FROM AMBITION

TO ACTION

YOUR CLIMATE JOURNEY STARTS HERE

south pole

Nordic Platform for Mobilising Climate Finance

Climate-related investment strategy

08 Oct 2020

Nordic Council of Ministers

gaia

south pole

Welcome to our webinar

- **Default audio setting:** mute on joining
- **Questions** via the ***Question box*** are welcome at any time
  - Technical support: we will aim to resolve ASAP
  - Topic-related questions for the discussion: Q&A at the end
- Some of us might be broadcasting from **our homes**. Please bear with us in case of sound and/ or technical issues
- The webinar will be **recorded**
- **11:30 AM**
- **Landing page**

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Who we are

South Pole helps clients address climate change impacts, while mitigating risk and creating value on their sustainability journeys.

Innovative solutions

An award winning, 14-year history of providing sustainability solutions

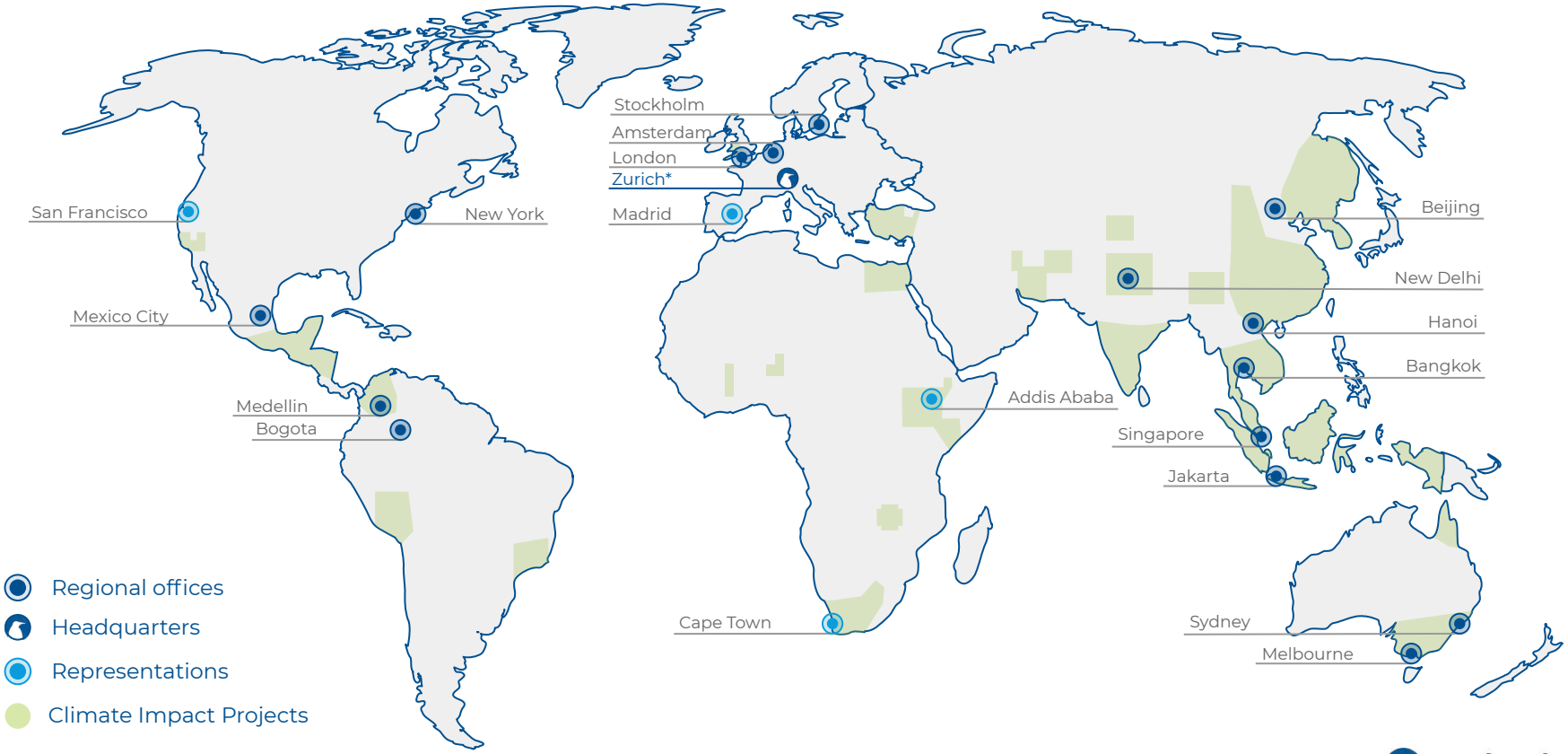
Diverse expertise

Based in 19 offices, our team of 350+ sustainability advisors, scientists, and engineers are leading experts in their fields

Project developer

Largest developer of climate action projects globally

Our global reach



Sustainable Finance at South Pole

TCFD advisory	SDG impact analysis for financial products	Supporting net zero commitments
• **TCFD** first steps and gap analysis • **Physical and Transition risk** identification and opportunity assessment, including scenario analysis • **CDP questionnaire, climate stress test** and **Taxonomy** support	• **Asset management** funds • **Green and sustainability bond and loan** impact and verification • **Transition bond and loan** impact and verification	• **Scope 3 carbon footprinting** for lending and investments • Investment and lending **Paris alignment** assessments and decarbonisation pathways • **Climate neutrality** for financial services (scope 3 carbon analysis)

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Consultancy for Sustainable Business

GAIA CONSULTING OY

2020

gaia

We provide a 360° approach to sustainability

Climate accountability and leadership

Communications and stakeholder relations

Risks and resilience

Foresight

Strategic integration and capability development

Governance and legislation

Business opportunities and transformations

Innovations

Materiality assessment and reporting

Financial analysis

gaia

OVER
2 000
REFERENCE CASES

50+
PROFESSIONALS

200
CLIENTS YEARLY

62
NPS

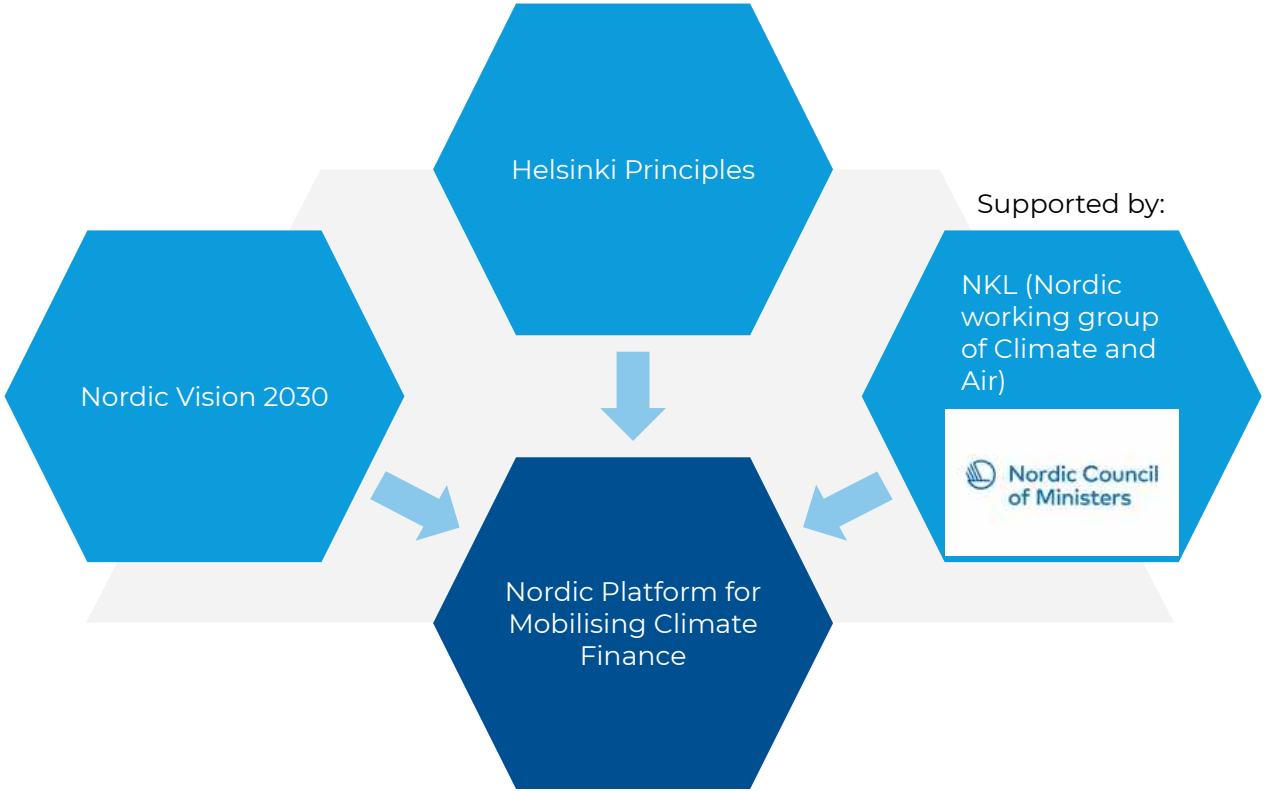
WELL-BEING
4/5

1 000+
CLIENTS IN MORE THAN **60** COUNTRIES

8 OFFICES GLOBALLY

OVER **25** YEARS' TRACK RECORD

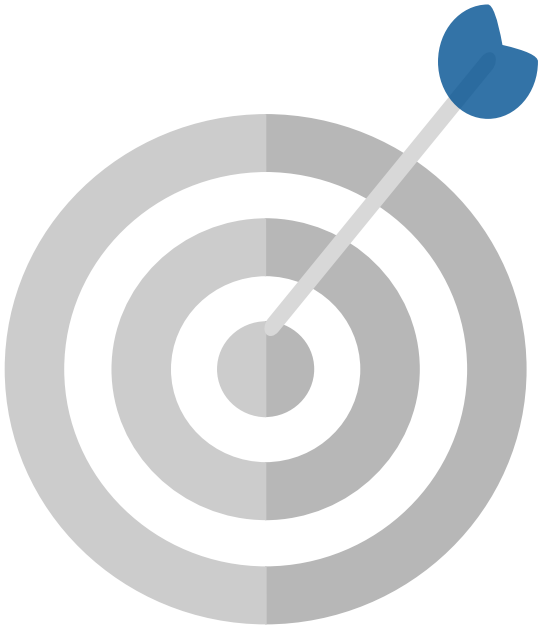
The Platform (1)



The Platform (2)

NORDIC DEVELOPMENT FUND
Swedfund
klp
IFU
NEFCO
Nordea
Norfund
NIB
VARMA
European Commission
PRI Principles for Responsible Investment
alecta
finnfund

The Platform (3)



Our goal

To highlight areas where Nordic cooperation within the Nordic Council of Ministers can support the road towards carbon neutrality

Hosts

Ingmar Schuurmans
Managing Consultant
South Pole

Mikko Halonen
Leading Consultant
Gaia

Speakers

Jean Christophe Nicaise Chateau
Policy Officer
European Commission

Vesa Syrjaelaeinen
Responsible Investment Analyst
Varma

Magnus Billing
CEO
Alecta

Corinna Hornwall
ESG Analyst
Swedfund

Johanna Raynal
Director of ESG & Impact
Swedfund

Minna Kuusisto
Economist
Finnfund

Kenneth Söderling
Impact analyst
Finnfund

EU Climate Benchmarks
And
Benchmarks‘ ESG Disclosures

Jean-Christophe NICAISE CHATEAU
Policy Officer – European Commission

Serving High Ambitions, Breaking New Ground

The Climate Benchmarks Regulation sets high ambitions by introducing:

1. **Two climate benchmarks** aimed at reallocating capital towards a low-carbon and climate-resilient economy.

2. **Disclosures for all benchmarks*** against which trillion euros in assets are managed, providing clarity on the ESG profile and the degree of alignment with the decarbonization goals of the Paris Climate Agreement.

***Except interest rate and currency benchmarks!**

Definitions of the Climate Benchmarks

*An '**EU Climate Transition Benchmark' (EU CTB)** means a benchmark that is labelled as an EU Climate Transition Benchmark where the underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio is on a decarbonisation trajectory and is also constructed in accordance with the minimum standards laid down in the delegated acts.*

*An '**EU Paris-aligned Benchmark' (EU PAB)** means a benchmark that is labelled as an EU Paris-aligned Benchmark where the underlying assets are selected in such a manner that the resulting benchmark portfolio's GHG emissions are aligned with the long-term global warming target of the Paris Climate Agreement and is also constructed in accordance with the minimum standards laid down in the delegated acts.*

Objectives and Uses of Climate Benchmarks

Objectives	Uses
▪ **comparability of climate benchmarks** ▪ **Provide investors with an appropriate tool, aligned with their investment strategy**. ▪ **Increase transparency** ▪ **Prevent greenwashing**.	▪ Underlying for **passive investment strategies**. ▪ An investment performance benchmark for **climate-related strategies**. ▪ A policy benchmark to help guide **strategic asset allocation** (SAA). ▪ An **engagement** tool.

Key minimum Standards

Climate Scenario	Equity Allocation constraint	Self decarbonization	Relative decarbonization
IPCC 1.5°C with no or limited overshoot	**= or >** Exposure to sectors highly exposed to climate change and its mitigation	**-7%** Minimum yearly reduction in GHG emissions intensity	**EU CTB: -30%** **EU PAB: -50%** Minimum reduction in GHG emissions intensity compared to investable universe

Phase-in Scope 3 Emissions

GHG emissions should be considered using Life-Cycle Analysis with scope 3 being phased-in during a four year period

1) Date of application of the Regulation
- Scope 3 GHG emissions data for the **energy and mining sectors**.

2) Until 31 December 2021
- If you demonstrate that you cannot calculate nor estimate Scope 3 GHG emissions data you may use fossil fuel reserves.

3) After **two years**
- Scope 3 GHG emissions data for **transportation, construction, buildings, materials and industrial sectors.**

4) After **four years**
- Scope 3 GHG emissions data for **all other sectors.**

Exclusions

As of the date of application of the Delegated acts, EU PABs should exclude companies…

… that derive

- 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- 10% or more of their revenues from the exploration, extraction, distribution or refining oil fuels;
- 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
- companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

… involved in

- activities related to controversial weapons;
- the cultivation and production of tobacco;
- violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
- significantly harming one or more of the environmental objectives.

EU CTBs should also exclude those by 31 December 2022.

Reviews and future reflections

The Commission shall review the minimum standards of the benchmarks by 31 December 2022, in order to ensure consistency with the EU Taxonomy.

Before 31 December 2022, the Commission shall present a report to the European Parliament and to the Council on the impact of this Regulation and the feasibility of an 'ESG benchmark', taking into account the evolving nature of sustainability indicators and the methods used to measure them. That report shall be accompanied, where appropriate by a legislative proposal.

ESG Disclosures for all benchmarks: Overview

Different ESG factors are relevant depending on the analysed asset class.

Asset Classes

all,
except interest-rate and currency benchmarks

ESG Factors

Relevant to each asset class

Includes Overall ESG and specific E, S and G factors

Examples :
Greenhouse gas (GHG) intensity of the benchmark.

Weighted average percentage of benchmark constituents in the tobacco sector.

Weighted average percentage of female board members.

Climate Scenario Alignment

Does the benchmark align with the target of reducing carbon emissions or the attainment of the objectives of the Paris Agreement ?

Which temperature scenario?

Methodology and data used

Disclosure templates

1. Methodology
2. Benchmark statement

Thank you!

Varma's new climate targets

Varma's Climate Policy for Investments

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VARMA

Carbon-neutral investment portfolio by 2035

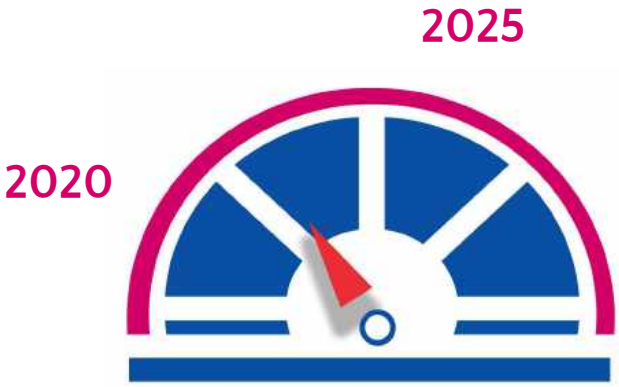
We invest in companies that create solutions for **reducing emissions** and **take the progression of climate change into account in their operations**.

We invest in companies that benefit from climate change mitigation **by creating products and services to replace fossil fuels**.

Provided that there are also changes in the investment environment to make carbon neutrality possible.

VARMA

Climate allocation 20% of the portfolio by 2025



We invest in different asset classes

- ✔ whose business benefits from actions to mitigate climate change
- ✔ whose operations are low emission
- ✔ who have a clear strategic and science-based target of reducing greenhouse gas emissions
- ✔ whose operations offer carbon sinks

VARMA

Varma's climate targets

Carbon-neutral investment portfolio 2035

Climate allocation 20% of the portfolio by 2025

Listed equities and corporate bonds

- 50% emissions reduction by 2027 (listed equities, corporate bonds)
- ~~Thermal coal investments~~
- ~~Oil exploration~~

Index funds

- Low-carbon funds to account for 35% by 2025

Private equity funds

- Renewables to account for 50% of electricity generation investments by 2030

Real estate investments

- Fossil-free electricity by 2025
- Fossil-free heating by 2030

08102020

With the exception of small-scale (5%) balancing power.

VARMA

Timeline of Varma's climate targets

2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035

2020
Carbon footprint –25%, equities
Carbon footprint –15%, properties
Carbon footprint –15%, properties

2021
Waste included in CO_2 emissions, properties

2023
Carbon intensity –30%, equities
Carbon intensity –30%, bonds
Climate Policy update

2025
Carbon intensity –40%, equities
Carbon intensity –40%, bonds
Climate allocation 20%
35% of index investments low carbon
Exit from coal, listed equities
Fossil-free electricity, properties
Energy savings –10%, properties

2026
Climate Policy update

2027
Carbon intensity –50%, equities
Carbon intensity –50%, bonds

2029
Climate Policy update

2030
Renewables 50% of electricity generation, private equity investments
Gas 22–25% of electricity generation, private equity investments
Exit from other fossil-based investments, private equity investments
Exit from oil exploration, listed equities
Fossil-free district heating, properties

2032
Climate Policy update

2035
Carbon-neutral portfolio

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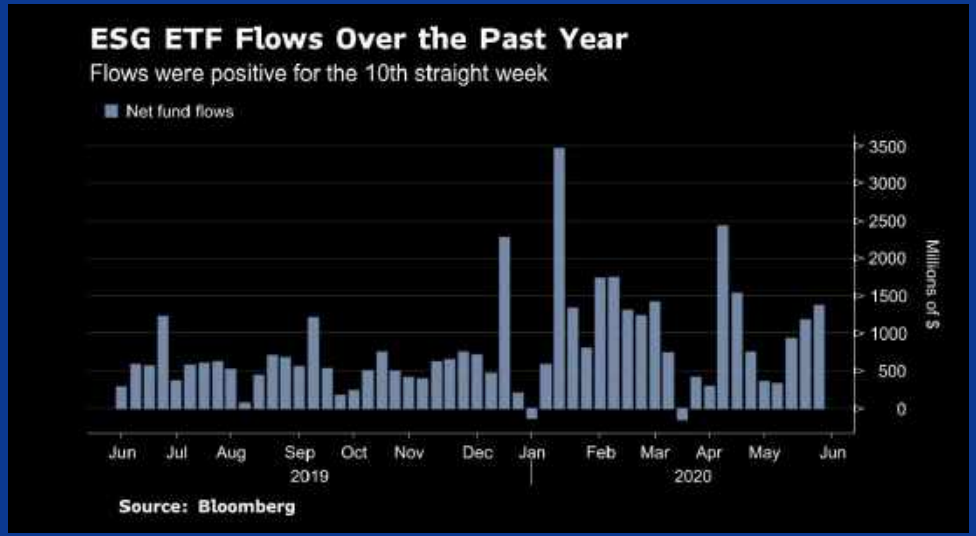
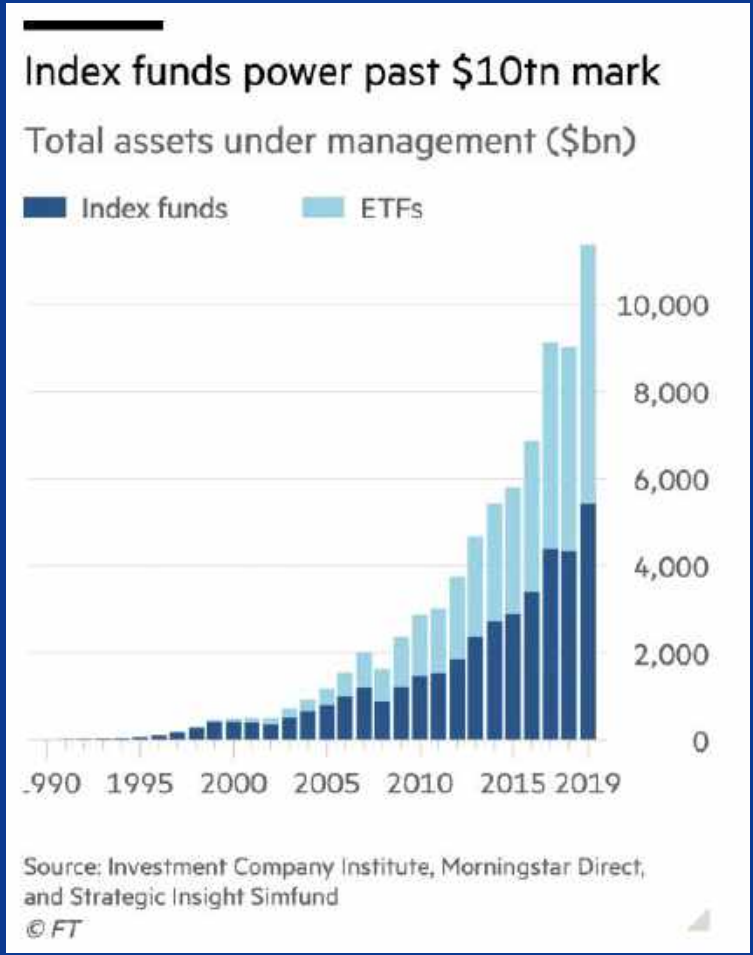
VARMA

Two megatrends collide

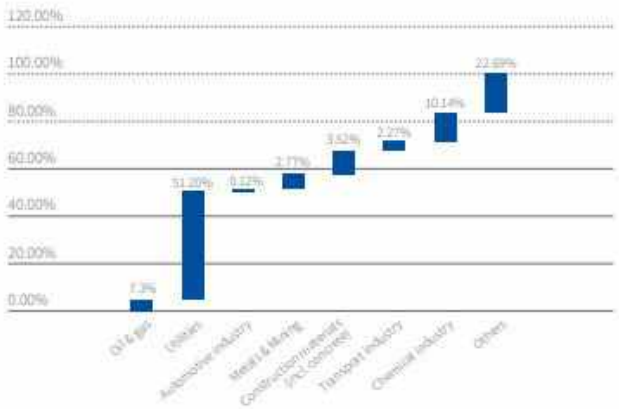




VARMA

Transition industries offer return opportunities

Contribution of different transition industries to the carbon footprint of Varma's equities



Share of transition industries exposed to climate change in investments

Companies operating within the transition industries also present investors with return opportunities. We aim to identify companies with the strongest willingness to change and adapt to the changes brought by climate change.

VARMA

Varma's revamped sustainable equity portfolio promotes the UN's goals and Varma's own climate targets

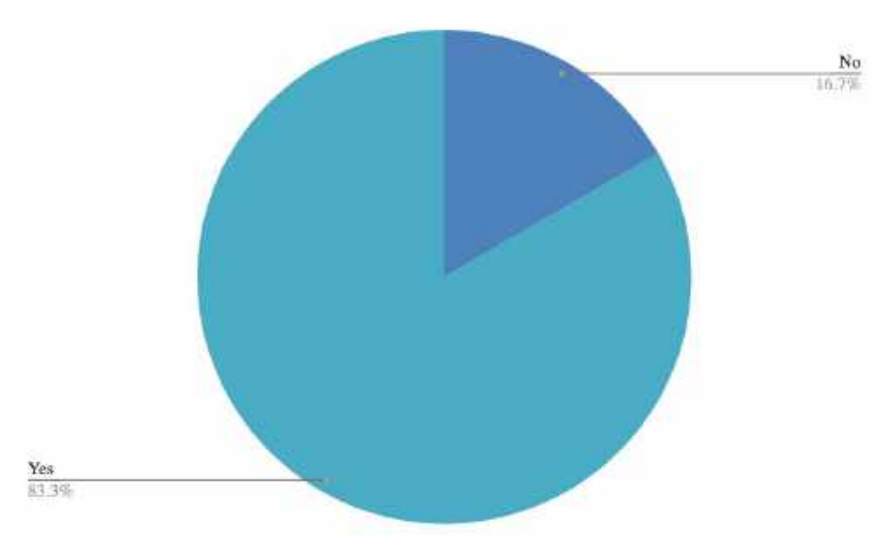
- The equity portfolio consists of a passive core and actively managed part.
- The passive part aims to track its global ESG benchmark as closely as possible
- Exclusions:
    - Controversial weapons such as nuclear and chemical weapons,
    - Oil companies,
    - Tobacco products and
    - Companies producing coal
    - Companies that break international agreements and standards
    - Integrated carbon-intensity curve
- Both core and satellite investments are managed internally
    - Not fixed on current knowledge and data
    - Allows for further adjustments in methodology in the future
    - Full control over the investments and methodology makes the process more straightforward

The ETF designed by Varma allocates to European equities and takes sustainability criteria into consideration. Companies that are selected as investees are assessed based on how well they take environmental, social and governance issues into account in their operations.

Sustainable fund developed by Varma listed on London Stock Exchange

What we have asked you

Is there a role for Nordic governments to facilitate the EU CTB/PAB benchmarks for investors?



N = 18

- **Task: what role according to you?**
- Answer through the question box

- But, what role specifically?
- More during the Q&A

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ESG Integration and Stress Testing

Quest for Net Zero emissions by 2050

Magnus Billing, CEO Alecta

alecta

Annual return of 8.8% on avg last 10 years

Fee of 9 bps

- Alecta's core investment philosophy is founded on a strong belief on in-house capacity with focus on absolute return and risks of our investments.
- Alecta focuses its investment activities on areas where we have in-house knowledge and expertise.
- Alecta limits the number of holdings in order to allow for an even deeper analysis whereby each specific analysis can have a significant impact on our performance.
- Alecta's portfolio shall be net-zero GHG emissions by 2050

Alecta Climate Stress Test 2019 - Take aways

1. ***Data quality:*** *Approximated data underestimates the companies' own reported data, in one case by 20 times.*

2. ***Disclosure****:* *81% (Scope 1-2) and 54% (Scope 1-3)*

3. ***Carbon price:*** *Spread 40 USD/ton – 870 USD/ton*

Actions

1. **“Best practice” sharing with focus on methodology**

2. **Focused climate change dialogue with key holdings in high impact sectors**

   i. Increased reporting
   ii. Business model enhancement – Stewardship focus
   iii. Quality of scope 3 data

alecta

Thank you

alecta

Swedfund

Swedfund's climate investment strategy

Aligning the investment portfolio with the Paris Agreement

THE GLOBAL GOALS
For Sustainable Development

Climate targets

- ✔ We aim to align our investment portfolio with **the Paris Agreement**
- ✔ Swedfund has **two targets** on climate, set out in dialogue with our owner, the Swedish government

1

Climate neutral portfolio by 2045 - net zero GHG emissions

2

The portfolio's carbon intensity (GHG/SEK) will decrease over time

In 2045:

GHG emissions =
GHG removals from portfolio

Swedfund's ambition is to align with the Paris Agreement

Article 2 states:	Swedfund actions	
1 (a): Holding the **increase in global average temperature to well below 2°C** above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C	**Portfolio level**	Minimise emissions from the portfolio, invest in carbon sequestration → **Net zero emissions in 2045**
1 (c): **Making finance flows consistent with a pathway** towards low greenhouse gas emissions and **climate-resilient development**	**Sector level**	Investments within sector **Energy & Climate** (over 30% of the portfolio)
1 (b): Increasing the ability to **adapt to the adverse impacts of climate change and foster climate resilience** and low greenhouse gas emissions development	**Project level**	Climate lens in the investment process: (i) impact on climate (emissions) and (ii) climate risk

Swedfund's Theory of Change on Climate

INPUT	ACTIVITY	OUTPUT	OUTCOME	WIDER IMPACT
Align Swedfund's portfolio to the goals of **the Paris Agreement** 1. Not later than 2045, the investment **portfolio shall be climate-neutral** 2. The total release of GHG per invested SEK shall decline over time	Estimate **emissions from the portfolio and pathways to zero emissions** target in line with the best available scientific knowledge	Increased focus on **climate smart new investments**	**Reduced** environmental and climate **footprint**	Global temperature increase **well below two degrees** Climate change **mitigation** **Adaptation** to adverse climate impacts and increased climate resilience
	Implement **investment process with a climate lens** for identification and selection of climate smart investments	**Value add creation** with focus on climate	Improved climate focus and environmental **stewardship** in private sector	
	Develop **climate targets and programs** to portfolio companies	**Reporting** on climate efforts and impacts to increase transparency, accountability and collaboration		

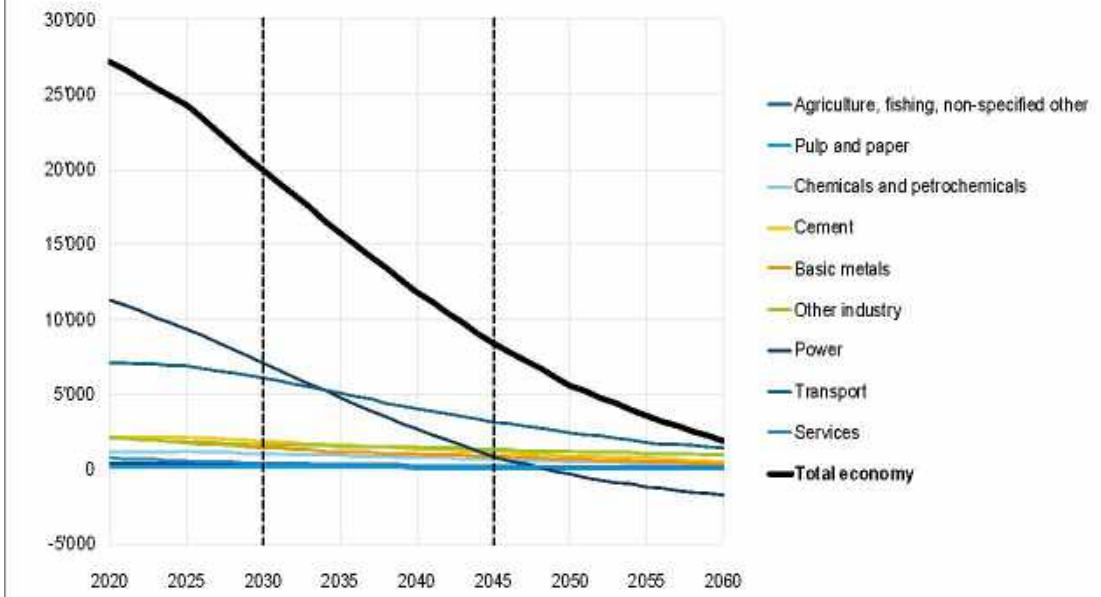
DIRECT EFFECTS

INDIRECT EFFECTS

Swedfund's portfolio alignment with the Paris Agreement

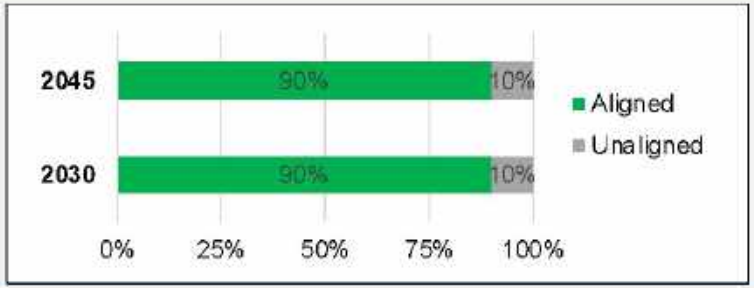
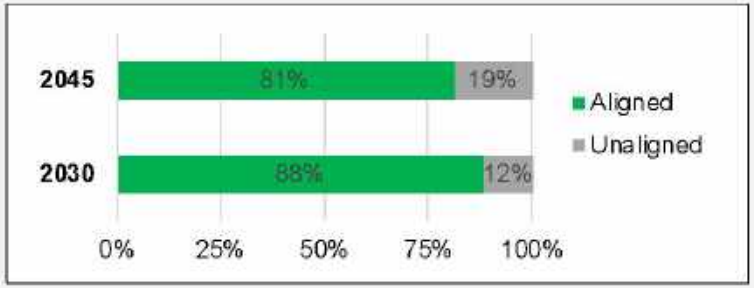
- ✔ SouthPole has supported Swedfund in checking the alignment of the investment portfolio with the Paris Agreement
- ✔ The analysis is based on the draft Science Based Targets Initiative (SBTi) methodology for financial institutions
- ✔ This uses the Beyond 2°C scenario by the International Energy Agency
- ✔ The alignment was checked for 2030 and 2045

Global carbon budget of IEA's Beyond 2°C scenario



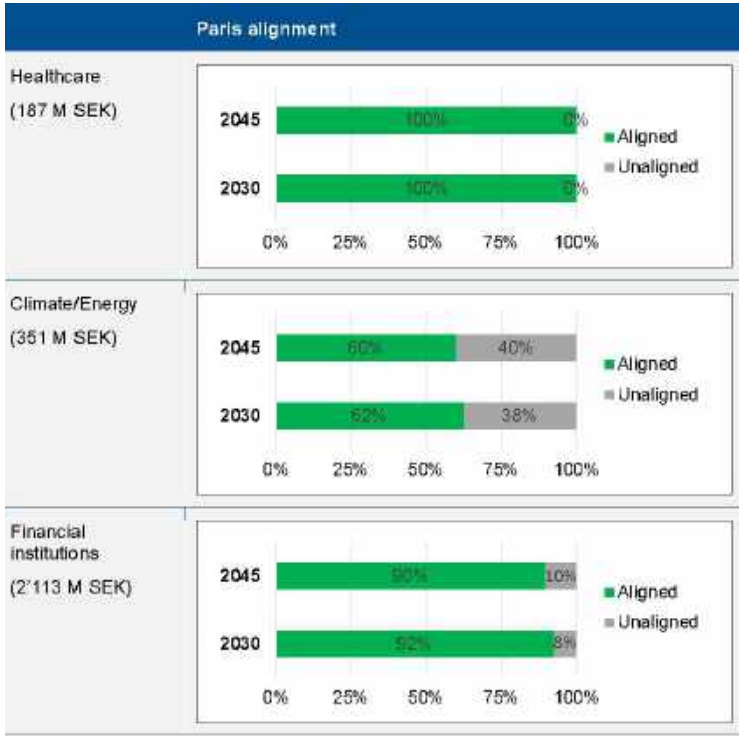
Swedfund's portfolio alignment - results

- ✔ Swedfund's investment portfolio shows a relatively high alignment with the Paris Agreement
- ✔ The assessment can serve as a tool to track progress towards the goal of climate-neutrality by 2045 and decide on prioritised activities for active ownership
- ✔ There is the need to improve our collection of primary data from investees to make this assessment more accurate

Investment category	Paris alignment
Direct investments/loans	
Indirect investments/loans	

Swedfund's portfolio alignment – results (2)

- ✔ The healthcare sector is fully aligned with the Paris agreement
- ✔ In climate/energy sector two older investments in gas power plants are driving the results (since 2015 we invest only in renewable energy production)
- ✔ In financial institutions, the sector mix of the underlying FI portfolio drives the results



Key findings from the alignment assessment

- ✔ Swedfund's investment portfolio shows a relatively high alignment with the Paris Agreement
- ✔ This is due to Swedfund's sector focus
- ✔ Improve primary data collection to obtain more accurate picture of alignment

- ✔ The assessment can serve as a tool to track progress
- ✔ Can help us decide on new requirements for our investments and prioritised activities for active ownership (e.g. support our investees to transition or shift towards greener lending)

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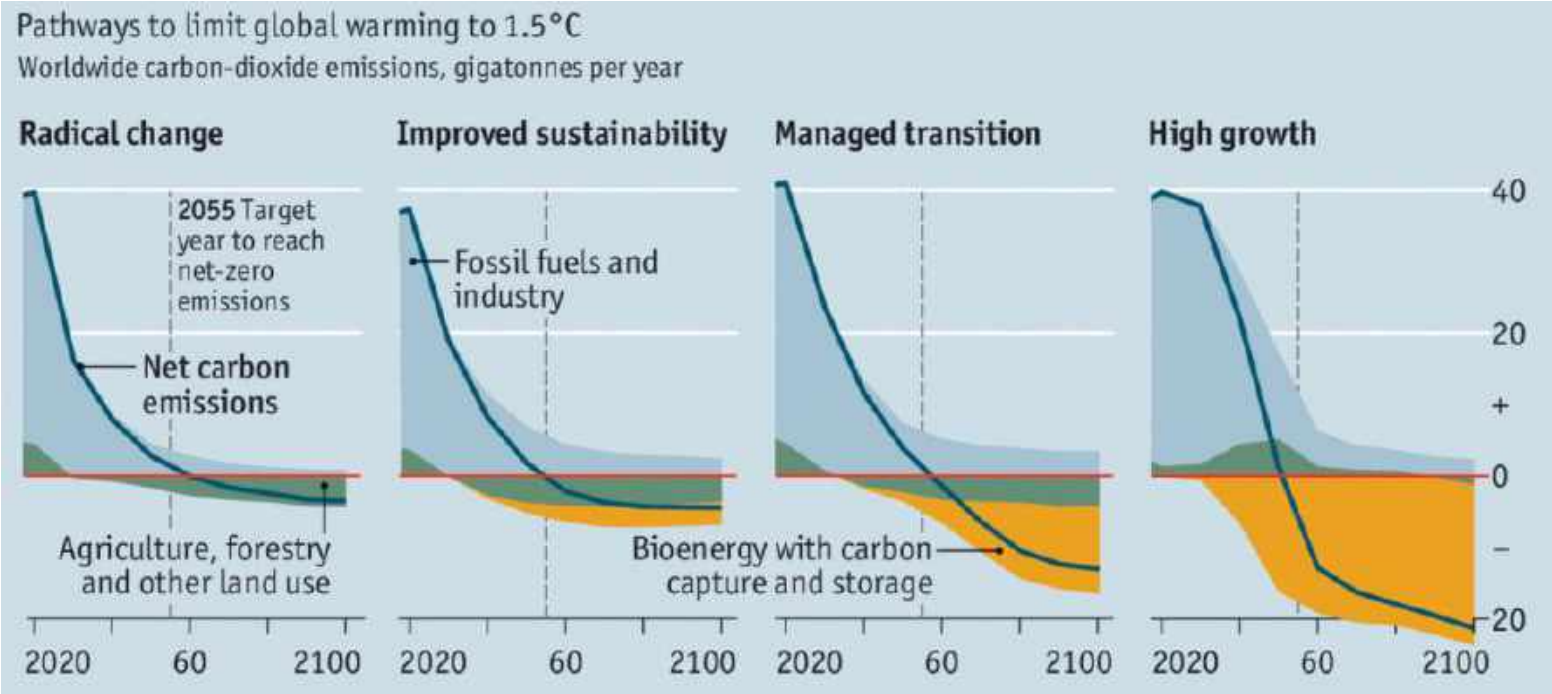
Mobilizing Finance for Sustainable Forestry in Africa

Nordic Climate Finance Platform / 8.10.2020

Kenneth Söderling, Minna Kuusisto

Net-negative emissions are needed for Paris agreement 1.5°C degree pathway



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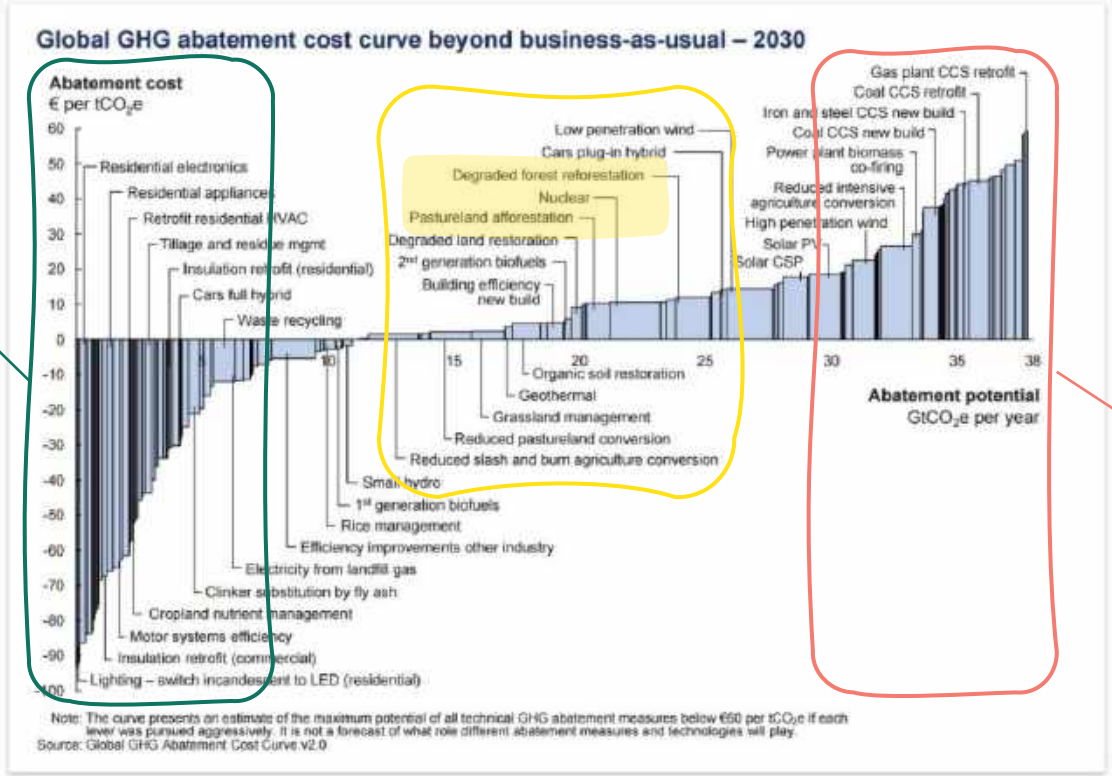
Forestry plantations as a carbon-efficient investment solution

Low cost solutions



High cost solutions

finnfund

23.9.2020

Climate & Forestry at Finnfund

Climate is at the core of our investment strategy

Renewable energy

Sustainable forestry

Financial institutions

Sustainable agriculture

Assessment of climate impacts is integrated in our investment process.

We estimate climate impacts on:

- entire investment portfolio on an annual basis
- every investment prior to investment decision

Forestry accounts for 1/5 of our portfolio

- Commercial plantations and related industries, such as sawmills, panel & board mills
- Both direct investments and indirect investments through funds

At the end of 2018:

EUR 126 million in 10 forestry companies and five forestry funds, i.e. 18% of the total portfolio.

870,000 ha forest under sustainable management, of which 815,000 FSC certified.

Why invest in forests?

finnfund

Impact and business opportunities are there but challenges remain

IMPACT	Climate benefits, job creation (esp. in rural areas and for less educated), infrastructure, green growth and trade.
OPPORTUNITY	Huge land mass (potential), nascent production vs. increasing local (and global) demand for sustainable timber.
CHALLENGE	Sustainability & political risks, large initial investments with long-dated and back-loaded payback profiles.

How to mobilize private capital?

CHANGE IN ATTITUDES	Perceived risks higher than actual risks; many investors are used to forestry investments being low risk-low return.
SHOWCASING COMMERCIAL POTENTIAL	Patient capital, risk-sharing and better practices needed to attract commercial investors; not just greenfield, but also into processing.
POLICY DIALOGUE AND SUPPORT	Enabling policy environment, e.g. in land use, exports and regulations regarding illegally harvested wood.

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Q&A

I. Questions from the audience

II. Speaker's perspectives main question (below)

From:
'Is there a role for Nordic governments to facilitate the EU CTB/PAB benchmarks for investors?'

To:
'What is the role for Nordic governments to (...)?'

Upcoming webinars

Debt opportunities

23rd October, 10:00 AM - 11:30 AM CEST

Climate risk and data

5th November, 10:00 AM - 11:30 AM CEST

Register now

Thank you for attending!

Feel free to contact us

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Mikko Halonen

Leading Consultant
Gaia
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For registration and more info about the **Nordic Platform for Mobilising Climate Finance**, please see here

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