



Whether as a core or satellite strategy, an increased focus on credible, transparent acceleration in transition investing underpins CIO's long-term investment case. (UBS)

Invest in the low-carbon transition

07 January 2025, 2:52 pm CET, written by UBS Editorial Team US Editorial Team

The transition to a low-carbon economy goes beyond the energy transition. It is a secular trend that will play out across every sector and region and will affect every asset class. CIO shares three key approaches for investing in the transition.

The transition opportunity

The transition to a low-carbon economy presents one of the largest investment opportunities of the current decade, but also one of its greatest and most complex challenges. Already accounting for two-thirds of estimated total energy investment in 2024, the about USD 2 trillion being invested in clean energy annually needs to more than double by 2030 to achieve climate targets, according to the International Energy Agency (IEA). While energy sits at its core, the transition to a low-carbon economy goes beyond the energy transition. It is a secular trend that will play out across every sector and region, and will affect every asset class. The shape and pace of the transition is likely to be impacted by government policies, technology innovation, economic growth and energy affordability, reliability, and security. The expected acceleration in energy demand over the coming decades adds further complexity to the regional transitions and warrants an “all-of-the-above” strategy. However, we expect the transition to persist regardless—driven by economics, innovation, as well as political and social influences.

The holistic nature of the low-carbon transition lends itself to a portfolio approach, with cross-asset strategies offering diverse channels to capture opportunities. Transition investments may offer differentiated and complementary exposure to traditional or sustainable investing portfolios, both in terms of financial and sustainability characteristics. Whether as a core or satellite strategy, an increased focus on credible, transparent acceleration in transition investing underpins our long-term investment case.

In recent years, we have seen companies and countries alike make commitments to reach net zero, carbon neutrality, or climate neutrality. While they all generally aim for a state where emissions are balanced out, neutrality can be achieved today by purchasing offsets that equate to current emissions produced. Net zero, however, represents an end-state: an objective to reduce (carbon) emissions and environmental impact as much as possible by 2050 (or sooner/later) with the unabated residual emissions being removed and durably stored. To get there, the world needs to go through a transition to a lower-carbon economy—a long and all-encompassing journey. As the majority of global emissions are associated with the energy sector, reaching a (near) net zero scenario largely hinges on global fossil fuel demand. Though global fossil fuel demand continues to grow, forecasts continue to attempt to project changes in energy demand. However, there is currently no consensus on how this demand will evolve going forward, with scenarios varying wildly across the industry.

The past few years have also seen a proliferation of sustainability and climate-related disclosure guidance and regulation being announced across the globe. We expect to see continued expansion in coverage of these regulations with a more explicit focus on definitions and requirements around the transition. With this in mind, we prioritize core transition investing concepts and anchor points for credible practical application, acknowledging that the regulatory landscape continues to evolve.

Investing in the transition

We think the opportunity set to invest in the transition broadly comprises three key approaches: transition solutions, transition leaders, and transition improvers.

Transition solutions

Investments that focus on “greeners”—i.e., companies and assets that facilitate the transition to a low-carbon economy, or the adaptation to a changing climate. Such thematic strategies prioritize investing in business models or assets that have significant revenue or capex exposure to products or services that tackle climate change or its effects, rather than optimizing operational metrics (such as carbon footprint).

Transition leaders

Investments that focus on “greenness” and prioritize assets that generate relatively few carbon emissions compared to comparable assets. These are also known as low-carbon leaders, a strategy that often excludes the (historically) most carbon-intensive investments within a sector and adjusts portfolio weights to reach a lower portfolio-level carbon intensity to minimize transition risks.

Transition improvers

Investments that focus on “greening” by investing in assets that have strong decarbonization potential and are demonstrating progress. Investor engagement can be a tool to accelerate improvement, utilizing stewardship to drive decarbonization. These strategies often target companies in carbon-intensive sectors and carbon-intensive companies within sectors, to more closely align with the transition process.

The selection of these strategies may have direct implications on portfolio risk, return, and sustainability characteristics, for example shifting region or sector allocation, or increasing implied portfolio carbon footprint. On the latter, we acknowledge that investors may choose to explicitly exclude specific sectors or assets—e.g., coal mining companies from an equity portfolio, or energy commodities from alternatives allocations. However, purely exclusionary approaches do not contribute to decarbonization of the real economy and may even have adverse effects for decarbonization as these investments may be controlled by investors with no transition objectives. Furthermore, such approaches may have adverse effects on a portfolio’s risk and return characteristics as they limit the investable universe. See: [Sustainable investing and exclusions](#).

Transition opportunities are naturally complementary to traditional or sustainable investing portfolios. However, investors will need to choose the right mix of these strategies carefully based on their investment objectives. For example, if one wants to:

- Capitalize on outsized returns potential from new mitigation or adaptation technologies: prioritize Solutions strategies and tilt towards private markets.
- Align with real economy decarbonization: consider tilting toward Improvers strategies and more private market Solutions exposure.

- Decarbonize portfolio and minimize climate risks (physical, transition): consider focusing on Leaders strategies

Read the full report [Investing in the transition](#), 3 January 2025, for more on investing across sectors and building a transition portfolio.

Main contributors: Sebastian van Winkel and Amantia Muhedini

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.