

AP7

Sustainability Report 2019

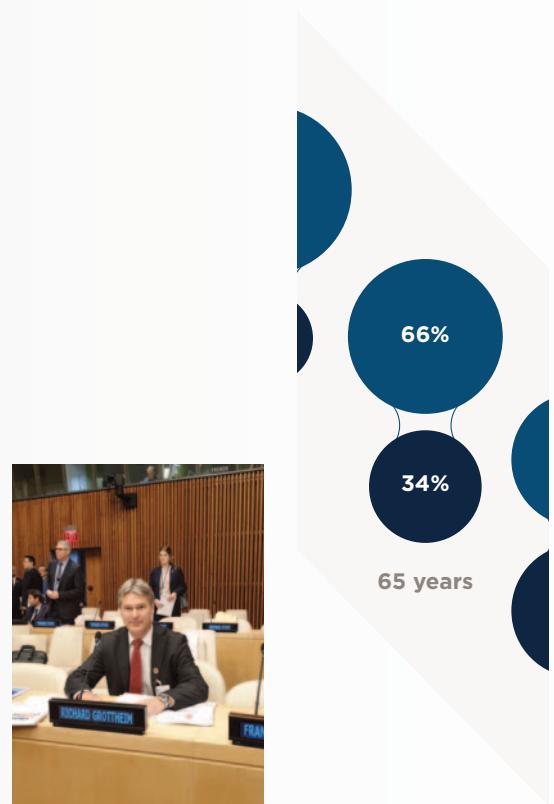


“Collaboration
is the key to
sustainable
change.”

Richard Gröttheim, CEO of AP7, at the launch of
Global Investors for Sustainable Development at the
UN General Assembly, New York, October 2019.

Contents

From the CEO	2
About AP7	4
AP7's role in sustainable development	6
AP7 as an active owner for sustainable development	8
Emma Sjöström – corporate governance and sustainability	12
Our themes	14
Theme: Corporate Climate Lobbying	16
Theme: Working Conditions in Food Supply Chains	18
Theme: Sustainable Impact Measurement	20
On savers' terms	22
AP7: Climate-related risks	24
GRI Supplement	26
GRI Index	30
Q&A	32
Glossary	33
Blacklist	34



AP7

Our mission. "Anyone who doesn't want to, or cannot, choose will have a pension at least as good as other people."

Our ambition regarding return. Continual savings in the default option will generate a long-term return that is 2-3 percentage points higher per year in relation to the income pension.

AP7 in brief. AP7 is a public agency tasked with managing premium pension funds for the Swedish population. Over four million Swedes currently invest their premium pension in AP7 Säfa. The total value of assets is approximately SEK 670 billion, so management is a major responsibility. AP7's asset management is exclusively aimed at securing the interests of the pension savers, both current and future pensioners.

AP7 is a universal owner. With investments in more than 3000 companies around the world, we can act as owners on a broad front and over a long term, with the entire market's interests in mind. By being an active universal owner, AP7 is securing the financial interests of both current and future savers.

AP7's corporate governance is primarily aimed at ensuring a positive effect on the long-term return for the entire market rather than for individual companies.

Managed assets: **SEK 670 billion**

Number of savers: **over 4 million**

Investment portfolio: **more than 3000 companies around the world**

Number of employees: **36**
as of 31 December 2019

The Sustainability Report for 2019 is submitted on 30 April 2020. The report has been prepared in accordance with the Seventh AP Fund's principles for sustainability reporting, which align with principles presented in the Swedish Annual Accounts Act. The contact person for sustainability reporting is Johan Florén, Head of Communications and Corporate Governance.

2 4

"Collaboration is the key to sustainable change."

CEO Richard Gröttheim on the ambition to be at the leading edge of development, both as owners and investors.

About AP7

"AP7 has a responsibility to future generations and to external parties in terms of both asset management and corporate governance."

Text: Seventh AP Fund (AP7)
 Photo/Illustration:
 Malena Rosman, Sida, Cover
 Pontus Höök, 2
 Jonas Böttiger, 4–10,
 14–17, 20–21, 24–25
 Johan Olsson, 12
 Flora Gaber, 18–19
 Henrik Skarstedt, Talarforum, 22–23
 Concept and graphic design:
 bottiger.se
 Translation:
 Leslie Walke, CommunicAID
 Print: Åtta.45



6

AP7's role in sustainable development

As a global owner of equities, we can be most effective as active owners, facilitators and knowledge builders.

8

Engagement tools

AP7 engages as an active owner mainly through company dialogues and actions at general meetings.

12

Emma Sjöström – Stockholm School of Economics

How can institutional capital be most effectively used in tackling the climate challenges we are facing?

14

Our themes

AP7 works at greater depth through themes. In 2019, the Corporate Climate Lobbying theme was concluded.

22

On savers' terms

Savers are at a great disadvantage in terms of information regarding the pension system.

Auditor's statement regarding the Seventh AP Fund's Sustainability Report

For Seventh AP Fund, Corporate ID number 802406-2302

Assignment

The Sustainability Report for 2019 has been prepared in accordance with the Seventh AP Fund's principles for sustainability reporting, which align with principles presented in the Swedish Annual Accounts Act.

Focus and scope of the examination

Our examination has been conducted in accordance with FAR's recommendation RevR12, Auditor's opinion regarding the statutory sustainability report. This means that our

examination of the Sustainability Report has a different focus and is substantially narrower in scope than an examination conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this examination has provided us with sufficient information on which to base our opinion.

Opinion

A sustainability report has been prepared.

Stockholm 30 April 2020

Helena Kaiser de Carolis
Authorised Public Accountant

Peter Nilsson
Authorised Public Accountant

Collaboration **the key** to sustainable change



At the time of writing, the world is in the midst of a crisis – a crisis that is affecting businesses, societies and populations everywhere. It is important that this does not stop the work on tackling the climate issues. My hope is that we can learn a lot from the current situation when the acute phase has passed.

When I look back over 2019, I can see that, while the global ambition to tackle the climate challenges has increased considerably in recent years, the work is too slow and must be accelerated. This is one of the reasons why AP7 decided to become involved in the Transition Pathway Initiative, which develops tools and support that enable investors to assess the transition capability of the companies in which they invest. With better information, equity owners and investors have greater opportunities to contribute to the solutions.

AP7's ambition is to be at the leading edge of development, both as owners and as investors. Here, international collaboration is an important success factor. This has been clearly shown in our work to get companies to end lobbying activities that counteract the climate goals in the Paris Agreement. Without global collaboration with other active owners, and the joint pressure exerted by the Climate Action 100+ network, our voice would not have carried so much weight at the general meetings and in the dialogues. I'm proud that this has had effect, with more high-emission companies choosing to take action to encourage their interest organisations to stop working against the Paris Agreement.

We feel we can have the greatest effect on sustainability by developing norms together with other owners, and then engage with the companies to ensure they respect the norms. Blacklisting of specific companies whose conduct is unacceptable is an additional corporate governance tool aimed at attaining the same goal, i.e. bringing about change.

In 2019, thirty of the world's biggest investors launched a new network, GISD – Global Investors for Sustainable Development – together with the UN Secretary General. I participated as representative

for SISD, the Sida initiative that is the Swedish role model. The aim is to mobilise more capital in the work with the global goals and sustainable investments. International collaborations like GISD are vital for attaining results, and I'm looking forward to our collaboration in the years to come.

The pandemic has shown that, when we are faced with an explicit and immediate threat, humanity shows an enormous capacity to act globally – governments, company managements, and private citizens. My hope is that a similar capacity to act can also be mobilised for the more drawn-out climate crisis we are facing. Naturally, companies must reduce emissions and play their part in the transition to bring a halt to global warming, but politicians must also make international agreements and implement national legislation to bring about the transition. In turn, owners can be the link between the principles and the implementation of the measures. According to the Transition Pathway Initiative, more than 80 percent of the highest-emitting companies have still not adapted their business operation to the 2°C target, so we are still facing major challenges.



Richard Gröttheim
CEO, AP7

Richard Gröttheim, CEO of AP7,
outside the UN Headquarters
in New York.

About AP7



Anyone who doesn't want to, or cannot, choose will have a pension at least as good as other people – that's what we're working for.

In the state pension system, part of the pension contribution goes to the premium pension. When pension savers have made their individual choices, the premium pension is managed in securities funds. AP7 manages the default option, AP7 Såfa, for those savers who do not want to, or cannot, choose funds themselves.

The premium pension system is administered by the Swedish Pensions Agency, a public agency that in this context also serves as a fund insurance company. AP7 is also a public agency, working as a fund company with management of securities funds.

Our mission

Since the premium pension system was introduced in 2000, AP7's mission has been to manage the premium pension capital in the government default option. On 21 May 2010, the Premium Savings Fund and the Premium Choice Fund were wound down, and replaced by the AP7 Equity Fund and the AP7 Fixed Income Fund. Based on these two funds, AP7 can today offer the premium pension savers a total of six products, of which AP7 Såfa ('Statens årskullsförvalningsalternativ') is the default option. According to our mission, the assets are to be managed in such a way that the savers can feel secure and get a good return on their investments without themselves needing to be active in the fund market.

Based on the mission, AP7 will maintain a clear profile with regard to responsibility issues. AP7 has a responsibility to future generations and to external parties in terms of both asset management and corporate governance. This means, for example, that communication concerning pensions is tailored to the savers' situations, and is clear and informative.

For us, sustainability means for example that we are equally responsible for those who are already pensioners as for those who are starting to work today, or in 20 years' time. If we maximise today's pensions at the expense of future savers, then we have not taken that responsibility.

Our values

AP7 is a Swedish public agency, with democracy and a scientific foundation as core values. Our role is to implement decisions made by the Swedish population's elected representatives in the Swedish Parliament and Government.

Our activities are to be carried out in a legally correct and impartial way, based on legislation and directives.

Decisions are to be taken on a factual basis and implemented in a resource-efficient way, with equal treatment as a common theme.

In our work with responsible investments, we apply the value norms that characterise the international conventions that Sweden has signed with regard to environment, human rights, labour rights, and corruption. We regard these norms as ranking higher than various types of social, religious and economic interests. This fits in well with our role as a public agency, and can be assumed to reflect the perception of justice in the broad population group to which the savers belong.

AP7 Såfa is the default option in the premium pension system. Savers who do not actively choose a fund are automatically allocated to AP7 Såfa. The default option adapts the level of risk to the saver's age from the age of 56. The proportion invested in the Fixed Income Fund is gradually increased, and the proportion in the Equity Fund is reduced.

Our role as owners

AP7 is a universal and long-term owner. By this, we mean that our asset management strategy involves buying from the entire market, and that we do not buy to sell. For savers, the combination of high diversity and low fees generates financial value that makes a big difference over a period of 40-50 years. The asset management strategy affects how we work with corporate governance.

With over SEK 600 billion invested in more than 3000 companies around the world, we can act as owners on a broad front and over a long term, considering the interests of the entire market. As universal owner, AP7 will be transparent in its use of all available tools to drive the stock market in a sustainable direction, and will continually develop new knowledge and methods.

The building block funds

The default option, AP7 Såfa, and the three state fund portfolios, AP7 Offensive, AP7 Balanced and AP7 Cautious, are created from the two building block funds, the AP7 Equity Fund and the AP7 Fixed Income Fund. The building block funds can be chosen separately in the fund market and combined with other funds in the premium pension system.

AP7 Equity Fund. Most of AP7's managed capital is invested in the AP7 Equity Fund. The strategy in the AP7 Equity Fund is based on three key elements: a Global Equity Portfolio, Diversification and a Risk Framework. The Global Equity Portfolio is the main pillar of the Equity Fund, with a broad geographical and sector distribution in over 3000 companies, combined with financial instruments that raise the level of risk and expected return. The diversification

Before
55 years

AP7
Equity Fund
100%

80%

20%

61 years

enables the AP7 Equity Fund to spread and streamline risks by investing in assets that complement the Global Equity Portfolio. We also apply a systematic risk framework to manage the risk level and protect the assets.

AP7 Fixed Income Fund. A small proportion of AP7's managed capital is invested in interest-bearing securities. AP7 Fixed Income Fund is a low-risk fund that largely invests in Swedish Government, mortgage and green bonds.

AP7 Såfa. AP7 Såfa is the state default option, and is a mixed-fund portfolio comprising the AP7 Equity Fund and the AP7 Fixed Income Fund. The distribution between the funds in the portfolio is adapted to the saver's age. AP7 Såfa is suitable for savers who do not wish to spend time monitoring the securities market. If a saver does not make an active choice about their premium pension, the pension contributions are automatically invested in AP7 Såfa. The aim is that these savers will have pensions at least as good as other pension savers.

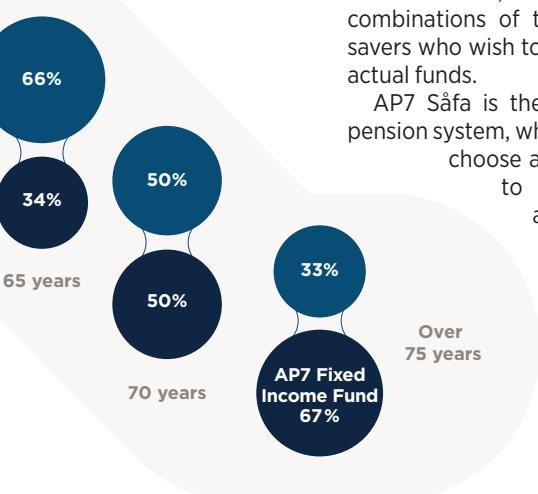
The return for the average Såfa saver in 2019 was 33.1 percent. In the same period, the average return for the private premium pension funds was 23.0 percent. From the start in autumn 2000 until year-end 2019, the return on the default option was 275 percent, the equivalent of an average 7.1 percent per year in time-weighted return. In the same period, the private premium pension funds generated a return of 114 percent, with an average annual return* of 4.0 percent.

AP7's ambition for returns is that continual saving in the default option throughout a person's working life will generate a long-term return that is 2-3 percent higher per year in relation to the income pension. So far, the default option has exceeded this ambition. Since 2000, the capital-weighted return has, on average, been 10.6 percent per year, compared with the return in the income pension of 3.1 percent per year.

Adjusting the relative proportions of the respective building block funds in relation to the saver's age gives AP7 Såfa a life-cycle profile that adapts the level of risk to the saver's age. In practical terms, this means that savers have all their money invested in the Equity Fund up until the age of 55. Between the ages of 56 and 75, 3-4 percent of the money is transferred each year to the Fixed Income Fund and, after 75, two-thirds of the money is kept in the Fixed Income Fund for the rest of the saver's life.

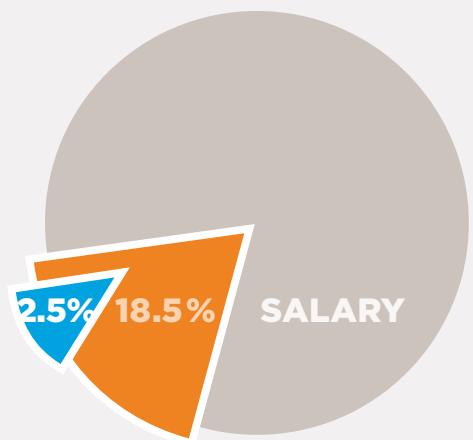
The three AP7 fund portfolios, AP7 Offensive, AP7 Balanced, and AP7 Cautious, have different combinations of the building block funds to suit savers who wish to choose the risk level, but not the actual funds.

AP7 Såfa is the default option in the premium pension system, which means that savers who do not choose a fund are allocated automatically to AP7 Såfa. The default option adapts the level of risk according to the saver's age from the age of 56. After that age, the proportion of Fixed Income Fund increases, and the proportion of Equity Fund decreases.



*On behalf of AP7, Morningstar calculates an index that reflects the development of funds that can be chosen on the Swedish Pension Agency's fund market, excluding AP7 products. The index does not include discounts that the funds offer in the premium pension system.

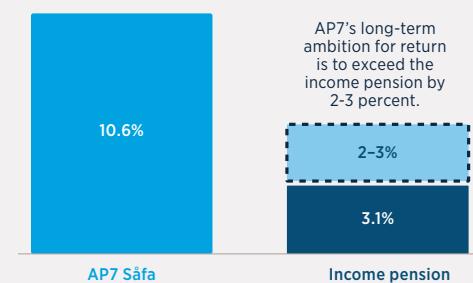
AP7 in figures



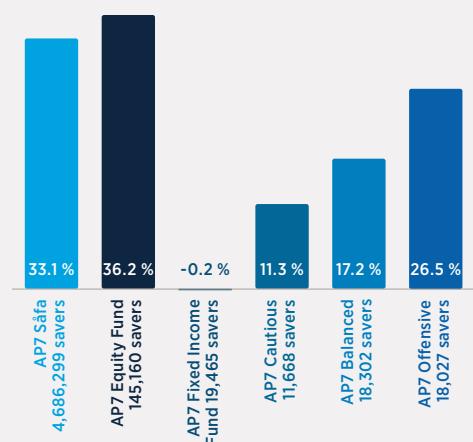
State pension. Every month, employers pay in 18.5 percent of a person's salary (up to 7.5 times the income base amount) to the state pension. Of this, 2.5 percent goes to the premium pension while the remaining 16 percent goes to the income-based pension.



Average return 2000-2019*
(*Capital-weighted return)



Return 2019



AP7's role in sustainable development

Using AP7's role, mission, and investment philosophy as a point of departure, we can generate most benefit for sustainable development through three roles: as active owner, as facilitator, and as knowledge builder.

Our ambition is to help solve the problems that exist, rather than avoid them by, for example, divesting shares in certain sectors or regions. We collaborate with other investors on drawing up norms, guidelines, and positions for responsible ownership.

AP7 as active owner...

Our highly diversified portfolio, with ownership in over 3000 companies around the world, enables us to act as owners on a broad front and over a long term, and considering the interests of the entire market. Through active corporate governance, we are trying with other similar investors to draw up ground rules for companies; we then exert pressure on them to follow the rules. In this way, AP7 secures the financial interests of both current and future savers.

We work mainly with four engagement methods as sustainable and responsible owners: actions at general meetings, engagement dialogue, public blacklisting, and legal processes.



ri responsible investor

Categories: Governance > Engagement | Governance > Exclusions | Corporates

Sweden's AP7 excludes electric utility firm for violating Paris climate accord

Every is one seven exclusions announced by investor

Richard Gröttheim represented Swedish investors at the launch of **GISD (Global Investors for Sustainable Development)** at the UN in New York during autumn 2019. Around thirty of the world's biggest investors are participating in a network for sustainable investments and to mobilise more capital to accelerate the work with Agenda 2030.

AP7 updates its blacklist of excluded companies twice a year. The list is based on international conventions that Sweden has signed and on whether companies are involved in developing nuclear weapons. Since 2016, the Paris Agreement has also been part of the norms on which the list is based.



Together with other owners, at the general meetings in 2019 AP7 pushed for the companies to demand that their interest organisations' lobbying is in line with the climate goals of the Paris Agreement. The 12 companies – BHP Group, AngloAmerican, RioTinto, Shell, BP, Heidelberg Cement, Repsol, RWE, BASF, Glencore, Equinor and Unilever – publicly declared that they would carry out a review to ensure that their interest organisations' lobbying is in line with the Paris Agreement.

As part of our effort to get the European companies with the largest climate impact to lobby in favour of the Paris Agreement, we held round-table talks with IIGCC, the Church of England and BNP Paribas in London in spring 2019. We gathered the companies with which we had initiated dialogue, such as Anglo American, BHP Billiton and Shell, and together with researchers from the London School of Economics we discussed the next stage in the work to ensure that the lobbying activities of interest organisations are in line with the Paris Agreement.

IIGCC
The Institutional Investors Group on Climate Change

AP7

BNP PARIBAS ASSET MANAGEMENT
The asset manager for a changing world

THE CHURCH OF ENGLAND PENSIONS BOARD

Investor Round Table on Corporate Climate Lobbying

Church House, London

Wednesday 3rd April 2019

knowledge builder...

In its role as knowledge builder, AP7 can help to produce new knowledge, disseminate existing knowledge, and bring together different societal actors in a public debate on sustainability issues. We want to promote constructive dialogue between decision-makers, the business community, and investors. Wherever possible, we want to help bridge the gap between research and practice in the field of sustainable investments.



In our theme on Working Conditions in Food Supply Chains, we carried out a study with the help of Sustainalytics, including a study visit to Italy to witness at first hand the problem of migrant refugees' working conditions on tomato plantations. After the visit, we arranged a dialogue project in collaboration with other investors and Sida, together with representatives of the food sector and other trading companies, to share experiences between companies and to improve the working conditions.

In autumn 2019, AP7 presented the conclusions of the Fresh Water theme. In addition to publishing a report containing knowledge and lessons learned to other investors, a seminar was arranged: 'Water as an investment' at Sweden's forum for sustainable investments, Swesif. The basic question for the seminar and the report was: What role can institutional capital play in contributing by financing solutions, satisfying investment needs, and exerting influence on companies to adapt their activities, to help attain the sixth UN Sustainable Development Goal: Clean Water and Sanitation?

Instead of a Global Carbon Tax

The cover of the report features a scenic landscape of a lake and mountains at sunset. The title "Instead of a Global Carbon Tax" is at the top, followed by "Policy Proposals for Enhanced Climate Consideration on the World Market" and "January 2019". Logos for ICC (International Chamber of Commerce) and AP7 are at the bottom.

Together with 2050 and the International Chamber of Commerce (ICC), we published the report, Instead of a Global Carbon Tax. We held a Parliamentary Seminar on the challenges relating to carbon pricing, and on finding incentives for countries and companies to reduce their carbon emissions.



AP7 Demands Engagement from Water Management Laggards

by Filipe Wallin Albuquerque on August 12, 2019

Stockholm (NORDSIP) – AP7 in collaboration with Sustainalytics published "Management and Stewardship: Benchmarking Corporate Practices" to review the state of disclosures about water risk exposure in the energy and mining sectors.

and facilitator.

Another important contribution that we as investors can make to promote sustainable societal development is to finance solutions that help the world tackle the challenges that we are facing. We believe that our invested capital can have the greatest benefit for the climate by, for example, financing enterprises that offer climate innovations and solutions for a low-carbon society. Our goal is to have green mandates in all asset classes in which we are permitted to invest, mandates that contribute solutions to sustainability challenges. In addition to two green investment mandates totalling SEK 3 billion, in 2019 we increased our investments in green bonds by over 40 percent to over SEK 2.5 billion.

AP7 has a green and a blue mandate totalling SEK 3 billion with the Irish asset manager KBI Global Investors and the British asset manager Impax Asset Management. In collaboration with the fund managers, we are carrying out a development project examining how to measure the effect of impact investments efficiently. KBI Global Investors' mandate is an explicit water mandate linked to the UN's sixth Sustainable Development Goal (SDG 6, Clean Water and Sanitation), while Impax Asset Management has a broader climate and environment mandate that relates to several Sustainable Development Goals.

EXPERT INVESTOR



News

Interviews

HOME / COMMODITIES / INVESTING IN THE WORLD'S MOST IMPORTANT LIQUID

COMMODITIES

Investing in the world's most important liquid



How AP7 works as an **active owner** for sustainable development

3685

In 2019, AP7 voted at 3685 of 3723 general meetings, approximately 99 percent.

A highly diversified portfolio with holdings in many countries and sectors forms the framework for AP7's corporate governance. As a universal and active owner, the objective is to influence the entire market in a sustainable direction over the long term. We do this using the tools at our disposal in a resource-efficient way, with a focus on the best interests of our savers.

AP7 has been conducting active engagement in its role as active owner since the start in 2000, with a norm-based model that forms the basis of the everyday sustainability work. AP7 therefore works on the basis of the value norms that are enshrined in the international conventions that Sweden has signed with regard to the environment, human rights, labour rights, and corruption.

AP7 now works with four different engagement methods for sustainable and responsible asset management: taking action at general meetings, engagement dialogue, public blacklisting, and legal processes. Since 2014, the fundamental norm-based model has been supplemented with more in-depth work in themes.

Actions at general meetings

The general meeting, every company's highest decision-making body, offers an opportunity for shareholders to actively exert influence on the corporate governance. Voting at general meetings is AP7's most important tool for reaching out to and influencing the absolute majority of the companies in its portfolio. As a universal and active owner, it is important to influence the entire market. By voting at general meetings, we can drive the fund's principle-based position regarding various issues addressed by AP7's voting policy on environmental, social and corporate governance matters.

According to the AP Funds Act, AP7 may not vote at Swedish general meetings, but since 99 percent of AP7's shareholding is outside Sweden, we can vote at virtually every general meeting. With shareholding

all over the world, this means approximately 3000 general meetings every year.

General meeting season 2019

In 2019 AP7 voted at 3685 of 3723 general meetings, which is over 99 percent. At 43 percent of these general meetings, AP7 voted against the board's recommendation on at least one point, either voting against a board resolution or in favour of a shareholder resolution that the board did not support.

AP7 voted at general meetings in 59 different countries. Of these, the US and Japan dominated, where over 38 percent of all general meetings were held. The total number of general meetings does not correspond to the number of companies that AP7 has invested in because, in certain countries, such as China, a company may hold several general meetings every year.

Nearly all agenda items that are to be the subject of voting at a general meeting are filed by the company management, and many concern formal and administrative issues. Proposals from shareholders only comprise a small number of items on the agenda. In certain countries, AP7 can file its own shareholder proposals (resolutions) at companies' general meetings. When an important issue has been identified, AP7 often joins forces with other shareholders and files the proposal jointly at the general meeting for a response.

AP7 has been filing shareholder resolutions at general meetings since 2016. The number of resolutions per year has varied. In 2016, resolutions were filed at general meetings of the three biggest oil companies in the US: ExxonMobil, ConocoPhillips, and Chevron. The proposals called for greater transparency on the companies' lobbying activities. In the same year, we also filed resolutions at the general meetings of Rio Tinto, Glencore, and Anglo American in the UK. The proposals, which were called 'Aiming for A', involved requirements for reporting and transparency on how the companies are aligning their business operation with the 2°C target. In 2017, we repeated our proposals at the general meetings of the three largest US oil companies, ExxonMobil, ConocoPhillips, and Chevron.

In 2018, we repeated our resolution at Chevron's general meeting. We were unable to take action at

14

AP7 makes use of the option to initiate legal processes against companies that have treated shareholders in an incorrect manner or influenced the share price negatively. Together with other institutional investors, at the end of 2019 AP7 had 14 ongoing legal processes.

217

In 2019, AP7 conducted engagement dialogue with 147 companies on a total of 217 cases of verified or potential violations of norms, with the aim of influencing the companies to act responsibly.

**Actions
at general
meetings**

Dialogue

**Legal
processes**

Blacklisting

72

AP7 does not invest in companies that violate international norms regarding the environment, human rights, labour rights, and corruption. In December 2019, a total of 72 companies were blacklisted.

ExxonMobil's general meeting, as we had sold our shares after blacklisting the company for acting in ways that conflicted with the Paris Agreement. We also withdrew our resolution from the ConocoPhillips general meeting because the company accepted our demands before the meeting. In 2018, we filed a shareholder resolution at RioTinto's general meeting in Australia on how the company was managing and reporting its climate lobbying.

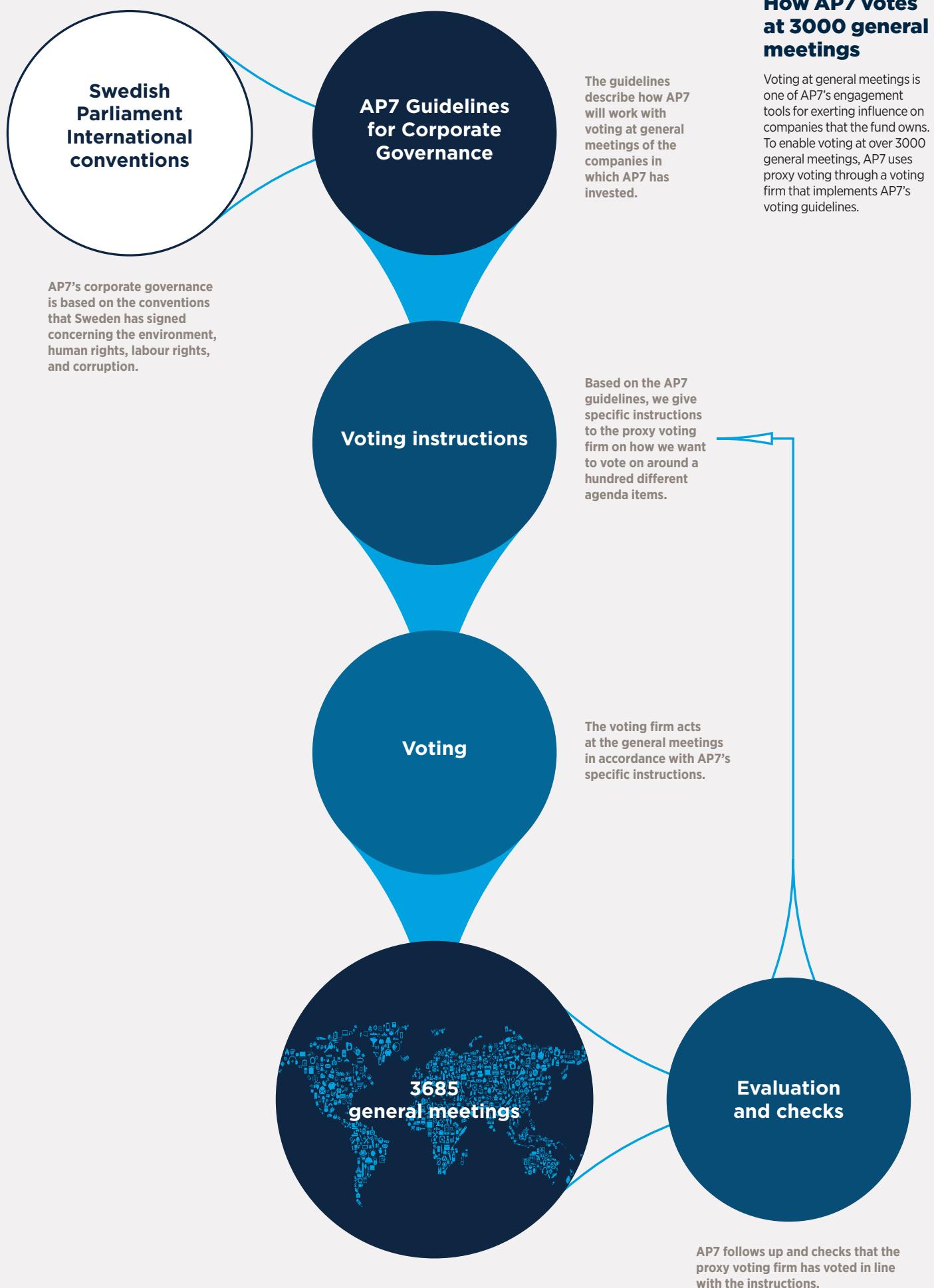
In 2018, a project was started together with the Church of England aimed at the companies in Europe with the biggest climate impact. The aim was to promote greater transparency on lobbying, through dialogue and actions at the general meetings in 2019. The dialogues resulted in a number of commitments

from companies to carry out a review of their business organisations' climate lobbying. At the end of 2019, eleven companies¹ had met our demands without us needing to file shareholder resolutions.

At the general meeting in 2019, for the fourth consecutive year we filed a shareholder resolution, calling for Chevron to implement greater governance and transparency on lobbying. We filed similar resolutions at the general meetings of the Ford Motor Company and General Motors. Together with other investors in the Climate Action 100+ network, we filed a proposal at BP's general meeting, calling for the business operation to be adapted to the climate issue. We also filed shareholder resolutions on lobbying to the German car companies VW, BMW and Daimler, but the resolutions were not put forward for voting because of unclarities in how German corporate law should be interpreted.

In 2019, AP7 voted on a total of 206 resolutions on >>>

¹ BHP, Shell, BP, Rio Tinto, Glencore, AngloAmerican, RWE, BASF, Heidelberg Cement, Equinor, Repsol



various sustainability issues at general meetings around the world. AP7 supported a majority of these resolutions, 73 percent, abstained in 16 percent of the cases, and voted against 12 percent of the resolutions. The leading sustainability issue that AP7 has promoted is greater transparency regarding corporate lobbying activities. During the year, 25 resolutions were filed on greater transparency on lobbying, and AP7 voted in favour in all cases.

In addition to resolutions on greater transparency regarding corporate lobbying, AP7 has voted on a further 35 climate-related shareholder resolutions. One example was a proposal on investigation of stranded assets linked to climate change. The majority of all climate-related proposals were filed at the general meetings of American, Australian, and South African companies. Resolutions concerning corporate lobbying were mainly filed in US companies, but also in Australia, and then usually specifically linked to climate issues. In 2019, AP7 voted in favour of all shareholder resolutions relating to lobbying, a total of 25 resolutions globally.

Examples of other resolutions that AP7 supported concerned working conditions and deforestation in the Amazon.

Effecting change through dialogue

Engagement dialogue is the most effective way of bringing about change when the company itself gives signals that it wants to improve. **In 2019, AP7 conducted norm-based dialogues with 147 companies on a total of 217 cases of verified or potential violations of norms**, with the aim of encouraging the companies to act responsibly in difficult situations. In collaboration with other investors, AP7 has also conducted dialogue or contacted a further 77 companies in the course of its thematic activities. Read more about this on page 15.

AP7 is participating in Climate Action 100+, a five-year investor initiative for bringing about necessary climate measures in the world's companies with greatest emissions. In this initiative, AP7 is leading a group of investors that are conducting dialogue with the company Norilsk Nickel.

Blacklisting – a way to direct attention

AP7's norm-based model means that no investments are made in companies that violate international norms regarding the environment, human rights, labour rights, and corruption. Since 2016, the Paris Agreement to the UN Climate Convention has been included in the norms. We apply pressure by publicising twice a year the names of the companies we have excluded, together with the reasons for the exclusion.

The principle is simple: "this is a company that we would gladly invest in, if it were not for..." Our ambition is that we can start investing again as soon as the company has overcome its problems. This creates an incentive to change. To identify and verify violations involving companies, AP7 collects information from a large number of sources, including the UN system and other inter-state organisations, public agencies, courts, mass media and non-governmental organisations. The accuracy of the information is checked, and the company's responsibility for the situation is investigated. An assessment is then made of whether

the company is conducting activities that conflict with the norm framework. In this process, AP7 is supported by many external experts.

Blacklisted companies 2019. In December 2019, a total of 72 companies had been excluded from AP7's investment universe. The list of blacklisted companies is presented at the end of this report and on ap7.se.

During the year, eleven companies were added to AP7's blacklist. Four of the new companies were blacklisted because of their involvement in the production of components for nuclear weapons: Brookfield Asset Management Inc, Hitachi Zosen Corp, BWX Technologies and China Shipbuilding Industry Co. Aurora Cannabis and Canopy Growth Corp were blacklisted for involvement in cannabis, thereby conflicting with international conventions against drugs. Evergy Inc was blacklisted for conducting activities in conflict with the Paris Agreement by counteracting climate legislation in the US, Rosneft Oil Co. for violations of environmental norms in connection with oil extraction in Russia, and POSCO and Posco International Corp for violations of labour rights in Turkey. PT Indofood (Indofood Sukses Makmur) was blacklisted because, in its production of palm oil, it was involved in serious and systematic violations of labour rights in Indonesia, for example by not permitting trade unions and through discrimination against female employees.

Companies removed from blacklisting 2019.

One company, the Dong Feng Motor Group, was taken off the list during the year, so AP7 can once again invest in this company. The company had been blacklisted for five years and, in accordance with our five-year rule, the blacklisting has ended because no new violations had been reported.

Legal processes bring results

Through securities class actions, AP7 uses the option to initiate legal processes against companies that have treated shareholders in an incorrect manner and influenced the share price negatively.

Examples are companies that have withheld proper information with the aim of avoiding impact on the share price. The aim of the legal processes is both to criticise and discourage companies from fraudulent conduct and to win back money. In most of these legal cases, the process ends with a settlement. So far, the legal processes in which AP7 has participated has led to over SEK 81 million being returned to savers.

In 2019, we initiated legal processes against Goldman Sachs and Kraft-Heinz. The case against Goldman Sachs concerns shortcomings in compliance with regulations regarding monitoring of international financial crime (including giving bribes), money laundering, and violations of the Foreign Corrupt Practices Act (a US federal law intended to suppress international corruption crimes). The case against Kraft-Heinz concerns allegations that the defendants did not follow applicable laws regarding obligatory impairment, and that, in other aspects, has not lived up to requirements regarding providing proper information to the market.

Together with other institutional investors, at the end of 2019 AP7 had 14 ongoing legal processes, involving the following companies: Vivendi, Petrobras, Toshiba, Volkswagen, Allergan Inc, Deutsche Bank, Mitsubishi, Alphabet/Google, General Electric, BHP, Steinhoff, Qualcomm, Goldman Sachs, and Kraft-Heinz.

What does research have to say about active ownership?

“ One myth that research can bust is that a shareholder must own a large proportion of shares to exert influence on a company.

What is the best way to use institutional capital in tackling the climate challenges we are facing? This is a question that is discussed regularly. Dr Emma Sjöström, Stockholm School of Economics, where she also leads research on sustainable finance, has recently published the report *Active ownership on environmental and social issues: What works?* We invited Emma Sjöström to write a guest column on the basis of her report.

A current lively debate is whether it is right for investors – not least pension funds – to own shares in fossil fuel-based companies. A counterargument is whether it would perhaps be irresponsible to divest from the companies because this would involve losing the right to use shareholder rights to try to engage with them. Both on climate and other sustainability issues, investors have a number of different strategies to choose between when applying responsible ownership, and it can be difficult to know which is the most effective. Research can give a few pointers.

Crucial for successful corporate governance is credibility. Emma Sjöström – PhD in Business and Economics, Stockholm School of Economics.



I recently published a report that compiles the results from the past ten years' academic research on active ownership regarding social and environmental issues. The report gives many important insights.

One myth that research can bust is that a shareholder must own a large proportion of shares in order to exert influence on a company. On the contrary, many studies show that the ownership proportion has not been important for successful company dialogues – what has been more crucial is credibility. This can be built in several ways, by what the shareholders say and who they are. The research shows that a credible dialogue is based on the investor being able to put forward a good business case, i.e. to be able to show that the proposed change is in the company's own financial interests. It is also important that the investor is perceived as legitimate, for example by having a good reputation in the market, that owner representatives hold sufficiently senior positions, and that the investor is perceived as a professional dialogue partner.

The research also shows that collaboration with others is very useful in achieving success through dialogue. It is therefore useful for shareholders to consider who they will collaborate with, so that they join forces with actors who can help to build up the vital legitimacy and credibility. Platforms such as PRI also seem to be helpful in the engagement process; they have a coordinating function and enable greater strength, and PRI is in itself a credible name to have behind you in the dialogue process.

Whether it is more effective to divest or remain as owner and engage depends largely on what type of engagement the shareholder wants. There is not much evidence that the companies' share price would be affected negatively by divestment, nor that it would have effect on the companies' business operation. Share prices have been seen to have been depressed directly after a divestment announcement, but the effect seems to be short-lived. What one shareholder sells, another buys. Consequently, it does not work in the same way as boycotting the end product, for example, goods in a store, where total revenues go down when fewer people buy the goods. However, divestments can be a way to influence norms in business, politics and civil society, i.e. what is regarded as right and reasonable in helping to stigmatise a sector, such as the fossil fuel industry.

Remaining a shareholder gives the opportunity to engage with the companies through shareholder resolutions. We have seen that the number of resolutions on climate have increased over time, and that they sometimes get high numbers of votes. Research also confirms that it is easier to get support for resolutions that call for greater transparency rather than those calling for more substantive change. However, it is hard to say whether greater transparency in turn leads to better environmental performance in practice.

One perspective that is largely lacking in the research, but that is now being increasingly heard in the public debate, is to try to restrict growth opportunities in the fossil fuel sector by reducing access to credit. Here, of course, the banks play a key role. **From a climate perspective, it is probably more effective to refuse lending for prospecting activities for new fossil resources than sell shares to someone**

else. But not even this is an easy question – as long as a company shows positive cash flows, there is probably also an investor somewhere in the world who is prepared to provide the company with capital.

It may therefore be a reasonable next step for investors who want to take action for a better climate to try to engage at policy level. Investors – not least universal owners – could lobby for issues such as the introduction of a global carbon tax or restriction in subsidies to fossil energy. Using capital to support the 1.5°C goal also means that more financial funds should be directed towards the green and solution-oriented business models, and towards the companies that are seriously working towards transition. What investment is really about is financing today to bring about a positive return in the future, and that is what the entire transition is all about.

*Emma Sjöström, PhD
Stockholm School of Economics*

The report compiles the results of the past ten years' academic research on active ownership on social and environmental issues.



Active ownership on environmental and social issues: What works?

A summary of the recent academic literature

Dr Emma Sjöström
Misum, Stockholm School of Economics
& Stockholm Sustainable Finance Centre



Our themes

Private Equity 2014-2016

Climate 2015-2017

Fresh Water 2016-2018

Private Equity

Unlisted companies play an important role for the economy and societal development. Not least because it is in these companies that many of the new business ideas are found that can provide solutions to the societal challenges we are facing. The theme resulted in a new process for greater integration of sustainability aspects in our Private Equity (PE) investments. In 2015, AP7 and many other investors in PRI developed a sector standard, *PRI Limited Partners Due Diligence Questionnaire*, for evaluating PE managers.



Climate

The aim of the Climate theme was to investigate how AP7, through its investments, its ownership activities, and its role in society, could make a real difference to climate change in a resource-efficient way. Our conclusion was that universal, long-term owners like AP7 have a unique holistic perspective in the work on climate. We want to make use of this privilege. From the Climate theme grew the theme of Corporate Climate Lobbying.

Fresh Water

Ahead of this theme, the basic questions we asked were: What contributory role can institutional capital play by financing solutions, satisfying investment needs, and engaging with companies to encourage them to adapt their activities to help attain the sixth UN Sustainable Development Goal: Clean Water and Sanitation? Despite great progress towards the goal, billions of people still lack access to safe water and basic sanitation – a challenge that will require massive investments and major adaptations in many companies. We analysed sectors and companies with high levels of risk regarding water. We set up a water mandate and carried out a study on investments in water and sanitation infrastructure.

Corporate Company Lobbying 2017-2019

Working Conditions in Food Supply Chains 2018-2020

Sustainable Impact Measurement 2019-2021

Climate Transition 2020-2022

Since 2014, AP7 has been supplementing its corporate governance work with themed activities. Working in specific themes deepens and interlinks AP7's current working methods in selected key areas.

Focusing on a few themes at a time enables us to work at depth and reflect in a complex area relevant to our investments. Every year, a new theme is launched that runs over three years.

Some central selection criteria are applied when choosing a theme. The theme must be relevant in terms of AP7's holdings and asset classes, AP7 must be able to make a reasonable difference in a resource-effective way, and there must be suitable expert partners for collaboration.

The theme guides AP7's prioritisations in many ways during its three years, and has consequences for the work with engagement dialogues and general meetings. It also brings greater collaboration with other actors on influencing standards and norms within the area.

Previously completed themes are Private Equity, Climate, and Fresh Water. In 2019 it was decided that the next theme, for 2020-2022, would be **Climate Transition**. Business decisions made today in climate-impacting companies can be of crucial importance for climate change and for the amount of damage they could cause for current and

future generations. As owners, we can exert influence on companies to make responsible decisions, and thereby help to accelerate the transition to a fossil-free society.

Corporate Climate Lobbying. How can we ensure that the activities of companies' interest organisations are aligned with the Paris Agreement? The influence of business over political processes and decisions in the climate issue can, in certain cases, be greater than the companies' own direct climate impact. Read more about the theme on pages 16-17.

Working Conditions in Food Supply Chains. How can equity owners best help to prevent the occurrence of child labour and forced labour in the food companies' supply chains? Read more about the theme on pages 18-19.

Sustainable Impact Measurement. In 2019, we launched the theme Sustainable Impact Measurement. The aim is to examine methods that measure the effect of corporate governance and investments. Although demand from stakeholders and investors is great, knowledge about the effects of equity owners on sustainable societal development is inadequate, and accepted measurement methods are lacking. Read more about the theme on pages 20-21.

Theme

Corporate Climate Lobbying

An unacceptable force against the climate

The influence of business over political processes and decisions in the climate issue can be greater than the companies' own direct climate impact. In 2017, AP7 decided to initiate a three-year theme focusing on corporate lobbying in relation to climate legislation. In three years, the issue of responsible lobbying has gone from being a non-issue in the dialogue between investors and companies to becoming a natural part of investor analysis of how companies are working on climate. An increasing number of the world's large companies are now demanding that their interest organisations conduct themselves in line with the Paris Agreement.

Many business organisations drive a more negative climate lobbying than the companies that support them. These organisations have great influence over climate policy despite the companies' official support for the Paris Agreement. We decided to focus our theme on an underlying reason for the climate transition not taking place sufficiently quickly: corporate lobbying against climate legislation.

Companies should ensure that all climate policy engagement carried out by the company itself or by a member organisation supports the implementation of the Paris Agreement. They should systematically scrutinise their memberships, check whether their indirect lobbying is in line with the Paris Agreement and, if not, draw up an action plan for how they will proceed.

Our objective with the theme was to increase knowledge about climate lobbying, and encourage more investors and companies to address the issue. Ahead of the Corporate Climate Lobbying theme, we asked the questions: How widespread is the problem of lobbying against climate legislation? How can institutional investors like AP7 engage with companies to ensure that their lobbying is working to support the Paris Agreement? What should AP7 do to influence norms and standards on climate lobbying?

Our work was developed through five phases. After identifying the problem and mapping which other investors we could collaborate with, we started engaging with companies through dialogue and by filing resolutions at general meetings. In later phases, the work on corporate climate lobbying brought results in companies, and grew from being a non-issue to an issue that is driven at general meetings.

The Corporate Climate Lobbying theme was launched in 2017 with a review of the political landscape in terms of climate lobbying on different markets. The point of departure was the position that we, together with other investors, drew up and published in 2015: Investor Expectations on Corporate Climate Lobbying. In that report, we made clear that

we expect companies to support a policy that promotes a climate transition, or at least does not counteract it.

AP7 had been filing shareholder resolutions on lobbying in the US since 2016. In spring 2018, AP7 together with the Church of England and Australian Local Government Super filed a shareholder resolution at the general meeting of the mining company, Rio Tinto, regarding its direct and indirect climate lobbying through business organisations. The issue concerned, for example, its membership in the Minerals Council of Australia, which actively counteracted the Paris Agreement. The resolution on greater transparency aroused international attention and led to Rio Tinto taking certain steps towards greater transparency but, above all, the move improved transparency in the rest of the mining industry, and voting advisors (proxy advisors) started to demand it.

In the US, more and more resolutions have been filed at general meetings calling for companies to improve their reporting on lobbying. At the general meetings of 35 different companies, AP7 voted in favour of greater transparency on lobbying.

In 2018 and 2019, we turned our attention to Europe. Together with the Church of England Pensions Board and BNP Paribas, and with the support of IIGCC, we focused on the 55 European companies with the greatest impact on climate. We called for a review and reporting on how their indirect and direct lobbying was not counteracting implementation of the Paris Agreement. Many of these companies conduct extensive internal work on the climate, with policies and emission reduction targets, but can continue to pay large sums of money to interest organisations that counteract effective implementation of the Paris Agreement. We made clear in the company dialogues that the demands could be filed as shareholder resolutions at general meetings.

Our corporate governance work together with other active owners, through voting at general meetings and dialogues, has led to more companies increasing their transparency, taking more explicit positions, and increasing governance and follow-up regarding how their interest organisation works with the climate issues. One important milepost is that boards of directors have undertaken to initiate regular reviews of their lobbying.

In 2019, six of the companies we had engaged with through dialogue published their reviews: Anglo American, Royal Dutch Shell, BHP, BASF, Glencore and Rio Tinto. More reports are expected in 2020.

In order to evaluate the reports' content, and develop a framework for responsible corporate climate lobbying and reporting of climate lobbying, AP7 together with BNP Paribas and the Church of England started in 2019 a research project with the London



2018
Set up collaborations

2017
Identify the problem

School of Economics and the Chronos Group. The project is expected to deliver its first conclusions in 2020.

One satisfying result is that investor collaboration on climate lobbying has established the issue as a new norm on the sustainability agenda. During these years of addressing corporate climate lobbying together with other active owners, we have achieved concrete results, but much remains on the issue of climate lobbying, not least to define a standard for responsible corporate climate lobbying.

Theme: Corporate Climate Lobbying From non-issue to standard

How can we ensure that the activities of companies' interest organisations are aligned with the Paris Agreement?

Our work together with other equity owners has been developed through five phases, from being a non-issue to becoming an issue that is driven at general meetings and that is resulting in companies taking action.

Towards a global standard

2020

Engagement brings results

2019

Drive change

≡ 🔎 FINANCIAL TIMES

Companies asked to come clean on climate lobbying

Public stance on green policies can clash with that of their industry trade groups

≡ 🔎 FINANCIAL TIMES

BP cuts membership ties with three US industry lobby groups

Oil major says the lobby group's climate policies do not align with the company's own

Anglo American, one of the world's largest mining companies, has undertaken to clearly report its memberships in interest organisations, and the positions on which the company and the interest organisations have conflicting views.

≡ 🔎 FINANCIAL TIMES

Anglo American seeks to ease fears over fossil fuel lobby groups

Miner agrees commitments that will align it more closely with the Paris climate accord

≡ 🔎 FINANCIAL TIMES

Shell to quit US oil lobby group over climate change clash

Energy sector under pressure to align lobbying with green goals

Both BP and Shell have decided to withdraw from American interest organisations after reviewing their memberships and concluding that the companies and the interest organisations hold different positions on the climate issue.

The Guardian

Rio Tinto ready to quit Minerals Council if it doesn't support Paris climate targets

Miner expects industry associations to argue against coal subsidies

Rio Tinto has made clear to its interest organisations that the company will leave if the organisations do not support the Paris Agreement.

The Guardian

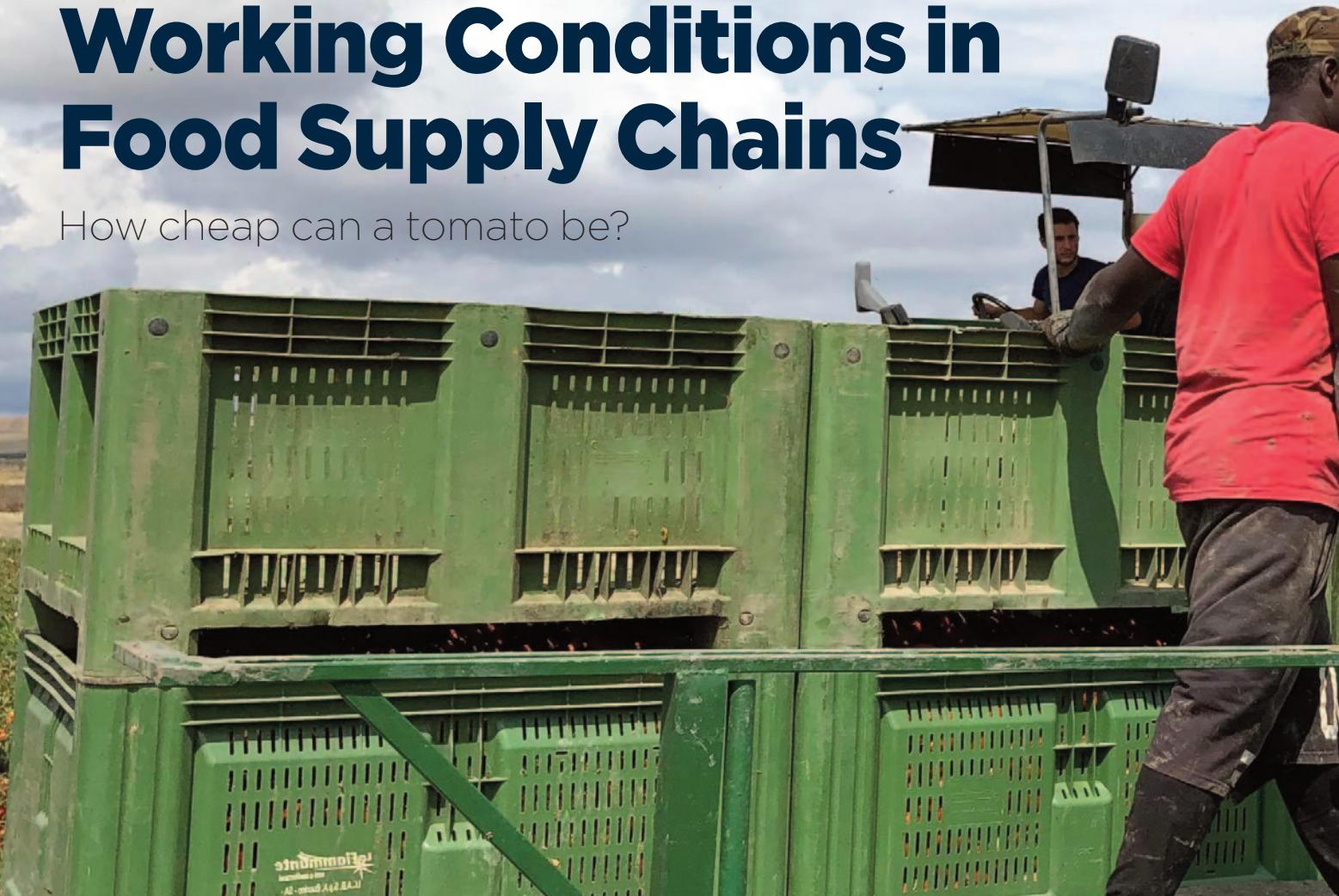
Top oil firms spending millions lobbying to block climate change policies, says report

Ad campaigns hide investment in a huge expansion of oil and gas extraction, says InfluenceMap

Together with many investors, we have called for companies to publish their memberships in interest organisations and positions on the climate issue.

Theme Working Conditions in Food Supply Chains

How cheap can a tomato be?

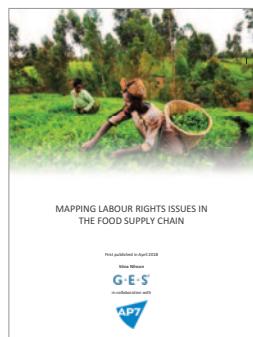


How can asset owners help to bring about improved working conditions in food supply chains? Within the framework of the theme Working Conditions in Food Supply Chains, we have continued to investigate how corporate governance can contribute to the eighth UN Sustainable Development Goal (SDG 8) – Decent Work and Economic Growth.

An increasing number of investors feel that a minimum requirement for responsible enterprise is to respect international human rights norms. Good working conditions in the food supply chain, particularly for small-scale farmers and plantation workers, also have a direct link to several of the UN's Sustainable Development Goals (SDG). Farmworkers who have an adequate income are more inclined to send their children to school, secure a long-term food supply for their families, and avoid poverty. An adequate income level for a poor rural population also helps reduce the income differences on both national and global levels.

In 2018, together with Sustainalytics, we reported on a preliminary study, *Mapping Labour Rights Issues in the Food Supply Chain*. One aim was to obtain an overview of what we should focus on, to have the greatest effect. Another was to prepare a report on how investors can engage with companies to review

Migrant workers are a particularly vulnerable group. In 2019, AP7 took part in a study trip to tomato plantations in Italy as part of the theme Working Conditions in Food Supply Chains.



The preliminary study, *Mapping Labour Rights Issues in the Food Supply Chain*, mapped the main risks for violations of labour rights.

the main risks for violation of labour rights, and to improve their contingency for managing these risks.

Conclusions from the preliminary study included:

- **Child labour and forced labour** are two of the most serious human rights issues in the food production sector.
- **Migrant workers are a particularly vulnerable group.** Every fourth victim of forced labour is exploited outside their home country.
- A complex but important issue to discuss is that **insufficient money on which to live** is one of the main causes of child and forced labour.
- The preliminary study identified **five commodities with elevated risks** of forced and child labour: coffee, rice, sugar, tea and tomatoes. Development has been less positive for rice and tomatoes than in other sectors, and a greater awareness is needed of the importance of good working conditions.

In 2019, AP7 accompanied Sustainalytics on a visit to tomato plantations in Italy, with a focus on human rights and forced labour. According to Oxfam, the



cause of the problem of forced labour on tomato plantations is downward pressure on prices exerted by the buyers. In the past 20-30 years, there has been a growing concentration of retailers on the market, at the same time as farmers have become fewer and have limited power to negotiate. This enables a system in which the price is forced down so much that the farmers are forced to reduce employee wages to below the living wage.

At a web seminar for a number of international investors and companies in November, we presented some of the conclusions from the trip to Italy. As owners in the large retailing companies, we investors can conduct dialogue with companies on price mechanisms. We can also encourage companies to collaborate on common, fair supply chains in which purchasing departments incorporate in procurement processes requirements according to the eighth Sustainable Development Goal.

We have initiated dialogues with food companies globally, with a focus on the preventive measures that companies can take to avoid child labour and forced labour occurring in their supply chains. In December, we also held an in-depth round-table discussion with a number of large Swedish companies, on the investors' role in the work to prevent forced labour and child labour. AP7 arranged the round table in collaboration

with Folksam and Alecta within the Swedish Investors for Sustainable Development partnership.

Similar problems are found in more supply chains, for many different agricultural products. One aim of our dialogue project is to disseminate good examples and effective methods between regions and sectors. As a universal owner in a large number of companies and sectors, AP7 can help these companies share experiences.

In our dialogues with leading food companies, a particular focus has been on collaboration over the common supply chain. No company can solve the problem alone, and must collaborate with other companies and actors. The supply chains are extensive, and monitoring requires a lot of resources, so leading companies have created collaboration forums for common scrutiny.

The dialogue has also shown that work on sustainability should take place in close collaboration with purchasing departments. The buyers should have a structured process for identifying risks for violations of human rights, and place the right requirements on the suppliers, not least, to ensure they are aware that downward pressure on prices can lead to insufficient wages further down the chain. The buyers are key actors in leading the work on sustainability in the food supply chain.

1 NO POVERTY



2 ZERO HUNGER



4 QUALITY EDUCATION



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



Theme Sustainable Impact Measurement

What is effective, and what leads to long-term societal benefit?



Knowledge about the effects of asset management on sustainable societal development is currently inadequate. There is great demand from stakeholders and investors for impact reporting, but as yet there are no accepted measurement methods. In 2019, we launched the theme Sustainable Impact Measurement. The aim is to examine methods that measure the societal effect of corporate governance and investments.

Currently, measurements focus more on measuring portfolios and giving the portfolios a value, such as carbon footprint or the number of women on boards. A portfolio with a low carbon footprint could give the impression that the portfolio contributes to positive societal effects through reduced emissions, but this is not the case. There is no evidence that investors that sell holdings in companies with large carbon emissions to reduce the carbon footprint of their

portfolio contribute to actual emission reductions in the companies.

If we are to achieve lower emissions, the companies must reduce their emissions and offer products or services that contribute to emission reductions. Investors can support the companies in this transition. We therefore distinguish between the **impact of the investor on society** by working to support the companies in the transition and the **companies' impact on society** by reducing emissions.

The work in this theme therefore revolves around methods to evaluate the impact of corporate governance and investments, with the long-term objective to clarify the benefits to society.

1. In collaboration with Misum (Mistra Center for Sustainable Markets) at the Stockholm School of Economics, Emma Sjöström, carried out an analysis of existing academic research on corporate governance, and compiled her findings into the report *Active*



Is water in the Nordic region worth as much as that in the desert?

Unless the measurement data is placed in a relevant context, the measurement figure tells us nothing. Placing it in a context instead gives a measure of its effect. Most standards today do not measure effects, just footprint. The aim of the theme Sustainable Impact Measurement is to examine different methods that measure the societal effect of corporate governance and investments instead of simply quantifying measurement data.

ownership on environmental and social issues: What works? Read more about Emma Sjöström's findings on pages 12-13.

2. In 2019, our asset managers of impact funds started a project to evaluate methods for measuring the sustainability impact of investments. This gives us an impression of the current state of knowledge regarding the types of measurement data available, and how it can be used to calculate sustainability effects.

In our green mandate with KBI Global Investors, we are investigating how investors can measure the portfolio companies' positive and negative effects on the environment. What methods and knowledge are available today for investors to use to measure the impact of the portfolio companies?

In our other green mandate, Impax Asset Management has chosen to focus on measurement of water as an indicator. The burden of water consumption on society varies according to the local supply of water. Impax is therefore exploring how to effectively

measure the effect of water consumption on the environment. How can investors examine the impact of their holdings on the environment in areas with limited access to water?

Looking at measurement data without considering its context gives only a measurement figure, but placing it in its context measures its effect. Most standards today do not measure effects, just footprint. The measurement figure can be obtained, but its effect is unclear. Good and easily accessible methods are lacking for measuring the effects of asset management on society. At the same time, it is important that investors have access to measurement methods that would enable them to assess the societal impact of their investments and corporate governance. It is also important that investors use the same methods to enable better comparison and that enable upscaling of responsible investments. In addition, investors should collaborate more, joining forces to increase pressure exerted through corporate governance.

On savers' terms

Savers are at a great disadvantage in terms of information in the pension system. In recent years, AP7 has been working actively with communication, providing information about pensions and sustainability issues. Because of AP7's mission regarding responsibility issues, we take an active part in the debate on sustainability and responsible investments.

Our communication strategy involves informing people about premium pensions and the pension system, broadening the perspectives, and participating in the debate on sustainability and responsible investments. The main task of communication is to build confidence in AP7's business operation and products, and contribute to attainment of AP7's goals. AP7 has no information about our savers – all communication and contacts with the savers are handled by the Swedish Pensions Agency, which also has the task of administering and paying the state pension. However, this distribution of tasks does not prevent AP7 from playing an important role in communication activities.

AP7's communication work. One reason for AP7 engaging in informative communication initiatives is that the premium pension system puts the savers in a situation where they must make a choice, with a wide range of funds available and responsibility for their own premium pension. Many private actors market their funds aggressively to greater or lesser extents. If savers are to make a well-considered choice, they need nuanced information about the premium pension.

AP7 is faced with a number of challenges with regard to communication. The pension system is complex and difficult to explain in a simple way, and the recipient must have a certain level of engagement for the information to reach them. At the same time, many savers feel that pensions is a difficult and complicated area, and those with many years left before retirement may experience a low level of engagement.

AP7's savers have lower incomes and a lower level of education than average. This is largely because we have many young savers who automatically end up in the default option when they start working, which makes communication even more important. This target group needs at least as much information as the more engaged group that takes an interest in asset management.

AP7's target group and channels. The general target group for external communication is our savers, numbering over four million. Resource reasons make it impossible to reach such a broad and large target

group through, for example, advertising in channels such as tv and the national press. Consequently, we have segmented the target group and try to reach them cost-effectively through digital channels.

Over the past few years, we have been gradually increasing the initiatives to reach the savers using our own channels, such as the Förvalt blog, the website, and social media. For external communication, journalists and the financial sector are also important target groups, as they indirectly reach the savers through the mass media and as opinion shapers. Other key actors with whom we hold continual dialogue are the Ministry of Finance, Finansinspektionen, the Parliamentary Pensions Group, and the Swedish Pension Agency.

By disseminating information and informing people about private economy matters, the pension system, and AP7 Såfa in an easily accessible way, we are trying to ensure that the savers have a strong body of information on which to base their decisions. Nobody should feel forced to choose, but everyone should have as much information as possible to enable them to make informed decisions about their premium pensions. We use the blog, Förvalt, to try to spread information, and provide the savers with nuanced and informed texts on sustainability, asset management, and pension savings. We have increased the accessibility of information on our blog by using a new layout and more video material. We have also started our Podd-Såfa on behavioural economics, rational decision-making, and how the brain makes decisions.



Via AP7's blog, Förvalt, we try to inform and enlighten savers through balanced and thought-provoking texts on sustainability, asset management, and pension savings.

Over the years, on ap7.se and in digital media, we have been educating people about the premium pension system.

Har du inte #premiepension?
Allt du behöver veta om din premiepension.
På max fem minuter.

Du är själv ansvarig för din premiepension. Helt lätt är det inte. Särskilt inte om du är osäker på var premiepensionen är. Eller vilka fonder du har valt. Om du ens har valt. Men det ska vi hjälpa dig med. Ta fram ditt orange kuvert eller logga in på Mina Sidor på Pensionsmyndighetens hemsida. Sen ber vi. Känner det redan för krångligt? Här förklarar vi snabbt vad premiepensionen är.

NU ÖPPNAR JAG KUVIERTET



In 2019, we launched our podcast *Podd-Såfan*, featuring invited experts on behavioural economics, rational decision-making, and how emotional we are when we make decisions.

Importance of openness

Accessibility and transparency are key pillars in AP7's communication work. We try as far as possible to actively provide information about our activities, decisions and motives, and we pass comment when this is requested. If any information cannot be given in public, the reason for this is to be clear and to be motivated by the agency. However, there are a number of laws that set limits for the communication, such as the Copyright Act, the Freedom of the Press Act, GDPR, and the Public Access to Information and Secrecy Act.

AP7's climate-related risks

Global climate risks are AP7's climate risks

AP7 is well aware of the risks linked to its broad universal ownership, with shares in more than 3000 companies around the world. If the climate risks are not managed successfully, the effect on the world economy will be astronomical. Because AP7 invests in such a large number of companies across all sectors, industries, and regions, our risks relating to climate change are largely the same as the risks for the entire global economy. AP7's long-term mission, to generate good returns and give our savers good pensions, is therefore dependent on implementation of the Paris Agreement and long-term sustainable development in the global market.

In its work to influence the financial risk in our global ownership, AP7 promotes the implementation of the Paris Agreement in all corporate governance processes, with the objective to reduce the global emissions of greenhouse gases. AP7's main contribution is by being an engaged owner. As universal, long-term asset owner and state pensions fund, AP7 is in a stronger position than many other investors to involve itself in developing norms and methods for the entire market, and in widespread implementation in companies all over the world. For this to be a success, we must collaborate with other investors and societal actors.

Reporting of companies' climate-related risks must be improved if we are to manage the risks in the equity portfolio. In 2017, the Task Force on Climate-related Financial Disclosures (TCFD) was launched. This initiative has had a great impact, and has become world-leading in how companies can better identify and report their climate-related financial risks and opportunities. AP7 supports TCFD and is working to increase transparency from our portfolio companies.

AP7 measures its carbon footprint. The 3000+ companies in AP7's portfolio emit approximately 8 million tonnes of carbon dioxide equivalents measured in Scope 1 and 2, emissions from the companies' direct activities, which is line with the comparison index. If the calculations include Scope 3, i.e. emissions from the supply chain, both in the supplier part and consumption of the companies' products, the companies emit 31 million tonnes of carbon dioxide equivalents,

compared with the comparison index which emits 36 million tonnes. The difference can be attributed to the fact that we have excluded companies that violate international conventions that Sweden has signed, including the Paris Agreement.

In 2019, AP7 carried out a climate scenario analysis that gives a theoretical picture of what companies' total emissions would be like and in relation to the Paris Agreement if our current portfolio remained unchanged in the future. The probability is very low that a company's weighting in a world index would remain unchanged, but our scenario analysis gives us information on the companies in the portfolio where we can generate most benefit as owners. These are the companies that contribute with the largest emissions, putting the 2°C target in jeopardy.

AP7's holdings in power supply and energy are the sectors that account for the largest proportion of emissions, approximately 49 percent. The scenario analysis shows that 16 percent of the companies, based on company value, have undertaken to attain international climate goals, such as those in the Paris Agreement. Twenty-two percent have no goals at all, which in itself is a climate risk. The low proportion of companies that have set up goals in line with the Paris Agreement is also reflected in other measurements. A Transition Pathway Initiatives analysis for 2020 shows that over 80 percent of the most climate-impacting companies have not adapted their activities to the 2°C target.

Transition risks

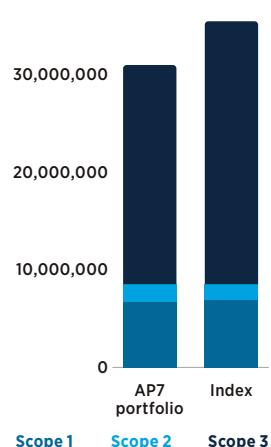
The process of phasing out fossil fuels from the economy and the transition to a more climate-smart society will be unfavourable to some companies in AP7's global portfolio but favourable to others. By investing in a large number of companies in many different sectors and countries, we have reduced our savers' exposure to the risks of each individual company.

AP7's blacklisting process excludes companies that conduct business in conflict with the Paris Agreement, so it can be assumed that our exposure to companies that are not favoured by the transition



Because AP7 invests in such a large number of companies across all global sectors, industries, and regions, our risks relating to climate change are largely the same as the risks for the global economy.

Carbon footprint (tCO₂e)



The carbon footprint from AP7's equity portfolio is in line with the comparison index.

is somewhat less than that in our comparison index.

To attain the 2°C target in 2030, energy production from fossil fuels must be reduced by one-third, thereby increasing the proportion of renewable energy, according to the climate scenario analysis based on data from IEA. To attain the 2°C target by 2050, the use of fossil fuels must be reduced even more, to less than ten percent in 2050. As AP7 is a universal owner, this scenario also corresponds to global energy consumption. If the proportion of renewable energy is to increase by nearly 300 percent and account for 40 percent of the global energy production by 2030, and 60 percent by 2050, energy companies must switch their production from fossil sources and increase investments in renewable energy.

AP7's work to attain the goals in the Paris Agreement

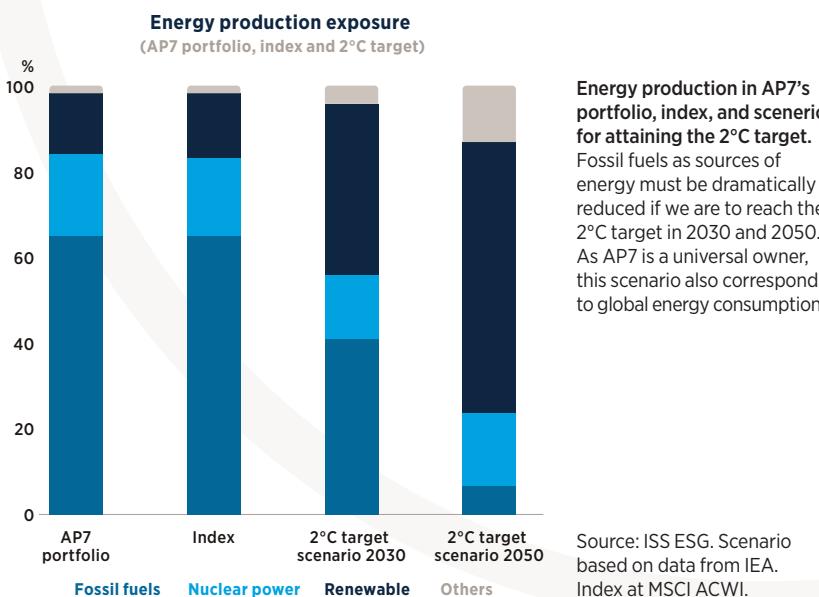
The aim of AP7's climate work is to reduce emissions from the actual economy through engagement activities in our portfolio companies. Based on the

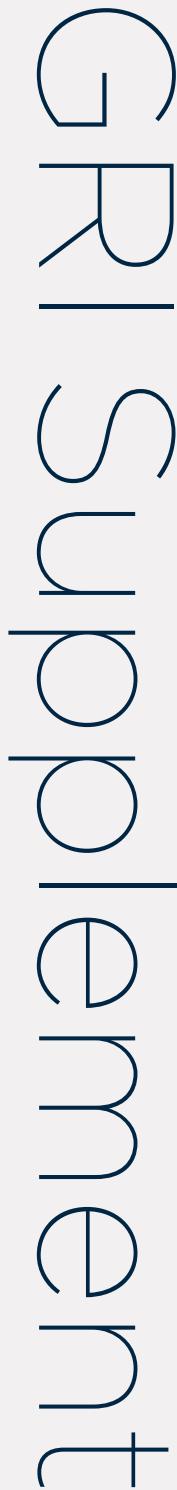
information in our scenario analysis, we conduct **dialogue** and make demands on companies to contribute to the attainment of the goals in the Paris Agreement, and call for them to draw up action plans for how this will be implemented. By incorporating the Paris Agreement in our norms screening, we are involved in interpreting where the boundary goes for acceptable conduct regarding the climate issue.

We engage in dialogue with companies in our portfolio that we identified as being especially important for a transition, for example in the energy sector and the mining industry. We have a number of ongoing engagement projects that focus on various aspects of the companies' climate impact. Climate remains one of our focus issues at general meetings, where we usually **vote in favour of climate resolutions**, and also file our own shareowner resolutions on particularly important matters. Since 2016, the Paris Agreement has been one of the norms on which our **blacklisting analysis** is based. Companies have been blacklisted because they conduct business in ways that conflict with the Paris Agreement, for example, by extracting oil in the Arctic or counteracting climate legislation.

At present, there is no research indicating that a redistribution of investments from energy companies in the portfolio would help to reduce the physical global emissions of carbon. We therefore believe that we achieve the greatest effect through active corporate governance. One example is companies' climate lobbying, where resolutions that we have filed together with other investors have led to companies reviewing their memberships of sector organisations that lobby against the incorporation of the Paris Agreement in legislation.

Because AP7 utilises the opportunity afforded by its active asset management to finance businesses that offer solutions to the climate issue, AP7 has also increased its exposure to businesses that are assumed to be favoured by a transition. AP7 has green mandates in the management of all asset classes (equity, fixed income, and private equity). AP7's investments in green bonds increased in 2019 by over 40 percent, to over SEK 2.5 billion. Approximately 10 percent of our unlisted assets comprise Clean Tech, corresponding to SEK 1.2 billion.





About the report

The GRI Report concerns the period 1 January - 31 December 2019, and covers the entire activities of the agency. AP7 issues sustainability reports annually, and the most recent report was published on the website, www.ap7.se on 15 May 2019. Since then, no significant changes have occurred in the agency's mission or its value chain that would necessitate adjustments in this report. The Sustainability Report has been prepared in accordance with GRI Standards (Core level) and has not been subject to external auditing. AP7 has also considered the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on reporting of climate-related risks, but currently does not report completely according to the framework.

A GRI Index is presented on pages 30-31 of the Sustainability Report.

The contact person for sustainability reporting is Johan Florén, Head of Communications and Corporate Governance, +46 (0)8 412 26 64. The Sustainability Report for 2019 has been prepared in accordance with the Seventh AP Fund's principles for sustainability reporting, which align with those in the Swedish Annual Accounts Act.

Content of the report

The content of the report is based on a materiality analysis from 2014, which was updated in 2017. Using earlier analyses and interviews, supplemented with current situational analyses regarding trends, driving forces and challenges, in 2017 an internal working group carried out a preliminary calibration of relevant sustainability topics.

Initially, AP7's key stakeholders were identified, i.e. the groups that have the greatest interest in AP7's operation and for whom the mutual influence is significant. The stakeholder analysis identified the following as key stakeholders:

- Regulatory bodies
- Core suppliers
- Employees
- Swedish Pensions Agency
- Savers

A prioritisation process then followed, where the key stakeholders' assumed perception of selected sustainability topics was compared with the economic, social or environmental impact of each topic. The prioritisation resulted in the following relevant sustainability issues.

- Financial performance
- AP7's mission and trust
- Product portfolio: impact investments
- Information to the public on pensions
- Active ownership
- Transparency
- Anti-corruption
- Compliance with laws, ordinances and guidelines

Through in-depth interviews, representatives of key stakeholders (excl. the Savers group) gave their views on the selected sustainability issues and on AP7's sustainability work. The stakeholders were given the

chance to consider the issues in advance through a questionnaire. Views from the anonymous Savers stakeholder group were obtained from an analysis of questions and views submitted to AP7 in 2017. The stakeholders confirmed the selection of sustainability issues, and their comments extended and broadened the materiality analysis. In a concluding working meeting, involving both the working group and the agency's CEO and Head of Communications and Corporate Governance, the prioritised sustainability issues as described above were adopted. The key stakeholders were supplemented with the interest group, Collaboration Partners.

What do the stakeholders say?

The table on the opposite page describes AP7's key stakeholders, the forms of dialogue between AP7 and each stakeholder group, and the focus issues.

AP7 collaborates and has regular contact with other stakeholder groups that, relative to the key stakeholders, have a lower level of interest in and influence over AP7 and the agency's sustainability work and reporting:

- Researchers, who AP7 can collaborate with on generating knowledge about responsible investments and financial markets.
- Finansinspektionen, which has supervisory authority over AP7's operations and to which AP7 reports annually.
- Non-governmental organisations that show interest in specific issues and in how AP7 works generally with responsible investments.
- Sector colleagues who, together with AP7, drive developments within responsible investments.

Corporate governance

As part of the operational plan, the Board of Directors of AP7 adopts an ownership policy every year. This policy stipulates how AP7 will exercise the ownership function associated with its shareholding in the AP7 Equity Fund. The ownership responsibility is based on three main areas; governance regarding environmental and ethical considerations, and corporate governance (ESG). AP7 continually develops the processes in the area of corporate governance, including guidelines and policy documents.

The Guidelines for Corporate Governance describe how AP7 as owner, in line with its mission, exerts influence on companies to take responsibility for sustainability, ethics and good corporate governance. The guidelines are implemented through a number of CEO instructions regarding voting, public blacklisting, class action, and the in-depth themes. The Board tasked the CEO with preparing a climate strategy, which was done during the work on the Climate theme, 2015-2017.

The Head of Communications and Corporate Governance has the overall responsibility for AP7's work with responsible investments.

An ESG committee, comprising representatives for corporate governance, administration, and the asset management organisation, prepares certain ESG topics for decisions in the management team. The ESG Committee is also a collaboration body for ESG issues, and aims to promote coordination and integration of ESG in the various AP7 departments. The Committee

Stakeholder group	Description	Form of dialogue	Issues
Regulatory bodies	The Swedish Government's Pension Group which, through the AP Funds Act, tasks AP7 with asset management.	Continual dialogue	AP7's mission and confidence Financial performance
	The Ministry of Finance, which is responsible for monitoring and following-up AP7's activities.	Continual dialogue and annual reviews	AP7's mission and confidence Compliance with laws Financial performance
Core suppliers	External asset managers, who make investments on behalf of AP7 or who perform services for AP7 in some other way.	Continual dialogue and annual reviews	AP7's mission and confidence Active ownership Impact investments Transparency
Employees	36 employees, who together carry out AP7's mission.	Appraisal interviews and surveys	AP7's mission and confidence
Swedish Pensions Agency	The agency that collaborates with AP7 by channelling equity into the funds and managing pension payments.	Continual dialogue	AP7's mission and confidence Information to the public Financial performance
Collaboration partners, e.g. Sida	Actors that contribute to skills development in AP7 and in AP7's more in-depth work	Within the framework of ongoing collaborations	AP7's mission and confidence Active ownership Impact investments
Savers	4.2 million Swedes whose pension capital is managed by AP7.	Continual contact with individual savers who ask questions, but also annual surveys to find out what the Swedish population thinks about various pension-related issues.	Financial performance Active ownership Information to the public

meets once per quarter or when necessary. Companies to be blacklisted are decided by the Board's working committee, which may also be involved in other matters of special importance.

All employees are obliged to follow AP7's guidelines on ethics, which focus on the conduct of employees and regulate matters such as hospitality and gifts, procurements, secondary employment, and any conflicts of interest. The aim of the guidelines is to prevent employees or their close relatives deriving any benefits from their connection to AP7, or finding themselves in a position of conflict between the fund's interests and their own private interests. All employees confirm annually that they have understood the fund's guidelines on ethics. In 2018, all employees completed a training programme on corruption. AP7's business partners have been informed about the guidelines on ethics, by including the AP7 ethical policy in asset management agreements. The policy is also published on the website.

Through the ownership policy adopted by the AP7 Board (Guidelines for Corporate Governance), we undertake to comply with the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the OECD Guidelines on Corporate Governance.

- Extractive Industries Transparency Initiative (EITI)
- Institutional Investors Group on Climate Change (IIGCC)
- Swedish Investors for Sustainable Development
- Global Investors for Sustainable Development (GISD)
- Transition Pathway Initiative (TPI)

AP7 as employer

AP7 is a government agency. At the end of 2019, AP7 had 36 employees, 17 women and 19 men. All employees have permanent contracts and are covered by the collective bargaining agreement, BAO-JUSEK (SACO). The agency has its headquarters on Vasagatan in Stockholm and has no offices in other parts of the country. The agency conducts most of its business in Sweden although investments are made all over the world. The CEO is Richard Gröttheim. The management team comprises seven people, three women and four men. In 2019, one person left the agency and three people were recruited. For AP7 it is important that employees enjoy working for the agency, and that the agency has the right skills and expertise. All employees had appraisal interviews during the year with their immediate supervisors.

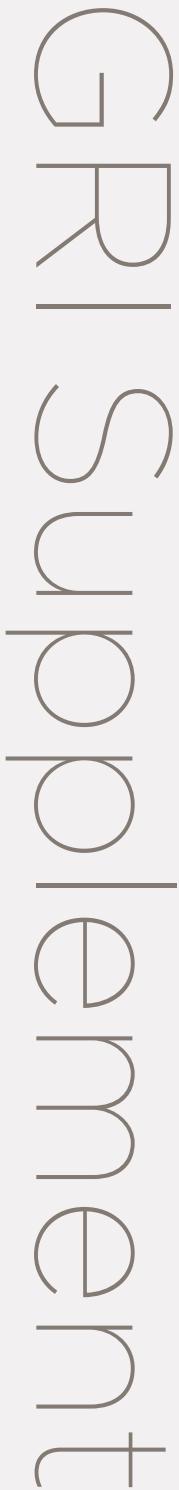
Memberships and voluntary agreements

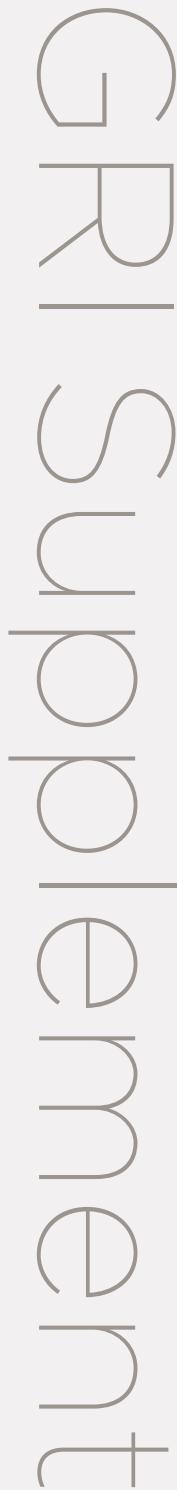
AP7 complies with the requirements associated with the following memberships or voluntary guidelines that have been endorsed:

- UN Principles for Responsible Investments (UNPRI)
- Carbon Disclosure Project (CDP)
- International Corporate Governance Network (ICGN)
- Sweden's forum for sustainable investments (Swesif)

AP7's climate risks

By law, AP7 may only invest in equities and fixed-income securities. Most of the savers' money is invested in the global stock market. Climate change entails risks for the financial sector that can be divided into two main categories: physical risks and transition risks. Physical risks are those arising from increases in global average temperature, rising sea levels, and more frequent occurrences of extreme weather. Transition risks are those deriving from the transition to a low-carbon society, where consumption patterns





will be changed, new products replace old, and climate policy becomes more stringent. The transition risk is therefore a consequence of societal measures taken to manage the physical climate risks.

The transition risk is counted as a financial risk, as the value of certain companies will fall when measures are implemented to, for example, phase out fossil fuels from the economy. Investors can manage transition risks by reducing their exposure to enterprises and organisations at risk of being affected by the transition, and increasing their exposure to enterprises that are expected to benefit from the transition. However, if the adaptations are to generate financial added value, the investor must be in a better position than the rest of the market to assess and take action regarding the transition risks.

Because AP7 invests in such a large number of companies across all sectors and all regions, the physical risks and transition risks linked to our holdings are largely the same as those applying to the entire global economy.

Physical risks

The biggest risk that could result in AP7 failing in its long-term mission to generate good returns and give our savers good pensions is that the world does not attain the 2°C target. This would mean that the physical effects of climate change would harm the global growth and economy.

The economic values at risk of being lost if the climate risks are not managed successfully are astronomical. Estimates are of the order of SEK hundred thousand of billions. Since AP7 invests in the value created by the entire global economy, the growth of our portfolios is dependent on long-term sustainable growth in the global market.

Research has been unable to prove that, when investors divest from companies in their equity portfolios, this has any effects on companies' climate impact. Transactions take place on a second-hand market, so the transaction does not normally affect the company's underlying flow of capital. In normal cases, the investor would have to actively communicate about their transaction to even send a signal to the company. Shares can be sold and bought many times without any owner exerting their influence to try to reduce the climate impact of the underlying enterprises.

AP7's main contribution to managing the actual climate risks is by being an engaged owner. It is by actively engaging with companies, enterprises, and the entire market in which we invest that we can make a contribution to reducing emissions of greenhouse gases to the atmosphere and managing the climate risks.

As a universal, long-term asset owner and government pensions fund, AP7 is in a stronger position than many other investors to work on developing norms and methods for the entire market. Through all our corporate governance processes and method development, AP7 is actively driving implementation of the Paris Agreement, which implements the UN Climate Convention. Success requires that we collaborate with other investors and societal actors, and use all the corporate governance tools at our disposal.

Our work on corporate governance takes several forms. For several years, we have been conducting focused work on the effects of corporate climate lobbying, where we drive the issue of a company's responsibility to report its political engagement activities. We expect the companies in which we

invest to not counteract implementation of the Paris Agreement. In 2017, for the first time we blacklisted companies working in conflict with the Paris Agreement. By including the Paris Agreement in our norms screening, we are involved in defining where the boundary goes for acceptable conduct regarding the climate issue. We engage in direct dialogue with a number of companies in our portfolio that we have identified as being especially important for a transition. We are running a number of engagement projects that focus on various aspects of companies' climate footprint. Climate remains one of our focus issues at general meetings, where we usually vote in favour of climate resolutions and also file our own shareowner resolutions on particularly important matters.

In parallel with exerting influence through ownership, AP7 can help finance climate solutions. The system change that we are facing requires innovations and investments in all sectors. We believe that our invested capital can benefit the climate by financing climate innovations and solutions for a new carbon-efficient economy. In this way AP7 can help to drive a transformation of the economy, both in our role as active owner and through our directed investments.

Transition risks

The process of phasing out fossil fuels from the economy and the transition to a more climate-smart society will be unfavourable to some companies in AP7's global portfolio and favourable to others. By investing in a large number of companies in a large number of different sectors and countries, we reduce our savers' exposure to the risks of each individual company.

AP7's blacklisting process excludes a number of companies whose activities conflict with the Paris Agreement, so it can be assumed that our exposure to companies that are not favoured by the transition is less than that in our comparison index.

AP7 takes advantage of the opportunity afforded by its active asset management to finance enterprises that offer solutions to the climate issue, thereby increasing its exposure to enterprises that are assumed to be favoured by a transition. AP7 has invested in green mandates in all asset classes (fixed income, listed and unlisted equity). AP7's investments in green bonds increased in 2019 by over 40 percent, to SEK 2.5 billion. Approximately 10 percent of our unlisted assets comprise Clean Tech, corresponding to SEK 1.2 billion.

Climate theme and corporate climate lobbying

During a three-year period, 2015-2017, AP7 conducted in-depth thematic work on the climate issue. The aim of the Climate theme was to investigate how AP7, through its investments, its ownership activities, and its role in society, could make a meaningful difference to climate change in a resource-efficient way.

The Climate theme resulted in us integrating climate risks in all our corporate governance processes from 2017 and, from 2018, in all asset classes. The Paris Agreement has been implemented in our corporate governance processes – companies whose activities conflict with the agreement are included in our half-yearly blacklisting. We have initiated dialogue projects directed at fossil-fuel companies and, in AP7's Corporate Climate Lobbying theme, we emphasise that companies must take responsibility for their political engagement in the climate issue.

AP7 measures its carbon footprint

In 2019, AP7 measured for the sixth consecutive year the collective carbon footprint of the AP7 Equity Fund. The carbon footprint gives an impression of the size of direct emissions from the underlying companies in the AP7 Equity Fund, but the practical value of the information has some limitations (see information in the fact box).

AP7 supports method development in the market, and carries out development work with asset managers to measure and follow up the climate impact of investments. On 31 December 2019, the Equity Fund managed assets worth SEK 617 billion, and comprised 92 percent of AP7's total assets under management. Two percent of the Equity Fund is made up of unlisted private equity, which is not included in the measurement. AP7's carbon footprint has been calculated on the basis of investments in listed equity, which comprises 88 percent of AP7's total assets under management.

The analysis was carried out by Your SRI/Southpole, and comprises emissions corresponding to Scope 1 and 2 according to the GHG Protocol. The calculations are based on 59 percent reported and 41 percent estimated emissions data from companies in the portfolio. The sector that contributed most to AP7's carbon footprint was power supply, which accounted for 35 percent of the footprint. The materials industry comprised 31 percent, while the energy sector accounted for 13 percent.

- 1.** The absolute climate footprint of the AP7 Equity Fund, corresponding to the owned proportion of the companies' collective emissions, was 8 million tonnes CO₂e. This is in line with our comparison index, MSCI ACWI, whose total carbon footprint at the same point in time was 9 million tonnes of CO₂e.
- 2.** The carbon intensity where the absolute carbon footprint is related to the ownership proportion of the companies' market value for the AP7 Equity Fund, was 14 tonnes of CO₂e per SEK million. At the same point in time, MSCI ACWI was 15 tonnes CO₂e per SEK million.
- 3.** The carbon intensity where the absolute carbon footprint is related to the ownership proportion of the companies' revenues was 21 tonnes of CO₂e per SEK million. MSCI ACWI was 22 tonnes CO₂e per SEK million.
- 4.** The carbon intensity, weighted average, where the companies' carbon intensity in relation to revenues is multiplied by the company's percentage of the portfolio based on market value, was 38 tonnes CO₂e per SEK million. MSCI ACWI at the same point in time was 39 tonnes CO₂e per SEK million.

Since 2015, AP7 and the buffer funds AP1-AP4 and AP6 have been collaborating in a group consisting of representatives from each AP fund, to coordinate the funds' reporting of carbon footprint. The group's proposal for standardisation has been embraced both in Sweden and internationally. Various data suppliers' services regarding carbon indicators for different asset classes have been evaluated, and this area is being continually developed. The AP funds have therefore

chosen to wait for coordination on more asset classes. AP7's managed capital largely comprises listed assets, so we nevertheless report the climate footprint for approximately 90 percent of our investments as of 31 December 2019.

In the framework developed by the Task Force on Climate-related Financial Disclosure (TCFD), investors are recommended to report carbon footprint using the indicator carbon intensity, weighted average. In this, the carbon footprint is calculated by multiplying the companies' proportion in the portfolio (based on market value) by the companies' carbon intensity in relation to revenues, and then adding the results. In this measurement, the ownership proportion has no significance. To align with the TCFD recommendations, the AP funds in 2017 decided to also include this indicator (number 4 above) in the reporting.

AP7 and the other AP funds are positive to measuring and reporting the climate emissions relating to investments, as part of broader work on climate. In addition to reporting the carbon footprint, we want to contribute to the development of more measurements that can help investors and companies manage climate-related risks and opportunities.

The box below shows how the carbon footprint provides important information for investors, but also that there are some limitations.

Advantages of the carbon footprint

Provides a way to assess certain climate-related financial risks, such as by putting a price on carbon.

Can provide a basis for corporate engagement, such as requirements for emission reduction targets, risk management, business strategies, and transparency.

Improves the transparency of the AP funds and pushes the business community towards greater transparency and improved data quality.

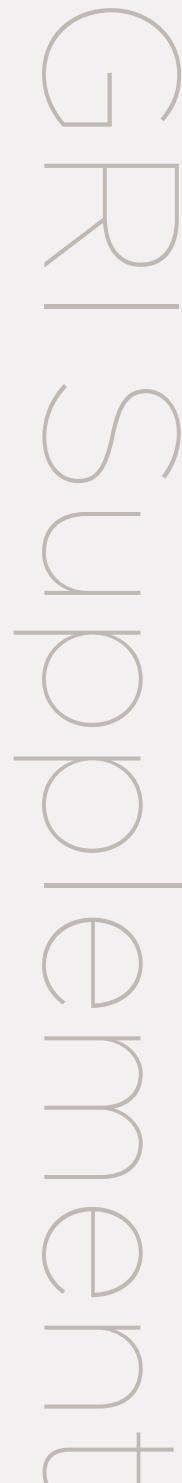
Limitations of the carbon footprint

Does not measure the total impact of the investments because:

- Only certain emissions are included
- Emissions data from companies is not complete
- Only certain asset classes are measured
- Emissions savings through products and services are not included
- Information about fossil reserves is not included

Does not measure the total climate risks of a portfolio, such as physical risks associated with extreme weather, flooding and drought, or consequences of more stringent legislation regarding greater energy efficiency. The carbon footprint is not a measure of a portfolio's total climate opportunities, nor how well a portfolio is positioned in relation to a transition to a low-carbon society.

Does not measure what is required to attain the 2°C target, and gives no guidance about how investors can contribute to reaching the target. A unilateral focus on individual portfolios' reduced carbon footprint therefore risks diverting attention from actual reductions in emissions and how investors can enable solutions for a low-carbon economy.





GRI Standard	Comments	Page
Organisation profile		
102-1 Name of the organisation	Seventh AP Fund (AP7)	
102-2 Activities, brands, products, and services		4-5
102-3 Location of headquarters	Stockholm	
102-4 Countries in which the organisation conducts operations		
102-5 Ownership and legal form		A
102-6 Markets served		4-5
102-7 Scale of the organisation		A
102-8 Information on employees		27
102-9 Supply chain	AP7 has a small number of suppliers, mostly providing asset management and analysis services. The suppliers are mainly based in the UK and US. The risks in the supply chain are therefore deemed to be low.	
102-10 Significant changes to the organisation and its supply chain		26
102-11 Precautionary principle or approach	AP7 conducts no manufacturing activities, but applies the precautionary principle by indirectly integrating it as part of its requirements.	
102-12 External statutes, principles and initiatives		27
102-13 Membership of associations		27
Strategy and analysis		
102-14 Statement from senior decision-maker		3
Ethics and integrity		
102-16 Values, principles, standards, code of conduct, and policy regarding ethics		4, 26-27
Governance		
102-18 Governance structure		26-27, Annual Report 27-28
Stakeholder engagement		
102-40 Stakeholder groups		26
102-41 Number of employees covered by collective bargaining agreements		27
102-42 Identification and selection of stakeholders		26-27
102-43 Approach to stakeholder engagement		27
102-44 Key issues arising from dialogue with stakeholders		27
Reporting practice		
102-45 Entities included in the report		26
102-46 Process of defining the contents of the report and boundaries		26
102-47 Issues identified as material		26
102-48 Explanations of corrections from previous reports	No corrections from previous reports were made in 2019	
102-49 Significant changes compared with previous reports		26
102-50 Reporting period		26
102-51 Date of most recent report		26
102-52 Reporting cycle		26
102-53 Contact person regarding the report		26
102-54 Statement that the report corresponds with GRI Standards		26
102-55 GRI Index		30-31
102-56 External audit		26

GRI Standard	Relevant sustainability topics	Page
ECONOMIC PERFORMANCE		
GRI 201: Financial profit/loss 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		24-29
201-2 Financial impact of climate change	Product portfolio: impact investments, active ownership	24-25, 27-29
GRI 205: Anti-corruption 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		26-27
205-2 Communication and training regarding policies and method of working concerning anti-corruption	Anti-corruption, transparency	26-27
205-3 Confirmed cases of corruption and measures taken	No reported cases of corruption in 2019	
SUPPLIER SOCIAL ASSESSMENT		
GRI 414 incl. GRI 308: Supplier screening 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		26-27, 32
308-1, 414-1 Number of new suppliers screened in accordance with criteria for socioeconomic or environmental impact	Active ownership	32
GRI FS: Product portfolio		
FS6 Distribution of product portfolio by region, size and sector	Transparency	ap7.se
FS8 Economic value of products and services with special environmental objectives	Product portfolio: impact investments	28-29
GRI FS: Active ownership		
FS10 Proportion and number of companies in the portfolio that the reporting organisation has interacted with regarding environmental/social matters	Active ownership	10-12
FS11 Proportion of managed capital covered by positive or negative environmental or social screening	Active ownership	32
GRI FS: Audit		
DMA Scope and frequency of audits to assess implementation of environmental/social policies and risk assessments	Active ownership, transparency, compliance with laws, ordinances, guidelines	32
GRI FS: Society		
FS14 Initiatives to improve accessibility to financial services for disfavoured groups in society	Mission and confidence, information to the public	22-23

Page references to reporting in accordance with TCFD recommendations

Governance	Strategy	Risk management	Targets and performance indicators
a) 26-28	24-25, 27-28	24-25, 27-28	28-29
b) 26	24-25, 27-28	24-25, 27-28	*
c) -	24-25, 27-28	24-25, 27-28	*

*AP7 does not calculate the climate impact arising from office activities involving Scope 1 and Scope 2 activities, because these impacts are regarded as marginal in relation to the climate impact from investments.



How does AP7 work with sustainability? And other frequently asked questions.

With four million savers, a number of questions are frequently asked about our corporate governance. Here are our answers to some of these.

What is the main purpose of your sustainability work? Our main promise to the savers is to generate a good return, and to use our power as owners to promote sustainable development. We base our work on the international conventions that Sweden has signed with regard to environment, human rights, labour rights, and anti-corruption. In this way, our activities are aligned with the perception of justice in the broad population group to which the savers belong, with no consideration taken to specific social, religious and economic interests.

AP7 is a universal owner. What does that mean for your corporate governance? The sustainability challenges are global, so we see a great advantage in being able to exert broad influence in global system issues. This is why, for example, we have chosen to be an active owner and vote at general meetings in the 3000+ companies in which we are owners. As universal owner, we primarily want to influence norms and standards for corporate responsibility that promote a more sustainable market in general.

With the long-term and broad global ownership, in our corporate governance we can work with issues that are important for entire sectors over several generations, and not just for individual companies. This means that we can also collaborate with other universal owners on encouraging companies to take responsibility for the consequences of their business operations and effects on the surrounding world.

What is AP7's strategy for responsible investments? AP7's strategy for responsible investment is based on the two main ways in which we can contribute to sustainable development: by being an active owner and by investing in sustainability solutions.

As owners, our main tool is to vote at the general meetings of the companies we own. By collaborating with other asset owners that share our values we can have greater impact. By working with norms, incidents and themes, we can engage broadly and deeply in our corporate governance when we combine the tools of voting, dialogue, legal processes, and blacklisting.

The other way in which AP7 can contribute to sustainable development is to invest in companies specialising in sustainable solutions. AP7 has investments in green bonds, unlisted clean-tech companies, and green investment mandates in listed companies.

AP7 owns companies in certain sectors such as fossil-fuel companies, while others exclude this sector. Why is that? We are convinced that, as sustainable investors, the best way to influence these companies is by owning shares and by engaging through the ownership role. There is a lot of capital available for investment in the world, so the risk is great that, if companies do not have owners who value sustainability, they will take less responsibility.

How does AP7 work with external asset management? Internal asset management means that the investment decisions are made and implemented by our own employed asset managers. External fund management means that investments

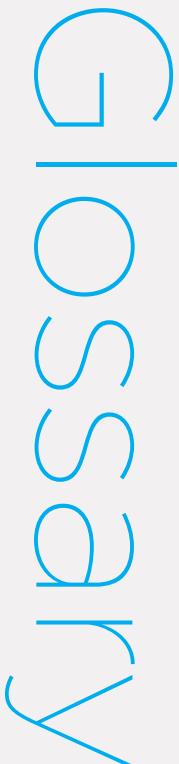
are made by specially commissioned external asset managers, often larger specialised companies. AP7 uses external asset management for the majority of its managed capital. In our agreements with our external asset managers, we stipulate that they must meet AP7's requirements regarding sustainability, such as banning investments in companies that AP7 has blacklisted. We hold continual dialogues with our external asset managers, and conduct annual screening of all of them, including any new asset managers. AP7 has opted not to outsource governance of the companies we own to the external asset managers. AP7 itself handles voting at general meetings, engagement dialogues with companies, screening and blacklisting of companies, and legal processes.

Which statutory requirements impact AP7's work on responsible investments? AP7 is subject to the EU UCITS directive, which limits the asset classes we can invest in. AP7 can therefore not invest directly in properties, forest, infrastructure projects or other alternative investments, and may only invest in equities and fixed income securities. In accordance with the AP Funds Act, AP7's asset management must be solely aimed at the interests of the savers. No consideration is taken to business policy or other political matters. Unlike other AP Funds, AP7 may not vote at general meetings of Swedish companies. The environment and ethics must be considered in AP7's asset management, without sacrificing the overarching goal of high returns. Since we see no conflict between investment returns and a sustainability approach, the law enables us to conduct responsible asset management.

What proportion of AP7's managed capital is subject to the requirement for responsible asset management? All our managed capital is subject to the requirement for responsible asset management. AP7 invests in three asset classes: listed equities, unlisted equities, and fixed income securities. Listed equities make up approximately 90 percent of the capital, and unlisted equities make up only a fraction of the shareholding. AP7 requires that our managers of unlisted equities consider sustainability in their asset management, and we have a special evaluation process for them. AP7 has guidelines for our fixed income investments that prevent investment in bonds issued by authoritarian regimes, or by blacklisted companies. Currently AP7 invests only in Swedish mortgage and government bonds, and in Swedish green bonds. Our entire listed portfolio is screened twice a year for violations of norms and equity relating to nuclear weapons. The blacklisting applies to all our asset classes, and is updated twice a year.

Where can I find more information about how AP7 works with responsible investment?

- On the AP7 website you can read our blog and about our work with sustainability. Our previous sustainability reports and annual reports are also available on www.ap7.se
- You can download the sustainability profiles of AP7's Fixed Income Fund and Equity Fund from the Swesif website, www.hallbarhetsprofilen.se
- AP7 reports annually to PRI. You can download our report, AP7 RI Transparency Report, here: www.unpri.org/ap7/866.article



Blacklisting. This is a way for AP7 to exert pressure on companies whose conduct we want to change. Twice a year, AP7 publishes the names of the companies we are blacklisting, together with the reasons for the exclusion. We continue to hold dialogue with the companies even after the blacklisting, and make clear which measures we need to see in place before we can lift the blacklisting and start investing in the company again. In this way, blacklisting differs from divesting, which is not aimed at bringing about changes in conduct of individual companies. The aim of blacklisting is to create an incentive to change.

Climate risks. The risks to the financial system associated with climate change.

Corporate governance. By owning shares, an investor can exert influence over the company. AP7 uses this influence by conducting active engagement work in relation to the companies. We currently work with four different engagement methods that often interact: voting at general meetings and filing resolutions, engagement dialogues, public blacklisting, and legal processes.

ESG. This is an acronym for Environmental, Social, Governance, a collective term referring to consideration taken to the environment, human rights, labour rights, and corporate governance issues in investments.

External asset management. This means that investments are made by specially commissioned external asset managers in accordance with AP7 guidelines and criteria.

General meeting. A general meeting or an annual general meeting is the highest decision-making body of limited companies. Everyone who owns shares in the company may attend a general meeting and participate in decisions about the company. A general meeting appoints the board of directors, and decides on various strategic issues. At a general meeting, shareholders may put forward their views and ask the company management questions, and file their own shareholder proposals (see Resolution, shareholder proposal).

Internal asset management. Investment decisions are made and implemented by our own employed asset managers.

Norm screening. Continual monitoring of how companies comply with international conventions on the environment, human rights, labour rights, and anti-corruption. Companies reported as violating international conventions are identified and analysed.

Physical climate risks. The negative consequences for the global economy that climate change will entail, in the form of rising sea levels, greater average rainfall, and increased occurrence of extreme weather events.

Proxy voting. When an owner cannot attend the general meeting, they can still exercise their voting rights remotely via a representative with power of attorney. AP7 has holdings in over 3000 companies around the world, and votes at general meetings through proxy voting.

Resolutions, shareholder proposal. Most proposals at general meetings are filed by the company management itself, but investors can also file their own resolutions for voting. A shareholder resolution is a written proposal regarding a measure that the shareholder wants the company to implement. The opportunity to file shareholder resolutions varies greatly between different countries, and is regulated in national legislation. In the US, it has been relatively easy to file resolutions, but it has been harder in many European countries. AP7 has been filing shareholder resolutions on climate issues together with other shareholders since the 2016 general meeting season in both the US and Europe.

Sustainable investments. A collective term for different sustainability strategies that investors use for different purposes.

Transition risks. The negative consequences for the global economy that arise as a result of more stringent legislation and regulations in the climate area aimed at reducing carbon emissions.

Universal owner. A universal owner makes long-term investments throughout the market, so systemic problems like climate change are particularly important for a universal owner. As universal owner, AP7 primarily aims to influence norms and standards that contribute to a more sustainable market in general. On the basis of these norms, we can then engage with the individual companies we own.

72 companies that do not share our values...

AECOM Involvement in nuclear weapons. **AES CORP** Violations of human rights and environmental norms in connection with a dam construction project in Panama. **AIRBUS SE** Involvement in nuclear weapons. **AURORA CANNABIS, INC** Involvement in cannabis. **AVICHINA INDUSTRY & TECHNOLOGY** Violations of human rights through sales of weapons to Myanmar. **BACCOCK INTERNATIONAL GROUP PLC** Involvement in nuclear weapons. **BAE SYSTEMS PLC** Involvement in nuclear weapons. **BARRICK GOLD CORP** Violations of environmental norms in connection with mining operations in Chile and Argentina. **BHARAT HEAVY ELECTRICALS LTD** Violations of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **BHP GROUP PLC/LTD** Violations of environmental norms and human rights in connection with the collapse of a dam in Brazil. **BOEING CO** Involvement in nuclear weapons. **BROOKFIELD ASSET MANAGEMENT INC** Involvement in nuclear weapons. **BWX TECHNOLOGIES** Involvement in nuclear weapons. **CANOPY GROWTH CORP** Involvement in cannabis. **CHINA SHIPBUILDING INDUSTRY CO** Involvement in nuclear weapons. **COMPANHIA ENERGETICA DE MINAS GERAIS (CEMIG)** Violation of human rights in connection with a dam construction project in Brazil. **CENTRAIS ELETRICAS BRASILIERAS** Violations of human rights in connection with a dam construction project in Brazil. **CHINA RAILWAY GROUP LTD** Violations of labour rights in China. **CINTAS CORP** Violations of labour rights in the US. **DEUTSCHE TELEKOM AG** Violations of labour rights in the US. **ELBIT SYSTEMS LTD** Production of cluster munitions and sale of military equipment used in violations of human rights in Israel. **ENBRIDGE INC** Violations of human rights in connection with construction of an oil pipeline in the US. **ENERGY, INC** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **EXXON MOBIL CORP** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **FLUOR CORP** Involvement in nuclear weapons. **FORTIVE CORP** Involvement in nuclear weapons. **GAZPROM PJSC** Conducts activities that conflict with the Paris Agreement by extracting oil in Arctic Russia. **GENERAL DYNAMICS CORP** Involvement in nuclear weapons. **HANWHA CORP** Involvement in cluster munitions and landmines. **HITACHI ZOSEN CORP** Involvement in nuclear weapons. **HONEYWELL INTERNATIONAL INC** Involvement in nuclear weapons. **HUNTINGTON INGALLS INDUSTRIES INC** Involvement in nuclear weapons. **INDOFOOD SUKSES MAKMUR** Violations of human rights through the import of phosphate from the occupied West Sahara. **JACOBS ENGINEERING GROUP INC** Involvement in nuclear weapons. **JBS SA** Violations of labour rights in the US and Brazil. **KOREA SHIPBUILDING & OFFSHORE ENGINEERING TECHNOLOGIES INC** Involvement in nuclear weapons. **LARSEN & TOUBRO LTD** Involvement in nuclear weapons. **LEIDOS HOLDINGS INC** Involvement in nuclear weapons. **LEONARDO SPA** Involvement in nuclear weapons. **LOCKHEED MARTIN CORP** Involvement in nuclear weapons, cluster munitions and landmines. **LUKOIL PJSC** Violations of environmental norms in connection with oil extraction in Russia. **MARATHON PETROLEUM CORP** Violations of human rights in connection with construction of an oil pipeline in the US. **NORTHROP GRUMMAN CORP** Involvement in nuclear weapons. **NUTRIEN** Violations of human rights through the import of phosphate from the occupied West Sahara. **NTPC LTD** Violations of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **PEABODY ENERGY** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **PHILLIPS 66** Violations of human rights in connection with construction of an oil pipeline in the US. **POSCO** Violations of labour rights in Turkey. **POSCO INTERNATIONAL CORP** Violations of labour rights in Turkey. **RAYTHEON CO** Involvement in nuclear weapons. **RENAULT SA** Violations of labour rights in Turkey. **REPSOL SA** Violations of human rights in connection with a gas extraction project in Peru. **ROLLS-ROYCE HOLDINGS PLC** Involvement in nuclear weapons. **ROSNEFT OIL CO** Violations of environmental norms in connection with oil extraction in Russia. **ROYAL DUTCH SHELL PLC** Violations of environmental norms and human rights in connection with oil extraction in Nigeria. **SAFRAN SA** Involvement in nuclear weapons. **SERCOP GROUP PLC** Involvement in nuclear weapons and violations of human rights in connection with operation of refugee camps in Australia. **SGL CARBON SE** Involvement in nuclear weapons. **SK INNOVATION CO LTD** Violations of human rights in connection with a gas extraction project in Peru. **SOUTHERN CO** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **TATA POWER CO LTD** Involvement in nuclear weapons. **TC ENERGY CORP** Conducts activities that conflict with the Paris Agreement through a large-scale oil pipeline project in the US and Canada. **TEXTRON INC** Involvement in cluster munitions. **TALES SA** Involvement in nuclear weapons. **T-MOBILE US INC** Violations of labour rights in the US. **TOSHIBA** Involvement in nuclear weapons. **UNITED TECHNOLOGIES CORP** Involvement in nuclear weapons. **VALE SA** Violation of human rights in connection with a dam construction project in Brazil, and violations of environmental norms and human rights after the collapse of a dam in Brazil. **WALMART INC** Violations of labour rights in the US.

AP7 invests in the companies that satisfactorily comply with the requirements of the international conventions that Sweden has signed, and that are enshrined in the UN Global Compact's ten principles, which describe corporate responsibilities regarding human rights, labour rights, the environment and corruption. AP7 blacklists companies that participate in the development and production of nuclear weapons. Since the audit in December 2016, the Paris Agreement to the UN Climate Convention has been one of the norms on which our analysis is based. The 72 companies shown above are blacklisted and excluded as of December 2019.



AP7
Vasagatan 16, 10tr
Box 100
SE-101 21 Stockholm
Sweden
Tel: +46 8 412 26 60
Fax: +46 8 22 46 66
www.ap7.se