

MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE

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CFO'S REVIEW

AP2 contributes to sustainable development and a stronger pension system

Andra AP-fonden celebrated its 20th anniversary in 2021. Since the start in 2001, we have not only increased our fund capital by SEK 307 billion, but also developed our sustainability work so that today we are among the world leaders in our field. This has not been achieved overnight, but has been an ongoing process that has required the commitment and expertise of all employees. We will never give up, but will persevere by continuing to develop and improve this work, with the aim of contributing not only to sustainable development, but also to a stronger pension system.

Since the very beginning, sustainability issues have been an important focus for the Fund. At the start, just over 20 years ago, we focused mainly on corporate governance activities, while today we are also working on such issues as climate, diversity, human rights and biodiversity, which are all integrated aspects of our management. We have progressed from focusing on the risks to also considering the many opportunities presented by sustainability. Today, all AP2 employees are involved in these issues in different ways.

Exemplary management

Our mission includes managing the Fund assets in an exemplary manner through responsible investments and responsible ownership. We must give special emphasis to how sustainable development can be promoted without compromising the overall goal of providing the greatest possible benefit to the pension system.

Exemplary management entails that the investments should have the best risk and return, given the needs of the pension system, and that sustainability should be an aspect of asset management.

In the latest strategic roadmap that we have developed and which extends until 2023, our focus includes developing a more efficient, sustainable and resilient portfolio. We thereby aim to enhance our sustainability work in the areas of climate resilience, human rights and social issues, as well as biodiversity, and actively contribute to sustainable development.

Climate change and how we can contribute to the climate transition is the primary focus of our sustainability work. We have set ambitious targets, such as a portfolio in line with the Paris Agreement, targeting net zero emissions by 2045. This means that we are divesting to reduce the financial climate risk for the portfolio, actively investing in sustainable strategies



CEO'S REVIEW

for the transition, and working to influence companies and decision-makers through dialogue.

Sustainable investments

Since the end of 2020, the Fund's global equity and credit portfolios have been managed in accordance with the criteria for the EU Paris-Aligned Benchmark (PAB). The Fund thus no longer invests in around 250 companies which have income from coal, oil or gas. During 2021 the Fund worked to analyse and develop the PAB framework for the Fund's management of Swedish equities.

In 2020, we began investing in sustainable infrastructure and we made further investments in 2021, including in the battery manufacturer, Northvolt.

Influencing to create change

The Fund has also been committed to achieving positive change through dialogue with companies and decision-makers, including the global Climate Action 100+ dialogue project.

In the run-up to COP26, we participated in a number of initiatives to promote change. This included being a signatory to a letter addressed to Alok Sharma, the President of COP26, in which governments were asked to set a clear timeline for the requirement to comply with the Paris Agreement.

In conjunction with COP26, we also supported an initiative whereby we are committed to working for a portfolio free from illegal deforestation by 2025. We are also involved in the deforestation issue through another initiative (Investor's Policy Dialogue on Deforestation), to engage with politicians and decision-makers in key countries on these issues.

We have also supported a document setting out investor expectations for banks, "Aligning the Banking Sector with the Goals of the Paris Agreement", which includes the requirement of a net zero commitment by 2050, that boards have sufficient expertise to oversee the climate strategy, and that the banks report in line with the TCFD (Task Force on Climate-related Financial Disclosures) recommendations.

Human rights in focus

In 2021, AP2 focused on developing its human rights programme. We have revised our human rights policy and adopted a long-term goal up to and including 2025. We have also developed a strategy to achieve this goal: the Fund will continue to implement the UN Guiding Principles and its activities will be conducted in line with these principles as from the beginning of 2025 at the latest.

Diversity - because it creates value

Diversity was one of the first sustainability issues we worked on when the Fund was established. Since 2002, in our Index of Female Representation, we have annually measured the proportion of women on boards and executive management teams in companies listed on the Stockholm Stock Exchange. It is very pleasing to see that the Index of Female Representation for 2021 showed that the proportion of women is the highest ever – with female board members now at 34.5 per cent and the proportion of women in management teams at 26.0 per cent. This development must continue and we, as owners, can make a great contribution to achieving improvements.

During the year, we signed the Diversity in Action initiative of the Institutional Limited Partners Association (ILPA). Under this initiative, we are committed to fulfilling a number of diversity requirements and working systematically with diversity internally, while setting the same requirements for new private equity investments. One aim of the initiative is to create a platform for investors to discuss diversity and inclusion efforts, promote discussion and disseminate knowledge about the subject, and to set a good example within the industry.

Active owners

Within corporate governance, our ambition is to become even more active by voting in more companies, and by engaging in dialogue with more companies on urgent issues. During the year, for example, we began to vote in a selection of our Chinese holdings.

World leaders

Within the framework of the Swedish government's annual evaluation of the AP Funds' activities, in 2020 McKinsey conducted an in-depth analysis of the AP Funds' sustainability initiatives. In its evaluation, the government noted that "The AP Funds are at the forefront of sustainability compared with leading institutional investors globally and they continue to improve their work in line with the rapid development in this area". According to McKinsey, the AP Funds excel particularly in their ownership commitment, but are also at the forefront of integrating sustainability into asset management.

The audit report on the AP Funds' sustainability work published by the Swedish National Audit

Office during the year showed that the AP Funds' sustainability work is appropriate in relation to their mission. The audit also verified that the AP Funds have established processes and integrate sustainability into both investments and corporate governance.

I have described just a small selection of the important and exciting aspects of our work. Our sustainability report is extensive because we are constantly developing and improving our work, and this is something we would like to share. It was particularly pleasing that this year, after being nominated for several years, we won the prestigious "2021 ICGN Global Stewardship Disclosure Award" for the Fund's sustainability reporting. The purpose of the award is to highlight those investors who give real insight into their management policies and how they are implemented, and whose approach to transparency lays the foundation for a model that others can follow.

I would like to conclude by thanking all of AP2's employees, who are constantly curious, innovative, committed and also extremely competent. I am convinced that in many sustainability areas, the development going forward will be much faster than in the past 20 years – which is a necessity! At AP2, we already have a lot underway for 2022, so as to further develop and enhance our work by contributing to sustainable development and to a stronger pension system.

Eva Halvarsson, CEO of Andra AP-fonden MISSION AND GOAL

SUSTAINABILITY WORK



Sustainability in a 20-year perspective

In the early 2000s, international pension managers gave more and more weight to corporate governance, while interest in other sustainability issues was still in its infancy. When Andra AP-fonden started up in Gothenburg in 2001, a review began of how the Fund should work with governance issues and take environmental and ethical aspects into account. Martin Jonasson, Andra AP-fonden's General Counsel, and Christina Olivecrona, former senior sustainability analyst at Andra AP-fonden, recall the Fund's sustainability work over the years.

Corporate governance and diversity – a look back

Martin Jonasson has worked at AP2 since the Fund was started and was involved in the Fund's corporate governance issues at an early stage. He remembers the work of drawing up a governance policy. "The demands on institutions as active owners increased as more and more ownership was concentrated on them. The issue of building a more sustainable society increased in significance, together with environmental and ethical issues. We sought to take all of this into account in the first governance policy," says Martin Jonasson.

Then, as now, the governance policy is based on the Fund's mission. Corporate governance practices must focus primarily on companies and areas where the Fund has the greatest potential to influence and achieve most benefit. AP2 does this by, among other things, voting at companies' general meetings. In 2003, the Fund attended 38 annual and three extraordinary general meetings of Swedish companies, while in 2021, AP2 voted

at 104 annual and 30 extraordinary general meetings. "In recent years, the Fund has had the ambition to vote at more general meetings, which has increased our voting frequency," says Martin Jonasson. In parallel, to this, the Fund increased its voting at global general meetings from 50 general meetings per year in the early 2000s to more than 1 000 in 2021.

Christina Olivecrona was also one of the first to work with sustainability issues at AP2. "After mapping and analyses, we created a governance log tool, where we recorded the results of how our holdings in Swedish companies lived up to the Fund's governance policy. The tool was designed to give everyone a rapid understanding of how sustainability aspects add value," says Christina Olivecrona. The work of including ethical, environmental and equality aspects in the log began in 2005.

Today, AP2 addresses these issues on a broad front, by voting at general meetings, in dialogue with companies and through active involvement in nomination committees.

New Swedish Corporate Governance Code

AP2 complies with several regulations and conventions, including the Swedish Corporate Governance Code, of which the first edition was published in 2005. In its 2006 Owner's Report, AP2 stated that "The major advantage of the code for the Fund and other major shareholders is that it establishes the procedures for the design of the nomination committee. Board evaluation and reporting on the work of the nomination committee. This entails simplification and less discussion of formalities while enhancing the quality of the work of the nomination committees." Prior to the 2020 AGM season, the Swedish Corporate Governance Code expressed a target level for the gender distribution of the boards of listed companies, whereby each gender must constitute at least 40 per cent of elected members. For many years, AP2 has emphasised the importance of increasing the number of women on the boards of listed companies, to which the Fund gives particular weight when it is involved in the nomination process.

Index of Female Representation

Martin Jonasson recalls, "The initial focus of the Fund as an owner was auditing and accounting issues, incentive programmes and initiatives to increase the quality of board work, and how the proportion of women board members could increase." The latter issue has been followed and reported by AP2 since 2003, through its Index of Female Representation. "Diversity was one of the first governance issues on which the Fund worked, so it is very pleasing to see that the proportion of women in executive positions has increased significantly during more than 20 years," Martin Jonasson continues.

Data has been compiled since 2002 and is updated annually. "From when we started to measure this, the proportion of women on the boards of listed companies in Sweden has increased from 6 to no less then 34 per cent for 2020," Martin Jonasson explains. "We can also see an increase in the proportion of women in management teams from 11 to 26 per cent."

Climate history

For some time, AP2 has been working to integrate sustainability into asset management, by focusing on such areas as climate change. This is an important area, since the consequences of climate change are both extensive and complex.

In AP2's Annual Report for 2008, the Fund's CEO Eva Halvarsson cites climate change as one of the most important global issues, making it vital that the Fund gains knowledge of such issues as how different emission rights systems work and their consequences for the portfolio. The significance of climate change is now reflected in one of the Fund's investment beliefs, which means that climate aspects are taken into account from both a risk and an opportunity perspective. This has led to divestment of companies with fossil fuel exposure and investments in the climate transition. Examples are green bonds, sustainable infrastructure and the introduction of the EU Paris-Aligned Benchmark.

Christina Olivecrona explains, "Measurement of the Fund's equity portfolio's carbon emissions was first performed in 2009, as part of the Fund's first climate project. Since 2014, AP2 has published carbon data on an annual basis and in 2015, the AP Funds agreed on common metrics for reporting carbon footprints, to facilitate comparison between the funds. As from 2019, the funds also report how much of the change is due to changes in the their holdings and how much is caused by the companies' actual emissions."

AP2 works continuously to develop the portfolio in line with the Paris Agreement. The Fund's

objective is to have a net zero emission portfolio by 2045. Read more in the climate section on page 36.

"Transparency and reporting are very important to drive development. When AP2 was appointed to the PRI Leaders' Group 2020 it was in recognition of its climate reporting," says Christina Olivecrona.

Greatest achievement for AP2

What has been the greatest achievement for AP2 during these just over 20 years? "At the beginning, just a few of us worked with sustainability issues, while now these are an integral aspect of all our operations. I believe that AP2 is among the leaders in the field, which McKinsey also notes in their evaluation of the AP Funds' sustainability work in 2020," Christina Olivecrona replies.

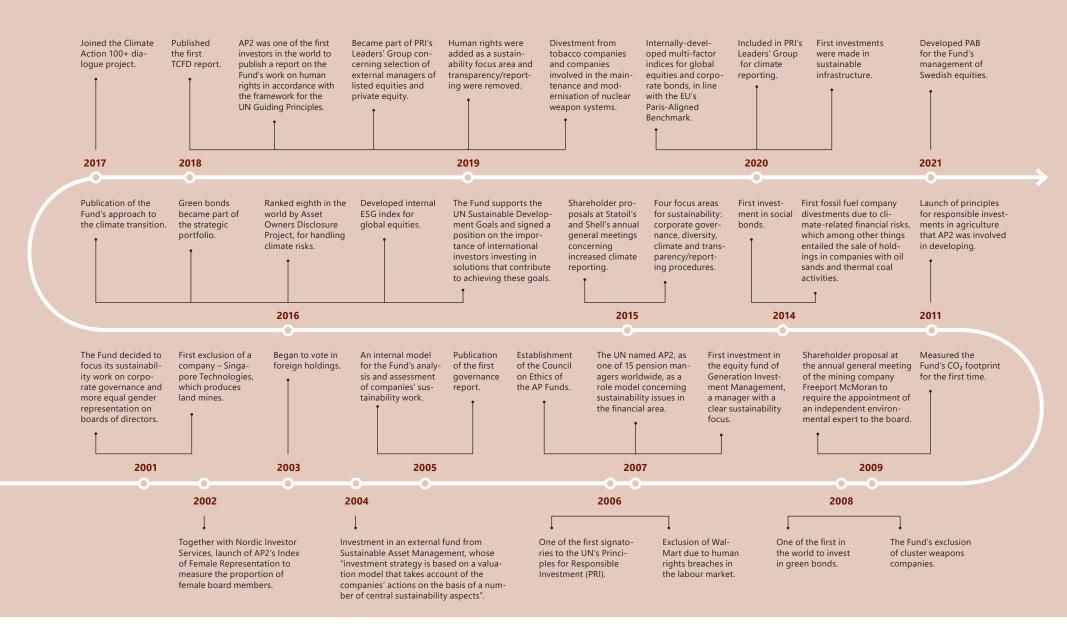
Martin Jonasson continues: "I believe that the greatest achievement concerns our working method, which is now considerably more structured than at the start, when several individual company events characterised our work."





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Timeline



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AP2's investment beliefs

- 1 Thorough analysis of the pension system is key to the choice of strategy
- Svstematic risk-taking is required
- Diversification reduces risk
- Active management creates added value.
- Sustainability pays off.
- Climate change is a systemic risk
- Long-term mandate presents special opportunities.
- People and culture are critical success factors
- Stable processes are essential for good results
- 10. High level of cost-effectiveness leads to improved results

Mission, goal, vision and strategy

Andra AP-fonden is an independent government agency that autonomously manages funds within insurance for income-based oldage pensions. Along with the other buffer funds, Andra AP-fonden is part of the public pension system. According to the Funds' mission, they shall manage the fund assets in an exemplary manner through responsible investments and responsible ownership.

Mission and goal

AP2's mission as a buffer fund is to contribute over the long-term, with its return, to balance in the pension system, thereby ensuring a good pension trend, even during periods of economic and demographic fluctuations.

The AP Funds are required by law to manage their fund assets in a way that provides the greatest possible benefit for the insurance of income-based old-age pensions. The total risk level should be low, measured in outgoing pensions.

The mission of the Funds requires the fund assets to be managed in an exemplary manner through responsible investments and responsible ownership. When managing the assets,

special emphasis must be given to how sustainable development can be promoted without compromising the overall goal. Exemplary 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 asset management.

Vision

AP2's vision, World-class fund management, offers both inspiration and guidance for the Fund's employees. It helps the Fund motivate and attract employees, prioritise and make the right decisions. The vision covers all aspects of the Fund's activities.

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Continuous improvement is required to achieve the Fund's vision. The Fund therefore works with strategic roadmaps, with the current one extending from 2021 to 2023.

A more effective, sustainable and resilient portfolio

Continuous improvement is required to achieve the Fund's vision. The Fund therefore works with strategic roadmaps, with the current one extending from 2021 to 2023. The current plan focuses on developing a more effective, sustainable and resilient portfolio and on creating a more adaptable and effective business.

A more effective, sustainable and resilient portfolio entails enhancing the sustainability work within climate resilience, human rights and social issues, as well as biodiversity, and actively contributing to sustainable development.

Sustainability strategy

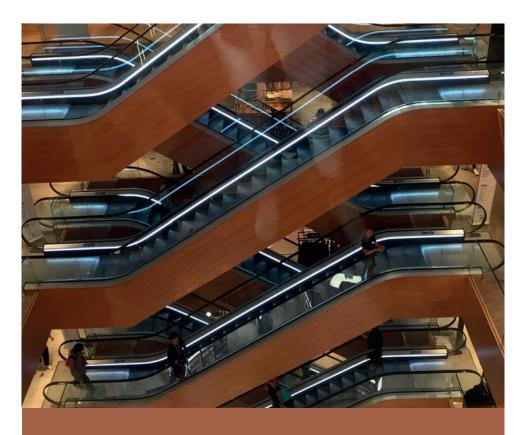
AP2 based its work throughout the year on the Fund's sustainability strategy. The strategy is based on the statutory mission and the Fund's investment beliefs. The strategy also reflects the Fund's vision and values

The investment beliefs provide the outer framework for the Fund's approach to sustainability in asset management. In addition, given the beliefs, a number of more specific sustainability principles have been adopted.

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, 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.

Sustainability risks

The most significant risks to which the Fund may be exposed can be divided into financial and operational risks. In 2021, the Fund added another risk class, impact risks. Impact risks include the risk that an investment might harm people or the environment. Examples of impact risks associated with people are human rights violations, corruption and bribery, and examples of impact risks associated with the environment are biodiversity, water and waste. The purpose of identifying impact risks is to manage the risks, i.e. that the Fund has processes to avoid the risks it does not want in the portfolio and to use advocacy to reduce the risks in the portfolios. As from and including 2022, impact risks will also be followed up, including in the risk section of the Fund's Directors' Report.



AP2's six sustainability principles

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Sustainability framework

One of Andra AP-fonden's sustainability principles is to seek to be a leader within sustainability, as a model for others to follow. The Fund is constantly working towards achieving this. The Fund began its sustainability work at the start, just over 20 years ago, and was also one of the founding signatories of PRI. Andra AP-fonden has on several occasions been a pioneer as an early investor into green bonds, and supporting the definition of agricultural investment frameworks and sustainability requirements in contractual agreements with private equity funds. Other examples of areas where the Fund has been an early mover are its divestments of fossil energy companies, TCFD- and UNGPRF-compliant reporting, and the internally developed multi-factor indices for global equities and corporate bonds that meet the EU Paris-Aligned Benchmark (PAB) criteria.

AP2's sustainability work includes the environment, ethics, social issues and corporate governance. The goal of the Fund's sustainability work is to generate and protect values and to contribute to sustainable development. Inclusion of sustainability aspects in analyses and investment processes provides the Fund with a broader and better set of data for decision-making. AP2 is also committed to maintaining a high level of confidence in the pension system through exemplary management and by driving further improvements in best practice in asset management.

Sustainability work affected by Covid-19

During 2021, the Fund's sustainability work was affected by Covid-19 to some extent, which mainly affected AGM attendance. Read more on page 44.

The 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 AP Funds' sustainability work is appropriate in relation to their mission. The audit 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 emphasised the challenges faced by the AP Funds and other similar investors, in Sweden and internationally, when it comes to presenting the extensive and complex sustainability work in a simple and easy-to-understand way.

Within the framework of the government's annual evaluation of the AP Funds' activities, in 2020 McKinsey conducted an in-depth analysis of the AP Funds' sustainability work. In its evaluation, the government noted that "the AP Funds are at the forefront of sustainability compared with leading institutional investors globally and they continue to improve their work in line with the rapid development in this area". According to McKinsey, the AP Funds excel particularly in their ownership commitment, and are also at the forefront of integrating sustainability into asset management.

Sustainability is part of the mandate

AP2 is a government agency whose activities are regulated in the Act (2000:192) on National Pension Insurance Funds.

The AP Funds' mandate includes generating a high rate of return while maintaining a low level of risk. The investment strategy must make provision for the impact on pension payments, as well as the liquidity requirement associated with outflows from the funds.

It is important that AP2 has the trust and confidence of the general public and acts in a responsible manner. The Act states that the AP Funds should manage their assets in an exemplary manner through responsible investments and responsible ownership. The Fund gives high priority to both sustainability and responsible action. A proactive approach to the environment, ethics, social iss-

ues and corporate governance provides the means to achieve the goal of a high risk-adjusted return.

Guiding documents for the sustainability work

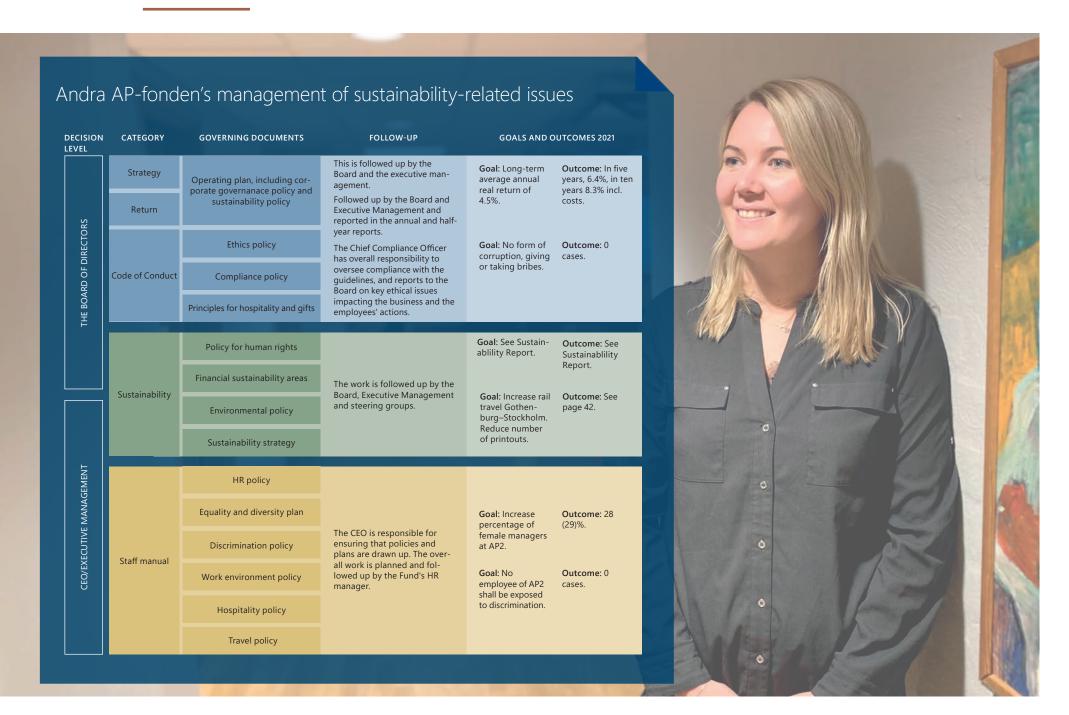
AP2 has a number of policies and guidelines that form the basis of the sustainability work (see description on page 12). Information and training in these are provided continuously. The Fund performs an annual review of policies and guidelines, and this is followed up through a system of internal controls and procedures.

AP2's operative work on sustainability and governance issues is based on the Fund's sustainability policy and corporate governance policy. These are adopted annually by the Board and published on the Fund's website. Regulations and conventions that also form the basis of AP2's work on sustainability include the OECD's Guidelines for

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.

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Overall, the dialogue showed that the stakeholders have good knowledge of the AP Funds' activities and a high level of confidence that the AP Funds fulfil their mission of long-term and sustainable high returns.

Multinational Enterprises and corporate governance, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights, the Swedish Companies Act and the Swedish Code of Corporate Governance. AP2 also adheres to other specific corporate governance codes such as the ICGN Global Stewardship Principles and the UK Stewardship Code.

Sustainable Finance Disclosure Regulation (SFDR)

In 2018, the EU launched an action plan to increase the proportion of sustainable investments, promote a long-term perspective and make it clearer what is sustainable, with an overall goal of the EU being carbon neutral by 2050. As part of this, the EU has issued a number of regulations to strengthen the action plan. One of these is the Sustainable Finance Disclosure Regulation (SFDR), which came into force in March 2021. The main purpose of the regulation is to enhance transparency in sustainability issues and to increase comparability between financial market players with regard to the integration of sustainability risks and consideration of negative consequences for sustainable development.

AP1, AP2, AP3 and AP4 are not directly covered by the Sustainable Finance Disclosure Regulation, but since it is stated in the Act that the AP Funds must manage the funds' assets in an exemplary manner through responsible investments and responsible ownership, and that the regulation is the new "standard", the AP Funds discuss the

extent to which they must report in line with the Regulation. In the coming years, the AP Funds will develop their reporting, primarily on their respective websites, in line with the Regulation.

Handling conflicts of interest

AP2's policy on conflicts of interest is part of the Fund's governance policy. Handling conflicts of interest in asset managers' corporate governance work is an important activity. As an independent, institutional state owner, AP2 does not have the same inherent potential for conflicts of interest as other players. Should they nevertheless arise, they are handled in accordance with the policy's process. Any conflicts of interest that arise are reported to the Board and published, in cases of special importance, on the Fund's website.

Implementation of PRI

AP2 supports and works to implement the **UN-supported Principles for Responsible Invest**ment (PRI). The Fund signed these principles back in 2006 when they were launched. Implementation of these principles is a continuous process in which sustainability is taken into consideration in both the Fund's role as asset manager and as asset owner. PRI provides a variety of tools and activities to support investors to implement the principles and to facilitate collaboration among investors. More than 4 000 investors have put their signature to these principles.

In an annual questionnaire sent out by PRI, all signatories report on how they are working to implement the principles. AP2's response to this questionnaire is available on the websites of PRI and AP2. AP2 also follows PRI's Guidance for Responsible Investment in Farmland. The guidance was drawn up in 2011 by AP2 together with a group of international investors. AP2's reporting on the implementation of these principles can be found on the Fund's website.

Organisation and distribution of responsibility

AP2's Board determines guidelines and policies in governance issues and has mandated the CEO of the Fund to manage these in the ongoing operations of the Fund. The Fund's Executive Management, together with the head of the strategy department and the Fund's senior sustainability strategist, are responsible for the strategic sustainability work and for implementation and follow-up. The day-to-day work is handled by the Fund's various departments.

Day-to-day corporate governance is managed through the Fund's Corporate Governance Group, which comprises members of the Fund's Executive Management, a corporate governance analyst and the head of Swedish Equities. Based on the Fund's corporate governance strategy, the Corporate Governance Group prepares action plans and continuously monitors the work.

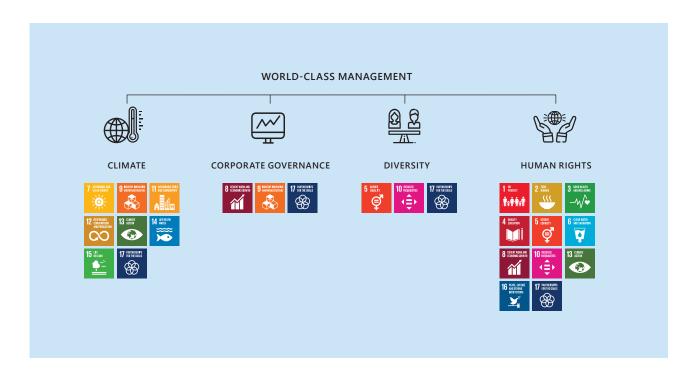
At each board meeting, AP2's Board receives a report on the Fund's sustainability and corporate governance work.

Stakeholder dialogue and materiality analysis

Continuous dialogue with stakeholders provides important guidance in the Funds' sustainability work. To investigate how the stakeholders view the AP Funds' assignments and activities in relation to sustainability and returns, AP1, AP2, AP3 and AP4 conduct stakeholder dialogues together with the Swedish Council on Ethics.

The most recent stakeholder dialogue was conducted in 2020, as an online survey that was sent out to just over 200 people within the AP Funds' eight most important stakeholder groups. The stakeholder groups consisted of clients (Pension Group, Finance and Social Insurance Committees and the Ministry of Finance), portfolio companies, suppliers, industry colleagues, beneficiaries, society, stakeholder organisations and employees.

Overall, the dialogue showed that the stakeholders have good knowledge of the AP Funds' activities and a high level of confidence that the AP Funds fulfil their mission of long-term and sustainable high returns. The stakeholders also have a high degree of confidence in the AP Funds' work with and integration of sustainability issues in the management process. The dialogue also showed that the AP Funds can become better at managing and communicating sustainability-related risks and opportunities in their investments.



ENGAGEMENT

Prioritised sustainability areas

In the survey, the stakeholders ranked twelve selected sustainability areas according to how important they considered each area to be for the AP Funds to take into account in their asset management operations and in their advocacy work with the companies.

Five areas were considered equally important to all stakeholders:

- **Business ethics**
- Anti-corruption
- Long-term return
- Human rights
- Climate change.

Several stakeholders pointed out that the AP Funds' sustainability work should be characterised by a holistic perspective and that all twelve areas are important in the AP Funds' overall sustainability work. Prioritisation of sustainability areas should be based on the type of company, sector and location.

Stakeholders emphasised that the AP Funds can improve their communication through increased transparency and greater visibility in the debate. They voiced a strong wish for the AP Funds to provide increased transparency surrounding their corporate dialogues and their results. Regular dialogue with the wider community was also considered important for driving a value-creating process of change.

Each AP Fund uses the stakeholder dialogue in its sustainability work in different ways.

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 time. The Fund 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.

The work carried out in these focus areas is targeting companies in which AP2 has invested most capital or in which the Fund controls a substantial interest, and in sectors that are deemed to pose considerable financial sustainability risks, since they are the financially most important sectors for the Fund. The work on human rights issues is primarily conducted from a severity perspective in accordance with the UN Guiding Principles. This can take place in collaboration with other investors to bring about improvements for a particular company or within a sector. The work on focus areas is also carried out internally.

Goals broken down into long-term and shortterm goals for each focus area, and activities for achieving the goals, are specified in the Fund's annual business plan for sustainability and in the action plans for each asset class.

Sustainability training

All employees receive regular internal training in sustainability topics.

All Board members have also undertaken training. This has included global sustainability trends, the UN's Sustainable Development Goals, the global financial landscape, the EU's framework for sustainability, AP2's sustainability work and the work of the Council on Ethics. In addition, during the year all employees received mandatory internal training in human rights and in the Fund's whistleblower policy. To promote a good workplace culture and to highlight ethical issues, the Fund's employees also attended a workshop on various ethical dilemmas.

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Contributing to the UN's Sustainable Development Goals



Each country is responsible for implementation and follow-up on the Sustainable Development Goals. To achieve the goals, governments, civil society and business and industry are required to work together.

The 17 Sustainable Development Goals are integrated and indivisible, which means that no goal may be achieved at the expense of any other goal, and that progress is required in all areas in order to achieve the goals. The Paris Agreement is an integral element of the UN's Sustainable Development Goals. As a global investor, AP2 can contribute to achieving the goals in various ways; through the Fund's sustainability work and through the investments it makes.

In September 2015, the 193 member states of the UN unanimously adopted 17 Sustainable Development Goals. The goals, to be achieved by 2030, aim to end poverty and create a sustainable world. The 17 global goals have been divided into 169 targets that are each measured by various indicators.

Examples of investments

Since 2017, AP2 has invested in The Rise Fund, a private equity fund that is managed by TPG Growth. During 2020, AP2 also invested in TPG Rise Fund II. Together the funds have approximately USD 5 billion in total undertakings, primarily from global institutions, which makes them the largest impact funds ever established. The objective of The Rise Fund is to achieve measurable, positive social and environmental results, as well as financial returns comparable with the market. All investments must have a positive impact on at least one of the UN's Sustainable Development Goals. The Rise Fund measures the specific size of the impact a potential investment is expected to have during its investment life cycle, with focus on the impact result as defined by the UN's Sustainable Development Goals.



More information is available at https://therisefund.

Engagement

During the year, the Fund launched an internal project aimed at understanding, measuring and communicating the impact of investments on the environment and people. One of the objectives going forward is to be able to spotlight both the positive and negative impacts of investments,

and to link this to respective sustainability goals. The results of the analysis will steer engagement work in the direction that is considered to be most worthwhile. Among other things, higher requirements will be set for transparent impact reporting by green bond issuers.

Green and social bonds

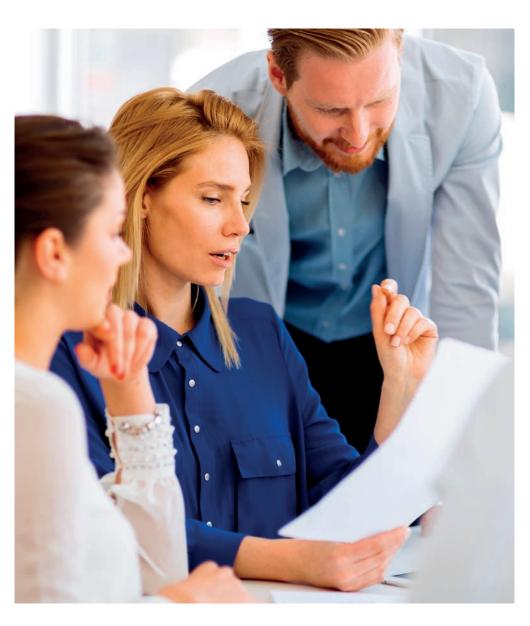
AP2 works actively to implement and develop sustainability aspects within asset management. For some time, the Fund has invested actively in green and social bonds. The special characteristic of these bonds is that the assets are invested in climate projects, or projects to tackle social challenges, and investors receive information about these projects. As a general rule, these projects are directly connected to at least one of the UN's Sustainable Development Goals. Investing in green and social bonds is an effective and successful way of implementing sustainability aspects in the Fund's fixed-income management and thereby achieving greater transparency and understanding of sustainability issues in the fixed-income portfolio. AP2 has invested in green bonds since 2008 and made its first investment in a social bond in 2014.

Today, there is no defined reporting standard for these bonds, and this reporting varies considerably depending on such factors as the issuers' areas of activity, where they operate, etc. However, AP2 has the ambition to aggregate reporting to reflect an overall picture and since 2019 has therefore compiled annual reporting for all of the Fund's green and social bonds. The reporting clearly shows that more and more issuers are linking their projects to the UN's 17 Sustainable Development Goals. Of the projects reported during the year, more than two thirds report contributions to achieving the UN goals. For issuers that do not report according to the goals, the Fund has applied the framework created by the International Capital Market Associations (ICMA).



More information is available at www.icmagroup.org

The aim of the reporting is to illustrate the practical implementation and diversification of sustainability within AP2's fixed-income management. In total, the Fund has currently invested in more than 170 different issuers of green and social bonds. These finance around 5 000 projects, of which around half are green and half are social.



Engagement in order to achieve improvements

As a committed asset owner and asset manager, engagement is an important tool to promote improvements. Andra AP-fonden is in regular dialogue with its external managers, as well as Swedish and foreign companies, on issues concerning the environment, ethics, social issues and corporate governance. The Fund is also a member of trade associations and supports engagement initiatives.

One of the Fund's six sustainability principles is to use dialogue as a tool. AP2 conducts dialogue in accordance with its corporate governance policy and corporate governance policy strategy. The use of dialogue as a tool to influence companies and other players to improve their sustainability performance helps to generate value for the Fund and promote sustainable development.

Collaboration with other investors

The Fund often seeks to collaborate with other investors to enhance effectiveness and maximise the impact of the dialogue. Collaboration with other investors is also important in order to promote responsible investment.

In addition to the AP Funds' joint Council on Ethics, AP2 collaborates with other Swedish and foreign investors. During the year, the Fund exchanged experience on the environment, ethics and corporate governance within asset management with the Swiss federal pension fund, PUBLICA, and others in the Fund's network. AP2 is also a member of and supports various Swedish and international initiatives relating to the environment, ethics, social issues and corporate governance. Read more on page 19. The Fund works with other investors to influence new legislation, primarily within corporate governance. These collaborative efforts are becoming increasingly important in influencing and bringing about change, and thereby enhancing long-term shareholder value.

AP2 is part of the reference group for a research project launched by PRI, UNEP FI and Generation Foundation, whose purpose is to investigate whether and how legal frameworks permit and encourage investors to take into account how sustainability factors affect and are affected. The pro-

ject, "A Legal Framework for Impact", analyses existing legal frameworks to see to what extent asset owners can prioritise sustainability factors, even when this has a negative impact on the return. It investigates how asset managers can or should approach sustainability factors when this is not included in their mandate.

In July 2021, the project published a comprehensive report with general conclusions, specific sub-reports concerning eleven jurisdictions as proposals for changes to existing regulations. The project continues to disseminate knowledge about the content of the report to achieve required changes.

Sharing knowledge

Several of the Fund's employees participate in international seminars and panel discussions with the aim of communicating the Fund's sustainability work in order to share knowledge, influence, exchange competence with others and create debate on issues that are important to the Fund.

Results of engagement

It can be difficult to measure and report the results of the engagement work conducted by the Fund. This is often a long-term project, where positive changes in the companies may be due to a number of different factors, and where

the Fund's dialogue work is only one of several initiatives. However, AP2's ambition is to continuously develop indicators and report on this work.

Companies that are no longer part of the Fund's portfolio

AP2 wants in the first place to influence in order to achieve change. The general principle is that this is best achieved by remaining the owner of a company and working to ensure that measures are taken to prevent future incidents, for example violations of human rights or climate violations. Nevertheless, there are situations in which the Fund excludes or divests companies.

Excluded companies

If AP2 has reason to suspect that any of the companies that the Fund has invested in are seriously and systematically acting in violation of an international convention that Sweden has entered into, or has expressed an intention to enter into, the facts of the case should be investigated. This includes a dialogue with the company in question. If the suspicions are confirmed, the company must be encouraged to provide an explanation and develop an action plan.

In its assessment of the case, AP2 must take account of the nature of the breach and any measures that have been (or will be) taken to

ensure the breach does not reoccur. If no satisfactory results are achieved through these contacts with the company, the Fund will conduct an overall assessment and then decide whether to exclude the company. The Fund may also decide to exclude the company if it considers the circumstances to be serious enough to warrant exclusion, even though violation of conventions has not occurred or cannot be proven.

Since 2014, the Council on Ethics of the AP Funds has introduced a time limit of four years for reactive dialogues conducted with companies where breaches of conventions have been verified by external experts. If the purpose of the dialogue has not been achieved within four years, the Council on Ethics recommends that the AP Funds dispose of the company.

In accordance with the legislation applicable to the AP Funds, the funds must have a common set of guidelines regarding which assets the funds should not be invested in. These guidelines are published on AP2's website.

At the end of 2021, AP2 had excluded 19 companies that are in violation of international conventions and where dialogue with the companies did not result in improvements. Information about which companies AP2 has excluded can be found on the Fund's website.

Divested companies

In line with the AP Funds' legislation, AP2 has analysed the international conventions that are aimed at limiting the use or availability of certain products or businesses. The Fund has also evaluated the need for a change in approach to align with the underlying purpose of the conventions.

In 2019, on the basis of the revised statutory regulations for the AP Funds on exemplary management, AP2 divested around 60 tobacco companies and companies involved in the development and modernisation of nuclear weapons systems.

At the end of 2020, the Fund decided to implement new multi-factor indices for global equities and corporate bonds that meet the EU Paris-Aligned Benchmark requirements. In principle, the entire energy sector was therefore divested. A total of around 250 companies will thereby no longer be part of the Fund's portfolio. More information is available on page 23.

MISSION AND GOAL

The Council on Ethics works for positive change and transparency

The AP Funds Council on Ethics is a collaboration between AP1-AP4 to jointly influence companies to move towards sustainable value creation and transparent reporting. During 2021, the Council on Ethics was involved in eight proactive projects that showed progress. At the end of the year, active dialogues were underway with 85 companies throughout the world.

By engaging in dialogue and discussions with companies, the Council on Ethics is committed to influencing companies and sectors, both for the purpose of prevention and in the event of incidents. The Council on Ethics focuses on companies in the AP Funds' equity portfolios of listed companies, primarily foreign holdings.

Proactive work helps mitigate accidents and incidents

The Council on Ethics' preventive engagement work involves several different companies and sectors. During 2021, the Council on Ethics completed a major and successful project to increase safety in mine tailing dams; a global and open database was created, a first global standard was developed, and an institute for reviewing the standard was established. Another project involves tech giants and human rights, with a focus on issues such as privacy. Eight proactive projects are currently under way, with between 10 and 500 companies addressed in each project.

Reactive work pushes companies to take action

The Council on Ethics' review of almost 3 200 holdings, conducted at the end of 2021, revealed that just over 100 companies were deemed non-compliant of an international convention or on a watchlist, assessed to to be at risk of committing such a breach. Most companies were found to comply with the norms of the screening. The Council on Ethics engages in dialogue with companies that are non-compliant or on the watchlist.

KPI:s - 77 milestones achieved in 2021

Key performance indicators for reactive dialogues are reported this year using more detailed statistics. By year-end, active dialogues were being held with 85 companies. In the course of these dialogues, a total of 77 milestones were achieved during the year. Read more on the Council on Ethics' website - www.etikradet.se

AUDITS	2021	2020	2019
Number of companies in the AP Funds' portfolios - all are audited	3 168	2 430	3 557
of which non-compliant	23	22	29
of which watchlist - risk of non-compliance	89	72	91
of which compliant	3 056	2 336	3 437

A **breach** of an international convention is considered to be **confirmed** once it has been verified and assessed on the basis of a number of criteria, including "the severity of the breach on a scale", "the scope and possibility of preventing the breach", "how strongly the company is involved or linked to the breach", and "the company's handling of the situation".

A company is defined as "watchlist" in instances where, after conducting an analysis on the basis of the above criteria, the company does not satisfy all the criteria for a confirmed breach, but the Council on Ethics considers that there is a severe risk. This category also includes companies where, for example, a breach is under investigation and a dialogue has not yet been initiated, and companies where, although the Council on Ethics has conducted a dialogue, goals have been achieved, and the dialogue has been concluded, the risk is still deemed to be high. In such instances, the Council on Ethics monitors the company's work and the results of actions taken.

DIALOGUES

2021

31 December 2021

Number of active dialogues

Number of milestones achieved during the year in these dialogues

77

Development for dialogues throughout the year

Number of new dialogues started

5

Number of dialogues completed with goals achieved

12

Number of companies recommended for exclusion

0

MISSION AND GOAL SUSTAINABILITY WORK

ENGAGEMENT

INVESTMENT PROCESS

CLIMATE

Membership and initiatives to influence Net Zero Asset Owner Commitment

In February 2021, AP2 signed the Net Zero Asset Owner Commitment, developed by the Institutional Investor Group on Climate Change's (IIGCC) Paris-Aligned Investment Initiative, and accredited by the UN Framework Convention on Climate Change as a Race to Zero initiative. This global campaign mobilises a coalition of leading net zero initiatives to accelerate the transition to a carbon-free economy and was formed ahead of the UN's COP26 climate summit in Glasgow in November 2021. For asset owners to be able to achieve this commitment, governments and policy makers must fulfill their own commitments to ensure achievement of the 1.5°C temperature goal of the Paris Agreement. AP2 has signed up to the Initiative and is taking a number of concrete steps towards the achievement of its commitments. The Fund's work on these steps is described in the table.

Sustainable Markets Initiative (SMI)

The Sustainable Markets Initiative was launched in 2020 by HRH Prince Charles with the aim of gathering businesses around the vision that work towards a sustainable future must be accelerated. SMI consists of different working groups that will drive the work towards positive climate and sustainability change. The working groups are divided by industrial sector, and AP2 has a representative in the Asset Owner and Asset Manager Task Force group. The aim is to create sustainable change within the initiatives and to ensure that new investments are made with the climate in mind. The membership also means that AP2 undertakes to follow the common roadmap, Terra Carta, see www.sustainable-markets.org

AP2:S FULFILMENT OF THE NET ZERO ASSET OWNER COMMITMENT

	Commitments	AP2's positions and activities to fulfil the commitments	
1	Develop the portfolio to achieve net zero 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 emissions by 2045.	
2	Implement this commitment with the aim of achieving real emission reductions and undertake a comprehensive set of actions available to investors in the Global Investor Coalition's Net Zero Investment Framework.	The development and implementation of the EU Paris-Aligned Benchmark (PAB) is one of the Fund's key instruments to deliver on 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 the Fund 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	Set targets that include an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with the portfolio. And also set objectives and targets for investment in climate solutions, consistent with the 50 per cent global reduction in carbon emissions identified as a requirement in the Global Warming of 1.5°C report published by the UN's Intergovernmental Panel on Climate Change.	For equities and corporate bonds for which PAB has been introduced, there is a reduction by at least 50 per cent when the index is implemented. According to the Intergovernmental 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	Only use carbon offsets where there are no technologically and/or financially viable alternatives to reducing emissions and then invest in long-term carbon removal.	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 their carbon sequestration as a possible way to offset carbon emissions.	
5	Ensure that any direct and collective advocacy supports policy measures and regulations that are relevant for achieving global net zero emissions by 2050 or sooner.	In 2021, AP2 has contacted the organisations of which the Fund is a member of to ensure that their relevant policies and advocacy work are in line with the Paris Agreement.	
6	Implement a corporate governance strategy with clear voting guidelines that are consistent with the goal to achieve a net zero portfolio by 2050 or sooner.	AP2's Voting Guidelines state: "The Fund advocates that companies express their support for and draw up a strategy to be in line with the Paris Agreement."	
7	Engage with asset managers, credit rating agencies, auditors, stock exchanges, voting 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.	rs	
8	Set targets and reduce operational (Scope 1 and 2) emissions in order to achieve 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	Report goals and targets and, within one year of making this commitment, publish an Investor Climate Action Plan explaining how these goals will be achieved, and review and update the goals and targets at least every five years.	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 goals and action plan in the 2022 TCFD report.	
10	Report annually on the strategy and actions implemented to achieve the goals and targets in accordance with TCFD's recommendations on financial climate risk.	AP2 has presented a report each year since 2018 in accordance with TCFD.	

ACTIVE MEMBERSHIP

Area	Initiatives	Further commitments	More information on page
All	Hållbart Värdeskapande	Participate in network.	
	UN Principles for Responsible Investment (PRI)	Work according to the principles and report.	13
	Sweden's Sustainable Invest- ment Forum (SWESIF)	Participate in network.	
	Sustainable Markets Initiative (SMI)	Work according to the commitments in Terra Carta, contribute to the working group.	19
Biodiversity	Investors Policy Dialogue on Deforestation (IPDD)	Participate in a working group.	33
Climate	Net Zero Asset Owner Com- mitment	Report against ten commitments.	19
	Task Force on Climate-related Financial Disclosures (TCFD)	Report according to TCFD.	38
	Climate Action 100+ (part of IIGCC)	Lead the dialogue with Volvo.	37
	The Institutional Investors Group on Climate Change (IIGCC)	Opportunity to contribute to joint initiatives.	37
	Extractive Industries Transparency Initiative (EITI)		
Human rights	Investor Alliance for Human Rights (IAHR)	Contribute to the work on com- pany dialogues, and participate in meetings and joint statements.	55
	Platform Living Wage Finan- cials (PLWF)	Participate in working groups, conduct benchmarkand and dialogue with companies.	54
	International Corporate Gov- ernance Network	Take part in meetings and joint statements.	
Corporate governance	Asian Corporate Governance Network (ACGA)	Participate in networks, working groups and dialogue with companies.	

INITIATIVES IN 2021

Area	Туре	Initiatives	Further commitments	More information on page
Biodiversity	Investor Statement	Financial Institution State- ment ahead of the Con- vention on Biological Diversity COP15		
Climate	Co-sign investor letter	Letter to Air Liquide within the framework of Climate Action 100+		
		Letter to Engie within the framework of Climate Action 100+		
		SEC Climate Disclosure coordinated by PRI		
	Dialogue	IIGCC COP26 physical risks statement	Take part in meetings and joint statements.	
		Ceres Food Emission 50	Take part in meetings and joint statements.	21
		Stakeholder organisations' standpoint on climate issues	Follow up with stakeholder organisations. Dialogue if necessary.	21
	Investor Statement	Global Investor Statement to Governments on the Climate Crisis		21
		Investor Expectations Aligning the Banking Sector		
Climate, Biodiversity	Investor Statement	SMI COP26 expectations statement		21
		Deforestation commit- ment	Deforestation-free portfolio by 2025.	21
Climate, Biodiversity, Human rights	Investor Statement	Investor statement of sup- port for EU CSRD through PRI		
Human rights	Dialogue	Uyghur Region Engage- ment Group, Investor Alli- ance for Human Rights	Participate in meetings and dialogues with companies about links to violations of human rights with a focus on the situation of the Uyghurs.	
				55

MISSION AND GOAL SUSTAINABILITY WORK **INVESTMENT PROCESS** CLIMATE CORPORATE GOVERNANCE DIVERSITY **HUMAN RIGHTS GRI-INDEX** ENGAGEMENT



Through the IIGCC, AP2 signed a letter addressed to Alok Sharma, the president of COP26, in which governments were asked to set a clear timeline for the requirement to comply with the Paris Agreement.

Platform Living Wage Financials (PLWF)

This network was set up by Dutch institutional investors with a focus on living wages in the textile and food industries. They identify and engage with companies that are exposed to this risk in their supply chains.

The network members undertake an annual benchmark survey of the companies' work to ensure that living wages are paid in their supply chains. Through the network, AP2 also has the opportunity to collaborate with other investors in company dialogues on human rights.

Ceres Food Emission 50

The food industry accounts for around one third of all global greenhouse gas emissions. By engaging with the top 50 North American food companies with the highest emissions, this initiative aims to accelerate progress towards net zero emissions within food production and agriculture.

COP26

Prior to COP26, AP2 participated in a number of initiatives to promote change. Within the framework of SMI, the Fund signed a statement, together with other investors, with expectations ahead of the meeting. Through the IIGCC, AP2 signed a letter addressed to Alok Sharma, the president of COP26, in which governments were asked to set a clear timeline for the requirement to comply with the

Paris Agreement. Within the same organisation, the Fund participated in statements and ongoing dialogue concerning investors' expectations regarding risk and opportunity management at the meeting.

Deforestation commitment

In this commitment, financial institutions commit to work for a deforestation-free portfolio by 2025. This primarily involves a risk assessment and involvement with the companies and countries where the risk of deforestation is greatest, with deinvestment as a last resort. The initiative has clear milestones up to 2025.

Stakeholder organisations' standpoint on the climate issue

This initiative was part of the Net Zero Asset Owner Commitment (developed by the IIGCC) and consisted of mapping attitudes towards the climate crisis, and above all the Paris Agreement, among the stakeholder organisations with which the Fund and other investors cooperate. Depending on the purpose of each organisation, there are different conditions for adopting official positions. The results show that 5 out of 14 officially support the Paris Agreement, but that all stakeholder organisations take the climate issue seriously and address it within the framework of their operations.



Sustainability in the investment process

Integrating sustainability into asset management entails taking account of sustainability factors in analysis and decision making processes. In this way, the Fund can also reduce the risk and improve the potential for better returns. Andra AP-fonden's view is that sustainable companies also generate good returns in the long term.

The Fund's fundamental conviction is that companies with long-term sustainable business models create more value for their shareholders. Such investments are also, all other things being equal, less risky. Companies that integrate factors such as ethics and the environment in their business development will have a real advantage over their competitors and be better equipped to create longterm value for their shareholders. A proactive approach to the environment, ethics, social issues and corporate governance provides the means to achieve the goal of a high risk-adjusted return.

Sustainability - part of the strategy

AP2 has a sustainability strategy that extends until 2023. The strategy is based on the Fund's six principles for sustainability. One of the principles is that AP2 integrates sustainability in all investment processes. The design of the integration depends on the conditions applicable to each asset class and decision-making process. How

sustainability is integrated may differ, for instance, between the fundamental management, the quantitative management and the choice of indices. It may also differ between the active asset management, the management of listed and non-listed assets, and the internal and external fund management. The starting point for integrating sustainability is to improve the potential for overall achievement of the goals. This can be done by improving the expected return, by minimising the risk, or by promoting sustainable development without compromising on the risk-adjusted return. The integration of sustainability is a continuous process rather than a goal that can be completed by a given date.

Norm-based screening

All companies in AP2's equity portfolios are screened twice a year in order to identify companies that are in violation of international conventions and guidelines. This screening is carried out

by an external consultant and forms the basis for dialogue conducted by the Council on Ethics. Read more about the work of the Council on Ethics at www.etikradet.se

Geographical exposure

AP2 has developed a framework which identifies countries where there are financial, operational or sustainability reasons not to invest in these countries. The framework and the Fund's process is designed to handle goal conflicts in affected countries based on AP2's mission. This framework is based, among other things, on the UN Guiding Principles on Business and Human Rights and the Fund's human rights policy. In terms of sustainability reasons for not including countries in the

benchmark index, the Fund currently focuses on human rights risks. The Fund may decide not to include a country's listed assets in its portfolios on strong government-related sustainability grounds, such as human rights violations. In countries where the state violates the UN Convention on Human Rights, often with poorly functioning legal systems and widespread corruption, there is a great risk that companies will contribute to negative impacts on people.

The Fund uses an external data provider to analyse and identify countries where there is a very high risk of human rights violations. The assessment takes account of the quality of the legal protection of human rights, how well the legal and policing system implements this legal protection,



AP2 recognises that there is significant value in aligning its indices to the objectives of the Paris Agreement based on a scientifically validated framework established by the EU. This regulatory framework aims not only to reduce greenhouse gas emissions and achieve net zero emissions by 2050, but also to benefit companies that contribute positively to the climate transition.

EU Paris-Aligned Benchmark

During 2020, AP2 implemented the EU Paris-Aligned Benchmark (PAB) for the Fund's internally managed global equities and corporate bonds, which entails that the Fund does not invest in companies which achieve more than a certain proportion of their sales from coal, oil and/or gas, or in power companies which achieve more than 50 per cent of their revenue from combustion of fossil fuels. The maximum share for coal is 1 per cent, for oil 10 per cent and for gas 50 per cent. This has resulted in a total of 250 companies no longer being included in the Fund's portfolio.

The framework also requires a PAB-adjusted index to initially have a carbon footprint that is a maximum of 50 per cent of the benchmark index, in AP2's case equivalent to a market-weighted reduced by 7 per cent per year, with the aim of achieving net zero emissions in 2050. This means that the carbon footprint by 2030 and

2050 is expected to decrease to 24 and 6 per cent, respectively, of the benchmark index's carbon footprint for 2020.

For AP2's portfolios of global equities and corporate bonds, the reduction was around 70 per cent in 2020, taking account of Scope 3 emissions in accordance with the criteria for PAB.

In 2021, the Fund worked on analysing and developing PAB for the Fund's management of Swedish equities and in 2022 will continue to adapt indices and portfolios for other assets in accordance with the criteria for PAB.

Why PAB?

is to influence companies to reduce their greenhouse PAB-adapted portfolio.

and the extent to which human rights violations actually take place. In countries with very high risk, the Fund conducts an in-depth analysis of the situation in order to, among other things, understand which rights are violated, how often and in what way they are violated, and the development of human rights over time in the country.

For countries that are identified with high risk in this analysis, the Fund's possibility to influence positive development in the country is also assessed, as well as whether it is better for the people affected if the Fund invests in the country or not. The Fund considers whether it is possible to arrange meetings with decision-makers, whether the government listens to investors' views, or whether it is possible to influence development more indirectly, for example via counterparties such as local external portfolio managers. If AP2 assesses that it is not realistic to expect the Fund to be able to contribute to a positive influence on the performance of a country that violates human rights, there are likely to be sustainability grounds not to include the country in the Fund's portfolios.

Swedish equities

Fundamental analysis is employed in the management of Swedish equities. In the analysis of companies, consideration is given to sustainability aspects and how they can affect company valuation and revenue in the long term. Sustainability aspects include regulations relating to the environment, corporate governance issues and technological change. AP2 believes that companies can both create and protect value by working with sustainability. By being an active investor, the Fund can influence companies and support them in the development of their sustainability work.

For example, the Fund participates in nomination committees, votes at general meetings and raises specific issues with the companies. During the year, AP2 continued to build up its cleantech portfolio of investments in Swedish environmental technology companies that contribute to a sustainable transition.

Global equities

AP2's management of global equities mainly takes place as active internal quantitative management. In 2018, AP2 replaced all existing indices for internal management with internally-developed multi-factor indices. The factor to which the indices had greatest exposure is an internally-developed sustainability factor linked to a number of environmental, social and corporate governance factors. In 2020, the Fund adapted its indices for global equities to fulfil the criteria for the EU Paris-Aligned Benchmark (PAB). In global equity management, sustainability factors are also applied to active management.

External mandates for global equities

AP2 also has externally managed mandates within global equities. Sustainability factors are taken into account when choosing managers. The managers' work in the sustainability area is followed up and evaluated annually. The external managers with whom the Fund works in this asset class are also important dialogue partners for the Fund with regard to sustainability. The dialogue aims to increase the knowledge of both parties in this area.

For external managers that invest in portfolio companies or in regions where the risk of breaches of international conventions is assessed to be high, the Fund implements close, active dialogue to

MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS GRI-INDEX

ensure that the managers integrate sustainability factors in their asset management. It is also of utmost importance that the external managers continue the dialogue in their contacts with the portfolio companies concerned.

Private equity funds

AP2 integrates sustainability in the private equity investment process and has long been actively engaged, through various stakeholder organisations, in broadening knowledge and driving development in a number of areas.

ILPA (Institutional Limited Partners Association) is the only global organisation for investors in private equity funds that focuses on driving issues common to investors in the private equity sector. The ILPA's work involves updating and developing guidelines for principles, practices and policies and since 2018 has included a framework for sustainability and diversity. This forms part of the questionnaire used by AP2 in the due diligence process and in the overall assessment of an investment.

AP2 was previously part of the PRI Private Equity Advisory Committee (PEAC), which is an advisory body for PRI's work with private equity funds. The purpose of the committee is to give opinions on strategies and activities, to monitor the implementation of UN Principles for Responsible Investment within the private equity sector, and to help with guidance and a common standard. The Fund has also participated as a member of a working group led by PRI in cooperation with Environmental Resources Management (ERM) in order to produce a guide for ESG evaluation, reporting and dialogue within private equity. The guide was published in June 2018 and is an element of PRI's work to support investors (Limited Partners) and managers (General Partners) to include sustainability in investment processes.

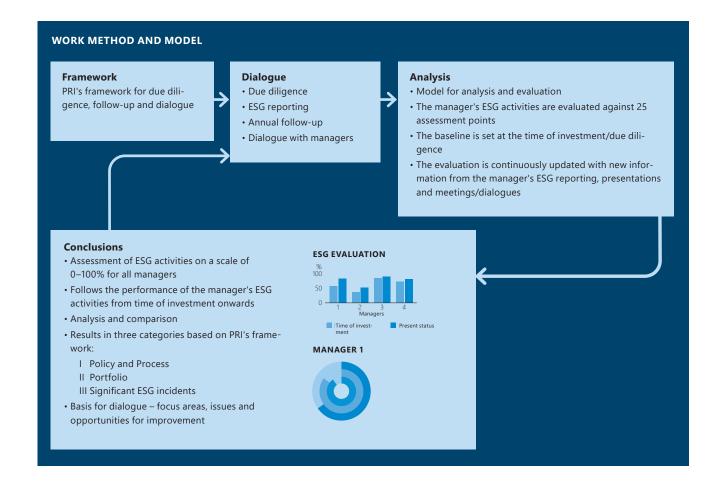
Sustainability evaluation of fund managers

On analysing private equity companies' sustainability work, AP2 uses a model based on PRI's framework for due diligence, follow-up and dialogue. The companies' sustainability work is evaluated on the basis of 25 assessment points, which are divided into three categories: policy and process, portfolio and incidents. Initially, the evaluation is formally performed at the time of investment and is thereafter updated regularly with new information. On the

basis of the analysis, AP2 can pose further questions, highlight improvement opportunities and ensure continuous development in the on-going dialogue with the manager.

In addition to systematisation of the evaluation process, evaluation criteria have been established for all assessment points. Besides individual evaluation, the aim is to create conditions to enable comparison of the sustainability work within various management organisations.

An increased focus on sustainability and a firmer conviction of the importance of sustainability issues for long-term value creation are evident among private equity companies. AP2 has noted that more private equity companies are working actively on these issues in the investment process and that their ESG reporting is also improving. It is also clear that focus areas such as diversity and climate take high priority.



MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS

AP2 has 47 managers in the private equity portfolio, of which 33, or 70 per cent, have been evaluated with the model. Of those not assessed, six are managers in Venture (investing in early start-up companies), which requires a different analysis and follow-up structure; one is a fund-infund manager; and eight are managers whose funds are in their final stages and for which an update is not deemed to be relevant.

On a scale of 0-100 per cent, an equal weighted outcome is given in the categories of policy and process, portfolio, and incidents. Thirteen managers were evaluated in 2021, with a total outcome of 75 per cent, which is an increase from 69 per cent the previous year. All subcategories improved during the year.

Considerable work is in progress in the Portfolio category to structure the follow-up of company-specific sustainability data for all holdings in the portfolio. This will further improve the outcome.

A manager's rating is divided into four subcategories according to the manager's degree of maturity, from cautious to excellent, where a compilation of AP2's managers shows continuous improvement. There are now no managers who have an outcome within the poorest category. The change compared with previous years is due to the fact that two managers have been excluded from the compilation as they are being phased out, and two managers have been updated to an outcome that falls within the category of good. In addition, two managers have been updated with a move from good to very good, and the number of managers with the highest outcome increased in 2021.

51 per cent of all managers have signed the UN Principles for Responsible Investment (PRI), which is an increase by seven managers during the year.

Furthermore, 51 per cent issue an annual sustainability report, an increase from 44 per cent in 2020.

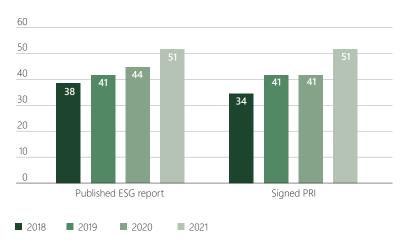
AP2 is continuously working to analyse and evaluate the sustainability work within private equity investments and seeks to use dialogue to drive progress and improvements. Throughout the year, the dialogue focused on increased reporting in a number of focus areas, including diversity and climate, plus other key data relevant to specific investments. Several international initiatives are under way to standardise this form of reporting, and AP2 supports initiatives that in the long term will increase the compilation of information. In 2021, AP2 joined the ILPA (Institutional Limited Partners Association) Diversity in Action initiative to show support for and commitment to issues relating to diversity and inclusion, both internally and externally.

Investment commitments and investments with a climate focus

AP2 has made a number of investments with a focus on sustainability and impact, for example through TPG Rise and TPG Rise Climate. The strategy for TPG Rise is to invest in growth companies and, with a sector-based approach, identify companies that can contribute to achieving the UN's Sustainable Development Goals. AP2 invested USD 50 million in TPG Rise Fund I (2017) and USD 100 million in TPG Rise Fund II (2019), where a significant proportion of the completed investments are classified as climate-related. For example, investments have been made in renewable energy, charging stations for electric vehicles, more efficient processes in industry to reduce carbon emissions, and in agriculture.

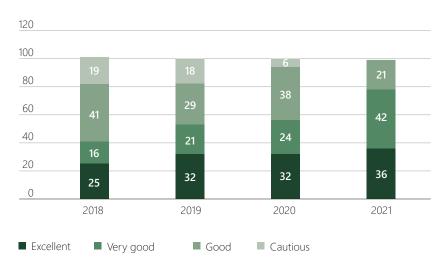
A further step to invest with a special focus on climate issues was taken in 2021 through the com-

ESG REPORTING, %



GRI-INDEX

PRIVATE EQUITY DEVELOPMENT, CLASSIFICATION, %





A further step to invest with special focus on climate issues was taken in 2021 through the commitment of USD 150 million to TPG Rise Climate.

mitment of USD 150 million to TPG Rise Climate. which strategy is to invest with a focus on climate change and carbon emissions. This is equivalent to the Rise Fund, which seeks both market-based financial returns and a positive measurable impact. It comes, among other things, in terms of the estimated reduction of carbon emissions per dollar invested and the impact on health (climate-related diseases), or the protection of natural resources.

In August 2021, the Climate Fund made the first investment in Form Energy, an American company that develops energy storage technology to quickly reduce carbon emissions in the electricity grid and promote the expansion of renewable energy in various industries. Form Energy has launched its first commercial battery storage product in the form of a rechargeable iron-air battery. The basic technique is to add oxygen on discharging and thereby convert ferrous metal into rust, and vice versa to add power on charging and convert rust back to iron when the battery emits oxygen. This method is considered to be effective, with good prospects for economies of scale, since iron is an inexpensive metal. TPG Rise Climate undertook the investment together with other leading private equity managers.

AP2 has several commitments with the aim of investing in companies with a positive impact at different stages of a company's development, from start-up companies to more mature companies within growth and buyout. For example, Khosla Ventures has a pronounced philosophy of investing in ideas and innovations that can contribute to a change in the world, with a positive impact on society's development. The strategy is to invest in companies with pioneering technology in such areas as environmental technology, sustainable energy, transport and agriculture. AP2 has invested in Khosla Ventures since 2009 through a number of funds.

In 2019, an investment was made in DCVC (Data Collective Venture Capital), whose main strategy is to invest in companies that develop advanced cutting-edge technology (deep tech). Since 2020, AP2 has also had a commitment through DCVC Bio, whose strategy is investments that combine advanced technology and life science in a number of areas. In its AH Bio Fund, fund manager Andreessen Horowitz also has a strategy to invest in young, immature, high-growth technology companies focused on biology, data science and healthcare.

For several years, AP2 has invested in the Generation Sustainable Solutions Fund, whose strategy is to invest in growth companies that promote sustainable development. An interesting investment made by DCVC and Generation is in Pivot Bio.



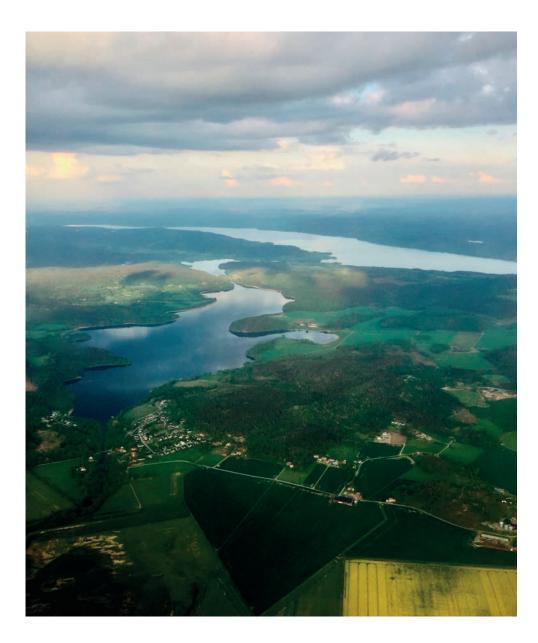
Pivot Bio is a company that has developed a microbial technology that delivers the daily amount of nitrogen that different crops need during different growth phases. The technology allows the nitrogen present in the air to be converted into a form that crops can utilise. The method is a biological replacement for synthetic nitrogen, which is a chemical fertiliser used in the agricultural sector, with a special focus on cereal crops. Cultivation of, for example, maize, wheat and rice accounts for a significant proportion of the chemical fertilisers used globally, which gives great potential for this new method to have a positive impact.

Green, blue and social bonds

The aim of green bonds is to finance projects

that support necessary transitions and limit negative effects of climate change. Continued strong market growth was recorded during the year, with more organisations and companies issuing both green and social bonds. During 2021, AP2 has invested in a number of green bonds from new issuers, which contributed to diversifying the Fund's fixed-income portfolio and broadening its climate commitment. The Fund has invested in 157 different issuers with around 5 000 projects across the globe, such as renewable energy, developing public transport and railways, making office and residential buildings energy efficient, and water purification.

One way to expand the sustainability work within fixed-income management has been to invest in social bonds. AP2 made its first invest-



ment in a social bond in 2014. Since then, the Fund has invested in 15 bonds with a focus on social issues. Interest in social issues has increased significantly as a consequence of the effects of Covid-19, and an increased focus on issuing social bonds was noted during the year. Dedicated bonds in specific areas are also becoming increasingly common, i.e. where the issuer borrows capital to invest in projects that promote specific sustainability areas. These bonds can be linked to issues within the framework of the UN's Sustainable Development Goals, and AP2 has previously invested in bonds that focus on measures and projects to promote equality issues. The Fund has also invested in blue bonds, which finance water-related projects.

AP2 actively engaged in development

The increased access to green and social bonds is positive, as the Fund is better positioned to promote a more sustainable society in a clear manner, while generating a good return. Considerable resources are required to facilitate the transition to a more climate-efficient economy. Furthermore, green and social bonds help raise awareness of sustainability within the financial sector.

AP2 is actively involved and considers it important to help develop and raise awareness of the issue. Partnering with universities, as well as research in this field, is an important means of contributing to development. Since 2017, the Fund has also been represented as an adviser to the Yale Initiative on Sustainable Finance (YISF).

AP2 had holdings in green and social bonds for a value of just over SEK 17 billion as at 31 December 2021.

Corporate bonds

In 2020, the Fund developed and implemented a multi-factor index for global corporate bonds and adapted it to comply with the EU Paris-Aligned Benchmark (PAB) criteria. For more information about PAB and its criteria, see page 23. A number of sustainability factors are included in the active management of corporate bonds. The environmental, social and governance factors form an ESG theme that has several sub-categories. Some factors, for example, focus on diversity, corporate governance, use of resources and emissions.

Government bonds

AP2 strives to invest in government bonds in emerging countries when this is consistent with the Fund's requirement for a risk-adjusted return, in a way that incentivises governments to improve their sustainability performance and support the delivery of the UN's Sustainable Development Goals. Three ways in which the Fund does this is in practice are via ESG-weighted indices, green bonds and ESG factors in active management.

Since February 2020, the Fund has used the JP Morgan ESG Index for government bonds in emerging-market countries, which are issued in both local currency and US dollars. The index is built using JP Morgan's standard index, but gives greater weight to countries with a higher ESG score. The ESG scores are based on data from reputable sources and are strongly positively correlated with the UN index in terms of how far countries have progressed in achieving the UN's Sustainable Development Goals.

Green bonds are given greater weighting than in an standard index. The ESG weighting yields a clearly positive effect on the sustainability profile in the index without the risk-adjusted return profile being reduced.

SUSTAINABILITY WORK

Since 2015, the active management of AP2's government bonds issued in dollars by emerging countries has been based on a points system that, among other things, reflects the political risks in the various countries. The points system covers areas which include the strength of the legal system, institutional quality, political stability, unemployment and poverty, risk of conflicts and maintaining democratic principles. The weighted political scores therefore represent the S and G segments of ESG. The active strategy places the countries' sustainability profiles in relation to the price of their bonds and the expected return by over-weighting countries whose interest rates are higher than what the Fund's models consider to be justifiable, given the economic and socio-political risks of the country. All other things being equal, AP2 therefore invests more in governmentissued dollar-denominated bonds with a better sustainability profile. Read more on pages 22-23.

Traditional real estate

Many different sustainability aspects are important for the real-estate sector. For the sixth consecutive year, in November 2021, AP2 organised a sustainability day for its non-listed real-estate companies (Vasakronan, Cityhold Office Partnership and US Office Holdings) to increase collaboration on sustainability issues between the companies and to discuss sustainability indicators.



Many different sustainability aspects are important for the real-estate sector. For the sixth consecutive year, in November 2021, AP2 organised a sustainability day for its non-listed real-estate companies.

Evaluation of sustainability work

In spring 2014, the Fund joined the Global Real Estate Sustainability Benchmark (GRESB) in order to better monitor and evaluate the sustainability work for AP2's investments in real estate. The GRESB organisation uses an annual survey to assess seven different sustainability criteria in real-estate companies and real-estate funds. These are management, policy and disclosure, risks and opportunities, monitoring and environmental management systems, environmental performance indicators (energy, greenhouse gas emissions, water and waste), building certification, and stakeholder engagement. More than 1 150 real-estate companies and funds took part in the survey in 2021.

Every year, AP2 encourages its non-listed realestate companies and funds to take part in the GRESB survey. All of the Fund's non-listed realestate companies and foreign non-listed realestate funds responded to the 2021 survey (concerns the results for 2020).

GRESB awards each company/fund an overall score, a GRESB score, on a scale of 0 to 100. The Fund's non-listed companies were awarded an aggregated GRESB score of 93.

Carbon footprint

The real-estate sector accounts for almost 30 per cent of the global emissions of greenhouse gases and almost 40 per cent of energy consumption, which means that climate change and energy are key issues. The non-listed companies' carbon footprint was 0.44 tCO₂e per million SEK invested. Energy consumption and carbon emissions per unit area were 149 kWh/m² and 0.026 tCO₂e/m², which entails a reduction of 9 per cent and 14 per cent, respectively. The underlying causes are mainly reduced use of the areas due to Covid-19, but also energy-efficiency improvements.

Timberland

Timberland is an asset class that offers both diversification and stable, long-term returns. AP2 has been investing in timberland since 2010. Of the Fund's total assets, 1.3 per cent is invested in timberland. The majority of the investments are in Australia and the USA, and in timberland assets that produce sawn timber and pulp wood. The Fund has three external managers: New Forests, Molpus and GreenWood Resources. New Forests invests in Australia and New Zealand, Molpus in the USA and GreenWood Resources in Europe, Latin America and the USA.

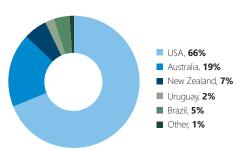
Sustainability is embedded in the entire investment process for both timberland and farmland, as well as management and monitoring of acquired real estate. Besides customary due diligence prior to investment, there are also thorough checks of counterparties, title deeds and contractors, assessments of environmental, social and climate risks. landscape assessments and effects on such factors as carbon sequestration, biodiversity and local communities. All of AP2's managers are signatories to and comply with the PRI guidelines for responsible investments. The Fund's managers also apply climate risk modelling to their forest portfolios in order to better understand the potential physical and economic effects of climate change on investments over time.

The forest and forest industry have the unique opportunity to reduce fossil consumption on a large scale by replacing it with renewable products and, at the same time, increasing carbon sequestration in growing forests and in forest products. An important part of the climate solution therefore lies in growing forests that reduce the amount of carbon dioxide in the atmosphere and build up carbon stocks. However, greater consensus is required concerning the models used to measure carbon sequestration. There are also some limitations as to how the climate benefit from the forest is reported in official climate reports, where the forest is often separated from its value chains.

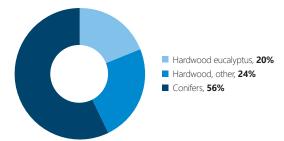
Another important factor for the forest's role in climate change is biological diversity and the impact of forestry on this diversity. Achieving climate goals not only requires greenhouse gas emission reductions and the sequestration of existing carbon dioxide, but also the maintenance of

GEOGRAPHIC BREAKDOWN OF FOREST (HECTARES)

SUSTAINABILITY WORK



PRODUCTION BREAKDOWN OF FOREST (HECTARES)



biodiversity. Climate change and the loss of biodiversity are both serious threats to humanity and are closely linked. Healthy species-rich ecosystems with plants that fit in with their environment and plant zone function better and are more resilient to changes in the surroundings such as droughts, flooding, pest infestations, etc. They can thereby absorb more carbon dioxide and are therefore better at checking global warming while maintaining food and water supplies. Any negative effects of forestry on the forest's biodiversity has been the subject of intense debate in recent times. However, sustainable forestry can combine improved carbon sequestration with positive development in biodiversity. AP2 engages in ongoing dialogue with its managers of timberland holdings and with other external parties to highlight and increase collaboration on these issues

Sustainability certification requirements

AP2 requires portfolio managers, whenever possible, to certify the timberland assets in accordance with one of the international sustainability certification schemes, i.e. Forest Stewardship Council (FSC) or Programme for Endorsement of Forest Certification (PEFC). Even if the assets cannot be certified, they will be managed in accordance with these organisations' principles for certification.

New Forests was started up in 2005 and is a fund manager specialising in forestry. Its work includes developing markets for the ecosystem services provided by the forest. Sustainability issues have been central to New Forests' business concept right from the start. The company's stated ambition is to be at the forefront of sustain-ability, which means that it has policies and management systems for its sustainability work and that the timberland assets have been awarded sustainability certification by an independent party. New Forests participates actively in trade associations and investment networks, which drive issues such as responsible business and investment, and promote sustainable forest management and sustainable financial markets. Examples of these, where New Forests is a member, are Ceres, CPIC (Coalition for Private Investment in Conservation), GIIN (Global Impact Investing Network), Investor Group on Climate Change, Carbon Market Institute and WBCSD (World Business Council for Sustainable Development). New Forests and WBCSD have together developed and launched a roadmap for the forest sector to deliver on the UN's 17 Sustainable Development Goals (see Forest Sector SDG Roadmap, www.wbcsd.org/ Sector-Projects/Forest-Solutions-Group/Resources/Forest-Sector-SDG-Roadmap) AP2 has invested in three of New Forests' funds that focus on Australia and New Zealand. New Forests' sustainability report is available at www.newforests.com.au

Molpus has a long tradition of sustainable forestry and has been managing investments in

timberland in the USA since 1996. The company also has policies and management systems for their sustainability work. It uses the Sustainable Forest Initiative (SFI), which is the US certification programme within PEFC. Since 2011, Molpus has have held multi-site certification, which means that an independent party audits approximately one third of the assets on an annual basis and that new assets are included as they are acquired. In some cases, Molpus may also choose certification in accordance with FSC. The audit reports are available on SFI's website at www.sfiprogram.org

GreenWood Resources is responsible for managing the timberland assets in two companies, Global Timber Resources and Lewis & Clark, which AP2 owns jointly with other institutional investors. GreenWood was established in 1998 and manages the timberland assets in accordance with FSC or PEFC. GreenWood's forest management team manages and adapts its assets to changing climatic conditions. This means that its strategies range from developing better routines for wildfire seasons and participating in regional pest control cooperatives, to choosing plant materials based on climate resistance, such as drought tolerance.

Farmland

Investments in farmland form part of AP2's efforts to diversify the overall portfolio. 2.7 per cent of the Fund's assets under management are invested in farmland. Sustainability issues are

MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS GRI-INDEX

central to AP2's investments in farmland. The Fund's strategy is to invest in large-scale farmland assets in countries with clearly-defined legal structures. This means that many geographical regions are not available for investment.

AP2 has chosen to invest in farmland assets through joint ventures with other investors that share the Fund's values of long-term investment and sustainability. The Fund has invested in three jointly-owned companies and one fund: TIAA-CREF Global Agriculture (TCGA), TCGA II, Teays River Investments and TIAA European Farmland Fund (TEFF). TCGA and TCGA II own farmland in the USA, Australia, Brazil and Chile.

AP2 does not cultivate any land. The land is either leased to local farmers/companies or administered by the external managers for the jointly-owned companies. The tenant (the farmer) of leased farmland decides which crops to grow and is responsible for producing and selling them. Farmland with permanent crops, such as fruit trees, is managed by an operator appointed by the external manager. Most of the land owned by the jointly-owned companies is leased out. However, the majority of the investments made by Teays River are managed directly by the operating companies.

TCGA, TCGA II and TEFF are managed by Nuveen, whose company, Westchester, is responsible for the operational management of the farmland. AP2 is actively engaged in improving the sustainability performance of the companies, for instance through its board work. The Fund's representative on the Board of TCGA is also a member of

its ESG committee. During 2018, AP2 was in dialogue with Nuveen on deforestation in Brazil. In August 2018, Nuveen adopted a clear zero tolerance policy for Nuveen and Westchester with respect to the acquisition of deforested land. Land may not be acquired if it has been deforested after the dates stated in the policy. The dates vary across Brazil's biological zones. More information is available at www.nuveen.com. The investment guidelines for TCGA and TCGA II stipulate that no land in the Amazon biome may be acquired. TCGA and TCGA II have never included any such farmland assets.

Nuveen is committed to increasing the transparency of, for instance, the geographical location of the farmlands. For some years, their website has included an interactive map of all farmland in the portfolio. This has now been expanded with more detailed information, which includes clear farmland boundaries on updated satellite images, photos of the farmland in question, business strategy, acquisition date, type of crop and cultivated area. More information is available at www.nuveen. com/en-us/institutional/strategies/ alternatives/ farmland-map

In 2019, Westchester began to develop its existing ESG process into a more comprehensive framework to better track and evaluate sustainability performance across the global agricultural portfolio, thereby providing a better overall view of its sustainability work. This new framework was implemented in 2020 and includes best practice from the OECD-FAO Guidance for Responsible Agricultural Supply Chains, IFC EHS Guidelines for Annual and

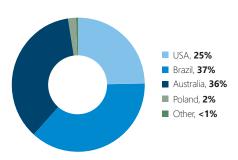
Perennial Crop Production, EU Taxonomy for Agriculture, Linking Environment and Farming (LEAF), the General Mills Regenerative Agriculture guidelines and Leading Harvest. The framework is based on three elements. The first is an overall Code of Conduct for farmland and the practices used by operators in their cultivation process, covering everything from how to maintain a good balance in the soil that is cultivated, to how to train their workforce. A farmland profile is drawn up annually and shows more specifically how well the farms implement practice by measuring quantitative data for each individual farmland area, such as how much water and energy each farm uses, which pesticides, etc. The third part of the framework is Key Performance Indicators (KPIs), which highlight trends and performance by compiling data from the Code of Conduct and the farmland profile.

The first version of the framework that has now been implemented focuses on energy use, water consumption, soil quality and greenhouse gas emissions. It also provides the opportunity to track key indicators for resource efficiency, such as waste production and impacts on biodiversity. The next version will make it possible to track activities that promote social objectives such as equality, cohesion, social integration and work relations.

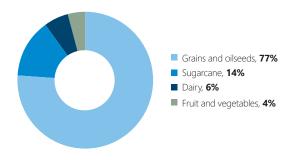
Disclosure of PRI's Guidance for Responsible Investment in Farmland

In autumn 2014, PRI took over responsibility for administering the principles for responsible investment in agriculture that AP2 was involved

GEOGRAPHIC BREAKDOWN OF FARMLAND (HECTARES)



PRODUCTION BREAKDOWN OF FARMLAND (HECTARES)



in developing in 2011. As a consequence, the principles have been developed into Guidance for Responsible Investment in Farmland. PRI encourages all signatories that have invested in farmland to implement the Guidance. Implementation reporting is included in PRI's reporting tool. AP2's farmland managers report annually on their implementation of the Guidance for Responsible Investments in Farmland. More information about how the managers work with the Guidance is available on the Fund's website.

Leading Harvest

Westchester is also a co-founder of Leading Harvest, which is a non-profit organisation for promoting sustainable agriculture. It was launched in April 2020 in the USA and was established in partnership with investors, asset managers, landowners, nature conservation bodies and farmers. Leading Harvest identifies 13 principles, 13 objectives, 33 performance measures and 71 indicators that provide criteria for sustainability in agriculture. This includes methods for preserving land, water resources and biodiversity, as well as the well-being of employees and local communities. More information is available at www.leadingharvest.org

Sustainability audits of farmland in Brazil

TIAA-CREF Global Agriculture (TCGA) leases out farmland in Brazil to local tenants and operators. In 2015, the first audit of all the company's farmland in Brazil was conducted. It was performed by BSD Consulting, a global sustainability consultant, with focus on the operations' compliance with regulations on working conditions, occupational health and safety, and the environment and integrity. TCGA's ESG committee, of which AP2 is a member, worked with TCGA's manager on the implementation of the audits. The purpose of the audits was to assess compliance with laws and regulations in Brazil, with PRI's Guidance for Responsible Investment in Farmland and/or commitment in relation to sustainability certification.

The audits showed that a majority of TCGA's tenants had good management systems, but non-compliances and/or observations were identified for all farms. In order to support the tenants, TCGA's manager has changed its process for site visits to include a more comprehensive review of the tenants' activities, as well as a visit to their head offices. This is done even if the office is not located on land owned by TCGA. The manager has also produced a detailed code of conduct for the tenants, which is discussed in person with each tenant, plus a steering and supervisory process to facilitate compliance with the code of conduct. TCGA's manager has also used the results of the audits to improve its control procedures for new acquisitions.

In 2018, third party audits were also carried out for all farmland activities in TCGA II. In addition, selected farmlands in TCGA were audited again. The new audits were also performed by BSD and were even stricter and conducted with greater thoroughness than in 2015, due to the governance



MISSION AND GOAL



In 2020, the first three investments in sustainable infrastructure were made. During 2021, a supplementary investment in Generate Capital and three completely new investments took place.

and supervisory processes that were developed after the previous audit. They showed once again that most of the Brazilian farmland activities are handled by certified tenants with good, stable processes in place. Any observations were related mainly to a lack of formal processes. There was a slight increase in observations among the farmlands that were audited again. This underlines the importance of conducting these audits on a continuous basis and actively supporting the tenants in their sustainability work. About one third of the farmlands will therefore be subject to a regular annual audit, based on a risk matrix. All farmlands will thereby have been verified over a period of three to four years.

In 2019, third-party audits were conducted for 30 per cent of the farmland in Brazil in accordance with the new audit plan. This time, Westchester collaborated with IMAFLORA, Institute for Agricultural and Forestry Management and Certification. All the farms and tenants that were audited again, this time showed improved results and compliance.

In 2020, the audit had to be conducted remotely due to the pandemic and was limited to the state of São Paulo. This audit was also performed by IMAFLORA, but with an online verification process. Six tenants underwent the audit, representing a cultivation area of 20 000 hectares.

Previously observed shortcomings for these tenants were mainly related to formal processes such as management and governance issues, and these shortcomings had now been reduced by over 80 per cent. Other examples of audit observations are that no cases of child labour or forced labour were discovered, 100 per cent of tenants follow practices for conservation and environmental care, and 100 per cent have an active collective agreement for their employees. For more information, see AP2's Human Rights Report.

Sustainable infrastructure

Sustainable infrastructure is an area in need of major investment. Energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources.

At the end of 2019, AP2 decided on a new strategic allocation to sustainable infrastructure, i.e. assets that promote sustainable development in line with the Paris Agreement. In 2020, the first three investments in sustainable infrastructure were made. During 2021, a supplementary investment in Generate Capital and three completely new investments took place.

 Generate Capital owns and operates smallscale distributed sustainable infrastructure, primarily in the energy sector (e.g. rooftop solar energy systems for schools).



- Copenhagen Infrastructure 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 lithium-ion batteries for electric vehicles. Its first battery production facility is located in Skellefteå.

 Climate Finance Partnership Fund focuses on renewable energy investments in developing countries, managed by BlackRock.

These investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal.

MISSION AND GOAL

Biodiversity

Biodiversity is an umbrella term that collectively describes the great variety of species and habitats that exist on earth and which forms the basis for the proper functioning of ecosystem services.

According to the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services (IPBES), around 75 per cent of the land-based environment and around 66 per cent of the marine environment have been significantly affected by human actions. Weakened ecosystems risk undermining nature's ability to provide vital goods and services. Important reasons for the loss of biodiversity include changes in land use and pollution.

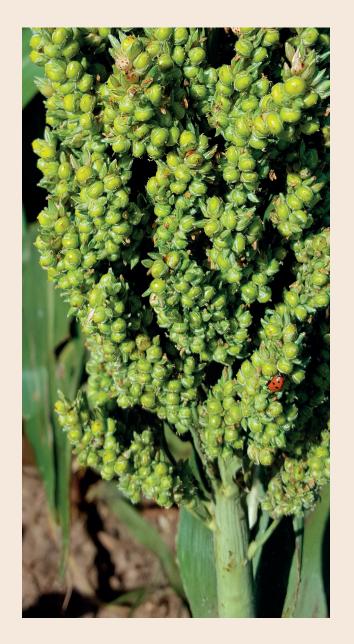
AP2 is working to develop a strategy for responsible investments that promotes sustained biodiversity and covers the Fund's various asset classes. Within AP2's investments in timberland and farmland, this work has been under way for many years and is an integral part of the work with the Fund's managers. Within other asset classes, such as the listed equity portfolio, this is in a development phase.

A first focus area for the integration of biodiversity into AP2's listed portfolio is deforestation. In conjunction with COP26, the Fund has undertaken to work for a portfolio free from illegal deforestation by 2025. AP2 is also engaged in the deforestation issue through Investors Policy Dialogue on Deforestation (IPDD), which seeks to create dialogue on these issues with politicians and decision-makers in key countries.

Promoting biodiversity in investments in timberland and farmland

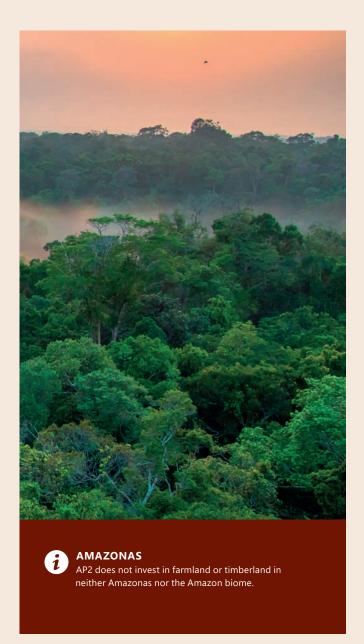
If they are not performed sustainably, both forestry and farming activities can adversely affect the environment and water quality. AP2's managers therefore apply well-established forestry management and agricultural systems, scientifically designed over many years to minimise negative impacts. Due to the complexity of biodiversity, it needs to be managed and monitored by taking a holistic approach at landscape, habitat and species level. The Fund's managers participate actively in many different projects to promote biodiversity in the Fund's investments. Read more about this at www.ap2.se

Sustainable management of forest land involves the management of entire ecosystems. The management of biodiversity is explicitly included in all certification schemes and forestry standards, such as the Forest Stewardship Council (FSC) and Programme for Endorsement of Forest Certification (PEFC). AP2 requires the portfolio managers to certify the timberland assets in accordance with one of the international sustainability certification schemes. Any changes in timberland use might risk leading to negative environmental effects and thereby reduce social and cultural values associated with the land. The Fund's forest managers therefore have a zero tolerance policy towards deforestation in their forestry by means of forest certification and responsible forestry.



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There is no equivalent certification for agriculture and AP2 has therefore been involved in developing the Guidance for Responsible Investment in Farmland. Today, these principles are administrated by PRI. AP2's farmland managers have pledged to comply with this Guidance. One of AP2's American farmland managers is also a co-founder of Leading Harvest, which is a non-profit organisation to promote sustainable agriculture. Leading Harvest was launched in April 2020 in the USA and was established in partnership with investors, asset managers, landowners, nature conservation bodies and farmers, and includes methods to preserve land, water resources and biological diversity.

Biodiversity protection is often achieved through provisions for protected areas of own land and is an important part of measures to protect endangered species such as certain fungi, insects, birds, lichen and mosses that are part of sensitive ecosystems. Biodiversity in the soil and in microorganisms that help improve the quality and nutritional content of the soil is equally important. The fertile soil is a prerequisite for good harvests, long-term sustainability and profitability. The greater the diversity of these microorganisms, the greater the productivity and resilience of the soil's ecosystems.

It is therefore important for landowners to monitor soil quality and promote farming methods that prevent the risk of soil degradation. Factors with potentially negative effects include excessive use of pesticides, fertilisers and other chemicals, and excessive irrigation causing salinity levels in the soil to rise. AP2's farmland managers have therefore started a major project for regenerative agriculture.

To minimise erosion and maintain soil quality, crop residues are left in the fields after harvesting and the ground is left unploughed and undisturbed. The plough-free agricultural method has already been used for many years in the farm real estates in all regions where AP2 invests. Leaving the soil virtually untouched promotes moisture retention, soil resilience and fertility. Organic matter left from previous crops also helps improve the soil's water-holding capacity. Cover crops grown after the main crop has been harvested help maintain a living root system for most of the year. They also add organic matter to the soil, protecting it from erosion and nutrient leaching. Two- and three-crop systems, and growing another crop between the rows of the main crop, also have positive effects on soil biodiversity, as the soil is covered with a thicker layer of biomass after harvesting.

In 2018, AP2 was involved in drawing up a zero tolerance policy for deforestation in its Brazilian farmland investments. The policy constitutes an enhanced strategy to combat deforestation by safeguarding the original natural vegetation, increasing forest plantation and reforestation, and thereby stopping the loss of biodiversity. The policy aims to ensure that the Fund's investments do not contribute to deforestation of forest areas and other indigenous vegetation on owned land or land to be acquired. AP2's managers use satellite-based mapping technology, in some cases combined with biomass measurement data, to determine a farmland's compliance with the policy.





Climate

Climate is one of Andra AP-fonden's focus areas, which means that the Fund integrates climate into analysis and investment processes, strives to influence companies and decision-makers and is committed to reducing its own direct climate footprint through its internal environmental activities. The Fund is developing its portfolio in line with the Paris Agreement, with the aim of a net zero emission portfolio by 2045.

SUSTAINABILITY WORK

Climate change is a long-term risk that could have a far-reaching impact on global financial markets and is therefore an important strategic sustainability issue. Within the framework of sustainability, the Fund's belief is that the climate change topic stands out when it comes to the potential impact on the Fund's return and, in the long run, its goal attainment. It also covers an extremely long horizon and has long-term consequences. Furthermore, climate change is closely linked to many other areas of sustainability.

Climate risks have a unique position among sustainability risks, as the consequences of climate change are both extensive and complex. Major climate changes can suddenly occur when a critical point is reached, and can also trigger a domino effect with further negative consequences. Major changes in society will take place in the

transition to economies with net zero emissions. Since neither physical climate risks nor transition risks are fully priced, such sudden upheavals can lead to major changes in how different assets are valued.

Climate change can potentially create financial instability, resulting in serious negative consequences for the financial sector and the economy as a whole. On reviewing the Fund's investment beliefs in 2019, a new belief was therefore adopted: "Climate change is a systemic risk".

AP2 is therefore developing its portfolio to bring it in line with the Paris Agreement. This means that the Fund divests to reduce the financial climate risk for the portfolio, invests actively in sustainable strategies for the transition and influences companies and decision-makers through dialogue.

In 2021, the Fund continued to implement indices in accordance with the EU Paris-Aligned Benchmark (PAB), read more on page 23, and made several investments in sustainable infrastructure, see page 32. The Fund is also committed to achieving a positive change through dialogue with companies and decision-makers, including the global Climate Action 100+ dialogue project, read more on page 37.

Climate and choice of strategic portfolio

Besides the impact on the environment, ecosystems and people, a temperature increase exceeding 1.5°C under the Paris Agreement is expected to lead to a decline in real economic activity, with consequences for the global financial markets. Through its potential impact on the global economy, climate change is not only expected to affect the Fund's return, but also the index linking of outgoing pensions, which also depends on economic growth. From that perspective, climate change is not only a risk for the planet and its ecosystems, but also for the economic system.

Furthermore, sustainable growth requires significant systemic changes in the use of different kinds of energy. This means that the world must stop relying on coal, oil and other fossil fuels and switch to wind, solar and other renewable sources in order to achieve sustainable global development in line with the Paris Agreement.

Climate change can be viewed from the perspectives of both opportunity and risk. The risk presented by climate change for economic growth and the financial markets is significant. Since 2019, AP2 has therefore included climate risk in the Fund's overall return assumptions on which strate-

gic portfolio selection is based. The Fund also sees investment opportunities in the climate area and makes investments that directly promote the transition that is required without compromising the risk-adjusted return. Examples of this are that green bonds account for 3.0 per cent of the strategic portfolio and that the Fund invests in sustainable infrastructure, i.e. assets that contribute to sustainable development in line with the Paris Agreement.

Contributing to the transition to sustainable development

AP2 has been working on integrating sustainability into asset management for a long time into asset management, by focusing on areas such as climate change. Under the National Pension Insurance Funds (AP Funds) Act, the management must focus particularly on how sustainable development can be promoted without compromising the overall mission to provide the greatest possible benefit to the pension system.

Contributing to the transition

AP2 aims to contribute to the transition towards a society in line with the Paris Agreement. The Fund does this through:

- Investments in sustainable strategies
- Dialogue with companies
- Dialogue with decision-makers.



Political measures required

Political measures are required to keep the global temperature increase in line with the requirements of the Paris Agreement. However, this does not prevent institutional investors such as AP2 from having an important role to play. Limiting global warming to 1.5°C, on which the countries of the world agreed at the Climate Conference (COP21) in Paris in 2015, represents a clear move

towards a society without net greenhouse gas emissions. The special report published by the UN's Intergovernmental Panel on Climate Change (IPCC) in October 2018 shows that it is possible to reach 1.5°C. This requires carbon emissions in 2030 to be 40 to 60 per cent lower than levels in 2010 and that zero emissions be achieved by 2050, assuming that there are no significant negative emissions. Prior to COP26 in Glasgow,

AP2 supported the Global Investor Statement to Governments on the Climate Crisis initiative. Among other things, the governments were urged to strengthen their National Determined Contribution (NDC) by 2030.

Investments in sustainable strategies

Creating a low-carbon society requires, among other things, a conversion of energy and transport systems. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. The Fund's investments in green bonds and timberland are two other examples of investments with sustainable strategies that have a positive climate impact. It is also recognised that there is a considerable need for investment in sustainable infrastructure. Such investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal. In 2020 and 2021, a total of six investments were made in sustainable infrastructure, primarily in the energy area, such as solar power plants, wind farms and solar farms, wind power development projects and electricity distribution networks. The Fund has also invested in large-scale manufacture of lithium-ion batteries for electric cars.

Collaboration on climate issues

AP2 works with other European investors on climate issues through membership of the IIGCC (Institutional Investors Group on Climate Change). The aim is to promote the investors' views on these issues and to engage with companies, authorities and other investors in order to highlight long-term risks and opportunities that arise in connection with climate change.

Climate issues are important for AP2 as a longterm investor. To enable companies to make profitable investments and investors to calculate risks and returns, it is important to have clarity about regulations and frameworks for reducing greenhouse gas emissions and stimulating alternative energy sources. IIGCC is an effective platform for communicating investors' wishes in the climate field. The organisation is also a platform for collaboration with other investors in terms of both dialogues with companies and the development of methods and tools for investors. More information is available at www.iigcc.org

In 2021, the Fund was active in around ten IIGCC initiatives. Further details of AP2's membership and initiatives can be found on page 19 and on the Fund's website.

Dialogue with companies

AP2 participates actively in Climate Action 100+, an international dialogue initiative launched in December 2017. The investors who are part of the initiative will, over a five-year period, collaborate on dialogues with around one hundred companies that account for the world's largest greenhouse gas emissions. The aim is to persuade these 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. Together with Öhman and Alecta, AP2 is leading the dialogue with AB Volvo, which is one of the companies in the initiative.

Climate Action 100+ has now been active for four years and is supported by just over 600 investors. Even though some progress has been made, much more needs to be done to achieve the aim of the initiative. To better measure the companies' progress, since 2020 a benchmark index - the Net-Zero Company Benchmark – has been used, and is subject to annual updating. In addition, the initiative is followed up via an annual report showing the development in the dialogue.

The latest report was published in December 2021 and is available on the Climate Action 100+ website. More information is available at www.climateaction100.org

Dialogue with decision-makers

Prior to COP26, the IIGCC and a number of other investor organisations jointly published the Global Investor Statement on Climate Change, which describes how investors can contribute and what investors expect of governments. More than 470 investors have signed this document. AP2, together with around 200 globala investors, have urged the governments of the G7 and G20 countries to live up to the Paris Agreement and push for rapid implementation, and express their continued support for this work.

In May, 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 achieving the Paris Agreement's net zero emissions goal by 2050.

Financial climate risks

Climate change is expected to have a major impact on the long-term returns. It is therefore becoming increasingly important to integrate climate change aspects into risk assessments and investment decisions. Climate change risks are divided into two categories: transition risks and physical risks. Transition risks are subdivided into regulatory risks, technological risks, market risks and trademark risks. Physical risks are subdivided into acute risks and systemic risks.

In 2013, AP2 began analysing climate-related financial risks for fossil energy companies and then continued with coal-based electricity companies. A key starting point for this work was that the climate-related risks facing the companies are not correctly priced by the market. The Fund's work to analyse climate-related financial risks for these sectors focused on regulatory risks. AP2 has divested equities and corporate bonds in a total of 80 companies due to climate-related financial risks. These divestments have brought positive financial contributions.

Since AP2 has implemented equity and credit indices in line with the EU Paris-Aligned Benchmark, they have replaced the previous process of analysis of climate-related financial risks for fossil energy companies and coal-based power companies. On the transition to these indices, the Fund has divested around 250 companies in total. Read more on page 17.

Since 2019, climate change has been included in the ALM analysis, which forms the basis of the Fund's strategic portfolio. The focus is on physical risks from climate change and the impact of climate change on economic development. Read more on page 36.

AP2 is engaged in continuous dialogue on physical risks from climate change with companies and managers of the Fund's investments in real assets, which are timberland and farmland, traditional real estate and sustainable infrastructure.

AP2's investments in fossil energy

AP2 has compiled the Fund's exposure to fossil energy from 31 December 2018 and up to 31 December 2021 on the basis of a number of different metrics for the listed equity portfolio. According to the EU Directive, fossil investments are defined as investments in sectors that produce, refine, store or use fossil fuels such as coal, oil and gas. AP2 therefore presents the following in order to provide a comprehensive view of the Fund's exposure to these sectors:

- Number of companies with fossil reserves.
- The companies' reserves based on AP2's ownership share in the companies.
- The reserves' potential carbon emissions based on AP2's ownership share in the companies.

In this context, it is important to be aware that the concept of 'resources' is used for how much coal/oil/ gas is estimated to be present in the ground. Reserves are how much is expected to be economically possible to extract given the prevailing economic and technological conditions.

Reserves are usually classified into three levels: proved, probable and possible reserves. Proved reserves are expected to be commercially viable, with a 90 per cent probability that the quantities will be equivalent to or greater than the estimate. Probable reserves are less likely to be developed commercially, with a 50 per cent probability that the quantities will be equivalent to or greater than the estimate. Possible reserves are assets that are least likely to be recovered, and the probability is 10 per cent that the quantities will be equivalent to or greater than the estimate.

For coal, there is data for proved and probable reserves, including both thermal and metallurgical coal. (Thermal coal is primarily used as fuel to produce electricity and metallurgical coal is used as an input in the manufacture of steel.) For oil and gas, there is data for proved reserves. AP2 has used data from MSCI ESG Manager.

AP2:S EXPOSURE TO FOSSIL RESERVES

	2021	2020	2019	2018
Number of companies with coal reserves	5	6	21	25
Number of companies with oil and gas reserves	7	10	61	65
AP2's share of the holdings' reserves in coal (million tonnes)	0.0	0.3	1.8	4.4
AP2's share of the holdings' reserves in oil and gas (mmboe)	0.0	0.6	15.7	17.8
AP2's share of the holdings' potential CO_2 emissions from reserves in coal, oil and gas (MtCO $_2$)	0.0	0.9	10.0	15.8

Reporting in accordance with TCFD

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) presented its recommendations for reporting on climate-related information. The recommendations are directed at both companies and investors. AP2 supports the recommendations and is working to implement them. AP2's first TCFD report was published at the beginning of 2018.

SUSTAINABILITY WORK

Reporting in accordance with the TCFD's framework includes information on: 1) how the climate issue is handled by the organisation's governing bodies (board of directors and executive management), 2) the organisation's strategy relating to climate change and the transition to a low-carbon society, 3) the organisation's climate risks and opportunities, and 4) the metrics and targets used by the organisation. A full TCFD report can be found on the Fund's website.

Carbon footprint

The advantage of measuring the carbon footprint is that it provides an overall picture of the carbon intensity of a portfolio or an index. It is then possible to look at sector or company level for more detailed information on the direct emissions of the sector/companies and emissions from the electricity they use. For several years now, carbon footprint information has been included in the decision-making basis for index changes at AP2. The carbon footprint can also be used to assess the sensitivity of different portfolios to carbon pricing.

The carbon metrics used to calculate carbon footprint provide important information, but

there are limitations. See the table on page 40. Previously, one of the limitations was that the carbon footprint did not provide information about actual emission changes in the portfolio companies. To increase transparency in this regard, since 2019 the AP Funds have been reporting what percentage of the change in carbon footprint is due to changes in the Funds' equity holdings and to changes in the companies' emissions, respectively. These calculations are explained by the formulas given on AP2's website. More information about carbon footprints and formulas for other metrics are also available on the website.

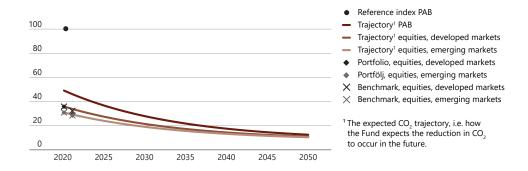
Carbon footprint for EU Paris-Aligned Benchmark

As AP2 has implemented its own indices that are compliant with the criteria for the EU Paris-Aligned Benchmark (PAB), another metric has been added to its carbon footprint report, namely carbon intensity based on the Enterprise Value Including Cash (EVIC), as this metric is prescribed by the EU

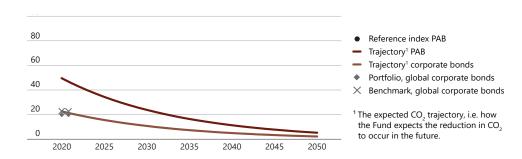
In addition, Scope 3 is part of this framework, which means that AP2 extends its carbon footprint reporting to include Scope 3 for the sectors for which this is prescribed, currently the oil, gas and mining sectors.

Graphs 1 and 2 show the carbon footprint of the portfolios adapted to the EU framework, i.e. for equities in developed markets, equities in emerging markets and global corporate bonds. The assets in these portfolios constitute around half of the Fund's total capital.

GRAPH 1. CARBON FOOTPRINT IN PAB-ADJUSTED EQUITIES PORTFOLIOS COMPARED TO A MARKET-WEIGHTED INDEX, %



GRAPH 2. CARBON FOOTPRINT IN PAB-ADJUSTED CREDIT PORTFOLIOS COMPARED TO A MARKET-WEIGHTED INDEX, %



In both graphs 1 and 2, the carbon footprint is reported as a percentage compared to the equivalent market-weighted index for the portfolios that are adapted to the framework. The curves show an annual decrease of 7 per cent. Over time, the Fund intends to maintain its footprints for the portfolios under these curves. The points in the graphs show the outcome for the portfolios and the benchmarks that control these.

SUSTAINABILITY WORK

Graph 3 presents the reasons for the change in the carbon footprint between 2020 and 2021 for AP2's listed portfolios of global equities and corporate bonds. This also includes equity mandates that have not implemented PAB's framework, such as Swedish equities. The graph shows that most of the decrease can be attributed to changes in the Fund's holdings. Companies are also contributing to the reduction.

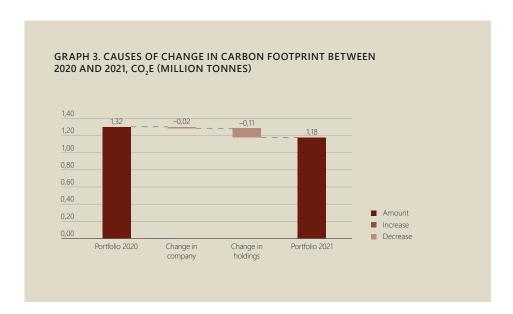
As companies in the portfolio improve and increase their reporting of carbon data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

Collaborative group

ENGAGEMENT

Using transparent reporting with common metrics for the fund assets' carbon footprint, the AP Funds aim to highlight different aspects of climate risk, such as the sensitivity of the asset portfolios, for example, to carbon pricing. The AP Funds consider that common metrics aid understanding and comparison.

Since 2015, the AP Funds have had a collaborative group of representatives from each AP Fund to coordinate the Funds' carbon footprint reporting. Formulas used to calculate all the metrics are available on AP2's website.



The AP Funds' annual carbon footprint is calculated for holdings as of 31 December using the latest available carbon data for the companies' direct emissions (Scope 1) and indirect emissions from energy (Scope 2).

Exposure to carbon risk is reported using four metrics:

1. Total carbon emissions

Total of owned share of portfolio companies' individual carbon emissions.

2. Relative carbon emissions

Total of owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.

3. Carbon intensity

Total of owned share of portfolio companies' individual carbon emissions in relation to the total of owned share of the portfolio companies' turnover.

4. Portfolio-weighted carbon intensity

(TCFD) The metric adds together the individual carbon intensity of each portfolio company, i.e. a company's carbon emissions in relation to its turnover, weighted according to each individual company's share of the portfolio.

Reporting changes in the carbon emissions

Changes in an investment portfolio's carbon footprint can be caused by two factors: changes to the portfolio holdings and a change in the companies' carbon emissions.

Making adjustments to the portfolio, such as selling companies with high carbon emissions and buying companies with lower emissions, can reduce the portfolio's total carbon footprint. Such

changes mitigate the portfolio's exposure, for example, to fluctuations in the price of carbon emission rights and also reduce its climate-related risk. At the same time, there is no change in total carbon emissions to the atmosphere, i.e. the risks of climate change globally have not been affected by the Fund's transactions.

It is only when companies cut their actual emissions that atmospheric emissions are reduced and climate improvements are achieved. As an asset owner, AP2 works actively with various means to influence its portfolio companies to make modifications and improvements to reduce their carbon emissions. The Fund does this in dialogue with the companies, often collaboratively with other global investors, requiring the companies to report their climate risks, and using governance, processes and activities to manage these risks in accordance with TCFD. AP2 is also a committed owner regarding these issues (at general shareholder meetings, for instance) and has investment strategies that address climate-related risks and opportunities.

The listed portfolio's carbon footprint (Scopes 1 and 2)

The total carbon emissions for AP2's equity portfolio in 2021 are 1.1 (1.4) million tCO_2e . The 20 percent reduction is mainly due to changes in holdings that contributed a decline of 17 percentage points. The companies contributed a decrease of 3 percentage points. The relative carbon emission is 6 tCO_2e /SEK million. By comparison, carbon intensity in 2020 was 9 tCO_2e /SEK million. If the footprint is instead related to the ownership share of the companies' turnover, the carbon intensity is 10 tCO_2e /SEK million. By comparison, carbon intensity in 2020 was 13 tCO_2e /SEK million.

SUSTAINABILITY WORK

In accordance with the TCFD framework, the Fund also reports a portfolio-weighted measure of the carbon intensity. This is similar to the abovementioned carbon intensity measure based on the companies' turnover.

The table on page 42 shows all measurement figures for the different markets.

AP2 uses data from MSCI ESG Research and Refinitive to calculate the carbon footprint. For AP2's carbon footprint data is available for 99 per cent of the equity portfolio. For the developed markets 77 per cent are reported and 23 per cent are estimated. Corresponding figures for emerging countries are 69 per cent and 31 per cent, respectively, and for Sweden, 51 per cent are reported and 49 per cent estimated.

Carbon footprint in other asset classes

AP2's ambition is to eventually present a carbon footprint that includes all asset classes. For 2021, the Fund has calculated the carbon footprint from listed equities, global corporate bonds, timberland, farmland and traditional real estate. This means that 68 (56) per cent of AP2's Fund capital is measured according to a carbon indicator.

AP2's non-listed real estate companies have a carbon intensity of 0.4 (0.6) tCO₂e/SEK million, based on market value. The decrease in carbon intensity is mainly due to energy efficiency improvements and reduced use of areas due to Covid-19.

ENGAGEMENT

The Fund and timberland managers are in dialogue on calculation of carbon sequestration and carbon emissions. Two of the Fund's managers, New Forests and Nuveen, have calculated the total carbon sequestration in their forests. AP2's share of carbon sequestration is 19.2 (12.3) million tCO₂e, the increase is due to the acquisition of new tim-

During the year, AP2's farmland managers have calculated the investments' carbon footprint. This type of calculation is complex and the choice of method is subject to academic debate. Following discussions with leading industry experts and academic institutions, a method has been developed. It is based on direct inflows and outflows (e.g. fuel, fertiliser, chemicals and harvest) for the farm and includes 70 different production systems with combinations of region, type of crop and production method. Emissions are then calculated for each production system and compiled as a total figure for the portfolio.

The farmland carbon sequestration is also estimated, but only for the Brazilian farmland and the large areas set aside for conservation purposes, i.e. Legal Reserves (LR) and Permanent Protection Areas (PPA). Based on these assumptions, AP2's share of carbon sequestration is estimated to amount to 6.6 million tonnes of CO₂e.

Internal environmental work

CORPORATE GOVERNANCE

AP2 employs a number of different methods to highlight and minimise the environmental impact of its activities.

AP2 has introduced its own environmental management system based on the City of Gothenburg's Environmental Diploma. The system operates according to the same basic principle as the ISO 14001 and EMAS systems, but is better suited to smaller organisations. The Fund was first certified in January 2009 and has been re-certified annually since then. As from 31 December 2020, the City of Gothenburg ceased to be the issuer of the environmental diploma, and the Fund then chose to continue its internal environmental work. A special environmental group drives the Fund's own environmental work and environmental training is provided continuously to all employees.

An internal environmental review shows that the largest environmental impact from AP2's office comes from electricity consumption and carbon emissions associated with travel. Internal targets have been set based on the internal environmental policy. Among other things, 98 per cent of all business trips between Gothenburg and Stockholm are made by train.

The Fund held a workshop for all employees aimed at reducing travel, and thereby reducing the carbon footprint, cutting costs and employing modern working methods such as video conferencing to a greater extent.

One of the results of the Fund's work on creating a digital platform to enable flexible working methods was a significant reduction in the volume of printouts during the year.

AP2 has had a green lease agreement with the landlord Hufvudstaden since 2015. An action plan has been put in place to reduce the impact from AP2's office. It includes only using green electricity, and measures to reduce energy consumption and improve waste management.

Did you know that...

- AP2 measured the portfolio's carbon footprint for the first time in 2009 and has reported on this since 2014.
- AP2 began analysing financial climate risks back in 2013.
- AP2 has been reporting on climate issues in accordance with the TCFD (Task Force on Climate-related Financial Disclosures) recommendations since 2017, the same year the recommendations were issued
- The first COP was held in Berlin in 1995, COP stands for Conference of the Parties and is a conference between the countries that have endorsed the UN Convention on Climate Change. A COP is held annually to make decisions on the implementation of the Convention and on measures to combat climate change. The 2021 Climate Conference in Glasgow was the 26th COP.

Key climate figures

Climate/Environment

CARBON FOOTPRINT OF THE LISTED EQUITY PORTFOLIO, SCOPE 1 AND 2

Metrics	2021	2020	2019
1. Total carbon emissions (million tCO ₂ e)	1.12	1.40	1.74
Sweden	0.08	0.10	0.13
Developed markets	0.40	0.51	0.66
Emerging markets	0.63	0.79	0.95
Change in the portfolio's total carbon emissions from the previous year (%)	-20	-20	
– of which the change related to changes in the portfolio's holdings (% units)	-17.7		
- of which the change related to changes in the companies' emissions (% units)	2.6		
2. Relative carbon emissions (tCO ₂ e/MSEK)	5.93	8.54	11.52
Sweden	1.97	2.85	3.93
Developed markets	4.25	6.63	9.34
Emerging markets	12.08	15.11	20.33
3. Carbon intensity (tCO ₂ e/MSEK)	9.75	12.76	13.25
Sweden	6.11	6.37	7.21
Developed markets	7.39	10.07	11.55
Emerging markets	13.49	18.15	20.21
4. Portfolio-weighted carbon intensity (TCFD)(tCO ₂ e/MSEK)	9.65	13.84	15.2
Sweden	4.66	9.80	5.11
Developed markets	7.93	11.10	14.82
Emerging markets	16.67	20.53	23.13
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-30	-15	
– of which the change related to changes in the portfolio's holdings (% units)	11.8	-15	
– of which the change related to changes in the companies' emissions (% units)	-18.5	0	
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	193	164	
Proportion of the share capital for which data is available (%)	99	96	

Carbon measurements as from and including 2020 are based on a broader universe of carbon data and a refined method of estimating carbon emissions from non-reporting companies. As companies in the portfolio improve and increase their reporting of carbon data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

- 1. Total carbon emissions. Total of owned share of portfolio companies' individual carbon emissions.
- 2. Relative carbon emissions. Total of owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.
- 3. Carbon intensity. Total of owned share of portfolio companies' individual carbon emissions in relation to the total of owned share of the portfolio companies' turnover.
- 4. Portfolio-weighted carbon intensity (TCFD). The metric adds together the individual carbon intensity of each portfolio company, i.e. a company's carbon emissions in relation to its turnover, weighted according to each individual company's share of the portfolio.

The formulae for the above indicators are available on the Fund's website.

CO₃e (carbon equivalent) is a unit of measurement that makes it possible to compare the climate impact of different greenhouse gases.

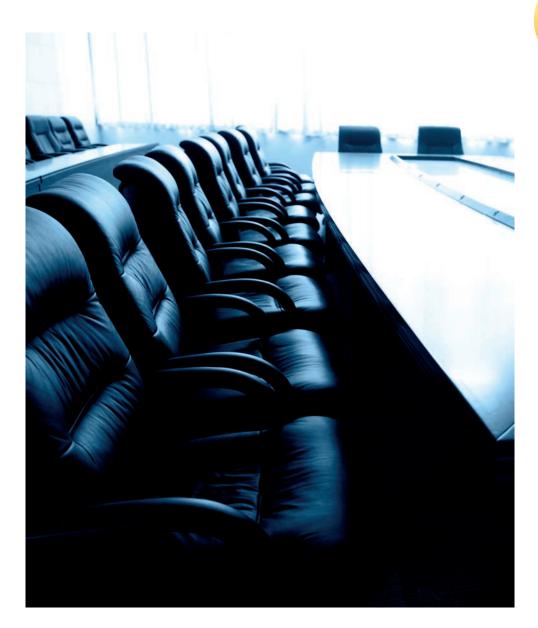
ENVIRONMENTAL DATA

2021	2020	2019
64 928	80 000	128 300
100	100	100
0	0	191
15 666	31 000	70 900
98	98	97
0	0	0
0	0	1
0	2	187
	64 928 100 0 15 666 98	64 928 80 000 100 100 0 0 15 666 31 000 98 98 0 0 0 0

MISSION AND GOAL

SUSTAINABILITY WORK

ENGAGEMENT





Corporate governance

Shareholders' commitment to and interest in the long-term development of the companies is a fundamental condition for improved value growth. As a long-term asset owner, Andra AP-fonden has a very important function in the global capital markets. The Fund is a responsible and committed owner, actively engaged in issues that promote professional corporate governance, good ethics, enhanced environmental performance and good practice in asset management issues.

A large proportion of AP2's assets is invested in 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.

AP2's strategy is based on the mission

The background to the Fund's corporate governance work can be found in its overall mission. An expectation of responsible ownership is stated in the National Pension Insurance Funds Act. The Act states that the AP Funds must be managed in an exemplary manner through responsible investments and through responsible ownership. Asset management operations must focus particularly on how sustainable development can be promoted without compromising the overall goal concerning return and risk.

To succeed in this, it is necessary to identify the areas where the Fund's investments are expected to have the greatest potential to influence and do most good. In the next step, there should be realistic opportunities to focus resources on these areas. Based on this, AP2 has formulated:

- Ten corporate governance principles whereby the Fund considers it important to have a standpoint and to act on these in relation to companies. The principles are based on the assessment that the greatest risks from a corporate governance perspective concern a company's shareholder protection and its effective governance.
- The corporate governance strategy, which describes how, in the next step, the Fund chooses to influence the companies where the risk is deemed to be high within one or

MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS

- more of the areas of principle. For an institutional manager like AP2, the main tools are voting, dialogue, collaboration with other institutional owners and joint initiatives.
- Targets and metrics in order to quantify, as far as possible, the achievement of targets and, in the best case, the effect achieved.
 The latter is considerably more challenging and therefore has a longer time horizon.

Voting as the primary tool Corporate governance principles govern voting

The general meeting is the most important forum for shareholders to exercise their influence. Using their right to vote at general meetings 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 both before and at Swedish and foreign general meetings, as well as dialogue with boards and management teams in the Fund's portfolio companies.

AP2's operational work on corporate governance issues is based on the Fund's ten corporate governance principles, which should be seen as guidelines rather than fixed rules. The corporate governance principles primarily apply to listed companies and are based on the Fund's view of the companies' structure for shareholder protection and effective governance.

Voting Guidelines

Voting Guidelines were put into place during the year to supplement the existing corporate governance policy and for a greater understanding of what AP2 expects of companies in areas such as sustainability and corporate governance. The guidelines are based on the Fund's ten corporate governance principles, see page 45, and in this way the Fund seeks to further clarify different positions at both Swedish and foreign general meetings. Read more on the Fund's website by scanning the QR code on this page.

Shareholder proposals related to sustainability

In addition to the customary general meeting proposals relating primarily to remuneration, dividends and Board composition, shareholder proposals in a number of areas related to sustainability were submitted at this year's general meetings both in Sweden and globally. Some examples:

- Shareholder proposals for the phasing out of banks' financing of coal were submitted at both Swedish and global general meetings. AP2 generally supports this type of proposal if the companies have not already made commitments in this direction or shown active engagement in climate change issues.
- Issues concerning diversity, inclusion and transparency in lobbying activities and political donations have remained key areas, particularly in the US market, and the Fund has backed several shareholder proposals calling for enhanced disclosure in these areas.

- AP2 also supported shareholder proposals at Amazon's general meeting that 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 greenhouse gas emission reductions, 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 Swedish listed companies on various issues, including many of those addressed at general meetings.

During the year, the Fund's corporate governance practices continued to be affected by Covid-19, with the absolute majority of general meetings being held virtually, rather than in person. This naturally entailed limited interaction between shareholders and the companies at actual general meetings. On the other hand, any dialogue conducted with the companies prior to the general meetings was not affected, but intensified during the period.

Voting for 86 per cent of the Swedish portfolio

GRI-INDEX

The Fund holds shares in more than 170 Swedish listed companies. For practical reasons, the Fund has determined that it is not possible to attend and vote at all the general meetings in the Swedish equity portfolio.

Attendance of general meetings

The Fund selects the companies whose general meetings it will attend based on the following criteria:

- 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.

READ THE VOTING GUIDELINES



MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS GRI-INDEX

AP2's corporate governance How does AP2 work with What is measured in Why corporate gover-What is AP2 focusing on? terms of results? nance? corporate governance? Mission/risk **Corporate Gover-Fulfilment of** Corporate Governance policy nance Strategy objectives AP2's mission is to limit Capital structure AP2's Corporate Goverthe effects that the auto-Voting in Swedish and Outcome-related Company structure matic balancing mechanance Policy is based on foreign companies. objectives (measur-3. Right to vote Shareholder nism has on the pensions. the mission. able effects). Role of the auditor protection Dialogue with compa-5. Information and disclosure of The total risk level should Corporate governance nies. Process-related objecinformation be low. The fund assets practices must focus pritives (development of 6. Sustainability shall be invested, at the marily on companies and Contribute to the develinternal processes). chosen risk level, so that areas where the Fund has opment of good corpohigh returns are achieved the greatest potential to rate governance. in the long term. influence and do most good. Risk management and risk culture The mission includes a Board and nomination committee **Effective** requirement for exem-Ten corporate governance Management and management plary management principles based on a governance remuneration through, among other company's shareholder 10. Corporate culture and business things, responsible ownprotection and effective ethics ership. governance provide the framework for these practices.

In 2021, AP2 voted at a total of 134 (110) general meetings in Swedish listed companies. The market value of the Fund's holdings in these companies is equivalent to 86 (75) per cent of the Fund's total holdings in Swedish listed equities, expressed in market value terms.

The table on page 50 shows the development in the number of general meetings at which the Fund votes, and what percentage of the total Swedish equity portfolio these companies account for. 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 rather smaller companies in which the Fund is one of the largest shareholders.

Proposals and areas in which AP2 voted against proposals

In 2021, the Fund voted against proposals for incentive schemes aimed at staff and/or senior executives in 24 (14) Swedish companies. Addlife, Alligator, Ascelia Pharma, Atlas Copco, BioGaia, Bufab, Calliditas, Camurus, Cantargia, Concentric, Eolus, Epiroc, Evolution Gaming, Hexagon, Investor,

Lagercrantz Group, NP3, Oasmia Pharmaceutical, Re:newcell, Sobi, Tobii, Vicore Pharma, Xbrane Biopharma and Xspray Pharma 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. The Fund therefore voted against these companies' proposals for incentive schemes.

AP2 also voted against four proposed incentive schemes aimed at board members of the companies Bonesupport, Calliditas, Oncopeptides and

Vicore Pharma, as the Fund advocates fixed remuneration to board members. Generally, however, the Fund supports remuneration in the form of shares as part of the remuneration to the board, for as long as this element is not variable, but is part of the fixed remuneration that is adopted.

At Evolution Gaming's annual general meeting, the Fund voted against all proposed Board members, since the proposed Board did not have any female members. At an extraordinary general meeting held in the autumn, however, the Board was increased by one member and the Fund voted

in favour of the female member who was proposed.

The Fund did not vote for any proposal made by other shareholders. At both SEB's and Swedbank's general meetings, shareholder proposals were put forward concerning the exclusion of companies as borrowers from the banks in cases where the companies' main activities are the extraction of fossil fuels. AP2 voted against both proposals on the grounds that both banks clearly communicated their efforts to be in line with the Paris Agreement. The Fund also voted against the Swedish Shareholders' Association's proposal for a possible claim for damages against previous representatives in Swedbank, based on the analyses of the legal conditions carried out by Clifford Chance, Baker McKenzie Law Firm and Mannheimer Swartling Law Firm.

Otherwise, the Fund voted in favour of all the proposals of the boards and the nomination committees.

Continued dialogue on incentive schemes

During the year, AP2 continued to focus on remuneration issues and, in order to move proposed schemes in the desired direction, also increased the number of dialogues conducted 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 regarding incentive schemes, as the basis for proactive dialogue with the companies and for the Fund's voting at general meetings.

Focus on diversity in nomination committee work

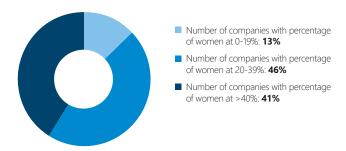
AP2 is keen to be represented on the nomination committees of companies as this provides a key opportunity to exercise influence as an owner. The Fund's policy is to accept any request for nomination committee duties. The Fund's Corporate Governance Group decides who will represent the Fund, based on who is best suited to serve on the committee. Since the nomination committees usually comprise the three to five largest shareholders in a company, the nomination committee duties vary according to the Fund's holdings in the companies.

For several years, AP2 has emphasised the importance of increasing the number of women on the boards of listed companies. The Fund has 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 year, the Fund continued to focus on issues relating to diversity and, above all, the pro-

PERCENTAGE OF FEMALE BOARD MEMBERS IN SWEDISH COMPANIES WHERE AP2 VOTED IN 2021



NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2021 ANNUAL GENERAL MEETINGS

Company	Proportion of female board members, %	Number of newly elected women*	Total change compared to previous year*
Better Collective	33	1	1
Catena Media	28	2	2
Coor Service Management	43	0	0
Genovis	20	0	0
IAR Systems	17	1	0
Kambi	40	0	0
Loomis	50	1	1
Trelleborg	43	1	0
Eight nomination committees in total	34	6	4

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

MISSION AND GOAL SUSTAINABILITY WORK ENGAGEMENT INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY HUMAN RIGHTS

portion of female board members. The Fund follows up the work conducted in this area by the board of each company whose general meeting the Fund intends to attend. At general meetings, the Fund votes against proposed boards with no female members.

The Swedish Corporate Governance Code has expressed a level of ambition for gender diversity on the listed companies' boards. 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 41 per cent of the companies whose AGMs AP2 voted at this year.

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

In accordance with the Fund's corporate governance policy, participation in this year's nomination committee work has, among other things, prioritised efforts to increase diversity on boards of directors. The Fund considers that this issue has been a central aspect of the nomination committees' discussions of how the boards' continued development could benefit from greater diversity. Yet not all companies achieve the level of ambition for gender equality stated in the Swedish Corporate Governance Code, as the above chart shows.

For the 2022 AGM season, AP2 is represented on the nomination committees of IAR Systems as chair, and of Better Collective, Catena Media, Coor Service Management, Episurf, Genovis, Kambi, Loomis and Netel.

The Fund's Index of Female Representation for 2021 shows that 34.5 (33.7) per cent of board

members in companies listed on Nasdaq Stockholm are women. More details of the Fund's Index of Female Representation are given on page 51.

Individual elections

For a few years now, AP2 has been engaged in the issue of individual elections of board members in Swedish companies. The Fund wants it to be possible for all shareholder votes to be counted. It is therefore calling on companies with a large foreign ownership ratio to enable those shareholders to elect board members individually. The Fund notes that more companies are now formulating the notices convening general meetings and also reaching decisions at the meetings in such a way that members are elected individually. This year's postal voting procedure has further contributed to this trend.

Guidelines for remuneration to 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 provisions from the Swedish Corporate Governance Board concerning, among other things, publication of a remuneration report. This type of consolidated remuneration reporting significantly improves opportunities to analyse agreed remuneration and facilitates the Fund's dialogue with boards of directors. The dialogue during the year has 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 given feedback to a number of companies whose guidelines for remuneration to senior executives are in some respects not considered to be in line with the Fund's Voting Guidelines.

Corporate governance in foreign companies Foreign general meetings

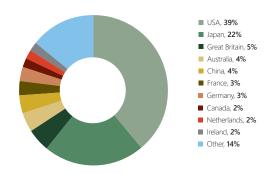
Concerning foreign markets, in 2021 the Fund voted in companies in 34 countries, primarily in the USA, Japan, France, Germany, China, Great Britain, Canada, the Netherlands, Australia and Ireland. The MSCI global equity index is the main selection criterion for the companies in which the Fund votes. Other criterias include dialogue between the Fund and the company on a particular issue and/or the Fund's submission of a shareholder proposal to the general meeting.

The Fund has gradually increased its voting in global companies in recent years and in 2021, it voted at 1 092 (1 006) general meetings of companies in foreign markets. This is equivalent to 53 (38) per cent of the Fund's global portfolio expressed in market value terms.

Together with AP1, AP3 and AP4, the Fund uses an external party for the practical voting procedure, in which voting takes place according to the funds' governance policies. Most issues are dealt with automatically via the voting platform, while certain issues, such as remuneration and shareholders' proposals, are sent to the funds for manual assessment. Each fund makes its own decision on how it will vote. Each month, AP2 publishes a detailed report on how the Fund has voted in the foreign companies. More information is available at www.ap2.se

In 2021, there was a decline in the proportion of proposals on which the Fund voted against the recommendations of the respective boards of directors, which is mainly attributable to voting on proposals at general meetings concerning the composition of Japanese company boards. As from 2021, AP2's voting supports the Japanese

GLOBAL VOTING BY REGION 2021, %



GRI-INDEX

Number of countries	
34	
Shareholder proposals	
360	
Votes in favour	
F20/	
52%	
Votes against	



Code's requirements concerning the number of external members, and the Fund can note that more and more companies' board proposals are also in line with the Code. Since Japan is a significant element of the Fund's global voting, this reduces the proportion of votes against board recommendations.

Initiated voting in Chinese companies

In 2021, the Fund included selected companies listed on the domestic market in China, called A-shares, in its voting universe. The Fund has thereby voted at 15 domestic Chinese companies' annual general meetings and extraordinary general meetings.

Board proposals presented at general meetings to some extent consider areas other than those typical of 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 exceeded the ownership share.
- The proposed auditor had delivered a high proportion of non-audit-related services to the company.
- Insufficient information regarding proposed amendments 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 practice active corporate governance to an increasing extent.

Letters to foreign companies

The Fund, together with other international investors, engaged in a number of owner dialogues with companies during the year. 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 in certain respects. The letters have resulted in additional contact with the companies by letter, but also via telephone meetings.

During the year, AP2 also sent letters to ten Chinese companies, in cases where the Fund did not support all board proposals at the companies' general meetings. The letters clarified the Fund's mission and the importance of corporate governance, but above all the background to the voting at the general meetings. The ambition is to achieve transparency and contribute to the development of good corporate governance in China, but also to create the right conditions for dialogue in the long term.

Collaboration with other investors

In addition to the collaboration between the AP Funds on the Council of 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.

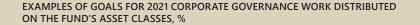
Throughout 2021, AP2 and a group of other European asset owners continued the dialogue on high remuneration, primarily with US companies. Details of AP2's membership and initiatives can be found on the Fund's website.

In 2016, the Asian Corporate Governance Association (ACGA) established a working group of institutional investors with a particular interest in Japan. This working group gathered just over 30 of ACGA's members, with a total management capital of close to USD 30 trillion.

In 2021, the working group embarked on a new advocacy initiative to conduct a targeted and structured dialogue with a selected group of large Japanese listed companies in the medium to long term. On the basis of the members' information, the working group selected six companies from a number of sectors, including automotive, specialty chemicals, industrial machinery, diversified banks and leisure products. Each company is globally important in its sector and faces a number of strategic governance and business challenges. By building

Did you know that...

- AP2 voted at just over 1 200 Swedish and 9 000 foreign general meetings since the start 2001.
- AP2 was represented on more than 150 Swedish nomination committees during the same period.



Non-listed assets 27%, goal: Contribute to development towards increased transparency within non-listed assets

Global equities 33%, goal:-

- Vote at 1 000 global general meetings
- Establish Voting Guidelines
- The AP Funds' common mailing to companies in order to clarify the reason for
- Actively vote against issues that do not fulfil the Fund's requirements
- Develop an internal process for identification of companies for dialogue
- Procure global voting adviser
- Develop collaborative dialogue with other

Swedish equities 9%, goal:

- Establish Voting Guidelines
- Digitalise internal process
- · Vote at 100 Swedish general meetings Actively vote against issues that do not fulfil the Fund's requirements
 - Reactive dialogue with companies prior to the general meeting
 - Participate in nomination committees when the Fund is consulted

Chinese equities 2%, goal:

- Start voting in Chinese companies (so-called A-shares)
- Formalise future procedures for dialogue with the companies

Bonds 29%, goal:

Investigate the need for a process for dialogue with companies in which the Fund only holds bonds

Continued focus on transparency

these companies will continue in 2022.

AP2 has noted a continuing increased focus on transparency and reporting in several new regulations. Among other things, the Fund monitors the development in the EU's framework for transparency and reporting for the financial sector (the Sustainable Finance Disclosure Regulation), even though the AP Funds are not subject to these regulations. More details are available on page 13.

trust and understanding, the group seeks to sup-

port the development of each company's gover-

increasing the company's corporate value. AP2

nance and sustainability practices and contribute to

participates actively in this initiative and the wor-

king group's other activities. The dialogue with

Target achievement within the Fund's corporate governance work 2021 targets

The Fund's corporate governance work is based on its mission and primarily takes place in practice on the basis of the ten corporate governance principles (see page 45). In conjunction with the annual adoption of the Fund's strategy and action plan, targets and metrics are also set for planned

corporate governance work. These aim to contribute in different ways to a change that is in line with responsible and active ownership. This required effect can be challenging to quantify, definitely has a long time horizon and is often a combination of several inseparable parts.

For example, the 20-year compilation of the Fund's Index of Female Representation shows a trend in the required direction, which is probably a combined effect of many owners' collective actions on nomination committees and of voting

at general meetings over a long period of time. For AP2, this issue has been central to corporate governance work from the start, which has probably contributed to this development.

Measurement of changes over time

To illustrate and measure changes in issues identified from a corporate governance perspective in the Fund's global portfolio, the internal process was developed during the year. The same corporate governance and diversity factors as were

identified to be significant in the selection and valuation of companies in the Fund's internal investment process are measured on an ongoing basis within the framework of the Fund's corporate governance work for each portfolio company.

Both the annual outcome and the development in these metrics will be an instrument to use in finding companies where dialogue should be initiated, but also a future way of illustrating the longterm change in the companies' actions that the work aims to achieve.

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Key corporate governance figures

Andra AP-fonden reports the following key figures in corporate governance: voting at general meetings, summary of Swedish and global voting, decisions, voting per market and nomination committees.

VOTING AT GENERAL MEETINGS IN 2017–2021

	2021	2020	2019	2018	2017
Swedish companies					
Voting at general meetings (annual and extraordinary) in Sweden, number	134	110	85	89	51
 equivalent to the % share of the number of companies in the Swedish listed portfolio 	60	52	44	51	31
 equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value) 	86	75	73	81	69
Foreign companies					
Voting at foreign companies' annual general meetings, number	1 092	1 006	865	816	769
– equivalent to the % share of the number of companies in the global listed portfolio	52	44	37	35	32
 equivalent to the % share of the Fund's total holdings in global listed equities (market value) 	53	38	33	31	40

SWEDISH VOTING, SUMMARY OF DECISIONS

	Board's proposal			Shareho	olders' pro	oposal
		AP2 in	AP2		AP2 in	AP2
Area	Number	favour	against	Number	favour	against
Board members and						
discharge from liability	304	303	1	1	_	1
Incentive scheme	185	158	27	_	_	-
Adoption of financial state- ments, appointment of						
auditors, etc.	401	401	-	1	-	1
Takeover defence	-	-	-	_	_	-
Capital structure,						
organisation, acquisition	148	148	-	2	-	2
Environment and health	-	-	-	5	-	5
Corporate governance	192	192	_	2	_	2
Social issues and human rights	_	_	-	_	_	-
Total	1 230	1 202	28	11	_	11

VOTING PER MARKET IN 2021, %



GRI-INDEX

NOMINATION COMMITTEES

	2021	2020
Swedish nomination committees where AP2 has served, number	8	9
Proportion of women on Swedish company boards on whose nomination committees AP2 has served, %	34	30
Proportion of newly elected women on Swed- ish company boards on whose nomination committees AP2 has served, %	67	50

GLOBAL VOTING, SUMMARY OF DECISIONS

	Board's proposal			Shareho	lders' pro	posal
		AP2 in	AP2		AP2 in	AP2
Area	Number	favour	against	Number	favour	against
Board members and						
discharge from liability	8 789	8 063	726	139	56	83
Incentive scheme	1 439	606	833	24	8	16
Adoption of financial state- ments, appointment of						
auditors, etc.	1 951	1 483	468	109	72	37
Takeover defence	112	47	65	_	-	-
Capital structure,	1.006	702	202			
organisation, acquisition	1 086	783	303	_		
Environment and health	-	-	_	31	20	11
Corporate governance	19	15	4	32	17	15
Social issues and human rights	_	_	-	25	15	10
Total	13 396	10 997	2 399	360	188	172

MISSION AND GOAL



Diversity – an issue on which the Fund has been working for 20 years

Increasing the proportion of women on boards and in executive management teams was one of the first governance issues on which the Fund began to work. Since then, diversity work at Andra AP-fonden has evolved to include the entire business. The Fund continues to contribute to positive development through dialogue with companies concerning selection processes for boards and management teams, and today there are also investments linked to diversity and equality. Diversity is one of the factors in the Fund's internally-developed 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 management teams.

With greater diversity in background and experience, the right conditions and leadership, teams become more innovative and creative. This, in turn, produces prosperous and successful companies. The Fund, together with Nordic Investor Services, has been conducting the study since 2003 to mea-

sure 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 attended by the Fund over the course of the year.

The Index of Female Representation for 2021 shows that the proportion of women on boards and in executive management teams in companies listed on Nasdaq Stockholm is the highest ever. The proportion of female board members is increasing again and currently stands at 34.5 (33.7) per cent. The proportion of women in executive management teams of listed companies also continues

to increase. This year's increase, from 24.3 to 26.0 per cent, is the largest in percentage point terms since the surveys began.

Despite the increasing proportion of female board members, the proportion of female board chairs remains unchanged at 8.6 per cent. This is lower than the highest ever listing of 10.2 per cent in 2019. The proportion of female CEOs shows a clear increase by 2.3 percentage points to 12.7 per cent.

Nomination committees with female members are positively correlated with boards that have a higher percentage of female members. Companies without any nomination committee have a lower percentage of female board members than other companies.

Diversity in internally-developed indices

AP2 has developed multi-factor indices for internally-managed global equities and corporate bonds. Exposure to various ESG factors, such as equality and proportion of women in the company, is included in the index structure. The indices are fully in line with AP2's mission, since they are expected to generate higher returns at lower risk while taking sustainability aspects into account.

Did you know that...

- Diversity was the Fund's first sustainability issue.
- The Fund's Index of Female Representation shows that the proportion of female board members has increased from 6.1 per cent in 2002 to 34.5 per cent in 2021.
- The Fund votes no to boards that do not have any female members.

They are a key element of the Fund's process of integrating sustainability into investment decisions.

An evaluation of the rate of return requires a period of at least five years. There are indications, however, that as a factor and from a global perspective, the proportion of women in the company has contributed to a positive return on the Fund's multi-factor indices for global equities. The effect has been stronger in developed markets compared with emerging markets.

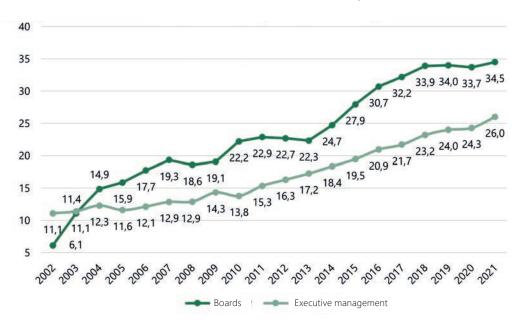
In the latter part of 2021, the process of reviewing and supplementing the ESG factors used in the indices was initiated, partly with the aim of evaluating diversity from more perspectives than before. Among other things, it is planned to include the ratio between the total number of

women and the number of women in executive positions, a metric that provides an indication of a company's capacity to retain talent within the organisation.

Investments with focus on diversity

To increase access to capital for female entrepreneurs and promote lending in emerging countries, AP2 has invested USD 10 million in the Women Entrepreneurs Debt Fund (WEDF), which is part of the Women Entrepreneurs Opportunity Facility (WEOF). WEOF is a partnership between Goldman Sachs 10,000 Women and IFC (International Finance Corporation). IFC is one of five institutions at the World Bank. With this investment, AP2 contributes to economic growth in

PERCENTAGE OF WOMEN ON BOARDS AND EXECUTIVE MANAGEMENT, %



emerging markets, with a focus on sustainability and female entrepreneurship. Women in emerging countries are an underutilised resource. Investment in small and medium-sized enterprises that are owned by women can therefore help stimulate growth. The initiative also enables the Fund to develop skills in the area of diversity.

Diversity in private equity

Diversity is a priority issue when AP2 invests in private equity. In the Fund's model for analysis and evaluation of private equity companies' sustainability practices, their sustainability efforts are assessed on the basis of 25 assessment points that include diversity and inclusion. As part of the overall assessment, there are also further questions specifically about diversity and inclusion. More details on page 24.

The dialogue with the managers raises such questions as:

- What is the status of diversity in the company among employees and management?
- Is this issue given priority in the organisation?
- Does the company have policies and guidelines in place and how are they embedded within the organisation?
- How does the recruitment process take account of diversity issues?
- How is diversity embedded within the company's culture?
- Does the company have an internal mentoring programme for diversity or other ways of working with the issue in-house or externally?
- What are the company's goals in terms of diversity and inclusion?

The aim is to drive change and the issues are reviewed and monitored continuously by the Fund.

Initiatives in diversity

In efforts to increase diversity, AP2 was one of 65 international investors to sign an initiative targeted at some 1 200 global companies. The initiative calls on the companies to strengthen their gender equality efforts and increase transparency on these issues. Gender equality is one of the identified prerequisites for delivering more sustainable global development and is one of the UN's Sustainable Development Goals. In the petition, investors pledge their support to the UN Women Empowerment Principles (WEP). WEP comprises seven principles for greater gender equality and is supported by the UN Global Compact.

In autumn 2021, AP2 signed the Diversity in Action initiative of the Institutional Limited Partners Association (ILPA). This requires the Fund to fulfil a number of diversity requirements and to work systematically with diversity internally, besides setting equivalent requirements for new private equity investments. One aim of the initiative is to create a platform for investors to discuss diversity and inclusion issues, promote discussion and disseminate knowledge of the subject, and to set a good example within the industry. Within the framework of Diversity in Action, the Fund has the opportunity to share best practices and further develop its internal work on diversity and inclusion.

Details of AP2's own diversity practices can be found in the Annual Report under 'Employees'. More information about diversity in corporate governance is given on page 46.





Human rights

Andra AP-fonden works on several different fronts to integrate human rights issues into its analysis and decision-making processes. The aim is that operations are run in line with the UN Guiding Principles on Business and Human Rights by 2025 at the latest.

AP2 is committed to the promotion of sustainable development through responsible investment and responsible ownership. Protecting human rights is crucial to achieving the UN Global Sustainable Development Goals and is thereby a key aspect of the mission to manage the fund assets in an exemplary manner.

AP2's links to human rights

AP2 can influence people through its own operations, through its business relations and in its role as investor. The Fund's assessment is that its most severe risks of negative impact on human rights exist in the Fund's investments. The Fund may be linked directly to, or possibly even contribute to, these risks. Since the aim of AP2's asset management is to create the greatest possible benefit for pensioners, the Fund invests globally to achieve favourable risk diversification. This means that the number of risks to which the Fund is exposed to through its holdings may be considerable, which the

Fund is working actively to address in accordance with its values.

Organisation and governance

AP2's human rights policy and governance policy are the governing documents for the Fund's human rights work. The work is led by a steering group consisting of the Fund's General Counsel, the Head of Communication and the Senior Strategist and is carried out by a working group. The CEO holds ultimate responsibility for the work. The Fund's activities in this area are continuously reported to the executive management and Board of Directors.

Development of a human rights policy, objectives and strategy

In 2021, AP2 focused on further developing its human rights programme. This was based on the revised policy that was established in 2020, with the aim for operations to be run in line with the UN Guiding Principles by 2025 at the latest.

In accordance with the UN Guiding Principles, the Fund focuses its work on human rights from a severity perspective. This entails that risks are assessed on the basis of the impact on people and not the financial risk of the investment.

The updated policy has been adopted by AP2's Board of Directors and will be reviewed on an ongoing basis. It is published on www.ap2.se

AP2 conducts an annual internal mandatory training course in human rights for all of its employees. This year's training was based on AP2's updated human rights policy and included a workshop on human rights risks in different business models and how these can be taken into account in the investment process. An important aspect of the implementation of the policy throughout the organisation is to ensure that all employees understand the policy and what it means for them in their work.

Reporting

In 2021, AP2 published its second report on human rights. The report is structured according to the UN Guiding Principles Reporting Framework (UNGPRF) and contains a more detailed description of the Fund's work on human rights. It is available on AP2's website.

Due diligence process

In 2021, the Fund continued to develop a due diligence process for human rights in portfolio companies. This includes risk identification, risk management, follow-up and external reporting.

Due diligence to assess actual risks

AP2 distinguishes between actual and potential risks of negative human rights impacts.

Actual risks entail that the Fund has an indication that a violation of human rights may already have occurred. The process for actual risks is managed through the AP Funds' Council on Ethics, in cooperation with an external consultant, and is described in more detail on page 18.

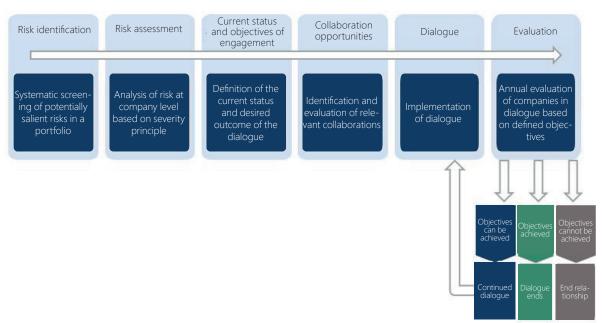
Due diligence to assess potential risks

Potential risks entail that the Fund has ownership in portfolio companies where there are no confirmed controversies or irregularities that have been noticed by the media, local authorities or in any other way, but where the companies operate in sectors and countries with a high risk of a negative impact on people.

During the year, the Fund developed a proactive risk identification system in order to analyse its holdings and identify potential risks on an ongoing basis. A process for managing and evaluating these risks has also been implemented.

Risk identification takes place using AP2's proprietary risk model, which is based on high-risk sectors and countries. The model identifies holdings that meet both these criteria, based on data, and shows which human rights are at risk of being violated. A risk assessment analyses the risks at company level from a severity perspective, i.e. with a focus on the impact on people and not the financial risk. In this step, information is

PROCESS FOR POTENTIAL RISKS



gathered from external sources such as local organisations and experts. One or more relevant sectors are selected for engagement.

Through this process, in 2020 the textile industry in China was identified as a high-risk sector, and dialogue was initiated with four companies. During 2021, four more companies in the textile industry in Brazil and India were added to the companies with which the Fund conducts dialogue. In autumn 2021, the Fund also identified the mining sector in China as a prioritised risk area and initiated dialogue with another six companies. AP2 is thus currently engaged in

proactive dialogue with 14 companies within these sectors.

The current status and objectives of future engagement are defined through desktop analyses of the relevant companies' work with human rights and the guidelines they have in place, as well as their due diligence processes throughout the supply chain. Potential collaboration with other actors is then investigated. AP2 is strongly aware that collaboration with other influential investors is often crucial in complex and global sustainability issues.

GRI-INDEX MISSION AND GOAL SUSTAINABILITY WORK **ENGAGEMENT** INVESTMENT PROCESS CLIMATE CORPORATE GOVERNANCE DIVERSITY **HUMAN RIGHTS**



Based on the results, a decision can be made to close the dialogue, continue it for another year, or to terminate the relationship and sell the holding, depending on whether the goals have been achieved, are deemed to be achievable or are currently considered to be unachievable.

With focus on the issue of a living wage in the textile sector, AP2 has joined the Platform Living Wage Financials (PLWF) investor partnership, which conducts structured advocacy work in this industry and on this issue. This also enables the Fund to target companies that are exposed to these risks through their supply chains, even if the companies are based in a lower-risk country. PLWF conducts an annual benchmark survey of the companies' work to ensure a living wage in their supply chains. They are in regular contact with the companies that are evaluated in order to encourage improvements and also to share good examples. The 2021 Annual Report can be downloaded from the PLWF website, www.livingwage.nl

AP2 also cooperates with other investors within the framework of the Investor Alliance for Human Rights, which has a special project group that focuses on the textile industry and has also coordinated specific dialogue with companies possibly exposed to negative impacts on people in the Uyghur population in China.

The dialogue is adapted to each individual situation and relative progress is evaluated annually. Based on the results, decisions can be made to close the dialogue, continue it for another year or to terminate the relationship and sell the holding, depending on whether the goals have been achieved, are deemed to be achievable or are currently considered to be unachievable.

Did you know that...

- In 2011, the UN Council on Human Rights unanimously approved the UN Guiding Principles on Business and Human Rights. This is a set of guidelines for states and companies to identify, prevent and manage human rights violations committed in business operations. These guidelines have since been indicative for both states and companies. In addition to guiding AP2's work on the issues, the guidelines form the basis for the Swedish Government's work and the EU's future legislation in the area.
- These principles are also referred to as the "Ruggie Principles" after John Ruggie, who developed them during his work as the UN Secretary-General's Special Representative for Business and Human Rights, and who made a major impact by concretising corporate responsibility on these issues. John Ruggie passed away in 2021, but his important and groundbreaking work on these issues lives on.
- Human rights have been one of AP2's focus areas for sustainability since 2016.
- In 2019, AP2 published its first report on human rights in accordance with the UN Guiding Principles on Reporting. The report is published every other year.

GRI-index

This Sustainability Report has been prepared in accordance with GRI Standards, Core Level. GRI is an international framework for reporting on an organisation's activities in the area of sustainability and includes environmental, social and economic aspects. The page references refer to AP2's Annual Report 2021 (AR) and Sustainability Report 2021 (SR).

GRI-standard	Disclosure	Page reference/URL	Comments
GRI 101: Foundation			
GRI 102: General Dis	closures		
	ORGANISATIONAL PROFILE		
	102-1 Name of organisation	Andra AP-fonden	
	102-2 Activities, brands, products, and services	AR p. 15-21	AP2 markets no products or services. The Fund manages pension assets in the Swedish national pension system.
	102-3 Location of head office	SR - last page	
	102-4 Location of operations	HR - last page	
	102-5 Ownership and legal form	AR p. 102-104	
	102-6 Markets served	www.ap2.se	AP2's only office is in Gothenburg, but invests globally.
	102-7 Scale of the organisation	AR p. 55, 85-86	
	102-8 Information on employees and other workers	AR p. 18-19, 55, 85-88	
	102-9 Supply chain	www.ap2.se	
	102-10 Significant changes to the organisation and its supply chain	AR p. 27-29	
	102-11 Precautionary principle or approach	AR p. 70-74	
	102-12 External initiatives	AR p. 44-45, 47, SR p. 13, 16, 18-21, 37-38, 40, 46, 48, 52, 54-55, www.ap2.se	
	102-13 Membership of associations	SR p. 13, 16, 18-21, 24, 37, 48, 52, 54-55, www.ap2.se	

102-14 Statement from senior decision-maker	AR p. 6-7, SR s. 4-5
102-14 Statement from Senior decision-maker	Αη μ. υ-1, 3η 5. 4-3
ETHICS OCH INTEGRITY	
102-16 Values, principles, standards, and norms of behaviour	AR p. 15-16, 18-19, 38-39, 49-50, SR p. 9, 11-12, www.ap2.se
GOVERNANCE	
102-18 Governance structure	AR p. 48, 56, SR p. 43-50
STAKEHOLDER ENGAGEMENT	
102-40 List of stakeholder groups	AR p. 40, SR p. 13
102-41 Collective bargaining agreements	AR p. 19, 86
102-42 Identifying and selecting stakeholders	AR p. 40, SR p. 13-14
102-43 Approach to stakeholder engagement	AR p. 40, SR p. 13-14
102-44 Key topics and concerns raised	AR p. 40, SR p. 13-14
REPORTING PRACTICE	
102-45 Entities included in the consolidated financial statements	AR p. 58-67
102-46 Defining report content and topic Boundaries	AR p. 37, SR p. 3
102-47 List of material topics	SR p. 13-14
102-48 Restatements of information	-
102-49 Changes in reporting	-
102-50 Reporting period	AR p. 3, 96
102-51 Date of most recent report	AR p. 3
102-52 Reporting cycle	AR p. 3
102-53 Contact point for questions regarding the report	AR & SR last page
102-54 Claims of reporting in accordance with the GRI Standards	AR p. 37, SR p. 3, 57-59
102-55 GRI content index	SR p. 57-59
102-56 External assurance	AR p. 54

MATERIAL TOPICS

GRI 200 Economic Sta	ndard Series	
	ANTI-CORRUPTION	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 39, 49-50, SR p. 12, 14
	103-2 The management approach and its components	AR p. 39, SR p. 12
	103-3 Evaluation of the management approach	AR p. 39, SR p. 12
GRI 205: Anti-corruption 2017	205-2 Communication and training about anti-corruption policies and procedures	AR p. 49-50
	205-3 Confirmed incidents of corruption and actions taken	AR p. 43, 49-50, SR p. 12
GRI 300 Environmenta	al Standard Series	
	ENERGY	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 43-46, SR p. 36-42
	103-2 The management approach and its components	AR p. 43-46, SR p. 36-42
	103-3 Evaluation of the management approach	AR p. 43-46, 55 SR p. 36-42
GRI 302: Energy 2017	302-1 Energy consumption within the organisation	AR p. 5, 55, SR p. 42
	EMISSIONS	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 43-46, SR p. 36-42
	103-2 The management approach and its components	AR p. 43-46, SR p. 36-42
	103-3 Evaluation of the management approach	AR p. 43-46, SR p. 36-42
GRI 305: Emissions 2017	305-1 Direct (Scope 1) GHG emissions	AR p. 5, 55, SR p. 39-42
	305-2 Energy indirect (Scope 2) GHG emissions	AR s. 5, 55, SR s. 39-42

GRI 400 Social Standard Series

	EMPLOYMENT	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 18-19, 49-50 SR p. 12
	103-2 The management approach and its components	AR p. 18-19, 49-50 SR p. 12
	103-3 Evaluation of the management approach	AR p. 18-19, 49-50 SR p. 12
GRI 401: Employment 2017	401-1 New employees hires and employee turnover	AR p. 55, SR p. 12, 53
	401-3 Parental leave	AR p. 19
	DIVERSITY AND EQUAL OPPORTUNITY	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 19, 39, 49-50, 52, 55, SR p. 12, 51-52
	103-2 The management approach and its components	AR p. 49-50, SR p. 12
	103-3 Evaluation of the management approach	AR p. 49-50, 55, SR p. 12
GRI 405: Diversity and Equal Opportunity 2017	405-1 Diversity of governance bodies and employees	AR p. 55, 85-86
	NON-DISCRIMINATION	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 18-19, 39
	103-2 The management approach and its components	AR p. 39, SR p. 12
	103-3 Evaluation of the management approach	AR p. 39, SR p. 12
"GRI 406: Non-discrimina- tion 2017"	406-1 Incidents of discrimination and corrective actions taken	AR p. 39, SR p. 12
	HUMAN RIGHTS ASSESSMENT	
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 47, 49-50, SR p. 53-55
	103-2 The management approach and its components	AR p. 47, 49-50, SR p. 12, 53-55 www.ap2.se
	103-3 Evaluation of the management approach	AR p. 47, 49-50, SR p. 12, 53-55, www.ap2.se
"GRI 412: Human Rights Assess- ment 2017"	412-1 Operations that have been subject to human rights reviews or impact assessments	AR p. 47, 49-50, SR p. 53-55, www.ap2.se
	412-2 Employee training on human rights policies or procedures	AR p. 5, www.ap2.se

