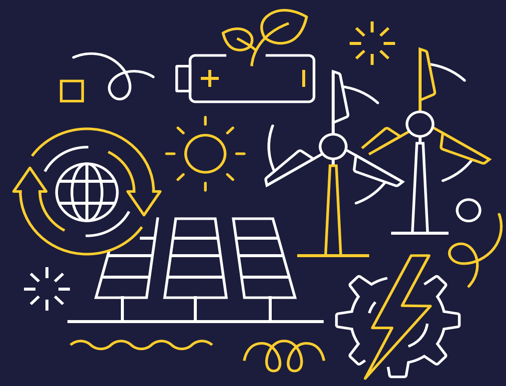
Global
Perspectives
2022

For professional investors only



Responsible investment: themes to look out for in 2022

RI Research and Stewardship Team

Responsible investment issues tend to have a long time horizon. However, we have identified key issues and opportunities we expect will drive change in the coming year.

Energy transition

This is a critical decade for accelerating clean energy transitions and putting emissions into structural decline. We expect to see the following in the coming year:

- **New renewable additions to continue to outstrip new fossil additions** in terms of gigawatt in 2022. Central expectations are for around 300GW of capacity additions in 2022 up from just under 290GW in 2021.[1]
- **Solar will continue to dominate:** supportive policies and maturing technologies are enabling cheap access to capital in leading markets. Solar is consistently cheaper versus new fossil fuel plants in most countries.
- **Wires will be critical to the transition as capacity increases.** The projected requirement for new transmission and distribution lines worldwide is 80% greater over the next decade than the expansion seen over the last.[2] However, high energy bills will test governments' abilities to finance such projects.
- **Battery storage is key.** Since 2010, in real terms battery prices have fallen by almost 90%. However, supply chain issues mean 2022 could be the first year prices increase.

[1] International Energy Agency, Electricity security in tomorrow's power systems, October 2020.

[2] International Energy Agency, World Energy Outlook 2020.

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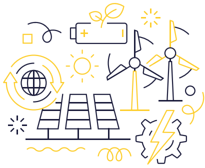

- **Shutting fossil plants is not the only answer to the emissions problem.** Governments can prioritise low carbon energy sources over fossil fuels without plant closures. This enables more renewable capacity to replace fossil when renewable generation rates are high, thereby reducing fossil fuel plants' load factors and reducing emissions.
- **A continued commodities boom will test oil majors' green commitments,** although higher fossil prices will make renewable alternatives even more cost competitive. Reducing fossil demand needs to be tackled credibly if we are to avoid energy price spikes driven by supply and demand imbalances – the road to net zero will be bumpy.

Green mobility

The outlook for green mobility is characterised by rapidly growing interest in hydrogen, low-/zero-emission vehicles and charging infrastructure. We expect to see:

- **The hydrogen ecosystem expand meaningfully** Momentum will continue to build particularly on the policy and technology side and will include the pipeline of global electrolyser shipments to exceed 2GW in 2022; more country hydrogen strategies; and further emergence of new methods to create green hydrogen, such as waste-to-hydrogen and methane pyrolosis.
- **Sustainable Aviation Fuel (SAF)** In 2021, nine airlines committed to set science-based targets (SBTs) to meet pledged net-zero ambitions. In 2022 we will likely see at least a further 10 commit to these targets. This will increase demand for SAF. Cost will be a headwind for demand but should continue to decline amid increased uptake and potential taxation of existing aviation fuel.
- **Rapid growth of charging infrastructure to support EV adoption** driven by accelerating demand for consumer and commercial EVs.

Corporate governance

The last two decades have seen lurching changes in how corporate boards operate. But it is now not enough for directors to ask tough questions; they also need expertise. We expect:

- **A new set of demands from investors and stakeholders will** call for climate, technology and human capital experience in addition to gender and ethnic/racial diversity.
- **Traditional models of "generalist directors" will diminish** and be supplanted by "specialist directors" with strategic or technical sustainability expertise.
- **"Specialist directors" will require non-traditional candidates.**
- **ESG (environmental, social and governance) activism will be a driver for change; investor and stakeholder engagement will ratchet.**

Responsible investment policy: rights, rules and rows

In a pandemic which has stoked existing inequality, it is no surprise attention is focusing on society. We expect investments to be influenced more strongly by actions in the following areas:

- **Human Rights will increasingly shape investment outcomes.** While a legally binding global treaty governing business and human rights remains distant, national and supra-national regulation is gaining teeth. National legislation such as Germany's Supply Chain Act will demand more of investors and investees, requiring appropriate human rights due diligence and remedy.
- **Rules adopted by the US Securities and Exchange Commission (SEC)** in December 2021 can now see China-based issuers delisted within three years. Identification of non-compliance may be costly.

- **Polarisation is likely to continue over climate and energy security, inequality and common prosperity.** The energy sector may soon be the most exciting as corporates such as Woodside turn towards hydrogen and carbon capture. Between the net-zero imperative and Ukraine, the future of nuclear is likely brighter than expected. As the cost of coronavirus emerges, expect social policy to guide markets from China to Chile.

Nature loss

2022 will see increased focus on nature loss, both as a systemic environmental risk, and as a theme with interdependencies with other climate and sustainability topics.

- **Policy:** The UN Biodiversity Conference COP15 aims to "put biodiversity on a path to recovery by 2030" moving toward regeneration by 2050. Proposals make the goal more tangible: preserving 30% of land and sea area, reducing pesticide and fertiliser pollution, eliminating plastic pollution, and achieving sustainable agriculture, forestry and fisheries.
- **Agreed metrics:** This year the Taskforce for Nature-related Financial Disclosures (TNFD) releases a framework for corporates and investors, the EU Taxonomy shifts focus to biodiversity, and the EU releases a disclosure framework, all of which may pave the way to a more common understanding of nature risks.
- **Companies respond:** While many companies' responses are nascent, some are beginning to improve analysis of impacts and risks, or developing "nature positive" initiatives.
- **Recognition of feedback loops** there is a growing understanding that neither climate change or nature loss can be approached in a silo; the two themes are interdependent.

Climate change & carbon

We expect meaningful climate legislation announced by governments in 2021 to take shape, targeting specific industries key to decarbonisation goals, as well as tax incentives for clean technologies. Mandatory climate disclosure will also be at the forefront as the EU implements the Sustainable Finance Disclosure Regulation and the SEC takes action.

The implementation of the reforms of the EU Emissions Trading System (ETS) will continue to tighten the carbon market and push prices towards €100, which will make investments in technologies such as carbon capture and storage and hydrogen increasingly economical. This could accelerate progress in tech developments as well as investments in key decarbonisation technologies. Following COP26, greater focus on net zero will translate into higher scrutiny on corporate net-zero strategies, particularly on the decarbonisation of the supply chains. Companies with unclear/inadequate net-zero plans will be exposed to reputational risk, including climate litigation risk.

We will cover all these topics and more in greater depth throughout 2022 as we continue to analyse, explore and weigh-up the themes that will drive markets and investment opportunities in the future.

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Issued 01.22 | Valid to 06.22 | J32025 | 4223998