

The Swedish National Pension (AP) Funds’ coordination of carbon footprint reporting for investment portfolios

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The AP Funds and the climate issue

The Swedish AP Funds manage capital paid into the national pension system, comprising income-based and premium pension contributions. Currently, there are six AP Funds: the First, Second, Third, Fourth, Sixth and Seventh AP Funds. These AP Funds have different responsibilities within the national pension system. They apply different investment strategies and allocate the pension assets under their management in different ways.

As long-term owners and managers of Swedish pension assets, the AP Funds have a responsibility to generate maximum possible benefit for the Swedish pension system through responsible investment and management. The Funds are tasked with investing and managing their investments in a sustainable manner.

In light of the changes affecting the global climate, growing numbers of investors, including the AP Funds, have started to measure and report on the carbon footprints generated by their investments, i.e. the amount of greenhouse gas emissions the companies that the AP Funds invest in emit. Due to differing investment strategies and allocations to different financial assets, the carbon footprints generated by the AP Funds’ investments vary in size.

As the underlying corporate information must sometimes be adjusted, supplemented or estimated the differences are reinforced, which means that the choice of supplier for the calculation of the carbon footprint to some extent will affect the result.

The AP Funds are keen to see the standardization both with regard to measuring and reporting, even though this may not ensure full comparability of carbon footprints between individual Funds.

Carbon footprints are important, but have their limits

The AP Funds are positive to measuring and reporting the greenhouse emissions generated by their investments, as part of their broader commitment to climate issues. As well as reporting on carbon footprints, the AP Funds will contribute to develop further metrics to help investors and companies handle climate-related risks and opportunities. The table illustrates how a carbon footprint can provide investors with important data, but that the metric also has limitations.

| Carbon footprint – benefits | Carbon footprint – limitations |
|--|---|
| Provides basis for determining certain climate-related financial risks as a price on carbon emissions. | Fails to assess the investments’ total climate impact because: <ul style="list-style-type: none"> - Only certain emissions are included - Emissions data from companies is incomplete - Only certain asset classes are assessed - Reductions in emissions derived from products and services not included - Information about fossil-based reserves not included |
| Can provide a basis for influencing companies concerning requirements for emission-reduction targets, risk management, business strategies and transparency. | Fails to assess a portfolio’s total climate risks, such as the physical risks of extreme weather, flooding and drought or the consequences of more stringent legislation governing energy efficiency. Nor is a carbon footprint a reliable measure of a portfolio’s overall climate potential or how well it is positioned for transition to a low-carbon society. |
| Improves AP Funds’ transparency and encourages greater transparency within the business community as well as promoting the provision of higher-quality data. | Fails to assess what is required to achieve the 2°C target and provides no guidance on how investors can help achieve it. A narrow focus on the reduced footprints of individual portfolios risks diverting attention from actual emission reductions and ways for investors to realize solutions for achieving a carbon-efficient economy. |

The AP Funds' co-ordination of carbon footprint reporting

All six AP Funds have measured their individual carbon footprints for 2014. To increase transparency and the ability to assess their work on climate issues, the AP Funds have agreed to coordinate the way in which the carbon footprints are reported.

Henceforth, the AP Funds' carbon footprints will be calculated as per December 31st of the current year, based on the latest available carbon dioxide data for direct emissions (Scope 1) and indirect emissions from purchased energy (Scope 2). The First, Second, Third, Fourth and Seventh AP Funds will calculate and report the carbon footprints for their portfolios of listed equities, based on the size of their equity interest.¹ The Sixth AP Fund will report these indicators for its non-listed portfolio, based on its equity interests.

Carbon footprints will be reported using the following three indicators, which are currently the most common.

1. The absolute carbon footprint for the portfolio of equities*, corresponding to the percentage of total emissions (tCO₂e) equivalent to the Fund's equity interest (%) in a company
2. Carbon intensity, where the absolute carbon footprint is related to the Fund's equity interest in the company's market value** (tCO₂e/MSEK)
3. Carbon intensity, where the absolute carbon footprint is related to the Fund's equity interest in the company's revenue (tCO₂e/MSEK)

The AP Funds will also include information on the proportion of capital assets assessed, as well as the amounts based on reported and estimated carbon dioxide emissions data respectively.

The AP Funds' future intentions

The Swedish National Pension (AP) Funds will continue to address the climate issue within the framework of each Fund's capital investments, as well as through dialogue with industry organizations and coordinating agencies such as the PRI (Principles for Responsible Investment), the IIGCC (Institutional Investors Group on Climate Change) and the CDP (previously the Carbon Disclosure Project).

In future, the AP Funds will measure and report on carbon footprints in compliance with the new joint approach. The Funds will also continue to support the further

¹ Equity exposure via equity futures and other derivatives, where the underlying collateral comprises listed equities, will not be included. Equity exposure via funds may be included, as long as information about the funds' underlying assets is available. The reason exposure via funds cannot always be included is that the detailed information on assets – essential for measuring the carbon footprint – is not always available.

*Listed portfolio of equities for the First, Second, Third, Fourth and Seventh AP Funds. Non-listed portfolio of equities for the Sixth AP Fund.

**Market cap of listed portfolio of equities and market value as per latest valuation for non-listed portfolios.

development and standardization of methods for calculating and reporting on the climate impact of investments and contribution to sustainable development.



AP3 Tredje AP-fonden



The Swedish AP funds manage capital of the national pension system. All persons that work, receive salaries and pay taxes in Sweden receive a public pension, which consists of income pension and premium pension. The AP funds have different roles within the pension system. First, Second, Third and Fourth AP fund manages the buffer in the income pension – to them capital is transferred if it is a surplus and from here capital is taken when there is a deficit in pension payments. The Sixth AP Fund is also a buffer fund in the pension income but is a closed fund - no new capital is entering or leaving the fund. The Sixth AP Fund invests only in non-listed companies. Seventh AP Fund is different from the others as it manages capital in the premium pension system. Seventh AP Fund AP7 Safa is the default choice in the premium pension system. The AP funds also have different investment strategies and allocate capital in different ways.

More information about the AP Funds at: www.apfonderna