Transition Investing

Key Challenges and Opportunities

2025 Report

BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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Executive summary

Transition investing, or investing in emission-reducing activities, has not become obsolete in 2025. Global investment amounted to about $2.1 trillion in 2024, led by renewables, electric vehicles, and grids. China is now firmly in the lead; the United States is holding steady; the European Union dropped relative to 2023. However, the world is investing far below what is necessary to stay on a net-zero path this decade. Investor sentiment is mixed and while large investors still back climate action, but require stable policies and credible company plans, retail investors are becoming more engaged, though they still have to navigate confusing labels and disparate disclosures.

Regulations are moving in different directions. The United States' federal climate-disclosure rule is on hold. In Europe, reporting obligations are being streamlined to alleviate burdens for companies, and despite potential further changes, we hope companies will still be requested to publish simple and credible transition plans and progress. Our review of five big financial groups discovers patchy transparency on the side of capital expenditure directed towards green, sustainable, or transition activities. Some of the biggest opportunities lie within grids, renewables and their storage, along with financing actual emission reductions in heavy industries, accompanied with strong safeguards in place. Clear labels and clear reporting in plain English will help professionals and individual savers alike to put capital, where it makes the most difference.

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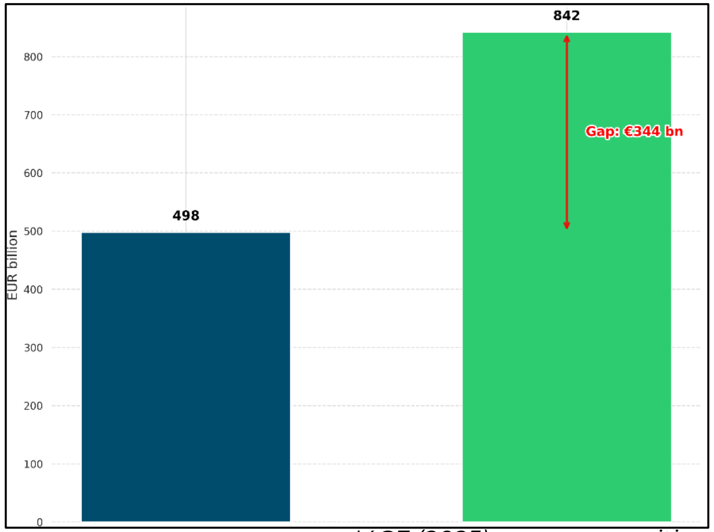
Evolution of transition investing

Over the past decade, investments in activities that lower emissions in the long term, rather than "already-green" assets, have moved from a niche to a conventional approach. The most self-evident sign is the scale and direction of global energy investment. By 2025, total energy investment is estimated to reach roughly $3.3 trillion, of which $2.2 trillion will go to clean power, grids, storage, low-carbon fuels, and electrification.[1] This is double the amount that goes to fossil fuels. Solar energy alone could attract $450 billion in 2025, the largest item in worldwide energy spending.[2]

On a global level, climate-tech equity funding fell for the third year in a row in 2024 to $50.7 billion as investors turned towards AI; debt markets were better off, with $1 trillion of energy-transition debt issued (+3% y/y).[3] At the same time, investor stewardship is under change: backing of environmental shareholder proposals has declined since 2021, and certain asset-manager coalitions have witnessed turnover; asset owners, however, have demanded tougher engagement practices during the 2025 proxy season.[4]

The Principles for Responsible Investment (PRI)[5] has recently reported that four out of five signatories (total $82.7 trillion AuM) acknowledge climate-related opportunities/risks and 65% take action to address sustainability outcomes, often on financial materiality grounds. At the same time, regional differences have increased: polling in 2025 only found 46% of investors in the world today prioritise climate at the top of policy (down from 62%), with North America showing the greatest decline.[6]

1. EU climate investment vs. annual need



I4CE (2025), own composition

Europe's transition investments record remains mixed. Climate change investment, encompassing energy, buildings, transport and cleantech production was €498 billion in 2023 or approximately 2.9% of GDP, but that represented only a low 1.5% growth rate and remained far

[1] International Energy Agency (2025), World Energy Investment
[2] I4CE (2025), State of Europe's Climate Investment
[3] BNEF(2025), Energy Transition Investment Trends
[4] Georgeson (2025), European AGM Season Review
[5] PRI (2025), Global Responsible Investment Trends
[6] Robeco (2025) Global Climate Investing Survey

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below the €842 billion annual figure needed up to 2030, as stated by I4CE. Similarly, the figures since 2023 have been largely dominated by solar and grid (+17%) and battery-electric vehicles (+8%), while in 2024 several segments have experienced a lower investment level, according to Bloomberg.

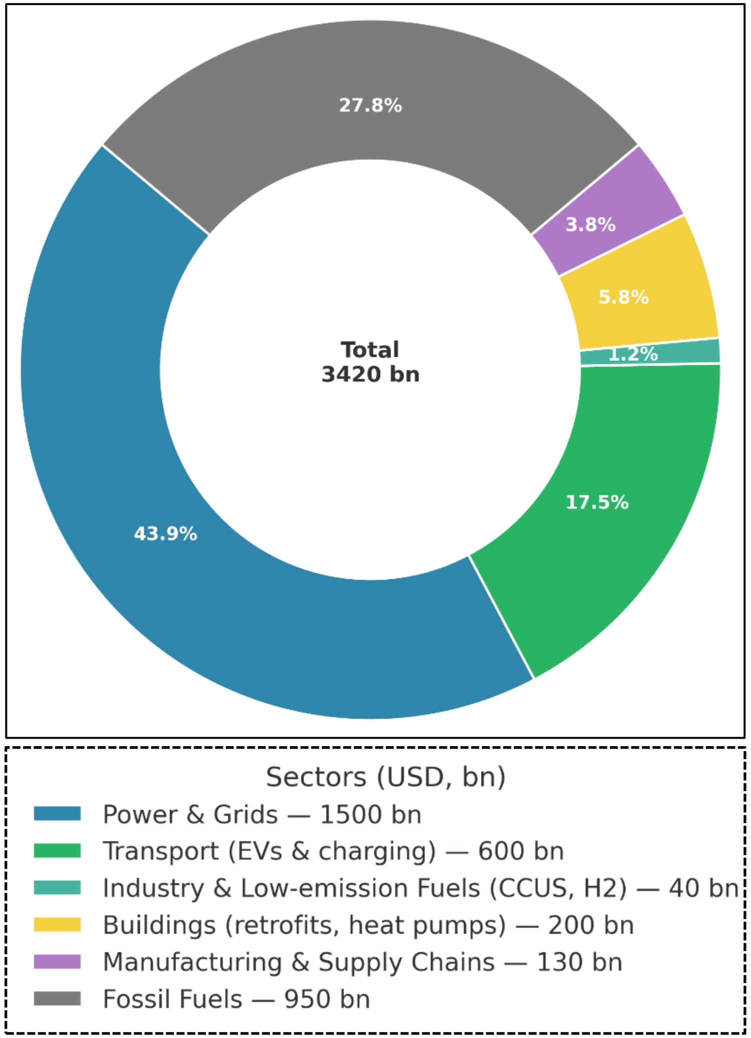
In short, there is more capital entering key parts of the transition investing ecosystem (power, grids, EVs). However, critical European deployment and industrial decarbonisation still lag behind other regions around the world. The way forward now hinges on two levers:

(1) decision-relevant company transition plans (with capex and near-term goals),
(2) and simpler, comparable public disclosure so everybody can be an investor and not only specialists.

Sectoral investment trends

Investments in the transition are advancing, though unevenly. Power and grids led with almost $1.5 trillion in 2024, largely in solar and storage, but delays in permitting and grid connections limit further growth in Europe.[7] Transport electrification continues, even as recent EV sales dipped. Carbon capture and hydrogen remain small, while building renovations and heat pump sales declined, leaving a major EU investment gap. Clean-tech factories and supply chains attracted high spending, though with imbalances across regions. Fossil fuel investment is falling. The overall direction is toward electricity, storage and efficiency, provided further supportive policies follow.

2. Investment trends by sector 2024-2025



IEA (2025), own composition

[7] *Op. cit*. IEA, p.15

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Power & grids. Power sector investment rose to $1.5 trillion in 2024, with nearly 90% in low-emissions generation, grids and storage. Solar remains the volume engine (record capacity at lower capex).[8]

Transport. Electrification continues, but unevenly. Globally, investment in charging and EVs contributes to the "Age of Electricity," with EV costs narrowing vs ICE in several markets. [9]

Industry & low-emission fuels. Hydrogen projects remain policy sensitive, and some were delayed/cancelled in the past year. Carbon markets are expanding yet still tiny compared with total clean-energy investment.[10]

Buildings. After the pandemic, Europe's building retrofit momentum saw declines. The building energy renovation represents one of the largest EU investment gaps (at approximately €127 billion of the annual deficit.[11]

Manufacturing/supply chains. Clean-tech factory and battery-metal investments totalled $130 billion in 2024. Mainland China accounted for 76% of factory capex, with onshoring efforts in the US/EU/India challenged by higher local costs.[12]

Fossil fuels. Upstream oil and gas spending is expected to decline in 2025 (first oil downturn since 2020), despite liquefied natural gas (LNG) build-out. No new coal steam turbine orders were recorded in advanced economies in 2024.[13]

While capital is shifting toward electricity, storage and electrified transport, progress across Europe's grids, buildings and heavy industry remains too slow. The priority now is two-fold:

(1) unlock private finance through faster, predictable permitting and stable policy frameworks, (2) and direct targeted public support toward sectors at risk of falling behind.

Shift in investor sentiment and capital allocation trends

Investor attitudes are evolving in ways that matter for both professionals and households. Institutions still integrate climate risk, with asset owners leading in long-term stewardship, while overall voting support for environmental resolutions has weakened. Regional differences are widening, with Europe and Asia showing stronger commitment than North America. Capital flows also diverge, equity issuance has fallen while labelled debt remains resilient. For retail savers, market volatility adds complexity, underlining the need for clearer product labelling and comparable disclosures to support meaningful participation.

[8] Ibid. pp.18-20
[9] *Op.cit.* I4CE p.8
[10] *Op.cit.* IEA p.8, p.143
[11] *Op.cit.* I4CE pp.2-10
[12] *Op.cit.* BloombergNEF
[13] *Op.cit.* IEA p.14, p.21

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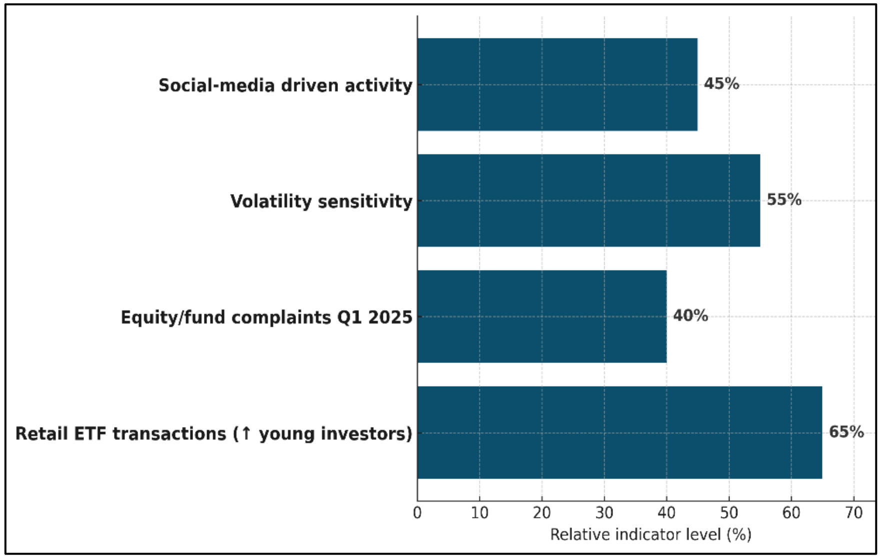
Institutional signals. PRI's 2025 analysis of signatory reporting shows sustained integration of climate risk/opportunity into investment processes: 80% identify climate-related risks/opportunities; 65% take action on sustainability outcomes; asset owners, in particular, use longer-term horizons and are more likely to deploy scenario analysis (58% vs 29% for managers) and collaborative stewardship.[14]

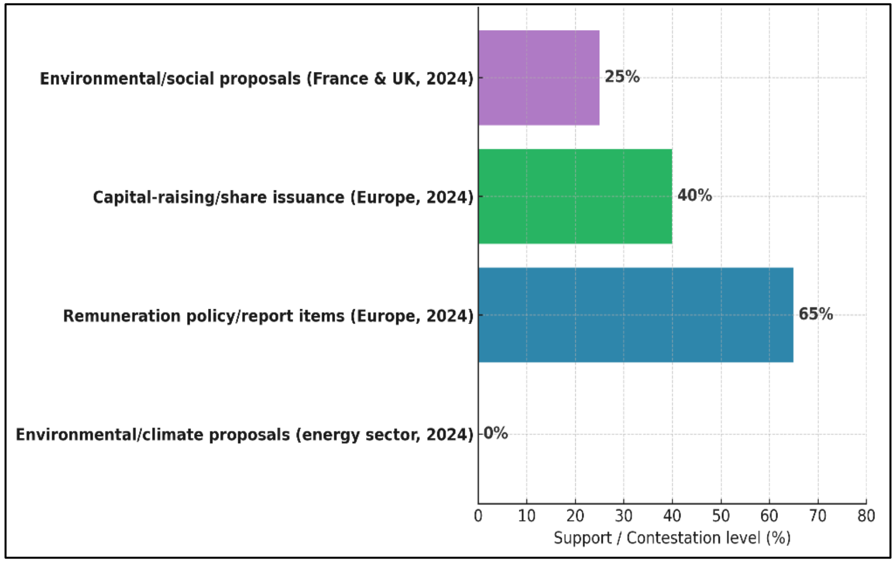
3. Retail investor sentiment signals



ESMA (2025), own composition

Retail context & sentiment. ESMA's 2025 *Trends, Risks and Vulnerabilities*[15] highlights higher volatility and pockets of retail activity; complaints ticked up in 1Q25 (equities and funds most cited). While this is not a "sentiment" survey, it indicates a demanding backdrop for household investors trying to navigate markets and sustainability narratives simultaneously.

4. AGM voting trends



Georgeson (2025), own composition

AGM trends. By contrast, capital-market voting patterns show reduced support for environmental proposals versus 2021: in 2024, none of the environmental/climate resolutions at energy companies were approved, and departures from some asset-manager alliances coincided with lower "For" votes, even as asset owners push managers to strengthen engagement for 2025.[16] European AGM data suggest

[14] *Op.cit.* PRI pp.5-7
[15] ESMA (2025), TRV Risk Monitor
[16] *Op. cit.* Georgeson pp.4-10

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investors redirected scrutiny toward pay and capital-raising: remuneration policy/report items remain the most contested across major markets, with share-issuance dissent also up; environmental/social proposals are few, but gaining support where filed, mainly in France and the UK.[17]

Regional divergence. In Robeco's 2025 survey across 300 institutional/wholesale investors ($63 trillion combined), just 46% say climate is central/significant to policy (down from 62%), with North America showing the sharpest decline; Europe (62%) and APAC (59%) remain more committed[18].

Asset classes & flows. Fixed-income managers report large engagement platforms and sizable sustainable-bond activity (green/social/sustainability/S-linked), signalling that labelled debt remains a preferred channel for scaling transition capex at reasonable costs.[19]

Institutions remain broadly engaged with climate integration, but visible support for environmental proposals has weakened, and regional gaps are widening. Retail savers face a challenging backdrop, marked by volatility and unclear product labelling. The way forward to encourage capital allocation within transition assets, now hinges on two levers:
(1) stronger stewardship by asset managers, aligned with clear principles for such transition investments (2) and clear, comparable retail disclosures so that individual investors can participate with confidence alongside professionals.

Regulatory shifts in the EU and USA

The policy environment in the United States and Europe is moving in different directions, with important consequences for transition finance. In the U.S., frequent leadership changes, litigation and anti-ESG campaigns have created a cautious climate. Managers worry about legal risk, and survey data show that only a minority of North American investors now place climate at the center of their policies. Equity markets also reflect this uncertainty, with climate-tech IPOs at their lowest levels in years, though debt financing and state-level industrial programmes continue to attract capital.

By contrast, the EU maintains a clearer path, though it is now focused on simplification. The European Commission has pledged to cut reporting burdens, and new Omnibus proposals aim to narrow CSRD and Taxonomy scope while revisiting KPIs and templates. Streamlining may reduce costs but risks leaving investors with fewer comparable datapoints, especially for retail users who need simple, reliable information.

For both jurisdictions, the challenge is balance: disclosures must be credible, comparable, and decision-useful, but not so complex that they deter participation. Transition finance depends on clarity, consistency, and investor confidence.

[17] Ibid. p.15
[18] Op. cit. Robecco p.21
[19] PIMCO (2024), Sustainable Investing Report

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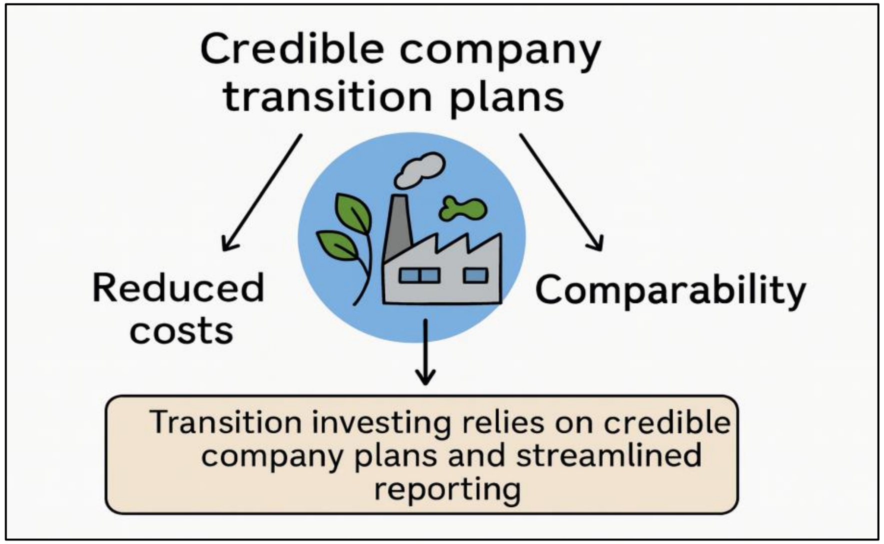
Corporate Sustainability Reporting Directive (CSRD) & European Sustainability Reporting Standards (ESRS) streamlining. The European Commission has promised to cut reporting burdens by 25%. This commitment underpins the so-called "Omnibus" proposals to simplify sustainability reporting and delay or limit certain requirements. For EU Taxonomy reporting, one proposal under discussion would restrict the scope to very large companies (those with more than 1,000 employees and over €450 million in revenue), making reporting optional for smaller firms. It would also allow companies to exclude some activities if they account for less than 10% of their business. While this simplification could lower costs, it also risks reducing the amount of information available.[20]

EU Taxonomy alignment & Key Performance Indicators (KPIs). Beyond the scope of who must report, the Commission and its advisors are reviewing the templates and KPIs used. Proposals include deleting some gas and nuclear templates from Annex XII, as well as postponing certain banking KPIs (such as those linked to trading books or fee income) until 2027.[21] The design choices here are important: a Taxonomy that is simpler but still robust can encourage adoption and clearer labelling of financial products. However, if requirements become too "thin," investors may lose visibility on how much capital is truly aligned with transition activities.

Why these shifts matter? Transition investing relies on credible company plans, comparable KPIs, and confidence that "in-between" assets, such as industries on a decarbonisation pathway, are not excluded just because they are not yet fully green. The EU's effort to streamline reporting is meant to reduce costs while still ensuring comparability, which is vital for both professional and retail investors. Without consistent information, capital can be misallocated, or investors may lose trust. ESMA's market monitoring also shows that in times of volatility, clear and reliable disclosures are essential to maintain retail participation and protect households who are increasingly exposed to transition-themed products.[22]



Own composition

[20] Directive (EU) 2022/2464 on corporate sustainability reporting (CSRD)
[21] Regulation (EU) 2020/852
[22] *Op.cit.* ESMA p.34

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BETTER FINANCE is cognisant of the challenges to strike the right balance between level of requirements, comparability, costs and trust in financial markets. Subsequently, the way forward should focus on two priorities:

(1) ensuring that simplification does not reduce decision-useful information or enable greenwashing/transition washing,
(2) and requiring companies to publish credible, time-bound transition plans with clear targets and metrics.

Transparency and standardisation of transition investment frameworks

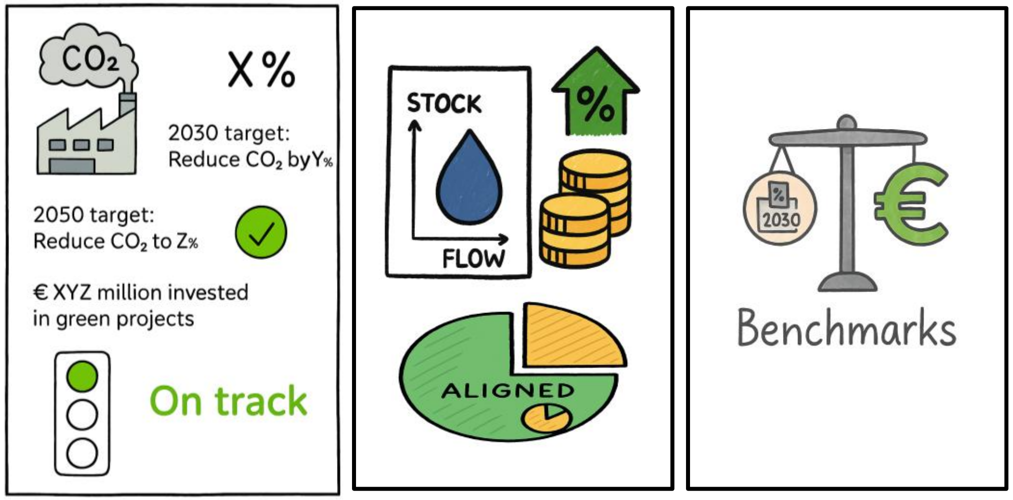
For individual (retail) investors, the biggest practical problem is not only *whether* companies claim to be transitioning, but whether the data are comparable and periodic enough to judge progress. As a result, there are ongoing frictions:

1. Inconsistent definitions and scopes.
2. Transition-plan "optionality."
3. Lack of basic minimum attributes: does the company have a plan, what are the milestones, and what capex is committed?

Why this matters for equity and participation in capital markets? When transparency falters, information costs rise. Sophisticated institutions may absorb this, but others may simply avoid the category of transition or rely on other labels. That, in turn, reduces competition and raises the risk of green/transition-washing, as marketing can outrun measurement if public numbers are non-comparable.

What good transparency looks like for non-experts:

- Plain outcomes & pathway. One page with (i) emissions today, (ii) 2030 target, (iii) 2050 target, (iv) 12–24-month capex/milestones, and (v) a *single* traffic-light for on-track/off-track.
- Stock + flow metrics. E.g., share of portfolio aligned (stock) *and* new finance provided (flow).
- Retail-proof comparators. Flag any methodology shifts, benchmarks (sector medians), not just narrative.



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Transparency and standardisation are essential if transition investing is to be trusted by all users of financial services, not just specialists. Progress requires three priorities:

(1) standardised KPIs with regular reporting
(2) credible, audited transition plans with milestones and capex,
(3) and plain-language disclosures that retail investors can understand.

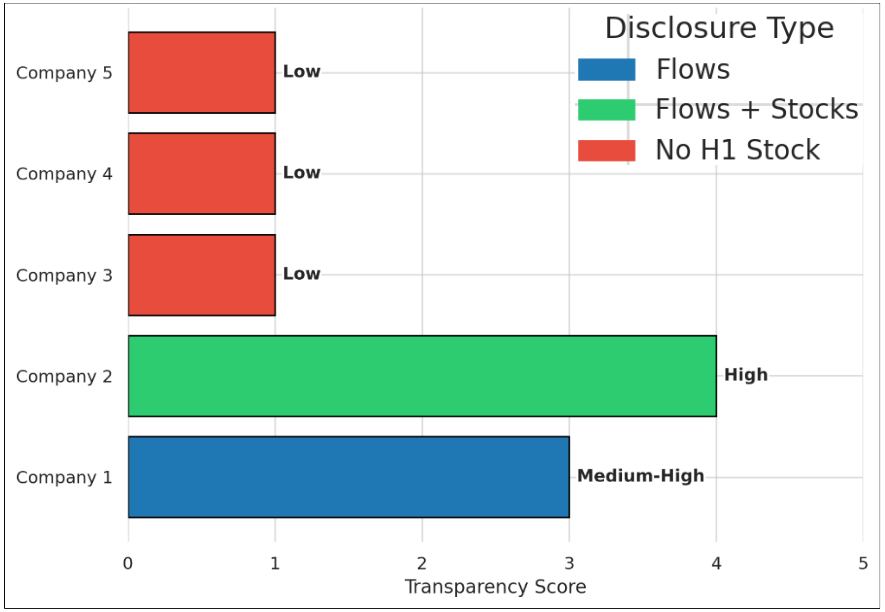
Without these, costs rise, confidence falls, and genuine transition finance risks being overshadowed by marketing claims, leading to the subsequent disengagement from the much needed transition strategies.

Transition of financial institutions and industries

Since 2023, BETTER FINANCE has been tracking the disclosures of five large companies encompassing banks, insurance providers and asset managers, vis-a-vis the changes in green/sustainable/transition or otherwise classed as SRI investments.[23] The data used comes from annual reports and/or interim reports.

The persisting challenge linked to this research, as seen in previous iterations, comes from the lack of consistency in the way SRI/green/sustainable/transition investments are reported from companies. While dedicated sustainability reports present the key figures of capital expenditure in such activities, the variety of interpretation and selection of which term to use, is a key detriment in collecting and assessing all companies in scope in a proportionate approach. Additionally, while all companies under scope had been reporting on some form of capital expenditure within green/sustainable/transition/SRI assets, due to the revisit of the CSRD and subsequent Omnibus proposal, in 2025, only 2 out of the 5 companies in scope reported CapEx on the ESG/transition front.

5. Disclosure levels and transparency score in 2025



Companies' Annual Reports, own composition

[23] The companies under scope include HSBC, Santander, AXA Group, Generali and Amundi. The numerical values represent the companies (not in that order). Annual reports, sustainability reports and any other reporting materials can be found online on their respective websites.

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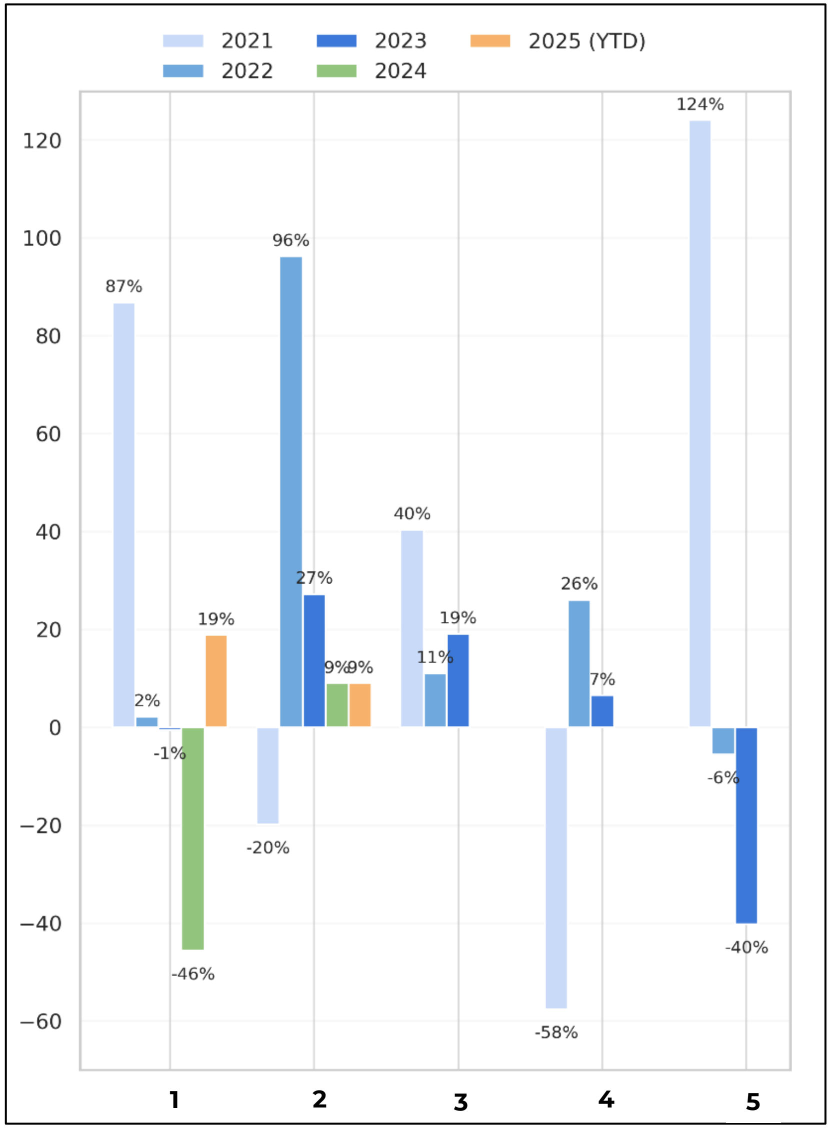
Based on the non-reported information and the persisting issues for comparability: (i) flows vs. stocks (e.g., "provided & facilitated" financing vs. "SRI/ESG AuM"), and (ii) definitions (internal vs. regulated labels such as EU SFDR Art. 8/9), we score Company 2 as (High) for transparency, followed by Company 1. Lack of interim disclosure does not prove a company doesn't have dedicated CapEx on green/sustainable/SRI/transition assets. However, it makes it harder for investors to reward leaders and pressure laggards. Subsequently, Companies 3,4,5 score low on transparency due to existing interim reports that do not include any relevant CapEx disclosures.

Why this matters?

- Retail and many professional investors to judge who is truly backing the transition. When firms do not provide periodic (e.g., half-year) ESG/transition metrics, users cannot see whether funds are growing or shrinking, raising the risk of "transition-washing."
- Flows vs. stocks answer different questions. Flows show action now (new lending, underwriting, investments); stocks show how big the sustainability footprint is today. Together, they let investors see the bigger picture and identify gaps that could be addressed during the AGMs.
- The EU is actively reducing reporting burden while trying to keep data decision-useful, but if interim ESG/transition KPIs vanish from half-year updates as we see to be the case already, markets will rely on proxies and model estimates, which can mislead all users of financial services.

6. Changes in SRI related investments (%) per company (1, 2, 3, 4, 5)



Companies' Annual Reports, own composition

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Company 1

In 1H25 alone it "provided & facilitated" $54.1 bn; since Jan 2020, cumulative flows reached $447.7 bn. This is a flow metric (new financing provided/facilitated). The pace in 1H25 suggests Company A remains on track relative to its 2030 range.

+ Regular half-year progress updates; caveat: flow-based tallies are not the same as end-period "green/SRI AuM," and methodologies (eligibility criteria, client types, geography) matter for comparability.

- For investors, flow reporting offers trajectory; adding breakdowns (sector, instrument, geography, "transition vs pure green") would enhance decision-usefulness and align with calls for clearer transition-finance taxonomies.

Company 2

H1-2025 disclosures present both cumulative green finance (flows) of €157.2 bn (2019–2025) and stock metrics: SRI AuMs €111.1 bn and sustainable investment funds €49.8 bn. Company B, provides the clearest H1 snapshot among the five.

+ The most H1-specific clarity among the five; caveat: SRI/SFDR classifications evolve and may not be identical to peers' definitions.

Company 3

The half-year package and earnings deck do not publish a consolidated SRI/ESG AuM figure for the Group in H1. The disposal notes detail treatment as discontinued operations. Structural change interrupts time-series comparability of Group-level SRI/ESG AuM. Without an H1 sustainability AuM figure, investors cannot assess progress vs prior years.

- Material transactions can legitimately limit interim metrics, but investors benefit from pro-forma reconciliations that restate historical SRI/ESG AuM to the new perimeter, or from narrative guidance on post-disposal sustainability strategy.

Company 4

H1-2025 report provides total AUM €854 bn for the entire period, but does not isolate a Group-level green/ESG/SRI AuM figure in H1.

- Lacking a clear sustainability AuM stock or breakdown reduces comparability to peers and limits insight.

Company 5

H1-2025 press release highlights record inflows and all-time-high AUM, mentions "index & ESG expertise," but does not provide a standalone ESG/SRI AuM.

- Absence of interim splits makes it harder for allocators.

Disclaimer: The analysis presented here is based on publicly available half-year and annual reports as of H1 2025. Companies differ in their definitions, methodologies, and reporting cycles for sustainable, responsible, green, or transition finance. Where data are incomplete, estimates or simplified representations have been used to highlight trends. If further details are published or methodologies change, the figures and interpretations may differ. The purpose of this section is to illustrate disclosure practices rather than to provide definitive rankings or assessments of individual firms.

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Disclosure gaps remain the greatest barrier to assessing financial institutions' role in the transition. In 2025, only two of five firms provided meaningful interim ESG/transition figures, limiting comparability and trust. The way forward requires three actions:

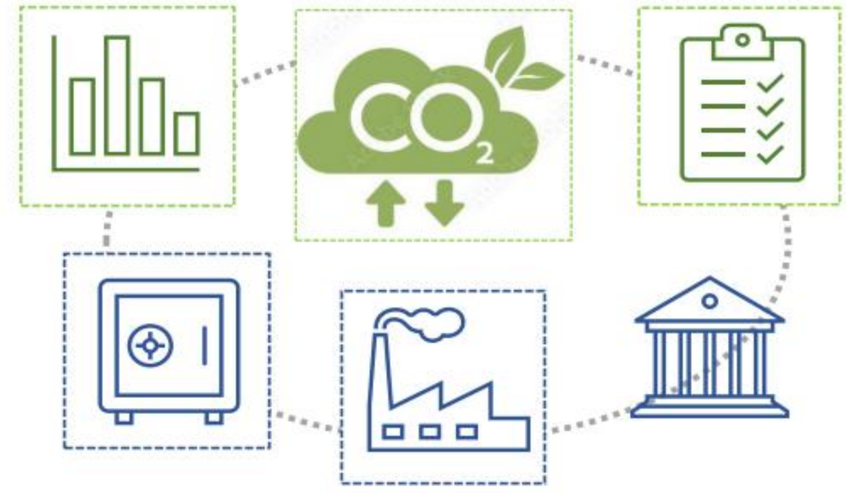
(1) periodic disclosure of both flows and stocks,
(2) alignment with EU definitions, and
(3) simple, standardised interim KPIs to reduce "transition-washing" and enable fair investor scrutiny.

Challenges in transition investing

- **Policy uncertainty.** The US federal rulebook is paused amid litigation and shifting political leadership; in Europe, simplification brings benefits, but risks under-reporting if key metrics are removed.

- **Two-speed technology landscape.** Mature sectors (renewables, EVs, grids) attract most capital; emerging areas (hydrogen, CCS, low-carbon industry) remain small due to cost, offtake, and tech maturity gaps, which leaves big segments of industrial emissions unaddressed.

- **Greenwashing / transition-washing risk.** Without standardised, verifiable transition-plan disclosures (targets, capex, KPIs), issuers can overclaim ambition. Investors call for transaction-level guardrails (KPIs, step-ups, credible use-of-proceeds).



Opportunities in transition investing

- **Hard-to-abate sectors.** Transition finance (linked bonds/loans, project equity) can back methane abatement, low-carbon fuels, and industrial retrofits, if guardrails ensure real-world emissions cuts. This is where additionality and impact could be greatest.

- **Retail participation via clearer labels.** A formal, SFDR-recognised **"transition" category** (with clear engagement criteria) would let non-experts back decarbonisation pathways, not only already green assets.

- **Investor stewardship & voting.** "Say on Climate" with higher average support in Europe indicates increasing comfort with plan quality, an avenue to tie executive incentives and capex to credible transition paths.

Guidance for investors and policymakers

For investors (professional & retail-facing managers):

1. Insist on plan-capex linkage. Fund issuers that publish 1.5°C-aligned transition plans with dated milestones and show the capex and financing behind them (ESRS E1 alignment). Avoid plans without near-term spend or measurable KPIs, as companies may experience a broad range of positive effects after setting science-based targets.[24]
2. Use guardrails in hard-to-abate finance. For transition bonds/loans, require KPI relevance, SBT ambition, and transparent allocation/impact reporting to deter transition-washing.
3. Bridge flows to stocks. Track how new financing (green loans, SLBs) changes portfolio composition (SRI/ESG AuM share, financed-emissions trajectory). Favor issuers publishing both.
4. Provide plain-language fact sheets: what the fund finances (green vs. transition), how progress is measured, expected risks.

For policymakers & standard-setters:

1. Lock in a "transition" product label. Under SFDR 2.0, consider a definitional lane for "transition" with minimum criteria (targets, capex linkage, interim milestones, engagement).
2. Safeguard ESRS simplification and maintain the non-optional core of E1 transition planning; require explanations when climate is deemed not material; converge terminology with ISSB to cut costs for global groups.
3. Supervise retail suitability, monitor complaint patterns and require clearer precontractual disclosures (including % Taxonomy alignment and financed-emissions trends for relevant products).
4. Strengthen enforcement and assurance. Simplification of reporting is valuable, but without reliable enforcement it risks weakening trust. National regulators should step up reviews of sustainability and transition disclosures, and the EU should move toward reasonable assurance (not just limited assurance) on climate and transition data. Stronger assurance requirements would close the gap

[24] Science Based Targets initiative (2024) The impact of setting science-based targets on businesses.

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between "paper promises" and real performance, giving both retail and institutional investors confidence that reported transition plans are credible and comparable.

Key takeaways

1	**Spending is up, but uneven.** 2024 transition investment reached $2.1tn, dominated by EVs, renewables, and grids. Emerging tech (hydrogen, CCS, clean industry) lags and favourable policy is essential.
2	**China leads; EU/US mixed.** China's 2024 spending topped $818bn; US remained flat; and EU down vs. 2023. The global gap to a 1.5°C path remains large, especially in transport and grids.
3	**Institutions need clarity.** Investors remain committed, but want policy stability and transition plan credibility; AGM data show E&S proposals face decline in the US while "Say on Climate" enjoys stronger support in Europe.
4	**Legislation remains mixed.** US federal climate-disclosure rules are paused; the EU is simplifying ESRS, while hopefully keeping transition plans central. Simplification must not dilute decision-useful data.
5	**Transparency is inclusion.** Clear "transition" labels, plain-language summaries, and standardised metrics empower retail investors and reduce green/transition-washing risks.

Recommendations from an individual investor perspective

From the standpoint of European individual investors, the transition to a sustainable economy is not only a matter of climate urgency, but also of financial fairness. EU policymakers should adopt the following measures:

1. **Establish an EU-wide framework for transition engagement.**
   Professional investors should be legally required to apply consistent, principles-based guidelines for engaging with companies on transition. These must include adopting their own transition plans, systematically engaging with investee companies, and publishing transparent outcomes of escalation activities.

2. **Mandate investor-friendly transition plan disclosures.**
   Listed companies must disclose clear, comprehensible transition plans with time-bound targets, capital expenditure commitments, and board-level accountability. Disclosures should be designed to be intelligible to non-professional investors, avoiding excessive technicality.

3. **Ensure "transition" category is substantiated and verifiable.**
   Introduce a distinct SFDR classification for transition investments, with minimum credibility criteria (1.5°C alignment, interim milestones, capex linkage and engagement).

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Annex: Principles for Transition Investing Engagement

Principle 1: Transparency of professional investors' transition plans and strategies (asset managers/institutional investors, pension funds and their management entities). Professional investors should be transparent towards their clients, pension plan participants and other beneficiaries with regards to their environmental and transition-linked plans, strategies and targets. As a minimum, they should:

- **a)** Adopt and implement a transition plan and integrate it into investment strategies, policies and decisions.
- **b)** Disclose how assets have been managed (ex post) in alignment with client/pension plan participant preferences regarding climate/transition in a timely manner.
- **c)** Disclose an assessment of how investee companies and their directors should address their respective transition gaps.
- **d)** Disclose how the integration of transition plan, strategies and targets informs monitoring and engagement efforts with investee companies.
- **e)** Disclose whether an independent verification/audit of the transition plan/strategy has been implemented.

Principle 2: Commitment to active engagement on transition linked equity. Professional investors should actively exercise their rights as shareholders in the companies in which they invest on behalf of their clients and pension plan participants. As a minimum, they should:

- **a)** Develop and publish an engagement policy encompassing objectives on transition-linked equity with listed companies critical to the transition to a low-carbon economy.
- **b)** Monitor investee companies' progress (short-, mid- and long-term) of transition goals/implementation of transition plans and science-based targets and enter dialogue with company's executive board when transition preferences and interests of clients and pension plan participants are considered to be at risk.
- **c)** Exercise the right to vote at general meetings in line with own transition plan and engagement strategy, and when possible, consider utilising collaborative engagement with other investors.
- **d)** Provide timely disclosure of voting positions to clients and pension plan participants, including rationale for the direction of the vote and how the voting policy has been applied on issues related to transition.
- **e)** Disclose prominently the highest level of management responsible for the engagement practices and decisions.
- **f)** Align own compensation structure or decision-making incentives with long-term transition outcomes with investee companies.
- **g)** Consider abstaining or voting against management proposals/resolutions in cases where they are regarded as inconsistent with your own engagement policies and transition objectives.
- **h)** Draft and submit proposals for AGMs encompassing material ESG and/or transition issues to align with clients and pension plan participants' interest.

Principle 3: Commitment to detailed application and disclosure of escalation policy, including outcomes on escalation activities. **Professional investors should adhere to escalation policy in a transparent and structured way when engagement does not result in sufficient company action, to enhance effective stewardship of clients and pension plan participants' interest. As a minimum, they should:**

a) Provide a rationale for situations in which it is deemed appropriate to escalate the nature of actions vis-à-vis investee companies.

b) Develop and disclose an escalation plan including toolkit with each corresponding step, explaining how companies are selected for escalation, expected pace at which they will progress through escalation if there is no progress, and sanctioning measure such as capital allocation/reallocation and divestment as a last resort.

c) Disclose how escalation has differed among geographies or funds and report on outcomes of escalation activities.

The Principles for Transition Investing are Endorsed by:

The Principles make one part of a report produced by BETTER FINANCE on "Shareholder engagement and transition of capital flows". The report provides a comprehensive analysis of shareholder engagement for transition investing as well as assessment of transition investing barriers and uptake of transition plans from companies.

About BETTER FINANCE

BETTER FINANCE is the leading European Federation dedicated to advocating for the rights and interests of individual investors and financial services users. Established in 2009 in response to the financial crisis, we unite independent non-profit organisations across Europe to ensure that financial markets operate with integrity, transparency and accountability, always prioritising the best interests of European citizens over industry stakeholders.

At BETTER FINANCE, we believe the financial system should serve the real economy. We are focused on restoring confidence in capital markets and financial intermediaries while promoting sustainable finance for the benefit of all users.

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