



AP2

Andra
AP-fonden

SUSTAINABILITY REPORT 2020

The Fund's approach to sustainability.

The sustainability work implemented by AP2 derives from the nature of its mission and involves acting over the long term, to protect and add value to its invested assets – based on an economic, environmental and social perspective.



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The image shows the cover page of AP2's Sustainability Report. The background features a dark, slightly blurred photograph of a classical building with white columns. Overlaid on the left side is a stylized graphic of a sun, a hill, and two small trees. To the right of this graphic, the text "SUSTAINABILITY REPORT" is written in a bold, sans-serif font. Below the title, there is a horizontal line. To the right of the line, there is a square icon containing four checkmarks, each accompanied by a short horizontal line. To the right of this icon, the text "GRI REPORTING" is printed. At the bottom of the page, there is a block of text providing information about the report's preparation according to GRI standards and its relationship to the Annual Report.

AP2's Sustainability Report

 SUSTAINABILITY REPORT

AP2 prepares a separate detailed sustainability report, including a GRI index, which is published on the Fund's website. The report complements the sustainability information in the Annual Report. Find out more about AP2's sustainability programme at www.ap2.se

You can also read the annual report of the Council on Ethics of the AP Funds' at www.etikradet.se

This Sustainability Report has been prepared in accordance with Global Reporting Initiative (GRI) Standards at the core level. GRI is an international framework for reporting on an organisation's activities in the area of sustainability and includes environmental, social and economic aspects. AP2's GRI index (see page 54) provides an overview of the general disclosures in accordance with the GRI's guidelines, and information for the areas that AP2 has decided to report against on the basis of the materiality analysis. More details on page 8.

Mission, goal, vision and strategy

Andra AP-fonden is an independent government agency that autonomously manages funds within insurance for income-based old-age pensions. Along with the other buffer funds, Andra AP-fonden is part of the public pension system. Part of the Funds' mission is to manage the fund assets in an exemplary manner through responsible investments and responsible ownership.

Mission and goal

AP2's mission as a buffer fund is to contribute over the long-term, with its return, to the balance of the pension system, thereby ensuring a good pension trend, even during periods of economic and demographic fluctuations.

The AP Funds are required by law to manage their fund assets in a way that provides the greatest possible benefit for the insurance for income-based retirement pensions. The total risk level should be low, measured in outgoing pensions.

The mission of the Funds requires the fund assets to be managed in an exemplary manner through respons-

ible investments and responsible ownership. When managing the assets, special emphasis must be given to how sustainable development can be promoted without compromising the overall goal to provide the greatest possible benefit to the pension system.

Exemplary means that the investments should have the best risk and return given the needs of the pension system, and that sustainability should be an integral part of the asset management.

Vision

AP2's vision, World-class management, offers both inspiration and

guidance for the Fund's employees. It helps the Fund motivate and attract employees, prioritise and make the right decisions. The vision covers all aspects of the Fund's activities.

A sustainable strategic portfolio

As part of AP2's strategic roadmap, the Fund's objective was to develop a new and sustainable strategic target portfolio by 2020. A sustainable strategic portfolio is a strategic portfolio that, by having integrated sustainability into underlying decisions, is better equipped to fulfil the overall goal to provide the greatest possible benefit to the pension system in the long term. The integration of sustain-

SUSTAINABILITY STRATEGY BASED ON THE MISSION



AP2's investment beliefs

1. Thorough analysis of the pension system is key to choice of strategy.
2. Systematic risk-taking is required.
3. Diversification reduces risk.
4. Active management creates added value.
5. Sustainability pays off.
6. Climate change is a system risk.
7. Long-term mandate presents special opportunities.
8. People and culture are critical success factors.
9. Stable processes are an important prerequisite for good results.
10. High level of cost-effectiveness leads to improved results.



ability is necessary for achieving that goal. A sustainable strategic portfolio, without compromising the overall goal, also promotes sustainable development.

Sustainability strategy

AP2 based its work throughout the year on the Fund's sustainability strategy. The strategy is based on the statutory mission and the Fund's investment beliefs. The strategy also reflects the Fund's vision and values.

The investment beliefs provide the outer framework for the Fund's approach to sustainability in asset

management. In addition, a number of more specific sustainability principles have been adopted.

The sustainability strategy is based on these principles and aims to clearly define the activities that are to be implemented in order to achieve the overall goal of a sustainable strategic target portfolio, which is also in line with the Paris Agreement. The strategy also includes goals to enable analysis of how the Fund's sustainability work affects return and risk.

AP2's six sustainability principles

1. AP2 integrates sustainability in all investment processes.
2. AP2 actively seeks for investments that contribute to sustainable development.
3. AP2 works on the basis of the focus areas.
4. AP2 uses dialogue as a tool.
5. AP2 takes a scientific approach.
6. AP2 seeks to be a leader within sustainability.

Andra AP-fonden's sustainability work

One of Andra AP-fonden's sustainability principles is to strive to be at the forefront of sustainability. The Fund is constantly working towards achieving this. The Fund began its work on sustainability issues at the start of 2001 and was one of the founding signatories of PRI. Andra AP-fonden has on several occasions been a pioneer in terms of investments in green bonds, agricultural investment frameworks, sustainability requirements in contractual agreements with private equity funds, divestment from fossil energy companies, TCFD and UNGPRF-compliant reporting and now, most recently, the internally developed multi-factor indices for foreign equities and corporate bonds that meet the EU Paris-Aligned Benchmark (PAB) criteria. In 2020, the Fund was once again included in PRI's Leaders' Group, this time for its climate reporting.

AP2's sustainability work covers the environment, ethics, social issues and corporate governance. The goal of the Fund's sustainability work is to generate and protect values. Inclusion of sustainability aspects in analyses and investment processes provides the Fund with a broader and better set of data for decision-making. The Fund is also committed to maintaining a high level of confidence in the pension system through exemplary management and by driving further improvements in best practice in asset management issues.

Sustainability work affected by COVID-19
During 2020, the Fund's sustainability work was affected to some extent by COVID-19. It primarily affected attendance at general meetings as well as the proposals for dividends and board fees. Temporary legislation allowing postal voting was fast-tracked through the Swedish Parliament and came into effect at the beginning of April. This enabled the meetings to be conducted in a satisfactory manner. In several nomination committees, the Fund has sought not to increase the board fees for 2020.

The government's evaluation of the AP Funds' sustainability work
Within the framework of the government's annual evaluation of the AP Funds' activities, McKinsey conducted an in-depth analysis of the AP Funds' sustainability work. In its evaluation, the government notes that "The AP Funds are at the forefront of sustainability compared with leading institutional investors globally and that they continue to improve their work in line with the rapid development in this area". According to McKinsey, the AP Funds excel particularly in their ownership commitment, and are also at the

forefront of integrating sustainability into asset management. McKinsey notes that "the Funds are continuously developing new methods to take sustainability into account in their investments and that the management organisations are responsible for the implementation of the sustainability work".

AP2's framework

AP2 is a government agency whose activities are regulated in the Act (2000:192) on Swedish National Pension Funds. The law has been amended as of 1 January 2019.

It is important that the Funds have the trust and confidence of the general public and act in a responsible manner. The revised Act states that the AP Funds should manage their assets in an exemplary manner through responsible investments and responsible ownership.

For AP2, sustainability and responsible investment are high priorities. A proactive approach to the environment, ethics, social issues and corporate governance provides the means to achieve the goal of a high, risk-adjusted return.

Guiding documents for the sustainability work

AP2 has a number of policies and guidelines that form the basis of the sustainability work (see description on page 7). Information and training in these are provided continuously. The Fund performs an annual review of policies and guidelines and this is followed up through a system of internal controls and procedures.

AP2's operative work on sustainability and governance issues is based on the Fund's sustainability policy and corporate governance policy. These

AP2's approach to sustainability

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Andra AP-fonden's management of sustainability-related issues

DECISION LEVEL	CATEGORY	GOVERNING DOCUMENTS	FOLLOW-UP	GOALS AND OUTCOMES 2020	
				Goal	Outcome
THE BOARD OF DIRECTORS	Strategy	Operating plan, including corporate governance policy and sustainability policy	This is followed up by the Board and the executive management.	Goal: Long-term average annual real return of 4.5%.	Outcome: In five years, 5.7%, in ten years 6.6%.
	Return	Ethics policy	Followed up by the Board and Executive Management and reported in the annual and half-year reports.	Goal: No form of corruption, giving or taking bribes.	Outcome: 0 cases.
	Code of Conduct	Compliance policy	The Chief Compliance Officer has overall responsibility to oversee compliance with the guidelines, and reports to the Board on key ethical issues impacting the business and the employees' actions.		
		Principles for hospitality and gifts			
	Sustainability	Policy for human rights Financial sustainability areas Environmental policy Sustainability strategy	The work is followed up by the Board, Executive Management and steering groups.	Goal: See page 10. Goal: Increase rail travel Gothenburg–Stockholm. Reduce number of printouts.	Outcome: See page 10. Outcome: See page 51.
CEO/EXECUTIVE MANAGEMENT	Staff manual	HR policy	The CEO is responsible for ensuring that policies and plans are drawn up. The overall work is planned and followed up by the Fund's HR manager.	Goal: Increase percentage of female managers at AP2.	Outcome: 29 (28)%.
		Equality and diversity plan		Goal: No employee of AP2 shall be exposed to discrimination.	Outcome: 0 cases.
		Discrimination policy			
		Work environment policy			
		Hospitality policy			
		Travel policy			

are adopted annually by the Board and published on the Fund's website.

Regulations and conventions that also form the basis of AP2's work on sustainability include the OECD's Guidelines for Multinational Enterprises and corporate governance, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights, the Swedish Companies Act and the Swedish Code of Corporate Governance. AP2 also adheres to other specific corporate governance codes such as the ICGN Global Stewardship Principles and the UK Stewardship Code, as well as the EU's work on Sustainable Finance.

Implementation of PRI

AP2 supports and works to implement the UN-supported Principles for Responsible Investment, PRI. The Fund signed these principles back in 2006 when they were launched. Implementation of these principles is a continuous process in which sustainability issues are taken into consideration in both the Fund's role as asset manager and its role as asset owner. PRI provides a variety of tools and activities to support investors to implement the principles and to facilitate collaboration among investors. More than 3,000 investors have put their signature to these principles.

In an annual questionnaire sent out by PRI, all signatories report on how they are working to implement the principles. AP2's response to this questionnaire is available on the websites of PRI and AP2. AP2 also follows the PRI's Guidance for Responsible Investment in Farmland. This guidance was drawn up in 2011 by AP2 and a group of international investors. AP2's reporting on the implementation of these principles can be found on the Fund's website.

Organisation and distribution of responsibility

AP2's Board determines guidelines and policies in governance issues and has

Awards

AP2 is proud to be part of the **PRI Leaders' Group 2020** and be recognised for the work on sustainability that the Fund has done in connection with climate reporting, which is this year's theme. The Fund is one of 36 investors that receive the award and one of two from Sweden (AP2 and Swedfund). Through Leaders' Group, PRI wants to distinguish signatories who are at the forefront of responsible investments and highlight trends in what these leading signatories do. The signatories' reporting responses and assessment data are used to identify those who are good at responsible investment, both throughout the organisation and with a specific focus on a particular theme each year.



mandated the CEO of the Fund to manage these in its operating activities. The Fund Executive Management, together with the head of the strategy department and the Fund's senior sustainability analyst, are responsible for the strategic sustainability work and for implementation and follow-up. The day-to-day work is handled by the Fund's various departments.

Day-to-day corporate governance is managed through the Fund's Corporate Governance Group, which comprises members of the Fund's Executive Management, corporate governance analyst and the head of Swedish Equities. Based on the Fund's corporate governance strategy, the Corporate Governance Group prepares action plans and continuously monitors the work.

At each board meeting, AP2's Board receives a report on the Fund's sustainability and corporate governance work.

Stakeholder dialogue and materiality analysis

Continuous dialogue with stakeholders provides important guidance in the Funds' sustainability work. In order to investigate how the stakeholders view the AP Funds' mission and activities in relation to sustainability and returns, AP1, AP2, AP3 and AP4 conducted a stakeholder dialogue together with the Council on Ethics in the autumn of 2020.

The dialogue was conducted in the form of an online survey that was sent out to just over 200 people within the AP Funds' eight most important stakeholder groups. The stakeholder

groups consisted of clients (Pension Group, Finance and Social Insurance Committees and the Ministry of Finance), portfolio companies, suppliers, industry colleagues, beneficiaries, society, stakeholder organisations and employees.

Overall, the dialogue showed that the stakeholders have good knowledge of the AP Funds' activities and a high level of confidence that the AP Funds fulfil their mission of long-term and sustainable high returns. The stakeholders also have a high degree of confidence in the AP Funds' work with and integration of sustainability issues in the asset management process. The dialogue also showed that the AP Funds can become better at managing and communicating sustainability-related risks and opportunities in their investments.

Prioritised sustainability areas

In the survey, the stakeholders ranked twelve selected sustainability areas according to how important they considered each area to be for the AP Funds to take into account in their asset management operations and in their advocacy work with the companies. Five areas were considered equally important to all stakeholders:

- Business ethics
- Anti-corruption
- Long-term return
- Human rights
- Climate change.

These five areas were followed in descending order by:

- Environmental impact
- Transparency in companies
- Working conditions
- Sustainable supply chain
- Biodiversity
- Diversity and equal opportunity
- Information security.

Several stakeholders pointed out that the AP Funds' sustainability work should be characterised by a holistic perspective and that all twelve areas are important in the AP Funds' overall sustainability work. Prioritisation of sustainability areas should be based on the type of company, sector and location.

Stakeholders emphasised that the AP Funds can improve their communication through increased transparency and greater visibility in the debate. They voiced a strong wish for the AP Funds to provide increased transparency surrounding their corporate dialogues and their results. Regular dialogue with the wider community was also considered important for driving a value-creating process of change.

Each AP Fund will use the stakeholder dialogue in its sustainability initiatives in various ways.

Focus areas

One of the Fund's six sustainability principles is to base its work on focus areas.

According to this principle, AP2's sustainability work is concentrated primarily on a number of prioritised focus areas that the Fund considers to be the most important. AP2 has extensive expertise and experience in the selected focus areas, having worked on these issues for a considerable time. The Fund expects to be working with these areas for many years to come.

The Fund's focus areas in sustainability are:

- Climate
- Corporate governance
- Diversity
- Human rights.

The work carried out in these focus areas is targeting companies in which AP2 has invested most heavily and/or those in which it controls a substantial interest and in sectors that are deemed to pose considerable financial sustainability risks, since they are the financially most important ones for the Fund. The work on human rights issues is conducted first and foremost from a severity perspective in accordance with the UN Guiding Principles. This can be done in collaboration with other investors to bring about improvements in a particular company and/or within a sector. The work on focus areas is also carried out internally.

Goals broken down into long-term and short-term goals for each focus area, and activities for achieving the goals, are specified in the Fund's annual business plan for sustainability and in the action plans for each asset class.

Collaboration with other investors
In addition to collaborative working between the AP Funds in the Council on Ethics, AP2 works collaboratively with other Swedish and international investors. During the year, the Fund has exchanged experience on the environment, ethics and corporate governance in asset management with the Swiss federal pension fund,

PUBLICA and others in the Fund's network. AP2 is also a member of and supports various Swedish and international initiatives in the areas of the environment, ethics, social responsibility issues and corporate governance. The Fund works with other investors to influence new legislation, primarily within corporate governance. These collaborative efforts are becoming increasingly important in influencing and bringing about change, and thereby enhancing long-term shareholder value.

AP2 is part of the reference group for a research project launched by PRI, UNEP FI and Generation Foundation, whose purpose is to investigate if and how legal frameworks permit and encourage investors to take into account how sustainability factors affect and are affected. The project, "A Legal Framework for Impact", analyses existing legal frameworks to see to what extent asset owners can prioritise sustainability factors, even when this has a negative impact on the return. It investigates how managers can or should approach sustainability factors when this is not included in their mandate.

Collaboration on climate issues
AP2 works with other European investors on climate issues through membership of the IIGCC (Institutional

Investors Group on Climate Change). The aim is to promote the investors' views on climate issues and to engage with companies, authorities and other investors in order to highlight long-term risks and opportunities that arise in connection with climate change.

Climate issues are important for AP2 as a long-term investor. To enable companies to make profitable investments and investors to calculate risks and returns, it is important to have clarity about regulations and frameworks for reducing greenhouse gas

emissions and stimulating alternative energy sources. IIGCC is an effective platform for communicating investors' wishes in the climate field. The organisation is also a platform for collaboration with other investors in terms of both dialogues with companies and the development of methods and tools for investors. More information is available at www.iigcc.org

Details about AP2's membership and initiatives can be found on the Fund's website.

Training in sustainability
All employees receive regular internal training in sustainability issues. All Board members have also undertaken training, which covers current sustainability trends, the UN's Sustainable Development Goals, the global financial landscape, AP2's sustainability work and the work of the Council on Ethics. In addition, all employees have received mandatory training in human rights and the Anti-Money Laundering Act.



A selection of Andra AP-fonden's sustainability goals

SUSTAINABILITY PRINCIPLE	DESIRED SITUATION IN 2023	PATHWAY TO GETTING THERE	ACTIVITIES IN 2020
AP2 integrates sustainability in all investment processes			
	Integration of sustainability in the most important parameters that form the basis of the ALM model's forecasts.	Gradually continue to develop integration of sustainability, with a focus on climate change, in the ALM analysis.	Analysed impact of extreme weather events on the ALM model.
	Internally develop as many indices with a sustainability profile as possible, thus creating greater control over yield and sustainability characteristics.	Introduce indices with a sustainability profile for asset types where such indices are not currently used, for example, global credits and Swedish equities, with the aim of meeting the criteria for the EU Paris Aligned Benchmark. Develop internal indices with a sustainability profile for asset types that are currently based on external indices with a sustainability profile, for example, bonds in emerging countries.	Developed and implemented index in accordance with the EU Paris Aligned Benchmark for global equities and corporate bonds. No activities were undertaken in 2020 to develop internal indices where the Fund is currently using external indices.
AP2 actively seeks out investments that promote sustainable development			
	The Fund's investments have supported sustainable development. The portfolio has been developed in line with the Paris Agreement and the IPCC's 1.5°C scenario with limited overshoot.	Increase investment strategies that support sustainable development – for example, by including such assets in the investment universe and index construction, or through specific mandates (both internal and external).	Developed and implemented multi-factor indices for global equities and corporate bonds in accordance with the EU Paris Aligned Benchmark criteria. Invested in sustainable infrastructure.
AP2 bases its work on focus areas			
	AP2's investments and other work based on the focus areas have helped achieve AP2's overall objectives.	Develop reporting on the Fund's work and investments in the focus areas related to the global sustainability targets.	For the first time, published a separate sustainability report for the first half of 2020, which presents the Fund's work based on AP2's four focus areas: climate, corporate governance, diversity and human rights.
AP2 uses dialogue as a tool			
	AP2 has created values through dialogue and reduced risks in the portfolio, and also contributed to sustainable development related to the global sustainability goals.	Engage in dialogue with selected companies and external managers in line with the Fund's corporate governance strategy. Develop a process to identify and engage in dialogue with companies with major potential for value creation if they improve their sustainability performance.	Voted at 1,006 foreign general meetings. Sent 50 follow-up letters to companies where we voted against the board's proposal. Continued dialogues with the Fund's external managers of Chinese A shares A system for proactive risk identification in respect of human rights in listed limited companies has been developed in order to analyse the Fund's holdings on an ongoing basis. A process for managing and evaluating these risks has been implemented. Dialogues have been initiated with four companies. More details on page 47.
AP2 takes a scientific approach			
	Maintain the high academic standard with good insight into the latest and leading research. Maintain and develop the existing relationships and collaborative workings with academic institutions.	AP2 is in active dialogue with researchers and invites them to hold seminars for the Fund's employees. AP2 arranges, participates in and speaks at relevant conferences with a scientific focus.	The Fund had a number of contacts with researchers for the external analysis that was conducted as part of the Fund's business plan development process for 2021-2023. More details in AP2's Annual Report. AP2 participated in an academic study of institutional investors' views on social bonds. Since 2017, AP2 has been represented as an advisor for the Yale Initiative on Sustainable Finance (YISF) and the Center for International Climate Research (CICERO).
AP2 seeks to be a leader in sustainability			
	AP2 has a high level of stakeholder confidence and is looked upon as a role model.	Stakeholder dialogues are conducted regularly. Continuously develop the Fund's external sustainability reporting.	Stakeholder dialogue conducted. More details on page 8. AP2 was awarded for its climate reporting by PRI. The Fund was named PRI Leaders' Group 2020 along with 35 other investors. More details on page 8.

Contributing to the transition to sustainable development

For some time, Andra AP-fonden has worked to integrate sustainability in its asset management, among other things with focus on climate change, which plays a central role in sustainable development, and also for future economic development and returns on financial assets. During the year, the Fund took a major step towards a carbon-neutral world by 2050 at the latest through the internal development and implementation of multi-factor indices for global equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark.

Political measures are basically required to keep the global temperature increase in line with the requirements of the Paris Agreement. However, this does not prevent institutional investors such as AP2 from having an important role to play.

Limiting global warming to 1.5°C, on which the countries of the world agreed at the Climate Conference (COP21) in Paris 2015, entails a clear journey towards a society without net greenhouse gas emissions. The special report published by the UN's Intergovernmental Panel on Climate Change (IPCC) in October 2018 shows that it is possible to limit global warming to 1.5°C. This requires, however, that by 2030 carbon emissions must have decreased by 40 to 60 per

cent compared with 2010, and that net zero emissions are achieved by 2050, unless large negative emissions are permitted in the calculation.

AP2 is developing its portfolio in line with the Paris Agreement, with the aim of a net zero emission portfolio by 2045. In 2020, the Fund developed indices for global equities and corporate bonds in accordance with the EU Paris-Aligned Benchmark (PAB) criteria, which are based on the UN Intergovernmental Panel on Climate Change's 1.5°C scenario with limited overshoot.

On this basis, AP2's ambition is to reduce the portfolio's carbon footprint by influencing companies to reduce their carbon emissions in line with the Paris Agreement.

AP2 is developing various metrics to describe the portfolio's development in relation to the Paris Agreement. As a first step, in 2019 the Fund introduced a metric to show the proportion of the change in the carbon footprint that is due to portfolio companies changing their emissions, and the proportion due to changes in company holdings. It is only when companies reduce their actual emissions that emissions to the atmosphere are reduced, and the climate improves. In AP2's efforts to contribute to the transition, the Fund uses various means to encourage portfolio companies to change course and reduce their carbon emissions.

The upper graph on page 12 shows the curve below which the global equity and credit portfolios' carbon footprint

must lie, in order to fulfil the criteria for PAB. The lower graph on page 12 presents the carbon footprints of a market-weighted index and equivalent portfolios. These footprints include Scope 1, 2 and 3 in accordance with the PAB framework. This entails the inclusion of both direct and indirect emissions, including those arising in the supplier link, and emissions from products and services.

As the graph shows, in 2019 the Fund's portfolios' carbon footprint exceeded the market-weighted index. The implementation of PAB considerably reduced the carbon footprint of the PAB-adjusted portfolios. The greatest reduction was seen for equities in emerging markets. More data concerning the Fund's other

metrics for its carbon footprint can be found on page 52.

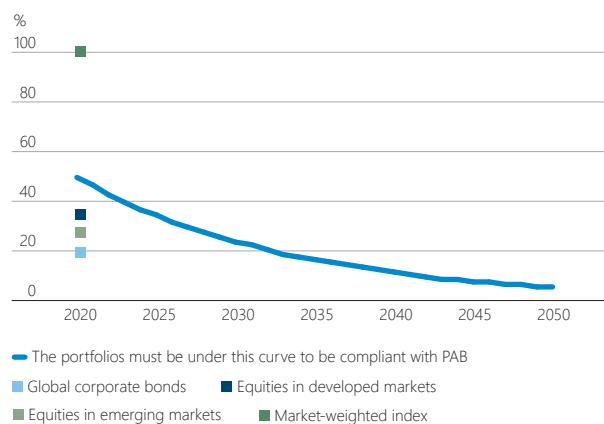
Investments in sustainable strategies

Creating a low-carbon society requires, among other things, a conversion of energy and transport systems. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. AP2's investments in green bonds, Swedish cleantech companies, timberland and sustainable infrastructure are further examples of investments with sustainable strategies that have a positive climate impact.

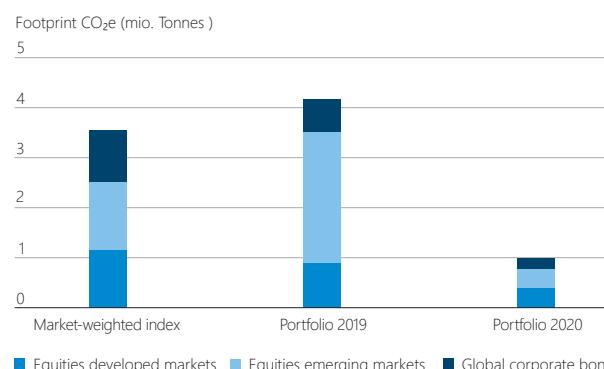
During the year, the Fund worked on developing and implementing multi-factor indices for global equities and



CARBON FOOTPRINT IN PAB-ADAPTED PORTFOLIOS IN RELATION TO MARKET-WEIGHTED INDEX, %



TOTAL CARBON FOOTPRINT FOR THE ADAPTED PORTFOLIOS, 2020



corporate bonds that are in line with the criteria for PAB. Almost half of the Fund's portfolio is thereby managed in accordance with criteria designed to reduce carbon emissions considerably and re-allocate capital to climate-friendly investments. According to the PAB criteria, companies that receive more than 1 per cent of their turnover from coal, more than 10 per cent from oil or more than 50 per cent from gas may not be included. Power companies with more than 50 per cent of their energy mix from fossil energy may not be included either. This entailed that the number of companies with direct exposure to fossil energy sources fell strongly by a further 170 companies (the Fund has already divested 80 fossil-energy companies due to climate-related financial risks). This also entails a reduction of the portfolio's carbon footprint by around 70 per cent for both global equities and corporate bonds, compared with previous year, taking account of Scope 3 emissions in accordance with the criteria for PAB. Read more on pages 35.

There is also assessed to be a strong need for investment in sustainable infrastructure and during 2019, the

Fund therefore decided to make an allocation to this. In 2020, three investments were made; one within decentralised infrastructure and two in investment platforms for the new installation of renewable electricity production. These investments are well in line with AP2's overall mission to promote sustainable development without compromising the overall goal.

Dialogue with companies

AP2 participates actively in Climate Action 100+, a five-year international dialogue initiative launched in December 2017. More than 450 investors from 32 countries are working collaboratively on dialogues with 167 companies. These companies account for significant shares of the world's greenhouse gas emissions (Scope 1–3), an estimated approximately 80 per cent of global industrial greenhouse gas emissions. The aim is to persuade them to reduce their emissions to a level in line with the Paris Agreement, that they report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), and that their boards take clear and unequivocal responsibility for the work of addressing climate change.

Climate Action 100+ came into being three years ago and many advances have been made. However, much more needs to be done to achieve the purpose of the initiative. The 2020 annual report for the initiative reports that 43 per cent of the companies have now taken measures to reach net zero emissions by 2050, although only 10 per cent include the company's Scope 3 emissions.

In 2020, a new framework for measuring companies' relative progress was developed, Climate Action 100+ Net Zero Company Benchmark. The first individual company results will be published in the spring of 2021. More about Climate Action 100+ and the work carried out in 2020 can be found in the annual report for the initiative at www.climateaction100.org

AP2, together with Öhman, is leading the dialogue with AB Volvo, which is one of the companies in the initiative. There has been constructive dialogue, but the investor group found that Volvo's position concerning the Paris Agreement needed to be clearer. AP2, together with eight other investors, therefore made a statement on this issue at the company's annual general

meeting in June. Volvo responded that they assess that they are well-positioned to meet the transition required and that they will continue to develop their reporting. During the autumn of 2020, the Volvo Group announced that they support TCFD and will develop their reporting in accordance with its recommendations. They have determined that their ambition is for the Group to be emission-free by 2050. Volvo has also joined the Science Based Targets initiative and will adopt goals and a roadmap during 2021. The dialogue with AB Volvo is continuing.

Dialogue with decision-makers

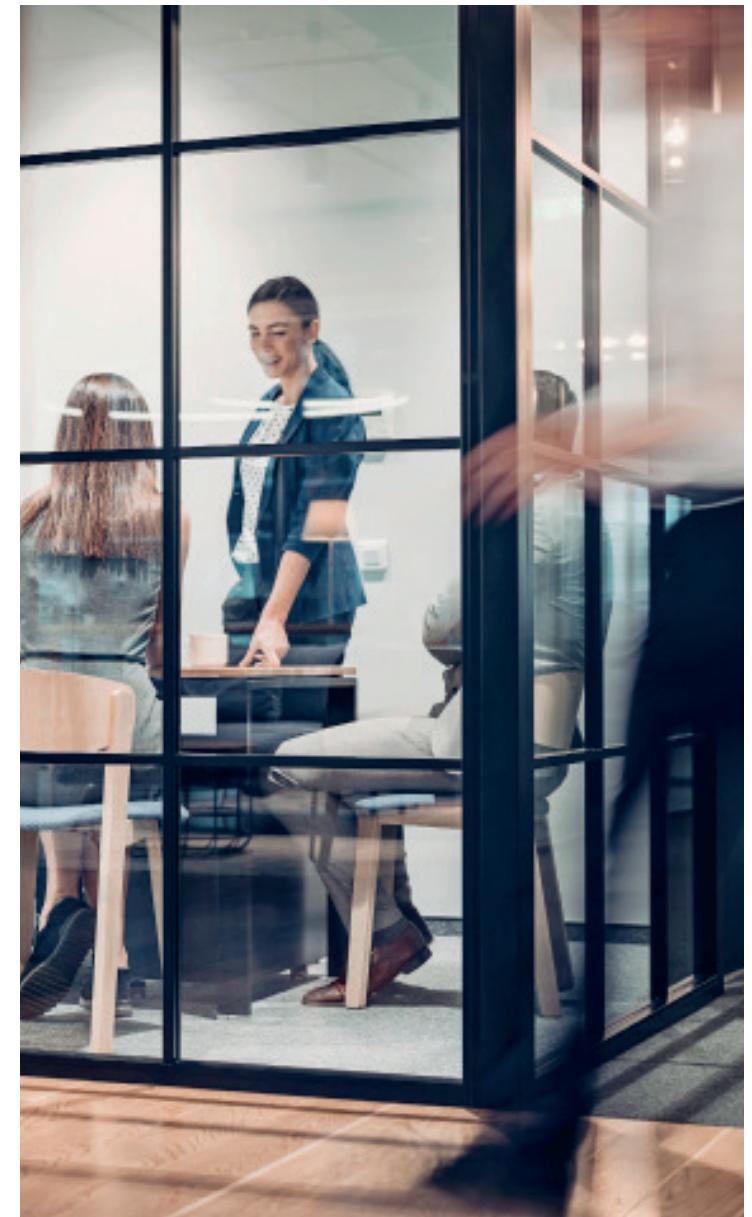
AP2 has been a member of the Institutional Investor Group on Climate Change (IIGCC) for several years. The organisation is working to make investor engagement in the climate issue clear to decisionmakers and to promote investors' demands for policy measures that enable increased investments in climate-smart solutions. Among other things, the IIGCC,

together with a number of other investor organisations, has published a document, Global Investor Statement on Climate Change, which describes how investors can contribute and what expectations investors have of governments. More than 600 investors have signed this document.

During the year, AP2 and 176 other investors signed an open letter to EU leaders with recommendations aimed at supporting a sustainable economic recovery after COVID-19. The recommendations call for the EU to create a recovery that prioritises climate action critical to meeting the Paris Agreement's net zero emissions goal by 2050.

Another example of dialogue with decision-makers is an initiative led by Storebrand. At the end of June, AP2 and just over 30 other investors wrote an open letter to the Brazilian embassies in the investors' home countries expressing concern about the increasing deforestation of Amazonas and its negative effects on the climate, biodiversity and the rights of the

indigenous population. The initiative has attracted considerable attention, not least in Brazil. During the year, the investors, including AP2, met with representatives of the Brazilian government and the vice-president, and the spokesperson and representatives of the Congress. At these meetings, the investors presented five issues that they want addressed and significantly improved: 1) a radical reduction in the rate of deforestation, 2) that existing protection legislation is actually applied, 3) that the authorities in Brazil that monitor environmental issues and human rights are given funds and the opportunity to promote their mandate, 4) that measures are taken to reduce the risk of a recurrence of the major forest fires in 2019, and 5) improved access to transparent data on deforestation and supply chains, making it possible to monitor development. This initiative has now been formalised as a project within PRI, Investors Policy Dialogue on Deforestation in Brazil.



The UN's Sustainable Development Goals

In September 2015, the 193 member states of the UN unanimously adopted 17 Sustainable Development Goals. The goals, to be achieved by 2030, aim to end poverty and create a sustainable world. The 17 global goals have been divided into 169 targets that are measured by various indicators.

Each country is responsible for implementation and follow-up on the Sustainable Development Goals. To achieve the goals, governments, civil society and business and industry are required to work together.

The 17 Sustainable Development Goals are integrated and indivisible, which means that no goal may be achieved at the expense of any other goal, and that progress is required in all areas, for the goals to be achieved. The Paris Agreement is an integral element of the UN's Sustainable Development Goals. As a global investor, AP2 can contribute to achieving the goals in various ways; through the Fund's sustainability work and through the investments it makes.

Examples of investments

Since 2017, AP2 has invested in The Rise Fund, a private equity fund that is managed by TPG Growth. During 2020, AP2 also invested in The Rise Fund II.

Together the funds have approximately USD 4.5 billion in total undertakings, primarily from global institutions, which makes them the largest impact funds ever established. The objective of The Rise Fund is to achieve measurable, positive social and environmental results, as well as financial returns comparable with the market. All investments must have a positive impact on at least one of the UN's Sustainable Development Goals. The Rise Fund measures the specific size of the impact a potential investment is expected to have during its investment life cycle, with focus on the impact result as defined by the UN's Sustainable Development Goals. More information is available at <https://therisefund.com/>

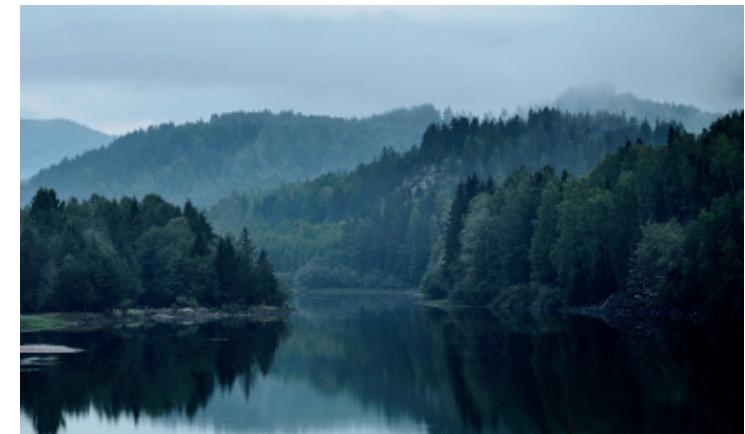
Green and social bonds

AP2 works actively to implement and develop sustainability aspects within asset management. For some time, the

Fund has invested actively in green and social bonds. The special characteristic of these bonds is that the investments are in climate projects, or projects to tackle social challenges, and that investors receive information about these projects. As a general rule, these projects are directly connected to at least one of the UN's Sustainable Development Goals.

Investing in green and social bonds is an effective and successful way of implementing sustainability aspects in the Fund's fixed-income management and thereby achieving greater transparency and understanding of sustainability issues in the fixed-income portfolio. AP2 has invested in green bonds since 2008 and made its first investment in a social bond in 2014.

The Fund's ambition is to aggregate reporting for these bonds in order to give an overall picture. Today, there is no defined reporting standard and this



Mapping the portfolio

Investing in both green and social bonds gives a wider range of sustainability aspects in the fixed-income portfolio. Review of the reporting of all holdings of social and green bonds at project level, whereby each project is connected to the UN's Sustainable Development Goals, gives a clear picture of a sustainable and diversified fixed-income portfolio. Green bonds focus primarily on Sustainable Development Goals related to the environment and climate, while social bonds focus on such areas as health, working conditions and economic growth. The chart on page 15 shows the market value of the Fund's total holdings of SEK 16 billion in relation to the UN's Sustainable Development Goals.



reporting varies considerably, depending on such factors as the issuers' areas of activity, where they operate, etc. During 2020, AP2 again analysed and compiled reporting for all of the Fund's green and social bonds. The reporting clearly shows that more and more issuers are linking their projects to the UN's 17 Sustainable Development Goals. Half of the projects reported on during the year account for their contributions to the UN's Sustainable Development Goals. For issuers that do not report according to the goals, the Fund has applied the framework created by the International Capital Market Associations (ICMA). More information is available at www.icmagroup.org.

The aim of the analysis was to illustrate the practical implementation and diversification of sustainability within AP2's fixed-income management.

In total, the Fund has currently invested in 148 different issuers of green and social bonds. These finance around 4 000 projects, of which around half are green and half are social.

Active involvement

AP2 is also committed to the Sustainable Development Goals in other ways. On many occasions, the Fund's CEO, Eva Halvarsson, has reported on how the Fund's investments contribute to achieving the goals. Eva Halvarsson has

also given a number of interviews, primarily in international media, about the work of the Fund.

One of the Fund's employees is also a member of the PRI Advisory Committee concerning the UN Sustainable Development Goals.

AP2 has also taken part in the financial sector's 'Finance Against Slavery and Trafficking (FAST)' commission. FAST aims to eliminate modern slavery, human trafficking, forced labour and child labour, in accordance with target 8.7 of the UN's Sustainable Development Goals. AP2 was one of only two institutional investors to take part in the commission's work.

Together with some of Europe's largest pension managers, AP2 has signed a position on the importance of institutional investors investing in solutions that contribute to achieving the UN Sustainable Development Goals. Since the Fund considers it important to have a common definition of 'Sustainable Development Investments', in the position paper it encouraged other major institutional investors to take similar initiatives.

The Fund has also signed the 'Stockholm Declaration' initiative. Through this initiative, both Swedish and international investors acknowledged that the UN Sustainable Development Goals will constitute a central framework for investments up to 2030.

Contributing to the UN Sustainable Development Goals

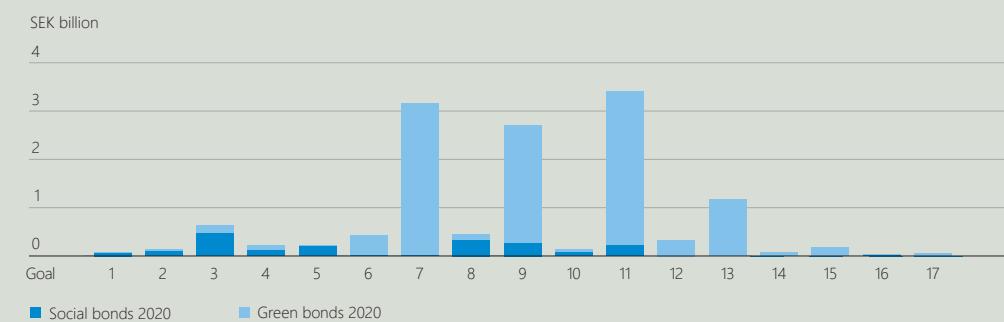
AP2's analysis shows that the Fund has a total of SEK 16 billion invested in green and social bonds that are directly linked to some of the UN Sustainable Development Goals.

AP2's analysis shows that the green bonds in the Fund's portfolio primarily contribute to

- Goal 11 – Sustainable Cities and Communities
- Goal 7 – Affordable and Clean Energy
- Goal 9 – Industry, Innovation and Infrastructure.

The social bonds primarily contribute to

- Goal 3 – Good Health and Well-being
- Goal 8 – Decent Work and Economic Growth
- Goal 9 – Industry, Innovation and Infrastructure.





Dialogue – a tool to achieve improvements

As an active asset owner and asset manager, frequent dialogue with companies and society in general is an important tool. AP2 is in regular dialogue with its external managers as well as Swedish and foreign companies on issues concerning the environment, ethics, social responsibility and corporate governance.

One of the Fund's six sustainability principles is to use dialogue as a tool. AP2 conducts dialogues in accordance with its corporate governance policy and corporate governance policy strategy. The use of dialogue as a tool to influence companies and other players to improve their sustainability performance helps to generate value for the Fund and promote sustainable development. The Fund willingly and often collaborates with other investors to enhance efficiency and maximise the influence of dialogue.

It is important to collaborate with other investors in order to achieve a successful dialogue with companies and to promote a trend of responsible investment. AP2 collaborates with both Swedish and foreign institutional investors. Climate Action 100+ is a global dialogue project in which the Fund is taking part. Read more on page

33. In AP2's view, it is important to be an active asset owner and engage in dialogue to bring about improvements. If no changes can be made, the Fund can, as a last resort, exclude the companies.

Dialogue with decision-makers

Many of the dialogues that AP2 participates in with climate decision-makers are conducted in collaboration with other investors through the Institutional Investor Group on Climate Change (IIGCC). More details on page 9.

In May, AP2 and 176 other investors signed an open letter to EU leaders with recommendations aimed at supporting a sustainable economic recovery after COVID-19. They call for the EU to create a recovery that prioritises climate action critical to meeting the Paris Agreement's net zero emissions goal by 2050.

Another example of a dialogue with decision-makers is an initiative led by Storebrand. At the end of June, AP2 and just over 30 other investors wrote an open letter to the Brazilian embassies in the investors' home countries expressing concern about the increasing deforestation of the Amazon and its negative effects on the climate, biodiversity and the rights of the indigenous population. The initiative has attracted considerable attention, not least in Brazil. In July, the investors, including AP2, met with parts of the Brazilian government, the vice-president, and the spokesperson and representatives of the Congress. At these meetings, the investors presented five issues that they want addressed and significantly improved: 1) a radical reduction in the rate of deforestation, 2) that existing protection legislation is actually

applied, 3) that the authorities in Brazil that monitor environmental issues and human rights are given funds and the opportunity to promote their mandate, 4) that measures are taken to reduce the risk of a recurrence of the major forest fires in 2019, and 5) improved access to transparent data on deforestation and supply chains, which makes it possible to monitor developments.

Excluded companies

If AP2 has reason to suspect that any of the companies that the Fund has invested in are seriously and systematically acting in violation of an international convention that Sweden has entered into, or has expressed an intention to enter into, the facts of the case should be investigated. This includes a dialogue with the company in question. If the suspicions are confirmed, the company must be encouraged to provide an explanation and develop an action plan.

In its assessment of the case, AP2 shall take account of the nature of the breach and any measures that have been (or will be) taken to ensure the breach does not reoccur. If no satisfactory results are achieved through these contacts with the company, the Fund will conduct an overall assessment and then decide whether to exclude the company. The

Fund may also decide to exclude the company if it considers the circumstances to be serious enough to warrant exclusion, even though violation of conventions has not occurred or cannot be proved.

Since 2014, the Council on Ethics of the AP Funds has introduced a time limit of four years for reactive dialogues conducted with companies where violations of conventions have been verified by external experts. If the purpose of the dialogue has not been achieved within four years, the Council on Ethics recommends that the AP Funds exclude of the company.

In accordance with the legislation applicable to the AP Funds, the funds must have a common set of guidelines regarding which assets the funds should not be invested in. These guidelines are published on AP2's website.

At the end of 2020, AP2 had excluded 19 companies that are in violation of international conventions and where dialogue with the companies did not result in improvements. Information about which companies AP2 has excluded can be found on the Fund's website.

Divested companies

In line with the AP Funds' legislation, AP2 has analysed the international conventions that are aimed at certain

products or businesses over time being limited in use, scope or distribution. The Fund has also evaluated the need for a change in approach according to the underlying purpose of the conventions.

In 2019, on the basis of the revised statutory regulations for the AP Funds on exemplary management, the Fund divested about 60 tobacco companies and companies involved in the maintenance and modernisation of nuclear weapons systems.

Work has been in progress since 2013 on analysing financial climate risks for fossil energy companies and coal-based electric power companies. Previously, AP2 has divested equities and corporate bonds in a total of 80 companies due to financial climate risks, including 23 coal, 20 oil and gas companies and 37 utility companies.

At the end of 2020, the Fund decided to implement new multi-factor indices for foreign equities and corporate bonds that meet the EU Paris-Aligned Benchmark requirements. In principle, this excludes the entire energy sector. A total of about 250 companies will not be part of the Fund's portfolio. More details on page 34. Now that the Fund has implemented these indices, the work of analysing financial climate risks for fossil energy companies and coal-



"At the end of 2020, AP2 had excluded 19 companies that are in violation of international conventions."

based electric power companies has been completed.

Follow-up

In order to follow up the financial contributions of the exclusions, AP2 has designed a method for comparing the return for the indices MSCI World DM and MSCI EM, excluding and including the excluded companies.

The return contribution is -0.36 (-0.31) per cent, after having excluded companies, due to breach of conventions, that are included/have

been included in MSCI World DM since 2006. These exclusions are equivalent to 0.78 per cent of MSCI World DM.

For MSCI EM, the return contribution is -0.42 (-0.38) per cent after having excluded companies that are included/have been included in MSCI EM since 2007. These exclusions are equivalent to 1.39 per cent of MSCI World EM in 2020.

The financial contributions of the divestments are presented on page 33.

The Council on Ethics of the AP Funds

Dialogues with foreign companies are coordinated through the AP Funds' joint Council on Ethics. The Council on Ethics is a collaboration between the First, Second, Third and Fourth AP Fund, which was launched in 2007. The Council on Ethics is in dialogue with companies all over the world.

The companies with which the Council on Ethics conducts dialogues are identified primarily in conjunction with the AP Fund's biannual screening of their total shareholdings, with a view to determining whether any portfolio company is in contravention of an international convention. This screening is conducted by an external consultant. The work is based on the principles of commitment, action and change, with the intention of achieving change. The Council on Ethics identifies companies that can be linked to violations of conventions and seeks to persuade these companies to address confirmed violations and implement systems and actions to preclude future violations. Dialogue is a critical tool that the Council on Ethics uses to influence the companies.

When companies in which AP2 has invested can be linked to the breach of an international convention, the Fund's core strategy is to exert its influence as an investor to ensure that such violations cease, that systems designed to prevent any recurrence are implemented and that measures are taken to prevent any future

violations. Through its commitment and by deploying its power as a major investor in reacting to breach of international conventions, as well as demanding change, the Fund can make a difference. Only in cases where this cannot be achieved, the Fund will consider divesting its holdings in the company.

International investor collaboration on safety for tailings dams

During the year, the Council on Ethics has also focused strongly on climate and human rights.

Following the collapse of the Vale-owned dam in Brumadinho, Brazil in January 2019 and its tragic consequences, including loss of life, loss of livelihood and catastrophic environmental destruction, the Council on Ethics of the AP Funds, the Church of England Pension Board and investors all around the world launched a collaboration that focuses on safety in the mining industry. The parties that form part of the investment collaboration have around SEK 10,000 billion in assets under management. Their demand was for

improved safety at mine tailings dams and for a global public database (www.grida.no) of all tailings dams to be set up, which could be used by communities, governments, civil society organisations and investors. Letters were sent to 680 mining companies, calling for them to publish technical information for every tailings dam that they fully own or co-own.

The Council on Ethics and the Church of England's Pension Board were also PRI (Principles for Responsible Investment) representatives in an international working group that has worked to deliver a global safety standard for mine tailings dams. The global database of all tailings dams was in place in January 2020. The next step, the creation of a common global standard for tailings dams, was completed in June 2020. The project also received the PRI Award "Stewardship Project of the Year Award". More information is available at www.etikradet.se.

The dialogues with the Brazilian companies JBS, Marfrig and Minerva, aimed at preventing deforestation by ensuring that the livestock they slaughter does not come from illegally harvested areas in the Amazon, are yet another example of the Council on Ethics' work. This requires systems that can trace the livestock over their lifetime. JBS and the Council on Ethics are also in dialogue

about the working environment, which includes challenges with COVID-19.

In 2020, the Council on Ethics also focused on the challenges facing the major global technology companies in terms of human rights, by conducting dialogues directly with the companies and starting projects relating to this. This has included the production of a report by the Council on Ethics and the Danish Institute for Human Rights on the expectations that investors have of the companies with regard to these issues.

Anti-corruption work

The Council on Ethics is in dialogue with many companies and a lot of dialogues cover how the company works to combat corruption. Different forms of corruption are common risks for most companies. Corruption distorts healthy competition and undermines asset values. It is important that companies take an active stance in fighting corruption in their operations.

Corruption is widespread in many countries and industries, which is very harmful to communities. It undermines

people's confidence in political and economic systems, institutions, officials and political leaders.

Anti-corruption work is a challenge, both for companies and the communities in which they operate, as corruption often takes place away from public view and is difficult to detect and prevent.

The Council on Ethics' dialogues on corruption aim to encourage companies to intensify their anti-corruption efforts. Tools for reducing and preventing corruption include increasing transparency, using whistleblowing channels and improving the follow-up of the company's internal rules. The Council on Ethics has also held seminars on the subject of financial crime and money laundering. Another seminar was scheduled for 2020, but could not be held due to COVID-19.

AP2 held the role as chairperson of the Council on Ethics in 2020 and it was transferred to AP3 for 2021. The Council on Ethics' annual report for 2020 will be published in April 2021. More information is available at www.etikradet.se



Council on Ethics
Swedish National Pension Funds

Sustainability in the investment process

Taking into account sustainability factors in analysis and decision-making processes means integrating sustainability into the asset management. In this way, the Fund can also reduce the risk and improve the potential for better returns. Andra AP-fonden's view is that long-term sustainable companies also generate good returns in the long term.

The Fund's fundamental conviction is that companies with long-term sustainable business models create higher long-term value for their shareholders. Such investments are also, other things being equal, less risky. Companies that integrate factors such as ethics and the environment in their long-term business development will have a real advantage over their competitors and be better equipped to create long-term value for their shareholders. A proactive approach to the environment, ethics, social issues and corporate governance provides the means to achieve the goal of a high, risk-adjusted return.

Sustainability – part of the strategy
In 2019, AP2 developed a new sustainability strategy that runs to 2023. It is based on the Fund's six principles for sustainability. One of the principles is that AP2 integrates sustainability in all investment processes.

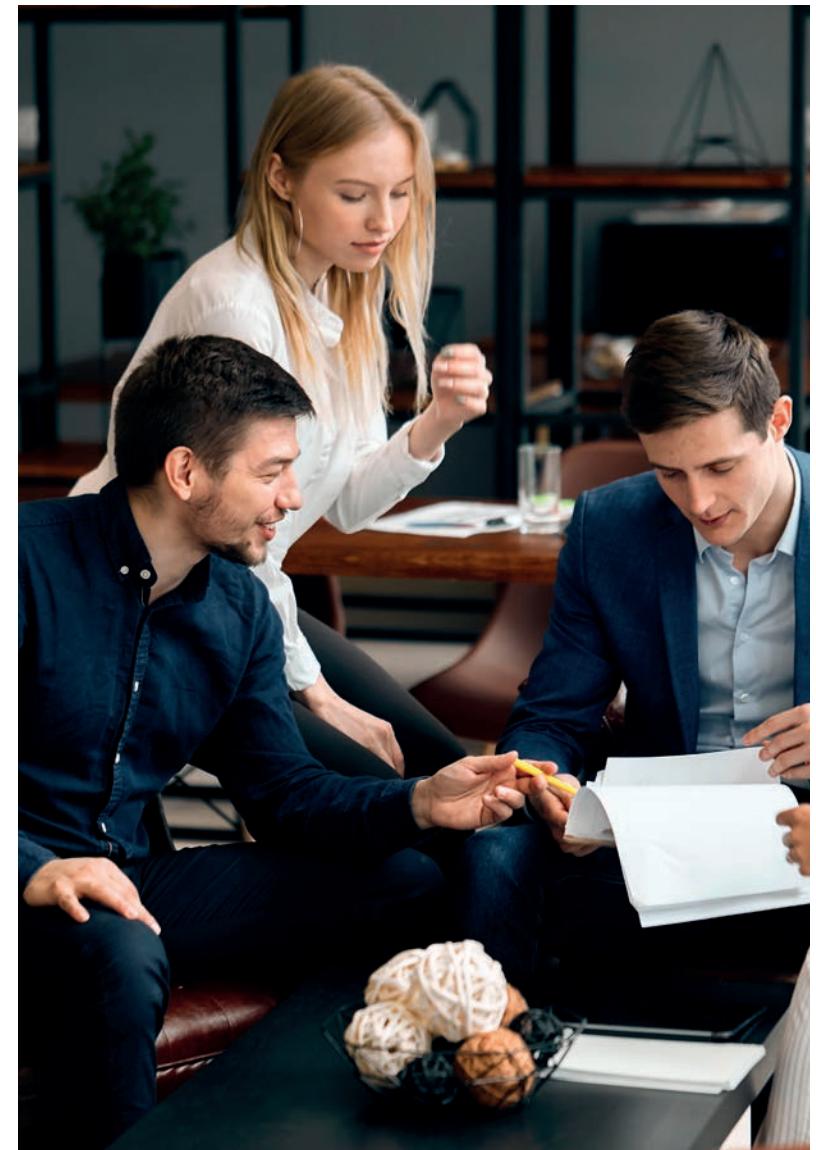
According to the principle, sustainability should be an integral part of all investment processes. The form of the integration depends on the conditions applicable for each asset class and decision process. The way that sustainability is integrated may differ, for instance, between the fundamental management, the quantitative management and the selection of index. It may also differ between the active management, the management of listed assets and non-listed assets, and the internal management and the external management.

The starting point for integrating sustainability is to improve the potential for overall goal attainment. This can be done by improving the expected return, by minimising the risk, or by promoting sustainable development without compromising on the risk-adjusted return. The objective is for the expected return to increase, the risk to be reduced,

and sustainable development to be promoted. The integration of sustainability is a continuous process rather than a goal that can be completed by a given date.

Swedish equities

Fundamental analysis is employed in the management of Swedish equities. When analysing the companies, sustainability aspects and how they might affect company valuation and revenue in the long term are taken into consideration. Sustainability aspects include regulations relating to the environment, corporate governance issues and technological change. AP2 believes that companies can both create and protect value by working on sustainability issues. By being an active investor, the Fund can influence companies and support them in the development of their sustainability work. For example, the Fund participates in nomination processes, votes at



shareholder meetings and raises specific issues with the companies. During the year, AP2 started a special cleantech mandate with investments in Swedish companies that promote a sustainable transition.

Global equities

AP2's management of global equities is largely through an active internal quantitative management. In 2018, AP2 replaced all existing indices for the internal management with internally-developed multi-factor indices. The factor to which the indices had most exposure is an internally-developed sustainability factor linked to a number of environmental, social and corporate governance factors. In 2020, the Fund adapted its global equity indices to meet the EU Paris-Aligned Benchmark (PAB) criteria. The mandates managed against these indices have also been adapted in accordance with these criteria.

External mandates for global equities

AP2 also has externally managed mandates within global equities. Sustainability factors are taken into account when choosing managers. The managers' work in the area is followed up and evaluated annually. The external managers with whom the Fund works in this asset class are also important dialogue partners for the

EU Paris-Aligned Benchmark

In 2020, the Fund adapted its indices for global equities and corporate bonds to meet the EU Paris-Aligned Benchmark (PAB) criteria. The mandates managed against these indices have also been adapted in accordance with these criteria.

In 2019, the EU defined rules and criteria for the climate indices within the framework of the "Action Plan on Financing Sustainable Growth". The aim of the Action Plan launched by the European Commission is to:

- Reorient capital flows towards sustainable investments in order to achieve sustainable growth.
- Manage financial risks stemming from climate change, environmental impact and social injustice.
- Foster transparency and long-termism in financial and economic activities.

One of the key areas of the Action Plan concerns rules and criteria for so-called climate indices. The Technical Expert Group (TEG) appointed by the EU developed this set of rules to complement the existing regulation for commercial index providers.

The regulatory framework contains two climate index versions, the EU Climate Transition Benchmark (CTB) and the EU Paris-Aligned Benchmark (PAB), with PAB being the more ambitious of the two. An index that meets the PAB requirements must be constructed in such a way that its carbon dioxide emissions are consistent with the Paris Agreement's goal to limit global warming to well below 2° Celsius, based on the recommendations and the scientific evidence compiled by the UN's Intergovernmental Panel on Climate Change (IPCC).

In 2021, the Fund intends to continue to adapt indices and portfolios for other asset classes in accordance with the PAB criteria.

The purpose of these indices are:

- Encourage a high degree of comparability for methods of construction of different climate indices.
- Allow investors to more easily find indices that are in line with their investment beliefs and strategies.
- Increase the transparency of impacts of investments, particularly with regard to climate impact and energy transition.
- Prevent greenwashing.

If an index provider wants to market its index as a climate index in general, and the EU Climate Transition Benchmark or the EU Paris Aligned Benchmark in particular, the provider must ensure that the rules and criteria are met, and apply for approval from the supervisory authority concerned. AP2 is not an index provider and is therefore not subject to the regulation governing an index provider's operations. However, the Fund considers this regulatory framework to be so important and useful that it has chosen to adapt its indices and portfolios in accordance with its criteria.

The Fund has chosen to adapt the indices and portfolios of global equities and corporate bonds to meet the requirements of the more ambitious variant of the climate index, PAB. This change affects about half of the Fund's capital.

The regulatory framework for PAB set far-reaching requirements for the divestment of fossil activities and the reduction of greenhouse gases. The advantages of adapting the Fund's indices and portfolios to the requirements defined by PAB are that this regulation has been adopted by the EU on a clear scientific basis and will be updated over time based on future developments

in emissions, research and results from, among other things, IPCC and increased access to data. The aim of this regulatory framework is not only to reduce greenhouse gas emissions, but also to benefit companies that make a positive contribution to the climate transition. AP2 believes that it is an advantage to adapt to a well-developed regulatory framework established by a third party, in this case the EU.

For an index to be a PAB, it must, among other things, meet the following requirements:

- At the time of implementation, the carbon dioxide intensity of the index must be maximum 50 per cent of the carbon dioxide intensity of the corresponding market-weighted index.
- Thereafter, the CO₂ intensity must be reduced by at least 7 per cent per annum to achieve zero greenhouse gas emissions by 2050.
- It must not contain companies that have a certain percentage of sales from coal, oil and/or natural gas, or that produce too dirty electricity.
- It has at least the same total exposure to sectors with high climate risk, such as electricity production and transport, as a market-weighted index.
- "Do no harm" principles shall apply, i.e. reduction of fossil fuels and greenhouse gases must not be at the expense of other important principles within the framework of responsible management. This means, for example, exclusion of companies that are involved in controversial weapons or have systematically violated global standards (such as the UN Global Compact Principles).

Fund with regard to sustainability. The dialogue aims to increase the knowledge of both parties in this area.

For external managers that invest in portfolio companies or in regions where the risk of breaches of international conventions is assessed to be high, the Fund implements a close, active dialogue to ensure that the managers integrate sustainability factors in their asset management. It is also of utmost importance that the external managers carry on the dialogue in their contacts with the portfolio companies concerned.

Norm-based screening

All companies in AP2's equity portfolios are screened twice a year in order to identify companies that are in violation of international conventions and guidelines. This screening is carried out by an external consultant and forms the basis for dialogues conducted by the Council on Ethics. Read more about the work of the Council on Ethics at www.etikradet.se

Private equity funds

AP2 integrates sustainability in private equity investment processes and has long been actively engaged, through various stakeholder organisations, in broadening knowledge and driving development in a number of areas.

ILPA (Institutional Limited Partners Association) is the only global organisation for investors in private

equity funds that focuses on driving issues common to investors in the private equity sector. The ILPA's work involves updating and developing guidelines for principles, practices and policies and, since 2018, includes a framework for sustainability and diversity. This forms part of the questionnaire used by AP2 in the due diligence process and of the overall assessment of an investment.

AP2 was previously part of the PRI Private Equity Advisory Committee (PEAC), which is an advisory body for PRI's work with private equity funds. The purpose of the committee is to give opinions on strategies and activities, to monitor the implementation of PRI's Principles for Responsible Investment within the private equity sector, and to help with guidance and a common standard. AP2 has also participated as a member of a working group led by PRI in cooperation with Environmental Resources Management (ERM) in order to produce a guide for ESG evaluation, reporting and dialogue within private equity. The guide which was published in June 2018 is an element of PRI's work to support investors (Limited Partners) and managers (General Partners) to include sustainability in investment processes.

A model for evaluation of the companies' sustainability work

In analysing private equity companies' sustainability work, AP2 uses a model based on PRI's framework for due

diligence, follow-up and dialogue. The companies' sustainability work is evaluated on the basis of 25 assessment points, which are divided into three categories: policy and process, portfolio and incidents. Initially, the evaluation is formally performed at the time of investment and is thereafter regularly updated with new information. On the basis of the

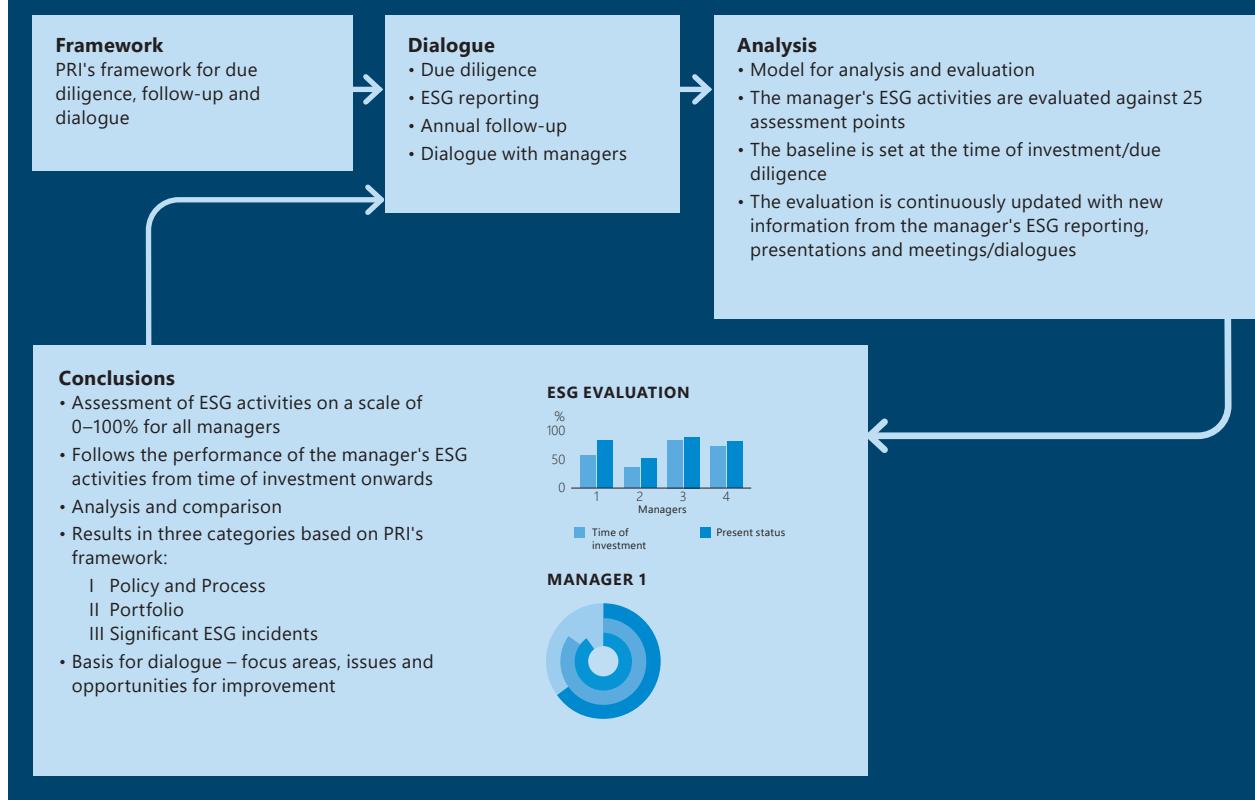
analysis, AP2 can pose further questions, highlight improvement opportunities and ensure continuous development in the dialogue with the manager.

In addition to systematisation of the evaluation process, evaluation criteria have been established for all assessment points. As well as individual evaluation, the aim is to create

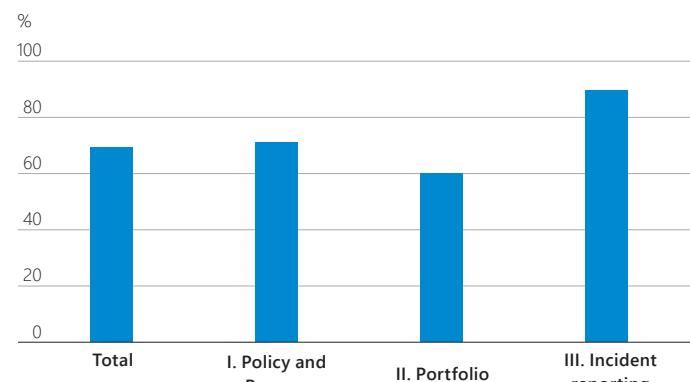
conditions to enable comparison of the sustainability work within various management organisations.

An increased focus on sustainability issues and a firmer conviction of the importance of sustainability issues for long-term value creation are evident among private equity companies. AP2 has noted that more private equity companies are working actively on these

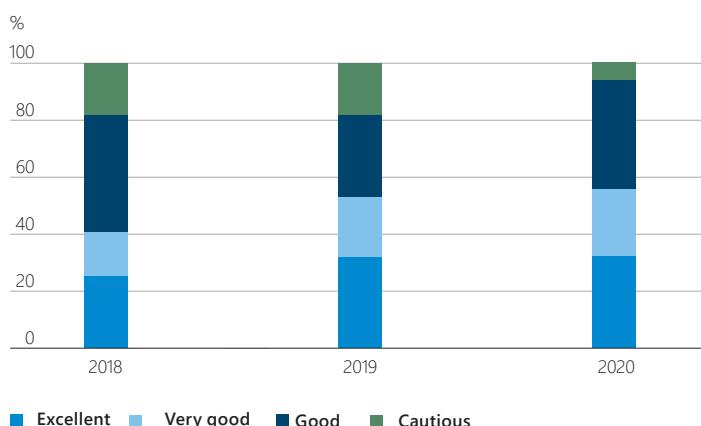
WORK METHOD AND MODEL



ASSESSMENT OF PRIVATE EQUITY COMPANIES' SUSTAINABILITY WORK, MANAGERS IN AP2'S PORTFOLIO, %



DEVELOPMENT OF PRIVATE EQUITY COMPANIES' SUSTAINABILITY WORK, MANAGERS IN AP2'S PORTFOLIO, %



issues in the investment process and that their ESG reporting is also improving.

AP2 has a total of 46 managers in the private equity portfolio. 34 of them, which is 74 per cent, have been evaluated in accordance with the model. Of those not assessed, six managers in Venture (invest in early start-up companies) require a different structure in analysis and follow-up, one fund-in-fund manager and five managers whose funds are in their final stages.

On a scale of 0-100 per cent, an equal weighted outcome is given in the categories policy and process, portfolio, and incidents. Overall, the portfolio has an outcome of 69 per cent in 2020, which is an increase from 64 per cent in 2019. All subcategories improved during the year. Ten managers have been evaluated in 2020, which gives a total outcome of 74 per cent, i.e. above the entire portfolio average.

Considerable work is in progress in the Portfolio category to structure the follow-up of company-specific sustainability data for all holdings in the portfolio. This will further improve the outcome.

A manager's rating is divided into four sub-categories according to its degree of maturity, from cautious to excellent, where a summary of AP2's managers shows a redistribution to the better.

41 per cent of all managers have signed the UN's Principles for Responsible Investment (PRI) (unchanged since 2019) and 44 per cent issue an annual sustainability report (up from 41 per cent in 2019).

AP2 is continuously working to analyse and evaluate the sustainability work within private equity investments and seeks to use dialogue to drive progress and improvements. Throughout the year, the dialogue focused on increased reporting in a number of focus areas, including diversity and climate, plus other key data relevant to specific investments.

Bonds

Green and social bonds

The market continued to grow strongly during the year, with more issues and also more organisations and companies issuing both green and social bonds. The aim of green bonds is to finance projects that support necessary transitions and limit negative effects of climate change. During the year, the Fund invested in a number of green bonds from new issuers, which has helped to diversify the Fund's fixed-income portfolio and broaden its climate commitment. The Fund has invested in 148 different issuers with over 4 000 projects across the globe, for example renewable energy, developing public transport and railways, making offices and housing energy efficient and water purification.

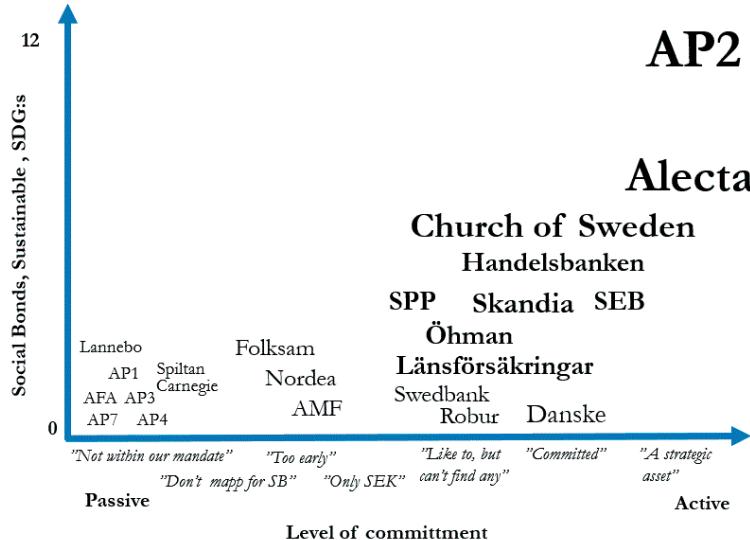
One way to expand the sustainability work within fixed-income management has been to invest in social bonds, among other things. AP2 made its first investment in a social bond in 2014. Since then, the Fund has invested in more than ten bonds with a focus on social issues. Social issues increased in interest during the year. The effects of COVID-19 is one tangible example. AP2 has invested in the World Bank's bond, which focuses on mitigating the impact of the pandemic.

AP2 active in development

The increased access to green and social bonds is positive as the Fund is better positioned to promote a more sustainable society in a clear manner while generating a good return. Considerable resources are required to facilitate a transition to a more climate-efficient economy. Furthermore, green and social bonds help raise awareness of sustainability within the finance industry. AP2 is actively involved and considers it important to help develop and raise awareness of the issue. Partnering with universities as well as research in this field is also considered a matter of course. Since 2017, the Fund has also been represented as an advisor for the Yale Initiative on Sustainable Finance

SWEDISH INSTITUTIONAL INVESTORS' VIEW ON SOCIAL BONDS

Answers to the question about investments in sustainability and social bonds



Source: A Swedish market for sustainability-related and socially labelled bonds: Institutional investors as drivers, written by Sophie Nachemson-Ekwall.

(YISF) and the Center for International Climate Research (CICERO).

AP2 had holdings in green and social bonds worth just over SEK 16 billion as of 31 December 2020.

Corporate bonds

In 2020, the Fund developed and implemented a multi-factor index for global corporate bonds and adapted it to comply with EU Paris-Aligned Benchmark requirements. Among other things, this means that companies do not have more than 1 per cent of their turnover from coal, 10 per cent from oil or 50 per cent from gas. For more information about EU Paris-Aligned Benchmark and its criteria, see page 20. A number of sustainability factors are included in the active management of corporate bonds. The environmental, social and governance factors form an ESG theme that has several sub-categories. Some factors, for example, focus on diversity, corporate governance, use of resources and emissions.

Government bonds

AP2 strives to invest in government bonds in emerging countries when this is consistent with the Fund's requirement for a risk-adjusted return, in a way that incentivises governments to improve their sustainability performance and support the delivery of the UN's Sustainable Development Goals. In practice, the Fund does this via ESG-weighted indices, green bonds and ESG factors in the active management.

Since February 2020, AP2 has been using the JP Morgan ESG Index for government bonds in emerging market countries, which are issued in both local currency and US dollars. The index is built using JP Morgan's standard index, but gives greater weight to countries with a higher ESG score. The ESG scores are based on data from reputable sources and are strongly positively correlated with the UN index in terms of how far countries have progressed in achieving the UN's Sustainable Development Goals. Green bonds are given greater weighting than in a standard index. The ESG weighting yields a clearly positive effect on the sustainability profile in the index without the risk-adjusted return profile being reduced.

Since 2015, the active management of AP2's government bonds issued in dollars by emerging countries has been based on a points system that, among other things, reflects the political risks in



the various countries. The points system covers areas including the strength of the legal system, institutional quality, political stability, unemployment and poverty, risk of conflicts and maintaining democratic principles. The combined political score therefore represents the S and G segments in ESG and correlates positively with the UN index of how far countries have progressed in achieving the global goals. The active strategy places the countries' sustainability profiles in relation to the price of their bonds and the expected return by over-weighting countries whose interest rates are higher than what the Fund's models consider to be justifiable given the economic and socio-political risks of the country. All else being equal, AP2 therefore invests more in dollar bonds issued by countries with a better sustainability profile.

Traditional real estate

Many different sustainability aspects are important for the real estate sector. For the fifth consecutive year, in November 2020, AP2 organised a sustainability day for its non-listed real estate companies (Vasakronan, Cityhold Office Partnership and US Office Holdings) to increase collaboration in sustainability issues between the companies and to discuss sustainability indicators.

Evaluation of sustainability work

In spring 2014, the Fund joined the Global Real Estate Sustainability Benchmark (GRESB) in order to better monitor and evaluate the sustainability work for AP2's investments in real estate. The GRESB organisation uses an annual survey to assess seven different sustainability criteria in real-estate

companies and real-estate funds. These are management, policy and disclosure, risks and opportunities, monitoring and environmental management systems, environmental performance indicators (energy, greenhouse gas emissions, water and waste), building certification, and stakeholder engagement. More than 1 150 real-estate companies and funds took part in the survey in 2020.

Every year, AP2 encourages its non-listed real-estate companies and funds to take part in the GRESB survey. All the Fund's non-listed real-estate companies and foreign non-listed real-estate funds participated in the 2020 survey.

GRESB gives each company/fund an overall score, a GRESB score, on a scale of 0 to 100. AP2's non-listed companies were awarded an aggregated GRESB score of 90.

Carbon footprint

The real-estate sector accounts for almost 30 per cent of the global emissions of greenhouse gases and almost 40 per cent of energy consumption, which means that climate change and energy are key issues. The carbon footprint of the non-listed companies was 0.6 tCO₂e per million SEK invested. Energy consumption and carbon emissions per unit area were 149 kWh/m² and 0.037 tCO₂e/m², which means a reduction of 9 per cent and 12 per cent, respectively. The underlying causes are

mainly energy efficiency improvements. As the figures from the 2020 evaluation refer to the 2019 results, there is no impact from COVID-19.*

Timberland

Timberland is an asset class that offers both diversification and stable, long-term returns. AP2 has been investing in timberland since 2010. Of the Fund's total assets, 1.5 per cent is invested in timberland. The majority of the investments are in Australia and the USA, and in timberland assets that produce sawn timber and pulp wood. The Fund has three external managers: New Forests, Molpus and GreenWood Resources. New Forests invests in Australia and New Zealand, Molpus in the USA and GreenWood Resources in Europe, Latin America and the USA.

Sustainability is embedded in the entire investment process for both timberland and farmland, as well as management and monitoring of acquired real estate. Except for conducting customary due diligence before investing, there are also thorough checks on counterparties, title deeds and contractors, assessments of environmental, climate and social risks, landscape assessments and effects on factors such as carbon sequestration, biodiversity and local communities. All of AP2's managers are signatories to and comply with the PRI guidelines for

responsible investments. AP2's managers also apply climate risk modelling to their forest portfolios in order to better understand the potential physical and economic effects of climate change on investments over time.

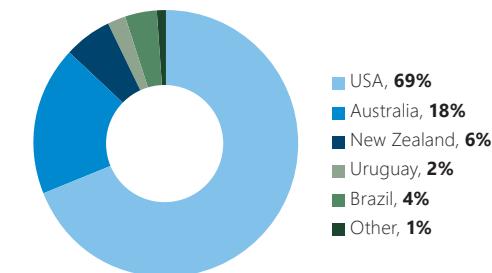
The forest and forest industry have the unique opportunity to reduce fossil consumption on a large scale by replacing it with renewable products and, at the same time, increase carbon sequestration, in growing forests and in forest products. A large part of the climate solution therefore lies in growing forests that reduce the amount of carbon dioxide in the atmosphere and build up carbon stocks. However, a better consensus is required on the models used to measure carbon sequestration. There are also some limitations on how the climate benefit from the forest is reported in official climate reports, where the forest is often separated from its value chains. In November 2020, AP2 organised a digital workshop on forestry and carbon sequestration, with all of its timberland managers, and a number of external participants, to highlight and promote collaboration on these issues.

Requirements for sustainability certification

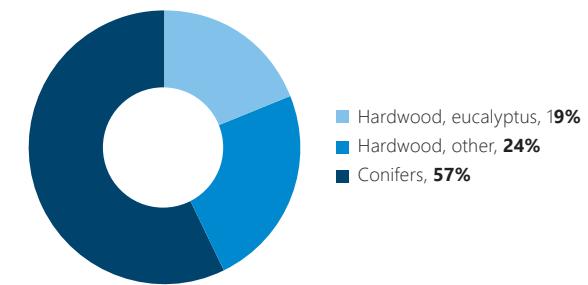
AP2 requires portfolio managers, whenever possible, to certify the timberland assets in accordance with one of the international sustainability



GEOGRAPHIC BREAKDOWN OF FOREST (HECTARES)



PRODUCTION BREAKDOWN OF FOREST (HECTARES)



* The non-listed companies' carbon footprint in 2019 is not comparable with the 2018 result due to a changed accounting method in GRESB.

certification schemes Forest Stewardship Council (FSC) or Programme for Endorsement of Forest Certification (PEFC). Even if the assets cannot be certified, they will be managed in accordance with these organisations' principles for certification.

New Forests was started in 2005 and is a fund manager specialising in forestry. Its work includes developing markets for the ecosystem services provided by the forest. Sustainability issues have been central to New Forests' business concept right from the start. New Forests' stated ambition is to be at the forefront of sustainability, which means that it has policies and management systems for its sustainability work and that the timberland assets have been awarded sustainability certification by an independent party. It participates actively in trade associations and investment networks, which drive issues such as responsible business and investment, and promote sustainable forest management and sustainable financial markets. Examples of these, where New Forests is a member, are Ceres, CPIC (Coalition for Private Investment in Conservation), GIIN (Global Impact Investing Network), Investor Group on Climate Change, Carbon Market Institute and WBCSD (World Business Council for Sustainable Development). New Forests and WBCSD

have together produced and launched a roadmap for the forest sector for delivering on the UN's 17 Sustainable Development Goals (see Forest Sector SDG Roadmap, www.wbcsd.org/Sector-Projects/Forest-Solutions-Group/Resources/Forest-Sector-SDG-Roadmap). AP2 has invested in three of New Forests' funds that focus on Australia and New Zealand. New Forest's sustainability report is available at www.newforests.com.au

Molpus has a long tradition of sustainable forestry and has been managing investments in timberland in the USA since 1996. It also has policies and management systems for its sustainability work. It uses the Sustainable Forest Initiative (SFI), which is the US certification programme within PEFC. Since 2011, it has a multi-site certificate, which means that an independent party annually audits approximately one third of the assets and new assets are included as they are acquired. In some cases, Molpus may also choose certification in accordance with FSC. The audit reports are available on SFI's website www.sfiprogram.org

GreenWood Resources is responsible for managing the timberland assets in two companies, Global Timber Resources and Lewis & Clark, which AP2 owns jointly with other institutional investors. GreenWood was established

in 1998 and manages the timberland assets in accordance with FSC or PEFC. GreenWood's forest management team manages and adapts its assets to changing climatic conditions. This means its strategies range from developing better routines for wildfire seasons and participating in regional pest control cooperatives, to choosing plant materials based on climate resistance, such as drought tolerance.

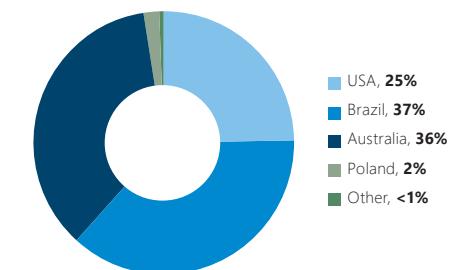
Farmland

Investments in farmland form part of AP2's efforts to diversify the overall portfolio. 2.9 per cent of the Fund's assets under management is invested in farmland. Sustainability issues are central to AP2's investments in farmland. The Fund's strategy is to invest in large-scale farmland assets in countries with clearly-defined legal structures. This means that many geographic regions are not available for investment.

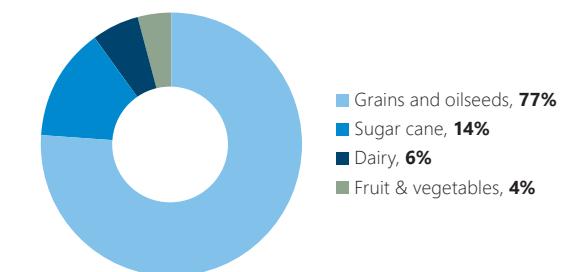
AP2 has chosen to invest in farmland assets through joint ventures with other investors that share the Fund's values of long-term investment and sustainability. The Fund has invested in three jointly-owned companies and one fund: TIAA-CREF Global Agriculture (TCGA), TCGA II, Teays River Investments and the TIAA European Farmland Fund (TEFF). TCGA and TCGA II own farmland in the USA, Australia, Brazil and Chile.



GEOGRAPHIC BREAKDOWN OF FARMLAND (HECTARES)



PRODUCTION BREAKDOWN OF FARMLAND (HECTARES)





AP2 does not cultivate any land. The land is either leased to local farmers/companies or administered by the external managers for the jointly-owned companies. The tenant (the farmer) of leased farmland decides which crops to grow and is responsible for producing and selling them. Farmland with permanent crops, such as fruit trees, is managed by an operator appointed by the external manager. Most of the land owned by the jointly-owned companies is leased out. However, the majority of the investments made by Teays River are managed directly by the operating companies.

TCGA, TCGA II and TEFF are managed by Nuveen. Its company, Westchester, is responsible for the operational management of the farmland. AP2 is actively engaged in improving the sustainability performance of the companies, for instance through its board work. The Fund's representative on the Board of TCGA is also a member of its ESG committee. In August 2018, Nuveen adopted a clear zero tolerance policy for Nuveen and Westchester with respect to the acquisition of deforested land. Land may not be acquired if it has been deforested after the dates stated in the policy. The dates vary across Brazil's biological zones. More information is available at www.nuveen.com

Nuveen is committed to increasing the transparency of, for instance, the geographic location of the farmlands. More information is available at www.nuveen.com/en-us/institutional-strategies/alternatives/farmland-map

In 2019, Westchester began to develop its existing ESG process into a more comprehensive framework to better track and evaluate sustainability performance across the global agricultural portfolio, thereby providing a better overall view of sustainability work. This new framework was implemented in 2020 and includes best practices from the OECD-FAO Guidance for Responsible Agricultural Supply Chains, IFC EH&S Guidelines for Annual and Perennial Crop Production, EU Taxonomy for Agriculture, Linking Environment and Farming (LEAF), General Mills Regenerative Agriculture guidelines and Leading Harvest.

The investment guidelines for TCGA and TCGA II stipulate that no land in the Amazon's biological zone may be acquired. TCGA and TCGA II have never included any such farmland assets.

AP2 maintains a continuous dialogue with the managers and also visits farmland real estate a couple of times a year.

Disclosure of PRI's Guidance for Responsible Investment in Farmland

In autumn 2014, PRI took over the responsibility of administering the principles for responsible investment in agriculture that AP2 was involved in developing in 2011. As a consequence of this, the farming principles have been developed into "Guidance for Responsible Investment in Farmland".

PRI encourages all signatories that have invested in farmland to implement the Guidance. Implementation reporting is included in PRI's reporting tool. Each year, Nuveen and Westchester publish a report describing their implementation of the Guidance for Responsible Investment in Farmland. They have developed a number of indicators based on the Guidance. Teays River also uses these when reporting to AP2. More information about how the managers work with the Guidance is available on the Fund's website.

Leading Harvest

Westchester is also a co-founder of Leading Harvest, which is a non-profit organisation for promoting sustainable agriculture. It was launched in April 2020 in the USA and was established in partnership with investors, asset managers, landowners, nature conservation bodies and farmers.

Leading Harvest identifies 13 principles, 13 objectives, 33 performance measures and 71 indicators that provide criteria for sustainability in agriculture. This includes methods for preserving land, water resources and biodiversity, as well as the well-being of employees and local communities. More information is available at www.leadingharvest.org

Sustainability audits of farmland in Brazil

TIAA-CREF Global Agriculture (TCGA) leases out farmland in Brazil to local tenants and operators. In 2015, BSD Consulting, a global sustainability consultant, carried out an audit of all TCGA's farms in Brazil, focusing on their compliance with regulations on working conditions, occupational health and safety, and the environment and integrity. TCGA's ESG committee, of which AP2 is a member, worked with TCGA's managers on the implementation of the audits. The purpose of the audits was to assess compliance with laws and regulations in Brazil, with PRI's Guidance for Responsible Investment in Farmland and/or commitment in relation to sustainability certification.

The audits showed that a majority of TCGA's tenants had good management systems, but non-compliances and/or

observations were identified on all farms. In order to support the tenants, TCGA's manager has changed its process for site visits to include a more comprehensive review of the tenants' activities as well as a visit to their head offices. This is done even if the office is not located on land owned by TCGA. The manager has also produced a detailed code of conduct for the tenants, which is discussed in person with each tenant, plus a steering and supervisory process to facilitate compliance with the code of conduct. TCGA's manager has also used the results of the audits to improve its control procedures for new acquisitions.

In 2018, third party audits were also carried out for all farmland activities in TCGA II. In addition, selected farmlands in TCGA were audited again. The new audits were also performed by BSD and were even stricter and conducted with greater thoroughness than in 2015 due to the governance and supervisory processes that were developed after the previous audit. They showed once again that most of the Brazilian farmland activities are handled by certified tenants with good, stable processes in place. Any observations were related mainly to a lack of formal processes. There was a slight increase in observations among the farmlands that were audited again.

This underlines the importance of conducting these audits on a continuous basis and actively supporting the tenants in their sustainability work. About one third of the farmlands will therefore be subject to a regular annual audit, based on a risk matrix. All farmlands will thereby have been verified over a period of three to four years.

In 2019, third-party audits were conducted for 30 per cent of the farmland in Brazil in accordance with the new audit plan. This time Westchester collaborated with IMAFLORA, Institute for Agricultural and Forestry Management and Certification. All the farms and tenants that were audited again this time showed improved results and compliance.

For more information, see AP2's Report on Human Rights.

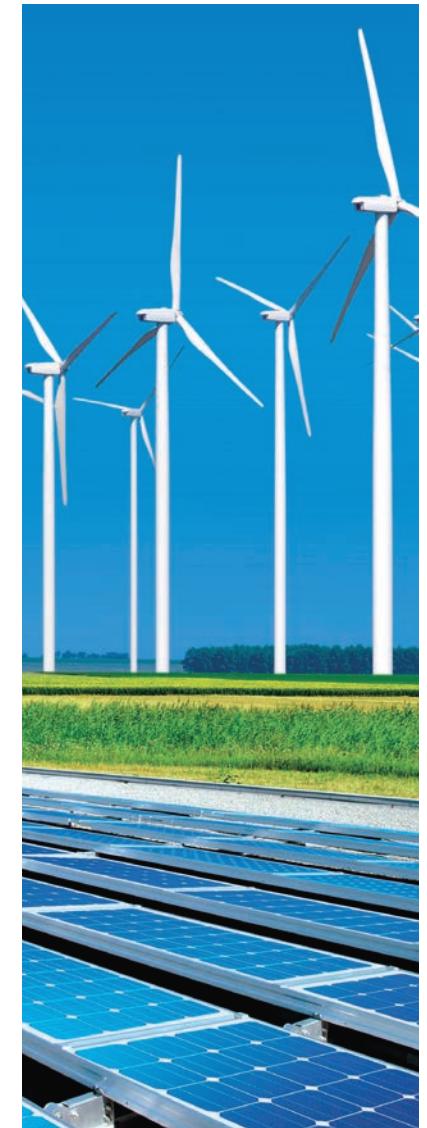
Sustainable Infrastructure

Sustainable infrastructure is an area in need of major investment. Energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources.

At the end of 2019, AP2 decided on a new strategic allocation to sustainable infrastructure, i.e. assets that promote sustainable development in line with the Paris Agreement. Three investments were made in 2020. An

investment is in a company that purchases, manages and develops decentralised sustainable infrastructure, primarily in the USA. This includes solar farms, battery plants, waste management facilities and electric transport. An investment is in a global investment platform in the energy sector, which has a portfolio of wind and solar farms in the USA, Canada and Japan. This company also has development projects for wind power and electricity distribution networks. The third investment is in a global infrastructure fund with a focus on developing sustainable energy production.

These investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal.



Biodiversity

Biodiversity is an umbrella term that collectively describes the great variety of species and habitats that exist on earth and which forms the basis for the proper functioning of ecosystem services. The UN convention on Biological Diversity defines biodiversity as: "The variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species and of ecosystems." AP2 believes that biodiversity is an important strategic area that will receive increasing focus in the financial industry.

Timberland

Trees have an extensive root system that holds the soil in place, providing a protective organic layer on the surface. Their crowns create a "roof" that captures wind and rain, further protecting the landscape. Trees and healthy soils create a natural storage and filtration system that captures and stores rain and snow, prevents flooding and reduces the spread of pollutants. Forests also provide shade to the landscape, for example, along watercourses, which can be crucial in areas where colder water temperatures are important for plants and animals.

Activities in forestry can have a negative impact on the environment and water quality if they are not carried out sustainably. AP2's managers for timberland therefore apply well-established forestry management systems and best practices, scientifically designed over many years to minimise negative impacts.

The management of biodiversity is explicitly included in all certification schemes and forestry standards, such as the Forest Stewardship Council (FSC) and Programme for Endorsement of Forest Certification (PEFC). AP2 requires the portfolio managers, whenever possible, to certify the timberland assets in accordance with one of the international sustainability certification schemes. The asset will be managed in accordance with these, even if it cannot be certified. These certifications have core principles that apply globally and form the groundwork for an environmentally adapted, socially responsible and economically dynamic timberland. The principles, criteria and requirements in these systems, together with legislation, constitute minimum requirements in managing biodiversity in investments. AP2's managers strive to go beyond the do-no-harm principle and instead actively promote biodiversity in the Fund's investments.

According to FSC's principle 6: "Forest management shall conserve biodiversity and its associated values, as water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest." There are several identified environmental aspects where research has shown there is a quantifiable benefit to biodiversity. These environmental aspects include retention trees, dead wood, land provisions, key biotopes and deciduous trees.

Retention trees are living trees that are left behind for nature conservation purposes after final felling. Trees can be saved either in small stands or individually. The intention is to allow retained trees to grow into the new forest generation and remain in the forest until they die and degrade naturally. They are important for many species in forest habitats.

Dead wood has many important functions: such as food source, habitat or

protection. A large number of red-listed forest species are dependant on dead wood. In particular, certain species of fungi and insects need dead wood to survive. Birds, larvae and mosses also make use of dead wood. Certification programmes and forest conservation legislation require dead wood to be saved when felling. The difference is that certification programmes require active creation of dead wood.

In addition to formal protection from authorities, voluntarily setting aside forest land promotes conservation of valuable forest environments. Forestland that landowners set aside for conservation purposes should be exempted from forestry, with the exception for measures aimed at promoting the development of biodiversity.

Deciduous forest environments harbour a rich diversity of species. Many forest



Belencita nemorosa

species depend on deciduous trees for their survival. Deciduous trees grow very well after natural disturbances, such as forest fires and storms. The certification schemes specify the goals for areas of deciduous forest both at tree stand and landscape level.

Farmland

There is no equivalent certification for agriculture and AP2 has therefore been involved in developing the Guidance for Responsible Investment in Farmland. Today, these principles are administrated by PRI. AP2's managers for farmland have pledged to comply with these guidelines. The first guideline is concerned with fostering environmental sustainability by promoting measures that, for instance, reduce the risk of soil erosion, protect biodiversity, reduce use of chemicals and

encourage more efficient water management. One of AP2's American farmland managers is also a co-founder of Leading Harvest, which is a non-profit organisation for promoting sustainable agriculture. It was launched in April 2020 in the USA and was established in partnership with investors, asset managers, landowners, nature conservation bodies and farmers. Leading Harvest identifies 13 principles, 13 objectives, 33 performance measures and 71 indicators that provide criteria for sustainability in agriculture. This includes methods for preserving land, water resources and biodiversity.



Cotton-top tamarin

Protection of biodiversity includes endangered species and sensitive ecosystems, by landowners setting aside protected areas on their own land. Biodiversity in the soil and of micro-organisms that help improve the quality and nutritional content of the soil is equally as important. The greater the diversity of microorganisms, the greater the productivity and resilience of the soil's ecosystems. Soil biodiversity is essential for productive and sustainable agriculture to ensure good crops and long-term profitability. Overuse of farmland can lead to a sharp reduction in soil fertility. Globally, one of

six important species of microorganisms that live in the soil is estimated to be close to extinction due to lost habitats, deforestation, over-exploitation and soil pollution (FAO 2019 and United Nations University 2020).

It is therefore important for landowners to monitor soil quality and promote farming methods that prevent soil erosion to minimise the risk of soil degradation. Factors with potentially negative effects include excessive use of pesticides, fertilisers and other chemicals, and excessive irrigation which can cause salinity levels in the soil to rise.

AP2's agricultural investments in Brazil comply with the Brazilian Forest Code, which was established in 1965 and created a statutory framework for land use, environmental conservation and forest management in Brazil. This is highly important for farmland investments in the country. The Brazilian Forest Code is one of the world's most comprehensive statutory regulations for vegetation on private land. The most important components of the Forest Code include the designations Permanent Protection Areas (PPA) and Legal Reserves (LR), which establish a minimum area requirement (percentage of land area) that must be kept as primary forest vegetation. PPA provides absolute protection of environmentally significant areas such as riparian zones of rivers and hilltops. This means that 20-35 per cent of farmland owned in the Cerrado region must be set aside as a

legal reserve (LR). No crops may be grown there and the vegetation must be left untouched.

Part of AP2's agricultural portfolio is also certified in accordance with the organic certification, Global G.A.P, which means the land is farmed sustainably.

Biodiversity in AP2's timberland investments

Provision for conservation purposes

One of the more pressing issues for the forestry sector is how the forests and management of the forests is integrated into the planning of large landscape areas. Economic, social and environmental benefits are taken into account when planning the allocation of uses for a large land area. Optimal land use planning supports timberland investments by ensuring that several different environmental and social benefits can be obtained from forests and land.

AP2's timberland plays a role in the conservation of wild fauna and flora. In the American Northwest, in a mountainous forest area rich in wildlife, some of AP2's timberland has been permanently set aside for the conservation of wild animals, plants and clean water and for recreation. The area is of great importance for the grizzly bear and many other large mammals, which are dependent on the land bridge that has now been set aside to allow them to roam between the mountains and forests. Prepared in collaboration with Molpus, Idaho

Department of Lands, Idaho Department of Fish and Game, The Nature Conservancy and the U.S. Forest Service, the easement ensures that sustainable forestry can still take place. It also prevents future division or commercial development of the land, and helps maintain the local and regional economy for surrounding communities, which are dependent on forestry for their livelihood. In addition, it allows public access to the forest and protects animal habitats and good water quality.

In Australia, there is a type of seasonal herbaceous wetlands that contain different species of grass and herbs. They are rare and classified as critically endangered by the Australian Environmental Protection and Biodiversity Conservation Act. They are declining in numbers and range due to climate change and conversion to agricultural land. One of the Fund's timberland areas in Australia has up to 40 wetlands, the majority of which are in good condition thanks to the protection for conservation that the timberland provides. The manager of the timberland is conducting restoration projects for 22 of these wetlands, five of which are of national importance. The projects entail improving the ecosystems for the plants and wildlife that rely on the wetlands for their habitat and the conservation of the biodiversity in the region.

New Zealand has so-called QEII agreements that are important for the protection of biodiversity on private land. They represent a legal agreement

between the Queen Elizabeth II National Trust and the landowner to protect land and its environmental values forever. On New Zealand's southern island, AP2's forest manager has drawn up three applications for QEII agreements, which are planned to cover more than 400 hectares of land. The land that is planned to be protected consists of dry land, rock, steep slopes, herbal fields and subalpine scrub, and complements other protected areas nearby. Endemic species such as the Marlborough Rock Daisy and Taurepo have already been identified in these nearby protected areas, where AP2 is co-owner. The Taurepo plant with its trumpet-shaped flowers was named "Favourite Native Plant" by the New Zealand Conservation Network in 2019 and has not been seen anywhere else on the South Island.

In Tasmania, AP2 is a joint owner of a large timberland area, where more than 80,000 hectares of timberland are set aside for conservation purposes. Only 52 per cent of the real estate consists of plantation forests, while no less than 44 per cent is natural vegetation.

Forestry for promoting biodiversity

Any changes in land use in forestry can produce negative environmental effects and thereby reduce social and cultural values associated with the land. AP2's forest managers therefore have zero tolerance for deforestation in their

forestry, which means forest certification and responsible forestry. Sustainable management of forest land involves the management of entire ecosystems.

AP2 is co-investor in a large timberland area in the states of Oregon and Washington in the USA, called Lewis & Clark, managed by Nuveen/GreenWood. The timberland was one of the first to be certified at the end of the 1990s in accordance with US standard SFI within PEFC. The ongoing forestry activities include leaving retention trees and dead wood when felling, in accordance with the environmental certification. Trees or parts of them are left as well as tree stumps at a few metres height. This benefits fungi, insects, birds, larvae and mosses that need old trees or dead wood for their survival.

A total of 4 444 hectares of timberland are managed for conservation purposes to support biodiversity. The forestry management plan for wildlife includes 22 endangered species of birds, fish, mammals and plants.

Lewis & Clark also supports the habitats of fish by creating or conserving special "fish passages" for salmon and other species. A total of 974 kilometres of the real estate's 4,934 kilometres of watercourses are protected, which is 20 per cent.

Tropical dry forest (TDF) is one of the world's most vulnerable biomes. More than 90 per cent of Colombia's tropical dry forests have been destroyed or degraded. This means that 95 per cent of the

mammals, amphibians and bird species of these forests are endangered. AP2's forest manager in South America has set aside two forest areas that are some of the last remaining TDFs in Colombia for the conservation of this habitat through active monitoring, scientific collaboration and operational protection to preserve and support biodiversity. The endangered endemic tree species *Belencita nemorosa* and the rare endemic beetle *Malagoniella astyanax* are some of the species being protected and studied. The critically endangered primate, the cotton-top tamarin, with only about 6,000 individuals remaining in the wild, is included in this conservation work and has been observed in several parts of the TDF areas.

On New Zealand's south island, the manager for one of AP2's timberland investments has entered into a partnership with the Marlborough Falcon Trust. This partnership aims to enhance the awareness and expertise of forest workers in how to conduct sustainable forestry in areas where falcons live and breed. This timberland manager is also collaborating with the Department of Conservation to develop a plantation scheme to re-establish the Mountain Totara, which is an endangered species of tree endemic to New Zealand.

Biodiversity in AP2's farmland investments

Biodiversity among microorganisms is critical in cultivated land where fertile soil

is essential for good harvests, long-term sustainability and profitability. AP2's farm investment managers determine the soil's chemical and physical components through regular soil analysis. If an illegal substance or excessive levels of a pesticide, for example, are detected, the tenant has to explain and rectify the situation. Some of the tenants are also working to develop biological pesticides to reduce the amount of chemicals in their crops.

To minimise erosion and maintain soil quality, crop residues are left in the fields after harvesting and the ground is left unploughed and undisturbed. No-till-farming methods are used in all regions where AP2 invests. This is particularly important in Australia, for example, where maintaining the soil structure and preserving moisture in the soil are crucial for their agricultural system. Leaving the soil virtually untouched promotes moisture retention, soil resilience and fertility. Organic matter left from previous crops also helps improve the soil's water-holding capacity. It creates a protective layer on the soil surface, reducing evaporation, run-off and erosion and storing carbon. Cover crops grown after the main crop has been harvested help maintain a living root system for most of the year. They also add organic matter to the soil, protecting it from erosion and nutrient leaching. Two and three crop systems, and growing another crop between the rows of the main crop, also

have positive effects on soil biodiversity, as the soil is covered with a thicker layer of biomass after harvesting.

AP2's managers for the Fund's farmland in Poland have launched a project to plant mixed flowers in specific fields to support the population of bees and other insects and thereby increase pollination. The project will also promote cooperation between farmers and bee-keepers and encourage better dialogue on the use of pesticides and modern agriculture.

The Himalayan blackberry is an invasive shrub that was introduced into North America in the late 19th century. It is now spreading along Suscol Creek in California, forming dense thickets that are smothering native tree species. The native tree species are vital to the ecosystem around Suscol Creek, as they provide shade to the river and prevent the water from heating too much. Steelhead trout, a threatened native fish species requiring cool water temperatures, lives in the river. In 2020, AP2's agricultural manager launched a project to eradicate the Himalayan blackberry bushes along the river and replant domestic species in order to restore ecological balance, which will also benefit the economy of nearby vineyards.

Several of the vineyards in the Napa Valley in California, in which the Fund has invested, hold certification in accordance with the region's Fish Friendly Farming scheme (FFF), which is administrated by

the California Land Stewardship Institute. The scheme helps the growers use farming practices that improve the quality of the water and restore and maintain fish habitats on cultivated farmland. This benefits several endangered local species of salmon and trout.

In recent years, Australia has been hit by severe droughts and devastating fires. Exceptionally heavy rainfall in the first quarter of 2020 has improved the situation however. AP2's managers have planted over 3 500 trees adjacent to a farmland in Western Australia to stabilise the growing conditions and increase the resistance of the surrounding natural environment to intense weather phenomena. The trees form a windbreak that reduces erosion and damage to crops. Saltbushes have been planted on some 200 000 square metres of land on real estate nearby. The plants draw water and salt from the upper soil levels and thus help improve soil quality and assist the growth of other plants.

Brazil has the greatest biodiversity of any country in the world and hosts an estimated 70 per cent of the world's catalogued animal and plant species. In AP2's agricultural investments in Brazil, more than 70 000 hectares have been set aside as Permanent Protection Areas (PPA) and Legal Reserves (LR) and over 700 000

indigenous trees have been planted. Some farms set aside more land than is required by Brazilian law. Catuai Norte, for example, a farmland acquired in 2013, has a total area of almost 18,000 hectares in the Cerrado biome. Approximately 45 per cent of the farmland is covered by indigenous vegetation, of which 38 per cent is registered as a Legal Reserve (LR) to meet the government's conservation requirements. This means an additional 1 220 hectares of its natural vegetation could be converted to agricultural land, but with a zero tolerance policy towards deforestation, this land will be maintained in its original state.

Forest fires in Brazil have attracted enormous attention in recent years, particularly those in the Amazon, but also in the Cerrado region, where AP2 has invested in farmlands. Natural fires can drive the evolution of the region's flora and fauna, as some plants benefit from fires, with some actually requiring fire to break seed dormancy and stimulate germination. However, the biome of the entire region is damaged by fires that are started by humans and the biodiversity is reduced because of the frequency and size of the fires, particularly as they often occur during dry periods. To protect agriculture and its natural vegetation against fires,

firebreaks are maintained to reduce the intensity and spread of fires. If vegetation becomes damaged, the manager monitors natural regeneration and carries out restoration work in accordance with the Brazilian Nature Conservation Act.

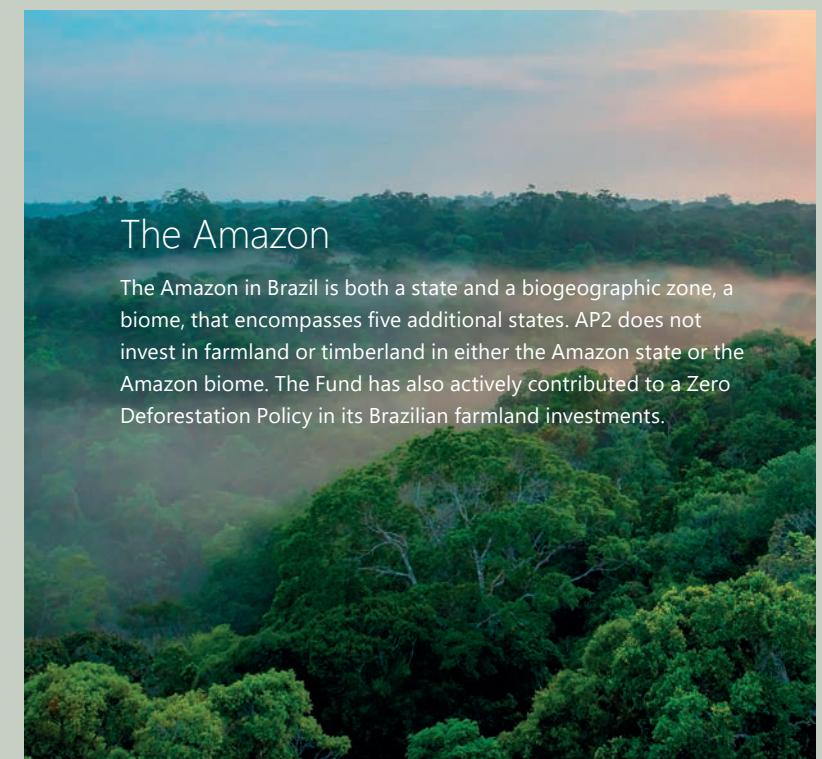
On real estate in the state of Sao Paulo, AP2's agricultural manager has recreated three shallow lakes with rich vegetation adapted to wetlands. The lakes had been emptied by a former owner of the land to expand the sugar cane cultivations. These lakes have now been restored and over the past ten years half a million plants have been planted on almost three square kilometres of land. Important ecological processes and ecosystem services have been restored. Today, the wetland area is home to a variety of animal and plant species, and many endangered species of birds and wildlife have returned and established viable populations.

Zero tolerance to deforestation

In 2018, AP2 helped to produce a zero tolerance policy towards deforestation in its Brazilian farmland investments. The policy constitutes an enhanced strategy to combat deforestation by safeguarding the original natural vegetation, increasing forest plantation and reforestation, and thereby stopping the loss of biodiversity.

It is based on set dates for five of Brazil's biomes, where the land may not be deforested after those dates. The dates are based on environmental protocols, industry stakeholder agreements, trade agreements and legalisation. The policy aims to ensure that the Fund's investments do not contribute to deforestation of forest

areas and other indigenous vegetation on owned land or land to be acquired. AP2's managers use satellite-based mapping technology, in some cases combined with biomass measurement data, to determine a farmland's compliance with the policy.



The Amazon

The Amazon in Brazil is both a state and a biogeographic zone, a biome, that encompasses five additional states. AP2 does not invest in farmland or timberland in either the Amazon state or the Amazon biome. The Fund has also actively contributed to a Zero Deforestation Policy in its Brazilian farmland investments.

Climate

Climate is one of Andra AP-fonden's focus areas, which means that the Fund integrates climate into analysis and investment processes, strives to influence companies and decision-makers and is committed to reducing its own direct climate footprint through its internal environmental activities. AP2 is developing its portfolio in line with the Paris Agreement with the aim of having a net zero emission portfolio by 2045.

Climate change is a long-term risk that could have a far-reaching impact on global financial markets and is therefore an important strategic issue in sustainability. Within the framework of sustainability, the Fund's belief is that climate change occupies a special position when it comes to the potential impact on the Fund's return and, in the long run, its goal attainment. It also covers an extremely long horizon and has long-term consequences. Furthermore, climate change is closely linked to many other areas of sustainability.

Climate risks have a unique position among sustainability risks, as the consequences of climate change are both extensive and complex. Major climate changes can suddenly occur when a critical point is reached, and can also trigger a domino effect with further negative consequences. Major changes in society will take place in the transition to economies with net zero emissions.

Since neither physical climate risks nor transition risks are fully priced, such sudden changes can lead to major changes in how different assets are valued.

Climate change can potentially create financial instability, resulting in serious negative consequences for the financial sector and the economy as a whole. In reviewing the Fund's investment beliefs in 2019, a new belief was therefore adopted: 'Climate change is a system risk'.

AP2 is developing its portfolio to bring it in line with the Paris Agreement. This means that the Fund: 1) divests to reduce the financial climate risk of the portfolio, 2) actively invests in sustainable strategies for the transition and 3) influences companies and decision-makers through dialogue.

In 2020, the Fund developed and implemented global equity and corporate bonds based on the EU Paris-

Aligned Benchmark (details on page 20) and made several investments in sustainable infrastructure (see page 27). The Fund has also been committed to achieving a positive change through dialogue with companies and decision-makers, for example, in the global Climate Action 100+ dialogue project.

Climate and choice of strategic portfolio

According to academic research, if the global temperature increase fails to stay well under 2°C, it is expected to lead to a decline in real economic activity, with consequences for the global financial markets. Through its potential impact on the global economy, not only is climate change expected to have an effect on the Fund's rate of return, but also on the indexing of outgoing pensions, which is also dependant on economic growth. From that perspective, climate change is not only a

risk for the planet and its ecosystems, but also for the economic system.

Furthermore, sustainable growth requires significant changes in the use of different kinds of energy. This means that the world must stop relying on coal, oil and other fossil fuels and switch to wind, solar and other renewable sources in order to achieve sustainable global development in line with the Paris Agreement.

Climate change can be viewed from the perspectives of opportunity and risk. It poses significant risks to economic growth and the financial markets. In 2019, AP2 therefore started to include climate risk in the Fund's overall return assumptions on which strategic portfolio selection is based. The Fund also sees investment opportunities in the climate area and makes investments that directly promote the transition that is required without compromising the risk-adjusted return. Examples of this are that green bonds represent 3.0 per cent of the strategic portfolio and that the Fund began to invest in sustainable infrastructure in 2020, i.e. assets that promote sustainable development in line with the Paris Agreement.

Contributing to the transition to sustainable development

AP2 has long been working to integrate sustainability into asset management, by focusing on areas such as climate change. It plays a key role for sustainable growth and also for the future economic growth and returns on financial assets.

Following the introduction of the new National Pension Insurance Funds (AP Funds) Act in 2019, the management will focus particularly on how sustainable growth can be promoted without compromising the overall mission to provide the greatest possible benefit to the pension system.

Contributing to the transition

AP2 aims to contribute to the transition towards a society in line with the Paris Agreement. The Fund does this through:

- Investments in sustainable strategies
- Dialogues with companies
- Dialogues with decision-makers.

Political measures required

Political measures are required to keep the global temperature increase in line with the requirements of the Paris Agreement. However, this does not prevent institutional investors like AP2 from having an important role to play. Limiting global warming to 2°C, or preferably 1.5°C, which the countries of the world agreed on at the Climate Conference (COP21) in Paris in 2015, represents a clear move towards a society without net greenhouse gas emissions. The special report published by the UN's Intergovernmental Panel on Climate Change (IPCC) in October 2018 shows that it is possible to reach 1.5°C. This requires carbon emissions in 2030 to be 40 to 60 per cent lower than levels in 2010 and net zero emissions to be achieved by 2050, under the assumption that there are no significant negative emissions.

Investments in sustainable strategies

Creating a low-carbon society requires, among other things, a conversion of energy and transport systems. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. AP2's investments in green bonds and timberland are two other examples of investments with sustainable strategies that have a

positive climate impact. It is also recognised that there is considerable need for investment in sustainable infrastructure. Such investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal. Three sustainable infrastructure investments were made in 2020. An investment in a company that purchases, manages and develops decentralised sustainable infrastructure, primarily in the USA. This includes solar farms, battery plants, waste management facilities and electric transport. The Fund has also invested in a global investment platform in the energy sector, which has a portfolio of wind and solar farms in the USA, Canada and Japan. This company also has development projects for wind power and electricity distribution networks. The third investment is in a global infrastructure fund with a focus on developing sustainable energy production.

Dialogue with companies

AP2 actively participates in Climate Action 100+, an international dialogue initiative launched in December 2017. Over a five-year period, the investors participating in the initiative will engage in dialogue with some 167 companies that are responsible for the world's largest greenhouse gas

emissions. The aim is to get them to reduce their emissions to a level in line with the Paris Agreement, that they report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), and that their boards take clear and

unequivocal responsibility for the work of addressing climate change. AP2 and Öhman are in dialogue with AB Volvo, which is one of the companies in the initiative.

Climate Action 100+ has been active for three years and is now supported by

just over 450 investors. Although some progress has been made, much more needs to be done to achieve the aim of the initiative. Almost half (43 per cent) of the companies have set themselves the target of achieving net zero emissions by 2050. A report on the

Financial contributions of the divestments

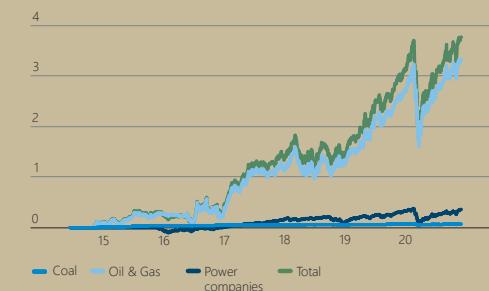
To monitor the financial contributions of the divestments, AP2 has developed a methodology for comparing the returns for MSCI World Developed Markets and MSCI Emerging Markets, excluding and including the divested companies. As AP2 has implemented EU Paris-Aligned Benchmark, this yield analysis ends.

The contribution to returns from the divested companies that are included in MSCI World DM was, following their exclusion from index, positive at 3.78 per cent from autumn 2014 until 1 December 2020. At this date, these divestments represented 0.96 per cent of MSCI World DM.

The contribution to returns from the divested companies that are included in MSCI EM was, following their exclusion from index, positive at 1.13 per cent from 2014 until 1 December 2020. At this date, these divestments represented 0.89 per cent of MSCI EM.

The graphs below illustrate the contribution to returns from coal, oil, gas and coal-based electricity production. The divestments from oil and gas companies in developed markets (MSCI World DM) have contributed most to return. In emerging markets (MSCI EM), divestments from power companies delivered the largest contribution to returns.

Accumulated contribution MSCI World DM, %



Accumulated contribution MSCI EM, %



development of the dialogues in this initiative was published in December 2020 and is available on the Climate Action 100+ website. More information is available at www.climateaction100.org

AP2 has been a member of the Institutional Investor Group on Climate Change (IIGCC) for several years. The organisation is working to make investor engagement in climate change issues clear for both companies and decision-makers and to communicate investors' demands for policy measures, which enable increased investments in climate-smart solutions. In autumn 2020, IIGCC published the document "Paris-aligned accounts: investor expectations", which urges companies to include climate data in their financial reports. In conjunction with the publication, the audit committees of 36 European companies were informed of the document via a letter signed by AP2 and a further 37 investors.

Dialogue with decision-makers

The IIGCC and a number of other investor organisations have jointly published Global Investor Statement on Climate Change, which describes how investors can contribute and what investors expect of governments. More than 470 investors have signed this document. AP2 and some 200 global investors have urged the governments of the G7 and G20 countries to live up

to the Paris Agreement, push for rapid implementation and express their continued support for this work.

In May, AP2 and 176 other investors signed an open letter to EU leaders with recommendations aimed at supporting a sustainable economic recovery after COVID-19. They call for the EU to create a recovery that prioritises climate action critical to meeting the Paris Agreement's net zero emissions goal by 2050.

Financial climate risks

Climate change is expected to have a major impact on the long-term returns. It is therefore becoming increasingly important to integrate climate change aspects into risk assessments and investment decisions. Climate change risks are divided into two categories: transition risks and physical risks. Transition risks are subdivided into regulatory risks, technical risks, market risks and trademark risks. Physical risks are subdivided into acute risks and systemic risks.

In 2013, AP2 began analysing climate-related financial risks for fossil energy companies and then continued with coal-based electricity companies. A key starting point for this work was that the climate-related risks facing the companies are not correctly priced by the market. AP2's work to analyse climate-related financial risks for these sectors focused on regulatory risks.

AP2 has divested equities and corporate bonds in a total of 80 companies due to climate-related financial risks. The divestments have brought positive financial contributions, see page 33.

Since AP2 has implemented equity and corporate bonds in line with the EU Paris-Aligned Benchmark, the Fund's analysis of climate-related financial risks for fossil energy companies and coal-based power companies has been replaced by the analysis included in the index construction. In conjunction with the transition to these indices, the Fund has divested around 250 companies in total. More details on page 17.

Since 2019, climate change has been included in the ALM analysis, which forms the basis of the Fund's strategic portfolio. The focus is on physical risks from climate change and the impact of climate change on economic development. More details on page 32.

AP2 is engaged in continuous dialogue on climate change with companies and managers of the Fund's investments in real assets, which are timberland and farmland, traditional real-estate and sustainable infrastructure.



One of AP2's conventional properties: New Fetter Lane Cityhold, London

AP2's investments in fossil energy

New legislation on 1 January 2019 meant new investment rules for the AP Funds. One question that was asked by the government was whether the Funds' investments in fossil energy had decreased, given these new rules.

Since 2014, AP2 has divested from companies with high financial climate risk, see previous page. In 2020, the Fund implemented indices based on the PAB criteria, which means that virtually the entire energy sector has been excluded. See also page 20. AP2 has compiled the Fund's exposure to coal, oil and gas reserves, from 31 December 2018 until 31 December 2020, based on a few different metrics for the listed equity portfolio:

- Number of companies with fossil reserves
- AP2's share of the companies' fossil reserves
- AP2's share of the reserves' potential carbon emissions.

In this context, it is important to know that the term 'resources' is used for how much coal/oil/gas is estimated to be in the ground. Reserves are how much is expected to be economically possible to extract given the prevailing economic and technological conditions.

Reserves are usually classified into three levels: proved, probable and possible. Proved reserves are expected to be commercially viable, and the probability is 90 per cent that the quantities will be equal to or greater than the estimate. Probable reserves are less likely to be developed commercially, and the probability is 50 per cent that the quantities will be equal to or greater than the estimate. Possible reserves are assets that are least likely to be recovered, and the probability is 10 per cent that the quantities will be equal to or greater than the estimate.

AP2 has used data from MSCI ESG Manager. For coal, there is data for proved and probable reserves, including both thermal and metallurgical coal. (Thermal coal is primarily used as fuel to produce electricity and metallurgical coal is used as an input in the manufacture of steel.) For oil and gas, there is data for proved reserves. As can be seen in the table below, AP2's exposure to fossil reserves has decreased drastically by approximately 95 per cent.

	2020	2019	2018
Number of companies with coal reserves	6	21	25
Number of companies with oil and gas reserves	10	61	65
AP2's share of holdings' reserves in coal (million tonnes)	0.3	1.8	4.4
AP2's share of holdings' reserves in oil and gas (mmboe)	0.6	15.7	17.8
AP2's share of holdings' potential CO ₂ emissions from reserves in coal, oil and gas (MtCO ₂)	0.9	10.0	15.8

Reporting in accordance with the TCFD

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) presented its recommendations for reporting on climate-related information. The recommendations are directed at both companies and investors. AP2 supports the recommendations and is working to implement them. AP2's first TCFD report was published in the beginning of 2018.

A TCFD-compliant report provides information about 1) how the climate change issue is handled by the organisation's governing bodies (board of directors and executive management), 2) the organisation's strategy relating to climate change and the transition to a low-carbon society, 3) the organisation's climate risks and opportunities, and 4) the metrics and targets used by the organisation. A summary of the Fund's TCFD report can be found on page 39. The full report is available on the Fund's website.

Carbon footprint

AP2 reports carbon footprint through various metrics. What they all have in common is that they show carbon emissions in various ways that can be attributed to the Fund's investments. The advantage of measuring the

carbon footprint is that it provides an overall picture of the carbon intensity of a portfolio or an index. It is then possible to look at sector or company level for more detailed information on the direct emissions of the sector/companies and the emissions from the electricity they use. For several years now, carbon footprint information has been included in the decision-making basis for index changes at AP2. The carbon footprint can also be used to assess the sensitivity of different portfolios to carbon pricing.

The metrics used to calculate carbon footprint provide important information, but there are limitations. See the table on page 37. Previously, one of the limitations was that the carbon footprint did not provide information about actual emission changes in the portfolio companies. To increase transparency in this regard, the AP Funds have been reporting, since 2019, what percentage of the change in the carbon footprint is due to changes in the Fund's equity holdings and changes in the companies' emissions respectively. These calculations are explained by the formulas given on AP2's website. More information about carbon footprints and formulae for other metrics are also available on the website.

Carbon footprint for EU Paris-Aligned Benchmark

As AP2 has implemented its own indices that are compliant with the criteria for the EU Paris-Aligned Benchmark (PAB), another metric has been added to its carbon footprint report, namely carbon intensity based on the operating value (EVIC, Enterprise Value Including Cash), as this metric is prescribed by the EU.

In addition to Scope 1 and Scope 2, Scope 3 is also included in this framework, which means that Scope 3 is included for the sectors where it is prescribed, currently companies in the energy, chemical and mining sectors.

The graphs 1 and 2 on the right show the carbon footprint of the portfolios adapted to the EU framework, for equities in developed markets, i.e. equities in emerging markets and global corporate bonds. The assets in these portfolios account for about half of the Fund's total capital.

Graph 1 shows the carbon footprint as a percentage of the carbon footprint of a corresponding market-weighted index for the portfolios adapted to the framework. The curve shows an annual decrease of seven per cent. The Fund intends to maintain the portfolios' carbon footprint over time below the curve prescribed by PAB.

Graph 2 shows the total carbon footprint for the adapted portfolios in 2020, what the corresponding portfolios had at the end of 2019, and what footprint an investment of the same amount would have produced in a market-weighted index.

Graph 3 presents an attribution of the causes of the change in carbon footprint between 2019 and 2020 of AP2's listed portfolios for global equities and corporate bonds. This also includes equity mandates that have not implemented PAB's framework, such as Swedish equities. The graph shows that the change can largely be attributed to changes in the Fund's holdings.

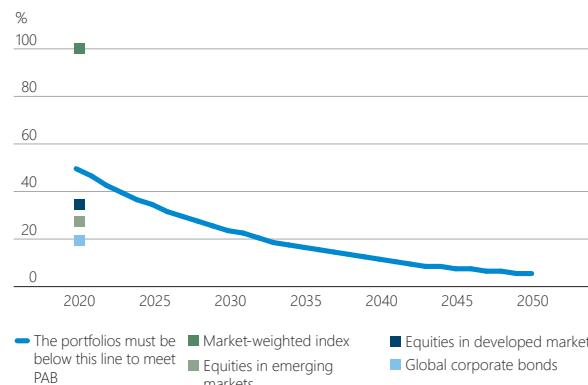
Companies are also contributing to the reduction.

Collaborative group

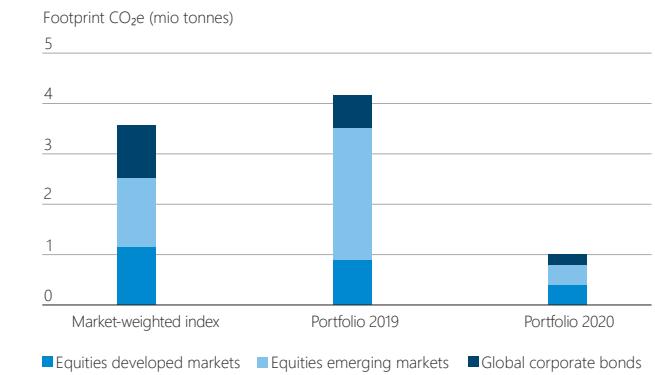
Using transparent reporting with common metrics for the fund assets' carbon footprint, the AP Funds aim to highlight an aspect of climate risk, such as the sensitivity of the asset portfolios, for example, to carbon pricing. The AP Funds consider that common metrics aid understanding and comparison.

Since 2015, the AP Funds have had a collaborative group of representatives from each AP Fund to coordinate the Funds' carbon footprint reporting.

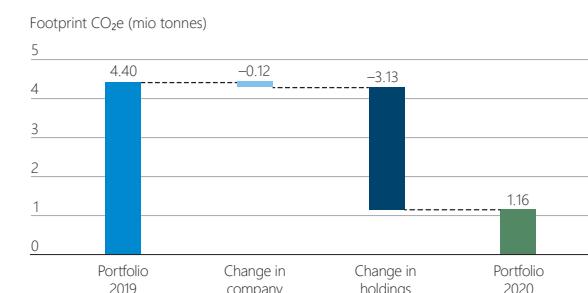
GRAPH 1. THE CARBON FOOTPRINT FOR THE PORTFOLIOS ADAPTED TO THE FRAMEWORK RELATIVE TO MARKET-WEIGHTED INDEX, %



GRAPH 2. TOTAL CARBON FOOTPRINT FOR THE ADAPTED PORTFOLIOS 2020



GRAPH 3. ATTRIBUTION OF THE CAUSES OF THE CHANGE IN CARBON FOOTPRINT BETWEEN 2019 AND 2020



Carbon intensity PAB

A company's carbon intensity is the number of carbon dioxide equivalents produced in tonnes standardised by a financial measure (e.g. market value, sales, assets, etc.). The purpose is to reflect the company's (in)efficiency in terms of emissions. The PAB regulations advocate that EVIC should be used as a financial measure, which means that the carbon intensity is emissions in relation to total financing (shares and loans). This can be seen as both shareholders and lenders assuming responsibility for the emissions generated by the company. An investor's carbon footprint is the carbon intensity multiplied by the amount invested in the company (equities plus bonds).

Formulas used to calculate all the metrics are available on the Fund's website.

The AP Funds' annual carbon footprint is calculated for holdings as of 31 December using the latest available carbon data for the companies' direct emissions (Scope 1) and indirect emissions from energy (Scope 2). Exposure to carbon risk is reported using four metrics:

1. Total carbon emission

Total of owned share of the portfolio companies' individual carbon emissions.

2. Relative carbon emissions

Total of owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.

3. Carbon intensity

Total of owned share of portfolio companies' individual carbon emissions in relation to the total of owned share of the portfolio companies' turnover.

4. Portfolio-weighted carbon intensity

(TCFD) The metric adds together the individual carbon intensity of each portfolio company, i.e. a company's carbon emissions in relation to turnover, weighted according to each individual company's share of the portfolio.

Reporting changes in the carbon emissions

Changes in an investment portfolio's carbon footprint can be caused by two factors; changes to the portfolio holdings and a change in the companies' carbon emissions.

Making adjustments to the portfolio, such as selling companies with large carbon emissions and buying companies with small emissions, can reduce its total carbon footprint. Such changes mitigate the portfolio's exposure, for example, to fluctuations in the price of carbon emission rights and also reduce its climate-related risk. At the same time, there is no change in total carbon emissions to the atmosphere, i.e. the risks of climate change globally have not been affected by the Fund's transactions.

It is only when companies cut their actual emissions that atmospheric emissions are reduced and climate improvements are achieved. As an asset owner, AP2 works actively with various means to influence its portfolio companies to make modifications and improvements to reduce their carbon emissions. It does this in dialogue with the companies, often collaboratively with other global investors, requiring the companies to report their climate risks, and using governance, processes and activities to manage these risks in accordance with TCFD. AP2 is also a committed

ADVANTAGES AND LIMITATIONS OF THE CARBON FOOTPRINT

Advantages of the carbon footprint

Provides a basis for assessing certain climate-related financial risks such as carbon pricing.

Can form a basis for company interventions such as requirements for emission reduction targets, risk management, business strategies and transparency.

Improves the transparency of the AP Funds and encourages increased transparency and data quality in business and industry.

Limitations of the carbon footprint

Does not measure the total impact of investments on the climate because:

- Only certain emissions are included.
- Emissions data from companies are incomplete.
- Only certain asset classes are measured.
- Savings on emissions through products and services are not factored in.
- Information on fossil reserves is not included.

Does not measure a portfolio's total climate risks, such as physical risks in the event of extreme weather, floods and droughts or, for example, consequences of more stringent legislation on energy efficiency. In addition, carbon footprints are not a measure of a portfolio's total climate options or how well a portfolio is positioned for a transition to a low-carbon society.

Does not measure what is required to be in line with the Paris Agreement and provides no guidance on how investors can contribute to achieving it. A unilateral focus on the reduced carbon footprint of individual portfolios therefore risks drawing attention away from actual emission reductions and how investors can provide solutions for a low-carbon economy. The introduction of metrics for carbon footprint change helps increase transparency of information on actual changes in emissions.

owner regarding these issues (at general shareholder meetings, for instance) and has investment strategies that address climate-related risks and opportunities.

The listed portfolio's carbon footprint (Scopes 1 and 2)

The total carbon emissions of AP2's equity portfolio in 2020 are 1.35 (1.74) million tCO₂e. The 23 per cent reduction is due to changes in

holdings that contributed a decline of 24 percentage point. The companies' rise in emissions contributed an increase of one percentage points. The relative carbon emission is 8.20 tCO₂e/SEK million. By comparison, carbon intensity in 2019 was 11.52 tCO₂e/SEK million. If the footprint is instead related to the ownership share of the companies' turnover, the carbon intensity is 11.50 tCO₂e/SEK million. By comparison, carbon

intensity in 2019 was 13.25 tCO₂e/SEK million.

AP2 reports its carbon footprint broken down into Sweden, developed markets and emerging markets. There is a considerable difference in the carbon intensity of these markets. The portfolio companies in emerging markets are the least carbon efficient. The portfolio-weighted carbon intensity for the Fund's portfolio in emerging markets is 20 tCO₂e SEK

million. The corresponding figure for the Fund's portfolio for developed markets is 12 tCO₂e/SEK million, and for Sweden is 4 tCO₂e/SEK million.

The table on page 52 presents all the metrics for the various markets.

For AP2's carbon footprint, data are available for 96 per cent of the equity portfolio, of which 72 per cent is reported and 28 per cent estimated for developed markets. The corresponding figures for emerging markets are 47 per cent and 53 per cent. This carbon footprint has been calculated for listed equities, which make up approximately 38 per cent of the Fund's total capital.

Carbon footprint in other asset classes

AP2's ambition is to eventually present a carbon footprint that includes all asset classes. For 2020, the Fund has calculated the carbon footprint from listed equities, global corporate bonds, parts of timberland and farmland real estate and traditional real estate. This means that 56 (56) per cent of AP2's Fund capital is measured according to a carbon indicator.

For corporate bonds, AP2 has used the carbon dioxide metric prescribed by PAB, i.e. carbon intensity based on operating value EVIC. The figures given here therefore include Scope 3 data from certain sectors.

AP2's non-listed real estate companies have a carbon intensity of 0.6 tCO₂e/SEK million based on market value. Energy consumption and carbon emissions have decreased per unit area by 9 and 12 per cent, respectively, mainly due to energy efficiency improvements.

The Fund and timberland managers are in dialogue on calculation of carbon storage and carbon emissions. Two of the Fund's managers, New Forests and Nuveen, have calculated the total carbon storage in their forests. AP2's share of carbon storage is 12.3 million tCO₂e.

During the year, AP2's farmland managers have calculated the investments' carbon footprint. Performing this type of calculation is complex and there is an academic debate about choice of method. Following discussions with leading

industry experts and academic institutions, a method has been developed. It is based on direct inflows and outflows (e.g. fuel, fertiliser, chemicals and harvest) for the land and includes 70 different production systems with combinations of region, type of crop and production method. Emissions are calculated for each production system and summed up to a total figure for the portfolio.

The farmland carbon sequestration is also estimated but only for the Brazilian farmland and the large areas set aside for conservation purposes, i.e. Permanent Protection Areas (PPA) and Legal Reserves (LR). AP2's share of carbon emissions amounts to 69 000 tonnes of CO₂e annually and AP2's share of carbon sequestration is 6.6 million tonnes of CO₂e.

Carbon footprint and COVID-19

Emissions of carbon dioxide have decreased significantly during the COVID-19 pandemic. According to the International Energy Agency, global carbon emissions decreased by five per cent in the first quarter of 2020 compared with 2019, and emissions are expected to fall by around eight per cent for the whole of 2020. However, this reduction will not be reflected in the Fund's carbon footprint reporting until the 2021 Annual Report. Since companies report their carbon emissions annually, there is a delay before changes in emissions are seen in the portfolios' carbon footprint.

Internal environmental work

AP2 employs a number of different methods to highlight and minimise the environmental impact of its activities. It was therefore a natural step for the Fund to introduce its own environmental management system, which is based on the City of Gothenburg's Environmental Diploma. The Fund was first certified in January 2009 and has been recertified annually since then. The system operates on the same basic principle as the ISO 14001 and EMAS systems but is better suited to smaller organisations. A special environmental group drives the Fund's own environmental work and environmental training is provided continuously to all employees.

An internal environmental review shows that the largest environmental impact from AP2's office comes from electricity consumption and carbon emissions associated with travel. Internal targets have been set based on the internal environmental policy. Among other things, 98 per cent of all business trips between Gothenburg and Stockholm are made by train. The Fund's work to create a digital platform that enables modern working methods has proved very useful during the pandemic, as most meetings have been entirely or partly digital. The Fund's business travel has fallen sharply due to the internal restrictions imposed in March.

AP2 has had a green lease agreement with the landlord Hufvudstaden since 2015. An action plan has been put in place to reduce the impact from AP2's office. It includes only using green electricity, measures to reduce electricity consumption, improve waste management and other actions.

Climate report for 2020 according to TCFD's framework – Summary

Andra AP-fonden has reported in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) since 2017.

This year, this is a separate report and only a summary is given in the Annual Report. Read the TCFD Report at www.ap2.se

Governance	<ul style="list-style-type: none"> a) The Board's supervision of climate-related risks and opportunities b) The management's role in assessing and handling climate-related risks and opportunities 	<p>AP2's Board receives ongoing information on the Fund's sustainability work, which includes climate-related issues. The Board has the opportunity to discuss ESG and climate issues at each meeting. The Board receives a yearly climate report containing information on the various activities of the Fund in relation to the climate.</p> <p>All senior executives have a responsibility for taking climate issues into account according to their various roles. Since the Fund is a small organisation, where several senior executives are directly engaged in the climate-related work, the Executive Management is familiar with the work that takes place. Thus, the Fund has good opportunities to assess and manage climate-related risks and opportunities.</p>
Strategy	<ul style="list-style-type: none"> a) Climate-related risks and opportunities identified by AP2 in the short, medium and long term b) Climate risks and opportunities in investment strategies c) The resilience of AP2's strategies in various climate scenarios 	<p>Given AP2's long-term investment horizon (30 years) it is crucial to take climate aspects into account in investment decisions. This needs to be done all the way from the highest strategic level to the individual investment. The Fund's goal is to develop a sustainable strategic portfolio in line with the Paris Agreement, by taking account of and reducing the climate-related financial risks and contributing actively to the transition. In the shorter term, the transition to a low-carbon society also entails investment opportunities, such as in sustainable infrastructure.</p> <p>Asset management works actively to include climate risks and opportunities in its analyses and to find investment opportunities for different asset classes. During 2020, the Fund e.g. internally developed and implemented multi-factor indices for global equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark. There are more details on page 30. Within Swedish equities, a cleantech portfolio has been established. There are more details on page 20. The Fund has also made its first investments in sustainable infrastructure. There are more details on page 27.</p> <p>AP2 has been investigating how different climate scenarios can be included in the choice of overall strategic asset allocation. It is hoped that by developing the portfolio in line with the Paris Agreement, the Fund can create a climate-resilient portfolio.</p>
Risk management	<ul style="list-style-type: none"> a) Process for identifying and assessing climate-related risks b) Process for managing climate-related risks c) Integration of climate-related risks in the overall risk management 	<p>The Fund has identified climate risks on the basis of TCFD's categorisation and then made an assessment thereof. These risks are subject to annual review.</p> <p>The Fund's Executive Management, together with the head of the strategy department and the Fund's senior sustainability analyst, are responsible for the strategic sustainability work and for implementation and follow-up. The day-to-day work is handled by the Fund's various departments.</p> <p>The Fund's risk system includes available climate data that provides for analyses of the Fund's portfolio. For example, the management has access to a tool that makes carbon footprint data available, on a day-to-day basis, for the Fund's internally managed equities.</p>
Metrics and targets	<ul style="list-style-type: none"> a) Metrics used to assess climate-related risks and opportunities b) Reports concerning greenhouse gases c) The targets used by AP2 to manage climate-related risks and opportunities and performance against goals 	<p>AP2's ambition is to reduce the portfolio's carbon footprint by influencing companies to reduce their carbon emissions in line with the Paris Agreement. In order to monitor this development, the Fund reports on the development in the PAB-adopted portfolios' carbon footprint against the curve which the PAB framework determines to be in line with the Paris Agreement.</p> <p>AP2's annual carbon footprint is calculated for portfolio holdings at 31 December, with the help of the latest available carbon data. The carbon footprint data can be found on page 52.</p> <p>AP2 works continuously to improve risk information at mandate, asset class and fund level. To monitor the financial consequences of the divestment decisions, AP2 has developed a methodology for comparing the returns for MSCI World Developed Markets and MSCI Emerging Markets, excluding and including the divested companies. See also page 33 of the Fund's separate Sustainability Report.</p>

Corporate governance

A large proportion of Andra AP-fonden's assets is invested in shares of Swedish and foreign companies, making the Fund a significant shareholder. The Fund is also non-political and independent with regard to ownership spheres and its unique position among Swedish authorities. This allows the Fund to act as a committed and long-term owner.

Shareholders' commitment to and interest in the long-term development of the companies is a fundamental condition for improved value growth. As a long-term asset owner, AP2 has a very important function in the global capital markets. The Fund is a responsible and committed owner, actively engaged in issues that promote professional corporate governance, good ethics, enhanced environmental performance and good practice in asset management issues.

AP2's strategy is based on the mission

The background to the Fund's corporate governance work can be found in its overall mission. Among other things, this means that AP2 must be a responsible owner.

To succeed in this, it is necessary to identify the areas where the Fund's

efforts are expected to have the greatest potential to influence and do most good. In the next step, there should be realistic possibilities to focus resources on these areas. Based on this, AP2 has formulated:

- Ten *corporate governance principles* in which the Fund considers it important to have a standpoint and act on these in relation to companies. The principles are based on the assessment that the greatest risks from a corporate governance perspective concern a company's shareholder protection and its effective governance .
- *The corporate governance strategy* describes the way in which the Fund in the next step chooses to influence the companies where the risk is deemed to be high

within one or more of the areas of principle. For an institutional manager like AP2, the main tools are voting, dialogue, collaboration with other institutional owners and joint initiatives.

- *Targets and metrics* to be able to quantify, as far as possible, the fulfilment of objectives and, in the best case, the effect achieved. The latter is considerably more challenging and therefore has a longer time horizon.

Corporate governance principles govern voting

AP2's operational work on corporate governance issues is based on the Fund's ten principles of corporate governance, which should be seen as guidelines rather than fixed rules. The principles of corporate governance primarily apply to listed companies

and are based on the Fund's view of the companies' structure for shareholder protection and effective governance. In order to further clarify and communicate how AP2 is likely to vote on proposals presented to the shareholders, Voting Guidelines were put into place during the year and these now complement the Fund's Corporate Governance Policy. More information is available at www.ap2.se

Corporate governance in Swedish companies

Increased voting frequency at general meetings

For many years, AP2 and other institutional owners have maintained a good, constructive dialogue with the Swedish listed companies on various issues, including many of those addressed at the general meetings.

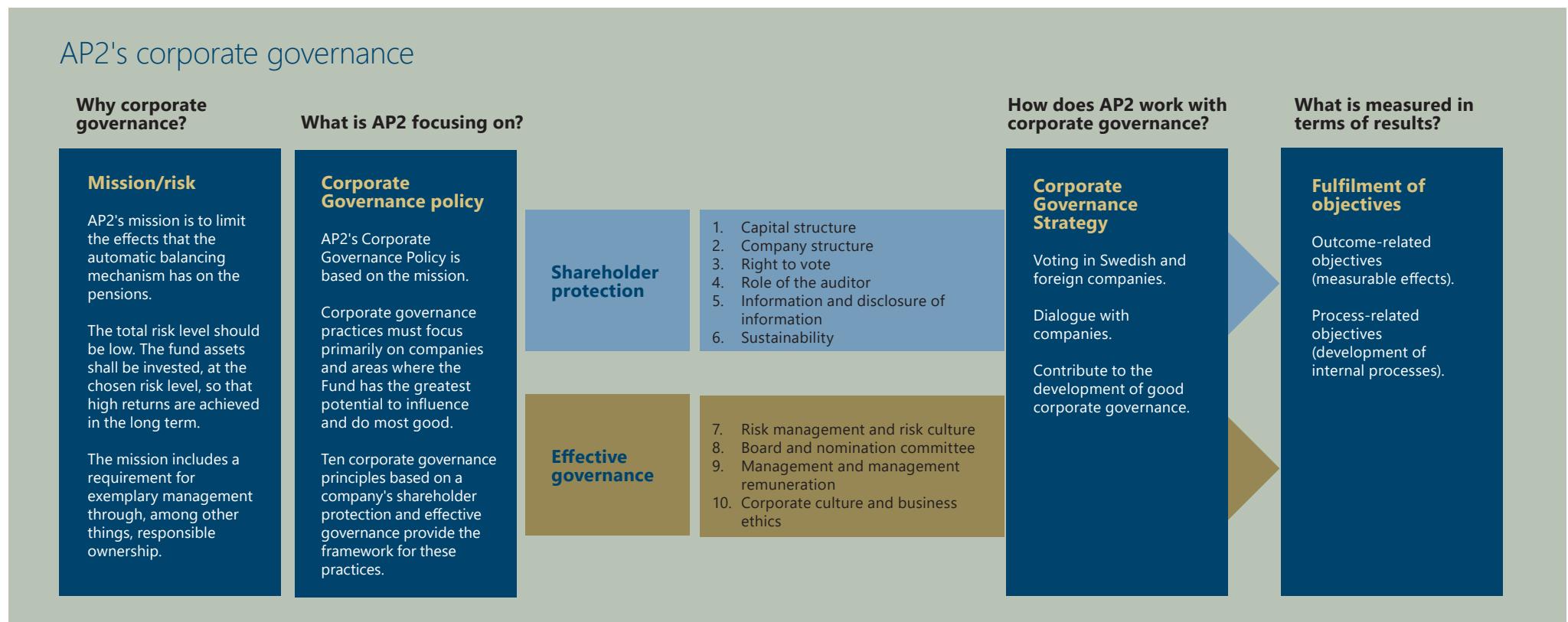
In 2020, the Fund's corporate governance was partly impacted by COVID-19. It mainly affected attendance at general meetings, and also proposals on dividends and board fees. Temporary legislation allowing postal voting was fast-tracked through the Swedish Parliament and came into effect at the beginning of April. This enabled the meetings to be

conducted in a satisfactory manner, although with limited interaction between the shareholders and the companies as a result. In several nomination committees, the Fund has sought not to increase the board fees for 2020. The market situation stabilised in the latter part of the year for a number of Swedish listed companies, enabling them to distribute profits to shareholders in the autumn.

Attendance at general meetings

The Fund selects the companies whose general meetings it will attend based on the following criteria:

- Companies that are among the Fund's 20 largest holdings.
- Companies in which the Fund's share of voting rights is at least 0.5 per cent.
- Companies in which the Fund is among the ten largest shareholders.
- Companies with controversial issues on their agenda.



The Fund holds shares in some 160 Swedish listed companies. For practical reasons, the Fund has determined that it is not possible to attend and vote in all the general meetings in the Swedish share portfolio.

In 2020, AP2 voted at a total of 110 (85) general meetings of Swedish listed companies. The market value of the Fund's holdings in these companies corresponds to 75 per cent of the Fund's total holdings in

Swedish listed equities expressed as market value. The table on page 53 shows the development of the number of general meetings where the Fund votes, and what percentage of the total Swedish equity portfolio these companies account for. The increased voting frequency over the last five-year period is a result of the Fund's ambition to attend more general meetings. This has also meant increased involvement in the slightly smaller companies, where

the Fund is among the largest shareholders, which explains why the Fund's voting share of the total portfolio's market value is relatively constant over the years.

The Fund's internal voting process in Swedish listed companies was developed during the year in order to facilitate a structured and consistent assessment of general meeting proposals. The tool also enables follow-up and comparison over time and between companies.

Proposals and areas where AP2 voted against proposals

In 2020, the Fund voted against proposed incentive schemes in 14 (9) Swedish companies. HiQ, Concentric, Attendo, Atlas Copco, NetEnt, NetInsight, Epiroc, Cantargia, Investor, Thule, Sobi, Oncopeptides, Hexagon and Tobii had put forward proposals for incentive schemes that either contained matching shares, were otherwise subsidised without requiring specific

goal-setting performance, or only had performance targets linked directly to share price trend. The Fund therefore voted no to these companies' incentive scheme proposals and disclosed its reasons at the AGM of each respective company.

AP2 also voted no to two additional incentive scheme proposals aimed at board members of Oncopeptides and Calliditas, on the grounds that the performance requirements were only

directly linked to the share price trend of the company's shares.

As in the previous year, the Fund voted against discharge from liability for the former CEO of Swedbank. In Catena Media, the Fund voted against all proposed board members, as the proposed board had no female board member. At Calliditas' AGM, the Fund voted against a proposed increase in board fees. At AB Volvo's AGM, AP2 made a joint statement with some other investors concerning the company's climate work.

Otherwise, the Fund voted in favour of all the proposals of the boards and the nomination committees. The Fund did not vote for any proposal made by other shareholders.

Focus on diversity in nomination committee work

AP2 is keen to be represented on nomination committees in companies, as this gives an important opportunity to exercise its influence as an owner. The Fund's policy is to accept any request for nomination committee assignments. The Fund's corporate governance group decides who will

represent the Fund based on who is best suited to the assignment. The nomination committees are usually made up of the three to five largest shareholders in a company, which means that AP2's nomination committee assignments vary depending on the Fund's holdings in the companies.

For many years, AP2 has emphasised the importance of increasing the number of women on the boards of listed companies, and the Fund places particular focus on this when it is involved in the nomination process. The Fund also believes that the nomination committees should have a specific long-term plan in place to ensure a good board composition with regard to gender, age, background, experience and expertise. On this issue, the Fund follows up the work by the board of each company whose general meeting it intends to attend. At general meetings, the Fund votes against proposed boards with no female members.

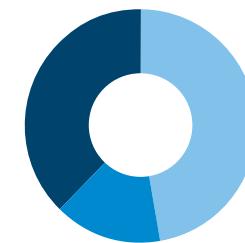
The Swedish Corporate Governance Code has expressed an ambition level for gender diversity on the listed

companies' boards after the 2020 AGM season. The level of ambition requires at least 40 per cent of each gender among AGM-elected members. This level of female board members was reached in 47 per cent of the companies whose AGMs AP2 voted at this year.

For the 2020 AGM season, AP2 was represented on the nomination committee of IAR Systems as chair, and in Better Collective, Coor Service Management, Genovis, Kambi, K-Fastigheter, Opus Group, Resurs Holding and Trelleborg.

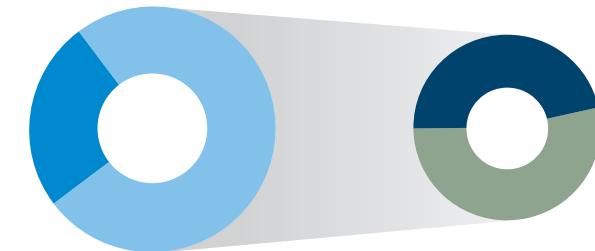
In accordance with the Fund's corporate governance policy, participation in this year's nomination committee work has, among other things, prioritised efforts to increase diversity in boards of directors. The Fund considers that, in the above nomination committees, this issue has had a central place in the committees' discussions on how the boards' continued development could benefit from greater diversity. However, not all companies meet the level of ambition stated by the Swedish Corporate Governance Code for gender equality as can be seen in the table on page 43.

PERCENTAGE OF FEMALE BOARD MEMBERS IN SWEDISH COMPANIES WHERE AP2 VOTED IN 2020



- Number of companies with percentage of women 0-19%, 15%
- Number of companies with percentage of women 20-39%, 38%
- Number of companies with percentage of women >40%, 47%

VOTING IN SWEDISH COMPANIES LINKED TO MARKET VALUE



- Market value of companies where AP2 has not voted at the meeting, 75%
- Market value of companies where AP2 voted No at the meeting(s), 35%
- Market value of companies where AP2 voted Yes at the meeting(s), 40%

For the 2021 AGM season, AP2 is represented on the nomination committees of IAR Systems and Catena Media, as chair, and in Better Collective, Coor Service Management, Genovis, Kambi, Loomis and Trelleborg.

The Fund's Index of Female Representation for 2020 shows that 33.7 (34) per cent of board members in companies listed on Nasdaq Stockholm are women. Read more about the Fund's Index of Female Representation on page 45.

Individual elections

For a few years now, AP2 has been engaged in the issue of individual elections of board members in Swedish companies. The Fund wants it to be possible for all shareholder votes to be counted. It is therefore calling on companies with large foreign ownership to enable those shareholders to elect board members individually. The Fund notes that more companies are now formulating the notices of a general meeting and are reaching decisions at the meetings in such a way that members are elected individually. This year's postal voting

procedure has further contributed to this trend.

Increased dialogues on incentive schemes

During the year, AP2 has continued to focus on remuneration issues and, in order to move proposed schemes in the desired direction, has also increased the number of dialogues held with boards concerning the content of the companies' proposed incentive schemes. In this way, the Fund has communicated its stand-point to a greater extent than previous years, before the proposal has been finalised for a general meeting decision.

In general terms, the Fund has seen the content of the incentive schemes developing in line with the requirements set by AP2 and other institutional owners for this type of variable remuneration. The schemes are increasingly performance-related and capped, often include individual risk-taking for the participants through some form of financial input, and entail a cost for the shareholders that is usually known and limited.

The Fund's Voting Guidelines emphasise the importance of incentive schemes containing clear and monitorable performance requirements based on the company's long-term strategy. Performance requirements whose only link is to general stock market developments, for example, by using an absolute Total Shareholder Return (TSR) metric, are not deemed to take sufficient account of the company's specific strategy or risks and are therefore only supported in exceptional cases by AP2.

In addition, AP2 does not generally support proposals that contain any form of subsidy, for example, matching shares or subsidised premiums for option programmes. AP2's Voting Guidelines state more positions on incentive schemes, which form the basis for both proactive dialogue with the companies and for general meeting voting.

Guidelines for remuneration to senior executives

As a result of the Swedish Companies Act's new rules governing the content

of the guidelines for remuneration to senior executives, some of the year's dialogues with boards have also focused on conveying AP2's views on reasonable and well-balanced fixed, variable and extraordinary remuneration, as well as on pensions and other benefits.

AP2 has given feedback to a number of companies whose guidelines for remuneration to senior executives are not considered to be in line with the Fund's corporate governance policy and the new regulations of the Companies Act.

Corporate governance in foreign companies

Increased voting at foreign general meetings

Since 2008, the Fund, AP1, AP3 and AP4 jointly have had an electronic voting platform based on the Funds' corporate governance policies. Most issues are dealt with automatically via the voting platform, while others, such as remuneration issues, are sent to the AP Funds for manual assessment. Each Fund makes its own decision on how to vote.

In foreign markets, in 2020, the Fund

voted in 35 different countries, primarily in the USA, Japan, Canada, Australia, the United Kingdom, France, Germany, Hong Kong, Switzerland, Bermuda, Ireland, Spain and Singapore. The MSCI global equity index is the main selection criterion for the companies in which the Fund votes. Other criteria include dialogue between the Fund and the company on a particular issue and/or the Fund's submission of a shareholder proposal to the meeting.

In 2020, the Fund's holdings in Chinese domestic equities were also included in the Fund's corporate governance work, by including a selection of Chinese companies in the voting platform. Voting will start in 2021.

The Fund has decided to increase its voting activities in foreign companies from a previous total of 750 to 1 000 companies. During the year, AP2 voted at 1 006 (865) foreign general meetings. Each month, AP2 publishes a detailed report on how the Fund has voted in the foreign companies. More information is available on the company's website.

Letters to foreign companies

The Fund, along with other international investors, has engaged in a number of owner dialogues with companies during the year. With the aim of further improving communication with the Fund's foreign portfolio companies, AP2 annually writes to some 50 companies explaining the Fund's view of committed ownership and the importance of exercising voting rights. In these letters, the Fund also explains its reasoning for not supporting the boards' recommendations on certain points. The letters have resulted in additional contact with the companies by letter, but also via telephone meetings.

Collaboration with other investors

In addition to the collaborative working between the AP Funds on the Council of Ethics, AP2 is also a member of and supports various initiatives in Sweden and internationally in the areas of the environment, ethics, social

issues and corporate governance. The Fund also collaborates with other investors to influence new legislation, particularly within corporate governance. These collaborative efforts are becoming increasingly important in influencing and bringing about change, and thereby enhancing long-term shareholder value.

Throughout 2020, AP2 and a group of other European asset owners continued the dialogue on high remuneration, primarily with US companies. Details about AP2's membership and initiatives can be found on the Fund's website.

Continued focus on transparency

The Fund has noticed an increased focus on transparency and reporting in many new regulations. New disclosure requirements in the revised Shareholder Rights Directive and new rules in the Swedish Companies Act call for enhanced transparency on remuneration

policies. AP2 also follows changes and developments in EU rules and regulations relating to transparency and reporting for the financial sector, even if the AP Funds are not subject to these regulations.

Response to consultation

During the year, AP2 and a number of institutional owners and stakeholder organisations have supported a joint response to the European Commission's recently submitted proposal for far-reaching changes to European corporate law.



Diversity

One of the first governance issues the Fund started to focus on was diversity and, in particular, increasing the number of women on boards and in leadership positions. Since then, Andra AP-fonden has contributed to a positive development in this area through a number of methods, including dialogues with companies on selection processes for board and executive management positions. Today, the Fund has investments linked to diversity and equality. Moreover, one of the factors in the Fund's internally developed ESG indices is diversity.

Index of Female Representation

With its annual Index of Female Representation, AP2 aims to spread knowledge, contribute to dialogue and objective debate and, above all, increase the proportion of women on boards and in executive management teams. The Fund believes that a broader recruitment basis promotes diversity, which has a positive influence on boards and executive managements. With greater diversity in background and experience, the right conditions and leadership, teams become more innovative and creative. This, in turn, produces prosperous and successful companies. The Fund and Nordic Investor Services have been conducting the study since 2003 to measure the percentage of women at

middle-management level, in executive management teams and on boards of listed companies. Information from the Index of Female Representation is used in the Fund's corporate governance practices and is followed up at the annual general meetings that the Fund attends over the course of the year.

The Index of Female Representation for 2020 shows the percentage of female board members in companies listed on Nasdaq Stockholm is 33.7 (34.0) per cent, a slight decrease for the first time since 2013. The percentage of women in executive management continues to rise and had reached 24.3 (24.0) per cent at this year's measurement. The percentage of women CEOs is also increasing and exceeds 10 per cent for

the first time. Nomination committees with women is positively correlated with boards that have a higher percentage of women. Companies without any nomination committee have a lower percentage of women on the board than other companies.

[Read the full report on AP2's website.](#)

Diversity in internally developed indices

AP2 has developed multi-factor indices for internally managed global equities and corporate bonds. Exposure to various ESG factors, such as equality and percentage of women in the company, is included in the index construction. The indices are fully in line with AP2's mission, since they are expected to generate higher returns at lower risk while taking sustainability into account. They are a key part of the Fund's process of integrating sustainability into investment decisions.

An evaluation of the rate of return requires a period of at least five years. There are indications, however, that the factor of the percentage of women in the company, from a global perspective, has led to a positive

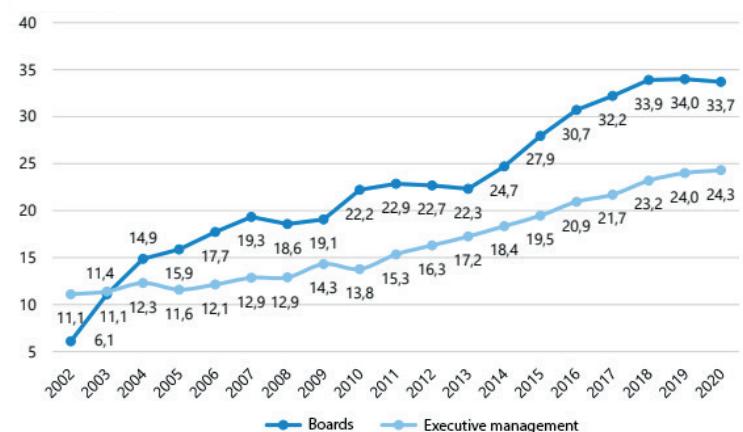
return in the Fund's multi-factor indices for global equities. The effect has been stronger in developed markets compared with emerging markets.

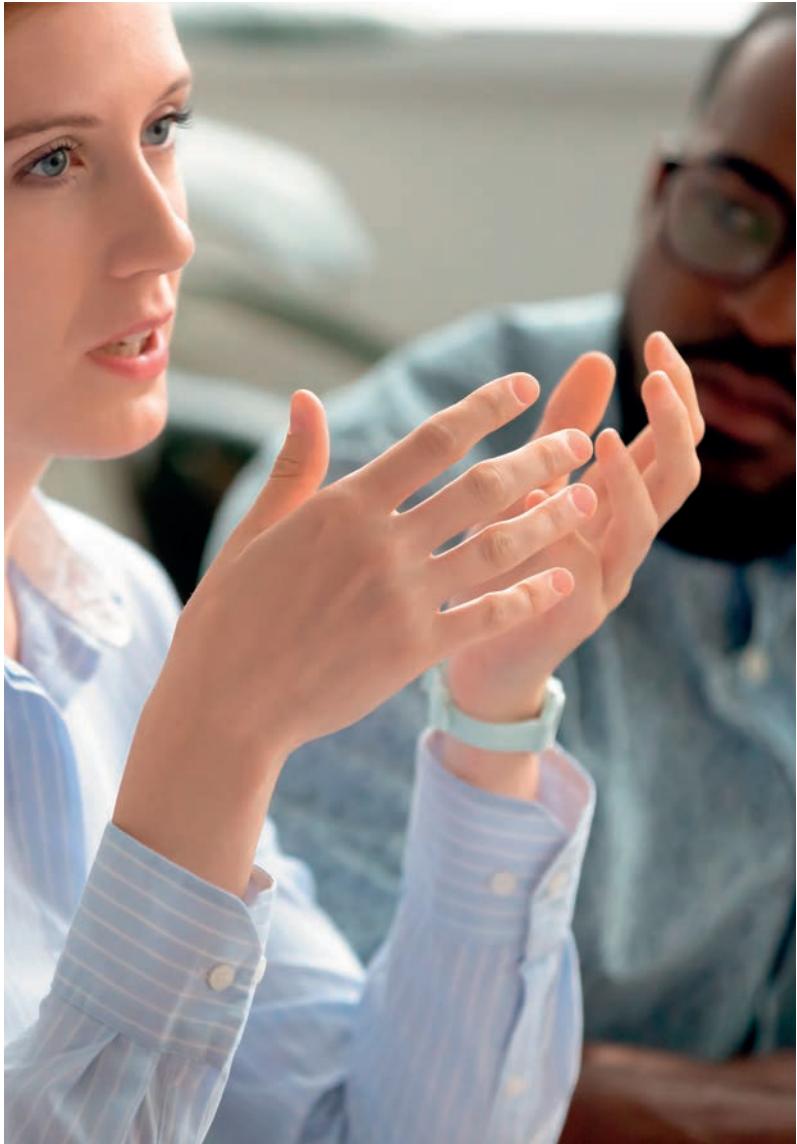
Investments that focus on diversity

To increase access to capital for women entrepreneurs and promote lending in emerging countries, AP2 has invested USD 30 million in the Women Entrepreneurs Dept Fund (WEDF), which is part of Women

Entrepreneurs Opportunity Facility (WEOF). WEOF is a partnership between Goldman Sachs 10,000 Women and IFC (International Finance Corporation). IFC is one of five institutions at the World Bank. The investment means AP2 contributes to economic growth in emerging markets, with a focus on sustainability and women's entrepreneurship. Women in emerging countries are an underutilised resource. Investment in small and medium-sized enterprises that are

PERCENTAGE OF WOMEN ON BOARDS AND EXECUTIVE MANAGEMENT, %





owned by women can therefore help stimulate growth. The initiative also enables the Fund to develop skills in the area of diversity.

AP2 has invested in a social bond issued by the World Bank that focuses on equality issues. The purpose of the bond is to increase knowledge on equality issues in general and to protect and advance the rights of all women and girls. This stimulates economic growth, reduces poverty and supports the creation of a more sustainable society. The bond is in line with the UN's 17 Sustainable Development Goals, one of which is equality.

Diversity in private equity

Diversity is a priority when the Fund invests in private equity. The Fund's analysis and evaluation model evaluates the sustainability practices of private equity companies using 25 assessment points, which include diversity and inclusion. It asks further questions specifically on diversity and inclusion, which is part of the overall assessment. More details on page 21.

Dialogue with the managers raises questions such as:

- What does diversity look like in the company among employees and management?
- Is this issue given priority in the organisation?
- Do they have policies and guidelines in place and how have they been embedded within the organisation?
- How does the recruitment process take diversity issues into account?
- How is diversity embedded within the company's culture?
- Do they have an internal mentoring programme for diversity or other ways of working with the issue in-house or externally?
- What are their diversity and inclusion goals?

The aim is to drive change and the issues are reviewed and monitored continuously by the Fund.

Initiatives in diversity

In efforts to increase diversity, AP2 was one of 65 international investors to sign an initiative targeted at some 1,200 global companies. The initiative calls on the companies to improve their equality efforts and increase transparency on gender equality issues. Gender equality is one of the identified prerequisites for delivering more sustainable global development and is one of the UN's Sustainable Development Goals. In the petition, investors pledge their support to UN Women Empowerment Principles (WEP). WEP is made up of seven principles for greater gender equality and is supported by the UN Global Compact.

Details of AP2's own diversity practices can be found in the Annual Report under the heading 'Employees'. More information about diversity in corporate governance is given on page 42.

Human rights

Human rights is one of Andra AP-fonden's focus areas. The Fund is working actively to integrate human rights issues into its analysis and decision processes, with the aim of operations being conducted in line with the UN's Guiding Principles from 2025.

AP2 is committed to the promotion of sustainable development through responsible investment and responsible ownership. Protecting human rights is crucial to the achievement of the UN's Sustainable Development Goals and thus essential for managing the fund assets in an exemplary manner.

AP2's links to human rights

AP2 can influence people through its own operations, through its business relations and in its role as investors. The Fund's assessment is that its most salient risks of negative impact on human rights exist in the Fund's holdings. AP2 can be directly linked to, or possibly even contribute to, these risks. Since the aim of AP2's asset management is to create the greatest possible benefit for the pensioners, the Fund invests globally to achieve a favourable risk spread. This means that the number of risks that AP2 is exposed

to through its holdings may be considerable. The Fund seeks to actively address and mitigate these risks in accordance with its values.

Organisation and governance

AP2's human rights policy and corporate governance policy are the governing documents for the Fund's human rights work. The work is led by a steering group consisting of the Fund's General Counsel, the Head of Communication and Senior Strategist and is carried out by a working group. The CEO has ultimate responsibility for the work. The Fund's activities in this area are continuously reported to the executive management and Board of Directors.

Development of human rights policy, objectives and strategy

In 2020, AP2 focused on developing its human rights programme. The Fund

has revised its human rights policy and adopted a long-term goal through 2025. To achieve this goal, it has developed the strategy that AP2 will continue to implement the UN Guiding Principles and that its activities will be conducted in line with these from the beginning of 2025 at the latest.

In accordance with the UN Guiding Principles, the Fund focuses its work on human rights from a severity perspective. This means that risks are assessed on the basis of the impact on people and not the financial risk to the investment.

The updated policy has been adopted by AP2's Board of Directors and will be reviewed on an ongoing basis. It is published on www.ap2.se

AP2 conducts an annual internal mandatory training course in human rights for all of its employees. This year's course was based on AP2's updated policy for human rights. An

important part of the implementation of the policy throughout the organisation is to ensure that all employees understand the policy and what it means for them in their work.

Due diligence process

In 2020, the Fund continued to develop a due diligence process for human rights in portfolio companies. It includes risk identification, risk management, follow-up and external reporting.

Due diligence for actual risks

AP2 distinguishes between actual and potential risks for negative human rights impacts.

The actual risks mean that the Fund has an indication that a violation of human rights may already have occurred. The process for actual risks is managed with the support of an external consultant.

AP2 carries out a norm-based

screening twice a year for listed holdings in its internal equity portfolios and in the external discretionary mandates. The screening is performed by the external consultant and identifies portfolio companies that are assessed to have violated international conventions and guidelines adopted by Sweden.

Where risks are confirmed, the consultant supports in the investigation of the factual circumstances and in the dialogues with the companies where the violations were identified. The companies' efforts are monitored continuously throughout the dialogue according to an action plan. If the contacts with the portfolio company fail to result in a satisfactory outcome, AP2 will make an overall assessment and then decide whether to exclude the company from the Fund's holdings. Collaboration with other investors increase the leverage and the likelihood of success in the dialogues.

They are therefore conducted via the AP Funds' Council on Ethics.

Due diligence for potential risks

Potential risks mean that the Fund has ownership in portfolio companies, where there are no confirmed controversies or irregularities that have been noticed by the media, local authorities or in any other way, but where the companies operate in sectors and countries with a high risk of negative impact on people.

During the year, the Fund developed a process for due diligence in the event of potential risks (see illustration).

Risk identification takes place using AP2's proprietary risk model, which is based on high-risk sectors and countries, and identifies holdings where the potential risk is high. The model also indicates which human rights are at risk of being violated. A *risk assessment* analyses the risks at company level from a severity perspective, i.e. with a focus on the impact on people and not the financial risk. In this step, information is gathered from external sources such as local organisations and experts.

The current status and objectives of engagement are defined based on a model for evaluating the current issue. A current status analysis is carried out

of the companies in focus, in order to obtain a basis for future evaluations. AP2 strongly believes in *collaborating* with other players on human rights issues. As these issues are often both complex and global, the Fund may be able to exert more leverage in collaboration with others.

The dialogue is conducted in four stages and an *evaluation* is conducted annually based on the evaluation model and the status of the dialogue. Based on the evaluation, a decision can be made to close the dialogue if the objectives have been achieved, to continue the dialogue if the objectives are deemed achievable, or to terminate the relationship and sell the holding if the Fund concludes that the objectives cannot be achieved through continued dialogue.

In 2020, through this process, AP2 identified the textile industry in China as a potential risk area in terms of sector and geography, with a focus on the risk of forced labour and the right to fair pay. The Fund has identified holdings in four companies with high potential risks and has initiated dialogues with these companies within the framework of two different partnerships with PRI and the Investor Alliance for Human Rights. One initiative is with a focus on forced

labour in the textile sector and the other is with a special focus on the Xinjiang province and the vulnerability of the Uyghurs, which is strongly linked to this sector.

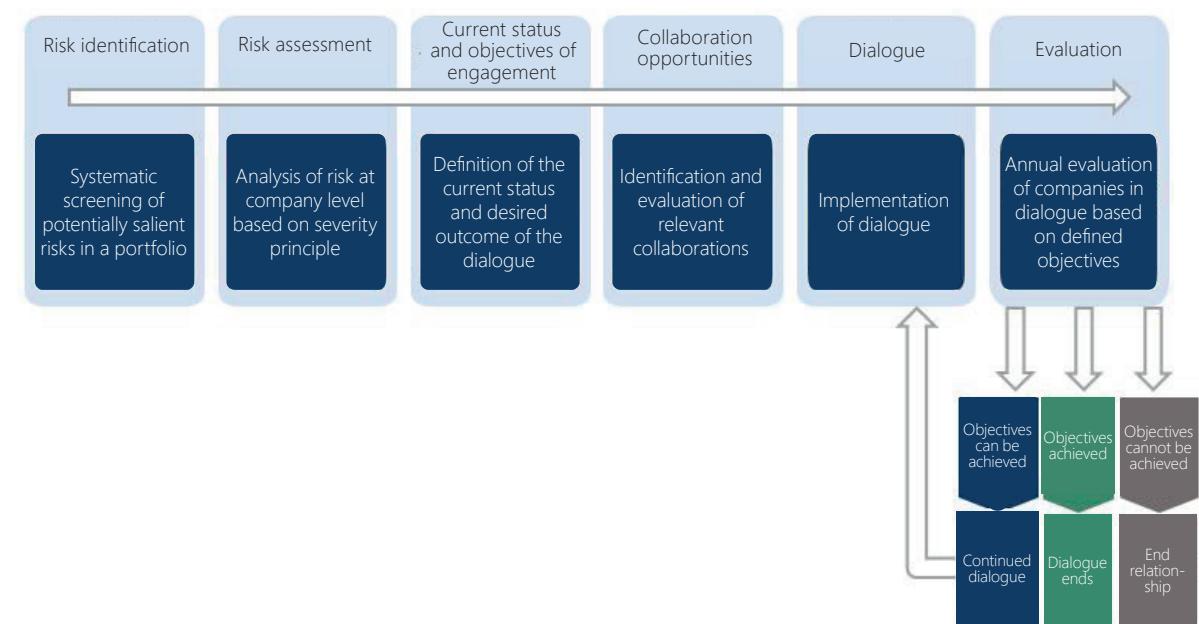
External managers

Approximately 19 per cent of AP2's assets are managed by external

portfolio managers. When selecting a manager, AP2 takes into account how well the manager integrates sustainability factors, including human rights, into its management. The managers' work is followed up and evaluated annually. The Fund conducts a close and active dialogue with external managers who invest in

portfolio companies or in regions where the risk of violations of international conventions is assessed to be high. This is to ensure that the managers integrate human rights issues into their asset management and that they understand the Fund's policy on human rights.

PROCESS FOR POTENTIAL RISKS



Hikvision

Example of a company where AP2 conducts an active dialogue.

Background

Hangzhou Hikvision Digital Technology Co., Ltd. (Hikvision) sells monitoring equipment and is one of the world's largest suppliers of this type of product. According to several media sources, the company may have sold equipment to the Chinese State, which has used it to monitor and control Uyghurs and other Muslims held in so-called "transformation through education" camps in the province of Xinjiang. It is reported that up to 1.5 million Uyghurs and other Muslims have been placed in these camps without any trial and often separated from their families on the basis of their ethnicity and their faith.

Previous inmates who have managed to escape to other countries tell of torture and brainwashing and of being forced to denounce their faith. Initially, the Chinese government denied the existence of these camps, but they are now formally referred to as "vocational education and training centers". In 2019, Hikvision's products were blacklisted in the USA and the company's shares have been excluded by several European funds.

Dialogue

In accordance with the UN Guiding Principles, AP2 strives to use its ownership leverage to influence portfolio companies to improve, and thus not immediately sell or exclude holdings that may be problematic. Since AP2 became aware of the situation in the Xinjiang province, the Fund has been in dialogue with Hikvision directly, via local fund managers, and by being responsible for the Council on Ethics' dialogue via the external consultant who assists in engagement processes. Since the start of the dialogue, the company has

shown a growing understanding that this is a problem that must be dealt with. The dialogue has the following objectives:

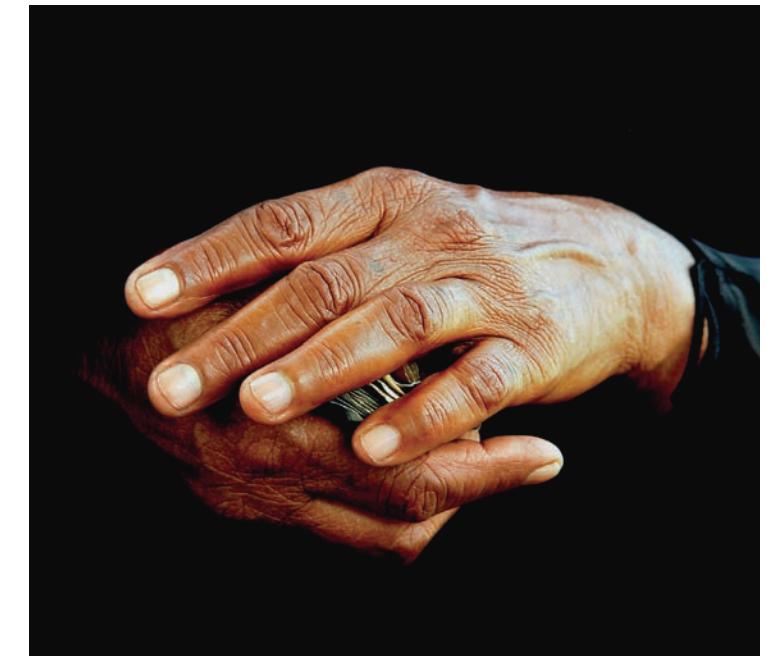
- Hikvision shall take measures to ensure that the monitoring equipment it sells does not contribute to violations of human rights.
- The company shall implement a process for Human Rights Due Diligence (HRDD) in line with international standards.
- The company shall increase its transparency in reporting on human rights issues.

Status

Hikvision has accepted that it must improve its human rights practices, with a specific focus on due diligence and greater transparency. The steps it has taken so far include hiring external advisers to conduct an independent investigation of the company's role in the identified projects in the Xinjiang province and report back to the company with recommendations for appropriate actions.

Hikvision states that it is currently working on a plan to follow the recommendations from the independent investigation. The company has not participated in tenders in Xinjiang since 2018 and intends to terminate previously initiated involvement in the region. To improve its competence in addressing human rights issues, it will also establish a global advisory committee with international experts.

The next step in this process is for Hikvision to present its ESG report for 2020. The company has promised to show improved transparency in this report and to share information about its actions to date and future plans to improve its Human Rights Due Diligence.



Reporting

The UN Guiding Principles stipulate that companies must regularly report externally on their activities in relation to human rights. In 2019, in addition to regular reporting within the framework of the Fund's sustainability reporting, AP2 published a report, as one of the first investors in the world, on its work in accordance with the UN Guiding Principles Reporting Framework (UNGPRF). An updated report is planned for 2021. More information about the Fund's work can be found in the report on human rights on AP2's website.

Integration of sustainability is a journey

Andra AP-fonden has worked with sustainability issues since its establishment in 2001. This work has intensified in recent years, and involves all of the Fund's employees in various ways.

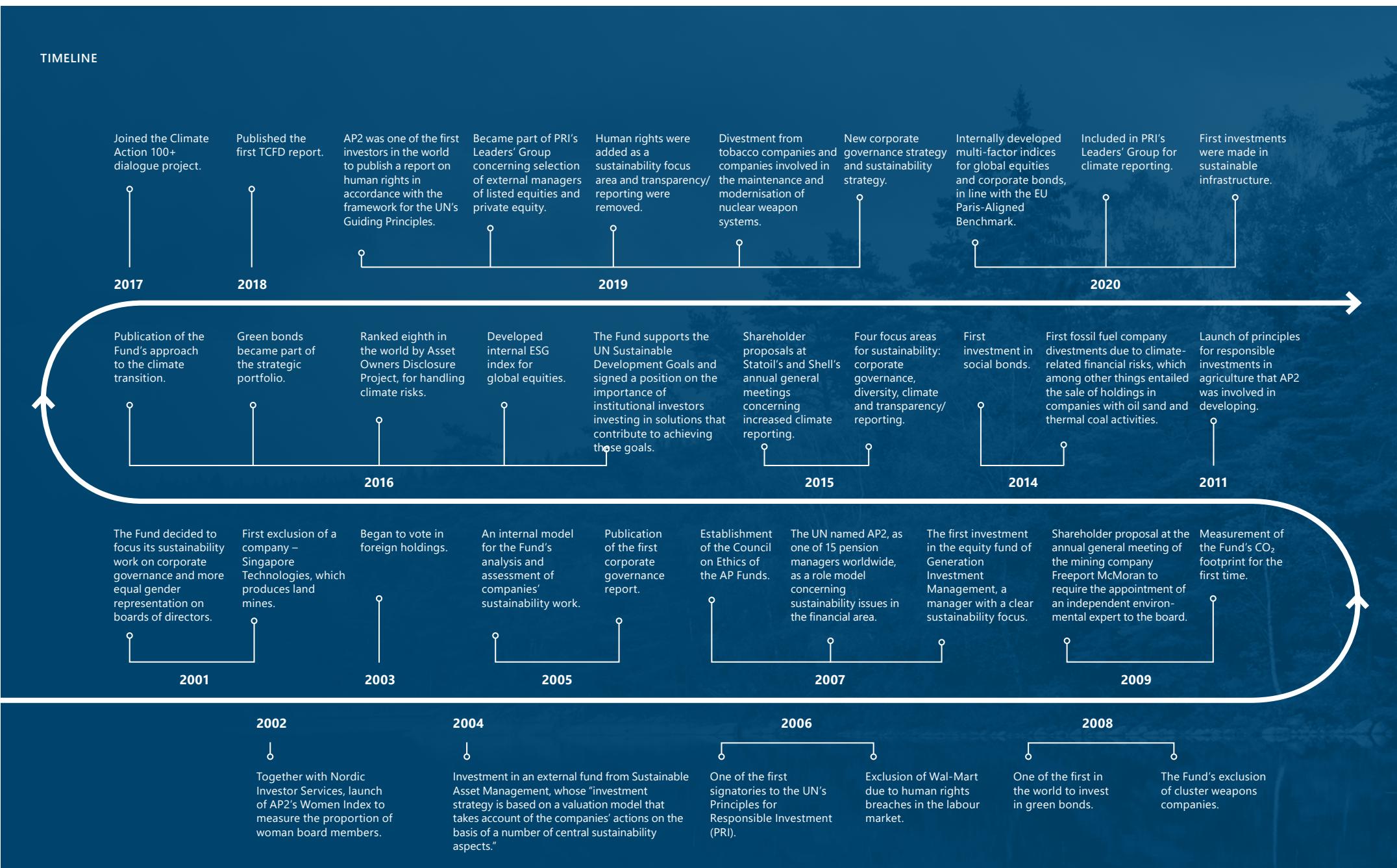
Excerpt from AP2's first Annual Report in 2001

"The issue of the ownership role and responsibilities of institutional investors has attracted increasing attention. As institutional investors have increased their corporate stakes in leading stock exchanges, this is perfectly natural. The Second AP Fund feels it is entirely reasonable that the demands made on institutions as active owners should increase in a world of increasingly unrestricted flows of capital, characterised by growth in cross-border trade, new currency zones and a more multicultural society, where traditional national borders have acquired a new meaning. To these must be added environmental and ethical issues, as

well as the need to develop a society based on sustainable goals. The Second AP Fund has confronted and attempted to address these issues in its corporate governance policy. In concrete terms, in the day-to-day work of the Fund, it is often simply a matter of adopting a principled but pragmatic approach, given the complexity of the issues and the guiding principles on which the activities of the Fund are founded. This corporate governance policy will gradually evolve and become more specific as the Second AP Fund becomes more established."

Lars Idermark, former CEO of AP2

TIMELINE



Sustainability data

Climate/Environment

CARBON FOOTPRINT OF THE LISTED EQUITY PORTFOLIO, SCOPE 1 AND 2

Metrics	2020	2019
1. Total carbon emissions (million tCO₂e)	1.35	1.74
Sweden	0.08	0.13
Developed markets	0.53	0.66
Emerging markets	0.74	0.95
Change in the portfolio's total carbon emissions from the previous year (%)	-23	
– of which the change related to changes in the portfolio's holdings (% units)	-24	
– of which the change related to changes in the companies' emissions (% units)	1	
2. Relative carbon emissions (tCO₂e/MSEK)	8.20	11.52
Sweden	2.28	3.93
Developed markets	6.92	9.34
Emerging markets	14.01	20.33
3. Carbon intensity (tCO₂e/MSEK)	11.50	13.25
Sweden	5.45	7.21
Developed markets	10.21	11.55
Emerging markets	17.38	20.21
4. Portfolio-weighted carbon intensity (TCFD)(tCO₂e/MSEK)	12.85	15.20
Sweden	3.99	5.11
Developed markets	11.74	14.82
Emerging markets	20.35	23.13
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-15	
– of which the change related to changes in the portfolio's holdings (% units)	-15	
– of which the change related to changes in the companies' emissions (% units)	0	
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	164	151
Proportion of the share capital for which data is available (%)	96	94

Carbon dioxide measurements as from and including 2020 are based on a broader universe of carbon dioxide data and a refined method of estimating carbon emissions for non-reporting companies. The carbon dioxide measurements for 2019 presented here have been recalculated to facilitate comparison with 2020.

Carbon dioxide data reported for previous years is not directly comparable.

1. Total carbon emissions. Total of owned share of the portfolio companies' individual carbon emissions.

2. Relative carbon emissions. Total of owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.

3. Carbon intensity. Total of owned share of portfolio companies' individual carbon emissions in relation to the total of owned share of the portfolio companies' turnover.

4. Portfolio-weighted carbon intensity (TCFD). The metric adds together the individual carbon intensity of each portfolio company, i.e. a company's carbon emissions in relation to turnover, weighted according to each individual company's share of the portfolio.

The formulae for the above indicators are available on the Fund's website.

CO₂e (carbon dioxide equivalent) is a unit of measurement that makes it possible to compare the climate impact of different greenhouse gases.

CERTIFICATION OF TIMBERLAND

	Number of hectares	Proportion, %
Certified timberland in accordance with the FSC and/or PEFC	127 219	96
Timberland in the process of certification in accordance with the FSC and/or PEFC	3 355	3
Land that is sustainably managed in accordance with the FSC and/or PEFC, but that cannot be certified	98	0
Other: Land taken up by e.g. roads, buildings and other non-productive areas, or land that has not yet been planted	1 253	1

The figures in this table are correct as at 31 December 2019.

ENVIRONMENTAL DATA

	2020	2019	2018
Internal environmental indicators			
Electricity, kWh	80 000	128 300	126 000
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	0	191	315
Number of printouts	31 000	70 900	107 000
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	98	97	88
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO ₂ e	0	0	0
Air, domestic, tonnes of CO ₂ e	0	1	5
Air, abroad, tonnes of CO ₂ e	2	187	169

Corporate governance

NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2020 ANNUAL GENERAL MEETINGS

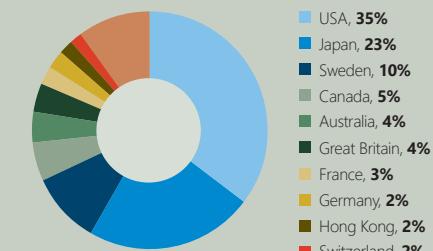
Company	Proportion of women on the Board, %	Number of newly elected women*	Total change compared to previous year *
Better Collective	17	0	0
Coor Service Management	43	0	0
Genovis	25	0	-1
IAR Systems	20	0	0
Kambi	40	0	0
K-Fastigheter	17	0	0
Opus Group	17	0	-2
Resurs Holding	50	2	1
Trelleborg	43	0	0

* The change refers to a comparison with the previous AGM, not Extraordinary General Meetings between AGMs.

BOARD OR SHAREHOLDER PROPOSALS ON WHICH ANDRA AP-FONDEN VOTED IN FOREIGN COMPANIES IN 2020, NUMBER

Area	Board proposals	Shareholder proposals
Auditors, financial reporting, formalities, etc.	1 601	0
Board of Directors	8 804	38
Remuneration issues	1 288	30
Capital structure	526	2
Group structure, agreements, acquisitions, etc.	111	1
Shareholders' rights/governance	92	234
Sustainability	0	107
Other	1	11
Total	12 423	423

VOTING PER MARKET IN 2020, %



VOTING AT ANNUAL GENERAL MEETINGS IN 2016–2020

	2020	2019	2018	2017	2016
Swedish companies					
Voting at annual general meetings (annual and extraordinary) in Sweden, number	110	85	89	51	47
– equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value)	75	73	81	69	68

Foreign companies

Voting at foreign companies' annual general meetings, number	2020	2019	2018	2017	2016
– equivalent to the % share of the Fund's total holdings in global listed equities (market value)	38	33	31	40	42
Number of agenda items	12 846	10 766	10 350	10 768	10 708
– concerning which the Fund voted against the Board's recommendation, %	29	28	27	28	23

Employees

EMPLOYEE STATISTICS	2020	2019
No. of permanent employees	71	71
Female staff, %	34	34
Female staff in executive management, %	33	33
Proportion of women on the Board, %	50	44
Average age, years	46	45
Median age, years	46	45
Personnel turnover, %	0	7,1
Absence due to illness, %	0,8	1,2

GRI-INDEX

This Sustainability Report has been prepared in accordance with GRI Standards, Core Level. GRI is an international framework for reporting on an organisation's activities in the area of sustainability and includes environmental, social and economic aspects. The page references refer to AP2's Annual Report 2020 (AR) and Sustainability Report 2020 (SR).

GRI-standard	Disclosure	Page reference/URL	Comments
GRI 101: Foundation			
GRI 102: General Disclosures			
	ORGANISATIONAL PROFILE		
102-1 Name of organisation		Andra AP-fonden	
102-2 Activities, brands, products, and services	AR p. 17-24		AP2 markets no products or services. The Fund manages pension assets in the Swedish national pension system.
102-3 Location of head office	SR - outside cover		
102-4 Location of operations	SR - outside cover		
102-5 Ownership and legal form	AR p. 104-106		
102-6 Markets served	www.ap2.se		AP2's only office is in Gothenburg, but invests globally.
102-7 Scale of the organisation	AR p. 58, 88		
102-8 Information on employees and other workers	AR p. 36-38, 58, 88		
102-9 Supply chain	www.ap2.se		
102-10 Significant changes to the organisation and its supply chain	AR p. 25-28		
102-11 Precautionary principle or approach	AR p. 72-77		
102-12 External initiatives	AR p. 38, 43, 54 SR p. 9, 12-13, 15-16, 18, 33-35, www.ap2.se		
102-13 Membership of associations	SR p. 7, 9, 13, www.ap2.se		

STRATEGY

102-14 Statement from senior decision-maker AR p. 6-8

ETHICS OCH INTEGRITY

102-16 Values, principles, standards, and norms of behaviour AR p. 25, 36, 38
SR p. 4, 5, 7, 20, 24, 26, 32, 34, 37,
47-49, www.ap2.se

GOVERNANCE

102-18 Governance structure AR p. 51, 53, 58, SR p. 8, 40-44, 53

STAKEHOLDER ENGAGEMENT

102-40 List of stakeholder groups AR p. 49, SR p. 8
102-41 Collective bargaining agreements AR p. 38, 89
102-42 Identifying and selecting stakeholders AR p. 49, SR p. 8
102-43 Approach to stakeholder engagement AR p. 49, SR p. 8
102-44 Key topics and concerns raised AR p. 49, SR p. 8

REPORTING PRACTICE

102-45 Entities included in the consolidated financial statements AR p. 60-69
102-46 Defining report content and topic Boundaries AR p. 47, SR p. 3
102-47 List of material topics SR p. 8
102-48 Restatements of information -
102-49 Changes in reporting -
102-50 Reporting period AR p. 3, 98
102-51 Date of most recent report AR p. 3
102-52 Reporting cycle AR p. 3
102-53 Contact point for questions regarding the report AR & SR - outside cover
102-54 Claims of reporting in accordance with the GRI Standards AR p. 47, SR p. 3, 54-57
102-55 GRI content index SR p. 54-57
102-56 External assurance AR p. 56

MATERIAL TOPICS

GRI 200 Economic Standard Series

ANTI-CORRUPTION

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 38, 49, SR p. 7, 18
	103-2 The management approach and its components	AR p. 49, SR p. 7
	103-3 Evaluation of the management approach	AR p. 49, SR p. 7
GRI 205: Anti-corruption 2017	205-2 Communication and training about anti-corruption policies and procedures	AR p. 38
	205-3 Confirmed incidents of corruption and actions taken	AR p. 49, SR p. 7

GRI 300 Environmental Standard Series

ENERGY

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 49-54, SR p. 8
	103-2 The management approach and its components	AR p. 48-49, SR p. 6-8
	103-3 Evaluation of the management approach	AR p. 48-49, SR p. 6-8, 10
GRI 302: Energy 2017	302-1 Energy consumption within the organisation	AR p. 5, 57, SR p. 38, 52

EMISSIONS

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 49-54, SR p. 8
	103-2 The management approach and its components	AR p. 48-49, SR p. 6-8
	103-3 Evaluation of the management approach	AR p. 48-49, SR p. 6-8
GRI 305: Emissions 2017	305-1 Direct (Scope 1) GHG emissions	AR p. 42-43, 51, 55, 57, SR p. 11-12, 35-39, 52
	305-2 Energy indirect (Scope 2) GHG emissions	AR p. 42-43, 51, 55, 57, SR p. 11-12, 35-39, 52

GRI 400 Social Standard Series

EMPLOYMENT

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 36-38, 49, SR p. 7
	103-2 The management approach and its components	AR p. 36-38, 49, SR p. 7
	103-3 Evaluation of the management approach	AR p. 36-38, 49, SR p. 7
GRI 401: Employment 2017	401-1 New employees hires and employee turnover	SR p. 7, 53
	401-3 Parental leave	AR p. 38

DIVERSITY AND EQUAL OPPORTUNITY

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 36-38, 49, SR p. 45-46
	103-2 The management approach and its components	AR p. 49, SR p. 7
	103-3 Evaluation of the management approach	AR p. 49, SR p. 7, 10

GRI 405: Diversity and Equal Opportunity 2017	405-1 Diversity of governance bodies and employees	AR p. 58, 87-88

NON-DISCRIMINATION

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 36-38, 49
	103-2 The management approach and its components	AR p. 49, SR p. 7
	103-3 Evaluation of the management approach	AR p. 49, SR p. 7

"GRI 406: Non-discrimination 2017"	406-1 Incidents of discrimination and corrective actions taken	AR p. 49, SR p. 7

HUMAN RIGHTS ASSESSMENT

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	AR p. 52-53, SR p. 47-49
	103-2 The management approach and its components	AR p. 49, SR p. 7, www.ap2.se
	103-3 Evaluation of the management approach	AR p. 49, SR p. 7, www.ap2.se

"GRI 412: Human Rights Assessment 2017"	412-1 Operations that have been subject to human rights reviews or impact assessments	SR p. 47-49, www.ap2.se
	412-2 Employee training on human rights policies or procedures	AR p. 5, 52, SR p. 47, www.ap2.se

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