



MINERVA
ANALYTICS

MINERVA BRIEFING

THE ROAD TO COP 26

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1. INTRODUCTION

With the Conference of Parties (COP) 26 almost upon us in November 2021, responsible investors everywhere are looking to align themselves with the international climate conference.

Climate change is already impacting economies and markets today. Left unabated, conservative estimates suggest the global costs of climate inaction are equivalent to losing between 5 and 20% of global gross domestic product each year, now and forever.¹ Climate action has been internationally prioritised as Goal 13 of the United Nations (UN) Sustainable Development Goals (SDGs), a framework for overcoming global challenges such as poverty and public health. Achieving the SDGs requires a shift in investments of USD 5 trillion to USD 7 trillion per year until 2030, with climate-related costs of inaction valued at USD 1 trillion per year.²

Climate risks have tangible financial implications for asset owners and asset managers alike, giving them a key role to play in driving progress in the transition to a low-carbon world. Companies have come under increasing pressure to align their business models with the Paris Agreement climate goals, which call for global warming to be capped at 1.5°C compared with pre-industrial levels. Many investor-led initiatives for climate-conscious investing have emerged, calling for a transition toward net-zero carbon emissions. Several of these initiatives have emerged under the auspices of the UN, and with COP 26 around the corner, asset owners and managers alike are looking to align themselves with these UN initiatives.

However, the world of UN-based climate initiatives is complex and often difficult to understand. Every initiative seems to be connected to the others in some way, but the exact nature of their relationship is often unclear. This Minerva Briefing outlines the key initiatives, frameworks and tools developed by investors to act on the climate crisis under the auspices of the UN and provides a roadmap for investors looking for the right initiative to directly align themselves with the upcoming and future COPs. This guide will set you on a path to identifying, analysing, managing, and disclosing climate risk and opportunity.

Key Summary

- Climate risks have tangible financial implications for asset owners and asset managers alike.
- Many investor-led initiatives for climate-conscious investing have emerged, calling for a transition toward net-zero carbon emissions.
- However, the world of UN-based climate initiatives is complex and often difficult to understand.
- This briefing will help you join the right initiative and understand how to engage with the growing crowd of climate-responsible investors on their way to net-zero.

¹ United Nations Environment – Finance Initiative. “Climate Change,” 2021. <https://www.unepfi.org/climate-change/climate-change/>.

² “World Investment Report 2014” (New York, 2014).

2. WHAT IS THE COP?

The Conference of Parties of COP is a **yearly conference bringing together almost every country on earth to discuss the challenges of climate change and agree on solutions.** Within the United Nations it acts as the supreme decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC) – an international treaty adopted in 1992 that acts as the parent treaty to the Paris Agreement³ and the Kyoto Protocol.⁴ The primary aim of all agreements under the UNFCCC, including the COP, is to stabilise greenhouse gas (GHG) concentrations in the atmosphere at a level that will “prevent human interference with the climate system, in a time frame which allows ecosystems to adapt naturally and enables sustainable development.”⁵

This year will mark the 26th annual summit of the COP, presided over by the United Kingdom (UK), with the government highlighting the unique urgency of the event.⁶ The recent landmark report⁷ from the Intergovernmental Panel on Climate Change (IPCC) has added further urgency to the international discussion on climate change, with international media marking it as a ‘code red’ alert for humanity. However, no major developments have been made since COP21 in 2015, when every country agreed to work together to limit the effects of human-caused climate change well below 2 degrees Celsius through Nationally Determined Contributions.

The Kyoto Protocol

“The Kyoto Protocol was adopted on 11 December 1997. Owing to a complex ratification process, it entered into force on 16 February 2005. Currently, there are 192 Parties to the Kyoto Protocol.”⁴

In short, the Kyoto Protocol operationalizes the United Nations Framework Convention on Climate Change by committing industrialized countries and economies in transition to limit and reduce greenhouse gases (GHG) emissions in accordance with agreed individual targets. The Convention itself only asks those countries to adopt policies and measures on mitigation and to report periodically.”

The Paris Agreement

“The Paris Agreement ... was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016.”³ Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The Paris Agreement is a landmark in the multilateral climate change process because, for the first time, a binding agreement brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects.”

³ UNFCCC. “The Paris Agreement,” 2021. <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>.

⁴ UNFCCC. “What Is the Kyoto Protocol?,” 2021. https://unfccc.int/kyoto_protocol.

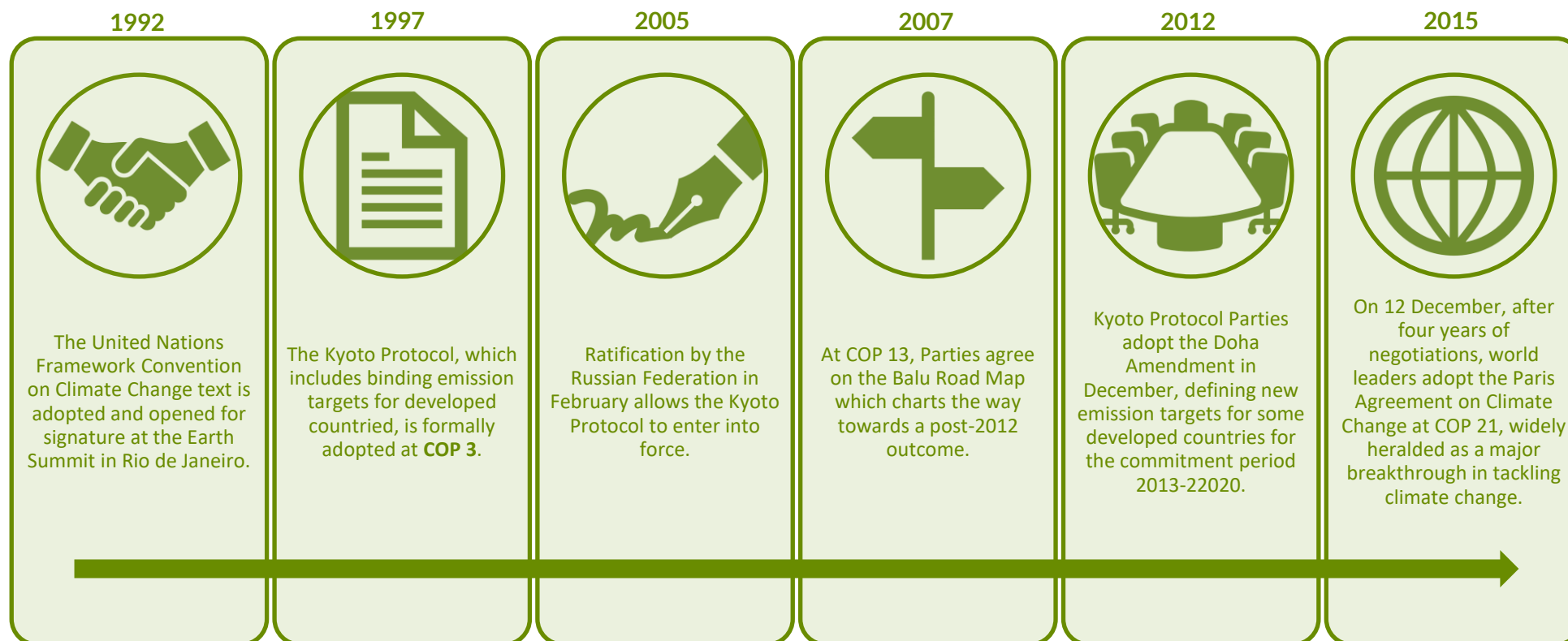
⁵ UNFCCC. “About the Secretariat,” 2021. <https://unfccc.int/about-us/about-the-secretariat>.

⁶ UN Climate Change Conference (COP 26). “What Is a COP?,” 2021. <https://ukCOP26.org/uk-presidency/what-is-a-cop/>.

⁷ Intergovernmental Panel on Climate Change. “Sixth Assessment Report,” 2021. <https://www.ipcc.ch/report/ar6/wg1/>.

2.1 THE HISTORY OF THE UNFCCC

Investors just beginning their responsible investing journey may find it difficult to understanding the history of the UNFCCC and its international importance. Below is a list of key events in the history of the Convention, including key meetings of its governing body the COP, and the ratification of other treaties it has been responsible for producing.⁸



⁸ UNFCCC. "UN Climate Change Annual Report 2017," 2017. <https://unfccc.int/resource/annualreport/>.

3. UNDERSTANDING UN-BACKED INVESTOR INITIATIVES

The United Nations can be opaque in its operations at the best of times, making the well-meaning but complex world of UN-led climate finance initiatives confusing to navigate. **A complex network of UN-led initiatives exists, creating a barrage of frameworks and agreements that are rapidly gaining membership in the lead-up to COP 26.** Many asset managers and owners may be familiar with investor-led initiatives but are only beginning to discover the importance of these UN-led international frameworks and agreements. Here, the primary climate finance initiatives of the UN will be broken down for your understanding, including how each of them are related.

3.1 UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI)⁹ aims to create a financial sector that serves people and planet while delivering positive impacts by leveraging the UN's role to mobilize private sector finance for sustainable development.¹⁰

The frameworks UNEP FI has established or has played a close hand in supporting include:⁹

- Principles for Responsible Banking (PRB), which launched with more than 130 banks collectively holding USD 47 trillion in assets, or one third of the global banking sector, on 22 September 2019;
- Principles for Sustainable Insurance (PSI), established 2012 by UNEP FI and today applied by one-quarter of the world's insurers (25% of world premium); and,
- Principles for Responsible Investment (PRI), established in 2006 by UNEP FI and the UN Global Compact and now applied by half the world's institutional investors (USD 83 trillion).

Although UNEP FI states on their website that they helped establish PRI and still holds a permanent chair alongside the UN Global Compact on its board, it is important to note that the PRI is an independent limited company, not a UN body. Membership of the PRI therefore does not automatically connect your organisation as an asset owner or manager to the UN system, nor the COP.455

⁹ United Nations Environment – Finance Initiative. “UNEP FI Statement.” Accessed August 24, 2021. <https://www.unepfi.org/about/unep-fi-statement/>.

¹⁰ United Nations Environment – Finance Initiative. “About Us.” Accessed August 24, 2021. <https://www.unepfi.org/about/>.

UNEP FI is a partnership between UNEP and the global financial sector. It is a unit of the UN Environment's Resources & Market Branch, based itself within one of the UN Environment's eight core divisions, the Economy Division. UNEP FI is governed not only by its steering committee, but by a group of committees featuring banking, insurance and investing representatives from across the sectors.

UNEP FI works with more than 350 members – banks, insurers, and investors – and over 100 supporting institutions. Each of these members must commit to the UNEP FI Statement of Commitment by Financial Institutions on Sustainable Development and report on their progress to achieving the said commitments in an annual sustainability report. Members are charged a fee based on total assets under management, and in return are equipped with the tools, methodologies, and expertise to align private finance with society's goals. Investment members are also encouraged to sign the PRI.

Who is this initiative for?

Asset managers and owners join UNEP FI to support leadership on advancing the responsible investment agenda at a global level by endorsing UNEP FI's Statement of Commitment by Financial Institutions on Sustainable Development. UNEP FI is also a strong proponent of the other climate finance initiatives it has had a strong hand in supporting, such as the PRI.

3.2 NET ZERO ASSET MANAGER INITIATIVE

Launched in December 2020, the Net Zero Asset Manager Initiative¹¹ supports the goal of net zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and supports investing aligned with net zero emissions by 2050 or sooner. The Initiative was founded by the Asia Investor Group on Climate Change, CDP, Ceres, the Investor Group on Climate Change, the Institutional Investors Group on Climate Change and the PRI under the facilitation and support of the Race to Zero Campaign from the UNFCCC.

As of August 2021, the initiative has 128 signatories covering USD 43 trillion in assets under management (AUM). Signatories must commit to work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM; set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner; and, review their interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

The initiative enables collaboration to provide investors with access to best practice, robust and science-based approaches and methodologies, and improved data. These resources are vital in the signatories' achievement of their commitments to net-zero. Asset managers also receive direct support for developing net-zero strategies and implementing net-zero commitments through the programmes of the six founding investor networks. These founding partners continue to manage the Initiative today and provide its funding.

¹¹ Net Zero Asset Managers Initiative. "Home." 2021. Accessed August 24, 2021. <https://www.netzeroassetmanagers.org/#>.

Who is this initiative for?

The Net Zero Asset Manager Initiative is for asset managers that want to take actions that relate to elements of the commitment. The Initiative shares an ambition with the Net-Zero Asset Owners Alliance, co-convened by UNEP FI and the PRI – itself one of the five founding partner investor networks of the Net Zero Asset Managers initiative. Membership of this organisation will also assist asset managers in joining the Race to Zero campaign.

3.3 UN-CONVENED NET ZERO ASSET OWNER ALLIANCE

The UN-convened Net Zero Asset Owner Alliance is a membership organisation for asset owners wishing to transition their investment portfolios to net-zero emissions by 2050. Founded in September 2019 at the UN Secretary General's Climate Action Summit by Allianz, Caisse des Dépôts, La Caisse de dépôt et placement du Québec (CDPQ), Folksam Group, PensionDanmark, and SwissRe, the Net-Zero Asset Owner Alliance is convened by the UNEP Finance Initiative and the PRI. The Alliance is supported by WWF and Global Optimism, an initiative led by Christiana Figueres, former Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC). It is also a part of the UNFCCC Race to Zero campaign.¹²

Signatories to the Alliance consist of an international group of 37 institutional investors representing USD 5.7 trillion AUM. Each member asserts their commitment to align their portfolios with a 1.5°C scenario, addressing Article 2.1c of the Paris Agreement. Member CEO's must commit to transitioning their investment portfolios to net-zero GHG emissions by 2050. Beyond this high-level commitment, members are expected to advocate for and engage on corporate and industry action, and public policies, that promote a transition to net zero in line with climate science and with consideration of social impacts.

Specifically, the alliance requires signatories to carry out and disclose a portfolio baseline assessment; set a 2025 four-part target (by sub-portfolio, sector, engagement, and financing) and establish corresponding climate strategies and action plans; and publish a first aggregate target report by COP 26. Alliance members are also required to take part in informal and qualitative stock-takes, as well as periodically complete quantitative assessment questionnaires. Members make an annual contribution of €20,000, with a lower fee band available for asset owners with smaller volumes of assets under management.

New members of the Alliance benefit from the provision of a first-generation target-setting methodology to act as a guide on the path to net-zero. The methodology includes a public consultation open to PRI's signatory base and broader stakeholders, in coordination with Science-Based Targets initiative (another UN-backed initiative not in the remit of this briefing) and the Partnership for Carbon Accounting Financials. Tracks of work to support implementation include monitoring, reporting and verification (including co-creation of target-setting methodologies); engagement (with both asset managers and corporates); policy; and financing transition. The convenors collaborate with global and regional initiatives and networks through The Investor Agenda.

¹² Principles for Responsible Investment, UNEP. "The Net Zero Asset Owner Alliance." Accessed August 24, 2021. <https://www.uneofi.org/wordpress/wp-content/uploads/2021/02/04-UN-AOA-Commitment-doc-D11-0021.pdf>.

Who is this initiative for?

Asset owners with an existing and mature commitment to transitioning their investment portfolios to net-zero GHG emissions by 2050. Membership of this initiative will also assist asset owners in joining the Race to Zero campaign.

3.4 RACE TO ZERO

Race to Zero is a global campaign to rally leadership and support from businesses, cities, regions, and investors for a healthy, resilient, zero carbon recovery that prevents future threats, creates decent jobs, and unlocks inclusive, sustainable growth. It aims to build support for the shift to a decarbonized economy ahead of COP 26. Race to Zero is the first campaign of its kind to mobilize the members of net-zero initiatives from across multiple sectors to meet rigorous criteria reviewed by an independent Expert Peer Review Group chaired by the University of Oxford.¹³

Race to Zero was launched on June 5th, 2020, by the UNFCCC secretariat and is led by COP 26 High-level Champions for Climate Action - Nigel Topping and Gonzalo Muñoz. It has been publicly endorsed by, amongst others, the UN Secretary General, UNFCCC Executive Secretary, COP 26 President Alok Sharma, and by UN Special Envoy for Climate Action and Finance Mark Carney. Signatories to the campaign include a coalition of leading net zero initiatives, representing 708 cities, 23 regions, 2,162 businesses, 127 of the biggest investors, and 571 Higher Education Institutions. Collectively these actors now cover nearly 25% global CO₂ emissions and over 50% of global GDP, each reporting their progress to the Climate Ambition Alliance Global Climate Action portal.

As COP 26 nears, the High-Level Champions have been busy engaging new coalitions and initiatives that match Race to Zero's 'minimum criteria'. However, as Race to Zero is a coalition of leading net zero initiatives, engaging as an investor requires you to first join the Net-Zero Asset Owners Alliance. If you wish to engage with Race to Zero even further and you feel you have valuable contributions to make, you may consider joining the Finance Sector Expert Group for Race to Zero and Race to Resilience (FSEG) within the campaign itself.

Joining the campaign enables participants to adopt a leadership position on the path to net zero. Participation sends governments a resounding signal that the finance sector is united in meeting the Paris goals and creating a more inclusive and resilient economy. The campaign is funded by the United Nations Framework Convention on Climate Change (UNFCCC).

Who is this initiative for?

Investors looking to reduce their carbon footprint who wish to establish themselves as leaders in the race to zero emissions, and who have already joined one of the initiatives that are a part of the Race to Zero campaign. Those initiatives include the Net Zero Asset Owner Alliance, the Net Zero Asset Managers Initiative, the Net Zero Banking Alliance, and the Paris Aligned Investment Initiative. Two other initiatives are currently being formed with the support of the Race to Zero campaign and the UNFCCC; the Net Zero Insurance Alliance, and the Financial Professional Services Alliance (formal name still to be confirmed).

¹³ Race to Zero. "Starting Line and Leadership Practices 2.0 - In Force from 1 June 2021," 2021. <https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Criteria-2.0.pdf>.

3.5 GFANZ

The Glasgow Financial Alliance for Net-Zero (GFANZ) brings together existing and new net-zero finance initiatives into one sector wide strategic forum, allowing firms to demonstrate their collective commitments to supporting companies and countries to achieve the goals of the Paris Agreement. GFANZ will also catalyse strategic and technical coordination on steps firms need to take to align with a net zero future.¹⁴

GFANZ was launched by Mark Carney, the UK Prime Minister's Finance Advisor for COP 26 and the COP 26 Private Finance Hub. Key partners to the initiative include the UNFCCC Climate Action Champions, the Race to Zero campaign, and the COP 26 Presidency. The initiative is run through a Steering Group that has been meeting regularly throughout 2021 in the lead-up to COP 26. GFANZ will endure beyond COP 26, continuing to be the place the financial sector meets to progress and accelerate the transition to a net zero economy.

The initiative is not explicitly a membership group, but rather it is a forum for strategic coordination among race to zero members for maximising real economy and real-world impact; catalysing technical collaboration; and monitoring progress. Any investor group that is a member of one of the initiatives under the auspices of the Race to Zero campaign is automatically made a GFANZ member. In this way, GFANZ aims to leverage rather than replicate existing coalitions and workstreams. Currently, signatories include 160 companies, including 43 banks from 23 countries. Members account for a total of USD 70 trillion AUM. The nature of it's membership base is described in the image below.

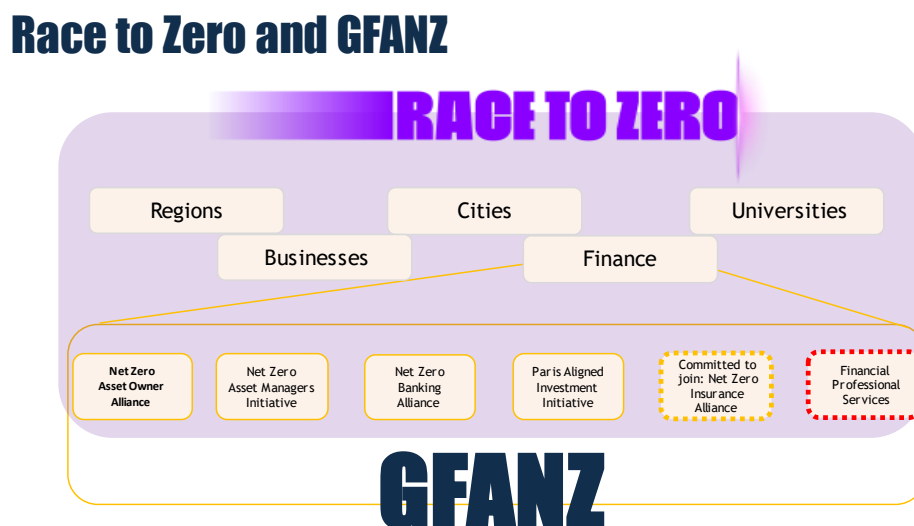


Figure 1 – Organisational members of the Race to Zero campaign, led by the overarching group GFANZ

The GFANZ will facilitate conversations with the wider financial system and climate action experts as appropriate to support members' technical collaborations, make connections and help unlock the crucial enabling role of financial system infrastructure in reaching net zero. It is wholly funded by the British government.

¹⁴ GFANZ. "COP 26 and the Glasgow Financial Alliance for Net Zero (GFANZ)," 2021. <https://racetozero.unfccc.int/wp-content/uploads/2021/04/GFANZ.pdf>.

Who is this initiative for?

Existing members of the Race to Zero campaign. Individual firms that do not have a relevant financial sub-sector alliance within the Race to Zero campaign will also be able to participate in GFANZ if they join the Race to Zero through SBTi's Business Ambition for 1.5 campaign, with the expectation that they will join a relevant sub-sector alliance if/when available. Race to Zero will ensure entry criteria are reviewed annually, with a view to raising ambition over time.

3.6 PIECING IT ALL TOGETHER

There is no doubt that the world of climate finance initiatives is confusing. Having broken down the mission, commitments, funding, and membership requirements of the primary investor-led and UN-supported initiatives for both asset owners and asset managers to seek-out, a greater picture of their interconnectedness should be starting to take shape.

Below Minerva has plotted the relationships of the mentioned organisations onto a chord diagram. If your organisation is considering joining one of the below initiatives, this diagram may act as **a guide to where each initiative sits in the wider picture**. For example, if you as an asset owner wish to join the Race to Zero, you must first join the UN-Convended Net Zero Asset Owners Alliance, which will allow you to join the Race to Zero and therefore also become a member of the GFANZ.

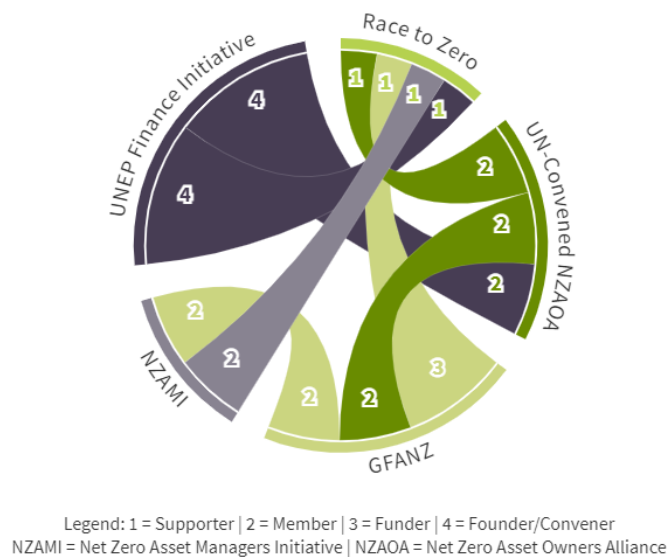


Figure 2 - Directional chord diagram showing the interconnectedness of UN climate initiatives for the finance sector

Investors may also wonder how these UN-adjacent climate initiatives relate to the wider group of investor-led climate initiatives such as the Taskforce for Climate-related Financial Disclosure and the Transition Pathway Initiative. These initiatives are fully independent of the UN but remain strategically aligned with the initiatives outlined in this report. Starting your journey with any climate-focused investor initiatives is a good first step, and Minerva is here to help. Separately, asset owners based in the UK may wonder how being a part of these initiatives help you meet the growing expectations of the Financial Conduct Authority and the new climate reporting standards in the Pensions Act, conducting due diligence by adhering to the requirements of the UN-related or other climate initiatives in the finance sector will only enhance your compliance. In fact, the expectations of British policy makers, and indeed policy makers everywhere, are highly informed by developments at UN-level initiatives.

4. THE BIG PICTURE

Although the chord diagram above provides a useful understanding of the interconnectedness of the UN climate initiatives for the finance sector, by now you may be wondering how best to identify your entry point. Joining the right initiative and engaging with the growing crowd of climate-responsible investors is important for your pathway to net-zero. Here we have taken that bigger picture and broken it down even further into a map explaining how each of the initiatives in this briefing exist in hypothetical space.

The Net Zero Asset Owners Alliance and the Net Zero Asset Managers Initiative are unveiled as the key entry points for asset owners and asset managers to get directly involved in an UN-aligned climate initiative. Membership of either of these initiatives will set you on the path to joining the Race to Zero Campaign, which is also a prerequisite for joining GFANZ. Following this pathway will align your investment activities with global net-zero goals set out by the UN Finance Initiative and the UNFCCC, including the Paris Agreement, and connect you with the organisers of all future COP events.

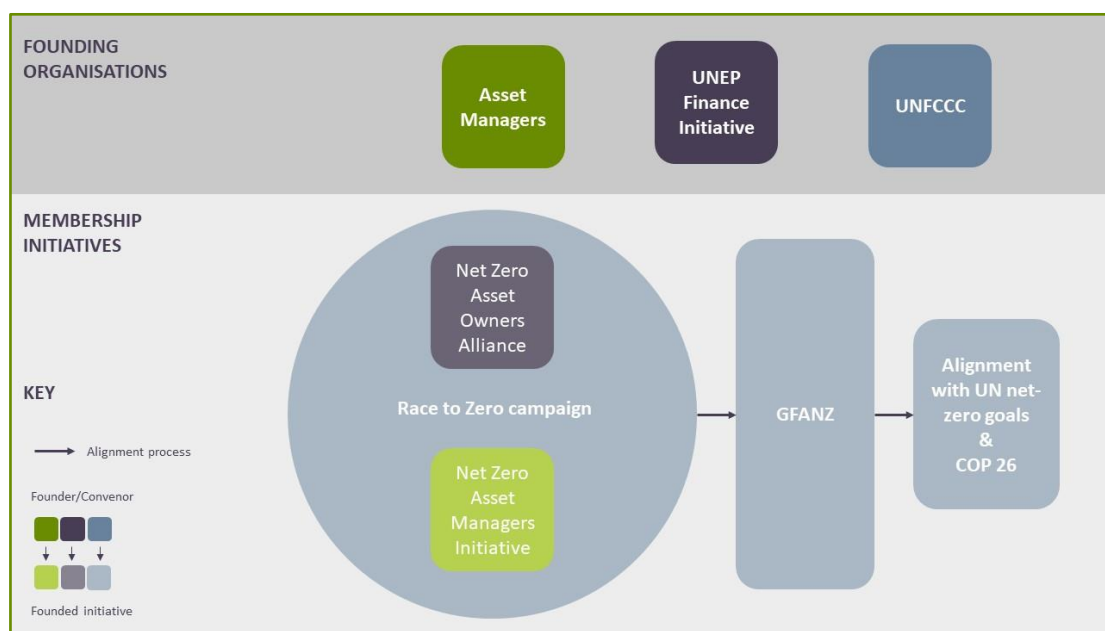


Figure 3 - Pathway to aligning with COP 26

4.1 NEXT STEPS

Minerva, together with our strategic shareholder, Solactive, are well-equipped to provide advice on aligning your investments with major international frameworks for climate-conscious investing including the TCFD, the GRI, and TPI. As this space develops, so are we, with **new sustainability voting guidelines soon to be made available, and an upcoming report on the latest developments around the Say on Climate debate.**

To find out more, say hello@minerva.info.

About Minerva

Minerva helps investors and other stakeholders to overcome data disclosure complexity with robust, objective research and voting policy tools. Users can quickly and easily identify departures from good practice based on their own individual preferences, local market requirements or apply a universal good practice standard across all markets.

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