HYMANS ROBERTSON

60-second summary

COP29: lessons for investors

Chris O'Bryen
Investment Associate Consultant

Overview

COP29 faced criticisms around lobbying and lack of scale of action, but some important agreements were completed. For example, $300bn per year for developing nations was agreed to address climate issues. This was less than the target £1.3trn, with the remainder to be sourced from elsewhere, including private markets, which pointed to opportunities to invest in emerging market energy-transition solutions. Rules were agreed for carbon markets, creating a mechanism for driving capital towards solutions, while the UK announced more ambitious emissions targets, highlighting the need for further investment in renewable energy generation, storage and transmission.

What is COP?

COP, or the Conference of the Parties, is the supreme decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC). It brings together representatives from all countries that are parties to the convention to review progress, set new goals and negotiate agreements to combat climate change – which is increasingly recognised as an unpriced systemic risk, affecting all investors.

COP21, held in Paris in 2015, was a landmark event in the fight against climate change. The most significant outcome was the adoption of the Paris Agreement, a legally binding international treaty aimed at limiting global warming to well below 2°C above pre-industrial levels, with efforts to limit the increase to 1.5°C.

What happened this year?

COP29 was held in November in Baku, Azerbaijan. The process was caught up in early criticisms around the presence of lobbyists and lack of key global leaders (including heads of the European Commission, US, Brazil, Germany, France, Canada and Australia). The meetings resulted in significant financial commitments, finalised carbon market rules and ambitious energy pledges, marking a major step forward in global climate action and investment opportunities – but faced questions about whether the scale was large enough given the challenges at hand.

- **Increased climate finance:** despite acknowledgement that the developing world should receive $1.3trn a year in funds to help it shift to a low-carbon economy and cope with the impacts of extreme weather, only $300bn was agreed by 2035, in the form of grants and low-interest loans from the developed world. The rest will be sought from private investors and other sources (such as possible levies on fossil fuels and frequent flyers) yet to be agreed. Vulnerable countries criticised the deal as insufficient, with many walking out of negotiations, while the host nation, Azerbaijan, and Saudi Arabia faced a backlash for their obstructive roles.

- **Climate finance opportunities:** with only $300bn of the $1.3tn target coming from governments, private investors are expected to fill the gap. This opens opportunities to invest in:
  - **Green financing for developing nations:** green bonds and sustainability-linked loans to support growth and transition.
  - **Renewable energy infrastructure:** in developing markets, such as wind, solar and hydropower.
  - **Innovative climate solutions:** including carbon capture, sustainable agriculture and disaster-resilient infrastructure.
- **Carbon markets:** a breakthrough was achieved on Article 6 of the 2015 Paris Agreement in relation to finalising rules for international carbon markets. This centralised crediting mechanism allows countries to trade carbon credits, opening new opportunities for companies and investors to access wider, better recognised and more uniform markets. This was estimated by the hosts to unlock $250bn of investment flows per year, and it has the potential to direct more capital to where it's needed most. However, the circumvention of the usual approval process didn't allow as much opportunity to scrutinise and negotiate the text in detail, presenting risk of reversal of this development and questions about whether the standards are rigorous enough to avoid unintended harm.
- **More ambitious UK targets:** the UK launched the Global Clean Power Alliance at the G20 Summit in Rio earlier in the year, with multiple countries and the African Union supporting its first mission to unlock private finance for clean energy in developing economies. It will work on a series of missions to address the most critical energy transition challenges. At COP29, the UK committed to cutting emissions by 81% by 2035 (up from the prior goal of 78%), highlighting actions like scrapping the onshore wind ban, closing its last coal power plant and committing to no new North Sea oil and gas licenses. This means a concerted effort will be needed to increase renewable energy generation, and storage and transmission will require private capital.
- **On fossil-fuel phase-out:** despite the historic COP28 agreement to transition away from fossil fuels, COP29 saw resistance from several countries. Major oil and gas producers, including some Arab nations and Uganda, rejected any language that specifically targeted fossil fuels for phase-out. The omission of any reference to plans to transition away from fossil fuels in two major documents sparked a wave of criticism, with attendees accusing recalcitrant countries of backsliding on a promise from last year's summit.
- **Stewardship and lobbying:** this year's COP faced multiple criticisms of lobbying, highlighting the importance of investors understanding what asset managers and companies are doing in representing their interests, and providing counterbalance pressure on issues contributing to systemic risks. These proceedings highlighted the importance of credible and science-based climate transition plans for companies and resilience to climate risk and regulatory change. The influence of asset owners, in the absence of a regulator response, is greater.

Our views on the implications for investors

The COP29 outcomes present a range of opportunities for investors, centred around climate finance, energy transitions and emerging carbon markets.

All of this helps capital flow to regions and industries that most need support, presenting opportunities for investors in climate solutions, such as those across the renewable-energy value chain, and potentially natural capital funds that derive returns from carbon offsets.

Concerns remain, however, that this action does not match the scale needed to address the emissions reduction required to mitigate the rise in global average temperatures. In particular, geopolitical tension and expectations that the next US administration will again withdraw from the Paris Agreement drew into question the ability for forums such as these to deliver productive collaboration between international leaders. Further, the conflicting interests of nations dependent on fossil-fuel revenues, such as the hosts, continued to hinder progress.

This highlights the importance of understanding how climate risks interact with pension schemes and of considering capital allocations to climate solutions. It also suggests there is a greater role for asset owners. In practical terms, this can mean advocating for credible company decarbonisation strategies and policy to create a supportive environment for their implementation. There remain, therefore, highly actionable steps for all investors in addressing climate risk, while driving real-world change.

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party.

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

© Hymans Robertson LLP 2024. All rights reserved.