

AP7:s  
Theme Report  
**Climate**

Report on the Climate Theme 2015-2017

# Active ownership for the climate

The financial sector can play a key role in the transition of our energy systems and in the work to mitigate climate change. Measures are needed to reduce greenhouse gas emissions, but also to adapt society to the climate changes that are unavoidable.

In addition to the physical risks posed by climate change, with rising sea levels and more frequent extreme weather conditions, the financial sector is facing a transition risk. This derives from the transition to a low-carbon society, where consumption patterns change, new products replace old, and climate policy becomes more stringent. The value of certain companies will fall when measures are implemented to phase out fossil fuels from the economy.

Investors can manage transition risks by reducing their exposure to companies and organisations at risk of being affected by the transition. However, they can also increase exposure to companies and organisations that are expected to benefit from the transition. If the transition to a low-carbon economy is to generate financial added value, the investor must be able to assess the transition risks better than the market.

AP7 may only invest in equities and fixed-income securities, so much of the money is invested in the global stock market. Because AP7 invests in a large number of companies across all sectors and all regions, our climate risks and transition risks largely correspond with the risks in the entire global economy.

At the end of 2014, when we decided on a three-year climate theme, the role of investors and how they contribute in the work to mitigate climate change was already gaining increasing attention in the public debate. The ambitions were high, and the question was not whether we would develop a climate strategy but rather how we would go about it. We were already considering climate aspects in both corporate governance and asset management when the theme work began. Since 2007, AP7 has held themed investments in unlisted clean technology companies. The holdings have grown to SEK 1.3 billion, a considerable investment in a young sector. We voted for climate proposals at annual general meetings. For many years, we have also been a member of the Carbon Disclosure Project – a collaboration aimed at encouraging companies to submit environmental impact reports.

## Three eventful years

Since the climate theme was launched on 1 January 2015, we have seen three eventful years, both externally and internally, at AP7. The Paris Agreement has come into effect and the FSB Task Force on Climate-related Financial Disclosures (TCFD) has given its final recommendations on how organisations should disclose on climate risks.

The financial sector has developed into a constructive power in the global climate work. What were pioneering climate initiatives for an investor three years ago are now common strategies.

As a long-term asset owner and state pensions fund, AP7 is in a stronger position than many other investors to work on developing standards and methods for the entire market.

Even AP7's climate-related financial risks differ from the risks taken by many other actors in the financial sector. Because we invest throughout the global economy, our portfolio risks are the same as those of the market. Our interests and challenges could be said to be the same as those of the international community as a whole.

This is why our climate work is focused on helping the entire global market adapt to climate change. The agreement made in Paris 2015 is central in AP7's climate strategy, and we are trying to contribute to tangible results. For example, we are collaborating with other investors and societal actors to bring about genuine reductions in emissions in society.

## Ownership makes a difference

If we look at the entire economy, investors' selection and rejection of individual companies and sectors is a zero-sum game. Even if companies change owners, the sum of the fossil reserves and emissions from the entire industrial sector remains the same. Shares can be sold and bought many times without affecting how a company conducts its activities.

Consequently, it became clear at an early stage that, through our influence on the financial market and as owners in companies, we can make a difference. The biggest risk for AP7's long-term mission to generate good returns and give our savers good pensions is that the physical effects of climate change will harm the global growth and economy. Our portfolios are dependent on the global market developing in a sustainable way.

AP7 is primarily managing the financial transition risks through diversification. AP7 is investing in many companies in many different sectors and countries to reduce the saver's exposure to each individual risk.

As owner of a small part of the global stock market, we have not initiated projects to manage transition risks. Instead, we are focusing on projects aimed at reducing actual emissions. By applying pressure in collaboration with other investors, we are trying to bring about change in the companies we own and through changed market practice.

# Strategy with three roles

AP7 can work to reduce actual climate risks and help meet society's investment needs in climate solutions. Our climate strategy has resulted in three roles where we see that we can generate most benefit: as active owner, as facilitator and as knowledge builder.

The main contribution is through being an engaged owner. Active corporate governance means that we are trying with other investors to formulate sustainable ground rules for the companies.

Another important contribution is by financing climate solutions to meet the investment needs associated with a transition to an economy using less fossil fuels.

Finally, AP7 can help to produce new knowledge, disseminate existing knowledge, and bring together different societal actors in a public debate on the climate issues. We also want to help bridge the gap between research and practice. As a state actor, we have the advantage of not needing to compete in a market. This allows us to be open in our method development and create forums for dialogue between different actors on our common climate challenge.

# Importance of follow-up and evaluation

One challenge for sustainable and responsible investors is to evaluate the results of their sustainability work. The number of activities is easy to measure, but the effects are more difficult to assess, particularly when the initiative concerns long-term work with many parties involved. Companies are influenced by many external factors, and it can be difficult to distinguish a single actor's contribution to development.

AP7 is currently helping to develop knowledge about the effects of investors' sustainability strategies, in a project led from the MISUM research environment at Stockholm School of Economics. Together with Storebrand, AP7 is a partner in the project *Investing for Impact – Investor Strategies for Phasing out Coal*. By inviting researchers from MISUM to study our company engagement work, we hope to be able to contribute to method development in the market in terms of measuring the effects of investors' corporate governance.

With the aim of describing what we have achieved during the climate theme, we have, together with an external party, compiled and evaluated the activities and projects we have implemented. The assessment is based on two perspectives: the degree of innovation and potential effects of the project.

Projects with low potential impact increase the risk that we are not working efficiently. However, in projects with a low degree of innovation – but high potential impact – there are good chances of attaining effective results. If there is both high potential impact and a high degree of innovation, we have succeeded with the objective of driving meaningful method development in the financial sector.

# Corporate governance for climate benefit

By the end of 2017, climate aspects had been incorporated in all AP7's corporate governance processes. We also have green mandates in the asset classes of fixed income and unlisted equity, and soon also in listed equity.

- Investments in climate solutions have increased, and in 2018 we have green mandates in all our asset classes.
- The Paris Agreement to the UN Framework Convention on Climate Change is integrated in AP7's blacklisting model, and has contributed to a norm-based interpretation of corporate responsibility in working to attain the goals in the Paris Agreement.
- AP7 has filed a number of shareholder resolutions in climate issues, together with other investors.
- We have carried out directed engagement dialogues on climate issues with than a hundred companies in our portfolio.
- Together with the other AP funds, we have developed a standard reporting system for measuring climate footprint. We have signed the Montreal Pledge.
- AP7 arranges annual conferences for sharing knowledge in the sector, which has led to initiatives such as a research project at Stockholm School of Economics on sustainable financial markets.
- In 2017, AP7 was ranked as one of the best asset owners in the world by the *Asset Owners Disclosure Project*. AP7 had an AAA rating in 2017, and was ranked 16 of 500 in the climate index.
- We are an active member of and run projects within the Institutional Investors Group on Climate Change, a European interest group on climate issues.

# Proposals at annual can change the ma

**General meetings are an important arena for AP7. By filing our own shareholder resolutions, we can both influence the actions of individual companies on climate issues and bring about change throughout the market.**

“We raise an issue that is an important principle for us and drive it against companies, one at a time. At the same time, we hope that it will provide a guide for all companies,” says Charlotta Dawidowski Sydstrand, sustainability strategist at AP7.

An example of such an issue is greater transparency in the companies’ political engagement. The idea is that companies are not just responsible for their emissions and for adapting their activities, but also for how they act politically.

“The companies must convince investors that they support implementation of the Paris Agreement and do not counteract political decisions that relate to climate measures.”

AP7 asks about which sector organisations the companies are members of, which climate issues the sector organisation drives, and what the company does if its own climate policy conflicts with the position of the sector organisation.

“The companies’ money should not be used to counteract necessary climate measures. That’s a responsibility we have to our savers,” says Charlotta Dawidowski Sydstrand.

# general meetings

## arket

One case where AP7 was successful is where it filed a resolution at the general meeting of the American oil company, ConocoPhillips. Together with other investors, AP7 has for some time demanded that the company be more open with information about its lobbying work.

“The company met our demands, so we won’t be putting forward any new proposal at their general meeting.”

Every country has its own regulations, so the option of using shareholder resolutions at general meetings differs a great deal. In the US, this is quite common procedure but, in general, there is greater conflict between shareholders and management, and it is hard to get a resolution approved. In the UK, shareholder proposals are less common, but there is greater agreement between shareholders and management, and AP7 has filed three resolutions that corporate management has been positive to.

“We cannot use the tool on all markets. There is so much restrictive legislation.”

Coordination of initiatives among investors is becoming more common. One example is *Climate Action 100+*, where, by joining forces, investors are encouraging listed companies to phase out their use of fossil fuels and adapt their business activities.

“In 2018, we’ll be seeing greater attention paid to the climate issue at general meetings – not necessarily in the form of resolutions, but as discussions and statements. In view of the discussions now taking place, we can assume there will be a dramatic increase in the number of climate-related shareholder proposals next year,” says Charlotta Dawidowski Sydstrand.

# Climate strategies reflect different circumstances

The climate theme has been a comprehensive project that has resulted in new working methods and the integration of climate in all aspects of AP7's business. The theme has also helped develop our general thematic approach, such as by introducing an evaluation model that helps us identify the effects of different activities.

Climate measures that, at the start of the theme, were seen as pioneering, or even impossible, have today become common practice in the investor community. In 2015, we participated for example in a PRI collaboration to help asset owners develop a climate strategy (*Asset Owners Climate Change Strategy Project*). Today, the result is common knowledge – when the work started, the issues were relevant but relatively uninvestigated. The report produced by the collaboration serves as reference material for investors who are to start formulating a climate strategy.

During the theme, we have tested different methods and projects, while developing our method of working. An example is to file climate resolutions at annual general meetings, which we did for the first time in 2016, on the US market.

One conclusion we have drawn in our attempts to influence oil companies planning to exploit oil in the Arctic region is that dialogues must have clear and measurable goals. Another conclusion is that it can be difficult to evaluate the impact when the market conditions for a company – in this case the price of oil – drastically change.

Another insight that has become increasingly apparent is that there is no universal solution for investors who want to contribute in the climate issue. Everyone must design their own climate strategy on the basis of their own circumstances. This applies particularly to asset owners who, through their role as clients in relation to much of the financial sector, influence managers and investment consultants.

For us, it has been valuable to ask the control questions: “Why are we doing this?” and “How does this contribute to the two-degree target?”. This has enabled us to filter out activities that do not match our objectives or that would divert energy and power from more effective measures. For an investor who wants to take action in the climate issue, there are various financial services and products available on the market. If the objective is not clearly defined, there is a risk that time and energy will be spent on activities that neither generate value for the investor nor benefit the climate.



# Climate lobbying: AP7's new theme

The climate theme was brought to a close in 2017, and the work is now an integral part of our corporate governance processes. These involve voting, engagement dialogues, blacklisting and, not least, that climate is now an important part of asset management.

AP7 continues to drive the implementation of the Paris Agreement. In 2017, a new three-year theme was launched with a focus on climate lobbying, based on knowledge and experiences from the climate theme. If the Paris Agreement is to be effective, it must be implemented in national legislation. In this process, the business community has a significant influence, not least through its lobbying organisations. Within the lobbying theme, we will be filing many resolutions at annual general meetings, in which we will be calling for greater transparency on how companies, through their sector organisations, influence climate policy.

We raise the issue of companies' responsibility to report their work on political impact. We expect the companies in which we invest to be a constructive force when the Paris Agreement is implemented in practice, or at least that they do not counteract necessary climate regulations. In 2017, for the first time we blacklisted companies acting in conflict with the agreement. By incorporating blacklisting in our reviews of standards, we are involved, and interpret where the limit is for acceptable conduct with regard to the climate issue. We hold direct dialogue with a number of companies that we identified as being especially important for the transition, and are running several engagement projects that focus on companies' climate footprint.

## Climate still in focus

Climate remains one of our focus issues at annual general meetings. We usually vote for climate proposals, and also file our own shareholder resolutions on particularly important issues.

In 2018, the international collaboration, *Climate Action 100+*, was launched, where investors will work together to engage with the world's biggest climate-impacting companies. As part of this, AP7 is initiating dialogue with the Russian metal manufacturer, Norilsk Nickel. We have also started exerting pressure against oil companies on the basis of the scenarios presented in the report *2 Degrees of Separation*.

Procurement of a 'green impact' mandate in the listed part of the equity portfolio is in the final phase. The task involves the asset managers, together with us, developing a model for evaluating the effects of investments on climate. The mandate will be in place during the first half of 2018.

# Blacklisting

puts pressure on cl

**Companies that act in direct conflict with the Paris Agreement risk being placed on the AP7 blacklist. The aim of blacklisting is to draw a line for unacceptable corporate conduct and exert pressure on companies that cross that line to act responsibly.**

“The idea is not to blacklist companies for ever. On the contrary, we hope that they listen to the criticism and change their ways, so that we can invest in them again,” says Charlotta Dawidowski Sydstrand.

When AP7 started blacklisting companies in June 2017, it was the first time a major investor had used the method. The biggest company blacklisted so far is the American oil and natural gas giant, Exxon Mobil. For a long time, AP7 had been calling for greater transparency regarding the company’s political engagement. The first step was to file resolutions at the company’s annual general meeting together with other investors.

“It ended up with us blacklisting the company. We felt there was no longer any reasonable doubt that the company was working against effective implementation of the Paris Agreement.”

# imate offenders

The oil company argues that it supports the agreement, but it has not been able to disprove AP7's and the other investors' assessment.

“Exxon has been active in a number of situations that suggest the company is working against the US's attempts to regulate on the climate issue,” says Charlotta Dawidowski Sydstrand.

Exxon needs to convince investors that they have changed their conduct before AP7 will lift the blacklisting and start investing again.

“They have not replied, but we've engaged in dialogue with the company management.”

However, one sign that the blacklisting might have had effect is that the company recently spoke out against one of its sector organisations.

“Naturally, it's hard to prove that we've caused this to happen. But at any rate we see that Exxon has taken steps in the right direction, and our hope is that we can invest in the company again. For us, it's important to be involved and establish the ground rules concerning a minimum level for how companies act with regard to climate issues,” says Charlotta Dawidowski Sydstrand.

# Green mandate

## earmarks investme

**In 2017, AP7 started a procurement of a green mandate in the listed assets portfolio to earmark investments for climate solutions. The procurement is aimed at both collaborating with good asset managers and working with them on developing a methodology for measuring the climate impact of asset management.**

“Today, there is no standard way to ascertain whether and how asset management is benefiting the climate,” says Charlotta Dawidowski Sydstrand.

Within unlisted assets, or private equity as it is also called, AP7 has long been investing in clean technology companies. In the fixed-income portfolio, AP7 has invested in green bonds that, via Kommuninvest, finance development projects in municipalities.

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Now it is time for the portfolio of listed equities to be given an earmarked green investment mandate. AP7 is in the final phase of procurement, where asset managers have been invited to submit tenders for managing the share portfolio. However, this procurement has another purpose.

“We want the managers, working together with us, to drive method development in the market. By simply issuing this invitation to tender we have started a creative process.”

The submitted tenders are not just coming from specialist asset managers who are skilled and who have been working with climate and environmental management for a long time. They have also been submitted by mainstream asset managers who have not previously had this focus.

“The managers will invest time and engagement with us to develop good measurement methods, which makes it a different sort of management assignment,” says Charlotta Dawidowski Sydstrand.

# Evaluation of activities and projects

When we complete a three-year theme, we reflect over the work we have done and what we have achieved. Now that we have completed our most comprehensive theme so far, the climate theme, we decided to present our evaluation in a more structured way.

We hope that the evaluation gives a clearer picture of which activities gave best effect and what lessons we can take with us into the next theme. The aim is to continually develop our method of working and focus on activities that produce the best results.

The following is a compilation of the projects carried out within the framework of the climate theme. We commissioned an external party to assess the effect of the activities. The work has been assessed from the perspectives of degree of innovation and potential impact on the financial sector and companies.

	Low
<b>Degree of innovation</b> The assessment is based on innovation over the entire three-year period. This can mean that a project may have been innovative when it was started, but it may now be common practice.	This type of activity is relatively common in the financial sector.
<b>Potential impact</b> Impact has been assessed both on the financial sector and on companies, and in relation to at least one of AP7's roles: active owner, knowledge builder, facilitator.	The activity has limited chance of leading to positive changes in sector colleagues or companies.

cts

**Medium**

A handful of financial colleagues engage in this type of activity.

The activity has some chance of leading to positive changes in sector colleagues or companies.

**High**

This type of activity is uncommon or unique in the financial sector.

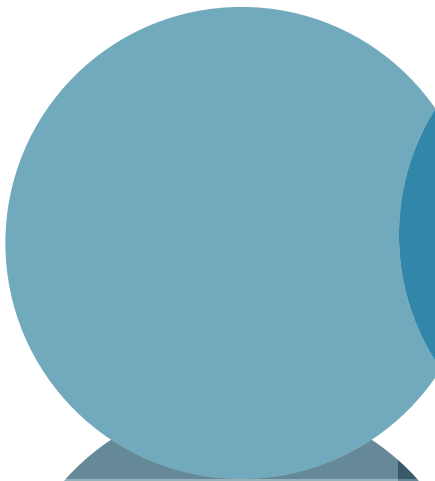
The activity has good chances of leading to positive changes in sector colleagues or companies.



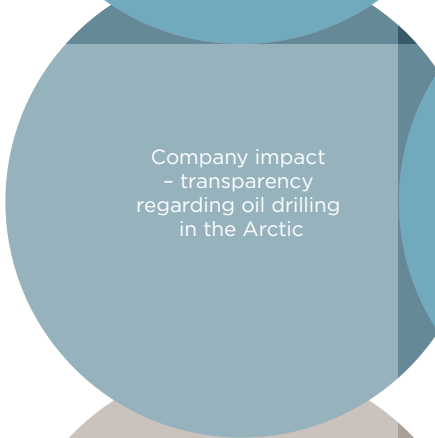
**HIGH DEGREE OF INNOVATION** This type of activity is uncommon or unique in the financial sector.

**MEDIUM** A handful of financial colleagues engage in this type of activity.

**LOW** This type of activity is relatively common in the financial sector.

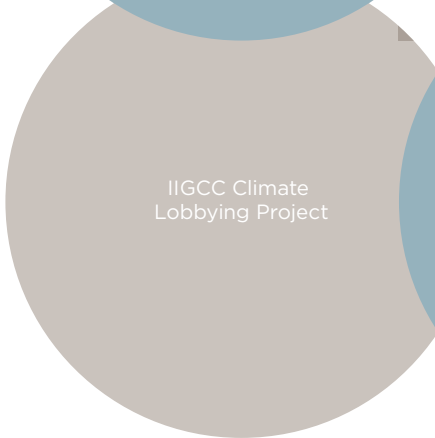


Paris Agreement  
in blacklisting,  
development of norm-  
based interpretation



Company impact  
- transparency  
regarding oil drilling  
in the Arctic

Investment in  
green bonds  
  
Company impact  
- transparency regarding  
oil drilling in the Arctic



IIGCC Climate  
Lobbying Project

Carbon Tracker  
- 2 Degrees of Separation

Report  
PRI Asset Owner  
Climate Change  
Strategy Project



**LOW** The activity has limited chance of leading to positive changes in sector colleagues or companies.

**MEDIUM** The activity has some chance of leading to positive changes in sector colleagues or companies.



Green mandate  
in share portfolio

Climate resolutions at  
annual general meetings

Framtidsforum

Model and standard  
for measuring footprint

Company influence - electricity  
producers phase out carbon

Investor Expectations  
on Corporate  
Climate Lobbying

Support for  
investor statement  
on climate change,  
Montreal Pledge, etc

**Degree of innovation**

The assessment is based on innovation over the entire three-year period. This can mean that a project may have been innovative when it was started, but may now be common practice.

**Potential impact**

Impact has been assessed both on the financial sector and on companies, and in relation to at least one of AP7's roles: active owner, knowledge builder, facilitator.

Research project  
on Sustainable  
Financial Markets  
Degree of innovation:  
Medium  
Potential impact:  
Too early to assess

**HIGH POTENTIAL IMPACT** The activity has good chances of leading to positive changes in sector colleagues or companies.



## Project

## Assessment

### Procurement of 'green impact' management

In 2017, AP7 initiated procurement of a green mandate ('Green Impact Equity') for management in the listed equities portfolio.

The aim and climate benefit of the procurement was twofold. We wanted to make both a directed investment in companies with a positive impact on the climate problem, and develop a methodology for measuring the climate impact of investments. The managers with whom AP7 enter into agreement must be prepared to invest resources in methodology development.

The objective is to gradually increase investment to a level matching the value of the companies blacklisted in the Paris Agreement screening.

### Results

An invitation to tender, involving both method development and management, offered to asset managers can trigger innovation and new approaches in the climate field. AP7 received around 20 tenders from different actors, from small-scale managers specialising in sustainability management to large-scale mainstream managers who normally do not offer climate management. As asset owners promoting methodology development as well as climate asset management, we are helping to drive development in the financial sector.

### Next stage

The procurement is expected to be completed during Q2 2018. When the agreements are in place, a first step is to start the process of developing a methodology for impact measurements in collaboration with our selected managers.

### Main role:

Facilitator, active owner

**Innovation:** High

**Impact:** High

**Climate proposals at annual general meetings**

During the theme, in addition to voting for climate measures at annual general meetings, AP7 decided to file its own shareholder proposals to certain companies as a way to strengthen our engagement in important issues. It is also a way to drive matters of principle for the entire market. If the proposal is taken up on the agenda at the annual general meeting, all shareholders must take a position, which is a way of shedding light on areas of importance and engaging other owners.

In 2016, AP7 filed its first shareholder proposal, also known as shareholder resolutions, together with other investors. On certain markets it is more common for owners to file shareholder proposals, which is mostly because regulations differ greatly between different markets. In certain countries, there are legal barriers to shareholders filing their own proposals. While resolutions are a well-known tool and a relatively simple process in the US, in Australia, Asia and Europe for example it is much more difficult and therefore much less common. So far, AP7 has filed resolutions at annual general meetings in the US, UK and, in 2018 also in Australia.

Resolutions at annual general meetings 2016: Together with other investors, AP7 filed resolutions at the annual meetings of the three largest oil companies in the US: ExxonMobil, ConocoPhillips and Chevron. The proposals called for greater transparency on lobbying activities. Together with other investors, AP7 also filed resolutions at the general meetings of Rio Tinto, Glencore and Anglo American in the UK. The proposals were called 'Aiming for A', and demanded reporting and transparency on how the companies are adapting their activities in line with the two-degree target.

Resolutions at annual general meetings 2017: In 2017 we repeated our proposals to the three largest US oil companies, ExxonMobil, ConocoPhillips and Chevron.

**Main role:**

Active owner

**Innovation:** High**Impact:** High

## **Results**

Voting results, ExxonMobil, Chevron and Conoco Phillips: The proposal to ExxonMobil received 26 percent of the votes at the annual meeting in 2016. The proposal received 27 percent of the votes in both 2016 and 2017 at Chevron's annual meetings. The proposal to ConocoPhillips received 25 percent of the votes in both 2016 and 2017. All three companies opposed our proposal on greater transparency on how the companies conduct climate lobbying, and recommended that the annual meetings vote against the proposal. Other shareholder proposals, for example reporting on climate risks, have also met massive opposition from company managements in the US. Because many owners vote in line with the management's recommendations, the proposals did not pass. However, since the proposals received over a quarter of the votes, this shows that a significant proportion of the owners assessed the proposals to be so important that they were willing to vote against the company managements.

Voting results, Rio Tinto, Glencore and Anglo American: All company managements supported the proposals. At Rio Tinto's general meeting, the proposal received 99 percent of the votes, and at the Anglo American and Glencore general meetings, the proposal received 96 and 98 percent of the shareholder votes respectively. In all cases, the company managements accepted the proposals, and recommended that their shareholders vote in favour of the the proposals, which was crucial for the result.

## **Next stage**

AP7 will continue to use shareholder resolutions as a tool to drive important issues at general meetings. We see it as a way to influence the companies one at a time, but also as a way to raise issues for a wider ownership group and to drive new value norms and standards on the market. In 2017, within the investor group, IIGCC, we have discussed how we can reliably ensure that the goals in the resolutions are followed by the companies that adopted them, and how we can proceed with resolutions as tools. In 2018, we will be filing proposals in both the US and Australia.

### Paris Agreement in blacklisting

AP7 has developed the standard for norm-based screening and analysis, as the first investor to formulate an interpretation of a company's responsibility for complying with the Paris Agreement, which specifies in detail the UN Climate Convention. In 2017, for the first time we blacklisted companies that act in conflict with this new climate norm. By incorporating the Paris Agreement in our norm screening, we are involved in defining what is unacceptable corporate conduct on the climate issue. The aim is to define an ultimate limit, and to exert pressure on companies that exceed this limit to change their conduct.

Through blacklisting, we want to help remove obstacles to the effective implementation of the Paris Agreement. Blacklisting helps to show that companies, along with managing their direct climate impact, also have a social responsibility for how they influence political decisions through their direct and indirect contacts with decision-makers.

### Results

AP7 is the first investor to include the Climate Convention in our norms screening, and is therefore a driver in interpreting what the Paris Agreement entails in terms of corporate responsibility. In June 2017, AP7 blacklisted six companies that, in various ways, act in conflict with the Paris Agreement:

- ENTERGY – counteracts climate legislation in the US.
- EXXONMOBIL – counteracts climate legislation in the US.
- GAZPROM – counteracts climate goals by extracting Arctic oil in Russia.
- SOUTHERN CORP – counteracts climate legislation in the US.
- TRANSCANADA CORP – counteracts climate goals through large-scale oilpipe construction in the US and Canada.
- WESTAR INC – counteracts climate legislation in the US.

### Next stage

The Paris Agreement is now an integral part of AP7's six-monthly blacklisting of companies conducting activities that conflict with international norms. Norm interpretation and method development continues.

### Main role:

Active owner

**Innovation:** High

**Impact:** Medium

## Project

## Assessment

### Framtidsforum

With Framtidsforum ('Future Forum'), AP7 has created an arena for discussion across sectors in society. By using dialogue as a tool, we have chosen to remove the barriers between theory and practice, the business community and politics. At Framtidsforum, different stakeholders in society meet to identify needs and agree on joint initiatives. The theme has been the financial sector's contribution to a sustainable society.

The first forum was held in 2015, and was based on the Stockholm Environmental Institute (SEI) report *New Climate Economy* and the document, *Investors in a New Climate Economy*, which AP7 and SEI drew up together.

At Framtidsforum 2016, nearly one hundred participants gathered to participate in a workshop. The aim was to agree on and present proposals for relevant research themes regarding the financial sector's contribution to sustainable development. The themes discussed included ground rules, innovation and infrastructure investments. A recurring discussion was also the definition of sustainable value creation and the need for a common understanding of what this entails.

### Results

Discussions during Framtidsforum 2015 and 2016 resulted in three research themes:

- 1) Actual effects of investors' climate strategies
- 2) Promoting a long-term perspective
- 3) Financing of sustainable infrastructure

What unites these three research themes is that they lie at the interface between theory and practice, and are regarded as relevant by academia, the financial sector, the business community and politicians.

### Main role:

Knowledge builder,  
Active owner

**Innovation:** High

**Impact:** High

The first theme, 'Actual effects' led to a research project, A '*Greener*' Financial Sector - how research can inform financial decision-making processes.

Read more about the project under 'Research into sustainable financial markets'.

### **Next stage**

One of the three leading roles AP7 can play for sustainable development, alongside our active ownership and investments in solutions, is to help produce new knowledge, disseminate existing knowledge, and bring together different societal actors in a public debate. In this way, we will continue to contribute to the constructive dialogue between decision-makers, the business community and investors. Wherever we can, we want to help bridge the gap between research and practice within the field of sustainable investors. We can also create forums for dialogue between different actors on our common climate challenge.

### Research into a sustainable financial market

The issue of sustainability effects was identified as an important research theme at Framtidsforum 2016. Many studies of the effects of sustainable investments on the financial outcome have been carried out in the past decade, but considerably fewer studies have examined the effect of investments on sustainable social development.

A sustainable investor is faced with the question of whether they are making any real difference. There is still a lack of scientific methods for measuring the societal effects of investors' climate strategies.

To address this, AP7 together with MISUM initiated the project *Greening the Financial Sector – Bridging Science and Practice to Inform Financial Decisions to Better Deliver upon the SDGs*.

Together with Storebrand, AP7 is a partner in the project *Investing for Impact – Investor Strategies for Phasing out Coal*. MISUM is coordinating the project, and is also the academic partner that can impartially evaluate and compare investment strategies. The subproject, which runs 2017-2019, will attempt to answer such questions as: What are the concrete effects of investors' sustainability strategies? Are some strategies more effective than others? Are there activities that are totally ineffective?

In the project, Storebrand is contributing data to a study of the effects of divestment from coal companies. AP7 is providing information for an assessment of engagement with utility companies that base parts of their production on coal.

By commissioning researchers from MISUM to assess our work to influence the electricity production sector (see page 25), we hope to contribute to method development in the market in terms of measuring the effects of investors' corporate governance. We also hope to see an assessment of how effective our work has been. The results of the research study will be published in 2019.

### Results and next stage:

The results of the research study will be published in 2019. Knowledge that is generated will be important for AP7, but also for other actors in the financial sector that want to maximise the effect of their strategies and measure the results of their engagement.

### Main role:

Knowledge builder

### Innovation: Medium

**Impact:** Too early to assess because the research project is not yet complete



## Project

## Assessment

### Engagement project through dialogue with power companies

When AP7 started the climate theme in 2017, we reviewed and analysed the carbon dioxide footprint of our holdings. It soon became clear that the power sector has the largest direct emissions of greenhouse gases.

We also saw that power companies will play a key role in the transition to a greener society. These companies are facing a major transformation, where they must meet society's increasing need for electricity, heating and cooling, while reducing their emissions. If we are to attain the two-degree target, the companies in this sector will need to phase out coal as an energy source, and convert their production to more renewable fuels.

By directing our corporate governance towards this sector, which is one of the largest users of fossil energy, we can help drive a reduction in the demand for coal, gas and oil.

In 2015-2017, we held in-depth dialogues with around 20 power companies, which we initiated with our analysis provider, GES, in collaboration with a number of other investors. Through dialogue, AP7 has tried to influence these companies to make strategic decisions to minimise their carbon dioxide emissions in line with investors' long-term interests and expectations. We are clear about our expectations and are calling for greater transparency regarding emission levels, goals and means of control to transform their business activities.

The following power companies were involved in the dialogue project: Alliant Energy, CEZ AS, Chubu Electric Power Co Inc, DET Energy Co, Electric Power Development Co Ltd, Huaneng Power International, NTPC Ltd, PPL Corp, Southern Company, Tokyo Electric Power Co Holdings Inc, American Electric Power Co Inc, China Resources Power Holdings Co Ltd, Datang International Power Generation Co Ltd, Duke Energy Corp, Engie, NRG Energy Inc, PGE Polska Group Energetyczna SA, RWE AG, Tohoku Electric Power Co Inc, Xcel Energy Inc.

**Main role:**  
Active owner

**Innovation:** Medium

**Impact:** High



## Results

The companies have been continually evaluated on the basis of four main indicators (more specifically, 80 measurement points):

1. Policy on climate change
2. Transparent reporting of emissions
3. Goals and action plans for reducing emissions
4. Strategy for managing climate risks

We can see that the companies with which we held dialogue have improved more than the rest of the sector in relation to the indicators.

Improvements that we observed in the companies during our dialogue project:

- Distinctly improved reporting of climate-impacting emissions.
- Companies that had previously not conducted any climate-related work have acknowledged that climate impact is a strategically important issue they must address.
- Goals for emissions reductions have been developed where they were previously lacking.
- Strategies for reducing emissions have been developed.
- Existing climate strategies have been improved by linking to AP7's priorities.
- Company managements have, for example, learned more about carbon pricing, science-based emissions targets, how the consequences of investment plans for the climate are formulated and reported, and limitations of carbon dioxide sequestration.

The results must be viewed with caution, because companies are influenced by other external factors than simply our dialogue. The companies operate in a complex environment, and are affected by other factors and stakeholders, along with their owners. There is also a time lag in measuring the effects of our dialogue, so it may be several years before the work to bring about change produces tangible results.

During the dialogue project, researchers from MISUM have examined our work, to analyse the effects on the companies' phasing out of coal. The results of the research study will be published in 2019.

### Next stage

The project is drawing to a close, and we are holding discussions with the other investors involved about the next stage. Our engagement in the power sector will also continue in other forums and through other collaborations. AP7 is part of the investor group Institutional Investors Group on Climate Change (IIGCC), where, in 2016, we formulated clear expectations of the electricity companies. The report *Investor Expectations of Electric Utilities Companies* is available for download from the IIGCC website, and can form a basis for investors who want to exert their influence on companies. With this analysis as a base, discussions are currently ongoing about how we as a group can take directed corporate governance measures against the power companies with the aim of driving a phase-out of coal.

### Project

#### **Increase corporate transparency on climate issues, and development dialogue with regard to CDP**

Since 2007, AP7 has been a member of the Carbon Disclosure Project (CDP), an international organisation that, for example, maintains a global system to help companies measure, publish and manage emissions of greenhouse gases. Together with a number of other Nordic asset owners, in 2015 and 2016 we contacted companies on the Nordic market that do not report climate data to CDP and encouraged them to measure and report their climate impact.

#### **Results**

After we and other investors contacted the companies and firmly expressed our view on the importance of companies measuring and reporting their climate impact, the number of companies submitting reports increased in 2015 and 2016.

#### **Next stage**

The project is completed. Through its membership in CDP, AP7 continues to support increased reporting from companies with regard to climate issues.

### Assessment

**Main role:**  
Active owner

**Innovation:** Medium

**Impact:** Medium

## Project

## Assessment

### Development of reporting standard for climate footprint

Since 2014, AP7 has reported annually the climate footprint relating to our investments. Since 2015, AP7 has participated in a collaboration group with the buffer funds AP1-AP4 and AP6 to coordinate the funds' reporting of carbon dioxide footprint. In autumn 2015, the group presented a common way of reporting carbon dioxide footprint. In 2017, another performance indicator was added to the first three in accordance with TCFD recommendations. The carbon dioxide footprint indicates the size of direct emissions from the underlying companies in AP7's equity fund, but the practical value of the information is limited. AP7 is providing general support to developing a method for impact measurements on the market.

### Results

By reporting our own climate footprint, we are sending a signal to our companies on the importance of measuring and reporting emissions. Transparent information about climate impact of their activities is necessary if the companies themselves are to work in a systematic and goal-oriented way with climate impact, and to enable us, as owners, to assess the climate impact of our portfolio. The AP Funds' proposal for standardised reporting of climate footprint has been widely adopted, both internationally and nationally, and has become a standard in the market.

### Next stage

AP7 will continue to annually report its climate footprint. The work to develop measurement methodology will continue in collaboration with asset managers within the framework of the green impact mandate. The work within the AP Funds' climate coordination group will continue.

### Main role:

Knowledge builder,  
Active owner

**Innovation:** Medium

**Impact:** High

## Project

## Assessment

### Investment in green bonds

In 2016, AP7 decided to increase its investments in solutions to the climate problem, and this would involve all the Fund's asset classes. Since 2007, we have included clean-tech investments in our unlisted portfolio. Investing in green bonds was the next natural step. In October 2016, AP7 was given the opportunity to invest in a green bond from Kommuninvest. The investment was SEK 600 million.

### Results

By investing in green bonds, we can help to finance solutions to the climate problems. As asset owner, by calling for this type of investment, we can also help widen the range of green investment alternatives on offer. However, the supply of green bonds is currently lower than demand, which limits investors' possibilities to help finance a transition.

### Next stage

AP7's objective is to successively increase the proportion of green bonds in the fixed-income portfolio.

### Main role:

Facilitator

**Innovation:** Medium

**Impact:** Medium

## Project

## Assessment

### **Engagement project through dialogue with oil companies planning to extract oil in the Arctic**

Together with some other institutional investors, in 2014-2016 AP7 applied pressure to eleven international oil companies planning to extract oil in the Arctic. The objective was to increase the oil companies' transparency and to get them to report to their shareholders on how they are managing the major environmental and financial risks associated with oil extraction in the sensitive ecosystems in the Arctic. As shareholders, we wanted to understand and also challenge the companies' financial calculations and environmental impact analyses.

### **Main role:**

Active owner

**Innovation:** Medium

**Impact:** Low

### **Results**

The investor group was early in raising the issue of the Arctic. The large majority of the companies we contacted reported, at least to some extent, on their position regarding the environmental and economic risks in the projects. We cannot say for certain how the investor group's pressure contributed to the companies not proceeding with their projects in the Arctic. The dialogue project lacked sufficient measurement parameters – effects can only be assessed in relation to the overall objectives – and the market conditions changed for the companies. External factors, such as the oil price and political aspects, changed the circumstances for the companies, and to date the companies have not proceeded with their plans.

### **Next stage**

The dialogue project as such is completed, but extraction of oil in the Arctic continues to be an important issue in our corporate governance. AP7 has assessed that extraction of oil in the Arctic is not compatible with the two-degree target in the Paris Agreement. We have therefore blacklisted Gazprom, which is the only company currently producing oil in the region. Activities in the Arctic are also a current issue in the investor project *Climate Action 100+*, and dialogues with oil companies are continuing on the basis of the results of the study *2 Degrees of Separation*.

## Project

## Assessment

### **Engagement project through dialogue with climate-impacting companies in Europe (IIGCC Corporate Climate Lobbying Project)**

Together with 50 other investors, AP7 was part of an IIGCC-coordinated dialogue programme, launched in September 2015 and aimed at 75 companies with high levels of climate impact. The aim of the programme was to examine the companies' position on climate issues ahead of COP 21 in Paris, and to help investors understand the companies' actions in climate policy and lobbying activities, and how they ensure that the organisations of which they are members are not carrying out climate lobbying that conflicts with the companies' or their shareholders' climate policies. The results formed the basis of the report *Implementing the Paris ambition: Aligning corporate and investor voices on climate policy*, produced in collaboration with the Policy Studies Institute of the University of Westminster, UK.

### **Results**

The result of the study was an overview of how the positions of different sectors vary in climate policy issues. The report was not made public, and the results of the study were not widely distributed. Any effects of the companies' positions and lobbying activities have not been evaluated. However, the results did help increase knowledge within the investor group IIGCC about which issues and sectors are particularly important to focus on.

### **Next stage**

The results of the study provided input to a company dialogue project initiated by AP7 together with Öhmans asset management during 2018.

### **Main role:**

Active owner,  
Knowledge builder

**Innovation:** Medium

**Impact:** Medium

## Project

## Assessment

### UN PRI Investor Expectations on Corporate Climate Lobbying

**Main role:**  
Active owner

Together with a number of other investors, we drew up and published in 2015 a document that clarifies how we look upon corporate climate lobbying. *Investor Expectations on Corporate Climate Lobbying* makes clear that we expect companies to support a policy that promotes a transition towards climate goals, or at least does not counteract it. We take the view that companies should adapt their activities to meet new regulations and requirements, instead of investing resources in lobbying against the necessary measures that must be introduced to attain the two-degree target.

**Innovation:** Low

**Impact:** High

### Results

The document was published in September 2015 ahead of the climate negotiations in Paris. By making clear that investors see climate initiatives, regulations and legislation as necessary for a transition, and that companies are expected to support a robust climate policy, investors were sending a clear message to the business community and actors involved in the climate negotiations. The document was one of the positive signals from non-state actors that assessors felt contributed to a global climate agreement being reached in Paris. The document has formed the basis of dialogues between investors and companies in the US, Australia and Europe. At the time of writing, 75 investors around the world have signed the document, and it is still open for new investors to sign.

### Next stage

The document forms the basis of AP7's position on the lobbying issue. In 2018, AP7 will be implementing a company dialogue project based on the document, and together with other investors in PRI, AP7 will be publishing a guide for investors who want to become engaged in the lobbying issue. The guide will be based on experiences from the project.



## Project

## Assessment

### **Scenario analysis of Carbon Tracker – 2 Degrees of Separation**

In 2017, together with four other asset owners (FRR, PKA, PGGM and Legal and General) and PRI, AP7 commissioned the research organisation Carbon Tracker to develop scenario analyses of the profitability of oil and gas companies' future investment plans in a world in line with the two-degree target. As part of the launch of the report, AP7 held a workshop in Stockholm together with PRI and Carbon Tracker.

### **Results**

The analysis is available in a public report, and members of PRI can also download specific company profiles from the PRI website. The scenario analyses can be used when making assessments for investment decisions and as an independent source of information to incorporate in dialogue with companies about their plans and future investments.

### **Next stage**

In 2018, together with a number of other investors within PRI, AP7 initiated an engagement dialogue with the oil and gas companies in the study.

### **Main role:**

Knowledge builder,  
Active owner

**Innovation:** Low

**Impact:** Medium

## Project

## Assessment

### **Strategy development project: PRI Asset Owner Climate Change Strategy Project**

In 2014, together with a number of other asset owners, AP7 initiated a strategy project within PRI to identify drivers and aspects in a climate strategy for, specifically, asset owners: the *PRI Climate Change Strategy Project*.

### **Results**

The work resulted in a document that has been available in the PRI knowledge bank since 2015. The document serves as reference material for investors who are developing a climate strategy. Today, the content is common knowledge and no longer pioneering, but when the project started in 2014, the issues were relevant yet relatively unexplored. The working group comprised a number of different asset owners, coming from different starting points and with different driving forces. AP7's focus on reducing the physical climate changes, and not just the financial transition risks, and the importance of efficient corporate governance, were perspectives that we brought to the project.

### **Next stage**

The project is completed. The report is available on the PRI website.

**Main role:**  
Knowledge builder

**Innovation:** Low

**Impact:** Medium

## Project

## Assessment

### **Part of investor initiative: Montreal Pledge and Investor Statement on Climate Change**

Together with other investors, AP7 has on a number of occasions urged the world's leaders to agree on long-term and ambitious goals to support a transition to a low-carbon global economy, through the *Investor Statement on Climate Change*. The first time was ahead of the UN Climate Summit in September 2014, and the second time ahead of COP 21 in Paris 2015. Since 2017, AP7 has also been a signatory of the Montreal Pledge, which means we undertake to calculate and publicly report our carbon dioxide footprint as a way of driving better climate reporting.

### **Main role:**

Active owner

**Innovation:** Low

**Impact:** High

### **Results**

The *Investor Statement on Climate Change* initiative was a powerful expression of intent from the financial market for a globally binding climate agreement, and much of the financial market backed the initiative. According to some assessors, the positive force from non-state actors was one of the key factors in bringing about the Paris Agreement. The Montreal Pledge has now been signed by 120 investors.

### **Next stage**

The *Investor Statement on Climate Change* is a completed project. AP7 is still one of the signatories of the Montreal Pledge.



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