

Active work on sustainability in China

In September 2016, the Second AP Fund visited its external portfolio managers in China to learn more, follow up on their activities and expand collaboration. The visit featured visits to companies, meetings and a number of seminars. The Fund has been investing in the Chinese domestic market since 2013 and has an active collaboration with its portfolio managers on sustainability issues.

The Second AP Fund has a strategic allocation of one percent of its total portfolio in Chinese equities listed on the Shanghai and Shenzhen stock exchanges. Foreign institutional investors are free to invest in the Chinese domestic market, providing the appropriate permits have been obtained. Permits are awarded to investors that have been issued with a QFII (Qualified Foreign Institutional Investor) licence and assigned an investment quota. The Fund has possessed such a permit since 2013, and employs three external Chinese portfolio managers to handle its investments. The decision to invest in domestic Chinese equities was prompted by a number of strategic investment considerations. Thanks to China's rapid growth in recent decades, its economic and financial footprint is considerable. This impacts on global markets and, consequently, also affects the Fund's portfolio. Direct exposure to the Chinese market offers valuable diversification, while also ensuring that the Fund's portfolio better reflects China's position in the global economy.

Challenges to sustainability

Investing in China can involve major challenges when it comes to sustainability. The Fund deems corporate and market transparency to be less satisfactory than in more developed markets. One of the reasons the Chinese government is issuing permits to institutional investors is believed to be to attract shareholders who, by reason of their behaviour and priorities, will help create a more lasting and value-based stock market. This in turn is important to the effective allocation of capital and, over time, to the long-term development of the Chinese economy as a whole.

Dialogue with portfolio managers and portfolio companies

The Second AP Fund works actively with its external portfolio managers in China, to ensure that sustainability concerns are made integral to investment decisions. The Fund visits these portfolio managers every year, to develop collaboration on sustainability issues. Dialogue – as a tool to drive change – works well. It promotes increased understanding of the topic and also serves to

build trust between parties. During these visits, the Second AP Fund also visits portfolio companies. The Fund is convinced that this opportunity to discuss sustainability issues directly with portfolio companies is highly valuable.

These visits build awareness and contribute to a better understanding into which sustainability issues that are problematic in the country. This is important to be able to ask the right questions to the portfolio managers that the Fund meets.

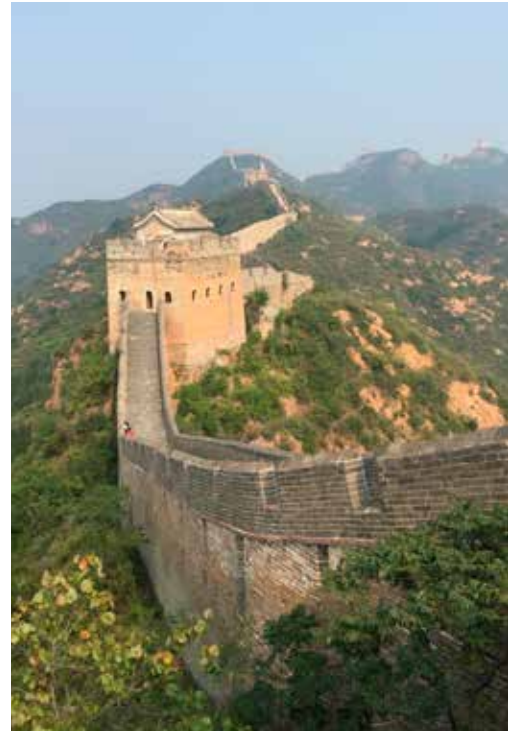
“ The Second AP Fund works actively with its external portfolio managers in China, to ensure that sustainability concerns are made integral to investment decisions.

Integration of sustainability

Integrating sustainability into the investment process is a relatively novel experience for asset managers in China. To help evolve processes for the effective management of sustainability issues, the Fund is collaborating closely with its portfolio managers. During this annual visit, discussions addressed ways in which fund managers are making sustainability factors integral to their fundamental analyses. Particular attention was paid to the discussion of social factors, to which the Fund was able to contribute from experience. The process of integrating these social factors will continue in 2017. To enable the Fund to monitor its portfolio managers' progress, it has also provided reporting tools and assistance in formalizing their reporting process.



Lina Sandström, sustainability analyst and Patrik Jonsson (not in picture), responsible for listed assets at the Second AP Fund, visit Chongqing Logistics City, China.



The Great Wall of China



The Second AP Fund's CIO Hans Fahlin (to the left) as panel moderator at APS's Annual Client Event in Chongqing, China.