Insights
**ESG**

**October 2021**

# Understanding COP26

## What is COP26?

COP26 is the next annual UN climate change conference. COP stands for Conference of the Parties, and the summit will be attended by countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) — a treaty that came into force in 1994.

This year will be the 26th annual summit. With the UK as President, COP26 takes place in Glasgow.

## When will COP26 take place?

COP26 takes place from 31 Oct 2021–12 Nov 2021 (it was originally scheduled in 2020 but was postponed due to the pandemic).

## What is the connection between COP26 and the Paris Accord?

COP21 took place in Paris in 2015. The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP21 in Paris, on 12 December 2015 and entered into force on 4 November 2016.

Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

## Why is there so much focus on COP26?

Latest scientific reports show that the commitments laid out in Paris did not come close to limiting global warming to 1.5 degrees: the targets announced in Paris would result in warming well above 3 degrees by 2100, compared to pre-industrial levels, and the window for achieving this is closing. Hence, as momentous as Paris was, countries must go much further than they did even at that historic summit in order to keep the hope of holding temperature rises to 1.5 alive. As tackling climate change is also a race against time, COP26 is seen as arguably the most important climate summit so far.

## What are the main areas of focus at COP 26?

1 **Secure global net zero by mid-century and keep 1.5 degrees within reach** Countries are being asked to produce ambitious 2030 emission reduction targets that will, collectively, help ensure that warming is limited to 1.5 degrees by 2100.

2 **Adapt to protect communities and natural habitats** Countries affected by climate change are being supported to protect and restore ecosystems, build defences, implement warning systems and make infrastructure and agriculture more resilient to avoid loss of homes and lives.

3 **Mobilise finance** Countries must deliver on their promise made in Copenhagen in 2009 to raise at least $100 billion in aggregate of climate finance per annum (https://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf) to facilitate the first two goals. The expectation from some players that this number needs to be increased.

4 **Work together to deliver finalising the Paris Rulebook** And look to accelerate collaboration between governments, businesses and society to deliver on climate goals.

## Net Zero and COP26

To limit the temperature rise to 1.5°C above pre-industrial averages means that net zero carbon emissions need to be achieved by 2050, and emissions need to be cut in half by end of this decade.

## What are the expectations and implications for investors?

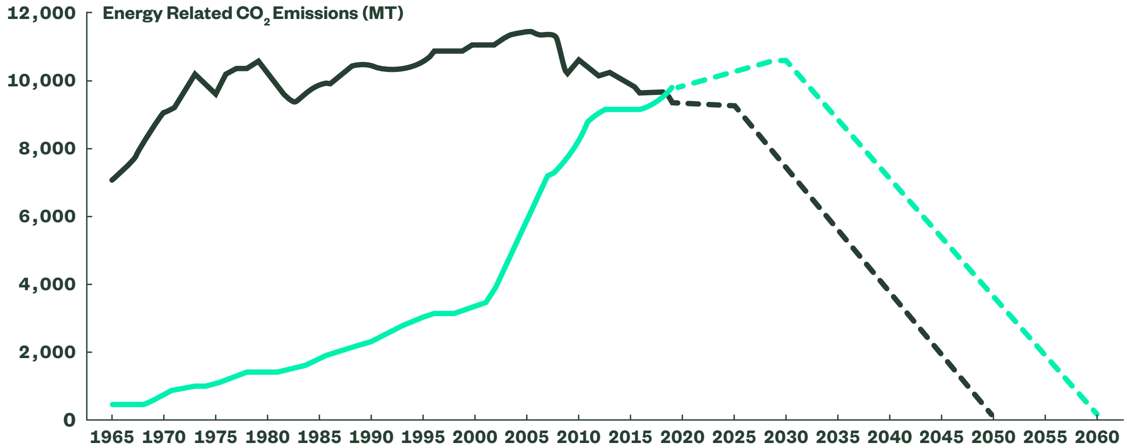
At a public policy level, it will put climate policy as one of the main drivers of macroeconomics and geopolitics for the 21st century.

Many governments have already made net zero pledges, such as Europe, US, Japan, China, just to name a few. But the real world evidence shows that a quite dramatic change in course of action is needed.

India, one the biggest, per capita as well as absolute, polluters in the world, has positioned itself as a key partner for COP26 but has so far not made a net zero pledge. Whether COP26 will be the stage to do so remains to be seen.

Figure 1
**Carbon Emissions and Government Targets (Mt $CO_2$)**

US + EU + Japan
China




Source: BP Statistical review, government targets.

What seems clear though is that the needed change in direction will likely not be accomplished without policy intervention (eg will a carbon price be set? If yes, at what level?)

For investors this means that they need to be on the lookout as one could interpret what's ahead as a massive economic depreciation exercise for carbon-heavy assets and an appreciation exercise for carbon-neutral assets.

## What is State Street Global Advisors' stance?

Climate change has a systemic impact to the global economy and represents both a strategic and operational challenge for companies, as well as one which can provide opportunities. We treat the climate challenge as a top priority on all fronts: be it as a corporation, for our investment solutions and for our Stewardship strategy.

State Street Global Advisors has a deep and long record on climate. Having introduced our first fossil fuel exclusionary fund 5 years ago, we have been helping clients analyse how climate metrics can inform better decision-making — whether by mitigating risks and responding to new regulations, aligning investments to organisational values or by enhancing long-term performance.

We do that through:

- **Asset Stewardship** Climate is a priority engagement area for the Asset Stewardship team. Read the 2020 Asset Stewardship Report and our dedicated climate stewardship reports**.**
    - At State Street, our climate stewardship approach is built around four pillars: company engagement, proxy voting, thought leadership, and policy & regulatory efforts.
- **Thought Leadership in Climate Stewardship** we have published the following climate-related papers. (Available on ssga.com)
    - Climate Change Risk Oversight Framework for Directors
    - State Street's Perspectives on Effective Climate Change Disclosure
    - Climate-Related Disclosures in Oil and Gas, Mining, and Utilities
    - Effective Climate-Risk Disclosure in the Agricultural and Forestry Sectors Through the Lens of the TCFD
    - Statement of Support for the Task Force on Climate-Related Financial Disclosures
- **Policy and Regulatory Efforts**
    - As the third-largest asset manager in the world, we actively participate in collaborative initiatives that help shape the policy or regulatory landscape. We have participated in the TCFD and Ceres working groups related to climate.
- **Research & Analytics** using ESG data and R-Factor to support the investment teams and clients
    - We have access to a wide range of dedicated climate related data by world class data providers like S&P Trucost and ISS.
- **Solutions** designing, building and implementing investment strategies and funds with a climate focus.
- **Industry Leadership** Earlier in the year State Street Global Advisors joined the Net Zero Asset Manager Initiative (see below).

## The Net Zero Asset Managers Commitment

By joining the Net Zero Asset Manager Initiative, State Street Global Advisors made the following pledge: In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition.

In this context, State Street Global Advisors commits to support the goal of net zero greenhouse gas (GHG) emissions by 2050, in line with global efforts to limit warming to 1.5°C (net zero emissions by 2050 or sooner). It also commits to support investing aligned with those targets. **In order to fulfil these commitments, we pledge to:**

*For assets committed to be managed in line with the attainment of net zero emissions by 2050 or sooner*

**1** Set interim targets for 2030, consistent with a fair share of the 50% global reduction in $CO_2$ identified as a requirement in the IPCC special report on global warming of 1.5°C.

**2** Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions.

**3** Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.

**4** If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions.

**5** As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions.

*Across all assets under management*

**6** Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity.

**7** Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner.

**8** Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner.

**9** Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner.

*Accountability*

**10** Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here.

We have summarised the general steps to be taken by investors to focus on net zero in our recent paper "Journey to Net Zero":

## Other Climate Specific Involvements of State Street Global Advisors

- Climate action 100+
  - State Street Global Advisors is a signatory to Climate Action 100+. A global initiative led by investors to foster the clean energy transition by engaging the companies and sectors with the highest greenhouse gas emissions
- Task Force on Climate related Financial Disclosure (TCFD)
  - State Street Global Advisors is a long standing supporter of the TCFD. In addition to our stewardship activities, our support for the TCFD is backed by our commitment to provide meaningful disclosure of relevant material information in our annual Corporate Responsibility Report or other investment led reports that pertain to our sustainability and stewardship related efforts
- The Institutional Investors Group on Climate Change (IIGCC)
  - IIGCC is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future
- Sustainable Markets Initiative
  - The Sustainable Markets Initiative aims to lead and accelerate the world's transition to a sustainable future by putting nature, people and planet at the core of decision making

## Macro Investor Implications

For investors this means that they need to be on the lookout as one can interpret of what's ahead as a massive economic depreciation exercise for carbon heavy assets and appreciation exercise for carbon neutral assets. Questions around capital commitments to build a future built on renewables as well as discussions of a carbon price will be key elements to look out for.

Another important consideration is the incentive for the geopolitical super powers (especially the US and China but also Europe) to stay on top of the race to become a climate leader as, similar to other disruptive shifts (like digitalisation), the transformation to a low carbon economy will come with enormous opportunities. This is especially important as most countries are net energy importers under the current fossil fuel regime.

When it comes to investments, we expect the growth of climate-focused investments to continue to be driven by:

- **Investor demand** Heightened ESG consciousness among investors is driving demand for education, guidance, solutions and analytics;
- **Regulation and policy** The Paris Climate Agreement may be the catalyst for governments to speed up climate aligned policies as well as the introduction of regulation such as the EU SFDR;
- **Global pledges** Including Net Zero;
- **Stakeholder pressure** Boards, employees, customers and investors are using their voice, vote and money to compel companies to address climate risks and opportunities; and
- **Performance opportunities** Investors seek to mitigate climate related risks and reallocate assets to climate related opportunities.

## About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of September 30, 2021 and includes approximately $59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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