



# Global warming - Are we on the right trajectory?

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196 nations signed the Paris Agreement in 2015, committing to limiting global warming to well below 2 degrees Celsius. The signing of the international treaty constituted a milestone as nations across the globe adopted for the first time a common goal and recognized their collective responsibility.

However, in today's post-Covid 19 economy, how are nations faring relative to their Nationally Determined Contributions (NDCs)? According to the UN Environment Programme's 2020 Emission Gap Report, we are far off target and on a direct path for global warming of more than 3 degrees Celsius. Unfortunately, measures to contain the propagation of COVID-19, including lock-down and the resulting disruption in global shipping, caused but a temporary estimated 7% reduction in green-house gas emissions in 2020 and will not have a lasting effect on global emissions because of their temporary nature. (Forster, P. M. et al. Current and future global climate impacts resulting from COVID-19. Nat. Clim. Change 10, 913–919 (2020).

## **Where is post-Covid stimulus going?**

The key to a long-term impact on global warming includes directing post-Covid 19 stimulus towards green infrastructure while waning fossil-fuel support. But what proportion of global post-Covid stimulus is actually going to concrete actions supporting economic activity that enhance environmental and natural resource quality over a longer term? G20 nations have spent \$14.9 trillion on post Covid-19 stimulus packages and though exact figures differ, sources agree that the percentage of green stimulus is inadequate to sustain reduced carbon emissions. Over the past 18 months, G20 governments have allocated but “\$363 billion to sectors or projects that aim to buoy up the economy and to cut emissions or aid climate adaptation against \$1.2 trillion for carbon intensive sectors such as aviation and construction with no green element”. (BNEF). The only two countries to allocate similar stimulus to green and carbon intensive sectors are France and Japan. Whereas China for example, with 247 GW of new capacity in coal power, either under construction or announced and permitted, has allocated \$2.1 billion to green stimulus as opposed to \$215 billion to carbon intensive sectors. (BNEF)

The race is on to phase out fossil-fuel support and COP26, when NDCs will be discussed, is closing in fast. Under ETF (Enhanced Transparency framework), effective 2024, nations will be held accountable and a first assessment on target progress will be made.



## Fiduciary responsibility of Asset Managers

We as asset managers have a fiduciary responsibility to redirect capital towards sustainable investment solutions, to adapt our investment strategies accordingly and to engage with companies on matters such as climate transition risk, corporate governance, carbon emission reduction targets, etc. It is our responsibility as asset managers to induce positive change. Regulators and Central Banks are also pushing in this direction: the upcoming EU taxonomy is just one example of how climate awareness is shaping the fund management industry.

When considered against the backdrop of the EU Taxonomy, which defines environmentally friendly activities in an effort to provide a common language for end-investors and redirect capital towards sustainable investment solutions, the reality of post-Covid spending is dramatic and in total opposition to the common goal of limiting global warming. While the oil & gas sector and other carbon intensive sectors have rebounded strongly thanks to post-Covid support, we as sustainable asset managers are required to underweight carbon intensive sectors. So I ask, ***“when will fiscal stimulus policy become aligned with the urgent goal of limiting global warming and are asset owners willing to accept the potential underperformance of their portfolio resulting from the mismatch between fiscal policy and what is needed to kick off the energy transition?”***

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