



# DEEP DIVE: UNDERSTANDING THE DRIVERS OF CHANGE IN PORTFOLIO EMISSIONS

## AP2

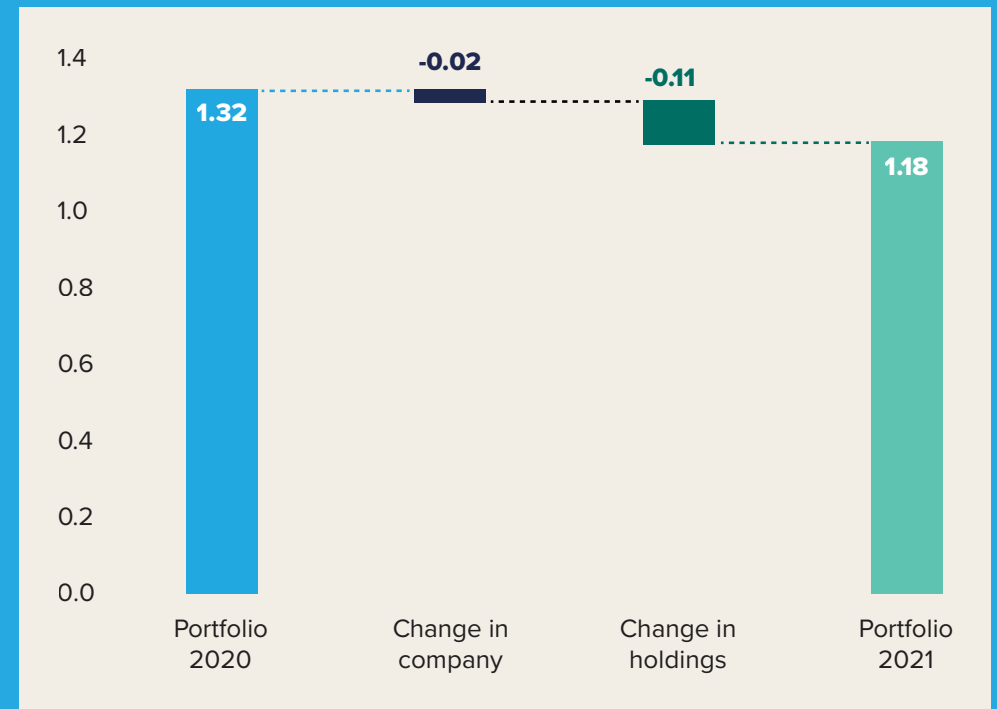
Andra AP-fonden has committed to net zero emissions by 2045, in line with the Swedish national target. The work to reduce portfolio emissions is ongoing and actions to date include the implementation of a Paris-aligned benchmark for all listed equities and credits, which has resulted in significantly reduced portfolio emissions (-36%) from 2019-2021.

While the net zero target is set for portfolio emissions, Andra AP-fonden's underlying objective is to contribute to the reduction of global emissions and the Paris Agreement target of limiting global warming to 1.5°C. If the Fund would only focus on, and measure, the portfolio's absolute emissions, emissions intensity and footprint, an important aspect could be overseen – understanding the drivers of change and to what extent these contribute to actual reductions of global emissions. The Fund could potentially achieve its reduction targets solely by shifting the portfolio to low-emitting assets.

Andra AP-fonden used its internally developed emissions data tool to analyse changes in portfolio emissions and to assess how these can be attributed to either changes in holdings or to changes in actual company emissions. Changes in company emissions represent actual reductions in emissions, why this is in focus in the Fund's climate strategy and stewardship efforts. The Fund also developed its reporting to include this measure, both in absolute emissions and emissions intensity, as illustrated in the graph to the right which has been adapted from AP2's 2021 TCFD report.

The graph presents an attribution analysis of the change in carbon footprint between 2020 and 2021 for Andra AP-fonden's portfolios for global equities and corporate bonds, in accordance with Paris-Aligned Benchmark metrics. The graph shows that most of the decrease is due to changes in the Fund's holdings, and company changes in emissions also contribute, but to a lesser extent.

**Figure 6. Causes of change in AP2's carbon footprinting between 2020 and 2021, MT CO<sub>2</sub>e**



The analysis shows that more of the change needs to come from company emissions reductions and this is where Andra AP-fonden is focusing its climate efforts going forward. Internally, the emissions attribution analysis can be used to understand emissions changes with more granularity, in different parts of the portfolio, to identify which sectors, geographies and companies contribute the most and least to actual emissions reductions. Andra AP-fonden uses the conclusions from this analysis to actively engage with companies, both directly and in investor collaborations, to encourage companies with high emissions or insufficient mitigation plans to adopt and deliver on robust emissions reduction plans, and to report transparently.