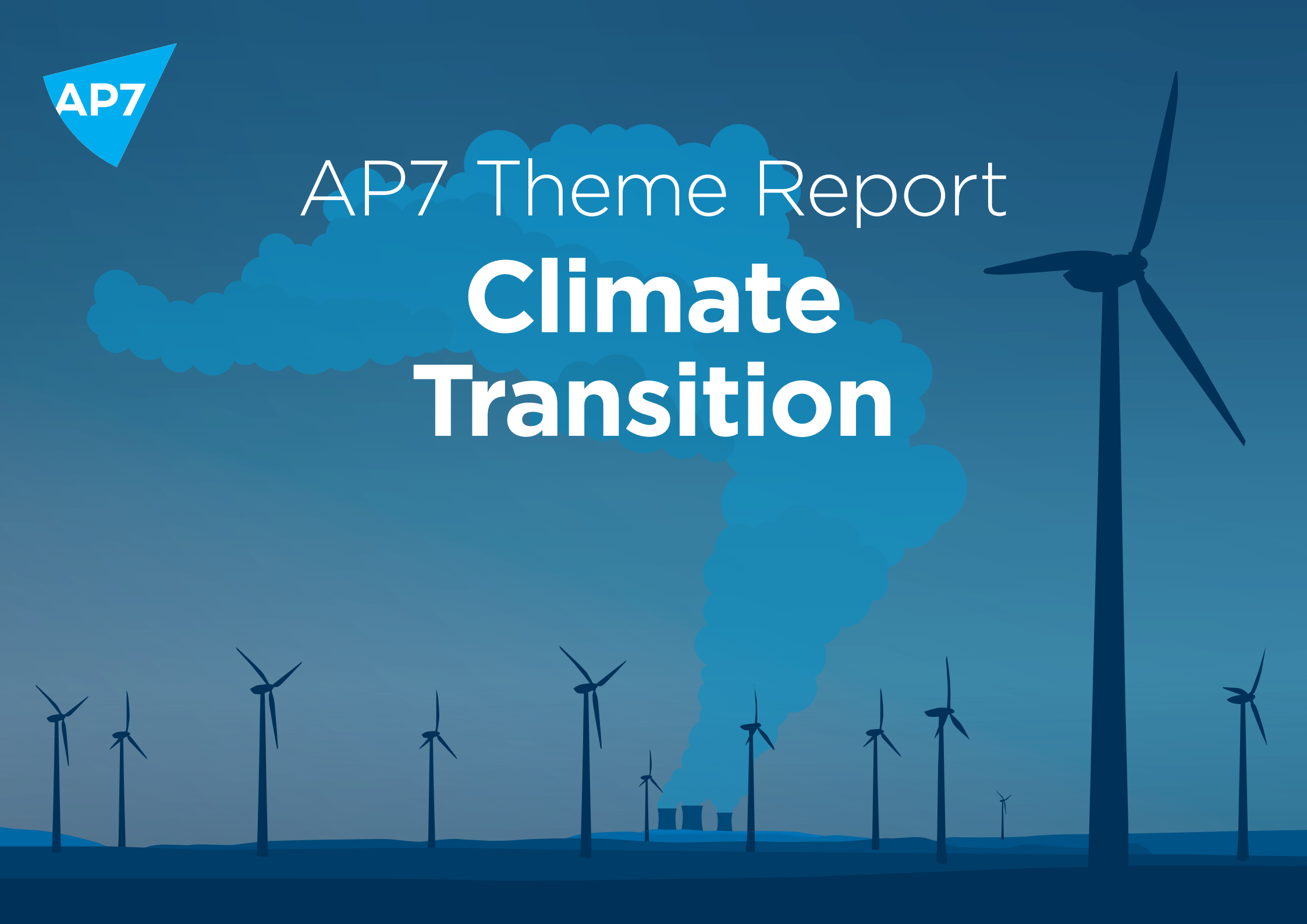


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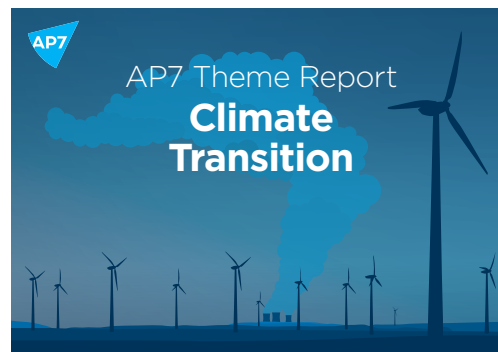
AP7 Theme Report

# Climate Transition



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## Front cover:

### Transition of “brown” companies to “green”

The market needs more responsible owners who remain invested in large-emitting companies and cooperate to influence the companies to transform their operations.



## AP7 IN BRIEF

### Mission:

Good pension from generation to generation.

### Vision:

A global role model for responsible pension solutions.

AP7 is a public agency, whose mission is to manage the premium pension capital on behalf of the Swedish people. More than five million Swedes place their premium pension in the state pre-selection option, AP7 Såfa. The managed capital amounts to approximately 1,000 billion SEK, which entails a great responsibility. AP7's asset management is exclusively focused on the interests of the pension savers.

AP7 is a universal owner. 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, and in the best interest 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 work aims primarily at a positive effect on the long-term return for the entire market, rather than for individual companies.

**Managed assets:** about 1,000 billion SEK

**Number of savers:** over 5 million

**Investment portfolio:** more than 3,000 companies around the world (as of 30 June 2023).

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# The financial sector can contribute to the climate transition

The world's emissions must be halved by year 2030, if the temperature goals in the Paris Agreement are to be reached, according to the International Energy Agency, IEA. This means that the transition needs to accelerate in the next few years with greatly reduced emissions and multiplied investments in renewable energy. To accomplish this, several actors must cooperate in the same direction. The Climate Transition theme has focused on how investors can contribute to the climate transition.

Enabling the climate transition to reach net zero emissions by year 2050 will be a major challenge. Political decisions and reforms are crucial to succeed, for example increased pricing of carbon dioxide emissions and phasing out fossil fuel subsidies. But it also requires cooperation between various actors in society, not least investors. The fact that AP7 together with other global capital owners have an important role to play lay behind the choice of the Climate Transition theme. Within the theme, AP7 has evaluated the financial market's opportunities to contribute to companies participating in the transition.

As a universal owner, in more than 3,000 companies around the world, AP7 has the privilege of being able to focus on systemic risks and real economic effects. A transition that leads to reduced climate risks in the real economy is of course in the interest of the entire financial sector, but many actors are forced to limit their focus to financial risks of more concentrated portfolios.

The lessons learned from the Climate Transition theme have been continuously applied in our ESG and active ownership

work. Among other things, the work resulted in the climate action plan we published for the first time in 2022, where we describe how AP7 should work to contribute to net zero emissions by 2050. A prerequisite for the transition is that investors place clear demands on companies, above all on those with a large climate impact, and support them in their transition. To achieve this, great value lies in large capital owners collaborating and becoming a common 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.

*Stockholm, August 2023*



# Background to the Climate Transition theme

The Climate Transition theme builds on two of AP7's previous themes, Climate and Climate Lobbying. In 2015, the same year that the Paris Agreement was adopted, we launched the first thematic work focused on climate change. The aim was then to make a difference through investments and active ownership.

Our first climate theme led to the next one which was about corporate climate lobbying. Since then, research has progressed and knowledge about companies' climate impact has increased. Among other things, we know that a limited number of companies are responsible for a large part of the global greenhouse gas emissions. Many of these companies were part of AP7's investment portfolio, and we thus had a good opportunity as an active owner to push for a change in the large climate-impacting companies. With ownership in a large number of companies worldwide, AP7's active ownership work needs to take place in collaboration with other investors – partly through standards development and knowledge dissemination in the market, partly through direct advocacy work.

The ambition of the Climate Transition theme has been to develop and integrate the climate component into AP7's active

ownership and investments, as well as to contribute to method development and increased knowledge of how investors can most effectively make a difference in the work against climate change.

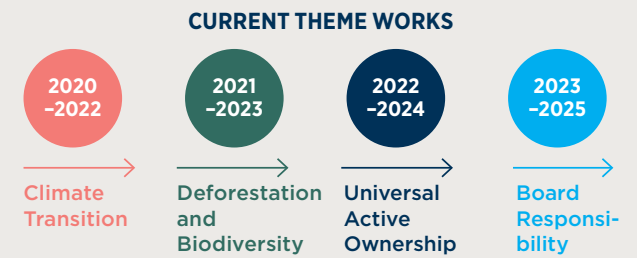
During the theme work, several collaborations and frameworks have taken shape in the outside world, which has improved our opportunities to work effectively together with other investors. In all international collaborations, AP7 has emphasized the importance of prioritising real emission reductions over measures that primarily aim to reduce the financial risk in the investment portfolio.

The theme work has not been an isolated project, but has been carried out in an integrated manner with AP7's ongoing active ownership, which means that the working methods we have developed have been able to be tested in real situations.

## AP7's thematic work

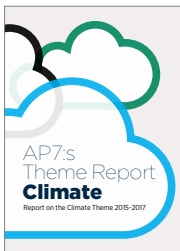
Since 2014, AP7 has complemented the active ownership work by exploring specific themes in three-year blocks. This is a way to engage in particularly important areas that are relevant to AP7's sustainability priorities.

When we select a new theme, a number of criteria are considered. To begin with, the area must be relevant to AP7's holdings and asset classes. We must also be able to make a reasonable difference, and find suitable partners to collaborate with on generating and spreading knowledge and on driving the work forward.



Previous themes: Working Conditions in Food Supply Chains, Fresh Water, Sustainable Impact Measurement, Climate, Climate Lobbying and Private Equity.

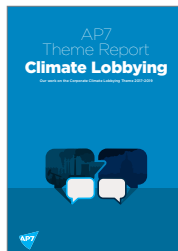
### Climate 2015–2017



**Purpose:**

Investigate how AP7 can make a difference to the climate through investments and active ownership. The theme work resulted in the climate issue being integrated into all parts of AP7's operations and working methods. The foundation was laid for the Climate Lobbying theme.

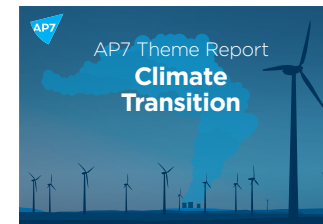
### Climate Lobbying 2017–2019



**Purpose:**

Raise awareness and address the problem of lobbying that opposes climate legislation in line with the Paris Agreement. The issue has developed into an indisputable part of investors' active ownership and in the analysis of companies' climate work.

### Climate Transition 2020–2022



**Purpose:**

Develop the methods for how investors can use their influence to drive climate transition and contribute to real emission reductions.

# The financial market in collaboration

The global work to combat climate change is based on the 1992 Climate Convention, which was concretised in the Paris Agreement. In parallel with the international political work, the understanding of the global business community and the financial market in adapting to the climate goals has increased.

The Paris Agreement entered into force in 2016 and stipulates that the global temperature increase must be limited to well below two degrees, with an aspiration to get down to 1.5 degrees. This is to be achieved primarily through reduced emissions of greenhouse gases. Another part of the agreement deals with providing support to those affected by the effects of climate change and improving the opportunities for climate transition.

Every year, the countries that have signed the Climate Convention meet for negotiations at the Conference of the Parties (COP), the Convention's main decision-making body. IPCC, the UN's Intergovernmental Panel on Climate Change, compiles information for decision-makers on the current scientific status and regularly releases reports.

Unfortunately, the research is unanimous – the transition is too slow and the commitment to reach net zero emissions by 2050 will represent an enormous challenge. But the future can be influenced. Policy reforms, such as increased taxation of carbon dioxide emissions and phasing out of fossil fuel subsidies, can have major effects. Therefore, powerful and rapid measures are required by all actors in society.

## The role of the financial market has become clearer

That the financial market has an important role in global climate work has become increasingly clear. Not least through the



EU's Green Deal, which aims to mobilise capital flows for green investments, and through the Inflation Reduction Act in the United States, which involves subsidies to American industry to reduce carbon dioxide emissions. The financial market has responded through a number of initiatives and collaborations in recent years.

## Translating global climate goals into active ownership work

A consistent challenge for investors has been to translate the net zero emissions ambition and the IPCC's conclusions into practical active ownership work. Here, the Transition Pathway Initiative (TPI) has provided valuable support since its launch in 2017, with its independent, free of charge and academically robust corporate climate analyses.



“ A consistent challenge for investors has been to translate the net zero emissions ambition and the IPCC’s conclusions into practical active ownership work.

**Focused advocacy dialogue within Climate Action 100+**

Based on the increased transparency of companies’ emissions, Climate Action 100+ was launched in 2018 as one of the most important initiatives. The platform gathers over 700 investors who, through a focused advocacy dialogue, strive to accelerate the transition in the world’s largest emitting companies. The dialogue is focused on roughly 160 companies that together account for 80 percent of global business’s greenhouse gas emissions. Through the initiative, the investors have so far secured commitments from half of the companies to reach net zero emissions by 2050 at the latest.

**IEA’s roadmap a milestone**

Another milestone for the transition was the International Energy Agency’s (IEA) report “Net Zero by 2050 – A roadmap for the global energy sector”. The report was prepared ahead of the UN’s 26th Climate Change Conference in Glasgow in 2021 and shows a possible path for how the energy sector should reach net zero emissions by year 2050 with concrete timed milestones.

Together with the Transition Pathway Initiative’s analyses, the IEA roadmap concretises the international agreements

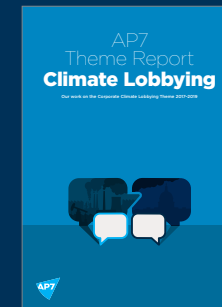
and scenarios. It has been valuable in understanding what steps companies need to take and what demands investors can make when it comes to voting, advocacy dialogue and blacklisting.

**UN campaign for knowledge sharing between investors**

The opportunity to spread knowledge and develop methods in collaboration with other actors has also been essential in driving the transition. 2019 saw the launch of the UN Race to Zero – the UN’s global campaign to reach a net zero economy rallying non-state actors.

As part of the campaign, the IIGCC Paris Aligned Investment Initiative (PAII) was launched as an important global sustainability network for investors working for portfolio companies to reduce their emissions in line with the Paris Agreement. The initiative brings together investors in two groups: Paris Aligned Investment Managers and Paris Aligned Asset Owners, PAAO. Both aim to obtain commitments from companies to contribute to net zero emissions by 2050. In November 2022, PAAO published its first progress report with case studies from members’ strategies and ways of working.

**Global standard on climate lobbying**



Political reforms are crucial for the climate and negative climate lobbying has been an obstacle to the implementation of the Paris Agreement. Under the Climate Lobbying theme (2017–2019), AP7 explored the problem and started working with other investors to influence companies to ensure that the lobbying their industry organisations conduct is in line with the Paris Agreement.

The theme work was the starting point of AP7’s initiative to, together with the Church of England Pensions Board and BNP Paribas Asset Management, develop the global standard, which was launched in March 2022 – **Global Standard on Responsible Corporate Climate Lobbying (GSRCCCL)**. The standard is based on 14 criteria that clarify uniform investor expectations for companies to ensure that their lobbying does not counteract the Paris Agreement. In total, over 3,800 organisations and investors have endorsed the new standard.

➔ [Read more at climate-lobbying.com](https://climate-lobbying.com)



“ Ahead of the climate conference in Glasgow, The Investor Agenda directed an appeal to the world’s decision-makers, signed by 587 investors, with demands to increase the pace of climate work.

### The Investor Agenda

2021 also saw the launch of The Investor Agenda – a coalition of seven international investor networks with the goal of accelerating the transition to a carbon-neutral economy. Ahead of the climate conference in Glasgow, The Investor Agenda directed an appeal to the world’s decision-makers, signed by 587 investors, with demands to increase the pace of climate work. The purpose of the collaboration is also to provide information on how investors can best contribute to combat climate change. The Investor Agenda regularly publishes case studies highlighting good examples of investors’ working methods.

### TPI Global Climate Transition Centre

In response to the increased need for corporate climate analyses, the TPI Global Climate Transition Centre was established in June 2022 – an independent institute under the Grantham Research Institute on Climate Change and the Environment at the London School of Economics.



2021

*In the outside world:*

- IEA Net Zero by 2050 Roadmap is published
- Investor Agenda is launched

*AP7:*

- Signs Paris Aligned Asset Owners Commitment (PAAO)

2022

*In the outside world:*

- A global standard on responsible climate lobbying is launched
- TPI – Global Climate Transition Centre is established
- Paris Aligned Asset Owners publishes progress report

*AP7:*

- AP7’s Climate Action Plan is published, with goals within four areas
- The transition portfolio is launched
- AP7 reviews its own policy dialogue and publishes a climate lobbying report

# “Sustainable investors should stay invested in high-emitting companies”

As the world needs to transition from “brown” consumption to “green”, owners who place demands on companies and drives change play an important role. That was the message in AP7's article in the debate section of Swedish national daily, Dagens Nyheter, in September 2022.

The science is clear that fossil fuel production has to reduce drastically to meet climate goals and consumption needs to switch from brown to green. At the same time, many opinion leaders argue that sustainable investors should divest their holdings in companies with fossil fuel operations – an approach we addressed in a debate article in Dagens Nyheter.

“When it comes to the climate, we should not only continue to stay invested in transition companies – we need to increase both our holdings and active ownership.”

The green transition can only become a reality if fossil fuel companies adapt their operations to a low-carbon future, something that will not happen if the holdings are sold to less careful investors. There are several ways for investors to contribute and large capital owners should remain as owners of large-emitting companies and cooperate to push for credible transition plans in these companies.

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

DAGENS NYHETER • MÅNDAG 26 SEPTEMBER 2022

DN DEBATT

AP-fonderna.

## ”Hållbara investerare borde satsa i utsläppsbolag”

Världen måste ställa om från ”brun” till ”grön” konsumtion. Därför är det bekymmersamt att så många opinionsbildare anser att hållbara investerare bör undvika bolag som är djupt rotade i den fossila ekonomin. Det är genom att vi som ägare ställer krav som vi kan tvinga fram förändringar, skriver **Richard Gröttheim** och **Johan Florén**, Sjunde AP-fonden.

DN  
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220926

Valförelsen är över. Efter en sommar med extremväder och bränder runt om i världen var den allmänna klimatmedvetenheten hög. Men höga energipriser, europeisk utfasning av rysk gas och en övergång till kallare tider, ställde samtidigt väljarna inför en komplex utmaning utan enkla politiska lösningar. Forskarvärlden protesterade mot att klimatfrågorna hamnade i skymundan. Sällan har den dagspolitiska konflikten mellan kort och lång sikt varit så tydlig.

Nu krävs ett helhjärtat politiskt åtagande för att genomföra nödvändiga policyförändringar. Det är till och med grundförsäkring i det internationella energiorganet IEA:s färdplan för att världen ska nå nettonollutsläpp 2050.

Utän politiska reformer går klimat-  
problemen inte att lösa. Utsläpp måste  
minskas och subventioner för fossila  
bolag behöver



Vi ska inte bara fortsätta att göra investeringar i omställningsbolag – vi behöver öka både innehaven och ägarstyrningen, skriver artikelförfattarna. Foto: AP

Nästa år har Sjunde AP-fonden förhoppningsvis ett nytt, tydligare hållbarhetsmål. Förvaltningen ska sätta på ett föredömligt sätt. Särskild vikt ska fästas vid hållbar utveckling främjas. Om hållbarhetsarbetet är vår slutsats

**Olja och gas kommer att finnas kvar i flera decennier vare sig vi vill eller inte. Däremot är alla fossila bränslen inte lika dåliga.**

minskningar, reduktion av utsläppsrätter och infasning av klimattullar. Ur ett investeringsperspektiv betyder det att företag som är förberedda på högre koldioxidpriser har en starkare konkurrensposition.

**Politiska reformer** är nödvändiga, men inte tillräckliga. Alla delar av samhället behöver dra sitt strå till stacken. Investerare ska givetvis bidra på flera sätt. **Alla som agerar på finansmarknaden** bidrar till den grundläggande samhällsfunktionen att erbjuda finansiering samt att prissätta hållbarhetsrisker och andra risker. För den som vill ge klimatnytta utöver finansmarknadens normala funktion, krävs däremot större ansträngningar.

**En möjlighet är att erbjuda utsläppsför företag billig finansiering genom att sänka avkastningskrav, men det är i praktiken svårt att förena flera investerarens huvuduppgifter i pensionsfonds existensberättigande. Ju att spararna ska få en god med hjälp av avkastningen för att ta ett exempel.**

**En annan möjlighet är att onoterade verksamheter klimatpåverkan. För dess finansiering vara en avgörande faktor. Denna typ av finansiering är dock bara en del av marknaden och kommer att spela en mindre roll i framtiden.**



# AP7's active ownership for climate transition

AP7's work on climate transition has developed gradually in pace with the world's increased focus on adaptation to net zero emissions. Since the Climate theme in 2015–2017, AP7 has clarified the demands on companies and expanded the number of collaborations in our active ownership work.

One of the biggest threats to AP7's mission, to generate good pensions, is that the world's countries, industries and companies do not succeed in reaching the goals stated in the Paris Agreement.

## As an owner, we have an influence

With an ownership in more than 3,000 companies worldwide, AP7 is determined to contribute to the climate transition. With a global ownership, the financial risks caused by climate change cannot be avoided.

AP7 can make the biggest contribution if we act as a long-term active owner for a transition in the companies, rather than divesting our holdings and thus our influence. Our work aims to bring about a change that strengthens the companies and makes them resilient for the future. This would benefit the companies and thus also AP7 as owners as well as our savers.

For the energy transition to become a reality, AP7 and other investors must sharpen the demands on companies that have a large climate impact and persuade them to accelerate the transition of their operations. One purpose of the Climate Transition theme was to effectively contribute to this through our influence as owners and our active ownership tools.

**Within the framework of the Climate Transition theme, we have evaluated how we can use our influence as owners and develop active ownership tools. To increase the effect, we focus on the companies that have the largest climate impact.**

## Supported by intensified research

Although the situation has become more urgent since the Paris Agreement came into force, research has intensified and developments in the outside world have provided better conditions to work in a knowledge-based way. AP7 has established a climate council that continually provides us with analyses of the connection of climate change to the financial markets and the surrounding society.

Both the financial markets and companies worldwide have clearly increased awareness of the importance of climate transition. Examples include the IPCC's scenarios, as well as studies identifying a limited number of companies that account for the largest part of global emissions – an important starting point for AP7's and other investors' active ownership work.

## Company dialogue on climate lobbying

Under the theme Climate Lobbying 2017–2019, the problem of lobbying that counteracts climate transition was made clear. Already in 2016, AP7 filed shareholder resolutions on climate lobbying at general meetings in the United States. The commitment in the area resulted in the global standard on responsible climate lobbying, of which AP7 is one of the initiators. Read more on page 6.

## Initiatives and collaborations provide better conditions

AP7 is involved in several of the initiatives and collaborations for sustainable investors that have come into place over the years. These enable more effective active ownership through coordination of resources and expertise, which has been central to the implementation of AP7's active ownership work. One

of the most important ones is the Climate Action 100+. AP7 was involved when the initiative was launched in 2018 and has supported the dialogue with some 160 companies that account for 80 percent of the global business community's greenhouse gas emissions. Within CA100+, AP7 has led the work regarding climate lobbying, the so-called Thematic Lead for Lobbying. AP7 also conducted the dialogue within CA100+ with the Russian company Norilsk Nickel until the invasion of Ukraine.

## Focus on the largest emitting companies

The absolute majority of global greenhouse gas emissions are concentrated to a relatively small number of companies. In



AP7's portfolio, we have engaged with some 200 companies that account for 70 percent of the portfolio's climate footprint. In order to contribute to real emission reductions, we have concentrated our active ownership work on influencing these companies to adapt their operations to the goals of the Paris Agreement and thus also be better equipped for the future.

**TPI's analyses comprise the hub of AP7's work**

The ability to assess companies' climate performance is crucial for investors to be able to meet their own commitments and support the climate transition. The independent research institute Transition Pathway Initiative (TPI), with their scenario analyses of how companies' business plans are aligned with the Paris Agreement, has therefore been the hub of our active ownership work. AP7 joined TPI in 2020 and took place in its policy team in the same year.

TPI and the CA100+ Net Zero Company Benchmark have been the basis for AP7's review in 2022 of the portfolio companies' transition work based on the Net Zero Investment Framework. [Read more on page 14.](#)

**Joint method development**

The possibility of developing methods in collaboration with other actors is also central to an effective investor contribution. In the first progress report published by the Paris Aligned Asset Owners Commitment (PAAO), AP7 contributes with two case studies. One concerns the legal process initiated by AP7 together with other capital owners against Volkswagen after the company refused to take up a proposal for increased transparency on lobbying at the general meeting.

**AP7's climate action plan a result of the theme work**

One of the most concrete results of the Climate Transition theme is the climate action plan AP7 initiated in 2021 and which was published for the first time in 2022.

**Read more about AP7's climate action plan on page 13**



**Read more in the Paris Aligned Asset Owners Progress Report**

**DEEP DIVE: ACTIVE OWNERSHIP FOR RESPONSIBLE CLIMATE LOBBYING**  
AP7 (SJUNDE AP-FONDEN)

Corporate lobbying that negatively influences political decisions on climate change continues to be a widespread challenge for investors, despite many companies officially declaring their support for the Paris Agreement. AP7 (Sjunde AP-fonden) expects corporations to demonstrate good governance and to assess whether, and to what extent, their corporate lobbying is aligned with the Paris goals. Where there is misalignment, AP7 expects concrete actions to be taken.

AP7 has taken a multifaceted, long-term approach to addressing this challenge through collaborative active ownership.

**Long-term dialogue**

In multi-year dialogues with corporations, investors have made the case for responsible climate lobbying and pushed for transparency. AP7 is thematic co-leader on lobbying within ROCC and has worked closely with CARO's lead investors to progress dialogue on the topic with key European companies.

**Development of a standard**

Together with Church of England Pensions Board and BNP Paribas Asset Management, AP7 engaged the development of the Global Standard on Responsible Climate Lobbying. After extensive consultation, the Standard was launched in 2022, providing a framework for companies to report on responsible climate lobbying in practice. Climate policy engagement is evaluated in criteria 7 of the CA100+ Net Zero Company Benchmark and one of the alignment criteria for corporates in the Net Zero Investment Framework.

**Acting at AGMs**

Shareholder resolutions play an important role to drive corporate reporting on climate lobbying. AP7 began filing resolutions at general meetings in the United States in 2018 and has subsequently filed at European and Australian companies, in some cases over multiple years. In total, AP7 has brought 21 shareholder resolutions on climate lobbying to vote and withdrawn several more after reaching agreement with companies prior to meetings.

**Legal case in Europe**

When progress in engagement with Volkswagen stalled in 2022, investors tabled an amendment to the company's Articles of Association intended to ensure that future reporting incorporates climate lobbying. The company refused to table the amendment. As a result, investors are taking the matter to court in a case which seeks whether VW has the right to refuse this AGM agenda item and by AP7, BNP and other investor shareholders. AP7, BNP, A&P, AP7, the Church of England Pensions Board are represented by German law firm Hauschild Rechtsanwälte LLP and supported by legal charity ClientEarth. A ruling in the investors' favour would reinforce the position of minority shareholders in Germany and influence German companies to engage in constructive dialogue with them. The case could also have ramifications for other civil law systems in Europe.

**Results**

Since AP7 started working actively on climate lobbying in 2016, 13 major corporations globally have published industry association reviews. Over 100 of the European companies in scope for the Climate Action 100+ initiative have published at least one climate lobbying review, and the majority of these have committed to reveal the disclosure annually. The efforts, persistence and collaborative spirit of many investors and other stakeholders have contributed to these results. For assessments of the quality of climate lobbying disclosures, see [disclosuremap](#), an data provider of CARO's.

**A universal active owner**

AP7 is the default alternative within the Swedish pensioner system. With a diversified equity portfolio of more than 3,000 companies, AP7's ESG strategy focuses on active universal ownership, complemented with targeted interventions. AP7 believes that, in collaboration with like-minded responsible actors, the greatest impact can be achieved through active ownership.

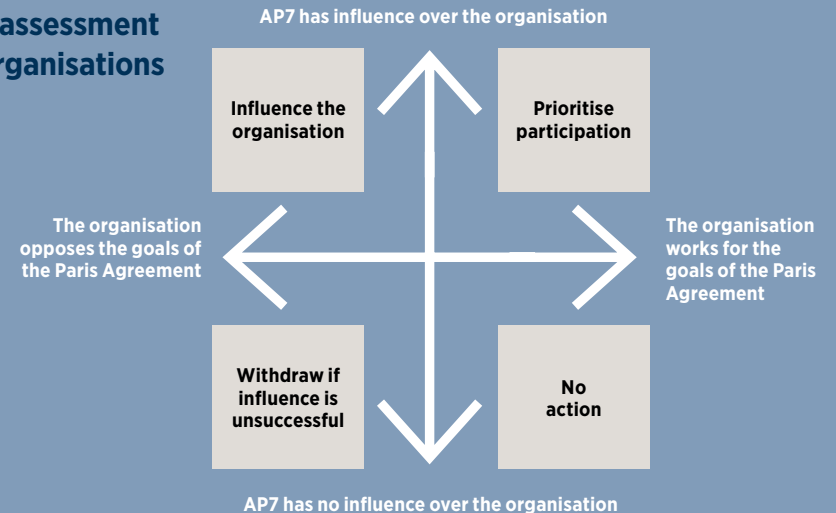
**Review of AP7's own climate lobbying**



In 2022, we reviewed and compiled our own work with public policy dialogue and climate lobbying based on the Global Standard on Responsible Corporate Climate Lobbying. In addition to mapping the interest organisations AP7 are members of, proposals were compiled for how the organisations should be handled depending on our influence and their respective standpoints.

**Read the full report "AP7 Public policy dialogue and climate lobbying"**

**AP7's handling and assessment of organisations**



## Developed climate-related blacklisting

The blacklisting process is one of AP7's active ownership tools. As a long-term active owner, our biggest contribution is working for change in the companies we own, but we have a lowest acceptable level. It is defined by the international conventions that Sweden has signed. In addition to the Global Compact's ten principles, the Paris Agreement has been part of AP7's standards review for several years. We do not invest in companies that violate these standards and try to persuade the companies to implement changes in order to become investable again.

In step with research on climate change and global warming, the climate aspect of AP7's blacklisting has continuously developed to include:

- 2020** Companies with a large absolute climate impact and expansion plans in coal production and coal power
- 2021** Coal companies that can not present credible transition plans in line with the Paris Agreement
- 2022** Companies involved in and lacking a credible plan for phasing out oil sands production, Arctic fossil fuel extraction or thermal coal mining and coal power

The development of our blacklisting has resulted in a total of 43 companies (by June 2023) with fossil-based activities being blacklisted since December 2020. In order for AP7 to invest in the companies again, they must be able to demonstrate credible transition plans in line with the Paris Agreement.



# Four examples of active ownership in practice

During the three years AP7 has worked with the Climate Transition theme, we have worked to influence companies as part of our active ownership. Below are some examples of the results.

## Dialogue on net zero commitment – Engie

Within Climate Action 100+, AP7 conducts a focused advocacy work against some 160 companies that together account for nearly 80 percent of the global business community’s greenhouse gas emissions.

One of the companies that AP7 has engaged with is the French company Engie, which in 2020 was the only European energy company that had not made a commitment to net zero emissions by 2050. After half a year of intensive dialogue, in collaboration with a dozen other owners, AP7 presented a proposal at the company’s general meeting in 2021, which led to Engie making a net zero commitment until 2045 and the proposal could be withdrawn.

→ [Read more at Climate Action 100+](#)

## Climate lobbying – Rio Tinto

Systematic anti-climate lobbying constitutes a serious threat to achieving the goals of the Paris Agreement. Since 2015, AP7 has taken action for responsible climate lobbying, a work that resulted in the launch of a global standard in 2022.

Rio Tinto was one of the first companies AP7 engaged with. When the dialogue was initiated, in 2017, the company was unwilling to cooperate, and the following year we submitted a shareholder proposal at the company’s annual general meeting. Since then, Rio Tinto has taken a new stance and now annually discloses its climate lobbying activities. In 2022, Rio Tinto took yet another step and terminated its membership in one of its industry associations.

→ [Read more at Reuters](#)

## Voting for the climate at general meetings – ConocoPhillips

AP7 votes at over 4,000 general meetings each year and almost always for proposals on improved climate strategy or reporting. In 2022, we sharpened our voting policy for companies within the Climate Action 100+ and we conduct a dedicated dialogue with companies with insufficient climate ambitions.

At the energy company ConocoPhillips’ general meeting in 2022, AP7 voted against the board on seven agenda items. Among other things, we voted for the company to adopt an emissions reduction target and to report on its climate lobbying. AP7 also voted against two board members as an indication of the need to strengthen the company’s climate-risk management.

→ [See AP7’s voting at general meetings](#)

## Climate lobbying – National Grid

Dialogue and voting are two complementing forms of engagement. AP7 pre-declared to the energy company National Grid, operating in the US and UK, our intention to vote against the company’s Chair and CEO at the annual general meeting. The justification was that the company refused to disclose its climate lobbying, despite calls from AP7 and the Church of England Pensions Board as representatives of Climate Action 100+. Before the meeting, National Grid declared that regular climate lobbying reviews would take place, whereby AP7 changed its position and voted for the CEO and Chair.

→ [Read more at Climate Action 100+](#)



# AP7's Climate Action Plan for net zero emissions


The work with the Climate Transition theme has developed the conditions for investors to work science-based to speed up the transition. The most concrete result of the work is the climate action plan that we first published in 2022.

AP7's Climate Action Plan describes how we will work to integrate the climate aspect into active ownership and investments in a systematic and structured way, in order to contribute to attaining net zero emissions by 2050. It includes goals within four areas: investments, active ownership, public policy dialogue and transparency\*. The action plan is based on our commitment within Paris Aligned Asset Owners, the scenarios of IPCC and the IEA's Net Zero Roadmap 2050, and it will be developed continually.

**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 companies are prioritised in our active ownership work.

**70%**



### Focused active ownership work

As part of the climate action plan, we have mapped the proportion of companies with high emissions in our portfolio that are conducting a credible transition work. The goal is for the share to increase to 50 percent in 2025 and to 100 percent in 2030.

Active ownership is one of the main ways to reach these goals, and we focus our resources on the companies that account for 70 percent of the portfolio's carbon footprint – approximately 130 companies. By 2025 at the latest, AP7 must conduct deepened active ownership with these companies, for example through investor cooperation and bilateral dialogue with the companies, as well as actions at annual general meetings.

### Green investments

AP7 has green mandates in all asset categories and by year 2025 the goal is that the proportion of green investments should have doubled compared to 2020.

For AP7 Fixed Income Fund, the goal is to increase the share of green bonds, i.e. bonds where the capital is earmarked for environmental purposes, from 10 percent in 2022 to 50 percent in 2025. As of January 1 2023, AP7's investment mandate has been expanded and we can now invest up to 20 percent of the fund in unlisted assets, enabling even more climate-related investments.

### Transition portfolio

As part of the action plan, AP7 has also launched a transition portfolio and the first investment was carried out in 2022. The ambition is to invest in a limited number of companies with high emissions and, through proactive dialogue work, to increase



\* The goals are structured in accordance with the categorisations stated in The Investor Agenda, see [theinvestoragenda.org](https://theinvestoragenda.org).

the climate transition of their operations. The transition portfolio combines active asset management with active ownership, where the aim is to promote greater diversification, while also working to accelerate the climate transition in the portfolio companies. The goal is for the transition portfolio to comprise 10 percent of the Equity Fund by year 2025.

### Raised ambitions to drive policy development

We have also raised our ambitions when it comes to driving policy development, as well as participating in the debate and in various investor collaborations. The global standard on responsible climate lobbying AP7 has been instrumental in developing, as well as participation in the debate in Dagens Nyheter, are examples of our work during 2022, see pages 6 and 8 of this report.

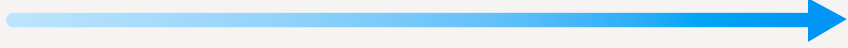
### Categorising the transition work in prioritised companies

In 2022, for the first time, we carried out a review of the portfolio based on the Net Zero Investment Framework by categorising the companies based on the degree of maturity of their 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 for AP7 to follow their performance over time. The analysis is based on the publicly available sources CA100+ Net Zero Company Benchmark and Transition Pathway Initiative (TPI). 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 companies to learn from the results and make improvements.

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.

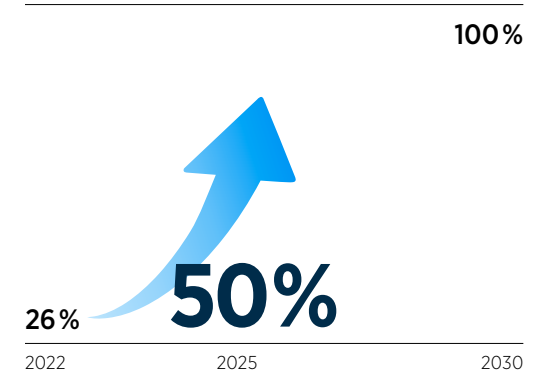
## Credible transition work towards net zero emissions



Not aligned	Committed	Aligning	Aligned	Achieving
- Companies that have not yet started their transition	- Long-term net zero ambition	- Emissions disclosure - Short- and medium-term targets - Decarbonisation strategy (at least partly)	- Emissions performance - Decarbonisation strategy - Capital allocation alignment	- Current emissions close to net zero - Business model in line with net zero

**Our goal is that by 2025, at least 50 percent of the companies with the highest emissions should conduct a credible transition work. The goal by 2030 is 100 percent.**

In 2022, **26 percent** of the prioritised companies in our portfolio conducted a credible transition work towards net zero emissions. **21 percentage points** of these have made a net zero commitment and **5 percentage points** have started their transition work.



→ [Read more in our Climate Action Plan on ap7.se](#)

# Conclusions and reflections

## 1. What are the main conclusions drawn from the theme Climate Transition?

In order to achieve real emission reductions as an owner, you should focus on the largest emitting companies in your portfolio. Since a relatively small number of companies account for a large part of global emissions, a targeted active ownership against these companies can be very efficient. This is an important lesson also in other areas, such as biodiversity. It also answers the question of how global owners with limited shares in thousands of companies can achieve effects in the real economy. If you want to achieve real emission reductions, it is more important to prioritise the portfolio companies that have the largest emissions or climate impact than to look at a company's market value or portfolio weight. It is also more important than looking after one's ownership share, as the best result is achieved through effective cooperation between several owners in the same company.

## 2. Collaboration is key to success. What characterises a good collaboration between owners if the goal is to impact the climate transition of companies?

When several investors share the same expectations and make common demands on a company's climate transition work, the pressure increases. But one should remember that it takes time to establish the forms of cooperation and to find the right balance between coordination and managing the details of the investor dialogue.

Climate Action 100+ has been pioneering in

establishing a structure for investor collaboration and has provided useful experiences for future collaborations. The collaboration is run top-down which facilitates speaking with a common voice and taking ground-breaking steps. At the same time, it creates challenges regarding governance and agreeing on the details.

Another experience is that investors can build on each others' strengths and combine different roles in the company dialogue. It is often said that the best active ownership work is characterised by three L's: *Large, Local and Loud*. Investors with deep knowledge of the corporate culture or conditions in a specific country make an important contribution. At the same time, the collaboration benefits from the principled perspective of a large global owner. If a company is reluctant to change, it may be beneficial if an investor in the collaboration is prepared to use escalation tools, such as filing resolutions, voting or public communication.

In order to achieve results as an owner, you also need to clarify early on your intention with the dialogue. The conclusions will be different if the intention is to gather information or bringing about change in the company's operations.

## 3. The Climate Transition theme has made clear the importance of measurability. How?

Throughout the theme work, AP7 has emphasised the importance of prioritising change in the companies and real emission reductions over portfolio effects. Currently, however, it

is easier to measure and report the climate footprint of portfolios than how far along companies are in their transition. Despite that, AP7 has chosen to set climate goals based on the underlying companies' degree of transition. Here we rely on publicly available analysis produced via a transparent and academically robust method.

We believe that there is an ongoing shift when it comes to measurement, with an increased focus on forward-looking real changes in the companies. This gives the Transition Pathway Initiative a very important role, as the focus is on comparable information about companies' emissions and targets, as well as on evaluating how carbon dioxide-heavy companies are working to become fossil-free and whether the work is in line with the Paris Agreement. This gives us great hope because what is being measured is the effect of the transition in the real economy.

## 4. How has the theme work affected AP7's active ownership work?

The greatest value has been the learnings that form the basis of our climate action plan, where we have developed priorities and goals for our active ownership and blacklisting. They also led to the launch of our transition portfolio and our ambitious goal that green bonds should make up 50 percent of the Fixed Income Fund. Even though we vote at the general meetings of all portfolio companies, the insights have helped us to prioritise our in-depth active ownership to the largest emitters.



Johan Florén, Chief ESG & Communications Officer, Charlotta Dawidowski Sydstrand, Head of ESG.

## 5. Are there other areas that should be explored further?

In recent years, the focus has increased on the boards' role in the transition, which is natural as the board is the link between shareholders and the company's operations. The greater a company's sustainability risks, the higher demands are placed on the responsibilities, composition and competence of boards. Therefore, it is interesting that owners increasingly begin to make demands on individual board members linked to the company's climate transition. We will continue to explore the role of boards in good corporate governance and active ownership, as well as the responsibilities of board members.

Another interesting area is which active ownership strategies produce the best results. Above all, in what ways and in what order should different ownership tools be combined to have an effect. Also, how tools such as dialogue, voting, shareholder proposals and legal processes could possibly interact or counteract each other. There is very little research available here and large knowledge gaps.

AP7  
Theme Report  
**Climate Transition**



To achieve real emission reductions, owners should prioritise companies with a large climate impact and use metrics that capture effects in the real economy.

A blue triangular logo with the text "AP7" in white.

AP7