Capital Markets Strategy

Essential inCights for the C-Suite

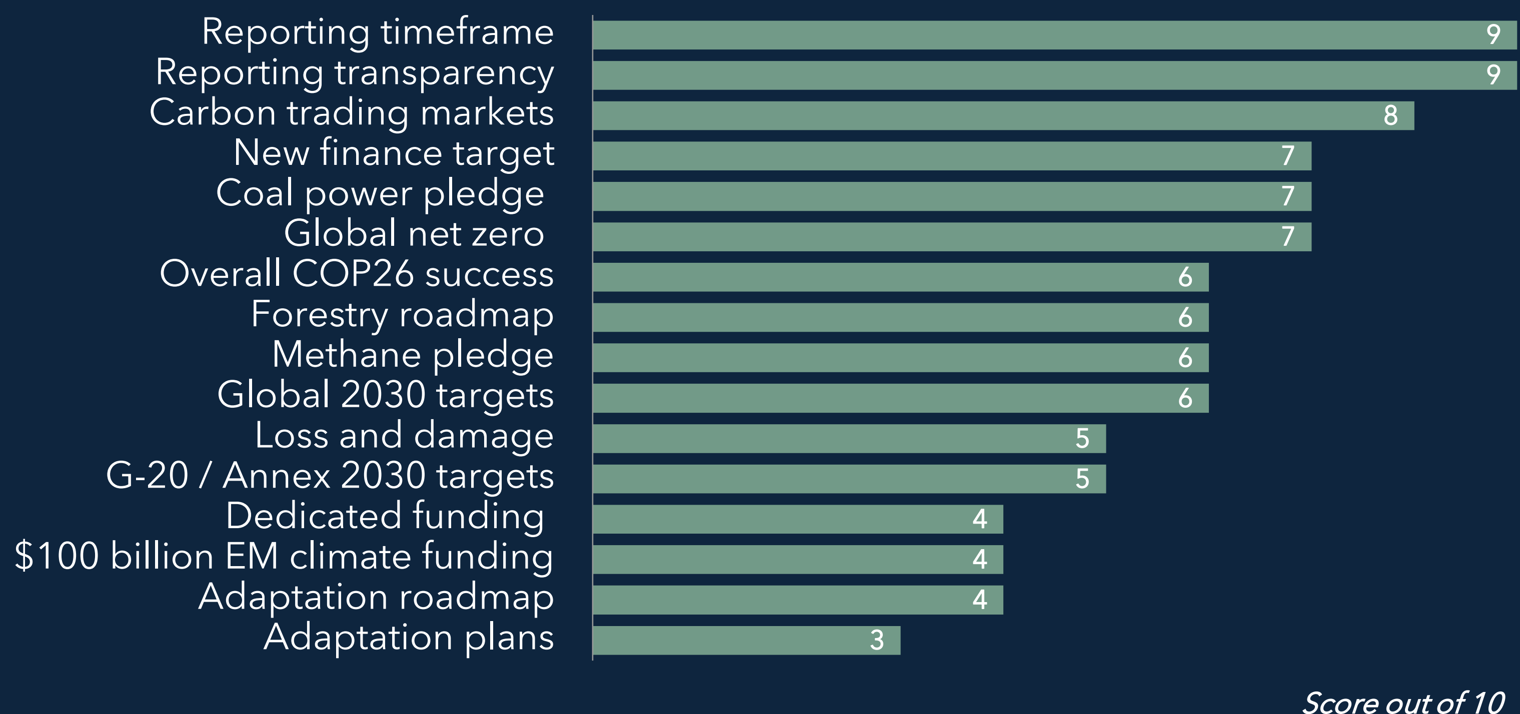
10 Key Takeaways from COP26

DEC 2021

Evaluating COP26 Success

Opinions vary widely on the success of COP26. Government leaders such as John Kerry praised the conference's success saying, "we are in fact closer than we have ever been before to avoiding climate chaos." On the other hand, scientists and researchers contend that "COP26 hasn't solved the problem." Many activists were also disappointed in several shortcomings in the final Glasgow Climate Pact. An analysis from Bloomberg rates the conference successful in many ways, including in reaching net zero targets, but finds major shortfalls in adaptation and financing.

Post-COP 26 evaluation of success



Source: (1) BloombergNEF "COP26 Delivers Gold Amid the Blah Blah Blah" (November 16, 2021). Bloomberg Green "COP Scorecard: Here's What You Need to Know".

Hailey Orr
Director
Capital Markets Strategist
New York, NY
Hailey.Orr@mufgsecurities.com

Tom Joyce
Managing Director
Capital Markets Strategist
New York, NY
Tom.Joyce@mufgsecurities.com

Roger Hollingsworth
Managing Director
Head of US Government Affairs
Washington, D.C.
RHollingsworth@us.mufg.jp

Tobi Petrocelli
Director
Head of Environmental &
Sustainability Management
New York, NY
TPetrocelli@us.mufg.jp

Stephanie Kendal
Associate
Capital Markets Strategist
New York, NY
Stephanie.Kendal@mufgsecurities.com

Amanda Kavanaugh
Director
Head of Sustainable
Finance Americas
Amanda.Kavanaugh@mufgsecurities.com

Leanne Rakowitz
Director
Head of ESG Coverage
Americas
LRakowitz@us.mufg.jp

Beth Gilroy
Director
Environmental & Sustainability
Management
New York, NY
bgilroy@us.mufg.jp

AUTHORS

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KEY TAKEAWAY

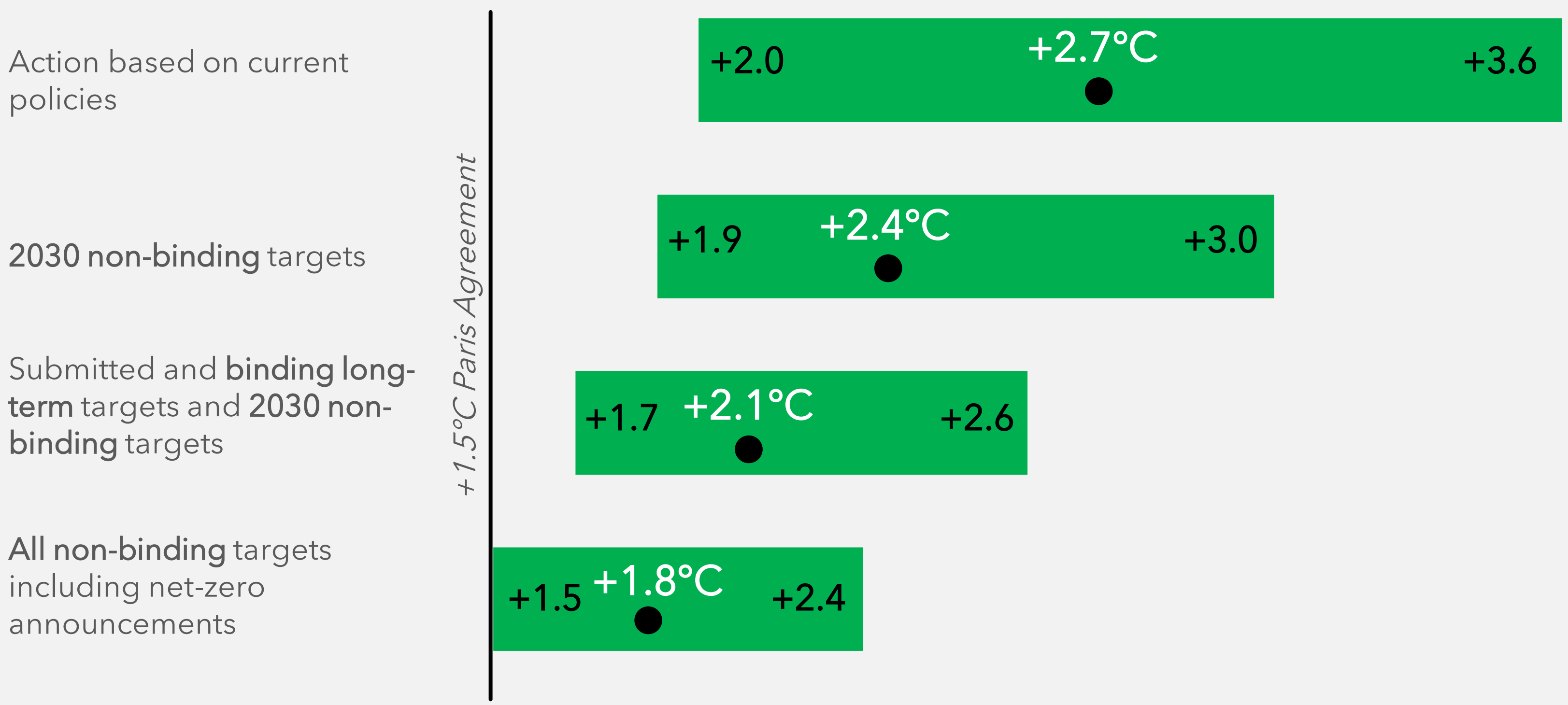
Keeping 1.5°C Alive

As part of the Glasgow Climate Pact, signatories agreed to cut emissions 45% by 2030 which would keep the goal of limiting global warming to 1.5°C within reach. Nations agreed to set more ambitious targets by 2022 and return every five years with revised targets. Signatories also agreed to provide annual reporting on commitments to reduce emissions.

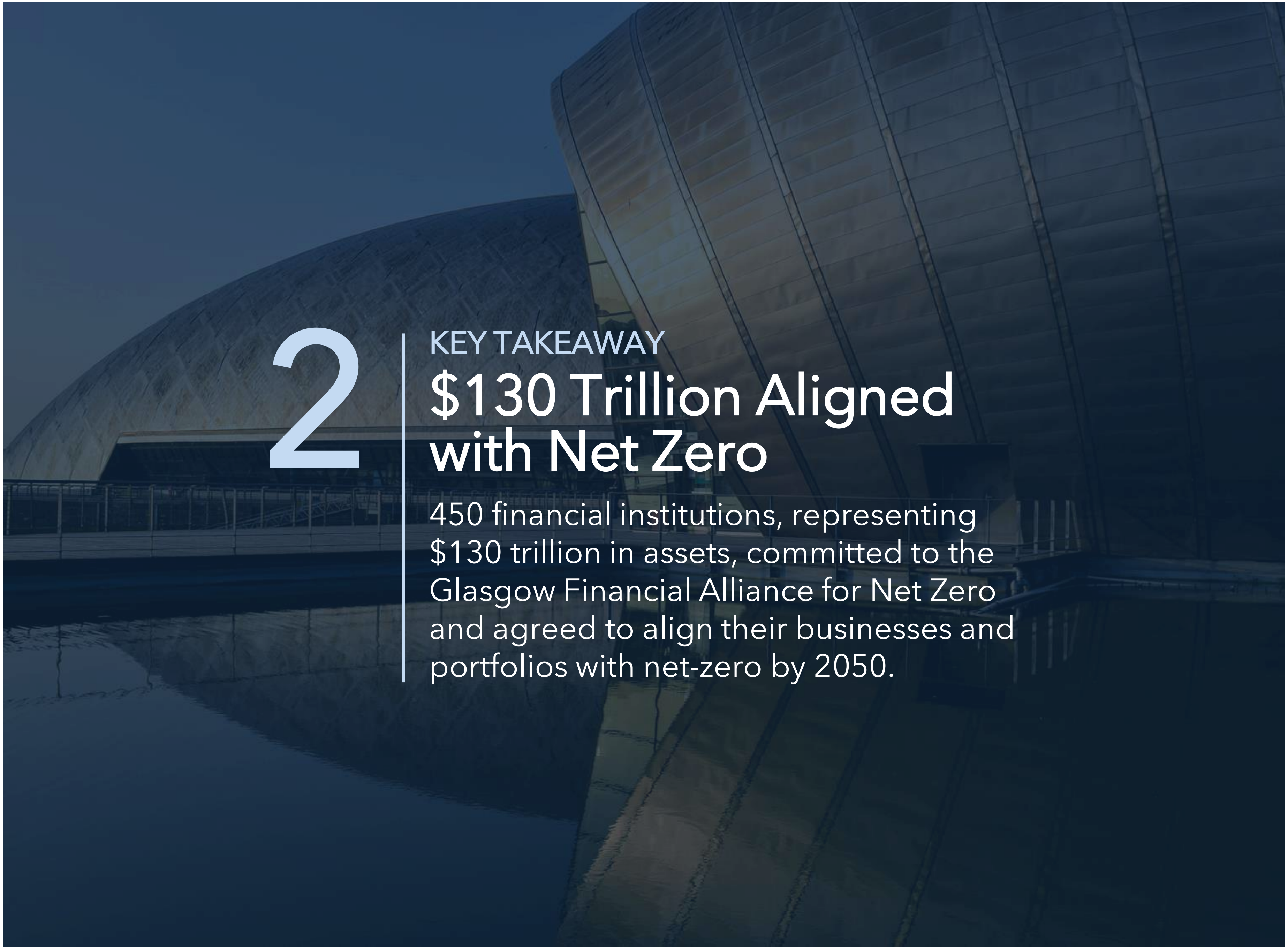
Closing the Gap to 1.5

Current country emissions reduction pledges are far from achieving the 1.5°C goal set out in the Paris Climate Accord. In Glasgow, parties agreed to set more ambitious targets by 2022 and return every five years with re-evaluated targets for reducing emissions.

Projections for global temperature increase by 2100 based on targets and announcements from COP26



Source: (1) Bloomberg, "The World Can Only Avoid Climate Catastrophe If New Climate Promises Are Kept" (November 9, 2021). Climate Action Tracker. CFR "What COP26 Did and Didn't Accomplish."



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KEY TAKEAWAY

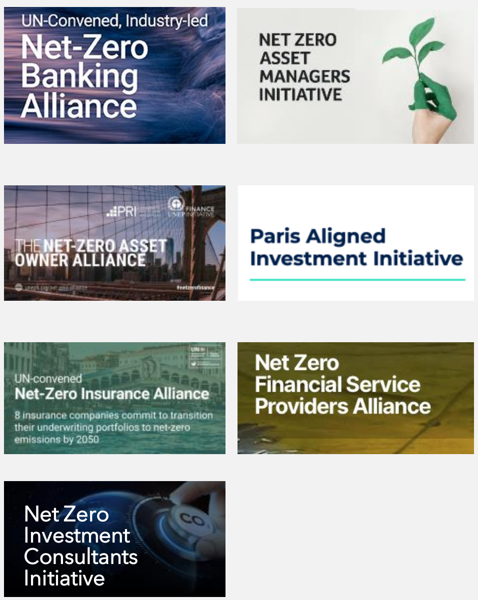
$130 Trillion Aligned with Net Zero

450 financial institutions, representing $130 trillion in assets, committed to the Glasgow Financial Alliance for Net Zero and agreed to align their businesses and portfolios with net-zero by 2050.

Glasgow Financial Alliance for Net Zero

Chaired by former Bank of England Governor Mark Carney, in conjunction with the UNFCCC Climate Action Champions and the UN Race to Zero campaign, the Glasgow Financial Alliance for Net Zero (GFANZ) brings together new and existing net zero finance initiatives into one sector-wide strategic forum

Roughly 450 financial institutions, representing $130 tn AUM (40% of global financial assets), have committed to net zero



GFANZ Initiatives:

1. **Broaden** Race to Zero's existing finance sector campaign to establish credible net zero commitments covering all financed activities in all sectors of the financial system.
2. **Expand** the number of financial institutions with high ambition, credible, and transparent commitments to financing the transition to net zero.
3. **Ensure** that commitments are backed by interim targets (2030 or sooner), alongside robust transition plans consistent with 1.5°C above pre-industrial levels as required by Race to Zero.
4. **Coordinate** commitments and actions across the financial system to support economy-wide transition, including the critical analytical tools and market infrastructure (such as credit rating agencies, auditors and stock exchanges) for financial institutions to implement their net zero strategies.
5. **Support** technical collaboration on substantive and cross-cutting issues that will accelerate the alignment of investment and lending with net zero.
6. **Advocate** for public policy that supports economy-wide transition to net zero.

Source: Glasgow Financial Alliance for Net Zero. UNFCCC External Press Release "New Financial Alliance for Net Zero Emissions Launches" (April 21, 2021).

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KEY TAKEAWAY

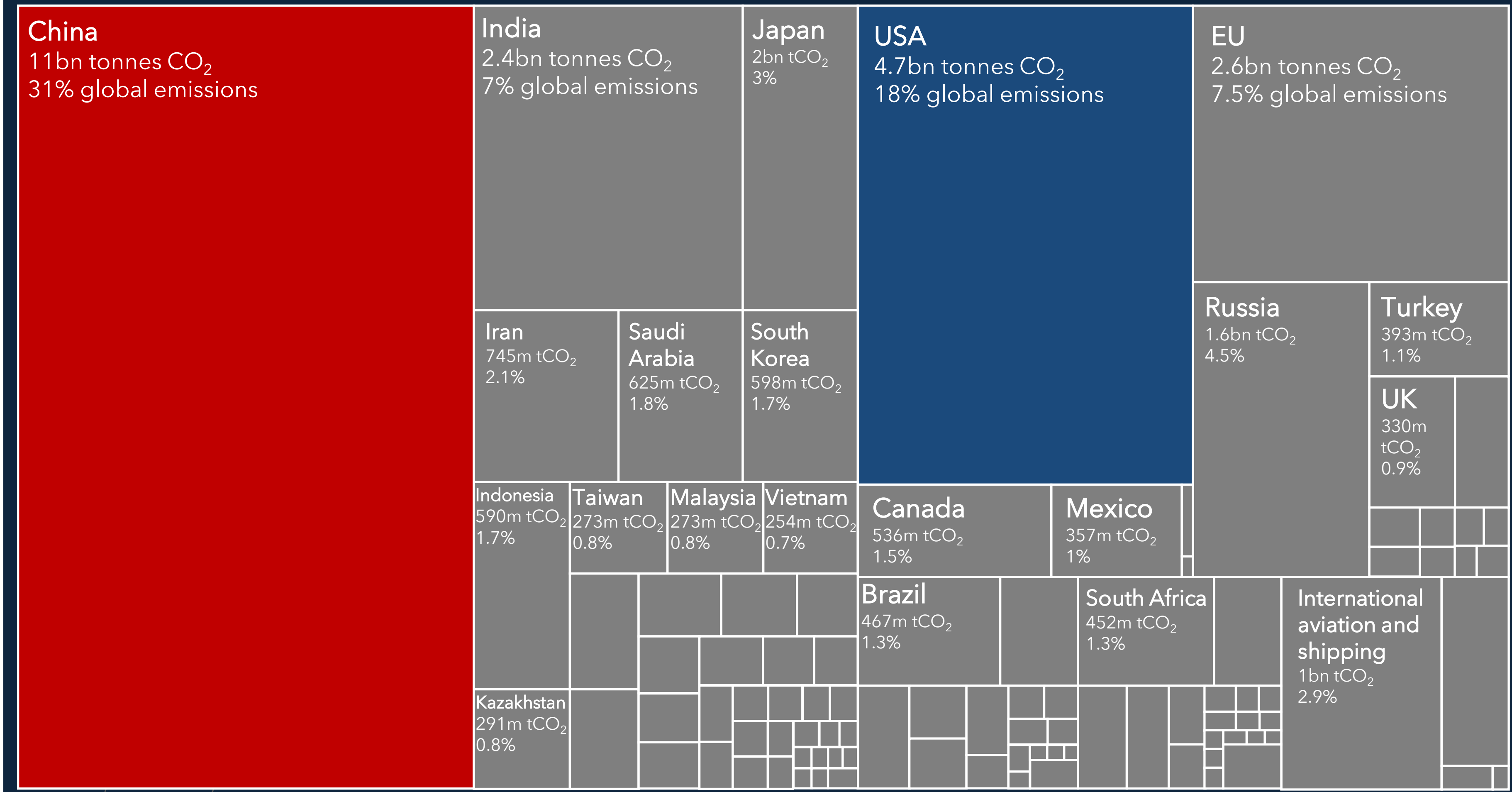
US-China Agreement

The US and China, the world’s two top emitters of greenhouse gasses, agreed to work together to fight climate change by reducing methane emissions, protecting forests and phasing down coal. While symbolically important, the agreement did not contain concrete or binding actions.

The World's Largest Emitters

The US and China are the largest emitters of greenhouse gasses on the planet. Their surprise agreement to work together on combatting global warming was important for building momentum during COP26, though lacked concrete or binding targets.

Territorial Carbon Dioxide Emissions



Source: (1) Oxford Economics, "More Talk or Actual Progress? Assessing COP26 Outcome" (November 23, 2021). Global Carbon Atlas.

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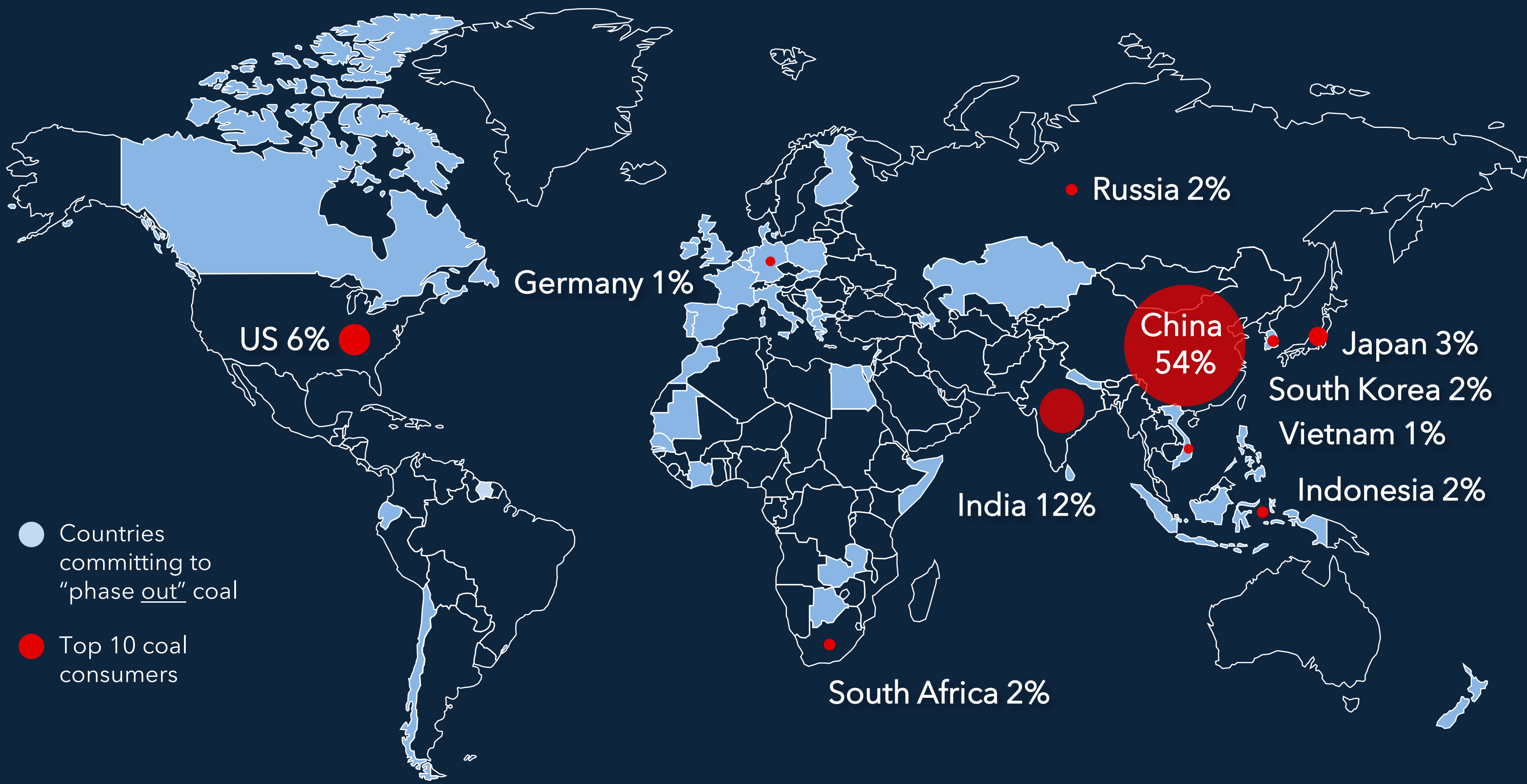
KEY TAKEAWAY

Phasing Down Coal

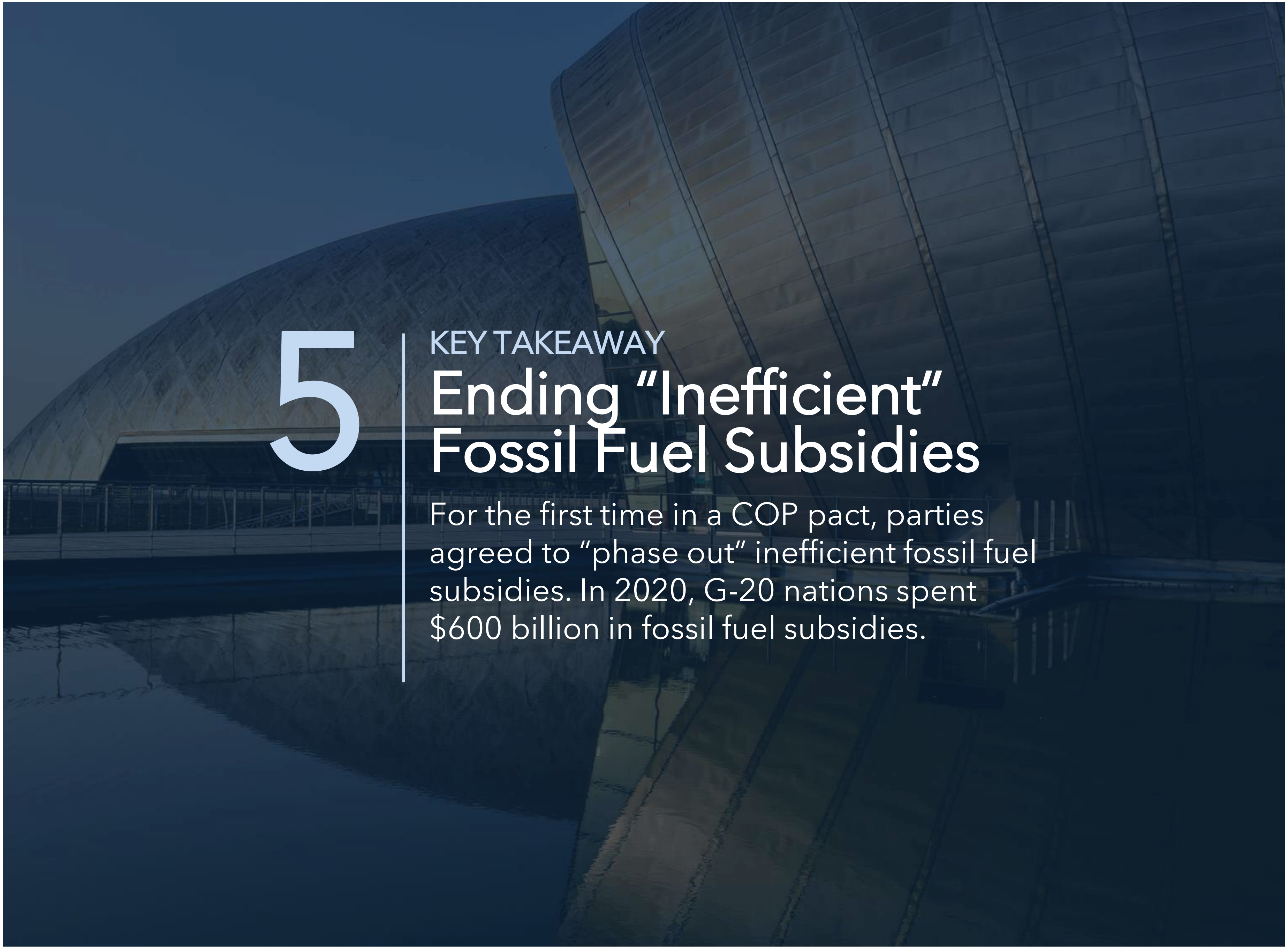
Over 40 countries agreed to “phase-out” coal-fired power and the Glasgow Climate Pact (signed by nearly 200 nations) included a less ambitious commitment to “phase down” coal in the 2030s. While the more watered down language disappointed some, the inclusion is still a significant signal and represents the first time COP text has addressed reducing coal use.

Phasing Out Coal

At COP26, over 40 countries agreed to "phase out" coal use. Notably, however, many of the world's largest coal consumers only agreed to the less restrictive language of "phasing down" coal power use. In 2020, coal provided roughly one third of global power generation.



Sources: BP "Statistical Review of World Energy 2021". Share of coal consumption based on 2020 figures. Aljazeera "What has your country pledged at COP26?". Oxford Economics "More Talk or Actual Progress? Assessing COP26 Outcome" (November 23, 2021). Global Carbon Atlas. Data as of November 29, 2021. Bloomberg NEP "COP26 Delivers Gold Amid the Blah Blah Blah"



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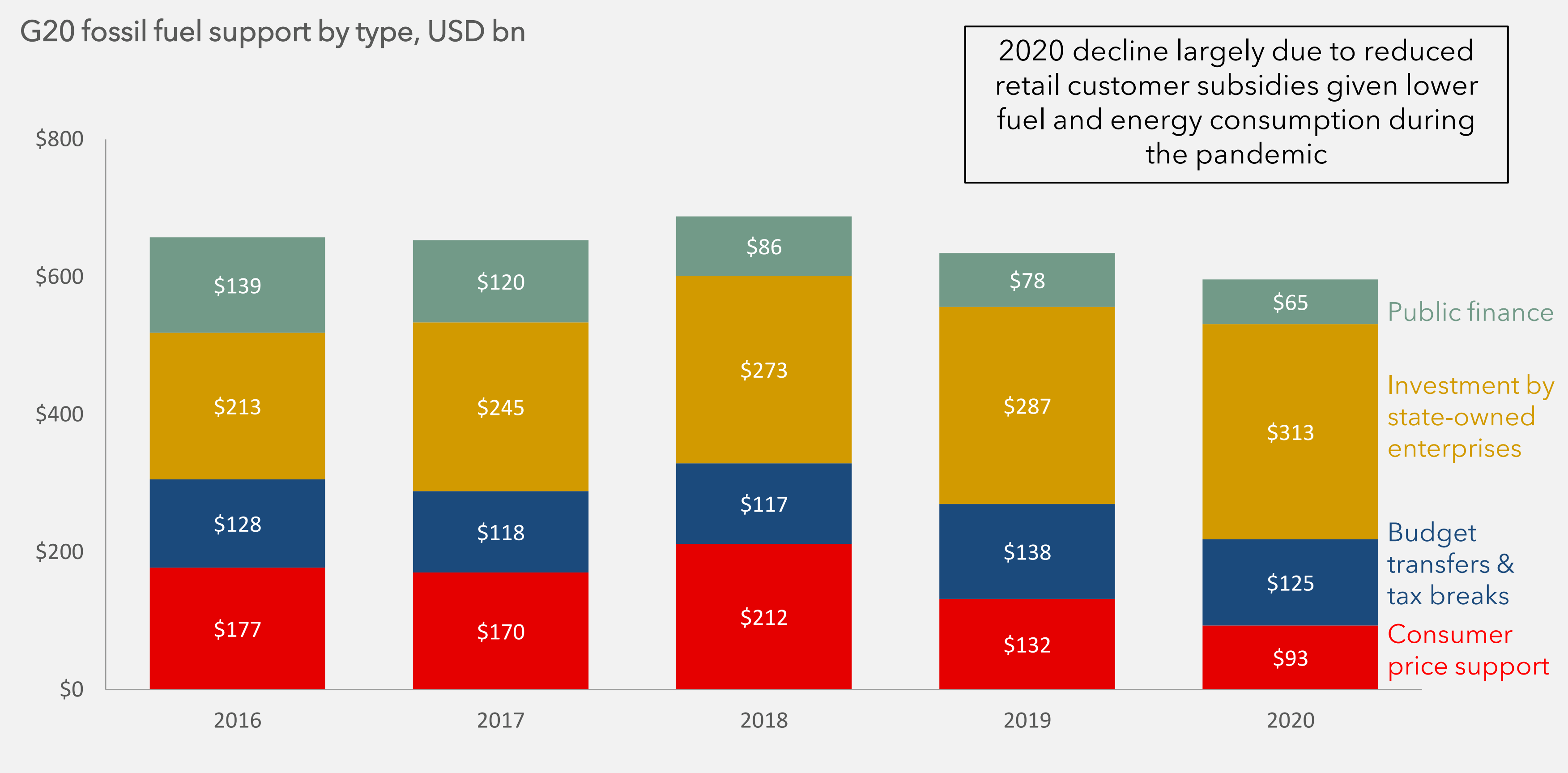
KEY TAKEAWAY

Ending “Inefficient” Fossil Fuel Subsidies

For the first time in a COP pact, parties agreed to “phase out” inefficient fossil fuel subsidies. In 2020, G-20 nations spent $600 billion in fossil fuel subsidies.

G-20 Fossil Fuel Subsidies

In 2020, G-20 countries provided nearly $600 billion in support for fossil-fuels, the vast majority in the form of support for oil & gas. For the first time in a COP agreement, parties to the Glasgow Climate Pact agreed to phase-out "inefficient" subsidies for fossil fuels. However, some parties were dissatisfied with the "inefficient" modifier as it provides latitude on qualifying subsidies.



Source: (1) Bloomberg NEP "COP26 Delivers Gold Amid the Blah Blah Blah". 2020 is estimate.

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KEY TAKEAWAY

Standardizing Disclosure

As expected, the IFRS Foundation launched the International Sustainability Standards Board (ISSB) during COP26. The ISSB aims to build on and replace the patchwork of voluntary disclosure frameworks already in place by creating a baseline for global standards. As part of this process, the ISSB announced it will acquire the Value Reporting Foundation and the Climate Disclosure Standards Board. The ISSB is expected to release its first set of standards in the second half of 2022.

International Sustainability Standards Board

Expect ISSB standards to be viewed as a "global baseline" for ESG disclosure with various jurisdictions developing additional local standards in a "building block" approach

Disclosures, indicators and contextual information addressing sustainable development, impacts, or public policy objectives

- Global Standards or Guidance
- Jurisdictional-specific requirements

Financially material disclosure topics and performance metrics addressing sustainability impacts relevant to enterprise value

- IFRS Sustainability Standards and Guidance

Source: EY "Three Dynamics to Watch on Global Climate Disclosure Standards" (August 12, 2021).

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KEY TAKEAWAY

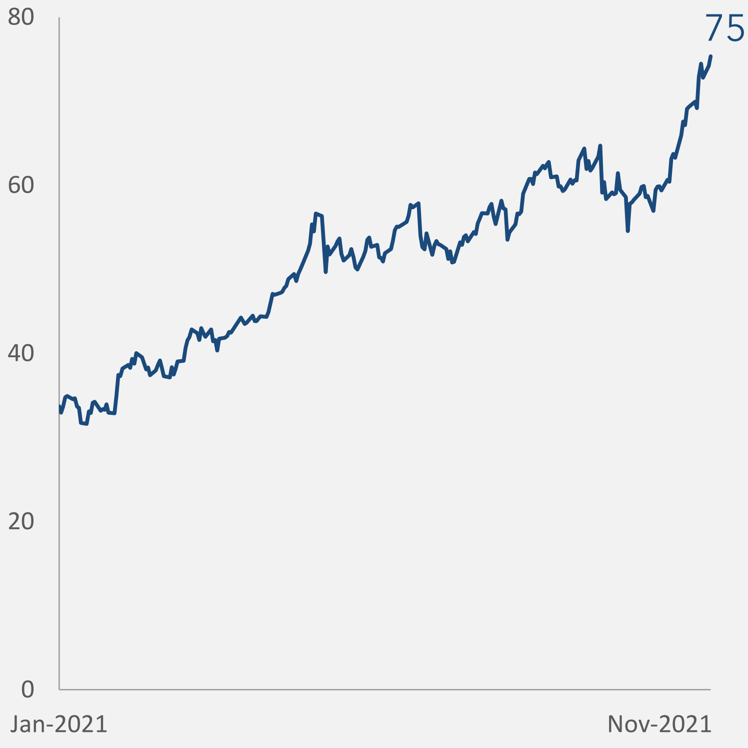
International Carbon Trading Agreement

Agreement was reached on rules for international trading of carbon emission credits, effectively finalizing the "Paris Rulebook". By some estimates, the market for trading emissions in bilateral deals and in the UN-supervised marketplace could reach $100 billion. While the rules end a six-year negotiation process and represent important progress, many activists are concerned they are not tight enough and could lead to "double counting" of credits or greenwashing.

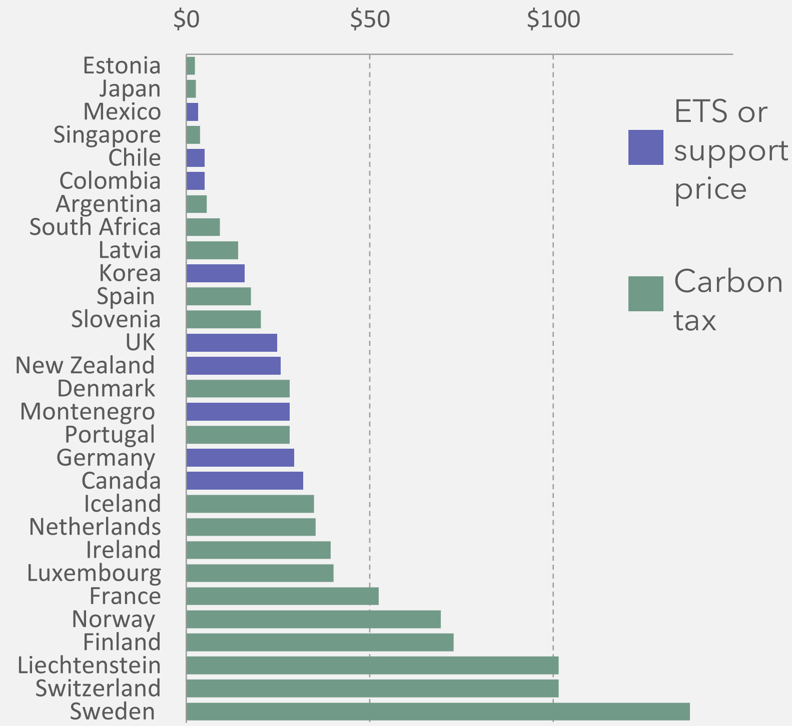
Carbon Prices Rising

Following the Glasgow Climate Pact agreement at COP26, prices in the European carbon market jumped to an all-time high. Advancements at COP26 may provide a pathway for linking carbon markets globally and allow for international trading of carbon-emission credits.

European carbon price, €tCO_2e



Carbon price on implemented national initiatives, $/$tCO_2e$



Source: (1-2) Oxford Economics, "Carbon Prices: Estimates and Methodologies" (November 4, 2021). Bloomberg. Data as of November 30, 2021. World Bank Carbon Pricing Dashboard. Bloomberg Green "COP26 Finally Set Rules on Carbon Markets. What Does it Mean?"

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KEY TAKEAWAY

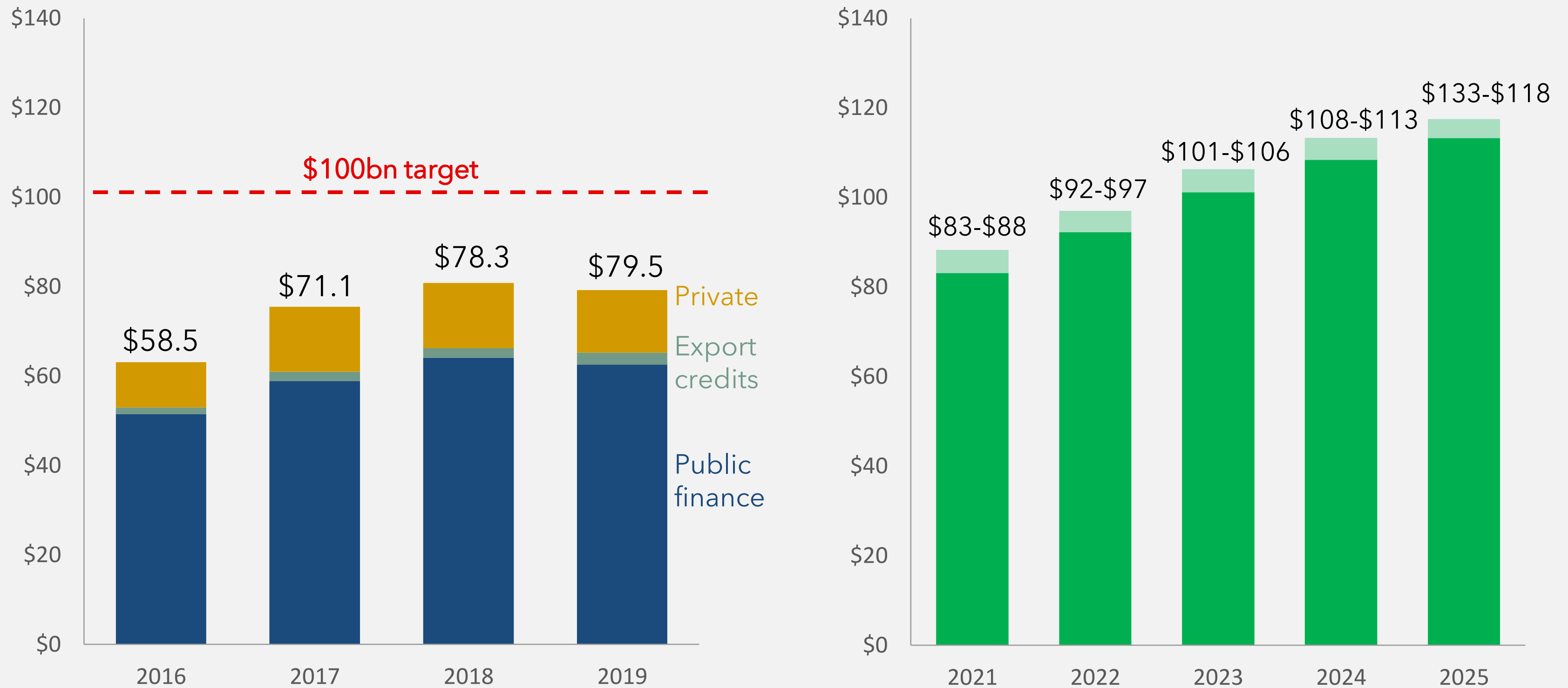
EM Climate Financing

In one of the biggest shortcomings of the conference, a large gulf remains between advanced economies and emerging economies on providing financing for climate adaptation and the transition to net zero. In particular, emerging economies highlighted the previously missed goal for advanced economies to provide $100 billion annually in climate finance to developing countries by 2020 (roughly $80 billion currently being provided). In addition, little progress was made on adaptation finance, which will be one of the key focus areas for COP27, next year in Egypt.

Climate Finance Shortfall

Developed economies missed the 2020 deadline to provide $100 billion per year in climate finance to developing countries. The Glasgow Climate Pact "urges" developed countries to deliver on the $100 billion goal "urgently and through to 2025". Climate financing commitments represent one of the most significant areas of conflict in ongoing global climate discussions.

Historical and projected climate finance provided by developed countries to developing countries, USD bn



Source: (1) OECD "Climate Finance Provided and Mobilized by Developed Countries: Aggregate Trends Updated with 2019 Data". "Forward-looking Scenarios of Climate Finance Provided and Mobilized by Developed Countries in 2021-2025". October 2021. Range based on different scenarios. Scenario 1 Based on countries and multilateral development banks fully delivering on their intended climate finance commitments, in terms of both volume and timing. Scenario 2 based on delays in scaling up climate finance due to a wide range of factors.

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KEY TAKEAWAY

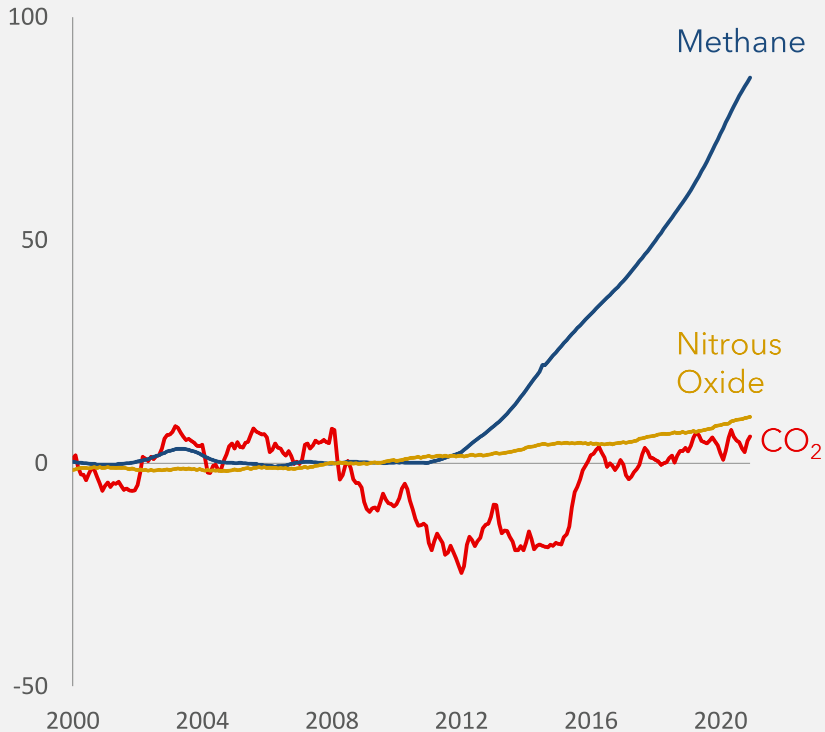
Cutting Methane

110 countries, representing roughly half of anthropogenic methane emissions globally, signed on to the Global Methane Pledge and committed to collectively reducing methane emissions by at least 30% by 2030. In addition, the Glasgow Climate Pact includes a reference to methane for the first time. Notably, China, Russia, and India, the world's top three methane emitters, did not join the Methane Pledge.

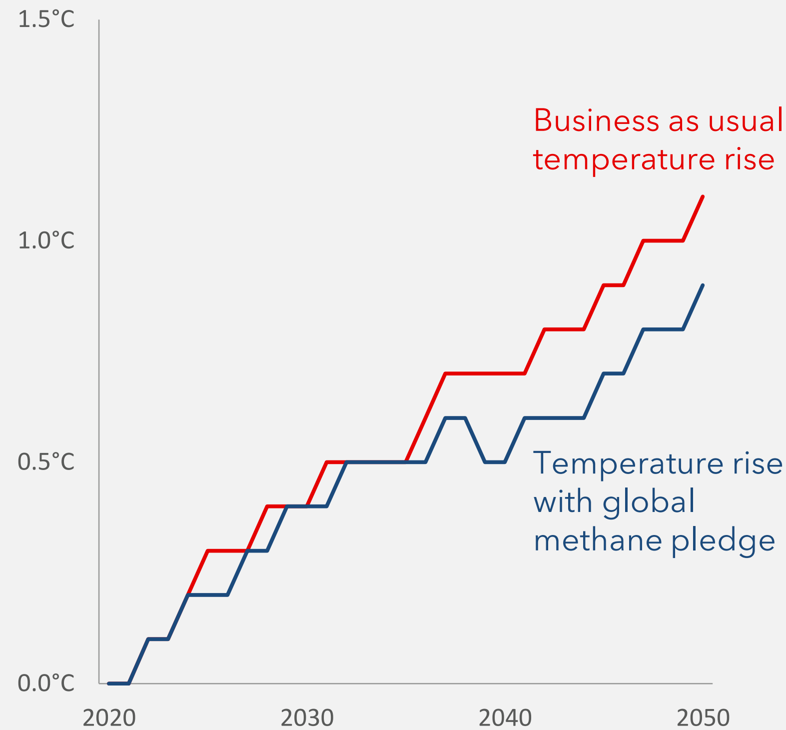
Global Methane Pledge

Methane gas dissipates more quickly than carbon but can cause up to 80x more heating over a twenty year period. Cutting methane emissions is viewed as one of the quickest ways to slow global warming.

Methane's impact on the amount of heat retained by the Earth, 100mWm2



Temperature rise with and without global methane pledge



Source: (1) Bloomberg, "Why the Global Methane Pledge is a Big Deal for the Climate" (November 1, 2021). Martin Manning, NOAA ESRL, Bloomberg NOTE: Differences between observed CO2, methane and nitrous oxide radiative forcing of the climate system from the IPCC scenario to keep below 2 degrees. (2) Bloomberg, "Why the Global Methane Pledge is a Big Deal for the Climate" (November 1, 2021). Drew Shindell at Duke University. European Commission "Launch by United States, the European Union, and Partners of the Global Methane Pledge to Keep 1.5C Within Reach"

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KEY TAKEAWAY

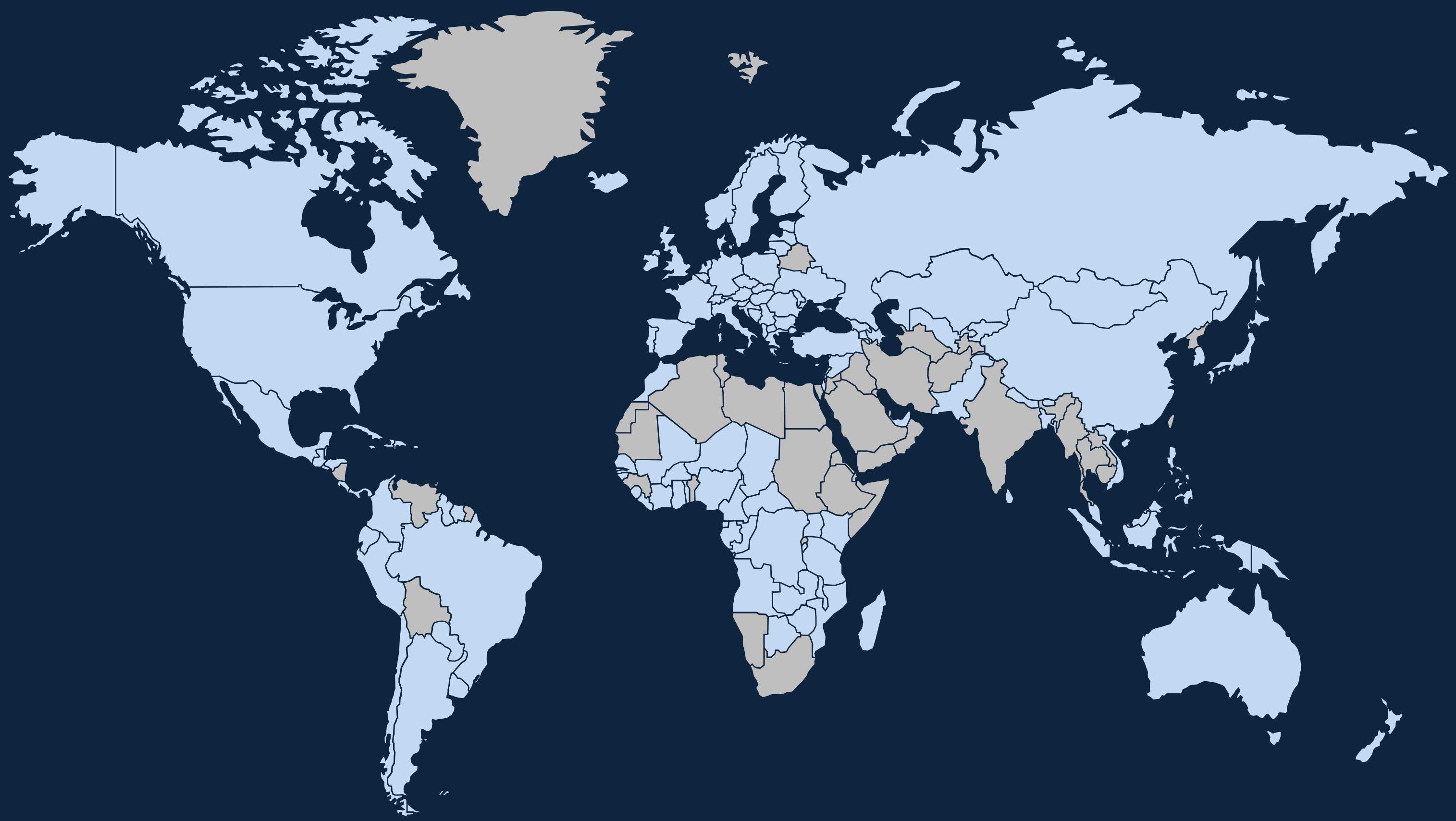
Ending Deforestation

Over 130 countries, including China, Russia and Brazil and representing 91% of the world’s forests, agreed to halt and reverse deforestation by 2030. Importantly, the pledge includes $19 billion of committed public and private funds.

Ending & Reversing Deforestation

Nations accounting for 91% of global forest area joined the "Declaration on Forests and Land Use" and committed to halting and reversing forest loss and promoting sustainable land-use by 2030. However, the agreement's vague language, lack of plan for execution, and non-binding nature mean much work remains to effectively halt deforestation.

Signatories to the Declaration on Forests and Land Use



Source: Bloomberg BNEF "COP26 Delivers Gold Amid the Blah Blah"

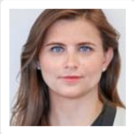
MUFG's Global ESG Expertise

Americas

Takaki Sakai
Managing Director,
Project Finance, Americas &
Sustainability Business Division,
Tokyo

Tobi Petrocelli
Director, Head of
Environmental &
Sustainability Management,
Americas

Amanda Kavanaugh
Director,
Head of Sustainable
Finance, Americas



Hailey Orr
Director,
Capital Markets Strategist

Beth Gilroy
Director, Environmental &
Sustainability
Management

Leanne Rakowitz
Director,
Head of ESG Coverage,

Phoebe Caneda
Vice President, Capital
Markets

EMEA

Stephen Jennings
Managing Director,
Head of Energy & Natural
Resources Structured
Finance Office, EMEA

Geraint Thomas
Director, Head of
Sustainable Finance,
EMEA

Amanda Vainio
Associate, Sustainable
Finance, EMEA

Japan

Akihiro Kato
Managing Director, Head
of Sustainable Business
Office – Solution Products
Division, Japan

Masahiko Ota
Managing Director,
Head of Global CIB
Planning Division, Japan

APAC

Colin Chen
Managing Director,
Head of ESG Finance,
APAC

Rob Ward
Managing Director,
Head of Project Finance
and Head of ESG Finance,
Oceania

Amanpreet Singh
Director,
ESG Finance

Violeta Kelly
Director,
ESG Finance

Wan Tsiang Lam
Director,
Capital Markets

Above members represent MUFG's ESG expertise in our Global Corporate and Investment Banking division.

About the Authors

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Tom has over 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Tom resides in New Canaan, CT with his wife and four sons, where he coaches youth basketball and serves on the Board of Trustees of the New Canaan Library, the Board of the New Canaan Football (Soccer) Club and the Holy Cross College President's Council.

About the Authors

Hailey Orr

Director
Capital Markets Strategist
New York, NY

Hailey.Orr@mufgsecurities.com
(212) 405-7429

Hailey Orr is a Director in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Hailey has a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and seven years as a Capital Markets Strategist. Hailey is also a member of MUFG's Inclusion & Diversity Council and has devoted years to participating in and developing Wall Street recruiting programs.

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".

Stephanie Kendal

Associate
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Stephanie Kendal is an associate in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Stephanie has spent over three years as a Capital Markets Strategist. At her prior firm, Stephanie was a part of the Americas Women's Network Junior Council and was an active member of the University of Michigan recruiting team.

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

MUFG's Capital Markets Strategy Team

The MUFG Capital Markets Strategy team provides monthly publications and weekly policy notes, presenting to Boards and C-Suite executives, on a broad range of transformative themes driving the FX, rates and credit markets including: the COVID-19 recovery, ESG's acceleration, tax code policy changes, US-China decoupling, corporate strategy, geopolitical risk and central bank monetary policy.

MUFG's Capital Markets Strategy Team

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