Report 2023

ACCORDING TO

Task Force on Climate-related Financial Disclosures

FORMUE

Content

FORMUE

Formue is a privately held financial life management company with 420 employees in 26 offices in Norway, Sweden and Denmark. The Group has approximately NOK 162bn under advisory services and management for clients and is the largest independent wealth manager in Norway.

Clients' capital is invested through external managers in listed equities, bonds and in alternative asset classes such as hedge funds, private equity and real estate: capital is spread across many different funds across asset classes, sectors and geographies. To best meet our clients' holistic needs, Formue has experts in the fields of tax, law, pensions, accounting, retirement planning, sustainability and art. The specialists are integrated into the customer relationship depending on the needs of the customer.

Formue's Sustainability journey

2017

- GRESB membership
- Norsif membership
- Equity fund carbon intensity reporting

Skift membership

2019

2020

- Target Operational Net Zero by 2025
- Client Sustainability reporting tool launch
- Skift climate report

Limiting emissions as Formue grows

CHRISTIAN DAHL
CEO

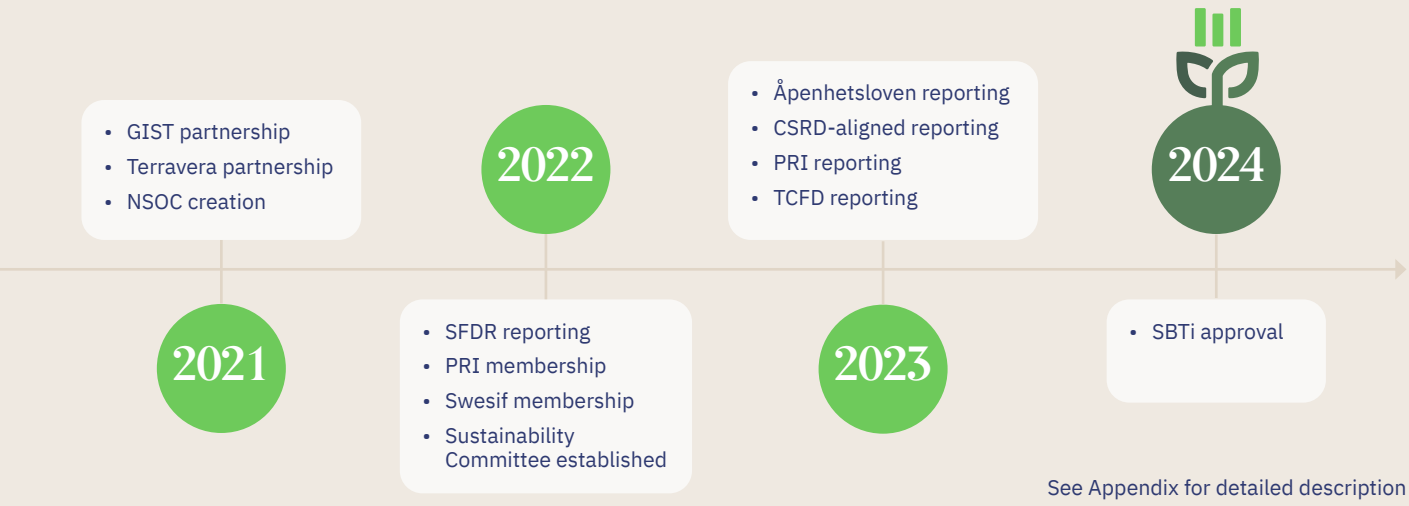
2023 was another year of rapid growth for Formue, with a net increase of NOK 18bn in AUM (+13%) and the opening of our first office in Denmark. With Covid travel restrictions ended, it was always going to be a challenge to limit our environmental footprint while executing on our plans for growth. This was seen globally, as the world's carbon dioxide emissions grew by 1.1% despite a wave of new companies (including Formue) setting credible Net Zero goals.

We are therefore proud to report that our operational emissions (Scope 1, 2 & 3) dropped by 7.6% in 2023 on the back of launching our new SBTi-aligned carbon reduction plan. This was formally approved in January 2024 and includes the liquid elements of our financed emissions. As one of just eight financial institutions in the Nordics to be approved, we view this as confirmation that Formue's transition planning is relatively advanced.

Sadly, this progress at Formue is against a background of increasing global evidence of physical disruption caused by climate change. Whether it be average sea temperatures, weather-related insurance claims, or human deaths caused by extreme heat, 2023 set a host of new records around the world.

Despite increasing regulatory and reporting obligations for financial actors, the ability to realistically assess these climate risks on our operations and (more importantly) financial assets, is still limited. Tools for assessing such risks are, however, improving every year and we hope this report will help shed some light on where we see the biggest risks, and what we and our partners are doing to help mitigate them.

TCFD reporting guidelines have now been adopted by ISSB, making this our last standalone report in this format. We will continue to report on climate risks in 2025 but likely as part of an expanded CSRD report, the 2024 version of which still focuses just on Formue operations.



See Appendix for detailed description

Executive Summary

Formue has always had a long-term outlook and a holistic view of how best to help our clients manage their wealth. This took a more climate-focused turn when Formue became an active member of Skift – the Norwegian business organisation to accelerate transition to a low-carbon economy – in 2019. We created the Nordic Sustainability Ownership Centre in 2021 to help embed sustainability in our clients' portfolios and, where relevant, their business and private lives.

Due to our size and growth, however, it was not until 2023 that we were able to report on how we include climate risks into our structure and strategy. This is our second such report, based on TCFD guidelines, and will update the reader on how we include climate-related risks into our business according to the four key areas of:

Governance – the oversight of climate-related issues at Formue

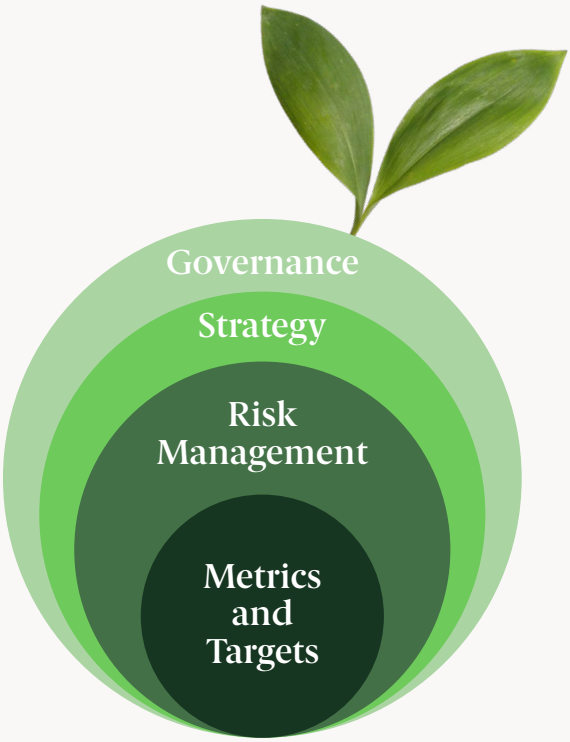
Strategy – how we plan for climate-related risks and opportunities

Risk Management – the ways in which we handle risks in Investments and Operations

Metrics and Targets – key figures we use to measure risks and Formue's own progress

As always, it is important to differentiate in this report between climate risks pertaining to our operations and our investments. When considering our planning for Net Zero and our assessment of transition or physical risks, these are two distinct areas. Within operations, we can have the fastest impact, as has been seen with the speed in which some categories of emissions have fallen over the past year.

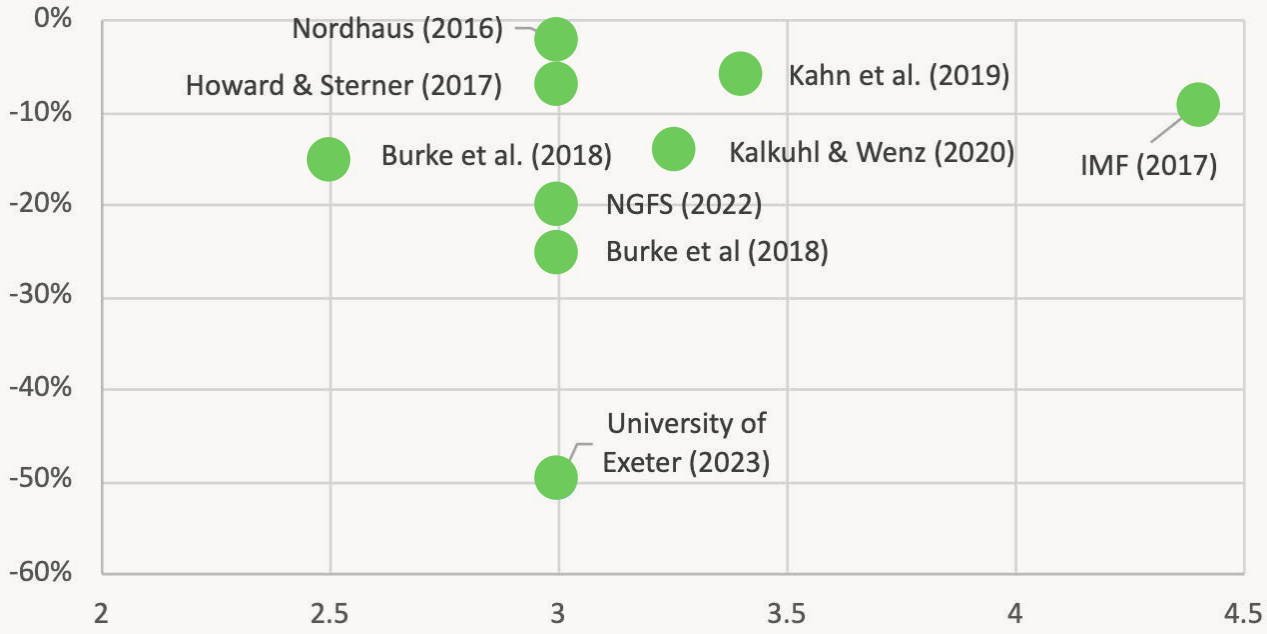
But our operational emissions for 2023 (693 tonnes CO2e) pale into insignificance compared to the impact from our clients' investments at end-2023 (c.2.8m tonnes CO2e excluding Hedge funds) and the potential value at risk here from climate change.



Although we shall attempt to provide more quantitative and detailed information around these risks and opportunities than we did last year, it is still a challenge to find both the relevant data for our wide range of asset classes, and any consensus on what the financial implications will be. This is certainly the case when aggregating portfolios from a "bottom-up" view of climate risks, but even for a more simplistic "top down" approach based on portfolio emissions.

As reported in "The Emperor's New Climate Scenarios" (July 2023, Exeter University and the Institute and faculty of Actuaries) many of the most common climate scenarios used in financial modelling exclude material real-world impacts: "some models implausibly show the

Estimate of Global GDP losses from rising temperatures



Source: Formue

hot-house world to be economically positive, whereas others estimate a 65% GDP loss". With this kind of divergence, it's very hard to choose a starting point for global growth impacts (see above for summary of some academic GDP scenarios since 2017).

But the challenge is not only in assessing likely impacts of climate change on global GDP, it's also how these will affect financial valuations. Given the uneven distribution of economic effects around the world, its relatively meaningless to take a 'global' view of these impacts. As some reports have shown, the impacts will also differ greatly by sector, depending on the timing of spending on mitigation rather than adaptation. With such a huge range of outcomes, the process must still be viewed as an assessment of possible outcomes rather than claiming to predict hard results.

Whats new in the 2023 Report?

Some elements of this report are unchanged versus 2022, but we would advise the reader to focus on the following updates:

Describe the Board's oversight of climate-related risks and opportunities

Governance

The Formue AS Board meets monthly and will include any sustainability-related issues when required. This includes approval of any binding targets (such as SBTi-linked emissions reductions commitments) and signing-off on public reports (such as the PRI and SFDR Pre-contractual disclosure).

The Executive Board (F1) has more regular and direct oversight of climate related risks and opportunities within Formue. Most F1 members are part of the Sustainability Committee (SusCo), which also includes Formue's sustainability advisors and compliance representatives. This meets at least quarterly and will react to, or suggest action to, the sub-committees responsible for sustainability within Operations, Investments, and Client-facing roles (see chart).

The SusCo is responsible for approving internal policies to do with sustainability, such as Formue's Sustainability Policy, Supplier Code of Conduct, or Diversity & Inclusion. It also has responsibility to communicate key issues up to F1 and the Non-Executive Board.

	SusCo	Investments SusCo	Operations SusCo	Client-side SusCo
Members	• Sustainability Advisor • CEO • CIO • CFO • Head of FWS (Family Wealth Services) • Strategy Head	• Sustainability Advisor • IR senior manager/ Investments COO • IR Reporting Manager • Asset Class reps*	• Sustainability Advisor • HR Representative • CTO • Ops Reporting Manager • Office Managers	• Sustainability Advisor • Design Thinker • Business Compliance • Wealth Managers • Marketing
Compliance				

* Rotating reps depending on needs/ agenda

Formues sustainability team (NSOC): Philip Mitchell, Fridtjof Wergeland, Helena von der Esch

Describe management's role in assessing and managing against new and former commitments climate-related risks and opportunities

These Sustainability Committees are a forum for discussion but mostly decision making. They operate as an effective tool for setting priorities and ensuring information flow within the organisation. The Board will be involved in any decision about new climate-related products, regulatory alignment, or strategic decisions, both for its investments and as an operating entity.

2023 was a year which saw further progress in how we embed sustainability into both operations and investments, with the Sustainability Committee involved in a number of key decisions. As can be seen below, some of these were related to obligatory SFDR regulations, while others invoved taking a proactive approach to transition planning and CSRD reporting.

	Actions	Management role
CSRD reporting	In preparation for when CSRD will be obligatory for large EU companies in 2026, we started reporting along these lines for our operations in 2023 (based on calendar 2022). This report will eventually be extended to include financed emissions and the ISSB equivalent of TCFD reporting.	Following agreement from the CEO and SusCo, the CFO was responsible for preparing and publishing the relevant data, with input from Sustainability advisors. Senior management (along with other stakeholders) were also required to approve the new double-materiality assessment which will guide our KPI reporting in the future.
CO2 emissions reductions	Commitment to an SBTi-aligned Net Zero target saw implementation through 2023 prior to final approval. In particular, key hotspots (IT purchases and Electricity in offices) saw material improvements.	The CEO and CIO were both important elements in not just approving the new Net Zero plan, but also implementing changes. This involved raising the profile of new initiatives across the firm and helping educate investment teams in new requirements.
Fund manager reviews and SFDR reporting	Partly inspired by our new SBTi goals but also by regulatory requirements under SFDR, we enhanced our fund manager review process. This is now more data influenced, helping to analyse changes in Principal Adverse Impacts, with annual reporting via an Entity Statement.	To align SFDR reporting with our wider Net Zero goals, the CIO approved an approach which shares similar KPIs. Although not formally approved by the Board, feedback on annual SFDR reporting is included in SusCo discussions with the CEO.

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term

Strategy

Business Strategy

This relates to the operating assets at Formue: our offices, suppliers, and clients. Given the relatively smaller scale of our footprint compared to investments, the risks and opportunities here are less significant longer-term, but our ability to impact mitigation and adaptation is greater near-term.

Business Strategy

	Risks	Opportunities
Transition	Investments required in new talent, processes and reporting mechanisms Regulatory uncertainty and compliance requirements preventing longer-term investments for growth Less scrupulous competitors misleading clients over ESG claims to gain market share	Cost savings from lower emissions policies, notably in reduced transport costs and IT spend. Employee retention and attractiveness to new hires based on sustainability credentials Innovation boosted throughout the business by willingness to adapt to climate change and improve sustainability processes
Physical	Potential supplier redundancy (and client wealth impairment) from extreme weather events Cost inflation as a result of supply-chain disruption (including insurance costs).	Population growth (and likely economic growth) in more temperate northern Europe Access to plentiful renewable energy and an innovative, transparent supplier environment should reduce costs.

Thanks to the recently released report by the UN Environment Program, there is new data around shorter-term climate risks which is pertinent to the risks and opportunities from Formue's geographic exposure. The majority of our client base is in Norway, a major producer of fossil fuels, with all the resulting risks around commodity prices and potentially stranded assets. But we also have significant exposure to clients and investments in Sweden which has an existing carbon tax (one of the highest in the world) and one of the lowest exposures to carbon dioxide emissions. There are therefore very different potential outcomes for our customers' wealth to different macro shocks.

Cumulative GDP Impact by 2027

	Sweden	Norway
Carbon Price shock	– 1.3%	– 0.7%
Green spending shock	5.4%	2.5%
Stranded assets shock	– 5.0%	– 8.2%

Source: UNEP/ NIESR Short term Climate Scenarios Tool

Investment Strategy

Our clients tend to take a very long-term perspective for their wealth and this gives us a wider array of options in which to invest. This is reflected in the relatively high share of illiquid 'real' assets in the portfolios of most clients. On average 30% of a client's assets are held in a combination of Private Equity, Real Estate, Private Credit and Hedge Fund portfolios where there is no daily, weekly, or even monthly liquidity.

Our asset allocation does not specifically reference climate scenarios in its decisions, and analysis of such scenarios is not a part of our due diligence with external managers. Given the relative lack of data for some asset classes, and the fact that we are more distanced from the underlying assets (by using 3rd party managers) this is an area where we need to improve our visibility.

But climate change certainly presents risks and opportunities to our investments and potential assets under management, and below we have broken these down into Transition risks and Physical risks.

Investment Strategy

	Risks	Opportunities
Transition	Some clients do not believe in and/or want to invest sustainably – we must respect their views. Reputational risks if we fail to deliver on our commitments. Lack of data and regulatory uncertainty increase the risks of inadvertent greenwashing.	Potential inflows from clients unable to source suitable investments directly. Access to long-term committed capital makes us a more attractive investment partner. Increased investment opportunities across a wide range of sectors and geographies as a result of new technologies and services. Innovation in asset classes provides both investor interest and risk-hedging.
Physical	Extreme events increase the chance of asset destruction and redundancy of existing services. Tipping points are hard to predict and can distort all insurance/ risk models. Most primary capital investment options are very illiquid and cannot be exited quickly.	Increased due-diligence and disclosure around climate-change preparedness should generate alpha in portfolios. Purchase of assets where engagement and climate mitigation can offer valuation upside (notably in equities and real estate) Geographically agnostic investment strategy means capital can be shifted to regions with least risk (and away from those with greatest risk)

The UNEP/ NIESR Short term Climate Scenarios Tool has no data for the impact on equity prices in Norway, but the net impact of a Carbon Price, Green spending boost, and Stranded assets could still reduce Swedish equity prices with 53% by 2027, according to the report. We can assume the Norwegian local indices, with circa 30% exposure to fossil fuel companies, would be far more impacted by the above shocks. Even though we attempt to provide consistent financial returns to our clients in both countries, it will be a challenge over time with this divergence between Swedish and Norwegian markets.

Describe the organisation's processes for identifying and assessing climate-related risks

Risk Management

Operational Risk

Operational Risk is handled by the Compliance & Risk (C&R) team at Formue. Operational risk is the specific risk to Formue that does not involve the financial, systematic or market general risk; it is the risk a company is left with in its internal processes, people and systems.

The C&R team work actively with risk management to ensure that the company operates with the right level of operational risk. We use Synergi, a tool for risk management, risk mitigation, reporting operational errors and handling deviations from controls. Together with the divisional teams, we identify risks and advise management and process owners where they are most at risk.

A climate risk report commissioned this year from AXA Climate 'Altitude' confirmed that physical operational risks at Formue are limited, with the most likely being to our office buildings from more extreme rain, landslides and storms (included in the "5 out of 16" high or moderate physical risks to which Formue is exposed).The greatest climate transition risk highlighted in the report was 'Increased Pricing of GHG Emissions' which is something we will come to in the 'Financed emissions' section. Similar outcomes for Scandinavian countries generally are also apparent from risk-modelling on NGPS scenario software.

Climate physical risks	**5**/16
Climate transition risks	**1**/3
Biodiversity risks	**2**/4

Source: Executive summary of AXA Climate 'Altitude' report

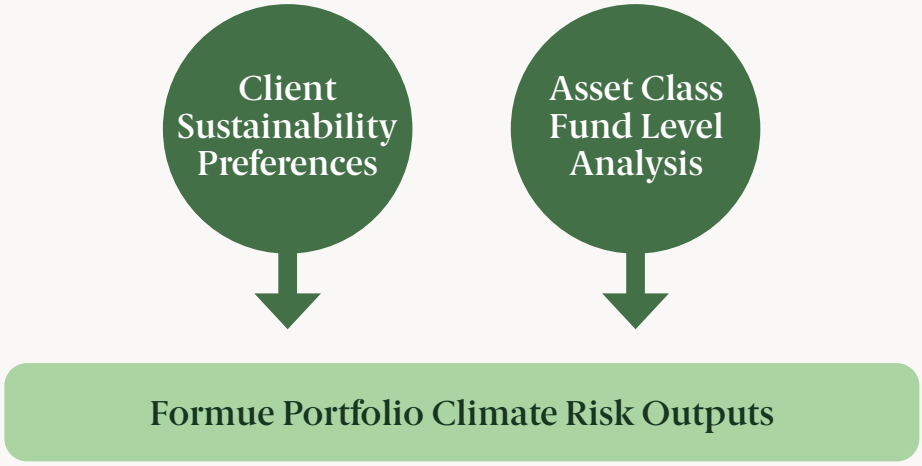
As part of our engagement with suppliers, to better understand risks in our supply chain and accurately report to Åpenhetsloven (a Norwegian law governing supply chain sustainability) we now expect suppliers of services and equipment to provide information about their own emissions and whether they have plans in place to reduce these emissions over time. As a result, it has become easier to see where climate-related risks lie in the supply chain, how this might affect our operations, and attempt to offer remedial action.

Investments Risk

Formue has an implicit responsibility to provide the best possible risk-adjusted returns for its clients over the long-term, and these risks are often related to sustainability issues (usually described as one or more of Environmental, Social or Governance factors). It is therefore vital that risks associated with these are incorporated into our investing process.

Within investments, analysis of Climate-related risks is still mostly an output from our portfolio construction, rather than an input. We use the MSCI Climate Risk Dashboard to track such risks but this only feeds off our liquid assets (c.70% of total AUM) and is primarily used for its Temperature Alignment function, ie the pathway for reducing GHG emissions.

The first element affecting sustainability risks in the portfolio is to map the clients' own wishes - 'Sustainability Preferences'. Do they want to rely on an exclusions-based strategy, our standard Article 8 portfolio, or a portfolio with extra focus on the Environment and more sustainable investments? This sets the boundaries for their portfolio.



The second element of sustainability risks is the asset class mix and choice of funds within each asset class. Formue itself is not responsible for the day-to-day stock-specific composition of its funds, but relies instead on due diligence and review meetings with fund managers to ensure that sustainability risks are being considered appropriately. Given our core belief in "financing the transition" which will allow the global economy to be Paris Aligned with less than 2 degrees of warming, we have a specific focus on how fund managers view transition risks and opportunities and incorporate them into their process.

This review of external managers takes the following path:

Sustainability is integrated in the investment process

1. First evaluation	2. Introduction meeting	3. Analyses	4. Negotiations or structuring	5. Continuous follow-up
Sourcing and screening	**Identification of potential improvements**	**Detailed review of ESG policy**	**Side letters; mandate agreements**	**Engagement to bring about change**
• Investment process • Transition risk / opportunities • ESG solutions focus • Are social factors covered • Can we engage with this manager	• Is there a formalized ESG policy • Is ESG integrated into the process • Does transition risk have a central role in the process • Is diversity taken seriously	• Evidence of systematic use of objectives, data, measurement • Use of best practice standards • Memberships and regulatory classifications	• Carbon data requirement in private equity and real estate investments • Managed accounts used to achieve structural objectives in certain public market investments	• Use of data in the on-going evaluation wherever possible • Proactive follow-up based on internal evaluation objectives • Formue classification objectives

Fund managers are classified according to their integration of ESG, based on a series of KPIs. The classification is based on a thorough evaluation of the manager's ESG commitment, integration, and leadership across multiple dimensions including:

- the presence of a formal ESG policy
- the integration of ESG metrics throughout the investment process
- alignment with global frameworks like PRI and TCFD
- a focus on sustainable transitions and solutions.

Additionally, it evaluates the manager's leadership in areas such as Sustainable Development Goals (SDGs), B-Corp incorporation, innovative social impact reporting, and thought leadership in academia.

Review meetings occur at least annually and Formue engages in ongoing dialogue with managers with the aim of influencing the development of their process. Notably we encourage fund managers to engage with portfolio companies to set transition plans. Since the introduction of SFDR in 2022, these meetings will also include discussion of the key KPI's which Formue uses to report and align with SFDR, notably:

- GHG-related Principle Adverse Impacts (PAI) and
- the share of the portfolio which has set an approved Science Based Target (SBTi).

By tracking changes in PAI scores and maximising exposure to SBTi-approved companies (ie those with a clearly-defined, audited transition plan) sustainability risks related to global warming should be minimised.

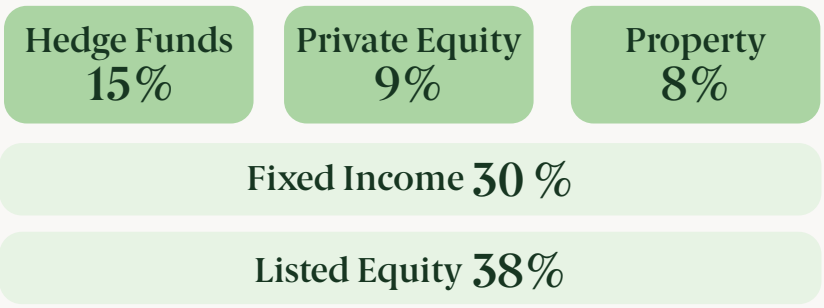
Our intention had been to increase due diligence around TCFD reporting from 2024, with greater engagement on climate risk reporting and how it is integrated into the fund manager's process. As the TCFD has now disbanded and reporting requirements shifted to other accounting standards, this process has been delayed. However we have still compiled figures on TCFD reporting by asset class (see Metric and Targets below).

For non-environmental factors, we rely on good governance to indicate risk reduction. We require that external managers have clearly articulated good governance principles (in line with OECD norms) and respond to our annual reporting questionnaire (sent to all operational and investment suppliers). We will not invest with a fund manager whose process and portfolio breaches UN norms and conventions.

Asset Class Specifics

At each asset class level, the responsible teams take account of climate risks via more qualitative methods. Each team operates within very different timeframes for their investments, and therefore incorporates climate risks in different ways.

Share of Formue AUM by Asset Class (end 2023)



Equities & Bonds

Formue's Equity and Bond funds follow the previously outlined method for analyzing climate and transition risks during due diligence. In addition to the standardized process, they are able to base their monitoring of the funds through a more quantitative approach based on SFDR PAI (Principal Adverse Impact disclosures under the Sustainable Finance Disclosure Regulation) data from the funds. The teams conduct analysis based on quarterly data, including 14 mandatory and 2 optional PAI indicators, which are compared to a relevant benchmark to our funds. Dedicated meetings with our fund managers are set up on a yearly basis, where we discuss their worst performing assets in terms of these indicators. We expect external managers to be able to explain why 'hotspots' of negative impact exist in portfolios, and how they will be reduced over time (normally within two years).

Private Equity

Our private equity (PE) investments have a longer-term horizon due to the illiquid nature of the investments. Climate and transition risk focus is emphasized here as the committed capital will be locked in for a longer period of time. For example, since 2016 we have not invested in any new private equity funds with upstream fossil fuel exposure given the long-term nature of these investments.

Formue is active on several advisory boards where the team is able to influence the handling of transition risks and ESG goals of the individual funds. Additionally, carbon data is always requested from the funds as part of our side letters (although this does not always include Scope 3 data and is sometimes more challenging for smaller funds). The PE team produces engagement follow-up plans based on the areas of improvement that have been identified in the due diligence process.

Real Estate

Our real estate investments also have a longer-term focus, meaning climate risks and their potential impact on valuations have been an important consideration since 2018, when Formue joined GRESB (Global Real Estate Sustainability Benchmark). This longer term perspective allows us to make a meaningful impact by investing in funds adapting to climate risks, i.e. those dedicated to acquiring and renovating old buildings, ultimately raising their environmental standard. This typically includes improving the standards for water usage, waste handling, and carbon emissions. As will be seen in the Metrics reporting section below, we now use GRESB more actively to assess a variety of sustainability factors of our real estate funds, and coverage within Europe is already high (44%)

Hedge Funds and Private credit

Hedge funds tend to provide our clients with lower volatility returns and can operate within a range of time horizons – from high-frequency trading to holding long-term positions.
Their wide range of often complex financial instruments means that it is hard to report on their characteristics consistently or to track climate and transition risks. Some hedge funds will analyse climate and transition risk related issues and attempt to find related arbitrage opportunities. As such, Formue's due diligence and follow-up process is limited to the wider Governance-related issues.

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

Metrics & Targets

Like many financial advisors using external fund managers, data availability is a key challenge. As such, we have chosen to initially focus on a few measures where we are confident we can adhere to the TCFD's own guidance on what makes metrics useful to report on climate-related risks:

- Decision-useful
- Clear and understandable
- Reliable, verifiable and objective
- Consistent over time

As previously disclosed, 2022 saw Formue shift its sustainability targets in recognition of changes in definition (for example Net Zero vs Carbon Neutral) but also to align our goals with a sustainable philosophy based on Transition rather than straight-line carbon reduction.

As a result, we now have the following KPIs driving our climate-related risk assessment:

	KPI
Investments emissions	Increase SBTi coverage of liquid portfolios from 23% in 2022 to 45% by 2027
Operational Carbon Neutral	Carbon Neutral by 2025 and a 65% reduction in Scope 1, 2 & 3 emissions by 2027.
SFDR reporting	Reduction in negative Principal Adverse Impacts from GHG-related factors and increase in companies with transition plans.
TCFD reporting and/or support	Coverage of external fund managers reporting or supporting TCFD

SBTi coverage

2023 saw portfolio coverage of companies with approved Science-based targets increase to 28,2% within liquid assets (23% in 2022), in line with our 5-year plan to reach 44,5% by 2027 across both equity and fixed income.

However, this was not an even development, with Equities responsible for much of the heavy lifting (coverage increased from 33% to 41%) while Fixed income coverage actually reduced slightly (see below).

Approved SBTi coverage

	2022	2023	(2023 plan)	Diff
Total in Scope	23.1%	**28.2%**	27.4%	0.8%
Equities	33.1%	**41.1%**	36.8%	4.3%
Fixed income (excl sovereigns)	9.1%	**8.9%**	14.2%	– 5.3%

The change in mix of asset classes played a role in this shift, with Equities increasing their share of AUM compared to 2022, and some fund changes within Fixed income hurting the average coverage. We would hope that SBTi approval still implies better transition planning of our portfolio companies, but carbon intensity is still an important measure for us to assess their exposure to short-term risks like carbon taxes.

Operational Emissions
See details on next page

SFDR Reporting
See SFDR Entity statement on Formue's website

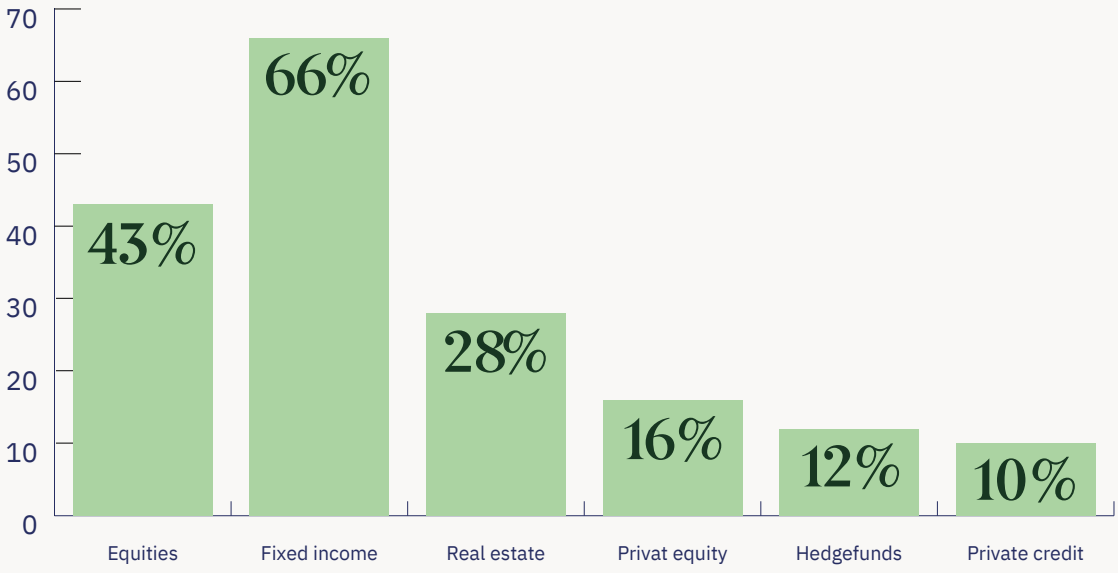
TCFD reporting by our fund managers
TCFD itself does not report information publicly on which fund managers report to TCFD guidelines, but we have attempted to compile a list from web disclosures. The following chart shows our coverage by asset class which correlates fairly closely with the challenge around gathering consistent data more generally.

It is impossible for us to know how this compares to the entire industry, but a 2023 survey from TCFD sent to 1500 asset managers and asset owners received only 150 responses, implying that less than 10% of the industry is engaging on this subject. In that context, we believe our levels of TCFD-alignment are likely far higher than the average.

31 %
Of Formue´s asset managers report to TCFD

42 %
Of AUM is with asset managers reporting to TCFD

% TCFD reporting per asset class 2023



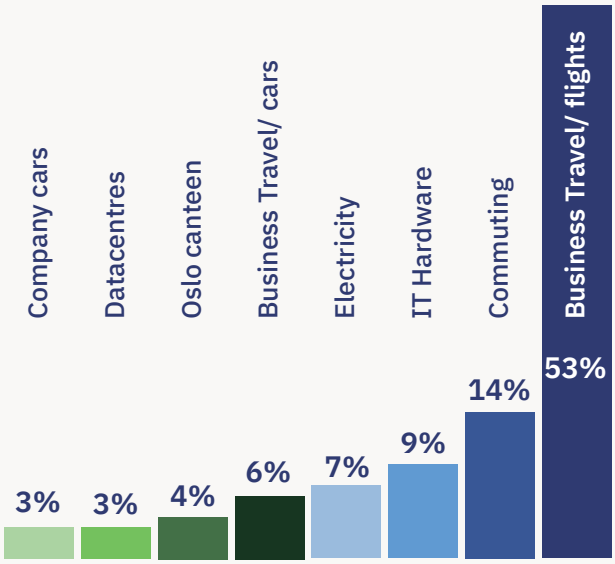
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

Operational emissions

Formue's operational GHG emissions for 2023 totalled 693 tonnes and are broken down below, together with a table showing Scope 1, 2, 3 and the key changes vs 2022 and our SBTi-approved plan for carbon neutrality by 2027.

As can be seen below, the net result for 2023 was that our reductions were almost exactly as planned (–7.5% yoy) but achieved in different categories than expected, with Business Travel (notably flights) rebounding hard post Covid restrictions lifting. This is a key focus for us in 2024 with the roll-out of a more advanced ticket booking system which makes it easier to book flights with biofuel, and internal education around the updated Travel Policy.

Operational GHG Breakdown: 693 tCO2e



	2022	2023 Actual	2023 plan	Difference
Scope 1 (Company cars)	18	17	15	2
Scope 2 (Electricity)	116	49	115	– 66
Scope 3 (excl Financed Emissions)	**616**	**627**	**559**	**68**
incl. Business Flights	182	367	167	200
incl. IT Hardware	201	65	155	– 89
incl. Office Furniture	36	11	40	– 29
Total	**750**	**693**	**689**	**4**

Financed Emissions

This report is based on client assets of NOK 90.8bn. This includes all assets in Formue custody ("Formue Depot") where we have some influence in allocation. It excludes cash, Hedge fund investments and assets outside of our discretion. We have made progress in measuring GHG emissions from our investments over the past 12 months but are still reliant on estimates in many cases. The reporting for liquid assets remains the most comprehensive and is the focus for our 5-year SBTi goals. However we are now actively engaging with both data providers and asset managers in Real Estate and Private Equity to improve data availability for these asset classes that together account for c.16% of our total AUM (even higher including committed capital).

Definition and breakdown of emissions by asset class

Asset Class	Listed Equity	Corporate Debt	Sovereign Debt	Private Equity	Real Estate	Hedge Funds
Methodology	PCAF	PCAF	PCAF	PCAF	PCAF	N/A
AUM Date	12/31/23	12/31/23	12/31/23	12/31/23	12/31/23	
Scope (footprint)	1, 2 & 3	1, 2 & 3	1, 2 & 3	1, 2 & 3	1, 2 & 3	
Scope (intensity/ USD m)	1 & 2	1 & 2	1 & 2	1 & 2	1, 2 & 3	
Data Provider	MSCI	MSCI	MSCI	MSCI (Burgiss)	GRESB/ Direct	
						Total
AUM (NOK bn invested)	41.9	28.0	3.2	10.7	7.2	90.8
tCO2e	1,513,008	965,043	95,154	204,816	7,334	2,785,355
tCO2e/ USD m	37.5	67.1	250.9	22.9	11.1	50.2
PCAF Score	2.3	2.2	3.9	3.9	3.6	2.6

All emissions intensities reported in USD assuming an exchange rate of NOK 10,7/ USD for 2023.
Real estate emissions include estimates for 55% of investments: assumed intensity of 12t CO2e/ USDm invested, a 20% premium to reported emissions. Sovereign debt emissions excluding LULUCF and using production-based emissions.

For Private Equity, we now report with data from MSCI (previously Burgiss) who appear likely to rapidly increase coverage of reported data from GPs in the coming years. For Real Estate, we have extended our use of GRESB data, where c.45% of our portfolio holdings now report accurate emissions data. In both cases, we are now actively encouraging our external manager partners to report. Over time, we would also hope to extend our reporting from these sources to include other environmental factors, not just GHG emissions.

Emissions from sovereign debt are calculated based on the methodology of Production excluding LULUCF (land-use, land-use change, and forestry) given the discrepancies in adjustments made for these factors between countries. We have not reported sovereign emissions based on Consumption data, despite PCAF (Partnership for Carbon Accounting Financials) recommending that this is tracked and, in many countries, can be a material difference. For example Swedish consumption-based emissions are c.79% higher than production-based. For US Treasuries (the biggest holdings in our funds) this would equate to c.10% higher emissions.

The greatest reporting challenge remains in Hedge funds: not only are the assets often invested in derivative instruments where there is no recognized methodology for carbon accounting, but also the rapid turnover of these holdings renders any emissions at a fixed point in time relatively meaningless. As such, our climate-risk assessment for these assets is likely to remain focused on how well our asset managers take into account climate risk in their process, rather than providing us with a 'hard' figure for CO2e emissions and associated sensitivities.

Financed emissions vs 2022

Given all the above limitations on our reporting of emissions, it is only in the liquid space (equities and fixed income) that we are able to report on changes in 2023 compared to the prior year. However we are pleased with the progress made here, despite a 4% y-o-y increase in emissions (scope 1,2 & 3). This compares to a 15% increase in AUM for these asset classes, and reflects a reduction in carbon intensity in all three: equities, corporate debt, and sovereign bonds.

Year-on-year Emissions (Scope 1,2 & 3 tCO2e)

	2023	2024	Change yoy
Total	**2,473,077**	**2,573,205**	**4%**
Equities	1,181,869	1,513,008	28%
Corporate Debt	1,184,581	965,043	–19%
Sovereign Debt	106,627	95,154	–11%

Year-on-year Intensity (Scope 1,2 CO2e/ USDm)

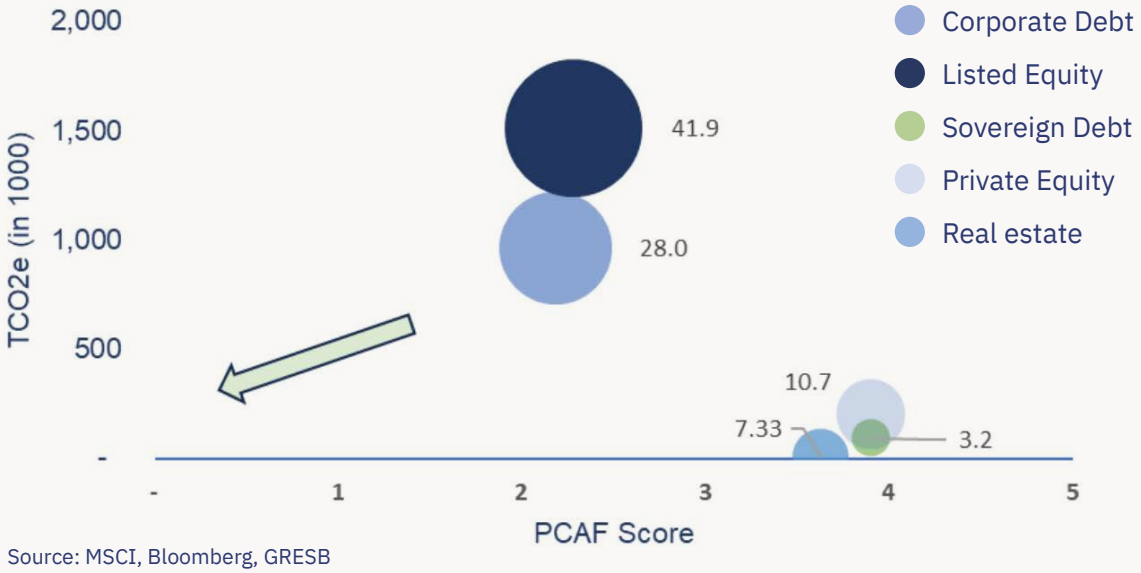
	2023	2024	Change yoy
Total	**80.2**	**58.1**	**–27%**
Equities	43.7	37.5	–14%
Corporate Debt	105.9	67.1	–37%
Sovereign Debt	284.5	250.9	–12%

Source: MSCI, Bloomberg

PCAF Score

In most cases we now have data clarifying where GHG figures rely on emissions factor estimates instead of reported numbers, and can track progress from one to the other in future. We have also adopted the PCAF Scoring methodology (below) to give more granularity on where data gaps exist. Over time, the intention is clearly that a greater share of our Aum (reflected in the size of the bubbles) will move down and to the left as shown by the arrow below, with lower emissions and greater accuracy over their reporting.

Carbon Data Quality Across Asset Classes



Source: MSCI, Bloomberg, GRESB

For listed assets, we have used MSCI's definition of PCAF scores, which was suprisingly high for sovereign debt, reflecting uncertainty around the level of country emissions. For Private Equity and Real Estate we have calculated a PCAF score based on share of reported vs estimated emissions.

Carbon pricing risk

Apart from the various physical and transition risks to the companies (and countries) in which we invest, the biggest risk from the emissions above is likely financial in the event of a globally coordinated carbon tax. Although a global tax is unlikely, the EU's recent introduction of a Carbon Border Adjustment Mechanism and various country-specific carbon taxes is a sign of how this could become more widespread over time.

At an operational level, such a tax would have an impact on our costs that would be fairly immaterial in the context of our group operating profits (less than a 1% hit). It could however pose a material impact on many companies in our client portfolios, with reduced profits from paying such a tax and "internalising" their CO2 externalities. As an example, based on the total emissions (scope 1, 2 & 3) calculated above, and a theoretical carbon tax of USD75/tCO2e, the implied hit to asset values would be c.NOK2,2bn, or roughly 2% of the AUM to which it relates.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

The key targets used to manage any long-term risks are the same as those we will be reporting on to map our progress towards Paris-Aligned activities. That is to say:

- Reduction in CO2 emissions from our operations (including all relevant scope 3)
- Increasing coverage of our portfolios with Net Zero-aligned companies
- Reduction in negative PAIs in our portfolios, coupled with greater evidence of companies with transition plans.
- Setting of plans to reduce non-financial emissions, notably in business travel, electricity use, and procurement of IT (responsible for 70% of total operational emissions).
- Internal and external education of investment teams around the new SBTi-based coverage targets.
- Reporting to SFDR and Åpenhetsloven for the first time, with clear benefits for our business in terms of improved visibility around climate change "hotspots", both in our supply chain and investments.

2023 was the first year we had a quantified baseline (for 2022) and that we set such goals, meaning that it is difficult to quantify any progress towards these goals so far. However, some qualitative feedback from 2023 would include:

Given ongoing developments around the EU's SFDR framework, and potential changes regarding definitions of sustainable investments and funds, this may be an area where our targets and reporting needs to adapt, but we shall attempt to keep it as consistent as possible.

Appendix

Areas of Disclosure Recommended by TCFD but not specifically included in this report.

Strategy: Describe the impact of climate-related risks and opportunities scenario analysis on the organisation's businesses, strategy, and financial planning

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a +2°C or lower scenario

Risk Management: Describe the organisation's processes for managing overview of our risk management climate-related risks

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Description of acronyms and organisation names

Åpenhetsloven – Norwegian law on supply-chain reporting

CSRD – EU Corporate Sustainability Reporting Directive

GIST – Platform for measuring and quantifying Impact

GRESB – Global Real Estate Sustainability Benchmarking organisation

NSOC – Formue's own Nordic Sustainable Ownership Centre

Norsif – Nordic Sustainable Investment Forum

PCAF – Partnership for Carbon Accounting Financials

PRI – UN Principles for Responsible Investing

SBTi – Science Based Targets initiative (Net Zero goal-setting)

Swesif – Swedish Sustainable Investment Forum

Skift – Norwegian organisation of businesses looking to lead on climate action

Terravera – Non-profit platform to model sustainable value chains

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