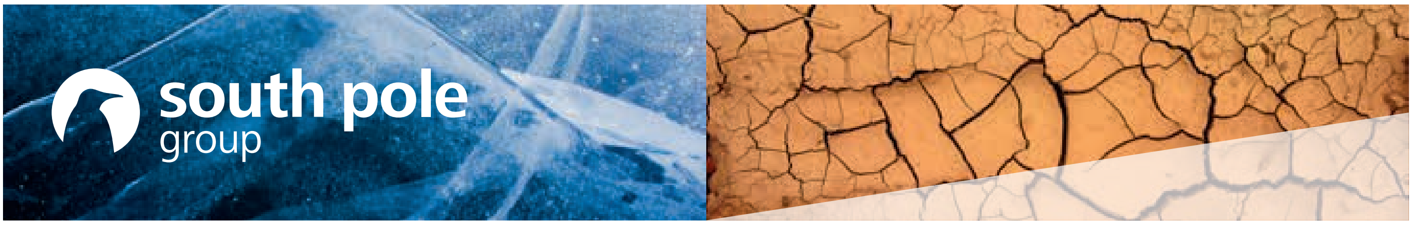


AP6 Case Study

Swedish pension fund leads the way for carbon screening of private equity investments

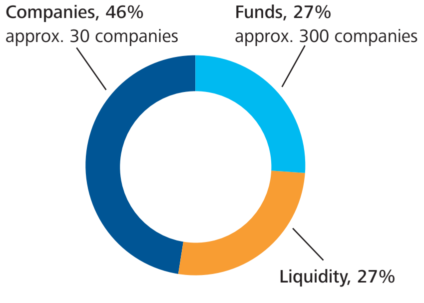
Sjätte AP-fonden

The Brief

Who is the client?

The Sixth Swedish National Fund (AP6) is one out of six Swedish National Pension Funds. It manages a portfolio worth SEK 23.6 billion (almost USD 3 billion). AP6's mission is to create high long-term returns to the benefit of Swedish pensioners by investing in unlisted companies through a risk-balanced approach. The investments are made either directly in the companies or indirectly through funds. The majority of investments are made mainly in mature companies in the Nordic region. AP6 is an active owner and has an integrated approach to sustainability, which is expressed through ownership control.

The Sixth AP Fund manages SEK 23,6 billion



What is the context?

AP6 regards climate change as a key sustainability challenge. It aspires to gain a better understanding of its portfolio's exposure to carbon risk. As a first step, the pension fund wanted to understand the availability of emissions-related information and to quantify the amount of carbon emissions from various portfolio holdings. As part of AP6's integrated approach to sustainability, the pension fund strives to create a return for Swedish pensioners by investing in a sustainable and responsible manner. This means that their holdings should grow and create returns through efficient use of resources, minimum environmental impact, and by promoting social development and fair working conditions.

What was the challenge?

Within the private equity sphere, few companies measure and report their carbon emissions. Intuitively, AP6 assumed that only a limited amount of companies they invest in have carbon footprint data readily available. Another challenge was that as a private equity investor, AP6 could not share information about the value of their holdings.

How did AP6 proceed?

AP6 conducted a market research of carbon footprinting providers and selected a handful for further probing. The selected providers were asked to suggest a procedure for how AP6 could measure the carbon intensity of their private equity investment portfolio. Important parameters in the selection process were experience from the private equity sector, as well as experience of analysing Nordic companies. AP6 was looking for internationally recognised experts in the field of investment climate impact assessments that could meet a short delivery timeline. Furthermore, AP6 was seeking a provider with a solution that could address the anticipated lack of available data and circumvent the confidentiality issues they had, without compromising quality.

What solution did AP6 choose?

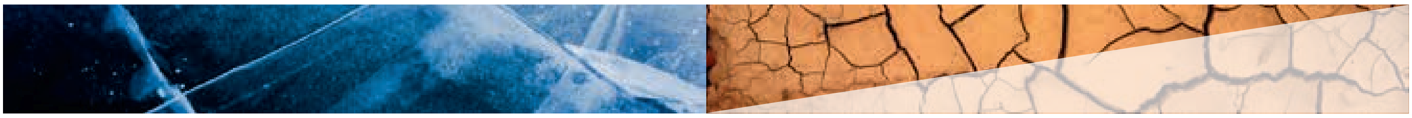
AP6 chose South Pole Group's Bespoke Analysis of Investment Climate Impact solution, which included the development of a methodological framework for measuring the climate impact of private equity investments.

The aim was to measure the absolute and relative carbon footprint of a majority of holdings in AP6's investment portfolio, in relation to AP6's ownership. In order to perform an investment carbon footprint, the underlying carbon footprint of each investee needed to be established, both for direct and fund investments. Then, the greenhouse gas emissions were allocated in relation to the respective ownership of AP6. For the underlying greenhouse gas information, a bottom-up and a top-down analysis approach were combined, in order to establish a trustworthy output at a reasonable effort. South Pole Group used the carbon data provided by the companies in the portfolio who measure and report their emissions. Approximations were made for the companies that do not report or measure their emissions. Those were based on over 800 sub-sector specific evaluation models, applied to a proprietary greenhouse-gas adjusted sector classification system.

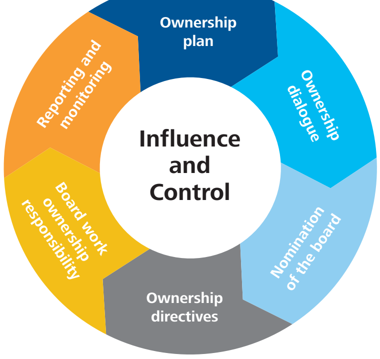
The output was a climate impact report, an analysis tool that AP6 can now feed and gradually enhance with new data, as well as a half-day workshop on investments and climate impact with AP6's investment team.

"South Pole Group's solution showed that it is possible to carry out carbon footprint analysis of private equity investments. This exercise proved that investors can circumvent confidentiality issues and approximate emissions. The results obtained in this analysis will be used to engage with portfolio companies and increase their climate change awareness."

Anna Follér
Sustainability Manager, AP6



The basis of ownership control work



The Bespoke Analysis of Investment Climate Impact solution delivered the following benefits for AP6

Identifying/reducing risks – The analysis is a first step towards identifying the level of climate change-related risks in the portfolio, as well as in individual portfolio companies. As such, it is a first step towards reducing climate change-related risks in the portfolio.

Driving change – AP6 would like to see greater transparency in how unlisted companies report their carbon dioxide emissions. This analysis will be used as a basis for dialogue with portfolio companies, as well as for engagement within the sector. Ultimately, AP6 aim to inspire other private equity investors to start taking action on climate change-related risks and opportunities.

Internal capacity building – The analysis has increased the investment organisations' awareness of climate change risks and opportunities, whereby climate change can now be better integrated into AP6's regular investment and ownership processes.

Despite existing uncertainty factors, the analysis is considered to provide a reasonable overall illustration of AP6's climate impact. Going forward, it will form the basis of the pension fund's work towards reducing the portfolio's climate impact. In addition, the analysis has provided AP6 with a tool for engagement on carbon transparency and climate change strategy. The pension fund also decided to publish information about the carbon footprint analysis in their 2014 annual report to increase the awareness of climate change-related risks among stakeholders.

"The private equity sector needs relevant comparisons and clear objectives in order to reduce its climate change-related risks, as well as its overall climate impact. AP6 would like to see more investors in the private equity sphere follow suit and measure the climate impact of their investments, in order to increase awareness and availability of data in the long-term."

Margareta Alestig Johnson
Deputy Managing Director with Responsibility for Sustainability

South Pole Group's Investment Climate Impact Assessment

South Pole Group's groundbreaking Investment Climate Impact Assessment enables asset owners, fund managers and banks to assess and understand the climate impact of their investment portfolios.

We validate all greenhouse gas (GHG) emissions disclosed by your investees on a company-by-company basis and dynamically adapt the data if necessary. For those companies not disclosing their GHG emissions, we approximate GHG emission data based on 800 carbon-specific subsectors. For this, we cover the entire investible public equity domain (40'000+ companies), as well as other asset classes. Our unique and powerful approach delivers the largest coverage, highest data quality and most transparent analysis in the market that is both standardised and can be customised to your specific needs.

Why work with us

Global team

We are a truly global provider of sustainability solutions and services. Our team is made up of over 130 skilled and enthusiastic professionals from over 20 different countries, based in offices spanning 6 continents.

Proven impact

Since 2006, we have measured the climate impact of countless companies and products worldwide. We have screened USD 50 bn+ of investments for their climate impact and we have developed 270+ projects in renewables, forestry, agriculture, industry and households. Through our efforts, 50 million tonnes of CO_2 have been saved, almost as much as the annual CO_2 emissions of the country of Portugal. We have enabled the production of 35,000 GWh of renewable energy (more than the annual electricity consumption of the country of Denmark), and mobilised over USD 6 bn for clean energy investments in emerging markets. In total, our projects have helped create almost 20,000 jobs in developing countries; this roughly corresponds to the number of employees of the British Broadcasting Corporation (BBC). We have also saved 17,000+ hectares of forest from deforestation, about the size of 24,000 soccer pitches.

Added value

We help you grow with groundbreaking solutions that benefit your business, the environment and society.

thesouthpolegroup.com/sustainablefinance

Maximilian Horster
Partner, Director Financial Industry

Phone +41 43 501 35 50
investment@thesouthpolegroup.com