

# Second AP Fund Corporate Governance Policy

Approved by the Board, December 2016

## AP2 Corporate Governance Policy

The active integration of environmental, ethical and corporate governance issues is one way in which the Second AP Fund generates value in its day-to-day activities. The Fund groups such issues under the generic term 'sustainability'. The sustainability programme implemented by the Second AP2 Fund derives from the nature of its mission and involves acting over the long term, to preserve and add value to its invested assets – in the light of economic, environmental and social considerations.

A considerable portion of the Second AP Fund's capital is invested in Swedish and foreign equities, making it a significant shareholder. Investors' commitment to/interest in the long-term development of portfolio companies is an important condition for improved value growth. Recognizing this, the Second AP Fund works with governance issues to promote good corporate governance and the effective management of ethical and environmental factors.

The majority of global equities under the Second AP Fund's management are index-linked, which means that the Fund is exposed to many of the companies reflected in the index. Consequently, the decision to invest in individual companies is not company specific, but depends on the index chosen and the company's weighting in the particular index.

The Second AP Fund's governance activities shall focus primarily on companies and areas where it believes it has the best prospects of making an impact and doing the greatest good. Such activities shall be based on the assumption that they will benefit Sweden's current and future pensioners. In Sweden, the Second AP Fund shall primarily engage itself in governance issues in companies where it is one of the largest shareholders and in which it has invested the most capital. Where matters of principle are involved, the Second AP Fund may consider it appropriate to adopt an active approach, even if the company in question is only a minor portfolio investment.

In the case of companies outside Sweden, the Fund's engagement in ethics and environmental issues shall primarily be conducted via the Ethical Council. The Fund shall exercise governance in foreign companies by utilizing its voting rights in a number of these assets and through follow-up dialogues with some of these companies. In such dialogues, the Fund describes its view of committed governance and in certain cases explains why it cannot support a particular proposal from the company's board of directors.

### *Our corporate governance policy*

The Second AP Fund's corporate governance policy is designed to clarify how the Fund, within the framework of its overall mission, shall contribute to the positive development of companies and thereby add value as a major shareholder. This document is also intended to promote a better understanding of what the Second AP Fund expects of companies in terms of the environment, ethics and corporate governance. The Fund welcomes an ongoing dialogue with companies, fellow investors and other stakeholders concerning the contents of its corporate governance policy.

AP2's corporate governance policy is divided into two parts. The first describes what the Fund expects of publicly-quoted companies and what they can expect of the Fund. The second describes how the Fund implements its governance responsibilities in non-listed assets and private-equity firms. This corporate governance policy applies to in-house as well as externally managed assets.

#### *The overall mission*

The Second AP Fund's corporate governance policy derives from its mission to maximize long-term return on the pension assets under its management, as described in the Swedish National Pension Funds Act (2000:192). The preparatory work to the Act also states that the environment and ethics shall be taken into consideration in its investments, without compromising the overall goal of a high return. The Swedish National Pension Funds shall not be influenced by commercial or economic-policy considerations. As per the investment regulations stipulated in the Act, the Fund's assets in publicly listed Swedish companies shall be no more than two percent of the combined value of the Swedish stock market. The Fund may control a maximum of ten percent of the voting rights in a single publicly listed company. It shall exercise its ownership role to optimize the opportunities for attaining a higher return on assets under management.

The Second AP Fund is tasked with the ownership and management of the capital it receives and is actively engaged in addressing environmental, ethical and corporate governance issues associated with these responsibilities. By integrating economic analyses with analyses of the environmental, ethical and corporate governance aspects, the Fund's asset managers establish a more reliable basis for investment decisions. As a manager of national pension assets, the Second AP Fund has a responsibility to its 'beneficiaries', i.e. all who have at some time worked in Sweden, to promote the solid and sustainable economic growth of the assets under management. The Second AP Fund shall act in the best interests of the overall mission.

#### *Collaboration with others*

Collaboration with other investors is important to achieving success in dialogues with companies, but also in promoting progress towards responsible investments. Work on other governance issues in foreign companies shall be conducted in association with selected partners and address matters of particular interest to the Fund. The Second AP Fund shall further promote good corporate governance by cooperating with other major shareholders in addressing matters of principle and through active participation in the development of policies, regulations and standards.

#### *Core values for sustainability and corporate governance*

The Fund is tasked with generating a high long-term return at low risk, thereby helping to secure the pensions of Sweden's current and future pensioners. The Fund is convinced that a high long-term return at low risk is fully feasible if sustainability is integral to operations, both within the organization itself and as part of the investment process.

As part of the Swedish national pension system, the Fund's core values are based on those of the Swedish State, in which democracy and sustainable development form central elements of the Swedish Constitution. The Fund's core values are also based on the international conventions to which Sweden is a signatory. In those cases where Sweden backs a new convention or modification

to an existing convention, even though not formally ratified, the Fund shall act as if such ratification had already been secured. The Fund will regularly review progress on ratification of the new or modified convention. Should Sweden fail to ratify the convention within three years of the original decision to support it, the Fund may reconsider its position concerning the guidelines established regarding the issues affected by the new or modified convention.

The Fund believes that the companies must themselves be responsible for ensuring that international conventions are not contravened, irrespective of whether these are directed at sovereign States, individuals, companies or organisations. Furthermore, this responsibility shall apply even when countries in which the companies operate are signatories to conventions or not or feature less stringent legislation.

AP2's commitment to sustainability and corporate governance aims to create and preserve value for Sweden's current and future pensioners. The Fund makes a difference by adopting a proactive approach to sustainable development, by direct action and by insisting on transparency and positive change. This helps enable the Fund to fulfil its mandate.

#### Framework for sustainability

The Fund's sustainability policy is grounded in its parliamentary mandate – to generate a high return at low risk, within an internationally established framework.

The Second AP Fund is mandated by the Swedish Parliament to manage assets of the Swedish national pension system with a view to generating a high long-term return at low risk. The Fund shall address ethical and environmental considerations in its investment activities, without compromising the overall objective of a high return. The Fund shall eschew strictly economic or economic-policy objectives.

The commitment to sustainable development is central to the Fund's framework policy. This framework consists of:

- **the Swedish Constitution**, which is based on democracy, fundamental freedoms and rights, the recognition that all are equal and respect for individual freedom and dignity.
- **UN international conventions** to which Sweden is a signatory, relating to areas such as the environment, human rights, labour rights, corruption and inhuman weapons.
- **international guidelines** to which Sweden subscribes (such as the UN Global Compact, the International Labour Organization/ILO and the OECD Guidelines for Multinational Enterprises), as well as
- **Sweden's stance** on human rights issues.

The Second AP Fund assumes that companies will comply with laws, conventions and international guidelines, whichever country they operate in. This responsibility applies even where the country in question may not be signatory to a convention or possesses weaker legislation.

An international and established framework policy is essential to the Fund's sustainability programme and to ensure the possibility of conducting a successful dialogue with companies,

regardless of their national domicile. This applies equally to opportunities for cooperation with other investors and market players, deemed potentially significant in enabling the Fund to make a positive difference.

#### *The Ethical Council*

The First, Second, Third and Fourth AP funds have coordinated their efforts on environmental and ethical concerns involving foreign companies in which they have invested, by forming a joint Ethical Council. This cooperation is designed to enable a review of the funds' holdings in companies suspected of being in contravention of international conventions, as well as facilitating analysis of the facts and the establishment of a dialogue with the companies in question. The Ethical Council has an advisory role on matters involving exclusion. The decision to refrain from investment in specific companies as a consequence of ethical and environmental considerations is always taken by the individual fund. The decision to exclude companies from the Fund's investment universe is taken by the Second AP Fund's board of directors.

## **What the Second AP Fund expects of portfolio companies**

### **The Second AP Fund's principles of corporate governance**

The Second AP Fund's operational activities concerning corporate governance issues derive from the Fund's ten principles of governance. These principles embrace structural and governance issues, as well as environmental and ethical concerns. The Fund's work on governance issues focuses partly on individual companies while also striving to address a broader need, promoting a general improvement in the field as a whole.

The Fund's governance activities are founded on the requirement that all shares in companies shall carry equal rights and voting rights. This is expressed by the 'equality principle', cited in the Swedish Corporate Governance Code. The equal economic treatment of individual shareholders must be respected with regard to the issue of dividends, bids and all related transactions.

The Second AP Fund's governance principles shall be seen not as rigid regulations but as guidelines, enabling a considered judgement based on the nature of the individual company and its specific situation.

#### **1. Capital structure**

The board and executive management have primary responsibility for ensuring that the individual company has an efficient and appropriate capital structure. This capital structure shall take into account anticipated net profit, cash flow, financial status, investment levels and capital cost, seen over an entire economic cycle. Decisions concerning dividends and share issues and buy-backs shall be taken by the shareholders. Adjustments to the company's capital structure, such as a new share issue or buy-back of equities to be implemented after approval by the company's AGM, shall be motivated by the board and on a reasonable scale. The Second AP Fund believes that mandates awarded to the board of directors relating to such matters should apply for a maximum of twelve months.

### *Dividends*

The Second AP Fund expects the company to regularly communicate its perception of its optimal and long-term capital structure and capital requirement. This information will serve to clarify its dividend capacity to shareholders. The company's dividend policy shall be clear. In line with this strategy, the Second AP Fund believes that capital that cannot effectively be used to secure or develop the company's operations should be distributed to its shareholders.

### *Buy-backs*

When the board determines how surplus liquidity is to be distributed to the shareholders, it must consider the particular risks associated with the buy-back of shares, as well as market-generated price fluctuations, the relationship between different asset classes and their impact on variable compensation schemes. These risks shall be considered in relation to the individual company's situation and compared to the available alternatives. The Second AP Fund believes that proposals concerning the buy-back of shares shall be well motivated by the board and shall normally comprise no more than 10 percent of outstanding shares.

### *New share issues*

New share issues should be clearly motivated and should in principle respect the preferential rights of existing shareholders. Directed placements are only acceptable in special circumstances, in which case the board shall provide clear justification for its action. For issues in kind, a thorough and clear valuation shall be made available to the shareholders, to enable a balanced judgement of the share issue in relation to the assets acquired.

## **2. Company structure**

Corporate acquisitions and investments shall be conducted with a view to promoting the long-term development of the company, to increase its share value.

It is important that decisions about corporate acquisitions and investments mirror the company's investment strategy and that these decisions are followed up systematically. It is especially important that companies that employ a strategy based on acquisition have a system in place for decisions about (and the monitoring of) corporate acquisitions.

## **3. Voting rights**

The Second AP Fund considers that one share should in principle entitle the holder to one vote. The Swedish system features different classes of ordinary shares, carrying different voting rights: class A and class B shares. The Fund is broadly positive to reducing the discrepancies in voting rights between different classes of share. The rights of holders of class B shares shall be observed and they shall not suffer economic disadvantage in conjunction with changes of ownership, public takeover bids or spin-offs.

## **4. Risk management**

All companies confront risks of various sorts that can affect their operations. The board shall have a good understanding of the risks associated with the business operation and shall ensure that the company has systems and processes for effective risk management, risk analysis and risk control.

The risks incurred should be well known as well as being carefully controlled, monitored and evaluated.

## **5. Board of directors and nomination committee**

It is important that every exchange-listed company has an effective board, dedicated to the company's well-being. The shareholders and board shall be jointly responsible for establishing appropriate and functional work routines to ensure that the board operates effectively. The Second AP Fund is positive to the idea that directors should hold shares in the companies on whose boards they sit. Furthermore, the Fund is of the opinion that the chair and the CEO should be different individuals.

The Second AP Fund recommends that the election of members of the board be conducted on an annual basis. The Fund is also in favour of introducing a majority requirement in connection with board elections. The Fund recommends that the majority of a board's directors should be independent.

The Second AP Fund is of the opinion that one and the same person, because of time limitations, should occupy only a limited number of directorships on the boards of publicly-quoted companies. The number of commitments deemed reasonable will depend on whether the individual is a director or chairman of the board, the nature and extent of his/her other commitments, the size of the company and the situation in which it finds itself.

In principle, the Second AP Fund considers that the size of the fee paid to board directors shall be clearly linked to the anticipated amount of work involved, as well as the size and complexity of the company. The Fund recommends fixed fees for board directors. Where the fee paid to a board director features a variable element, this shall be subject to special justification.

To avoid difficulties arising in its role as an asset manager, the Fund applies the principle that its employees may not serve as directors on the boards of publicly listed companies.

### *Nomination committee*

The Second AP Fund supports the Swedish system of shareholder represented nomination committees. As a fundamental principle, the Second AP Fund shall participate in nomination committees where the Fund is one of the largest shareholders or where its participation is sought. If the degree to which the Fund's participation is sought becomes excessive, the Fund may deviate from the aforementioned principle.

The nomination committee shall ensure that a structured evaluation of the board is conducted annually and that the base from which board members are recruited shall be expanded in terms of background, competence and the specific experience required for the particular company's business activities. The Fund emphasizes the importance that the board should be a well-functioning group. It also stresses how important it is that nomination committees should submit concrete proposals for achieving a better balance in the way boards are composed in terms of gender, age, background, experience and competence.

## 6. Executive management and executive remuneration

Remuneration to executive management shall be relevant, competitive, motivating and shall be in proportion to the company's size and net result and be appropriate compared to the benchmark group. Incentive programmes shall be long-term and shall reflect a clear correlation between performance and remuneration.

The board of directors is responsible for ensuring that corporate incentive schemes are formulated in an appropriate manner. The board shall be able to motivate and clarify the company's remuneration strategy. It is also the board's responsibility to ensure that the contracts pertaining to the members of the company's executive management are reasonable and well considered. Variable remuneration may be employed as an integral element of a company's incentive model, in conjunction with other elements, where this is deemed to contribute to sustainable long-term growth. The remuneration system for senior executives in Swedish companies shall be clearly defined in the company's remuneration policy, which is approved by the AGM. The policy shall describe every element of the remuneration system.

### *Variable remuneration*

Where variable remuneration is appropriate, the systems implemented shall be simple to explain and comprehend, a clear link shall be established between performance targets and remuneration. Performance requirements shall be determined according to the company's strategy and shall take into account company specific risks. In individual cases, the Fund bases its assessment on the three principles appropriateness, clarity and measurability. Remuneration models that feature variable remuneration and other forms of incentive should be subject to particularly careful assessment in terms of result and effect. The board of directors shall ensure that such an assessment is conducted and that its relevant aspects can be clearly reported to the shareholders.

The Second AP Fund believes that 'matching shares' shall be linked to clearly defined performance targets. The Second AP Fund does not consider that continued employment and own investment shall in themselves constitute an entitlement to matching shares. In cases where matching shares are not performance-based, this must be specially justified. The Second AP Fund places no demands on own investment.

Incentive systems shall not be linked directly to general stock market performance. When addressing the way incentive programmes should be formulated, the Second AP Fund normally supports the recommendations issued by the Swedish Securities Council. In the case of options-linked incentive schemes, there should be a reasonable balance between the individual executive's holdings in options and equities.

### *Pensions*

As for the pension benefits issue, the Fund believes that all pension schemes should be premium based, and that a pension shall be paid on the fixed salary alone, unless other terms apply in conjunction with a collective pay agreement.



*General remuneration principles*

Holistic view – Remuneration principles shall comprise all forms of remuneration to senior executives and other key personnel, a holistic approach being decisive in determining relevant and reasonable remuneration.

**Stable/Predictable** – A fixed salary shall (over time) account for more than half the total remuneration (excl. pension benefits). Pensions shall be based on the fixed salary.

**Long-term** – Remuneration from long-term incentive programmes shall form the main element of variable remuneration. Variable remuneration with a shorter horizon may not place long-term development at risk.

**Relevant** – Variable remuneration programmes shall only generate an outcome on the fulfilment of performance targets where the targets are relevant to the company's strategic development.

**Reasonable** – The remuneration shall be reasonable when compared with the company's benchmark group and long-term income-generating capacity.

**Follow-up/transparency** – To enable a follow-up of the decisions made about incentive programmes, the company shall follow-up and report to the company's shareholders on the outcome of the programmes, including a judgement as to whether they have fulfilled their purpose.

## **7. Auditors' role**

The auditors are the shareholders' monitoring authority and in Swedish companies shall be elected at the AGM. The auditors' independence from the company's executive management and board of directors is decisive to shareholder confidence in their scrutiny of the company's administration. To maintain the independent status of the auditors and to ensure the high quality of the audit, the responsible auditors shall be rotated after a maximum of seven years.

Boards of directors, auditors and shareholders shall strive to minimise the risk of auditors finding themselves in situations of conflict of interest. The assignments the auditors have carried out for the company, as well as any other involvement that could undermine their independence, shall be declared at the annual general meeting and clearly stated in the annual report. Other assignments shall only exist to a limited degree and shall be clearly declared at the AGM.

## **8. Information and its distribution**

Companies shall seek to establish an open and ongoing dialogue with their shareholders. The information released by companies shall be correct, clear, factual and credible. This information shall enable shareholders to gain an understanding of the company's financial situation, thereby providing the basis for as accurate an assessment of the company's net worth as possible. The companies shall strive to be as clear as possible in describing their goals and the financial and strategic consequences of achieving them.

The information released by companies shall enable investors to make a qualified assessment of the company's future development and of which factors will generate shareholder value.

## **9. Corporate culture and business ethics**

The board, company management, auditors and major shareholders shall work together to promote a sound corporate culture. A sound corporate culture is built from within and shall pervade every aspect of company activities. The corporate culture can be a vital competitive instrument and is decisive to sustained and long-term value growth. Issues such as integrity, conflicts of interest, ethics and good organisation should also be highlighted and discussed as a means of consistently developing and strengthening the corporate culture. The board of directors should seek proactively to cultivate and maintain an ethical corporate culture that permeates the entire operation. The companies should have a business ethics policy or Code of Conduct, as well as an anti-corruption policy. The companies should also practise complete transparency in describing how these are implemented, followed up and evaluated. The Second AP Fund's assumes that the company pays tax in the country where its profits have been generated. Portfolio companies should also practise transparency with respect to tax issues.

## **10. Environment and ethics**

The Second AP Fund expects companies to become actively engaged in environmental and ethical issues. The Fund believes that a farsighted and positive attitude to environmental and ethical issues enhances the value of companies. For the individual company, this means that it shall operate in compliance with regulations, conventions and legislation, as well as proactively promoting a sound interaction with society at large. Companies should also communicate their stance on sustainability challenges of relevance to their business activities (e.g. climate change, water, ecosystem services/biological diversity, chemicals, fighting poverty and social injustice).

The Second AP Fund expects companies to act responsibly in observing international conventions and this applies whether the countries in which the companies are active have signed the conventions or have weaker human rights legislation. The conventions referred to in particular are the United Nations Declaration on Human Rights, the United Nations Convention on the Rights of the Child, the Rio Declaration on Environment and Development, the International Labour Organization's 'Core Conventions' and the conventions against bribery and corruption on which the Global Compact and OECD's Guidelines are based.

The Second AP Fund is positive to the idea that companies subscribe to the United Nations Global Compact and actively implement its principles, incorporating them as a natural part of their day-to-day business operations. Multinational companies shall also observe the OECD's Guidelines for Multinational Enterprises and Corporate Responsibility. In every case, however, the exercise of corporate governance shall be based on local company legislation and the appropriate codes for such governance.

The Second AP Fund expects companies to operate in compliance with the framework described in the UN Guiding Principles on Business and Human Rights. These principles have been incorporated into the OECD's Guidelines for Multinational Enterprises and Corporate Responsibility.

The companies' boards of directors shall ensure that a policy or Code of Conduct is drawn up, which states their position on the environment and ethics, both with respect to the company in question and to other key parties, such as subcontractors. Companies should also declare their stance regarding the Global Compact, the UN's 17 Global Goals for Sustainable Development, the OECD's Guidelines and the UN's guiding principles concerning companies and human rights. The company shall establish explicit goals, as well as providing the necessary resources and an action plan for implementing and sustaining the stated policy. Companies shall provide a report of this work at least once a year.

## **What companies can expect of the Second AP Fund**

### *Long-term investor*

Shareholders' commitment to and interest in the long-term development of companies is a fundamental condition of solid economic growth. The Second AP Fund is non-political and independent, both with regard to the owner spheres in which it operates and in terms of its special position among Swedish state agencies (regulated by law), which enable it to act as a committed and long-term investor. As a long-term investor, the Second AP Fund fills an important role on global capital markets.

In companies where the Fund sees value in a change, it strives to achieve such change by engaging in a dialogue with the company in question. This may involve collaboration with other investors.

The Second AP Fund shall participate in and exercise its voting rights in companies in which it holds substantial assets and, in some cases, shall also adopt an active stance at AGMs.

The Second AP Fund's governance role shall be exercised with regard to its mission and status. Among other things this means that the Second AP Fund, as a major investor in a company, shall actively promote good ethics, environmental responsibility and responsible corporate governance.

### *Constructive dialogue*

The Second AP Fund considers dialogue to be the most important tool for achieving change. In the case of Swedish companies, the Fund often conducts a dialogue with them prior to the AGM, during

which it presents its views on the proposals to be presented for approval at the same AGM. These dialogues are normally confidential, since the Fund believes that the best result can be achieved when such dialogues are held between the Fund and the company alone. The Fund may nevertheless make its position known publicly at an AGM if it feels the need to raise questions that remain unanswered. If the Fund decides to vote against a board proposal, it motivates its decision at the AGM.

The Second AP Fund also often conducts a dialogue with foreign portfolio companies after their AGMs, when certain companies are selected to receive information as to why the Fund has elected not to support board proposals.

#### *Consistent behaviour*

Over time, the Second AP Fund aims to act as consistently as possible in its relationships with companies, in an attempt to gain understanding for the issues it pursues with each company.

#### *Conflicts of interest*

The handling of conflicts of interest in connection with corporate governance by the asset manager is a key topic. As an independent state-owned institutional investor, the Second AP Fund is not subject to the same potential internal conflicts of interest as other players. Should such arise, however, they are addressed in three stages. Once a conflict of interest has been identified, the Fund's CEO determines the action to be taken in the specific case. In conflicts of interest of special significance, or in cases where the Fund's CEO is personally closely involved, the decision is delegated to the Chair. Conflicts of interest are reported to the board and, if of particular significance, are published on the Fund's website.

#### *Information and its dissemination*

The Second AP Fund's board of directors confirms the Fund's corporate governance policy on an annual basis. Any changes in the Fund's corporate governance principles, its position on matters of principle or information about which AGMs it has participated in and how, if so, its voting rights were exercised, shall be published in the Annual Report, on the website and in the Corporate Governance Report. The Second AP Fund's responses to the PRI's annual survey are published on both the AP2 and PRI websites.

#### *Securities lending*

Securities lending fulfils a vital function on the financial markets, one reason being its contribution to increased liquidity, to the benefit of stock markets and their long-term growth. Securities lending also increases the Fund's ROI. As a committed shareholder, believing it important to be able to exercise its voting rights in its portfolio companies, the Fund lends out Swedish equities only in exceptional cases, and never more than 90 percent of its holdings in an individual Swedish or foreign company. Where Swedish equities *are* loaned out, they are recalled prior to the AGM. The Fund places a ceiling on the maximum value of such lending.

## **Governance of private equity funds**

When investing in private equity funds, the Second AP Fund adopts a variety of investment strategies and approaches. Consequently, its portfolio companies are in different phases of development, ranging from development companies to mature businesses.

AP2 is steadily increasing its focus on governance, sustainability and transparency in its relations with private equity funds. The long-term objective is to ensure that the Fund's investments in the private equity industry continue to generate an attractive return.

The Fund employs a structured process for analysis, the evaluation of new investments and for monitoring its investments in private equity. Governance activities focus on ensuring that private equity funds possess structures and systems to manage portfolio companies' opportunities and risks concerning the environment, ethics and corporate governance. An ongoing and constructive dialogue with the private equity funds about their sustainability efforts forms part of the follow-up process that aims to promote progress through collaboration.

The Second AP Fund believes it is important that private equity funds in which the Fund invests shall integrate sustainability in their business operations, investment policies and governance activities. The Fund is positive to the idea that private equity funds should apply the Principles for Responsible Investment (PRI) and the United Nations' Global Compact. The Fund also challenges private equity funds to support and comply with the Institutional Limited Partners Association/ILPA's guidelines and standards on general principles, accounting and reporting.

The Second AP Fund challenges private equity funds to report in their annual reports on what they and their portfolio companies have been doing during the year to live up to the principles of the PRI and Global Compact. The Second AP Fund evaluates and follows up these reports on an annual basis.

## **Governance of non-listed real-estate companies**

The Second AP Fund's governance principles shall as far as possible also apply to the Fund's holdings in conventional non-listed real estate. As for its investments in agricultural real-estate, the Fund shall follow the PRI's Guidance for Responsible Investment in Farmland.

### *Analysis, evaluation and follow-up*

The Second AP Fund employs a structured process for the analysis, evaluation and follow-up of its non-listed real-estate. As well as sustainability issues, this process also comprises finance, risk and performance analysis. The Second AP Fund shall maintain an ongoing and constructive dialogue with non-listed real-estate companies concerning their sustainability efforts, with a view to developing such efforts.

The Second AP Fund is a signatory to the Guidance for Responsible Investment in Farmland, now a part of the PRI, and reports annually on progress with the implementation and follow-up of these guidelines in its Corporate Governance Report. The managers of the Fund's holdings in agricultural real-estate shall follow up and report in compliance with these guidelines.

The Second AP Fund's holdings in forest real-estate shall be managed in compliance with the Programme for the Endorsement of Forest Certification (PEFC) and/or the Forest Management Certification awarded by the Forest Stewardship Council (FSC).

The Second AP Fund shall conduct an annual evaluation and follow-up of individual agricultural real-estate managers' progress with and implementation of the agricultural principles established by the PEFC and/or FSC.