

Transition criteria and list of transition companies per the first quarter 2022

Introduction

Länsförsäkringar AB (LFAB) has adopted a 'climate smart vision'¹ in order to support the low-carbon transition and the Paris Agreement's objective to limit global warming. For asset management, this vision entails climate positive investment portfolios and funds, on aggregate, no later than 2045. An interim goal towards achieving this vision is to harmonise our portfolios and funds by 2030 with an emission trajectory equivalent to limiting climate change to 1.5 degrees Celsius.

In line with this vision, LFAB has introduced climate focused transition criteria. These criteria aim to identify individual companies in transition which over time can contribute to reducing climate impact. The transition criteria should be seen as complementary to the ESG-related [exclusion criteria](#). Länsförsäkringar AB's subsidiaries Länsförsäkringar Life Asset Management (Länsförsäkringar Livs Kapitalförvaltning) and Länsförsäkringar Mutual Fund Company (Länsförsäkringar Fondförvaltning) apply the criteria on direct investments in listed equities as well as corporate bonds.

The rationale for introducing transition criteria is that criteria based on revenue shares alone (e.g. 5 %) can in certain cases disqualify companies that have made a commitment and are in the process of transitioning. For example, some companies are in the process of shifting towards a more sustainable energy mix. It is likely that these companies over time reduce their climate impact significantly. This type of transition might not be identified by a backward-looking metric.

Transition criteria have been applied by LFAB on certain **utility/power generation companies** since 2019. Since 2021 transition criteria are also applied on certain **energy companies**. This means that LFAB *may* consider including and invest in companies, under certain conditions. Companies in scope are assessed through an integrated financial and sustainability analysis prior to the decision. The transition criteria per sector are described below together with a list of companies that fulfill them.

Specific transition criteria linked to utility/power generation companies

Länsförsäkringar AB may consider retaining companies with 5-20 % of revenue from thermal coal **power generation**² in our investment universe, if they fulfill any of the below criteria. To conclude whether certain companies are in transition an analysis covering the following is conducted:

- Commitments and whether science-based CO₂-emission reduction targets have been defined by the company;
- Forward-looking company specific CO₂-performance data and capital expenditures; and/or
- The company's energy mix regarding the revenue share from fossil fuels versus renewables (the share of the company's revenue from renewable energy production must exceed that from fossil fuels).

An analysis of to what extent the company's transition is in line with LFAB's climate smart vision is also conducted. The transition criteria for utility/power generation companies are dynamic as the underlying data from third parties is continuously being updated and reviewed. The list of companies considered to be in transition is therefore likely to change over time.

¹ Description of Länsförsäkringar's climate smart vision in Swedish via [link](#).

² Figures on revenue share are based on company information from S&P Global Trucost's database as per December 2021.

Power generation companies retained in the investment universe

The list of companies within Länsförsäkringar AB's reference indices (Global and Sweden) that fulfil any of the above transition criteria this quarter contains **5 companies**.

Although the below companies are retained in the investment universe, this does not automatically imply that Länsförsäkringar Life Asset Management and/or Länsförsäkringar's Mutual Fund Company invest in these companies.

Company name	Qualification criteria
CEZ, a.s.	Operations and CO ₂ -intensity are considered, based on underlying assessment from the Transition Pathway Initiative, to be within a maximum 2-degrees climate scenario.
China Longyuan Power Group Corporation Ltd.	Revenue share from renewable energy exceeds the revenue share from fossil fuel power generation.
ENGIE Brasil Energia S.A.	Revenue share from renewable energy exceeds the revenue share from fossil fuel power generation.
NRG Energy Inc.	Has a third-party approved 'Science based target' in relation to the Paris Agreement; AND operations and CO ₂ -intensity that are considered, based on underlying assessment by the Transition Pathway Initiative to be within the 2-degrees climate scenario.
Taiwan Cement Corp.	Has a third-party approved 'Science based target' in relation to the Paris Agreement.

Specific transition criteria for energy companies

Länsförsäkringar AB also applies transition criteria on selected **energy companies** as of the fourth quarter 2021.

To conclude whether certain energy companies are in transition an analysis covering the following is conducted:

- Commitments: whether science-based CO₂ emission reduction targets have been defined;
- Actions: strategic plans and direction, investments and the company's management of climate risk using data from [Transition Pathway Initiative \(TPI\)](#);
- Outcomes: the development of the company's CO₂ emission trajectory (trend) over time against what is necessary for the sector according to the Paris Agreement;
- Trajectory: for example forward looking data on emissions intensity over time.

An analysis of to what extent the company's transition is in line with LFAB's climate smart vision and related targets for emissions reductions over time is also conducted. The criteria as such should be seen as dynamic as data from third parties used in the assessment is continuously updated. The list may therefore change from time to time.



Energy companies currently assessed to be transitioning

No company within LFABs reference indices (Global and Sweden) currently fulfills the transition criteria for energy companies.