SUSTAINABLE MULTI-ASSET BLOG

COP26 CONFERENCE

With Sustainable Multi-Asset Portfolio Manager, Will Thompson

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> "I think today we can say with credibility that we've kept 1.5 (degrees Celsius) within reach. But its pulse is weak, and we will only survive if we keep our promises."
>
> **- Alok Sharma**

Sunday bought to a close the UN COP26 conference, and as expected the discussions over the final text of the COP agreement went down to the wire.

A tearful Alok Sharma (having not slept for 3 days), apologised for last minute changes to the documentation which softened ambitions on coal power reduction, calling for the "phase down" not the "phase out" of coal power.

We highlighted 5 key debate topics that we wanted to see progress on during the conference, and below we score the results:

NEW CLIMATE PLEDGES: SCORE 5/10

- At the start of the conference, India surprised by promising to reach net-zero emissions by 2070, a positive step but this is a long runway to reduce carbon emissions. Nigeria also pledged to reach net zero, by 2060. All told, 137 countries have now committed to net zero
- More than 141 countries signed a pact to end and reverse deforestation by 2030. Russia and Brazil, who account for 30% of total land area covered in forestry importantly signed
- More than 40 countries agreed on a plan to move to zero-emissions vehicles by 2030
- In all these cases the actual work must begin now to achieve these goals – the promises aren't the tricky part - it is the actioning of them and the commitment to invest

AGREEMENT ON THE LAUNCH OF A GLOBAL CARBON MARKET: SCORE 6/10

- Nations agreed and finalised the Paris rulebook after 6 years of conversation. Also agreed were rules to limit the use of credits countries had generated over previous years
- This lowers the possibility that countries can greenwash by utilising their credits and not cutting their emissions
- A tariff on carbon trading also sets aside funding for climate adaptation in developing countries

DEVELOPED NATIONS REAFFIRM THEIR COMMITMENT TO FUND LESS DEVELOPED NATIONS CARBON REDUCTION EFFORTS: SCORE 2/10

- There was limited progress to ensure that developed nations fund developing nation's ability to transition away from fossil fuels. What was agreed was the "Glasgow Dialogue" to discuss funding arrangements. Which is a poor result in terms of action
- This 'loss and damage' clause is designed to compensate countries for the harm that will be caused by changing climates, which disproportionately affects developing nations
- As countries have to divert funding towards preparing for and responding to loss causing natural disasters, they may well have less public financing to cut their own emissions and meet their goals

SUPPORT FOR OTHER FOSSIL FUEL EMISSION REDUCTIONS: SCORE 5/10

- Spearheaded by John Kerry, the US Climate envoy, the Global Methane Pledge seeks to reduce Global Methane emissions by 30% from 2020 levels. This was signed by more than 100 countries
- Methane is 80x more powerful as a greenhouse gas than carbon dioxide for its first 20 years in the atmosphere
- India, Russia and China however did not sign

COMMITMENT TO INVEST IN CARBON REDUCTION TECHNOLOGIES, AND PHASE OUT GLOBAL USE OF COAL: SCORE 4/10

- More than 40 countries agreed to phase out their use of coal, however crucially India, the US, China and Australia did not sign the agreement

CONCLUSION

Outside of our key areas, the US and China signed an agreement to boost cooperation on combating climate change over the coming years. Together they make up 45% of total global carbon emissions. However detail was lacking on the agreement and geopolitical tensions, and the possibility of changing US administrations are of course the major risk factor in assessing whether this new relationship blossoms or becomes another symbol of climate failure.

On current track, based on the commitments of the public sector we are not going to meet the goal of 1.5° warming, and to do so in the coming years governments will have to continue to increase their emissions reduction targets. In that sense, to us COP26 can be viewed as not living up to the lofty expectations that were set before the conference started.

Our view is that private markets and consumers are ahead of the curve when compared to government policy makers. We have seen a revolution in terms of the financing and investment into green technologies and infrastructure, and a revolution in terms of consumer choices around sustainability. This is helping accelerate decarbonisation efforts, but without rigorous public policy and regulatory change, there is still a long way to go...

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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