

# AP2

Andra  
AP-fonden

## Stewardship Policy



## Stewardship policy

*Translation of policy adopted by the Board: 2024-12-11*

### Purpose

AP2's Stewardship policy provides overall guidelines for how the Fund, through active corporate governance work, can contribute to good development in its portfolio companies and thereby add value as a responsible owner, within the framework of its mandate. The work on ownership issues shall be partly focused on individual companies and partly conducted on a broader level to contribute more generally to good development in the area. The Fund welcomes an ongoing dialogue about the content of this Stewardship policy with companies, other investors and other stakeholders.

### Background

#### **Swedish National Pension Insurance Funds Act (2000:192)**

The Stewardship policy is based on the Fund's mission and goals established in the Swedish National Pension Insurance Funds Act (2000:192). It states that the Funds' goal is to manage fund capital to generate the greatest possible benefit for the national pension system, in the long term. 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.

As a government authority, the Fund's values are based on the Swedish state's core values, where democracy and sustainable development are central parts. Furthermore, the bill to the Act states that the Funds may not consider business policy or other economic policy considerations. In accordance with the investment rules set out in the Act, the Fund's holdings in listed Swedish companies may correspond to a maximum of two percent of the total Swedish market capitalization. The Fund may not hold more than ten percent of the votes in an individual listed company.

### Framework for corporate governance

Many countries have frameworks for corporate governance in the form of stewardship codes, which are guiding principles for good practice in the local market and thus also provide good assistance to the Fund's stewardship work. Examples of such codes are the ICGN Global Stewardship Principles and the UK Stewardship Code.

In Sweden, governance and the division of responsibilities between owners, the Board of directors and management are regulated primarily in the Companies Act and the Swedish Corporate Governance Code (the Code) and there is no stewardship code. The Code and its application and development are therefore important in the Fund's stewardship work, and the Fund recommends that companies listed on a regulated market in Sweden apply the Code.

Regulations and conventions such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the UN Global Compact and the UN Principles for Responsible

Investment, the UN Guiding Principles on Business and Human Rights, and regulations within EU Sustainable Finance also form the basis for the Fund's work on stewardship issues. AP2 has supported the PRI (Principles for Responsible Investments) since its inception in 2006.

### **Conditions for ownership work**

Shareholder engagement and interest in a company's long-term development are important prerequisites for good economic development. For AP2, sustainability work is based on the Fund's mission and involves long-term action to protect and create value in investments - from an economic, environmental and social perspective. In addition, the Fund is apolitical and independent, both in terms of ownership spheres and in its special position among Swedish authorities (regulated by law).

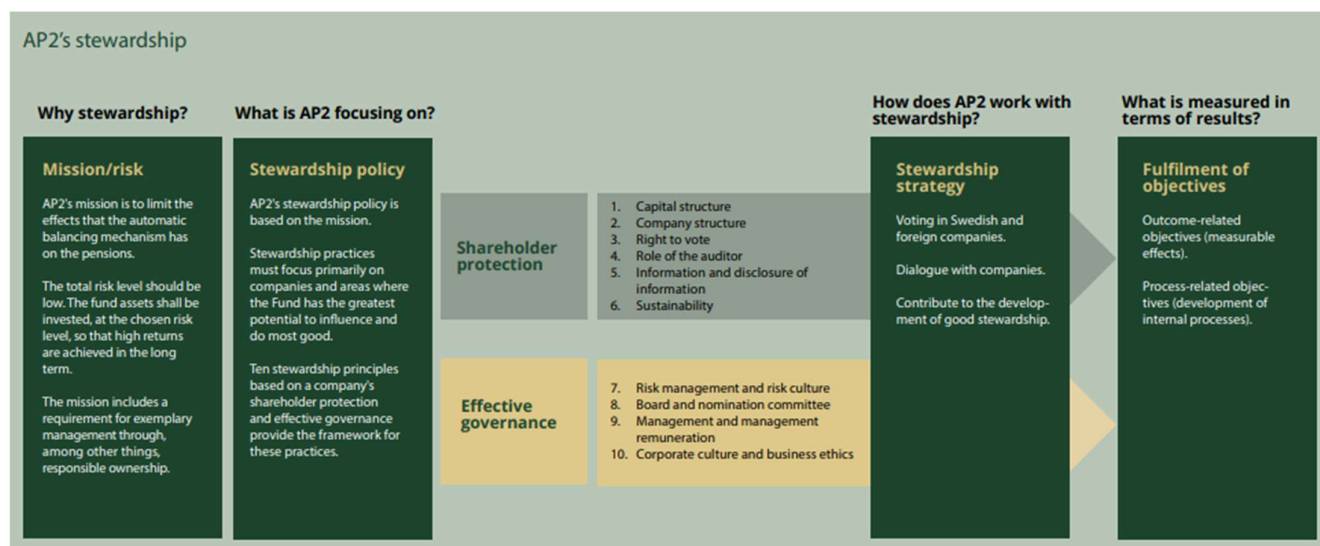
Overall, this gives the Fund the opportunity to be a committed, long-term and transparent owner with a significant function in replenishing the world's capital markets. The Fund's capital is invested in a broad asset portfolio both in Sweden and globally, containing, among other things, shares, fixed-income securities, real estate, infrastructure and private equity funds. The conditions for exercising corporate governance differ significantly between asset classes and the Fund's work needs to be adapted accordingly. The Stewardship policy is intended to cover all of the Fund's holdings, as applicable. The policy applies to both internally and externally managed holdings.

### **Ownership principles as a starting point**

In addition to laws and frameworks, the Fund's operational stewardship work is based on ten ownership principles, which are based on the Fund's view of corporate structure for shareholder protection and effective governance in the companies. The ownership principles are presented in the image below.

The ownership principles have two purposes:

- To provide board members and management with guidance on how the Fund is likely to vote in proposals presented to shareholders.
- To communicate the Fund's views on other important issues that boards may have to deal with in their operations.

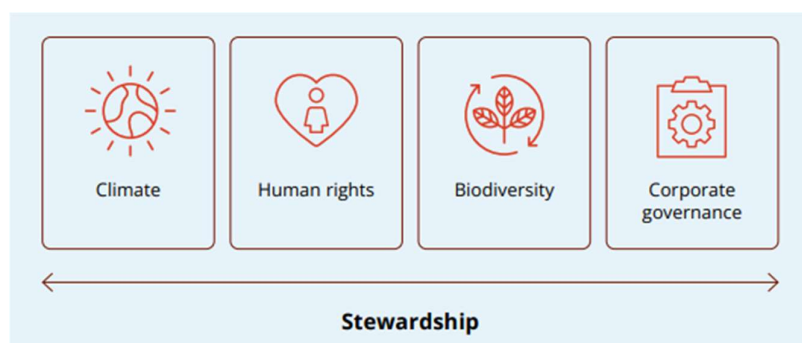


To increase understanding of what the Fund expects from companies in areas such as sustainability and ownership, the Fund publishes Voting guidelines with a detailed description of the Fund's view on the ten ownership principles.

## Responsible ownership through active stewardship

The Fund believes that efficient use of the world's resources - financial capital as well as human and natural capital - together with responsible action in the long term is beneficial for companies' financial development. As an owner, the Fund believes that well-managed companies have a greater chance of being successful. Influencing companies in a positive direction in order to increase the Fund's return in the long term and at the same time contribute to sustainable development is therefore central to the Fund's stewardship work.

Stewardship work is central to exercising the governance role and is part of the Fund's method for working with sustainability within all four focus areas of the Fund. The work includes dialogues, voting and collaboration with other stakeholders and owners, as described under Strategies for ownership work below.



Stewardship is the Fund's tool for exercising the governance role within all focus areas.

The Fund's stewardship work will primarily focus on companies and areas with high relevance within any of the focus areas, and where the fund assesses that the Fund has the greatest opportunity to positively influence the company and thereby provide the greatest benefit. The starting point for the Fund's actions is a regular analysis of sustainability risks and opportunities and an assessment of the conditions for achieving a result that benefits today's and tomorrow's pensioners.

#### **Swedish investments**

In Sweden, the Fund will primarily work with companies where the Fund is one of the largest owners and/or in companies where the Fund has invested the most capital. The influence work takes place both in ongoing dialogue with companies on current corporate governance issues, through voting and in nomination committees where the Fund participates as a major owner. When it comes to issues of a principled nature, it may be important for the Fund to actively take a position even in smaller holdings in the Fund's portfolio. The Fund is also expected to contribute to the development of Swedish stewardship.

#### **Foreign investments**

The Fund's management of foreign equities is based on a quantitative management model and involves exposure to the companies that the Fund's index reflects. Investments in individual companies are therefore not a company-specific investment decision but depend on the chosen index and the weight of the company in this index. Ownership is therefore more dispersed and shares in individual companies are usually significantly lower. The influence work is focused on companies with high sustainability risk within any of AP2's focus areas and is carried out mainly through dialogues in collaboration with other owners, as well as voting with the aim of influencing positive changes in issues related to ethics, the environment and corporate governance. AP2 can also submit and support shareholder proposals on relevant issues. The work is carried out both internally at the Fund and largely through the Council on Ethics.

### **What companies can expect from AP2**

AP2 uses different strategies for its stewardship, depending on the form of the Fund's ownership.

#### **Voting**

AP2 shall participate in and exercise its voting rights in companies where the Fund has a significant holding, is a major owner and in other cases where the Fund deems it has the opportunity to influence important issues. The ownership role shall be exercised taking into account the Fund's mission and position. This means, among other things, that the Fund, through its ownership, shall actively promote good ethics, environmental considerations and professional stewardship.

AP2 shall speak out at Swedish general meetings if there are unanswered questions that the Fund wishes to raise. If the Fund votes against a proposal from the board or nomination committee, this will be justified to the company before the meeting and, if necessary, at the meeting. AP2 shall transparently account for voting at Swedish and foreign general meetings. AP2 also submits shareholder proposals to meetings when this is considered a good tool to influence companies.

**Representation on nomination committees and boards**

AP2 views positively being represented on nomination committees in Swedish companies as a way to exercise active stewardship. AP2's nomination committee assignments vary depending on the Fund's ownership interests in companies and are staffed by internal resources. For several years, AP2 has emphasized the importance of an increased proportion of women on the boards of listed companies, which is particularly considered when participating in nomination committees. To avoid complicating the AP2 role as an asset manager, the fund has as a main rule that the fund's employees should not be board members of listed companies.

**Dialogue with companies**

Dialogue is AP2's most important tool for achieving change.

Dialogue, within the framework of this policy, is defined as dialogue between AP2 and portfolio companies, with the intention of gaining knowledge, influencing or exchanging perspectives regarding a company's strategy and governance on issues relating to, for example, climate, biodiversity, corporate governance or social issues, or other issues that affect the business. The Fund primarily has dialogue with portfolio companies identified as so-called high-risk companies with risks linked to ethical, social and environmental issues and where the dialogue concerns a corporate governance issue that is important to the Fund and where the Fund assesses that the dialogue can lead to changes that create value for the Fund.

- The dialogue concerns an issue that is important to the Fund.
- The Fund has an understanding of the issue and a constructive solution to propose.
- The Fund assesses that the dialogue can lead to changes that create value for the Fund.

Dialogue is carried out by the Fund's sustainability team, the investment team for Swedish equities as well as the Fund's Corporate governance analysts. In addition, the AP Funds' Council on Ethics coordinates dialogues with foreign companies. The Council on Ethics conducts both reactive dialogues with companies that, upon review of the Fund's holdings, have been found to be violating norms or conventions to which Sweden has signed, and proactive dialogues within the Council on Ethics' focus areas.

The Fund also has ongoing dialogues with its external managers working towards expedient work on integration and a focus on sustainability in their organizations and portfolio companies.

**Collaboration with other investors and stakeholders**

Collaboration with other investors is important for achieving success in dialogues with companies, but also for promoting a development towards responsible investments. Work on stewardship-related issues shall take place in selected collaborations in issues most important to the Fund. The Fund shall promote good stewardship by collaborating with other owners in matters of principle and by actively participating in the development of policies, regulations and standards.

**The Council on Ethics of the Swedish AP Funds**

Since 2007, AP1-AP4 have coordinated their work on environmental, social and ethical issues via the joint Council on Ethics. The Council on Ethics sees its task as working to ensure that

companies handle relevant sustainability aspects, have appropriate guidelines and that they have governance and monitoring systems in place enabling operations to be conducted in the most responsible manner. The Council on Ethics does this both by enforcing and participating in preventive initiatives, and by working for positive change in several companies that are linked to violations of international conventions regarding environment and human rights.

### **Securities lending**

Securities lending fulfils an important function in the financial markets as this, among other things, increases liquidity, which benefits stock markets and their long-term development. Through securities lending, the Fund's return increases. Based on the Fund's belief that it is important to be able to vote in companies as an engaged owner, the Fund only lends Swedish shares in exceptional cases and in these cases only a part of the shareholding in an individual company. In the event of a lending of Swedish shares, the shares are revoked prior to the general meeting.

### **Exclusions and divestments**

AP2 primarily wants to influence companies to bring about change. The starting point is that this is best achieved by remaining as an owner in companies and working to ensure that measures are taken. Despite this, there are situations where the Fund divests or excludes companies.

#### **Sanctions**

AP2 complies with UN and EU sanctions decisions.

#### **Exclusions**

The AP Funds have, in accordance with legislation, jointly developed guidelines for which assets the Funds should not be invested in. It states the following:

"The common core of values developed by the AP Funds states that the principle of legality means that the AP Funds must consider the international conventions ratified by Sweden and the international agreements that Sweden has supported. This forms the basis for assessing which assets the Fund should not be invested in. International conventions are in most cases written to regulate how states should act and are not intended to directly regulate the activities of companies. This leaves room for interpretation regarding companies' violations of conventions. An AP Fund must therefore make interpretations if a company has indeed contributed to the violation of an individual convention. A decision not to allow investments in certain assets based on a convention is referred to as an exclusion and implies that an AP Fund chooses not to allow an investment for reasons other than financial."

The AP Funds' Council on Ethics may recommend that the AP Funds exclude companies that knowingly contribute to the violation of an international convention ratified by Sweden. The Council on Ethics may recommend exclusion if it assesses that continued dialogue with the company will not lead to positive changes or when the dialogue does not lead to significant progress within a reasonable time. The Council on Ethics shall take into account whether a company has committed deliberate and systematic violations of the convention. This shall be assessed as more serious than isolated incidents. The Council on Ethics also has the possibility of recommending the exclusion of companies - without prior dialogue - in cases where the Council



on Ethics assesses that a dialogue with the company does not have the potential to lead to improvements.

Decisions on possible re-inclusion of companies in the Fund's investment universe are made after careful analysis of the facts implying that grounds for exclusion no longer exist.

### **Divestments**

The Fund divests if international conventions aim to limit the use, scope or distribution of certain products or activities. The Fund may also divest from companies based on what the AP Funds Act states regarding exemplary management and due to sustainability risks.

### **Stewardship in unlisted investments**

AP2 has holdings in unlisted companies through several different forms of ownership, which provide different conditions for stewardship. It is AP2's intention that the principles expressed in this Stewardship policy should also be applied to the unlisted holdings. However, some of the rules are only applicable to listed companies, which means that the Fund implements the Stewardship policy in applicable parts for its unlisted investments.

### **Direct corporate investments**

AP2 has direct ownership in certain real estate companies and risk capital firms.

AP2 shall establish ownership agendas for its directly owned companies in which the basic approach to corporate governance is established. These shall determine, among other things, the Fund's view on owner representation on the board, financing and dividend policy and other company-specific positions.

AP2 has a structured governance process for the directly owned companies that includes evaluation of new investments, extensive due diligence and ongoing monitoring. Stewardship work is carried out by the Fund's portfolio managers, who are usually also represented on the companies' boards. However, AP2 does not exercise any operational management work in the directly owned companies. The Fund's internal Investment Committee acts as support to the portfolio manager in all phases and annual reporting is also made to the Fund's board.

### **Fund investments**

AP2 also invests in unlisted companies through funds with different investment strategies and focus areas and across multiple asset classes. This means, among other things, that the unlisted companies are in different stages of development, from start-up companies to mature companies, and that some companies are minority-owned and others majority-owned by the funds. Common to all these investments through funds is that there is a fund manager who is responsible for identifying investment opportunities, conducting due diligence and acquisitions, and for conducting stewardship control in the Funds' portfolio companies.

AP2 has a structured investment and monitoring process for analysis, evaluation of new investments and follow-up of fund investments. Stewardship work focuses on ensuring that the managers have the skills, resources, structures and systems to manage the portfolio companies' opportunities to develop in line with their strategies and manage risks in the areas of environment, ethics, social issues and corporate governance.



AP2 believes that it is important that the managers of the funds, in which the AP2 is invested, integrate sustainability issues into their operations, investment policies and corporate governance activities. When analyzing the managers' sustainability work, an evaluation is carried out based on several assessment areas and an evaluation is formally carried out for the first time in connection with the investment opportunity and is updated continuously thereafter. Based on the analysis, AP2 can identify areas for improvement and steer the direction of the continued continuous dialogue with the manager. For example, the Fund expects managers and companies to commit to achieving net zero emissions by 2050 in accordance with the Paris Agreement, have time-limited targets for emission reductions and report on their progress. The goal is to create conditions for comparing different managers in addition to an individual evaluation. AP2 does not conduct any operational management work in the unlisted companies owned through funds.

At a general level, AP2 will also actively contribute to the development of relevant international standards and welcomes the application of recognized principles for responsible investment by fund managers, such as the Principles for Responsible Investments (PRI) and the UN Global Compact. Furthermore, fund managers are encouraged to report in their annual reports how the fund and portfolio companies have worked to live up to the PRI and Global Compact principles, as well as the UN Guiding Principles on Businesses and Human Rights. AP2 conducts an annual evaluation and follow-up of this report.

### **Distribution of responsibilities, monitoring and reporting**

AP2's Board of Directors adopts this Stewardship policy, and the CEO is tasked by the Board with managing stewardship issues in the day-to-day operations. The ongoing work on stewardship is handled by both the Fund's sustainability analysts and its Ownership Group, where the latter consists of people from the fund management, the Fund's analyst within stewardship and the Head of equity management.

In matters of greater importance, consultation shall take place between the CEO and the Chairman of the Board. Stewardship issues of particularly great importance, and where the guidelines in the Stewardship policy do not provide sufficient guidance, shall be presented to the Board in their entirety. Decisions on the exclusion of companies shall be made by the Board, unless there are circumstances such that a decision cannot be delayed, in which case a decision may be made by the CEO after consultation with the Chairman of the Board.

The Board continuously monitors the organization's stewardship work. The Fund reports annually on its work in the Annual report and Sustainability report and publishes the voting at general meetings in Sweden and abroad on its website. The Stewardship policy regulates the focus of the Fund's work on sustainability issues together with the Sustainability policy, the Human rights policy and the Policy against Deforestation and Land Conversion.

### **Conflicts of interest**

Good management of conflicts of interest in the stewardship process is important. AP2, as an independent state institutional owner, does not have the same inherent potential conflicts of interest as other actors. Should such conflicts arise, they are handled in three steps. After a conflict of interest is first identified, the Fund's CEO decides on how the Fund should act in the individual case. In conflicts of interest of particular importance, or if the Fund's CEO is closely connected to the conflict of interest in question, the decision is made by the Fund's Chairman of

the board. Conflicts of interest that arise are reported to the board and, in cases of particular importance, published on Fund's website.

**Information and disclosure**

It is important that the Fund is as transparent and clear as possible to create understanding and trust in how the Fund acts. Reporting on the Fund's positions on matters of principle, information about which general meetings the Fund has participated in and how the Fund voted at these shall be done in the Annual report, as well as on the website and in the Fund's Voting guidelines.