

COP28 Wrap up: Keeping 1.5°C degrees in reach?

December 2023



Background and context

Keeping 1.5°C in reach

Each year, the United Nations (UN) Climate Change Conference of the Parties (COP) is held to bring countries and other entities together to agree on steps to address climate change. In 2023, the conference was held in Dubai, concluding on 12 December.

We have COP21 to thank for the pivotal and legally binding Paris Agreement, where countries agreed to keep global warming to under 2°C degrees, and ideally, 1.5°C degrees, above pre-industrial levels. Further, the Paris Agreement mandated that countries ratchet up their ambitions, expressed in their Nationally Determined Contributions (NDCs). Progress is intended to be reported as part of a 'Global Stocktake' (GST) every 5 years.

This year's COP28 is when the first GST was concluded. The GST assesses the collective progress towards the Paris Agreement and leads to recommendations for countries to make more ambition plans in their next set of NDCs, due by 2025. In a nutshell, the GST at COP28 was designed to be the first catalyst for 'course correction' towards achieving the Paris Agreement. In the lead up to the conference, a technical report showed that while progress has been made, it was insufficient so far, and greenhouse gas emissions remain well above required levels; both targets (NDCs), and implementation of targets, fall short.

As well as the GST, the following main areas of focus were scheduled to be discussed:

1. Fast-tracking a just and orderly transition
2. Fixing climate finance
3. Focusing on nature, lives and livelihoods
4. Fostering inclusivity for all.



Engaged observers of COP28 looked for answers to several key questions:

- *Will the phase down of fossil fuels need be incorporated into the climate deal with the high emitting UAE (the conference host)?*
- *How can the global financial system be 'fixed' so that private and public capital, ready to be deployed, can be deployed rapidly and effectively?*
- *How will the Loss and Damage Fund which was agreed to at COP27 (to compensate developing nations for the damage human-induced climate change has caused), be funded? Further, who should receive the funds, and what will they be used for?*
- *How can the intersection between climate and nature be incorporated into action plans? Can we transform food systems to reduce impact on climate change?*

With COP28 being controversially presided over by Dr. Sultan Al Jaber, UAE's Minister for Industry and Advanced Technology and CEO of ADNOC, one of the world's largest emitting companies, and held during a period of slowing economic growth and rising geopolitical tensions, **COP28 was poised to be like no other.**

What was achieved?

A mostly united front to begin...

Like previous COPs, while COP28 started with a unified mission of meaningful progress, it ended with tense negotiations on the specifics of a draft climate deal proposed by the summit presidency.

Several new pledges and declarations were made at COP28, as well as strengthening previous commitments. Topics which had until now not garnered much attention were also elevated including gender, nature and people. Some key initiatives are shown below.

Climate transition	Adaptation	Finance	Agriculture & food	Lives & livelihood
<ul style="list-style-type: none">• Global Renewables and Energy Efficiency Pledge• Coalition for High Ambition Multilevel Partnerships Pledge• Oil and Gas Decarbonization Charter• Declaration to Triple Nuclear Energy	<ul style="list-style-type: none">• COP28 UAE Declaration on Climate Relief, Recovery & Peace• \$762 million pledged to Loss and Damage, \$134 million to Adaptation Fund and \$129 million to Least Developed Countries Fund	<ul style="list-style-type: none">• Declaration on Climate Finance• ALTÉRRRA launched, a fund to drive climate action, seeking to mobilise \$250 billion of institutional investment globally	<ul style="list-style-type: none">• Declaration on Agriculture, Food & Climate• \$3.1 billion pledged to food, \$2.5 billion to nature and \$150 million to water	<ul style="list-style-type: none">• Declaration on Climate and Health• Declaration on Gender-Responsive Just Transitions• \$2.9 billion pledged to health, and \$2.8 million to gender

The conference started strongly with the operationalisation of the *Loss and Damage Fund*, followed by 134 countries pledging their support early on for the *Declaration on Agriculture, Food and Climate*. This declaration pledges intent to integrate food systems and sustainable agriculture into climate action, including the 2025 NDCs. Further, over 100 countries signed the *Global Renewables and Energy Efficiency Pledge*, agreeing to triple global renewable energy capacity and double the global average rate of energy efficiency improvements. Finally, the *Declaration on Climate and Health* was endorsed by over 120 countries, with the objective to reduce the negative impacts of climate change on human health.

Commitments also came from actors other than nations, with over 50 oil and gas companies supporting the *Oil and Gas Decarbonisation Charter*, pledging to commit to net zero operations by 2050 and near zero upstream methane emissions, among other commitments.

With the new, significant commitments came criticisms that several do not provide nearly the level of commitment required to achieve agreed climate goals. While this is still to be assessed, certainly the funding for the Loss and Damage Fund fell well short of that required each year as an example.

What was achieved?

... until the final days

The conference ended on a tense note when the draft text for the crucial climate agreement was released, titled *First global stocktake under the Paris Agreement*.

The agreement called upon Parties to take actions to reduce Greenhouse Gas Emissions that could include inter alia “*rapidly phasing down unabated coal and limitations on permitting new and unabated coal power generation*” and “*reducing both consumption and production of fossil fuels, in a just, orderly and equitable manner so as to achieve net zero... in keeping with the science*”.

Notably, this was the first reference to fossil fuels (in a general sense) in a COP statement and therefore considered a step in the right direction from a mitigation perspective. Even so, Australia and a coalition of over 100 other countries, including the US and EU and climate-vulnerable nations like Samoa, said the language about reducing fossil fuels was not strong enough. Specifically, some countries wanted the statement to go as far as to call for the “phase out” of fossil fuels. However, this proposal was at odds with OPEC (oil producing) members at the summit.

Such calls were also made last year but defeated, with the COP27 statement falling short of these coalition countries’ preferences and instead was limited to the “phase down” of coal only.

"If we do not have strong mitigation outcomes at this COP then this will be the COP where 1.5°C would have died... *We will not sign our death certificate.*"
- Cedric Schuster, Minister for Natural Resources and Environment, Samoa, in reference to the draft deal text.

The opposition to the draft led to the second draft of the text being approved by all Parties. Some key elements from the final *Global Stocktake*:

- “*Expresses serious concern that 2023 is set to be the warmest year on record and that impacts from climate change are rapidly accelerating, and emphasises the need for urgent action and support to keep the 1.5 °C goal within reach and to address the climate crisis in this critical decade*”
- Recognises the need for ‘deep, rapid and sustained reductions’ in greenhouse gas emissions in line with 1.5°C pathways calls on parties to contribute to global efforts which includes among other actions:
 - Tripling renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030.
 - Accelerating efforts toward the phase-down of unabated coal power.
 - Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, to achieve net zero by 2050 in keeping with the science.

Major developed countries generally declared the approved text as a significant step forward. However, many still believe that because the text still does not include a call for a ‘phase out’ of fossil fuels, it does not go far enough. The Alliance of Small Island States (AOSIS) which represents 39 small island developing states, said it sees a “litany of loopholes” and the text does not provide the course correction that had been promised.

Australia's pledges at COP28

Building momentum to catch up

With ambitions to host COP31 in 2026 alongside Pacific nations, and critics calling for greater national ambition, Australia had a lot to prove at COP28.

The commitments were all announced around COP28 and signals a serious uplift in Australia's climate change policy ambitions, continuing a definitive trend since the Labor government's election in 2022.

- **Initiative** to triple global renewable energy generation capacity and double global average annual energy efficiency improvements by 2030, joining over 100 countries including the US and Canada.
- **Statement** on International Public Support of the Clean Energy Transition Partnership (CETP) AKA the 'Glasgow Statement'. Joining at least 39 countries including the US, UK, and Canada, pledging to align international investment strategies with net zero priorities, with a goal to end public financing of fossil fuels.
- **Contribution** to the Pacific Resilience Facility (PRF) and the Green Climate Fund (GCF). Includes \$100 million commitment to the PRF to support local led, small-scale projects across the Pacific region including for climate adaptation, nature-based solutions and other projects. Further, a \$50 million commitment to re-join the GCF after Australia withdrew from it in 2018. The GCF is the world's largest global climate fund.
- **Endorsed** the Gender Responsive Just Transitions and Climate Action Partnership, joining 68 countries to drive gender-responsive just transitions to achieve gender equality and support the sustainable and transformational impacts of adaptation, mitigation and finance efforts.
- **Joined** the Emirates Declaration on Sustainable Agriculture, Resilient Food Systems and Climate Action and new funding announced for the Agriculture Innovation Mission for Climate, joining more than 130 countries committing to integrate food into their climate plans by 2025.
- **Launched** Australia's first National Health and Climate Strategy, endorsed the COP28 UAE Declaration on Climate and Health, and joined the Alliance for Transformative Action on Health. The strategy outlines a whole-of-government approach to the health and wellbeing impacts of climate change. The pledges will provide more opportunities to exchange knowledge, co-ordinate access to climate finance and enhance cooperation on climate and health.

What Australia didn't join

At the time of writing, Australia has controversially not committed money to the Loss and Damage Fund, however, has supported its creation. Its commitment to the Pacific Resilience Fund is argued as being in lieu of a commitment to the Loss and Damage fund, but the lack of financial support for the latter has been widely criticised.

Australia also did not join countries including the US and Japan in committing to the Coalition for High Ambition Multilevel Partnerships for Climate Action which commits signatories to enhance their next round of NDCs, or the Declaration to Triple Nuclear Energy, which recognises the role of nuclear energy in achieving net zero. Reluctance on the latter may be viewed as somewhat incongruous given the massive scale of Australia's uranium reserves.

What does COP28 mean for investors?

Climate-aligned investing a challenge, albeit, expected to be more enabled

There is no doubt that private capital is expected to play a significant role in the transition to a low-carbon economy in the years to come.

Anecdotally, there appears to be substantial willingness and ambition by institutional asset owners to deploy into investments aligned with, and leading to, a net zero trajectory. However, doing so in a manner which is simultaneously efficient, cost effective, and in line with investors' fiduciary duties is often a challenge at this time. For some investors, the reality of this dynamic is only now beginning to hit home.

However, there are signs that investing in climate solutions, such as new technologies, will become easier. *Frontier believes that a key catalyst is for governments to play a tangible role to help de-risk investments, including through investment of public capital, and thereby encourage and multiply private capital investment.* For example, just prior to COP28, the Australian government announced its plan to expand the Capacity Investment Scheme, which is expected to help channel investment into this area. Further, its recently released draft Sustainable Finance Strategy includes several measures to unlock private capital investment, such as the development of a Sustainable Finance Taxonomy. Further afield, initiatives such as the ALTÉRRRA fund which was launched at COP28, as well as the Declaration on a Global Climate Finance Framework, provide further evidence that focus is increasing on unlocking private capital for the transition.

Beyond opportunities related to the energy transition and climate mitigation, COP28 also put other areas in the spotlight which may provide opportunities in future, such as in adaptation, biodiversity and resilient food systems.

COP28's Global Stocktake, the ratcheted up NDCs it will drive, and the many commitments made, will no doubt impact the course of the global economy's low carbon transition, hopefully for the better. Frontier will continue to consider how these changes may impact client investment portfolios, as well as any opportunities which will emerge from barriers being removed as discussed above.

It is important to note that commitments made by countries at COP28 are high level, and the extent and speed with which they are translated into policy is jurisdiction-specific. Each country's response will be different, nuanced, and ultimately will impact the opportunities available for investors in different ways. Therefore, while the agreement coming out of COP28 is important context for investors, the conference's conclusion does not necessarily reveal any simple, immediately implementable capital allocation opportunities.

“Key finding 15: making financial flows – international and domestic, public and private – consistent with a pathway towards low GHG emissions and climate-resilient development entails creating opportunities to unlock trillions of dollars and shift investments to climate action across scales.”
-*Technical dialogue of the first global stocktake*

How can Frontier can help?

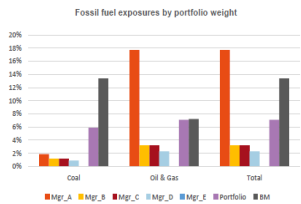
Practical support for managing climate change financial risks and opportunities

Frontier will digest the outcomes from COP28 over the coming months, including developments which represent an uplift in previous commitments, and those in less familiar domains such as food security. We can assist investors in several ways, no matter where they sit on the continuum from just beginning to consider climate change in investment decision making, through to those with net zero commitments and transition action plans. Some services which may be of interest include portfolio carbon reporting, net zero strategy development, and advice on climate-themed investment opportunities.

Frontier's portfolio carbon reporting capabilities

International equities – carbon reporting

Fossil fuel exposures and implied future emissions



Source: MSCI, Frontier

Benchmark estimates of potential emissions from fossil fuel reserves are based on 1 benchmark index (MSCI ACWI ex-Australia).

Portfolio exposures to coal reserves by company are uniformly lower than the corresponding benchmark portfolio. The oil and gas exposure benchmark portfolio. These higher exposures are offset by the lower oil and gas exposure.

Potential emissions from fossil fuel reserves are relatively much higher in the portfolio stock positions in oil and gas held by Mgr A.



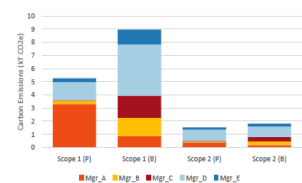
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Potential emissions from fossil fuel reserves

International equities – carbon reporting

Carbon emissions and intensities – relative to benchmark

Contribution to carbon footprint



Source: MSCI, Frontier

The charts above compare the international equities portfolio with a benchmark portfolio (MSCI ACWI ex-Australia Index), where weights are allocated to each manager equal to the portfolio weights as at 31 December 2022.

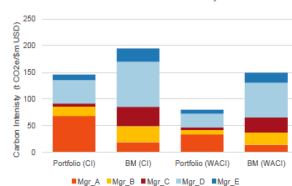
The portfolio has a lower carbon footprint than the corresponding benchmark portfolio and this is largely related to a lower footprint for Scope 1 emissions.

Mgr A has a significantly higher carbon footprint than the equivalent benchmark portfolio as at 31 December 2022. This is offset by Mgr B, Mgr C, Mgr D and Mgr E having lower carbon footprints than their equivalent benchmark portfolios.

Carbon Intensity (CI), is lower for the portfolio than the benchmark portfolio as at 31 December 2022. Mgr A presented a higher CI than the equivalent benchmark portfolio while this was offset by lower intensities for Mgr B, Mgr C, Mgr D and Mgr E. A similar set of results applies under the Weighted Average Carbon Intensity (WACI) metric.



Contribution to carbon intensity



Frontier's **Active ownership's role in decarbonisation**: Signs of an effective decarbonisation active ownership approach



You can read more about how we work with clients on net zero as part of our commitments under the Net Zero Investment Consultants Initiative [here](#). Please reach out to Frontier's [Responsible Investment team](#) for a discussion on how we may be able to assist.



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