

Norfund's TCFD Disclosure 2022

Governance

As part of our strategy, Norfund observes certain cross-cutting issues in our investment activities. Norfund's work on cross-cutting issues is regularly reported to the board of directors, including an annual review on climate. Climate risk is also discussed in the "Risk and Audit Committee", a sub-committee of the board of directors designed e.g., to oversee risk management in Norfund.

At management level, Norfund's Climate Position informs strategic investment planning and is embedded within portfolio management processes. Climate-related risks and opportunities are assessed as part of the investment process. The responsibility for these assessments lies with the investment teams and ultimately with the head of each Investment Department.

In 2022, climate risk was included in [Norfund's risk appetite statement](#). Climate risk is further integrated into Norfund's overall enterprise risk framework and risk catalogue with designated risk owners.

Strategy

Norfund's investment strategy directs how we work to achieve our mission, which is to create jobs and improve lives by investing in businesses that drive sustainable development. Climate-related risk is a threat to achieving our mission as both physical and transition risk may challenge the sustainability and profitability of our investees. On the other hand, climate-related opportunities can generate new investment and value creation opportunities for Norfund and our investees. Norfund's mandate suggests that we are willing to accept climate risk that is inherent to the markets we operate in. We seek to mitigate the climate risk at investment level by building capacity and support our investees to manage climate impacts, reduce financial risk and seize climate-related business opportunities where relevant.

Climate risk in our portfolio is driven by two main factors: the *characteristics of the sectors* we are exposed to, and the *physical location* of our investments.

- Sectors:** Norfund is heavily invested in sectors that are exposed to physical risks. Around 47% of our portfolio (as of 31.12.2022) is in sectors that are particularly vulnerable to physical climate risks: physical infrastructure (such as power production, transmission and manufacturing) and agriculture investments. Key climate risks include damage to infrastructure and supply chain disruptions due to weather related events, and reduced crop yields or productivity due to chronic or acute weather changes. We are less invested in sectors that are, all else equal, more exposed to transition risk due to our Fossil Fuel Exclusion list and our strategy.
- Geography:** Norfund targets countries where capital is scarce, and investments have high impact potential. One of Norfund's strategic KPIs is investing at least 33% of our portfolio in the Least Developed Countries (LDCs). As a result, Norfund is exposed to countries highly vulnerable to climate change. We estimate that 77% of Norfund's portfolio is in countries with high or very high physical risk scores according to [Notre Dame Global Adaptation Initiative](#)'s country scoring, and low capacity to deal with it.

Investment Area	Sub-sector	Main risks		Main opportunities
		Physical	Transition	
Clean Energy	Renewable Energy	<ul style="list-style-type: none"> * Risk of HSE events related to weather events, especially affecting outdoor workers * Risk of damage to infrastructure and/or disruption in operations due to weather-related events * Risk of disruptions in the value chain (e.g., grid outages, supply chain shortages) due to weather-related events * Risk of lower production/efficiency and/or higher O&M costs due to gradual changes in climate conditions (e.g., lower wind speeds) 	<ul style="list-style-type: none"> * Risk of stranded assets due to rapid cost-down and technology development in the sector 	<ul style="list-style-type: none"> * Increased demand for clean energy and associated low-emission products (e.g. green hydrogen, large scale battery storage)
	Gas	<ul style="list-style-type: none"> * Similar to Renewable Energy 	<ul style="list-style-type: none"> * Risk of stranded assets * Reputation risk 	
Green Infrastructure	Waste and water	<ul style="list-style-type: none"> * Similar to Renewable Energy for investments involving significant physical infrastructure 	<ul style="list-style-type: none"> * Risks related to uncertain regulatory landscape * Stranded asset risk for less mature technologies with high cost-down potential 	<ul style="list-style-type: none"> * Increased demand for low carbon energy sources (e.g., W2E) * Increased demand for circular business models (e.g., recycling) * Increased need for water supply
Scalable enterprises	Food and agriculture	<ul style="list-style-type: none"> * Risk of HSE events related to weather events, especially affecting outdoor workers * Risk of reduced crop yields or crop failure due to extreme weather events * Risk of disruption in the value chain (e.g., supply chain shortages, road blockages etc.) * Risk of reduced yields or productivity due to chronic changes in climate patterns, e.g., imbalances in ecosystems, increases in pathogens and pests etc. 	<ul style="list-style-type: none"> * Risk of regulation e.g., land use and deforestation restrictions, GHG emissions pricing or taxes, trade policies restricting product exports/imports * Risk of changes in consumer preferences (e.g. red meat), purchaser and/or investor restrictions or sustainability requirements (e.g. NDPE1 or net zero targets) * Risk of new, green technologies out-competing traditional agricultural methods, e.g. lab-grown meat, regenerative agriculture 	<ul style="list-style-type: none"> * Nearly all transition risks can be turned into opportunities, e.g., focusing on sustainable agricultural practices and products

	Manufacturing	<p>* Risk of damage to physical infrastructure (e.g., production site) and/or disruption in operations due to weather-related events</p> <p>* Risk of supply chain disruptions to key operational inputs e.g. water or electricity access</p>	<p>* Risk of regulation, e.g., GHG emissions pricing or taxes, product bans, trade policies restricting product exports/imports etc.</p> <p>* Risk of changes in consumer preferences toward green products, purchaser and/or investor restrictions or sustainability requirements (e.g. net zero targets)</p> <p>* Risk in fluctuations in market prices of relevant inputs (e.g. oil, gas, electricity)</p> <p>* Risk of new, green technologies out-competing traditional manufacturing methods, e.g. zero-emission cement, carbon capture and storage, increased circularity</p> <p>* Risk of reputational backlash from emission-intense manufacturing industry</p>	* Nearly all transition risks can be turned into opportunities, e.g., focusing on sustainable manufacturing practices and products
Financial Institutions	Commercial banks and insurance	* Risk on balance sheet from underlying assets, especially involving agriculture or physical infrastructure	* Risk on balance sheet from underlying assets, especially involving high emission sectors, e.g., O&G or industry	*Green lines
	Micro-Finance	* Similar to commercial banks, but likely more exposed due to targeting the poor who are more exposed to physical climate risks		

Norfund adopted a [Climate Position in 2020](#), which outlines how we, at the strategy level, address climate change. We are also a signatory to [EDFI's Statement on Climate and Energy Finance](#). Through these positions, Norfund has committed to and taken several important steps that reduce climate-related risk and ensures that we can systematically capture climate-opportunities, notably:

- Norfund has incorporated assessment of climate risk as part of the investment process
- Norfund has committed to investing in climate solutions. Of new investments in 2022, climate financing represented 46% of new committed capital¹
- Norfund has committed to transitioning our portfolio to net zero by 2050 at the latest.
- Norfund has adopted a Fossil Fuel Exclusion List which excludes new coal and fuel oil financing, and limits other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest

¹ Norfund uses the [OECD DAC Rio Markers for Climate](#) to define climate finance. By evaluating projects against the Rio Markers, Norfund identifies activities targeting the Rio convention objectives for climate change on adaptation and mitigation.

- Norfund has committed to ensuring that all new financing is Paris-aligned, in accordance with EDFIs (European Development Finance Institutions) harmonized framework to assess Paris alignment

Norfund's management team has assessed the potential impacts of different climate scenarios on strategy and planning in a qualitative manner. Two scenarios were assessed:

1. Successful transition (2-degree or lower scenario) – characterized by high transition risk and rapid roll out of climate solutions²
2. Unsuccessful transition (greater than 2-degree scenario) – characterized by high physical risks driven by higher temperatures, sea level rise, extreme weather etc.³

Overall, Norfund's strategy was assessed to be robust in a range of climate scenarios, acknowledging that efforts related to adaptation and resilience will need to be strengthened regardless of scenario. Climate is an important part of Norfund's revised strategy for the period 2023-26.

Risk management

As we continue to implement the recommendations of the TCFD, and learn from the processes, our climate risk management processes will evolve.

At the investment level, Norfund includes climate risk and opportunities identification, assessment, and management into the investment process. The approach is described in Norfund's Investment Manual and supplemented by a separate practical guidance note on climate risk assessments. Norfund sees climate risk not as a new stand-alone risk category, but as a supplementing factor for the categories already covered in our risk assessment (financial, E&S (Environmental & Social), reputation etc.).

The financial impacts of climate risk on an investment are driven by (1) the climate-related risks to which the investee is exposed, and (2) its planned response to manage those risks. We have therefore defined two lenses through which the climate risk associated with an investment can be assessed:

1. Assessing the investee's underlying climate risk exposure
2. Assessing the investee's capabilities in managing its climate risk exposure

The time spent on each lens will vary by investment department and the specific case at hand.

² Inspired by public scenarios – IEA Sustainable Development Scenario or IPCC RCP 1.9

³ Inspired by public scenarios – IPCC RCP 4.5, 6.0 and 8.5 or IEA Stated Policies Scenario or Current Policies Scenario

Metrics and targets

The areas where we currently are measuring or developing methodologies are:

Target	Metrics	Methodology/ source	Status
Net zero portfolio emissions by 2050	Absolute generated emissions (GHG) from portfolio (scope 3, tonnes CO2)	Annual collection of data from investees + estimations in the Joint Impact Model (JIM), aligned with PCAF and the EDFIs.	Work in progress
	Avoided emissions (tonnes CO2)	Renewable energy investments only. IFI and PCAF harmonized emission factor data	Reported
Climate finance: - 60% of allocated capital (from MFA) invested in renewable energy - 6,500 MW new RE capacity financed by 2026	<ul style="list-style-type: none"> - Renewable energy share - MW RE capacity financed - Climate finance annually (\$) 	Own accounts	Reported
Portfolio exposure to climate risk (no target set)	<ul style="list-style-type: none"> - Exposure in countries with high physical climate risk - Exposure to sectors with high transition risk - Exposure to sectors with high physical risk 	TBD	Methodology to be refined
Norfund's scope 1 & 2 emissions	Norfund's scope 1 & 2 emissions (tonnes CO2)		Reported