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Second AP Fund's approach to the transition towards a low-carbon economy

Today, the Second AP Fund (AP2) is releasing a publication regarding its approach to the transition towards a low-carbon economy. The Fund has also followed up its analysis of financial climate risks in power utilities, deciding to divest in a further ten companies that it believes are exposed to significant financial climate risks.

Climate issues, in particular climate change, represent both enormous risks and big opportunities for a long-term investor like AP2. Climate change is likely to have a large effect on long-term returns. Therefore, AP2's climate ambition is to develop the portfolio in line with the two-degree target. This is achieved by integrating climate analysis into the investment process and based on the Fund's mission, contributing to a transition into a two-degree society.

In December 2015, 195 states agreed on a global climate agreement to reduce climate emissions. The agreement establishes that the global increase in temperature should be kept well below two degrees Celsius and that countries should strive to limit the increase to 1.5°C. The Paris Agreement strengthened AP2's view that society are currently at the start of a transition into a low-carbon economy, giving growing importance to the integration of climate considerations into risk assessments and investment decisions.

“Given that AP2 is a long-term investor, it is clear to us, that our asset management needs to take into account the risks and opportunities associated with climate change and the transition into a society with zero net greenhouse gas emissions. In order to be able to assess our portfolio we need to have an idea of what the “target” looks like as well as metrics that can be used for assessment. That is precisely why we are constantly working on these issues. I hope this publication will provide some insight into why and how AP2 works with climate issues,” states Eva Halvarsson, CEO of the Second AP Fund.

Climate is one of AP2's focus areas and to achieve our ambition to develop our portfolio in line with the two-degree target, the Fund is actively committed to include various types of climate information in its analyses and investment processes. Within the terms of its mission, the Fund also seeks investments that contribute towards the transition into a two-degree society.

The Fund's work on climate issues has developed over a period of several years. This has included analyses of the potential climate risks associated with the Fund's portfolios. Consequently, the Fund has divested companies dedicated exclusively to coal extraction and in oil and gas companies with major investments in new high-cost projects. Analyses have also been conducted to determine the climate-related financial risks associated with utility companies that operate coal-fired power stations, resulting in further divestment. In 2015, the Second AP Fund conducted an analyse of power utilities and identified 28 companies subject to financial climate risks, a significant portion of whose profits primarily were derived from the coal-fired generation of electricity. A follow-up carried out in 2016 identified an additional ten companies. In total, AP2 has divested from 76 companies due to financial climate risks.

Link to “Second AP Fund's approach to the transition towards a low-carbon economy”:

<http://www.ap2.se/en/sustainability-and-corporate-governance/climate/ap2s-approach-to-the-transition-towards-a-low-carbon-economy/>

*For further details, please contact CEO **Eva Halvarsson**, Second Swedish National Pension Fund, or **Ulrika Danielson**, Head of Corporate Communications, on +46 31 704 29 00.*