

# AP2

Andra  
AP-fonden

SUSTAINABILITY REPORT  
1 JANUARY - 30 JUNE 2021

**Andra AP-fonden (AP2)** is one of five buffer funds within the Swedish pension system, and one of northern Europe's largest pension funds. The Fund manages **SEK 421.2 billion** in virtually all asset classes, all over the world.

We are leading specialists in the Swedish pension system and seek to be a **world-class asset manager**. We are a global leader in **integrating sustainability** in our investments, for the benefit of the pension system. The Fund is a **long-term and responsible** asset manager.

## Introduction

*Andra AP-fonden publishes a separate half-year report on the Fund's sustainability work. The Fund does so in order to be as transparent as possible and because there is always so much happening in the field of sustainability. The report presents the Fund's work based on its four sustainability focus areas: climate, corporate governance, diversity and human rights.*

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#### **Sustainability work affected by COVID-19**

In the first half of 2021, the Fund's sustainability work was partly impacted by COVID-19, which mainly affected attendance at general meetings.

#### **Swedish National Audit Office's audit of the AP Funds' sustainability work**

At the beginning of June 2021, the Swedish National Audit Office published an audit report on the sustainability work of the AP Funds. The report confirmed that the sustainability work is appropriate to the statutory mission. The audit also verified that the AP Funds have established processes and integrate sustainability in both investments and corporate governance.

The Swedish National Audit Office made recommendations relating to sustainability reporting and presentation of key performance indicators. The report illustrates the challenges that the AP Funds and other similar investors, in Sweden and internationally, face when it comes to presenting extensive, difficult and complex sustainability work in a simple and easy-to-understand way.

The AP Funds are leaders in sustainable management among pension funds, and the aim is to remain in this leading position.

## Mission, goal and strategy

*The statutory goal of the AP Funds is to manage their fund assets in a way that provides the greatest possible benefit for insurance for income-based retirement pensions. The total risk level should be low, measured in outgoing pensions.*

### Exemplary management

The Funds' mission includes managing the Fund assets in an exemplary manner through responsible investments and responsible ownership. When managing funds, special emphasis must be given to how sustainable development can be promoted without compromising on the overall goal of providing the greatest possible benefit to the pension system.

Exemplary management means that the investments should have the best risk and return given the needs of the pension system, and that sustainability should be an integral part of the fund management.

### AP2's approach to sustainability

The sustainability work implemented by AP2 derives from the nature of its mission and involves acting over the long term, to protect and add value to its invested assets based on an economic, environmental and social perspective.

### A sustainable strategic portfolio

AP2 has had a sustainable strategic target portfolio since 2020. A strategic portfolio that is sustainable integrates sustainability into underlying decisions, making it better equipped to achieve the overall goal to provide the greatest possible benefit to the pension system in the long term. Integration of

sustainability is necessary for achieving that goal. A sustainable strategic portfolio, without compromising the overall goal, also promotes sustainable development.

### Sustainability strategy

AP2 bases its work on the Fund's sustainability strategy. The strategy is based on the statutory mission and the Fund's investment beliefs. The strategy also reflects the Fund's vision and values. The investment beliefs provide the outer framework for the Fund's approach to sustainability in its asset management activities. In addition, given the beliefs, a number of more specific sustainability principles have been adopted. AP2's six sustainability principles are:

1. AP2 integrates sustainability in all investment processes.
2. AP2 actively seeks investments that contribute to sustainable development.
3. AP2 works on the basis of the focus areas.
4. AP2 uses dialogue as a tool.
5. AP2 takes a scientific approach.
6. AP2 seeks to be a leader in sustainability.

The sustainability strategy is based on these principles and aims to clearly define the activities that are to be

implemented in order to achieve the overall goal of a sustainable strategic target portfolio, which is also in line with the Paris Agreement. The strategy also includes goals to enable analysis of how the Fund's sustainability work affects return and risk.



### Focus areas

One of the Fund's six sustainability principles is to base its work on focus areas. According to this principle AP2's sustainability work is concentrated primarily on a number of prioritised focus areas that the Fund considers to be the most important. AP2 has extensive expertise and experience in the selected focus areas, having worked on these issues for a considerable period of time. The Fund also expects to be working with these areas for many years to come.

The Fund's focus areas in sustainability are:

- Climate
- Corporate governance
- Diversity
- Human rights.

This half-year report on the Fund's sustainability work is based on these focus areas. The report summarises the work carried out within the focus areas during the first six months of 2021. A more detailed account of the Fund's sustainability work

can be found in the Annual Report and the Sustainability Report for 2020 at [www.ap2.se](http://www.ap2.se)

# Climate

*The consequences of climate change on the global economy are expected to continue to increase and will therefore have an impact on long-term returns for many asset classes. Climate change can be viewed from the perspectives of opportunity and risk. It is therefore important to integrate aspects related to climate change into analysis and investment processes.*

Reducing climate-related financial risk to the portfolio and contributing to a transition in line with the Paris Agreement, through investments and dialogues with companies and decision-makers, are a the basis for AP2's climate change response. It is the objective of the Fund to have a net zero emissions portfolio by 2045.

In February 2021, AP2 signed the Institutional Investor Group on Climate Change's (IIGCC) Paris Aligned Investment Initiative "Net Zero Asset Owners Commitment", which is accredited by the UN Climate Convention as a Race to Zero initiative. This is a global campaign that mobilises a coalition of leading net zero initiatives with the objective of accelerating the transition to a carbon-free economy ahead of the UN's COP26 climate change conference in Glasgow in November 2021. In order for asset owners to be able to fulfil this commitment, governments and policy-makers must fulfill their own commitments to ensure the 1.5°C temperature goal of the Paris Agreement is met. AP2 has signed on to the initiative and is taking a number of concrete steps towards the achievement of its commitment. The table on page 7 shows that the Fund has already fulfilled or is working towards the achievement of most of these commitments.

## Climate-related financial risk

Due to climate-related financial risks, since 2014 AP2 has been divesting from coal, oil and gas companies and from companies that have electricity generated from coal. Since the end of 2020, the Fund's global equity and credit portfolio has been managed in accordance with the criteria for the EU Paris Aligned Benchmark (PAB). This means that the Fund is no longer allowed to invest in around 250 companies because they have income from coal, oil or gas.

In the first half of 2021, the Fund has been working to analyse and develop the PAB for the Fund's management of Swedish equities.

Since 2019, physical climate risks have been included in the Fund's overall return assumptions which form the basis for the choice of the strategic portfolio.

## Investments in sustainable strategies

Creating a low-carbon society requires investment. AP2 has investments that support the transition in different asset classes. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. AP2's investments in green bonds, Swedish cleantech companies, timberland and sustainable infrastructure are further examples

of investments with sustainable strategies that have a positive climate impact.

Sustainable infrastructure is an area that requires major investment, as energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources. At the end of 2019, AP2 decided to introduce a strategic allocation to sustainable infrastructure, which according to AP2's definition is investment that directly promotes sustainable development in line with the Paris Agreement. Three investments were made in 2020. AP2 made a further three investments in the first half of 2021:

- Generate Capital is a company that owns and operates small-scale distributed sustainable infrastructure primarily in the energy sector (e.g. rooftop solar systems for schools).
- Copenhagen Infrastructures Partners' Energy Transition Fund focuses on investing in companies that are reducing their emissions from hard-to-abate industrial sectors such as shipping, steel production and agriculture.
- The Swedish company Northvolt is building a European large-scale factory for the manufacture of lithiumion batteries for electric vehicles. Its first battery production facility is located in Skellefteå.

AP2 has investments in green bonds where many projects contribute to the transition to a net zero future. The Fund also believes that in order to reach net zero emissions by 2045 it is important to invest in timberland.

The Fund's Swedish cleantech portfolio now comprises eight companies. Two of them are developing wind power, three are working with energy efficiency development and three with material efficiency, for example, in the recycling of cotton fibre.

These investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal of being of the greatest possible benefit to the pension system. It means that the expected returns should be high and the total risk level should be low, measured in outgoing pensions.

### Dialogues with companies

AP2 actively participates in Climate Action 100+, a five-year international dialogue initiative launched in December 2017. The 575 global investors involved in this project are working collaboratively on dialogues with just over 160 companies, which together account for 80 per cent of global industrial emissions. The aim is to get the companies to reduce their emissions to a level in line with the Paris

Agreement, that they report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), and that their boards take clear and unequivocal responsibility for the work of addressing climate change.

A report was published in March assessing how far the companies have come in these three areas in the "Net Zero Company Benchmark". It revealed that many companies have made ambitious climate commitments, but that they need to become better at reporting how they will deliver on the commitments and at reporting actual results.

AP2 and Öhman are in dialogue with AB Volvo, which is one of the companies in Climate Action 100+. In the first half of 2021, this constructive dialogue focused on the company's goals and action plan to achieve net zero emissions by 2050. In June, Volvo announced that the Science Based Target Initiative has confirmed that the company's targets are aligned with the Paris Agreement. Among other things, this means that emissions from trucks and buses will be reduced by 40 per cent per vehicle kilometre by 2030, and that from 2040 Volvo will only be supplying products with net zero emissions.

AP2 also supports the "Aligning the Banking Sector with the Goals of the Paris Agreement" document, which has been produced by the IIGCC and sets out investor expectations for banks to facilitate the

transition towards net zero emissions by 2050, for boards to have the requisite skill sets and knowledge, and for banks to provide disclosure in line with the recommendations of the TCFD.

### Dialogues with decision-makers

Many of the dialogues that AP2 participates in with climate decision-makers are conducted in collaboration with other investors through the above mentioned IIGCC. This organisation is working to make investor engagement in climate-related issues clear for decision-makers and to communicate investors' demands for policy measures.

The "Global Investor Statement to Governments on the Climate Crisis", was published prior to the G7 Meeting in June and has been signed by 457 investors, including AP2. The Statement calls for governments to raise their climate ambition and implement robust policies ahead of the COP26 climate change conference in Glasgow in November.

In May this year, AP2 and 176 other investors signed an open letter to EU leaders with recommendations aimed at supporting a sustainable economic recovery after COVID-19. They call for the EU to create a recovery that prioritises climate action critical to meeting the Paris Agreement's net zero emissions goal by 2050.

## AP2's fulfilment of the Net Zero Asset Owners Commitment

	Commitments	AP2's approaches and activities for living up to the commitments
1	Transitioning our investments to achieve net-zero portfolio GHG emissions by 2050, or sooner.	It has been AP2's ambition since 2016 to develop the portfolio in line with the Paris Agreement. The Fund's goal is to achieve net zero greenhouse gas emissions by 2045.
2	Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework.	Development and implementation of the EU Paris-Aligned Benchmark (PAB) is one of the Fund's main tools for delivery of its net zero commitments within equities and corporate bonds. The Fund's disclosures on the equity portfolio's carbon footprint clearly shows whether change over time is due to actual reductions in emissions (the companies' emissions are decreasing). AP2 has investments that support the transition in different asset classes. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. AP2's investments in green bonds, Swedish cleantech companies, timberland and sustainable infrastructure are further examples of investments with sustainable strategies that have a positive climate impact.
3	Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the IPCC special report on global warming of 1.5°C.	For equities and corporate bonds where the PAB has been introduced, there is at least 50 per cent reduction when the index is implemented. According to the UN's Panel on Climate Change's Global Warming of 1.5°C report, global emissions need to fall by 7 per cent each year. The Fund has not yet adopted clear targets for 2030 for other asset classes.
4	Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.	AP2 intends to use carbon offsets only where it is no longer possible to reduce actual emissions. The Fund's investments in forests offer AP2 the potential to use its carbon storage as a possible way to offset carbon emissions.
5	Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.	In the spring of 2021, AP2 began working to ensure that the organisations in which the Fund is a member engage in advocacy work that supports the Paris Agreement and the policy measures required to achieve global net zero emissions by 2050 or sooner.

6	. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner.	AP2's Voting Guidelines state: "That the Fund advocates that companies express their support for and draw up a strategy in line with the Paris Agreement."
7	Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.	As part of its ongoing work, AP2 conducts climate dialogues with business partners concerning products, data and/or reporting.
8	Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.	AP2 is a small organisation with one office. This means that Scope 1 and 2 emissions are almost zero as the Fund has no Scope 1 emissions and buys green electricity. However, it has some Scope 2 emissions from the generation of purchased district heating and cooling.
9	Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.	AP2 already presents its climate change responses in its annual report, sustainability report and TCFD report. The Fund's sustainability strategy includes a number of climate-related goals and activities. AP2 intends to include its targets and action plan in the 2022 TCFD report.
10	Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with TCFD recommendations on climate financial risk.	AP2 has presented a report each year since 2018 in accordance with TCFD.



## Corporate governance

*Andra AP-fonden's capital is largely invested in shares of Swedish and foreign companies, making the Fund a significant shareholder. The Fund is also non-political and independent with regard to ownership spheres and its unique position among Swedish authorities. This allows the Fund to act as a committed and long-term owner.*

An expectation of responsible ownership is stated in the revised law for the AP Funds, which came into force on 1 January 2019. It states that the Fund's assets shall be managed in an exemplary manner through responsible investments and through responsible ownership. Asset management operations must focus especially on how sustainable development can be advanced without compromising the overall goal concerning return and risk.

Shareholders' commitment to and interest in the long-term development of the companies are fundamental to improved value growth. As a long-term asset owner, AP2 has a meaningful role to play in the capital markets. The Fund therefore engages actively in issues that aim to promote professional corporate governance, good ethics, environmental responsibility and to develop good practice in asset management.

The Annual General Meeting is the main forum for the shareholders to exercise their ownership rights. Using their right to vote at the Annual General Meeting is one of the key opportunities for shareholders to exert an influence on corporate decisions. AP2 is therefore active at both Swedish and foreign general meetings. The Fund's activities relating to listed companies include active participation before and at Swedish and foreign

AGMs and dialogues with boards and management teams in the Fund's portfolio companies. AP2 also promotes good corporate governance by working collaboratively with other owners on matters of principle and actively contributing to the development of policies, regulations and standards.

Voting Guidelines were produced during the year to supplement the existing Corporate Governance Policy in order to provide a better understanding of what AP2 expects of companies in areas such as sustainability and corporate governance. The guidelines are based on the Fund's 10 ownership principles. Through these guidelines, the Fund seeks to further clarify different positions at both Swedish and global general meetings. The guidelines are available at [www.ap2.se](http://www.ap2.se)

### The 2021 AGM season so far

For many countries, the annual general meeting season is, in all material respects, concluded at the end of the half-year period and, aside from standard general meeting proposals primarily concerning remuneration, dividends and board composition, shareholder proposals in a number of sustainability-related areas have been submitted. Some examples:

- Shareholder proposals seeking the phasing out of banks' coal financing have been submitted to both Swedish and global general meetings. AP2

generally supports this type of proposal provided that the companies have not already made commitments in this direction or shown active engagement in climate change actions.

- Issues concerning diversity, inclusion and transparency in lobbying activities and political donations have remained key areas, especially in the US market, and the Fund has backed several shareholder proposals that call for improved disclosure in these areas.
- AP2 has also supported shareholder proposals at Amazon's general meeting, which aimed to ensure that the company publishes a report on the risks associated with the company's products and services relating to video surveillance.
- AP2 has backed proposals from shareholders to Facebook for better information about the company's management of risks of exploitation of children on the company's platforms.
- Increasing demands from shareholders globally for companies to present their plans for reducing greenhouse gas emissions, carbon neutrality and climate-related financial disclosures are actively supported by AP2 through both voting and participation in stakeholder organisations.

## Corporate governance in Swedish companies

### Active owner during COVID-19

For many years, AP2 and other institutional owners have maintained a good, constructive dialogue with the Swedish listed companies on various issues, including many of those addressed at the general meetings.

During the first half of 2021, the Fund's corporate governance practices continued to be affected by COVID-19, with the vast majority of general meetings being held digitally. This has obviously meant limited interaction between shareholders and the companies at meetings. On the other hand, dialogues conducted with the companies prior to the meetings were intensified during the period.

The following criteria are used to select the companies at whose general meetings the Fund will vote:

- Companies that are among the Fund's 20 largest holdings.
- Companies in which the Fund's share of voting rights is at least 0.3 per cent
- Companies in which the Fund is among the ten largest shareholders.
- Companies with controversial issues on their agenda.

### Votes for 90 per cent of the Swedish portfolio

The Fund holds shares in more than 160 Swedish listed companies. The Fund has determined that for practical reasons it is not possible to vote at all general meetings in the Swedish equity portfolio.

In the first half of 2021, AP2 voted at a total of 111 (92) general meetings of Swedish listed companies. The market value of the Fund's holdings in these companies corresponds to 90 (76) per cent of the Fund's total holdings in Swedish listed equities.

Vicore Pharma, Xbrane Biopharma and Xspray Pharma. The Fund therefore voted no to the incentive schemes proposed by these companies.

### Voting at general meetings – participation in nomination committees, 1 January – 30 June

	2021	2020	2019	2018	2017
<b>Voting at general meetings in Sweden, number</b>	111	92	74	77	45
<b>Equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value)</b>	90	76	78	81	70
<b>Participation in nomination committees, number</b>	8	9	9	8	9

The increased voting frequency over the last five-year period is a result of the Fund's ambition to attend more general meetings. This has also led to increased involvement in the somewhat smaller companies, where the Fund is one of the largest shareholders.

### Proposals and areas that AP2 voted against

In 2021, the Fund voted against proposed incentive schemes in 23 (12) Swedish companies. Companies that submitted proposals for incentive schemes that either included matching shares, were otherwise subsidised with no specific target performance requirements, or lacked clearly communicated performance targets were Addlife, Alligator, Ascelia Pharma, Atlas Copco, BioGaia, Bufab, Calliditas, Camurus, Cantargia, Concentric, Eolus, Epiroc, Evolution Gaming, Hexagon, Investor, NP3, Sobi, Tobii,

AP2 has also voted against four incentive plans proposed for board members of the companies Bonesupport, Calliditas, Oncopeptides and Vicore Pharma, as the Fund advocates fixed remuneration for board members.

In Evolution Gaming, the Fund voted against all proposed board members, as the proposed board had no female board member. Otherwise, the Fund has voted in favour of all proposals of the boards and the nomination committees. The Fund has not voted for any proposal made by other shareholders.

AP2 was also active in the run up to several general meetings during the first six months and submitted its views in accordance with the Fund's Corporate Governance Policy and Voting Guidelines.

### Continued dialogues on incentive schemes

During the first half of the year, AP2 has maintained a focus on remuneration issues and, in order to move proposed schemes in the desired direction, has also increased the number of dialogues held with boards concerning the content of the companies' proposed incentive schemes.

In general terms, the Fund has seen the content of the incentive schemes developing over time, which is in line with the requirements set by AP2 and other institutional owners for this type of variable remuneration. The schemes are increasingly performance-related and capped, often include individual risk-taking for the participants through some form of financial input, and entail a cost for the shareholders that is usually known and limited.

The Fund's Voting Guidelines emphasise the importance of incentive schemes containing clear and monitorable performance requirements based on the company's long-term strategy. Performance requirements whose only link is to general stock market developments, for example, by using an absolute Total Shareholder Return (TSR) metric, are not deemed to take sufficient account of the company's specific strategy or risks and are therefore only supported in exceptional cases by AP2.

In addition, AP2 does not generally support proposals that contain any form of subsidy, for example, matching shares or subsidised premiums for option programmes. The Fund's Voting Guidelines state more positions on incentive schemes, which form the basis

for both proactive dialogue with the companies and the Fund's voting at general meetings.

### Nomination committees

AP2 is keen to be represented on the nomination committees of companies as it provides a key opportunity to exercise influence as an owner. The Fund's policy is to accept any request for nomination committee assignments. The Fund's corporate governance group determines who will represent the Fund based on who is best suited for the engagement. The nomination committees are usually made up of the three to five largest shareholders in a company, which means that AP2's nomination committee assignments vary depending on the Fund's holdings in the companies.

For many years, the Fund has emphasised the importance of increasing the number of women on the boards of listed companies. The Fund places particular focus on this when it is involved in the nomination process and it is clearly stated in the Fund's Voting Guidelines. The Fund also believes that the nomination committees should have a specific plan in place to ensure a good board composition with regard to gender, age, background, experience and expertise.

During the first half of the year, the Fund continued to focus on issues relating to diversity and, above all, the proportion of women on boards. The Fund follows up the work conducted in this area by the

### Nomination committees in which AP2 participated prior to the 2021 annual general meetings

Company	Percentage of women on the board	Number of newly elected women*	Total change compared to previous year*
Better Collective	33	1	1
Coor Service Mgmt	43	0	0
Genovis	20	0	0
IAR Systems	17	1	0
Kambi	40	0	0
Catena Media	28	2	2
Trelleborg	43	1	0
Loomis	50	1	1

\* The change concerns comparison with the preceding annual general meeting, and not any extraordinary general meetings between annual general meetings.

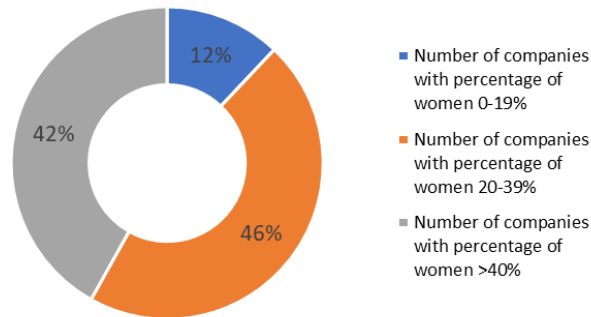
board of each company whose general meeting the Fund intends to attend.

The Swedish Corporate Governance Code has expressed an ambition level for gender diversity on the listed companies' boards after the 2020 AGM season. The level of ambition requires at least 40 per cent of each gender among AGM-elected members. This level of female board members was reached in 42 per cent of the companies whose AGMs AP2 voted at this year.

For the 2021 AGM season, AP2 has been represented on the nomination committees of IAR Systems and Catena Media, as chair, and in Better Collective, Coor Service Management, Genovis, Kambi, Loomis and Trelleborg.

In line with the Fund’s Corporate Governance Policy, participation in this year’s nomination committee work has, among other things, prioritised efforts to increase diversity in boards of directors. The Fund considers that, in the above nomination committees,

### Percentage of female board members in Swedish companies where AP2 voted in 2021



this issue has had a central place in the committees’ discussions on how the boards’ continued development could benefit from greater diversity. However, not all companies meet the level of ambition stated by the Swedish Corporate Governance Code for gender equality, as can be seen in the diagram above.

### Guidelines on remuneration for senior executives

In 2021, the rules of the Swedish Companies Act pertaining to the content of guidelines on remuneration for senior executives were supplemented with rules from the Swedish Corporate Governance Board concerning, among other things, publication of a remuneration report. This type of consolidated remuneration reporting provides far better means for analysis of agreed remuneration and facilitates the Fund’s dialogue with boards of directors. Dialogues this spring have thus continued to focus on conveying AP2’s view of reasonable and well-balanced fixed, variable and extraordinary remuneration, as well as pensions and other benefits.

AP2 has provided feedback to a number of companies whose guidelines on remuneration for senior executives it considers are not fully in line with the Fund’s Voting Guidelines.

### Corporate governance in foreign companies

#### Foreign general meetings

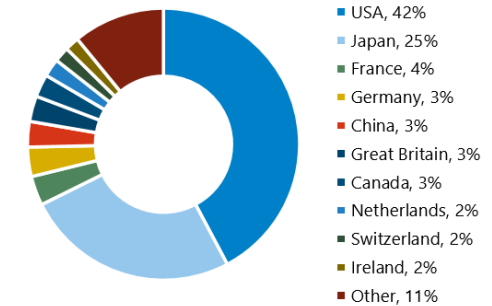
In the first half of 2021, the Fund has voted in companies in 33 countries, primarily in the USA, Japan, France, Germany, China, the UK, Canada, the Netherlands, Switzerland and Ireland. The MSCI global equity index is the main selection criterion for the companies in which the Fund votes. Other criteria include dialogue between the Fund and the company on a particular issue and/or the Fund’s submission of a shareholder proposal to the meeting.

The Fund has gradually increased its voting rights in global companies in recent years and, in the first half of 2021, it voted at 888 (844) foreign general

meetings. This is equivalent to 44 per cent of the Fund’s global portfolio expressed as a market value.

The Fund uses an external party for the practical voting procedure and votes in writing (proxy voting) using the electronic voting platform. Each month,

### Global voting by region



Number of general meetings	Number of countries
<b>888</b>	<b>33</b>
Board proposals	Shareholder proposals
<b>11 458</b>	<b>311</b>
Voting for	Voting for
<b>83%</b>	<b>50%</b>
Voting against	Voting against
<b>17%</b>	<b>50%</b>

AP2 publishes a detailed report on how the Fund has voted in the foreign companies. More information is available at [www.ap2.se](http://www.ap2.se)

In 2021, there was a decline in the number of proposals where the Fund voted against the recommendation of each board of directors (see five-year overview below), which is mainly attributable to voting on proposals at general meetings related to the board composition of Japanese companies. From 2021, AP2's voting supports the Japanese Code's requirements in terms of the number of external members, and the Fund can confirm that more and more companies' board proposals are also in line with the Code. Japan is a significant part of the Fund's global voting, which consequently means fewer votes against the board's recommendations.

### Voting at general meetings, 1 January – 30 June

	2021	2020	2019	2018	2017
<b>Voting at foreign companies' general meetings, number</b>	888	844	753	710	697
<b>Number of agenda items</b>	11 769	11 239	9 684	9 482	9 702
<b>- of which voted against the board's recommendation, %</b>	17	21	28	28	29

### Initiated voting in Chinese companies

In 2021, the Fund included selected companies listed on the domestic market in China, so-called A-shares, in its voting universe. By the end of the first six months, voting had taken place at the annual and extraordinary general meetings of 15 companies.

To a certain extent, board proposals submitted at general meetings deal with areas other than those

typical for companies in Europe and the USA. AP2 voted against board proposals where:

- The proposed board did not include any female members.
- The issue mandate was deemed to be unnecessarily large.
- Loan guarantees entailed a commitment that exceeds the ownership share.
- The proposed auditor has delivered a high proportion of non-audit-related services to the company.
- Inadequate information regarding proposed changes to the Articles of Association.

Corporate governance in domestic Chinese companies is challenging from a number of perspectives. However, the gradual development that is nevertheless taking place is enabling institutional investors to have an active corporate governance to an increasing extent.

### Letters to foreign companies

During the six-month period, the Fund and other international investors have been engaging in

a number of owner dialogues with companies. With the aim of further improving communication with the Fund's foreign portfolio companies, AP2 annually writes to some 50 companies explaining the Fund's view of committed ownership and the importance of exercising voting rights. In these letters, the Fund also explains its reasoning for not supporting the boards' recommendations on certain points. The letters have resulted in additional contact with the companies by letter, but also via telephone meetings.

### Collaboration with other investors

In addition to the collaborative working relationship between the AP Funds on the the Council on Ethics, AP2 is also a member of and supports various initiatives in Sweden and internationally in the areas of the environment, ethics and corporate governance. The Fund also collaborates with other investors to influence new legislation, particularly within corporate governance. These collaborative efforts are becoming increasingly important in influencing and bringing about change, and thereby enhancing long-term shareholder value.

Throughout the first six months of 2021, AP2 and a group of other European asset owners continued the dialogue on high remuneration, primarily with US companies. Details about AP2's membership and initiatives can be found on the Fund's website.

## Diversity

One of the first ownership issues that Andra AP-fonden started to focus on was diversity and, in particular, increasing the number of women on boards and in leadership positions. Since then, the Fund has contributed to a positive development in this area through a number of methods, including dialogues with companies on selection processes for executive management and board positions. Today the Fund also has investments linked to diversity and equality, and diversity is one of the factors in the Fund's internally developed ESG indices.

### Index of Female Representation

With its annual Index of Female Representation, AP2 aims to spread knowledge, contribute to dialogue and objective debate and, above all, increase the proportion of women on boards and in executive management teams. The Fund believes that a broader recruitment basis promotes diversity, which has a positive influence on boards and executive managements. With greater diversity of background and experience, the right conditions and leadership, groups will be more innovative and creative, which in turn creates prosperous companies. The Fund and Nordic Investor Services have been jointly conducting the study since 2003 to monitor the percentage of women at middle-management level, in executive management teams and on boards of listed companies. Information from the Index of Female Representation is used in the Fund's corporate governance practices and is followed up at the annual general meetings that the Fund attends over the course of the year.

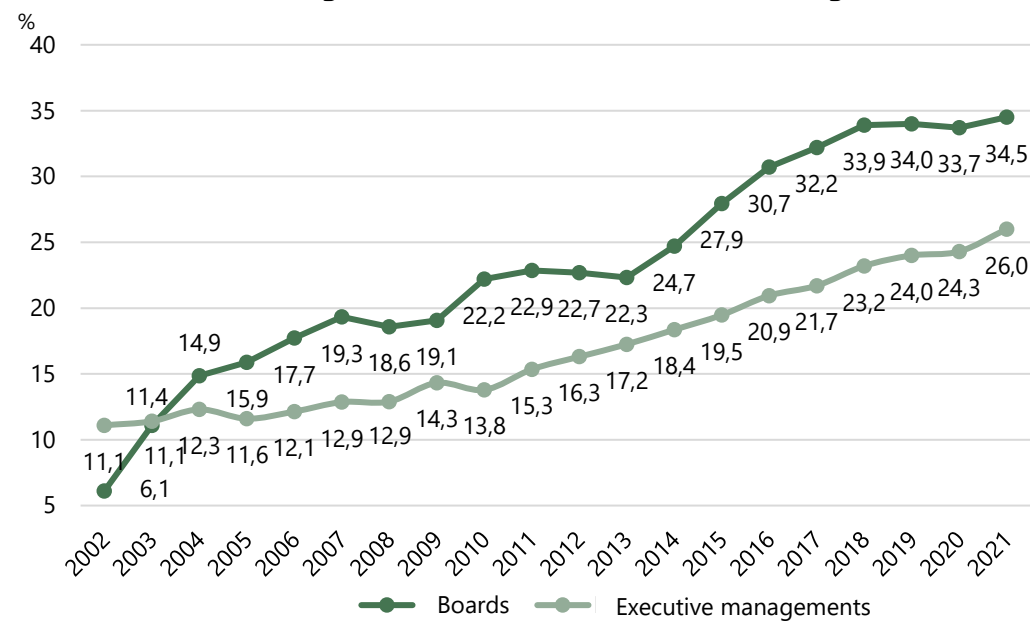
The Index of Female Representation for 2021 shows that the number of women on boards and in management teams in companies listed on Nasdaq

Stockholm is the highest ever. The percentage of female board members is increasing again and currently stands at 34.5 (33.7) per cent. The number of women in management teams of listed companies continues to increase. This year's increase, from 24.3 to 26.0 per cent, is the largest measured in percentage points since the surveys began. Over time, the development of the management teams, especially during the past decade, has shown significantly greater stability compared with the boards. However, the long-term trend is clearly positive for boards too.

Despite the rise in the number of female board members, the percentage of female

board chairpersons remains unchanged at 8.6 per cent. This is lower than the highest ever listing of 10.2 per cent in 2019. The percentage of women who are CEOs has risen by 2.3 percentage points to 12.7 per cent. Read the full report on AP2's website.

**Percentage of women on boards and in managements**



## Human rights

*Human rights is one of Andra AP-fonden's sustainability focus areas. The Fund is actively engaged in integrating human rights issues into its analysis and decision-making processes, with the aim of conducting its activities in line with the UN Guiding Principles on Business and Human Rights at the latest from 2025.*

### Human Rights Policy

AP2's updated policy for human rights was adopted at the end of 2020. The policy defines AP2's connection to various risks in terms of human rights and also the severity of the risks, which are assessed on the basis of the impact on people and not the financial risk to the investment. The policy also defines the process for managing the Fund's human rights impacts.

An important aspect of the implementation of the policy throughout the organisation is to ensure that all employees and relevant external partners understand the policy and what it means for them in their work. In the spring of 2021, the Fund conducted training courses and workshops on the policy, both internally and with external managers.

### Engagement in the textile sector

AP2 works continuously with due diligence regarding human rights risks in the Fund's investment portfolio. The due diligence process includes identification and assessment of risks in the Fund's holdings, management of these risks and regular evaluation and reporting. In accordance with the Fund's process for identifying and managing potential risks, its engagement in the textile sector in China continues with a special focus on living wages and the risks of forced labour. AP2 collaborates in these dialogues with other investors through various platforms such as the Investor Alliance for Human Rights. The Fund has also joined the Platform Living Wage Financials (PLWF) alliance, which conducts an annual evaluation of how companies work to ensure living wages in their supply chains. It also engages in

advocacy work to promote living wages, primarily in the textile and food industries.

### Report on human rights

AP2 recently published its second report on human rights, in accordance with the UN Guiding Principles' reporting framework. Through this report, which describes the Fund's work on human rights in more detail, the Fund increases the transparency of its work in implementing the UN Guiding Principles on Business and Human Rights, including both progress made and challenges faced. This report and AP2's human rights policy are available for viewing at [www.ap2.se](http://www.ap2.se)

## Other

### The Council on Ethics

The Council on Ethics of the AP Funds was formed in 2007 by the First, Second, Third and Fourth AP Funds to coordinate their work on environmental and ethical issues. The Council on Ethics engages in incident-driven dialogues and proactive projects. Norm-based screening enables identification of companies that can be linked to violations of a convention. The Council on Ethics engage with the companies in their dialogues, which aim to influence the companies to stop the misconduct (if still ongoing) and then take action to prevent future violations.

One focus area for dialogue during the spring was Myanmar, due to the military coup in February and the subsequent repression and violence. The Council on Ethics works with other investors to ensure that any companies in the AP Funds' portfolios which have joint ventures with companies controlled by the military withdraw from those in an expeditious and responsible manner.

The Council on Ethics is also engaged in projects aimed at preventing violations and misconduct.

These are concentrated on the Council on Ethics' focus areas: Environment (biodiversity), Human rights (child labour, forced labour, health and safety), Climate (the Paris Agreement) and Business ethics (anti-corruption and corporate responsibility).

One of the projects, launched in the spring of 2021, is a three-year proactive commitment led by the company Sustainalytics, with a focus on forced labour.

Forced or slave labour is a collective term for situations where the victim cannot leave work or the abusive situation, usually due to coercion, threats or violence. In 2016, the International Labour Organization (ILO) estimated that no less than 40 million people were victims of forced labour or modern slavery.

There is a high incidence of forced labour in the construction and manufacturing sectors, including the textile sector. The project will therefore focus on companies in these sectors. Twenty companies have been selected; eight within construction and technology and twelve within textiles, with different geographical bases and positions in the value chain, and different levels of sustainability work and transparency. The companies are evaluated against six key performance indicators that have been

defined to cover important aspects of their work. Based on publicly available data, all companies have been evaluated against these key performance indicators, which will then be followed up during the course of the project. This basic evaluation shows great variations in the companies' reporting and activities related to forced labour. The textile sector companies have generally achieved higher ratings than the construction companies, which may reflect a greater focus on the issues within the industry in the past. Further details can be found at [www.etikradet.se](http://www.etikradet.se)

### Sustainability Award 2021

AP2 has been a partner of the WIN WIN Gothenburg Sustainability Award for a number of years. In 2021 the theme was Anti-corruption. The recipient of the award is Jóhannes Stefánsson, the Icelandic whistleblower. Jóhannes exposed the 'Fishrot Files', an extensive corruption scandal linked to Iceland and Namibia. Stefánsson quit his leading management position in the Icelandic fishing company Samherji's operations in Namibia in protest against the company's improper procurement of fishing quotas in exchange for financial benefits. Further details can be found at <http://winwingothenburgaward.com/>





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