



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.



This is Andra AP-fonden

Andra AP-fonden is one of five buffer funds within the Swedish pension system and manages SEK 426.0 billion in basically all asset classes and worldwide. We are specialists in the Swedish pension system and strive to be a leading pension manager in a changing world. We are a global leader in integrating sustainability in our investments, for the benefit of the pension system. The Fund is a long-term and responsible asset manager. Read more at www.ap2.se.

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. Read more about AP2's sustainability work at www.ap2.se.

You can also read the Annual Report of the Council on Ethics of the AP Funds at www.etikradet.se.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

A long-term perspective and perseverance are required to tackle sustainability challenges

Andra AP-fonden has worked with sustainability issues since the Fund was established more than 20 years ago. We soon realised that sustainable companies contribute to creating value, to the Fund's return and to the world around us. Over the years, we have also realised that these issues are complex and concern several interacting areas, and that the complexity is increasing.

From the outset, the Fund's sustainability focus was related to corporate governance and primarily diversity in boards and management teams. Today we are also working with the focus areas climate, biodiversity and human rights, and diversity on boards has now been broadened to include equity and inclusion throughout the company.

Over the years, it has become clear to us that work on sustainability issues requires a long-term approach – there are few quick solutions. This is also why it is appropriate for long-term investors like us, with an investment horizon of 30 years, to integrate these issues into our management of pension capital. This is how we can really contribute to change.

We are convinced that achieving the Paris Agreement requires long-term thinking from all stakeholders, investors, companies and politicians. But with that said, time is running out. Many of the sustainability issues are really urgent. So I am concerned that in some contexts I note that there are tendencies for countries to decelerate their their sustainability agendas. The Agenda 2030 deadline is not far away!

At AP2, we moved forward at full speed in 2023. Among other things, we have defined climate plans for more asset classes, including a process for the Fund's investments in Swedish equities, with a detailed analysis and follow-up on the companies' transition to net zero emissions. We have also continued to develop the Fund's reporting, including emission data for more asset classes and Scope 3.

Within biodiversity, we have analysed the Fund's risk exposure within several of our asset classes and we are active in several global investor partnerships to combat deforestation. A very exciting collaboration has been initiated with the think tank Climate & Company to systematically identify deforestation exposure in global portfolios. Through this collaboration, we aim to create a publicly available tool that will be tested and applied to AP2's holdings in listed equities.



In the area of human rights, we have among other things intensified engagement work through corporate dialogues, with a focus on risks in China and in the textile and mining industries.

The Fund's annual Female Representation Index shows that the proportion of female board members in companies listed on Nasdaq Stockholm continues to increase and now amounts to 36.1 per cent, which is the highest level measured since the measurement started in 2003, when the proportion was only 6.1 per cent.

Within corporate governance, we have expanded our voting in both Swedish and foreign companies. We have also had a number of dialogues with Swedish companies regarding incentive schemes, primarily the lack of performance-related goals and sustainability goals.

The Council on Ethics is an important collaboration between AP1, AP2, AP3 and AP4. In 2022, a review of the Council on Ethics' mission and strategy

was carried out, which among other things resulted in the Funds' decision to recruit a Head of the Council on Ethics and to form a secretariat. In 2023, Jenny Gustafsson was hired as the new manager and she will lead the work of further strengthening the Council on Ethics and contributing to value added. Two more persons have been recruited, who started their positions in January 2024.

Our sustainability work is based on a long-term approach. We can make a difference, both in how we choose our investments and by being active owners and influencing the companies in our portfolio. In this work, we need to be persistent. We look forward to continuing to work towards our sustainability goals and thereby contributing to a good pension for future generations.

Eva Halvarsson, CEO of Andra AP-fonden

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Mission, vision, goal 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.

AP2's mission as a buffer fund is to, with its return, contribute to balance in the pension system over the long-term, thereby ensuring good pension growth, 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 incomebased old-age pensions. The total risk level must be low, measured in outgoing pensions.

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

development can be promoted without compromising the overall goal. Exemplary means that the investments should have the best risk and return, given the needs of the pension system, and that sustainability should be an integral part of the asset management.

Vision

AP2's vision, Leading pension manager in a changing world, offers both inspiration and guidance for the Fund's employees. It helps the Fund to motivate and attract employees, prioritise and make the right decisions. The vision covers all aspects of the Fund's activities.

The Fund's definition of sustainability

The sustainability work implemented by AP2 derives from the nature of its mission and involves acting over the long term to protect and add value – 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 both to how the Fund and the value of 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.

AP2's sustainability work includes the environment, ethics, social issues and corporate governance. Inclusion of sustainability aspects in analyses and investment processes provides the Fund with a broader and better set of data for decision-making. It is important that AP2 has the trust and confidence of the general public and acts in a responsible manner.

Focus areas

AP2 has identified five focus areas within which the Fund's sustainability work is concentrated. 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 through the portfolio companies' impact on people and the environment.
- The importance of the area to the Fund's stakeholders.

AP2's sustainability focus areas are:

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

The Fund's choice of focus areas entails the long-term commitment considered necessary to achieve results. Within each area, the Fund develops a strategy based on a six-part method (read more on page 5), with a defined long-term goal and/or commitment as a benchmark.

A detailed report on AP2's focus areas is available on pages 16-47 of this report.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

riuman rigints

Diversity, equity and inclusion

Corporate governance

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 Fund's sustainability policy is part of the Fund's business plan, which is adopted annually by the Board of Directors. 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 that include goals for each focus area.

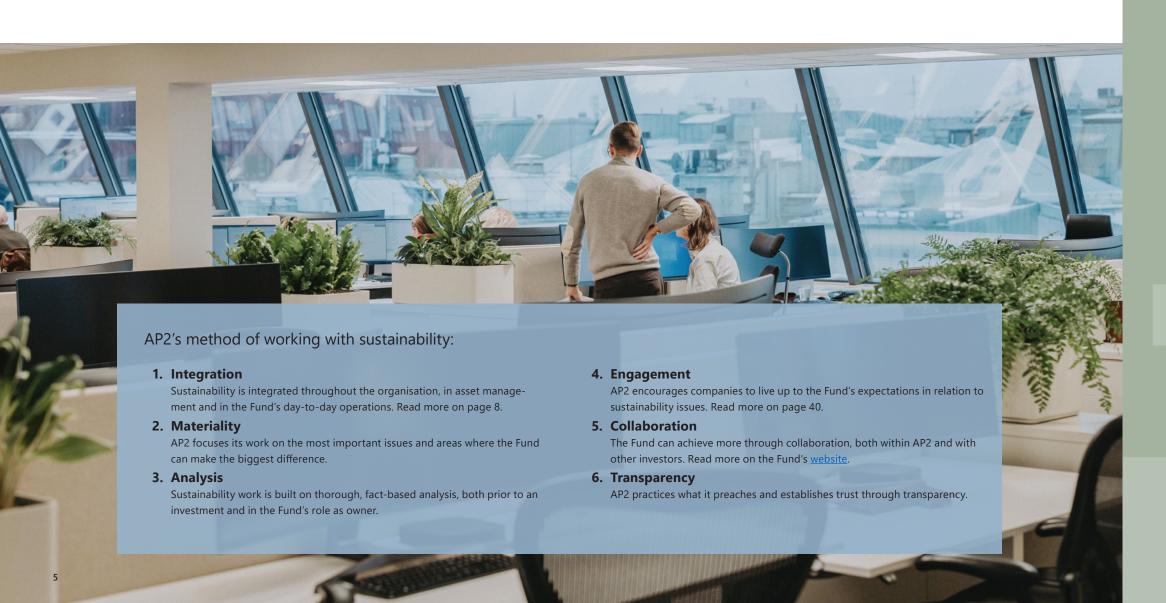
The Fund conducts ongoing internal training on sustainability and within the focus areas. This is to ensure that all employees are familiar with the policy

and hold and develop 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 <u>website</u>.

AP2's method of working with sustainability

AP2's sustainability work adheres to 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. Read more below.



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Governance

Andra AP-fonden has a number of policies and guidelines that form the basis for the sustainability work. Information and training in these are provided continuously. The Fund performs an annual review of policies and guidelines, and this is followed up through a system of internal controls and procedures.

Regulations and conventions that also form the basis for 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 relevant 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.

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 analyst, 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.

Ongoing corporate governance is managed by the Fund's Corporate Governance Group, which comprises members of the Fund's Executive Management, the 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.

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 is sustainable, with the overall goal of the EU being carbon neutral by 2050 at the latest. 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, but 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 on how this goal 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 more about AP2's reporting in accordance with SFDR 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.

In an annual survey sent out by PRI, all signatories report on how they are implementing the principles. AP2's response to this survey is available on PRI 's website.

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.

The Funds are developing a process for performing stakeholder dialogues and materiality analyses in accordance with relevant frameworks. Read more on page 7.

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.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Stakeholder dialogues

Dialogue with the AP Funds' stakeholders provides an understanding of how they view the Funds' mission and activities in relation to sustainability and returns. AP2 wants to enhance the understanding of how the AP Funds' operations are affected and how the outside world is affected by the operations. It is important for AP2 to capture the views of all stakeholder groups. Feedback can be given in several ways.

Stakeholder groups	Actors	AP2 is affected/affects	Dialogue format	Description	Material issues	
Contracting entity	The Swedish Parliament, the government and the pension group.	AP2 is affected by legislation, board appointments and evaluation.	Annual reporting and evaluation, and meetings.	Dialogue with the government's evaluation officer prior to the report. The evalua-	Returns, exemplary management, reporting, pension system.	
		AP2 exerts influence through annual evaluation, dialogue and feedback.		tion officer's conclusions and suggestions for improvements are taken into account.		
General public	Current and future pensioners.	AP2 is affected by the expectation of high returns and sustainable management.	External reporting, meetings with representatives, website.	Information about the Fund's work, through detailed financial reporting, as	Returns, exemplary management, pension system.	
		AP2 has an impact by contributing to a robust pension system.		well as comprehensive sustainability reporting.		
Employees	Current and future employees.	AP2 is affected through commitment and participation.	Employee surveys, performance appraisals, internal and external	ealth and safety dialogue, safety inspec-	Remuneration, conditions, working environment, development opportunities are appropriately invested.	
		AP2 has an impact by being an attractive (Linked-In), talks and seminar employer.	tion rounds, employee appraisals, incident follow-ups, regular employee surveys to create continuous health and safety improvements.	ties, responsible investor.		
Portfolio companies and external managers	Majority-owned companies, listed/ un-listed directly-owned companies, indirectly owned companies under	AP2 is affected by how the companies and managers contribute to the Fund's returns and sustainability goals.	Meetings, networks, evaluations, voting at annual general meetings and regular follow-up meetings with	Sustainability issues are discussed with portfolio companies and managers within the framework of the ongoing investment	Returns, sustainability goals, strategies, corporate governance.	
	external management, external managers.	AP2 exerts influence through dialogue and active ownership.	external managers.	activities.		
Finance sector	Financial service providers.	AP2 is affected by services and collaboration.	Regular dialogue.	Networks with Swedish and international industry colleagues to drive common	Reporting, sustainability data, implementation of sustainability policy.	
	Counterparties	AP2 exerts influence by setting requirements.		issues and exchange of expertise, e.g. Swesif, the Council on Ethics, PRI.	mentation of sustainability policy.	
С	Collaboration	AP2 exerts influence through commitment.		Swesh, the Council on Ethics, PKI.		
Civil society and nature	Stakeholder organisations.	AP2 is affected by organisations making the Fund aware of challenges and opportunities.	Meetings with organisations and the media, website, annual report.	Dialogue with organisations and experts with knowledge of issues and local conditions, e.g. FAIRR, Global Canopy, ChemSec	Sustainability work, reporting, positions, research, new insights.	
	Local community.	AP2 is affected by investments in companies and by thematic advocacy work in relation to the companies.		and the Investor Alliance for Human Rights.		
	Academy AP2 is influenced by scientific facts.					
Suppliers	Office, administration and IT services.	AP2 is affected by the price/quality of goods and services.	Meetings, agreements and follow-up.	Information from suppliers is used in the Fund's sustainability work. Important source of information for development in	Contractual terms, quality, sustainability	
		AP2 influences by setting procurement requirements.		the area.		

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

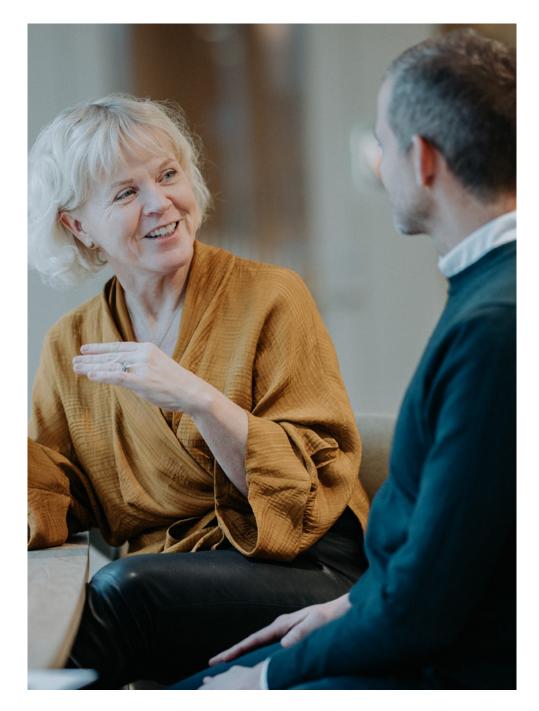
Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance



Integration and influence

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

The Fund often seeks to collaborate with other investors to enhance effectiveness and maximise the impact of dialogues. Collaboration with other investors is important to achieve results from dialogues 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. Read more on the Fund's <u>website</u> about the collaboration and initiatives supported by the Fund.

Targeted sustainability investments

AP2 has developed a framework to identify the investments defined by the Fund as targeted sustainability investments. The Fund's targeted sustainability investments must fulfil a number of criteria, which are linked to the UN's Sustainable Development Goals. The investments are evaluated on the basis of the Operating Principles for Impact Management¹ framework, and each investment's

impact is assessed according to the five dimensions in the Impact Management Project²:

- What the outcome concerns.
- Who is experiencing the outcome.
- How much of the outcome is experienced.
- The contribution of the investment to that outcome.
- Risks that the impact will be different than expected.

The market value of the Fund's targeted sustainability investments at year-end 2023 was SEK 38.9 (35.4) 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 and social bonds.

One purpose of the work is to develop clear follow-up and reporting procedures for performance indicators that illustrate the impact of the investments. These may include key figures 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.

¹www.impactprinciples.org ²www.impactmanagementproject.com **CEO's review**

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

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, several operators – such as car manufacturers, car battery producers and manufacturers of car charging units – would be able to claim that they have contributed to reducing emissions. AP2 opts to take a conservative route and, for example, will not theoretically measure Northvolt's avoidance of emissions from the vehicles in which the company's batteries are assembled, but instead the capacity for energy storage to which this company is contributing more directly.

AP2 does not invest in

AP2's primary aim is to influence change. This is best achieved by continuing as an owner of the company and working to ensure that measures are taken to prevent future violations. Nevertheless, there are situations in which the Fund divests or 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 with the support of the provisions 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 indices.
- Divested companies are not reported publicly when there are entire sectors in which the Fund no longer invests.

Exclusions

- The Council on Ethics of the Swedish AP
 Funds 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.
- The Fund may exclude a company if it considers the circumstances to be of such a serious nature that exclusion is warranted, 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 there are financial, operational or sustainability reasons not to invest. Read more below.

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 <u>website</u>.

At the end of 2023, the Fund

had 17 companies excluded 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 11.

Geographical exposure

AP2 has developed a framework to identify 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 indices, AP2 currently focuses on human rights violations. The Fund may decide not to include a country's listed assets in its portfolios on strong governmentrelated 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.

AP2 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

In terms of sustainability reasons for not including countries in the benchmark indices, AP2 currently focuses on human rights violations.

policing system implements this legal protection, and the extent to which human rights violations actually take place. In very high-risk countries, 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 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 AP2 invests in the country. The Fund considers whether it is possible to arrange meetings with decisionmakers, whether the government listens to investors' views, or whether it is possible to influence development more indirectly, for example via counterparties such as local external portfolio managers. If AP2 assesses that it is not realistic to expect the Fund to be able to contribute to a positive influence on the performance of a country that violates human rights, there are likely to be sustainability grounds not to include the country in the Fund's portfolios.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

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 Council on Ethics of the Swedish AP Funds 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 the Fund's website.



Cannabis

The Council on Ethics of the Swedish AP Funds 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. The companies that AP2 has identified are listed at the Fund's website.

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 combustion of 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 either divestments or exclusions, the companies are removed from the Fund's investment universe and benchmark indices.

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 divested or excluded, the Fund conducts a dialogue with the managers.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

The Council on Ethics – a collaboration for positive impact

The Council on Ethics of the Swedish AP Funds is a collaboration between AP1, AP2, AP3 and AP4 to jointly influence companies towards sustainable value creation and transparent reporting. At the end of the year, active dialogues were held with 54 companies in all parts of 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 contributes to better companies and lower risk

The Council on Ethics' proactive engagement work contributes to positive change and deals with particularly difficult sustainability challenges in companies' operations and value chains. The work aims to solve the challenges and prevent violations, accidents and incidents from happening. It contributes to improved companies and reduced risk in the AP Funds' assets.

Five focus areas for the Council on Ethics proactive engagement

The Council on Ethics' proactive engagement addresses complex sustainability challenges and systemic risks, and contributes to improving companies' awareness of and management of these risks. The starting point is focus areas that indicate the direction of the work. During 2023, five new focus areas were decided – read more about the Council on Ethics' work within these at www.etikradet.se.

• Anti-microbial resistance: Drug-resistant infections are increasing globally, in both humans and animals, and can have significant consequences for global health and the economy. The Council on Ethics considers that AMR is a significant systemic risk for both society and the Funds' portfolios over time and wants to contribute to increased

awareness and responsibility among rele-

vant companies.

- Child labour and forced labour: Child labour and forced labour occur worldwide, but are particularly common in certain industries and regions. Companies may be exposed in their direct operations or through their supply chains. The Council on Ethics opposes the exploitation of labour and works both with individual companies and proactively at sector level.
- Climate: Climate change constitutes a serious systemic risk with a significant impact on the assets of the AP Funds and a negative impact on current and future generations. The Council on Ethics' work on the matter complements and reinforces the work carried out at the respective AP Fund. The Council on Ethics has decided to prioritize two areas going forward: the transition of emissions-heavy industries and mining for transition.

3 510

Reviewed companies 2023

54

Number of companies in active dialogue in December 2023

36

Achieved milestones during the year

Tech companies and human rights:

Online platforms and the big tech companies play an increasingly important role in society. This means many opportunities but also several challenges related to human rights. The Council on Ethics is leading an international collaborative project with the aim of conducting impact dialogues with a number of large tech companies with the goal that the companies will strengthen their work with human rights.

water: There is a serious shortage of water resources globally. Water of good quality and in sufficient quantity is essential for everything from health and sanitation to food production, power generation and many other industrial processes. It is also closely linked to other global challenges such as climate, biodiversity and involuntary migration. The Council on Ethics considers water scarcity to be an urgent global challenge, with significant consequences for companies and investors. Two projects in the area were initiated in 2023.

Reactive work influences companies to take action

The Council on Ethics' review of 3 510 holdings at the end of 2023 showed about 84 companies with a confirmed violation of an international convention or with a severe risk of violation. Most companies thus passed the review without comment. The Ethics Council conducts dialogues with companies in the event of confirmed violations and in the event of a risk of violation.

The number of companies in active dialogue with the Council on Ethics at the end of the year is lower than the number identified in the review, because companies at risk of violation include completed dialogues and companies where the possible violation is being analysed. In addition, the holdings in the AP Funds' portfolios have changed during the fourth quarter of 2023, which has meant a reduced number of portfolio companies in dialogue in December.

Key figures – 36 milestones achieved by 2023

At year-end 2023, active dialogues were conducted with 54 companies in the AP Funds' portfolios, of the 84 identified with confirmed or risk of violation during the review. During the year, a total of 36 milestones were achieved in the Council on Ethics' reactive dialogues. Three companies were recommended for exclusion and seven dialogues ended with the goal achieved. Read more on the Council on Ethics' website.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

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 fundamental conviction is that companies with long-term sustainable business models create more value for their shareholders.

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 investment 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 unlisted 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.

Equities

Swedish equities

Fundamental analysis is employed in the management of Swedish equities. In the analysis of companies, consideration is given to sustainabile ity 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. Read more from page 39.

Global equities

AP2's management of global equities mainly takes place as active internal quantitative management. In 2018, the Fund 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 pages 19 and 26.

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 Fund has a continuous sustainability dialogue with private equity companies. When their sustainability work is analysed, an evaluation is made based on a number of assessment points. 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. As well as 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 climate and diversity take high priority. Read more on pages 20 and 38.

Fixed-income investments

Bonds

Green 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 160 different issuers with thousands of 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, since 2014 the Fund has also invested in social bonds with a focus on social issues. Dedicated bonds in specific areas are also becoming

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

increasingly common, i.e. where the issuer borrows capital to invest in projects that promote specific sustainability areas. AP2 has invested in bonds aimed at measures and projects to promote gender equality issues.

AP2 had holdings in green and social bonds for a value of almost SEK 15 billion as at 31 December 2023.

Corporate bonds

The Fund has developed and implemented a multi-factor index for foreign corporate bonds and adapted it to comply with the EU Paris Aligned Benchmark criteria. A number of sustainability factors are also included in the active management of corporate bonds. The environmental, social and governance factors form an ESG theme that has several sub-categories. Some factors, for example, focus on diversity, corporate governance, use of resources and emissions.

Government bonds

AP2 invests in government bonds in emerging countries, when this is compatible with the Fund's risk-adjusted return requirements, in a way that provides governments with incentives to strengthen their sustainability work and contribute to achieving the UN's global Sustainable Development Goals. Three ways in which the Fund does this is in practice are via ESG-weighted indices, green bonds and ESG factors in active management.

Since 2020, the Fund has used the JP Morgan ESG Index for government bonds in emerging markets that are issued in both local currency and US dollars. The weight-adjusted index gives more weight to countries with a higher ESG score. The ESG scores are based on data from external data providers and are strongly positively correlated

with the UN index for 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 has a clear positive effect on the sustainability profile in the index, without diminishing the risk-adjusted return profile.

Unlisted 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.

However, this does not mean that there is no possibility of exerting an impact. This mainly takes place through a careful selection process of external managers, to ensure consensus on sustainability issues between them and AP2. 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 bands whereby borrowers receive a lower interest rate if agreed sustainability terms have been met.

AP2 has also 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.

Real assets

The Fund also works in different ways to integrate sustainability within AP2's real assets, which include traditional real estate, timberland and farmland, and sustainable infrastructure.

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 several years AP2 has organised an annual sustainability day for its unlisted 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' emissions to be in line with the Paris Agreement. Read more on page 27.

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, 1.7 per cent are 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 timberland investment process, as well as the management and monitoring of acquired real estate. All of AP2's managers are signatories to and comply with the Principles of Responsible Investment (PRI).

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' certification principles.



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

Sustainable infrastructure

Sustainable infrastructure is an area in need of major investment. Energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources. Since 2020, AP2 has made a strategic allocation to sustainable infrastructure, assets that contribute to sustainable development in line with the Paris Agreement. So far, the Fund has made nine investments totalling approximately SEK 9 billion.

These investments are well in line with AP2's overall mission to promote sustainable development without compromising the overall goal. Read more on page 28.



AP2 has developed criteria for classifying timberland as a targeted sustainability investment. Sustainability investments are investments that, in addition to a good risk-adjusted return, aim to contribute to achieving the UN global Sustainable Development 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 ten 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 forests 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.

Read more on pages 20 and 27.

Farmland

Investments in farmland form part of AP2's efforts to diversify the overall portfolio. 3.2 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. The Fund 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. Much 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 the farm implements these practices, 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, and gender equality.

Read more on pages 20 and 27.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance



Long-term goals

AP2 must achieve net zero greenhouse gas emissions by 2045.

The Fund's goal is for the entire portfolio to be in line with the Paris Agreement, meaning for the portfolio's greenhouse gas emissions to decrease at a rate that can limit global warming to 1.5 degrees. The Paris Agreement stipulates that net zero emissions shall 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.

In order to succeed in reaching net zero emissions by 2045, AP2 should aim for a significant reduction by 2025 and 2030. Therefore, the Fund also aims to reduce greenhouse gas emissions by at least 35 per cent by 2025 and by 55 per cent by 2030.

Greenhouse gas emissions



Emissions of greenhouse gases must be reduced by 55 percent by the year 2030 (base year 2019).

Outcome 2023

For the first time, AP2 reports its total carbon dioxide emissions (Scope 1-3), which for 2023 was 5.4 million tCO_2e . This is a significant reduction from 2019, when the Fund's total emissions were 10.5 million tCO_2e . AP2 sees a great deal of uncertainty, especially when it comes to Scope-3 data, as the proportion of estimated data is still very high, but still wants to be as transparent as possible regarding the portfolio's emissions.

Climate

In 2023, Andra AP-fonden continued its work towards a portfolio with net zero emissions. Climate plans have been defined for additional asset classes and the reporting of the Fund's emissions has been developed to cover Scope 3 and a larger proportion of the portfolio. The Fund has made several targeted sustainability investments and has expanded its climate engagement by conducting more corporate dialogues, including a new initiative, the Net Zero Engagement Initiative, which is run through the Institutional Investors Group on Climate Change (IIGCC) investor network.

Integration

One of AP2's investment beliefs is that sustainability pays off, and this belief is integrated into the Fund's management in several ways. Climate change has a major impact on the ALM analysis, the Fund's tool for developing the most relevant strategic portfolio. Choosing the strategic portfolio consists of determining which asset classes are to be included and how much is to be invested in each asset class, and also which indices or strategies are to represent each asset class. The distribution between asset classes is based on a scenario where sufficient measures are not taken and the global temperature increase is 3 degrees, instead of the 1.5 degrees which is the goal of the Paris Agreement.

Climate change is also included in the Fund's long-term assumptions concerning economic and demographic development. If the situation deteriorates, this would have negative consequences for global economic growth, which is taken into account in the Fund's strategy.

The Fund has a clear, detailed climate strategy for the work within each asset class. Transition risks and physical risks are part of the strategy, as well as reporting and follow-up of emission data for individual asset classes.

In practice, integration into fund management involves three paths towards sustainable investments. These are integrated in different ways, depending on the asset class.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

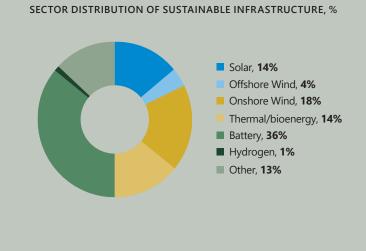
Biodiversi

Human riah

Diversity, equity and inclusion

Corporate governance





Investing in solutions

Sustainable infrastructure is one of the asset classes that the Fund classifies as targeted sustainability investments. As mentioned earlier in this report, major investments are needed to create a fossil-free society. In 2023, AP2 made the following investments:

- H2 Green Steel is building a large-scale steel mill in Boden, in northern Sweden. Production will deliver steel with up to 95 per cent lower carbon emissions compared to traditional blast furnace technology. Among other things, this is made possible by replacing coal with hydrogen in the production process and by using electricity from renewable sources.
- Further investment in Copenhagen Infrastructure Partners (CIP), one of the world's largest developers of offshore wind power. This investment relates to a Korean offshore wind power project that includes both fixed and floating wind power.

These investments are well in line with AP2's overall mission to promote sustainable development without compromising the overall goal for return and risk. The sustainable infrastructure portfolio is still being developed and mainly consists of projects in the construction phase. Nevertheless, the projects generated more than 300,000 MWh of renewable energy in 2023.

The Fund's strategic allocation to green bonds is another example of targeted sustainability investments. Two of the investments made during the year are:

- The Nordic Investment Bank is a bank owned by the Nordic and Baltic countries, where investments are made in projects within the member countries with a focus on such areas as renewable energy, energy efficiency, clean transport solutions and green construction.
- Kommuninvest provides lending to Swedish municipalities through its green bonds. This type of investment contributes to addressing local and regional climate and environmental goals.

AP2 also makes targeted sustainability investments in private equity funds that invest in activities with a positive impact on the environment and people. One example of such an investment is Commonwealth Fusion Systems (CFS). Read more on the next page.

Supporting change

AP2 can contribute to the transition by being an active owner. This takes place through engagement, primarily dialogues 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. Meanwhile, there is no change in total carbon emissions to the atmosphere, i.e. the risk of climate change is not affected by the Fund's transactions.

CEO's review
Mission, vision, goal and strategy
Governance
Integration and influence

Focus areas

Climate

Biodiversit

Human riahi

Diversity equity and inclusion

Corporate governance

Management of sustainability issues

Sustainability in the investment process

Through Khosla Ventures, Andra AP-fonden has invested in Commonwealth Fusion Systems (CFS)

The company's mission is to deploy fusion power plants to meet global decarbonization goals as fast as possible. CFS is collaborating with the Massachusetts Institute of Technology (MIT) to combine decades of research with new high-temperature superconducting (HTS) magnet technology, to enable compact fusion power plants that can be constructed faster and at lower cost.

The company believes this will result in the production of SPARC, the world's first fusion device that can produce plasmas which generate more energy than it consumes, becoming the first net-energy fusion machine. The HTS magnet technology allows for a smaller device than what has previously been possible. SPARC is an important step to accelerate the development of commercial fusion energy.

Using the SPARC technology, CFS is now in the process of constructing world's first fusion power plant, which, if successful, could deliver hundreds of megawatts of grid connected electricity. This would demonstrate the ability to turn the promise of fusion into reality, with economically competitive fusion power plants that could be mass produced and provide carbon-free, safe and limitless power for the world.



Atmospheric emissions will only be reduced by companies reduce their emissions. As an asset owner, AP2 therefore works actively by various means to influence its portfolio companies to make the transition and 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 to have governance, processes and activities to manage these risks in accordance with TCFD (Task Force on Climate-Related Financial Disclosures). AP2 also uses voting at annual general meetings as a tool for influencing these issues.

To be able to identify which companies and sectors should be prioritised in the Fund's engagement, it is important to understand the portfolio's emissions and the drivers behind the changes in emissions, as well as the extent to

which these contribute to actual global emission reductions. The Fund analyses this annually using a model that shows what drives the change in its carbon footprint. Read more about AP2's carbon footprint on page 22.

Analyses of the companies' emissions, commitments and action plans towards net zero emissions form the basis for the Fund's engagement on its own behalf, but also together with other investors in various investor networks such as Climate Action 100+ and the Net Zero Engagement Initiative. Read more about these initiatives and AP2's engagement on the Fund's website.

In 2023, AP2 continued to work on climate plans for the Fund's various asset classes. In total, there is now a plan to reduce emissions in line with the Paris Agreement for 76 per cent of the portfolio, compared with 70 per cent in 2022.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodivers

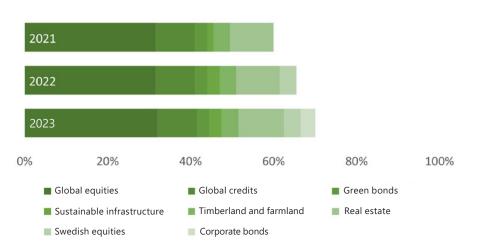
Human right

Diversity, equity and inclusion

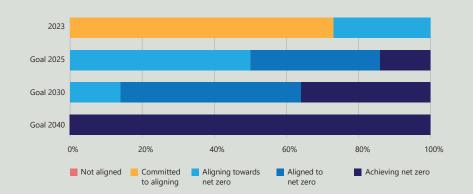
Corporate governance

Management of sustainability issues

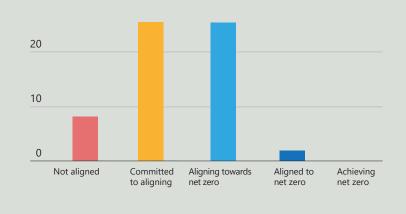
SHARE OF THE PORTFOLIO IN LINE WITH THE PARIS AGREEMENT



SWEDISH EQUITIES – ASSESSEMENT/OUTCOME OF THE PORTFOLIO'S ADAPTATION TOWARDS NET ZERO EMISSIONS



GOVERNMENT BONDS – ASSESSMENT/OUTCOME OF THE PORTFOLIO'S ADAPTATION TOWARDS NET ZERO EMISSIONS, NUMBER OF COUNTRIES



Swedish equities

For Swedish equities, AP2 uses a process that is supported by the IIGCC (Institutional Investors Group on Climate Change) Net Zero Investment Framework (read more on page 21) and its categorisation of companies' adaptation along a "maturity scale". Using this framework, and its defined forward-looking adaptation criteria, together with emission figures, the Fund can assess whether a company has a credible plan to align to net zero emissions and can categorise the company accordingly.

The categorisation is divided into two stages, where the first stage determines whether the company has high or low emissions. The high-emission companies account for approximately 90 per cent of the portfolio's emissions. The remaining companies are low-emitting. Subsequently, the high-emission companies are assessed according to the framework's criteria.

Global equities and corporate bonds

For global equities and corporate bonds, the Paris-Aligned Benchmark (PAB) framework is used when selecting companies in the investment process. As a general rule, companies with significant emissions will find it more difficult to finance their operations via shares or loans. The PAB framework is designed to reduce emissions in the asset class to net zero by 2050. Mandates managed under the framework do not contain certain companies. In addition, companies that do not over time reduce their greenhouse gas emissions, both as direct emissions from operations and as emissions generated by their services and/or products, will have a reduced weighting in a PAB-adapted portfolio.

Government bonds

ernment bonds in emerging markets using, among other things, index data for carbon efficiency in the economy, emission trends and domestic climate policy, in order to minimise transition risks in the portfolio. During the year, the Fund developed a new process, in line with IIGCC's Net Zero Investment Framework, for all government bonds, covering approximately 58 per cent of the asset class. The process is based on criteria for governments' adaptation to net zero emissions, where several data sources, such as Climate Action Tracker¹ and EDGAR², provide the basis for an assessment model. The portfolio manager can assess each country's climate adaptation measures, based on historical emissions, emission gaps in relation to development in line with the Paris Agreement, the country's capacity and intention to implement a carbon policy, and capacity for economic transition. This assessment is supplemented with an evaluation of the current situation based on the countries' forward-looking, expected transition pathways. The evaluation also includes a fairness aspect to facilitate contributions to transition in countries with less economic capacity, where major efforts are still required to attract international capital and thereby implement a climate policy. Based on this assessment, the Fund prioritises both investments and engagement, which for this asset class is primarily conducted via investor networks such as IIGCC. During the year, the Fund also had dialogues with several central banks and finance ministries in Asia. Read more about IIGCC on pages 20-21.

Until now, AP2 has assessed and managed gov-

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human riah

Trumum riginis

Diversity, equity and inclusion

Corporate governance

CEO's review

¹ www.climateactiontracker.org

² www.edgar.jrc.ec.europa.eu

Timberland and farmland

Within the asset class, timberland and farmland, AP2 supports the transition in several different ways. This takes place via the investment process, for which the Fund has developed a number of sustainability criteria that AP2's timberland and farmland investments must fulfil. All managers of the Fund's holdings work actively with climate issues. AP2 also conducts dialogues on issues such as greenhouse gas reporting, and during the year had dialogues with all managers to develop and expand this reporting.

The Fund is currently working on implementing a Natural Climate Solutions portfolio, in which the Fund will, among other things, combine timberland and farmland investments. The portfolio will be launched in 2024.

Private equity

During the year, the Fund conducted dialogues with its managers of private equity funds, which in turn influence the companies. The dialogues focused, among other things, on the managers' approach to the Paris Agreement and the reporting of emission data. In 2023, AP2 started work on analysing emission data for the portfolio and will use this as a starting point, together with the climate measures being taken, to assess the managers' adaptation to net zero emissions. The Fund's process for due diligence and side agreements has also been developed, to include requirements for new managers to adjust to net zero emissions.

Divesting from unwanted exposure

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.

An example of an asset class in which the Fund during the year has divested from adverse climate risks is the Fund's global equities and corporate bonds, which are managed according to the PAB indices. Each year, these portfolios are reviewed and a decision is made as to whether AP2 wants to retain the exposure to companies with a high transition risk. This primarily concerns companies that derive more than a certain percentage of their sales from coal, oil and/or natural gas, or energy 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.

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

Engagement and collaboration

IIGCC – Institutional Investors Group on Climate Change

Through its membership of IIGCC, AP2 collaborates with other European investors on the climate issue. The aim is to promote the investors' views on this issue and to engage with companies, authorities and other investors in order to highlight long-term risks and opportunities from climate change. The organisation is also a platform

Internal environmental work

Since 2009 AP2 has had an 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. A special environmental group drives the Fund's own environmental work and environmental training is provided continuously to all employees.

AP2's largest environmental impact comes from energy consumption for office purposes and travel. At year-end 2023/24, the Fund moved to new premises that are better adapted to a flexible way of working, with 33 per cent less space, which will reduce energy consumption. The new office has been refurbished with sustainability in mind when choosing materials, and furniture has been reused as far as possible. Since 2015, AP2 has had a green lease agreement with the landlord Hufvudstaden, which is also the landlord for the new premises. 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.

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. The number of business trips has also been reduced after the pandemic with the help of the Fund's digital platform, which facilitates a flexible way of working.

ENVIRONMENTAL DATA

	2023	2022	2021
Internal environmental indicators			
Electricity, kWh	76 680	79 004	64 928
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	90	90.5	0
Number of printouts	26 685	20 475	15 666
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	99	99	98
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO ₂ e	0	0	0
Air, domestic, tonnes of CO ₂ e	0	0	0
Air, abroad, tonnes of CO ₂ e	91	80	0

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human riah

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

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.

The Fund uses the following frameworks and initiatives developed by IIGCC:

- Paris Aligned Asset Owners
- Net Zero Investment Framework
- Climate Action 100+
- Net Zero Engagement Initiative.

Paris Aligned Asset Owners is a global commitment for capital owners such as AP2, which are committed to supporting the net zero greenhouse gas emissions target by 2050. For the Fund, this entails a number of specific commitments, which primarily involve defining clear methods and targets for net zero emissions for each asset class. Read IIGCC's progress report at www.iiqcc.org.

The Net Zero Investment Framework provides recommendations on common actions, method-

ologies and metrics to help investors maximise their contribution to achieving net zero emissions. The Fund uses the framework's recommendations to support several of the asset classes' climate strategies.

Climate Action 100+ is an international dialogue project in which global investors engage in dialogue with 166 companies that account for 80 per cent of global industrial emissions. The aim is to make the companies to reduce their emissions to a level in line with the Paris Agreement, that they report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework, and that their boards take clear and unequivocal responsibility for the work of addressing climate change. AP2 is actively involved in the initiative and, together with Öhman and Alecta, is leading the dialogue with AB Volvo. During the year, the dialogue with AB Volvo focused on the company's climate plan and the pathway to net zero emissions, climate lobbying and the Just transition framework.

The initiative is followed up annually in a report which presents the progress made though the dialogues. The latest report is available at www. climate-action100.org.

The Net Zero Engagement Initiative is a new, investor-led initiative that builds on investor engagement beyond the Climate Action 100+ focus list. The aim is to help investors align a larger proportion of their portfolios with the goals of the Paris Agreement. During the year, 107 companies received letters and were then contacted for dialogue. The most important recommendations for the transition plan are that the companies have 1) a commitment to net zero emissions, 2) adjusted emission targets, 3) reported emissions and 4) a credible strategy for decarbonisation. Together with other investors, AP2 leads dialogues with five of the companies in the initiative.

Collaboration with other investors is an important aspect of being able to effectively contribute to and support the transition on a broad front. In 2023, the Fund played a leading role in six corpo-

rate dialogues in the climate area, and intends to increase the number of dialogues in the coming years.

The Council on Ethics – Mining 2030

Climate transition is one of five focus areas for the Council on Ethics of the Swedish AP Funds proactive work, with a particular focus on high-emission industries, and metal and mineral extraction. The global mining industry plays an important role in supplying the raw materials deemed necessary to achieve a climate transition. It also faces extensive sustainability challenges. The Council on Ethics has therefore chosen to participate in the Mining 2030 initiative and has been part of its steering group since 2023. In the first sub-project, supply and demand for critical metals and minerals are mapped, risks are identified at the various deposits/mines and industry standards are evaluated. This is a collaboration between investors, companies, industry organisations and UNEP, the UN's environmental programme.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human rights

Diversity, equity and inclusion

Corporate governance



Transparency

Greenhouse gas emissions 2023

The Fund's net zero emissions target is expressed as carbon dioxide equivalents, CO_2e , and includes all seven greenhouse gases under the Kyoto Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), incompletely halogenated fluorocarbons (HFC), fluorocarbons (FC), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). 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 reporting of greenhouse gas emissions to include more asset classes and to include Scopes 1-3. Portfolio emissions for 2023 are reported for the asset classes comprising listed equities, foreign corporate bonds, government bonds, timberland and farmland real estate, unlisted real estate and sustainable infrastructure. This means that 76 (70) per cent of AP2's strategic portfolio is measured according to a carbon indicator.

When reporting greenhouse gas emissions, the Fund sees a number of challenges and limitations in terms of data. Access to data is one of the challenges, which is particularly evident in the reporting of Scope 3 emissions. A high proportion of the Fund's reported emissions in Scope 3 are estimated emissions, as many companies do not yet report these emissions. In addition, there are major differences between different companies in terms of what they choose to include in their reported emissions. This can lead to difficulties in comparing companies and portfolios and in interpreting changes. In addition to actual differences in emissions, variations may be due to deviations in both the reporting from companies and in what they include in their Scope 3 calculations, and in the data providers' calculation methodology. The time

aspect is another challenge presented by reported data, as emissions from the portfolio are based on the previous year's reported or estimated emissions from the companies in the portfolio. There is therefore a lag in terms of when actual changes are seen in the emissions for the investment portfolios.

In step with these changes, 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 continues to expand its reporting within additional asset classes. In addition to reporting total greenhouse gas emissions for each individual asset class, the Fund reports several different ways of analysing and interpreting emissions.

1. The AP Funds' joint carbon footprint reporting As from 2023, the total carbon emissions for AP2's equity portfolios are calculated on the basis of the operating value Enterprise Value Including Cash (EVIC), instead of market value, and also include Scope 3. However, this only applies to the metric for total greenhouse gas emissions and not to the relative emission metric and the portfolio-weighted intensity metric. The Fund therefore also revises the retrospective figures for previous years. Carbon emissions for the equity portfolios were 3.82 (5.20) million tCO₂e in total for 2023. From 2019 as the base year, AP2 has reduced the Fund's total carbon emissions for the equity portfolios by approximately 44 per cent. Scope 3 emissions account for approximately 90 per cent of the Fund's greenhouse gas emissions.

The relative carbon emissions per invested SEK, which are only based on Scope 1 and 2, are approximately 4.5 tCO₂/SEK million, which can be compared with the intensity in 2022, which was 7.4 tCO₂e/SEK million. The reason for the



The listed equity portfolio is reported based on three different approaches

- Through the AP Funds' joint reporting, which enables comparability between the Funds.
- 2. By showing the reasons for the change in the portfolio.
- By reporting emissions in line with the EU Paris-Aligned Benchmark.

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 products, 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.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human riah

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

AP2 reports as follows:

Through transparent reporting with common metrics for the greenhouse gas emissions from the fund assets, the AP Funds aim to facilitate understanding and comparability. For the year, the AP Funds have updated the reporting with Scope 3 and changed the calculation of total carbon emissions (metric 1) according to the operating value EVIC (Enterprise Value Including Cash).

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 portfolio 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), as well as emissions throughout the company's value chain (Scope 3). 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. Carbon emissions, Scope 1 and 2

Total of owned share of portfolio companies' individual carbon emissions (Scope 1 and 2), based on the company value, as above.

2. Carbon emissions, Scope 3

Total of owned share of portfolio companies' individual carbon emissions (Scope 3) based on the company value, as above.

3. Relative carbon emissions, Scope 1 and 2

Total of owned share of portfolio companies' individual carbon emissions based on the company value as above in relation to the portfolio's market value.

4. Portfolio-weighted carbon intensity (WACI), Scope 1 and 2

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

reduction is that the portfolio's emissions have been reduced. If the footprint is instead based on the portfolio-weighted carbon intensity, i.e. a company's carbon emissions in relation to its revenue, weighted according to each company's share of the portfolio, the 2023 outcome is 5.6 tCO₂e/SEK million for Scope 1 and 2. The same metric for 2022 shows an outcome of 8.2 tCO₃e/SEK million.

AP2 also reports its carbon footprint broken down into Sweden, developed markets and emerging markets. The Fund can observe large differences in carbon intensity between developed and emerging markets, where companies in emerging markets are the least carbon-efficient, with higher greenhouse gas emissions.

The table on page 24 presents all the metrics for the various markets.

AP2 uses emission data from MSCI ESG Research and Trucost for Scope 1 and 2. The average value of these two sources constitutes the Fund's carbon database, which is used to calculate the carbon footprint. Suppliers' data may include their estimates if reported data is missing. For Scope 3, only data from MSCI ESG Research is used. 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.

A precautionary approach should be taken to the calculation of Scope 3 emissions, as the emission figures for each company are subject to relatively high uncertainty. In addition, double counting occurs when Scope 3 figures are summed up in an investment portfolio. However, AP2 believes that it is important to develop reporting with all scopes included.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodivers

Human riah

Diversity equity and inclus

Corporate governance

Management of sustainability issues

CARBON FOOTPRINT OF THE LISTED EQUITY PORTFOLIO, SCOPE 1, 2 AND 3 Metrics 2023 2022 2021 2020 1. Carbon emissions, Scope 1 and 2, EVIC (million tCO₂e) 0.40 0.62 0.69 1.44 Sweden 0.03 0.04 0.07 0.09 Developed markets 0.17 0.28 0.33 0.51 Emerging markets 0.20 0.30 0.29 0.84 2. Carbon emissions, Scope 3, EVIC (million tCO₂e) 3.42 4.58 5.44

	Maria Contract			
1. Carbon emissions, Scope 1 and 2, EVIC (million tCO ₂ e)	0.40	0.62	0.69	1.44
Sweden	0.03	0.04	0.07	0.09
Developed markets	0.17	0.28	0.33	0.51
Emerging markets	0.20	0.30	0.29	0.84
2. Carbon emissions, Scope 3, EVIC (million tCO₂e)	3.42	4.58	5.44	
Sweden	0.98	1.17	1.05	8.92
Developed markets	1.45	1.94	2.77	2.58
Emerging markets	0.99	1.47	1.62	6.70
Carbon emissions, Scope 1–3, EVIC (million tCO₂e)	3.82	5.20	6.13	16.40
Change in the portfolio's total carbon emissions from the previous year (%)	-26.9	-14.6	22.9	
- of which the change related to changes in the portfolio's holdings (% units)	-26.4	-35.8	3.2	12.73
– of which the change related to changes in the companies' emissions (% units)	-0.5	21.3	19.7	5.07
3. Relative carbon emissions, Scope 1 and 2, market value (tCO₂e/SEKm)	4.48	7.43	6.35	9.97
Sweden	1.13	1.67	1.95	18.85
Developed markets	3.71	8.17	5.36	
Emerging markets	8.30	16.37	14.8	12.27
4. Portfolio-weighted carbon intensity (WACI), Scope 1 and 2, market value (tCO₂e/SEKm)	5.68	8.21	9.04	4.15
Sweden	2.14	3.07	3.64	10.93
Developed markets	5.41	14.65	13.4	19.63
Emerging markets	8.79	12.31	15.00	-22.8
Portfolio-weighted carbon intensity (WACI), Scope 1–3, market value (tCO₂e/SEKm)	52.9	72.1		-33.4
Change in the portfolio's carbon intensity from the previous year (%)	-26.7			10.6
– of which the change related to changes in the portfolio's holdings (% units)	-27.6			161
– of which the change related to changes in the companies' carbon intensity (% units)	0.9			99
Market value of the Fund's portfolio covered by CO ₂ e data (SEKbn)	158	151	187	
Proportion of the share capital for which data is available (%)	100	99.9	99.8	

Carbon measurements as of and including 2019 are based on a broader universe of carbon data and a refined method of estimating greenhouse gas emissions from non-reporting companies. As companies in the portfolio improve and increase their reporting of CO₂e data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

- 1. Carbon emissions, Scope 1 and 2. Total of owned share of portfolio companies' individual carbon emissions (Scope 1 and 2) based on company value as above.
- 2. Carbon emissions, Scope 3. Total of owned share of portfolio companies' individual carbon emissions (Scope 3) based on company value as above.
- 3. Relative carbon emissions, Scope 1 and 2. Total of owned share of portfolio companies' individual carbon emissions based on company value as above in relation to the portfolio's market value.
- 4. Portfolio-weighted carbon intensity (WACI), Scope 1 and 2. Total 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.

CO₂e (carbon dioxide equivalent) is a unit of measurement that enables comparisons of the climate impact of different greenhouse gases.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human riaht

Diversity equity and inclusion

Corporate governance

AP2 reports as follows:

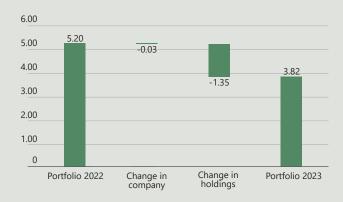
The carbon metrics described on the previous pages provide important knowledge, but there are limitations. One of the previous limitations was that the carbon footprint did not provide information on the drivers behind changes in emissions in portfolio companies, and the extent to which the actual emissions to the atmosphere have changed. To increase transparency in this regard, the AP Funds report which percentage 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 they do not occur until the companies' emissions are reduced. AP2 attaches great importance to this follow-up, which is also the basis for engagement work.

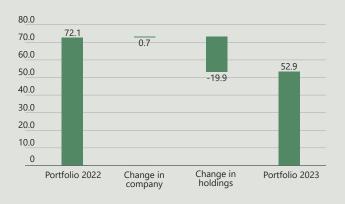
2. Reasons for changes in carbon emissions

The graph below shows the reasons for the change in total carbon emissions between 2022 and 2023 for AP2's listed equity portfolio. The calculations relate to emission data from Scope 1, 2 and 3, expressed in millions of tCO₂e. The graph shows that most of the decrease can be attributed to changes in the Fund's holdings. The companies' contribution to the reduction is marginal, which clearly shows that significantly larger reductions in the companies' emissions need to take place in the coming years. During the year, the Fund has intensified its engagement work with high-emitting companies, to help drive this change.

CAUSES OF CHANGE IN TOTAL CARBON EMISSIONS BETWEEN 2022 AND 2023, MILLION tCO₂e



CAUSES OF CHANGE IN PORTFOLIO-WEIGHTED CARBON INTENSITY BETWEEN 2022 AND 2023, ${\rm tCO_2e/MSEK}$



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human right

Diversity, equity and inclusion

Corporate governance

3. Greenhouse gas emissions from PAB-aligned 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, which means the foreign equity and credit portfolios. The curves show an annual decrease of 7 per cent. Over time, the Fund intends to keep the portfolios' footprint below the respective trajectories, in accordance with the framework, but the trend 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 for 2023 follows the expected curve. Both asset classes are on or slightly below the curve, at 40 (39) per cent of the carbon footprint for the market-weighted index for equities and 38 (43) per cent for corporate bonds.

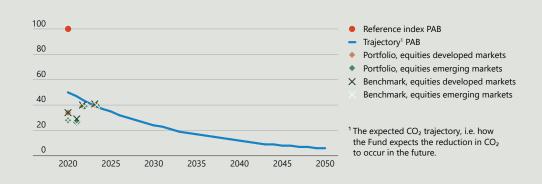
In 2023, the method of producing CO₂ data for PAB was further developed, which is estimated to give more stable values of higher quality when creating the portfolios. The data will be updated once a year and estimated values will be used to a greater extent for Scope 3.

AP2 reports as follows:

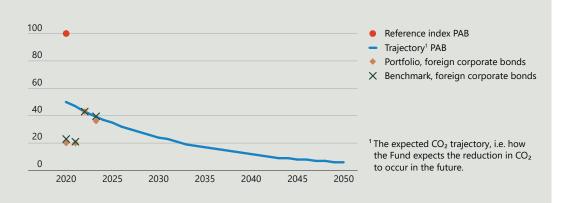
As AP2 has implemented its own indices that are in accordance with the EU Paris-Aligned Benchmark (PAB), another metric has been added to its carbon footprint report, namely carbon intensity based on the operating value Enterprise Value Including Cash (EVIC), as this metric is prescribed by the EU. In addition, Scope 3 is included in this framework. The Fund will add the last sectors for Scope 3 emissions for companies during 2024.

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

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



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



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human righ

Diversity, equity and inclusio

Corporate governance

Management of sustainability issues

Greenhouse gas emissions for other asset classes

Government bonds

In 2023, AP2 has started reporting greenhouse gas emissions for the government bonds asset class. However, this reporting is limited to production emissions as defined by the United Nations Framework Convention on Climate Change's (UNFCCC) national emissions inventory as recommended by the Partnership for Carbon Accounting Financials (PCAF). The Fund also considers it important to report consumption emissions, but the data is still too insufficient to be reported. On this basis, the Fund has an estimated greenhouse

gas footprint for all government bonds in the portfolio. This means that the Fund reports a carbon footprint of 10,000 tCO₂e (Scope 1) for approximately 80 percent of the portfolio. During 2024, AP2 will continue to work on developing the reporting for bonds.

Unlisted real estate

AP2's unlisted real-estate companies report Scope 1, Scope 2 and Scope 3 in the form of tenants' energy consumption. The Fund's share of the carbon emissions totalled 45,159 tCO $_2$ e and the carbon intensity amounted to 0.62 tCO $_2$ e/SEK million per million krona invested, which is a

reduction from 1.06 tCO₂e/SEK million per million for the previous year. The reduction is mainly due to more precise calculation methods.

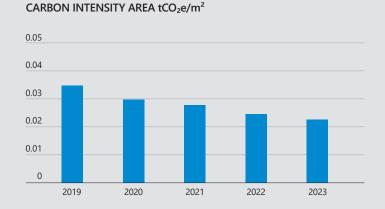
Energy consumption and carbon emissions per area unit were 124 kWh/m² and 0.023 tCO₂e/m², which represents a strong reduction of energy consumption over the years. This is mainly due to the managers' work to reduce energy consumption through more efficient energy systems.

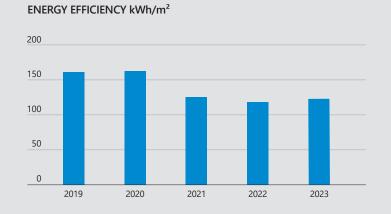
Timberland and farmland

AP2 and timberland managers are in dialogue on calculation of carbon sequestration and carbon emissions. All of the Fund's timberland managers – Molpus, New Forests and Nuveen – calculate the total carbon sequestration in their forests. AP2's share of the carbon sequestration is 50.58 (51.20) million tCO_2e . The Fund's share of the carbon emissions is estimated at 0.53 million tCO_2e , which is comparable to last year's 0.55 million tCO_3e .

AP2's farmland managers also calculate the investments' carbon footprint. The farmland's 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

Carbon footprint for AP2's unlisted real estate





CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human right

Diversity, equity and inclusion

Corporate governance

of the carbon sequestration is estimated to amount to approximately 57 million tCO_2e , and emissions are estimated at 0.09 million tCO_2e .

Sustainable infrastructure

The asset class is included in the Fund's targeted sustainable investments, and is an important part of the Fund's sustainability work. As the portfolio is still under construction, some reporting of greenhouse gas emissions is

delayed. However, the Fund considers it important to report the elements that have been reported, even if this is not a complete emission figure. The portfolio shows emissions of around 20,000 tCO₃e.

AP2's total carbon footprint

For 2023, the Fund has calculated the carbon footprint from listed equities, foreign credits, government bonds, timberland and farmland

real estate, unlisted real estate and sustainable infrastructure. This means that 71 (67) per cent of AP2's strategic portfolio is measured according to a carbon indicator. AP2's ambition is to eventually present a carbon footprint that includes all asset classes.

For the first year, the Fund has combined its total carbon emissions, which for 2023 amounted to 5.43 million tCO₂e. AP2 sees a great deal of uncertainty, especially with

regard to Scope 3 data, as the proportion of estimated data is still very high. Nevertheless, the Fund believes it is important to be as transparent as possible regarding the portfolio's emissions.



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

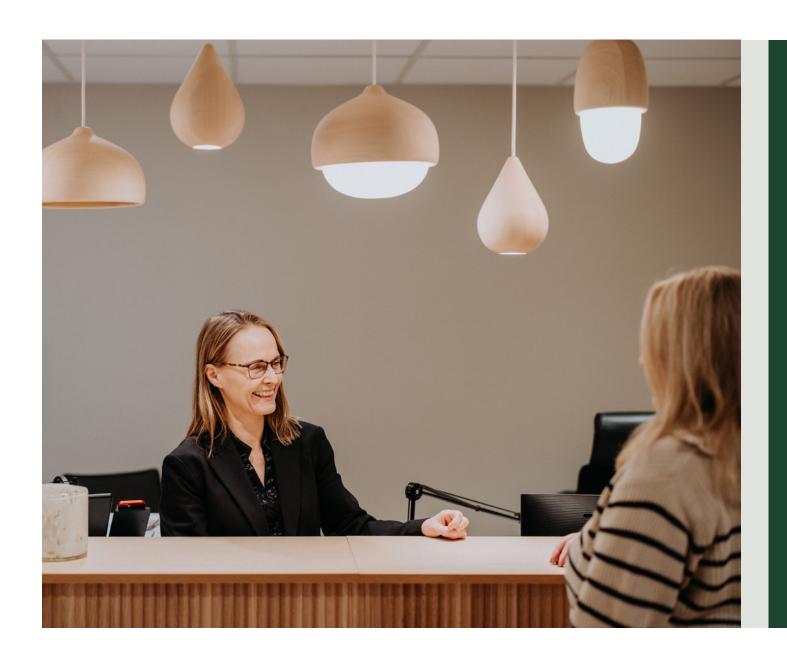
Climate

Biodiversit

Human righ

Diversity, equity and inclusion

Corporate governance



TCFD

AP2 has been reporting in accordance with TCFD (Task Force on Climate-related Financial Disclosures) for several years. The framework presents recommendations on what the reporting on climate-related risks and opportunities should include and is aimed at both companies and investors.

Reporting in accordance with the TCFD's framework includes information on:

- 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.
- 4. The metrics and targets used by the organisation. A new aspect this year is that the Fund is issuing a climate and nature report in accordance with both TCFD and TNFD (Taskforce on Nature-related Financial Disclosures).

AP2's TCFD and TNFD report is published on the Fund's website in the spring.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human righ

Diversity, equity and inclusion

Corporate governance

Biodiversity

Deforestation is the prioritised issue in Andra AP-fonden's biodiversity work, with a focus on the food and forestry sectors. In 2023, Andra AP-fonden conducted engagement through Finance Sector Deforestation Action, where the Fund leads several dialogues, and in the working group for Brazil within the Investor Policy Dialogue on Deforestation. The Fund is also participating in a project with the Climate & Company think tank, with the aim of developing a method for analysis of deforestation risk in investment portfolios.

Integration

AP2's focus is on deforestation risk in the food and forestry sectors

Since biodiversity is a broad and complex area, it is necessary for AP2 to set priorities for its work. The Fund has therefore conducted a materiality analysis in accordance with the principle of double materiality, in line with the Taskforce on Nature-related Financial Disclosures (TNFD) reporting framework.

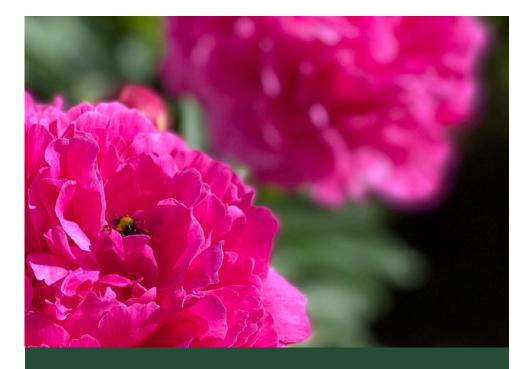
AP2 has analysed and evaluated the investment portfolio's prioritised nature-related dependencies, impacts, risks and opportunities using the ENCORE database developed by the Natural Capital Finance Alliance and the UN's environmental programme, UNEP¹.

The analysis was conducted from an industry perspective, and the assessment was made according to the following parameters:

- The principal causes of biodiversity loss according to IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services)².
- Sectors that have the greatest impact on these causes of biodiversity loss.
- Sectors most dependent on nature resources and ecosystems.
- Sectors with the greatest exposure to the various asset classes in AP2's portfolio.

The analysis is based on the sectors identified to be at high risk by TNFD and is limited to the sectors in the Fund's portfolio.

Impacts are analysed according the five main causes of biodiversity loss identified in the IPBES report, and how they affect land, fresh water, sea and atmosphere. According to IPBES, the five causes of biodiversity loss are:



Long-term goals

AP2 will contribute to a net positive impact on nature by 2030 at the latest.

There is still no consensus on what the concept of nature positive entails, and work is underway to develop a definition. Nevertheless, AP2 has chosen to use the concept as an overall objective whereby nature, with biodiversity, ecosystems and natural capital, develops in a positive direction and where the Fund contributes to this development. When the organisations working with the definition of nature positive have reached a common view, the Fund will review the objective in the light of this.

By 2025, AP2 must have a portfolio that does not contribute to deforestation.

The Fund has defined a target for deforestation, which is the main driver of biodiversity loss and is relevant to the Fund's investments. 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.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Corporate governance

¹https://encore.naturalcapital.finance/en

²IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany. 1148 pages. www.doi.org/10.5281/zenodo.3831673

- · Changing use of sea and land.
- Direct exploitation of organisms.
- Climate change.
- Invasive non-native species.
- Pollution.

Since AP2 addresses the climate issue as a separate focus area, the impact of sectors on climate change is not included in this analysis. With regard to the other four causes, the analysis shows that land use is most relevant for the Fund's investments, followed by pollution.

Sectors in AP2's portfolio with a high negative impact on and high dependence on nature resources and ecosystems are highlighted in the overview, which is structured according to the Fund's total exposure to each sector. Based on the analysis, the Fund has initially chosen to prioritise the food and beverage sectors, and the forestry and paper sectors, in its work to promote biodiversity. The work is thereafter planned to also include the energy sector, including sustainable infrastructure.

The food and forestry sectors are particularly relevant, in view of AP2's focus on land use. According to IPBES, the food sector stands out in terms of negative impacts from land use, primarily through deforestation in tropical areas with rich and sensitive biodiversity. Deforestation of tropical forests can primarily be linked to the supply chains for cattle, soya, palm oil and raw wood products. According to IPBES, agriculture alone is identified as the primary threat to 24,000 of the 28,000 species at risk of extinction. The food and forestry sectors are dependent on ecosystem services such as water, climate and pollination and will be adversely affected if these are weakened. According to IPBES, around 85 per cent of the Earth's arable land is threatened by erosion, deterioration of

soil quality and pollution, and more than 75 per cent of the world's harvests depend on pollination.

In total, 20 per cent of AP2's assets are invested in the sectors identified as subject to high risk by TNFD, through the asset classes comprising listed equities and credits, private equity funds, farmland and timberland investments and sustainable infrastructure. The three prioritised sectors com-

prising food and beverages, forestry and paper, and energy account for 10 per cent of the Fund's investments, which have a very high impact and dependence on nature.

Investing in solutions

The Fund sees opportunities to invest in activities to meat and leather, and sustainable agriculture that reduce the negative impact on nature and technology.

promote biodiversity. This primarily takes place through the Fund's targeted sustainability investments, including renewable energy, timberland and farmland, that fulfil the Fund's sustainability criteria, and through investments in private equity funds, including animal-free alternatives to meat and leather, and sustainable agriculture technology.

AP2'S HOLDINGS IN SECTORS WITH A HIGH IMPACT AND DEPENDENCE ON NATURAL RESOURCES AND ECOSYSTEMS

		Impacts				Depender	icies						
	Share of AP2's portfolio, %	Utilisation of resources		Contaminants		Direct resources		Enables production		Risk protection			
Sector		Land	Water	To air	To water	To soil	Materials		Pollination,	Water	Climate	Wind, flooding	Land- slide, erosion
Food & beverage	5%												
Energy	3%												
Medical products	3%												
Semiconductors	2%												
Forestry & paper	2%												
Chemicals	1%												
Textiles	1%												
Vehicles	1%												
Mining & metals	1%												
Construction services	1%												
Transport	1%												
Hygiene products	1%												
Construction materials	0%												
Packaging	0%												

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human riahts

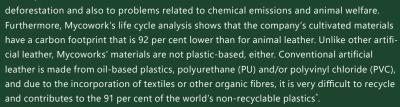
Corporate governance

Management of sustainability issues

Mycoworks

Through its manager, DCVC, AP2 has invested in the company Mycoworks. The company has developed a biological alternative to leather, which consists of cultivated mycelium.

Bio-based leather offers many benefits from a sustainability perspective. It replaces animal leather, which is a raw material with a clear link to



The material from Mycoworks looks, feels and breathes like leather and can be cultivated to suit the customer's needs for thickness, function and appearance. Well-known brands such as Hermès and Ligne Roset have already used the material in their products. Mycoworks is now working to increase its production in order to meet demand.

*https://education.nationalgeographic.org/resource/whopping-91-percent-plastic-isnt-recycled/

Supporting change

Listed equities and credits

Within the listed equities and credits asset class, work on a deforestation-free portfolio has begun with an analysis of AP2's portfolio to identify companies with a high deforestation risk, with particular focus on the food value chain in the first stage. The analysis is based on various sources – Forest 500 from Global Canopy¹, FAIRR² and SPOTT³ – and a combined company analysis from Finance for Biodiversity⁴. The identified high-risk companies are prioritised in the Fund's engagement with regard to deforestation (see below).

During the year, AP2 initiated collaboration with the Climate & Company think tank, which aims to develop a method for analysis and monitoring of deforestation risk in investment portfolios. Hopefully, this tool can be used to examine the entire portfolio (and not only the companies identified in the above analysis) and collectively assess both deforestation risk and the status of the companies' management of the deforestation issue, based on a number of indicators.

Private equity

AP2 has conducted a risk analysis of its private equity portfolio and identified which portfolio companies and managers have exposure to raw materials that entail a high risk of deforestation. In total, these companies account for around 4 per cent of the value of the private equity portfolio. Assessment of the managers' handling of any possible deforestation risk will in future be included in the annual evaluation of their sustainability work. Questions regarding assessment and management of deforestation risk are also included in the Fund's due diligence process for new managers.

Timberland and farmland

The work to promote biodiversity is a key issue for AP2's managers of timberland and farmland assets. The Fund's timberland managers are 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 is followed by the Fund's farmland managers. The Fund has also adopted a zero deforestation policy 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.

One of AP2's farmland managers has begun to implement nature-positive agriculture, which includes measures to improve the soil, which diminishes water pollution, reduces the climate footprint and promotes biodiversity.

Engagement and collaboration Deforestation

By 2025, AP2 aims to engage in advocacy work, through collaboration or independently, with all companies in the Fund's portfolio that have been identified with a high deforestation risk, and inadequate management of the risk. Engagement work is based on the Fund's deforestation policy (see www.ap2.se), which describes AP2's expectations on companies in the portfolio.

Based on these criteria, and via the analysis described above, at the beginning of the year the Fund identified 39 companies in the listed equity and credits portfolios, of which 28 were included the Fund's holdings in December 2023.

Through the Finance Sector Deforestation Action (FSDA) investor partnership, dialogues are conducted with 19 of these companies, which corresponds to 68 per cent of the companies identified. FSDA brings together international investors who, like AP2, are committed to working towards a deforestation-free portfolio. The dialogues are based on a common expectations document that is well in line with the Fund's expectations of portfolio companies. See the information box on the next page. AP2 is leading seven of these dialogues and has seen good progress in 2023.

All companies in the Fund's dialogues recognise the issue and work, at different stages, on managing the risks of deforestation. One of the companies fully lives up to expectations. One observation during the dialogues is that several of the companies with which AP2 engages in dialogue are working on the issues in practice, and some with full traceability of critical raw materials, but that few of the companies communicate about their work or make public commitments.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human riah

Trannan riginis

Cornorate governance

¹https://forest500.org/, ²https://www.fairr.org/, ³https://www.spott.org/, ⁴https://www.financeforbiodiversity.org/

Nature 100 is an investor initiative with a broader approach to biodiversity, launched in autumn 2023. The initiative will conduct dialogues with 100 companies in eight sectors that are assessed to have the greatest negative impact on biodiversity. Among these companies are 13 of

AP2's 28 focus companies, three of which are not already engaged in FSDA's dialogues. The Fund will play a leading role in three dialogues when the work begins in early 2024.

In 2024, the Fund plans to refine its risk analysis through collaboration with Climate & Company,

Expectations of portfolio companies (excerpt from AP2's policy against deforestation)

AP2 expects the companies in which the Fund invests to take responsibility for a business and supply chain that is free from deforestation and land conversion in natural ecosystems, and associated violations of human rights, through:

- Policy commitment: a public commitment to a deforestation and land-conversion-free production and supply chain that respects human rights and covers all of the company's raw materials at high risk of deforestation, in particular the breeding and rearing of bovine animals for meat and leather, and the cultivation of palm oil, soya, timber and wood products, with a target date for deforestation-free and conversion-free activities.
- 2. Respect for human rights (see also the separate <u>policy</u>): that companies adhere to the UN Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights and the ILO's Core Conventions. Rights that are associated particularly with deforestation, and that companies with activities related to deforestation risk should manage, include rights for indigenous peoples and local communities, including the right to land and to free, prior and informed consent. AP2 has zero tolerance of threats and violence against environmental and human rights campaigners.
- 3. Traceability and due diligence: ensuring sufficient traceability of direct and indirect suppliers in order to recognise and control the effects of deforestation and conversion, and related human rights violations. Companies are also expected to set requirements for suppliers and subcontractors and to have robust due diligence processes in place to continuously review their supply chain to ensure compliance, and to provide an adequate complaints mechanism.
- Collaboration: participation in collaboration to promote progress for entire sectors within high-risk raw materials, to develop practice and to support initiatives that promote progress and access to data.
- 5. Transparency: annual public reporting, with relevant metrics for the company's operations. In the case of in-house cultivation, the company is expected to report on deforestation and changes in the use of land controlled by the company. For procured goods, the company should report on the quantity of purchases of the aforementioned risk products and the proportion that can be considered deforestation-free with full traceability, as well as how this is ensured.

and is likely to update the list of focus companies according to this analysis. The ambition is to engage with all companies identified as being at high risk, with inadequate management of the deforestation issue. Besides the above initiatives, this will probably entail the Fund's initiation of bilateral impact dialogues with a number of companies in the coming years.

In 2023, AP2 also voted at AGMs against 13 companies with a high deforestation risk, and inadequate management of the risks, and which did not present a positive response in an ongoing dialogue.

Besides the aforementioned advocacy work at company level, AP2 participates in the Investor Policy Dialogue on Deforestation (IPDD), which conducts dialogue at policy level in countries with a high deforestation risk. The Fund is active in the working group for Brazil and, when the IPDD visited Brazil in April, attended meetings with, among others, representatives of relevant ministries, Banco Central do Brasil and the authorities responsible for the implementation of laws and regulations to stop deforestation.

Pollution – impact through the Council on Ethics

The AP Funds' Council on Ethics' proactive work in its Water focus area addresses pollution, one of the causes of biodiversity loss identified in the Fund's materiality analysis. The Investor Initiative on Hazardous Chemicals addresses companies' impact on water quality, with a focus on persistent chemicals that pose major risks to people, animals and ecosystems. There is dialogue with chemical companies that manufacture and sell these "forever chemicals", including PFAS (per-and polyfluoroalkyl substances), with the aim of phasing these out of production. PFAS are found and accumulate

in all fresh water on Earth and already have a serious impact on human and animal health today. Since these chemicals persist in the environment, they have a cumulative impact that is concentrated in the food chain. The Council on Ethics and the AP Funds participate in dialogues with six of the 20 chemical companies engaged in these dialogues.

Finance for Biodiversity

AP2 also collaborates through the broad, knowledge-building Finance for Biodiversity Foundation network, which brings together over 150 investors from 24 countries. The network has undertaken to collaborate and share knowledge, engage with companies, measure impact, set targets and report on biodiversity work by 2025 at the latest.

Transparency

The Fund is reporting in spring 2024 in accordance with the recently introduced Taskforce on Nature-related Financial Disclosures (TNFD) reporting framework.

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 (the 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.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human right

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Human rights

In 2023, Andra AP-fonden continued its work on integrating human rights into the fund management organisation. The Fund leads proactive dialogues with nine companies and, in collaboration with other investors, its engagement has been broadened to include more sectors. Andra AP-fonden has also participated actively in sustainability forums and roundtable discussions on human rights, and has submitted opinions to the OECD and UN Global Compact, among others.

Integration

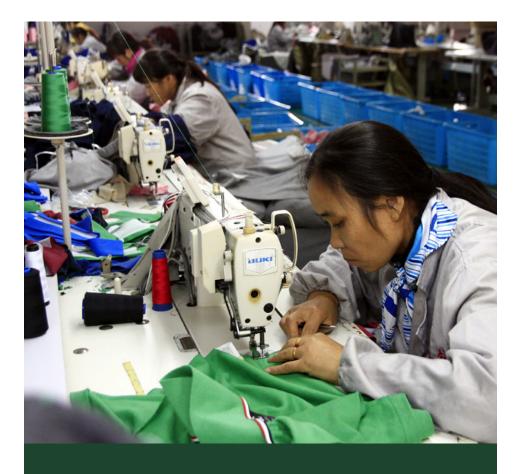
AP2 has been working actively for several years to implement the Fund's long-term human rights goals. In AP2's activities, the Fund has identified the greatest risk of human rights violations in its role as a global investor. The Fund has therefore developed systems that use external data to identify which of the Fund's listed holdings that to entail the greatest risk of human rights violations, based on both geographical exposure and exposure to certain industries. Based on this analysis, the Fund has focused on companies in the textile and mining sectors operating in China.

In 2023, AP2 started work on systematically identifying and categorising the risks concerning human rights within unlisted assets, as a next step in the process of managing risks related to human

rights within all of the Fund's asset classes. These include unlisted equities and credits, insurance-related securities, timberland and farmland real estate, traditional real estate and sustainable infrastructure. As a first step, the investment processes within the various asset classes have been evaluated to increase understanding of how improvements can be implemented, but also when in the investment process there is the greatest opportunity to have a positive impact.

Based on an analysis of potentially salient risks, the initial focus of the ongoing work is on the asset class unlisted equities. Within the asset class, there is both geographic exposure and exposure to industries that, based on external data, mean an increased risk of violations. Examples include investments in or with strong links to China, as well as investments in industries such as textiles, agricultural products and renewable energy. Since operations are managed via external managers, AP2 has analysed their policies and guidelines. The Fund has also updated due diligence processes for new managers and conducts ongoing evaluation of existing managers in order to assess their management of human rights.

During the year, an analysis was made of the portfolio of unlisted equities, mapping the managers at greatest risk of violating human rights through their portfolio companies. As a first step, a selection of managers were contacted with in-depth questions about internal processes and a requested description of how human rights are safeguarded in the portfolio companies.



Long-term goals

- AP2 must continue to implement the UN Guiding Principles, and as from and including 2025, the Fund's activities must be conducted in line with these principles.
- The human rights perspective must permeate every aspect of AP2's activities in 2030.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human rights

Diversity, equity and inclusion

Corporate governance

Investing in solutions

In the Fund's primary work as asset manager, positive effects on human rights can be achieved through investments in social bonds, among other things. Such bonds are issued by governments or companies, where the loans are ear-

marked for projects that have a clear link to promoting social sustainability. AP2 has invested in a social bond issued by the World Bank, with the aim of strengthening the social security network in Angola. The projects financed by the bond are estimated to cover around 5 million people in the

country. In addition to empowering vulnerable individuals and promoting schooling for girls, the project also helps the Angolan economy move away from an economic model based on income from fossil fuels.

Engagement and collaboration

In accordance with AP2's due diligence process for listed equities and credits (see the graph below), the Fund engages in proactive dialogues with companies in order to manage the risk of human rights violations. The dialogues are conducted with companies identified with a potential salient risk to people in the Fund's review of listed assets, which is carried out twice a year. See the box on the left.

The purpose of the review is to understand which companies in the Fund's portfolio have a salient serious risk of human rights violations and how these companies manage the risks. Based on

previous reviews, the focus of the Fund's engagement during the year was on companies in the textile and mining sectors and with geographical exposure to China. The aim of the engagement is to prevent and counteract human rights violations and to strengthen companies' understanding of and respect for this issue. This can take place through independent dialogue, investor collaboration and/or voting. In total, AP2 led dialogues with nine companies in 2023, four of which took place independently and five within collaborations with other investors.

The dialogues that AP2 leads, on its own or together with others, have different characteristics depending on the companies' openness and willingness to engage in dialogue and how far they have come in their work with human rights. One of the companies demonstrates a good willingness to cooperate and handles human rights issues in a way that generally meets the Fund's

Dialogue

Dialogue always begins with a preparatory analysis of the company's externally communicated reports, policies and governing documents. The purpose is to evaluate whether the company has undertaken to manage human rights issues in its activities, and how this undertaking is implemented, for example by identifying risks, control measures, policies and audits. It is also noted whether the company uses relevant key figures to highlight the problems.

The issues are then raised in the dialogue with the company, where AP2 also communicates its expectations of the company, which are based on the Fund's human rights policy, the UN Guiding Principles on Business and Human Rights, and the ILO's Core Conventions.

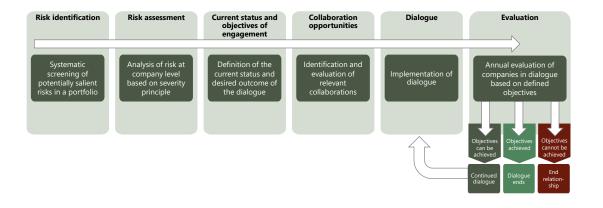
In the dialogue, the company's development is followed up over time, based on these expectations. In addition to the company being expected to have a policy, management systems and key performance indicators in place, AP2 also wants to see how the company assesses its achievement of targets, for example via external audits. The company and its suppliers are also expected to provide an

accessible and anonymous whistleblower function, and to ensure compensation to victims in the event of confirmed incidents in caused by their activities.

The dialogues take place in a spirit of cooperation and mutual learning. Some companies have made significant progress in their work, while others have just begun their journey, but the important aspect is that the company is working on the issues, and that the development is positive and credible. This makes each dialogue unique and the need for support from AP2 can take very different forms

If a company is assessed as being at high risk of human rights violations and inadequate management thereof, and if the company is not willing to engage in dialogue, AP2 can step up its advocacy work. This can be done, for example, by the Fund addressing the company's board of directors directly, seeking support from other investors or using its vote at the company's AGM. If all paths to impact are considered exhausted without any result, the Fund may choose to divest the company.

PROCESS FOR POTENTIAL RISKS



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human rights

Diversity, equity and inclusion

Corporate governance

The companies that show adequate processes and positive results are used as examples of best practice in dialogues with companies that have made less progress.

expectations. Five companies are open to dialogue and recognise human rights as important, but need to develop processes and control systems, which will be followed up during the course of the dialogues. Three of the companies are less open to dialogue and AP2 will consider appropriate steps and possible escalation. The dialogues have revealed great differences in how these companies handle the issues, even if they operate in the same industries and geographical areas. The companies that show adequate processes and positive results are used as examples of best practice in dialogues with companies that have made less progress.

As human rights issues are both complex and global, the Fund considers it important to collaborate with other investors and stakeholder organisations. Together with other investors, there are also enhanced opportunities to achieve change. AP2 can learn from others, but also share its own experiences and processes with other investors. The Fund has identified three investor partnerships that complement and strengthen the work in the prioritised areas.

 Within the framework of Platform Living Wage Financials (PLWF), AP2 collaborates with investors on the issue of living wages in the textile sector. Fifty companies are covered by the initiative, which includes an annual evaluation of the companies. The Fund leads the dialogue with two of these companies. The 2023 Annual Report shows that the majority of the companies have policies and governing documents in

- place to ensure living wages in their value chains, and that half of the companies developed positively during the year. One challenge is that data on actual development towards closing the gap between minimum wage and living wage remains scarce. Read more on PLWF's webbsite.
- With an extra focus on China's treatment of Uyghurs in the Xinjiang region, AP2 is working with the Investor Alliance for Human Rights. Cooperation is an important part of the Fund's information gathering on this issue. In 2023, more companies in the partnership opened up for dialogue with investors. The US import ban on goods from Xinjiang and the due diligence legislation in Germany and Norway, and the upcoming CSDDD (Corporate Sustainability Due Diligence Directive) within the EU, are considered to have had a positive impact on the willingness of companies in the region to cooperate.
- AP2 engaged more actively in the collaboration with PRI Advance during the year.
 The aim is to broaden the Fund's knowledge of, and to participate in dialogues with, companies with Chinese suppliers in industries at enhanced risk of human rights violations.
- During the year, AP2 submitted opinions to international organisations on issues relating to human rights, including the UN Global Compact on the formulations in its Forward Faster initiative on living wages,

- and to the OECD. The Fund has also participated in a number of roundtable discussions with other institutional investors, companies and international organisations, including on topics such as living wages and companies' supply chain transparency.
- The Council on Ethics has child labour and forced labour as one of its focus areas. This complements AP2's work on living wages, as these issues are strongly linked to each other. In 2021, the Council on Ethics launched a three-year proactive project focusing on forced labour, in which dialogues are conducted with companies in the construction and garment industries. The aim is for the companies to, for example, implement processes to be able to identify and manage various forms of forced labour in their supply chains.

Transparency

So far, AP2 has published three independent human rights reports that are drawn up in accordance with the UN Guiding Principles' Reporting Framework (UNGP Reporting Framework). These reports give a more detailed description of the Fund's work on human rights. AP2 intends to publish a report biannually. The report for 2023 is available on the Fund's website.



CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human rights

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Long-term goals

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

The Fund's point of departure is that companies that work on diversity, equity and inclusion 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 in portfolio companies



By 2030, the Fund's listed holdings must on average have at least 40 per cent of each gender on the board.

Outcome 2023

The average percentage of female board members is higher for the Fund's Swedish holdings than for the foreign holdings.

Diversity, equity and inclusion

During the year, Andra AP-fonden continued to contribute to positive development within diversity, equity and inclusion through, among other things, dialogues with companies concerning selection processes for boards and management groups. The Fund's Index of Female Representation for 2023 shows that the proportion of female board members in companies listed on Nasdaq Stockholm continues to increase and now amounts to 36.1 per cent. This is the highest level measured since the survey started.

Increasing the proportion of women on boards and executive management teams was one of the first governance issues addressed by the Fund. Since then, diversity work at AP2 has evolved to include the entire business. Diversity, equity and inclusion are integrated into the fund management, both in the investment process and through voting and dialogue.

Integration

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 gender 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. This is 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 already 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.

Investing in solutions

To increase access to capital for female entrepreneurs and to promote lending in emerging countries, in 2015 AP2 invested USD 30 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. WEDF was discontinued as planned in 2023. With this investment, AP2 could contribute to economic growth in emerging markets, with a focus on sustainability and female entrepreneurship. Approximately 80,000 female small business owners gained access to capital through WEDF. Women in emerging countries are an under-utilised resource. This investment in small and medium-sized enterprises that are owned by women CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human righ

Diversity, equity and inclusion

Corporate governance

could therefore help stimulate growth. The initiative also enabled the Fund to develop skills in the area of diversity.

Diversity in private equity

Diversity is a priority issue when AP2 invests in private equity funds. In the Fund's model for analysis and evaluation of private equity companies' sustainability work, it 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.

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 in 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.

Engagement

Index of Female Representation

Since 2003, the Fund has conducted an annual study – the Index of Female Representation – to measure the proportion of women at middle-management level, in executive management teams, and on boards of companies listed on Nasdaq Stockholm. With its Female Representation Index, 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 good leadership, teams become more innovative and creative. This, in turn, produces prosperous and successful compa-

nies. Information from the Index of Female Representation is used in the Fund's corporate governance practices and is followed up at the AGMs attended by the Fund in the course of the year.

Read the full report on the <u>Index of Female Representation</u> on the Fund's external website.

Internal work

AP2 sees strength in diversity and in an inclusive approach, and wishes to be an attractive employer for anyone with the right expertise, irrespective of age, ethnic background or gender. Read more on the Fund's website.

Collaboration

AP2 works continuously with other investors to drive the issues of diversity, equity and inclusion. This takes place through the member organisations in which the Fund participates, such as PRI and ACGA (Asian Corporate Governance Association), but also through other initiatives that the Fund chooses to run and/or support. 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.

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

Transparency

The Fund reports its work on diversity, equity and inclusion in the Fund's annual report and sustainability reports, and on the Fund's external website. AP2 also discloses its position transparently in the Fund's Corporate Governance Policy and Voting Guidelines, which clearly state the Fund's position and how AP2 intends to vote on various issues relating to diversity, equity and inclusion.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversi

Human riahts

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Corporate governance – responsible ownership

During the year, Andra AP-fonden's corporate governance work focused on such issues as feedback to the companies after the AGM season. For the Swedish companies, their incentive schemes have been central issues in the dialogues, while the approach for the foreign companies has been broader and covered several issues within the corporate governance framework.

The overall objective of the Fund's focus on corporate governance is to create value by increasing AP2's return in the long term and reducing financial risk. The starting point is that well-managed companies have greater opportunities to generate profits and avoid risks. Therefore it is considered both important and profitable in the long term to seek to influence the companies in the direction that the Fund considers to be most successful.

Integration

For several years, AP2's corporate governance work has been integrated into the management processes for the various asset classes, based on ten overarching corporate governance principles. The principles concern areas where the Fund considers it important to take a position and are based on the assessment that the greatest risks from a corporate governance perspective concern a com-

pany's shareholder protection and its effective governance. Read more about the corporate governance principles in the Fund's Voting Guidelines.

Swedish companies

The Swedish equity group's fundamental management approach both requires and enables close dialogue with portfolio companies – a dialogue that continuously includes various corporate governance issues. The Group is also involved in voting at Swedish AGMs and as the Fund's representative on nomination committees.

Foreign companies

The quantitative management of the Fund's foreign equities is based on internally-developed multi-factor indices, which include factors aimed at the corporate governance perspective. In this way, AP2's view of the importance of good corporate governance is already integrated in the portfolio structure. The same corporate governance factors are the basis for both identification and follow-up of global companies assessed to have significant potential for improvement. In this way it is ensured that the Fund has a consistent common view of which factors affect a company's value and development within the corporate governance framework.

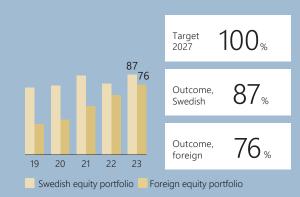
An upgrade of the factors in the multi-factor indices was completed in 2023. Selected corporate governance factors relate primarily to board structure, board composition, auditing and ethical issues.

Long-term goals and outcomes

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

- Voted in 87 per cent of the Swedish equity portfolio and 76 per cent of the portfolio of foreign equities.
- Initiated dialogue with selected foreign companies after voting against the board's recommendation at the AGM.
- Contacted selected Swedish companies whose incentive schemes are not in line with the Fund's Voting Guidelines.
- Had 103 dialogues with both Swedish and foreign companies concerning issues directly related to corporate governance, including incentive schemes and board composition.

Voting in equity portfolios



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

Outcome 2023

The proportion where AP2 voted has increased in recent years in both the Swedish and the foreign equity portfolio and this year is the highest proportion so far.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human righ

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

Unlisted holdings

AP2's portfolio managers of unlisted equities are in close dialogue with the investment teams and the boards of the directly-owned companies, and this dialogue also includes corporate governance-related issues. Before investing in unlisted assets, the Fund conducts a due diligence analysis of the managers, where these issues are included. Follow-up and reporting of any deficiencies then takes place within the framework of a defined follow-up process.

Engagement work

From assignment to target monitoring

The Fund's corporate governance work is based on its overall mission, with a clear requirement for responsible ownership. 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. For AP2, this means that the work in practice revolves around ten established corporate governance principles, which are presented in the chart on the next page.

Most of the corporate governance work takes place through engagement, primarily via voting and dialogue, but also by promoting the development of good corporate governance.

Annual goals are set for corporate governance work, with the aim of contributing 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. Read more under Impact through dialogue on the pages 44-46.

Impact through voting

Voting in Swedish companies

The Fund holds shares in approximately 160 Swedish listed companies and the long-term goal is to vote at all of these companies' AGMs. Overall in 2023, AP2 voted at 127 (121) General Meetings of Swedish listed companies. The market value of the Fund's holdings in these companies is equivalent to 87 (77) per cent of the Fund's total holdings in Swedish listed equities. The table on page 47 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

As shown in the table on page 47, the Fund voted in favour of the majority of the proposals of the boards and nomination committees. The areas in which the Fund voted against proposals mainly concerned proposed incentive schemes, which were not assessed to be in line with the Fund's view.

The Fund also voted against all shareholder proposals, as they were either assessed to be of an operational nature or proposed requirements for climate strategies in companies where the Fund assesses that productive climate strategy work is already in progress.



AGMs of Swedbank and SEB

At the 2023 AGMs of Swedbank and SEB, Greenpeace Nordic and the Swedish Society for Nature Conservation presented shareholder proposals for a revision of the banks' overall strategies, to ensure that these are fully in line with the Paris Agreement. Swedbank and SEB have both endorsed the Net Zero Banking Alliance and are thereby committed to adapting their credit portfolios to a net zero commitment

by 2050 at the latest. AP2's assessment is therefore that both banks have a strategy, adopted by the respective boards, that is in line with the Paris Agreement. The Fund has consequently not supported the two shareholder proposals, but will continuously evaluate how the banks are working in line with established strategies. **CEO's review**

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human right

Diversity, equity and inclusion

Corporate governance

AP2's view of incentive schemes in Swedish companies

A starting point for the Fund's assessment of a company's incentive scheme is that the scheme contains clear and monitorable performance requirements, based on the company's long-term strategy. As expressed in the statement by the Institutional Owners' Association (IÄF) during

autumn 2022, these performance requirements should also reflect sustainability issues that are significant to the company's long-term financial development.

In 2023, AP2 initiated a dialogue with several Swedish companies regarding both financial and sustainability-related performance requirements in order to emphasise the importance of

designing incentive schemes that reflect the company's important strategic challenges and goals. See also the Impact through dialogue section.

Another starting point for the Fund's view of incentive schemes is that subsidies in any form, such as matching shares or subsidised premiums for option schemes, are generally not supported.

AP2 on nomination committees

AP2 takes a positive view of being represented on nomination committees in Swedish companies and has a policy of accepting all requests for nomination committee assignments. Since the nomination committees usually comprise the three to five largest shareholders in a company, the nomination committee duties vary

AP2's corporate governance How does AP2 work with What is measured in Why corporate What is AP2 focusing on? governance? terms of results? corporate governance? Mission/risk Corporate gover-**Fulfilment of Corporate gover**nance policy nance strategy objectives AP2's mission is to limit Capital structure the effects that the auto-AP2's corporate gover-Voting in Swedish and Outcome-related 2. Company structure matic balancing mechanance policy is based on foreign companies. objectives (measur-3. Right to vote **Shareholder** nism has on the pensions. the mission. able effects). 4. Role of the auditor protection Dialogue with compa-5. Information and disclosure of The total risk level should Corporate governance nies. Process-related objecinformation be low. The fund assets practices must focus pritives (development of 6. Sustainability shall be invested, at the marily on companies and Contribute to the develinternal processes). chosen risk level, so that areas where the Fund has opment of good corpohigh returns are achieved the greatest potential to rate governance. influence and do most in the long term. good. 7. Risk management and risk culture The mission includes a 8. Board and nomination committee **Effective** requirement for exemp-Ten corporate governance 9. Management and management lary management through, principles based on a governance remuneration among other things, company's shareholder 10. Corporate culture and business responsible ownership. protection and effective governance provide the framework for these practices.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversi

Human righ

Diversity, equity and inclusion

Corporate governance

according to the Fund's holdings in the companies.

- For the 2023 AGM season, AP2 was represented on the nomination committees of IAR Systems as chair, and of Better Collective, Biovica, Coor Service Management, Episurf, Genovis, Kambi, Loomis, LumenRadio, Netel, Swedbank and Trelleborg.
- Prior to the 2024 AGM season, AP2 is represented on the nomination committees of Alcadon, Arise Windpower, Better Collective, Catena Media, Coor Service Management, Ferroamp, IAR Systems, Kambi, LumenRadio, Plejd and Promimic.

Diversity in Swedish boards of directors

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. At AGMs, the Fund for example votes against proposed boards with no female members. The table below 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.

The Swedish Corporate Governance Code has expressed a level of ambition for gender diversity on the boards of listed companies. 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 50 (47) per cent of the companies at whose AGMs AP2 voted this year.

AREAS IN WHICH AP2 HAS HAD DIALOGUES WITH COMPANIES AND/OR VOTED NO TO PROPOSALS

Area		Company dialogues in connection with AGMs, number	Companies where AP2 voted no to the proposal
Incentive scheme	Matching shares/options	6	Atlas Copco, Eolus, Epiroc, Investor, Vitec Software, Xbrane Biopharma, Xspray Pharma.
	Other form of subsidy	8	Addlife, Addtech, Bufab, i-Tech, NP3, Nyfosa, Profoto, Surgical Science Sweden, Thule.
	Performance requirements not in line with AP2's Voting Guidelines	6	Calliditas, Camurus, Cantargia, Hexagon, Vicore Pharma, Xvivo Perfusion.
	Target group board	1	Calliditas
	Programme design, general	8	
Guidelines for remunera- tion to senior executives	Ceiling for remuneration elements	1	
	Remuneration report	2	
	Pension	1	
Board	Composition	3	
Shareholder proposals	Proposals of an operational nature		SEB, Svenska Handels- banken, Swedbank.
	Climate strategy	2	SEB, Swedbank.
	Board composition, perfor- mance-based board remuner- ation		Intervacc, Elekta.
	Various shares classes		Elekta
Other corporate gover- nance issues		3	

The Fund reports the names of the companies in which the dialogue resulted in voting against proposals.



From AP2's Voting Guidelines

The remuneration structure of a company must steer towards set goals and strategies, while also ensuring that the company can attract and retain the right expertise The balance between economic, environmental and social values is an important prerequisite for long-term value added. Sustainability issues that are significant to the company's long-term financial development must therefore be reflected in the remuneration programme.

CEO's review
Mission, vision, goal and strategy

Integration and influence

Sustainability in the investment process

Focus areas

Governance

Climate

Biodiversit

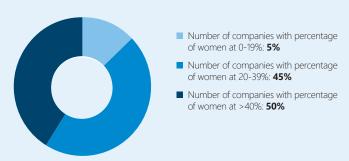
Human riaht:

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues

PERCENTAGE OF FEMALE BOARD MEMBERS IN SWEDISH COMPANIES WHERE AP2 VOTED IN 2023



NOMINATION COMMITTEES IN WHICH AP2 HAS PARTICIPATED BEFORE THE 2023 ANNUAL GENERAL MEETINGS

Company	Proportion of women on the board, %	Number of newly elected women	Total change compared to previous year
Better Collective	43	1	1
Biovica	43	0	0
Coor Service Management	67	0	0
Episurf	40	0	0
Genovis	20	0	0
IAR Systems	40	0	0
Kambi	40	0	0
Loomis	43	0	0
LumenRadio	33	1	1
Netel	43	0	0
Swedbank	45	0	0
Trelleborg	43	0	0
A total of twelve nomination committees	42	2	2

The Fund's Index of Female Representation for 2023 shows that the proportion of female board members in companies listed on Nasdaq Stockholm continues to increase and now amounts to 36.1 per cent, which is the highest level measured since the survey started. Read more about the Index of Female Representation on the Fund's website.

In-person meetings should also be offered in the future

In view of the new Swedish law that came into force on 1 January 2024 regarding the possibility of holding digital AGMs of shareholders and associations, in 2023 the Fund specified its view in the Voting Guidelines. AP2 believes that an AGM should always be held in person, regardless of whether the company simultaneously holds the meeting digitally or not.

Voting in foreign companies

Concerning foreign markets, in 2023 AP2 voted in companies in 44 (42) countries, mainly in the USA, India, China and Japan. It is primarily the Fund's multi-factor indices for both developed countries and emerging countries that constitute the selection criterion for which companies the Fund votes in. 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 AGM.

In recent years, the Fund has gradually increased its voting in foreign companies and aims to vote in all holdings by 2027 at the latest. During the year, the Fund voted at 1,401 (1,261) General Meetings of companies in foreign markets. This is equivalent to 76 (65) per cent of the Fund's foreign equity portfolio expressed in market value terms. Each month, AP2 publishes a detailed report on how the Fund has voted in the foreign companies. As from

2024, publication of how the Fund intends to vote in foreign companies will take place before the AGM date. Read more on the Fund's website.

Proposals and areas where AP2 voted against

The majority of board proposals in foreign companies deal with issues related to the election of board members and committees, and the wording of articles of association. These are the areas where AP2 has voted against proposals, as shown in the table on page 47. The main reasons are:

- · Lack of diversity in the board of directors.
- · Assessed low degree of independence.
- Incentive schemes with a large estimated time-based, rather than perfomance-based, share.

Furthermore, the US corporate governance model differs from the Swedish model in terms of segregation of roles. AP2 advocates the Swedish demarcation of responsibilities, where the roles of CEO and chair of the board are held by different persons, and therefore votes against proposals whereby these two roles are held by the same person.

Shareholder proposals continue to increase

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, continued to increase in 2023. See the table on page 47. This is an effect of the growing number of climate- and human rights-related proposals that are presented by shareholders at global AGMs in general, but above all at North American AGMs. These are issues that AP2 monitors and focuses on in its corporate governance work, and the Fund supports shareholder initiatives where this is deemed effective and appropriate.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversi

Human right

Diversity, equity and inclusion

Corporate governance

Some examples of shareholder proposals that AP2 supported during the year:

Human rights

- Review of third party concerning risks associated with the use of recognition technology.
- Reporting of impact assessment of targeted advertising.
- Freedom of association and collective bargaining policy.
- Reporting of third party concerning human rights compliance in supply chains.

Climate

- Reporting on the companies' climate lobbying activities.
- Reporting on greenhouse gas emission reduction targets in line with the Paris Agreement.

Governance

Requirements for an independent board member or chair.

Impact through dialogue

Swedish companies

During the Swedish AGM season, AP2 was active both prior to and at AGMs and submitted its views in accordance with the Fund's Corporate Governance Policy and Voting Guidelines. See the table of conducted dialogues on page 42. As in previous years, most of these dialogues revolved around proposed incentive schemes, where the focus continued to be on influencing the proposed schemes in the required direction. See also AP2's view of incentive schemes in Swedish companies on page 41.

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

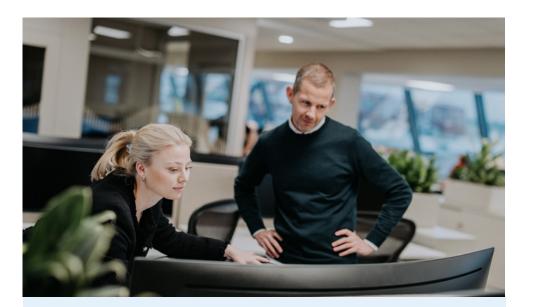
After the AGM season, AP2 has contacted the chair of the board and/or the chair of the remuneration committee in more than 40 Swedish companies for which the Fund has either repeatedly voted against the proposed incentive schemes and/or seen a need for significant sustainability issues to be more clearly reflected in the schemes.

In several cases, the response from companies has resulted in dialogue that has given AP2 the opportunity to clarify its position, which has also increased both parties' understanding of the challenges that exist. Formulating goals for sustainability work and including these in long-term remuneration are in many cases challenging, but necessary to highlight the importance of companies accepting their responsibility for sustainable future operations.

The issue remains a central aspect of dialogues with both companies and other investors and will be followed up during the 2024 AGM season.

The Swedish Institutional Owners' Association

The Institutional Owners' Association (IÄF), of which AP2 is a member, communicated its views on sustainability in remuneration schemes in autumn 2022. Sustainability issues that are significant to a company's long-term financial development must be reflected in the remuneration scheme, and it is the board's responsibility to design and describe to the owners how the overall remuneration scheme contributes to the company's business model, strategic direction and set goals.



AREAS WHERE AP2, DIRECTLY OR INDIRECTLY THROUGH COLLABORATIONS, HAS ENGAGED IN SUSTAINABILITY ISSUES DURING 2023



The darkness of the colours reflects the number of dialogues with companies in each country. Marked countries do not always imply that AP2 owns companies in the country in question. The map also reflects areas covered by global sustainability initiatives in which AP2 is involved.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversi

Human righ

Diversity, equity and inclusion

Corporate governance

Management of sustainability issues



CEO's review
Mission, vision, goal and strategy
Governance
Integration and influence
Sustainability in the investment process

Focus areas

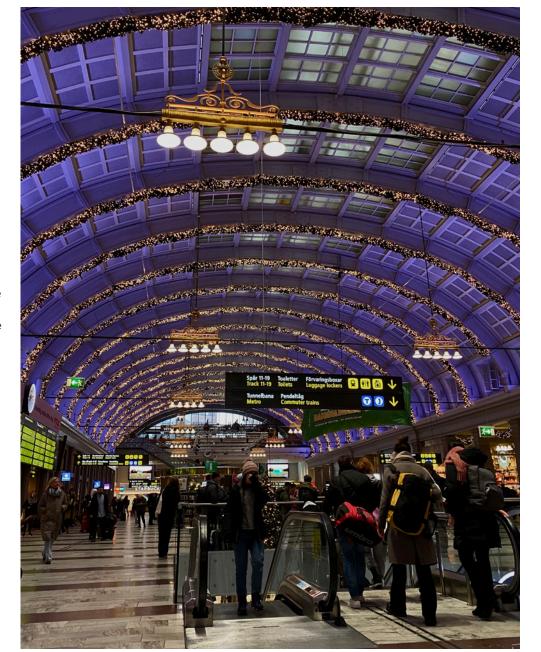
Cumate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance



Unlisted holdings

Within private equity investments, AP2, together with other investors, has been working for several years on the development of transparency and digitalisation of reporting. In 2023, the Fund, together with a private equity fund, participated in an initial test of a developed taxonomy that could potentially facilitate this process.

Collaboration

In the role of institutional global owner with investments in a number of different asset classes, it is of the utmost importance that the work on corporate governance issues takes place as effectively as possible. Focus on the most pressing issues for the Fund and collaboration with different stakeholders are therefore central to the success of the work.

It is important to collaborate with other investors in order to achieve a successful dialogue with companies and also to promote responsible investment. AP2 also endeavours to contribute to good corporate governance by cooperating with other owners on matters of principle and by supporting actively to the development of policies, regulations and standards.

In addition to the collaboration between the AP Funds on 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.

Membership of the Asian Corporate Governance Association (ACGA) provides an insight into and an opportunity to influence the corporate governance of Asian, primarily Japanese and Korean, companies. For the Swedish market, membership of the Institutional Owners' Association (IÄF) enables active participation in discussions to promote good development of self-regulation in Sweden, together with 17 other members.

Read more about AP2's collaboration on the Fund's website.

Transparency

AP2's ambition is to be as transparent as possible, which applies to reporting the work on corporate governance issues, following up on set goals and the dialogue work undertaken by the Fund. In 2023, AP2 implemented system support for dialogue and engagement, which facilitates a structured process for implementation, follow-up and reporting.

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human righ

Diversity, equity and inclusion

Corporate governance

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 GENERAL MEETINGS IN 2019-2023

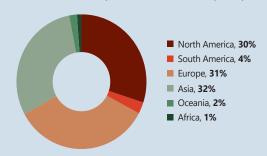
	2023	2022	2021	2020	2019
Voting at general meetings (annual and extraordinary) in Sweden, number	127	121	134	110	85
 equivalent to the percentage of the number of companies in the Swedish listed portfolio 	72	60	60	52	44
– equivalent to the percentage of the Fund's total holdings in Swedish listed equities (market value)	87	77	86	75	73
Voting at foreign general meetings (annual and extraordinary), number	1 401	1 261	1 092	1 006	865
– equivalent to the percentage of the number of companies in the foreign listed portfolio	67	52	52	44	37
 equivalent to the percentage of the Fund's total holdings in foreign listed equities (market value) 	76	65	53	38	33

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	332	332	-	2	-	2	
Incentive schemes	191	169	22	-	-	-	
Adoption of financial statements, appointment of auditors, etc.	438	438	-	-	-	-	
Takeover defence	-	-	-	-	-	-	
Capital structure, organisation, acquisition	174	174	-	-	-	-	
Environment and health	-	-	-	2	-	2	
Corporate governance	193	193	-	9	-	9	
Social and human rights	-	-	-	3	-	3	
Total	1 328	1 306	22	16	0	16	

VOTING BY REGION, INCLUDING SWEDEN, 2023, %



NOMINATION COMMITTEES

	2023	2022	2021
Swedish nomination committees on which AP2 has served, number	12	9	8
Proportion of women on Swedish company boards on whose nomination committees AP2 has served, %	42	39	34
Proportion of newly elected women on Swedish company boards on whose nomination committees AP2 has served, %	40	71	67

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	9 092	7 135	1 957	127	102	25	
Incentive schemes	2 375	1 656	719	43	27	16	
Adoption of financial statements, appointment of auditors, etc.	2 790	2 270	520	40	30	10	
Takeover defence	88	42	46	-	-	-	
Capital structure, organisation, acquisition	1 541	1 102	439	5	4	1	
Environment and health	9	7	2	65	54	11	
Corporate governance	373	344	29	53	30	23	
Social and human rights	53	53	-	208	160	48	
Total	16 321	12 609	3 712	541	407	134	

CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversit

Human riah

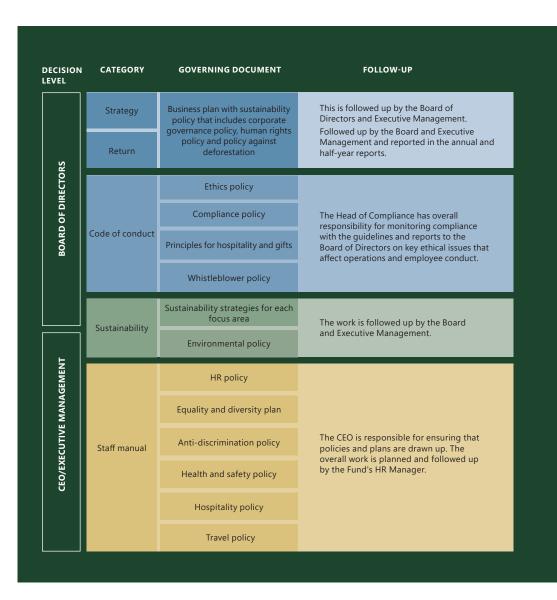
Human rights

Diversity, equity and inclus

Corporate governance

Management of sustainability issues

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





CEO's review

Mission, vision, goal and strategy

Governance

Integration and influence

Sustainability in the investment process

Focus areas

Climate

Biodiversity

Human rights

Diversity, equity and inclusion

Corporate governance

