

INTERVIEW

Mapping the route to net-zero

Can you tell us about what prompted KLP to commit to reaching net zero by 2050?

We all know that this transition is important. Climate change will have a catastrophic impact on the planet and on our living conditions across the world. Institutional investors have an important role to play in limiting global warming and supporting the transition to a low-carbon society – in their allocation and investment decisions, as well as in being clear about the financial risk that climate change brings to the economy and their investment portfolios.

Our chance to do something about it is in everyone committing to doing their part in order to reach the 1.5°C Paris Agreement target. We have to acknowledge that a drastic transition is needed and link our individual targets to science-based emission pathways.

To succeed in securing the best possible return on the pension funds we manage, we must take the issue of climate change seriously. For KLP, climate change represents a financial risk. Helping to limit global warming to no more than 1.5°C is therefore both right and financially prudent.

Can you tell me more about the fund's recently approved roadmap to net zero?

There is no single, incontrovertible method by which a financial institution should operationalise the 1.5°C target. KLP has therefore developed a roadmap based on established standards and best practices. The roadmap is intended to describe how KLP will measure its degree of alignment with the Paris Agreement, or the proportion of our investments whose emissions



Sophie Smith chats with Norwegian pension fund KLP director of corporate social responsibility, Heidi Finskas, about the scheme's roadmap to net zero and how it is using engagement to create change

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trend is compatible with the 1.5°C global warming target.

KLP has a net-zero ambition that covers our entire investment portfolio. By doing this, we will continuously measure how our investees are performing in the transition, and identify appropriate measures to influence emission reduction in the real economy.

The roadmap shows how KLP will assess each and every investment to ensure its emission path is aligned with the Paris Agreement ambitions.

How has the fund been working to meet its net-zero commitment so far, both in terms of its investments and operations? And what further plans does it have in future?

Key actions taken towards net zero so far are:

1. A strong commitment to renewable energy. KLP already has 5 per cent of assets under management in renewables, and we continue to invest more. We have a clear focus on financing new projects in order to increase the capacity of renewable energy, and this has prompted new partnerships, which have made it possible for us to invest all over the world, even in developing countries where we

know the need for both capital and energy is especially urgent.

2. Seeking to influence companies in target setting and emissions reduction. We do this through direct engagement with companies, through collaboration with international investor groups, and we support many climate-related resolutions at annual general meetings.

3. Divested from coal and tar sands. These are the most carbon intensive fossil fuels and must be replaced by renewables as quickly as possible. As a result of this, we have been part of the construction of 25 renewable energy facilities that have come into operation. Our investments are free from coal and tar sands, and the carbon intensity for our portfolio of listed securities has decreased by 50 per cent from 2010 to 2019.

Exactly how KLP will reach net-zero emissions is as yet uncertain, as the uncertainty is significant when it comes to the development and decarbonisation trend in the market. Solutions and choices will have to be made on the way to 2030 and 2050.

The immediate need is to ensure that the transition to a low-emission society happens faster. KLP's most important task will therefore be to focus on short-term results relating to the decarbonisation of the



economy and our investment portfolios, as well as to help the emergence and expansion of green solutions like renewable energy.

To sum up, going forward, we think that the most important actions we can take are:

- To increase climate-friendly investments. Currently our annual target is an increase of at least NOK 6 billion per year. (We are pleased that the result last year was NOK 8.8 billion.)
- To encourage companies to set climate goals, cut emissions and become more transparent about their own climate impact.
- To take steps with regard to high-emission sectors and companies that fail to follow the required emissions mitigation pathway.
- To help accelerate the transition to a low-emission society by bringing our influence to bear on markets and political policies.

Can you also tell us a bit more about the fund's stewardship work and how this is used alongside divestment policies?

Supporting and pushing companies

in their transition efforts is the first step for an investor. At KLP, we engage directly with companies, especially Norwegian companies, on their climate targets. We also collaborate with international investor groups, such as for instance Climate Action 100+, which focuses the engagement on the largest emitters, 167 companies that are critical to the net-zero emissions transition. Another example of collaboration is deforestation in the Amazon, where an investor group is engaging with companies exposed to the challenging deforestation situation in Brazil and with Brazilian authorities.

I would also like to highlight voting at annual general meetings and climate-related proposals as an important way of influencing. There are several cases from the past couple of years where climate-related resolutions got the majority vote. Two examples this AGM season: electing board members to Exxon mobile, and the resolution for HSBC to phase out from coal and set targets aligned with 1.5°C. Another example, that didn't get a majority vote, but still got strong

support (30 per cent), was a resolution at Shell's annual general meeting to set, publish and report on GHG emissions targets that are consistent with the goal of the Paris Agreement.

There is a case for divestments or exclusions. The fact that we put action behind our words – whether that is in allocating more to renewables, divesting from coal or voting at a resolution suggesting more ambitious climate targets – creates a strong synergy between our tools as investors.

Furthermore, there are also cases where we see that engagement is not worthwhile as we are unlikely to get the result we are hoping for because companies are simply not willing or able to transform. Divestment is also about sending a strong signal to the market about what direction we would like to see companies move, for instance, like when we decided to divest from coal and tar sand.

How have clients' and members' views been incorporated into the fund's responsible investment strategy?

KLP is created by and for the Norwegian municipalities and health enterprises. Their agenda is our agenda, and we have set our target so that they can be confident that their pension savings is managed in a way that will support the Paris Agreement, which the Norwegian government is also a part of. KLP's responsible investments strategy, including the net zero target, is approved by the board, where our owners and clients are represented. We also have a close dialogue with clients through more informal channels. Our impression is that Norwegian municipalities and health enterprises are clear in their views that KLP must have high climate ambitions while creating a competitive return on their pension assets. ■