

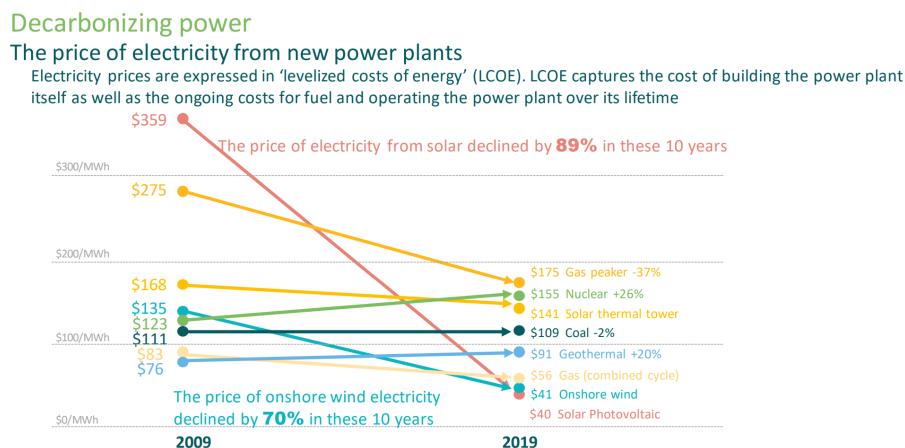
## The Coming Decade for Climate Solutions

Author: Randeep Somel, Fund Manager, M&G Climate Solutions Fund

In what has been a very volatile start to the decade in humanitarian, economic and political terms, let's take a look at the long-term challenge of climate change to understand how it is progressing and how it may have been impacted by recent events.

### Will the collapse in fossil fuel prices destroy the economic case for renewable energy?

Subsidies for renewable power have been in the process of being phased out for some time. This is a positive step not a negative one. As scale has increased and the industry's journey along the learning curve has continued, solar and wind are able to compete without external support. The cost of solar is a tenth of what it was a decade ago, both solar and onshore wind are now cheaper alternatives to natural gas, despite commodity price falls.



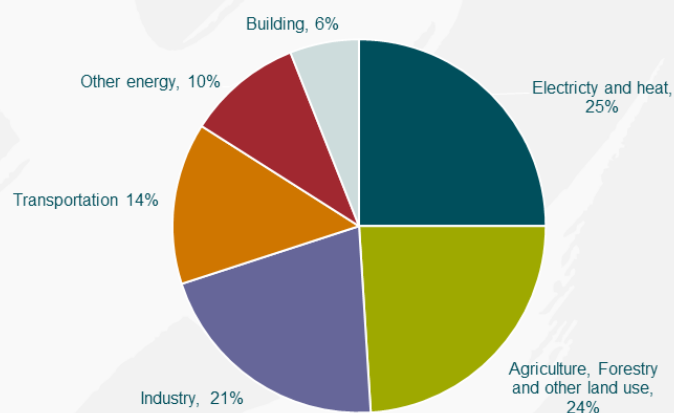
Source: Lazard Levelized Cost of Energy Analysis, Version 13.0. OurWorldinData.Org, December 2020.

### Climate solutions....more than just renewables?

Over 50% of global CO2 emissions are caused by power generation, therefore it remains a critical part of reducing CO2 emissions. Yet, renewable energy alone will not be able to solve this issue, other areas of emissions will need to be scrutinised and solutions found.

## Over 50% of global CO<sub>2</sub> emissions are caused by power generation

Global CO<sub>2</sub> emissions by industry/category



The  
Equities Forum

Source: The Intergovernmental Panel on Climate Change (IPCC) 2014 report

M&G  
INVESTMENTS

Promoting the use of sustainable timber will also encourage the wider adoption of sustainable forestry, which addresses the release of CO<sub>2</sub> in the industry. Companies such as US listed Weyerhaeuser, which operate over 25m acres of sustainable forests in North America will play a vital part.

Buildings are one of the biggest consumers of energy, improved technology enables them to be more efficient today. For example, a company such as Danish-listed ROCKWOOL International provides stone wool insulation for new builds and for retrofit. It enables a vast reduction in energy consumption of a building and helps reduce the amount of power generation needed. It will play a crucial part in addressing the climate challenge.

The circular economy will have a significant role to play in reducing emissions. We need to increase 're-use, reduce and recycling' in order to stop products going to landfill at the end of their usefulness and reduce the level of pure product required for new products. This will have a major impact as up to 45% of non-energy greenhouse gases could be addressed by these measures according to some estimates<sup>11</sup>.

<sup>11</sup> Source: Ellen MacArthur Foundation, Completing the Picture, Adapted from Material Economics Analysis for the Energy Transition Commission, Mission Possible, Reaching Net Zero Carbon emissions from harder to abate sectors by mid-century, (2018).

An example is US-listed decking producer Trex, which makes outdoor decking from recycled plastic. It has shown itself to be a higher-quality, more durable and lower-emission alternative to traditional timber decking.

### **The US and China: Enter the Eagle and the Dragon.**

In the space of six short weeks in 2020, the future of the Paris Climate Deal was transformed by two significant events.

On 22 September 2020, shortly after US President Donald Trump called the Paris Agreement “a one-sided deal” and criticised China for being “the world’s largest source of carbon emissions”, President Xi Jinping of China announced that China would scale up its intended nationally-determined contributions (under the Paris climate agreement) by adopting more vigorous policies and measures. In practice, this would see China achieving a peak in carbon dioxide emissions before 2030 and carbon neutrality before 2060. Xi added that “the human race cannot ignore the warnings of nature over and over again”. He also urged other countries to pursue a “green recovery of the world economy in the post-COVID era”.

Then on 3 November 2020, the US elected a new President, and one that has a very different approach to the challenges of climate change. Joe Biden made climate change one of the key pillars of his campaign and has re-joined the Paris Climate Deal in one of his first acts as the 46<sup>th</sup> President.

Biden’s team have already started planning to restrict oil and gas drilling on public lands and waters, increase mileage standards for cars, block new pipeline projects that transport fossil fuels, provide federal incentives to deploy renewable power, and mobilise other nations to make deeper cuts in their own carbon emissions.

The new treasury secretary, Janet Yellen has also publicly discussed a carbon tax. As governments across the world look for new methods to pay for the huge deficits run up due to the COVID-19 pandemic, a carbon tax may be a political palatable option.

Market mechanisms have begun rewarding environmentally-friendly companies with higher valuations. This is due to them being recognised as less exposed to regulation and less likely to become redundant over the longer term. The more this continues, the more we will notice management teams incorporating climate solutions into their operations, products and services.

Climate challenge can be thought of as a three-legged stool for the stakeholders that need to participate: **Consumers**, **Industry** and **Government**. Studies from across the world now show populations are concerned about climate change and are willing to change their own behaviour. Industry can now see the economics working in favour of sustainability and are willing to commit capital to the effort and starve funding for 'de-merit' activities. That then leaves Government – while European governments have taken a lead, the final awakening of both the Chinese and US governments will provide the much-needed impetus to reach our carbon targets over the coming decades.

In the M&G Climate Solutions Fund we have a focus on clean energy, green technology and the circular economy. All key areas for investment and growth as we transition to a carbon neutral world over the coming decades.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The views expressed in this document should not be taken as a recommendation, advice or forecast.

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser

This financial promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK and provides ISAs and other investment products. The company's registered office is 10 Fenchurch Avenue, London EC3M 5AG. Registered in England and Wales. Registered Number 90776.