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Can investors save the world?

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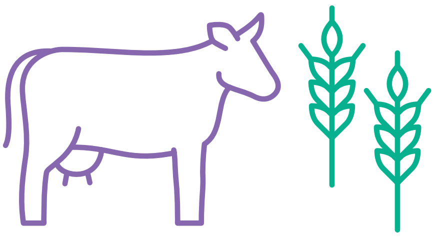
Every year, the UN brings together almost every country in the world for a Conference of the Parties (COP) – a global climate summit. 2021 marked the 26th summit, hence the moniker 'COP26'.

COP26 was the biggest climate conference in history, with around 30,000 people in attendance, including 200 world leaders. Importantly, the US (the world's largest per capita carbon dioxide emitter) took part, having re-joined the Paris Agreement under President Biden. High-polluting emerging economies like China and India were also in attendance.

For some climate activists, the policies announced and agreed upon were disappointing. For others, they were encouraging, with sufficient goals set to create meaningful change, and a sense of urgency pervading the event. Crucially for our industry, one of the biggest shifts in tone at COP26 was a fresh emphasis on the importance of private sector finance, with investors placed at the heart of climate change solutions.



The **food sector** accounts for around **30%** of the **world's** total **energy consumption** and around **22%** of total **greenhouse gas emissions**.

Source: UN Sustainable Development

What did COP26 aim to achieve?

COP26 had a number of wide and far-reaching goals. At the COP21 summit in Paris in 2015, the Paris Agreement was born, focused on capping global temperature rises and halting climate change. The COP26 event was an important check-in point for these goals.

The intention was for attendees to work together, accelerating action to tackle the climate crisis through collaboration between governments, businesses and society. The ultimate target is to secure global 'net zero' emissions by mid-century – removing all man-made greenhouse gas emissions from the Earth's atmosphere. In practice, this would mean accelerating the phase-out of coal, curtailing deforestation, speeding up the switch to electric vehicles, and encouraging investment in renewables. The COP26 event was also aimed at finding ways to protect and restore natural habitats and ecosystems, as well as building defences, warning systems and infrastructure to avoid the loss of communities, homes and livelihoods.

Critically for the financial services sector, COP26 also aimed to mobilise sustainable finance. According to COP26's goals, developed countries must make good on their promise to muster at least $100bn in climate finance each year. What's more, international financial institutions must play their part in unleashing the trillions of dollars in private and public sector finance required to secure global net zero.

Did COP26 deliver meaningful change?

Under the Paris Agreement, countries agreed that they would come back with an updated plan every five years (delayed in 2020 due to the COVID-19 pandemic), reflecting their highest possible ambitions at that time. In reality, this means that the targets and intentions set at COP26 will not be judged until the next large COP event – COP31 – in five years' time.

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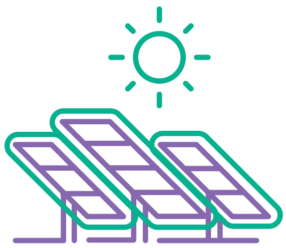
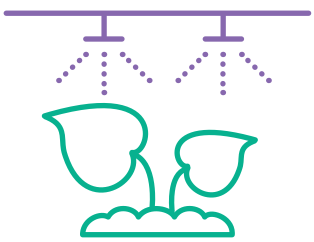
>
> Ben Matthews, Investment Director



China has become the world's **biggest investor** in **renewable energy**, representing nearly **40%** of new **forecasted demand** for **solar energy** installations.



Approximately **70%** of all **water** abstracted **from rivers, lakes** and **aquifers** is **used** for **irrigation**.

Source: UN Sustainable Development

In the run up to COP26, and at the event itself, a number of significant policy measures were announced by governments and financial regulators, with direct implications for our industry. This included the UK's green finance roadmap, which sets out the government's ambition to make the UK the world's best place for green and sustainable investment. The UK also joins 36 other countries in endorsing the creation of an International Sustainability Standards Board, which will be formally launched in 2022.

From a geopolitical standpoint, COP26 played host to other significant developments. The issuance of a joint statement by China and the US was little short of remarkable, given the poor dynamics between these two superpowers in almost all other areas. And while last minute climb-downs from India and China on the move away from coal created unfavourable media headlines, it is perhaps more helpful to look at what these nations are doing, rather than what they will/will not commit to in a public forum. For example, China may not have devoted itself to phasing out coal at COP26, but it has become the world's biggest investor in renewable energy, representing nearly 40% of new forecasted demand for solar energy installations.

How does this impact our investments?

From an investment perspective, the focus of COP26 was on the environment – the 'E' in ESG (environmental, social and governance). We have a number of holdings in our sustainable investment strategies which directly target this, and these positions stand to benefit from the increased attention surrounding environmental issues brought about by COP26.

Our sustainable strategies include stock market positions in companies involved in the generation, storage, efficiency and consumption of sustainable energy sources. We also have exposure to businesses involved in water demand management and pollution control, as well as in water infrastructure companies. Further, our strategies are invested in solutions seeking to reduce resource intensity through the use of more efficient, scalable materials with lower lifetime emissions.

When it comes to bond markets, our strategies also have positions in 'green bonds' from international public and private issuers, including emerging market companies. And, as with our core strategies, our sustainable strategies also include a range of alternative (non-traditional) asset types, such as renewable energy infrastructure and battery storage assets.

What happens now?

As we enter the next stages of the fight against climate change, the role of the financial sector – including investors – will be critical. Investors must be focused on diversified solutions to the challenges around and ahead of us. This means directing our attention not only to flagship areas like clean energy, but also to solutions centred on water, agriculture, biodiversity, and transport.

Engagement from investors is essential, as is collaboration between businesses – across and within industries, and regardless of geographic borders. From this point onwards, commitments and promises must transform into action, and this includes being proactive in the way in which we invest. Private capital can be a powerful and effective mechanism for change. By thinking about how we invest our pensions and savings, we believe we can all contribute to meaningful improvements, whilst also seeking out attractive long-term financial returns.

Find out more

Learn more about our sustainable investment strategies

Read our latest Sustainable Impact Report

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Commended: Marketing or PR campaign

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Tracey Davidson, Chair of Handelsbanken Wealth & Asset Management has been named in the 2021 PAM 50 Most Influential list

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Handelsbanken Wealth Management was placed in the top 25 of FT Adviser's Top 100 Financial Advisers 2020 (17th)

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