Santander Asset Management

RETHINK INVESTING

COP26: Creating investment opportunities for the future

The 2021 UN Climate Change Conference of the Parties (COP26) in Glasgow produced a raft of new initiatives and announcements. While it didn't provide the landmark global breakthroughs many had hoped for, the impact of the conference will still be felt in investment portfolios for years to come.

There is clearly much work to be done, but COP26 served to further accelerate the rapidly building momentum behind investing sustainably and in ways that support the fight against climate change.

COP26: key developments

Investors may not have heard much from COP26 that would appear to obviously affect them. Behind the scenes, however, there were a number of developments that will help shape portfolios over the longer term.

For example, the US, Canada and Italy were among 20 countries that committed to stopping public financing for fossil fuel projects abroad by the end of 2022, pledging to invest the funds in clean energy instead. Several large fossil fuel funders, such as China and Japan, were missing but it has still been described by campaigners as an 'historic' step away from fossil fuels. [1]

(1) Reuters – US, Canada among 20 countries to commit to stop financing fossil fuels abroad, 4/11/21

Other key developments included more than 100 countries signing up to a global initiative to reduce methane emissions by 30% from 2020 levels by the end of the decade. Again major polluters (China, Russia and India) were missing but, if successful, the scheme could still reduce global warming by 0.2C by 2050. [2] Deforestation was another important theme, with more than 100 countries agreeing to halt the practice by 2030 and 30 major financial institutions removing it from their portfolios by 2025. [3]

Meanwhile, more than 40 global asset managers disclosed their interim targets to reach net zero by 2050, with a number of firms aiming to reduce emissions across their portfolios by 2025. More than 200 fund firms (including Santander Asset Management) are now signed up to the Net Zero Asset Managers Initiative, under which they agree to ensure all assets are managed in line with net zero carbon emissions by 2050. [4] Under new rules proposed by the UK Treasury, large UK firms and financial institutions will have to show by 2023 how they plan to move to a low-carbon approach. [5]

Of all fossil fuels, coal is the single largest contributor to global warming, so phasing out its use is essential. Despite this, not since the Kyoto protocol in 1997 has there been specific mention of phasing out coal or other fossil fuels. That's why, despite disappointment in the 'watering down' of the language from 'phasing out' to 'phasing down' coal, a commitment to do so was still welcomed as a major step forward. [6]

Tackling greenwashing and easing comparisons

Steps were also taken to help investors identify funds and products that meet sustainability requirements, and to reduce so-called 'greenwashing' (where products are labelled as sustainable or ESG-friendly but don't live up to the claims). The organisation that oversees international accounting standards is to set up the International Sustainability Standards Board (ISSB), which will be responsible for creating standardised sustainability disclosures so that investors can make comparisons across different sectors and markets. [7]

Similarly, the Financial Conduct Authority (FCA), the UK's financial services regulator, launched a paper seeking views from the industry on how to label investment products in a way that helps investors understand their sustainability-related risks and opportunities. [8] This is a significant step, as it's the information made available to investors that allows them to make choices that reflect their appetite for tackling the climate crisis.

Fuelling the shift to climate-friendly investment

The biggest effect of COP26 for investors may well be the accelerated shift of funds into projects and activities related to reforestation, renewable energy, sustainable infrastructure and other areas.

For example, the $2.3tr American Jobs Plan contains a raft of measures aimed at green jobs, electric vehicles and the transition to clean energy, [9] while the EU's pandemic recovery plan requires 30% of spending to have climate-related benefits. [10] In the UK, Chancellor Rishi Sunak announced at COP26 that the government had committed a further £66 million to help developing countries fund infrastructure, technology and businesses to manage climate change. [11]

Private investment will have an increasingly big role to play too. The Glasgow Financial Alliance for Net Zero (GFANZ), launched at COP26 by former Bank of England governor Mark Carney, is a coalition of banks, insurers and investors with $130tr at their disposal, which have committed to accelerating and mainstreaming the decarbonisation of the world economy and reaching net zero emissions by 2050. [12] Even if just some of that money is invested in renewable energy and other projects, it creates new opportunities for investors.

(2) FT.com – Global methane deal signed by 105 countries but missing major emitters, 1/11/21
(3) FT.com – COP26: Global leaders sign pledge to halt deforestation, 2/11/21
4) Net Zero Asset Managers - Net Zero Asset Managers initiative signatories disclose interim targets, with over a third of assets managed in line with net zero, 1/10/20
(5) BBC – COP26: UK firms forced to show how they will hit net zero, 3/11/21
(6) Guardian – What are they key points of the Glasgow Climate Pact? 14/11/21
7) FT.com – New body to oversee global sustainability disclosure standards, 3/11/21
(8) FCA – FCA acts to help investors make more informed ESG investment decisions, 3/11/21
(9) Forbes – Inside Biden's Plan to Create Over 10 Million Well-Paying Jobs With His Clean Energy Initiative, 23/4/21
(10) European Union – Recovery Plan for Europe, 37/11/21

Excluding and including investments

One approach to sustainable investing is negative screening, excluding harmful industries and companies from portfolios. But as more money flows into climate-related enterprises it will become easier for investors to benefit from putting money into companies and sectors supporting the transition, positive screening in other words. Infrastructure is one such area, as governments increasingly target spending on clean energy projects. In the UK, it's estimated that half of the £600 billion of infrastructure projects announced for development over the next five years will be financed by private investment. [13]

That will create opportunities such as infrastructure debt, giving investors a reliable fixed income in return for helping finance loans for infrastructure projects. The funds committed by signatories to initiatives such as GFANZ will also support renewable infrastructure projects that will benefit companies such as battery makers, hydrogen innovators, energy storage firms and wind- and solar-energy providers.

Importantly for investors, renewable infrastructure is a 'real asset' that can offer some protection against rising prices, as the revenues are often linked to the rate of inflation (which is expected to rise over the coming period). [14]

'Old' energy providers may continue to present opportunities too. The oil and gas giants that are prominent in many investment portfolios are diverting a growing amount of funds into clean or renewable energy alternatives, with some investing in smaller, innovative energy technology companies.

The basics of investing still matter, regardless of what you're investing in

Given the growing weight of emphasis on it around the world, efforts to tackle the climate crisis will likely become a dominant theme in portfolios in the coming years. If you're keen to play your part now, one thing you can do is carefully check the credentials of any funds and fund managers you're considering, or already use. There are plenty of resources available to help, such as fund fact sheets and online reports and information about fund managers' corporate policies in this area. As sustainability-related disclosures continue to improve, making comparisons should become easier.

Make sure too that any investment decisions are taken in the context of your broader financial plans and that your portfolio remains well diversified. It's often worth consulting a professional financial adviser, who can help you weigh up the options and find the right balance. You can also read some of the other articles in our Rethink Investing series, available here.

You can read more about sustainable investing and Santander Asset Management's Road to Net Zero here:

Using your money
to help save the planet

Santander Asset Management's
Road to Net Zero

(11) Gov.UK – UK's flagship green investment programme receives £66 million funding increase, 3/11/21
(12) Reuters – COP26 coalition worth $130 trillion vows to put climate at heart of finance, 3/11/21
(13) FT.com – UK's first infrastructure bank to boost climate goal investment, 3/3/21
(14) Trustnet – Three ways to protect your portfolio from inflation, 16/9/21

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