects** – In harder-to-abate industries, many projects are first-of-a-kind (FOAK) or relatively uncommon. Their complexity, including construction, supply-chain and off-take risks, as well as interaction with other projects, makes financing and development inherently challenging. Limited capital provider engagement on these opportunities further slows progress and constrains capital allocation.⁴⁰

Demand-side (capital providers)

- **Credibility and greenwashing risk** – Investor demand is constrained by limited confidence in instrument integrity, reflecting unclear and non-standardised definitions of ‘transition’ and uncertainty around how outcomes will be tracked and issuers held accountable.
- **Limited market activity** – Sparse issuance to date⁴¹ has meant investors have had few opportunities to participate, creating a reinforcing cycle where low supply dampens demand, and weak demand discourages further supply.
- **Regulatory fragmentation** – Differences across fund disclosure frameworks and instrument-level standards continues to limit the uptake and cross-border scalability of labelled transition products. The UK’s SDR functions as an explicit labelling regime, whereas the EU SFDR is a disclosure framework that markets often treat as a *de facto* classification system. Although the FCA mapped SDR labels to SFDR categories (PS23/16) to ease implementation,⁴² the two remain divergent in scope and purpose. Moreover, current SFDR rules offer limited clarity on how transition-focused strategies or investments in transitioning assets qualify as ‘sustainable’. At the instrument level, the EU Green Bond Standard provides an EU Taxonomy-aligned label that complements – but is narrower and more prescriptive than – the ICMA Green Bond Principles and LMA Green Loan Principles.⁴³
- **Liquidity and scale constraints across issuance limit investor participation** – Fragmentation across multiple label types and standards divides issuance volumes, reducing secondary market depth and scale-building potential. As a result, these instruments risk remaining niche, with limited investor appetite and challenges to building market scale.

³⁹ See p.82 of the Transition Finance Market Review for more detail. (TFMR (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*.)

⁴⁰ This is a problem that is particularly acute at this early stage of the transition cycle.

⁴¹ This relates to the issuance of specific transition bonds and loans. Issuance of sustainability-linked and transition-themed green bonds and loans has been more prevalent to date.

⁴² FCA (2023), *Policy Statement (PS23/16), Sustainability Disclosure Requirements (SDR) and investment labels*.

⁴³ European Commission (2026), *The European green bond standard – Supporting the transition*

The solutions & delivery channels:

These measures would help address both supply and demand side barriers in the transition finance market.

1 Strengthen signalling and convening around credible transition finance definitions.

- Explicitly recognise and reference existing market-led transition finance frameworks, allowing appropriate time for testing exposure draft, (specifically: ICMA's *Climate Transition Finance Handbook*⁴⁴ (entity-level) and ICMA's *Climate Transition Bond Guidelines* (issuance-level); the Asia Pacific Loan Market Association (APLMA), LMA and Loan Syndications and Trading Association's (LSTA) *Guide to Transition Loans*,⁴⁵ the Council's *Transition Finance Guidelines*⁴⁶) in key, relevant UK Government communications (e.g. statements, guidance, roadmaps, reports, international engagements, etc.)
- Establish a transition badge on the London Stock Exchange and other market platforms to publicly flag credible transition-labelled instruments, increasing visibility and investor confidence, similar to the green badge for green bonds.
- Encourage public financial institutions (PuFIs) to embed these recognised frameworks in their eligibility, due-diligence and terms, and, where feasible, integrate targets or mandates to seek and hold transition-labelled assets.

2 Further support issuer readiness and confidence to drive transition-labelled issuance.

- Use UK Government convening power (e.g. roundtables, speeches), relevant communications and publications to reinforce that high-quality transition planning improves eligibility for and access to transition-labelled finance.
- Confirm and demonstrate strategic oversight of the development process for the UK's sector transition plans and roadmaps to give companies clear benchmarks for credible transition trajectories. Additionally, help ensure the financing components of sector transition plans set out the role of private debt instruments to support decarbonisation, including through alignment of issuance with relevant transition finance frameworks and mapping of instruments to relevant phases of solution deployment. (See Policy brief 3 for more detail).
- Design a scheme so that eligibility relies on existing climate-integrity frameworks (Science Based Targets initiative, CDP, Transition Plan Taskforce, etc.) to avoid another 'label' but give credence to existing frameworks that are already being applied – this can draw on the Council's Guidelines which are piloting exactly this approach to credibility assessment.

⁴⁴ ICMA (2025), *Climate Transition Finance Handbook*

⁴⁵ APLMA, LMA, LSTA (2025), *Guide to Transition Loans*

⁴⁶ Transition Finance Council (2026), *Transition Finance Guidelines*

- Support issuers in accessing and generating real-time, high-quality transition data by enabling solutions that automate emissions reporting and improve benchmarking, monitoring and verification, increasing capital provider confidence and overall likelihood of investment.⁴⁷
- 3 Strengthen fund labelling approaches to incentivise wider investment in transition-labelled instruments.**
- Engage with EU institutions and member states to explore opportunities for interoperability to optimise alignment of UK/EU approaches.⁴⁸
- 4 De-risk early-labelled issuance through blended finance mechanisms.**
- Work with domestic development banks, as well as supranationals to use tools such as partial guarantees or first-loss capital to finance transition labels, underlying assets and activities, or institutions enabling transition in the UK or EMDEs, to help close risk-return gaps. (See Policy brief 4 for more detail on steps to increase government guarantees).
- 5 Demonstrate that there is dedicated capital to unlock specifically through transition labels via government support.**
- Implement targeted, time-limited public sector measures (e.g. guarantees or co-investment) to crowd in private capital to transition-labelled issuance.⁴⁹
 - Enable regulatory approval or fast-tracking for eligible transition-labelled instruments to improve execution certainty and speed.
- 6 Leverage sovereign transition issuance.**
- Broaden the UK’s sovereign sustainable finance framework (e.g., via the Green Financing Framework) to explicitly recognise transition-aligned and enabling assets that support UK sector pathways and its Nationally Determined Contribution. Consideration should be given to a sovereign transition-labelled bond that helps develop a credible precedent for the market to follow and adheres to the ICMA market guidance.⁵⁰

⁴⁷ See p.69 of the Transition Finance Market Review for an example of this type of solution – Project Perseus. (TFMR (2024). *Scaling Transition Finance: Findings of the Transition Finance Market Review.*)

⁴⁸ Transition funds should have the ability to invest in a fossil fuel company if the entity is transitioning or the financed activity is transition- related.

⁴⁹ Some jurisdictions are beginning to explore forms of capital treatment or capital relief linked to climate and transition considerations – for example, proposals by the Reserve Bank of India to adjust risk weights based on climate-related risk and infrastructure characteristics (CETEx (2026), *Is India setting the new standard for Basel III supervision?*), and the ECB’s ‘climate factor’ (from mid-2026), which will lower collateral haircuts for low-transition-risk assets (Net Zero Investor (2025), *Collateral climate haircuts: the ECB’s new ‘climate factor’ could reshape bond portfolios*).

⁵⁰ Evidence shows a direct link between sovereign issuance and increased corporate and institutional issuance. (NatWest (2021), *ESG News: The sovereign effect on European sustainable debt issuance.*) See also Case Study 3.

Outcomes

Greater convergence around transition frameworks, building confidence	Support for recent market-led transition frameworks will align expectations across issuers and capital providers, and improve comparability of transition-labelled instruments. Credible labelling can also strengthen capital providers' confidence in entities' transition credentials, supporting greater direct capital allocation to these assets, alongside investment through funds.
Increased credible transition-labelled debt	Reinforcing how high-quality transition planning supports access to transition-labelled finance, alongside clearer sector benchmarks and better transition data, would help issuers align with recognised frameworks and increase confidence to issue.
Crowding in private capital for early-labelled issuance	Targeted public risk-sharing through blended finance mechanisms reduces downside risk for investors and helps unlock private investment in transition-labelled assets.
Improved commercial case for capital providers	De-risking mechanisms, data transparency, and greater issuer credibility reduce uncertainty and overall strengthen the investment case for transition-labelled instruments. Better visibility of issuer progress and fund performance could also support pricing and risk decisions that help scale transition finance.
Clear government signal accelerating transition	A UK sovereign transition-labelled bond would demonstrate government commitment, as well as anchor price and credibility.

Overall, these outcomes will support the creation of a robust market for transition-labelled debt, leading to an increase of capital flows to transition assets and R&D, ultimately accelerating the transition across industries, including high-emitting and hard-to-abate sectors.

Case Study 3: How credible frameworks facilitate transition-labelled debt – FirstRand and Japan

a) Corporate-level issuance

FirstRand⁵¹ has established a Transition Finance Framework which includes plans for the group and its subsidiaries to issue UoP climate transition-related instruments – bonds, loans, derivatives and securitisations – to finance projects across five eligible categories (energy efficiency; power and energy; cement production; agriculture; metals and mining).

The framework was among the first to be explicitly aligned with the ICMA Climate Transition Bond Guidelines (CTBG) (2025) and the APLMA, LMA, LSTA's Transition Loan Principles (TLP) in the *Guide to Transition Loans* (2025). Moody's Ratings issued one of the earliest public second-party opinions assessing instruments under these 2025 guidelines,⁵² confirming alignment with all four core components of the ICMA CTBG and the exposure draft of the TLP.

FirstRand addressed the key safeguards recommended in these guidelines. At the entity-level, it articulated due diligence processes to assess borrowers' transition strategies, including consistency with credible climate pathways.⁵³ At the project-level – spanning sectors such as aviation, mining, cement, and gas-to-power – these safeguards were translated into measurable criteria, such as requirements for greenhouse gas reduction, management and disclosure of carbon lock-in, and confirmation that no feasible lower-carbon alternatives exist.⁵⁴

This example demonstrates that a financial institution can credibly issue transition-labelled UoP debt instruments when supported by clear eligibility criteria, safeguards and alignment with recognised frameworks. It highlights how these robust, well-defined transition frameworks can support market confidence and aid the scaling of credible transition-labelled debt issuance.

⁵¹ FirstRand Limited is a holding company listed on the Johannesburg and Namibian Stock Exchanges, comprising First National Bank, Rand Merchant Bank, WesBank, Ashburton Investments and Aldermore. It prioritises transition finance alongside sustainable finance, focusing on assets from sectors with significant emissions impact that lack sustainable financing. It has committed to achieving net-zero emissions from its South African operations by 2030 and net-zero financed emissions by 2050.

⁵² Moody's Ratings (2025), *Second Party Opinion: FirstRand Limited – Transition Finance Framework*.

⁵³ Environmental Finance (2026), *Applying analytical rigor to a dynamic sustainable bond market*

⁵⁴ Ibid.

Sovereign-level issuance

Japan has committed to carbon neutrality by 2050 and developed a Green Transformation (GX) strategy to decarbonise an energy-intensive, hard-to-abate industrial base.⁵⁵ To support this, the government plans to mobilise around JPY 20 trillion over a decade via issuance of its Climate Transition Bond (JCTB),⁵⁶ aiming to crowd in private investment and de-risk low-carbon technologies.⁵⁷ Climate Bonds Initiative (CBI) and market participants describe the JCTB as a 'groundbreaking milestone' in sovereign sustainable finance and a model for funding whole-economy transition.⁵⁸

The inaugural JCTB issuances from early 2024 comprised two tranches of roughly JPY 800 billion each (around USD 11 billion in total), with 5-year and 10-year maturities.⁵⁹ Subsequent issuance has followed a regular auction calendar, with additional 5- and 10-year bonds brought to market, reaching cumulative JCTB issuance amounting to JPY 5.37 trillion by mid-February 2026.⁶⁰

Under Japan's GX strategy, proceeds are earmarked for 22 fields – including hydrogen and ammonia, next-generation innovative reactors, food, agriculture, forestry, and fisheries – leveraging sector-specific plans that cover all seven carbon-emitting sectors.⁶¹ The framework is certified under the CBI, looks to align with international transition guidelines, leverages sector-specific plans, and integrates eligibility criteria with domestic regulation and industrial policy.⁶²

Japan's transition finance framework has also spurred private sector activity. Mitsubishi Heavy Industries, for example, has issued at least two JPY 10 billion (around USD 70 million) transition bonds since 2022 to finance projects such as existing infrastructure decarbonisation, hydrogen solutions, and CO₂ capture systems.^{63,64}

For the UK, which already issues green gilts, Japan demonstrates how a sovereign transition bond can be tightly anchored in a net-zero strategy and industrial policy. It points to the potential for sovereign transition finance frameworks focused on hard-to-abate sectors, linked to domestic carbon budgets and pathways, and underpinned by robust external certification.

⁵⁵ Ministry of Economy, Trade and Industry (METI), (2022), *Green Growth Strategy Through Achieving Carbon Neutrality in 2050*.

⁵⁶ Government of Japan (2024), *Climate Transition Bonds Show Japan's Commitment to Carbon Neutrality*.

⁵⁷ Government of Japan (2024), *Climate Transition Bonds*.

⁵⁸ Climate Bonds Initiative (CBI) (2025), *Japan's Climate Transition Bond. A groundbreaking milestone in sustainable finance*.

⁵⁹ Ministry of Finance Japan (2024), *Issuance of the Japan Climate Transition Bonds (FY2024)*.

⁶⁰ Anthropocene Fixed Income Institute (2026), *Japan's Transition Bonds*

⁶¹ Government of Japan (2024), *Climate Transition Bonds Show Japan's Commitment to Carbon Neutrality*.

⁶² Ministry of Finance Japan (2023), *Japan Climate Transition Bond Framework*.

⁶³ Mitsubishi Heavy Industries (2024), *Transition Bonds*.

⁶⁴ Mitsubishi Heavy Industries (2025), *42nd Series Unsecured Bond (The 2nd Series of MHI Transition Bonds) Reporting*.

Case Study 4: BNP Paribas Asset Management's (BNPP AM) Fixed Income Carbon Transition – apply the FCA's SDR label⁶⁵

This example illustrates how transition-aligned strategies can be integrated into fund-level investment products when supported by clear transition definitions, aligning to the FCA's SDR 'Improver' label.

The move to net zero presents new risks and opportunities for investors. BNPP AM was able to offer clients a pragmatic approach to sustainability to help them achieve their traditional financial objectives as well as environmental goals. Their carbon transition solutions offer exposure to a variety of fixed income strategies, underpinned by a net-zero alignment approach, while acknowledging the transition:

- **Carbon transition sterling buy and maintain**: An all-duration sterling denominated strategy aligned with delivering against long-term goals.
- **Carbon transition global short duration**: Short duration strategies could provide a higher return than cash with only a small increase in risk.
- **Carbon transition global core credit**: A low-turnover, low-cost solution to investing in global credit markets.

The carbon transition approach is driven by five core beliefs:

1. Financial objectives are important
2. Invest in the transition
3. Alignment is a process
4. Engage at all levels
5. Transparency builds credibility

⁶⁵ BNP Paribas Asset Management (2026), *Fixed income carbon transition*.

Policy brief 3: Establishing co-creation processes across a range of sectors and technologies critical to the transition

Executive Summary:

Transitioning high-emitting sectors to net zero and scaling up key transition technologies requires system-wide transformation and coordinated action from businesses, finance, and government within a coherent strategy underpinned by finance. The Council's Finance Playbook recommends a co-creation process with government oversight: a structured mechanism for businesses, finance, and government to come together – supported by civil society and academia – to co-develop financeable sector transition plans and roadmaps. By coordinating across actors, co-creation helps reduce uncertainty, leverage system-wide agency, and strengthen the credibility and mobilisation of transition finance.

This brief builds on the Council's Finance Playbook recommendation, calling for the UK Government to move from principle to practice by implementing the co-creation design principles relevant to its role – taking strategic oversight of the UK's sector transition plans and technology scale-up roadmaps, ensuring the process remains inclusive, and investing in the capacity needed to deliver it effectively.

Overview

Sector transition plans and technology scale-up roadmaps⁶⁶ are essential tools for guiding societal, economic, financing, and policy decisions that aid the achievement of transition targets. If created effectively, they can increase confidence across the ecosystem by shaping a practical, long-term shared vision and commitment to delivery.⁶⁷ While becoming more common, they can often fall down due to a lack of comprehensive financial underpinning. Limited detail on how financing needs should be met undermines their overall credibility, impedes delivery, and restricts investor confidence. The Council's *Sector Transition Plans: The Finance Playbook* ('the Playbook') serves to address this by providing a framework to guide the practical integration of finance, or creation of 'finance plans', within these sector transition plans and roadmaps.

In ensuring this effective integration, the Playbook emphasises the importance of co-ordinated action. It explores how sector transition plans and roadmaps that are 'co-created' between government, industry and finance are significantly more likely to deliver holistic action across policy, regulation, and public investment. The Council's review of the existing landscape found that plans and roadmaps lacking government support are less likely to be implemented or financed, while government-led plans without sufficient business or finance engagement often miss critical market realities. Co-creation – supported by structured feedback

⁶⁶ For simplicity, this brief uses the phrase 'sector transition plans and roadmaps' to refer collectively to sector transition plans and technology scale-up roadmaps.

⁶⁷ Transition Finance Council (2025), *Sector Transition Plans: The Finance Playbook*. p.10.

loops – produces credible, investable and actionable plans and roadmaps capable of mobilising finance at pace and scale.⁶⁸

While each sector and technology requires tailored technical solutions and financing mechanisms for transitioning, the Playbook shows that the co-creation process of finance-ready sector transition plans and roadmaps can be consistent and repeatable. Explored in Chapter 2, it identifies nine core design features that form the backbone of this replicable process.



Fig. 9 – Key design features of the co-creation process

As key actors in the co-creation process, the UK Government, industry and investors play an important role in sector selection and prioritisation. Government involvement is particularly critical for sectors aligned with national priorities. In these cases, the UK Government can provide the strategic oversight, legitimacy, and continuity needed to maintain coherence and investor confidence. Without this role, sector transition planning and roadmaps risk fragmentation, limited buy-in, and outputs that lack the certainty needed to support private sector transition planning and capital allocation.

⁶⁸ True *co-creation* is fundamentally different from traditional public-private engagement. Conventional roundtables or consultation-style convenings do not constitute genuine co-creation. Given the scale of the net-zero challenge, the degree of cross-sector transformation required, and the complexity of interdependencies, the system must work in new ways. A truly co-created sector transition plan is a *dynamic, iterative* process that builds buy-in through multiple convenings and purposeful 'deal-making' among stakeholders, producing shared ownership and commitment to action.

This brief therefore spotlights and advances the Playbook, advocating for the UK Government's role in ensuring the embedding of the co-creation principles and process into the UK's long-term transition architecture, enabling sectors to transform and technologies to scale 'bottom-up' with the confidence of investors behind them.

Barriers

- **Insufficient clarity on the role of UK Government in the transition** – Unclear signals around long-term direction, priorities, and follow-through can contribute to uncertainty for market actors. While not the sole determinant, the absence of clear government stewardship of sector transition plans and roadmaps could weaken confidence in their durability.
- **Lack of coordinated, shared sector transition plans and roadmaps** – For some sectors, transition planning can be insufficiently joined up across actors, leading to inconsistency in assumptions, strategies that are misaligned, as well as unresolved interdependencies. For example, this includes limited integration of bottom-up insights from technology scale-up roadmaps into wider sector transition plans. This lack of coordination creates high uncertainty around technology sequencing, timing, and system readiness, potentially delaying capital allocation or risking stranded or sub-scale investments. This sectoral fragmentation also cascades down to the firm level, undermining firms' ability to develop credible corporate transition plans that rely on clear, consistent sector-level signals.
- **Weak bankability of transition plans and roadmaps** – If sector transition plans and roadmaps are not grounded in governance, data, commercial realities or investment requirements, they struggle to support capital allocation. The Playbook identifies early and sustained finance engagement as critical to improving bankability, yet this is often absent. For example, recent experience in ports, heat networks and sustainable aviation fuel illustrate how extended, uncoordinated approaches can delay investment.

The solutions & delivery channels

To address these barriers and facilitate the collaborative development of financeable sector transition plans and roadmaps, the UK Government should operationalise and act upon the co-creation design principles within its remit (namely, design principles 2 (*Authoritative oversight*), 4 (*Inclusive*) and 6 (*Well-resourced and dynamically run*)).

- 1 **Confirm and demonstrate strategic oversight of the development process for the UK's:**
 - a. **sector transition plans**
 - Publish a formal mandate confirming the UK Government's oversight in transition planning, including:
 - the delivery timelines,
 - expected outputs,
 - and integration with national strategy.
 - Promote and encourage the Net Zero Council in:

- delivering upon its agreed roles and responsibilities for developing, maintaining and tracking sector transition plans,⁶⁹
- incorporating the finance sector into the Net Zero Council's sector plan working group, following the Memorandum of Understanding in September 2025,
- establishing an independent assessment process or a research hub based in an independent setting, for the sector plans and the finance plans within them.
- Consider funding a dedicated secretariat for specific-sector transition plans.

b. technology scale-up roadmaps (TSRs).

- Publish a formal mandate confirming the UK Government's oversight in re-commencing the development of TSRs, including:
 - the delivery timelines,
 - expected outcomes,
 - integration with national strategy,
 - clear links to relevant sector-level decarbonisation levers (e.g. heat pumps in the context of heating and cooling decarbonisation targets for real estate).
- Assess the maturity and scalability of relevant technologies, including through the use of Technology Readiness Levels (TRLs).
- Consider targeted breakdowns of public and private financing needs at the sub-sector level, alongside R&D needs.
- Set minimum requirements for TSRs using the Playbook's framework.
- Consider funding a dedicated secretariat for specific TSRs.

2 Enable timely consideration of policy-related barriers and enablers identified by industry in line with the 'inclusive' engagement of the co-creation process.

- Embed officials from relevant departments directly into sector and technology co-creation working groups, with clear remits to engage on policy issues.
- Convene challenge sessions with relevant senior policy officials to test assumptions and address barriers.⁷⁰
- Use outputs from sector planning and technology scale-up roadmaps to inform wider transition strategy and relevant government policy.⁷¹

⁶⁹ Net Zero Council (NZC) (2025). *Sector Transition Plan: Guidance. Version 1.0.* p.9

⁷⁰ Ibid. p.11

⁷¹ Ibid. p.11

- Liaise with sector bodies during development to clarify where government carbon budget delivery plans are relevant and assess the feasibility of policy options.⁷²
- Establish a structured policy feedback loop to:
 - log and track barriers identified through sector planning and technology roadmaps,
 - assign issues to responsible departments, and
 - consider implications for policy, regulation, public finance, and engagement mechanisms.⁷³
- Ensure holistic connectivity with other government efforts on nature, physical climate adaptation, and the just transition.⁷⁴

3 Invest time and resources.

- Set clear participation expectations for government and non-government actors (e.g. time commitments, seniority of representatives).
- Provide participation support to enable engagement from a broad range of actors, including small and medium-sized enterprises (SMEs), innovators, and community representatives,⁷⁵ for example through potential:
 - travel cost support,
 - stipends, and
 - technical assistance.

Outcomes

By ensuring the UK Government operationalises its role within the co-creation design principles, the process will deliver:

Government strategic oversight of sector transition plans and roadmaps	Strategic oversight will help embed co-creation principles into the UK’s long-term transition architecture to ensure practical integration of finance. This strengthens legitimacy, drives stakeholder buy-in, and creates a coherent, investable approach by clarifying technology maturity, financing needs, and deployment pathways.
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⁷² Ibid. p.11

⁷³ Ibid, p.19

⁷⁴ Ibid, p.19

⁷⁵ Targeted participation support also helps ensure inclusive (design principle 4) and independent engagement, reducing the risk that processes are dominated by well-resourced incumbents.

<p>Inclusive government participation in co-creation</p>	<p>Government participation will allow faster identification and resolution of policy barriers. This will enable timelier technology deployment, whilst better alignment across government, industry and finance, will minimise delays and mis-investment.</p>
<p>Investment of time and resources</p>	<p>Appropriate investment will create well-resourced and dynamically run processes, whilst also enabling stronger involvement by smaller and less well-resourced actors. This results in more robust and representative sector transition plans and roadmaps.</p>

By fulfilling these roles, the UK Government will facilitate the development of robust sector transition plans and roadmaps – reducing uncertainty, leveraging system-wide agency, and strengthening credibility to mobilise transition finance at scale.

Case Study 5: Long-Duration Energy Storage (LDES)⁷⁶

While not undertaken under formal government stewardship, the Council's work on LDES provides an early, limited example of how co-creation principles can begin to be applied in practice. It offers a flavour of the type of structured, multi-stakeholder engagement that can materially enhance credibility and improve the investability of sector transition plans and roadmaps.

Context:

The UK is powering a bold industrial and digital transformation aimed at overhauling infrastructure to deliver secure, affordable, and clean electricity, tripling AI data centre capacity, and building new energy industries. At the heart of this shift is LDES, the linchpin of a resilient, low-carbon system enabling round-the-clock renewables, unlocking clean flexibility, and underpinning the competitiveness of a digital, AI-driven economy. Energy storage refers to technology that stores energy and then dispatches it as power, heat or cooling. Currently, LDES is assessed as an energy storage system capable of discharging at rated capacity for 8 hours or longer.⁷⁷ Duration can be viewed on a spectrum along with capacity provided by the underlying technologies, location, integration and performance on system-level attributes, all adding to its bespoke nature.

Between the Clean Power 2030 Action Plan,⁷⁸ the UK Infrastructure Strategy,⁷⁹ the UK Modern Industrial Strategy,⁸⁰ Clean Energy Industries Sector Plan and the UK AI data centre targets,^{81,82} UK energy storage capacity needs are estimated at up to 30GW by 2030 and an additional 15-20GW by 2050, across all durations. Of this, the required LDES capacity is estimated at up to 8GW by 2030 and 15-16.5GW by 2050, which necessitates a portfolio approach to LDES.⁸³ A system-led approach to LDES can provide resilience and reliability to energy systems and consumers. It can reduce net system costs, which can filter through to lower consumer bills, enable more effective deployment of renewables, reduce curtailment, grid congestion, and emissions. It can reduce the reliance on gas peakers and enable the scale of financing needed for LDES to support UK growth. The current landscape for UK LDES is evolving coherently with revenue stacking mechanisms through a combination of wholesale markets, ancillary and balancing revenues, regulatory support through the cap and floor (C&F) agreement, and capacity markets (CM). A combination of these mechanisms, along with reducing costs provides a strong foundation for bankability, especially for LDES with high TRLs. The Council's report identifies the transition finance need of c.£15bn through 2030 and c.£60-100bn beyond that could materialise for LDES if the barriers are addressed and the recommendations implemented.⁸⁴

⁷⁶ Transition Finance Council (2026), *A UK roadmap to scaling Long-Duration Energy Storage*.

⁷⁷ Ofgem (2025), *Super battery projects that maximise renewable-generated power enter next phase of Ofgem's green power storage scheme*

⁷⁸ Department for Energy Security and Net Zero (DESNZ) (2025), *Clean Power 2030 Action Plan*.

⁷⁹ HM Treasury and National Infrastructure and Service Transformation Authority (2025), *UK Infrastructure: A 10 Year Strategy*.

⁸⁰ Department for Business and Trade (DBT) (2026), *The UK's Modern Industrial Strategy 2025*.

⁸¹ DBT and DESNZ (2025), *Clean Energy Industries Sector Plan*.

⁸² Department for Science, Innovation & Technology (2025), *Delivering AI Growth Zones*.

⁸³ Clean Flexibility Roadmap estimates 16.5 GW for 2050. NESO estimates 15.3 GW for 2050.

⁸⁴ Transition Finance Council (2026), *A UK roadmap to scaling Long-Duration Energy Storage*.

The UK has already made important progress in this space. The current LDES landscape is supported by a range of frameworks, CM, grid charging and carbon pricing regimes, and Ofgem's C&F scheme for power-to-power storage, launched in 2025. These foundations are welcome and provide an important platform for further action. That said, rollout has been limited by the high upfront costs in building these assets and variable TRLs.

Application of co-creation principles:

Although not a full sector transition plan, the LDES work is an early example of a co-creation-style process applied to a priority technology area. Independently convened and managed by the Council and drawing on inputs from the Department for Energy Security and Net Zero, the National Energy System Operator (NESO), Ofgem, the National Wealth Fund (NWF), developers, investors, and system experts, the process used structured dialogue, roundtables and evidence gathering to identify bankability barriers and develop strategic recommendations. While undertaken outside formal government stewardship, it mirrors key co-creation principles: inclusive engagement, iterative feedback, and alignment with wider UK transition objectives such as the Clean Power 2030 Action Plan.

This experience does demonstrate how co-creation can be adapted for TSRs as well as sector plans, helping improve clarity, credibility and financing confidence.

The LDES roadmap ultimately provided government with a clear set of strategic recommendations to accelerate deployment and improve investment readiness, including:

- *To embed LDES into the heart of the UK growth agenda through the Clean Power 2030 Action Plan, the Infrastructure and Modern Industrial Strategy, and the UK's AI data centre targets.*
- *To provide LDES revenue parity through lifecycle pricing to adequately compensate duration.*
- *To broaden the risk budget and mandates for NWF and Great British Energy (GBE) with a specified percentage allocated for concessionary and catalytic capital (including LDES).*
- *To encourage investor, developer and insurance company engagement with:*
- *NESO on the Strategic Spatial Energy Plan (SSEP) 2026 consultation and energy system planning.*
- *DESNZ on potential policy interventions resulting from SSEP conclusions and to enable binding LDES deployment target setting.*
- *NESO on transparency and review of capacity markets derating updates and skip rates.*
- *GBE and NWF on developing blended finance options and co-investment opportunities.*
- *DESNZ and Ofgem on grid pricing regimes and industrial decarbonisation policy.*
- *Ofgem and NESO on accuracy and transparency regarding data and assumptions across LDES technologies, along with industry-wide technical and commercial standards for project assessments.*

Policy brief 4: Continuing the rollout of government-backed guarantees to de-risk private investment

Executive Summary:

This brief outlines how the UK can accelerate private investment into the net zero transition by scaling the use of blended finance, particularly government-backed guarantees, to de-risk uncertainty and fund first-of-a-kind (FOAK) projects. It calls for Public Finance Institutions (PuFIs), in conjunction with UK Government departments, to leverage their existing remits and the new fiscal framework to target interventions to solve market failures. Drawing on case studies, the brief demonstrates how well-designed risk-sharing structures can support early-stage investors, lenders and insurance providers, helping mobilise institutional capital at scale, improve the efficiency of public spending, and unlock the levels of private investment required for the UK's transition to a low-carbon economy.

Overview

Blended finance refers to funding interventions which combine public and private funding, with the aim of lowering risk and attracting private investment.⁸⁵ By de-risking investments and unlocking capital that would otherwise not flow or take too long to flow, they can support FOAK and hard-to-finance projects, facilitating market development.⁸⁶ While a wide variety of blended finance mechanisms can be deployed at different stages of the investment cycle, with varying risk and return profiles, market actors have frequently cited challenges relating to their limited transferability and scalability.

Guarantees can be an effective tool in the blended finance toolbox. They mobilise private sector capital and allow for the optimal use of public money,⁸⁷ and can be more effective than debt and equity instruments in mobilising private capital,⁸⁸ with a greater financial leverage ratio when designed appropriately. They are effective at crowding-in finance for early-stage and scale-up technologies and can take a range of forms, such as loss absorbing (first-loss,⁸⁹ performance guarantees), credit enhancement⁹⁰ and financial guarantees, depending on the specific type of risk that requires mitigation.

PuFIs can address market failures and financing gaps through the use of mechanisms like guarantees, helping to de-risk and crowd in private finance and in doing so, advance public policy goals. This includes the UK National Wealth Fund (NWF), which has allocated £10 billion of its £27.8 billion (36%) for guarantees.⁹¹ In

⁸⁵ TFMR (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*

⁸⁶ Transition Finance Council (2025), *Sector Transition Plans: The Finance Playbook*

⁸⁷ OECD (2021), *The Role of Guarantees in Blended Finance*

⁸⁸ LSE (2022). *How can 'blended finance' help fund climate action and development goals?*

⁸⁹ First loss is not strictly a guarantee. It is a form of investment with potentially significant risk loss.

⁹⁰ TFMR (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*

⁹¹ HM Treasury (2024), *Policy paper National Wealth Fund: Mobilising Private Investment*

its Five-Year Strategic Plan, the NWF notes that it expects most of its remaining capital to be invested through debt and guarantees, particularly for larger transactions.

Parallel to domestic efforts, the UK's Development Finance Institutions (DFI's) also look to prioritise effective risk management when investing in EMDEs, where private sector participation is often constrained by real or perceived risks.⁹² This risk management is done using a range of blended finance instruments,⁹³ including guarantees.

The barriers:

- **Scalability and replicability** – Some forms of guarantees can be difficult to scale and replicate, partly because they tend to be deployed on a project-by-project basis which can make standardisation challenging.
- **Insufficient pipeline of investable projects** – Without accompanying sectoral policy interventions alongside necessary market infrastructure, a pipeline of projects that are suitable for guarantees may struggle to be created.
- **Policy uncertainty** – Inconsistent or unpredictable policy signals can reduce the effectiveness of government-backed guarantees, particularly for longer-term projects.
- **Availability of public finance to crowd-in private investment** – There is limited public funding available to catalyse additional investment from PuFIs and scale transition finance flows. This constrains the ability of the UK Government to co-design interventions that could 'smooth' project cash-flows and bridge the gap between institutional investors' expectations for risk coverage and the guarantee capacity available within existing PuFI mandates.
- **High cost of guarantees can reduce private sector appetite in EMDEs** – Guarantees may fail to lower the cost of capital if the guarantee fee simply replaces the lender's risk premium, and the added cost reduces private sector returns, weakening investor appetite. They can also adversely impact the perceived risk for these projects leading to relatively higher cost of debt.

The solutions & delivery channels:

- 1 **Continue the rollout of government guarantees at scale through UK PuFIs.**
 - Support the expansion of guarantees issued by UK PuFIs (which are well-established, capitalised, and explicitly mandated to mobilise private capital. For example, the NWF already has a sizeable portion of its capitalisation via guarantees and plans to increase this).
 - Encourage other UK PuFIs to increase issuance of a range of guarantees for different types of projects and investments, in line with the table below.

⁹² British International Investment (BII) (2025), *Opportunities for DFIs to Scale Private Capital Mobilisation: Structures and tools*

⁹³ Recent examples include British International Investment's (BII) anchor investments in BlueOrchard Climate Action Mobilisation Fund (BOCAMF) and the Allianz Credit Emerging Markets Fund.

PuFin	Primary focus	Instruments
National Wealth Fund	Mobilising investment into the 10 priority sectors (ports, CCUS, hydrogen, battery manufacturing and EV supply chain, green steel, the power grid, energy storage, nuclear, transport infrastructure, and place-based regeneration).	A range of guarantees are offered on a commercial basis (financial guarantees, credit enhancement guarantee, first-loss, performance guarantees, debt and equity).
British Business Bank (BBB)	SMEs, including through supporting venture capital and other funds.	Growth Guarantee Scheme, ENABLE Guarantees ⁹⁴ , debt (distributed through partner banks) and equity.
UK Export Finance (UKEF)	Support for UK exporters and overseas buyers of UK goods and services.	Export credit guarantees, working-capital and bond support guarantees, political and credit insurance and direct lending facilities.
Scottish National Investment Bank	Mission-led investment delivery in Scotland.	Only equity and debt (patient and mission led). <i>NB: SNIB does not currently provide grant or sub-commercial funding, guarantees, bridge loans, revolving capital facilities.</i>
National Housing Bank	To accelerate housebuilding across England.	Direct lending to SMEs, equity and guarantees (£10.5 bn as a capital investment and £5.5 bn for contingent liabilities).

Fig. 10 – PuFIns, their primary focus and guarantee type.

2 Integrate guarantees and other blended finance instruments into wider policy architecture.

- Integrate the need for, and deployment of, blended finance mechanisms into the UK policy architecture – including the UK’s Industrial Strategy and similar strategic frameworks – to deliver on ambitious objectives.
- Use the rollout of sector transition plans and roadmaps to support this (see Policy brief 3 for more detail), ensuring that they:

⁹⁴ BBB’s guarantee schemes are sector-neutral, and currently there are no programmes specifically designed to support transition finance.

- set out how transition solutions at different stages of development can be supported through a mixture of policy and regulatory levers and applications of blended finance (Fig. 11),
 - focus on the UK Government having sufficient capacity and finance to give funding flexibility to policymakers to respond to challenges and opportunities, and
 - provide information on blended finance instruments and early-stage support – including guarantees – for some capital-intensive transition solutions.
- Ensure PuFIns support the provision of blended finance instruments aligned with sector transition plans⁹⁵ as they are developed alongside implementation of the Industrial Strategy. This calls for a greater collaboration between PuFIns and government departments to align interventions with sector transition plans.⁹⁶

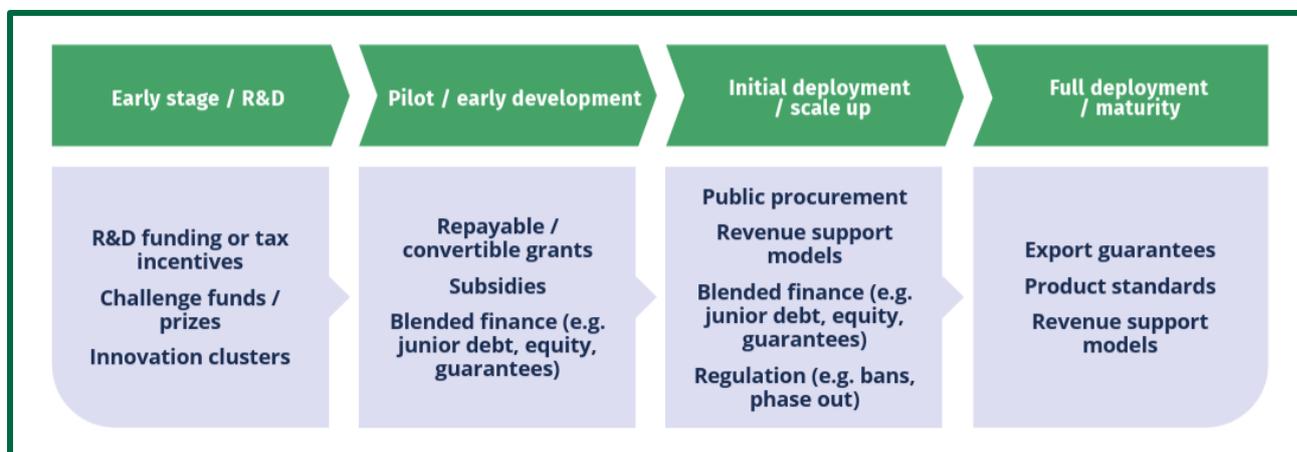


Fig. 11 – Mapping policy interventions to phases of a transition solution scale-up⁹⁷

3 Leverage the UK’s fiscal architecture including the Financial Transaction Control Framework (FTCF).

- Leverage HM Treasury’s updated fiscal rules⁹⁸ and related FTFCF, which support the increased use of financial transactions (equity and loans guarantees) by allowing the government to invest alongside the private sector without increasing day-to-day public spending.
- Apply the FTFCF, which provides the legal and budgetary plumbing by standardising how loans, equity-like instruments and certain guarantees are authorised, risk-managed, and recorded within government. It also outlines how departments can deliver policy-related financing interventions in collaboration with the PuFIns.

⁹⁵ TFMR (2024), *Scaling Transition Finance: Findings of the Transition Finance Market Review*

⁹⁶ To complement this, the Green Finance Institute (GFI) and DESNZ are currently scoping a project – the Transition Finance Lab – which focuses on a persistent and well-recognised constraint in the transition finance value chain: FOAK and early-stage opportunities (such as advanced sustainable aviation fuel, hydrogen, heat networks) that are too small, too risky, or too bespoke for immediate deployment by PuFIns or mainstream investors without additional structuring and risk-sharing to crowd-in commercial term investment.

⁹⁷ Transition Finance Council (2025), *Sector Transition Plans: The Finance Playbook*. p.33.

⁹⁸ HM Treasury (2024), *A strong fiscal framework: Explaining the government’s new fiscal framework and rules*.

Outcomes

Guarantees are not a silver bullet. However, when rolled out effectively, and at scale, they would deliver:

Greater mobilisation of private capital and improved risk-sharing	By de-risking early-stage transition projects, guarantees enable greater private capital mobilisation and better risk-sharing between public and private sectors. This allows earlier-stage and higher-risk projects to progress more rapidly towards commercial viability.
Development of new markets	Guaranteed financing accelerates market maturation for earlier-stage and higher-risk projects. This will help projects move to a stage where fewer public financial interventions are needed (particularly public investment).

Accordingly, the priority of PuFIs should be the effective deployment of £1 trillion⁹⁹ in blended finance over the next decade by designing and targeting blended finance tools to maximise private capital leverage, address genuine market failures and accelerate private investment into the green transition.

⁹⁹ The Second National Infrastructure Assessment, Climate Change Committee, and Investment Delivery Forum estimate that over £1 trillion of investment is required in new infrastructure and technologies across the UK over the coming decades.

Case Study 6: Proposal of a risk-sharing guarantee to support the Warm Homes Plan (WHP) through government-backed loans¹⁰⁰

Labour Manifesto Commitment

- i. The Labour Manifesto commits to a Warm Homes Plan that will offer grants and low-interest loans to support investment in insulation and other improvements, such as solar panels, batteries, and low-carbon heating, to cut bills.
- ii. Labour will also work with the private sector, including banks and building societies, to provide further private finance to accelerate home upgrades and low-carbon heating.

Existing examples: 'The Ireland model'

- i. Ireland's Home Energy Upgrade Loan Scheme (HEULS) provides a relevant precedent for a government-backed low-interest loan model for domestic retrofit.
- ii. HEULS offers unsecured loans, with longer repayment periods (up to 10 years), making higher-cost upgrades more financeable for households.
- iii. The loans benefit from an 80% guarantee provided by a joint agreement between the European Investment Bank and the Strategic Banking Corporation of Ireland, along with state-subsidised interest rate reductions.
- iv. HEULS is complementary to grants, and delivered through multiple lenders, widening consumer access and embedding retrofit finance in the mainstream lending ecosystem.

Potential proposed structures for the UK - 'risk-sharing guarantee' options

- i. A risk-sharing guarantee could provide lenders with payment in the event of poor homeowner outcomes, thereby creating an effective 'cap' on a lender's risk exposure.
- ii. The guarantee proposal could be structured in various ways, including first-loss, second-loss, or pari-passu, and could cover up to 80% of the loan, with the guarantor (e.g. government or a philanthropic fund) covering a defined percentage of losses in exchange for a fee.
- iii. Well-structured guarantees preserve market discipline by ensuring lenders retain meaningful 'skin in the game' and cover the cost of providing a guarantee.
- iv. **Note:** government has not yet determined any next steps in this space.

¹⁰⁰ There are multiple risks associated with the development of financial solutions that support homeowners access energy efficient home upgrades that can help bring down energy bills. This is not an exhaustive outcome.

Benefit of such risk-sharing guarantees	<ul style="list-style-type: none">i. In general, financial guarantees are most effective when the guarantor has either superior risk-bearing capacity or an informational advantage relative to the lender.ii. The reduction in credit risk – primarily through capital relief – could enable participating lenders to expand their lending activity in this market.
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Case Study 7: NWF guarantee for Scottish and Southern Electric Networks (SSEN)¹⁰¹

Background:

According to the UK Government's Clean Power 2030 Action Plan, the electricity transmission network will need to double its rate of infrastructure build-out by 2030 compared to the previous decade.

Ofgem estimates an investment requirement of up to £70bn in the transmission grid by 2030 to support energy security and deliver clean power.

Scotland has significant capacity to contribute to clean power and can supply up to a fifth of Great Britain's demand for clean power. However, substantial upgrades to the transmission network are required.

Solution:

NWF to provide an 80% financial guarantee (up to £800 million) of a £1 billion senior debt facility issuance (12-year bank facility by a syndicate of banks) to SSEN Transmission, enabling financing of four major grid upgrade projects in northern Scotland.

Additionality of the NWF guarantee:

Market appetite for long-term, flexible financing in the sector is currently limited. This financial guarantee enables longer-dated lending and matches the long operational life of grid assets, helping unlock the financing needed for the swift progression of these four critical upgrade projects.

¹⁰¹ NWF (2025), *National Wealth Fund backs major grid upgrade in the north of Scotland with £800m guarantee for SSEN Transmission*.

Looking ahead

Building on the development of these initial policy briefs, the Council will look to continue working closely with the UK Government, industry and wider stakeholders to support progress on implementation and to cultivate a targeted policy pipeline for transition finance. This could include:

- Additional sessions with relevant UK Government departments at a working-level to review briefs for further development.
- Workshops with UK Government, market actors and technical experts to further explore cost, feasibility and implementation pathways.
- Continued engagement with both practitioners and UK Government to monitor additional emerging policy needs.

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The views expressed in this report do not necessarily reflect those of individual members of the Council, working group members, contributors or the organisations they represent.

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