KLP's Climate Strategy

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This is KLP

KLP is Norway's largest pension company, mutually owned by Norwegian municipalities and public health sector companies. Our mission is to ensure secure pension savings for our clients and owners. This entails providing stable and good returns on pension funds so that pension costs for municipalities and health enterprises remain as low as possible. We aim to achieve this in a way that contributes to a better and more sustainable future.

When KLP sets a climate target, we do so for and on behalf of our owners. Our goal is for pension savings to be invested in alignment with the Paris Agreement. This ensures that our owners can trust their pension funds to contribute to achieving global climate goals while reducing financial climate risk.

KLP's Climate Targets

KLP aims to align the management of its investment portfolio with the Paris Agreement. The primary aim of the agreement is to keep global warming this century well below 2 degrees Celsius, and pursue efforts to limit the increase to 1.5 degrees.

KLP's climate strategy recognises that failing to meet climate goals imposes substantial societal costs and creates significant systemic market risks. Additionally, we see considerable transition risks in falling behind the market's shift toward a low-carbon economy.

KLP views climate risk as a central driver of return risk for pension capital in the future. We believe that if global warming is not mitigated, pension costs will inevitably rise.

Achieving climate goals and halting global temperature increases requires a global transition to net-zero emissions. From this perspective, every actor's influence is limited. In the absence of global regulations, KLP believes that everyone must contribute to the transition by leveraging their own capacity for action now. Through our climate goals and associated measures, KLP strives to accelerate the pace of the transition, while recognising that success depends on collective effort and shared commitment.

KLP's climate strategy includes the following structured goals with quantified targets for the short, medium and long term:

Target indicator	Unit	Baseline (2022)	2030	2035	2040	2050
Financed emissions [1 2]	tCO_2eq	19,1 mill.	-45%	-60%	-70%	-95%
SBT Portfolio Coverage [3]	Share of companies with science-based climate goals, weighted by financed emissions [4]	12%	55%	75%	100%	100%
Investments in Climate and Nature Solutions [5]	Annual net investments [6], in billion NOK	6 bn.	6 bn.	6 bn.	6 bn.	6 bn.
Real Estate [7]	Operational emissions [8], tCO_2eq/m^2	3,3	-37%	-60%		

[1] The target is in line with the median pathway outlined by the UN Intergovernmental Panel on Climate Change (2023) for reducing greenhouse gas emissions to limit global warming to 1.5°C with a probability of over 50 percent. The measured emission reductions will be adjusted for changes in KLP's share of the capital market. This means that if KLP's investment portfolio grows faster than the capital market, the growth rate of financed emissions will be adjusted downward by the 'excess growth factor', and similarly adjusted upward if the capital market grows faster than the portfolio.

[2] Calculated as: $\sum_{i=1}^{n}(\frac{Market\ Value\ of\ Investment_i}{Enterprise\ Value\ Including\ Cash_i}$ × Greenhouse Gas Emissions (Scope 123)_i), summed across all companies in the portfolio. The inclusion of portfolio companies' Scope 3 emissions in the calculation of financed emissions aligns with recommended best practices from the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets initiative (SBTi).

[3] The target is based on a linear projection between the baseline year (2022) and 100 percent by 2040, in line with the Science Based Targets initiative's (SBTi) requirements for a 'near-term' science-based climate target for financial institutions (SBTi, 2024).

[4] Calculated as: $\sum_{i=1}^{n}(\frac{Financed\ emissions\ company_i}{Financed\ emissions_{Portfolio}})$ × 100, summed over all companies with science based targets. In this context, we use the approved Science Based Targets initiative (SBTi) as the criterion for a 'science-based climate target'.

[5] According to the IEA (2023) pathway to net zero by 2050, aligned with the 1.5°C target in the Paris Agreement, annual global investments in clean energy solutions (low-emission energy, power grids, batteries, energy efficiency) should amount to approximately USD 4,500 billion per year by 2030. KLP's investment portfolio constitutes an estimated 0.15 per mille of global capital markets. If KLP were to contribute its "share" of the capital market, this would correspond to investments of NOK 7 billion per year in clean energy solutions. KLP's target of at least NOK 6 billion annually in investments in climate and nature solutions covers most of this share. KLP's financing of clean energy solutions through ownership in listed companies and investments in bonds outside the renewable energy sector is in addition to this, meaning that KLP's actual investments exceed NOK 7 billion annually.

[6] The category "Climate and Nature Solutions" encompasses activities that contribute to addressing the critical challenges of climate change and biodiversity loss. This largely involves investments in new projects or emerging technologies but can also include the purchase of shares and bonds in the secondary market related to, for example, renewable energy.

[7] The emissions target for KLP's real estate portfolio towards 2030 is set in alignment with SBTi's requirements for science-based climate targets within the real estate sector ('SDA Tool for Commercial Real Estate and Residential Mortgages').

[8] Includes Scope 1 and Scope 2 emissions based on the location-based method.

The targets for the investment portfolio apply to pension capital managed on behalf of KLP's member-owners. Capital managed on behalf of external clients is not included in these targets. In total, KLP's climate targets cover 73 percent of the financed emissions in the baseline year 2022.

Each of these sub-targets is described in more detail below:

EMISSIONS TARGETS – ON THE PATH TO "NET ZERO"

KLP has set ambitious targets for financed emissions from the investment portfolio. The long-term goal is net zero greenhouse gas emissions by 2050. The emissions targets for 2030, 2035, and 2040 ensure that KLP reduces financed emissions in line with the Paris Agreement's objectives.

We use financed emissions as a key measurement to ensure that the total portfolio emissions align with the Paris Agreement's goals.

In the short term, we expect financed emissions to fluctuate due to changes in data quality and our prioritisation of high-emission companies undergoing transition. As companies with climate targets and transition plans implement measures and reduce emissions, KLP's financed emissions will also decrease.

SBT PORTFOLIO COVERAGE - FOCUS ON TRANSITION

The 'SBT Portfolio Coverage' targets reflect KLP's commitment to prioritising investments in companies with robust sector-specific emissions pathways aligned with the Paris Agreement. These targets are designed to stimulate the transition to a low-carbon economy while enabling KLP to gradually build a portfolio of companies aligned with global efforts to reduce emissions, in line with KLP's own emission reduction targets.

KLP's climate efforts focus on companies and sectors with the highest emissions. The aim is to encourage transition and emission reductions, rather than reallocating investments away from high-emission sectors.

INVESTMENTS IN CLIMATE AND NATURE SOLUTIONS

Achieving climate goals also requires developing, commercialising, and scaling low- and zero-emission solutions.

The targets for investments in 'climate and nature solutions' contribute to accelerating the adoption of solutions essential for transitioning to a sustainable society.

REAL ESTATE – ENERGY AND EMISSIONS-EFFICIENT BUILDING OPERATIONS

The construction and operation of real estate contribute significantly to greenhouse gas emissions, both directly through energy consumption and indirectly through the use of materials. KLP has established emissions targets for its real estate operations that align with a trajectory consistent with the Paris Agreement.

KLP's Ambition Level and Reporting

KLP's climate ambitions are high but grounded in what is scientifically required to meet the long-term goals of KLP, Norway, and the Paris Agreement to limit global warming. By setting these targets, KLP signals its priorities to the financial market and portfolio companies, and demonstrates its commitment to leverage its capacity for action towards shared climate goals.

We anticipate that a critical mass of market participants, companies, and regulatory authorities will adopt simlar goals and supporting strategies, and we see our targets as a contribution to such collective climate action. KLP will report annually on progress, opportunities, and challenges, with a comprehensive evaluation of our climate strategy and overall progress by the end of 2030.

Action Plan to Achieve Targets by 2030

The global economy as a whole must decarbonise to meet the Paris Agreement's ambitions. This is particularly challenging in industrial sectors with high current emissions, and which will continue to play a vital role in a low-emission society. These include sectors such as energy production, metals, cement, food, and transportation.

KLP'S ACTION PACKAGE TOWARD 2030

To achieve the 2030 targets, KLP has developed the following set of measures across asset classes:

	Measure 1: Advocacy for Transition: Advocate for company transitions by engaging in dialogue, exercising voting rights, and clearly communicate our expectations to companies, authorities and other stakeholders regarding practices and regulatory frameworks that support sustainable business development. This measure applies across all asset classes.
SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION	**Measure 2: Prioritisation of Companies with Science-Based Transition Plans:** Prioritise companies with science-based transition plans aligned with the Paris agreement. This measure applies to new investments in bonds held to maturity.
	Measure 3: Climate-Based Divestment in High-Emission Sectors: Conduct climate-based divestments of companies in high-emission sectors that are poorly aligned with climate transitions and show no willingness or ability to improve. This measure applies to stocks and mark to market bonds.
	Measure 4: Investments in Climate and Nature Solutions: Investments across asset classes.
	Measure 5: Energy and Emissions-Efficient Real Estate Portfolio: Reduce energy and material use, increase reuse, and install more renewable energy. This measure applies to real estate investments.

These measures are intended to actively support global transition dynamics and are considered as both necessary and sufficient to achieve KLP's climate targets in the short, medium, and long term. KLP's portfolio adjustments will be implemented gradually, aligning with market changes driven by other actors, while simultaneously mitigating KLP's transition risk. Maintaining a broadly diversified portfolio across sectors remains a core principle of the capital allocation strategy, but the measures reflect clear climate-related priorities and willingness to make adjustments to KLP's portfolio.

REDUCTION IN FINANCED EMISSIONS DISTRIBUTED ACROSS MEASURES

Figure 1 illustrates KLP's expected pathway to achieving its 2030 targets for financed emissions. Approximately one-third of the reductions in financed emissions (-15 percentage points) [9] are anticipated to occur in the market without active allocation measures (baseline). The majority of the remaining emission reductions will stem from active allocation measures focused on supporting transition-oriented companies.

[9] The analyses draw on projections from the Climate Action Tracker (CAT) of national climate policies through 2030, with a particular emphasis on Norway, Europe, and the United States, where the portfolio's primary investments are concentrated.

KLP'S PLAN FOR REDUCING FINANCED EMISSIONS (2022-2030)

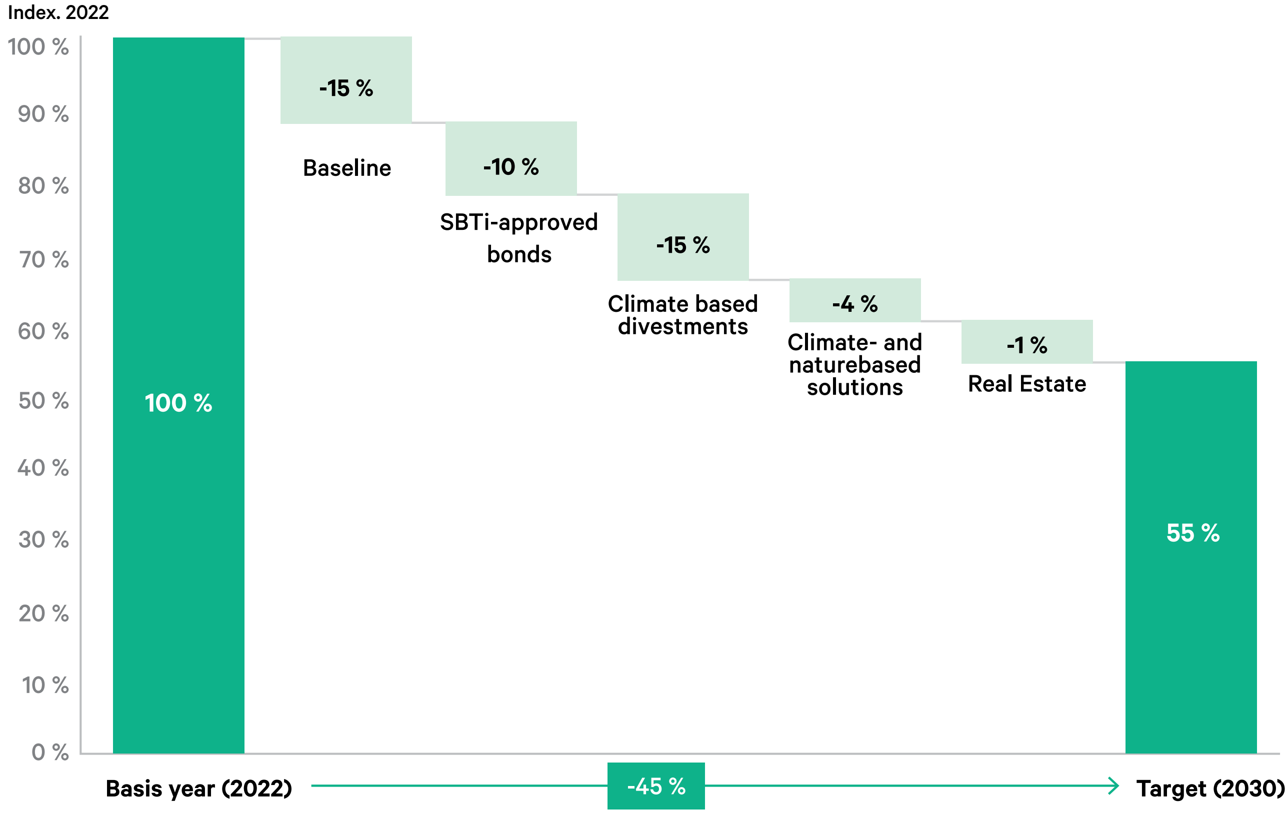

Figure 1. KLP's plan for reducing financed emissions from the investment portfolio in line with the 2030 target.

INCREASE IN THE SHARE OF THE PORTFOLIO WITH SBTI-APPROVED TARGET

Figure 2 illustrates how KLP expects to increase the share of the portfolio with SBTi-approved climate targets distributed across measures. It is estimated that 30% of the portfolio will adopt science-based climate targets by 2030 without active allocation measures from KLP. The remaining 25 percentage points are expected to be achieved through active initiatives by KLP, stimulating demand in the market for companies with SBTi-approved climate targets.

KLP'S PLAN TO INCREASE THE SHARE OF SCIENCE-BASED TARGETS (2022-2030)

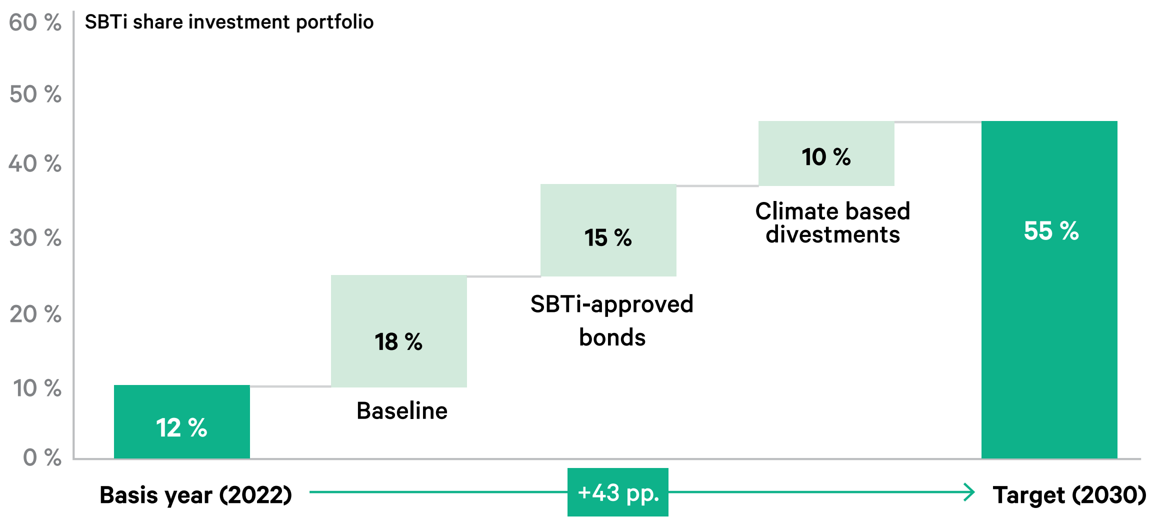

Figure 2. KLP's plan for increasing the share of the portfolio with climate targets approved by the Science Based Target Initiative (SBTi) by 2030.

There is significant uncertainty underlying the assumptions KLP are using to set its targets and strategy. First, the data foundation KLP relies on for setting climate targets and reporting progress involves uncertainty, particularly regarding how companies report emissions from their supply chains and production inputs, as well as the emissions generated from the use of their products (so-called 'scope 3' emissions). Additionally, companies' willingness to transition depends on factors beyond KLP's control, such as political frameworks, geopolitical developments, and the increasingly evident consequences of climate change.

MEASURES IN DETAIL

Below is a detailed description of each of the measures in the climate strategy:

MEASURE #1: Advocacy for Transition

Advocacy is a central part of KLP's climate strategy. This includes influencing companies to set climate targets and reduce emissions, as well as fostering greater transparency around companies' climate results. It also involves clear communication of our expectations for sustainable management to portfolio companies, authorities, and other stakeholders. KLP focuses particularly on Norwegian companies and international companies with significant greenhouse gas emissions and/or negative impacts on biodiversity. Work with international companies occurs both bilaterally and through collaborations with other investors in organised initiatives. For more details, please review our Guidelines for KLP as a responsible investor and our expectations for companies regarding climate and nature.

It is challenging to distinguish the results of KLP's and our partners' advocacy efforts from a hypothetical scenario without such investor engagement. Therefore, the effect of this measure is combined with other factors driving general market development in the 'baseline'.

MEASURE #2: Prioritisation of Companies with Science-Based Transition Plans

KLP annually invests substantial amounts in bonds that generate fixed interest income over periods typically ranging from eight to ten years. Going forward, reinvestments in this portfolio will be limited to companies with robust, science-based transition plans and investments, or those offering climate solutions. This sends a strong message to all companies seeking financing: investors expect concrete plans for climate transition and emission reductions. Engaging in dialogue with companies about KLP's climate transition expectations during these financial transactions is also a key component of its advocacy efforts.

MEASURE #3: Climate-Based Divestment in High-Emission Sectors

KLP will divest from shares and mark to market bonds in companies in high-emission sectors that are not able to demonstrate willingness or ability to transition. Divestments will target companies that deviate the most from their sector-specific emission reduction pathways.[9] These divestments will be implemented gradually and aim to ensure that, over time, each high-emission sector will have climate targets and strategies that on average align with the Paris Agreement.[10]

To evaluate and rank companies' transition plans, KLP applies a methodology that assigns a "temperature rating" to each company based on the ambition and quality of their transition plans. This rating represents the expected global temperature increase if the entire economy were to transition with the same level of ambition as the assessed company.[11] The temperature rating is forward-looking, assuming that companies implement their plans and achieve the intended emission reductions. In line with KLP's ownership practices, KLP will engage in dialogue with companies regarding their progress and future transition plans before making divestment decisions.

Divestments will generally be followed by equivalent investments in companies with superior transition plans or climate technologies within the same high-emission sector. This strategy encourages sector-wide transition by reallocating capital to competitors better aligned with the necessary emission reduction pathways. Simultaneously, KLP reduces its transition risk from high-emission companies with inadequate transition plans.

The primary goal of this measure is not to immediately reduce financed emissions in the portfolio. Instead, by prioritising and incentivising the transition of portfolio companies, the measure is expected to lower financed emissions over time as companies meet their transition objectives.

In the oil and gas sector, few, if any, companies currently align fully with the Paris Agreement. Until more oil and gas companies develop robust transition plans, divestment proceeds will be reallocated

to companies outside this sector.
KLP considers divestment a measure of last resort, as it reduces our influence and diminishes portfolio diversification. However, we see this as an appropriate measure when companies are not able to demonstrate neither ability nor willingness to transition. This approach is justified both as a financial risk management strategy and as a means to apply pressure on underperforming companies. By being transparent about divestments, KLP encourages other investors to follow suit, increasing collective pressure for transition. Companies divested under this measure are not permanently excluded and may rejoin the portfolio when they significantly improve their climate strategies and establish credible transition plans.

MEASURE #4: Investments in Climate and Nature Solutions

Direct investments in climate and nature solutions are crucial for scaling alternatives to fossil energy and technologies dependent on it. KLP has long maintained and achieved a target of at least NOK 6 billion in net new climate-friendly investments annually. Starting in 2024, this target will also include investments in nature-based solutions. These climate-friendly investments have already contributed to significant emission reductions, and continuing at the current level will reduce KLP's financed emissions by at least 4% by 2030. The actual avoided emissions in the economy are likely much greater due to the displacement of fossil energy.

MEASURE #5: Energy and Emissions-Efficient Real Estate Portfolio

Real estate investments constitute a significant part of the pension capital managed by KLP. The sustainability strategy for the real estate portfolio focuses on reducing energy use and emissions associated with operations (targeting an additional 37% reduction in emissions per square metre by 2030), cutting emissions from materials and renovations related to tenant changes or refurbishments, and achieving lower emissions in the development of new buildings (targeting a 50% reduction by 2030). KLP already has an energy-efficient property portfolio, and emissions from the real estate portfolio represent a marginal share of KLP's total financed emissions. However, emissions associated with procurement and new construction, currently not captured in climate accounts, must be addressed and reduced.

[10] The "high-emission sectors" prioritised for follow-up and climate-based divestment are defined by specific subsectors based on GICS classification. KLP has initially identified 35 out of 163 GICS sub-industries as its high-emission sectors.

[11] The initiative will primarily target companies included in the reference index for large global corporations (MSCI World Index Developed Markets), with divestment applied to KLP's broad equity and bond portfolios. This covers the world's largest companies (representing 80% of global equity markets) that have significant power to set market standards and influence regulatory development. The initiative may be expanded to larger portions of the portfolios if experience shows that it is both effective and financially viable.

[12] As a temperature rating, KLP will use data from MSCI based on their methodology for calculating the Implied Temperature Rise (ITR), or a comparable approach if experience or the development of "best practices" suggests otherwise. MSCI's methodology also accounts for portfolio companies' Scope 3 emissions. Missing company data is estimated, and inaccuracies, uncertainties, and variations in company data are reflected in the ITR values.