COP26 REVISITED

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COP stands for 'Conference of the Parties' and is the decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC). The purpose of COPs is to review progress towards the ultimate goal of the UNFCCC: "to stabilize greenhouse gas (GHG) concentrations at a level that will prevent dangerous human interference with the climate system, in a time frame which allows ecosystems to adapt naturally and enables sustainable development."

COP26, in Glasgow, was about as successful as expected. The focus of this iteration of the annual conference, in addition to filling in gaps left open by negotiators at previous COPs, was "coal, cars, cash and trees".

Rather than announce a single, sweeping agreement as happened at COP21 in Paris, Glasgow birthed a less exciting combination of detailed proposals and miniature side-deals:

- The Glasgow Climate Pact was the first COP text to explicitly urge countries to phase down their use of coal specifically and fossil fuel subsidies generally.
- China and the US issued a surprise statement to confirm their joint commitment to address climate change, as did a group of multilateral development banks (MDBs).
- Rules were ironed out for a global carbon market, designed to match emissions reduction projects with counterparties in need of emissions reductions.

- 141 countries pledged to halt and reverse deforestation and land degradation by 2030.
- 110 countries signed the Global Methane Pledge, which states that methane (which is one of the most potent GHGs) emissions must be reduced by 30% by 2030, compared to the 2020 level.
- More than 450 companies in the financial services sector, accounting for USD 130 trillion in AUM, have now signed up to the Glasgow Financial Alliance for Net Zero (GFANZ).
- The IFRS announced the formation of the International Sustainability Standards Board (ISSB) to standardise the disclosure of non-financial information.
- Progress was made towards achieving an outstanding target of USD100 billion per year in financing for emerging markets to adapt to and mitigate climate change risks.

With all said and done in Glasgow, the world is on track for between 1.8C and 2.4C of warming before 2100. Though an improvement upon the pre-COP26 forecast, such an increase is still higher than the limit agreed upon at COP21. The sclerotic pace of international diplomacy remains at odds with the urgency demanded by a problem as large and dynamic as climate change.

Nevertheless, we remain optimistic that the ultimate goal of the UNFCCC can be realised and believe that there are significant investment opportunities (and risks) to be managed in pursuit of this goal. Consequently, we have high conviction in best-in-class ESG-labelled strategies (e.g. UBS Multilateral Development Bank Bonds ETF) and well-constructed thematic baskets (e.g. iClima Global Decarbonisation Enablers ETF).