



# Climate Action Plan

An integrated climate action plan for AP7's investments and active ownership **2023**



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**About AP7's Climate Action Plan**

This is a summary of AP7's plan for how we will contribute to attaining net zero emissions globally by 2050. The Climate Action Plan is based on the scenarios of the UN Climate Panel, IPCC, and the International Energy Agency's Net Zero Roadmap 2050. AP7's action plan includes goals for AP7's investments and active ownership and will be developed continually.

**About AP7**

AP7 is a public agency, whose mission is to manage the pension capital within the Swedish premium pension system. AP7 is a universal and long-term owner with over SEK 900 billion under management on behalf of more than 5 million Swedish savers, and this carries a great responsibility. AP7's asset management takes place exclusively in the interest of savers, both today's pensioners' and tomorrow's.

Our sustainability work is based on the norms reflected in Global Compact's ten principles and the

UN Agenda 2030. Climate change is one of the most urgent sustainability issues of our time. With investments in more than 3,000 companies around the world, we can act as owners on a broad front and with a long-term perspective, considering the interests of the entire market. By being an active universal owner, AP7 is securing the financial interests of both current and future savers. AP7's active ownership aims primarily at a positive effect on the long-term return for the entire market, rather than for individual companies.



# Owners can act together for a climate transition

**AP7's mission, to generate good returns for our savers, is dependent on the implementation of the Paris Agreement and a long-term sustainable development globally.**

With our universal ownership, we cannot avoid the challenges the world faces and which are addressed through the UN's global sustainability goals. Taking responsibility for a sustainable transformation of the economy is therefore natural to AP7 and a prerequisite for us to be able to fulfill our mission of creating a good pension for our savers.

Political decisions are crucial to enable action at scale against climate change, but the responsibility to act lies not only with our politicians but also with other actors in society. As a universal, long-term asset owner and state pension fund, AP7 is in a stronger position than many other investors to work on developing norms and methods for the market, and persuade companies worldwide to implement them. Our sustainability work is based on the ten principles of the Global Compact. These norms also permeate our sustainability goals – with the climate transition as one of the most pressing issues.

According to the International Energy Agency, IEA, the world's emissions must be halved by year 2030 if the temperature goals are to be reached. Therefore, the transition needs to accelerate in the next few years, with significantly reduced emissions and multiplied investments in renewable energy. Companies that have committed to achieving net zero emissions by 2050 need to adopt credible targets in the near future and reduce their emissions as soon as possible.

For the transition to become a reality, investors must increase their demands on companies with a large climate impact. Therefore, there is great value in large asset owners not divesting their influence in the world's highest emitting companies, but instead collaborating to become a strong force for change. Together, we can persuade companies to come up with credible transition plans, in order to be better equipped for the future, and thus better investments.

With ownership in more than 3,000 companies around the globe, it lies in our interest that a transition occurs that reduces climate risks in the real economy and not just in our



equity portfolio. Our focus lies on active ownership and on supporting our portfolio companies in their transition, and in adapting their operations to climate-related risks and opportunities. We need to be able to assess how our investments are affected by climate change, and thus we also encourage transparent reporting. This is important information, for our investment decisions as well as in our dialogue with portfolio companies.

In parallel with our advocacy work, we contribute by financing businesses that develop climate solutions and contribute to reduced climate risks. And as a universal owner and state pension fund, we use our position to work with public policy dialogue and development. In this way, we aim to safeguard the financial interests of both current and future savers.

With this roadmap, we wish to clarify our intention to be a positive force for attaining net zero emissions by 2050 and describe how we will proceed.

Stockholm, May 2023

Richard Gröttheim  
CEO, AP7



**With ownership in more than 3,000 companies around the globe, it lies in AP7's interest that a transition occurs that reduces climate risks in the real economy – not just in our equity portfolio.**

# AP7's climate risks

With a large and global ownership, across all industries and regions, AP7's sustainability risks are largely the same as those of the global economy as a whole.

## AP7's global climate risks

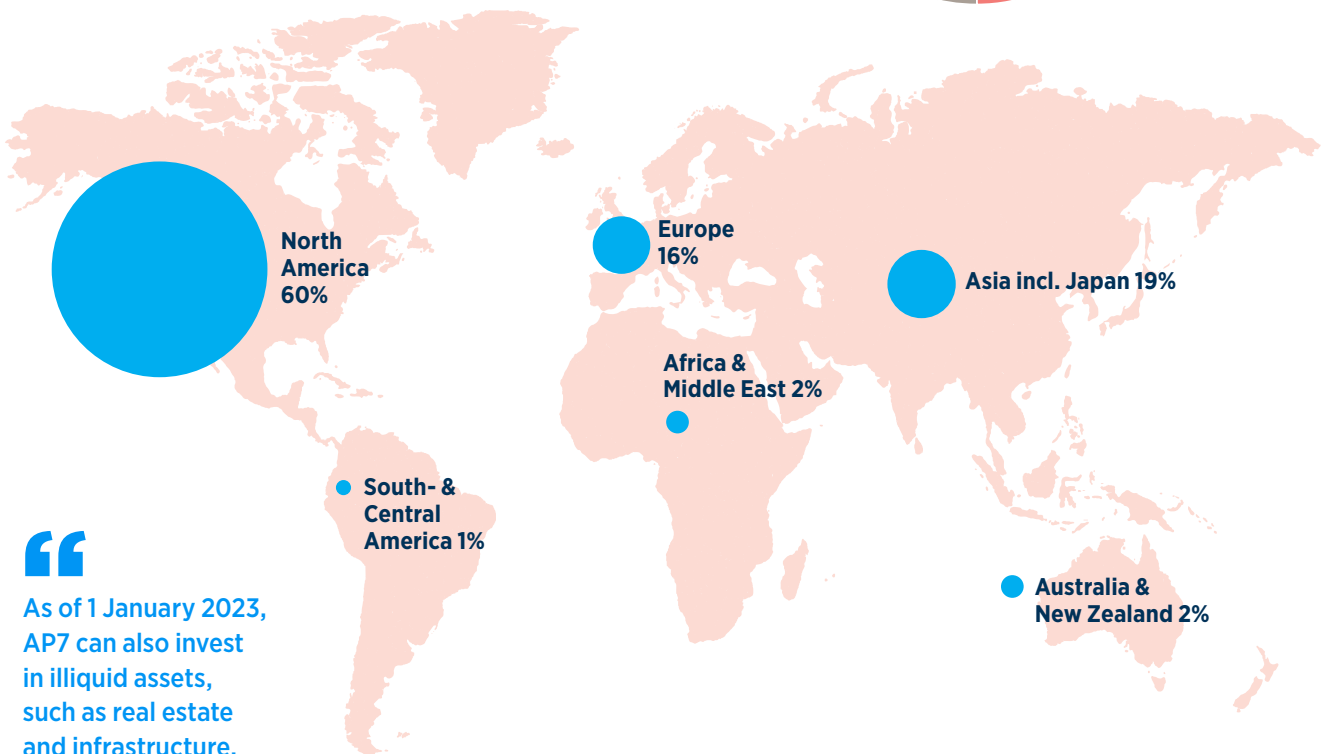
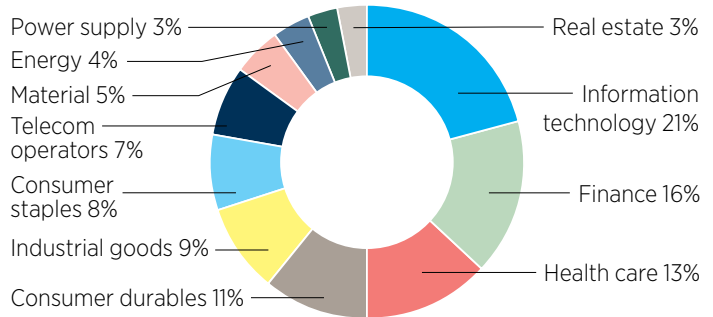
The climate transition will favour some companies in AP7's portfolio, and will be unfavourable to others. Considering that we invest in a large number of companies in a wide variety of sectors and countries, our savers' exposure to the risks of each individual company is reduced. In our blacklisting process, we exclude companies that conduct activities that are in conflict with the Paris Agreement, including companies that are expanding their fossil fuel activities and do not have credible transition plans. We therefore assess that our exposure to transition risks is lower than the exposure of our comparison index.

## Climate reporting supports decision making

Transparent reporting from companies on climate-related financial risks and opportunities forms an important basis both in our investment decisions and in the dialogue with the companies. The Task Force on Climate-related Financial Disclosures (TCFD) provides guidance on how to identify and report on climate-related risks and opportunities. Reporting in accordance with the framework increases companies' understanding of their climate impact and how to manage it. In our assessment of companies' transition work, we use publicly available data and the analyses of CA100+ Net Zero Benchmark and the Transition Pathway Initiative.

## Regions and sectors in the AP7 Equity fund

The dominating sectors and regions in the AP7 Equity Fund is based on their global market weighting. The United States is the Fund's main market, with 60 percent of its holdings, due to the size of the market value in global indexes. For the same reason, information technology is the largest sector.



As of 1 January 2023, AP7 can also invest in illiquid assets, such as real estate and infrastructure.



# AP7’s climate scenario analysis

One of the major threats to AP7’s mission, to generate returns and provide our savers with a good pension, is that we fail to limit the global temperature increase to below 1.5 degrees. The consequences for the global economy in such a scenario are likely to be very extensive.



**PHYSICAL RISKS** These are risks to businesses that arise from tangible effects of rising global temperature, rising sea levels, and more frequent occurrences of extreme weather.

**TRANSITION RISKS** These risks stem from the transition to a low-carbon society, with shifting consumption patterns and attitudes, where new products replace old, and climate policy becomes more stringent. The transition risk is considered a financial risk, as the value of certain companies will decrease when, for example, measures are implemented to phase out fossil fuels. At the same time, the value of other companies, that develop or apply new technologies that enable the transition, increases.

AP7’s has carried out an analysis based on three main scenarios of global warming and their effect on different asset classes.

**1. An orderly transition to net zero emissions 2050**  
 A transition to the Paris Agreement, where the global warming is expected to stop at 1.5 degrees by year 2050, and where the transition takes place in an orderly way, without unforeseen disruptions. This scenario requires major changes driven by both technological shifts and powerful political decisions.

**2. A disorderly transition to net zero emissions 2050**  
 Also in the event of a disorderly transition to the Paris Agreement, global warming will stop at 1.5 degrees by year 2050, through technological shifts and powerful political measures. The climate goals are reached, but the disorderly transition creates turbulence on financial markets, with uncertain pricing and stranded assets as a result.

**3. A failed transition to net zero emissions 2050**  
 In this scenario, the goals of the Paris Agreement are not achieved. Necessary political decisions are not forthcoming, and companies and economies continue with their activities more in line with today. The global warming is expected to reach 4.3 degrees and the effects of the physical risks are more likely to be realized and more powerful, with larger impact on the climate and financial markets as a result.

**“**  
 The effects of an orderly and disorderly transition will vary between different asset categories, sectors, and companies.

The effects of an orderly and disorderly transition will vary between different asset categories, sectors, and companies, since the political decisions create different transition effects and physical effects in the real economy. In the third scenario, with no transition, the effects will be limited, but the failed transition will bring major negative consequences for the global economy as a whole.

AP7’s assessment is that a disorderly transition could challenge our goal of at least two percentage points higher long-term return than the income pension. However, with a failed transition, the risk of not reaching this goal is considerably higher, without a significant increase in risk exposure. It is also important to consider that a failed transition increases the risk for a considerably lower return in the income pension as a result of weaker global economic growth.

## AP7's climate scenario analysis

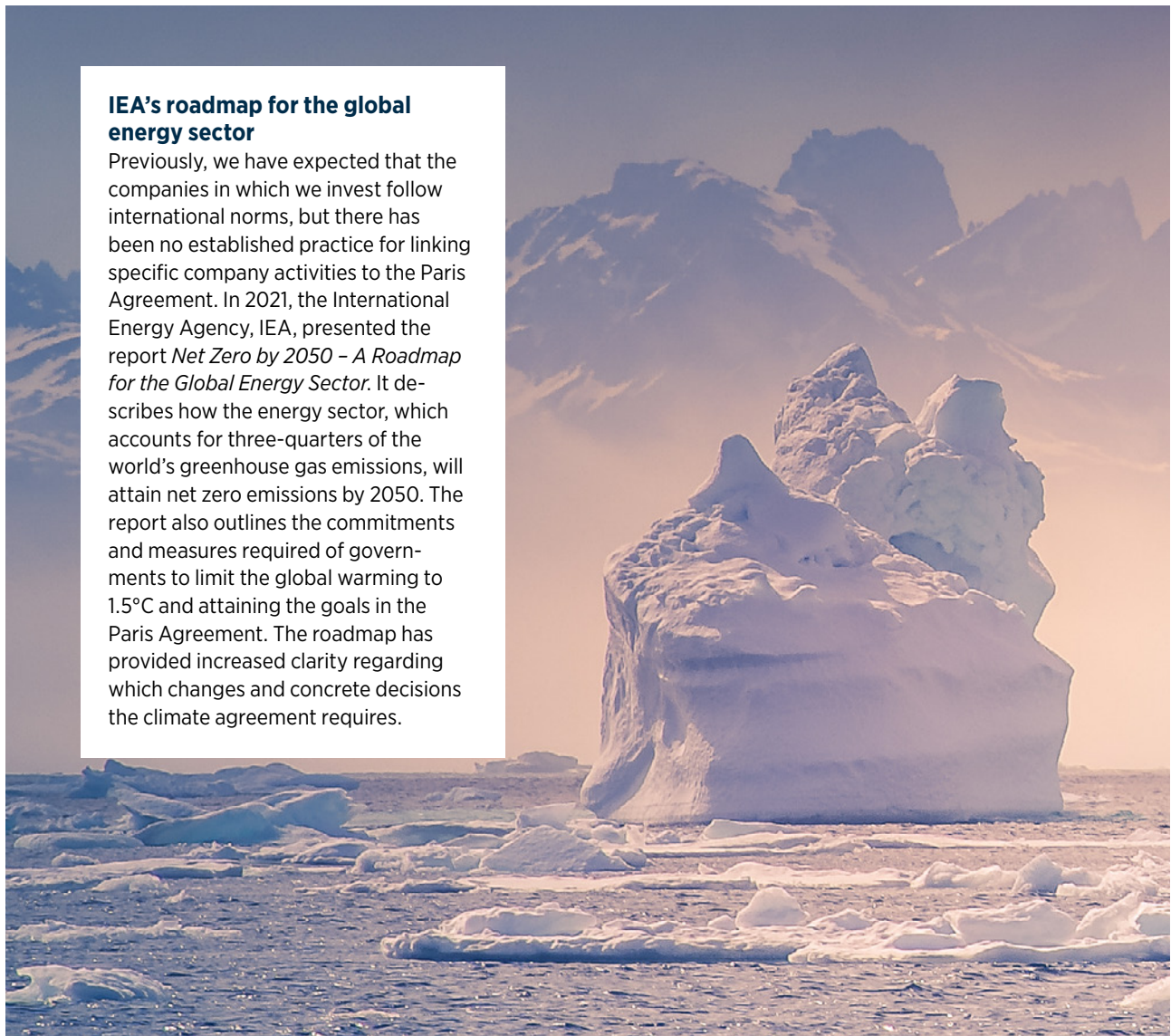
Large pension companies and asset owners with ownership on the world's markets are exposed to the global economy. They will therefore find it hard to avoid transition risks if the global economy is put under pressure by the physical risks of climate change. Consequently, our most important contribution to attaining the climate goals, regardless of scenario, is to be active owners together with other investors and encourage companies on the entire market to adapt their operations.



**Our most important contribution to attaining the climate goals, regardless of scenario, is therefore to be active owners together with other investors and encourage companies on the entire market to adapt their operations.**

### SCENARIO ANALYSES

Scenario analyses can represent an indication about the future and facilitate decision-making. However, scenario analyses are simplifications, often applying assumptions of constant behavioural patterns in complicated long-term models. One should therefore be aware of the difficulties in analysing disruptive events, such as behaviour during the Covid-19 pandemic or financial crises, where it has been shown that economies are more flexible and adaptable to such new events than expected.



#### **IEA's roadmap for the global energy sector**

Previously, we have expected that the companies in which we invest follow international norms, but there has been no established practice for linking specific company activities to the Paris Agreement. In 2021, the International Energy Agency, IEA, presented the report *Net Zero by 2050 - A Roadmap for the Global Energy Sector*. It describes how the energy sector, which accounts for three-quarters of the world's greenhouse gas emissions, will attain net zero emissions by 2050. The report also outlines the commitments and measures required of governments to limit the global warming to 1.5°C and attaining the goals in the Paris Agreement. The roadmap has provided increased clarity regarding which changes and concrete decisions the climate agreement requires.

# AP7's climate work

The aim of our climate work is to drive a transition of the economy, through active ownership and through investments in enterprises that contribute to reduced climate risks.

## Active and focused ownership

As owners, AP7 makes demands on the companies that we identify as particularly important for a transition. Although our portfolio consists of thousands of companies, only a few hundred of them are responsible for the absolute majority of the climate impact. We prioritise these companies in our active ownership work with the aim of persuading them to carry out a credible transition work.

AP7's voting policy clearly expresses that we must consider the climate and at general meetings we usually vote for climate resolutions filed by the companies' boards or shareholders. Together with other investors, AP7 has also been active in filing climate-related resolutions at general meetings since 2016. In 2022, we sharpened our voting policy and raised our demands on the boards of companies that underperform in Transition Pathway Initiative's Management Quality score\*. At the general meetings in 2023, we have further sharpened our demands on the boards. On our website, we present how we have voted at all general meetings.

Norms development, with the aim of working for a climate transition, is also an important part of our active ownership work. AP7 was one of the initiators behind the development of a global standard for responsible climate lobbying. We are a member of the steering group of Transition Pathway Initiative – an asset owner-led initiative on corporate climate analyses. AP7 is also a member of IIGCC and Ceres, and active in a number of working groups, such as the IIGCC Corporate Programme and Net Zero Stewardship Working Group.

By including the Paris Agreement in our norms-based screening, that takes place every six months, we are a part in defining the boundaries for acceptable conduct regarding the climate issue. We engage in dialogue before and after our public blacklisting of companies whose actions, by our assessment, violate the Paris Agreement. In this way, our blacklisting process is also a tool for active ownership.

The climate aspect in AP7's blacklisting is continually

developed in line with research in the area. Studies have shown that the single most important measure for mitigating climate change is to stop using coal as an energy source. Since 2020, we have therefore been blacklisting companies with large absolute impact in coal production and coal power, with expansion plans for their fossil-based activities. Since 2022 we exclude coal companies without credible transition plans and oil companies who have no intention to discontinue their oil sand extraction. The development has resulted in a total of 36 blacklisted companies since December 2020.

## Greater impact through collaboration

Collaborating with other investors with similar ambitions, such as within the investor collaboration CA100+, is vital when we engage with and support companies in adapting to the Paris Agreement. In 2022, for example, we launched a global standard for reporting and assessing corporate climate lobbying, together with other investors worldwide.

Within our theme Climate Transition we have been evaluating, during a three-year period, how we can strengthen our influence and develop our active ownership tools to increase impact. This work was concluded in 2022 and resulted in, among other things, our Climate Action Plan and the global standard for responsible climate lobbying mentioned above.

## Financing climate solutions

The systemic change that we are facing requires innovations and investments in nearly all sectors. In AP7's active asset management, we make use of the opportunity to finance businesses that focus on innovations and solutions to climate challenges. This contributes to the transition, while also increases our exposure to businesses that can be favoured by a transition to a fossil-free economy.

AP7 has 'green mandates' in the management of all asset classes (equity, fixed income and private equity). At the end of 2022, the total value of these assets was SEK 13.8 billion.

AP7 collaborates globally on norms development and active ownership

## Responsible climate lobbying: The global standard



\* Management Quality score evaluates the quality of companies' management of their climate risks and opportunities on a scale of 0-4.

# AP7's climate goals

The overall objective of AP7's Climate Action Plan is that the Fund will contribute to global net zero emissions by year 2050. Within the plan, a number of time-specified goals have been set up, structured in accordance with the categorisations stated in The Investor Agenda ([theinvestoragenda.org](https://theinvestoragenda.org)). As part of the plan, one of our actions will be to review the proportion of companies in the portfolio with credible transition plans, and draw up a plan for increasing this proportion through investments and active ownership.

Focus Area 1 <b>INVESTMENTS</b>	Focus Area 2 <b>ACTIVE OWNERSHIP</b>	Focus Area 3 <b>PUBLIC POLICY DIALOGUE</b>	Focus Area 4 <b>TRANSPARENCY</b>
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## Focus Area 1 **INVESTMENTS**

### Overall objectives

AP7 has green mandates in all asset categories.

By year 2025, the proportion of green investments will have doubled compared with 2020.

### EQUITY

GOAL	FOLLOW-UP
<p><b>2022</b> Design the transition portfolio – an investment mandate focused on working for increased climate transition in the portfolio companies by combining active management and active ownership.</p> <p><b>2025</b> The transition portfolio will make up 10 percent of the Equity Fund.</p>	The first investment in the transition portfolio was made in 2022.

### BONDS

GOAL	FOLLOW-UP
<p><b>2022</b> The share of green bonds will constitute 10 percent of the Fixed Income Fund.</p> <p><b>2025</b> The share of green bonds will constitute 50 percent of the Fixed Income Fund.</p>	The investments in green bonds increased to SEK 9.2 billion in 2022, corresponding to 10 percent of the Fixed Income Fund.

**Investment in companies that offer solutions or generate climate benefit is one way for AP7 to contribute to the climate transition. This involves green mandates and impact investments. At the same time, we blacklist companies that we regard as violating the Paris Agreement. In addition, we have launched a transition portfolio that, by integrating the climate risk analysis, promotes the climate transition.**

Most of AP7's managed capital is invested in the AP7 Equity Fund. The global equity portfolio is the main pillar of the fund, with broad geographical and sector distribution in over 3,000 listed companies, combined with financial instruments that raise the level of risk and expected return.

A small proportion of AP7's managed capital is placed in the AP7 Fixed Income Fund – a low-risk fund with invest-

ments primarily in Swedish mortgage bonds. In line with our climate action plan, during 2022 we increased the proportion of green bonds, i.e. bonds where the capital is earmarked for environmental purposes. Our goal, for this share to reach 10 percent in 2022, was achieved and the ambition is to further increase the share to 50 percent in 2025.

AP7 has 'green mandates' in the management of all our asset classes (equity, fixed income, and private equity). At the end of 2022, the total value was SEK 13.8 billion (SEK 9.2 billion in green bonds, two green mandates in listed equity totalling SEK 3.2 billion, and of our private equity, SEK 1.5 billion comprises clean tech).

As of 1 January 2023, AP7's investment mandate was expanded and we can now invest up to 20 percent of the fund in unlisted assets, enabling more climate-related investments.



## AP7's climate goals

AP7's asset management is handled mainly by external asset managers. Our objective is that all asset managers of the private equity holdings and beta-mandates will have developed a climate policy in line with the Paris Agreement during 2022. During 2023, they will have drawn up a climate action plan in line with the Paris Agreement, and reviewed their climate-related risks and opportunities.

### Transition portfolio

In order to attain greater effect through investments, our objective is to integrate a developed climate risk analysis in part of our equity portfolio. This transition portfolio combines active asset management with active ownership, where the aim is to promote greater diversification, while also working to increase the climate transition in the portfolio companies. In 2022, our work on the transition portfolio started and the first investment was made. The target is for the transition portfolio to comprise 10 percent of the Equity Fund by year 2025.

“ AP7 has ‘green mandates’ in all asset classes. At the end of 2022, the total value of these assets was SEK 13.8 billion.



## AP7's climate goals

### Focus Area 2 **ACTIVE OWNERSHIP**

#### Overall objective

AP7 has signed the Net Zero Asset Owner Commitment within the Paris Aligned Investment Initiative. In accordance with our commitment, we will work actively to ensure that our portfolio companies reach net zero emissions by 2050.

ACTIVITY GOALS	FOLLOW-UP
In 2025, all prioritised portfolio companies, with the highest emissions, will be subject to deepened active ownership. <sup>1)</sup>	In 2022, 69 percent of the prioritised companies, of which 56 percent of the companies with the highest emissions, were subject to deepened active ownership.
RESULT-ORIENTED GOALS	FOLLOW-UP
In 2025, at least 50 percent of the prioritised companies with the highest emissions will conduct credible transition work. The goal for year 2030 is 100 percent.	In 2022, 26 percent of the prioritised companies conducted a credible transition work.
In 2025, three out of four companies in the energy sector will reach level 3 or higher in TPI's Management Quality evaluation. <sup>2)</sup>	The goal was reached ahead of time in 2022, when 77 percent of these companies reached level 3 or higher.

<sup>1)</sup> The prioritised companies make up at least 70 percent of the carbon footprint of our portfolio (scope 1 and 2). In addition to these companies, AP7 conducts deepened active ownership with companies that, despite a lower footprint, have a significant climate impact through, for example, their emissions within scope 3. The list of prioritised companies is updated every year based on full-year figures.

<sup>2)</sup> Management Quality score evaluates the quality of companies' management of their climaterisks and opportunities on a scale of 0–4.

#### Like many other large asset owners, AP7 sees active ownership as one of the main opportunities to contribute to society's transition to net zero emissions by year 2050.

As a universal and active owner, AP7 aims to influence the entire market in a sustainable direction over the long term. A strongly diversified portfolio with holdings in many countries and sectors sets the framework for our active ownership. Our work is based on the norms regarding human rights, labour rights, environment and corruption enshrined in the international conventions that Sweden has signed.

AP7 works mainly with four methods to engage with companies: taking action at general meetings, dialogue, public blacklisting, and legal processes. We combine these methods to varying extents.

The dialogue is fundamental in all our active ownership work, both before submitting motions at general meetings, as well as before legal processes and blacklisting. We believe that dialogue is more efficient when combined with other active ownership methods. AP7 is engaged in ongoing dialogues with companies concerning climate transition. Within Climate Action 100+, AP7 conducts focused advocacy work together with 700 other investors against some 160 of the world's largest emitters of greenhouse gases, who account for nearly 80 percent of the global business community's emissions. So far, the investors have secured commitments from more than 80 of the companies to reach net zero emissions by 2050 at the latest.

#### In-depth active ownership with prioritised companies

AP7's overall objective is to attain real emission reductions by putting pressure on companies to intensify their adaptation to the changes that are needed if we are to attain the

emission targets. A few companies in our portfolio account for a large proportion of the climate footprint, and we prioritise these in our active ownership work.

The prioritised companies in our portfolio are those that together make up 70 percent of our footprint (scope 1 and 2), and companies with a large climate impact but a low carbon footprint – for example, companies in the fossil industry, companies with increased risk of deforestation and companies that fail when it comes to transparent reporting. In 2022, 271 companies were prioritised, of which approximately 130 accounted for 70 percent of the portfolio's footprint. By prioritising these companies, we not only focus on the majority of emissions, but we also get better measurability of the companies' climate performance.

#### A few companies in AP7 Equity fund account for a large share of the climate footprint.

4 percent of the companies in the total portfolio, corresponding to 10 percent of the managed capital, account for 70 percent of the carbon dioxide emissions (scope 1 and 2). These are prioritised in our active ownership.

70%



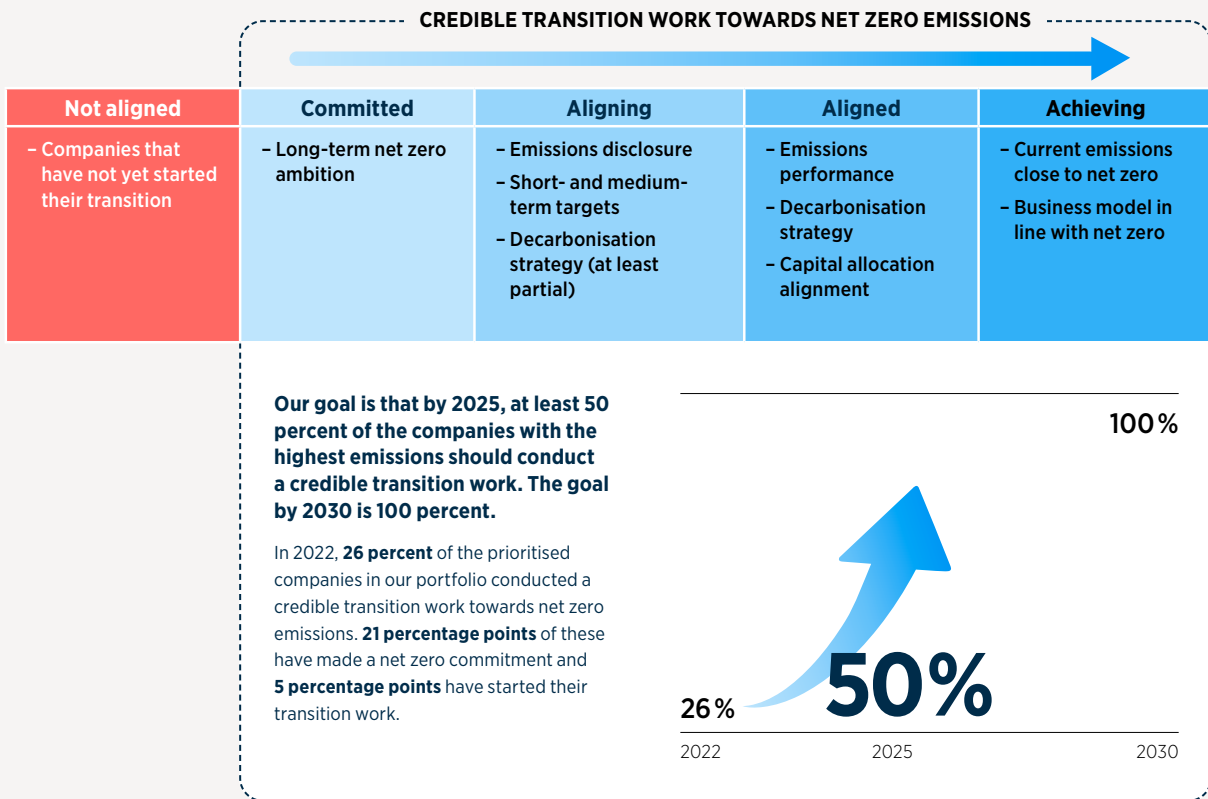
**CATEGORISING THE TRANSITION WORK IN PRIORITISED PORTFOLIO COMPANIES**

In 2022, for the first time, we carried out a review of the portfolio based on the Net Zero Investment Framework. This results in a categorisation based on the degree of maturity of the companies' climate work on a scale from *Not aligned* to *Achieving net zero*. The review forms the basis of our goal linked to the companies' transition work and makes it possible to follow the companies' climate performance over time.

Working with public data sources has great value. The availability of data enables transparency as well as comparability between asset owners. It also creates an opportunity for com-

panies to learn from the results and make improvements. Our analysis is based on the trustworthy publicly available sources CA100+ Net Zero Benchmark and the Transition Pathway Initiative.

We published the evaluation method, the results and our reflections in the Paris Aligned Asset Owners 2022 Progress Report, as well as in investor forums with the intention of encouraging more asset owners and managers to test the method, which is a good complement to other climate metrics.



Our goal is that by 2025 at the latest, 100 percent of the prioritised companies with the highest emissions in our portfolio should be subject to deepened active ownership work. By 2025, at least 50 percent of the companies should conduct a credible transition work and the goal for year 2030 is 100 percent. In 2022, 56 percent of the companies were subject to deepened active ownership and 26 percent conducted a credible transition work.

Our intensified active ownership work includes investor cooperation and bilateral dialogue with the companies, actions at annual general meetings, public blacklisting and legal processes. In addition, we exercise our voting rights for all companies in the portfolio with a voting policy that sets extensive climate requirements.

**Actions at general meetings**

Voting at general meetings is AP7's most important tool for engaging with the absolute majority of the companies in

our portfolio and for driving our principle-based position on sustainability issues. AP7 votes annually at over 4,000 general meetings in nearly 60 countries, and we are continually tightening our voting policy on climate issues. In 2022, we voted against the boards of companies that underperform in TPI's Management Quality score. At the general meetings in 2023, we will demand responsibility from company boards to undertake a credible climate transition.

In 2022, AP7 voted on 499 resolutions on various sustainability issues. We supported a majority of these, 73 percent. Among other things, AP7 voted for companies to increase their transparency around climate lobbying and to start reporting their scope 3 emissions (upstream and downstream in the value chain), for example the emissions that occur when the oil or coal that the companies produce is burned.

In certain countries, we can file our own resolutions at general meetings. To increase our impact on particularly important issues, AP7 often joins forces with other owners

## AP7's climate goals

and drive joint proposals. During 2022, we prepared several resolutions aiming to put pressure on companies, two of which went to a vote at the general meeting. In one case, where a company refused to add our motion to the meeting's agenda, we have chosen to take the company to court to test the legislation and have our rights as minority owners clarified.

### Coordinated owner engagement

As universal owner, AP7 strives to work with other investors to drive the development of common norms in the market. The importance of coordination is greater than ever as companies need to consider many stakeholders with different expectations, and where the time for transition is short. Investors need to coordinate their ownership dialogue, place consistent requirements, and work from common scenarios where they conduct dialogue with the companies and vote at general meetings. Our objective is to take a leading role in the collaboration on particularly urgent systemic issues, for example within the Taskforce on Nature-Related Financial Disclosures (TNFD) and responsible climate lobbying.

Within Climate Action 100+, AP7 supports the dialogue with all the portfolio companies with the largest climate impact, and develops escalation strategies in international collaboration. The ambition is to engage with an increased proportion of the companies, and encourage them to make net zero commitments.

One of our goals is that, by 2025, three of every four portfolio companies in the energy sector will reach Level 3 or higher in the Transition Pathway Initiatives assessment of Management Quality\*. This goal was achieved ahead of time in 2022.

Through the Ceres-led initiative *Food Emissions 50*, AP7 and other investors engage in dialogues with 50 of North America's largest emitters in the industry. The industry's emissions is primarily generated in the supply chain (scope 3) and often make up more than 80 percent of a company's total footprint. AP7 has initiated a dialogue with one of the companies with a particular focus on deforestation. Deforestation leads to both increased emissions of greenhouse gases and a loss of biological diversity.

### Together, the investors in *Food Emissions 50* demand that companies should:

1. Report emissions throughout the value chain (scope 1-3)
2. Adopt science-based targets in line with the goal of keeping global warming at a maximum of 1.5 degrees
3. Publish transition plans in line with the 1.5 degree target and regularly report how the work is progressing.



### Blacklisting

We expect all companies in which we invest to follow the international norms enshrined in UN Global Compact's ten principles regarding human rights, labour law, environment, and anti-corruption. Since 2016, the Paris Agreement to the UN Climate Convention has been included in our blacklisting and AP7 does not invest in companies that violate these norms, which are our lowest acceptable level. Our blacklisting process is thus part of our active ownership.

The climate aspect in AP7's norm-based blacklisting is continually developed in line with research. The blacklisting is based on, among other things, the Paris Agreement and includes incident-based analysis such as extraction in the Arctic, and companies with large production and expansion of thermal coal. According to IEA's roadmap from 2021, there is no room for the development of new coal in accordance with the Paris Agreement. In 2022, we developed the definitions and tightened the criteria relating to coal, oil sands and expansion of fossil fuel extraction. Therefore, our blacklisting now includes companies involved in oil sands production, companies that extract fossil fuels in the Arctic, companies involved in thermal coal mining or coal power and that lack a credible plan for phasing out these activities.

The development of our blacklisting process has resulted in a total of 36 companies (by December 2022) with fossil-based activities being blacklisted since December 2020.

\* Management Quality score evaluates the quality of companies' management of their risks and opportunities related on a scale of 0-4. Level 3 indicates that the company has integrated the climate issue into its operational decision making, and Level 4 that the company has integrated it into its business strategy.



## AP7's climate goals

### Focus Area 3 PUBLIC POLICY DIALOGUE

#### Overall objectives

- To continue as active participants in investor collaborations, for example within IIGCC, which identifies new needs in policy dialogue.
- To conduct new activities every year to spread knowledge and increase understanding about investors' roles in sustainable development.

**With a long-term and global ownership in over 3,000 companies we have the opportunity, through organisations and coalitions, to act together with like-minded stakeholders and influence decision-makers on climate issues, among other things.**

AP7 has a long history of policy dialogue and taking public positions from an investor perspective.

We openly work to support the climate transition, for example by presenting proposals that develop policy and regulatory frameworks to attain net zero emissions by 2050. Examples are phasing out subsidies of fossil fuels or taxing and pricing emissions. Active participation in investor collaborations, such as IIGCC, is an important platform that ensures continual development and support for new proposals.

In 2022, AP7 wrote a debate article, in the Swedish newspaper Dagens Nyheter, on the importance of investors with sustainability ambitions in companies in the fossil industry. As owners, we can push the companies to come up with credible transition plans to be better equipped for the future, and thus better investments. Therefore, it is important that large asset owners do not divest their influence in these companies, but instead collaborate to become a strong force for change. The collaborations that have been established in recent years have significantly improved the opportunities to drive policy development. We intend to further increase our ambitions in this area, both because the impact can now be expected to be greater and to develop our leading position among global investors.

AP7 also works to bridge the gap between research and practice in the field of sustainable investments. We work to contribute with new knowledge, spread existing knowledge,

[www.dn.se/debatt/hallbara-investerare-borde-satsa-i-utslappsbolag/](http://www.dn.se/debatt/hallbara-investerare-borde-satsa-i-utslappsbolag/)

and bring together different societal actors in public debate on matters such as climate lobbying, working conditions, and on measuring the effect of sustainability initiatives. Our objective is to further develop the dissemination of knowledge and opinion-forming about the role of investors for a sustainable development.

#### Global standard for responsible climate lobbying

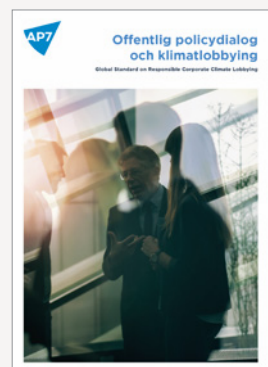
AP7 has been a driving force in the development of the Global Standard on Responsible Corporate Climate Lobbying – a standard for analysis and reporting of companies' climate lobbying. In March 2022, together with BNP Paribas Asset Management and The Church of England Pensions Board, AP7 launched the new standard. It comprises a basis for consistent investor expectations of companies, to ensure that their lobbying work is conducted in line with the Paris Agreement. The standard consists of 14 criteria that make it easier for companies to report and for investors to make an assessment of companies' climate lobbying. The standard also encourages companies to make formal commitments and to take measures if their own lobbying activities, or those of their business organisations, conflict with the goals of the Paris Agreement. Over 3,800 organisations and investors are backing the new standard.

[Read more at www.climate-lobbying.com](http://www.climate-lobbying.com)

#### AP7:s public policy dialogue and climate lobbying 2022

In our report *Public policy dialogue and climate lobbying*, we have applied the global standard for responsible climate lobbying to our own operations and summarised our work within the area. We have made an assessment of the potential influence of AP7's

memberships on countries' climate policy. As the standard is developed with multinational companies in mind, while AP7 is a public pension fund, some of the criteria are difficult to apply to our work. But we have published the report to set a good example by increasing our own transparency and identifying areas for improvement and more in-depth work. [Read the report at ap7.se](http://ap7.se)



Focus Area 4 **TRANSPARENCY****Reporting AP7's objectives, activities and progress is, in itself, a way to attain the goal of net zero emissions.**

AP7's reporting clearly shows the savers how we are working and how we are increasing the understanding of companies, suppliers, and other stakeholders of the requirements we place as owners and investors.

Better reporting from the portfolio companies about their climate-related financial risks and opportunities is vital to be able to manage these risks and opportunities. Reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework increases companies' understanding of their climate impact and how to manage it. At the same time, it provides investors with better information, enabling them to assess the companies' climate risks. AP7 supports TCFD, and we support increased transparency from our portfolio companies.

AP7 is not directly impacted by the regulatory requirements in the EU Taxonomy and Disclosure Regulation. Since information according to the new regulatory framework will become the new standard, our information is in line with the Disclosure Regulation. It will also be adapted to the Taxonomy Regulation when it comes into force.

The results of AP7's active ownership work are evaluated and published annually in our Sustainability Report and all voting results from the portfolio companies' general meetings are reported on the AP7 website.

**AP7 measures the carbon footprint**

As part of our broader climate work, we measure and report the collective carbon footprint of the AP7 Equity Fund. The footprint gives an impression of the size of direct emissions from the underlying portfolio companies and forms one of several bases when we prioritise which companies should be subject to enhanced active ownership. The companies that together account for 70 percent of the carbon footprint in our portfolio are among the companies we prioritise in our active ownership work.

That companies adapt their operations to the Paris Agreement is a prerequisite for the 1.5 degree target to be reached. The objective of AP7's climate work is for the companies we own to reduce their emissions. The portfolio footprint can be an indicator of changes in emissions. At the same time, the footprint is affected by changes in equity holdings, which in itself does not impact real emissions. Consequently, we have divided the total change into emission changes and holding changes.

The table below shows that the overall emissions from AP7's portfolio increased in 2022. Changes in companies' emissions contributed to an increase of 6.2 percentage points, while changes in our holdings reduced the portfolio footprint by 1.7 percentage points. AP7's holdings in power supply and in the materials industry account for the largest share of the portfolio emissions.

<b>AP7's carbon footprint for listed equity 2022, (Scope 1 and 2)</b>	<b>2022</b>	<b>2021</b>
Total emissions of equity portfolio (million tonnes CO <sub>2</sub> e) <sup>1)</sup>	4.1	4.0
AP7 compared with MSCI ACWI ETF (%)	-7.4%	-9.7%
Change in the portfolio's total carbon emissions in relation to previous year (%)	4.5%	-4.5%
– of which caused by changes in portfolio holding (%-points) 3.2%	-1.7%	3.2%
– of which caused by changes in companies' emissions (%-points)	6.2%	-8.5%
Relative carbon emissions (tonnes CO <sub>2</sub> e/SEK million) <sup>2)</sup>	5.4	4.8
Carbon intensity (tonnes CO <sub>2</sub> e/SEK million) <sup>3)</sup>	17.1	17.7
Portfolio-weighted carbon intensity (tonnes CO <sub>2</sub> e/SEK million) <sup>4)</sup>	16.9	16.3
Market value of the fund's directly owned listed equity portfolio included in the analysis (SEK billion)	765	831
Proportion of market value for which reported CO <sub>2</sub> e data is available (%)	99.9	99.9

<sup>1)</sup> Total carbon emissions: Sum of the owned proportion of each portfolio company's carbon emissions.

<sup>2)</sup> Relative carbon emissions: Sum of the owned proportion of each portfolio company's carbon emissions in relation to the portfolio's market value.

<sup>3)</sup> Carbon intensity: Sum of the owned proportion of each portfolio company's carbon emissions in relation to the sum of the owned proportion of the portfolio companies' revenues.

<sup>4)</sup> Portfolio-weighted carbon intensity: Sum of each portfolio company's carbon intensity, i.e. a company's carbon emissions in relation to its revenues, weighted according to each company's proportion of the portfolio.

# Member organisations

AP7 adheres to the following memberships and voluntary guidelines that we support or have signed. In the report *Public policy dialogue and climate lobbying*, we publish an assessment of how our memberships in various organisations affect our climate policy. [Read more on page 13.](#)

UN Principles for Responsible Investments (UNPRI)	A global initiative for institutional investors working to integrate sustainability aspects in their investments. AP7 has signed PRI's principles for responsible investment.
Institutional Investors Group on Climate Change (IIGCC)	European network for investors who collaborate on climate change.
Climate Action 100+	A five-year project for investors who are working to ensure climate measures in the world's largest corporate greenhouse gas emitters.
Carbon Disclosure Framework (CDP)	Global information system that helps companies, cities and states to measure and manage their environmental impact.
Sweden's Sustainable Investment Forum (Swesif)	Swedish sustainability network for investors.
Swedish Investors for Sustainable Development (SISD)	Swedish sustainability network for investors that was set up and is organised by the aid agency, Sida.
Global Investors for Sustainable Development (GISD)	Global sustainability network for investors initiated by the UN, with inspiration from the Swedish network SISD.
Transition Pathway Initiative (TPI)	Global initiative and research institute that provides information on companies' carbon dioxide emissions, and helps investors evaluate how companies with large emissions are working to become fossil-free, and whether their work is in line with the Paris Agreement.
Farm Animal Investment Risk & Return (FAIRR)	Global investor network with a focus on sustainability in the animal agriculture sector.
Taskforce on Climate-related Financial Disclosures (TCFD)	International initiative that has developed a framework for identifying and reporting companies' climate-related financial risks and opportunities.
Taskforce on Nature-related Financial Disclosures (TNFD)	International initiative that develops a framework for companies' reporting and identification of nature-related risks and opportunities, as well as for their impact on nature.
The Paris Aligned Investment Initiative Net Zero Asset Owner Commitment (PAII NZAOC)	Global network for investors working for portfolio holdings to reduce their emissions in line with the Paris Agreement.
Ceres	A non-profit organization that works with the capital market to solve the main global sustainability challenges.
International Corporate Governance Network (ICGN)	ICGN is a global network for active ownership issues. ICGN works for increased voting rights for shareholders at general meetings and a stronger position in relation to company management.



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With this roadmap, we wish to clarify our intention to be a positive force for attaining net zero emissions by 2050, and describe how we will proceed.

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