

Still making the transition?

Laasya Shekaran considers transition finance, regulation and the shifting mindset of UK pension funds over the year ahead



As we enter 2026, the UK pensions industry is shaped by two intersecting forces, (i) the urgency of the transition to a sustainable economy and (ii) the evolving regulatory environment designed to guide capital in that direction.

Pension funds recognise that long-term value creation is inseparable from environmental and social resilience. At Pensions for Purpose, we aim to make 2026 the year that puts this into action.

Transition finance: From concept to allocation

As an industry representing trillions of pounds of invested capital, the pensions sector could play a vital role in unlocking the financing needed for climate transition. A successful transition is key to improving pension schemes' resilience to risks like climate change – systemic risks which would deplete the economy and have dire consequences on the outcomes for pension scheme members.

For this to work in practice, pension schemes need to have access to the right financial structures.

DB investors, who tend to run fairly de-risked strategies, could greatly benefit from innovative blended finance structures. DC investors are increasingly committing to private market allocations, but the cost structures (and regulations around cost vs value) need to be

appropriate for these to work in practice. LGPS pools and funds are also focused on transition finance but need a stable policy environment to support them operationally.

Regulatory signals: A year of consolidation and clarity

A huge regulatory focus for the pensions industry in 2026 will be on consolidation.

Consolidation can help to support transition finance and impactful investment allocations, especially where there is a strong governance structure in place amongst the consolidated entity. But consolidation can also be a barrier to allocation. Many transition finance projects require relatively small pots of capital to be deployed which are not appropriate for large funds to allocate to. The industry should take proactive steps to address this, pushing back against consolidation if it is not leading to the required outcomes and working on fund of fund structures that make impactful holdings more accessible for larger funds.

Transition plan disclosures will also be an interesting regulatory development but we must focus on action rather than reporting alone. The industry should learn from its experience of TCFD reporting which, while being good for raising the issue of climate change, has not led to enough action. The pensions industry must also address the reality of a climate outcome that does not align with the net-zero goals we are aiming for. Three degrees of warming is increasingly likely and pension schemes need to work to be resilient to this, ensuring their transition finance allocations look at climate adaptation as well as mitigation.

2026 will also be a year of considering

the role of pension schemes and their investment strategies more generally, supported by fiduciary duty clarification.

UK pension funds' attitudes: A shift from hesitancy to pragmatism

Although there has been a certain level of pushback against the language of ESG lately, the UK pensions industry continues to focus on sustainability and prioritise its importance.

Rather than dropping their ESG or sustainability commitments, pension schemes have focused in on what they are trying to achieve with their sustainability commitments and where they can have the most influence.

In 2026 pension schemes will continue to use their influence to address long term systemic risks such as climate change – through capital allocation, systemic stewardship and through partnering with managers and advisors who have shared values at an organisational level.

Frameworks such as the Impact Investing Principles for Pensions are gaining traction and help to support pension schemes with this: they help them cut through labels, interrogate products more confidently and focus on opportunities that align with financial, sustainability and real-world objectives.

Looking ahead

2026 offers pension funds the chance to embed genuinely outcome-driven investing.

Transition finance will be central but the industry will need to work together and will need to embrace innovation and change.

The challenge now is not enthusiasm but implementation. With the right guidance, peer learning and independent insight, the pensions industry is well-placed to lead the shift toward a more sustainable and resilient financial system.

Written by Pensions for Purpose policy and community director, Laasya Shekaran