

# Folksam and climate change

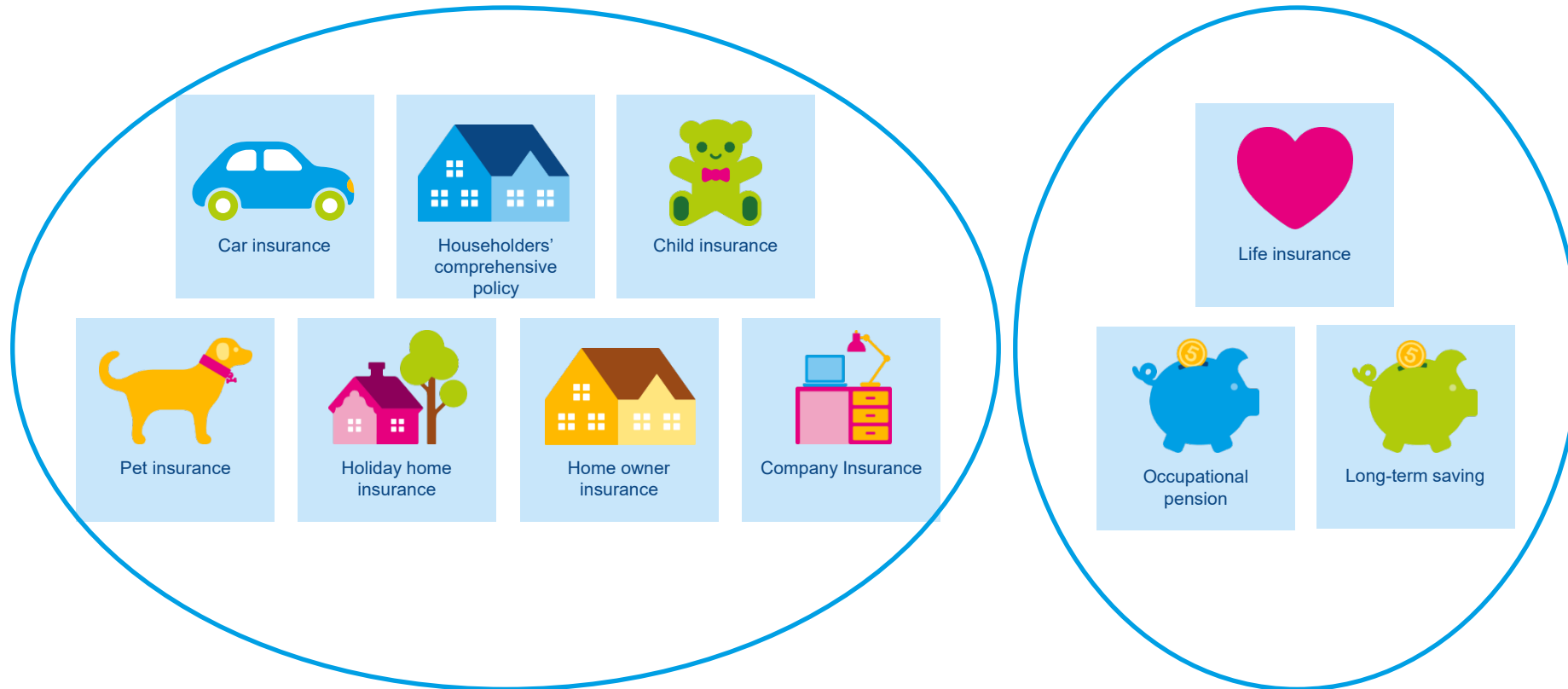
Emilie Westholm, Head of Responsible Investment and Corporate Governance

Johannes Jögi, Head of Manager Selection

## This is the Folksam Group

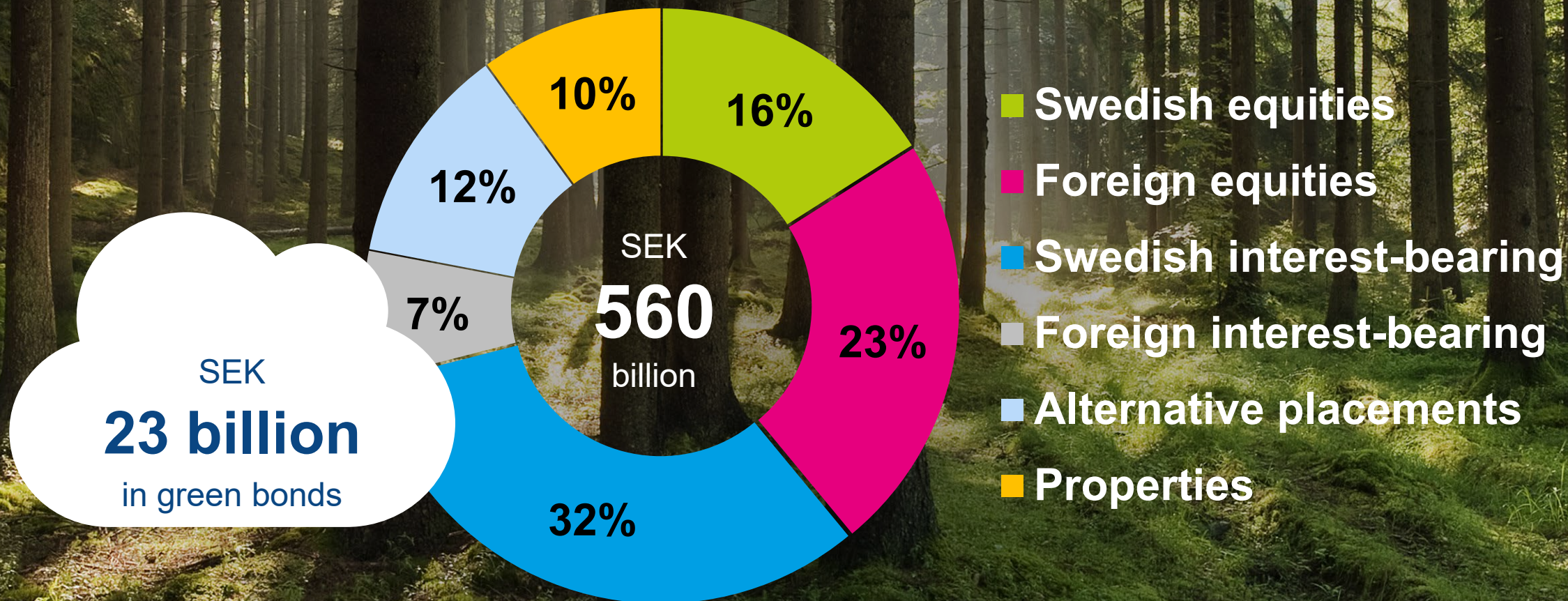


# Our offer





# Folksam Group's managed assets, 30 Sep 2023





# Why care about climate change?



# Guiding documents



# UN Convened Net Zero Asset Owner Alliance





# Commitment Net-Zero Asset Owner Alliance

- “Commit to transitioning investment portfolios to net-zero GHG emissions by 2050”
- “Consistent with a maximum temperature rise of 1.5°C, taking into account the best available scientific knowledge”
- “Regularly reporting on progress, including establishing intermediate targets every five years”
- “Emphasize GHG emissions reduction outcomes in the real economy”
- “Reach this Commitment, especially through advocating for, and engaging on, corporate and industry action, as well as public policies”
- “This Commitment is made in the expectation that governments will follow through on their own commitments”





# Intermediary targets

## Engagement Targets

- Engagement with 20 companies with a focus on highest emitters or those responsible for 65% of emission in portfolio (either Direct, Collective, or via Asset Manager)
- Contribute to
  - Sector - Engagement with corporates in target sectors
  - Asset Manager - Each member to participate in at least one engagement with the pre-identified (largest) 4 Asset Managers
  - Alliance position papers

AOs to set action targets on policy advocacy

## Sub-portfolio (later Portfolio) Emission Targets

- -16% to -29% CO<sub>2</sub>e reduction by 2025 (per IPCC 1.5°C SR scenarios) on Listed Equity and Publically Traded Corporate Debt, with the same recommended for Real Estate and/or CRREM national pathways used
- Covers Portfolio Emissions Scope 1 & 2, tracking of Scope 3
- Absolute or intensity-based reduction against 2019 base year recommended

## Sector Targets

- Intensity-based reductions on Alliance priority Sectors (O&G, Utilities, Steel, and Transport – Aviation, Shipping, Heavy and Light Duty Road)
- Scope 3 to be included wherever possible
- Sector specific intensity KPIs recommended
- Sectoral Decarbonization Pathways used to set targets

**1.5 degree  
Net-Zero by 2050  
Real World Impact**

## Financing Transition Targets

- Report on progress on climate-positive investments
- Focus on renewable energy in Emerging Markets, Green Buildings, Sustainable Forests, and Green Hydrogen, among others
- Contribute to activities enlarging the low carbon investment universe and building solutions

# Greening the investment portfolio

Case study

Global equities and endowment insurance

# Background

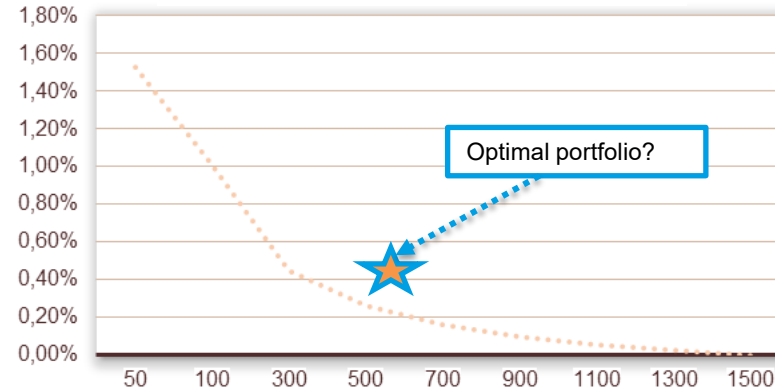
- Equity portfolio
  - Pre 2007 – active portfolio management in house
  - 2007 – passive portfolio management outsourced
  - 2014 – initial thoughts and prerequisites emerging
- Responsible Investments
  - 2000 –
    - The Folksam group initiates work related to responsible investment and ethical portfolio management, at the time a progressive initiative compared to the Swedish market in general
  - 2016 –
    - Responsible Investment as a team is integrated with the Asset Management department
    - Emphasis on green bonds and refinement of sustainability analysis within our real estate investments and alternative investments
  - 2017 –
    - A firm intention to further develop the sustainability properties of our equity portfolios



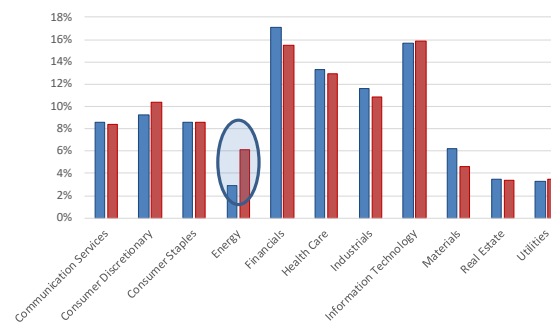
# Considerations

- Strategic exposure to global equity markets?
- Optimal portfolio
  - how many holdings?
- Benchmark
  - Screened or unscreened?
- Restrictions in the portfolio construction?
  - Sector exposure
  - Geographical exposure
  - Individual exposure
- Cost efficiency
  - Liquidity risks
  - Turnover and rebalancing
  - Transaction costs

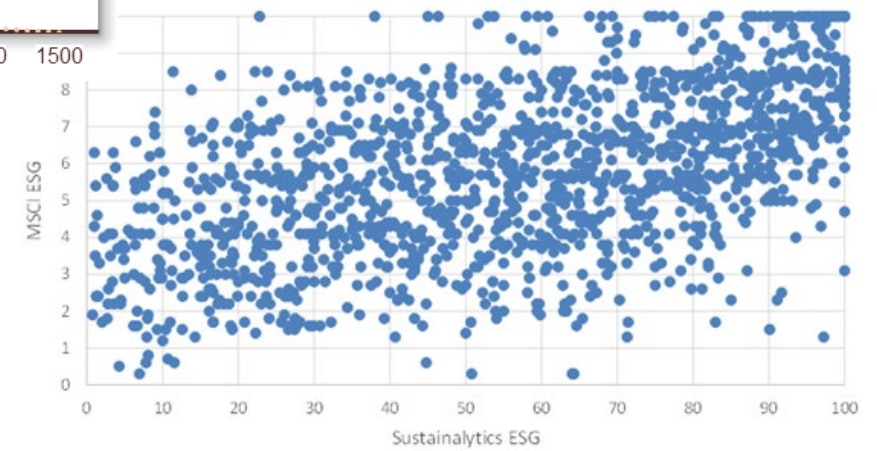
Tracking error vs number of holdings



Sector exposure



MSCI vs Sustainalytics



# Investment process –

## the way we assemble the equity portfolio

- Sustainable and responsible ownership an integrated part of the portfolio construction
- Minimum levels on ESG-rating applied
- Preferring stocks with low sustainability risk over stocks with high sustainability risks
- Maximum tolerance on CO2-footprint and refined selection process within the energy sector are applied
- The outsourcing partner managed through discretionary instructions

Portfolio construction process  
Foreign equity

**Asset class and beta definition**  
(foreign equities (ex Sweden))  
• approx. 1500 constituents

### Excluding criteria's

- approx. 100 companies
- An initial sustainability filtering**
- the poorest scoring constituents are removed
  - higher hurdles for constituents within the energy sector applied
  - approx. 125 constituents removed from universe

### "Best in class" from an ESG perspective

- Within each sector companies with high rankings on ESG are included
- Approx 20% of constituents are removed
- An investable universe of approx. 1000 constituents remains

### Other boundaries applied

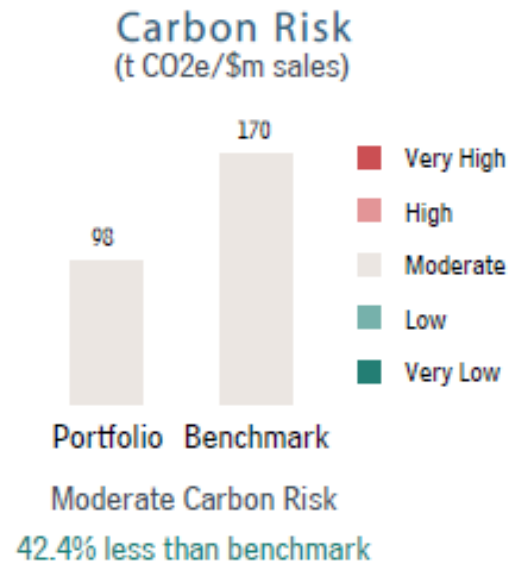
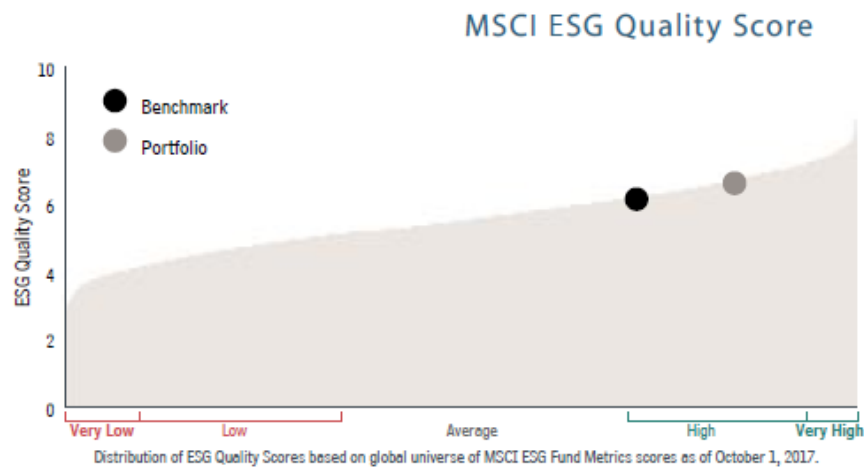
- Portfolio CO2-footprint <50% of benchmark
- Dedicated process within energy sector
- Target on maximum constituents of final portfolio construction

### Portfolio optimization on risk and return factors

- Optimal portfolio with approx. 500 constituents

- Continuous screening of the portfolio based on external information providers to ensure holdings match our investment criteria's.
- Combined with proactive active ownership according to Folksam criteria.

# The updated portfolio improved carbon footprint and ESG-properties

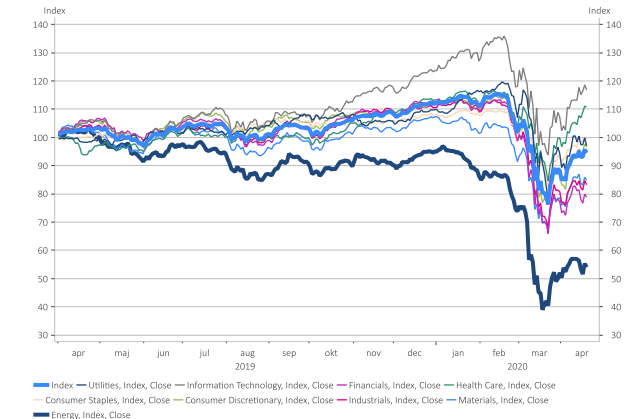
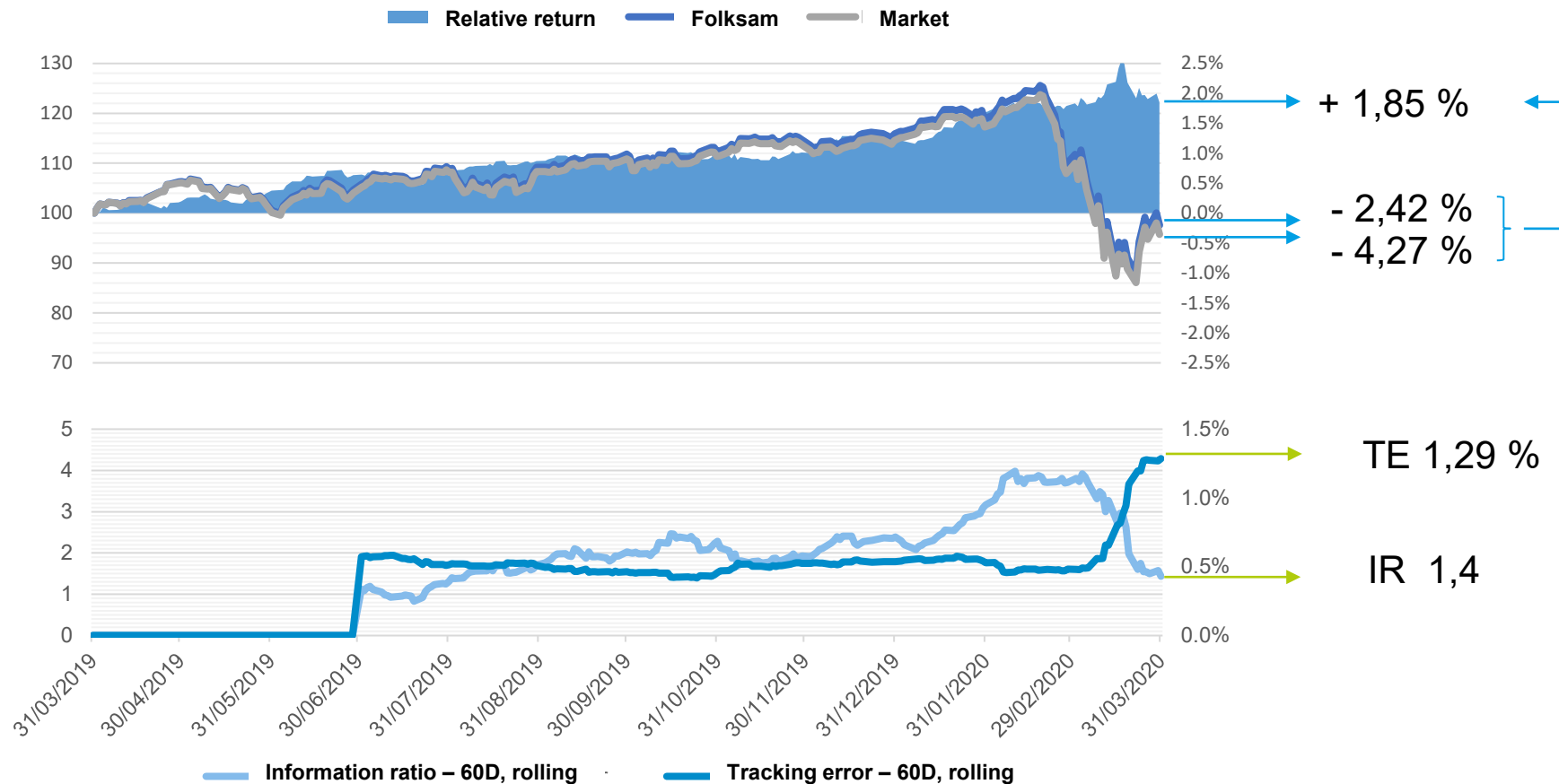


Portfolio	ESG score
Market	6,06
Folksam Equity, foreign	6,59



# Global equities – experience from year one

positive relative return combined with improved sustainability key-ratios



# The endowment insurance offering

## articulating the articles

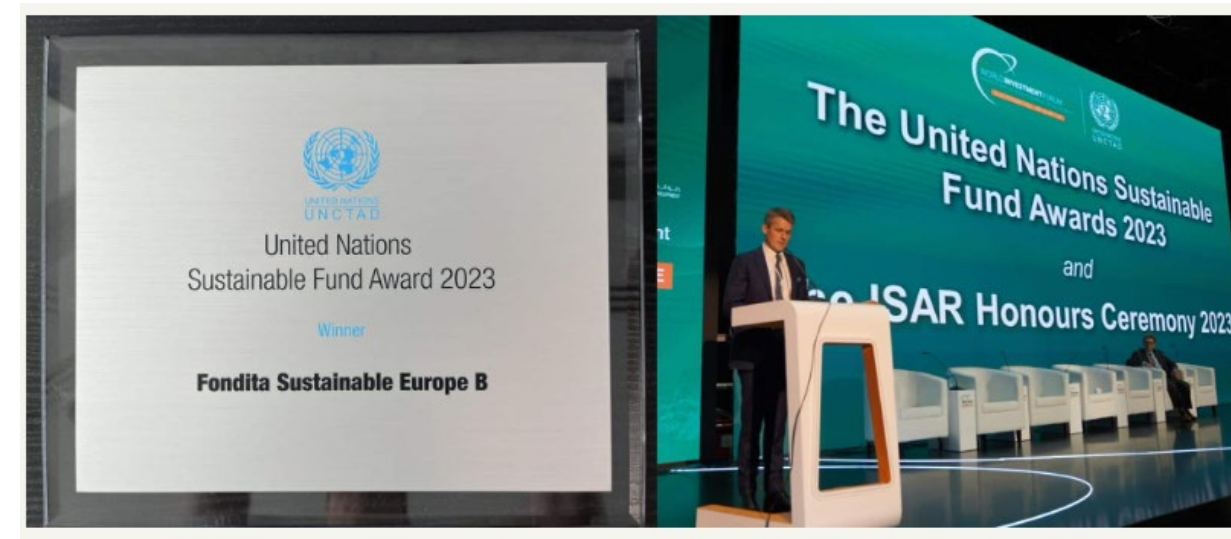
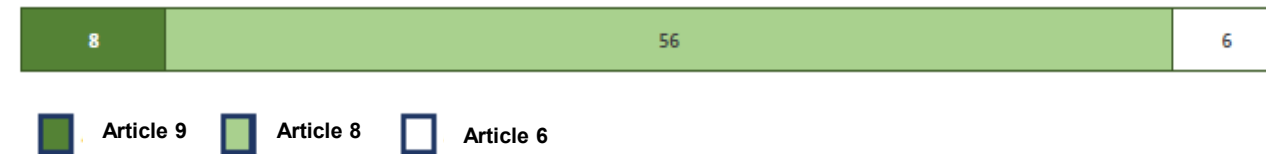
- A guided mutual fund offering
  - Selection process, external funds
  - Meeting the customers preferences
    - Some 400 advisors
    - Portfolio construction, asset allocation, risk and return
    - Sustainability
- 2022
  - Sustainability an important part of the Folksam brand
  - The Sustainable Finance Disclosure Regulation (SFDR)
    - Avoid Article 6, seek Article 8 and 9
    - Add impact funds

# The endowment insurance offering

## Q3 2023

- The customers access to mutual funds that meet sustainability preferences
  - Article 6 products do not report PAI-statements or minimum share of sustainable investments
  - Availability to Article 8 and 9 gives the customer and the advisor flexibility to design savings portfolios that meet both risk and return needs as well as sustainability preferences
- 2023 UNCTAD SUSTAINABLE FUND AWARDS
  - “To encourage the development of high-quality, high-impact sustainable funds, and to encourage the channeling of funds to SDG-related sectors and to developing countries, the UNCTAD sustainable fund awards recognize outstanding funds that demonstrate the highest standards of sustainability and impact, while outperforming their respective financial performance benchmarks.”

- Distribution of products according to SFDR classification

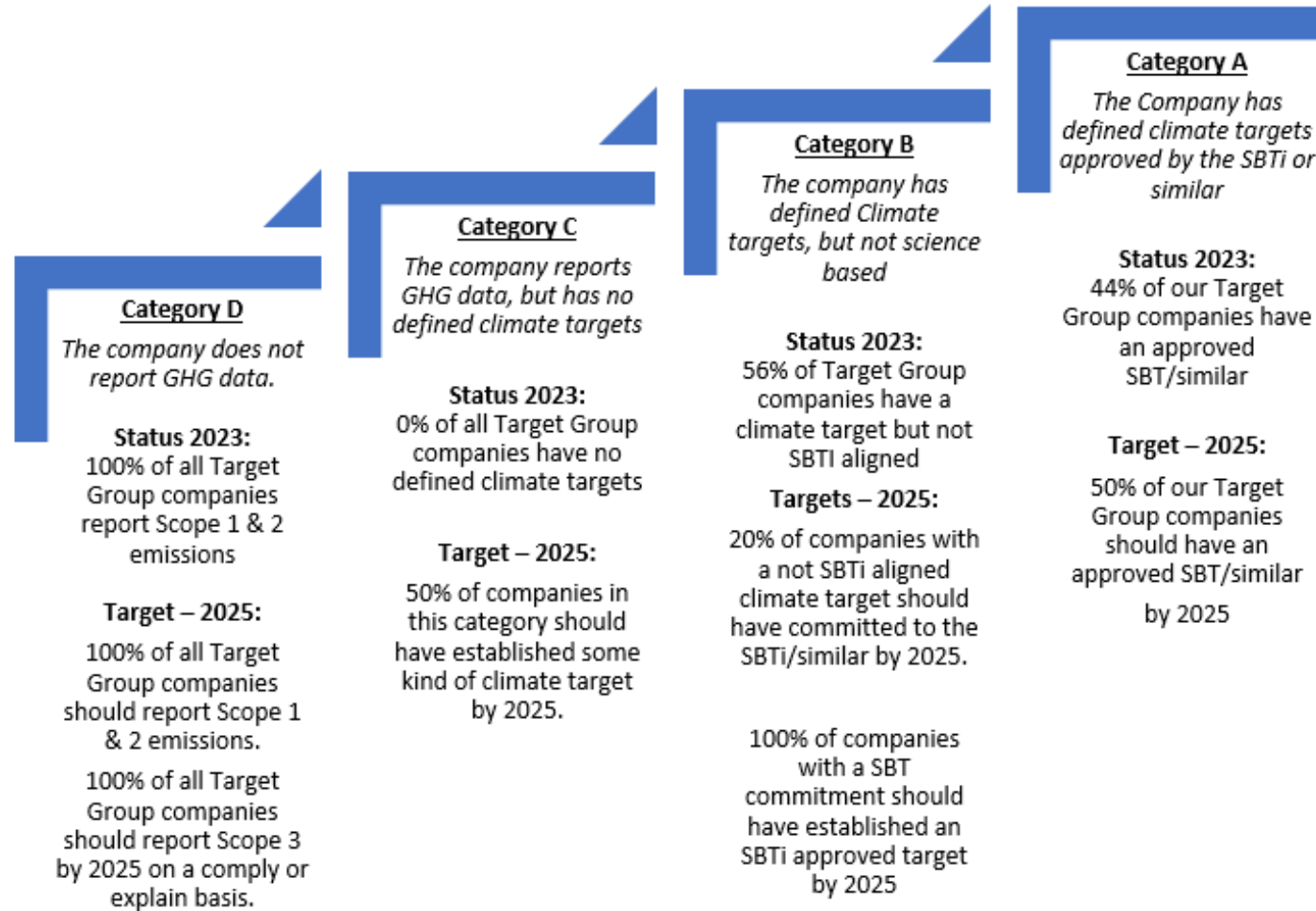




# Greening the investment portfolio

Engagement framework and targets

## Folksam AOA Engagement Framework & Targets



Oct 13, 2021, 01:25pm EDT | 2 247 views

# This Is The World's First 'Fossil-Free Steel' Vehicle: Autonomous, Electric—And A Volvo



**David Vetter** Senior Contributor @ Sustainability  
*Climate research, renewables and circularity*

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Volvo's load carrier is autonomous, fully electric and made using fossil fuel-free steel. © AB VOLVO

## Folksam ökar ägandet i SSAB för att stötta fossilfri omställning



MÅN, JUN 21, 2021 07:00 CET



Folksam har i dag flaggat för ett ökat innehav i stål företaget SSAB. Innehavet uppgår nu till cirka 5,2 procent av rösterna och 2,1 procent av kapitalet. Syftet med det större innehavet är att som långsiktig ägare vara med och stötta SSAB:s omställning till fossilfri stål tillverkning, samtidigt som investeringen på sikt förväntas ha god potential att ge en attraktiv avkastning till Folksam:s kunder.

- Att kunna producera fossilfritt stål är en av de viktigaste frågorna för att klara klimatomställningen, både i Sverige och globalt. Samtidigt är omställningen också viktig för att säkra svenska industrjobb. Vi har varit ägare i SSAB i många år, och vill nu vara med och ta ett mer långsiktigt ansvar för bolagets omställningsarbete, säger Ylva Wessén, vd för Folksamgruppen.



# HSBC plans to phase out coal financing by 2040

By Tom Espiner  
Business reporter, BBC News

11 March | Comments



HSBC has said it plans to ramp up its climate change policies and stop financing coal projects by 2040, as long as shareholders back the move.

It follows pressure from a coalition of investment firms and pension funds who called for stronger action from the bank on climate change.

Charity Shareaction, which led the group, said HSBC had put \$15bn (£11bn) into coal developers since 2018.

HSBC said it welcomed the group's decision to back its new plan.

Noel Quinn, HSBC's chief executive, said its proposal marked the "next phase" of the bank's so-called net zero strategy to cut carbon emissions, which was announced in October.

"This represents an unprecedented level of co-operation between a bank, shareholders, and NGOs on a critical issue, with a positive outcome for all," he added.



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March 11, 2021  
5:04 AM CET  
Last Updated 7 months ago

Finance

## HSBC toughens stance on fossil fuel funding after shareholder heat

3 minute read

By Lawrence White and Simon Jessop

