



# The evolving landscape of climate investing



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Climate change and the energy transition are multi-decadal themes that are shaping the world we live in, with wide-ranging implications for investors. But the question of how to incorporate climate change into investment strategies is not a straightforward one. Multiple avenues are open to asset owners looking to manage risk, allocate capital and set climate-related goals.

Early approaches to climate investing focused largely on exclusions, such as divesting coal-producing companies from portfolios. As the energy transition has progressed, growth areas such as clean technology have emerged, opening up investment opportunities and making thematic approaches more attractive. Net Zero methodologies have been developed in recent years, enabling investors to set and implement goals. And most recently, the concept of transition finance has taken centre stage,

as investors consider how they can finance high-emissions companies taking a transition pathway.

The landscape for climate investing is rapidly evolving, and depending on their goals and constraints, different investors will have varying needs. Recognising this reality, Columbia Threadneedle offers a spectrum of investment options, enabling our clients to pursue the right approach for them.



## A spectrum of investment options

<b>Integrated</b>	<b>Net Zero</b>	<b>Transition Finance</b>
<p><b>What?</b></p> <p>Identification of material risks and opportunities related to climate change and the energy transition, supporting long-term investment returns</p>	<p><b>What?</b></p> <p>Investment aligned with the objective of Net Zero global greenhouse gas emissions</p>	<p><b>What?</b></p> <p>Allocation of capital toward companies defined as being contributors to the energy transition</p>
<p><b>How?</b></p> <p>Thematic research and stewardship on a range of transition topics and technologies, identifying how companies are positioned to benefit or lose out</p>	<p><b>How?</b></p> <p>Implementation of methodology based on Net Zero Investment Framework:</p> <ul style="list-style-type: none"> <li>■ In-house Net Zero model to measure and track alignment</li> <li>■ Focus on real-world change with portfolio engagement targets for corporates</li> <li>■ Monitoring of portfolio emissions pathway</li> </ul> <p>Some funds also have energy transition investment themes and/or exclusions</p>	<p><b>How?</b></p> <p>Investment in companies meeting Transition Finance definitions:</p> <ul style="list-style-type: none"> <li>■ Companies on a transition pathway</li> <li>■ Climate solution providers – may include both companies and ringfenced finance (such as green bonds)</li> </ul>
<p><b>Where?</b></p> <p>All relevant Columbia Threadneedle investment strategies</p>	<p><b>Where?</b></p> <p>Can be applied across a wide range of funds and asset classes – currently \$52bn AUM at Columbia Threadneedle</p>	<p><b>Where?</b></p> <p>Specific transition strategies; currently focused in fixed income at Columbia Threadneedle</p>

## Integrating material climate risk and opportunity into investment

At Columbia Threadneedle, we see climate change and the energy transition as global megatrends which are shaping the economy, business environment and capital flows, with material implications for investment performance across our regions and asset classes. Integrating these implications into our research and investment is supportive of the delivery of long-term investment returns.

Dedicated environmental specialists undertake research on specific themes. They aim to identify areas of investment opportunity, as well as understanding the exposure of investee companies to climate-related risk, including both transition and physical risk. The findings of this work are integrated into our company research, and are available for portfolio managers across all relevant asset classes.

In late 2025, we hosted a client event in London on the energy transition, sharing our latest research findings and demonstrating how these impact our investment thinking. Topics covered included:

- The results of our latest scoring of companies' exposure to material climate risk and opportunity, across c2,500 companies
- Investment opportunities in a world of growing power demand
- Understanding the investment implications of the electric vehicle transition
- Assessing water risk in a changing climate

Materials and replays from the event can be found at our [event microsite](#).



<sup>1</sup> [NZIF 2.0 Report PDF.pdf](#)

<sup>2</sup> As at 31 December 2025

## Defining Net Zero investing

Net Zero approaches enable investors to implement investment strategies which are aligned with the aim of achieving Net Zero emissions globally.

Tracking the fund-level carbon footprint enables investors to see the current carbon intensity of the companies or other assets in a portfolio, in a way which is comparable across funds. Some Net Zero strategies explicitly target carbon footprint reductions, using a science-based trajectory, with interim targets and a glidepath to the ultimate goal of zero by 2050.

A challenge of carbon footprint targeting as the main strategy to achieve Net Zero is that from a portfolio management perspective, targets may be met by re-allocating to lower-carbon companies or sectors, rather than achieving real world emissions reductions. The Net Zero Investment Framework (NZIF)<sup>1</sup> aims to address this issue by complementing the use of an emissions trajectory with forward-looking alignment indicators and stewardship. This approach shifts the focus toward the underlying climate strategies and targets of the constituents of a portfolio, rather than just on their current emissions levels.

## Net Zero investing – Columbia Threadneedle's approach

At Columbia Threadneedle we have been at the forefront of developing Net Zero methodologies, having co-chaired the NZIF Implementation Working Group and been an early adopter. Since then, we have developed and expanded our in-house methodology, opening up Net Zero investment options for a wider range of clients. Our European business, Columbia Threadneedle (EMEA), is a signatory to the relaunched Net Zero Asset Managers Initiative (NZAMI).

We now have net zero methodologies in three asset classes, using NZIF as a key reference point: listed companies (equities and corporate bonds), direct real estate, and sovereign bonds. These are described below. As well as implementing these methodologies, we also work with clients who have set their own Net Zero climate goals and objectives, including carbon footprint targets.

In total, we have \$54.3bn<sup>2</sup> in AUM managed using a Net Zero approach. This includes many of our European-domiciled funds, with 71% of our SICAV funds AUM and 32% of our OIEC funds AUM applying a Net Zero approach. Some of these strategies have additional climate-related elements, such as the exclusion of certain activities related to fossil fuels, and/or thematic approaches that actively seek investment in energy transition and other sustainability themes.

At Columbia Threadneedle, we see climate change and the energy transition as global megatrends which are shaping the economy

## Our net zero methodologies

Asset Class	Methodology
<b>Equities and corporate bonds</b>	<p>We have a proprietary model that rates corporate alignment with net zero – classing corporates as aligned, aligning, committed, not aligned or not assessed. This model uses five data sources (CA100+ benchmark, Transition Pathway Initiative, Science-based Targets Initiative, CDP and MSCI ESG), and uses selected data points to produce ratings for over 12,000 issuers we hold. These ratings are made available to our investment teams through our portfolio management tool (Aladdin).</p> <p>For each portfolio that has adopted our net zero commitment, we have a target for 70% of financed emissions intensity at the portfolio level to be either aligned or under engagement each year, as recommended by the Net Zero Investment Framework.</p> <p>For these portfolios, we also set an emissions reference pathway to 2030, based on a 50% reduction in emissions intensity for each portfolio's benchmark, from a 2019 base year. We use this to monitor and track progress relative to a 1.5°C-aligned trajectory. This is not a binding target, as we want to avoid unintended consequences occurring.</p>
<b>Real estate</b>	<p>We have conducted net zero carbon assessments across our portfolio, which inform tailored decarbonisation pathways for each asset. These assessments are benchmarked against the CRREM decarbonisation pathway, enabling us to identify potential stranding risks and align capital planning with long-term emissions reduction targets.</p> <p>To support this work, we have developed a dedicated data platform that models the outputs of our net zero carbon assessments through to 2050. This platform allows us to visualise forecasted emissions trajectories against the CRREM benchmark, helping to prioritise interventions, quantify performance gaps and guide strategic decision-making at both asset and fund levels.</p> <p>We are also investing in improved data quality, particularly for Scope 3 emissions. This includes the rollout of automated data capture systems to ensure more comprehensive and accurate measurement of energy use across our properties.</p> <p>Our implementation measures range from energy efficiency upgrades and electrification of building systems to the integration of onsite renewables and deep retrofit strategies where appropriate. These efforts are monitored through regular asset-level reviews, feeding directly into fund-level business plans and climate transition roadmaps.</p>
<b>Sovereign bonds</b>	<p>We have a proprietary sovereign bond net zero methodology based on the recommendations of the NZIF. This approach assesses sovereign alignment with a net zero trajectory on a current and forward-looking basis. This model uses four data sources (Bloomberg, Transition Pathway Initiative, Klimalog, MSCI ESG) and selected data points to produce ratings for ~170 national government issuers.</p> <p>Our methodology takes into account the different circumstances of developed countries and emerging economies, and the challenges faced by some lower-income countries in mitigating emissions whilst also growing their economies and tackling human development challenges. In practice this means that developing countries will take longer to reach peak emissions.</p> <p>The alignment ratings we produce are aimed at supporting our portfolio managers who invest in sovereign debt to identify which countries are leading or lagging on the energy transition, providing a starting point for the appraisal of potential transition risks or opportunities relevant to the portfolio.</p>

## Net Zero and Transition Finance: how do they relate?

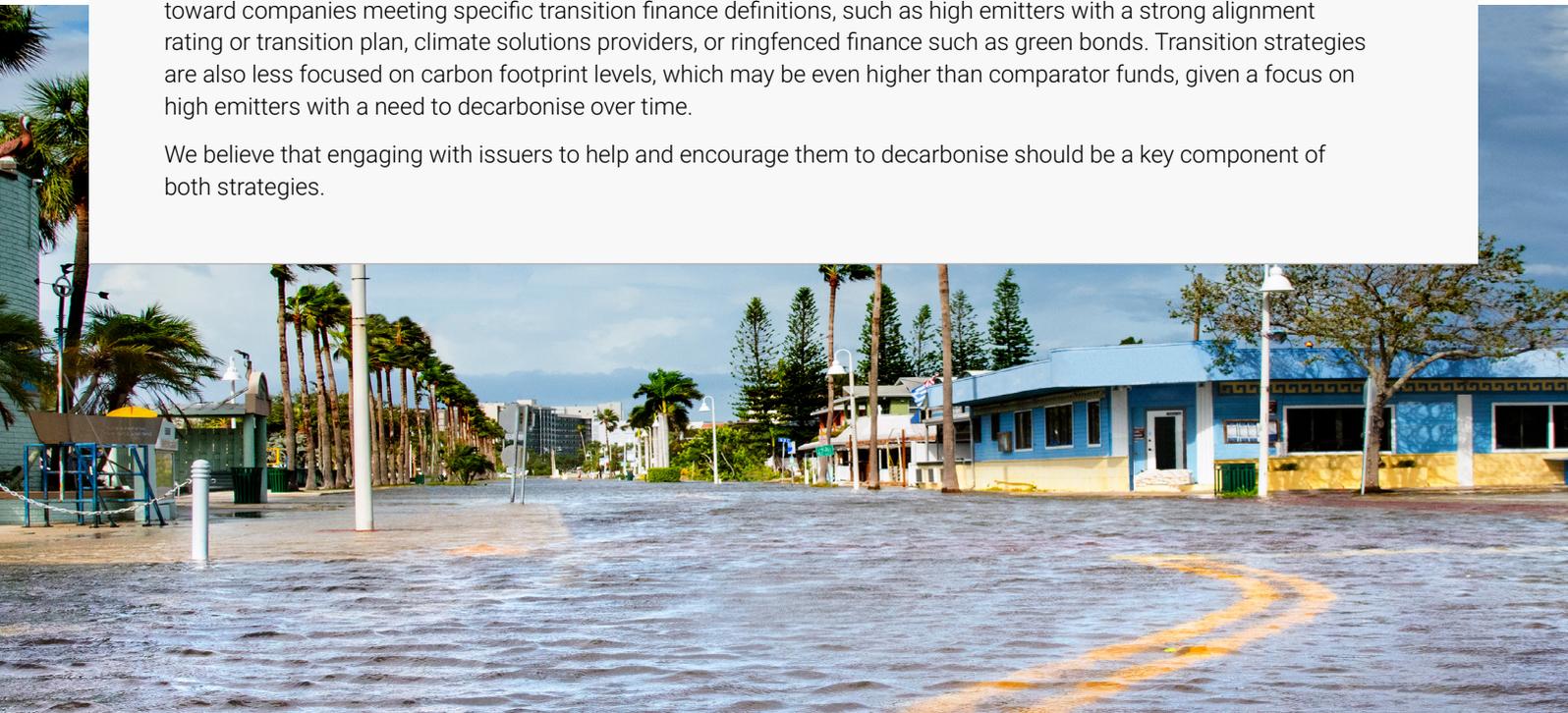
We expect both Net Zero funds and Climate Transition funds to help finance the transition, investing in issuers working to decarbonise their operations, and achieving a reduction in financed emissions over the long-term.

However there are differences in the underlying objective and its implications for portfolio management. Net Zero approaches primarily aim for the long-term decarbonisation of the investment strategy, whether directly targeting the carbon footprint, or focused on alignment indicators and stewardship. They can typically be applied across a wide range of funds and asset classes.

The core purpose of Transition Finance approaches is in financing the capital needs of companies in transition, and in climate solutions. In this, there is substantial overlap with the Net Zero approach of NZIF.

However we see credible Transition Finance strategies as more focused on making deliberate portfolio allocations toward companies meeting specific transition finance definitions, such as high emitters with a strong alignment rating or transition plan, climate solutions providers, or ringfenced finance such as green bonds. Transition strategies are also less focused on carbon footprint levels, which may be even higher than comparator funds, given a focus on high emitters with a need to decarbonise over time.

We believe that engaging with issuers to help and encourage them to decarbonise should be a key component of both strategies.



### Defining transition finance

Making a transition from a high-carbon to a low-carbon global economy would imply very significant capital investment. The International Energy Agency, for instance, estimates that over \$4 trillion investment in clean energy would be needed annually by 2030 in order to achieve net zero emissions by 2050.

Transition finance approaches seek to proactively allocate finance toward capital needs for decarbonisation. This includes both continuing to finance firms in high-emissions activities with a credible route to decarbonise, and the providers of climate solutions.

In the last few years, there has been a marked increase in investor attention to transition approaches. In part this has

reflected increasing awareness that a focus on portfolio carbon footprint can disincentivise investment in the very companies that most need capital to decarbonise – such as those in “hard to abate” sectors including cement, steel, industrials and aviation. Reflecting this, climate transition funds have been the fastest-growing and largest segment of the \$640bn climate funds market<sup>3</sup>.

However, market definitions of what genuine and credible transition finance means remain nascent. The UK government has backed efforts to provide more clarity, firstly through the Transition Finance Market Review (TFMR), and then the Transition Finance Council (TFC), launched last year. Columbia

<sup>3</sup> Investing in Times of Climate Change | Morningstar

Threadneedle is represented on two of the three working groups of the TFC, collaborating with peers to develop clear guidance and identify and tackle barriers to unlock transition finance flows. Having published draft Guidelines for transition finance, alongside work on sector transition plans, the TFC at the time of writing is now in the final stages of making its recommendations.

Regulators have also been increasingly focused on transition funds, particularly given market growth. Fund naming regulations from the European Securities and Markets Authority (ESMA) introduced limits on the use of the term, and initial proposals for the EU's SFDR 2.0 include a Transition category.

### Transition finance – Columbia Threadneedle's approach

As we contribute toward clear market definitions of transition finance, we are also building our own solutions for clients interested in this investment area. Our existing Net Zero methodology and tools capture many of the principles of transition; we are able to use these as a basis for more dedicated funds.

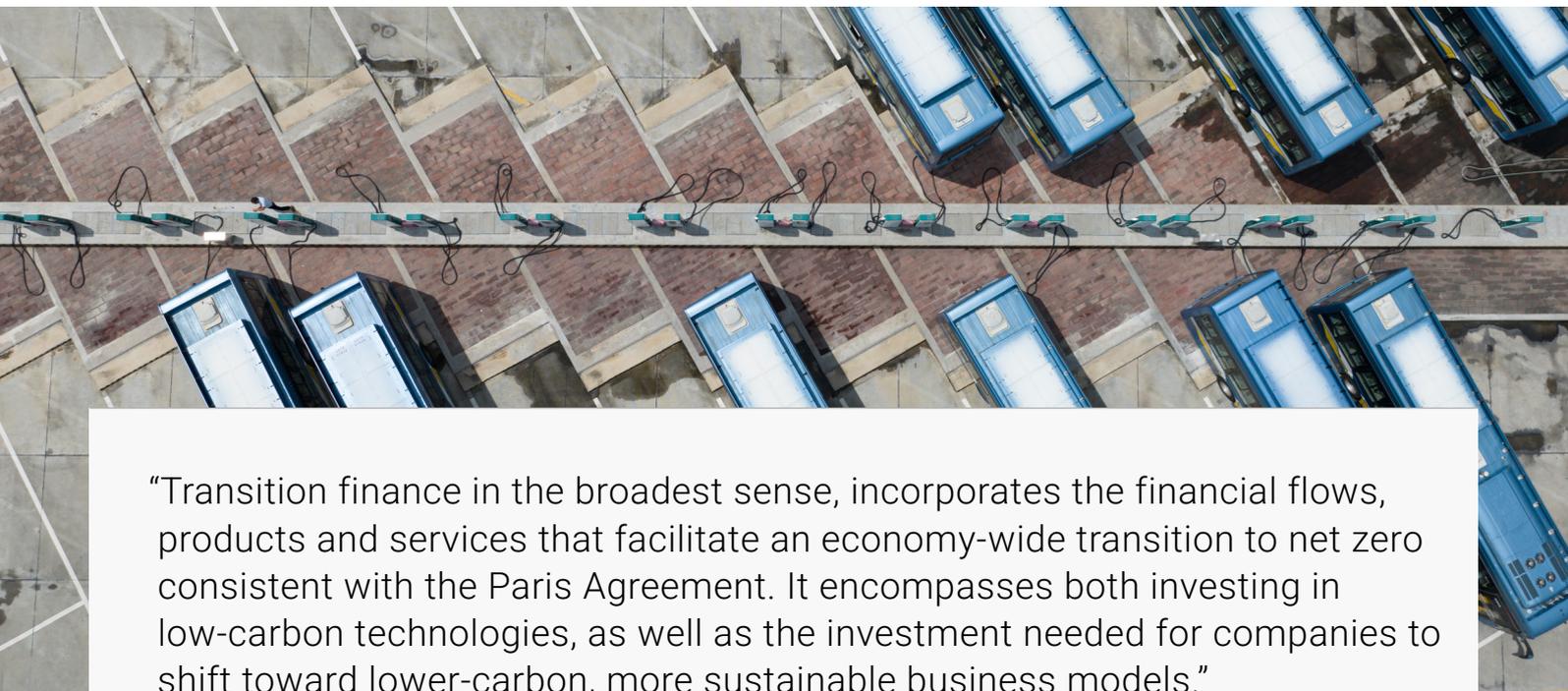
Our suite of fixed income Net Zero Transition strategies is aligned with ESMA's fund naming regulations for transition strategies, investing at least 80% by Net Asset Value in entities on a clear and measurable path to environmental transition. We define this by using our Net Zero model to identify companies on an alignment pathway, combining this with investments in labelled environmental bonds.

We also have a long track record of investing in climate solutions, including through our thematic funds; investments in green bonds; and in private markets. This enables us to identify, track and monitor investments in companies making a contribution toward enabling the transition, such as clean energy technologies, or those supporting adaptation.

### Where next for climate investing?

As the materiality of climate risk becomes ever clearer, and as market standards in areas including Net Zero and transition finance have evolved, we expect to see asset owner expectations on climate integration and Net Zero become more ambitious. We think this will lead to increased differentiation between managers, based on the quality of research and methodologies.

Alongside these key trends on transition risk and investment, we also expect 2026 and beyond to see a greater focus on physical risk, adaptation and resilience. As well as greater depth in understanding the risks of a changing climate, we also believe we will see growing attention on the solutions, as the scale of investment needed becomes more apparent. We do not see this as reducing the attention paid to transition; rather, the two topics together will form a core part of the global macroeconomic and investment landscape going forward.



“Transition finance in the broadest sense, incorporates the financial flows, products and services that facilitate an economy-wide transition to net zero consistent with the Paris Agreement. It encompasses both investing in low-carbon technologies, as well as the investment needed for companies to shift toward lower-carbon, more sustainable business models.”

**Transition Finance Council, 2025**

## Contact us

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