September 2021

Learning About **ESG**

Climate Week 2021

Learning About ESG is an educational series that connects **environmental, social and governance** topics with investing.

Join us each issue to see how global developments can have implications for investors. The better we understand ESG, the bigger the role it can play in our everyday lives – and investment portfolios – contributing to a better world.

Key takeaways

- The 14th annual Climate Week took place during September 20-26. The event featured **government and corporate leaders to showcase global progress on climate activities**, whilst **demanding accelerated action to fight climate change**.

- Carbon-intensive sectors must drive sustainable change as part of the transition to net-zero. **Based on global greenhouse gas emissions data, these include energy, agriculture and land use, waste and industrials.**

- Climate financing is a method of investment to raise capital in mitigating climate change. **Investors looking to generate positive, measurable social and environmental impact alongside a financial return are also considered to be contributing to climate financing (in the form of impact investing).**

What has happened recently?

The 14th annual Climate Week in New York City took place during September 20-26. This week-long event was held alongside the UN General Assembly and featured government and corporate leaders to showcase global progress on climate activities, whilst also demanding accelerated action to fight climate change[1].

Climate Week this year gathered prominent leaders to come together and assess the progress of global climate action, evaluating what more can be accelerated. It is seen as a key pre-event ahead of the UN Climate Change Conference (COP26) in November.

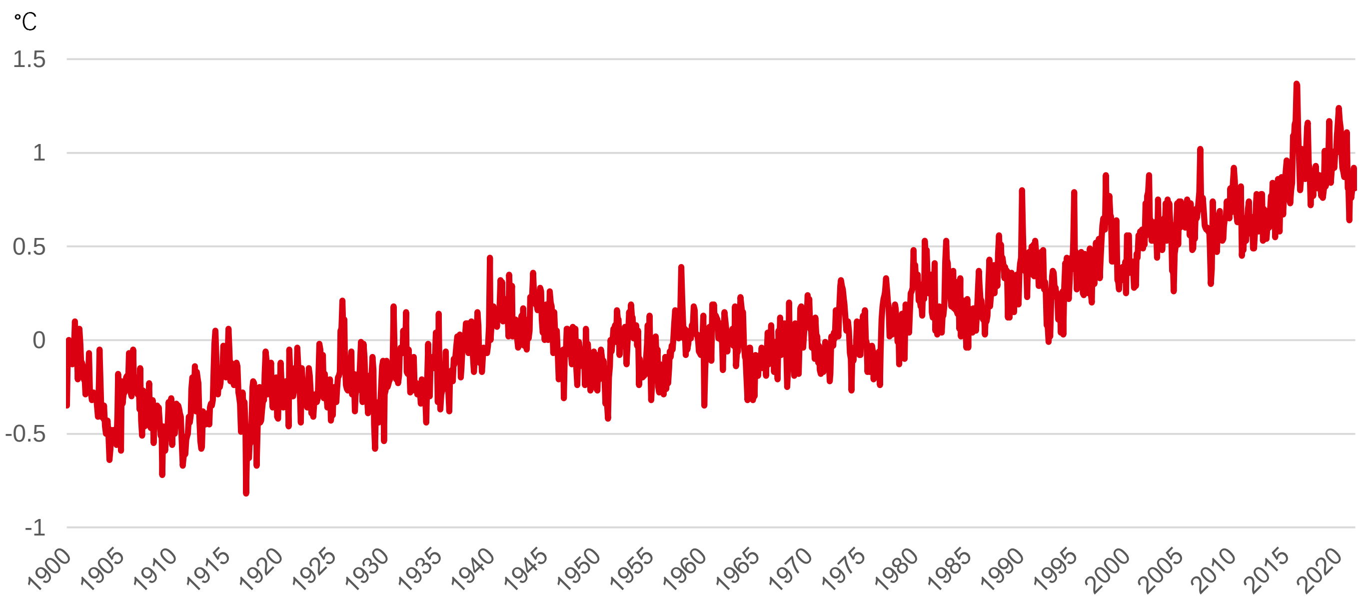
The event revolved around ten themes, with discussions driven by corporates spanning from sectors including energy, transport, food and agriculture, health and finance.

Climate Week also aimed to increase commitments in delivering the goals of the Paris Agreement, and how business and governments can transition to a cleaner, healthier, and more resilient world. Discussions touched on the urgent need to secure a net-zero future and balancing emissions within the 1.5-degree temperature rise. To stay on track, global emissions must be halved by 2030 in order to reach net-zero by 2050.

The goal of decarbonisation also inspired for more corporate actions, including investor transparency via sustainability-related disclosures, investment towards renewable energy sources, and strategies that can significantly address pollution in relation to the food and agriculture sectors.

In some ways, the Covid-19 pandemic served as a dress rehearsal for future stress scenarios, which will be strongly influenced by the impacts of climate change. The path to net-zero must be achieved in scale and mobilised together with government and corporate initiatives. Climate Week offered a key opportunity for companies to publicly and visibly demonstrate their commitment in this global transition.

Figure 1: Global temperature anomalies (combined land and sea temperatures)



Source: Our World in Data

1. ClimateWeekNYC.org

Which sectors can drive more sustainable climate change?

When considering the transition to net-zero, a number of carbon-intensive sectors will be crucial to driving sustainable change. Based on global greenhouse gas emissions data, these include energy, agriculture and land use, waste and industrials.

Global economies are seeing more pledges from public and private institutions stating their commitments to eradicate contribution to climate change in the next few decades. This is especially pertinent to major-emitting sectors, including:

Energy

Energy is one of the highest carbon emitting industries accounting for approximately 73% of all global greenhouse gas emissions in recent years. Successful energy transition is “the key to averting the worst effects of climate change”[2].

To achieve this, energy companies must invest heavily and innovate to replace fossil-fuel based energy production with low carbon solutions. They must also enable the electrification of the energy grid, remove/replace gas and oil heating systems, as well as create infrastructure to scale the use of electric vehicles.

Key investment opportunities in this sector to drive change include hydrogen electrolysers, carbon capture and storage technologies and advanced batteries. Today, many energy companies have committed to similar initiatives.

Transport

Transport is highly dependent on oil, thereby defaulting the sector as a significant contributor to global emissions. There are vast differences in low carbon solutions for transport: for land and sea options, the range includes electricity, hydrogen and ammonia (for shipping).

Conversely, aviation is the most challenging to decarbonise due to limited alternative fuel sources. Nevertheless, major airlines have been said to be exploring sustainable aviation fuel options and carbon capture technology.

Agriculture, forestry and land use

Studies have shown that direct emissions from cattle are collectively greater than any single economy in the world, apart from China[3]. In order to reduce carbon emissions and drive sustainable change, the agricultural industry must also develop, adopt and coordinate a variety of complementary sustainable solutions in order to transition to net-zero. For example, using renewable energy sources, developing sustainable forestry practices, investing in regenerative agriculture and scaling carbon capture technology.

2. IEA, 2020
3. McKinsey, 2021

What is climate financing and how is it relevant to me?

Climate financing is a method of investment which can help to raise the long-term capital necessary to successfully reduce greenhouse gas emissions and mitigate against the effects of climate change. The source of financing comes from local, national or international levels, ranging from public to private.

Investors who want to generate positive, measurable social and environmental impact alongside a financial return are also considered to be part of climate financing. This approach is also known as impact investing.

In an industry survey on impact investing, over 50% investors regard milestones such as the Paris Agreement a key motivator for making impact investments[4]. While impact investments are still fairly nascent financial solutions, they will likely be an important financial vehicle for private investors to help drive the climate change agenda and limit the increase in global temperatures.

Additionally, impact investors, and companies on a bigger scale in the private sector, can support those with limited financial resources who may be at higher risk of experiencing adverse effects from climate change. In a separate industry survey[5], 86% of 277 investors surveyed stated that their "private capital will be essential to address climate change because governments aren't doing enough." By mobilising private investments, this can support broader climate objectives and accelerate progress towards net-zero without sacrificing financial returns.

Glossary

Environmental, Social and Governance (ESG) score: a numerical evaluation designed to measure a company's relative performance, commitment and effectiveness across the E, S and G pillars based on publicly-reported data[5]; scoring criteria and methodology can differ within the industry

Impact investing: investments which aim to generate a social and environmental impact alongside strong financial returns

UN Sustainable Development Goals (SDGs): the 17 SDGs were adopted by all UN Member States to end poverty and other deprivations, improve health and education, reduce inequality, generate economic growth – while tackling climate change by 2030

4. Global Impact Investment Network's 2020 Annual Impact Investor Survey
5. Investing for Global Impact: A Power for Good

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