

# The road to Paris

KLP's roadmap to net zero emissions





## This is KLP

KLP is Norwegian municipalities' and the healthcare sector's own pension company, and we are owned by our customers. Our most important task is to ensure the pension funds for those who constitute the backbone of the Norwegian welfare state. We use the power of the NOK 800 billion we manage to contribute to a more sustainable society.

When KLP sets a climate goal, we do so for and on behalf of our owners. The goal is for the pension funds we manage to be aligned with the Paris Agreement. Then our owners can feel confident that their pension funds are contributing to the global climate goals.

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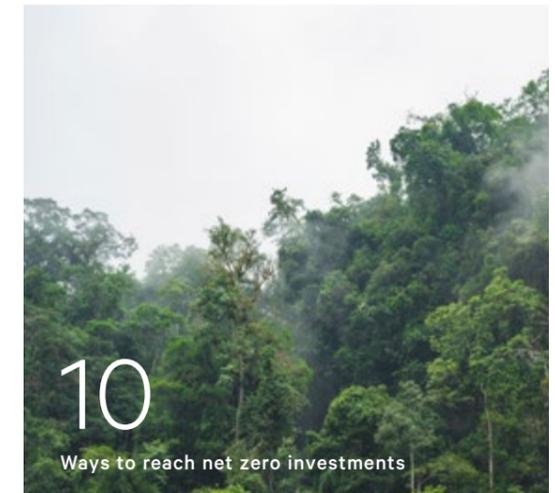
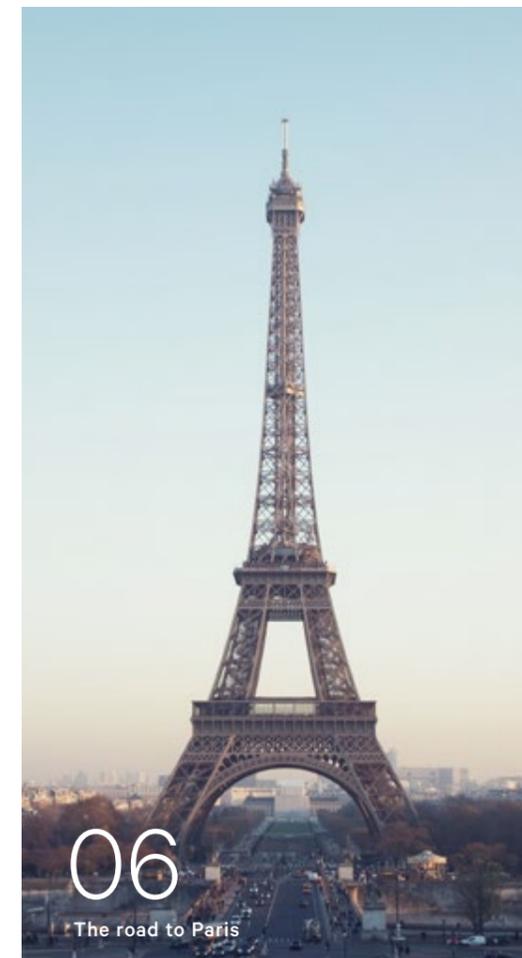
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«Today, 46 per cent of KLP's investment portfolio has emissions that are compatible with the 1.5-degree target.»

## Summary

KLP wants to contribute to achieving the goal of the Paris Agreement of limiting global warming to less than 1.5 degrees Celsius (1.5°C). KLP's climate goals are therefore grounded in this objective. To succeed, KLP's emissions must decrease by 7 per cent per year in the period 2019 to 2030 and reach net zero by 2050, at the same time as we increase our climate-friendly investments.

### Our most important instruments for achieving the goals are:

- To increase climate-friendly investments by at least NOK 6 billion per year.
- To encourage companies to set climate goals and cut emissions and become more transparent about their own climate impact.
- To take steps with regard to high-emission sectors and companies which 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.

Exactly how KLP will reach net zero emissions is as yet uncertain. Strategies and specific solutions will have to be developed and changed over time, and the immediate need is to accelerate the transition to a low-emission society. KLP will therefore focus on short-term results relating to the decarbonisation of the economy and our investment portfolios, as well as contributing to the emergence and expansion of green solutions such as renewable energy.

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 trend is compatible with the 1.5°C global warming target. The Paris Alignment Percentage (PAP) allows us to use the best available methods for different types of investments and use the results to calculate an overall PAP for KLP's portfolio.

KLP's short-term goal is for our portfolio to achieve a PAP of 50 per cent by 2025, rising to 100 per cent over time.

To measure compliance with the roadmap as precisely as possible, several different standards have

been applied. The most important are the GHG Protocol and the Science Based Targets Initiative.

The method used to calculate alignment with the Paris Agreement's target is based on assessments of the investment portfolio's emission intensity. To this end, investments are divided into four categories:



**1. Green investments** – Companies and projects with zero or almost zero emissions, and which are definitely aligned with the Paris Agreement.



**2. High-emission sectors** – Sectors deemed to produce high emission levels, and where acknowledged reference pathways have been established, enabling emissions from individual companies to be compared with the requirements of the Paris Agreement.



**3. Other investments** – Investments for which there are no acknowledged reference pathways, where KLP uses other methods to calculate the degree of alignment with the Paris Agreement.



**4. Investments without data** – If KLP does not yet have the necessary data on an investment, it is automatically scored as having zero Paris alignment.

The emissions relating to each individual investment are assessed against relevant threshold values for its category. This forms a basis for calculating the investment's alignment percentage, which shows the extent to which each individual investment contributes positively or negatively to the achievement of KLP's climate goals.

Preliminary calculations show that 46 per cent of KLP's investment portfolio has emission levels compatible with the 1.5°C target.

# The road to Paris

– KLP’s roadmap to net zero emissions

KLP is Norwegian municipalities’ and the healthcare sector’s own pension company, and we are owned by our customes. Our most important task is to ensure the best possible return on the pension funds we manage on behalf of our owners. They constitute the backbone of the Norwegian welfare state. We do so in a way that contributes to a better and more sustainable future. When KLP sets a climate goal, we do so for and on behalf of our owners. The goal is for the pension funds we manage to be aligned with the Paris Agreement. Then our owners can feel confident that their pension funds are contributing to the global climate goals.

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. Contributing to limit global warming to no more than 1.5C is therefore both right from a stewardship perspective and sensible from a financial risk perspective.

The 1.5C target means that global greenhouse gas emissions must be cut by 7 per cent per year in the period 2020–2030 and reach net zero by 2050. At the same time, we need a significant increase in climate finance.

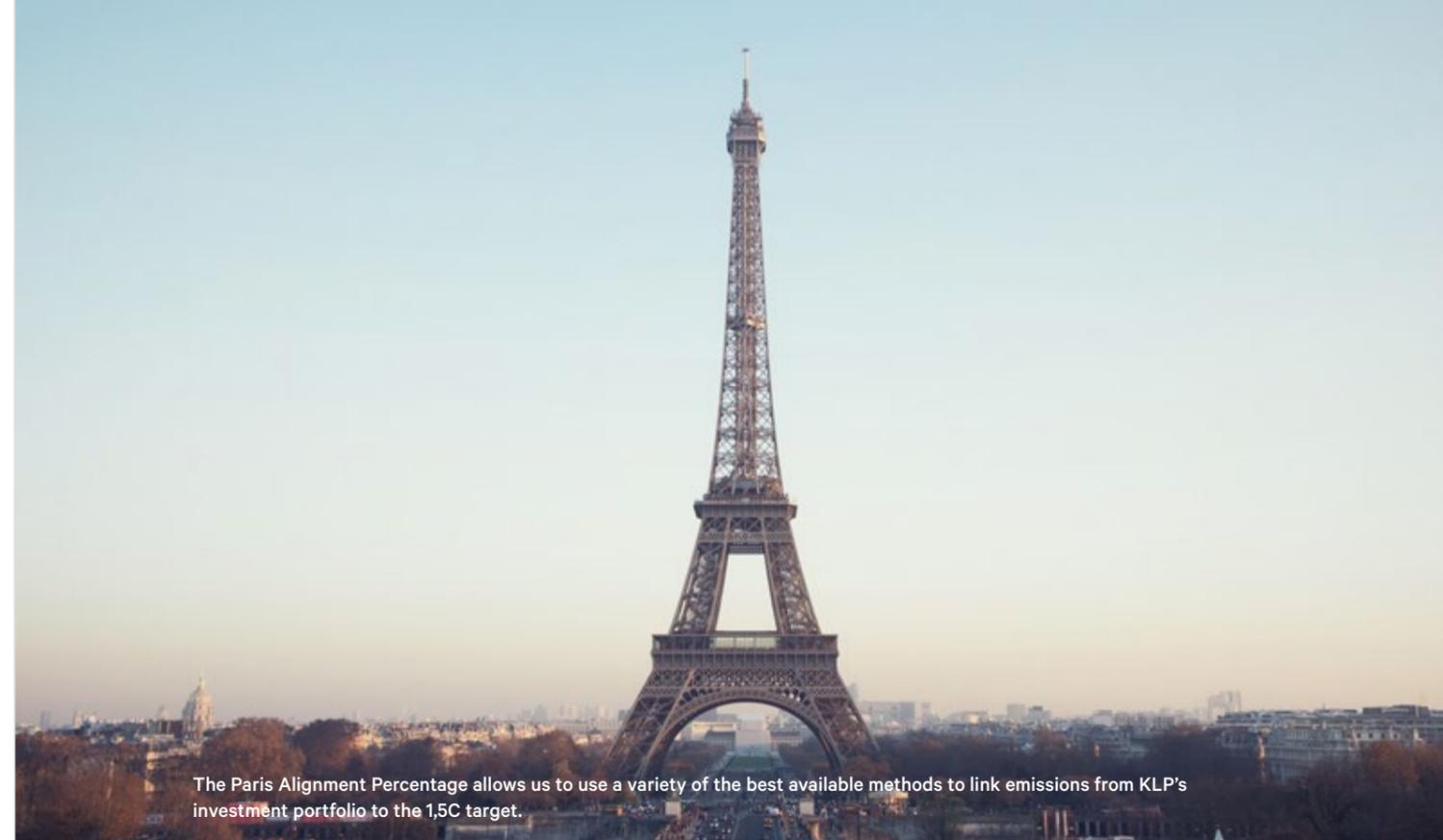
To succeed, the private sector must contribute far more than it does today. KLP has worked on climate issues for many years. We have already reduced our investments’ emission levels significantly, not least by completely eliminating coal and oil sand from our portfolio. This is a good start, but we must intensify our

contribution to reach the goals in the Paris Agreement.

KLP is not the only financial institution to have pledged alignment of its portfolio with the Paris Agreement. The challenge is that there is no clear and simple method for adapting the 1.5C target into practice. Thus, we have developed a robust framework based on internationally recognised standards and best practices. This is KLP’s own roadmap to Paris.

By using an emission mitigation pathway developed by the Intergovernmental Panel on Climate Change (IPCC), we can link emissions from KLP’s investment portfolio with the goal of limiting global warming to less than 1.5C. This provides a snapshot

**KLP’s goal is for our business to align with the requirements of the Paris Agreement. We aim to have halved emissions from our own operations by 2030, compared with 2010.**



The Paris Alignment Percentage allows us to use a variety of the best available methods to link emissions from KLP’s investment portfolio to the 1.5C target.

of whether the companies in our portfolio are developing in the way necessary to meet the 1.5C target.

The Paris Alignment Percentage (PAP) is a key aspect of our roadmap. With the PAP as an overarching indicator, we can use a variety of the best available methods for different types of investments. The results can then be combined to provide an overall PAP for KLP’s entire portfolio. The PAP allows us to compare results that are not, in principle, comparable, because they are converted into a single indicator – the Paris Alignment Percentage – which is common for all investments. 46 per cent of KLP’s portfolio is already Paris aligned.

An important principle is that we take a sectoral approach to calculating the PAP. Within a specific sector, a reference pathway may be used to describe how the overall emissions of that sector must change to align with the 1.5C global warming target. Each sector has a carbon budget, and as long as the total budget is not exceeded, companies within the sector can balance each other out. In other words, some companies may have higher emissions than what is indicated by the reference pathway as long as other companies in the same sector have lower emissions. In contrast, companies belonging to different sectors cannot off-set each other’s emissions without the global carbon budget potentially being exceeded. This is therefore not permitted in KLP’s roadmap.

## The Paris Agreement, which was adopted in 2015, is the first legally binding international agreement on climate change.

Through it, countries commit to implementing climate mitigation measures in pursuit of three overarching goals:



**Emission reduction:** Limit global warming to maximum 2 degrees Celsius (2C) and strive to limit global warming to no more than 1.5C.



**Adapting to climate change:** Increase the world’s ability to adapt to and withstand the damage caused by climate change, and transition to a low-emission society.



**Climate finance:** Make financial flows compatible with the transition to a low-emission society and with climate-compatible development.

KLP’s climate goal focuses on emission reductions and climate finance. We also contribute to climate adaptation, but this work is not covered by the climate goal.

## What does the roadmap say?

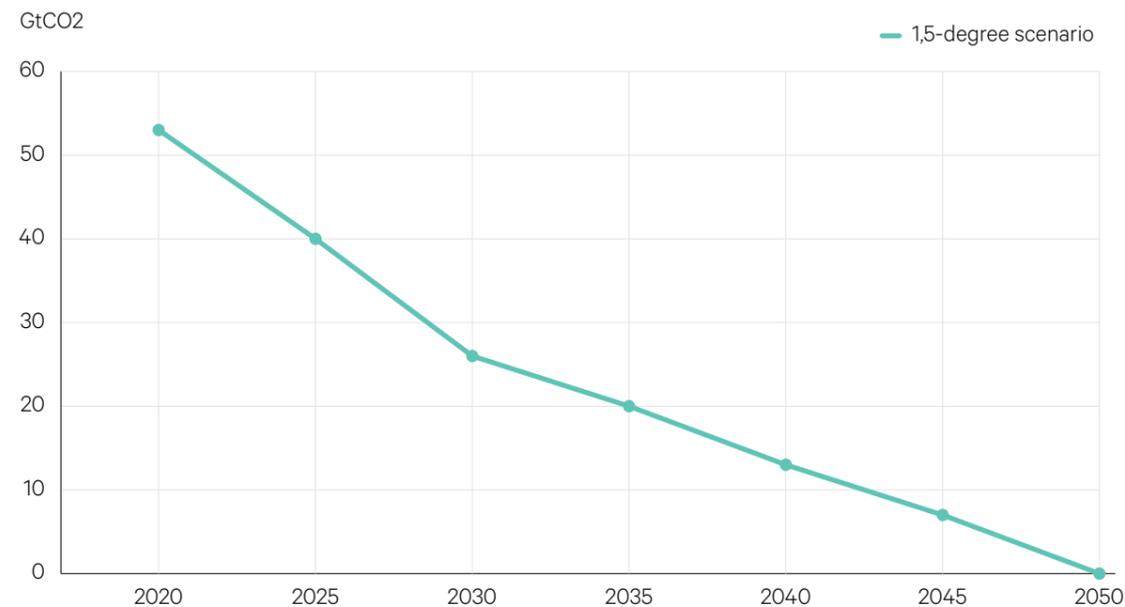
The roadmap describes how emissions from KLP's investment portfolio should develop in the coming years and how KLP measures the extent of its Paris alignment. This implies that we calculate the share of our investments that have emissions which are, or are in the process of becoming, compatible with the 1.5C global warming target. That a company is Paris aligned today does not imply that it is already where it should be in 2030 or 2050. Rather, it shows that the company is following the necessary reduction in its emissions to limit global warming to no more than 1.5C and achieve net zero emissions by 2050.

**KLP's climate goal is for 50 per cent of our investments to be Paris aligned by 2025 and that we reach net zero emissions by 2050.**

Already, 46 per cent of KLP's investment portfolio is Paris aligned. We have achieved this by invest-

ing substantially in renewable energy and other climate-friendly technologies and by excluding companies with revenues deriving from coal and oil sand. At the same time, many of the companies in which KLP has invested have reduced their carbon intensity.

The road map also describes which methods and indicators we use to assess whether investments are Paris aligned. Since there is no one single method that can measure the extent of KLP's Paris alignment for all types of investments, we have applied methods and data from a number of different standards, initiatives and examples from other financial institutions. We then developed our own roadmap. This roadmap reflects what we believe to be current best practice, and we will update it continuously in the years ahead as new and improved knowledge, data and tools become available.



The reference pathway is calculated based on the 1.5C Special Report from IPCC (Summary for Policymakers, 2018) and Climate Action Tracker.

**The emission pathway shows how fast emissions must be reduced to reach the 1.5-degree target.** As more companies in KLP's portfolio reduces their emissions in line with the emission pathway, the Paris alignment will increase as the Paris alignment shows the share of companies that have emissions compatible with 1.5 degrees of global warming. The Paris alignment will also increase as KLP increases our green investments.



## The instruments that will take us to Paris

Limiting global warming to 1.5C will require a fundamental transformation in many business sectors. We expect that the emission intensity in the economy will decrease, which will also be reflected in KLP's investment portfolio, but we cannot passively wait for emissions to reduce at the required pace. KLP will have to take active steps to affect the transition and, not least, ensure our own investments are increasingly aligned with the Paris Agreement. **There are several roads to Paris. Our roadmap describes four potential instruments we can apply. KLP will:**

-  increase climate-friendly investments by at least NOK 6 billion per year.
-  encourage companies to set climate goals and cut emissions, and be more transparent about their own climate impact and results.
-  implement measures directed at high-emission sectors and companies that do not follow the necessary emission mitigation pathways.
-  help accelerate the transition to a low-emission society by bringing our influence to bear on markets and political policies.

## Internationally recognised standards that underpin KLP's roadmap to Paris:

The Greenhouse Gas Protocol (also known as the GHG Protocol) is the most widely recognised method used by companies to calculate and report on their greenhouse gas emissions.

Recommendations issued by the Science Based Targets Initiative, as well as its standard for setting climate goals and methods for measuring emissions from financial institutions.

The framework for climate goals published by the Institutional Investors Group on Climate Change (IIGCC), the benchmark from Climate Action 100+, as well as the Transition Pathway Initiative (TPI) has also served as inspiration for KLP's roadmap.

Key aspects of the EU guidelines for sustainable finance:

- The EU Taxonomy: Defines which activities are sustainable
- The Corporate Sustainability Reporting Directive (CSRD): Directive requiring financial institutions to report on matters relating to sustainability
- The EU's Benchmarking Directive: Sets out requirements for how reference indexes can align with the Paris Agreement

## How can KLP reach net zero emissions by 2050?

Reaching net zero global emissions means that human-made greenhouse gas emissions are 100 per cent balanced by human-made removal of greenhouse gases. For KLP, this means any residual emissions in the portfolio needs to be balanced by an equal volume of negative emissions, i.e. of removal of emissions.

Exactly how KLP will reach net zero emissions is as yet uncertain. Strategies and specific solutions will have to be developed and changed over time, and the immediate need is to accelerate the transition to a low-emission society.

To reach net zero, the future marked economy will

have to be drastically different from today's. Companies must publish complete climate accounts that include emissions relating to production, operation and the use of products and services, as well as recognise their positive and negative impact on natural carbon storage.

In the longer term, a market will be needed for companies that removes and safely stores carbon from the atmosphere. In the future, KLP or companies we are invested in may invest in such companies or technologies, or KLP can buy credits from verified carbon removals. This way, KLP can itself reach and contribute to the global goal of net zero emissions by 2050.

# Ways to reach net zero investments

## How KLP can encourage companies to set climate goals and cut emissions

As a shareholder or owner, we are in a position to influence the company's operations and direction. A key measure to achieve lower emissions from KLP's investments and work for the green shift is to actively engage with the companies in which we are invested. KLP has clear climate-related expectations of the companies in which we invest. These are set out in *Guideline for KLP as a Responsible Investor*. Over many years, we have found that we can encourage companies to accelerate the pace of change through clearly expressed demands and constructive dialogue. KLP engages in direct dialogue with companies where we deem this to be expedient and effective. We will also benefit from cooperation with other investors and major investor initiatives, such as Climate Action 100+.

In addition to corporate dialogue, voting at general meetings is also an important way of influencing companies. KLP's voting guidelines ensure consistent and progressive voting in the companies in which we invest. KLP will support resolutions that improve the companies' efforts to limit climate change. Where relevant, KLP will collaborate with other investors and investor organisations to increase the chance that important climate-related resolutions receive sufficient support.

### WHAT KLP EXPECTS OF COMPANIES

KLP expects companies to organise their operations

such that emissions related to production, operations and the use of products and services are in line with the goals of the Paris Agreement. KLP expects that companies identify, analyse, manage and report on their exposure to climate risk as a financial risk. It is also an important principle that companies not only report historic emission figures, but also include scenario analyses and forecasts in their reports. This means that KLP has a more precise basis for making good decisions concerning the climate-related aspects of our investments.

### Specifically, we expect companies to:

- set climate goals for their own operations that align with the Paris Agreement.
- be transparent about their climate-related performance, future emissions and degree of Paris alignment, by publishing reports at least annually.
- use international reporting frameworks, such as TCFD, CDP and the EU taxonomy, in their reports.

### PRIORITIES IN THE EXERCISE OF SHAREHOLDER INFLUENCE

KLP has investments in over 7,000 listed companies worldwide. This broad exposure and relatively low percentage shareholding in each company has an impact on how we prioritise our investment follow-up resources. To ensure we have real impact on the companies' climate-related activities, we must make deliberate choices - not only about which sectors and which companies to engage with, but also how we will work in different parts of the world. KLP's monitoring of climate and sustainability risk, as well as the principle of due diligence in the face of high risk, will guide our decisions in this respect. ▶

### Stopping global deforestation

To reach the goals in the Paris agreement it is essential to stop global deforestation. At the same time, we must grow more forests that can remove carbon from the atmosphere. Forests are also important to protect and conserve biodiversity, rights of indigenous peoples, and protect societies against extreme weather. That is why preventing deforestation has been a focus for KLP in our engagement work for several years.

## IN DETAIL:

### **Geographic priorities: Greatest focus where the opportunities to exercise influence are substantial or the climate risk is high**

KLP is a major institutional investor in the Norwegian market which has focused on responsible investments for many years. This position, combined with the fact that we frequently have a higher percentage shareholding in Norwegian companies than in international companies, implies that KLP often has more opportunity to influence Norwegian companies. KLP will therefore prioritise the exercise of shareholder influence in Norway through individual dialogue with companies. We will also boost our efforts to support shareholder proposals at general meetings and influence the composition of company boards where necessary. With respect to international companies, KLP will seek primarily to ally itself with international investor alliances which have proved effective in recent years. There may, furthermore, be geographic areas that constitute a particularly high climate risk, for example rainforests. KLP will prioritise dialogue with companies which have a substantial exposure in such areas.

### **Sectoral priorities: To reduce emissions where they are greatest and preserve nature's capacity to store carbon**

KLP focuses its influence where the climate risk is greatest. Emission-intensive sectors, such as oil and gas, cement, and steel production, have both the largest negative impact on the climate and the greatest potential to significantly reduce the global level of emissions. These sectors also have science-based and internationally recognised emission mitigation pathways leading to the goals set out in the Paris Agreement. As a result, our efforts to influence them can rest on clear expectations, and demands are easier to make.

However, it is also important to avoid focusing solely on emissions. We must also work to ensure that nature can retain its capacity to absorb and store carbon. This means that sectors such as forestry, soya and palm oil production, cattle farming and aquaculture may also be given priority with respect to exercising our influence on behalf of the climate. The companies which operate in these sectors can intensify deforestation and marine pollution and should therefore work systematically to reduce their negative impact.

### **Company priorities: Working with companies which need the most support and have the greatest transformational potential**

Although a company operates in an emission-intensive sector or in a geographic area with high emission levels, it may not automatically be prioritised for the exercise of shareholder influence. KLP uses several data points at the company level to identify companies that need the most support and pressure to handle their climate risk and reduce their emissions. Indicators such as carbon intensity are important, but we will also assess whether the company has set adequate emission targets and has a transformational potential when we assess candidates to influence. In connection with high-risk investments, KLP will exercise due diligence, and the companies must be able to show they have realistic plans to reduce the risk and restructure their operations to align with the goals of the Paris Agreement.

### **Investment of pension funds**

How we spread the pension funds across different types of investments and regions has a major impact on the portfolio's emission profile. In parallel with the exercise of shareholder influence, KLP can change where the placement of our investments to reduce emissions. For example, KLP may:

- increase investments in sectors or companies that contribute directly to the achievement of the climate goal, such as hydropower, solar power, or emission-free methods of transport.
- move funds to more climate-friendly portfolios, such as Nordic swan-labelled funds, or portfolios that track indexes with higher climate ambitions.
- Move existing portfolios and funds to different indexes, by using indexes that align with the Paris Agreement's ambitions, for example.
- KLP has already excluded companies with revenues deriving from coal or oil sand, among others. This type of exclusion may be expanded to cover companies which fail to give priority to cutting greenhouse gas emissions, sectors that are incompatible with the Paris Agreement, or for entirely different reasons.

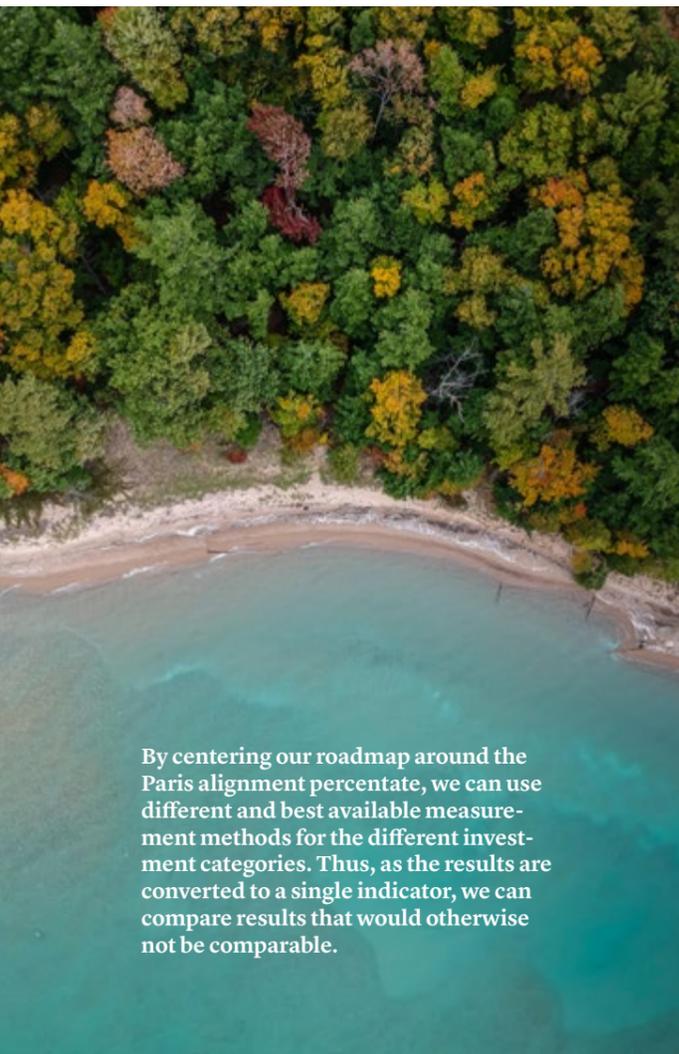
«To ensure we have real impact on the companies' climate-related activities, we must consider where and how we engage.»



KLP has over several years invested substantially in climate solutions, such as renewable energy. These are investments that contribute both to the green transition in Norway, and to clean and secure energy access in low income countries.

# How do we calculate the Paris alignment?

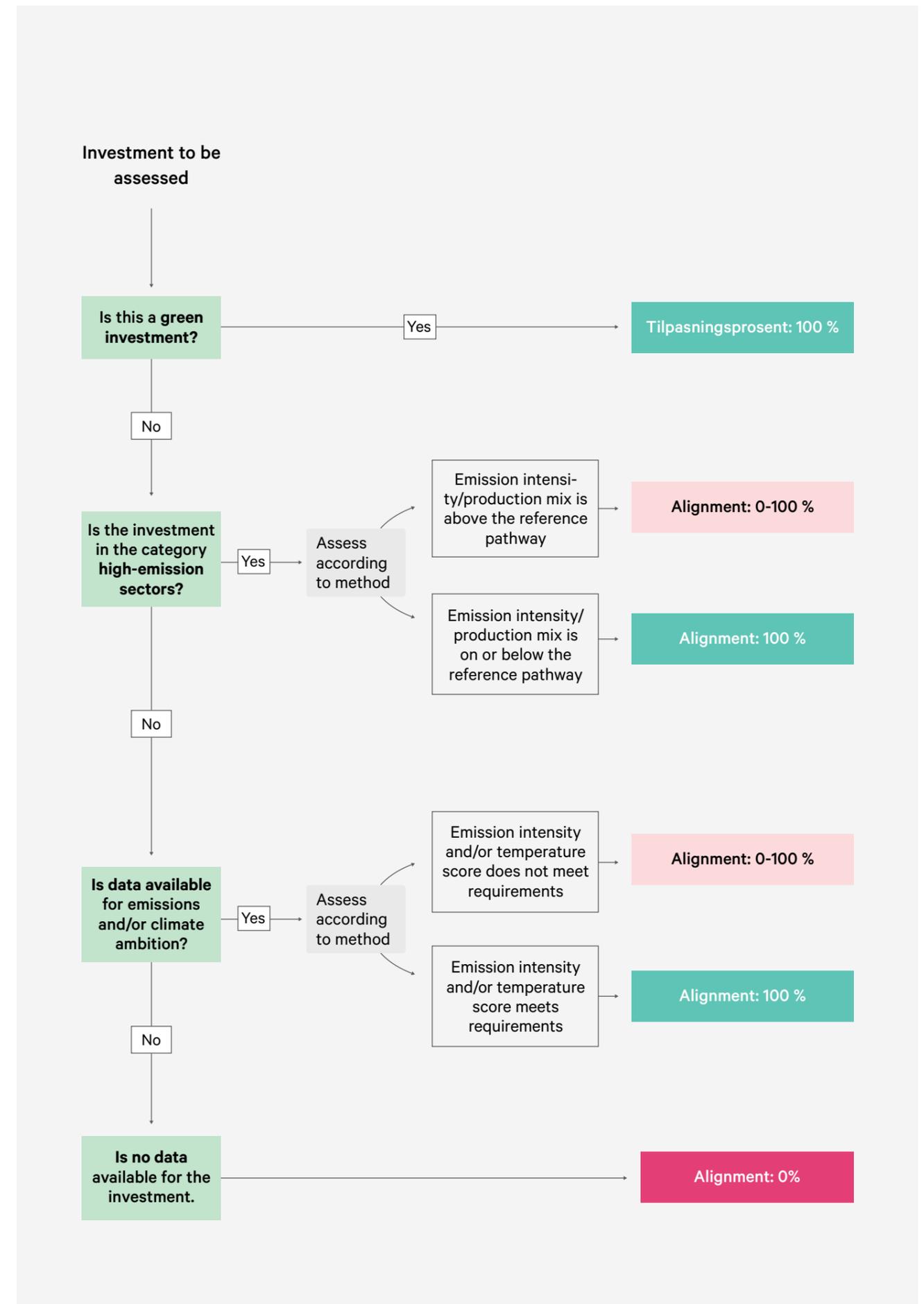
The pension funds that KLP manages are invested in over 8,000 companies and projects across the world. This is how we assess whether the investments contribute to reaching the 1.5C global warming target.



By centering our roadmap around the Paris alignment percentate, we can use different and best available measurement methods for the different investment categories. Thus, as the results are converted to a single indicator, we can compare results that would otherwise not be comparable.

To calculate our investment's degree of Paris alignment (PAP), we divide them into four categories according to how certain we can be about the calculation. We use a different method to calculate the PAP of each different category.

- 
**1. Green investments**  
 - Companies and projects with zero or almost zero emissions, and which we know are aligned with the Paris Agreement.
- 
**2. High-emission sectors**  
 - Sectors deemed to produce high emission levels, and where acknowledged reference pathways have been established, enabling emissions from individual companies to be compared with the requirements of the Paris Agreement.
- 
**3. Other investments**  
 - Investments for which there are no acknowledged reference pathways, where KLP uses other methods to calculate the degree of alignment with the Paris Agreement.
- 
**4. Investments without data**  
 - If KLP does not yet have the necessary data on an investment, it is automatically scored as having zero Paris alignment. This is an important principle in KLP's framework: All relevant investments must be included in the climate target, and not be excluded because of difficulties obtaining data.



When developing the the roadmap and method, KLP has looked to several recognized standards and initiatives. The road map will be updated continuously in the years to come as better knowledge, data and tools become available.

IN DETAIL:

# Calculation of the Paris Alignment Percentage

The roadmap reflects what we believe to be current best practice. Since there is no single, incontrovertible number or method that can measure KLP's degree of Paris alignment, we use different methods for different types of investments.

## 1. Green investments

Investments in this category have zero or near zero emissions. The PAP for all these investments is 100 per cent.

## 2. High-emission sectors

The high-emission sectors included in this category are those for which science-based reference pathways currently exist. KLP uses acknowledged reference pathways from the climate scenario analysis program PACTA, which has been part-funded by the UN. Through the application of scientific methods, PACTA can link emissions from individual companies to the Paris Agreement's goals. The introduction of the EU's taxonomy and associated corporate reporting requirements will provide better access to high-quality data, and thereby make it easier to develop additional reference pathways going forward.

The method used to calculate the PAP for this category is based on a weighted average for the sector to which the company belongs. For this category, KLP uses the same sectoral classifications as PACTA.

KLP assesses whether the emission intensity or production mix of the individual company is below, on or above the reference pathway.

Emission intensity or production mix	Alignment	Method of calculation
Below reference pathway	100 per cent or higher	Reference pathway's requirements ÷ Emission intensity or production mix
On reference pathway	100 per cent	
Above reference pathway	0 per cent or lower	

### What are currently defined as green investments?

-  Renewable energy production: Hydropower, wind power and solar power
-  Zero-emission ferries
-  Sustainable forestry (defined as the investment being 100 per cent FSC certified)
-  Green bonds (to renewable energy that are externally verified)

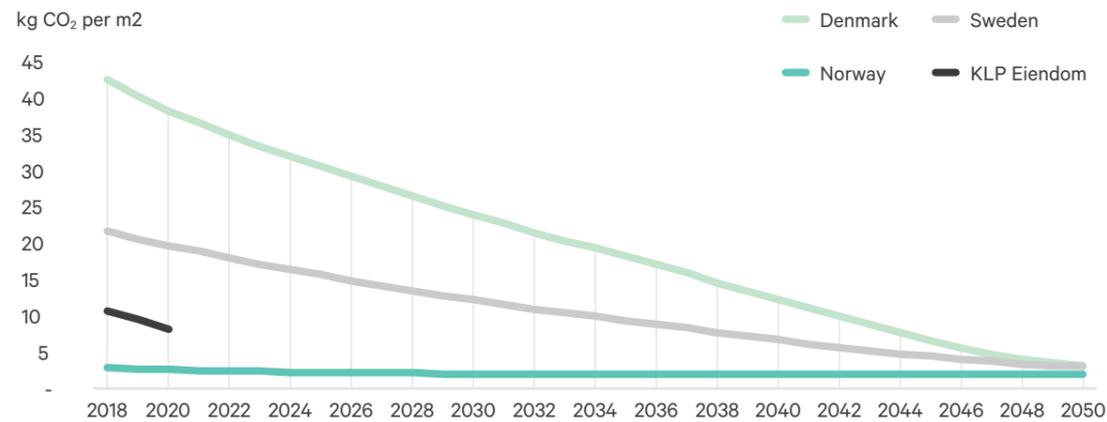
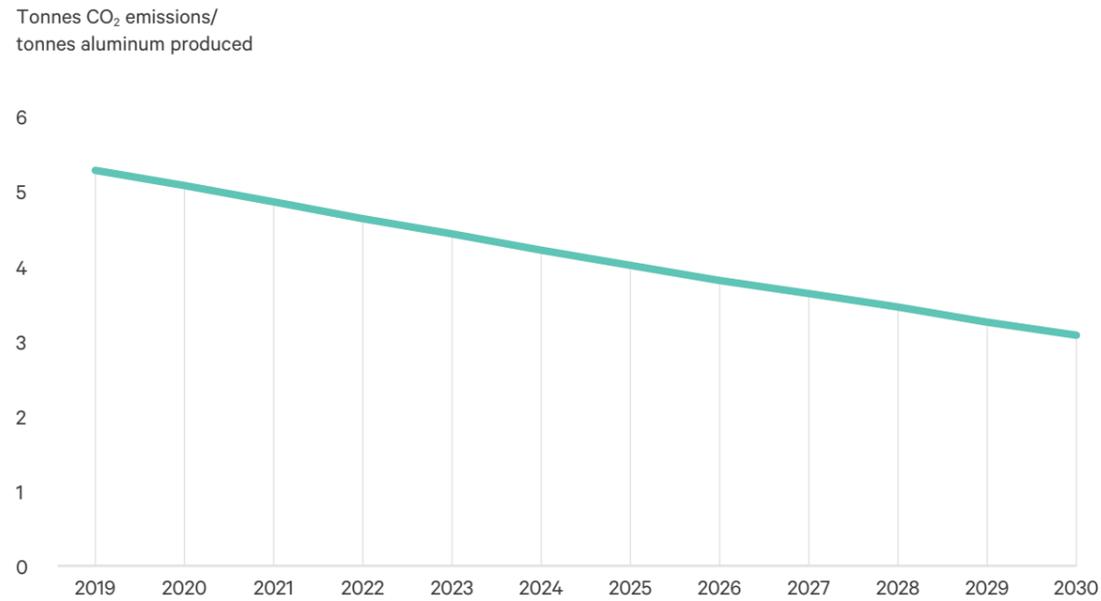
KLP then calculates a weighted average PAP for the sector as a whole, based on the individual companies' PAP and their relative weight in the sector. This means that companies which outperform the reference pathway can offset companies which do not meet the requirements. Each sector can achieve a minimum of 0 per cent or a maximum of 100 per cent alignment. This is to comply with the principle that different sectors cannot balance each other out within KLP's total portfolio.

For property investments, KLP uses the Carbon Risk Real Estate Monitor (CRREM). This is an EU-supported project that has developed country-specific reference pathways to the 1.5C target for European countries and different building types. KLP will follow the specific reference pathways for Norway, Sweden and Denmark.

### WHAT IS A REFERENCE PATHWAY?

A reference pathway shows how emission levels within a sector must change over time to reach the Paris Agreement goals. The top figure shows the reference pathway for aluminum production. To align with the Paris Agreement’s ambitions, an aluminum producer must have a production intensity (tonnes of CO<sub>2</sub> emissions/tonnes of aluminum produced) of less than 5.3 today, and less than 3.1 in 2030. Source: Transition Pathway Initiative

For property investments, KLP uses the reference pathways supplied by CRREM. The bottom figure shows the reference pathways for Norway, Sweden and Denmark, as well as the change in KLP Eiendom’s emission intensity from 2018 to 2020. It is expected that CREEM’s reference pathways will be updated as the model’s underlying data is improved.



### SAMPLE CALCULATION FOR HIGH-EMISSION SECTORS

The table below shows how the PAP is calculated for high-emission sectors, excluding the property sector. In the example below, there are two sectors – cement and steel – with two companies in each sector. Company C has an emission intensity (tonnes CO<sub>2</sub> per tonne steel produced) which is above the reference pathway and has a PAP of 70 per cent. Company D’s emission intensity is below 1.4, which is the reference pathway’s requirement. The company therefore has a PAP of 140 per cent. To calculate the PAP for the steel sector, these are weighted together to a PAP of 119 per cent. However, to prevent this sector being able to offset other sectors, its score is capped at 100 per cent. The total emissions for the sector therefore follow the mitigation pathway necessary to reach the 1.5C target, even though

Company C’s emission intensity is higher than the reference pathway’s requirement. This is because Company D’s emission intensity is low enough to offset Company C’s, and both companies are given a PAP of 100 per cent.

In the cement sector, Company A has an emission intensity (tonnes CO<sub>2</sub> per tonne cement produced) that is on the reference pathway. The company therefore scores a PAP of exactly 100 per cent. Company B has an emission intensity that is higher than the pathway’s requirement, and therefore has a PAP of 66 per cent. When these are weighted together, the sector’s overall PAP comes to 86.4 per cent, which becomes the PAP for both companies.

Company	Sector	Company's sectoral weighting	Emission intensity	Reference pathway's requirement	Paris Alignment Percentage (PAP)	Sector's PAP
A	Sement	60 %	0,5	0,5	0,5 ÷ 0,5 = 100%	(60% x 100%) + (40% x 66%) = 86,4%
B	Sement	40 %	0,75	0,5	0,5 ÷ 0,75 = 66%	
C	Stål	30 %	2	1,4	1,4 ÷ 2 = 70%	(30% x 70%) + (70% x 140%) = 119% → 100%
D	Stål	70 %	1	1,4	1,4 ÷ 1 = 140%	



**«By our method, we avoid that i.e. a consulting firm with low emissions can compensate for an oil producer.»**

### 3: Other investments

Unfortunately, we do not have sector-specific reference pathways for all industries and sectors. KLP therefore uses other methods to calculate the Paris Alignment Percentage (PAP) of other investments for which there are no internationally recognised reference pathways. The indicators used are change in carbon intensity and temperature score. For this category, KLP uses the GICS classification system. KLP uses the lowest level (“sub industry”) to define which sector a company belongs to. Where the appropriate sector cannot be verified, the company is assessed on an individual basis.

This sectoral approach means that a company which has reduced its carbon intensity by more than 7 per cent cannot offset another company in another sector. This ensures that low-emission companies which reduce their carbon intensity by a relatively large amount cannot offset high-emission sectors where there has been little or no reduction in carbon intensity.

KLP assesses whether each company in the sector meets our set requirements for reduction in carbon intensity and/or temperature score. Where KLP only

has information on the change in carbon intensity or temperature score, the PAP will be calculated based on the available indicator. Where data for both indicators is available, they are weighted equally in the calculation of the sector’s PAP. We use the same method as for high-emission sectors to calculate a weighted average PAP for the sector as a whole. The PAP for the sector is capped at 100 per cent. The minimum threshold is 0 per cent.

#### Where does the -7 per cent come from?

Carbon intensity is expressed as CO2 emissions/ Revenues and shows the company’s historic development. The EU’s benchmarking directive specifies that for an index to align with the Paris Agreement, it must have an annual reduction in carbon intensity of 7 per cent per year. This requirement is therefore set for KLP’s other investments. Revenues are adjusted for inflation to eliminate the effect of price rises.

#### CHANGE IN CARBON INTENSITY

KLP assesses whether the investment has a 7 per cent annual reduction in carbon intensity. The base year for these calculations is 2018. The Paris Alignment Percentage (PAP) is calculated as follows:

Change in carbon intensity	Paris Alignment Percentage (PAP)	Method of calculation
-7 per cent or more	100 per cent or more	(Change in carbon intensity) ÷ (-7%)
Between 0 per cent and -7 per cent	Between 0 per cent and 100 per cent	
Over 0 per cent	0 per cent or less	

#### TEMPERATURE SCORE

The temperature score assesses the level of ambition of a company’s reduction targets. The assessment uses the method published by the Science Based Targets Initiative. The method gives companies’ reduction targets a score of between zero degrees Celsius (0C) and 5 degrees Celsius (5C), which expresses how many degrees of global warming the reduction target is aligned with. The alignment percentage is calculated as follows:

Temperature score	Paris Alignment Percentage (PAP)	Method of calculation
Over 3.2C	Under 0 per cent	(3,2-TS) ÷ (3,2-1,5)
3.2C	0 per cent or less	
Between 1.5C and 3.2C	Between 100 per cent and 0 per cent	
1.5C or less	100 per cent or more	

## SAMPLE CALCULATION FOR OTHER INVESTMENTS

The tables below show how the Paris Alignment Percentage (PAP) is calculated when no clear reference pathways exist. There are two sectors, advertising and data centres, with two companies in each sector, and a company that is not classified in a specific sector. Because access to data for the companies varies, a variety of indicators has been used to calculate the PAP.

For Company A, we have data for both the temperature score and annual change in carbon intensity. The PAP for the company, based on the two indicators, is 90 per cent.

For companies B, D and E, we only have data about the change in carbon intensity. The PAP is calculated as the ratio between the change and the -7 per cent reduction requirement. The PAP for companies B and E, which have both cut their carbon intensity, is 50 per cent and 60 per cent, respectively. Company D has increased its carbon intensity by 3,5 per cent, which gives it a PAP of -50 per cent.

The only data available for Company C is the temperature score, which is 1.93. This gives a PAP of 75 per cent.

Company	Sector	Temperature score	Annual change in carbon intensity	Paris Alignment Percentage (PAP)		
				Temperature score	Carbon intensity	Total PAP
A	Advertising	1,84	- 7%	$(3,2 - 1,84) \div (3,2 - 1,5) = 80\%$	$(-7\%) \div (-7\%) = 100\%$	$(80\% + 100\%) \div 2 = 90\%$
B	Advertising		- 3,5%		$(-3,5\%) \div (-7\%) = 50\%$	50%
C	Data centre	1,93		$(3,2 - 1,93) \div (3,2 - 1,5) = 75\%$		75%
D	Data centre		3,5%		$(3,5\%) \div (-7\%) = -50\%$	- 50%
E			- 4,2%		$(-4,2\%) \div (-7\%) = 60\%$	60%

Once the companies' individual PAP's have been calculated, we calculate a total, weighted PAP for the different sectors.

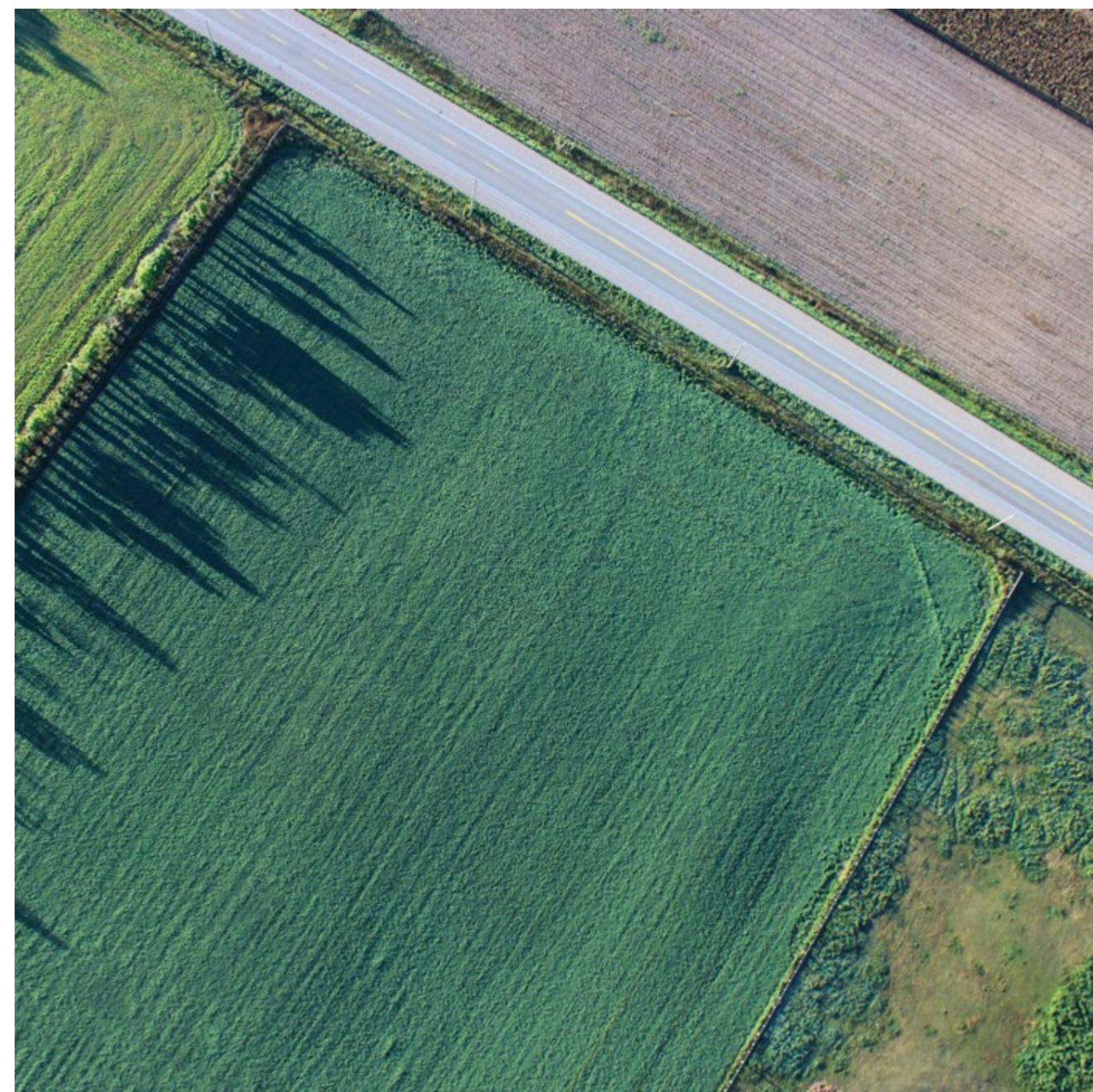
Company E has no sectoral classification. The company is therefore assessed on an individual basis and retains its PAP of 60 per cent. The overall PAP for the advertising sector is 74 per cent.

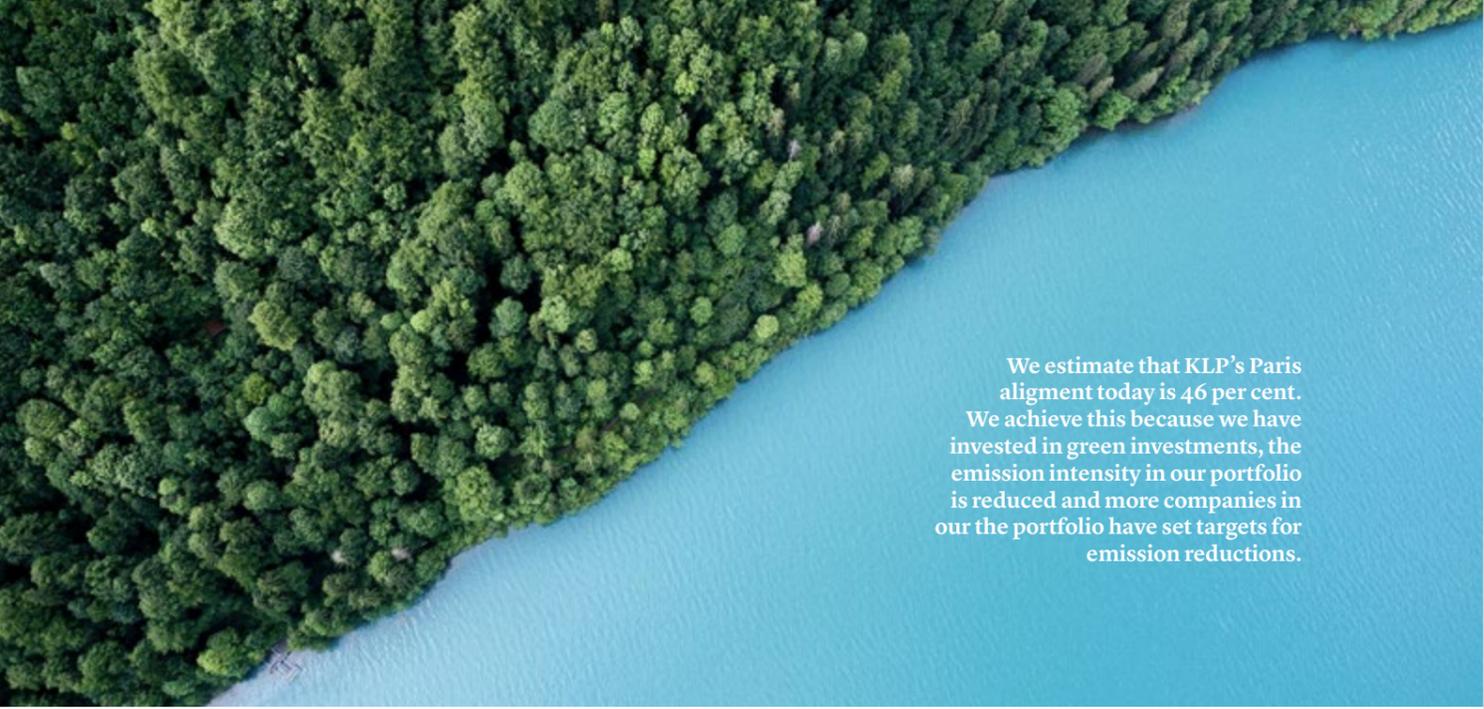
In the data centre sector, Company D's carbon intensity has increased. Since Company D carries a large proportion of the sector's weighting, the increase is enough to offset the fact that Company C has a relatively good temperature score. The weighted PAP for the sector is -13 per cent. However, it is set to 0 per cent to avoid penalising other sectors in the portfolio.

Company	Sector	Company's sectoral weighting	Total PAP	Sector's PAP
A	Advertising	60%	$(80\% + 100\%) \div 2 = 90\%$	$(60\% \times 90\%) + (40\% \times 50\%) = 74\%$
B	Advertising	40%	50%	
C	Data centre	30%	75%	$(30\% \times 75\%) + (70\% \times -50\%) = -13\% \rightarrow 0\%$
D	Data centre	70%	-50%	
E		100%	60%	60%

## 4: No data

When KLP does not have sufficient data on an investment to indicate either historic or future developments, we take a conservative approach to the Paris Alignment Percentage and set it at 0 per cent.





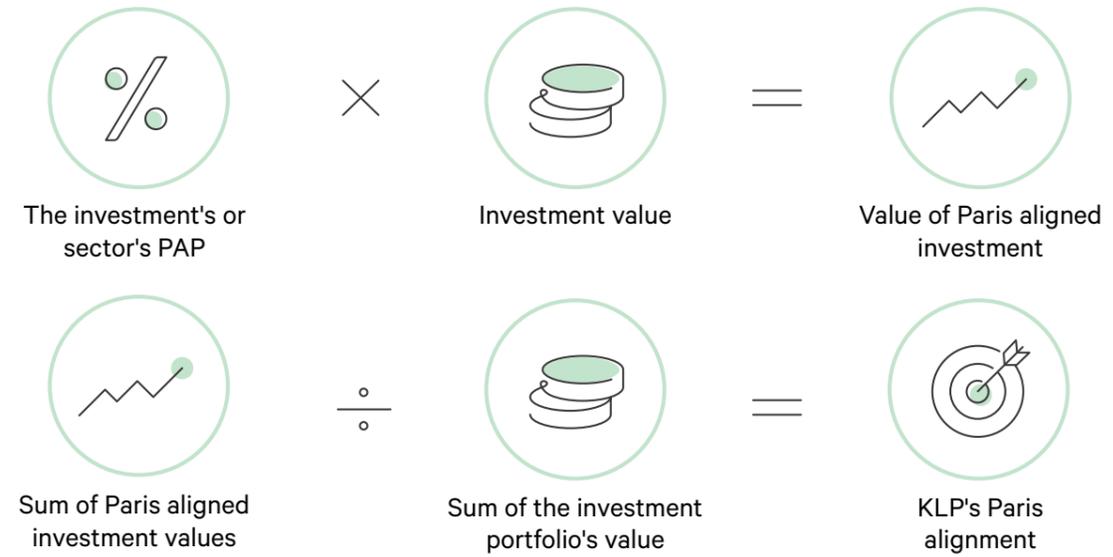
We estimate that KLP's Paris alignment today is 46 per cent. We achieve this because we have invested in green investments, the emission intensity in our portfolio is reduced and more companies in our the portfolio have set targets for emission reductions.

# How Paris aligned is KLP today?

The Paris alignment percentage shows the share of our investments that have emissions which are, or are in the process of becoming, compatible with the 1.5C global warming target. KLP's climate goal is for 50 per cent of our investments to be Paris aligned by 2025 and that we reach net zero emissions by 2050.

## How we calculate the Paris alignment of KLP's entire investment portfolio

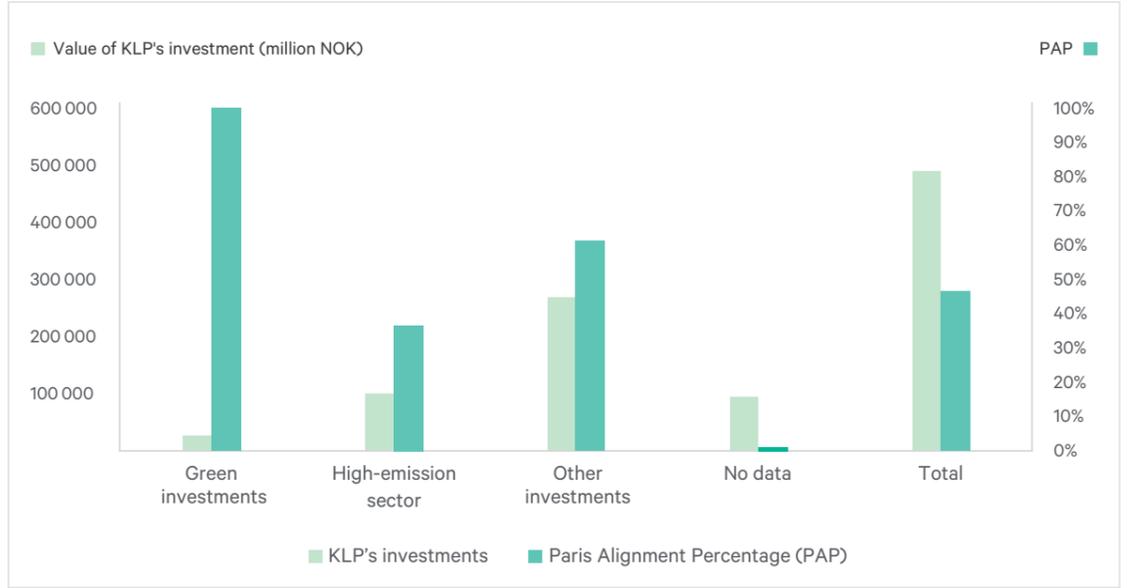
The method describes how we calculate the Paris Alignment Percentage for each investment. Once we have found the Paris alignment, we calculate the value of the Paris aligned investment. This is aggregated to find the total value of KLP's Paris aligned investments. To find KLP's Paris alignment for the entire investment portfolio, we calculate the total sum of Paris aligned investments in relation to the value of the investment portfolio.



- Based on the methodology in our roadmap, KLP has a PAP of 46 per cent. This is based on calculations with data per 2019. We achieve this score because:
- **5 per cent** of KLP's investments are green, as defined in the roadmap.
  - We estimate that around **35 per cent** of KLP's investments in high-emission sectors align with the 1.5C global warming target.
  - **The emission intensity** of KLP's portfolio is decreasing.
  - Several companies in the portfolio have set **emission reduction targets**.



KLP's Paris Alignment Percentage (PAP) per category



**When KLP sets a climate goal, we do so for and on behalf of our owners. The goal is for the pension funds we manage to be aligned with the Paris Agreement. Then our owners can feel confident that their pension funds are contributing to the global climate goals.**



## Thank you for reading our report!

There is no single, incontrovertible method adapting the 1.5C target into practice. Exactly how KLP will reach net zero emissions is as yet uncertain. Our roadmap is based on international standards and represents what we believe to be best practice. We know it will have to be updated on our road to Paris. We will be open about our method and results and encourage feedback that can help improve the roadmap.

Read more on [www.klp.no/en/climate](http://www.klp.no/en/climate)

