



EXECUTIVE SUMMARY

State of OECD Pension Funds' Climate Transition

Insights and recommendations from the Net Zero Finance Tracker

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CLIMATE
POLICY
INITIATIVE

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has offices in Brazil, India, Indonesia, South Africa, the United Kingdom, and the United States.



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WHY CLIMATE ACTION MATTERS FOR PENSION FUNDS

Pension funds—among the world's largest asset owners—play a unique role in the financial sector's climate transition. Given their long investment horizons, they are particularly exposed to both transition and physical climate risks that threaten asset values and returns.

Unlike other institutional investors, which often focus on short-term performance, pension providers have a fiduciary duty to address long-term systemic issues and act in their beneficiaries' best interests. In many jurisdictions, this obligation includes setting credible climate targets, implementing internal changes to strategy, governance, and process, and actively supporting the decarbonization of the real economy.

Pension funds' role in financing the climate transition is drawing sharper focus as the limits of public finance become clearer amid volatile markets, fiscal constraints, and rising climate risks. At the same time, sustainability disclosure rules and fiduciary standards are evolving across jurisdictions, creating both opportunities and uncertainty for long-term investors.

To reach their full potential for climate action, pension funds need support to overcome policy fragmentation, which continues to hinder their progress. Weak regulatory frameworks that prioritize short-term financial returns at the expense of long-term interest make it difficult for funds to integrate climate objectives into their own investment strategies and mandates with external managers.

Building from Climate Policy Initiative's previous study on [The State of European Pension Funds' Net Zero Transition \(2024\)](#), this report presents an analysis of data from CPI's [Net Zero Finance Tracker \(NZFT\)](#) to explore the progress for the climate transition of 594 pension funds based in OECD countries, together representing USD 22.5 trillion in assets managed or owned (AUM/O). The report charts these funds' progress across the three dimensions of Targets, Implementation, and Impact to identify where pension funds are making meaningful progress and where further action is needed.

In addition, the report examines how policies across OECD countries influence pension fund behavior, and how pension funds, in turn, can shape policy through various levers. It then explores the relationship between pension funds and asset managers, showing how pension funds can use mandates, incentives, and expectations to influence climate alignment across their external managers.

KEY FINDINGS FROM THE NZFT

Below, we summarize the overall improvement of OECD-based pension funds across the NZFT dimensions in the last five years.

Table ES1. OECD pension funds' progress, performance, and comparison to other OECD institutions

Indicator scores		Improvement (2020-24) ¹	Current Performance (2024) ²	Quality of adoption vs other OECD entities in the NZFT (2024) ³
Targets	Mitigation target	Very strong	Strong □□□	Similar
	Climate investment target	Medium	Very weak □□□	Similar
	Fossil fuel phase-out and exclusion targets	Medium	Weak ■□□	Stronger
Implementation	Internal accountability framework	Very strong	Strong ■□□	Weaker
	Shareholder and client engagement	Medium	Strong □□□	Similar
	Policy engagement	Medium	Medium ■□□	Much stronger
	Climate risk strategy	Strong	Strong ■■■	Similar
	Climate risk management	Very strong	Strong ■■■	Stronger
	Disclosure of climate risk	Medium	Medium □□□	Similar
	Disclosure of investment data	Medium	Weak ■■□	Weaker
	Disclosure of emissions data	Medium	Medium □□□	Much stronger
Impact	Net zero without offsets	Very weak	Very weak □□□	Much weaker
	Energy exposure (% clean energy)		Weak	Much stronger
	Indirect financing (% clean energy)		Strong	Similar

1 **Improvement** shows the change from 2020-24 in share of AUM/O scoring beyond *No action/Planned*. Percentage point increase: <20% very weak; 20-30% weak; 30-40% medium; 40-50% strong; >50% very strong.

2 **Current performance** relates to the share of AUM/O in 2024 scoring beyond *No action/Planned*.

<40% very weak; 40-50% weak; 50-60% medium; 60-70% strong; >70% very strong.

For the impact indicators: <20% very weak; 20-40% weak; 40-60% medium; 60-80% strong; >80% very strong.

For targets & implementation, the square symbol indicates the share of Advanced/Best Practice:

□□□ <10% ■□□ 10-20% ■■□ 20-30% ■■■ >30%

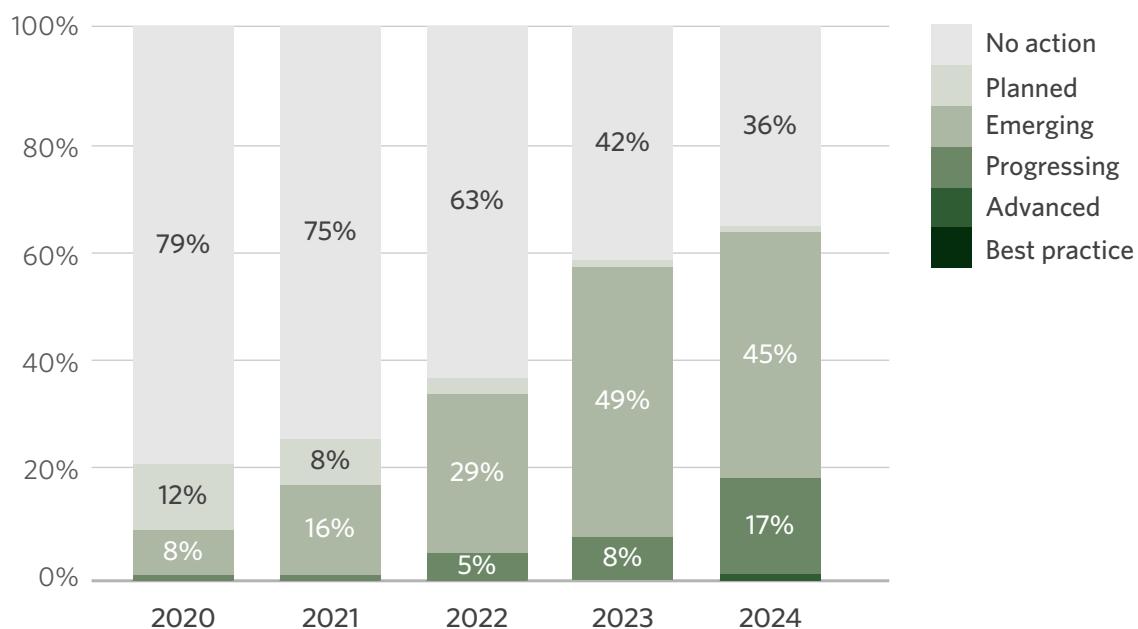
3 **Quality of adoption** compares the percentage point difference of the share of AUM scoring Advanced/Best Practice of the pension fund sample with other entity types across the rest of the NZFT.

Gap in percentage points: <5% similar; 5-10% stronger/weaker; >10% much stronger/weaker.

1. PENSION FUNDS ARE RAMPING UP CLIMATE TARGETS AND IMPLEMENTATION.

Many more pension funds have set climate targets over the last five years, but there are gaps in quality and widespread adoption (see Figure ES1). Funds improved across all three Target indicators (mitigation, fossil fuel exclusion and phase-out, and climate investment), most notably for mitigation—driven by increased target setting together with detailed specifications of baselines as well as which sectors and asset classes are covered. However, notwithstanding the progress, significant gaps remained for all three in 2024, particularly for climate investment targets. Advanced and Best Practice scores are observed only for some funds regarding their fossil fuel phase-out and exclusion targets.

Figure ES1. Pension funds' overall target score 2020-2024, by % of AUM/O



No action: No action observed for any indicator

Planned: ≥ 1 indicator is Planned

Emerging: ≥ 1 indicator is Emerging or above

Progressing: $\geq 50\%$ of indicators are Progressing or above

Advanced: $\geq 50\%$ of indicators are Advanced or above

Best practice: All indicators in the dimension are scored as 'best practice'

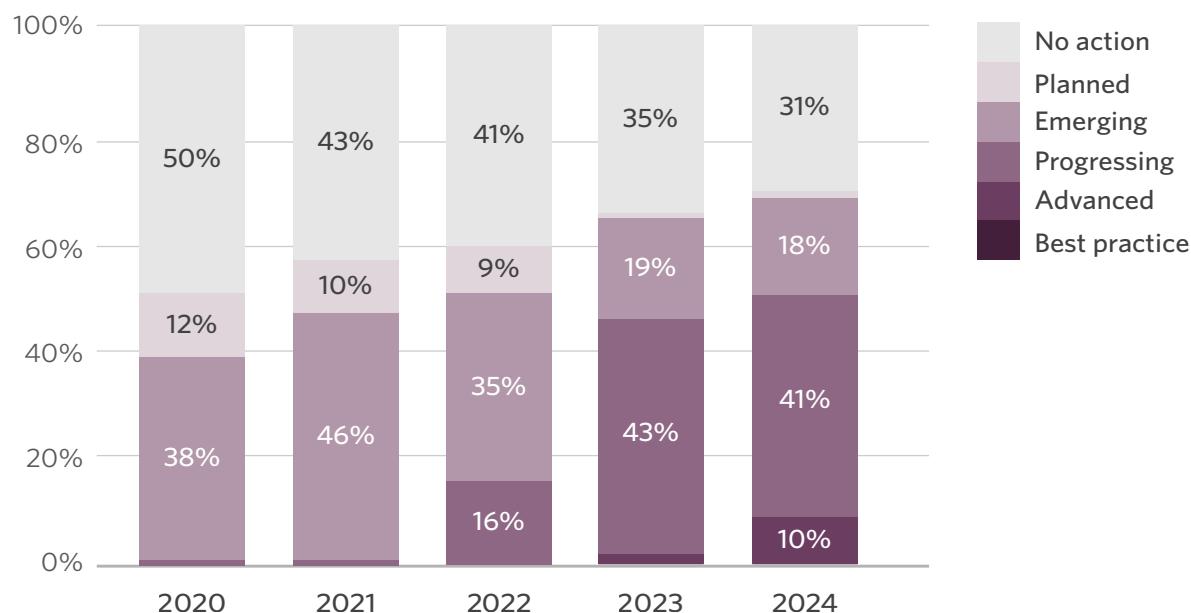
Note: The figure shows aggregate scores for FIs' climate targets across three areas: adoption of a mitigation target, of a fossil fuel exclusion and phase-out target, and of a climate investment target. For a full overview of the sources and scoring criteria please refer to the [NZFT methodology](#).

Climate change is reflected both in pension funds' strategy and governance, though the depth and quality of integration vary. Strong improvements were observed, particularly in the use of internal accountability frameworks, climate risk management, and climate risk strategy.

This positive trend stemmed from a rise in actions such as greater coverage in the use of tools to manage climate-related risks across assets, as well as having chief-level staff accountable for climate change.

Advanced and Best Practice scores were predominantly seen across climate risk management and strategy, and internal accountability frameworks (see Table ES1), driven by pension funds appointing board members with climate-related expertise as well as processes to review their climate change strategy regularly.

Figure ES2. Pension funds' overall implementation score 2020-2024, by % of AUM/O



No action: No action observed for any indicator

Planned: ≥ 1 indicator is Planned

Emerging: ≥ 1 indicator is Emerging or above

Progressing: $\geq 50\%$ of indicators are Progressing or above

Advanced: $\geq 50\%$ of indicators are Advanced or above

Best practice: All indicators in the dimension are scored as 'best practice'

Note: The nine NZFT Implementation indicators capture FIs' tangible steps taken to deliver on climate goals. The figure shows the aggregate scores across all nine indicators: 1) Internal Accountability Frameworks, 2) Shareholder Engagement, 3) Policy Engagement, 4) Climate Risk Strategy, 5) Climate Risk Management, 6) Disclosure of Climate Risk, 7) Disclosure of Investment Data, 8) Disclosure of Emissions, and 9) Net Zero without Offsets. For a full overview of the sources and scoring criteria please refer to the [NZFT methodology](#).

2. PENSION FUNDS HAVE A SIGNIFICANT INFLUENCE ON THE DECARBONIZATION OF THE REAL ECONOMY, BUT REMAIN MATERIALLY EXPOSED TO FOSSIL FUELS.

Existing portfolio allocations show that tracked pension funds' energy investments are heavily concentrated in companies expanding their fossil fuel operations. Analyzing the portfolios of 96 pension funds with USD 310 billion invested in energy, we find that expansionist fossil fuel companies account for 55% (USD 169 billion) and non-expansionist fossil fuel companies account for 8% (USD 24 billion). Only 38% is directed toward clean energy companies (See Section 2.3 for methodology and definitions of clean energy and (expansionist) fossil fuel companies).

For new energy investments, NZFT data attributes USD 4.5 billion of pension finance in 2024 to energy projects, with around two-thirds classed as clean and transition finance. Focusing on 135 pension funds and tracking project-level investments associated with their equity holdings in listed companies, we link their capital to 2,750 new clean energy and fossil fuel projects, totaling USD 479 billion, illustrating the reach of pension fund investment across the energy system. Across OECD pension funds, around 63% of this indirectly enabled investment is classified as clean, 4% as transition, and 33% as fossil fuels.

Taken together, current portfolio allocations and new energy investments of pension funds are misaligned with the net-zero scenarios of the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS).

3. ONCE PENSION FUNDS INTEGRATE CLIMATE INTO THEIR TARGETS AND STRATEGIES, THEY MATCH OR SURPASS OTHER FINANCIAL INSTITUTIONS' AMBITION AND ACTION.

NZFT data indicates that once funds start embedding climate into their governance and investment processes, they tend to score as highly, or higher, than other entity types tracked by the NZFT. Pension funds often scored similarly to other kinds of FIs across the individual Targets and Implementation indicators (see Table ES1). However, overall, they outperform other entities in terms of fossil fuel exclusion targets, policy engagement, climate risk management, and emissions disclosure. They only score slightly lower on internal accountability, investment data disclosure, and disclosing and committing to net-zero pathways without carbon offsets. In addition, within their energy portfolios, pension funds tend to have a larger exposure to clean energy, with 38%, compared to just 26% of other financial institutions (FIs).

4. TARGETS, IMPLEMENTATION MEASURES, AND TRANSITION PLANS MATTER.

NZFT data show that targets, implementation measures and transition plans are more than symbolic commitments: they are associated with measurable shifts in portfolio allocation. As Table ES2 illustrates, funds that have adopted these elements hold a higher share of clean energy than the sample average of 38%.

Table ES2. Average share of clean energy in pension funds' energy holdings, by adoption of targets, implementation, and transition plans

	Average clean share of funds' energy portfolio		
	Overall target	Overall implementation	Transition plan
Adopted (Scored Emerging or above)	46%	45%	46%
Not adopted (Scored No Action/Planned)	28%	27%	29%

Note: See Section 2.3.1 for methodology.

5. STRONG, WELL-DESIGNED POLICIES ARE CRUCIAL TO EMBED CLIMATE CONSIDERATIONS IN PENSION FUNDS' STRATEGIES.

Robust, coherent policy frameworks enable pension funds to strengthen their climate ambitions and take action. OECD countries with clear regulatory guidance for pension funds—such as the Netherlands, Denmark, and the UK—set and implement the most targets, while fragmented or voluntary regimes leave funds uncertain about their duties and less able to act on climate. Moving from policies that merely allow consideration of climate factors to those that require it, clarifying that responding to long-term sustainability and climate risks is part of fiduciary duty, and harmonizing disclosure standards across jurisdictions will be critical to unlocking more action and finance. However, it is important to recognize that national structural and market differences, the availability of climate-focused products, and societal demand for pension funds to integrate climate change into their strategies significantly affect funds' ability to make climate investments and adopt related policies and targets.

Table ES3. Target score vs Implementation vs pension fund legislation scores by country in 2024

Country	Climate relevant policies	Targets	Implementation
	Mandatory climate risk inclusion ¹	Weighted average score by AUM/O	Weighted average score by AUM/O
Netherlands	Required	2.3	2.5
Denmark	Required	2	2.6
UK	Required	1.7	2.5
Norway	Required	3	3.9
Australia	Permitted	1.6	2.1
Switzerland	Permitted	1.5	1.7
Canada	Permitted	1.6	2.1
South Korea	Required for NPS ²	2	1.9
Japan	Required for public pensions	1.4	2.2
US	Required in some states	0.8	1.2
█ Yes █ Partial		2024 Score 0-5: 0-No action; 1-Planned; 2-Emerging; 3-Progressing; 4-Advanced; 5-Best practice	

¹Are pension funds permitted/required to assess and incorporate climate risks that could materially impact investment returns?

²NPS is South Korea's largest public pension.

Note: Sequenced from strongest to weakest policy environment

In addition, climate coalitions and trade associations present important opportunities for pension funds to advocate for ambitious climate policy reforms. FIs should ensure that their trade associations' policy engagement efforts align with their own climate positions. They should also continue to utilize climate coalitions to engage with policymakers on sustainable finance reforms.

6. THE ASSET OWNER-ASSET MANAGER RELATIONSHIP IS A CRITICAL LEVER FOR CHANGE.

The world's largest pension funds are uniquely positioned to drive climate impact at scale by influencing their asset managers. European funds consistently outperform peers on stewardship policies and disclosure, while many North American funds lag, often due to legal or political constraints on ESG integration.

Pension funds are pursuing one or more of three strategies to exercise more control and influence over their delegated capital toward net zero. First, systematic engagement and active ownership, by strengthening oversight and other stewardship mechanisms through revised mandate terms, the integration of climate considerations in manager screening, explicit

policy-aligned voting, and clear escalation pathways (e.g., Pensioenfonds van de Metalektro's tightening of manager selection and assessment criteria). Second, mandate termination, by using mandate withdrawal as the final escalation step where managers fail to meet stewardship or responsible investment expectations (e.g., the People's Pension and Danish pension fund Akademiker Pension terminating mandates with US manager State Street). Finally, reallocation, internalization, or reduced diversification, by assigning significant mandates to asset managers aligned with sustainability priorities, and/or bringing asset management in-house to reduce principal-agent risks. For example, Dutch fund Pensioenfonds Zorg en Welzijn (PFZW) reduced its equity portfolio from 3,500 to 800 names, withdrew mandates and appointed new managers alongside an internal team to increase control (Rundell, 2025).

RECOMMENDATIONS

A more supportive operating environment can help pension funds to act in their beneficiaries' best long-term interests. Based on the findings outlined above, a comprehensive literature review, and interviews with experts, the report outlines recommendations to create such an environment that enables pension funds to act in their beneficiaries' best long-term interests.

The recommendations are organized around four mutually reinforcing pillars:

Pillar 1 – How policymakers can create an enabling environment	
I. Align fiduciary duty and market signals with net zero:	Policymakers should hard-wire climate into fiduciary duty, recognizing climate risk as a core financial issue and supporting climate-aligned benchmarks.
II. Build the governance, standards, and stewardship architecture:	Regulators should build a clear governance and stewardship architecture for asset owners, including transition-plan requirements, harmonized reporting standards, and standardized asset owner-asset manager templates.
III. Enable scale, flexibility, and capacity for climate investment:	Supervisors should review prudential rules, fee caps, and scheme structures to remove barriers to climate investments, support consolidation where appropriate, and enable smaller funds to invest in climate-aligned products.
Pillar 2 – How pension funds and asset manager can use their relationship as a lever for change	
I. Set expectations and select aligned managers as ex-ante controls:	Pension funds should codify climate expectations in mandates and stewardship policies, and use climate and stewardship criteria explicitly in manager selection.
II. Conduct ongoing monitoring and engagement:	Asset owners should strengthen monitoring systems and structured dialogue with managers, assessing portfolio alignment, voting, escalation and policy advocacy.
III. Determine specific climate-related engagement and escalation processes to ensure alignment towards net zero:	Where managers remain misaligned, pension funds should reclaim key levers such as voting, apply escalation frameworks and, if needed, reallocate mandates or build in-house capabilities.
IV. Design climate-aligned investment solutions:	Asset managers should design climate-aligned investment solutions, offer customized mandates with explicit stewardship tools, and provide cost-efficient pooled funds and reporting that allow clients of all sizes to implement credible net-zero strategies.
V. Use stewardship as a strategic differentiator:	Asset managers can compete on stewardship by evidencing outcome-focused engagement, credible escalation and leadership in collaborative initiatives.

Pillar 3 – How pension funds can move forward independently

- I. Embed net zero in strategy, governance, and portfolios:** Pension funds should upgrade to comprehensive, time-bound net-zero targets and embed climate in governance, risk management and incentives, shifting capital from fossil fuel expansion toward clean and transition assets so portfolio decisions prioritize real-economy decarbonization.
- II. Drive change across the pensions and financial ecosystem:** Individually and through associations and coalitions, pension funds should advocate for clear climate policy, share tools and learning with peers, and build coalitions on key issues.
- III. Increase transparency and public understanding:** Funds should voluntarily disclose delegation structures, transition plans, stewardship activities and outcomes in accessible formats, and communicate clearly with members and the public.

Pillar 4 – How other actors can create a supportive ecosystem for policymakers, pension funds, and asset managers

- I. Support improved data and reporting:** Data providers, research organizations and coalitions should deliver granular, comparable climate-relevant data and standardized AO-AM reporting tools, so investors can gauge systemic risk and compare managers and funds.
- II. Provide independent scrutiny of what works in practice:** Academic and research institutions should assess which policy, regulatory, and stewardship frameworks drive real-economy decarbonization, and publish benchmarks of pensions and manager performance.
- III. Support collective action and accountability:** NGOs and coalitions should mobilize investors, civil society, and experts to advocate for credible climate policy, track delivery, and explain pensions' role in the transition, strengthening accountability to beneficiaries.

This Executive Summary is presented from CPI's *State of OECD Pension Funds' Climate Transition* report. See the [full document](#) for further details