



# PACIFIC SUSTAINABLE MULTI-ASSET INVESTMENT OUTLOOK 2021: 4th Quarter Insights

## NO COP OUT PLEASE

The eyes of the world turn to Glasgow in the coming weeks, as the UN's Climate Change conference COP26 starts. Previous iterations of this conference, that have been running since 1995 have been instrumental in global efforts to combat climate change. COP21 in 2015 in Paris laid the groundwork for the Paris climate agreement, whereby UN members agreed to a framework to limit global warming to between 1.5 and 2 degrees Celsius. Others however, such as the 2019 meeting, produced no real tangible results as many key member states challenged a move to further push climate goals due to them being too costly to achieve.



However, a new US president, a post-COVID world of fiscal stimulus and several natural disasters later, stark reminders of the climate catastrophe that awaits, mean that the stakes for this meeting are high. John Kerry, President Biden's special envoy on climate and former Secretary of State has called the Glasgow meeting the world's **"last best hope for the world to get its act together"** (Source: Bloomberg).

## THERE ARE FOUR KEY AREAS OF FOCUS FOR THE CONFERENCE:

**1 SECURE NET ZERO BY MID-CENTURY**

**2 ADAPT TO PROTECT COMMUNITIES & NATURAL HABITATS**

**3 MOBILISE FINANCE FOR LOW-INCOME ECONOMIES**

**4 FINALISE THE PARIS RULEBOOK**

## THE DETAILED POINTS WE FEEL WILL DETERMINE THE SUCCESS OR OTHERWISE OF THE MEETING WILL BE:



### NEW CLIMATE PLEDGES

- The United Nations has published a report setting out just how effectively countries are keeping their pledges to limit global warming.
- The aim of the Paris Agreement is to keep temperature rises well below 2 degrees Celsius. The most recent estimate showed we're on track for 2.7 degrees of warming — an increase that will have catastrophic consequences.
- So we look for actionable policy to achieve long term climate reduction targets



### AGREEMENT ON THE LAUNCH OF A GLOBAL CARBON MARKET

- This seeks to price the externalities caused by carbon emissions. This formed part of Article 6 of the Paris agreement.
- Carbon markets seek to price each ton of carbon that is emitted into the atmosphere, and then over time these credits can be traded. This effectively prices the carbon externality and rewards companies for reducing their carbon usage. In the last few years, the carbon emissions trading system in Europe has been effective at reducing overall carbon emissions.
- Care must be taken however to ensure the quality of these carbon credits is equal, carbon credits are well regulated and the system is not abused by double counting or accounting trickery



### DEVELOPED NATIONS

- Developed nations reaffirm their commitment to fund less developed nations carbon reduction efforts.
- \$100bn annually had been mooted as an appropriate amount to support low-income nations carbon transition
- Currently developed nations give \$47bn to developing countries in 2018-2019 according to Carbon Brief. From the chart below we see that it is Japan and Germany leading these efforts



### CARBON REDUCTION TECHNOLOGIES

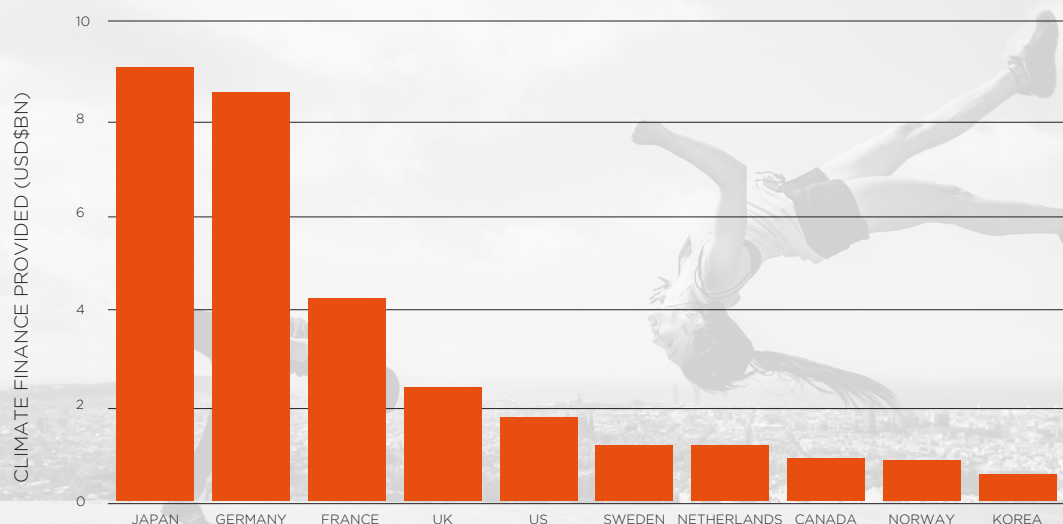
- Commitment to invest in carbon reduction technologies, and phase out global use of coal
- Coal is the most polluting electricity generation methods, and many developed nations would like to consign it to history. However, countries such as China and India still rely on it for much of its energy mix



### SUPPORT FOR OTHER FOSSIL FUEL EMISSION REDUCTIONS

- Whilst carbon dioxide is our most emitted fossil fuel, methane actually traps more than 80 times the heat of carbon dioxide over the first twenty years of its life
- A globally co-ordinated policy to reduce methane emissions by 30% over the next decade has been suggested by President Biden going into the conference

### Top 10 providers of overseas climate finance



(Source: Carbon Watch)

Pessimistically, Bloomberg New Energy Finance places a probability of overall 'success' on these sticking points at 47% going into the conference, and on the carbon markets point they believe a successful outcome is as low probability as 30%. The lack of attendance from President Xi of China and Putin of Russia is a clear disappointment in the lead up to the meeting. However, pre-meeting discussions have proven constructive, and as with all global conferences it is likely that we will only find at the 11th hour whether progress has been made, as discussions often continue long into the night.

If this conference does not clear a pathway to a net-zero carbon economy it will become another example of the immediacy effect that has plagued the politics of climate science – human's inclination to choose rewards now over rewards that come later in the future, even when these immediate rewards are smaller. However, short-term gain for long term pain will mean that when governments are forced to confront climate change further down the line the costs will be greater and the damage far worse, and the climate issue is not one that will be wished away.

So whilst the COP26 conference is important, the inevitability of climate change leads us to believe that the move to a low carbon economy will have to happen eventually, because the consequences of inaction are huge. A recent study from SwissRe indicates that the cost of doing nothing would cause a reduction in global GDP of 18%, the equivalent of 4 COVID recessions. We therefore continue to look for investment ideas and companies that are at the forefront of this transition.

## CONCLUSION

The COP26 conference is one important piece of the climate puzzle, however we worry that it could be another opportunity for world leaders to focus on platitudes as opposed to action. If we were to see detailed information regarding funding for climate solutions and cooperation on issues such as pricing carbon, and helping developing economies, however, it could mark a great step forward in terms of the speed of transition to a low carbon world.

Regardless of the outcome of COP26, the trend to us remains clear, the world will have to adapt to the climate crisis or else face dire consequences. It is our belief that government action can help prevent the worst of the climate crisis, but time is running out...



**WHAT DOES SUSTAINABLE INVESTING MEAN TO PAM?**

Sustainable investing is a catch-all term for investing in a way that accounts for being socially responsible and investing ethically while also seeking returns.

**At PAM** we use the term sustainable investing to capture the various methods of incorporating concerns around Environmental, Social and Governance (ESG) issues into our investment decision making processes.

**A commitment to responsible investing**

As a signatory to the UN PRI Principles for Responsible Investment, Pacific Asset Management has publicly stated our support for the better understanding of the investment implications of ESG factors. As a business we are committed to constantly strive to be a more responsible firm both in how we operate and how we manage our clients' investments.

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