

HOW TO CARBON FOOTPRINT A PRIVATE EQUITY PORTFOLIO

SIGNATORY TYPE

Asset Owner

OPERATING COUNTRY

Sweden

ASSETS UNDER MANAGEMENT

US\$ 3 bn

The [Sixth Swedish National Fund](#) (AP6) has a mission to create high long-term returns to Swedish pensioners by investing solely in unlisted companies through a risk-balanced approach and in a sustainable and responsible manner. Investments are made both directly in companies and indirectly through funds with the majority made in mature Nordic companies.

CARBON FOOTPRINTING DIFFICULT IN PRIVATE EQUITY

AP6 regards climate change as a key sustainability challenge to its long term investments and wanted to gain a better understanding of its portfolio's exposure to carbon risk. As a first step, they wanted to understand the availability of emissions-related information and to quantify the amount of carbon emissions from various portfolio holdings.

While asset owners are increasingly committing to measuring and disclosing the carbon footprint of their listed investments¹, they had not yet addressed the challenge of carbon footprinting their unlisted investments. This is because few private companies measure and report their carbon emissions. Another barrier was that, as a private equity investor, AP6 could not share information about the value of their holdings.

Due to the nature of their investment strategy which is concentrated entirely on unlisted companies, AP6 was particularly motivated to find a solution to these challenges.

WHAT THEY DID ABOUT IT

AP6 employed South Pole Group to develop a methodological framework to measure the absolute and relative carbon footprint of a majority of holdings in AP6's investment portfolio, in relation to AP6's ownership.

In order to perform an investment carbon footprint, the underlying carbon footprint of each investee needed to be established, both for direct and fund investments. Then, the greenhouse gas emissions were allocated in relation to the respective ownership of AP6. For the underlying greenhouse gas information, a bottom-up and a top-down analysis approach was combined in order to establish a trustworthy output at reasonable effort. South Pole Group integrated the carbon data provided by the companies in the portfolio who measure and report their emissions. For the companies that don't measure and report their emissions, South Pole Group made approximations based on over 800 subsector-specific evaluation models, applied to a proprietary greenhouse-gas adjusted sector classification system.

Taking into account the uncertainty of working with approximations, the analysis is considered to have provided a reasonable overall illustration of AP6's climate impact. The output was a climate impact report, an analysis tool that AP6 can now feed into and gradually enhance with new data.

IMPACT OF THEIR NEW MODEL

Identifying/reducing risk: The analysis is a first step towards identifying the level of climate change related risk in the portfolio, and ultimately reducing that risk.

Driving change: AP6 would like greater transparency in how unlisted companies report and manage their carbon dioxide emissions. This analysis is being used as a basis for dialogue with portfolio companies, as well as for engagement within the sector. AP6 has already engaged with a number of their portfolio companies and funds on their climate change strategies and carbon emissions data. The aim of the dialogue is twofold: increased awareness of climate change related risks and opportunities, and an increased level of carbon emissions transparency in the private equity industry. Working together with other investors within the private equity industry is a natural part of achieving this aim. Ultimately, AP6 aims to inspire other private equity investors to start taking action on climate change-related risks and opportunities.

Internal capacity building: The analysis has increased the investment organisation's awareness of climate change risks and opportunities, whereby climate change can now be better integrated into AP6 regular investment and ownership processes.

To make sure they were equipped to engage on climate change related risks and opportunities, and to be able to successfully manage these factors within the existing investment and ownership processes, AP6 brought in external expertise through South Pole Group and CDP (formerly Carbon Disclosure Project) and carried out an internal climate change training for the investment team.

“The private equity sector needs relevant comparisons and clear objectives in order to reduce its climate change related risks, as well as its overall climate impact. We would like to see more private equity investors follow suit and measure the climate impact of their investments, to increase awareness and availability of data in the long-term.

Margareta Alestig Johnson

Deputy Managing Director with Responsibility for Sustainability, AP6

¹ See the PRI Montréal Pledge at www.montrealpledge.org