

Sustainability Policy

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Background

Första, Andra, Tredje och Fjärde AP-fonderna's (AP Funds) mission and goal is to manage fund assets in a way that generates maximum possible benefit for the Swedish national pension system. The total risk level in the AP funds' investments 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 (2000:192) the AP funds' asset management must be conducted in an exemplary manner through responsible investments and responsible ownership. In the management, special importance must be attached to the promotion of sustainable development without sacrificing on the overall goals regarding return and risk. The AP Funds shall collaborate to achieve the new goal.

By actively incorporating environment, ethical, social issues and corporate governance in Andra AP-fonden's business, value can be created and safeguarded. Sustainability is an encapsulating term that the Fund uses for these issues.

Systematic and exemplary sustainability work is also one of the key factors in keeping and recruiting staff.

Purpose

The main purpose of the sustainability policy is to provide overarching guidelines for the Fund's work with sustainability issues. The sustainability policy describes Andra AP-fonden's views on sustainability and how the Fund intends to promote sustainable development.

Policies that govern sustainability work

The Sustainability Policy, Corporate Governance Policy, Environment Policy, Human Rights Policy, the HR Policy and the Fund's core values constitute the overall internal frameworks for the Fund's work with sustainability issues.

Definition of sustainability and sustainable growth

The sustainability programme 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 harmonises with Brundtland Commission (1987) which states "Sustainable development is the kind of development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Our vision

Andra AP-fonden's vision is "world-class fund management". To achieve that vision, sustainability must be integrated into all analysis and investment processes.

Principles for responsible investment

Andra AP-fonden supports and actively promotes implementation of the UN's Principles for Responsible Investment (PRI). It signed up to these Principles as early as 2006, when they were first established.

Principles for responsible investment

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active investors and incorporate sustainability into our ownership policy and corporate governance work
3. Encourage better reporting of sustainability factors in the companies that we invest in.
4. Promote acceptance and implementation of PRI principles within the finance industry
5. Work together with others to facilitate the implementation of the principles.
6. Report on the progress that is made in the implementation of the principles.

Implementing these principles is an ongoing process, one which requires that Andra AP-fonden shall consistently address sustainability issues, both in its role as asset manager and as asset owner.

Investment belief

The Fund's investment strategy is shaped by the Investment beliefs. They describe how the Fund perceives how the asset capital markets works and how the Fund can create value and achieve success. Andra AP-fonden's investment belief reflects a common philosophy that unites board, management, and employees and is a departure point for the investment strategy and the whole company. These ideas influence the various parts of the Fund's investment strategy.

The Fund's investment belief with respect to sustainability

By being a responsible owner and investors, it is possible both to generate and preserve value.

Companies and managers who adopt a long-term approach to ethics and the environment, thereby taking into account how the resources are used, generate long-term value for the investors. It is important that long-term investors encourage such an approach. It is also appropriate for long-term investors to be involved in developing and implementing rules and principles for the holders of listed securities and unlisted assets. Investors should also work to ensure that the pricing of resources that used by the companies and investments that are included in the portfolio as efficiently as possible and fair, transparent and effectively regulated financial markets.

In companies and management organisations where there is potential for improvement in corporate governance and where the company takes ethics and the environment into account, a dedicated investor

can, by systematically identifying shortcomings as well as opportunities and exerting a responsible influence in the companies, generate value to the portfolio.

Integration of sustainability into the management process

The Fund's overall goal is to make sustainability an integral part of all analytical and decision processes.

Andra AP-fonden is responsible both for the management and governance of the capital assets in its care and is actively engaged in addressing environmental, ethical and corporate governance issues from both perspectives. By encouraging portfolio companies to address ethical and environmental issues, the Fund can help them identify the opportunities and risks, at an early stage, that impact on the return.

The Fund's basic conviction is that companies with long-term sustainable business models generate a higher long-term value for its investors. Such investments are also, all things being equal, less risky. Companies that integrate factors such as ethics and the environment in their long-term business development will have an advantage compared with their competitors and better conditions to create long-term value for their investors. A proactive approach to the environment, ethics, social issues and corporate governance are therefore means to achieve the goal of a good risk-adjusted return. By integrating economic analyses into the analyses of the environmental, ethical and corporate governance aspects, a more reliable basis for investment decisions is created.

Andra AP-fonden has, as manager of Sweden's national pension assets, a responsibility to anyone who has ever worked in Sweden to create a solid and sustainable economic development for the managed assets. The Fund will act in the best way based on the overall mission.

Priorities in sustainability

The Fund's sustainability work is concentrated mainly on some prioritised focus areas that the Fund considers to be important for a better long-term return. The purpose of focusing the Fund's resources on a number of areas is to achieve results in areas of financial relevance. The Fund's overall direction is the integration of sustainability into the management process. The Fund's specific focus areas are climate, corporate governance, diversity and transparency/reporting.

Andra AP-fonden possesses extensive expertise and experience in these selected focus areas, having been engaged in these issues for a considerable period. The Fund also expects to work with the areas for a long time to come.

Contribute to climate transition

Andra AP-fonden's long-term ambition is to have a portfolio in line with the two-degree target, contributing to the transition into a two-degree society.

The Fund will achieve this by:

- Investing in sustainable strategies
- Dialogues with companies
- Divesting from companies with a high financial climate risk
- Dialogues with decision-makers

Distribution of responsibilities

Andra AP-fonden's board of directors determines guidelines and policies in sustainability issues and has authorised the CEO to manage them as part of the day-to-day operations. The day-to-day work is managed by the Sustainability Committee which consists of all the members of the Fund management and the Fund's Senior sustainability analysts. The Sustainability Committee is the Fund's project organisation for sustainability issues. Operationally the work is conducted mainly within the Fund's asset management organisation.

With continuous training, all employees shall understand how they influence the Fund's sustainability work in their respective roles and how they are a key factor in the Fund's possibilities for achieving the policy. Every employee is also expected to independently search for the information that they need in their work.