



# AP2

Andra  
AP-fonden

SUSTAINABILITY REPORT 2022



## **Andra AP-fonden's definition of sustainability**

AP2's sustainability work is based on the Fund's mission and involves acting over the long term to protect and create value – based on an economic, environmental and social perspective.







## SUSTAINABILITY REPORT

AP2 prepares a separate detailed Sustainability Report that is published on the Fund's website. The report supplements the sustainability information in the Annual Report. Find out more about AP2's sustainability programme at [www.ap2.se](http://www.ap2.se)

You can also read the Annual report of the Council on Ethics of the AP Funds at [www.etikradet.se](http://www.etikradet.se)

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**Eva Halvarsson** CEO Andra AP-fonden

# Andra AP-fonden expands its focus areas within sustainability

With undiminished energy and curiosity, we continued to develop our sustainability work in 2022. This affected all of Andra AP-fonden's – now five – focus areas. Our Sustainability Report is extensive because we are constantly developing and improving our work, and we are eager to share this.

The review and revision of the Fund's sustainability policy was a key focus area during the year. We have also developed a new method for our sustainability work through responsible investments and responsible ownership. The method consists of six parts: integration, materiality, analysis, engagement, cooperation and transparency. Read more on page 7.

The review of the sustainability policy resulted in the decision to add another focus area, biodiversity, to the previous four focus areas. We also decided to expand the diversity area to include equity and inclusion.

## Biodiversity

Biodiversity – diversity within species and between species and ecosystems – is diminishing more rapidly than ever before in the history of mankind, with extensive consequences for the environment, people and the economy.

AP2 has defined a long-term goal for its biodiversity work, which is to be net positive by 2030 at the latest. Read more on page 60.

## Sustainable timberland investments

During the year, we defined ten criteria that the Fund's timberland investments must fulfil in order to be classified as a sustainability investment.

The ten criteria stipulate, among other things, that managers of timberland assets must have a comprehensive and externally published policy for responsible investments and that timberland assets must be managed sustainably, verified by a third party under a certification scheme. In addition, they must integrate TCFD (Task Force on Climate-Related Financial Disclosures) recommendations into their reporting. AP2's managers of timberland assets must also maintain



## Five focus areas

AP2's sustainability work is concentrated primarily on a number of prioritised focus areas.

This year's review of the sustainability policy resulted in the Fund's decision to add the focus area of biodiversity to the four previous areas.

The Fund also expanded the diversity focus area to include equity and inclusion.

AP2 now has the following five focus areas: climate, biodiversity, human rights, corporate governance, and diversity, equity and inclusion.



“ During the year, we received two awards when the SFDR Asset Owner Awards were presented at a gala held at the London Stock Exchange. AP2 won awards in both of the categories in which we were nominated: The Decarbonization (CO<sub>2</sub>) Award and the Carbon Footprint (CO<sub>2</sub>/AUM) Reduction Award.

or increase carbon sequestration in the forest and actively contribute to maintaining or increasing biodiversity in the forests that they manage. In addition to the minimum requirements specified in the conditions of certification and in local laws and regulations.

#### **Sustainable infrastructure**

One area with a major need for investment is sustainable infrastructure, as energy and transport systems need to undergo a rapid transition from fossil-based to renewable. In 2022, we increased our allocation to sustainable infrastructure and made additional investments, bringing the total number to seven.

#### **Impact on the UN's Sustainable Development Goals**

Guided by the framework of the UN's Sustainable Development Goals, we have also during the

year, evaluated how the Fund can understand and measure the impacts of our investments on the environment and people. One aim of the evaluation is to make targeted sustainability investments in a way that allows the Fund to set goals for, measure and follow up the expected positive impact of these investments. Another aim is to understand and be able to manage impact risks and opportunities across the entire listed portfolio.

#### **Active owners**

During the year, the the Swedish Institutional Owners' Association (IÄF), addressed the importance of sustainability issues, which are significant for companies' long-term financial development, being reflected in the companies' remuneration programmes. As active and responsible owners, we are now urging Swedish company boards to include relevant sustain-

ability criteria in the companies' variable remuneration programmes.

#### **Awards for carbon reduction**

During the year, we received two awards when the SFDR Asset Owner Awards were presented at a gala held at the London Stock Exchange. AP2 won in both of the categories in which we were nominated: the Decarbonization (CO<sub>2</sub>) Award and the Carbon Footprint (CO<sub>2</sub>/AUM) Reduction Award.

We are naturally very pleased and proud of this achievement. The work to achieve a net zero emission portfolio by 2045 continues. Read more on page 34.

Here, I have mentioned just a small selection of the important and exciting things we are working on, and there is much more to read in this Sustainability Report for 2022.

I would like to conclude by thanking all of AP2's employees, who are constantly curious,

innovative, committed and also extremely competent. Without you, it would not have been possible to come so far in our sustainability work! We already have a lot underway for 2023, as we 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, goal, vision and strategy

Andra AP-fonden is an independent government agency that autonomously manages funds within insurance for income-based old-age pensions. Along with the other buffer funds, Andra AP-fonden is part of the Swedish public pension system. The mission of the Funds requires the fund assets to be managed 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 the balance of 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. The integration means, among other things, that two of the Fund's investment beliefs are sustainability-related.

## Vision

AP2's vision, World-class 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.

## 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 either includes enhancing sus-

tainability work and contributing actively to sustainable development.

## Focus areas

AP2 has identified five focus areas for the Fund's sustainability work. The choice of focus areas is based on materiality, according to the following parameters:

- Potential impact on expected return and risk in the Fund's portfolio.
- Relevance within the Fund's investment universe and potential for integration in the investments.
- The positive or negative impact that AP2 exerts through its investments, such as portfolio companies' impact on people and the environment.
- The importance of the area to the Fund's stakeholders.

The Fund's choice of focus areas entails the long-term commitment considered necessary in order to achieve results. Within each area, the Fund develops a strategy based on a six-part method (read more on page 7), with a defined long-term goal and/or commitment as a target.

During the year, the Fund decided to include biodiversity as a focus area, as this is an urgent

## The Fund's sustainability focus areas are:

- Climate
- Corporate governance
- Diversity, equity and inclusion
- Human rights
- Biodiversity

## Investment beliefs

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



issue that can have major consequences and is highly relevant for AP2's portfolio.

The Fund has also decided to broaden the diversity focus area to include equity and inclusion.

A detailed report on AP2's focus areas is available on pages 32-61 of this report.

### **Sustainability policy**

AP2's sustainability policy is based on the core values and positions of the Swedish state, as well as the AP Funds' shared core values. The sustainability policy sets the overall framework for the Fund's sustainability work. It is implemented

through the Fund's sustainability strategy and action plans for each focus area.

AP2's sustainability work follows a method that consists of six parts. These form the basis for the strategies describing the work that the Fund undertakes within each focus area. The method answers the question of *how* this work is conducted through responsible investments and responsible ownership.

The Fund's sustainability policy is part of the Fund's business plan, which is adopted annually by the Board of Directors.

The Fund conducts ongoing internal training in

sustainability and in the focus areas. This is to ensure that all employees are familiar with the policy, and that they have the knowledge required to be able to adhere to the policy in their day-to-day work. The policy is available on the Fund's website.

### **Sustainability risks**

The most significant risks to which the Fund may be exposed can be divided into financial, operational and impact risks. Sustainability risks can be seen to have an overall effect on all these risks. Impact risks include the risk that an invest-

ment might harm people or the environment. Examples of such risks related to people are human rights violations, corruption and bribery. Examples of impact risks associated with the environment are illegal deforestation, greenhouse gas emissions and dumping of environmentally hazardous waste. The purpose of identifying impact risks is to manage the risks, i.e. that the Fund has processes to avoid risks that it does not want in the portfolio, and to use engagement to reduce the risks in the portfolio. Read more about impact risks on page 14.

## AP2's method of working with sustainability

### **1. Integration**

Sustainability is integrated throughout the organisation, in asset management and in the Fund's day-to-day operations.

### **2. Materiality**

AP2 focuses its work on the most important issues and areas where the Fund can make the biggest difference.

### **3. Analysis**

Sustainability work is built on thorough, fact-based analysis, both prior to an investment and in the Fund's role as owner.

### **4. Engagement**

AP2 encourages companies to live up to the Fund's expectations in relation to sustainability issues.

### **5. Collaboration**

The Fund can achieve more via collaboration, both within AP2 and with other investors.

### **6. Transparency**

AP2 practices what it preaches and establishes trust through transparency.



## Long-term goals

Andra AP-fonden has defined long-term objectives to set the direction for the Fund's work within each focus area. Goals broken down into long-term and short-term goals, and activities for achieving the goals, are specified in a strategy and annual action plans for each focus area.

Climate	Biodiversity	Human rights	Diversity, equity and inclusion	Corporate governance
<ul style="list-style-type: none"> <li>• Net zero greenhouse gas emissions by 2045.</li> <li>• Greenhouse gas emissions of -55 per cent by 2030 (base year 2019).</li> <li>• All asset classes in line with the Paris Agreement by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to a net positive impact on nature by 2030.</li> <li>• A portfolio that does not contribute to illegal deforestation by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the UN Guiding Principles on Business and Human Rights by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• On average, the Fund's listed holdings must have at least 40 per cent of each gender represented on the Board by 2030.</li> <li>• The Fund must have actively influenced the portfolio companies to have a strategy for diversity, equity and inclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• Active and responsible ownership through an increased number of dialogues, and voting in all of the Fund's listed shareholdings by 2027.</li> </ul>

# Sustainability framework

Andra AP-fonden began its sustainability work at the start, just over 20 years ago, and was also one of the founding signatories of the UN's Principles of Responsible Investment (PRI). Andra AP-fonden has on several occasions been a pioneer, for example as an early investor in green bonds, and in supporting the definition of an agricultural investment guidance, as well as sustainability requirements in contractual agreements with private equity funds, social bonds, 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 issues.

## Sustainability is part of the mandate

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

AP2's sustainability work is based on the Fund's mission and vision.

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 must manage their assets in an exemplary manner through responsible investments and responsible ownership. The Fund gives high priority to sustainability and always strives to act responsibly. A proactive approach to the environment, ethics, social issues and corporate governance are therefore means to attain the goal of a good, risk-adjusted return.

AP2's vision is World-class management. To achieve that vision, sustainability must be integrated into all analysis and investment processes.

AP2 is responsible for both the management and governance of the capital assets that the Fund has received and is actively engaged with

sustainability from the perspectives of both responsible investment and responsible ownership. Systematic and exemplary sustainability work is also a key factor in the recruitment and retention of employees.

## The Fund's definition of sustainability

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

This is in harmony with the Brundtland Report (1987) which states that "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Sustainability work is conducted according to the principle of double materiality. In other words, consideration is given to how both the Fund and the value of the investments are affected by sustainability-related risks and opportunities, and to

how the Fund, through its holdings, has an impact on people and the environment.

## Guiding documents for sustainability work

AP2 has a number of policies and guidelines that form the basis for the sustainability work (see the description on page 12). Information on 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.

Regulations and conventions that also form the basis of AP2's work on sustainability include the OECD's Guidelines for 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, as well as frameworks within EU Sustainable Finance. AP2 also adheres to other specific corporate governance codes such as the ICGN Global Stewardship Principles and the UK Stewardship Code.



## “ All employees received mandatory internal training in human rights during the year.

### 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 clarify what sustainability entails, with the overall goal of a carbon-neutral EU 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 SFDR 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 in their processes.

AP1, AP2, AP3 and AP4 are not directly covered by SFDR. However, since it is stated in the AP Funds' mandate that they must manage the fund assets in an exemplary manner through responsible investments and responsible ownership, and report how this objective is achieved, the AP Funds will develop their reporting in the coming years. This will take place mainly on the respective websites, in line with the regulation. Read about the Fund's reporting under SFDR on AP2's website.

### Principal Adverse Impacts (PAI)

Principal Adverse Impacts (PAI) are part of SFDR and are defined as: "Negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity."

The SFDR framework contains 14 mandatory indicators for greenhouse gas emissions, biodiversity, water and waste, as well as social indicators, that should be taken into account (comply or explain).

In addition, there are optional indicators: 22 climate and other environmental indicators, as well as 24 indicators related to social and labour issues, respect for human rights, and anti-corruption and anti-bribery issues.

AP2 reports according to some of these indicators and will develop the reporting in the coming years. Read more on page 11.

### Handling conflicts of interest

AP2's policy on conflicts of interest is part of the Fund's corporate 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 Investment (PRI). The Fund signed these principles back in 2006 when they were launched. Implementation of these principles is a continuous process in which sustainability issues are taken into consideration in both the Fund's role as

asset manager and its role 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 5,000 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. The questionnaire also includes 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 response to this questionnaire is available on the websites of PRI and AP2.

### 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 have together conducted stakeholder dialogues and materiality analyses on a number of occasions.

In 2023, the Funds will develop a process for performing materiality analyses and stakeholder dialogues in accordance with relevant frameworks.

### Training in sustainability

All employees receive regular internal training in sustainability topics.

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.

All employees received mandatory internal training in human rights during the year.

# Identified principal adverse impacts on sustainable development

● AP2 reports  
● AP2 does not currently report

## Climate and other environment-related indicators

<i>Sustainability indicator</i>		<i>Metrics</i>	<i>AP2 reports</i>	<i>Asset class</i>	<i>Impact</i>	<i>Explanation</i>	<i>Read more on page</i>
Greenhouse gas emissions	1. GHG emissions.	Scope 1 GHG emissions.	●	Listed equities and credits, real estate.	Negative impacts from investment decisions are possible.	Reported in accordance with the AP Funds' common metrics.	36-43
		Scope 2 GHG emissions.	●				
		From 1 January 2023, Scope 3 GHG emissions.	●	Listed equities and credits.			
		Total GHG emissions.	●				
	2. Carbon footprint.	Carbon footprint.	●		No material adverse impacts.	Has no investments in this sector.	18
	3. GHG intensity of investee companies.	GHG intensity of investee companies.	●				
	4. Exposure to companies active in the fossil fuel sector.	Share of investments in companies active in the fossil fuel sector.	●		Negative impacts from investment decisions are possible.	Low data coverage.	
	5. Share on non-renewable energy consumption and production.	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage.	●				
Biodiversity	6. Energy consumption intensity per high impact climate sector.	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.	●				
	7. Activities negatively affecting biodiversity-sensitive areas.	Share of investments in investee companies with sites/ operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.	●				
Water	8. Emissions to water.	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average.	●				
Waste	9. Hazardous waste ratio.	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average.	●				

## Social and employee, respect for human rights, anti-corruption and anti-bribery matters

Social issues and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.	●	Listed equities and credits.	Negative impacts from investment decisions are possible.	Reviews the listed portfolio twice a year for breaches of conventions signed by Sweden.	Report from the Council on Ethics, <a href="http://www.etikradet.se">www.etikradet.se</a>
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises.	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/ complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.	●			No data available.	
	12. Unadjusted gender pay gap.	Average unadjusted gender pay gap of investee companies.	●		Negative impacts from investment decisions are possible, but not significant.	Low data coverage.	52
	13. Board gender diversity.	Average ratio of female to male board members in investee companies.	●	Swedish listed equities.			
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).	Share of investments in investee companies involved in the manufacture or selling of controversial weapons.	●		No material adverse impacts.	Has no investments in this sector.	18



## Andra AP-fonden's management of sustainability-related issues

DECISION LEVEL	CATEGORY	GOVERNING DOCUMENT	FOLLOW-UP
BOARD OF DIRECTORS	Strategy	Business plan with sustainability policy that includes corporate governance policy, human rights policy and policy against illegal deforestation	This is followed up by the Board of Directors and Executive Management. Followed up by the Board and Executive Management and reported in the annual and interim reports.
	Return		
	Code of conduct	Ethics policy	The Head of Compliance has overall responsibility to oversee compliance with the guidelines, and reports to the Board on key ethical issues impacting the business and the employees' actions.
		Compliance policy	
		Principles for hospitality and gifts	
		Whistleblower policy	
CEO/EXECUTIVE MANAGEMENT	Sustainability	Sustainability strategies for each focus area	The work is followed up by the Board, Executive Management and steering groups.
		Environmental policy	
	Staff manual	HR policy	The CEO is responsible for ensuring that policies and plans are drawn up. The overall work is planned and followed up by the Fund's HR manager.
		Equality and diversity plan	
		Anti-discrimination policy	
		Working environment policy	
		Hospitality policy	
		Travel policy	

## A sustainable workplace with thriving employees and internal environmental work

Andra AP-fonden works in various ways to contribute to sustainable employees and minimise the environmental impact of its own operations. The Fund's greatest direct environmental impact comes from premises and from business travel. Employees are the Fund's most important asset. The Fund therefore works continuously on competence development, leadership training and creating a stimulating working environment.

### Internal environmental work

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.

In 2022, three sustainability lunches with the theme of Sustainable Aquaculture were held for AP2's employees. The theme was inspired by the

WIN WIN Gothenburg Sustainability Award 2022, for which the Fund is one of the partner companies.

An internal environmental review shows that the greatest environmental impact from AP2's offices comes from electricity consumption and carbon emissions associated with travel. Internal targets have been set based on the Fund's environmental policy. Among other things, 99 per cent of all business trips between Gothenburg and Stockholm are made by train. This environmental work is reported internally once a year. The Fund has created a digital platform that facilitates flexible working methods, which among other things has resulted in a reduction of the number of business trips.

Since 2015, AP2 has had a green lease agreement with the landlord Hufvudstaden. An annual action plan to reduce the environmental impact of the premises is drawn up. This is achieved by only

using green electricity, and by taking measures to reduce energy consumption. The Fund's office also practices sorting at source and composting of waste.

### Sustainable employees – a smart investment

Thriving and sustainable employees in a stimulating working environment are of the utmost importance for the Fund's activities to be conducted with high quality and good results. At AP2, this is achieved through the Fund's culture, which is based on the values of long-term value creation, responsible, respect and continuous improvement. A flexible working method, where it is possible to work from the office or elsewhere, also helps employees to strike the right work-life balance.

We provide ongoing training within each employee's area of expertise, including joint

seminars and lectures in the fields of finance, sustainability and current research.

Good leadership also contributes to sustainable operations. Based on an accepted leadership model, managers must serve as role models and act in accordance with the Fund's values. The aim is to develop employees and for the organisation to pursue a common goal.

AP2 encourages a healthy and sustainable lifestyle and works actively to create a high level of well-being. Exercise and good health are a vital aspect of the Fund's corporate culture, and all employees are therefore offered a fitness activity allowance and regular medical check-ups. Health and lifestyle are also discussed at the yearly employee appraisals.

### ENVIRONMENTAL DATA

	2022	2021	2020
<b>Internal environmental indicators</b>			
Electricity, kWh	79 004	64 928	80 000
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	90.5	0	0
Number of printouts	20 475	15 666	31 000
<b>Business travel</b>			
Proportion of train journeys between Gothenburg and Stockholm, %	99	98	98
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO <sub>2</sub> e	0	0	0
Air, domestic, tonnes of CO <sub>2</sub> e	0	0	0
Air, abroad, tonnes of CO <sub>2</sub> e	80	0	2



# Contributing to the UN's Sustainable Development Goals

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.

Each country is responsible for implementing and monitoring the Sustainable Development Goals. Achieving the goals requires governments, civil society and the business sector to work together.

The 17 Sustainable Development Goals are integrated and indivisible, which means that no goal can be achieved at the expense of another, and that success is required within all areas for the goals to be achieved. The Paris Agreement is an integral part of the UN Sustainable Development Goals. As a global investor, AP2 has an opportunity to contribute to the goals in various ways via the its sustainability work and through the investments the Fund makes.

## AP2's impact on the UN global goals

Over the past year, AP2 has looked at how to help the Fund understand and measure the impact of its investments on people and the environment, using the global goals as a reference. The evaluation has had two aims:

- to be able to implement targeted sustainability investments in such a way that the Fund is able to set goals, measure and follow up the expected positive impact of these investments
- to understand and be able to manage impact risks and opportunities throughout the listed portfolio.

## Targeted sustainability investments

AP2 has developed a framework for identifying those investments that are defined by the Fund as targeted sustainability investments. The Fund's targeted sustainability investments must satisfy a number of criteria linked to the UN Sustainable Development Goals. The investments are evaluated based on the Operating Principles for Impact Management<sup>1</sup> framework, and an investment's impact is assessed based on the five dimensions in the Impact Management Project<sup>2</sup>:

- **what** the intended outcome is
- **who** experiences it
- **how much** of the outcome is experienced
- **the contribution** of the investment to that outcome
- **risks** associated with the investment.



## EXAMPLES OF TARGETED SUSTAINABILITY INVESTMENTS Green and social bonds

The Fund has been investing in green and social bonds for some time. 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 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.

There is currently no defined reporting standard for these bonds. Consequently, reporting varies considerably depending on such factors as the issuers' areas of activity,

and where they operate. However, AP2 aims 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). Find out more at [www.icmagroup.org](http://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.

<sup>1</sup> [www.impactprinciples.org](http://www.impactprinciples.org)

<sup>2</sup> [www.impactmanagementproject.com](http://www.impactmanagementproject.com)

The market value of the Fund's targeted sustainability investments at year-end 2022 was SEK 35.4 (32.8) billion, which includes the following assets:

- Sustainable infrastructure
- Swedish listed cleantech equities
- Timberland that satisfies ten criteria for sustainable timberland investments
- Certain private equity funds with a clear focus on sustainability
- Green bonds
- Social bonds.

One purpose of the work is to develop clear follow-up and reporting procedures on performance indicators that illustrate the impact of the investments. It could, for example, involve performance indicators that show the

amount of greenhouse gas emissions that have been avoided, or how much renewable energy has been generated. The expected impact is evaluated ahead of each investment, while performance indicators are established for follow-up over time once the investment has been made.

For some investments it is difficult to find an accurate indicator that satisfies the five criteria in the Impact Management Project. If, for example, diesel vehicles are replaced with electric vehicles, there are several operators that would be able to claim that they have contributed to reducing emissions – such as car manufacturers, car battery producers and manufacturers of car charging units. AP2 opts to take a conservative route and, for example, will not measure a theoretical figure for












Northvolt's avoidance of emissions from the vehicles in which the company's batteries are assembled, but instead the capacity for energy storage that this company is contributing to more directly.

#### Analysis of the impact of listed assets

In 2022, AP2 analysed the entire listed portfolio based on its impact on the UN Sustainable Development Goals (SDG). One aim of the analysis is to gain a better understanding of the impact of the portfolio companies' products and/or services, which is not picked up via existing performance indicators in the companies' sustainability reporting. The ambition is to be able to identify and manage impact risks and opportunities. Based on the Fund's sustainability focus areas, AP2 has

defined which of the global SDGs the analysis is focused on, and within these, which have focus on companies' products and activities respectively. The impact analysis is then integrated into the Fund's strategy, and follow-up is carried out within each focus area. Below is an illustration of which SDGs are followed up within each focus area.

Going forward, an analysis of the portfolio will be conducted at least twice annually. All companies identified as high risk in terms of negative impact on any of the global goals will be handled within the framework of risk management and engagement within each focus area.

	CLIMATE	BIODIVERSITY	HUMAN RIGHTS	DIVERSITY, EQUITY AND INCLUSION	CORPORATE GOVERNANCE
PRODUCT					
OPERATION		 	 	 	 



# Engagement 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.

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, while promoting 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 important to achieve results from the dialogue with companies, but also to promote effective development towards responsible investments.

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 several other investors 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 51). The Fund also 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, of which the purpose is to investigate whether and how legal frameworks permit and encourage investors to take account of how sustainability factors have an impact and are impacted. The project, "A Legal Framework for Impact", analyses existing legal frameworks to see the extent to which asset owners can prioritise sustainability factors, even when this has a negative impact on returns. It investigates how asset



“ The Fund has developed a framework to identify countries where there are financial, operational or sustainability reasons not to invest.

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, and proposals for changes to existing regulations. In 2022, the project continued to disseminate knowledge about the content of the report, in order to achieve required changes.

#### AP2 contributes to the EU's High-Level Expert Group

During the year, AP2 was appointed a member of the EU's High-Level Expert Group (HLEG) on scaling up sustainable finance in low- and middle-income countries. The task of the group over the next nine months is to determine how the European Commission, through a Team Europe strategy, can encourage private financiers to contribute to the massive investments required to address the most pressing global challenges and ensure sustainable development.

#### Sharing knowledge

Several of the Fund's employees attend international seminars and conferences 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.

#### AP2 does not invest in

AP2's primary aim is to influence change. This is best achieved by continuing as an owner of a company and working to ensure that measures are taken to prevent future violations. Nevertheless, there are situations in which the Fund divests and excludes companies.

The Fund distinguishes between divestments and exclusions, as follows:

#### Divestments

- The Fund divests if international conventions aim to restrict the use, scope or distribution of certain products or activities. At the same time, under applicable laws and regulations it may be permitted to manufacture such products and conduct such activities. Individual companies cannot therefore, in principle, be considered to be in breach of these conventions.

- The Fund may divest from companies on the basis of the AP Funds Act regarding exemplary management.
- The Fund may divest from companies due to sustainability risks.
- The Fund is managed in line with the EU Paris-Aligned Benchmark. This entails that, according to certain criteria, companies in the energy sector are not included in the Fund's benchmark index.
- Divested companies are not reported publicly when there are entire sectors in which the Fund no longer invests.

#### Exclusions

- The AP Funds' Council on Ethics recommends that the AP Funds exclude companies that knowingly contribute to the violation of an international convention that Sweden has ratified.
- The Council on Ethics recommends exclusion if they consider that continued dialogue with the company will not result in positive changes, or when the dialogue has been ongoing for four years without significant progress.
- The Fund may exclude a company if it considers the circumstances to be of such a serious nature that exclusion is war-

ranted, even though no breach of a convention has occurred or can be demonstrated.

- Excluded companies are reported publicly.

AP2 also complies with UN and EU sanctions decisions.

The Fund has developed a framework to identify for which countries where there are financial, operational or sustainability reasons not to invest. Read more on page 23.

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 2022, AP2 had excluded 16 companies that were 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.

Read about the work of the Council on Ethics on page 22.



## Sectors in which AP2 does not invest

### Excluded due to breach of convention



#### Cluster weapons and land mines

The Anti-Personnel Mine Ban Treaty and the Convention on Cluster Weapons state that countries that have signed and ratified the treaty shall cease to produce, trade in and use anti-personnel mines and cluster bombs, respectively. The AP Funds' Council on Ethics has recommended that the four AP Funds divest companies that produce anti-personnel mines or cluster bombs. AP2 therefore does not own any such companies. The companies excluded for this reason are listed in the exclusion list at [www.ap2.se/hallbarhet-agarstyrning/exkluderade-bolag/](http://www.ap2.se/hallbarhet-agarstyrning/exkluderade-bolag/)



#### Cannabis

The AP Funds' Council on Ethics has recommended that the AP Funds exclude cannabis companies, on the basis of the UN Single Convention on Narcotic Drugs. However, cannabis may be used for medical and scientific purposes. AP2 has therefore decided to exclude companies active within cannabis for non-medical use or for religious purposes. The companies that AP2 has identified are listed at [www.ap2.se/hallbarhet-agarstyrning/exkluderade-bolag/](http://www.ap2.se/hallbarhet-agarstyrning/exkluderade-bolag/)

### Divested due to the purpose of a convention



#### Nuclear weapons

AP2 believes that modernisation and upgrading of nuclear weapons are not compatible with the spirit of the Non-Proliferation Agreement (NTP), which aims to make the world nuclear-free in the long-term. Based on the legal rules for the AP Funds concerning exemplary management, AP2 has therefore divested from companies involved in the maintenance and modernisation of nuclear weapons systems.



#### Tobacco

Divestments from tobacco companies support the aim of the WHO Framework Convention on Tobacco Control to significantly reduce tobacco consumption and the harmful effects of tobacco smoking. AP2 has divested from tobacco companies on the basis of the statutory regulations for the AP Funds on exemplary management.

### Divested due to the Paris-Aligned Benchmark



#### Coal, oil, gas and power companies

In 2020, AP2 implemented the EU Paris-Aligned Benchmark (PAB) for the Fund's internally managed foreign equities and corporate bonds. This means that AP2 does not invest in companies that derive more than a certain percentage of their sales from coal, oil and/or natural gas, or in power companies that receive more than 50 per cent of their revenue from fossil fuels. The maximum share for coal is 1 per cent, for oil 10 per cent and for gas 50 per cent.

#### Application

In the case of direct holdings, AP2 has full authority to determine the holdings in the portfolio. In the event of both divestments and exclusions, the companies are removed from the Fund's investment universe and benchmark index.

For indirect investments via funds, investment decisions on individual portfolio companies are not made by AP2. Should the external managers have holdings in companies which AP2 has excluded or divested, the Fund conducts a dialogue with the managers.

## Collaborations for 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, which is accredited by the UN Framework Convention on Climate Change as a Race to Zero initiative. This is a global campaign that brings together and quality assures leading net zero initiatives, with the aim of accelerating the transition to a carbon-free economy. For asset owners to be able to achieve this commitment, governments and policy makers must fulfil 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 to the right. Read the Initiative's 2022 progress report at [www.iigcc.org](http://www.iigcc.org)

### Sustainable Markets Initiative (SMI)

The Sustainable Markets Initiative was launched in 2020 by HRH King Charles with the aim of gathering investors 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 earlier initiatives and to ensure that new investments are made with sustainability in mind. The membership also means that AP2 undertakes to follow the common roadmap Terra Carta. See [www.sustainable-markets.org](http://www.sustainable-markets.org)

### 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 complex issue 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.

#### Net Zero Asset Owner Commitment

1. Net zero emissions by 2050.

2. Actual emission reductions.

3. Emission targets for Scope 1, 2 and 3, 2025 and 2030 respectively.

4. Climate compensation only as a last resort and through long-term measures (long-term carbon removal).

5. Advocacy work supporting policy measures and regulations for net zero emissions by 2050.

6. Corporate governance strategy with voting guidelines for net zero emissions by 2050.

7. Collaborations to secure investments in line with the Paris Agreement.

8. Net zero in 2050 as the target for own emissions (Scope 1 and 2).

9. Climate targets and action plans updated every five years.

10. Report according to TCFD.

#### How AP2 fulfill these commitments

Net zero emissions by 2045.

Paris-Aligned Benchmark for equities and corporate bonds. Targeted sustainability investments.

The Fund's target is -35 per cent by 2025, -55 per cent by 2030, with the base year of 2019.

Compensation when it is no longer possible to reduce actual emissions. The Fund's investments in forests are a possible way to compensate.

AP2 operates through organizations that support the Paris Agreement and have the necessary policy actions.

AP2's Voting Guidelines: "The Fund advocates that companies state their support for, and develop a strategy to be in line with, the Paris Agreement".

Dialogues with business partners about climate regarding products, data and/or reporting.

Own emissions close to zero. Target net zero emissions by 2045.

Action plan and climate targets are reported in the TCFD report.

Reports annually according to TCFD since 2018.



### Investor collaboration ahead of COP27

Prior to COP27 in Egypt, AP2 participated in a number of initiatives to make demands on governments to do more to support the climate transition. Through the IIGCC, AP2 signed a letter 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.

### Deforestation Commitment

In this commitment, which AP2 endorsed in 2021, 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 divestment as a last resort. The initiative has clear milestones up to 2025.

### The Finance for Biodiversity Pledge

In 2022, AP2 signed the Finance for Biodiversity Pledge, a commitment from financial institutions to protect and restore biodiversity through their financial activities and investments. The promise consists of five steps: collaborating and sharing knowledge, engaging with companies, assessing impact, setting goals, and reporting publicly on these steps by 2025.

### Investors Policy Dialogue on Deforestation (IPDD)

This initiative was launched in July 2020 with the aim of establishing a dialogue between public authorities and industry organisations in selected countries on the issue of deforestation.

The aim of the initiative is to coordinate a public policy dialogue to stop deforestation. The IPDD seeks to ensure the long-term economic sustainability of investments in selected countries by promoting sustainable land use and forest management, as well as respect for human rights. Initially, the focus is on tropical forests and natural vegetation. AP2 is part of the working group that is in a dialogue with Brazil.

### 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.



## ACTIVE MEMBERSHIP AND COMMITMENTS

Area	Initiative	Further commitments	More on page
All	UN Principles for Responsible Investment (PRI)	Work according to the principles and report.	10
	Sweden's Sustainable Investment Forum (SWESIF)	Participate in networks.	
	Sustainable Markets Initiative (SMI)	Work according to the commitments in Terra Carta, contribute to the working group.	
Biodiversity	Investors Policy Dialogue on Deforestation (IPDD)	Participate in a working group.	20
	Finance for Biodiversity	Work according to commitments, participate in networks.	20
	Finance Sector Deforestation Action (FSDA)	Participate in networks, dialogues with companies on deforestation.	61
	Task Force on Nature-related Financial Disclosures (TNFD)	Participate in focus group, contribute to development of frameworks for reporting on biodiversity.	60
	Net Zero Asset Owner Commitment	Obligation to report against ten commitments.	19
Climate	Task Force on Climate-related Financial Disclosures (TCFD)	Report according to TCFD.	42
	Climate Action 100+ (part of IIGCC)	Lead the dialogue with AB Volvo.	35
	The Institutional Investors Group on Climate Change (IIGCC)	Opportunity to contribute to joint initiatives.	35
	Extractive Industries Transparency Initiative (EITI)		
	Investor Alliance for Human Rights (IAHR)	Contribute to the work on company dialogues, attend meetings and contribute to joint statements.	59
Human rights	Platform Living Wage Financials (PLWF)	Participate in working groups, conduct comparative studies and dialogue with companies.	59
	International Corporate Governance Network	Attend meetings and contribute to joint statements.	
	Asian Corporate Governance Network (ACGA)	Participate in networks, working groups and dialogue with companies.	51

## A SELECTION OF INITIATIVES IN 2022

Area	Type	Initiative	Further commitments	More on page
Biodiversity	Investor statement	Financial Institution Statement ahead of the Convention on Biological Diversity COP15		
	Investor letter	Investor Initiative on Hazardous Chemicals. Letter to chemical companies on the production and transparency of chemicals that are harmful to people and the environment.	Attend joint meetings and participate in future dialogues with companies.	
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	Ceres Food Emission 50	Attend meetings and contribute to joint statements.	19
		Stakeholder organisations' standpoint on climate issues	Follow up with stakeholder organisations. Dialogue if necessary.	20
Climate, Biodiversity, Human rights	Investor statement	Global Investor Statement to Governments on the Climate Crisis		35
		Investor Expectations Aligning the Banking Sector		
		Investor statement of support for EU CSRD through PRI		
Human rights	Dialogue	Uyghur Region Engagement Group, Investor Alliance for Human Rights	Attend meetings and participate in dialogues with companies about links to violations of human rights, with focus on the situation of the Uyghurs.	59



## 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 2022, the Council on Ethics was involved in eight proactive projects that showed progress. At the end of the year, active dialogues were underway with 86 companies throughout the world.

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

### Proactive work helps mitigate accidents and incidents

The Council on Ethics' proactive engagement work contributes to positive change and addresses particularly difficult sustainability challenges in the companies' operations and value chains. The purpose of the work is to address challenges and prevent violations, accidents and incidents from occurring. This contributes to improvements in companies and reduced risk for the AP Funds' assets.

In 2022, a project on child labour and the raw material cocoa was concluded, an area in which the Council on Ethics has been active since 2012. The project has been evaluated on the basis of three factors: the companies' monitoring and action systems to detect and prevent child labour, opportunities to attend school, and ensuring that employees receive a living wage and can support their families. Since the start of the project, awareness has increased, which

means that cocoa and chocolate companies have improved in terms of these factors and are working actively on the issues, but the challenges remain significant that their work needs to continue.

Another example of proactive projects is tech giants and human rights, where large technology companies are engaged in how they handle issues like personal integrity and censorship.

### Reactive work influences companies to manage and take action

The Council on Ethics' screening of around 3,200 holdings, conducted at the end of 2022, revealed that just over 100 companies were confirmed with a violation of an international convention, or on a watchlist with a severe risk of having committed such a violation. 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 – 66 milestones achieved in 2022

By year-end, active dialogues were being held with 86 companies. In the course of these dialogues, a total of 66 milestones were achieved in 2022. Read more on the Council on Ethics' website: [www.etikradet.se](http://www.etikradet.se)

REVIEW	2022	2021	2020	2019
Number of companies in the AP Funds' portfolios – all have been reviewed	3 202	3 168	2 430	3 557
of which confirmed violation	28	23	22	29
of which with a risk of violation	83	89	72	91
of which no comments in review	3 091	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.

### DEVELOPMENT OF THE NUMBER OF COMPANIES IN ACTIVE DIALOGUE

	2022
Number of companies in active dialogue, beginning of the year	81*
Number of companies where new dialogues have started	16
Number of companies with completed dialogue and goals achieved	-5
Number of companies with completed dialogue and goals not achieved (recommendation of exclusion)	0
Number of companies with terminated dialogue due to changes in AP Funds' holdings	-6
<b>Number of companies in active dialogue, year-end</b>	<b>86</b>

\* Number of companies in active dialogue was 81 at the beginning of the year. 85 companies were in active dialogue in October 2021, which was reported in the 2021 report. Four of these were completed with goals achieved by December 2021.

# 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 long-term 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 will also, all other things being equal, entail less risk. Companies that integrate factors such as ethics and the environment in their long-term business development will have a real advantage over their competitors and be better equipped to create long-term value for their shareholders. A proactive approach to the environment, ethics, social issues and corporate governance are therefore means to attain the goal of a good risk-adjusted return.

The integration is based on the conditions that apply 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](http://www.etikradet.se)

## Geographical exposure

AP2 has developed a framework which identifies countries where there are financial, operational or sustainability reasons not to invest. The framework and the Fund's process are 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, and the extent to which human rights

violations actually take place. In countries with very high risks, 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 development of a country that violates human rights, there are likely to be sustainability grounds not to include the country in the Fund's portfolios.

## Equities

### 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). Read more on page 36.

### 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. This dialogue aims to increase the knowledge of both parties. 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 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.

The companies' sustainability work is evaluated on the basis of 25 assessment points, which are divided into three categories: policy and process,

## WORKING METHOD AND MODEL FOR EVALUATING PRIVATE EQUITY COMPANIES' SUSTAINABILITY WORK

### Framework

PRI's framework for due diligence, follow-up and dialogue

### Dialogue

- Due diligence
- ESG reporting
- Annual follow-up
- Dialogue with managers

### Analysis

- Model for analysis and evaluation
- The manager's ESG activities are evaluated on the basis of 25 assessment points
- The baseline is set at the time of investment/due diligence
- The evaluation is updated continuously with new information from the manager's ESG reporting, presentations and meetings/dialogues

### Conclusions

- Assessment of ESG activities on a scale of 0-100 per cent for all managers
- Follows the performance of the manager's ESG activities from time of investment onwards
- Analysis and comparison
- Results in three categories based on PRI's framework:
  - Policy and Process
  - Portfolio
  - Significant ESG incidents
- Basis for dialogue – focus areas, issues and opportunities for improvement

### ESG EVALUATION



### MANAGER 1





portfolio, and incidents. Evaluation criteria are established for all assessment points and an evaluation is formally carried out for the first time in connection with the investment and is then updated on an ongoing basis. Based on the analysis, AP2 can identify areas for improvement and steer the focus of the continued dialogue with the manager. 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 issues 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.

AP2 has 48 managers of the private equity portfolio, of which 33, or 69 per cent, have been evaluated in accordance with the model. See page 24. Of those not assessed, 13 per cent are within Venture (investing in early start-up companies), which requires a different analysis and follow-up structure; one is a fund-in-fund manager; and the rest 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. Eleven managers were evaluated in 2022, with a total outcome of 77 per cent for the portfolio, which is an increase from 75 per cent for the previous year. All sub-categories improved during the year.

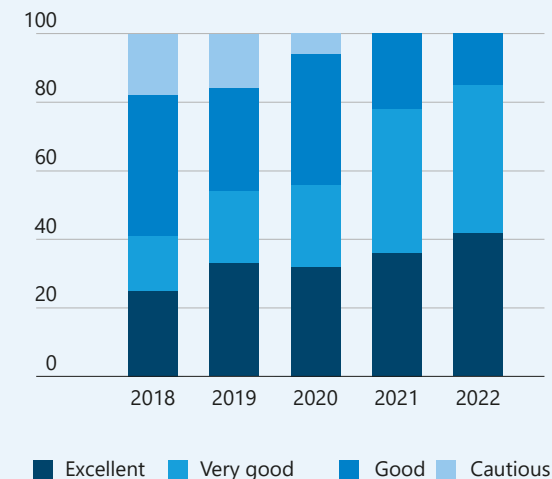
A manager's rating is divided into four sub-categories according to the manager's degree of maturity, from cautious to excellent, where a compilation of AP2's managers shows continuous improvement and a total outcome of 77 per cent, which is once again an improvement from the previous year. The share of managers with an outcome in the highest category, excellent, increased to 42 per cent, with a move from very good, and in the same way the outcome in the lower category of good was reduced, and the managers received a better assessment.

69 per cent of all managers have signed the UN's Principles for Responsible Investment (PRI), which is an increase by seven managers during the year. Furthermore, 62 per cent issue an annual sustainability report, which corresponds to a further five managers in 2022.

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. During the year, the dialogue focused on increased reporting within a number of focus areas, such as diversity and climate. Several international initiatives are under way to standardise this form of reporting, and AP2 supports initiatives that in the long term will increase opportunities for the efficient compilation of information. Examples of initiatives are the Task Force on Climate-Related Financial Disclosures (TCFD), which 31 per cent of AP2's active managers (excluding Venture) support, while 26 per cent support the ESG Data Convergence Project (EDCI) and 32 per cent support the ILPA Diversity and Inclusion initiative.

To further ensure sustainability work, AP2 seeks to reach agreement with the managers on various commitments through side agreements. Of the managers with whom the Fund invested during 2019-2022,

### SUSTAINABILITY ASSESSMENT, PRIVATE EQUITY MANAGERS, %



### SUSTAINABILITY REPORTING, %



90 per cent have committed to complying with the UN Global Compact and 70 per cent with the UN Guiding Principles on Business and Human Rights. As from 2022, for new commitments it is also required that the managers contribute actively to the portfolio companies' plans to reduce their emissions, in line with the Paris Agreement.

### Fixed-income investments

#### Bonds

#### *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. The Fund has invested in 158 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.

AP2 has a broad approach to sustainability work within fixed-income management. In addition to green bonds, the Fund has invested in social bonds, for example, since 2014. Since then, the Fund has invested in 19 bonds with a focus on social issues. 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. AP2 has 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 the 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 14 billion as at 31 December 2022.

#### *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. 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.



“ 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.

### **Government bonds**

AP2 strives to invest in government bonds in emerging-market 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 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 external data suppliers 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 a 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.

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 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 government-issued dollar-denominated bonds with a better sustainability profile.

### **Non-listed credits**

In 2021, AP2 decided to make a strategic allocation to unlisted credits. The investment process for these credits is generally the same as for private equity funds. However, one difference is that as a holder of unlisted credits, the Fund does not have the same opportunity to influence companies as for investments in private equity funds.

This does not mean that there is no possibility of exerting an impact, however. This mainly takes place through a careful selection process of external managers, where it is important that there is a consensus on sustainability issues between AP2 and the external manager. In turn, the managers conduct detailed reviews of sustainability in the companies to which they lend money, and in some cases can agree on interest rate steps, whereby borrowers receive a lower interest rate if agreed sustainability terms have been met.

Finally, AP2 has chosen to invest in funds with unlisted credits, where the actual purpose of financing is to drive a green transition, such as the Swedish PCP Transition Partner Fund. A similar investment in the US market is under evaluation.

### **Alternative investments**

#### **Traditional real estate**

Many different sustainability aspects are important for the real-estate sector, primarily climate and energy, since this sector accounts for almost 30 per cent of the global emissions of greenhouse gases and almost 40 per cent of energy consumption. For the seventh consecutive year, in November 2022 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. There is a strong focus on the measures required for the properties to be in line with the Paris Agreement.

### **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 1,500 real-estate companies and funds, and more than 700 infrastructure funds, took part in the survey in 2022.

Every year, AP2 encourages its non-listed real-estate companies and funds to take part in the GRESB survey. All respondents invited completed the survey in 2022 (relates to the results for 2021).



GRESB awards each company/fund an overall score, a GRESB score, on a scale from 0 to 100. The Fund's non-listed companies were awarded an aggregated GRESB score of 92. Points are also awarded for development properties, where the Fund's property portfolio scored no less than 95 points, with Vasakronan at the forefront with 100 points. Vasakronan has the goal of becoming carbon neutral by 2030. Read more on page 41.

### 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, 1.9 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.

Sustainability is embedded in the entire investment process for both timberland and farmland, as well as management and monitoring of acquired real estate. All of AP2's managers are signatories to and comply with the Principles of Responsible Investment (PRI).

### Sustainability certification requirements

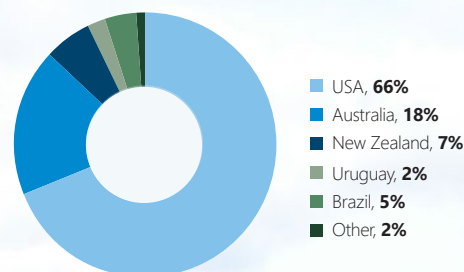
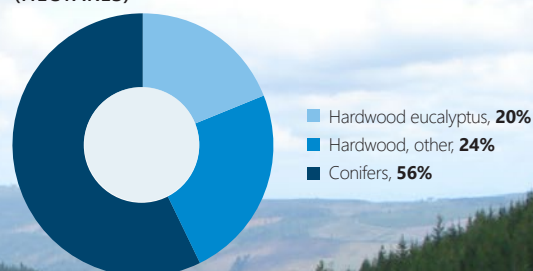
AP2 requires portfolio managers, whenever possible, to certify the timberland assets in accordance with one of the international sustainability certification schemes, i.e. the Forest Stewardship Council (FSC) or the Programme for Endorsement of Forest Certification (PEFC). Even if the assets cannot be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

### Forest as a sustainability investment

The forest and forest industry have the unique opportunity to reduce fossil fuel 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 aspect of the climate solution therefore lies in growing forests that reduce the amount of carbon dioxide in the atmosphere and build up carbon stocks.

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 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 have 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.



GEOGRAPHICAL BREAKDOWN OF  
TIMBERLAND (HECTARES)PRODUCTION BREAKDOWN OF TIMBERLAND  
(HECTARES)

During the year, AP2 developed criteria for classifying timberland as a sustainability investment. Sustainability investments are investments that, in addition to a good risk-adjusted return, aim to contribute to the UN global goals, for example through reduced emissions of greenhouse gases. An investment in timberland is not automatically beneficial from a climate perspective, however, and ten criteria have therefore been developed that AP2 considers to be important from a climate perspective and that the Fund's timberland investments must fulfil in order to be classified as a sustainability investment. The criteria entail, among other things, that managers of timberland assets must have a comprehensive and externally published policy for responsible investments, that timberland assets must be managed in a sustainable manner that is verified by a third party through certification, and that all managers of timberland assets integrate TCFD into their reporting. AP2's managers of timberland assets must also maintain or increase carbon sequestration in the forest and they must contribute actively to maintaining or increasing biodiversity associated with the timberland. This applies in addition to the minimum requirements specified in the certification terms and in local laws and regulations.

**Farmland**

Investments in farmland form part of AP2's efforts to diversify the overall portfolio. 3.7 per cent of the Fund's assets under management are invested in farmland. Sustainability issues are

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. The majority of the Fund's farmland investments are in the USA.

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. 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. Most of the land owned by the jointly-owned companies is leased out.

The sustainability work in the global farmland portfolio is based on an overall code of conduct for agriculture and includes practices in the cultivation process, covering everything from how to maintain a good balance in the soil that is cultivated, to how the workforce is trained. A property profile is drawn up annually, showing more specifically how well agriculture implements practice, by measuring quantitative data for each individual property. There are also key indicators that show performance in such areas as energy use, water consumption, soil quality and greenhouse gas emissions. These key indicators also measure resource efficiency such as waste production and impact on biodiversity. Sustainability work also includes activities that promote social goals such as working conditions, health and safety, as well as gender equality.

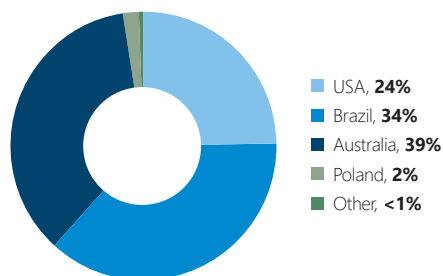
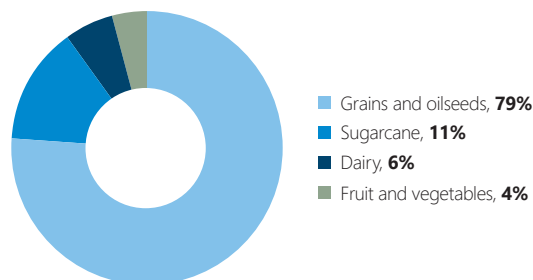
**Zero tolerance for deforestation**

AP2 is actively engaged in improving the sustainability performance of the companies, for instance through its board work and as a member of companies' ESG committees. In 2018, the Fund engaged in dialogue with its farmland manager, Nuveen, on deforestation in Brazil. In August 2018, Nuveen adopted a clear zero tolerance policy 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](http://www.nuveen.com). The investment guidelines for AP2's farmland managers stipulate that no land in the Amazon Biome may be acquired. The managers have never included any such farmland assets.

**Transparency**

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: <https://www.nuveen.com/global/investment-capabilities/real-assets/farmland/map>



GEOGRAPHICAL BREAKDOWN OF FARM-  
LAND (HECTARES)PRODUCTION BREAKDOWN OF FARMLAND  
(HECTARES)

### ***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 in developing in 2011. As a consequence, the farming principles have been developed into the 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. More information about how the managers work with the Guidance is available on the Fund's website.

### ***Leading Harvest***

Nuveen Natural Capital is a co-founder of Leading Harvest, which is a non-profit organisation for promoting sustainable agriculture. It was launched in 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](http://www.leadingharvest.org)

### ***Sustainability audits of farmland in Brazil***

All farmland in Brazil is subject to ongoing sustainability audits, with approximately one third of farmland undergoing annual audits based on a risk matrix. This verifies all of the farmland over a three- to four-year period. The audits are performed by international sustainability consultants, with focus on the operations' compliance with regulations on working conditions, occupational health and safety, and the environment and integrity. The purpose of the audits is 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 show 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. To support the tenants, the farmland managers have changed their site visit process to include a more comprehensive review of the tenants' activities. The manager has also drawn up 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.

All the farms and tenants that were subject to a new audit showed improved results and compliance.



### Sustainable infrastructure

Sustainable infrastructure is an area in need of major investment, as energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources. At the end of 2019, AP2 decided on a new strategic allocation to sustainable infrastructure, i.e. assets that promote sustainable development in line with the Paris Agreement. So far, the Fund has made seven investments totalling approximately SEK 8 billion. In 2022, the following investments were made:

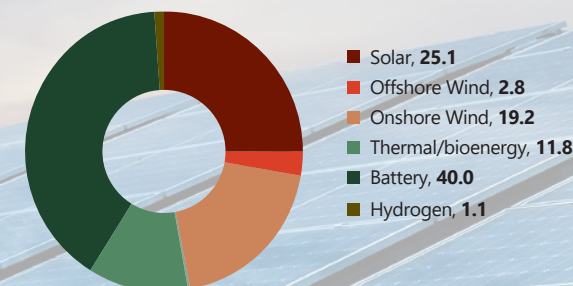
- **CIP ABF:** Copenhagen Infrastructure Partners established its sixth fund focused on the production of bioenergy (biogas and biofuel) by in various ways processing waste products from forestry and agriculture, and from food production. The waste that is used must be approved under the EU's RED II (Renewable Energy Directives).

- **Generate Capital:** AP2 has already invested in Generate Capital and made another supplementary investment during the year. The company finances, owns and manages small to medium-sized assets/projects within sustainable infrastructure, such as energy efficiency, solar panels, waste management facilities and electric vehicles.
- **Northvolt:** In spring 2021, AP2 together with other AP Funds (AP1, AP3 and AP4) invested in Northvolt's new issue of shares, via the jointly owned private equity company 4 to 1. Demand for lithium batteries from both the electric car and electric aviation industries is increasing more rapidly than expected. In line with the expansion of renewable energy, the need for battery

storage facilities is also increasing. Northvolt has therefore increased the speed of its expansion, including the formation of a company together with Volvo Cars, prior to the establishment of a lithium battery factory in Gothenburg. During the year, AP2 invested in Northvolt's convertible loan issue, for which the underlying reason is more rapid expansion and a longer start-up time for the factory in Skellefteå to reach full capacity.

These investments are closely in line with AP2's overall mission to promote sustainable development without compromising the overall goal. The portfolio that is under construction primarily includes projects in the development phase, but nonetheless, the Fund's investments have (in 2021) generated over 300,000 MWh of renewable energy.

SECTOR DISTRIBUTION OF SUSTAINABLE INFRASTRUCTURE, %





# Focus areas

Climate

Corporate governance

Diversity, equity and inclusion

Human rights

Biodiversity

## Goals and events within AP2's focus areas

	Long-term goals	Events 2022
Climate	<ul style="list-style-type: none"> <li>• Net zero greenhouse gas emissions by 2045.</li> <li>• Greenhouse gas emissions of -55 per cent by 2030 (base year 2019).</li> <li>• All asset classes in line with the Paris Agreement by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued implementation of the PAB index, among other things by including more sectors within Scope 3.</li> <li>• New investments in sustainable infrastructure.</li> <li>• Continued dialogue with AB Volvo within the framework of Climate Action 100+.</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>• Active and responsible ownership through an increased number of dialogues, and voting in all of the Fund's listed share-holdings by 2027.</li> </ul>	<ul style="list-style-type: none"> <li>• Contacted Swedish companies for which the gender distribution on the board of directors is deemed to be very unequal.</li> <li>• Communicated views on how sustainability goals should be included in the long-term incentive programmes of Swedish companies.</li> <li>• Involved in the legal action against Volkswagen.</li> <li>• Implemented system support for dialogue work.</li> </ul>
Diversity, equity and inclusion	<ul style="list-style-type: none"> <li>• On average, the Fund's listed holdings must have in average 40 per cent of each gender represented on the board by 2030.</li> <li>• The Fund must have actively influenced the portfolio companies to have a strategy for diversity, equity and inclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• Broadened the focus area to include diversity, equity and inclusion.</li> <li>• Developed the factors in the Fund's internally-developed indices with a focus on diversity, equity and inclusion.</li> <li>• Wrote a letter to Swedish companies with less than 30 per cent of each gender on the board of directors.</li> <li>• According to the Fund's Index of Female Representation, the proportion of women on Swedish boards and executive management teams is the highest ever.</li> </ul>
Human rights	<ul style="list-style-type: none"> <li>• Implementation of the UN Guiding Principles on Business and Human Rights by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive dialogues with companies in the textile and mining industries.</li> <li>• Training for Chinese portfolio companies in the UN Guiding Principles.</li> <li>• Increase in human rights issues when evaluating new managers for timberland and farmland holdings.</li> <li>• Evaluation of human rights work at the Fund's external managers.</li> </ul>
Biodiversity	<ul style="list-style-type: none"> <li>• Contribute to a net positive impact on nature by 2030.</li> <li>• A portfolio that does not contribute to illegal deforestation by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Defined biodiversity as a new focus area.</li> <li>• Biodiversity included in AP2's sustainability policy, together with a separate anti-deforestation policy.</li> <li>• Defined long-term goals, conducted a risk analysis and developed a strategy for the work going forward.</li> <li>• Initiated new partnerships, including with Finance for Biodiversity.</li> </ul>



# Climate

Climate has been on Andra AP-fonden's agenda for over a decade. During this time, the Fund has developed processes to integrate climate issues into analysis and investment processes, to engage with companies and decision-makers, and to reduce the direct climate impact of its own activities. The Fund is developing its portfolio in line with the Paris Agreement, with the goal of a net zero emission portfolio by 2045.

## Targets for the climate strategy

The Fund has set a goal to reduce greenhouse gas emissions by at least 55 per cent by 2030, compared with 2019 as the baseline year. This goal has been set as a target, as it is important to reduce emissions as quickly as possible. The goal for 2030 also aligns with the EU's reduction targets in the "Fit for 55" plan. The progress towards achieving this goal is likely to be uneven. The base will be updated several times in the coming years, as emissions will gradually be measured for more asset classes and as Scope 3 emission data becomes available.

To ensure that the Fund's entire portfolio reduces its emissions in line with the Paris Agreement, AP2 has also set as a goal that by 2025 there must be a credible and relevant plan for reducing greenhouse gas emissions within all of the Fund's asset classes. The proportion of the portfolio that is in line with the Paris Agreement is followed up annually.

At the end of 2022, 70 per cent of AP2's portfolio was managed in line with the Paris Agreement. This includes foreign equities and credits, Swedish equities, non-listed real estate, timberland and farmland, green bonds and sustainable infrastructure.

## What AP2 does – integration and responsible ownership

The starting point for AP2's climate work is to contribute to a transition in line with the Paris Agreement by:

- making targeted sustainable investments;
- supporting the transition; and
- divesting from climate risks.

## Targeted sustainability investments

Creating a low-carbon society requires major investments, and AP2 supports the transition through targeted sustainability investments in different asset classes. Currently, most of the Fund's targeted sustainability investments are focused on the climate transition. 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.

There is also a considerable recognised need for investment in sustainable infrastructure. Such investments are fully aligned with AP2's overall mission to promote sustainable development without compromising the overall goal. During the year, the

Fund increased its allocation to this asset class and has now made seven different investments 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. Within this asset class,

the Fund has also invested in large-scale manufacture of lithium-ion batteries for electric cars.

AP2's Swedish cleantech portfolio is another targeted sustainability investment, where the Fund has invested in both wind power companies and companies focused on both energy and materials efficiency.

## Key events in 2022

- Defined long-term goals and established a climate plan.
- Continued implementation of the PAB index, including more sectors within Scope 3.
- New investments in sustainable infrastructure.
- Continued company dialogues via Climate Action 100+, including with AB Volvo.

## Long-term goals

AP2 shall have a portfolio with net zero emissions by 2045.

The Fund's goal is for the entire portfolio to be in line with the Paris Agreement, i.e. for the portfolio's greenhouse gas emissions to decrease at a rate that can limit global warming to 1.5° C. The Paris Agreement stipulates that net zero emissions must be achieved by 2050 at the latest. Since Sweden has committed to a steeper reduction, with net zero emissions as early as 2045, AP2 believes that this target should also apply to the Fund.

### Supporting the transition

AP2 supports the transition in several different ways. One is through investments that can contribute to the transition, and another is through active engagement, primarily via dialogue with both companies and decision-makers.

Making adjustments to the portfolio, such as divesting companies with high carbon emissions and investing in companies with lower emissions, can reduce the portfolio's total carbon footprint. Such changes mitigate the portfolio's exposure to, for example, fluctuations in the price of carbon emission rights, and also reduce its climate-related risk. At the same time, this does not affect total carbon emissions to the atmosphere, i.e. the risks of climate change globally are not reduced 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 by 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, by requiring the companies to report their climate risks, and using governance, processes and activities to manage these risks in accordance with TCFD (Task Force on Climate-Related Financial Disclosures). AP2 is also promoting these issues as an active owner, for instance at general meetings of shareholders. AP2 works with other European investors on climate issues through its membership of the IIGCC (Institutional Investors Group on Climate Change). The aim is to promote the investors' views on climate related issues and to engage with companies, authorities and other investors in order to highlight long-term risks and opportuni-

ties that arise in connection with climate change. IIGCC is an effective platform for communicating investors' expectations relating to climate. 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](http://www.iigcc.org)

In order to support the transition and conduct engagement work, it is important to understand the portfolio's emissions and the drivers behind the change in emissions, as well as the extent to which these contribute to actual global emission reductions. This is analysed annually by the Fund with the help of a model that indicates the reason for the change in the carbon footprint. Read more about AP2's carbon footprint on page 37.

The companies' emissions are analysed and form the basis for the Fund's ongoing engagement work which can be conducted bilaterally or together with other investors in different investor networks, such as Climate Action 100+. AP2 has been actively involved in the initiative since 2017 and, together with Öhman and Alecta, is leading the dialogue with AB Volvo. Climate Action 100+ is an international dialogue project in which around 700 global investors engage in dialogue with 166 companies that account for 80 per cent of global industrial 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 TCFD, and that their boards take clear and unequivocal responsibility for the work of addressing climate change. During the five years of dialogue with the focus companies, major progress has been achieved. Until now, the

talks have focused on companies joining the Paris Agreement and becoming more transparent. In the ongoing dialogues, the focus has moved to discussing climate plans and the path to net zero emissions. The initiative is followed up annually in a report which presents the progress made through the dialogues. The most recent report is available at [www.climateaction100.org](http://www.climateaction100.org)

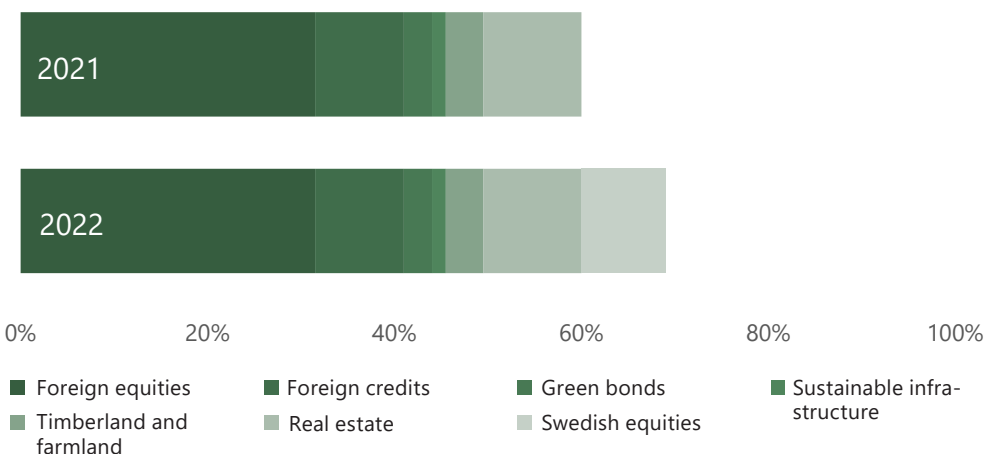
To further support the transition, political measures and commitment are also required, where institutional investors such as AP2 have an important role to play. Prior to this year's climate summit, COP27, AP2 and more than 500 international investors signed a statement, the 2022 Global Investor Statement to Governments on the Climate Crisis, published by the IIGCC. The statement urges governments to increase their climate policy measures, including more direct climate regulation by both the financial sector and companies.

AP2 has also supported an expectations document for banks, Aligning the Banking Sector with the Goals of the Paris Agreement, which was coordinated by the IIGCC. This includes requirements concerning net zero commitments by 2050, that the boards have sufficient climate change expertise and that the banks report in accordance with TCFD.

### Divesting from climate risks

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 strategic portfolio

### SHARE OF THE PORTFOLIO IN LINE WITH THE PARIS AGREEMENT





## Reporting of emissions in Scope 1, 2 and 3

- **Scope 1** covers direct emissions that occur in the company's own operations, such as the combustion of coal during steel production, or fuel combustion from vehicles that the company owns or controls.
- **Scope 2** covers emissions from purchased electricity, heating and cooling.
- **Scope 3** covers emissions throughout the company's value chain, from the production of purchased materials to emissions during the use of the company's product, and any waste management of the product. The company's emissions such as business travel and other emissions caused by the company, but which are not directly owned or controlled, are also included.

selection is based. As mentioned above, 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. Climate change is expected to have a major impact on long-term returns. It is therefore becoming increasingly important to integrate climate change aspects into risk assessments and investment decisions. Climate-related financial risks can be divided into two groups: transition risks and physical risks. Transition risks are subdivided into regulatory risks, technological risks, market risks and trademark risks. Physical risks are divided 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 faced by 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.

In 2020, the EU Paris Aligned Benchmark (PAB) was implemented for the Fund's foreign equities and corporate bonds, replacing the previous process for analysing climate-related financial risks for fossil energy companies and coal-based power companies. This means that AP2 does not invest in companies that derive more than a certain percentage of their sales from coal, oil and/or natural gas, or in power companies that receive more than 50 per cent of their revenue from combustion of fossil fuels. The maximum share of revenue from coal is 1 per cent, from oil 10 per cent and from gas 50 per cent. On the transition to these indices, the Fund has divested from around 250 companies in total.

In 2022, AP2 worked to include the asset class of Swedish equities in a PAB index. The indices for the foreign government bonds asset class were also adapted during the year to enable the Fund to invest in countries/states with lower emissions, as an element of reducing the Fund's exposure to transition risks.

Since 2019, physical climate risks have been included in the Fund's overall return assumptions on which strategic portfolio selection is based. The focus is on physical climate risks and the impact of climate change on economic development. AP2 is engaged in continuous dialogue on physical climate risks with companies and managers of the Fund's investments in real assets, mainly timberland and farmland, traditional real estate and sustainable infrastructure.

### Greenhouse gas emissions in 2022

The Fund's net zero emissions target is expressed as carbon dioxide equivalents, CO<sub>2</sub>e, and includes all seven greenhouse gases under the Kyoto Protocol: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), incompletely halogenated fluorocarbons (HFC), fluorocarbons (FC), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>). Carbon dioxide, followed by methane and nitrous oxide, are the greenhouse gases that have the greatest impact on global warming.

Over time, AP2 seeks to expand its reporting of greenhouse gas emissions to include more asset classes and to include Scopes 1-3. So far, the Fund has mainly reported scope 1 and Scope 2, since the companies' reporting of scope 3 is often lacking. The Fund strives to secure reliable data for Scope 3 and include this in its reporting. In step with this, the Fund's reporting will be updated and historical data will need to be revised. There may therefore be deviations compared to previous reports.

The Fund reports emissions for the listed portfolio from three different approaches: 1) through the AP Funds' joint reporting that enables comparability; 2) by showing the driving forces behind the change in the portfolio; and 3) by reporting emissions in accordance with the EU Paris Aligned Benchmark.



## 1. The AP Funds' joint reporting of carbon footprint

### *The listed portfolio's carbon footprint (Scope 1 and 2)*

The total carbon emissions for AP2's equity portfolio in 2022 are 1.05 (1.17) million tCO<sub>2</sub>e, which corresponds to a 10 per cent reduction during the year. From 2019 as the base year, AP2 has reduced the Fund's total carbon emissions for the listed equity portfolio by around 37 per cent. The relative carbon emission per krona invested is 7 tCO<sub>2</sub>e/SEK million. By comparison, carbon intensity in 2021 was 6 tCO<sub>2</sub>e/SEK million. The reason for the increase in this metric is the decline in the portfolio's market value. If the footprint is instead related to the ownership share of the companies' revenue, the carbon intensity is 9 tCO<sub>2</sub>e/SEK million. By comparison, carbon intensity in 2021 was 10 tCO<sub>2</sub>e/SEK million. The companies in the portfolio have increased their revenue, which results in a lower intensity.

AP2 reports its carbon footprint broken down into Sweden, developed markets and emerging markets. There is a big difference in carbon intensity between developed and emerging markets, where companies in emerging markets are least carbon efficient, with higher emissions of greenhouse gases.

For 2022, the Fund reports a carbon intensity for emerging markets of 13 tCO<sub>2</sub>e/SEK million, based on the companies' revenue, while the fig-

ure for developed markets is 7 tCO<sub>2</sub>e/SEK million and for Sweden 3 tCO<sub>2</sub>e/SEK million.

In accordance with the TCFD framework, the Fund also reports a portfolio-weighted carbon intensity metric. This is similar to the aforementioned carbon intensity metric based on the companies' revenue, but is also weighted on the basis of each company's weight in the portfolio.

The table on page 38 presents all the metrics for the various markets.

AP2 uses data from MSCI ESG Research and Trucost as input. The average value of these two sources constitutes the Fund's carbon database, which is used to calculate the carbon footprint. If reported data is lacking, suppliers' data may comprise their estimates. If there is no data from the suppliers, AP2 makes an estimate. The general trend is an increase in reported data. For AP2's carbon footprint, data is available for 100 per cent of the equity portfolio.

### *Investments in fossil reserves*

In the listed portfolio, the Fund holds five companies with coal reserves which, on combustion, would have an impact of 0.042 mtCO<sub>2</sub>e. The Fund also has holdings in eight companies with oil and gas reserves totalling 0.02 mmboe (million barrels of oil equivalent). AP2 has used data from MSCI ESG Manager.

## AP2 reports as follows:

Through transparent **reporting with common metrics** for the carbon footprint from the fund assets, the AP Funds aim to facilitate understanding and comparability. Since 2015, the AP Funds have had a collaborative group of representatives from each AP Fund to coordinate the Funds' carbon footprint reporting.

The purpose of having several different metrics is to be able to demonstrate different aspects of climate risk, such as the sensitivity of the asset portfolios to, for example, a market price for carbon dioxide, and to be able to monitor developments both in absolute terms and relative to the portfolio companies' revenue and the value of the portfolio.

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). These calculations are explained by the formulas given on AP2's website. More information about carbon footprints and formulas for other metrics is also available on the website.

Exposure to carbon risk is reported using the following 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.

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

Metrics	2022	2021	2020	2019
<b>1. Total carbon emissions (million tCO<sub>2</sub>e)</b>	1.05	1.17	1.44	1.68
Sweden	0.05	0.07	0.09	0.13
Developed markets	0.33	0.4	0.51	0.62
Emerging markets	0.67	0.7	0.84	0.93
Change in the portfolio's total carbon emissions from the previous year (%)	-9.8	-18.8	-14.6	
– of which the change related to changes in the portfolio's holdings (% units)	-15.2	-9.3	-17.3	
– of which the change related to changes in the companies' emissions (% units)	5.4	-9.5	2.7	
<b>2. Relative carbon emissions (tCO<sub>2</sub>e/MSEK)</b>	6.97	6.23	8.92	11.45
Sweden	1.49	1.75	2.58	4.09
Developed markets	4.61	4.25	6.7	8.94
Emerging markets	14.48	13.41	16.4	20.78
<b>3. Carbon intensity (tCO<sub>2</sub>e/MSEK)</b>	8.82	10.09	12.73	14.06
Sweden	2.9	4.78	5.07	6.86
Developed markets	6.48	7.48	9.97	11.56
Emerging markets	13.1	14.77	18.85	20
<b>4. Portfolio-weighted carbon intensity (TCFD)(tCO<sub>2</sub>e/MSEK)</b>	7.68	8.97	12.27	15.89
Sweden	2.78	3.48	4.15	5.17
Developed markets	6.92	8.1	10.93	17.92
Emerging markets	12.32	14.95	19.63	20.66
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-14.3	-26.9	-22.8	
– of which the change related to changes in the portfolio's holdings (% units)	5.8	-4.1	-33.4	
– of which the change related to changes in the companies' emissions (% units)	-20.1	-22.8	10.6	
Market value of the Fund's portfolio covered by CO <sub>2</sub> e data (SEK billion)	151	187	161	147
Proportion of the share capital for which data is available (%)	100	100	99	99

Carbon measurements as from and including 2019 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.

CO<sub>2</sub>e (carbon equivalent) is a unit of measurement that makes it possible to compare the climate impact of different greenhouse gases.

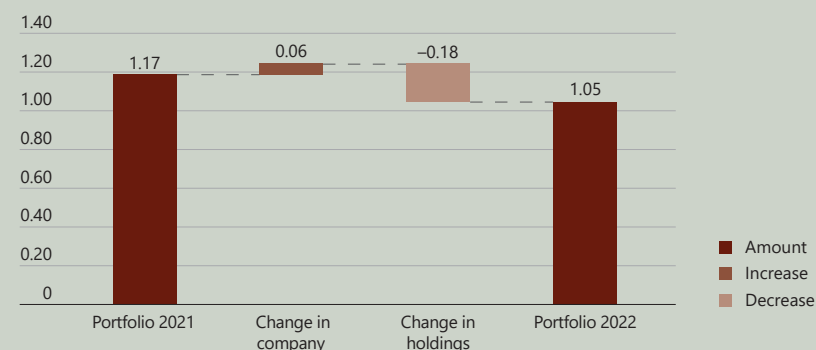


## 2. Drivers for change in the portfolio

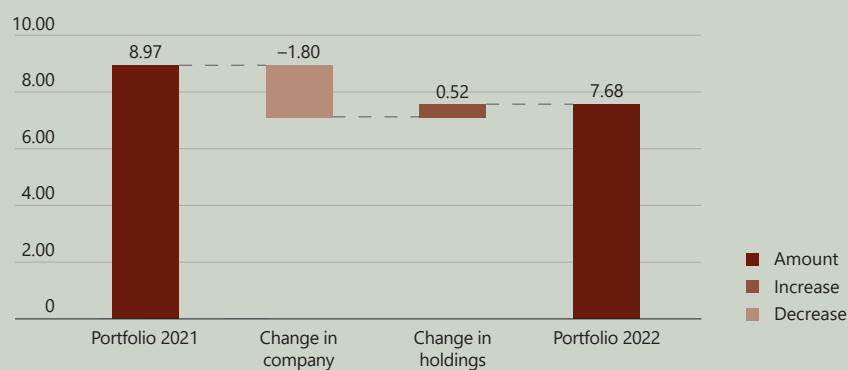
The graph on the right shows the reasons for the change in total carbon emissions between 2021 and 2022 for AP2's listed equity portfolio. The calculations relate to emission data from Scope 1 and 2, expressed as millions of tCO<sub>2</sub>e. The graph shows that most of the decrease can be attributed to changes in the Fund's holdings, while the companies increased their emissions between 2021 and 2022 by around 5 percentage points.

One reason for the increase in the companies' emissions is that their activities have grown, with a total increase in the portfolio's revenue of 30 per cent from 2021. Regardless of this explanation, this gives a clear signal that major reductions in the companies' emissions are required in the coming years. Given the increased revenue, the companies contribute to improved carbon dioxide intensity, see the graph below. According to this metric, the companies' reduced carbon intensity is the driving force behind the portfolio reduction in carbon dioxide intensity.

CAUSES OF CHANGE IN TOTAL CARBON EMISSION BETWEEN 2021 AND 2022, MILLION tCO<sub>2</sub>e



CAUSES OF CHANGE IN PORTFOLIO-WEIGHTED CARBON INTENSITY BETWEEN 2021 OCH 2022, tCO<sub>2</sub>e/MNKR



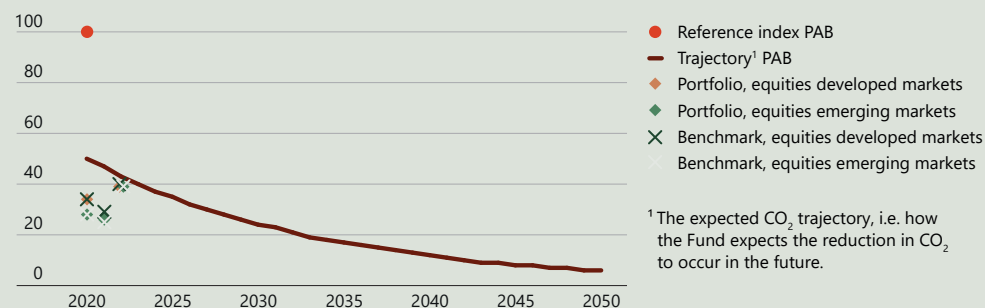
## AP2 reports as follows:

The carbon metrics described on the previous pages provide important knowledge, but there are limitations. One of the limitations has previously been that carbon footprints did not provide information on the **drivers behind changes in emissions** in portfolio companies, and the extent to which the actual emissions to the atmosphere have changed. To increase transparency in this regard, the AP Funds report how much of the change in carbon footprint is due to changes in the Funds' equity holdings and in the companies' emissions, respectively.

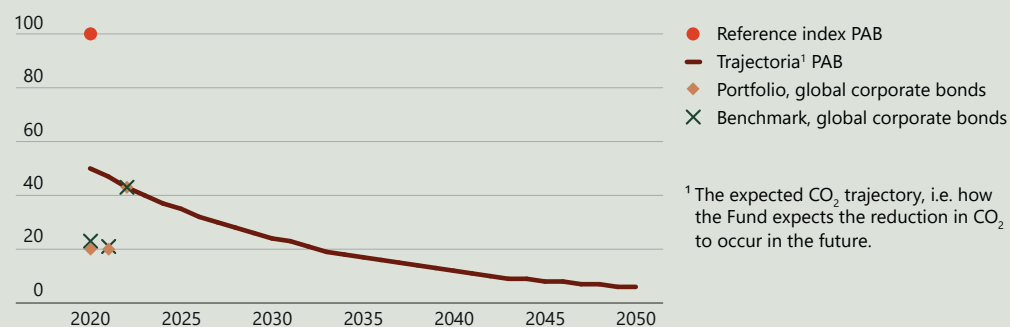
Changes in an investment portfolio's carbon footprint can be caused by two factors: changes in the portfolio holdings and a change in the companies' carbon emissions. Changes in portfolio holdings do not lead to reduced emissions to the atmosphere, as these do not occur until the companies' emissions are reduced. AP2 attaches great importance to this follow-up, which is also the basis for the Fund's engagement work.



**GRAPH 1. CARBON FOOTPRINT IN PAB-ADAPTED EQUITY PORTFOLIOS  
COMPARED TO A MARKET-WEIGHTED INDEX, %**



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



### 3. Greenhouse gas emissions from PAB-adapted portfolios

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 PAB framework. The curves show an annual decrease of seven per cent, despite the addition of more sectors in Scope 3. Over time, the Fund intends to maintain its footprints for the portfolios below these curves, in accordance with the framework, but the development is expected to vary from year to year. The points in the graphs show the outcome for the portfolios and for the benchmarks that manage them.

The carbon footprint in 2022 follows the expected curve, however with an increase compared to 2021 to 39 (27) per cent of the benchmark for equities and 43 (20) per cent for corporate bonds. One reason for this year's increase was the inclusion of Scope 3 for a number of sectors.

## AP2 reports as follows:

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 has extended its carbon footprint reporting to include Scope 3 for the sectors for which this is prescribed, currently the oil, gas and mining sectors.

During the year, in line with the PAB framework, the Fund has added additional Scope 3 emissions for companies in the transport, construction and materials sectors, which means that AP2 reports on more tonnes of carbon dioxide than in previous years. Historical emissions are revised as reporting is expanded, in order to achieve comparability. The annual reduction of seven per cent, as set out in the framework, is followed up against revised figures.

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

**Carbon footprint for other asset classes**

AP2's ambition is to eventually present a carbon footprint that includes all asset classes. For 2022, the Fund has calculated the carbon footprint from listed equities, foreign corporate bonds, timberland and farmland, traditional real estate, and sustainable infrastructure. This means that 68 per cent of AP2's strategic portfolio is measured according to a carbon indicator.

**Traditional real estate**

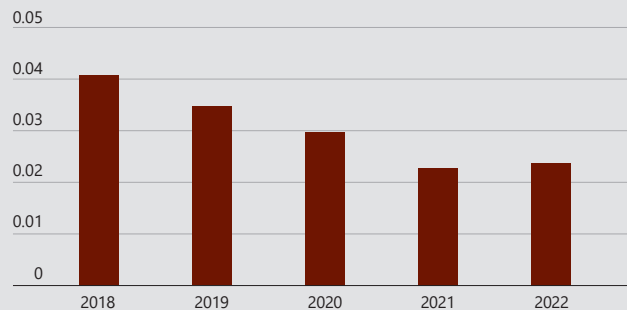
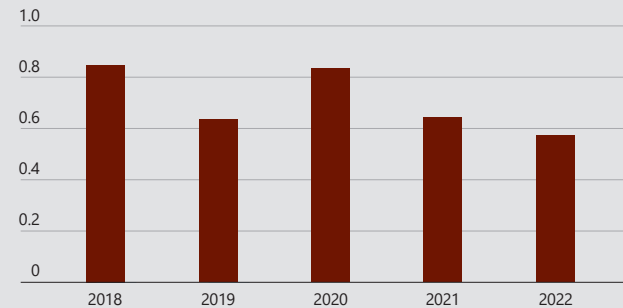
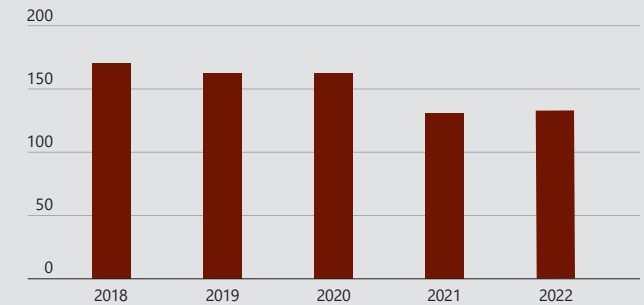
AP2's non-listed real estate companies report Scope 1, Scope 2 as well as Scope 3 in the form of tenants' energy consumption. The Fund's carbon emissions totalled 118,903 tCO<sub>2</sub>e and the carbon intensity amounted to 0.58 tCO<sub>2</sub>e/SEK million per million invested krona, which is a reduction from 0.65 tCO<sub>2</sub>e/SEK million per million for the previous year.

Energy consumption and carbon emissions per unit area were 133 kWh/m<sup>2</sup> and 0.024 tCO<sub>2</sub>e/m<sup>2</sup>, which represents an increase of 1 and 1.5 per cent, respectively.

Energy consumption and carbon emissions generally increased in the office segment in 2022, when many people returned to office work, which increased the electricity use. The portfolio's reduction in emissions per krona invested is mainly due

to improved figures for US Office Holdings I and II, which during the year invested in their energy work through, among other things, the installation of more efficient systems. US Office Holdings I and II have reduced both their energy consumption, and their carbon emissions, per square metre.

## Carbon footprint for AP2's non-listed real estate

**CARBON INTENSITY AREA tCO<sub>2</sub>e/m<sup>2</sup>**

**CARBON INTENSITY tCO<sub>2</sub>e/MSEK**

**ENERGY EFFICIENCY kWh/m<sup>2</sup>**


### ***Timberland and farmland***

The Fund and timberland managers have a dialogue on the calculation of carbon sequestration and carbon emissions. All of the Fund's timberland managers, Molpus, New Forests and Nuveen, have calculated the total carbon sequestration in their forests. During the year, New Forests also adapted its reporting for Scope 1, 2 and 3 to be compatible with the GHG protocol. AP2's share of the carbon sequestration is 51.20 (19.2) million tCO<sub>2</sub>e. The increase since last year is due to all managers now reporting carbon sequestration.

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 farms 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 approximately 6.6 million tCO<sub>2</sub>e.

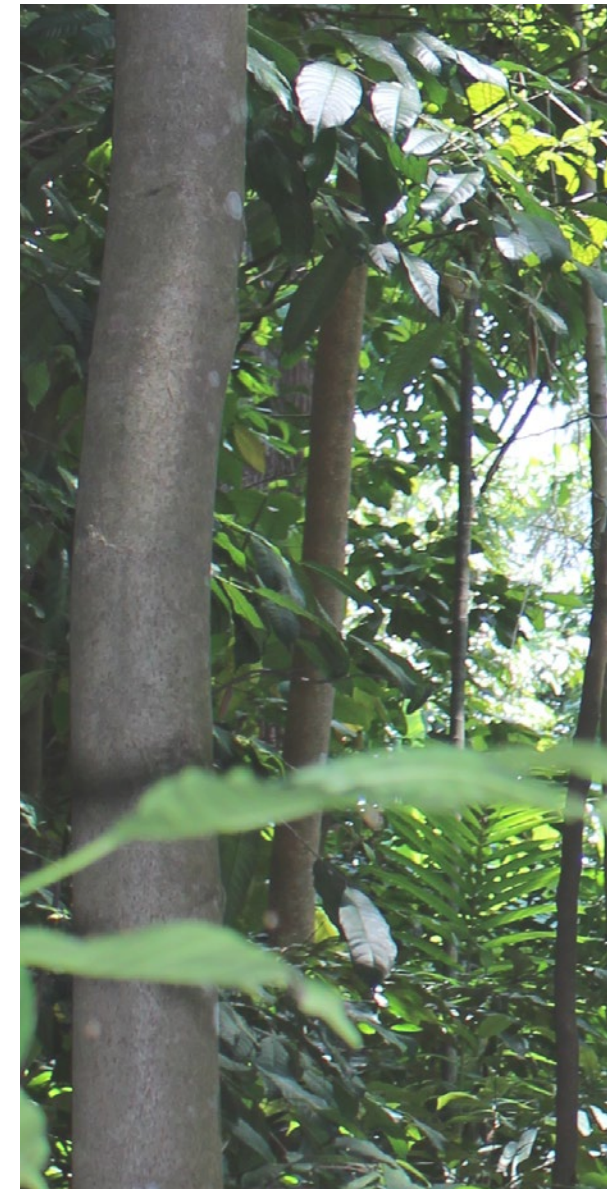
### ***Sustainable infrastructure***

The asset class is included in the Fund's targeted sustainable investments. Read more on page 31.

### **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.

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 for other asset classes, Scope 1, 2 and 3

Metrics	2022	2021	2020	2019
<b>1. Total carbon emissions (million tCO<sub>2</sub>e)</b>				
Non-listed real estate	0.12	0.11	0.14	0.16
Farmland*	0.08	0.08	0.07	0.07
Timberland	0.55	-	-	-
Sustainable infrastructure	0.0021	-	-	-
<b>2. Carbon intensity (tCO<sub>2</sub>e/MSEK)</b>				
Non-listed real estate	0.58	0.65	0.84	0.64
<b>3. Total carbon sequestration (million tCO<sub>2</sub>e)</b>				
Farmland**	-6.57	-6.60	-6.60	-6.25
Timberland	-51.20	-19.20	-12.30	-11.50

\* Scope 1 & 2 only.

\*\* Only Brazilian farmland.

As reporting of CO<sub>2</sub> data increases and improves, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

# Corporate governance – responsible ownership

## Key events in 2022

- AP2 has communicated its view of the importance of companies including sustainability in remuneration programmes' performance targets.
- Developed the factors in the Fund's internally-developed indices with a focus on corporate governance.
- Voted at 121 Swedish general meetings and 1,261 foreign general meetings.
- Volkswagen – the company's reluctance to submit shareholder proposals concerning climate lobbying to the AGM has resulted in a legal summons from several institutional owners, including AP2.
- Amazon – shareholder-wide escalation of labour law issues in the form of letters to the board with a request to show a higher level of commitment to these issues.

## Long-term goal

Active and responsible ownership through an increased number of dialogues, and voting in all of the Fund's listed shareholdings by 2027.

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, and is actively engaged in issues that promote professional corporate governance, good ethics, enhanced environmental performance and developing good practice in asset management issues.

A large proportion of AP2's capital is invested in Swedish and foreign companies, making the Fund a significant shareholder. AP2 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.

The Fund's corporate governance objective is to create value. In the long term, this work will increase the Fund's return and reduce the financial risk. The Fund's starting point is that well-managed companies have greater opportunities to generate profits and avoid risks. It is therefore important to influence the

companies in the direction that the Fund considers to be most successful.

### 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 Swedish 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 being a responsible owner, 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.



## Relevant sustainability criteria in remuneration programs

During the year, the Swedish Institutional Owners' Association (IÄF), of which AP2 is a member, discussed the importance of sustainability issues that are significant for the companies' long-term financial development being reflected in the remuneration programmes.

As a result of this discussion, IÄF has jointly urged Swedish company boards to include relevant sustainability criteria in their variable remuneration programmes.

- 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 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 companies' general meetings. The Fund's activities relating to listed companies include active participation both before and at Swedish and foreign companies' 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.

For a greater understanding of what AP2 expects of companies in such areas as sustainability and corporate governance, Voting Guidelines have been put into place to supplement the existing corporate governance policy. The guidelines are based on the aforementioned corporate governance principles, and the Fund thereby seeks to clarify different positions at both Swedish and foreign companies' general meetings. Read more on the Fund's website by scanning the QR code below.

### READ THE VOTING GUIDELINES





## AP2's corporate governance

### Why corporate governance?

#### Mission/risk

AP2's mission is to limit the effects that the automatic balancing mechanism has on the pensions.

The total risk level should be low. The fund assets shall be invested, at the chosen risk level, so that high returns are achieved in the long term.

The mission includes a requirement for exemplary management through, among other things, responsible ownership.

### What is AP2 focusing on?

#### Corporate governance policy

AP2's corporate governance policy is based on the mission.

Corporate governance practices must focus primarily on companies and areas where the Fund has the greatest potential to influence and do most good.

Ten corporate governance principles based on a company's shareholder protection and effective governance provide the framework for these practices.

#### Shareholder protection

1. Capital structure
2. Company structure
3. Right to vote
4. Role of the auditor
5. Information and disclosure of information
6. Sustainability

#### Effective governance

7. Risk management and risk culture
8. Board and nomination committee
9. Management and management remuneration
10. Corporate culture and business ethics

### How does AP2 work with corporate governance?

#### Corporate governance strategy

Voting in Swedish and foreign companies.

Dialogue with companies.

Contribute to the development of good corporate governance.

### What is measured in terms of results?

#### Fulfilment of objectives

Outcome-related objectives (measurable effects).

Process-related objectives (development of internal processes).

### Achievement of goals within the Fund's corporate governance work

#### 2022 goals

In conjunction with the annual adoption of the Fund's strategy and action plan, goals 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.

The table below presents the most important goals for 2022's corporate governance work, together with achievement of the goals.

#### Shareholder proposals during the 2022 AGM season

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 and working to achieve net zero emissions by 2050 were submitted at several global banks' 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.
- The reporting and review of the company's human rights and non-discrimination processes is requested in some shareholder

proposals. AP2 supports proposals where an independent audit of any adverse effects on human rights is deemed to provide shareholders with increased transparency on the company's management of these types of risks. In cases where there are deemed to be appropriate policies and sufficient information to enable the assessment of outstanding risks, AP2 votes against the proposal.

- AP2 has supported shareholder proposals for increased reporting on human rights, both in the form of third-party assessments and risk analyses of countries with significant human rights problems.
- In the North American market in particular, shareholder proposals have highlighted the need for reporting the CEO's salary in relation to the company's average employee salary level. AP2 has voted in accordance with the proposals submitted.
- Increasing demands from shareholders globally for companies to present their plans for reducing greenhouse gas emissions, carbon neutrality and climate-related financial disclosures are actively supported by AP2 through both voting and participation in stakeholder organisations.

#### Corporate governance in Swedish companies Active owner during the pandemic

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.

#### EXAMPLES OF GOALS (ACHIEVEMENT OF GOALS) IN THE CORPORATE GOVERNANCE WORK IN 2022

	Swedish equities	Foreign equities	Chinese equities	Non-listed assets
COMPLETED	<ul style="list-style-type: none"> <li>• Voting at 100 Swedish general meetings (121 general meetings this year).</li> <li>• Further develop internal process.</li> <li>• Actively vote against issues that do not fulfil the Fund's requirements.</li> <li>• Reactive dialogue with companies prior to the general meeting.</li> <li>• Participate in nomination committees when the Fund is consulted.</li> </ul>	<ul style="list-style-type: none"> <li>• Voting at 1,000 foreign general meetings (1,261 general meetings this year).</li> <li>• Expand the number of countries for voting based on AP2's global portfolio.</li> <li>• Completion of global voting procurement.</li> <li>• Actively vote against issues that do not fulfil the Fund's requirements.</li> <li>• Implementation of system support for dialogue work.</li> </ul>	<ul style="list-style-type: none"> <li>• Voting in 20 Chinese companies (20 companies this year).</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to development towards increased transparency within non-listed assets.</li> </ul>
ONGOING		<ul style="list-style-type: none"> <li>• Internal process to analyse the portfolio based on corporate governance and diversity factors for dialogue work.</li> <li>• Develop collaborative dialogue with other investors.</li> </ul>		

During the year, the Fund's corporate governance practices were still partly affected by Covid-19, since many companies continued to hold virtual general meetings. This entailed limited interaction between shareholders and the companies at actual general meetings, while dialogue conducted with the companies prior to the general meetings was not affected, but could be intensified during the period.

### Voting for 77 per cent of the Swedish portfolio

The Fund holds shares in more than 170 Swedish listed companies. For practical reasons, the Fund has determined that there are insufficient resources to attend and vote at all the general meetings in the Swedish equity portfolio.

In 2022, AP2 voted at 121 (134) general meetings of Swedish listed companies. The market value of the Fund's holdings in these companies is equivalent to 77 (86) per cent of the Fund's total holdings in Swedish listed equities.

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. AP2's objective is to continue to increase the proportion of voting in the coming five-year period in order to achieve the long-term voting target.

The table on page 52 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 table on page 52 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.

### Proposals and areas in which AP2 voted against proposals

In 2022, the Fund voted against proposals for incentive schemes aimed at staff and/or senior executives in 24 (24) Swedish companies. These programmes were not in line with the Fund's views in the following areas (see table for company-specific information):

- Matching shares or other form of subsidy without a specific target performance requirement.
- Clarity and stringency in communicated performance criteria.
- Size of the programme.
- Programme intended for board members where the Fund instead advocates fixed remuneration.

In Immunovia, the Fund voted against all proposed board members, as the proposed board had no female board member. Otherwise, the Fund has

voted in favour of all proposals of the boards and the nomination committees. The Fund has not voted for any proposal made by other shareholders.

The Fund always notifies the company concerned before the general meeting if the intention is to vote against the proposal of the board or nomination committee, together with a reason for the decision.

### The Fund's dialogue work during the AGM season

During the year, AP2 was active prior to several general meetings and submitted its views in accordance with the Fund's corporate governance policy and Voting Guidelines, see the table on page 52. In view of the increased number of incentive schemes proposed in Swedish companies, the focus of the Fund's dialogues continued to be on remuneration issues, with the aim of influencing proposed schemes in the required direction.

In general terms, the Fund has seen the content of the incentive schemes develop 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. As expressed in the Institutional Owners' Association's (IÄF) statement during the autumn, these performance requirements should also reflect sustainability issues that are significant to the company's long-term financial development. See page 51 under Collaboration.

### AREAS WHERE AP2 HAS HAD DIALOGUES WITH COMPANIES AND/OR VOTED NO TO PROPOSALS

Area		Company dialogues in connection with the general meetings, number	Companies where AP2 voted no to the proposal
Incentive scheme	Matching shares/options	10	Ascelia Pharma, Atlas Copco, Concentric, Eolus, Epiroc, Investor, ITAB Shop Concept, Xbrane Biopharma, Xspray Pharma.
	Other form of subsidy	10	Addlife, BHG Group, Biovica International, Bufab, i-Tech, NetInsight, NP3, Nyfosa, Surgical Science Sweden, Xvivo Perfusion.
	Performance requirements not in line with AP2 Policy for voting	4	Calliditas, Hexagon, Irras, Tobii.
	Scope of the programme	1	Sobi
	Target group board	1	Calliditas
Guidelines on remuneration for senior executives	Cap for remuneration elements	2	
Board of directors	Diversity	1	Immunovia
	Board fees	7	
	Composition	4	
	Number of assignments	2	
Shareholders proposal	Proposals of an operational nature		HM, SEB, Swedbank, Volvo.
	Alternative board, performance-based board fees		Irras, Elekta.
	Share differentiation		Elekta
Issue mandate	Ceiling for mandate	2	
Other corporate governance issues		2	

The Fund publishes the names of the companies where the dialogue resulted in a vote against proposals.



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, such as matching shares or subsidised premiums for option programmes. AP2'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.

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. The dialogue during the year has in some cases concerned conveying AP2's view on reasonable and well-balanced remuneration – fixed, variable and extraordinary – as well as pensions and other benefits.

In addition, a number of dialogues with the companies' nomination committees have focused on issues related to the board's remuneration and composition, where AP2 has requested additional analysis and decision-making documentation in order to be able to make a decision on the proposals made.

### Nomination committees

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

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, in the above nomination committees, the diversity issue has had a central place in the committees' discussions of how the boards' continued development could benefit from greater diversity. The table on the right shows the proportion of women on the boards for which AP2 participated in the nomination committees' production of proposals for the composition of the board.

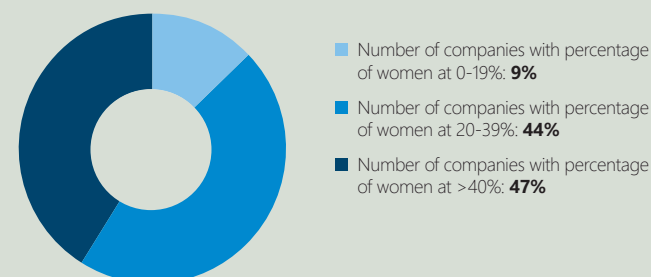
Diversity is about more than gender distribution, and the Fund therefore advocates that in their work to achieve a good board composition, the nomination committees should draw up a concrete plan for the composition, taking account of such factors as gender, age, background, experience and competence.

For the 2023 AGM season, AP2 is represented on the nomination committees of IAR Systems as chair, and of Better Collective, Coor Service Management, Episurf, Genovis, Kambi, Loomis, LumenRadio, Netel, Swedbank and Trelleborg.

### Board diversity

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 this is clearly stated in the Fund's Voting Guidelines. From a company-specific perspec-

PERCENTAGE OF FEMALE BOARD MEMBERS  
IN SWEDISH COMPANIES WHERE AP2 VOTED IN 2022



NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED  
PRIOR TO THE 2022 AGMS

Company	Proportion of women on the board, %	Number of newly elected women*	Total change compared to previous year*
Better Collective	33	0	0
Catena Media	28	0	0
Coor Service Management	67	2	1
Episurf	33	0	0
Genovis	20	0	0
IAR Systems	40	1	1
Kambi	40	0	0
Loomis	43	0	0
Netel	43	2	1
Nine nomination committees in total	39	5	3

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



## Letter to selected companies on diversity

During the year, AP2 and AP3 wrote letters to the chair of the board and/or the chair of the nomination committee in companies where the Funds have holdings and where the board consists of less than 30 per cent women or men. The letter therefore urges the nomination committee to do its utmost to achieve better diversity on the board.

tive, a low proportion of women on both the board and executive management raises concerns that the companies are inadequately utilising the pool of expertise that exists both internally and in the industry and society in which they operate, to the detriment of future value growth.

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 47 (41) per cent of the companies at whose AGMs AP2 voted this year.

The Fund's Index of Female Representation for 2022 shows that 35.4 (34.5) per cent of board members in companies listed on Nasdaq Stockholm are women. Further details of the Fund's Index of Female Representation are given on page 54.

### 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.

### Corporate governance in foreign companies Foreign general meetings

Concerning foreign markets, in 2022, the Fund voted in companies in 42 (34) countries, mainly in the USA, China, Japan, India and the UK. Primarily the Fund's multi-factor indices for both developed countries and emerging markets constitute the selection criterion in which companies the Fund votes. Other criteria include dialogue between the Fund and the company on a particular issue and/or the Fund's submission of a shareholder proposal to the general meeting.

The Fund has gradually increased its voting in global companies in recent years and in 2022, it voted at 1,261 (1,092) general meetings of companies in foreign markets. This is equivalent to 65 (53) 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, whereby 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](http://www.ap2.se)

The proportion of proposals for which the Fund voted in line with the shareholder proposals, and thereby often against the recommendations of the

respective board, increased during 2022. This is an effect of the growing number of climate- and human rights-related proposals that are presented by shareholders at foreign general meetings, but above all at North American general meetings. These are issues that AP2 monitors and focuses on in its corporate governance work, and supports shareholder initiatives where this is deemed effective and appropriate.

### Voting in Chinese companies

During the year, the Fund continued to vote in selected companies listed on the domestic market in China, called A shares. During the year, the Fund voted at 20 (15) domestic Chinese companies' annual general meetings and extraordinary general meetings.

To a certain extent, board proposals submitted at these general meetings deal with areas other than those typical for companies in Europe and the USA. AP2 voted against board proposals where:

- Loan guarantees entailed a commitment that exceeds the ownership share.
- The same person is both CEO and chair of the board.
- The proposed incentive scheme was drawn up by people subject to the scheme.
- The proposed board members are on the nomination committee and there is a lack of diversity on the board.

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.

#### Escalation of involvement in Volkswagen and Amazon

For several years, attempts have been made to submit climate lobbying proposals at Volkswagen's annual general meeting, but they have been rejected by the company. AP2 has therefore, together with AP7, Church of England Pensions Board, Danish AkademikerPension, and AP3 and AP4, brought this issue before the German court in Braunschweig. This will determine whether Volkswagen is entitled to refuse to include proposals from minority shareholders in the agenda for the 2023 annual general meeting.

At Amazon's annual general meeting, a shareholder proposal from the Shareholder Association for Research & Education (SHARE) requiring investigation and reporting of compliance with ILO (International Labour Organization) conventions, including regarding trade union rights, received significant support from shareholders. The lack of visible measures by the board thereafter has resulted in an escalation of the issue in the form of a letter to the company signed by several institutional owners, including AP2. The letter includes a call for the board to demonstrate a higher level of commitment to freedom of association and collective bargaining, as well as other rights in the workplace.

#### Dialogue work – internal process

AP2 conducts dialogues with other asset owners, including through the Council on Ethics and ACGA. Read more under Collaboration.

AP2 also conducts dialogue work directly with selected portfolio companies. Identification of which companies in the global portfolio are suitable for dialogue from a corporate governance perspective takes place primarily in three ways:

- **Laggers** – Review of the portfolio based on the same corporate governance and diversity factors as identified as significant to the selection of companies in the Fund's internal investment process and in the Fund's multi-factor indices. In this way it is ensured that the Fund consistently has a common view of which factors affect a company's value and development within the corporate governance framework. During the year, a review of the ESG factors used in the multi-factor indices was initiated to ensure that the indicators reflect current corporate governance issues and that the data has quality and availability. Both the annual outcome and the development of this review will be an instrument to use in finding companies with which dialogue should be initiated, but also a future way of illustrating the long-term change in the companies' conduct that the work aims to achieve.
- **Impact** – Review of the portfolio based on the UN's Sustainable Development Goals is part of the Fund's process for managing impact risks and opportunities. The companies thereby identified as being of high risk in respect of goals 16 and 17 are managed within the corporate governance framework.
- **PAI (Principal Adverse Impacts)** – Review of the portfolio based on PAI indicators com-

plements the identification as companies' reporting of PAI data improves. Read more on page 10.

#### Collaboration

The Fund, together with other international investors, engaged in a number of dialogues with companies during the year. In addition to the collaboration between the AP Funds in the Council on Ethics, AP2 is also a member of and supports various initiatives in Sweden and internationally in the areas of the environment, ethics, social issues and corporate governance. Diversity collaboration can be found under the section Diversity, equity and inclusion on page 53.

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. Details of AP2's membership and initiatives can be found on the Fund's website.

#### ACGA

The Asian Corporate Governance Association (ACGA) is an association representing more than USD 40 trillion of investor assets globally. In 2016, ACGA established a working group of institutional investors with a particular interest in Japan.

During the year, the working group continued its work on the engagement initiative aimed at conducting a targeted and structured dialogue with a selected group of major Japanese listed companies in the medium to long term. Dialogue is pursued with six selected companies in a number of different sectors, such as car manufacturing,

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 trust and understanding, the working group seeks to support the development of each company's governance and sustainability practices and contribute to increasing their corporate value. AP2 participates actively in both this initiative and the working group's other activities.

#### IÄF

AP2 is a member of the Institutional Owners' Association (IÄF), whose 16 members together own around one fifth of the total value of the Stockholm Stock Exchange. The objective of the association is to safeguard the interests of its members as institutional owners by promoting the sound development of self-regulation in the Swedish stock market.

During the autumn, AP2 and other members of the association have developed a common approach to sustainability in the companies' remuneration programmes, as the basis for dialogues with boards in the companies in which AP2 is a shareholder. The viewpoint is based on the conviction that strategic work on sustainability issues is a prerequisite for a company's long-term sustainable value creation and return.

Going forward, AP2 will therefore strive for clarity and transparency on how sustainability issues that are significant for the companies' long-term financial development are reflected in the remuneration programmes, and how these remuneration programmes overall contribute to the companies' business model, strategic direction and goals set.



# Key corporate governance figures

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

## VOTING AT AGMS IN 2018-2022

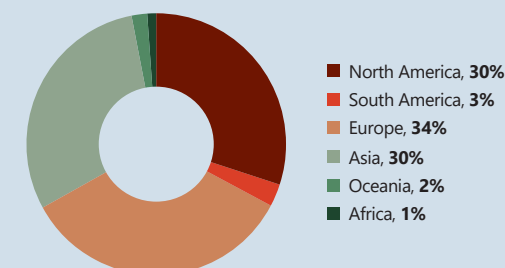
	2022	2021	2020	2019	2018
Voting at general meetings (annual and extraordinary) in Sweden, number	121	134	110	85	89
– equivalent to the percentage of the number of companies in the Swedish listed portfolio	60	60	52	44	51
– equivalent to the percentage of the Fund's total holdings in Swedish listed equities (market value)	70	86	75	73	81
Voting at foreign general meetings (annual and extraordinary), number	1 261	1 092	1 006	865	816
– equivalent to the percentage of the number of companies in the foreign listed portfolio	52	52	44	37	35
– equivalent to the percentage of the Fund's total holdings in foreign listed equities (market value)	65	53	38	33	31

The percentage is calculated on the basis of market values as at 31 December each year.

## SWEDISH VOTING, SUMMARY OF DECISIONS

AREA	BOARD'S PROPOSAL			SHAREHOLDERS' PROPOSAL		
	Number	AP2 in favour	AP2 against	Number	AP2 in favour	AP2 against
Board members and discharge from liability	300	299	1	2	-	2
Incentive schemes	187	163	24	-	-	-
Adoption of financial statements, appointment of auditors, etc.	393	393	-	-	-	-
Takeover defence	-	-	-	-	-	-
Capital structure, organisation, acquisition	160	160	-	-	-	-
Environment and health	-	-	-	3	-	3
Corporate governance	217	217	-	3	-	3
Social and human rights	-	-	-	4	-	4
<b>Total</b>	<b>1 257</b>	<b>1 232</b>	<b>25</b>	<b>12</b>	<b>0</b>	<b>12</b>

## VOTING BY REGION, INCLUDING SWEDEN, 2022, %



## NOMINATION COMMITTEES

	2022	2021	2020
Swedish nomination committees on which AP2 has served, number	9	8	9
Proportion of women on Swedish company boards on whose nomination committees AP2 has served, %	39	34	30
Proportion of newly elected women on Swedish company boards on whose nomination committees AP2 has served, %	71	67	50

## GLOBAL VOTING, SUMMARY OF DECISIONS

AREA	BOARD'S PROPOSAL			SHAREHOLDERS' PROPOSAL		
	Number	AP2 in favour	AP2 against	Number	AP2 in favour	AP2 against
Board members and discharge from liability	8 328	6 741	1 587	151	115	36
Incentive schemes	1 859	1 215	644	21	18	3
Adoption of financial statements, appointment of auditors, etc.	2 648	2 163	485	62	29	33
Takeover defence	99	47	52	-	-	-
Capital structure, organisation, acquisition	1,682	1,221	461	4	4	-
Environment and health	16	9	7	52	46	6
Corporate governance	467	432	35	71	61	10
Social and human rights	54	54	-	149	118	31
<b>Total</b>	<b>15 153</b>	<b>11 882</b>	<b>3 271</b>	<b>510</b>	<b>391</b>	<b>119</b>

# Diversity, equity and inclusion

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.

During the year, the Fund has broadened its focus area, diversity, to also include equity and inclusion. The Fund's starting point is that companies that work on these issues not only take sustainability issues very seriously, but are also more competitive and thereby create better value.

For the Fund, *Diversity* entails different characteristics and conditions, such as gender and experience, as well as different social, religious and ethnic backgrounds. *Equity* means a fair society in which everyone has the same fundamental rights, opportunities and obligations. *Inclusion* concerns feeling a sense of community and being part of the group.

Diversity, equity and inclusion are integrated into the Fund's management, both in the investment process and through voting and dialogue.

During the year, a strategy has been drawn up for the area and long-term and short-term goals have been defined.

## What AP2 does – responsible investments

### Diversity in internally-developed indices

AP2 has developed multi-factor indices for internally managed foreign equities and corporate bonds. Exposure to various ESG factors, such as equality and percentage 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. 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 time period of at least five years, but there are indications that, from a global perspective, the factor of the proportion of women in the company has contributed to a positive return in the Fund's multi-factor index for foreign equities. The effect has been stronger in developed markets compared with emerging markets.

In 2021, a review of the ESG factors used in the indices was initiated, partly with the objective of evaluating diversity from more perspectives than before. Among other things, it is planned to include

## Key events in 2022

- Broadened the focus area to include diversity, equity and inclusion.
- Developed the factors in the Fund's internally-developed indices with a focus on diversity, equality and inclusion.
- Worked on diversity issues in nomination committees.
- Wrote letters to Swedish companies with less than 30 per cent of either gender on the board, urging them to focus more on diversity.
- According to the Fund's Index of Female Representation, the proportion of women on Swedish boards and in executive management teams is the highest ever.

## Long-term goal

On average, the Fund's listed holdings must have at least 40 per cent of each gender represented on the board by 2030. The Fund must have actively influenced the portfolio companies to have a strategy for diversity, equity and inclusion.

the ratio between the total number of women in the company 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 in opportunities

To increase access to capital for female entrepreneurs and to 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 emerging markets, with a focus on sustainability and female entrepreneurship. Women in emerging countries are an under-utilised 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.

### What AP2 does – responsible ownership

#### Index of Female Representation

With its annual Index of Female Representation, AP2 aims to spread knowledge, contribute to dialogue and objective debate and, above all, increase the proportion of women on boards and in executive management teams. The Fund

believes that a broader recruitment basis promotes diversity, which has a positive influence on boards and executive managements.

With greater diversity in background and experience, the right conditions and leadership, teams become more innovative and creative. This, in turn, produces prosperous and successful companies. Since 2003, the Fund has conducted a study – the Index of Female Representation – to measure the proportion 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 in the course of the year.

The Index of Female Representation for 2022 shows that the proportion of women on boards and in executive management teams of companies listed on Nasdaq Stockholm is the highest ever. The proportion of female board members continues to increase and is now at 35.4 (34.5) per cent. This is the highest level measured since the start of the survey.

The proportion of women in executive management teams of listed companies also continues to increase. This year's increase, from 26.0 to 27.2 per cent, is the greatest in percentage points since the surveys began. Over time, the development of the management teams, especially during the past decade, has shown significantly greater stability

compared with the boards. However, the long-term trend is also clearly positive for boards.

Despite the increase in the proportion of female board members, the number of female board chairs remains unchanged, with 30 female board chairs in a total of 356 companies. 43 women are CEO:s of listed companies.

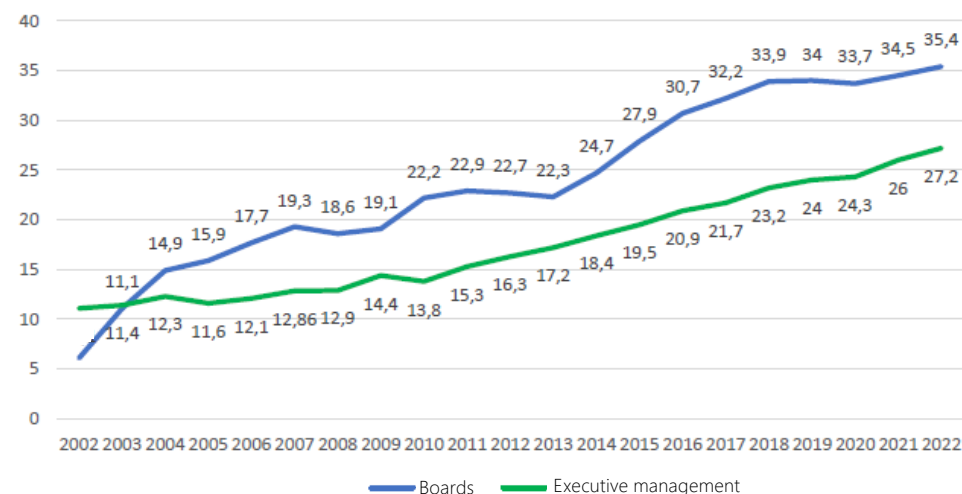
Nomination committees with female members are positively correlated with boards that have a

higher percentage of female members. Companies without any nomination committee have a lower percentage of female board members than other companies.

### Diversity in 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' sus-

PERCENTAGE OF WOMEN ON BOARDS AND EXECUTIVE MANAGEMENT 2002-2022, %







In its efforts to increase diversity, AP2 was one of 65 international investors to sign an initiative targeted at around 1,200 global companies.

tainability work, their work is 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. Read more 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 diversity issues into account?
- 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.

### Collaboration

#### Diversity initiatives

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 initiatives and increase transparency on gender equality issues. Gender equality is one of the identified prerequisites for delivering increased 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 entails that the Fund is fulfilling a number of diversity requirements and is working 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 can be found on page 49.

#### Letter to companies with a lack of diversity

During the year, AP2 and AP3 wrote letters to the chair of the board and/or the chair of the nomination committee in companies where the Funds have holdings and where the board consists of less than 30 per cent women or men. The letter therefore urges the nomination committee to do its utmost to achieve better diversity on the board.

#### Letter to 1,800 Japanese companies

As a member of the Asian Corporate Governance Association (ACGA) AP2 during the year, together with around 30 other investors, wrote letters to 1,800 Japanese companies listed on the Tokyo Stock Exchange (TSE). The letter proposes both a change in TSE's listing requirements for the lowest number of female board members and higher ambition targets in the Japan Corporate Governance Code. In the letter ACGA also emphasises the importance of appointing more women to leadership positions and of making improvements to corporate governance as a basis for a more equal gender distribution at board level.



# 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.

AP2 is committed to the promotion of sustainable development through responsible investment and responsible ownership. Protecting human rights is crucial to achieving the UN's Sustainable Development Goals and is thereby a key aspect of the mission to manage the fund assets in an exemplary manner. This work is also in line with AP2's core values, which are based on the Swedish State's core values and among other things entail that the Fund undertakes to comply with international conventions ratified by Sweden.

## AP2's links to human rights

AP2 can impact 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 manage-

ment is to create the greatest possible benefit for pensioners, the Fund invests globally to achieve favourable risk diversification. This means that the number of human rights 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

The work is led by a steering group consisting of the Fund's General Counsel, the Head of Communication and the Head of Strategy, 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.

## Human rights policy, objectives and strategy

AP2's human rights policy, sustainability policy and corporate governance policy are the governing documents for the Fund's human rights work. The Fund's human rights policy describes the Fund's core values, commitments and expectations of employees, suppliers and business partners. It has been adopted by AP2's Board of Directors and is reviewed annually. The policy is published on the Fund's website.

A revision of the strategy for AP2's human rights work is under way at the same time as new long-term goals are being drawn up. The overall

long-term objective of the Fund is that human rights perspectives should permeate every area of its activities. AP2's goal is also to continue to implement the UN Guiding Principles and that its

activities must be conducted in line with these principles with effect from 2025 at the latest.

## Key events in 2022

- Proactive dialogues with a total of 13 companies in the textile and mining industries.
- Training for Chinese portfolio companies in the UN Guiding Principles.
- Training of the Fund's employees in the UN Guiding Principles.
- Thematic training for the Fund's Board of Directors in the area of human rights.
- AP2 participated actively in sustainability forums in the field of human rights, including as a speaker at PRI in Person.
- Expansion of human rights issues when evaluating new timberland and farmland managers.
- Evaluation of human rights work by the Fund's external managers of private equity, real estate, timberland and farmland, and discretionary mandates.
- Decided not to include Chinese government bonds in the Fund's benchmark index due to sustainability issues, including human rights risks.

## Long-term goal

Human rights perspectives must permeate every aspect of the Fund's activities. AP2 must continue to implement the UN Guiding Principles, and that its activities must be conducted in line with these principles with effect from 2025 at the latest.



### Internal and external training

In order to achieve the Fund's goals and overall long-term objectives, internal competence and knowledge within the business are crucial. AP2 conducts an annual internal mandatory training in human rights for all of its employees. This year's training focused on how the Fund can develop the integration of human rights in its activities. Training is also an important aspect of implementing the policy throughout the organisation.

During the spring, AP2 also gave the Fund's Board of Directors a knowledge-enhancing presentation on its work with human rights.

During the autumn, AP2 held a training for Chinese portfolio companies on the UN Guiding Principles. The companies in the textile and mining industries with which the Fund has ongoing company dialogues were invited in particular, but other Chinese portfolio companies were also welcome to attend. A total of 47 participants attended the training. The purpose of the training course was to disseminate knowledge about the UN's principles, communicate the Fund's expectations of portfolio companies and assist in the companies' implementation of the principles.

### What AP2 does – integration of due diligence

AP2 seeks to have a human rights due diligence process in place within all of its asset classes. This process includes risk identification, risk management, follow-up and reporting of the Fund's human rights risks.

In accordance with the UN Guiding Principles, the work is primarily conducted from a severity perspective. The focus is on the potentially most severe impacts on people and thereby not on the financial risk which the investment entails. Since AP2's most serious human rights risks are identified within the asset management activities, the Fund focuses particularly on ensuring that the risks entailed within its investment activities are handled.

### Due diligence – actual negative impact

Actual negative impact means that AP2 has an indication that a human rights violation may have already occurred. The Fund's internal equity portfolios and the external discretionary mandates are subject to norm-based screening twice a year. The screening identifies portfolio companies assessed to have violated international conventions and guidelines adopted by Sweden. The identified violations are handled via the AP Funds' Council on Ethics, in collaboration with an external consultant. The consultant assists with the investigation of the facts of the case, as well as dialogue in accordance with an action plan with the companies where irregularities have been discovered. The companies' efforts are monitored continuously throughout the dialogue, according to a fixed action plan. If the contact with a portfolio company fails to result in a satisfactory outcome, AP2 will make an overall assessment and then decide whether to exclude the company from the Fund's index. The Fund's exclusions are published on the Fund's website. Read more about the AP Funds' Council on Ethics on page 22.



If a controversy should arise within AP2's external private equity mandates, the Fund will hold meetings with the manager to assess the situation and discuss an action plan to prevent it from happening again. AP2 may choose not to reinvest in the manager's funds if the incident is deemed to be serious and if the manager does not implement the necessary improvements to the process or lacks credibility in its handling of the incident.

#### Due diligence – potential negative impacts

Potential adverse impacts 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.

#### Geographical exposure

AP2 identifies countries where there are financial, operational or sustainability reasons not to invest. The process adheres to an internally-developed framework that is based, among other things, on the UN Guiding Principles on Business and Human Rights and the Fund's human rights policy. 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 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, whether the violations are systematic, and the development of human rights over time in the country. For countries identified in this analysis, the Fund's opportunities to

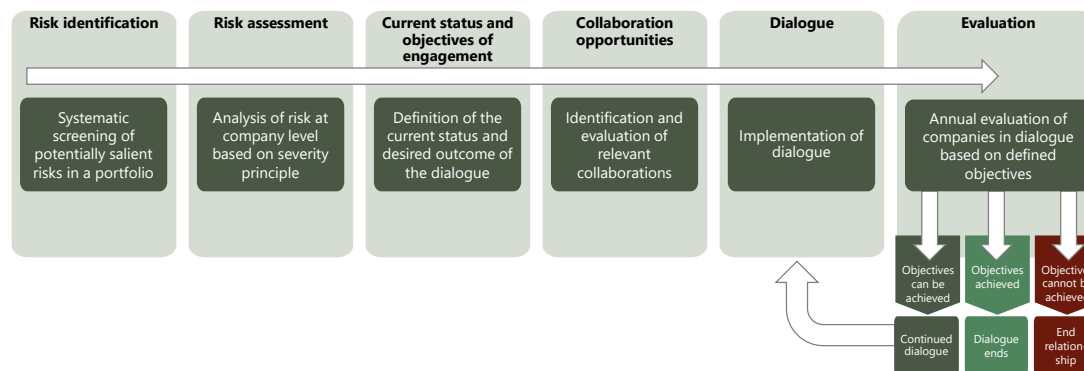
influence positive development in the country are also assessed, as well as whether or not it is better for the people affected if the Fund invests in the country. If AP2 assesses that it is not realistic to expect the Fund to be able to contribute to a positive influence on the development of a country that violates human rights, there are likely to be sustainability grounds not to include the country in the Fund's portfolios. For other high-risk countries that have been identified, active engagement is exercised, which is followed up by the Fund's management twice a year.

#### Listed equities

Risk identification for the Fund's listed equity holdings takes place using AP2's internally-developed risk model, which is based on high-risk sectors and countries. The model identifies holdings deemed to entail a high risk of human rights violations and shows which human rights are at risk of being violated. The risk assessment evaluates the risks at company level from the perspective of negative impacts on people, rather than the financial risk. One or more relevant sectors are selected for engagement.

The textile and mining sectors in China have been identified by AP2 as prioritised high-risk areas. Since 2021, the Fund has engaged in proactive individual dialogue with currently ten companies in these sectors, and dialogue with three more companies is being conducted together with other investors. The current status and objectives for the dialogues are defined through analyses of the relevant companies' work with human rights and the guidelines they

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have in place, as well as their due diligence processes throughout the supply chain. 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.

#### External portfolio management

Around 20 per cent of AP2's assets are managed by external portfolio managers. When a portfolio manager is selected, AP2 takes into account how well the manager integrates sustainability factors, including human rights, into its management. Concerning the Fund's external managers within the asset classes of private equity and real estate,

the Fund refers to the UN Global Compact's principles and the UN Guiding Principles. Within the asset class of farmland, AP2 requires managers to implement the PRI Guidance for Responsible Investment in Farmland. It includes respect for the environment, good working conditions, human rights, land and ownership rights, and business ethics.

The managers' work is followed up and assessed on an annual basis. Special efforts are made by the Fund in cases where external managers invest in portfolio companies and/or regions where the risk of violation of international conventions is assessed to be high. For example, the Fund maintains a close and active dialogue with the managers in order to continuously ensure that they integrate human rights issues into their asset management and manage the risks that exist.





### What AP2 does – engagement work

As an active, long-term owner, engagement work is an important instrument for AP2 to create positive change. The engagement work is thereby a key aspect of managing the Fund's human rights risks and is integrated into the Fund's due diligence process, as described above. AP2 can, for example, conduct engagement work individually, via investor initiatives and other collaborations, or via the AP Funds' Council on Ethics.

### Collaboration with others

Human rights issues are often complex and global, and are thus best handled in joint consultation with other players. AP2 supports and collaborates via several initiatives on the human rights risks identified by the Fund.

Since 2021, AP2 has been involved in the Platform Living Wage Financials (PLWF) investor partnership, which conducts structured engagement work with a focus on living wages in the textile industry. PLWF conducts an annual benchmark survey of 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 2022 Annual Report can be downloaded from the PLWF website, [www.livingwage.nl](http://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. They have also coordinated specific dialogue with companies possibly exposed to negative impacts on people in the Uyghur population in China.

### Reporting

AP2 reports annually on its human rights work in its Annual Report and Sustainability Report. The Fund has so far published two independent human rights reports that are designed in accordance with the UN Guiding Principles Reporting Framework. These reports present a more detailed description of AP2's work on human rights. The Fund intends to publish such a report every other year. The reports are available on AP2's website.

# Biodiversity

## Key events in 2022

- Defined biodiversity as a new sustainability focus area.
- Biodiversity included in AP2's sustainability policy, together with a separate anti-deforestation policy.
- Defined long-term goals, conducted a risk analysis and developed a strategy for the work going forward.
- Initiated new collaborations – Finance for Biodiversity, Finance Sector Deforestation Action (FSDA), Taskforce on Nature-related Financial Disclosures (TNFD) and Mistra BIOPATH.

## Long-term goals

### AP2 strives to be nature positive by 2030

AP2 has defined the above as a long-term goal for its work on biodiversity. This goal is in line with the global commitment that is required, combined with reduced emissions, to limit global warming to 1.5 °C and to preserve critical ecosystems.

The Fund has also set a more specific overall goal with focus on deforestation, which is the main reason for the loss of biodiversity:

### By 2025, AP2 shall have a portfolio that does not contribute to illegal deforestation

This goal is in line with the commitment to a deforestation-free portfolio made by AP2 in connection with COP26, and with the Fund's climate commitment to net zero greenhouse gas emissions by 2045.

In 2022, biodiversity was added as a new focus area for Andra AP-fonden's sustainability work. Biodiversity – diversity within species and between species and ecosystems – is declining more rapidly than ever before in the history of mankind, with extensive consequences for the environment, people and economic development. There is also a strong and complex link between biodiversity and the Fund's focus areas of climate and human rights.

### What AP2 does – integration

#### New policies

As a starting point for AP2's work on biodiversity, the Fund has included a section on biodiversity in its updated sustainability policy. This also includes a more detailed policy on deforestation and land use, which will constitute an expectations document in the Fund's engagement work.

#### Risk analysis – focus on deforestation and the food and forest value chain

In view of the extent and complexity of the biodiversity area, it is necessary for AP2 to set priorities for its work. This is based on a risk analysis in

accordance with the principle of double materiality, which is also in line with the draft from Taskforce on Nature-related Financial Disclosures (TNFD), the forthcoming biodiversity reporting framework.

IPBES report<sup>1</sup> from 2019, summarising the status of research in the field of biodiversity, identifies the five main direct causes of biodiversity loss:

- Land use
- Exploitation of species
- Climate change
- Invasive species
- Contaminants.

AP2 applied these areas to its risk analysis in order to understand how the Fund is exposed to them through its holdings. The analysis was based on the ENCORE database, developed by the Natural Capital Finance Alliance and the environmental programme UNEP-WCMC<sup>2</sup>. Following a review of the Fund's portfolio, the conclusion is that the work will initially focus on land use, and more specifically on deforestation. According to the IPBES report, land use is the biggest cause of biodiversity loss, and AP2 has holdings that potentially have a major impact. Furthermore, from a system perspective the issue is highly relevant for AP2's focus areas of climate and human rights. Starting with a more in-depth analysis of the Fund's exposure to land

<sup>1</sup> Global Assessment Report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019, <https://ipbes.net/global-assessment>

<sup>2</sup> <https://encore.naturalcapital.finance/en>



use, based on dependence and impacts, the work will commence with a focus on the food and forest value chain within the asset classes of timberland and farmland, as well as listed equities.

#### **Continued focus on timberland and farmland investments**

Within AP2's investments in the asset classes of timberland and farmland, this work has been under way for many years and is an integral aspect of the dialogue with the Fund's managers. To minimise negative impacts, AP2's managers apply well-established, scientifically designed forestry and farming systems. The Fund's timberland managers must be certified in accordance with international standards, which require management of entire ecosystems and zero tolerance of deforestation.

AP2 has been involved in drawing up the Guidance for Responsible Investment in Farmland, which are followed by the Fund's farmland managers. 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, and increasing reforestation, and thereby stopping the loss of biodiversity. 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.

#### **Work commenced within listed equities**

Within listed equities, work has begun on an analysis of the portfolio to identify companies with a high deforestation risk, with particular focus on the food value chain in the first stage. The identified companies have been ranked according to their handling of the risk of illegal deforestation. This analysis forms the basis for the Fund's planned engagement work.

#### **What AP2 does – responsible ownership**

In 2022, the Finance Sector Deforestation Action (FSDA) initiated dialogue between investors who have signed the commitment to a deforestation-free portfolio. Within the framework of this collaboration, dialogues are planned with a number of companies, including the 14 companies identified with the highest risk in AP2's review. During 2023, the Fund will participate actively in this dia-

logue work, with a leading role in five of the dialogues.

#### **Collaboration and joint commitments**

##### **International cooperation**

AP2 collaborates with other investors in the following areas:

- Prior to COP26 2021, the Fund signed The Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, whose signatories, in 2022, formed Finance Sector Deforestation Action, a partnership to influence companies.
- During the year, AP2 joined the Finance for Biodiversity Foundation, which gathers 126 investors from 20 countries around five commitments.
- The Fund contributes to the development of the future reporting framework through the Taskforce on Nature-related Financial Disclosures (TNFD) focus group.
- AP2 participates in the working group for Brazil within the framework of the Investors Policy Dialogue on Deforestation (IPDD), which seeks to create dialogue with politicians and decision-makers in key countries.
- Prior to the UN Biodiversity Conference, COP15, held in Montreal in December 2022, AP2 signed a statement from 150 investors that requires decision-makers to define an overall commitment and a global agenda for biodiversity.

#### **Biodiversity and measurability research collaboration**

One challenge in working with biodiversity is to find suitable key figures, measure progress and integrate effects on ecosystems into financial decision-making. AP2 is therefore a partner of the BIOPATH research project, which is funded by Mistra (Swedish Foundation for Environmental Strategic Research). BIOPATH will work with its partners to map, evaluate and co-develop existing and new approaches to integrate biodiversity into financial decision-making.





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