

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada’s largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shifaction.ca/reportcard2022.



ANDRA AP-FONDEN (AP2)

AP2 is one of five AP funds in the Swedish national pension system which invest pension contributions toward the income-based and “premium” portion of national pension disbursements.

Assets Under Management (AUM): SEK 411.7 billion (CA\$50.46 billion) (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
AP2	B+	A-	C+	A-	B-	B	A

OVERALL CLIMATE SCORE B+

AP2 has committed to a net-zero portfolio by 2045, is a member of the Net Zero Asset Owner Alliance (NZAOA), and reports on its climate progress twice annually– in an annual Climate Report and in a half year sustainability report. AP2 has implemented the EU Paris-aligned benchmark (PAB) in its public equities and corporate bonds portfolios. These portfolios target a 7% reduction in emissions intensity each year and exclude investments in coal, oil and gas. AP2 also reports scope 3 emissions for the energy, chemicals, and mining sectors within these portfolios.

AP2 should strengthen its climate guidance for external managers and spell out a timebound and escalatory process for its climate engagements.

SCORING DETAILS

Paris-Aligned Target	A-
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AP2 is a member of the NZAOA and has committed to achieve a net-zero emissions portfolio by 2045, including scopes 1, 2 and 3. AP2 states that it will use offsets “only where it is no longer possible to reduce actual emissions” (2021 Sustainability Report, p.19).

Interim Targets	C+
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AP2 has implemented the EU PAB for its internally-managed global equities and corporate bonds (which comprise 53% of AUM as per AP2’s 2021 TCFD Report, p.6). Initial implementation of the PAB generally results in an emissions reduction of at least 50% in the portfolios where it is introduced (2021 Sustainability Report, p.19). The PAB then requires AP2 to reduce the portfolios’ carbon intensity by 7% per year until reaching net

zero by 2050. For 2021, AP2 reported a reduction of 9% in the footprint for its global equities and corporate bonds, including scope 3 emissions (*2021 Annual Report*, p.43).

AP2 has not yet set 2030 targets for emissions reductions in its other asset classes or targets for investment in climate solutions (*2021 Sustainability Report*, p.19).

Recognizing that portfolio emissions reductions must be accompanied by reductions in real world emissions, in 2019 AP2 began reporting the proportion of change to its portfolio carbon footprint stemming from changes in company holdings, as well as the proportion stemming from changes in companies' actual emissions (*2021 Annual Report*, p.44, 55).

Climate Urgency

A-

AP2 acknowledges the climate crisis poses risks both to its portfolio and the financial system as a whole, states that AP2 has an important role to play in limiting global heating to 1.5°C, and acknowledges the urgency of the crisis (including discussion of tipping points and domino effects). AP2 states that “the world must stop relying on coal, oil and other fossil fuels and switch to wind, solar and other renewable sources in order to achieve sustainable global development in line with the Paris Agreement” (*2021 Sustainability Report*, p.36).

AP2's communication of double materiality (that the fund's investments are both *impacted* by and *can impact* the trajectory of the climate crisis) could be clearer.

Climate Engagement

B-

SUMMARY

AP2 signals strong expectations for emissions reduction through its own commitment to Paris alignment but has not set out an escalatory engagement program. AP2 has relatively strong proxy voting guidelines, but could provide more disclosure on how it evaluates external managers and what climate-related guidance it gives them.

DETAILS

Expectations for owned companies

AP2's Paris-aligned target, NZAOA membership, and inclusion of Paris alignment in its *Sustainability Policy* all provide signals to owned companies regarding its climate-related expectations. It is unclear where or how AP2 specifically sets expectations for privately-owned companies. Expectations for publicly traded companies are set out in AP2's *Voting Guidelines*.

Proxy voting

AP2's *Voting Guidelines* state the fund “advocates that companies express their support for, and draw up a strategy to be in line with, the Paris Agreement” in addition to reporting in accordance with the TCFD framework (p.9).

Further, the *Voting Guidelines* say that companies “shall specify explicit goals, means and action plans for how the sustainability policy is implemented and maintained. Companies shall prepare a report on this work at least once a year” (p.9).

In 2022, AP2 (along with other investors) formulated a shareholder proposal for Volkswagen calling for “clarifications on how the company's lobbying contributes to driving the climate issue forward” (*2022 Half Year Sustainability Report*, p.12).

Collaborative engagement

AP2 is a member of Climate Action 100+ and is leading engagement with Volvo. In its *2021 Annual Report*, AP2 reported that its engagement had focused on the company's goals and action plan to reach net zero by 2050. Volvo's climate targets were subsequently verified by the Science Based Targets Initiative (p.45).

Direction given to external managers

AP2 evaluates the sustainability work of external managers using 25 different assessment points. In 2021, 21% of its external managers were rated as "good", 42% as "very good", and 36% as "excellent". No managers received the lowest rating of "cautious".

It is unclear what direction, if any, AP2 gives to its external managers regarding climate.

Climate Integration

B

Accountable Paris-aligned membership

AP2 is a member of the Net Zero Asset Owner Alliance.

Transparency and disclosure of holdings

AP2 discloses its public equity and fixed income holdings and their valuations twice per year, and its non-listed equity, participations and loans once per year. This information is posted on the *Holdings* section of AP2's website.

Transparency and disclosure of climate risk

AP2 provides a detailed account of its exposure to fossil fuels in public equities, specifying the number of companies it holds with coal reserves, the number of companies it holds with oil and gas reserves, AP2's shares of the holdings' reserves and AP2's shares of the holdings' reserves' potential carbon dioxide emissions (*2021 Sustainability Report*, p.38).

AP2 states "Climate change is a systemic risk" as one of the fund's ten investment beliefs (*2021 Sustainability Report*, p.36).

AP2 reports on its climate progress twice annually, in an annual Climate Report and in a half year sustainability report, because "the Fund strives to be as transparent as possible and a lot is happening in the field of sustainability" (*Half-Year Sustainability Report, to June 2022*, p.2).

AP2's carbon footprint covers 66% of AUM (*2021 TCFD Report*, p.17) and includes scope 1 and 2 emissions; scope 3 is also calculated for the energy, chemical and mining sector companies for those parts of the portfolio aligned to the EU PAB (p.14).

AP2's annual *Sustainability Report* provides a list of its commitments under NZAOA and an explanation of how it is fulfilling them (*2021 Sustainability Report*, p.19).

AP2 uses IPCC-informed outlooks for climate scenario analysis and "reports the development of the portfolio relative to the most conservative of IPCC's 1.5 degree scenarios" (*2021 TCFD Report*, p.7).

Board climate expertise and/or fossil fuel entanglement

AP2 does not appear to have a public board competency framework and has identified no Board members as having climate expertise. No Board members appear to have fossil fuel entanglements. According to AP2's *2021 Sustainability Report*, Board and staff members receive training in sustainability topics including climate (p.14).

Executive and staff compensation and climate

There is no indication that AP2's executive and staff compensation is tied to the achievement of climate targets, although the *2021 TCFD Report* states that "All of the Fund's employees have a responsibility to take climate into consideration in their various roles" (p.4).

Fossil Fuel Exclusions

A

AP2 has aligned its internally managed global equities and corporate bonds portfolios (53% of AUM according to AP2's *2021 TCFD Report*, p.6) to the EU PAB.

These portfolios:

- exclude investment in companies that receive more than 1% of revenue from coal
- exclude investment in companies that receive more than 10% of revenue from oil
- exclude investment in companies that receive more than 50% of revenue from gas.

These exclusions have resulted in the divestment of 250 coal, oil, gas and utility companies (*2021 Annual Report*, p.43).

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- [Sustainability Report 2021](#) (2022)
- [Sustainability Report 1 Januari - 30 Juni 2022](#) (2022)
- [Annual Report 2021](#) (2022)
- [Climate Report 2021 in accordance with the TCFD's recommendations](#) (2022)

Documents

- [Voting Guidelines](#) (March 2021)

Webpages and press releases

- [A unique pension system](#) (webpage) (accessed November 4, 2022)
- [Our mission](#) (webpage) (accessed November 4, 2022)
- [About AP2](#) (webpage) (accessed November 4, 2022)
- [Holdings](#) (webpage) (accessed November 4, 2022)