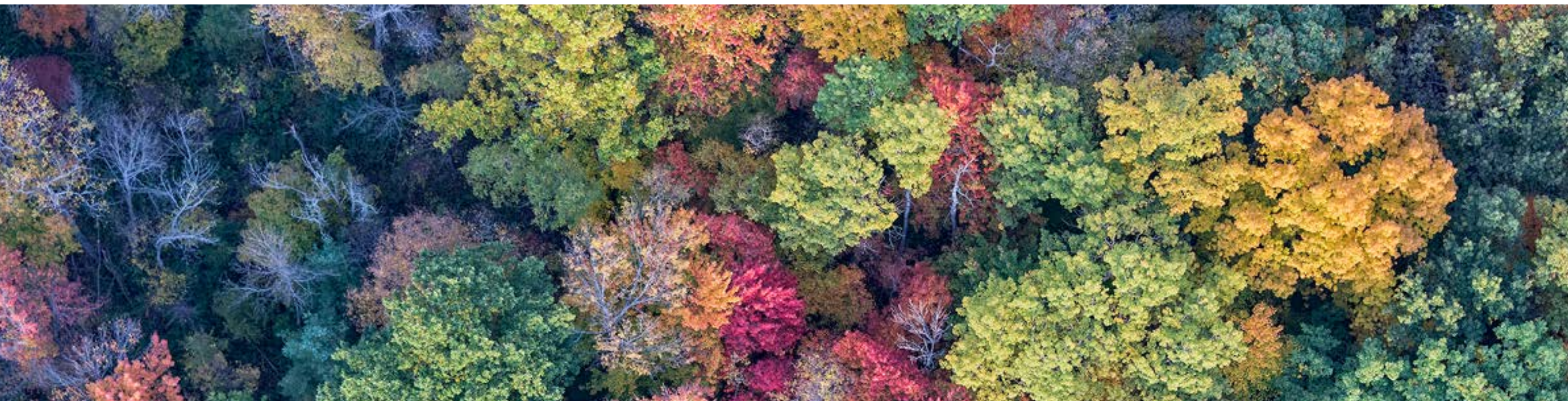
Cantab
ASSET MANAGEMENT

Conference of the Parties 26 (COP26) Debrief

Introduction

The 26th UN Climate Change Conference of the Parties (COP26) was held in Glasgow between 31 October and 12 November 2021. It was the first major test of the 2015 Paris Agreement in which Heads of State pledged to work towards limiting the rise in the global average temperature to below 2 degrees Celsius with a specific target set at 1.5 degrees Celsius above pre-industrial levels. This document summarises some of the main commitments agreed at the summit and possible investment implications.[1]

Theme	Details	Investment Implications
Transparency	▪ The entire climate regime is dependent on transparency. ▪ Countries reporting sufficient information is key to the Paris Agreement; it allows peer pressure to keep countries in-line with their pledges. ▪ Wealthy countries, identified in 1992 when the UNFCCC (UN Framework Convention on Climate Change) was established (US, EU nations, Japan and Australia) have to report regularly on GHG emissions. There are large gaps in data for some of the major emitters.	▪ Elevated tailwind for the data and analytics industry especially with more countries now likely to improve reporting initiatives.
Finance	▪ Rich nations failed to meet $100bn annual climate finance target for 2020 – this was set over a decade ago. ▪ The COP Presidency suggested how rich nations would meet this target by 2023; new funding from Japan might accelerate this. ▪ A 'new collective quantified' post-2025 goal for finance might supersede the $100bn target and further discussion on 'long term climate finance' was held.	▪ Accelerated momentum in Green Finance initiatives over the next 5-10 years. ▪ Green projects in emerging economies also likely to become more prominent. ▪ Create a tailwind for green infrastructure projects and especially the industries serving this sector.
Deforestation	▪ Over 130 countries signed the 'Glasgow leaders declaration on forest and land use' promising to collectively work together to stop and reverse deforestation and land degradation by 2030.	▪ Elevated headwind for companies producing products and services which depend on unsustainable timber, soy and palm oil, among others.
Methane	▪ Key announcement of a 'global methane pledge' by the US and European Commission to cut emissions by 30% by the end of the decade versus 2020 levels.	▪ Elevated tailwind for companies providing alternatives to methane such as solar, biomass and wind energy as well as companies serving these industries.
Coal	▪ Aiming to end all investment in new coal power generation and assist emerging economies to transition from coal to a 'clean energy economy'.	▪ Elevated tailwind for renewable energy demand (infrastructure), especially in countries currently depending on coal-fired power. ▪ Create a tailwind for green infrastructure projects and especially the industries serving this sector.
Electric Vehicles	▪ Accelerate the transition to 100% zero-emission cars and vans. ▪ New car and van sales to be zero emissions by 2035 (developed economies), 2040s (emerging markets).	▪ Structural headwind for car companies that have not invested in electric vehicle technology. ▪ Strong tailwind for companies at the forefront of electric vehicle and component manufacturing. ▪ Strong support over the next 20 years for industries servicing the electric vehicle sector.



Summary

As we progress through the current decade and beyond, it is clear that the commitments pledged at COP26 are likely to create a tailwind for various sectors and industries whilst possibly creating a strong headwind for others. Most notably, the data and analytics industry are likely to receive support from more sophisticated demand in emission reporting and the acceleration in Green Finance is likely to support the renewable energy and green infrastructure sector. Furthermore, the material emphasis placed on zero-emissions transport will likely see increased demand for electric vehicles, its components and infrastructure to support this transition. Companies that produce products that promote deforestation are likely to feel more pressure going forward and companies that provide alternatives via innovative technologies are likely to experience material support. These developments are likely to have various investment implications in the form of asset allocation, portfolio construction and long-term risk management but also create opportunities for investing in companies that are likely to support, and therefore benefit from, the transition.

[1] Carbon Brief, COP26: Key outcomes agreed at the UN climate talks in Glasgow, 15 November 2021

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