COP29 OUTCOMES AS IT RELATES TO RESPONSIBLE INVESTMENT MANAGEMENT STRATEGIES

TECHNICAL TAILWINDS FOR RESPONSIBLE INVESTMENTS, DESPITE DISAPPOINTED DEVELOPING COUNTRIES

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Introduction

Cop29 (the Conference), this year held in Baku, Azerbaijan, continued in its tradition of drama and heavy scrutiny. Slated to run from Monday November 11th to Friday 22nd, the Conference ran two days overtime into Sunday as its multilateral structure forestalled collectively agreed outcomes. Delegates from both developed and developing nations left early, Saudi Arabia was accused of covertly modifying official negotiating texts[1], and final Conference outcomes have been heralded by various emerging economy constituents as "insultingly low", "less than a quarter of what science shows is needed"[2], and an "optical illusion".[3]

[[1] Carrington, Damian. "Revealed: Saudi Arabia Accused of Modifying Official Cop29 Negotiating Text." The Guardian, The Guardian, 23 Nov. 2024, www.theguardian.com/environment/2024/nov/23/revealed-saudi-arabia-accused-of-modifying-official-cop29-negotiating-text.

[2] "COP29 Climate Talks Conclude with $300 Billion Annual Pledge, but Developing Nations Call Deal "an Insult."" UN News, 23 Nov. 2024, news.un.org/en/story/2024/11/1157416.

[3] Noor, Dharna, and Damian Carrington. "Cop29 Climate Finance Deal Criticised as "Travesty of Justice" and "Stage-Managed."" The Guardian, The Guardian, 24 Nov. 2024, www.theguardian.com/environment/2024/nov/24/cop29-climate-finance-deal-criticised-travesty-justice-stage-managed.

In an effort to provide some clarity in the face of a subject and texts dominated by loaded jargon, we will summarise key conference outcomes, share what more might be needed, and finally relate these back to relevant insights for Responsible Investment (RI) management and strategies.

OUTCOMES OF THE CONFERENCE

The New Quantified Collective Goal (NCQG) was the most notable outcome of Cop29, responsible for the delays in closure and the majority of news coverage.

At Cop15, 2009, an initial goal of US$ 100 billion pa by 2020 was set through the Copenhagen Accord. The funds were to be provided jointly by developed countries in order to address the needs of developing countries.[4] At Cop21, the goal was extended and formalised via the adoption of the Paris Agreement. Further, it was agreed that a new, higher, goal (NQGC) would be set prior to 2025.[5] By the most optimistic account of the OECD, the initial goal of US$ 100b pa by 2020 although it was finally met in 2022.[6]

Now, at Cop29, the NQGC was decided “with developed country Parties taking the lead”, at “at least US$ 300b pa by 2035 for developing country Parties for climate action”. This falls significantly[7] short of the US$ 1.3 trillion pa that was campaigned for, despite the decision’s preceding paragraph, shown below, alluding to an intent in getting there.

7. *Calls on* all actors to work together to enable the scaling up of financing to developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035;

8. *Reaffirms*, in this context, Article 9 of the Paris Agreement and *decides* to set a goal, in extension of the goal referred to in paragraph 53 of decision 1/CP.21, with developed country Parties taking the lead, of at least USD 300 billion per year by 2035 for developing country Parties for climate action:

(a) From a wide variety of sources, public and private, bilateral and multilateral, including alternative sources;

(b) In the context of meaningful and ambitious mitigation and adaptation action, and transparency in implementation;

(c) Recognizing the voluntary intention of Parties to count all climate-related outflows from and climate-related finance mobilized by multilateral development banks towards achievement of the goal set forth in this paragraph;[5]

1) FCCC/PA/CMA/2024/L.22 – New collective quantified goal on climate finance. Draft decision -/CMA.6. Proposal by the President, Page 2

Note that the funds in question, as per points 8a and 8b above, should come from **both public and private sources,** and should be used to address both **mitigation and adaptation.** Adaptation is primarily concerned with capacity building and technology transfer to build climate change resilience, while mitigation, put simply, is the reduction of greenhouse gas emissions.

Prior to the Conference, the UN Environment Programme released their Adaptation Gap Report 2024[8], which built on the findings from that of the 2023 report.[9]

Table 4.4 Summary of the adaptation finance gap in developing countries, based on AGR evidence

Modelled cost of adaptation	Adaptation finance needs	Adaptation finance flows	Adaptation finance gap
US$215 billion/year this decade (central estimate), with a range of US$130–415 billion/year	US$387 billion/year (median), with a range of US$101–975 billion/year (up to 2030)	US$21.3 billion (2021)	The adaptation finance gap is estimated at US$194–366 billion per year (currently) Adaptation costs/finance needs are 10–18 times as much as current flows
Central range of US$215–387 billion/year for developing countries this decade			

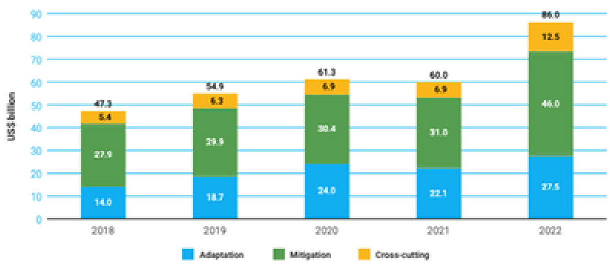
2) UNEP Adaptation Gap Report 2023: Underfinanced. Underprepared., Table 4.4, Page 49

The table above summarises public adaptation finance flows to developing countries against their needs. The ‘adaptation finance gap’ implies a need for an increase of >10x, a magnitude that by comparison eclipses the scale of the Cop29 NQGC entirely, and for

[4] UNFCCC. Draft Decision -/CP.15 Proposal by the President Copenhagen Accord. 18 Dec. 2009.
[5] UNFCCC. Report of the Conference of the Parties on Its Twenty-First Session, Held in Paris from 30 November to 13 December 2015 Addendum Part Two: Action Taken by the Conference of the Parties at Its Twenty-First Session. 2015.
[6] Mitchell, Ian, and Edward Wickstead. Has the $100 Billion Climate Goal Been Reached? May 2024.
[7] UNFCCC. Decision -/CMA.6 Matters Relating to Finance New Collective Quantified Goal on Climate Finance. 24 Nov. 2024.
[8] UN Environment Programme. “Adaptation Gap Report 2024.” UNEP - UN Environment Programme, 7 Nov. 2024, www.unep.org/resources/adaptation-gap-report-2024. Accessed 24 Nov. 2024.
[9] UN Environment Programme. “Adaptation Gap Report 2023.” UNEP - UN Environment Programme, 2 Nov. 2023, www.unep.org/resources/adaptation-gap-report-2023. Accessed 24 Nov. 2024.

public sector adaptation needs alone (i.e., not including public mitigation finance needs and costs nor private sector needs and costs).

Figure 4.1 Climate finance commitments from Annex II to non-Annex I countries per year for the period 2018–2022 (US$ billions, constant 2022 prices)



Note: Small errors in some totals are due to rounding of numbers.

3) UNEP Adaptation Gap Report 2024: Come hell and high water, Figure 4.1, Page 46

The 2024 edition of the UNEP Adaptation Gap Report did not update global values for the adaptation gap given the relevance and availability of data. However, the chart included here adds context for the growth in developed to developing adaptation finance flows from US$ 21.3b in 2021 to US$ 27.5b in 2022, (the largest absolute and relative year-on-year increase since the Paris Agreement), and also adds (again, public) flows for mitigation and cross-cutting.

The UNEP Adaptation Gap Report stresses the importance of the pursuit of "innovative approaches to mobilizing additional financial resources, including by creating the right enabling environment for public and private sector investment." [10]

It should be made clear that the UNEP does not expect for the NCQG to provide the full solution to adaptation gap: "given the scale of the challenge, the NCQG can only be a part of the solution, and bridging the adaptation finance gap will also require innovative approaches and enabling factors to mobilize additional financial resources." [11]

As for the private sector's role in contributing to the closing of the gap, the UNEP estimates that "slightly less than one third of modelled costs and finance needs (US$ 67b pa to US$ 135b pa" are in areas that have potential for private financing – predominantly agriculture and infrastructure. However, often in these cases there is still additional need for the public sector to de-risk private investment.

According to the costed needs that were provided by developing country parties through their Nationally Determined Contributions (NDCs),[12] a total of US$ 5.1-6.8 trillion by 2030, or US$ 455-584 billion per year is estimated to be required in order to meet Paris' mitigation targets. Clearly, unless the NCQG very hastily [13] reaches its unenforced suggestion of scaling from US$ 300b to US$ 1.3tr per year, this is unlikely to be met.

Climate finance flows in 2021–2022 (Billions of United States dollars, annualized)

Sector		2019	2020	2021	2022	Data quality	Data completeness	Sources of data and relevant chapter
Developed to developing countries	UNFCCC funds	2.2	2.8	3.3	1.7	High	High	Chapter 2.5.2, Fund financial reports, CFU, OECD 2024
	Multilateral climate funds (including UNFCCC)	3.5	3.8	4.1	3.3			
	Climate-specific finance through bilateral, regional and other channels	31.7	31.9	34	42.7	High	High	Chapter 2.5.1 Annex II Party preliminary data from BTRs, subject to change
	MDB climate finance attributed to developed countries	30.5	33.2	30.5	33.2	Medium	Medium	Chapter 2.5.2 OECD 2024
	Mobilized private climate finance by multilateral channels	8.6	8.0	8.8	12.7	Medium	Medium	Chapter 2.5.4 OECD 2024
	Mobilized private climate finance by bilateral, regional institutions	5.8	5.1	5.6	9.2	Medium	Medium	
	Other private finance	7.3	9.6	11.5	11.8	Medium	Medium	Chapter 2.5.4, CPI 2024, based on multiple sources

Notes: (1) Figure note (a): other mitigation investments include waste and wastewater, information and communications technology and other cross-sectoral investments; (2) Figure note (b) includes investments from amounts listed by sector above that are discounted when calculating the global aggregate to avoid double counting; (3) Figure note (c): flows are from developed to developing countries, see section 2.5.2 of the technical report of the sixth BA for further information; (4) Figure note (c): estimates include private finance mobilized through public interventions by developed countries; (5) Figure note (d): this includes private finance in addition to finance mobilized through bilateral and multilateral channels and institutions.

4) UNFCCC Standing Committee on Finance, Sixth Biennial Assessment and Overview of Climate Finance Flows, Figure 2, Page 11

The UNFCCC shows an estimation of climate finance flows from developed to developing countries from 2019-2022.[14] Again, the

[10] UN Environment Programme. "Adaptation Gap Report 2024." UNEP - UN Environment Programme, 7 Nov. 2024, www.unep.org/resources/adaptation-gap-report-2024. Accessed 24 Nov. 2024.
[11] UN Environment Programme. "Adaptation Gap Report 2024." UNEP - UN Environment Programme, 7 Nov. 2024, www.unep.org/resources/adaptation-gap-report-2024. Accessed 24 Nov. 2024.
[12] These are the commitments made by nations with regard to their strategies for climate change mitigation and include the necessary steps that will be taken in attempt at meeting the Paris Agreement
[13] ---FCCC/CP/2024/6-FCCC/PA/CMA/2024/8 Report of the Standing Committee on Finance. 18 Oct. 2024
[14] ---. FCCC/CP/2024/6-FCCC/PA/CMA/2024/8 Report of the Standing Committee on Finance. 18 Oct. 2024.

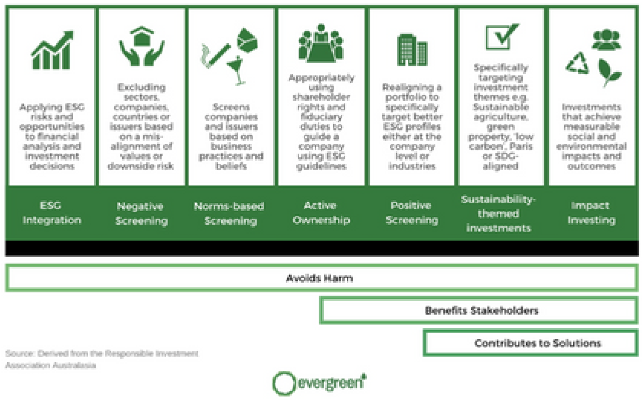
aggregate remains well below the NCQG and summarises more detailed figures that can lead to double-counting issues.

A less discussed outcome of the Conference was the establishment of a UN-backed international carbon market. An extensive document was agreed upon, wherein standardised rules and requirements with regard to the origination, authorization, identification characteristics and reporting requirements for Internationally Transferred Mitigation Outcomes (ITMOs) were set.[15] Like carbon credits, ITMOs in effect represent tons of Green House Gasses (GHG) reduced or removed from the atmosphere, however, are directly beholden to the Paris Agreement and are externally verified. Importantly, ITMOs should work to serve as a benchmark for the specifications on domestically traded carbon credits. They will also allow for Conference Parties to receive economic benefit from excess emissions reductions and support other Parties in need. ITMOs are also seen as a way for developing nations to meet the needs of their NDCs.

All of this is to say that if one expects developed economies to meet the NCQG, one could reasonably assume that a significant proportion of funds will have to be facilitated via the private sector and private sector reform. While there is plenty of need for private sector participation on the adaptation front, by way of agriculture and infrastructure capacity production, it is likely that more flows will find their way into mitigation strategies through direct investment in renewables, carbon capture, green bonds, tech, and energy efficiency.

RESPONSIBLE INVESTMENT MANAGEMENT AND STRATEGIES

Cop29 reinforces Evergreen's conviction that both exclusionary and inclusionary investment strategies are required for enhancing long-term risk, return, and environmental, social and governance (ESG) outcomes. Both styles of approach, and their combined integration, are set to benefit from increasingly large opportunities and markets.



Evergreen, RIAA, Responsible Investment Spectrum

Evergreen and the Evergreen Responsible Investment Grade (ERIG) Index evaluates investment managers for each the 7 approaches to RI shown above. Across these approaches to funds management, managers – depending on their investment philosophies – may integrate both exclusionary and/or inclusionary processes. Some categories, such as negative screening and norms-based screening, lend themselves more directly to an exclusionary approach, while active ownership, sustainability-themed and impact investing, for example, are closely related to inclusionary approaches.

[15] ---. FCCC CMA.6 Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement23 Nov. 2024.

For example, an equity manager could integrate best-in-class screens in order to invest in fossil fuels companies that might show a stronger propensity for carbon capture and storage, or that despite their involvement in fossil fuel extraction, are invested also in accelerating renewable energy implementation and development. Here, despite having exposure to 'ESG-negative' sectors, their underlying exposures are contributing to positive ESG outcomes.

This in fact may reward end-clients who desire ESG-conscious investment portfolios. Evergreen has found in the past that strategies which focus principally on one of an exclusionary or inclusionary approach are led into strong underlying factor biases. An example of this could be equity managers who remove fossil fuels from their investment universe. This often leads underlying portfolios into concentrations in technology and healthcare stocks, resulting in a deep-growth style-bias over time, due in part by their integration of RI and despite their portfolio construction and security selection processes. By including managers that might take a more inclusionary approach to such sectors, one is able to increase diversification in a multi-manager, multi-asset class investment portfolio. This idea applies not only to equities, but also other asset classes such as fixed interest, property, and infrastructure. For clients that desire purpose-built ESG investment portfolios, it is Evergreen's philosophy that a combination of managers who integrate both exclusionary and inclusionary practices, across the spectrum of RI, will be key in meeting long-term investment objectives and ensuring the sustainability of returns. ESG outcomes can continue to be progressed in this context; a given manager themselves may also integrate both approaches at the fund level.

SUMMARY

Aside from the state of being with regard to developing economies and the NCQG, it goes without saying that there is much yet to do in the developed world. While this article has focused on the outcomes of the Conference itself, it goes without saying that emissions reduction and funding targets globally have fallen abysmally short of target.

In February 2025, parties are due to submit their updated NDCs out to 2035. This will mark a pivotal moment for the future of the international community's approach and commitment to climate change. As Donald Trump has been re-elected and signals his intent to withdraw from the Paris Agreement for the second time, the UK has pledged an 81% GHG reduction by 2035.

We continue to confront tumultuous discourse. Offsets are front and centre, failure to progress rhetoric in the phasing out of fossil fuels continues, and a combination of mitigation and adaptation strategies are set for harmonious integration. On the path that we are on, it holds true that investors, in order to remain aligned with positive risk and return outcomes, will require a combination of RI approaches that are diverse in their underlying strategies and approaches to sustainability. A diversified approach is best set to take advantage of the public and private sector technical tailwinds that persist and only increase on the way to net-zero.

DISCLAIMER & DISCLOSURE

References in footnotes 7, 13, 14 and 15 respectively are taken from the Advance Unedited Versions of the Outcomes of the Baku Climate Change Conference. It should be understood that while these constitute the documents which were agreed in-person as of the closing of the Cop29 conference itself, they are subject to further edits. You may access the documents here: https://unfccc.int/cop29/auvs.

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