

AP2

Andra
AP-fonden

Sustainability Policy



Sustainability Policy

Adopted by the Board of Directors of Andra AP-fonden in December 2023.

Introduction

Purpose and background

This Sustainability Policy sets the overall framework for Andra AP-fonden's work on sustainability issues and includes relevant policies for the Fund's sustainability focus areas. The Sustainability Policy is included in the Fund's Operating Plan.

Mission and vision

The mission and goal of the First, Second, Third and Fourth AP Funds (the AP Funds) is to manage fund capital to generate the greatest possible benefit for the national pension system. The total risk level must be low. At the chosen risk level, fund assets should be invested so as to secure a high long-term return. According to the Swedish National Pension Insurance Funds Act, the AP Funds' asset management must be conducted in an exemplary manner through responsible investments and responsible governance. In its investment management, special importance must be attached to the promotion of sustainable development without sacrificing the overall goals for return and risk. The AP Funds can collaborate in the achievement of sustainability goals.

Andra AP-fonden's vision is "Leading pension manager in a changing world". In order to achieve this vision, it is a prerequisite that sustainability is integrated into all analysis and investment processes. By actively promoting and incorporating sustainability in Andra AP-fonden's business, value can be created and safeguarded, and sustainable development facilitated. Sustainability includes the environment, ethics, social issues and corporate governance. Systematic and exemplary sustainability work is also one of the key factors in retaining and recruiting employees.

Andra AP-fonden is responsible for both the management and the governance of the capital assets that the Fund has received and works actively with sustainability from both perspectives – responsible investments and responsible ownership.

The Sustainability Policy is also based on the Swedish state's core values and positions, as well as the AP Funds' shared core values. Andra AP-fonden's work is guided by the UN's international conventions signed by Sweden, the ILO's core conventions, the UN's Guiding Principles on Business and Human Rights and the ten principles of the UN Global Compact.

Andra AP-fonden supports and actively promotes implementation of the UN's Principles for Responsible Investment (PRI).

Andra AP-fonden's definition of sustainability

The sustainability work implemented by Andra AP-fonden derives from its mission and involves acting over the long term to preserve and add value to its invested assets – based on an economic, environmental and social perspective.

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

Sustainability work is conducted according to the principle of double materiality. In other words, consideration is given to how both the Fund and the value of the investments are affected by sustainability-related risks and opportunities, and to how the Fund, through its holdings, has an impact on people and the environment.

Method

Andra AP-fonden'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.

Integration

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

Sustainability is integrated into the investment process, which is a prerequisite for responsible investments. Andra AP-fonden's investment beliefs include one sustainability-related belief (Sustainability pays off), emphasising the Fund's view that integrating sustainability in investments adds value.

This means that the entire organisation is expected to take sustainability factors into account in investment decisions and asset management. This may entail setting specific sustainability requirements for investments, certain investments being directed specifically at areas that offer solutions to sustainability challenges, but also the Fund choosing not to invest due to risks associated with sustainability.

Sustainability is also integrated into internal processes and is taken into account in the Fund's internal decision-making processes.

Integrating sustainability involves the entire organisation in the sustainability work. This requires ongoing competence development of employees within sustainability, both in general and specifically within the areas that are relevant for each role.

Materiality

Andra AP-fonden focuses its work on the issues that are most important and where the Fund can make the most difference.

Sustainability is a very extensive area, which means that the Fund must prioritise its sustainability work and resources in the areas and issues with greatest materiality, based on the principle of double materiality, where consideration is given to both the financial impact on the Fund's assets and the impact of the assets on people and the environment.

This means, for example, that the Fund identifies a limited number of focus areas for its work, and that work in these areas must also be prioritised.

Analysis

Sustainability work is based on thorough, fact-based analysis concerning both investments and ownership.

Sustainability work is based on sound analysis with a scientific approach. Risks and opportunities are analysed concerning both investments and ownership, and the conclusions can form the basis for investment decisions, risk management and the exploitation of opportunities. Continuous business intelligence and analysis also identify opportunities for the further development of sustainability work.

This means that the Fund has processes for analysis and due diligence concerning sustainability factors prior to investment. As an element of responsible ownership, the portfolio is analysed and regularly reviewed with regard to various sustainability issues and impact risks, and methods and tools for this analysis are continuously developed. The overall scientific assessment of an issue serves as a basis for the analysis.

Engagement

Andra AP-fonden influences companies to fulfil the Fund's expectations concerning sustainability issues.

Andra AP-fonden seeks to be responsible owners and, within this framework, engages actively in engagement work. This includes voting, work on nomination committees, public positions and dialogue with companies, both reactively in the event of controversies and proactively on any risk of negative impacts, or if the company's sustainability work needs to be improved.

This means that the Fund always seeks dialogue in the first instance – Exclusion is seen as a last resort if the dialogue is not deemed to lead to any result.

Collaboration

The Fund can achieve more through collaboration, both internally and with other investors.

In collaboration with other investors in particular, Andra AP-fonden can achieve better results in its sustainability work, through economies of scale, learning from others, having a greater impact on companies with greater joint ownership, and a stronger impact on joint positions and commitments.

This entails that the Fund identifies and participates in investor collaboration within its focus issues. Collaboration between AP1-4 within the Council on Ethics is an important platform for achieving more in the AP Funds' dialogues with companies outside Sweden.

Transparency

Andra AP-fonden practices what it preaches and build trust through transparency.

Andra AP-fonden seeks transparency and reports in detail on its sustainability work in accordance with accepted frameworks. The Fund believes that reporting and transparency are

important elements to achieve results in the sustainability area and make demands of portfolio companies in their reporting. It is therefore important for the Fund to set a good example. Another aspect of this principle is that the Fund seeks to contribute to development in the area of sustainability and to set a good example, which requires openness. This means that the Fund reports regularly on its work.

Focus areas

Andra AP-fonden 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 Andra AP-fonden 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.

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 the six parts of the method, with a defined long-term goal and/or commitment as a benchmark.

Andra AP-fonden's focus areas and the Fund's overall objectives within these are:

- Climate: AP2 shall have a portfolio with net zero emissions by 2045.
- Biodiversity: Andra AP-fonden will contribute to a net positive impact on nature by 2030 at the latest.
- Human rights: Andra AP-fonden must continue to implement the UN's Guiding Principles, and as from and including 2025, the Fund's activities must be conducted in line with these principles.
- Diversity, equity and inclusion: On average, the Fund's listed holdings must have at least 40 per cent of each gender represented on the board by 2030. The Fund must have actively influenced the portfolio companies to have a strategy for diversity, equity and inclusion.
- Corporate governance: Active and responsible ownership through an increased number of dialogues with and voting in all of the Fund's listed shareholdings by 2027.

Organisation and distribution of responsibility

Andra AP-fonden's Board of Directors establishes the Sustainability Policy and has mandated the Fund's CEO to implement it. At each Board meeting, the Board receives information about the Fund's sustainability work. The Fund's Executive Management, together with the Strategy Department and the officers responsible for corporate governance, are responsible for the leading sustainability work. At each meeting, the Fund's Executive Management receives an update on the Fund's sustainability work.

Implementation of the policy

The Fund's Sustainability Policy is part of the Fund's Operating Plan, which is adopted by the Board of Directors. As the Fund's impact on people and the environment changes over time and the Fund's sustainability work develops, the policy will be updated. In order to implement this policy, the Fund will further develop existing procedures, guidelines and strategies. The Fund conducts ongoing internal training on sustainability and the focus areas, to ensure that all employees are familiar with the policy and have the knowledge required to be able to follow it in their day-to-day work. The policy is available on the Fund's website.

Expectations of employees, suppliers and business partners

Andra AP-fonden expects all employees to be aware of this policy and to adhere to it in their work. The Fund's Executive Management has a particular responsibility to ensure that employees have received and are familiar with the information in this policy. Andra AP-fonden also expects its suppliers, business partners and portfolio companies to live up to this policy.

Other governing documents

The Sustainability Policy sets the overall framework for the Fund's sustainability work. It is operationalised through the Fund's strategies and annual action plans for each focus area.

In addition to the Sustainability Policy, the Fund's sustainability work is governed by additional internal policies in the Fund's Operating Plan: Internal Environmental Policy, personnel-related policies (Discrimination Policy, Ethics Policy, Work Environment Policy, Equity and Diversity Plan), and by the Fund's core values.

Climate

The climate issue is particularly important to the Fund, in view of the extensive potential impact of climate change on the living conditions of future generations, and also on the Fund's return and achievement of its goals. This is also a very long-term issue that has prolonged and sometimes irreversible consequences. Furthermore, climate change is closely linked to many other areas of sustainability, particularly biodiversity and human rights.

Goals and commitments

Andra AP-fonden must achieve net zero greenhouse gas emissions by 2045.

The Fund's objective is for the entire portfolio to be in line with the Paris Agreement, i.e. to reduce the portfolio's greenhouse gas emissions at a rate that can limit global warming to 1.5°C. The Paris Agreement stipulates that net zero emissions must be achieved by 2050 at the latest. Since Sweden is committed to a steeper reduction, reaching net zero as early as 2045, it is assessed that this more ambitious target should also apply to Andra AP-fonden. The climate commitment is based on the current status of research according to the Intergovernmental Panel on Climate Change (IPCC), and is built on the IPCC's most ambitious scenario, which does not rely on carbon capture.

The Fund defines net zero emissions as the portfolio's greenhouse gas emissions falling to as close to zero as possible. Remaining emissions can be offset by equivalent, permanent eliminations of emissions through verified, owner-determined emission reductions.

The target relates to all seven greenhouse gases defined under the Kyoto Protocol, expressed as carbon equivalents (CO₂e).

Andra AP-fonden's greenhouse gas emissions must be reduced by 55 per cent by 2030.

Research shows that emission reductions need to start quickly, with an approximate halving every ten years, to limit global warming to 1.5°C. Since AP2 has set the target of achieving net zero by 2045, the Fund should also strive for a substantial reduction as early as 2030. The target represents a linear reduction from 2019 as the base year and is in line with the EU's "Fit for 55" target. The basis for this calculation will be revised several times in the coming years, as the Fund measures emissions for more asset classes, and includes Scope 3 in its reporting.

Andra AP-fonden's portfolio must be in line with the Paris Agreement by 2025.

This means that for each asset class there must be a credible and relevant plan for reducing the greenhouse gas emissions from the assets to net zero in accordance with the Paris Agreement.

Integration

On integration of the climate issue in the Fund's investment activities, climate risks and opportunities must be analysed within the framework of the investment process for all asset classes.

The Fund acts by:

- Investing in solutions: Targeted sustainability investments in areas that contribute to enabling the climate transition.
- Supporting the transition: Reduced emissions in the Fund's broad portfolio are achieved by taking climate-related criteria into account when investing, as well as through engagement work in companies and sectors with a great need for transition.
- Divesting from long-term fossil exposure – Divesting from exposure to companies and/or countries that are not deemed to contribute to the transition, with a high risk of reduced asset value.

Transparency

Andra AP-fonden reports in accordance with the Taskforce for Climate-related Financial Disclosures (TCFD). The Fund expects portfolio companies and external managers to be transparent and to report on their climate impact and risks, preferably in accordance with TCFD's guidelines.

Biodiversity

Biodiversity – diversity within species, and between species and ecosystems – is diminishing more rapidly than ever before in the history of humankind. The economic consequences of biodiversity loss are extensive – more than half of global GDP is estimated to be dependent on nature and its ecosystem services. There is also a strong and complex link between biodiversity and Andra AP-fonden's climate and human rights focus areas, which requires a systemic approach whereby all issues have weight in analyses and decisions.

Goals and commitments

Andra AP-fonden will contribute to a net positive impact on nature by 2030 at the latest.

The Fund supports a global goal for nature. Achieving net positive development by 2030 is essential to protect biodiversity and critical ecosystems, and thereby a future for humanity within our own planetary boundaries.

Given the complexity of the area and the lack of reported and comparable data, defining appropriate KPIs to achieve measurability of the target is a challenge. Possible key performance indicators will therefore be evaluated on an ongoing basis and targets will be set for each asset class, driving force for biodiversity loss and sector.

By 2025, Andra AP-fonden 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 target is in line with the commitment to a deforestation-free portfolio made by Andra AP-fonden in connection with COP26, and with the Fund's climate commitment to net zero greenhouse gas emissions by 2045.

Integration

Biodiversity risks and opportunities are analysed within the framework of the investment process for all asset classes. The Fund may act by:

- Investing in solutions: Targeted sustainability investments in areas that contribute to biodiversity.
- Identifying and managing risks of reduced biodiversity associated with the Fund's investments, including through engagement work in companies and sectors with a risk of major adverse impacts.
- Divesting selectively from exposure to companies and/or countries that are not deemed to contribute to positive net development, with a high risk of reduced asset value.

Transparency

Andra AP-fonden intends to report in accordance with the Taskforce for Nature-Related Financial Disclosures (TNFD). The Fund expects portfolio companies and external managers to be transparent and to report on impacts and risks associated with biodiversity, in accordance with the prevailing international framework (TNFD or equivalent).

The Fund publishes a separate policy to prevent deforestation and land conversion.

Human rights

Andra AP-fonden's core values are based on the values of the Swedish State and entail, among other things, that Andra AP-fonden undertakes to observe international conventions ratified by Sweden. Democracy, fundamental human rights, universal equality, and respect for the freedom and dignity of the individual are key elements of the Swedish Constitution, and characterise the fundamental values of the Fund. Human rights are universal and must apply to everyone, where the state has a responsibility to promote, protect and ensure the full and equal enjoyment of fundamental freedoms by all persons, and promote respect for their inherent dignity. These are principles which Andra AP-fonden seeks to respect and comply with in its activities.

Andra AP-fonden's Human Rights Policy is the Fund's main guiding document for its human rights work. Human rights are also addressed in the Fund's Ownership Policy, which describes Andra AP-fonden's expectations of its business activities and of the portfolio companies in which the Fund invests, as well as the managers of private equity funds and unlisted real estate companies used by the Fund. The Fund also has an equality and diversity plan.

Goals and commitments

Andra AP-fonden must continue to implement the UN's Guiding Principles, and as from and including 2025, the Fund's activities must be conducted in line with these principles.

A human rights perspective will permeate all parts of Andra AP-fonden's operations by 2030.

The ambition of Andra AP-fonden is to be a leading player among institutional investors in the area of human rights. Andra AP-fonden undertakes to respect internationally recognised human rights standards, which entails that the Fund, among other things, adheres to:

- The Universal Declaration of Human Rights
- The International Covenant on Economic, Social and Cultural Rights
- The International Covenant on Civil and Political Rights
- The ILO's Core Conventions.

Respect for human rights is a cornerstone of the company's work to achieve the UN's Sustainable Development Goals. This is why the work of the Fund and the companies on the UN Guiding Principles is also a key aspect. This means that Andra AP-fonden must seek to prevent human rights violations and to manage any adverse impacts associated with the Fund.

Integration

In accordance with the UN Guiding Principles, Andra AP-fonden seeks to work according to a Due Diligence process that includes the following:

- **Identification:** A separate risk assessment model based on human rights risks, and not on the Fund's activities, is applied.
- **Assessment:** On assessing the severity of the human rights risks identified, the Fund's objective is to take particular account of the scale, scope and possibility of remedying any adverse effects. Extra consideration must also be given to adverse impacts on particularly vulnerable groups.
- **Handling:** The Fund's most severe impacts must be prioritised and managed first. If the Fund causes or may cause an adverse human rights impact, the Fund must cease the infringement with immediate effect, or take the measures necessary to prevent any adverse impacts. If the Fund has contributed or may contribute to an adverse human rights impact, the Fund intends to contribute to terminating the impact or taking the measures necessary to prevent it from occurring. If an adverse impact is suspected to be directly linked to the Fund's activities through a business relationship, such as a holding, the Fund intends to use its influence to create positive change, to the extent and degree that this is deemed possible. Based on a comprehensive assessment, Andra AP-fonden considers whether the holding should instead be excluded, i.e. removed from the Fund's investment universe.
- **Reporting:** Andra AP-fonden will report annually on its human rights work.
- **Remediation:** Andra AP-fonden intends to remedy situations where the Fund has caused an adverse human rights impact. If it has contributed to an adverse human rights impact, the Fund intends to contribute to remediation. If adverse human rights impacts are caused by a third party with which Andra AP-fonden is directly associated, such as the Fund's portfolio companies, the Fund will seek to exert its influence, alone or jointly with other stakeholders,

to ensure that the party responsible takes remedial action and that future adverse consequences are prevented.

Expectations of employees, suppliers and business partners

Andra AP-fonden expects all employees to be aware of the Fund's Human Rights Policy and to adhere to it in their work. The Fund's Executive Management has a particular responsibility to ensure that employees have received and are familiar with the information in this policy. Andra AP-fonden also expects its suppliers, business partners and portfolio companies to respect human rights in their business activities. Where the Fund engages external managers with regard to discretionary mandates, the managers must accept the Fund's Ownership Policy. Concerning the Fund's external investment managers within risk capital and real estate, the Fund instead refers to the principles of the UN Global Compact.

Transparency

Andra AP-fonden reports on its human rights work in the Fund's annual report and sustainability report on an annual basis. Every two years, Andra AP-fonden intends to publish a report on the Fund's human rights work that complies with the UN Guiding Principles' reporting framework. The Fund publishes a separate Human Rights Policy.

Corporate governance

The background to the Fund's corporate governance work can be found in its overall mission. An expectation of responsible ownership is stated in the Swedish National Pension Funds Act. The Act states that the funds must be managed in an exemplary manner through responsible investments and through responsible ownership. In its investment management, special importance must be attached to the promotion of sustainable development without sacrificing the overall goals for return and risk.

Shareholders' commitment to and interest in the long-term development of the companies is a fundamental condition for improved value growth. As a long-term asset owner, Andra AP-fonden has a very important function in the global capital markets. The Fund is a responsible owner and works actively on issues relating to professional corporate governance, good ethics and environmental considerations, as well as developing good practice in asset management issues.

Corporate governance is a tool for driving change within all of the Fund's sustainability focus areas and can in many cases be difficult to pinpoint specifically. Based on the above criteria, however, the Fund has assessed that corporate governance should be one of the Fund's focus areas. Working with corporate governance is the Fund's main engagement tool.

Goals and commitments

Andra AP-fonden's long-term goal is active and responsible ownership through an increased number of dialogues with and voting in all of the Fund's listed shareholdings by 2027.

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

important to influence the companies in the direction that the Fund considers to be most appropriate. The Fund's work is based on ten ownership principles, which concern the company's shareholder protection and its effective governance.

Integration

Corporate governance is integrated into the Fund's management in the investment process, through voting and via dialogue.

Transparency

The Fund's ambition is to be as transparent as possible. This applies to the reporting of the work, follow-up of goals set and the dialogue work conducted by the Fund. The Fund reports its corporate governance work in the Fund's annual report, sustainability reports and on the Fund's external website. Some of the Fund's objectives within the focus area are also reported on an annual basis.

The Fund also presents its position on a transparent basis in the Fund's Voting Guidelines, which clearly state the Fund's various positions.

The Fund publishes a separate Ownership Policy.

Diversity, equity and inclusion

This policy on diversity, equity and inclusion applies to the Fund's investments. Internal work in our own organisation regarding diversity, equity and inclusion is governed by other documents (Discrimination Policy, Equality and Diversity Plan). Andra AP-fonden is convinced that diversity, equity and inclusion are a very important part of the Fund's long-term value added and in achieving its vision. Andra AP-fonden must contribute to a society for everyone.

Andra AP-fonden's starting point is that active diversity, equity and inclusion work contributes to a better ability to solve problems, increased creativity, and greater motivation and job satisfaction among employees. This increases the competitiveness of companies, improves risk management and increases profitability.

Everyone has the right to equal treatment regardless of gender, transgender identity or expression, ethnic origin, religion or other belief, disability or age. All the Fund's portfolio companies have an obligation to ensure that neither direct nor indirect discrimination takes place.

Goals and commitments

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

Andra AP-fonden's ambition is to be a role model as a responsible investor and owner in terms of diversity, equity and inclusion.

Integration

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

Transparency

The Fund's ambition is to be as transparent as possible about its work on diversity, equity and inclusion. This applies to the reporting of the work, follow-up of goals set and the dialogue work conducted by the Fund. The Fund reports its work on diversity, equity and inclusion in the Fund's annual report, sustainability reports and on the Fund's external website. Some of the Fund's objectives within the focus area are also reported on an annual basis.

The Fund also presents its position on a transparent basis in the Fund's Voting Guidelines, which clearly state the Fund's position.

The Fund expects portfolio companies to be transparent and to report on their diversity, equity and inclusion policy to the extent required by law, which should include measurable targets and follow-up. This reporting should also include an explanation of how the policy corresponds to the company's overall strategy.