



# Sustainability Policy



Translation of policy adopted by the Board: 2025-12-11

## Sustainability Policy

### Introduction

#### Purpose and background

This Sustainability Policy sets the overall framework for Andra AP-fonden's (AP2) work on sustainability 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 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.

AP2'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**

AP2's sustainability work derives from its mission and involves acting over the long term to preserve and add value – from an economic, environmental and social perspective.

This aligns 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**

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.

#### *Integration*

Sustainability is integrated throughout the organisation, in the 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. AP2's investment beliefs include a 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*

AP2 focuses its work on the issues that are most material and where the Fund can make the most difference.

Sustainability covers a broad spectrum of areas, 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 within these areas must also be prioritised.

*Analysis*

The Fund's sustainability work is based on thorough, fact-based analysis, when making investments and as owners.

The sustainability work is based on thorough analysis with a scientific approach. Risks and opportunities are analysed in connection with investments and during ownership, and the conclusions can form the basis for investment decisions, risk management and the exploitation of opportunities. Through continuous monitoring of external factors and analysis, opportunities can be identified for further development of the sustainability work.

This means that the Fund has processes for analysis and due diligence of sustainability factors prior to investment. As a part of responsible ownership, the portfolio is analysed and regularly screened regarding 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*

Through stewardship and engagement, AP2 seeks to influence companies to fulfil the Fund's expectations concerning sustainability issues.

Andra AP-fonden seeks to be responsible owners, with active stewardship through different forms of engagement. These include voting, work on nomination committees, public positions and dialogues with companies, both reactively in the event of controversies and proactively when risks of negative impacts have been identified, or if a company's sustainability work needs to be improved. The Fund's stewardship principles guide its stewardship, aiming to protect shareholder interests and promote effective corporate governance.

AP2's voting guidelines are published on the Fund's website.

AP2 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, AP2 can achieve better results in its sustainability work, through economies of scale, learning from others, stronger influence on companies, and a stronger impact from joint positions and commitments.

The Fund identifies and participates in investor collaboration within its focus areas. Collaboration between AP2-4 within the Council on Ethics is an important platform for achieving more in the AP Funds' dialogues with companies outside Sweden.

### *Transparency*

AP2 practices what it preaches and seeks to build trust through transparency.

AP2 strives for transparency and reports in detail on its sustainability work in accordance with widely 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**

AP2 has identified four 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 investment integration.
- The positive or negative impact that AP2 has through its investments, for example through its 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 means a long-term commitment, which is 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 guiding star.

AP2'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: A human rights perspective will permeate all parts of Andra AP-fonden's operations by 2030, in line with the UN Guiding Principles.
- Corporate Governance:
  - AP2's overall corporate governance goal is to contribute to a better return in the portfolio, and the Fund therefore acts actively by voting on relevant issues in all listed companies.
  - By 2030, the Fund's listed holdings must on average have board representation of at least 40 per cent of each gender.

The Fund's achievement of its stated objectives is monitored through the annual reporting.

**Organisation and distribution of responsibility**

AP2'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 sustainability and corporate governance group, are responsible for the leading sustainability work. The Executive Management, which includes the Head of Communication and Sustainability, receive an update about sustainability at each meeting. The Fund's investment committee supports portfolio managers for unlisted assets throughout the investment process.

**Implementation of the policy**

The Fund's Sustainability Policy is part of its 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**

AP2 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. AP2 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

*AP2 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 AP2. 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.

**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**

AP2 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

*AP2 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. There is still no consensus on what the term nature-positive means. However, AP2 has chosen to use the term as an overarching vision, where nature, with biological diversity, ecosystems, and natural capital, develops in a positive direction and where AP2 contributes to this development. When there is an established definition of the term, the fund will review its goals in light of this.

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.

*Andra AP-fonden must have a portfolio that does not contribute to deforestation.*

The Fund has defined a target for deforestation, which is the biggest driver of biodiversity loss and relevant to the Fund's investments. The Fund strives to continuously identify and handle deforestation risk in its portfolio.

### 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 engagement with companies and sectors with high risk.
- Divesting selectively from exposure to companies and/or countries that are not deemed to contribute to a positive net development, with a high risk of reduced asset value.

**Transparency**

AP2 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's policy against devorestation and land conversion is published on its website.

## Human rights

AP2's core values are based on the values of the Swedish State and entail, among other things, that AP2 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 AP2 seeks to respect and comply with in its activities.

AP2'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 Corporate Governance Policy, which describes AP2'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. The Fund also has an equality and diversity plan.

### Goals and commitments

*A human rights perspective will permeate all parts of Andra AP-fonden's operations by 2030, in line with the UN Guiding Principles.*

AP2's ambition is to be a leading player among institutional investors in the area of human rights. AP2 commits to respect internationally recognised human rights standards, which means 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 AP2 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 risk assessment model is to be applied, based on risks for violations of human rights.
- 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, AP2 considers whether the holding should instead be excluded, i.e. removed from the Fund's investment universe.
- Reporting: AP2 will report annually on its human rights work.
- Remediation: AP2 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 AP2 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**

AP2 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. AP2 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 refers to the principles of the UN Global Compact.

#### **Transparency**

AP2 reports on its human rights work in the Fund's annual report and sustainability report on an annual basis. AP2 intends to biannually publish a report on the Fund's human rights work that complies with the UN Guiding Principles' reporting framework.

AP2 publishes a separate Human Rights Policy on its website.

## Corporate governance

Corporate governance is about how companies best manage their operations in a responsible and transparent manner, with good financial development. As an active and long-term owner of Swedish and foreign companies, AP2 has both the opportunity and obligation to act on issues that affect this governance and, in the long term, the fund's returns. The Fund's starting point is that well-managed companies, with good corporate governance and diversity, have greater opportunities to generate profits and avoid risks.

AP2's work with corporate governance focuses on the companies' management structures, diversity, remuneration, and shareholders' rights. It is both the shareholders' and the board's responsibility to ensure the right conditions and good working methods for effective board work. This includes, among other things, a board composition that considers diversity, independence, and a clear division of roles and responsibilities.

### Goals and Commitments

*AP2's overall corporate governance goal is to contribute to a better return in the portfolio, and the Fund therefore acts actively by voting on relevant issues in all listed companies.*

AP2 uses its influence to achieve this goal, both through voting and through collaboration with other stakeholders, including the development of national frameworks for corporate governance.

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

The Fund believes that companies that work with diversity, equality, and inclusion not only take sustainability issues seriously but are also more competitive and thus create better value. The fund should actively influence portfolio companies to have a strategy for diversity, equality, and inclusion.

### Integration

Corporate governance is integrated into the fund's management in the investment process, through voting, participation in nomination committees, and through dialogue.

### Transparency

The Fund aims to be as transparent as possible. This applies to both reporting on the work, follow-up on goals, and the dialogue work that the fund conducts. The Fund reports on corporate governance work in the fund's annual report, sustainability reports, and on the Fund's external website. Detailed information on how AP2 has voted on corporate governance issues at Swedish and foreign general meetings is continuously published on the Fund's website. It also shows how the Fund intends to vote in foreign companies before the meeting date.

The Fund expects portfolio companies to be transparent and report on their policy for diversity, equality, and inclusion to the extent required by law, which should include measurable goals and follow-up. This reporting should also include an explanation of how the policy aligns with the companies' overall strategy.