

Guidance for fund management companies' reporting on fund's carbon footprints

Adopted by the Board of Directors of the Swedish Investment Fund Association in May 2016, revised in December 2019.

Introduction

This guidance are voluntary for the members of the association and are applicable for the fund management companies that choose to calculate and report carbon footprints for their funds. The purpose of the guidance is to coordinate the fund management companies' way of calculating and accounting for carbon emissions for the companies in which the fund has invested, i.e., not the fund management company's own emissions.

Measurement methodology

The calculation method has been updated to be in line with the recommendations and framework of the Task Force on Climate Related Financial Disclosures (TCFD) from 2017.

The calculations should be made using greenhouse gas emissions data that meet a globally accepted model such as the GHG protocol¹.

The data shall include scope 1 (companies' direct emissions) and scope 2 (companies' indirect emissions from the consumption of electricity, heating or steam).²

Emissions should be expressed in terms of carbon dioxide equivalents (CO₂e).²

Asset classes

Carbon footprints can be calculated for both equity and fixed income funds as well as mixed funds.

Key ratios

When reporting the fund portfolio's carbon footprint, an intensity metric should be used to indicate the fund portfolio's exposure to carbon-intensive companies. Carbon dioxide intensity is measured as a portfolio company's carbon dioxide equivalents in relation to the portfolio company's revenue. The carbon dioxide intensity of a fund is calculated as the weighted average of the carbon dioxide

¹ Greenhouse Gas Protocol Corporate Standard (abbreviated to GHG Protocol). ² Reliable data are not yet available for other emissions such as emissions from the manufacturing processes of subcontractors, transport via vehicles not directly owned by the company, outsourced operations, waste management and energy consumption not covered by Scope 2.

² Carbon dioxide equivalents (CO₂e) is a unit of measurement that makes it possible to measure different greenhouse gases in the same way. Expressing the emissions of a certain greenhouse gas in CO₂e provides an indication of how much carbon dioxide would be required to produce the same climate impact.

intensity for each portfolio company in the fund, in accordance with the formula below. In the event that there are no emissions data or estimates for the entire portfolio, "Total value of the portfolio" shall correspond to the part of the portfolio for which there are emissions data.

$$\sum_n^i \left(\frac{\text{Current value of investment}}{\text{Current portfolio value}} * \frac{\text{Issuer's Scope 1 and Scope 2 GHG emissions}}{\text{Issuer's revenues (in the fund's currency)}} \right)$$

The key ratio shows the fund portfolio's exposure to carbon dioxide-intensive companies, expressed as the portfolio company's annual CO₂e in tonnes divided by the company's annual revenue in the fund's currency, allocated by portfolio weight, i.e., the value of the holding divided by the total value of the portfolio.

Coverage ratio

In order for the calculation to be possible, at least 75 percent of the portfolio's market value must be covered by either emissions data from the portfolio companies/issuers, or by qualified estimates.

Measurement date

The calculations should be updated at least once per year and be carried out for the fund's holdings as of December 31. If any additional calculations are performed, they should be carried out in conjunction with the fund manager submitting an external report for the portfolio, which makes it possible to follow up the calculations.

Reporting

The carbon footprint should be reported on the fund management company's website together with information about the source of the data, measurement methodology, coverage ratio and the date and frequency of the calculations, if these are performed more often than once per year. The following text, or text with similar content, should also be included alongside this information:

As the carbon footprint provides a basis for assessing certain climate-related financial risks, such as the price of carbon dioxide, it facilitates when compelling companies to reduce emissions, for example through requirements on emission reduction targets, risk management, business strategies and transparency. The metric should be viewed in the context of the fund management company's overall sustainability initiatives.

The carbon footprint shows a historical snapshot of the emissions from the companies in the fund's portfolio. The values will vary as the companies' emissions change, but also as the composition of the portfolio changes. Fluctuations in exchange rates also affect the metric.

Please note that the carbon footprint does not show the total climate impact of the investments, partly because:

- Only certain emissions are included. Indirect emissions from suppliers are not always included in the calculations, nor are the often extensive emissions that may result from the use of a company's products.
- The emissions data from companies are not complete.
- Only certain asset classes are measured.
- Savings of emissions through products and services are not included.
- Information about fossil reserves are not included.
- The metric does not provide any indication of how well a portfolio is positioned with respect to, or how it contributes to, a transition to a low-carbon society.

Carbon footprints should be used with restraint in marketing. If, however, the carbon footprint is reported independently, whether separately or in conjunction with other key ratios, for example in newsletters, advertisements, websites or other forms of marketing, as a minimum the following information or text with similar content should always be included together with the carbon footprint data:

"The carbon footprint provides a snapshot of what the carbon footprint of the portfolio looks like. The calculations are not comprehensive and indirect emissions are not included. The metric provides no indication of how the portfolio contributes to a low-carbon society. You can find out more about the metric at www.xxx" (reference to the full information above).