

## Who will be the winners from Copenhagen?

The Sustainability Research team at RCM, a company of Allianz Global Investors, offer their outlook for the forthcoming Copenhagen Climate Change Conference<sup>1</sup>.

### **Barbara Evans, Sustainability Research Analyst at RCM, comments:**

"While notable progress has been made leading up to the summit, particularly around the issue of adaptation, technology transfer and capacity building, some clear challenges remain. A critical negotiation point will be the issue of mid-term emission reduction targets for industrialised countries. While it is positive that we already have an almost complete list of 'intentions' from the developed world countries, in many cases these fall short of the cuts demanded by experts. Currently, Norway is the only country in the world that has indicated a commitment to reductions at the top end of the range urged by experts.

"Clarity is also still needed on the issue of the financial support that developing countries will require in order to undertake additional actions to limit their emissions growth and adapt to the inevitable effects of climate change. While China and India have taken significant steps forward in recent months, particularly in their commitments to deploy new environmental technologies, there is still a need for clear and significant funding commitments from industrialised countries in order to strike an agreement with emerging economies. Currently, there are no confirmed amounts of money on the table.

"While negotiations have progressed since their launch in Bali in December 2007, and efforts to date have seen the G8 countries sign up to a target limiting global temperature rise to 2°C, emerging markets such as China, which became the biggest global emitter of greenhouse gases in absolute terms in 2008, will only be prepared to play their part if the industrialised nations demonstrate their commitment to making significant mid-term cuts in emissions. Most importantly, the position of the US, after not ratifying the Kyoto Protocol in 1997, will be critical in ensuring this does not become a road block to the negotiating table."

"If success is defined as the establishment of a framework agreement that can be translated into a legally binding document post-Copenhagen, then following a 'successful' summit we can expect to see the following in 2010:

### **Consequences of 'success'**

1. A pick up in the race between economies and companies to set the technological standards for low carbon solutions
2. Continuation along the path to decoupling growth and greenhouse gas emissions
3. 'Pending' domestic climate change policies will receive the support they need to achieve final sign off

"If negotiations stall and no framework agreement is reached, we can expect to see a less positive outcome:

**Consequences of 'failure'**

1. Local climate change policy may stall. The ability for the US and Australia, for example, to pass pending legislation into law relies, in part, on commitments by China and other emerging economies at Copenhagen
2. Hesitancy amongst some corporates to make significant capital investment due to the uncertainty regarding the future cost of greenhouse gas emissions
3. It is not the end of the road. Even if a framework cannot be agreed in December, many countries have already made their own, significant commitments to emission reductions and we do not believe these will be reversed

**Sue Chan, Lead Portfolio Manager of the RCM Global Sustainability Fund, adds:**

"Long-term beneficiaries of a successful Copenhagen Summit will be the 'solution providers' - companies bringing new clean technologies to the market - and the 'early adopters', who have recognised the trends that are upon us are both long-term and structurally important, and are well ahead of their competitors in responding to these risks.

"Solution providers are a vast range of companies providing anything from battery technologies for electric vehicles, systems to support smart grids for improved energy efficiency, LED<sup>2</sup> products, new generations of bio fuels, and carbon capture and storage. An increased focus on 'climate change' is also likely to provide a boost for companies which provide more mature clean technologies, such as wind power, solar power and hydro electrics. The market will open up for metering technologies to measure the efficiency of energy use.

"The early adopters are a wide universe of companies that have incorporated climate change and related trends into their corporate strategy and have invested resources well ahead of time to mitigate earnings risks posed by the rising cost of operations in the future, such as cost for carbon. They are companies that have dedicated resources to reducing their greenhouse gas emissions and carbon footprint and have put strategies in place to realise challenging targets going forward. In turn, the future looks less positive for those companies who rely on energy-intensive processes, where that energy is derived from fossil fuels. Coal in particular will be impacted by efforts to reduce CO<sub>2</sub> emissions. Cleaner burning power sources such as natural gas will be favoured.

"Clearly emerging economies that are growing very quickly will have the biggest burden, both absolute and relative, in committing to lower emission targets and moving up the clean technology curve. China is very reliant on coal for energy, and likely to be a net importer of coal from India, Indonesia, Australia and rest of the world over the next few years. While the use of coal in China is unlikely to be totally replaced, less reliance over time could have implications in terms of balance of trade between China and other economies for this particular commodity.

"If talks stall, then it will be a setback for the companies hoping to benefit from the trends discussed. However, over the long term, there is sufficient momentum at a local level to ensure support for clean technologies and efforts to phase out our reliance on CO<sub>2</sub> intensive fossil fuels will continue regardless."

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**Notes to Editors:**

1 – The UN Climate Change Conference - known as COP15 - takes place from 7 to 18 December 2009. Delegations from 192 countries will hold talks aimed at establishing a new global treaty on climate change. It is hoped countries will agree on issues including the main points of a deal to follow the Kyoto protocol; new targets for industrialised nations to reduce carbon emissions; new targets for poorer nations to limit greenhouse gases; and funding for developing countries to reduce emissions and adapt to a changing climate.

2 - Light Emitting Diodes or 'LED' - an electronic light source which can be used for indicator lamps in many kinds of electronics and increasingly for lighting.

RCM established its dedicated Sustainability Research team nine years ago demonstrating its long-term support for clients who recognise that considering environmental and social factors alongside mainstream company analysis identifies risks and opportunities that have, as yet, not been fully priced by the markets. Sustainability research is fully integrated into the investment process with a member of RCM's Sustainability Research team sitting on the main investment committee, so their input is a routine part of the process. RCM is also signatory to the United Nations Principles for Responsible Investment (UN PRI).

In July this year RCM was named the No.1 leading fund management firm for SRI in the survey conducted by Thomson Reuters and UKSIF, the sustainable investment and finance association.

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**Photographs**

High-resolution photographs of our investment professionals are available to download here:

[http://www.rcm.com/london/press\\_professionals.php](http://www.rcm.com/london/press_professionals.php)

**Awards**

- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, Co-CIO for US Equities, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.

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- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.
- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

**About RCM (all data source: RCM as at 30/09/09)**

RCM is a global asset manager operating from six international offices - San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney – with assets under management of over \$130 billion worldwide. The firm provides a range of investment management solutions to institutions and individual clients. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients - a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment. This enhances our ability to attract and retain talent, and provide superior insight and investment performance.

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