COP26 – What does the Glasgow Climate Pact mean for an SME investor?

As the dust settles on COP26 and commentators pick over the highs, lows and missed opportunities of the final Glasgow agreement, the view from Chelverton is cautiously optimistic.

To recap, the 26th climate summit aimed to:

- Secure net-zero by 2050, to limit global warming to 1.5 degrees above pre-industrial levels
- Adapt to protect communities and natural habits from warming impacts
- Mobilise global finance to fund a 'just transition'
- Work together to tackle the crisis

The consequences of the current 2.7 degrees warming trajectory (labelled 'Code Red for Humanity'), were summarised in the 6th report by the Intergovernmental Panel on Climate Change ('IPCC'), published prior to COP26, and outlining our remaining options to control warming.

Two weeks of intense COP negotiations secured agreement, with the potential to limit warming to 1.8 degrees – short of the 1.5 degrees target, and with question marks over delivery.

Coal, cars, cash and trees were identified as key decarbonisation levers. Limited agreements were reached on coal phase-down, the phase-out of fossil fuel subsidies, e-vehicle transitions, methane reductions, deforestation and re-forestation, and climate finance. An element of 'blah, blah, blah' was seen to prevail given agreement and enforcement limitations, but there was widespread understanding that country net zero and nature pledges must be substantiated by interim targets to keep 1.5 alive, at COP27 next year.

From a change management perspective, the tardiness of the largest GHG emitters to embrace change chimes with the observation that underpins this field of expertise i.e., when the pace of change outside an entity exceeds the pace of change within it, successful adaptation is usually too late. Fortunately for us, beneath the layer of incumbents debating each word of every COP commitment, lies adaptive dynamism focussed on survival and opportunity.

The UK and EU investing jurisdictions acknowledged the pivot between emerging and strategic climate and nature-related risks relatively early, developing sustainability standards and setting credible net zero and nature restoration targets, priming our region for change. This has been empowering for many of the companies in whom we invest, prompting and enabling their investment in energy transition, resource efficiency, and associated environmental, social and governance (ESG) improvements.

Chelverton does not manage any specialist sustainability-focussed or impact funds. We are bottom-up equity stock pickers, primarily investing in small and mid-cap companies (SMEs). These companies are often at the vanguard and whilst characterised by agility, we recognise they are under increasing pressure to innovate, provide solutions, and adopt new business practices, from digitisation to circularity.

Our investing purpose is to ensure the delivery of our client's investment objectives. We have always considered ESG risks, but these issues have heightened as those risks and opportunities have intensified.

This year we have engaged with all our companies to understand their immediate ESG priorities, request greater transparency in relation to ESG metrics and targets, and offer support to our smallest companies in the development of their ESG management capabilities.

In summary, whilst the details of the Glasgow Summit Pact might be disappointing from the top-down perspective, the bottom-up view confirms dynamism, firm evidence of change, and the widespread adoption of ESG risk management capabilities at pace. Thankfully, sustainability is no longer the province of niche companies or specialist investors. More systematic change is under way and our investing universe is in motion, adopting an appropriately Darwinian view i.e. *“It is not the strongest of the species that survives, nor the most intelligent; it is the one most adaptable to change.”.*

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