

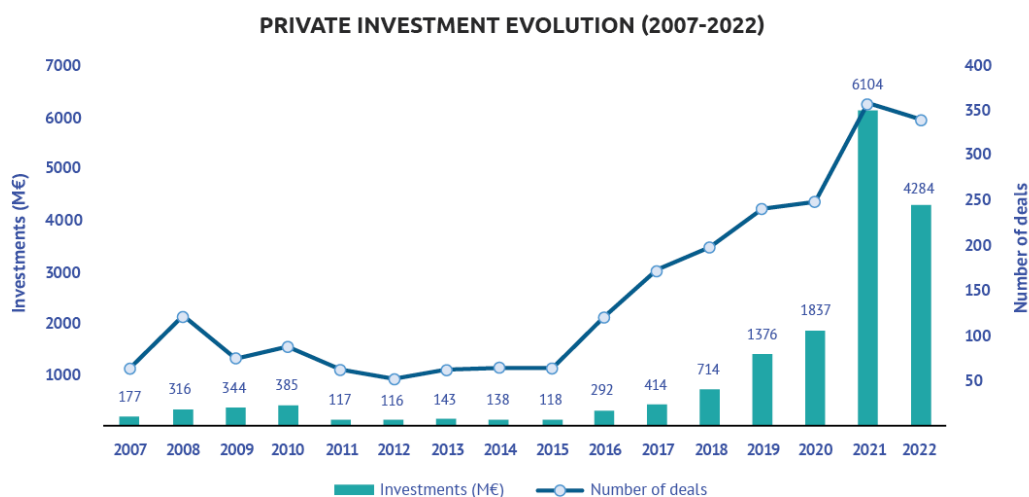
The role of Pension Funds in the Green Transition *Part 1*

The Nordic cleantech sector is not retiring any time soon

It doesn't happen very often that a Nordic pension fund makes direct investments in scale up companies. The argument is usually that it is too risky and that there are other asset classes more suitable for pension funds. This is understandable, as the money earned for retirement is probably not something you would want to gamble too much with.

Lately though, we have seen a shift to more direct investments made by Nordic pension funds in unlisted growth companies in general. It is too early to say if it is a long-term trend but there has been a clear shift over the past few years. An even clearer trend is that whenever a direct investment is made, it is likely to be in a cleantech company. In fact, with a closer look at the numbers it looks like the pension funds are an important part of the increase in cleantech investments we have seen over the last five years.

Overall investments in Nordic cleantech startups and scaleups have surged over the past years. According to the yearly Nordic Cleantech Dealfow Report (by Cleantech Scandinavia) investment levels are 10 times higher in 2022 than five years earlier in 2017. 2022 saw € 4,3 bn invested in 339 deals. The growth is clearly driven by energy and electrification. In 2019, energy and electrification of transport accounted for less than 34% of the total investments. In 2022 it was over 70%.



The amounts each investor goes in with in a co-investment deal, is normally not disclosed. Therefore, it is difficult to tell the exact amounts invested by pension funds. However, it is fair to say that they have been quite instrumental lately, as they are actually part of 5 out of the top 10 investment deals in the Nordics in

2022: Northvolt (1047 MEUR), H2 GreenSteel (260 MEUR), Einride (190 MEUR), Polarium (107 MEUR) and Morrow (100 MEUR) all had Nordic pension funds on their list of investors in the deals. This also means that Nordic pension funds were involved in the Top 3 investments made into Energy Storage (Northvolt, Polarium and Morrow). Other notable investments in 2022 that included pension funds were in solar energy companies Exeger (75 MEUR) and Otovo (30 MEUR).

The portion of total deals that included pension funds it is still modest, a mere 11 out of 339 deals in 2022. However, it is up from 8 in 2021, 3 in 2020, 4 in 2019 and even fewer back in history. As indicated above the significance is in the amounts as pension funds were part of 34% of the deals in terms of amounts in 2022.

In 2022 and 2021 there were 14 Nordic pension funds that did direct investments into Nordic cleantech companies. Most active were:

AMF Pensionsförsäkring AB (SE), part of the AMF Group which manages over SEK 500 bn in equities, real estate and interest-bearing papers for approximately 4 million savers. AMF invested in Polarium, Exeger, Einride, Northvolt and Cake.

MP Pension (NO), formerly known as Tine Pension Fund. MP Pension invested in Auk, CO2 Capsol and Onio.

KLP (NO), Norway's largest pension company with €65bn under management, made investments into Heimdall Power and Otovo.

PKA (DK), One of Denmark's largest pension funds with 355,000 members and with DKK 400 bn under management. PKA invested in Norwegian battery company Morrow.

ATP (DK) is Denmark's largest pension fund and one of the largest in Europe with 5,5 million members and DKK 679 bn under management. ATP invested in Northvolt and Better Energy.

AP 1-4 (SE), Swedish national pension funds. AP 1, 3 and 4 invested both separately and through a joint venture, 4 to 1 Investments KB together with AP 2 in Northvolt.

Other pension funds that made direct investments in Nordic cleantech in 2021 and 2022 were: Varma Pension Fund (Fi), LähiTapiola (Fi), Pension Denmark (DK), Akademikerpension (DK) and LD Fonde (DK).

This development says a great deal about the development of the cleantech sector. The frontrunners are of another breed than the ones that came before them, attracting scale up capital also from the most risk averse actors around.

As important as direct investments are, and hopefully this is a practice that will grow over the coming years, it is not the only way that pension funds contribute to the green transition. They also invest in other funds or even fund of funds into non-listed companies and they invest in infrastructure projects very often with a green profile. And of course, many of them consider their most significant impact is being an active owner role in stock listed companies. We will dig in to all these types of investments and come up on the other side with a big picture assessment on the role that pension funds have and can have in the green transition.